

FEDERAL RESERVE BANK OF ST. LOUIS



CENTRAL TO AMERICA'S ECONOMY

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From Asset Building to Balance Sheets

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The First 20 Years

1991 – 2001

Reactions among the left and right

- Welfare reform widely discussed.
- Right and centrists largely receptive, unease on the left.
- Policy proposals were “weak tea,” but many progressives believed the idea was dangerous.

Policy ahead of practice and research

- Can the poor save?
 - ADD-AFIA-SWFA-USAs story—millions to billions to hundreds of billions over just a couple of years.
- *Impact: Very little public funding, big impact on poverty debates; wealth inequality on the table.*

2001 – 2011

The “scale” challenge gets real

- Beyond IDAs.
- Bigger platforms.
- Scalable demonstration projects.
- Double bottom lines.
- Small changes, big results; impact of behavioral economics.

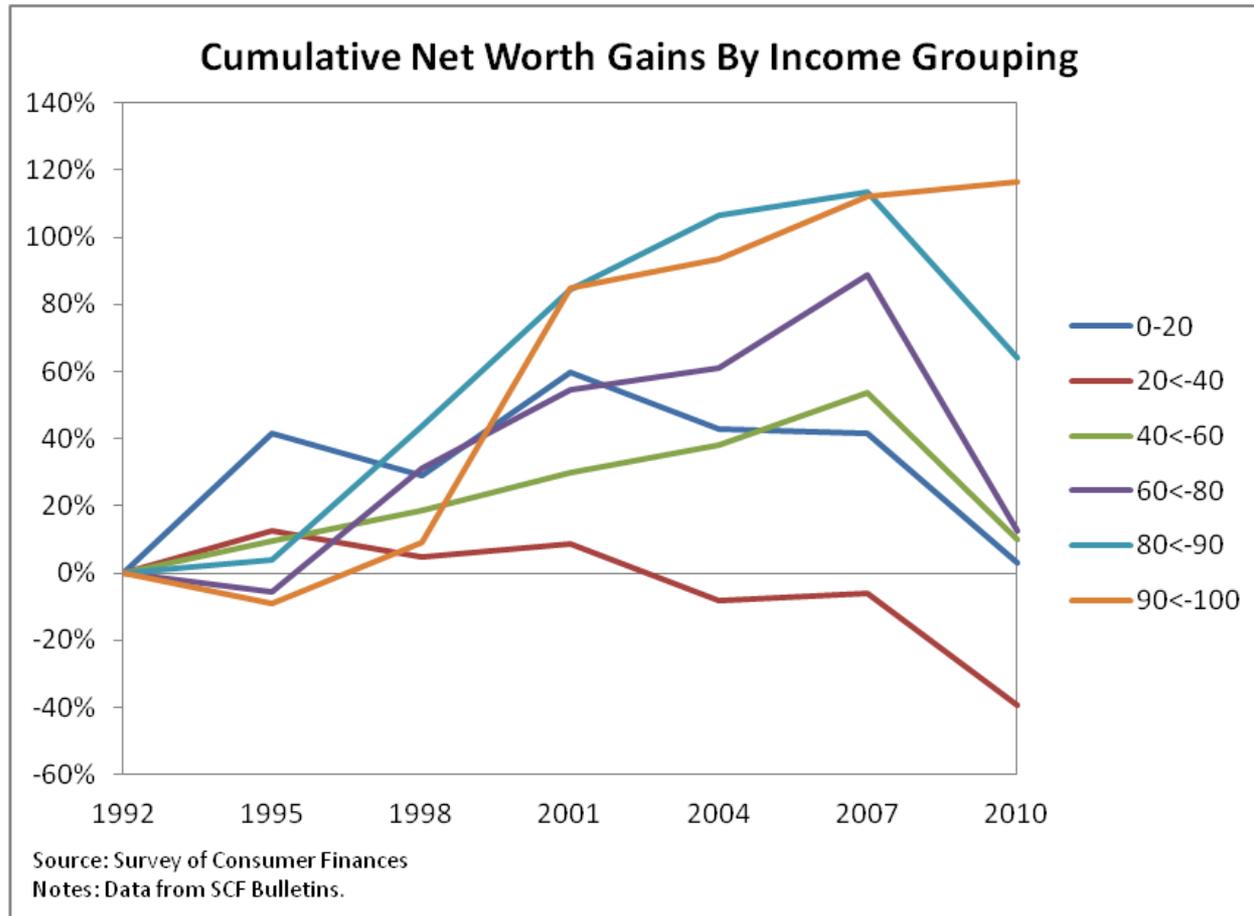
Bush v. Obama

Financial and Economic Crisis challenges the credibility of the field.

- *Impact: Funding, and establishment of the Consumer Financial Protection Bureau.*

Where We Are Now

Changes in Median Net Worth by Income Quintile, 1992-2010



Where We Are Now, con't

Median Net Worth Levels by Income Quintile, 1992-2010

| | 1992 | 1995 | 1998 | 2001 | 2004 | 2007 | 2010 |
|---------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|
| 0-20 | \$6,011.17 | \$8,517.83 | \$7,752.84 | \$9,600.00 | \$8,600.00 | \$8,500.00 | \$6,200.00 |
| 20<-40 | \$42,200.84 | \$47,538.72 | \$44,212.15 | \$45,900.00 | \$38,800.00 | \$39,600.00 | \$25,600.00 |
| 40<-60 | \$59,988.99 | \$65,725.44 | \$71,242.33 | \$78,000.00 | \$82,800.00 | \$92,300.00 | \$65,900.00 |
| 60<-80 | \$114,334.84 | \$107,739.07 | \$149,818.42 | \$176,800.00 | \$184,000.00 | \$215,700.00 | \$128,600.00 |
| 80<-90 | \$174,814.53 | \$181,521.92 | \$251,443.50 | \$322,400.00 | \$360,900.00 | \$373,200.00 | \$286,600.00 |
| 90<-100 | \$552,045.89 | \$502,897.45 | \$603,359.63 | \$1,021,500.00 | \$1,069,700.00 | \$1,172,300.00 | \$1,194,300.00 |

Source: Survey of Consumer Finances

Notes: Data from SCF Bulletins.

The Next 20 Years

- Fiscal austerity.
 - Weakening public safety nets.
 - Weak economic growth for at least another five years, due in part to household deleveraging. But perhaps longer—what replaces the American consumer as the engine of economic growth?
 - Income gains not broadly or evenly shared.
 - Financial instability rising well into the middle class.
- *Those who most need to rebuild their balance sheets will have the hardest time doing so, and governments at all levels will be unwilling or unable to provide assistance just as it's needed the most.*

From Asset Building to Balance Sheets

- Now a better analytical framework than asset building.
 - Financial crisis was a series of household balance sheet failures.
 - Why balance sheets matter:
 - For households – to achieve economic mobility.
 - For the economy – to achieve economic recovery and growth.
 - Acemoglu and Robinson, *Why Nations Fail (2012)*: Inclusive economic and political institutions are necessary to achieve prosperity.
- *Democratize credit (20th century) v. Democratize capital (21st century).*

Some Promising Directions

1. Why asset building matters: for economic mobility and economic growth.
2. Strengthen the assets and education link.
3. Engage in the nation's homeownership debate.
4. Engage in the development of the CFPB.
5. How to distribute the downside of risk?
6. Promote assets early in life.
7. Get financial access right.
8. Promote unrestricted savings.
9. Think small.
10. Think big.

A Few Thoughts on Inequality

- Wealth inequality is far greater than income inequality, and may be more consequential.
- Public policy contributes significantly to wealth inequality, primarily through tax systems, employers, and other institutions.
- The higher your income, the more institutions “behave” for you to build wealth; the lower your income, the more you have to “behave.”
- Building or rebuilding the balance sheets of the bottom half may be more important than reducing inequality per se.

For references and more information...

- “From Asset Building to Balance Sheets: A Reflection on the First and Next 20 Years of Federal Assets Policy.” Published by the Center for Social Development at Washington University in St. Louis, July 2012. See <http://csd.wustl.edu/>
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