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Why the wealth gap hits families the hardest [1]

The writers study demographic changes in families and social inequality.
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EXCERPTS

What does economic inequality really look like?

Income alone doesn't give a complete picture. Income inequality describes the gap between a six-figure salary and minimum wage. But the more alarming gap occurs in wealth — a household's total assets minus debts. To understand how inequality is playing out in the United States, we need to look more closely at the wealth gap.

In a recent paper [3], we examined wealth among families with children and among the elderly. We focused on children and the elderly because they are considered the most vulnerable in our society and because so much social policy is geared to help them. According to our research, wealth inequality is much worse among families with children, and the gap has widened greatly over the past two decades, with consequences that may cascade through generations.

The extreme wealth inequality we have identified is a result of years of policies that have eroded both public spending and private income for families with children.

The demographer Samuel Preston warned in 1984 that the United States had made "a set of private and public choices that have dramatically altered the age profile of well-being," by devoting resources toward improving conditions for the elderly while neglecting to do the same for families with children. "The constituency for children in public decisions simply appears too feeble to fight back," he wrote.

We are seeing the consequences of these policies now, and they will follow today's children throughout their lives.

Unlike income, which can change quickly because of a booming economy or a rise in the minimum wage, changes in wealth usually happen slowly. The recently passed tax law, for example, may increase your take-home pay, but it's unlikely to increase the value of your house.

Wealth also matters because it has profound long-term effects. Parental wealth, in addition to parental income, plays an important role in college attendance and graduation. Bachelor's degree holders earn 56 percent more than high school graduates, the largest gap on record. So a parent's ability to, say, pay for college tuition may be crucial to enabling children to become economically self-sufficient.

Parental wealth is also a critical determinant of where children live and the quality of the schools they attend. It can affect the kind of job they have, if and when they marry, and whether they own their homes.

To understand how wealth and wealth inequality have changed among families with children and elderly households, we examined data from the Federal Reserve's Survey of Consumer Finances, a large survey conducted approximately every three years that catalogs the total assets and debt of American households.

[Graph available to view online, "Wealth inequality worsens for families with children: The net worth of most households with children declined from 1989 to 2013, except for those at the top. Among the elderly, the richest gained wealth, but so did everyone else" (Gibson-Davis & Percheski, 2018).]

The data we used comes from several thousand representative households in each of the nine survey years between 1989 and 2013. We examined the wealth of households headed by someone age 65 or older, and families headed by someone under age 65 and with children under age 18.

Our research shows that in terms of wealth, those over 65 have weathered the past quarter-century much better than families with children, despite two major recessions. The net worth of older people's households increased by 45 percent from 1989 to 2013. And for the past 25 years, the distance between the rich elderly and the poor elderly remained stable. The very wealthiest elderly households grew richer, but so did those of working-class and middle-class older people.

Families with children fared worse as a group. Overall, their wealth declined by 56 percent in the same period. More important, they also faced a wide and growing divide: Wealth inequality for these households grew significantly from 1989 to 2013. The top 1 percent saw their wealth increase by 156 percent, while parents in the bottom half saw their wealth shrink by 260 percent. About a third of all families

with children in 2013 had no wealth, only debt.

In 2013, the top 1 percent of these families had a median wealth of $5.1 million, thanks to skyrocketing incomes, increasing home values and strong returns on stocks and investments. They have millions in savings and generous trust funds for their children.

Families on the bottom rungs live very differently. They may not even own a home, and if they face an unexpected expense, like a medical emergency, they don't have a cushion of savings or other assets to draw on. And when their children start college, some of these parents may still be paying off their own student loans.

Why are so many parents with children faring so poorly? In part, it's a result of long-term changes in employment. Over the period we studied, employment became more unstable, as companies replaced full-time jobs with part-time work and short-term contracts. These employment changes affected families with children more than the elderly, who are mostly retired. That means not only less income but also less money to save or invest in homes or other wealth-producing assets.

The other problem for families with children is debt: not credit card or car loan debt, which hasn't changed much since the late 1980s, but student loan and mortgage debt.

[Line graph available to view online, "Negative net worth: Since the Great Recession, there has been a sharp increase in the percentage of families with children who have zero or negative wealth" (Gibson-Davis & Percheski, 2018).]

Education debt has been rising throughout the period in our study, in part because federal Pell Grants failed to keep up with rising tuition costs. Pell Grants now cover only 29 percent of the cost of a four-year degree at a public college, the lowest percentage on record. Even earning a two-year degree at a community college usually means taking on debt.

In the mid-2000s, housing debt also started to rise, especially as subprime lenders opened the housing market to more first-time buyers. After the collapse of the housing market, home prices were down one-third from their pre-recession peak. For many families, that wiped out the value of their main asset.

Why did older households fare better? First, older Americans' incomes were largely stable. Their primary source of income, Social Security, is indexed to inflation. With stable income, fewer older people dipped into savings to pay their bills, and they had more money to invest. Second, most of them bought their homes before the housing bubble, and third, they graduated from college before the era of high student loan debt. Thanks to these three factors, the median net worth of poor and middle-class older people rose by 70 percent from 1989 to 2013.

There are a few policy changes that may help. Increasing the purchasing power of Pell Grants and then indexing it to rising tuition costs would be a start. The government could also expand tax credits that benefit families, and compensate families who were victims of predatory lending practices.

But the magnitude of the problem is so great that these measures are not enough. The United States needs a fundamental rethinking of public policy priorities to improve the lives of the next generation of children.
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