What Matters for Building Wealth and Economic Mobility?

Lecture for Professor Mark Rank’s Class

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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
Why Savings and Wealth Matter

- The wealth gap is much larger than the income gap, and may be more consequential.

- Wealth is key to financial stability and economic mobility:
  - When a negative family event occurs, 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 the key driver of opportunity from one generation to the next (Conley, 2009).

Source: Survey of Consumer Finances, 2013
The Great Recession Erased Two Decades of Growth in Income and Wealth

Real Median Net Worth and Income Since 1989

Source: Survey of Consumer Finances
Family Net Worth and Unemployment

Household Net Worth and Unemployment
Thousands of 2009 $ (left axis) and percent (right axis)

- Real net worth per household
- Unemployment rate (right axis)

How Age/Birth Year, Education, and Race/Ethnicity is Associated with Wealth

(Emmons and Noeth, 2015)
How Marital Status is Associated with Income and Wealth
(Noeth, 2015)
Race, Education, and Wealth
(Emmons and Noeth, 2015)

Median Net Worth by Race: Bachelor's Degree or Above

Percentage Change in Median Net Worth 1992-2013

- White
- Asian
- Hispanic
- Black

4-Year Degree or Above
Less than 4-Year Degree

- White: -10.86%
- Asian: -44.70%
- Hispanic: -27.40%
- Black: -55.56%
New Economic Divide

Percentage of Population

1989
- Strugglers: 85.4%
- Thrivers: 14.6%

2013
- Strugglers: 76.4%
- Thrivers: 23.6%

Percentage of Total Wealth Owned

1989
- Thrivers: 44.5%
- Strugglers: 55.5%

2013
- Strugglers: 32.7%
- Thrivers: 67.3%

Source: Survey of Consumer Finances
Is Demography Economic Destiny?

Implications for public policy:

- How to assign greater weight to demographic factors in targeting consumer protections and public resources?

Implications for financial capability:

- How can policy compensate for stronger “headwinds” faced by struggling families?

Related Trends

• The U.S. Financial Diaries project, JP Morgan Chase Institute, and Karen Dynan *et al*. finds increasing income and expense volatility, even among middle-income families.

• The Federal Reserve’s “SHED” survey reveals that an unexpected expense of just $400 would prompt nearly half of all households to borrow funds, sell something, or simply not pay at all.

• CFSI reports that 57% of Americans are challenged to achieve “financial health.”

• Pew finds that 70% of households are “income-constrained, savings limited, and/or debt-challenged.”
Early Investments Matter

Returns on Human Capital Investments (James Heckman)

Returns to a Unit Dollar Invested

- Programs targeted toward the earliest years
- Preschool programs
- Schooling
- Job training

Our Kids: The American Dream in Crisis
Robert D. Putnam
author of Bowling Alone
Place Matters

Probability of Reaching Top Quintile from Bottom Quintile

Raj Chetty et al., Equality of Opportunity Project, Harvard

Corr. with baseline $r_{25} = 0.91$ (unweighted), 0.92 (pop-weighted)
Place Matters, con’t

Geography of Life Expectancy in the Bottom Income Quartile

Raj Chetty et al., Health Inequality Project, 2016

Life Expectancy at Age 40 (race-adjusted)

- >80.7
- >80.1 – ≤80.7
- >79.7 – ≤80.1
- >79.4 – ≤79.7
- >79.1 – ≤79.4
- >78.9 – ≤79.1
- >78.6 – ≤78.9
- >78.3 – ≤78.6
- >77.9 – ≤78.3
- ≤77.9
- Insufficient Data

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
Does Financial Education Matter? Yes, but…

Institutions may matter more, and… “Bandwidth” may matter more.
Promising Policy Directions

- Early-in-life and youth savings, integrated into the fabric of other early interventions
- Diversification, beginning with liquidity
- College savings, affordability, completion, and better repayment options
- Retirement savings
- Homeownership as a “capstone” financial event
“Thrivers” and “Strugglers”

www.strongfinancialfuture.org

Through more than 30 essays authored by experts from across a broad range of fields, What It’s Worth provides a 360-degree view of the financial problems and challenges millions of American households face, the enormous creativity and innovation already happening to increase financial well-being, and how we can implement proven and emerging solutions.
Economic Mobility Book & Conference

- Subject of national Federal Reserve Research Conference, April 2015
- Features essays and papers by Raj Chetty, Joseph Stiglitz, Janet Yellen, Robert Putnam, Katherine Newman, and others.
More Information, Mailing List, etc.

Center for Household Financial Stability, Federal Reserve Bank of St. Louis

[link](www.stlouisfed.org/hfs)