Universal Savings Accounts Help People Help Themselves

The case for individual economic choice.

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Republican presidential contenders have staked out different positions on tax reform. Sens. Rand Paul of Kentucky and Ted Cruz of Texas and neurosurgeon Ben Carson favor a flat tax. Wisconsin Gov. Scott Walker supports lower marginal tax rates. Former Arkansas Gov. Mike Huckabee would like a 30 percent tax on consumption. Sen. Marco Rubio of Florida favors a huge child tax credit and business tax cuts.

In spite of their differences, all of them agree that our tax code should be reformed to lift the financial pressure on the middle class and stop discouraging savings. The good news is that there is one reform idea that would do just that and should appeal to these leaders and the public: universal savings accounts, or USAs.

The idea was first proposed in 2002 by the Cato Institute's Chris Edwards and Washington lawyer Ernest Christian. As Edwards, who is a fervent advocate of the reform, explains in a recent piece for *The Federalist*, the idea is simple: "Such accounts would be like Roth Individual Retirement Accounts (IRAs), but for all types of savings, not just retirement savings. People would contribute after-tax income to USAs, and then all earnings and withdrawals would be completely tax-free."

This policy would go a long way toward addressing one of the main problems of our current tax code—the double taxation of savings. More savings would add to personal financial security. And more savings would help the economy because when people save, they expand the amount of credit available for companies and innovators to start or expand businesses. Thus, savings are a powerful source of economic growth.

Too often, politicians and reporters lament the weakness of consumer spending and praise policies that stimulate consumption. But consumption—no matter how pleasurable it is in the short run—will not make our economy grow in the long run. It is saving that does that by supplying the investment capital needed for new businesses, such as Uber and Airbnb.

America needs to reduce barriers to saving, and Canada and Great Britain have shown the way with their versions of universal savings accounts. According to Edwards, in Canada, the government created tax-free savings accounts in 2009 and recently expanded them. Canadians can now put away up to CA$10,000 ($8,400) per year in the accounts. In Britain, individuals can now save up to 15,240 pounds (about $24,000) per year in individual savings accounts.

This reform is pro-growth, pro-family, and pro-freedom, with a much-needed side of simplification and flexibility. The simplicity of having only one account encourages savings, all savings, not just the type favored by the government at the time. Also, the key to these accounts is that all earnings grow tax-free and can be withdrawn at any time for any reason, free of taxes and penalties. In other words, the USAs encourage more savings because they are more liquid and flexible.

As a result, data from the British government show that these savings accounts have a wide appeal across the entire income spectrum, especially moderate-income earners. For example, more than half of account holders earn less than $31,500 per year. All in all, almost half of Britons now own an account.

Universal savings accounts help people help themselves in our shaky economy. And they do so without giving special treatment to favored interest groups through the tax code like the giant child tax credit favored by Sen. Rubio. That social engineering is not only unfair but also inefficient.

The bottom line is that USAs are a reform idea that all candidates—Republicans and Democrats—could get behind.