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Help in achieving economic security

By Joseph P. Diamond and Sandra Venner | January 22, 2007

MARIA CRUZ of Fitchburg leaves her job as a medical assistant at the end of a long day, heading someplace she once would have considered unimaginable -- to her own home. Cruz, a single mother of four boys, earns a salary that is hardly enough to buy a house. But through an innovative program run by her local community action agency, Maria was able to leverage the small amount she could save each month into a down payment.

While the Cruz family lives in its own home this winter, many working poor cannot afford to. Millions of individuals and working families in the United States are asset-poor, which limits their own economic security and our collective prosperity as a nation.

Middle-class families often judge their well-being not just by the size of their paychecks, but by their assets -- homes, cars, business inventories. In many cases, development of these assets is underwritten by federal and state tax laws. And often the accumulation of these assets for middle-class families begins with help from parents; in his book "The Hidden Costs of Being African-American," Thomas Shapiro of Brandeis University refers to such help as "transformational assets" -- a down payment on a home or seed money for a business. Low-income workers need similar "transformational" opportunities.

Groups such as Massachusetts' 24 community action agencies have been effective over the years in stabilizing the lives of vulnerable people -- by helping with heating bills, food, and shelter, and by providing critical training and education. This mix of services offers a baseline level of support that allows low-income working people to move into jobs with wages high enough to support a family.

But that's not enough. Also needed are programs that build on this wage-earning capacity and further lead to long-term economic security. Building assets is crucial to long-term self-sufficiency. Just as the GI bill helped veterans pay for college and homes, today's asset-formation programs hold the promise of helping vulnerable working families achieve real economic security.

One such initiative is the Earned Income Tax Credit, a component of tax policy focused on helping those who work in low-paying jobs. For 2006, the maximum combined Massachusetts and federal Earned Income Tax Credit benefit is \$5,216, a very significant sum for a family earning less than \$20,000. When the credit is combined with help in managing a bank account and other basic financial skills -- often referred to as financial literacy education -- it can create a foundation for long-term economic security. In practice, participants in such programs develop effective savings habits. Unfortunately, not everyone who could benefit from the credit is fully using it.

There are other promising options: "Matched" savings accounts -- through which families gain access to money contributed by community groups or government if they save enough of their own money -- can be used for first-time home purchase (as Maria Cruz did), higher education, and business development. First-time home buyer training can also help, and so would guidance on starting a small business or improving an existing one. With a grant from the Boston Foundation, our two organizations are studying the combined impact of financial literacy training and the Earned Income Tax Credit and how community groups might support asset formation better in the future.

Lawmakers in Massachusetts and other states have begun to recognize how crucial asset development is to fighting poverty. In 2006, the Legislature and Governor Mitt Romney approved a line item creating an individual development account program administered by the state's Department of Housing and Community Development. The Legislature also authorized a commission to study asset formation as a way to alleviate poverty and build wealth for all.

We urge Governor Deval Patrick and the Legislature to make appointments to the Asset Development

Commission -- then make a priority of implementing its recommendations. We also urge policy makers to expand the state's individual development account program, and increase the state's Earned Income Tax Credit from its current level of 15 percent of the federal tax credit.

These are important first steps, but transforming the lives of low-income workers will depend on developing even bolder measures in the future. Such policies will do much to make Massachusetts a leader among states in eliminating poverty and providing opportunity for everyone.

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