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# Inequality and Poverty in the United States

## FOCUS: Leadership St. Louis
## December 6, 2019


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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

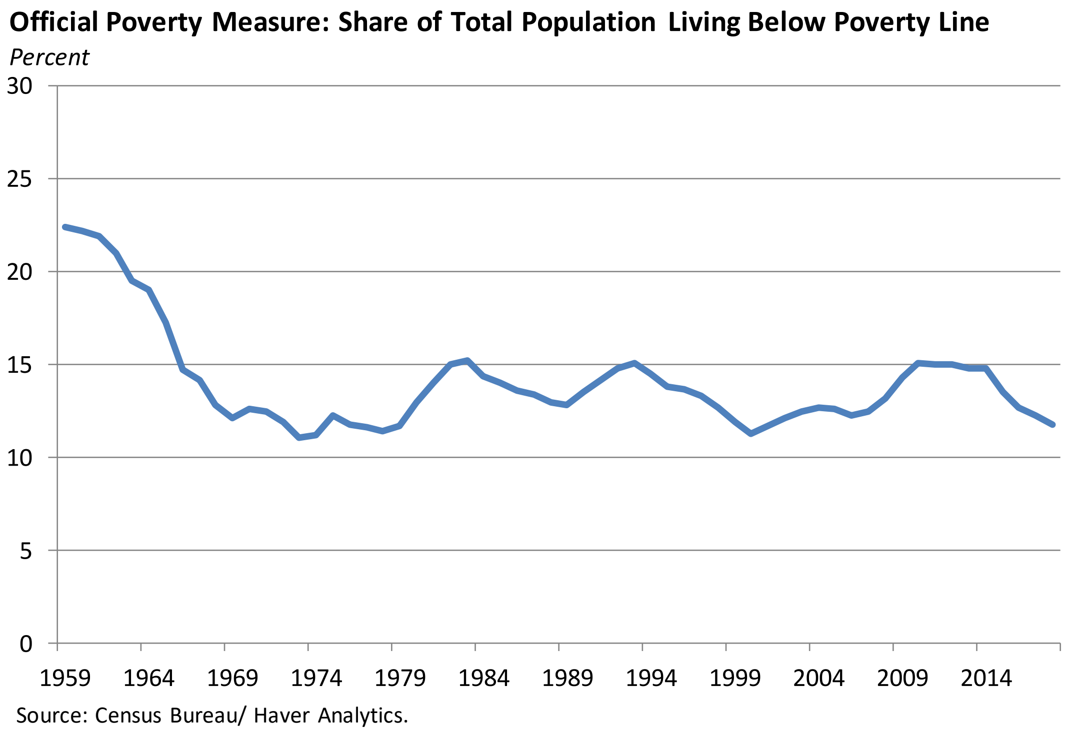
- Measuring Income Poverty
- Income vs. Asset Poverty
  - Why focus on Wealth?
- Income vs. Wealth (Net Worth) Inequality
- The Demographics of Wealth
- Why are Demographics So Powerful?
- Ideas for Moving Forward

# MEASURING INCOME 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 = STL)
  - Ignores noncash benefits (public housing, Medicaid, food stamps)
  - Ignores tax credits (Earned Income Tax Credit)

# Poverty Declined Until 1970; Stagnant Since




- One (incorrect) interpretation of the post-1960s trend is that the myriad programs aimed at eliminating poverty have had no effect.
- In addition to the measurement issues raised earlier, the official measure obscures a lot of additional information.

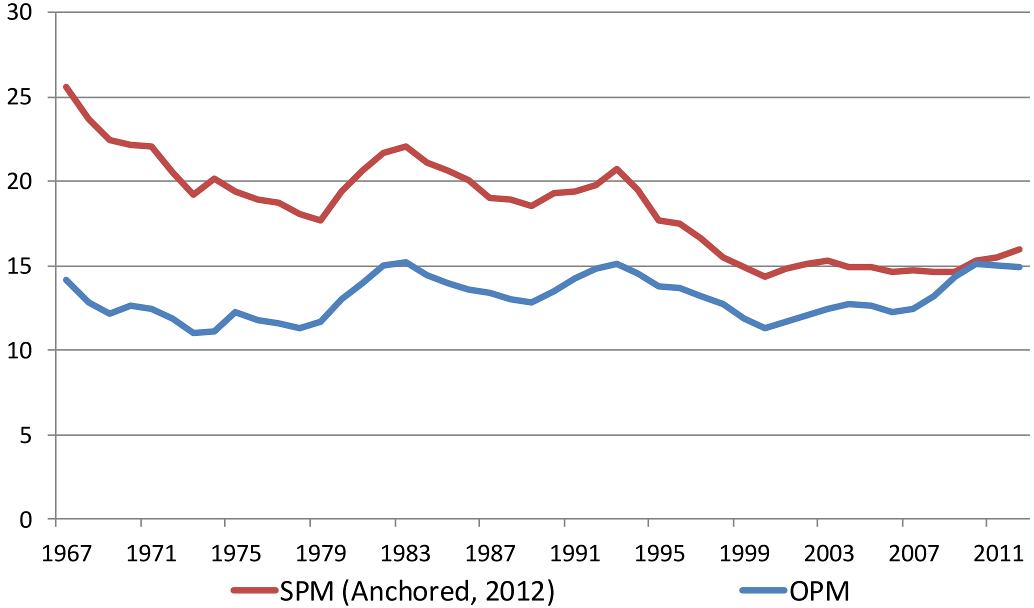
# Supplemental Poverty Measure

- 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, costs of medical care and insurance premiums

# SPM Shows Greater Poverty, Policy Impact

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

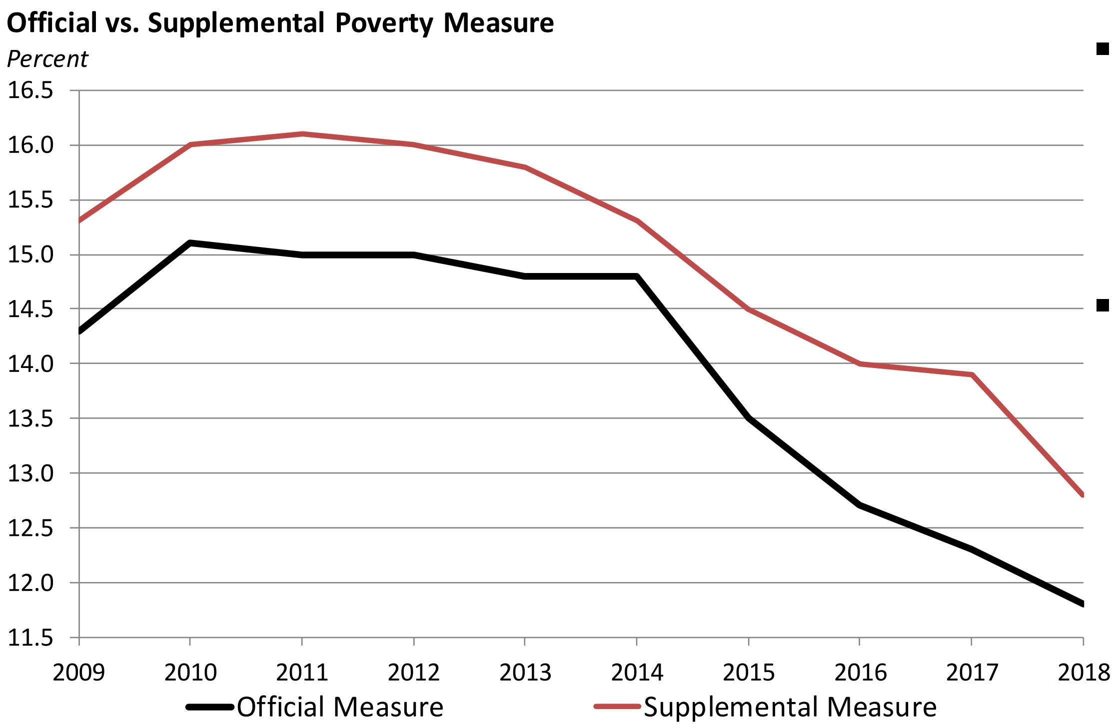
*Percent*




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

- Supplemental measure offers a very different story.
- Poverty rate has been *higher* over the historical period.
- Poverty rate *declined* by roughly 10 percentage points, versus no change seen in official measure.

# Recently, Both Measures Show Decline



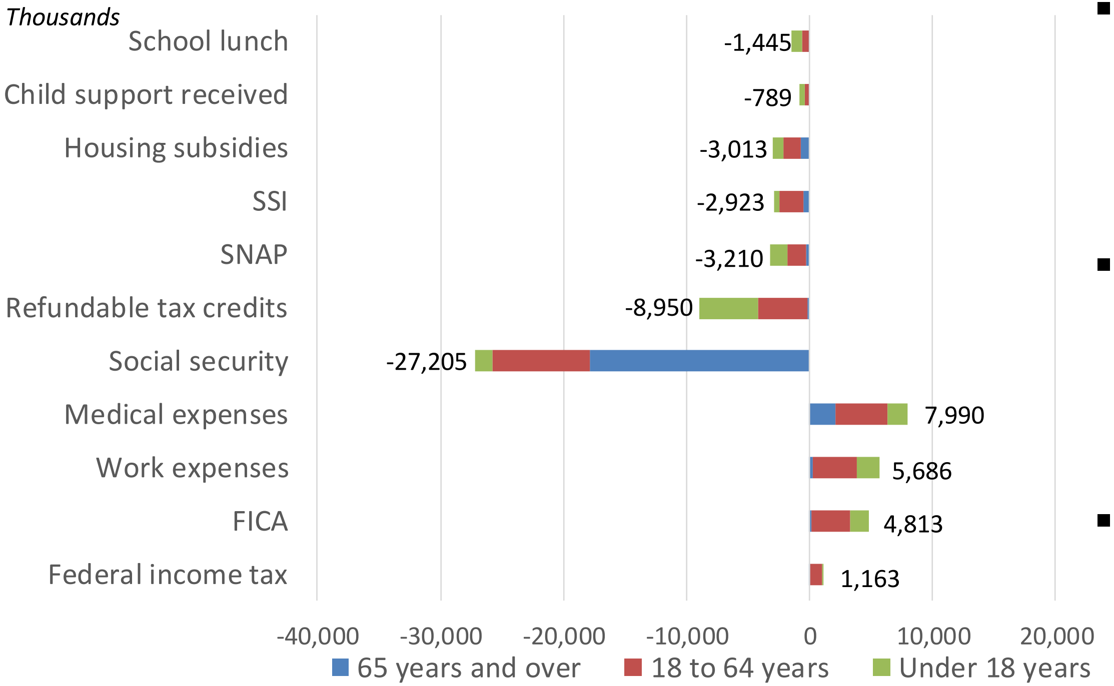

Source: Census Bureau/ Haver Analytics.

- Since 2014, both measures indicate declining rates of poverty.
- Between 2017 and 2018, the OPM fell by 0.5 percentage points while the SPM fell by 1.1 percentage points.

# SPM Offers Valuable Breakdown of Impact

**Change in Number of Individuals in Poverty, by Individual Element, 2018**

*Thousands*




Source: U.S. Census Bureau, Current Population Survey, 2018-2019 Annual Social and Economic Supplements.

- Income from social security kept 17.9 million seniors out of poverty.
- SNAP helped keep 1.4 million children out of poverty.
- In contrast, medical expenses pushed 8 million individuals into poverty.

# Official vs. Supplemental Poverty Measure

- Comparison between rates shows that poverty is higher overall, while assistance programs have done more.
- The supplemental rate offers a much more informative look at the dynamics of income poverty.
- For example, refundable tax credits reduced the number of people in poverty by **8.9 million individuals**.
- However, the SPM still takes a narrow view of financial well-being with a focus on income and consumption.

# INCOME VS. ASSET POVERTY

# 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)

- 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 buffers against misfortune and helps build your future: retirement, children's education, a bequest.
- When confronted with a negative shock, asset-poor families are 2-3 times more likely to experience material hardship. (McKernan et al. 2009)
- Lack of income means you don't get by; lack of assets means you don't get ahead. (Boshara 2002)

# Defining *Asset* Poverty

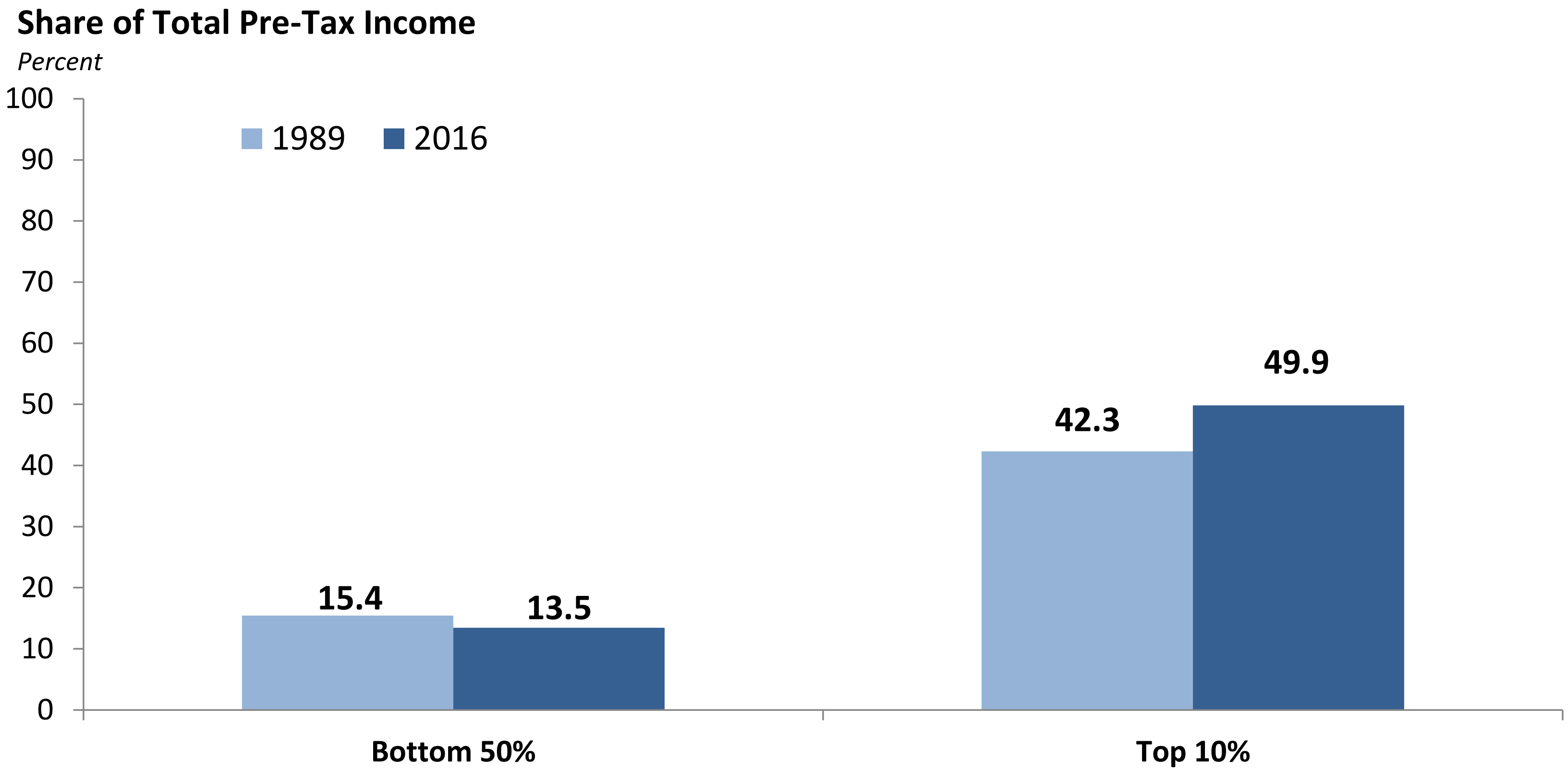
- **Asset poor:** lacking sufficient net worth to sustain livelihood above poverty level for at least 3 months. (Haveman and Wolff 2004, Prosperity Now)

- **39% of adults** could not cover an emergency expense of **$400** without selling something or borrowing money. (2018 SHED)

- Almost **55% of households are savings-limited**, meaning they cannot replace even one month of income through liquid savings. (PEW 2015)

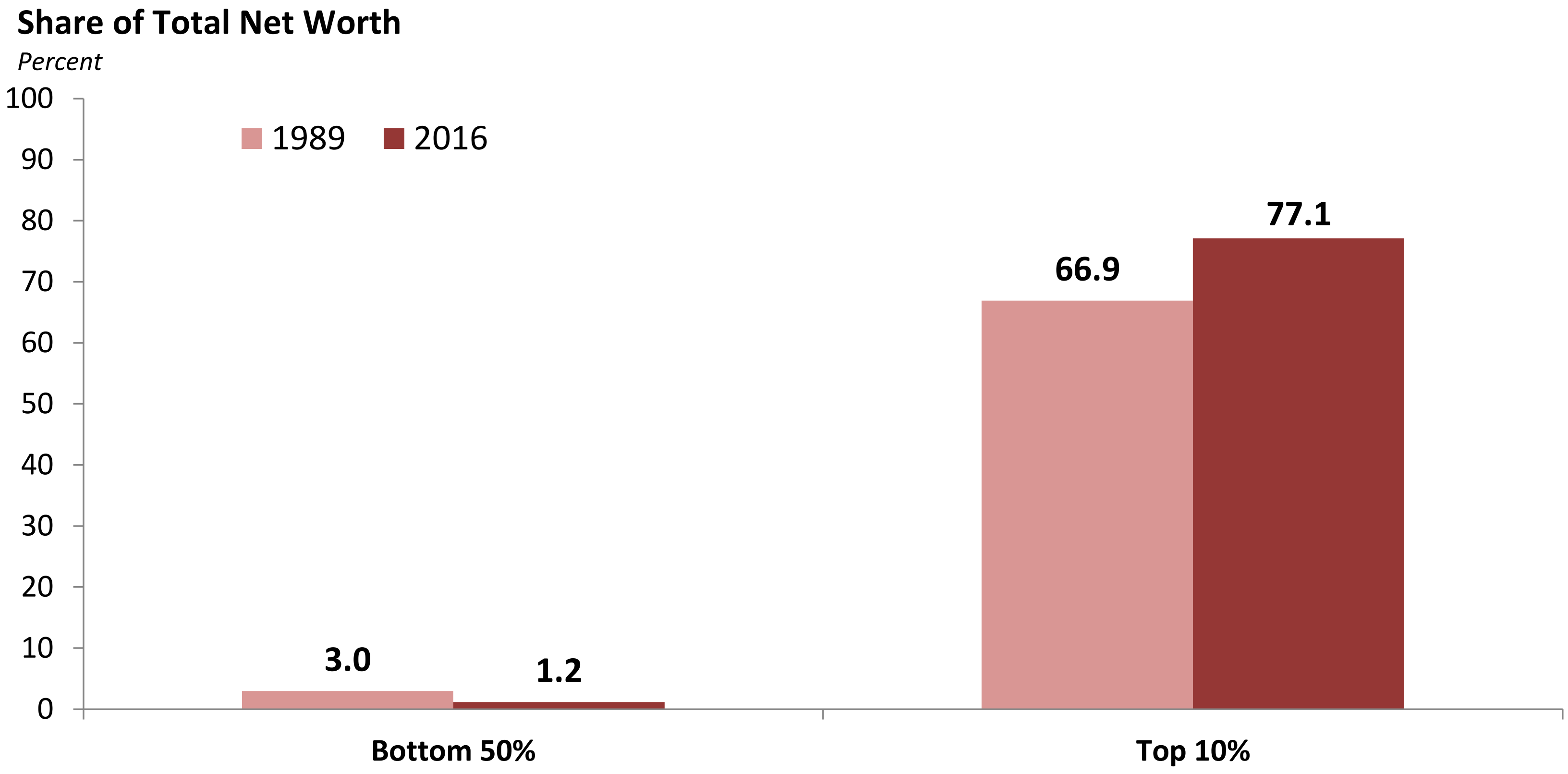
# Income vs. Wealth Inequality

# Income Inequality is Significant and Growing



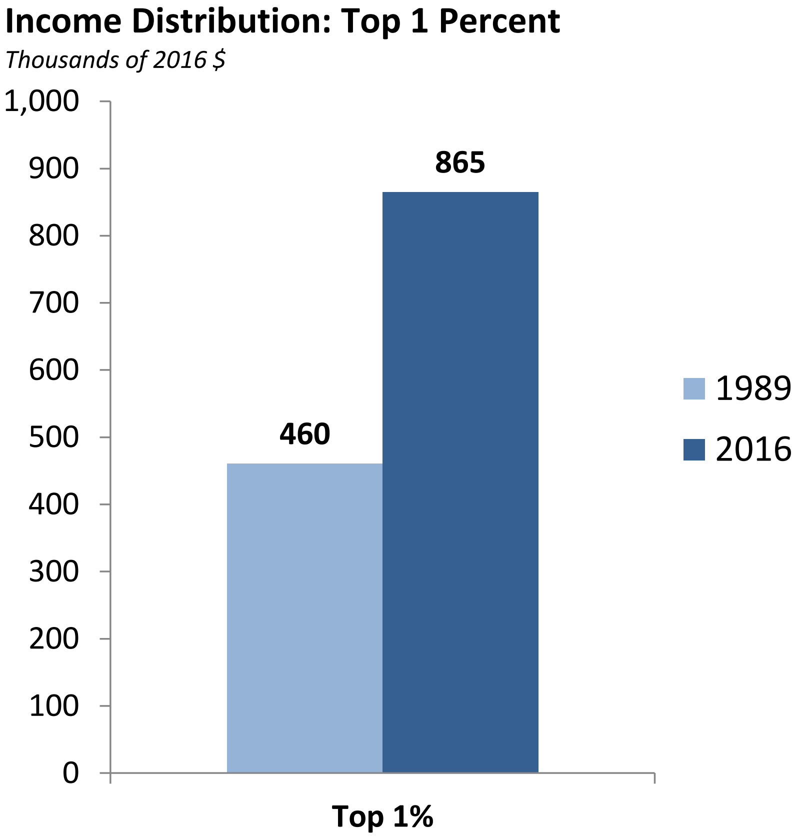

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

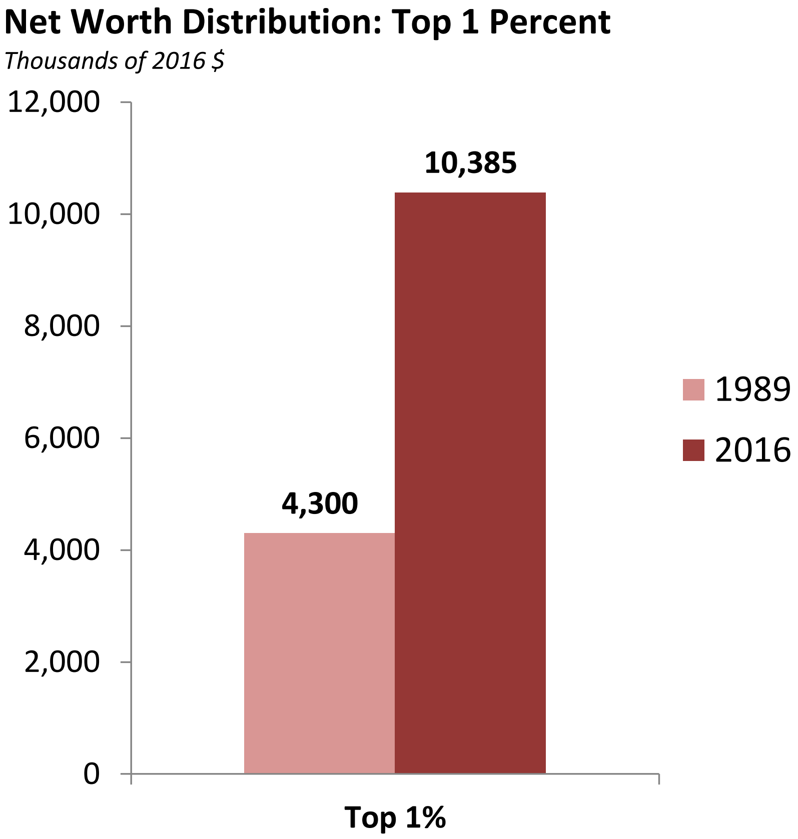
# But Pales in Comparison to Wealth Inequality




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

# Very Top Experienced Phenomenal Gains



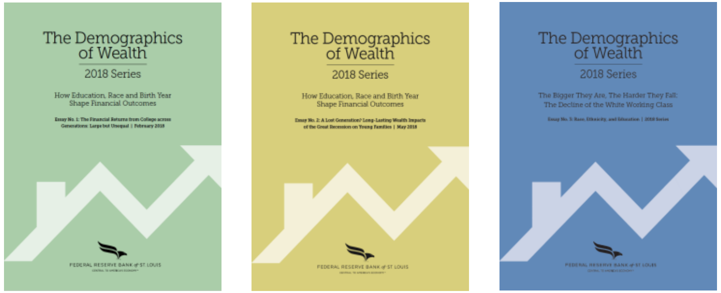
# Rising Inequality for Both Wealth and Income

- Income and wealth gains have not been distributed equally; half of families have seen their share decline.
- At the same time, a very small share of families have accrued tremendous gains.
- In 2016, **10.9 percent** of families had *negative* net worth, up from **7.4 percent** in 1989.
- Given greater income instability and no assets to fall back on, these families live with even greater risk.

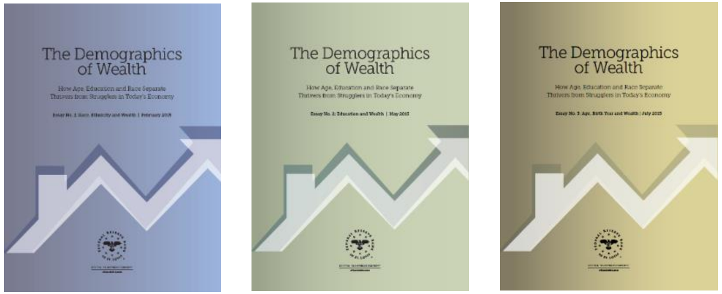
# The Demographics of Wealth

# The Demographics of Wealth Series

2018 Series




2015 Series




[Demographics of Wealth Essays]

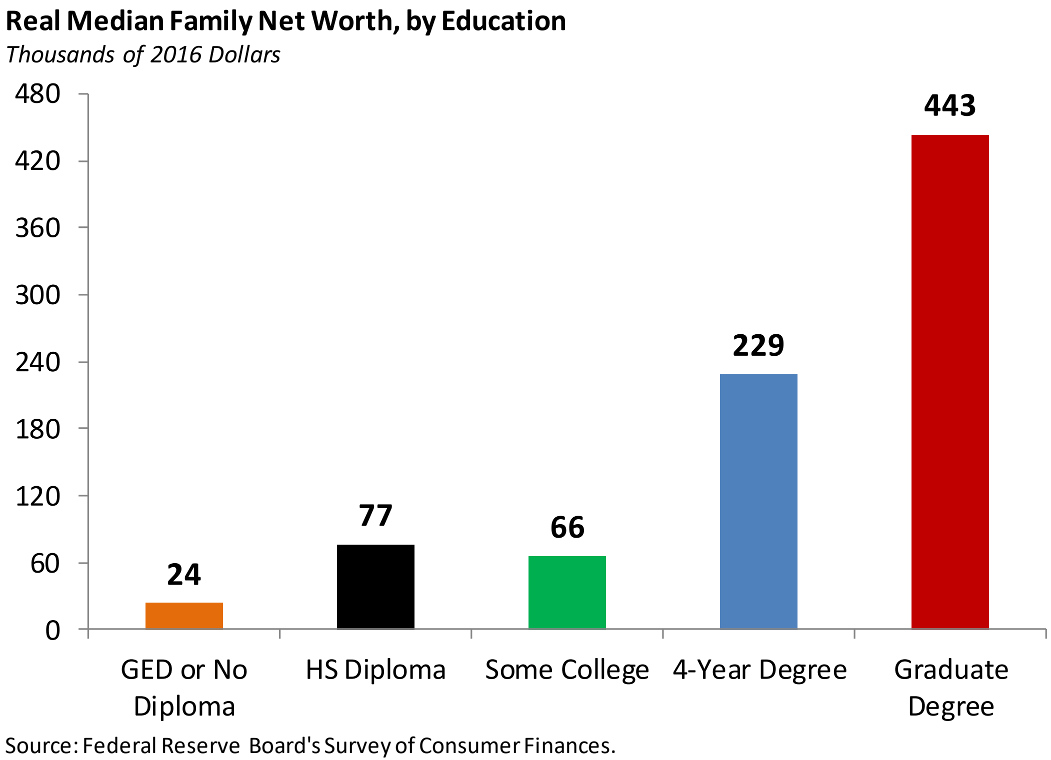
- HFS essay series links income, wealth and other socio-economic outcomes to a family's:
  - Race/ethnicity
  - Education (own and parents')
  - Age and birth year
- Your race/ethnicity, education and birth year are strong predictors of your adult outcomes.

# EDUCATION

# Education and Wealth

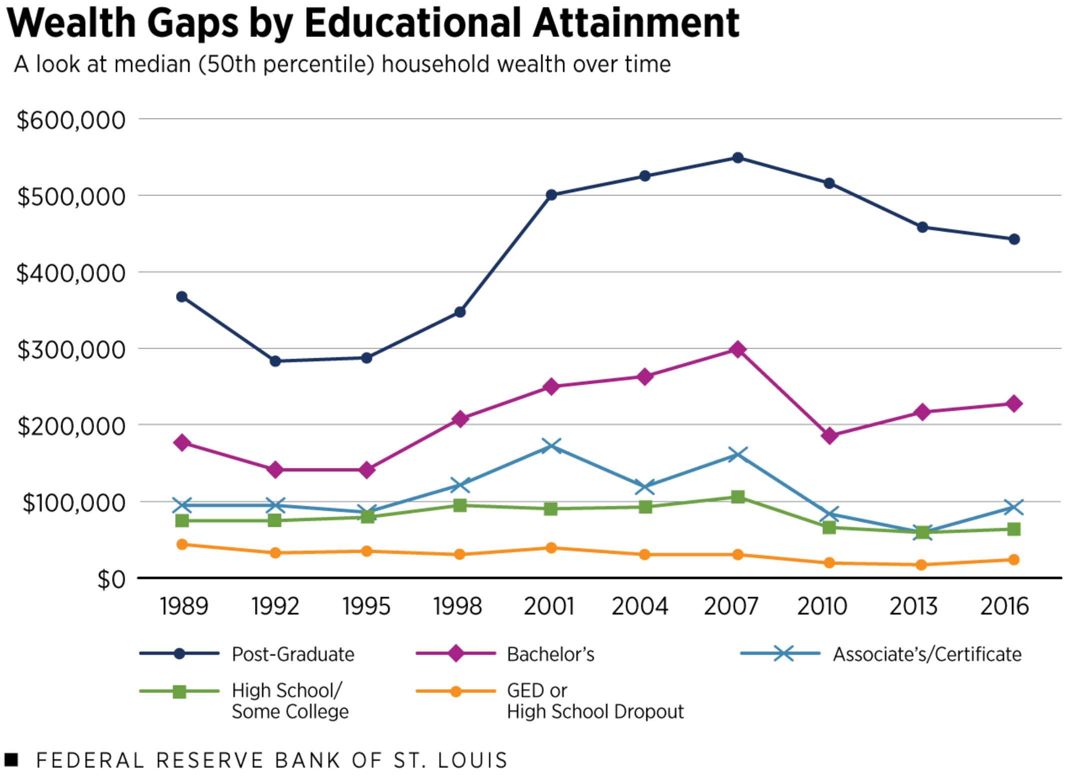
- Five groups based on highest educational attainment of the respondent:
  - Did not complete high school on-time (GED or no diploma)
  - High-school diploma
  - Some college, including degrees or certificates short of 4-year degree
  - Four-year college degree
  - Post-graduate degree

# High Expected Returns to 4-Year Degree




- There is an increasing wealth divide between families which have a college-degree and those that do not.
- Furthermore, expected returns associated with a graduate degree are increasing.

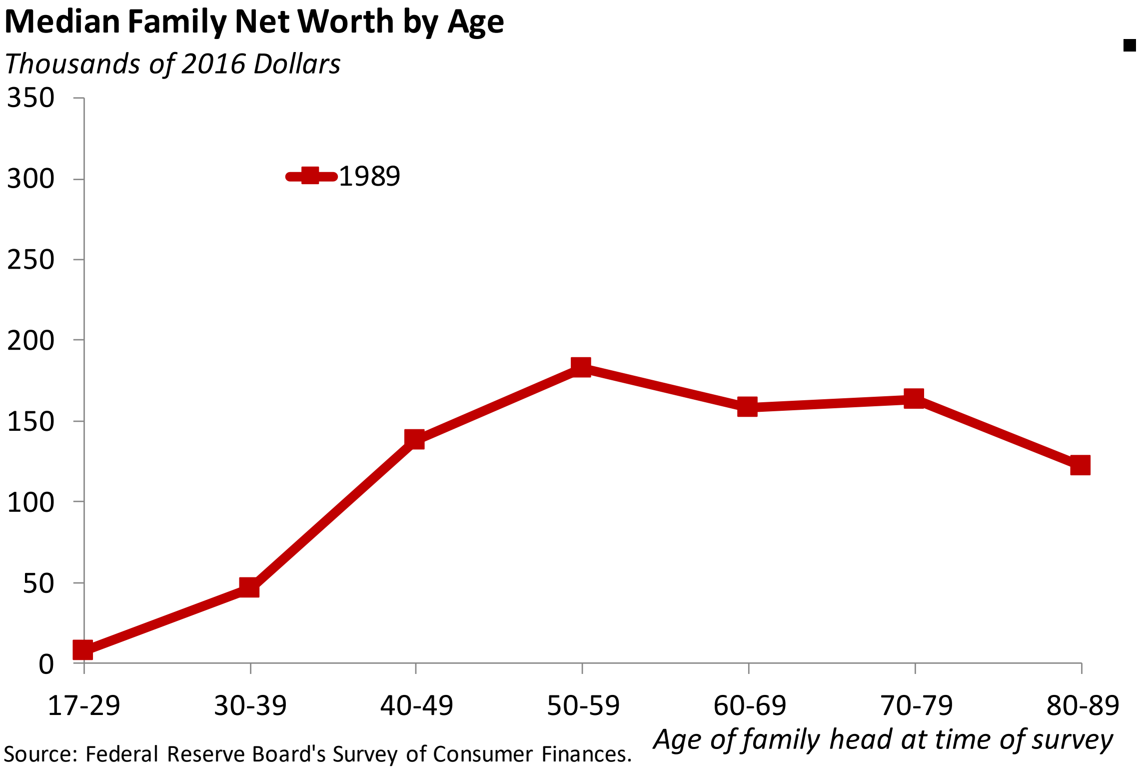
# Growing Returns to Education Over Time




- 34% of families were headed by someone with at least a four-year college degree in 2016, up from 23% in 1989.
- Increasing attainment reflects belief (and statistics) that college helps people get ahead financially.

# AGE AND BIRTH YEAR

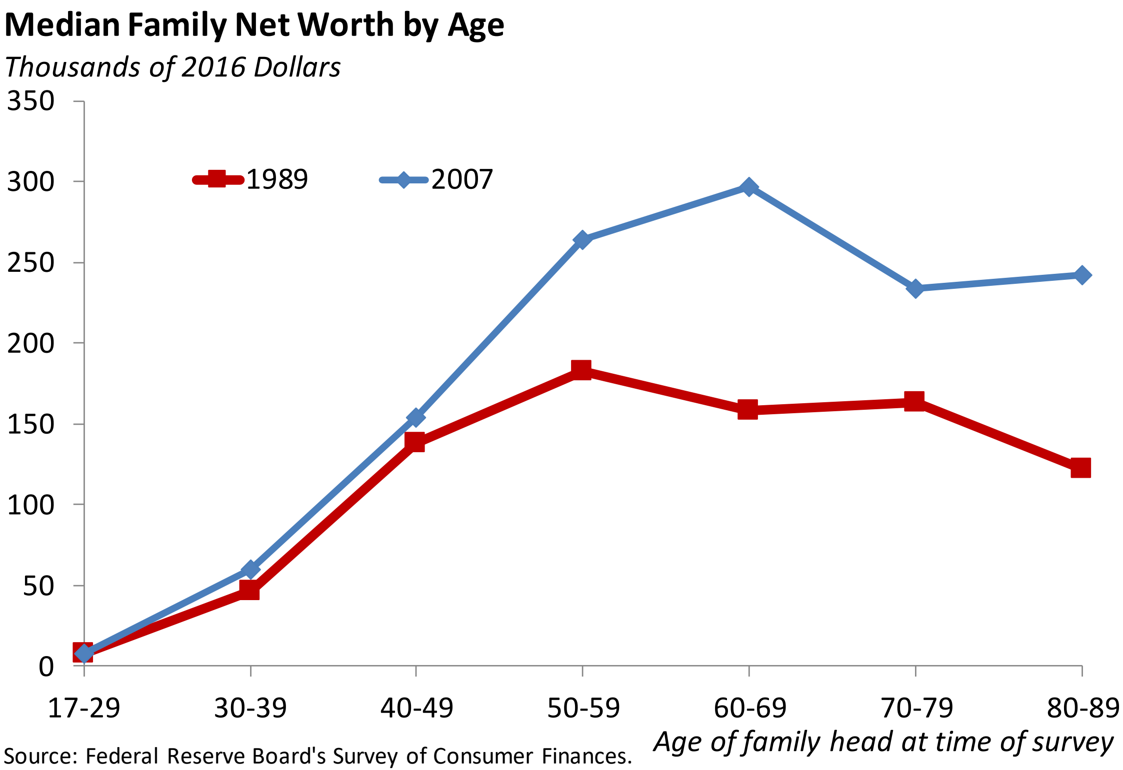
# Broadest Wealth Gap is by Age




Source: Federal Reserve Board's Survey of Consumer Finances.

- Wealth follows a powerful life cycle.

# Broadest Wealth Gap is by Age



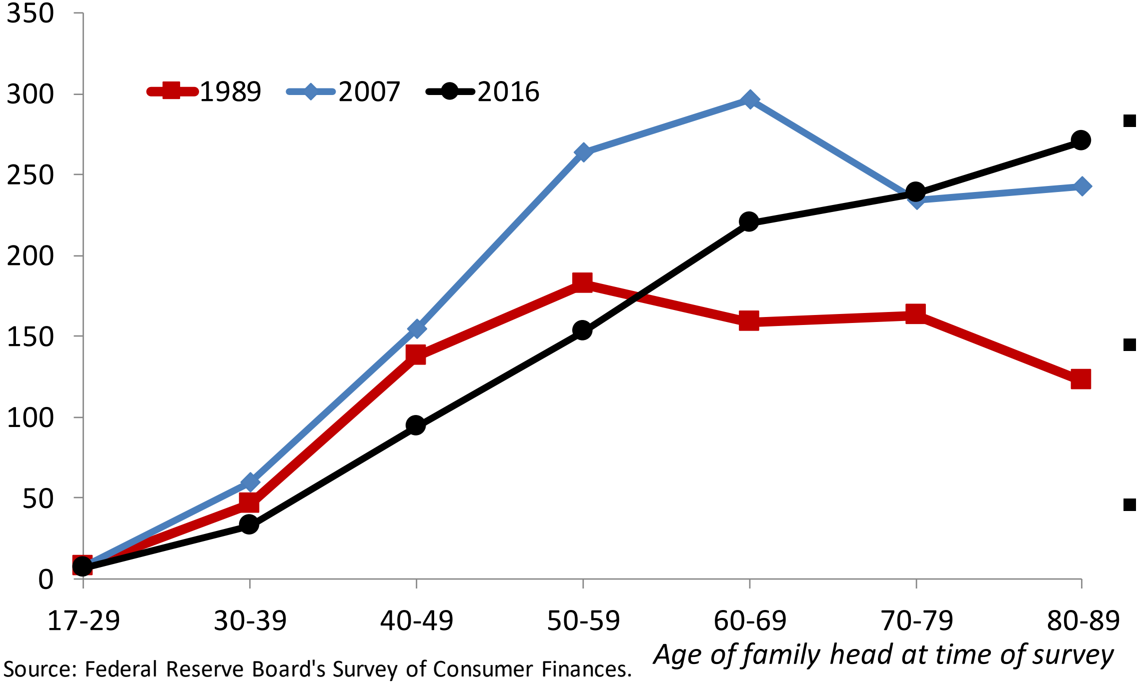

Source: Federal Reserve Board's Survey of Consumer Finances.

- Wealth follows a powerful life cycle.
- Older families have *more* wealth than same-aged families did in years past.

# Broadest Wealth Gap is by Age

**Median Family Net Worth by Age**

*Thousands of 2016 Dollars*

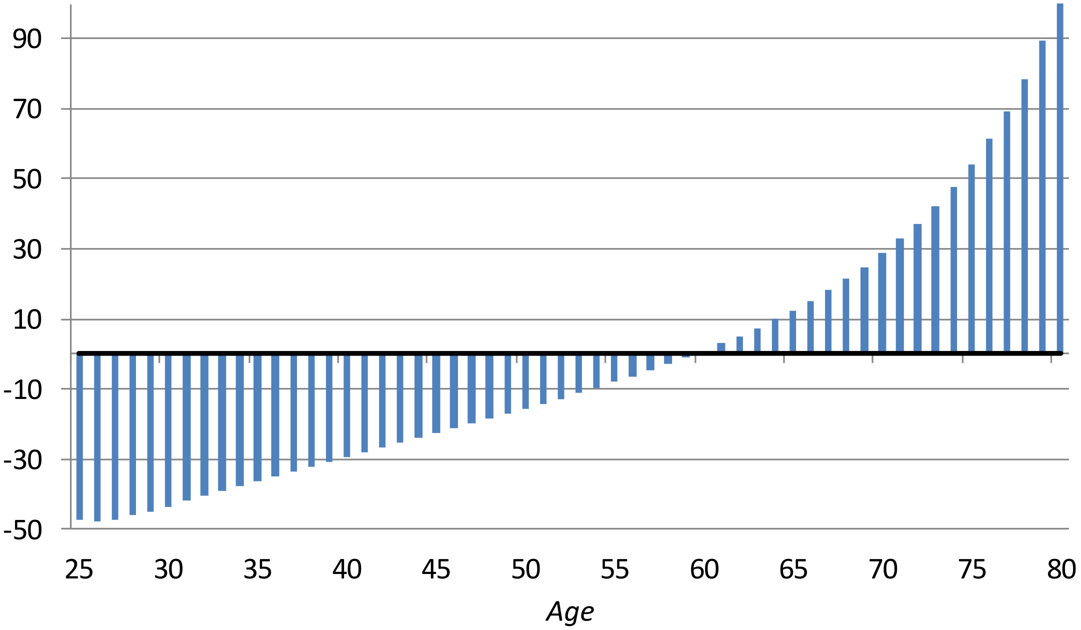



Source: Federal Reserve Board's Survey of Consumer Finances.

- Wealth follows a powerful life cycle.
- Older families have *more* wealth than same-aged families did in years past.
- While younger families have *less* wealth.
- Expected wealth depends on *when* families hit age milestones.

# The Changing Fortunes of Age

**Change Between 1989 and 2016 in Predicted Wealth**
*Percentage Difference*




Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- The Great Recession inflicted deep and widespread losses to wealth across families.
- While losses occurred across the age spectrum, the extent of the damage was unequal.
- Younger families suffered the most and have rebounded slowly.

# When You Were Born Matters

- Given substantial shifts in predicted wealth by age, when you reach age milestones is important.
- To understand how members of particular birth years have fared, we track six decade-long cohorts over time:
  - Family heads born in the 1930s, 1940s, 1950s, 1960s, 1970s, and 1980s.
- To be clear, we don't track individual families across time; instead, we track outcomes among all families with a shared birth-cohort.

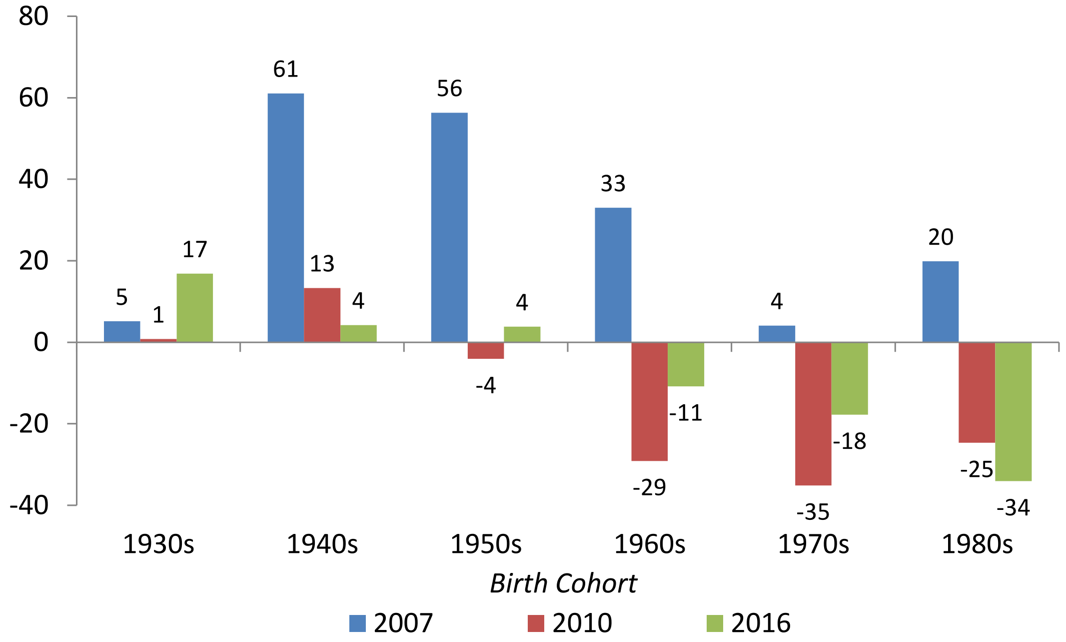
# Can Families Recover What They Lost?

- For the families that lost the most wealth, how likely are they to recover in time for major goals?
  - First-time home purchase
  - College tuition for their children
  - Retirement
- Will families in younger birth cohorts become part of a “lost generation” that struggles to achieve life’s financial milestones?

# Which Generations Have Recovered?

**Deviation of Birth Cohort Median Wealth from Predicted Value**

*Percentage Points*




Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.

- Cohorts born before 1960 were above benchmark levels in 2016.
- Cohorts born in 1960 or later were below predicted wealth levels.
- The 1980s cohort slipped noticeably further behind between 2010 and 2016.

# A Case for Optimism

- Two key factors on the side of 1980s-born families are time and education.
- These families have many more years to earn, save and accumulate wealth.
- This is the most highly educated generation; it's possible that their income and wealth trajectories will be steeper.
- It's far too soon to know whether families born in the 1980s will catch up.

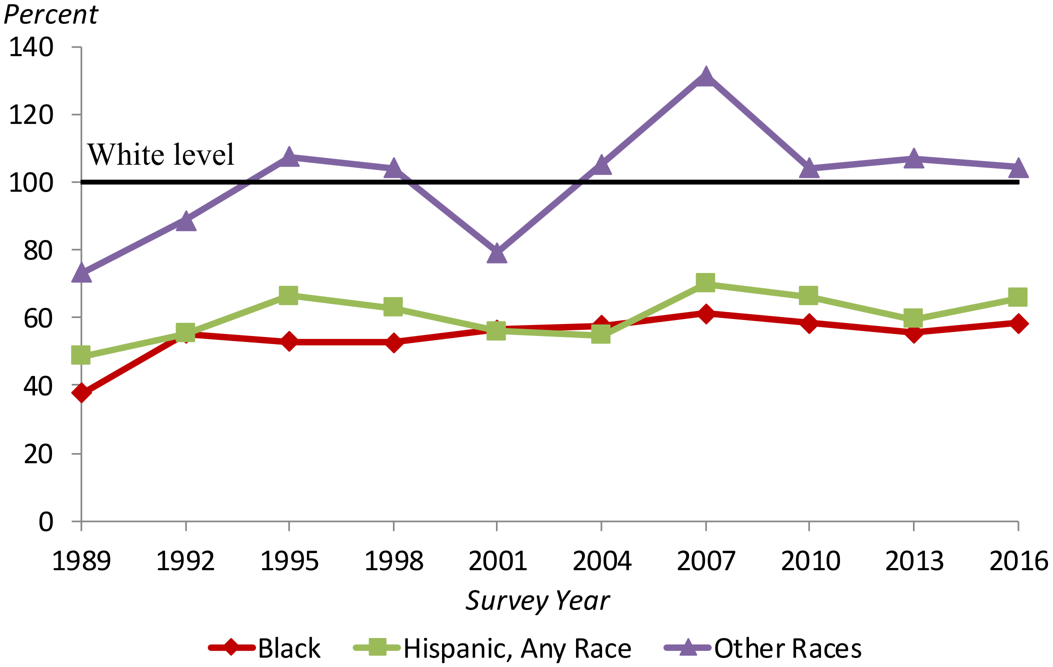
# RACE AND ETHNICITY

# Race, Ethnicity and Wealth

- Four groups based on race or ethnicity of the survey respondent:
  - Non-Hispanic white
  - Non-Hispanic black or African-American
  - Hispanic of any race
  - Other or multiple races (Asian, American Indian, Alaskan Native, Native Hawaiian, Pacific Islander, other race, identifies with more than one race)

# Black & Hispanic Income Gaps Closing Slowly

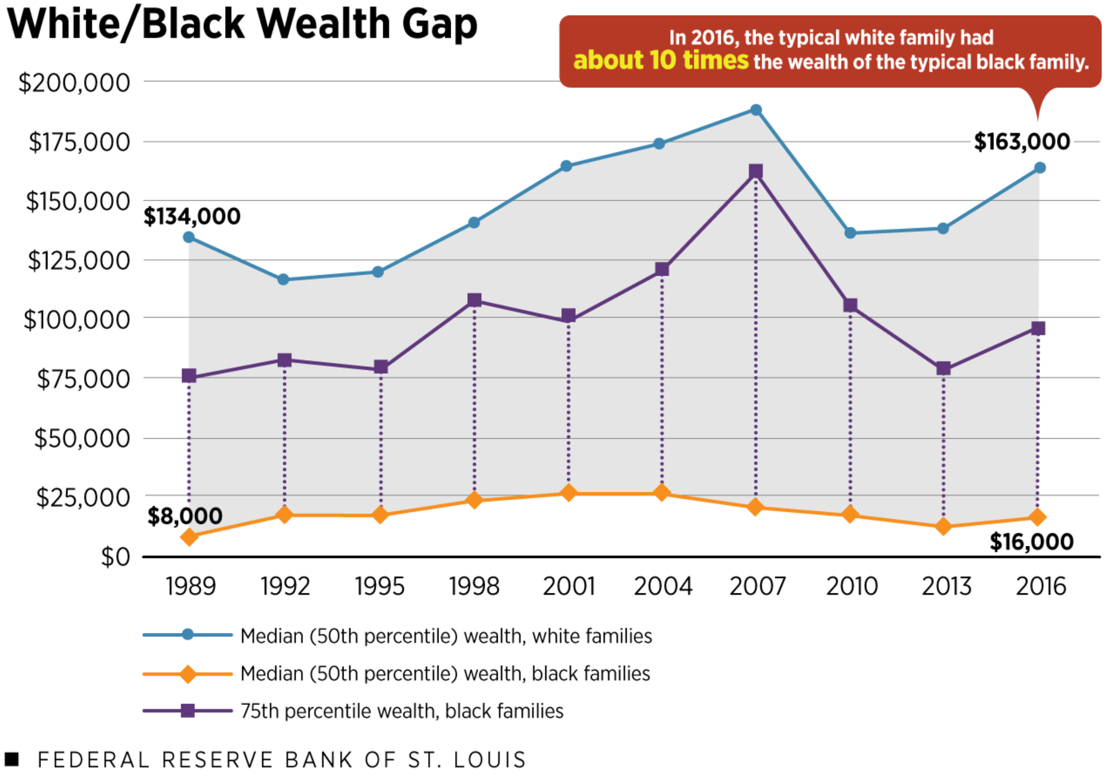
**Median Real Income, Relative to Non-Hispanic White Families**




Source: Federal Reserve Board's Survey of Consumer Finances.

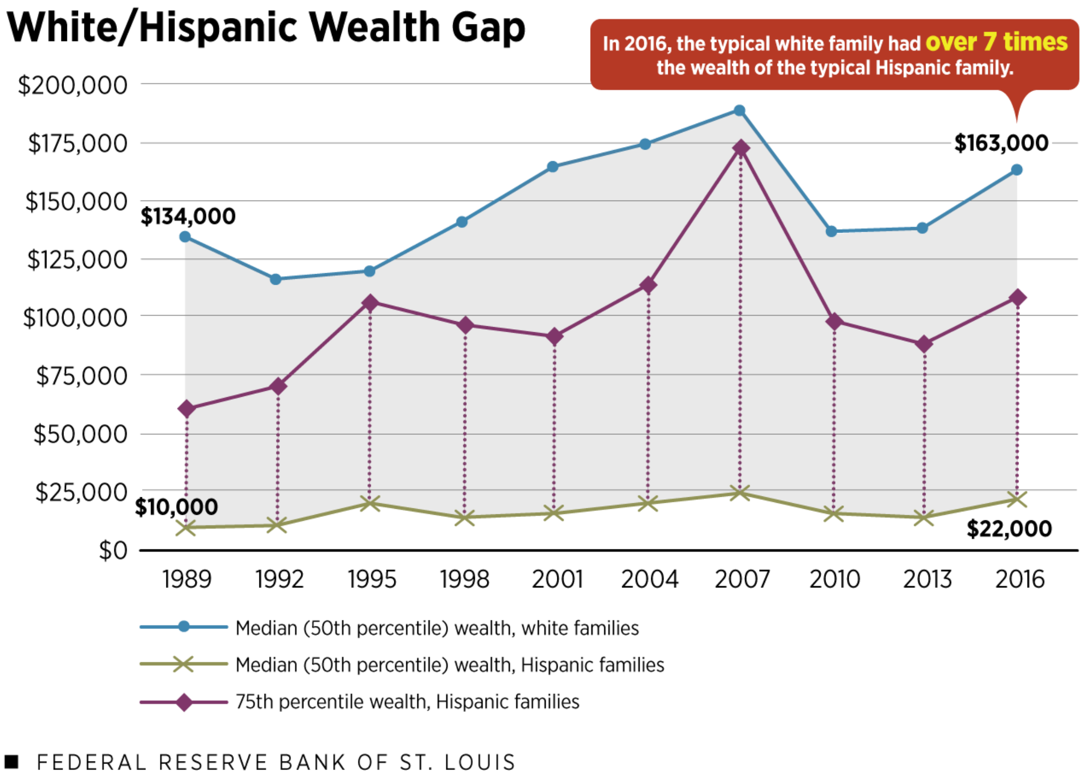
- Typical (median) income of black and Hispanic families has moved closer to that of white families but remains 40% lower.
- The typical "other-race" family has surpassed the typical white family's income.

# Racial/Ethnic Wealth Gaps are Wide and Persistent




- Despite some fluctuation, the large racial and ethnic wealth gaps remain essentially unchanged.
- Typical white families had about 10 times wealth of typical black families.
- Even wealthier black families (75th percentile) fall short of white medians (50th percentile).

# Racial/Ethnic Wealth Gaps are Wide and Persistent




- Over a nearly three-decade period, the U.S. has seen very little progress in narrowing racial and ethnic wealth gaps.
- In terms of the total wealth pie, white families in 2016 owned 89% of it, while black and Hispanic families owned 3% each.

# Why are Demographics So Powerful?

# Why Are Demographics So Powerful?

- Education
  - More education is *correlated* with many good outcomes:
    - More desirable occupation/profession.
    - Better household financial management.
    - More likely to be married.
    - Better health, longer life expectancy.
    - Higher income and wealth.
  - But *correlation isn't necessarily causation*—how important is education *per se*?

# Why Are Demographics So Powerful?

- Research shows that educational attainment reflects:
  - True value added
  - Signaling of your innate abilities
  - Investments made in you by your family and extended family.
- One of our essays uses parents’ education to predict outcomes.
  - Wealth is associated with parents’ educational attainment.
  - It appears that some people enjoy a “head start.”

# Why Are Demographics So Powerful?

- Age and Birth Year
  - Income and wealth exhibit strong life-cycle effects.
  - But timing appears to matter as well.
  - Some generations appear lucky.
    - Born in 1940s, 1950s.
  - Others appear unlucky.
    - Born in 1970s, 1980s.

# Why Are Demographics So Powerful?

- Race and ethnicity still matter—a lot.
  - Historical discrimination and disadvantage created large wealth gaps in the past, which profoundly affect today's children and adults (Aaronson et al. 2019).
  - Continuing discrimination and disadvantage hamper full participation and achievement (Howell and Korver-Glenn 2018).
  - Ongoing structural and systemic barriers make it difficult to narrow wealth gaps (Emmons and Ricketts 2017).

# IDEAS FOR MOVING FORWARD

# Conversation One vs. Conversation Two

**(Jackson 2017)**

- **Conversation one** outlines expedient, small-scale interventions aimed to solve tightly defined problems or improve existing institutions.

- **Conversation two** involves a deeper discussion about where wealth gaps come from and what larger-scale changes might close them.

- Both conversations are necessary but often in social sciences the first is preferred or crowds out the second.

# Conversation One

- Child Development Accounts / College Savings Accounts
  - Established at birth or when child enters kindergarten.
  - Universal (for all kids) and progressive (more for the poor)
  - Over 65 programs/policies in the U.S., some state- and city-wide (including College Kids in St. Louis).
  - Research shows positive impacts on child development, maternal health, and college outcomes.

# Conversation Two

- **Not** endorsing any specific policy but conversation two involves bold proposals such as:
  - Renewed pursuit of desegregation of primary and secondary schools.
  - Disassociate school funding from neighborhood wealth.
  - End residential segregation (by race and income).
  - Universal higher education.
  - Additional wealth redistribution.

# Conclusion

- While income and wealth poverty have improved from worst of the recession, inequality continues to grow.
- The families experiencing the most hardship fall along demographic fault lines.
- Reducing inequality, eradicating poverty and closing wealth gaps is no small task given deep-rooted causes.
- Realistic proposal needs big ideas along with proven interventions.

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