



Researching Family Balance Sheets to Strengthen
Families and the Economy | stlouisfed.org/hfs

Wealth Inequality and the American Dream

Economic Realities of the American Dream
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April 16, 2018

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

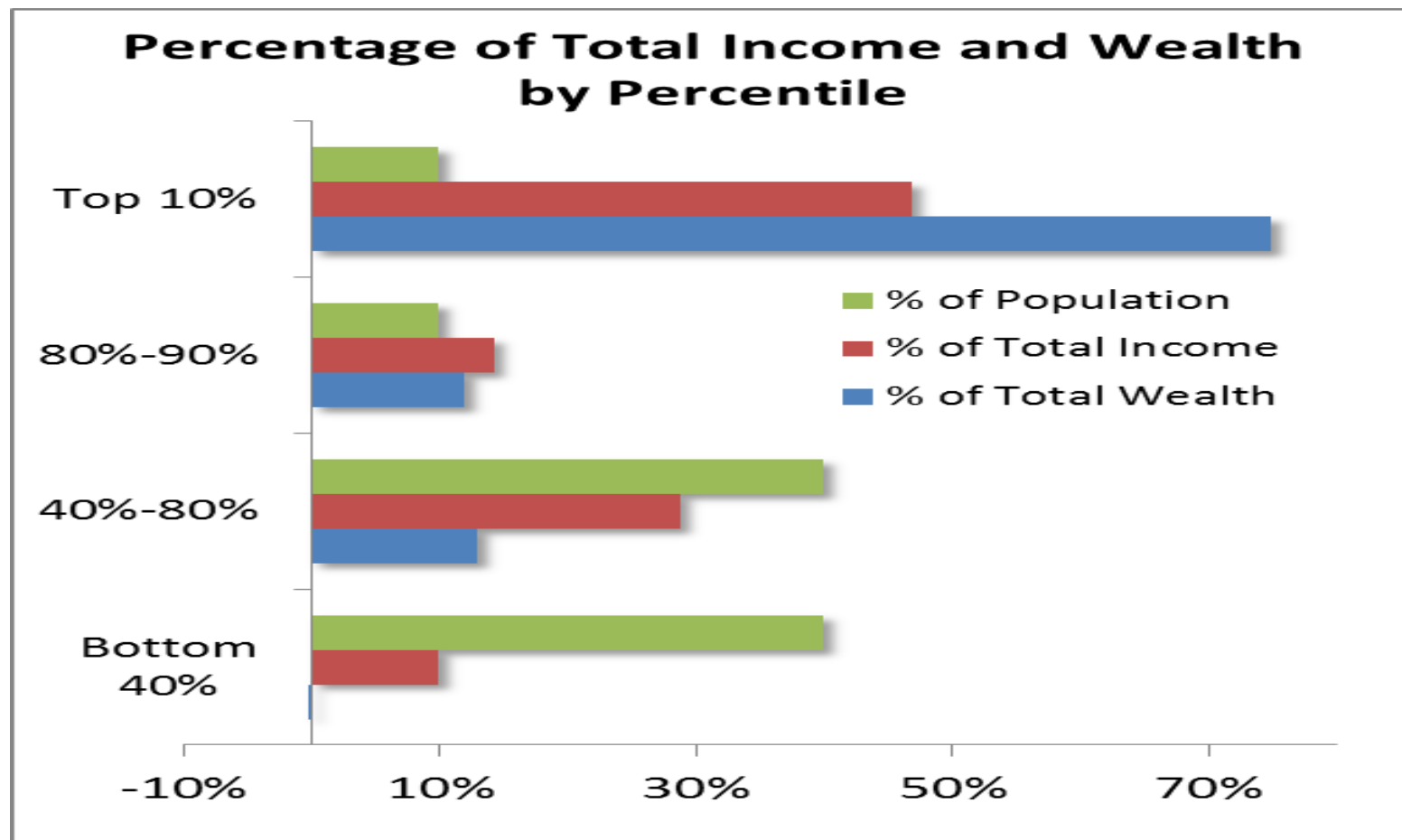
Why Study Wealth?



- Assets matter for economic security and upward economic mobility in ways income does not; balance sheets reveal dimensions of financial stress and health not otherwise apparent.
- Holding assets is associated with distinct social, psychological, emotional, child well-being, health, and civic outcomes.
- The U.S. has a long history of promoting property ownership, but many families have been and remain excluded from these policies, contributing to wealth inequality.



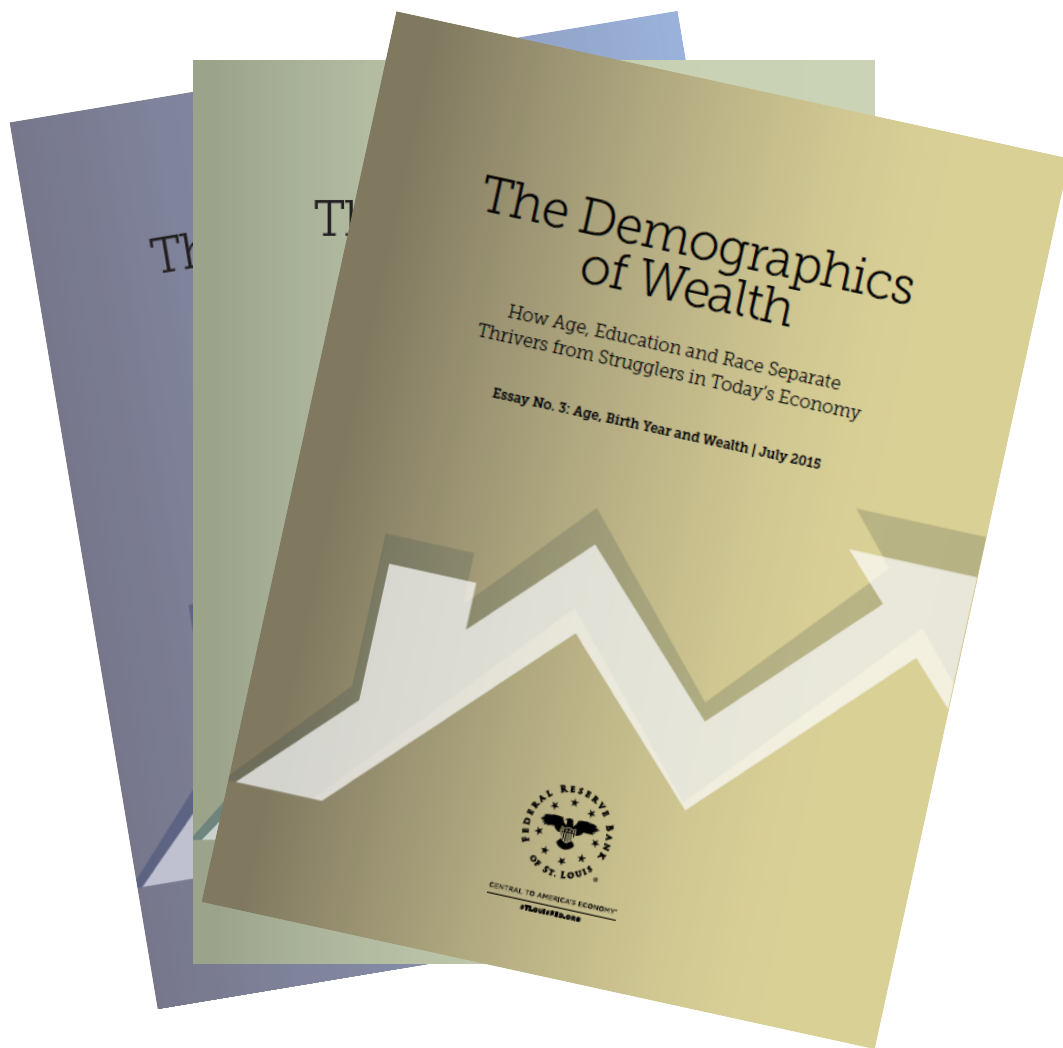
Wealth Inequality by Income



Source: Survey of Consumer Finances, 2013



The Demographics of Wealth

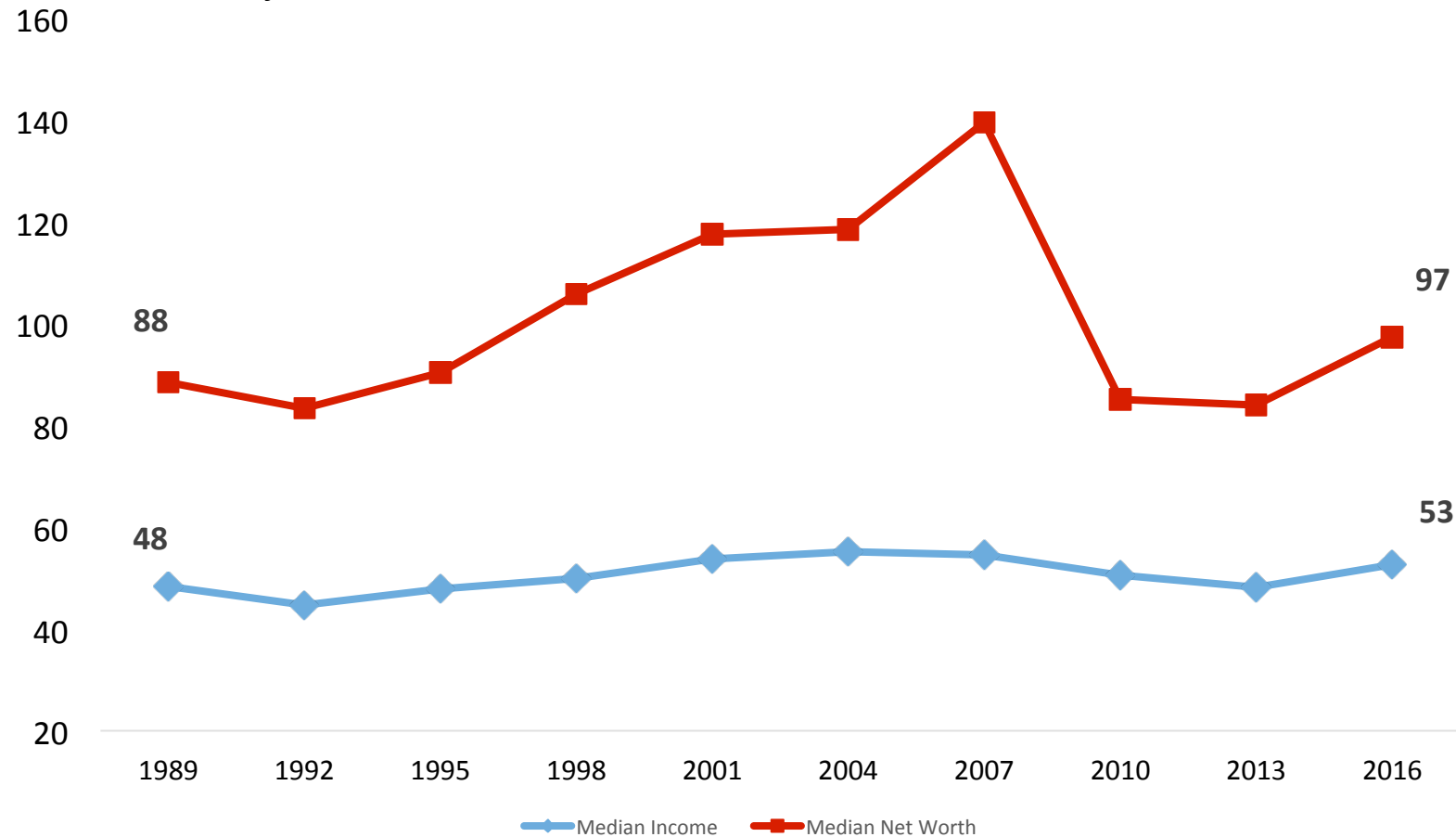


- First published in 2015
 - Education
 - Race
 - Age
- Updated in 2018
 - Adds education of respondent's parents
- Surveys over 6,000 families every three years; considered the “gold standard” in family wealth research

Income and Wealth Since 1989

Changes in Median Income and Net Worth Over Time

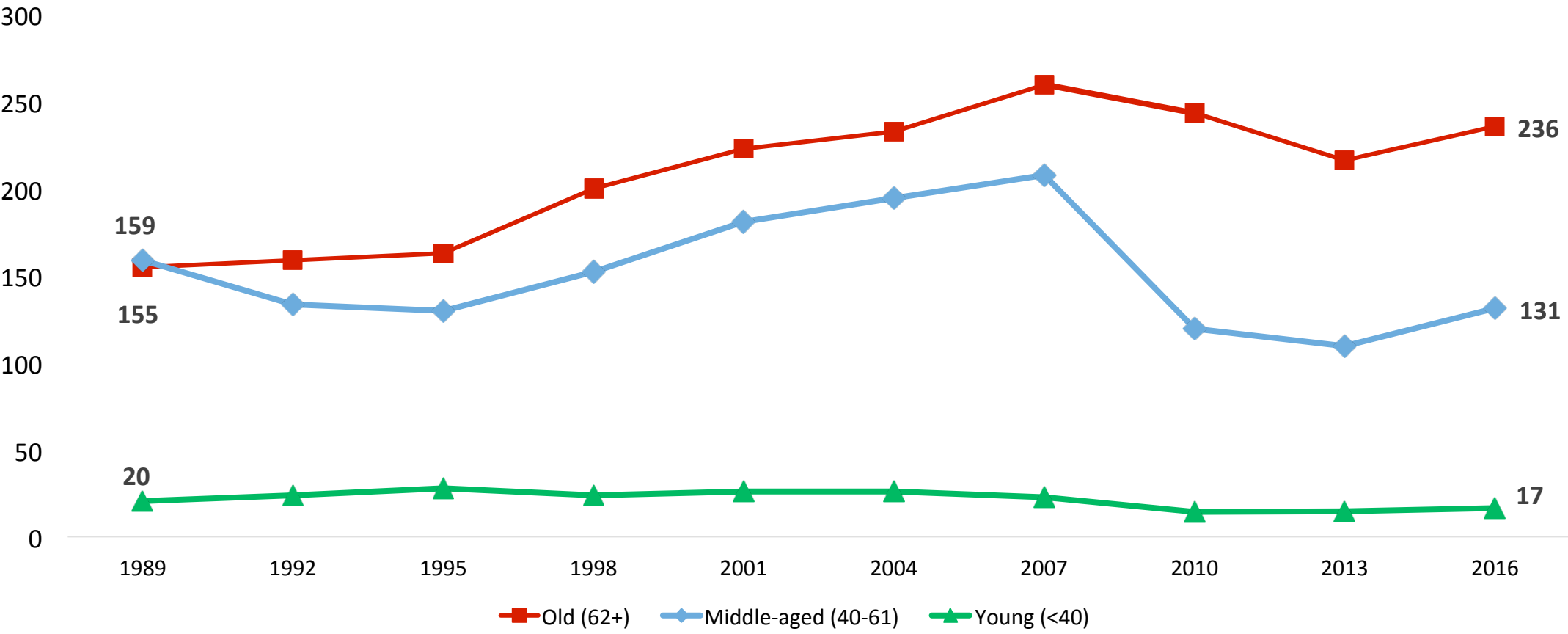
Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.

Age / Birth Year

Real Median Family Net Worth, Age/Year of Birth
Thousands of 2016 Dollars

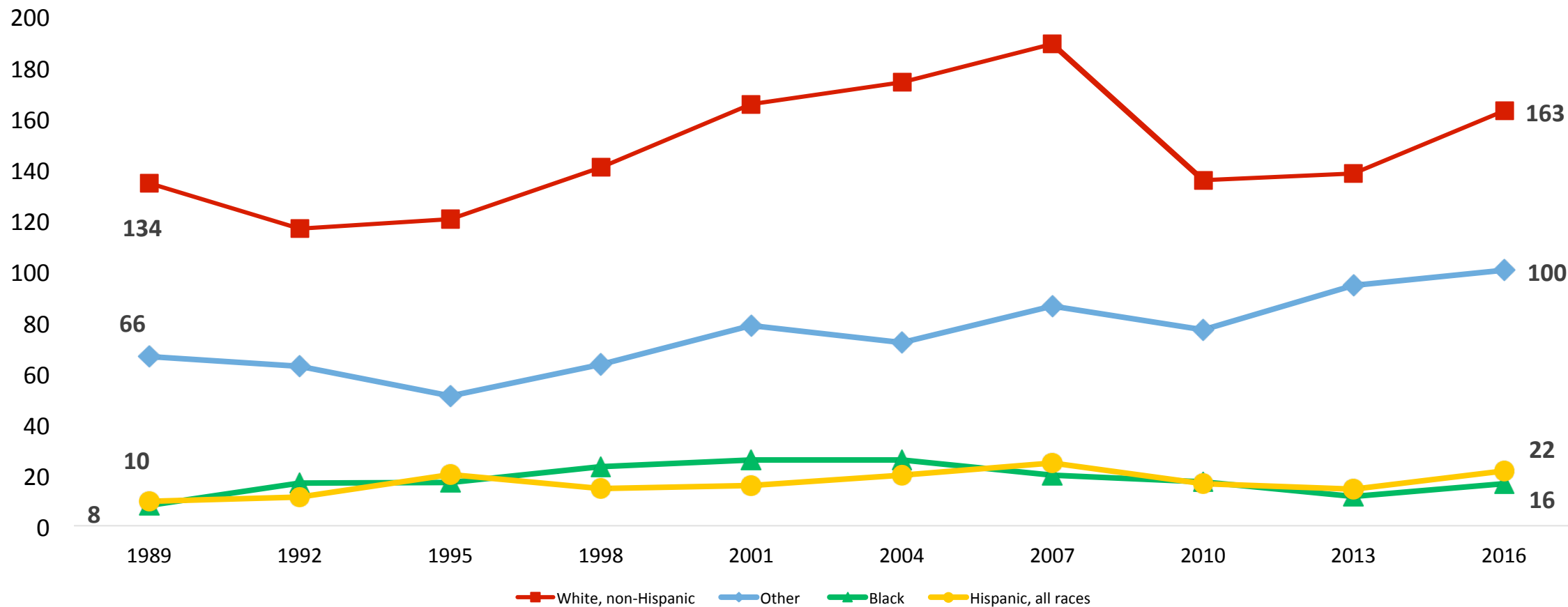


Source: Federal Reserve Board, Survey of Consumer Finances.

Race and Ethnicity

Real Median Family Net Worth, By Race/Ethnicity

Thousands of 2016 Dollars

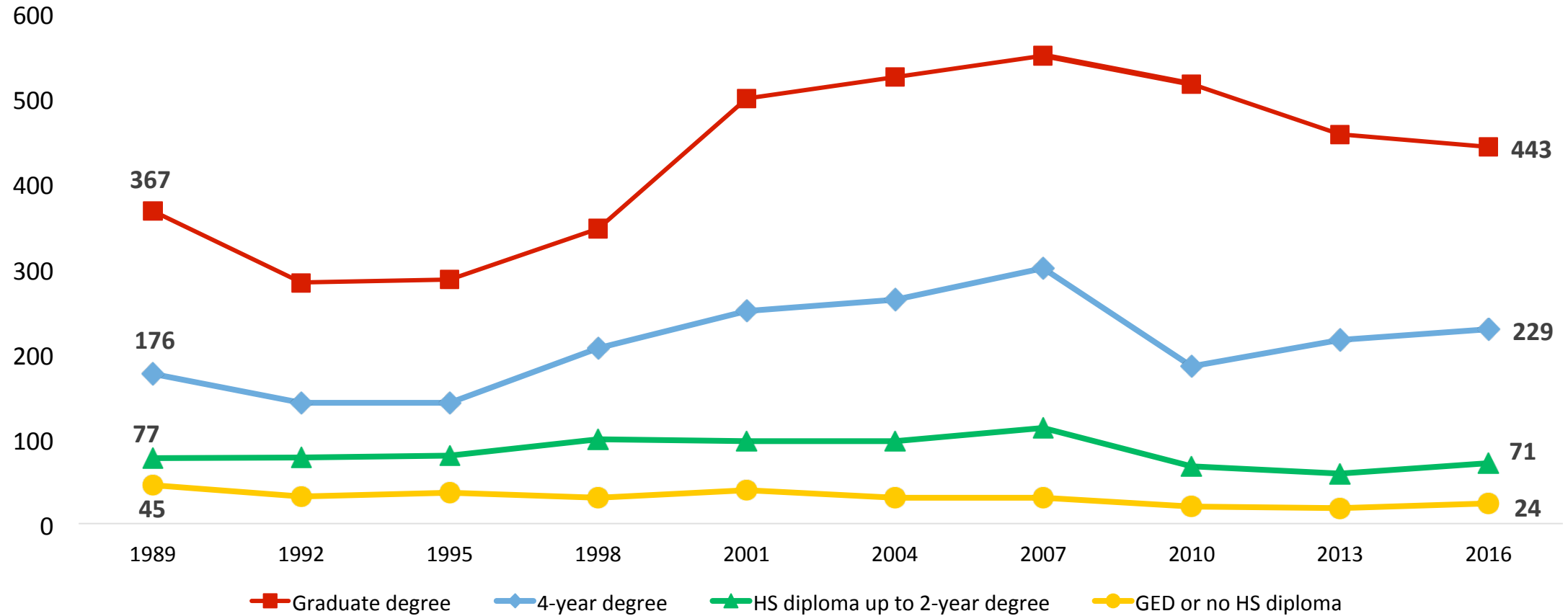


Source: Federal Reserve Board, Survey of Consumer Finances.

Education

Real Median Family Net Worth, By Education

Thousands of 2016 Dollars

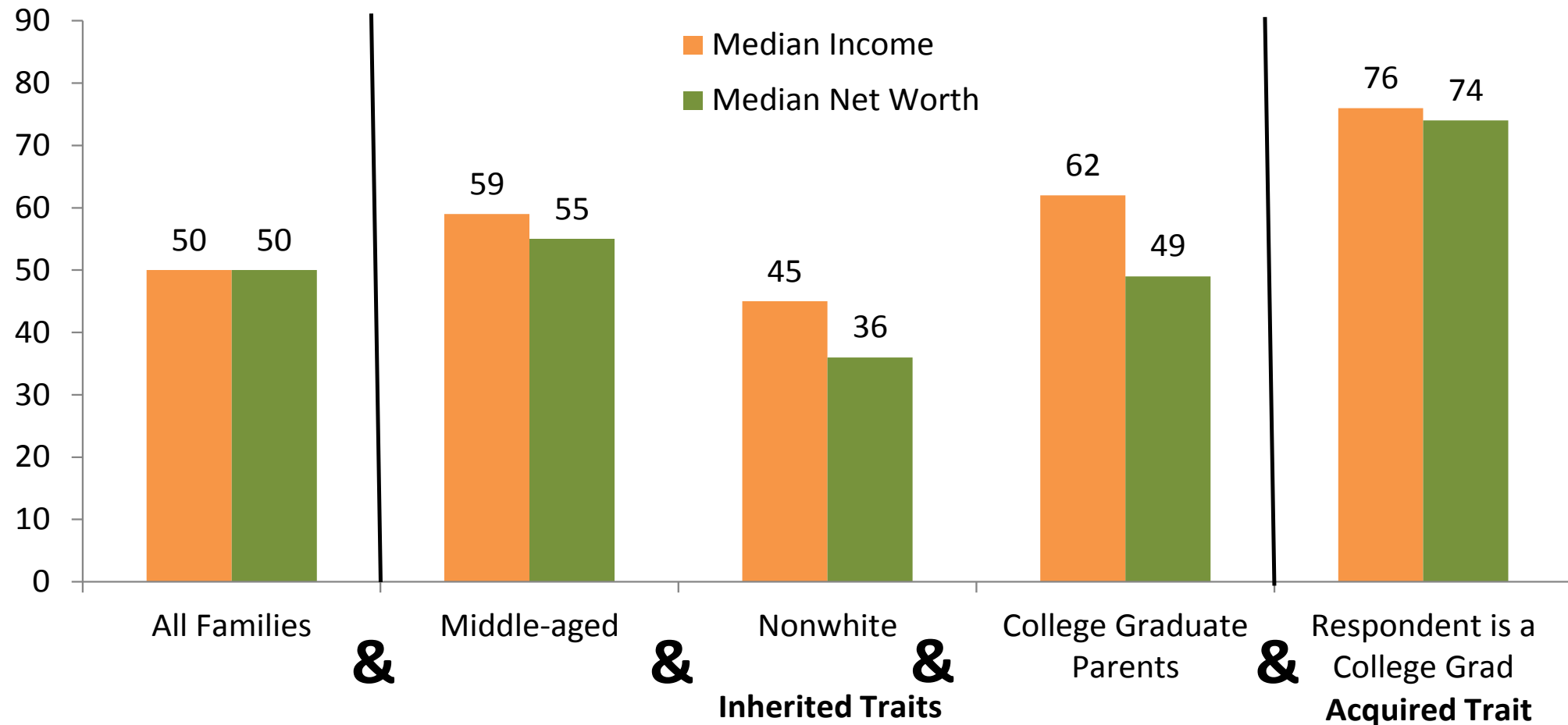


Source: Federal Reserve Board, Survey of Consumer Finances.

An Example from the Demographics of Wealth #1 (March 2018): Education & Wealth (with Parental Education)

Median Family Income and Net Worth Rank Progression, by Inherited & Acquired Traits

Percentile Rank

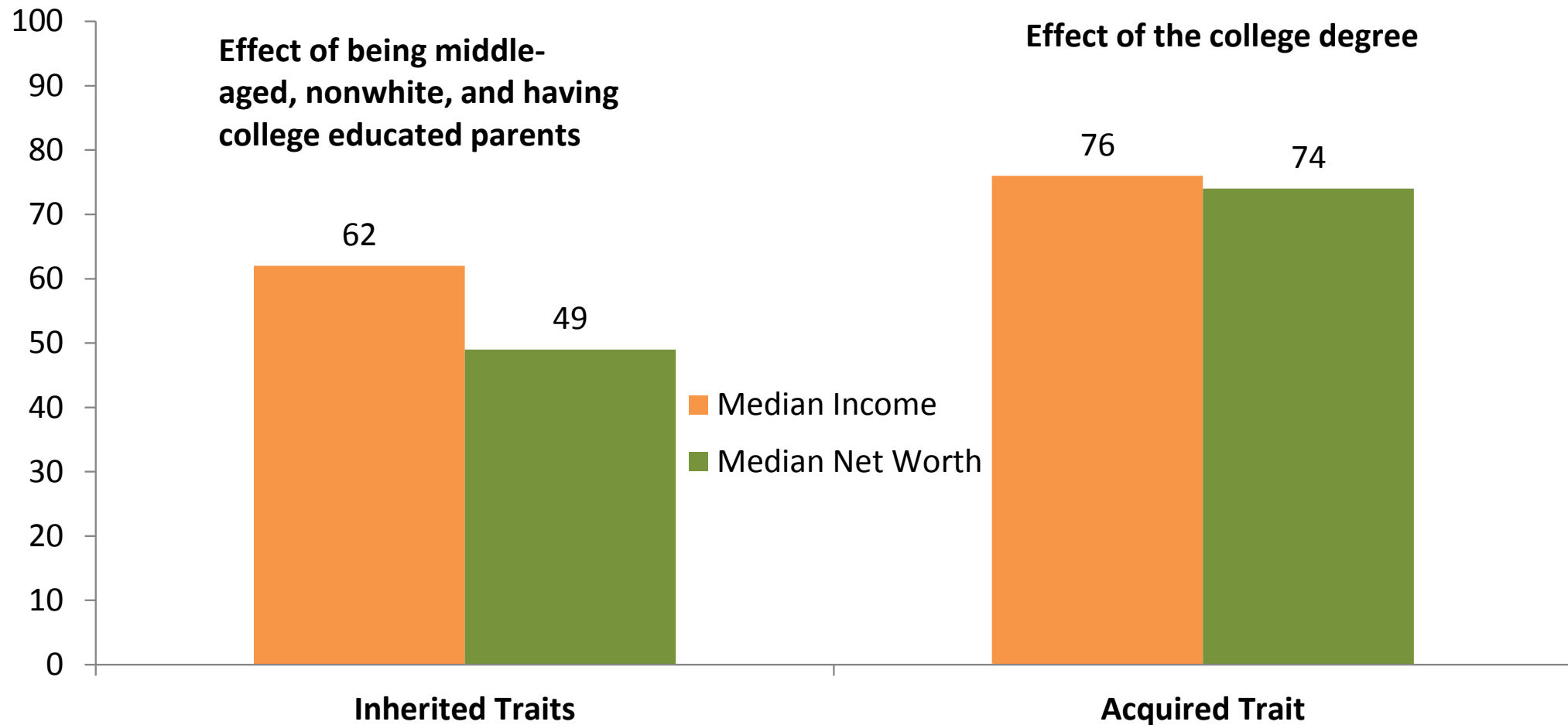


Source: Federal Reserve Board, Survey of Consumer Finances, and author's calculations.

Review: Inherited v. Earned Traits

Median Income and Net Worth Rank, by Inherited & Acquired Traits

Percentile Rank



Source: Federal Reserve Board, Survey of Consumer Finances, and author's calculations.

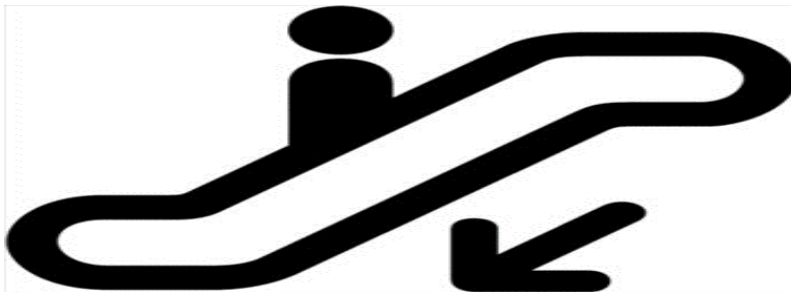
Overall Effects — Demographics of Wealth # 1



The Head Start effect: Families with “favorable” (white, older, college grad parents) inherited traits typically earn higher incomes and accumulate more wealth than families without them.



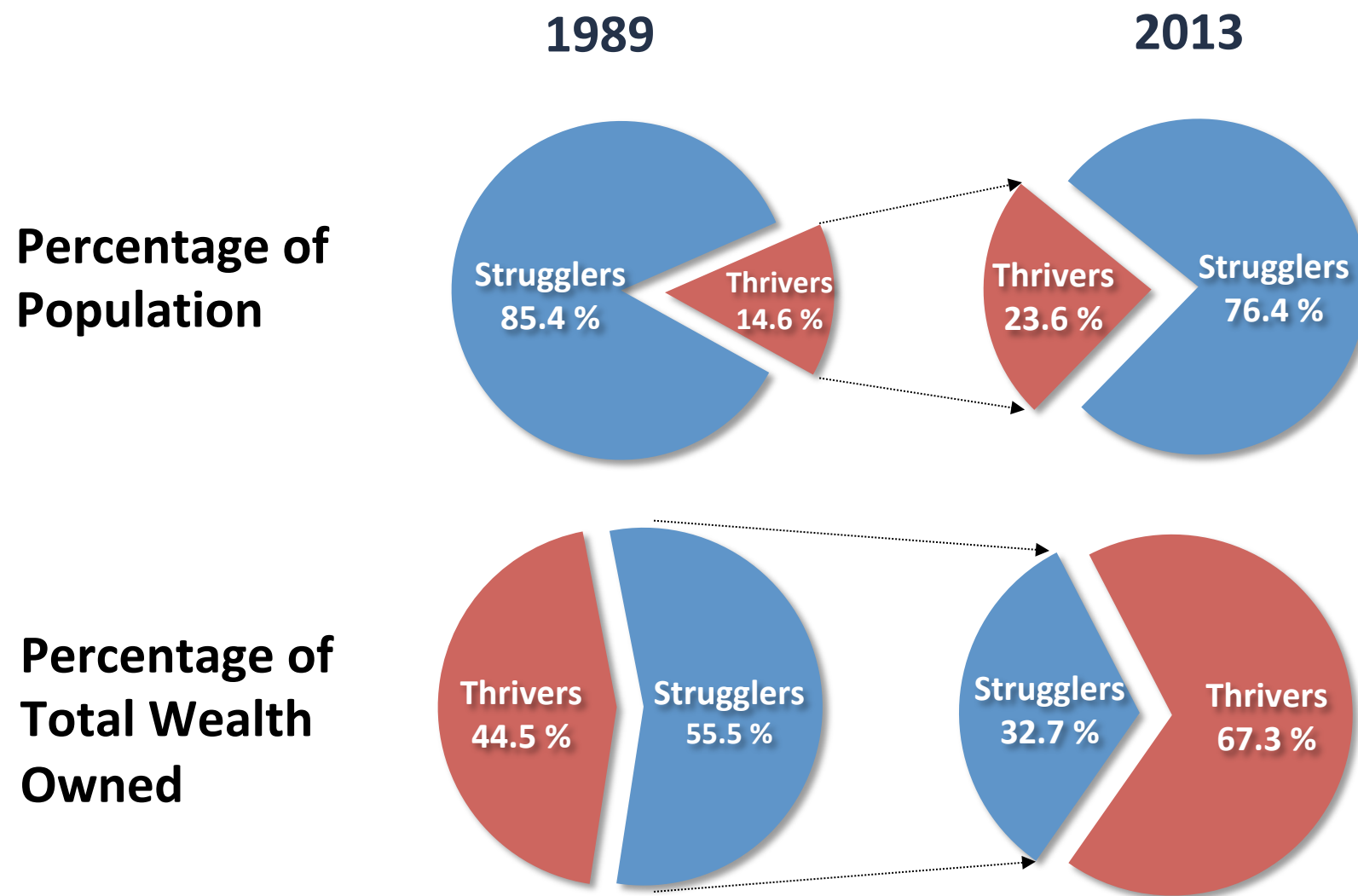
The Upward Mobility effect: Among families with less “favorable” traits, a college degree usually boosts income and wealth far above levels achieved without a degree.



The Downward Mobility effect: Families with college-educated parents who fail to also earn a degree are likely to slip notably downward in expected ranking.



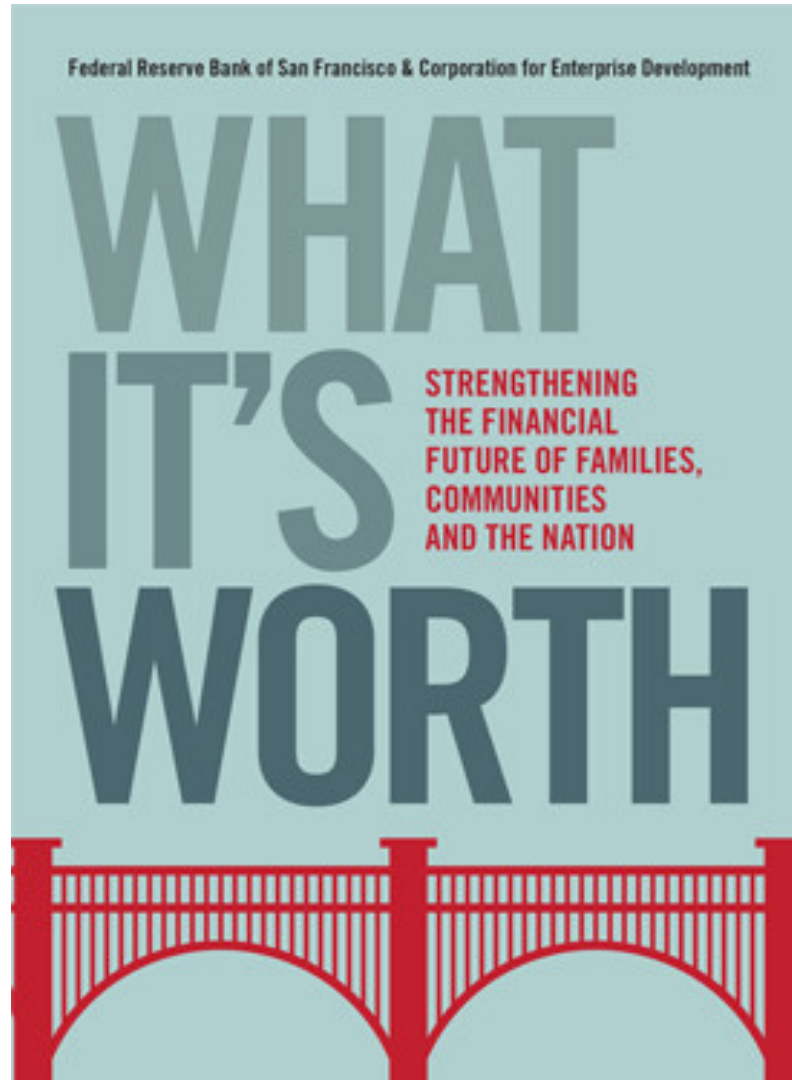
Thrivers v. Strugglers: A Growing Economic Divide



Source: Survey of Consumer Finances



Is Demography Economic Destiny?



No, but....

- *How can we assign greater weight to demographic factors in targeting consumer protections and public and private resources?*
- *How can we compensate for stronger “headwinds” faced by struggling families?*
- *How can we promote the upward-mobility effect and compensate for the head-start effect?*
- *What’s the role of executive function, agency, and financial capability?*

See What It's Worth, available at
www.strongfinancialfuture.org

1. Promote Stability, *Then* Mobility: Help Families Build a Rainy Day Fund

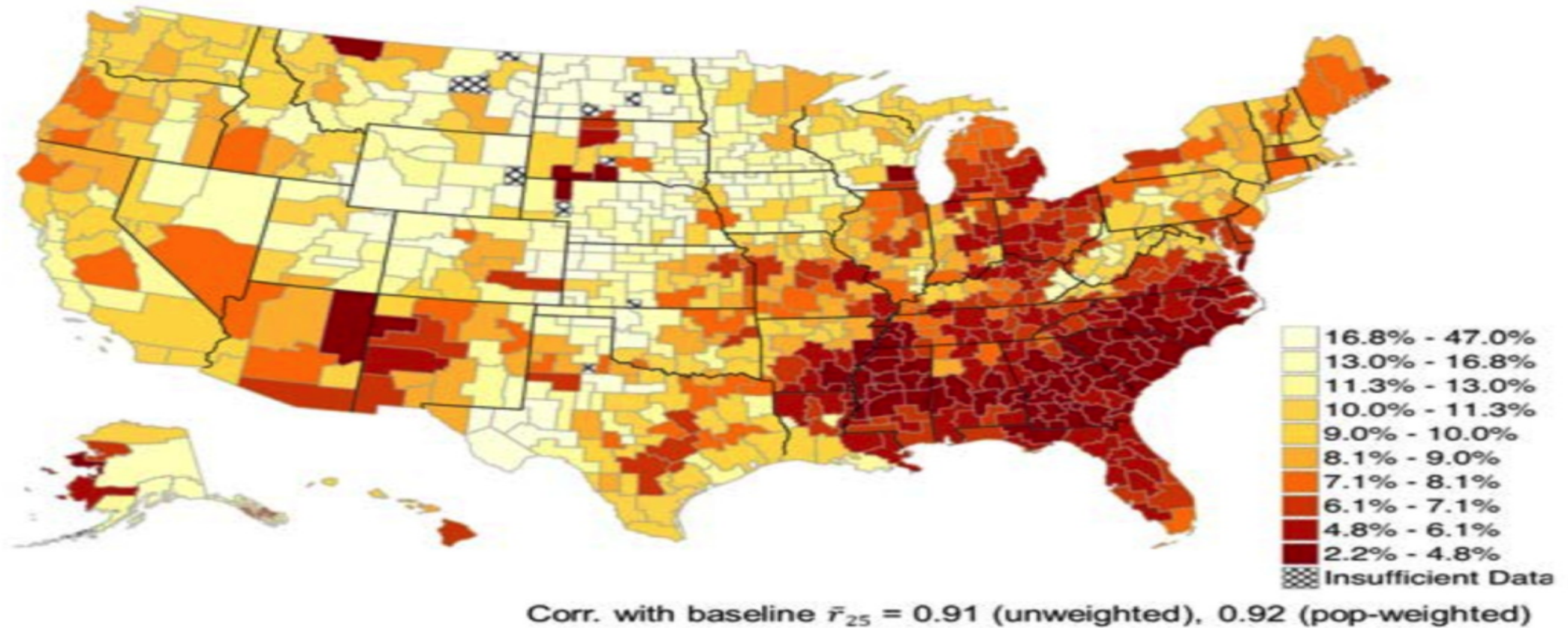


- The balance sheets of struggling families share three characteristics:
 1. Too much wealth in homeownership
 2. Too much debt
 3. Too little savings/liquidity
- Having liquid assets, even if less than \$2,000, is associated with lower incidence of various financial hardships, such as missed payments, foregone medical care, and food insecurity. And families with nonretirement savings of between \$250 and \$749 are less likely to be evicted, miss a housing or utility payment, or receive public benefits when income disruptions occur (Urban Institute, 2011, 2016)
- Of all the factors examined, disparities in financial well-being are greatest between subgroups that have different levels of liquid savings (CFPB, 2017)

2. Invest in Place

Raj Chetty et al., Equality of Opportunity Project, 2015

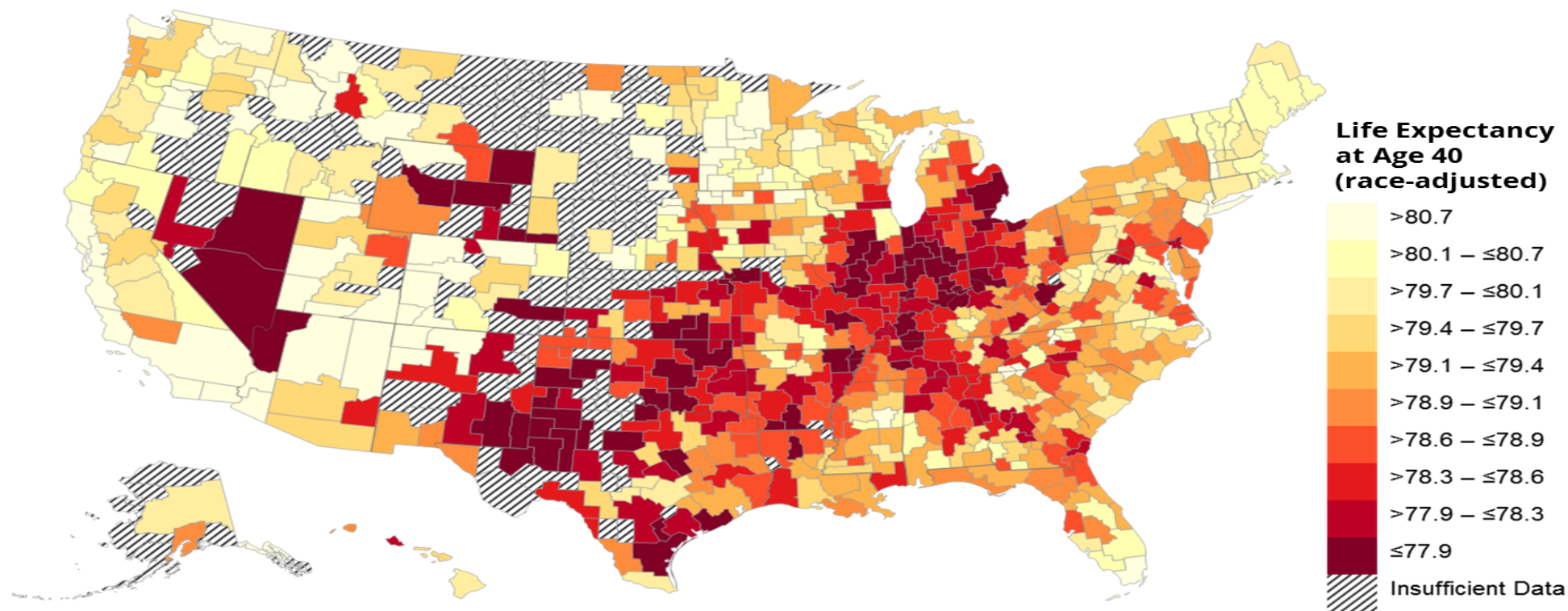
Probability of Reaching Top Quintile from Bottom Quintile



Invest in Place, con't.

Geography of Life Expectancy in the Bottom Income Quartile

Raj Chetty et al., Health Inequality Project, 2016



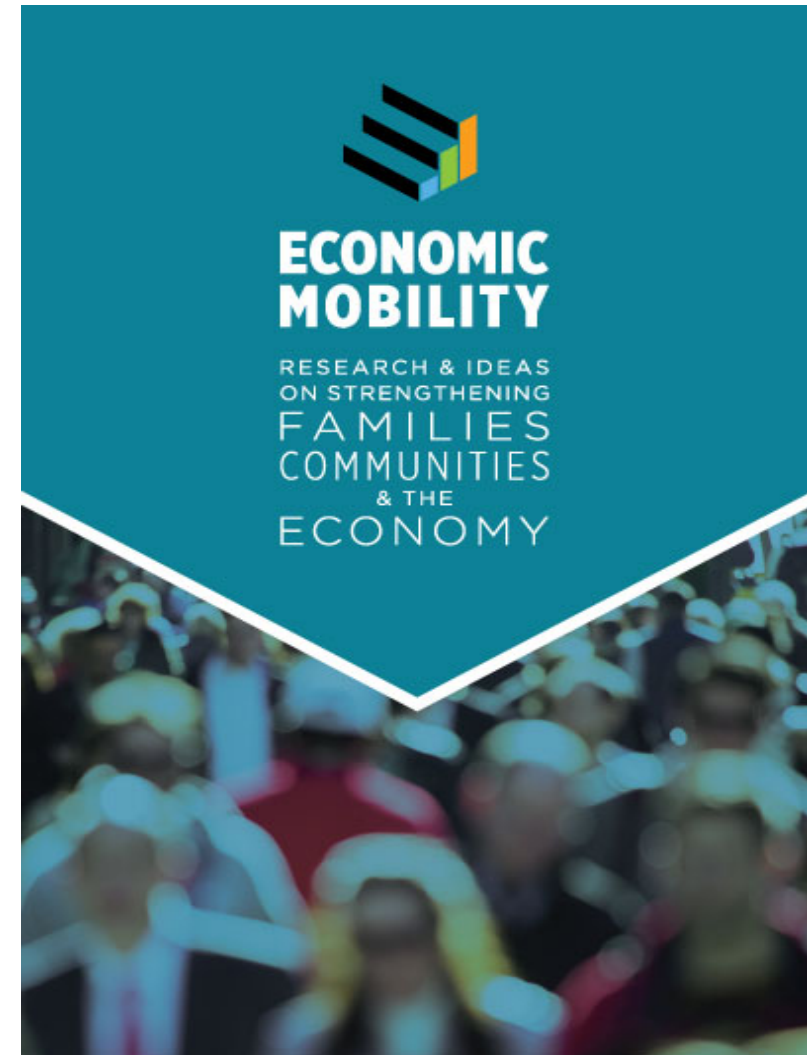
Top 5 Cities: New York City NY, Santa Barbara CA, San Jose CA, Miami FL, Los Angeles CA

Bottom 5 Cities: Tulsa OK, Indianapolis IN, Oklahoma City OK, Las Vegas NV, Gary IN



Place-based Investments that Promote Upward Mobility

1. Reduce racial segregation.
2. Reduce economic inequality and segregation.
3. Invest in schools – especially in teachers, principals, and efforts to get first-gen kids to and through college.
4. Improve social capital, networks and relationships.
5. Stabilize families, and reduce the incidence of single-parent households.



3. Invest in Early Childhood Environments and Assets



Early Environments

Roland Fryer finds that:

- Black-white test score gaps were non-existent between ages 0-1, but black children fall quickly behind after that.
- By age 2, substantial gaps exist, largely due to the cumulative effect of different early age environments.

Fryer, James Heckman, Robert Putnam, Raj Chetty, Michael Sherraden, Isabelle Sawhill and others find that the earlier in life a child...

- Is read to
- receives good nutrition
- faces less toxic stress
- attends an early-education program
- is exposed to a good neighborhood
- attends a high-performing school
- is raised by two parents, and
- has assets in the home

...the better that child will turn out as an adult.



Early Assets/CDAs

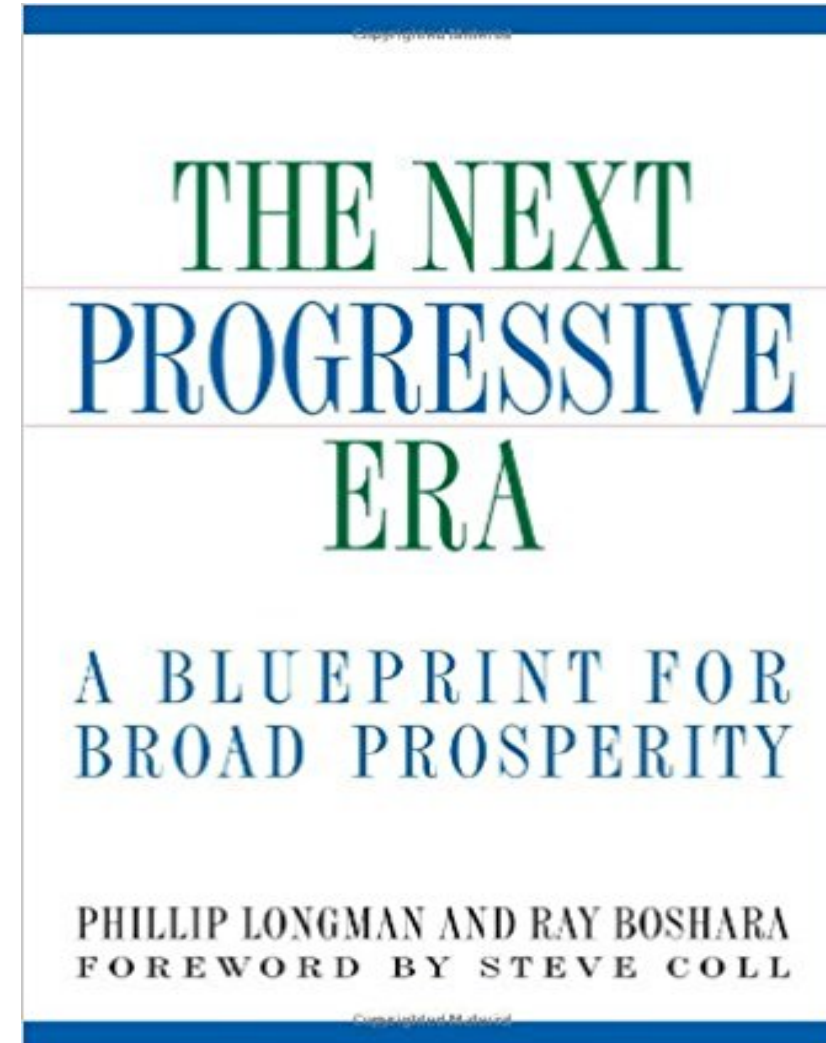
- Can address age, race, and education disparities, and promote financial inclusion.
- Typically established at birth or when a child enters kindergarten.
- Universal (for all kids) and progressive (more for the poor).
- Programs and policies exist at the city, county and state-wide level; over 80% use the 529 platform.
- Research shows positive impacts on child development, maternal health, future orientation, likelihood of completing college outcomes, and other positive effects.
- There are few experimental studies, and longer-term impacts are not yet known.



From Ideas & Research to Public Policy

See Boshara, R. (2016). *Reflections from the front lines: Ideas and evidence to policy* (CSD Perspective No. 16-41).
St. Louis, MO: Washington University, Center for Social Development

1. Timing and framing matter
2. Evidence matters, however...
3. Policy entrepreneurs and intermediaries matter
4. Policy history matters
5. State and local innovations matter, especially now



Symposium, May 23-24, St. Louis Fed

Is College Still Worth It? Looking Back and Looking Ahead
→ *How Has Education Impacted Wealth Across Generations?*

<https://www.stlouisfed.org/events>. Registration free for students.