Transcript
FedTalk: What Is Wealth Distribution and Why Does It Matter?
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Presentation

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Dionissi Aliprantis:

Good afternoon. Thank you for joining us, and welcome to today's *FedTalk*. I'm Dionissi Aliprantis, a senior research economist and assistant vice president here at the Federal Reserve Bank of Cleveland, where I also serve as the director of our program on economic inclusion. It's my pleasure to kick off today's *FedTalk* session which asks, what is the wealth distribution and why does it matter? Now, before we get going, let me give the standard disclaimer that applies when we are discussing our research. The opinions expressed are those of the presenters and do not necessarily represent the views of the Federal Reserve Bank of Cleveland or the Board of Governors of the Federal Reserve system.

Now, *FedTalk* is the Cleveland Fed Speaker Series in which we share research that is relevant to our community. Past events have covered subjects such as the racial wealth gap, access to the labor market, and financial literacy. All of our events can be found on our website, clevelandfed.org, or on our YouTube channel. A few housekeeping details before we begin. So during this event, your microphone and camera are disabled, so please type and submit your questions in the chat box. In the case that Zoom, the meeting drops, please just use the dial-in info provided in the invitation to join the call.

So it's quite relevant that we are speaking about wealth. So wealth is partly insurance. It helps us to weather unforeseen economic storms. So if someone in a household loses a job, wealth helps the household in the following period. And this operates through many mechanisms. In addition to just paying the bills right now, wealth allows the person who lost their job to spend more time looking and find a better fit. It's also the case if someone gets sick, wealth can allow them to ride out that financial instability. It's also the case that wealth is partly access, so it helps us gain access to economic opportunities. It allows us to access educational opportunities, like college or training programs, as well as higher opportunity neighborhoods than one could access without wealth. Wealth allows entrepreneurs to start businesses and expand their income. And wealth in a lot of ways is a scoreboard, so it helps us to understand people's ability to participate in the labor market.

This makes wealth one of the variables we are interested in in understanding if we're studying the idea of maximum employment, one of the Federal Reserve's, statutory responsibilities. And I think everyone on the call right now knows or recognizes that it's also timely that we're speaking about wealth in many ways because of COVID. It really helped to illustrate a lot of the mechanisms just described above and how important it is to have insurance against the bumps in the road that we all inevitably will face in life. So again, thank you to everyone for joining us. And now I would like to introduce my colleague Barış Kaymak, who is a senior research economist here at the Federal Reserve Bank of Cleveland. Barış, thank you for joining me for today's discussion.

Barış Kaymak:

Thank you for inviting me. It's a pleasure to have the opportunity to share some of my research with the audience today. I've prepared some slides, so I'm going to go ahead and put them on the screen to guide my talk. So today, what I'm going to do is try and answer some of the questions that I myself wondered when I started my research on wealth inequality. And I should emphasize that these are my views and they do not reflect the views of the Federal Reserve Bank of Cleveland or the Federal Reserve system. So what I'm going to do is I'm going to start by defining wealth, and I'll explain why economists and policymakers care about the distribution of wealth. And then I'll show you some charts on how large disparities in wealth are in the United States. And I'll touch upon some of my research on the sources of differences in wealth and the factors behind the trends, recent trends in wealth equality.

Let's kick it off with wealth. What is wealth? When economists talk about wealth, they typically refer to financial wealth or our net worth. And in simple terms, net worth is the difference between what we own, our assets, and what we owe, our liabilities. A slightly less simple definition could be just anything that we can convert into consumption either today or sometime in the future. So how do we measure net worth? We look at the portfolio of assets that a household has, and typically that'll include vehicles. We're going to take the value of that vehicle, market value. We're going to look at the value of your house, any money you might have in your bank account. If you have investments, we'll look at the values of those and the retirement funds. Or if you own your own business, we'll look at the value of that business org. So we're going to add it all up, and we're going to subtract your liabilities from that.

And what are those? Essentially the remaining balances on your outstanding loans. So that could be your auto loans or mortgage credit, college debt, if you have any, or credit card debt. And the balance of those assets and liabilities is essentially your net worth. But financial wealth is not the only form of wealth. In fact, it's not even the largest one. Human wealth is far larger than financial wealth. We're all entitled to our time, and time is a valuable asset, as you might have heard. It's true. We can't dispense of time as we can sell a car, but we can rent our time on the labor market in exchange for wages and salaries, as we can rent our funds to a bank in exchange for interest.

And just like there are different types of financial assets, there are also different kinds of time values, depending on the skills you might have developed, either formally through years of schooling, or informally by job experience, et cetera. And when economists try to understand the distribution of human wealth, they'll typically look at the information on wage rates and earnings in the economy. So you can think of wage rate as your hourly rate of pay and earnings as your annual salary. Net worth is not highly informative about the distribution of human wealth, but of course, human wealth and financial wealth are closely related, as I will elaborate with the rest of my talk.

Why do economists care about differences of wealth? Well, there are only two parts to that. The short answer is that understanding the distribution of wealth helps us better understand how the economy works. Wealth impacts people's economic choices. It affects how parents divide their time between work and their family obligations. It affects spending patterns. It affects how long you can afford to remain unemployed trying to find that suitable job. And understanding the distribution of net worth helps us better assess the economy, knowing who owns how much debt and whether they have assets to cover the debt and what their risks in terms of job loss is important to assessing the financial health of the economy.

Another example could be when we're trying to assess the economic outcome. Households with high levels of net worth tend to have higher savings rates. So an economy with a large level of wealth inequality, where you have a large fraction of households who are living paycheck to paycheck, is going to be an economy where certain policies, like fiscal stimulus policies, are going to be more effective in the short run because a larger fraction of the population support. And these are the factors, how net worth and the distribution of it can help us understand the economy. But of course, this is not the only reason. The second reason why economists care about the distribution of wealth has to do with its normative implications for the wellbeing of the society. And the concerns here revolve around whether the levels of wealth inequality are restricting access or equal access to opportunity or whether it's constraining economic growth. So economists will typically research some key questions, such as whether the distribution of wealth is providing the right amount of investment in education, whether it's affecting or curbing innovation activity or entrepreneurial activity.

These are questions that are not just of interest to economists but of particular interest to policymakers and society at large. Policy makers especially also care about the distribution of living standards, and they try to strike a balance between providing the incentives for economic growth as well as trying to ensure that economic growth is inclusive of whole segments of the population. Economists, when they want to assess the distribution of living standards, they will typically look at data on consumption patterns. Distribution of consumption matters, and they will focus especially on consumption patterns by poor households, look at poverty rates in particular. Now, as an assessment of the distribution of living standards, financial wealth provides a very poor measure because the transition for wealth inequality, the consumption inequality can be very tricky.

To illustrate that. You can think about other countries where wealth inequality is just as large. Wealth inequality in Sweden, for instance, many metrics, is comparable to the wealth inequality in US. So going with wealth inequality alone, you would have to conclude that the disparities in consumption among Swedish households are comparable to disparities in consumption among American households. But consumption tracks more disposable income rather than financial wealth, and income before any taxes or transfers is already less skewed after initial growth. And because the tax systems in modern societies tend to be progressive, where the tax rate increases with income and the transfers decline, the disposable income, that's after taxes and transfers, has to be even less skewed. And Sweden with its general social welfare system and the progressive tax system provides a different kind of consumption disparities in the population than the US.

So the next question I'm going to look at, how disparate our wealth levels? So here, I'm showing you data from the Survey of Consumer Finances, as published in their bulletin. This is data from 2001 to 2019, which is the latest survey. This chart is showing you the distribution of total wealth by wealth person types. So on the leftmost side of the chart you have the wealthiest 1% of households in the US and the bar height shows you the share in total wealth they have. So in this data, the top 1% holds about 35% of total wealth. That is large. The next one is top 5% goes to

62%. And when you look at the top 40%, the amount of wealth they own in the US is about 96%. So pretty much the entire depth of wealth, leaving about 4% for the rest of the 60% population.

So the different measures of wealth will disagree a little on the levels, but the picture will remain generally similar. And by these measures, the wealth disparities are remarkable, and this is why you get a lot of attention on these numbers from policymakers. But let's open that up a little bit and see where the differences in wealth come from. And there are some obvious answers. One of the obvious answers is demographics and where you are in your lifecycle. So here I'm showing you two charts. On the left, you have the average net worth among households in different age groups.

And if you look at the left side to 20 to 25 years old, or young households, the average wealth levels are actually pretty low. And as households earn their income and start saving for to afford a house, if they buy a house, save for retirement, the wealth levels increase over time with age. And it peaks about right prior to retirement, around 60, you will see the maximum level of average wealth in the US. And then after you retire, you'll start eating out of your savings. So age and the stage of your lifecycle is one of the factors that's quite important for understanding differences.

On the right, I'm showing you the average levels of net worth for different types of families. The blue bars show you families with kids or households with kids in the household. And the green ones show you those without kids. And I'm dividing the data into households with married couples and single person households. When you compare those charts, those bars, immediately it jumps out that married couples have more wealth than single households. And that is not too surprising, I guess, because two individuals will have more net worth than one individual. And you see some difference depending on whether a family has kids or not. And then the green bar that has the highest level of average net worth, these typically are empty-nesters, families who have had kids but the kids have moved out of the house. They tend to be a little older as well. They tend to have a larger amount of wealth. So demographics go a long way.

If you factor in the demographics and look at the share of the top 1%, accounting for the stage of the life the household is and accounting for the type of family they have, the 35% number goes down to about 25%. That is a sizeable drop. Another obvious answer is measurement. Measurement is never really perfect. Wealth is very hard to measure, and we have really two ways of measuring it. We can look at directly the survey data on assets and liabilities, where we ask households what kind of assets they have and what the value of those assets are. Or we can try to infer it based on income, based on capital income. This is a commonly used capitalization method where you look at the capital income of a household, and if they report a certain amount of interest income, then we confirm what kind of assets they might have to generate that amount of interest income.

But all measures have pros and cons, and by and large, the problems have to do with the sampling of the wealthiest households and the coverage of all assets. And two important assets that aren't typically covered are defined benefit pension plans and Social Security. Defined benefit plans are usually plans where your employer takes away some of your paycheck and puts it into a retirement fund that's funded by the employer. And when you retire, based on the number of years of service, you are entitled to pension income. Now, that's essentially income that can be converted into consumption in the future, and that is part of your asset portfolio. And when you factor those in, because it's distributed more equally among households, the top 1% wealth share declines from 35% to 29%. Social Security is another one. It doesn't typically show up in our measures of wealth, but again, depending on the years of service you have, you're entitled to some Social Security income.

When you account for that income in your wealth, then the top 1% share goes down to 24%. And that's primarily because the Social Security entitlements are distributed more equally than some of the financial assets that households have. And if you take away on top of that the age effects on the household size, then you're down to about 20%. So measurement matters, and I think a lot of the progress in recent years have been in the measurement. We've learned a lot about properly measured wealth and improving every day. Now, 20% is not small, there's still a large degree of concentration in the economy. You might ask, what are the fundamental reasons for differences in wealth? So my co-authors David Leung and Marcus Poschke and I wondered about that and we looked at the theories of wealth distribution that economists propose.

We've divided them into two categories, theories that are based on capital income and theories that are based on labor. Capital income theories typically highlight the differences in rates of return across wealth levels. The wealthier households tend to have higher rates of return on their assets, and those who have little wealth have low returns. And when you already have wealth and you also have a higher return on that, that tends to amplify the wealth differences. And it can generate a system where wealth is highly concentrated in the economy. And as these households age, they can pass this wealth onto their children and then they can accumulate the higher rates of return and et cetera. So it's kind of like this wealth begets wealth type of story that leads to wealth concentration. Another set of theories will emphasize differences in human wealth and earnings that are associated, because when we look at the data on earnings, both in terms of wage rates and in terms of hours worked, we do see large differences. And earnings translate into wealth over time as people save part of those earnings, accumulate wealth.

And we wanted to see which theory would be more prominent in the data. And what we thought made sense was to look at the composition of income among households. So we looked at the data, and we divided income into two components. Labor income, which is essentially wages and salaries, and capital income that includes interest income [inaudible 00:21:57]. In the general population, when you look at the rightmost bar, on average, income on labor constitutes 82% of global income. Now, that's of net income. And this is why I was saying human wealth is far more important before, because the income generated by the stock of human wealth is about four times as large as the income generated by the stock of capital. And then when we looked at the labor share of income for different income percentile. And to the leftmost bar, if you look at the leftmost bar, you'll see that labor share of income among the highest 1% of incomes.

To our surprise, we found that the majority of income among the top one percentage was based on labor. And when we dug a little deeper into this, we noticed that it wasn't just these people with high levels of net worth investing in the stock market, but this part, this population included a lot of high-skilled professionals as well, doctors and lawyers in that group, as well as some investors. So what we did next was that we built a model of the US economy, allowing households to age over time and save for retirement and pass some of that onto their children, et cetera, with realistic earnings distribution that replicates what we see in the data. And then we ran some hypothetical scenarios and we asked these what if questions using our model. The first questions we ask is, what if bequests were not unequal? What if we took all the bequests and distribute them fully in the economy among the existing households?

Now, that of course reduces wealth concentration, because inheritances tend to be skewed towards the high-wealth households. Now, that will also, if you try to implement this, of course, the amount of bequests families leave with their children will be affected, and no one will leave any bequests when you have a hundred percent bequest tax. But we ignored that, and we said, what if we actually allow people to leave bequests and we'll just tax it? Now, that reduced the share of the wealthiest 1% by only 13%. So it brought it down to roughly 32%. And then we said, okay, what if different wealth groups had the same rate of return on their assets? That brought it down similarly, about 10%. Then we asked, okay, what if we were to reduce the high earnings levels? What if we were to look at the top 2% of the earnings distribution or so and reduce their earnings levels to more average levels?

And that brought down the concentration of wealth in our economy, in our model economy, significantly, by about 60%. So we brought it down from about 35% to about 15%. And so our conclusion from that study was that human wealth or earnings that are associated with human wealth are an important part of the wealth concentration. And if you want to understand wealth inequality, you have to understand differences in earnings that we have. Here in this chart, I'm showing you the trends in wealth inequality, as measured by the share of the wealthiest 1% in total wealth. If you look at the differences... If you look at the chart, these are different measures. We have the measures from Survey of Consumer Finances, and then we have the world Income Database, then we have a recent study, results from a recent study by Smith, Swick, and Zidar. And as I said, measuring the wealth is difficult, and it's an evolving research area. It's a very recent paper.

Now, the measures disagree on the level of the share, but if you look at all these lines, they tend to grow over time, and that is a common trend across these measures. So the final question that I want to talk about today is, what are the factors behind the outboard trend in wealth concentration in the US? So in related research, my co-author Marcus Poschke and I, we looked at three important factors that are relevant for the changes in the wealth distribution in the US. The first one is tax cuts. The tax system in the United States has become less progressive. The effective tax rates for high income levels have come down, and you can see how that could affect the inequality of wealth, because it changes the inequality of income. And these tax cuts came mainly in terms of taxes on capital, either indirectly through taxation of corporations or directly through taxation of capital.

And the effective tax rates on high-income households who tend to have more capital has come down. And we wanted to see how important that was in terms of the numbers we're seeing trends. The second factor we looked at was the rise of transfers. Even though the tax system became less progressive, the transfer system paralleled that. In the '60s and '70s, a dramatic expansion of the social welfare system in the US really focused on two major programs, the Medicare and Social Security system. The expenditures on these two programs in 1960s was about 2% of GDP. Now they're about 8% of GDP. So that's a sizable increase, and we wanted to see what kind of effect that would have a wealth inequality. And this is important because both programs are essentially subsidizing the elderly population. And because a large motivation for building wealth is saving for retirement, and if you have some help for those savings, then these transfers tend to alleviate the need to rely on personal savings to finance your retirement. We wanted to see whether that would have an effect on the wealth distribution.

And the third one was the earnings. Earnings disparities in the US grew over time as well, not as much as the wealth inequality, but they did grow. And there's general consensus, I would say, among economists that the primary factor driving these earning differences were advances in technology. The production technologies changed and became more complex. The skills that are required to operate those technologies grew, and the demand for skilled labor raised the value of skills in the market and opened up gaps between different wage rates. And over time, again, the earnings differences translate into wealth differences, and we want to assess that as well. So again, we built a model economy and we looked at these different factors. And what we found in terms of the impact on the top 1% share is that the majority of the trends could be explained by growing earnings.

This led us to really highlight human wealth and human capital as primary source of wealth inequality. Tax cuts and transfers were also important. They both tended to raise wealth inequality about equal. But the impact of these policies on consumption are very different. This is what I mean by going from wealth inequality to consumption inequality can be tricky. Tax cuts tend to increase the inequality in disposable income, and therefore they tend to increase consumption inequality. But transfer do the opposite. Even though they raise the wealth inequality, they tend to equate consumption across households. In our calculations, we found that the impact of taxes and transfers on consumption inequality was a rough washout. All right. Then we said, okay, well, maybe we're not measuring financial wealth? At the time, we didn't have these measures in Social Security wealth. A recent paper looked at that. This is a study by Catherine, Miller, and Sarin, who looked at the Social Security wealth in the United States and assigned them to different households. The tricky thing is to really value those assets because there is no market, you can't trade your Social Security.

So the real difficulty in this study is trying to assess the value of those programs. And so this study looked at the annual markets and tried to replicate the Social Security assets using the available financial assets in the annual markets. And what they found is that once you include Social Security, the rise in the wealth inequality is not as large. And there are a lot of assumptions that going to these numbers, and depending on the assumption, it rises a little and maybe it's flat. But the point is that it's something that matters for our understanding of how much wealth inequality moves.

All right, the key takeaways, I guess the important one that I've found in my research is that earnings play a major role in shaping the distribution and evolution of financial wealth. To understand where the wealth inequality comes from or how it might change in the future, we really have to understand the distribution of human wealth and how earnings might change in the future. Going from wealth inequality to inequality of standards of living and consumption inequality, it's important to take into account taxes and transfers. It's essential to interpretation of these disparities in income and wealth.

If you want to understand those disparities, of course, the better way to have direct measures in standards of living and direct measures in consumption. In relative terms, even though our understanding of the wealth differences progressed significantly over a recent decade or so, I think we're still somewhat behind in our understanding of distribution of living standards and consumption, partly because it's very difficult to measure these. We can measure perhaps spending on consumption, but some of that spending or some of that consumption is not going to be driven by spending, but it's going to be driven by income transfers, voucher systems, or subsidies, et cetera. And accounting for the entirety of the consumption bundle that a household has is significantly different. And that's where I see the research going forward. Thank you.

Dionissi Aliprantis:

All right. Thank you very much, Barış. Really enjoyed the presentation. A lot of good stuff there. So we're going to have a Q&A. I see there's already a question lined up that we will get to in a little bit here, but I, Barış, wanted to start off by asking you a few questions. So I wanted to ask, you mentioned that financial wealth is not necessarily a good measure of consumption inequality, so I'm just curious, has consumption inequality risen as much as wealth inequality over recent years? And could you speak to that at all?

Barış Kaymak:

Yeah, so the measures of consumption comes from the consumption expenditure survey primarily. Economists have looked at the distribution. What we see when we look at that, the studies tend to show that the consumption inequality did increase over time. It wasn't to the same extent as wealth inequality, but it tracked more the pre-tax income inequality. Disposable income inequality increased more than pre-tax income inequality, but consumption inequality did not increase as much, and partly owing to transfer. Now, that leaves out a lot of the in-kind transfers that we have in Congressional Budget Office, some calculations for the distribution of consumption households by their income levels.

And what they found is quite interesting, actually. If you look at the five groups, the poorest group and the richest, three in the middle, so quintiles. And if you track the consumption pattern by the income level of the households, what you see that in the US, or what they found, is that the bottom and the top quintiles had more or less similar levels of growth in consumption, growth of their consumption over time. In the middle of the income distribution, actually less. So you had this compression of consumption in the middle of income distribution, and that aligns well with the growing transfers in the US economy. It's where we are. But of course, those measures, they're very specific measures. In terms of coverage, they're limited to the transfers from the federal governments. Transfers from the state governments are not included.

Dionissi Aliprantis:

All right, thank you. So another question. You talked about human wealth, earnings, human capital as being the most important factor when thinking about the wealth distribution. I'm wondering, could you elaborate on that distribution of human wealth, human capital?

Barış Kaymak:

Yeah, so human capital, there are really two parts to it, just mechanically. Your earnings are a product of your wage rate and your hours worked. If you want to understand the differences in earnings, you have to look at these two objects. And the wage distribution has evolved and the inequality in the wage distribution has grown over the years. We see a pattern in the wage distribution that is actually similar to consumption patterns that are similar to earnings in the middle of the wage distribution. There's research on production technology is having an impact on certain kinds of jobs, routine jobs, jobs that can be automated, and affected negatively from technological developments. And what that creates is kind of like this hollow shade, top of the wage distribution increases over time, the bottom end lags behind, but what really lags is the middle of the wage distribution. So we do see an increase in the wage distribution.

Now, if you want to understand what the levels of these disparities are, instead of what happened over time, then you have to really look into how these wage differences come in the first place.

Part of it is demand, what kind of jobs are going to be needed in the economy, but part of it is supply as well. So supplier skill is also important. So developing those skills either formally through investing in education or informally through actually just job experience, you will go a long way in terms of building the necessary skills to a higher wage rate. Now, the other part, of course, is the hours. Skills are not worth much if you're not working. So hours worked, and disparities in hours worked are also important. By and large, I would say the most important aspect of earnings differences is really the differences of skills.

Dionissi Aliprantis:

Thank you, Barış. So I think I have a few more. I think I'm going to take one from the chat, and I think I will actually answer it, because I've actually done some research myself on this topic. So the question is about trying to account for racist policies and that impact on wealth inequality. So the example given is something that many Black Americans worked for decades in jobs that would not allow for Social Security deductions. So I guess there's a lot to say about that, obviously. So I've actually done some research with colleagues on these issues trying to think about the racial wealth gap. And I guess obviously there's this long history of policies preventing African Americans from both earning and then being able to save. So really one of the first points at which we have kind of accurate data or good data that we really feel good about the distribution of wealth in the US is really about 1962. So one of the precursors to the Survey of Consumer Finances that Barış showed.

And if you look there, you'll see an absolutely massive wealth gap between Black and white households. So that clearly is a result of these kinds of policies. And then we studied going forward, thinking about, okay, let's assume that maybe some of these policies have changed, say, due to the Civil Rights movement, some of those victories in the 1960s. And let's think about, okay, given those initial conditions, why is the wealth gap, the racial wealth gap so persistent over time? And we independently, with similar modeling techniques, came to conclude that really the most important factor it looks like today in thinking about the persistence is about differences in the labor market and in earnings. And so I guess what I take from that when thinking about the persistence and thinking about how we close that gap going forward, I think there's, almost independently from my colleague Barış, who wasn't here at the time, we almost independently came to this realization, because when you think about the flows of potential wealth into wealth, what you find is that really the largest flows are coming from labor, income, and earnings.

So I think what I see that is I see that as an indication that whether we think about some of the harms now or we think about the potential for changing things in the long run, and I would say maybe more permanently, I think there's a lot of... We should be giving a lot of attention to what's going on in the labor market and this human capital story. So those are my quick thoughts in response to that question. Thank you for it. So I guess I will go to the next question in the chat, which is, how do issues and actions within the Fed's remit, so thinking about things like interest rates, how do those impact inequality. And Barış, I'll let you take this one.

Barış Kaymak:

Okay, so yeah, the Fed's actions might have an impact on the wealth distribution, but I think that the connection between the nominal interest rate, the primary tool for the Fed, and the distribution of wealth is a bit more complex. So there're really two sides to that. One side is that the interest rate affects the valuation of assets. So anything that promises you an income in the future is going to be valued at a high rate currently when interest rates are low. So you can see that on... There's some established research on non-interest rate on home values and its impact, stock market valuations, and then lower interest rate environments are typically associated with higher levels of wealth, higher values of wealth.

But that doesn't necessarily mean that entitles to a higher level of consumption, because you have to also understand that on the other side of the coin, if you're trying to save for future consumption, a lower interest rate makes that more expensive. So imagine a retirement fund that entitles you to or allows you to consume a thousand dollars, let's say a year. Okay, confidence just to make the calculations easier. I know it's not much, but if the interest rate is, say, 10%, then you need about a thousand dollars to finance... Sorry, you need about $10,000 to finance a thousand dollars worth of spending in a given year. So if you want to get there, you have to save $10,000. But when the interest rates are lower, let's say they're 5%, now to finance the same amount of consumption, a thousand dollars, now you need $20,000 of assets. So instead of saving $10,000, now you have to save $20,000. That's just harder now.

So even though the impact of current asset valuations is positive, that it raises the value of assets, doesn't necessarily mean you're truly going to be able to consume more. You can see in terms of home valuations, all the houses in the economy just became more expensive overnight. What do you do with that? Now, you can't really convert that into immediate consumption. You can shelter it, so if you were to sell your house, you have to buy another one, and that's going to be just as expensive. So you can see that even though the valuations of homes go over time to compare, say, two economies where the valuations didn't change too much, and one where the valuations did go up and down in terms of what people did and they still live in their homes and they still have the same kind of consumption. So this is kind of getting a little maybe complicated, but I'm trying to get after this notion that the impact of interest rates on wealth is not as big as we think.

Dionissi Aliprantis:

Great.

Barış Kaymak:

I hope that I answered the question. I don't know.

Dionissi Aliprantis:

Yes. I will give you another question. So I'm curious, you've been researching wealth inequality for many years. And I'm wondering if there are findings that have been particularly surprising to you in your research or that you weren't maybe expecting? And if you could maybe describe any of those.

Barış Kaymak:

What was surprising to me, this kind of interaction between transfers and wealth inequality was quite surprising. When you don't think thoroughly about something, it doesn't really occur to you. And when you find it out, it becomes very obvious. So finding out that transfers can change people's behavior in terms of savings and seeing that play out across countries and over time, that was surprising, too. I would say that was probably more surprising.

Dionissi Aliprantis:

I just wanted to address the comment in the chat here and just say that, yes, I do think federal discriminatory policy is a huge part of the racial wealth gap and thinking about it. And we actually have had conversations with Richard Rothstein you can find on our website, talking about the Federal Housing Agency and these kinds of policies. So I just want to say that I would like to just acknowledge those and say that I agree that those are a really important part of the racial wealth gap and they have impacted a lot of people negatively. And I would just say that then beyond that, I would say we have some conversations more specifically about the racial wealth gap. I don't want to make this entirely about that, but you can see our views in those. And I would say that we're trying to take those policies into account as best we can. But yeah, I'll just say that.

Yeah, I guess to wrap up, then, I guess I would say when you think about building wealth in underserved communities, then, based off of your research, I guess I'm curious when you think about public policy and the types of policies that we can be thinking about that would do the best job of building wealth in underserved communities, what does that suite of policies look like? What would you emphasize and what would you focus on?

Barış Kaymak:

Okay, do I have the secret recipe for building wealth? The answer is no. These are questions about fiscal policy. Here at the Fed we focus on monetary policy, but let me venture an answer. So when you think about underserved communities, I think policymakers focus on the basic needs of the society, so want to make sure that these communities can meet their basic needs in terms of shelter, food, et cetera, et cetera. And building wealth is not really much of a focus, because their immediate needs and their short-term goals, building wealth is a process. It doesn't happen overnight.

So in terms of short-term policies, I think focusing on meeting those needs is the main goal for policymakers. But going forward, how do you turn that into a more permanent solution? How do you convert that into a situation where these communities can support themselves and go up the ladder to ensure that mobility? I think there, I would say again, human wealth is the key. Developing those skills and making sure that those communities have the opportunity and the incentives to invest in their skills to participate, making sure that they can participate in the economy is an important aspect [inaudible 00:50:34].

Dionissi Aliprantis:

All right, great. Well, I don't know if there are any other questions in the chat, but if not, I think I'll just say to you, thank you very much, Barış. I don't know if you have any other additional points you'd like to emphasize, anything that I didn't cover in the questions?

Barış Kaymak:

No, I think I've had plenty of time to talk today. I don't have much today.

Dionissi Aliprantis:

Okay, well, great. Well, thank you. Thank you, Barış Kaymak. And yeah, thank you to everyone for the conversation in the chat, for the questions. Appreciate them. I also agree they're very important, so I'm really grateful for them. And just in general, yeah, thank you very much, Barış.

Barış Kaymak:

Thank you. That's great.