Policy Perspectives on Fostering Consumer Financial Health

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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.
A Balance Sheet Perspective on Consumer Financial Health

* Access to quality financial services is the *sine qua non* of a healthy balance sheet.

* Balance sheets offer new insights into the financial health of families and performance of the U.S. economy – balance sheets matter in ways that income and wages may not.

* The Great Recession was a “balance sheet recession.” Four balance sheet “failures” over the last decade:
  - Highest rate of homeownership ever recorded—69% in 2004
  - Highest concentration of wealth in homeownership since at least 1952, when data began—33% in 2005
  - Highest personal debt-to-income ratio since at least 1952, when data began—132% in 2007
  - Lowest personal saving rate since 1934—1.5% in 2005
Who Lost Wealth in the Great Recession?
Net Worth by Age, Race and Education
(Emmons and Noeth, 2013)

- **Younger families**
  - Under 40: -43.9%
  - Age 40-61: -17.4%

- **Historically disadvantaged families**
  - African-American and Hispanic (HDM): -37.2%
  - Whites, Asians and other minorities (WOM): -11.2%

- **Less-educated families**
  - Less than high school degree: -26.1%
  - High school grads: -22.9%

Source: Survey of Consumer Finances
HDM: Historically Disadvantaged Minorities
WOM: White or Other Minority
## Thrivers vs. Strugglers

*(Emmons and Noeth, 2013)*

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<tr>
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<th>Share of Population</th>
<th>Share of Net Worth Since 1989</th>
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<tbody>
<tr>
<td><strong>Thrivers</strong></td>
<td>25%</td>
<td>Increased from 45% to 67%</td>
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<tr>
<td>(Older, white/Asian,</td>
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<tr>
<td>better educated)</td>
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<td><strong>Strugglers</strong></td>
<td>75%</td>
<td>Decreased from 55% to 33%</td>
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<td>(Younger, non-white/</td>
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<td>Asian, less educated)</td>
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Younger Families Have Been Most Affected
(Emmons and Noeth, 2013, 2014)

Why do younger families have relatively weak balance sheets?

- Over investment in homeownership
- Greater reliance on student loans
- Happen to follow the “luckiest” generations
Strategies to Strengthen Family Balance Sheets

* New framework: *From asset building to balance sheets*

* Overall public policy goal: *Broaden or “democratize” capital ownership*

* Overall family balance sheet goal: *Diversify*
  - Build emergency savings.
  - Invest in college and retirement accounts; own a stake in the growing parts of the economy.
  - Start saving and investing as early in life as possible.
  - Lead up to buying a home; don’t start there.
  - Consider demographic drivers, not just income, in targeting public resources.
Major Trends and Challenges Affecting 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)

- Family structure, especially the rise of single-parent households (Putnam; Wilcox)

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

- Managing downside risk at both the family and public policy levels (Boshara)