



## Wealth in America: How Can Congress Support Mobility?

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Remarks  
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the Congressional Savings and Ownership Caucus  
and the Senate Economic Mobility Caucus  
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Let's begin by thanking the Urban Institute for organizing today's event, as well as for our partnership with the Urban Institute for the October 2013 wealth policy roundtable. That roundtable laid the foundation for the issue brief released today, as well as for today's event. We'd also like to thank the Congressional Savings and Ownership Caucus and the Economic Mobility Caucus for co-sponsoring today's event.

I was asked to address the question, "Why should we care whether or not families have wealth?" It matters for three reasons: wealth matters in ways income alone does not, wealth matters for upward economic mobility and wealth matters for economic growth.

**First**, we should care because the wealth gap dwarfs the income gap, and may be more consequential. But even as we debate whether or not the gap or inequality per se matters, we should care because not enough families have enough wealth to successfully manage their financial lives. Wealth offers financial stability, the resources to weather financial shocks, and the means to imagine and invest in your and your children's futures in ways that income alone does not.

Wealth matters, especially now, because according to our research, three out of four Americans—typically younger, less-educated, and non-white families—are still struggling to recover the wealth they lost in the recession (Boshara and Emmons, 2013). Younger families—even controlling for race and education—have been particularly hard hit, with the recession exacerbating the longer-term trends (Emmons and Noeth, 2014).

**Second**, we should care because family wealth is strongly correlated with upward economic mobility. While many factors contribute to economic mobility, we note that leading wealth researchers have found that:

- financial capital is one of the three strongest predictors of economic mobility in the U.S. (Butler, Beach, and Winfee, 2008);
- small amounts of wealth at the right moments can have a “transformative” effect on the life course (Shapiro, 2004);
- net worth is the key driver of economic opportunity from one generation to the next (Conley, 2009), and
- children with assets, or children who grow up in households with assets, do better than those without assets on many measures, including academic achievement, college access and completion, social-emotional involvement from their parents and labor market outcomes as adults (Grinstein-Weiss, Williams Shanks, and Beverly, 2014; Elliott and Sherraden, 2013).

**Third**, we should care because *both* housing wealth losses in the recession *and* ongoing deleveraging among a majority of Americans have seriously handicapped the economic recovery.

- Housing wealth losses reduced consumer spending more than financial losses, perhaps by twice as much. This matters especially because housing wealth losses were more widespread and more significant than financial wealth losses in the recession (Case, Quigley, and Shiller, 2013).
- Deleveraging—paying down, shedding, or not taking on new debts—has cut consumer spending growth in half. Real per-capita consumer spending was growing at 2 percent per year prior to the recession, but is now growing at only 1 percent because families are repaying debts and rebuilding their savings instead of spending. That’s huge, and that’s why this recession has been called a “balance sheet recession”—balance sheet repair has taken priority over spending. Moreover, research by Dynan and Edelberg (2013) shows that deleveraging by consumers reduces spending for years after a recession, especially among families with the most debt.
- Job losses have been significant. Atif Mian and Amir Sufi, authors of the recently published “House of Debt,” report that the two out of every three jobs lost from 2007-2009 was due to household deleveraging.

In sum, household wealth can have both beneficial and harmful consequences for families and the economy. *It depends on how families, institutions, and policymakers manage it.*

Families need to manage toward diversification. Our research shows that families with diverse portfolios recovered well, whereas families without diverse portfolios—especially those with too much wealth in homeownership, too much debt, and too little savings—got walloped and have yet to recover (Boshara and Emmons, 2013).

Policymakers, too, have the ability to help families manage their wealth, especially by addressing tax policies that currently appear to be “upside down”; that is, according to CFED, New America, and many others, offering generous subsidies to accumulate wealth to those who need it least, while doing little (and even penalizing) those who need it most.

From the perspective of economists, it doesn’t seem an efficient or a good use of scarce public resources to heavily subsidize economic activity—buying homes, saving for retirement—that would occur anyway.

As three-quarters of Americans struggle to rebuild their balance sheets, as upward mobility and the American Dream now feel out of reach for a majority of Americans, and as the economy musters only 2 percent annual GDP growth, poorly targeted balance sheet subsidies are particularly hard to justify.

If there was ever a time to directly strengthen the balance sheets of struggling American families, if there was ever a time to counter a balance sheet recession with a balance sheet recovery, this is it.

Thank you.

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