## Which households lost the most in the recession?

Every family was affected in one way or another by the recent "Great Recession," but certain population groups were affected more than others. In their article titled "Household Financial Stability: Who Suffered the Most from the Crisis?" William R. Emmons and Bryan J. Noeth investigate which demographic groups experienced the greatest recessionary declines in net worth (*The Regional Economist*, July 2012, The Federal Reserve Bank of St. Louis, **http://www.stlouisfed.org/publications/re/articles/?id=2254**).

The researchers focused on the race, ethnicity, age, and college-degree attainment of households by using the Federal Reserve's triennial Survey of Consumer Finances. The study showed that, between 2007 and 2010, the median loss in net worth of all households surveyed was 39.1 percent. Wealthier and older households lost the largest sums of money during the recession, primarily because they had more to lose and their equity was concentrated in investments. The most severe loss of wealth in percentage terms, however, was experienced by historically disadvantaged minority families (defined in the study as African-American or Hispanic of any race). The study also found that "young" (younger than age 40) and "middle-aged" (ages 40 through 54) groups experienced larger percentage declines in net worth compared with their "old" (55 years or older) counterparts.

Between 2007 and 2010, households characterized as young lost an average (mean) of 43.8 percent of net worth and middle-aged households lost 19.9 percent, compared with a loss of 11.5 percent among old households. The changes in average net worth of households were even more striking when factoring in the race and educational attainment of the household. For example, the loss in average mean net worth of young African American or Hispanic college-graduate households was 65.8 percent, compared with a decline of 42.1 percent for young, non-African American/non-Hispanic, college-graduate households and 11.6 percent for middle-aged, non-African American/non-Hispanic, college-graduate households.

The researchers offer some explanations why younger households, non-college graduates, and historically disadvantaged minorities may have suffered the most from the crisis. They theorize that because a large proportion of these households' net worth was composed of the value of their home, the steep decline in real estate prices during the recession dragged down these households' net worth. In addition, high mortgage-debt financing caused the drop in their home prices to have an even larger negative impact on net worth.

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## Medieval Venice response to globalization

Drawing on what may be, to some readers, an obscure period of history, "International Trade and Institutional Change: Medieval Venice's Response to Globalization" (Working Paper 18288, Cambridge, MA, National Bureau of Economic Research, August 2012, **http://www.nber.org/papers/w18288.pdf?new_window=1**) looks at how international trade promoted income mobility, and later, by driving institutional and political change, acted to block political and economic competition. Authors Diego Puga and Daniel Trefler use a database of more than 8,000 medieval parliamentarians to analyze the rise and fall of institutional dynamism in Venice between 800 and the mid-1300s.

Puga and Trefler show that between 800 and 1297, the rise of international trade allowed Venetian merchants to use their newfound economic power to push for institutional changes that would eliminate the position of a hereditary Doge, establish property rights, create a limited-liability partnership known as the *colleganza*—a contracting institution that mitigated the risks of long-distance trade and was a precursor of joint-stock companies—and lead to an elected parliament. All of these changes allowed relatively poor merchants to engage in trade and gain upward mobility. The authors also show that the distribution of income from trade eventually was consolidated into fewer and fewer hands until this small group of wealthy and powerful merchants was able to enact further institutional changes that favored their hold on key aspects of international trade; these changes directed income toward this select group and brought about what was known as the *Serrata*, or closure, between 1297 and 1323. The authors argue that all these institutional changes, both positive and negative, were driven by income distribution.

Because of a few fortunate turns of history, Venice after 814 was unusually free and independent. After Byzantium's control of the eastern Mediterranean Sea was regained

by conquering its Arab neighbors around 969, trade was established among Europe, Constantinople, and the Levant through Venice. When international trade was in its infancy and was dominated by luxury items intended for the wealthy rulers of the early medieval period, barriers to entry into the market were few. Venice at that time was ruled by a hereditary Doge of unlimited power who, because of conflicts with the Byzantine emperor, had become a threat to trade for the new and increasingly wealthy and powerful merchants. In 1032 the merchants elected their own Doge and banned hereditary succession. That was their first constraint on the executive.

In 1171 a new crisis developed that led to the murder of the still-powerful Doge. Before electing a new Doge, the merchants formed a constitution and an elected parliament with power to elect the Doge; the parliament was known as the Great Council. By 1192 the Council, rather than the Doge, held the reins of power. At this time, upward mobility was widespread. To help spread some of the risk involved in international trade of the 12th century, a new institution was formed: the *colleganza*. This development allowed poor traveling merchants to enter the trade and eventually become wealthy, sedentary (that is, nontraveling) merchants. Thus, a much greater proportion of the population engaged in long-distance trade, more income from trade was distributed throughout the society, and many new and wealthy merchants participated in the political process.

Yet this circle of trade, property rights, and the growth of social mobility, economic institutions, and self-government was not to last. The *colleganza* created deep capital markets that made entry into trading easier, increased competition, and reduced profits. For the few extremely wealthy merchants, however, this was a problem. Starting around 1297, powerful interests sought barriers to both entry into trade and the holding of influential and lucrative political offices.

Using mathematical formulas and graphs that contain variables representing inherited wealth, labor, capital, time, and other factors, Puga and Trefler calculate wealth distribution given a smaller percentage of the population involved in trade, reduced social and economic mobility, and whether a successful revolt would be likely, depending on which side has the greater strength when the wealthy few decide to close entry into trade by employing the *Serrata*. The wealthy did this by allowing a few of the newly rich into the Great Council; having reached the critical level of voting support they needed, they then voted to terminate any additional new admissions.

Once political participation in the Great Council was restricted, membership in it defined a new nobility. Election was no longer a means to entry and membership became hereditary. People did not give up their access to wealth and political participation freely, and the authors give colorful accounts of the sometimes violent struggle to prevent the usurpation of power between 1297 and 1323. As the medieval history of Venice illustrates, international trade and income distribution can have both positive and negative impacts on social and political institutions. □