Setting the Stage for Economic Equity in 2022

February 15, 2022
By William M. Rodgers III

This post is the first in a six-part series titled "The State of Economic Equity." This series examines the challenges facing vulnerable workers this year and possible ways to improve their economic security and resiliency in an economy reshaped by the pandemic.

Last year, the nation's economy began to restore economic security for millions of workers, their families and their communities. The stock market and housing market soared to record levels. Nonfarm payroll employment climbed by over 18.6 million since April 2020, representing 91.0% of the 20.5 million jobs lost from March to April 2020. The nation's "official" unemployment rate fell to 3.9% in December 2021, well below the postwar high of 14.7% in April 2020. Sometimes called the "real" unemployment, the more inclusive Bureau of Labor Statistics measure of joblessness that includes involuntary unemployment was just shy of its pre-pandemic level.

The CARES, Consolidated Appropriations and American Rescue Plan acts injected unprecedented amounts of relief and recovery funds into the U.S. economy. Additionally, local, state and federal public health efforts were made to fully vaccinate the population. As of Feb. 6, 2021, 64% of the U.S. population was fully vaccinated for COVID-19.

COVID-19 Represents New Structural Change

Even with all the good news and accomplishments, workers and their families exited 2021 and entered 2022 still facing considerable headwinds. The number of COVID-19 cases set a new peak last month, fueled by the new omicron variant and lagging vaccination rates for particular groups and areas of the country. Even as this variant recedes, scientists argue that there will be others, shifting us from a pandemic to an endemic.

COVID-19 represents a new structural change to how we work, where we work, when we work, and with whom we work. It joins globalization, technological change and changing population demographics as forces shaping the U.S. economy. Labor and skills shortages have increased, exacerbating the ability of businesses to meet consumer demand. Supply chain bottlenecks are the new reality. As a result, inflation accelerated during the second half of 2021, putting pressure on low-income consumers and those living on a fixed income.

Even with these strong and uncertain headwinds, it appears that the macroeconomy will continue to expand during the coming year. For example, private sector forecasters predict that the nation's jobless rate will tick further down toward 3.5%. If the economy's strengthening continues well into 2022, which could place additional upward pressure on prices, calls for an end to further federal relief and recovery support may gather steam.

Is a Shared Recovery Possible?

Yet is the economy strong enough to generate a "shared" recovery? Can workers and their communities, which prior to the pandemic were already quite vulnerable weather scaled-back relief and recovery efforts? With continued economic growth forecasted, what existing policies and practices might we "re-imagine" such that they achieve a broader sense of sustained security, belonging, resiliency and a more equitable economy to individuals, their families, communities, towns, cities, states, regions, and the nation.

The goal of the State of Economic Equity blog series is to consider likely outcomes for vulnerable individuals and communities given the previously mentioned trends that are expected to dominate in the coming year. The blog posts in this series will remind readers that as a nation, we already faced a variety of crises prior to the pandemic. Low- and moderate-income (LMI) families were having difficulty accessing quality and affordable child care. Many families could not pay an unexpected bill of $400. Many communities had preexisting shortages in affordable housing. Many did not have access to the typical wealth creation strategies available to most Americans. Thus, curtailing relief and recovery efforts could jeopardize the long-term security and resiliency of LMI individuals, their families and their communities. Each blog post offers a menu of potential strategies that policymakers, employers and the public may consider as we move further into 2022.

Blog Series Overview

The second post shows that child care is increasingly unaffordable, yet it supports workers and the overall economy. Investing in child care as a public good has potential to promote a stronger workforce, help address skills and labor shortages, and improve gender and racial equity.

The third post demonstrates that LMI communities face a long road to recovery as various aspects of their lives—from financial security to housing stability—continue to be impacted. Similarly, organizations serving these communities face ongoing challenges with high demands and difficulty maintaining staffing levels.

The fourth post affirms the value of safe and decent housing and the importance of housing stability. The potential of long-term and sustainable housing market investments is explored, as well as considerations for how such investments may help more Americans achieve economic mobility.

The fifth post examines how the ending of forbearance—the pausing of payments and interest for borrowers—in 2022 has impacted vulnerable populations. The ending may usher in a critical period of debt transition. Helping borrowers' transition back to sustainable solvency may require equally thoughtful and proactive responses. If not managed properly, racial and ethnic inequities in consumer debt could worsen. Preserving Black and Hispanic assets such as homes, cars and credit access is an important consideration for promoting equity.

The sixth and final post finds that a strong housing market, stock market and government aid bolstered the average wealth of many families. Higher-income families, however, experienced faster growth; thus, wealth inequality increased. The current environment provides an opportunity to support meeting both the immediate needs of struggling families and advancing new ideas to strengthen families and the economy during and beyond 2022.Join us as we document and explain the nation's state of economic equity.

About the Author

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William M. Rodgers III is vice president and director of the St. Louis Fed's Institute for Economic Equity. Read more about the author and his work.

Child Care Remains Central to an Equitable Recovery

February 17, 2022
By Ana Hernández Kent, Sam Evans

This post is the second in a six-part series titled "The State of Economic Equity." This series examines the challenges facing vulnerable workers this year and possible ways to improve their economic security and resiliency in an economy reshaped by the pandemic.

The COVID-19 recession and the recovery that followed disproportionately affected mothers, particularly those who are women of color. Many challenges persist and threaten these women's economic security. Day care closures and reduced operating hours, and virtual schooling continue in many areas, while mandatory quarantine periods and test-to-return policies affect the work schedules of parents whose children are exposed to the virus in their classrooms. Additionally, inflationary pressures may challenge families' ability to pay for child care because they must devote more dollars to other expenses.

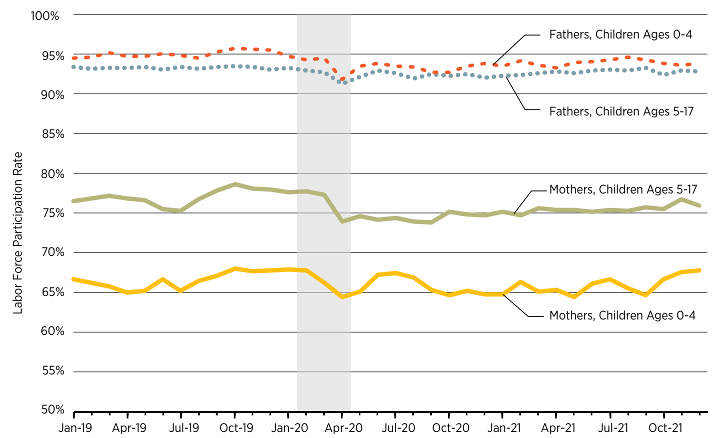
The pandemic highlighted that access to stable quality child care is essential. For example, lack of access to child care continues to be an important barrier to mothers' economic participation. Moreover, in this blog post we suggest that child care is a public good, and investing in it accordingly can strengthen the broader economy and provide relief for labor market shortages. We conclude by examining the policy environment that is needed to help mothers and their families achieve economic security.

Child Care Is Critical to Mothers' Workforce Engagement

Regardless of the health of the U.S. macroeconomy, prime-age (ages 25-54)[1] mothers are much more likely to step back from the labor force when their children are young (ages 0-4)[2] than are fathers. (See the figure below.) Some mothers may prefer to stay home to care for young children, though others may feel constrained because of gender norms, economic pressures, lack of affordable and available quality child care, the inability to take paid leave, an inflexibly demanding job, and a multitude of other reasons.

Lack of a supportive care system in the U.S. is an important explanation for mothers' lower labor force

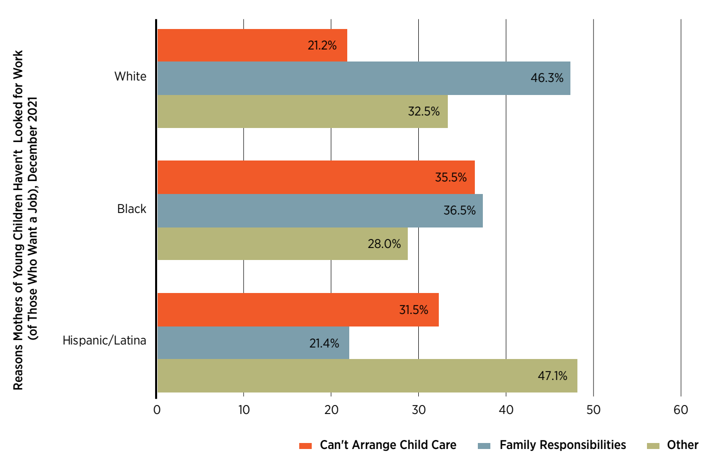
Prime-Age Mothers with Young Children Step Out of Labor Market



SOURCES: Integrated Public Use Microdata Series, Current Population Survey (IPUMS CPS) data and authors' calculations.

NOTE: Prime age is considered 25-54 years old.

Child Care Pressures Block Some Black and Hispanic/Latina Mothers from Work



SOURCES: IPUMS CPS data and authors' calculations.

NOTE: These statistics refer to mothers, of young children, who want to work but have not looked for a job in the past four weeks.

participation rates. This issue predates the pandemic, however. The U.S. Census Bureau's Current Population Survey asks those who are not in the labor force but want jobs why they have not looked for work. In 2021, the most frequently listed reasons given by mothers of young children were family responsibilities and the inability to arrange child care. Better access to child care could thus affect employment decisions for mothers and improve gender equity among parents.

Access to quality care is also instrumental in increasing racial equity. Black and Hispanic/Latina mothers of young children are more likely than white mothers to say that they haven't looked for work due to being unable to arrange child care, as is reflected in the next figure. Moreover, listing child care as a barrier to job-seeking has increased for all races and ethnicities during the recovery, suggesting difficulties continued. Addressing this challenge could make a meaningful difference for many mothers, increase their engagement with the workforce and help alleviate current labor market shortages.

Child Care as a Public Good

Our economy expands with higher labor force participation; it thus benefits us all to have more people in the workforce, as panelist Kathryn Edwards discussed at an October 2021 Federal Reserve research seminar. Prioritizing reliable child care can accomplish this by pulling more mothers into the workforce and increasing productivity among employed parents. This also could translate into greater tax revenue: One study found families forgo $8.3 billion in wages (PDF) per year because of a lack of child care, which means the government misses out on taxing that income. Furthermore, consistent engagement with the labor force can mean more stable income, promotion opportunities and greater retirement security, and thus less reliance on public benefits.

The issue of quality, affordable child care affects not just working parents but the current and future economy as well. Children, particularly those from disadvantaged environments, who attend high-quality child care also see benefits that extend into adulthood. Research indicates these children have improved outcomes, including higher education and wages, better health and less involvement with the criminal justice system.

Public Investment Can Aid in Reimagining Childcare

Child care supports the economy, yet it remains unaffordable for many (PDF). Child care costs make up a significant share of a family's total income, exceeding all other budget items (PDF) in every region except for housing expenditures in the West. Additionally, the expense of child care has been rising much faster than overall prices, putting additional stress on families' finances. For example, in 2019, the national annual average per-child price of care was around $9,000 per year. While costs vary widely depending on geography, teacher-child ratios and other factors, these costs are approximately 14% of the U.S. median household income—twice what would be considered affordable.

Black families are more likely to cite cost as a barrier to child care than are white or Asian families. Additionally, Black and Hispanic/Latina mothers are more likely to work in low-wage jobs in the service and hospitality industry—working irregular hours, weekends and second or third shifts when child care is less available—and less likely to have access to benefits such as paid family leave or full medical benefits.

Already we have seen communities and states use coronavirus relief funds to stabilize the child care sector. In the Eighth Federal Reserve District,[3] states like Arkansas and Missouri seek to use the additional funds from the American Rescue Plan to provide financial incentives to support teachers and staff. This is significant given the research that supports the benefits of stable, quality child-teacher interactions and the connection sufficient wages and benefits have in retaining staff.

Another financial incentive includes increasing subsidies based on enrollment rather than attendance—a policy that allowed child care providers to access reimbursement funds even when a child was absent due to being sick or having to quarantine. This practice allowed states to pay providers in advance to reserve capacity and serve eligible families, or base reimbursement payments on provider enrollment or capacity instead of attendance.

Child Care in 2022 and Beyond

The economic benefits of affordable, quality child care are clear. Keeping women engaged in the workforce when their children are young promotes productivity, ensures that economic potential is fully utilized and generates economic growth. COVID-19 relief funds provided an infusion of child care relief and recovery resources, the momentum from which will be only temporary as these funds expire.

Workers, as well as the overall economy, could benefit from a more equitable and sustained approach to addressing long-term child care challenges, many that existed prior to the pandemic. As policies such as expanding parental leave and universal pre-K programs are considered, examining how these policies can be equitable and support those most affected—like

Black and Hispanic/Latina mothers—could have both immediate and long-lasting economic benefits for families and communities for generations.

Notes and References

1 The statistics in the remainder of this section refer to prime-age (ages 25-54) adults.

2 Parents are grouped by the age of their youngest child.

3 The Eighth District includes all of Arkansas, eastern Missouri, southern Illinois, southern Indiana, western Kentucky, western Tennessee and northern Mississippi.

About the Authors

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Gauging COVID-19's Ongoing Impact on LMI Communities

February 22, 2022
By Nishesh Chalise, Violeta Gutkowski

This post is the third in a six-part series titled "The State of Economic Equity." This series examines the challenges facing vulnerable workers this year and possible ways to improve their economic security and resiliency in an economy reshaped by the pandemic.

The COVID-19 pandemic has disrupted lives across the country, and its effects on low- to moderate-income (LMI) individuals and communities have been significant. High concentration of employment in pandemic-disrupted service industries such as leisure and hospitality and a lack of savings have resulted in a more acute impact and slower recovery (PDF). Furthermore, American Indian/Alaska Native, Hispanic/Latino and Black people have borne a disproportionate burden of the pandemic's adverse economic and health effects.

How might the COVID-19 pandemic continue to affect communities, especially LMI communities, in 2022 and beyond? To help answer this question, we looked to the Federal Reserve's latest Community Impact Survey (CIS) conducted in August 2021. The Fed has conducted the CIS five times since early 2020 to monitor the effects of the pandemic and recovery efforts. The survey is distributed to organizations serving LMI individuals and communities, such as nonprofits, government agencies and financial institutions, with questions focused on the communities they serve and their own organizations' financial health.

Based on data from the latest CIS, LMI communities appear to have a long road to recovery, as various aspects of people's lives—from financial security to housing stability—continued to be impacted by COVID-19. Similarly, organizations serving these communities were facing ongoing challenges with high demand and difficulty maintaining staffing levels. These challenges have likely persisted with the impact of delta and omicron variants beyond the survey period.

LMI Communities Face a Long Path to Recovery

When asked about the peak period of distress,[1] 86% of providers noted significant disruptions to economic conditions in the communities they serve. Regarding conditions at the time the survey was fielded (August 2021), a much smaller but still sizeable proportion (44%) noted significant disruptions, suggesting that many communities were on a path to recovery.

Still, observations at the time of the survey pointed to ongoing disruptions in various parts of the economy. For example, 78% of respondents said that conditions affecting financial stability, including income loss and changes to income stability, were still worse than they were before the pandemic. Similarly, 81% noted that disruptions to small businesses—including short- and long-term closures, supply chain disruptions and reduced demand—were worse than before the pandemic.

Continued disruptions were noted in other areas, such as housing stability and services for children, as detailed in the latest CIS report.

Expected Time to Recovery: One to Three Years, Longer for Housing Stability

Although the U.S. economy is expected to continue growing, the path to recovery appears longer for LMI communities. When asked when they expect the communities they serve to return to pre-pandemic conditions, one-half of the providers said one to three years. In particular, about half offered the same time frame for expectations related to financial stability, impacts on small businesses and access to health care, plus basic consumer needs. Regarding housing stability, which refers to evictions, back rent, foreclosures and homelessness, 25% of respondents said it would take four years or more to return to pre-pandemic conditions; another 25% said conditions may never return to pre-COVID-19 times.

Entities Serving LMI Communities also Face Ongoing Challenges

Organizations serving LMI communities are on the frontlines of relief and recovery efforts. They work to provide food, ensure access to affordable housing, help people find jobs and support the reopening of small businesses. When asked about the peak period of distress,[2] 69% of respondents noted significant disruptions to their organizations. Regarding conditions at the time of the survey (August 2021), the proportion of entities experiencing significant disruptions was much lower, at 32%. Similar to the communities they serve, many organizations were on a path to recovery, while still facing ongoing challenges.

As reported in the CIS, surveyed organizations were seeing higher demand relative to pre-pandemic levels, but their ability to provide services was constrained. One of the providers noted, "We are struggling to attract and retain staff to fill front-line roles. Additionally, some existing staff have left for higher paying work."[3] Many of these jobs entail providing direct services that can be highly stressful and carry high risk of exposure to COVID-19. Uncertainty with child care and school closures could pose additional challenges in maintaining staffing levels.

The ability to provide services is also determined by revenue, and most of the revenue sources for these organizations, such as donations and fees for services, have either stayed the same or decreased. However, 60% of the respondents did note an increase in funding from the government. Such relief efforts have been crucial not only to LMI individuals, but also to the many organizations serving them.

Lessons Learned for 2022 and Beyond

Disruptions to LMI communities surely would have been worse without the government's responses, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan of 2021. Findings from the August 2021 CIS reflect the importance of these funds, as most of the respondents said measures such as federal stimulus checks, small-business support, unemployment benefits, rent and mortgage relief, and utility support were critically important.

While relief and recovery measures have been crucial, ensuring that resources get to those who need them most continues to be a hurdle. As one respondent noted, "The CARES Act funding is helpful, but the local agencies do not have capacity to effectively utilize these resources. For example, there is money to assist with people staying in their current homes, but the local agency ... only has a small number of case managers to conduct intake and distribute funds. There's a huge bottleneck." Additionally, complex application processes, burdensome paperwork and lack of technology further impede access to needed resources.

Entities serving LMI communities are doing their best to provide services and have been adapting to the challenging circumstances. Greater coordination among all of the stakeholders, together with building capacity to provide critical services, is key to ensuring an equitable recovery and resiliency among the nation's most vulnerable.

Notes and References

1. The survey asks providers about the disruptions caused by COVID-19 to the communities they serve for two separate time periods: peak of distress and current period. The peak of distress is self-defined by the respondent based on the context of the community they serve.
2. The survey asks providers about the disruptions caused by COVID-19 to their organizations for two separate time periods: peak of distress and current period. The peak of distress is self-defined by the respondent based on the context of the community they serve.
3. This quote comes from the Community Development Outlook Survey (CDOS) (PDF), which asked similar questions around the impact of COVID-19 to organizations serving LMI communities in the Eighth Federal Reserve District.

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Addressing the Housing Affordability Crisis as COVID-19's Impact Continues

February 24, 2022
By Faith Weekly

This post is the fourth in a six-part series titled "The State of Economic Equity." This series examines the challenges facing vulnerable workers this year and possible ways to improve their economic security and resiliency in an economy reshaped by the pandemic.

Even before the COVID-19 pandemic, low-wage workers have struggled to pay for housing. The pandemic exacerbated this existing rental affordability crisis, as job losses and reduced hours forced many households to fall back on savings, credit cards and loans from friends and family.

Widespread job losses in the early pandemic—the most severe experienced in postwar America—heightened the housing challenge for millions of renters, especially for low-income households (households with incomes below 50% of an area's median income).

This point was highlighted in America's Rental Housing 2022 (PDF), a recent report by the Joint Center for Housing Studies of Harvard University. In the third quarter of 2021, nearly a quarter of renters (23%) reported that they had experienced a loss of employment income in the previous four weeks, which led many to miss rental payments, according to the report. The impact of job losses and wage cuts hit low-income renters hard, with the report noting that:

- 23% of renter households with incomes under $25,000 fell behind on their rent payments.
- 15% of renter households with incomes between $25,000 and $49,999 were in arrears.

Cost-Burdened Renters

While wages have been stagnant, rents continue to rise, which is increasing the cost burden on families. Cost burdens are a direct outcome of a lack of adequate supply and availability of rental homes and low wages. A household is considered cost burdened when it spends more than 30% of its income on rent and utilities.

The cost-burden problem is particularly acute for households with extremely low incomes; that is, their incomes are at or below poverty level or 30% of the area's median income, whichever is higher. The National Low Income Housing Coalition's March 2021 report *The Gap: A Shortage of Affordable Homes* (PDF) found that of 44 million renter households in the U.S., 10.8 million have extremely low incomes; of these 10.8 million households, 70% are severely cost burdened, spending more than half of their income on rent and utilities. The report also noted that 48% of extremely low-income renters are seniors or have a householder with a disability.

Low-income renters struggle to find decent affordable housing. In fact, for those making minimum wage, there is no place, as the coalition's 2021 report *Out of Reach* (PDF) pointed out: "In no state, metropolitan area, or county in the U.S. can a worker earning the federal or prevailing state or local minimum wage afford a modest two-bedroom rental home at fair market rent by working a standard 40-hour work week."

Historical inequities in education and the labor markets continue to contribute to the lower earnings of households of color. In turn, these lower earnings widen racial and ethnic disparities in housing. The coalition's *The Gap* report found that 54% of Black renter households are cost burdened, followed by 52% of Hispanic renter households; the rate for white renter households was much lower at 42%

Without an affordable place to live, low-income and severely housing cost-burdened renters may have to make trade-offs that threaten their health, safety, and well-being. *The Gap* report also noted that before the pandemic, extremely low-income renters faced a shortage of nearly 7 million affordable rental homes, which means there were only 37 affordable and available homes for every 100 extremely low-income households.

Long-Term Needs

The COVID-19 pandemic has magnified the importance of housing stability for a household's health and well-being. While a pandemic-related housing safety net including eviction moratoriums and emergency rental relief helped to keep millions of renters housed safely, these programs were temporary. Moreover, the country's lack of a sufficient affordable housing supply persists. Public and private research and investments in new affordable housing and preserving public housing can help increase housing stability, decrease homelessness, help reverse the trend of longstanding inequities in the housing sector and remove barriers to safe and decent housing for all Americans.

About the Author

FAITH WEEKLY

Faith Weekly is a community development advisor, specializing in neighborhoods and housing, within the Institute for Economic Equity at the St. Louis Fed.

Household Debt Relief Enters Critical Transition Period

March 01, 2022
By Lowell Ricketts

This post is the fifth in a six-part series titled "The State of Economic Equity." This series examines the challenges facing vulnerable workers this year and possible ways to improve their economic security and resiliency in an economy reshaped by the pandemic.

Since the COVID-19 pandemic began, an estimated 8.3 million mortgage loans entered forbearance (about 780,720 remain in forbearance); payments and interest for borrowers of federal student loans—the vast majority of student loans—were paused; and many lenders waived fees and deferred payments on a variety of other types of consumer credit, such as credit cards and auto loans.

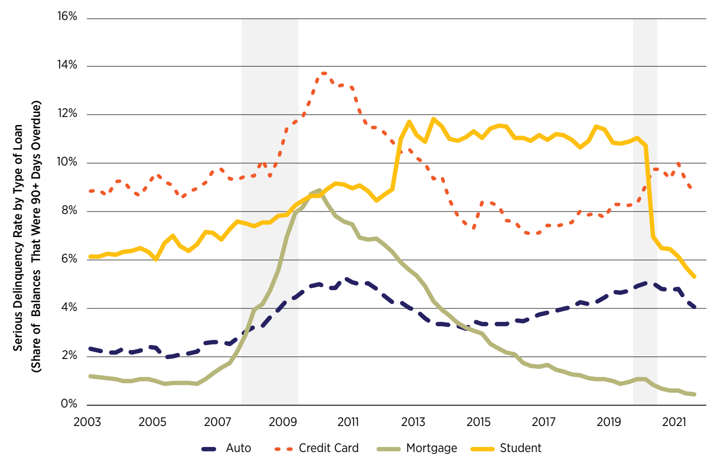
This relief coincided with direct cash support from stimulus checks, expanded unemployment insurance benefits and the temporarily expanded child tax credit. Consequently, serious delinquency rates have been trending down (see the figure at right) across all types of debt over roughly the past two years despite the unprecedented disruption.

Collectively, a historic crisis has been met with a response that helped buoy many American families in part by lightening the load of their debts.

But a concern is that these policies have already expired or will expire in 2022, ushering in a critical period of debt transition that raises the risk of default and damage to families' financial stability (e.g., losing a car, damaging credit score). Helping borrowers transition back to sustainable solvency may also require equally thoughtful and proactive responses. Successfully navigating this transition may help maintain economic growth by avoiding disruptions to credit access among low-to-moderate income households.

In addition, it may help avoid deteriorating inequities in consumer debt by preserving the assets (like homes and cars) of low- and moderate-income families, especially Black and Hispanic families. Moving beyond the current crisis presents an opportunity to consider how to reduce consumer debt loads, perhaps in part by mitigating the rising cost of debt-financed assets, such as higher education, homes and cars.

Rates of Serious Delinquency Have Reached Historic Lows, Yet These Mask Potential Distress



SOURCES: New York Fed Consumer Credit Panel and Equifax.

NOTES: The serious delinquency rate is the share of debt that is at least 90 days past due. Shaded areas indicate recessions.

A Time of Transition

While the virus continues to disrupt with new variants, consumer debt relief is transitioning to a resumption of payments and reporting of delinquency. Student loan interest and payments are scheduled to resume after May 1. Serious delinquency rates for student debt could snap back from historic lows to their previous highs in which 10% or more of the debt was past due.

Similarly, the rate of serious delinquency on auto debt has trended down during the pandemic, despite robust growth in subprime loans in the years prior. It remains to be seen if these low rates will continue or if they are a temporary stay of financial hardship due to COVID-19 relief policies.

On the housing front, according to estimates by staff at the Federal Reserve Bank of Philadelphia, 780,720 mortgages remain in forbearance; forbearance will end on 47% of these loans in the first quarter of 2022 and

42% in the following quarter. Based on the timing, the first half of this year may see a spike in loan defaults unless efforts to help borrowers' transition back to repayment are successful.

Racial Inequities Remain Constant

Like many other outcomes during the pandemic, financial distress has not occurred equally across the population. The Risk Assessment, Data Analysis and Research (RADAR) group at the Philadelphia Fed estimates that as of Jan. 7, 8.6% of Black mortgage borrowers and 6.1% of Hispanic (of any race) borrowers were past due, over double the rate of delinquency of Asian (3.0%) and white (3.7%) borrowers. These racial and ethnic inequities are reminiscent of the severe loss in housing wealth for Black and Hispanic homeowners during the collapse of the housing market and subsequent Great Recession (2007-2009).

Since well before the pandemic, Black families have had to disproportionately rely on financing to pursue a college education. When Black students take out loans, their balances, on average, are significantly higher. For example, among the class of 2016, the average student loan balance was $42,746 one year following graduation for Black students compared with $34,622 for white students, according to data from the National Center for Economic Statistics. Therefore, the resumption of student loan repayments will raise the burden on Black students' budgets more so than whites.

Less is known about how much of the recent growth in auto lending is concentrated among borrowers of color. Based on the relationship between race and credit scores (PDF), the growth in subprime auto lending is likely indicative of increased debt on the balance sheets of Black and Hispanic borrowers.

Performance of subprime debt usually deteriorates during adverse economic conditions. Though the economy is expected to continue growing in the year ahead, a sudden deterioration in economic conditions could lead to a marked increase in vehicle repossessions. This, in turn, may further damage credit scores and cut off Black and Hispanic borrowers from transportation that they need for work, thus exacerbating labor shortages.

Helping Borrowers Get Back on Track

COVID-19's spread in child care, school and work disrupted Americans' income via firm closures, furloughs and the need to provide care. For borrowers who fell behind on payments during the pandemic, loan modification may help them catch up. Policymakers have incorporated lessons learned during the housing crash to mortgage relief during this crisis.

In particular, much of the home-retention options available to borrowers with a mortgage in forbearance are intended to reduce the burden of payments along with requiring less onerous documentation of hardship. Even before the pandemic, student loans had a complex web of repayment plans for borrowers who couldn't keep up with their payments. In the longer term, simplifying the student loan repayment options may help borrowers and loan servicers alike.

Delivering loan modification support often faces an important policy hurdle: Borrowers must reach out to and work with their servicer to arrange new repayment plans. Whenever the onus is placed on the borrower, information asymmetry (for example, the borrower doesn't know that the servicer can help them) can be a challenge.

The same coalition of organizations that helped borrowers stay afloat during the worst of the pandemic (government, private sector, consumer advocacy groups and other organizations serving low- to moderate income communities) can work together to reach consumers in need who are unaware of their options.

Repeating mistakes that were made in previous crises may deepen racial inequities in financial outcomes. Successfully navigating this critical time of transition, however, has the potential to keep American families financially whole, support equitable economic growth and affirm a new policy playbook on how to respond to future economic downturns.

About the Author

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Lowell R. Ricketts is the data scientist for the Institute for Economic Equity at the Federal Reserve Bank of St. Louis. His research has covered topics including the racial wealth divide, growth in consumer debt, and the uneven financial returns on college educations. Read more about the author and his research.

Five Ideas to Support Families amid Growing Wealth Inequality

March 03, 2022
By Ana Hernández Kent, Ray Boshara

This post is the last in a six-part series titled "The State of Economic Equity." This series examines the challenges facing vulnerable workers this year and possible ways to improve their economic security and resiliency in an economy reshaped by the pandemic.

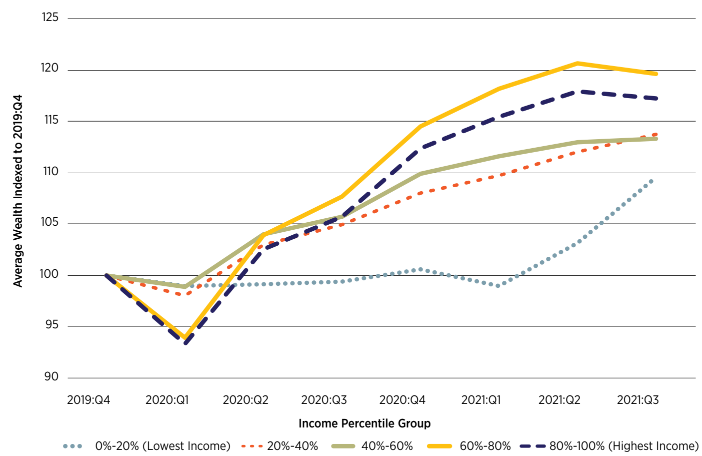
Wealth inequality has risen steadily (PDF) over the past few decades and has continued to increase with the economic rebound from the COVID-19 recession. While various groups are, on average, better off financially than they were prior to the recession, looming economic pressures—including rapidly rising prices, costly child care and housing, and the expiration of various forms of debt relief—raise concerns about some families' economic security in 2022. What are some ideas that could help strengthen these families' financial standing and the economy, considering the link between wealth inequality and challenges to economic growth?

Unprecedented Government Aid Kept Low-Income Families Afloat

Evidence shows pandemic-related relief and recovery efforts by the federal and state governments in the form of liquidity or cash assistance (unemployment assistance, stimulus checks, a temporarily expanded child care tax credit) and moratoriums (student loan repayment, foreclosure) were instrumental in helping low- to middle-income families stay financially above water. Expansions in the unemployment insurance system, for example, were able to target those most in need and were progressive in that lower-income individuals received more than 100% of lost income while those at the higher end of the income distribution received less. Similarly, stimulus checks provided a large boost to low- and middle-income families' account balances, though much of those gains were quickly used.

Notwithstanding, the average real wealth—assets less liabilities—of the lowest-income families was fairly stable through 2020 and by the third quarter of 2021 had increased by 10% in real terms compared with the fourth quarter of 2019, prior to the pandemic, as seen in the

Top Two Income Groups Saw Largest Growth in Average Real Wealth



SOURCES: Federal Reserve Board's Distributional Financial Accounts and authors' calculations.

NOTES: Values are adjusted for inflation to 2021 dollars. The COVID-19 recession began in February 2020 and ended in April 2020.

figure below. Growth in the combined quantity and value of nonfinancial assets, including real estate (the largest portion of these families' assets, at 47% in the third quarter of 2021) accounted for much of these gains.

Rising Stock Market Provided Boon to Higher-Income Families

While households in the two highest income quintiles saw their average inflation-adjusted wealth fall 6% to 7% at the beginning of the pandemic, they quickly recovered those losses and then made additional gains; by the third quarter of 2021, they had 17% to 20% more wealth than in the fourth quarter of 2019. The highest-income group increased wealth by over half a million dollars, on average, while the lowest-income group gained only $13,000. (See the table below.) Such uneven advances meant that wealth inequality between the lowest- and highest-income families grew relative to the beginning of the pandemic, as evidenced by diverging lines in the figure above.

Average Real Wealth by Household Income

Income Percentile Group	2019:Q4	2021:Q3	Difference
0%-20%	$139,000	$152,000	$13,000
20%-40%	$190,000	$216,000	$26,000
40%-60%	$338,000	$382,000	$45,000
60%-80%	$680,000	$813,000	$133,000
80%-100%	$3,172,000	$3,719,000	$547,000

SOURCES: Federal Reserve Board's Distributional Financial Accounts and authors' calculations.

NOTE: Values are rounded to the nearest $1,000 and are adjusted for inflation to 2021 dollars.

Households in the two highest income tiers benefitted greatly from housing market growth and especially from stock market growth. Asset values derived from equities, which make up one-third of the top tier's assets, increased a substantial 32%, on average, between the fourth quarter of 2019 and the third quarter of 2021. They increased a similar amount (36%) for the second-highest income tier, though they represented only 13% of this group's assets, on average.

Addressing Wealth Inequality and Strengthening Families

Given recent and persistent trends toward wealth inequality and the phasing out of government assistance related to COVID-19, promoting financial stability remains a pressing issue for families vulnerable to eviction, hunger, job loss or limited access to critical health benefits. While average wealth rose since the onset of the pandemic, such growth was not representative of the typical (i.e., median) family's experience, and many families continue to struggle. Following are some new and some reimagined ideas experts have suggested to address wealth inequality:

1. **Promoting financial stability.** One idea is to consider restoring or commencing means-tested financial assistance to help stabilize families in need—particularly through housing and food assistance, child tax credits and loan forbearance. This could include enhancing existing automatic stabilizers (around unemployment insurance benefits) and creating new ones (such as those directed towards states and economically vulnerable households).

2. **Helping families build emergency savings.** In addition to achieving positive cash flow, families' capacity to save for unanticipated expenses has proven critical to both economic resiliency and steps toward longer-term asset accumulation and economic mobility—such as strategies to help families save for rainy days. Moreover, continued experimentation with so-called "side car (PDF)" emergency savings accounts attached to restricted retirement and college savings accounts may help families meet short- and long-term saving goals.

3. **Building wealth for workers and future generations.** Several proven and promising strategies could help working families and future workers accumulate wealth, including reducing the cost of college (PDF) and expanding alternatives to a four-year college degree (PDF); offering student loan relief; matching savings for college and retirement at tax time (PDF); and advancing homeownership and small-business ownership (PDF) opportunities. For future generations, state-based 529 college savings accounts (PDF), "baby bonds" and similar strategies could be promoted to automatically and progressively create savings and investment accounts at birth for all kids.

4. **Protecting the wealth that families have accumulated.** Similar to current safety net policies that protect against income losses, policies could be considered that at least partially protect against wealth losses (PDF). More broadly, the current social insurance system (PDF) could be updated to reflect 21st century economies.

5. **Considering new sources of wealth creation and property ownership.** Ideas for creating new sources of capital and ownership that do not entirely depend on labor market income were recently featured in a book published by the Institute for Economic Equity and the Aspen Institute. Ideas included the creation of a Citizen's Wealth Fund (PDF), a data dividend (PDF) and measures to build wealth by pursuing antitrust measures (PDF).

The average wealth of many families was bolstered because of a strong housing market, stock market and government aid. However, wealth inequality increased because the highest-income families experienced faster growth than the lowest-income families. The ideas examined here can help temper the effects of growing inequality by supporting the immediate needs of struggling families and increasing the economic resiliency of all families during and beyond 2022. Subscribe here to receive Institute updates as we continue this work.

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