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# Inequality and Poverty in the United States

## FOCUS: Leadership St. Louis
## December 1, 2017


## Lowell Ricketts, Lead Analyst

# Overview

- Measuring Income Poverty
- Income vs. Asset Poverty
  - Why focus on Wealth?
- Income vs. Wealth (Net Worth) Inequality
- The Demographics of Wealth
- Ideas for Moving Forward

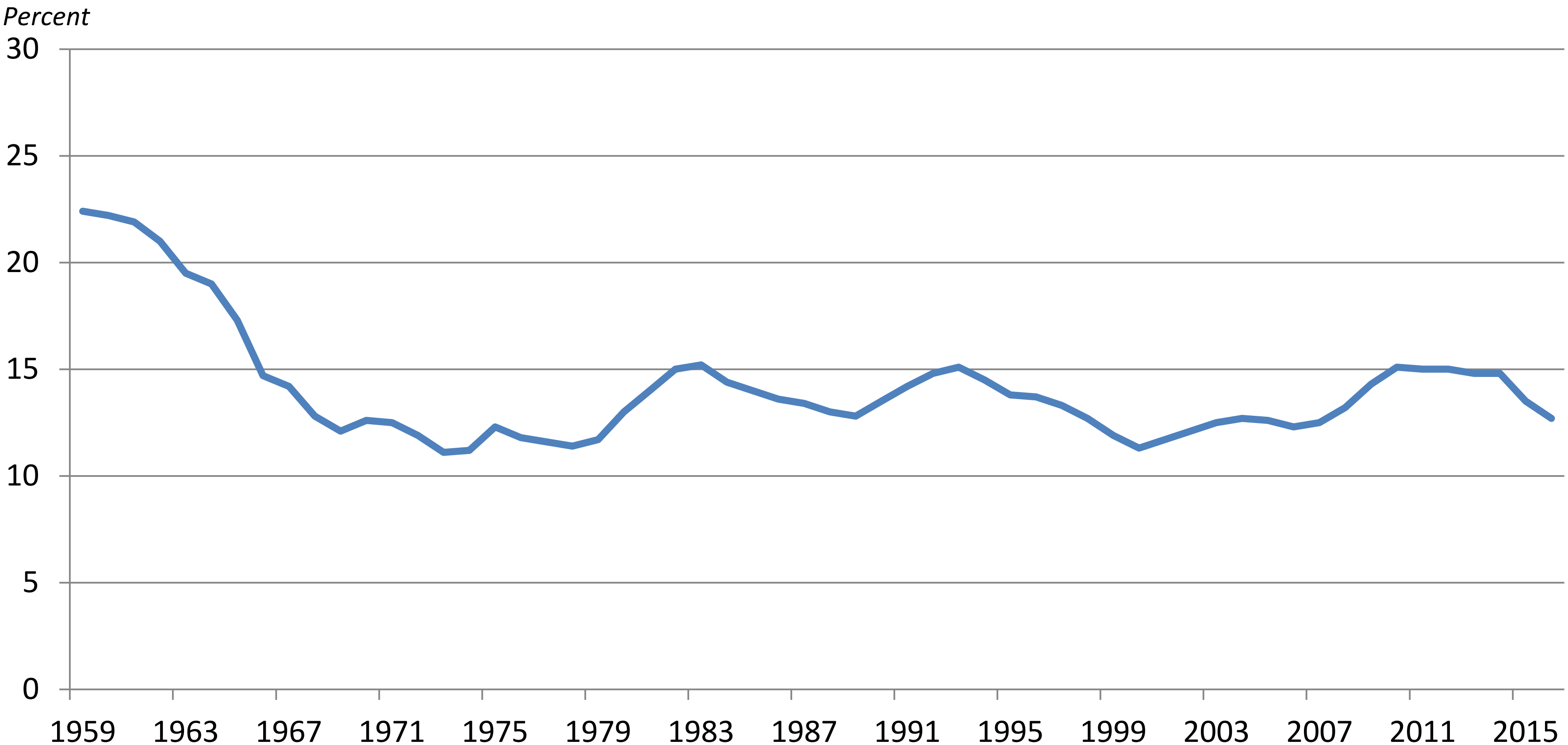
# Measuring Income Poverty

# 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 = STL)
  - Ignores noncash benefits (public housing, Medicaid, food stamps)
  - Ignores tax credits (Earned Income Tax Credit)

# Poverty Declined Until 1970; Stagnant Since

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




Source: Census Bureau/ Haver Analytics.

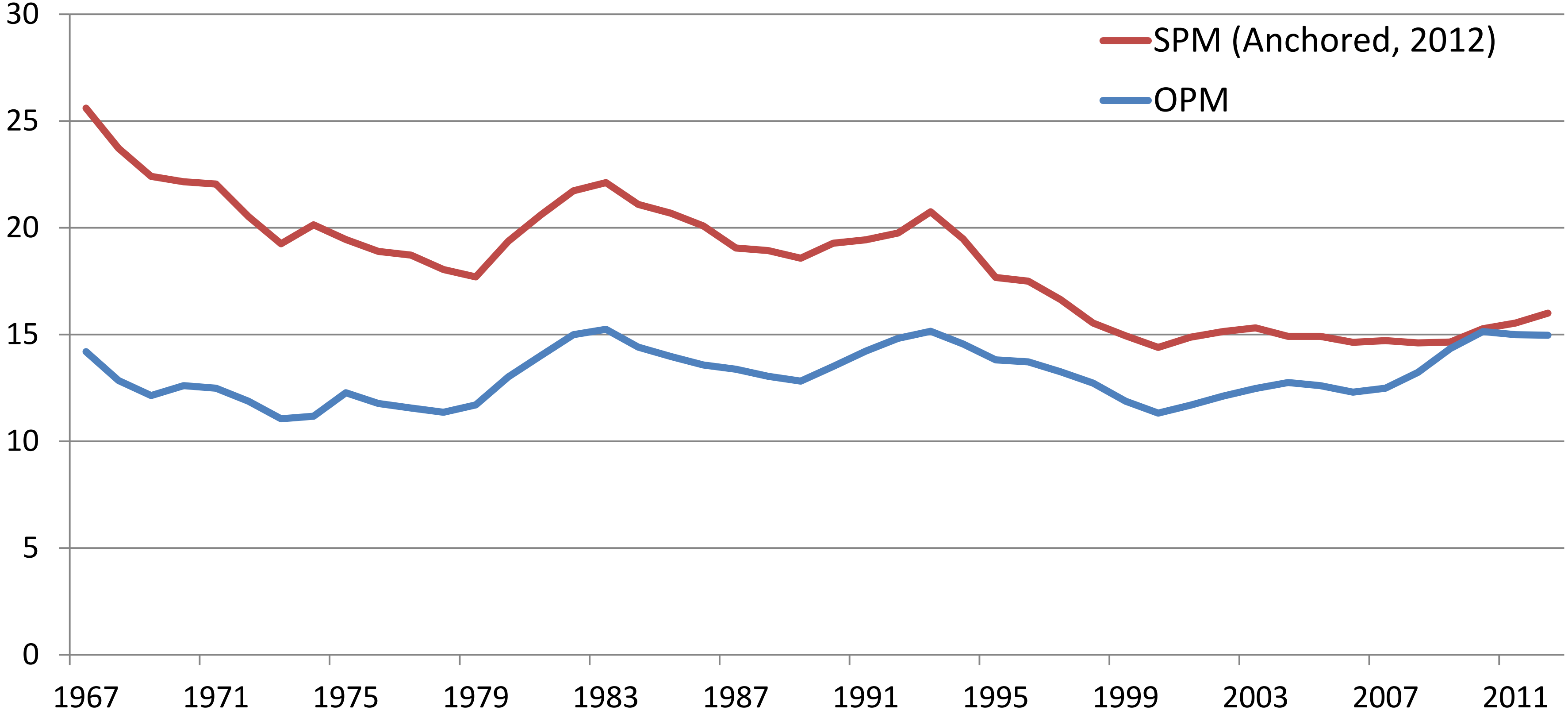
# Supplemental Poverty Measure

- 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, costs of medical care and insurance premiums

# SPM Shows Greater Poverty, Policy Impact

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

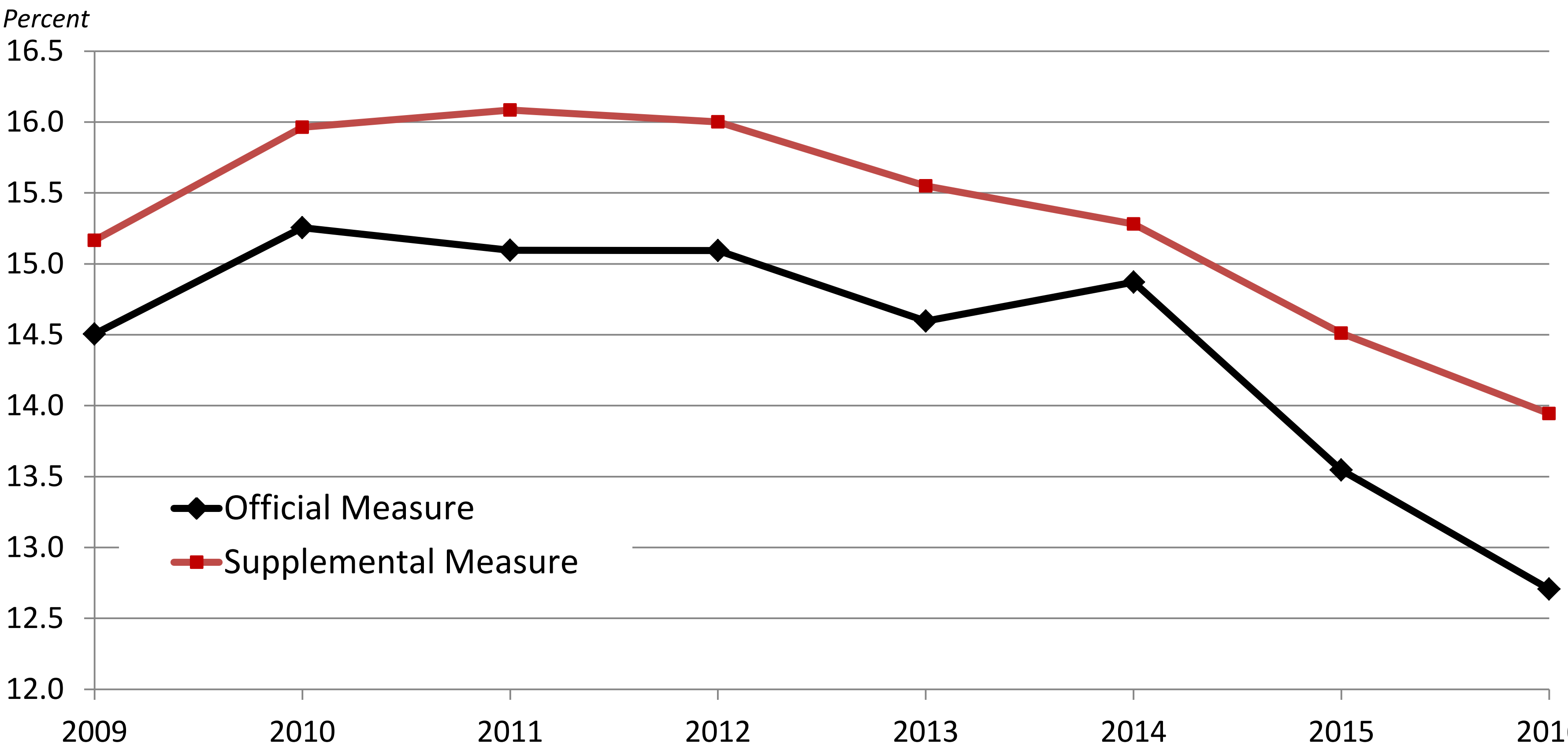
*Percent*




Source: Census Bureau/ Haver Analytics and (2013: Wimer, Fox, Garfinkel, Kaushal, and Waldfogel).

# Recently, Both Measures Show Poverty Decline

**Official vs. Supplemental Poverty Measure**




Source: Census Bureau and author's calculations. NOTE: Estimates use sample weights.

# 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 2.5 percentage points, or **8.1 million individuals**.
- The supplemental rate offers a much more informative look at the dynamics of income poverty.
- However, the SPM still takes a narrow view of financial well-being with a focus on income and consumption.

# INCOME VS. ASSET POVERTY

# 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)

- 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 buffers against misfortune and helps build your future: retirement, children's education, a bequest.
- When confronted with a negative shock, asset-poor families are 2-3 times more likely to experience material hardship. (McKernan et al. 2009)
- Lack of income means you don't get by; lack of assets means you don't get ahead. (Boshara 2002)

# Defining *Asset* Poverty

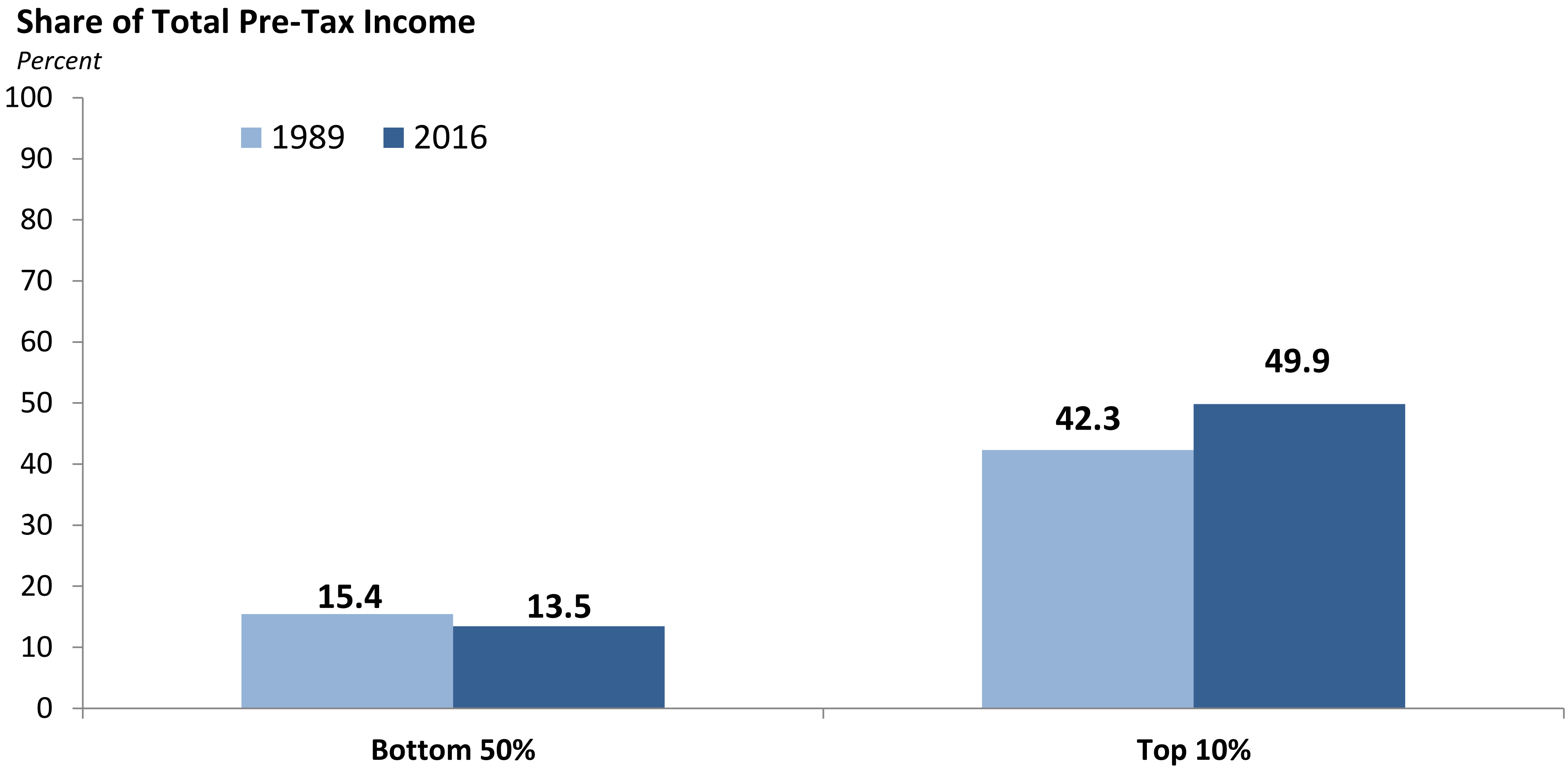
- **Asset poor:** lacking sufficient net worth to sustain livelihood above poverty level for at least 3 months. (Haveman and Wolff 2004, CFED)

- **44% of adults** could not cover an emergency expense of **$400** without selling something or borrowing money. (2016 SHED)

- Almost **55% of households are savings-limited**, meaning they cannot replace even one month of income through liquid savings. (PEW 2015)

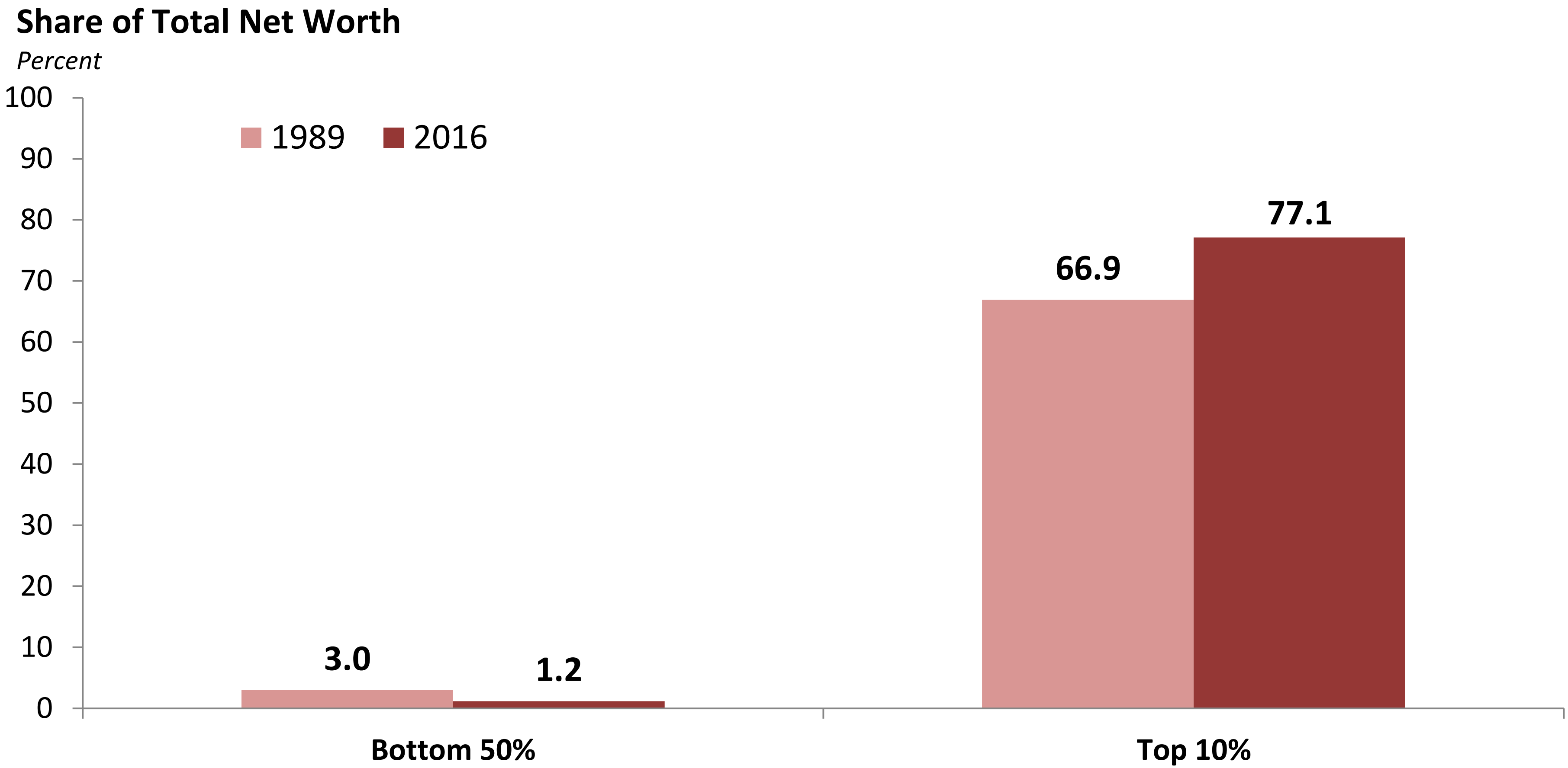
# Income vs. Wealth Inequality

# Income Inequality is Significant and Growing…



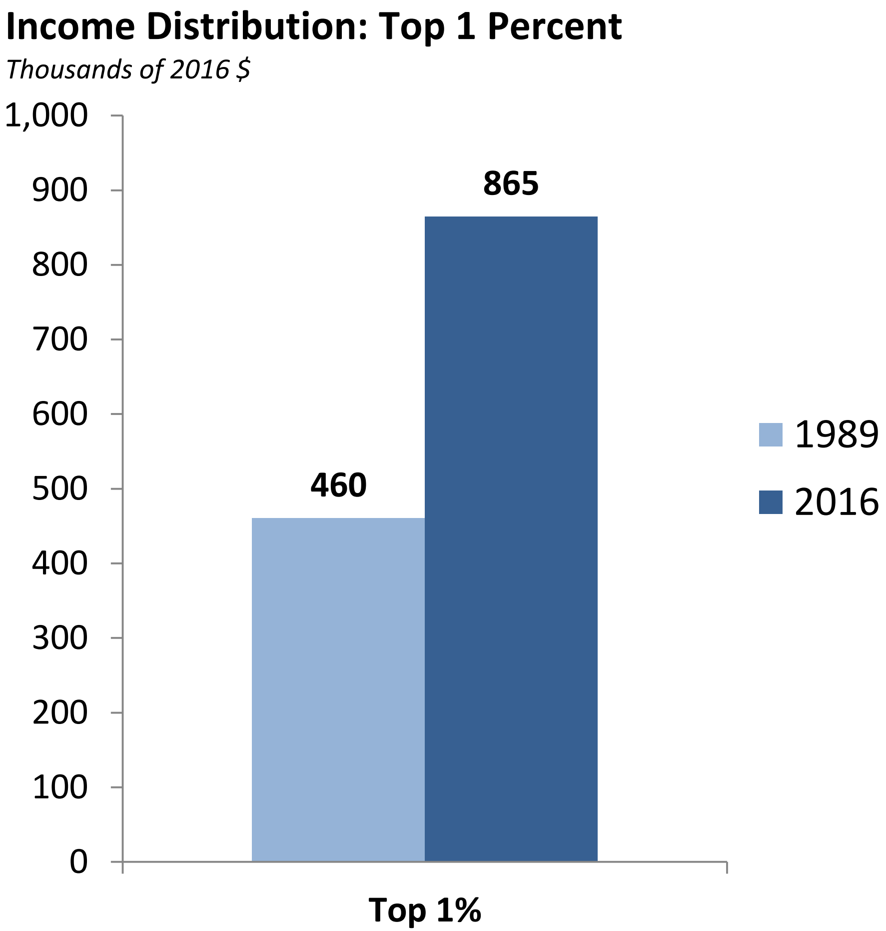

Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

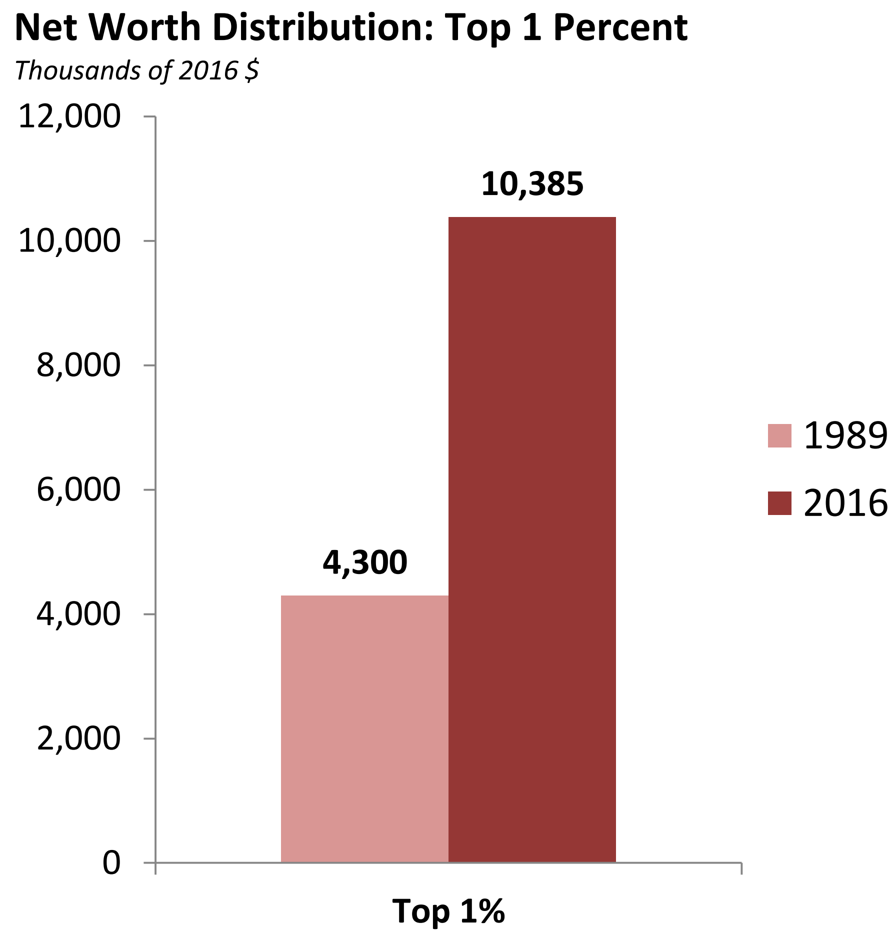
# But Pales in Comparison to Wealth Inequality




Source: Federal Reserve Survey of Consumer Finances and authors' calculations.

# Very Top Experienced Phenomenal Gains



# Rising Inequality for Both Wealth and Income

- Income and wealth gains have not been distributed equally; half of families have seen their share decline.
- At the same time, a very small share of families have accrued tremendous gains.
- In 2016, **10.9 percent** of families had *negative* net worth, up from **7.4 percent** in 1989.
- Given greater income instability and no assets to fall back on, these families live with even greater risk.

# The Demographics of Wealth

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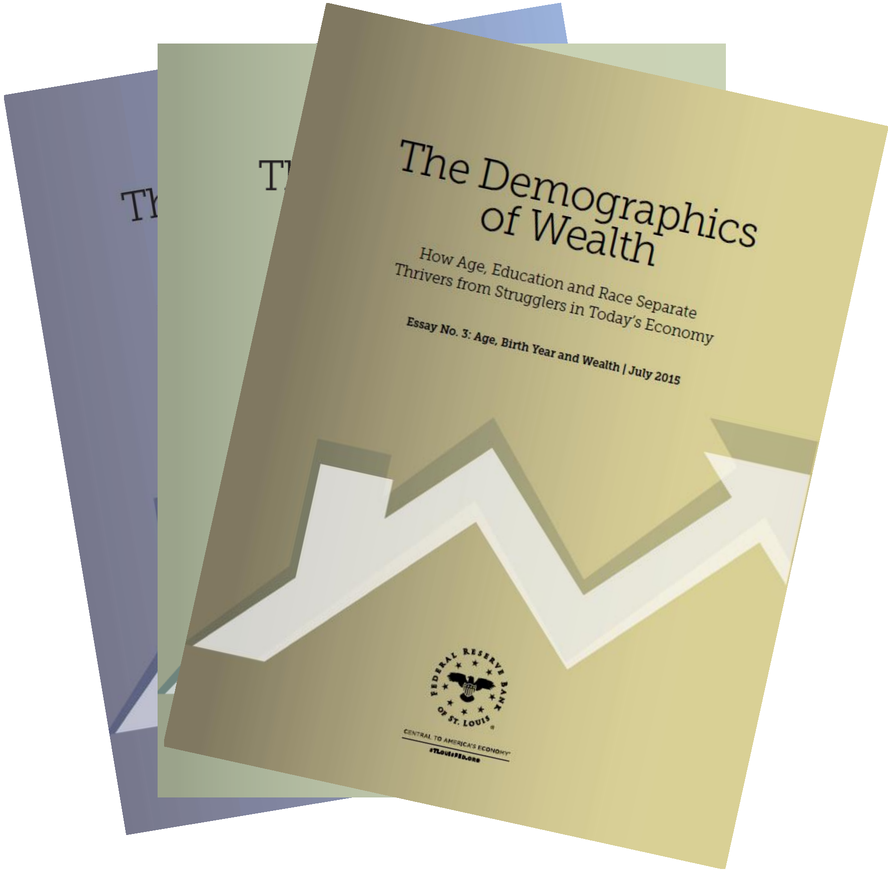
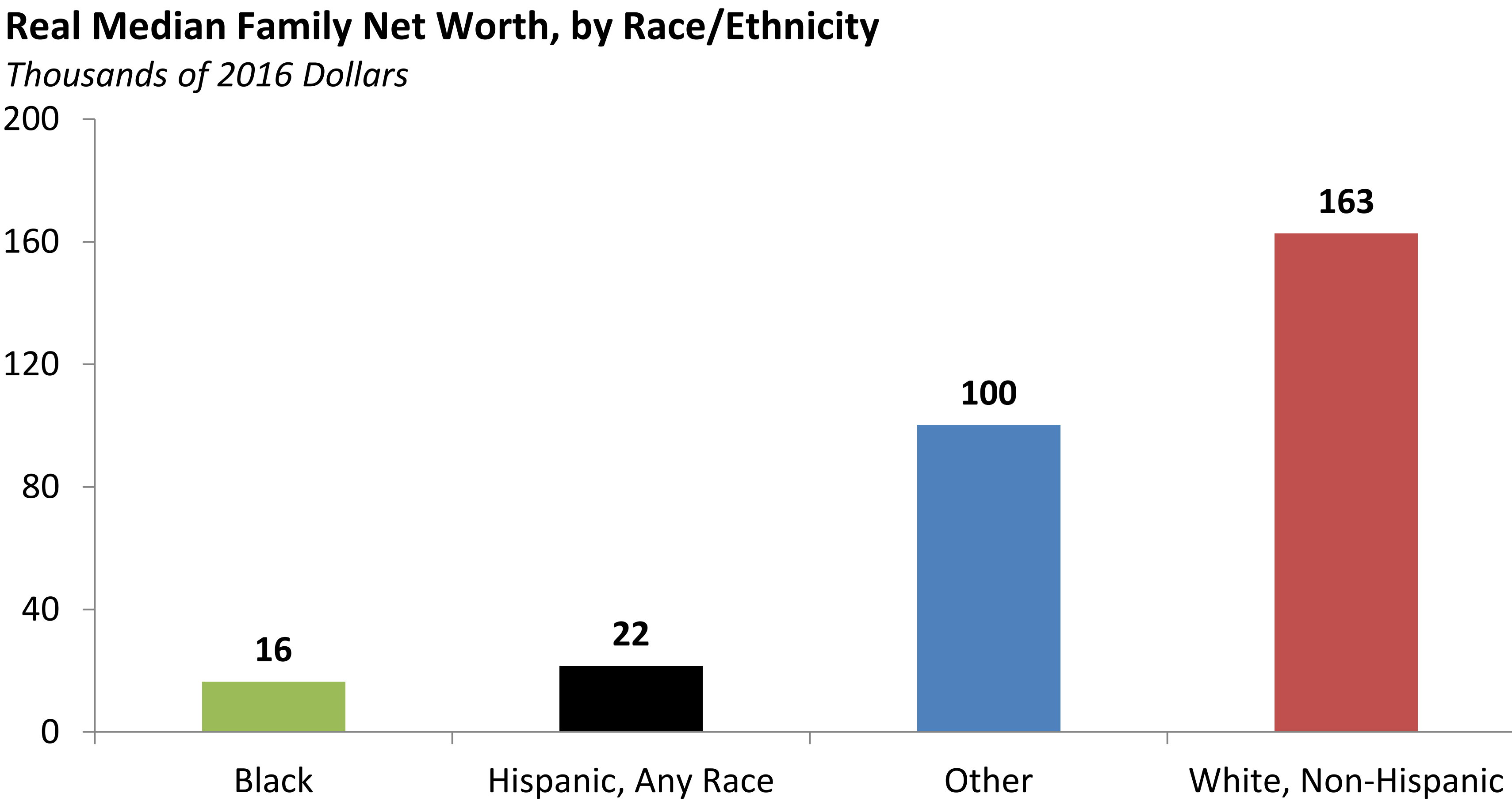



- Three essays written by Center staff in 2015.
- Explores connection between wealth and a person's race/ethnicity, education, and age.
- New essays using 2016 data coming soon!

# Race, Ethnicity and Wealth

- Four groups based on race or ethnicity of the survey respondent:
  - Non-Hispanic white
  - Non-Hispanic black or African-American
  - Hispanic of any race
  - Other or multiple races (Asian, American Indian, Alaskan Native, Native Hawaiian, Pacific Islander, other race, identifies with more than one race)

# Racial Wealth Gap in 2016 is Wide

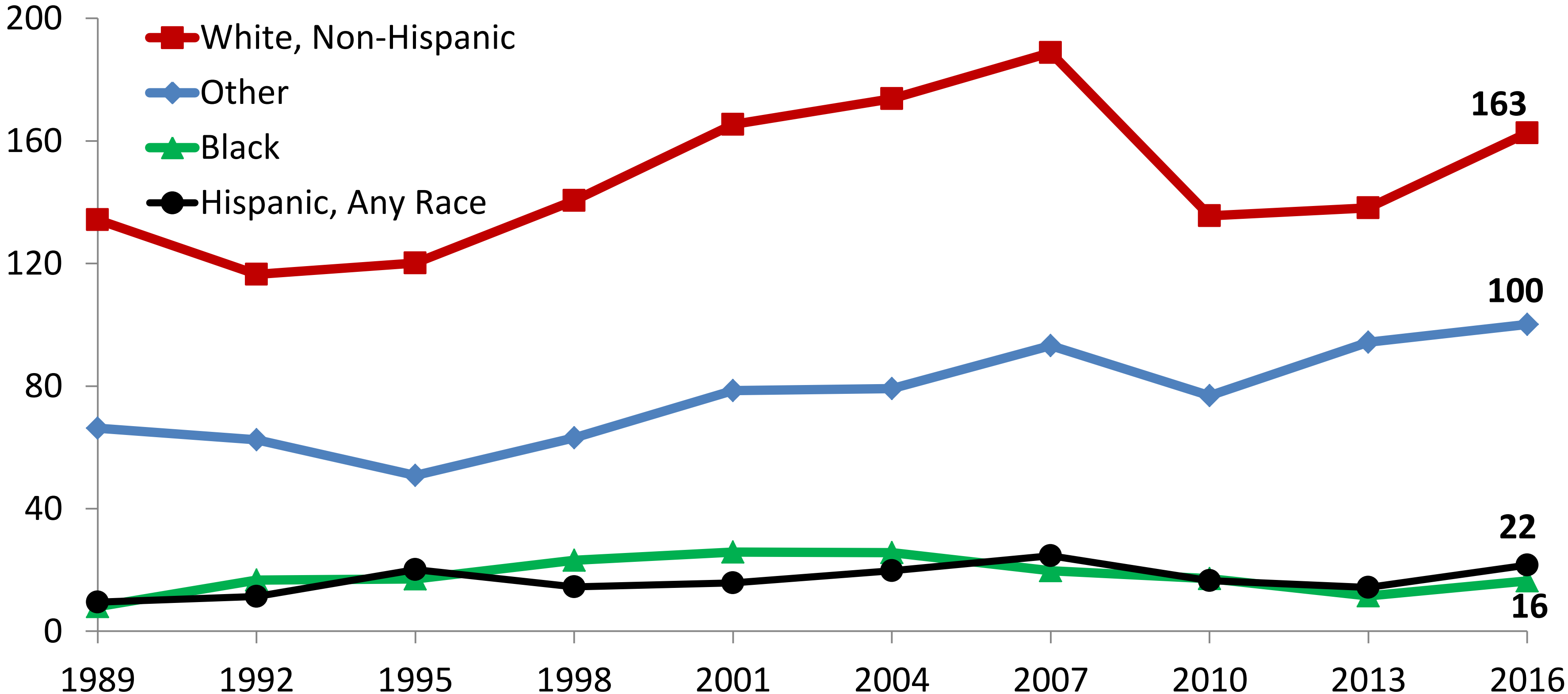



Source: Federal Reserve Board, Survey of Consumer Finances.

# Gaps Have Persisted Over Survey's History

**Real Median Family Net Worth, by Race/Ethnicity**

*Thousands of 2016 Dollars*

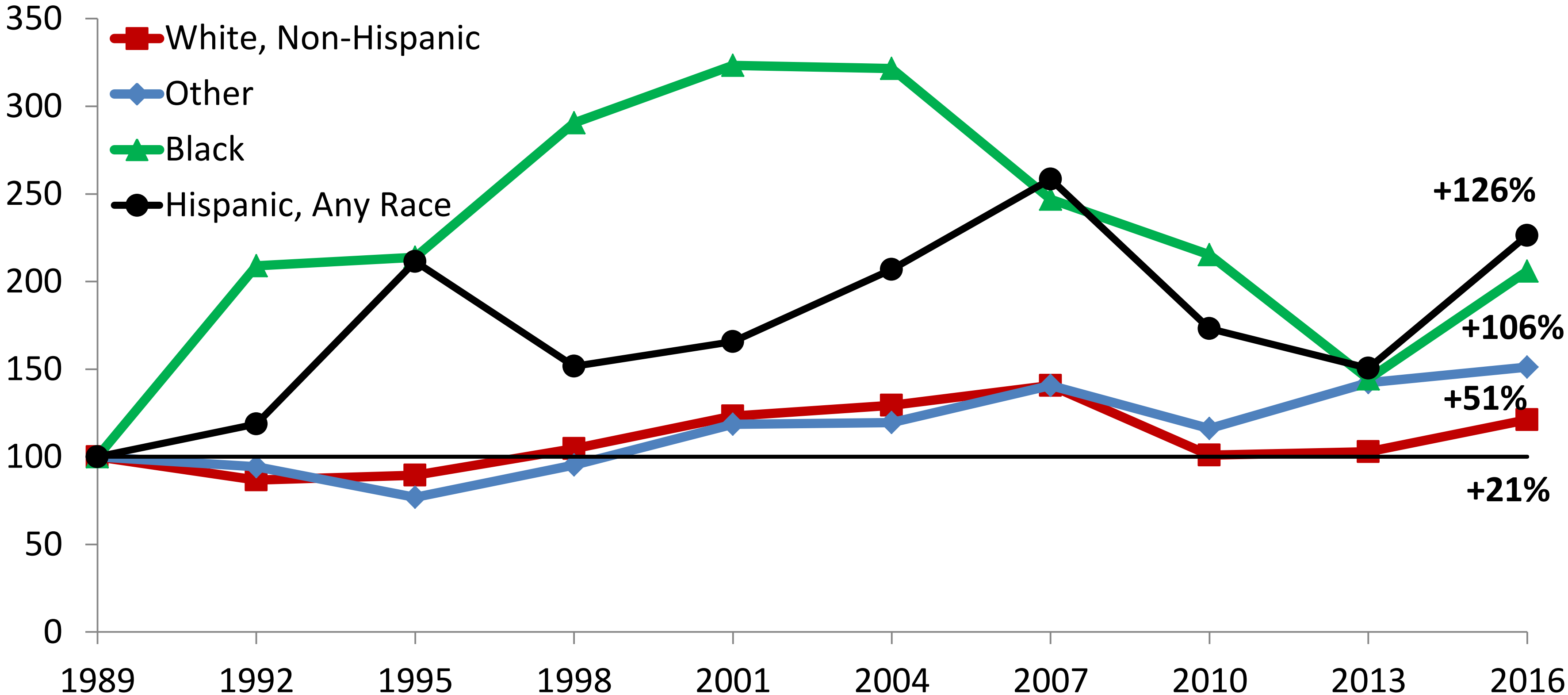



Source: Federal Reserve Board, Survey of Consumer Finances.

# Recession Hit Black & Hispanic Families Hardest

**Real Median Family Net Worth, by Race/Ethnicity**

*Indexed Value (1989 = 100)*

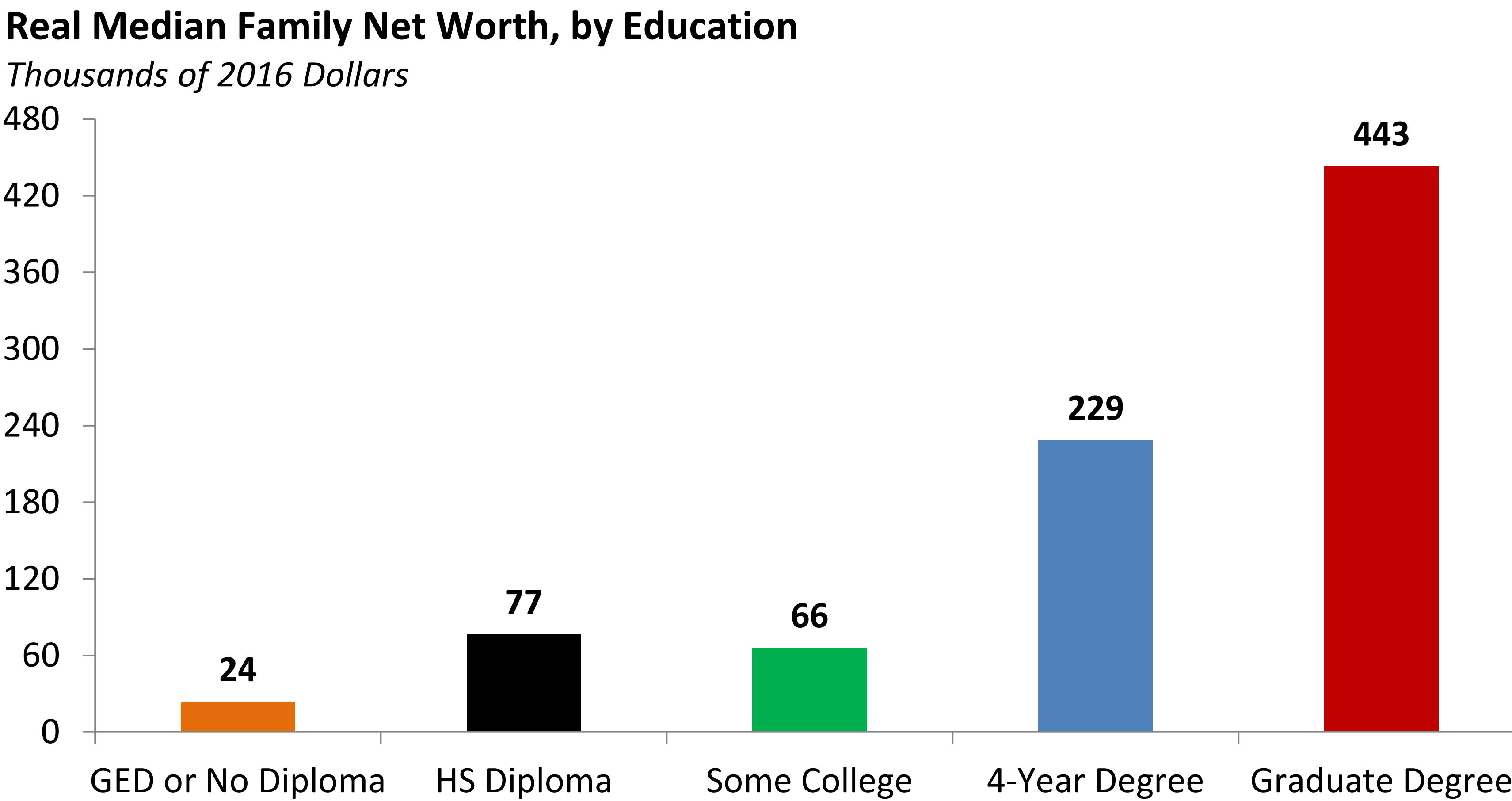



Source: Federal Reserve Board, Survey of Consumer Finances.

# Education and Wealth

- Five groups based on highest educational attainment of the respondent:
  - Did not complete high school on-time (GED or no diploma of any kind)
  - High-school diploma
  - Some college, including degrees or certificates short of 4-year degree
  - Four-year college degree
  - Post-graduate degree

# High Expected Returns to 4-Year College Degree

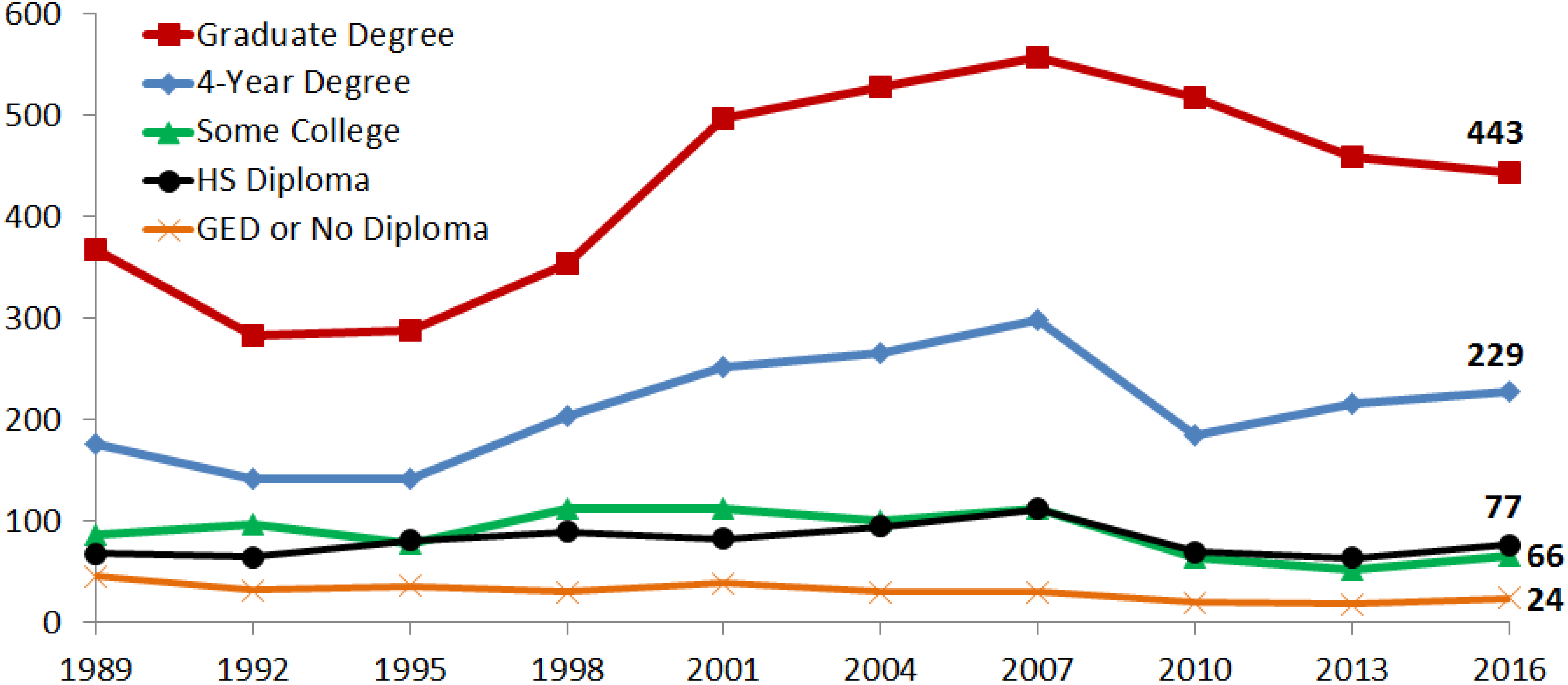



Source: Federal Reserve Board, Survey of Consumer Finances.

# Recession Interrupted Growing Returns to Ed.

**Real Median Family Net Worth, by Educational Attainment**

*Thousands of 2016 Dollars*

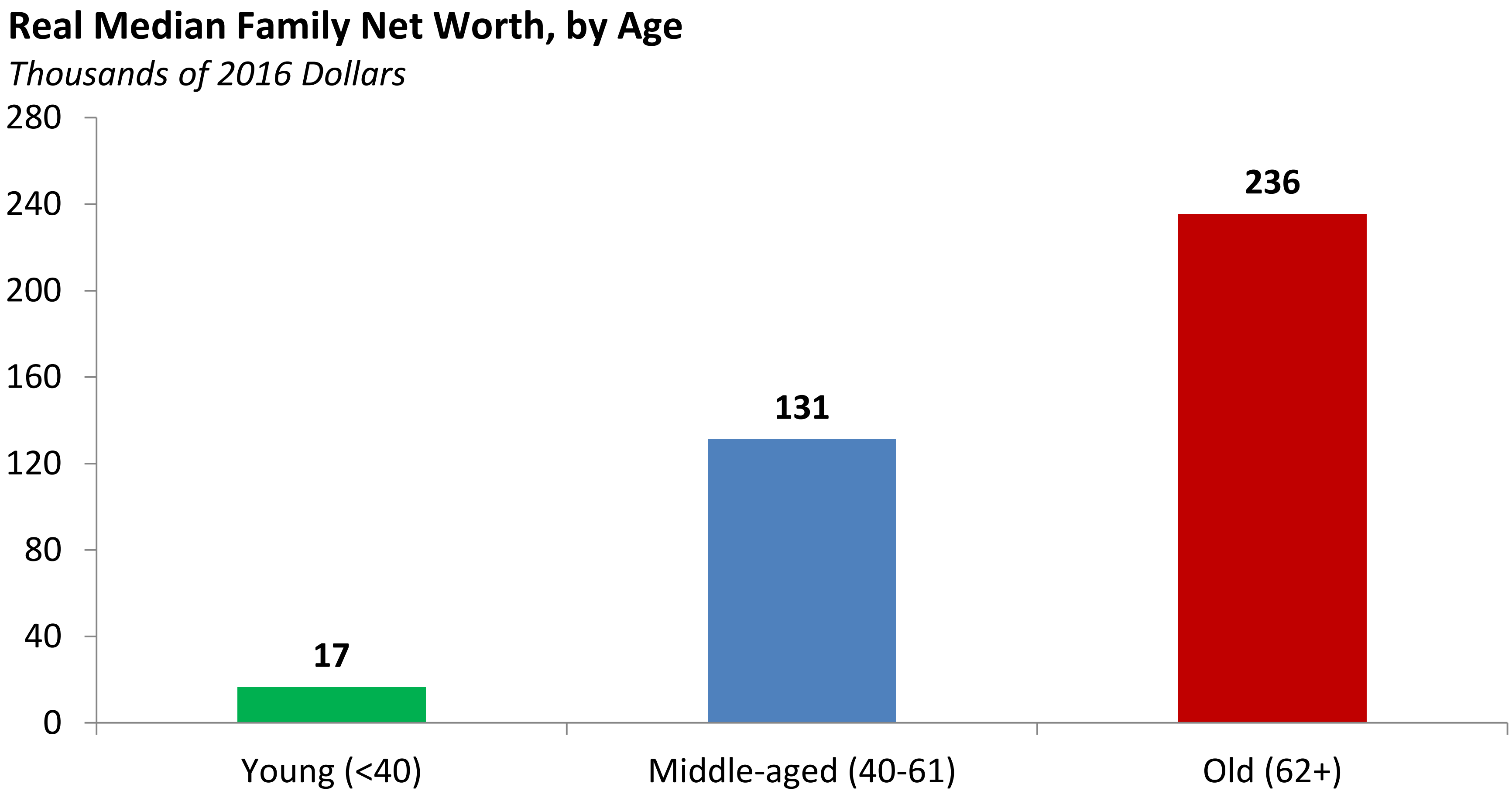



Source: Federal Reserve Board, Survey of Consumer Finances.

# Age and Wealth

- Three groups based on the age of the respondent:
  - Young: Under 40
  - Middle-aged: 40-61
  - Old: 62 or older

# Naturally, Wealth Accumulation Takes Time

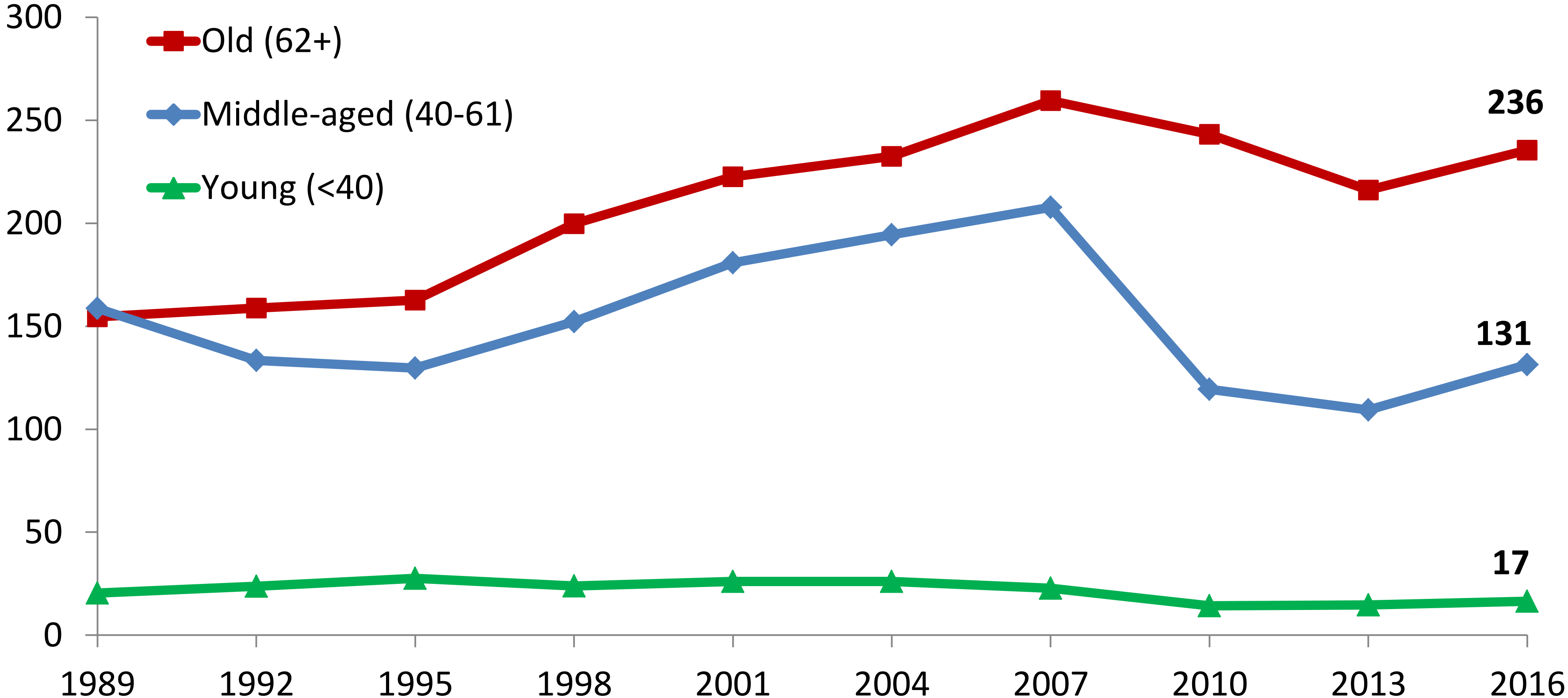



Source: Federal Reserve Board, Survey of Consumer Finances.

# Recession Hit Middle-Aged Families Hardest

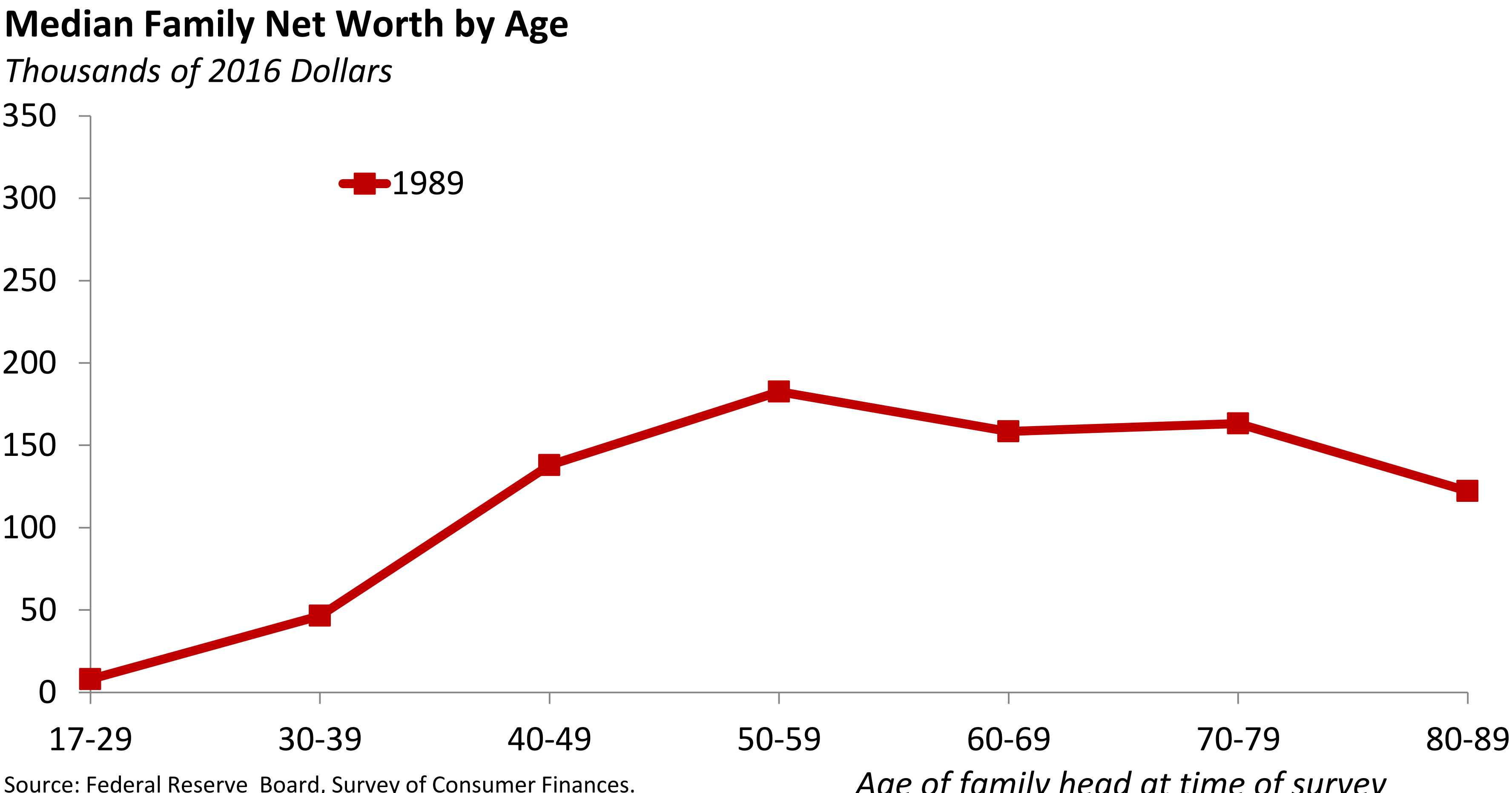
**Real Median Family Net Worth, by Age**

*Thousands of 2016 Dollars*




Source: Federal Reserve Board, Survey of Consumer Finances.

# When You Were Born Matters




Source: Federal Reserve Board, Survey of Consumer Finances.

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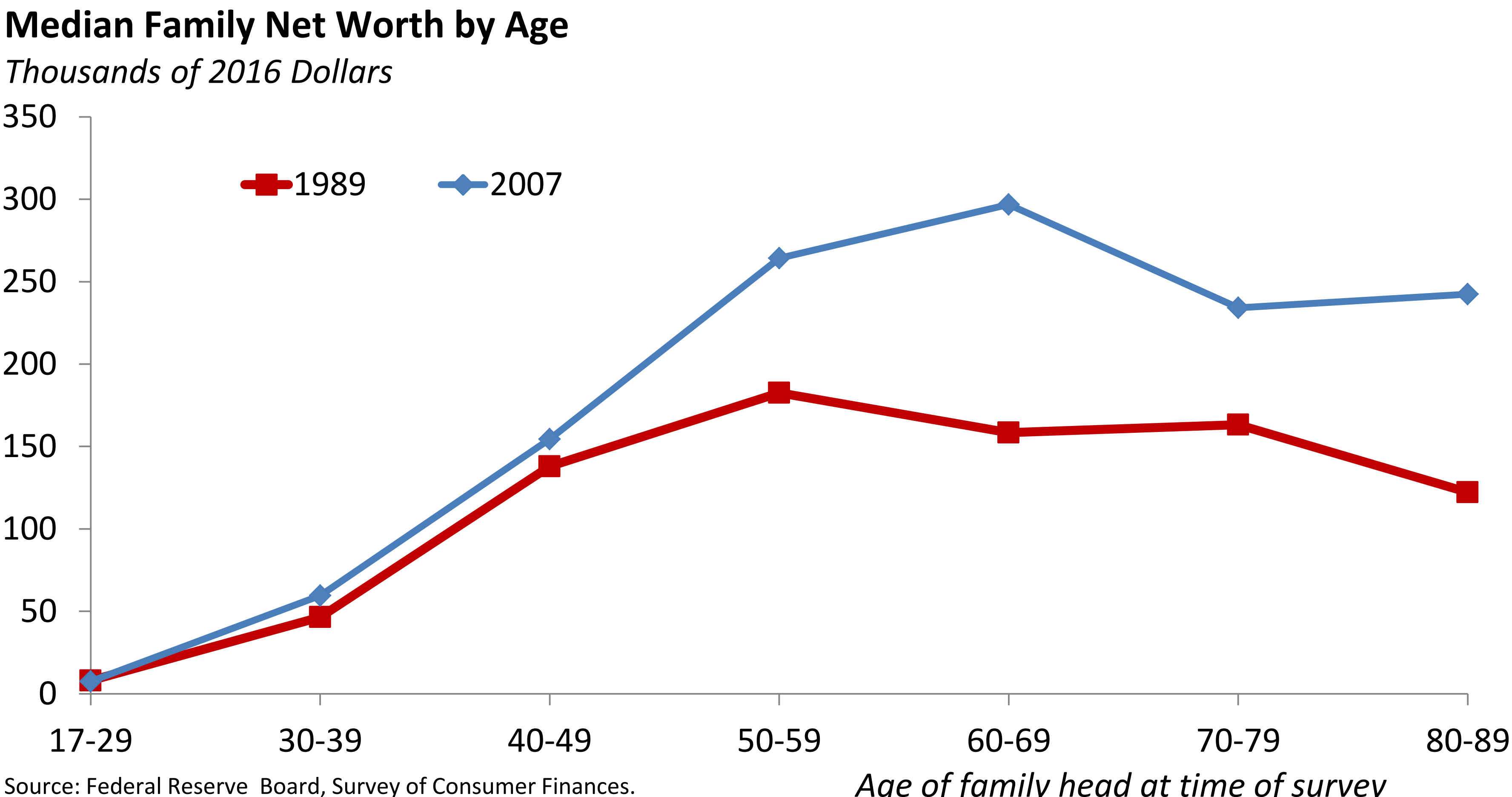
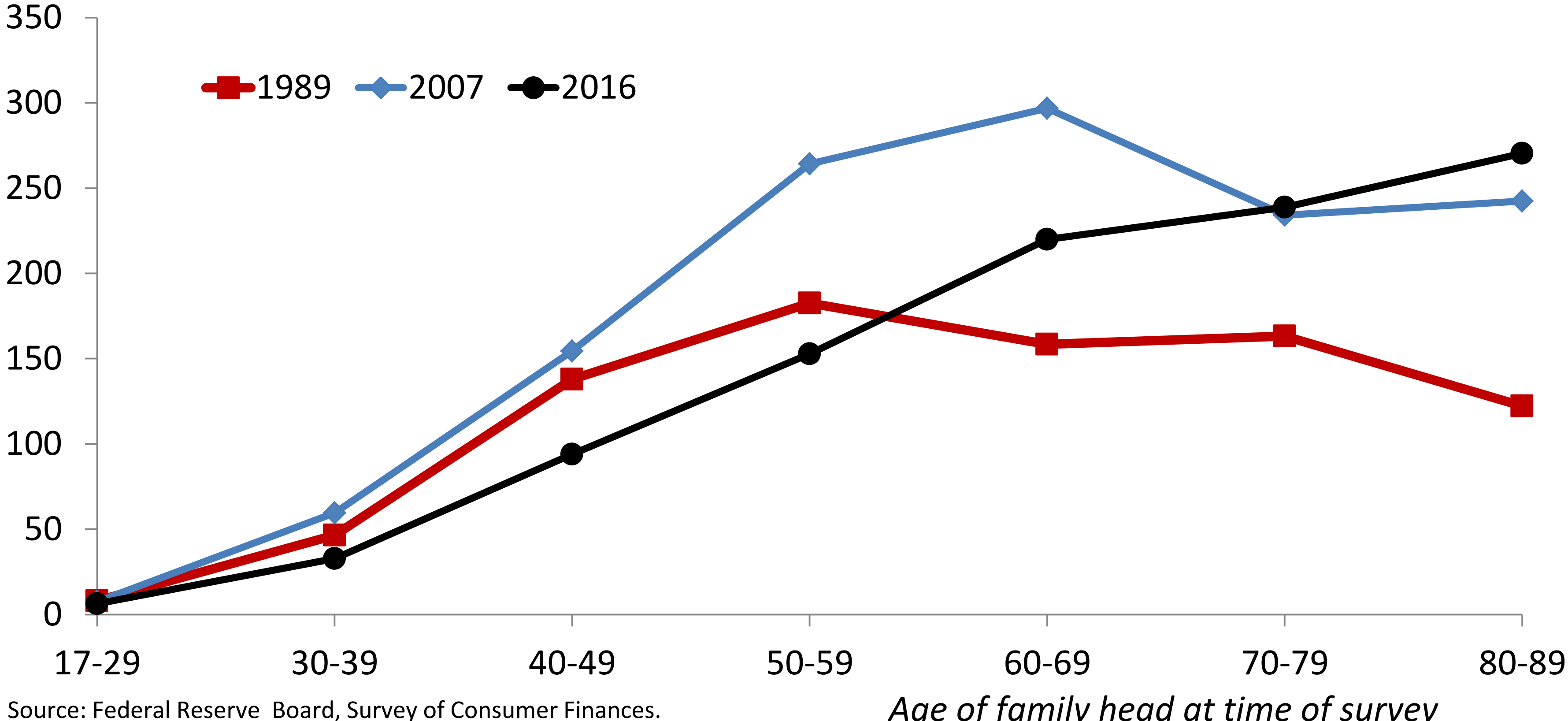



Source: Federal Reserve Board, Survey of Consumer Finances.

# When You Were Born Matters

**Median Family Net Worth by Age**

*Thousands of 2016 Dollars*




Source: Federal Reserve Board, Survey of Consumer Finances.

# Why Are Demographics So Powerful?

- Age and Birth Year
  - Income and wealth exhibit strong life-cycle effects.
  - Biggest difference: Income declines in older age; wealth does not.
  - Some generations appear lucky.
    - “Silent generation,” born 1926-45.
  - Others appear unlucky.
    - “Generation X,” born 1965-80.

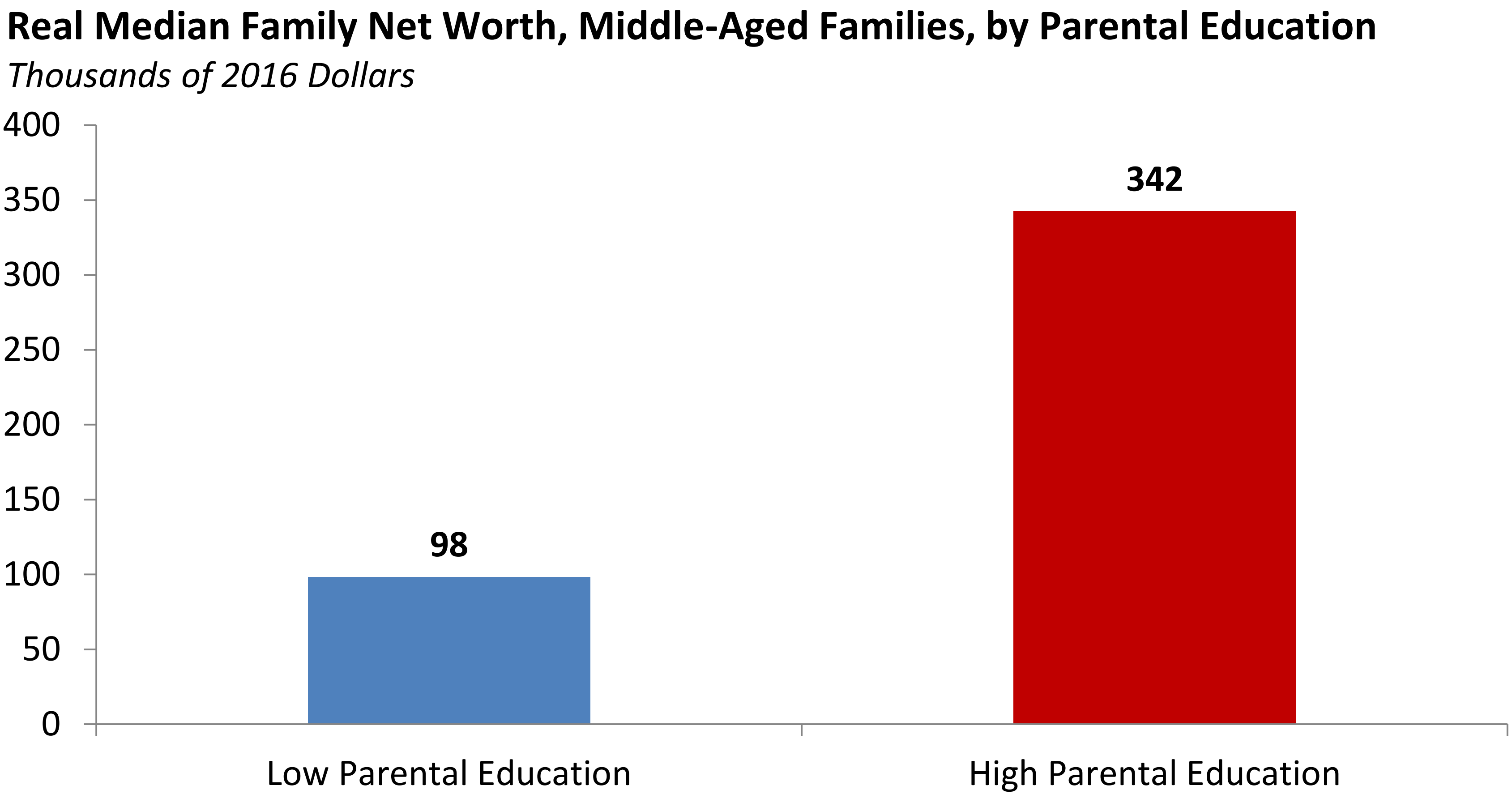
# Why Are Demographics So Powerful?

- Education
  - More education is *correlated* with many good outcomes:
    - More desirable occupation/profession.
    - Better household financial management.
    - More likely to be married.
    - Better health.
    - Longer life expectancy.
    - Higher income.
    - Higher wealth.
  - But *correlation isn't necessarily causation*—how important is education *per se*?

# Why Are Demographics So Powerful?

- Research shows that educational attainment reflects:
  - True value added
  - Signaling of your innate abilities
  - Investments made in you by your parents and grandparents.
- Our current research uses your parents' education to predict your outcomes.
  - Your wealth is related to your parents' educational attainment.
  - Some people enjoy a "head start."

# Parents' Education Predicts Your Wealth

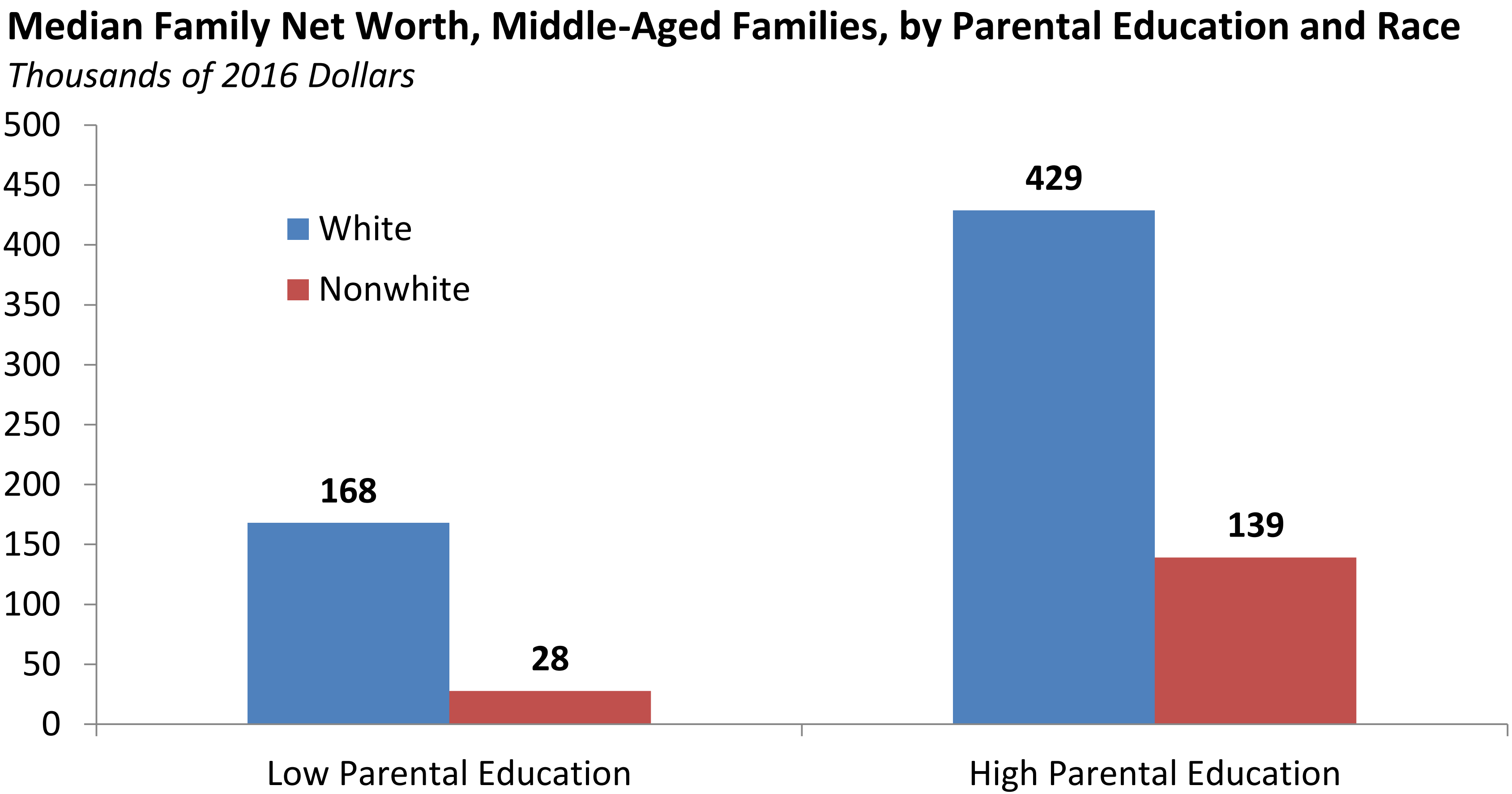



Source: Federal Reserve Board, Survey of Consumer Finances.

# Why Are Demographics So Powerful?

- Race and ethnicity still matter—a lot.
  - Historical discrimination and disadvantage created large wealth gaps in the past, which profoundly affect today's children and adults.
  - Continuing discrimination and disadvantage hamper full participation and achievement.
  - Ongoing structural and systemic barriers make it difficult to narrow wealth gaps.

# Race and Ethnicity Continue to Predict Wealth

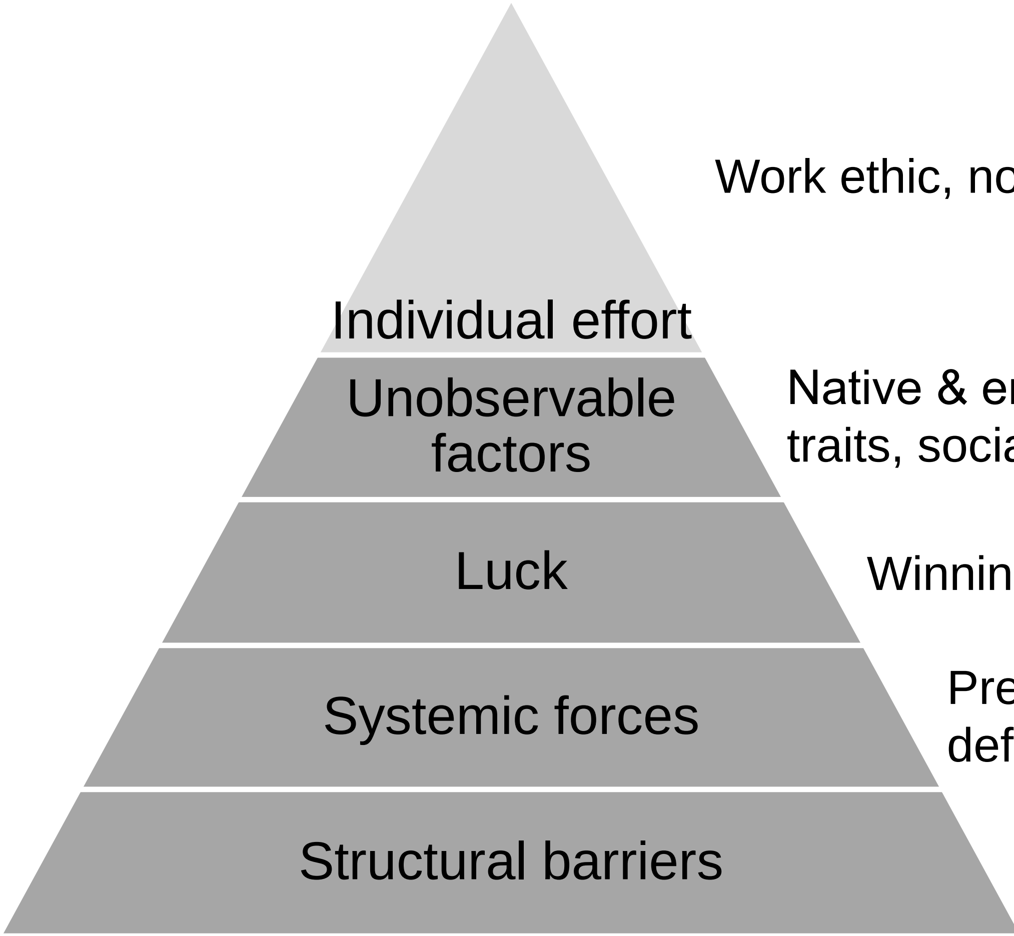



Source: Federal Reserve Board, Survey of Consumer Finances.

# Why Are Wealth Outcomes So Unequal?

- Basic demographic characteristics are strongly related to typical income and wealth outcomes.
- This framework helps us *predict* but it doesn't *explain* everything.
- Our further research suggests that *structural, systemic or other unobservable factors* related to these demographic fault lines are important drivers of wealth inequality.

# Why Are Wealth Outcomes So Unequal?




Work ethic, non-cognitive skills.

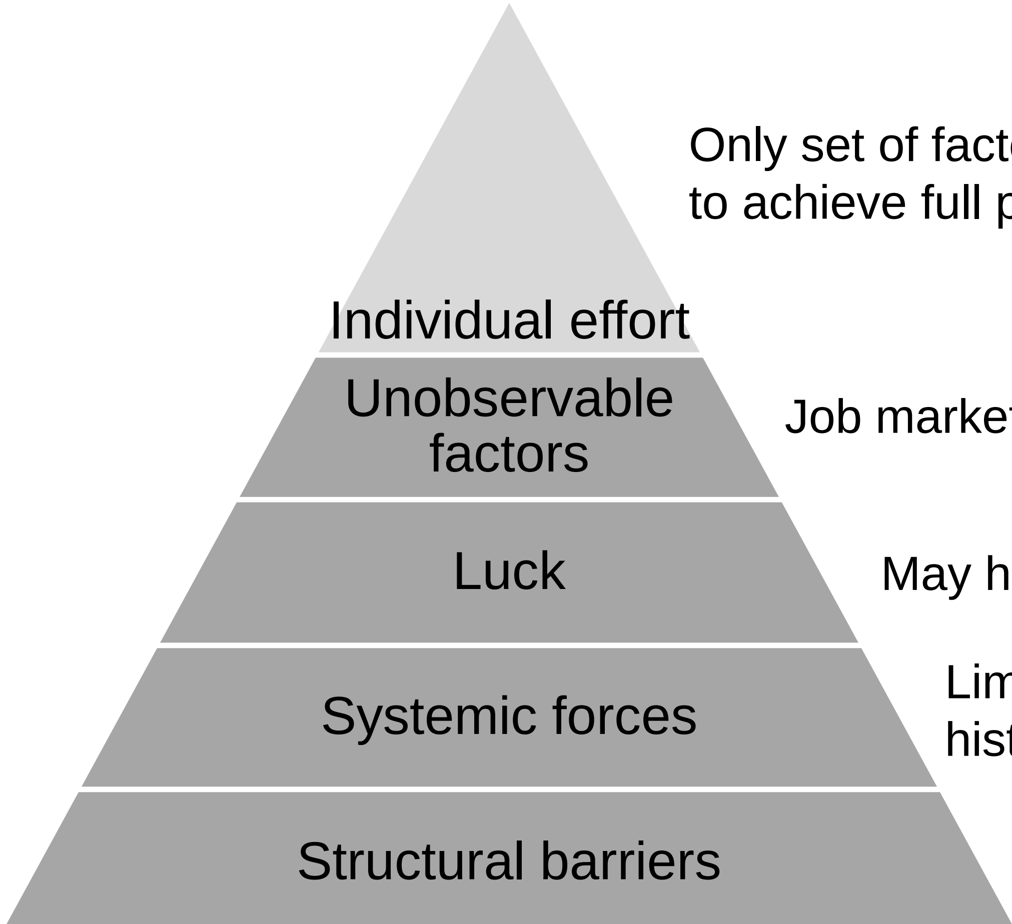
Native & emotional intelligence, “grit”, personality traits, social network.

Winning the lottery, suffering an accident.

Prejudice, voluntary self-segregation, self-defeating cultural norms.

Legally sanctioned or permitted discrimination.

# Why Are Wealth Outcomes So Unequal?




Only set of factors that are fully in our control, required to achieve full potential given previous factors.

Job market and financial success requires these.

May help of hinder to some degree.

Limit chances to gain wealth; may have historical links to structural factors.

Historical discrimination, wealth cumulates across generations.

# Ideas for Moving Forward

# Conversation One vs. Conversation Two (Jackson 2017)

- **Conversation one** outlines expedient, small-scale interventions aimed to solve tightly defined problems or improve existing institutions.
- **Conversation two** involves a deeper discussion about where wealth gaps come from and what larger-scale changes might close them.
- Both conversations are necessary but often in social sciences the first is preferred or crowds out the second.

# Conversation One

- Child Development Accounts / College Savings Accounts
  - Established at birth or when 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.

# Conversation Two

- **Not** endorsing any specific policy but conversation two involves bold proposals such as:
  - Renewed pursuit of desegregation of primary and secondary schools.
  - Disassociate school funding from neighborhood wealth.
  - Outlaw residential segregation (by race and income).
  - Eliminate all intergenerational transfers.
  - Universal higher education.

# Conclusion

- While income and wealth poverty have improved from worst of the recession, inequality continues to grow.
- The families experiencing the most hardship fall along demographic fault lines.
- Reducing inequality, eradicating poverty and closing wealth gaps is no small task given deep-rooted causes.
- Realistic proposal needs big ideas along with proven interventions.

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