

Policy 360 Episode 75 – The Wealth of ‘America’s Dependents’ - Transcript

Judith Kelley (JK): Hello and welcome to Policy 360. I'm Judith Kelley, Dean of the Sanford School of Public Policy. So, what does economic inequality really look like? We all know some folks get huge paychecks, other people work minimum wage, so they take home very different amounts. So that's what inequality is really about...that's what it looks like, right? Well, today we're going to think about economic inequality in a different way. That is, we're going to look at wealth instead. That's when you get up and all of your household assets like your house and your car, you take away the debt, and then how much do you have?

My guest examined wealth among two different specific groups: families with children and the elderly. And she compared those groups to see who was doing better when it comes to wealth. What she found might surprise you.

Christina Gibson Davis is an Associate Professor of Public Policy and Sociology and Director of Undergraduate Studies here at the Sanford School. Welcome, Christina.

Christina Gibson Davis (CGD): Thank you for having me.

JK: So we hear often about politicians talking about income and good jobs, but wealth is quite different, isn't it?

CGD: Yep. Wealth you can think about as the resources that you have. For most people, their chief source of wealth is their house, right? So, you buy a house and that's really what your wealth is. But you can also think about it as things like your assets or your savings accounts. And then what you take away from that amount: your debt. How much you owe on your house, how much you might owe on credit card, bills, or education loans and things like that. So, wealth is really your assets minus your debts, and what we wanted to know was, "What does this look like for families with kids versus the elderly, or those people who are over the age of 65?"

JK: And why those groups?

CGD: So those are the two groups that in American society are considered to be the most vulnerable. Those are groups that aren't directly in the labor force.

JK: Right.

CGD: And traditionally, a lot of our social safety net and our public policies have been directed at protecting those two groups. There's a well-known demographer who called those groups "America's dependents." So, we were interested to see how these two groups of vulnerable individuals fared in terms of wealth inequality.

JK: Excellent. So, when you say "families with children", could that also be a single parent with children?

CGD: Right. So "families with children" just means that they have a child under the age of 18. It could be single moms, it could be married couples- we didn't include anyone over the age of 65 with a child less than 18, which isn't very many households anyway- but it's anybody who has a child less than 18 in their house.

JK: And if there are grandparents living with their kids?

CGD: We did not include- so, one of the reasons we wanted to exclude people over the age of 65 is that they actually experience a very different wealth context than people under the age of 65.

JK: Okay. So, to understand how wealth and wealth inequality have changed among families with children and elderly households, you look at a very large federal survey.

CGD: M-hm.

JK: What kind of information did you have in that survey that you could access?

CGD: So, a lot of people might have heard of the Federal Reserve, we often hear about "minutes" from the Federal Reserve and this is the survey data, that's collected by the Federal Reserve. And what they basically do is they go and ask a sample of households about their wealth and about their income, so it's a really detailed economic portrait of how people are doing. The advantage of this survey is that it over-samples wealthy people, so a lot of other sources have a hard time getting wealthy people to participate, but in this particular survey, we actually have more wealthy people and therefore -- the advantage of that is we then know the full distribution of wealth over the population.

JK: And what were you looking for when you started doing this?

CGD: Well, this project originally started to look at how wealth varied among families with children, but early on we discovered this discrepancy with elderly families and we decided to investigate this a little bit more, and then once we started looking into it we realized nobody knew how these two very important groups of people compared on the relative levels of wealth.

JK: So, I had said earlier that you found something surprising, so tell us a little bit about what you found.

CGD: Right. So, one would expect that elderly people would have higher levels of wealth than families with children. They're generally older, they've had more time to save, they have maybe paid off their house, so one would expect that elderly people as a group would have more wealth than families with children. Well what we found that was surprising was that this gap between elderly families and families with children has really grown over the past 25 years in a way that you wouldn't expect if the differences were just because of differences in age or other demographics. So, what's happened in the past 25 years is that the wealth position of the elderly, or their levels of wealth, has gone much, much higher whereas the levels for families with children has gotten much, much lower.

JK: So it kind of feeds into the overall picture that we hear about economic distributions in society in general haven't- you know, inequalities have been exacerbated.

CGD: Right. So, if you look at as a country the trends of wealth and inequality are actually much- the growth in wealth inequality has been faster than the growth of income inequality.

JK: Yeah.

CGD: And so that's exactly what we found in our study as well. And our study also mirrors this common narrative of the very rich getting richer, we also found that the very wealthy are in fact getting even wealthier, but what was surprising to us is how bad the least wealthy families with children are doing. They have really seen what little wealth they had completely dissipate over the past 25 years, and in fact, one third of families with children have no wealth at all, just debt. So, their debt is greater than their assets.

JK: So why are they doing so poorly? Is it student debt? Or what is it?

CGD: So, it's probably a combination of factors, part of it is the rise in educational loan debt, probably for the parents themselves not necessarily because parents are taking out loans for their kids but a lot of these parents are still paying off their own educational loans. As I mentioned before, for most people the primary source of their wealth is their house, and then when the housing crash happened in the late 2000s that really decimated a lot of people's wealth portfolios-

JK: Right.

CGD: A lot of these folks went underwater on their mortgages. And then we're also in an economy that isn't very stable, and a lot of these folks may be working irregular schedules or aren't very firmly attached to the labor market, now that's a measure of their income, but income also directly feeds into wealth because the less income you have the less you are able to buy those things or accumulate wealth-related assets.

JK: So when you looked over the last 20 years, was it a gradual increase in this gap or did you see a clean break after the recession?

CGD: So, the least wealthy households with children have been doing poorly pretty much throughout the period. It got worse during the "Great Recession," but their downward spiral actually happened prior to the Great Recession. So this is not just a story of the Great Recession upsetting things-

JK: Right.

CGD: This is something that was happening prior to the Great Recession.

JK: So this "something" that was happening, how much of this can be attributed to a set of public policies?

CGS: Right. So, our analysis don't look at why this was happening and so we're not able to say, "This much happened because of this certain public policy"-

JK: Sure.

CGD: But there's no doubt that the kinds of things that have gone on for the past 25 years, particular people's rising level of education debt and the decrease in things like Pell Grants have definitely contributed, as well as the more discriminatory housing practices, which tend to disproportionately affect minority families and families with kids, where housing choices are a really big deal. So there's no doubt the policies have played a really important role in this rising gap.

JK: Do you have any thoughts about how the more recent tax reforms will play into this gap?

CGD: Right. So the most recent tax reform was primarily aimed at income, so we would expect changes in income, but there's no doubt that it'll also impact people's wealth levels.

JK: For inheritance?

CGD: For inheritance. From what little I understand of the tax bill there's nothing in there that will rectify the current trajectories of households with families versus the elderly. And I would only expect that these differences to get larger over time.

JK: And is there any reason that the elderly have in particular fared better?

CGD: Yes, there actually are, and there we can point to some very specific policies as to why the elderly are doing better over time. First of all, the primary source of income for the elderly is social security, and social security always goes up year after year because it's adjusted for inflation.

JK: Right.

CGD: So the elderly are shielded from the workforce in ways that households with children are not. The other thing is that many of the elderly had already paid off their house by the time the Great Recession arrived, so their wealth didn't take the same kind of hit that families with children did. And then the final thing is that the elderly weren't paying off education loans- they got their education at a time when education costs were much lower and we had a different loan structure in place. So, for those three reasons, the elderly have seen their wealth levels increase, and so in some ways our stories a hopeful one. The least wealthy elderly families are actually doing pretty well, and are doing better than they were, so at least for that group of America's dependents we've been able to see an increase in their wealth, it's just unfortunate the same cannot be said for families with children and their levels of wealth.

JK: So, at the end of the day people get paychecks...

CGD: Sure.

JK: ...they pay their bills. Why should we care so much about their, as we say, "abstract" level of wealth that's sitting in fixed assets that they're not using on a daily basis?

CGD: Yeah, so in a country like the United States it actually matters a great deal. The chief examples in terms of getting higher education. Turns out the wealth is probably a more important determinant than income in your child attending and completing college. And that makes sense, right? Because it's such an expensive thing to purchase that most people are drawing on their wealth to pay for college rather than just their income. So there's no doubt that parental wealth matters for how much human capital or how much education your kid gets. There's also things that suggest that it matters a lot for where your child lives and in terms of the house that you purchase and the quality of the neighborhood that you live in and where your school is and who your social networks are and there's even some evidence that suggests that even wealthier people are more likely to get married. And all of these effects are independent of income, so one of the things we wanted to do in this project was call attention to the difference between wealth and income because income inequality gets a lot of attention but wealth inequality doesn't get nearly the press that income inequality does.

JK: Right, but income inequality is related to wealth in that you can build wealth.

CGD: Absolutely, but if you look at the trends in wealth and income inequality, they certainly follow one another but they're definitely not reducible to one another.

JK: Are there any kind of policy changes that would be particularly helpful in addressing this gap?

CGD: So, one thing would be to look at, for example, for education loans we can look at Pell Grants, we can look at increasing the size of Pell Grants. We can also look at the kinds of housing practices that lead people to be underwater on their mortgages and to think about how discriminatory housing practices may lead to some people having negative assets over time. Then there are other things we could do in terms of thinking about making college more affordable and really encouraging access for a wider group of people and not making it such short of a very expensive expenditure.

JK: Mostly, sort of, different kinds of redistributive policies.

CGD: Right. So, one of the things that distinguishes the United States from other Western countries, which also have similar levels of wealth inequality, is that we don't redistribute as much in our after-tax system. So, our pre-tax levels of inequality are actually comparable to other Westernized democracies, but our after-tax levels of inequality remain much higher because we simply don't redistribute wealth and income to the same extent.

JK: Are there extensions you're thinking of doing with this study now?

CGD: Yeah, so we're actually looking now among racial differences among families with children and they are scarily large. Black and Hispanic families have three to six cents on the dollar for every dollar of wealth that white families have, and they're also looking at variation by family structure. So, how do kids growing up with an unmarried family, how do their levels of wealth compare with married families? Then ultimately we want to look at how this then impacts these critical young adult formation decisions. So, how does it affect college attendance? How does it affect non-marital fertility? And so, what can we say about the role of wealth in promoting this successful transition to adulthood?

JK: Excellent. Well, lots for us to think about as a society and as scholars, so thank you for sharing your thoughts with us today. Christina Gibson Davis is an Associate Professor of Public Policy and Sociology and directs the Undergraduate Studies here at Sanford. And we're gonna have a link on our webpage to an op-ed that she wrote called "Why the Wealth Gap Hits Families the Hardest." It was published in the New York Times and has some pretty stunning graphic comparisons. That'll be at our website, at Policy360.org. We'll be back in two weeks with another episode of Policy 360. Until then, I'm Judith Kelley.