

by Gene Steuerle

An Ownership Society or a Society For Those Who Already Own?

Beginning with his convention acceptance speech, President Bush has been calling for an “ownership society” — “a path to greater opportunity, more freedom, and more control over your own life.” Republicans and Democrats alike should welcome this call since in one form or another most have already embraced proposals emphasizing ownership, asset development, and greater opportunity. Luckily, to pursue an ownership society, we don’t need to resolve the fine points about whether the 20th century welfare society was good or bad, helpful or harmful to those on the receiving end. The more important debate is over how to use the larger revenues that come with economic growth. Expanding opportunity and ownership offers a middle ground between simply adding to welfare-like programs and ignoring the needs of less well-off households. But pointing the fiscal and political battleship in a new direction is a lot easier than turning it around, especially in a sea of red ink and rising deficits.

President Bush so far has identified ownership mainly with programs for retirement — especially individual accounts as part of a reformed Social Security — and modestly with homeownership, which is where most middle-income Americans stash their wealth. In another context, he also called for tax reform and simplification. But given all the housing and retirement programs already on the books, mainly in the tax code, the new initiatives and tax reform should be mentioned in the same breath. Only by melding them can we see the true costs of what’s needed and the way forward. Ways and Means Chair Bill Thomas, R-Calif., has also suggested thinking beyond individual accounts as a simple Social Security reform and considering tax reform at the same time.

The nation already spends more than \$145 billion on tax subsidies for retirement programs and \$158 billion on subsidies for housing mainly through tax breaks, and the numbers are growing. Trouble is, we’re not spending these huge sums well. After several decades of lopping on retirement incentive after retirement incentive, the retirement wealth of the population’s poorer half scarcely covers even one or two years of expenses during what is often two decades or more out of the labor force. Housing

programs, meanwhile, don’t do much to help low- and moderate-income people to own homes.

Consider the dozens of incentives for retirement saving. Those who simply borrow more to make subsidized deposits get larger tax breaks. Other taxpayers take advantage of current incentives simply by shuffling deposits from one account to another. The net result is low saving rates, and U.S. personal saving of \$110 billion last year was even less than the money spent to subsidize retirement saving (see Elizabeth Bell, Adam Carasso, and C. Eugene Steuerle, “Retirement Saving Incentives and Personal Saving,” *Tax Notes*, Dec. 20, 2004, p. 1689). Adding insult to injury, the retirement tax subsidies are so complex that accountants, lawyers, and other financial planners who help households wade through the swamp get a sizable chunk of the money that could otherwise underwrite ownership.

Or consider housing. Most moderate-income households receiving housing rental vouchers are not allowed to apply the subsidies to homeownership. In fact, they lose their subsidies if they own. Attempts to allow the shift have been lame, partly because the housing authorities that allocate these federal subsidies have little incentive to try.

To put another nail in the coffin, “tax reforms” enacted in California and other states further discourage new homeownership by charging would-be buyers and owners of new homes far higher taxes and fees than current homeowners pay for the same government services.

The tax system is also riddled with policies that do little to expand ownership. Many tax breaks for “owners” of capital have gone to those lucky enough to have already generated large capital gains, not for those undertaking new saving. Had capital gains subsidies of around \$50 billion been shared with small savers holding interest-bearing accounts, these funds would have done far more to help those who own the least.

Finally, consider the ways that subsidies for higher education and food stamps penalize households who make the mistake of saving — and then lose their benefits.

The president deserves praise for both advocating ownership for more people and promoting tax reform. But let’s recognize that these are two sides of the same coin and start redirecting the billions in current subsidies to where they will do the most toward expanding ownership to all Americans.