The Future of Building Wealth

Brief Essays on the Best Ideas to Build Wealth—for Everyone

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Without the ideas, inspiration and contributions of so many people, this book would not have been possible. Any book is a true team effort, and this one is no different.

As mentioned in our introduction, several of the ideas in this book were incubated in dialogues and retreats organized by the Aspen Institute over the last few years. However, what really ignited the book was what we informally called our “Wednesday Wealth Working Group”—a series of agendaless Zoom meetings over the summer and fall of 2020 aimed at making sense of the confluence of the pandemic, recession, and national moment of racial reckoning—all of them arising in an era of already alarming levels of economic inequality. What, we wondered, did all these events mean for the inclusive wealth-building agenda that most of us have dedicated our professional lives to? What were—are—the threats, challenges and, especially, the opportunities? Could this be a generation-defining opportunity for our field? Could the country afford for it *not* to be? What would be the consequences of missing this moment to compel real change? Without the encouragement, insights and generous contributions of Dorothy Brown, Tim Flacke, Darrick Hamilton, Ed Sivak and Jennifer Tescher, this book simply would not have existed; they also helped make the book much better. We cannot thank you enough.

We also each have our invaluable teams to thank. Ida is grateful to the Aspen Financial Security Program team, especially Karen Andres, Dyvonne Body, Katherine McKay, Genevieve Melford, Joanna Smith-Ramani, Emy Urban and Elizabeth Vivirito. They lent their substantive areas of expertise as well as their excellent editing, framing, media and organizational skills to the book, which is immensely better because of their contributions. We also are grateful to the Citi Foundation for supporting the creation of an online “home” for the book (futureofwealth.org), which will build out over time with additional commentary, events and other content that amplify and expand the ideas in the book—and support broader engagement and impact among public, private, philanthropic, nonprofit and academic sector stakeholders.

Ray would like to acknowledge the superb contributions of Ana Hernández Kent and Lowell R. Ricketts, who not only co-authored a few essays but also generously provided research assistance to several other authors. Along with William R. Emmons, Lowell, Ana and Ray constituted the core team of the St. Louis Fed's Center for Household Financial Stability before it evolved, earlier this year, into the Institute for Economic Equity, now led by its inaugural director, William M. Rodgers III. The Center's focus on household balance sheets, especially its Demographics of Wealth series, was foundational for the book's conception and evolution.

The excellent contributions of the St. Louis Fed's contracts, legal, financial management, editing, design, production, media and communications teams deserve special recognition too, in particular: Katie Bohl, Matuschka Lindo Briggs, Loree Carvelot, Ally Davis, Brian Ebert, Sarah Hamilton, Maria Hasenstab, John Hayes, Rachel Hill, Antonn Park, Daniel Riordan, Monica Shields, Rachel Siegel and Joni Williams. It was of course no small task to manage all the contracts, communications, graphs, edits, layouts and idiosyncrasies of over 100 authors! Ray also deeply appreciates the enthusiastic support of several members of St. Louis Fed's leadership team, especially Karen Branding, James Bullard, Daniel Paul Davis and Kathleen O. Paese. When the pandemic created a demand for projects none of us had planned for, they eagerly lent their support for this book.

Finally, without the extraordinary authors who accepted our invitation to contribute, this book would of course not exist. As they managed their own personal and professional challenges arising from the very conditions—pandemic, recession, racial reckoning—that birthed this book, they graciously and enthusiastically found time to pen original essays for this volume. Thank you, all 106 of you, for making this book possible. We hope you're as proud as we are of what we produced together.

Ray Boshara & Ida Rademacher
July 2021

Capstones and Cornerstones

BY JAMES BULLARD
President and CEO, Federal Reserve Bank of St. Louis

Thought leadership has always been central to the mission of the St. Louis Fed, particularly in monetary policy, economic research and education, and community development. In that spirit, I'm proud that our Institute for Economic Equity, launched earlier this year, has published *The Future of Building Wealth: Brief Essays on the Best Ideas to Build Wealth—for Everyone*, a book led by Ray Boshara, an Institute senior advisor.

The book builds on the success of our recently sunset Center for Household Financial Stability, formed by Ray and St. Louis Fed economist William R. Emmons in 2013 in the wake of the Great Recession to study family balance sheets. In fact, in many ways the book serves as a capstone of the Center's efforts to document and address stark racial, educational, generational and gender wealth gaps in the U.S. But the book also serves as a cornerstone of the Center's successor, the Institute, which was launched on the belief that wealth equity remains essential to overall economic equity.

In presenting the book's 63 essays, we have two main goals. The first is to offer some of the latest and best thinking about ways to help struggling families build or rebuild their balance sheets—especially those families who have yet to recover the wealth they lost in the Great Recession or, more recently, during the COVID-19 pandemic. Our second goal is to expand our horizons by exploring novel ways for low-wealth families to generate savings, assets and financial security. The book asks, and begins to answer, the critical and frontier questions: What does property ownership mean in the 21st century, and how can our nation broaden it for those who own little? Are there untapped national assets that could generate value for households if we recognize and monetize them as such? Can new forms of national wealth also generate new wealth for those families lacking it?

These questions could not be timelier and more essential in the wake of the COVID-19 pandemic, a recession, a national conversation on racial equity, and persistently high and increasing levels of income and wealth inequality.

I'm also excited to note that the book concludes with a conversation I had with three other Federal Reserve Bank presidents—Raphael Bostic of Atlanta, Patrick T. Harker of Philadelphia and Neel Kashkari of Minneapolis. As the conversation reveals, addressing wealth inequality and moving toward racial, educational, generational and gender equity are key goals for my Fed colleagues and me. Narrowing these gaps holds the potential to grow our economy as well, as some of the essays in the volume also observe.

Finally, let me say that the St. Louis Fed is pleased to have published this book with the Financial Security Program of the Aspen Institute, a widely respected, nonpartisan think tank committed to leadership, debate and promising ideas. I hope that you find this book as stimulating as I have, and I look forward to the important and spirited conversations it is certain to prompt.

Introduction

BY RAY BOSHARA AND IDA RADEMACHER

The seeds for this book were planted several years ago through a series of dialogues at the Aspen Institute on the future of building wealth and ownership inclusively in America. The real impetus compelling its birth, however, came during an extraordinary convergence of events in 2020: a public health crisis, the disparate economic impacts that the crisis amplified and a national moment of racial reckoning. It felt—feels—like a rare moment of opportunity.

A Historic Moment

As documented by some of the authors in this volume, COVID-19 exposed and is likely to exacerbate the already stark economic inequalities our nation reached by the end of 2019. Prior to COVID-19 there was resounding evidence that, in the midst of the longest economic expansion in modern history, the U.S. was marking levels of income and wealth inequality not seen in a century. Coming into the pandemic, most households had not recovered economically from the Great Recession, especially observable in the declining wealth and increasing debts of less educated, younger, female-headed and non-white families. When the economic shock of COVID-19 was inflicted on their fragile balance sheets, we witnessed the extent to which financial precarity had become the defining characteristic of millions of families … and simultaneously watched the net worth of others grow at their most robust rates in decades.

The persistence and depth of income and wealth inequality have, in turn, prompted serious national reflection on the fairness and sustainability of our current policies and systems. What level of economic inequality are we as a nation willing to allow? At what point does pervasive household financial insecurity weaken the prospects of a robust economic recovery? High levels of inequality have, historically, preceded and prompted an update of our social contract, as the major reforms of the Progressive Era, New Deal, and Great Society powerfully suggest. Have we reached another one of those inflection points in our history?

High levels of inequality have, historically, preceded and prompted an update of our social contract; have we reached another one of those inflection points in our history?

It may be too soon to label this era of historic social and economic reform—but it's not too early to offer some ideas that could underlie those reforms. It is in that spirit that we reached out to over 100 innovative and influential thinkers to invite them to contribute an essay to this volume. The request was straightforward: What are your best and most promising ideas to address our nation's profound racial, generational, educational and gender wealth gaps?

Why Wealth?

Why are we focusing on wealth gaps, specifically? While income inequality remains deeply troubling—and is both a driver and consequence of wealth inequality—we believe that wealth or net worth (all your savings and assets, minus all your debts) is both a unique and powerful barometer of economic resilience and opportunity and a key component of broader economic equity. Building on a deeply ingrained tradition of broadening property ownership in the U.S.—articulated by, among others, Thomas Paine in the 18th century, George Henry in the 19th and Louis Kelso in the 20th—we focus on wealth for three reasons.

First, as Michael Sherraden in argued in 1991, assets—as distinct from income—serve as both a cushion against challenging financial times and a springboard toward better times: the ability to make investments in a first home, small business, postsecondary education or skills, a reliable car, retirement security, and future generations. Second, assets change heads: Many scholars in this volume and beyond have documented powerful "asset effects," such as youth developing a "college-bound identity" from modest amounts of college savings in their name, or mothers who have better mental health and higher expectations for their children because of the assets in an at-birth Child Development Account.

And third, public policy has played an outsized role in determining who is incentivized to build wealth—and who is not. Most notably, of course, is our nation's lamentable history of taking land from Native peoples and then giving or subsidizing land and other assets to overwhelmingly white people while legally or effectively barring Black and other people of color from accumulating wealth—a fact that best explains the majority of the racial wealth gap today, as the St. Louis Fed and other research have shown. Similarly, historical obstacles to women owning property well into the 20th century help explain the gender wealth gap today.

The central theme of this book is inclusion: if public policy has actively or effectively excluded certain people from accumulating wealth, then we are called to build wealth inclusively—everyone, by design, from as early as birth, is included in systems and policies to build wealth.

Yet, while legal barriers to wealth accumulation may no longer remain, public policy—notably tax policy and asset limits in public assistance programs—still subsidizes wealth accumulation for wealthier households (most of whom are white) while penalizing it for poorer ones (who are disproportionately people of color). An upside-down policy, for sure.

The central theme of this book, then, as well as the focus of a few specific essays, is inclusion: If public policy has actively or effectively excluded certain people from accumulating wealth, then we are called to build wealth inclusively—everyone, by design, from as early as birth, is included in systems and policies to build wealth. And while there may well be compelling reasons to reduce enduring wealth gaps per se, a more critical challenge, we believe, is to grow wealth among lower-wealth groups so that they can achieve greater levels of economic resilience and upward economic mobility.

From Why to How

So that's why we focus on building wealth inclusively; now we'd like to offer a few words on how we have aimed to achieve that in this book.

The first way is by insisting that the ideas included here represent the latest evidence-based research and ideas in the field—and that hold potential for scaling up. Just as the early 20th-century local and state experiments loosely falling under "the Wisconsin Idea" became the basis for many Progressive Era and New Deal reforms (such as wage insurance, labor rights and progressive taxation), we hope that the ideas presented in this volume could be the basis for wealth equity policies in the renewed social contract now under discussion.

The second way is by breaking down silos. The clunkily named "asset-building" field, like most anti-poverty fields, has been too siloed, so we aim to bring folks working on balance sheets and family wealth *together* with those focusing on a range of ownership strategies: community wealth building; ESOPs (employee stock ownership plans); universal capital accounts; social insurance; property rights; and entirely new ways of conceiving and broadening wealth through, for example, a sovereign wealth fund, a data dividend, social inheritance, and reforms to corporate consolidation.

And our third way is by challenging long-held assumptions. As reflected in many of the essays focused on novel ways to build wealth, we were skeptical of the resigned view that the best we can do for the majority of families in America today is help them manage scarcity—and that labor-market income and existing safety nets, both meriting improvements, can be the best sources of managing that scarcity. While it is true that families can realistically save and build wealth when they experience routinely positive cash flow (income exceeding expenses), it is also true that wage income has not kept pace with the rising costs of living—especially the costs of housing, education, health and dependent care. While we must continue to improve the ways we value and compensate workers in this country, the time also seems right to invite fresh thinking on how we can create new sources of capital and ownership that do not entirely depend on labor market income.

> ***We must improve the ways we value and compensate workers in this country, and we also must invite fresh thinking on how we can create new sources of capital and ownership that do not entirely depend on labor-market income.***

A Down Payment to Inspire More Conversations

While we were heartened by the overwhelmingly positive response to our invitations to contribute essays to this volume, we wish we could have included so many other leaders and innovators in this volume. Even a book with 63 original essays featuring over 100 invited authors—along with a moderated discussion among four Federal Reserve Bank presidents—could not, in our view, capture the breadth and depth of novel thinking on ways to address generational, educational, gender and racial wealth gaps in the U.S. today.

To help remedy this, we have launched futureofwealth.org to house this ongoing discussion and promote even more new ideas, events and actions. Along with downloadable chapters in PDF format, the site will evolve to include blogs and additional ideas from a diverse spectrum of social, financial and policy innovators. You'll also see listings of events and initiatives that are emerging across the country and across sectors dedicated to building an inclusive and equitable wealth agenda in this country. We're eager to engage as many of you as possible in whatever ways we can.

Thank you for reading his book! We hope you are as inspired as we are.

SECTION I

The New Baseline: The State of Family Wealth and Wealth Inequality Today

The book begins with six essays that offer some level setting about the state of wealth ownership and wealth disparity in America today. Together they provide insight into which families have the greatest barriers and arguably the greatest need to build wealth. And they illustrate a few of the longer-term trends and historic origins of wealth inequality. Our authors, several of the nation's leading wealth researchers, document not only the current state of family wealth but also how powerful factors outside of personal control—such as one's race, ethnicity, gender and birth year—predict levels of family wealth. Education and its more complex correlation with wealth is included here too, as is an essay that explores the foundational role that routinely positive cash flow plays in wealth creation among struggling families.

As our authors show, America's wealth is deeply and persistently divided. Better educated, older and white Americans are, generally, claiming the largest and growing share of the nation's wealth with others, generally, losing share—trends, data suggest, that are likely to continue if not be exacerbated by the pandemic. While there have been some notable and welcomed gains in wealth since 2016 among the least wealthy, wealth gaps have been disturbingly stable, and absolute levels of wealth—the actual resources families have to achieve economic resilience and upward economic mobility—remain low.

The authors of these "baseline" essays each close with a few general thoughts for addressing and narrowing the gaps they document while laying the foundation for what follows: why we should, first of all, care about wealth equity and inclusion, and then the more solutions-oriented essays in Sections III–VIII that follow.

SECTION I

THE NEW BASELINE: THE STATE OF FAMILY WEALTH AND WEALTH INEQUALITY TODAY

Unequal Starting Points: A Demographic Lens Is Key for Inclusive Wealth Building

BY ANA HERNÁNDEZ KENT AND LOWELL R. RICKETTS

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.

Economic inequality has risen to the forefront of local and national conversations, particularly as the coronavirus pandemic laid bare many of those inequities. In this essay, we focus on wealth, or net worth, a critical component of economic equity. A family's wealth is strongly related to opportunities for upward mobility, and it is an important buffer against unexpected setbacks, ensuring a family's financial well-being.

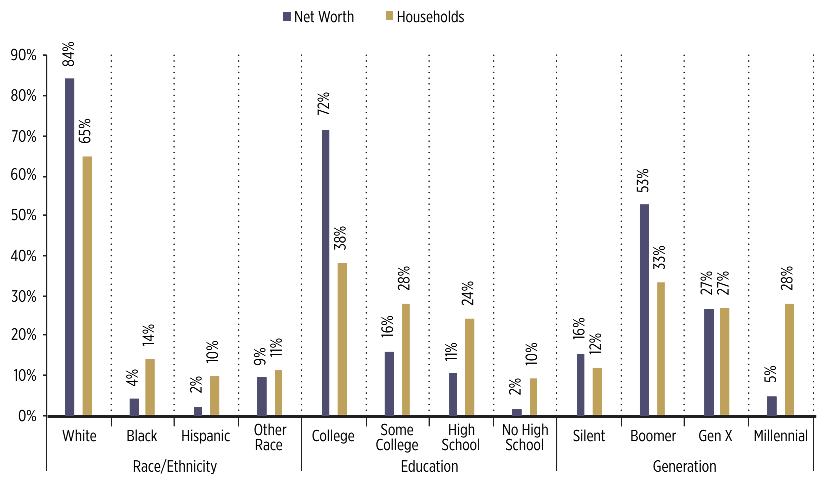
Using the Federal Reserve's most recent wealth data, we found that American families collectively owned about $122.9 trillion as of the fourth quarter of 2020—a record high.[1] However, that prosperity is quite unequally distributed. The top 10% of families by wealth owned 69.7% of total wealth, while the bottom half of American families owned only 2%. Those in the top of the distribution are more likely to be older, white and/or highly educated; these groups own more family wealth than their share of the population. The bottom half is disproportionately younger, Black or Hispanic and/or less educated; these groups own less family wealth than their share of the population, as can be seen in the figure below.[2]

The top 10% of families by wealth owned 69.7% of total wealth, while the bottom half of American families owned only 2%.

[1] Here we use the inflation-adjusted Distributional Financial Accounts, which go back to the third quarter of 1989.

[2] The Distributional Financial Accounts do not break down wealth by gender.

Share of Total Family Wealth and of Households by Demographic Group, Q4 2020



Sources: Federal Reserve Board's Distributional Financial Accounts and authors' calculations.
Note: The demographic characteristics for the family are taken from the family head.

In this essay, we provide an overview of the state of wealth for various demographic groups, by race/ethnicity, education, generation and gender. (Subsequent essays in this chapter provide a more in-depth analysis for many of these groups.) Lower-wealth groups (younger, Black, Hispanic, and/or less educated families and women) tend to face contemporary barriers to wealth accumulation such as having insufficient and/or volatile income that severely limits regular saving. Many also have jobs that do not offer employer-paid benefits such as health insurance and retirement plans. Additionally, these groups often lack access to assets like financial, home or small business ownership, which carry publicly subsidized tax benefits.

Lower-wealth groups (younger, Black, Hispanic, and/or less educated families and women) tend to face contemporary barriers to wealth accumulation.

Several of these groups have also faced historical policies that limited or actively blocked access to wealth-building avenues. Notably, Black people were systematically excluded from full participation in the GI Bill, Social Security and the Homestead Act, and they faced exclusionary homeownership policies like redlining. Women were also socially blocked from certain industries and did not receive legal protection for accessing credit until 1974.

Many families in these lower-wealth groups face constrained opportunities that undermine the American Dream and the notion of an equal playing field for all. Emmons and Ricketts modeled “individual agency”—the difference your own choices make versus the influence of the world around you. Ultimately, they found the available choices themselves are overwhelmingly constrained by historical and structural factors, the likes of the exclusionary practices mentioned above. Individual agency and financial, educational and other choices remain consequential, but ignoring the structural and systemic factors unjustly places the onus solely on families.

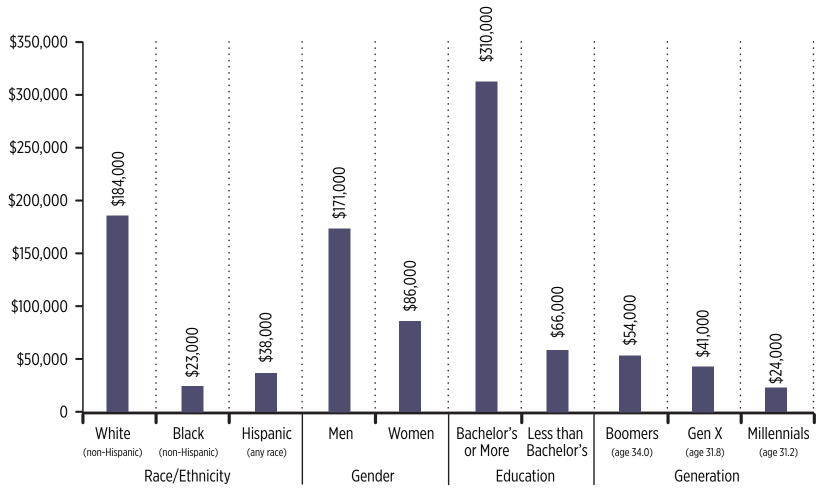
Despite notable progress in many areas like legal protections, political representation, wages and employment, demographic wealth gaps remain stubbornly consistent and persistently large. The rigidity of these gaps points to intergenerational components of wealth, the lasting effects of historical context and the continuing impact of discriminatory systems and preferences today.

Historical Perspective on the Demographics of Wealth

Demographic factors have long been strongly associated with wealth outcomes in America. Schularick, Kuhn, and Ulrike traced outcomes back to the 1950s and found that the gap between Black and white families was largely the same then as in 2016—the typical Black family’s wealth is roughly 80% less than for the typical white family. A lack of progress despite the contrast between contemporary America and a time of de jure segregation underscores the intransigence of racial inequities.

Bartscher, Kuhn, and Schularick explored wealth trends by education. They found that the average wealth of college-educated households had tripled since the 1980s, while the same measure among nongraduates barely grew in real terms. Adding a generational nuance, Emmons, Kent, and Ricketts found that the outstanding wealth returns associated with a college degree were more characteristic of older generations (born before the 1950s) than younger generations, emphasizing the importance of one’s birth year on wealth expectations. These glimpses of the historical timeline enable us to see meaningful demographic fault lines by which wealth has been, and continues to be, distributed in America.

Median Family Wealth in 2019



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.
Notes: The demographic characteristics for the family are taken from the survey respondent. Wealth values are rounded to the nearest $1,000. Percentages are based on unrounded numbers. Demographics considered advantaged are italicized.

Wealth and Wealth Inequality Today

The story is not just about inequitable wealth distributions but also very modest wealth holdings. Black families, for example, had just $23,000 in median wealth in 2019, meaning half of Black families had more than this, while half had less. Comparatively, the median for all families in the U.S. was $122,000, or almost $100,000 more. The table below compares wealth in 2019 for families by race/ethnicity, gender, education and generations at similar ages.

Early View of the Pandemic's Impact on Household Financial Stability

The arrival of COVID-19 and the ensuing efforts to contain its spread are hugely disruptive on multiple fronts: health and safety, socially and economically. We use the most updated data (only available at an aggregate level) in our newest tool, the Real State of Family Wealth.

At the outset of the pandemic, average wealth fell for most demographic groups in the first quarter of 2020, but many of those losses reversed in the second quarter and continued to improve in the third and fourth quarters. The abrupt reversal in the first half of the year reflects in large part the sharp rebound in the stock market, where just over half of American families own some assets.

Importantly, these averages represent families who are better off than the typical American (as large concentrations of wealth are held by a small number of families). Therefore, while average wealth has rebounded, this may capture only one path of the K-shaped recovery, meaning median wealth—and the typical American—may not have experienced the same resilience. We see this possibility reflected in increased measures of financial hardship (e.g., housing distress and food insecurity). Black Americans, Hispanic Americans, noncollege graduates and younger generations are bearing the brunt of these types of instability.

> *Black families had just $23,000 in median wealth; the median for all families was almost $100,000 more.*

Fortunately, the extensive policy response appears to have mitigated a great deal of potential hardship. As of July 2020, the share of adults that reported they were at least "doing OK" financially was similar to what it was in October 2019, even after factoring in race, ethnicity or education.

The economic impact payments and expanded unemployment insurance authorized by the CARES Act helped displaced workers build up an emergency savings buffer, which continued to be an important resource for many low-income households through the fall of 2020. The more recent American Rescue Plan may have similar effects.

On the liabilities side, loan forbearance has helped millions to keep their car, hold on to their home or free up cash flow that would have otherwise gone to student loans. Uncertainty remains as to what pathways will be available for borrowers (and renters) to become current on their payments when forbearance expires, but this unprecedented debt relief has been an important financial life preserver in the interim.

Policy Insights in Broad Strokes

The pandemic will offer many policy lessons that will inform our response to future downturns. Specifically, taking a holistic approach to financial assistance (e.g., cash support and pausing debt obligations) during the pandemic appears to have provided resilience for many would-be struggling families. As the remaining chapters of the pandemic are written, maintaining the robust policy response will be critical to keep these families whole. However, there are still many families who have fallen through the expanded safety net.

Certain families—Black, Hispanic, those with less education, women headed, or younger—were more financially vulnerable heading into the pandemic and suffered disproportionate job and income loss throughout. When it comes to demographic factors, economic history tends to repeat itself. Women, Black and Hispanic people, younger people and those with lower education had less wealth than their counterparts in 2019, and they were also the groups disproportionately affected by job losses and reduced hours during the coronavirus recession. Upon reaching the "new normal," we will have a rare opportunity to break the status quo of persistent inequity, if we choose to rise to the moment. By keeping these families centered in the recovery and beyond, we may finally realize financial stability and upward mobility for all; demography need not have such a strong influence on economic destiny.

Ana Hernández Kent is a senior researcher at the Institute for Economic Equity at the Federal Reserve Bank of St. Louis. Her work has been featured in The New York Times, The Washington Post, The Wall Street Journal, NPR, USA Today, Bloomberg, The Atlantic, The Financial Times, Daily Mail, The New Yorker and CNN, among other outlets.

Lowell R. Ricketts is a data scientist for the Institute for Economic Equity at the Federal Reserve Bank of St. Louis. His work has been featured in The New York Times, The Washington Post, The Wall Street Journal, and CNN Money, among other outlets.

SECTION I

THE NEW BASELINE: THE STATE OF FAMILY WEALTH AND WEALTH INEQUALITY TODAY

Cash Remains King

BY KATHRYN ANNE EDWARDS AND BRADLEY HARDY

Cash is essential to economic security—it is a bedrock of savings and is essential to building wealth. Although most measures of economic status in the U.S.—such as per capita GDP—have risen over time, cash, defined as money on hand or liquidity, has remained low for many households, even amid rising expenses. For many households, there is evidence of cash scarcity.

For low- or middle-income families, there are two primary sources of cash: wages and transfer program payments. Wages, or earnings, are how much an individual brings home in a paycheck. Wage growth has been weak for the past four decades. Between 1979 and 2019, median wages grew only 15%. In only 10 of those years did workers in the bottom 90% of all wage earners realize wage growth. Researchers have ascribed low wages and wage inequality in part to a larger process of job polarization, the hollowing out of middle-income jobs from the labor market.

Wages from a job are not always enough. Immediately after the last recession in 2007, 7% of workers were employed part time for economic reasons, meaning that they were available for full-time work but had to settle for a part-time position. Among workers with less than a college education, 18% worked multiple jobs, often for a couple months at a time.

And wages are not always received. They can be garnished by court order; a portion is withheld for debt payment. The two most common causes of wage garnishment are child support debt and student loan debt. At the end of 2018, wage garnishments for student loans alone were $230 million. Wages can also be stolen by employers; wage theft occurs when employers do not pay workers for the time worked. The Wage and Hour Division collected over a billion dollars in stolen wages over the past four years.

Aside from earnings, there are five major cash programs: Social Security (which refers to Old Age Insurance and Survivors Insurance, OASI), Disability Insurance (DI), Unemployment Insurance (UI), Supplemental Security Income (SSI) and Temporary Assistance to Needy Families (TANF). The former three are social insurance programs, while the latter two are means-tested transfer programs. As their names suggest, social insurance programs provide cash benefits for workers who have worked previously but who become older, disabled or unemployed, respectively. The means-tested programs provide cash benefits to individuals with sufficiently low income: SSI is for low-income older and disabled individuals. TANF is for low-income families with children, though even with TANF, reforms have shifted assistance away from cash toward a wide range of noncash benefits.

For older or disabled individuals, the combination of OASI, DI and SSI has been a reliable source of cash. There have been no benefit cuts or large-scale changes in eligibility, and each program has guaranteed access or entitlement—anyone eligible for benefits can claim them.

Other cash benefits have not fared as well. The real value of UI has eroded greatly over time in both generosity and coverage; less than a third of unemployed workers receive any benefits. The 1996 the Personal Responsibility and Work Opportunity Act ended traditional cash welfare. The ensuing program, TANF, is administered with significant autonomy by states, and income-eligible individuals are not guaranteed any aid (i.e., it is not an entitlement). In 14 states, there were more than 10 times the number of people in poverty than there were receiving TANF benefits. Like UI, average TANF benefit levels and coverage have fallen considerably over time.

Taking a broad view of cash benefits from all programs, the trend is that cash benefits have tilted away from the poor and toward the near poor, elderly and disabled.

Taking a broad view of cash benefits from all programs, the trend is that cash benefits have tilted away from the poor and toward the near poor, elderly and disabled. Many researchers conclude that the most disadvantaged are more vulnerable now than they were before 1996.

Hence, households' two primary sources of cash have either stagnated or fallen. As evidence of insufficient cash on hand, many households cannot accumulate emergency savings. The national personal savings rate, which was above 10% between 1960-1985, slowly fell to 5% by 2000 and averaged 5%-7% since. This national rate varies greatly by income. Higher-income households (those in the top fifth) save more each year, while middle-income households (the middle fifth) have near zero savings, and the bottom 40% have negative savings. In a separate study of the financial decisions and planning of low-income households, nearly half reported that they had no emergency savings. This aligns with the oft-repeated statistic that nearly half of Americans could not meet an unexpected $400 expense.

Important in-kind benefits and tax credits such as Supplemental Nutrition Assistance Program (SNAP, the in-kind food program) and the Earned Income Tax Credit (the tax benefit given to low-income parents who work) provide vital near-cash (SNAP) and cash resources (EITC) for families. However, in-kind transfers cannot fully substitute for expenses that require cash to address, and much-needed refundable tax credits are delivered only once per year. Moreover, in the case of the EITC, the receipt is contingent on work. Recently enacted child allowances distributed to low-income families could make considerable progress toward addressing these liquidity constraints and lowering poverty.

And as much as noncash resources may help, cash is still king.

And as much as noncash resources may help, cash is still king. A big indicator of the demand for cash is in the use of alternative, and arguably harmful, financial products. As many as 12 million Americans take out payday loans every year, whose fees are structured so that they can exceed 400% at an annualized rate. The products themselves are routinely criticized for being predatory, and advisors consistently warn not to use them. But payday lending is one type of small-dollar loans associated with high fees, high interest and debt cycles. Other types include consumer installment loans and auto title loans.

While less pernicious than payday, consumer or title loans, credit card debt is a more common form of coping related to financial distress. Indeed, among individuals who reported that they could not meet an unexpected $400 expense, the most common coping strategy adopted is to place such expenses on a credit card. However, in this same survey, 16% of adults report that they are unable to pay all of their bills each month, and half report the bill they would skip, if needed, is a credit card payment.

For those in need of cash and lacking access to credit, pawn shops and blood and plasma sales operate as transactions of last resort. Blood and plasma centers commonly advertise that donors can garner $300 per month, operating as a key source of cash for the very poor. Such activities represent efforts on the part of families to construct a stream of cash income. Relatedly, throughout

Little savings, harmful loans, credit cards, plasma sales, theft of goods—all of these taken together are indicators of the scarcity of cash.

the COVID-19 pandemic, there has also been evidence that theft of household essentials, like tampons, was on the rise.

Little savings, harmful loans, credit cards, plasma sales, theft of goods—all of these taken together are indicators of the scarcity of cash, explained in large part by low wages and a changing safety net. In a market economy like the United States, cash may be a low-return component of a financial portfolio for high-income households, but low-income households struggle to build economic security and wealth without it. The cash needs of struggling families thus merits greater attention from policymakers, non-profits, employers, foundations and others.

Kathryn Anne Edwards is an economist at the nonprofit RAND corporation and professor at the Pardee RAND Graduate School. Her research spans many aspects of inequality, which she studies through multiple lenses. They align with the “life” of a worker, from education and training, to earnings, to labor market shocks, to retirement.

Bradley Hardy is an associate professor in the McCourt School of Public Policy at Georgetown University. His research interests lie within labor economics, with an emphasis on economic instability, intergenerational mobility, poverty policy, racial economic inequality, and socio-economic outcomes. His work examines trends and sources of income volatility and intergenerational mobility within the United States, with a focus on socio-economically disadvantaged families, neighborhoods, and regions.

SECTION I

THE NEW BASELINE: THE STATE OF FAMILY WEALTH AND WEALTH INEQUALITY TODAY

The Generational Wealth Gap: Facing the Future but Falling Further Behind

BY FENABA R. ADDO AND REID CRAMER

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.

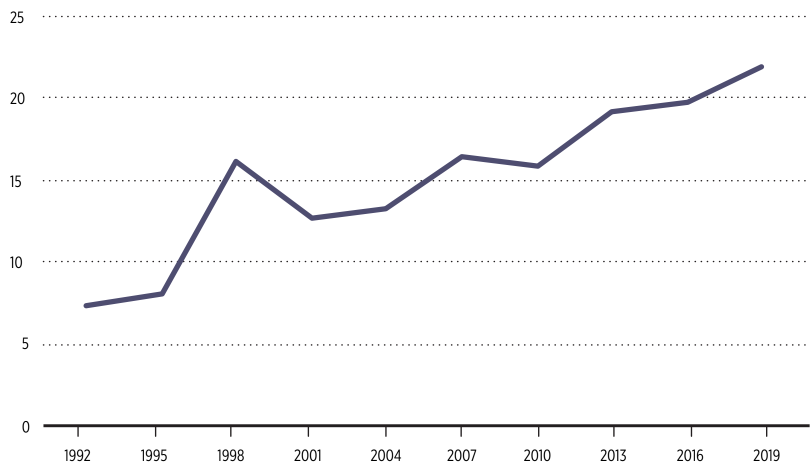
Wealth is widely associated with luxury, but it is having ready access to a stock of financial resources that can shape a person's most consequential life and work choices. Even modest amounts can make a big difference. The strategic deployment of wealth across the life course can be the key to economic security and family well-being. In the short term, wealth offers insurance to buffer against unexpected events (the pandemic comes to mind). In the long term, wealth building is a process that unfolds dynamically over time and characteristically tracks a distinct life cycle pattern. Most young adults start out with negligible savings, begin to grow assets as their earnings rise, accelerate savings to prepare for retirement and eventually draw down on their resources upon exit from the workforce. Of course, typical patterns mask large variations, and we know that the rate and amount one can accumulate is shaped by factors far beyond an individual's control. Family characteristics and intergenerational transfers clearly play a prominent role. The recent past has amplified the relative importance of another, often overlooked, variable determining future wealth that isn't a choice: the state of the economy when transitioning into adulthood.

In the aftermath of the 2007-2009 financial crisis, large declines in wealth were pervasive, but the protracted recovery was selective. As stocks and real estate values rebounded, so did the finances of those that already owned or were able to keep their assets. These households tended to be older, while the younger lagged behind. With fewer jobs available, many young adults responded with a seemingly rational decision to invest in themselves and pursued postsecondary education. This has made millennials the most educated and credentialed generation on record—but also the most indebted. Student loan debt more than tripled. (Figure 1)

Unfortunately, the economic recovery was weak, wage growth was tepid and the overhanging debt obstructed traditional pathways to building wealth. Emblematically, the homeownership rate for young adults dropped from a high 47% in 2005 to a low of 37% by 2015. Coupled with lower rates of household formation, there are 2.4 million fewer millennial homeowners than there

FIGURE 1

Educational Debt Among Young Households Has Tripled



According to the Federal Reserve's Survey of Consumer Finances, the average student loan debt of young adult households under 35 years of age increased from $5,900 in 1992 to $22,000 in 2019.

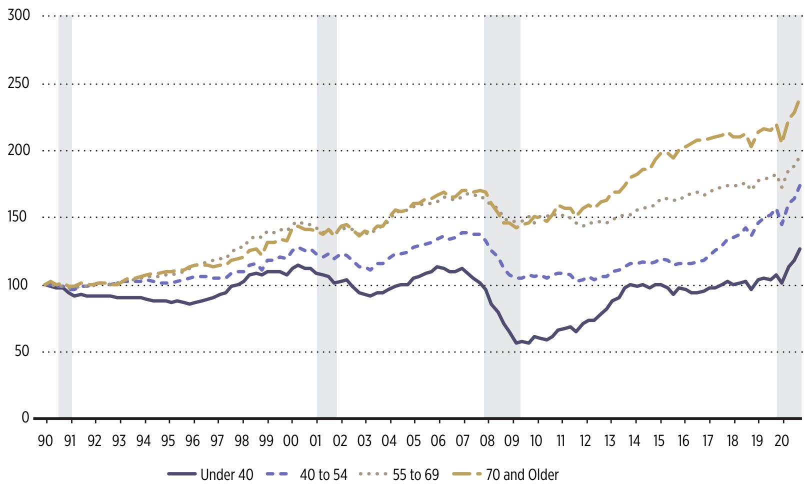
The experience of the Great Recession has launched young adults of today on a dramatically lower trajectory of wealth building, making it increasingly unlikely that they can replicate the economic success of previous generations.

would be if rates had remained the same as in the year 2000. That has left a big hole in the generational balance sheet. The experience of the Great Recession has launched young adults of today on a dramatically lower trajectory of wealth building, making it increasingly unlikely that they can replicate the economic success of previous generations. (Figure 2)

As the country becomes more demographically diverse—with successively larger shares of Asian and Latinx households, immigrants and those who identify as multiracial—the emergence of a generational wealth gap has simultaneously exposed deep social inequities and exacerbated America's

FIGURE 2

Millennial Wealth Lags Previous Generations



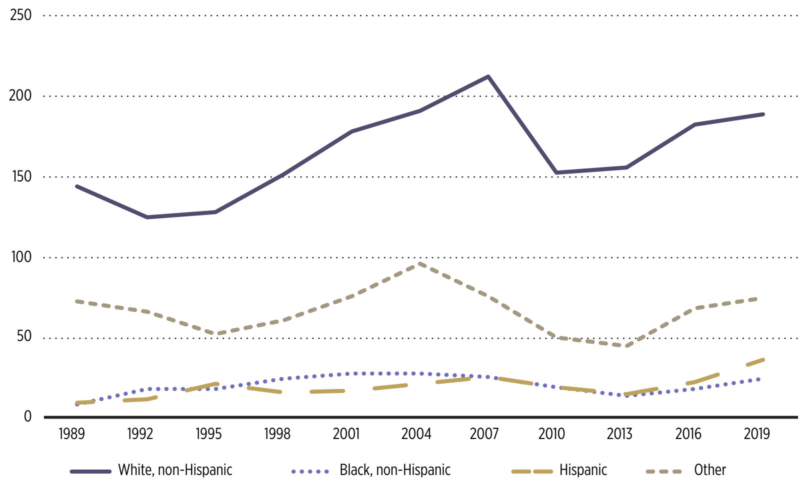
Comparing the net worth of generations over time, economists at the St. Louis Federal Reserve's Institute for Economic Equity found that the wealth of households under the age of 40 has consistently lagged behind previous generations.

racial wealth gap. The wealth-building landscape that communities of color must navigate continues to be strewn with obstacles that are both historic and contemporary in origin. (Figure 3)

This is particularly so with two of the most primary asset-building experiences, homeownership and higher education. Homes are generally the largest asset on the balance sheet, which is the rationale behind long-standing federal support for homeownership, but these programs were originally designed to explicitly exclude Black Americans. The gains in housing wealth among communities of color that were achieved despite this exclusion were largely wiped out by the foreclosure crisis, which was partially sparked by unchecked predatory lending practices that targeted Black and Latinx families. Today's homeownership rates among communities of color (45%) continues to lag behind white families (73%), with similar discrepancies in housing equity.

FIGURE 3

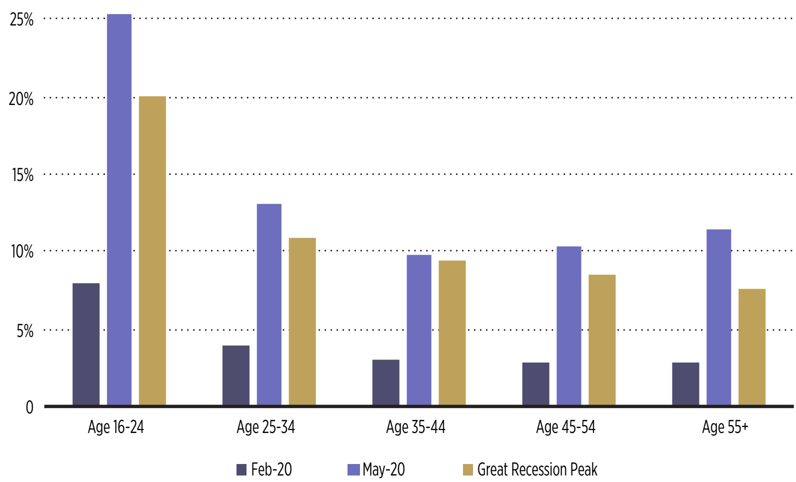
The Racial Wealth Gap is Large and Persistent



Shifts in the higher education landscape have brought higher tuition, fewer public subsidies and larger loans, all of which have made it harder to convert postsecondary education into future economic success. This challenge is most pronounced for students of color, who start out with fewer resources, experience income disparities and are now responsible for a greater share of the costs of a more expensive endeavor. Despite the growing relative financial returns of a college degree, the amount of debt students are incurring to get these degrees is undermining those gains. This is especially true for Black students who come from families whose paths to wealth building—whether through acquisition of property, pursuit of higher education or access to credit—have been systematically blocked. Even when wealth and resources have accrued, they have been subsequently stripped through exploitation, theft or violence. With fewer resources to bequeath or inherit, attempts to accumulate wealth must occur anew each generation, and disparities grow when households cannot maintain the same relative economic positioning across generations. The inability to provide substantial private intergenerational transfers reflects the precarious financial states of these households at both younger and older ages.

FIGURE 4

Unemployment During the COVID-19 Recession Hit Young Adults Hardest, Exceeding Unemployment Peak of the Great Recession



Now only a few years on from the Great Recession, just as many non-white and younger households had begun to catch up, COVID-19's economic impacts are being mediated once again by age and race.

Now only a few years on from the Great Recession, just as many non-white and younger households had begun to catch up, COVID-19's economic impacts are being mediated once again by age and race. Job losses have been concentrated in the service sector—disproportionately affecting workers who are younger, female and from communities of color. The combined effect of these two economic shocks has exposed a generational dimension to wealth inequality that will be unprecedentedly devastating to the finances of the youngest participants in the economy. (Figure 4)

Without a concerted policy response, this age-based wealth gap will challenge our collective sense of generational fairness and undermine the implicit social contract, where a set of mutual obligations binds us together so that each generation can thrive and do better than the last. These ties will fray if the young adults powering the workforce and raising children feel they are financially unable to meet their social responsibilities. Millennials are now in their prime work and family-forming years, but their poor finances and low wealth holdings have complicated their life choices and altered their relationship to conventional milestones of adulthood. Even before the pandemic hit, a survey of young adults found that financial insecurity is a primary reason parents were having fewer children than desired, and there is already evidence that rates of marriage and child rearing, already on the decline, have dropped further as a result of the pandemic. Researchers from the Brookings Institution are predicting that the U.S. will see 300,000 fewer births than expected in 2021.

We believe policy efforts should focus on improving the finances of the rising generations. This means addressing key components of the household balance sheet—increasing savings and assets while reducing debts and liabilities. For a generation burdened by excessive amounts of debt and relatively lower savings, student debt cancellation can be financially transformative. Additional social policies designed to infuse cash into households will be particularly valuable, ranging from higher minimum wage levels, increased refundable tax credits tied to work, and larger subsidies to support caregiving and raising children, such as paid family leave and making permanent the child cash allowances created by the American Rescue Plan that set to expire next year. We should be creating new pathways to wealth by ensuring every child has an investment account established automatically at birth—a reality in seven states already. It is time to renew our public investment in higher education to bring down the costs of postsecondary education and to break the excessive reliance on student loans.

We believe policy efforts should focus on improving the finances of the rising generations.

The rising generations will undoubtedly contend with the economic fallout from COVID-19 for years to come. Policy prescriptions related to wealth inequality should include an examination of generational inequities. We have a collective responsibility to identify ways to ensure that young adults can chart a new course toward a financially secure future and to ensure their generation does not miss out on the experience of wealth building altogether.

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Reid Cramer is a nonresident fellow at New America and author of *The Emerging Millennial Wealth Gap: Divergent Trajectories, Weak Balance Sheets, and Implications for Social Policy*.

After Half a Century, the Racial Wealth Gap Remains Remains Wide—Suggesting Bold Responses Are Warranted

BY KILOLO KIJAKAZI AND SIGNE-MARY MCKERNAN

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.

Over the last half a century, the dollar amount of the racial wealth gap—the difference in net worth held by white families and families of color—has grown substantially. Wealth or net worth is what you own minus what you owe. In 1963, white families had about $45,000 more wealth than families of color, at the median (Figure 1). By 2019, white families had approximately $165,000 more wealth than Black families and about $153,000 more than Latino families (Figure 1). *The typical Black families had 13 cents in wealth for every dollar of wealth held by white families in 2019 and Latino families had 19 cents.*[1] These gaps continue beyond 2019.[2]

All families aspire to the opportunity wealth brings, yet structural racism limits opportunity for families of color, as illustrated by relatively flat Black and Latino family wealth over the decades, in contrast to the increasing (and variable) white family wealth (Figure 1.). *More than 50 years after Martin Luther King Jr.'s death, the typical U.S. Black and Latino family had $24,100 and $36,050, respectively, to weather the COVID-19 pandemic and pursue their dreams, while the typical white family had $189,100.*

More than 50 years after Martin Luther King Jr.'s death, the typical U.S. Black and Latino family had $24,100 and $36,050, respectively, to weather the COVID-19 pandemic and pursue their dreams, while the typical white family had $189,100.

Metropolitan-level data from Los Angeles, Boston, Miami and Washington D.C. further reveal large disparities within racial and ethnic groups and between the same groups living in different places. For example, De La Cruz

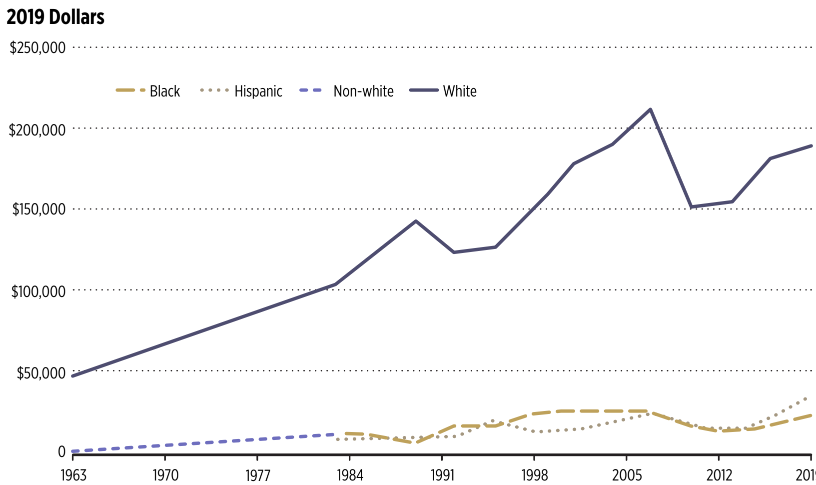
1 Though we analyze data by race, we acknowledge that race is a social construct and therefore does not indicate biological differences. We believe collecting and analyzing data by race is important in some research and policy analyses because it allows us to identify possible racial inequities and to determine their locus to address and affect change.

2 These gaps continue beyond 2019. Quarterly data from the St. Louis Fed's "Real State of Family Wealth" confirm that substantial racial wealth gaps remain largely unchanged despite fluctuations from 1989 through 2020.

FIGURE 1

The Racial Wealth Gap Remains Wide

Median Family Wealth by Race and Ethnicity, 1963-2019



Sources: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2019.
Notes: 2019 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later. We have used the term 'Hispanic' in this chart rather than 'Latinx' to match the data source. The SCF does not have a large enough sample of Asian Americans to draw conclusions about that population's wealth.

Viesca et al. (2016) find that in Los Angeles, median wealth ranges from $592,000 for Japanese households to $72,000 for African (recent immigrant) Black households, $23,400 for Korean households, $4,000 for U.S. Black households and $3,500 for Mexican households. Kijakazi et al. (2016) find that in Washington D.C., African Black households have $3,000, similar to U.S Black households ($3,500), and Korean households have $496,000.

Historical Perspective

Historical research and analysis shows that the origins of the racial wealth gap were in structural racism—the policies, programs and institutional practices that facilitated asset accumulation by white families while creating systemic barriers to wealth building or stripping wealth from families of color. For Black families, these barriers include the following: government policies that supported the human trafficking and bondage of people of African descent to create wealth for white people while denying Black people the wealth of their labor; the government's failure to fully implement Reconstruction and provide land to Black people who had been held in bondage; the Black Codes and Jim Crow; violent attacks by white mobs on Black people, their communities, and their businesses, destroying individual and community assets; racial covenants; redlining; urban renewal; the destruction of self-sufficient Black neighborhoods by routing highways through them; and, more recently, financial institutions targeting communities of color for subprime loans, even when they qualify for prime loans, resulting in the loss of homes and home equity, from which the Black community has not yet recovered. The wealth disparities from these barriers are passed from generation to generation.

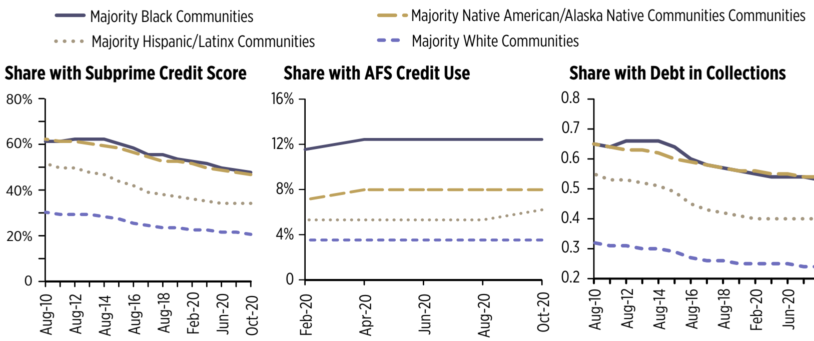
The Black community is not alone in experiencing centuries of structural racism. Native Americans lost much of their land and natural resources through wars, treaties and forced displacement. The Homestead Act of 1862 that allowed primarily white citizens to claim land in the West displaced the Sioux, Cheyenne, Ute, Pawnee and other Native American nations. Generations of federal policies undermined the sovereignty, wealth and power of tribal nations, leaving them without access to basic amenities, including mainstream financial services.

The Black community is not alone in experiencing centuries of structural racism. Native Americans lost much of their land and natural resources through wars, treaties and forced displacement.

Latino families experienced extensive land loss in the 1800s during the "manifest destiny" period. And although Mexican workers were welcomed to the U.S. during wars to fill labor shortages, thousands were subsequently deported in the 1950s. Asian Americans have faced economic exclusion in the form of immigration bans as well as hate crimes, such as the destruction of Muslim and South Asian businesses following 9/11. And during World War II, Japanese Americans were sent to internment camps, losing their freedom and assets. This research helps to dispel the false narrative that the racial wealth gap exists because of deficits within, and inadvisable financial behavior by, individuals and families of color.

FIGURE 2

The Community Racial Credit Health Gap Remains Wide



Source: Caleb Quakenbush, Kassandra Martinchek, Breno Braga, Signe-Mary McKernan, and Alexander Carther. 2021. Credit Health of Cities Dataset. Urban Institute. Accessible from https://datacatalog.urban.org/dataset/credit-health-cities.

Notes: Subprime credit score is defined as a VantageScoreof 600 or below. Alternative financial service (AFS) credit includes short-term loans (installment loans, nonprime credit cards, auto title loans, rent-to-own) and single-pay credit (pawn shops, payday loans) from non-banking institutions. Share with any debt in collections is the share of people with a credit bureau record who have any debt in collections. Demographic estimates are based on zip codes where at least 60 percent of the population identifies as the given race or ethnicity. Because of limited sample sizes, state-level demographic estimates are not always available for all timespans and/or races or ethnicities.

The Pandemic and the Racial Wealth Gap

The COVID-19 pandemic has disproportionately harmed Native American, Latino and Black families. The Centers for Disease Control and Prevention has shown that people of color are more likely to contract, be hospitalized and die from COVID-19 than white people. Research on the effects of the pandemic shows that workers of color are more likely to hold jobs that require them to work in person, work in close proximity to others and travel on public transportation to get to their jobs, all of which increase their exposure to the coronavirus. Moreover, families of color are less likely to have health insurance, meaning they are more likely to incur past-due medical debt. Also, the death of a family member requires funds to lay their member to rest, creating even more costs. These events may lead many families of color to spend down what savings they have and potentially incur debt. Research tracking the effects of the pandemic found that adults of color were more likely to live in households where someone used savings or sold assets to meet spending needs.

Racial credit health disparities from the Great Recession through the COVID-19 pandemic illustrate that the last economic recovery failed to adequately address systemic barriers facing families of color (Figure 2). Credit report information is used to determine eligibility for jobs, access to rental housing and mortgages and insurance premiums. In communities that are majority Black and majority Native American communities, the share of residents with a subprime credit score, who use alternative financial products such as payday loans, or who have debt in collections, remained more than twice as high in October 2020 than for residents living in majority white communities. Without sustained support and intentional policies that address racial disparities, the economic impacts of COVID-19 could create major setbacks on the pathway to inclusive economic recovery.

Bold Solutions Are Needed

The historical wealth data reflect the endurance of structural racism; dismantling it will take bold solutions focused on root causes that consider wealth (not just income). Research has shown that racial wealth disparities cannot be adequately explained by differences in income, education or even savings rates but are instead the consequence of 400 years when policy, practice and violence blocked and stripped wealth from people of color. Bold solutions that target wealth include restitution for African Americans and baby bonds or highly progressive child development accounts that allow for more than education expenses to ensure that every young adult has the resources to successfully launch their lives. Solutions can also be bold when powerfully combined, such as quality jobs or government options that provide retirement accounts, health insurance, student loan relief and emergency savings; and a five-point framework to reduce the racial homeownership gap.

Kilolo Kijakazi co-authored her essay as an institute fellow at the Urban Institute. She testified before Congress and D.C. City Council and was cited in the The New York Times, The Washington Post, Forbes, USA Today, The Atlantic, Mother Jones, MarketWatch, CNBC, Joint Center for Housing Studies of Harvard University, Colorlines and Fast Company.

Signe-Mary McKernan is vice president of the Center on Labor, Human Services, and Population at the Urban Institute. She co-edited the book *Asset Building and Low-Income Families*, has testified before Congress and has been cited in media outlets such as The New York Times, The Washington Post, Forbes, and Time.

The authors thank Alexander Carther for exceptional research support in preparing this article.

Understanding the Gender Wealth Gap, and Why It Matters

BY MARIKO CHANG, ANA HERNÁNDEZ KENT[1]
AND HEATHER MCCULLOCH

[1] These are my own views and not necessarily those of the Federal Reserve Bank of St. Louis, the Federal Reserve System or the Board of Governors.

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Women play a pivotal role in the economic security of families and the growth of the U.S. economy. In December 2019, just months before the first COVID-19 shutdowns, women were the majority of the civilian nonfarm workforce, earning advanced degrees and starting businesses at a higher rate than men, and were more likely to be breadwinners than ever before.

To date, national discussions about gender inequality have focused on the pay gap, but the gender wealth gap is a more relevant measure of economic insecurity. Wealth, or net worth, is the difference between a household's assets minus liabilities. It enables families to weather financial emergencies; invest in education, a home or business; save for retirement; and pass resources on to the next generation.

Across race and ethnicity, women own less than men, and Black and Hispanic women own pennies on the dollar compared to white men and white women.[2] This chasm—a legacy of our nation's long history of exclusionary policy and private sector practices—meant that they had limited resources heading into the pandemic-induced economic crisis.

The economic crisis hit women, particularly women of color, harder than men as they were more likely to be working in consumer-facing sectors. Making matters worse, millions of women were left out of the federal response to the crisis, and mothers with young children had to reduce their work hours four to five times more than fathers due to a lack of caregiving support.

[2] Public surveys like the Survey of Consumer Finances (SCF) split race and ethnicity into four categories: white, Black, Hispanic and other, so researchers are unable to calculate the net worth of Asian and Native American families and other subgroups. The SCF also does not include questions about sexual orientation or sexual identity.

Understanding the Drivers of the Gender Wealth Gap

The gender wealth gap is a result of interrelated factors including the pay gap, disproportionate responsibility for caregiving, and lack of access to the "wealth escalator" of government benefits, tax breaks and employment-related benefits that help people build wealth.

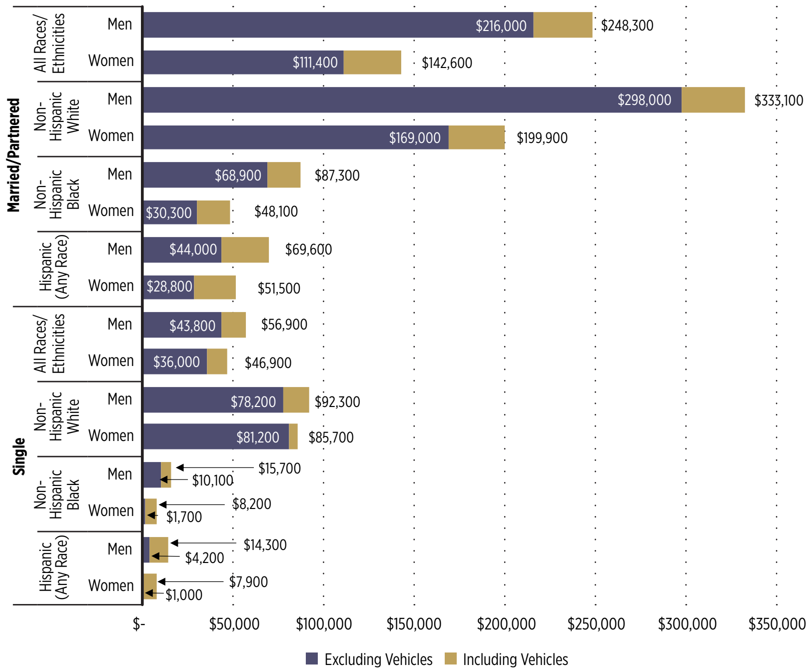
The gender wealth gap is a result of interrelated factors including the pay gap, disproportionate responsibility for caregiving, and lack of access to the "wealth escalator" of government benefits, tax breaks and employment-related benefits that help people build wealth.

Women working full time earn about 82 cents compared to every dollar earned by men, a gap that is even larger for women of color. Over the average 40-year career, wage disparities cost Asian women[3] $349,000, white women $566,000, Black women more than $800,000, Native American women more than $900,000 and Latinas more than $1 million compared to white men. Other drivers of the wealth gap include women's lack of access to employer-provided benefits like health insurance, paid sick days and matched savings in retirement plans because they work part time, for smaller firms or in jobs that do not offer benefits. Working women are less likely to be able to access tax subsidies due to the way they are structured: Lower levels of income, home and business ownership and retirement savings means women are less likely to benefit from tax deductions and exclusions. In addition, refundable tax credits, one of the few types of tax subsidies accessible to low-wage workers, are few. Making matters worse, our nation's weak care infrastructure means women lose income, current savings, future social security benefits and accumulated wealth when they step out of the workforce to care for a loved one, and they are more likely to have custody of children, which decreases their ability to save.

Women of color face the greatest obstacles to building economic security on all fronts. They are the least likely to have wealth to start with, due to our nation's legacy of public policies and private sector practices that blocked families of color from building wealth that could be passed on to their children.

[3] The group of Asian women is quite varied and not disaggregated. It is important to note that some subgroups of Asian women have almost no wealth, while others have high levels of wealth.

Median Family Wealth by Race/Ethnicity and Household Type, 2019



NOTES: The demographic characteristics for the married or partnered couples are taken from the survey respondent, who is considered to be the more financially knowledgeable person in the couple. The gender of the couple is thus taken from the respondent, though wealth is shared among both individuals in the couple. Singles include those who have never been married or who are divorced, widowed or separated. Age range is from 18 to 95 years old. Dollars are rounded to the nearest hundred.

They are overrepresented in jobs paying low-wages without benefits, and they face contemporary racial and gender discrimination that limits opportunities for employment, income, promotion and public and private sector job benefits.

Women of color face the greatest obstacles to building economic security on all fronts.

What the Most Recent Data Say About the Gender Wealth Gap

A savings or wealth buffer is a critical measure of household economic well-being, yet those with the least wealth were most likely to suffer job and income loss during the pandemic. In 2019, the median wealth of families headed by women was about half as much as families headed by men.[4] The intersection of race and ethnicity, marital status and gender reveals even starker wealth differences, as can be seen in the figure above.

The median wealth of families headed by women was about half as much as families headed by men—and even starker when race and ethnicity, and marital status, are factored in.

At the median, families headed by Black and Hispanic women owned just 5 and 10 cents, respectively, per every dollar of wealth held by families headed by non-Hispanic white men. When vehicles are excluded from the wealth calculation—because vehicles are a necessity and often cannot be sold in times of financial crisis—these figures were 1 and 4 cents per dollar, respectively.

Research from the Federal Reserve Bank of St. Louis reveals that the gender wealth gap remains after accounting for a variety of individual and family characteristics, including marital status, income, homeownership, race and ethnicity, education, minor children, job status and risk preference.

Given that two-thirds of female-headed households over the age of 64 are single women and nearly one in five families (and nearly half of Black families) with minor children are headed by single mothers, the gender wealth gap clearly has detrimental consequences for the economic security of children, families and future generations.

4 In this essay, the term "headed" indicates the survey respondent: the most financially knowledgeable adult in a couple or the primary adult individual in single families. We used the 2019 SCF in our calculations. Here, we use two definitions of family wealth: (1) all assets minus all liabilities captured in the SCF and (2) the first definition excluding the value of vehicles while keeping the value of the vehicle loan, if any.

Centering Women and the Gender Wealth Gap in Public Discourse

The current economic crisis highlights the role wealth plays in enabling families to weather financial hardship. While recent policymaker attention to the racial wealth gap is long overdue, the gender wealth gap is missing from the public discourse. Yet the gap is undermining the economic security of households, as women—key family breadwinners before the recession—have lost jobs and income at a disproportionately higher rate than men. A dearth of financial assets was most detrimental for women of color, who had the slimmest financial cushion to begin with and were hardest hit by job losses and ongoing unemployment.

Now more than ever, decision-makers must acknowledge the pivotal role of women in the economy and design policies to support them to thrive and prosper.

Now more than ever, decision-makers—policy and business leaders, philanthropy and others—must acknowledge the pivotal role of women in the economic security of families, communities and the national economy and design policies to support them to thrive and prosper. We need to start by asking a simple question: Do women benefit from stimulus and long-term recovery plans, from public and private sector workforce policies, from monetary, fiscal and tax policy? If any of the answers are "no," policymakers and others must respond.

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Ana Hernández Kent is a senior researcher at the Federal Reserve Bank of St. Louis.

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How Should We Finance Postsecondary Education: Debt, Private Wealth or Public Wealth?

BY FABIAN T. PFEFFER AND LOWELL R. RICKETTS[1]

[1] The views expressed in this essay are those of the authors and are not necessarily those of the Federal Reserve Bank of St. Louis and the Federal Reserve System.

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.

Higher education has been revered as an important pathway to upward mobility since the earliest days of the Republic. Many U.S. states founded their own public university systems early on, some before being granted official statehood. Initially, these public universities helped educate a relatively small share of Americans. They, of course, also entailed sharp inequalities in access by race, ethnicity and gender. But the typical price tag for those who could attend was affordable across a long swath of U.S. history. By the mid-20th century, continued public spending to expand access to affordable college made the U.S. the world's leading producer of college graduates. Families could pay for college through a mix of grant-based aid and income earned by students' families or through students' jobs.

Over the last half century, the U.S. has abandoned both its leadership role in educational expansion as well as its promise of affordable college education. College costs have more than doubled over the past three decades, and a student loan system was conceived to make up for the funding shortfall. For many students today, going to college siphons off their families' wealth—more than half of all college costs are paid directly by parents—and increasingly pushes them into debt. Total student debt today stands at $1.55 trillion, over four times what it was in 2003 after adjusting for inflation.

Debt-Financed College: An Engine of Inequality

Higher education has thus transformed from a largely public investment provided by well-funded public universities into a debt-financed proposition, reflecting a broader shift away from public infrastructures to the privatization of "services" and risks. Families are required to dedicate a greater share of their financial resources to higher education, and students are asked to carry the risks of these investments. The resulting student loan burden has put the economic prospects of today's students at risk, including the prospect of purchasing a home, marriage, childbirth, wealth accumulation and their own financial stability as well as that of their parents.

The impact of this public-private shift has not been borne equally by all students. In particular, for Black families, the rapid expansion of student debt has less effectively opened pathways for upward mobility than it has introduced new forms of predatory inclusion. For-profit colleges and underfunded institutions have more aggressively expanded access among disadvantaged students. As Black families often lack wealth to draw on due to a history of exclusion from broad-based government-subsidized wealth accumulation (e.g., slavery, redlining, inequities in the GI Bill and other continuing forms of institutional racism), they disproportionally rely on student loans to finance higher education. Black families are both more likely to borrow (among the class of 2016, 87% of Black students borrowed compared to 70% of white students), and when they do, they also borrow more (through 2017, the average student loan balance was $42,746 among Black students compared to $34,622 among white students). Even wealthier Black families rely more on student debt than their white counterparts, potentially because they own less fungible assets (e.g., stocks, home equity, 529 accounts). These elevated levels of indebtedness raise the risks for Black students and stand to sap the financial security of these borrowers for years to come.

Student loan burdens put students at risk—including the prospect of purchasing a home, marriage, childbirth, wealth accumulation, as well as their and their parents' financial stability.

Wealth-Financed College: The Private Solution

Of course, there is one easy solution for participating in higher education and avoiding the risks of high indebtedness: being raised in a wealthy family. Unsurprisingly, children from families with high net worth are substantially more likely to go to college and, even more importantly, to graduate compared to those from family backgrounds with lower wealth. This wealth gap in education has increased substantially within just a decade: While the college graduation rates of children from the bottom half of the wealth distribution has remained relatively stable, children who grew up in the top 20% of the wealth distribution have increased their graduation rates by 14 percentage points, quickly pulling away from the rest of the population.

These growing wealth gaps in education are likely to further calcify the wealth distribution. As parental wealth becomes more important for college graduation, it will also become a better predictor of whether children can maintain their family's wealth position: Education is one of the main channels through which wealth inequality is maintained across generations, as children from wealthier families are more likely to graduate from college and their college degree allows them to more easily accumulate wealth themselves. This process also suffers from deep racial inequality: The wealth-enhancing potential of a college degree is lower for Black college graduates as they enter housing markets and labor markets that continue to be marked by structural racism, putting them at an increased risk for downward wealth mobility.

Wealth-Financed College: The Public Solution

Before the onset of the COVID-19 crisis, median Black wealth was 12% of median white wealth. Overall wealth inequality has increased substantially over the last decades, especially during times of crisis, such as the Great Recession and—as early indicators of its disparate impacts suggest—the ongoing COVID-19 crisis. These powerful structural inequalities cannot be fully resolved via educational policy. But there is one way in which questions of educational opportunity and broad patterns of wealth inequality can be put into direct relationship. While ever larger amounts of student debt have accumulated, ever larger amounts of wealth have been accumulated at the very top of the distribution: The $1.55 trillion in total outstanding student debt is about as much money as the wealthiest 400 individuals have added to their total wealth since 2010.

Today's total outstanding student debt is the result of decades of public divestment from higher education. A return to a strong public education system that reduces the dependence of college success on parental wealth will therefore require a substantial increase in public investment—two years of free community college, as proposed in the American Families Plan, is one such step in this direction that merits consideration. The revenue required for such recommitment to higher education as a form of public wealth may come from a variety of sources, including the taxation of private wealth and its intergenerational transfer. Besides raising substantial revenue, new schemes of wealth and inheritance taxation also provide an opportunity to address the active role that today's existing tax structure plays in increasing wealth inequality, solidifying dynastic wealth and increasing racial wealth gaps.

A return to a strong public education system, one that reduces the dependence of college success on parental wealth, will require a substantial increase in public investment.

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SECTION II

Inclusion and Equity by Design

A central finding of the asset-building field, beginning with its experiments with Individual Development Accounts in the 1990s, was that institutions—governments, employers, nonprofits, financial institutions, etc.—matter significantly in determining who builds assets and who does not. In a word, institutional behavior, not just individual behavior, matters in fostering asset inclusion (such as automatic enrollment in 529s at birth or 401(k)s at the workplace). The essays in this section, then, aim to move us beyond personal attributes and constructs to some of the major institutional design factors that historically and currently drive widely disparate wealth outcomes along racial, generational, educational, gender and other lines.

Among other topics, the 11 essays in this section describe the ways in which non-white families have, especially, been deliberately or effectively excluded from building wealth or have had their wealth forcibly removed or destroyed (such as in the Tulsa, Rosewood and Wilmington race massacres, to mention a few). Less overt but equally pernicious are the ways in which asset limits in public assistance programs, as well as the tax code, effectively exclude or severely penalize lower-income families from building savings and wealth.

The net effect (whether fully anticipated or not) is that large swaths of the population, largely through no fault of their own, have had or continue to have diminished opportunities to build wealth. And if they have been excluded by factors beyond their control, or by purposeful or nondeliberate design, then they must be included in those policies by choice and by design. The authors in this section, then, make a compelling case for what could be called "centering on the margins" as a way to ensure that, going forward, we include all Americans in policies and programs aimed at promoting broader-based savings and asset ownership.

The authors here also a larger vision for inclusion and equity and explore several dimensions of inclusion—why it matters, why those most impacted must have a voice, how to promote financial and investor inclusion and specific efforts aimed at persistently excluded peoples and communities—immigrants, Native Americans, people with disabilities, Black people and other people of color, and those of all races and ethnicities living in persistently poor communities throughout the U.S.

Without Financial Inclusion, We'll Never Achieve Racial Equity

BY ANGELA GLOVER BLACKWELL

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.

Racial equity is the new mantra in corporate America. After the police killing of George Floyd unleashed historic protests, leading CEOs bent over backward to publicly condemn systemic racism and pledge to hire and promote more people of color. Companies of all sizes have appointed DEI—diversity, equity and inclusion—officers to address racial bias and barriers in the workplace, and corporate donations have poured into Black-led organizations.

It's a step forward but is far from the leap our nation needs. Addressing centuries of brutal, continuous racialized oppression, discrimination and marginalization requires radical imagination and transformative action in every sector. And nothing is more important than sweeping policies that repair the egregious harms of financial exclusion, center the economic liberation of people of color and create pathways to belonging and prosperity for all.

The history and realities of racism not only have erected and cemented multilayered barriers to opportunity for Black, Indigenous and Brown people but also created a toxic, polarized economy that pushes almost all wealth to the very top. More than 100 million people in the United States, a third of the population, are barely hanging on, with incomes below 200% of the poverty level, or $53,000 a year for a family of four. While they're disproportionately people of color, they include nearly 50 million white people. Since 2000, this population has grown nearly twice as fast as the nation's population overall. The massive loss of jobs and small businesses during the COVID-19 pandemic is accelerating these trends and intensifying suffering.

Financial exclusion by business and government, often in concert, is the underpinning of structural racism. Its weight falls heaviest on the inability of Black, Indigenous and Latinx people to obtain resources for climbing out of poverty, building wealth and passing it on to the next generation.

The history of redlining and racial discrimination in home and business lending created concentrated and generational poverty in the Black community. Federal laws finally banned overt discrimination in lending decades ago, and yet inequitable access to loans and credit endures, with devastating consequences. We saw it during the subprime mortgage fiasco of 2008, which wiped out half of Black wealth—in no small part because so many families were shut out of the conventional home loan market and accepted risky home loans.

Financial exclusion by business and government, often in concert, is the underpinning of structural racism.

We saw the consequences of financial exclusion again early in the COVID-19 pandemic, when only a small portion of Black and Latinx business owners received the loans they requested through the federal Paycheck Protection Program, even though Black-owned businesses were shutting down at 2.5 times the rate of white-owned ones, and Latinx-owned businesses were closing at nearly double the rate.

The nation is long overdue for a reset. The racial economic divide not only hurts those on the losing side but also suppresses growth. Closing Black-white gaps in wages, education, housing and investment can add $5 trillion to GDP over the next five years.

As business and government leaders chart the course toward economic recovery from the pandemic, many understand that this cannot be a return to skyrocketing inequality and racial injustice. Bold policy change is urgently needed. It's also more feasible than ever.

Ideas that seemed impossible before the pandemic—direct government payments to low- and moderate-income Americans, foreclosure prevention and debt relief for Black farmers, to name a few—are part of American Rescue Plan enacted in March 2021. This is the moment to think big, reject misguided notions of austerity and commit to transformative policies and investments that ensure all people can participate fully in the economy, share in prosperity and thrive.

Fortunately, there is no shortage of ideas and proven strategies to achieve racial equity and increase economic security while tapping the skills and talents of the millions of people our economy has left behind. A powerful solution gaining ground is a Federal Job Guarantee—a public option for a job with living wages and full benefits on projects that meet neglected local needs. It would address racialized unemployment, not to mention the Depression-scale job losses of the pandemic. The initiative also would deliver broad economic gains by raising standards for wages, hours and benefits and by hiring a workforce for infrastructure improvements, disaster preparedness, child and elder care and other projects that support family and community resilience and economic growth.

This is the moment to think big, reject misguided notions of austerity and commit to transformative policies and investments that ensure all people can participate fully in the economy, share in prosperity and thrive.

The majority of the nation's rising generation is youth of color. The government must take the lead in preparing them to step into the roles of innovators, owners, workers and leaders of the economy of tomorrow with major, forward-looking investments in postsecondary education, on the order of the GI Bill. Most Black and Brown students do not have family wealth to pay for college; the heavy burden of student debt is crushing the aspirations of too many young people. Three critical steps could mark the starting point for action: cancel college debt for low- and middle-income students, make community college education free and generously subsidize four-year college and university education and skills training programs.

Another way to help young people enter adulthood in a stronger financial position than their parents is with so-called baby bonds—an endowment in the U.S. Treasury for babies born in the U.S., targeted to lower-wealth households—to be used after they turn 18 to go to college, build skills, buy a home or start a business.

The financial services sector also must lead in advancing financial inclusion and economic opportunity. No other industry has done more to oppress and exploit Black people from the beginning of the nation's history. Banks financed the purchase of slave ships, people and the expansion of Southern plantations. Insurance companies reduced the financial risks by covering the losses when enslaved people were injured or killed. Discrimination in lending not only denied Black people and other consumers of color the best mechanisms for building wealth but also stripped wealth from communities that could least afford to lose it, through excessive fees, fines and other means.

Banks should cancel Black consumer debt and eliminate fees for low-wage consumers of color. Black consumers, for example, owe more than their possessions are worth and are hit with stiffer penalties, including wage garnishment, for late payments and defaults. Lifting the burdens of consumer debt would help families save for college, buy a home, achieve financial security and build wealth.

Banks should also offer interest-free loans to home buyers of color. At 43%, the rate of Black homeownership is barely higher now than it was a half-century ago, when the Fair Housing Act was supposed to end mortgage discrimination, and far lower than the white homeownership rate of over 70%. The Latinx rate is 47.5%. Interest-free loans, capped at the regional median loan value, should be available until Black and Brown homeownership is on par with white homeownership.

Fortunately, there is no shortage of ideas and proven strategies to achieve racial equity and increase economic security while tapping the skills and talents of the millions of people our economy has left behind.

Big ideas like this are not new. Toward the end of his life, Martin Luther King Jr. advocated for guaranteed jobs and a comprehensive agenda for economic justice. He recognized that financial inclusion remained the great unfinished business of America.

The racial equity mantra now echoing through corporate and government offices will do little to lift people out of poverty or increase the wealth families of color need to securely enter the middle class—unless corporate and government leaders use their considerable power to end systemic racism, drive major policy change that centers the needs of people of color and lead the nation in building an economy that works for all.

Angela Glover Blackwell is founder in residence at PolicyLink and the host of the Radical Imagination podcast.

SECTION II

INCLUSION AND EQUITY BY DESIGN

Why Stakeholder and Community Voice Matter

BY AISHA NYANDORO, PH.D.

People often ask me about the "radically resident-driven" tagline for the nonprofit Springboard To Opportunities, which I helped to start and have led since 2013. I think what is often behind that question is another one—why put so much energy behind engaging community members? In fact, when we were starting the organization, I remember a well-intentioned colleague informing me that "residents do not know what they need, and in fact, it was our responsibility to give them what was best for them."

Being a granddaughter and student of the civil rights movement, I found this idea of design without inclusion wrong and insulting. In contrast, being grounded in community has allowed me to operate from a perspective of possibility. It is possible to take care of our community. It is possible to eliminate poverty. It is possible to listen to the community for the solutions needed to effect change.

Springboard To Opportunities was intentionally formed by resident input. I sat on couches and porches; I asked residents about their dreams and the things that would help them come true. During this journey, I learned that something as simple as listening is not afforded to families in poverty. I realized it was imperative for Springboard to provide what was lacking, ensuring that the voice of the community is at the heart of everything we do, from our programs to our motto: radically resident-driven.

Several years and hundreds of hours of conversations later, I am still listening. This is why I was surprised one day during a parking lot exchange. "I don't even have $5 to buy Little Caesars pizza," was the response from Valeria, a quick-witted mother with an easy smile who I had worked with for years, when I inquired about her weekend plans. Our exchange took less than five minutes, but it sent me reeling. I thought I knew her well and that I had been listening. With all the wraparound programs and services that Springboard was offering, how could this reality be possible? How could I have missed that she could not afford something as small and inconsequential as a pizza?

After this exchange, I started asking more pointed questions of those we served and quickly realized that Valeria's situation was the rule, not the exception. The problems were all different—a few dollars for a pizza, the price of school supplies, an unexpected car repair—but the solution was the same: cash. I began researching programs to distribute cash to those living in poverty and met a lot of skepticism and raised eyebrows. I persisted, eventually finding terminology and partners for guaranteed income implementation. A year later, in a room filled with Springboard moms, I handed out the first of a year's worth of $1,000 monthly checks.

We called the program the Magnolia Mother's Trust, a nod to the state flower of Mississippi (and my grandmother's favorite) and the movement we were building—one based on dignity and trust. We started in 2018 with a group of 20 women, and the results were nothing short of life-changing. Paying off debt, feeding kids healthier food, going back to school to get a better job, visiting a beach for the first time—these are just some of the highlights. Magnolia Mother's Trust is the only guaranteed income demonstration in the nation that takes a specific gender and racial equity lens by targeting Black women.

We're now (in mid-2020) closing out our second year in which we expanded to 110 mothers, and the money couldn't have come at a more crucial time. The first payments went out just as the country was entering lockdown.The Magnolia Mother's Trust, now the largest guaranteed income demonstration in the nation, was not my idea or grand solution. It was the solution that came from the community. These women told me they needed cash. And we chose to listen.

Centering the voices of those marginalized by our current systems is integral to any conversation about equity. But first we need to understand why the system is inequitable. While many people like to say the system is broken, the truth is the system was never meant to work well for anyone other than wealthy white men. The system is working exactly as it was designed to work, and it's up to us to design a new one.

But if we are designing a new system that works for all people, then all people, especially those whose voices and stories have been historically ignored, need to be a part of building that system. This listening that is so essential to building new systems cannot be accomplished without compassion and trust. Compassion in vulnerable communities is a rarity. Most individuals who live in poverty have limited access to individuals "in power" and most revolve around rules and regulations. This plays out in demeaning ways, like waiting in a government office for hours to prove, again, that you're poor enough to deserve a housing subsidy or being asked invasive questions about your personal life by a stranger just to get help to feed your kids. Exhibiting compassion begins to build trust, and when trust is earned, relationships are formed. When relationships are formed, people become willing to share their stories with you and not just the ones they think you want to hear but the real stories of not being able to afford pizza on Friday night. Only when relationships are established can honest conversation happen and community change can take place.

Centering the voices of those marginalized by our current systems is integral to any conversation about equity. But first we need to understand why the system is inequitable.

This feedback loop is only possible because we have invested in the relationships on the front end. This model shifts the design of policies to those who actually have lived experience with the policies, and it gives a voice to those who have been ignored by our society and policies for too long, empowering a new narrator. It is simpler to believe that poverty is a personal, moral failing instead of a stubborn, problematic system, suggesting an individual's poverty could be solved if they worked harder or were more frugal. The problem with that story is that it simply is not true. As Tressie McMillan Cottom says, "Indeed, any system of oppression must allow exceptions to validate itself as meritorious. How else will those who are oppressed by the system internalize their own oppression?"

Poverty is a symptom of a bigger system that many of us participate in and benefit from each day, which is an uncomfortable reality we must all start to recognize. It is a system built on racist actions and policies that have prevented families of color from building wealth in the same fashion as white families, a system that requires millions of people to work for less than a living wage. It is a system willing to uphold myths about poverty to push forward harmful political agendas and to help ourselves feel better about our privilege because "those people" deserve to be poor anyway. When we do tell these stories, they are glossy portrayals of poverty where the heroes and heroines transcend their dire circumstances through grit and luck. But these fantastical tales are not the real stories we hear in communities each day, and if we continue to base policies and practices on fantasies, we will never create real or lasting change. If we want to change these narratives, we must wrestle with our complacency and failure to challenge them.

This model shifts the design of policies to those who actually have lived experience with the policies, and it gives a voice to those who have been ignored by our society and policies for too long, empowering a new narrator.

We must work to change the narrator, giving a voice to those whose voice matters most; any effort to alleviate poverty and build wealth cannot succeed without it.

Aisha Nyandoro is the chief executive officer of Springboard To Opportunities. Springboard provides strategic, direct support to residents of affordable housing. The organization's service delivery model uses a "radically resident-driven" approach designed to improve quality of life and end the generational poverty trajectory.

We Have Clean Water and Clean Air: Why Not Clean Finance, Too? A Vision for Inclusion and Equity

BY JIN HUANG, MICHAEL SHERRADEN
AND MARGARET S. SHERRADEN

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Finance in daily life did not change very much for centuries. Then it changed in a trickle across the 20th century. Today, the rate of change is a flood, and this presents both challenges and opportunities.

Families can no longer conduct most financial affairs with cash. Increasingly, they must use noncash methods to make payments, borrow, pay rent or a mortgage, fund education, pay taxes, buy insurance, purchase tickets to anything and even buy socks. Cash is often not an option. This newly financialized world requires a fundamental reconceptualization of financial inclusion and equity.

This newly financialized world requires a fundamental reconceptualization of financial inclusion and equity.

Effective finance means that individuals and families have access to beneficial financial services and social policies, and have knowledge and skills to manage these services and policies to promote their overall financial well-being. Effective finance is fundamental for financial stability, security and development. It enables people to complete routine financial transactions, consume efficiently, smooth consumption, manage risks, accumulate assets, take advantage of opportunities and achieve financial well-being.[1]

[1] See also Collins and colleagues (2009) and the Global Partnership for Financial Inclusion (2020).

But many Americans lack access to mainstream financial instruments. The Federal Deposit Insurance Corporation counts seven million households as "unbanked" because they lack a bank or credit union account, the most basic financial service. This includes nearly one-quarter of all low-income families. Many more are "underbanked": They have an account but also rely on alternative financial providers, such as check cashers and auto title lenders, to perform basic financial tasks. Although more accessible, these alternatives are expensive and pose significant risks.

Moreover, families who lack access to mainstream financial services miss out on efficiencies, such as shopping via the internet.[2] They may also miss out on promised benefits. For instance, the federal response to the COVID-19 pandemic relied on financial institutions to deliver relief. As many as 12 million Americans waited several months for the emergency payments authorized under the CARES Act.[3] Most of these were unbanked or underbanked, including Black and Hispanic families with low incomes and other minoritized groups. In addition, overloaded filing systems for unemployment insurance crashed in multiple states, delaying payments to laid-off workers. In short, without appropriate information systems for transferring resources, social policies can fail to achieve their goals.[4]

A related massive shift over the past 40 years has added to these challenges. Social policies have come to rely on financial services to deliver public benefits. For example, benefits from Social Security, Temporary Assistance for Needy Families, and the Supplemental Nutrition Assistance Program go directly to millions through Electronic Benefits Transfer cards and Direct Express cards. Many incur ATM and other fees to access their income support benefits. The Direct Express card allows beneficiaries of federal programs only one free withdrawal from a network ATM per month. For families with low incomes, these are costly financial services.

At the same time, families with larger income and wealth are showered with public support. Social policies use financial services to deliver benefits and tax subsidies associated with retirement savings, life insurance, higher

2 Before the information age arrived, Caplovitz wrote the now-classic book *The Poor Pay More* (1967), and this is even more true today.

3 See Cheung (2020) and the Federal Deposit Insurance Corporation (2018).

4 On health insurance, see Pollitz and Claxton (2020); on unemployment, see Solon and Glaser (2020).

education, homeownership and health care. These supports are more accessible and more beneficial for wealthier families. For example, tax benefits for homeowning depend on owning a home, the mortgage size and the marginal tax rate. Regarding public social support, the wealthy too are "on welfare."[5]

Low-income families receive only a small portion of annual tax benefits: little of the $76 billion in direct tax benefits for homeowning, the $125 billion exclusion of imputed home rental income, the $215 billion exclusion of employer contributions to medical insurance premiums, the $166 billion exclusion of employer contributions to defined benefit and defined contribution plans, and so on.[6] As a result, high-income households get big benefits, and low-income households, disproportionately families of color and those headed by women, get little or none at all.

Like clean water and clean air, "clean finance" can become more like a public good that assures basic finance for everyone, does not charge exorbitant fees, distributes public resources fairly, reduces wealth gaps and in all this reduces inequality.

In all of these ways, this "financialization" of social policy has reduced access to effective finance for inclusion and equity. These social policies poorly distribute public resources that should be fairly available to all. Current policies exacerbate inequality and make it harder for lower income families to secure housing, cover health care expenses, invest in higher education, achieve stability and enjoy some ease of mind in old age.

What should we do about these problems? Like clean water and clean air,[7] "clean finance" can become more like a public good that assures basic finance for everyone, does not charge exorbitant fees, distributes public resources fairly, reduces wealth gaps and in all this reduces inequality. A key is recognizing that social policy and financial services are not two separate spheres but instead are highly interrelated systems.

5 See Sherraden (1991) and Abramovitz (1983).

6 A full account of more than $1.3 trillion in annual tax expenditures, mostly at the individual level, is in the "Tax Expenditures" report by the U.S. Department of the Treasury (2020).

7 Of course, even clean water is not universal; we note the dreadful, ongoing case of Flint, Michigan. Even when something is considered available to all, structural racism can affect outcomes. Nonetheless, we should aim to make sure that these are exceptions rather than the rule, and something similar can occur with finance.

Potential for innovation is great. For example, universal and automatic Child Development Accounts have been tested and implemented in multiple states and have been proposed at the federal level. The Biden administration has proposed an "automatic" unemployment benefit adjustment to avoid the delay in transferring money to recipients. And lawmakers proposed a digital currency in the COVID-19 stimulus bill, envisioning a FedAccount system for all, free consumer bank accounts for digital dollar balances at the Federal Reserve. Social workers have also proposed universal, automatic and streamlined policy approaches to achieve effective finance. These are all important ideas and efforts, and others are emerging. Such policies must be universal and progressive, with a keen eye toward racial and gender equity.

Such policies must be universal and progressive, with a keen eye toward racial and gender equity.

Financial technology, or "fintech," offers a path to inclusion and equity. It can facilitate delivery of efficient, effective finance to every household, in much the same way that pipelines deliver clean water. It has the potential to lower costs and broaden access. But there is a risk that it will instead augment existing racial, gender and economic inequalities. Ten percent of adults in America lack reliable and secure access to the internet,[8] and digital finance for low-income households depends on such access. In a modern information society, access to financial services and access to digital technologies must work together.

The United States can achieve effective finance for inclusion and equity. Just as we decided in the industrial age to deliver clean water to every house, we can decide in the information age to deliver clean finance to every individual and family.

Indeed, this seems likely. In the future, we may take effective finance completely for granted.

Why not start now?

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[8] See Perrin and Atske (2021), Silver et al. (2019) and the United Nations Conference on Trade and Development (2019).

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Toward a More Inclusive and Equitable Financial System

BY SALAH GOSS AND JENNIFER TESCHER

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Financial systems are the glue that keep global, national and household economies functioning and connected. One of the critical lessons of the COVID-19 pandemic is that when people are excluded from those systems, their lives are more likely to come apart at the seams.

Case in point: Those who didn't own a bank account—disproportionately lower-income, less-educated Black and Latinx people—had to wait longer to receive their first stimulus payment from the federal government and incurred higher costs to access the funds. Over three million paper checks from the CARES Act were cashed through check cashers, and recipients paid as much as $66 million in check cashing fees.[1]

As society begins to contemplate how to "build back better" in the wake of the pandemic, designing a more inclusive financial system should be prioritized on the list of critical national infrastructure.

While U.S. financial systems are more accessible today, they remain inefficient and inequitable. For instance, in 2020 low- and moderate-income (LMI) households in the U.S. spent $127 billion in fees and interest on everyday financial products, representing 7% of LMI household annual income versus 3% of income spent by non-LMI households. Black and Latinx households spent $101 billion, representing 6% and 5% of their annual incomes, respectively, versus 3% of income spent by white households.[2]

As society begins to contemplate how to "build back better" in the wake of the pandemic, designing a more inclusive financial system should be prioritized on the list of critical national infrastructure.

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[1] https://www.brookings.edu/research/economic-impact-payments-uses-payment-methods-and-costs-to-recipients

[2] https://finhealthnetwork.org/research/finhealth-spend-report-2021/

Principles of Inclusive Financial Systems

Inclusive financial systems enable all individuals, households and small businesses to be resilient and thrive, and they provide universal access to beneficial financial services and products that are safe, reasonably priced and efficient.

We believe they adhere to four key design principles.

Design for financial health outcomes. Historically, financial inclusion efforts have focused on ensuring that marginalized individuals, households and small businesses have access to basic financial products and services. In the United States, according to the FDIC, the percentage of unbanked individuals has fallen from a high of 8.2% in 2011 to 5.4% in 2019.[3] Yet it is clear that access to financial products does not automatically produce positive outcomes if the financial system is not designed for inclusion. Consider the traditional checking account: Without a real-time payments system, it is challenging for customers to track their balance with certainty, which all too often leads to expensive overdraft charges. The design of inclusive financial systems starts from the outcome—financial health and well-being—and works backwards.

Yet it is clear that access to financial products does not automatically produce positive outcomes if the financial system is not designed for inclusion.

Design for digital-first, integrated systems. COVID-19 has demonstrated the costs of digital exclusion and a benefits system that relies on outdated technology, particularly for the most vulnerable communities. As already noted, Black and Hispanic households took longer to receive Economic Impact Payment disbursements and paid higher fees to access their benefits. As Aaron Klein of Brookings recently highlighted, responsible digital solutions offer the opportunity to lower the cost of account access and use, increase the speed of payments and allow the government to work with financial services providers (FSPs) to link accounts (respecting individuals' privacy and ability to opt out). Technology can also improve Americans' access to critical benefits, which currently exist in siloed, closed loop systems that require huge amounts of time and knowledge to navigate. Aspen Institute's Benefits21 project has drafted a set of principles that articulates

3 https://www.fdic.gov/analysis/household-survey/2019report.pdf

how a digital-first, portable, interoperable benefits system would radically improve Americans' ability to access the resources they need to weather financial shocks and invest in their families.

Design to uproot bias. Past efforts to bring historically underrepresented people into the financial system have assumed that the existing system can work for everyone as long as people are financially literate and demonstrate the "right" behaviors. Without an explicit focus on historically excluded groups, financial systems are at risk of reinforcing and scaling existing biases and power structures. Mission Asset Fund, with the leadership of CEO Jose Quiñonez, has built a digital lending circle platform that offers credit to Hispanic borrowers, broadening participation in the financial system as these loans are reported to the traditional credit bureaus. Esusu Financial, led by Abbey Wemimo and Samir Goel, uses rental data and engagement with housing authorities to improve credit scores. These solutions and the leaders who bring them forward reflect a rich and nuanced understanding of the lives of Black and Latinx consumers. By seeing beyond the bias, these leaders bridge the gap to a more inclusive future in a system that works for all.

> ***Without an explicit focus on historically excluded groups, financial systems are at risk of reinforcing and scaling existing biases and power structures.***

Design aligned incentives. The financial ecosystem is a complex web of private and public sector actors, all with different goals, motivations and incentives. Successful navigation is a demanding task given the information asymmetry in financial markets. Left unaddressed, this asymmetry creates a trust deficit, especially for those who have had negative financial services experiences in the past or lack financial experience altogether. This dynamic is one of the reasons why policymakers and regulators play a critical role in creating rules and incentive structures that ensure the interests of financial providers and the people they serve are aligned. Beyond regulation, the shift to stakeholder capitalism can reorient FSPs in ways that prioritize consumers' long-term financial health.

> ***Policymakers and regulators play a critical role in creating rules and incentive structures that ensure the interests of financial providers and the people they serve are aligned.***

Call to Action

Informed by these design principles, we see two opportunities for near-term action.

First, the federal government should establish an interagency commission to develop a national inclusion strategy designed to improve financial health and well-being for all, as has been proposed by the Aspen Institute's Financial Security Program. In addition to building a more inclusive and equitable system in the United States, such an approach would put us on equal footing with global trends, as more than 35 countries have implemented national financial inclusion strategies to date. The commission would bring together stakeholders from across the private sector, federal and state agencies and regulators, and the social sector to define the strategy's goals and develop success metrics. The work of developing the strategy would center the needs of the underserved and bring their voices, experiences and input to the process.

Second, financial regulators should ensure that the products and practices of market actors have a positive impact on their customers' financial health. To start, they should gather data from the firms they supervise and conduct research to understand how different product features and practices affect financial outcomes over time. One recent proposal suggests expanding regulatory mandates to make improving consumer financial health a statutory goal and creating a rating system akin to the Community Reinvestment Act to create incentives for providers to ensure they do well only when their customers do. In addition, regulators should consider ways to make it easier for financial providers to understand existing financial health inequities through data without the collection of such data in and of itself triggering fair lending laws and while maintaining consumers' protections and privacy.

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Including Black Investors: Let's Start with Youth

BY STEPHANIE J. CREARY AND JOHN W. ROGERS, JR.

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 sizable wealth gap between Black and white families in the United States continues to grow. To date, policymakers have proposed a number of interventions intended to reduce this gap, including promoting greater educational attainment and increasing rates of homeownership among Black families. Yet at every level of educational attainment, the median wealth among Black families is lower than white families, and uneven home appreciation has limited the degree to which Black families can build wealth via homeownership. Further, the stock market, also known as the equity market, historically performs much better than real estate. For instance, while the median percentage change in the home price index from 2013 to 2017 was 6% and 3% for Black and white home mortgage borrowers, respectively, the median percentage change in the stock market was 13.42% during this same period. Yet Black families are much less likely than white families to invest in equities. As evidence, results from the 2020 Ariel-Schwab Black Investor Survey revealed that 55% of Black Americans and 71% of white Americans reported stock market investments.

To include more Black families as investors in equities, financial literacy in the Black community must be prioritized.

To include more Black families as investors in equities, financial literacy in the Black community must be prioritized. One approach for doing so is to teach Black youth the importance of investing and financial independence from an early age. Since 1998, the Ariel Education Initiative has focused on this goal through the Ariel Community Academy (ACA), a public school located on the south side of Chicago. Central to ACA is the idea that financially literate students can help motivate their families to save and invest in equities. ACA was founded by John W. Rogers Jr. and former U.S. Secretary of Education Arne Duncan, who previously ran the Ariel Education Initiative from 1992 to 1998. Ninety-eight percent of the student body at ACA is African American, and over 85% of the students receive subsidized lunches. At ACA, financial education is emphasized as a fifth core subject area. As students progress through the school, they receive instruction on personal finance, economics, entrepreneurship and investing at least three to four times per week.

A second approach to encouraging Black families to invest in the stock market entails promoting participation in college savings programs.

Another feature of ACA is the Ariel Investment Program (AIP), which grants each first grade class a $20,000 investment portfolio that follows them until graduation in the eighth grade. Over the first six years, students watch their class portfolio grow and meet with industry professionals to discuss the portfolio and their careers. Between the sixth and eighth grade, students use portions of the portfolio to buy stocks. Upon graduation, profits are divided in half, with one-half given to the school as a class gift and the other half distributed among the graduates as cash or matched contributions toward a 529 college savings plan based on individual student preference. The original $20,000 is returned to the incoming first grade class to sustain AIP in perpetuity.

To date, several ACA alumni have started careers in financial services and other high-paying industries. Several have interned and worked at Ariel Investments, while others have graduated from medical school or law school or have become entrepreneurs. ACA alumni have also given back to their communities through wealth-building initiatives. As an example, Myles Gage co-founded Rapunzl Investments, a mobile application that allows individuals to simulate stock portfolios using real time market data. In partnership with Nasdaq, Rapunzl hosts free high school and college investment competitions where students compete for scholarships and cash prizes. Myles not only develops Rapunzl's long-term growth strategies but also manages nonprofit partnerships, education development and school outreach.

A second approach to encouraging Black families to invest in the stock market entails promoting participation in college savings programs. Currently, seven states have mechanisms in place for automatically creating 529 accounts as early as birth with opening deposits. One exemplar solution for families in New York City is offered through NYC Kids RISE. Launched in 2017 with a $10 million donation from the Gray Foundation and in collaboration with the city of New York and the NYC Department of Education, the NYC Kids RISE's Save for College Program is a public-private-community partnership that provides families, schools and communities access to a universal scholarship and savings platform, regardless of a family's income or immigration status. The program is currently helping more than 13,000 students across 39 public schools in School District No. 30 in western Queens build assets for their educational futures. The majority of students in the school are students of color: 53.7% are Latinx, 21.9% are Asian and 6.8% are Black. Eighty-two percent of the students qualify for free or reduced-price lunch or for receiving cash assistance, Medicaid and Supplemental Nutrition Assistance Program benefits (SNAP) through the NYC Human Resources Administration.

By combining seed scholarships, family savings, community investments and funding streams from every level, NYC's Save for College Program has the potential to build significant assets for public school students, especially low-income students and students of color.

Through the Save for College Program, every student enrolled in a participating NYC public (district or charter) elementary school, starting in kindergarten, automatically receives an NYC Scholarship Account invested in the NY 529 Direct Plan with a $100 seed deposit and up to $200 in early rewards. Their families can open and connect their own college savings account (separate from the scholarship account) to help build financial capability and stability. At the same time, communities can contribute to a NYC

Scholarship Account as part of community-driven asset-building initiatives in their neighborhoods.

For instance, the Astoria Houses Resident Association—the elected leadership body of the NYC Housing Authority Astoria Houses public housing development—successfully spearheaded a campaign to raise an additional $1,000 for every student in Astoria Houses with an NYC Scholarship Account, which amounted to $184,000 in total. Families who live in Astoria Houses are predominantly Black, and the average income is around $21,000 per year. Children in Astoria Houses are receiving financial education and college and career readiness lessons at their schools, and parents/guardians have participated in financial empowerment workshops. The on-site workforce development center is connecting parents/guardians with information about their NYC Scholarship Account and supporting them to open their own college savings account.

Therefore, by combining seed scholarships, family savings, community investments and funding streams from every level, the Save for College Program has the potential to build significant assets for public school students, especially low-income students and students of color. Preliminary internal projections, which are based on early outcomes, suggest that the average student enrolled in the Save for College Program could have approximately $3,000 in total assets in their accounts by the time they graduate high school, mostly invested in capital markets.

To build greater wealth for their families and communities, Black youth need to have the knowledge, skills, confidence and role models to not only make smart decisions about their personal finances but also pursue financial opportunities in the form of equity investment.

To build greater wealth for their families and communities, Black youth need to have the knowledge, skills, confidence and role models to not only make smart decisions about their personal finances but also pursue financial opportunities in the form of equity investment. These opportunities will remain elusive to Black families unless key decision-makers—policymakers, foundations and nonprofit organizations, corporate leaders, financial institutions, journalists and communities—become more invested in youth-focused wealth-building initiatives for Black families. Financially supporting school-based financial education like ACA and college savings programs like the

NYC Kids RISE initiative is just one step in that direction to achieve greater inclusion of Black investors.

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John W. Rogers, Jr. is chairman, co-CEO and chief investment officer at Ariel Investments. In 1983, he founded Ariel to focus on patient, value investing. Following the election of Barack Obama, he served as co-chair for the Presidential Inaugural Committee 2009 and, more recently, joined the Barack Obama Foundation's Board of Directors.

Overcoming Systemic Financial Exclusion of People with Disabilities in CRA and CRA Modernization

BY MICHAEL MORRIS AND NANETTE GOODMAN

Over 40 years ago, Congress enacted the Community Reinvestment Act (CRA) to reverse a long history of discriminatory credit practices by banks that adversely impacted low- and moderate-income (LMI) communities. Since then, the CRA has defined the responsibilities for regulated banks to invest, lend and provide services to support the recovery of LMI neighborhoods and populations, infusing over $2 trillion toward this goal.

Regulators, bankers and LMI populations uniformly agree that CRA modernization is overdue. The banking system has changed dramatically, rendering the concept of a "physical footprint" around a traditional neighborhood-specific retail operation outdated as banks provide services to customers across the country through online and mobile services.

Missing from the conversation is consideration of how the CRA could remedy barriers to participation in the financial mainstream and access to affordable financial services for adults with disabilities who have been systematically excluded. For this to occur, banks need to invest in inclusive community development activities.

The term "disability," often widely misunderstood, describes a diverse group of individuals. A person's disability may be related to vision, hearing, movement, communication, cognition or psychosocial issues; range from mild to severe; or be constant or episodic. A disability may occur at birth, old age or anytime in between. Despite their diversity, people with disabilities are frequently excluded from fully participating in society because of physical, programmatic, informational, economic or attitudinal barriers. Disability impacts between 12% and 20% of the U.S. population (i.e., 40-57 million people), and one in four U.S. families has a member with a disability.

Many people with disabilities face significant barriers to financial stability. Compared to those without disabilities, working-age people with disabilities tend to have lower levels of educational attainment, are less likely to be employed and are more likely to live in poverty.

Employment to Population Ratio	Percentage with College Degree or Higher	Poverty Rate	Percent Unbanked
Disability 38.8%	**7.0%**	**25.9%**	**16.1%**
No Disability 78.6%	14.1%	11.4%	4.5%

Sources: American Community Survey, 2019 as reported in the "Annual Disability Statistics Compendium" and "How America Banks: Household Use of Banking and Financial Services, 2019 FDIC Survey."

Data from the FDIC survey of unbanked and underbanked households found that 16% of households with a disability were unbanked compared with 4.5% of those without a disability. They were less likely to apply for bank credit, more likely to get turned down and, consequently, twice as likely to use nonbank credit.

The nexus of race, poverty and disability adds barriers to financial stability for large segments of the disability community. Economic and social marginalization create challenges to financial capability and stability. The poverty rate among adults with disabilities is more than twice that of adults with no disabilities (26% compared to 11%), and nearly 40% of African Americans and 29% of Latinos with disabilities live in poverty. Across all racial and ethnic groups, households with a working-age adult with a disability have an average net worth of $14,180 compared to $83,985 for households without a disability. Black households with a working-age adult with disability have a net worth of only $1,282.

Data from the FDIC found 16% of households with a disability were unbanked compared with 4.5% of those without a disability.

LMI populations face significant economic challenges. For people with disabilities, these challenges are magnified by the extra costs associated with disability, such as unreimbursed health care expenditures, extra costs of housing, transportation, technology and limited access to the labor market.

The COVID-19 pandemic highlights these disparities. People with disabilities have been marginalized in health care, are more likely to report unmet health care needs and have worse health outcomes. Despite federal law and Supreme Court rulings, many people with disabilities are denied the right

The nexus of race, poverty and disability adds barriers to financial stability for large segments of the disability community—poverty rates are more than twice that of adults with no disabilities, and even higher for people of color with disabilities.

to live independently and are compelled to live in congregate settings. COVID-19 has been deadly in these settings, and outside congregate settings, many have lost access to services. At the same time, they do not have the financial cushion to weather the economic impact.

Disability is both a cause and consequence of poverty. Most troubling is that while people without disabilities tend to move in and out of poverty, people with disabilities are more likely to get stuck in poverty. Because they make up over 20% of the poverty population, we can't move the needle on poverty unless we address disability. If used effectively along with policy changes recommended in our other essay in this volume, the CRA can and should be an essential vehicle to break this link between poverty and disability.

To understand the lack of CRA attention to individuals with disabilities, it is important to understand the context at the time CRA was signed into law:

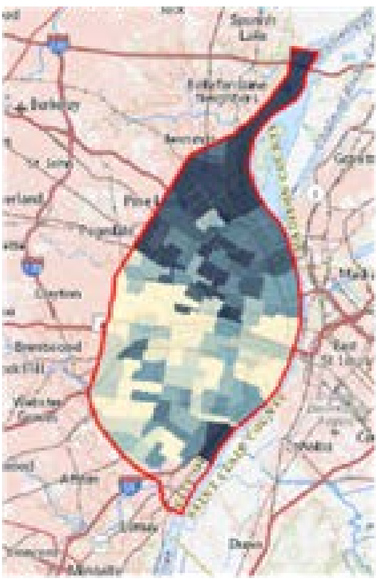
- In the early 1970s, children with disabilities were denied access to neighborhood schools.
- Individuals with disabilities who had committed no crime were incarcerated in state and regional institutions (totaling more than 400,000 individuals nationwide).
- Adults with disabilities were neither expected nor encouraged to participate in the labor force.

However, 30 years ago (July 26, 1990), Congress passed the Americans with Disabilities Act (ADA) to ensure equal opportunity and eliminate barriers to full community participation. On signing the ADA, President George H.W. Bush stated that "Together we must remove the physical barriers we have created and the barriers we have accepted. For ours will never truly be a prosperous nation until all within it prosper."

Surprisingly, despite the vision and imperative established by the ADA and the documented long-term, systematic exclusion of people with disabilities from the financial mainstream, federal bank examiners have made no effort to align the CRA regulations with the ADA mandate. They have provided no encouragement for financial institutions to focus community development activities on this population.

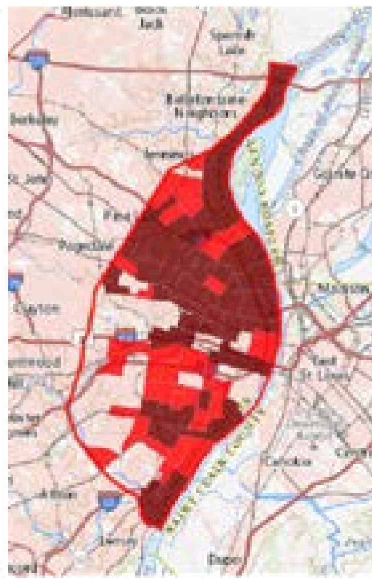
As the maps below illustrate, people with disabilities disproportionately live in LMI neighborhoods. It may seem reasonable to argue that because they live in LMI neighborhoods, they are already the beneficiaries of CRA activity.

Disability Prevalence



The shading in this map indicates the percentage of people in each census tract code who have a disability. In the darkest shaded areas, over 18 percent of the population has a disability. In the lightest shaded areas, fewer than 4 percent of the population has a disability.

LMI Neighborhoods



The dark red shading indicates low income neighborhoods. The light red shading represents moderate income neighborhoods.

Sources: Maps developed by authors using ArcGIS. Disability prevalence from 2018 American Community Survey as reported in by the US Census; see data.census.gov, Table S1810. LMI designations from Federal Financial Institutions Examination Council (FFIEC) Online Census Data System 2018.

However, true equity for this population is not just providing them with what you are providing everyone else but rather purposefully working to develop the services and supports they need.

> ***People with disabilities disproportionately live in LMI neighborhoods. However, true equity is not just what you are providing everyone else in those neighborhoods but purposefully working to develop the services and supports they need.***

Banks could invest and provide service to the disability community under the current CRA, but they have neither an incentive nor penalties for ignoring this underserved community. CRA modernization should improve performance measurement. Retail banking products and community development investment should be measured for response to the economic needs of LMI people with disabilities. Modernization should require bank regulators to judge a bank's CRA performance regarding these disability-related measures or else the economic disparities will continue.

Bank investment in LMI neighborhoods could focus on LMI individuals with disabilities by doing the following:

- **Expanding workforce development.** Banks could provide the dollars to meet federal match requirements to draw down a state's full share of federal appropriated funds for vocational rehabilitation services for job seekers with disabilities. Almost half the states lack state funding to release federal dollars.
- **Providing inclusive financial education.** Banks could require outreach to ensure participation of individuals with disabilities in programs.
- **Seeding ABLE accounts.** Banks could work in cooperation with a state treasurer's office to seed and/or match contributions to tax-advantaged ABLE savings accounts to help LMI individuals with disabilities cover the extra costs of living with a disability.
- **Increasing access to credit and capital at affordable rates.** Banks could offer loans at lower rates with reasonable terms to purchase a home or start and grow a business, which would begin to reverse long-standing patterns of neglect and offer new options to financial security.

The banking regulators should modernize CRA to channel banking investment, lending and services to economically vulnerable populations including those with disabilities and especially people of color with disabilities. It is the only way to repair the harm of 30 years of economic neglect and missed obligations. The time is long overdue to deliver resources more equitably to this underserved community.

Michael Morris is the founder of the National Disability Institute and a senior strategic advisor. He has more than 30 years of experience inside and outside of government pioneering new strategies to improve the financial health of people with disabilities.

Nanette Goodman is director of research at the Burton Blatt Institute at Syracuse University where she conducts policy research focused on the economic status of people with disabilities.

Rethink Public Policies to Support Income Production, Savings and Asset Accumulation for People with Disabilities

BY MICHAEL MORRIS AND NANETTE GOODMAN

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President Biden's executive order on Advancing Racial Equity and Support for Underserved Communities (E.O. 13985) makes it clear that the federal government should pursue a comprehensive approach to advancing equity for all, including people of color and others who "have been historically underserved, marginalized and adversely affected by persistent poverty and inequality."

People with disabilities fit clearly in this category. Congress cited historical marginalization in the findings of the Americans with Disabilities Act (ADA): "discrimination against individuals with disabilities persists in such critical areas as employment, housing, public accommodations, education, transportation, communication, recreation, institutionalization, health services, voting, and access to public services." The law called this "unfair and unnecessary discrimination."

Thirty years later, the legacy of marginalization remains evident. Compared to people without disabilities, people with disabilities are twice as likely to live in poverty (26% versus 11%), more likely to live in long-term poverty, twice as likely to be unable to come up with $2,000 if an unexpected need arose in the next month (37% versus 18%) and three times more likely to have extreme difficulty paying bills (23% versus 9%).

People with disabilities participate in over 70 government programs. Health care and income replacement made up 95% of total expenditures, whereas programs designed to increase equity such as education and workforce development that support the ADA's goals of assuring "equality of opportunity, full participation, independent living, and economic self-sufficiency" accounted for only 1% of spending.

Almost two-thirds of working-age adults with disabilities participate in least one type of safety net program compared with 17% of those without a disability. These programs provide critical support for a population that is disproportionately living on the financial edge. However, they also trap people with disabilities in poverty by tying eligibility to asset limits and, as a result, making it impossible for them to save for large purchases, emergency security and long-term financial independence.

Almost two-thirds of working-age adults with disabilities participate in least one type of safety net program compared with 17% of those without a disability—yet these programs also trap them in poverty by making saving for large purchases, emergencies, and financial independence impossible.

Social Security Disability and Supplemental Security Income

Social Security Income (SSI) and Social Security Disability (SSDI), our largest disability programs serving 12.3 million people, are based on the outdated idea that disability means an inability to work. The systemic disincentives to work built into SSI and SSDI have been long acknowledged. To access needed benefits, people must make a total break from the labor market and document an inability to work. Once on the program, they are conversely encouraged to seek employment, but SSI recipients are severely limited in the assets they can build up to purchase the devices and supports needed for work.

To achieve equity and to reverse policy disincentives and promote wealth creation, we need a long-term radical approach to divorce SSI and SSDI eligibility from the ability to work and instead provide benefits that cover the extra costs associated with disability that can be combined with work. We call on the Social Security Administration (SSA) and the Domestic Policy Office to develop viable options to achieve this goal.

Four reforms could be implemented immediately:

Expand use of work incentives. The SSA has introduced a host of work incentives and other supports to promote employment among disability beneficiaries. However, fewer than 3% of SSI recipients use the work incentives in part because they are complicated and not well known or understood. At a minimum, we need to allocate additional funding to expand the SSA-funded Work Incentives Planning and Assistance (WIPA) counselors to dispel myths and educate beneficiaries and service providers about the social security incentives that do exist to encourage and help people enter the labor market.

Increase the benefit level and SSI asset limit. The maximum SSI benefit of $794/month or 9,408/year is well below the poverty line of $12,880 for an individual. The poverty line was established as the income needed to buy a minimal basket of goods for an average person. But people with disabilities face additional out-of-pocket costs. We estimate that people with disabilities would need 28% more income to have the same standard of living as those without a disability. However, because of the asset limit, people cannot save for these costs without risking losing both their SSI cash benefits and their Medicaid health and long-term care support unless they use specialized savings vehicles. We need to raise the asset limit for SSI beneficiaries to $12,091 to account for inflation since 1973, when the asset limit of $2,000 was established, and continue to index for inflation moving forward.

Expand use of Achieving a Better Life Experience Act (ABLE) accounts. ABLE offers some people with disabilities the opportunity to save for disability-related expenses in a tax-advantaged savings account that is not considered an asset when determining eligibility for means-tested public programs like SSI and Medicaid. Even if the SSI asset limit were raised or eliminated, these accounts would continue to be important because they are a mechanism for the tax code to adjust for the extra costs of living with disability by allowing assets in the accounts to grow tax free.

We estimate that people with disabilities would need 28% more income to have the same standard of living as those without a disability—yet, due to asset limits, they cannot save for these costs without risking the loss of critical safety net benefits.

However, fewer than 2% of the roughly eight million eligible Americans have opened accounts. This is due in large part to a lack of awareness of the program. We need a coordinated outreach and education effort across the many government agencies at the federal, state and local levels that provide services to the eligible population. Federal agencies should be required to report annually to the National Council on Disability (NCD) on their ABLE education and outreach activities with evidence of outcomes and with particular attention to individuals at the intersection of race, ethnicity and disability.

We should also make the passage of the pending ABLE Age Adjustment Act a priority to allow eligibility for ABLE accounts for individuals with disabilities with an age of onset of disability up to age 46, instead of the current 26 years (resulting from a political compromise), which has no justification and leaves out many wounded warriors who become disabled serving our country and others with disabilities occurring during prime working-age years. New efforts to seed child savings accounts should allow the option of seeding ABLE accounts for children with disabilities or to be converted to ABLE accounts once the child's eligibility is determined.

Reduce disparity between households with and without children in the Earned Income Tax Credit (EITC). The EITC is championed as the single most effective means-tested federal antipoverty program for working-age households—providing additional income and boosting employment for low-income workers. However, the size of EITC benefit is closely tied to the number of eligible children in the household. Because people with disabilities tend to be older and are less likely to have qualifying children in their households, they do not benefit from what has become our primary antipoverty program providing 25 million eligible families with $62 billion. Congress temporarily addressed the glaring disparity between the value of EITC for "childless adults" and families with children in the American Rescue Plan Act. It is critical for people with disabilities that this expansion be made permanent.

The dual lenses must be, first, to encourage savings and wealth creation and, second, be sensitive to the extra costs of living with a disability.

The dual lenses to review all public programs and benefits that impact people with disabilities must be to a) encourage savings and wealth creation and b) be sensitive to the extra costs of living with a disability. To advance equity for this large and growing population of people with disabilities, the push and pull of current and future public policy must be consistently encouraging income production, saving and asset accumulation.

Michael Morris is the founder of the National Disability Institute and a senior strategic advisor. He has more than 30 years of experience inside and outside of government pioneering new strategies to improve the financial health of people with disabilities.

Nanette Goodman is director of research at the Burton Blatt Institute at Syracuse University where she conducts policy research focused on the economic status of people with disabilities.

Partners for Rural Transformation—Driving Ownership and Economic Opportunity In Persistently Poor Places

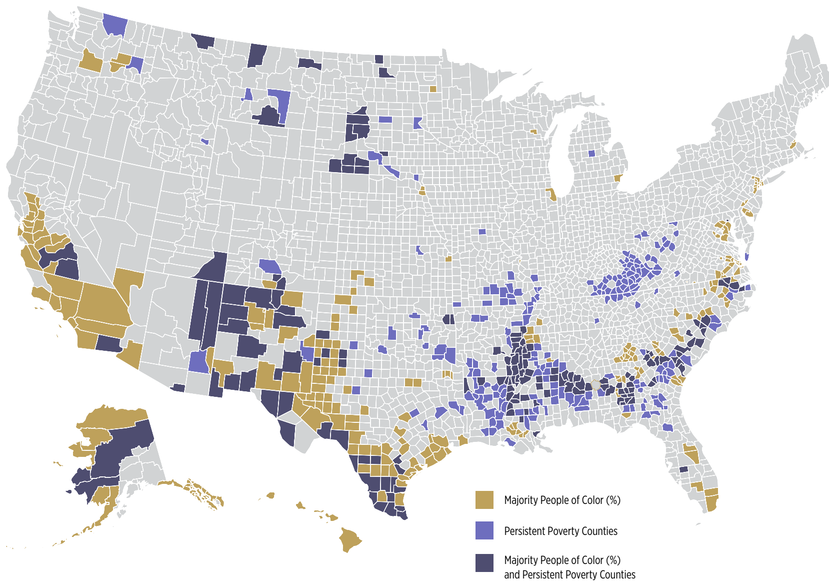
BY JOSÉ QUIÑONEZ

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.

Perhaps nowhere else in the United States is the structural exclusion by race and place more self-evident than in persistent poverty America. On its face, persistent poverty is a measure used to describe counties and parishes where the poverty rate has eclipsed 20% for three decades in a row. A closer examination of the population of residents living in the counties, however, paints a picture that is steadfastly rural and marred by racial inequity. Of the 395 persistent poverty counties, 8 out of 10 are nonmetro and the majority (60%) of people living in persistent poverty counties are people of color. Often, in regions of persistent poverty, other forms of distress are also present—high unemployment, lack of access to banking services, paucity of quality affordable housing and safe drinking water—all of which contribute to higher rates of premature death and lower health outcomes:

- Eighty-six percent of persistent poverty counties have unemployment rates in excess of the national average.
- Three-quarters of the 158 counties nationwide that have household unbanked/underbanked rates at 1.5 times the national average are persistent poverty counties.
- Eighty-one percent of persistent poverty counties are in the bottom quartile of counties in terms of health outcomes.
- Of the 395 persistent poverty counties, a "health-related drinking violation" occurred in approximately 42% of the counties—nearly five percentage points higher than the national rate.

Race, Place and Persistent Poverty are Inexterically Connected



Source: US Census Bureau American Community Survey (2017). US Treasury CDFI Persistent Poverty counties (October 2017). Hope Policy Institute Analysis.

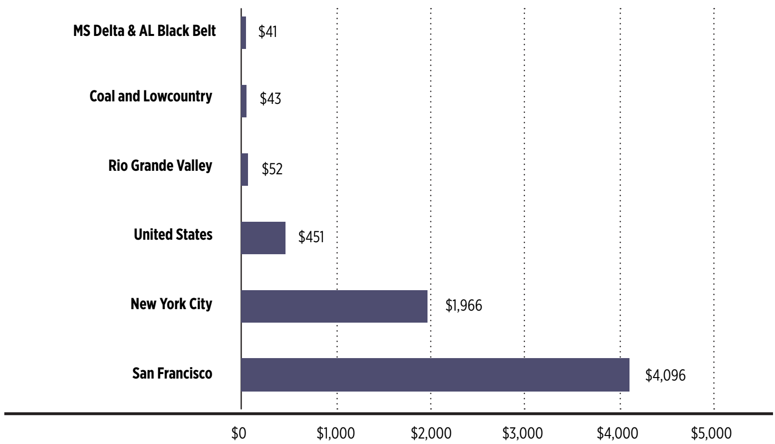
Despite success, investment in community and economic development in persistent poverty regions dramatically lag investment in places with significantly more resources, perpetuating and exacerbating the inequity.

Solutions exist. For decades, community development financial institutions (CDFIs) in some of the most economically distressed regions of the country have been addressing the employment and housing, banking and infrastructure needs of rural people and places. Yet, despite evidence of success, philanthropic, bank and federal investment in community and economic development in regions of persistent poverty dramatically lag investment in places with significantly more resources, perpetuating and exacerbating the inequity:

- From 2010 to 2014, grant making in Appalachia, the Mississippi Delta and the Rio Grande Valley was around \$50 per person—well behind the national average of \$451 and San Francisco's \$4,096 per person.

- Bank investment trails in poor rural areas as well. In 2017, only 27 cents of every dollar borrowed by rural CDFIs was from a bank. In contrast, over half the borrowed funds from urban CDFIs were supplied by banks.[1]
- Federal investment for community development in rural areas remains well behind dollars available for community development in cities.[2]

Per capita Grantmaking 2010-2014*



Source: National Committee for Responsive Philanthropy and Grantmakers for Southern Progress. 2016-2017.

*Analysis for Native Communities was not available in this format (see appendix 2)

Driven by a vision of a future where persistent poverty no longer exists in our nation, six CDFIs located in and serving regions with a high prevalence of persistent poverty came together to advance that shared vision by creating Partners for Rural Transformation (PRT). The six CDFIs are come

1 Bank Investment Falls Short in Rural Areas, 2019. "Opportunity Finance Network," https://ofn.org/sites/default/files/resources/PDFs/Policy%20Docs/2019/OPP_054%20-%20One%20Pager%20Handout%20CRA_FINAL%20Feb%202019.pdf, accessed August 25, 2019.

2 Partners for Rural Transformation. "Transforming Persistent Poverty in America: How Community Development Financial Institutions Drive Economic Opportunity," https://www.ruraltransformation.org/wp-content/uploads/2020/03/Transforming_Persistent_Poverty_in_America_-_Policy-Paper-PRT-_FINAL.pdf.

dream | come build (cdcb), Communities Unlimited (CU), Fahe, Oweesta Corporation (Oweesta), (HOPE) Hope Enterprise Corporation and Hope Credit Union and Rural Community Assistance Corporation (RCAC). These CDFIs serve three-quarters of the nation's persistent poverty counties and have records of accomplishment spanning multiple decades. With a shared ethos of investing in both people and place and informed by the voices of local people, the organizations seek to unify around diverse opportunities in communities of Native people, Latinx individuals, and rural white and Black residents in a time of great division in our nation.

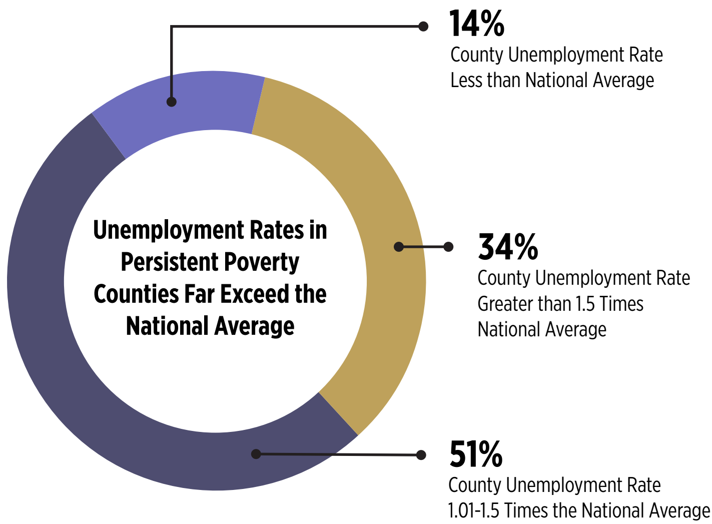
> ***With a shared ethos informed by local voices, we seek to unify communities of Native people, Latinx individuals, and rural white and Black residents in a time of great division in our nation.***

Consequences of Persistent Poverty and the Responses of PRT Members—Income and Employment

While the presence of stable employment with wages that cover basic costs of living is essential for overcoming persistent poverty, high-quality jobs are not always available, and incomes remain consistently lower than the national averages.[3] At least one-third of persistent poverty counties have unemployment rates over 1.5 times the national average, a measure of distress used to determine eligibility for federal community development programs through the CDFI Fund.

Small business development presents an opportunity to create and sustain local jobs that lead to wealth and asset building in rural persistent poverty communities. CDFIs play a critical role in fostering entrepreneurship by providing access to capital that bridges gaps through the use of creative loan products linked to one-on-one technical assistance designed to help entrepreneurs succeed. With strong capacity building and capital resources, these small business development strategies, particularly among underserved populations and places, and provide a means for strengthening local economies.

[3] https://www.lee.senate.gov/public/_cache/files/b54a2abb-978d-4bbb-a868-531cdfaeae7a/the-numbers-behind-the-opioid-crisis-final.pdf



Source: Bureau of Labor Statistics 2018. US Treasury CDFI Fund (October 2017). Hope Policy Institute calculations. N=395

Ms. Jane Burns opened an urgent care clinic in her underserved rural community of Clarksdale, Mississippi, in the Mississippi Delta. She did it with her own resources and determination and with a small loan and technical assistance from CU, a PRT founding member.*

Although people work to build their assets, those assets often have little collateral value because of the local community's economic context. This is where a CDFI stepped in.

In 2018, Jane Burns, a nurse practitioner with over 10 years of experience and first-hand knowledge of the health care needs in her rural community, opened an urgent care facility. When she decided to take the leap, she was ready to invest her own savings to open it but had no idea it would be so difficult to obtain the rest of the necessary financing.

She needed a working capital loan—waiting for reimbursements from Medicare, Medicaid or other insurers could take up to three months. She applied to banks and state organizations but did not qualify for a small business loan—despite having a business plan and the medical skills to be successful. When her loan was finally approved, the conditions included

*The name has been changed to protect the individual's identity.

a second mortgage on her home and an appraisal of the home's value. As home appraisals are largely based on area comparisons, and home values in her town were low, her house didn't meet the minimum appraisal value, and she didn't get the loan.

Ms. Burns' experience is a clear example of the challenges with building wealth so prevalent in the Delta and other regions of persistent poverty. Although people work to build their assets, those assets often have little value as collateral because of the local community's economic context.

This is where the CDFI, CU, stepped in. As Ms. Burns was not deterred—and started the urgent care facility with just her own capital—CU provided her with a working capital loan and technical assistance. Now, she provides nine full-time jobs paying above minimum wage in an area challenged with lower incomes and higher unemployment. Throughout COVID-19, her business has provided critical services to an area with few health care options.

What makes this story remarkable is not just that it happened but where it happened. Clarksdale, Mississippi, with a population of 16,579 (down from 20,000 in 2000), is the third poorest place in Mississippi and the county seat of Coahoma County. Clarksdale is 81% African American and has a 36% poverty rate and a median household income of $30,000.

What makes this story remarkable is not just that it happened but where it happened.

CU doesn't work with small businesses in isolation but rather partners with local community leaders, community colleges and nonprofits to bring together investments from public, private and philanthropic sources that advance a cohesive strategy to build sustainable entrepreneurial ecosystems. Individuals and entrepreneurs have access to resources and one-on-one support that develops and strengthens small businesses leading to new jobs, an increased tax base, wealth-building opportunities and a self-sustaining local economy. This work doesn't just change the life of individual entrepreneurs but also strengthens the social and economic fabric of the community in ways that increase future opportunities—and, critically, pride of place and hope for the future—for others.

José Quiñonez is director of Partners for Rural Transformation. He's also a civil rights activist with a strong passion for persistent poverty eradication, community impact, racial equity, social inclusion and Latinx issues.

Wealth Building for Native Families and Communities

BY CHRISTY FINSEL AND KAREN EDWARDS

The Oklahoma Native Assets Coalition, Inc. (ONAC) marks 20 years of service to Native communities in 2021. ONAC was launched to establish broader networking support and resources to tribes and Native-led nonprofits who were designing and implementing various asset-building programs in Oklahoma. Over the years, ONAC has grown, and while keeping its name and its efforts to build the capacity of Native asset-building practitioners, it now operates as a nationally based, Native-led asset-building coalition and nonprofit that also directly provides cash transfers and other wraparound asset-building programs to Native communities across the country. Most of ONAC's original founders continue to serve in leadership positions for the coalition while being joined by new partners who are also dedicated to increasing wealth building opportunities for underserved Native communities.

From its inception, Native views of assets have informed ONAC's culturally relevant, integrated and multigenerational asset-building program design and implementation. ONAC, and its colleagues in the Native asset-building field, have achieved many successes during the past 20 years. Yet there is much more to be done—including scaling asset-building programs in Native communities while also addressing the digital divide that limits Native families' access to online banking services and applications for social service assistance as well as their ability to monitor their invested accounts or grow their businesses via internet sales.

ONAC's bold proposal for wealth building in Native families and communities centers on significantly scaling currently successful and culturally relevant integrated and multigenerational asset-building approaches through increased dedicated funding that would simultaneously strengthen tribal sovereignty and the efficacy of Native-led nonprofits. This may best be achieved by directing financial support to the Native-led nonprofits and tribal governments that directly provide asset-building services and coordinate Native asset-building coalitions so as to better distribute asset-building resources throughout diverse Native communities in the United States.

ONAC's bold proposal centers on significantly scaling currently successful and culturally relevant integrated and multigenerational asset-building approaches through increased dedicated funding that would simultaneously strengthen tribal sovereignty and the efficacy of Native-led nonprofits.

Building from Sherry Salway Black's (Oglala Lakota) seminal work about broader understandings of Native assets, and recognizing the diversity found among 574 federally recognized tribes, and the state-recognized tribes and Native Hawaiian communities in this country, ONAC works from a Native asset-building framework that acknowledges that assets are understood in Native communities to involve much more than money or financial success. Tribal sovereignty, Native languages and arts, natural resources such as water, kinship, housing, education, food security and family as well as commonly held assets such as land are considered to be significant assets in Native communities, assets that must be protected and strengthened. ONAC offers an ever-increasing number of asset-building tools to help Native families develop stronger balance sheets while simultaneously building and caring for other valued Native assets.

With this broader understanding of Native assets in mind, and given our available funding, ONAC designed our Native-centric asset-building programs to integrate with each other. We see this as a successful strategy. The information included below illustrates some of the ways we link financial coaching and access to a credit builder loan with other ONAC programs that wrap around and serve multigenerational Native families:

- If a parent, or a grandparent raising grandchildren, is participating in the ONAC financial coaching program but has not yet started saving for the children's postsecondary education expenses, ONAC provides the following: $100 in seed funding for a Children's Savings Account (CSA) for each child; a youth Native-specific financial education workbook and a parent investor education booklet, as the funds are held in 529 savings plans; gardening seeds to promote food security; and an opportunity for Native youth to draw pictures of assets that matter to them, after visiting with a Native artist from their local community who also acknowledges Native arts as assets.
- Native Americans have the lowest rates among all population groups in the U.S. of saving for college for their children, for retirement and for an emergency. To address these emergency savings rates, ONAC and its partners provide Native-specific financial education to participants, and then ONAC provides seed funding ($300 per family) to start a family emergency savings account to buffer them in times of emergency, income fluctuation or irregular expenses. ONAC also provides the participant with a registration link for ONAC financial coaching in case they wish to access those services. Operating within a Native framework for assets, this coaching affirms that Native families may reside in multigenerational households, which can positively lower expenses such as food and housing costs.
- Concerned that 44.5% of American Indian and Alaska Native households are un- or underbanked[1], for financial coaching clients with no bank account, or those who currently have a bank account with expensive fees, ONAC offers to connect them to a nationally certified safe and affordable Bank On account that does not have overdraft or other high fees attached to it.
- ONAC is the only national Native-led nonprofit to distribute emergency cash assistance ($500 per referred applicant) directly to American Indian and Alaska Native families during the COVID-19 pandemic. This assistance is directed to Native families in need through crucial referrals from ONAC partner tribes and Native-led nonprofits. To address the realities that applicants may not have internet access, a bank account, an email

[1] 2017 is the latest year for which the FDIC collects data on both un- and underbanked people in Native communities.

address, a stable mailing address, devices on which to complete an application or access to a nearby financial institution branch, ONAC offers the following: a staffed phone line for applicants so we may manually help them complete the application, low-cost banking suggestions for the unbanked, options to send the check c/o of the referring partner for socially distanced pick up and payment by ACH transfer or check. ONAC also offers financial coaching to cash assistance recipients as well as Native-specific financial education resources.

- ONAC's mini-grant program currently provides grant support to five Native-administered Voluntary Income Tax Assistance (VITA) program sites in Alaska, Minnesota, South Dakota, Maine and Montana. ONAC is working with these grantees on outreach for emergency cash assistance to their Native VITA clients and free financial coaching services to the Native families they serve.
- ONAC co-hosts periodic culturally relevant financial education train-the-trainers for Native financial educators. During the training, ONAC provides the trainees with the ONAC financial coaching registration link in case the coaching resource may be of interest to those they teach.
- ONAC provided the financial coaching registration link to all Native women entrepreneurs who participated in recent ONAC women's wealth gap research.
- Soon, ONAC will be providing housing down payment assistance and related financial coaching.

Native communities have the desire and expertise to build assets for their citizens but are too often underresourced in their efforts.

Native communities have the desire and expertise to build assets for their citizens but are too often underresourced in their efforts. Such communities experience asset stripping, the highest rates of poverty in the U.S., historically lower levels of philanthropic giving, significant need for access to capital and broken treaties and related inadequate funding from the federal government. Given these realities, and for true financial equity to occur, Native communities will require greater infusions of financial support to equitably catch up and scale the offering of interrelated asset-building tools.

While the influx of recent federal support of Native community development financial institutions (CDFIs) is welcome news, and Native communities have celebrated that several larger Native intermediaries have received support for racial equity media campaigns, there are concerns about inadequate funding of the smaller and midsized Native-led nonprofits that are directly offering crucial financial capability and asset-building services to Native families.[2]

The above mentioned changes in access to grant support leaves many Native nonprofits with few funding options for the upcoming fiscal year. This leads us to ask if funders will take into consideration what Native communities define as racial equity and if tribal communities will receive the support they seek to help close the racial and gender wealth gaps through the asset-building programs they are interested in providing to the tribal citizens they serve. The demand from tribal citizens for such asset-building assistance consistently outstrips available resources. In the Native asset-building world, there is still need for support for the Native-led nonprofits coordinating national Native asset-building networks, conducting asset-building research and offering crucial developmental asset-building services that prepare harder-to-reach tribal citizens to equitably access mainstream asset-building resources and possibly later seek capital through Native CDFIs. With greater financial support, Native asset-building services could be scaled from the ground up, as much program infrastructure is already in place.

There is still need for support for the Native-led nonprofits coordinating national Native asset-building networks, conducting asset-building research, and offering crucial developmental asset-building services.

[2] For those nonprofits that are not seeking funding to become a certified Native CDFI, their access to what was already limited available federal grant support has diminished this year with the passage of the Indian Community Economic Enhancement Act of 2020 (i.e., the 2021 Administration for Native American Social Economic Development awards will prioritize funding for applicants seeking support for Native CDFI development). At the same time, such nonprofits are frequently hearing from foundations that their Native asset-building programming does not fit into what foundations consider as racial equity work (the newer direction many foundations are taking with their portfolios).

The time is ripe for increasing the essential support needed to scale integrated Native asset-building approaches in Native communities throughout the United States. This support will help Native communities thrive as they increase the health of household balance sheets along with safeguarding and building all the assets their communities value.

Christy Finsel is a tribal citizen of the Osage Nation. Since 2011, she has directed the Oklahoma Native Assets Coalition, Inc. (ONAC), a national Native-led asset-building coalition and nonprofit. Ms. Finsel has been conducting Native asset-building research and administering asset-building programs since 2003.

Karen Edwards is a tribal citizen of the Choctaw Nation of Oklahoma. She is the manager of Native Bank On ONAC. She previously worked for the Center for Social Development at Washington University in St. Louis, where she helped establish ONAC. Since 2006, she has also worked as a consultant.

Building Financial Security for Essential — But Invisible— Immigrant Workers

BY JOSÉ A. QUIÑONEZ

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 2020, amid the worldwide COVID-19 pandemic, wildfires raged all throughout the West Coast. Thick clouds of smoke turned the sky into an eerie, ashy orange, creating a scene that could have come from one of NASA's Mars rovers. As people looked up to capture the landscape with a picture, the striking and telling images shared on social media were not of the orange sky alone but those with farmworkers in the fields, harvesting crops while using their cell phones as flashlights.

Immigrants' labor is essential and their taxes are substantial, but their well-being is expendable.

Despite the poor air quality and high risk of COVID-19 exposure, farmworkers still showed up to work to ensure our nation's food supply chain persisted. They had no choice. They either worked or went hungry themselves. Even before the pandemic, farmworkers were seven times more likely than other Americans to encounter food insecurity. In the early days of the pandemic, the Department of Homeland Security issued guidance for which workers were essential to our public health, economic and national security functions. While most Americans were advised to stay at home for their safety, essential workers were asked to report to work to keep our country running.

The categories of essential workers underscored what we have always known: Immigrants are the backbone of the economy. Their labor is essential and their taxes are substantial, but their well-being is expendable. Nearly three in four working undocumented immigrants are essential workers, working in agriculture, manufacturing and health care industries. Despite showing up day after day for these essential roles and increasing their risk of exposure to COVID-19, they remain largely excluded from federal assistance programs. In 2015, immigrant workers with individual taxpayer identification numbers (ITINs) paid $23.6 billion in federal taxes that fund an array of social safety net programs, yet they are barred from accessing any of them in their time of need. The three federal COVID-19 stimulus packages explicitly excluded millions of undocumented immigrants and their families from receiving cash assistance. Being excluded triggered a financial downward spiral for many.

The three federal COVID-19 stimulus packages explicitly excluded millions of undocumented immigrants and their families, which triggered a financial downward spiral for many.

In October 2020, the Mission Asset Fund (MAF) conducted a national survey of 11,677 immigrants left out of the CARES Act relief to capture the extent of their financial devastation. The survey revealed that seven in 10 respondents had lost income due to COVID-19. One in two respondents said they paid bills late or not in full, one in three were unable to cover their rent, and one in five were skipping meals to make ends meet. If these families had been included in the CARES Act, more than one in four would have been able to use the $1,200 stimulus check to pay off their bills in full for the month. The cash assistance could have helped put food on the table to feed their families, pay rent to prevent eviction or cover other critical expenses to avoid the downward and painful spiral further into poverty.

How can anyone build financial security under such a devastating financial reality? How can immigrant families rebuild their financial lives when their work is essential but their financial needs are treated as invisible? The COVID-19 pandemic laid bare the systemic inequalities and exclusionary policies that push millions of immigrant families to the margins of society, left to fend for themselves even at times when we need to come together to support one another. The pandemic made clear the urgent need to support equitable programs that uplift the financial lives of essential workers in meaningful and relevant ways. Now more than ever, policymakers, private sector leaders and civil society need to show up and do better for those left behind.

At MAF, we show up with our community-centered approach that embraces the complexity of immigrant families' financial lives to develop elegant, timely and culturally relevant solutions that meet their financial needs. That's what we have always done, and in a world turned upside down crisis after crisis, our mission and values keep us moving forward. In 2008, when the global financial crisis brought our financial system to the edge of collapse, MAF started Lending Circles to offer working people a path into the financial marketplace. At that time, the recession shrunk more than 50% of available consumer credit, pushing low-income workers toward high-cost debt. Yet, despite the unnerving crisis, we found that people were saving and lending with one another through a time-honored tradition of mutual support and trust. Lending Circles is rooted in this tradition .

> ***People were saving and lending with one another through a time-honored tradition of mutual support and trust, despite the crisis. Lending Circles is rooted in this tradition.***

Through Lending Circles, MAF formalizes social lending by reporting payments to credit bureaus so that participants can start or build credit history. On average, Lending Circles participants have increased their credit scores by nearly 120 points. In one study, participants reduced their debt by an average of $2,400, in comparison to an average increase of $2,700 in debt among similar individuals who didn't participate in the program. Since starting Lending Circles, MAF has serviced over 13,000 loans with a loan volume of more than $12 million. Most impressive of all, social loans have a 99% repayment rate.

Providing timely and relevant resources means adapting. In 2020, facing the worst health and economic crisis in modern history, MAF launched the COVID-19 Rapid Response Fund to provide unrestricted cash assistance to immigrant families left out of federal relief. We knew that if we wanted to help families build financial security, we had to meet the moment with solutions that were relevant to them in their time of greatest need. With more than 11 million immigrants and their families left out of federal relief, the need was more than any one organization could address. To date, we have received over 256,000 applications for relief. We created a financial equity framework to prioritize applications from families with the fewest income sources and the most financial strains. With generous support from philanthropy, we raised

$75 million to support one in three applicants, offering a critical lifeline to families facing this unprecedented crisis.

Showing up means understanding the full context of people's financial lives.

Showing up means understanding the full context of people's financial lives. Immigrants have long been the scapegoats of choice in American politics, enduring anti-immigrant rhetoric and policies that keep millions of working people in a state of constant crisis. The threat of deportation and tearing families and communities apart marks a persistent fear that permeates all aspects of life. The fear is as real as the structural barriers keeping immigrants in the financial shadows, without status or recourse.

MAF's Immigration Loans remove the financial barriers keeping people from applying for U.S. citizenship, green cards, Deferred Action for Childhood Arrivals (DACA), Temporary Protected Status (TPS), or U-visas as well as from petitioning for a relative. These zero-interest loans have provided nearly $1.1 million in funding to over 2,100 immigrants applying for affirmative relief, opening the doors into a world of financial opportunity. But no amount of loans can overcome the immense barriers keeping immigrants from fully realizing their economic potential. Rebuilding longer-lasting financial security starts by granting legal status and a sure path to U.S. citizenship to all undocumented immigrants.

Essential workers showed up through wildfires, a pandemic and a recession, using cell phones to light the way. Now we must show up for them.

Essential workers showed up through wildfires, a pandemic and a recession to keep our nation moving forward, using their cell phones as flashlights to light the way. Now we must show up for them, with the same level of dignity and respect as those who lifted us up in our time of greatest need. We need to change how we think about poverty, remove structural barriers, listen to people's needs and understand the complexity of their lives. Only then will we be able to design better products, services and policies that help immigrant workers realize their full potential—ensuring their prosperity and ours.

José A. Quiñonez is the founder and chief executive officer at the Mission Asset Fund and visiting professor at the University of California at Berkeley. He received the MacArthur Fellowship in 2016.

Advancing Racial Equity Through *Inclusive* Community Growth

BY ELLIS CARR

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 last 12 months have laid to bare what many people have known for some time: all lives in America are not treated as equal, opportunity benefits a few and the impacts of the pandemic and institutionalized racism in our country have left Black, Latinx and Native American communities with diminished wealth and opportunity.

Even before the pandemic, the racial wealth gap reflected a society that has not, and does not, afford equality of opportunity to all. Specifically for Black Americans, land seizures and sharecropping policies implemented in the 1860s and predatory lending practices that have existed since the 1970s are two examples of American history that has limited specific segments of the population from building wealth. According to McKinsey & Company, "the persistent racial wealth gap in the United States is a burden on Black Americans as well as the overall economy."[1]

Never has there been a more critical time to rethink the policies and practices that are at work in our communities. We must adopt inclusive community growth practices rooted in equity that dismantle the unjust systems aimed to oppress and empower communities to reimagine a nation that is more

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1 Nick Noel, Duwain Pinder, Shelley Stewart and Jason Wright, 2019, "The Economic Impact of Closing the Racial Wealth Gap," https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap.

inclusive and prosperous for all. To rethink the policies and practices at work in our communities and to identify ways to drive more inclusive growth, we must first define inclusive growth and understand the parties that influence it.

Growth is inclusive when more people share in the rewards of a growing economy and community. Inclusive growth leverages the individuals, associations and institutions in communities to generate sustained growth to create productive jobs and economic opportunity,[2] social inclusion to ensure equal access to economic opportunity and social safety nets to protect the most vulnerable.

Growth is inclusive when more people share in the rewards of a growing economy and community.

Inclusive growth communities invest in[3]

- workforce training and talent development,
- entrepreneurship and small business success,
- personal financial security and access to financial resources,
- neighborhood development and growth,
- transportation and access and
- reducing gaps in health, education, safety and housing.

While these are commonly known definitions and activities, we have yet to reach an economy that is truly inclusive for all because we are only beginning to acknowledge the role race plays in our society. Our country has used race, racial bias and/or racial ideology as methods to distribute resources and opportunities. Despite this fact, people of color will soon represent the majority of the country's population, workforce and consumers. By lessening and ultimately eliminating disparities and opportunity differentials that limit the human potential and economic contributions of people of color,[4] our

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2 Asian Development Bank, 2011, "Framework of Inclusive Growth Indicators," https://sustainabledevelopment.un.org/content/documents/739indicators.pdf.

3 Juan Olivarez, 2019, "Inclusive Growth Communities: New Strategies for Prosperity," 2019, https://johnsoncenter.org/blog/inclusive-growth-communities-new-strategies-for-prosperity.

4 W.K. Kellogg Foundation, 2018, "The Business Case for Racial Equity," https://www.wkkf.org/resource-directory/resources/2018/07/business-case-for-racial-equity.

country stands to realize an $8 trillion gain in GDP by 2050. To achieve this milestone, we must incorporate a racial equity lens at the core of all-inclusive growth strategies.

An Inclusive Community Growth Model That Places Racial Equity at Its Center

An inclusive community growth model that places equity at its core leverages the tenets of the asset-based community development model[5] and equity-based values, practices and engagement.

> *The inclusive growth model redefines the roles of associations and institutions: they must first establish an authentic relationship with communities.*

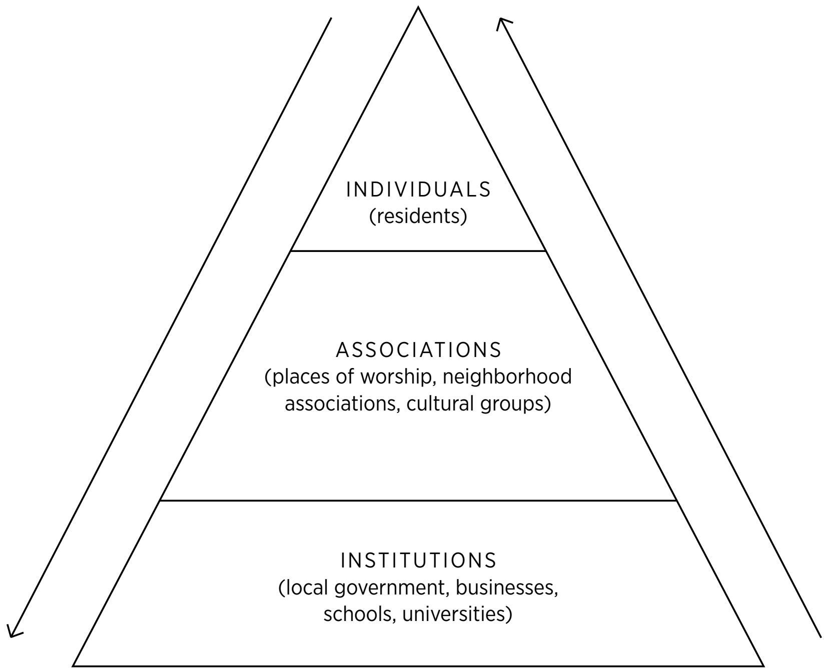
The inclusive community growth model that places equity at its center inverts the traditional practice of growth that relies on institutions and associations to determine the opportunities and conditions for individuals to participate in (both socially and economically) and uses existing structures to drive growth. Instead, the inclusive growth model redefines the roles of associations and institutions. In the new model, associations and institutions must first establish an authentic relationship with communities. To accomplish this, associations and institutions must

- recognize and acknowledge the existing assets within the community,
- acknowledge how systems of oppression have impacted individuals and communities,
- work with residents to identify solutions that build on their assets and
- leverage their social and financial capital to support targeted efforts that advance racial equity initiatives.

These critical steps will ensure that inclusive growth strategies begin with individuals driving the conditions by which resources flow into their communities. Doing so will ensure buy-in, participation, ownership and long-term sustainability.

5 Asset-Based Community Development Institute, "Asset-Based Community Development Toolkit," https://resources.depaul.edu/abcd-institute/resources/Pages/tool-kit.aspx.

Inclusive Growth Model Centered in Racial Equity



INDIVIDUALS:

- Name solutions that draw upon their assets
- Drive conditions by which resources come into communities

ASSOCIATIONS AND INSTITUTIONS:

- Recognize community assets (not deficits)
- Acknowledge how systems of oppression have impacted individuals in community
- Work with individuals to identify solutions that draw upon their assets
- Leverage social and financial capital to invest targeted efforts to advance equity and inclusive growth

Here are two examples of associations and institutions that have instituted policies and practices centered in racial equity to drive inclusive growth in their communities:

- **Local government.** In Washington D.C., the D.C. Council approved the Racial Equity Achieves Results (REACH) Act of 2020 to drive inclusive growth in a city where Black residents make up approximately 44% of total residents and have the lowest median income and the highest unemployment.[6] The REACH Act was developed to eliminate socio-economic inequities experienced by Black residents and other people of color in the District and is composed of efforts to drive greater accountability and understanding of how local policies impact people across all demographics.
- **Community development financial institutions (CDFIs).** As financial intermediaries embedded in communities, CDFIs have incorporated racial equity practices to create pathways for residents who were left out of the financial mainstream. IFF, a CDFI based in the Midwest, identified that appraisal-based lending was an instrument of systemic racism that had a profound impact on communities.[7] As a result, IFF adopted nonappraisal-based lending to deconstruct the challenge of lending to nonprofits that serve lower-income communities.

The year 2020 was unlike any other. The pandemic, the murder of George Floyd and the ensuing civil unrest forced the country to acknowledge the realities of the past and present. The events throughout that year led to billions of dollars of resources pledged to provide immediate relief and recovery of communities that were devastated by the pandemic.

As the country begins to operate with a new sense of awakening, we must actively use our power and privilege to disrupt the existing systems that perpetuate uneven growth.

As the country begins to operate with a new sense of awakening, we must actively use our power and privilege to disrupt the existing systems that

6 Annabella Hoge, December 6, 2020, "D.C. Council Passes REACH Act to Address Racial Inequities,"The Georgetown Voice, https://georgetownvoice.com/2020/12/06/d-c-city-council-passes-reach-act-to-address-racial-inequities/.

7 Joe Neri, 2019, "The Appraisal Bias: How More Equity Underwriting Can Increase Capital in Communities of Color," IFF, https://iff.org/the-appraisal-bias/.

perpetuate uneven growth. This is a seminal moment for our country; the question is, are you willing to play an active role in bringing down the institutional structures that have existed for hundreds of years to create a more equitable, inclusive and just society for all?

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SECTION III

Stronger Balance Sheets: Financial Services, Cash and Savings

This and the following two sections aim to feature some of the nation's latest and best thinking on how to build (or rebuild) a strong balance sheet—the cornerstone of accumulating wealth.

We start with the sine qua non, or foundational, components of a healthy balance sheet: financial services, cash and savings. Without these, wealth building is far less likely. In these seven essays, our authors highlight a vision for financial services tailored to those most excluded (as opposed to retrofitting a financial system designed for wealthier families) as well as offer forward-looking essays on the promising role that financial capability strategies—especially in concert with technology—can play in delivering those services. The authors also highlight how critical cash and emergency savings are, including when and how it's delivered—whether through employers, at tax time or financial technologies (or "fin-tech") themselves.

Indeed, as the authors argue, technology—while not a panacea and too often a tool for wealth stripping—can indeed be a powerful tool for delivering affordable and quality financial services and savings to millions of unbanked, underbanked and financially vulnerable households.

Reimagining Financial Services *Not* Around the Lives of Others: A Call For Radical Action

BY BOB ANNIBALE

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.

Financial services have evolved slowly in response to the rapidly changing and increasingly complex financial lives and aspirations of most households. Compared to innovations in areas such as technology, mobile and internet services, entertainment, social media and medicine, it is still a sector, particularly consumer banking, dominated by legacy products targeting the majority of adults and households but without the ambition to serve all.

Financial inclusion in the U.S. is portrayed by many, especially by the middle class, as one of the pathways to living the American dream, a dream made up of defining moments like buying a home, pursuing higher education, accessing capital to start a small business and saving for retirement.

We have been told that this was to be achieved through financial education, early savings, credit building and homeownership, assuming that we all have equal access to quality education, job opportunities, mobility and basic financial services.

Indeed, such financial pathways have contributed, especially in postwar decades, to increased intergenerational household wealth, homeownership and social mobility for the majority, certainly of white households.

However, this path was not designed with an understanding of the financial lives and needs of all households, the millions of people with different economic histories and experiences who are not, for example, currently fully served as customers by the over 4,500 banks, local and national.

Particularly for the Black community, it was a pathway that even after slavery would be obstructed for generations by racist laws and zoning, exclusion from government financing programs, "redlining" by banks and other business practices. Consequently, in 2020, nearly 75% of white families are homeowners, compared to 44% of Black families.

For many in the Black, Native American, and Hispanic communities, people with disabilities and immigrants, the products offered by banks were designed to serve other people's financial lives. They are offered costly legacy products for which they don't qualify nor that serve their financial circumstances and needs. As FDIC and Census Bureau surveys illustrate, it has left many understandably wary, distrustful and dependent on cash and alternative financial service providers.

While new and innovative financial institutions and products are rising to the challenge, payday lenders, remittance services, check cashers, auto title lenders and other financial service providers have long targeted the most financially vulnerable. Their locations and products are designed to meet the customers immediate needs but at high costs and on worse terms, often deepening inequalities.

Many banks unfortunately continue to target their most financially challenged customers. Brookings estimates that banks and credit unions generate over $34 billion in overdraft fees annually and a small number of customers (9%) account for 80% of the fees. Why are some banks still promoting paper checks, a slow clearing system and products designed to generate enormous and punitive fees from a minority of customers?

> *We must be more ambitious and, with a sense of urgency, be open to the range of innovations emerging in many lower income countries, as well as by some institutions in the U.S.*

Such product designs and practices further drain wealth and deteriorate credit histories of already struggling families while subsidizing free banking for others. Inequalities run deep and addressing those, even from the perspective of financial services, needs to be more radical than incremental.

Moratoriums on evictions, foreclosures and student loan repayments have been critical for millions of households during the COVID-19 pandemic. However, mortgage deferred payments and rent arrears are compounding and will come to an end. Government, financial institutions, credit agencies and investors all need to respond with innovative solutions for homeowners, renters and landlords, not just penalize them after a global pandemic.

Instead of relying on a pathway of incremental steps to universal financial inclusion, based on a concept of a past "conforming" middle-class financial paradigm, we must be more ambitious and, with a sense of urgency, be open to the range of innovations emerging in many lower income countries as well as by some institutions in the U.S.

Here's what I recommend:

Banks, in particular, should embrace new customer-centric product and business models, target all income segments, use service design techniques, incorporate customer input into design and evolution and leverage digital solutions to bring down costs and to increase convenience and outreach.

We need to ensure that innovations in financial services and delivery through new technologies are "digital by design" and do not disadvantage already underserved households.

Young adults are particularly comfortable with digital financial service providers and products that address their incomes, debts, payments and spending patterns, which are likely to be very different than those of their parents.

Banks and other financial institutions need to more creatively understand and develop products in response to dramatically changing employment and income patterns.

Since 2009, the national minimum wage has remained static and union membership has declined, resulting in rapid deterioration of the terms of employment for millions of workers and the rise in the self-employed and contract workers, with limited benefits, in the gig economy. Unfortunately, those who are unemployed, part-time workers seeking full-time employment, and those in the lowest paid jobs, often correlate with those that are paying more for financial services.

These trends have disproportionately impacted people of color, women, people without college or specialized degrees, those with disabilities and younger workers who are also struggling with higher levels of unemployment, underemployment, high housing costs and student debt.

Banks and nonbank originators and servicers of mortgages should develop credit scoring models to better reflect these complex and increasingly prevalent income patterns, using algorithms, AI (Artificial Intelligence), and big data that progressively challenge current credit scoring models.

With increased volatility in household incomes, financial institutions need to invest in corresponding product design, credit scoring and terms of lending, with flexibility in repayment features that reflect changing income patterns, as opposed to models drawn from assumptions based on predictable monthly salaries.

The ability, for example, to have some scope to vary monthly mortgage payments to correspond with variable incomes, as one can with credit cards, would be a welcome new feature.

We must begin to address long-standing inequalities in homeownership by committing to significantly increase mortgages underwritten and designed for first-time lower-income buyers, women-led households and communities of color.

Mortgages should allow for smaller and, where possible, grant-supported upfront deposits as well as flexibility in monthly repayments**.** Mortgage providers should ensure they have products that finance community land trusts, which ensure permanently affordable ownership, shared equity and cooperative ownership of single- and multi-family developments. Banks and non-bank originators of mortgages should join community leaders and advocate for government agencies that refinance and purchase mortgages to similarly qualify such mortgage products.

Regulators need to keep pace and create an enabling space in the complex financial regulatory landscape for new entrants, fintech nonbanks, retailers and online platforms embedding financial services, and for traditional banks to pilot innovations, with provisions for appropriate consumer dispute resolution and protection.

> *Incrementalism is not the answer. We need much more radical strategies, government policies, investment by industry and innovative products and services at scale that address the increasingly complex financial lives of households across all communities.*

While public commitments by financial institutions have risen and some go beyond philanthropy and what is required under the Community Reinvestment Act, they need to challenge their core business models if they are to increase financing services that address racial and other inequalities. These should be clear and measurable commitments, such as increased lending to Black-owned small business and mortgages, with transparent public reporting.

Extreme income and wealth inequalities are increasing, including more working families that once thought that they and their children would enjoy secure financial lives. This is reflected in the increased distrust of Wall Street and in political rhetoric and trends.

Incrementalism is not the answer. We need much more radical strategies, government policies, investment by industry and innovative products and services at scale that address the increasingly complex financial lives of households across all communities.

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Meeting People Where They Are and Laying a Foundation for the Future: Solving America's Emergency Savings Crisis

BY DEBORAH WINSHEL AND TIMOTHY FLACKE

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.

For millions of families focused on making ends meet each week, the possibility of wealth feels not just beyond reach but also utterly disconnected from the reality of their financial lives. To make wealth possible for everyone, we must begin by addressing their most pressing, persistent financial need today—managing volatility—with the most versatile, effective, efficient and dignified tool possible: emergency savings.

The data are clear—and not new—that we have a long way to go. The Federal Reserve reports that 30% of U.S. households lack even $400 to manage financial emergencies, and this jumps to 71% for Black families with incomes under the median.

Having no emergency savings is a crisis for families and an acute problem for employers, communities and the country, one we can make meaningful progress against. The starting point is recognizing this as a crisis, worthy of bold and coordinated action.

Having no savings reserves is surely a crisis for families, but it is also an acute problem for employers, communities and the country. It is also one we can make meaningful progress against. The starting point is recognizing the lack of emergency savings as a specific public crisis, worthy of bold and coordinated action.

The recent enactment of the American Rescue Plan Act is a prime opportunity to begin this action. Tax provisions of the act will pump hundreds of billions of new dollars into American households in 2020 and 2021. As important, the act directs the IRS to make six months of periodic payments of $250 and up to tens of millions of households who will qualify for a newly expanded child tax credit—a policy many advocates suggest be made permanent. A robust stream of new payments extending for months is a once-in-a-lifetime opportunity for many families to build savings—if they have the tools they need and access to systems that encourage and support saving.

Every household should have a cost-effective, safe, convenient place to build up—*and draw down*—small amounts of savings. The collective mindset is often that the lack of savings is a matter of personal behavior, either lack of knowledge or motivation. But research points to a far more structural challenge: Without a convenient place to save, people are far less likely to save. It's easy to take access to a savings tool for granted, yet the FDIC tells us nearly a quarter of banked households lack a savings account, a figure that doubles for the lowest income households.

This is not surprising: Traditional low balance standalone savings accounts are not profitable, and there is no obvious business model for a proconsumer savings tool with small balances and lots of activity. This means we need a different approach, one that draws on other actors, in addition to banks, that have an interest in enabling stakeholders to build and use emergency savings.

The workplace ecosystem is a prime opportunity: The overwhelming majority of U.S. workers are employees, and employers have natural incentives to support workers' financial stability. As important, the workplace offers two vital entry points: payroll systems, which control the "pipes" that deliver earnings, and retirement plan record-keepers, which are already in the business of managing workers' long-term savings.

Payroll systems process trillions of dollars in wages every year and can enable workers to fund emergency savings every time they get paid. Research shows that use of "split direct deposit"—the ability to deliver net pay to multiple destinations, including a savings tool—correlates with higher savings balances for low-income workers. Payroll cards, which have emerged in recent years as a way to pay un- and underbanked workers electronically, are an especially ripe platform to extend emergency savings tools to those who need them most.

The Bureau of Labor Statistics estimates about 64% of private sector workers have access to defined contribution retirement plans today, including 41% of workers in the bottom income quartile. Record-keepers and qualified plan sponsors can and should offer emergency savings, either "in plan" in an after-tax structure or via adjacent "out of plan" products offered by a fintech or bank and offered to workers "alongside" retirement savings options. If offering and promoting emergency savings alongside retirement savings were the norm, up to 78 million workers—including 13 million workers in the bottom income quartile—could gain access to quality e-savings tools.

To really tackle the emergency savings crisis, we need to borrow a lesson from the retirement industry. Ushered in by policy change and industry action over the past two decades, automatic enrollment into retirement savings plans has transformed participation rates—nearly doubling new hire participation in one study and quadrupling it for workers earning under $20,000 in another. Employers should have the option to automatically enroll workers into emergency savings tools, just as they do today for retirement plans. Helpfully, the Consumer Financial Protection Bureau, through its Compliance Assistance Sandbox, took a first step by providing initial regulatory guidance in 2020 to employers that wish to offer emergency savings automatic enrollment ("AutoSave").

Powerful as the workplace is, it will not reach everyone. States have already started to play an important role in reaching a broader audience. For example, state-backed "auto IRA" retirement plans like OregonSaves and Illinois Secure Choice reach millions of small business employees and nontraditional workers, and they are already including emergency savings in their plan designs. California designed its CalSavers plan such that, by default, the first $1,000 of worker contributions are placed in a stable money market fund suitable for emergency withdrawals. Other states should follow California's lead and prioritize emergency savings features as they adopt state-backed auto IRA plans, and Congress should consider waiving tax penalties for low-income workers who draw on IRA plans to manage emergencies.

It's time to consider financial incentives for emergency savings. We accept without a second thought to incent long-term saving via tax breaks for families benefit providers.

Further, there are other public-private vehicles like health savings accounts and 529 education savings plans that currently serve mostly upper- and middle-income households by offering tax advantages for savers. While tax penalties for non-education withdrawals are generally modest for lower-income families, allowing penalty-free emergency withdrawals from these plans for low- and moderate-income account holders would be a powerful signal about expanding the potential uses of this existing infrastructure to serve the needs of different income groups.

Finally, it's time to consider financial incentives for emergency savings. We accept without a second thought that it is sound public policy to incent long-term saving via tax deductions for savers and tax benefits for providers. This same logic should apply to spur saving for emergencies, especially targeted to underserved populations. Imagine if earned income tax credit-eligible tax filers, for instance, could claim an additional $100 tax credit for signing up for a workplace-based emergency savings plans or even state-backed auto IRA or 529 savings plans. A modest tax incentive for employers to offer emergency saving tools—in or out of retirement plans—might similarly turbocharge the attention the benefits industry pays to the issue.

We think it's impossible to talk about retirement security without talking about emergency savings, as the two are inextricably linked.

We think it's impossible to talk about retirement security without talking about emergency savings, as the two are inextricably linked. We know that it's impossible for households to plan for their financial future when they're worried about day-to-day financial challenges. And behaviorally, the reverse may be true as well: Evidence shows that people who have short-term liquid savings may have higher levels of confidence to save for longer-term goals like retirement. For example, embedding emergency savings opportunities into existing retirement and education savings plans frames saving for the short term in the context of longer-term wealth creation.

Incremental action will not solve our emergency savings crisis nor will a mindset that saving for a rainy day is simply a matter of personal behavior.

Incremental action will not solve our emergency savings crisis nor will a mindset that saving for a rainy day is simply a matter of personal behavior. We need to recognize the public crisis created by the widespread lack of liquid savings and respond by tapping existing infrastructure and systems capable of addressing a challenge of this size. The events of 2020 have only brought the crisis into sharper focus, and the American Rescue Plan Act now provides a needed boost to spur us all to action. And if we work to address some of the most pressing financial needs of millions of families today, we can help set the conditions for wealth creation in the years ahead.

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SECTION III

STRONGER BALANCE SHEETS:
FINANCIAL SERVICES, CASH AND SAVINGS

Just Give People Money. But How and When?

BY JONATHAN MORDUCH AND RACHEL SCHNEIDER

Just give people money. The idea is as simple as it is radical. At least it was radical until the coronavirus pandemic. With sluggish wages and household savings eroded by the pandemic, many struggling households simply need cash. Giving cash has turned out to be a powerful policy tool—its use is flexible, and households can spend it on their most pressing needs, whatever those are.

But not all money is the same. The amount matters, obviously, but the timing matters too. When you're threatened with eviction, to take an extreme example, having the right amount of money at the right time can be the difference between maintaining housing and experiencing homelessness. The same amount of money received even a few weeks later might not help.

To be successful in the long term, households need to be successful in the short term, too. Short-term cash flows need more attention.

That probably seems obvious, but policies designed to support the finances of American families do not focus much on cash flows and the challenges they create in getting through the month or year. The focus has been instead on building long-term saving, income and wealth. To be successful in the long term, however, households need to be successful in the short term too. Short-term cash flows need more attention.

That was one of the big lessons that we took away from spending a year tracking the financial lives of American families. Our research team spent a year with low- and moderate-income households in Ohio, Kentucky, Mississippi, California and New York. In *The Financial Diaries*, we explored how money moves through people's lives. What emerged was a picture of month-to-month volatility, with both income and spending needs rising and falling from month to month. The core challenge for families was often how to deal with the mismatch between earning and spending needs. On an annual basis, the families may have earned enough to cover the costs of their lives, but in any given month, they might be under water. They lacked the financial cushion, tools and basic predictability that would have made it possible to cope with bad weeks or months. Timing really mattered.

A group of mayors, from Newark to Los Angeles, has responded to America's money needs by forming a coalition, Mayors for a Guaranteed Income. All are committed to piloting programs that provide households with regular cash transfers. Unlike universal basic income, the money is targeted only to low-income residents. In some pilots, the transfers are $500. Sometimes $1,000. Usually monthly. These kinds of cash transfers would surely help the families we got to know.

But our research pushes us to ask, Why monthly? There's nothing sacred about steady monthly cash transfers. Some people with jobs are paid weekly. Others are paid regular amounts throughout the year and then get big year-end bonuses. Some government policies, like Social Security, provide steady resources month by month. Others, like the Earned Income Tax Credit (EITC), give large lump sums once a year.

For some of the households we studied, a steady payment, perhaps $100-$250 every week, would be the best way to keep bills paid and food on the table. If that's the goal, then giving money in the form of steady flows makes most sense.

Receiving $100 for 50 weeks is not the same as receiving $5,000 at once.

But if the goal is to foster big investments and build assets or protect from unpredictable or unavoidable harms, it may be the wrong policy. Receiving $100 for 50 weeks is not the same as receiving $5,000 at once. The extra $100 each week might melt right into weekly spending. A single $5,000 check, in contrast, is more likely to go toward a big expense like a car, a tuition bill or a security deposit that might otherwise be paid for with credit. It takes effort for people to turn small flows into big sums, which is why the large tax refunds associated with the EITC are one of the most powerful and popular parts of the current safety net.

Debates over flows and lumps already shape macro policy. In 2009, during debate over how to recover from the Great Recession, some argued for giving American households stimulus payments in small, regular installments that would likely be spent quickly. Others pushed for big, one-time, impossible-to-ignore checks with greater political salience. Advocates for small, steady flows won the argument.[1]

[1] President Obama reflects on the choice in *A Promised Land* (Crown, 2020, p. 524).

But when a similar question came up in the Biden administration's American Rescue Plan, policymakers split the difference between flows and lumps. A centerpiece of the proposal was a refundable Child Tax Credit for families. In the final law, the American Rescue Plan Act, half the money for the Child Tax Credit is to be distributed monthly, from July to December 2021, with the other half distributed as a large, single lump at tax time in 2022. If families want all the money as a lump, they can opt out of the monthly installments and get an even larger check in 2022. Tracing how families respond to these variations in the form and timing of funds will offer politicians useful insight as they weigh future versions of a child credit—or, of course, any other cash transfer program.

Insight is also coming from innovative pilots being run by cities. In Compton, California, for example, the way that timing matters is being tested by giving money to a group of low-income residents every two weeks for two years. Another randomly assigned group is instead getting the same money in total but disbursed as larger sums every three months. The pilot, called the Compton Pledge, will open another window on how the cadence of money—not just the amount—shapes households' outcomes.

Another way to think about the timing for cash support is to provide it at the moment it is most needed. Canary, a new social enterprise launched in response to the learnings of the *Financial Diaries* research, delivers cash transfers to workers in moments of financial hardship. This work will help us better understand how lump sums given in direct response to a specific need work to build financial security. Because the cash transfers are funded by employers and employees together, the fund aims to be less like a handout and more like a (collaborative) hand up. *Canary is built around the idea that money matters, timing matters and the source of the money matters too. Receiving emergency assistance from a collective pool is not charity; it is a draw from a shared resource.* In a similar way, part of the power of the EITC is that it is not just money; it is earned in exchange for hard work.

Technology and data processing are making it easier to make more of these ideas viable. In principle, it is now technically feasible to customize disbursements to households to exactly when and how they want to receive them. Some might want their EITC payments in one big lump, the way that they work now, for example. Others might prefer part of their EITC payment in the middle of the year when a tuition bill comes due or when the timing is right for a particular investment.

As America imagines a 21st-century safety net—and the roles of governments, businesses and communities—some of the solutions will involve just giving money. The right amount of money at the right time can make a big difference for people, especially for working families without much financial slack. That requires beginning with the idea that in fact it's not *just* about money. How and when matter too.

The right amount of money at the right time can make a big difference for people, especially for working families without much financial slack.

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Frontiers in Financial Capability: Bringing Technology and Coaching Together to Strengthen Family Balance Sheets

BY MAE WATSON GROTE AND J. MICHAEL COLLINS

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.

Financial pundits are quick to list activities that people "ought" to do, like save or budget, while deeming other actions detrimental, such as taking out a loan. Financial coaching disrupts this dynamic by centering the solutions of the people who are closest to the problems. Rather than a predetermined, one-size-fits-all approach, coaching is driven by each person's unique financial goals: their dreams and aspirations for their future.

This customer-centric definition of success ensures that coaching is forward-thinking and strengths-based. It also means that it's impactful. A growing body of evidence supports this claim: One field experiment with Change Machine showed that financial coaching driven by customers' financial goals led to reduced debt and increased savings as well as increased credit ratings.[1] When customers are centered as subject matter experts, tangible and measurable results ensue.

While there are tremendous benefits to the financial coaching approach, it is time and resource intensive. A 2019 survey of coaching providers found that the typical financial coach only served 19 customers per month.[2]

The need for financial coaches is growing. The COVID-19 pandemic has magnified vast inequities in financial access across families, including tools for managing income volatility, debt and bills. Coaching facilitates delivery of emergency assistance and financial resilience strategies, especially among Black, Latinx, American Indian and Alaska Natives as well as immigrant populations. How society engages with historically disenfranchised communities to recover from the economic impacts of the pandemic is one of the central challenges we face in the next few years.

Coaching, as we argue below, is the right intervention for this precipice.

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1 Brett Theodos, Christina P. Stacy and Rebecca Daniels, 2018. "Client Led Coaching: A Random Assignment Evaluation of the Impacts of Financial Coaching Programs." *Journal of Economic Behavior & Organization,* 155, 140-158.

2 J. Michael Collins, Peggy Olive and Hallie Lienhardt, 2021. "Financial Coaching in Practice: Findings from a Survey of Financial Coaches." Working paper. University of Wisconsin-Madison.

Financial coaching strategies are proven and promote economic equity. However, to reach the scale communities now need, coaching must leverage technology.

The COVID-19 pandemic accelerated the use of technology everywhere, including among nonprofit social services. For example, new video technologies are connecting millions of people to helping professionals at times and places convenient to them. Expanding online tools are enrolling more people into essential services, and virtual forums keep practitioners up to speed on rapidly evolving financial products, benefit programs and regulatory actions. The question is no longer "if" but "how" digitally enhanced financial coaching to reach even more people and serve them better.

But technology can deliver more than just efficiencies; it offers an opportunity to rethink how the equity that financial coaching yields can be amplified.

Like the health care field's recent embrace of telehealth, financial coaching programs have the opportunity to strategically deploy new technology. This will create new modalities of access and efficiency: reaching communities with mobility or language barriers, reducing friction points such as travel and time constraints, accelerating service delivery and, critically, evaluating progress. Financial coaches can collect data, manage calendars and reminders and develop nudges to customers that lead to deeper engagement.

For example, Change Machine projects that it will double the rate of customers following through on their planned actions by using algorithms to nudge concrete action steps in between coaching sessions. The result will be higher rates of customer engagement and retention, with coaches meeting with people 3.4 times compared to just 2.7 before these tools were put in place. Roo's integration into Change Machine's platform improves a coach's user experience. It is designed to enhance the coach's day-to-day work through increased forums for ongoing communication around financial goals, changes in household priorities or composition and achievement of financial outcomes since the coach can more readily support customers' revisions and adaptations of their action plan. Additionally, Roo is designed to create real-time customer updates that accelerates a coach's data collection and outcome achievement.

Real-time insights through rapid data collection and analysis can produce data-driven protocols that help coaches structure coaching sessions. Using techniques like crowdsourcing and cognitive computing, data-driven solutions can inform a taxonomy of strategies coaches can use in coaching sessions. Over time, the most successful solutions can become targeted decision trees to guide practice. For example, Change Machine has pioneered a way to identify high-frequency triggering events in the wake of COVID-19 that can now guide customer actions that are correlated with better outcomes. Quality sessions are the key to success, as well as the sequencing of actions, rather than just time spent in coaching sessions. Data-driven protocols offer a pragmatic, high-impact blueprint for practitioners to build financial security for customers in the new economic reality.

To achieve their financial goals, most people need access to key financial functions like payments, short-term liquidity, savings and credit. Tech-enhanced coaching models can furnish access to the appropriate financial product at the right moment it is needed. Not only is access to financial services uneven—administrative burdens, connectivity and language are common barriers—but the absence of product designers who reflect underserved communities drives a wedge between financial services and the people who stand to benefit from them the most.

By seamlessly integrating fintech and coaching models, people can be connected to a vetted repository of products and services that are demonstrated to build financial security.

By seamlessly integrating fintech and coaching models, people can be connected to a vetted repository of products and services that are demonstrated to build financial security. For example, Change Machine has developed a recommendation engine based on customers' experiences, including more than 30% offered by women and/or people of color. These well-curated products are better targeted to help people achieve financial security.

Financial coaching's track record of centering the people it serves is a bulwark to the dangers of technology, including autonomy, agency and bias. The tools described here are designed to assist with decision-making, not replace it. For example, embracing technology should not be equated with "robo advising," which is designed to remove consumer choice. People's goals and decisions are made in a rich and complex context of their day-to-day lives, distractions, stresses and family and peer influences. Human relationships are central to helping people define and stick to their goals. It turns out that emotions matter so much that cold calculations by robotic decision-makers are no substitutes for human connections, especially given the unique needs of economically vulnerable and complex families.

Financial coaching safeguards the needs of customers in the face of coder-driven algorithms. While fintech offers new ways to reach more people, it can result in greater financial exclusion and end up systematically encoding negative racial and gender bias. Financial coaches are advocates for keeping people's goals front and center; alongside the communities they serve, they should be at the table to inform the design and implementation of new solutions. The financial coaching approach can make sure that the next generation of financial services does not perpetuate uneven power relations and instead facilitates people's financial goals.

Looking ahead, this merger of people-based coaching methods and data-based technology solutions holds great promise, but the field needs a diverse team of collaborators to make this happen.

Looking ahead, this merger of people-based coaching methods and data-based technology solutions holds great promise, but the field needs a diverse team of collaborators to make this happen. Nonprofit providers have on-the-ground expertise and deep connections to their communities. Software developers and coders offer infrastructure and technological know-how. But these communities of professionals need more opportunities and incentives to work together. Philanthropic funders and the public sector can facilitate these relationships with financial support, convenings and by using translational strategies to share ideas across diverse networks of practitioners. Much more than funding "administrative overhead," this work represents a long-run investment in a new way of operating for nonprofits. One example of a funder deliberately facilitating community-based organizations to technology experts is the Schmidt Futures Alliance for the American Dream, which has generated more than a dozen tech-based social mission startups in the last several years. Other examples include investments from Omidyar Network, partnerships between nonprofits and B corporations, and even Salesforce's Nonprofit Cloud. These public-private partnership approaches could become more widely used to expand the reach of tech-enabled financial coaching.

Meanwhile, policymakers can better focus on ways to support innovative technologies, including to enable the use of coaching approaches across a wide variety of programs and services. Simply shifting to longer-run, people-based financial security outcomes for public programs will drive programs to use coaching-based programs. For example, the Consumer Financial Protection Bureau has invested in developing evidence-based, flexible financial coaching delivery methods. The Department of Labor could look to leverage the Workforce Innovation and Opportunity Act to shift workforce development programs to adopt a more coaching-centered approach. As federal, state and local governments expand financial capability services as part of post-COVID-19 recovery efforts, the use of financial coaching coordinated with technology can help people in need to navigate systems and access the support they need. Advocates at all levels work to change systems by sharing the benefits of a people-based coaching approach as well as by supporting collaborations to scale up financial coaching. Ultimately, this will facilitate inclusivity and greater economic equity.

Policymakers can better focus on ways to support innovative technologies, including to enable the use of coaching approaches across a wide variety of programs and services.

Together, we can use tech for good.

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SECTION III

STRONGER BALANCE SHEETS:
FINANCIAL SERVICES, CASH AND SAVINGS

A Golden Moment: Using Tax Refunds to Build Savings and Promote Economic Mobility

BY STEPHEN ROLL AND MICHAL GRINSTEIN-WEISS

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.

Unlike most developed countries, the United States administers much of its social safety net through the tax code. For example, the Earned Income Tax Credit (EITC), a direct cash transfer for working families, is the nation's second-largest welfare program. Transferring social support dollars through the tax code has distinct advantages because the process is regular, predictable and nearly universal. Additionally, the implementation of new tax credits (or expanding existing credits) does not require creating new programs.

For most tax filers, the tax refund, which consists of tax credits and excess withheld income, represents a considerable influx of money. This refund is particularly important for low- and moderate-income (LMI) households, who receive a considerable percentage of their yearly income from credits like the EITC and Child Tax Credit (CTC). These credits are often framed around three goals: reducing poverty, incentivizing work and supporting families.[1] However, recent discussions have focused on how tax credits can both lift households out of poverty and help them build the savings necessary for long-term economic mobility.

There are several features of the tax moment that make it attractive for policymakers interested in helping households save:

1. Tax refunds are typically the largest payment LMI households receive all year,[2] providing them an opportunity to save money, pay down debts and cover large expenditures.

2. The filing process allows tax filers to consider their finances holistically, providing a "just-in-time" opportunity to promote savings.[3]

3. Some tax filers opt for overwithholding income from each paycheck to build savings,[4] indicating a need for policies and products to help these filers save throughout the year.

1 For a comparison of existing and proposed tax credit programs, see Sawhill and Pulliam (2019).

2 For example, one study found LMI households typically receive a tax refund equivalent to 1.3 months of income or 2.1 months of housing payments (see Roll et al., 2018).

3 See Fernandes, Lynch and Netemeyer (2014).

4 See Neumark (1995).

What Works in Promoting Savings and Economic Mobility at Tax Time?

Research has confirmed that the tax system can provide effective anti-poverty tools. Every year, the EITC lifts millions above the poverty threshold and reduces the severity of poverty experienced by millions more,[5] and these cash transfers also help households improve their balance sheets.[6] However, moving beyond direct cash transfer programs, the tax moment can help families build savings in other ways.

Research has confirmed that the tax system can provide effective anti-poverty tools.

Incentivizing short-term savings. Short-term or emergency savings help households weather sudden income losses and manage unexpected expenses.[7] Tax time efforts aimed at helping households build short-term savings commonly use incentives such as matched contributions for tax refund dollars held as savings.[8] For example, the $aveNYC and $aveUSA programs offered participants a 50% match rate for savings maintained for at least six months. Results showed these participants saved $400 to $500 more of their refund.

Another approach to increasing tax refund savings incentivizes these savings with the opportunity to receive a prize. Through the prize-linked savings approach, individuals who make a qualified savings deposit[9] are offered the chance to win cash or other prizes. Although evidence is limited, prize-linked programs appear to be effective in encouraging savings among individuals who are typically nonsavers.[10]

5 See the Center on Budget and Policy Priorities (2019) for an overview of the EITC policy and program.

6 Tax credits directly promote savings by increasing the lump sum payout of the tax refund. For example, the EITC both increases LMI household savings and reduces their debt burdens (see Jones and Michelmore, 2018; Shaefer, Song and Shanks, 2013).

7 See Gjertson's (2016) discussion of the relationship between household emergency savings and hardships.

8 For example, the $aveNYC and $aveUSA programs offered low-income tax filers a 50% savings match for every dollar saved (i.e., $50 for every $100 saved) and held in savings for at least six months. See Azurdia and Freedman (2016) and Key et al. (2015).

9 For example, in the SaveYourRefund program, tax filers making a deposit of at least $50 are offered the chance to win $25,000.

10 See Doorway to Dreams Fund (2015) and Tufano, De Neve and Maynard (2011).

Incentivizing long-term savings. While short-term savings can provide stability for households, long-term savings are essential to households' ability to maintain or improve their socioeconomic position and to achieve goals around education, homeownership and retirement. Though the tax code itself includes several incentives for long-term saving (e.g., tax breaks for Roth individual retirement accounts (IRAs)), researchers also found tax filers had strong, positive responses when offered additional incentives to use their refunds for retirement savings. An experiment with matches for IRA deposits found a 20% match tripled the amount saved, whereas a 50% match quintupled the amount of refunds saved in IRAs.[11]

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Using behavioral economics to promote savings behaviors. Although effective, incentive programs are costly and difficult to scale. By contrast, behavioral economics interventions offer relatively low-cost and scalable ways of promoting tax time savings. For example, over the last decade, the Refund to Savings Initiative (R2S) has worked with TurboTax to redesign an online tax preparation product to encourage tax refund saving among millions of LMI tax filers. Through a series of randomized, controlled trials, R2S tested various approaches to promote refund savings. R2S researchers found the most effective approaches included simple messaging strategies, suggested savings amounts, making savings the default deposit option and incorporating savings commitments at the beginning of the tax filing process.[12] Other studies have demonstrated the efficacy of

The most effective approaches include simple messaging, suggested savings amounts and defaults, and committing to saving early in the tax filing process.

11 See Duflo et al. (2007).

12 See Grinstein-Weiss et al. (2017), Roll, et al. (2020), and Roll et al. (2019).

encouraging financial technology app users to commit to auto-transferring their refund to a savings account before filing their taxes[13] and using social pressure to encourage savings.[14]

What Should Policymakers Do to Optimize the Tax Moment to Build Savings and Wealth?

There is no great mystery as to why so many households cannot save. Persistently low and volatile incomes combined with high and often unpredictable expenses mean that many households live paycheck to paycheck and are one emergency away from hardship and deprivation. The best thing policymakers can do to encourage savings through the tax code is expanding existing tax credits or enacting new credits. These credits not only are a popular and politically feasible way of providing cash transfers targeted to LMI households, but they also provide an effective means of improving a vast array of outcomes, ranging from increased employment to improved child development. Promising tax credit proposals include the following:

The best thing policymakers can do to encourage savings through the tax code is expanding existing tax credits or enacting new credits.

- **Increasing EITC amounts.** The Grow American Income Now (GAIN) Act doubles the EITC, creating a large cash injection for LMI working families at tax time.[15]
- **Providing credits for childless workers.** Currently, the EITC allows up to $6,728 for workers with three dependents, while workers without qualifying children can receive a maximum credit of only $543.[16] Expanding the EITC—as the recent American Jobs and Families Plan proposes to do—or

[13] See Common Cents Lab (2016).

[14] See Common Cents Lab (2017).

[15] GAIN and other proposals to expand the EITC might pay an additional dividend: Many state-based EITCs are structured as a direct percentage of the federal EITC; thus, expanding the federal EITC could lead to increases in state credits.

[16] Notably, the U.S. government did increase the EITC for childless workers to $1,502 as part of the American Rescue Plan Act of 2021. However, this provision is only slated to last through 2021.

creating new credits like the Worker Tax Credit[17] for LMI childless workers will help increase savings and reduce poverty.

- **Enacting and reforming credits explicitly targeting savings.** While increasing and expanding tax credits will give many households the financial slack necessary to build savings, a related approach concerns explicitly targeting incentives to save tax refunds. The proposed Rainy Day EITC allows individuals to defer up to 20% of their EITC and receive a 50% match on funds saved for six months or more, which can help encourage households to save their refunds for longer periods of time. Policymakers should also reform the Saver's Credit to make it fully refundable and simplify the match structure and eligibility criteria.[18]

Finally, policymakers should promote short-term or emergency savings by creating tax-advantaged accounts to hold these savings. Canada's Tax-Free Savings Accounts—which provide similar tax incentives for short-term savings as a Roth IRA in the U.S. does for retirement savings—is one promising example of this type of savings product.

Tax Refund Savings in the Wake of COVID-19

The economic crisis stemming from the COVID-19 pandemic requires policymakers to find innovative ways of using tax credits to support families in need. Recently, the U.S. Congress passed the American Rescue Plan Act of 2021, which, among many other provisions, offered novel and encouraging reforms to the Child Tax Credit (CTC) and the EITC. After the passage of this act, the CTC is now fully refundable, eligibility for the credit has been expanded and the overall size of the credit has increased from \$2,000 to \$3,000 (\$3,600 for children under age six). The EITC has also now been expanded to provide much more generous benefits to childless workers.

These reforms alone promise to lift millions of households, and children in particular, out of poverty[19] but may also provide an opportunity to help

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17 See Maag (2015) for a discussion of the childless workers and the Worker Tax Credit.

18 For a discussion on the impact of saving incentive programs on U.S. savings, see Duflo et al.'s (2007) research report.

19 See Parolin et al. (2021) for projections of child poverty reductions as a result of the expanded CTC. Additionally, Maag (2018) discusses the poverty and welfare implications for CTC and EITC Expansions.

households build short- and long-term savings. For example, as part of the proposed American Jobs and Families Plan, the government is considering converting the expanded CTC into a monthly income stream and continuing these payments beyond 2021. Doing so may create new leverage points to help families to build savings for their children. As part of this plan, the government could directly incentivize families to deposit some of their CTC payments into dedicated savings vehicles such as 529 plans.[20] Similarly, given the EITC's proven link with increased savings for LMI households, the expanded EITC offered to childless workers as part of the American Jobs and Families Plan could also be paired with savings incentives to help these households save for both short- and long-term goals.

Moving forward, we encourage policymakers to continue exploring ways of leveraging the tax code to help lift households out of poverty and to avoid hardship. The income and consumption supports currently offered through the tax code only provide a partial remedy to stagnating rates of social and economic mobility in the U.S.[21] Addressing this problem fully will require direct action to help the asset poor build wealth, and the tax code provides one of the most promising opportunities to do so.

Stephen Roll is a research assistant professor at the Social Policy Institute at Washington University in St. Louis, where he is one of the lead researchers on the Refund to Savings Initiative. His research focuses on promoting asset building, debt management and economic security in lower-income populations.

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[20] Such an approach would be similar to Israel's approach with their publicly funded child allowance, which gives families the option of shifting a portion of their monthly child allowance into dedicated investment funds accessible to the child in adulthood; an option that has proven popular among many households (see Grinstein-Weiss et al., 2019).

[21] See Chetty et al. (2017).

SECTION III

STRONGER BALANCE SHEETS:
FINANCIAL SERVICES, CASH AND SAVINGS

Human Service Professionals: A Ready Workforce for Financial Capability

BY MARGARET S. SHERRADEN, JIN HUANG AND JENNY L. JONES

When it came time to send stimulus payments to Americans persevering through the COVID-19 pandemic, the IRS had no way to reach 12 million people. The group included disproportionate shares of Black, Indigenous and people of color as well as people with low incomes. To find them, the federal government turned to a "trusted resource": human service professionals. Throughout the years, human service professionals have provided basic support to underserved communities—health care, housing assistance and financial assistance, for example. These same trusted professionals should be tapped for many other aspects of financial delivery as well.

Exclusion from finance leaves many Americans unable to meet emergencies, access credit, pay off debt or amass savings for long-term priorities. Nearly 25% of low-income households in the United States have no bank account, and the prevalence is especially high among Black and Native American households as well as other households of color. An even higher share uses alternative financial services for basic functions like cashing paychecks. Millions are at the mercy of an increasingly complex financial marketplace where available offerings are expensive and sometimes predatory. Moreover, the communities where these families reside often lack banks and credit unions that offer suitable financial services at convenient hours. The lack of reliable and affordable internet services also shapes such communities. For residents, financial security is elusive.

One ingredient for achieving financial security is financial capability, which can be defined as the combination of access to appropriate financial services and application of financial knowledge and skills. Financial capability is not an individual attribute; rather it refers to the interaction between individuals and social structures.

Through trusted relationships with clients, human service professionals are positioned to foster financial capability on a national scale.

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This is not a new idea. Human service professionals already work to address family financial challenges and goals. They help families make ends meet, get emergency cash assistance, access public benefits, find jobs, secure health care, obtain tax assistance and locate affordable housing. During the pandemic, for example, human service professionals helped families receive federal payments, and looking forward, they will help low- to moderate-income families access the expanded Child Tax Credit in the American Rescue Plan.

This is not a new idea. Human service professionals already work to address family financial challenges and goals. They help families make ends meet, get emergency cash assistance, access public benefits, find jobs, secure health care, obtain tax assistance and locate affordable housing.

At the local level, these professionals locate resources when a family's housing or health care is at risk. For example, On the Rise Financial Center in Atlanta works with low-income individuals and families to build financial well-being and wealth through coaching and counseling. Human service professionals and student interns in this community-based program deliver financial education, credit counseling, and financial planning and saving assistance. In collaboration with a community-development credit union, they help families buy homes, start small businesses or reach other financial goals. This work provides families with hope and a sense of independence.

Human service professionals also confront societal inequities. In addition to providing services, they organize grassroots coalitions, manage community-based organizations, defend the safety net and conduct policy research. For example, human service professionals at Beyond Housing in St. Louis aim for collective impact by partnering with communities to provide stable housing, financial counseling and other services to families, but they also engage in community economic development and policy efforts. Human service professionals use their experience on the ground to shape an applied research agenda, including research on access to banking, savings opportunities, student debt, tax assistance, income and the Child Development Account policy.

Social work is among the most rapidly expanding occupations, with 13% growth expected by 2029. The 713,200 social workers in the United States comprise the nation's largest group of human service professionals. Social workers focus explicitly on empowering people who are vulnerable, oppressed and/or living in poverty. If each social worker serves an average of 60 clients per year (certainly an underestimate), they collectively work with over 40 million people annually. No other profession has the potential to reach so many marginalized families with sustained relationships and repeated interactions.

Social work offers a professional infrastructure that is already in place and suitable for the delivery of financial capability services on a national scale. Social workers are "among" the people, as Jane Addams declared a century ago. Addams, a founder of social work, along with Frances Perkins, Frankie V. Adams and other women, combined social care for families with structural and institutional reforms. Those efforts led to many New Deal policies. In the 21st century, social workers and other human service professionals remain uniquely positioned to respond directly to the people most adversely affected by inequality and economic downturns.

If each social worker serves 60 clients per year they could reach over 40 million people. No other profession can reach so many marginalized families with sustained relationships.

Recognizing this resource, numerous public and nonprofit organizations have embraced proposals to enlist human service professionals in building financial capability.[1] The social work profession has adopted financial capability and asset building for all as an explicit goal, detailed in a recent national policy "blueprint" by the National Association of Social Workers. The American Academy of Social Work and Social Welfare has selected that goal as one of the 13 Grand Challenges for Social Work. Over the past six years, a coalition of scholars and practitioners have been preparing to meet this national need by developing curricula in historically black colleges and universities, tribal colleges and universities, Hispanic-serving institutions and other colleges and universities. The coalition has refined those curricula in the field; published textbooks, handbooks and edited volumes; conducted research; and developed a network of human service professionals interested in offering services in financial capability and asset building.

1 For examples, see the U.S. Department of Health and Human Services, the Consumer Financial Protection Bureau, the National Endowment for Financial Education, the Center for Social Development at Washington University in St. Louis and the Institute for Economic and Racial Equity (formerly the Institute on Assets and Social Policy).

Policymakers should invest in a comprehensive initiative to reach all Americans with financial capability services. This is already happening to some extent. The IRS, for example, teams up with local nonprofits to provide free tax preparation assistance to low-income and other financially vulnerable taxpayers. The University of Georgia's School of Social Work joins the United Way to offer free tax preparation with free child care for parents. The U.S. military builds financial capability components into counseling and benefits programs.

Innovations in the nonprofit sector suggest additional avenues for public investment. Cities for Financial Empowerment Fund assists municipalities in integrating financial capability into health, employment, housing and social services. The Change Machine, a financial technology platform, assists human service agencies in embedding financial coaching into their work. The agency also provides financial products and resources for women of color and their households. Research demonstrates the impact of these innovations, yet millions of families are still left out.

Now is the time for a major national initiative to train more human service professionals in financial capability practice. Degree programs can integrate training into social work curricula, consumer and family financial services and counseling education. Financial technology—including online educational materials, networking platforms and data collection and management tools—can enable human service professionals to engage the tens of millions of Americans who lack access to financial guidance and financial services.

With a total investment under $100 million—a modest sum for large financial providers and/or the federal budget—the nation could put in place a vastly more skilled and highly committed workforce in financial capability.

With a total investment under $100 million—a modest sum for large financial providers and/or the federal budget—the nation could put in place a vastly more skilled and highly committed workforce in financial capability. This would improve household financial management, widen access to beneficial financial services and advance social policies that increase the financial capability of vulnerable families. The payoffs in household functioning, crisis avoidance and economic productivity would more than return this value to society.

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Jenny L. Jones is dean and professor at the Whitney M. Young, Jr. School of Social Work at Clark Atlanta University. She serves on the steering committee for the Grand Challenges for Social Work to build financial capability and assets for all.

The Financial Urgency of Now—and the Promise of Fintech

BY WOLE COAXUM

Although it is cliché, financial technology can democratize access to financial services in a way that has not yet happened. The promise of financial inclusion can occur if several elements are present: talent, technology, commitment, partnership and capital. It is exciting that each of us can play a role to make this a possibility. We are in a moment when the forces are converging in a way that we can overcome this issue.

Why I Started MoCaFi

My George Floyd moment happened at the time of Michael Brown's death. In August 2014, I was one of the most senior people at JPMorgan Chase as head of sales and strategy for business banking. My job was to figure out how to acquire, retain and expand relationships with millions of small business customers, leveraging the 12,000 bankers in 5,000 branches.

The promise of financial inclusion can occur if several elements are present: talent, technology, commitment, partnership and capital.

One initiative was to drive customer engagement and satisfaction with greater customer adoption of digital tools. If a customer used the ATM to make a cash deposit or deposited a check through the mobile app, the cost to serve that customer was a fraction of the branch costs—~10% of the price. Embracing behavior change, the same customer who was marginally profitable or unprofitable instantaneously became profitable and had a better customer experience. This work planted a seed in me—technology can drive profitability and greater customer satisfaction.

When a Ferguson, Missouri, police officer murdered 18-year-old Michael Brown, the peaceful protests and violent incidents afterward really struck me. My community was struggling, reminding me of the images from the excellent documentary "Eyes on the Prize." It was clear to me that the Black community had made no progress in economic justice since the beginning of the

Civil Rights Movement. The recurring theme of police brutality in the Black community with the chronic lack of economic opportunity for far too many people is causing the issue. Without economic justice, a social justice agenda is like one hand clapping. I had to get involved in the struggle, so I left my Wall Street job to bring my skills to address the economic justice void, and the MoCaFi journey began.

What We Want to Accomplish

For far too long, financial services for Black and brown communities have been very separate and highly unequal. According to the FDIC, 50% of Black and brown communities are either unbanked or underbanked—compared to 23% of the White community that is unbanked or underbanked. It costs the average Black person 50% more and the average Latinx customer 100% more than their white counterparts for the same services.

In the average Black consumer's case, excess fees for banking services can cost $40,000 over her lifetime. If that consumer invested those $40,000 into an asset that received a market rate of return, we could move toward narrowing the racial wealth gap.

MoCaFi's banking platform is aiming to close the racial wealth in two additional ways: increasing homeownership and strengthening the entrepreneurial ecosystem. Our success will build a more equitable society.

How We Are Going to Accomplish It

Our goal is simple: We want to put people on a path that grants them access to high-quality, low-cost banking services. A high-quality service is an FDIC-insured demand deposit account (DDA) for communities that traditionally operate in cash (unbanked) or go to check cashers (underbanked) for their banking services. We know that access to a bank account is a straightforward concept, but so many neighborhoods do not have access—80% of the bank branches closed in the last 10 years have been in low-to-moderate-income communities. Not having a bank branch in someone's neighborhood doesn't mean that they need a bank branch's services any less. We are creating a product that intentionally satisfies the unmet customer needs of the un- and underbanked through mobile distribution strategies. We leverage partners in the community—turning stores in people's neighborhoods into bank branches where numerous no-fee banking services are available (e.g., 7-Eleven, Walmart, Family Dollar, Dollar General).

With the primary bank account in place, we can help someone improve their credit score to reflect who they are instead of where they live or their background. We can take rent payments and other payments and have those reported to credit bureaus. The impact of this can be dramatic. For example, in a study, Experian found that reporting rent payments could increase a person's credit score to as high as 700, on average. If that is not a game changer, what is? We are creating new markets and new paths for capital to flow.

Reporting rent payments could increase a person's credit score to as high as 700, on average. If that is not a game changer, what is?

The last significant step in our strategy is to partner with cities to establish financial services as infrastructure (though we are making that argument with federal policymakers as well as they craft the American Jobs Plan). Mayors across the country think about ensuring that city services (e.g., trash pick-up, snow removal, access to transit) are equitably and effectively delivered to all residents. City government fills a void that would otherwise exist if left to the market forces. Everyone should have access to essential banking services, just as they do clean water.

We see collaboration with cities as the next frontier to reach our target audience at scale at a relatively low acquisition price point. We believe our approach can effectively narrow the wealth gap and be a blueprint for the federal government to create a model for addressing this market failure. The timing is good since the current administration has made economic inclusion a priority. As agencies (the Consumer Financial Protection Bureau and Fannie Mae) or departments (the U.S. Department of Commerce and the U.S. Treasury) seek to fulfill the mandate of addressing the wealth gap, we hope our perspectives and those of other financial innovators inform their thinking.

Other startups and fintech companies must create innovative models to address the issue of access, as the need for fresh thinking is as great as ever. The innovators will come from traditional banking firms, government agencies or spin-offs from other financial technology companies. Capital appears to be moving to support companies like MoCaFi and other diverse founders in very intentional ways. This moment provides hope that we might be at the beginning of a movement whereby committed founders with resources can fix intractable issues and create new financial paradigms.

Conclusion

The COVID-19 pandemic has laid bare the challenges faced to obtain resources for isolated and underserved communities. George Floyd's death has further exposed the depth of vulnerability for some communities of color in the United States. Our opportunity is to turn this moment into a movement. We have populations in our society that have a need, and their need is as compelling as ever. Now we have the technology—digital banking, big data and cloud computing capacity—that has never been more accessible. We have the momentum—corporations have allocated billions of dollars to address racial inequities. The level of awareness of the need in this country has never been greater: Every American has been touched in some way by George Floyd's death. The only open question is can we deliver.

This moment provides hope that we might be at the beginning of a movement whereby committed founders with resources can fix intractable issues and create new financial paradigms.

The words of Theodore Roosevelt seem appropriate: "The country needs and unless I mistake its temper, the country demands bold, persistent experimentation. It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something."

We can create a financial system that completes our republic's unfinished work—access to the services and tools that allow full participation in our society's economic fabric. In doing so, we will get closer to forming a more perfect union.

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SECTION IV

Stronger Family Balance Sheets: Debts

Continuing our focus on improving family balance sheets, we now turn to the liability side: household debts—whether from credit cards, mortgages, student loans, health expenses, municipal fines and fees, automobiles or informal debts owed to family and friends. Debts, of course, like compound interest, can be both wealth depleting and wealth building—depending especially on the terms and whether and how they secure associated assets. Debts have also become a symptom of broader financial insecurity—the method families use to stay afloat amidst uneven or diminishing wages and rising and unpredictable expenses.

The five essays featured in this section begin with a vision for bringing a certain level of respect or dignity to those who hold the debts—a relatively novel idea that has encouraging parallels in the health care sector. One essay highlights an innovative employer program to help younger employees pay down their student loans while also saving for retirement. Another contributor offers a plan for a fresh start from overwhelming levels of debt and poor credit. And two essays look refreshingly at court systems and municipalities that heavily penalize poorer and lower-wealth households and offer novel ways forward that can serve as national models.

Bringing Dignity to Debts

BY FREDERICK F. WHERRY

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.

Former Georgia gubernatorial candidate Stacey Abrams admits to having made a few mistakes, but her money problems shouldn't count among them. At least not as a mistake so grave as to disqualify her for office. She had defended her family's dignity, and she did it through debt.

Two decades after finishing law school, Abrams still owed money, too much money. As her supporters tried to make sense of her circumstances, they turned first to her family situation that seemed to leave her with no choice. She had helped her parents, who were ministers responsible for their flock, and other family members recover after the devastations of Hurricane Katrina. This recovery required not only that they survive the catastrophe but also that they do so with a sense of dignity. Apparently, dignity comes at a high price, and perhaps its price, in her case, was too high. Her enemies immediately saw an opening. How could Abrams be trusted to handle the finances of Georgia when she couldn't handle her own? There is dignity, too, in self-control and sacrifice, in suffering and allowing others to suffer, if those hardships are borne with a sense of grace.

The kind of dignity that drove Abrams into debt, however, required a deep sense of responsibility for her loved ones and a great deal of fortitude to honor one's commitments. She became the family's social safety net. Presumably, she knew what the outside world would say about learning the difference between absolute needs versus wants, about what is enough, about the need to put on your own oxygen mask before trying to help your neighbor. And public knowledge of her debts would be a weapon used against her. The content of her character could not smooth the crinkles in her credit. No doubt, she had seen this treatment before as she witnessed banks, credit card companies and debt collectors trample the privacy rights of debtors in her community, letting everyone know that the debtor who needs to call them back, needs to make a payment, is about to be in terrifying trouble. The right to respect ended where nonpayments began. She was making payments; they were just too small for a debt that big.

The right to respect ended where nonpayments began.

If debt were a biological disease, we would know how to treat it with respect. We would not begin by asking how the person brought the disease on themselves. Instead, we would start with how the person is feeling, exploring options to bring about comfort in their suffering. The health care staff would also avoid using the fastest routes to clean and to otherwise handle the person's body to allow that person to feel as if they still have a right to privacy. The genitalia would be draped, the bowels treated with care. After all, the sick still have a right to be treated as if their lives are as worthy of attention and reverence. The nurses and doctors would enlist the family members to encourage the patient, recognizing their importance for any plan of recovery. In short, the cure would come with compassion, privacy would be protected and the patient would continue to perform their social roles as adults, parents, as people with relationships, social obligations and decision-making authority.

Rather than a therapeutic medical model, the financial sector has relied on a dismal view of human behavior to determine how to treat debtors. Economists will tell you that if people can get away with not paying what they owe, they will. Inflicting pain through indignities keeps creditors from ruin. The supply of borrowing would presumably fall short without these forms of suffering.

The dismal science, however, would do well to test their assumptions on actual people using debt. Is it possible to treat people with dignity without disincentivizing repayment? What would need to change? Researchers have found that an individual's self-esteem and sense of mastery vary by the type of debt they carry and its amount, along with the socioeconomic status of the debtor. While student loans start out feeling like the route to opportunity and respect, for example, it transforms into an overwhelming burden, particularly for Black borrowers. Imagine being the median Black borrower who went to college to invest in themselves, only to find that after paying on the debt for 20 years, they still owe 95% of the principal. The horror comes with humiliation as these borrowers are hounded to do what their incomes will not allow. Studies also show that debtors are responsive to appeals that treat them with respect. Those who owe municipal taxes reacted well to letters highlighting their normality and social norms.

Studies also show that debtors are responsive to appeals that treat them with respect.

And debtors summoned to court performed better when they could over-come feelings of shame, embarrassment and hopelessness.

The way that people experience painful indignities varies. In some communities, financial distress occurs widely across the census tract. Even when controlling for income and education, census tracts with a higher percentage of Black residents will have more predatory financial services located in their neighborhoods. This means that as parents try to respond to the needs of their children and as children try to assist aging parents with inadequate retirement savings, they are more likely to come into contact with toxic resources. Their aversion to risk goes down as their sense of obligation to family goes up. And they meet these obligations by taking great care to avoid embarrassment for themselves and for those they assist. Some debtors will be new to debt collection efforts, so a prick of pain might pluck a favorable response (repayment). For those in chronic debt, these pricks will elicit less efficacious responses. As painful debt collection efforts degrade their sense of worth, their feeling of control, they leave nothing to look forward to except more indignities, more embarrassments and more opportunities to avoid these indignities at a high cost to the debtor and a low payout to the creditor.

Just as some medicines are over the counter while others are more tightly controlled, so too should be the financial products and services that predictably lead to over-indebtedness.

It doesn't have to be this way. Just as health care providers use a dignity inventory in assessing the care they deliver to patients at the end of life, financial service providers can conduct dignity assessments of how their products and services are delivered to consumers, paying particular attention to those consumers who are the most financially frail. And just as some medicines are over the counter while others are more tightly controlled, so too should be the financial products and services that predictably lead to over-indebtedness. If affordable loans were the norm, people would not be paying three to five times the principal and still be on the hook. If debtors had a right to respect, they could carry debt obligations based on their capacities to repay and with their heads held high. This would be a move toward decency in economic affairs, a move long overdue.

Frederick F. Wherry is the Townsend Martin, Class of 1917 professor of sociology at Princeton University. He is also the founding director of the Debt Collection Lab and the Dignity and Debt Network (a partnership with the Social Science Research Council). Before arriving at Princeton, he taught at Yale University, Columbia University and the University of Michigan.

SECTION IV

STRONGER FAMILY BALANCE SHEETS: DEBTS

Respond, Restructure, Rebound: A Path to Prosperity Following a Financial Shock

BY R. JERRY NEMORIN

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.

Paul and his wife Nancy were a fairly comfortable middle-class couple. They owned their home, with significant equity. They had good credit scores.

When Nancy was diagnosed with cancer, it set in motion a series of financially draining events that put them on a path toward bankruptcy.

Alongside the stress and emotion of taking care of a sick loved one, Paul had to bear the cost of maintaining the household as well as the additional expenses tied to Nancy's cancer treatments with only one income. To cover the additional expenses, Paul used their credit cards. When keeping up with the monthly payments became difficult, he attempted to tap into the equity in their home. Unfortunately, he discovered that this route was unavailable because both of their credit profiles had suffered as a result of the loss of income and the additional new debt.

Inaccessible Wealth

Most households in the U.S. don't have the buffer to cope with a financial shock. According to the Federal Reserve, 66% of all households in the U.S are homeowning households. Like Paul, their wealth is predominantly tied to the equity in their home. However, this wealth is generally not only inaccessible in a time of distress but is also at risk of loss in a foreclosure or bankruptcy.

This risk is even more acute depending on one's income bracket. For homeowning low-income households, housing wealth accounts for nearly 75% of total assets, compared to 34% for high-income households. For middle- and low-income households, these shocks can result in insurmountable debt, which can lead to legal collections or bankruptcy.

Bankruptcy has become the predominant financial reset switch; however, it carries long-term implications.

A Tarnished Future

Bankruptcy has become the predominant financial reset switch; however, it carries long-term implications.

Over the last 20 years, debt collection lawsuits have doubled. More than 90% of people who are sued by their creditors don't have legal representation and are often absent from the collection proceedings. In the states where data are available, 70% of debt collection lawsuits are resolved by a default judgement for the creditors.

In the states where data are available, 70% of debt collection lawsuits are resolved by a default judgement for the creditors.

Debt collection judgment and bankruptcy can lead to wage garnishment, jeopardize future employability and impair access to housing.

Path to Prosperity: Respond, Restructure, Rebound

Our systems should help propel people forward during times of distress. The existing products and policies available to support the average American navigating these types of shocks are not designed to set them up for success. We need public and private innovation in this space to create the appropriate systems and tools that will allow for a more holistic path to recovery and prosperity.

The path to recovery begins with *responding* to the individual's most pressing need in times of distress. Prior to the pandemic, the government's unemployment benefits program aimed to solve this by paying roughly half of someone's income for up to 26 weeks. A more robust program would include a government-mandated, employer-subsidized supplemental insurance to cover the remaining amount. The government could further enhance the impact of these programs by providing incentives to private entities to create lending solutions designed to help the individuals get back on their feet. These incentives could include debt guarantees or access to low interest rates. For homeowners, these solutions could be a sale-leaseback transaction, fractional equity sale or a partial cash refinancing that unlocks access to the equity in their home and empowers them to take control of the moment.

Once the individual is supported to take control of the moment, it opens up the path to a more holistic *restructuring* of their financial lives. This restructuring approach should take into account the person's new realities: their income, debt, expenses and long-term opportunities for financial security. Today, restructuring primarily consists of bankruptcy. Over the past five years, more than 750,000 consumers each year have used bankruptcy to restructure their financial lives. Bankruptcy lasts up to 10 years on credit reports and has a lasting detrimental impact on employment, housing and access to credit. A more sustainable approach would involve a third-party refinancing of the consumer's debt supplemented by concessions from their existing creditors to allow for payments based on their current financial conditions. This solution would provide higher recovery for the creditors while taking a collaborative and rehabilitative approach to collections—rather than the adversarial and punitive legal process.

For those who absolutely have to go the bankruptcy route, their future should be protected as well. Their home should be protected with a homestead exemption, portion of student loan debt should be dischargeable, and they should be allowed a one-time "expungement" of the bankruptcy filing and should never have to face the question "have you ever filed for bankruptcy?" on housing and employment applications.

Finally, the path to prosperity requires systems and tools to enable the individual to rebound from their distress and also to invest in longer term value creating assets. Historically, the stock market was inaccessible as it required a significant amount of capital for investment. Today, what are called "fractional shares" allow retail investors to participate in the wealth creation process with as little as a $1 investment. This innovative investment approach should not be limited to just publicly traded stocks. It should be expanded to include privately held assets such as startup investments, real estate, debt portfolios and bonds. The government should incentivize structures that responsibly give retail investors access to high growth opportunities that today are limited to accredited investors. The accredited investor rules primarily exclude retail investors from the massive wealth being created by emerging innovative companies.

The government should incentivize structures that responsibly give retail investors access to high growth opportunities that today are limited to accredited investors.

Being able to rebound from a financial shock should not be as difficult as what Paul and Nancy experienced. Our slightly evolved debtor prisons system is designed to punish rather than rehabilitate. We have the knowledge, data and technology today to build a better system. Imagine a society with the tools that empower households to successfully respond to shocks, restructure their financial lives to fit their current situation and rebound stronger by building a portfolio of assets that enable long-term financial security. It is not far-fetched, but it requires public-private partnerships to make it happen. A more financially resilient society would be a win for our local and federal government, our financial system and our economy.

Our slightly evolved debtor prisons is designed to punish rather than rehabilitate. We have the knowledge, data, and technology today to build a better system.

R. Jerry Nemorin is the founder and CEO of LendStreet, an online lending platform that enables individuals who have weathered a financial shock to settle prior debts and rebuild their financial lives. He is also a board member of three nonprofit organizations (Moneythink, Fonkoze and Money Management International) that are solving for financial inclusion and financial security.

Fair Fines and Fees: How San Francisco is Leading the National Movement for Financial Justice

BY JOSÉ CISNEROS AND ANNE STUHLDREHER

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.

Just after Gavin Newsom was elected governor of California, the organization SaverLife surveyed its members—typically Black and Latino mothers earning under $22,000 a year—about what the new governor could do to help them. “Lower the cost of local and state fines and fees” was the second most common response.

In San Francisco, we were not surprised.

A few years earlier, the Debt Free SF community coalition started up to protest what they called government-sanctioned gouging through tickets, fines and fees. They were outraged by a whole array of fiscal punishments that they perceived were disproportionately doled out to people without the resources to pay.

Don’t have money to pay a traffic ticket that costs a few hundred dollars? Here’s a $300 late fee and a suspended driver’s license. Struggling to pay a $75 parking ticket? The city can double it through late fees. Towed? That’s $500. No wonder many people just gave up their car to the impound.

People experiencing homelessness or who’d been incarcerated—the least able to pay fines—also racked up big bills. They could be fined $200 for sleeping on a park bench, up to $35 a day to “rent” an electronic ankle monitor while on home supervision or $1,800 up front to pay for monthly fees for the typical three-year probation term. Money bail averaged $50,000 in California. If you were rich, you could get out of jail to await your trial. But if you were poor, forget it. There was a two-tier system of justice.

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A pattern started to emerge. If you could pay, you barely felt the brunt of these penalties. But if you couldn’t, a cascade of consequences could set in. What started as a small problem would grow into a big one and derail people’s lives.

It looked like we were doling out two sets of punishments—one for the rich and a more punitive one for the poor.

As the entity in charge of revenue collection for our $13 billion city and county, we knew there had to be a better way. Excessive fines and fees that exceed people's ability to pay create a lose-lose arrangement, for government and for people. Surely we could adjust our fines to hold people accountable without putting them in financial distress. And we should be able to balance our books without slapping fees on people at the margins.

In 2016 we launched the Financial Justice Project to assess and reform fines and fees that have adverse disproportionate impacts on people with low incomes and communities of color. We have worked with other departments, the courts and community groups to make dozens of fines more fair and eliminated fees that don't make sense.

We made dozens of fines more fair and eliminated fees that don't make sense. The sky has not fallen.

The sky has not fallen. Sometimes, the revenue losses are minimal or nonexistent. Many of the results are surprising, and the reforms are starting to spread to other places.

For common fines like traffic and parking tickets or towing fines, we've created sliding scale discounts for people with low incomes. Someone who is poor shouldn't have to pay a bigger penalty for a ticket—like forgoing groceries—just because their wallet is thinner.

We've also eliminated penalties that punish people for their poverty. San Francisco Traffic Court was the first in California to stop suspending people's driver's licenses when they could not afford to pay their traffic tickets or missed a court date.

The penalty was too extreme. Studies have shown about 40% of people lose their jobs within six months of having their license suspended. Plus, there were less onerous ways to encourage people to pay. The court started sending reminders, like monthly billing statements, and offering payment plans and discounts based on people's ability to pay.

Critics thought we were being softies and risked revenue losses, but this never happened. The revenue the court collected per citation remained stable and even slightly increased. Research shows that court programs that base fines and fees on people's incomes can bring in more revenue than flat-rate fines. The reform became statewide law in California, and eight other states have since eliminated this onerous penalty.

We also eliminated local fees charged to people in the criminal justice system, like the $1,800 in monthly probation fees and the up to $35 a day fee for an electronic ankle monitor. People exiting jail rarely have jobs, and these fees set them up to fail. The purpose of fees is to cover costs, but the collection rate was just 9% on the largest fee. A few years later, the Debt Free Justice Coalition propelled the passage of the Families Over Fees Act to eliminate the same fees statewide in California.

A national movement for reform is growing to ensure fines and fees are more fair and that people at the margins don't face steeper penalties because of their poverty. Along with PolicyLink and the Fines and Fees Justice Center, we've launched Cities and Counties for Fine and Fee Justice. The Biden administration included fine and fee reform in its policy platform, calling for an end to money bail and debt-based driver's license suspensions, and aims to stop debtor's prisons, stating that people should not be jailed when they cannot pay fines and fees. The recently passed American Rescue Plan Act also presents an opportunity for states and localities to use federal funding to eliminate criminal legal fees and base fines on ability to pay, based on recommendations from the Center on Budget and Policy Priorities and the Fines and Fees Justice Center.

The public is demanding change too. A recent poll from the Fines and Fees Justice Center found that 80% of voters support reducing or replacing fines for minor violations of the law, and 79% believe government revenue should not depend on more fines, fees and tickets.

During the last recession, to fill budget gaps, some state and local governments dramatically increased the number of fines and fees for minor traffic and municipal code violations as well as for misdemeanors and felonies. Low-income people and communities of color felt the biggest brunt of this regressive form of taxation.

Let's not repeat the mistakes of the past. Policymakers at the local, state and national level can advance reforms that make a real difference in people's lives. Local officials can start by reaching out to legal services and social services organizations that see up close how people struggle to pay fines and fees. They can make fines more fair by creating sliding scale discounts and eliminate fees if they're charged exclusively to people with low incomes. Here is a list of fine and fee reforms[1] we've enacted in San Francisco that can give local leaders a sense of what is possible.

At the state level, dozens of states still suspend people's driver's licenses when they cannot pay traffic tickets. Not being able to pay your traffic tickets often has everything to do with poverty and nothing to do with dangerous driving, and states should end this unproductive penalty now. The Free to Drive campaign has resources for policymakers who want to explore this reform. Furthermore, about 30 states restrict the voting rights of people who owe fines and fees. These restrictions disenfranchise the poor and people of color, and policymakers should eliminate them. State policymakers can eliminate modern-day debtor's prisons in their state and ensure people are not incarcerated when they cannot pay fines and fees.

Not being able to pay your traffic tickets often has everything to do with poverty and nothing to do with dangerous driving. States should end this unproductive penalty now.

At the national level, there is bipartisan support for the fine and fee reforms put forward by the Biden administration that policymakers can advance now.

The economic fallout of the COVID-19 pandemic has caused record numbers of Americans to file for unemployment and fall deeper into poverty. Policymakers are rightly focused on doing everything they can to build up people's economic reserves—through expanding the Earned Income Tax Credit and Child Tax Credit, for example. But let's remember to not deplete the reserves of people at the margins through sky-high fines and fees.

For the millions struggling right now, the last thing we need is for one hand of the government to take out what the other hand puts in.

José Cisneros is the elected treasurer of the city and county of San Francisco.

Anne Stuhldreher is the director of the Treasurer Office's Financial Justice Project and is a senior fellow in the Aspen Institute's Financial Security Program.

[1] Also available at sfgov.org/financialjustice

Generational Double Threat—and Opportunity: Student Loans and Retirement Security

Innovative programs can help employees simultaneously eliminate educational debt and save for retirement

BY DIEGO MARTINEZ AND ROMY F. PARZICK

Leahannah Taylor's professional future was bright when she graduated from Rutgers University with a master's degree in biomedical sciences in 2019. Her resume was strong, filled with impressive job and volunteer experience, and she exuded excitement about helping to shape the future of health.

But Taylor didn't have the same positive outlook about her student loans. By the time she started looking for a job, she had accumulated nearly $60,000 in educational debt from earning her undergraduate and graduate degrees.

"I just wanted the debt done," Taylor says. "I wanted it gone. You've just made this great accomplishment, earning your degrees, and then you're left starting life in the red. I wanted to be in the green sooner rather than later."

She had other job offers, but it was the hands-on patient work as a clinical specialist at Abbott that tipped the scales for her, along with the health care technology company's Freedom 2 Save program. The program allows the company to contribute 5% of employees' eligible pay to their 401(k) if they pay at least 2% of their salary toward student loans each year.

Two years later, after aggressively paying down her college loans, the 26-year-old is debt-free and working to purchase her first property. Meanwhile, Taylor started her retirement savings early and, by taking advantage of compound interest, has a 401(k) account that could be worth hundreds of thousands more by the time she retires. Taylor credits the Freedom 2 Save program for contributing to her success.

Acknowledging the Dilemma

The amount of student debt amassed in the U.S. is staggering: $1.7 trillion in loans owed by 45 million Americans. By 2027, the debt load is expected to double to a whopping $3 trillion. This is happening while (and partly because), for decades, wages have stagnated and the cost of education has skyrocketed. Since the 1980s, the cost to attend a university has increased nearly eight times faster than wages. Today, about 70% of four-year graduates are carrying student loan debt, and the average balance is about $37,000.

This indebtedness has long-term effects for borrowers well beyond their college or graduate school years and extends into significant, larger impacts on our economy and society. It's no surprise that when compared to the average starting salary for college graduates of about $50,000, those carrying student loan debt are more likely to delay starting a family, buying a home or saving for retirement—all of those, in turn, reducing their ability to accumulate wealth.

For younger workers, the constraints that student loan debt impose means they need to cut back—either on consumption, savings or both.

For younger workers, the constraints that student loan debt impose means they need to cut back—either on consumption, savings or both. And while retirement seems far off, the persistent, monthly drumbeat of student loan bills often drowns out the need to save for the long term. Among 25- to 35-year-olds who are not saving for retirement, 39% say they are prioritizing student loan payments.

This means a segment of our population that, ideally, would be heading into retirement with a healthy nest egg instead finds itself saddled with student loan debt.

Workers in their 20s and 30s aren't alone in the challenge to balance the financial constraints imposed by their student loan burdens. Roughly 3.6 million parents have taken out $96 billion in outstanding loans under the federal Parent PLUS program as of late 2019, accounting for about a quarter of total federal lending for undergraduates.

This means a segment of our population that, ideally, would be heading into retirement with a healthy nest egg instead finds itself saddled with student loan debt. Of the parents and grandparents taking out loans for children and grandchildren, 43% say they will increase their own retirement savings once the student loans are paid off. Unfortunately, for their financial futures, if they default on these loans, the government can garnish wages and withhold tax refunds and social security checks, making retirement security much less attainable.

Finding Solutions

Employers working to attract and retain top talent, as well as boost productivity and curb employees' financial stress, understand that helping their workers manage and pay student loan debt is a win-win proposition. Forward-thinking companies have identified this as a key workforce need and attractive addition to their benefits offerings.

In response, human resources leaders have started innovating solutions that deliver high-impact results for employers and employees. These include programs like Abbott's Freedom 2 Save, which pairs reducing workers' student loan debt with growing their retirement savings. It's an important combined effort because for every decade an employee waits to start saving for retirement, the amount of savings needed roughly doubles.

As previously mentioned, under the program, employees earn a 5% 401(k) company contribution when they show they're putting 2% of their eligible pay toward their student loans. For example, someone who joins Abbott with a starting annual pay of $70,000 and enrolls in Freedom 2 Save could see $54,000 accumulate in their 401(k) accounts over a decade, assuming a 6% average annual return and yearly merit increases of 3%, without making any 401(k) contributions of their own.

At the same time, employees participating in the program have the opportunity to potentially pay their student loans off, on average, three years faster and save thousands of dollars in interest. They would do this by taking the 2% of their pay that would have gone into their 401(k)s to qualify for their 5% company match and instead put it toward their college debt.

Companies don't have to manage these programs alone, but rather they can partner with technology platforms like Vault.co, a leading provider of student loan benefits. Vault's platform allows employers to make one-time or ongoing, tax-advantaged contributions directly to employees' student loan balances and provide retirement plan matching services like Abbott's program. And through 2025, employers have an added incentive to help with employee student loans: The Consolidated Appropriations Act of 2021 extended the CARES Act provision that allows employers to contribute up to $5,250 toward employee student loans as a tax-deductible business expense, and these contributions are excluded from employees' personal income tax responsibility.

It's obvious how offerings like these can positively impact employees' financial lives—they shouldn't have to choose between paying off student loans or saving for retirement—but there are benefits for employers as well. Companies directly benefit from the educational attainments of their workforce, so it makes business sense to help their employees manage and pay down student loan debt. Programs like these can also boost employee retention and, like in Taylor's case, be the deciding factor when a sought-after candidate is choosing between job opportunities.

Taking Action

Collaboration between the private and public sectors is crucial in developing multifaceted solutions to effectively address a mass crisis like student debt. The private sector can play a vital role by creating innovative benefits programs that help Americans with educational debt live more financially stable lives. The public sector can enact legislation that eases regulatory paths for U.S. employers to provide employees with the ability to pay down student debt while also saving for retirement. Legislative proposals similar to the Retirement Parity for Student Loans Act contain the necessary framework and provide a way for programs like Freedom 2 Save to proliferate.

Given the unique economic recovery challenges Americans will face coming out of the coronavirus pandemic, innovative solutions that align employee and employer success are paramount.

Given the unique economic recovery challenges Americans will face coming out of the coronavirus pandemic, innovative solutions that align employee and employer success are paramount.

Or, more simply put, Taylor's financial achievements don't have to be hers alone. If the business community and policymakers respond to the American student crisis with action, then thousands of others can join her in living financially healthy lives.

Diego Martinez is the divisional vice president of benefits and wellness at Abbott, a global health technology company based outside of Chicago. He has been with Abbott for nearly 20 years, with assignments in Argentina, Puerto Rico and Singapore. Diego holds a bachelor's degree in business administration from Pontificia Universidad Catolica Argentina.

Romy F. Parzick is CEO of Vault.co, the leading student loan benefits provider, based in Austin, Texas. Romy's career has been dedicated to socially responsible financial services and fintech innovation. She has been an Aspen Institute First Movers fellow since 2015 and holds a B.S. from Carnegie Mellon University and an M.B.A from Duke University's Fuqua School of Business.

Debt Collectors Are Coming to Court—But We Can Protect Families from Losing Wealth They Shouldn't Have to Lose

Court-enforced debt collection is an underrecognized factor in family balance sheets, but policy changes can protect vulnerable consumers.

BY ERIKA RICKARD

As Americans confront the economic consequences of the COVID-19 pandemic, there's one place you might not expect to see family financial issues play out on a grand scale: your local courthouse. Flying largely under the radar, court dockets have increasingly become dominated by debt collection lawsuits in recent years. Now, with household finances continuing to face the fallout from the global public health emergency, a surge in medical debt, past due rent and consumer debt is expected to soon accelerate the flood of court dockets across the country.

That gives state courts a critical opportunity, before a rush of new filings hits their dockets, to address many of the challenges of debt claims—including power imbalances in courtrooms and the prevalence of automatic judgments in favor of creditors.

Even before the pandemic, creditors and third-party firms had adopted an increasingly aggressive approach to pursuing consumers for unpaid debts, using state civil courts to pursue collections via lawsuits known as debt claims. In the typical debt claim, a business—often a company that purchases delinquent debt from original creditors—sues an individual to collect on a debt, frequently for amounts under $5,000. These debt claims typically involve unpaid medical bills, credit card balances, auto loans, student debt and other types of consumer credit (excluding housing, such as mortgage or rent).

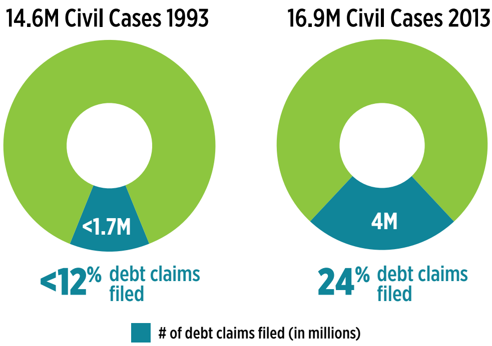
The Pew Charitable Trusts documents this growth in a recent report, which notes that from 1993 to 2013, the number of debt collection suits more than doubled nationwide, from less than 1.7 million to over 4 million and consumed a growing share of civil dockets, rising from an estimated one in nine civil cases to one in four (see figure below).

From 1993 to 2013, the number of debt collection suits more than doubled nationwide, from less than 1.7 million to over 4 million.

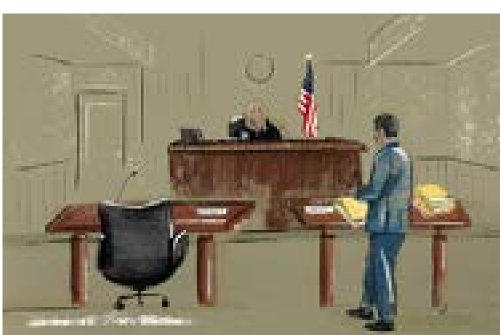
While 2013 is the last year for which national data are available, Pew followed up by examining recent annual reports from all courts that share data on debt claims—and found that debt collection lawsuits represent the single

Debt Claims More Than Doubled Over 20 Years

Consumer debt lawsuits in real terms and as a share of civil caseloads, 1993 and 2013



SOURCES: P. Hannaford-Agor, S.E. Graves, and S.S. Miller, "The Landscape fo Civil Litigation in State Courts" (2015), https://www.ncsc.org/-/media/Files/PDF/Research/CivilJusticeReport-2015.ashx; B.J. Ostrom and N.N. Kauder, "Examining the Work of State Courts, 1993: A National Perspective From the Court Statistics Project" (1995), https://www.bjs.gov/content/pub/pdf/ewsc93-npscp.pdf



most common type of civil court case today.

That shift has largely gone unnoticed by state leaders over the past 30 years, but it has profound implications for states, taxpayers and consumers.

And the problem is not just how many debt collection lawsuits are filed but what actually happens in these cases. Conventional wisdom would lead us to believe that if we walked into the courtroom for a typical court case, we would find a judge, perhaps a jury, and two parties, each represented by a lawyer.

But in the majority of debt collection cases, we would see a different scene: a judge or a magistrate, a lawyer representing lots of plaintiffs (creditors and collectors) at once, and on the other side either a consumer representing themselves or—more likely—an empty chair.

Why the empty chair? Two reasons. First, consumers in debt lawsuits rarely have attorneys: According to a survey of research on debt collection lawsuits from 2010 to 2019, fewer than 1 in 10 debt claim defendants has a lawyer, compared with nearly all plaintiffs. And having representation makes a difference: Consumers who had attorneys in a debt claim were more likely than those without attorneys to either win their cases or reach a settlement with the plaintiff.

The second reason is even more troubling. Over the past decade, multiple studies (in jurisdictions where data are available) have shown that courts have resolved more than 70% of debt collection lawsuits with default judgments for the plaintiff—meaning that the plaintiff won without even having to prove that the correct person was sued for the right amount within the legal time frame.

Multiple studies show that courts have resolved more than 70% of debt collection lawsuits in favor plaintiffs, who won without having to prove the correct person was sued for the right amount within the legal time frame.

Many consumers don't participate in their lawsuits at all—some by choice, others because they didn't receive adequate notice that they were being sued. The reality of debt collection lawsuits is that plaintiffs and their lawyers typically operate unopposed. And when only one side is in the courtroom, only one side is heard. When a defendant doesn't respond to a suit, the debt collector wins the case by default.

A default judgment carries the same weight as a judgment after trial, with consequences that can be both severe and long-lasting—with the victorious plaintiff wielding the judgment's authority to access government enforcement powers to collect on private debts. The existence of a court judgment can double the costs of the underlying debt: Courts routinely order consumers to pay accrued interest as well as court fees, which together can exceed the original amount owed.

Court judgments also open additional channels of collection, which include garnishment of wages or bank accounts, seizure of personal property and even incarceration. In 16 states, garnishing assets is unrestricted, so people can have their entire bank accounts drained.

Court judgments also open additional channels of collection, which include garnishment of wages or bank accounts, seizure of personal property and even incarceration. In 16 states, garnishing assets is unrestricted, so people can have their entire bank accounts drained.

And although incarceration is not a common occurrence, it does happen—and 44 states permit civil arrest for contempt of a court order for payment.

While these challenges long predate the pandemic, all indicators suggest that a new wave of debt collection lawsuits will hit as states—and courts—reopen in the coming months. So leaders in all branches of government have an opportunity to ensure that courts are operating impartially in debt cases and across the civil system.

First, we have to pull back the curtain on state and local courts. The full picture of debt claim challenges and consequences remains incomplete, because most state courts don't report on their cases with sufficient detail to identify how many of their cases are debt claims and what proportion of those cases result in default judgment. But they can. Texas is a prime example: Despite decentralized decision-making and data collection across 254 counties, the Lone Star State is the only one that tracks and reports on all outcomes (including default judgments) for all cases (including debt claims) across its entire civil caseload.

If we had better state court data, we could improve state policies, court rules and common practices to ensure that both sides in debt collection lawsuits have a full opportunity to make their case.

And even without the data to help us understand what policies are most effective, some fundamental state policy changes can begin to move the needle. Steps in the right direction include making courts responsible for letting people know they're being sued before issuing a default judgment, requiring creditors and collectors to demonstrate that the right person is being sued for the right amount, and modernizing the relationship between courts and their users by providing procedural information to all parties.

The bottom line: State leaders can take action now to reduce government-enforced collection of invalid debt.

The bottom line: State leaders can take action now to reduce government-enforced collection of invalid debt, which would improve family balance sheets and ensure that the role of courts in family financial issues is a fair and impartial one.

Erika Rickard directs The Pew Charitable Trusts' civil legal system modernization project, at pewtrusts.org/modernlegal.

SECTION V

Stronger Family Balance Sheets: Assets

We round out our three-part focus on shoring-up balance sheets by offering 15 essays on new ways to build assets or "capital," as well as new ways to think about those assets—savings, education and skills, homeownership, small businesses, and retirement. A few authors bring a strong racial equity perspective to their ideas, offering specific ideas around "baby bonds," reparations, student loan relief, homeownership, and legal reforms to promote land ownership. Another essay argues for more (but not unstructured) risk taking, while two others show the wealth-building benefits of marriage, as well as how we can think about shifting resources towards our "younger selves" and away from our "older selves" to promote family formation and building assets. A few authors argue for automatic savings at birth through state-sponsored 529 college savings plans, noting that this platform holds the potential to be inclusive, life-long and for assets beyond post-secondary education. And one essay essentially argues for "following the money": using the tax system, which heavily subsidizes wealth accumulation for better-off families, as a vehicle for more policies to build wealth inclusively.

Collectively, these essays underscore the centrality of building assets—in more traditional and novel ways—to building wealth and healthy balance sheets.

SECTION V

STRONGER FAMILY BALANCE SHEETS: ASSETS

Transforming 529 College Savings Plans: Grow Assets for Everyone, Grow the Country

BY MICHAEL SHERRADEN AND MARGARET M. CLANCY

As a nation, we should build assets in every household in America.

Why assets? Because income is not enough. Income helps us to get by, but assets help us get ahead. Seeded with an initial contribution, Child Development Accounts (CDAs) are investments that begin building assets for children when they are born.

Assets enable families to weather difficulties, invest in children and the future, engage in society and prosper over generations. We must expand our vision of economic stability and security beyond the weekly or monthly flow of income. Asset building is central to that elevated vision.

This is not a new idea. Indeed, it is a fundamental American philosophy exemplified by Thomas Jefferson's view that small property ownership is the foundation of democracy. Today, however, we know that land is not the only meaningful asset and asset holding must include everyone, not just white men.

Current Asset-Building Policy Benefits the Wealthy and White People

Federal asset-building policy is quite generous, though these benefits operate primarily as tax expenditures, which are skewed to those who already own assets. Most of these tax benefits build assets further. In 2020, 15 of the 20 largest tax expenditure categories built assets, at $873 billion per year.[1] Among

[1] U.S. Department of the Treasury, 2021. These tax expenditures include line items such as the home mortgage interest tax deduction and tax deferment on retirement pension contributions.

all tax expenditures to individuals, 59% goes to individuals in the top 20% of the population by income. This is a huge and somewhat hidden delivery of public benefits to those who are already wealthy.[2]

Continuing to build the assets of people who already have assets is the very definition of structural racism—it goes on and on with people never questioning it.

On top of this, a long history of racist policy in the United States has produced a wide gap between the asset holdings of whites and people of color. Given this history, continuing to build the assets of people who already have assets is the very definition of structural racism—it goes on and on with people never questioning it.

Transform Asset-Building Policy

It is time for a change. The dysfunction of current asset-building policy requires a structural solution. The goal should be to use public resources for purposeful and fully inclusive asset building for everyone.

By realigning policy to build assets for all Americans, particularly the least advantaged, the nation can reduce persistent wealth gaps, offset historical injustices, strengthen the economy and improve the workforce.

The dysfunction of current asset-building policy requires a structural solution. The goal should be to use public resources for purposeful and fully inclusive asset building for everyone.

Historical racial injustices in America can never be fully redressed, but the history can be clearly spoken and the wealth gap can be reduced. This does not require new public expenditures, only the redirection of massive tax expenditures that currently flow mostly to the wealthy.

2 Most of these tax expenditures are in fact social policy. See Michael Sherraden, 1991. *Assets and the Poor: A New American Welfare Policy*. London: Routledge; Christopher Howard, 1993. *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*. Princeton, NJ: Princeton University Press; and Melvin L. Oliver and Thomas M. Shapiro, 1995. *Black Wealth/White Wealth: A New Perspective On Racial Inequality*. London: Routledge. This understanding has gradually become more common, with terms such as "upside down policy" describing these large social expenditures to the already wealthy.

Begin with Child Development Accounts

An inclusive federal CDA policy would be a strong first step in the right direction. The policy is designed to provide assets for every child at birth and to reduce asset inequality by contributing more resources to the more disadvantaged.

In addition, CDAs encourage community participation and saving by families. Balances grow with subsequent deposits and market appreciation, enabling future investments in higher education and career development. Accumulated funds are transferred directly to the beneficiary's chosen college or vocational school.

In recent years, 529s are being transformed. Although 529 college savings plans currently cover very few children and youth in America, they can include all babies. Seven states—some red and some blue—have adopted statewide CDA policies built upon their 529 plans, most specifying that all newborns will have 529 assets. But public deposits are limited due to restricted state budgets.[3] A nationwide CDA policy could transform 529s by channeling substantial federal funding to state-run CDAs. The resulting CDA policy would use 529 plans to serve all children in America—100%. The additional federal support is necessary to make CDAs a substantial and successful national policy.

Evidence on positive effects of CDAs comes from the long-running, randomized, rigorous experiment, SEED for Oklahoma Kids. In this research, we have learned that children with CDAs have better social-emotional development. Parents of these children have a more positive outlook, more financial knowledge and better parenting practices. Many of these effects are substantially greater for disadvantaged families. Other research shows that children with college savings are more likely to enroll in college and graduate. Even before the money is spent, the children develop a college-bound identity.[4] Finally, we have demonstrated that a CDA

[3] California, Illinois, Maine, Nebraska, Nevada, Pennsylvania and Rhode Island use their state 529 plan for universal CDA policies. A new birth record triggers notification to the CDA administrator, which is typically the state treasurer's office.

[4] For evidence from SEED for Oklahoma Kids, see Sondra G. Beverly, Margaret M. Clancy and Michael Sherraden, 2016. "Universal Accounts at Birth: Results from SEED for Oklahoma Kids." CSD research summary no. 16-07. Washington University, Center for Social Development, https://doi.org/10.7936/K7QC030S; Jin Huang et al., 2019.

policy is an efficient and fiscally sustainable way to build assets for children over time, even through economic downturns.

Policy Leadership and Public Engagement

A federal CDA effort would begin with a policy framework to deliver funding and guidelines that states would use to design and manage their own CDA policies. In this way, federal policy leadership would promote cost efficiency and asset building and focus resources to include financially vulnerable families.

Federal funding would finance a substantial initial deposit made when a child is born as well as subsequent contributions on certain birthdays or on completion of schooling milestones until the beneficiary reaches age 18. The federal effort would encourage partnerships in communities and with families to cultivate additional asset flows from state and local governments, nonprofit organizations, businesses, philanthropy, families and interested citizens.[5] Through these partnerships, CDAs could become an energetic and rewarding national project—perhaps cordially competitive across states or communities. As a nation, we could take pride in this policy and joyfully build assets for the future of the country.

As suggested above, CDA policy could also become the trusted and sustainable platform for payments for historical injustices and for other targeted purposes. For example, the statewide CDA model is the most promising delivery platform for baby bonds and other similar proposals. The fully inclusive,

"Exploring a Model for Integrating Child Development Accounts with Social Services for Vulnerable Families." *Journal of Consumer Affairs*, 53, 770-795, https://doi.org/10.1111/joca.12239; and Jin Huang et al., 2019. "Financially Vulnerable Families Reap Multiple Benefits from Child Development Accounts." CSD research brief no. 19-40. Washington University, Center for Social Development, https://doi.org/10.7936/akd8-d690. On children's accounts in general, see CFED, 2014. "Scholarly Research on Children's Savings Accounts," https://prosperitynow.org/files/resources/CSA_research_fact_file_08-2016.pdf; U.S. Government Accountability Office, 2020. "Higher Education: Children's Savings Account Programs Can Help Families Build Savings and Envision College." Report no. GAO-21-10, https://www.gao.gov/assets/gao-21-10.pdf; and William Elliott, Hyun-a Song and Ilsung Nam, 2013. "Small-Dollar Children's Savings Accounts and Children's College Outcomes by Income Level." *Children and Youth Services Review*, 35, 560-571, https://doi.org/10.1016/j.childyouth.2012.12.003.

[5] Among many possible examples, state CDA policies enable civic organizations and businesses to contribute to the CDAs of children in the community and grandparents to CDAs of their grandchildren.

efficient and sustainable statewide CDA policy platform is already building assets for children.[6] These are highly desirable policy features that baby bond proposals have not yet considered.

First Build Assets for Education, Then Other Goals

A federally guided CDA policy, vigorously implemented, would serve as a structure for addressing inequalities in wealth, child development and economic opportunity. The nation would grow stronger.

Over time, CDA policy would continue to evolve, expanding to address other life goals, including cultural experiences, career advancement, homeownership, business investments and eventually retirement security. This policy would be like a lifetime 401(k) for everyone, to be used for multiple purposes. For efficiency and investment returns, the assets would be managed in private financial markets—one of America's great strengths. Thus, we envision CDAs as a fundamental first step toward lifelong asset building for everyone.

A federally guided CDA policy, vigorously implemented, would serve as a structure for addressing inequalities in wealth, child development and economic opportunity. The nation would grow stronger.

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6 Indeed, it seems likely that a baby bond policy discussion will lead to this conclusion. Treasurers in both red and blue states with CDAs will defend and promote a fully inclusive asset-building structure that is already in place, efficient, working well and popular.

Meeting the Task of Closing the Racial Wealth Gap: Reparations for Black American Descendants of U.S. Slavery

BY WILLIAM A. DARITY JR. AND A. KIRSTEN MULLEN

We go against conventional wisdom and open with a bold statement.

The Black-white wealth gap is the critical economic indicator of the cumulative, intergenerational effects of white supremacy in the U.S.

Frequently, the magnitude of the difference in wealth between Blacks and whites is underestimated, drastically, in academic research. Underestimation in the public sphere also is commonplace, and there also is a strong tendency to associate wealth exclusively with homeownership. In fact, for the average household, primary residences amount to only 24% of their net worth; business interests, financial assets and retirement accounts amount to 62%.

How big is the Black-white wealth gap? Recently released Fed data show that Black households have about 13 cents in wealth for every $1 held by white households. Moreover, when we examine wealth across business enterprises, we see stark differences in how Blacks and whites stack up. Take for example, Black banks.

Recently, Reed Hastings, the owner of Netflix, provided a $100 million grant to Black banks. This grant, which represents 2% of the company's cash holdings, is clearly a generous gift. However, even with the Hastings gift, when comparing the assets of top Black-owned banks to those of the top white-owned banks, the differential remains cavernous.

There are now 21 Black-owned banks in America that have assets approaching a total of $5 billion. JPMorgan Chase alone has more than $3 trillion in assets. The 100th white-owned bank on America's listing of top banks has four times the assets of all Black-owned banks combined. The 250th white owned bank on the list, the Bryn Mawr Bank, has $5.4 billion in assets, which is more than all 21 Black-owned banks combined. Mehrsa Baradaran, a professor at U.C. Irvine's law school, said, caustically, that the combined assets of Black-owned U.S. banks amount to "a bad weekend for JPMorgan Chase revenue-wise."

The 100th white-owned bank on America's listing of top banks has four times the assets of all Black-owned banks combined.

Netflix's gift is significant. One hundred million dollars is the equivalent of 5% of the total assets of the nation's top five Black-owned banks. Clearly, this may be meaningful in terms of maintaining their stability and profitability. However, it will do little to alter their relative asset position.

Chase itself has made a commitment of $50 million to Black-owned financial institutions out of an overall $30 billion "racial equity" fund. This also is significant from the standpoint of the Black-owned banks, but in combination with the Netflix grant it would still leave them, collectively, below the asset level of the 250th ranked white-onwed bank.

Differentials in terms of business ownership, inclusive of bank ownership, are only a fragment of the array of disparities in Black asset holdings that explain the magnitude of the overall wealth gap. Black family household net worth—on average—is $840,900 less than the white household net worth. This is the estimate at the mean. Some complain that what happens at the mean is less relevant than the median because of the effects of outliers—the uber rich and the extremely poor.

The median gap is about $164,000. Eliminating that differential is more manageable. However, eliminating the wealth gap requires a focus on the mean.

Black Americans who are descendants of persons enslaved in the U.S. make up about 12% of the nation's population. However, they possess less than 2% of the nation's wealth.

Why the mean? First, 97% of white wealth is held by white households above the white median. This is not just because there are a handful of extraordinarily wealthy white billionaires, although that is indeed the case. Many are not aware that 25% of white households have a net worth in excess of $1 million, while only 4% of Black households possess that amount. Black Americans who are descendants of persons enslaved in the U.S. make up about 12% of the nation's population. However, they possess less than 2% of the nation's wealth.

In our book on Black reparations, *From Here to Equality*, we argue that a primary objective of a "true reparations" plan must be raising the Black share of wealth to at least match the Black share of the population. This would require an expenditure of at least $11.2 trillion.[1]

A primary objective of a "true reparations" plan must be raising the Black share of wealth to at least match the Black share of the population.

This expenditure must be borne by the federal government for two major reasons. First, the federal government is the culpable party. It must be held accountable for the host of atrocities that have been inflicted on Black people from the formation of the American Republic in 1776. Second, combined state and local governments' budgets are $3.1 trillion, at least $8 trillion short of the amount needed to meet the task of closing the wealth gap. If their entire budgets were devoted to the reparations plan, they would have no resources to provide their services. Furthermore, our case for reparations is not predicated exclusively on slavery but instead on three phases of American history, including the present phase.

Of course, the crucible that set these atrocities in motion is slavery. On the eve of the Civil War, the family of Mississippian Sarah Katherine Stone enslaved 150 Black people on their 1,260-acre cotton plantation, Brokenburn. Stone would later recall the human chattel who they forced "to labor six days out of seven, week after week, month after month, year after year, as long as life lasted; to be absolutely under the control of someone until the last breath was drawn to win but the bare necessities of life, no hope of more, no matter how hard the work, how long the toil and to know nothing could change your

[1] We have frequently said that $11.2 trillion will be required to close the racial wealth gap. There are approximately 15 million Black households that consist of Black persons who are descendants of persons enslaved in the United States. If the average Black household has $142,500 in wealth, then total Black wealth comes to about $2.1 trillion. If total wealth in the United States now is about $130 trillion and Black American descendants of U.S. slavery are 12% of the population, and if they held a share of the nation's wealth consistent with their share of the population, they would possess a total net worth of $15.6. The $2.1 trillion actually held leads to a shortfall of $13.5 trillion. The $11.2 trillion shortfall is produced using a smaller estimate of total American wealth of $110 trillion.

lot. Obedience, revolt, submission, prayers all were in vain."

The second phase began almost immediately after the war ended and hamstrung Black people with nearly a century of legal segregation in the United States, what Americans call, in a blithe understatement, the "Jim Crow" period.

The "mystic years" of Reconstruction, those all-too-brief seven years when both Black and white men were entitled to vote and the two groups governed jointly, were followed by American apartheid. The period of legal segregation was marked by upwards of 100 white terror campaigns, resulting in municipal coups in Colfax, Louisiana (1873); Coushatta, Louisiana (1874); and Wilmington, North Carolina (1898). Other sites of white terrorist uprisings included Atlanta, Georgia (1906); Elaine, Arkansas and Chicago, Illinois (1919); Ocoee, Florida (1920); and Tulsa, Oklahoma (1921). These violent white riots led not only to injuries of Black people but also to the loss of Black lives and destruction and seizure of Black property. There still are many living direct victims of the Jim Crow years.

These violent white riots led not only to injuries of Black people but also to the loss of Black lives and destruction and seizure of Black property.

The final phase began after passage of the Civil Rights Acts and continues to the present day.

The nation confronts mass incarceration of its Black citizens. The nation confronts police executions of unarmed Blacks. The nation confronts sustained discrimination in credit, housing and employment.

To heal the wounds caused by these injustices, we need a plan for reparative justice. We need a national policy that will close the racial wealth gap successfully—a national policy of reparations for Black American descendants of U.S. slavery.

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Three Bold Proposals to Overcome Our Nation's Enduring Racial Wealth Gap

BY DARRICK HAMILTON AND NAOMI ZEWDE

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.

A*merica has a race problem manifesting as a Black economic problem.* In a nutshell, our racial dilemma is grounded in a political, economic and identity-based devaluing of Black lives that has persisted ever since the first enslaved African arrived in Jamestown in 1619. The ensuing history of the United States is built on both racial and economic injustice: two related but distinct problems.

These injustices, while entrenched, can be addressed. Below are three complementary policies that can make meaningful progress toward undoing centuries of systemic inequities while prospectively ensuring capital access in perpetuity: (1) reparations through which the nation acknowledges and redresses its exploitation and extraction of Black resources and personhood, (2) baby bonds (publicly funded trust accounts) to establish a birthright to capital, and (3) a wealth tax to break up the vast concentration of wealth and diffuse the political power that goes along with such concentration.

Wealth Disparity and the Racial Wealth Gap in America Are Dramatic

The mean (or average) wealth of a white family is $933,700, nearly seven times that of Black family wealth at $138,200. Clearly, the "typical" white family are not millionaires and have nowhere near $933,700 in wealth. The everyday white family does have more than their Black counterpart ($171,000 versus $17,600 at the median, or midpoint), but nevertheless, their wealth is not well reflected by the mean.

Instead, mean wealth is driven by a skewed distribution where the wealthy own just about everything. According to one study, the top one-tenth of 1% of households, those with over $20.6 million in wealth, own about as much of the nation's wealth as the entire bottom 90%. We haven't seen this immense and disturbing concentration of wealth since the Great Depression, and it is driven largely by vast amounts of wealth held by a small number of overwhelmingly white billionaires.

Wealth concentration is wreaking havoc on our democracy and consistently thwarting our attempts at progress. For instance, a large majority of Americans want action on climate change. Yet, a special interest of energy tycoons stands to lose some of its short-term profits and funds aggressive lobbying that impedes democratic action.

> *A substantive redistributive wealth and/or estate tax could effectively break up the concentration of wealth and power...But alas, this would still leave unaddressed our unjust and unacceptable racial wealth gap, which requires more direct action.*

Economic justice cannot take root or flourish when wealth, power, resources, news media, book publishers, educational curricula, technological surveillance, prisons, business capital and all of our existing institutions are owned or controlled by relatively few plutocrats, those able to translate vast economic power into anti-democratic political power. The bottom half of households (disproportionately Black) will own a lot more than just 1% of our nation's wealth in an economically just democracy.

A substantive redistributive wealth and/or estate tax could effectively break up the concentration of wealth and power, trending us away from the special interests of a plutocracy and toward the just and egalitarian public policies of a healthy democracy. But alas, this would still leave unaddressed our unjust and unacceptable racial wealth gap, which requires more direct action.

Truth and Reconciliation

Progress in racial justice requires an honest and sobering confession of our historical sins, directed or sanctioned by the state. We must build a shared understanding of the nation's original sin: chattel slavery and forcing Black people to serve as capital assets for a white-landowning plantation class. We must also understand what followed: sharecropping, lynching, Jim Crow and racialized exclusion from New Deal and postwar policies that built an asset-based white middle class.

Inequality and poverty have been intensely racialized in the United States. Poor people of all races are stigmatized under an umbrella of anti-Blackness. State interventions to promote their social mobility are seen as incentivizing bad behavior. Truth and reconciliation would diminish the saliency of "blaming the victim" narratives, like the late and former New York Sen. Daniel Patrick Moynihan's "tangle of pathology," which laid a foundation for caricatures of Black, Brown and poor people as "welfare queens," "deadbeat dads" and "undeserving." This effort would reframe inequality from overtures of anti-Blackness to realities of resource deprivation.

The South African Truth and Reconciliation Commission was one recent example among many. That country's post-apartheid constitution charged its commission with shepherding a populace scarred by decades of racialized violence, dehumanization and exploitation into a new era of conciliatory nationhood—quite a tall order. The commission held hearings across the deeply divided nation, archiving volumes of personal histories of violence.

> ***Progress in racial justice requires an honest and sobering confession of our historical sins, directed or sanctioned by the state.***

Ultimately, however, South Africa continues to fail the economic fortunes of its Black citizens, 64% of whom live in poverty. By comparison, only 1% of white South Africans live in poverty. While truth and reconciliation ushered in a peaceful political transition, it left the country's resources in the control of an elite white minority, now with a few elite Black individuals involved in its leadership.

Acknowledgment Without Redress Is Incomplete

We should learn from the South African experience that economic justice cannot be left on the back burner. It is only with both these factors, apology and material redress that America can ever have racial justice. What's more, a sufficient reparations program could compensate the victims of our racist history through both unconditional cash payment and through ownership of land and/or means of production. For example, the government can purchase and transfer corporate stock to Black Americans. Without ownership, the cash stimulus of reparations could in effect further enhance racial inequality, multiplying economic gains for white people who disproportionately own American land and production.

Reparations provide a retrospective approach to racial justice. But whether implemented as a one-time payment or in installments, such transfers are not expected to occur in perpetuity. In that vein, we can establish other ongoing channels that build and maintain access to economic security for all people regardless of race, gender or family inheritance.

An Anti-Racist Birthright to Capital

Baby bonds (or more accurately "baby trusts") would establish an economic birthright to capital for everyone in perpetuity. These accounts would be held in public trust, similar to Social Security, and could be used as a capital foundation for an economically secure life. Otherwise, even after implementing reparations, the iterative and consolidative tendency of wealth would likely trend toward inequality and wealth disparity.

The baby trusts program would allocate a trust fund to every child in the United States. The average account could be seeded around $20,000 and rise upward to $50,000 for babies born into families with the lowest net worth and downward for the wealthiest. The account would mature and transfer to those children upon entering adulthood. At that scale, a publicly seeded universal trust fund could, for example, substantially reduce the median wealth gap for young adults—where young white adult households currently have approximately 16 times the wealth of young Black adult households—to one where the disparity is just 1.4 times as large. Beyond race, baby bonds would disproportionately benefit low wealth households in general; and to the extent that intra family transfers drive the gender asset gap, the program would provide some redress for American patriarchy as well. In essence, "baby trusts" would deliver a more egalitarian economic security, independent of the financial position into which individuals are born, and redressive of structural racial inequalities.

Breaking Through the Plutocracy

Achieving justice requires an equitably and fairly structured society.

Imagine this: We eliminate student debt and instead fully fund tuition-free public colleges and universities, historically Black colleges and universities, and tribal colleges and universities. We have Medicare for All, an economic right to high-quality housing and child care, a job and enough income support so that no one has to endure poverty. And on top of that, every young adult has access to capital, independent of race, education, gender or generational legacies of exploitation.

That is a vision of a just and free society, one in which young people, even Black young people, can afford to build a future and have some chance of thriving across the course of their lives. It's a society that is within our collective reach.

Our vision of a just and free society, one within our collective reach, is one in which young people, even Black young people, can afford to build a future and have some chance of thriving across the course of their lives.

The obstacle to fulfilling this vision is political will, largely constrained by forces emanating from the concentrated economic and political power of our nation's plutocracy.

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A Risk-Free Way to Build Wealth? Forget It

BY ALLISON SCHRAGER

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 impossible to grow a large amount of wealth without taking some risk. Riskier assets, like stocks, come with the potential for higher returns compared to low risk assets, like bonds. However, those higher returns come with a cost—possible loss. The good news is we have the tools to insure against extreme loss and make risk taking more accessible to all.

The fact that richer people tend to own riskier assets is one reason why their wealth grows faster. There is a perception that the wealthy game the market, and some do. But most of the time their higher returns are due to the fact they take more investment risk. For example, according to data from the 2019 Federal Reserve Survey of Consumer Finances, higher earning households—Americans whose income exceeds $150,000[1] a year—invest more of their retirement assets in stock. The median equity allocation in their retirement accounts is 54%, compared with just 37% among Americans who earn less than $50,000.

There is a perception that the wealthy game the market, and some do. But most of the time their higher returns are due to the fact they take more investment risk.

This is not surprising. Traditionally, policy did not encourage lower-earning Americans to invest in stock. Government-sponsored saving policies tend to steer them to low yielding returns that are guaranteed to not lose money. Take the myRA program, a short-lived federal saving scheme created during the Obama administration. The program aimed to increase saving among Americans who did not have a job that offered a retirement saving account. It offered only one investment option, a portfolio of Treasury bonds and bills. The program was discontinued. But today, several states, such as California and Oregon, offer similar saving programs that aim to increase retirement saving among low earners. And they also encourage low-risk investing. Their default investment is to put the first $1,000 in a money market account and

[1] Americans who have some retirement account assets and are between the age of 45 and 65.

any remaining savings in a target date fund. There is some equity in the target date fund, but the strategy overall is a very conservative one because the balances tend to be fairly small and don't exceed the $1,000 cutoff.

There is sensible economic logic behind the idea that low earners should not invest in the stock market. If you have very little savings and income, you can't afford to lose much wealth. Many low earners have little or no cushion against adverse events. And they tend to be more vulnerable to economic shocks since they are more likely to have a car break down or, during recessions, are more likely to lose their job and take longer to find another one. They tend to be hit harder by recessions because many low earners are in procyclical jobs such as retail. Investing in stocks exposes them to more risk than someone with a stable government job because their income is more closely correlated with the stock market.

But there is also a case to be made that lower earners need *more risk* exposure, especially for longer-term, less liquid assets like retirement accounts. First of all, they have less savings, and higher risk assets do grow faster. There is also an argument from a risk perspective. Low earners already have a large, risk-free retirement asset in the form of Social Security, which makes up most of their retirement wealth. Because of the progressive benefit formula, it also provides a fairly high replacement rate of their working income. Investing any additional retirement saving in a sensible equity strategy offers some diversification from government assets and upside potential from growth. Responsible, well-diversified investing offers low-income Americans a chance to share in the prosperity that higher income Americans experience.

But there is also a case to be made that lower earners need more risk exposure, especially for longer-term, less liquid assets like retirement accounts.

This leaves policymakers who wish to achieve more inclusive wealth generation with two problems: They must increase stock market participation and help protect low-earning participants from large losses. The first part is fairly easy. It starts with expanding access to long-term saving vehicles where savers can easily access the stock market. One possibility is increasing participation in retirement accounts among low earners who don't have the option at work. This can either involve expanding state saving accounts or reviving the federal myRA program. So far, these programs are not very popular, but that is in part because of a lack of awareness. We can also incentivize participation by matching individual saving or seeding the accounts for people whose income falls below a certain threshold.

Another option is increasing access to 529 plans; already seven states establish these at birth automatically for every newborn. A similar idea gaining traction is "baby bonds." In Sen. Cory Booker's proposal, the government would put $1,000 in a savings account for each child born and add $1,000 to the accounts each year for lower-income households; this bond could be automatically placed in a 529 plan that is invested in stocks. The government could also use the newly created child care allowance to encourage investing. Parents could be offered the option to have some of their cash payment directly deposited into a 529 plan.

Then, to increase stock ownership, these government-sponsored accounts can entail a default investment that's a well-diversified stock index fund. Steering people to index funds offers them a chance at higher returns for relatively little risk because the funds include so many different stocks they eliminate idiosyncratic stock risk, or the risk that an individual stock will rise or fall.

Systematic risk can be reduced with insurance: government-sponsored saving accounts could include a "put" option on the S&P 500, or any index fund that is the default investment.

However, systematic risk, the risk the whole market will fall, remains a concern. Even if retirement and education assets are intended for long-term saving, there is a chance the stock market could fall and remain depressed for years. Lower-income Americans often use their accounts to finance setbacks, tapping into them early with a loan or withdrawing the assets and paying penalties. They are more likely to do this when the market is down.

But systematic risk can be reduced with insurance. The government-sponsored saving accounts could include a "put" option on the S&P 500, or any index fund that is the default investment. A put contract offers the investor the option to sell their shares at a preset price. It effectively puts a floor on the losses, an insurance against a large sustained market crash. Of course, insurance comes at a price, and long-term options contracts tend to be expensive. The myRA program offered an above-market return on its low-risk asset. Instead of subsidizing low-risk investing, the government could instead subsidize a long-term insurance contract on the stock market. This will offer the possibility of growth along with some protection from the market falling and staying low.

Another concern with encouraging more people to take investment risk is it takes a level of financial acumen and understanding of markets many Americans (of all income levels) don't have access to. They might buy individual stocks that promise potential for extra-high returns but most of the time mean low returns and high risk. However, we do have evidence that nudges and default investment options can be an effective way to steer people to better risk decisions. An insured equity index fund could be the default investment in a government-sponsored saving account aimed at lower earners. And to ensure low-income savers don't take any undue, or inefficient, risk, the other investment options would be different index funds and some target date funds.

We appear to be moving into an economy where the returns to capital will continue to increase and outpace labor. Building a more inclusive economy—building wealth among low earners—requires sharing the gains that come from investing in riskier assets. There are reasons to be concerned that investing their savings in the stock market would expose them to too much risk. However, there is scope for subsidized insurance on well-diversified funds that can offer more upside with some protection.

As returns to capital outpace those to labor, building a more inclusive economy and wealth among low earners requires sharing the gains that come from investing in riskier assets.

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SECTION V

STRONGER FAMILY BALANCE SHEETS: ASSETS

Our Older Versus Our Younger Selves: Time Travel, Wealth and Family Formation

BY SCOTT WINSHIP

A frequently expressed concern on both the political left and right is that the balance sheets of younger adults have deteriorated, which has made it difficult for them to marry and start families. These concerns are behind recent calls for a permanent child allowance, student loan debt forgiveness and free college. How we should think about policy to support family formation depends on the extent to which the net worth of millennials has actually declined relative to Gen Xers and baby boomers. But even if the data do not fully bear out the narrative of generational collapse, there are still ways that policy can help younger adults start families. In particular, by shifting debt repayment to our older selves and income from wealth to our younger selves, a variety of policies could make it more affordable to start a family in early adulthood.

By shifting debt repayment to our older selves and income from wealth to our younger selves, a variety of policies could make it more affordable to start a family in early adulthood.

Understanding changes in wealth is complicated by conceptual and measurement challenges. Conceptually, if wealth falls but the starting point occurs during an asset bubble, should we take the decline at face value? In terms of definitions, if "wealth" includes student loans on the debt side but omits the human capital financed by that debt on the asset side, how do we think about that? Americans would save a lot more if Social Security, Medicare and Medicaid disappeared tomorrow, yet we don't count senior entitlements as assets.

Further, assessing wealth trends requires considering preferences over spending income versus saving it. Wealth levels can decline because of rising hardship, but they can also decline if saving becomes less appealing relative to consuming.

To assess the change in wealth in recent years, my research assistant, Santiago Deambrosi, and I are analyzing data from the Survey of Consumer Finances, which is conducted every three years. For this essay, we compared median wealth in 1992 and 2013. These were years with similar unemployment rates and similar ratios comparing home prices to rents.[1] Accounting for the latter ensures that the wealth trend is not driven by housing bubbles, which involve wealth creation (and destruction) unrelated to the secular trend over time. We also exclude student loan debt from our wealth calculation since it provides a misleading picture without considering the stock of human capital it finances as an asset.

We find that the median net worth (less student loan debt) of households headed by someone under age 35 actually rose slightly from $16,872 in 1992 to $17,520 in 2013 (all in 2020 dollars[2])—an increase of 4%. Adults between the ages of 18 and 34 in 1992 were born between 1958 and 1974, while those in the same age range in 2013 were born between 1979 and 1995, so this comparison also is convenient for assessing how millennials have fared relative to Gen X and baby boomers.[3]

Notably, when student loan debt is included in wealth (without any corresponding asset), median net worth among adults under 35 falls by 25%, so the treatment of educational debt makes a big difference. If we assume, conservatively, that only half of educational debt is offset by more valuable

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1 The unemployment rate was 7.5% in 1992 and 7.4% in 2013. See the Bureau of Labor Statistics Labor Force Statistics database. We computed ratios of home prices to rents by dividing Robert Shiller's monthly nominal home price index by the Rent of Primary Residence subindex of the Consumer Price Index for All Urban Consumers, after indexing both to January 2000. The 12-month average of the ratio was 0.94 in 1992 and 1.05 in 2013 (compared with 1.29 in 2004, 1.39 in 2007, 1.10 in 2016, and 1.15 in 2019). The Shiller index values come from his webpage. Rental price index values are from the Bureau of Labor Statistics, taken from the Federal Reserve Bank of St. Louis Federal Reserve Economic Data website (series CUUR0000SEHA).

2 We use the Personal Consumption Expenditures deflator to adjust for inflation.

3 The Pew Research Center, for instance, defines baby boomers as being born between 1946 and 1964, Gen Xers as born between 1965 and 1980 and millennials as born between 1981 and 1996.

human capital, then median net worth among young adults fell by 14% from 1992 to 2013, or $2,200.

Regardless of the trend, policy can focus better on ways to help more young adults who want to marry and become parents. The fundamental problem with family affordability is that people generally want to start families when they are relatively young, but this is the life stage at which their balance sheets are least able to support putting down roots. One approach to making family formation more affordable, then, would be to shift the timing of when lifetime income is received or when lifetime expenses are paid so that our older selves effectively subsidize our younger selves.

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For instance, a 30-year mortgage allows younger adults to finance the cost of buying a home over three decades, including years when they will be older and have higher incomes. However, tax breaks like mortgage interest and state and local income tax deductions actually end up subsidizing our older selves at the expense of our younger selves. These deductions inflate the value of homes, which benefits incumbent homeowners, who tend to be older. Younger adults looking to buy a home are faced with higher down payments than would be required absent this asset inflation. As Alan Cole, a staffer in Congress' Joint Economic Committee, notes, eliminating these deductions would make our older homeowning selves less wealthy but would make our younger selves looking to start a family more wealthy.

Another way to shift expenses to our older selves would be to encourage ways of financing higher education expenses that subsidize our younger, poorer selves. Expanding income-based repayment within the federal student loan system would be one option, but such a system depends heavily on federal subsidization of student loan interest and federal origination of loans, leaving the system vulnerable to inefficiencies and calls for bailouts. A better alternative would be to develop a system based on "income share agreements," or ISAs.

ISAs are contracts that stipulate that some amount of a student's higher education expenses will be paid by one or more investors, who are entitled to receive a designated percentage of the student's future income over a specific duration. New graduates—or students who drop out of college—will have relatively low earnings relative to their future selves, but they will be on the hook for a fixed percentage of those low earnings. When they are older and further along in their careers, their incomes will be higher, and they will pay the same percentage of that higher income to investors. As a market-based system, investors and beneficiaries are likely to develop variations on this basic setup that could further push expenses toward our older selves.

As an example of shifting income from future wealth forward, consider the recent parental leave proposal from Senators Joni Ernst (R-Iowa) and Mike Lee (R-Utah). Their plan would let parents receive a benefit modeled on social security disability payments for up to three months to care for a newborn. The benefit would be financed through delayed social security retirement benefits on the part of the parent who takes leave.

My colleagues at the American Enterprise Institute, Katharine Stevens and Matt Weidinger, have offered a different proposal that would shift income forward and thereby promote family formation. The child tax credit is a per-child benefit available to most families with income tax liability and provides a reduced benefit to a smaller number of families with earnings who owe no income tax. (It has been temporarily expanded this year to families with and without earnings.) Instead of families receiving up to $34,000 in tax credits over the first 17 years of their child's life, Stevens and Weidinger would allow them to take up to $30,000 in benefits over their child's first two to five years.

Through these and other proposals, federal tax, safety net, housing, retirement and education policy could be reformed to address the basic mismatch between when we want to start families and when we have the wealth to afford them—and in a way that is friendly to family and federal budgets alike.

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Two Is Wealthier Than One: Marital Status and Wealth Outcomes Among Preretirement Adults

BY W. BRADFORD WILCOX

The United States is an increasingly unequal society along many dimensions—including household wealth. For instance, a 10% minority of the country holds a majority of the household wealth (69%).[1] As with so much of the social and economic inequality in the nation, there is an important family dimension to this inequality story. The significant minority of adult men and women who get and stay married are much more likely to hold greater wealth—when measured in terms of the assets they own (including homes, retirement savings and bank accounts) minus their debts. To an important extent, the wealth divide in America coincides with a marital divide across the nation.

To an important extent, the wealth divide in America coincides with a marital divide across the nation.

In this essay, I use data from the National Longitudinal Survey of Youth 1979 (NLSY79) cohort to explore the character of this marriage divide in wealth—as measured by real estate holdings, retirement savings, cash and other investments, minus debts—for men and women who are in their 50s and on the verge of retirement.[2] I also cast an eye on how this divide plays out

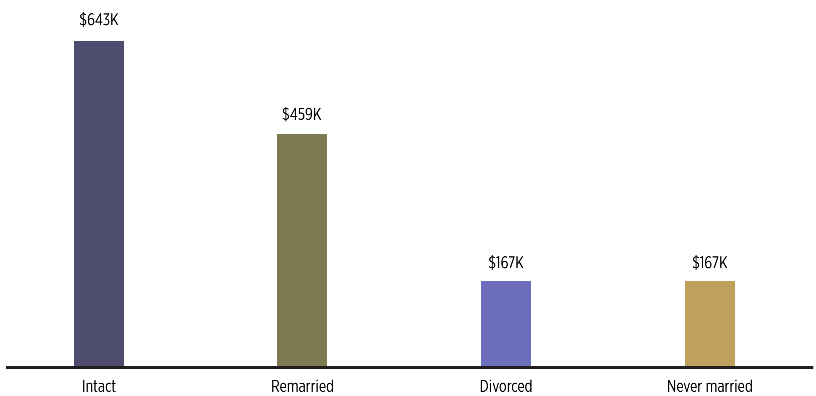
1 Board of Governors of the Federal Reserve System (U.S.), "Share of Total Net Worth Held by the Top 1% (99th to 100th Wealth Percentiles) [WFRBST01134]," retrieved from FRED, Federal Reserve Bank of St. Louis; Board of Governors of the Federal Reserve System (U.S.), "Share of Total Net Worth Held by the 90th to 99th Wealth Percentiles [WFRBSN09161]," retrieved from FRED, Federal Reserve Bank of St. Louis.

2 The NLSY79 follows the lives of a nationally representative sample of 12,686 young men and women starting in 1979 when the respondents were ages 14 to 22. The latest wave, round 27, was surveyed in 2016 when the respondents were ages 51 to 60. The survey was sponsored by the Bureau of Labor Statistics (BLS).

by race and class before concluding that, in order to bridge the marriage and wealth divides in the U.S., policymakers should pursue policies like means-tested "baby bonds" or universal savings accounts that will help more young couples feel financially prepared to marry while also rooting out marriage penalties from means-tested programs.

FIGURE 1

Household Assets of 51-60 Year-Old Men and Women, by Marital Status

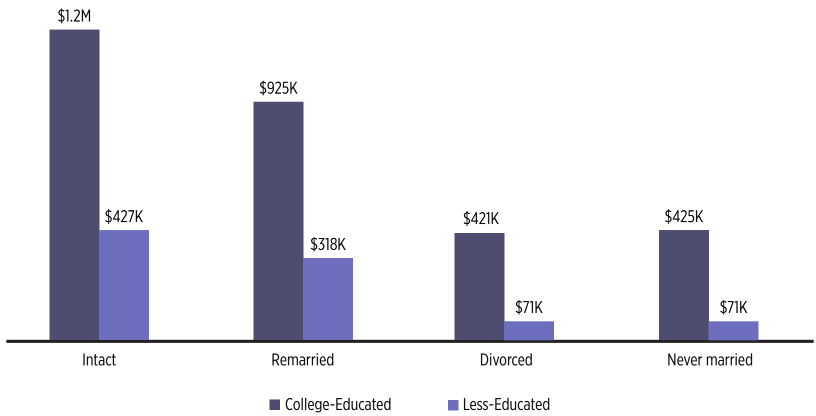


Note: Average wealth (real estate holdings, retirement savings, cash, and other investments, minus debts), after controlling for education, race, gender, age, and AFQT scores.
Source: National Longitudinal Survey of Youth 1979 (NLSY79), Round 27 (2016).

The marital divide in assets for 50-something adults is substantial. As Figure 1 indicates, married Americans have more than twice the average assets of divorced and never married Americans, even after controlling for gender, age, education, race, ethnicity and scores on the Armed Services Vocational Aptitude Battery, a standardized test that measures mathematical, scientific and word knowledge. On average, stably married men and women have more than $640,000 in assets, while the remarried have more than $450,000 in assets. By contrast, divorced and never married Americans have only about $167,000 in assets when they reach preretirement years.

FIGURE 2

Household Assets of 51-60 Year-Old Men and Women, by Marital Status and Education



Note: Average wealth (real estate holdings, retirement savings, cash, and other investments, minus debts), after controlling for education, race, gender, age, and AFQT scores.
Source: NLSY79, Round 27 (2016).

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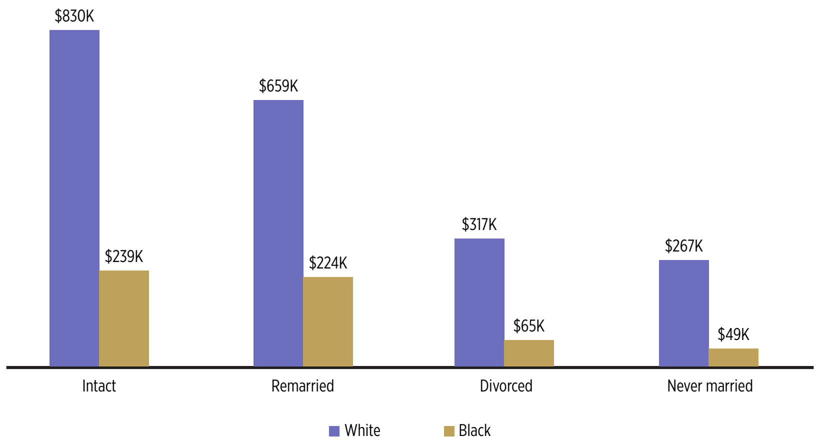
Large differences in wealth by family structure also apply within demographic groups in the United States. Among the college educated, those who are married have more than twice the wealth of those who are divorced or never married (about $1 million compared to $425,000) even after controlling for demographics (see Figure 2). Among the less educated, married Americans have about four times the wealth ($318,000-$427,000) of those who are not married (about $71,000). Thus, family structure is even more powerfully linked to wealth for less educated Americans than it is for highly educated Americans.

FIGURE 3

Household Assets of 51-60 Year-Old Men and Women, by Marital Status and Race



Note: Average wealth (real estate holdings, retirement savings, cash, and other investments, minus debts), after controlling for education, race, gender, age, and AFQT scores.
Source: NLSY79, Round 27 (2016).

Differences in wealth by family structure also apply across racial lines, with white and Black Americans who are married enjoying markedly more wealth than their unmarried peers of the same race. Figure 3 indicates that white Americans who are married have more than twice the wealth (about $750,000) of their unmarried peers (about $300,000). Among Black Americans, the association between marital status and wealth is even larger, with married Black Americans having more than three times the wealth of their unmarried peers, about $230,000 compared to $65,000. Note, however, that even married Black Americans have less wealth, on average, than do unmarried white Americans. These descriptive results suggest marriage is not a panacea when it comes to addressing the racial wealth gap in America and that other factors are in play.

Undoubtedly, some of the substantial divide in U.S. household wealth associated with marital status is driven by selection. Americans with more income and assets are more likely to marry and to stay married. This is especially the case today with highly educated men and women being more likely to be stably married than less educated Americans. As sociologists Pilar Gonalons-Pons and Christine R. Schwartz have noted, "the well-off are now 'doubly advantaged': they are both more likely to be married and thus have access to a second paycheck, and because of increased economic homogamy, they are also more likely to be married to another high-earning spouse," all of which increases their ability to accumulate wealth. Moreover, some of the marital divide in wealth can be attributed to the fact that men and women who have particular personality traits and values—such as a long-term orientation to life—are more likely to save *and* be stably married. So, to some extent, other factors besides family structure per se—like education or prudence—help to explain the marital divide in assets.

Marriage and marital transitions also appear to independently influence the accumulation of wealth in America.

Nevertheless, marriage and marital transitions also appear to independently influence the accumulation of wealth in America. Married couples, for instance, benefit from economies of scale that allow them to share housing, food and utilities and devote more of their household income to building wealth. Stably married couples also avoid the substantial costs associated with family instability, especially among parents—legal costs, child support and moving to a different home, to name a few. Furthermore, marriage itself appears to engender a responsibility ethic, where spouses set aside money for an imagined future together. This translates to higher rates of per capita savings and lower rates of spending per capita among the married compared to their demographically similar but unmarried peers. Because marriage makes it easier to save, reduces costs associated with family instability and engenders a savings ethic, the significant association between marital status and wealth looks to be at least partly causal.

Given the deeply unequal character of family structure and household wealth in the U.S. today, and the reciprocal relationship between wealth and marriage—where wealth appears to foster stable marriage *and* stable marriage seems to increase one's odds of building wealth—two policy conclusions follow. First, policymakers should pursue measures—like "baby bonds" or savings accounts at birth that are funded more generously for more disadvantaged children and may be used once a child turns 18 for paying for college or technical education, buying a home or starting a business—that will reduce wealth inequality in America and help more young men and women feel financially prepared to enter into marriage. Second, policymakers should also seek to bridge the marriage divide in America by minimizing or eliminating marriage penalties in means-tested programs and policies that hit working-class families especially hard today. Medicaid and disability benefits, for instance, should be reformed so as not to penalize couples who marry.

Such policies will help engender a future where more financially struggling young men and women can marry at the age they want to and can tap into the many benefits of marriage—including increased ability to accumulate wealth. The alternative, a world where wealth and marital success is divided ever more unequally by class, is unacceptable.

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SECTION V

STRONGER FAMILY BALANCE SHEETS: ASSETS

Building Wealth by Investing in Four Forms of Capital

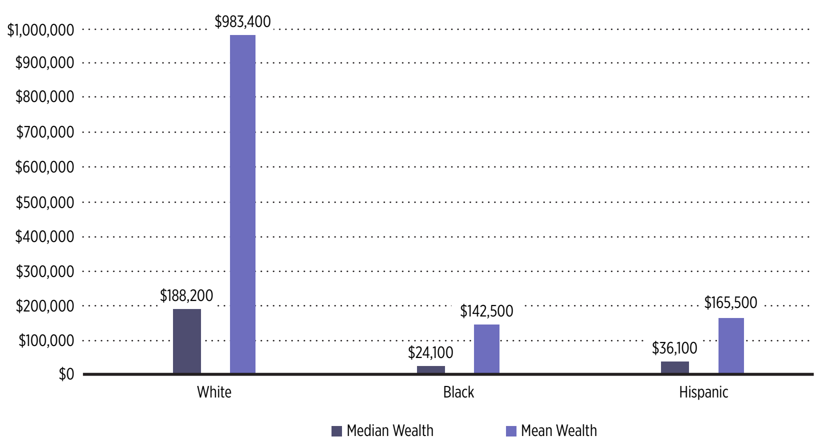
BY ROSS DEVOL AND DAVID SHIDELER

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.

Wealth gaps have been rising in the U.S. for decades, but they have widened most acutely between whites and people of color. These wealth disparities are causing fissures in opportunities between children from families with accumulated financial assets relative to those children from families lacking these assets. As shown in Figure 1, wealth is more concentrated among whites. The ratio of mean to median family wealth among whites in 2019 was over five; this is the widest the ratio has been since the Federal Reserve began conducting its Survey of Consumer Finances. The figure also illustrates the disparity of wealth between whites and other races and ethnicities in 2019. The ratio of mean wealth of whites relative to Blacks was 6.9; however, in 1989, the same ratio was 4.3. The ratio of mean wealth for whites relative to Hispanics rose from 4.9 in 1989 to 5.9 in 2019.

FIGURE 1

Comparison of Median and Mean Wealth Across Races and Ethnicity



Source: Federal Reserve Bank Board of Governors, Survey of Consumer Finances, 2019.

To address these wealth disparities in a meaningful way, we must focus on policies that address the underlying causes, not the symptoms. We need to invest in building four types of capital: human, health, entrepreneurial and financial, and digital.

Human Capital

There is a clear relationship between educational attainment and income; as one accumulates human capital (from education), one becomes more productive in the labor force and garners a higher wage. For example, an individual with a high school diploma had median earnings of $38,792 in 2019, while one holding a bachelor's degree made $64,896—a premium of 67.3%. Even someone with an associate's degree earns a premium of 18.9% compared to a high school graduate. The premium can be larger for someone with an associate's degree in a technical field.

To address these wealth disparities in a meaningful way, we must focus on policies that address the underlying causes, not the symptoms.

While educational attainment and income are linked, the performance of institutions of higher education as catalysts of upward mobility is spotty. Some colleges have a high proportion of students from low-income families (high access), while others have a large percentage of those low-income students who are successful as adults (high income). The reality is that very few colleges combine a high access rate and a high success rate. Colleges that intersect in both categories provide the greatest impetus to upward mobility in a region. However, there doesn't appear to be an inherent trade-off between access and success among colleges.

A policy worth pursuing further is heavily subsidized or free tuition for students from low-income families who enter community colleges and are enrolled in programs for high-demand occupations, as is being discussed in the American Families Plan. More focus on establishing in-demand career pathways by local firms might improve prospects for earnings mobility. Universities and colleges would better serve students from low-income families if they tracked their progress from the moment they arrive on campus as well as provide coaching and social support services before an irreversible event occurs (dropping out, never to return).

Health Capital

Low human capital is also related to poor health. On the one hand, low-skill workers often lack access to employment that provides health insurance; on the other hand, poor health status reduces lifetime earnings and can create a downward financial spiral when unforeseen medical expenses (heart attack, cancer, etc.) occur. Affordable and more accessible health insurance can protect accumulated wealth or prevent deep indebtedness. Despite efforts like the Affordable Care Act, disparities across race also exist, with 6.3% of whites having the lowest uninsured rates compared to Blacks, who have a rate of 10.6%.

More health insurance options need to be offered that are not tied to employment. The Affordable Care Act could be expanded by offering higher subsidies for families. Without access to affordable health care, we limit upward mobility and the ability to build wealth. Some expansion of existing Medicaid programs must also be considered. Longer term, we need reforms to the health insurance system that moves us toward a value-based model that reimburses providers for keeping people healthy (whole health system). People of color would benefit most from this change, as COVID-19 demonstrated. Because of previous poor access to health care, people of color had multiple comorbidities, subjecting them to higher rates of infection, hospitalization and death.

Entrepreneurial and Financial Capital

Heartland Forward research has shown that entrepreneurship has a significant positive influence on a community's ability to create jobs and economic opportunities for its citizens. Like so many other parts of the public sector, entrepreneurial ecosystems lack coordination, so they have been unable to stem the 44% decline of U.S. entrepreneurship between 1978 and 2013. And entrepreneurship rates are extremely subdued in Black neighborhoods. For example, just 0.24% of Blacks in the U.S. started a new business in 2019—the lowest of any racial or ethnic group.

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There is evidence that business ownership plays an instrumental role in closing the racial wealth gap. Business ownership helps families build wealth: It diversifies their portfolios, business assets generate greater average returns over time than household assets and, most importantly, it is associated with higher wealth levels. Research demonstrates that Black entrepreneurs have greater wealth mobility than Black workers. Black entrepreneurs have similar wealth mobility compared with white entrepreneurs; however, white workers have greater wealth mobility than Black workers.

Two significant barriers to business ownership, particularly among persons of color, include access to early stage risk capital and technical assistance. While the federal government plays a role in funding innovation and entrepreneurship, through Small Business Administration (SBA) loan guarantee programs and grants for small business innovation (e.g., SBIR), the majority of Black- and Hispanic-owned businesses lack awareness and access to these programs. For example, the Payroll Protection Program (PPP) did not fund Black-, Hispanic- or female-owned businesses in proportion to their share of firms overall. However, Homeowner Assistance Funds, in the American Rescue Plan, will help to preserve existing homeowner wealth that is often a form of collateral on small business loans. The State Small Business Credit Initiative is another American Rescue Plan program that seeks to inject financial capital into state-sponsored technical and capital access assistance programs.

There are several approaches to addressing entrepreneurs' access to capital, such as

- Reconfiguring and expanding SBA loan programs to assist younger, smaller firms.
- Funding alternative financial institutions (such as community development financial institutions, or CDFIs) to provide startup capital, such as expanding minority-owned depository institutions' lending capacity by $20 billion.
- Funding state and local venture capital programs from the new Small Business Opportunity Fund.
- Encourage business angel investment to both increase funds available to startups and educate accredited investors on investment opportunities.

As with all programs, geographic and demographic diversity must be a priority in resource allocations.

To boost entrepreneurial capital, communities and governments should seek to establish entrepreneurial support organizations (ESOs) to help get startups off the ground. ESOs coordinate efforts across institutions to ensure the delivery of the right resources to the right businesses; by reducing competition for resources and guiding entrepreneurs to the right services, ESOs reduce barriers in the community to new firms.

Digital Capital

COVID-19 highlighted the bare necessity of digital capital for the creation of human, health, financial and entrepreneurial capital. Access to high-speed internet has been—and continues to be—a lifeline for education, commerce, health, workforce and equity. Individuals (and even whole communities) without access have genuinely suffered. We must digitally connect all of America to address building other forms of capital. And there exists consensus on this, as funding for high-speed internet access, adoption and utilization is a common theme throughout the federal recovery strategies—as an allowed use of American Rescue Plan funds for recovery and capital projects and as specifically targeted funds in the American Jobs Plan.

Investing in diverse and ethnic people of color and women will be critical to spur inclusive growth, boost economic performance and create wealth.

Investing in diverse and ethnic people of color and women will be critical to spur inclusive growth, boost economic performance and create wealth. McKinsey and Company estimated that if we could close the wealth gap between Blacks and whites alone, it would add $1 trillion to real GDP. We must be intentional about addressing the underlying causes of wealth disparities.

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David Shideler is chief research officer at Heartland Forward. He joined Heartland Forward after more than a decade at Oklahoma State University, most recently serving as a professor and community and economic development specialist in the Department of Agricultural Economics.

Show Me the Money: To Build Wealth Inclusively, Look to Where People Accumulate and Government Subsidizes It

BY C. EUGENE STEUERLE AND SAFIA SAYED

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.

Any policy effort with hope of having a significant effect on building wealth for everyone must look at (1) where families accumulate wealth and government distributes subsidies and (2) how significant wealth building almost always requires (a) *long-term* ownership of (b) *real* assets with (c) decent *rates of return* (d) *accumulating* and compounding over time.

Failing those tests, policies to encourage wealth building may serve as vehicles for learning or emergencies, but they are unlikely to move the needle much on increasing the net worth of those many households together holding only a small share of total household wealth.

Over the past four decades, domestic spending has more than doubled in real dollar terms and also increased as a share of GDP, while the share of total household wealth has declined for many groups, including Black households, those with below-median wealth and the young. The failure of government redistributive and investment policy to have greater influence on real and financial wealth of most households, we believe, derives from its failure to address the two primary sets of considerations just outlined.

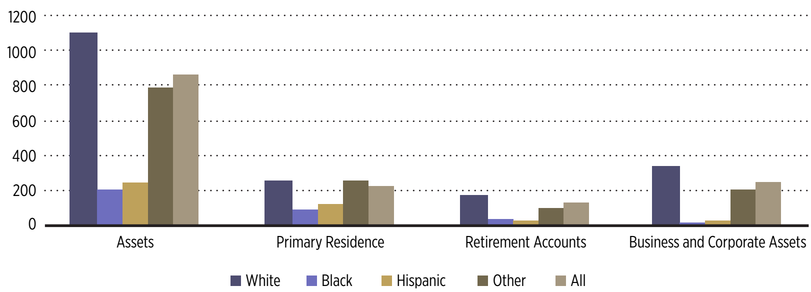
Among the most logical ways to change course would be to attend to where households naturally succeed in accruing wealth. Not surprisingly, for most households, this correlates highly with homeownership and retirement saving, both of which contain processes that encourage accumulation, compounding and investment in assets with higher real rates of return. Changing course also requires looking to the size and distribution of current government wealth building subsidies, largely tax subsidies for holding these same assets.

At the end of the third quarter of 2020, the combined assets of all households and nonprofit institutions in the U.S. equaled $140 trillion and their liabilities, $17 trillion. When we look to where households in all racial and ethnic groups tend to accumulate wealth, we see that homeownership and retirement assets stand out in general and dominate in the middle (here defined as the average in the third quintile) of the wealth distribution of each group (Figures 1 and 2). Direct ownership of business assets and corporate stock stands out in the highest wealth classes.

FIGURE 1

Mean Asset Values, 2019

Thousands of 2019 dollars



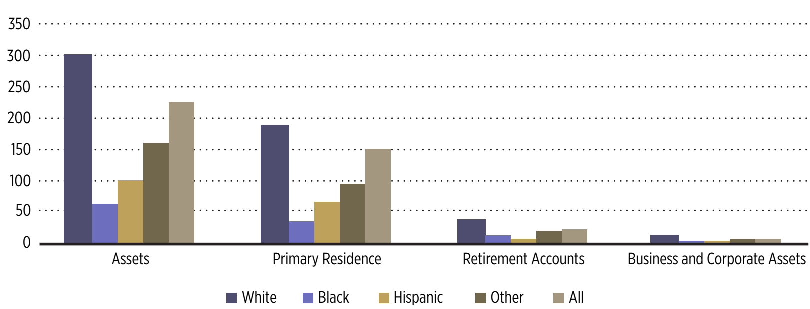
Source: Survey of Consumer Finances.
Note: Retirement Accounts exclude less liquid pension entitlements. Business Assets include the value of active business interests and directly held stocks and mutual funds.

FIGURE 2

Mean Asset Values, 2019

Middle net worth quintile in each race/ethnicity

Thousands of 2019 dollars



Source: Survey of Consumer Finances.
Note: Retirement Accounts exclude less liquid pension entitlements. Business Assets include the value of active business interests and directly held stocks and mutual funds.

At the same time, Frank Sammartino and Eric Toder show that total tax subsidies for homeownership and retirement plans, as estimated by the Treasury for fiscal years 2019 through 2022, equaled $1.7 trillion, or approximately $850 billion each.

While one might argue that these policies are targeted to the assets most critical to household accounts and to wealth accumulation, they are fairly exclusive and ill-targeted for households with limited wealth and income and those just beginning to invest. Because these subsidies come almost entirely in the form of deferred taxation or deductions and exclusions that increase in value with both one's wealth and higher tax rates, they tend to be highly skewed toward higher-income households. For instance, the top income quintile (or richest 20%) of taxpayers garner 63% of the tax benefits for retirement saving incentives and 79% of tax benefits for home mortgage interest deductions (Table 1). Yet these are the households already most likely to have adequate assets to meet their financial needs.

TABLE 1

Tax Benefit of Housing and Retirement Saving Tax Incentives

Distribution of tax benefits, by income percentile, calendar year 2018

EXPANDED CASH INCOME PERCENTILE	ITEMIZED DEDUCTION FOR HOME MORTGAGE INTEREST		RETIREMENT SAVING INCENTIVES	
	SHARE OF TOTAL BENEFIT (%)	AVERAGE BENEFIT ($)	SHARE OF TOTAL BENEFIT (%)	AVERAGE BENEFIT ($)
Lowest quintile	0.1%	$0	0.4%	$20
Second quintile	0.7%	$10	3.7%	$180
Middle quintile	4.3%	$40	10.9%	$600
Fourth quintile	15.6%	$160	22.5%	$1,470
Top quintile	79.3%	$960	62.5%	$4,840
All	100.0%	$170	100.0%	$1,100

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1) via Sammartino and Toder (2019).

To be clear, the government does provide health insurance, food assistance and other support to low- and middle-income households, and it does promote investment, though largely to those who already have significant wealth. The point here is that investment in wealth building for most low- and middle-income households falls through the cracks.

Consider by analogy promoting wealth in the form of human capital or education, where similar failures occur. Policies that support ever more years of retirement support for everyone, perhaps the dominant domestic social policy of government over the last 80 years, or emphasize educating mainly those who are already well off, often let educational opportunities for those less well off and the noncollege bound fall through the cracks.

When one saves for the near term or emergencies it makes sense to concentrate on accounts with limited short-term risk. Over the long term, however, the risk associated with investments in higher-return real assets such as housing and stock declines.

If we look at those who have successfully accumulated financial and real capital, they invest mainly in *real assets*: homes, shares of corporations (either owned directly or through pension and retirement accounts) and businesses. They don't just lend to others by holding interest-bearing assets. Stock ownership over time typically has provided a real *rate of return*, averaging 5% or more higher than that available from saving accounts and bonds. Similar calculations apply to returns from homeownership.

When one saves for the near term, or to be ready to meet some emergency, it often makes sense to concentrate on checking accounts or interest-bearing assets with limited short-term risk. Over the long term, however, the risk associated with investments in higher-return real assets such as housing and stock declines.

As a simple example, within one year, the $1 invested in a savings account yielding 1% would be worth exactly $1.01 before inflation. A diversified stock investment providing an average return of 6% would accrue to an expected value of $1.06, but potential losses could reduce it to 70 cents or less. Invested and accumulated for 30 years, however, the savings account would have risen to $1.36 before inflation, the expected stock value to $5.74. Even taking into account significant fluctuations in valuation of the stock, it turns out that the long-term real investment tends to be the less risky one, especially when inflation is taken into account.

Saving for retirement years typically engages a natural cumulation of deposits and potential compounding of returns from working years to retirement. Homeownership does also, though in a different way. Say a home provides a return in the form of rental savings of 5% of home value, but an initial loan of most of the home value requires a payment of 4% to the bank. The net gain in wealth from that first year of ownership would be fairly modest. The continual payout of the mortgage, however, compounds over time, leading to full ownership of the house when the mortgage is paid off. In the meantime, the homeowner generates ever higher net rental saving as home equity grows. Primarily because of these mortgage-saving dynamics and the need to rent or own housing from the time one establishes an independent household, homeownership often plays a dominant saving role for many middle and even low wealth households throughout much of their lives.

Reform of homeownership and retirement tax subsidies may soon be on the table: Many individual provisions of the Tax Cut and Jobs Act of 2017, including those that led to significant reductions in deductible home mortgage interest payments, expire in 2025, and President Biden made campaign promises that, while needing much refinement, would provide a first-time homebuyer tax credit and partly equalize retirement plan subsidies. Opportunities for promoting wealth building for everyone may be higher than at any time in recent decades, especially if there is a willingness to look at where and how people accumulate real asset wealth.

Opportunities for promoting wealth building for everyone may be higher than at any time in recent decades, especially if there is a willingness to look at where and how people accumulate real asset wealth.

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Safia Sayed, now serving at the Council of Economic Advisers, was a research assistant at the Urban-Brookings Tax Policy Center while co-authoring this note. Sayed graduated with highest distinction and highest honors from the University of Michigan, where she holds a BA in economics.

Land and Opportunity: Reforming Heirs Property Rights

BY KARAMA NEAL, PHD

The 2020 list of the top 100 U.S. landowners has many familiar names—billionaire tech giants, titans of finance and heirs to oil and other fortunes. Few would be surprised that the very wealthy have invested in land given its significant and lasting value for food, feed, fuel, fiber, fun and family sentiment. Land's value may even increase with the effects of climate change, causing decreasing availability. But the ultrawealthy are not the only ones who invest in land. Many low and moderate wealth families are also generational landowners.

In the late 1800s, my great-great-grandfather, about 20 years out of slavery, purchased a homestead in southwest Arkansas. He wanted a place his family could always call home and was told that if he died without a will, his property could never be sold. That was not sound legal advice. When he died, his property was informally passed down, undivided, to his five children. The same thing has happened for several generations so that now, I, along with dozens of my cousins, are heirs to this bucolic family land. It is heirs property, real property transferred in an undivided state from one generation to another.

Because every family death changes the ownership structure, heirs property is a legally unstable form of ownership and is particularly susceptible to hostile acquisition.

Because every family death changes the ownership structure, heirs property is a legally unstable form of ownership and is particularly susceptible to hostile acquisition. For example, in addition to furthering land loss, the

Dawes Act of 1887[1] facilitated substantial Native American land fractionation when individual owners passed their property to heirs in an undivided state. Also, between 1920 and 1980, more than 90% of African American farms were lost, in large part due to the vulnerability of multiple owners.[2] Such land loss is facilitated by both public policy[3] and common practice.[4] In addition, because these "tangled titles" cloud ownership, family landowners can have difficulty receiving home repair, FEMA or other home maintenance support,[5] making it challenging for heirs property owners (or "cotenants") to both retain and maintain their property and the collective wealth it represents. And while heirs property is found among Asian Americans, European Americans and Hispanic Americans groups,[6] Native Americans and African Americans are often disproportionately affected.

Heirs property presents an opportunity for families to build lasting wealth for themselves and future generations.

Despite these issues, heirs property presents an economic opportunity, especially when family landowners can address the legal issues and make use of the property in ways that meet their family goals. When that happens, families can build lasting wealth for themselves and for future generations

1 The Dawes Act or General Allotment Act authorized allotments of reservation land to individuals who often passed the land down to their heirs in an undivided state. Unallotted land was typically sold. This land loss is in addition to the loss of Native American lands caused by European colonization. See, for example, the Indian Land Tenure Foundation, "Fractionation" from the US Department of the Interior, and "Removing Native Americans from their Land" from the Library of Congress.

2 U.S. Commission on Civil Rights, 1983. "The Decline of Black Farming in America 2," https://files.eric.ed.gov/fulltext/ED222604.pdf.

3 Thomas W. Mitchell, 2019. "Historic Partition Law Reform: A Game Changer for Heirs' Property Owners." In *Heirs' Property and Land Fractionation: Fostering Stable Ownership to Prevent Land Loss and Abandonment*, edited by Cassandra Johnson Gaither, Ann Carpenter, Tracy Lloyd McCurty and Sara Toering, pp. 65-82. Asheville, NC: U.S. Department of Agriculture Forest Service.

4 For an example, see p. 181 of Olly Neal, Jr. and Jan Wrede, 2020. *Outspoken: The Olly Neal Story*. Little Rock, AR: University of Arkansas Press.

5 For a discussion, see Richard Kluckow, 2014. "The Impact of Heir Property on Post-Katrina Housing Recovery in New Orleans," https://mountainscholar.org/handle/10217/88564.

6 Karama Neal, 2019. "Heir Property: Issues and Opportunities." *Arkansas Journal of Social Change and Public Service*, 8, https://ualr.edu/socialchange/welcome/publications/volume-8/.

through harvesting timber, renting a family home, leasing farmland or the like. In addition, as family landowners develop their rural, urban and suburban properties, communities can benefit through a higher taxbase. More work in policy, service provision and research is needed to ensure that families can unlock the billions of dollars of value present in hundreds of thousands of heirs property parcels.

Because of the complex and protean ownership structure of heirs property and the variety of state laws governing property and inheritance, state and federal policy can have a significant impact on families' ability to access the full value of their property. To address this issue, in 2010 Texas A&M legal scholar Thomas W. Mitchell drafted the Uniform Partition of Heirs Property Act (UPHPA). This model legislation gives families a fighting chance to keep their land when faced with external attempts to acquire it. For example, the UPHPA gives families the right of first refusal so they can buy the interest of a co-tenant who wants to sell the property. It also requires an appraisal so that families know and ideally receive the full economic value of their property in the event of a sale.

The UPHPA is an important step in replacing policies that facilitate land loss among low wealth families. As of this writing, the UPHPA has been passed in 17 states and the U.S. Virgin Islands. Interest is increasing, in part, because of the 2018 federal Farm Bill that provides financing and other opportunities for family landowners in states that have passed the UPHPA. Importantly, the law allows families to take proactive steps toward unlocking the value of their property, steps that would put their property at risk without UPHPA protections. For these reasons, the Business Roundtable and other organizations have endorsed the UPHPA. Joining or creating a state initiative to pass the UPHPA is a critical tool for releasing the value of heirs property.

The scarcity of accessible legal, financial and other services contributes to the creation of heirs property and to families' reticence and inability to take legal action to improve their property. Often, heirs property occurs in locations that are legal or financial deserts, and even if families find those services, the providers may prioritize wealthier developers or land speculators over lower wealth families. For example, I once talked with an attorney who routinely scoured the obituaries to find likely heirs to property he fancied. Upon locating them, he would offer a small sum for their interest in the property and then move to acquire the entire property, often at less than market value. These and related situations could be avoided with sound legal advice for families. In addition to having more attorneys focused on real property, it would be helpful to have clarity on how family property ownership is or is not counted toward assets when calculating legal aid eligibility.

Once families have a clear title, they need capital to do home repairs, hire a forester or irrigate or otherwise improve their property. Community development financial institutions, for example, focus on "supporting economically disadvantaged communities" and so may be particularly well positioned to provide access to capital to family landowners. Families also need business development services to address questions about the best ways to use and benefit from their property.

Finally, there is significant need for research on the full nature of the opportunity heirs property presents to families and communities. Research from the Federal Reserve Bank of Atlanta, for instance, shows projected numbers of heirs property parcels in the Southeast, but similar research is needed in other states. Additional research is needed on topics like understanding where owners live (since many heirs live away from their property), the tax and other impacts of improved heirs property management (to help justify local investment), and the possible role of gender in heirs property ownership (since women outlive men statistically). These analyses can provide the support needed to implement state and federal policies and to increase the availability of legal, financial and other resources families need.

Many conversations about household finance only consider liquid or local assets, but distant fixed assets may also contribute meaningfully to the family balance sheet.

Many conversations about household finance only consider liquid or local assets, but distant fixed assets may also be relevant, particularly when they have the potential to contribute meaningfully to the family balance sheet. While families like mine are not likely to ever be among the top 100 U.S. landowners in the county (nor is that our goal), we do want the real opportunity to recognize the full value of the property our grandmothers and great-great-grandfathers purchased, often with our generation in mind. We want to unlock the opportunity they provided us without the interference of predatory wealth extraction efforts. And we want to create more meaningful assets for our children and their children. Heirs property, land purchased a generation or more ago, is an often neglected but critical part of today's efforts to promote family economic mobility. The collective wealth and opportunity heirs property offers will pay benefits not just for family landowners but for us all.

Karama Neal, PhD, is the founder of the Heirs Property Information Project and led a grassroots organization that successfully promoted passage of the Uniform Partition of Heirs Property Act in Arkansas. Until April 2021, she served as the president of Southern Bancorp Community Partners, a nonprofit community development loan fund. @karamaneal

SECTION V

STRONGER FAMILY BALANCE SHEETS: ASSETS

Black Homeownership Matters

BY VANESSA G. PERRY AND JANNEKE RATCLIFFE

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.

Homeownership is the primary cornerstone for asset building in the U.S. As a lasting legacy of racism, households of color have much lower homeownership rates than white households and consequently hold, at the median, just one-eighth the wealth of white households. As America's population ages and diversifies, homeownership is expected to drop, with each new age cohort less likely to own a home than prior generations at the same age.[1] *We can do better. This article lays out clear steps to increase access to the benefits of homeownership, safely and equitably.*

Homeownership works. Of the opportunities covered in this volume, owning a home remains the clearest path to long-term and intergenerational asset building.

It works because we make it work. The government subsidizes housing for the wealthy via the tax code, has engineered a system of mortgage finance to facilitate homeownership, and intervenes in economic crises to help owners keep their homes. However, the system has not worked for all. Some 75% of white households own their own homes, yet less than half of Black and Hispanic households do.[2] The Black/white homeownership gap is greater today than it was in 1968,[3] when the Fair Housing Act supposedly ended racial discrimination in housing.

As America's population ages and diversifies, homeownership is expected to drop, with each new age cohort less likely to own a home than prior generations at the same age. We can do better.

1 Laurie Goodman and Jun Zhu, 2021. "The Future of Headship and Homeownership." Urban Institute.

2 American Community Survey of 2019 and the 2020 Census Housing Vacancy Survey

3 Decennial censuses 1960-2010 and the 2019 American Community Survey. The Black/white homeownership gap was 24.3% in 1960, 26.8% in 1970 and 30.1% in 2019.

These outcomes are no accident.

Before 1968, overt and institutionalized racism denied many families of color access to homeownership, while thousands of white families got federal help to accumulate wealth. The legacy of these policies endures in systemic forms for whole communities once explicitly denied a foothold on the middle class.

Homeownership works.

Interventions at the margin have not taken root. Small gains made from 1994 to 2006 were largely lost in the Great Recession,[4] when Black and Hispanic borrowers, who were disproportionately set up for foreclosure with predatory loans, lost their homes at around 1.8 times the rate of white borrowers. And now, a year into the COVID-19-related mortgage foreclosure moratoriums, Black and Hispanic borrowers are more likely to be in forbearance or delinquent on their mortgages, once again facing greater risk of home loss when these expire.

We can do better. Our vast mortgage finance system can intentionally address its past failures by extending well-regulated, affordable safe mortgages with low down payments to more people, through three steps.

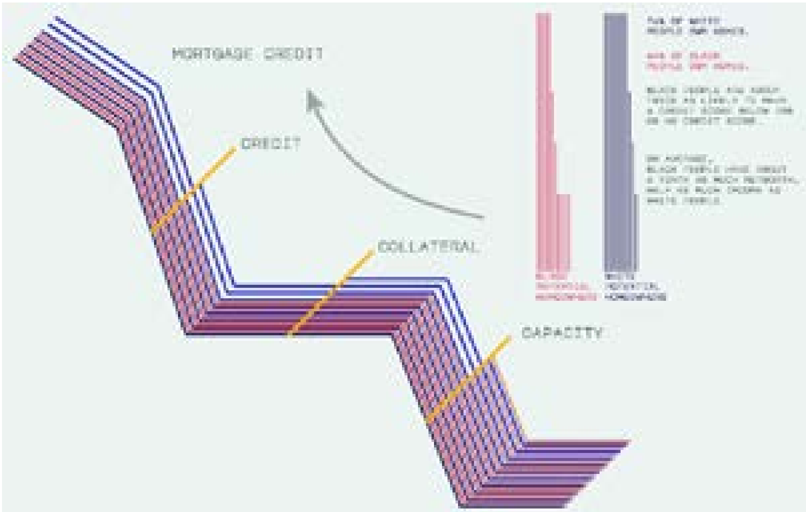
The Black/white homeownership gap is greater today than it was in 1968, when the Fair Housing Act supposedly ended racial discrimination in housing.

First, we should update how models assess the three Cs of lending: capacity to repay, credit reputation and collateral (as illustrated below). Historical disadvantage has resulted in fewer financial resources for Black and Hispanic applicants who are in turn are more likely to be denied mortgages[5] yet manage regular, and increasingly high, rent payments. Such inequities will persist until mortgage lending models are more inclusive and fair.

4 Census Bureau Housing Vacancy surveys 1994-2019

5 Alanna McCargo and Jung Hyun Choi, 2020. "Closing the Gaps: Building Black Wealth Through Homeownership." Urban Institute, https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.

Race, Access to Credit and the Homeownership Gap[6]



Models that count more types of income such as earnings in the gig economy and contributions of other household members are likely to be more inclusive. Adding new factors to credit scoring models—rental payments, utilities, remittances and digital transactions—would also likely benefit unbanked and "thin-file" consumers, who are disproportionately Black, Hispanic and recent immigrants.

Second, a targeted down payment assistance (DPA) program is critical. Renters report the lack of a down payment as the primary barrier to buying a home. For the median Black family, who holds less than 15% of the wealth of the median white family, this barrier is especially steep. Across the U.S., a patchwork of DPA programs is deployed across a network of over 1,300 state, local and national agencies.[7] These funds are often oversubscribed. With new federal funds for DPA, targeted to borrowers of color, many otherwise "mortgage-ready" families could buy a home with a standard mortgage they

6 Vanessa Perry et.al., 2020. "2020 State of Housing in Black America: Challenges Facing Black Homeowners and Homebuyers During the COVID-19 Pandemic and an Agenda for Public Policy." National Association of Real Estate Brokers, https://www.nareb.com/shiba-report/.

7 Laurie Goodman et al., 2018. "Barriers to Accessing Homeownership: Downpayment, Credit, and Affordability." Urban Institute, https://www.urban.org/sites/default/files/publication/99028/barriers_to_accessing_homeownership_2018_4.pdf.

could afford.[8]

And third, mortgage products and processes can, by design, enhance the safety and benefits of homeownership. The standard 30-year fixed rate, fixed payment mortgage, for example, protects borrowers from unexpected payment increases. Likewise, the rules for how lenders manage loans can speed a delinquent borrower to foreclosure or give them a way to catch up. Features that would reduce risk, improve benefits and provide safer on-ramps to homeownership for more families might include loans with built-in reserves, loans that are easy to refinance when rates fall, small-balance loans, lease-to-own and shared-equity financing, and loans that facilitate home improvement and rehab.[9]

Such advances can become mainstream but only if the federal housing agencies take the lead in piloting and standardizing. The government-sponsored entities that provide liquidity to lenders to make mortgages (Fannie Mae and Freddie Mac) should be refocused on their original mission, which, since the 2008 crisis, has fallen far short of proportionate service to Black and Hispanic communities. Furthermore, with additional investments in technology and capability, Federal Housing Administration (FHA) and Veterans Administration (VA) programs that disproportionately serve Black and Hispanic homebuyers can operate more efficiently and serve more borrowers.

At the same time, our system of public support for housing should also be refocused on bolstering the supply of homes for first-time buyers. If current trends continue, we expect 6.9 million net new homeowners by 2040, all of which will come from non-white households.[10] Skyrocketing demand and

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8 A consumer is mortgage ready if he or she does not currently have a mortgage, is 40 or younger, has a FICO score of 620 or above, has a debt-to-income ratio not exceeding 25%, has no foreclosures or bankruptcies in the past 84 months, and has no severe delinquencies in the past 12 months (based on September 2016 data). For more information, see Vanessa Perry et al., 2020. "2020 State of Housing in Black America: Challenges Facing Black Homeowners and Homebuyers During the COVID-19 Pandemic and an Agenda for Public Policy." National Association of Real Estate Brokers, https://www.nareb.com/shiba-report/.

9 Testimony of Alanna McCargo in 2017 before the Subcommittee on Housing and Insurance, Committee of Financial Services, U.S. House of Representatives. "Sustainable Housing Finance: Private-Sector Perspectives on Housing Finance Reform, Part III, p. 10-13," https://www.urban.org/sites/default/files/publication/94501/alanna-mccargo-testimony-part-iii.pdf.

10 Laurie Goodman and Jun Zhu, 2021. "The Future of Headship and Homeownership." Urban Institute.

house prices during the pandemic have further tightened the housing supply, but incentives could tip the scale to producing more affordable inventory for owner-occupancy. Viable proposals call for tax incentives and subsidies for the construction of new homes or rehabilitation of existing homes. Others focus on preserving and stabilizing affordable neighborhoods by helping current owners maintain distressed properties, or else, seeing that properties get into the hands of new owner-occupants instead of absentee investors.[11] Even more could be accomplished through concurrent changes in zoning and land-use regulation, permitting and a broader adoption of new building technologies.

We know how to get homeownership right and to dismantle barriers to Black and Hispanic homeownership. But policies that fail to acknowledge that race reflects systematic and institutional discrimination will continue to fall short.

As an asset-building strategy, we know how to get homeownership right. We have the tools to dismantle barriers to Black and Hispanic homeownership. But well-intentioned public policies that fail to acknowledge that race is a complex reflection of systematic and institutional discrimination will continue to fall short. We need public policies and business practices that explicitly target historically disadvantaged homebuyers and communities. In this way, we can correct structural inequities using the very system that created them.

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Janneke Ratcliffe is the associate vice president for the Housing Finance Policy Center at the Urban Institute. Prior to joining Urban, she served as assistant director for the Consumer Financial Protection Bureau's Office of Financial Education.

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11 Center for Community Change, 2021. "New Deal For Housing Justice: A Housing Playbook for the New Administration," https://communitychange.org/wp-content/uploads/2021/01/New-Deal-for-Housing-Justice.Policy-Paper.Community-Change.1.2020.pdf.

SECTION V

STRONGER FAMILY BALANCE SHEETS: ASSETS

Building Wealth Inclusively Through Business Ownership

BY JOYCE KLEIN

Although business ownership may not be the primary way that most individuals and families build wealth in the United States, in any capitalist economy it's a route that cannot be ignored. Especially when the rules of that economy have been set such that in the past two decades, much of the growth in income inequality has been driven by a combination of returns to capital and, at the highest levels, pass-through business income.[1]

Although business ownership is clearly driving income generation and wealth accumulation among the top 10% and 1%, it can and should have a role in raising wealth levels for those in the bottom quintile of the wealth distribution. While it may be harder to draw the connection between the ownership of mom-and-pop enterprises or self-employment and wealth accumulation, there is evidence that households in which the head of household is self-employed have substantially higher wealth levels than those in which the head works for someone else.[2] Research has found this outcome is particularly strong for minority and women business owners and that the median net worth for Black business owners is 12 times higher

There is evidence that households in which the head of household is self-employed have substantially higher wealth levels. This outcome is particularly strong for minority and women business owners.

[1] Thomas Piketty, Emmanuel Saez and Gabriel Zucman, 2018. "Distributional National Accounts: Methods and Estimates for the United States." *Quarterly Journal of Economics*, 133, 553-609, https://gabriel-zucman.eu/files/PSZ2018QJE.pdf; Matthew Smith et al., 2019. "Capitalists in the Twenty-First Century." *Quarterly Journal of Economics*, 134, 1675-1745, https://academic.oup.com/qje/article/134/4/1675/5542244?login=true.

[2] Brian K. Bucks, Arthur B. Kennickell and Kevin B. Moore, with assistance from Gerhard Fries and A. Michael Neal, 2016. "Recent Change in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances." Federal Reserve Bulletin, A1-A38, https://www.federalreserve.gov/pubs/bulletin/2006/financesurvey.pdf.

than Black nonbusiness owners.[3]

But while Black and Hispanic families are about as likely as white families to own wealth in the form of equity in a closely held business, the level of wealth they hold is lower. The images below show time-series data from the Survey of Consumer Finances on the share of families with wealth from a closely held firm and the median value of business equity (from analysis by the Institute for Economic Equity at the Federal Reserve Bank of St. Louis).[4] Data on both measures are quite volatile over time, but the general trend is that Black families have about half the level of business equity as white families, with Hispanic families having wealth levels somewhere in between the two.

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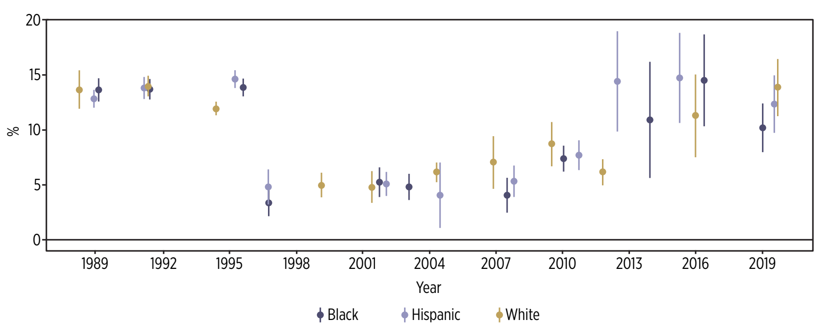
Share of Families That Own Equity in Closely Held Businesses

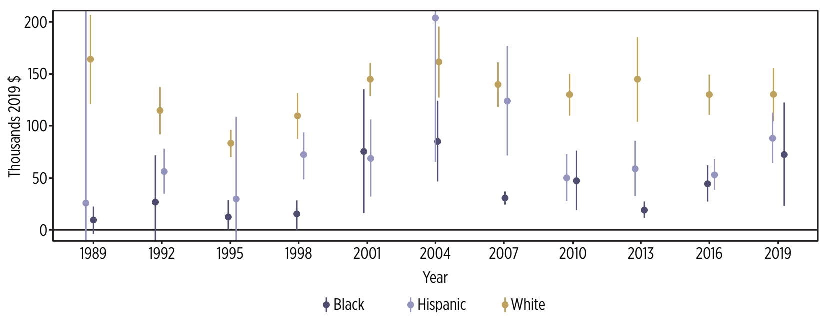


Source: Federal Reserve Board's Survey of Consumer Finances, calculations by Institute for Economic Equity.
Note: Replicate weight adjusted 90% CIs.

[3] Analysis of 2008 SIPP microdata conducted by Robert Fairlie for the Association for Enterprise Opportunity, as cited in The Tapestry of Black Business Ownership in America, 2017, Washington, DC: Association for Enterprise Opportunity, p. 8, http://www.aeoworks.org/wp-content/uploads/2019/03/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB.pdf.

[4] The Survey of Consumer Finances aggregates all other racial and ethnic identities into an "other" category. As a result, it is not possible to include analysis of these data points for Asian, Native/Indigenous or any other racial and ethnic identities.

Median Value of Business Equity (Conditional on Ownership)



Source: Federal Reserve Board's Survey of Consumer Finances, calculations by Institute for Economic Equity.
Note: Replicate weight adjusted 90% CIs.

Unfortunately, many of the same forces that have contributed to income and wealth inequality—and perhaps as or more important, the very low wealth levels among most Black and Hispanic households—have hampered the growth of their firms. Most firms are started largely with the owner's own money—it is the source they use to provide equity or patient financing. Next, most owners leverage their assets (homes or retirement savings) or their credit histories to borrow—from their IRAs via a home equity line of credit or a personal credit card. Absent any of these assets, it is hard to borrow funds from traditional sources. Business owners with weaker credit histories have been able to borrow from nonbank alternative lenders, but in many cases the products they offer lack transparency and carry high costs, which in the end often strip wealth or limit the owner's ability to build the business.

Occupational segregation and lack of access to capital have also meant that Black and Hispanic entrepreneurs are concentrated in industries with low barriers to entry but also have lower revenues and low margins. It's harder to build wealth from these types of firms—especially when debt, or in some cases only high-cost debt, is the only source of financing that a business owner can access. This is because it's hard to make great leaps when repayments begin soon after borrowing and loans are sized relative to existing cash flows.

So what do we do to realize the potential for business ownership to be a route to wealth building, particularly for people of color?

It's worth starting by acknowledging that many of the other policies identified by other essay contributors to build wealth and protect against financial predation—by increasing savings, expanding homeownership, addressing student debt, eliminating unfair and unequal fines and fees, and so forth—will over time enable more individuals to invest equity in their own firms. Increasing access to capital share and employee ownership will allow workers as well as business owners to benefit from the wealth generated by larger firms. Strengthening policies that expand and improve the benefits of labor market participation will also help—by enabling those who are forced into self-employment out of necessity to achieve better economic outcomes and also removing some of the most marginal firms from the competition pool.

There are things we can do now to support business ownership that will disproportionately benefit people of color.

But as we also put those policies into place, there are things we can do now to support business ownership that will disproportionately benefit people of color:

- Expand access to debt that is appropriately sized and affordably priced. Three policies are important here:
  - Increase the level of grant support for community development financial institutions (CDFIs) so that they can build the organizational capacity and capital bases needed to scale the level of their lending (note: the CARES Act included $12 billion in funding for CDFIs and minority depository institutions, which is an important start in strengthening these institutions).
  - Provide subsidies and incentives to CDFIs that make microloans (less than $50,000) so that they can scale their ability to make smaller dollar loans at affordable rates. The American Rescue Plan reauthorized and provided $10 billion in funding for the State Small Business Credit Initiative, which will fund state, territory and tribal government small business credit support and investment programs. To ensure these reach business owners of color, it will be important that state programs support smaller-dollar small business lending.

- Pass legislation that requires small business lenders to clearly disclose the price and terms of small business credit (including through the disclosure of annual percentage rates).[5]

- Continue to expand efforts to help small firms connect to markets and revenue-generating opportunities (through public and private procurement and other means as well). Importantly, also recognize that appropriate financing and support in scaling up operations may also be important—getting awarded a contract without appropriate financing can doom or weaken a business in the long term.
- Support capital markets and product innovation that increases the availability of equity and more patient capital. Among more bank-like institutions and CDFIs, this might involve appropriately structured and priced revenue-based financing or residual-value leasing; it can also include creating crowdfunding and equity models that are suited to businesses that have strong growth potential but do not meet the criteria sought by venture financing.
- Examine and revise laws and regulations that unnecessarily push business owners toward informality. At the local level, these often include licensing rules. At the state level, they can include limits on the types of jobs held by individuals who have been incarcerated, while at the federal level they include immigration laws. In the long term, businesses that remain informal simply cannot grow to the levels of those that can access financing and markets more formally.

Supporting the ability of business owners of color to build their firms will not only be important in addressing racial wealth inequality—it will also be important for the strength of the U.S. economy, as other essay contributors have demonstrated. As the percentage of new entrepreneurs who are people of color increases,[6] we will lose the benefits that small and growing businesses

[5] These disclosures are embodied in the recently passed New York State Small Business Truth in Lending Act as well as the truth in lending disclosure provisions included in the Small Business Lending Disclosure Act (H.R. 7921) introduced in the 116th Congress and poised to be reintroduced in the 117th.

[6] In 2018, the share of new entrepreneurs who are from minority groups was 45.6%, close to twice that in 1996 (22.9%). Robert Fairlie et al., 2019. "2018 National Report on Early-Stage Entrepreneurship," Ewing Marion Kauffman Foundation, p. 4, https://indicators.kauffman.org/wp-content/uploads/sites/2/2019/09/National_Report_Sept_2019.pdf.

play in driving innovation, product diversity and experiences if we cannot figure out how to ensure that Black, Brown and other non-white-owned firms can thrive and grow. And the bigger and more profitable the firms owned by business owners of color, the more likely they will contribute to building the wealth of their owners.

Joyce Klein is director of the Business Ownership Initiative at the Aspen Institute. She has more than 30 years of experience studying and supporting microenterprise and entrepreneurial development programs in the United States, especially for lower-wealth and disadvantaged families.

How College Degrees Can Become Assets, Not Liabilities, for Disadvantaged Students

BY KEVIN CAREY

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.

College degrees are assets. Or at least they are sufficiently asset-like that many people are willing to borrow large amounts of money to obtain them. Degrees unlock valuable parts of the labor market and yield returns in the form of additional compensation that can be used to make loan payments.

Degrees are, like homes, critical milestones on the standard path to prosperity. Because people tend to get their first degrees and homes earlier in adult life, when they have fewer financial assets and less established credit, it makes sense for the government to subsidize the loans used to acquire them.

But degrees are also *not* assets, in the traditional sense of the word. By too fully embracing the degree-as-an-asset idea, we have created a higher education policy architecture that doesn't work in important ways.

Traditional financial assets are fungible. You can sell one and use the money to buy another. When retail investors purchase stock in a company, they probably care very little for the corporate governance voting rights that come with their shares. Dividends matter, sometimes. Mostly, the price is the thing that matters.

That's why asset-minded policymakers often see higher education policy almost exclusively in terms of prices. To help students, make college cheaper or free. Lower the cost of borrowing by subsidizing interest to below-market rates. Forgive outstanding debt after a certain number of affordable payments—or maybe just all at once.

That's also why policymakers who are less inclined toward free tuition and mass loan forgiveness see college debt in classically moralistic financial terms. Students willingly chose to borrow money to purchase something valuable, the thinking goes, just like an automobile or a home. So they should pay their loans back and be subject to the mercies of the debt collection industry if they don't.

But degrees aren't fungible—at all. They cannot be resold or foreclosed upon or bundled or securitized. They do not, by themselves, yield anything, other than memories, sometimes fond. People cannot sell degrees and use the proceeds to repay their loans. College debts are all but undischargable in bankruptcy precisely because banks feel vulnerable to the unrepossessability of diplomas.

The generic nature of easily converted financial assets has crept into the language we use to describe higher education. A thousand think pieces have pondered "is college worth it?" College, singular? Just one? Does anyone ask, "is a car worth it?"

A thousand think pieces have pondered "is college worth it?" College, singular? Just one? Does anyone ask, "is a car worth it?"

The unitary college of this formulation is, in the popular mind, a single system in which students are individually matched to the right institutional "fit" and tuition charges and financial aid packages simply reflect a straightforward combination of what education costs to provide and what families can afford to pay. While admissions criteria may vary, academic standards are enforced throughout.

In other words, college degrees are valuable financial assets provided by a fundamentally benevolent system. That would be nice, if it were true. In reality, college degrees are more like a combination of services and intellectual property provided by a private free market that is chronically prone to failure.

The evidence of that failure can be seen in the one million people who default on their student loans every year, compared to the approximately zero million people who enroll in college thinking that default is a likely outcome.

College degrees are valuable financial assets provided by a fundamentally benevolent system. That would be nice, if it were true.

Why do they default? Often, it's because their so-called asset isn't yielding the promised returns. According to the U.S. Department of Education's College Scorecard, there are over 780 colleges and universities where fewer than one-third of students have annual earnings above $25,000 six years after beginning school.

In fairness, there are a lot of branch campuses of shady for-profit beauty schools in that cohort. But raise the standard from one-third to one-half, and hundreds of public institutions, mostly community colleges and regional four-year universities, enter the mix. At Eastern New Mexico University, only 46 percent of students exceed the $25,000 earnings threshold. Seventy-three percent of debtors there are in default, delinquency, deferment, forbearance or otherwise not making progress paying down their loans two year after leaving school. Industry wide, debt and default numbers are especially dire for Black students.

Why do people enroll in colleges where impoverishment and financial calamity are the most likely outcomes? Because it's hard to see inside a college while standing on the outside, particularly if neither you nor anyone you know has been to one before. Undergraduate education is relational, interior and contingent, not something you can touch and feel. It also only happens once, unlike a neighborhood restaurant you won't return to if they serve you a bad meal.

Students, moreover, do not want a *caveat emptor* relationship with higher education. There are certain people in this life whom you want to trust: your doctor, your priest, your teacher. Students choosing colleges do not go searching for evidence they might be mistreated, which we know because all of the damning facts cited above about earnings and loan repayment are available on a high-profile website designed specifically to facilitate college choice, yet students keep enrolling into those colleges anyway.

If we want college degrees to consistently and robustly perform more like the assets everyone already thinks they are, the government needs to provide more of the hard-nosed skepticism that consumers will not.

All of which means that if we want college degrees to consistently and robustly perform more like the assets everyone already thinks they are, the government needs to provide more of the hard-nosed skepticism that consumers will not.

The Obama administration tried to do this by imposing a common sense rule that students can't use their federal grants and loans to attend for-profit programs that chronically fail to provide students with degrees that yield enough money to pay back their loans. The fact that this rule was fiercely contested in Congress and the courts before being shredded by the for-profit college lobbyists that former Education Secretary Betsy DeVos hired to run federal higher education policy during the Trump administration belies the fact that the Obama standards were mild to the point of permissiveness and did not even apply to most college programs.

Colleges will complain that the best of what they do for students cannot be reduced to percentages and dollar amounts. That's true. But the worst of what colleges do to students absolutely can.

The rules did nothing to reign in the fast-growing and almost entirely unregulated market for professional master's degrees provided by public and nonprofit universities, a sector increasingly driven by fully online programs run by corporations that act as silent partners and marketing middlemen for brand-name institutions, in exchange for the lion's share of the profits.

Colleges will complain that the best of what they do for students cannot be reduced to percentages and dollar amounts. That's true. But the worst of what colleges do *to* students absolutely can.

For college degrees to really pay off for everyone—to actually translate into a financial asset, especially for lower-income and first-generation students who are most sensitive to education quality and most vulnerable to exploitation—the federal government needs to construct a strong floor of consumer protection that applies to all colleges, great and small.

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Building Human Capital and Assets for Those *Without* a College Degree

BY OREN CASS

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 median new home in America costs $334,000. Public education for two children raised in that home, from kindergarten through the 12th grade, costs $333,000.[1] Both costs have doubled in real terms since the 1970s, but while the home's asset value has risen, the high school education's has not.

Young adults emerging from high school into the labor market of the 1970s had credentials sufficient to find jobs that would support their families. About one-half of their peers would go on to college, and about one-third would attain their bachelor's degrees by age 25. But that was neither expected nor required. "An American father," the New York Times reported in 1974, "can support a family of two, three or four children without his wife's working." Median earnings for a man over age 25 with a high school degree in 1974 was $53,000—just over three years of income would buy the median new home. By 2019, median earnings for that man over age 25 with a high school degree was just $37,000; earning enough to afford the typical home would take nearly three times as long.

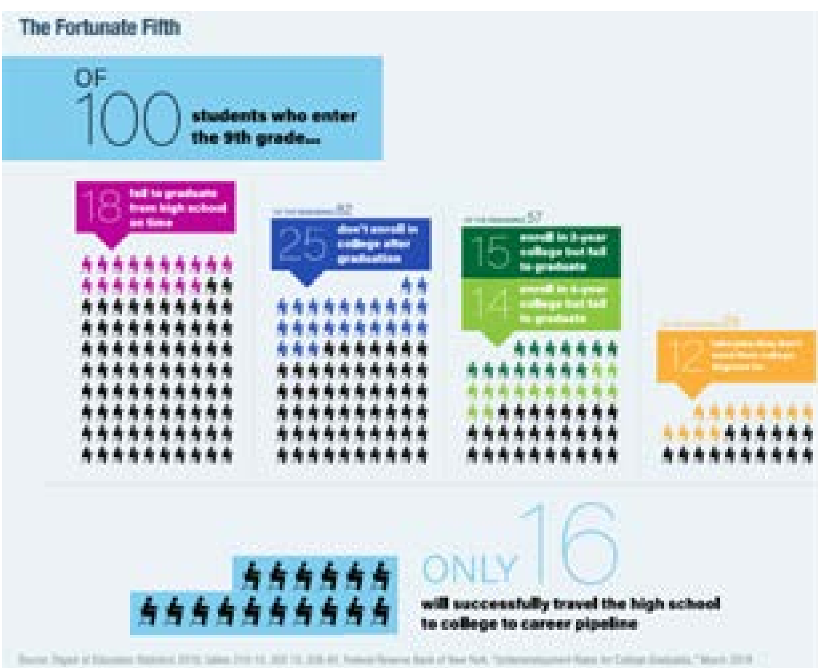
The popular solution to this predicament is to get everyone into college. To that end, we have converted our public high schools into veritable college prep academies, oriented education reform around rigorous academic standards and testing regimes and flooded the postsecondary system with more than $150 billion in annual subsidies. We send many more students to college—two-thirds now enroll after completing high school. But not many more come out the other end. In fact, for two generations, the share earning a bachelor's degree by age 25 has barely budged. Among those who do complete college, 40% land in jobs that don't require degrees anyway. All told, barely one-in-five young Americans moves smoothly from high school to college to career.

Barely one-in-five young Americans moves smoothly from high school to college to career.

[1] The U.S. Department of Education's Digest of Education Statistics reports that expenditure per pupil in public elementary and secondary schools rose in constant 2018-19 dollars from $5,037 in 1970 to $6,813 in 1980 to $12,794 in 2017. Two students x 13 years of school x $12,794 = $332,644. See table 236.65 (2019).

The obvious financial catastrophe wrought by the college-for-all mindset is the student debt crisis, which is better understood as a college dropout crisis. The share of monthly income spent on debt repayment has remained constant in recent decades for the typical borrower, and the higher earnings associated with a college degree far exceeds the higher cost associated with the debt. The crisis exists for those who have borrowed without completing a degree or earned a degree that proves not to have value in the labor market, leaving a large liability on the personal balance sheet with no offsetting asset. Beyond tuition paid, a fair accounting should also consider the opportunity cost of not having gained the earnings or on-the-job experience of full-time work during the time spent in school.

The far larger and more intractable challenge, however, is our failure to help most Americans accumulate the human capital that they need to build successful careers and support stable families. The student debt problem can be erased easily (if expensively) enough, as many politicians have proposed:



Source: Manhattan Institute

The far larger and more intractable challenge is our failure to help most Americans accumulate the human capital that they need to build successful careers and support stable families.

Forgive the debt. Make college free. Such attitudes remain beholden to the empirically disproven propositions that most people can succeed in college and college is the right preparation for most jobs. What we need is not a reduction in the liability associated with pursuing the college pathway—which, for most people, is not a journey that leads to the accumulation of meaningful assets. Indeed, it is counterproductive to make that choice more attractive to precisely the people who benefit least from making it. We need other pathways that *do* strengthen the personal balance sheets young people possess as they set out into the world.

How would such pathways look? We needn't strain our imaginations—they are prevalent in most of the developed world, which finds our college obsession bizarre. Vocational training, apprenticeships, and so forth are established and respected on-ramps to well-paying careers. Across OECD countries, 40% to 70% of secondary school students are enrolled in vocational or technical programs. In Germany, for instance, apprenticeship remains roughly as popular as college, and former apprentices populate the ranks of senior management.

What we need is not a reduction in the liability associated with pursuing the college pathway—which, for most people, is not a journey that leads to the accumulation of meaningful assets.

The starting point is our high schools, which should aim to serve the majority of students who will not earn a college degree at least as effectively as it serves those who are campus bound. The idea of "tracking" students, even if the choice of track is left entirely to the family (as it should be), raises American hackles. But until we hire a personal tutor for every student, tracking is inevitable. The current system's problem is that it has only one track, the college track, which well serves only one constituency. Suggest to a self-righteous tracking opponent that, if we should only have one track, it should be a vocational track—let college-obsessed parents send their children to a special school three towns over—and the opposition to tracking fades quickly.

Noncollege pathways would vary somewhat by occupation and industry, but an illustrative example is instructive: A pathway might concentrate essential academic work in the 9th and 10th grade and, by the latter, begin exposing students to career opportunities and even occasional time in a workplace. Eleventh grade would include some academic work, some preparatory technical work in the classroom and an internship. Twelfth grade would be split between subsidized employment and time in a community college program designed by employers. Two more years of subsidized employment would follow, with time on the job supplemented by time in the classroom. A young American would arrive at age 20 with valuable skills and an industry credential, years of workplace experience and connection to an employer and earnings in the bank—and no debt whatsoever. Compare that balance sheet to the struggling college student's or the young person who never attended college to whom we provide little or no support today.

Such a program would be expensive, but, importantly, it would be much less expensive than attempting to move a student through four years of high school and four years of college. Thus, the resources to provide these pathways are already available. What is missing is the admission that college is not for everyone, or even for most of us, and the political will to redirect funds from the entrenched interests on our campuses toward nontraditional high school programs and employers. The transition will need to be gradual, but we could shift half of our $150 billion in higher-education subsidies over 10 years, allowing both public schools and employers time to develop capacity along the way. With a better strategy, the enormous investment that America makes in building the human capital of its youth could give all Americans valuable assets on which to build their lives.

What is missing is the admission that college is not for everyone, or even for most of us, and the political will to redirect funds from the entrenched interests on our campuses toward nontraditional high school programs and employers.

Oren Cass is the executive director at American Compass and author of *The Once and Future Worker: A Vision for the Renewal of Work in America* (Encounter Books, 2018).

How Child Savings Accounts Can Offer All Children the Future They Deserve

BY WILLIAM ELLIOTT III

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.

When talking about the New Deal, Roosevelt said, "Liberty requires opportunity to make a living decent according to the standard of the time, a living that gives man not only enough to live by, but something to live for." Without this opportunity, he continued, "life was no longer free; liberty no longer real; men could no longer follow the pursuit of happiness." Despite this proclamation, the American welfare system has become bifurcated, providing poor and upper-income children with different life chances. For the poor, policies focus on providing enough to live on (i.e., income/consumption), while policies for upper-income families focus on providing something to live for (i.e., wealth). This unequal system has resulted in gross wealth inequality.

And while education has been touted as the elixir for America's bifurcated welfare system, education has been proven inadequate. Research shows that young adults from low-income families start careers earning about one-third less than their higher-income counterparts. People of color with a degree have less income than their white and Asian counterparts. Regarding wealth, Hamilton and colleagues find that Black families whose head of household graduated from college have about 33% less wealth than white families whose head of household dropped out of high school. These findings demonstrate that receiving a college degree has not brought about equality, even if it raises standards of living for the relatively few (about 36%) who attain a four-year degree. Indeed, research from the St. Louis Fed shows that college, rather than being the "great equalizer," is in fact an *engine* of the racial wealth gap.

While education has been touted as the elixir for America's bifurcated welfare system, education has been proven inadequate.

What Do Different Life Chances Look Like?

I am a 50-year-old black male who grew up in poverty and dropped out of high school. My family had no money for me to attend college. Consequently, I relied heavily on student loans, graduating with $40,000 in debt. After paying off these loans in the military, I went to graduate school and left with $100,000 in debt. I was not able to buy a home until almost 40. My story represents the debt-dependent path to the American Dream. Let me tell you a different story. As my colleague Melinda Lewis grew up, what was a source of financial security for her parents became a foundation for economic mobility for her and her family. Melinda started building home equity before 25 and had access to retirement savings and no student debt. Melinda's story represents the asset-empowered path. It is a path that requires hard work but is eased because of wealth transfers at critical stages. Most people do not have access to the asset-empowered path.

What Is Needed to Change the American Narrative?

The answer is not surprising. Families need not only income to consume enough to survive but also wealth to have something to live for. Wealth allows people to plan for future consumption. In this way people can see their future selves going to college or retiring, for example. Knowing what you can consume in the future makes it feel close, something you should act on now.

Where deep wealth inequality exists, it reflects an economic system that produces different life chances, and a correction is required. If the correction is not made, belief in the American dream starts to fade, and civil unrest may become more common.

A Vessel for a 21st-Century Wealth Correction

I propose using Children's Savings Account (CSAs), sometimes called Child Development Accounts (CDAs), as the vessel for a 21st-century wealth "correction" (that is, a wealth transfer from wealthier households to counter stark wealth inequality). CSAs are provided through financial instruments (state 529s or savings accounts) and connect families to financial institutions while providing them with an opportunity to contribute and receive transfers, thus developing their capacity to build new wealth. Small-dollar CSAs typically include most, if not all, of these components: (a) an opportunity to own a wealth-building account, (b) initial seed deposit ($5 to $1,000) and (c) incentives. As of 2019, there are approximately 922,000 children in 36 states who are participating in a CSA program.

Targeted Ongoing Deposits

By providing every child with an account, the scaffolding is put in place to augment saving efforts of low-income families through targeted ongoing deposits.

Nevertheless, today's growing economic inequality means that small-dollar CSAs are not enough. Low-income families have little discretionary money and will never be able to save enough to end wealth inequality. By providing every child with an account, the scaffolding is put in place to augment saving efforts of low-income families through targeted ongoing deposits.

Maybe the best example of a proposal for targeted or progressive ongoing deposits is Sen. Cory Booker's American Opportunity Accounts Act. This legislation would provide every newborn child with a baby bonds savings account and an initial $1,000 deposited. Poorer children would receive an additional $2,000 annually until age 18. Upon turning 18, the child could access the funds (up to $46,000 if low income) for wealth-building purposes.

Another proposal for ongoing deposits was made by the College Board. They recommend putting a portion of Pell Grant funds into savings accounts for children starting as early as age 11 or 12. Similarly, nonprofit scholarship providers are beginning to use some of their scholarship funds as early awards placed in accounts. For example, the Community Foundation of Wabash County (CFWC) was approached by a donor who wanted to provide funding for a traditional scholarship. However, after consulting with CFWC, the donor opted to award eligible students with a $1,000 scholarship to be placed in their CSA in grades four through eight, and the Wabash City Schools Opportunity Award Program was born. This change in thinking, placing early award scholarships into CSAs, may be a game changer.

Early Children Investments Reverberate into Adulthood

It is well established that early investments are important for determining children's outcomes. However, higher-income families can make these investments more often. Importantly, research shows that predicted household income and net worth are higher for adults who received parental financial support for college than for those receiving no such support, which might help explain the higher return on a degree for these adults. CSAs mimic these early parental investments. Additionally, research on CSAs indicates that they have indirect effects such as cultivating young children's social and emotional health while helping parents develop and sustain college expectations.

Effort and Ability Is Still Needed

Forty-six thousand dollars, while significant, will not eliminate the need for families to create new wealth on their own. They will still need to develop human capital (i.e., postsecondary credentials and financial capability) to turn this wealth into new wealth. And while I have proposed in the past CSAs with targeted ongoing deposits as a replacement for free college, I can see more clearly now how a better way forward, one that reflects Melinda's story and most upper-income children's stories, is one where college is free and they start off with wealth transfers from their families that put them in the best position to leverage their degrees. This is what a level playing field looks like. Effort and ability would finally come to the forefront for determining who the winners are, overshadowing a legacy of wealth inequality that was born out of slavery and Jim Crow.

I propose combining free college and a wealth correction with financial capability training delivered through a national CSA program.

I propose, then, combining free college and a wealth correction with financial capability training delivered through a national CSA program. With this policy, wealth inequality might just become something for historians to remind us of while giving all children in America futures. This is what President Roosevelt must have had in mind when he said liberty requires "something to live for."

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Achieving a Holistic, Inclusive, People-Centric Retirement Savings System

BY KAREN BIDDLE ANDRES AND DAVID C. JOHN

Savings play an essential role in modern life. Retirement savings, which are invested and grow over decades, are second only to homeownership as a source of household wealth in America. They serve as both the source of additional retirement income and a critical backstop for large, unexpected retirement expenses like long-term care.

But several other kinds of saving are also vital in the accumulation and growth of household wealth in the United States. Highly liquid emergency savings help people weather unexpected shocks and smooth out uneven cash flow, thus serving as an insurance policy that protects longer-term, less liquid savings. And goal-based savings, for purposes like financing higher education or making a down payment on a home, have the potential to increase the saver's income and household wealth.

Unfortunately, many Americans simply don't save enough. Across these three basic types of savings—emergency savings, goal-based savings and retirement savings—Americans are struggling to save. In 2019, 37% of Americans could not come up with $400 in emergency savings without borrowing or selling something. Only 10% of low-income families had 529 college savings plans in 2020, compared to 49% of high-income families. Fifty-seven percent (more than 100 million) of working-age individuals do not own any retirement account assets in an employer-sponsored 401(k)-type plan, individual account or pension.

The problems revealed by this holistic picture of savings often lead observers to conclude Americans do not fully understand the value of saving or that they would prefer to consume today rather than prepare for tomorrow. But the reality is different. While there are certainly people who might benefit from financial education or persuasion about the value of delayed gratification, we must acknowledge three facts.

First, the costs of life's big-ticket items—housing, healthcare, dependent care and higher education—have risen faster than both inflation and wages. Most people must save to afford them. Second, millions of Americans face structural barriers that prevent them from accessing the tools and accounts that wealthy households use to save. Third, we already know how to help people to save, even when their income levels make it hard. America's retirement savings system, including both private plans and emerging state-facilitated Auto IRA programs, prove that people with low and moderate incomes—with access to automatic savings features—can consistently save.

By building and improving upon our existing retirement savings system, we can create an inclusive, people-centric savings system that can improve Americans' financial health and security throughout their lives.

A major part of the problem is a fragmented, complex savings system that offers many types of products that use mystifying terms and complex requirements. A simple, multipurpose way to save is needed. By building and improving upon our existing retirement savings system, we can create an inclusive, people-centric savings system that can improve Americans' financial health and security throughout their lives.

Creating a people-oriented savings system requires understanding the realities of household finances. Financial emergencies occur regularly and can cause longer-term damage to household finances. An effective saving system recognizes that short-term savings are intended to be used and not just sit in an account. The value of a savings balance goes beyond the ability to cover an emergency expense. The ongoing process of building, using and then replenishing short-term savings helps to protect families from immediate problems while staying on track for their long-term goals. Saving is a habit, much like exercise, that must be regular to be effective.

The ongoing process of building, using and then replenishing short-term savings helps to protect families from immediate problems while staying on track for their long-term goals.

Similarly, even a relatively small amount of saving can make a significant difference. Researchers found that households that had total savings of roughly $2,500 at any point between 2013 and 2016 were significantly less likely to experience financial hardship up to three years later. High-hardship households that achieved that savings goal at any point had nearly twice the likelihood of improving their financial well-being compared to households that did not achieve the savings goal. This improvement also allows households greater ability to build longer-term savings.

Flexibility is also important. Savings priorities change over time, and existing products rarely allow savers to easily move their money to a different savings vehicle. An effective savings system would allow households to repurpose both existing balances and new contributions. Luckily, behavioral finance has developed a number of mechanisms that help to make saving simpler and more automatic. With policy changes and innovation, a better savings system that better meets the needs of today's households is possible.

In the future, each user could have one master account with specific subaccounts for different priorities. It would use auto enrollment with a single deduction that is divided among goals. One key difference from today's retirement accounts is that the account would move with the saver, much like Social Security accounts do, from employer to employer. Everyone would have their own account that employers would connect to their payroll system. This would ensure that everyone has the ability to be automatically enrolled into savings, no matter where they work or how they get paid, while also reducing leakage of retirement assets.

The system would feature a people-centric, simple, accessible design interface that provides savers with easy ways to use savings when needed but with the right safeguards and resources to help them make the best long-term decisions too. The various subaccounts would actually be linked but would appear to the saver as distinct.

The master account would have two major buckets, one for short-term goals and the other for longer-term ones like college savings or retirement. Each bucket would have a different investment strategy: preservation for the shorter term and growth investing for longer. The retirement account in the longer-term section would look essentially like those that exist today.

Savers could create subaccounts for new priorities at will or close or combine them as their needs change. But while it would be simple to move funds within the two buckets, it would be more difficult to move money out of the longer-term bucket in order to encourage the saver to preserve those balances.

Our goal is not to scrap and replace today's retirement system but to add features that make it better able to meet more of the needs of today's households. To start the process, a series of specific policy changes are needed.

Our goal is not to scrap and replace today's retirement system but to add features that make it better able to meet more of the needs of today's households.

First, in addition to making the savings platform available to all Americans, regardless of whether their employer offers a retirement plan, there must be one clear, simple, equitable tax advantage for all types of saving. Instead of the existing system of specific tax advantages that mainly serve the needs of upper-income households, all types of saving need to be a priority that is reflected in the tax system. Short-term savings could be used without a penalty. However, to preserve retirement balances, restrictions on its early use would remain.

Second, employers would be strongly encouraged to make a contribution for both long- and short-term savings and could take a tax deduction for doing so. For long-term savings, the employer contribution could be structured as either a match or a flat contribution that is equitably structured to deliver the same benefit for all income levels. Finally, there should be a series of legislative and regulatory changes that would allow different employers across a saver's career to connect to this lifelong savings platform.

Today's complex financial system makes it harder for people to save—and to grow those savings into wealth. Enabling people to save for a variety of purposes in one platform, directly from their paycheck, can help more Americans improve their financial security.

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SECTION VI

Sharing Risks and Rewards, and Protecting Family Wealth

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

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

The Mission Economy and Our "Earthshot": Socializing Risks and Rewards

BY MARIANA MAZZUCATO

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

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

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

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

To create an inclusive and sustainable economy and to stop going from one crisis to another, governments need to think much further beyond market fixing and toward actively shaping and co-creating markets to deliver the results. We need new economic thinking to unleash the entrepreneurial state as an investor of first resort in national priorities, put reducing inequality at the heart of the growth agenda and capture public returns from public investment.

We need new economic thinking to unleash the entrepreneurial state as an investor of first resort in national priorities, put reducing inequality at the heart of the growth agenda and capture public returns from public investment.

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

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

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

At the same time, recognizing the entrepreneurial role of the state as lead investor and risk-taker means it must not just set the background conditions but also actively ensure the socialization of rewards. Public investment is crucial to all parts of the innovation chain, from upstream basic science to downstream commercialization. In addition, government support for corporations—in the forms of direct cash grants, tax breaks, loans issued on favorable terms or government guarantees, and central banks expanding corporate bond buying—has a foundational and indispensable role in stabilizing livelihoods and the economy in times of great crises.

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

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

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

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

As President Biden looks to deliver more than a return to normalcy to reshape a brighter economy in a postpandemic world, he needs to create a new social contract—one that promotes value creation over profit extraction, and socializes risks as well as rewards, and seeks not to simply invest in companies or sectors but in the common good. While the CARES Act included some conditionality on businesses receiving government aid to maintain jobs, the plan to Build Back Better, which may see up to $4 trillion being spent over the next decade on infrastructure and industrial policy, must do much more. It can make sure that public sector investment is accompanied by a transformation in the relationship between the state and the private sector. Lessons can be drawn from Europe, where in France, President Macron made sure that recovery funds to airlines and automobiles were conditional on firms committing to lowering their carbon emissions, and in Austria and Denmark, where firms receiving recovery funds had to commit to not using tax havens. To make sure the deal is a good one, Biden's team will need to work fast—good for climate, good for racial justice and good for working conditions.

President Biden needs to create a new social contract—one that promotes value creation over profit extraction, socializes risks as well as rewards, and seeks not to simply invest in companies or sectors but in the common good.

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

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

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Broadening Ownership First Requires Rewriting the Rules of Debtors and Creditors

BY KATHARINA PISTOR

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

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

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

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

History suggests the formal act of recognizing a simple interest, such as possession of an object or an invention as a legal property right tends to favor actors who have already secured de facto control. In short, property rights are not preordained; they are retro-fitted. "Listen to the barking dogs," advises Hernando de Soto, a leading advocate of titling property to alleviate poverty. However, not everyone has a dog, and some have bigger dogs than others. Broadening ownership is like giving more people dogs while ignoring that the bigger dogs have already demarcated the terrain.

Broadening ownership is like giving more people dogs while ignoring that the bigger dogs have already demarcated the terrain.

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

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

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

Putting all one's eggs into a single basket is a bad idea, as every portfolio manager knows. Yet, most small owners and entrepreneurs have all of their assets exposed to all their creditors. They own little to begin with, and what they do own must be pledged if they wish to obtain the funding needed to run their businesses or to make ends meet. Even when operating a limited liability company, small business owners are often required to personally guarantee a business loan. As a result, their personal, not only their business, assets are on the line.

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

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

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

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

A creditor's own survival often depends on the location of his own place in this hierarchy. The ones with stronger rights are more likely to survive than those with weaker rights. Even better off are creditors who can escape the rules of bankruptcy law altogether by claiming bankruptcy safe harbors and settling their claims before anyone else can raise their own. And best off are those who get to escape scarcity by accessing liquidity support, preferably from an actor without binding survival constraints, i.e., the state or its central bank.

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

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

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SECTION VI

SHARING RISKS AND REWARDS, AND PROTECTING FAMILY WEALTH

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

BY RACHEL BLACK

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

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

These payments have provided a lifeline to the households receiving them. Yet, even after this crisis abates, families will still lack the resources to cover their immediate expenses and plan for the future.

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

Make It Cash

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

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

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

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

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

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

Make It People-Centered, Not Work-Centered

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

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

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

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

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

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

Make It Automatic

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

These administrative challenges are mirrored in existing cash transfer programs. According to legal scholar Dorothy Brown, the expansion of the EITC during “welfare reform” was partially intended to create a class of “deserving” poor by requiring work in exchange for benefits. Yet, the very act of means-testing eligibility branded the program as “welfare,” reinforcing its association with “Blackness.” Consequently, measures such as increased compliance requirements and auditing differentiate low-income tax programs with those serving higher-income, predominately white filers.

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

Moving Forward

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

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

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

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

BY RAY BOSHARA AND IDA RADEMACHER

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

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

The Santillan Family

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

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

The Santillan story brings together several different challenges we have been thinking a lot about for many years: the Great Recession's enduring drag on families and economic growth, compounded even further by the COVID-19 pandemic; the fractured, tenuous link between work and wealth; alarming levels of consumer debt; and the vulnerability of families living without emergency savings or any other financial cushions.

Pooling Risk for Income Losses but Not Wealth Losses?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sharing Risks, Sharing Rewards

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

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

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

BY MARK GREENE

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.

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

Seventy-eight percent of American workers live paycheck to paycheck.

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

The Trouble Families Are Facing

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

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

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

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

> *Drawing board solutions wait to be marshalled in impactful ways to provide targeted relief to American families. However, incentives are lacking to move products for "subprime" consumer populations from whiteboards to reality.*

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

Overlaying the challenges outlined above, regulators and policymakers have an unenviable task. They must protect millions of American consumers—using historically bad outcomes and system failures as an important background for crafting new regulation. There is little appetite or incentive to take on the risks needed to foster innovative solutions. Well-meaning regulations can result in standardization[2] that force smaller, more innovative firms onto the big bank and institutional playing fields—subjecting them to financially prohibitive processes and compliance regimes. Regulatory risk aversion also begets industry centralization,[3] as it incentivizes industry giants to create regulatory moats to protect their enterprises and stamp out competition.

Lessons from Operation Warp Speed

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

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

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

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

[3] Carney, *Alienated America*.

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

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

Families need an OWS—a massive mobilization of "clinical trials" to solve for economic insecurity.

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

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

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

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

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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.

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

BY PETER BARNES

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]

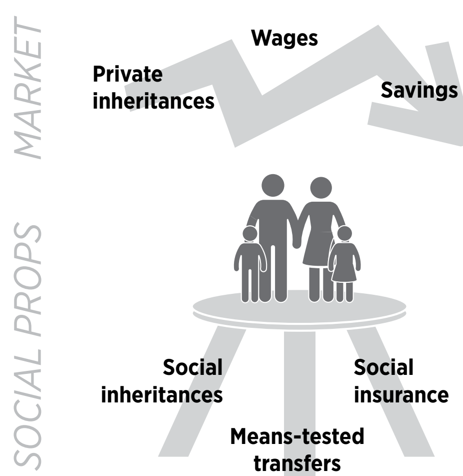
Over time, a social inheritance fund could make every American financially secure from birth to death.

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.

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, NICHOLAS 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.

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.

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.

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.

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.

John W. Haines is the executive director of the Community Investment Trust, a project of Mercy Corps in Portland, Oregon.

SECTION VII

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

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

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.

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,

[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).

SECTION VII

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

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

BY ROLAND M. ATTENBOROUGH

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 non-recourse 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.

Roland M. Attenborough is an attorney/CPA whose legal career began when he started working with Louis O. Kelso. He developed the legal structure of ESOPs, which remain the basis of IRS regulations governing ESOPs. He has drafted legislation for Congress and the California legislature. Now, after many years of working with ESOPs, he is retired from the practice of law and devotes his time to advocating for the ideas expressed in this essay.

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.

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.

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.

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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

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

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

[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

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.

Ted Howard is the co-founder and president of The Democracy Collaborative. Previously, he served as the executive director of the National Center for Economic Alternatives.

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Transforming Systems to Build Racial and Ethnic Wealth Equity

BY IANNA KACHORIS AND DR. HELENE GAYLE

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.

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?

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.

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.

Ianna Kachoris is the senior director of policy and advocacy at The Chicago Community Trust. Prior to joining the Trust, she led the MacArthur Foundation's How Housing Matters initiative and the Pew Charitable Trust's Economic Mobility Project, and served as a senior policy advisor to Sen. Edward M. Kennedy.

Dr. Helene Gayle is the president and CEO of The Chicago Community Trust. Before joining the Trust, she was president and CEO of CARE. Dr. Gayle is an expert on global development, humanitarian and health issues with a 20-year career at the Centers for Disease Control and several years at the Bill and Melinda Gates Foundation.

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

BY BRENT HOWELL, LISA MENSAH AND DAFINA WILLIAMS

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

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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.

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.

Brent Howell is senior associate, research; Lisa Mensah is president and CEO; and Dafina Williams is senior vice president, public policy at Opportunity Finance Network (OFN), the national network of CDFIs.

SECTION VII

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

Building Agency and Ownership in the Deep South

BY WILLIAM J. (BILL) BYNUM AND ED SIVAK

"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.***

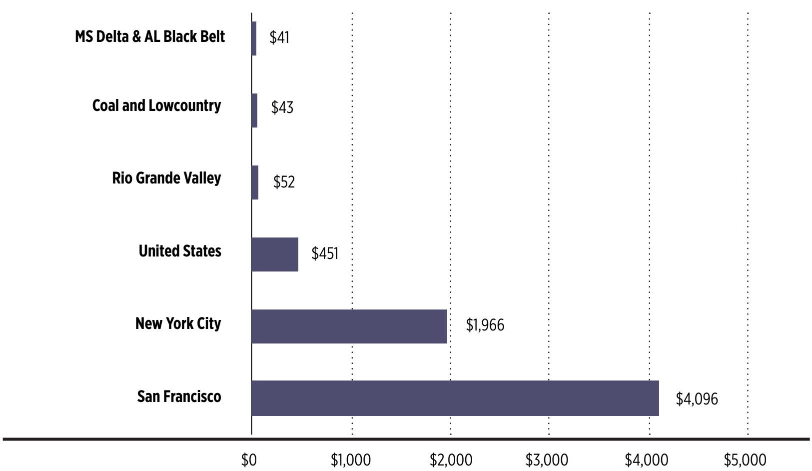
Nowhere was the impact of this initiative more significant than in Epes, an Alabama town of 400 residents. With a grant of $24,300—nearly half of its $55,000 annual budget—the town accessed resources to buy PPE, cleaning supplies and laptops to facilitate remote work.

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.

William J. (Bill) Bynum is the chief executive officer of HOPE, where Ed Sivak serves as executive vice president of policy and communications. HOPE provides financial services, aggregates resources and engages in advocacy to mitigate the extent to which factors such as race, gender, birthplace and wealth limit one's ability to prosper. Since 1994, HOPE has generated more than $2.9 billion in financing that has benefited more than 1.7 million people in Alabama, Arkansas, Louisiana, Mississippi and Tennessee.

SECTION VIII

Growing Wealth, Growing the Economy

Our last three essays focus on how addressing wealth gaps will also generate substantial benefits for the economy. One essay describes the specific channels—investments in children, business formation, and family financial stability—through which building family wealth promotes sustained economic growth. Another essay examines the significant boosts to GDP by closing large racial and ethnic wealth gaps—and some specific ways that can be achieved. A final essay calls for the creation of a "Citizens Wealth Fund"—a novel variation of a sovereign wealth fund—that would grow the wealth of households as the economy grows by, among other things, leveraging the upside of a financial downturn.

In short, we can do well for our families and do well for our economies at the same time.

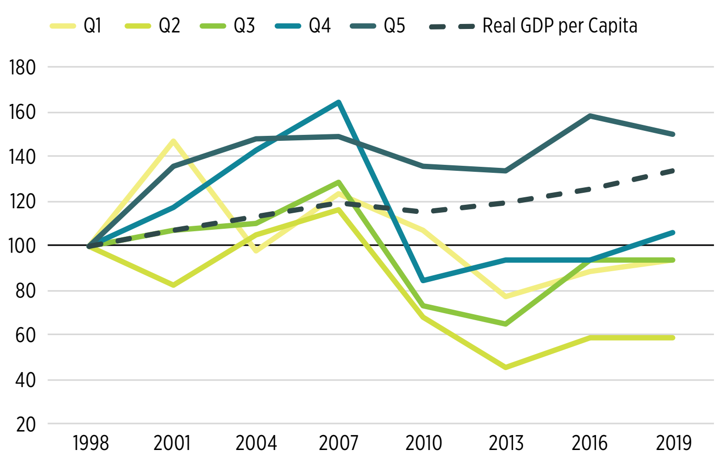
Family Wealth as an Engine for Macroeconomic Growth

BY KAREN DYNAN AND ABIGAIL WOZNIAK

In recent decades, expansions in the U.S. economy have benefited only some American families. Real GDP per capita rose more than 25% over the two decades that ended in 2019, and yet, as shown in the figure below, many families saw a backsliding in their financial positions. For working-age families, net worth in the lowest quintile of the income distribution was just $6,600 in 2019, 7% below where it was in the late 1990s (in inflation-adjusted terms). Families in the second quintile lost even more ground, with their net worth falling more than 40% to $27,000 in 2019. In contrast, the typical family in the highest quintile had more than $750,000 in 2019, up more than 50% relative to 20 years earlier. These patterns echo the rise in income inequality that began decades ago and continued into the 21st century.

Median Real Net Worth for Working Age Families*
by Income Quintile

Index, 1998 = 100



*Families with heads 25-64 years old.

Source: Authors' calculations using Survey of Consumer Finances.

Traditional thinking is that higher income inequality might be associated with greater rewards to hard work and innovation and thus higher macroeconomic growth. However, U.S. macroeconomic growth has slowed significantly since the rise in income inequality began in the 1970s. Growth in real GDP per capita averaged 1.3% per year in the first two decades of the 21st century, down from an average of 2.1% per year over the previous three decades and an average of 2.8% annually in the 1950s and 1960s. Many factors have likely contributed to this downtrend, but the absence of inclusive growth potentially plays an important role. Research findings suggest that helping households build wealth can serve as an engine for growth, through a number of channels.

Research findings suggest that helping households build wealth can serve as an engine for growth, through a number of channels.

The first channel from wealth to growth works through easing family budget constraints, allowing for greater investments in children that lead to future growth. Early investments in children are strongly linked to a range of better outcomes, although the ways in which wealth might contribute to these outcomes are potentially numerous. Income transfers have been shown to raise educational attainment in childhood, and wealth may do the same. Early results from a randomized demonstration project on this question are promising. Importantly, wealth can also expand access to postsecondary education. Research across a range of settings finds that postsecondary outcomes improve when economic or policy conditions mimic wealth transfers (including greater college aid through broad merit scholarships, expanded Pell grants, state aid or housing wealth and business cycle expansions).

Liquid wealth and income transfers enter family balance sheets in similar ways, but low levels of net wealth are only partially related to low income. This insight suggests that policies to boost resources for families with children should consider measures specifically aimed at increasing assets in addition to those designed to boost incomes. While student loans can provide important access to postsecondary education for those who cannot self-finance, they should be viewed as a complement, not a substitute, for wealth building as loan repayment burden may limit opportunities for some young adults (e.g., student loans are associated with being more likely to live with parents post-college and delayed homeownership).

Better child outcomes—through learning gains at young ages and increased postsecondary attainment—represent a rise in what economists call human capital. Economic theory and empirical work suggest that boosting the level of human capital in an economy ultimately leads to macroeconomic stronger growth.

Business formation represents a second channel through which helping families build wealth may benefit both individual households and the overall macroeconomy. Reducing barriers to new business formation appears to foster economic mobility. It also supports macroeconomic growth. Research has shown that start-ups and young businesses make important contributions to job creation and productivity growth.

A long literature suggests that financing constraints are an important obstacle to starting and expanding a new business. Given these constraints, many families, including those with ideas for growth-spurring innovation, will only have access to business ownership if they have an alternative source of initial capital. The rate of new business formation has declined in recent decades as part of a broader downtrend in dynamism that is believed to have dampened macroeconomic growth. Helping families build wealth could lead to a reversal of some of this decline, yielding benefits for both the would-be entrepreneurs and, via more innovation, the macroeconomy.

A final channel is that having some wealth puts families in a better position to weather disruptions to their income without having to cut back on spending or borrow (possibly in very high-cost ways for households of limited means). More research needs to be done to explore the connection between financial buffers at the family level and macroeconomic growth, but several plausible links come to mind. For example, having the resources to continue to make rent or mortgage payments in the face of income loss would allow families to avoid eviction, which could, in turn, contribute to a more stable and reliable workforce by sparing adult family members of the stress of displacement. Likewise, child family members would not be exposed to negative consequences of displacement—such as stress and weaker performance in school—that could reduce their skills and earning ability as adults. In addition, the ability to pay for needed health care for adult and child family members is likely to keep the current and future labor force healthier.

Low-wealth families who need to significantly reduce consumption in the face of an income shock will not only face their own hardship but also create spillovers to the firms they buy goods and services from. When income shocks are correlated across households, these multiplier effects tend to deepen recessions and hinder recovery. Beyond the direct and immediate consequences for macroeconomic growth, the greater business cycle volatility might reduce U.S. productive capacity over the longer run by damping the appetite to invest in our nation's capital stock.

While these three channels all contribute to macroeconomic growth, they may do so in ways that are more or less broad-based. Improving outcomes for children in low-wealth households, and facilitating their access to higher education in particular, should foster higher growth as well as growth that is more equal in origin. While growth-spurring innovation sometimes yields concentrated benefits in terms of market income, policy steps can be taken to redistribute some of the gains. Moreover, if innovation originates broadly—as a result of loosened credit constraints for lower-wealth households and broad education expansions—then it seems possible that the benefits from innovation will be more widely shared even in the absence of additional redistribution.

Building family wealth is not only important for economic mobility at the individual level but also an investment in the future of the American economy.

We conclude with two broad recommendations. First, policymakers seeking to boost macroeconomic growth, and, in particular, to create inclusive macroeconomic growth, should view steps to increase wealth broadly as important levers. Building family wealth is not only important for economic mobility at the individual level but also an investment in the future of the American economy. Second, the standards by which we gauge whether macroeconomic growth is inclusive should focus not only on whether income gains are broadly shared but also on whether there is a strengthening of family finances across the population. Given the channels through which wealth can foster growth, doing so will help to cultivate *sustained* inclusive growth.

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Abigail Wozniak is a labor economist at the Federal Reserve Bank of Minneapolis, where she serves as director of the Opportunity and Inclusive Growth Institute. Dr. Wozniak has also served as a faculty research fellow of the National Bureau of Economic Research and a senior economist at the White House Council of Economic Advisers.

The authors thank Zachary Swaziek for exceptional research support in preparing this article.

Reducing Racial Wealth Gaps—And Why That Matters for Families and the Economy

BY BRENDEN MCKINNEY, NICK NOEL,
DUWAIN PINDER AND SHELLEY STEWART

Racial economic inequality, a function of both wealth and income inequality, is stark and enduring. In 2019, the median white household in the United States had $188,200 in wealth (assets minus debt); for Black households, the figure was $24,100. White households, which account for about 60% of the US population, hold 84% of the wealth; Black households (13.4%) hold just 4%.[1]

These gaps are not just bad for Black Americans. They are bad for the United States as a whole. Inequality chokes off pathways for economic growth, leading to wasted talent, fewer new businesses and poor service delivery for public goods.

Closing the Black-white and the Hispanic and Latino-white racial wealth gaps, according to McKinsey research, could boost consumption and investment by an additional $2 trillion to $3 trillion, or 8% to 12% of GDP. In individual terms, it could mean an additional $6,000 to $8,500 a year in per capita income. Fostering economic and social inclusion, then, could promote growth and prosperity for businesses, families and communities across the country.

McKinsey's Institute for Black Economic Mobility explored these issues in "America 2021: The Opportunity to Advance Racial Equity," from which much of the following analysis is drawn. (This research was directed largely at Black Americans; many of the insights and recommendations, however, would also be broadly applicable to Hispanic and Latino Americans and other minority communities who experience similar but not identical issues.) In this article, we argue that racial economic inequities are found across four dimensions: family wealth, family income, family savings and the "community context"—where families begin the wealth-building process through access to public health, education, safety and community economic development.

There are ways to remove the barriers blocking economic progress across all four dimensions—and thus foster greater opportunity for all.

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1 https://www.brookings.edu/blog/up-front/2020/12/08/the-black-white-wealth-gap-left-black-households-more-vulnerable/

Improving Family Wealth Creation, Especially for Business Owners and Entrepreneurs

The average starting capital for Black-owned businesses is $35,000, compared to $107,000 for white-owned businesses.[2] From the beginning, then, Black-owned businesses have a smaller margin for error. Healthy businesses depend on networks—or "ecosystems"—of talent, capital and expertise. Better-functioning ecosystems can reduce the structural obstacles to Black business development—and add an estimated $290 billion in business equity by achieving revenue parity between Black- and white-owned businesses (our analysis shows that if Black-owned companies were to attain the same average revenue in their industries as white-owned companies, their revenue gains would be about $200 billion. This estimate does not account for the higher revenue's multiplier effects, which would represent the impact of the change on the overall economy or from the growth of the number of Black-owned businesses).[3]

Better-functioning ecosystems can reduce the structural obstacles to Black business development—and add an estimated $290 billion in business equity by achieving revenue parity between Black- and white-owned businesses.

There are four key areas to consider to promote Black-owned businesses: (1) practices that produce equitable outcomes (such as more inclusive governmental small- and medium-sized programs and procurement practices), (2) equitable access to capital (from banks, investors, foundations and government programs), (3) new business capabilities and knowledge sharing (enabling technological diffusion with assistance from the private and social sectors), and (4) greater opportunities for mentorship and sponsorship within companies. New funding (such as impact investing vehicles) and increased support for technical assistance could also help.

[2] Robert Fairlie, Alicia Robb, and David T. Robinson, 2017. "Black and White: Access to Capital Among Minority-Owned Startups." Working paper. Stanford Institute for Economic Policy Research.

[3] U.S. Census Bureau's Survey of Business Owners, from 2007 and 2012.

Boosting Family Income

Black workers are poorly positioned in the U.S. economy due to gaps in human capital development. Without concerted efforts to address this problem, long-term shifts in the economy, such as automation, could widen existing labor market and wealth disparities. By McKinsey's analysis, if labor and wage gaps were closed, Black workers could earn an additional $200 billion in aggregate compensation a year, a boost of 30%.

To take just one slice of the labor market: 20 occupations, accounting for fewer than 4% of all jobs, account for more than 60% of the aggregate wage gap, based on our analysis. These are, unsurprisingly, high-paid, high-skilled jobs. Among them are computer and information systems managers, physicians, engineers, frontline supervisors and accountants. Moreover, wages for Black workers are lower than wages for white workers—a gap of $44 billion a year just for those 20 occupations.

Private sector employers leave value on the table by not including and supporting Black talent to the fullest. McKinsey's "Diversity Wins" research has shown that organizations with top-quartile diversity in their leadership teams are 36% more likely to outperform their peers in EBIT (earnings before interest and taxes). Nevertheless, the same research has documented severe underrepresentation of Black talent as early in the career path as the vice president stage. A clear CEO mandate, strong metrics and targeted programs can help move Black professionals into higher leadership, where the true opportunity for family wealth creation is found. A focus on skill-based hiring, rather than credential-based hiring, can also create additional opportunities for diverse talent to enter the pipelines of leadership positions earlier in their careers.

Increasing Family Savings Through Better Access to Financial Products for Savers and Consumers

Nearly half of Black households in 2017 either did not have a bank account or were "underbanked," meaning they had limited access to or use of products beyond the basics. Without the ability to affordably save, invest and insure themselves against risks, many Black families struggle to translate their income into wealth.

For example, studies have shown that people who live in predominantly

Black communities pay higher auto insurance rates, regardless of their driving record.[4] Black Americans with bachelor's degrees also hold nearly $4,400 more debt than the average American college graduate.[5] Or consider homeownership, where Black Americans receive offers for higher-cost mortgages when compared with white homebuyers and are denied loans at much higher rates than white Americans (28% versus 11%, respectively).[6] Even before the COVID-19 pandemic, only 42% of Black households owned a home, compared to 73% of white households. If Black Americans had the same access as white Americans to financial products such as mortgages, high-yield savings accounts and life insurance, McKinsey estimates that financial institutions could realize approximately [$2 billion in incremental annual revenue a year](). With full wealth parity, that figure could reach $60 billion.

Banks and other financial institutions can start by rooting out the geographic, process, economic, market and institutional barriers, such as credit inequality and redlining, that make it more difficult for Black families to access financial products and services.

Banks and other financial institutions can start by rooting out the geographic, process, economic, market and institutional barriers, such as credit inequality and redlining, that make it more difficult for Black families to access financial products and services. Ensuring that current programs, such as the Department of Housing and Urban Development's mortgage insurance and first-time homebuyer programs, are accessible and used to their fullest extent could be one potential solution.

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4 https://www.theatlantic.com/business/archive/2015/11/auto-insurance-race-discrimination/416988/

5 Lorelle L. Espinosa et al., 2019. "Race and Ethnicity in Higher Education: A Status Report." American Council on Education, https://1xfsu31b52d33idlp13twtos-wpengine.netdna-ssl.com/wp-content/uploads/2019/02/Race-and-Ethnicity-in-Higher-Education.pdf

6 Debbie Gruenstein Bocain et al., 2011. "Lost Ground, 2011: Disparities In Mortgage Lending And Foreclosures." Center for Responsible Lending, https://www.responsiblelending.org/mortgage-lending/research-analysis/Lost-Ground-2011.pdf.

Improving the Community Context

Systemic quality gaps in areas such as health and education damage economic mobility. These inequalities have been laid bare during COVID-19, which has disproportionately hurt Black (3.8 times higher morbidity rate), Hispanic and Latino (2.5 times) Americans. Black, Hispanic and Latino workers have also been more likely to lose their jobs.[7] The share of minority-owned businesses and minority employment is highest in industries most directly impacted by COVID-19. And Black, Hispanic and Latino school children have been hurt by prolonged in-person school closures.

Tightening social safety nets and ensuring equal participation in community decision-making can go a long way in improving the community context for residents. One possible approach to consider is to support "place-based transformations," defined as initiatives that seek to boost economic development in a specific geography. The European Investment Fund is an example of a development bank that could be referenced in creating vehicles that help underinvested neighborhoods. Other critical areas place-based transformations could focus include enforcing local fair housing policies, increasing housing security, improving public health, broadening digital access and combating food insecurity.

The challenges will not be solved overnight. What the country can do is start.

The challenges will not be solved overnight. What the country can do is start. That means working together to create a national framework that can lock racial economic equity into the national agenda; reinforce long-term accountability for government, business and society; and find ways to increase coordination and maximum impact as individual stakeholders implement these and other ideas.

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[7] https://www.pewresearch.org/social-trends/2020/09/24/economic-fallout-from-covid-19-continues-to-hit-lower-income-americans-the-hardest/

A Citizen's Wealth Fund: Broadening Asset Ownership, Reducing Inequality and Stabilizing the System

BY MARK BLYTH AND ERIC LONERGAN

The GameStop debacle from earlier this year should remind us of two things.[1] First, ownership matters. Ordinary people want broader asset ownership, even if it's chasing a bubble. Second, those same people feel that who gets to own assets is a rigged game. In both cases, they are not wrong. When share ownership is highly concentrated, when a minority of workers have pensions tied to stocks and when the majority of workers earn less than $20 an hour, that feeling of a "rigged game" rings true.

Asset ownership, far from broadening, has been concentrating for the past 30 years. Stocks, bonds, real estate (commercial and residential), commodities and even cryptocurrencies are owned and controlled by fewer and fewer players. Concentrated asset ownership in turn turbocharges income gains among those who already have the most assets.[2] Today, amplified by COVID-19, these inequalities powered a K-shaped recovery, where the asset rich saw their values rebound, while the asset poor suffered real income and quite possibly real wealth destruction.[3]

Asset ownership matters because it gives citizens a stake in their economy at a time when the country is polarized economically as well as politically. Assets are not just valuable because they produce an income stream to the holder. When widely held, they are perhaps more important as a form of insurance. Stocks can be sold, houses can be remortgaged and bonds can be cashed in. Broadening asset ownership gives citizens their own recession buffers as well as broadening the number of people anti-recession policies can effectively support.[4]

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1 For those who don't obsess over financial markets, GameStop was a stock heavily hyped on Reddit because it was the subject of a short squeeze by hedge funds. Thousands of micro-investors used the RobinHood share trading platform to boost the price, forcing the hedge funds to close out their positions.

2 Thanks to Piketty's famous R > G process.

3 See https://www.stlouisfed.org/household-financial-stability/the-real-state-of-family-wealth.

4 It also fosters the intergenerational transmission of wealth, thereby lowering inequality over time.

Given that broadening asset ownership is one of those rare policy goals that has no obvious trade-off with another cherished goal, how best can it be advanced when private mechanisms seem to concentrate rather than broaden ownership?

We put forward a citizen's wealth fund that would broaden asset ownership, give citizens a much bigger stake in their economies and provide those same citizens a different kind of insurance against future risk.

In our recent book *Angrynomics*, we put forward our version of a citizen's wealth fund (CWF) that would broaden asset ownership, give citizens a much bigger stake in their economies and provide those same citizens a different kind of insurance against future risk. It's different from current sovereign wealth funds in that it is not funded by carbon rents (Abu Dhabi or Norway) or from a portfolio of state-owned enterprises (Singapore). Rather, we envision one funded from the upside of financial crises. Yes, we did say upside, and there is one.

The original book on how central banks should handle financial crises was written by Walter Bagehot in 1873. The basic rules were "bail (at a penalty rate), fail (anything truly insolvent), and jail (fraud)." Since 2008 we have operated with a different set of rules that has fed the perception that "the game is rigged." That is, when you are dealing with "too big to fail" institutions, you bail at zero, fail no one due to "systemic risk" and jail no one due to the system's opacity.

This different set of rules has given us a world where central banks routinely support crisis-hit asset prices and even create protected classes of securities that are guaranteed not to fall in value. As a result, the largely asset-less, taxpaying citizen ends up paying asset insurance for the already rich while receiving nothing in return. Indeed, they most likely pay for such generosity through rounds of austerity on the public budget. Little wonder, then, that trust in the system evaporates.

Our proposal breaks this pernicious cycle of policymaking and truly broadens asset ownership in American society. We want to exploit an empirical regularity—that the government's cost of capital varies inversely with that of the private sector in moments of crisis. Specifically, in any recent financial crisis, the value of private sector assets falls as liquidity dries up in a flight to safety.[5] The supplier of safe assets is the state, which is why as equity prices fall, bond prices rise and the yield on those bonds fall. Because of this regularity, and because of the centrality of government debt to financial markets in general, since 2008 pretty much any OECD government has been able to issue debt at a negative real rate.[6]

COVID-19 has served as proof of concept where even the promise of an additional [$2 trillion in US spending]() on top of an [existing $2 trillion]() in COVID-19 relief has barely moved inflation. Such a funding environment is correctly seen as a way for the government to rebuild infrastructure and finance decarbonization, and it is that. But it is also the perfect environment to build a multigenerational CWF. Despite the recovery in global stock markets, a diversified portfolio of stocks is still priced to deliver around 5% in real (or inflation-adjusted) terms per year. By contrast, even after the recent sell-off, 30-year Treasuries yield close to zero real.

We propose that the U.S. government create a wealth fund that is funded with bond issuance that invests in diversified portfolios of global risk assets. Importantly, the federal government's *net* debt—that is, liabilities less assets—is unchanged on day one. Over time, however, because the assets should compound at 5% real and the bonds could be structured as zero coupons, liabilities can be repaid as assets are accumulated. If, for example, the U.S. government issued bonds equivalent to 20% of GDP and its diversified portfolio returns 5% real compounded over 15 years, the fund would be able to repay all the borrowing and retain assets equal to 20% of GDP.

> ***When you are dealing with "too big to fail" institutions, you bail at zero, fail no one due to "systemic risk" and jail no one due to the system's opacity.***

To do this, Congress would authorize the Fed to open up a "fidelity for the people" fund. Modeled on the famed Boston firm that has built wealth

[5] Even the fraying of the Treasury market in March 2020, which required backstopping from the Fed to the tune of $1.45 trillion, did not disrupt long-term flows into Treasuries and the consequent lowering of yields.

[6] Sebastian Mallaby has referred to this situation as the "era of magic money," where a confluence of falling real rates and structurally low inflation has created an environment where governments are effectively being paid to issue debt.

for American families for over 80 years, the fund will be an independent institution, with a board drawn from the fund management industry that in turn is overseen by a board drawn from a multiplicity of citizen stakeholder groups. There will be no political representation by Congress on the board nor access by Congress to the funds. The funds will use this initial windfall to develop a highly diversified passively managed portfolio of assets (equities and bonds) with the target of producing a real rate of return on the fund of 5% a year.

Congress would authorize the Fed to open up a "fidelity for the people" fund.

Currently, 20% of U.S. GDP is $4 trillion. Compounded over a decade, that fund would grow to over $6.5 trillion. Just think about what could be accomplished with $2.5 trillion that is earned, not raised by taxes and belongs to everyone except Congress.

We would give equity shares in the fund to the 80% of Americans with the fewest assets. Inequality could be massively reduced with simple endowment payments to citizens as they turn 21 (why should only the rich get inheritances?). Like an inheritance, the founding statute could restrict drawdowns of capital to the beneficiaries to education, home equity, starting a business, health care or retirement income. Recipients could pool funds to raise start-up capital. The statute could be targeted to the bottom 80% so that we can raise the bottom without punishing the top.[7]

Just think about what could be accomplished with $2.5 trillion that is earned, not raised by taxes and belongs to everyone except Congress.

The system as is cannot stand another crisis. Populism is the canary in the coal mine for capitalism, which cannot exist without broad benefits and trust in the system. While a CWF would not solve all of these problems, it would at least address some of them in a fundamental and significant way and in terms of rebuilding trust. It would be giving ordinary taxpaying citizens the upside, for once.

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[7] After all, they already have plenty of assets.

Mark Blyth is a political economist at Brown University. As well as being the co-author of *Angrynomics*, he is the author of *Austerity: The History of a Dangerous Idea* (2015).

Eric Lonergan is a macro fund manager, economist, author of *Money* (2009) and co-author of *Angrynomics* (2020).

SECTION IX

Moderated Conversation Among Federal Reserve Bank Presidents

Thoughts on Wealth Inequality, Financial Inclusion and the Racial and Other Wealth Gaps

A Conversation Between

JAMES BULLARD
President, Federal Reserve Bank of St. Louis

RAPHAEL BOSTIC
President, Federal Reserve Bank of Atlanta

PATRICK T. HARKER
President, Federal Reserve Bank of Philadelphia

NEEL KASHKARI
President, Federal Reserve Bank of Minneapolis

1. ***President Bullard: Are you concerned about economic inequality, especially wealth inequality?***

President Kashkari: Yes, I am concerned. Economic inequality on several dimensions—from wages to wealth—has risen in recent decades. This makes for a less inclusive economy and more families living economically precarious lives.

That said, I'm glad you noted a distinction between inequality generally and wealth inequality specifically. It's important that we all keep in mind that inequality has many dimensions, and the way that we tackle one dimension might differ from how we tackle others. Clearly, the different dimensions are interrelated: For example, inequality in earnings has been an important driver of increases in wealth inequality.

One reason to be particularly focused on wealth inequality is that it can be viewed as a summary measure of many other forms of inequality and discrimination because it provides access to so many other pieces of well-being. In fact, I view wealth inequality as the cumulative effects of income inequality and discrimination over many generations (something that our Opportunity & Inclusive Growth Institute Advisor Sandy Darity has been emphasizing for a long time).

President Harker: In word, yes.

Highly unequal societies tend to be brittle. Their political systems are frequently unstable. Their periods of economic growth are often short lived and unimpressive. Indeed, research has found that when an additional 1% of income goes to the top 20% of income earners, GDP falls, but when the same gains are made by the bottom 20%, GDP rises.

A more equitable distribution of income and wealth in our country would mean a more durable society. And at some level, vast inequalities, in my view, are a moral issue and a profound challenge to our country's founding creed.

It's important to note, however, that when talking about inequality we are actually describing two distinct yet interrelated phenomena: income inequality and wealth inequality. Each requires different solutions.

Reducing income inequality will require, at a minimum, getting more people into jobs that pay family sustaining wages—jobs like "opportunity occupations" that pay above the median wage but don't require a traditional four-year college degree.

But reducing wealth inequality will necessitate a different approach.

It will require not only getting people into good jobs but also making sure they have access to those systems that produce true wealth, like home and/or small business ownership. Home and small business ownership—far more than income—are the greatest generators of wealth in our society. That's why deep inequities in, for instance, rates of homeownership—not to mention home values, which vary widely across communities—can end up compounding wealth inequality.

President Bostic: I *am* concerned because greater inequality means a larger fraction of Americans are on the economy's sidelines, and consequently the country and macroeconomy do not benefit from their talent, creativity and productivity. This means an economy that is less creative, resilient and robust than it otherwise could be.

A growing body of research makes a strong case that a more inclusive economy is a more prosperous economy. For example, a San Francisco Fed paper suggests that racial and gender inequities in employment, wages and education cost about $3 trillion a year in economic output as measured by GDP.[1]

Wealth inequality is particularly pernicious, for several reasons. At a basic level, it means more families are in a precarious financial position and unable to weather economic shocks. Furthermore, because existing wealth is an important factor in determining credit quality, those with low wealth struggle to access credit markets. This makes getting loans for education or to start a business more difficult and expensive. Wealth inequality acts as a deterrent to

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1 Shelby R. Buckman, Laura Y. Choi, Mary C. Daly and Lily M. Seitelman, 2021. "The Economic Gains from Equity," Federal Reserve Bank of San Francisco Working Paper 2021-11. Available at https://doi.org/10.24148/wp2021-11.

entrepreneurship and to personal investments, which build a more productive and flexible labor force.[2]

2. President Bullard: Financial inclusion is a prerequisite for building savings and wealth. Many families, especially those of color, lack full access to basic financial services. Does the Fed have a role in promoting financial inclusion; if so, what is that?

President Bostic: The Atlanta Fed has a long history of working to increase financial inclusion through research, education and engagement, and I have been happy to help advance this legacy. For example, the Bank has an economic inclusion agenda aimed at lifting up economically vulnerable citizens such as the unbanked and underbanked. In 2019, the Bank began a "safer payments" initiative, working with financial technology companies and pursuing a research agenda that views payments innovation through an economic mobility and resilience lens.[3] Then in 2021, we launched the Special Committee on Payments Inclusion to formulate recommendations that help ensure that innovations in payments are inclusive rather than exclusionary.[4]

Though our Bank's efforts have been important, we must recognize that the Fed's commitment to financial inclusion has been systemwide. For example, the Community Reinvestment Act (CRA) requires the Federal Reserve and other banking regulators to encourage financial institutions to help meet the credit needs of the communities where they do business, including in low- and moderate-income neighborhoods. Responses to the CRA have helped advance financial inclusion along multiple dimensions.

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[2] Jared Bernstein, 2015. "Financial Vulnerability Is a Problem: An Economist's View," *What It's Worth*, Federal Reserve Bank of San Francisco and Corporation for Enterprise Development (Prosperity Now). Available at www.strongfinancialfuture.org/essays/financial-vulnerability-is-a-problem/.

[3] For details, see "As Fintech Transforms Payments, the Atlanta Fed Seeks to Guide Innovation," the Federal Reserve Bank of Atlanta's 2020 annual report, at https://www.atlantafed.org/economy-matters/annual-report/2019.

[4] New Committee to Advance Safe, Efficient, Inclusive Payments, Federal Reserve Bank of Atlanta press release, May 12, 2021. Available at www.atlantafed.org/news/pressreleases/2021/05/12/new-committee-to-advance-safe-efficient-inclusive-payments.

President Harker: Yes, the Fed certainly has a role in promoting financial inclusion.

At perhaps the most fundamental level, we can encourage financial inclusion through our vast research apparatus, our economic education programs, and through our engagement efforts that disseminate best practices to encourage inclusion.

Another of the Fed's important roles is our supervisory responsibility. It's on us to make sure that banks are treating individuals, families and small business owners fairly and that their customers—or potential customers—have access to capital. Moreover, under the CRA, the Fed is in fact *required by law* to encourage financial institutions to help meet the credit needs of the communities in which they do business, especially in low- and moderate-income communities. Continuing to pursue CRA modernization, as we are now, will only strengthen these efforts.

We know there remains a lot of work to be done on this score. That became painfully obvious during the COVID-19 pandemic when the CARES Act's PPP loans were disbursed.

According to data submitted by applicants to the Small Business Administration, which managed the program, during the height of the pandemic, fully 83% of PPP loans went to businesses owned by white entrepreneurs. Black business owners, by contrast, received only 1.9% of the loans issued. Furthermore, not only did Black business owners apply for PPP loans at a lower rate than other groups, but their applications were also turned down at higher rates—even when controlling for revenue and credit.

President Kashkari: Promoting financial inclusion is an important priority for the Federal Reserve. Over the last two decades, important progress has been made in reducing the number of households who do not have access to the mainstream banking system (the "unbanked"). Recent estimates place the number of unbanked households at around 5.4% of all households in the United States, or approximately 7.1 million households. These rates are higher for lower-income, Black, Hispanic and American Indian or Alaska Native households as they are disproportionately more likely to be unbanked.

One of the important ways the Federal Reserve encourages the inclusion of more people into the banking system is by giving banks credit under the CRA for offering low-cost deposit accounts to low- and moderate-income individuals. In addition, through the Federal Reserve's Community Development function, we promote financial inclusion through our research and outreach efforts. In our District, for example, the Minneapolis Fed's Community Development program actively supported the Financial Access in Reach (FAIR) initiative that focused options for developing low-cost bank accounts and opportunities to build credit for unbanked households. This effort led to the recently launched Fair Financial accounts, a promising partnership between a local nonprofit and financial institution.

3. President Bullard: My colleagues in our Institute for Economic Equity have documented large and enduring racial, educational, gender and generational wealth gaps among households—many of them exacerbated by the Great Recession and likely further exacerbated by the pandemic. Does the Fed have tools to promote family wealth or to build it up for those that never had much? And what can those outside the Fed do to address these wealth gaps?

President Harker: As I said earlier, income inequality and wealth inequality are distinct yet related phenomena. Reducing income inequality will not, in and of itself, reduce wealth inequality. But we also cannot reduce wealth inequality in a sustainable way without reducing income inequality. I say "in a sustainable way" because we could actually crush wealth inequality tomorrow by sharply raising interest rates and depressing the stock market. But that would make income inequality worse by curtailing job growth.

So how do we reduce income inequality? The Federal Reserve can use all its tools—research and monetary policy, most prominently—to ensure a robust job market that gets as many people as possible into solid jobs with good wages.

As for wealth inequality, our supervisory function can make sure all Americans have fair access to capital. Our research can inform strategies to boost homeownership and access to job training and higher education. The latter is important because many families go into debt to finance their children's education—thereby having the perverse effect of actually increasing intergenerational wealth inequality in an effort to boost income. And our community development function can support activities that enhance wealth generation, such as small business ownership.

Let me cite one example: Here at the Philadelphia Federal Reserve, we are launching a Research in Action Lab in the State of New Jersey in partnership with the New Jersey Economic Development Authority that focuses on research and support for firms that have been hardest hit by the pandemic—microbusinesses employing fewer than 10 people and firms owned by people of color. We are conducting research using the Small Business Credit Survey to understand how those firms have this crisis.

And beyond quantitative analysis, we are doing listening sessions across the state to also hear from firms themselves. The goal of the Research in Action Lab is to bring together partners and regional stakeholders to identify innovative solutions to these challenges.

President Bostic: The mechanisms of monetary policy that promote maximum employment are clearly pertinent. The Federal Reserve also uses its research, convening ability and networks to inform efforts by practitioners and policymakers focused on career advancement and workforce development. After the Great Recession, for example, the Federal Reserve System, along with the Heldrich Center, the Ray Marshall Center and the Upjohn Institute, activated the Investing in America's Workforce initiative to help foster more investment in people, programs and policies that overcome barriers to people benefiting from good-quality jobs, family-sustaining incomes and pathways to wealth building.[5] More recently, Atlanta Fed researchers have studied how home refinancing propensities and laws associated with heirs property worsen wealth gaps.[6,7]

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5 To access Investing in America's Workforce Initiative resources, visit www.investinwork.org.

6 Kristopher Gerardi, Paul Willen and David Hao Zhang, 2020. "Mortgage Prepayment, Race, and Monetary Policy," Federal Reserve Bank of Atlanta Working Paper 2020-22. Available at https://doi.org/10.29338/wp2020-22.

7 Thomas Mitchell, Sarah Stein and Ann Carpenter, 2020. "Expansion of New Law in Southeast May Stave Off Black Land Loss," Federal Reserve Bank of Atlanta Partners Update. Available at www.atlantafed.org/community-development/publications/partners-update/2020/covid-19-publications/201007-expansion-of-new-law-in-southeast-may-stave-off-black-land-loss.

Outside organizations also have an important role in strengthening wealth-building pathways. For example, recently launched partnerships with Social Finance, the U.S. Chamber of Commerce Foundation and others have resulted in case studies and workshops where public/private teams are experimenting and learning from new and scalable investment strategies to improve workforce development outcomes for workers and employers.[8,9] I hope innovative efforts like these will bring us closer to having wealth-building pathways and, more generally, an economy that works for all.

President Kashkari: The Federal Reserve has several tools to contribute here. As mentioned, the CRA helps the Fed provide access to high-quality financial services for low- and moderate-income communities. In addition, many Reserve Banks—St. Louis contributes a lot here—are active in developing better financial education tools at no cost for educators and community leaders.

The Fed also plays an analytical role by operating the survey that provides our best information about wealth gaps. The Fed also has a role, through its mandate to achieve maximum employment, in providing the basis for lower-income families to build wealth. But one thing to note is that there are very large racial wealth gaps even for Black and white families with the same incomes, in large part because of inherited wealth.

Many of the tools for addressing these problems lie outside the Fed: for example, tax policy (especially of inherited income) and investments in children (which can reduce intergenerational inequality). But the Federal Reserve has a deep set of research resources that can help shed light on this full range of policy tools and options.

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8 The Talent Finance initiative (2020), a partnership of the U.S. Chamber of Commerce Foundation Center for Education and Workforce, WorkingNation, and Greater Houston Partnership, is helping employers and the financial services community identify new private sector tools for financing talent development. Learn more at www.atlantafed.org/cweo/funding-workforce/talent-finance.

9 *Workforce Realigned: How New Partnerships Are Advancing Economic Mobility* (2021) is a book—a joint effort of Social Finance and the Federal Reserve Banks of Atlanta and Philadelphia—that offers 19 case studies and new ideas about how to prepare the future workforce. The case studies are written by leaders from government, higher education, business and social service organizations. Learn more at https://socialfinance.org/workforce-realigned/.

4. President Bullard: The racial wealth gap—especially the Black-white wealth gap—has received a lot of attention, including within the Fed. Should the Fed act in some way to address wealth gaps? If so, how can the Fed do so most effectively given its statutory responsibilities and the tools at its disposal?

President Kashkari: The Black-white wealth gap is concerning because we have strong historical evidence that at least part of it is due to explicitly discriminatory policies. We may also have to grapple with the possibility that our support and stabilization of the financial system doesn't always benefit everyone equally. That's not a reason to abandon that mission, but it does deserve study and may mean that we need to work harder to reduce inequality through other means. So one thing the Fed should continue to do is to study the evolution of wealth and wealth gaps and the role that our own policies play in that.

President Bostic: A good job is critical for building wealth, and Fed policies that contribute to sustained macroeconomic growth increase the ability of families to get such jobs. Indeed, the monetary policy framework that the Federal Open Market Committee adopted in August 2020 articulates the Fed's maximum employment mandate as a broad and inclusive goal. So, we aim to spread employment opportunities widely, including to those people traditionally on the margins of the labor force.

The Federal Reserve can also use its tools—establishing facilities to provide liquidity to financial markets, conducting research on pressing issues, convening experts to facilitate solution-oriented discussions and promoting effective policies and practices—to help local policymakers make progress tackling barriers to progress and success. The experience during the recent pandemic has shown how, in times of crisis, the Federal Reserve's tools and networks can limit the pain that families with limited wealth experience. The Fed used its Section 13 authority to establish lending facilities—the Paycheck Protection Program Liquidity Facility (PPPLF) and the Main Street Program—to support the Paycheck Protection Program lenders and lending to midsized firms.

By listening to community and industry experts, we recognized that smaller businesses and businesses owned by people of color struggled to participate in relief programs because many lacked relationships with traditional banking institutions. This knowledge drove our effort to ensure that institutions serving such businesses, like community development financial institutions and members of the Farm Credit System, were granted access to the PPPLF and thereby increased access in underserved communities.

President Harker: As the country's central bank, the Federal Reserve's mission is to promote a healthy economy and a stable financial system. To ensure those goals are met, we need to foster an economic environment in which all Americans can thrive—and, ultimately, in which racial identity will no longer be a predictor of economic outcome.

It is the Fed's role to first and foremost collect, analyze and understand the data on this issue. And what we do know shocks the conscience: The typical white family has around eight times the wealth of the typical Black family. This is not only, in my opinion, inherently unjust but also a hindrance to us achieving our full economic potential as a nation.

Reducing the racial wealth gap will mean using all of the tools outlined above—monetary policy, our path-breaking research, our supervisory function and our community development responsibilities—to ensure fair treatment and engage with communities.

Lastly, we need to move beyond conversations about "financial literacy" and financial planning—it's difficult to plan when you have little income or wealth to plan for—and move toward systemic solutions that address historic disparities in wealth, particularly along racial lines and access to capital.

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"In the future, we will look back on the origins of struggling U.S. households having greater access to traditional and new forms of wealth creation—and can trace it back to this groundbreaking book. This transformation to greater financial security and opportunity will be largely due to the vision of Ray Boshara and Ida Rademacher and, especially, the diverse experts they assembled to create this collection of silo-defying essays. This comprehensive and thought-provoking volume will be widely viewed as the catalyst for the revolution in policy thinking on how U.S. households can increase their ownership stake—and thus achieve greater economic resilience and upward economic mobility."

William M. Rodgers, III
Vice President and Director, Institute for Economic Equity,
Federal Reserve Bank of St. Louis

"America's historic levels of wealth and racial inequity undermine both our economy and our democracy. Thankfully, the authors and editors of The Future of Building Wealth leave no stone unturned in their exploration of the dimensions and drivers of these twin crises. The essays in this volume don't simply size up the problem, however—they also offer reasons to be hopeful, and even excited, about solutions big and small that can lead us into a new era of more deeply shared prosperity. The ideas in this new book have the capacity to launch a national conversation about the future of building wealth—a conversation in which I hope all Americans will participate."

Daniel R. Porterfield
President and CEO, The Aspen Institute

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