SECTION VI

Sharing Risks and Rewards, and Protecting Family Wealth

The five essays in this section are not about building family wealth per se but about broader notions of property rights and protecting and creating wealth in the overall economy. The essays examine the origins and limits of property rights, how the rights of creditors and debtors are managed, and why these rights matter for addressing inequality. Also included are novel forms of safety nets—both a social insurance proposal more attuned to the 21st Century, as well as a call for an "Operation Warp Speed" centered on family financial security. There is also a proposal for family wealth insurance to fill a hole in our public safety net which is geared towards replacing losses of income but not losses of wealth. And one essay calls for a broader sharing of societal risks and rewards, propelled by the government adopting a "portfolio" approach in its investments in the sectors that create national wealth in the first place—including an "Earthshot" to tackle our most significant challenges, not unlike the "moonshot" that first propelled humans into space.

These essays underscore a fundamental point: there's a critical role—both a responsibility and an opportunity—for the public sector in the creation and protection of private wealth. That is, the building of wealth by families cannot just fall on families: legal regimes, public investments and safety nets created by the state influence the ability of families to accumulate savings and assets. And if the state plays such an influential role in family wealth creation and protection, then it behooves us to influence the state in ways that create wealth more broadly and inclusively.

The Mission Economy and Our “Earthshot”: Socializing Risks and Rewards

BY MARIANA MAZZUCATO

The views expressed in this article are those of the individual author/authors and do not represent the views of or an endorsement by the Federal Reserve Bank of St. Louis, the Federal Reserve Board of Governors, the Federal Reserve System or the U.S. Department of Agriculture.

The COVID-19 pandemic has exposed the weaknesses of modern capitalism, prompting and accelerating three interrelated major crises in health, climate and finance. The nature of the crises exacerbates existing structural weaknesses, socioeconomic inequalities and working conditions, impacting the population unequally. Therefore, societies risk being caught in a pandemic inequality accelerator that leads to a "disease-driven poverty trap."

Unusual times necessitate unusual measures. Recognizing the decimating impact of the pandemic on the fabrics of the society and having learned the pyrrhic lessons of not doing enough from the financial crisis of 2008, lawmakers are acting swiftly to inject a much-needed fiscal stimulus—such as the $2.2 trillion CARES Act and President Biden's $1.9 trillion COVID-19 relief bill—to put the economy on life support. This is followed by a trilogy of packages to revive the economy: the enacted $1.9 trillion American Rescue Plan (economic stimulus), the proposed $2 trillion American Jobs Plan (infrastructure investment) and the proposed $1.8 trillion American Families Plan (social safety net expansion).

Whether these packages can lay the foundation for "Build Back Better," as Biden's administration and many other governments have committed to do, would depend heavily on how they impact wealth inequality, especially the livelihoods of lower-wealth households.

However, this cannot be achieved when governments confine themselves to fixing the problems as they arise and bailing out businesses as the lender of last resort. This passive approach has given way to the idea that wealth creation is solely driven by business—a point propagated even by those who believe in "stakeholder value." It is clear that when it comes to tackling societal challenges and exacerbating inequality (such as those posed by the pandemic), governments have lost (or rather, relinquished) much of its inspirational role in creating transformative change, yoking itself to a tyranny of "fixing market failures."

To create an inclusive and sustainable economy and to stop going from one crisis to another, governments need to think much further beyond market

fixing and toward actively shaping and co-creating markets to deliver the results. We need new economic thinking to unleash the entrepreneurial state as an investor of first resort in national priorities, put reducing inequality at the heart of the growth agenda and capture public returns from public investment.

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A mission-oriented approach, which I lay out in my new book *Mission Economy*, provides a framework to rethink capitalism from a governance angle: how to govern public institutions, private ones and their relationships so the ecosystem that results is symbiotic and not parasitic.

The Apollo program shows how a clear outcome—sending a man to the moon and back—drove consequential organizational change, well-designed procurement contracts and the willingness to innovate and experiment. Indeed, it was that experimentation that caused so many "spillovers" from space research that benefited us on earth, from software to camera phones to baby formula. And interestingly, NASA was very careful to make sure that contracts reflected reward sharing: They even had a "no excess profits" clause in the contracts. It also made sure that the cost-plus procurement (which could be easily gamed to inflate costs) was turned into a fixed price, one with quality incentives.

This model especially provides an inspiration for the "earthshots" to tackle the grand societal challenges of our time. For example, the 17 Sustainable Development Goals are tangible starting points; each can be transformed into several bold top-down missions that can stimulate multisectoral, bottom-up innovations, much in the same way that the Apollo program sparked innovation in aeronautics, nutrition, materials, electronics, software and more.

At the same time, recognizing the entrepreneurial role of the state as lead investor and risk-taker means it must not just set the background conditions but also actively ensure the socialization of rewards. Public investment is crucial to all parts of the innovation chain, from upstream basic science to downstream commercialization. In addition, government support for corporations—in the forms of direct cash grants, tax breaks, loans issued on

favorable terms or government guarantees, and central banks expanding corporate bond buying—has a foundational and indispensable role in stabilizing livelihoods and the economy in times of great crises.

A fundamental question arises: How can governments steer investments strategically to lead to an inclusive and sustainable economy instead of being captured by narrow or speculative interests, as reflected in the U.S.'s high levels of income and, especially, wealth inequality?

First, like private venture capital funds, governments can gain direct return from the successes (the "upside") to cover the inevitable losses (the "downside") through a portfolio approach and finance the next round of investments. This profit sharing can be achieved through royalties and equities. COVID-19 has also brought to light the possible use of equity stakes by converting government loans (such as the U.K.'s Future Fund) to shore up the supply shock experienced especially by small and medium enterprises and to protect the enterprising fabric of the society. For these and other strategic functions to be fulfilled, the emerging public-private partnerships should be viewed as part of a public investment portfolio. Creating a public "basket" of assets enables both the risk and reward potential to be diversified across different types of projects, firms and industries.

How can governments steer investments strategically to lead to an inclusive and sustainable economy instead of being captured by narrow or speculative interests?

Second, governments can also gain indirect returns through attaching conditionalities to its investments. Having no choice but to spend on a massive scale to mitigate the economic fallout from COVID-19, governments must use the bailouts to position their economies for a more sustainable future. Bailouts should come with conditionalities attached, such as requiring firms to adopt emissions reduction targets and to treat their employees with dignity (in terms of both pay and workplace conditions). Other conditionalities can accelerate the greening of industrial sectors.

As President Biden looks to deliver more than a return to normalcy to reshape a brighter economy in a postpandemic world, he needs to create a new social contract—one that promotes value creation over profit extraction, and socializes risks as well as rewards, and seeks not to simply invest in companies or sectors but in the common good. While the CARES Act included

some conditionality on businesses receiving government aid to maintain jobs, the plan to Build Back Better, which may see up to $4 trillion being spent over the next decade on infrastructure and industrial policy, must do much more. It can make sure that public sector investment is accompanied by a transformation in the relationship between the state and the private sector. Lessons can be drawn from Europe, where in France, President Macron made sure that recovery funds to airlines and automobiles were conditional on firms committing to lowering their carbon emissions, and in Austria and Denmark, where firms receiving recovery funds had to commit to not using tax havens. To make sure the deal is a good one, Biden's team will need to work fast—good for climate, good for racial justice and good for working conditions.

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And critically, the administration needs to be providing leadership on the missions of the future to ensure that the risks and rewards of missions—and public-private collaborations at large—must be governed in the public interest. No doubt one of the first missions must be to fight global warming and address economic inequality at the same time. This will need an equivalent level of leadership as when Kennedy said that the U.S. was going to the moon because it was hard, not because it was easy. It will require a top-down direction while catalyzing innovation and investment across the widest variety of sectors, from energy to nutrition to transport and digital services. And no citizen should be left behind; full inclusion must mean everyone, ideally by default, in our social and economic reforms.

But this will not happen on its own. The lessons from Apollo of government leadership, conditionalities and bold contracts, an able public sector that can work with business achieving a fair deal, is more important now than ever.

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SECTION VI

SHARING RISKS AND REWARDS, AND PROTECTING FAMILY WEALTH

Broadening Ownership First Requires Rewriting the Rules of Debtors and Creditors

BY KATHARINA PISTOR

The views expressed in this article are those of the individual author/authors and do not represent the views of or an endorsement by the Federal Reserve Bank of St. Louis, the Federal Reserve Board of Governors, the Federal Reserve System or the U.S. Department of Agriculture.

Property rights are said to be key ingredients for economic development. Only when individuals know that they will reap the fruit of their investments will they invest in the first place. By enforcing property rights, the state enables entrepreneurs to obtain financial resources from investors in the common quest for future gain, thus solving the "double-trust-problem." As a result, all will be better off, or so the story goes.

It follows that broadening ownership is the obvious solution to address inequality, or so it seems. Yet, this is at best a short-term measure. Ownership alone will not produce greater equality if access to ownership is contingent on debt and creditor rights trumping ownership rights—even when debtors default for reasons they cannot control. Access to asset-shielding devices and liquidity support is paramount to address such inequities, especially in times of crisis, yet is reserved largely for the better off.

To understand the limits of ownership, it is helpful to ask where property rights come from. A common answer to this genesis question is that the initial allocation of ownership is less important than the ability to reallocate them via markets to the most efficient user (also known as the Coase Theorem). Yet, Coase himself realized property rights must be allocated before any transaction can occur and that leaving the initial allocation to the market would be too costly. He also asserted that in a world with transaction costs, efficient outcomes will be illusory. Against this backdrop, failure to answer the question where property rights come from condones the action of actors with the wherewithal to mend property rules in their own favor.

Lawyers are more likely to point to the "enumeration principle" than to the Coase Theorem. It says that not just any interest is a property right but only the ones that state law designates as such. And yet legal systems have never produced such definite lists. In most countries, not even the constitution defines property rights; it assumes them. This leaves plenty of room for pushing the boundaries of existing property rights and creating new ones.

History suggests the formal act of recognizing a simple interest, such as possession of an object or an invention as a legal property right tends to favor

actors who have already secured de facto control. In short, property rights are not preordained; they are retro-fitted. "Listen to the barking dogs," advises Hernando de Soto, a leading advocate of titling property to alleviate poverty. However, not everyone has a dog, and some have bigger dogs than others. Broadening ownership is like giving more people dogs while ignoring that the bigger dogs have already demarcated the terrain.

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In addition, most legal systems condone the creation of new property rights by attorneys on behalf of their clients, subject only to ex post recognition by a court or regulator—if and when challenged. New property rights are created by grafting legal attributes that have been recognized for one asset onto new types of assets. Property rights are rarely challenged by the state; they are policed by other private parties, often parties with fewer resources.

To see how this works, it is useful to break down property rights into their legal attributes, namely priority and universality. Priority ranks multiple rights to the same object relative to each other, conferring stronger rights on some and weaker rights on others. Universality ensures that these rights are enforced, not only bilaterally but against anybody, or the world. Importantly, priority and universality are not enough to secure wealth over time. When owners encumber their assets to access credits for investments or consumption, they pledge to surrender them to their creditors should they default on a loan.

Sophisticated parties have long learned how to mitigate the risk of losing their assets to their creditors. Most common is placing at least some assets behind a legal shield, such as a trust or a corporation. By partitioning private and business assets and shielding them from their respective creditors, they mitigate the risk that both will be lost in future crises. This is how assets attain durability, how they grow and multiply over time. Any attempt to broaden ownership must ensure owners against losing them.

Putting all one's eggs into a single basket is a bad idea, as every portfolio manager knows. Yet, most small owners and entrepreneurs have all of their assets exposed to all their creditors. They own little to begin with, and what they do own must be pledged if they wish to obtain the funding needed to run

their businesses or to make ends meet. Even when operating a limited liability company, small business owners are often required to personally guarantee a business loan. As a result, their personal, not only their business, assets are on the line.

Private attorneys have long helped their clients to protect their assets. They have entailed the family estates of landowners or placed their wealth behind the legal veil of trusts to protect it from the taxman and other creditors. The assets have changed over time but not the legal tool kit used to protect them. Attorneys have fashioned new assets that enjoy not only priority and universality but also durability. They have convinced courts and regulators to recognize their coding strategies as valid extensions of existing law or have lobbied legislatures or regulators to adapt the rules to the changing needs of their clients.

Given the centrality of law in fashioning assets and creating private wealth, it is tempting to think that the same legal tools might be used to broaden ownership and mitigate inequality. Yet, it is not the absolute but the relative strength of rights that determines wealth and inequality. This is best exemplified by insolvency, the acid test for the right to assets. In insolvency, the debtor has, by definition, fewer assets than liabilities. Claimants with stronger rights can claim or enforce against them; claimants with weaker rights get the leftovers (if any), and the debtor is left bankrupt—literally a broken bench (*banca rotta*).

Given the centrality of law in fashioning assets and creating private wealth, it is tempting to think that the same legal tools might be used to broaden ownership and mitigate inequality. Yet, it is not the absolute but the relative strength of rights that determines wealth and inequality.

This at least is how it works in a zero-sum game under conditions of scarcity. In the real world, these conditions are often relaxed—but not equally for everyone. Law is elastic, more so at the apex of the system than on its periphery, where it tends to be enforced without remorse. Only when distress reaches the core of the system will the state or its central bank relax or suspend the full force of the law.

A creditor's own survival often depends on the location of his own place in this hierarchy. The ones with stronger rights are more likely to survive than

those with weaker rights. Even better off are creditors who can escape the rules of bankruptcy law altogether by claiming bankruptcy safe harbors and settling their claims before anyone else can raise their own. And best off are those who get to escape scarcity by accessing liquidity support, preferably from an actor without binding survival constraints, i.e., the state or its central bank.

Private legal ordering left to its own device is less forgiving. Moreover, debt and collateral law tend to shift the costs of dealing with future uncertainty to the weakest, thus deepening rather than mitigating inequality.

Policy interventions should rebalance the relation between debt and equity and between ownership and creditor rights. Ensuring all debtors a fresh start, especially when they had no control over the cause for their default, is critical. In addition, greater attention ought to be placed on income security to fund ownership without debt and on protecting assets against downside risk for firms and households at the lower end of the income and wealth scale.

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SECTION VI

SHARING RISKS AND REWARDS, AND PROTECTING FAMILY WEALTH

From Safety Net to Building Wealth: Make It Cash, Make It People-Centered and Make It Automatic

BY RACHEL BLACK

The views expressed in this article are those of the individual author/authors and do not represent the views of or an endorsement by the Federal Reserve Bank of St. Louis, the Federal Reserve Board of Governors, the Federal Reserve System or the U.S. Department of Agriculture.

Even before the economic fallout from COVID-19, financial insecurity among households in the United States was pervasive. The JPMorgan Chase Institute estimates that prepandemic, 65% of households lacked the liquid savings to cover six weeks of income necessary to weather a simultaneous income loss and expenditure shock. It's within this state of fragility that millions of workers—many of whom were already living paycheck to paycheck—lost that paycheck.

As in previous economic downturns, direct cash payments to households has been a cornerstone of the federal response. The CARES Act in March 2020 authorized an initial round of $1,200 Economic Impact Payments (EIP), which was followed by an additional infusion of $600 payments in December. Most recently, the American Rescue Plan enacted in March directed a third round of $1,400 payments as well as authorized a significant (though not yet permanent) expansion of the Child Tax Credit (CTC)—increased from $2,000 per child under 16 to $3,000 per child under 17 and $3,600 per child under 6.

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These payments have provided a lifeline to the households receiving them. Yet, even after this crisis abates, families will still lack the resources to cover their immediate expenses and plan for the future. Alongside lessons from the existing system of cash transfer programs, the federal COVID-19 relief payments provide a roadmap for reenvisioning the safety net as a platform capable of doing both: *make it cash, make it people-centered and make it automatic.*

Make It Cash

While households reported spending the majority of their stimulus on necessities like food and rent, they also saved nearly 30% of these resources.

These experiences join substantial evidence showing cash's flexibility to support both immediate needs as well as longer-term savings and investments that decrease vulnerability over time.

Indeed, new research from the Aspen Institute's Financial Security Program, drawn from five years of research, surveys and interviews with leaders in the financial security field, identifies "routinely positive cash flow" as the foundation on which other components of financial security, like savings and wealth, are built. Yet, establishing this foundation from wage income alone is insufficient for most Americans.

Leaders identify "routinely positive cash flow" as the foundation on which other components of financial security, like savings and wealth, are built. Yet, establishing this foundation from wage income alone is insufficient for most Americans.

In 2019, 44% of all US workers were considered "low-wage," with median hourly wages of $10.22 and median annual earnings of $17,950. Unsurprisingly, nearly half of all households—and three in five households with annual incomes of less than $30,000—reported that their spending exceeded their income over the course of a year.

People of color and women are overrepresented within the low-wage workforce as well as more likely to be laboring in their homes and communities without any compensation at all. Compared to their white counterparts, Black workers are 32% more likely and Latinx workers are 41% more likely to earn low wages, while women are 19% more likely to earn low wages than men. Meanwhile, the unpaid value of women's work caring for their homes and families totaled $1.5 trillion in 2019, approximating the level of economic activity in the state of New York.

Make It People-Centered, Not Work-Centered

Despite being an unreliable and inequitable source of cash, wage income, paradoxically, is the foundation on which much of our safety net is built. Predictably, this approach reproduces the inequalities present in the labor market within our public policy.

"Welfare reform" in the mid-90s reoriented cash assistance around work-based tax credits, such as the Earned Income Tax Credit (EITC), restricting access to families most disadvantaged in the labor market. According to the

Urban Institute, in 2019 insufficient earnings prevented approximately 33 million people (both adults and children) from receiving the EITC, either in part or in full.

Similarly, nearly 29 million children live in households with at least one working parent failing to receive the full CTC ($2,000 per child under 17) due to low earnings. For example, a single mother earning $14,000 in 2019 with two children would receive $1,725 as a refund, while the same household earning up to $200,000 would receive the full $4,000 credit.

Despite being an unreliable and inequitable source of cash, wage income, paradoxically, is the foundation on which much of our safety net is built.

This reliance on wage income creates clear racial and gender inequalities in how benefits are distributed. Researchers at Columbia University, for example, have found (prior to the pandemic) that among Black children (non-Hispanic and Hispanic), around half will receive less than the full CTC compared with 23% of white children (non-Hispanic only), as will 70% of children in female-headed households, compared with 25% of children in two-parent households.

Make It Automatic

Despite the potential value of EIPs, the fragmented and exclusionary infrastructure tasked with delivering them made access unreliable and costly to the households disconnected from these systems. As of October, for example, around 12 million people, disproportionately Black and Latinx households, had yet to receive their EIP primarily because their low incomes exempted them from tax filing, the primary mechanism for payment delivery. Further, recipients lacking direct deposit faced additional delays and paid out around $66 million in cash checking or other services to access their payment.

These administrative challenges are mirrored in existing cash transfer programs. According to legal scholar Dorothy Brown, the expansion of the EITC during "welfare reform" was partially intended to create a class of "deserving" poor by requiring work in exchange for benefits. Yet, the very act of means-testing eligibility branded the program as "welfare," reinforcing its association with "Blackness." Consequently, measures such as increased compliance

requirements and auditing differentiate low-income tax programs with those serving higher-income, predominately white filers.

While ostensibly intended to reduce fraud and increase compliance, these measures have created complexity that reduces access and increases cost for recipients. Currently, only 80% of EITC-eligible households participate, and one survey found that a sample of EITC filers paid between 13% and 22% of their refund value in tax preparation fees. Critically, families of color are more likely to seek these services, which don't guarantee compliance. The Treasury Department has found that the majority of errors in EITC filing are made by paid preparers.

Moving Forward

Importantly, there are examples of each of these approaches already proposed or in practice. In addition to the expansion to the CTC included in the American Rescue Plan, Sen. Mitt Romney (R-UT) has proposed a similar program of recurring cash payments to families with children, frequently referred to as a "child allowance." In contrast to the CTC expansion set to be administered by the IRS—likely presenting similar barriers and costs as accessing the EITC or stimulus payment—the Romney proposal would be administered by the Social Security Administration and make benefits either via direct deposit or Direct Express, further closing gaps for those households without a bank account.

Additionally, alternative enrollment practices could move existing programs closer to the automatic ideal, such as mailing a prepopulated form to all households expected to be eligible for programs like the EITC.

There are multiple forms that these approaches could take, but collectively, they present a powerful new direction for safety net design that constructs an equitable and inclusive foundation for wealth building that's long overdue.

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SECTION VI

SHARING RISKS AND REWARDS, AND PROTECTING FAMILY WEALTH

Our Nation Insures Losing Your Income—Why Not Also Losing Your Wealth?[1]

BY RAY BOSHARA AND IDA RADEMACHER

[1] An earlier version of this article was published by the Aspen Institute as The Next Big Thing in Building Wealth?, March 23, 2018.

The views expressed in this article are those of the individual author/authors and do not represent the views of or an endorsement by the Federal Reserve Bank of St. Louis, the Federal Reserve Board of Governors, the Federal Reserve System or the U.S. Department of Agriculture.

What novel idea could unite a Nobel Prize-winning economist, an aspiring immigrant family who lost their home to foreclosure, and a group of policy experts at an Aspen Institute roundtable? An idea for a new kind of insurance that does not yet exist.

The Santillan Family

Let's start with that family. As profiled by Alana Semuels in *The Atlantic* a few years ago, the Santillan family was working hard and living the American Dream but then lost their home to foreclosure in 2009. The family ended up living in hotels and cars, and they had to watch their children postpone their college educations and careers so the family could scrape by.

Like so many others, the Santillans bought a home they assumed—and were advised—would not lose its value. It's also unlikely they considered how all the debt they refinanced magnified their risk, especially as they had few other assets to fall back on. As a result, they became hypercautious about future financial decisions. As Karina Santillan reflects, "Having lived through everything, I see life differently now. I'm more cautious—I probably think through financial decisions three, four, five times."

The Santillan story brings together several different challenges we have been thinking a lot about for many years: the Great Recession's enduring drag

on families and economic growth, compounded even further by the COVID-19 pandemic; the fractured, tenuous link between work and wealth; alarming levels of consumer debt; and the vulnerability of families living without emergency savings or any other financial cushions.

Pooling Risk for Income Losses but Not Wealth Losses?

Yet their story also reflects another critical challenge no one is really discussing, something lacking in the marketplace and public policies: how to ensure that families like the Santillans don't bear the full risk of losing their wealth.

What if that risk were to be pooled along with the risk borne by other families, lenders and the government? What if we pooled the risk of wealth loss in the same way we pool the risk of losing income or ability to work in the form of well-established social programs like Unemployment Insurance and Social Security? Why pool on the income side but not on the asset side when, one could argue, wealth is as fundamental to economic security and opportunity as income? Would Karina Santillan, who admits to now being more cautious, ever be willing to take a risk on another dream home if she knew that her family didn't bear the full risk of losing it?

Up to 46 percent of Great Recession housing wealth losses —comprising $2.5 trillion of wealth—could have been avoided with some kind of downside protection, with the understanding that some of the gains would be shared with lenders as well.

We were so captivated by these questions that we invited economist and Nobel laureate Robert Shiller to join a roundtable of 20 experts from diverse fields at the Aspen Institute's headquarters in DC in early 2018. The roundtable's most important outcome was an affirmation that this novel idea is worth pursuing. Here are five other key takeaways:

1. ***The losses and potential market are significant, though further economic analysis is necessary.*** First, we're talking real money here, real wealth losses that potentially could have been substantially avoided—and thus a real market. Close to 12 million families lost their homes between 2006 and 2012, and a few years later—despite there being 8.6 million more households—there were only 24,000 more homeowners. Trillions of dollars of residential

wealth evaporated with the losses concentrated among lower-income and minority families, compounded by the debts that remained. Yet, by one estimate, up to 46% of these housing wealth losses—comprising $2.5 trillion of wealth—could have been avoided with some kind of downside protection, with the understanding that some of the gains would be shared with lenders as well.[2] Compare that number to the only $50 billion of relief policymakers were able to offer foreclosed and underwater homeowners (of which only $30 billion was ultimately claimed) in the Great Recession. An important next step, then, involves quantifying the actual economic costs and benefits associated with this proposed insurance.

2. ***Insure only assets key to financial security.*** No one thinks we should insure against stock market, currency or cyber-currency speculation. There was common ground on limiting losses and sharing gains associated with assets essential to financial security and economic opportunity, including a home, postsecondary education, retirement account, or a micro or small business—though a key challenge would remain in choosing exactly which assets to insure and who would decide that. In addition, some insurance against the wages and income that make wealth accumulation possible should be available too.

We should limit losses and share gains only around assets essential to financial security and economic opportunity, including a home, post-secondary education, retirement account, or a micro or small business—though a key challenge remains in choosing exactly which assets to insure, and who would decide that.

3. ***Learn lessons from insurance markets and the Great Recession.*** Our efforts should be guided by well-established policy design principles and the hard lessons learned from the Great Recession—and now, of course,

[2] Data from *House of Debt* by Atif Mian and Amir Sufi. In their 2014 book, they propose a "shared-responsibility mortgage," which is different than a standard fixed-rate mortgage in two ways: (1) The lender offers downside protection, which would link a borrower's monthly payment to a local zip-code-level housing index—if prices fall, the owner's payment goes down pro rata; and (2) in exchange for this downside protection, when the home is sold the lender would receive up to 5% of any appreciation in home value above the owner's initial purchase price.

from the pandemic. Naturally and most importantly, any well-designed insurance market or policy would minimize "moral hazards" (when someone takes on a risk knowing they'll be bailed out) and "adverse selection" (such as when those most likely to make claims opt for the insurance, thus draining costs).[3] Accordingly, policies should be crafted (a) proactively, before the losses occur; (b) with families, lenders, insurers and the government all having skin in the game; and (c) to be as universal as possible, both to reduce adverse selection and to ensure there are enough funds to cover widespread losses.

4. ***Tell a compelling story.*** To be successful, we should carefully consider the narrative, or how we "sell" individual asset insurance products to potential insurers, policymakers and families. Here the idea of "narrative economics" was discussed—meaning that the stories or emotions associated with financial behavior must be considered alongside the hard economic facts.[4] Risk-taking is necessary for building wealth and essential to an inclusive, dynamic and growing economy.

5. ***Consider options for moving forward.*** And, finally, we discussed our theory of change and how to move this idea forward. Is it best to encourage private-sector innovation and experimentation, with the hope that it will lead to larger-scale policy change? Should we begin with more consumer insights, though as one participant noted, consumers don't often know what insurance they want until they need it? Should it just be attached to other products families are buying? Or should institutions simply default consumers into these policies since, as one participant observed, humans do not always make good financial decisions? Given the magnitude of the wealth losses and scale of income-protection social policies, should state and national legislation be considered earlier in the process?

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[3] It was in fact the moral hazard associated with the Bush and Obama administration retroactive bailouts—when taxpayers were asked to bail out what were perceived as irresponsible banks and homeowners—that spawned the Tea Party and radically reduced federal mortgage relief funds to just a fraction of overall wealth losses.

[4] Think of the popular narrative behind the Dutch Tulip Mania in the 17th century or the U.S. housing bubble of the last decade: the idea that one better get in on an investment so as not to lose out and that prices will always be increasing. Or that the Social Security program's narrative was changed to reflect its evolving purpose: It is no longer seen as old age insurance but as a retirement plan.

Sharing Risks, Sharing Rewards

We all are likely to reap the benefits of their efforts, so does it make sense for them to shoulder so much of the risk?

When one glimpses the stories behind record income and wealth inequality, it is the Santillan family we see, not thriving at the top but struggling near the bottom. Still, these families are eager and focused on moving up, working hard, starting and building families, getting educated, and contributing to their communities and nation. We all are likely to reap the benefits of their efforts, so does it make sense for them to shoulder so much of the risk? We hope we have started a broader discussion about what's now missing for families, lenders and our nation's safety net—some insurance aimed at family wealth.

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American Families Need an Operation Warp Speed for Sustainable Financial Tools: Lessons from Vaccine Development and Trials

BY MARK GREENE

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Americans struggling with financial insecurity need innovative tools to provide accessible credit, savings mechanisms, insurance, budgeting and actionable advice. Sustainable products and services that help people find near-term stability while enabling pathways to long-term wealth building are in short supply. Seventy-eight percent of American workers live paycheck to paycheck. This is a state of emergency that requires national resolve. However, key players face interdependent challenges: Innovators need incentives and risk structures appropriate to the task, researchers and academia lack key data on emerging players and outcomes and regulators add complexity to an already perilous innovation environment.

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While 2020 had few wins to offer, Operation Warp Speed (OWS), a national program to accelerate the development of COVID-19 vaccines, was a bright spot. While its leadership in execution can be readily critiqued, OWS' ambitious, whole-of-government approach provides a useful model that can be tailored to quickly develop financial tools and eliminate persistent roadblocks to innovation.

The Trouble Families Are Facing

Paycheck-to-paycheck households stand on the brink of catastrophe—many are a financial shock away from crippling their credit history, entering a cycle of inescapable debt or losing their home.[1] Most families need access to an amount equivalent to three weeks of income to weather an income dip or expenditure spike. Even as the amounts in actual dollars are relatively low, solutions are elusive and marketplace tools have not effectively put low-to-moderate income Americans on stable financial footing writ large. Our

[1] https://www.pewtrusts.org/~/media/assets/2015/10/emergency-savings-report-1_artfinal.pdf

financial industry has not adequately invested in understanding the complex financial lives of paycheck-to-paycheck consumers.

Meanwhile, fintechs and innovation labs across the country are uniquely set up to build workable solutions. As consumers expect customization, this community has honed the product/market-fitting competency and know-how to solve problems at scale. Drawing board solutions wait to be marshalled in impactful ways to provide targeted relief to American families. However, incentives are lacking to move products for "subprime" consumer populations from whiteboards to reality. The product creation process takes time and capital, and many established companies are simply too risk averse. While startups may have the risk appetite to tackle these challenges, their investors may not have the needed patience to see the process through. Further, products in banking, credit, insurance and advice are fraught with regulatory and reputation risk for companies. Operational models and investment choices often result in unmet needs for much of struggling America.

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Elsewhere, researchers and scholars are primed to get involved on the "ground floor" of innovation, apply rigorous data analysis to consumer product interactions and provide evidence-based recommendations to policymakers. But data gaps exist. Products' early stage usage data—valuable information for researchers—is often overlooked by companies focused on user adoption and speed to market. Data sharing can open entities to undue scrutiny at the early "discovery" stages. And when growth (and the associated datasets) become more robust, the data become an important aspect of competitive advantage and recouping initial investments. Sources of important data on innovative products and emerging landscapes remain in high demand.

Overlaying the challenges outlined above, regulators and policymakers have an unenviable task. They must protect millions of American consumers—using historically bad outcomes and system failures as an important background for crafting new regulation. There is little appetite or incentive to

take on the risks needed to foster innovative solutions. Well-meaning regulations can result in standardization[2] that force smaller, more innovative firms onto the big bank and institutional playing fields—subjecting them to financially prohibitive processes and compliance regimes. Regulatory risk aversion also begets industry centralization,[3] as it incentivizes industry giants to create regulatory moats to protect their enterprises and stamp out competition.

Lessons from Operation Warp Speed

OWS provides a useful template for collaboration between consumers and entities to affect positive financial health outcomes. The effort "to fundamentally restructure the way the U.S. government supports product development" involved collaboration between the private sector, academia, research institutions, many federal agencies and state, local and tribal governments. The government enabled, accelerated and advised companies developing solutions while leveraging the full capacity of the U.S. government to ensure no technical, logistical or financial hurdles hindered development or deployment.

OWS encouraged differing technological approaches, ultimately selecting eight diverse candidates for increasingly large trials—in some cases, pouring billions in support to lesser-known vaccines with promising technology. At the same time, well-known journals reviewed safety and efficacy data and published peer-reviewed articles on results and comparisons to other vaccines and treatments.

OWS succeeded because a coalition of industry, academia and government players came together and 1) leveraged massive funding sources, 2) insisted on data transparency so academia could rigorously test results and 3) lifted administrative barriers. The outcome: three effective vaccines to date, with more in the testing pipeline yet to come.

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[2] Timothy P. Carney, 2019. *Alienated America: Why Some Places Thrive While Others Collapse*. New York: Harper Collins, p. 164-168.

[3] Carney, *Alienated America*.

A Convening, Outcomes-Based Paradigm: Going Beyond the "Sandbox"

Families need an OWS—a massive mobilization of "clinical trials" to solve for economic insecurity. The endeavor could involve tightly defined frameworks to test a myriad of solutions to help thousands of diverse families find measurable financial stability. For example, an RFP could solicit collaborations to empower a household to save an amount equivalent to 2 months of income in 24 months. Funding and other support should be made available to participating companies, not-for profits, academics and research institutions, regulators and state and local governments.

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The efforts should not confine financial solutions to conventional approaches but instead encourage innovative, hybridized ways to bring savings, credit, insurance and informational services to bear to meet consumers' needs. This should be coupled with longitudinal studies that follow the progress of families and their interactions with the products for further study. Available efficacy data would be thoroughly analyzed by research arms and regulatory agencies to better understand successes, failures and unintended consequences. A feedback loop between service providers, consumers, researchers and regulators would hone in on how systems can be improved, delivered and better regulated to solve real consumer problems.

Trials should ensure no participants are negatively impacted by their involvement and commit to making participants whole in some way, if solutions do not improve end users' financial situations. The limited scope circumvents the need for a broad regulatory framework. Consumers would benefit from fresh approaches that incorporate their voices and focus on efficacy—the goal of any clinical trial. Businesses would benefit from a product-testing environment to explore viability and at-scale implications for products and have meaningful input into how innovative hybrid products could be regulated once "safe harbor" is lifted. As trial products succeed, they would be expanded to larger trials, further supported for wider distribution and paired with appropriate partnerships (e.g., selected employers). Products that miss the mark would be sunset or reconfigured for subsequent trials.

Limited trials can also inform the future regulatory landscape for solutions yet imagined. The 2021 Rescue Plan Act benefited from available universal basic income trial data across municipalities, states and countries. Trial data showed that basic income initiatives reduce poverty and crime and increase health without negatively impacting productivity, which allowed the authors to interpolate would-be effects of increased access to the child tax credit. Diverse trials reduce uncertainty risks, paving pathways for bold initiatives.

American families are in a crisis they cannot manage alone. Their struggles impact us all; financial stress alone saps half a trillion dollars annually in workplace productivity. OWS offers a roadmap: We can solve economic insecurity with collaborative, outcome-centered approaches. We can use regulation to test tools that empower American's financial security rather than stymie ambitious, untested ideas. We can convene key players and promote cooperation, transparency and efficacy. Through this groundbreaking model that the crisis of 2020 laid bare, we can bring new, life-changing tools to market.

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