Inequality and Poverty in the United States

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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?
- 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

- 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.

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

Percent


SPM (Anchored, 2012)  OPM

Source: Census Bureau/ Haver Analytics and (2013: Wimer, Fox, Garfinkel, Kaushal, and Waldfogel).
Recently, Both Measures Show Decline

- 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.

Source: Census Bureau/ Haver Analytics.
SPM Offers Valuable Breakdown of Impact

- 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.

![Change in Number of Individuals in Poverty, by Individual Element, 2019](chart)

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

- 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

- 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.

Source: Kent and Ricketts (2020).
AGE AND BIRTH YEAR
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.

**Source:** Kent and Ricketts (2020).
The Changing Fortunes of Age

- 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.

Sources: Federal Reserve Board’s Survey of Consumer Finances and authors’ calculations.
RACE AND ETHNICITY
Racial/Ethnic Wealth Gaps are Wide and Persistent

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

Median Wealth Gap Between White and Black Families

**Source:** Kent and Ricketts (2020).
Racial/Ethnic Wealth Gaps are Wide and Persistent

- 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).

Source: Kent and Ricketts (2020).
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

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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