SECTION I

The New Baseline: The State of Family Wealth and Wealth Inequality Today

The book begins with six essays that offer some level setting about the state of wealth ownership and wealth disparity in America today. Together they provide insight into which families have the greatest barriers and arguably the greatest need to build wealth. And they illustrate a few of the longer-term trends and historic origins of wealth inequality. Our authors, several of the nation's leading wealth researchers, document not only the current state of family wealth but also how powerful factors outside of personal control—such as one's race, ethnicity, gender and birth year—predict levels of family wealth. Education and its more complex correlation with wealth is included here too, as is an essay that explores the foundational role that routinely positive cash flow plays in wealth creation among struggling families.

As our authors show, America's wealth is deeply and persistently divided. Better educated, older and white Americans are, generally, claiming the largest and growing share of the nation's wealth with others, generally, losing share—trends, data suggest, that are likely to continue if not be exacerbated by the pandemic. While there have been some notable and welcomed gains in wealth since 2016 among the least wealthy, wealth gaps have been disturbingly stable, and absolute levels of wealth—the actual resources families have to achieve economic resilience and upward economic mobility—remain low.

The authors of these "baseline" essays each close with a few general thoughts for addressing and narrowing the gaps they document while laying the foundation for what follows: why we should, first of all, care about wealth equity and inclusion, and then the more solutions-oriented essays in Sections III–VIII that follow.

SECTION I

THE NEW BASELINE: THE STATE OF FAMILY WEALTH AND WEALTH INEQUALITY TODAY

Unequal Starting Points: A Demographic Lens Is Key for Inclusive Wealth Building

BY ANA HERNÁNDEZ KENT AND LOWELL R. RICKETTS

Economic inequality has risen to the forefront of local and national conversations, particularly as the coronavirus pandemic laid bare many of those inequities. In this essay, we focus on wealth, or net worth, a critical component of economic equity. A family's wealth is strongly related to opportunities for upward mobility, and it is an important buffer against unexpected setbacks, ensuring a family's financial well-being.

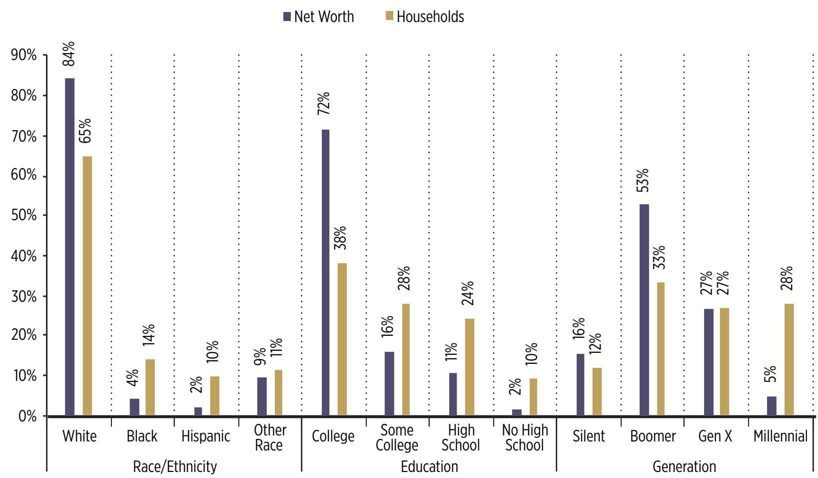
Using the Federal Reserve's most recent wealth data, we found that American families collectively owned about $122.9 trillion as of the fourth quarter of 2020—a record high.[1] However, that prosperity is quite unequally distributed. The top 10% of families by wealth owned 69.7% of total wealth, while the bottom half of American families owned only 2%. Those in the top of the distribution are more likely to be older, white and/or highly educated; these groups own more family wealth than their share of the population. The bottom half is disproportionately younger, Black or Hispanic and/or less educated; these groups own less family wealth than their share of the population, as can be seen in the figure below.[2]

The top 10% of families by wealth owned 69.7% of total wealth, while the bottom half of American families owned only 2%.

[1] Here we use the inflation-adjusted Distributional Financial Accounts, which go back to the third quarter of 1989.

[2] The Distributional Financial Accounts do not break down wealth by gender.

Share of Total Family Wealth and of Households by Demographic Group, Q4 2020



Sources: Federal Reserve Board's Distributional Financial Accounts and authors' calculations.
Note: The demographic characteristics for the family are taken from the family head.

In this essay, we provide an overview of the state of wealth for various demographic groups, by race/ethnicity, education, generation and gender. (Subsequent essays in this chapter provide a more in-depth analysis for many of these groups.) Lower-wealth groups (younger, Black, Hispanic, and/or less educated families and women) tend to face contemporary barriers to wealth accumulation such as having insufficient and/or volatile income that severely limits regular saving. Many also have jobs that do not offer employer-paid benefits such as health insurance and retirement plans. Additionally, these groups often lack access to assets like financial, home or small business ownership, which carry publicly subsidized tax benefits.

Lower-wealth groups (younger, Black, Hispanic, and/or less educated families and women) tend to face contemporary barriers to wealth accumulation.

Several of these groups have also faced historical policies that limited or actively blocked access to wealth-building avenues. Notably, Black people were systematically excluded from full participation in the GI Bill, Social Security and the Homestead Act, and they faced exclusionary homeownership policies like redlining. Women were also socially blocked from certain industries and did not receive legal protection for accessing credit until 1974.

Many families in these lower-wealth groups face constrained opportunities that undermine the American Dream and the notion of an equal playing field for all. Emmons and Ricketts modeled "individual agency"—the difference your own choices make versus the influence of the world around you. Ultimately, they found the available choices themselves are overwhelmingly constrained by historical and structural factors, the likes of the exclusionary practices mentioned above. Individual agency and financial, educational and other choices remain consequential, but ignoring the structural and systemic factors unjustly places the onus solely on families.

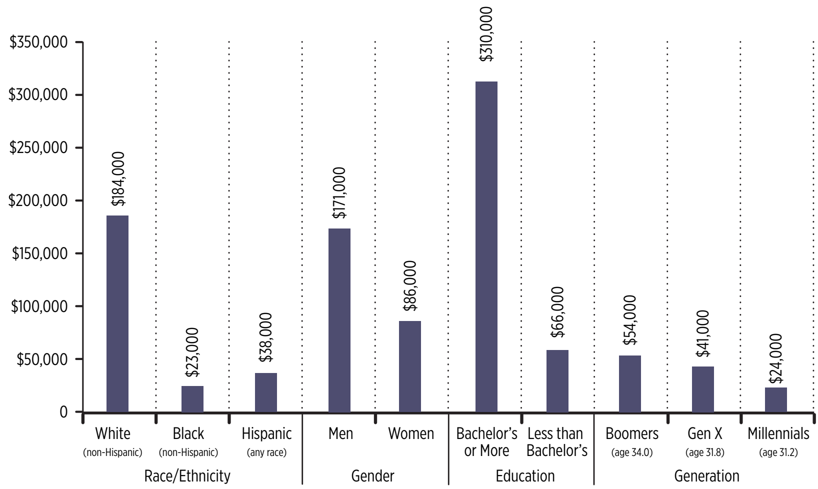
Despite notable progress in many areas like legal protections, political representation, wages and employment, demographic wealth gaps remain stubbornly consistent and persistently large. The rigidity of these gaps points to intergenerational components of wealth, the lasting effects of historical context and the continuing impact of discriminatory systems and preferences today.

Historical Perspective on the Demographics of Wealth

Demographic factors have long been strongly associated with wealth outcomes in America. Schularick, Kuhn, and Ulrike traced outcomes back to the 1950s and found that the gap between Black and white families was largely the same then as in 2016—the typical Black family's wealth is roughly 80% less than for the typical white family. A lack of progress despite the contrast between contemporary America and a time of de jure segregation underscores the intransigence of racial inequities.

Bartscher, Kuhn, and Schularick explored wealth trends by education. They found that the average wealth of college-educated households had tripled since the 1980s, while the same measure among nongraduates barely grew in real terms. Adding a generational nuance, Emmons, Kent, and Ricketts found that the outstanding wealth returns associated with a college degree were more characteristic of older generations (born before the 1950s) than younger generations, emphasizing the importance of one's birth year on wealth expectations. These glimpses of the historical timeline enable us to see meaningful demographic fault lines by which wealth has been, and continues to be, distributed in America.

Median Family Wealth in 2019



Sources: Federal Reserve Board's Survey of Consumer Finances and authors' calculations.
Notes: The demographic characteristics for the family are taken from the survey respondent. Wealth values are rounded to the nearest $1,000. Percentages are based on unrounded numbers. Demographics considered advantaged are italicized.

Wealth and Wealth Inequality Today

The story is not just about inequitable wealth distributions but also very modest wealth holdings. Black families, for example, had just $23,000 in median wealth in 2019, meaning half of Black families had more than this, while half had less. Comparatively, the median for all families in the U.S. was $122,000, or almost $100,000 more. The table below compares wealth in 2019 for families by race/ethnicity, gender, education and generations at similar ages.

Early View of the Pandemic's Impact on Household Financial Stability

The arrival of COVID-19 and the ensuing efforts to contain its spread are hugely disruptive on multiple fronts: health and safety, socially and economically. We use the most updated data (only available at an aggregate level) in our newest tool, the Real State of Family Wealth.

At the outset of the pandemic, average wealth fell for most demographic groups in the first quarter of 2020, but many of those losses reversed in the second quarter and continued to improve in the third and fourth quarters. The abrupt reversal in the first half of the year reflects in large part the sharp rebound in the stock market, where just over half of American families own some assets.

Importantly, these averages represent families who are better off than the typical American (as large concentrations of wealth are held by a small number of families). Therefore, while average wealth has rebounded, this may capture only one path of the K-shaped recovery, meaning median wealth—and the typical American—may not have experienced the same resilience. We see this possibility reflected in increased measures of financial hardship (e.g., housing distress and food insecurity). Black Americans, Hispanic Americans, noncollege graduates and younger generations are bearing the brunt of these types of instability.

Black families had just $23,000 in median wealth; the median for all families was almost $100,000 more.

Fortunately, the extensive policy response appears to have mitigated a great deal of potential hardship. As of July 2020, the share of adults that reported they were at least "doing OK" financially was similar to what it was in October 2019, even after factoring in race, ethnicity or education.

The economic impact payments and expanded unemployment insurance authorized by the CARES Act helped displaced workers build up an emergency savings buffer, which continued to be an important resource for many low-income households through the fall of 2020. The more recent American Rescue Plan may have similar effects.

On the liabilities side, loan forbearance has helped millions to keep their car, hold on to their home or free up cash flow that would have otherwise gone to student loans. Uncertainty remains as to what pathways will be available for borrowers (and renters) to become current on their payments when forbearance expires, but this unprecedented debt relief has been an important financial life preserver in the interim.

Policy Insights in Broad Strokes

The pandemic will offer many policy lessons that will inform our response to future downturns. Specifically, taking a holistic approach to financial assistance (e.g., cash support and pausing debt obligations) during the pandemic appears to have provided resilience for many would-be struggling families. As the remaining chapters of the pandemic are written, maintaining the robust policy response will be critical to keep these families whole. However, there are still many families who have fallen through the expanded safety net.

Certain families—Black, Hispanic, those with less education, women headed, or younger—were more financially vulnerable heading into the pandemic and suffered disproportionate job and income loss throughout. When it comes to demographic factors, economic history tends to repeat itself. Women, Black and Hispanic people, younger people and those with lower education had less wealth than their counterparts in 2019, and they were also the groups disproportionately affected by job losses and reduced hours during the coronavirus recession. Upon reaching the "new normal," we will have a rare opportunity to break the status quo of persistent inequity, if we choose to rise to the moment. By keeping these families centered in the recovery and beyond, we may finally realize financial stability and upward mobility for all; demography need not have such a strong influence on economic destiny.

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Cash Remains King

BY KATHRYN ANNE EDWARDS AND BRADLEY HARDY

Cash is essential to economic security—it is a bedrock of savings and is essential to building wealth. Although most measures of economic status in the U.S.—such as per capita GDP—have risen over time, cash, defined as money on hand or liquidity, has remained low for many households, even amid rising expenses. For many households, there is evidence of cash scarcity.

For low- or middle-income families, there are two primary sources of cash: wages and transfer program payments. Wages, or earnings, are how much an individual brings home in a paycheck. Wage growth has been weak for the past four decades. Between 1979 and 2019, median wages grew only 15%. In only 10 of those years did workers in the bottom 90% of all wage earners realize wage growth. Researchers have ascribed low wages and wage inequality in part to a larger process of job polarization, the hollowing out of middle-income jobs from the labor market.

Wages from a job are not always enough. Immediately after the last recession in 2007, 7% of workers were employed part time for economic reasons, meaning that they were available for full-time work but had to settle for a part-time position. Among workers with less than a college education, 18% worked multiple jobs, often for a couple months at a time.

And wages are not always received. They can be garnished by court order; a portion is withheld for debt payment. The two most common causes of wage garnishment are child support debt and student loan debt. At the end of 2018, wage garnishments for student loans alone were $230 million. Wages can also be stolen by employers; wage theft occurs when employers do not pay workers for the time worked. The Wage and Hour Division collected over a billion dollars in stolen wages over the past four years.

Aside from earnings, there are five major cash programs: Social Security (which refers to Old Age Insurance and Survivors Insurance, OASI), Disability Insurance (DI), Unemployment Insurance (UI), Supplemental Security Income (SSI) and Temporary Assistance to Needy Families (TANF). The former three are social insurance programs, while the latter two are means-tested transfer programs. As their names suggest, social insurance programs provide cash benefits for workers who have worked previously but who become older, disabled or unemployed, respectively. The means-tested programs provide cash benefits to individuals with sufficiently low income: SSI is for low-income older and disabled individuals. TANF is for low-income families with children, though even with TANF, reforms have shifted assistance away from cash toward a wide range of noncash benefits.

For older or disabled individuals, the combination of OASI, DI and SSI has been a reliable source of cash. There have been no benefit cuts or large-scale changes in eligibility, and each program has guaranteed access or entitlement—anyone eligible for benefits can claim them.

Taking a broad view of cash benefits from all programs, the trend is that cash benefits have tilted away from the poor and toward the near poor, elderly and disabled.

Other cash benefits have not fared as well. The real value of UI has eroded greatly over time in both generosity and coverage; less than a third of unemployed workers receive any benefits. The 1996 the Personal Responsibility and Work Opportunity Act ended traditional cash welfare. The ensuing program, TANF, is administered with significant autonomy by states, and income-eligible individuals are not guaranteed any aid (i.e., it is not an entitlement). In 14 states, there were more than 10 times the number of people in poverty than there were receiving TANF benefits. Like UI, average TANF benefit levels and coverage have fallen considerably over time.

Taking a broad view of cash benefits from all programs, the trend is that cash benefits have tilted away from the poor and toward the near poor, elderly and disabled. Many researchers conclude that the most disadvantaged are more vulnerable now than they were before 1996.

Hence, households' two primary sources of cash have either stagnated or fallen. As evidence of insufficient cash on hand, many households cannot accumulate emergency savings. The national personal savings rate, which was above 10% between 1960-1985, slowly fell to 5% by 2000 and averaged 5%-7% since. This national rate varies greatly by income. Higher-income households (those in the top fifth) save more each year, while middle-income households (the middle fifth) have near zero savings, and the bottom 40% have negative savings. In a separate study of the financial decisions and planning of low-income households, nearly half reported that they had no emergency savings. This aligns with the oft-repeated statistic that nearly half of Americans could not meet an unexpected $400 expense.

Important in-kind benefits and tax credits such as Supplemental Nutrition Assistance Program (SNAP, the in-kind food program) and the Earned Income Tax Credit (the tax benefit given to low-income parents who work) provide vital near-cash (SNAP) and cash resources (EITC) for families. However, in-kind transfers cannot fully substitute for expenses that require cash to address, and much-needed refundable tax credits are delivered only once per year. Moreover, in the case of the EITC, the receipt is contingent on work. Recently enacted child allowances distributed to low-income families could make considerable progress toward addressing these liquidity constraints and lowering poverty.

And as much as noncash resources may help, cash is still king.

And as much as noncash resources may help, cash is still king. A big indicator of the demand for cash is in the use of alternative, and arguably harmful, financial products. As many as 12 million Americans take out payday loans every year, whose fees are structured so that they can exceed 400% at an annualized rate. The products themselves are routinely criticized for being predatory, and advisors consistently warn not to use them. But payday lending is one type of small-dollar loans associated with high fees, high interest and debt cycles. Other types include consumer installment loans and auto title loans.

While less pernicious than payday, consumer or title loans, credit card debt is a more common form of coping related to financial distress. Indeed, among individuals who reported that they could not meet an unexpected $400 expense, the most common coping strategy adopted is to place such expenses on a credit card. However, in this same survey, 16% of adults report that they are unable to pay all of their bills each month, and half report the bill they would skip, if needed, is a credit card payment.

For those in need of cash and lacking access to credit, pawn shops and blood and plasma sales operate as transactions of last resort. Blood and plasma centers commonly advertise that donors can garner $300 per month, operating as a key source of cash for the very poor. Such activities represent efforts on the part of families to construct a stream of cash income. Relatedly, throughout

Little savings, harmful loans, credit cards, plasma sales, theft of goods—all of these taken together are indicators of the scarcity of cash.

the COVID-19 pandemic, there has also been evidence that theft of household essentials, like tampons, was on the rise.

Little savings, harmful loans, credit cards, plasma sales, theft of goods—all of these taken together are indicators of the scarcity of cash, explained in large part by low wages and a changing safety net. In a market economy like the United States, cash may be a low-return component of a financial portfolio for high-income households, but low-income households struggle to build economic security and wealth without it. The cash needs of struggling families thus merits greater attention from policymakers, nonprofits, employers, foundations and others.

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Bradley Hardy is an associate professor in the McCourt School of Public Policy at Georgetown University. His research interests lie within labor economics, with an emphasis on economic instability, intergenerational mobility, poverty policy, racial economic inequality, and socio-economic outcomes. His work examines trends and sources of income volatility and intergenerational mobility within the United States, with a focus on socio-economically disadvantaged families, neighborhoods, and regions.

The Generational Wealth Gap: Facing the Future but Falling Further Behind

BY FENABA R. ADDO AND REID CRAMER

The views expressed in this article are those of the individual author/authors and do not represent the views of or an endorsement by the Federal Reserve Bank of St. Louis, the Federal Reserve Board of Governors, the Federal Reserve System or the U.S. Department of Agriculture.

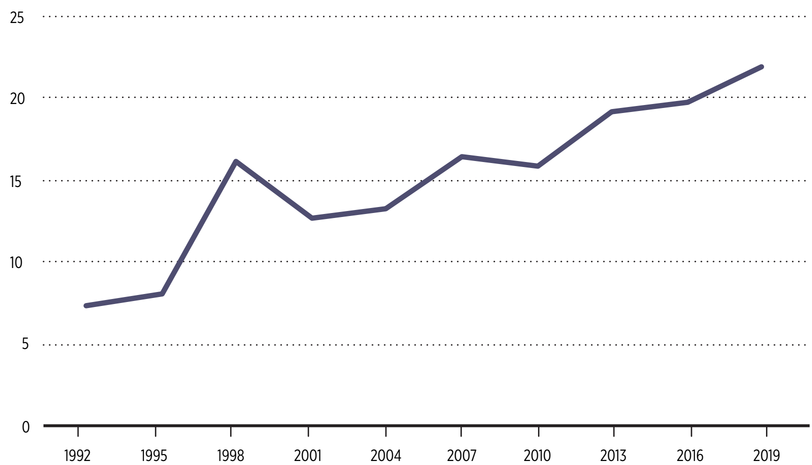
Wealth is widely associated with luxury, but it is having ready access to a stock of financial resources that can shape a person's most consequential life and work choices. Even modest amounts can make a big difference. The strategic deployment of wealth across the life course can be the key to economic security and family well-being. In the short term, wealth offers insurance to buffer against unexpected events (the pandemic comes to mind). In the long term, wealth building is a process that unfolds dynamically over time and characteristically tracks a distinct life cycle pattern. Most young adults start out with negligible savings, begin to grow assets as their earnings rise, accelerate savings to prepare for retirement and eventually draw down on their resources upon exit from the workforce. Of course, typical patterns mask large variations, and we know that the rate and amount one can accumulate is shaped by factors far beyond an individual's control. Family characteristics and intergenerational transfers clearly play a prominent role. The recent past has amplified the relative importance of another, often overlooked, variable determining future wealth that isn't a choice: the state of the economy when transitioning into adulthood.

In the aftermath of the 2007-2009 financial crisis, large declines in wealth were pervasive, but the protracted recovery was selective. As stocks and real estate values rebounded, so did the finances of those that already owned or were able to keep their assets. These households tended to be older, while the younger lagged behind. With fewer jobs available, many young adults responded with a seemingly rational decision to invest in themselves and pursued postsecondary education. This has made millennials the most educated and credentialed generation on record—but also the most indebted. Student loan debt more than tripled. (Figure 1)

Unfortunately, the economic recovery was weak, wage growth was tepid and the overhanging debt obstructed traditional pathways to building wealth. Emblematically, the homeownership rate for young adults dropped from a high 47% in 2005 to a low of 37% by 2015. Coupled with lower rates of household formation, there are 2.4 million fewer millennial homeowners than there

FIGURE 1

Educational Debt Among Young Households Has Tripled



According to the Federal Reserve's Survey of Consumer Finances, the average student loan debt of young adult households under 35 years of age increased from $5,900 in 1992 to $22,000 in 2019.

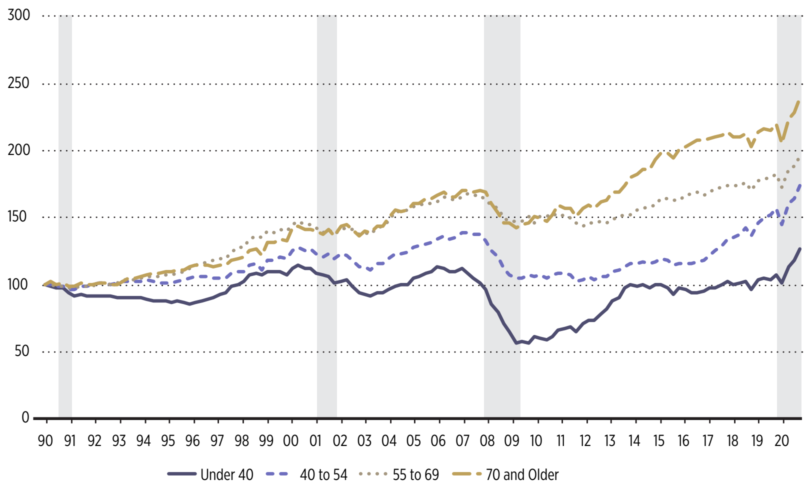
The experience of the Great Recession has launched young adults of today on a dramatically lower trajectory of wealth building, making it increasingly unlikely that they can replicate the economic success of previous generations.

would be if rates had remained the same as in the year 2000. That has left a big hole in the generational balance sheet. The experience of the Great Recession has launched young adults of today on a dramatically lower trajectory of wealth building, making it increasingly unlikely that they can replicate the economic success of previous generations. (Figure 2)

As the country becomes more demographically diverse—with successively larger shares of Asian and Latinx households, immigrants and those who identify as multiracial—the emergence of a generational wealth gap has simultaneously exposed deep social inequities and exacerbated America's

FIGURE 2

Millennial Wealth Lags Previous Generations

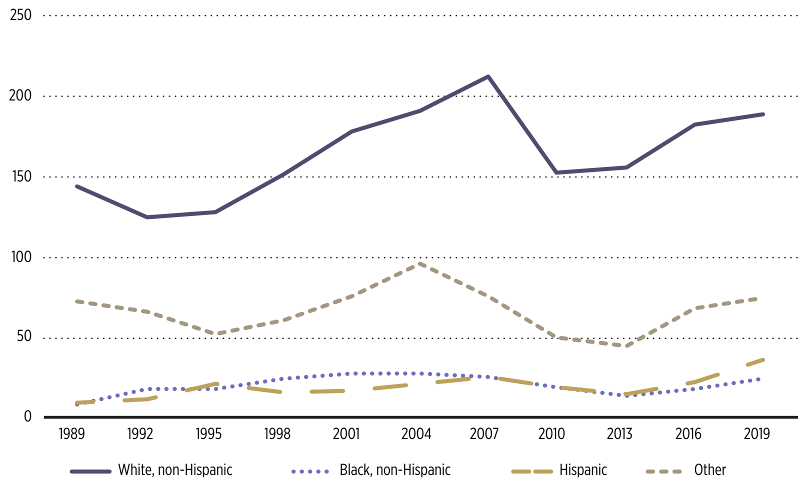


Comparing the net worth of generations over time, economists at the St. Louis Federal Reserve's Institute for Economic Equity found that the wealth of households under the age of 40 has consistently lagged behind previous generations.

racial wealth gap. The wealth-building landscape that communities of color must navigate continues to be strewn with obstacles that are both historic and contemporary in origin. (Figure 3)

This is particularly so with two of the most primary asset-building experiences, homeownership and higher education. Homes are generally the largest asset on the balance sheet, which is the rationale behind long-standing federal support for homeownership, but these programs were originally designed to explicitly exclude Black Americans. The gains in housing wealth among communities of color that were achieved despite this exclusion were largely wiped out by the foreclosure crisis, which was partially sparked by unchecked predatory lending practices that targeted Black and Latinx families. Today's homeownership rates among communities of color (45%) continues to lag behind white families (73%), with similar discrepancies in housing equity.

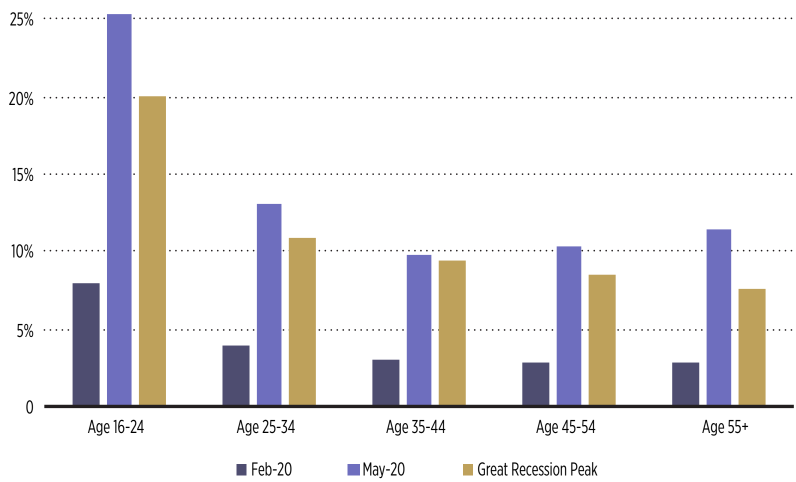
FIGURE 3
The Racial Wealth Gap is Large and Persistent



Shifts in the higher education landscape have brought higher tuition, fewer public subsidies and larger loans, all of which have made it harder to convert postsecondary education into future economic success. This challenge is most pronounced for students of color, who start out with fewer resources, experience income disparities and are now responsible for a greater share of the costs of a more expensive endeavor. Despite the growing relative financial returns of a college degree, the amount of debt students are incurring to get these degrees is undermining those gains. This is especially true for Black students who come from families whose paths to wealth building—whether through acquisition of property, pursuit of higher education or access to credit—have been systematically blocked. Even when wealth and resources have accrued, they have been subsequently stripped through exploitation, theft or violence. With fewer resources to bequeath or inherit, attempts to accumulate wealth must occur anew each generation, and disparities grow when households cannot maintain the same relative economic positioning across generations. The inability to provide substantial private intergenerational transfers reflects the precarious financial states of these households at both younger and older ages.

FIGURE 4

Unemployment During the COVID-19 Recession Hit Young Adults Hardest, Exceeding Unemployment Peak of the Great Recession



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Now only a few years on from the Great Recession, just as many non-white and younger households had begun to catch up, COVID-19's economic impacts are being mediated once again by age and race. Job losses have been concentrated in the service sector—disproportionately affecting workers who are younger, female and from communities of color. The combined effect of these two economic shocks has exposed a generational dimension to wealth inequality that will be unprecedentedly devastating to the finances of the youngest participants in the economy. (Figure 4)

Without a concerted policy response, this age-based wealth gap will challenge our collective sense of generational fairness and undermine the implicit social contract, where a set of mutual obligations binds us together so that each generation can thrive and do better than the last. These ties will fray if the young adults powering the workforce and raising children feel they are financially unable to meet their social responsibilities. Millennials are now in their prime work and family-forming years, but their poor finances and low wealth holdings have complicated their life choices and altered their relationship to conventional milestones of adulthood. Even before the pandemic hit, a survey of young adults found that financial insecurity is a primary reason parents were having fewer children than desired, and there is already evidence that rates of marriage and child rearing, already on the decline, have dropped further as a result of the pandemic. Researchers from the Brookings Institution are predicting that the U.S. will see 300,000 fewer births than expected in 2021.

We believe policy efforts should focus on improving the finances of the rising generations. This means addressing key components of the household balance sheet—increasing savings and assets while reducing debts and liabilities. For a generation burdened by excessive amounts of debt and relatively lower savings, student debt cancellation can be financially transformative. Additional social policies designed to infuse cash into households will be particularly valuable, ranging from higher minimum wage levels, increased refundable tax credits tied to work, and larger subsidies to support caregiving and raising children, such as paid family leave and making permanent the child cash allowances created by the American Rescue Plan that set to expire next year. We should be creating new pathways to wealth by ensuring every child has an investment account established automatically at birth—a reality in seven states already. It is time to renew our public investment in higher education to bring down the costs of postsecondary education and to break the excessive reliance on student loans.

We believe policy efforts should focus on improving the finances of the rising generations.

The rising generations will undoubtedly contend with the economic fallout from COVID-19 for years to come. Policy prescriptions related to wealth inequality should include an examination of generational inequities. We have a collective responsibility to identify ways to ensure that young adults can chart a new course toward a financially secure future and to ensure their generation does not miss out on the experience of wealth building altogether.

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After Half a Century, the Racial Wealth Gap Remains Remains Wide—Suggesting Bold Responses Are Warranted

BY KILOLO KIJAKAZI AND SIGNE-MARY MCKERNAN

Over the last half a century, the dollar amount of the racial wealth gap—the difference in net worth held by white families and families of color—has grown substantially. Wealth or net worth is what you own minus what you owe. In 1963, white families had about $45,000 more wealth than families of color, at the median (Figure 1). By 2019, white families had approximately $165,000 more wealth than Black families and about $153,000 more than Latino families (Figure 1). *The typical Black families had 13 cents in wealth for every dollar of wealth held by white families in 2019 and Latino families had 19 cents.*[1] These gaps continue beyond 2019.[2]

All families aspire to the opportunity wealth brings, yet structural racism limits opportunity for families of color, as illustrated by relatively flat Black and Latino family wealth over the decades, in contrast to the increasing (and variable) white family wealth (Figure 1.). *More than 50 years after Martin Luther King Jr.'s death, the typical U.S. Black and Latino family had $24,100 and $36,050, respectively, to weather the COVID-19 pandemic and pursue their dreams, while the typical white family had $189,100.*

More than 50 years after Martin Luther King Jr.'s death, the typical U.S. Black and Latino family had $24,100 and $36,050, respectively, to weather the COVID-19 pandemic and pursue their dreams, while the typical white family had $189,100.

Metropolitan-level data from [Los Angeles], [Boston], [Miami] and [Washington D.C.] further reveal large disparities within racial and ethnic groups and between the same groups living in different places. For example, De La Cruz

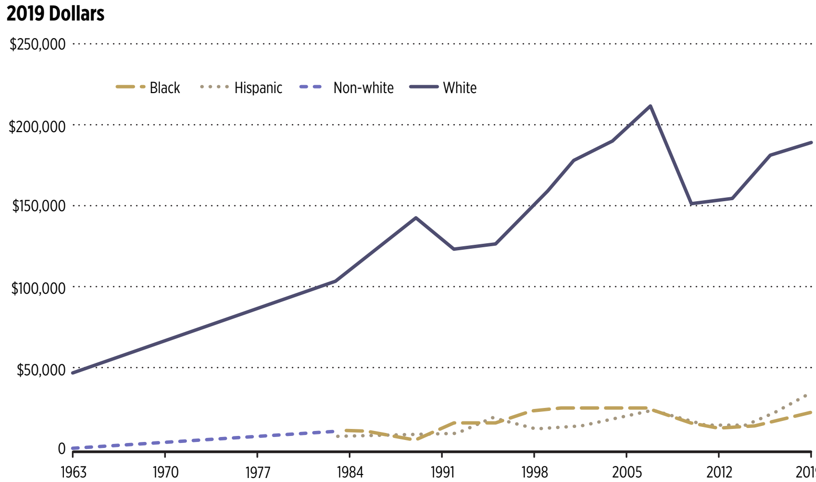
[1] Though we analyze data by race, we acknowledge that race is a social construct and therefore does not indicate biological differences. We believe collecting and analyzing data by race is important in some research and policy analyses because it allows us to identify possible racial inequities and to determine their locus to address and affect change.

[2] These gaps continue beyond 2019. Quarterly data from the St. Louis Fed's "Real State of Family Wealth" confirm that substantial racial wealth gaps remain largely unchanged despite fluctuations from 1989 through 2020.

FIGURE 1

The Racial Wealth Gap Remains Wide

Median Family Wealth by Race and Ethnicity, 1963-2019



Sources: Urban Institute calculations from Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2019.

Notes: 2019 dollars. No comparable data are available between 1963 and 1983. Black/Hispanic distinction within nonwhite population available only in 1983 and later. We have used the term 'Hispanic' in this chart rather than 'Latinx' to match the data source. The SCF does not have a large enough sample of Asian Americans to draw conclusions about that population's wealth.

Viesca et al. (2016) find that in Los Angeles, median wealth ranges from $592,000 for Japanese households to $72,000 for African (recent immigrant) Black households, $23,400 for Korean households, $4,000 for U.S. Black households and $3,500 for Mexican households. Kijakazi et al. (2016) find that in Washington D.C., African Black households have $3,000, similar to U.S Black households ($3,500), and Korean households have $496,000.

Historical Perspective

Historical research and analysis shows that the origins of the racial wealth gap were in structural racism—the policies, programs and institutional practices that facilitated asset accumulation by white families while creating systemic barriers to wealth building or stripping wealth from families of color. For Black families, these barriers include the following: government policies that supported the human trafficking and bondage of people of African descent to create wealth for white people while denying Black people the wealth of their labor; the government's failure to fully implement Reconstruction and provide land to Black people who had been held in bondage; the Black Codes and Jim Crow; violent attacks by white mobs on Black people, their communities, and their businesses, destroying individual and community assets; racial covenants; redlining; urban renewal; the destruction of self-sufficient Black neighborhoods by routing highways through them; and, more recently, financial institutions targeting communities of color for subprime loans, even when they qualify for prime loans, resulting in the loss of homes and home equity, from which the Black community has not yet recovered. The wealth disparities from these barriers are passed from generation to generation.

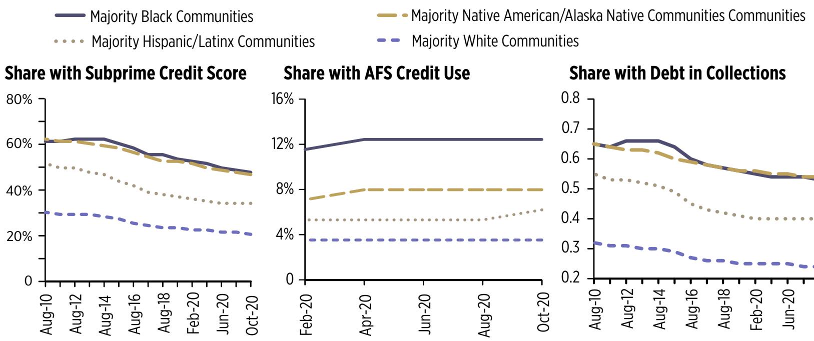
The Black community is not alone in experiencing centuries of structural racism. Native Americans lost much of their land and natural resources through wars, treaties and forced displacement. The Homestead Act of 1862 that allowed primarily white citizens to claim land in the West displaced the Sioux, Cheyenne, Ute, Pawnee and other Native American nations. Generations of federal policies undermined the sovereignty, wealth and power of tribal nations, leaving them without access to basic amenities, including mainstream financial services.

The Black community is not alone in experiencing centuries of structural racism. Native Americans lost much of their land and natural resources through wars, treaties and forced displacement.

Latino families experienced extensive land loss in the 1800s during the "manifest destiny" period. And although Mexican workers were welcomed to the U.S. during wars to fill labor shortages, thousands were subsequently deported in the 1950s. Asian Americans have faced economic exclusion in the form of immigration bans as well as hate crimes, such as the destruction of Muslim and South Asian businesses following 9/11. And during World War II, Japanese Americans were sent to internment camps, losing their freedom and assets. This research helps to dispel the false narrative that the racial wealth gap exists because of deficits within, and inadvisable financial behavior by, individuals and families of color.

FIGURE 2

The Community Racial Credit Health Gap Remains Wide



Source: Caleb Quakenbush, Kassandra Martinchek, Breno Braga, Signe-Mary McKernan, and Alexander Carther. 2021. Credit Health of Cities Dataset. Urban Institute. Accessible from https://datacatalog.urban.org/dataset/credit-health-cities.

Notes: Subprime credit score is defined as a VantageScoreof 600 or below. Alternative financial service (AFS) credit includes short-term loans (installment loans, nonprime credit cards, auto title loans, rent-to-own) and single-pay credit (pawn shops, payday loans) from non-banking institutions. Share with any debt in collections is the share of people with a credit bureau record who have any debt in collections. Demographic estimates are based on zip codes where at least 60 percent of the population identifies as the given race or ethnicity. Because of limited sample sizes, state-level demographic estimates are not always available for all timespans and/or races or ethnicities.

The Pandemic and the Racial Wealth Gap

The COVID-19 pandemic has disproportionately harmed Native American, Latino and Black families. The Centers for Disease Control and Prevention has shown that people of color are more likely to contract, be hospitalized and die from COVID-19 than white people. Research on the effects of the pandemic shows that workers of color are more likely to hold jobs that require them to work in person, work in close proximity to others and travel on public transportation to get to their jobs, all of which increase their exposure to the coronavirus. Moreover, families of color are less likely to have health insurance, meaning they are more likely to incur past-due medical debt. Also, the death of a family member requires funds to lay their member to rest, creating even more costs. These events may lead many families of color to spend down what savings they have and potentially incur debt. Research tracking the effects of the pandemic found that adults of color were more likely to live in households where someone used savings or sold assets to meet spending needs.

Racial credit health disparities from the Great Recession through the COVID-19 pandemic illustrate that the last economic recovery failed to adequately address systemic barriers facing families of color (Figure 2). Credit report information is used to determine eligibility for jobs, access to rental housing and mortgages and insurance premiums. In communities that are majority Black and majority Native American communities, the share of residents with a subprime credit score, who use alternative financial products such as payday loans, or who have debt in collections, remained more than twice as high in October 2020 than for residents living in majority white communities. Without sustained support and intentional policies that address racial disparities, the economic impacts of COVID-19 could create major setbacks on the pathway to inclusive economic recovery.

Bold Solutions Are Needed

The historical wealth data reflect the endurance of structural racism; dismantling it will take bold solutions focused on root causes that consider wealth (not just income). Research has shown that racial wealth disparities cannot be adequately explained by differences in income, education or even savings rates but are instead the consequence of 400 years when policy, practice and violence blocked and stripped wealth from people of color. Bold solutions that target wealth include restitution for African Americans and baby bonds or highly progressive child development accounts that allow for more than education expenses to ensure that every young adult has the resources to successfully launch their lives. Solutions can also be bold when powerfully combined, such as quality jobs or government options that provide retirement accounts, health insurance, student loan relief and emergency savings; and a five-point framework to reduce the racial homeownership gap.

Kilolo Kijakazi co-authored her essay as an institute fellow at the Urban Institute. She testified before Congress and D.C. City Council and was cited in the The New York Times, The Washington Post, Forbes, USA Today, The Atlantic, Mother Jones, MarketWatch, CNBC, Joint Center for Housing Studies of Harvard University, Colorlines and Fast Company.

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Understanding the Gender Wealth Gap, and Why It Matters

BY MARIKO CHANG, ANA HERNÁNDEZ KENT[1]
AND HEATHER MCCULLOCH

[1] These are my own views and not necessarily those of the Federal Reserve Bank of St. Louis, the Federal Reserve System or the Board of Governors.

Women play a pivotal role in the economic security of families and the growth of the U.S. economy. In December 2019, just months before the first COVID-19 shutdowns, women were the majority of the civilian nonfarm workforce, earning advanced degrees and starting businesses at a higher rate than men, and were more likely to be breadwinners than ever before.

To date, national discussions about gender inequality have focused on the pay gap, but the gender wealth gap is a more relevant measure of economic insecurity. Wealth, or net worth, is the difference between a household's assets minus liabilities. It enables families to weather financial emergencies; invest in education, a home or business; save for retirement; and pass resources on to the next generation.

Across race and ethnicity, women own less than men, and Black and Hispanic women own pennies on the dollar compared to white men and white women.[2] This chasm—a legacy of our nation's long history of exclusionary policy and private sector practices—meant that they had limited resources heading into the pandemic-induced economic crisis.

The economic crisis hit women, particularly women of color, harder than men as they were more likely to be working in consumer-facing sectors. Making matters worse, millions of women were left out of the federal response to the crisis, and mothers with young children had to reduce their work hours four to five times more than fathers due to a lack of caregiving support.

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2 Public surveys like the Survey of Consumer Finances (SCF) split race and ethnicity into four categories: white, Black, Hispanic and other, so researchers are unable to calculate the net worth of Asian and Native American families and other subgroups. The SCF also does not include questions about sexual orientation or sexual identity.

Understanding the Drivers of the Gender Wealth Gap

The gender wealth gap is a result of interrelated factors including the pay gap, disproportionate responsibility for caregiving, and lack of access to the "wealth escalator" of government benefits, tax breaks and employment-related benefits that help people build wealth.

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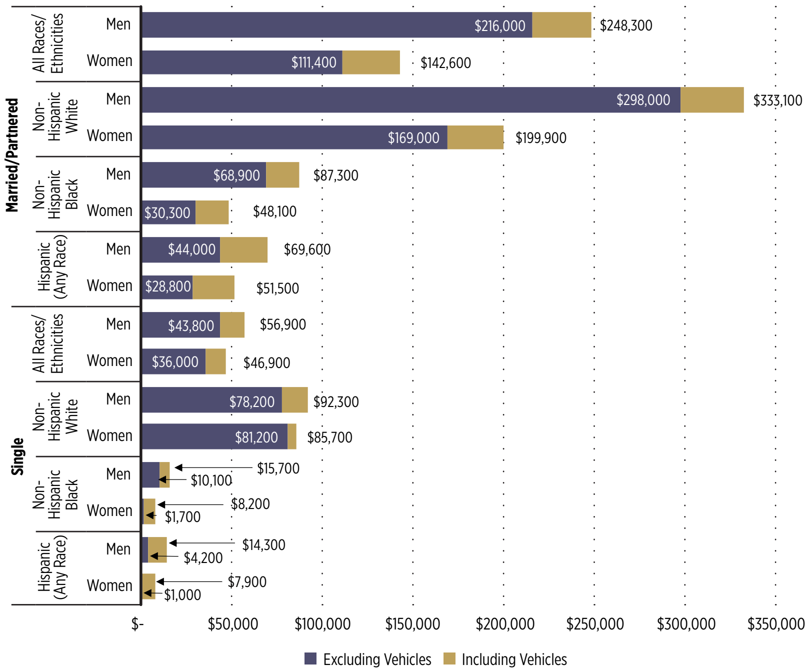
Women working full time earn about 82 cents compared to every dollar earned by men, a gap that is even larger for women of color. Over the average 40-year career, wage disparities cost Asian women[3] $349,000, white women $566,000, Black women more than $800,000, Native American women more than $900,000 and Latinas more than $1 million compared to white men. Other drivers of the wealth gap include women's lack of access to employer-provided benefits like health insurance, paid sick days and matched savings in retirement plans because they work part time, for smaller firms or in jobs that do not offer benefits. Working women are less likely to be able to access tax subsidies due to the way they are structured: Lower levels of income, home and business ownership and retirement savings means women are less likely to benefit from tax deductions and exclusions. In addition, refundable tax credits, one of the few types of tax subsidies accessible to low-wage workers, are few. Making matters worse, our nation's weak care infrastructure means women lose income, current savings, future social security benefits and accumulated wealth when they step out of the workforce to care for a loved one, and they are more likely to have custody of children, which decreases their ability to save.

Women of color face the greatest obstacles to building economic security on all fronts. They are the least likely to have wealth to start with, due to our nation's legacy of public policies and private sector practices that blocked families of color from building wealth that could be passed on to their children.

[3] The group of Asian women is quite varied and not disaggregated. It is important to note that some subgroups of Asian women have almost no wealth, while others have high levels of wealth.

Median Family Wealth by Race/Ethnicity and Household Type, 2019



NOTES: The demographic characteristics for the married or partnered couples are taken from the survey respondent, who is considered to be the more financially knowledgeable person in the couple. The gender of the couple is thus taken from the respondent, though wealth is shared among both individuals in the couple. Singles include those who have never been married or who are divorced, widowed or separated. Age range is from 18 to 95 years old. Dollars are rounded to the nearest hundred.

They are overrepresented in jobs paying low-wages without benefits, and they face contemporary racial and gender discrimination that limits opportunities for employment, income, promotion and public and private sector job benefits.

Women of color face the greatest obstacles to building economic security on all fronts.

What the Most Recent Data Say About the Gender Wealth Gap

A savings or wealth buffer is a critical measure of household economic well-being, yet those with the least wealth were most likely to suffer job and income loss during the pandemic. In 2019, the median wealth of families headed by women was about half as much as families headed by men.[4] The intersection of race and ethnicity, marital status and gender reveals even starker wealth differences, as can be seen in the figure above.

The median wealth of families headed by women was about half as much as families headed by men—and even starker when race and ethnicity, and marital status, are factored in.

At the median, families headed by Black and Hispanic women owned just 5 and 10 cents, respectively, per every dollar of wealth held by families headed by non-Hispanic white men. When vehicles are excluded from the wealth calculation—because vehicles are a necessity and often cannot be sold in times of financial crisis—these figures were 1 and 4 cents per dollar, respectively.

Research from the Federal Reserve Bank of St. Louis reveals that the gender wealth gap remains after accounting for a variety of individual and family characteristics, including marital status, income, homeownership, race and ethnicity, education, minor children, job status and risk preference.

Given that two-thirds of female-headed households over the age of 64 are single women and nearly one in five families (and nearly half of Black families) with minor children are headed by single mothers, the gender wealth gap clearly has detrimental consequences for the economic security of children, families and future generations.

4 In this essay, the term "headed" indicates the survey respondent: the most financially knowledgeable adult in a couple or the primary adult individual in single families. We used the 2019 SCF in our calculations. Here, we use two definitions of family wealth: (1) all assets minus all liabilities captured in the SCF and (2) the first definition excluding the value of vehicles while keeping the value of the vehicle loan, if any.

Centering Women and the Gender Wealth Gap in Public Discourse

The current economic crisis highlights the role wealth plays in enabling families to weather financial hardship. While recent policymaker attention to the racial wealth gap is long overdue, the gender wealth gap is missing from the public discourse. Yet the gap is undermining the economic security of households, as women—key family breadwinners before the recession—have lost jobs and income at a disproportionately higher rate than men. A dearth of financial assets was most detrimental for women of color, who had the slimmest financial cushion to begin with and were hardest hit by job losses and ongoing unemployment.

Now more than ever, decision-makers must acknowledge the pivotal role of women in the economy and design policies to support them to thrive and prosper.

Now more than ever, decision-makers—policy and business leaders, philanthropy and others—must acknowledge the pivotal role of women in the economic security of families, communities and the national economy and design policies to support them to thrive and prosper. We need to start by asking a simple question: Do women benefit from stimulus and long-term recovery plans, from public and private sector workforce policies, from monetary, fiscal and tax policy? If any of the answers are "no," policymakers and others must respond.

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How Should We Finance Postsecondary Education: Debt, Private Wealth or Public Wealth?

BY FABIAN T. PFEFFER AND LOWELL R. RICKETTS[1]

[1] The views expressed in this essay are those of the authors and are not necessarily those of the Federal Reserve Bank of St. Louis and the Federal Reserve System.

The views expressed in this article are those of the individual author/authors and do not represent the views of or an endorsement by the Federal Reserve Bank of St. Louis, the Federal Reserve Board of Governors, the Federal Reserve System or the U.S. Department of Agriculture.

Higher education has been revered as an important pathway to upward mobility since the earliest days of the Republic. Many U.S. states founded their own public university systems early on, some before being granted official statehood. Initially, these public universities helped educate a relatively small share of Americans. They, of course, also entailed sharp inequalities in access by race, ethnicity and gender. But the typical price tag for those who could attend was affordable across a long swath of U.S. history. By the mid-20th century, continued public spending to expand access to affordable college made the U.S. the world's leading producer of college graduates. Families could pay for college through a mix of grant-based aid and income earned by students' families or through students' jobs.

Over the last half century, the U.S. has abandoned both its leadership role in educational expansion as well as its promise of affordable college education. College costs have more than doubled over the past three decades, and a student loan system was conceived to make up for the funding shortfall. For many students today, going to college siphons off their families' wealth—more than half of all college costs are paid directly by parents—and increasingly pushes them into debt. Total student debt today stands at $1.55 trillion, over four times what it was in 2003 after adjusting for inflation.

Debt-Financed College: An Engine of Inequality

Higher education has thus transformed from a largely public investment provided by well-funded public universities into a debt-financed proposition, reflecting a broader shift away from public infrastructures to the privatization of "services" and risks. Families are required to dedicate a greater share of their financial resources to higher education, and students are asked to carry the risks of these investments. The resulting student loan burden has put the economic prospects of today's students at risk, including the prospect of purchasing a home, marriage, childbirth, wealth accumulation and their own financial stability as well as that of their parents.

The impact of this public-private shift has not been borne equally by all students. In particular, for Black families, the rapid expansion of student debt has less effectively opened pathways for upward mobility than it has introduced new forms of predatory inclusion. For-profit colleges and underfunded institutions have more aggressively expanded access among disadvantaged students. As Black families often lack wealth to draw on due to a history of exclusion from broad-based government-subsidized wealth accumulation (e.g., slavery, redlining, inequities in the GI Bill and other continuing forms of institutional racism), they disproportionally rely on student loans to finance higher education. Black families are both more likely to borrow (among the class of 2016, 87% of Black students borrowed compared to 70% of white students), and when they do, they also borrow more (through 2017, the average student loan balance was $42,746 among Black students compared to $34,622 among white students). Even wealthier Black families rely more on student debt than their white counterparts, potentially because they own less fungible assets (e.g., stocks, home equity, 529 accounts). These elevated levels of indebtedness raise the risks for Black students and stand to sap the financial security of these borrowers for years to come.

Student loan burdens put students at risk—including the prospect of purchasing a home, marriage, childbirth, wealth accumulation, as well as their and their parents' financial stability.

Wealth-Financed College: The Private Solution

Of course, there is one easy solution for participating in higher education and avoiding the risks of high indebtedness: being raised in a wealthy family. Unsurprisingly, children from families with high net worth are substantially more likely to go to college and, even more importantly, to graduate compared to those from family backgrounds with lower wealth. This wealth gap in education has increased substantially within just a decade: While the college graduation rates of children from the bottom half of the wealth distribution has remained relatively stable, children who grew up in the top 20% of the wealth distribution have increased their graduation rates by 14 percentage points, quickly pulling away from the rest of the population.

These growing wealth gaps in education are likely to further calcify the wealth distribution. As parental wealth becomes more important for college graduation, it will also become a better predictor of whether children can maintain their family's wealth position: Education is one of the main channels through which wealth inequality is maintained across generations, as children from wealthier families are more likely to graduate from college and their college degree allows them to more easily accumulate wealth themselves. This process also suffers from deep racial inequality: The wealth-enhancing potential of a college degree is lower for Black college graduates as they enter housing markets and labor markets that continue to be marked by structural racism, putting them at an increased risk for downward wealth mobility.

Wealth-Financed College: The Public Solution

Before the onset of the COVID-19 crisis, median Black wealth was 12% of median white wealth. Overall wealth inequality has increased substantially over the last decades, especially during times of crisis, such as the Great Recession and—as early indicators of its disparate impacts suggest—the ongoing COVID-19 crisis. These powerful structural inequalities cannot be fully resolved via educational policy. But there is one way in which questions of educational opportunity and broad patterns of wealth inequality can be put into direct relationship. While ever larger amounts of student debt have accumulated, ever larger amounts of wealth have been accumulated at the very top of the distribution: The $1.55 trillion in total outstanding student debt is about as much money as the wealthiest 400 individuals have added to their total wealth since 2010.

Today's total outstanding student debt is the result of decades of public divestment from higher education. A return to a strong public education system that reduces the dependence of college success on parental wealth will therefore require a substantial increase in public investment—two years of free community college, as proposed in the American Families Plan, is one such step in this direction that merits consideration. The revenue required for such recommitment to higher education as a form of public wealth may come from a variety of sources, including the taxation of private wealth and its intergenerational transfer. Besides raising substantial revenue, new schemes of wealth and inheritance taxation also provide an opportunity to address the active role that today's existing tax structure plays in increasing wealth inequality, solidifying dynastic wealth and increasing racial wealth gaps.

A return to a strong public education system, one that reduces the dependence of college success on parental wealth, will require a substantial increase in public investment.

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