Restoring Household Financial Stability after the Great Recession: Why Household Balance Sheets Matter

Selected articles from a symposium sponsored by the Federal Reserve Bank of St. Louis and Washington University in St. Louis, February 5-7, 2013

The Current State of U.S. Household Balance Sheets
Jacob Krimmel, Kevin B. Moore, John Sabelhaus, and Paul Smith

Economic Vulnerability and Financial Fragility
William R. Emmons and Bryan J. Noeth

The Effects of Health and Wealth Shocks on Retirement Decisions
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Is Student Debt Jeopardizing the Short-Term Financial Health of U.S. Households?
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n its most recent Financial Accounts of the United States, the Federal Reserve reported that the typical household has more than recovered the wealth it lost during the Great Recession; and that same report states that household deleveraging has ended. So, we can finally look past the recovery, correct?

Unfortunately, not yet. Yes, we have made steady progress over the past several quarters on both fronts. However, adjusting for inflation (about 1.7 percent per year) and population growth (nearly 4 million new households) since the peak in 2007, the typical household has recovered only three-quarters of the wealth lost in the recession, and total household debt levels and debt-to-income ratios remain high.

Moreover, about 84 percent of the wealth recovered since the economy bottomed out in 2009 has been through higher values of stocks and other financial assets, which overwhelmingly benefit the wealthiest 10 percent of Americans. Meanwhile, housing—where the wealth of the vast majority of families is concentrated—is still recovering. Despite recent progress, housing wealth has contributed only 11 percent to the recovery.

Clearly, American families have some way to go before they—and, thus, the broader economy—fully recover. Yet the role of family balance sheets—as distinct from income and jobs—in that recovery has not been, in our view, adequately examined. Accordingly, we chose this theme for our inaugural research symposium, held February 7-9, 2013, at the Federal Reserve Bank of St. Louis. We were pleased to organize this event in partnership with the St. Louis Fed’s Research Department and the Center for Social Development at Washington University in St. Louis.

While several original papers from leading economists and academics nationwide were presented at the symposium, space and other factors allow the publication of only five in this special issue of *Review*. A complete list of the papers and presentations is available at the Center for Household Financial Stability website (<http://www.stlouisfed.org/household-financial-stability/events/20130205/agenda.cfm>). A wide range of forward-looking balance-sheet topics were explored, including the impact of student loans on overall balance-sheet health; how savings...
are allocated before and after job losses; the role of financial innovation in driving booms and busts in U.S. consumption; the sustainability of household wealth after exiting from poverty; the forces driving deleveraging; and several others.

The symposium was sponsored by the St. Louis Fed’s Center for Household Financial Stability, which was announced by Bank President James Bullard at the symposium and formally launched in May 2013. The Center aims to address three questions: What is the state of American family balance sheets? Why do they matter for strengthening families and the economy? And what can researchers, policymakers, and others do to improve them? More information on the Center may be found at http://www.stlouisfed.org/hfs. This site includes a subscription link to our periodic newsletter highlighting new research, upcoming events, and coverage of the Center by major media.

Finally, we encourage readers to participate in our second annual symposium, scheduled for May 8-9, 2014, in St. Louis. The balance sheets of younger Americans (younger than 40 years of age)—and how their balance sheets matter for realizing the American Dream and growing the economy—will be the focus of the next symposium. As with the first symposium, the presented papers will be a mix of commissioned papers and those from a competitive call for papers (with abstracts due by December 4, 2013). For more information about the symposium (which is open to the general public) and to respond to the call for papers, see http://www.stlouisfed.org/household-financial-stability/events/?id=507.

We hope you find these papers thought-provoking and that we have piqued your interest in our new Center’s focus on family balance sheets.