THE BROOKINGS INSTITUTION

WEBINAR

A CONVERSATION ABOUT RACIAL JUSTICE AND WORKER MOBILITY

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Panel Discussion:

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P R O C E E D I N G S

GENERAL ALLEN: Ladies and gentlemen, good morning, and happy New Year to you all. My name is John Allen and I'm the president of the Brookings Institution. It's a great pleasure for me to welcome you to our event today, which is a conversation about racial justice and worker mobility.

Let me just take a second and make a comment. Today is going to be an extraordinary demonstration of American democracy. We will probably learn the outcome of the two Senate races in Georgia, which appear to be on track potentially to deliver two Democratic senators to the Senate. We will hear the joint session of Congress vote on the outcome of the Electoral College and the election of President-elect Biden. And we're also seeing Americans in the streets today in Washington, D.C. exercising their First Amendment rights. So today is really and truly an exercise in the American democracy, and sometimes it's a bit bumpy, but this is our Constitution at work. And for those of you who may have spent some time with your Wi-Fi down for a couple of months or tuning in from overseas where you've not been playing close attention to these events, today is really an important intersection of our democracy in the context of our Constitution. So pay attention, buckle up, and at the end of the day today we'll have some very interesting observations I think for us all.

Now, in consequence of so many of those actions, today's convening is the second part of our latest project called "Brookings Blueprints for American Renewal and Prosperity." Launched just this past December, our Brookings Blueprints aimed to realize a vision of a renewed America in 2021 and beyond. Now, over the coming months we'll be continuing to release a series of papers and conducting events that are featuring scholars and experts from all across Brookings in the hopes of advancing these big ideas that will help our nation and the world emerge stronger, more equitable, and more resilient than ever.

As for this morning, given the pressing need to develop and enduring path towards shared renewal and the healing of American society, our topic of racial justice and worker mobility really couldn't be more appropriate or more important at this moment. From the terrible devastation of COVID-19 to the effects of massive economic downturn and the ongoing battle with systematic racism and racially biased violence, communities of color and lower wage workers have in particular endured so much in these recent months. At this very moment, over 10 million Americans are currently unemployed, many of whom are people of color, women, and lower wage workers. Indeed, real unemployment may be in fact much higher as individuals across the nation drop out of the workforce, in many respects out of despair, due to a lack of opportunity and, frankly, a lack of hope.

More, with our Black and Brown and Native communities being hit disproportionately by COVID-19, the continuation of racially motivated violence and the widespread attempts at voter suppression, as evidenced in the lead up to the 2020 presidential election, and again just yesterday in the Georgia special election, the need for American to honestly examine and remedy issues of systemic racism and inequity could not be more urgent.

So we at Brookings have taken to heart this responsibility and this imperative, not only through our new Blueprints project, but also across the institution as well. In particular, it was with great pride that we announced our recent priority, our presidential research priority, entitled "Race, Justice, and Equity." And we announced that last September, which marked Brookings' public commitment to equity, as well as our tangible commitment to combat biased politics that have perpetuated injustice in America. And, after all, to quote the late civil rights giant, the activist and Congressman John Lewis, "When you see something that's not right, that's not fair, that's not just, you have to speak up, you have to say something and you have to do something."

So today in that spirit we're bringing together a panel of Brookings experts who will be speaking up on these issues and providing the basis for those who are watching today and for those who will read our products, not just to hear us speak up, but to give you the opportunity to do something about this.

So now before I turn the floor over to Brookings Fellow Makada Henry-Nickie, who will be moderating today's panel, a brief reminder that we're very much on the record and live today. And should audience members want to submit any questions, they're welcome to send them to us via email at events@Brookings.edu, or tweeting @BrookingsMetro, using #BrookingsBlueprints.

Thank you all so much for tuning in today. It is an important day in American democracy. It's an important day for Brookings in releasing these Blueprint papers. And I look forward to the opportunity to release the rest of them in the very near future where we'll have additional subsequent events.

Let me know turn the floor over to Makada to get started. Ma'am, the floor is yours. And thank you very much for convening as a moderator for us today.

MS. HENRY-NICKIE: Thank you, John, for your remarks. Thank you for the introduction and thank you, again, for your leadership on the Blueprints series.

GENERAL ALLEN: Thank you.

MS. HENRY-NICKIE: I want to say a happy New Year to all of those tuning into our conversation today on racial justice and worker mobility. We have a lot to be optimistic about at the start of this cliffhanger of a new year.

With the passage of the latest COVID relief stimulus bill, much needed cash subsidies are finally on their way to struggling families. An ambitious vaccine campaign is also on the way. Rocky start, but underway nonetheless. And the White House and Congress today will begin a reluctant but inevitable transfer of power. And yesterday, as John mentioned, voters in Georgia changed the political alchemy of this country. They not only elected the first Black senator in the state's history, they consequentially altered the balance of power in Congress. And I'm going to call it for AP. But the state has other lessons to offer, particularly on the products of structural inequality.

Since 2010, eight critical access hospitals have closed their doors, two as recent as this past October, in the middle of the COVID pandemic that has claimed nearly 360,000 lives to date, this morning. The state finds itself in the unenviable position of having 55 counties without an operating hospital facility, nine counties with no physician at all, 76 with no OB/GYN, and 60 without pediatricians. Zooming out to the national level, 10.7 million people have lost their jobs. A lot of despair, as John said. Those that are unemployed are disproportionately people of color and low wage workers who are withering, just withering under the brutal weight of this economic devastation.

People of color are more likely to contract COVID. And I know you've heard that fact over and over again, but it bears repeating. It is the lives of real people, our neighbors, our sisters, our children. 40% of Black and Hispanic households with children have experienced food insecurity as a result of job loss. These same households are hyper exposed to evictions and housing insecurity as a result of the pandemic.

This is a moment of reckoning for Congress, the Biden-Harris administration, and local leaders across all communities, not just those impacted by the pile on of crises, of which job loss, COVID, evictions and food insecurity rank at the top. Simply put, our political economy is failing communities of color.

This avalanche of crises is a product of the institutionalized precarity of working class people in this country. We need to reverse course. We need an urgent new political economic structure that not only preserves the economic security of vulnerable communities, but one that sparks an inclusive economic renewal for them as well.

I'd like to welcome our panelists who have helped Brookings kick start this call to action for bold, innovative policy ideas, right, to seed this new political economic infrastructure. I'm pleased to share the virtual dais today with three of my colleagues who each authored a Blueprints brief. Joe Parilla is a fellow in the Metropolitan Policy Program here at Brookings. His research focuses on business dynamism and inclusive economic growth policies.

Welcome, Joe.

Next I'm delighted to introduce Jenny Schuetz, also a fellow with the Metropolitan Policy Program. Jenny's research focuses on affordable housing policy, land use regulation, and neighborhood change.

And, finally, I'm pleased to introduce Vanessa Williamson. Vanessa is a senior fellow in our Governance Studies Program here at Brookings. She studies the politics of redistribution and will have a lot to say on that. She's the author of "Read My Lips: Why Americans Are Proud to Pay Taxes."

Welcome, Vanessa.

So before we get started I want to do a bit of housekeeping. I am going to give you an understanding of how we're going to run the show today. I will moderate a 45 minute conversation with our panelists to help unpack their papers and elaborate on their bold policy recommendations, so to speak. Then I'll open up the dialogue to the audience. Our panelists, as am I, are all eager to hear from you, so please send us your tweets via #BrookingsBlueprints and also emails your questions at events@Brookings.edu.

So I'll get started and turn to Joe. Joe, you have recently documented the appalling disparities in access to PPP funds between white and minority business applicants, particularly for Black business owners. And thankfully it's top of mind that the new COVID relief package improves on those early missteps.

But, Joe, while access to capital continues to challenge minority communities, their potential to foster startups and to scale their young companies, we need to sort of up the ante of it here and so to speak expand the policy lens to consider other factors that are just as crucial as access to capital in determining and deciding the success of young minority-owned firms.

So in your proposal you've made the case for a minority business accelerator program as a tool that can do just that, a tool that you argue can move the federal small business apparatus in that direction. So can you help us understand why we need to take an ecosystems approach to closing the entrepreneurial gap?

And then, second, how does this proposal help minorities achieve their entrepreneurial dream?

MR. PARILLA: Thanks, Makada, for the question and for that great opening.

So the premise of the proposal, which I co-authored with Darrin Redus of the Cincinnati Minority Business Accelerator, is that business ownership is a path to economic mobility and wealth creation, yet the nation's history of racial discrimination has created a very uneven playing field for entrepreneurs of color. Nationally, Black and Latino or Hispanic Americans represent together about 28% of the adult population, but only 8% of the nation's business owners with employees. And it's really important to note that these existing disparities do not reflect any sort of intrinsic desire or talents of entrepreneurs themselves. The evidence is very clear on that. But, rather, it's this unequal structure of the business ecosystems that they must navigate, which are a combination of economic and social forces.

And so this concept of ecosystems is important because starting and growing a business is this really complex iterative undertaking. Small businesses rarely succeed in isolation, they're much more likely to grow when surrounded by other entrepreneurs, investors, customers, who are open to collaboration and knowledge sharing. And those relationships tend to concentrate in the same community, city, or region. So much of entrepreneurial is rooted in this in personal social exchange of ideas and information and resources. So this is why economic strategies, particularly at the local and the state level have been increasingly focused on entrepreneurship ecosystem building, right, the kind of infrastructure for entrepreneurship.

The challenge is that those ecosystems reflect the economy in society that they are in. So if a city is segregated, then business networks are often segregated. If wealth disparities exist between white people and communities of color, business starts and capital flows will reflect that. And 2020 brought this into really sharp relief. We saw how the federal government's Paycheck Protection Program facilitated loans to white communities much faster than to Black and Brown communities.

And so in response to that we've seen this action on the part of a bunch of stakeholders, corporate America, local governments, civic and philanthropic actors, to support and scale minority-owned businesses in local communities. Had about $2 billion in pledged support. And so the proposal really is for the federal government to catalyze and in some way systematize those commitments. And they do that through a challenge grant program that local communities can apply for to establish these accelerators. And this is modeled on a successful effort in Cincinnati, Ohio, which my co-author, Darrin, is leading, which was launched in 2003. The Cincinnati Minority Business Accelerator has created a portfolio of minority-owned businesses that together have created 3,500 jobs and over $1.5 billion in aggregate revenue.

And what does it do? Well, at one level the accelerator works on increasing the supply of investible minority-owned companies. So it's this group that provides tailored advisory support and coaching to minority-owned businesses in Cincinnati to help them excel. So that could be around business strategy, it could be about access to capital. And then really importantly it's connections with other organizations, namely large corporates. These tend to be companies that have demonstrated that they have multiple business models, so they're not the smallest companies. They tend to have $500,000-$1 million in revenue and they are ready to kind of take that next step to scale their business.

And so the second thing the accelerator does is it works on demand. Specifically working with the largest companies in anchor institutions in Cincinnati to help them meet their pledged diversity and inclusion goals. So these goal setter companies together, which are large Fortune 500s, hospitals, et cetera, they are trying to contract with this portfolio of minority-owned businesses and the accelerator is essentially the matchmaker that helps them connect to these as vendors or suppliers and then the accelerator also connects those businesses, if they can take advantage of those opportunities, to capital to allow them to grow.

And so the observation that I've had over the last six months as we work in local communities is that other cities are excited by this type of model, what Cincinnati has done. They want to do something similar. The challenge is how do you bring everyone together within a local community to work on this. And so the recommendation in the brief is for the federal government to help replicate this infrastructure in other communities through this challenge grant program. Local communities can apply to get funding, it will help them cover the startup costs of their own version of what Cincinnati is doing.

So the federal government is already providing capital to small businesses. They could be doing that better. What distinguishes this proposal is it is about laying infrastructure that desegregates business networks in local communities so that minority-owned businesses can connect into more opportunities, grow their businesses, create wealth, and create jobs.

MS. HENRY-NICKIE: Thanks, Joe. You touched on some really hot topics there, spatial segregation, the spatial concentration of resources that all sort of pool according to wealth in this country.

And that is not just concentrated and skewed by color, but also by geography.

So to focus on identifying a company that, you know — a minority-owned company that can gross $1 million in revenue and then also, you know, convert into a business that can create jobs and employ workers, we need to definitely begin to take on this question of how do we close the gap through the federal system in terms of racial financial inequality.

So regardless of how we measure this concept — and, Jenny, I want to bring you in here — the gaps between Black and white households are astonishing. The most generous measure puts the gap at 10 to 1. So for people who aren't particularly good at fractions, that means for every dollar that a white household has accumulated in wealth, Blacks have just amassed only about $.10. that's staggering. And to disrupt this racial wealth gap, you know, some of this surely turns on access to home equity, to be able to provide the kinds of capital and resources that Joe's proposal needs to sit on in order to create that foundation, that infrastructure. But that wealth building channel is only accessible to about 44% of Black Americans who are homeowners.

And to be clear, you know, home equity is a stock asset that grows slowly over time, but it's a good place to start at scale. So scale, flow, stock, these concepts matter and they have to be synced in time in order I think to, you know, have policies flourish and to thrive.

You argue, Jenny, that modifications to the mortgage interest deduction is part of the solution. To help us understand the connection between MID and race and, you know, what kinds of changes do you think we need to implement to use the deduction as an inclusive wealth building tool?

MS. SCHUETZ: Sure. Thanks.

So I actually want to back up a second before we get into the specifics of the mortgage interest deduction proposal and just remind people that one of the reasons we have such an enormous wealth gap between particularly Black and white households is because the U.S. has really relied on home ownership as the primary wealth building strategy. And actually home ownership is not guaranteed as a way to build wealth. And so one concern is that we have put all of our eggs in this basket in terms of policy. And it hasn't turned out particularly well. Whether you build wealth through a home or not depends a lot on where you live and when you buy a house.

So we saw very clearly in the Great Recession, people who bought homes in the early 2000s gained a lot because they had this sort of period of rapid house price appreciation, but people who bought a house in the same neighborhood in 2005 or 2006 often times wound up losing wealth, losing all of their savings, right. So one of the things that I put forth in this proposal is that we need to stop relying solely on home ownership as a wealth building strategy.

The current recession is showing us one of the other kind of limitations of home ownership. It's not an accessible way to store your savings. It's not like putting money in a bank that you can just withdraw when you need it. So 40% of Americans even before the COVID pandemic couldn't afford a $400 emergency without having to borrow. Both homeowners and renters really need to have some liquid savings that they can access to cover a couple of months of expenses if they lose their job, as so many people have.

So the broad framework for this is home ownership has contributed to the racial wealth gap. Even if we change sort of the structures around home ownership, that alone is not going to close the racial wealth gap. That said, looking at the way we have subsidized home ownership in this country, it's been designed in a completely upside down way. Rather than targeting federal subsidies in the tax system towards people who are currently renters and becoming first-time homeowners, what we have really done is give big subsidies, big giveaways to people who are higher income who already own their homes to buy larger more expensive houses and to take on larger amounts of debt.

So the mortgage interest deduction as it's currently set up really only applies to fairly wealthy people. So the median income household in the country earning $65,000 a year likely takes the standard deduction, and so doesn't itemize and doesn't get any benefit from the mortgage interest deduction at all. That's particularly true since the Tax Cuts and Jobs Act of 2017. Almost all of the benefits accrue to high income households. And the bigger the mortgage you have the more interest you pay, the more benefit you get from this, right. So this is literally an upside down policy in terms of kind of good tax structure.

So our colleague, Bill Gale in Economic Studies, has put forth a very thoughtful proposal that suggests instead of using the mortgage interest deduction the way it's currently structured, let's change that into a first time homebuyer's tax credit. So you'd only qualify for it if you're currently a renter and haven't owned a home in the past few years. And let's scale the amount of that tax credit by income. So the biggest benefits would go to moderate and middle income households who are currently renting. To buy their first home they would get a larger subsidy. And this would scale out as income increases. And so above $150,000 or $200,000 people wouldn't be getting a federal tax subsidy.

So the sort of big pieces of this, we should focus on complimentary policies for wealth building, for short-term emergency savings, and to the extent that we subsidize home ownership, let's make sure it's going to the people who really need it the most.

MS. HENRY-NICKIE: Thanks, Jenny.

So, Vanessa, you are the guru in the room on how to get this done through the tax code. You've studied American's love affair with, precisely to Jennie's point, upside down tax subsidies, but you in your piece make the connection between racial wealth inequality and tax policy and reparations all in, you know, the same paper. And I thought that was, you know, commendable.

So after the Tax Cuts and Jobs Act we don't have a lot of fiscal space to even shift resources from wealthy and upper middle class households through the mortgage interest deduction over to the first time homebuyers part of the ledgers so that we can bring more homeowners, particularly minority homeowners into the home ownership landscape. So a lot of moving parts. And even for Joe's proposal, we need revenue to generate to be able to fund, whether it's a challenge program that eventually scales, to help close the entrepreneurial gap.

So I want to kind of follow through on the role of tax policies that you've –– you know, that expertise that you bring to the table here. In your paper, you know, it's both timely and advances what I think is a kind of bold idea that we need to entertain if we're going to get serious about dismantling racial inequality. But you argue, you know, we can't just tinker around the margins, we need to do something extremely transformative. Some might call it controversial and pie in the sky, but regardless of this, we need an ambitious wealth tax is your argument, right, to generate the kind of systematic redistribution in order for us to make meaningful progress to what's closing the race based wealth gaps.

So, you know, taxes, they're — the tax policy, it's very complicated. But at the end of the day, you know, reversing course on regressive tax policies that exacerbate inequality is critically necessary. So how do we go about doing this? How do we implement a direct wealth tax?

MS. WILLIAMSON: Thanks, Makada.

Yeah, that's exactly right. It's a wonderful introduction to the piece I think.

So I argue basically that if you're going to address racial wealth inequality you have to come from both sides. That means you have to come from the spending side and I think the programs — you know, very serious commitments to reparations a moral necessity and also economically a brilliant idea in terms of addressing the crisis that we're in right now. So you need the spending side.

But you also need the tax side. And the reason for that is because the American economy currently has two phenomena occurring at once that are intersecting in a really important way. First of all, there is the long standing racial wealth gap. Normally that's discussed in terms of a median racial wealth gap, that is to say that the median white household has ten times the wealth of the median Black household, right. And that's true up and down the income scale and it's true the wealth gap persists if you take account of home ownership, if you take account of income, if you take account of education. And that's because the racial wealth gap is not due to individual choices, it's due to systemic racism compounding over generations, right.

So that's the situation we're in. But if you think about the median wealth gap, you miss the total wealth gap. And that's important for a couple of reasons. First of all because it's $10 trillion. That is to say if Black families in America had a proportionate share of the wealth, right — 13% approximately speaking — they would have $12 trillion. Instead they have about $2-3 trillion. So we're talking about a very large gap in the wealth of Black families compared to white families.

But the second phenomenon that's occurring at the same time in America is wealth concentration. That is to say an enormous amount of American wealth is held by the very, very wealthiest Americans. So if you just talk about Black people versus white people you miss that some of the white have an extraordinary amount of money. So the way that I keep these two complicated phenomena in my mind is to remember that the 400 wealthiest Americans, the 400 wealthiest billionaires — the Forbes 400, as they're usually called, have the same amount of wealth as all Black households in America, right. So 400 people, 400 households, versus 10 million households, and they have the same amount of wealth. So that's how you can see the intersection between wealth concentration and racial wealth inequality at the same time.

And so that's why you've got to come from both sides, right. You've got to do the spending programs. But you also have to tax extreme wealth, because otherwise, even if you eliminated the racial wealth gap for everyone with less than $1.2 million — and almost everyone does have less than $1.2 million — 80% of the racial wealth gap would still exist because so much of the money is at the top, right.

So that's where I propose a large expansion of proposals existing to date on the wealth tax, right. Now, the wealth tax has made amazing inroads in just a few years. You've seen major Democratic candidates proposing a wealth tax. Those proposals would have a positive impact on the racial wealth gap. They would also raise a lot of money, right. And so this gets to your point.

Now, I don't think that the cost of reparations is something you have to pay for, partly because the economy is a place where — the economy overheating — it is hard to imagine a less important issue right now than the threat of inflation (laughing). There is so little money in the economy, there are so many people who need jobs, right. So that's not a worry. We can spend money very, very, very freely right now and we don't need to offset it. But, at the same time, you know, two great tastes that go together are large spending programs and large tax programs, right.

And so, from my perspective, a wealth tax both directly reduces the racial wealth gap by — depending how you formulate it — certainly hundreds of billions of dollars. Could be a trillion dollars if you did it right. And at the same time raises enormous revenue that you could donate and you could dedicate to spending to close the racial wealth gap and you could dedicate to any program that would encourage equality in America.

So I think that when we're talking about racial justice in America it's important to remember both sides, right. It's important simultaneously to remember that there are a lot of folks who have had their wealth systematically stripped from them, right, who deserve not just a leg up, but they deserve to be compensated, to have those — to experience reparation for the harms that have been done. And at the same time, that money went somewhere else in our economy. And, frankly, it is very, very consolidated in a very small number of hands. And so that makes it relatively easy to get back.

MS. HENRY-NICKIE: Okay, relatively easy to get back. Easier said than done. (Laughter) But I like your optimism and I will continue to roll with that. But you do make an important idea here that wealth concentration is really at the core of racial inequality and racial wealth gaps here. So we need to design a way to redistribute resources from — and deconcentrate that wealth. But we've got to do it pragmatically as well.

To Jenny's point, part of this needs to involve diversifying, so to speak, our race equity policies and not just rely — over rely on the housing pillar alone.

Joe, I want to kind of go back to you because I like this idea of the accelerator. Because it does — you know, it slides in and it starts to come in on the spending base piece to help deconcentrate wealth and spread resources in an intentional way that can bring in communities that have been left behind, but find the companies that have promise and that can scale, but need the investments. Not just capital, but access to purposeful high quality social, professional, capital networks.

So there's ample evidence that points to the efficacy of accelerators as a policy intervention that you say spurs entrepreneurial growth and can seed this kind of inclusive ecosystem movement. We've seen in the studies and research that accelerators they do — they're associated with increased deal flow, and that's great, right. A bunch of capital funding is coming in, both in a level and volume perspective. They also generate positive spillovers, and that's important to her participants that are not accelerated or participate directly in these networks. But, still, right, skeptics, to Vanessa's point, might point to the enormity of the structural racial exclusion challenge — $13 trillion to $2 trillion — and argue that, you know, we need transformative rather than incremental changes to reduce racial inequities.

So, Joe, I want to push you a little bit here. Beyond targeting minority entrepreneurs, what other ways does the MBA contribute to leveling the playing field and deconcentrating wealth?

MR. PARILLA: Well, I think this is why we're having a multi issue panel discussion right now, is that this is going to take a portfolio of policy changes across multiple domains. And so I like the way, Makada, you said look, we need a baseline of big structural changes in tax, in housing, which are significant influencers of the racial wealth gap. And I guess my argument is that within that portfolio we need more targeted federal interventions that bring the federal government in line with modern thinking on how local economies grow and how we do that in an inclusive way.

And so I just think that's where this fits in. It's a precise tool on a particular issue that currently the federal government hasn't spent much money on. So, for instance, the federal government spends $24-25 billion on capital for small businesses. It spends about $40 million on these type of ecosystem investments. Now, do I think tripling that or even 10 times that will solve the racial wealth gap? No. But I think that if you were to attune that tool from the federal government in a smarter way you would do something like this.

What would the knock on effects of that be? Well, presumably if more minority-owned businesses are growing and scaling, for the owners and the families that's creating generational wealth. And the evidence suggests that that is a pathway to economic mobility for Black and Brown individuals. So for those families, that's transformation. Achieving a density locally of people that are making that journey does create ripple effects from a community basis. And to do that absolutely we need the freedom that would come with — the economic freedom that would come with a baseline of something like reparations, right. That just opens up more resources for people to pursue their particular path and reach their productive potential. But in the meantime I think there are ways that through business ownership you can do some sort of like reparative capital strategy, meaning that non-government actors that are wanting to make a change as a result of the events of this summer in the near-term can look at how they spend money in their communities from the perspective of suppliers and vendors and then make decisions in a way that this accelerator could facilitate.

And if that creates a density of business owners in a local community, then that has broader spillovers, right. It's more resources for things like education and housing, right, these baselines of economic opportunity that are also subject to racial inequities. You have the spillover effects in terms of social networks where you just have more diverse entrepreneurs that have been there and done that and then are passing that knowledge back in a way that is hyper relevant to the next generation that's coming up.

So I do think that there are knock on effects, but I also want to be clear that I think that this is part of a much broader portfolio that would involve the proposals that my co-panelists are talking about.

MS. HENRY-NICKIE: Surely. So, you know, just thinking of the compendium of connected complementary policies that work together, not sequentially but in tandem with each other, to advance racial equity from all fronts, I could argue that we don't just need an increased density of entrepreneurs and minority-owned businesses, we need to increase the density of people and households that have access to liquid savings.

Jenny, you make that point that, you know, the racial wealth gap, the way we think about closing it is almost exclusively centered on home ownership and now also is motivated from an access to capital framework. How do we increase the supply of mortgage credit going to minority borrowers and minority communities. And that's important. But that overshadows a role of racialized income inequality and the contemporaneous disparities and access to retirement savings. You know, paid sick leave and unequal pay that work in real time to compound the wealth gap.

So, to me, all of this together suggests that we need to address both the historical and contemporary inequities simultaneously, but not sequentially. We can walk and chew gum too.

Some of these ideas you've touched on in your piece, specifically talking about this federally subsidized individual development account, I really like idea. It almost reminds me of the savers credit, which we don't pay enough attention to. But to Joe's point, it feels like a more precise tool. So how do you think we should re-scale this idea to reduce income inequality? And perhaps does it have any relevance in your view, Jenny, to the savers credit that we already have in the tax code?

MS. SCHUETZ: Yeah, no, I think one of the points that Joe is bringing up is that one of the — so sort of this is a cumulative effect of families passing along either wealth or the absence of wealth. You know, one of sort of the motto is that they have in personal finance is, you know, having a little bit of wealth begets more wealth. But if you don't have seed capital to start with, it's very hard to build something. So starting a business requires having some initial capital up front. You know, buying a home requires having savings for a down payment. And we really haven't designed most of our tax policies particularly well to encourage that sort of building some initial capital outside of retirement accounts, right. So the tax preferences are mostly for saving for retirement, but people have to have money before they get to that point.

So there are two things that would be really helpful. One is individual development accounts. And these are specialized savings accounts that offer a subsidized match rate. So if an eligible household contributes 5% or 10% of their income and puts into an IDA that there will be a subsidized match of that. And the subsidy could actually be more than an equal match. So say somebody puts aside 5% of their income in an IDA and the Federal Government could match this at 10%, right. And so we know, for instance, that among young households they're the least likely to have wealth because they haven't been earning for that long. But the typical white family under age 35 has a net wealth of $24,000. The typical Black family of the same age group has a net wealth of $600, right. So this shows you sort of what a disparate starting point people are coming from. IDAs would be particularly helpful for people who not only earn low incomes but don't have family resources and wealth to build on. And an IDA would help people similar to those savers credit to help people put aside funds, and particularly to put aside funds that can accumulate for these sort of big ticket expenses, right. So IDAs can be drawn down to pay for post-secondary education, for instance, or a down payment on a house, or to start a business.

So it's really a way to build a pot of savings that you can tap into for these sort of longerterm needs.

Paring that with a child development account would also go a huge way towards closing the racial wealth gap. The idea behind the child development account, or baby bonds, as they've been referred to as well, is to give a chunk of money up front to every child that's born in the U.S. This can be scaled by the wealth of the family. So to Vanessa's point, people who are born into a family where the family has a million dollars in wealth don't need the startup capital. But families who have no wealth so far would get potentially up to say $2,000 per kid that goes into an account that accumulates interest over time and could be matched over additional years. When the child turns 18 they can draw down the funds, again for these sort of distinct purposes, for education, to start a small business, to buy a home. So these two things together, although they don't necessarily have to be designed based on race, because the racial wealth gap is so enormous, most of the benefits would accrue to Black and Brown families, to native families, but also basically to any family that doesn't have assets and have wealth. So these two together, funded potentially by a wealth tax, would be a great way to make a big chunk of the racial wealth gap go away relatively quickly and provide the seed capital then so that families can engage in all sorts of productive activities, right. Families that have capital can engage in things that create ripple effects and spend back in their community. So we get a big multiplier effect from taking wealth from families that have a lot and don't miss it and give that to families that have almost none and allow them to achieve much more of their economic potential.

MS. HENRY-NICKIE: Thanks, Jenny. You've just described a mechanism to accomplish that redistribution. I think when we say take, you know, people are immediately — they have an adverse reaction, thinking you're going to take something from me and I'll have less.

But, Vanessa, I think you're probably best poised here to help us connect tax policy to reparations. The mere fact that we can sit in this very diverse panel this morning and have you lead a conversation on reparations is a testament to the fact that, you know, until now we haven't had a legitimate public debate about reparations, one that is divorced from emotion and philosophical, you know — I don't know, sort of ideology that helps to kind of obscure the hard connections, technical connections, and the way to get this done. It's not impossible. You know, some of this is obscured in the way that we frame these ideas and these mechanisms, but they're possible.

So help us walk through, in a pragmatic way, Vanessa, some of the policy mechanisms that you think are worth serious consideration, some of which Jenny alluded to, if we are really to succeed in advancing a spending space reparations agenda, as you've written about.

MS. WILLIAMSON: Yeah, I just definitely will follow up on Jenny's point. I love baby bonds. It's one of my favorite things. The same with the restructuring our housing tax credit. I mean these are just right ideas. And one of the interesting things now is for the last — you know, basically under — you know, in the context of divided government you don't — you can come up with a lot of good policy ideas and not see them go anywhere. And I think that, you know, there's some possibility that some of the ideas will actually get put in place, both for this set of Blueprints and others that are coming out going forward. So I think that there's — these conversations feel especially fruitful for me.

On the question of the implementation of a wealth tax, just sort of following up on your point before, I think that one of the things — you know, so the challenge of implementing a wealth tax is you have to know how much wealth people have. And we haven't asked the government to figure that out before for rich people. We have certainly asked them to figure it out before for poor people. Any time a program is means tested you're calculating the wealth of the recipient, right. But calculating wealth of rich people is somewhat more complicated in certain ways. But the advantage is that there are far, far fewer of them, right. So if you're talking about — you know, when I said the 400 wealthiest billionaires, that's 400 people, right. So that's the way in which I think the implementation, while technically difficult, right, to identify the different sources of wealth — and there are great proposals out there for trying to figure those things out — you have to remember, you might think that it's technically difficult, but if you think about the technical difficulty of means testing something like Medicaid, now that's technically difficult too, but it's certainly done.

So I think that we have the capacity to measure wealth and I think that what we — the challenge is almost always the case. — it's not the technical difficulty, it is the political will to achieve these goals, right.

And so that brings us to the second part of what you were saying, Makada. It was such a good point. You know, these can be hard conversations to have. It can be uncomfortable to think about the ways in which the path of your life is not due entirely to your own decisions, right. And that's not comfortable for anyone, even if you'd had a difficult time of it or an easy time of it. It's uncomfortable for human beings to imagine that things are outside of their control. And so I think that in some ways when we talk about the ways in which wealth is not the result of individual effort but is the result of political decisions, right, in the past, that can be — make people feel uncomfortable. But the reality — we can't –– it is too critical of a moment to let squeamishness stand in the way of policy change, right. Like, oh, it makes me feel icky. I feel not comfortable, I feel maybe a little bad, so let's not right historic wrongs. That cannot be how we make decisions. We are a better people than that — or we can be.

And so to me, the challenge when we talk about a wealth tax or when we're talking about many of these proposals that are really big ideas, it is not the technical specifications of them, right, which plenty of places like Brookings can produce, it's the willingness to develop the political will necessary to achieve them. And particularly in our system of government, which has so many veto points, right, which has so many ways to slow things down, quite intentionally. That was the design of the Constitution, was to make government work very slowly and to require super majorities to do things. Because of those limits it requires just an enormous amount of political will, right. But the challenge is always on the political side, from my perspective.

MS. HENRY-NICKIE: Great. Vanessa, I can always count on you to seed us with some very controversial, you know, but brilliant ideas here.

So I wanted to turn and include our audience in this discussion. Some people have been really proactive in submitting questions ahead of time. Thank you.

Joe, I want to turn one question over to you. Vanessa, I'll seed you with one as well, and, Jenny. And then we can kind of kick off. If there are any other viewers who want to get engaged, please submit your questions via twitter as well as emailing here on events@Brookings.edu.

So, Joe, what kinds of entrepreneurship support have been most effective for people from BIPOC backgrounds. And BIPOC, Black, indigenous Americans, people of color. And I'll add to that question, how do we bring rural communities into the fray? We've not talked about rural communities at all and we almost always never talk about rural and minority communities. So I'd like you to wrap in those seams for me.

Vanessa, turning back to you. A lot of interest in this mortgage interest deduction conversation. We know that it's notoriously resilient to change, as many other parts of the code. One of our viewers wants to know, is it feasible to replace it with a first time homebuyers credit? This might be more a question of attitudes than, you know, can we pay for it. And what do you think are the odds for its durability in the tax code?

And then, Jenny, I have one final question for you. Some HUD programs, particularly Section 8, we know very well seem to entrench residential segregation. Our viewers want to know what ideas do you have for reducing that sort of concentration that is, again, by deliberate policy and political design, so that affordable housing can promote integrated neighborhoods.

So I'll let the panel pick. You guys can go in either order. Be kind to each other.

MS. WILLIAMSON: I'll jump in. Just on the home mortgage interest deduction, it's absolutely right that that has been in the code for a very long time. I think it is feasible to change. I think Jenny's proposals are extremely achievable, in addition to being effective. And I think one of the reasons we know that it's changeable is because it was actually changed in the Tax Cuts and Jobs Act, right. They put a different — a lower cap on the home mortgage interest deduction, which would — I probably would have argued couldn't be done, but it was. So the capacity to change the home mortgage interest deduction exists.

The other thing is that all of the sort of special tax breaks in the tax code have a smaller range of support than they used to every time you increase the standard deduction, right. Because fewer and fewer people actually take advantage of all the special deals when the standard deduction is larger, right. So I think we narrowed in important ways the audience or the support base for things like the home mortgage interest deduction, both with the cap at the top and the increase of the standard deduction that makes it considerably more amenable to change now.

The other things is from a sort of public opinion perspective. People like the idea of giving people tax breaks. They like tax breaks — it sounds good. And they — so which means things like the home mortgage interest deduction sound good. They actually like tax breaks for things that sound like things you should be doing, like owning your home. But when you explain, as we've been explaining to you in this panel, that the way that it actually works out is that rich people get a lot more money than lower-income people. When the policies are so obviously regressive they become less popular, right. And so you can see that in all kinds of survey experiments, testing the impact of tax expenditures.

So I think that there is real room to increase public understanding on these measures and to thereby change opinion, in addition to the basic politics of this being somewhat easier as a result of the Tax Cuts and Jobs Act.

MS. HENRY-NICKIE: Jenny, I'll be a little but unfair here to you. We've got a couple other questions piling on from twitter that are very related to the Section 8 question here.

If we were to implement, by stroke of magic, or perhaps we are all still in the midst of this social awakening and we are able to shift resources from the MID into the home buyers column, then we have a question asking how would that affect the health of the home building industry? People are still under the — you know, suffering from PTSD from the Great Recession. We know how devastating it was for the home building construction sectors in particular. So help us connect the dots here and convince people or persuade them that there's enough pie to go around.

MS. SCHUETZ: Sure. So, as Vanessa said, we know that the mortgage interest deduction can be tackled politically because it's been done. The other sort of useful piece of evidence we have from the change in the Tax Cuts and Jobs Act is the mortgage interest deduction was shrunk at the top end, right. So the cap was shrunk from $1 million to $750,000 and the world did not come to an end. The homebuying industry did not fall apart because of this change, right. So one of the big constituents for the mortgage interest deduction has in fact been the real estate industry because they want to encourage people to buy homes, they want to encourage people to take on bigger mortgages and buy more expensive homes.

But it turns out that if you shift away some of the demand from this sort of very high end real estate, right — so what we're basically doing is subsidizing people who are wealthy enough that they would already own homes. Much of the benefits actually go to people who are buying their second home or a trade up home or a vacation home. That's not really stimulating more demand for home building, that's just stimulating demand for sort of, you know, upgrading. If we change to a targeted first time homebuyer tax credit, what that would really do is increase demand for first time homes for sort of entry homeownership unit, which could be more modest single family houses, row houses in (inaudible) locations, and in urban markets for condos, which are more and more becoming kind of the entry into homeownership in expensive places.

So it's not that home building would suddenly — there would be no demand for houses, it's just for a different kind of home for a different kind of buyer in a different point in the income distribution.

And wrapping this into the question about how do we sort of grapple with racial segregation, so the purpose of these Blueprints is to think about what the federal government can do. And a lot of what the federal government does is through the tax code. But the other key component to combating racial segregation on the ground is making it easier to build lower cost entry level housing in high-income affluent communities, which are by and large mostly white places.

That's actually not something the federal government has a ton of leverage over because decisions about whether you can build say townhouses and apartments are made by local governments who determine zoning.

So, really, to combat racial segregation we need both to provide more support for low and moderate-income households to be able to afford high quality housing, and local governments need to make these changes in their zoning codes and their regulation so that it's feasible to build entry level homeownership and good quality rental housing in very expensive communities which are mostly filled with rich white people.

MS. HENRY-NICKIE: So, Joe, in addition to responding to the questions on kinds of entrepreneurial support systems, I got a question here from the National Association of Counties around are there any other levers that you could point to that local governments can manipulate and influence to expand on or, you know, to up the ante on some of the economic mobility and racial justice issues at the local level?

MR. PARILLA: So I think that's three. Let me try to go in turn.

On the most recent question, I think that's a fantastic question. Historically local government and state government economic development policies have focused on larger businesses through things like tax incentives. I do think there needs to be a rebalancing such that elected officials are (a) kind of using their bully pulpit to talk about entrepreneurship ecosystems. So, for instance, the mayor of the city of Birmingham brought together the corporate community in Birmingham, Alabama to launch something called a Vital Initiative, which is about democratizing data on kind of the demographics of suppliers within those large institutions and then setting some goals around that. And so the mayor just did that because, you know, he has a bully pulpit. So I think that's one.

Two is you could rebalance the supports the government provides in some instances. So instead of a, for instance, property tax abatement for a large employer to come in, you could rebalance an economic development budget to focus more on kind of supportive grants to adopt new technologies or to spur a process innovation within the business. So these are much, much smaller amounts that are targeted at smaller companies, but that maybe suffer from market failures in terms of investing in innovation, which would then kind of catalyze growth within those companies in the region as a whole.

So I think there's multiple and it's a great question.

On rural areas, you know, it's hard because a lot of what I'm talking about right now requires business networks that operate at a certain scale, right. So there are network effects like it being in Silicon Valley is easier than being in a small community because there are just more entrepreneurs around you, there's more opportunities. It's potential that the internet will — you know, this was the promise of the internet was that the world would flatten and in fact it concentrated. Perhaps that was just a lag in that the pandemic has put all of us on line in a way that is just becoming more normalized. And so that includes social networks. So there's a good entrepreneurship support community on twitter, right. There's ways for people to connect that are perhaps not physically proximate, but could do so on line.

And then, you know, that has also enabled sales of goods and services as well. So if you prefer a rural lifestyle, you could still have a business that serves a national or a global market, depending on what it is that you're offering. But I won't sugarcoat it that the broader dynamics around technology globalization, human capital, are pushing opportunity toward cities, not always the biggest cities, but just cities of a certain scale and are away from rural areas. So it's a really hard problem.

And then the third question was just kind of the general framework for entrepreneurship support. And I kind of put it in three buckets in terms of what is distinctive about a general entrepreneurship strategy versus one that is more interested in focusing on racial inequity.

The first is around capital. So for all the reasons that we talked about, there are wealth disparities. And then so we've seen some replication of the family and friends pool. So philanthropic or government or corporate sector actors are pooling money to kind of replicate that friends and family pool and giving access to entrepreneurs of color to that to try to kind of address that gap. But there's also other kind of capital access mechanisms that have to be tailored to folks that just have less generational wealth to rely on.

The second is around the nature of kind of the entrepreneurship infrastructure. And this is about in some cases who leads. So I think empowering leadership among leaders of color who have been entrepreneurs or really understand those ecosystems and — our colleagues Rodney Sampson and Dell Gines have a great paper on that if folks are interested. And we had an event in December that touched on that. And then, you know, that relates I think to just the way that, as I said, information and knowledge about starting and growing a business spreads. And, you know, how we can build intermediaries that try to disrupt some of the segregation and social networks that apply to the business world so that really valuable is making its way everywhere and not just to where social networks that are influenced by segregation — you know, how it naturally flows within that historic framework.

MS. HENRY-NICKIE: Thanks, Joe.

Vanessa, I have one last question for you. We have heard so many of these proposals, both here in this series and in other arenas and at other moments in time. One viewer wants to ask — it's a million dollar question — what are the chances of these policies passing and how can we make sure something actually happens?

MS. WILLIAMSON: (Laughing) Well, as I said the American political system does privilege in action in a number of very serious ways. There is I think substantially more of a chance of legislation of some size moving under conditions of unifying government. And so that is a decision that is — I guess was decided last night and we will know for certain how that's going to work out later today. But the — I think that there is certainly room for a very large amount of economic stimulus in the economy indisputably. And there's somewhat more chance of that happening. And so basically there are a lot of opportunities I think to slide important carefully constructed policy proposals of the sort proposed by my colleagues here into legislation that will be moving and is much more likely to be moving now than even a few days ago.

So I think that there's real room for substantial policy progress in 2021.

MS. HENRY-NICKIE: Great.

MS. SCHUETZ: And I just — to tag on very quickly to that, you know, it feels like the world is falling apart, right. There's some big crises going on and that seems like that should be some political motivation to get things done. We're not going to solve any of these huge problems that have existed for decades by just twiddling around the edges of the system. And so there should be more political appetite to try some new things, to take some risks, to experiment.

MS. HENRY-NICKIE: Thanks, Jenny. Thanks to Joe and Vanessa as well, and to all of our viewers for tuning in to today's conversation.

All of our Blueprint pieces, including the three discussed today, are available on our website for your to peruse at your convenience. Again, I want to thank our panelists for a brilliant, insightful, and a candid conversation. You know, a truthful examination as to what are the kinds of big ideas we need to entertain, but also how practical these are given the political balance of power.

I want to ask you guys to join us on January 18 for our next installation of Blueprints for American renewal and prosperity. That conversation will offer policy ideas on restoring the American democracy. I invite you to join us on January 19 for that webinar on domestic governments. Surely, it should be just as existing and hopeful and optimistic. Again, thank you for joining us today and happy New Year to all.

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