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## Recent Trends in the Size Distribution of Household Wealth

Edward N. Wolff

**W**hy is wealth important, over and above income? Family wealth by itself is a source of well-being, independent of the direct financial income it provides. There are four reasons. First, wealth in the form of owner-occupied housing provides services directly to its owners. Second, wealth is a source of consumption, independent of the direct money income it provides, because assets can be converted directly into cash and thus provide for immediate consumption needs. Third, the availability of financial assets can provide liquidity to a family in times of economic stress, such as occasioned by unemployment, sickness, or family break-up. Fourth, in a representative democracy, the distribution of power is often related to the distribution of wealth.

It would be foolish, of course, to expect even the best-functioning market economy to produce near-equality of wealth. The population is at different points in the life cycle, and one would expect the middle-aged and elderly to have accumulated more wealth than the young. People will have different tastes for accumulating human capital, for working and earning wages, and for saving. Entrepreneurial spirits are not distributed evenly across the population, nor is entrepreneurial success. Luck will play a role in economic outcomes. Who bought stock in Intel or Microsoft 15 years ago? Who happened to own a family farm that became coveted suburban real estate?

But even if economists can readily find reasons to be comfortable with some degree of wealth inequality, it is nonetheless troubling when that level rises substantially. In the 1970s, the level of wealth inequality in the United States was comparable to that of other developed industrialized countries. By the 1980s, the United

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States had become the most unequal society in terms of wealth among the advanced industrial nations. In the 1990s, the run-up in stock prices has added to the disparities in wealth. By 1997, one man, Bill Gates, was worth about as much as the 40 million American households at the bottom of the wealth distribution!

My earlier work, based on the 1983, 1989, and 1992 Surveys of Consumer Finances (SCF), presented evidence of sharply increasing household wealth inequality between 1983 and 1989, followed by a modest attenuation in 1992, though the level of wealth concentration was still greater in the later year than in 1983 (Wolff, 1994, 1996a). With the release of the Federal Reserve Board's 1995 Survey of Consumer Finances (in July 1997), it is now possible to update some of my earlier figures on the distribution of household wealth to 1995. A number of issues will be addressed: how average and median wealth holdings have changed; how the overall concentration of wealth is changing; how the components of household assets and debts are changing; how wealth inequality is shifting by race and by age; which income classes are gaining most in wealth, and which have most to fear; what the wealth-holdings of the top 1 percent of the wealth distribution look like; what are the sources of changing wealth inequality; and how U.S. wealth inequality compares to that of other countries. But before addressing these questions, I will begin with a discussion of the measurement of household wealth and describe why I focus on the Survey of Consumer Finances in this discussion, rather than using evidence from some other possible data sources.

## **Data Sources and Methods**

The sources used for this study are the 1983, 1989, 1992, and 1995 Survey of Consumer Finances (SCF) conducted by the Federal Reserve Board. The unit of observation is the "primary economic unit" of a household, which can be a family, a single individual, or two or more unrelated individuals who share expenses. Each survey consists of a core representative sample combined with a high-income supplement. The supplement is drawn from the Internal Revenue Service's Statistics of Income data file. For the 1983 SCF, for example, an income cut-off of \$100,000 of adjusted gross income is used as the criterion for inclusion in the supplemental sample. The advantage of the high-income supplement is that it provides a much "richer" sample of high income and therefore potentially very wealthy families. In 1989, for example, the supplement consisted of 866 out of 3,143 households. However, the presence of a high-income supplement creates some complications, because weights must be constructed to meld the high-income supplement with the core sample.<sup>1</sup> It should be stressed that this is a household survey, so that the quality

<sup>1</sup> Three studies conducted by the Federal Reserve Board—Kennickell and Woodburn (1992) for the 1989 SCF; Kennickell, McManus, and Woodburn (1996) for the 1992 SCF; and Kennickell and Woodburn (1997) for the 1995 SCF—discuss some of the issues involved in developing these weights.

of the information depends on the reliability of the respondents' answers. However, in the later surveys, at least, respondents were asked to check their actual financial records (such as stock and bond portfolios).

I will focus in the discussion that follows on two measures of wealth, which I will refer to as "net worth" and "financial wealth." Net worth (or marketable wealth) is defined as the current value of all marketable or fungible assets less the current value of debts. Net worth is thus the difference in value between total assets and total liabilities or debt. Total assets are defined as the sum of: 1) the gross value of owner-occupied housing; 2) other real estate owned by the household; 3) cash and demand deposits; 4) time and savings deposits, certificates of deposit, and money market accounts; 5) government bonds, corporate bonds, foreign bonds, and other financial securities; 6) the cash surrender value of life insurance plans; 7) the cash surrender value of pension plans, including IRAs, Keogh, 401(k) plans, and other defined contribution plans;<sup>2</sup> 8) corporate stock and mutual funds; 9) net equity in unincorporated businesses; and 10) equity in trust funds. Total liabilities are the sum of: 1) mortgage debt; 2) consumer debt, including auto loans; and 3) other debt.

This measure of wealth is used because the primary interest here is in wealth as a store of value and therefore a source of potential consumption. Thus only assets that can be readily converted to cash (that is, "fungible" ones) are included. As a result, consumer durables (such as cars) and retirement wealth (for example, the present value of expected Social Security benefits), which are sometimes included in broader concepts of wealth, are excluded here.

The second concept of wealth, which I call "financial wealth," is more restricted. It is defined as net worth minus net equity in owner-occupied housing. Financial wealth is a more "liquid" concept than marketable wealth, since it is somewhat difficult to liquidate one's housing wealth in the short term. (Remember, just taking out a home equity loan does not alter one's wealth, since in terms of personal wealth, the lower equity in the home and new cash available for spending offset each other.) Financial wealth thus reflects the resources that may be immediately available for consumption or various forms of investments.

There are two other major surveys besides the SCF which provide time series data on household wealth inequality during the 1980s and 1990s: the U.S. Bureau of the Census's Survey of Income and Program Participation (SIPP) for 1984, 1988, 1991, and 1993; and the Panel Survey of Income Dynamics (PSID) for 1984, 1989, and 1994. Levels and trends in wealth and in the distribution of wealth differ substantially among the three sources. For example, the SCF data reveal somewhat greater inequality than the PSID, and substantially greater inequality than the SIPP. However, closer comparisons between the data sets quickly reveal the reason for such discrepancies. A comparison of mean wealth levels by income class between the SIPP and the SCF shows that they are quite close for the bottom four income quintiles, but over three times as great in the SCF as in the SIPP for the top income

<sup>2</sup> This does not include pension reserves held by corporations or financial institutions.

quintile. A comparison of mean wealth figures by asset type between the PSID and the SCF shows that the two sources are quite close for homes, vehicles, and liquid assets, but the mean value of stocks reported in the SCF is almost three times as great as that from the PSID and the mean value of unincorporated business equity is twice as great. These results indicate that the upper tail of the wealth distribution is missing from the SIPP and the PSID. These two datasets are probably useful for studying the wealth accumulation behavior of the middle class, but are not reliable for analyzing the behavior of the very rich.

The Survey of Consumer Finances data series begins in 1983 because comparable data sources do not exist before this date. The SCF did exist prior to this date, but did not include a high income supplement and had only a limited number of questions on wealth. The closest cousin to the 1983 SCF is the 1962 Survey of Financial Characteristics of Consumers, also conducted by the Federal Reserve Board, but its sampling frame was notably different than the 1983 and subsequent Surveys of Consumer Finances. Even the PSID and the SIPP wealth series added special wealth “modules” only beginning in 1984. Prior to 1983, the best source for data on wealth concentration is the estate tax data compiled by the Internal Revenue Service. However, this source is limited to only about the top percent of wealth holders; Wolff (1996a) offers a further discussion of this source.

## **Wealth Has Fallen for the Median American Household**

Median wealth for a U.S. household was about 10 percent lower in 1995 than in 1983, as shown in the first row of Table 1.<sup>3</sup> However, the decline was not continuous. After rising by 7 percent between 1983 and 1989, median wealth fell by 17 percent from 1989 to 1995. Mean wealth is much higher than the median—four to five times as great—implying that the vast bulk of household wealth is concentrated in the richest families. Mean wealth also showed a substantial increase from 1983 to 1989 followed by a rather precipitous decline, though overall it was 3 percent higher in 1995 than in 1983.<sup>4</sup> One reason for the decline in household wealth is evident from the third row of Table 1, which shows that the percentage of households reporting zero or negative net worth increased from 15.5 percent in 1983 to 18.5 percent in 1995.

When equity in owner-occupied housing is subtracted, median financial wealth was less than \$10,000 in 1995, indicating that the average American household had very little savings available for its immediate needs. As shown in Table 1, the time

<sup>3</sup> The results for this section are based on the standard Consumer Price Index (CPI-U). Of course, if the increase in the CPI is overstated, as the Boskin Commission has recently argued, then the decline in wealth reported here may be likewise overstated.

<sup>4</sup> The time trend is very similar when the value of vehicles is included in net worth. Similar results can also be derived from the revised estimates of Kennickell and Woodburn (1997) for 1989 and 1995.

Table 1

**Mean and Median Household Wealth, 1983, 1989, 1992, and 1995 (1995 Dollars)**

	1983	1989	1992	1995	% Change 1983-1995
<i>Net Worth</i>					
Median	51,051	54,643	46,616	45,630	-10.6
Mean	198,770	227,718	221,384	204,529	2.9
Percent with zero or negative net worth	15.5	17.9	18.0	18.5	
<i>Financial Wealth</i>					
Median	11,025	13,012	10,917	9,950	-9.8
Mean	144,245	169,977	168,770	156,935	8.8
Percent with zero or negative financial wealth	25.7	26.8	28.2	28.7	

trend for financial wealth is similar to that for household net worth. In particular, the fraction of households with zero or negative financial wealth rose over this period from 26 to 29 percent.

### **Wealth Inequality is Still Much Higher in 1995 than in 1983**

In 1995, the top 1 percent of families as ranked by net worth owned almost 39 percent of total household wealth; the top 20 percent of households held 84 percent. The richest 1 percent as ranked by financial wealth own 47 percent of total household financial wealth; the top 20 percent, 93 percent. A more detailed breakdown by various percentiles of the wealth distribution is presented in Table 2.

The figures also show that the wealth inequality, after rising steeply between 1983 and 1989, leveled off from 1989 to 1995.<sup>5</sup> For example, the share of wealth held by the top 1 percent rose by 3.6 percentage points from 1983 to 1989. Then, from 1989 and 1995, the share of the top percentile grew by a more modest 1.1 percentage points, while the share of the next 9 percentiles fell by 1.3 percentage points. However, the share of the bottom two quintiles also grew by 0.9 percentage points over this time.

The trend is similar for the inequality of financial wealth. The share of the top 1 percent climbed 4.0 percentage points between 1983 and 1989. In the ensuing six years, the share of the richest 1 percent grew by another 0.3 percentage points.

<sup>5</sup> On the basis of the estate tax data mentioned above, the steep rise in wealth inequality appears to begin in the mid-1970s. Moreover, similar trends are evident even when consumer durables and retirement wealth are included in household wealth. See Wolff (1996a) for more details.

Table 2  
**The Size Distribution of Wealth, 1983, 1989, 1992, and 1995**

Year	Percentage Share of Net Worth or Financial Wealth Held by							
	Top 1.0%	Next 4.0%	Next 5.0%	Next 10.0%	Top 20.0%	2nd 20.0%	3rd 20.0%	Bottom 40.0%
<i>Net Worth</i>								
1983	33.8	22.3	12.1	13.1	81.3	12.6	5.2	0.9
1989	37.4	21.6	11.6	13.0	83.5	12.3	4.8	-0.7
1992	37.2	22.8	11.8	12.0	83.8	11.5	4.4	0.4
1995	38.5	21.8	11.5	12.1	83.9	11.4	4.5	0.2
<i>Financial Wealth</i>								
1983	42.9	25.1	12.3	11.0	91.3	7.9	1.7	-0.9
1989	46.9	23.9	11.6	10.9	93.4	7.4	1.7	-2.4
1992	45.6	25.0	11.5	10.2	92.3	7.3	1.5	-1.1
1995	47.2	24.6	11.2	10.1	93.0	6.9	1.4	-1.3

Note: For the computation of percentile shares of net worth, households are ranked according to their net worth; and for percentile shares of financial wealth, households are ranked according to their financial wealth.

At the same time, the share of the next 19 percentiles declined, as did the share of the second quintile, and that of the bottom two quintiles grew by 1.1 percentage points.<sup>6</sup>

Table 3 shows the striking changes in absolute wealth between 1983 and 1995. Over this period, the largest gains in both absolute and relative terms were made by the wealthiest households. The top 1 percent in 1995 saw their average wealth (in 1995 dollars) grow by \$1.2 million or by 17 percent relative to their counterparts in 1983 (who may not necessarily be the same households). The only other group whose wealth increased was the next richest 4 percent of the wealth holders (0.5 percent). Average wealth fell for every other group, and the poorest 40 percent of households experienced the steepest decline in their wealth holdings (a fall of 80 percent). The pattern is similar for financial wealth. The average financial wealth of the richest 1 percent grew by 20 percent and that of the next richest 4 percent by 6 percent. Financial wealth fell for all other groups, with the lower wealth groups suffering the greatest declines.

<sup>6</sup> These statements about inequality and financial wealth are born out in more formal measures of inequality, like the Gini coefficient. The Gini coefficient for net worth rose from .80 in 1983 to .83 in 1989—but remained at .83 in 1995, in part because of the rise in wealth in the bottom 40 percent of the distribution. For financial wealth, the Gini coefficient rose from .89 in 1983 to .93 in 1989, but fell back to .91 by 1995—again because of improved (less negative) financial wealth in the lower part of the distribution.

Table 3

**Mean Wealth Holdings by Quantile, 1983, 1989, 1992, and 1995**  
(in thousands, 1995 dollars)

Year	Top 1%	Next 4%	Next 5%	Next 10%	Top 20%	2nd 20%	3rd 20%	Bottom 40%	All
<i>Net Worth</i>									
1983	6,708	1,110	482.6	260.6	808.3	124.9	51.9	4.4	198.8
1995	7,875	1,115	471.7	246.8	858.1	116.8	45.9	0.9	204.5
% Change	17.4	0.5	-2.3	-5.3	6.2	-6.5	-11.5	-79.6	2.9
<i>Financial Wealth</i>									
1983	6,187	906	354.0	158.7	658.3	57.0	12.3	-6.3	144.2
1995	7,400	963	352.2	158.5	730.0	54.0	11.3	-10.6	156.9
% Change	19.6	6.4	-0.5	-0.1	10.9	-5.3	-7.8	-68.3	8.8

## The Components of Household Wealth

Owner-occupied housing has been the single most important household asset accounting for about 30 percent of total assets, as shown in Table 4. The second biggest asset was business equity, at 18 percent of total assets; followed by corporate stock, including mutual funds (12 percent); real estate, other than owner-occupied housing (11 percent); pension accounts (9 percent); bank deposits and money market funds (7 percent); financial securities (4 percent); trust equity (3 percent); and the cash surrender value of life insurance (3 percent). Debt was 16 percent of gross assets.

The most striking change between 1983 and 1995 is that pension accounts grew from 1.5 percent to 9.0 percent of total assets. This increase almost exactly offset the decline in total deposits, from 15.3 percent to 7.3 percent of assets, so that it is reasonable to conclude that households have substituted tax-free pension accounts for taxable savings deposits.

Another interesting change is that while gross housing wealth remained almost constant as a share of total assets over this period, the amount of debt on principal residences rose substantially. As a result, net equity in owner-occupied housing as a share of total assets (subtract the first row of debts from the first row of assets) fell from 23.8 percent to 19.5 percent. This reflected a rise in mortgage debt, which increased from 21 percent of the value of homeowner's property in 1983 to 36 percent in 1995. However, if mortgage debt on principal residence is excluded, then the ratio of other debt to total assets actually fell off slightly, from 6.8 percent in 1983 to 5.3 percent in 1995. The proportion of total assets in the form of other (non-home) real estate fell off sharply, from 15 percent in 1983 to 11 percent in 1995. Business equity fell slightly as a share of gross wealth over this period, as did financial securities. These declines were largely offset by a rise in the share of cor-

*Table 4*  
**Composition of Total Household Wealth, 1983, 1989, 1992, and 1995**  
*(percent of gross assets)*

	1983	1995
Principal residence (gross value)	30.1	30.4
Other real estate (gross value)	14.9	11.0
Business equity <sup>a</sup>	18.8	17.9
Total deposits <sup>b</sup>	15.3	7.3
Life insurance (cash surrender value)	2.2	2.7
Pension accounts <sup>c</sup>	1.5	9.0
Financial securities <sup>d</sup>	4.2	3.8
Corporate stock and mutual funds	9.0	11.9
Net equity in personal trusts	2.6	3.2
Other assets <sup>e</sup>	1.3	2.8
<i>Total</i>	100.0	100.0
Debt on principal residence	6.3	11.0
All other debt <sup>f</sup>	6.8	5.3
<i>Total debt</i>	13.1	16.3

<sup>a</sup> Net equity in unincorporated farm and non-farm businesses and closely-held corporations.

<sup>b</sup> Checking accounts, savings accounts, time deposits, money market funds and certificates of deposit.

<sup>c</sup> IRAs, Keogh plans, 401(k) plans, the accumulated value of defined contribution pension plans, and other retirement accounts.

<sup>d</sup> Corporate bonds, government bonds, open-market paper, and notes.

<sup>e</sup> Gold and other precious metals, royalties, jewelry, antiques, furs, loans to friends and relatives, future contracts, and miscellaneous assets.

<sup>f</sup> Mortgage debt on all real property except principal residence; and installment, consumer, and other debt.

porate stock in total assets, from 9.0 percent to 11.9 percent, reflecting the beginnings of the bull market.

There are marked differences in household portfolios by level of wealth. Table 5 provides a breakdown for the top 1 percent of households as ranked by wealth, who had a net worth exceeding \$2.4 million (in 1995 dollars), the next 19 percent, with net worth between \$177,000 and \$2.4 million, and the bottom 80 percent, with net worth less than \$177,000. The richest 1 percent of households invested about 80 percent of their savings in investment real estate, businesses, corporate stock, and financial securities in 1995. Housing accounted for only 6 percent of their wealth, liquid assets another 8 percent, and pension accounts 5 percent. Their debt-equity ratio (the ratio of debt to net worth) was 5 percent. Among the next richest 19 percent of U.S. households, 43 percent of their wealth took the form of investment assets—real estate, business equity, stocks, and bonds. Housing comprised 30 percent, liquid assets 11 percent, and pension assets 13 percent. Debt amounted to 13 percent of their net worth.

In contrast, almost two-thirds of the wealth of the bottom 80 percent of households was invested in their own home. Another 11 percent went into monetary

Table 5

**The Composition of Household Wealth by Wealth Class in 1995***(percent of gross assets)*

	<i>All Households</i>	<i>Top 1%</i>	<i>Next 19%</i>	<i>Bottom 80%</i>
Principal residence	30.4	6.4	30.1	65.9
Other real estate	11.0	11.4	13.9	5.0
Liquid assets (bank deposits, money market funds, and cash surrender value of insurance).	10.0	7.7	11.3	11.1
Pension assets	9.0	4.7	12.6	8.5
Unincorporated business equity	17.9	36.8	11.0	3.1
Corporate stock, financial securities, mutual funds, and personal trusts	18.9	30.3	18.0	4.1
Miscellaneous assets	2.8	2.7	3.1	2.2
<i>Total assets</i>	100.0	100.0	100.0	100.0
Memo: Debt/net worth	19.4	4.8	12.9	73.0

savings of one form or another and 9 percent into pension accounts. The remaining 14 percent of their wealth was about evenly split among non-home real estate, business equity, and various financial securities and corporate stock. The ratio of debt to net worth was 73 percent, much higher than for the richest 20 percent.

Another way to portray differences between the middle class and the rich is to compute the share of total assets of different types held by each group, which is done in Table 6. In 1995, the richest 1 percent of households (again, this group has wealth exceeding \$2.4 million) held half of all outstanding stock and trust equity, almost two-thirds of financial securities and over two-thirds of business equity, and 35 percent of investment real estate. The top 10 percent as a group, with household wealth of \$352,000 and over, accounted for about 90 percent of stock shares, bonds, trusts, and business equity, and about three-quarters of non-home real estate. Moreover, despite the fact that 41 percent of households owned stock shares either directly or indirectly through mutual funds, trust accounts, or various pension accounts (up from 26 percent in 1983), a more detailed breakdown than is provided in the table shows that the richest 10 percent of households accounted for 82 percent of the total value of these stocks, only slightly less than their 88 percent share of directly owned stocks and mutual funds.

In contrast, owner-occupied housing, deposits, life insurance, and pension accounts were more evenly distributed among households. The bottom 90 percent of households, with wealth less than \$352,000, accounted for over two-thirds of the value of owner-occupied housing, almost 40 percent of deposits, over half of life insurance cash value, and almost 40 percent of the value of pension accounts. Debt was the most evenly distributed component, with the bottom 90 percent of households responsible for 72 percent of total indebtedness.

*Table 6*  
**The Percent of Total Assets Held by Wealth Class, 1995**

<i>Asset Type</i>	<i>Top 1.0%</i>	<i>Next 9.0%</i>	<i>Bottom 90.0%</i>
<i>Assets Held Primarily by the Wealthy</i>			
Stocks & Mutuals	51.4	37.0	11.6
Financial securities	65.9	23.9	10.2
Trusts	49.6	38.9	11.5
Business Equity	69.5	22.2	8.3
Non-Home Real Estate	35.1	43.6	21.3
Total for Group	55.5	32.1	12.5
<i>Assets and Liabilities Held Primarily by the Non-Wealthy</i>			
Principal Residence	7.1	24.6	68.3
Deposits	29.4	32.9	37.7
Life Insurance	16.4	28.5	55.1
Pension Accounts	17.7	44.7	37.7
Total for Group	12.8	29.7	57.5
Total Debt	9.4	18.9	71.7

There was relatively little change between 1983 and 1995 in the concentration of ownership of particular assets, with a few exceptions. The wealthiest 10 percent of households increased its share of total financial securities from 83 percent to 90 percent of the total amount of such securities over this period and its share of total deposits from 53 percent to 62 percent. The share of total pension accounts held by the top 10 percent fell from 68 percent in 1983 to 51 percent in 1989, reflecting the growing use of IRAs by middle income families, and then rebounded to 62 percent in 1992 and 1995 from the introduction of 401(k) plans and their adoption by high-income earners. The share of total debt held by the top 10 percent also fell somewhat, from 32 to 28 percent.

## **The Racial Divide Widens**

Households in the Survey of Current Finance are divided into four racial/ethnic groups: non-Hispanic whites; non-Hispanic blacks; Hispanics; and other races, including Asians, Native Americans, and others. The discussion here will focus on the striking differences in the wealth holdings of whites and blacks. Table 7 gives illustrative mean and median values for the wealth of black and white households, as well as ratios between them.

In 1995, the ratio of black/white mean and median wealth holdings was 0.17 and 0.12, respectively, and that of financial wealth still lower, at 0.11 and 0.01, respectively. Underlying these trends, average real net worth rose for white households but fell for blacks from 1983 to 1995, so that the ratio fell from 0.19 to 0.17,

Table 7

**Racial Wealth Differences, 1983–1995***(in thousands of 1995 dollars, unless otherwise noted)*

Year	Mean Values			Median Values		
	Non-Hispanic Whites	Non-Hispanic Blacks	Ratio	Non-Hispanic Whites	Non-Hispanic Blacks	Ratio
<i>Net Worth</i>						
1983	232.3	43.7	0.19	66.9	4.4	0.07
1989	274.8	46.1	0.17	79.4	2.0	0.03
1992	265.9	49.4	0.19	66.6	11.2	0.17
1995	242.4	40.8	0.17	61.0	7.4	0.12
<i>Financial Wealth</i>						
1983	171.1	22.0	0.13	18.6	0.0	0.00
1989	207.7	22.5	0.11	25.1	0.0	0.00
1992	204.7	28.2	0.14	20.5	0.1	0.01
1995	188.4	21.2	0.11	18.1	0.2	0.01

whereas median wealth increased among black households while falling for whites, so that the ratio increased from 7 percent to 12 percent. Average financial wealth has remained relatively constant among black households while rising among whites, so that the ratio fell from 13 percent to 11 percent over this period. The median financial wealth of black households has also remained virtually constant over these years, at roughly zero.

If one searches the wealth data for positive notes, the homeownership rate of black households did grow from 44.3 percent in 1983 to 46.8 percent in 1995; while this is about two-thirds of the white level, it does represent a relative gain, since the homeownership rate among whites increased only from 68.1 percent to 69.4 percent over this time. Also, the percentage of black households reporting zero or negative net worth fell from 34.1 percent in 1983 to 31.3 percent in 1995; while this level is twice that of white households, the proportion of white households reporting zero or negative net worth rose from 11.3 percent in 1983 to 15.0 percent in 1995.<sup>7</sup>

Interestingly, it appears that the black/white wealth ratios held fairly steady from 1983 to 1992, or the relative position of blacks even improved somewhat, but then losses were sustained from 1992 to 1995. The most vivid example is that the median net worth of black households relative to white, which rose from 7 percent in 1983 to 17 percent in 1992, before slipping back to 12 percent in 1995.

<sup>7</sup> There is a large amount of variation in the income and wealth figures for blacks on a year by year basis. This is probably a reflection of the small sample size for this group and the associated high sampling variability. The problem is even more severe for the Hispanic and the "other racial" group because of their smaller sample sizes.

*Table 8*  
**Age-Wealth Profiles, 1983–1995**  
*(ratio of mean net worth by age class to the overall mean)*

	1983	1989	1992	1995
All	1.00	1.00	1.00	1.00
Under 35	0.21	0.29	0.20	0.16
35–44	0.71	0.72	0.71	0.65
45–54	1.53	1.50	1.42	1.39
55–64	1.67	1.58	1.82	1.81
65–74	1.93	1.61	1.59	1.71
75 and over	1.05	1.26	1.20	1.32

One interesting issue is why the black/white wealth ratio is so much lower than the corresponding income ratio, which stood at 48 percent in 1995, particularly in light of the fact that black families appear to save more than white families at similar income levels (Blau and Graham, 1990). One important reason is differences in inheritances. According to the SCF data, 24 percent of white households had received an inheritance in 1995, compared to 11 percent of black households, and the average bequest among inheritors was \$115,000 for whites and only \$32,000 for blacks.

### **The Young are Getting Poorer**

The life-cycle model predicts that wealth will follow a hump-shaped pattern over life, with accumulation in early and middle adulthood, followed by decumulation in old age (Modigliani and Brumberg, 1954). In general, the data on wealth does follow this pattern, as shown in Table 8. The table is scaled so that mean net worth of all households in any given year is normalized to 1.00; then, the levels for each age group is given relative to that level. Mean wealth increases with age up through age 65 or so and then falls off; however, the average wealth of elderly households (age 65 and over) still averages about 80 percent higher than the non-elderly.

Despite an apparent overall similarity in the age-wealth profiles for 1983, 1989, 1992, and 1995, some shifts in the relative holdings of wealth by age group are worth noting. From 1983 to 1995, the wealth of the youngest age group, under 35 years of age, fell in relative terms from 21 percent of the overall mean to 16 percent, and that of households between 35 and 44 of age dropped from 71 percent to 65 percent. In contrast, the wealth of the oldest age group, age 75 and over, gained substantially, from 105 percent of the mean to 132 percent of it. The statistics point to a clear shifting of asset ownership away from younger towards older households.

Table 9

**Mean Household Net Worth by Income Class and Age Class, 1983–1995**  
(in thousands, 1995 dollars)

Income Class	Mean Net Worth				Percentage Change 1983–95
	1983	1989	1992	1995	
All	198.8	227.7	221.4	204.5	2.9
Age Under 65	170.1	198.4	194.7	173.7	2.1
Under 15,000	31.5	20.8	25.9	31.9	1.2
15,000–24,999	49.7	71.4	44.0	50.2	1.0
25,000–49,999	87.0	103.6	79.3	77.3	-11.1
50,000–74,999	164.3	171.7	156.8	169.5	3.2
75,000 or over	825.9	826.8	930.9	774.3	-6.2
Age 65 or Over	319.2	333.5	316.4	314.5	-1.5
Under 15,000	54.7	55.8	58.9	73.4	34.2
15,000–24,999	151.3	165.1	149.5	135.8	-10.3
25,000–49,999	275.7	295.5	312.8	270.3	-2.0
50,000–74,999	558.2	706.8	618.0	594.6	6.5
75,000 or over	2,601.7	2,705.5	2,696.8	2,409.8	-7.4

### The Mixed Relationship between Household Income and Wealth Gains

Another perspective is afforded by looking at average wealth holdings by income class. There has been some discussion, particularly in the *Wall Street Journal*, that the big winners over the 1980s in terms of wealth were middle-income families. I examine this by dividing households into those under age 65 and those 65 and over, because the elderly tend to have accumulated a large amount of wealth (as discussed in the previous section), but also tend to have lower incomes than younger families, especially after retirement. Lumping the two groups together might induce a spurious correlation between income and wealth gains due to age. The results are shown in Table 9.

Wealth and income are strongly correlated, with mean wealth rising monotonically with income for each age group and in each of the four years. It is also of note that among the non-elderly, only the top income class reported mean net worth exceeding the national average, while the top three income classes among the elderly did. Remember, of course, that these comparisons do not literally involve the same households in the different years, but rather those households that fall into a particular income group in a given year.

However, despite the strong correlation between income and wealth, there is no clear relation between income level and wealth gains. Among households under the age of 65, those in the two lower income classes and the upper middle income group (\$50,000–\$74,999) in 1983 experienced a very small growth in average wealth

*Table 10*  
**Accumulated Financial Reserves of Families Aged 25–54, by Income Quintile, In Terms of Number of Months Reserves Can Sustain Consumption, 1989 and 1995**

<i>Income Quintile</i>	<i>Number of Months Current Consumption Can be Sustained</i>	<i>Number of Months Consumption at 125% Of Poverty Standard Can be Sustained</i>
<i>1989</i>		
Top Quintile	18.7	72.6
Fourth Quintile	4.7	14.6
Middle Quintile	3.6	9.0
Second Quintile	0.7	1.0
Bottom Quintile	0.0	0.0
<i>1995</i>		
Top Quintile	19.0	61.3
Fourth Quintile	3.5	7.9
Middle Quintile	1.2	1.8
Second Quintile	1.1	0.6
Bottom Quintile	0.0	0.0

compared to their counterparts in 1995, while the middle income class in 1995 saw its net wealth drop sharply compared to those at that income level in 1983, and those in the top income class in 1995 also experienced a net decline compared to those at the top level in 1993, though a smaller one. Among the elderly, by far the greatest gain in net wealth is for the bottom income class, 34 percent. However, the net worth of the lower middle class elderly (\$15,000–\$24,999) in 1995 was 10 percent lower than that group had experienced in 1983, and that of the middle class fell by 2 percent. The wealth of the upper middle income group in 1995 was 7 percent higher than the comparable income group in 1983, but the wealth of the top income class diminished by 7 percent.

Another way of viewing the wealth holdings of each income class is in terms of the number of months its financial reserves can be used to sustain its normal consumption, which is done in Table 10. I use financial wealth as the basis of the calculation, since families still require a place to reside even if their income falls to zero, and focus on families where the householder is between 25 and 54 years of age, to reduce the potentially confounding effects of mixing in the elderly and retired. Annual consumption expenditures by income class are derived from the Bureau of Labor Statistics' Consumer Expenditure Surveys for 1989 and 1995. The first column shows the median financial wealth for the income group divided by the median monthly consumption expenditures for the group. The second column median financial wealth for the income group divided by 125 percent of the monthly poverty standard. As shown in Table 10, middle-income families between 25 and 54 years of age in 1989 had accumulated, on average, only enough financial wealth to sustain their normal consumption for a period of 3.6 months in case of

income loss and to sustain consumption at 125 percent of the poverty standard for 9 months. Even the financial resources of the upper middle class, the fourth quintile, were only sufficient to maintain their normal consumption for 4.7 months and consumption at 125 percent of the poverty line for 14.6 months. The lower middle income class and the low income classes have virtually no financial reserves. In 1995, the bottom four income groups all had lower financial resources by this measure, while the top quintile is slightly better off by the first measure, but worse off by the second.

### **Who Are the Rich? A View from the Top**

Are the rich really different from the rest of us? Table 11 provides some information on the characteristics of the wealthiest 1 percent of households, defined as those with net worth of more than \$1.5 million in 1983 or more than \$2.4 million in 1995. In 1983, the rich were older than other people—about 12 years on average. While 43 percent of all householders were in age group 45–74, 84 percent of the rich were in this age group. Between 1983 and 1995, while the general population aged somewhat, the proportion of the top wealth holders under age 35 increased from 0.7 percent to 1.6 percent and the proportion in ages 35 to 44 from 9.2 percent to 21.1 percent. Correspondingly, the proportion of the very rich in age group 45–74 fell sharply, from 84 percent to 72 percent—a fall particularly striking relative to the overall demographic trends.

The rich are much better educated than the overall population. In 1983, 76 percent of the very rich were at least college graduates, compared to 21 percent of all householders. Between 1983 and 1995, overall educational attainment increased in the general population, with the proportion graduating from college climbing from 21 percent to 29 percent and median schooling rising by one year. Somewhat surprisingly, the proportion of the rich who had graduated college actually fell from 76 percent to 69 percent, though of this group the percentage who had gone to graduate school increased. There was a particularly large increase in the percentage of college “drop-outs” (one to three years of college) among the rich, from 11.6 percent in 1983 to 16.5 percent in 1995—perhaps the “Bill Gates” phenomenon. As a result of these mixed trends, there is no clear evidence that more education paid off in terms of entry into the ranks of the top 1 percent of wealthholders over the period 1983 to 1992.

The racial composition of the very rich differs significantly from that of the general population. Whereas 81 percent of households in 1983 were non-Hispanic whites, 98 percent of the rich fell into this category. Between 1983 and 1995, the proportion of white households among the top 1 percent fell somewhat, from 97.9 percent to 95.3 percent, but the population share of white households diminished even further. The largest growth was in the share of Asians and other races among the top one percent of wealthholders, from 1.6 percent to 3.9 percent.

The health statistics for the rich are a self-reported category, so a subjective

Table 11

**Characteristics of The Top One Percent of Wealthholders, 1983 and 1995***(all figures are in percent)*

	1983		1995	
	<i>Top 1%</i>	<i>All</i>	<i>Top 1%</i>	<i>All</i>
<i>Age</i>				
Less than 35	0.7	30.6	1.6	24.8
35–44	9.2	19.5	21.1	23.0
45–74	84.1	42.8	72.3	42.4
75 and over	5.9	7.1	5.0	9.8
<i>Education</i>				
0–12 years	12.7	59.2	14.4	50.2
College 1–3	11.6	19.6	16.5	23.5
College graduate	40.0	10.6	29.1	15.0
Some graduate school	35.7	10.6	40.1	11.2
<i>Race</i>				
White (non-Hispanic)	97.9	80.9	95.3	77.7
Black (non-Hispanic)	0.5	12.7	0.7	12.8
Hispanic	0.0	3.5	0.0	5.7
Asian and others	1.6	2.8	3.9	3.9
<i>Health</i>				
Excellent	61.2	37.9	55.0	29.5
Good	32.1	39.6	33.0	46.1
Fair or Poor	6.7	22.5	12.0	24.4
<i>Occupation of employment</i>				
Self-Employed	37.5	15.4	71.1	15.0
Professionals, managers, & administrators	61.6	29.0	23.5	22.7
Sales, clerical, and all blue-collar workers	1.0	55.7	5.5	62.3
<i>Industry of employment</i>				
Trade	11.3	15.5	13.3	14.9
Finance & business services	47.8	31.8	58.3	39.3
Public administration	0.0	7.2	0.4	7.4
Other Industries	40.9	45.5	27.9	38.4

*Note:* Figures are for household heads. All panels sum to 100.

element is involved. The results suggest that the rich are much healthier than the average population. Between 1983 and 1995 there appears to be a slight deterioration in the health of both the overall population and the rich—trends which probably reflect the general aging of the population.

In terms of occupational composition, the self-employed (of any occupation) were substantially overrepresented in the ranks of the rich in 1983—38 percent versus 15 percent of all workers. The same was true for professionals, managers and administrators—62 percent compared to 29 percent of all householders in the labor force. There were virtually no sales, clerical, craft, or other blue-collar workers found among the top 1 percent of wealthholders in 1983. Between 1983 and 1995, the most notable change was a huge gain in the share of the self-employed among

the top 1 percent—almost doubling from 38 to 72 percent. This result tends to confirm our speculation about increased entrepreneurial activity in the ranks of the rich. Correspondingly, the proportion of salaried professionals, managers, and administrators in the ranks of the super-rich declined sharply over this time, from 62 percent to 24 percent.

Finally, the most common industry of employment for the very rich in 1983 was finance and business services, which includes finance, insurance, real estate, business, professional, or personal services. In 1983, 48 percent of the very rich who reported a job worked in this area, compared to 32 percent of all workers. The most notable change between 1983 and 1995 was a substantial gain in the share of finance and business services occupation in the ranks of the rich, from 48 to 58 percent (an increase relative to their overall employment share, which also increased). The proportion of workers employed in goods industries—which includes agriculture, mining, construction, manufacturing, transportation, communication, and utilities—in the ranks of the very rich fell steeply, from 41 percent in 1983 to 28 percent in 1995.

## Sources of Changing Inequality

Why did wealth concentration increase so much over the 1980s and moderate in the 1990s? Though a full analysis of the factors involved is not possible here, two influences do stand out: the underlying trend in income inequality and the ratio of stock prices to median housing prices. The latter variable is used because stocks are highly concentrated among the rich while housing is the chief asset of the middle class.

Consider a simple regression. Let the dependent variable be wealth inequality, measured by the share of marketable wealth held by the top 1 percent of households. The independent variables are the share of income earned by the top 5 percent of households, the ratio of stock prices (measured by the Standard and Poor 500 index) to median housing prices, and a constant term.<sup>8</sup> Estimate the regression on 20 data points from 1922 and 1995, determined by the years in which either the estate tax data mentioned above or survey data are available, over that time. Both variables are statistically significant, the income variable at the 1 percent level and the stock price/housing price variable at the 5 percent level, and with the expected (positive) sign. Also, the fit is quite good for such a simple model, with an  $R^2$  of .63.<sup>9</sup> The coefficients from such a regression imply that about two-thirds

<sup>8</sup> The source for the income inequality series is the U.S. Bureau of the Census, Current Population Reports; the source for the Standard and Poor series is the 1997 *Economic Report of the President*; and the source for housing prices is various years of the *Statistical Abstract of the United States*. See Wolff (1996a) for more details.

<sup>9</sup> Specifically, the regression is:

$$\text{WLTHTOP1} = 5.41 + 1.24 \text{ INCTOP5} + 0.28 \text{ SP/HOUSE}, R^2 = 0.63, N = 20,$$

(0.6)      (3.3)      (2.6)

with t-ratios shown in parentheses.

of the big run-up in wealth inequality between 1983 and 1989 can be accounted for by the substantial jump in income inequality over the same period, and about one-third by the increase in stock prices relative to housing prices (the residual is very small over this time frame—less than 3 percent). The more mitigated increase in wealth inequality between 1989 and 1995 is due to two offsetting effects: a huge gain in stock values relative to housing prices partially counterbalanced by a decline in underlying income concentration (with a residual of 20 percent).

## **U.S. Wealth Inequality in an International Context**

In comparing wealth distributions across countries, it is important to derive such estimates from data sources collected in a relatively comparable way. Otherwise, different sampling frames and degrees of asset coverage can lead to wildly different estimates of household wealth inequality. Table 12 offers estimates of the distribution of household wealth for various OECD countries in the mid-1980s, based on a variety of sources.

Take the 1983 Survey of Consumer Finances as the baseline study for the United States. The first comparison is the 1984 Statistics Canada Survey of Consumer Finances. The original survey data from the two samples shows that wealth inequality is clearly greater in the United States, with a share of the top percentile almost double that of Canada's. However, the Canadian SCF does not include a high-income supplement, as does the American SCF. When Davies (1993) adjusted the Canadian data for this, he estimated a 22–27 percent share for the top 1 percent in Canada and a 41–46 percent share for the top 5 percent, figures still well below the corresponding figures for the United States.

Estimates for Japan are shown for Japan's 1984 National Survey of Family Income and Expenditures, suggesting that wealth inequality is considerably lower in Japan than in the United States. The low wealth concentration in Japan may be due to the extremely large share that owner-occupied housing has in the Japanese household portfolio; total real estate comprised 85 percent of Japan's household net worth in 1984.<sup>10</sup> Two sets of estimates are shown for Sweden in 1985/1986, one from a survey of Household Market and Non-Market Activities conducted at the University of Gothenburg, the other from a household survey conducted by Statistics Sweden. The concentration of wealth also appears to be much greater in the United States than in Sweden. Estimates from the United Kingdom are based on marketable wealth for adult individuals derived from estate duty returns, taken from the Inland Revenue Statistics (the U.K. tax authority). Previous work of mine showed a remarkably close correspondence between the concentration shares of

<sup>10</sup> Other reasonably comparable sources for wealth inequality in Japan include the 1981 Family Saving Survey and the 1981 Survey on Saving Behavior and Motivation. Summary measures of wealth inequality from these studies confirm that Japan's distribution of wealth is more equal; for example, the U.S. Gini coefficient from the 1983 SCF is .79, while Japan's Gini coefficient from these two sources is .58.

Table 12

**The Inequality of Household Wealth in Selected Countries, Mid-1980s**

	<i>Percent of Total Wealth Held by:</i>	
	<i>Top 1%</i>	<i>Top 5%</i>
United States, 1983	35	56
Canada, 1984	17	38
France, 1986	26	43
Japan, 1984		25
Sweden, 1985/86	16	31
Statistics Sweden, 1985/86	16.5	37
United Kingdom, 1983	25	
United Kingdom, 1986	22	

Source: Wolff (1996b). See the paper for details on sources and methods.

the top 1 percent of individuals computed from U.S. estate tax data and the top 1 percent of households derived from household survey data (Wolff, 1996b). If this relation also holds for the United Kingdom, then the results suggest that wealth inequality is considerably less in the United Kingdom than in the United States.

Evidence from a variety of other sources confirms that the inequality of the U.S. wealth distribution is markedly higher than in other countries. For example, the 1983 SCF was actually modified to match the asset coverage of a 1986 French survey done by the Institut National de les Statistique et des Etudes Economiques (INSEE). The comparable figures in this case are for gross assets. The study shows that the top 1 percent and 5 percent of U.S. households in the wealth distribution have 33 percent and 54 percent of gross assets, respectively, while the top 1 percent and 5 percent of French households have 26 percent and 43 percent of gross assets. A plausible comparison for the United States and Germany can be made based on another conformable database—the German Socio-Economic Panel (GSOEP) and the U.S. PSID-GSOEP Equivalent Data File for 1988—which attempts to make the wealth concept used in the two databases consistent by including the same set of assets and liabilities. The results again show that the U.S. is the more unequal of the two countries.<sup>11</sup> For further discussions of these studies, their methods and limitations, see Wolff (1996b).

## Concluding Comments

The distribution of wealth in the United States became much more unequal in the 1980s, and that trend seems to be continuing, albeit at a slower pace, in the

<sup>11</sup> In particular, the U.S. wealth distribution had a Gini coefficient of .76, compared to .69 for Germany.

1990s. The only households that saw their mean net worth and financial wealth rise in absolute terms between 1983 and 1995 were those in the top 20 percent of their respective distributions and the gains were particularly strong for the top 1 percent. All other groups suffered real wealth or income losses, and the declines were particularly precipitous at the bottom. Slicing the numbers by black and white, or by young and old, only confirms the growth in inequality of wealth.

What has happened to the U.S. wealth distribution in the three years between 1995 and the publication of this article? It will take a few years before the evidence from the next SCF is available for analysis. However, some tentative comments can be offered. The very sharp rise in stock prices over the last three years (more than doubling) can only exacerbate further the divide between rich and poor. Though there has been talk about the “democratization” of stock ownership, stock shares are still heavily concentrated in the hands of the rich. Moreover, small business equity, which tends to move with stock prices, is also highly concentrated among the rich. If we conduct a simple simulation where we take asset holdings in 1995 as the baseline and run up asset values according to the actual change in asset prices over the last three years, the share of the top one percent would advance from 39 percent in 1995 to 41 percent in 1998.

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