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Wealth Inequality Across American Families: A Demographic Perspective

The Business of Us All: Inequality in Theory and Practice
Washington University in St. Louis
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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 Does *Wealth* Inequality Matter?

- Wealth is key to financial stability and economic mobility.
- When confronted with a negative shock, asset-poor families are 2-3 times more likely to experience material hardship than non-asset-poor families (McKernan et al. 2009).
- Financial capital is among the three strongest predictors of upward economic mobility (Butler et al. 2008).
- Net worth is a key predictor of opportunity from one generation to the next (Conley 2009).

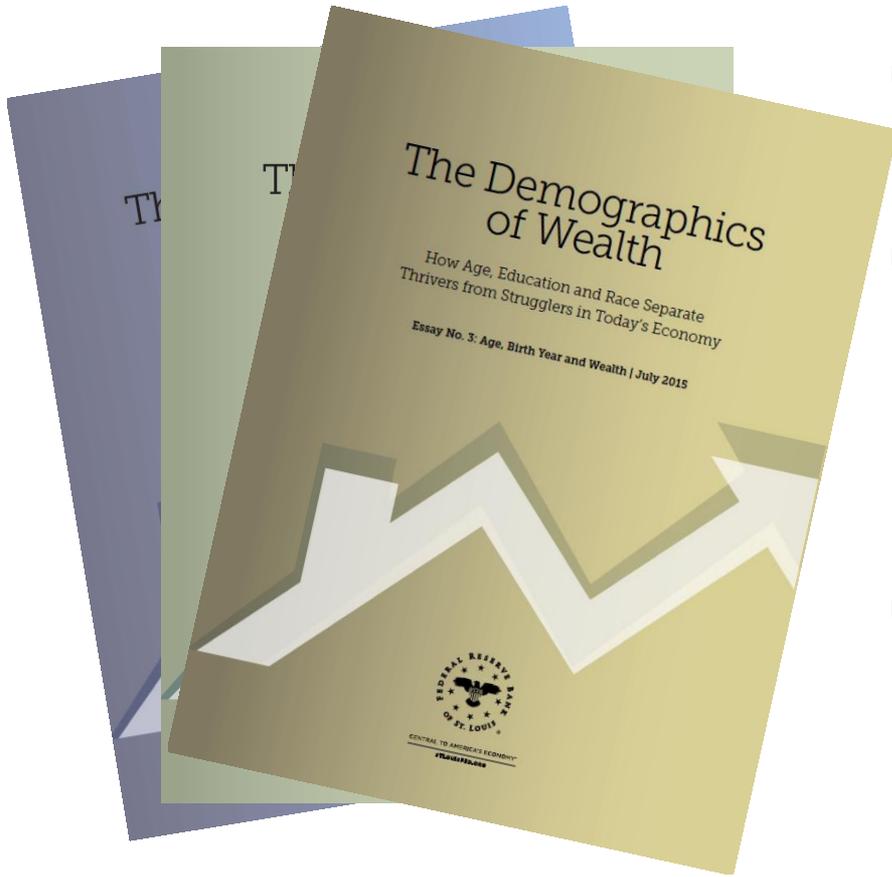
Overview

- Why do demographics matter?
- Three demographic factors affect your wealth:
 - Your race or ethnicity
 - How much education you have
 - When you were born

Why are Demographics Important?

- Much of the debate on wealth inequality is framed with wealth distribution (e.g. the wealth of the 1%)
- However, there is considerable movement over time across the entire distribution.
- It's difficult to draw conclusions when the underlying groups have changed.
- Demographics serve as exogenous and stable identifiers.

The Demographics of Wealth



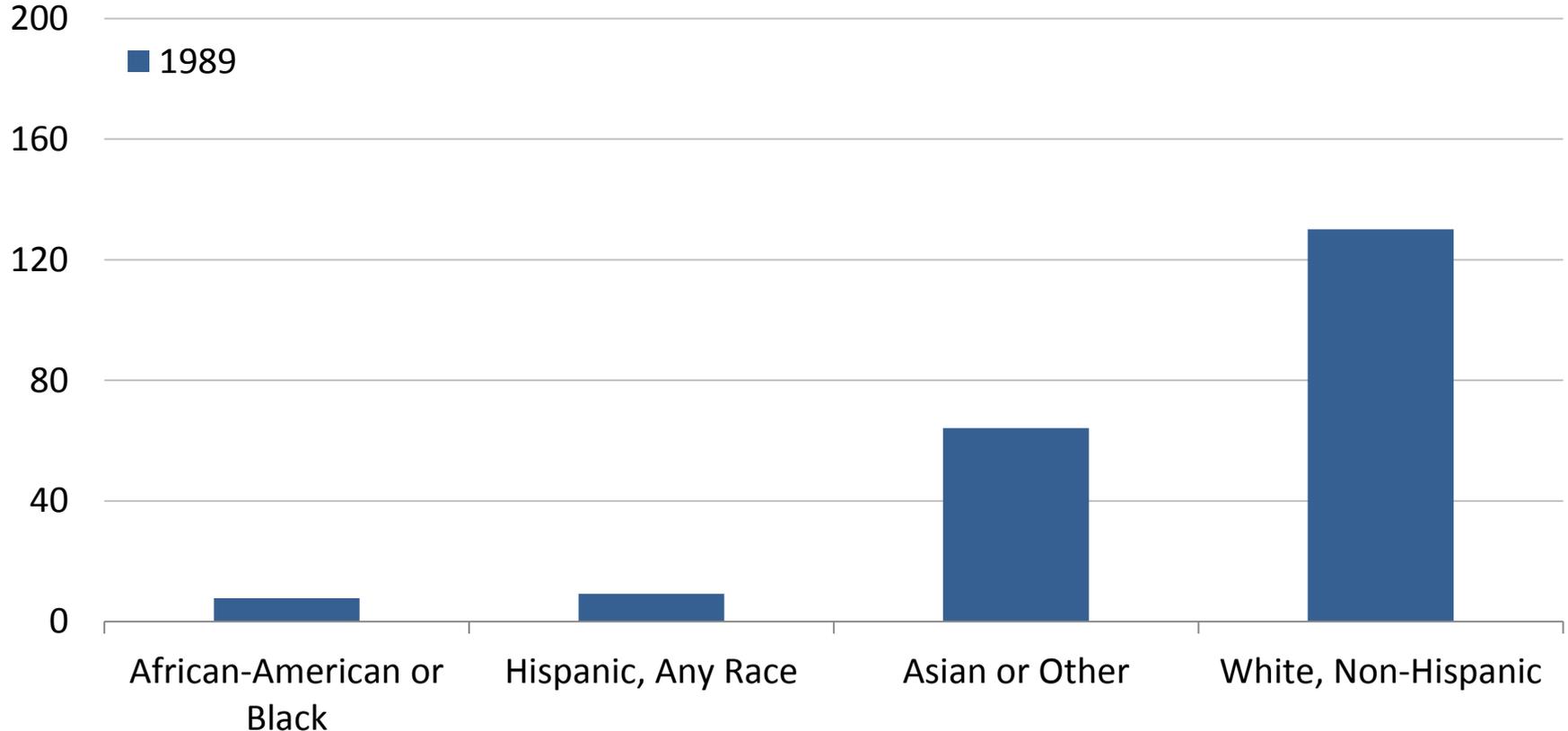
- Three essays written by Center staff in 2015.
- Explores connection between wealth and a person's race (or ethnicity), level of education and age.
- Wealth is distributed unequally across all three demographic categories.

RACE OR ETHNICITY

Extensive Gaps by Race or Ethnicity in 1989

Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars



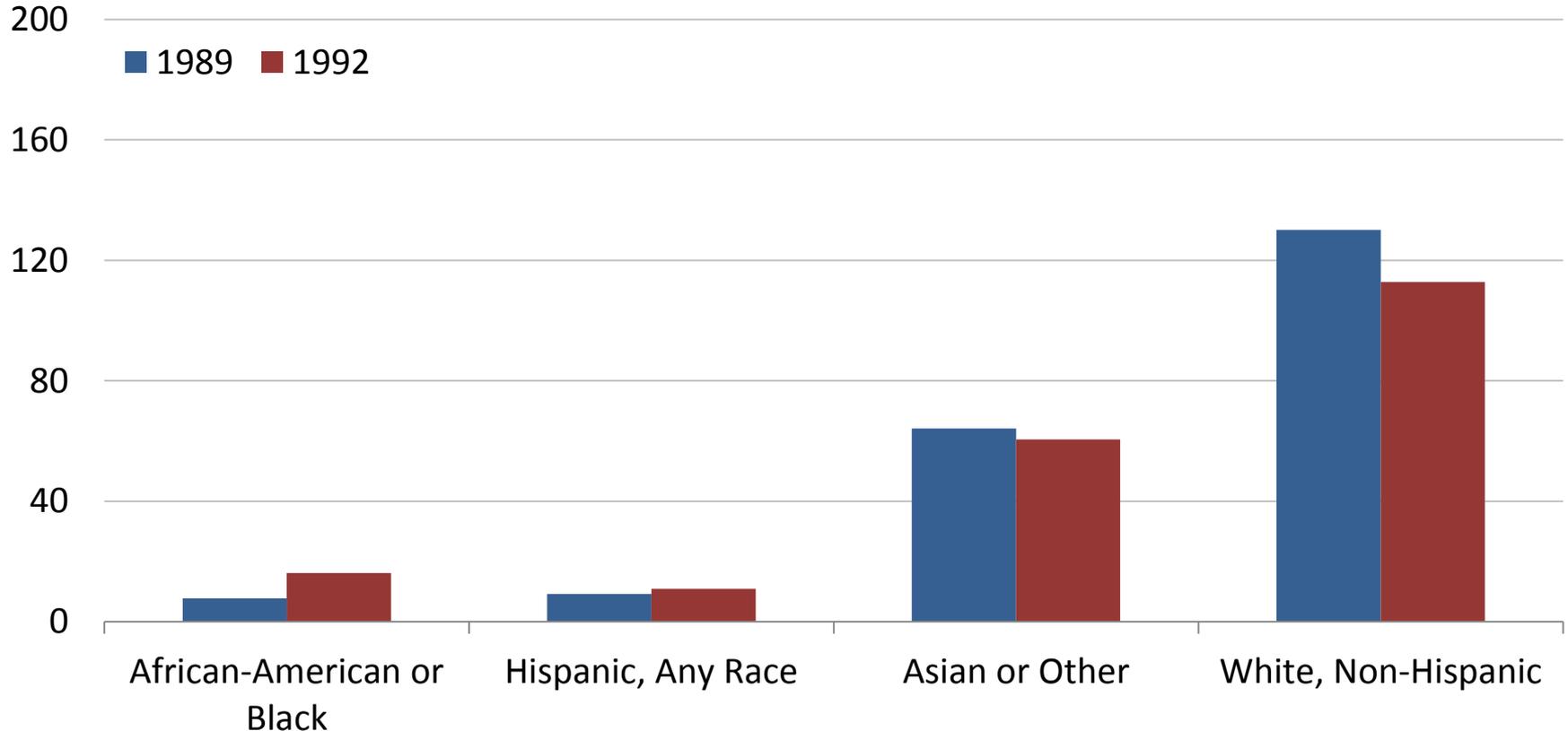
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



Gap Closes Modestly in the 90s

Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars



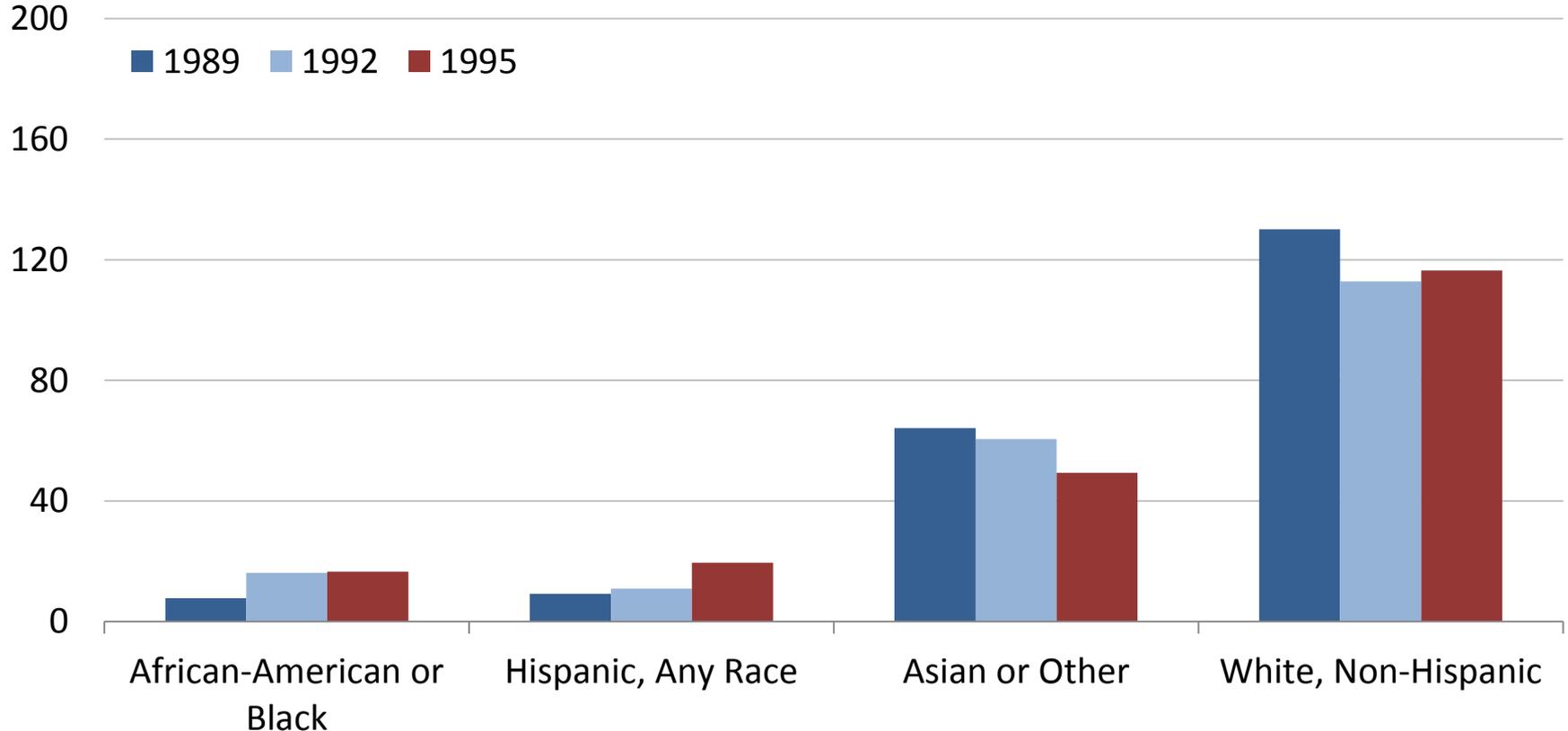
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



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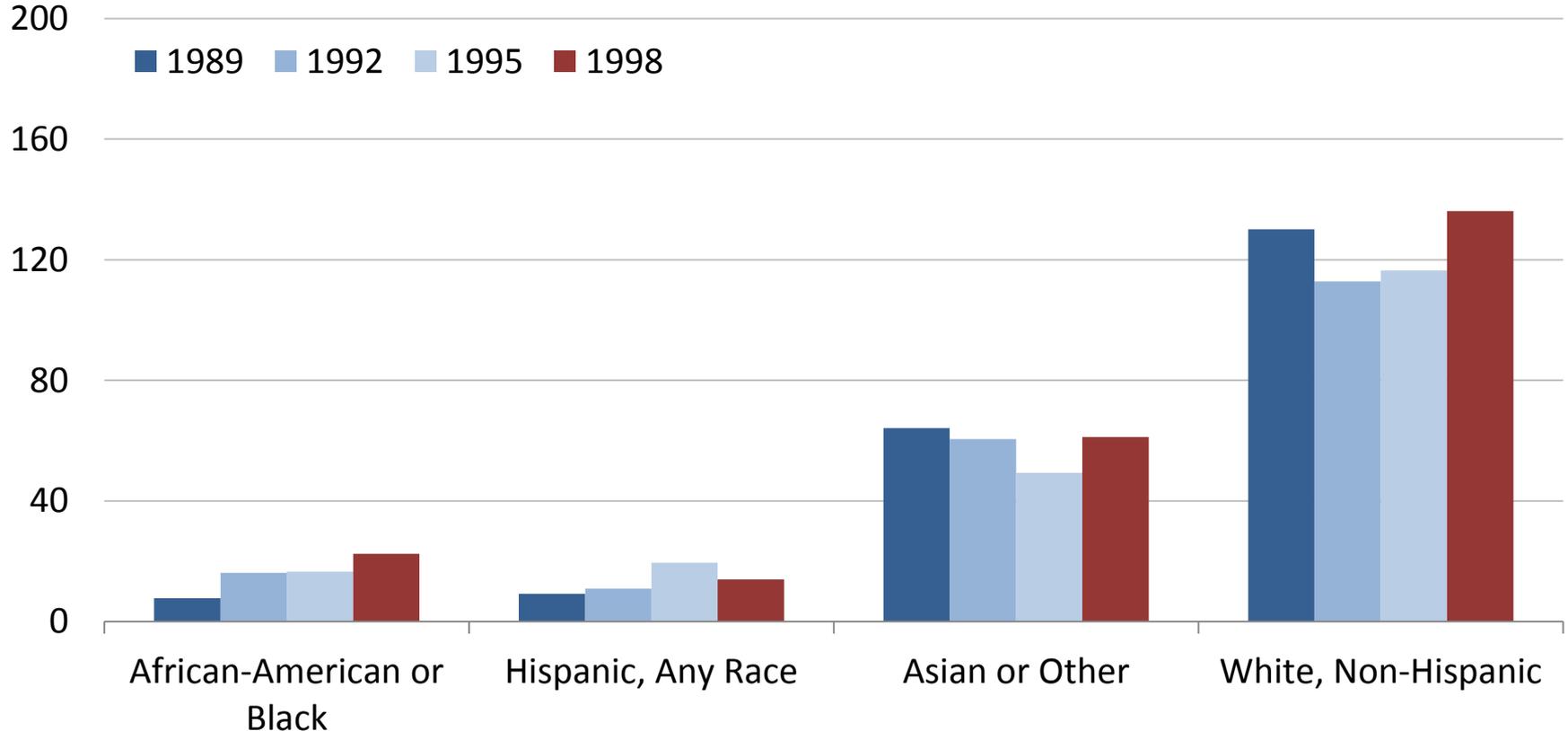
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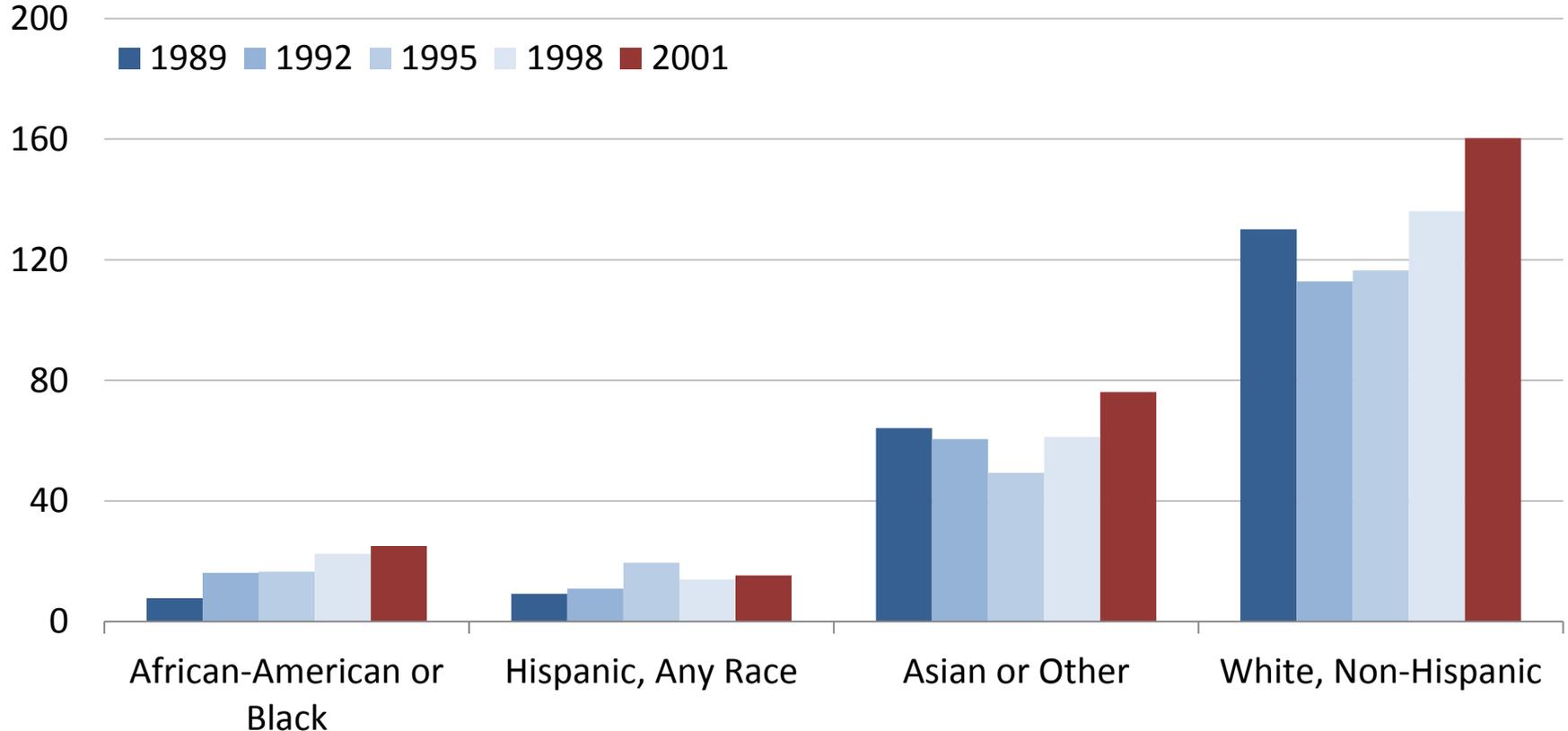
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



Racial Wealth Gap Remains Wide and Persistent

Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars



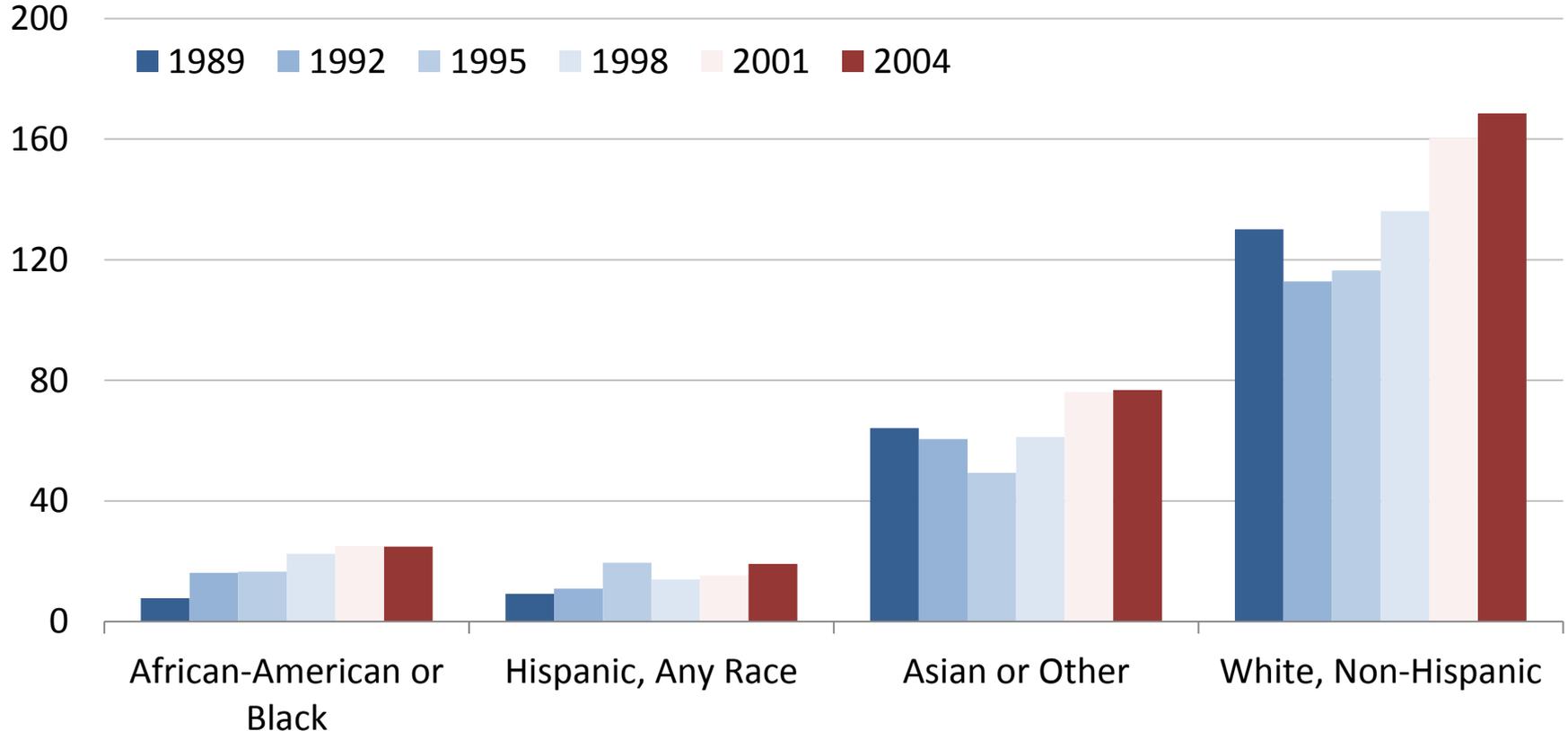
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



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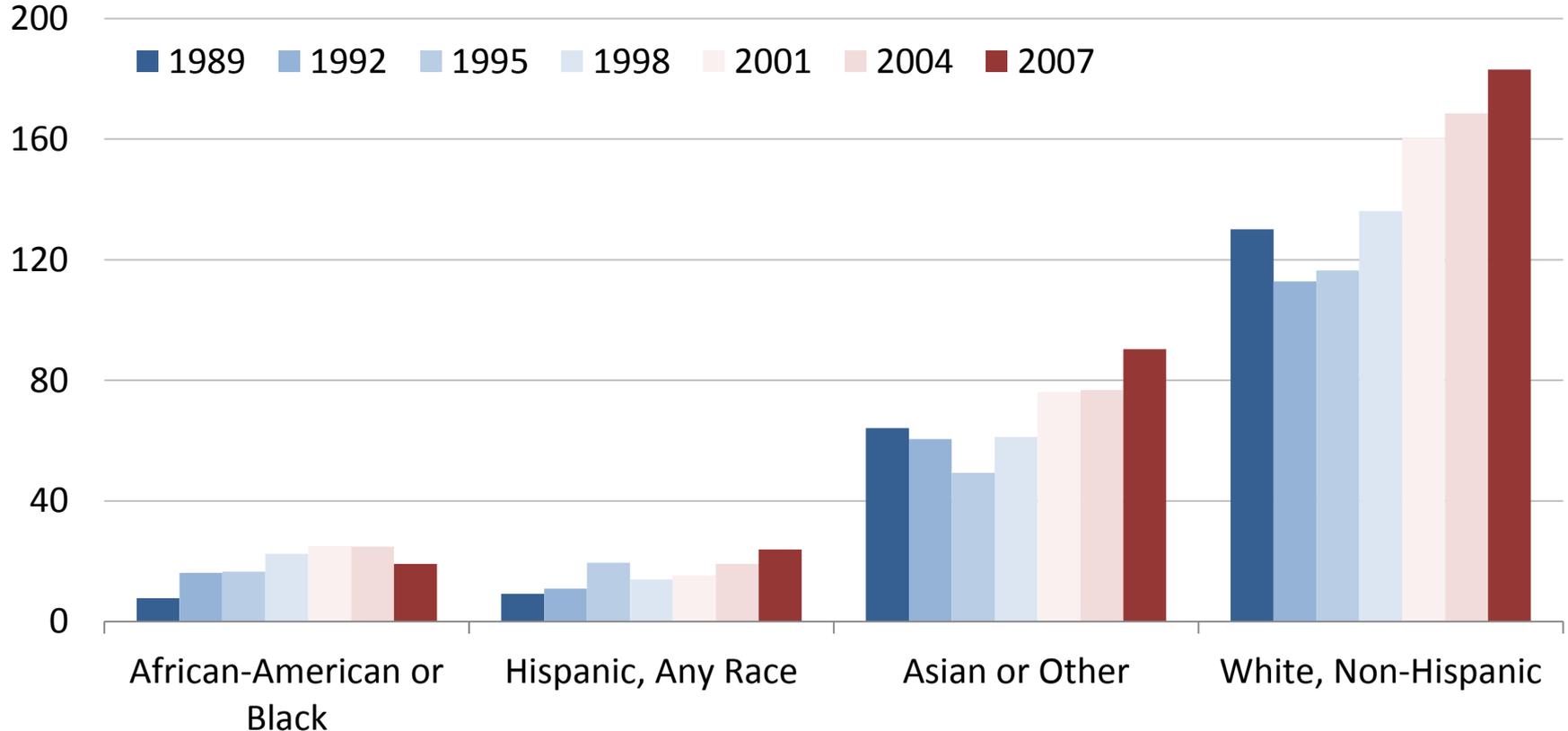
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



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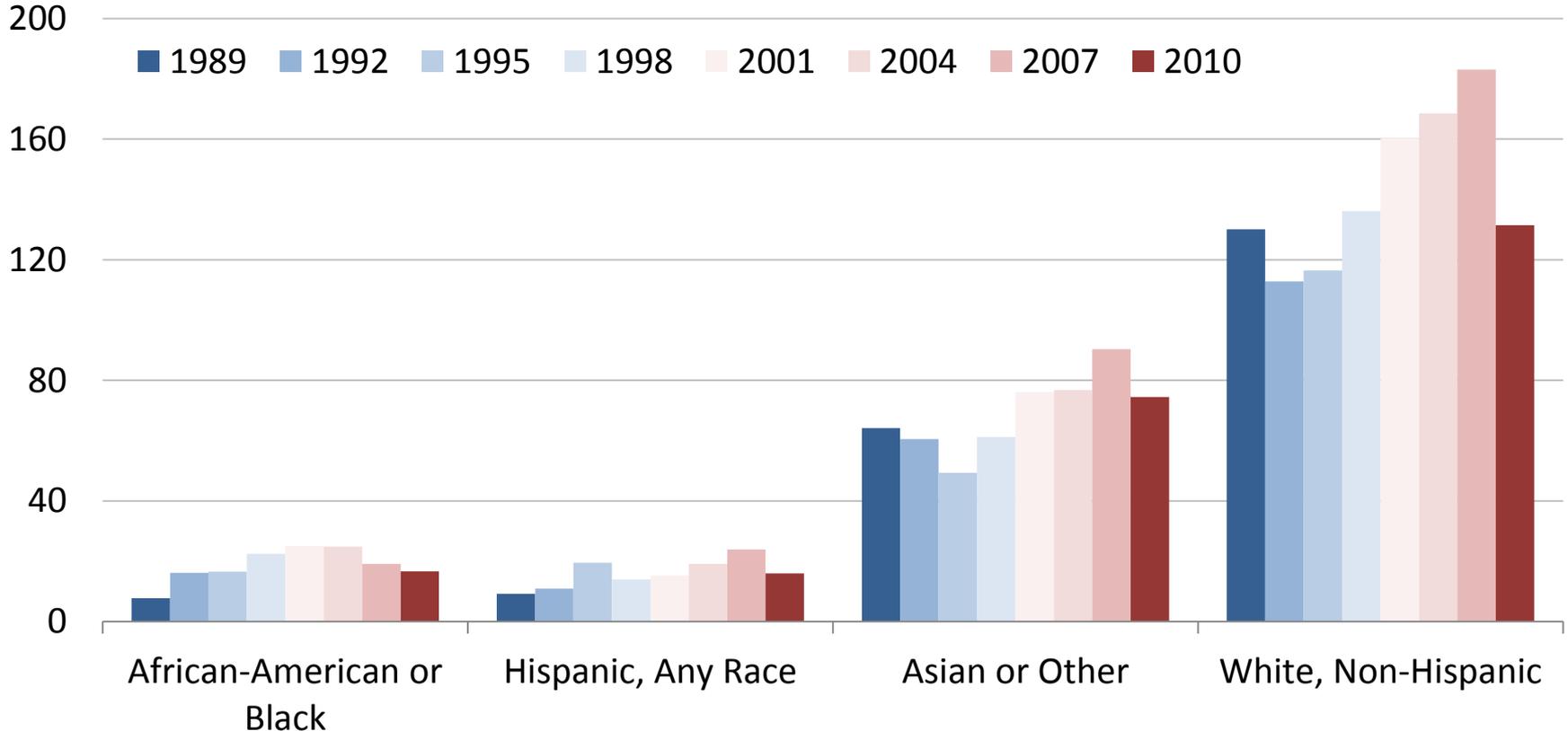
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



Recession Hits and Destroys Wealth Across Groups

Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars



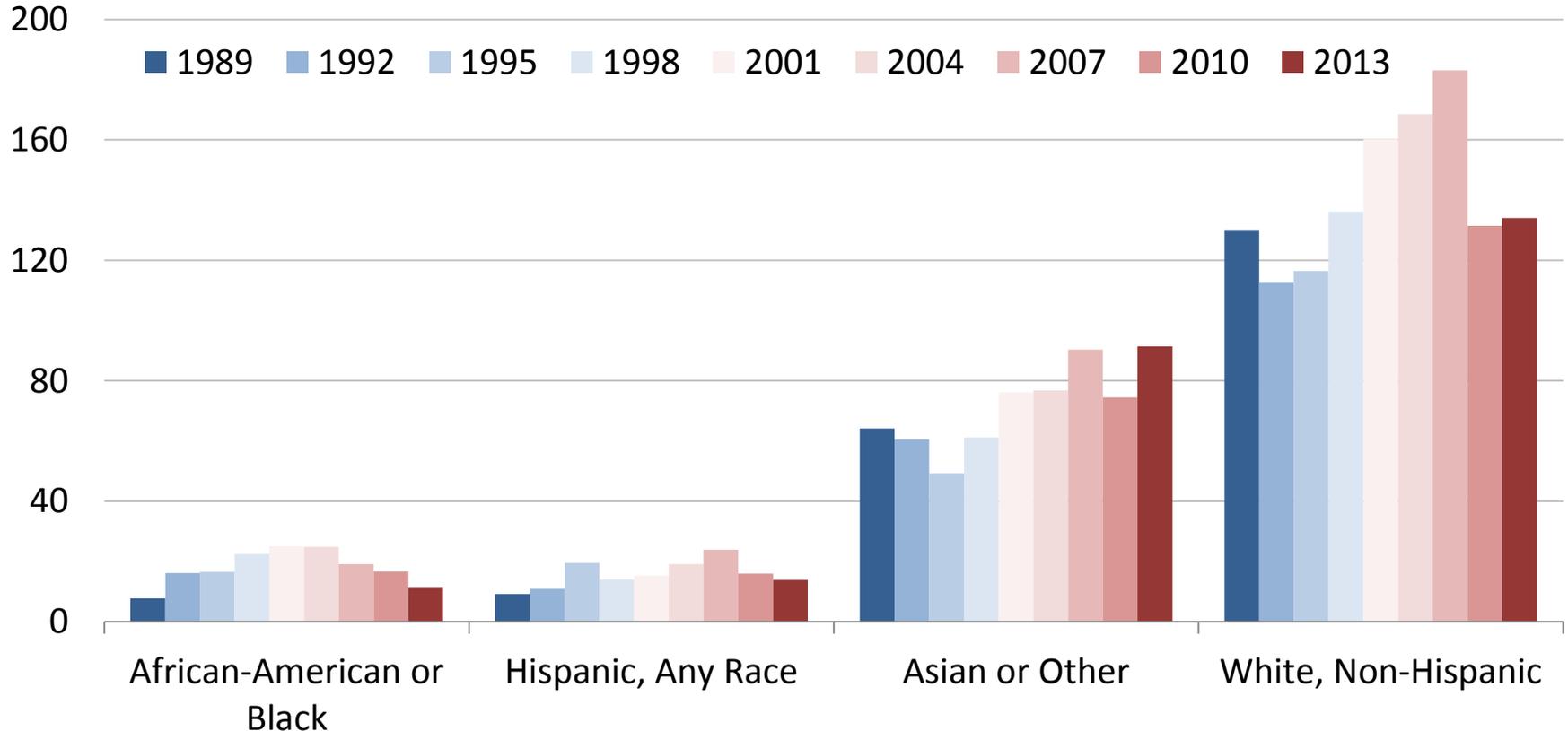
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



Black and Hispanic Families See Continued Decline

Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars

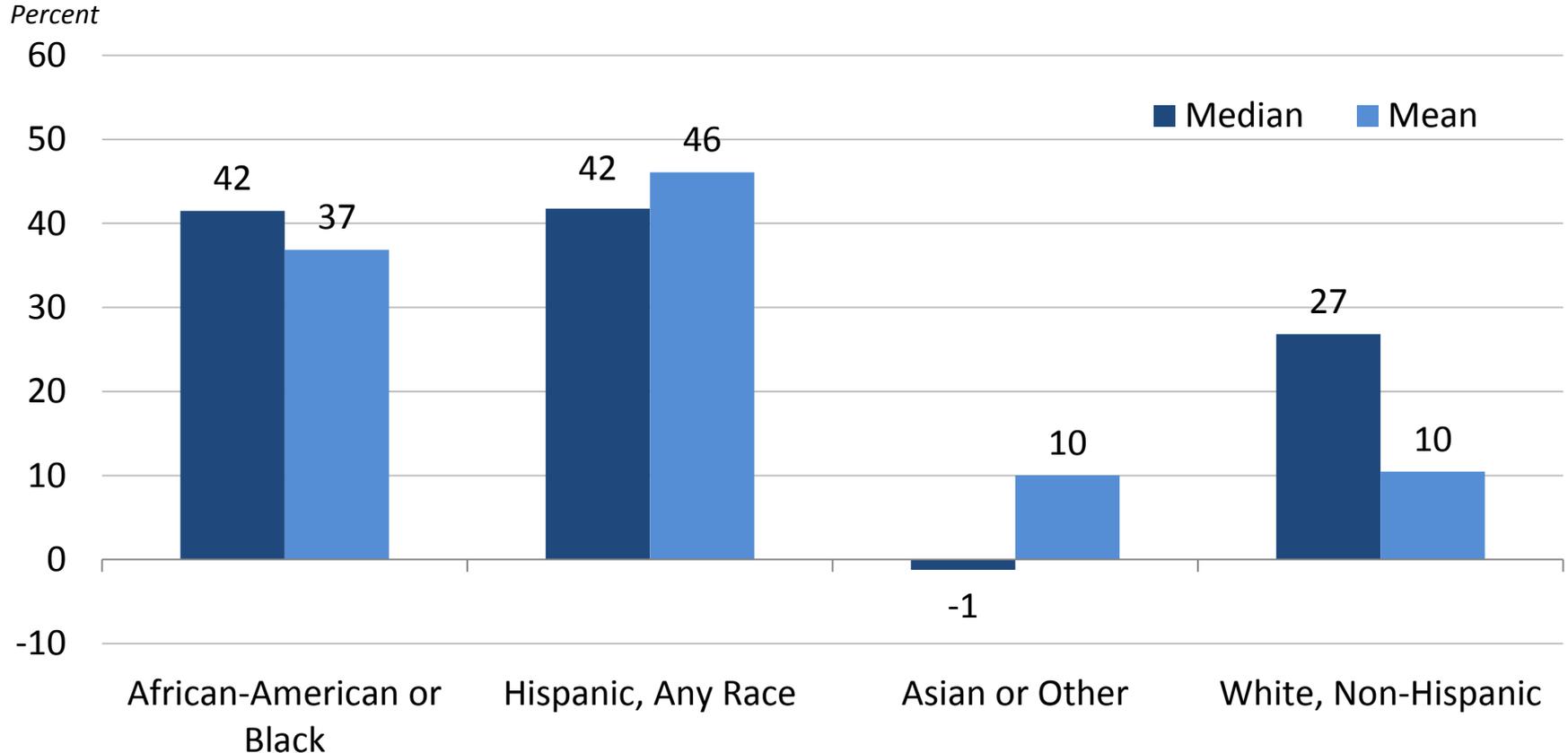


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



Black and Hispanic Families Hurt the Most

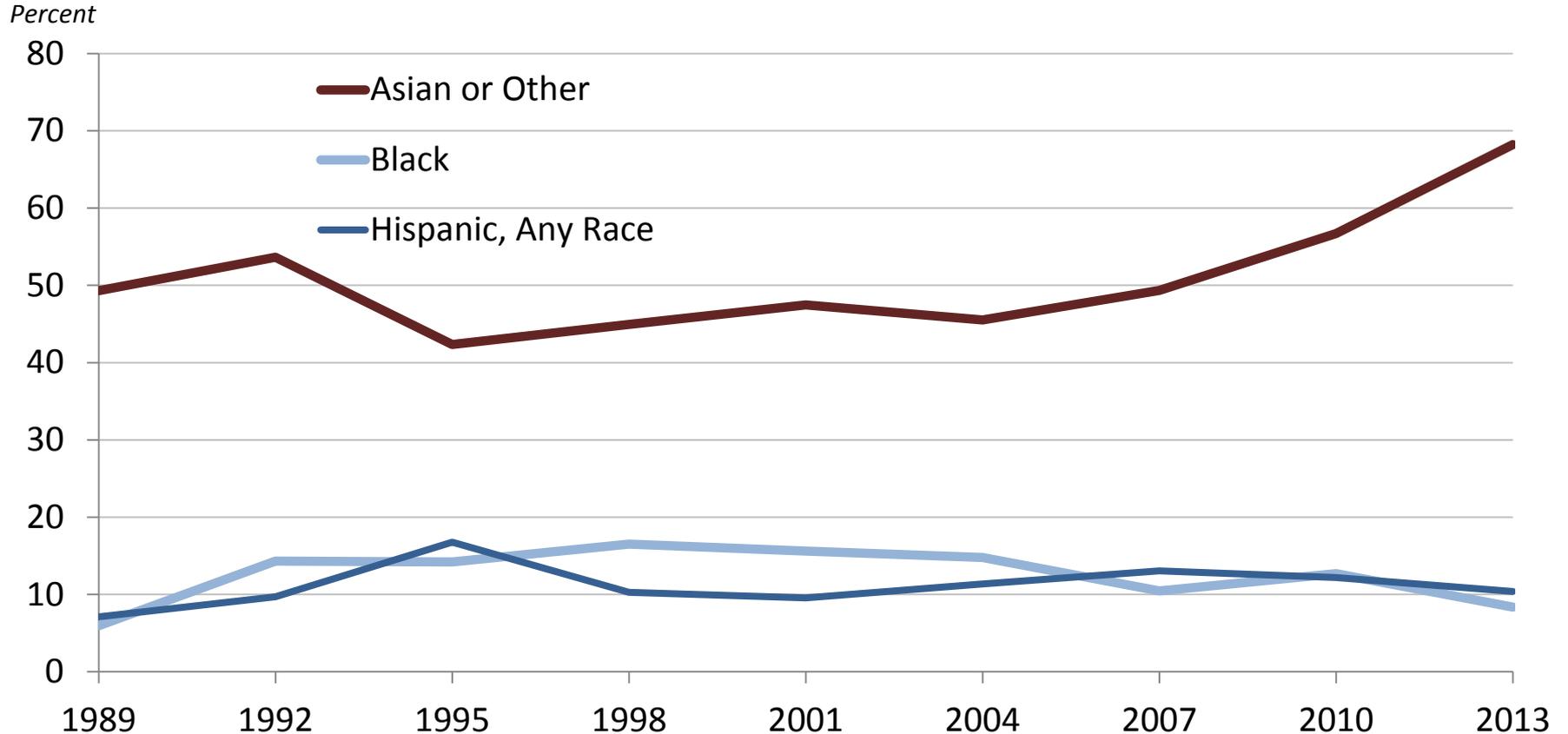
Loss of Net Worth Between 2007 and 2013, by Race or Ethnicity



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Asian Families Have Been Catching Up

Median Family Net Worth Relative to Median White Family Net Worth



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

The Racial Wealth Gap

- In 2013, the median black (Hispanic) family owned **8 (10) cents for every dollar** that the median white family owned.
- Between 2004 and 2013, the median wealth of black (Hispanic) families **fell by 55 (27) percent**.
- For white families in 2013, the odds of picking one family at random with at least \$1 million in wealth was **1 in 8**.
- Among Hispanic and black families, only about **1 in 100** had at least \$1 million.

EDUCATIONAL ATTAINMENT

Important Considerations for Education

- Educational attainment is different than age/birth year and race/ethnicity in several ways.
- Most notably, it is not determined at birth.
- However, it is predetermined by early adulthood for almost everyone.
- Therefore, it can be considered exogenous in an econometric sense with our data (especially when we restrict the sample to family heads 40 or older).

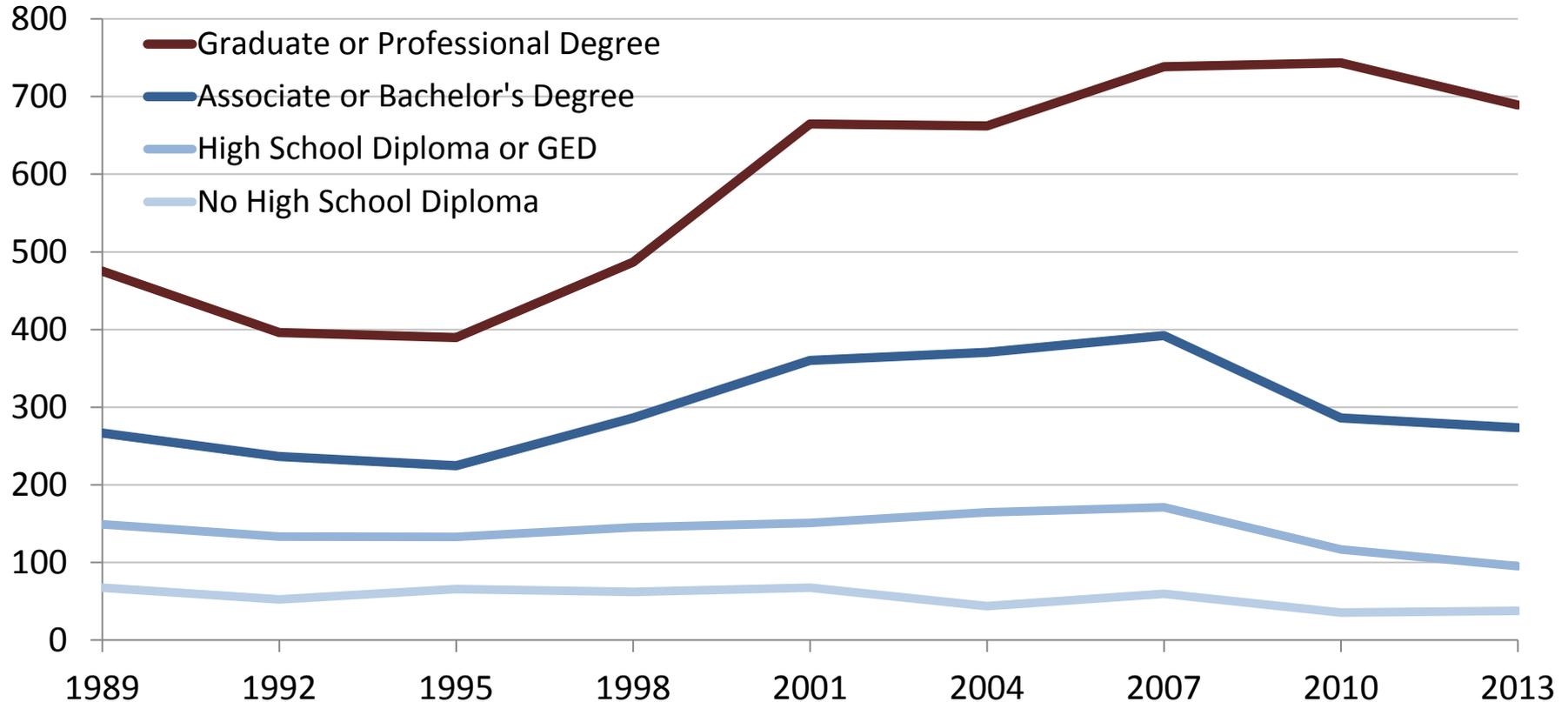
Important Considerations for Education

- It may proxy—imperfectly—for socioeconomic status or “class.” If we had the parents’ education, we might prefer to use that rather than or in addition to the respondent’s education.
- The “return to education” consists of at least three parts:
 - The contribution to human capital of education itself.
 - A return on the characteristics that lead someone to achieve a particular education.
 - A (possibly substantial) random or idiosyncratic component.

Returns to Education Have Never Been Higher

Median Net Worth of Families Headed by Someone 40 or Older

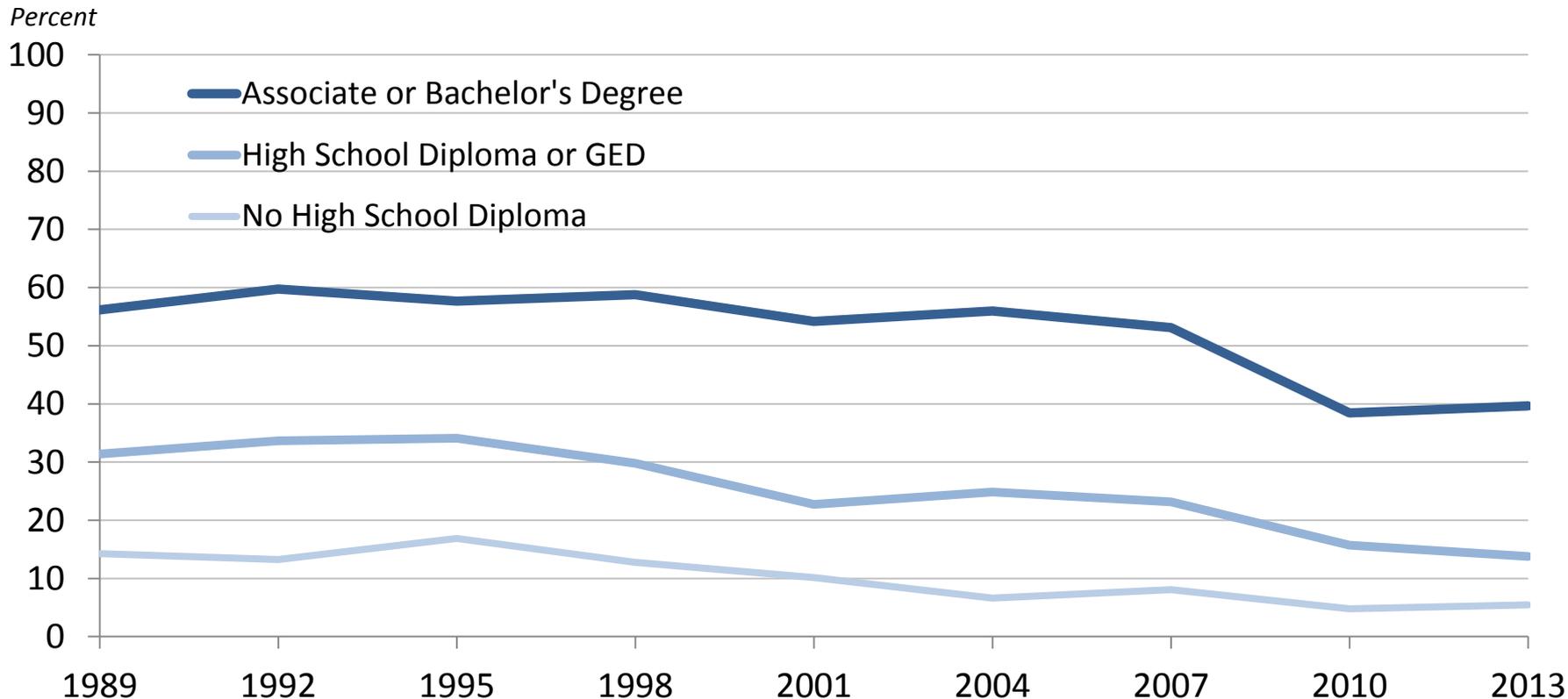
Thousands of 2013 Dollars



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Increasing Returns to Graduate School

Median Net Worth of Families Headed by Someone 40 or Older Relative to Median Graduate- or Professional Degree Net Worth

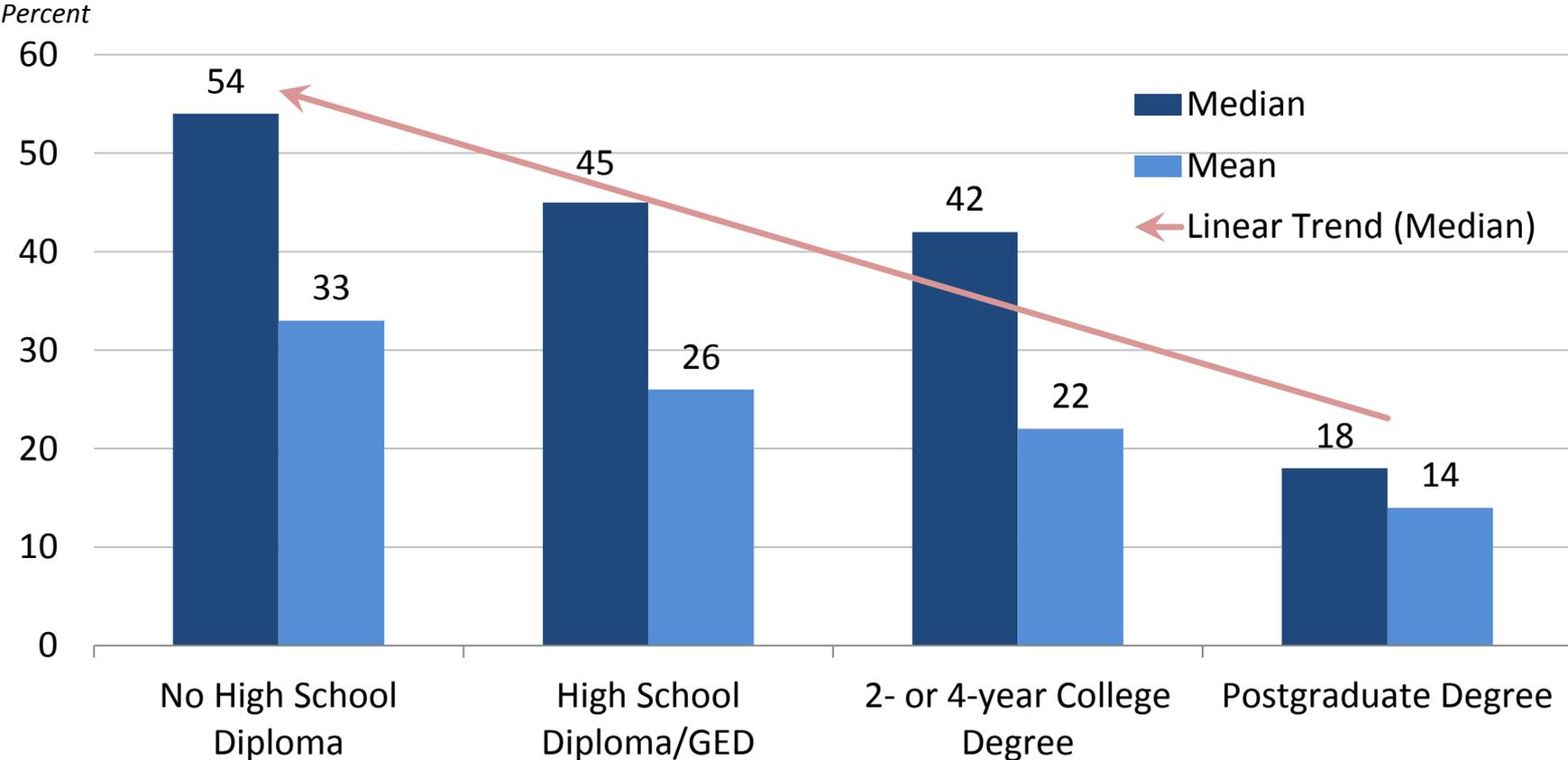


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



Less-Educated Families Lost More Wealth

Loss of Net Worth Between 2007 and 2013, by Education of Family Head



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

The Educational Wealth Divide

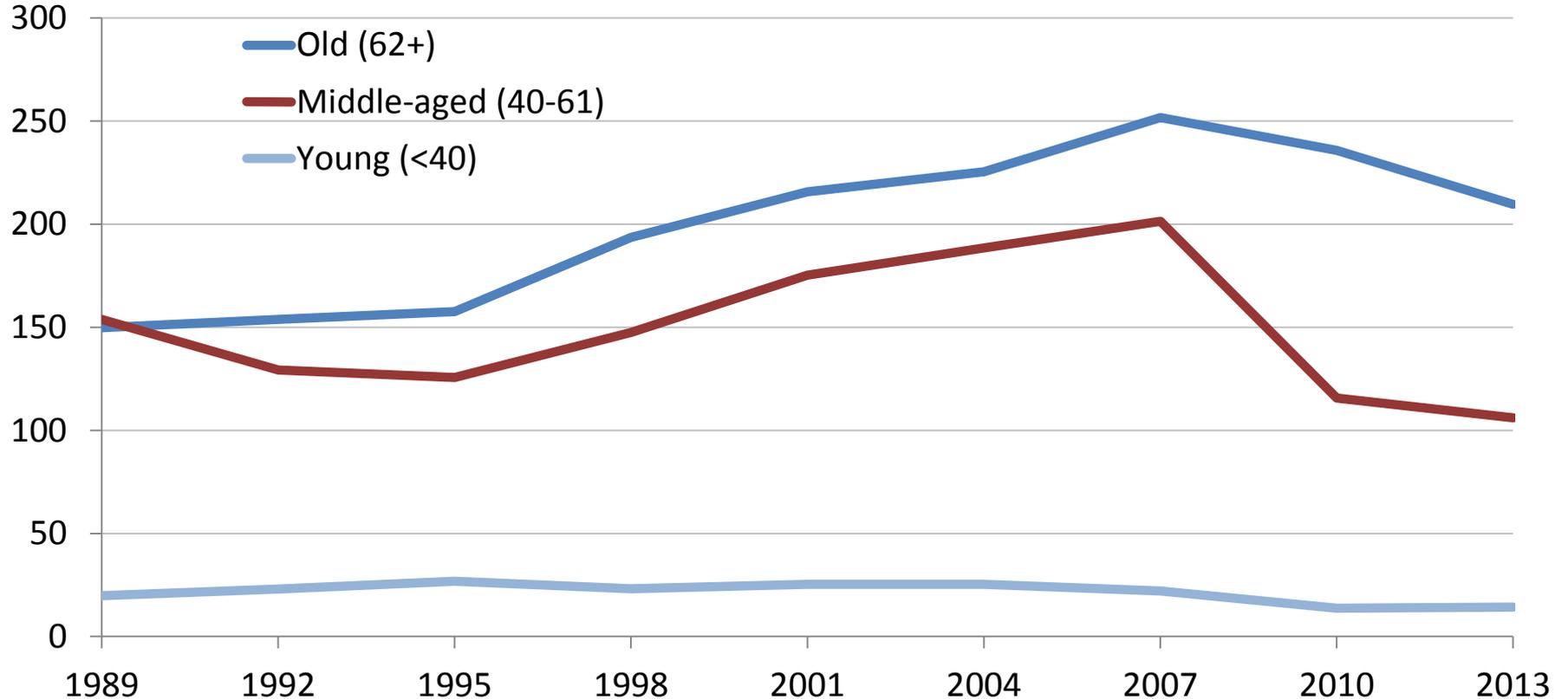
- A graduate or professional degree confers **2.5 times the wealth** of an associate or bachelor's degree.
- Compared to those with (without) a high school diploma, a graduate degree yields **6.2 (17.2) times the level of wealth.**
- Since 1989, real median net worth for graduate degree holding families has increased by **45 percent.**
- Meanwhile, those with (without) a high school diploma have seen their real median net worth **decline by 36 (44) percent.**

AGE AND BIRTH COHORT

Middle-aged and Young Families Hit Hardest

Median Family Net Worth by Age of Family Head

Thousands of 2013 Dollars



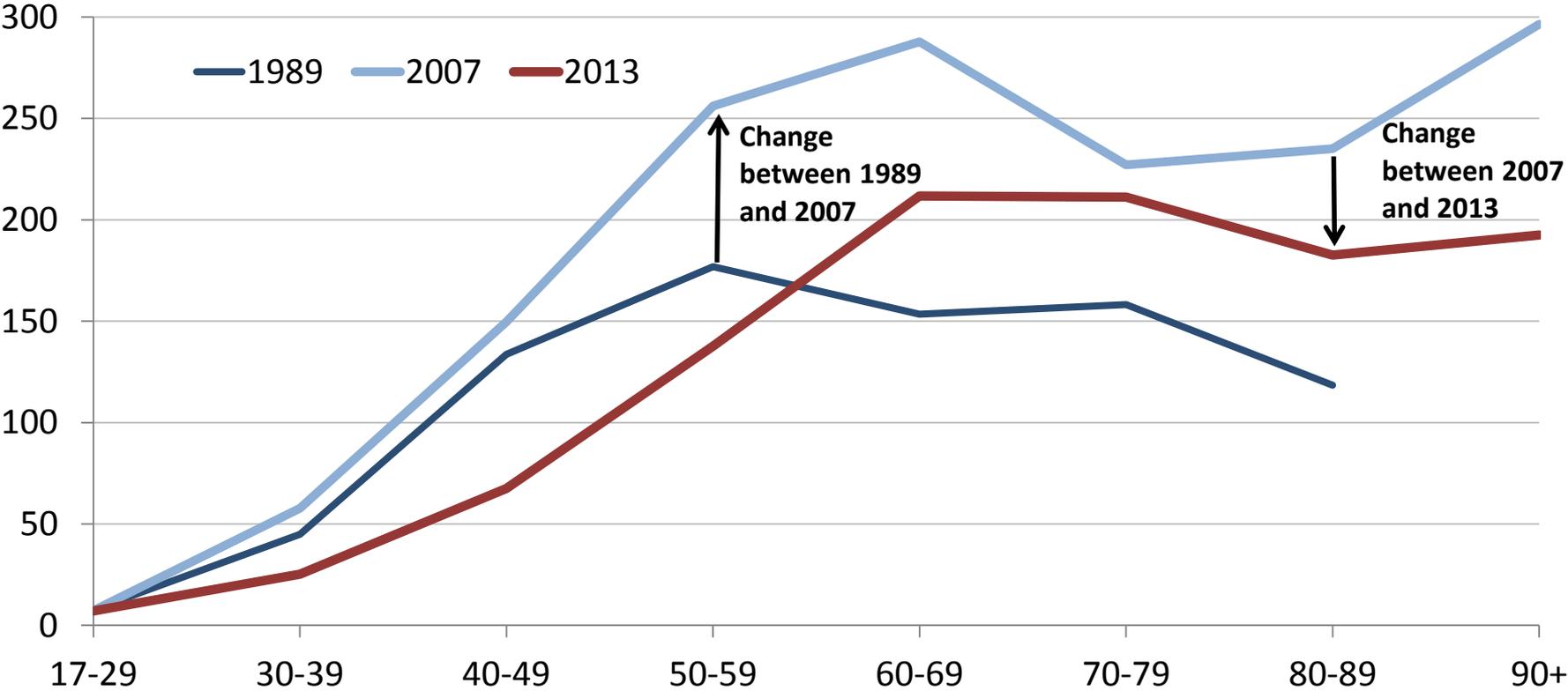
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



Wealth Milestones Depend on Birth Cohort

Median Family Net Worth by Age of Family Head

Thousands 2013 Dollars



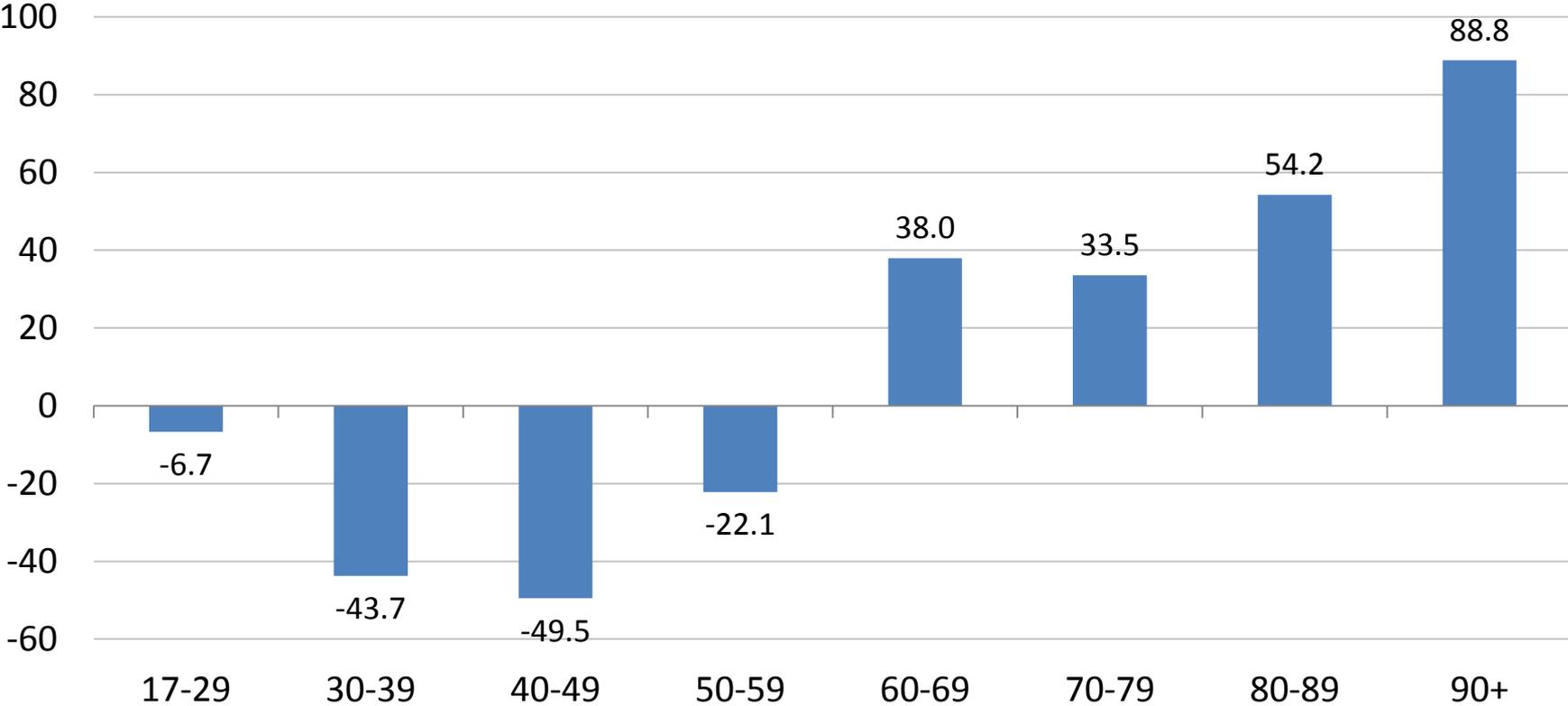
Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Age of family head at time of survey

All Age Groups 60 + Are Richer; Under 60 Are Poorer

Change in Median Net Worth from 1989 to 2013, by Age of Family Head

Percent



Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

Age of family head at time of survey

The Generational Wealth Divide

- The life cycle is a source of natural wealth inequality.
- However, when you are born matters: Young and middle aged families suffered the most during the Great Recession.
- Those families had greater leverage, particularly in housing debt.
- It will be difficult—if not impossible—to recover that lost wealth (and potential wealth) during their lifetime.

Conclusion

- Three demographic lenses reveal substantial wealth divides across American families.
- Families that are young, black or Hispanic, or lack a college degree face considerable headwinds to their financial stability and upward mobility.
- While demographics are not destiny, they deserve greater consideration in public policy that seeks to strengthen the balance sheets of American families.

Additional Information and HFS Work

Center for Household Financial Stability

stlouisfed.org/hfs

In the Balance Research Essays

stlouisfed.org/publications/in-the-balance

What It's Worth, “Meet the Thrivers and Strugglers of America”

youtube.com/watch?v=a4OACXFEBLA