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Families' Circumstances after the Great Recession

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ABSTRACT

New data from the Michigan Recession and Recovery Study provide a careful look at families' financial circumstances. These data reveal that, in addition to having low levels of savings, many families are struggling to pay their debts--from credit card debt to simpler obligations tied to basic needs, like utility bills, medical bills, and overdue rent. Wade (2011) has suggested that a mountain of household debt is weighing down the US economy. Our data shed light on this assertion. They also suggest a secondary reason that many US citizens are stressed and frustrated at the way that the US economy is operating, to add to the observations about wealth and income inequality that scholars writing about the Occupy Wall Street movement have focused on. What is most interesting about our findings is that it is unclear that conditions will improve in the near future. As the US social safety net splinters, given some states' efforts to reduce the number of weeks that individuals may receive unemployment insurance and the uncertainty about whether (and for how long) the federal government will renew its own commitment to assisting the unemployed, one wonders if families are likely to find themselves under further strain in the future.

INTRODUCTION

In the *Theory of Economic Development*, Joseph Schumpeter called bankers, "ephors of the exchange economy." This relatively benign view of bankers has never been shared by all. There have been many historical moments in which bankers have been viewed with suspicion or outright contempt. The United States appears to be in one of those moments. In September 2011, protesters gathered in New York City's financial district and the Occupy Wall Street movement spread to many other cities.

The inequalities in income and wealth that the Occupy Wall Street protestors have decried are real. Mishel and Bivens (2011) document that most of the gains in income that the United States has experienced since the 1980s have gone to the highest income earners. The top 1% of households experienced income growth of 224% between 1979 and 2007; in contrast, the bottom 90 percent only saw about a 5% increase. Similarly, the share of the nation's wealth that the top 1% of families holds grew from just under 40% in 1979 to almost 60% in 2007. During the same period, people who were not in the top 1% saw their share of the nation's total wealth drop. The typical US household had 13% less wealth in 2009 than it did in the early 1980s.

These growing inequalities help to explain the frustration that many Americans are expressing and their disdain for the financial sector which has expanded substantially while paying huge bonuses to its top executives. Such bonuses – for individuals running companies in a sector that has received billions in taxpayer funds – have struck many as unfair, as noted in numerous stories in the press and the blogosphere (Taleb 2011; Currie, Doyle and Pethokoukis 2011; and Cohan, 2011 for example).

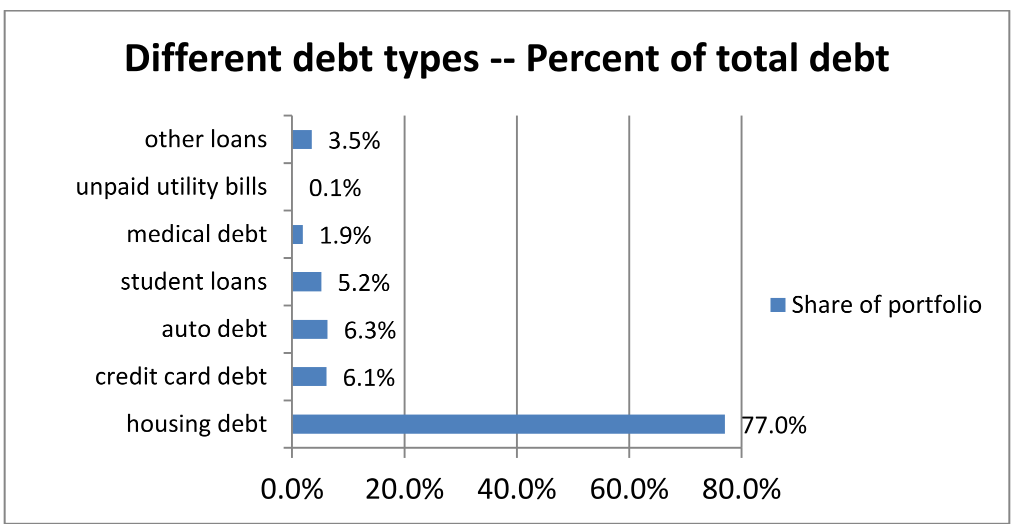
Dissatisfaction with how our economy operates is also fueled by the sluggish recovery from the Great Recession, with the unemployment rate seemingly stuck at around 9% for the last several years (BLS 2011b). Moreover almost 40% of unemployed workers have been unemployed for at least 6 months (BLS 2011b).

In what follows, we suggest that many Americans also are stressed because they are low on reserves and many have substantial debts. We describe findings from a recent survey covering the assets and debts of a stratified, random sample of 914 adults between the ages of 19 and 64 who resided in the Detroit Metropolitan Area and were interviewed between October 2009 and March 2010 in the first wave of the Michigan Recession and Recovery Study (MRRS), a new panel study designed to examine how families and workers have been affected by the Great Recession. These in-person interviews lasted about 60 minutes and covered a wide range of topics. The response rate was 82.8 percent. Although the survey is limited in its geographic scope, it highlights circumstances that have affected many Americans. Michigan is not the only state to have been hit severely by the most recent recession. Several states have unemployment rates that are well above the national average, as Michigan does.[1] The experiences of Michigan families are therefore likely to be instructive. Moreover, our data allow for a more nuanced interpretation of what it means to have little wealth in a slow recovery than other studies of families' situations are able to provide.

A MOUNTAIN OF HOUSEHOLD DEBT?

Wade (2011) warns that the United States' recovery may be slowed because of "the household debt mountain now weighing on the economy," (Wade 2011, p. 8). In the MRRS, respondents report that they have a variety of debts (Figure 1). Much of the total respondent debt, 77.0%, is housing-related, such as mortgages and home equity loans. Credit card debt, student loans and vehicle loans each represent 5 to 6% of respondents' liabilities. Total debt for all respondents averages $95,428, about half the value of their total assets.

Figure 1. Share of different debt types as a fraction of total debt, All Respondents

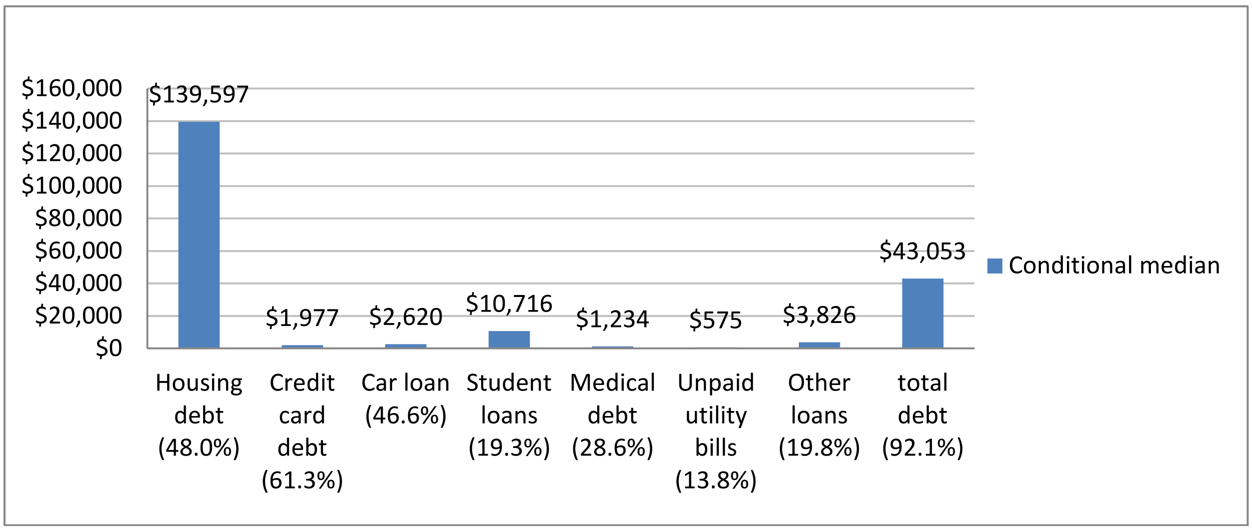


Source: Authors' analysis of MRRS data.

Turning to the proportion of households holding different types of debts reveals that 61.3% of households have outstanding credit card debt (Figure 2 below), and 19.3% have student loan debt, with a median of $10,716. About 28.6% of respondents have medical debt; with a median value of $1,234.

Debt-to-asset ratios can be used to assess the degree to which families' debts pose a heavy burden. About 31 percent of respondents have a debt-to-asset ratio greater than 1, indicating that the total value of their debts exceeds that of their assets. That is, they could not pay off all their debts even if they liquidated all of their assets, including their homes.

Figure 2. Median dollar values for different types of debt, among those holding the debt type (with proportion of households carrying the debt type in parentheses)



Notes: (1) Authors' analysis of data from the MRRS. (2) All proportions--including the percentage with housing debt and car loans--are reported as a percent of the entire population.

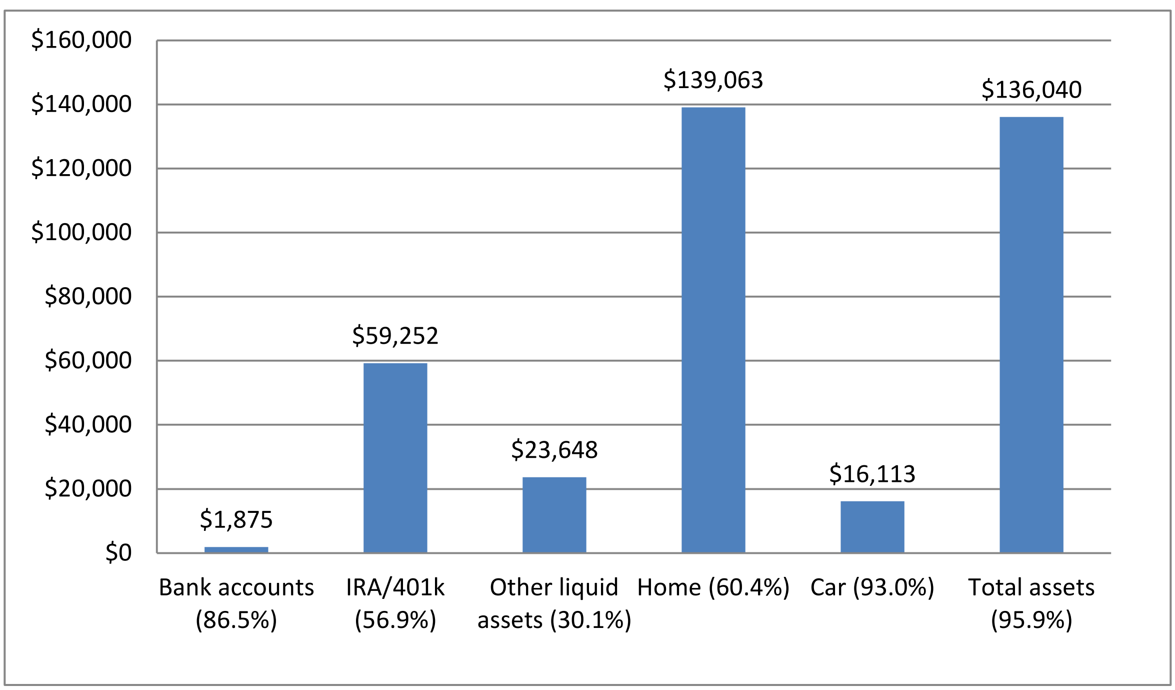
The MRRS also gathered data on the extent to which respondents have fallen behind on payments. About 14% have unpaid utility bills, with a median balance of $575 (Figure 2), and a range from $50 to $7,000 (not shown). Also, 26% of renters were late paying rent in the year prior to the interview, 13.1% of homeowners had fallen behind on their mortgage, and 14.6% of respondents were late paying their medical bills. Additionally, about 39 % of all respondents were behind on at least one bill in the year prior to the interview An inability to pay one's bills can be frustrating, and likely fuels concerns that the economy has failed some people by not providing a means for them to earn enough to cover their living costs.

LOW LEVELS OF RESERVES

What about assets that might serve as reserve funds to tide families over? The median, or "typical," household in the Detroit metropolitan area with a bank account had a balance of about $1,875 (Figure 3), much smaller than the $4,000 median balance reported for households nationally prior to the recession in the Federal Reserve's 2007 SCF, (Bucks, Kennickell, Mach and Moore 2009).[2] Using the Fed's pre-recession nationwide estimates as a benchmark suggests that the recession likely caused the typical Michigan account holder to drawn down liquid assets.[3]

Figure 3 also presents information about retirement accounts. The proportion of MRRS respondents with an IRA/401k is 56.9% (not shown), similar to the pre-recession SCF report of 53% for all U.S. households. The median balance held among the Detroit Area account-holders is $59,252, not a large amount of retirement savings.[4] In addition, 14.5% of account-holders reported having recently withdrawn funds from these accounts, suggesting that the Great Recession is likely to have long-run consequences--some respondents will have to delay their planned retirement age, and/or try to save more in the future and/or accept a lower standard of living during retirement.[5]

Figure 3. Median dollar values for different asset types, among those holding the asset (with percent holding the asset in parentheses)



Source: Authors' analysis of data from the MRRS.

FINANCIAL CIRCUMSTANCES OF THE UNEMPLOYED

The MRRS data allow us to separately examine the experiences of households whose members were unemployed during the most recent economic downturn. As noted by many scholars and policymakers, post-recession job growth has been very slow (Wade 2011; Sum and McLaughlin 2010; and Tarullo 2011). While the unemployment rate fell slightly from October to November 2011, from 9% to 8.6% (BLS 2011a), the Congressional Budget Office recently projected that the unemployment rate will not fall back to 5 percent until after 2015. Accordingly, the situation of the unemployed deserves special attention.

In what follows we describe the household balance sheets of households that have experienced long-term unemployment. Tables 1 and 2 categorize respondents according to their employment experiences between January 2007 and their survey month (October 2009 through March 2010). Respondents that experienced long spells of unemployment, defined as being unemployed for 6 months or more in total, and who lived in a household in which there was no other earner at the time of the interview who could offset their earnings losses, are characterized as being long-term unemployed.

The long-term unemployed had significantly less median wealth (net worth) than those who were steadily employed--$1,076, compared to $44,214 (data not shown). The long-term unemployed have emerged from the recession with a very small level of savings to cushion any future employment shocks. A rainy day fund of only ten hundred dollars is barely enough for a family of four to sustain itself for one month at a poverty level of consumption.[6] Examining savings held in bank accounts, the typical long-term unemployed respondent with a bank account has only $138 (Table 2, at end of paper). Financial assets are the easiest assets to liquidate in a time of need. The small size of families' account balances is likely to be contributing to the frustration that many Americans are expressing.

We also examined the debt holdings of the long-term unemployed. As shown in Table 2, among all respondents who were long-term unemployed, the median credit card debt was $100. However, it was $1,832 among those who carry a balance month-to-month.

Table 1. Debt held by labor force status

	Respondent worked full-time or part-time all weeks (2007-2009)	*Respondent was long-term unemployed (6 or more months) and no one else in the household held a job*
Credit card debt		
Median	$1,365	$100
	(581)	(217)
Median among those who owe positive amounts	$4,022	$1,832
	(442)	(669)
Past due utility bills		
Mean	$96	$283
	(27)	(73)
Median	$0	$0
Median among those who owe positive amounts	$476	$1,050
	(50)	(221)
Medical debt		
Mean	$543	$5,419
	(122)	(1,546)
Median	$0	$0
Mean among those who have medical debt	$2,359	$10,783
	(382)	(1,297)
Median among those who have medical debt	$801	$1,930
	(102)	(490)
Total debt		
Mean	$116,918	$47,069
	(11,825)	(8,058)
Median	$90,794	$10,008
	(22,311)	(2,254)

Notes: (1) Authors' analysis of data from the MRRS. (2) While the median is the preferred measure of indebtedness because the distribution of debt is skewed, we present data for means in certain instances. For some debt types the fraction of the US population holding the debt is less than fifty-percent, but it is still interesting to compare amounts held by employment status.

The long-term unemployed also have significant medical bills, with a mean of $5,419, an amount that is much higher than the averages for other groups. For example, the average medical debt held by those working steadily throughout 2007 - 2009 is $543. If one excludes respondents with zero medical debt, the median medical debt among long-term unemployed respondent is $1,930.

Table 1 also presents information about unemployed respondents' struggle to pay their bills on time. Just over 25% of all long-term unemployed respondents had utility bills that were past due (not shown). The typical long-term unemployed respondent with unpaid utility bills owed over $1,050. The long-term unemployed also have problems covering their monthly housing costs. About 35.9% have had trouble paying their rent on time, and 26.5% fell behind making a mortgage payment.

Table 2. Assets held by labor force status

	Respondent worked full-time or part-time all weeks (2007-2009)	***Respondent was long-term unemployed (6 or more months) and no one else in the household held a job***
Total assets		
Median	$161,436 (21,653)	$19,291 (8,403)
Conditional median	$168,474 (21,710)	$24,040 (8,581)
Bank account balances		
Median	$2,053 (458)	$47 (24)
Median among those who have a bank account	$2,999 (431)	$138 (9)
IRA/401k balances		
Median	$19,672 (12,749)	$0 (4,691)
Median among those who have an IRA/401k	$65,442 (15,767)	$19,743 (3,546)
Percent with negative or zero net worth	28.6%	48.2%

Source: Authors' analysis of data from the MRRS.

CONCLUDING REMARKS

The first wave of the MRRS data provides a glimpse of how residents in the Detroit Metropolitan area were faring several months after the official end of the Great Recession. Many were struggling financially, and many have little savings. Some respondents have fallen behind on their utility bills; many respondents have several different types of debt; and, only a little over one-half report that they have more savings than debts. It is unlikely that Michigan residents are alone in their struggles. Accordingly, these data shed light on possible reasons that American households are frustrated and angry about the way the economy is operating.

During the Great Depression the composer E.Y. Harburg penned a song about the frustration that the everyman who had built the railroads and fought the nation's wars felt at finding himself without even a dime in his pocket (Harburg 1932). Four score later, there are many Americans in similar financial circumstances.

ENDNOTES

[1] In fact, it is no surprise that California, Washington, Florida, Oregon, Illinois, Tennessee and North Carolina all have sites of Occupy Wall Street protests (*Mother Jones* 2011). Each has a higher than average unemployment rate. See Appendix Table 3.

[2] Because the means for distributions that are highly skewed are often much higher than the medians, researchers use the median to describe the situation of the typical household. The median is not sensitive to extreme values.

[3] This lower level of balances also may reflect a lower pre-recession level for Michigan. A recent Federal Reserve report analyzes data from a special 2007-2009 SCF panel and suggests that the median balance held in bank accounts remained around $4,000 in 2009 nationwide (Bricker, Bucks, Kennickell, Mach and Moore 2011).

[4] Median household income was $49,445 in 2010 in the United States (DeNavas-Walt, Proctor and Smith, 2010). This suggests that $50,000 in retirement savings would not support a typical family for much more than one year of retirement, if that family wished to maintain its pre-retirement standard of living.

[5] This figure is comparable to the Federal Reserve Bank of New York's finding that--nationwide--11% of individuals had withdrawn funds from retirement accounts prematurely, from roughly the end of 2008 to the end of 2009 (Chakrabarti, Lee, van der Klaauw and Zafar 2011). While the figure reported in the MRRS is larger, it is likely because more households in Michigan have been hurt by the recession, relative to the rest of the nation.

[6] See US Census 2010 poverty thresholds for a family of four with two children under the age of 18.

Appendix--Table 3. Unemployment Rates for Selected States

Unemployment Rates for States at or above the national average--September 2011 (Seasonally Adjusted)	
State	**Rate**
National average (October 2011)	**9.0%**
ARIZONA	9.0
OHIO	9.1
WASHINGTON	9.0
NEW JERSEY	9.1
OREGON	9.5
KENTUCKY	9.6
ALABAMA	9.3
TENNESSEE	9.6
ILLINOIS	10.1
GEORGIA	10.2
NORTH CAROLINA	10.4
RHODE ISLAND	10.4
FLORIDA	10.3
MISSISSIPPI	10.6
SOUTH CAROLINA	10.5
DISTRICT OF COLUMBIA	11.0
MICHIGAN	10.6
CALIFORNIA	11.7
NEVADA	13.4

Source: BLS (2011c). "Regional and State Employment and Unemployment Summary--October 2011," November 22, 2011, available at www.bls.gov (Accessed on 12/6/2011)

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