

FEDERAL RESERVE BANK OF ST. LOUIS



CENTRAL TO AMERICA'S ECONOMY

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De-mystifying Financial Capability: Theory and Practice

CFED 2014 Assets Learning Conference
Washington, DC, Sept. 18, 2014

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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.*

Evolving Frameworks

Asset Building → Balance Sheets

Democratizing Credit → Democratizing Capital

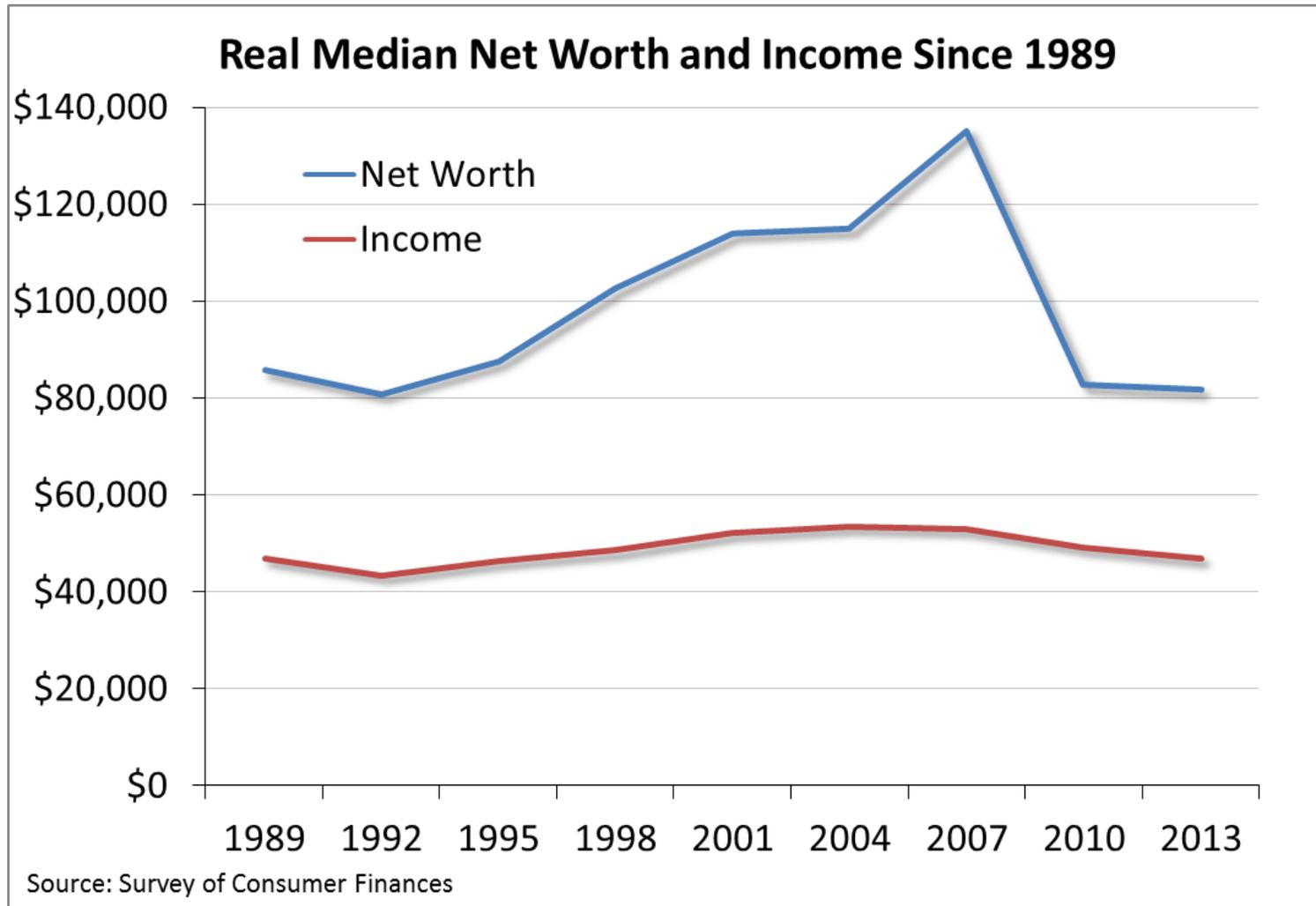
Financial Education → Financial Capability

“The capacity, based on knowledge, skills, and access, to manage financial resources effectively.” - President’s Advisory Council on Financial Capability

On the horizon: Financial Capability →

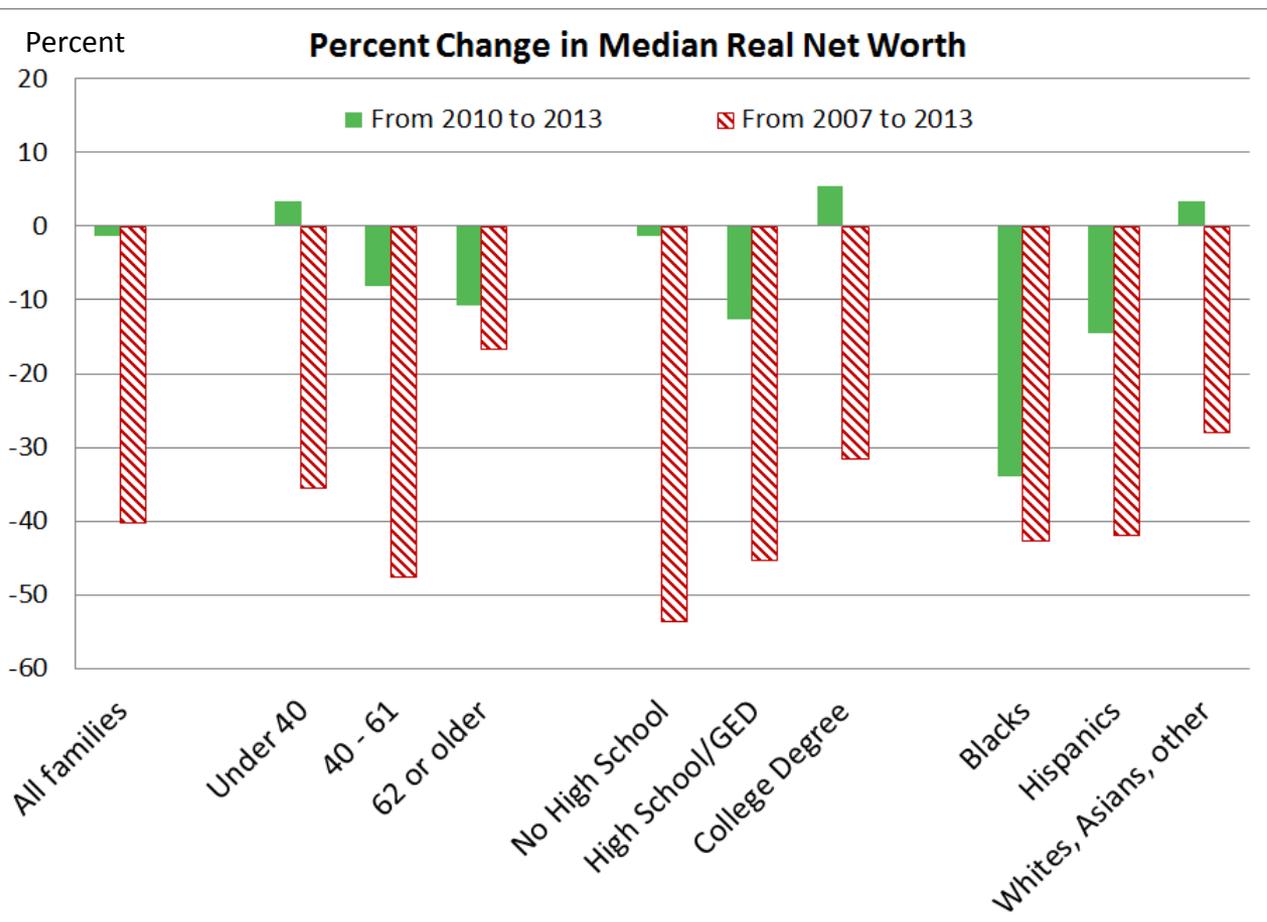
- Financial Well-Being (CFPB et al.)*
- Financial Health (CFSI)*
- Insights from the U.S. Financial Diaries Project*

The Great Recession Erased Two Decades of Growth in Income and Wealth



Who Lost Wealth in the Great Recession?

The Role of Age, Education and Race/Ethnicity

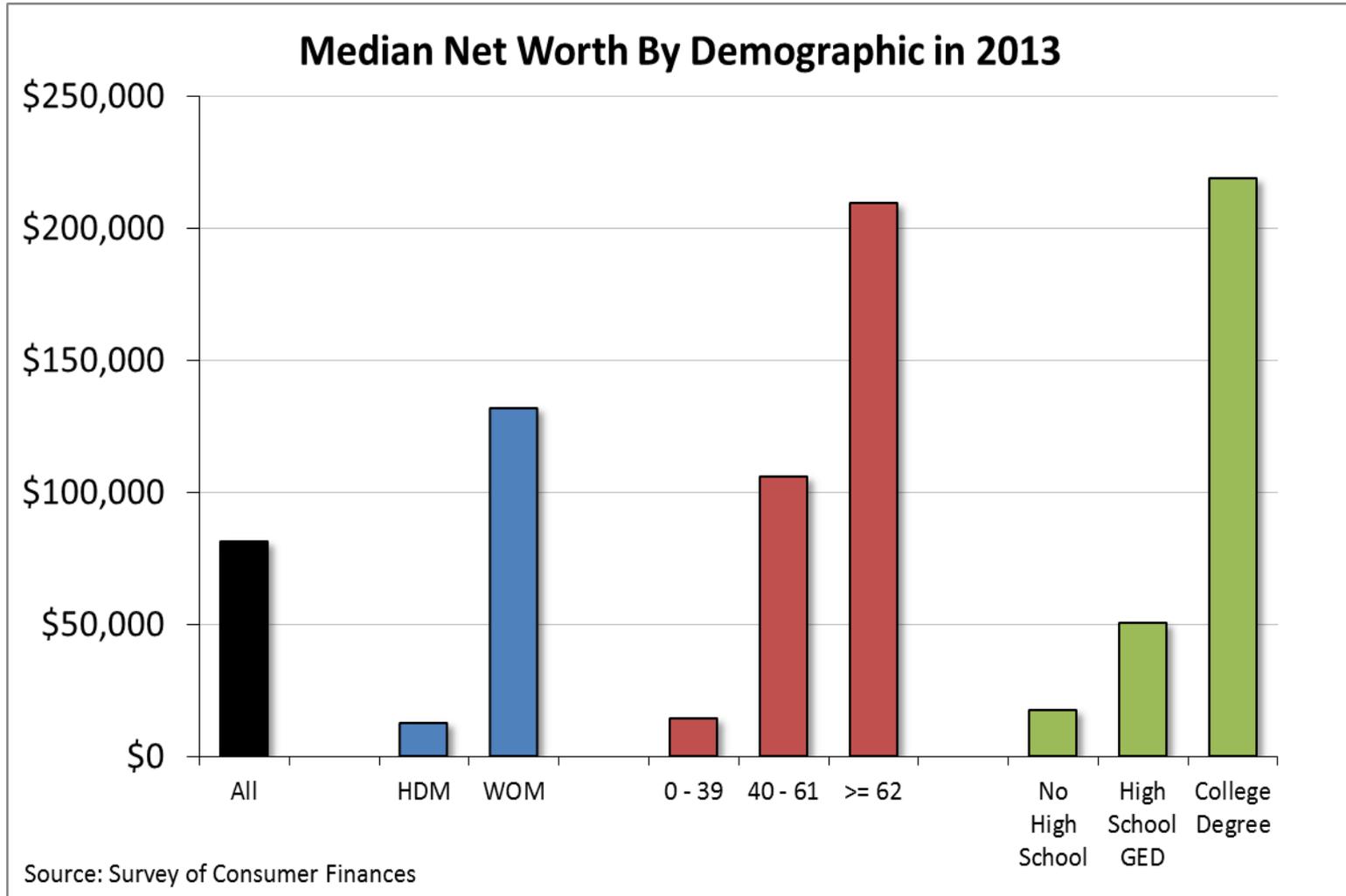


% change, 2007 to 2013

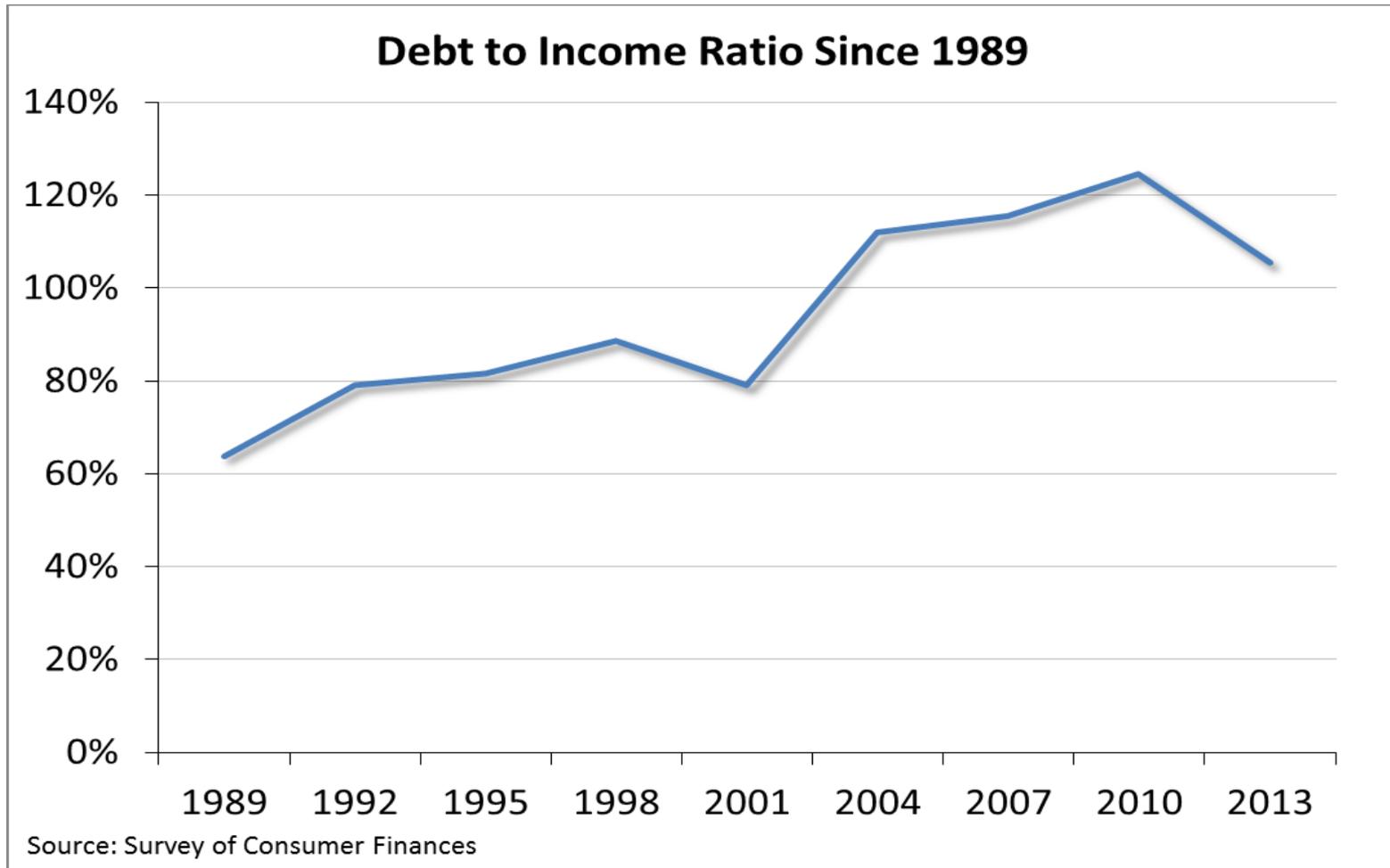
- Younger families
 - Under 40: -35.5%
 - Age 40-61: -47.6%
- Less-educated families
 - Less than HS: -53.6%
 - High school grads: -45.3%
- Historically disadvantaged families
 - African-Americans: -42.6%
 - Hispanics: -41.8%

Source: Federal Reserve Board, Survey of Consumer Finances

Household Wealth Levels, 2013



Families are Still Deleveraging



Economic Trends Impacting Family Balance Sheets

- Increasing income and expense volatility (U.S. Financial Diaries; Dynan *et al.*)
- Debt overhang and prolonged recovery (Sufi and Mian; Emmons and Noeth); long shadow of a severe “balance sheet recession”
- Family structure, especially the rise of single-parent households without college degrees (Putnam; Wilcox; Cahn and Carbone; Sawhill)
- Returns to capital v. returns to labor; growing income and wealth inequality (Piketty; Stiglitz; Chetty; Saez; Krueger, etc.)

Ideas for Moving Forward

- Consider demographic drivers of economic vulnerability, not just income
- Start as early in life as possible to build a healthy balance sheet
- Strive toward balance sheet diversification
- Think about influencing institutions, not just products and people