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From Asset Building to Balance Sheets

Reflections on the First and Next 20 Years of Federal Asset-Building Policy

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Ray Boshara, Senior Advisor
Director, Center for Household Financial Stability
Federal Reserve Bank of St. Louis
www.stlouisfed.org/hfs

The First 20 Years

1991 – 2001

Reactions among the left and right

- Welfare reform widely discussed
- Right and centrists largely receptive, unease on the left
- Policy proposals were "weak tea," but many progressives believed the idea was dangerous

Policy ahead of practice and research

- Can the poor save?
- ADD-AFIA-SWFA-USAs story—millions to billions to hundreds of billions over just a couple of years

→ *Impact: Very little public funding, big impact on poverty debates; wealth inequality on the table*

2001 – 2011

The "scale" challenge gets real

- Beyond IDAs
- Bigger platforms
- Scalable demonstration projects
- Double bottom lines
- Small changes, big results; impact of behavioral economics

Bush v. Obama

Financial and Economic Crisis challenges the credibility of the field

→ *Impact: Funding, and establishment of the Consumer Financial Protection Bureau*

Policy Lessons

1. Evidence matters – up to a point
2. Be clear about what problem you are trying to solve
3. Don't start where you don't want to end up
4. Local politics may matter more than national politics
5. Listen, learn, and evolve – policy change happens over decades

The Next 20 Years

- Fiscal austerity
- Weakening public safety nets
- Weak economic growth for at least another five years, due in part to household deleveraging. But perhaps longer—what replaces the American consumer as the engine of economic growth?
- Income gains not broadly or evenly shared
- Financial instability rising well into the middle class

→ *Those who most need to rebuild their balance sheets will have the hardest time doing so, and governments at all levels will be unwilling or unable to provide assistance just as it is needed the most*

Breaking Records in Pursuit of the American Dream of Homeownership

(Boshara and Emmons, 2013)

Over the past decade, we had the…

- Highest rate of homeownership ever recorded—69% in 2004
  - Latest data: 65.2% in first quarter of 2013
- Highest concentration of wealth in homeownership since at least 1952, when data began—33% in 2005
  - Latest data: 25.0% in fourth quarter of 2012
- Highest personal debt-to-income ratio since at least 1952, when data began—132% in 2007
  - Latest data: 105.5% in fourth quarter of 2012
- Lowest personal saving rate since 1934—1.5% in 2005
  - Latest data: 2.6% in first quarter of 2013

From Asset Building to Balance Sheets

These balance sheet "failures" led to the worst economic downturn—a "balance sheet recession"—since the Great Depression, from which we are still recovering…

And harmed the stability and upward mobility of millions of families and future generations.

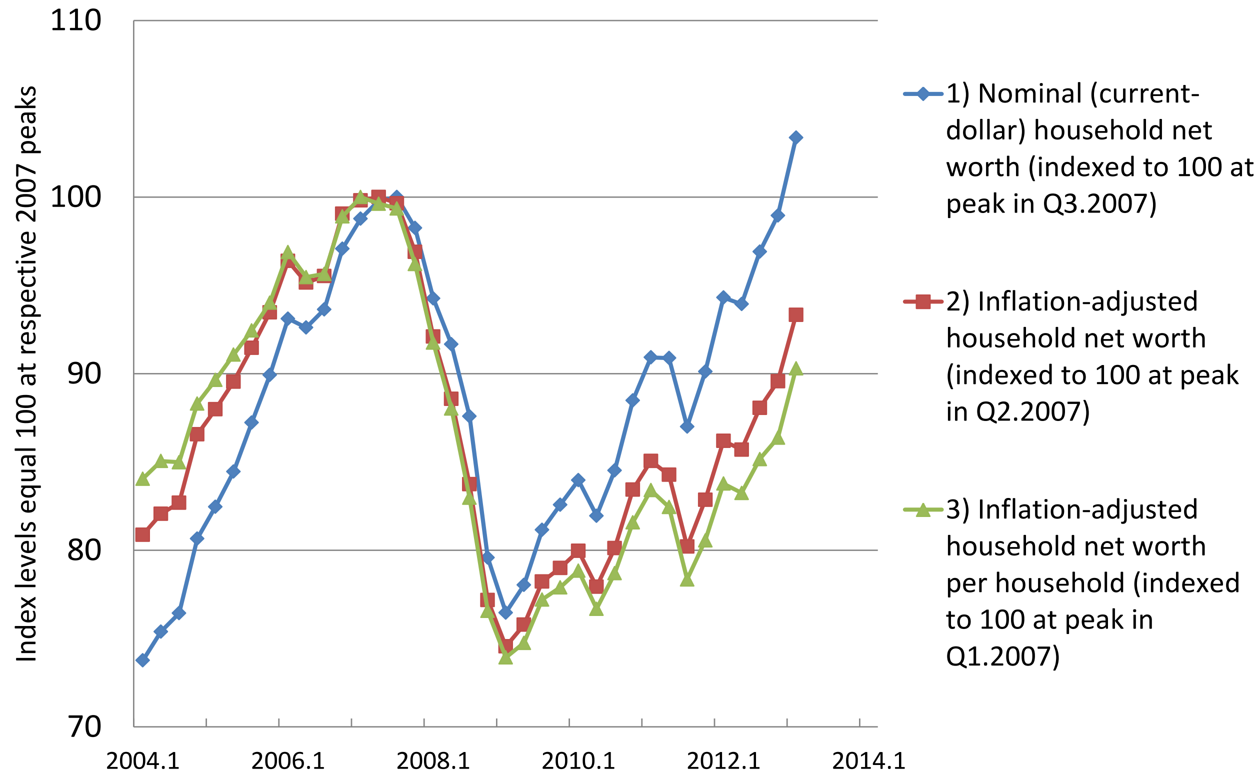
Which is why the Center is focusing on family balance sheets:

1. What is the state of American family balance sheets?
2. Why do balance sheets matter for families and the economy?
3. What can we to improve them?

An Uneven Recovery: Whose Wealth Has Recovered?

(Emmons and Noeth, June 2013)

Measures of Household Net Worth



Sources: Federal Reserve Board, Bureau of Economic Analysis, Bureau of the Census

An Uneven Recovery—Narrative

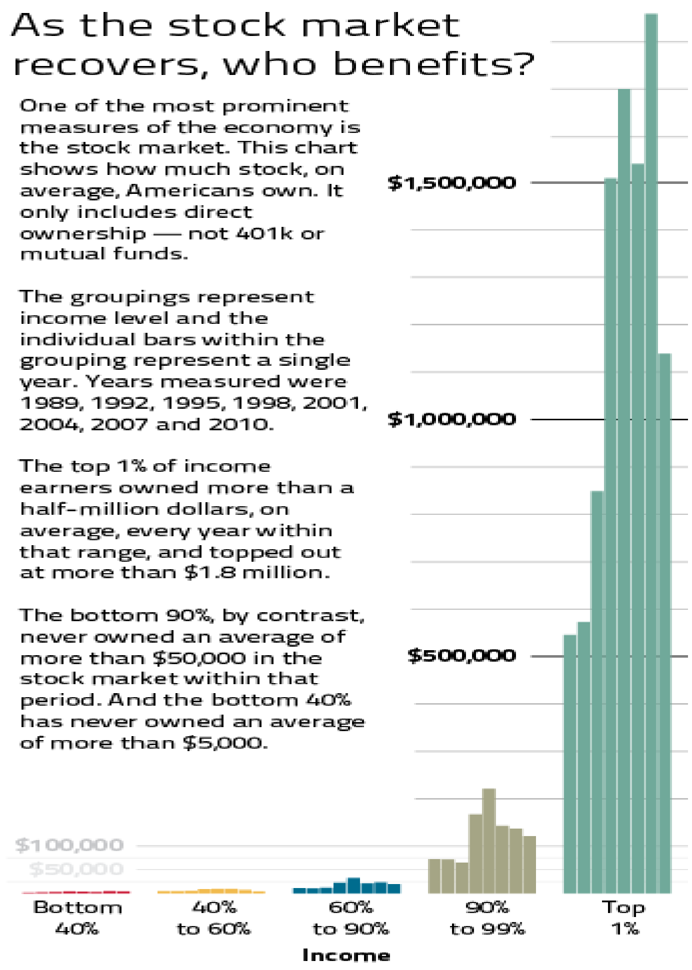
- $16 trillion in household wealth was lost from 2007-2009
- In nominal terms, that wealth has been more than recovered (114%)
- However, adjusting for inflation (1.9% per year) and population growth (3.9 million new households) since 2007, only 63% has been recovered by the typical household
- Of that 63%: financial assets and stocks (86%), mortgage reduction (18%), business assets (.5%), housing (-3%)
- Furthermore, most of the recovered wealth has been in stocks, which are disproportionately owned by wealthier families
- The wealth of most families is in housing, which is still down about 30% from the peak in 2005-2006. Mortgage debt is still over 70% of the debt on family balance sheets
- Housing wealth declines have a larger negative effect on consumption than financial wealth declines

An Uneven Recovery—Narrative, con't.

- Public policy responses (pre- and post-crisis) have been "upside down"—largely benefiting families likely to recover their wealth anyway
- Accordingly, most families are still struggling, and do not own the types of assets that are appreciating, which contributes to the sluggish recovery
- Younger, less-educated, and non-White families lost the greater percentage of their wealth, while older, better-educated, and White and Asian families have recovered well
- Using these demographic drivers of balance sheet health, families can generally be placed into one of three categories – strong, still struggling, and sinking

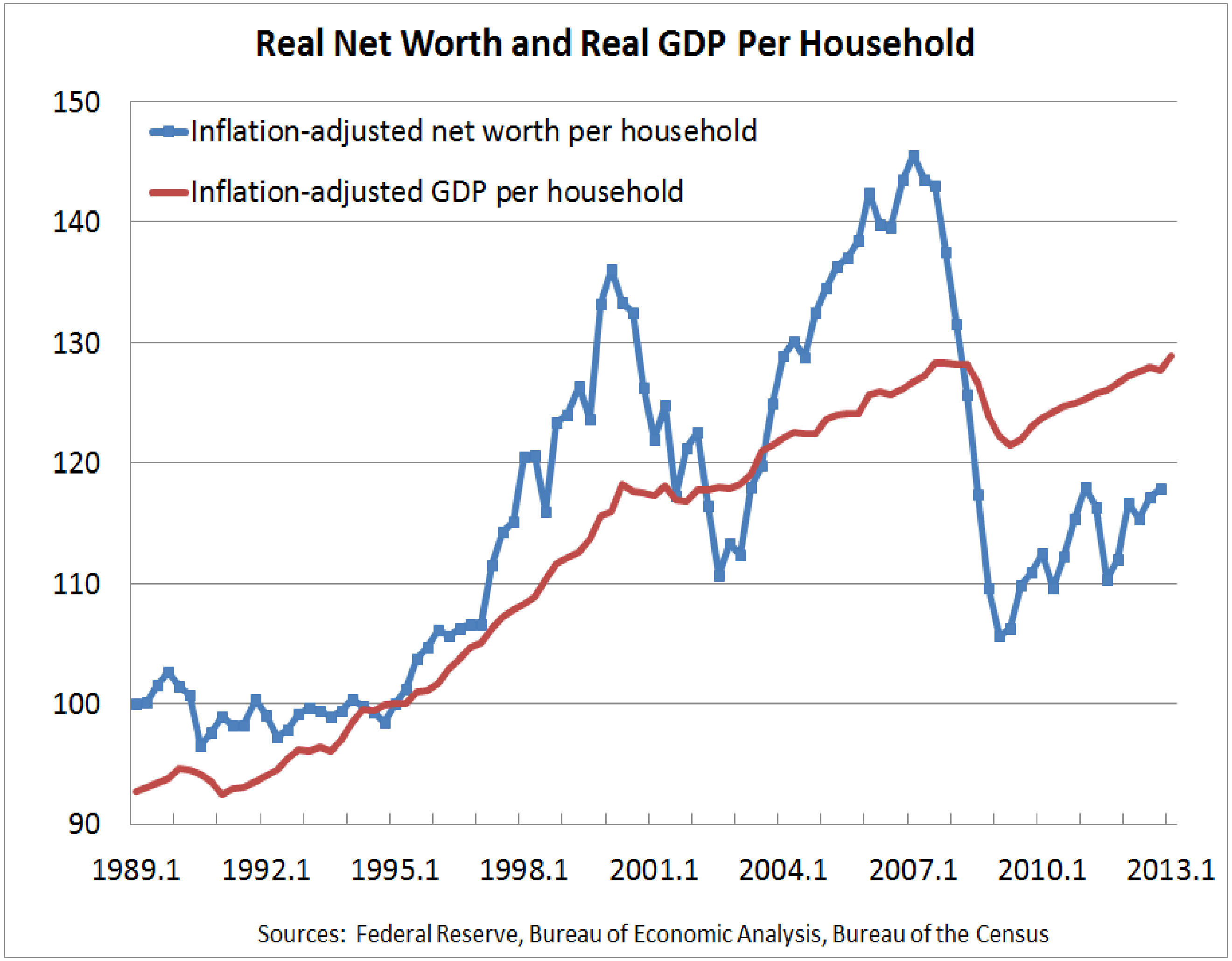
Stock Market Ownership by Income

(Noeth, 2013; graphics by *The Beacon*, 2013)



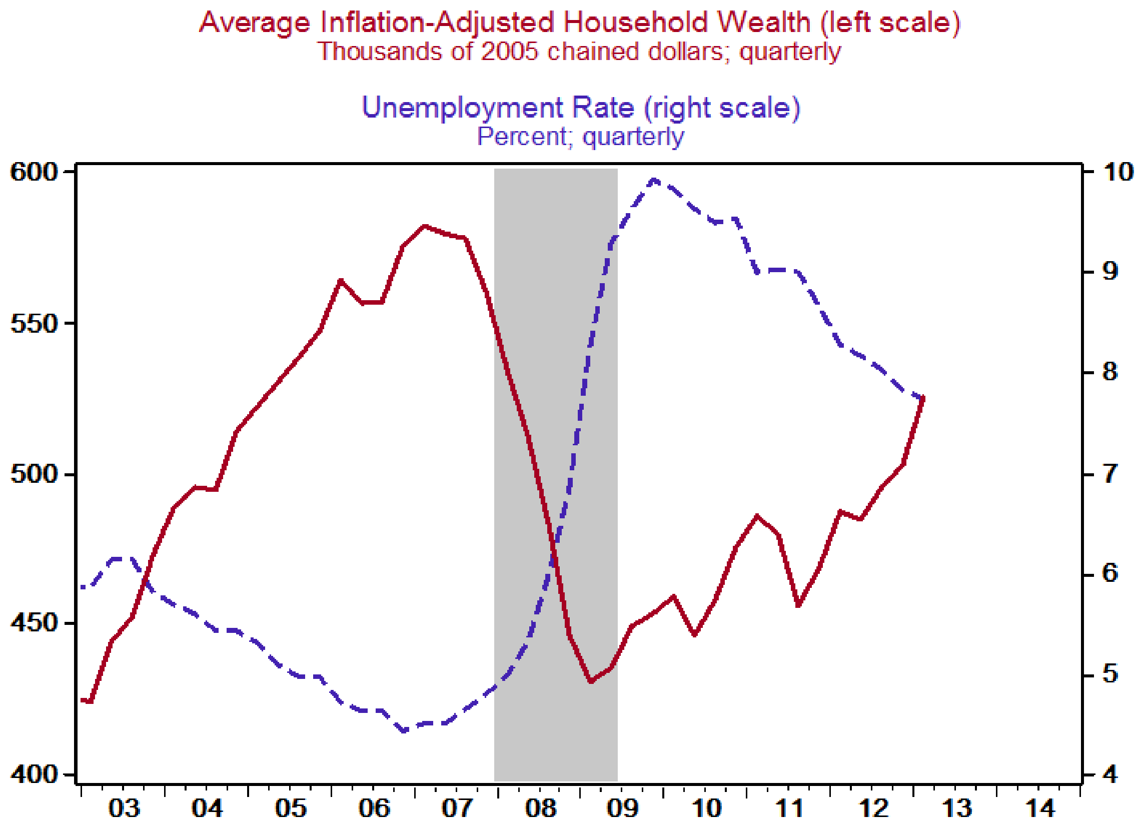
Household Net Worth and Economic Growth

(Emmons, 2013)



Household Net Worth and Economic Growth, cont.

(Emmons, 2013)

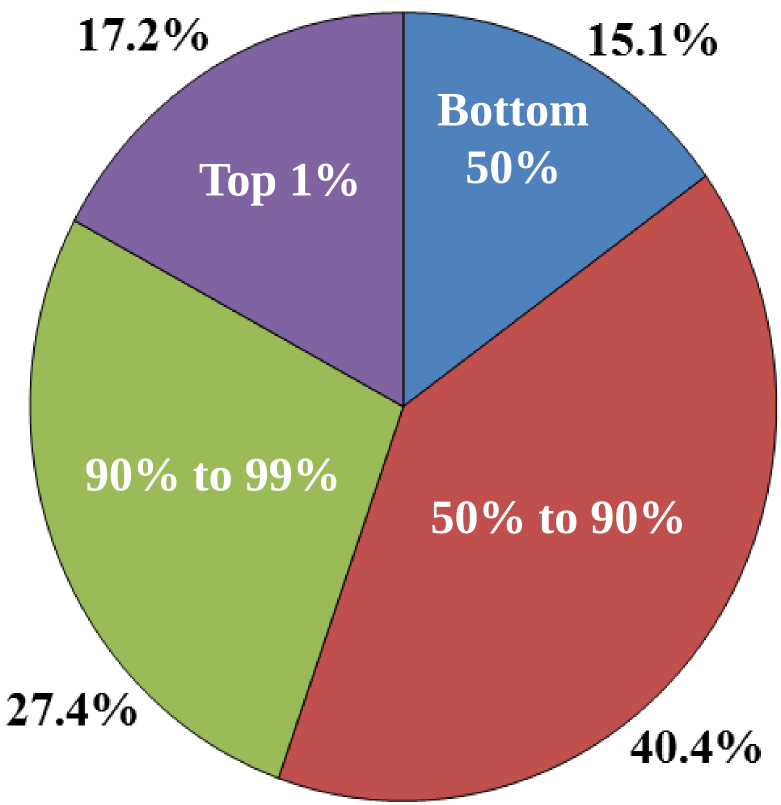


Source: Haver Analytics

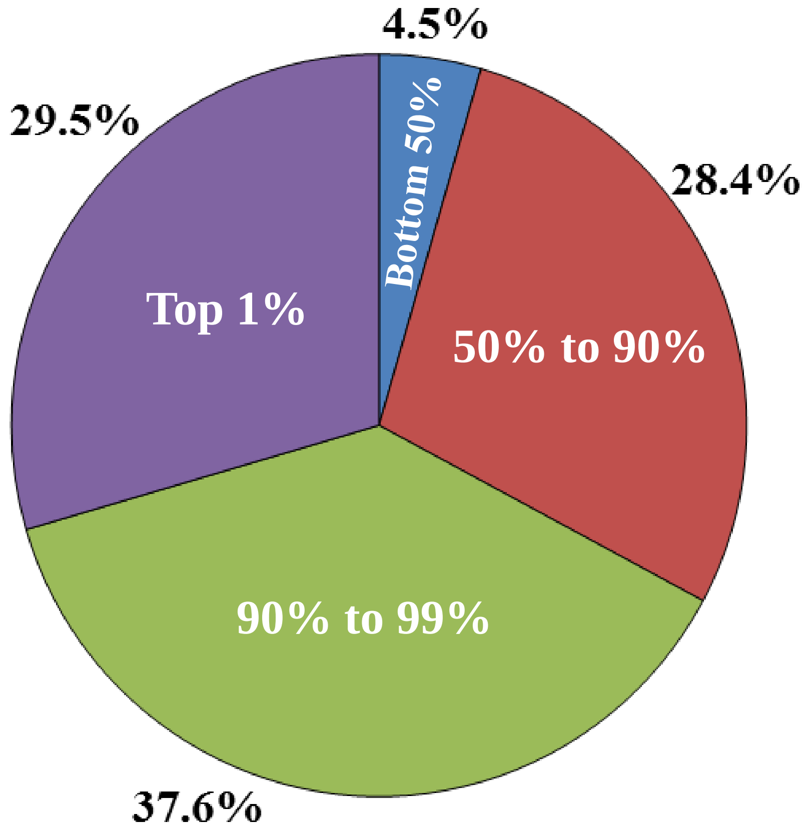
Distribution of Income and Wealth

(Noeth, 2013;Survey of Consumer Finances, Federal Reserve, 2010)

Income



Real & Financial Assets



Two Polices: Mobility and Maintenance

(Economic Mobility Project, 2009)

Objective	Annual Budget	Wealth Incentives	Challenge
Income maintenance – "getting by"	$1.3 trillion (10% of GDP)	None, or negative	Reorient towards assets and mobility
Economic mobility – "getting ahead"	$746 billion (5.7% of GDP)	$547 billion in tax incentives for homes, retirement, investments, education, etc	Retarget towards lower- and middle-income families

What Works?

Lesson	Example
Opt-out policies work better than opt-in (Madrian and Shea, 2001)	• New hires: 48% increase • Overall: 11% increase • Women: 36% to 86% • Hispanics: 19% to 75% • Earnings < $20,000: 13% to 80%
Easy and automatic is best (Thaler, 2013)	• "Save More Tomorrow" program: Savings rate tripled in one company • $7 billion new savings per year overall in the U.S
"Social norms" are effective (Thaler, 2012)	• 15% increase in tax collections in Britain when "9 out of 10 people in Manchester" message was used, compared to warnings
"Anchoring" works (Grinstein-Weiss, 2013)	• Savings increased in the "Refund to Savings" experiment when the "anchor" amount was raised from 25%, 50%, and 75% of the refund

Ideas to Rebuild Family Balance Sheets

Goal	Strategy
Build short-term savings	• “Split” refunds at tax time • Escrow savings in mortgages • Save while you spend
Diversify assets beyond homeownership	• Expand low-cost investments • Support small business ownership • Promote unrestricted savings
Build retirement savings	• Promote “AutoIRA” policy for workers without retirement plans • Adopt auto-enrollment, auto-escalation, and auto-allocation plans for workers with retirement plans
Start saving early in life, especially for education	• Adopt “Early Pells” • Promote savings accounts at birth
Reduce negative equity and excessive mortgage debt	• Encourage mortgage modifications • Reduce tax and policy bias toward homeownership and borrowing

Returns on Assets, 1983-2007

(Noeth, 2013)

Financial assets, stocks	Pensions	Business, non-residential real estate	Liquid assets	Residential real estate
7.2%	3.9%	2.2%	1.7%	1.6%

Key Policy Challenges

- LMI families can accumulate assets, but can they keep them? How do we manage downside risk?
- Democratize credit (20th century) v. democratize capital (21st century)
- How to get more institutions to behave for LMI families in ways they behave for non-wealthier families?
- We must think small, and think big – the next Progressive Era?

Thoughts on Policy Innovation

- Peek over the horizon, look at the intersections of existing disciplines
- The three most important things in politics: timing, timing, and timing
- Innovative people and institutions are critical
- Test, test more, and keep testing
- A few key people can drive significant policy change in Washington