FAMILY INCOME AND WEALTH DYNAMICS AND THE IMPACT OF THE GLOBAL FINANCIAL CRISIS
by Prof Frank Stafford, University of Michigan

20 March 2015, Friday, 12.30pm - 2.00pm
FASS Executive Seminar Room AS7 01-07
Chaired by A/P Liu Haoming, NUS

ABSTRACT. The share of U.S. families who own stocks directly, including holdings of non-pension stock funds, recently stands at the same level as in 1962, about 16 percent. By 1970 the percent owning reached 26 percent. Ownership has dropped from about 30 percent in 2001 to under 18 percent in 2011 and preliminary analysis indicates a rate of about 16 percent as of 2013.

Families with more income and higher initial balances were less likely to sell off, avoiding capital losses, and were also more likely to have, on balance, bought at the low points of the market (2003-2004 and 2009). The results confirm the role of education and overall income and wealth in the management of stock market holdings. Effective participation in the market requires that families have financial situations that allow them to weather fluctuations in the stock, labor and housing markets.

Respondents were asked questions about how often did you feel nervous, hopeless, restless or fidgety, so depressed that nothing could cheer you up, that everything was an effort, or worthless? These questions constitute a distress scale known as K-6. Households with limited income and assets who suffer adverse experiences caused by a recession, such as the unemployment of a primary earner, are likely to lose what can be called ‘confidence capital’. Going forward, this loss makes it unlikely they will re-enter the stock market. That they are not participating in the stock market makes it unlikely that they will build significant assets.

About the Speaker

Frank Stafford is Professor of Economics and Research Scientist at the University of Michigan. He is an elected fellow of the Society of Labor Economists and Co-Principal Investigator of the Panel Study of Income Dynamics. His recent work studies the impact of skill extensive technical change on the distribution of income and how this has carried over into the distribution of wealth during the Global Financial Crisis. Facing income declines, to meet housing consumption commitments families often sold stocks and cashed in pensions. This induced high levels of psychological distress and appears to have inhibited subsequent stock market participation.

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