

The Assets Movement at a Moment of Reckoning



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Opening Remarks

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This essay reflects an extended version of remarks delivered by Ida Rademacher at AFN's Biennial Grantmaker Conference on May 3, 2017. AFN is grateful to Ida for compiling her thoughts and also to Joanna Smith-Ramani, Associate Director, Financial Security Program at The Aspen Institute, for her many thoughtful contributions to this paper.

An Introduction

So, what has changed since I first started thinking about this topic?

Perhaps what has changed the most is my sense of the fierce urgency of now, and my level of conviction that your philanthropic leadership, vision, and courage are more consequential today than ever before.

Regardless of political affiliation, over the coming months and years, your choice of investments and your institutional voices will play an outsized role in shaping the future opportunity structure of our nation.

This is not hyperbole. It is my honest read of what is at stake and what is required at this moment in history. With that in mind, I want to share three basic stories with you today.

I want to start by congratulating the Asset Funders Network for putting together such a thoughtful program, and for growing such a strong and diverse philanthropic community over the past decade, as evidenced by all of you here today. It is an honor to speak with you today.

In the spirit of full disclosure, the actual invitation I received from Joe [Joe Antolín, AFN Exec. Director] came several years ago as I was preparing to lead the Aspen Institute Financial Security Program.

At the time, his invitation had very little to do with speaking at this conference. Rather, Joe simply encouraged me to make the most of the transition [from CFED to the Aspen Institute Financial Security Program] by stopping to reflect on how I saw this field evolving, and what I felt it should aspire to accomplish in coming years.

I informally titled these reflections “The Assets Movement at a Moment of Reckoning” long before the elections last fall. Despite what the name may imply, my unabridged remarks represent a longer vantage point, one that is both backward and forward.

1. THE PAST

The first one revisits the origin story of the modern assets movement, and situates the aspirational shifts that have taken place in the field’s vision and focus inside the broader economic trends that define the time period.

2. THE PRESENT

The second story calls out the core tensions that have emerged within the field, and between this field and others that have shared goals but different priorities. Naming and understanding the issues that drove these tensions is essential if we are to make forward progress in crafting a holistic solution set that improves the financial wellbeing of families and communities.

3. THE FUTURE

The third story is the call to action that emerges out of the insights and realities that we now understand about the past and the present. There are urgent and vital leadership and investment opportunities for philanthropy to play to ensure that the most important levers of change are pulled.

The Past

ORIGINS

In his foreword to the 1996 edited volume *Assets for the Poor*, then Ford Foundation Vice President Dr. Melvin Oliver explained the rationale for his institution's decision to reorient its entire poverty alleviation portfolio of investments around a new, somewhat unconventional strategy referred to as "asset building."¹

The asset-based approach to poverty alleviation, he explained, did not reject the mainstream poverty-fighting strategies that focused on boosting income and ensuring minimum levels of consumption. Rather, it took issue with the way that most of these strategies tended to oversimplify and under-solve for the deeply complex and systemic drivers of inequality and persistent poverty.

In moving to an asset-building strategy, Oliver and his team—and the many other foundations who joined them—were placing a big bet on Michael Sherraden's basic thesis from his 1991 book *Assets and the Poor*. That thesis involved rethinking the key building blocks of economic opportunity and mobility in society. It held that a social policy built around the goal of wealth creation was a better way to create real, enduring change in the life chances and trajectories of low-income families and communities.

It started and ended with the idea that individuals of all races and income levels had hopes and aspirations for their lives and the lives of their children, and that given access to the right financial tools and conditions, they would act in ways that would advance their own economic futures and those of their communities.

To test this thesis, foundations began to fund a fledgling field of nonprofits, community financial institutions, and researchers. Together they worked to design and test a range of new financial products, services, and incentives that could help lower-income families and communities of color pursue major asset-development goals such as home and business ownership and higher education. In doing so, they sought to tap into the "near-universal desire to create a better life for oneself and one's progeny."²

It may feel like 20-plus years of investing, innovating, experimenting, and learning ought to suffice as an adequate proving ground to judge the success of asset-based strategies in combating poverty and promoting economic security and mobility. Indeed, there is an expansive body of research demonstrating that lower-income households do share the same desire to save and invest in their economic futures, and will do so when provided with well-structured opportunities.

But what is also true is that, as much as we've learned and proven, the impact it makes is still small compared to the scale of the problems. And those problems are getting worse, not better, despite our best efforts to date.

But what is also true is that, as much as we've learned and proven, the impact it makes is still small compared to the scale of the problems. And those problems are getting worse, not better, despite our best efforts to date. New macro-level research demonstrates growing levels of household income and wealth disparity and financial fragility.

The latest data is sobering: The wealth share of the middle class declined significantly since the 1980s and is now at approximately the same level it was 70 years ago. Moreover, total wealth for the bottom 50% stands at a mere 1% of the amount held by all U.S. households (the lowest share since 1962).³ To some, these macro trends understandably raise questions about the efficacy of all of the work that has gone into helping families build wealth and savings. Was it all for naught? Was it the wrong strategy? The wrong theory? A failed investment?

I feel emphatically that this is not the case. As dire as the aggregate numbers look, it is important to realize

that there were many confounding forces creating an economic environment that was extraordinarily destabilizing for households over the past several decades. We are learning more every day about the drivers of financial insecurity and the ways it destabilizes not only households, but also democracy and the larger economy. Given what is at stake, it seems rash to judge the innovative efforts of a fledgling field too harshly for what it did not accomplish. The story is far from finished.

THE CONTEXT OF CHANGE AND THE HINDSIGHT OF TIMING

In hindsight, we can see that the timing of the birth of the assets movement was stunningly star-crossed. And really, only in the last several years have we had access to the kind of data that lets us appreciate just how exceptional the time period was when Michael Sherraden was formulating the ideas that would become *Assets and the Poor*.

It turns out that when you look at the recent analysis by Thomas Piketty and Emmanuel Saez, the mid-1980s was the highpoint of shared prosperity in America's recorded history. The bottom 90% of the population owned 35% of the wealth (up from 20% in the 1920s), and took home 70% of the (pre-tax) income, thanks to a comparatively strong social contract between workers and employers.⁴

To be clear, this level of unprecedented shared prosperity was not an instant result of 80s supply side economics. It reflected a slow accumulation of household wealth over decades—due to the policy and employment structures that emerged following the Great Depression and World War II.^{4,5}

And while there were grave racial, ethnic, and gender disparities hidden in plain sight just beneath the surface of these aggregate numbers, the fact that households across income brackets were sharing the pie a little more fairly is significant. It is significant because there was enough going “right” to fuel impatience for the kinds of stubborn inequalities that persisted, and a new level of exuberance for ideas that could address them. As a result, asset-building theory and strategies emerged at a perfect time and resonated strongly with antipoverty advocates, funders, and policy makers on both sides of the aisle.

But I say the timing was tragic—star-crossed—because,

even as the assets field emerged and gained momentum, profound economic and policy changes were already creating a strong undertow eroding the foundations of shared prosperity. These changes made the work of savings and ownership more difficult by orders of magnitude for both families and asset-building innovators.

Chief among those changes:

- **DECLINING WAGES AND INCOME SHARE**

In the 1980s, wage growth for average workers began to stall out and become “decoupled” from overall growth in the economy and productivity.⁶ There are many drivers that contributed to this trend—globalization, financialization of the economy, changing technology, major tax policy reform and declining unionization to name a few⁷—but the evidence of this decoupling is robust. Research published earlier this year sheds new light on just how stark the problem is. The authors observed “a complete collapse of the bottom 50% income share in the U.S. between 1978 and 2015, from 20% to 12% of total income.”⁸

- **INCREASING INCOME VOLATILITY**

Not only have wages and compensation flatlined for much of the population, but there has also been a marked increase since the 1980s in annual income volatility for lower-wage workers due to the changes in the structure of work.

The recent research from *The Financial Diaries* and JPMC Institute, studying vastly different households, shows that monthly incomes for a large percentage of households fluctuate upwards of 30% a month. That might not be problematic if a baseline bank balance is \$5,000 or \$10,000. But for families making ends meet month to month, a 30% drop in income can wreak havoc on basic budgeting and force hard tradeoffs and triage. New research has also begun to document income volatility's impact on physical and child health.⁹

- **DECREASED SAVINGS RATES**

The savings rate for top-income households has

remained relatively constant since the 1980s, but saving has decreased significantly for the majority of working households in the U.S. During the 1980s (and earlier), a savings rate of 5-10% was observed for the bottom 90% of households. But by the mid-2000s, households had a negative savings rate. Since the Great Recession that began in 2007 and ended 18 months later, the savings rate for the bottom 90% has “rebounded” to 0%.¹⁰

- **INCREASED DEBT**

The nonexistence of savings among so many families is largely a function of the outsized role that debt has taken on in household balance sheets since the 1980s. The debt-to-income ratio for the bottom 90% of households rose from 75% in the 1980s to 135% during the height of the Great Recession.¹¹ And while there is a general tendency to think that over-indebtedness subsided as households recovered, debt still exceeds 110% of income and is considered by many to be a drag on the economy and an unstable and unsustainable driver of economic growth.^{12, 13}

But within communities, none of these broad patterns were known. What was clear for many asset-building practitioners was that strategies that focused out-of-the-gate on acquiring large or long-term assets, such as a home, business, retirement fund, or a college education, could feel “tone deaf” to the financial realities of many clients who were struggling to make ends meet. Even if you did believe in the innate desire of all families to work hard and pursue the American dream, the reality was that financially strapped families needed basic tools and a “start where you are” approach that more closely aligned with the financial challenges they were facing.

The Present

These insights, along with new data that began to document the “high cost of being poor”¹⁵ and the proliferation of alternative—often predatory—financial services brought about two notable changes that I feel define the present-day field.

First, the asset-building continuum has been recast with a

broader frame and mandate. There is convergence on the need to focus on basic banking access, tax-time assistance, financial coaching, credit-building and consumer protection in addition to the original savings focus.

At the same time, there has been broad expansion in the number and type of institutions now engaged in the work. City leaders create offices of financial empowerment. Behavioral scientists lend their insights to improve policy, product, and service design. Fintech firms, both nonprofit and for profit, leverage new technology and big data to solve a growing array of financial challenges.

The net result is a growing, vibrant field, and an increased emphasis on understanding and addressing the financial struggles of consumers while improving and expanding the menu of strategies and services that are tailored to their needs. These added dimensions to the field are an important contribution by the assets field that complemented traditional anti-poverty programs.

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On one hand, the number of foundations, financial institutions, and practitioners placing an emphasis on helping families manage and navigate their increasingly precarious financial lives is critical and commendable. On the other hand, I am concerned that over the course of time, these important, well-intentioned efforts aimed at reducing hardship and making it less expensive to be poor have come to be seen as an end rather than a means.

A major unintended consequence of this shift is the emergence of a transactional rather than a transformational mindset about the goals of this work,

a focus on palliative versus curative solutions, a sense that we must resolve income challenges before we can tackle asset development. Ironically, this puts us right back in the thick of the traditional 20th century social policy paradigm—an income sufficiency paradigm that the assets movement originally sought to improve upon. This cannot be the stopping point for this work.

I am not saying that innovations that help reduce the cost and increase the convenience of financial services are unimportant, or that better tools and information that help people make better financial decisions and choices are not greatly needed.

What I am saying is that strategies geared at helping people “optimize scarcity” (as Brandee McHale pointed out in her powerful piece in *What it’s Worth*) are wholly insufficient.¹⁵

The level of wealth inequality now observed in this country has reached historic levels, is 10 times more concentrated than income inequality, and is poised to grow even faster in the future.¹⁶ Moreover, given how much of an outlier America is from other countries on the wealth disparity spectrum (even after taxes), it is clear that corporate and government policies at all levels play causal roles in creating the current conditions. I am aware that this could be construed as a politically polarizing statement, but it is not: Wealth inequality grew just as much under the Obama administration as it did under the Bush administration. Arguably more.

My main point is this: For this field to contribute to fundamental positive changes in the long-term financial wellbeing of low-income and low-wealth households, we must do more.

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must do more. Our work must become more intentionally aligned and directed toward the explicit goal of increasing the financial wealth and wellbeing of all Americans, especially the “asset poor majority,” to borrow a well-worn phrase from CFED’s founder, Bob Friedman.

The Future

How do we get there? I have three suggestions. The first calls for resolving within-field polarities that I believe are holding us back from achieving the full positive impact for families. The second is aimed at strengthening connections, collaborations, and alliances with other disciplines that share our goal of creating more deeply shared prosperity in America. The third involves lifting up financial inclusion and financial security as a top national priority in the context of a broader inclusive and sustainable growth agenda.

1. HONOR THE REALITY THAT HOUSEHOLDS HAVE BOTH SHORT- AND LONG-TERM FINANCIAL NEEDS, AND THAT ADDRESSING BOTH IS CRITICAL TO FINANCIAL WELLBEING.

While we have rightly embraced the challenge to help households improve day-to-day financial stability, the inadequacy of long-term savings and real wealth ownership also remains a foundational crisis for American households, especially for low-income households and communities of color. Today, more than a third of households have no retirement savings whatsoever and 46% of households would have difficulty coming up with \$400 in an emergency.¹⁷ And while there are some truly transformative policy and market innovations gaining support that can help improve the situation, success will ultimately come only when we begin to view short- and long-term financial security as one unified field of focus. Now is the time to take up the hard work of crafting a holistic approach to improving both short- and long-term financial security for current and future generations.

I tend to think of the connection between short- and long-term like I think of the relationship between weather and climate. When an extreme weather event occurs, Hurricane Katrina, for example, or a destructive tornado or a terrible drought, the only appropriate response is to focus every available resource on helping address the immediate loss and suffering of the affected communities. And, shortly thereafter, to help them rebuild and reclaim their lives. At the same time, research is clear on the fact that the frequency and severity of these disasters is increasing due to much longer-term changes in climate that are driven in part by human activity. The facts help us see clearly that the volatility of weather will continue to worsen unless and until we address the root causes and systemic drivers of climate change. In the world of weather and climate, both sets of work—disaster response and systems change—are critical if we want the situation to improve in the long run.

In the world of financial security and inclusion, both sets of work are equally critical. The long-term trend of growing wealth disparity, if left unaddressed as a real and distinct problem caused in part by human (policy) decisions, will continue to exacerbate the severity of the financial distress we are working so hard to alleviate in the everyday lives of families. Just as with weather and climate, it is a false choice to go with one strategy or the other. We must invest in both.

2. ACKNOWLEDGE THE VITAL AND SYMBIOTIC ROLES OF BOTH INCOME AND ASSETS – WORK AND WEALTH – IN CREATING FINANCIAL SECURITY AND ECONOMIC OPPORTUNITY FOR ALL.

The second suggestion is to spend time and resources building new alliances between proponents of asset- and income-based solutions to financial insecurity. In today's economy, both labor and financial markets are increasingly complex and hard to navigate. And while success in both is a prerequisite to financial security, success in either is only partly determined by individual choice. The truth is we cannot resolve either the short or

long term financial challenges families struggle with today until we address the underlying issues that are shrinking both the income and wealth shares of American workers. These issues, while closely related, have different drivers and different remedies.

In practice, the unfortunate reality is that champions of labor policy solutions and consumer financial policy solutions do not always see themselves as strong allies bringing different strengths into a shared battle against poverty and financial insecurity. This, despite the fact that we know beyond a doubt that families need both healthy cash flows and healthy balance sheets to advance into—and remain in—the middle class, as well as to have better health outcomes, and to gain higher education credentials and retirement security.

My sense is that much of this caution and distance between the income and asset camps is not so much a function of a lack of appreciation or respect for the importance of both strategies, but about real and perceived resource constraints. It is the byproduct of the uneasy (and not entirely wrong) sense that social policy investments are finite and under siege. Just as scarcity can stymie long-term thinking at the household level, it can also result in false and forced positions at the policy level (or in philanthropy). The result is counterproductive fissioning between those who are dedicated to defending existing (and critical) income and work supports, and those who are dedicated to building out a modernized social policy vision that fully embraces financial inclusion and asset-building as newly integrated components.

There are no easy answers here, but one thing is clear: Whether talking about philanthropic or public resources, funding for strategies that help families build financial health and wealth cannot come at the cost of divesting in critical education, workforce, and safety net programs. But, in this day and age, the impact from strategic investments in these traditional areas will be anemic if solutions that directly solve household financial challenges are not fully integrated into the solution set. Without real integration, no one wins, least of all vulnerable families.

3. LIFT UP FINANCIAL INCLUSION AND FINANCIAL SECURITY AS TOP NATIONAL (OR STATE, OR LOCAL) PRIORITIES IN THE CONTEXT OF A BROADER INCLUSIVE ECONOMIC GROWTH AGENDA.

This last suggestion is the one that has admittedly evolved and crystalized the most for me over the past year. I have come to see it as an essential, but missing, dimension of our efforts to expand the scale and impact of asset-building strategies. And without it, I fear that we may not fully succeed in yoking short- and long-term strategies together—or integrating empowering and innovative financial services into employment, health, and education platforms. And even if we do, without this we will still come up short in terms of realizing the transformational potential of the original asset-building vision.

Whether we are seeking change at the national level (e.g. reforming the tax code or improving consumer financial protections), the state level (lifting asset limits or expanding access to retirement savings), or the local level (funding financial coaching and empowerment centers or implementing children’s savings programs), the work is imminently harder when it is seen as a single issue and when the benefits are primarily understood as individual. As more research becomes available showing that financial instability at the household level generates costs and consequences for economic growth, and that economic growth projections are becoming flatter and flatter, we have an important opportunity to raise up the constellation of products, programs, and policies that have been vetted in this field as a solution to a core national problem. We are living in a time when the problems that are being defined, the ones that drive national election outcomes and that make communities places of need, are enormous. Our field has real solutions.

So when I think about the mission and the charge of philanthropy, I implore you to think big and redouble your commitment to the important work you are facilitating in this field.

Implications for Philanthropy

WITH CONTRIBUTION FROM JOANNA SMITH-RAMANI, ASSOCIATE DIRECTOR, FINANCIAL SECURITY PROGRAM AT THE ASPEN INSTITUTE

Given the asset-building field’s origins, evolved areas of focus, and the current economic and political realities in the U.S., the critical question is how to invest and support activities that both respond to the real, current financial lives of households and that keep our collective eyes and energy on the ultimate ambitious goal: shared prosperity—with assets and financial security for all. To do both may require a change in how philanthropy evaluates core funding areas, measures success and impact, and leverages their voices and influence to push for change.

We stand at a current political moment where many of the established traditional safety net programs, consumer protection regulations (financial industry and otherwise), and labor laws could very likely be upended. The layering effect of all of these programs has made the past work of the assets movement possible. Without them, the foundation that keeps families from crisis and emergency and in a place of investing in themselves and their families is gone.

Regardless of the intent of these changes, the practical reality of losing the safety net programs will be catastrophic for families and will make the work of the assets movement both more important and more difficult. Given this new environment we are operating in, the strategies and roles of philanthropy will need to adjust. Below are several ideas, perhaps provocative, for philanthropy to deeply consider as they build strategic plans and grant portfolios in the coming months and years. These are ideas that can be accelerated into action by all of you.

OPPORTUNITIES IN GRANT-MAKING

FUND POLICY ADVOCACY AND INVEST IN THE VOICE OF ADVOCATES AT ALL LEVELS.

Philanthropy has traditionally had some level of discomfort with funding policy advocacy and outreach. But it is time to reevaluate those decisions. Our current leadership at the national and state level has made significant promises to working families. As proposed changes to tax policy, regulatory policy, safety net programs, and labor laws are made, advocates need to be well-resourced and ready to respond. It is even better if they can be proactive and not just responsive. Some of the biggest victories for working families have been at the state and local level. This is not just a federal strategy. This is very critically a state and local strategy as well.

INVEST IN THE VOICES OF FAMILIES.

Working families are, of course, the real experts in their own lives. But they are not often included as equal partners in program design and planning or in policy education and outreach. And certainly, part of building a country with shared prosperity also means building a country where all citizens are empowered to advocate for themselves. To that end, philanthropy should consider doing more to encourage grantees to leverage their boards and communities to develop local leadership and provide opportunities for those community members to use their voice for influence. This kind of community-anchored leadership development takes intention, time, and training. And it takes funding partners who are patient and eager to listen and respond to what is emerging from the ground up.

FOSTER ALIGNMENT AND INTEGRATION AMONG FOUNDATIONS.

For some time now, funders have rightfully asked grantees to align and integrate their work both within their programs and with partner organizations in

their communities. Not only does this result in more efficient operations and use of resources, but also, we hope, it results in better overall outcomes for program participants. Similarly, foundations should also consider how they can more intentionally foster alignment and integration with their fellow foundations. Aligned, coordinated grant-making, whether it is at the community, state, or national level, is a powerful force.

RECONSIDER IMPACT METRICS AND TAKING A PATIENT VIEW.

Given the challenging and changing environment grantees are working under, philanthropy will need to manage expectations on impact and be more patient about the amount of time change will take. Additionally, philanthropy may want to consider their internal theory of change—are they getting the return on investment they want? What measures change and what is the appropriate time horizon for change? For example, is change really the number of people attending financial coaching, opening a savings account, or downloading an app, or is there something else more meaningful to measure? To be clear, funding is even more important. But outcomes on truly meaningful measures of financial wellbeing in the short-term or even under the same time horizon may well be less stellar due to broader circumstances.

INVEST IN MORE COLLABORATION.

To truly make progress on shared prosperity requires collaboration across organizations and across sectors. Philanthropy has an opportunity to do more than just encourage the collaboration and cooperation. They can use their networks to make the right connections across sectors and their convening power to allow the critical space to consider how to make the collaboration happen. Additionally and importantly, philanthropists also need to recognize that collaboration often takes more, not fewer, resources, at least in the first phases of a partnership. To fully realize the impact of collaboration, each group needs to be fully funded and provided additional resources to support the collaborative pieces of the work.

OPPORTUNITIES FOR LEADERSHIP FROM PHILANTHROPY

Philanthropy's own voice. Philanthropists have their own powerful and influential voices to call for inclusion, transparency, consumer protections, and support for working families in the U.S. Philanthropists can use the unique networks they engage with to advocate for private-sector and government solutions that lead to greater prosperity for working families. They can speak out publicly when local or national leadership is proposing new policy or changing policy that can harm families in the U.S., and hold officials accountable for their decisions that impact working families. Philanthropists can convene community, government, and private-sector leaders in challenging dialogues around critical issues. Simply stated, foundations have valuable credibility and reputation in communities that can be leveraged to bring together different stakeholders and influence outcomes at the local, state, and national level.

LEVERAGE YOUR BROADER NETWORKS.

Leadership at all levels matters and can result in influence. However, in this policy environment, whether at the local, state, or federal level, the voices of the business community and other private-sector leaders have an outsized influence. Philanthropy has deep connections to those people through their boards, giving circles, strategic partnerships, and other networks. Indeed, some philanthropists are one and the same. An enormously powerful and impactful role for foundations is to consider how to engage those stakeholders in these issues so it is not just community groups that are outspoken voices for working families in their communities and nationally. Policymakers and other private-sector actors know that there is a larger set of people that stands for and with working people in the U.S.

In Closing

This conference is about accelerating ideas into action. And with my remarks today, I've tried to put some gas in the tank to fuel that acceleration.

We are at a critical juncture and your work has never been more important.

Thank you.

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ASSET FUNDERS NETWORK (AFN)

The Asset Funders Network (AFN) is a membership organization of national, regional, and community-based foundations and grantmakers strategic about using philanthropy to promote economic opportunity and financial security for low- and moderate- income Americans. AFN works to increase the capacity of its members to effectively promote economic security by supporting efforts that help lowto moderate-income individuals and families build and protect assets.

Through knowledge sharing, AFN empowers foundations and grantmakers to leverage their resources to make more effective and strategic funding decisions, allowing each dollar invested to have greater impact.