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## Inequality and Poverty in the United States

FOCUS: Leadership 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*

# Overview

- Income vs. Asset Poverty
  - Why Focus on Wealth?
- Income vs. Wealth (Net Worth) Inequality
- The Demographics of Wealth
- Ideas for Moving Forward

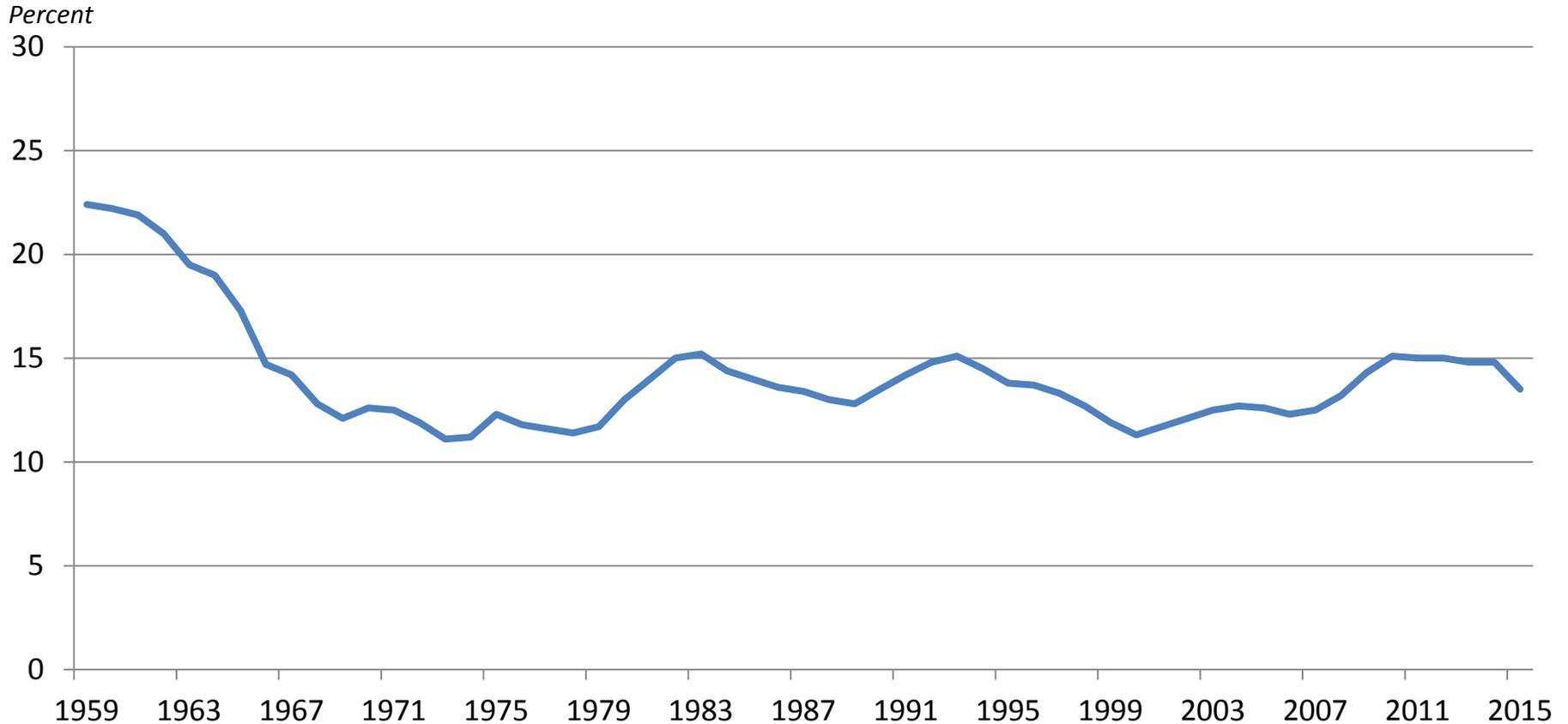
# INCOME VS. ASSET POVERTY

# Traditional Measure of Income Poverty

- Official definition uses money income before taxes.
- If total income is less than the family's threshold, every individual is considered in poverty.
- Caveats:
  - Thresholds don't vary geographically (San Francisco = St. Louis)
  - Ignores noncash benefits (public housing, Medicaid, food stamps)
  - Ignores tax credits (Earned Income Tax Credit)

# Poverty Declined Up Until 1970; Stagnant Since

## Official Poverty Measure: Share of Total Population Living Below Poverty Line



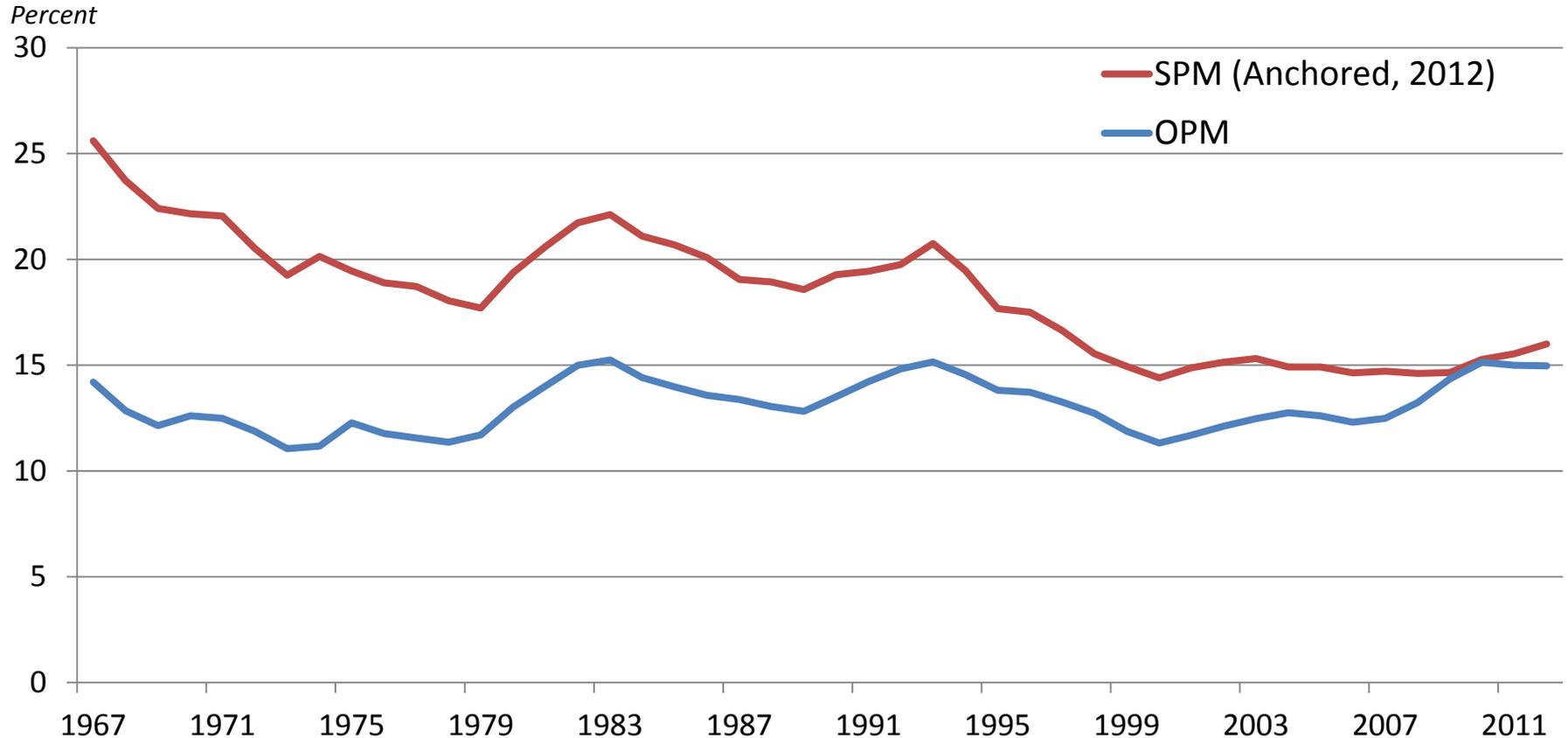
Source: Census Bureau/ Haver Analytics.

# Supplemental Poverty Measure

- Adds in-kind benefits and subtracts necessary expenses.
- In-kind benefits include:
  - Nutritional assistance
  - Subsidized housing
  - Earned Income Tax Credit (EITC)
- Necessary expenses include:
  - Food and shelter (geographic differences are accounted for)
  - Child care and other work-related expenses
  - Cost of medical care and insurance premiums

# New Measure Shows Greater Poverty, Policy Impact

## Official vs. Supplemental Poverty Measure: Share of Total Population Living Below Poverty Line



Source: Census Bureau/ Haver Analytics and (2013: Wimer, Fox, Garfinkel, Kaushal, and Waldfogel).



# Official vs. Supplemental Poverty Measure

- Comparison between rates shows that poverty is higher overall, while assistance programs have done more.
- For example, refundable tax credits reduce the rate by 2.9 percentage points, or **9.2 million individuals**.
- The supplemental rate offers a much more informative look at the dynamics of income poverty.
- However, even the SPM takes a narrow view of financial well-being with its focus on income and consumption.

# Assets: Another Perspective on Poverty

- Household well-being is derived not solely from income and consumption, but also from building savings and assets (Sherraden 1991).
- Lack of income means you don't get by; lack of assets means you don't get ahead (Boshara 2002).
- However, when poverty is framed in terms of income, the solutions are framed in terms of income.
- Most people don't spend their way out of poverty.



# Why Do Assets and Wealth 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).

# Defining Asset Poverty

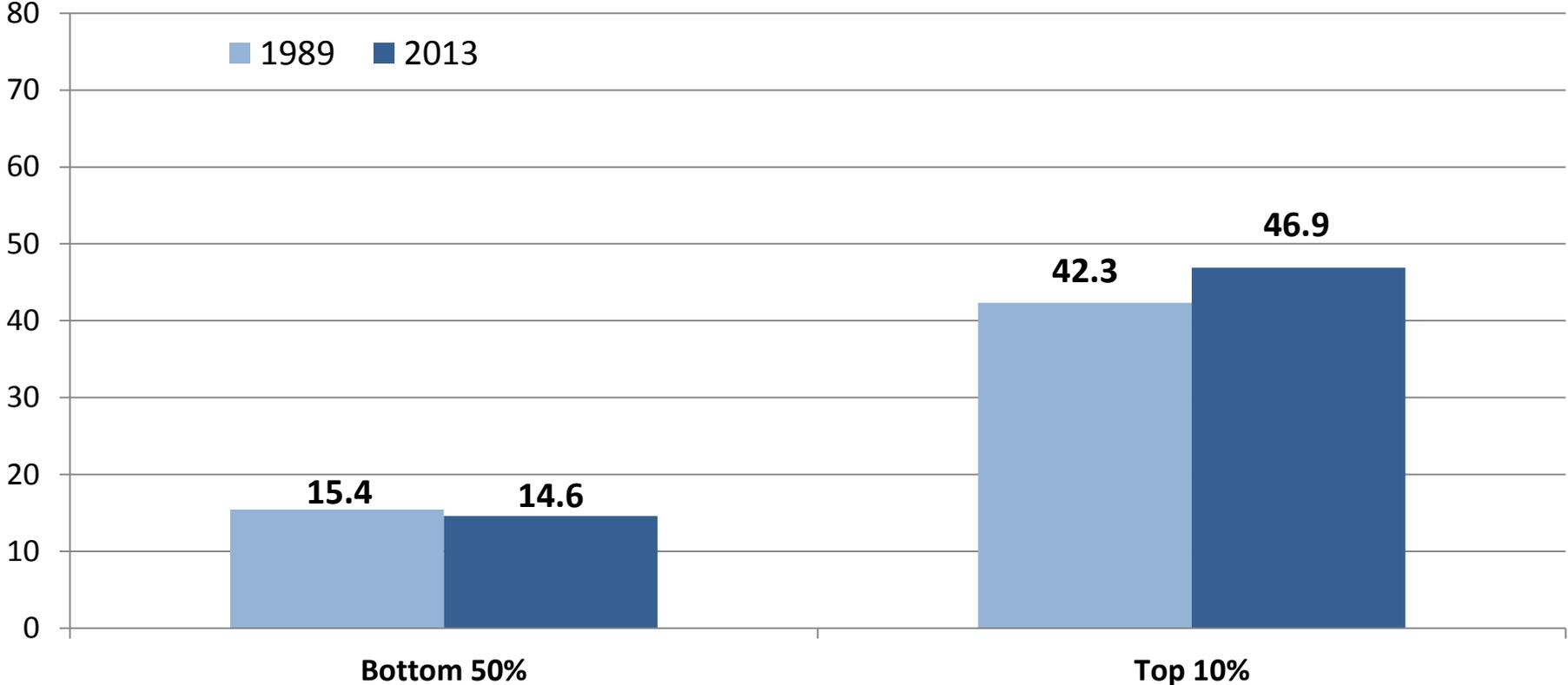
- **Asset poor:** lacking sufficient net worth to sustain livelihood above poverty level for at least 3 months. (Haveman and Wolff 2004, CFED)
- **46% of adults** could not cover an emergency expense of **\$400** without selling something or borrowing money. (SHED)
- Almost **55% of households are savings-limited**, meaning they cannot replace even one month of their income through liquid savings. (PEW 2015)

# INCOME VS. WEALTH INEQUALITY

# Income Inequality is Significant and Growing...

## Share of Total Pre-Tax Income

Percent

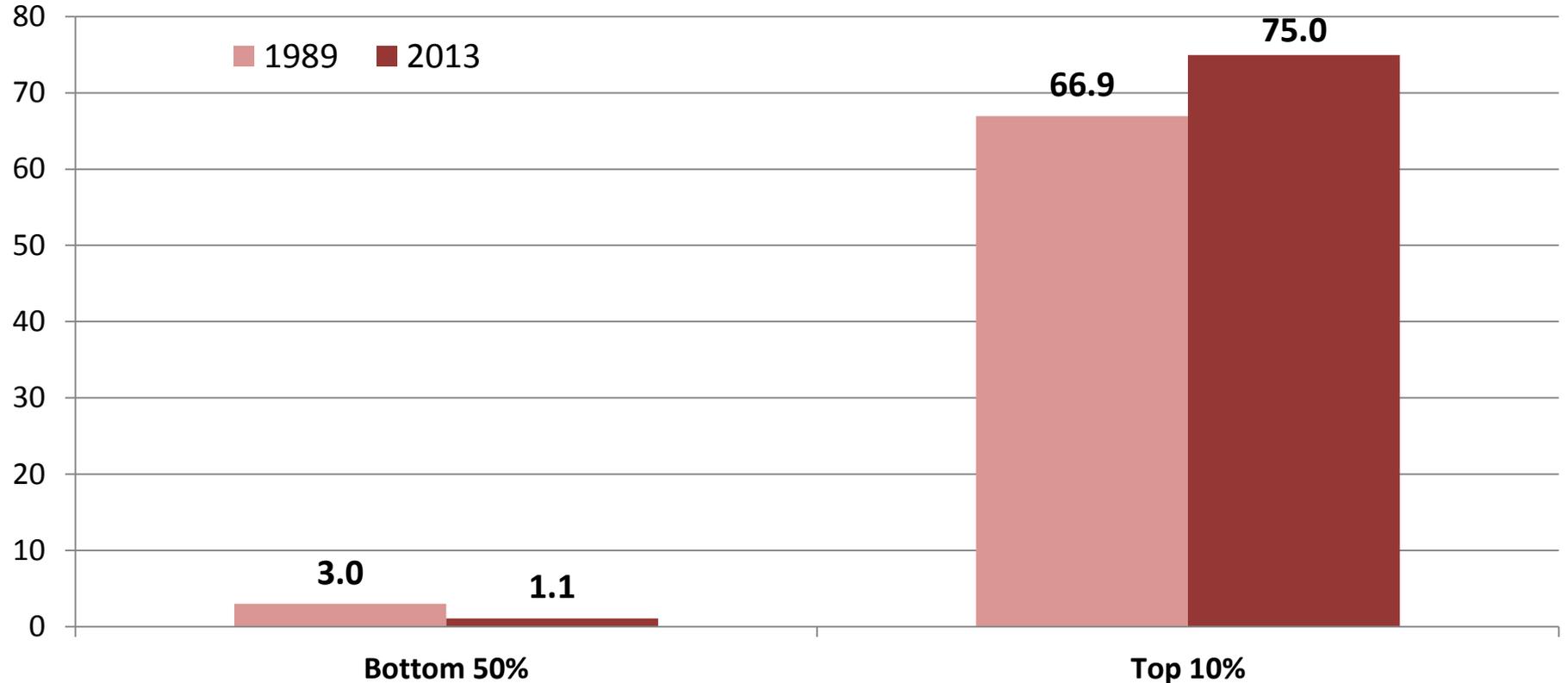


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# But Pales in Comparison to Wealth Inequality

## Share of Total Net Worth

Percent

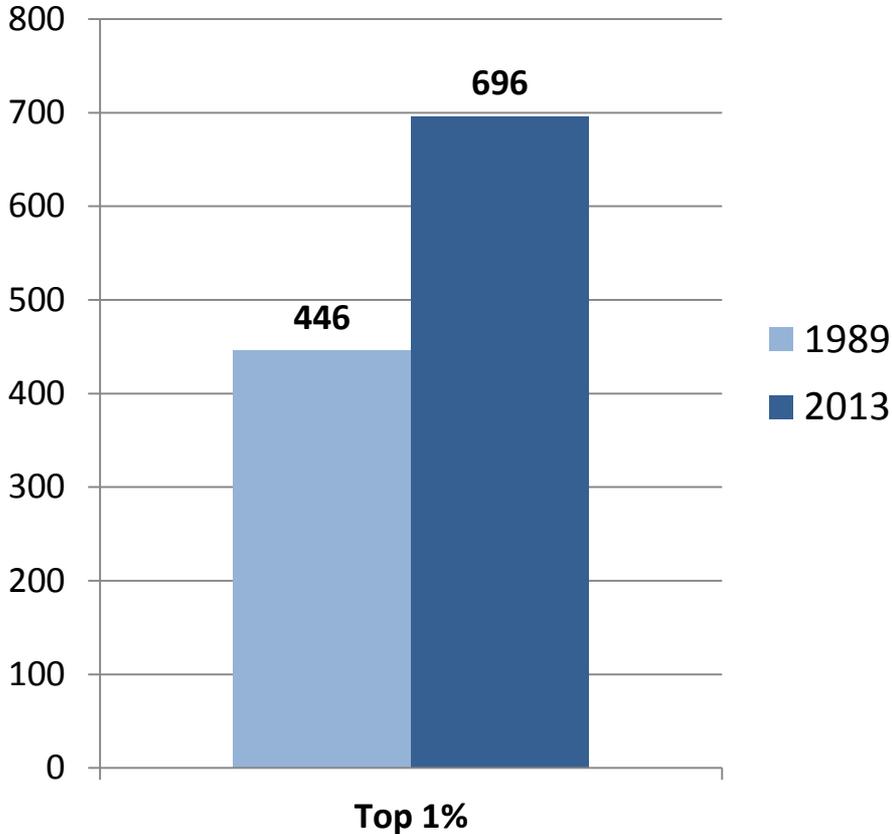


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# Very Top Experienced Substantial Gains

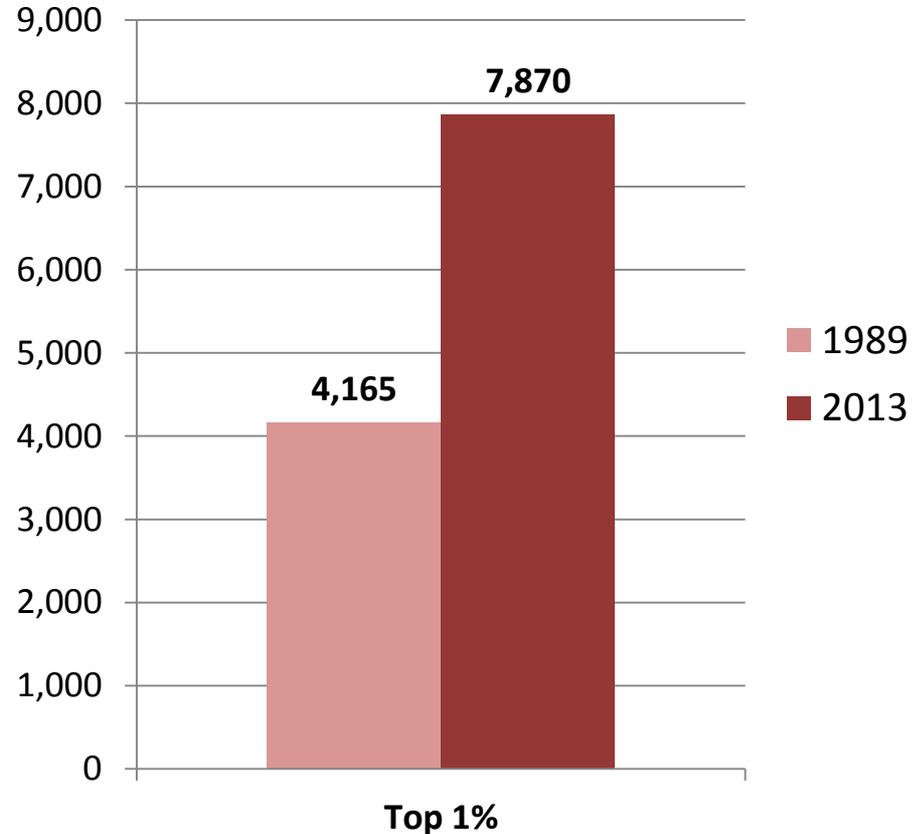
## Income Distribution: Top 1 Percent

Thousands of 2013 \$



## Net Worth Distribution: Top 1 Percent

Thousands of 2013 \$



# Wealth and Income, Rising Inequality

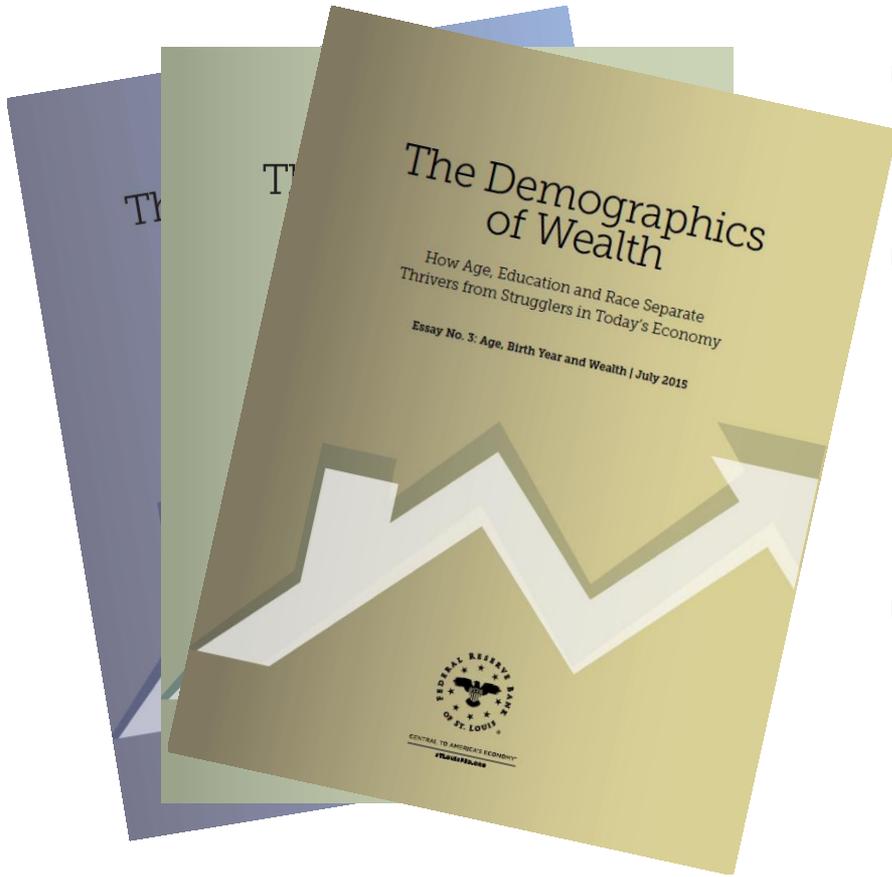
- Income and wealth gains have not been distributed equally; half of families have seen their share decline.
- At the same time, a small minority of families have tacked on to their already dominant share.
- In 2013, **11.6 percent** of families had *negative* net worth, up from **7.4 percent** in 1989.
- Given greater income instability and no financial safety net, these families live with even greater risk.

# Wealth Inequality Influences Income Inequality

- In 2013, only **22%** of households owned any financial or business assets.
  - This measure omits liquid assets such as checking and savings.
- Income from these assets accounted for **21%** of total household income.
- From 1989 to 2013, median income from these assets grew by **60%**, while median wage income *fell* by **7%**.

# THE DEMOGRAPHICS OF WEALTH

# 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.

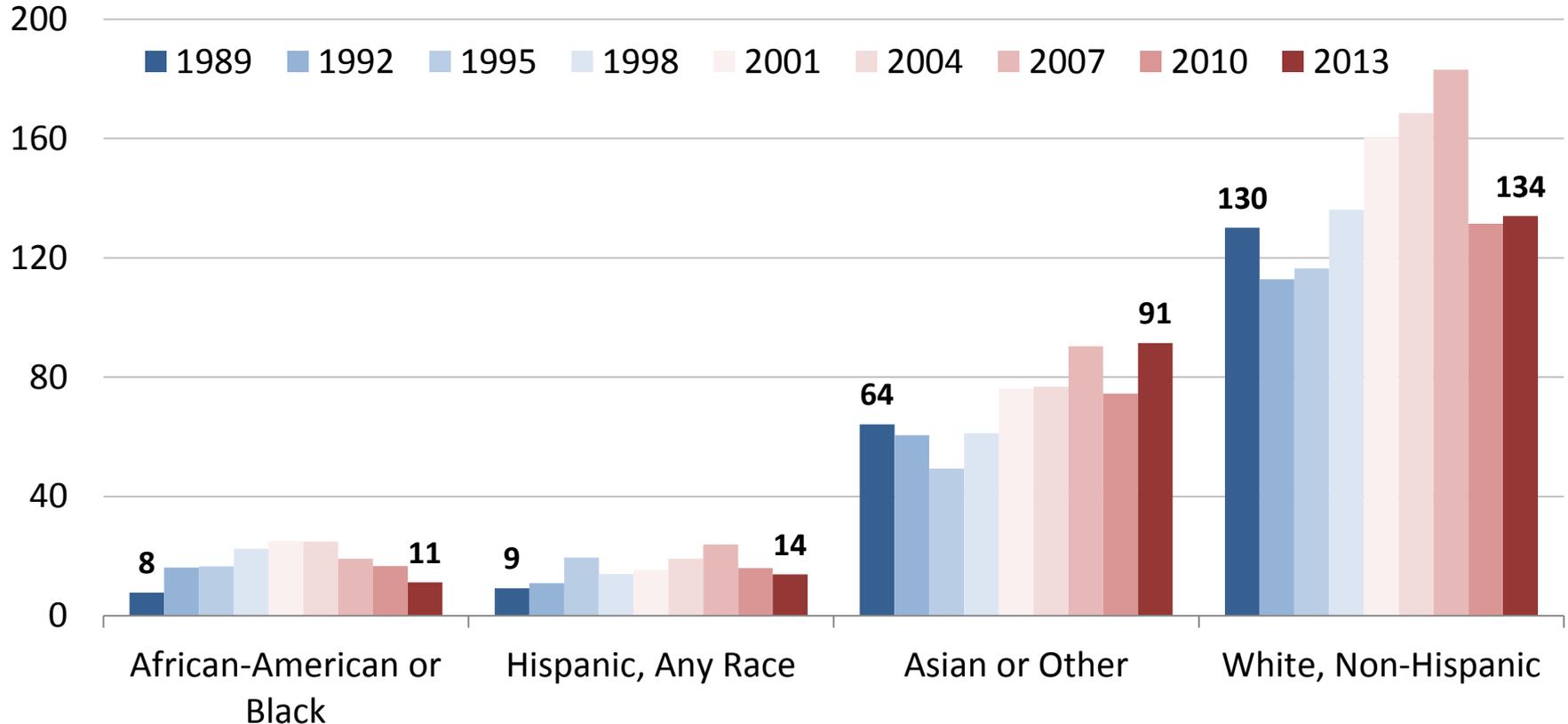


# RACE OR ETHNICITY

# Little Progress Closing Substantial Racial Gaps

## Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars

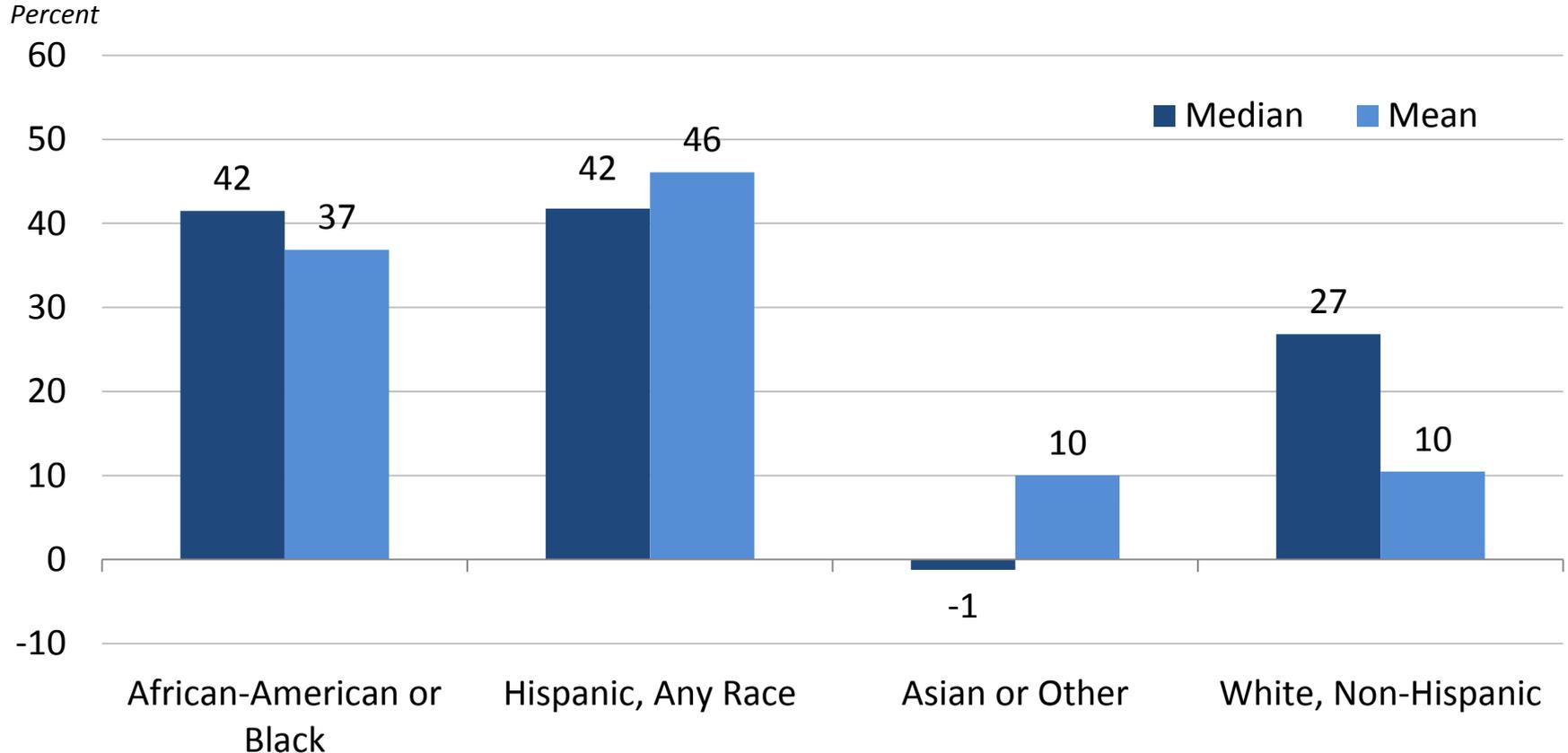


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



# 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.

# The Racial Wealth Gap

- The wealth ranking between racial groups hasn't changed over the past 24 years.
- Gaps remain significant and persistent despite broad-based improvements in other areas (e.g. political representation, educational attainment).
- “Headwinds” for nonwhite families include:
  - Lack of liquidity to weather financial setbacks.
  - Greater reliance on debt to finance education or home purchases.
  - Different returns on assets such as education and housing.

# EDUCATIONAL ATTAINMENT

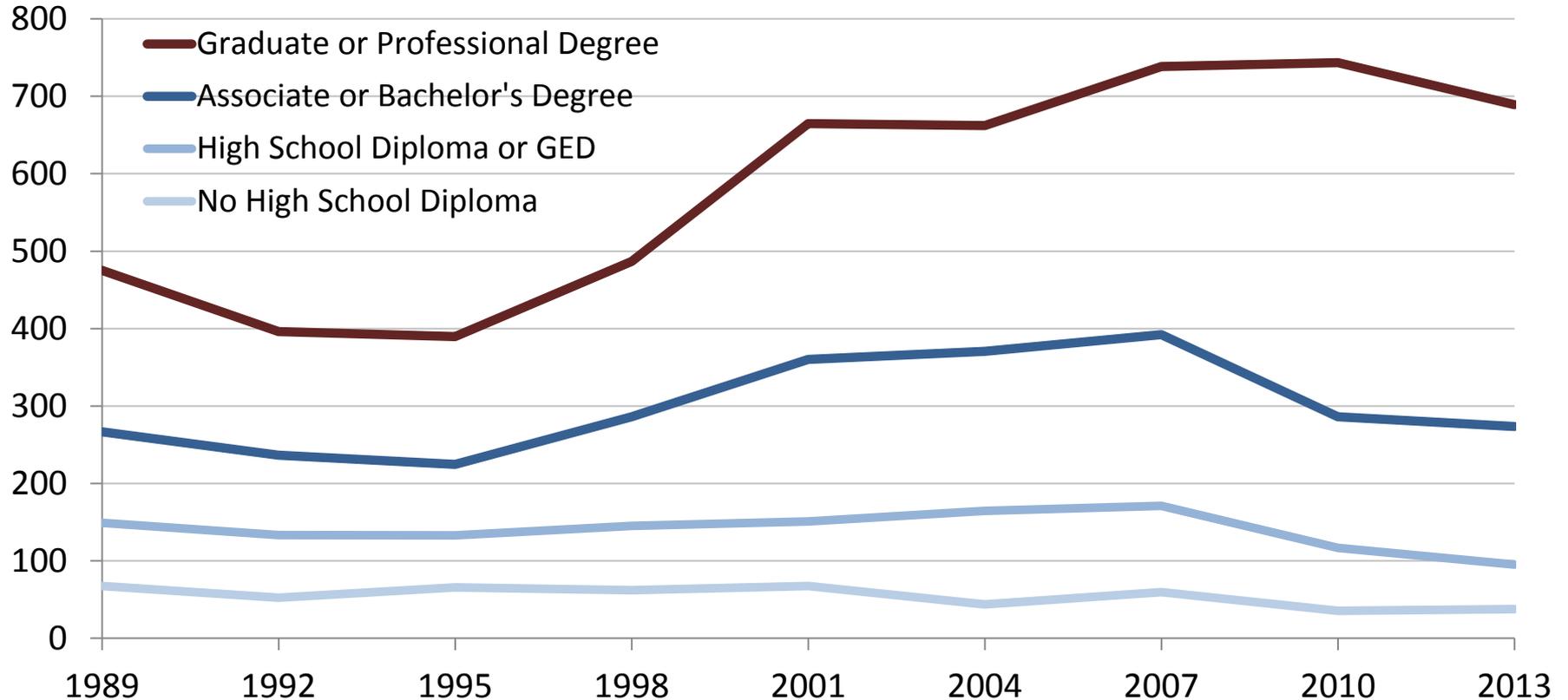
# Important Considerations for Education

- 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, we can treat it as a demographic group when we restrict our sample to families with heads 40 or older.

# Returns to Education Have Never Been Higher

## Median Net Worth of Families Headed by Someone 40 or Older

Thousands of 2013 Dollars

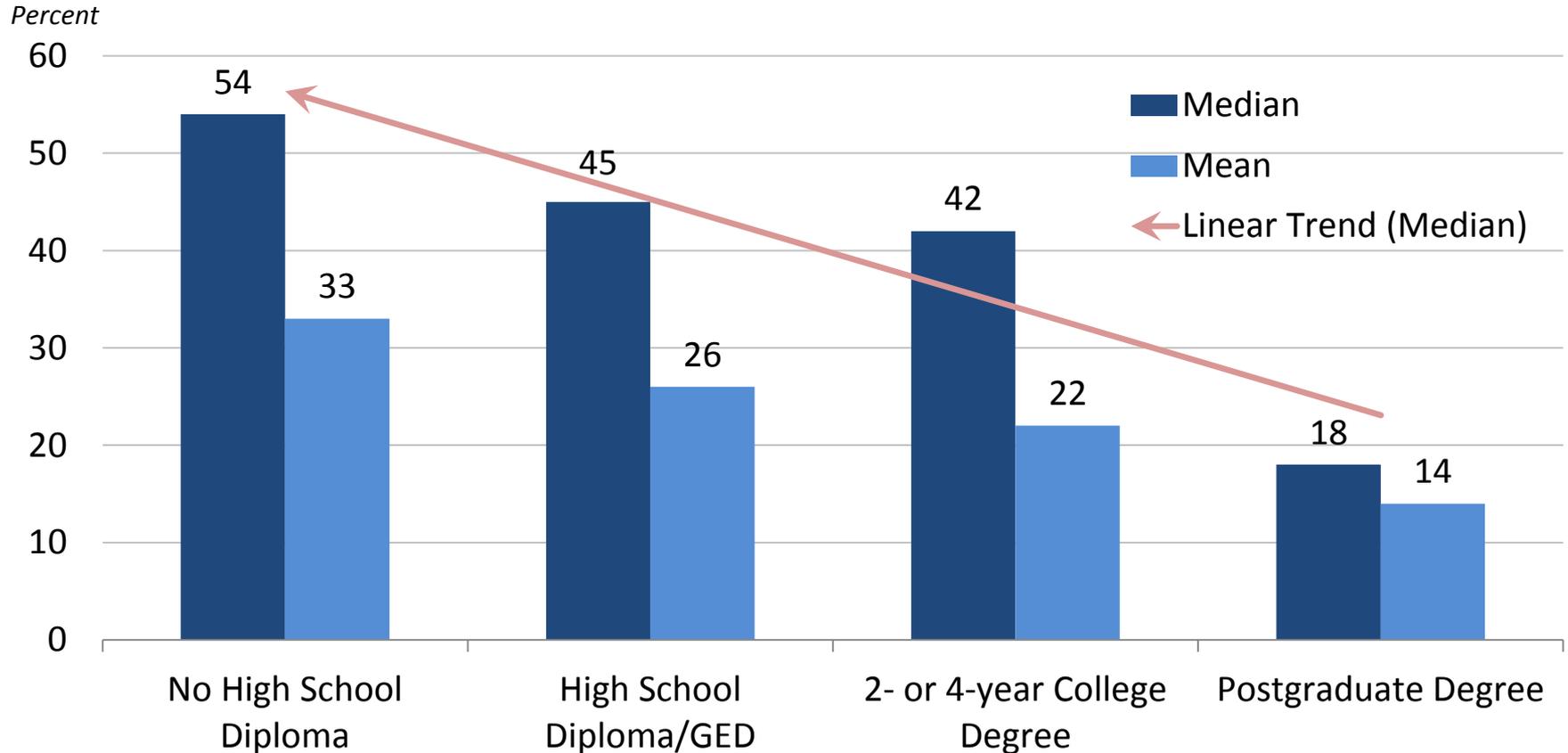


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.



# More Education Associated with Greater Resiliency

## 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

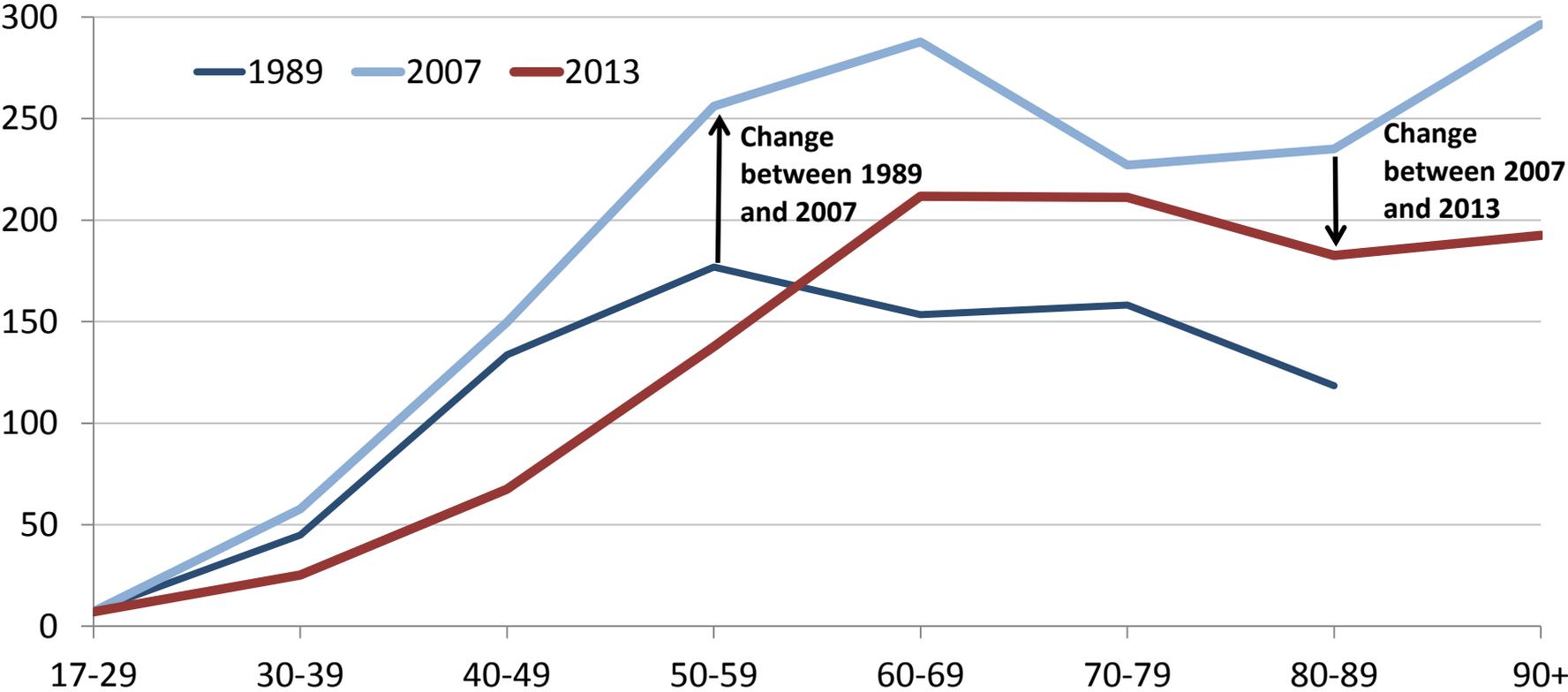
- It's important to note that these results capture correlations and don't imply causation.
- A college degree is a very important asset to have and its value is increasing.
- However, a college degree did not produce the same wealth outcomes for black and Hispanic families during the recession. (Emmons and Noeth 2015)
- Education alone cannot close the racial wealth gaps. (Emmons and Ricketts 2016)

# AGE AND BIRTH COHORT

# Wealth Milestones Depend on Your Birth Year

## Median Family Net Worth by Age of Family Head

Thousands 2013 Dollars

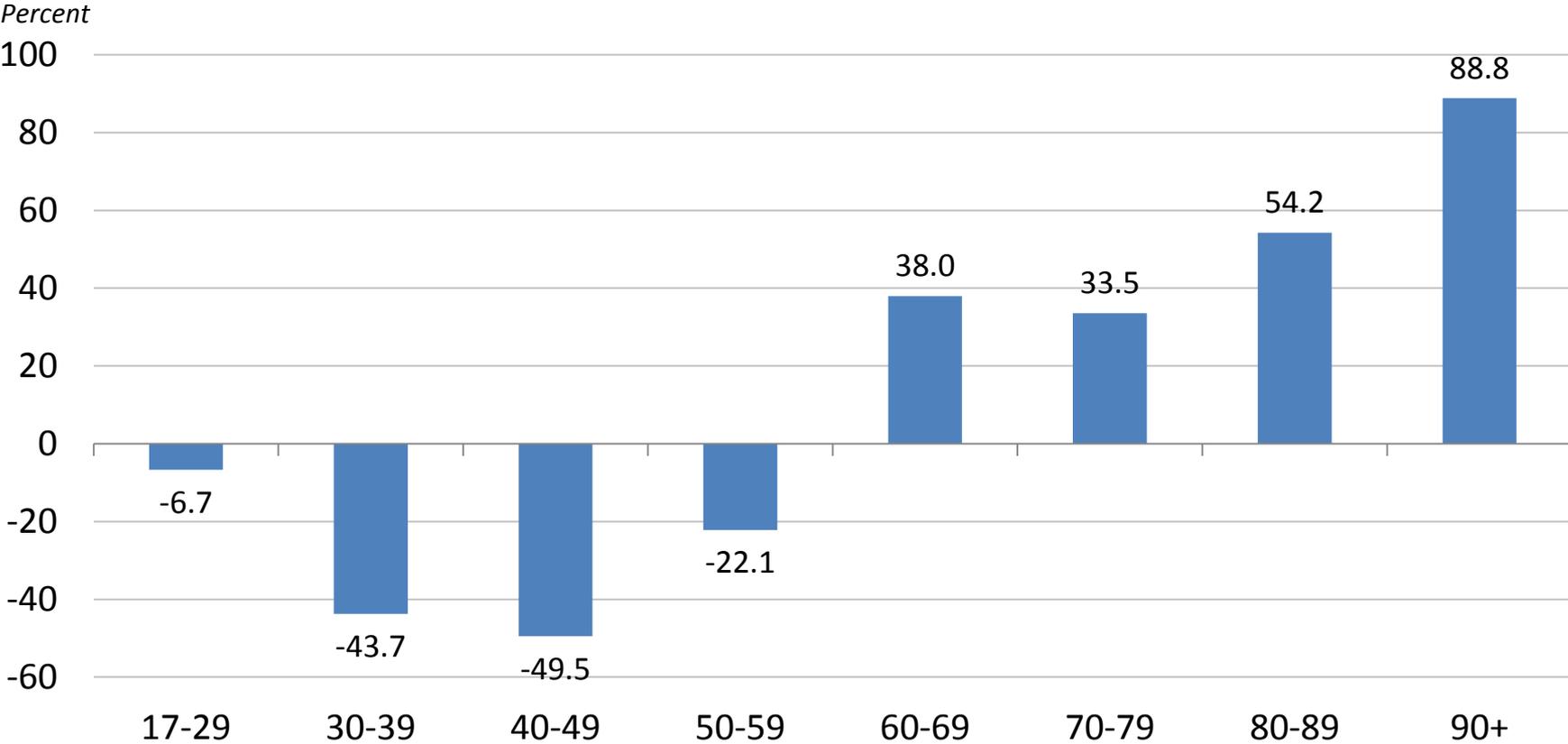


Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

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



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

Age of family head at time of survey

# The Generational Wealth Divide

- 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.
- Upward mobility continues to decline: **79 percent** of children born in **1950** were earning more than parents, compared to **50 percent** born in **1980** (Chetty et al. 2016)

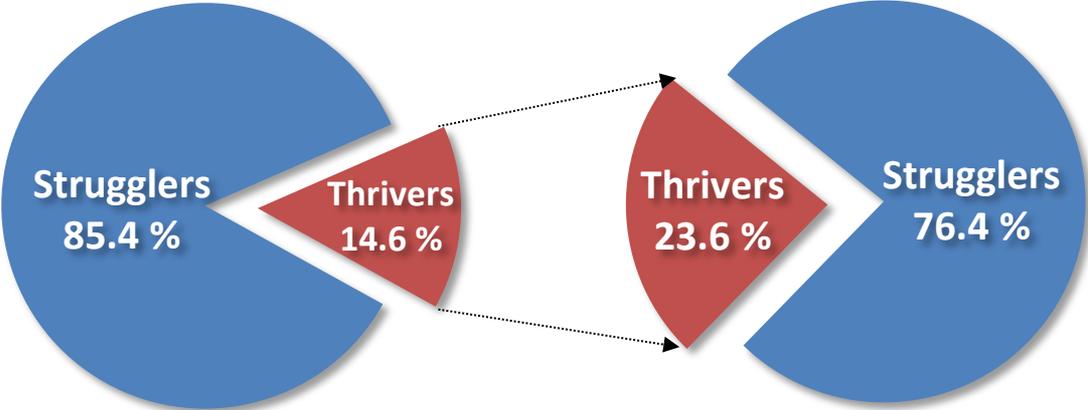
# IDEAS FOR MOVING FORWARD

# New Economic Divide

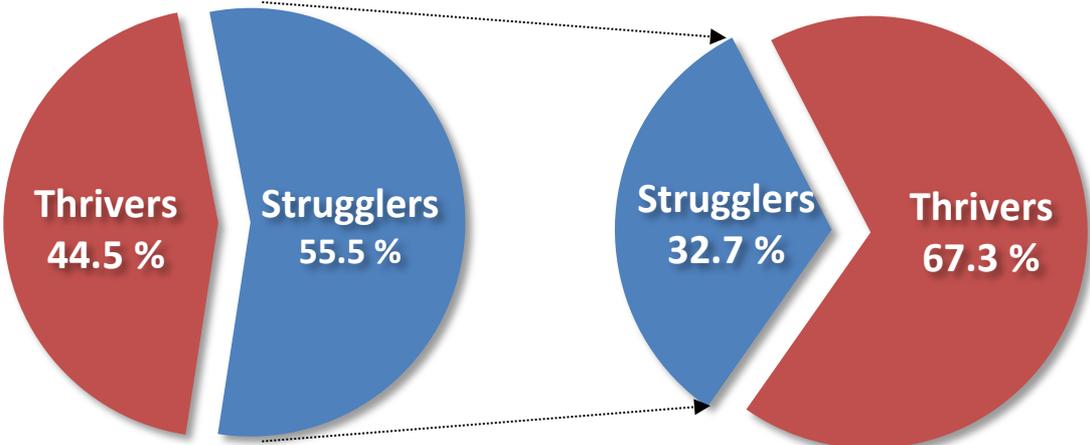
1989

2013

Percentage of Population



Percentage of Total Wealth Owned



Source: Survey of Consumer Finances

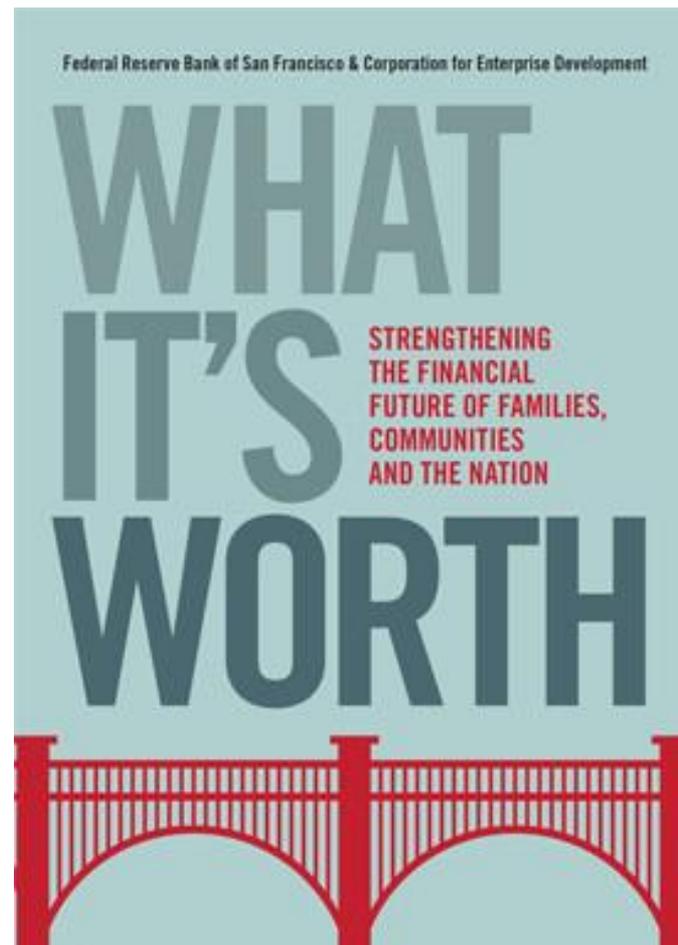
# Is Demography Economic Destiny?

*Assign greater weight to demographic factors when allocating public and private resources.*

- Age: enhance the social contract at the beginning of life
- Race: consider “race conscious” policies
- Education: invest, especially, in early education and early asset strategies

Book: [www.strongfinancialfuture.org](http://www.strongfinancialfuture.org)

Video: *Meet America’s Thrivers and Strugglers*  
[Link](#)



# Child Development Accounts / College Savings Accounts



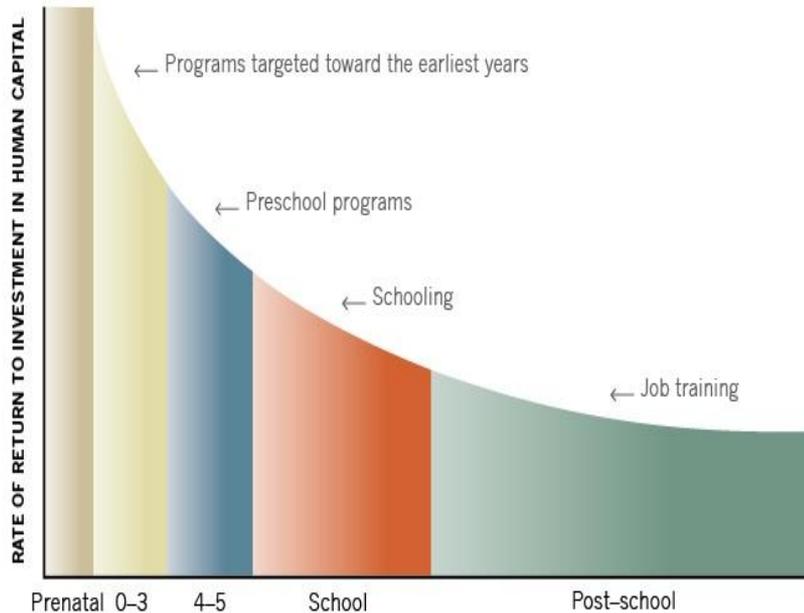
- Can address age, race, and education disparities, and promote financial inclusion
- Typically established at birth or when a child enters kindergarten
- Universal (for all kids) and progressive (more for the poor)
- Over 40 programs/policies in the U.S., some state- and city-wide
- Research shows positive impacts on child development, maternal health, and college outcomes
- Serious efforts underway to expand CDAs in St. Louis region



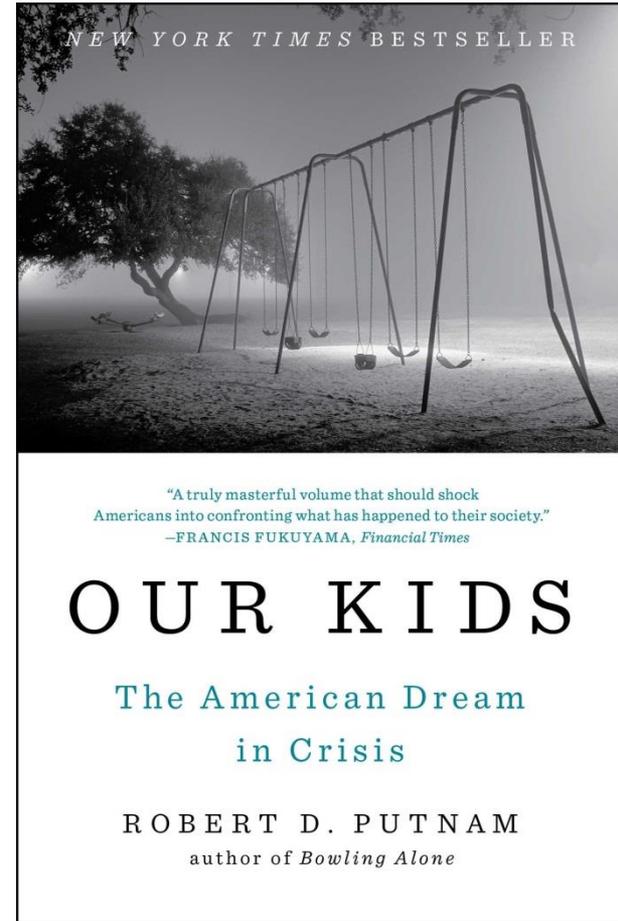
# Early Investments Matter

## Returns on Human Capital Investments (James Heckman)

Returns to a Unit Dollar Invested



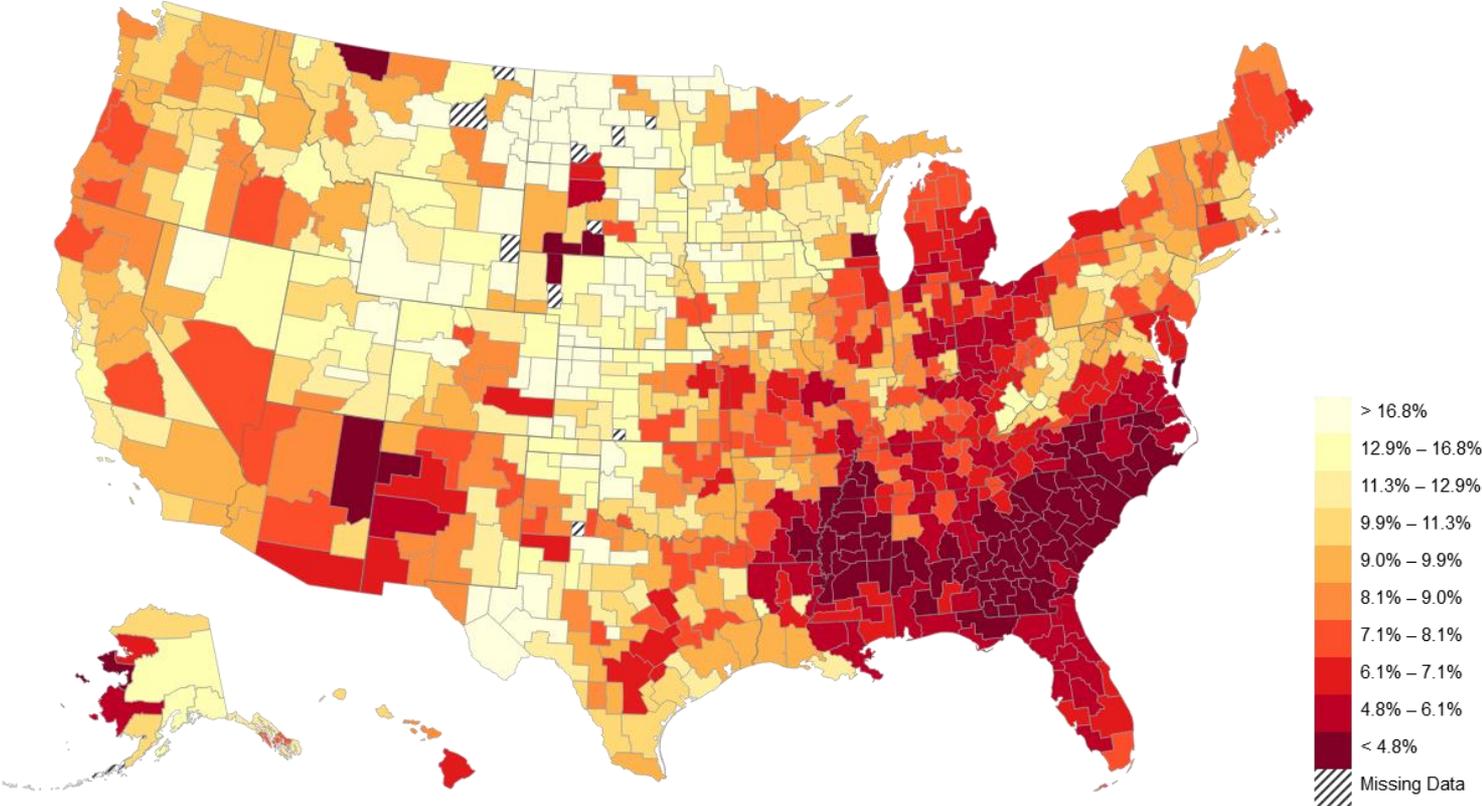
Source: Heckman and Masterov 2007



# Place Matters

## The Geography of Upward Mobility in America

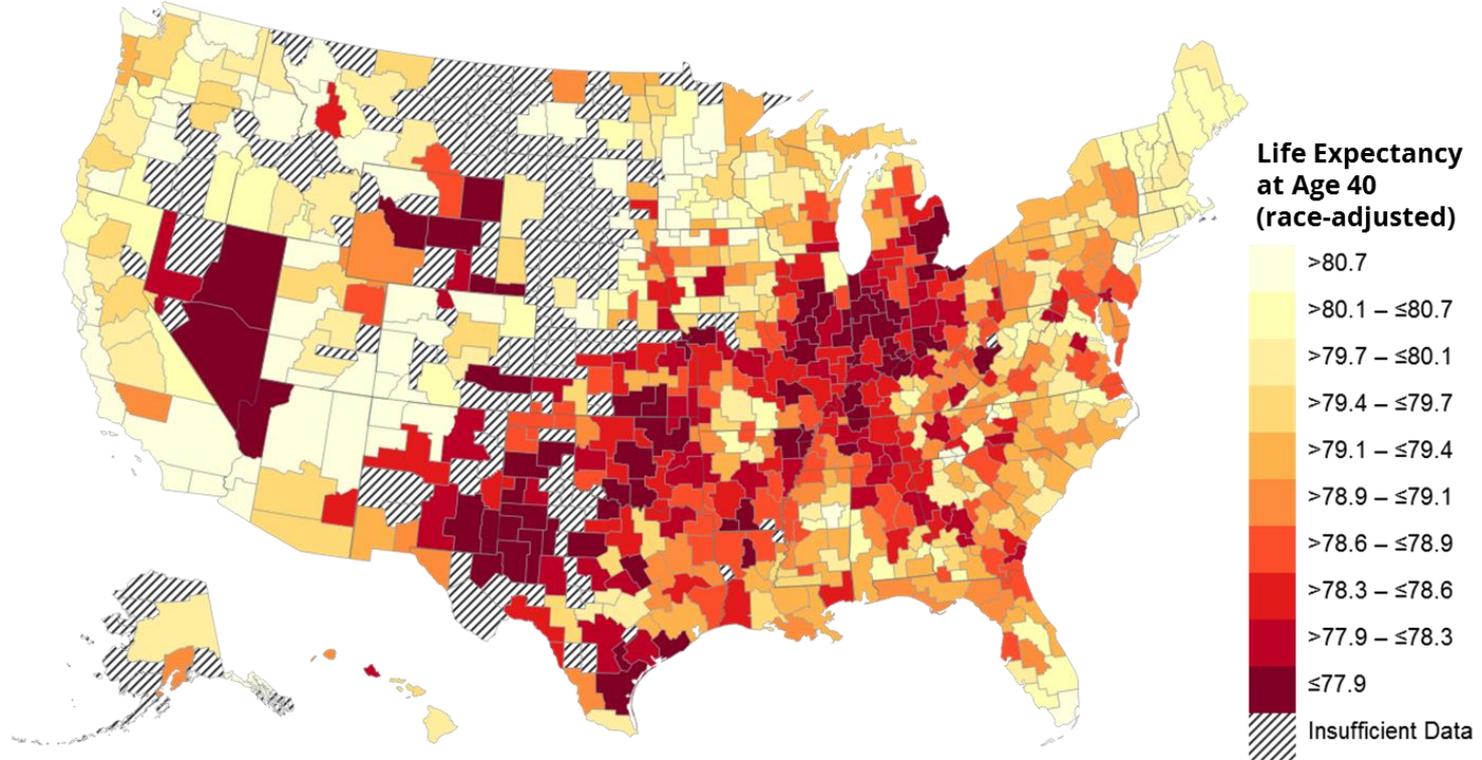
Children's Chances of Reaching Top 20% of Income Distribution Given Parents in Bottom 20%



Source: Chetty et al 2014, The Equality of Opportunity Project <http://www.equality-of-opportunity.org/>

# Place Matters, Continued

## Geography of Life Expectancy in the Bottom Income Quartile

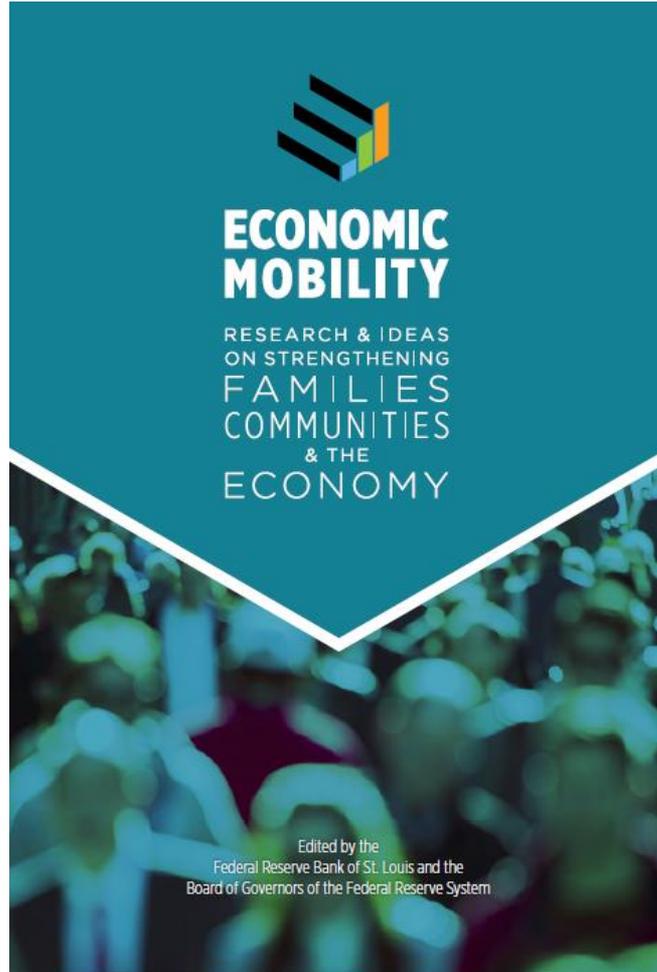


Top 5 Cities: New York City NY, Santa Barbara CA, San Jose CA, Miami FL, Los Angeles CA

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

Source: Chetty et al 2016, The Health Inequality Project <https://healthinequality.org/>

# Inequality and Economic Mobility



- How families, communities (places), and the economy can move forward
- Original research and essays by Janet Yellen, Joseph Stiglitz, Raj Chetty, Katherine Newman, Robert Putnam, Leal Brainard, Robert Sampson, Rucker Johnson, and many others
- Webinar, January 26, 2:00 CST
- See [stlouisfed.org](http://stlouisfed.org) and [stlouisfed.org/hfs](http://stlouisfed.org/hfs) for more information



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