

Effects of Holding Assets on Social and Economic Outcomes of Families: A Review of Theory and Evidence

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Research Questions

- What are the significant financial benefits of possessing assets?
- What are the significant non-financial benefits of possessing assets?
- What are the adverse consequences of individual level asset building efforts?

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Structure of Review of Existing Studies

- Synthesis of existing theories into a conceptual framework of the effects of asset holding
- Synthesis of empirical literature on effects of assets on social and economic outcomes, especially of low and moderate income families
- Empirical literature
 - Dominated by studies that measure relationships but not necessarily causal relationships
 - Relationships can point us in the right direction, but causal relationships are a gold standard to strive for

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Broad Theoretical Frameworks

- From the economic perspective, assets are expected to exert the following primary effects
 - Alter the timing of consumption
 - Raise permanent income
 - Increase bequests
- Behavioral economics accounts for non-rational factors in savings and asset decisions under risk and uncertainty
- Sociological and psychological theories link assets to social interactions and complex motivations affecting assets and investments. These literatures focus on how assets affect
 - Feelings of security
 - Motivations to take risks
 - Self-efficacy
 - Identity

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Framework for Organizing the Evidence

- Taken together, economic, behavioral, sociological, and psychological theories provide insights into the conceptual framework used in this project and can be used to develop a set of hypothesized effects of asset accumulation on
 - Economic well-being
 - Social well-being and civic engagement
 - Child well-being
 - Health and psychological well-being
- Much of the empirical evidence documents associations rather than causal impacts of assets

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Assets Are Linked to Economic Well-Being

- Increased income and employment
 - Assets stimulate added work hours for IDA participants
 - Car Ownership increases employment and work hours but apparently not wage rates
- Increased consumption, reduced material hardship
 - Households with assets borrow more to prevent reduced consumption from unemployment, other economic shocks
 - Ability to borrow reduces material hardships
- Increased asset accumulation and reduced welfare
 - Homeowners save more, raises net worth (perhaps forced saving)
 - Assets reduce receipt of welfare benefits among women experiencing marital disruption

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Homeownership's Role Among Low-Income and Minority Families

- The economic benefits for these groups may or may not be lower than that for other families
 - Low-income families do not have tax liabilities that are high enough to benefit from mortgage interest deductions
 - The median period of homeownership is shorter
 - Low-income, minority households do pay higher mortgage rates, often using sub-prime mortgages
 - Housing subsidies for low-income families nearly always come in the form of rental subsidies, thereby reducing the benefit of homeownership for those with subsidies
 - Foreclosure much more common, leading to bankruptcy
 - But owning a home does hedge families against rent increases

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Assets are Linked to Social and Child Well-Being

- Social well-being and civic participation
 - Some studies find homeownership and asset holding increase voting, civic engagement
 - No clear gains on involvement in social networks
 - Neighborhood effects of homeownership vary, with improvements noted for minorities
- Child well-being
 - Some studies find homeownership improves education outcomes and decreases teenage pregnancy, with effects working through homeownership's role in increasing residential stability
 - Other studies indicate few gains resulting from homeownership
 - Assets raise parental aspirations of children's education but not necessarily the academic achievement of children

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Assets are Linked to Health and Psychological Well-Being

- Assets raise confidence about the future, increase sense of control, and generate improvements in health and psychological well-being
- Other findings indicate assets induce more specific planning about family and work outcomes, more prudent personal behaviors, and more social connectedness
- Homeowners report themselves having a greater sense of well-being than renters, but the difference is small

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Suggestions for Future Research

- Measure the causal relationship between asset holding and outcomes.
 - self-sufficiency, economic stability, economic mobility, material hardships, social well-being, and political participation.
- Measure the effects of homeownership, especially for low-income families.
- Consider the type of assets (e.g., home, car, net worth, savings account) when measuring effects.

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Research and Policy Consideration 1

- A good way to expand evidence on the causal impacts of assets, especially among low-income households, is to learn from systematic assessments of the array of ongoing demonstration projects
- New methods can test both impacts of programs on participation and outcomes
- Expand the range of outcome measures assessed in asset-building demonstration projects

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Research and Policy Consideration 2

- The findings document the importance homeownership plays in households' asset building
- Some controversy exists about whether owning a home is beneficial for low-income families
 - In the future, researchers could evaluate the benefits of homeownership for low-income households and the incentives for homeownership built into the structure of tax/transfer programs
 - The analysis is highly relevant to considering public policy around housing ownership among low-income and first-time home buyers

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Research and Policy Consideration 3

- Evidence indicates assets are associated with positive economic, child, health, psychological and other social and community outcomes
- Consider areas in which some increased assets might yield high social benefits, such as improved health outcomes and perhaps lower health costs
- Examine potential barriers to generating spillover effects of asset holding, such as combining financial literacy and behavioral finance tools
- The details will no doubt be of great importance

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