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Covid stimulus buoyed family finances, but gaps between well-off and low-wage households didn't change much: Fed study. Meanwhile, U.S. national debt soared.

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Median US family income increased modestly and median net worth surged 37% from 2019 to 2022, the Fed's just-released Survey of Consumer Finances finds. Improvements in family finances, however, to a great degree are the result of government fiscal and monetary stimulus policies and asset bubbles amid severely disrupted economic activity during the Covid-19 pandemic. Today's families benefitted financially from emergency government spending and greater public debt that will make it harder for policymakers to meet the needs of families in the future.

The Fed's triennial survey found minor changes in the historically wide gaps between the wealthiest and poorest families. Income inequality increased with gains concentrated among those with college degrees. Median income for those without a college degree dropped 10% and did not change for those in the bottom quarter of the distribution by net worth.

Median family net worth rose by the highest percentage for those in the bottom quarter of the distribution – from $400 to $3,500. Yet it's hard to think that having $3,500 in cash and personal belongings in excess of family debt amounts to "wealth." Meanwhile, median net worth among the top 10% increased by about $800,000 to $3.8 million.

While the survey detected less financial vulnerability, it is likely that additional net assets that low-income families had in 2022 eroded significantly as various Covid stimulus programs expired and high inflation has persisted. Inflation in the cost of necessities including food, housing, energy, and transportation is particularly harmful to low-income family finances.

How did families get richer?

The overall bulge detected in family finances was not the product of economic growth, which was a bit below average and very volatile over 2019-2022. US real

GDP growth dropped from 2.3% in 2019 to -2.8% in 2020, the first year of the pandemic. As stimulus programs kicked in, GDP whipsawed upward 5.9% in 2021 before returning to more normal 2.1% growth in 2022.

Through actions spanning the Trump and Biden administrations, the federal government injected about $6 trillion of Covid-related spending and the Federal Reserve Bank pumped $7 trillion into the economy during the crisis. Families either spent or saved the money. Balance sheets in many households improved. A tight labor market helped push up working class income, but recent data indicate wage improvements have ebbed.

To put the combined stimulus figures in perspective, in 2021 at the midpoint of the pandemic, $13 trillion was more than 50% of US GDP -- or more than three-quarters of what was needed to fill Social Security's long-term financing gap. The three biggest sources of stimulus spending were $800 billion for the Paycheck Protection Program (PPP), $680 billion for enhanced unemployment insurance (UI) benefits, and $800 billion in stimulus checks. Each of these programs was roughly comparable in size to the entire American Recovery and Reinvestment Act of 2009, enacted in response to the Great Recession.

Fed researchers probed whether families received money from these three programs. Around 16 percent of families reported receiving unemployment benefits, with modestly higher incidence in the middle of the distribution. Unsurprisingly, about 80 percent of families reported receiving cash stimulus payments, with incidence relatively stable across the income distribution but dropping off precipitously toward the top. In contrast to the other two programs, PPP loans were more concentrated at the top, reflecting patterns in business ownership.

The researchers noted that "growth in mean income (measured for the calendar year before the survey, so 2018 and 2021, respectively, for the most recent two surveys) was generally either absent or more modest among lower-income and less-educated families and very strong at the top, resembling the distribution of pandemic experiences over income and education. These differences are even more pronounced when excluding UI benefits, which, in their exceptional generosity over this period, buoyed income growth among lower income families."

Temporary expansion of the federal child tax credit to include more low-income families also bolstered family finances. This and other pandemic responses kept 53 million people above the poverty line in both 2020 and 2021, thereby preventing a surge in poverty that would have otherwise occurred, according to the Center on Budget & Policy Priorities. Since expiration of the temporary expansion, the child tax credit once again benefits people at the upper end of the income scale the most. Fed survey data was collected before the child tax credit expansion expired.

Covid monetary and fiscal stimulus measures, and higher interest rates resulting in part from them, helped push the US national debt to new heights – from $22 trillion in Q1 of 2019 to $32.3 trillion in Q2 of 2023. While some of the funds raised by government borrowing during this period improved family finances, high debt levels constrain the government's ability to meet future needs including national defense and social programs.

Though many policymakers support closing income and wealth gaps and providing additional help to low-income families, growing national debt makes it more difficult to take action. Co-authors of a recent collaborative article by scholars from the right-leaning American Enterprise Institute and often left-leaning Georgetown University, write: "With the US federal government already on an unsustainable fiscal trajectory, new spending to increase upward social mobility ideally would not be financed with more debt. Instead, current spending on upper-income households (both from entitlement programs and through the tax code) should be redirected. Such a rebalancing would better align the budget with the fight against intergenerational poverty, which conservatives and progressives alike regard as an important national priority."

Shifting some of the current tax exclusion for saving in defined contribution retirement accounts (about $300 billion a year) from higher-income to lower-income workers could finance a modest government subsidy for all workers in a universal system without an increase in tax rates. After transaction accounts (such as savings and checking accounts), funds in retirement accounts are the second most common type of financial asset. Despite some improvement in participation, the Fed survey found almost half of families had no retirement savings. Among families in the bottom half of the distribution, the mean balance

for participating families decreased between 2019 and 2022 from $66,600 to $54,700.

The last Fed survey of consumer finances, released in 2020, found both income and wealth inequality dropped modestly between 2016 and 2019 except for people with the lowest levels of formal education.

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