Research Findings from the St. Louis Fed’s Center for Household Financial Stability

Sanford School of Public Policy, Duke University
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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
Outline

I. Career path
II. Why and how we study wealth; overall trends
III. Key findings from the Demographics of Wealth series
   A. Race
   B. Age
   C. Education (in depth)
IV. Concluding thoughts
V. Discussion of questions sent in advance
   A. Property ownership in 21st Century?
   B. The “lost” generation?
VI. Career paths Q & A
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.
Wealth Inequality Dwarfs Income Inequality, and is Growing

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Top 10%</td>
<td>67</td>
<td>77</td>
</tr>
<tr>
<td>80%-90%</td>
<td>30</td>
<td>22</td>
</tr>
<tr>
<td>40%-80%</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Bottom 40%</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Bottom 50%</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

- % of Population
- % of Total Income
- % of Total Wealth
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.
The Demographics of Wealth

- First published in 2015
  - Race
  - Age
  - Education

- In 2018 added education of respondent’s parents

- Surveys over 6,000 families every three years; considered the gold standard in family wealth research

- Documents growing divide between “Thrivers” and “Strugglers” in the U.S.
The Racial Wealth Gap Persists, Despite Other Progress

Real Median Family Net Worth, By Race/Ethnicity
_Thousands of 2016 Dollars_

- **White, non-Hispanic**
- **Other**
- **Black**
- **Hispanic, all races**

Source: Federal Reserve Board, Survey of Consumer Finances.
### Snapshot of the Black-White Wealth Gap

(federalreserve.gov/econres/scfindex.htm, 2018; stlouisfed.org/hfs 2018; pew.org, 2015)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Black Families</th>
<th>White Families</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median net worth (assets less liabilities)</td>
<td>$16,000</td>
<td>$163,000</td>
</tr>
<tr>
<td>Own their home</td>
<td>4 in 10</td>
<td>Nearly 2X</td>
</tr>
<tr>
<td>Days could survive on emergency savings</td>
<td>5</td>
<td>6X</td>
</tr>
<tr>
<td>Have zero or negative median net worth</td>
<td>1 in 5</td>
<td>2X</td>
</tr>
<tr>
<td>Have become a millionaire</td>
<td>1 in 200</td>
<td>28X</td>
</tr>
</tbody>
</table>

Note: The ratios indicate the difference in outcomes between Black and White families.
How Age / Birth Year Predicts Wealth

Real Median Family Net Worth, Age/Year of Birth
Thousands of 2016 Dollars

Source: Federal Reserve Board, Survey of Consumer Finances.
“OK, Boomer”
Wealth Is Being Redistributed from Young to Old

Change Between 1989 and 2016 in Predicted Wealth

Percentage Difference

Source: Federal Reserve Board, Survey of Consumer Finances and authors’ calculations
In General, College Really Pays...

Compared to those not completing a 4-year degree, a college degree is associated with:

- Higher income and wealth
  - College income boost: 108%
  - College wealth boost: 327%
- Better health
- A higher likelihood of being a homeowner
- A higher likelihood of being married or cohabitating
- A lower risk of falling behind on loan payments

34% of families are now headed by someone with at least a 4-year degree, up from 23% since 1989.
Education and Wealth: Some Cautions
Overall, Education is Strongly Correlated with Wealth

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

- Graduate degree
- 4-year degree
- HS diploma up to 2-year degree
- GED or no HS diploma

Source: Federal Reserve Board, Survey of Consumer Finances.
Income Returns on College Have Been Steady Across Birth Cohorts

Change in Expected Income
Four-Year Degree Families

<table>
<thead>
<tr>
<th>Year</th>
<th>White, Non-Hispanic</th>
<th>Black</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930s</td>
<td>72%</td>
<td>76%</td>
</tr>
<tr>
<td>1940s</td>
<td>64%</td>
<td>73%</td>
</tr>
<tr>
<td>1950s</td>
<td>57%</td>
<td>74%</td>
</tr>
<tr>
<td>1960s</td>
<td>60%</td>
<td>74%</td>
</tr>
<tr>
<td>1970s</td>
<td>60%</td>
<td>66%</td>
</tr>
<tr>
<td>1980s</td>
<td>43%</td>
<td>71%</td>
</tr>
</tbody>
</table>

SOURCES: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.
NOTE: Percent change is relative to nongrad families of the same race born in the same decade.
Wealth Returns on College Vary More, And Are Diminishing

Change in Expected Wealth
Four-Year Degree Families

<table>
<thead>
<tr>
<th>Decade</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930s</td>
<td>509%</td>
</tr>
<tr>
<td>1940s</td>
<td>253%</td>
</tr>
<tr>
<td>1950s</td>
<td>126%</td>
</tr>
<tr>
<td>1960s</td>
<td>177%</td>
</tr>
<tr>
<td>1970s</td>
<td>126%</td>
</tr>
<tr>
<td>1980s</td>
<td>42%</td>
</tr>
</tbody>
</table>

White, Non-Hispanic
- 1930s: 247%
- 1940s: 195%
- 1950s: 166%
- 1960s: 134%
- 1970s: 42%

Black
- 1930s: 509%
- 1940s: 126%
- 1950s: 177%
- 1960s: 18%
- 1970s: 6%

Sources: Federal Reserve Board’s Survey of Consumer Finances and authors’ calculations.
Note: Percent change is relative to nongrad families of the same race born in the same decade.
How Wealth Predicts Education:  
As Family Wealth Rises, College Success Rises  
Fabian T. Pfeffer, University of Michigan, 2018

Note: Wealth categories are based on a person’s parents’ wealth when the person was 10-14 years old. Lowest wealth group is the bottom 40 percent of households; middle wealth is the middle 40 percent; upper wealth is the top 20 percent. Educational outcomes are at age 25.

Effect of Parental Education on Respondents’ Wealth

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

<table>
<thead>
<tr>
<th>Percentile Rank</th>
<th>Median Income</th>
<th>Median Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>59</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>45</td>
<td>36</td>
<td>49</td>
</tr>
<tr>
<td>62</td>
<td>49</td>
<td>74</td>
</tr>
<tr>
<td>76</td>
<td>74</td>
<td>76</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Board, Survey of Consumer Finances, and author’s calculations.
Review: “Inherited” v. “Acquired” Traits

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

<table>
<thead>
<tr>
<th>Percentile Rank</th>
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<tbody>
<tr>
<td>100</td>
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<tr>
<td>90</td>
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<tr>
<td>80</td>
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<tr>
<td>70</td>
</tr>
<tr>
<td>60</td>
</tr>
<tr>
<td>50</td>
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<tr>
<td>40</td>
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<tr>
<td>30</td>
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<tr>
<td>20</td>
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<tr>
<td>10</td>
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<tr>
<td>0</td>
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</tbody>
</table>

**Inherited Traits**
- Effect of being middle-aged, nonwhite, and having college educated parents
  - Median Income: 62
  - Median Net Worth: 49

**Acquired Trait**
- Effect of the college degree
  - Median Income: 76
  - Median Net Worth: 74

Source: Federal Reserve Board, Survey of Consumer Finances, and author's calculations.
Overall Effects of Parental 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.
Context: Educational Paths in the U.S.

Approximately one in five Americans:

- Fail to graduate high school in six years.
- Complete high school but pursue no further education.
- Start but do not complete college.
- Earn a college degree but have jobs that don’t require one.
- Follow the traditional high-school→college→career track.
Concluding Thoughts

Center Research Findings

- Stability (short-term) vs. upward mobility (longer-term)
- Early education and assets
- The growing importance of place (Chetty et al.)
- Is demography economic destiny?
- The financial choices you make (behavior) vs. the financial choices you have (institutions)

COVID-19

- James Bullard: “National Pandemic Adjustment Period”
- How weak balance sheets exacerbate financial fragility following an income shock like COVID-19
- COVID-19’s threat and opportunity; lessons from recent policy successes and American’s Progressive Era