Discussion:

Wealth, Race, and Consumption Smoothing of Typical Income Shocks

Ganong Jones Noel Farrell Greig Wheat

Consumption, Credit, and the Missing Young

Cooper Gorbachev Luengo-Prado

FDIC Consumer Research Symposium
October 2020

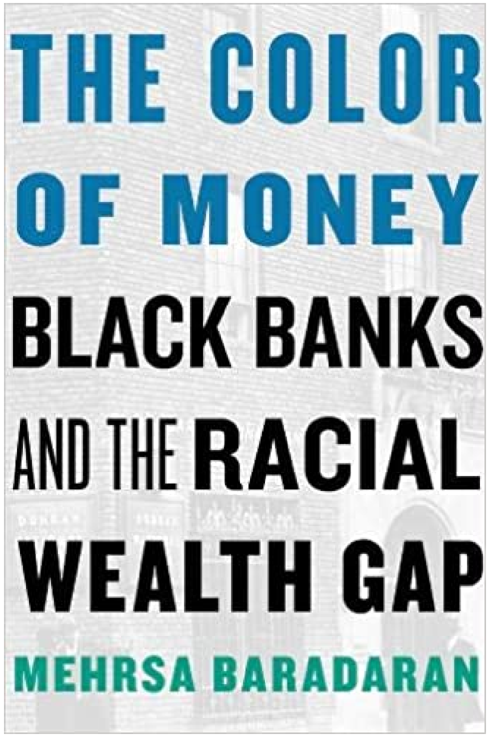
Discussant: Jialan Wang, University of Illinois at Urbana-Champaign

Wealth, Race, and Consumption Smoothing of Typical Income Shocks

Peter Ganong, Damon Jones, Pascal Noel, Diana Farrell,
Fiona Greig, Chris Wheat

The Racial Wealth Gap is Ginormous and Deeply Alarming

When the Emancipation Proclamation was signed in 1863, the black community owned a total of 0.5 percent of the total wealth in the United States . . . 150 years later, that number has barely budged—blacks still own only about 1 percent of the wealth in the United States. (p. 9)



Economics + Consumer Finance Are Heavily Affected by Racial Inequality

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Black Economists Recall 50 Years of Struggle

- "I don't need to tell anyone in this room that far more needs to be done."

By Peter Coy

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Trevon Logan, who's black, was called "boy" while seeking his first job as an economist. Economics professor Cecilia Conrad, also black, had three of her white male students complain about being taught by an "obvious affirmative-action hire." Black people are less represented in economics than in STEM fields–science, technology, engineering, and mathematics. And their share has trended down since the mid-1990s.

That economics has a problem with race isn't even

Peter Coy
Bloomberg Businessweek Writer
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Peter Coy is the economics editor for Bloomberg Businessweek and covers a wide range of economic issues. He also holds the position of senior writer. Coy joined the magazine in December 1989 as telecommunications editor, then became technology editor in

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MEMBER ANNOUNCEMENT JUNE 5, 2020

Statement from the AEA Executive Committee

We recognize that we have only begun to understand racism and its impact on our profession and our discipline. We have learned that our professional climate is a hostile one for Black economists. As documented in our 2019 survey, only 3% of the profession identifies as Black (compared with 13% of the U.S. population) and almost half (47%) of Black respondents reported experiences of discrimination in economics. Only 45% of all survey respondents (regardless of race) believed that economists who are not White are respected in the field.

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Is now a teachable moment for economists?

An open letter to economists from Bill Spriggs

The views expressed here do not reflect those of the Federal Reserve Bank of Minneapolis or the Board of Governors of the Federal Reserve System.

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Economics + Consumer Finance Are Heavily Affected by Racial Inequality

Economics, Dominated by White Men, Is Roiled by Black Lives Matter

The editor of a top academic journal is facing calls to resign after criticizing protesters as "flat earthers" for wanting to defund the police.

Lisa Cook of Michigan State University, one of the economics profession's few prominent black women, says black and Latino students wonder whether they will be welcome in the field. Brittany Greeson for The New York Times

By Ben Casselman and Jim Tankersley

June 10, 2020

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THE INDICATOR FROM PLANET MONEY

Story Of A Paper

June 11, 2020 · 7:43 PM ET

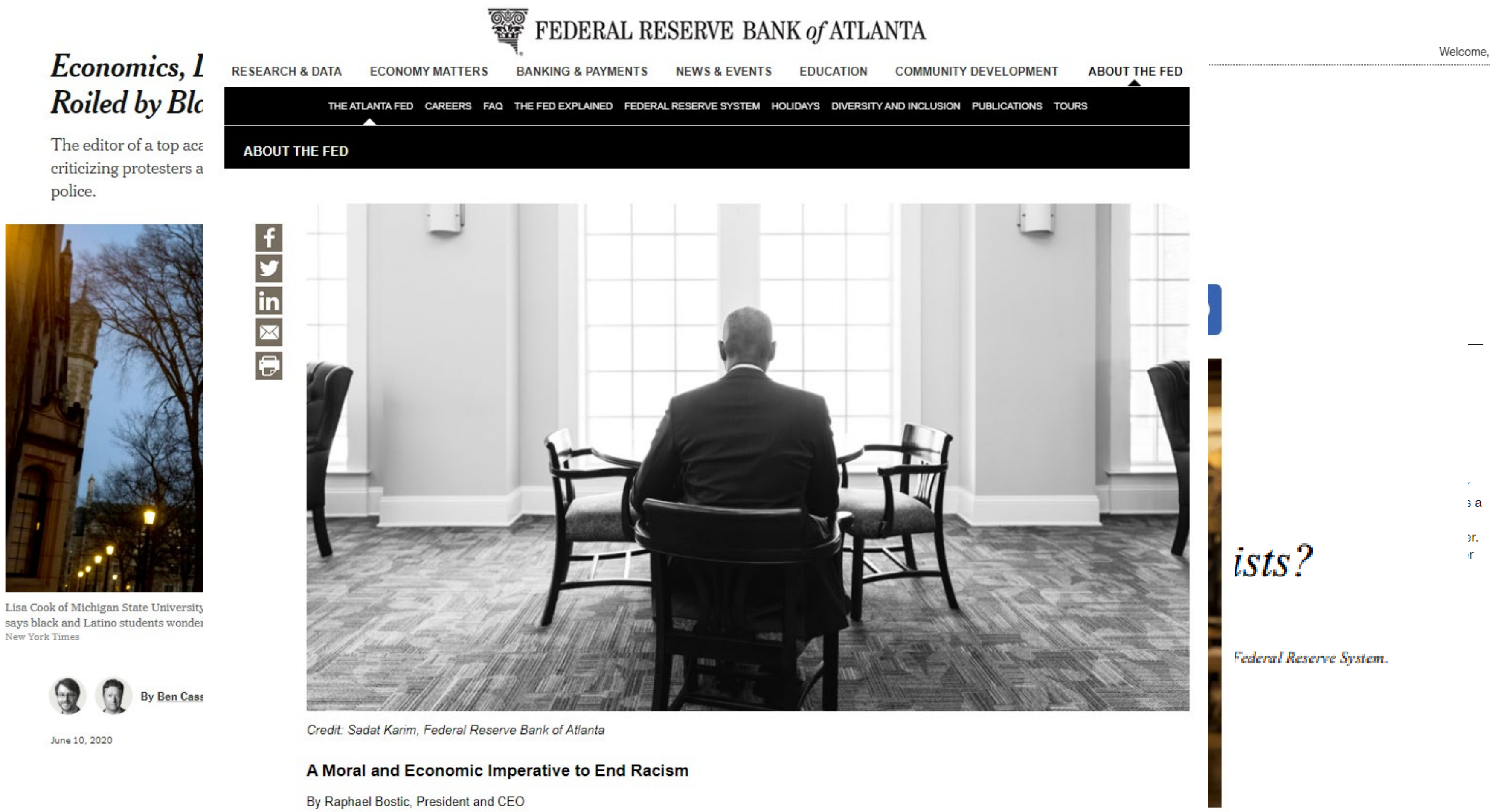
CARDIFF GARCIA · STACEY VANEK SMITH

9-Minute Listen

+ PLAYLIST

Paul Morris/Bloomberg via Getty Images

Economics + Consumer Finance Are Heavily Affected by Racial Inequality



This Paper: Inequality in Liquid Wealth → Inequality in Consumption Volatility

Key findings

- White consumption sensitivity is 0.20. Black sensitivity is 50% greater. Hispanic is 20% greater.
- These racial gaps can be completely explained by racial liquid wealth gaps

Clarification

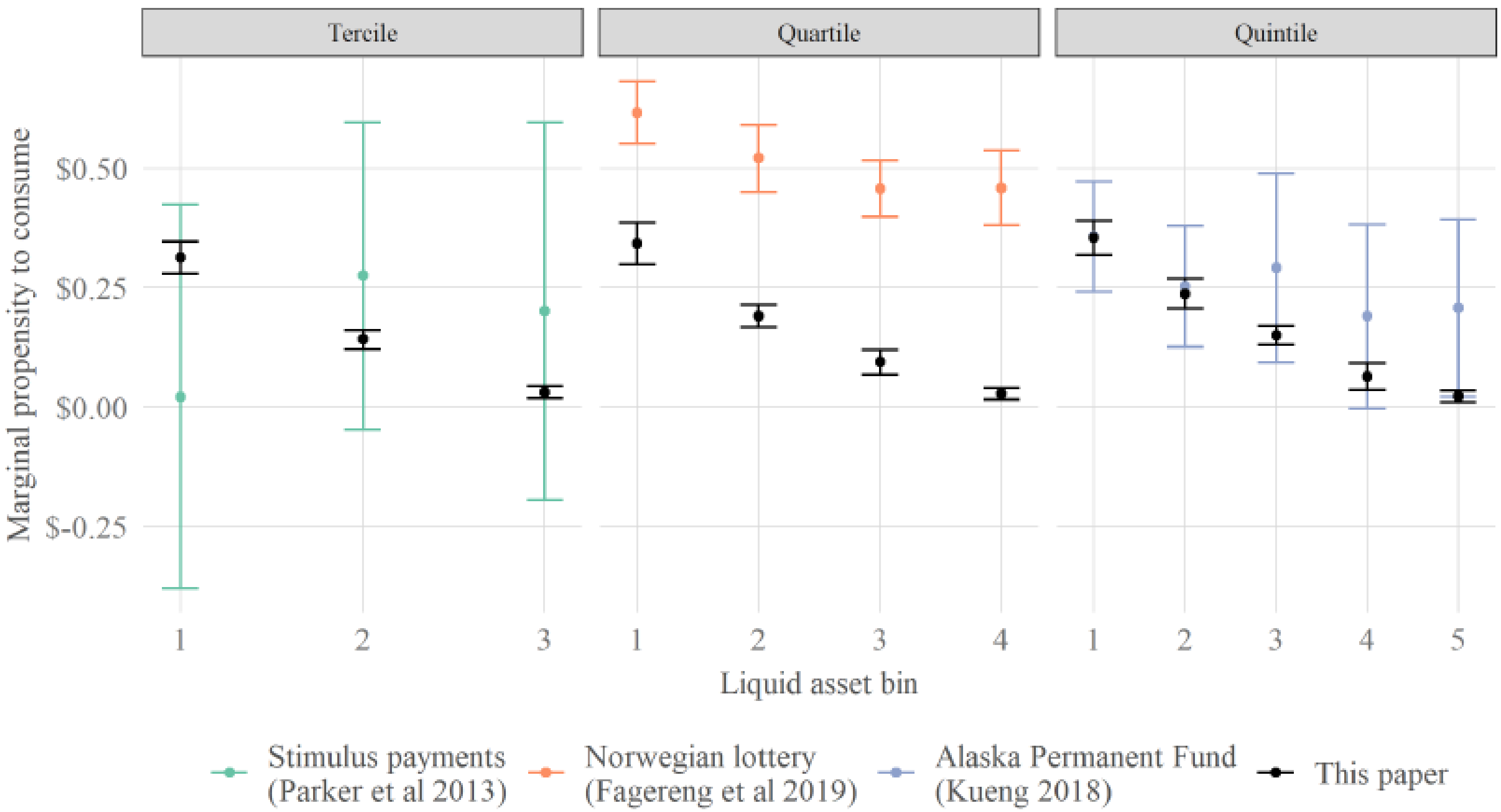
- "Typical" shocks → bonuses & commissions, seasonality, hours variation

Innovations

- Interpretation of structural inequality
- Use of voter registration data to measure race

Huge Advance!: Precise Heterogeneity in Consumption Sensitivity

Figure 6: Marginal Propensity to Consume by Asset Buffer



Fundamental Questions & Next Steps

- Why don't households have a buffer stock?
    - In some sense, these "typical" shocks are predictable. Yet households don't save in anticipation.
    - We don't fully understand why so many households lack a buffer stock (and pay for high-interest debt)
    - Need to get beyond our comfort zone? Heuristics, default effects, susceptibility to advertising
    - What policies + technologies can increase liquid wealth holdings?

- How do we move beyond legal + regulatory barriers to documenting and correcting racial disparities?
    - Financial institutions in general are not allowed to collect data on race, so we cannot study disparities without difficult merging procedures. How do we overcome this as researchers?
    - Limitations of standard fair lending analyses and disparate impact doctrine

Specific Questions

- What other costs + disparities are there due to low buffer + income volatility?
  - Higher overdraft fees, account closures, borrowing costs, lower credit scores
  - What categories of spending respond
  - How does the explanatory of liquid wealth holdings compare to other characteristics (e.g. income level, age, gender)
  - Is there an asymmetry between positive and negative shocks? Bonuses vs. changes in hours?
- Does daily variation induce significant welfare costs?
  - Authors innovate and show order of magnitude difference by moving from annual to monthly
  - Significant literature shows daily variation also generates consumption volatility (Stephens 2003, Olafsson & Pagel 2016; Baugh & Wang 2018). Does this matter?
- Implications for firm policies
  - Possible increase in firm-level pay variation with gig economy and sophisticated schedule management.
  - What is the distribution of firm-level income volatility by sector, and how do the welfare costs for workers vary?

Consumption, Credit, and the Missing Young

Daniel Cooper, Olga Gorbachev, Maria Jose Luengo-Prado

The CARD Act Was Intended to Reduce Credit to Young People

Provisions affecting consumers under 21, effective 2/2010:

- No marketing of pre-approved offers without consent
- Must consider individual ability to repay OR cosigner over 21 with ability to repay
- Limited marketing on or near campus and use of gifts

Public Law 111–24
111th Congress

An Act

May 22, 2009
[H.R. 627]

To amend the Truth in Lending Act to establish fair and transparent practices relating to the extension of credit under an open end consumer credit plan, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Credit Card Accountability Responsibility and Disclosure Act of 2009.
15 USC 1601 note.

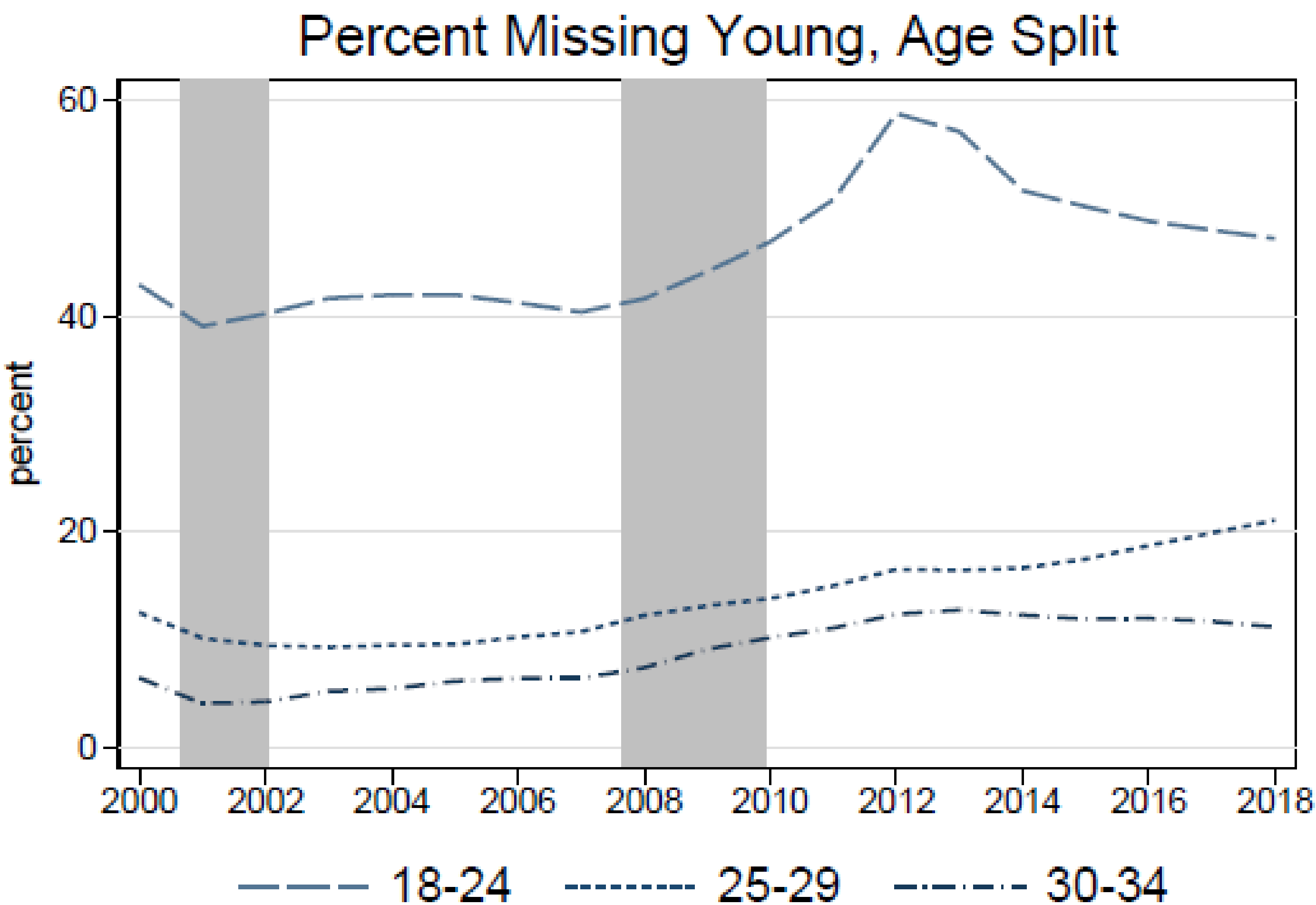
SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Credit Card Accountability Responsibility and Disclosure Act of 2009" or the "Credit CARD Act of 2009".

(b) TABLE OF CONTENTS.—

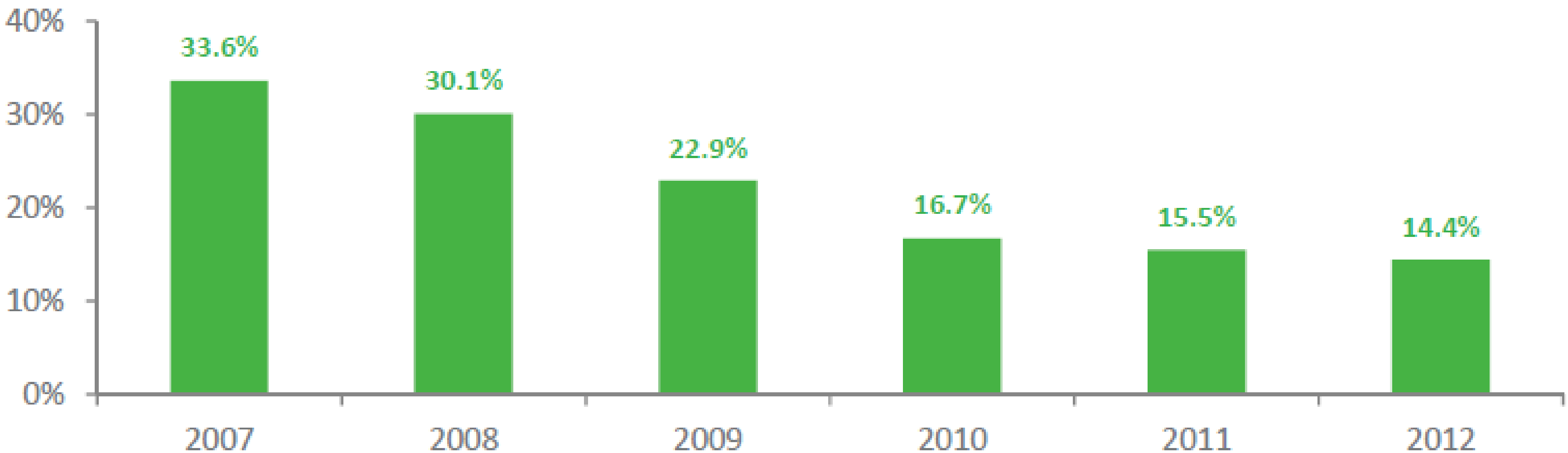
The table of contents for this Act is as follows:

Decline in Youth Credit Predated CARD Act



Decline in Youth Credit Cards Predated CARD Act

FIGURE 19: % OF CONSUMERS AGES 18–20 WHO HAVE OPENED A CREDIT CARD ACCOUNT



Source: CFPB Consumer Credit Panel

This Paper Relates "Missing Young" to State Consumption Growth

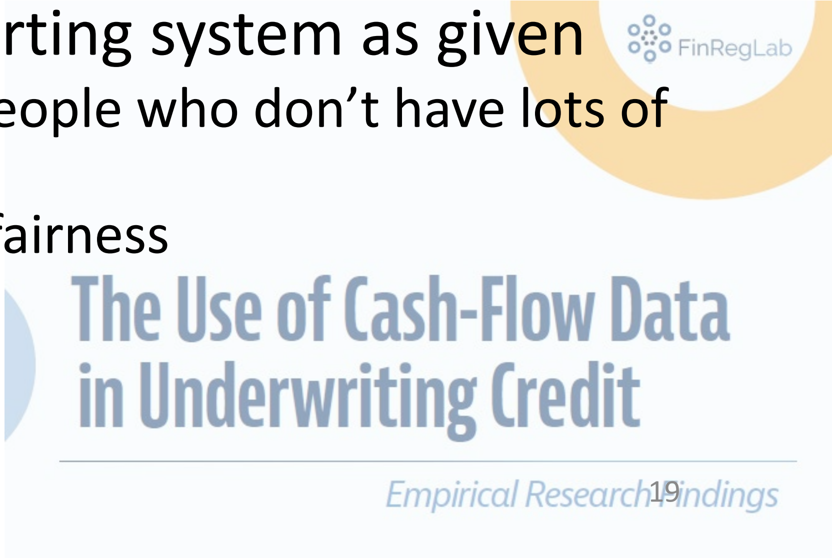
- "Missing young" are defined as the fraction of population with credit scores to the population of the same age in the U.S. Census.

$$\text{Percent MY}_{it}^{a} = \left(1 - \frac{N_{it}^{\text{ccp},a}}{N_{it}^{\text{census},a}}\right) \times 100$$

- States with more "missing young" have slower consumption growth between 2000-2018

Fundamental Conflicts in Credit Regulation and Reporting

- Curtailing excessive credit vs. (appearance of) preventing access to credit for those who need it
  - Regulation has a hard time with models of self-control problems, when consumers make informed but inconsistent choices against their own self-interest
  - Sometimes credit is bad! Researchers can help clarify the issues.
- This paper takes the credit reporting system as given
  - Standard credit scores penalize people who don't have lots of credit
  - Conflict between prediction and fairness



Effects of the CARD Act on Young People → Important Topic!

- What was the evidence of excessive credit for young people before the CARD Act?
  - Were specific campuses or issuers particularly bad?
  - What were the negative effects, if any, of early credit for young people prior to the ACT?
  - What is the role of marketing on consumer demand?
- By combining potential benefits and possible unintended consequences, what's a more holistic view of the effects of curtailing credit cards to young people?
  - What are the long-term consequences for mortgage debt, credit scores, etc?
  - What was the overall welfare effect?
- Not sure that looking at aggregate consumption is the topic I would focus on
  - Highly correlated with poverty rate, unemployment, and consumer confidence
  - State-level data is too coarse, prevents you from using much more detailed data from CCP to examine other effects of the CARD Act on young people

Advice to the Authors

- Paper currently doing two things: effects of CARD Act on young people, and missing young on consumption growth
  - I personally like the first one better
- State level is way too broad, use geographic variation
  - Match to census tract or zipcode to get demographic variation
- Use more precise measures of treatment
  - Use sharper age cutoffs of individuals affected vs. unaffected by the CARD Act → regression discontinuity design.
  - Can proxy for when people are attending college
  - Can get even more precise with tradeline data
- More discussion of the mechanism
  - Young people can still use debit cards, Venmo, etc. to spend
  - % of missing young declined in the last 8 years → recovery clearly not due to CARD Act. Are you just capturing variation in the business cycle?
  - 19% of total spending is by 18-34yo, so 1% change in MY should yield AT MOST 0.2% change in consumption assuming it goes to zero for those without credit scores