Inequality and Poverty in the United States

FOCUS: Leadership St. Louis
January 6, 2017

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Federal Reserve Bank of St. Louis | www.stlouisfed.org/hfs

*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

- Income vs. Asset Poverty
  - Why Focus on Wealth?
- Income vs. Wealth (Net Worth) Inequality
- The Demographics of Wealth
- Ideas for Moving Forward
INCOME VS. ASSET 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 = St. Louis)
- Ignores noncash benefits (public housing, Medicaid, food stamps)
- Ignores tax credits (Earned Income Tax Credit)
Poverty Declined Up Until 1970; Stagnant Since

Official Poverty Measure: Share of Total Population Living Below Poverty Line

Percent

Source: Census Bureau/ Haver Analytics.
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
  - Cost of medical care and insurance premiums
New Measure Shows Greater Poverty, Policy Impact

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

Percent

Source: Census Bureau/ Haver Analytics and (2013: Wimer, Fox, Garfinkel, Kaushal, and Waldfogel).
Official vs. Supplemental Poverty Measure

- Comparison between rates shows that poverty is higher overall, while assistance programs have done more.

- For example, refundable tax credits reduce the rate by 2.9 percentage points, or 9.2 million individuals.

- The supplemental rate offers a much more informative look at the dynamics of income poverty.

- However, even the SPM takes a narrow view of financial well-being with its focus on income and consumption.
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).
- Lack of income means you don’t get by; lack of assets means you don’t get ahead (Boshara 2002).
- 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.
Why Do Assets and Wealth Matter?

- Wealth is key to financial stability and economic mobility.
- When confronted with a negative shock, asset-poor families are 2-3 times more likely to experience material hardship than non-asset-poor families (McKernan et al. 2009).
- Financial capital is among the three strongest predictors of upward economic mobility (Butler et al. 2008).
- Net worth is a key predictor of opportunity from one generation to the next (Conley 2009).
Defining Asset Poverty

- **Asset poor:** lacking sufficient net worth to sustain livelihood above poverty level for at least 3 months. (Haveman and Wolff 2004, CFED)

- **46% of adults** could not cover an emergency expense of $400 without selling something or borrowing money. (SHED)

- Almost **55% of households are savings-limited**, meaning they cannot replace even one month of their income through liquid savings. (PEW 2015)
Income vs. Wealth Inequality
Income Inequality is Significant and Growing...

Share of Total Pre-Tax Income
Percent

Bottom 50%
Top 10%

1989: 15.4%
1989: 14.6%
2013: 42.3%
2013: 46.9%

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
But Pales in Comparison to Wealth Inequality

Share of Total Net Worth

Percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Bottom 50%</th>
<th>Top 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>3.0</td>
<td>66.9</td>
</tr>
<tr>
<td>2013</td>
<td>1.1</td>
<td>75.0</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
Very Top Experienced Substantial Gains

**Income Distribution: Top 1 Percent**

*Thousands of 2013 $*

- 1989: 446
- 2013: 696

**Net Worth Distribution: Top 1 Percent**

*Thousands of 2013 $*

- 1989: 4,165
- 2013: 7,870
Wealth and Income, Rising Inequality

- Income and wealth gains have not been distributed equally; half of families have seen their share decline.
- At the same time, a small minority of families have tacked on to their already dominant share.
- In 2013, **11.6 percent** of families had negative net worth, up from **7.4 percent** in 1989.
- Given greater income instability and no financial safety net, these families live with even greater risk.
Wealth Inequality Influences Income Inequality

- In 2013, only 22% of households owned any financial or business assets.
  - This measure omits liquid assets such as checking and savings.
- Income from these assets accounted for 21% of total household income.
- From 1989 to 2013, median income from these assets grew by 60%, while median wage income fell by 7%.
THE DEMOGRAPHICS OF WEALTH
The Demographics of Wealth

- Three essays written by Center staff in 2015.
- Explores connection between wealth and a person’s race (or ethnicity), level of education and age.
- Wealth is distributed unequally across all three demographic categories.
RACE OR ETHNICITY
Little Progress Closing Substantial Racial Gaps

Median Real Net Worth, by Race or Ethnicity

Thousands of 2013 Dollars

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
Black and Hispanic Families Hurt the Most

Loss of Net Worth Between 2007 and 2013, by Race or Ethnicity

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
The Racial Wealth Gap

- The wealth ranking between racial groups hasn’t changed over the past 24 years.
- Gaps remain significant and persistent despite broad-based improvements in other areas (e.g. political representation, educational attainment).
- “Headwinds” for nonwhite families include:
  - Lack of liquidity to weather financial setbacks.
  - Greater reliance on debt to finance education or home purchases.
  - Different returns on assets such as education and housing.
EDUCATIONAL ATTAINMENT
Important Considerations for Education

- Educational attainment is different than age/birth year and race/ethnicity in several ways.

- Most notably, it is not determined at birth.

- However, it is predetermined by early adulthood for almost everyone.

- Therefore, we can treat it as a demographic group when we restrict our sample to families with heads 40 or older.
Returns to Education Have Never Been Higher

Median Net Worth of Families Headed by Someone 40 or Older

Thousands of 2013 Dollars

- Graduate or Professional Degree
- Associate or Bachelor's Degree
- High School Diploma or GED
- No High School Diploma

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
More Education Associated with Greater Resiliency

Loss of Net Worth Between 2007 and 2013, by Education of Family Head

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Median</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>No High School Diploma</td>
<td>54</td>
<td>33</td>
</tr>
<tr>
<td>High School Diploma/GED</td>
<td>45</td>
<td>26</td>
</tr>
<tr>
<td>2- or 4-year College Degree</td>
<td>42</td>
<td>22</td>
</tr>
<tr>
<td>Postgraduate Degree</td>
<td>18</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
The Educational Wealth Divide

- It’s important to note that these results capture correlations and don’t imply causation.

- A college degree is a very important asset to have and its value is increasing.

- However, a college degree did not produce the same wealth outcomes for black and Hispanic families during the recession. (Emmons and Noeth 2015)

- Education alone cannot close the racial wealth gaps. (Emmons and Ricketts 2016)
AGE AND BIRTH COHORT
Wealth Milestones Depend on Your Birth Year

Median Family Net Worth by Age of Family Head
Thousands 2013 Dollars

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.
Age of family head at time of survey

Change between 1989 and 2007
Change between 2007 and 2013
All Age Groups 60 + Are Richer; Under 60 Are Poorer

Change in Median Net Worth from 1989 to 2013, by Age of Family Head

Percent

-6.7
-43.7
-49.5
-22.1
38.0
33.5
54.2
88.8

Source: Federal Reserve Survey of Consumer Finances and authors' calculations. Age of family head at time of survey
The Generational Wealth Divide

- When you are born matters: Young and middle aged families suffered the most during the Great Recession.
- Those families had greater leverage, particularly in housing debt.
- It will be difficult—if not impossible—to recover that lost wealth (and potential wealth) during their lifetime.
- Upward mobility continues to decline: 79 percent of children born in 1950 were earning more than parents, compared to 50 percent born in 1980 (Chetty et al. 2016)
IDEAS FOR MOVING FORWARD
New Economic Divide

### Percentage of Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Thrivers</th>
<th>Strugglers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>14.6%</td>
<td>85.4%</td>
</tr>
<tr>
<td>2013</td>
<td>23.6%</td>
<td>76.4%</td>
</tr>
</tbody>
</table>

### Percentage of Total Wealth Owned

<table>
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<tr>
<th>Year</th>
<th>Thrivers</th>
<th>Strugglers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>44.5%</td>
<td>55.5%</td>
</tr>
<tr>
<td>2013</td>
<td>32.7%</td>
<td>67.3%</td>
</tr>
</tbody>
</table>

Source: Survey of Consumer Finances
Is Demography Economic Destiny?

Assign greater weight to demographic factors when allocating public and private resources.

- **Age**: enhance the social contract at the beginning of life
- **Race**: consider “race conscious” policies
- **Education**: invest, especially, in early education and early asset strategies

Book: [www.strongfinancialfuture.org](http://www.strongfinancialfuture.org)

Video: Meet America’s Thrivers and Strugglers [Link](http://www.strongfinancialfuture.org)
Child Development Accounts / College Savings Accounts

- Can address age, race, and education disparities, and promote financial inclusion
- Typically established at birth or when a child enters kindergarten
- Universal (for all kids) and progressive (more for the poor)
- Over 40 programs/policies in the U.S., some state- and city-wide
- Research shows positive impacts on child development, maternal health, and college outcomes
- Serious efforts underway to expand CDAs in St. Louis region
Early Investments Matter

Returns on Human Capital Investments (James Heckman)

Returns to a Unit Dollar Invested

Source: Heckman and Masterov 2007
Place Matters

The Geography of Upward Mobility in America
Children’s Chances of Reaching Top 20% of Income Distribution Given Parents in Bottom 20%

Place Matters, Continued

Geography of Life Expectancy in the Bottom Income Quartile

Top 5 Cities: New York City NY, Santa Barbara CA, San Jose CA, Miami FL, Los Angeles CA
Bottom 5 Cities: Tulsa OK, Indianapolis IN, Oklahoma City OK, Las Vegas NV, Gary IN

Inequality and Economic Mobility

- How families, communities (places), and the economy can move forward
- Original research and essays by Janet Yellen, Joseph Stiglitz, Raj Chetty, Katherine Newman, Robert Putnam, Leal Brainard, Robert Sampson, Rucker Johnson, and many others
- Webinar, January 26, 2:00 CST
- See stlouisfed.org and stlouisfed.org/hfs for more information


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