SECTION VII

Newer Forms of Ownership: Moving Beyond Earned Income and Beyond Silos

The 11 essays in the section have two main goals. The first one is to identify potentially new sources of ownership and wealth that do not fully depend on families having sufficient labor market incomes to build a strong balance sheet. Our authors accordingly call for ownership stakes that derive from a "data dividend"; anti-trust efforts that would create more innovation, entrepreneurship and wealth; the scaling-up of a resident-owned community trust; renewed focus on ESOPs (employee stock ownership plans) and profit sharing; creating universal capital accounts to generate more income from capital ownership; and a bold call for moving from social "insurance" to social "inheritance" to foster better stewardship of our planet's resources and provide cradle-to-grave financial security from that stewardship.

The second goal of this section is to attempt—even if modestly—to bring together somewhat "siloed" efforts to build ownership and wealth among families. This means both (a) blurring the lines between those working on family wealth building and those promoting community wealth building, and showing how interrelated they in fact are; and (b) bringing together more closely those shoring-up traditional balance sheets with those advancing asset building through employee ownership, profit sharing, ESOPs and capital account creation. We share a common goal of broadening assets and ownership, and believe that thinking, learning and working together will take us even closer to that goal.

SECTION VII

NEWER FORMS OF OWNERSHIP:
MOVING BEYOND EARNED INCOME AND BEYOND SILOS

From Social Insurance to Social Inheritance: A Path to Universal Financial Security

BY PETER BARNES

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.

It is time to recognize that, in the 21st century, labor income alone can neither lift all Americans out of poverty nor sustain a large middle class. Thanks to automation, globalization, the decline of labor unions and the rise of gig work, that 20th-century dream is now a chimera. This means that if we want to eliminate poverty and sustain a large middle class in the future, we must supplement labor income with nonlabor income.

> ***If we want to eliminate poverty and sustain a large middle class in the future, we* must *supplement labor income with nonlabor income.***

But how? Since the 20th century, America has filled gaps in labor income with means-tested transfer payments (aka welfare) and social insurance funded by payroll contributions. Such programs can perhaps be expanded in the future but not by much. For several reasons, they have largely run their courses.

The function of social insurance is to protect against loss of labor income due to universal risks such as unemployment, disability, illness and old age. It requires workers and employers to chip into insurance pools that pay defined benefits if and when defined risks occur. A feature of this arrangement is that it *decreases* workers' current incomes in exchange for protecting them against future losses. By its very nature, it therefore can't *supplement* current labor income. Something else is needed.

That leaves redistribution through taxes and means-tested transfers, but that approach also has constraints. One is that taxing Jill to pay Jack takes money from people *after* they've acquired it, and such retroactive takings are fiercely resisted. Another is that recipients resent the indignities of applying for and receiving welfare almost as much as others resent being taxed to pay for it.

How, then, are we to supplement labor income in the 21st century? How, in other words, can we assure that every American receives a modest but steady flow of nonlabor income that is *not* welfare or a prepaid insurance benefit?

By *nonlabor income* here, I mean what the IRS calls "unearned income"—inheritances, interest, dividends, rent, royalties and gains from the sale of property. It would be nice if *every* person received income of this sort to complement their labor income, much as every player in Monopoly receives $200 for passing Go, but that currently isn't the case. That's because meaningful sums of unearned income flow only to people who own meaningful amounts of private property or wealth, a privilege currently confined to a minority of Americans.

Fortunately, there is a way that all Americans can own property and receive nonlabor income from it—a way that is simple, fair and hiding in plain sight. We could call it *social inheritance*.

Whether we realize it or not, all of us together inherit a vast trove of wealth that includes natural gifts like our atmosphere and social creations such as our legal, monetary and communications systems. These co-inherited assets (aka natural and social capital) are the primary sources of almost every private fortune (how rich would Mark Zuckerberg or Jeff Bezos be without the internet?), but they do little to boost the incomes of the rest of us. That is because, at this moment, our co-inherited assets aren't recognized as such, and hence businesses pay little or nothing to use them. But those flaws can and should be fixed.

Just as private inheritances can be turned into unearned income, so too can social inheritances. Consider, for example, the Alaska Permanent Fund, a giant mutual fund capitalized by nature's gift of oil. The Permanent Fund was designed to benefit all Alaskans now and in the future. It invests revenue from state oil leases in stocks, bonds and other assets, and for 40 straight years it has paid equal dividends to every Alaskan (including children) ranging from $1,000 to $3,200 annually. As its creator, former Republican Gov. Jay Hammond, explained, "I wanted to transform oil wells pumping oil for a finite period into money wells pumping money for infinity."[1]

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[1] Jay Hammond, 2005. "Diapering the Devil: How Alaska Helped Staunch Befouling by Mismanaged Oil Wealth: A Lesson for Oil Rich Nations," p. 19, www.cgdev.org/sites/default/files/archive/doc/books/GovernorsSolution/Ch2_GovernorsSolution.pdf.

Now imagine a similar fund at the national level built around other joint inheritances. Such a fund could charge companies that pollute our air, speculators who profit from our regulated trading systems and banks that create dollars out of thin air. From such and similar sources, the fund would pay dividends to every legal U.S. resident, starting at a few hundred dollars a month and rising over time. These dividends wouldn't be welfare or insurance benefits but genuine nonlabor income that's both taxable and stigma free.[2]

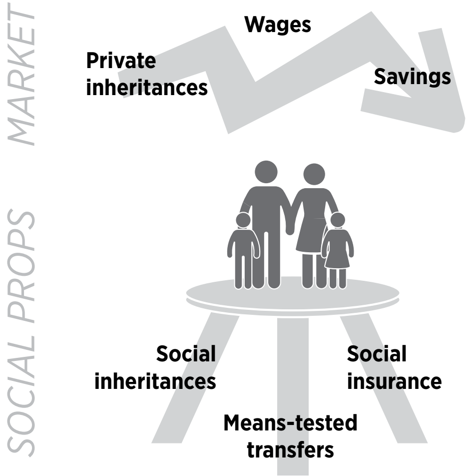
Over time, a social inheritance fund could make every American financially secure from birth to death. In addition, the steady income it provides would make it easier for people to save and plan for the future, especially if it included an automatic savings and investment option. And it would have important corollary benefits: It would boost consumer demand, ease personal and family stress and protect our planet by charging for nature's limited waste absorption capacity.

Over time, a social inheritance fund could make every American financially secure from birth to death.

It is important to note that social inheritance would not replace existing safety net programs but rather strengthen and complement them. In effect, it would become the third leg of an income security stool that, in one way or another, lifts all Americans all the time.

It is also worth noting the political appeal of

Lifelong Income Security Stool



[2] See Peter Barnes' *With Liberty and Dividends for All*, published in 2014 by Berrett-Koehler (San Francisco), especially the appendix, for estimates of potential revenue. See also Barnes' *Ours: The Case for Universal Property*, published in 2021 Polity Press (Cambridge, UK).

social inheritance. Unlike tax-and-transfer programs, which tend to divide Americans, dividends based on shared inheritances would unify us. Thus, rather than taxing Jill to pay Jack, social inheritance would benefit Jill *and* Jack simultaneously. And their gains would flow to them not because they are needy but because they are born equal and are thus entitled to equal shares of our joint inheritance. What could be fairer—or more American—than that?

Rather than taxing Jill to pay Jack, social inheritance would benefit Jill and *Jack simultaneously.*

That said, the path to social inheritance will require a major shift in the thinking of policymakers. Currently, almost all policy discussions focus on government taxing, borrowing and spending; no public institution is dedicated to identifying co-inherited assets and designing ways to monetize their value for public good. Among nongovernmental organizations, a few are starting to show interest (see, e.g., "Building Blocks of a National Endowment," published last year by the Berggruen Institute[3]), but much more work is needed.

President Biden's American Rescue Plan—which includes cash support for children—can perhaps spur policymakers, as many of the plan's benefits are temporary and will generate pressure for extension. How might such extensions be paid for? Our social inheritance contains several potential answers.

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[3] Nils Gilman and Yakov Feygin, 2020. "Building Blocks of a National Endowment," Berggruen Institute, https://www.berggruen.org/ideas/articles/building-blocks-of-a-national-endowment/.

From My Data to Our Data: A Proposal to Equitably Distribute Wealth in a Digital Economy

BY YAKOV FEYGIN, NICOLAS VINCENT,
HANLIN LI, CHIRAG LALA AND LUISA SCARCELLA

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.

"Data is the new oil" has been on the headlines of influential magazines such as The Economist and Wired. These opinion pieces are based on the premise that data are a resource that creates value when integrated into analytic processes. They are also extracted from users who, willingly or not, have their information collected by for-profit organizations, often without their knowledge. The oil metaphor presents data-driven commerce as both an untapped opportunity but also a danger. It is a new resource that, if not regulated, would further already soaring inequality. Moreover, data collection is a business with large network effects that lend themselves to rent taking. It is no wonder that establishing a monopoly over services is the value proposition of many new Silicon Valley companies.

This potential "great transformation" has spurred some political leaders to begin thinking about ways to "get ahead" of for-profit actors to capture some of this resource's value for the public. In Europe, regulators have started to implement "digital service taxes" on sales from large platforms. In California, Gavin Newsom has called for a "digital dividend" to be paid to the public for the exploitation of their data. These proposals have faced pushback: some well intentioned and some ill-motivated. Critics of European taxes highlight that these taxes do not capture value from data directly and instead target some selected firms' wholesale commerce, often for nationalist reasons. California's proposals have been critiqued as impractical at best and forcing individuals to sell their essence for a few dollars at worst.

The exploitation of user data for profit is a real problem that needs a solution that allows innovators to use this new source of information to improve value-added activities, discourages rent-seeking and returns value to the public. To tackle this issue, the California Data Dividend Working Group, an independent group of academics and activists of which the authors are members, had to think through the actual process of capturing value from data. We concluded that the value of data comes not from our individual inputs but from aggregation. In other words, our data streams combine to form not just a collection of dossiers about individuals but also deep intelligence about the complex, large-scale social processes in which we all participate. The real value of social data comes from the fact that they enable their possessors to profit from these large-scale patterns and processes.

The exploitation of user data for profit is a real problem that needs a solution that allows innovators to use this new source of information to improve value-added activities, discourages rent-seeking and returns value to the public.

Thus, the value of data is the output of a kind of shared labor. Our "wages" cannot be calculated on an individual basis. Instead of focusing only on "personal" data, we need to assert our interests in massively "interpersonal" data. Like oil and land, data are a common that is commodified by private actors for profits. The commons being commodified is our essence as humans: our interactions with society at large.

Like oil and land, data are a common that is commodified by private actors for profits. The commons being commodified is our essence as humans: our interactions with society at large.

Thus, any attempt to capture the value of data for the public must involve a rethinking of the data-driven economy's *institutions* so that equity and control are shared with the societies and communities whose labor is embodied by the data. Today's data-driven economy is a platform economy where large companies act as service intermediaries that store and process user data. Access to large datasets allows for both efficiency and the creation of self-replicating systems of monopoly ownership.

To access the wealth that we produce without losing useful scale effects, we must reform how users and the public interact with platforms. This requires a multipronged, institution-building approach.

- First, we must directly capture the value of data that is extracted from a commons.
- Second, we should create a legal regime that can make our data's collective value something we can bargain over as a group.
- Third, we need to acknowledge that our data are a valuable resource that must not be locked up by early entrants. Instead, we can manage them collectively through what we call a "data industrial policy."

We propose two taxes on big data. One, a sales tax on data brokers. This is a relatively straightforward sales tax assessed on the transaction value of data sold by firms whose business is the collection, storage and sale of data to third parties. Two, a "data intensity tax" on the number of identifiable users on a platform. This latter tax should be assessed only after a certain threshold of identifiable users is reached and only past a certain revenue level to ensure that small businesses and firms whose primary focus is not data collection are not affected. A marginal structure ensures that firms will still collect as much data as they need to scale while also allowing a public return on externalities while discouraging rent-seeking for its own sake. Some of the criteria for such a tax can come from existing privacy regulations. For example, the California Consumer Protection Act already sets thresholds on revenue and user counts. It also defines users as persons who can be identified based on collected data whether they are registered or not.

We also propose that jurisdictions pass laws that enable the creation of "data consumer cooperatives" that act as fiduciaries for their members in negotiations with platforms. By bargaining collectively, users can set the terms of their privacy access and even negotiate for use fees paid by the platform for co-op members' data and distributed as a dividend. Data taxes can work with data cooperatives by excluding or discounting users that join through a cooperative.

Finally, we believe that we need to establish a "data industrial policy" to ensure the data economy develops for the common good. Data-driven technologies will likely become more integrated into our public spaces and governments. We advocate that this public information be managed by public

data trusts (PDTs). The PDT will be governed by a "data relations board" (DRB) that acts as a regulator of the data-driven economy along the lines of a utility board. The DRB also will work with the private sector to bring data of special economic and social importance into the PDT. The DRB can use tax incentives and warrants to acquire important privately held datasets and integrate them into the PDTs to prevent them from being the sole resource of monopolists. The DRB will then provide access to these datasets to all approved private and public entities, thereby leveling the playing field between new entrants and established platforms. Data tax revenues and any use fees assessed by the DRB should be used in a manner that reflects the collective value of data. We recommend investing in infrastructure programs that close the digital access gap between rich and poor and urban and rural communities. We also believe that these revenues should support debt-free education so that the most vulnerable can access the knowledge needed to benefit from a data-driven economy. These revenues are a good candidate to use as seed money for various Children's Savings Accounts including both existing 529 savings programs and more extensive "baby bond" schemes as a compensation for society-wide wealth inequality.

The development of the data-driven economy is a great unknown. Advances in machine learning, artificial intelligence and data storage may lead down various economic paths. Progress does not mean we have to subject ourselves to monopolistic domination, increasing inequality and the erosion of our privacy rights. It is the job of governments to create the institutions to steer this new technology in a direction that delivers fruits to the very societies that the extraction of data is trying to model and influence.

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The Community Investment Trust: Revolutionizing Ownership in Real Estate, One Investor at a Time

BY JOHN W. HAINES

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.

Access to real estate ownership in neighborhoods is a missing link in the flurry of innovative efforts taking place to democratize development strategies and foster inclusive wealth building. Marginally actionable buzzwords swarm around processes: inclusive, regenerative, intentional, purpose built, steward ownership, equitable development, place-making, ladder to opportunity. The systemic change from top-down efficiency to bottom-up effectiveness is the community development opportunity we face. The challenge is that new funding needs to be delivered to neighborhoods but also built with, guided by and managed by neighborhood residents themselves.

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Increasing minimum wage, providing savings plans and including residents in neighborhood planning are all necessary and important steps toward financial inclusiveness and health. But inspiring innovations and intentions nationwide notwithstanding, people in neighborhoods living with low or no financial assets deserve and need an early and sustained financial stake in the changes happening in their neighborhood. They have always needed this.

Ownership matters: Including families in planning and place-making efforts without providing a path for real estate ownership means that many are just one rent increase or medical bill away from having to move out of the gentrifying neighborhood they have helped to build. Families will fall further behind.

The Community Investment Trust (CIT) solves these challenges by creating a financial product that meets first-time investor's needs *and* desires, a product in the asset class of real estate, specifically in commercial retail real estate.

Why real estate? For one, people seek tangible, proximate connections to ownership. Second, homeownership may be out of reach for many, particularly in high-priced areas and for others without a sufficient down payment. An immediately accessible entry into real estate, therefore, is a step toward homeownership for some and an opening into the big tent of ownership for others.

The CIT offers a new approach: a localized real estate investment product using patient investment capital as an equity shift to enable residents to invest and build equity via shared ownership in real estate as the property pays down debt and increases in value. A pilot in Portland, Oregon's most diverse and highest-poverty neighborhood, the East Portland CIT Corporation, an Oregon-registered C corporation, offers a model for financial inclusion that has taken fire. Currently more than 220 families, impacting over 700 people, invest $10-$100/month into a long-term, risk-protected path to building family wealth through the ownership of a strip mall with 30 business and nonprofit tenants. Most of Portland's investors are first-time investors and low-income renters. The majority are Black, Indigenous and people of color, women and first-time investors. Feasibility studies for replication of the Portland model are now taking place in 15 similar neighborhoods in cities nationwide, from Atlanta to Albany, Kansas City to Memphis and Omaha to Fresno.

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In most respects the CIT is simple because it was built up from the people in a neighborhood. Their voices designed the CIT through human-centered design and using behavioral economics to highlight neighborhood challenges, changes and opportunities and to blend those with family motivations.

The CIT's unique attributes include the following: 1. affordable investments at $10 to $100 per month for localized zip-code-prescribed investors in commercial real estate; 2. short- and long-term returns through an annual dividend and share price change; 3. guaranteed protection from loss through a direct pay

letter of credit from a bank; 4. a financial action course, "Moving from Owing to Owning," translated into five languages; and 5. user-friendly stock offering and an investment management portal and website: investcit.com.

When we began to investigate creating a localized C corporation stock offering for unaccredited investors in prescribed zip codes, attorneys with Orrick, an international public finance law firm, told us simply, "You cannot do that legally." But instead of stopping the CIT vision in its tracks, it researched options and found a provision in the Federal Security Act of 1933 known as 3(a)2. This provision allows for the creation of a security exempt from registration by requiring downside loss protection for the investors through either a government guarantee or a direct pay letter of credit from a bank.

"What bank will do that?" we asked. "No bank has been asked. Give it a shot," they suggested.

"A direct what from who?" we asked.

"Like a guarantee but put in place continually and immediately for the benefit of the unaccredited investors," they coached.

"What bank will do that?" we asked.

"No bank has been asked. Give it a shot," they suggested.

According to the attorneys, municipal bond offerings often use a credit-backed bond structure to enhance their ratings and therefore their marketability. We would register a state C corporation, East Portland CIT Corporation (EPCIT), and target low-income investors in four high-poverty zip codes with a loss-protected investment.

Why not turn conventional corporate finance structures on their head for the benefit of the poor and excluded?

Why not turn conventional corporate finance structures on their head for the benefit of the poor and excluded?

Thus, we began our search for a bank. We found one, a solid regional real estate-focused bank, Northwest Bank, who considered the underlying mortgage on the property in a distressed census tract to fit their need for credit under the CRA, the once visionary now somewhat stale (though now poised for reform) Community Reinvestment Act of 1977, one of President Carter's early successful initiatives. The bank underwrote the

loan with the direct pay letter of credit, which covers the entire value of shareholders' share value (which increases annually as we gain investors and revalues the share price annually (from $10/share to $17.05/share in the 38 months since launching the CIT) based on an annual appraisal of the property and the paydown of the amortized debt (just like owning a home). This "exposure" to the bank resides within the underlying mortgage and the letter of credit as it inevitably increases under a conventional 75% loan-to-value (LTV) for both the primary mortgage and the full value of the investor's share value. We benefited from a surge in value of a foreclosed property that is now 100% leased to 30 business and nonprofit tenants.

But what about a stagnant market and that tricky LTV, not to mention a 1.25 cash flow coverage covenant from our bank?

To scale through sharing the model nationally, we will need banks to partner with patient impact investors and philanthropic equity to make our vision of 100 projects throughout the U.S. fit an acceptable risk profile, like we have done in Portland. This may mean a risk/liquidity backstop such as a linked deposit of foundation funds with the banks to reduce the credit exposure of the direct pay letter of credit. At the same time, there should be an effort to update provisions of the CRA laws to credit banks for providing the direct pay letter of credit, which could induce large bank participation. As a contingent liability for the banks, it is not pushing money out the door in a conventional way but instead leveraging a bank's balance sheet to support old-fashioned self-determination through bootstrap investing by families for their long-term success and for the good of all.

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A New Boogeyman? How Corporate Consolidation Undermines Small Businesses, Family Wealth and the American Dream

BY PHILLIP LONGMAN AND BARRY C. LYNN

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 broad trend of upward mobility that long defined the American experience has disappeared for vast segments of today's population. Throughout most of our history, members of each successive generation tended to have a higher material standard of living than their parents enjoyed at the same age. Starting about 50 years ago, this trend began to fade. It has now reversed.

For example, Americans born in the early 1950s were the last to accumulate more real per capita net worth at each stage of life than Americans born immediately before them.[1] Ever since, each generation has become progressively worse off materially than the last—a trend that culminates with today's millennials. Despite having the highest levels of education of any generation in history, today's younger Americans are so far behind their older counterparts in net wealth accumulation that a study by the Federal Reserve characterizes them as members of a "Lost Generation," though some millennials—at least prior to COVID-19—started catching up.[2]

Similarly, when we zoom in on the experiences of Black Americans over the last 50 years, we see sharp declines in the rate of economic advancement, both compared to older cohorts of Black American and to white Americans

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1 Phillip Longman, 2018. "Wealth and Generations." Washington Monthly, June/July/August, https://washingtonmonthly.com/magazine/junejulyaug-2015/wealth-and-generations/.

2 Center for Household Financial Stability, 2018. "A Lost Generation? Long-Lasting Wealth Impacts of the Great Recession on Young Families." Federal Reserve of St. Louis, Demographics of Wealth, 2018 series, Essay no. 2, https://www.stlouisfed.org/~/media/Files/PDFs/HFS/essays/HFS_essay_2_2018.pdf?la=en.

as a whole. Indeed, as Harvard political scientist Robert Putnam recently detailed, Black Americans were actually moving more quickly toward material parity with white Americans in the decades leading up to the landmark civil rights legislation of the 1960s than they have been in subsequent decades, when by many measures progress has slowed, stopped or even reversed.[3] This is all the more remarkable given that during this same era, the material standard of living of the white working class, to which most white Americans belong, has also been stagnating or in decline.

Observers have offered many explanations for how such broad downward mobility could be occurring despite fantastic increases in labor productivity.[4] Often they evoke varieties of economic or technological determinism. Thus, we hear about putative iron laws of social science that dictate higher returns to capital than to labor or favor "knowledge" workers over unionists. Or about how "network effects" and "globalization" force "winner take all" redistributions of GDP to the 1%. Yet while all these theories offer at least some insights, people often overlook a much more straightforward and down-to-earth factor.

Prior to the 1980s, America employed a far-reaching set of antitrust and other competition policies that, by constraining corporate concentration, helped to balance the power of workers and employers and to create opportunities for entrepreneurship and for building independent businesses.[5] The apex of enforcement for these policies occurred during the prosperous middle decades of the 20th century and played a major role in producing the record low levels of regional and class inequality that were achieved during that era.[6] But over the last 40 years, the government largely stopped enforcing these policies, with dire results for the American Dream.

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3 Shaylyn Romney Garrett and Robert D. Putnam, 2020. "Why Did Racial Progress Stall in America?" New York Times, December 4, https://www.nytimes.com/2020/12/04/opinion/race-american-history.html; Robert D. Putnam, 2020. The Upswing: How America Came Together a Century Ago and How We Can Do It Again. New York: Simon and Schuster.

4 Center for Household Financial Stability, 2018. "The Bigger They Are, The Harder They Fall: The Decline of the White Working Class." Federal Reserve Bank of St. Louis, Demographics of Wealth, 2018 Series, Essay no. 3, https://www.stlouisfed.org/household-financial-stability/the-demographics-of-wealth/decline-of-white-working-class.

5 Barry C. Lynn, 2020. Liberty from All Masters. New York: MacMilllan.

6 Phillip Longman, 2015. "Bloom and Bust." Washington Monthly, November/December, https://washingtonmonthly.com/magazine/novdec-2015/bloom-and-bust/.

Consider first the effects of increasing corporate concentration on the ability of workers to bargain for better wages. In 2011 the two of us wrote an article in which we hypothesized that the very low rates of new job creation and wage growth that had occurred over the previous decade might well be related to the ever accelerating rate of mergers and acquisitions.[7] Nobel prize-winning economist Paul Krugman wrote a column in the New York Times in which he agreed with us that "increasing business concentration could be an important factor in stagnating demand for labor, as corporations use their growing monopoly power to raise prices without passing the gains on to their employees."[8]

Over the last 40 years, the government largely stopped enforcing anti-trust policies, with dire results for the American Dream.

At the time there was very little data available to show conclusively either just how much monopolization was occurring in different sectors or its effects on wages, but this has now changed dramatically. Today, study after study confirms that more and more of America's once diverse economy has become consolidated under the control of a small number of corporate Goliaths, from giant health care conglomerates and agribusinesses to platform monopolies like Amazon, Facebook and Google.[9] Moreover, careful empirical studies now confirm our initial commonsense supposition: Wherever increasing monopolization leads to fewer employers competing for each worker, workers wind up with lower wages.[10]

The second way that monopolization contributes to downward mobility is by suppressing opportunities for independent businesses and entrepreneurship.

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7 Barry C. Lynn and Phillip Longman, 2010. "Who Broke America's Jobs Machine?" Washington Monthly, March/April, https://washingtonmonthly.com/magazine/marchapril-2010/who-broke-americas-jobs-machine-3/.

8 Paul Krugman, 2012. "Robots and Robber Barons." New York Times, December 9, https://www.nytimes.com/2012/12/10/opinion/krugman-robots-and-robber-barons.html?smid=pl-share.

9 Open Markets Institute, 2019. "America's Concentration Crisis," https://concentrationcrisis.openmarketsinstitute.org.

10 Council of Economic Advisors, 2016. "Labor Market Monopsony: Trends, Consequences, and Policy Responses," https://obamawhitehouse.archives.gov/sites/default/files/page/files/20161025_monopsony_labor_mrkt_cea.pdf. See also: José Azar, Ioana Elena Marinescu and Marshall Steinbaum, 2018. "Labor Market Concentration," http://dx.doi.org/10.2139/ssrn.3088767; Douglas A.Webber, 2015. "Firm Market Power and the Earnings Distribution." Labour Economics, 35, 123-134, https://www.sciencedirect.com/science/article/abs/pii/S0927537115000706.

As recently as ten years ago, conventional wisdom held that no matter what its other faults, the American economy at least had the virtue of high rates of business dynamism. But working with our former colleague at the Open Markets Institute, Lina Khan, we were able to show in 2012 that the per capita rates of new business formation had actually been falling since the late 1970s. This trend line has since been confirmed by numerous other studies. So too the fact that the main source of the problem is that giant chains and conglomerates, from WalMart to Amazon, are displacing small businesses and destroying entrepreneurial opportunities.[11]

Monopolization also contributes to downward mobility by suppressing opportunities for independent businesses and entrepreneurship.

The implications of this trend for upward mobility are dire. Throughout American history, generations of immigrants and others facing discrimination from established institutions have used small, often family-owned business to gain a measure of financial independence. In the mid-20th century, leaders of the Black civil rights movement were disproportionately drawn from the ranks of Black business owners, such as the funeral parlor and grocery store proprietors, who, unlike those who worked for a boss, did not have to worry about being fired for their activism.[12] Many other Americans who, because of their religion, gender, independent personalities or other traits were excluded from the "best schools" and established power networks and used entrepreneurship to make an end run around prejudice.

Today, overt discrimination against historically disadvantaged groups may have waned. But for more and more striving Americans of all stripes,

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[11] Barry C. Lynn and Lina Khan, 2012. "The Slow-Motion Collapse of American Entrepreneurship." Washington Monthly, July/August, https://washington-monthly.com/magazine/julyaugust-2012/the-slow-motion-collapse-of-american-entrepreneurship/; Ryan A. Decker et al., 2016. "Declining Business Dynamism: Implications for Productivity?" Brookings Institution, https://www.brookings.edu/research/declining-business-dynamism-implications-for-productivity/; Jay Shambaugh et al., 2018. "The State of Competition and Dynamism: Facts About Concentration, Startups, and Related Policies." Brookings Institution, https://www.brookings.edu/research/the-state-of-competition-and-dynamism-facts-about-concentration-start-ups-and-related-policies/.

[12] Brian Feldman, 2017. "The Decline of Black Business." Washington Monthly, March/April/May, https://washingtonmonthly.com/magazine/marchaprilmay-2017/the-decline-of-black-business/.

the destruction of independent business and new ventures by monopolistic corporations means a serious loss of opportunity for upward mobility. Today, even people who are nominally in business for themselves, from Uber drivers to chicken farmers, too often are reduced to being mere "gig" workers under the thumb of giant platform monopolies. And just as monopolists drive down the wages they pay to workers, they also use their market power to drive down the prices they pay to their suppliers, which are often struggling independent businesses.

Fixing these issues does not require repealing laws of nature; it merely requires reapplying the sound policies and principles Americans once used to structure market competition so that it was more likely to distribute power, opportunity and wealth in socially beneficial ways.

Fixing these issues does not require repealing laws of nature; it merely requires reapplying the sound policies and principles Americans once used to structure market competition so that it was more likely to distribute power, opportunity and wealth in socially beneficial ways. In recent years, antitrust enforcement, to the extent it has existed at all, often focused on prosecuting small players for trying to get ahead or simply to protect themselves from power.[13] The time has come to use aggressive antitrust and other competition policies to once again force corporations to share more of their profits and decision-making with their workers, suppliers and other community stakeholders and less with stockholders.[14] Restoring the American tradition of using government to keep concentrations of private power in check is the best way to restore the American Dream and to protect our liberty and democracy in the days to come.

Restoring the American tradition of using government to keep concentrations of private power in check is the best way to restore the American Dream.

13 Phillip Longman, 2018. "The Case for Small Business Cooperation." Washington Monthly, November/December, https://washingtonmonthly.com/magazine/november-december-2018/the-case-for-small-business-collusion/.

14 José Azar and Simcha Barkai, 2019. "Who's in Favor of Competition?" Working paper, https://drive.google.com/file/d/12p25BST0aPBYWGpys5i64uJqUfymcbx9/view.

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Barry C. Lynn is the executive director of the Open Markets Institute and the author of *Liberty from All Masters* (St. Martins, 2020).

Deriving Income from Universal Capital Accounts: Fixing Our Broken Income Distribution System

BY ROLAND M. ATTENBOROUGH

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.

It is generally understood that the U.S. has the physical capability of producing all the goods and services that people need or want. Yet, we struggle to distribute sufficient income to most people just to get above a subsistence-level lifestyle.

Economic inequality in the U.S. has inspired many proposals whereby income is redistributed from the owners of capital to people who remain outside the income distribution system such as various expansions of the social welfare system. Yet in 2018, 11.8% of the people, or 38.1 million, had incomes below the poverty line. The 5% highest paid received 23.1% of national income, whereas the 20% highest paid received 52%, leaving 48% for the bottom 80%.

Full employment is viewed as essential to dealing with income inequality and is dependent upon economic expansion. Without economic expansion, unacceptable levels of unemployment occur when the economy stops growing or even slows down. While economic growth through technological development is rationalized as creating jobs, in fact its purpose is either to eliminate jobs or to increase capital's input relative to labor. In the past, when jobs were eliminated, they were frequently replaced with new jobs in new industries. But now, eliminated jobs are frequently not replaced. The developments in robotics, artificial intelligence, etc. make this all the more clear.

As the burden of producing goods and services is increasingly shifted from labor to capital, an income distribution system based primarily on labor input (jobs) breaks down and is incapable of providing the people with adequate

As the burden of producing goods and services is increasingly shifted from labor to capital, an income distribution system based primarily on labor input (jobs) breaks down and is incapable of providing the people with adequate means of access to a fair share of national income.

means of access to a fair share of national income. The system must be fixed so that (1) everyone possesses the right to participate in the production of goods and services through their ownership of capital and (2) the government has the responsibility for creating and maintaining a system whereby everyone has (i) a realistic and practical way of acquiring income-producing capital and (ii) the right to receive a distribution of its income.

The idea of broadening capital ownership so that most, if not all, people own a form of income-producing capital may seem like a daunting task. More than $2 trillion of new capital is created annually, with most of it through debt financing and retained earnings. As a result, the ownership of capital has become more and more concentrated. Any solution must include a way for people to acquire ownership of capital so that income from this capital is used to pay for its acquisition and thereafter as income to its owner.

The proposed solution is the universal capital (UC) plan pursuant to which a UC account is established for everyone with a social security number. The UC fund would include all UC accounts and would acquire funding from a variety of sources and invest in a new type of investment-grade blue chip stock that would distribute to the UC fund its income, in substantially the way that real estate investment trusts (REITs) distribute at least 90% of their income to their shareholders. Each UC account owner would have his/her share of the transaction reflected in their UC account. The income would be used to pay for the cost of the stock, but a portion of the income could be distributed to their owners. Over a period of years or decades, everyone would have a substantial income-producing capital estate to serve as part of a revised income distribution system that would enable them to access a fair share of national income.

The UC plan would be mandatory for everyone because equity sharing arrangements such as employee stock ownership plans (ESOPs) and stock options are subject to adoption by individual companies and do not provide

a continuing source of current income. As a result, the ownership of capital is more concentrated than ever, and virtually no one thinks of capital ownership as anything more than a benefit or some sort of speculative gain. If the revised income distribution system is to work, it must be accompanied by an educational program so that people understand that both labor and capital produce income so that everyone will come to think of capital ownership as a regular and continuing source of income. Without such an educational program, it is unlikely that the mass of people will accept the revised system for what is intended.

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The UC plan's primary function would be for the UC fund to participate in substantial equity financings of publicly traded, mature corporations pursuant to strict standards established by a UC administrative board. Financing obtained by the UC fund would be used to acquire such equities for the account of UC account owners, on a nonrecourse basis, with dividend income being used to repay the initial loan, after which dividend income would be paid to the UC account owners indefinitely.

Possible sources of funding include the following:

- Federal government grants
- Quantitative easing by the Federal Reserve to acquire debt of the UC fund or the subject companies
- Commercial lenders, possibly with a Federal Housing Authority-type government guarantee
- A change in the tax law to give a tax deduction for contributions to the UC fund

Concurrently with the adoption of this proposal, it will be necessary to amend the Internal Revenue Code to create a class of stock that would facilitate the pass-through of income, as with REITs. Additional changes in the tax law and corporate financing rules would be made to further incentivize the use of equity financing under the UC plan. The UC plan should be a means of enabling everyone to participate in the annual creation of $2 trillion of new capital.

The UC plan proposal can be visualized as part of a three-prong segment

under a revised social contract. The first is education, and the second is health care, neither of which has yet been fully implemented. The third recognizes the high concentration of capital ownership and requires the government to create and maintain an income distribution system where everyone has the right and opportunity to participate in the production of goods and services through capital ownership so that each will have a legitimate right to a meaningful income distribution.

How much better is it to have an income distribution system that relates peoples' participation in production through capital ownership to what they receive, as opposed to one that distributes income equally to everyone without any connection between their input and what they receive?

In view of the continuing decline in labor's contribution to production, the only alternative to the UC plan is a version of universal basic income (UBI), where funding for the government's cash payments could come from a redistribution of income from the top 1%. How much better is it, from an ethical and psychological point of view, to have an income distribution system that relates peoples' participation in production through capital ownership to what they receive, as opposed to one that distributes income equally to everyone without any connection between their input and what they receive?

Currently, and as it would be under a UBI, the question of who gets what and how much is a *political* question that is decided by politicians, lobbyists and other representatives of the top 1%. However, individuals cannot be politically free unless they have economic freedom. Under UBI or any system where the government determines who gets what and how much, individuals, *by definition*, cannot be politically free. It is only where all people, individually, own the source of their income can they be politically free.

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Why Profit Sharing is Essential for Building Middle-Class Incomes and Wealth

BY JOSEPH R. BLASI AND DOUGLAS L. KRUSE

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.

There is no way that U.S. economic policy can significantly increase middle-class incomes and wealth broadly without employing new and different types of profit sharing on capital and capital income. If wealth is highly concentrated and real wages are largely flat or declining, the solution is to broaden access to capital and capital income with equity participation and profit sharing. The reasons are straightforward.

First, family wealth is highly concentrated at the top while middle-class wealth enhancement lags. According to Federal Reserve data from the Survey of Consumer Finances, family wealth has been relatively flat or declining except for the top 10% of families from 1989 to 2019. Second, income on that wealth, called capital income, namely all capital gains, interest, dividends and rental income from wealth, is highly concentrated in the top 10% of families. Based on Congressional Budget Office data for 2017, we estimate that the share of household capital income claimed by the top 20% of families exceeds 85%.

Third, middle-class incomes have stagnated. According to the Economic Policy Institute's analysis of Current Population Survey data, between 2000 and 2018, the real hourly wages of women have increased only 9.5% at the 50th percentile and 10.2% at the 70th percentile, while the real hourly wages of men have increased only 3.1% at the 50th percentile and 5.4% at the 70th percentile. Over four decades, the cumulative change in real hourly wages for all workers from 1979 to 2018 shows increases of just 4.1% for the 10th percentile, 12% for the 30th percentile, 14% for the 50th percentile and 17.1% for the 70th percentile, whereas the 95th percentile had an increase of 56.1%. This situation was not reversed significantly by Republican or Democratic administrations. Real wage levels like this are mathematically incapable of building middle-class incomes at high levels and making up for the wearing down of middle-class wages over four decades so that income reduces wealth concentration.

Economic policies such as encouraging good union jobs, increasing the minimum wage and expanding access to health care have a paramount role

to play to prevent further erosion of the middle class. But we also have to be honest with ourselves. We are not going to raise or index the minimum wage enough to meaningfully reverse the concentration of wealth. It will take a lot of legislative and workplace change to increase the percentage of the workforce that is unionized from 6.3% in the private sector and 10.8% in the economy to levels that will radically alter wage rates for a large proportion of workers. Given near-term expected increases in the minimum wage and the rate of unionization, it is mathematically impossible to expect that either could meaningfully change the overall flat direction of real middle-class incomes or the concentration of wealth.

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If capital and capital income are highly concentrated and if real incomes are relatively flat and unable to lift the middle class into higher income levels and build greater asset wealth, then the time has come to broaden the access of the middle class to both capital and capital income by reasonable centrist policies. Those families who are doing best in the economy are gaining a larger part of their income and wealth from owning capital and enjoying capital gains and income on this capital. One centrist policy is to encourage equity participation and profit sharing for workers so that workers share in the ownership and profits and capital gains at the company where they work. Another centrist policy is to encourage individual capital accounts for all citizens so that every citizen shares in the ownership, profits and capital gains of the entire market.

Ironically, some centrist policies to do this are less controversial than immediately meets the eye. The Democratic Party generally favors equity participation and profit sharing because they ring of greater economic equality and economic justice. The ideas are consistent with President Franklin D. Roosevelt's notions of economic rights. FDR was the first American president to expand tax incentives for profit sharing in American history, and he did it with Republican support at a time when the rest of his New Deal policies were hard for Republicans to support. The Republican Party generally likes equity participation and profit sharing because they ring of workers sharing

in the increasing value of their companies through a private sector capitalist solution to wealth and income inequality, and Republicans like ownership and business. The idea is consistent with the idea behind President Abraham Lincoln's Homestead Act.

However, shares are not a radical idea. According to our analysis of the 2018 General Social Survey of the National Opinion Research Center at the University of Chicago, about 20% of adult workers own some stock in the company where they work, about 40% are eligible for profit sharing in the company where they work, about 30% are eligible for gainsharing in the company where they work, and close to 10% hold stock options in the company where they work. All told, almost 47% of all adult workers have access to one or other form of equity or profit shares in the company where they work. However, the amounts are still too small without broad federal tax incentives for equity and profit shares.

We recount in our book, *The Citizen's Share*, written with Harvard economist Richard P. Freeman, that these ideas have an almost two-and-a-half century pedigree in U.S. economic thinking, yet current economic policy decision-makers have been hesitant. Likely unintentionally, Clinton, Bush, Obama and Trump have all weakened such policies. Why? One reason is that administrations would like to think that the old policy tools are enough and if one only adjusts the old levers, the problems will be solved. With labor income going down and capital income going up, and capital and capital income driving asset wealth concentration, past solutions are outmoded. Another reason is that most labor economists are very married to the wage system as the only vehicle for the future middle class despite four decades of empirical evidence. The nail they see calls only for one hammer.

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The country needs a generous federal tax credit for companies that offer profit sharing, gainsharing and equity grants to workers and some modest funding for state centers to inform companies about these approaches. The country needs special tax incentives to allow retiring business owners without heirs to sell easily to employee share ownership plans such as employee stock ownership plans (ESOPs), employee ownership trusts (EOTs) or cooperatives

(for small firms); and to encourage stock market companies to finance ESOPs for all of their workers. All forms of profit, equity and gainsharing should be on top of fair wages, and workers should not purchase stock in their companies with their wages and retirement savings or without deep discounts. The country needs tax incentives for the states to set up investment funds similar to the Alaska Permanent Fund that can invest initial federal grants, revenues from energy projects, tax-deductible gifts from billionaires and borrowed funds from subsidized credit to generate earnings to pay dividends to citizens.

Without these changes, we are choosing a stagnated middle class and a continuation of massive wealth inequality.

Without these changes, we are choosing a stagnated middle class and a continuation of massive wealth inequality.

Joseph R. Blasi and Douglas L. Kruse are distinguished professors, director and associate director, respectively, of the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University's School of Management and Labor Relations in New Brunswick, N.J., and co-authors of *The Citizen's Share*.

SECTION VII

NEWER FORMS OF OWNERSHIP:
MOVING BEYOND EARNED INCOME AND BEYOND SILOS

The Untapped Potential of Employee Ownership to Narrow Gender and Racial Wealth Gaps

BY JANET BOGUSLAW

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.

In an equitable post-COVID-19 recovery, employee ownership has a crucial role to play in closing wealth gaps exacerbated by the pandemic. The Biden administration has made closing gender and racial wealth gaps an explicit priority through both executive order, the American Jobs Plan. Making it a reality requires structuring and weaving responsibility throughout government in a systems-level approach rather than restricting it to one or two departments or driving it through aspirational executive orders, broad-based initiatives or unfunded acts. One specific solution for narrowing the gaps is to increase access to opportunities for wealth building through employee ownership.

The Biden administration has made closing gender and racial wealth gaps an explicit priority; making it a reality requires structuring and weaving responsibility throughout government.

Broadening business ownership to include employees carries enormous wealth-building potential. Employee ownership is the general name given to a range of legal structures through which the broad base of the company's employees can share in its financial ownership. This is done through stock, profit sharing and other mechanisms including employee stock ownership plans (ESOPs), employee trusts and cooperatives that share the gains of the workplace with everyone in the firm. Employee ownership provides a market for the shares of departing owners of successful companies and offers opportunities to increase retirement security, enhance family budgets and well-being, motivate and reward employees or borrow money for acquiring new assets in pretax dollars. Employee-owned businesses keep more money in employees' hands—and in the economy—than other firms.

Most American workers, especially women and people of color, do not have opportunities to build wealth in their workplaces. The racial and gender wealth gaps are partly attributable to structural barriers of access to ownership. These gaps are evident through occupational segregation, restricted economic mobility and knowledge opportunities, public policies that block or impede the right to wealth building and the circular effect of having no

wealth to pass on to the next generation to spur their own investment trajectories. High- and middle-wealth families are financially positioned to weather economic ups and downs (like unemployment or disability) and to invest in opportunities (like owning a business or a home). For low-wealth families, those same events pose challenges to pay for food, housing or health care, leaving no opportunities for investments.

Wealth gaps not only limit low wealth households' security and opportunity but also constrain the U.S. economy as a whole. Wealth inequality undermines sustainable economic growth, with estimates suggesting that the racial wealth gap's effect on consumption and investment will cost the U.S. economy $1 trillion to $1.5 trillion between 2019 and 2028—4%-6% of the projected GDP in 2028.

Employee-owned companies report dramatically lower rates of turnover. They protect jobs in communities and offer more opportunities for equity participation and wealth creation. Employee ownership creates job stability, builds skills and mobility opportunities and contributes to family economic security by offering greater protection from layoffs.

Employee-owned companies also realize much greater levels of wealth for their employees. A national study of millennials by the National Center for Employee Ownership shows median household net worth is 92% higher for employee owners overall, 79% higher for employee owners of color and 17% higher for low-income owners. A Rutgers University study finds women and people of color at ESOPs fared much better than their counterparts. Latina ESOP workers had a combined median 401(k) balance and ESOP wealth averaging $243,500 compared to $100 nationally, while Black female ESOP workers averaged $55,000 in their accounts compared to $200 nationally. Equity comes on top of, not in place of, other compensation.

Moreover, they promote economic resilience. In the era of COVID-19, women and workers of color have been hit much harder by job losses, yet ESOP firms dramatically outperformed other firms in securing employees' jobs and maintaining work hours, salary, and workplace health and safety. Worker cooperatives were also able to pivot quickly and were likely to redistribute or use reserve funds to pay workers and implement temporary furloughs rather than layoffs.

The time is right to build an integrated complementary policy infrastructure

to support employee ownership and deliver on the priority of closing wealth gaps. Embedding investments and implementation for employee ownership into and across different government departments creates a structure of opportunity to address the policies and practices that block ownership. Consider the potential impact of the following three investments:

The time is right to build an integrated complementary policy infrastructure to support employee ownership and deliver on the priority of closing wealth gaps.

1. Small Business Administration (SBA): Fund the Main Street Employee Ownership Act (MSEO) of 2018, which directs the SBA to support employee ownership with a focus on underserved businesses and employees. The MSEO Act is designed to encourage lending to smaller businesses interested in selling to their employees via an ESOP or cooperative and to increase awareness of the opportunity among businesses and retiring owners to transition their businesses to the employees who helped build them. This unfunded act was eroded before it could even be built under the prior administration, yet the acceleration of business closures during COVID-19 demonstrates that we need it more than ever. The SBA needs funding to implement the act broadly, to reach employers, to deliver timely technical assistance and to coordinate more efficiently through Small Business Development Centers and the Service Corp of Retired Executives. A key wealth gap barrier could be addressed: access to opportunity.

2. U.S. Department of Commerce (DOC): There is no reason to restrict employee ownership to small firms. Indeed, this design has functioned well with larger firms. There is evidence that a wave of retiring baby boomer business owners of larger companies are ready to sell or transition out of their firms. Public policies designed to meet that need, such as a proposed Employee Equity Loan Act (EELA) that features loan guarantees to employees buying the business, would encourage private banks to step up their activity in this market. The federal government already provides this kind of loan guarantee through the Export-Import Bank. Providing similar guarantees to employees buying their firms would enable them to compete with conventional private equity. Such a federal guarantee would also open the door for institutional investors and impact capital to invest

profitably in broad-based wealth creation in the workplace. A key wealth gap barrier could be addressed: access to capital.

3. U.S. Department of Labor (DOL): The existing incumbent worker training infrastructure operating out of the DOL under the Workforce Innovation and Opportunity Act should include incumbent worker training for ownership. The goals of workforce development might be achieved by investing in workers as not only employees but also owners. Targeted investment in training that prepares low- and middle-skill workers to become employee owners can help retain jobs locally and build the skills that make ownership an option and a success. For incumbent workers, workforce development dollars can be directed to support skill building and education for ownership to enable firm buyouts. This kind of education is transferable and builds workforce skills in areas of accounting, management and leadership. A key wealth gap barrier could be addressed: knowledge and skill development for ownership.

Gender and wealth gaps can be narrowed, and employee ownership can play a critical role in achieving that goal. Shared ownership must be seen as an important new form of economic development, with all parties benefitting from the production process in equitable and sustainable ways. With the right structures and opportunities in place, hardworking families and communities can build wealth, hold on to it, invest and ensure their present and future financial security.

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SECTION VII

NEWER FORMS OF OWNERSHIP:
MOVING BEYOND EARNED INCOME AND BEYOND SILOS

Family Wealth Building Isn't Enough: We Must Pursue *Community* Wealth Building As Well

BY TED HOWARD AND SARAH MCKINLEY

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.

Ownership and control of assets is the foundation of every political economic system and largely determines who has access to wealth and power and who does not. In the United States, it is a well-known fact that asset ownership is concentrated to an extraordinary degree.[1] As former Fed Chairman Paul Volcker warned in 2018, the United States is "developing into a plutocracy." The COVID-19 pandemic is likely to exacerbate this trend.

To address this growing wealth inequality, and in particular the racial wealth gap, we must build wealth in our communities, creating an economy where assets are broadly held and locally rooted over the long term so that income recirculates locally, creating stable prosperity. This requires us to think differently about asset ownership, particularly how conventional efforts to increase individual and family asset ownership intersect with new approaches around community and collective ownership of assets in place. Specifically, in addition to individual ownership forms—which have proven insufficient in our current economic system—we should develop plural ownership across the full spectrum of assets, resources, enterprises and services that, collectively, transfer wealth and power from the hands of the few to the control of the many.

One way to do this is what we call "community wealth building," a term that The Democracy Collaborative first articulated in the mid-2000s to tie together the innovative institutions and approaches emerging in communities to offer a vision of new political-economic arrangement starting at the

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1 According to a recent New York Times report, the wealthiest 1% of Americans now control roughly "38 percent of the value of financial accounts holding stocks. Widen the focus to include the top 10 percent, and you've found 84 percent of all of Wall Street portfolios' value." Moreover, just *three men* now have as much wealth as the bottom 50% of all Americans put together. And while millions of Americans have lost their jobs, health care and savings due to the COVID-19 pandemic, the wealth of U.S. billionaires has grown by $1.3 trillion.

local level. Community wealth building (CWB) works to produce broadly shared economic prosperity through the reconfiguration of institutions and local economies on the basis of greater democratic ownership, participation and control. CWB is a new way of thinking about economic development, poverty alleviation and wealth creation and accumulation. However, its transformative potential is that it takes a full system view that focuses on developing alternative economic institutions that are broadly owned and offers new relationships and interventions at various scales throughout the local economy. The goal is not to simply tinker around the edges to attempt to even out the ill effects of our current, deeply unequal and unjust economic model but to instead pursue fundamental changes to the ordinary operations of the system such that it is capable of reliably generating positive outcomes in and of itself.

Community wealth building works to produce broadly shared economic prosperity through the reconfiguration of institutions and local economies on the basis of greater democratic ownership, participation and control.

CWB institutions and approaches[2] extend community ownership and control over economic assets while also helping individuals and families grow wealth. Take community land trusts (CLTs) as an example, which ensure community stewardship of land in the form of a nonprofit holding company. A 2019 study showed that CLTs significantly contribute to family wealth creation, particularly for families of color, thereby offering huge potential to narrow the racial wealth gap.[3] However, the shared ownership structure of CLTs ensures community control and allows them to preserve affordability of housing over the long term and mitigate against displacement and real estate speculation that destabilizes communities and erodes resilience. This is just one example[4] of how shared ownership of assets can not only augment family wealth but also balance and distribute it for greater prosperity over the long haul.

[2] Such as cooperatives, community land trusts, municipal ownership, anchor strategies, public banks and community-based financing.

[3] https://www.lincolninst.edu/publications/working-papers/tracking-growth-evaluating-performance-shared-equity-homeownership

CWB at the Neighborhood Level

One of the most robust examples of a CWB approach in the United States is that of the Evergreen Cooperatives in Cleveland, OH, located in largely low-income, predominantly Black neighborhoods on the city's east side. Evergreen is a network of green employee-owned cooperatives integrated into the supply chains of local public and nonprofit anchor institutions.[5] The cooperatives currently employ over 200 worker-owners, all of whom receive a living wage and the opportunity to share in a percentage of the profits of the enterprises. With ownership comes multiple benefits that increase the wealth of the individual owners and their families, including profit-sharing and a home-buyer program that has helped members purchase homes in the neighborhood.

The Evergreen Cooperatives are recirculatory—multiplying and growing wealth locally for the people who create the wealth in the first place, while also supporting the well-being of their community to reverse long-term economic decline.

But what distinguishes this model is that it is designed to benefit not only the individuals who work in the cooperatives but also the community as a whole. The cooperatives are networked together by a community-controlled holding company that gives local stakeholders a say in whether the cooperatives could be sold or moved out of the community. This holding entity also receives a percentage of profits from each cooperative that

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[4] Another promising CWB mechanism that is now being pioneered by The Democracy Collaborative are local economy preservation funds (LEPFs), new structures where cities and states can make equity-like investments to preserve local businesses that may be facing collapse during the pandemic, ensuring that they stay rooted in community for the long run, preserving good jobs, and enabling broad-based ownership, especially for people of color, who have been hardest hit in this crisis. The Democracy Collaborative, in partnership with the Council of Development Finance Agencies, is working to actively develop these funds. See the proposal here: https://democracy-collaborative.org/learn/blogpost/local-economy-preservation-fund-proposal-goes-biden-administration?mc_cid=6396a576e0&mc_eid=ebaf52c028.

[5] Such as the Cleveland Clinic, Case Western Reserve University, and University Hospitals, whose procurement power amounts to roughly over $3 billion a year in goods and services. Find out more about the Evergreen Cooperative 10 years on in this recent article: https://shelterforce.org/2021/03/09/despite-a-rocky-start-cleveland-model-for-worker-co-ops-stands-test-of-time/

then provides funds to scale the network, building additional enterprises to serve the community. In 2018, Evergreen launched the Fund for Employee Ownership to acquire local firms, convert them to employee ownership and bring them into this supportive network.

What the Evergreen Cooperatives are doing is recirculatory—multiplying and growing wealth locally for the people who create the wealth in the first place while also supporting the well-being of their community to reverse long-term economic decline.

A Full-City Approach

Now imagine if this was done strategically and intentionally across a whole local or regional economy.[6] The local authority of North Ayrshire in Scotland is pioneering the nation's first official CWB strategy as their basis for recovery in the post-COVID-19 period but also as a means of delivering on a local Green New Deal. Their goal is to develop a new economic model for the region centered on inclusion and well-being.[7] Bringing together their local anchor institutions in a CWB Commission, the strategy aims to support local businesses to bid for public sector contracts and to relocalize supply chains as part of a green recovery.

A core pillar of North Ayrshire's approach to CWB is ensuring that public land and assets are democratized to support the needs of the community while tackling the climate emergency. The Council is exploring the creation of a community bank to support local businesses and invest in green economic development projects. A key component of this strategy includes broadening plural models of ownership, including developing cooperatives, employee ownership and social enterprises as part of a strategy to enhance fair work, decent pay and job opportunities throughout North Ayrshire.

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[6] An early and prominent example of an "all-city" approach to CWB is in the city of Preston, England. "The Preston Model" is reported in *Paint the Town Red: How Preston Took Back Control and Your Town Can Too*, by Matthew Brown and Rhian Jones (Repeater Books, May 2021).

[7] To do so, they are leveraging their annual revenue budget as well as their capital program, house building program and a £251 million Growth Deal from the Scottish government (which includes a £3 million fund to pioneer Scotland's first CWB project).

The examples of CWB institutions and approaches highlighted in this article have the proven potential to build and preserve wealth for individuals and families while strengthening community, broadening ownership over assets and capital and creating and anchoring wealth in communities for the long term. As America begins to "build back better" and rescue plans from Congress begin to funnel new resources to communities, now is the time to scale CWB as the means of achieving a more just and fairly distributed economy. Doing so will build prosperity for the many, not just the few.

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SECTION VII

NEWER FORMS OF OWNERSHIP:
MOVING BEYOND EARNED INCOME AND BEYOND SILOS

Transforming Systems to Build Racial and Ethnic Wealth Equity

BY IANNA KACHORIS AND DR. HELENE GAYLE

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.

In the fall of 2019, our organization, The Chicago Community Trust, announced a new strategic focus to close the racial and ethnic wealth gap in the Chicago region.

We chose to focus on the racial and ethnic *wealth* gap because it is a key determinant of so many issues facing our city, region and country. It lies at the heart of inequities in housing, health and life expectancy, educational and career success, neighborhood investment, public safety and so on. As the community foundation for the Chicago region, we could have chosen to focus our entire grant-making budget on any one of these issues or all of them, but we would not have gotten to the heart of the matter. Nor would we be able to achieve our vision of a thriving, equitable and connected region where all people have the opportunity to realize their potential.

Taking this view allows for an intersectional and systems-based approach to how we think about the wealth gap. It provides perspective on how individuals and families can build wealth, how community assets and investment shape individual wealth, and how institutional actors, public policies and systems shape individual and community wealth.

For quite some time, savings and asset policy has focused on individual behaviors. It has relied on financial literacy and education, taking into consideration how individual actions can be learned, nurtured or nudged to stimulate greater savings and wealth. There are many examples of valuable financial coaching and training models: school-based financial literacy curricula, the Housing and Urban Development's Family Self-Sufficiency program and basic pre- and postpurchase homebuyer education and counseling.

But if we stop there, we succumb to the idea that it is merely the individual's fault if she or he does not save, when in fact it may be that there is nothing left to save at the end of the month. We further lose sight of the transformative potential of rethinking how our institutions could better function toward a goal that is central to the American ideal—achieving economic stability, security and upward mobility for all. That is, we must focus much more on how *institutions* behave, not just individuals.

By putting the onus on individuals alone, we absolve and ignore the broader systems, structures and institutions from being accountable to the wealth-building needs of all.

By putting the onus on individuals alone, we absolve and ignore the broader systems, structures and institutions from being accountable to the wealth-building needs of all. And we fail to consider how financial services, access to capital and the public policies that shape those systems should work to achieve this ideal.

We cannot ignore that our financial systems and institutions have not served Americans equally, in the past and still today. Black, Latinx and other people of color have been left on the economic sidelines for generations—this having nothing to do with individual ability, knowledge or financial skill.

We are calling for a fundamental reorientation of our thinking.

We are calling for a fundamental reorientation of our thinking. Rather than focusing solely on the individual, we need to place our attention on the systems, institutions, public policies, and private sector actors and *their* ability, capacity and intention to serve the wealth-generating needs of all, and Black and Latinx households in particular.

Further, by focusing merely on asset vehicles like homeownership or retirement savings, we discount important components of this multivariate equation of wealth = income + assets – debt. Assets are critical wealth-building vehicles, but we also need to attend to the other parts of the equation.

Assets are critical wealth-building vehicles, but we also need to attend to the other parts of the equation: wealth = income + assets - debts.

Income policy is wealth policy. Ensuring adequate living wages through family-supporting wages or vehicles like the Earned Income Tax Credit are wealth policies. Without the income to make ends meet, individuals do not have the discretionary income to save.

Financial services policy is wealth policy. Affordable credit provided by mainstream financial institutions for small-dollar loans means that folks can take on wealth-building activities like paying for a new lawnmower for a landscaping business. Affordable home loans mean that households can build equity faster rather than paying more in interest.

Community investment policy is wealth policy. Private investments like a new grocery store, or public sector investments like transit or a public park, are asset policies. The more amenities a community has, the greater its property value and wealth that can be accumulated in that area and accrue to its residents.

And these are all interconnected. As one example, it is not just the ability to save for a down payment by having an income that supports one's rent but is also the terms of the loan, the valuation of the property through the appraisal system, the ability to leverage the equity in one's home for improvements, and the property tax burden that contributes to the wealth an individual homeowner can accumulate.

As we are asking of ourselves at the Trust, we urge all to ask, What would it mean for us to design public policies, make investment decisions and design financial services with the express intent of building wealth for all Americans, especially for Black and Latinx households? And where do these answers lie? Perhaps the answers lie with the households for whom we hope to spur wealth and opportunity and who can help us to see where the barriers exist. If we think about asset policy differently, we can unlock previously unconsidered solutions.

What would it mean for us to design public policies, make investment decisions and design financial services with the express intent of building wealth for all Americans, especially for Black and Latinx households?

The issue of wealth inequity is clearer and more critical than ever as the nation grapples with how to recover from the economic crisis caused by the COVID-19 pandemic, where Black and Latinx individuals and families have been hit the hardest.

Before COVID-19, Black and Latinx households lagged white households in annual income. The pandemic, however, has widened this gap and created additional financial instability. In Chicago, 69% of Black households and 63% of Latinx households reported serious financial problems last year, including losses in savings and the inability to pay necessary expenses. Additionally, Black and Latinx workers are overrepresented in essential jobs with low pay and are at higher risk for job loss.

Against this backdrop, making permanent the Earned Income Tax Credit

and Child Tax Credit expansions included in the American Rescue Plan are more important than ever to ensure that it is helping as many families and individual workers as possible in good times and in bad. These are proven tools that put cash in the pockets of workers to meet their household needs and avoid debt, improve employment and local economic activity and realize a host of noneconomic benefits like improved health and children's educational achievement.

The wealth gap between white and Black households is larger today than it was in 1968, and Latinx families have less than one-sixth of the wealth of white families. We must act differently, and boldly, if we want to see a future, even just five years from now, where we have changed the trajectory and are preventing the racial wealth gap from worsening.

We have the tools and resources, but we must find the will and focus.

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Lending Where Others Will Not: How CDFIs Build Family and Community Wealth

BY BRENT HOWELL, LISA MENSAH AND DAFINA WILLIAMS

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A global pandemic has wreaked havoc with family wealth and the wealth accumulated in thousands of minority-owned businesses. Restoring, rebuilding and recovering this wealth will require access to financial institutions committed to investing in their local markets. For too many rural Americans, Native peoples, and people of color, unequal access to affordable, responsible finance has deprived their communities of avenues to develop meaningful and lasting wealth.

The legacies of redlining and discrimination are still felt in communities across the country. Years of disinvestment has created a system where capital does not flow to many communities, stifling growth and opportunity. Access to traditional financial institutions, already limited in many low-wealth markets, has continued to decline. Analysis by the National Community Reinvestment Coalition found that between 2017 and 2020, the total number of bank branches declined by 4,407, a 5.13% drop. Of those, 1,020—nearly one in four—branches have closed in low- and moderate-income (LMI) neighborhoods.[1] Lack of access to mainstream financial institutions in low-wealth communities enables payday and predatory lenders to fill the financial gaps. These lenders often offer products with exorbitant interest rates and terms that strip wealth from households, businesses and communities.

A powerful sector of mission-driven lenders seeks to build wealth by promoting asset ownership in communities left out of the financial mainstream.

Thankfully, a powerful sector of mission-driven lenders seeks to remedy these issues—building wealth by promoting asset ownership in communities left out of the financial mainstream. Community development financial institutions (CDFIs) are community and family wealth-building institutions that serve borrowers without access to traditional

[1] Jad Edlebi, 2020. "Research Brief: Bank Branch Closure Update (2017-2020)," National Community Reinvestment Coalition, https://ncrc.org/bank-branch-closures-continue-at-alarming-pace/.

finance. Born out of the civil rights movement, CDFIs have a long legacy of fighting for, and investing in, communities dealing with the lingering legacy of economic disenfranchisement and systemic racism.

Take The Hatchery in Chicago as an example. Developed by a partnership of CDFIs in the historically disinvested Garfield Park neighborhood of Chicago, The Hatchery is a neighborhood hub for local food entrepreneurs who need licensed commercial kitchen space. The Hatchery has helped new businesses—often led by minorities, immigrants and women—flourish, even during a pandemic. This kind of business support is beyond the role of traditional finance. The Hatchery also serves as the home of the Garfield Park Neighborhood Market, providing a place for local entrepreneurs and vendors to sell goods and produce to the community. The Hatchery is building assets for local business owners and community members alike.

CDFIs: Specialized Lenders Punching Above Our Weight

A small player by financial market standards, CDFIs are the capillaries of the banking system—moving money to people and places missed by traditional lenders.[2] There are more than 1,100 CDFIs certified by the Department of the Treasury's CDFI Fund managing more than $222 billion in assets.[3] The industry has a proven ability to reach parts of the economy left out of the economic mainstream. In 2019, the Opportunity Finance Network's members reported that their customers were 84% low income, 60% people of color, 50% women and 28% rural.[4]

Financing provided by CDFIs to finance a new homeowner or entrepreneur has a positive impact on the entire community. An affordable mortgage combined with homeownership counseling from a CDFI means a first-time homeowner can build equity, increase savings and improve neighborhood stability. A low-fee checking account or small dollar consumer loan from a

[2] Robert F. Smith, 2020. "Robert F. Smith Wants More Banks in African American Communities," https://robertsmith.com/robert-f-smith-wants-more-banks-in-african-american-communities/.

[3] CDFI Fund, 2020. "Annual Certification and Data Collection Report: FY2019 Snapshot." Analysis completed by Opportunity Finance Network, June 2020.

[4] Opportunity Finance Network, 2021. "FY 2019 Annual Member Survey."

CDFI means less reliance on high-cost financial products like check cashing or payday loans. CDFI refinancing of a predatory small business loan preserves wealth for the entrepreneur and increases the business's sustainability. Communities benefit too—through increased access to goods and services, enhanced local economic activity and new employment opportunities for local workers. As borrowers repay their loans, CDFIs recycle the money back into the community by providing new financing, generating new wealth-building opportunities.

With net charge-off rates comparable to for-profit lenders, CDFIs work with their borrowers to reduce delinquency during the duration of their loans.[5] CDFIs also offer the development services and technical assistance that prepare borrowers to access capital responsibly.

The CDFI model sees opportunity where others see risk, and it has proven lenders can provide responsible, affordable capital to low-income and low-wealth communities and do so prudently.

The CDFI model sees opportunity where others see risk, and it has proven lenders can provide responsible, affordable capital to low-income and low-wealth communities and do so prudently. CDFIs see opportunities to build deep relationships with their community, to develop capacity and to provide financial capital. At their core, CDFIs are about partnership, innovation and creating opportunity in those communities that are often forgotten. Beyond providing capital and technical assistance, CDFIs serve as an anchor in partnerships with community stakeholders including nonprofits, foundations, chambers of commerce, government agencies and financial institutions.

Build the Institutions to Strengthen the Communities

The CDFI industry is well positioned to drive a more equitable postpandemic economic recovery, but major new public and private sector investment is needed to grow the industry's capacity. Building wealth in underestimated communities requires strengthening the institutions already invested in those markets.

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5 Net charge-off rates for OFN members were 0.51% in FY 2019 compared to 0.54% among FDIC-insured institutions.

As specialized lenders working in low-income and low-wealth markets, CDFIs can be a powerful tool in ensuring inclusive allocation of capital. Through a decades-long track record, CDFIs have cemented their role as financial first responders that step up when other lenders retreat—increasing lending during the 2008 recession, during times of natural disasters and during times of racial unrest.[6] CDFIs weather times of economic uncertainty through a combination of strong balance sheet management, deep ties with their local communities and public and private sector partnerships.

These partnerships are key to expanding the CDFI industry. In the private sector, deepening partnerships with philanthropic and bank partners remains critical to the stability of the CDFI industry. These institutions must double down on their support of CDFIs. In addition, new corporate partners are needed for the CDFI industry to reach the scale needed to move the needle on economic inequality. The economic impact of the pandemic and recent racial reckoning shifted how corporate America thinks about community development. For the first time, companies like Google, Twitter, Netflix, Starbucks and Lowes are stepping up to invest in the CDFI industry. These major investments from corporate treasuries means investing in CDFIs is not just an opportunity for charitable giving but also a smart investment in our economic future.

The public sector must also continue to make major investments in CDFI capacity. The COVID-19 relief bill passed in December 2020 included $12 billion in support for CDFIs, representing a major federal commitment to the industry. The Biden administration's proposed American Jobs Plan and American Families Plan also provide significant opportunities to direct capital to CDFIs to finance affordable housing, infrastructure, childcare facilities and more. Investments at this scale are needed not just in times of crisis but also as part of the annual budget process. CDFIs must also be fully integrated as partners in community and economic development policymaking. On-the-ground knowledge of local market conditions means CDFIs can channel federal resources to where they are needed most.

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[6] Lisa Mensah, 2020. "Promoting Inclusive Lending During the Pandemic: Community Development Financial Institutions and Minority Depository Institutions." Testimony to the House Committee on Financial Services Subcommittee on Consumer Protection and Financial Institutions.

To truly build communities, public and private sector resources and priorities must be realigned. Strengthening the institutions that already work in underestimated communities is the most efficient way to address the racial wealth gap. Building wealth in undervalued markets is the core work of CDFIs—and the industry's ability to do more is limited only by its balance sheet. Strong CDFIs can unlock greater economic opportunity and must be central to any long-term wealth-building strategy.

Strengthening the institutions that already work in underestimated communities is the most efficient way to address the racial wealth gap.

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Building Agency and Ownership in the Deep South

BY WILLIAM J. (BILL) BYNUM AND ED SIVAK

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.

"Can we get an ATM?" Mayor Holland responded dubiously to the question posed by the leadership of Hope Credit Union (HOPE), "What do you want from a financial institution in your community?" Based on the history of banking in his community, the circumstances certainly warranted skepticism. Moments earlier, he received news that the only bank in Moorhead, Mississippi, a Delta town of 2,000 residents, would be closing its doors and offering the keys to HOPE. Repeated requests made to the departing bank for the ubiquitous cash-dispensing machine, and other basic financial services, had resulted in a frustrating level of inaction. Within 45 days, HOPE installed an ATM, an essential lifeline for rural, cash-dependent economies.

While the outcome was notable, far too often the transformative effects of community wealth building, grounded in the experiences of local people, are absent from the priorities of the institutions with the resources to make a lasting difference. Meaningful change will occur when the financial service industry, government and philanthropy change the patterns, practices and policies that perpetuate persistent poverty.

Meaningful change will occur when the financial service industry, government and philanthropy change the patterns, practices and policies that perpetuate persistent poverty.

Hope Community Partnership

Such was the premise for the creation of the Hope Community Partnership. Through authentic listening, targeted investments and an accountability grounded in sharing space and place, HOPE launched this effort to fortify its work to catalyze economic mobility in the Deep South. In Moorhead, this approach led us to Eastmoor, a Black housing development built in the late 1970s just beyond the town limits in order to preserve a white majority in municipal elections. By 2015, the homes, literally thrown up slipshod overnight, had become places of blight and despair. Fires caused by faulty wiring, standing sewage and other maladies resulted in unlivable conditions, illness and all too common electrical fires that lead to the loss of property and lives.

By listening to the residents, we learned that most of them prioritized community needs over their individual desires. Elders in Eastmoor referenced the neighborhood's top priority as "a park for the children and sidewalks without cracks so the elderly could walk to visit their neighbors without fear of falling." This message was delivered in the home of a woman who had no ceiling in her kitchen. Today, for all residents desiring assistance, the homes have been rebuilt and a playground designed by the children stands tall at the center of the development.

In Moorhead, we also learned of opportunities to light the community better at night and to advance recreational opportunities for the children. As a community development intermediary, HOPE was uniquely positioned to import the resources needed to realize the projects—identified by the community. As the reinvestment occurred, so did the spillover effects. A school building slotted to close due to declining population in the county was identified as the home for the county's prekindergarten program and remains full of life.

What did HOPE gain? Member ownership. While the former bank served roughly 300 customers out of its Moorhead branch, HOPE now has nearly 900 members who bank in Moorhead. It is hard to imagine a marketing strategy that would have created more buy-in and support for HOPE in Moorhead than building agency and ownership among the town's residents through the Hope Community Partnership.

Black Belt Community Foundation

Community wealth building also recognizes and values local institutions as trusted partners in the advancement of economic opportunity. In the summer of 2020, a disturbing structural deficit emerged in the ability of rural units of government, often concentrated in Black communities, to access CARES Act funding to purchase personal protective equipment (PPE). The federal program was set up on a reimbursement basis paid by states. Small towns with a limited tax base simply did not have the cash available to make the purchases and wait for reimbursement. Effectively, small towns, Black towns, were structurally excluded from the lifesaving purchase of PPE.

To address this inequity, the Black Belt Community Foundation (BBCF), headquartered in Selma, AL, and HOPE combined their deep local relationships and community development expertise to create the COVID-19 Access Fund. The groups raised funds to secure a credit facility from HOPE that the BBCF used to make recoverable grants to local communities, enabling them to make eligible CARES Act expenditures. Upon reimbursement by the state, the BBCF recovered the grant and repaid the loan. A total of 23 Alabama counties, communities and institutions participated in the BBCF reimbursable grant program—drawing down $949,881 of CARES Act funds—money that would have otherwise been inaccessible and redirected toward wealthier communities. Several small Mississippi towns accessed $600,000 using an approach modeled after the Alabama program.

It is hard to imagine a marketing strategy that would have created more buy-in and support for HOPE in Moorhead than building agency and ownership among the town's residents through the Hope Community Partnership.

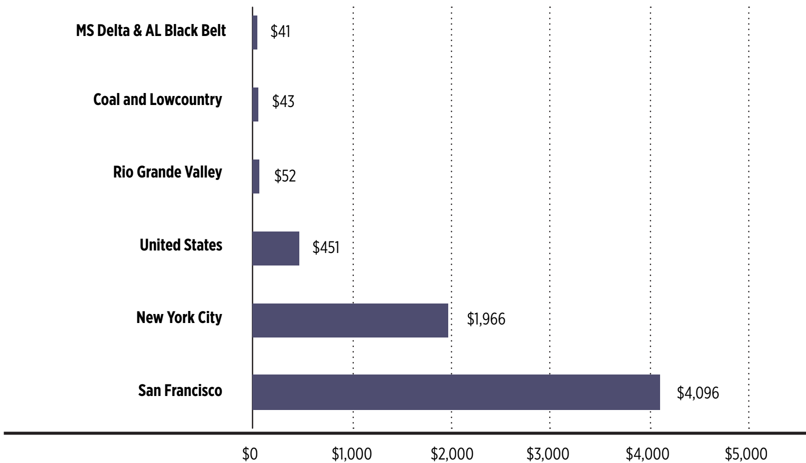
Nowhere was the impact of this initiative more significant than in Epes, an Alabama town of 400 residents. With a grant of $24,300—nearly half of its $55,000 annual budget—the town accessed resources to buy PPE, cleaning supplies and laptops to facilitate remote work.

Investing in Community Wealth Building

Community wealth building does not occur without investment. Unfortunately, the national zeitgeist has not historically been conducive to its proliferation. Neither philanthropy, banks nor government can boast of a strong record of sustained investment in the country's persistent poverty places. Figure 1 illustrates the gap in philanthropic giving by region. Notably, the Mississippi Delta and the Alabama Black Belt receive $1 for every $100 of per capita grantmaking in the San Francisco area.

CHART 1

Per capita grantmaking 2010-2014



Source: National Committee on Responsive Philanthropy and Grantmakers for Southern Progress. As the South Grows series, 2016-2017.

Giving in other regions known for high concentrations of persistent poverty, like Appalachia and the Rio Grande Valley, also pale in comparison to high wealth areas on the coasts.

Similarly, banks have long underinvested in rural, persistently poor places. One culprit in this transgression is the Community Reinvestment Act

(CRA). The CRA incentivizes robust investments in places with a concentration of bank branches. In rural areas, the absence of branches adds insult to injury—leaving communities without access to banking services and without CRA investment to help address the resulting gaps.

Such conditions in philanthropy and the financial service system need not be predestined. Recognizing the massive disparities in per capita giving, philanthropy should commit to a level of giving that would bring regional giving levels in persistently poor regions to a level commensurate with national averages, if not higher to mitigate the cumulative effects of historic neglect. Likewise, within the financial service sector, regulators now have a generational opportunity to reform the CRA. As the law is reviewed, regulators should promulgate rules that fuel transformational levels of bank lending, services and investment, with the ultimate goal of building community wealth in America's persistently poor communities and communities of color.

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