De-mystifying Financial Capability: Theory and Practice

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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.
Evolving Frameworks

Asset Building $\rightarrow$ Balance Sheets

Democratizing Credit $\rightarrow$ Democratizing Capital

Financial Education $\rightarrow$ Financial Capability

“The capacity, based on knowledge, skills, and access, to manage financial resources effectively.” - President’s Advisory Council on Financial Capability

On the horizon: Financial Capability $\rightarrow$
- Financial Well-Being (CFPB et al.)
- Financial Health (CFSI)
- Insights from the U.S. Financial Diaries Project
The Great Recession Erased Two Decades of Growth in Income and Wealth

Real Median Net Worth and Income Since 1989

Source: Survey of Consumer Finances
Who Lost Wealth in the Great Recession?

The Role of Age, Education and Race/Ethnicity

% change, 2007 to 2013

- Younger families
  - Under 40: -35.5%
  - Age 40-61: -47.6%

- Less-educated families
  - Less than HS: -53.6%
  - High school grads: -45.3%

- Historically disadvantaged families
  - African-Americans: -42.6%
  - Hispanics: -41.8%

Source: Federal Reserve Board, Survey of Consumer Finances
Household Wealth Levels, 2013

Median Net Worth By Demographic in 2013

- All
- HDM
- WOM
- 0 - 39
- 40 - 61
- >= 62
- No High School
- High School GED
- College Degree

Source: Survey of Consumer Finances
Families are Still Deleveraging

Debt to Income Ratio Since 1989

Source: Survey of Consumer Finances
Economic Trends Impacting Family Balance Sheets

- Increasing income and expense volatility (U.S. Financial Diaries; Dynan *et al.*).

- Debt overhang and prolonged recovery (Sufi and Mian; Emmons and Noeth); long shadow of a severe “balance sheet recession”

- Family structure, especially the rise of single-parent households without college degrees (Putnam; Wilcox; Cahn and Carbone; Sawhill)

- Returns to capital v. returns to labor; growing income and wealth inequality (Piketty; Stiglitz; Chetty; Saez; Krueger, etc.)
Ideas for Moving Forward

- Consider demographic drivers of economic vulnerability, not just income

- Start as early in life as possible to build a healthy balance sheet

- Strive toward balance sheet diversification

- Think about influencing institutions, not just products and people