

The Ownership Society

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Thank you. I am delighted to be here. As by now should be clear to everyone, the President has an ambitious economic agenda for his second term. Today, I would like to take the opportunity to talk about one part of that agenda: the ownership society. The Economic Report of the President, which we published two weeks ago, has a chapter that discusses the benefits of strong property rights and how they can be applied to many policy issues. I'd like to talk about some of the applications that we highlight in the chapter.

Beforehand though, I would like to briefly discuss the basic economics of property rights. Property rights facilitate the efficient use of resources. This is because an individual who owns an asset has an incentive to take into account both the costs and benefits of using it in various ways. Indeed, without clearly defined, transferable property rights, markets will operate either poorly or not at all. And without well-functioning markets, it is difficult for a society to become prosperous. Research has shown a strong relationship between solid property rights and economic prosperity.

Extending ownership and property rights can provide other benefits as well. Consider the example of home ownership, which, as the President notes, provides people "with a stake in the neighborhood and a concern for its future." The results of recent academic research are consistent with this assessment. Homeowners, for example, are more likely to vote in local elections and to work to solve local problems.

The President's policies have focused on dismantling barriers to home ownership. In December 2003, the President signed into law the American Dream Downpayment Act, which helps low-income families with their downpayment and closing costs. His housing agenda also includes increasing the supply of affordable homes through the Single-Family Affordable Housing Tax Credit, increasing support for self-help homeownership programs like Habitat for Humanity, simplifying the home-buying process, and increasing home-buying education.

Another important item on the President's ownership agenda is creating personal retirement accounts for Social Security. Under the President's proposal, contributing to an account would be completely voluntary. Doing so would provide workers with greater security and ownership over their retirement income. They would be able to manage the funds in their accounts in a prudent way, depending on their risk preferences and age. Personal accounts would also allow individuals to bequeath any remaining funds in their accounts to their heirs.

In addition to strengthening the link between a worker's contributions and her eventual benefits, personal accounts would offer individuals the possibility of earning a higher rate of

return than they receive under the current system. Accounts would offer workers the flexibility to choose from several different low-cost, broad-based investment funds, and would allow participants periodically to adjust their investment allocation. Personal retirement accounts would be automatically invested in the "life-cycle" portfolio when workers reach age 47 unless they and their spouses specifically opt out and sign a waiver. Over time the life-cycle fund would move them into more conservative investments. Personal account options and management would be similar to that of the Federal employee retirement program, known as the Thrift Savings Plan.

One of the main programs that President Bush has already put in place to expand the ownership society is health savings accounts. Signed into law in December 2003, HSAs are savings accounts owned by employees. Money in a worker's account can accumulate tax-free and can be invested, similar to an individual retirement account. Workers own the accounts and can take them from job to job or into retirement, and even pass them on to heirs. These features, which extend from enhanced property rights, are important advantages of HSAs. In order to participate in an HSA, a worker must be covered by a high-deductible health insurance plan.

HSAs have major potential benefits. They can reduce health care spending because, for amounts up to the deductible, people confront the actual costs of their health care coverage. By reducing health care costs, HSAs could lower the cost of insurance and increase the number of people with insurance.

Finally, I'd like to turn to an intriguing idea for expanding property rights into the area of public education--school vouchers. Voucher programs expand property rights by providing families with additional control over resources—financial resources in this case. As we discuss in our Economic Report, families eligible for the vouchers are better off because they have greater ability to select the school they prefer most. Further, a well-designed voucher program can make all students in a school district better off, even those who do not participate in the program. How? If the availability of vouchers increases competition among schools for students, then schools have an incentive to provide a better education so that fewer students leave.

Evidence from the Milwaukee school voucher program is consistent with the notion that all students do indeed benefit from a well-designed voucher program. A study of the voucher program found that the performance of students who used vouchers had risen several points in reading and math relative to where they would have been if they had remained in their local public schools. The students who remained in the public schools also benefited significantly, as their test scores increased by several points over the students at comparison schools that were largely unaffected by vouchers. Vouchers are only one form of school choice. Additional forms include charter schools and plans that allow students to attend other public schools. When these programs are well designed, they too can produce efficiency gains by causing schools to compete with one another for students.

In short, the establishment of property rights increases economic efficiency. It is also a promising approach to dealing with a number of important policy issues.

Thank you.