Inequality and Poverty in the United States

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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
Overview

- Measuring Income Poverty
- Income vs. Asset Poverty
  - Why focus on Wealth?
- Income vs. Wealth (Net Worth) Inequality
- The Demographics of Wealth
- Why are Demographics So Powerful?
- 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

- One (incorrect) interpretation of the post-1960s trend is that the myriad programs aimed at eliminating poverty have had no effect.

- In addition to the measurement issues raised earlier, the official measure obscures a lot of additional information.
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

- Supplemental measure offers a very different story.
- Poverty rate has been higher over the historical period.
- Poverty rate declined by roughly 10 percentage points, versus no change seen in official measure.

Source: Census Bureau/ Haver Analytics and (2013: Wimer, Fox, Garfinkel, Kaushal, and Waldfogel).
Recently, Both Measures Show Decline

- Since 2014, both measures indicate declining rates of poverty.
- Between 2017 and 2018, the OPM fell by 0.5 percentage points while the SPM fell by 1.1 percentage points.

Source: Census Bureau/ Haver Analytics.
SPM Offers Valuable Breakdown of Impact

- Income from social security kept 17.9 million seniors out of poverty.
- SNAP helped keep 1.4 million children out of poverty.
- In contrast, medical expenses pushed 8 million individuals into poverty.

**Change in Number of Individuals in Poverty, by Individual Element, 2018**

<table>
<thead>
<tr>
<th>Category</th>
<th>65 years and over</th>
<th>18 to 64 years</th>
<th>Under 18 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>School lunch</td>
<td>-27,205</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child support received</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing subsidies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social security</td>
<td>-2,923</td>
<td>7,990</td>
<td></td>
</tr>
<tr>
<td>Medical expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FICA</td>
<td>-3,210</td>
<td>-3,013</td>
<td>-789</td>
</tr>
<tr>
<td>Federal income tax</td>
<td></td>
<td>-8,950</td>
<td></td>
</tr>
</tbody>
</table>

Official vs. Supplemental Poverty Measure

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

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

- For example, refundable tax credits reduced the number of people in poverty by 8.9 million individuals.

- 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, Prosperity Now)

- **39% of adults** could not cover an emergency expense of $400 without selling something or borrowing money. (2018 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

Share of Total Pre-Tax Income

Percent

1989  2016

Bottom 50%

15.4
13.5

Top 10%

42.3
49.9

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

Income Distribution: Top 1 Percent
Thousands of 2016 $

<table>
<thead>
<tr>
<th>Year</th>
<th>1989</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1%</td>
<td>460</td>
<td>865</td>
</tr>
</tbody>
</table>

Net Worth Distribution: Top 1 Percent
Thousands of 2016 $

<table>
<thead>
<tr>
<th>Year</th>
<th>1989</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 1%</td>
<td>4,300</td>
<td>10,385</td>
</tr>
</tbody>
</table>
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
The Demographics of Wealth Series

2018 Series

- HFS essay series links income, wealth and other socio-economic outcomes to a family’s:
  - Race/ethnicity
  - Education (own and parents’)
  - Age and birth year

2015 Series

- Your race/ethnicity, education and birth year are strong predictors of your adult outcomes.

Demographics of Wealth Essays
EDUCATION
Education and Wealth

- Five groups based on highest educational attainment of the respondent:
  - Did not complete high school on-time (GED or no diploma)
  - High-school diploma
  - Some college, including degrees or certificates short of 4-year degree
  - Four-year college degree
  - Post-graduate degree
There is an increasing wealth divide between families which have a college-degree and those that do not.

Furthermore, expected returns associated with a graduate degree are increasing.
Growing Returns to Education Over Time

- 34% of families were headed by someone with at least a four-year college degree in 2016, up from 23% in 1989.
- Increasing attainment reflects belief (and statistics) that college helps people get ahead financially.
AGE AND BIRTH YEAR
Broader Wealth Gap is by Age

- Wealth follows a powerful life cycle.

Median Family Net Worth by Age

Thousands of 2016 Dollars

Source: Federal Reserve Board's Survey of Consumer Finances.
Broadest Wealth Gap is by Age

- Wealth follows a powerful life cycle.
- Older families have more wealth than same-aged families did in years past.

Median Family Net Worth by Age

Thousands of 2016 Dollars

- 17-29
- 30-39
- 40-49
- 50-59
- 60-69
- 70-79
- 80-89

Source: Federal Reserve Board's Survey of Consumer Finances.
Broadest Wealth Gap is by Age

- Wealth follows a powerful life cycle.
- Older families have more wealth than same-aged families did in years past.
- While younger families have less wealth.
- Expected wealth depends on when families hit age milestones.

Median Family Net Worth by Age

Thousands of 2016 Dollars

Source: Federal Reserve Board’s Survey of Consumer Finances.

Age of family head at time of survey

17-29 30-39 40-49 50-59 60-69 70-79 80-89

0 50 100 150 200 250 300 350
The Changing Fortunes of Age

- The Great Recession inflicted deep and widespread losses to wealth across families.
- While losses occurred across the age spectrum, the extent of the damage was unequal.
- Younger families suffered the most and have rebounded slowly.

Change Between 1989 and 2016 in Predicted Wealth

Percentage Difference

Sources: Federal Reserve Board’s Survey of Consumer Finances and authors’ calculations.
When You Were Born Matters

- Given substantial shifts in predicted wealth by age, when you reach age milestones is important.

- To understand how members of particular birth years have fared, we track six decade-long cohorts over time:
  - Family heads born in the 1930s, 1940s, 1950s, 1960s, 1970s, and 1980s.

- To be clear, we don’t track individual families across time; instead, we track outcomes among all families with a shared birth-cohort.
Can Families Recover What They Lost?

- For the families that lost the most wealth, how likely are they to recover in time for major goals?
  - First-time home purchase
  - College tuition for their children
  - Retirement

- Will families in younger birth cohorts become part of a “lost generation” that struggles to achieve life’s financial milestones?
Which Generations Have Recovered?

- Cohorts born before 1960 were above benchmark levels in 2016.
- Cohorts born in 1960 or later were below predicted wealth levels.
- The 1980s cohort slipped noticeably further behind between 2010 and 2016.

Sources: Federal Reserve Board’s Survey of Consumer Finances and authors’ calculations.
A Case for Optimism

- Two key factors on the side of 1980s-born families are time and education.
- These families have many more years to earn, save and accumulate wealth.
- This is the most highly educated generation; it’s possible that their income and wealth trajectories will be steeper.
- It’s far too soon to know whether families born in the 1980s will catch up.
Race and Ethnicity
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)
Black & Hispanic Income Gaps Closing Slowly

- Typical (median) income of black and Hispanic families has moved closer to that of white families but remains 40% lower.
- The typical “other-race” family has surpassed the typical white family’s income.

Source: Federal Reserve Board’s Survey of Consumer Finances.
Racial/Ethnic Wealth Gaps are Wide and Persistent

- Despite some fluctuation, the large racial and ethnic wealth gaps remain essentially unchanged.
- Typical white families had about 10 times wealth of typical black families.
- Even wealthier black families (75th percentile) fall short of white medians (50th percentile).
Over a nearly three-decade period, the U.S. has seen very little progress in narrowing racial and ethnic wealth gaps.

In terms of the total wealth pie, white families in 2016 owned 89% of it, while black and Hispanic families owned 3% each.
WHY ARE DEMOGRAPHICS SO POWERFUL?
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 and 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 family and extended family.

- One of our essays uses parents’ education to predict outcomes.
  - Wealth is associated with parents’ educational attainment.
  - It appears that some people enjoy a “head start.”
Why Are Demographics So Powerful?

- Age and Birth Year
  - Income and wealth exhibit strong life-cycle effects.
  - But timing appears to matter as well.
  - Some generations appear lucky.
    - Born in 1940s, 1950s.
  - Others appear unlucky.
    - Born in 1970s, 1980s.
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 (Aaronson et al. 2019).
  - Continuing discrimination and disadvantage hamper full participation and achievement (Howell and Korver-Glenn 2018).
  - Ongoing structural and systemic barriers make it difficult to narrow wealth gaps (Emmons and Ricketts 2017).
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 65 programs/policies in the U.S., some state- and city-wide (including College Kids in St. Louis).
  - 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.
  - End residential segregation (by race and income).
  - Universal higher education.
  - Additional wealth redistribution.
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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