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A Policy Roadmap for Enhancing Economic Mobility in America

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The views expressed are not the official positions of the Federal Reserve Bank of St. Louis or the Federal Reserve System.

Getting to the Roadmap

EMP Principals

- American Enterprise Institute
- Brookings Institution
- Heritage Foundation
- New America Foundation
- Urban Institute

Key Reports

- *Getting Ahead or Losing Ground: Economic Mobility in America* (Isaacs, Sawhill, and Haskins, 2008)
- *Pathways to Economic Mobility: Key Indicators* (Butler, Beach, and Winfree, 2009)

“Portfolio Shifts” in Federal Budgets and Policies to Enhance Economic Mobility

Mobility Expenditures:

- \$746 billion expended annual for “mobility” objectives.
- Only one-quarter of mobility expenditures are targeted to lower- and moderate-income families.
- Accordingly, the portfolio of mobility expenditures should “shift” towards lower- and moderate-income families, who face the greatest difficulty moving up the ladder.

Social Welfare Expenditures:

- \$1.3 trillion expended on income maintenance programs, largely directed at families with lower incomes.
- These policies provide a minimum level of consumption and a social safety net, but are not geared toward – and may impede – economic mobility.
- Accordingly, social welfare programs should be reoriented towards upward economic mobility.

Policies to Promote Human, Social and Financial Capital

Human Capital

Individual skills and attributes that allow Americans to live well, earn income and take advantage of economic opportunities – education, health, and access to health care.

- Promote children's human capital development early in life
- Ensure all children and teens have access to effective educational programs
- Promote enrollment in and completion of postsecondary education
- Help low-wage workers acquire skills needed for high-quality, well-paid jobs

Social Capital

Nonfinancial resources available through personal relationships and interactions with institutions that promote economic mobility – family structure, neighborhoods, social connections and support.

- Reorient public assistance programs towards mobility enhancement, such as reforming asset limits and removing disincentives to marriage
- Promote family formation and teen pregnancy reduction
- Promote responsible fatherhood
- Develop stronger neighborhoods and pathways to better neighborhoods

Financial Capital Policies

Assets such as personal savings or investments that individuals might leverage to get ahead and to complement the human and social capital activities previously described.

- *Encourage and promote lifelong savings early in life*
- *Provide more equal treatment of savings for higher education*
- *Increase access to homeownership as a safe and secure savings vehicle*
- *Promote and increase retirement savings*
- *Support entrepreneurship throughout the business life cycle*

The Roadmap Three Years Later: What's Changed?

The Context

- Sluggish economic growth, austerity, public and private debt, political paralysis
- Consumer Financial Protection Bureau

The Risks

- Who lost wealth during the Recession?
- Must take downside risk more seriously

The Framework

- From Asset Building to Balance Sheets

The Assets

- Less, or up for debate: homeownership, restricted assets, financial education
- More: financial inclusion and capability, unrestricted savings, diversifying the asset base

The Opportunity

- Economic stability and mobility for families, economic growth for the nation
- Think small (austerity), and think big (tax and entitlement reform)

Household Balance Sheets: Looking Back

Four household balance sheet “failures”...

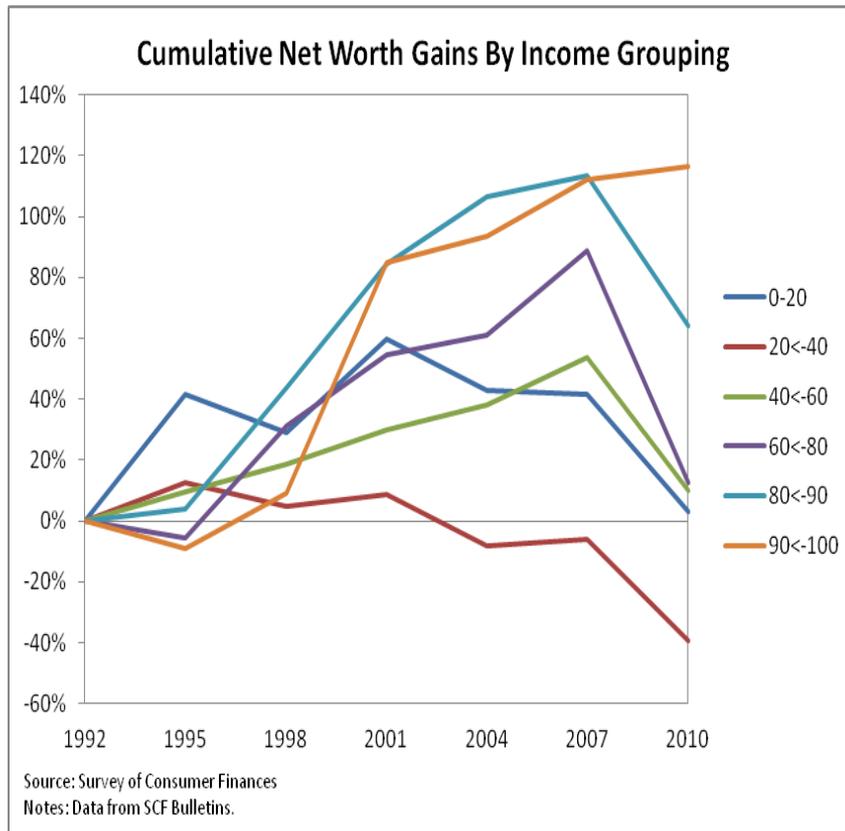
Too many Americans:

- ***Relied on wealth-depleting financial services.*** About 29% of U.S. households are unbanked or under-banked (FDIC, 2012).
- ***Had low levels of savings.*** In 2005, net household savings reached its lowest level since the 1930s (Federal Reserve, Bureau of Economic Analysis).
- ***Incurred high levels and risky types of consumer and mortgage debts.*** By 2007, the ratio of household debt to GDP reached its highest level since the 1950s; more household debt was accumulated between 2001-2007 than in the previous 45 years (Federal Reserve, Bureau of Economic Analysis; Sufi and Mian, 2010).
- ***Did not diversify their assets sufficiently beyond housing.*** By 2005, we reached the greatest concentration of wealth in housing since at least 1952 (Federal Reserve).

Plus, misguided faith in ever-rising asset values...

Helped drive the financial crisis and ensuing economic downturn.

Household Balance Sheets Now: Net Worth by Income

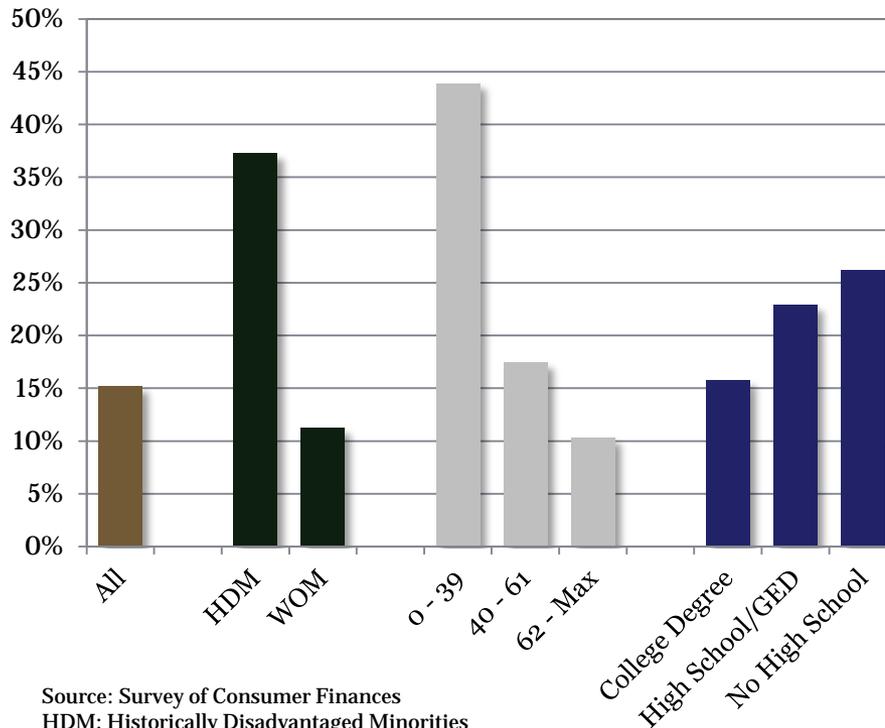


- Between 2007-2010, the typical (median) family lost 39% (\$49,539) of its net worth.
- Except for the top 10%, every income group lost wealth since 2007.
- Overall, the bottom 80% of households has lost two decades worth of wealth.
- Those in the 20-40% income quintile—the “working poor”—had had 40% less wealth than they did in 1992.
- *How do we manage downside risk, at both the household and national level?*

Household Balance Sheets Now: Net Worth by Age, Race, and Education

(Emmons and Noeth, 2012)

Percentage Losses In Mean Net Worth 2007-2010



Source: Survey of Consumer Finances
HDM: Historically Disadvantaged Minorities
WOM: White or Other Minority

Who lost the most wealth from the Great Recession (means)?

- **Young families**
 - Under 40: -43.9%
 - Age 40-61: -17.4%

- **Historically disadvantaged families**
 - African-American and Hispanic (HDM): -37.2%
 - Whites, Asians and other minorities (WOM): -11.2%

- **Less-educated families**
 - < HS degree: -26.1%
 - High-school grads: -22.9%

Household Balance Sheets Now: The Racial Wealth Gap

Year	Overall Wealth Gap (Net Worth)	Wealth Gap w/o Home Equity (Net Financial Assets)
1984	\$85,000	\$30,000
2009	\$236,000	\$106,000

Source:
Shapiro, 2012

- Income, home ownership, and inheritance are the biggest contributors in the rising racial wealth gap while demographic and cultural factors appear to account for insignificant amounts, if any (Shapiro, 2012).
- A \$1.00 increase in income results in \$5.00 of wealth for whites, but only \$0.70 for African-Americans (Shapiro, 2012).
- In 2009, median net worth was \$113,149 for whites, \$6,325 for Hispanics, and \$5,677 for blacks (Pew Research Center, 2011).
- About a third of black (35%) and Hispanic (31%) households had zero or negative net worth in 2009, compared with 15% of white households (Pew Research Center, 2011).