

**Did you choose well
the when, where and
to whom
you were born?**

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**You and I probably did,
that's why we are here,
but everyone is not so
lucky.**

Equality of opportunity and information markets

- Past and current in-equality of income, wealth and status can be measured – Piketty, et al
- The reasons for, and desirability of, these inequalities can be speculated upon – one extreme; *“The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries.”* Winston Churchill
- More reasoned - John Rawls, Harvard, 1971, ‘distributive justice’; “original position” and potential existence of a desirable level of inequality
- What does any of this have to do with financial professionals?

Information and Prediction Markets

- Multiple agents making educated estimates about the future and discounting them to the present
- Financial professionals traditionally think information markets for stocks, bonds and commodities
- Las Vegas members traditionally think prediction markets for sports and election outcomes
- Why shouldn't the financial professionals and Las Vegas each think about creating equality of opportunity markets, whether called information or prediction markets?

Why think about (in)equality Markets?

- Social justice
 - ◆ U.S. – the land of equal opportunity – still true?
- Maximizing Gross Domestic Product
 - ◆ Maximal development of domestic human capital
- Minimizing the need for welfare
 - ◆ Minimizing the cost of welfare
- The sheer joy of thinking big
 - ◆ We're not just about stocks, bonds and commodities

Radical Financial Innovation: Experimentation - Shiller

- “We must make a priority of experimentation with new financial ideas that will result in fundamental changes that may eventually be copied around the world.”
- “We should be willing to try risk management ideas that seem – at first – unnatural, possibly even unworkable.”

Radical Financial Innovation

Robert Shiller

- “...not just incremental innovation that has no larger direction or strategy, but innovation that can be transforming to our lives.”
- “The public does not see its biggest risks and tends to focus on [the] inconsequential ...”
- “The time will be ripe for an industry of even bigger proportions that reminds people of their biggest risks ... and offers the means to deal with those risks.”

One example (in)equality prediction market

- Las Vegas offers “point spread” markets on sports events
 - ◆ The equilibrium “spread” balances the betting
 - ◆ Player changes alters the equilibrium spread and signals the expected impact of the changes
- Finance could offer “income spread” markets
 - ◆ Spread of average income in 2039 of all children born in January 2014 in the cities of Greenwich, CT and Birmingham, AL
 - ◆ Economic policy changes alters the equilibrium spread and signals the expected impact of the changes (similar to stock price changes)

Other “Broad” Market Ideas

- “Stock” certificate for residential homes
 - ◆ Allows new buyers to finance with equity and debt – just like corporations
 - ◆ Allows existing homeowners to extract equity as equity – no need for the continual debt build-up
 - ◆ Allows institutions to participate in a big new market
- “Stock” certificate for human capital
 - ◆ Allows humans to finance like corporations
 - ◆ Think financing education, for example
- Retirement Income Insurance
 - ◆ Enough of “Target Date Glide Path” silliness

Will these Ideas become Reality?

- Shiller, Merton and others has been advocating these ideas for a number of years:
 - ◆ Are they being implemented?
 - ◆ Will they become mainstream?

Further Reading

- Robert J. Shiller
 - ◆ The New Financial Order, 2003
 - ◆ Finance and the Good Society, 2012
- Robert C. Merton
 - ◆ The Crisis in Retirement Planning, Harvard Business Review, July/August 2014
 - ◆ Many other articles and books
- Leighton Vaughan Williams, Editor
 - ◆ Prediction Markets, 2011

Theodore Roosevelt
26th President of the United States

“The Man in the Arena”

Speech at the Sorbonne

Paris, France

April 23, 1910

“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better.

The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes up short again and again, because there is no effort without error and shortcoming;

but credit belongs to he who does actually
strive to do the deeds; who knows great
enthusiasm, the great devotions; who
spends himself in a worthy cause;

who at the best knows in the end the triumph
of high achievement, and who at the worst,
if he fails, at least fails while daring greatly,

**so that his place shall never be with those
cold and timid souls who neither knew
victory nor defeat”**

Discussion!