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**HOUSEHOLD  
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Researching Family Balance Sheets to Strengthen  
Families and the Economy | [stlouisfed.org/hfs](http://stlouisfed.org/hfs)

# Is Demography Economic Destiny? Thrivers & Strugglers in Today's Economy

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[www.stlouisfed.org/hfs](http://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 of Remarks

- I. Findings from the Demographics of Wealth
- II. Implications for Community Foundations
- III. The Future of Building Wealth

# I. Findings from the Demographics of Wealth

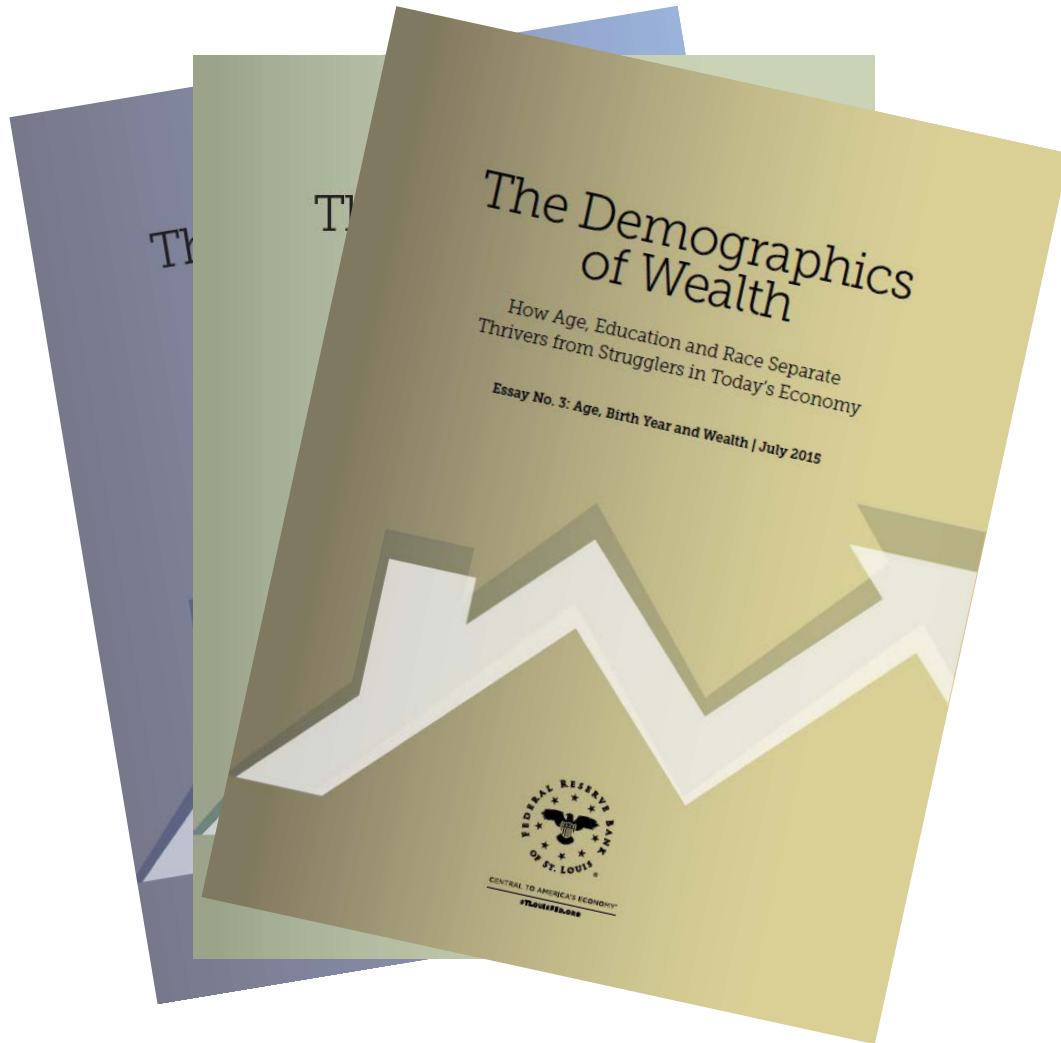
# Why Study Family Balance Sheets?



- Assets matter for economic security and upward economic mobility in ways income does not; balance sheets reveal dimensions of financial stress and health not otherwise apparent.
- Holding assets is associated with distinct social, psychological, emotional, child well-being, health, and civic outcomes.
- The U.S. has a long history of promoting property ownership, but many families have been and remain excluded from these policies, contributing to wealth inequality.



# The Demographics of Wealth

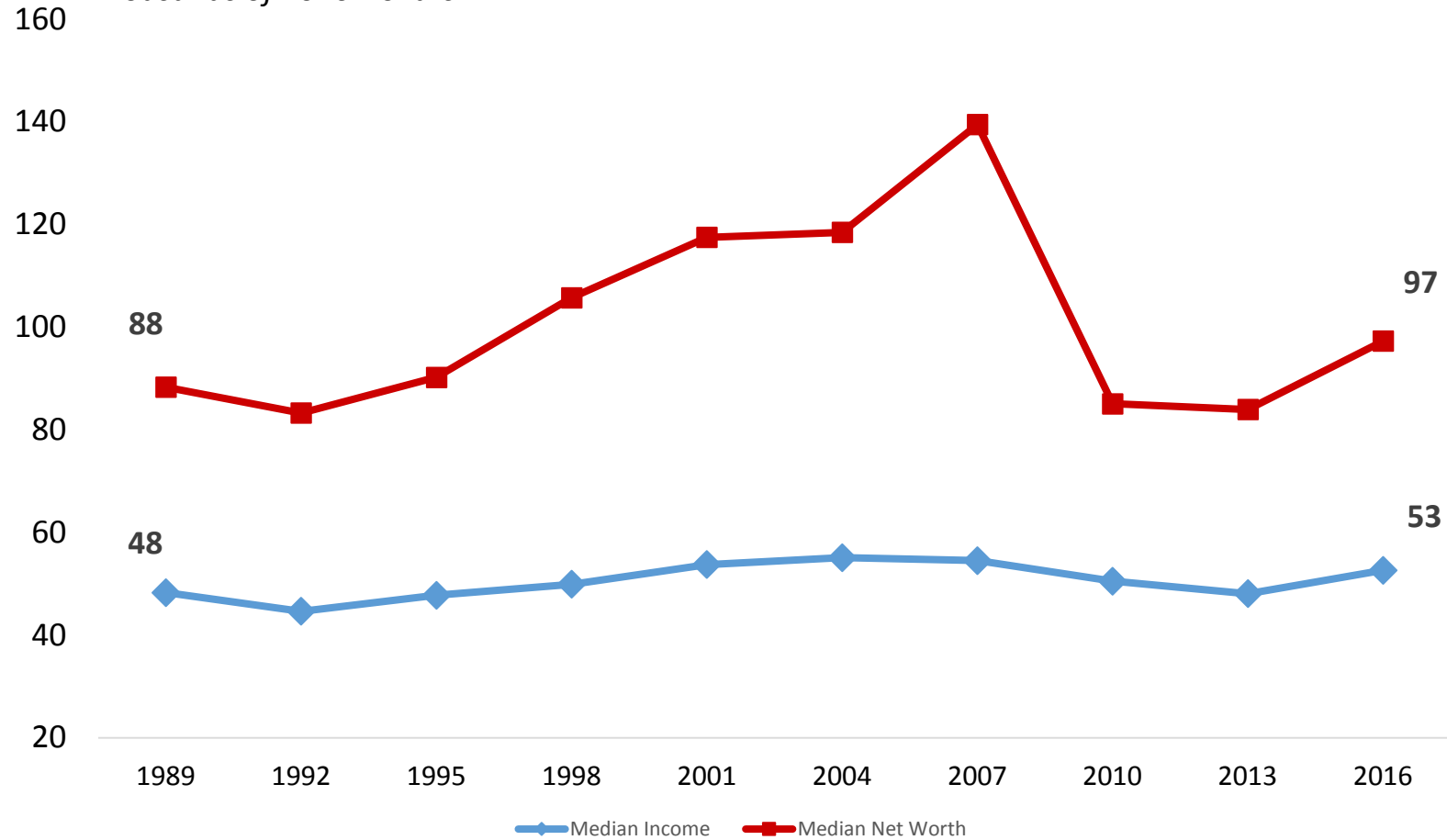


- First published in 2015
  - Education
  - Race
  - Age
- Updated in 2018
  - Adds education of respondent's parents
- Surveys over 6,000 families every three years; considered the “gold standard” in family wealth research

# Income and Wealth Since 1989

## Changes in Median Income and Net Worth Over Time

*Thousands of 2016 Dollars*

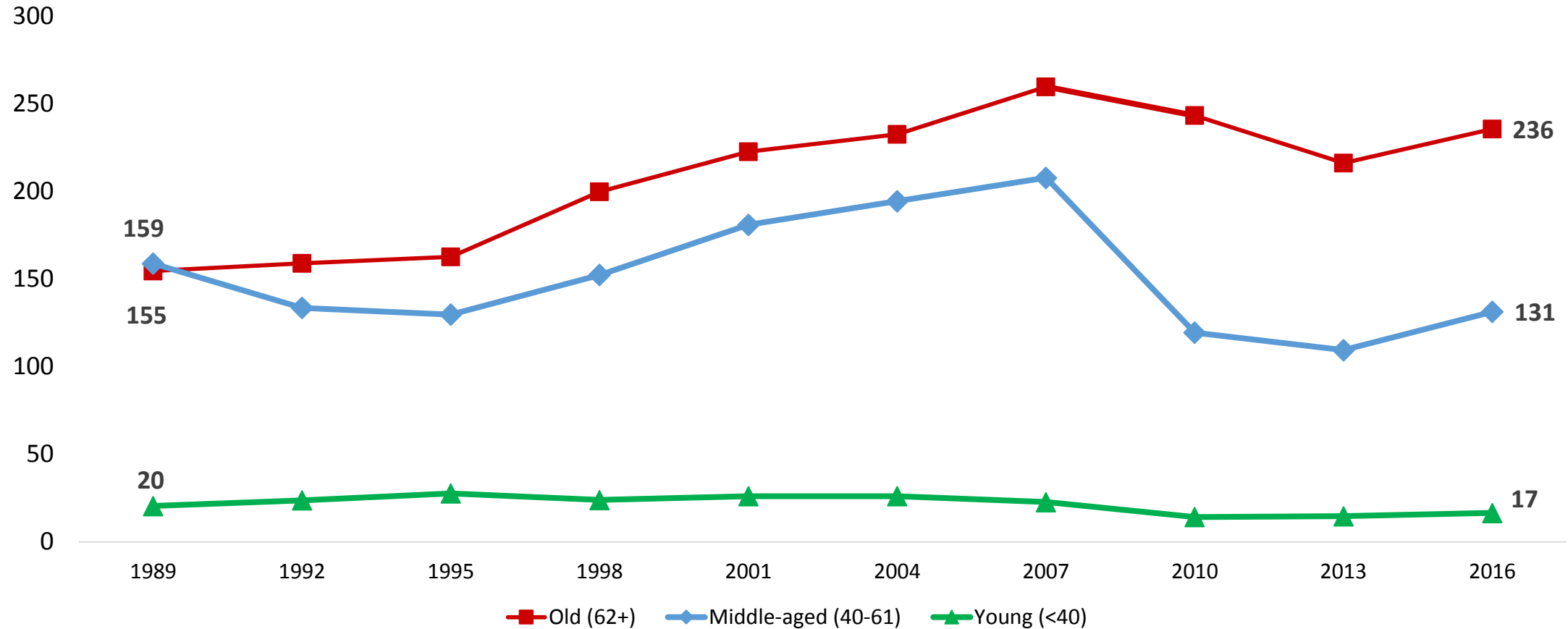


Source: Federal Reserve Board, Survey of Consumer Finances.

# Age / Birth Year Wealth Gaps

## Real Median Family Net Worth, By Education

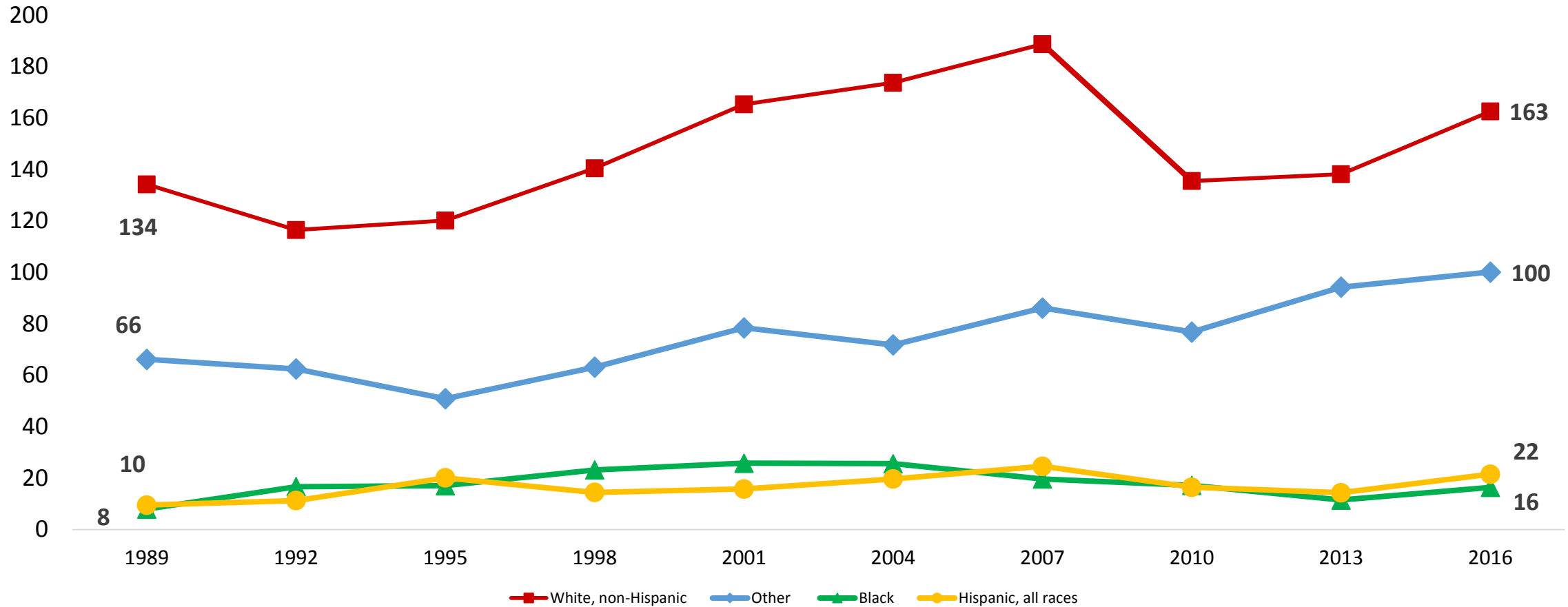
Thousands of 2016 Dollars



Source: Federal Reserve Board, Survey of Consumer Finances.

# Racial / Ethnic Wealth Gaps

**Real Median Family Net Worth, By Race/Ethnicity**  
*Thousands of 2016 Dollars*



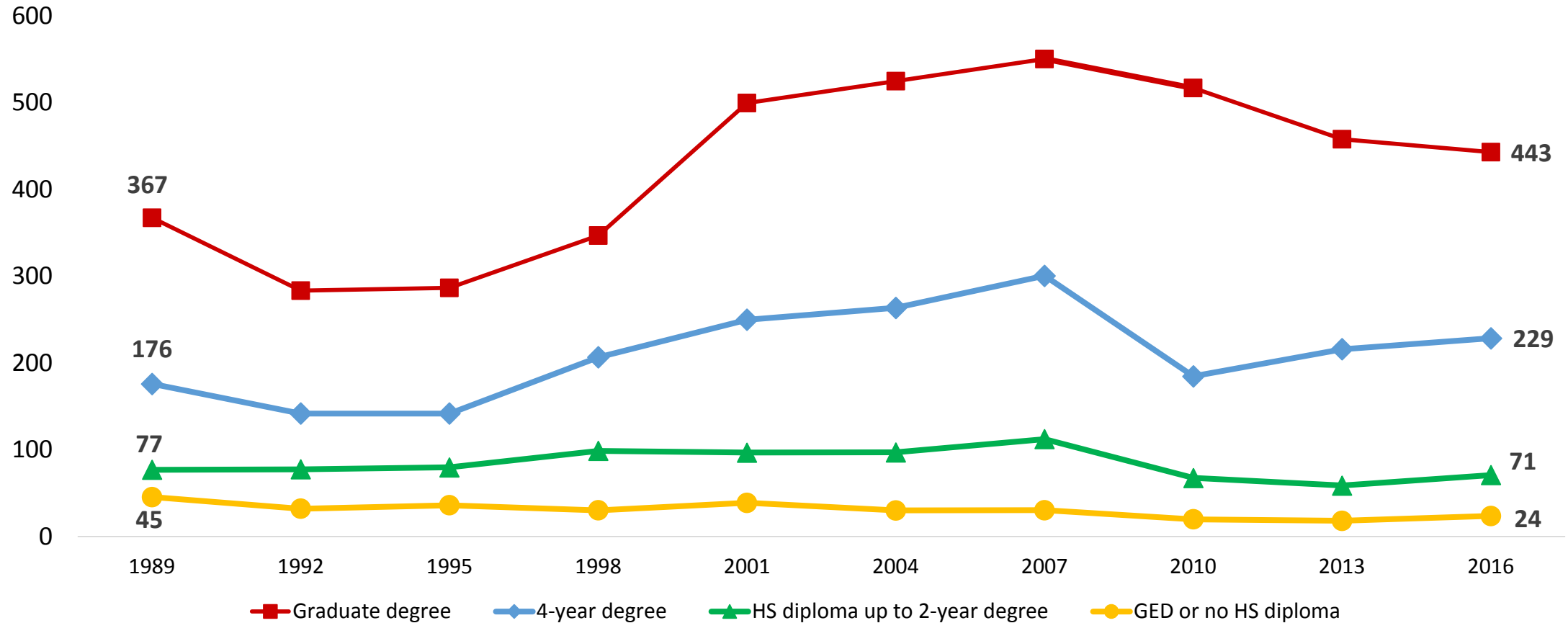
Source: Federal Reserve Board, Survey of Consumer Finances.



# Educational Wealth Gaps

## Real Median Family Net Worth, By Education

Thousands of 2016 Dollars

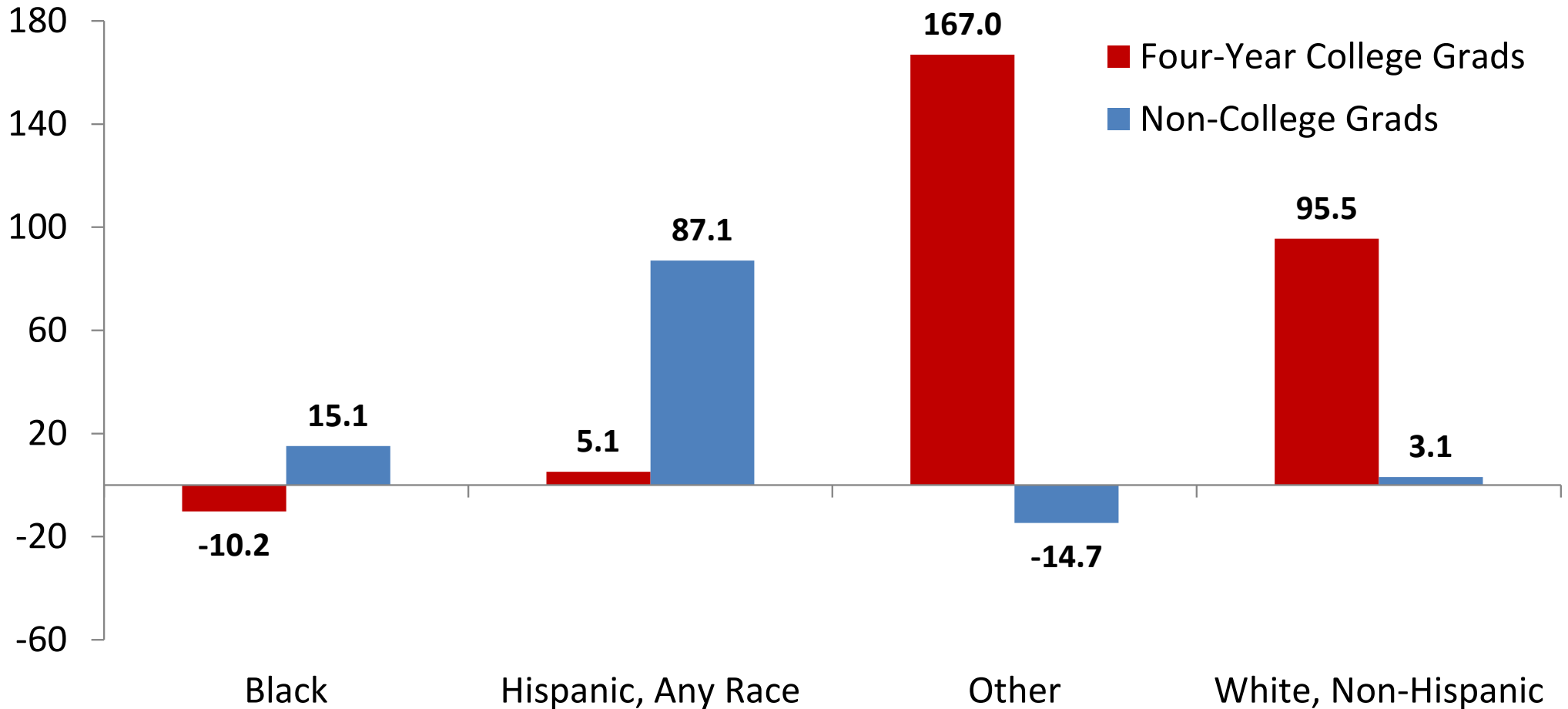


Source: Federal Reserve Board, Survey of Consumer Finances.

# Combining Race/Ethnicity AND Education

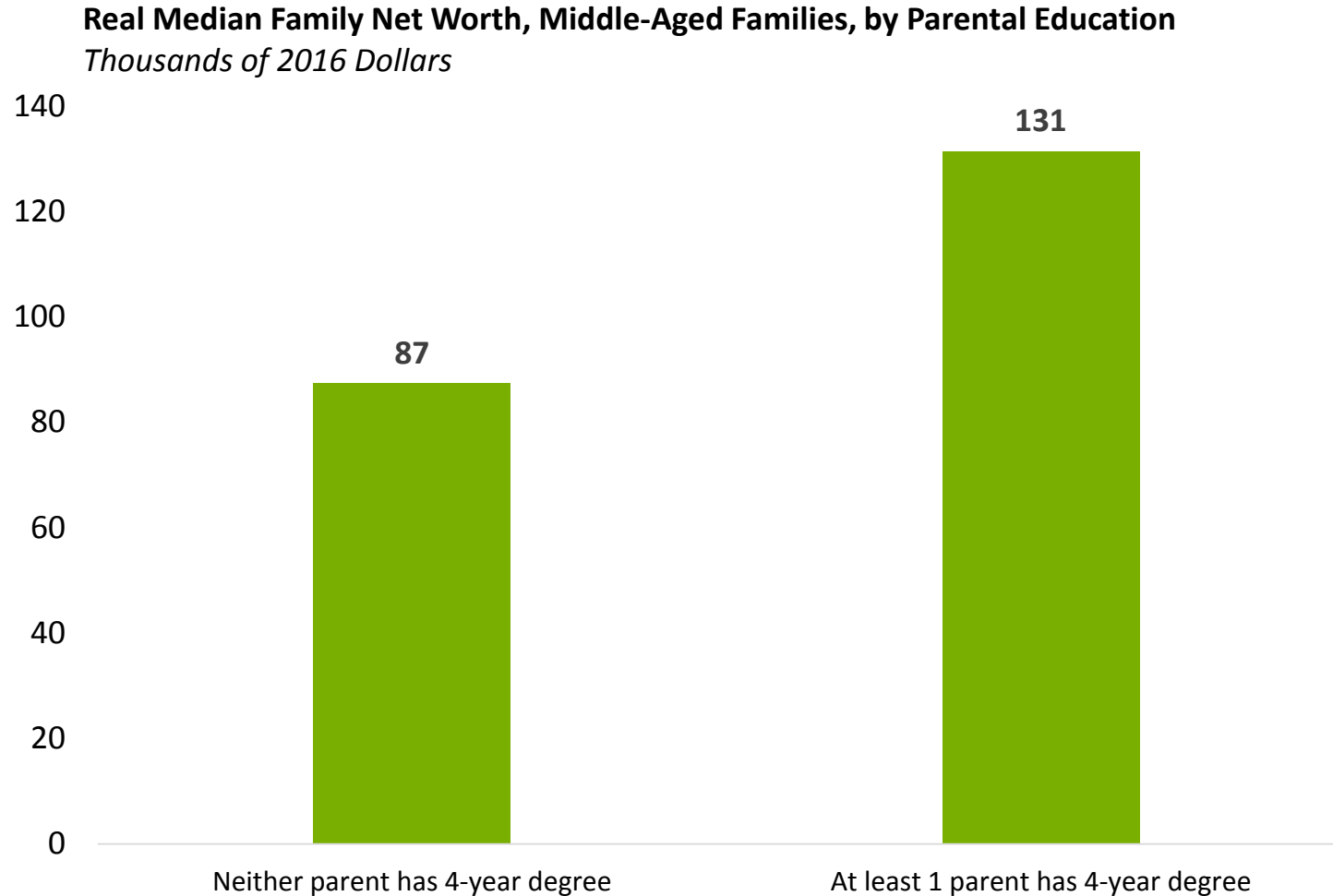
## Change in Median Real Net Worth between 1992 and 2016

Percent



Source: Federal Reserve Board, Survey of Consumer Finances.

# Effect of Parents' Education On Wealth

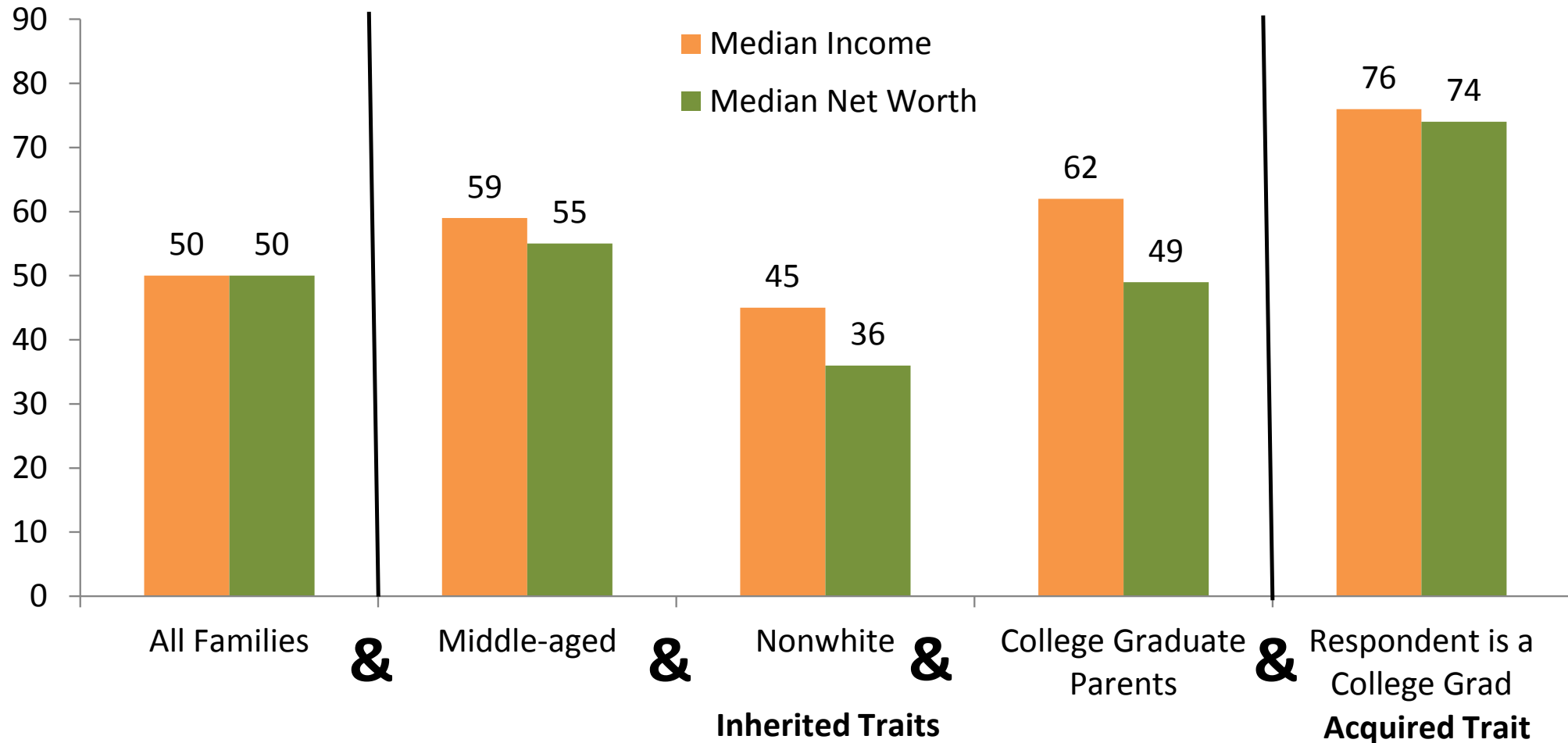


Source: Federal Reserve Board, Survey of Consumer Finances.

# Inherited v. Acquired Traits: An Example

## Median Family Income and Net Worth Rank Progression, by Inherited & Acquired Traits

Percentile Rank

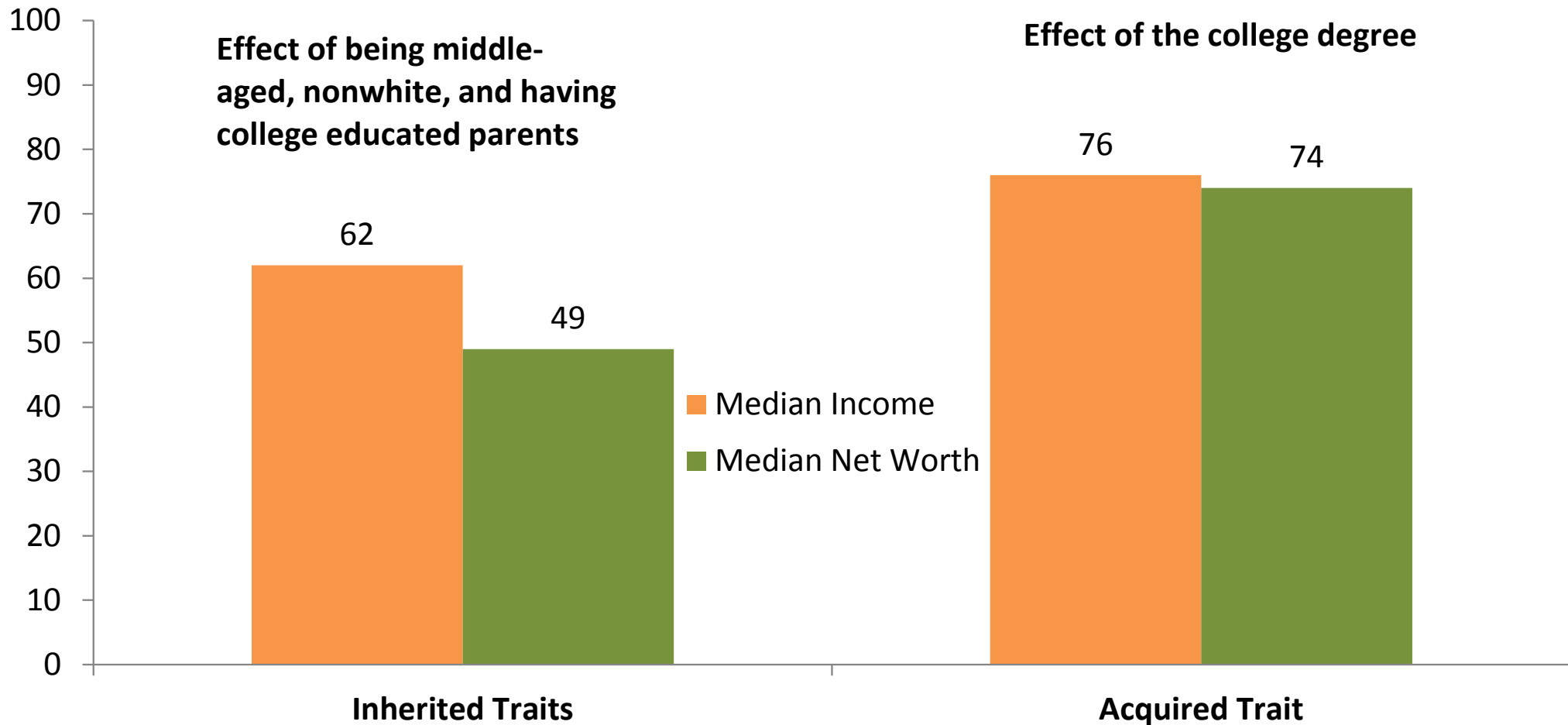


Source: Federal Reserve Board, Survey of Consumer Finances, and author's calculations.

# Review: Endowment vs. Effort

## Median Income and Net Worth Rank, by Inherited & Acquired Traits

Percentile Rank



Source: Federal Reserve Board, Survey of Consumer Finances, and author's calculations.

# Three New Findings Knowing Parents' Education



**The head-start effect:** Families with “favorable” (white, older, college grad parents) inherited traits typically earn higher incomes and accumulate more wealth than families without them.

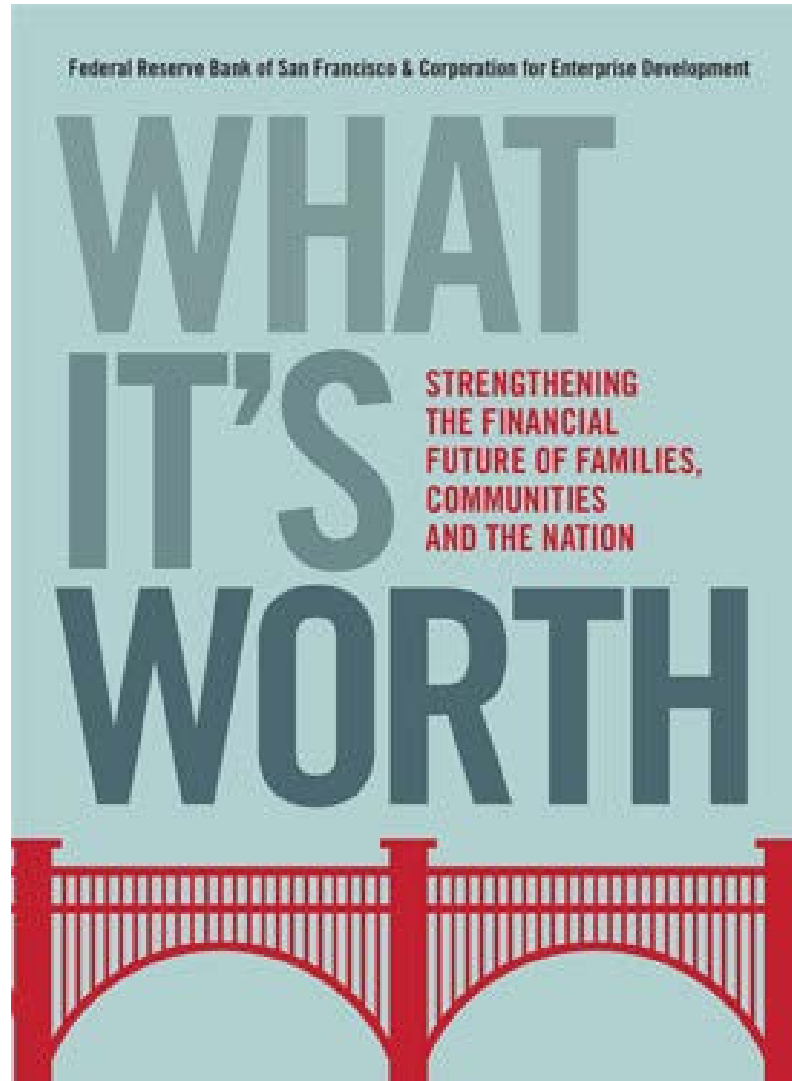


**The upward-mobility effect:** Among families with less “favorable” traits, a college degree usually boosts income and wealth far above levels achieved without a degree.



**The downward-mobility effect:** Families with college-educated parents who fail to also earn a degree are likely to slip notably downward in expected ranking.

# Is Demography Economic Destiny?



*No, but....*

- *How can we assign greater weight to demographic factors in targeting consumer protections and public and private resources?*
- *How can we compensate for stronger “headwinds” faced by struggling families?*
- *How can we promote the upward-mobility effect and compensate for the head-start effect?*
- *What’s the role of executive function, agency, and financial capability?*

*See What It’s Worth, available at*  
[www.strongfinancialfuture.org](http://www.strongfinancialfuture.org)

## II. Implications for Community Foundations



# Build Financial Stability



- The balance sheets of struggling families share three characteristics:
  1. Too much wealth in homeownership
  2. Too much debt
  3. Too little savings/liquidity
- Having liquid assets, even if less than \$2,000, is associated with lower incidence of various financial hardships, such as missed payments, foregone medical care, and food insecurity. And families with nonretirement savings of between \$250 and \$749 are less likely to be evicted, miss a housing or utility payment, or receive public benefits when income disruptions occur (Urban Institute, 2011, 2016)
- Of all the factors examined, disparities in financial well-being are greatest between subgroups that have different levels of liquid savings (CFPB, 2017)



# Invest in Place

(See also [www.mobilitypartnership.org](http://www.mobilitypartnership.org) and [www.equality-of-opportunity.org](http://www.equality-of-opportunity.org))



**Invest in Teachers:** “Among the factors correlated with mobility discussed above, improvements in the quality of education have the clearest causal effects on upward mobility. For example, in a study that tracked more than 1 million children from childhood to early adulthood, we find that better teachers – as measured by test-score based value-added metrics – substantially increase students’ earnings and college attendance rates. We estimate that an excellent teacher generates more than \$1.4 million of earnings gains for a single classroom of students over their lives.”

— Chetty, Friedman, & Rockoff, 2014

**Invest in Schools:** “Schools—and policies that influence their optimal functioning—are transformative agents that either provide or deprive children of the opportunity to reach their full potential. These equal educational opportunity policies were instrumental in the making of a growing black middle class. The evidence shows that the footprints of paths toward upward mobility are preceded by access to high quality schools beginning in early childhood through 12th grade. These school reforms expanded on-ramps to poor and minority children to get on that path. Evidence on the long-term productivity of education spending demonstrates that equal education policy initiatives can play a pivotal role in reducing the intergenerational transmission of poverty.”

— Rucker Johnson, 2017

# Invest in Early Childhood Environments and Assets



## Early Environments

Roland Fryer finds that:

- Black-white test score gaps were non-existent between ages 0-1, but black children fall quickly behind after that.
- By age 2, substantial gaps exist, largely due to the cumulative effect of different early age environments.



Fryer, James Heckman, Robert Putnam, Raj Chetty, Michael Sherraden, Isabelle Sawhill and others find that the earlier in life a child...

- Is read to
- receives good nutrition
- faces less toxic stress
- attends an early-education program
- is exposed to a good neighborhood
- attends a high-performing school
- is raised by two parents, and
- has assets in the home

...the better that child will turn out as an adult.



## Early Assets

- 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).
- Programs and policies exist at the city, county and state-wide level; over 80% use the 529 platform.
- Research shows positive impacts on child development, maternal health, future orientation, likelihood of completing college outcomes, and other positive effects.
- There are few experimental studies, and longer-term impacts are not yet known.



# III. The Future of Building Wealth

- Weather v. climate change
- Stability and liquidity, then mobility
- Reconnecting work & wealth
- Thinking beyond individual asset ownership
- Developing social and private insurance focused on family wealth