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Inequality and Poverty in the United States

FOCUS: Leadership St. Louis
December 4, 2020

Lowell Ricketts, Lead Analyst

**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?
- The Demographics of Wealth
- What Explains the Racial Wealth Gap?
- 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)

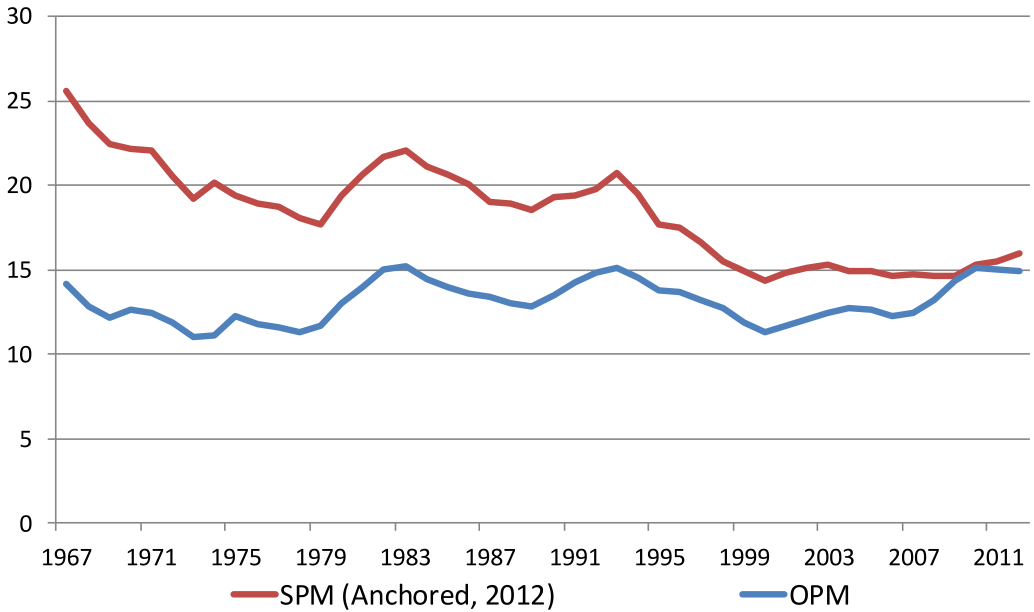
Supplemental Poverty Measure

- 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

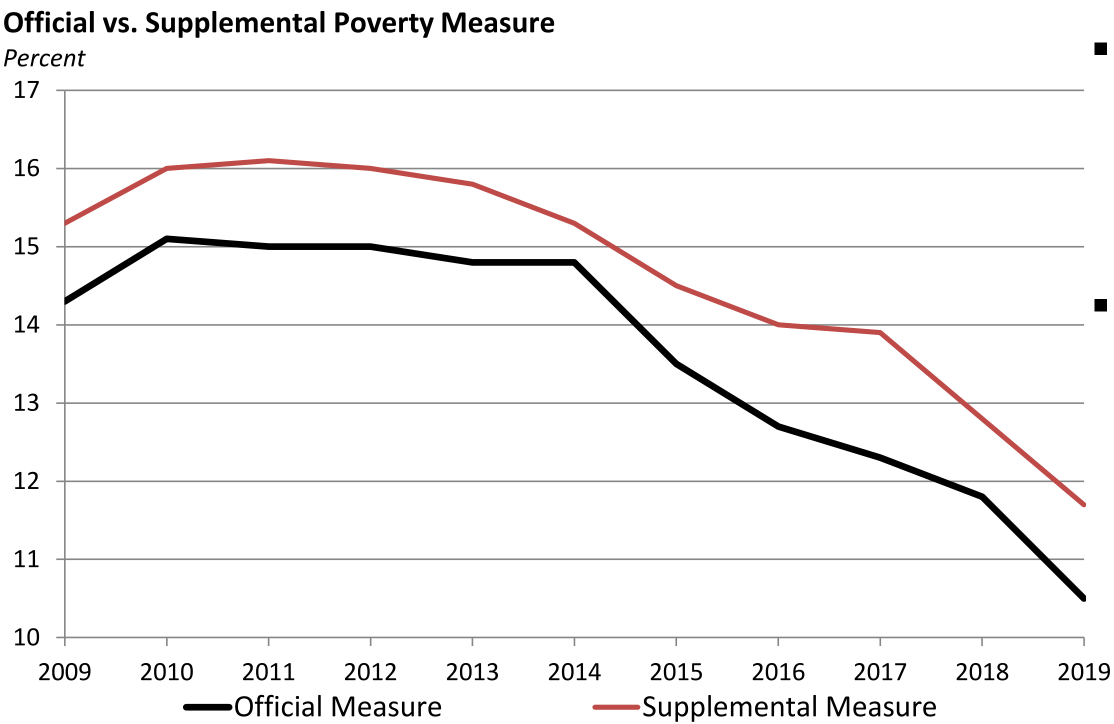
Percent



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.

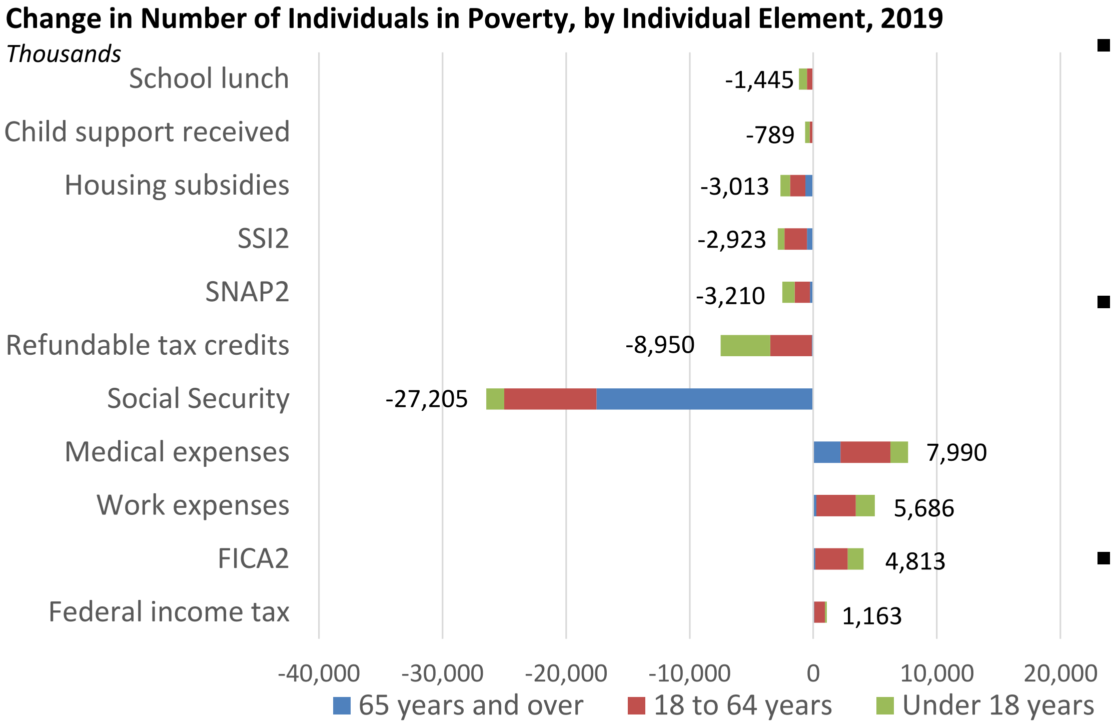
Recently, Both Measures Show Decline



Source: Census Bureau/ Haver Analytics.

- Since 2014, both measures indicate declining rates of poverty.
- Between 2018 and 2019, the OPM fell by 1.3 percentage points while the SPM fell by 1.1 percentage points.

SPM Offers Valuable Breakdown of Impact



Source: U.S. Census Bureau, Current Population Survey, 2020 Annual Social and Economic Supplement.

- Income from social security kept 17.5 million seniors out of poverty.
- SNAP helped keep about 1 million children out of poverty.
- In contrast, medical expenses pushed 7.7 million individuals into poverty.

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.

Strong Balance Sheets Critical to Weathering Shocks

- Accumulated wealth is central for both economic resiliency in the short-term and long-term upward mobility.

- Access to assets (especially liquid assets) is a form of private insurance for events such as an income shock.

- Liquid assets appear to be salient factor reducing risk of instability such as a missed housing payment. (Gallagher and Sabat 2017, Ricketts and Boshara 2020)

Defining *Asset* Poverty

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

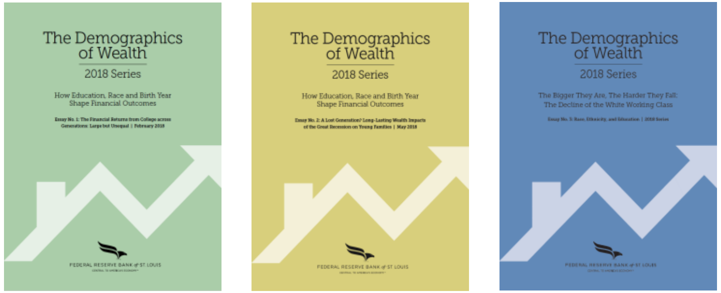
- **37% of adults** would cover an emergency expense of **$400** by selling something or borrowing money. (2019 SHED)

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

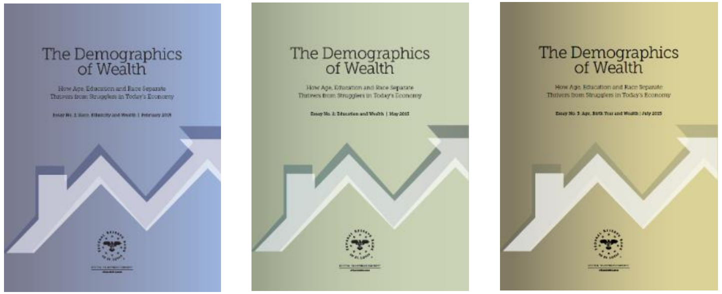
THE DEMOGRAPHICS OF WEALTH

The Demographics of Wealth Series

2018 Series



2015 Series



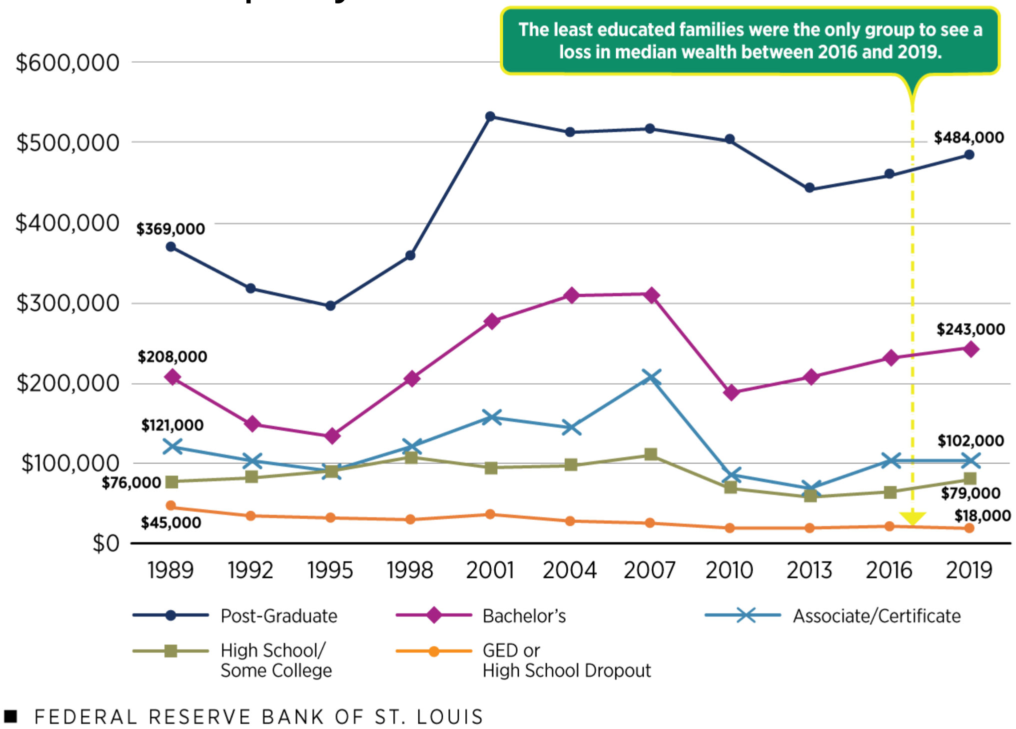
[Demographics of Wealth Essays]

- 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
- These demographic factors are strongly associated with family outcomes.

EDUCATION

Growing Returns to Education Over Time

Wealth Gaps by Educational Attainment

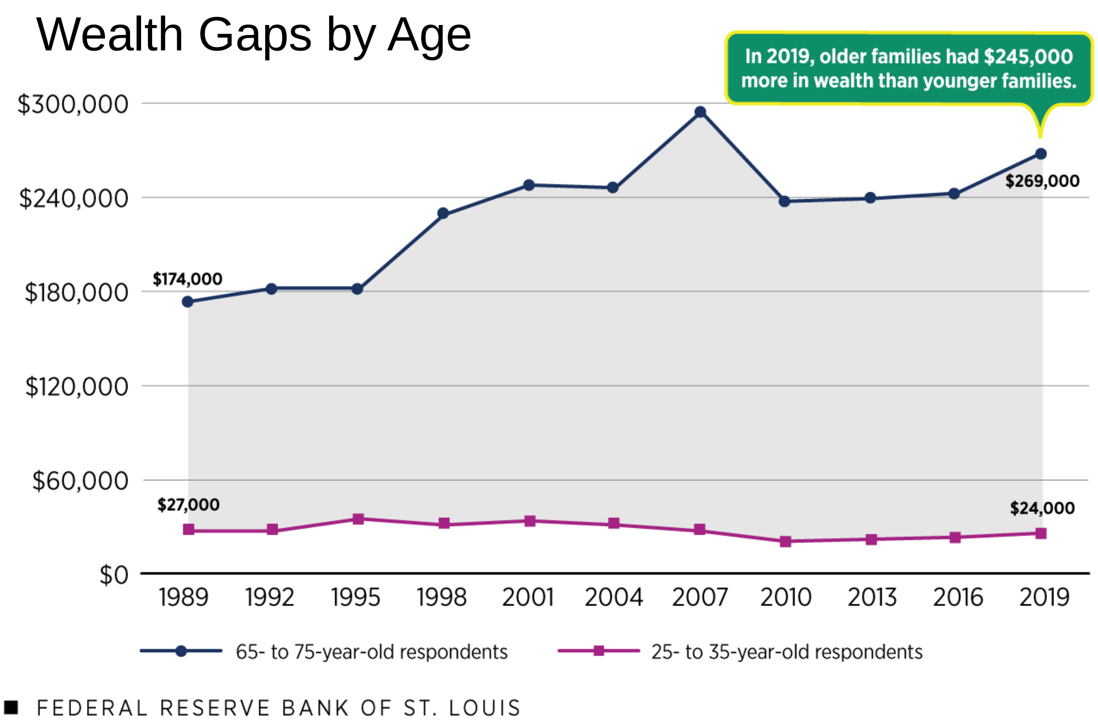


Source: Kent and Ricketts (2020).

- 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.

Age and Birth Year

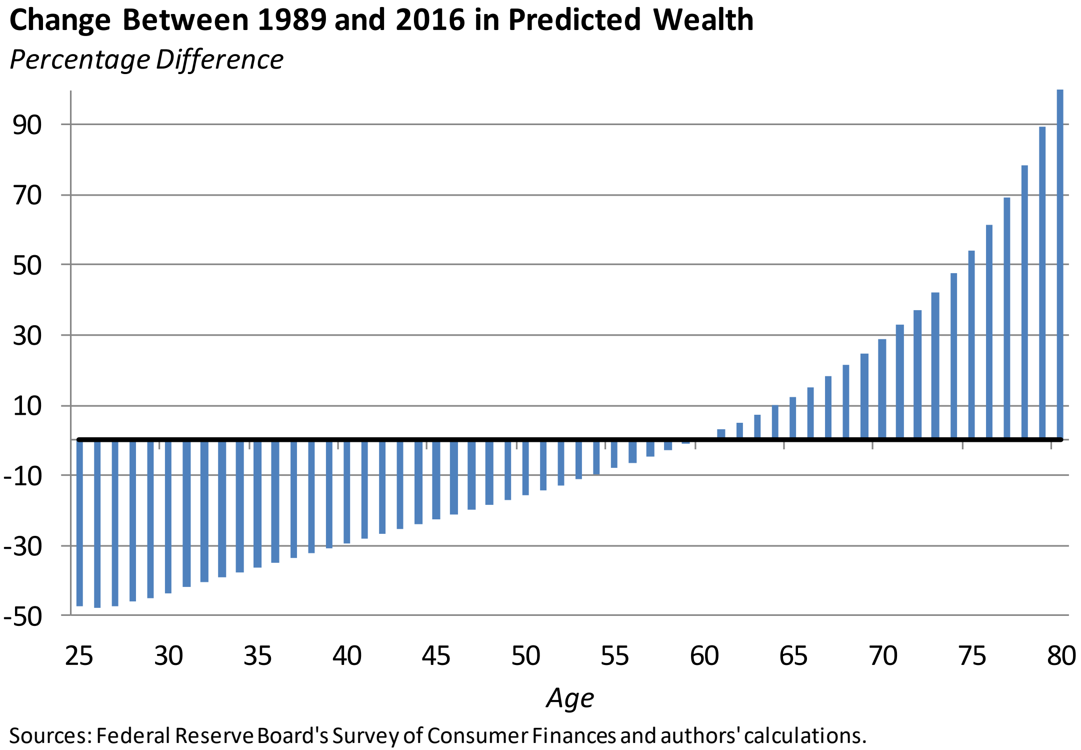
Broadest Wealth Gap is by Age



Source: Kent and Ricketts (2020).

- 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* you were born to some extent.

The Changing Fortunes of Age



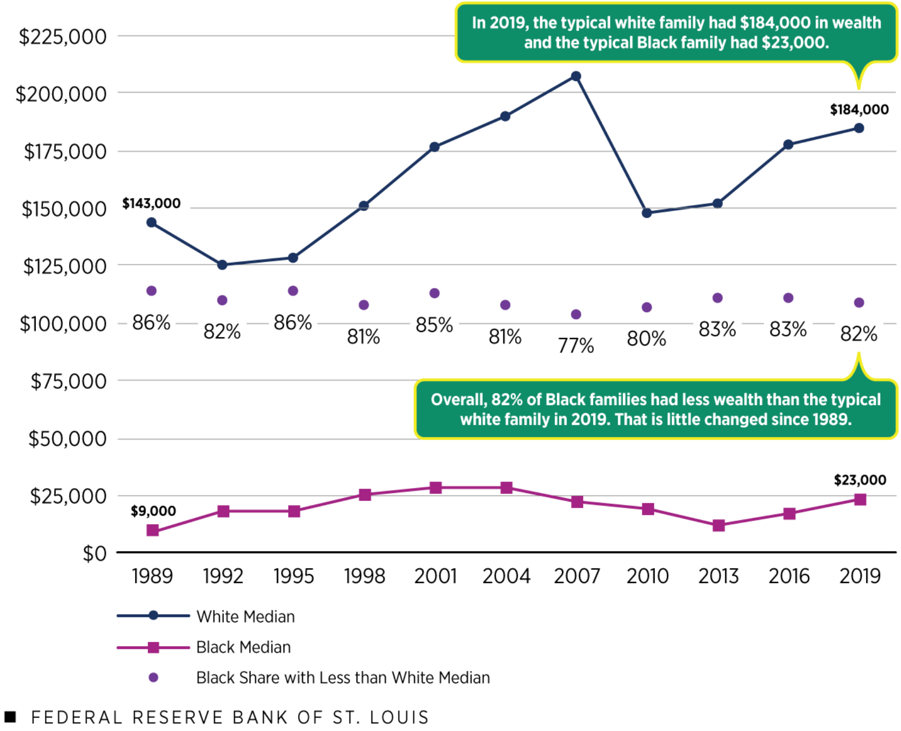
Source: Emmons, Kent and Ricketts (2018).

- 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.

Race and Ethnicity

Racial/Ethnic Wealth Gaps are Wide and Persistent

Median Wealth Gap Between White and Black Families

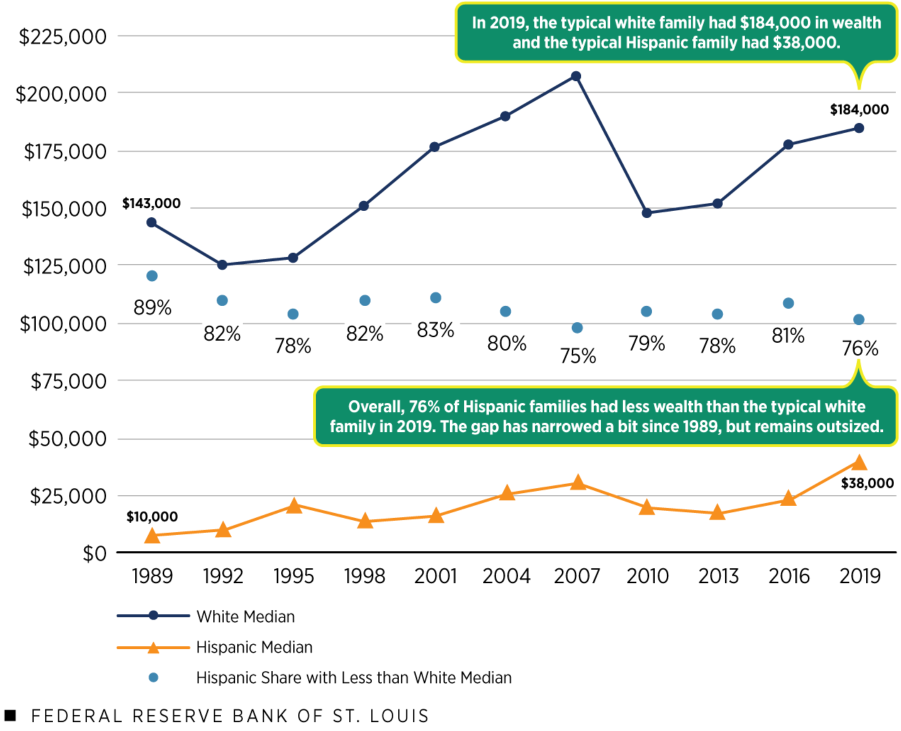


Source: Kent and Ricketts (2020).

- Despite progress in other areas, the large racial and ethnic wealth gaps remain essentially unchanged.
- Typical Black families had about 12 cents per $1 of wealth of white families.
- Even wealthier Black families (82nd percentile) fall short of white medians (50th percentile).

Racial/Ethnic Wealth Gaps are Wide and Persistent

Median Wealth Gap Between White and Hispanic Families



Source: Kent and Ricketts (2020).

- The wealth gap between Hispanic and white families was similar.
- The typical Hispanic family had around 21 cents per $1 of white families.
- Even wealthier Hispanic families (76th percentile) fall short of white medians (50th percentile).

What Explains the Racial Wealth Gap?

What Explains the Racial Wealth Gap?

- Thompson and Suarez (2015): "Observable factors account for most of the gap between white and black families, but a substantial unexplained portion remains."

- Observable factors include everything and the kitchen sink.

- They cede that "some of the key factors that account for the wealth gap in our regression analysis, including income and homeownership, *could reflect themselves the effects of racial biases as well*. [emphasis added]"

What Explains the Racial Wealth Gap?

- Emmons and Ricketts (2017) presents alternative theoretical framework that attributes racial differences in observables to systemic or structural factors in the past and present.

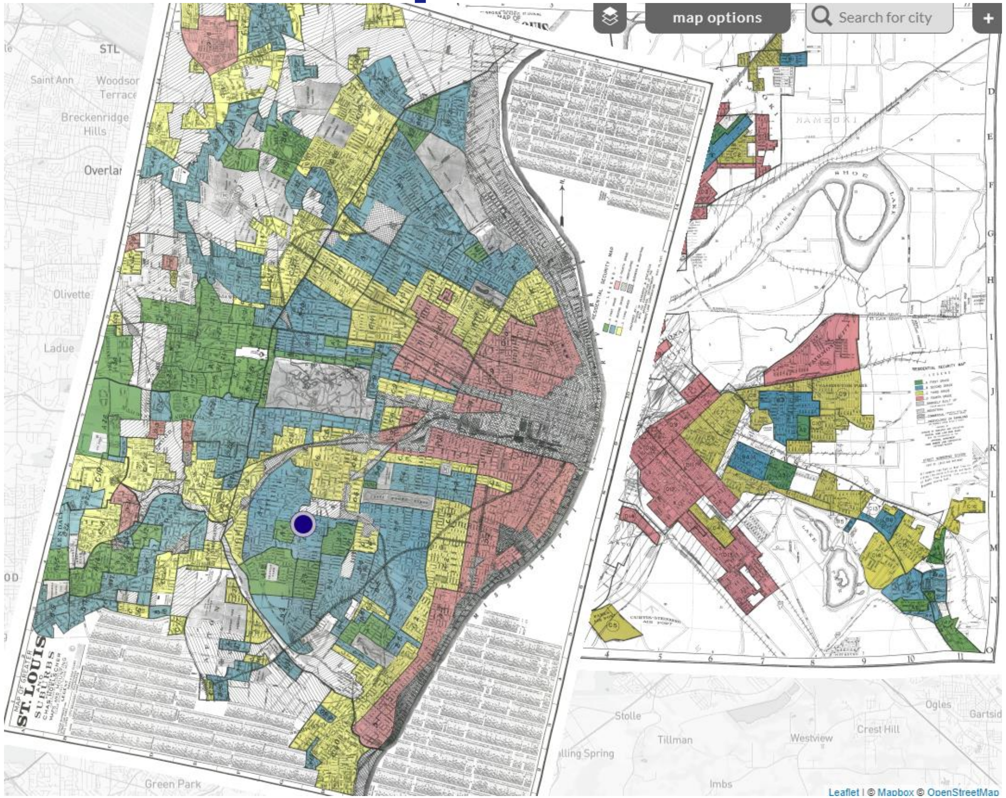
- A comparison of frameworks provides suggestive evidence that Black- and Hispanic-White wealth gaps *may lie beyond the scope of individual actions or marginal policy changes*.

- Instead, the gaps appear to be deeply rooted in unobservable factors that may include discrimination or other long-lasting disadvantages.

The Practice of Redlining

- In wake of Great Depression, the Home Owners' Loan Corporation (HOLC) was created in 1933 by the Federal government to stabilize housing markets.
- HOLC created maps for over 200 cities to grade (A = least, D = most risky) the riskiness of lending to neighborhoods.
- In addition to common factors, racial and ethnic makeup was also included (e.g. "infiltration of a lower-grade population".)
- Neighborhoods deemed to have the highest risk were drawn in red, consequently borrowers in these neighborhoods were denied credit based on racial composition.

HOLC Maps in St. Louis



Source: Robert K. Nelson, LaDale Winling, Richard Marciano, Nathan Connolly, et al. “Mapping Inequality”, *American Panorama*, ed. Robert K. Nelson and Edward L. Ayers, accessed July 30, 2020, Link

"The Effects of the 1930s HOLC Redlining Maps"

- The maps affected the degree of racial segregation: areas graded "D" became more heavily Black than nearby C-rated areas.
- The maps also had a meaningful negative effect on homeownership, house values, rents, and vacancy rates.
- Effects rose steadily from 1930 until about 1970 or 1980 before declining thereafter.
- The maps could account for 15-30% of the D-C differences in segregation and homeownership; 40% of gap in house values over the 1950 to 1980 period.

Source: Aaronson, Hartley, and Mazumder (2019)

Systemic Barriers Continue to Undermine Black and Hispanic Homeownership

- Lack of access to traditional mortgages lends itself to "contract for deed" financing in communities of color (Carpenter, George, Nelson 2019).
- Nonstandard appraisal process features subjective selection of neighborhood comps (or lack thereof) leading to appraisal gaps (Howell and Korver-Glenn 2018).
- Late entrance into homeownership coupled with labor market vulnerability leads to greater foreclosure rates (Bayer, Ferreira, Ross 2016).

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

- BankOn
  - Close to 7% of U.S. households are “unbanked,” and lack a checking or savings account.
  - About 20% of U.S. households are “underbanked,” meaning they still use some fringe financial services.
  - BankOn focuses on providing an industry-standard for safe and appropriate accounts, particularly those without overdraft.
  - Accounts help families to avoid using expensive alternative services and paying too much for basic financial transactions.

Conversation Two

- **Not** endorsing any specific policy but conversation two involves bold ideas 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.
  - Wealth taxation.

Conclusion

- While income and wealth outcomes have significantly improved, the current crisis could rollback gains.
- The families experiencing the most hardship fall along demographic fault lines.
- 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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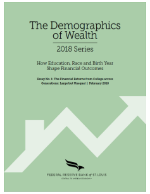

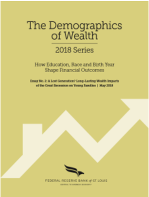

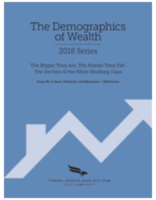

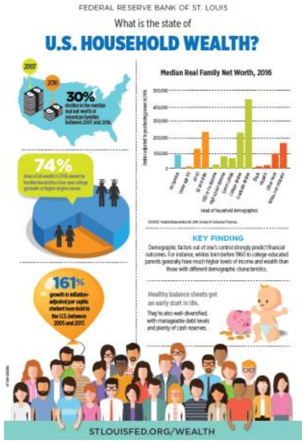

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