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Recent Trends in Household Wealth in the United States: Rising Debt and the Middle-Class Squeeze

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ABSTRACT

I find here that the early 2000s witnessed both exploding debt and the middle-class squeeze. While median wealth grew briskly in the late 1990s, it fell slightly between 2001 and 2004, while the inequality of net worth increased slightly. Indebtedness, which fell substantially during the late 1990s, skyrocketed in the early 2000s. Among the middle class, the debt-to-income ratio reached its highest level in 20 years. The concentration of investment-type assets generally remained as high in 2004 as during the previous two decades. The racial and ethnic disparity in wealth holdings, after stabilizing during most of the 1990s, widened in the years between 1998 and 2001, but then narrowed during the early 2000s. Wealth also shifted in relative terms, away from young households (particularly those under age 35) and toward those in the 55–64 age group.

Keywords: Household Wealth, Inequality, Racial Inequality, Portfolio Composition

JEL Classifications: D31, J15

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1. INTRODUCTION

The 1990s witnessed some remarkable events. The stock market boomed. On the basis of the Standard & Poor (S&P) 500 Index, stock prices surged 171 percent between 1989 and 2001. Stock ownership spread and by 2001 (as we shall see below), over half of U.S. households owned stock, either directly or indirectly. Real wages, after stagnating for many years, finally grew in the late 1990s. According to BLS figures, real mean hourly earnings gained 8.3 percent between 1995 and 2001.[1]

However, 2001 saw a recession (albeit a short one). Moreover, the stock market peaked in 2000 and dropped steeply from 2000 to 2003, but recovered in 2004, so that between 2001 and 2004 the S&P 500 was down by only 5.3 percent in nominal terms but 12.0 percent in real terms. Real wages rose very slowly from 2001 to 2004, with the BLS real mean hourly earnings up by only 1.6 percent and median family income dropped in real terms by 2.1 percent. On the other hand, housing prices rose steeply. The median sales price of existing one-family homes rose by 17.9 percent in real terms nationwide.[2] The other big story was household debt, particularly that of the middle class, which skyrocketed during these years, as we shall see below.

Most studies have looked at the distribution of well-being or its change over time in terms of income. However, family wealth is also an indicator of well-being, independent of the direct financial income it provides. There are six reasons. First, owner-occupied housing provides services directly to their owner. 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, as the work of Conley (1999) has shown, wealth is found to affect household behavior over and above income. Fifth, as Spilerman (2000) has argued, wealth generated income does not require the same trade-offs with leisure as earned income. Sixth, in a representative democracy, the distribution of power is often related

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[1] These figures are based on the Bureau of Labor Statistics (BLS) hourly wage series (U.S. Council of Economic Advisers 2004). The BLS wage figures are converted to constant dollars on the basis of the Consumer Price Index (CPI-U).
[2] The source is Table 943 of the *2007 Statistical Abstract*, U.S. Bureau of the Census, available on the internet at http://www.census.gov/compendia/statab/.

to the distribution of wealth.

Previous work of mine (see Wolff, 1994, 1996, 1998, 2001, and 2002a), using the 1983, 1989, 1992, 1995, and 1998 Surveys of Consumer Finances, presented evidence of sharply increasing household wealth inequality between 1983 and 1989, followed by a modest rise between 1989 and 1998. Both mean and median wealth holdings climbed briskly during the 1983–1989 period. From 1989 to 1998, mean wealth continued to surge while median net worth rose at a rather anemic pace. Indeed, the only segment of the population that experienced large gains in wealth since 1983 is the richest 20 percent of households. Moreover, despite the buoyant economy over the 1990s, overall indebtedness continued to rise among American families. Stocks and pension accounts also rose as a share of total household wealth, with offsetting declines in bank deposits, investment real estate, and financial securities.

The ratio of mean wealth between African-American and white families was very low in 1983, at 0.19, and barely budged during the 1990s, though median wealth among African-American families did advance relative to white families. In 1983, the richest households were those headed by persons between 45 and 69 years of age, though between 1983 and 1989 wealth shifted away from this age group toward both younger and older age groups. However, the relative wealth holdings of both younger and older families fell between 1989 and 1998.

In this chapter, I update my earlier analysis on the ownership of household wealth to 2001 and 2004. The next section, Section 2, discusses the measurement of household wealth and describes the data sources used for this study. Section 3 presents results on time trends in median and average wealth holdings, Section 4 on changes in the concentration of household wealth, and Section 5 on the composition of household wealth. Section 6 investigates changes in wealth holdings by race and ethnicity and Section 7 reports on changes in the age-wealth profile. Section 8 provides details on stock ownership for different demographic groups. A summary of results and concluding remarks are provided in Section 9.

2. DATA SOURCES AND METHODS

The data sources used for this study are the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 Survey of Consumer Finances (SCF) conducted by the Federal Reserve Board. Each survey consists of a core representative sample combined with a high-income supplement. In 1983, for example, the supplement was drawn from the Internal Revenue Service's Statistics of Income data file. For the 1983 SCF, an income cut-off of $100,000 of adjusted gross income was used as the criterion for inclusion in the supplemental sample. Individuals were randomly selected for the sample within predesignated income strata. In later years, the high-income supplement was selected as a list sample from statistical records (the Individual Tax File), derived from tax data by the Statistics of Income Division of the Internal Revenue Service (SOI). This second sample was designed to disproportionately select families that were likely to be relatively wealthy (see, for example, Kennickell 2001, for a more extended discussion of the design of the list sample in the 2001 SCF). The advantage of the high-income supplement is that it provides a much "richer" sample of high income and, therefore, potentially very wealthy families. 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.[3]

In some years, the SCF also supplied alternative sets of weights. For the 1983 SCF, I use the so-called "Full Sample 1983 Composite Weights" because this set of weights provides the closest correspondence between the national balance sheet totals derived from the sample and those in the Federal Reserve Board Flow of Funds. For the same reason, results for the 1989 SCF are based on the average of SRC-Design-S1 series (X40131 in the database itself) and the SRC Designed-Based Weights (X40125); and results for the 1992, 1995, 1998, and 2001 SCF rely on the Designed-Base Weights (X42000)—a partially design-based weight constructed on the basis of original selection probabilities and frame information and adjusted for nonresponse.[4] In the case of the 1992 SCF, this set of weights produced major anomalies in the size distribution of income for 1991. As a result, I have modified the weights somewhat to

[3] For a discussion of some of the issues involved in developing these weights, see Kennickell and Woodburn (1992) for the 1989 SCF; Kennickell, McManus, and Woodburn (1996) for the 1992 SCF; Kennickell and Woodburn (1999) for the 1995 SCF; and Kennickell (2001) for the 2001 SCF.

[4] The 1998, 2001, and 2004 weights are actually partially Designed-Based weights (X42001), which account for the

conform to the size distribution of income as reported in the Internal Revenue Service's Statistics of Income.[5]

The Federal Reserve Board imputes information for missing items in the SCF. However, despite this procedure, there still remain discrepancies for several assets between the total balance sheet value computed from the survey sample and the Flow of Funds data. As a result, the results presented below are based on my adjustments to the original asset and liability values in the surveys. This takes the form of the alignment of asset and liability totals from the survey data to the corresponding national balance sheet totals. In most cases, this entails a proportional adjustment of reported values of balance sheet items in the survey data (see Wolff 1987, 1994, 1996, and 1998 for details).[6] It should be noted that the alignment has very little effect on the measurement of wealth inequality—both the Gini coefficient and the quantile shares. However, it is important to make these adjustments when comparing changes in mean wealth both overall and by asset type.

The principal wealth concept used here is marketable wealth (or net worth), which 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

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systematic deviation from the CPS estimates of homeownership rates by racial and ethnic groups.

[5] It should be noted at the outset that there appears to be a substantial change in the sampling frame used in the new 1992 Survey in comparison to the 1989 Survey. See Appendix I for more information.

[6] The adjustment factors by asset type and year are as follows:

	1983 SCF	1989 SCF	1992 SCF	1995 SCF
Checking Accounts	1.68			
Savings and Time Deposits	1.50			
All Deposits		1.37	1.32	
Financial Securities	1.20			
Stocks and Mutual Funds	1.06			
Trusts		1.66	1.41	1.45
Stocks and Bonds				1.23
Nonmortgage Debt	1.16			

No adjustments were made to other asset and debt components, or to the 1998, 2001, or 2004 SCF.

plans; (7) the cash surrender value of pension plans, including IRAs, Keogh, and 401(k) plans; (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 reflects wealth as a store of value and, therefore, a source of potential consumption. I believe that this is the concept that best reflects the level of well-being associated with a family's holdings. Thus, only assets that can be readily converted to cash (that is, "fungible" ones) are included. As a result, consumer durables such as automobiles, televisions, furniture, household appliances, and the like are excluded here, since these items are not easily marketed or their resale value typically far understates the value of their consumption services to the household. Also excluded is the value of future social security benefits the family may receive upon retirement (usually referred to as "social security wealth"), as well as the value of retirement benefits from private pension plans ("pension wealth"). Even though these funds are a source of future income to families, they are not in their direct control and cannot be marketed.[7]

I also use a more restricted concept of wealth, which I call "nonhome wealth." This is defined as net worth minus net equity in owner-occupied housing (the primary residence only). Nonhome wealth is a more liquid concept than marketable wealth, since one's home is difficult to convert into cash in the short term. Moreover, primary homes also serve a consumption purpose besides acting as a store of value. Nonhome wealth thus reflects the resources that may be immediately available for consumption expenditure or various forms of investments.

I use the standard price deflator, the CPI-U, which the U.S. Bureau of Labor Statistics (BLS) has been computing since 1947, to deflate wealth values. The CPI-U has recently been criticized for overstating the rate of inflation. As a result, the BLS has been providing a new consumer price series, called the CPI-U-RS. The CPI-U-RS series makes quality adjustments for housing units and consumer durables, such as automobiles and personal computers, and employs a geometric mean formula to account for consumer substitution within CPI item categories. As a result, the CPI-U-RS deflator is not subject to the same criticisms as the CPI-U series. Indeed, the Current Population Survey (CPS) data are now normally deflated to constant dollars using the new CPI-U-RS price index

While the CPI-U-RS deflator incorporates quality and other adjustments, the adjustments are made only from 1978 to the present. The CPI-U index is used for years prior to 1978. The CPI-U-RS shows a much slower rate of inflation after 1973 than the CPI-U: 288 versus 238 percent. If we use the CPI-U-RS deflator, then constant dollar median family income would show a 22 percent growth between 1973 and 2000, in comparison to the 6 percent growth rate on the basis of the CPI-U deflator.

While the use of the CPI-U-RS will show a higher growth in real incomes (and wealth) since 1978, it is not clear that the degree of bias in the CPI has risen in recent years. If similar adjustments were made on the pre-1978 price data, it is possible that inflation rate over the 1947–1978 period would be adjusted downward by a similar amount as the post-1978 inflation rate. Since my time-series data on wealth begins in 1922, I have elected to use the CPI-U series to convert nominal values to real dollars throughout the book, since the CPI-U series is the only consumer price series that runs from 1922 to the present.[8]

3. MEDIAN WEALTH FELL DURING THE EARLY 2000S

Table 1 documents a robust growth in wealth during the 1990s. Median wealth (the wealth of the household in the middle of the distribution) was 16 percent greater in 2001 than in 1989. After rising by 7 percent between 1983 and 1989, median wealth fell by 17 percent from 1989 to 1995 and then rose by 39 percent from 1995 to 2001. As a result, median wealth grew slightly faster between 1989 and 2001, 1.32 percent per year, than between 1983 and 1989, at 1.13 percent per year. However, between 2001 and 2004, median wealth *fell* by 0.7 percent, a result of the 2001 recession. Such a drop is not unprecedented. Indeed, it occurred during the last recession in 2002, when median wealth fell by a staggering 15 percent from 1989 to 1992. Indeed, it was not until 1998 that median wealth surpassed its previous high in 1989.

[7] See Wolff (2002b) for recent estimates of social security and pension wealth.

[8] Another price series that has been used by the U.S. Census Bureau in its Current Population Reports is the CPI-U-X1. This series is another experimental one devised by the BLS and corrects for some technical problems in the CPI-U, especially the treatment of housing prices. Like the CPI-U-RS, it too shows a somewhat lower rate of price inflation after

Table 1: Mean and Median Wealth and Income, 1983–2004
(In thousands, 2004 dollars)

Wealth Concept	1983	1989	1992	1995	1998	2001	2004	Percentage Change 1983-1989	1989-2001	2001-2004	1983-2004
A. Net Worth											
1. Median	63.3	67.7	57.8	56.6	70.3	78.4	77.9	7.0	15.8	-0.7	23.1
2. Mean	246.4	282.3	274.4	253.5	313.2	405.5	430.5	14.6	43.7	6.2	74.7
3. Percent with net worth											
a. Zero or negative	15.5	17.9	18.0	18.5	18.0	17.6	17.0				
b. Less than $5,000[a]	25.4	27.6	27.2	27.8	27.2	26.6	26.8				
c. Less than $10,000[a]	29.7	31.8	31.2	31.9	30.3	30.1	29.9				
B. Nonhome Wealth											
1. Median	13.7	16.1	13.5	12.3	20.6	24.7	18.2	18.0	53.4	-26.5	33.2
2. Mean	178.8	210.7	209.2	194.5	246.0	318.4	319.4	17.8	51.1	0.3	78.6
3. Percent with zero or negative nonhome wealth	25.7	26.8	28.2	28.7	25.7	25.5	28.0				
C. Income[b]											
1. Median	39.6	44.0	41.2	42.2	45.1	45.0	42.0	11.2	2.3	-6.8	6.0
2. Mean	48.2	55.6	52.3	55.7	60.1	62.1	68.8	15.5	11.6	10.8	42.7

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 Survey of Consumer Finances. the Full Sample 1983 Composite Weights; and the 1989 weights are the average of the SRC-Design-S1 series (X40131) and the SRC designed based weights (X40125).
The 1992 calculations are based on the Designed-Base Weights (X42000), with my adjustments (see Wolff 1996). The 1995 weights are the Designed-Base Weights (X42000). The 1998, 2001, and 2004 weights are partially Designed-Based weights (X42001), which account for the systematic deviations from CPS estimates of homeownership by racial/ethnic groups. The 1983, 1989, 1992, and 1995 asset and liability entries are aligned to national balance sheet totals. The 1998, 2001, and 2004 asset and liability entries are based on original,
a. Constant 1995 Dollars.
b. Source for household income data: U.S. Census of the Bureau, Current Populations Surveys, available on the Internet.

On the surface it seems rather surprising that median wealth fell from 2001 to 2004 when housing prices rose so rapidly. As shown in Section 5, houses comprise the majority of the wealth of middle class families (almost exactly two-thirds of the gross assets of the middle three wealth quintiles). Just from the increase in housing prices alone, median net worth should have risen by about 11.8 percent. (The decline in stock prices would have lowered median net worth by 0.9 percent, for a net gain of almost 11 percent). The reason why median net worth failed to increase was the enormous increase of household debt of the middle class over these years (see Section 5 below).

Moreover, as shown in the third row of Panel A, the percentage of households with zero

1973 and thus a somewhat higher growth in real incomes. However, this new price series starts only in 1967.

or negative net worth increased from 15.5 percent in 1983 to 17.9 percent in 1989, but fell off a bit to 17.6 percent in 2001 and then to 17.0 percent in 2004. The share of households with net worth less than $5,000 and less than $10,000 (both in 1995 dollars) also declined somewhat between 1989 and 2004.

Mean net worth also showed a sharp increase from 1983 to 1989, followed by a rather precipitous decline from 1989 to 1995 and then, buoyed largely by rising stock prices, another surge in 2001 and then an additional rise in 2004. Overall, it was 75 percent higher in 2004 than in 1983 and 53 percent larger than in 1989.[9] Mean wealth grew quite a bit faster between 1989 and 2001, at 3.02 percent per year, than from 1983 to 1989, at 2.27 percent per year. There was a slowdown in wealth growth from 2001 to 2004 to 1.99 percent per year. This slowdown was due largely to the sharp decline in stock prices between 2001 and 2003, followed by a modest recovery in 2004, though on net it was down by 12.0 percent in real terms from 2001. The slowdown occurred despite the rapid increase in housing prices of 17.9 percent in real terms over the three years,[10] and the fact that housing comprised 28.2 percent and (total) stocks made up 24.5 percent of total assets in 2001. The reason why net worth rose slowly is that debt climbed sharply over the period. Moreover, mean wealth grew more than three times as fast as the median between 1983 and 2001, indicating widening inequality of wealth over these years.

Nonhome wealth grew even faster than net worth during the 1990s. Median nonhome wealth rose by 18 percent between 1983 and 1989, then plummeted by 24 percent from 1989 to 1995, and then surged over the next six years, for a net increase of 53 percent between 1989 and 2001. However, from 2001 to 2004, median nonhome wealth plummeted once again—in this case, by 26 percent. Here, again, the reasons are falling stock prices and rising nonmortgage debt as a share of total assets. All in all, median nonhome wealth grew by 33 percent from 1983 to 2004, 10 percentage points more than the gain in median net worth.

Between 1983 and 1995, the fraction of households with zero or negative nonhome wealth rose expanded from 25.7 to 28.7 percent, then fell back to 25.5 percent in 2001, but then climbed again to 28 percent in 2004. Thus, the sharp decline in median nonhome wealth

[9] Time trends are very similar when the unadjusted asset values are used instead of my adjusted values and when the value of vehicles is included in net worth.

reflected, in part, the growing nonmortgage debt of the bottom half of the distribution.

Mean nonhome wealth, after increasing by 18 percent from 1983 to 1989, declined by 8 percent between 1989 and 1995, and then jumped after that, for a net gain of 51 percent between 1989 and 2001. From 2001 to 2004 there was virtually no change in mean nonhome wealth, so that over the entire 1983–2004 period, mean nonhome wealth increased by 79 percent, slightly more than mean net worth. Increases were almost identical for median and mean nonhome wealth from 1983 to 2001, but because of the sharp fall-off in median nonhome wealth from 2001 to 2004, mean nonhome wealth grew at more than double the pace of median nonhome wealth from 1983 to 2001. The bull market was largely responsible for the sharp growth in nonhome wealth between 1995 and 2001, while stagnating stock prices coupled with rising indebtedness caused the slow growth in nonhome wealth from 2001 to 2004.

Median household income (based on Current Population Survey data), after gaining 11 percent between 1983 and 1989, grew by only 2.3 percent from 1989 to 2001 and then nosedived by almost 7 percent between 2001 and 2004, for a net change of only 6 percent from 1983 to 2004. In contrast, mean income rose by 16 percent from 1983 to 1989, by another 12 percent from 1989 to 2001, and again by 11 percent from 2001 to 2004, for a total change of 43 percent from 1983 to 2004. Between 1983 and 2004, mean income grew less than mean net worth (and nonhome wealth), and median income grew at a much slower pace than median wealth (and nonhome wealth).

In sum, while household income virtually stagnated for the average American household over the 1990s, median net worth, and especially median nonhome wealth, grew strongly over this period. However, in the early 2000s, median income fell sharply, median net worth fell a little, and median nonhome wealth tumbled by over a quarter.

4. WEALTH INEQUALITY SHOWS A MODEST INCREASE OVER THE EARLY 2000s

The figures in Table 2 also show that wealth inequality, after rising steeply between 1983 and

[10] See footnote 2 for the source.

1989, remained virtually unchanged from 1989 to 2004. The share of wealth held by the top 1 percent rose by 3.6 percentage points from 1983 to 1989 and the Gini coefficient increased from 0.80 to 0.83. Between 1989 and 2004, the share of the top percentile actually declined sharply, from 37.4 to 34.3 percent, though this was almost exactly compensated for by an increase in the share of the next four percentiles. As a result, the share of the top 5 percent remained at 58.9 percent in the two years, while the share of the top quintile rose from 83.5 to 84.7 percent. The share of the fourth and middle quintiles also each declined by a percentage point, while that of the bottom 40 percent increased by almost 1 percentage point. Overall, the Gini coefficient fell very slightly, from 0.832 in 1989 to 0.829 in 2004.

Table 2. The Size Distribution of Wealth and Income, 1983–2004

		Percentage Share of Wealth or Income held by:								
Year	**Gini Coefficient**	**Top 1.0%**	**Next 4.0%**	**Next 5.0%**	**Next 10.0%**	**Top 20.0%**	**4th 20.0%**	**3rd 20.0%**	**Bottom 40.0%**	**All**
A. Net Worth										
1983	0.799	33.8	22.3	12.1	13.1	81.3	12.6	5.2	0.9	100.0
1989	0.832	37.4	21.6	11.6	13.0	83.5	12.3	4.8	-0.7	100.0
1992	0.823	37.2	22.8	11.8	12.0	83.8	11.5	4.4	0.4	100.0
1995	0.828	38.5	21.8	11.5	12.1	83.9	11.4	4.5	0.2	100.0
1998	0.822	38.1	21.3	11.5	12.5	83.4	11.9	4.5	0.2	100.0
2001	0.826	33.4	25.8	12.3	12.9	84.4	11.3	3.9	0.3	100.0
2004	0.829	34.3	24.6	12.3	13.4	84.7	11.3	3.8	0.2	100.0
B. Nonhome Wealth										
1983	0.893	42.9	25.1	12.3	11.0	91.3	7.9	1.7	-0.9	100.0
1989	0.926	46.9	23.9	11.6	11.0	93.4	7.4	1.7	-2.5	100.0
1992	0.903	45.6	25.0	11.5	10.2	92.3	7.3	1.5	-1.1	100.0
1995	0.914	47.2	24.6	11.2	10.1	93.0	6.9	1.4	-1.3	100.0
1998	0.893	47.3	21.0	11.4	11.2	90.9	8.3	1.9	-1.1	100.0
2001	0.888	39.7	27.8	12.3	11.4	91.3	7.8	1.7	-0.7	100.0
2004	0.902	42.2	26.7	12.0	11.6	92.5	7.3	1.2	-1.1	100.0
C. Income (SCF)										
1982	0.480	12.8	13.3	10.3	15.5	51.9	21.6	14.2	12.3	100.0
1988	0.521	16.6	13.3	10.4	15.2	55.6	20.6	13.2	10.7	100.0
1991	0.528	15.7	14.8	10.6	15.3	56.4	20.4	12.8	10.5	100.0
1994	0.518	14.4	14.5	10.4	15.9	55.1	20.6	13.6	10.7	100.0
1997	0.531	16.6	14.4	10.2	15.0	56.2	20.5	12.8	10.5	100.0
2000	0.562	20.0	15.2	10.0	13.5	58.6	19.0	12.3	10.1	100.0

2003	**0.540**	**17.0**	**15.0**	**10.9**	**14.9**	**57.9**	**19.9**	**12.1**	**10.2**	**100.0**

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 SCF.
For the computation of percentile shares of net worth, households are ranked according to their net worth; for percentile shares of nonhome wealth, households are ranked according to their nonhome wealth; and for percentile shares of income, households are ranked according to their income.

Nonhome wealth is even more concentrated than net worth, with the richest 1 percent (as ranked by nonhome wealth) owning 42 percent of total household nonhome wealth in 2004 (compared to 34 percent for net worth) and the top 20 percent owning 93 percent (compared to 85 percent for net worth). The inequality of nonhome wealth shows a different time trend than net worth. The share of the top 1 percent gained 4.0 percentage points and the Gini coefficient increased from 0.89 to 0.93 between 1983 and 1989—trends mirroring those of net worth. However, in the ensuing twelve years, from 1989 to 2001, the share of the richest 1 percent plummeted by 7 percentage points, the share of the top 5 percent fell by 3 percentage points, and that of the top quintile by 2 percentage points. The share of the fourth quintile increased by 0.4 percentage points, the share of the middle quintile held its own, and that of the bottom two quintiles rose. As a result, the Gini coefficient fell from 0.93 in 1989 to 0.89 in 2001 and was actually slightly lower in 2001 than in 1983. However, the trend reversed between 2001 and 2004, with the share of the top percent rising by 2.5 percentage points, that of the top quintile up by 1.2 percentage points, and the shares of the third and fourth quintiles, and the bottom 40 percent all falling. As a result, the Gini coefficient rose from 0.89 in 2001 to 0.90 in 2004, still higher than in 1983 but lower than its peak value of 1989. The run-up in inequality in the early 2000s is a reflection of the increase in the share of households with zero or negative nonhome wealth.

The top 1 percent of families (as ranked by income on the basis of the SCF data) earned 17 percent of total household income in 2003 and the top 20 percent accounted for 58 percent—large figures, but lower than the corresponding wealth shares. The time trend for income inequality also contrasts with those for net worth and nonhome wealth inequality. Income inequality increased sharply between 1982 and 1988, with the Gini coefficient rising from 0.48 to 0.52 and the share of the top 1 percent from 12.8 to 16.6 percent. There was then very little change between 1988 and 1997. While the share of the top 1 percent remained at 16.6 percent of total income, the share of the next 19 percent increased by 0.6 percentage points and the share of the other quintiles lost so that the Gini coefficient grew slightly, from 0.52 to

0.53.

However, between 1997 and 2000, income inequality again surged, with the share of the top percentile rising by 3.4 percentage points, the shares of the other quintiles falling again, and the Gini index advancing from 0.53 to 0.56. As a result, the years from 1989 to 2001 saw almost the same degree of increase in income inequality as the 1983–1989 period.[11] The trend reversed between 2000 and 2003, with the Gini coefficient falling from 0.56 to 0.54 (though still above its 1997 level). The main change was a sharp decline in the share of the top 1 percent by 3 percentage points, reflecting a substantial downturn in realized capital gains. All in all, the period from 2001 to 2004 witnessed a sharp decline in income inequality, a small rise in wealth inequality, and a significant jump in nonhome wealth inequality.

It is somewhat surprising that net worth inequality did not decline from 2001 to 2004. The reason is that, as shown in my previous work (Wolff 2002a), wealth inequality is positively related to the ratio of stock prices to house prices. Between 2001 and 2004, that ratio (of the Standard & Poor 500 Stock Index to the median sales price of existing one-family homes) fell sharply from 8.1 to 6.1. The reason inequality did not fall is that household debt also mushroomed over these years (see Section 5 below). In fact, the inequality of gross assets did show a decline between 2001 to 2004, from a Gini coefficient of 0.774 to 0.767. It was only rising debt that led to a rise in overall net worth inequality.

Despite the relative stability in overall wealth inequality during the 1990s, there was a near explosion in the number of very rich households (see Table 3). The number of millionaires almost doubled between 1989 and 2001, the number of “pentamillionaires” ($5,000,000 or more) increased three and a half times, and the number of “decamillionaires” ($10,000,000 or more) grew more than five-fold. Much of the growth occurred between 1995 and 2001 and was directly related to the surge in stock prices. The number of the very rich continued to increase between 2001 and 2004, though at much slower pace, with the number of millionaires growing

[11] It should be noted that the SCF data show a much higher level of income inequality than the CPS data. In the year 2000, for example, the CPS data show a share of the top *five* percent of 22.1 percent and a Gini coefficient of 0.462. The difference is primarily due to two factors. First, the SCF oversamples the rich (as noted above), while the CPS is a representative sample. Second, the income concepts differ between the two samples. In particular, the SCF income definition includes capital gains whereas the CPS definition does not. However, the CPS data also show a large increase of inequality between 1989 and 2000, with the share of the top five percent rising from 18.9 to 22.1 percent and the Gini coefficient from 0.431 to 0.462. Further analysis of the difference in income figures between the two surveys is beyond the scope of the present paper.

by 10 percent, the number of pentamillionaires by 5 percent, and the number of decamillionaires by only 2 percent.

Table 3. The Count of Millionaires and Multimillionaires, 1983–2004

Year	Total Number of Households (1,000s)	The Number of Households (in 1,000s) with Net Worth Equal to or Exceeding (in 1995$): 1 Million	5 Million	10 Million
1983	**83,893**	**2,411**	**247.0**	**66.5**
1989	**93,009**	**3,024**	**296.6**	**64.9**
1992	**95,462**	**3,104**	**277.4**	**41.6**
1995	**99,101**	**3,015**	**474.1**	**190.4**
1998	**102,547**	**4,783**	**755.5**	**239.4**
2001	**106,494**	**5,892**	**1,067.8**	**338.4**
2004	**112,107**	**6,466**	**1,120.0**	**344.8**
% Change	**33.6**	**168.2**	**353.4**	**418.6**

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 SCF.

Table 4 shows the absolute changes in wealth and income between 1983 and 2004. The results are even more striking. Over this period, the largest gains in relative terms were made by the wealthiest households. The top 1 percent saw their average wealth (in 2004 dollars) rise by over 6 million dollars or by 78 percent. The remaining part of the top quintile experienced increases from 78 to 92 percent and the fourth quintile by 57 percent. While the middle quintile gained 27 percent, the poorest 40 percent lost 59 percent! By 2004, their average wealth had fallen to $2,200.

Table 4. Mean Wealth Holdings and Income by Wealth or Income Class, 1983–2004
(In thousands, 2004 dollars)

Variable	Top 1.0%	Next 4.0%	Next 5.0%	Next 10.0%	Top 20.0%	4th 20.0%	3rd 20.0%	Bottom 40.0%	All
A. Net Worth									
1983	8,315	1,375	598.2	323.0	1,001.9	154.8	64.3	5.4	246.4
2004	14,786	2,645	1,062.7	576.7	1,822.4	243.6	81.9	2.2	430.5
% change	77.8	92.3	77.7	78.5	81.9	57.3	27.3	-58.7	74.7
% of gain[a]	35.1	27.6	12.6	13.8	89.1	9.6	1.9	-0.7	100.0
B. Nonhome Wealth									
1983	7,170	1,050	410.2	183.9	762.9	66.0	14.2	(3.7)	167.2
2004	13,485	2,132	767.9	369.7	1,477.4	116.9	19.9	(8.7)	319.4
% change	88.1	103.0	87.2	101.1	93.6	77.0	39.7	135.6	91.0
% of gain[a]	41.5	28.4	11.8	12.2	93.9	6.7	0.7	-1.3	100.0
C. Income									
1982	698	180	112.0	84.0	141.0	58.8	38.5	16.8	54.4
2003	1,169	258	150.2	102.6	198.9	68.4	41.5	17.5	68.8
% change	67.6	43.1	34.1	22.1	41.1	16.4	7.9	4.3	26.5
% of gain[a]	32.7	21.6	13.3	12.9	80.5	13.3	4.2	2.0	100.0

Source: Own computations from the 1983 and 2004 Survey of Consumer Finances.
For the computation of percentile shares of net worth, households are ranked according to their net worth; for percentile shares of income, households are ranked according to their income.
a. The computation is performed by dividing the total increase in wealth of a given group by the total increase of wealth for all households over the period, under the assumption that the number of households in each group remains unchanged over the period. It should be noted that the households found in a given group (such as the top quintile) may be different in each year.

Another way of viewing this phenomenon is afforded by calculating the proportion of the total increase in real household wealth between 1983 and 2004 accruing to different wealth groups. This is computed by dividing the increase in total wealth of each percentile group by the total increase in household wealth, while holding constant the number of households in that group. If a group's wealth share remains constant over time, then the percentage of the total wealth growth received by that group will equal its share of total wealth. If a group's share of total wealth increases (decreases) over time, then it will receive a percentage of the total wealth gain greater (less) than its share in either year. However, it should be noted that in these calculations, the households found in each group (say the top quintile) may be different in the two years.

The results indicate that the richest 1 percent received over one-third of the total gain in marketable wealth over the period from 1983 to 2004. The next 4 percent received over a quarter of the total gain, as did the next 15 percent, so that the top quintile collectively accounted for 89 percent of the total growth in wealth, while the bottom 80 percent accounted for 11 percent.

The pattern of results is similar for nonhome wealth. The average nonhome wealth of the richest 1 percent almost doubled, that of the next richest 4 percent more than doubled, and that of the next richest 15 percent by about 90 percent. Altogether, the nonhome wealth of the top quintile gained 94 percent. However, in the case of nonhome wealth, the fourth and third quintiles also showed substantial gains of 77 and 40 percent, respectively, though the bottom 40 percent showed negative growth. Of the total growth in nonhome wealth between 1983 and 2004, 42 percent accrued to the top 1 percent and 94 percent to the top quintile, while the bottom 80 percent collectively accounted for only 6 percent.

A similar calculation using income data reveals that the greatest gains in real income over the period from 1982 to 2003 were made by households in the top 1 percent of the income distribution who saw their incomes grow by 68 percent. Mean incomes increased by over a third for the next highest 9 percent and by 22 percent for the next highest 10 percent. Groups in the bottom 80 percent of the income distribution all experienced 16 percent or less real growth in income. Of the total growth in real income between 1982 and 2003, almost a third accrued to the top 1 percent and 80 percent by the top quintile, with remaining 20 percent distributed among the bottom 80 percent.

These results indicate rather dramatically that despite the relative stability of inequality of net worth and the decrease of nonhome wealth inequality during the 1990s and early 2000s, the growth in the economy during the period from 1983 to 2004 was concentrated in a surprisingly small part of the population—the top 20 percent and particularly the top 1 percent.

5. STOCKS REMAIN HIGHLY CONCENTRATED IN THE HANDS OF THE RICH

The portfolio composition of household wealth shows the forms in which households save. In 2004, owner-occupied housing was the most important household asset in the breakdown shown in Table 5, accounting for 33 percent of total assets. However, net home equity—the value of the house minus any outstanding mortgage—amounted to only 22 percent of total assets. Real estate, other than owner-occupied housing, comprised 12 percent, and business equity another 17 percent.

Table 5. Composition of Total Household Wealth, 1983–2004
(Percent of gross assets)

Wealth component	1983	1989	1992	1995	1998	2001	2004
Principal residence (gross value)	30.1	30.2	29.8	30.4	29.0	28.2	33.5
Other real estate (gross value)[a]	14.9	14.0	14.7	11.0	10.0	9.8	11.5
Unincorporated business equity[b]	18.8	17.2	17.7	17.9	17.7	17.2	17.1
Liquid assets[c]	17.4	17.5	12.2	10.0	9.6	8.8	7.3
Pension accounts[d]	1.5	2.9	7.2	9.0	11.6	12.3	11.8
Financial securities[e]	4.2	3.4	5.1	3.8	1.8	2.3	2.1
Corporate stock and mututal funds	9.0	6.9	8.1	11.9	14.8	14.8	11.9
Net equity in personal trusts	2.6	3.1	2.7	3.2	3.8	4.8	2.9
Miscellaneous assets[f]	1.3	4.9	2.5	2.8	1.8	1.8	1.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Debt on principal residence	6.3	8.6	9.8	11.0	10.7	9.4	11.6
All other debt[g]	6.8	6.4	6.0	5.3	4.2	3.1	3.9
Total debt	13.1	15.0	15.7	16.3	15.0	12.5	15.5
Memo (selected ratios in percent):							
Debt/equity ratio	15.1	17.6	18.7	19.4	17.6	14.3	18.4
Debt/income ratio	68.4	87.6	88.8	91.3	90.9	81.1	115.0
Net home equity/total assets[h]	23.8	21.6	20.1	19.5	18.2	18.8	21.8
Principal residence debt/house value	20.9	28.6	32.7	36.0	37.0	33.4	34.8
Stocks, directly or indirectly owned/ total assets[i]	11.3	10.2	13.7	16.8	22.6	24.5	17.5

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 Survey of Consumer Finances.
a. In 2001 and 2004, this equals the gross value of other residential real estate plus the *net equity* in nonresidential real estate.
b. Net equity in unincorporated farm and nonfarm businesses and closely-held corporations.
c. Checking accounts, savings accounts, time deposits, money market funds, certificates of deposits, and the cash surrender value of life insurance.
d. IRAs, Keogh plans, 401(k) plans, the accumulated value of defined contribution pension plans, and other retirement accounts.
e. Corporate bonds, government bonds (including savings bonds), open-market paper, and notes.
f. Gold and other precious metals, royalties, jewelry, antiques, furs, loans to friends and relatives, future contracts, and miscellaneous assets.
g. Mortgage debt on all real property except principal residence; credit card, installment, and other consumer debt.
h. Ratio of gross value of principal residence less mortgage debt on principal residence to total assets.
i. Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts

Demand deposits, time deposits, money market funds, CDs, and the cash surrender value of life insurance made up 7 percent and pension accounts 12 percent. Bonds and other financial securities amounted to 2 percent; corporate stock, including mutual funds, to 12 percent; and trust equity to a little less than 3 percent. Debt as a proportion of gross assets was 16 percent and the debt-equity ratio (the ratio of total household debt to net worth) was 0.18.

There have been some notable changes in the composition of household wealth over the period between 1983 and 2004. The first is the steep rise in the share of gross housing wealth in total assets. After fluctuating between 28.2 and 30.4 percent from 1983 to 2001, the ratio jumped to 33.5 percent in 2004. There are two factors behind this. The first is the rise in the homeownership rate. According to the SCF data, the homeownership rate, after falling from 63.4 percent in 1983 to 62.8 percent in 1989, picked up to 67.7 percent in 2001 and then to 69.1 percent in 2004. The second is the sharp rise in housing prices, noted above. Between 2001 and 2004, the median house price for existing one-family homes rose by 17.9 percent in real terms.[12] The rise in housing prices by itself would have caused the share of housing in total assets to rise by 5.05 percentage points instead of the actual 5.2 percentage points.

A second and related trend is that net equity in owner-occupied housing (the difference between the market value and outstanding mortgages on the property), after falling almost continuously from 23.8 percent in 1983 to 18.2 percent in 1998, picked up to 18.8 percent in 2001 and 21.8 percent in 2004. The difference between the two series (gross versus net housing values as a share of total assets) is attributable to the changing magnitude of mortgage debt on homeowner's property, which increased from 21 percent in 1983 to 37 percent in 1998, fell back to 33 percent in 2001, and then rose again to 35 percent in 2004. Moreover, mortgage debt on principal residence climbed from 9.4 to 11.6 percent of total assets between 2001 and 2004. The fact that net home equity as a proportion of assets increased between 2001 and 2004 thus reflected the strong gains in real estate values over these years.

Third, overall indebtedness first increased, with the debt-equity ratio leaping from 15.1 percent in 1983 to 19.4 percent in 1995, before falling off to 17.6 percent in 1998 and 14.3 percent in 2001. However, from 2001 to 2004, it jumped to 18.4 percent, close to its previous 1992 high. Likewise, the ratio of debt to total income first surged from 68 percent in 1983 to 91 percent in 1995, leveled off in 1998, then declined to 81 percent in 2001, and then skyrocketed to *115 percent* in 2004, its high for this period. If mortgage debt on principal residence is excluded, then the ratio of other debt to total assets fell off from 6.8 percent in 1983 to 3.1 percent in 2001, but then rose to 3.9 percent in 2004. One implication is that over the 1990s and early 2000s, families had been using tax-sheltered mortgages and home equity loans rather than consumer loans and other forms of consumer debt to finance normal consumption.

A fourth change is that pension accounts rose from 1.5 to 11.8 percent of total assets. This increase largely offset the decline in total liquid assets, from 17.4 to 7.3 percent, so that it is reasonable to conclude that households have, to a large extent, substituted tax-free pension accounts for taxable savings deposits.

Fifth, the proportion of total assets in the form of other (non-home) real estate fell off sharply, from 15 percent in 1983 to 10 percent in 2001, but then increased to 11.5 percent. The change from 2001 to 2004, to a large extent, reflected rising real estate prices. Financial securities fell from 4.2 to 2.3 percent of total assets between 1983 and 2004. Unincorporated business equity fell slightly as a share of gross wealth over this period. The share of corporate stock and mutual funds in total assets rose rather briskly from 9.0 in 1983 to 14.8 percent in 1998, stated at 14.8 percent in 2001, and then plummeted to 11.9 percent in 2004. If we include the value of stocks indirectly owned through mutual funds, trusts, IRAs, 401(k) plans, and other retirement accounts, then the value of total stocks owned as a share of total assets more than doubled from 11.3 percent in 1983 to 24.5 percent in 2001 and then tumbled to 17.5 percent in 2004. The rise during the 1990s reflected the bull market in corporate equities, as well as increased stock ownership, while the decline in the early 2000s was a result of the fall in the stock market over this period, as well as a drop in stock ownership (see Table 12b below). The change in stock prices by itself would have caused the share of total stocks in assets to fall by only 2.9 percentage points, compared to the actual decline of 7.0 percentage points. Most of the decline in the share of stocks in total assets was due to sales of stocks and withdrawals from stock funds.

[12] See footnote 2 for the source.

A. Portfolio Composition by Wealth Class

This tabulation provides a picture of the average holdings of all families in the economy, but there are marked class differences in how middle-class families and the rich invest their wealth. As shown in Table 6, the richest 1 percent of households (as ranked by wealth) invested over three-quarters of their savings in investment real estate, businesses, corporate stock, and financial securities in 2001. Corporate stocks, either directly owned by the households or indirectly owned through mutual funds, trust accounts, or various pension accounts, comprised 21 percent by themselves. Housing accounted for only 11 percent of their wealth (and net equity in housing 9 percent), liquid assets another 5 percent, and pension accounts another 5 percent. Their ratio of debt to net worth was 4 percent, their ratio of debt to income was 61 percent, and the ratio of mortgage debt to house value was 17 percent.

Table 6. Composition of Household Wealth by Wealth Class, 2004
(Percent of gross assets)

Asset	All Households	Top One Percent	Next 19 Percent	Middle 3 Quintiles
Principal residence	33.5	10.9	32.2	66.1
Liquid assets (bank deposits, money market funds, and cash surrender value of life insurance)	7.3	5.1	8.6	8.5
Pension accounts	11.8	5.3	16.0	12.0
Corporate stock, financial securities, mutual funds, and personal trusts	17.0	26.9	16.3	4.2
Unincorporated business equity other real estate	28.6	49.3	25.4	7.9
Miscellaneous assets	1.8	2.6	1.5	1.4
Total assets	100.0	100.0	100.0	100.0
<u>Memo (selected ratios in percent):</u>				
Debt/equity ratio	18.4	3.8	12.0	61.6
Debt/income ratio	115.0	61.4	107.0	141.2
Net home equity/total assets[a]	21.8	9.0	24.2	34.7
Principal residence debt/house value	34.8	17.1	24.9	47.6
All stocks/total assets[b]	17.5	21.3	19.8	7.5
<u>Ownership Rates (Percent)</u>				
Principal residence	69.1	97.4	96.8	78.2
Mobile home	4.3	0.0	0.7	5.9
Other real estate	18.1	78.9	47.0	13.6
Vacation homes	6.3	40.0	15.9	4.6
Pension assets	49.7	82.7	80.6	51.4
Unincorporated business	11.5	72.3	29.6	8.1
Corporate stock, financial securities[c], mutual funds, and personal trusts	32.1	84.8	73.0	27.1
Stocks, directly or indirectly owned[b]	48.6	93.3	87.1	47.9
(1) $5,000 or more	36.4	93.2	82.9	32.2
(2) $10,000 or more	31.1	92.9	78.2	25.3

Source: Own computations from the 2004 Surveys of Consumer Finances. Households are classified into wealth class according to their net worth. Brackets for 2004 are:

Top 1 percent: Net worth of $6,191,500 or more.
Next 19 percent: Net worth between $406,450 and $6,191,500.
Quintiles 2 through 4: Net worth between $500 and $406,450.

a. Ratio of gross value of principal residence less mortgage debt on principal residence to total assets.
b. Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts
c. Financial securities exclude U.S. government savings bonds in this tabulation.

Among the next richest 19 percent of U.S. households, housing comprised 32 percent of their total assets (and net home equity 24 percent), liquid assets another 9 percent, and pension assets 16 percent. Forty-two percent of their assets took the form of investment assets—real estate, business equity, stocks, and bonds—and 20 percent was in the form of stocks directly or indirectly owned. Debt amounted to 12 percent of their net worth and a bit over 100 percent of their income, and the ratio of mortgage debt to house value was 25 percent.

In contrast, two-thirds of the wealth of the middle three quintiles of households was invested in their own home in 2001. However, home equity amounted to only 35 percent of total assets, a reflection of their large mortgage debt. Another 21 percent went into monetary savings of one form or another and pension accounts. Together housing, liquid assets, and pension assets accounted for 87 percent of the total assets of the middle class. The remainder was about evenly split among non-home real estate, business equity, and various financial securities and corporate stock. Stocks directly or indirectly owned amounted to only 8 percent of their total assets. The ratio of debt to net worth was 62 percent, substantially higher than for the richest 20 percent, and their ratio of debt to income was 141 percent, also much higher than the top quintile. Finally, their mortgage debt amounted to almost half the value of their principal residences.

Almost all households among the top 20 percent of wealth holders owned their own home, in comparison to 78 percent of households in the middle three quintiles. Though this homeownership rate looks large, 6 percent of households in the middle three quintiles reported having a mobile home as their primary residence. Over three-quarters of very rich households (in the top percentile) owned some other form of real estate (40 percent owned a vacation home), compared to 47 percent of rich households (those in the next 19 percent of the distribution) and only 14 percent of households in the middle 60 percent. Eighty-three percent of the very rich owned some form of pension asset, compared to 81 percent of the rich and 51 percent of the middle. A somewhat startling 72 percent of the very rich reported owning their own business. The comparable figures are 30 percent among the rich and only 8 percent of the middle class.

Among the very rich, 85 percent held corporate stock, mutual funds, financial securities, or a trust fund, in comparison to 73 percent of the rich and 27 percent of the middle. Ninety-three percent of the very rich reported owning stock, either directly or indirectly, compared to 87 percent of the rich and 48 percent of the middle. If we exclude small holdings of stock, then the ownership rates drop off sharply among the middle three quintiles, from 48 percent to 32 percent for stocks worth $5,000 or more and to 25 percent for stocks worth $10,000 or more.

The rather staggering debt level of the middle class in 2004 raises the question of whether this is a recent phenomenon or whether it has been going on for some time. The overall debt-equity ratio in 2004 was still below its peak value in 1995, while the overall debt-income ratio has been generally trending upward since 1983 and actually took a big jump from 2001 to 2004.

Table 7 shows the wealth composition for the middle three wealth quintiles from 1983 to 2004. Perhaps, the noteworthy finding here is that changes in the asset portfolio composition of the middle class basically paralleled those of all households. Houses as a share of total assets remained virtually unchanged from 1983 to 2001 but then increased in 2004, likely a reflection of rising house prices. Pension accounts rose as a share of total assets by 11 percentage points (and the proportion of households with a pension account surged by 39 percentage points) from 1983 to 2004, while liquid assets declined as a share by 13 percentage points. This set of changes paralleled that of all households. The share of investment assets in total assets rose by 3 percentage points from 1983 to 2001 and then fell by 2 percentage points in 2004, reflecting the stagnation of stock prices. The share of all stocks in total assets mushroomed from 2.4 percent in 1983 to 12.6 percent in 2001 and then fell off to 7.5 percent in 2004 as stock prices stagnated.

Table 7. Composition of Household Wealth of the Middle Three Wealth Quintiles, 1983–2004
(Percent of gross assets)

Asset	1983	1989	1998	2001	2004
Principal residence	61.6	61.7	59.8	59.2	66.1
Liquid assets (bank deposits, money market funds, and cash surrender value of life insurance)	21.4	18.6	11.8	12.1	8.5
Pension accounts	1.2	3.8	12.3	12.7	12.0
Corporate stock, financial securities, mutual funds, and personal trusts	3.1	3.5	5.5	6.2	4.2
Unincorporated business equity other real estate	11.4	9.4	8.8	8.5	7.9
Miscellaneous assets	1.3	2.9	1.8	1.2	1.4
Total assets	100.0	100.0	100.0	100.0	100.0
Memo (selected ratios in percent):					
Debt/equity ratio	37.4	41.7	51.3	46.4	61.6
Debt/income ratio	66.9	83.0	101.6	100.3	141.2
Net home equity/total assets[a]	43.8	39.2	33.3	33.8	34.7
Principal residence debt/house value	28.8	36.5	44.4	42.9	47.6
All stocks/total assets[b]	2.4	3.3	11.2	12.6	7.5
Ownership Rates (Percent)					
Principal residence	71.6	71.5	73.3	75.9	78.2
Other real estate	15.4	15.5	13.7	13.2	13.6
Pension assets	12.2	27.3	48.5	52.9	51.4
Unincorporated business	8.5	8.4	8.5	7.9	8.1
Corporate stock, financial securities[c], mutual funds, and personal trusts	21.6	24.2	26.7	27.5	27.1

Source: Own computations from the Survey of Consumer Finances. Households are classified into wealth class according to their net worth.
a. Ratio of gross value of principal residence less mortgage debt on principal residence to total assets.
b. Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts
c. Financial securities exclude U.S. government savings bonds in this tabulation.

Changes in debt, however, were much more dramatic. There was a sharp rise in the debt-equity ratio of the middle class from 37 percent in 1983 to 62 percent in 2004, with most of the increase occurring between 2001 and 2004. The rise was much steeper than for all households. The debt to income ratio skyrocketed over this period, more than doubling. Here, too, much of the increase happened between 2001 and 2004. Moreover, the increase was much steeper than for all households. In fact, in 1983, the debt to income ratio was about the same for middle class as for all households, but by 2004 the ratio was much larger. As for all households, net home equity as a percentage of total assets fell for the middle class from 1983 to 2004 and mortgage debt as a proportion of house value rose.

Another way to portray differences between middle class households and the rich is to compute the share of total assets of different types held by each group (see Table 8). In 2004, the richest 1 percent of households held about half of all outstanding stock, financial securities, trust equity, and business equity, and 37 percent of non-home real estate. The top 10 percent of families as a group accounted for about 80 to 85 percent of stock shares, bonds, trusts, business equity, and non-home real estate. Moreover, despite the fact that 49 percent of households owned stock shares either directly or indirectly through mutual funds, trusts, or various pension accounts, the richest 10 percent of households accounted for 79 percent of the total value of these stocks, only slightly less than its 85 percent share of directly owned stocks and mutual funds.

Table 8. The Percent of Total Assets Held by Wealth Class, 2004											
					Share of Top 10 %						
Asset Type	Top 1.0%	Next 9.0%	Bottom 90.0%	All	1983	1989	1992	1995	1998	2001	2004
A. Investment assets											
Stocks and mutual funds	44.8	40.6	14.6	100	90.4	86.0	86.3	88.4	85.1	84.5	85.4
Financial securities	63.8	24.1	12.1	100	82.9	87.1	91.3	89.8	84.1	88.7	87.9
Trusts	47.7	33.9	18.5	100	95.4	87.9	87.9	88.5	90.8	86.7	81.5
Business equity	61.9	28.4	9.7	100	89.9	89.8	91.0	91.7	91.7	89.6	90.3
Non-home real estate	36.8	42.6	20.6	100	76.3	79.6	83.0	78.7	74.9	78.5	79.4
Total for group	50.3	35.3	14.4	100	85.6	85.7	87.6	87.5	86.2	85.5	85.6
Stocks, directly or indirectly owned[a]	36.7	42.0	21.2	100	89.7	80.8	78.7	81.9	78.7	76.9	78.8
B. Housing, liquid assets, pension assets, and debt											
Principal residence	9.8	28.2	62.0	100	34.2	34.0	36.0	31.7	35.2	37.0	38.0
Deposits[b]	20.8	40.1	39.1	100	52.9	61.5	59.7	62.3	51.0	57.2	60.9
Life insurance	21.4	36.0	42.7	100	33.6	44.6	45.0	44.9	52.8	46.0	57.3
Pension accounts[c]	13.5	44.8	41.7	100	67.5	50.5	62.3	62.3	59.8	60.4	58.3
Total for group	12.2	33.5	54.3	100	41.0	43.9	45.2	42.5	44.0	45.9	45.7
Total debt	7.2	19.9	73.0	100	31.8	29.4	37.5	28.3	27.0	25.9	27.0

Source: Own computations from the Survey of Consumer Finances.
Households are classified into wealth class according to their net worth. Brackets for 2004 are:
Top 1 percent: Net worth of $6,191,500 or more.
Next 9 percent: Net worth between $811,000 and $6,191,500.
Bottom 90 Percent: Net worth less than $811,000.
a. Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts
b. Includes demand deposits, savings deposits, time deposits, money market funds, and certificates of deposit.
c. IRAs, Keogh plans, 401(k) plans, the accumulated value of defined contribution pension plans, and other retirement accounts.

In contrast, owner-occupied housing, deposits, life insurance, and pension accounts were more evenly distributed among households. The bottom 90 percent of households accounted for 62 percent of the value of owner-occupied housing, 39 percent of deposits, 43 percent of life insurance cash value, and 42 percent of the value of pension accounts. Debt was the most evenly distributed component of household wealth, with the bottom 90 percent of households responsible for 73 percent of total indebtedness.

There was relatively little change between 1983 and 2004 in the concentration of asset ownership, with three exceptions. First, the share of total stocks and mutual funds held by the richest 10 percent of households declined from 90 to 85 percent over this period, and their share of stocks directly or indirectly owned from 90 to 79 percent. Second, the proportion 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 58 percent in 2004 from the expansion of 401(k) plans and their adoption by high income earners. Third, the share of total debt held by the top 10 percent also fell from 32 to 27 percent.

6. THE RACIAL DIVIDE DIMINISHES A BIT IN 2004

Striking differences are found in the wealth holdings of different racial and ethnic groups. In Tables 9 and 10, households are divided into three groups: (i) non-Hispanic whites, (ii) non-Hispanic African-Americans, and (iii) Hispanics.[13] In 2004, while the ratio of mean incomes between non-Hispanic white and non-Hispanic black households was a very low 0.49 and the ratio of median incomes was 0.58, the ratios of mean and median wealth holdings were even lower, at 0.19 and 0.10, respectively, and those of nonhome wealth still lower, at 0.15 and 0.01, respectively.[14] The homeownership rate for black households was 50 percent in 2004, about two-thirds the rate among whites, and the percentage of black households with zero or negative net worth stood at 29.4, more than double the corresponding percentage among whites.

Table 9. Household Income and Wealth by Race, 1983–2004
(In thousands, 2004 dollars)

[13] The residual group, American Indians and Asians, is excluded here.
[14] It should be stressed that the unit of observation is the household, which includes both families (two or more related individuals living together), as well as single adults.

Year	Means: Non-Hispanic Whites	Means: Non-Hispanic African-Americans	Means: Ratio	Medians: Non-Hispanic Whites	Medians: Non-Hispanic African-Americans	Medians: Ratio
A. Income						
1982	59.1	31.8	0.54	41.5	23.1	0.56
1988	64.7	28.8	0.45	43.1	16.3	0.38
1991	64.3	32.2	0.50	39.6	22.4	0.57
1994	59.1	28.5	0.48	39.7	21.1	0.53
1997	67.0	33.0	0.49	42.9	23.2	0.54
2000	80.9	39.2	0.48	46.9	26.7	0.57
2003	77.8	38.1	0.49	48.0	28.0	0.58
B. Net worth						
1983	287.9	54.2	0.19	82.9	5.5	0.07
1989	340.6	57.1	0.17	98.4	2.5	0.03
1992	329.6	61.3	0.19	82.6	13.9	0.17
1995	300.4	50.5	0.17	75.6	9.1	0.12
1998	371.9	67.5	0.18	94.6	11.6	0.12
2001	496.8	70.8	0.14	113.5	11.4	0.10
2004	534.0	101.4	0.19	118.3	11.8	0.10
C. Nonhome wealth						
1983	212.1	27.3	0.13	23.1	0.0	0.00
1989	257.5	27.9	0.11	31.2	0.0	0.00
1992	253.8	34.9	0.14	25.4	0.2	0.01
1995	233.6	26.3	0.11	22.4	0.2	0.01
1998	295.3	43.6	0.15	43.6	1.4	0.03
2001	394.3	46.1	0.12	44.9	1.2	0.03
2004	402.5	61.5	0.15	36.1	0.3	0.01
D. Homeownership rate (in percent)						
1983	68.1	44.3	0.65			
1989	69.3	41.7	0.60			
1992	69.0	48.5	0.70			
1995	69.4	46.8	0.67			
1998	71.8	46.3	0.67			
2001	74.1	47.4	0.64			
2004	75.8	50.1	0.66			
E. Percent of households with zero or negative net worth						
1983	11.3	34.1	3.01			
1989	12.1	40.7	3.38			
1992	13.8	31.5	2.28			
1995	15.0	31.3	2.09			
1998	14.8	27.4	2.09			
2001	13.1	30.9	2.35			
2004	13.0	29.4	2.27			

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 SCF. Households are divided into four racial/ethnic groups: (i) non-Hispanic whites; (ii) non-Hispanic blacks; (iii) Hispanics; and (iv) American Indians, Asians, and others. For 1995, 1998, and 2001, the classification scheme does not explicitly indicate non-Hispanic whites and non-Hispanic blacks for the first two categories so that some Hispanics may have classified themselves as either whites or blacks.

Table 10. Family Income and Wealth for Non-Hispanic Whites and Hispanics, 1983–2004 (In thousands, 2004 dollars)

	Means			Medians		
	Non-Hispanic Whites	Hispanics	Ratio	Non-Hispanic Whites	Hispanics	Ratio
A. Income						
1982	59.1	35.7	0.54	41.5	27.5	0.56
1988	64.7	29.5	0.45	43.1	20.7	0.38
1991	64.3	30.3	0.50	39.6	21.1	0.57
1994	59.1	38.3	0.48	39.7	27.3	0.53
1997	67.0	36.1	0.49	42.9	26.7	0.54
2000	80.9	40.1	0.50	46.9	25.6	0.55
2003	77.8	38.4	0.49	48.0	26.0	0.54
B. Net worth						
1983	287.9	46.8	0.19	82.9	3.2	0.07
1989	340.6	56.1	0.17	98.4	2.1	0.03
1992	329.6	73.3	0.19	82.6	5.0	0.17
1995	300.4	63.6	0.17	75.6	6.2	0.12
1998	371.9	91.8	0.18	94.6	3.5	0.12
2001	496.8	85.4	0.17	113.5	3.1	0.03
2004	534.0	114.5	0.21	118.3	5.5	0.05
C. Nonhome wealth						
1983	212.1	13.8	0.13	23.1	0.0	0.00
1989	257.5	27.4	0.11	31.2	0.0	0.00
1992	253.8	47.1	0.14	25.4	0.0	0.01
1995	233.6	36.3	0.11	22.4	0.0	0.01
1998	295.3	58.4	0.15	43.6	0.0	0.03
2001	394.3	54.9	0.14	44.9	0.2	0.01
2004	402.5	67.0	0.17	36.1	0.1	0.00
D. Homeownership rate (in percent)						
1983	68.1	32.6	0.65			
1989	69.3	39.8	0.60			
1992	69.0	43.1	0.70			
1995	69.4	44.4	0.67			
1998	71.8	44.2	0.67			
2001	74.1	44.3	0.60			
2004	75.8	47.7	0.63			
E. Percent of households with zero or negative net worth						
1983	11.3	40.3	3.01			
1989	12.1	39.9	3.38			
1992	13.8	41.2	2.28			
1995	15.0	38.3	2.09			
1998	14.8	36.2	2.09			
2001	13.1	35.3	2.69			
2004	13.0	31.3	2.41			

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 SCF.
See footnote to Table 7 for details on racial/ethnic categories.

Between 1982 and 2003, while the average real income of non-Hispanic white households increased by 32 percent and the median by 16 percent, the former rose by only 20 percent for non-Hispanic black households and the latter by 22 percent. As a result, the ratio of mean income slipped from 0.54 in 1982 to 0.49 in 2003, while the ratio of median income rose slightly, from 0.56 to 0.58.

Between 1983 and 2001, average net worth (in 2001 dollars) rose by a whopping 73 percent for whites but only by 31 percent for black households, so that the net worth ratio fell from 0.19 to 0.14. Most of the slippage occurred between 1998 and 2001, when white net worth surged by a spectacular 34 percent and black net worth advanced by only a respectable 5 percent. Indeed, mean net worth growth among black households was slightly higher in the 1998–2001 years, at 1.55 percent per year, than in the preceding 15 years, at 1.47 percent per year. The difference in the 1998–2001 period was the huge increase in household wealth among white households. However, between 2001 and 2004, mean net worth among black households gained an astounding 43 percent, while white wealth advanced only 7.5 percent, so that by 2004 the net worth ratio was back to 0.19, the same level as in 1983.

It is not clear how much of the sharp drop in the racial wealth gap between 1998 and 2001 and the turnaround between 2001 and 2004 is due to actual wealth changes in the African-American community and how much is due to sampling variability (since the sample sizes of non-Hispanic African Americans are relatively small in all years). However, one salient difference between the two groups is the much higher share of stocks in the white portfolio and the much higher share of principal residences in the portfolio of black households. In 2001, the gross value of principal residences formed 46.3 percent of the gross assets of black households and only 26.9 percent that of white households, while (total) stocks were 25.4 percent of the total assets of whites and only 14.9 percent that of black households. Moreover, while the debt ratio was higher for black than white households in 2001 (debt to asset ratios of 0.324 and 0.115, respectively), the ratio declined for black households from 2001 to 2004 (to 0.297) but rose for whites (to 0.140).

In the case of median wealth, the black-white ratio first increased from 7 to 12 percent between 1983 and 1998 and then diminished to 10 percent in 2001, where it remained in 2004. In this case, median wealth for white households grew by 25 percent between 1998 and 2004 but by only 2.1 percent among black households.

Average nonhome wealth also increased somewhat more for black than white households between 1983 and 1998, so that the ratio rose from 13 to 15 percent. However, between 1998 and 2001, mean nonhome wealth among white households also surged by 34 percent but inched up only 6 percent among black households, so that the ratio dwindled back to 0.12—even lower than in 1983. Once again there was a notable recovery from 2001 to 2004, where mean nonhome wealth climbed by 33 percent among blacks but was virtually unchanged among white households, so that by 2004 the ratio was up to 0.15, the same level as in 2001. The reasons here are also the lower share of nonhome assets held in the form of stocks by black households and the decrease in their debt ratio over the 2001–2004 period. The median nonhome wealth of non-Hispanic black households also increased, from virtually zero in 1983 to a positive $1,100 in 2001, and the corresponding ratio also grew, from zero to 3 percent. However, from 2001 to 2004, median nonhome wealth among blacks toppled to only $300 and the corresponding ratio fell to only 1 percent. The reason for the decline is the faster growth of debt among black middle class households than among whites.

The homeownership rate of black households grew from 44.3 to 47.4 percent between 1983 and 2001 but relative to white households, the homeownership rate first increased from a ratio of 0.65 in 1983 to 0.67 in 1998 and then slipped to 0.64 in 2001. The change over the 1998–2001 period primarily reflects a big jump in the white homeownership rate of 2.3 percentage points. However, from 2001 to 2004, the black homeownership rate surged to a little over half, while the white homeownership rate moved up to only 75.8 percent. As a result, the homeownership rate ratio recovered a bit to 0.66 by 2004.

In contrast, the percentage of black households reporting zero or negative net worth fell from 34.1 percent in 1983 to 27.4 percent in 1998 (and likewise declined relative to white households), but then retreated to 30.9 percent in 2001 (and also rose relative to the corresponding rate for white households).[15] In 2004, the share of black households with nonpositive wealth dipped a bit again, to 29.4 percent, and also fell a bit relative to the corresponding share of white households.

[15] There is a large amount of variation in the income and wealth figures for both blacks and Hispanics on a year-by-year basis. This is probably a reflection of the small sample sizes for these two groups and the associated sampling variability,

The picture is quite similar for Hispanics (see Table 10). The ratios of mean and median income between Hispanics and non-Hispanic whites in 2004 were 0.49 and 0.54, respectively—the former the same as those between African-American and white households but the latter somewhat lower. The ratio of mean net worth was 0.21 and the ratio of mean nonhome wealth 0.17, both slightly higher than the corresponding ratios between black and white households. However, the ratios of medians were 0.05 and 0.00, respectively, lower than those between blacks and whites. The Hispanic homeownership rate was 48 percent, less than that of non-Hispanic black households, and 32 percent of Hispanic households reported zero or negative wealth, compared to 29 percent of African-Americans.

Progress among Hispanic households over the period from 1983 to 2004 was also a mixed story. Mean household income for Hispanics advanced a bit while median income actually declined slightly, so that the ratio of mean income dropped from 54 to 49 percent and that of median income from 56 to 54 percent. Between 1983 and 1998, mean wealth almost doubled for Hispanic households and mean nonhome wealth grew more than four-fold, but between 1989 and 2001 both declined in absolute terms. As a result, the ratio of mean net worth climbed from 16 percent in 1983 to 25 percent in 1998 and then tumbled to 17 percent in 2001, and the ratio of mean nonhome wealth jumped from 7 to 20 percent between 1983 and 1998 then fell off to 14 percent in 2001. However, both recovered in 2004. Mean net worth among Hispanics climbed by 32 percent between 2001 and 2004 and mean nonhome wealth by 22 percent, and the corresponding ratios advanced to 21 percent and 17 percent, respectively.

From 1983 to 2004, median wealth among Hispanics remained largely unchanged, as did median nonhome wealth (at virtually zero!), so that the ratio of both median wealth and median nonhome wealth between Hispanics and non-Hispanic whites stayed pretty much the same. On the other hand, the homeownership rate among Hispanic households surged from 33 to 44 percent between 1983 and 1998 and the ratio of homeownership rates between the two groups gained from 0.65 in 1983 to 0.67 in 1998. No progress was made among Hispanics in the homeownership rate between 1998 and 2001, so that the homeownership ratio fell back to 0.60. However, between 2001 and 2004, the Hispanic homeownership rose once again, to almost 48 percent, and the homeownership ratio partially recovered to 0.63. The percentage of

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as well as some changes in the wording of questions on race and ethnicity over the five surveys.

Hispanic households with zero or negative net worth fell rather steadily over time, from 40 percent in 1983 to 31 percent in 2004, and the share relative to white household tumbled from a ratio of 3.01 to 2.41. Here, too, the ratio first spiked upward from 2.1 in 1998 to 2.7 in 2001 before recovering partway to 2.4 in 2004.

Despite some progress from 2001 to 2004, the respective wealth gaps between African-Americans and Hispanics on the one hand and non-Hispanic whites on the other were still much greater than the corresponding income gaps in 2004. While the income ratios were of the order of 50 percent, the wealth ratios were of the order of 15–20 percent. Median nonhome wealth among non-Hispanic black and Hispanic households was still virtually zero in 2004 and the percent with zero or negative net worth was around 30 percent, in contrast to 13 percent among non-Hispanic white households (a difference that appears to mirror the gap in poverty rates). While blacks and Hispanics were left out of the wealth surge of the years 1998 to 2001 because of relatively low stock ownership (see Section 8 below for more details), they actually benefited from this (and the relatively high share of houses in their portfolio) in the 2001–2004 period. Another factor is that black households saw a decline in their debt to asset ratio from 2001 to 2004, while white households saw an increase (as did Hispanic households).[16]

7. THE YOUNG GET INCREASINGLY POORER

As shown in Table 11, the cross-sectional age-wealth profiles of 1983, 1989, 1992, 1995, 1998, 2001, and 2004 generally follow the predicted hump-shaped pattern of the life-cycle model (see, for example, Modigliani and Brumberg 1954). Mean wealth increases with age up through age 65 or so and then falls off. Nonhome wealth has an almost identical profile, though the peak is generally somewhat higher than for net worth. Homeownership rates also have a similar profile, though the fall-off after the peak age is much more attenuated than for the wealth numbers (and in 2004 they actually show a steady rise with age). In 2004, the wealth of elderly

[16] One important reason for the wealth gap is differences in inheritances. According to my calculations from the SCF data, 24.1 percent of white households in 1998 reported receiving an inheritance over their lifetime, compared to 11.0 percent of black households, and the average bequest among white inheritors was $115,000 (present value in 1998) and only $32,000 among black inheritors. Thus, inheritances appear to play a vital role in explaining the large wealth gap, particularly in light of the fact that black families appear to save more than white families at similar income levels (see, for example, Blau and Graham 1990 and Oliver and Shapiro 1997).

households (age 65 and over) averaged 54 percent higher than the nonelderly and their homeownership rate was 18 percentage points higher.

Table 11. Age-Wealth Profiles and Homeownership Rates by Age, 1983–2004

Age	1983	1989	1992	1995	1998	2001	2004
A. Mean net worth (ratio to overall mean)							
Overall	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Under 35	0.21	0.29	0.20	0.16	0.22	0.19	0.14
35-44	0.71	0.72	0.71	0.65	0.68	0.64	0.65
45-54	1.53	1.50	1.42	1.39	1.27	1.25	1.21
55-64	1.67	1.58	1.82	1.81	1.91	1.86	1.91
65-74	1.93	1.61	1.59	1.71	1.68	1.72	1.57
75 & over	1.05	1.26	1.20	1.32	1.12	1.20	1.19
B. Mean nonhome wealth (ratio to overall mean)							
Overall	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Under 35	0.17	0.28	0.18	0.14	0.21	0.19	0.12
35-44	0.59	0.68	0.69	0.62	0.67	0.61	0.64
45-54	1.53	1.48	1.45	1.43	1.31	1.27	1.24
55-64	1.72	1.60	1.89	1.86	1.99	1.94	1.97
65-74	2.12	1.69	1.60	1.75	1.66	1.74	1.61
75 & over	1.10	1.27	1.14	1.26	1.00	1.11	1.08
C. Homeownership rate (in percent)							
Overall	63.4	62.8	64.1	64.7	66.3	67.7	69.1
Under 35	38.7	36.3	36.8	37.9	39.2	40.2	41.5
35-44	68.4	64.1	64.4	64.7	66.7	67.6	68.6
45-54	78.2	75.1	75.5	75.4	74.5	76.1	77.3
55-64	77.0	79.2	77.9	82.3	80.6	83.2	79.1
65-74	78.3	78.1	78.8	79.4	81.7	82.5	81.2
75 & over	69.4	70.2	78.1	72.5	76.9	76.2	85.1

Source: Own computations from the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 SCF.
Households are classified according to the age of the householder.

Despite the apparent similarity in the profiles, there have been notable shifts in the relative wealth holdings of age groups between 1983 and 2004. The relative wealth of the youngest age group, under 35 years of age, expanded from 21 percent of the overall mean in 1983 to 29 percent in 1989, but then collapsed to only 14 percent in 2004. Indeed, their relative wealth level was steadily declining from 1998. In 2004, the mean wealth of the youngest age group was $61,400, which was less than the mean wealth of this age group in 1989. The mean net worth of the next youngest age group, 35–44, relative to the overall mean remained fairly steady at around 0.71 from 1983 to 1992 and then dipped to 0.65 in 1995, where it has generally remained ever since. The relative wealth of the next youngest age group, 45–54, also tumbled rather steadily over time, from 1.53 in 1983 to 1.21 in 2004. The relative wealth of age group 65–74 plummeted from 1.93 in 1983 to 1.61 in 1989, regained some of the lost ground, reaching 1.72 in 2001, and then underwent another steep drop to 1.57 in 2004.

The biggest relative gain was recorded by age group 55–64, which gained rather steadily over time from 1.67 in 1983 to 1.91 in 2004. The wealth of the oldest age group, age 75 and over, gained substantially, from only 5 percent above the mean in 1983 to 32 percent in 1995 but then fell back to 19 percent in 2004, though still above its 1983 level.

Results for nonhome wealth are very similar. The average nonhome wealth of the youngest age group climbed from 17 to 28 percent of the overall mean from 1983 to 1989 and then plummeted to only 12 percent in 2004. The mean nonhome wealth of age group 45–54 and 65–74 also fell over the 1983–2004 period, whereas that of age group 55–64 rose. Two patterns were somewhat different. The relative mean nonhome wealth of age group 35–44 rose from 0.59 in 1983 to 0.68 in 1989 and then declined to 0.64 in 2004, above its 1983 level, while that of the oldest age group rose from 10 percent above the mean in 1983 to 27 percent above the mean in 1983 and then fell back to 8 percent above the mean in 2004 (slightly below its 1983 position).

Changes in homeownership rates tend to mirror these trends. While the overall ownership rate increased by 5.7 percentage points from 63.4 to 69.1 percent between 1983 and 2004, the share of households in the youngest age group owning their own home increased by only 2.8 percentage points. It remained almost unchanged for those between 35 and 44 of age and between 45 and 54 years of age. The oldest age groups all increased their homeownership rate: by 2.1 percentage points for age group 55–64, by 2.9 percentage points for age group 65–74, and by a staggering 15.7 percentage points for the oldest age group. Indeed, for the oldest group, the homeownership rate rose by almost 9 percentage points from 2001 to 2004.[17] By 2004, homeownership rates rose monotonically with age. The statistics point to a relative shifting of home ownership away from younger towards older households between 1983 and 2004.

8. STOCK OWNERSHIP FIRST RISES AND THEN FALLS

Tables 12a and 12b report on overall stock ownership trends from 1983 to 2004. The proportion of households who owned corporate stock shares directly declined a bit between 1983 and 1989, from 13.7 to 13.1 percent, while the share that owned any stocks or mutual funds plunged over these years, from 24.4 to 19.9 percent.[18] In contrast, the share of households owning stocks and mutual funds worth $5,000 or more (in 1995 dollars) was stable over this period; and, indeed, the proportion with holdings of $10,000 or more and with $25,000 or more actually rose over this period. These changes over the 1983–1989 period might reflect the steep drop in the stock market in 1987 and the consequent exit of small fund holders during and after 1987. Yet, despite a 62 percent real increase in stock prices (as measured by the Standard and Poor 500 Index), stocks plus mutual funds as a share of total household asset actually declined form 9.0 percent in 1983 to 6.9 percent in 1989.

Table 12a. Stock Ownership, 1983 and 1989
(Percent of households holding stocks)

Stock Type	1983	1989	1983-89
Direct stock holdings only	**13.7**	**13.1**	
Stocks and mutual funds			
1. Any holdings	**24.4**	**19.9**	
2. Holdings worth $5,000 or more[a]	**14.5**	**14.6**	
3. Holdings worth $10,000 or more[a]	**10.8**	**12.3**	
4. Holdings worth $25,000 or more[a]	**6.2**	**8.4**	
Memo:			
Stocks plus mutual funds as a percent of total assets	**9.0**	**6.9**	
Percentage change in S&P 500 Index,			**61.7**

[17] As with racial minorities, the sample size is relatively small for age group 75 and over, so that this result may be ascribable to sampling variation.
[18] The 1983 data do not permit an estimation of indirect stock ownership, so that we present the results for 1983 and 1989 separately from the other years.

in constant dollars over period		

Source: Own computations from the 1983 and 1989 Survey of Consumer Finances
a. 1995 dollars

Table 12b. Stock Ownership, 1989-2004
(Percent of households holding stocks)

Stock Type	1989	1992	1995	1998	2001	2004	1989-2004
Direct stock holdings only	13.1	14.8	15.2	19.2	21.3	20.7	
Indirect stock holdings only	23.5	29.3	34.8	43.4	47.7	44.0	
1. Through mutual funds	5.9	8.4	11.3	15.2	16.7	14.1	
2. Through pension accounts	19.5	24.8	29.2	37.4	41.4	38.0	
3. Through trust funds	1.6	1.2	1.9	2.4	5.1	4.7	
All stock holdings[a]							
1. Any holdings	31.7	37.2	40.4	48.2	51.9	48.6	
2. Stock worth $5,000 or more[b]	22.6	27.3	29.5	36.3	40.1	34.9	
3. Stock worth $10,000 or more[b]	18.5	21.8	23.9	31.8	35.1	29.8	
4. Stock worth $25,000 or more[b]	10.5	13.1	16.6	24.3	27.1	22.5	
Memo:							
Direct plus indirect stocks as a percent of total assets	10.2	13.7	16.8	22.6	24.5	17.5	
Percentage change in S&P 500 Index, in constant dollars over period							162.3

Source: Own computations from the 1989, 1992, 1995, 1998, 2001, and 2004 Survey of Consumer Finances
a. Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts.
b. 1995 dollars

In contrast, the years 1989 to 2001 saw a substantial increase in stock ownership (see Table 12b). The share of households with direct ownership of stock climbed from 13.1 percent in 1989 to 21.3 percent in 2001, while the share with some stock owned either outright or indirectly through mutual funds, trusts, or various pension accounts surged from 31.7 to 51.9 percent. Much of the increase was fueled by the growth in pension accounts like IRAs, Keogh plans, and 401(k) plans. Between 1989 and 2001, the share of households owning stock through a pension account more than doubled, accounting for the bulk of the overall increase in stock ownership. Indirect ownership of stocks through mutual funds also greatly expanded over the 1989–2001 period, from 5.9 to 16.7 percent, as did indirect ownership through trust funds, from 1.6 to 5.1 percent. All told, the share of households with indirect ownership of stocks more than doubled, from 23.5 percent in 1989 to 47.7 percent in 2001.

The next three years, 2001–2004, saw a significant retrenchment in stock ownership. This trend probably reflected the sharp drop in the stock market from 2000 to 2001 and its rather anemic recovery through 2004. Direct stock ownership declined only slightly from 2001 to 2004. The biggest drop was in indirect ownership, primarily in pension accounts (down by 3.4 percentage points) and mutual funds (down by 2.6 percentage points).

By 2004, the share of households who owned stock directly or indirectly dipped below half, down to 48.6 percent, about the same level as in 1998 and down from its peak of 51.9 percent in 2001. Moreover, many of these families had only a minor stake, with only 35 percent with total stock holdings worth $5,000 (in 1995 dollars) or more, down from 40 percent in 2001; only 30 percent owned $10,000 or more of stock, down from 35 percent in 2001; and only 22 percent owned $25,000 or more of stocks, down from 27 percent three years earlier.

Direct plus indirect ownership of stocks as a percent of total household assets did more than double from 10.2 in 1989 to 24.5 in 2001. This increase may reflect in large measure the 171 percent surge in stock prices over these years. However, between 2001 and 2004, the share plummeted to 17.5 percent. This change is a result not only of the stagnation of the stock market over these years, but also of the withdrawal of many families from the stock market.

Table 12c shows the distribution of total stocks owned by vehicle of ownership. Here there are very marked time trends. Direct stock holdings as a share of total stock holdings fell almost continuously over time, from 54 percent in 1989 to 37 percent in 2004. The only deviation occurred in 1998, when direct stock ownership took an upward spike. This may reflect the stock market frenzy of the late 1990s. In contrast, stock held in mutual funds as a share of total stock rose almost continuously over time, from 8.5 percent in 1983 to 22 percent in 2004, while that held in trust funds declined by 5 percentage points.

Table 12c. Distribution of Stock Ownership by Asset Type, 1989–2004
(Percent of total stock held in each asset type)

Stock Type	1989	1992	1995	1998	2001	2004	Change 1989-2004
Direct stock holdings	54.0	49.4	36.7	42.6	38.5	37.1	-16.9
Indirect stock holdings only	46.0	50.6	63.3	57.4	61.5	62.9	16.9
1. Through mutual funds	8.5	10.9	17.9	16.3	16.0	21.9	13.5
2. Through pension accounts	24.4	34.1	37.9	32.9	33.5	30.9	6.5
3. Through trust funds	13.2	5.6	7.6	8.2	12.0	8.1	-5.1
Memo:							
Stocks held in pension accounts/ total value of pension accounts	32.6	44.8	67.5	64.1	66.3	45.6	13.0

Source: Own computations from the 1989, 1992, 1995, 1998, 2001, and 2004 Survey of Consumer Finances
a. Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts.

The most interesting pattern is with regard to stock held in pension accounts (including IRAs). Its share of total stocks first increased from 24 percent in 1989 to 38 percent in 1995, but then fell off to 31 percent in 2004. The trend after 1995 seems to reflect a substitution of stock holdings in mutual funds for those in pension plans as investors look for safer retirement accounts (see below). Likewise the share of the total value of pension plans held as stock more than doubled between 1989 and 1995, from 33 to 68 percent, remained at this level through 2001, and then plummeted to 46 percent in 2004. The sharp tail-off in stock ownership in pension plans in 2004 likely reflects the lethargic performance of the stock market over this period (and its precipitous fall from 2000 to 2004) and the search for more secure investments among plan holders.

Stock ownership is also highly skewed by wealth and income class. As shown in Table 13a, 93 percent of the very rich (the top 1 percent) reported owning stock either directly or indirectly in 2004, compared to 46 percent of the middle quintile and 12 percent of the poorest 20 percent. While 93 percent of the very rich also reported stocks worth $10,000 or more, only 20 percent of the middle quintile and less than 1 percent of the bottom quintile did so. The top 1 percent of households owned 37 percent of all stocks, the top 5 percent over 65 percent, the top 10 percent over three-quarters, and the top quintile over 90 percent.

Table 13a. Concentration of Stock Ownership by Wealth Class, 2004						
	Percent of Households Owning Stock Worth More Than			Percent of Stock Owned		
Wealth Class	**Zero**	**$4,999**	**$9,999**	**Shares**	**Cumulative**	**Cumulative-2001**
Top 1 percent	**93.3**	**93.2**	**92.8**	**36.7**	**36.7**	**33.5**
Next 4 percent	**93.5**	**92.7**	**91.0**	**28.5**	**65.3**	**62.3**
Next 5 percent	**87.4**	**85.6**	**80.3**	**13.5**	**78.8**	**76.9**
Next 10 percent	**84.3**	**77.0**	**71.5**	**11.9**	**90.6**	**89.3**
Second quintile	**65.5**	**54.4**	**47.1**	**7.1**	**97.7**	**97.1**
Third quintile	**46.4**	**28.7**	**20.3**	**1.7**	**99.4**	**99.3**
Fourth quintile	**31.6**	**13.4**	**8.3**	**0.5**	**99.9**	**99.8**
Bottom quintile	**12.2**	**2.5**	**1.1**	**0.1**	**100.0**	**100.0**
All	**48.6**	**36.4**	**31.1**	**100.0**		

Note: Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAS, Keogh plans, 401(k) plans, and other retirement accounts. All figures are in 2004 dollars.

Stock ownership also tails off by income class (see Table 13b). Whereas 94 percent of households in the top 2.5 percent of income recipients (those who earned $250,000 or more) owned stock in 2004, 42 percent of the middle class (incomes between $25,000 and $50,000), 20 percent of the lower middle class (incomes between $15,000 and $25,000), and only 12 percent of poor households (income under $15,000) reported stock ownership. The comparable ownership figures for stock holdings of $10,000 or more are 91 percent for the top income class, 21 percent for the middle class, 10 percent for the lower middle class, and 5 percent for the poor. Moreover, over 80 percent of all stocks were owned by households earning $75,000 or more (the top 25 percent) and 91 percent by the top 43 percent of households in terms of income.

Table 13b. Concentration of Stock Ownership by Income Class, 2004							
	Share of	Percent of Households Owning Stock Worth More Than			Percent of Stock Owned		
Income Level	**Households**	**Zero**	**$4,999**	**$9,999**	**Shares**	**Cumulative**	**Cumulative-2001**
$250,000 or more	**2.5**	**94.6**	**94.5**	**90.6**	**44.0**	**44.0**	**40.6**
$100,000-$249,999	**13.6**	**86.6**	**78.3**	**70.7**	**29.2**	**73.2**	**68.6**
$75,000-$99,999	**9.4**	**77.5**	**60.8**	**51.1**	**7.8**	**81.0**	**77.4**
$50,000-$74,999	**17.4**	**62.5**	**45.1**	**36.6**	**9.9**	**90.9**	**89.3**
$25,000-$49,999	**28.3**	**41.8**	**25.5**	**21.0**	**6.9**	**97.8**	**97.6**
$15,000-$24,999	**13.7**	**19.6**	**12.2**	**10.1**	**1.2**	**98.9**	**98.9**
Under $15,000	**15.2**	**11.8**	**6.3**	**4.7**	**1.1**	**100.0**	**100.0**
All	**100.0**	**48.6**	**36.4**	**31.8**	**100.0**		

Note: Includes direct ownership of stock shares and indirect ownership through mutual funds, trusts, and IRAs, Keogh plans, 401(k) plans, and other retirement accounts. All figures are in 2004 dollars.

Another notable development in the early 2000s was an increase in the concentration of stock ownership, as shown in the last column of Tables 13a and 13b. The share of total stock owned by the richest 1 percent in terms of wealth increased from 33.5 percent in 2001 to 36.7 percent in 2004 and that of the richest 5 percent from 62.3 to 65.3 percent. In terms of income, the share of total stock owned by the top income class jumped from 40.6 to 44.0 percent and that of the top two income classes from 68.6 to 73.2 percent. One result of the stock market bust of the early 2000s was a withdrawal of middle class families from the stock market.

Thus, in terms of wealth or income, substantial stock holdings have still not penetrated much beyond the reach of the rich and the upper middle class. The big winners from the stock market boom of the late 1990s (as well as the big losers in the early 2000s) were these groups, while the middle class and the poor did not see sizable benefits from the bull market (or losses when the stock market tanked in 2000–2002). It is also apparent which groups benefit the most from the preferential tax treatment of capital gains.

9. SUMMARY AND CONCLUDING COMMENTS

The years 2001 to 2004 witnessed an explosion of household debt and gave evidence of the middle class squeeze. Median wealth declined by 0.7 percent after a period of robust growth from 1998 to 2001. The only other times in the recent past that median wealth has declined were during recessionary periods. While 2001 was a recession year, 2002–2004 was a period of expansion, so the decline in median wealth was almost unprecedented. Moreover, median nonhome wealth (total wealth less home equity) fell by a staggering 27 percent from 2001 to 2004. The percent of households with zero or negative nonhome wealth also rose substantially, by 2.5 percentage points. Median income also fell by almost 7 percent from 2000 to 2003.

Wealth inequality was up slightly from 2001 to 2004, while the inequality of nonhome wealth was up sharply, with the share of top 1 percent increasing by 2.5 percentage points, after a marked decline from 1998 to 2001. Income inequality actually fell from 2000 to 2003. The number of households worth $1,000,000 or more, $5,000,000 or more, and especially $10,000,000 or more surged during the 1990s and continued to increase from 2001 to 2004 at more than the rate of increase in the number of total households.

The mean wealth of the top 1 percent jumped to almost 14.8 million dollars in 2004. The percentage increase in net worth (also that of nonhome wealth and income) was much greater for the top wealth (and income) groups than for those lower in the distribution. Moreover, the average wealth of the poorest 40 percent declined by 59 percent between 1983 and 2004, and by 2004 had fallen to only $2,200. All in all, the greatest gains in wealth and income were enjoyed by the upper 20 percent, particularly the top 1 percent, of the respective distributions. Between 1983 and 2004, the top 1 percent received 35 percent of the total growth in net worth, 42 percent of the total growth in nonhome wealth, and 33 percent of the total increase in income. The figures for the top 20 percent are 89 percent, 94 percent, and 81 percent, respectively.

The biggest story for the early 2000s is the sharply rising debt to income ratio, reaching its highest level in 20 years, at 115 percent. Also, the debt-equity ratio (ratio of debt to net worth) was way up, from 14.3 percent in 2001 to 18.4 percent in 2004. Most of rising debt was from increased mortgages on homes. In contrast, during the late 1990s, indebtedness fell substantially during the late 1990s and by 2001 the overall debt-equity ratio was lower than in 1983. The proportion of households reporting zero or negative net worth, after increasing from 15.5 percent in 1983 to 18.0 percent in 1998, fell to 17.6 percent in 2001 and then to 17.0 percent in 2004.

Another notable trend is the big increase in the value of homes as a share of total assets from 2001 to 2004 and corresponding fall in the value of stocks held to total assets. As shown above, these two changes largely mirror relative price movements over the period. Pension accounts as a share of total assets also fell off a bit from 2001 to 2004. Net equity in owner-occupied housing as a share of total assets fell sharply from 23.8 percent in 1983 to 18.2 percent in 1998 and then rebounded to 21.8 percent in 2004, reflecting rising mortgage debt on homeowner's property between 1983 and 1998, which grew from 21 to 37 percent, before retreating somewhat to 35 percent in 2004.

Evidence of the middle class squeeze is that for the middle three wealth quintiles there was a huge increase in the debt-income ratio from 100.3 to 141.2 percent from 2001 to 2004 and a doubling of the debt-equity ratio from 31.7 to 61.6 percent. Moreover, total stocks as a share of total assets fell off from 12.6 to 7.5 percent for the middle class. The debt-equity ratio was also much higher among the middle 60 percent of households in 2004, at 0.62, than among the top 1 percent (0.038) or the next 19 percent (0.120).

The percent of all households with a DC pension plan also fell from 52.2 to 49.7 from 2001 to 2004. The decline was somewhat smaller for the middle class. The overall stock ownership rate (either directly or indirectly through mutual funds, trust funds, or pension plans) also fell, from 51.9 to 48.6 percent. For the middle class, the fall was from 51.1 to 47.9 percent. There was also a pronounced decline in the share of middle class households (and of all households) with $5,000 or more of stocks and with $10,000 or more of stocks.

The concentration of investment type assets generally remained as high in 2004 as during the previous two decades. About 90 percent of the total value of stock shares, bonds, trusts, and business equity, and about 80 percent of non-home real estate were held by the top 10 percent of households. Stock ownership is also highly skewed by wealth and income class. The top 1 percent of households, classified by wealth, owned 37 percent of all stocks, the top 10 percent over three-quarters, and the top quintile almost 90 percent. Moreover, over three-quarters of all stocks were owned by households earning $75,000 or more and 89 percent by households with incomes of $50,000 or more.

The racial disparity in wealth holdings, after stabilizing during most of the 1990s, widened in the years between 1998 and 2001, as the ratio of average net worth holdings dropped sharply from 0.18 to 0.14 and the ratio of median net worth from 0.12 to 0.10. However, the reverse took place from 2001 to 2004 and the gap narrowed again, with the ratio of mean wealth rising to 0.19 and that of median wealth remaining at 0.10. The relative gains made by black households in the early 2000s are ascribable to the fact that blacks have a higher share of homes and a lower share of stocks in their portfolio than do whites, and the debt-equity ratio of blacks fell while that of whites rose over the period.

Between 1998 and 2001, mean nonhome wealth among white households also surged by 34 percent, but went up by only 6 percent among black households, so that the ratio dwindled from 0.15 to 0.12—even lower than in 1983. However, by 2001 the ratio had climbed back to 0.15. The black homeownership rate grew from 44.3 to 50.1 percent between 1983 and 2004 and the homeownership rate relative to white households, after increasing from a ratio of 0.65 in 1983 to 0.67 in 1998, slipped back to 0.64 in 2001, but then recovered to 0.66 in 2004.

Hispanic households also lost ground both in absolute terms and relative to non-Hispanic white households in terms of both net worth and nonhome wealth between 1998 and 2001, but then regained the ground in the early 20002. The homeownership rate among Hispanic households, after advancing from 33 percent in 1983 to 44 percent in 1995, leveled off in the ensuing six years, but then surged to 48 percent in 2004, and the ratio of homeownership rates advanced from 48 percent in 1983 to 64 percent in 1995, then dropped to 60 percent in 2001, but advanced to 63 percent in 2004.

At least since 1989, wealth shifted in relative terms away from young households under age 55 and particularly those under age 35 and toward households in age group 55 to 64. A similar pattern is found for nonhome wealth. The average net worth and nonhome wealth of households in age group 75 and over also fell relative to the overall mean between 1989 and 2001.

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APPENDIX I

For consistency with the earlier results, I have adjusted the weights used in the 1992 Survey of Consumer Finances.

The problem can be seen most easily in the following table:

Comparison of SOI and SCF Size Distributions

Adjusted Gross Income or Household Income [Current $]	SCF Distribution: Percentage of All Households[a] 1989	1992	SOI Distribution: Percentage of All Tax Returns[b] 1989	1992
Under $100,000	95.7	94.9	97.4	96.7
100,000–199,999	3.107	3.948	1.864	2.474
200,000–499,999	0.895	0.892	0.546	0.657
500,000–999,999	0.187	0.182	0.103	0.124
1,000,000 or more	0.073	0.040	0.051	0.059
Of Which:				
1,000,000–3,999,999	0.0550	0.0293		
4,000,000–6,999,999	0.0128	0.0021		
7,000,000 or more	0.0049	0.0002		
Total	100.0	100.0	100.0	100.0

a. **Source:** Own computations from the 1989 and 1992 SCF.
b. Sources: "Selected Historical and Other Data." *Statistics of Income Bulletin*, Winter 1993–94, Vol. 13, No. 4, pp. 179–80; "Selected Historical and Other Data." *Statistics of Income Bulletin*, Winter 1994–95, Vol. 15, No. 3, pp. 180–81.

A comparison of weights used in the 1989 and 1992 SCF shows a very sharp attenuation in the weights at the top of the income distribution. According to these figures, the percentage of households with incomes between $1,000,000 and $4,000,000 declined from 0.055 to 0.029, or by almost half; the percentage in the income range $4,000,000 to $7,000,000 fell from 0.013 to 0.002, or by over 80 percent; and the percentage with incomes of $7,000,000 or more decreased from 0.0049 to 0.0002, or by over 95 percent. These changes are highly implausible—particularly in light of results from the Current Population Survey, or CPS (available on the Internet), which show a slightly rising degree of income inequality over this period (the Gini coefficient increased from 0.427 to 0.428).

The table also compares the size distribution of income computed from the Internal Revenue Service Statistics of Income (SOI) in 1989 and 1992 with that from the two SCF files. The SOI figures are based on actual tax returns filed in the two years. There are three major differences between the two data sources. First, the SOI data use the tax return as the unit of observation, whereas the SCF figures are based on the household unit. Second, individuals who do not file tax returns are excluded from the SOI tabulations. Third, the size distribution for the SOI data is based on adjusted gross income (AGI), whereas the SCF distributions are based on total household income.

Despite the differences in concept and measurement, trends in the size distribution of AGI can give a rough approximation to actual changes in the size distribution of household (Census) income. What is most striking is that the SOI figures show a slight increase in the percent of units in income class $1,000,000 and more, from 0.051 in 1989 to 0.059 percent in 1992, whereas the SCF figures show a sharp decline, from 0.073 to 0.040 percent.

Results from the SOI data fail to provide any independent corroboration for the sharp decline in the number of households with incomes of $1,000,000 or more between 1989 and 1992. Accordingly, I adjusted the 1992 weights to conform to the 1989 weighting scheme. The adjustment factors for the 1992 weights are given by the inverse of the normalized ratio of weights between 1992 and 1989, shown in the last column of the preceding table:

Income in 1989 Dollars	Adjustment Factors for 1992 Weights
Under 200,000	0.992
200,000–999,999	1.459
1,000,000–3,999,999	1.877
4,000,000–6,999,999	4.844
7,000,000 or more	12.258

The resulting size distribution of income for 1989 and 1992 is as follows:

Income Shares (in Percent)	**1989 SCF Using Original Weights**	**1992 SCF Using Adjusted Weights**
Share of the Top 1%	16.4	15.7
Share of the Top 5%	29.7	30.5
Share of the Top 10%	40.1	41.1
Share of the Top 20%	55.3	56.4
Gini Coefficient:	0.521	0.528

The calculations show a slight increase in overall income inequality, as measured by the Gini coefficient, a result that is consistent with both the SOI and the CPS data.