

## **The Geographic Settings of Asset Building: Defining Barriers to IDA Program Participation**

**Sara Wackler DeMay, Former graduate student of the Department of Agricultural, Environmental, and Development Economics, The Ohio State University<sup>1</sup>**

**Căzilia Loibl, Department of Consumer Sciences,  
The Ohio State University<sup>2</sup>**

**David S. Kraybill, Department of Agricultural, Environmental, and Development Economics,  
The Ohio State University<sup>3</sup>**

Acknowledgement: The authors gratefully acknowledge the financial support of the Center for Urban and Rural Analysis at The Ohio State University.

This research investigates the barriers to participation in an innovative, governmentally funded asset-building program, namely Individual Development Accounts (IDAs). Our goal is twofold: first, to analyze the program participation decision and, second, to analyze the amount of savings of current participants. We expect results to show that program participation and savings deposits differ sharply across geographic settings.

IDAs are tax-protected, matched savings accounts designed to help those with low incomes and few assets to buy a home, capitalize a business, or fund higher education. IDA participants and program structures have been well-researched in American Dream Demonstrations (e.g., Schreiner, Clancy, and Sherraden 2002). However, relatively little research has investigated the spatial distribution of wealth building in households, compared, for instance, with the large volume of research on the spatial distribution of entrepreneurial capital formation (Malecki 1988; Audretsch and Keilbach 2005). This is surprising considering the beneficial effects of IDA program participation for long-term financial wellbeing and the significant amount of federal and community funding available for this program. Based on three distinct lines of research, we suggest that IDA participation and savings deposits can be explained by the complex connections between asset building and place.

First, the concept of social geography places an increased emphasis on the local community context within which poverty occurs (Milbourne 2004; Ulimwengu and Kraybill 2004). It suggests that asset building is hindered not only by lack of personal resources but also insufficient or unsatisfactory community facilities (Room 1995). This environment also provides fewer resources for asset building programs which translates into fewer benefits to rural participants in terms of the availability, quality, and flexibility of options in rural IDA programs (Curley and Grinstein-Weiss 2003). These aspects are particularly important for high-touch services that assist people develop financial priorities and change their financial behaviors (Hoenig 2006).

Second, the literature on the diffusion of innovations describes the importance of geographical proximity for the adoption rate of an innovative program, such as IDAs (Karch 2006). Because proximity affects the frequency of communication and the personal nature of interaction between potential adopters, it enhances the spread of information and ideas and facilitates imitative behavior (Rogers 1995). Correspondingly, the direct observation allowed by close geographical distance positively affects adoption further. Hence, spatial effects of adoption of an IDA program are best estimated as a joint function of distance and density within a social network (Wejnert 2002).

Finally, the literature on savings behavior yielded a number of explanations as to why non-participants' interest in a savings program may differ from those who enrolled in it. One crucial factor is a person's rate of time preference. A high rate of time preference is associated with low willingness to delay gratification and low savings rates (Frederick, Loewenstein, and O'Donoghue 2002). Experimental studies show that low income produces a high rate of time preference because of many unfilled needs (Webley and Nyhus 2006). High rates of time preference are also closely related with a low willingness to delay gratification, less concern for the future, and a tendency to postpone the unpleasant task of saving (Thaler and Benartzi 2004). We suggest that the higher poverty rates in rural

areas may reinforce and perpetuate this behavior. People also vary in their ability to use commitment strategies. Interpersonal strategies rely on external controls on behavior (e.g., family, friends, institutional controls), while an intrapersonal strategy typically relies on a commitment of internal self-reputation (e.g., habits, precommitment). The characteristics and quality of a person's social network is likely to influence these strategies' success as suggested by social capital theory (Putnam 2000).

Our two specific objectives are, first, to identify the economic, social, and psychological determinants of IDA participation and savings deposits, distinguished by geographic setting and, second, to determine selection bias and savings deposits within the asset-building program, in general and particularized to geographic settings.

### Procedures

The first objective involved a mail survey of the 186 IDA participants in a large IDA program network in the Midwest. In total, 94 questionnaires were returned (50.5% response rate); 75 were useable for the statistical analyses. The second objective involved a mail survey of an external comparison group of a randomly selected, representative sample of the eligible general population in the geographical areas served by the IDA network. A total of 2,200 addresses were purchased, 237 contacts were invalid, 447 individuals responded (22.8%). A total of 136 respondents indicated household incomes at or below 200% of the federal poverty level, which is the income cap for IDA program participants.

We employed propensity score matching to account for the demographic differences of the two samples. A binary indicator of whether an individual had participated in the IDA program was used as the dependent variable and the nine demographic factors were independent variables. Nearest neighbor matching with replacement was used to pair comparison-group with participant-group observations (Caliendo and Kopeinig 2008).

### Results

Descriptive statistics reveal that the average saving rate of the combined sample is 4.5%. A Probit model has been tested to predict the determinants of IDA program participation. Neighborhood quality and residence in a metro county were related to program participation. A Tobit model was used to determine the effects of economic, social, and psychological variables on the likelihood of saving and the saving rate. Preliminary findings suggest a positive relationship between the likelihood that an individual will save and residence in a non-metro county. We are about to develop a comprehensive framework of the spatial differences in IDA program participation and savings deposits.

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<sup>1</sup> 2120 Fyffe Road, Columbus, Ohio 43210, USA

<sup>2</sup> 1787 Neil Avenue, Columbus, Ohio 43210, USA, Corresponding author. Tel.: 001-614-292-4226; Fax: 001-614-688-8133; E-mail address: loibl.3@osu.edu

<sup>3</sup> 2120 Fyffe Road, Columbus, Ohio 43210, USA