Thrivers and Strugglers: How Age, Race/Ethnicity and Education are Fueling an Economic Divide in America

Kirkwood Rotary Club

June 28, 2018

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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
Context: Widespread Financial Instability

- 57% of Americans are challenged to achieve “financial health” (CFSI, 2015)

- 70% of households are “income-constrained, savings limited, and/or debt-challenged” (Pew, 2015)

- An unexpected expense of $400 would prompt nearly half of all families to borrow funds, sell something, or simply not pay (Federal Reserve, 2015-2018)

- Families experience volatility five months per year; 42% of families struggle to meet monthly expenses, due in part to growing income and expense volatility (U.S. Financial Diaries, 2016)

- Nearly two-thirds of Americans see money as a “very” or “somewhat” significant source of stress. (APA, 2015)
Why Study Wealth?

- 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.
Changes in Median Income and Net Worth Over Time

Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
Age / Birth Year

Real Median Family Net Worth, Age/Year of Birth

Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
Race and Ethnicity

Real Median Family Net Worth, By Race/Ethnicity

Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
Education

Real Median Family Net Worth, By Education
Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
Education & Wealth (with Parental Education)

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

Percentile Rank

- Median Income
- Median Net Worth

Source: Federal Reserve Board, Survey of Consumer Finances, and author's calculations.
Review: Inherited v. Earned Traits

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

Percentile Rank

Effect of being middle-aged, nonwhite, and having college educated parents

Effect of the college degree

Source: Federal Reserve Board, Survey of Consumer Finances, and author's calculations.
Overall Effects — Demographics of Wealth # 1

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.
Responses

* Help families build a rainy day fund

* Prioritize local over national investments, especially in younger Americans
  - Reduce racial segregation
  - Reduce economic inequality and segregation
  - Invest in schools – especially in teachers, principals, and efforts to get first-gen kids to and through college
  - Improve social capital, networks and relationships
  - Stabilize families, and reduce the incidence of single-parent households

* Invest in early childhood environments and early-in-life assets