Q&A...

with Wenli Li, a senior economic advisor and economist here at the Philadelphia Fed.

Wenli Li

Wenli Li grew up in southeast China. After graduating from Tsinghua University in Beijing in 1990, she relocated to the United States, earning her doctorate in economics from the University of Minnesota in 1997. Since then, she has worked for the Federal Reserve System, first at the Richmond Fed, then at the Board of Governors, and then, since 2003, here at the Philadelphia Fed. Her specialty is consumer finance, especially bankruptcies and mortgages.

You graduated in 1990 from Tsinghua University, one of China's premier schools. What drew you to study management information systems there?

In China, at least when I was growing up, when you got into high school, you were put into one of two tracks, liberal arts or technical. I was in the technical track. I liked it, but I wanted to analyze social issues, to understand what China was going through at that time. The country had just begun to introduce a market economy. Tsinghua had been a school for engineering. Then in the '80s, when the country was opening up, they built a few more schools and departments. The School of Management and Information was the new thing, and I liked it. China didn't really have economics programs for a long time, because it was a planned economy. Among the schools I was interested in, Tsinghua was one of the few with these interdisciplinary majors.

What led you to attend the University of Minnesota after graduation?

At the time we didn't know much about the U.S., but Minnesota had some connections with China. At Tsinghua, I had met a teacher of English from Minnesota, and I had friends who had moved there, so I applied.

What was it like moving to America?

I had a good time. I lived in a house with 10 girls from nine countries. My first year, there was a big snowstorm and the school closed for two weeks. Seeing that amount of snow, and not realizing that that would recur every year, we were so excited. I didn't have any trouble adjusting to the culture. I met some of my best friends there during my first year.

Since 2003, you've focused on consumer finance. What are some of the key lessons you've learned about consumer finance in America?

The U.S. is very different from many countries. The U.S. has one of the highest homeownership rates among the developed economies. And it's not entirely due to affluence. A lot of it has to do with government policy promoting homeownership. Fannie Mae, Freddie Mac, the whole secondary market was built by the government to encourage homeownership. And the U.S. is perhaps the only country that has a loan mortgage contract that lasts 30 years. Elsewhere you can't imagine lending to anybody for more than 10 years. The U.S. is also very sophisticated in using the bankruptcy system to deal with defaults. A lot of developing countries didn't have that for a long time. So the U.S. has a more sophisticated bankruptcy system, dealing with both personal and business bankruptcies.

In the article you wrote for this issue, you note that bankruptcy can be a good thing for a person or firm. Why wouldn't somebody file for bankruptcy when it's in their best interest?

In the case of an individual, there are consequences associated with filing for bankruptcy. You cannot file again for a number of years. And your credit file will have a flag, so all of your potential future lenders would see that. People who are less certain about their future may be reluctant to file. For businesses, uncertainty can be an even bigger issue, because you worry about whatever may happen that can affect your business future. And in a lot of the small businesses, it's like your baby, you put all your effort and money into that business, and that could make it a hard decision.

In your article, you write about how COVID may affect bankruptcy courts. How might it also affect the housing market?

A lot of us are going to start working remotely, which means that having more living space is becoming more important. Until the Great Recession, housing had been booming for so long, and so spectacularly, there were mega-houses being built, and a lot of us bought more space than we needed. After that crisis there was uncertainty in both job income and house prices, so there was a wave of downsizing to small houses and moving to the cities. And now with this pandemic and new work style, people will realize there is still value in having a bigger house in the suburbs, especially close to a big city. EI