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TRENDS IN HOUSEHOLD WEALTH IN THE UNITED STATES, 1962-83 AND 1983-89

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Using the 1983 and 1989 Surveys of Consumer Finances, I find evidence of sharply increasing household wealth inequality over this period. Whereas mean wealth increased by 23 percent in real terms, median wealth grew by only 8 percent. The share of the top one-half percentile rose by five percentage points, while the wealth of the bottom two quintiles showed an absolute decline. The Gini coefficient increased from 0.80 to 0.84. Almost all the growth in real wealth accrued to the top 20 percent of wealthholders. In contrast, the degree of wealth inequality was almost identical in 1983 as in 1962, and real wealth growth was more evenly distributed across the wealth distribution. There is also evidence that the sharp increase in wealth inequality from 1983 to 1989 was due to a correspondingly sharp rise in income inequality, the increase of stock prices relative to housing prices, and relatively slow inflation.

Many studies have documented rising income inequality in the U.S. during the 1980s (see, for example, the excellent review by Levy and Murnane, 1992). In this paper, I examine whether a similar trend occurred for household wealth. Moreover, since household wealth is a factor in household well-being, I am also interested in whether it has grown faster or slower during the 1980s than in the past and whether its growth its greater or smaller than that of income.

Which groups gained and which lost in terms of wealth during the 1980s? How have wealth holdings changed by income group? Between 1962 and 1983, wealth holdings shifted sharply in favor of those households in the 45–69 age bracket. Has this trend continued during the 1980s? Also, what has happened to the wealth holdings of non-white families in relation to white families? Do these trends vary by household type—single adult households versus married couples.

What has happened to the composition of household wealth? Is owner-occupied housing still the chief form of family wealth? What assets have grown most rapidly over the decade? Which forms of wealth are most concentrated in the hands of the rich, and which are dispersed over the middle-class? How does the composition vary by wealth class?

These are the principal issues addressed in the paper. Results are based primarily on computations from the 1983 and 1989 Surveys of Consumer Finances (SCF). Where appropriate, comparative results are also drawn from computations from the 1962 Survey of Financial Characteristics of Consumers (SFCC) and published results from the 1984 and 1988 Survey of Income and Program Participation (SIPP).

I first discuss the measurement of household wealth (Section 1). Section 2 presents a comparison of aggregate results from the 1989 Survey of Consumer

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Finances with household balance sheets derived from the Federal Reserve Board's Flow of Funds. For consistency with my earlier work, I align the 1989 SCF data with the Flow of Funds, and these alignment procedures are also discussed in this section. A similar analysis and adjustment are conducted for household income.

Section 3 discusses the other data sources used in this study. I next present results on time trends in average wealth holdings, as well as household income (Section 4), and changes in the concentration of household wealth (Section 5). I then consider changes in wealth holdings by income class (Section 6), age group (Section 7), and race (Section 8). Section 9 investigates trends in the composition of household wealth. A brief summary and concluding remarks are provided at the end (Section 10).

1. The Measurement of Wealth

In this study, I use marketable wealth (or net worth), HW, 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 plans; (7) the cash surrender value of pension plans, including IRAs and Keogh plans; (8) corporate stock, including 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, and (3) other debt.

This measure of wealth is used because the primary interest here is in wealth as a store of value and therefore a source of potential consumption. 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 and retirement wealth, which are sometimes included in broader concepts of wealth, are excluded here.[1,2]

[1]Consumer durables include automobiles, televisions, furniture, household appliances, and the like. Although these items provide consumption services directly to the household, they are not easily marketed. In fact, the resale value of these items typically far understates the value of their consumption services to the household.

[2]Retirement wealth consists of pension and social security "wealth." Pension wealth is defined as the present value of the future stream of pension benefits a worker will receive following retirement. Social security wealth is defined in analogous fashion. As is apparent form the definitions, these two forms of wealth are not fungible or marketable, since individuals cannot convert these assets into cash. The exceptions are certain forms of pension plans that allow workers to convert their accumulated pension contributions into cash at any point in time (their so-called "cash surrender value"), and IRA and Keogh plans, that are also currently convertible to cash. These forms of retirement wealth are included in the concept of net worth used here.

2. Alignment of the 1989 Survey of Consumer Finances

The 1989 Survey of Consumer Finances (SCF) was conducted under the auspices of the Federal Reserve Board, and its principal objective was to obtain information on household wealth holdings. The sample includes a high-income supplement and has detailed information on the assets and liabilities of the respondents.

I use the September 1992 release of the 1989 SCF in the analysis here. Several sets of weights were provided. I made calculations on the basis of three sets: SRC-Design-S1 Series, SRC Designed Based Weights, and FRB Model-Based Weights.[3] Of the three, the first two lined up fairly well with the aggregate household balance sheet data derived from the Flow of Funds, shown in Table 1, and with each other, but the FRB model-Based Weights did not. As a result, I have used only the first two in my calculations here, and all results are based on the average of the SRC-Design-S1 series and the SRC Designed Based Weights.

Table 1 shows a comparison of aggregate household balance sheet estimates derived from the 1989 SCF and the Federal Reserve Board Flow of Funds (FOF). The comparisons are approximate for three reasons. First, the categorization of assets in the two sources is somewhat different. Second, the Flow of Funds data refer to a sector including not only households, but personal trusts and nonprofit organizations. The assets included in personal trusts are included in a separate trust fund category in the SCF. However, there is no corresponding data on nonprofit organizations in the 1989 SCF. Third, the Flow of Funds data for the household sector is not computed directly from administrative or banking records but is calculated as a residual of total national wealth less holdings of businesses, the government sector, financial institutions, and foreign holdings.

With these qualifications in mind, it is still useful to compare the two sources to obtain an approximate gauge of the degree of coverage of the 1989 Survey of Consumer Finances. Total owner-occupied housing reported in the SCF exceeds that of the Flow of Funds by 31 percent. This is not surprising because housing value is based on current market value in the SCF (as estimated by the owners), whereas in the Flow of Funds, it is based on the use of the Perpetual Inventory Method for valuing structures and a separate estimate for land values. The value of unincorporated business equity is also higher in the SCF. The reasons are similar. Respondents in the SCF estimate the current market value of their holdings, whereas the Flow of Funds uses, in part, net investment flows to update its value each year.

In contrast, the 1989 SCF totals fall short of the Flow of Funds with regard to financial assets. Checking accounts computed from the SCF amount to only 73 percent of the Flow of Funds total, though the latter also includes oustanding currency and cash. Thrift and other accounts amount to 90 percent of the Flow of Funds total. The most glaring discrepancy arises with regard to financial securities and corporate stock holdings: the SCF total for bonds and securities is only 39 percent of the Flow of Funds total and for stocks and mutual funds, only 53 percent. Total life insurance holdings are quite close between the two sources.

[3]In the 1989 SCF tape, these are variable numbers X40131, X40125, and X40202, respectively. See Kennickel and Woodburn (1992) for details on the weighting procedures used.

TABLE 1

COMPARISON OF THE 1989 SCF BASED ESTIMATES AND FLOW OF FUNDS FIGURES ON TOTAL HOUSEHOLD WEALTH BY COMPONENT
(in billions of current dollars)

	1989 SCF[a]	FRB FOF[b]	Ratio
Principal residence[c]	6,118.1	4,661.1	1.31
Other real estate and land	2,842.1		
Unincorporated business equity	3,477.6	2,630.5	1.32
Vehicles	755.5		
Consumer durables		1,933.8	
Checking accounts[d]	362.3	492.9	0.73
Thrift and other accounts[e]	2,550.7	2,833.4	0.90
Bonds and financial securities	689.9	1,791.5	0.39
Stocks and mutual funds	1,392.7	2,613.1	0.53
Trust equity	371.7		
Life insurance[f]	350.8	351.8	1.00
Pension fund reserves		2,857.5	
Miscellaneous assets[g]	1,000.5	252.4	3.96
Total assets	19,912.1	20,418.0	
Morgage debt[h]	2,469.8	2,475.1	1.00
Other debt[i]	570.5	1,145.4	0.50
Total debt	3,040.3	3,620.4	0.84
Net worth	16,871.7	16,797.6	
Assets excluding pension reserves, consumer durables			
Total assets	19,156.5	15,626.7	1.23
Net worth	16,116.2	12,006.3	1.34
Assets excluding real estate, business equity, pension reserves, and consumer durables			
Total assets	6,718.8	8,335.1	0.81
Net worth	3,678.4	4,714.7	0.78
Addendum			
Stocks, bonds and trusts	2,454.4	4,404.7	0.56

[a]Based on computations from the 1989 Survey of Consumer Finances (SCF). Results are based on the average of SRC-Design-S1 Series and the SRC Designed Based Weights. See Kennickell and Woodburn (1992) for details on the weighting methodology.

[b]*Source*: Board of Governors of the Federal Reserve System, "Balance Sheets for the U.S. Economy, 1945–89," Washington, DC, October 1990, p. 24. Results are based on the Flow of Funds (FOF) and are for the sector: households, personal trusts, and nonprofit organizations.

[c]The SCF category includes mobile homes and farm houses. The FOF category includes owner-occupied housing only.

[d]The FOF category also includes cash and currency.

[e]The FOF and SCF include savings accounts, money market funds and certificates of deposits. The SCF category also includes IRAs, Keogh plans, and other retirement accounts.

[f]The SCF category refers to the cash surrender value (CSV) of life insurance plans; the FOF category is the total reserves of life insurance companies.

[g]This includes amounts that the family business owes the family, gold, royalties, jewelry, furs and loans to friends and relatives.

[h]This includes home equity loans, mortgages or notes outstanding on real estate already sold, and mortgages on other property.

[i]This includes credit card debt, consumer loans, the amount the family owes to its family business, margin account debt, and life insurance loans.

On the liability side, outstanding mortgage debt totals are remarkably close between the two sources. On the other thand, other debt reported in the SCF is only about half the total computed by the Flow of Funds. Since mortgage debt is the major component of total debt, the estimates of total debt in the two sources are fairly close.

If we exclude pension reserves and consumer durables—assets included in the Flow of Funds but not directly in the SCF—then total assets estimated from the SCF are 23 percent higher than the FOF. The reason is that the SCF total is sufficiently higher in tangible assets to more than offset the shortfall in financial assets. Estimated total net worth from the SCF is 34 percent higher than the corresponding figure from the Flow of Funds, because total debt in the SCF is lower.[4]

Adjustment Procedures. For consistency with my earlier adjusted versions of the 1962 SFCC and the 1983 SCF (see below), I also adjust some of the components of the 1989 survey data so that the aggregate totals line up with the FOF balance sheet totals. Real estate and unincoprorated business equity, though larger in the SCF than the FOF, are not adjusted, since, as suggested above, the use of market value as opposed to the Perpetual Inventory Method is likely to lead to higher estimated values. Since the valuation of interest here is current market value, the SCF estimates are to be preferred.

Checking accounts, which fall short of the FOF total by 36 percent, are proportionately adjusted upward by this amount. As noted above, part of the difference is due to the fact that the FOF figure includes cash and currency outstanding, so that the proportional adjustment procedure essentially assumes that cash and currency (as well as under-reported demand deposits) are proportional to reported demand deposits. A similar procedure is applied to thrift and other accounts, which are adjusted proportionately upward by 11 percent.

The most difficult problems are corporate stock holdings and bonds and other securities. There are some potential explanations of these discrepancies. First, in the Flow of Funds, stocks and bonds held in personal trust accounts are counted as part of the stock and bond holdings of the sector, whereas in the SCF they are treated as part of trust funds. In the last line of Table 1, I have added the three components in the SCF and matched the sum with the total of stocks and bonds in the FOF. The SCF total now increases to 56 percent of the FOF total.

Second, as noted above, non profit institutions are included in the Flow of Funds data on the household sector. Ruggles and Ruggles (1982) were able to obtain a separate breakdown of stock and bond holdings by households alone on the basis of Flow of Fund data. However, for 1980, they found that the household stock, bond, and trust holdings actually exceeded by 2 percent ($1,762.0 versus $1,719.7 billion) the total of the conglomerate household, personal trust and nonprofit sector (the discrepancy is likely due to the fact that trust accounts also hold other assets besides stocks and bonds).

[4]If we exclude all real estate and unincorporated business equity, in addition to pension reserves and consumer durables, then total SCF assets are 81 percent of the corresponding FOF figure, and SCF net worth is 78 percent.

Third, in the SCF, stocks held in retirement accounts are counted as part of the retirement wealth category, whereas in the Flow of Funds data, they are counted in the stock category. It should be noted that retirement assets include not only IRAs, Keogh accounts, and other individual retirement accounts but also the cash surrender value of company pension plans which allow for current withdrawal of funds by the employee. To be consistent with the Flow of Funds, only the corporate stocks held in individual retirement accounts should be allocated to the stock category, since the Flow of Funds count pension reserves of companies in a separate category. However, as noted above, the total of thrift and other accounts, including retirement accounts, in the SCF already falls short of the corresponding total in the FOF, so that this source could not be tapped to close the gap between the SCF and FOF bond and stock totals.

As a result, my adjustment procedure is to employ a simple proportional adjustment factor of 1.795 (1/0.56), which was applied equally to stocks, bonds and trusts accounts.

The last major problem concerns the non-mortgage debt category in the SCF, which falls short of the SCF total by 50 percent. A simple proportional adjustment procedure does not work well here, since it is likely that the problem lies more in the non-reporting of debt, rather than in its underestimation.[5] Moreover, this is probably the most problematic entry in the FOF, and the one in which the estimation of the household balance sheets as a residual is likely to cause the most difficulty, since the attribution of debt to the proper institutional category is particularly precarious. As a result, I make no adjustment for the apparent shortfall of non-mortgage debt in the SCF.

Income. Another problematic element of the 1989 is reported household income. Table 2 presents a comparison of median and mean household income derived from the 1983 and 1989 SCF (for calendar years 1982 and 1988, resepctively) and the corresponding figures from the Current Population Survey (CPS). The medians derived from the two sources are very close for 1982, while the SCF mean is 14 percent greater than the CPS mean. These results are to be expected,

TABLE 2

COMPARISON OF THE SCF AND CURRENT POPULATION SURVEY (CPS) ESTIMATES OF MEAN AND MEDIAN HOUSEHOLD INCOME, 1982 AND 1988

	1982		1988	
	Median	Mean	Median	Mean
SCF	20,247	28,683	24,060	37,291
CPS	20,818	25,089	28,537	35,656
Ratio: SCF/CPS	0.975	1.143	0.843	1.046

Sources: SCF data are from own computations from the 1983 and 1989 Survey of Consumer Finances. The CPS data are from U.S. Bureau of the Census, Current Populations Reports, Series P-60, No. 168, *Money Income and Poverty Status in the United States: 1989*, U.S. Government Printing Office, Washington, DC, 1990, Table 2, p. 21.

[5]An attempt to do so created an unbelievable number of households (28 percent of the total) with negative net worth.

since the inclusions of a high-income supplement in the SCF (in 1983 as well as 1989) will provide greater coverage of income at the top of the distribution, thus driving up the mean but leaving the median unchanged. However, the corresponding figures for 1988, in which the median derived from the 1989 SCF falls short of the CPS median by 16 percent and the mean is only 9 percent higher, suggests that the 1989 SCF did a poorer job in capturing income than the 1983 SCF.

A straightforward alignment procedure would be to adjust the 1989 SCF income figures in such a way that the ratio of the 1989 SCF income figures to the corresponding CPS figures are the same as in 1982. However, this would have required an adjustment factor of 1.16 (0.975/0.843) for the median and 1.09 (1.143/1.046) for the mean. I decided on the arithmetic average of the two, 1.12, as the adjustment factor for income.

The adjustment procedures are summarized as follows:[6]

Adjustment Factors for the 1989 Survey of Consumer Finances

Checking accounts	1.361	Stocks, bonds, and trusts	1.795
Thrift and other accounts	1.111	Household income	1.123

3. Other Data Sources

The other major data source used in this study is the 1983 Survey of Consumer Finances (SCF). As with the 1989 SCF, this survey was conducted under the auspices of the Federal Reserve Board. The sample also includes a high-income supplement. As with the 1989 SCF, imputations were performed for missing values, and the 1983 data have been aligned to national balance sheet totals for that year (see Wolff, 1987, for details).

Where appropriate, comparisons are also made with the 1962 Survey of Financial Characteristics of Consumers (SFCC). The 1962 SFCC was conducted by the Federal Reserve Board and is comparible in scope and coverage with the 1983 and 1989 SCF. The 1962 data have been adjusted to align with the national balance sheet totals (see Wolff, 1987, for details).

Also, where pertinent, comparisons are made with the 1984 and 1988 Survey of Income and Program Participation (SIPP). Unlike the SCF data, these are designed primarily for income and program participation information and are representative surveys, with no high income supplement. As a result, they yield lower mean wealth estimates and lower concentration figures than the SCF (see Wolff, 1990, for a discussion). However, they can be compared directly with each other and can yield some auxiliary information on wealth trends over the 1980s. The results reported here are based on the two published sources: U.S. Bureau of the Census (1986, 1990b).

In some cases, 1962 and 1983 wealth figures are reported in 1989 dollars. The 1962 and 1983 figures are adjusted through the use of the Consumer Price Index (which increased by 311 percent from 1962 to 1989 and by 24.5 percent from 1983 to 1989).

[6]Due to the new adjustment procedures used here, results reported in this paper differ somewhat from those contained in Wolff (1992*b*).

TABLE 3

CHANGES IN AVERAGE AND MEDIAN REAL HOUSEHOLD WEALTH AND INCOME 1962–89

	Values, in 1989 Dollars			Annual Rate of Growth (%)		
	1962	1983	1989	1962–83	1983–89	1962–89
Means						
HW: Net worth, adjusted	110,409	161,732	198,639	1.82	3.43	2.18
Net worth, other debt adjusted for 1989	110,409	161,732	192,519	1.82	2.90	2.06
Net worth plus autos	115,687	167,874	206,688	1.77	3.47	2.15
Net worth, unadjusted	80,575	121,919	173,309	1.97	5.86	2.84
FW: Financial net worth	87,807	117,367	151,755	1.38	4.28	2.03
Income, adjusted[a]	26,179	35,711	41,889	1.48	2.66	1.74
Means computed from the Flow of Funds[b]						
Net worth, total sector	134,483	164,565	185,559	0.96	2.00	1.19
NW1: total net worth less non-profit tangibles[c]	130,699	159,459	180,589	0.95	2.07	1.20
NW2: NW1 less consumer durables	116,355	141,548	159,799	0.93	2.02	1.18
NW3: NW2 less pension reserves	108,582	120,889	129,078	0.51	1.09	0.64
Medians						
Net worth, adjusted	29,520	41,538	44,793	1.63	1.26	1.54
Financial net worth	7,969	8,971	10,423	0.56	2.50	0.99
Income, adjusted[a]	21,542	25,207	27,027	0.75	1.16	0.84
Means and medians computed from SIPP for 1984 and 1988						
Mean net worth		93,918	96,451		0.67	
Median net worth		38,795	37,475		−0.87	

Note: All figures are based on own calculations from the 1962 *Survey of Financial Characteristics of Consumers* and the 1983 and 1989 *Survey of Consumer Finances*, unless otherwise indicated.

[a]Income data are for years 1961, 1982, and 1988, respectively.

[b]Source: Board of Governors of the Federal Reserve System, "Balance Sheets for the U.S. Economy, 1945–89", Washington, DC, October 1990, pp. 21–24. Results are based on the Flow of Funds (FOF) and are for the sector: households, personal trusts, and nonprofit organizations.

[c]Structures, plant and equipment, and land owned by non-profit institutions.

[d]*Source*: U.S. Bureau of the Census, Current Population Reports, Series P-70, No. 22, *Household Wealth and Asset Ownership, 1988*, U.S. Government Printing office, Washington, DC, 1990, p.8. Data are for 1984 and 1988.

4. CHANGES IN AVERAGE WEALTH HOLDINGS

I begin the analysis with a consideration of trends in real wealth over the period from 1962 to 1989 (all are reported in 1989 dollars). Line 1 of Table 3 (also see Figure 1) shows my estimates of average household net worth, HW, in 1989 dollars based on the fully adjusted versions of the 1962 SFCC and the 1983 and 1989 SCF files. According to these data, mean real wealth grew at an average annual rate of 1.8 percent between 1962 and 1983 and, *almost doubling*, at 3.4 percent between 1983 and 1989. By 1989, the average wealth of households was about $200,000, almost double that of 1962.

Other measures of wealth and sources of wealth data confirm this acceleration in real wealth growth during the 1980s. The second line shows the estimate of average net worth in 1989 if the non-mortgage debt component of liabilities is fully aligned to the FOF value. In this case, average net worth grows by 2.9 percent per year, lower than in line 1, but still sizably greater than in the 1962–

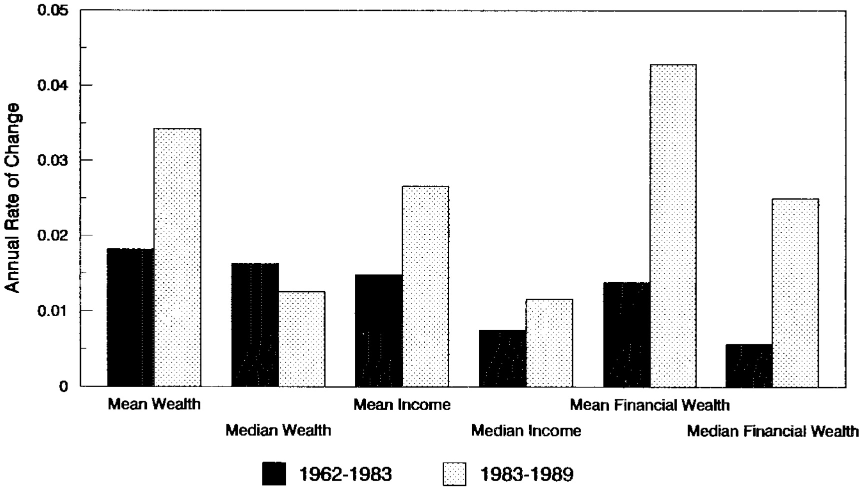

Figure I. Annual Rate of Change in Real Income and Wealth, 1962–83 and 1983–89

83 period. I add the value of automobiles to HW in line 3. This adjustment results in a slightly greater acceleration of real wealth growth in the 1983–89 period (from 1.77 percent per year in 1962–83 to 3.47 percent per year in 1983–89). I next show the estimates of average wealth based on the original, unadjusted versions of the 1962 SFCC and 1983 and 1989 SCF (line 4). These figures show a much greater acceleration, from 2.0 percent per year in 1962–83 to 5.9 percent in 1983–89.

I also introduce the concept of financial wealth, FW, defined as net worth minus net equity in owner-occupied housing, where net equity is defined as the difference between the value of the property and the outstanding mortgage debt on the property. Financial wealth is a more "liquid" concept than marketable wealth, HW, since one's home is difficult to convert into cash in the short term. It thus reflects the resources that may be directly available for consumption or various forms of investments. Average finanical wealth grew faster than HW in the 1983–89 period (4.3 vs. 3.4 percent per year), reflecting the increased importance of bank deposits, financial assets and equities in the overall household portfolio over this period. On the other hand, FW grew slower than HW between 1962 and 1983, 1.4 vs. 1.8 percent per year. Thus, the acceleration in the growth of financial wealth during the 1983–89 period is even greater than marketable net worth.

Measures of average wealth derived from the Flow of Funds are all lower than the corresponding survey-based estimates. The reason derives from the discrepancy between the survey and FOF estimates of owner-occupied housing, other real estate, and unincorporated business equity—a difference which grew between 1962 and 1989. However, the FOF measures all show an acceleration of growth during the 1983–89 period. Indeed, according to all four concepts, the annual rate of growth of average wealth more than doubled between 1962–83 and 1983–89.

Average household income also grew faster in the 1983–89 period than the 1962–83 period. Its annual growth accelerated from 1.5 percentage points to 2.7.

However, in both periods, average income grew more slowly than average wealth, and the difference increased from 0.3 percentage points per year in 1962–83 to 0.8 percentage points in 1983–89.

The trend in median household wealth also gives a contrasting picture to the growth of mean wealth. Median household wealth grew faster in the 1962–83 period, 1.6 percent per year, than in the 1983–89 period, 1.3 percent per year. Median household wealth grew more slowly than mean household wealth in both periods, but the difference is much more marked for the later period, 2.2 percentage points, than for the 1962–83 period, 0.2 percentage points. The result for the 1983–89 period, in particular, also implies that the upper wealth classes enjoyed a disproportionate percentage of the total wealth increase over the period—a finding consistent with rising wealth inequality during this period. Median financial wealth also grew more slowly in both periods than mean financial wealth but its growth increased from 0.6 percent per year in the 1962–83 period to 2.5 percent per year in the 1983–89 period. Median household income, like median financial wealth, grew faster in 1983–89, at 1.2 percent per year, than in 1962–83, at 0.8 percent per year. However, in both periods, the growth in median income was less than that of median (and mean) net worth.

The SIPP estimates of average net worth for 1984 and 1988 are both far below the corresponding figures derived from the SCF for 1983 and 1989—for 1989, less than half. The SIPP estimates are also below the FOF figures for NW3, the most restrictive wealth concept. According to the SIPP figures, mean household wealth grew by only 0.7 percent per year over the 1984–88 period, about a fifth of the SCF-based estimate for 1983–89, while median wealth actually declined in real terms between 1984 and 1988, by 0.9 percent per year. The SIPP figures appear to be unbelievably low and seem to give very biased trends over time.

5. Rising Wealth Inequality in the 1980s

We next consider whether the concentration of household wealth has grown over the 1980s. The results, reported in Table 4 (also see Figure 2), confirm a rising level of wealth inequality between 1983 and 1989. The most telling finding is that the share of net worth, HW, of the top one half of one percent (the "super-rich") increased by *five* percentage points over this period. In 1989, this group owned 31.4 percent of total household wealth, compared to 26.2 percent in 1983.

The share of the next half of a percent (the "very rich") remained almost unchanged over the period, at 7.5 percent, while the share of the next nine percent (the "rich") declined somewhat, from 34.4 percent of total wealth to 33.4 percent. The share of the bottom 80 percent declined by *over three percentage points*, from 18.7 percent of total wealth to 15.4 percent.

An examination of the quintile shares reveals that while the top 20 percent increased their share of total wealth by 3.3 percentage points, the second quintile lost 0.9 percentage points, the middle lost 0.6, the fourth lost 0.4, and the bottom 0.9. The bottom quintile had negative net worth on average (their debts outweighed their assets). This is true for both 1983 and 1989 (as well as 1962). Another indicator of overall inequality, the Gini coefficient, also shows a sizable increase over the period, from 0.80 to 0.84.

TABLE 4

GINI COEFFICIENT AND PERCENTAGE SHARES OF TOTAL WEALTH AND INCOME BY PERCENTILE GROUP AND QUINTILE, 1962, 1983, AND 1989

		Percentage Share of Wealth (Income) Held by						
Year	Gini Coeff.	Top 0.5	Next 0.5	Next 4.0	Next 5.0	Next 10.0	Bottom 80.0	All
A. *Net Worth (HW)*								
1962	0.80	25.9	7.5	21.2	12.4	14.0	19.1	100.0
1983	0.80	26.2	7.5	22.3	12.1	13.1	18.7	100.0
1989—Adjusted	0.84	31.4	7.5	21.9	11.5	12.2	15.4	100.0
1989—HW+autos	0.82	30.4	7.3	21.4	11.4	12.3	17.3	100.0
1989—Unadjusted	0.84	30.8	6.9	21.6	11.5	12.8	16.4	100.0
1984 SIPP	0.69							
1988 SIPP	0.69							
B. *Financial Net Wealth (FW)*								
1962	0.88	31.5	8.8	23.8	12.9	12.7	10.4	100.0
1983	0.89	34.0	8.9	25.1	12.3	11.0	8.7	100.0
1989	0.93	39.3	8.8	24.1	11.5	10.1	6.1	100.0
C. *Household Income*								
1962	0.43	5.7	2.7	11.3	10.2	16.1	54.0	100.0
1983	0.48	9.7	3.7	13.3	10.3	15.5	48.1	100.0
1989	0.52	13.4	3.0	13.3	10.4	15.2	44.5	100.0

	Percentage Share of Wealth (Income) Held by Quintile					
Year	Top	Second	Third	Fourth	Bottom	All
A. *Net Worth*						
1962	81.0	13.4	5.4	1.0	−0.7	100.0
1983	81.3	12.6	5.2	1.2	−0.3	100.0
1989—Adjusted	84.6	11.5	4.6	0.8	−1.4	100.0
1989—HW+autos	82.8	12.0	5.1	1.3	−1.1	100.0
1989—Unadjusted	83.6	12.3	4.9	0.8	−1.7	100.0
B. *Financial Net Wealth*						
1962	89.6	9.6	2.1	−0.0	−1.4	100.0
1983	91.3	7.9	1.7	0.2	−1.0	100.0
1989	93.9	6.8	1.5	0.1	−2.3	100.0
C. *Household Income*						
1962	46.0	24.0	16.6	9.9	3.5	100.0
1983	51.9	21.6	14.1	8.6	3.7	100.0
1989	55.5	20.7	13.2	7.6	3.1	100.0

Sources: Own computations from 1962 *Survey of Financial Characteristics of Consumers* and 1983 and 1989 *Survey of Consumer Finances*, except for 1984 and 1988 SIPP figures, which were computed from U.S. Bureau of the Census (1986), Tables 1 and 3, and U.S. Bureau of the Census (1990*b*), Tables 1 and 3.

Data are also presented for 1962. The estimated inequality figures for 1962 and 1983 are very similar. The Gini coefficient is 0.80 for 1962 and 0.80 for 1983; the share of the top one percent of wealth holders was 33.4 percent in 1962 and 33.7 percent in 1983; and the share of the top 5 percent was 54.6 percent in 1962 and 55.6 percent in 1983.[7]

[7]This is not to say that there was no change in inequality between 1962 and 1983. Indeed, results reported by me elsewhere (Wolff, 1992*a*) indicate that wealth concentration while remaining relatively constant between 1962 and 1973, fell sharply between 1973 and the mid-1970s and then increased substantially between the late 1970s and 1983.

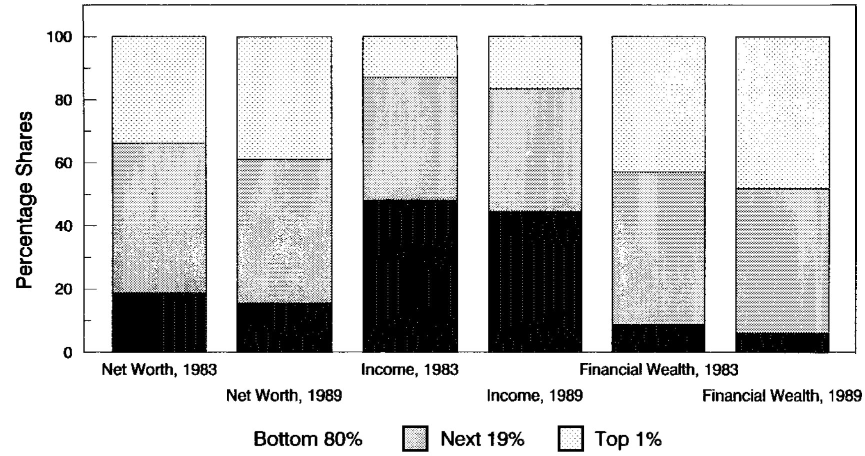

Figure 2. Percentage Shares of Total Wealth and Income in 1983 and 1989
Note: Percentiles based on households ranked by each category.

The last two lines of Panel A show results on the size distribution of household wealth in 1989 for two other measures. The first of these, the sum of (adjusted) HW and automobiles, shows lightly less wealth concentration than HW, but the differences are not great. The second of these, HW computed with the unadjusted asset and liability figures in the 1989 SCF, shows an almost identical degree of inequality as the adjusted figures.

Comparative figures on the Gini coefficient derived from the 1984 and 1988 SIPP files are also shown. These are calculated from data on mean wealth for 9 wealth groups. The Gini coefficients are identical in the two years, 0.69. However, as suggested above, the SIPP figures on household wealth appear rather suspect.

Another dimension is afforded by looking at the distribution of financial net worth, defined as net worth less the equity in owner-occupied housing. Financial wealth is distributed even more unequally than total household wealth. In 1989, the top one percent of families as ranked by financial wealth owned 48 percent of total financial wealth, in contrast to a 39 percent share of total net worth among the top one percent of net worth holders (also compare the Gini coefficients of 0.84 for total net worth and 0.93 for financial wealth in 1989). The top quintile (as ranked by financial wealth) account for 94 percent of total financial wealth, and the second quintile accounted for nearly all the remainder.

The concentration of financial wealth increased to the same degree as that of net worth between 1983 and 1989. The share of the top one-half of one percent of financial wealth holders increased by 5 percentage points, from 34.0 percent of total financial wealth to 39.3 percent, and the Gini coefficient rose from 0.89 to 0.93. With the exception of the next one-half of one percent, the shares of all other groups declined, with that of the bottom 80 percent of financial wealth holders falling from 8.7 percent to 6.1 percent. Interestingly, the concentration of financial net worth also increased modestly between 1962 and 1983, with the share of the top one percent rising from 40.3 to 42.9 percent and that of the top quintile from 89.6 to 91.3 percent, and the Gini coefficient nudging up from 0.88 to 0.89.

Comparable results on households income distribution are shown in Panel C, where families are ranked in terms of income to calculate the percentile shares. These data confirm that the concentration of income has also increased between 1983 and 1989. As with wealth shares, most of the relative income gain accrued to the top half of one percent of income recipients, whose share grew by 4.2 percentage points. The share of the next half of a percent actually declined, by 0.7 percentage points, while the share of the next 19 percent remained unchanged. Almost all the loss in income was sustained by the bottom 80 percent of the income distribution, with the loss fairly evenly spread over the bottom four quintiles. The Gini coefficient also showed a sharp increase, from 0.48 to 0.52.[8] There was also a large increase in income inequality between 1962 and 1983, with the Gini coefficient rising from 0.43 to 0.48 and the share of the top one percent increasing from 8.4 to 12.9 percent and that of the top quintile from 46.0 to 51.9 percent. According to the CPS data, almost all of this increase occurred after 1973.

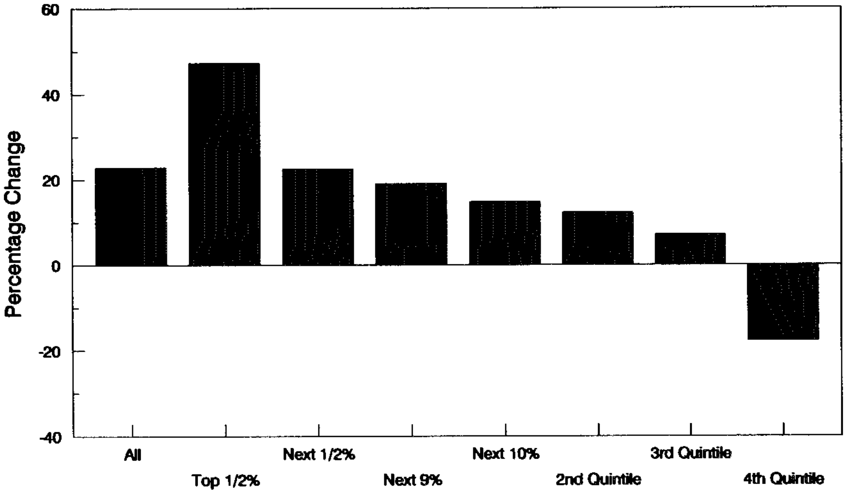

Figure 3. Percentage Change in Mean Wealth (1989$) by Quantile, 1983–89
Note: The mean wealth of the bottom quintile is negative in both years

It is also illuminating to contrast the relative level of income and wealth inequality. Wealth is distributed *much more unequally* than income. The share of the top one percent of wealth holders in 1989 was 38.9 percent, while that of the top one percent of income recipients was 16.4 percent. The top quintile of wealth holders owned almost 85 percent of total household wealth while the top quintile of income recipients accounted for a little over half of total family income. The Gini coefficient for wealth in 1989 is 0.84, compared to 0.52 for income.

Another way of highlighting the changing distribution of wealth is to look at changes in mean wealth holdings for the different groups. The average real

[8]The SCF data show a much higher degree of income inequality than does the CPS. According to U.S. Bureau of the Census (1990*a*, p. 30), the Gini coefficient for all households was 0.43 and the share of the top quintile was 46.3 in 1988, compared to figures of 0.52 and 55.5 percent, respectively, from the SCF. The difference is to be expected, since the SCF has a high income supplement and does not "top-code" income figures, as is done in the CPS.

wealth (HW) of American households grew by 23 percent from 1983 to 1989. The results shown in Panel B of Table 5 (also see Figure 3) indicate an immense increase of the mean wealth of the top half percent, from an average of 8.5 million dollars (in 1989 dollars) in 1983 to 12.5 millions in 1989, an increase of 47 percent. Therefore, the average wealth of this group grew more than twice as rapidly as

TABLE 5

MEAN NET WORTH AND INCOME BY QUANTILE, AND SHARE OF WEALTH AND INCOME GROWTH ACCRUING TO EACH GROUP, 1962, 1983 AND 1989
(1989 dollars)

		Percentile Group				
Year	All	Top 0.5	Next 0.5	Next 9.0	Next 10.0	Bottom 80.0
A. *Total New Worth HW (in billions)*						
1962	6,394	1,657	480	2,145	894	1,218
1983	13,568	3,558	1,022	4,677	1,779	2,533
1989	18,477	5,805	1,388	6,170	2,262	2,850
Percent of Total Wealth HW Increase Accruing to Each Group[a]						
1962–83	100.0	26.5	7.5	35.3	12.3	18.3
1983–89	100.0	45.8	7.5	30.4	9.9	6.5
B. *Average Net Worth HW (in thousands)*						
1962	110	5,724	1,658	411	154	26
1983	162	8,481	2,436	619	212	28
1989	199	12,482	2,984	737	243	38
Percentage Change						
1962–83	46.5	48.2	46.9	50.5	37.4	43.6
1983–89	22.8	47.2	22.5	19.0	14.7	1.5
Percent of Total Wealth HW Increase Accruing to Each Group (with number of households held constant)[b]						
1962–83	100.0	26.9	7.6	36.5	11.2	17.9
1983–89	100.0	54.2	7.4	28.7	8.5	1.2
C. *Average Financial Net Worth FW (in thousands)*						
1962	88	5,525	1,540	358	111	11
1983	117	7,974	2,094	488	129	13
1989	152	11,934	2,685	601	154	12
Percentage Change						
1962–83	33.7	44.3	36.0	36.1	16.1	12.0
1983–89	29.3	49.7	28.2	23.2	19.1	−10.0
Percent of Total Financial Wealth FW Increase Accruing to Each Group (with number of households held constant)[b]						
1962–83	100.0	41.4	9.4	39.4	6.1	3.7
1983–89	100.0	57.6	8.6	29.6	7.2	−3.0
D. *Average Household Income (in thousands)*						
1962	26	296	142	63	42	18
1983	36	654	264	94	55	21
1989	42	1,125	254	111	64	23
Percentage Change						
1962–83	36.4	120.9	85.1	49.2	31.0	21.6
1983–89	17.3	72.2	−3.5	18.3	15.7	8.5
Percent of Total Income Increase Accruing to Each Group (with number of households held constant)[b]						
1962–83	100.0	18.8	6.4	29.1	13.7	32.1
1983–89	100.0	38.2	−0.8	24.9	14.0	23.7

TABLE 5—continued

Year	All	Quintile Top	2nd	3rd	4th	Bottom
E. *Average Net Worth HW (in thousands)*						
1962	110	447	74	30	5	−4
1983	162	658	102	42	10	−2
1989	199	840	114	45	8	−14
Percentage Change						
1962–83	46.5	47.2	37.4	40.8	81.9	—
1983–89	22.8	27.7	12.2	7.1	−17.8	—
Percent of Total Real Net Worth HW Increase Accruing to Each Group (with number of households held constant)[b]						
1962–83	100.0	82.1	10.8	4.8	1.7	0.6
1983–89	100.0	98.8	6.7	1.6	−0.9	−6.2
F. *Average Financial Net Worth FW (in thousands)*						
1962	88	393	42	9	−0	−6
1983	117	536	46	10	1	−6
1989	152	713	52	11	1	−18
Percentage Change						
1962–83	33.7	36.2	9.5	6.2	—	—
1983–89	29.3	33.0	11.1	14.1	—	—
Percent of Total Real Financial Net Worth FW Increase Accruing to Each Group (with number of households held constant)[b]						
1962–83	100.0	96.3	2.7	0.4	0.6	−0.0
1983–89	100.0	103.0	3.0	0.8	−0.1	−6.7
G. *Average Household Income (in thousands)*						
1962	26	60	31	22	13	5
1983	36	93	39	25	15	7
1989	37	116	43	28	16	6
Percentage Change						
1962–83	36.4	53.8	23.1	16.6	18.5	44.2
1983–89	17.3	25.5	12.0	9.4	3.4	−3.2
Percent of Total Real Income Increase Accruing to Each Group (with number of households held constant)[b]						
1962–83	100.0	67.9	15.2	7.5	5.0	4.3
1983–89	100.0	76.3	15.0	7.7	1.7	−0.7

Sources: Own computations from the 1962 *Survey of Financial Characteristics of Consumers* and the 1983 and 1989 *Survey of Consumer Finances.*

[a]The computation was performed by dividing the total increase in wealth (income) of the given group by the total increase of wealth (income) for all households over the period. It should be noted that the families found in each group (such as the top one-half percent) may be *different* in each year.

[b]The computation is identical to that described in footnote a, except the change in real wealth by group was recalculated under the assumption that the number of households in each group remained unchanged over the period.

overall average household wealth. The percentage increase in the wealth of the other percentile groups declines monotonically from 23 percent for the next half percent, 19 percent for the next 9 percent, 15 percent for the next 10 percent, and only 1.5 percent for the bottom 80 percent. Indeed, the average wealth holdings of the fourth and bottom quintiles actually declined in real terms: from $9,500 to $7,800 for the fourth quintile and from −2,400$ to −17,500$ for the bottom quintile. The last trend is also reflective of the growing indebtedness of American families, particularly those at the bottom of the wealth distribution. The proportion of households with zero or negative net worth increased from 15.5 percent in 1983 to 17.9 percent in 1989.

In contrast, wealth growth between 1962 and 1983 was much more evenly spread out among the wealth distribution. The average real wealth of all groups increased. While average wealth grew by 47 percent, that of the top 0.5 percent increased by 48 percent, that of the next half percent by 47 percent, that of the next 9 percent by 51 percent, that of the next 10 percent by 37 percent, and that of the bottom 80 percent by 44 percent. Moreover, the average wealth of the fourth (next to bottom) quintile grew by 82 percent and that of the bottom quintile increased from −4,000$ to −2,400$.

Another indicator of rising wealth concentration is afforded by looking at the proportion of the total increase in real household wealth between 1983 and 1989 accruing to each percentile group (Table 5). This is calculated by computing the increase in total wealth of each percentile group and dividing this figure by the total increase in household wealth. 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 the calculations shown in Table 5, the households found in each group (say the top quintile) may be different in the two years.

The total wealth of American households (in 1989 dollars) grew from 13.6 trillion dollars in 1983 to 18.5 trillion dollars in 1989 (see Panel A). Of this 4.9 trillion dollar increase, 45.8 percent accrued to the top one-half of one percent of families. The top one percent together accounted for 53.3 percent of the wealth growth, and the top quintile for 93.5 percent of the total wealth gain.

This method of calculating the wealth gains by group is slightly distorted since it reflects both the increase in the average wealth of a group and the increase in the number of households in that group. For example, a group whose average wealth shows no increase but whose number of households does increase will be accorded a positive share of the overall wealth growth over the period. Though there is no simple analytical way of separating out the effects of the growth in average wealth from that in the number of families, I can also perform the same calculation, holding the number of households in each group constant over time. These results are presented in Panel B. They show an even greater share of the overall wealth growth accruing to the top one-half percent—54.2 percent. The top quintile received 98.8 percent of the total growth over the six-year period. Indeed, only 1.6 percent of the total wealth growth accrued to the middle quintile, and the bottom two quintiles accounted collectively for a *loss* of 7.1 percent of the total wealth growth—a loss of about 300 billion dollars of wealth.

In contrast, over the 1962–83 period, each percentile and quintile group enjoyed some share of the overall wealth growth, and the gains were roughly in proportion to the share of wealth held by the group in 1962.

Gains in finanical wealth between 1983 and 1989 were also disproportionately spread out over the wealth distribution. While the average financial wealth of the top one-half percent increased by 50 percent, that of the bottom two quintiles actually declined (in real terms), by 22 percent for the next to last and from −6,000$ to −17,500$ for the bottom. Though the proportion of households with zero or negative financial net worth changed very little, from 25.7 percent in 1983 to 26.8 percent in 1989, their level of debt showed a marked increase.

Gains in the overall growth in financial wealth were distributed even more unevenly than in net worth (HW). With the number of household held constant, it is found that 66.2 percent of the growth accrued to the top one percent, 103 percent to the top quintile, 3 percent to the second quintile, 0.8 percent to the middle quintile, and −6.8 percent to the bottom two quintiles. Results for 1962–83 show that while gains in financial wealth were distributed more unevenly than those in total net worth over the period, they were distributed more equally than gains in financial wealth over the 1983–89 period.

A similar calculation using the income data provided in the two SCF files reveals that 37.4 percent of the total real income gain between 1983 and 1989 accrued to the top one percent of income recipients. This is still substantial, though considerably less than the proportional gain among the top one percent of wealth holders. Over three-fourths of income growth went to the top quintile of income recipients, 15 percent to the second quintile, 8 percent to the middle, 1.7 percent to the fourth, and −0.7 percent to the bottom, reflecting a decline in their average real income of 3.2 percent. The distribution of income gains were more equal over the 1962–83 period, with the top quintile receiving 68 percent of the growth, the next to bottom quintile 5.0 percent, and the bottom quintile 4.3 percent.

The increase in wealth inequality recorded over the 1983–89 period in the U.S. is almost unprecedented. According to previous calculations (see Wolff, 1992*a*, for details), the only other time during the twentieth century with a similar increase in the concentration of household wealth was during the period from 1922 to 1929. This latter increase in inequality was buoyed primarily by the excessive increase in stock values which eventually precipitated the Great Depression of the 1930s.

6. Wealth by Income Class

Another perspective is afforded by looking at average wealth holdings by income class. There has been some discussion, particularly in the U.S. press, that the big winners over the 1980s in terms of wealth were also the top income groups.

Results are reported in Table 6 for 1962, 1983 and 1989. Households are first divided into income quintiles (and into the top five percent and the top one percent) *on the basis of household income*. Mean and median household net worth is then computed within each of these household groups. In 1989, the mean net worth of the lowest income quintile was $23,400, only 12 percent of the overall mean wealth of the country. The mean wealth of the next three lowest income quintiles also fell below the overall mean of the country, at 30 percent, 50 percent, and 74 percent of the overall mean. In contrast, the average wealth of the top income quintile was $649,000, 3.3 times the average wealth in the country, while that of the top 5 percent of income recipients was 8.9 times the overall average and that of the top one percent almost 25 times the average.

Changes over the period from 1962 and 1989 are also telling. Between 1962 and 1983, the wealth holdings of the upper income groups increased relative to those of the lower income quintiles. Indeed, the relative wealth of the bottom four

TABLE 6

MEAN AND MEDIAN WORTH BY FAMILY INCOME QUANTILE, 1962, 1983 AND 1989
(in thousands of 1989 dollars)

	1962		1983		1989	
Family Income Quantile	Dollar value	Ratio to Overall	Dollar Value	Ratio to Overall	Dollar Value	Ratio to Overall
A. *Mean Net Worth*						
Bottom quintile	38.6	0.35	30.6	0.19	23.4	0.12
4th quintile	48.0	0.43	58.4	0.36	77.8	0.39
Middle quintile	55.0	0.50	71.7	0.44	98.9	0.50
2nd quintile	78.1	0.71	111.8	0.69	146.1	0.74
Top quintile	332.3	3.01	546.7	3.38	649.1	3.27
Top 5 percent	873.3	7.91	1,436.4	8.88	1,767.6	8.90
Top 1 percent	2,761.7	25.01	4,528.5	28.00	4,926.5	24.80
All	110.4	1.00	161.7	1.00	198.6	1.00
B. *Median Net Worth*						
Bottom quintile	9.8	0.33	3.6	0.09	0.6	0.01
4th quintile	12.6	0.43	18.1	0.43	23.2	0.52
Middle quintile	14.8	0.50	32.7	0.79	39.0	0.87
2nd quintile	36.7	1.24	58.1	1.40	63.7	1.42
Top quintile	104.9	3.55	170.6	4.11	193.1	4.31
Top 5 percent	262.2	8.88	479.3	11.54	565.6	12.63
Top 1 percent	1,096.1	37.13	2,523.2	60.74	2,019.4	45.08
All	29.5	1.00	41.5	1.00	44.8	1.00

Sources: Own calculations from the 1962 *Survey of Financial Characteristics of Consumers* and the 1983 and 1989 *Survey of Consumer Finances*.

quintiles declined over this period, while that of the top quintile, the top 5 percent, and the top one percent advanced (the latter from 25 to 28 times the overall mean). In contrast, over the 1983 to 1989 period, the relative wealth of the middle three quintiles actually gained, while that of the bottom and top fell. The relative mean wealth of the top five percent remained stable, while that of the top one percent declined, from 28.0 to 24.8 times the overall mean.

Median wealth holdings by income quantile tell a somewhat similar story. Between 1962 and 1983, the median wealth of the bottom income quintile fell from 33 percent of the overall median to 9 percent; that of the next to bottom income quintile remained constant in relative terms, at 43 percent; while the relative median wealth of the top three income quintiles all increased. The median wealth of both the top five percent and the top one percent of income recipients all showed dramatic increases, the latter from 37 to 61 times the overall median. Between 1983 and 1989, the median wealth of the bottom income quintile continued to fall, from 9 percent to *1 percent* of the overall median. Indeed, in 1989, the median net worth of the bottom 20 percent was *only $600*. The median wealth of the top four income quintiles all increased in relative terms, as did that of the top five percent. However, the median wealth of the top one percent of income recipients fell in relative terms.

Thus there is no clear evidence that the large (relative) wealth gains that occurred in the 1980s were confined to the *upper income groups*. Indeed, this seems to have occurred much more between 1962 and 1983. However, what is clear is that the wealth holdings of the bottom income quintile have fallen rather consistently between 1962 and 1989, in both relative and absolute terms. The poorest households in terms of income have had an increasingly difficult time accumulating any amount of wealth over the last three decades.

Another interesting viewpoint is provided by considering the *distribution* of wealth within income group. It is often believed that income and wealth are highly correlated. However, the results of Table 7 suggest wide inequality of wealth among households with similar incomes. As in the previous table, I first divide households into income quintiles (and quantiles), and then compute the size distribution of wealth within these groups.

Gini coefficients for wealth holdings vary from 0.69 to 0.89 among the five income quintiles in 1989, in comparison to a Gini coefficient of 0.84 for all households in the population. Even among the top one percent of families ranked by income, the Gini coefficient is 0.72. Among the income groups, the share of wealth held by the top one percent ranges from 17 percent to 31 percent, in comparison to 39 percent for all households. The share of wealth owned by the top quintile ranges from 72 to 90 percent among the income groups, in contrast to a 85 percent share for all households. The degree of wealth inequality is thus only slightly less by income group than among the whole population, except the bottom income quintile (among whom it is actually greater). In fact, 41 percent of households in the bottom income quintile recorded zero or negative net worth in 1989.

7. Wealth Holdings by Age Group

As shown in Table 8 (and also Figure 4), the cross-sectional age-wealth profiles of 1962, 1983, and 1989 generally follow the predicted hump-shaped pattern of the life-cycle model (see Modigliani and Brumberg, 1954). Mean wealth increases with age up through 65 to 74 and then falls off.

Despite the apparent similarity in the three profiles, there have been notable shifts in the relative holdings of wealth by age group between 1962 and 1989. Between 1962 and 1983, the wealth of younger age groups fell in relative terms, from 27 percent of the overall mean to 20 percent for households under 35 and

TABLE 7

Gini Coefficient and Percentage Shares of Total Wealth Held by Income Percentile Group and Quintiles, 1989

		Percentage Share of Wealth Held by Wealth Percentiles:						
Family Income Quantile	Gini Coeff.	Top 1.0	Top 5.0	Top 20	2nd 20	3rd 20	4th 20	Bottom 20
Bottom quintile	0.89	26.0	53.2	90.4	12.4	0.7	−0.0	−3.5
4th quintile	0.77	28.4	46.2	76.0	18.2	6.1	0.6	−0.8
Middle quintile	0.72	18.4	39.6	71.6	19.4	8.1	1.8	−1.0
2nd quintile	0.69	19.2	39.7	70.5	17.4	8.9	3.6	−0.4
Top quintile	0.78	30.9	54.5	79.5	11.9	6.1	3.2	−0.7
Top 5 percent	0.75	24.1	48.3	76.2	14.7	6.7	3.3	−1.0
Top 1 percent	0.72	17.2	40.0	72.1	17.5	8.4	4.0	−2.0
All	0.84	38.9	60.8	84.6	11.5	4.6	0.8	−1.4

Source: Own calculations from the 1989 *Survey of Consumer Finances*.

TABLE 8

RATIO OF MEAN HOUSEHOLD NET WORTH BY AGE OF FAMILY HEAD TO THE OVERALL MEAN, 1962, 1983 AND 1989

	Year		
	1962	1983	1989
All	1.00	1.00	1.00
Under 35	0.27	0.20	0.28
35–44	0.75	0.70	0.71
45–54	1.02	1.52	1.47
55–64	1.59	1.67	1.58
65–74	1.67	1.95	1.63
75 and over	1.36	1.06	1.34
Under 65	0.87	0.85	0.86
65 and over	1.56	1.62	1.51
Under 45	0.50	0.40	0.48
45–69	1.35	1.73	1.57
70 and over	1.46	1.21	1.39

Source: Own calculations from the 1962 *Survey of Financial Characteristics of Consumers* and the 1983 and 1989 *Survey of Consumer Finances*.

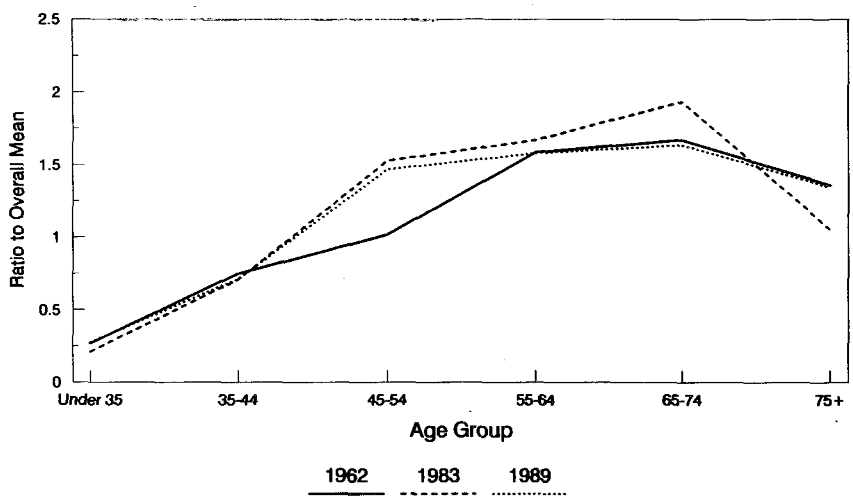

Figure 4. Ratio of Mean Wealth by Age Group to Overall Mean: 1962, 1983, and 1989

from 50 to 40 percent for households under 45. The wealth of families 70 and older also declined in relative terms, from 46 percent above average in 1962 to 21 percent in 1983. In contrast, the average wealth of households between 45 and 69 increased from 35 percent to 73 percent above average. Over the two decades, the resulting age-wealth profile thus became more pronounced, with the peak rising from 1.67 to 1.95 (for age group 65–74).

The relative wealth status of elderly (65 and over) Americans also showed some gains between 1962 and 1983. The average wealth of the elderly increased from 56 percent above average in 1962 and 62 percent 1983. The average net worth of those under 65 slipped slightly from 87 percent to 85 percent of average.

Have these trends continued through the 1980s? The results reported for 1989 indicate not. Indeed, if anything, there has been a reversal to the age-wealth relation of the early 1960s. The mean wealth of families under 35 grew from 20 percent of average in 1983 to 28 percent in 1989, almost the same relative level as in 1962, while that of families 35 to 44 of age increased only slightly in relative terms, from 70 percent to 71 percent of average.

The wealth holdings of the next two age groups, 45–54 and 55–64, both slipped in relative terms, from 52 to 47 percent above average and from 67 to 58 percent, respectively. The biggest (relative) loss was sustained by the 65–74 year old age class, whose wealth fell from 95 percent above average to 63 percent. The wealth of the 75 and over group showed the largest gain, rising from 6 percent above the mean in 1983 to 34 percent in 1989. All told, the age-wealth profile thus "flattened" substantially between 1983 and 1989, with the peak falling from 1.95 to 1.63. The 1989 wealth profile is, in fact, very similar to the 1962 profile, except that the relative wealth of age group 45–54 was much higher in 1989 than in 1962 (1.45 compared to 1.02).

Comparing the elderly and the non-elderly groups, we see that the elderly lost out in relative terms, falling from 62 percent above average in 1983 to 51 percent in 1989, somewhat below its 1962 standing. The relative wealth of the non-elderly, on the other hand, remained virtually unchanged between 1983 and 1989.[9]

Finally, by dividing households into three age groups, younger (under 45), middle-age (45 to 69), and older (70 and over), it is apparent that both the younger and older households gained at the expense of the middle-aged. The wealth of families under 45 increased from 40 percent of the overall mean in 1983 to 48 percent in 1989, close to the corresponding 1962 figure. The relative wealth of the middle-aged fell from 1.73 in 1983 to 1.59 in 1989, though still above the comparable 1962 figure. The wealth holdings of older households relative to the overall mean grew from 21 percent in 1983 to 39 percent in 1989, though still below their relative level in 1962.

8. Racial Differences in Household Wealth

As shown in Table 9, according to the *Current Populations Reports* data, the relative gap in income between black and white households is almost identical in 1967 and 1989 (results are the same for family incomes).[10] The ratio of mean

[9]This is *not* inconsistent, since the proportion of households 65 and over also increased between 1983 and 1989, from 19.2 to 22.3 percent.

[10]Please note that five different sources of data are used in Table 9. In the *Current Population Report* data, statistics are provided for white and black households, excluding Hispanic households. In the Bureau of the Census data, statistics are given for white and non-white families; Hispanic families may fall into either group. In the 1983 and 1989 SCF data, statistics are provided for white, Asian, Hispanic, and black households. However, because of sample stratification, the sample size is relatively small for the non-white groups, and I have combined them (including Hispanics) into a single non-white category. For the 1962 SFCC data, there is little documentation of the race category; the only two choices are white and non-white. It is not clear how Hispanics (or Asians) are classified. As a result, some caution must be exercised in interpreting the results from the three Federal Reserve Board surveys.

TABLE 9

RATIO OF HOUSEHOLD INCOME AND WEALTH BETWEEN NON-WHITES AND WHITES, 1940–89

Year	Ratio of Means	Ratio of Medians
I. *Household Income*		
Current Population Reports		
1967	0.63	0.58
1983	0.62	0.57
1989	0.63	0.59
II. *Homeownership Rates*		
A. *Census of Population*		
1940	0.52	
1950	0.61	
1960	0.60	
1970	0.64	
1980	0.65	
1985	0.64	
B. *Federal Reserve Board Survey Data*		
1962	0.62	
1983	0.62	
1989	0.63	
III. *Net Worth*		
Federal Reserve Board Survey Data[c]		
1962	0.12	0.04
1983	0.24	0.09
1989	0.29	0.05

[a]*Sources*: U.S. Bureau of the Census (1990), Table 2, pp. 21–22. Ratio is between black and white households. Hispanic households are excluded from this table.

[b]Calculations based on U.S. Bureau of the Census (1989), p. 706. Ratio is between whites and non-whites. Hispanic families may be classified in either group.

[c]*Sources*: 1962 *Survey of Financial Characteristics of Consumers*; 1983 and 1989 *Survey of Consumer Finances*. Hispanics are classified as non-whites in 1983 and 1989.

incomes remained at 0.63, and the ratio of median incomes at 0.58. Were trends similar for household wealth?

I first consider the homeownership rate, which almost doubled among non-white families between 1940 (24 percent) and 1980 (44 percent). Indeed, the ratio of homeownership rates between non-whites and whites also increased, from 52 percent in 1940 to 64 percent in 1985, reaching parity with relative income levels of that year (results are similar from the SCF data). However, increases in non-white homeownership rates, in both relative and absolute terms, were confined to the 1940s and the 1960s. Since 1970, there has been no increase in the homeownership rate among non-white families. According to the SCF data, it fell slightly between 1983 and 1989, from 43.6 to 43.3 percent.

Non-white families also made substantial gains on whites in terms of both mean and median net worth between the early 1960s and the early 1980s.

According to the SCF data, the gap in mean wealth closed further during the 1980s, with the white to non-white ratio increasing from 0.24 in 1983 to 0.29 in 1989, but the gap in median wealth widened, from a ratio of 0.09 to 0.05. This result reflects the fact that wealth inequality is greater among non-whites than whites and the difference increased over time. In 1989, the Gini coefficient for net worth was 0.90 among non-white and 0.81 among white households. In 1983, the respective figures were 0.85 for non-whites and 0.78 for whites. Moreover, in 1989, 35 percent of non-white families reported zero or negative net worth, compared to 12 percent of whites. However, the result may also reflect the increasing heterogeneity of the "non-white" category, which includes not only black households but Hispanic and Asian ones as well.

What is particularly striking is that even in 1989, the wealth of non-white households averaged only 29 percent that of white households, in contrast to an income ratio of 63 percent. Moreover, the ratio in medians was 59 percent for income and only 5 percent for wealth. Thus, even though there have been some gains in closing the racial wealth gap, it is still far greater than the income gap.[11]

More detail on relative wealth holdings by race for 1989 on the basis of the SCF data is provided in Table 10. As shown in Panel A, even among non-white and white families of the same income level, white families held considerably more wealth. The gap is smallest among lower middle-income households, $10–20,000 of income (though the figure of $67,700 for non-whites in this group is somewhat suspicious), but particularly wide for poor and middle income households ($20–30,000). As to be expected, the wealth gap is smaller within income class (with the exception of the lowest) than the overall wealth gap.

Another dimension is provided by age group (Panel B). Here, too, white families of every age group were richer than their non-white counterparts. However, what is particularly striking is that, the wealth gap widens with age. The ratio in mean wealth between non-whites and whites was 0.58 for households under 35 of age but 0.14 for households 65 and over. Indeed, among non-white families, there is a very dramatic fall-off in wealth holdings between households 55–64 of age and those 65 and over.

A breakdown by household types (Panel C) indicates that for both racial groups, the average wealth holdings were highest among married couples, second highest among unmarried males, and lowest among unmarried females. However, the wealth gap between non-whites and whites was smallest among unmarried males (a ratio of 0.62) and highest among female-headed households (a ratio of

[11]According to the SIPP data, the ratio of mean net worth between white and non-Hispanic black families remained constant at 23 percent in 1984 and 1988, while the ratio of median net worth rose slightly, from 9 to 10 percent. The 1984 SIPP results for blacks are quite close to the 1983 SCF results for non-whites but there is a large difference between the 1988 SIPP figures and those from the 1989 SCF. I suspect that the main reason for the difference in results with regard to the ratio of mean wealth holdings is the growing percentage of Hispanics in the non-white SCF household group. According to the 1988 SIPP data, the mean wealth of Hispanic families was 65 percent greater than that of blacks. This result may explain the higher ratio of mean net worth between non-whites and whites found in the SCF data. The 1988 SIPP data also report that 29 percent of black families and 24 percent of Hispanic families had zero or negative net worth, compared to the SCF figure of 35 percent. This may explain the lower ratio of median net worth between non-whites and whites found in the SCF data.

TABLE 10

MEAN NET WORTH BY RACE AND HOUSEHOLD CHARACTERISTICS, 1989
(in thousands of 1989 dollars)

Household Group	Whites	Non-Whites	Ratio
All	241	70	0.29
A. *Income Class* (1989 $)			
Less than 10,000	37	9	0.24
10,000–19,999	75	68	0.90
20,000–29,999	98	32	0.33
30,000–49,999	150	81	0.54
50,000 and more	600	312	0.52
B. *Age Class*			
Under 35	63	37	0.58
35–44	164	63	0.39
45–54	344	125	0.36
55–64	377	130	0.34
65–74	389	54	0.14
75 and over	311	43	0.14
C. *Household Type*			
Married couples	323	113	0.35
Male head, no spouse present	135	84	0.62
Female head, no spouse present	111	22	0.20

Sources: 1989 *Survey of Consumer Finances*. Hispanics and Asians are classified as non-whites.

0.20). Among married couples, the racial wealth ratio was 0.35, slightly higher than the overall ratio. The particularly high ratio in wealth between non-whites and whites among unmarried males reflects, to a large extent, the fact that the vast majority are under 35 of age (a group with a low wealth gap). The low ratio among unmarried females reflects the lower income of non-whites in this category than of whites.

What may explain the much larger wealth gap between races than the income gap and what may account for the particular pattern in wealth gaps observed by family income, age and family type? One plausible explanation is that intergenerational transfers play a crucial role in household wealth accumulation (see, for example, Greenwood and Wolff, 1992). The much larger wealth to income ratio of white families may then be attributable, in part, to the fact that they have received much large inter-vivos transfers and inheritances from their parents than non-whites. This would also account for the widening gap in racial wealth holdings with age, since the bulk of inheritances are received by families in their 40s and 50s. Though today's non-white families are much closer in terms of income to white families than their parent's generation was, their very low relative wealth holdings reflects to a large extent the lower economic status of their parents and grandparents. If this is so, then it may take several generations for the racial wealth gap to narrow to the level of the income gap.

A second possible explanation is that credit restrictions may be much greater for poor non-white families than for white families. This may be so for credit cards, consumer loans, and most importantly, access to home mortgages (so-called "red-lining"). Unfair credit restrains may explain the large racial wealth gap among low income and female-headed households.

TABLE 11

COMPOSITION OF AGGREGATE HOUSEHOLD WEALTH, 1962, 1983, AND 1989[a]
(Percent of Gross Assets)

Year	Gross House Value	Other Real Estate	Business Equity	Liquid Assets	Bonds	Stocks	Trusts	Sum[a]	Total Debt	Net Home Equity
1962	26.0	6.3	15.4	19.6	7.7	19.8	4.7	99.4	14.1	17.6
1983	30.1	14.9	18.8	18.9	4.2	9.0	2.6	98.7	13.1	23.8
1989	28.5	13.2	16.2	17.1	5.8	11.6	3.1	95.5	14.1	20.3

Source: 1962 *Survey of Financial Characteristics of Consumers*; 1983 and 1989 *Survey of Consumer Finances*.

Key:

Gross House Value—Gross value of owner-occupied housing.
Other Real Estate—Gross value of other real estate.
Business Equity—Net equity in unincorporated farm and non-farm businesses.
Liquid Assets—Cash, currency, demand deposits, savings and time deposits, money market funds, cash surrender value of insurance and pension plans, Keogh plans, and IRAs.
Bonds—Financial securities, including corporate bonds, government bonds, open-market paper, and notes.
Stocks—Corporate stock, including mutual funds.
Trusts—Net equity in personal trusts and estates.
Total debt—Mortgage, instalment, consumer, and other debt.
Net Home Equity—Gross value of owner-occupied housing less home mortgage debt (split proportionally between owner-occupied housing and other real estate for 1962 and 1983).

[a]The asset components do not sum to 100.0 percent because miscellaneous assets are excluded from the table.

9. THE COMPOSITION OF WEALTH

The portfolio composition of household wealth shows the forms in which households save. Homes (owner-occupied housing) was the most important asset in the household portfolio in 1962, 1983, and 1989 (see Table 11 and and Figure 5). However, in no year was its gross value more than a third of total assets, and

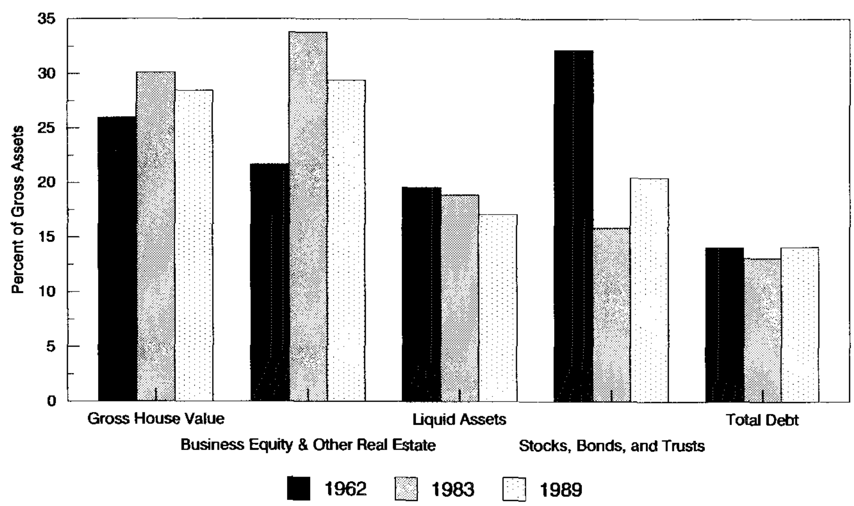

Figure 5. Composition of Household Wealth (Percent of Gross Assets in 1962, 1983, and 1989)

its net value more than one quarter. In 1989, gross housing value accounted for 29 percent of gross assets, and net equity in owner-occupied housing—the value of the house minus any outstanding mortgage—only 20 percent. Demand deposits, time deposits (including money market funds), and other deposits (including retirement plans like IRAs) amounted to 17 percent. Real estate, other than owner-occupied housing, comprised 13 percent, and unincorporated business equity 16 percent of total assets. Corporate stock amounted to 12 percent, bonds and other financial securities to 6 percent, and trust equity to a little over 3 percent. Debt as a proportion of gross assets was 14 percent, and the debt-equity ratio (the ratio of total household debt to net worth) was 0.17.

There has been some important changes in the composition of household wealth since 1962, the first date shown in this table. Gross housing wealth as a proportion of gross assets increased from 26 percent in 1962 to 30 percent in 1983 but then declined to 29 percent in 1989. Likewise, net housing equity, while increasing from 18 to 24 percent between 1962 and 1983, decreased to 20 percent in 1989. The difference between the two series is attributable to the changing magnitude of mortgage debt on homeowner's property, which declined from 32 percent of the gross value of housing in 1962 to 21 percent in 1983 and then increased to 29 percent in 1989.

Another indicator of the changing importance of owner-occupied housing is the homeownership rate. On the basis of census data compiled by the U.S. Bureau of the Census (1989), the proportion of all families owning their own home increased from 55.0 percent in 1950 to a peak of 64.6 percent in 1975, but subsequently declined slightly to 64.4 percent in 1980 and then more substantially to 63.5 percent in 1985 (results not shown).

Other (non-home) real estate grew rapidly between 1962 and 1989, from 6 to 13 percent of total assets. This trend was in large part attributable to rising real estate values. Unincorporated business equity increased as a share of growth wealth between 1962 and 1983, from 15 to 19 percent, and then fell back to 16 percent in 1989. Liquid assets, including checking and savings accounts, money market funds, CDs, life insurance cash surrender value, and pension accounts, remained relatively steady at 20 and 19 percent of total assets in 1962 and 1983, respectively, and then fell to 17 percent in 1989.

Financial securities (bonds) declined in importance in the household portfolio, from 8 percent in 1962 to 4 percent in 1983, and then increased during the 1980s, to 6 percent in 1989. The share of corporate stock shares in total assets fell sharply from 20 percent in 1962 to 9 percent in 1983 before rising to 12 percent in 1989, reflecting gains in stock values. The share of trust equity in total assets also fell somewhat between 1962 and 1989.

Overall, between 1962 and 1989, there was a major shift in household holdings, out of financial assets and equities (deposits, bonds, stocks, and trusts), from 52 percent of gross wealth to 38 percent, and a corresponding increase in real estate and unincorporated business equity, from 48 percent to 59 percent. Debt, as a proportion of net worth, after falling from 16.4 to 15.1 percent between 1962 and 1983 increased to 16.5 percent in 1989. The 1989 figure may be understated, because if the 1989 SCF data were fully aligned with the national balance sheet totals, the debt-equity ratio would instead be 19.6 percent.

TABLE 12

SELECTED HOLDINGS OF ASSETS BY FAMILY WEALTH LEVEL, 1989
(percent of total assets held by each group)

Asset Type	Super Rich (Top 0.5%)	Very Rich (Next 0.5%)	Rich (90–99%)	Rest (0–90%)	Total
A. *Assets Held Primarily by the Wealthy*					
Stocks	30.5	15.7	43.1	10.7	100.0
Bonds	41.4	12.8	34.3	11.5	100.0
Trusts	38.1	15.5	35.4	11.0	100.0
Business equity	46.9	9.4	33.7	10.0	100.0
Non-Home real estate	30.7	9.6	39.6	20.0	100.0
B. *Assets and Liabilities Held Primarily by the Non-Wealthy*					
Principal residence	4.4	3.0	26.3	66.3	100.0
Life insurance	12.6	4.2	27.7	55.4	100.0
Deposits[a]	13.2	7.8	37.8	41.2	100.0
Total debt	7.5	2.6	19.9	70.0	100.0

Note: Families are classified into wealth class on the basis of their net worth.

Source: 1989 *Survey of Consumer Finances*.

[a]Includes cash, currency, demand deposits, savings and time deposits, money market funds, certificates of deposit, and IRA and Keogh accounts.

Asset holdings by Wealth and Age Class. The preceding results are based on the average composition of household wealth for all households in the country. However, some assets are more concentrated in the hands of the rich and others are more dispersed among families of different wealth levels. Table 12 shows the proportion of total asset held by different wealth classes in the United States in 1989. We have divided the assets into two groups: those held primarily by the rich and those more dispersed in the population.

The super rich (the top one-half of one percent of wealth holders) held almost one-third of all outstanding stock owned by households, over 40 percent of financial securities, almost half the value of unincorporated business, and about one-third of total trust equity and non-home real estate. The top 10 percent of households accounted for almost 90 percent of stock shares, bonds, trusts, and business equity, and 80 percent of non-home real estate.

In contrast, owner-occupied housing, life insurance, and deposits were more evenly distributed among households. The bottom 90 percent of families accounted for almost two-thirds of the value of owner-occupied housing, over half of life insurance cash value, and over 40 percent of deposits. Debt was probably the most evenly distributed component of household wealth. The bottom 90 percent were responsible for 70 percent of the indebtedness of American households.

Table 13 presents a somewhat different slice of the same issue, showing the proportion of the total assets of each wealth class held in different asset types. Perhaps, somewhat surprisingly, half of the wealth of the top one-half of one percent in 1989 was in the form of unincorporated business equity and investment real estate, while only 30 percent took the form of stocks, financial securities, and trusts. This suggests that small businesses and investment real estate were the avenue to great fortunes during the 1980s, while stocks and securities (the holdings of the "rentier class") appear less important as a source of great wealth.

TABLE 13

COMPOSITION OF HOUSEHOLD WEALTH BY WEALTH AND AGE CLASS, 1989

Group	Gross House Value	Other Real Estate and Business Equity	Liquid Assets	Bonds	Trusts and Stocks	Total Debt	Net Home Equity	Ratio of Debt to: Net Worth	Ratio of Debt to: Family Income
	(Percent of Gross Assets)								
All	28.5	29.4	17.1	5.8	14.7	14.1	20.3	16.5	78.2
A. *Wealth Class (percentile level)*									
Top 1/2	5.4	49.5	9.6	10.1	20.1	4.5	4.4	4.7	67.7
Next 1/2	10.0	32.9	15.0	8.6	27.2	4.4	8.6	4.6	63.3
90–99	21.8	31.0	18.3	5.7	17.7	8.2	17.1	8.9	77.0
80–90	47.0	15.4	25.1	2.8	7.1	13.7	36.8	15.9	70.1
40–80	62.4	10.0	19.7	1.5	3.5	27.2	41.2	37.4	80.8
Bottom 40	57.3	15.2	19.8	1.4	2.7	73.2	27.6	−308.8	81.1
B. *Age Class*									
Under 35	41.0	29.9	12.4	1.4	9.3	31.8	17.3	46.7	84.3
35–44	36.8	29.2	16.0	3.1	9.4	28.1	20.4	39.1	106.7
45–54	28.4	36.6	15.2	3.6	11.5	14.1	21.3	16.5	76.2
55–64	25.2	30.6	19.1	5.6	15.1	9.1	20.7	10.0	69.8
65–74	20.6	28.5	17.9	8.6	19.9	3.2	19.3	3.3	32.1
75 and over	22.0	13.9	21.5	13.7	26.0	1.5	21.6	1.5	16.8
Under 65	31.3	31.9	16.3	3.8	11.7	18.7	20.4	23.0	87.2
65 and Over	21.1	23.2	19.2	10.5	22.1	2.6	20.1	2.6	26.9

Note: Families are classified into wealth class on the basis of their net worth and into age class on the basis of the age of the family head. Miscellaneous assets are excluded from this table.

Source: 1989 *Survey of Consumer Finances*.

[a]Includes demand deposits, savings and time deposits, money market funds, certificates of deposit, life insurance cash surrender value, and IRA, Keogh, and other pension accounts.

As expected, the importance of owner-occupied housing as a form of wealth increases as household wealth declines. Among the second (from the top) and middle quintiles (percentiles 40 to 80), gross housing value comprised over 60 percent of gross assets, and net home equity accounted for almost 40 percent. For the bottom 40 percent, gross house value accounted for almost 60 percent of their total assets, but net home equity for only 27 percent—a reflection of their larger mortgage debt. Depositis and other liquid assets were also more important in the household portfolio of the lower and middle wealth classes than the rich.

Non-home real estate and business equity, financial securites, and trusts and stocks all decline as a share of hosuehold assets in tandem with the wealth level of the household. For the second and middle quintiles, these assets comprised only 15 percent of gross assets, and among the bottom 40 percent, 19 percent.

Relative indebtedness is much greater among poorer households than richer ones. The debt-equity ratio (debt as a proportion of net worth) rises from 5 percent for the super-rich to 37 percent for the second and middle quintiles. For the bottom two quintiles, household debt exceeded the total value of assets. In fact, 18 percent of all U.S. households had zero or negative net worth and 27 percent had zero or negative financial net worth.[12] However, interestingly, debt

[12]As suggested above, even these figures may be understated by the failure to fully align the SF debt figures with the national balance sheet totals.

as a proportion of family income shows much less variation by wealth class, ranging form 64 percent of total income among the second half of a percentile to 81 percent among the bottom two quintiles.

Differences are also interesting by age class (Panel B of Table 13). Gross owner-occupied housing was the most important asset among families under 35 of age, comprising 41 percent of their gross assets. However, as to be expected, the gross value of homes as a proportion of total assets declines almost systematically with age, from 41 percent for the youngest age group to 22 percent for the oldest. On the other hand, net home equity as a proportion of gross assets shows little variation by age class, comprising 20 percent overall and about the same for each age group. Liquid assets accounted for a larger share of the assets of the elderly than the non-elderly (19 versus 16 percent), while the value of non-home real estate and business equity was considerably more important for families under 65, accounting for 32 percent of their gross assets compared to 23 percent for the elderly.

Financial securities, stocks, and trust equity increase systematically with age. All together, these assets comprised 16 percent of the assets of families under 65 and 33 percent of those of the elderly. Debt shows the opposite pattern, declining in importance with age, from 32 percent of gross assets for the youngest group to 2 percent for the oldest. The debt-equity ratio was 23 percent for families under 65 and *only* 3 *percent* for the elderly. The debt-income ratio also declines with age (except for the second youngest age group). The ratio was 87 percent among non-elderly and 27 percent among the elderly.

10. Summary and Concluding Remarks

The most striking result is the sharp increase in the inequality of household wealth between 1983 and 1989. While median wealth grew by 1.3 percent per year in real terms, mean household wealth increased at an annual rate of 3.4 percent. Moreover, the share of the top one-half of one percent (the "super-rich") increased by five percentage points and the Gini coefficient also showed a marked increase, from 0.80 to 0.84.

Whereas the average wealth (in 1989 dollars) of all households increased by 23 percent from 1983 to 1989, that of the super-rich grew by 47 percent. Of the 4.9 trillion dollar increase in family wealth between 1983 and 1989, 46 percent accrued to the top one-half of one percent of households and 53 percent to the top one percent (54 percent to the top half-percent and 62 percent to the top percentile if the number of households had remained unchanged). Indeed, with the number of households held constant, *99 percent* of the real wealth growth would have accrued to the top 20 percent of households.

The bottom four quintiles all lost in relative terms, as their collective share of total wealth declined from 19 to 15 percent. The bottom two quintiles actually showed an absolute decline in their average real wealth holdings, and collectively they accounted for a *loss* of 300 billion dollars of wealth.

These results stand in sharp contrast to those for the 1962–83 period. There was virtually no difference in wealth inequality in 1983 and 1962 (the Gini coefficient is 0.80 for both years), and wealth growth was much more evenly spread out across the wealth distribution.

Financial wealth is distributed even more unequally than total household wealth, with the top one percent of families (as ranked by financial wealth) owning 48 percent of total financial wealth in 1989 (compared to a 31 percent share for the top one percentile ranked by total wealth) and with a Gini coefficient of 0.93 (compared to 0.84 for total wealth). Inequality in financial wealth also increased sharply between 1983 and 1989, with the share of the top one-half of one percent of financial wealth holders rising by 5 percentage points, the share of the bottom 80 percent declining from 9 to 6 percent, and the Gini coefficient increasing from 0.89 to 0.93. Between 1962 and 1983, financial wealth inequality grew more modestly, with the share of the top half-percentile increasing from 32 to 34 percent, the share of the bottom 80 percent falling from 10 to 9 percent, and the Gini coefficient drifting upward from 0.88 to 0.89.

Household income is much more equally distributed than household wealth. Even so, income also became more concentrated over the 1983–89 period. The share of the top one-half of one percent increased from 9 to 13 percent, the shares of each of the bottom four quintiles declined, and the Gini coefficient rose from 0.48 to 0.52. Income inequality was also substantially greater in 1983 than in 1962, with the share of the top percentile rising from 8 to 13 percent, the share of the bottom 80 percent falling from 54 to 48 percent, and the Gini coefficient increasing from 0.43 to 0.48.

An examination of wealth holdings by income indicates that there is a strong correlation between income level and average wealth holdings of the income class. However, there is not clear evidence that wealth gains during the 1980s were confined to the upper income groups. What is apparent is that the wealth holdings of the poorest households in terms of income (the bottom income quintile) have declined in both relative and absolute terms from 1962 to 1989. Moreover, wealth is highly dispersed among households within the same income class, and the degree of wealth inequality within income class is only slightly less than it is for the population as a whole.

What may explain the rapid acceleration of wealth inequality after 1983? Though a complete analysis is not possible at this point, three factors appear to stand out. The first is the rise in income inequality. Since a portion of wealth accumulation arises from savings on income, an increase in income inequality will, *ceteris paribus*, be associated with an increase in wealth inequality. Moreover, as Richard Ruggles noted to me, the shift of income to the upper groups coupled with a reduction in federal income taxes on the upper income groups and accompanied by an increase in social security and state and local sales and property taxes on lower income groups that occurred after 1982 could have contributed to larger increases in disposable income for the upper income groups; and this in turn may have lead to their increased rates of accumulation.

The evidence reported in Table 14 does indicate a very sharp rise in (before-tax) income inequality between 1983 and 1989. However, a similar rise is also evident for the 1962–83 period (greater according to the Gini coefficient), while wealth inequality remained unchanged. The change in personal tax structure before and after 1982 suggests that the increase in *after-tax* income inequality was

TABLE 14
CHANGES IN WEALTH AND INCOME INEQUALITY, HOUSE PRICES, STOCK PRICES, AND THE CONSUMER PRICE INDEX, 1962–83 AND 1983–89

	1962–83	1983–89
Household Wealth (HW)		
Change in the Gini Coefficient	−0.002	0.041
Change in the share of the top 1/2%[a]	0.3	5.2
Household Income		
Change in the Gini coefficient	0.053	0.040
Change in the share of the top 1/2%[a]	3.5	4.3
Annual Rate of Change (in percent):		
House prices[b]	6.6	8.4
S&P stock index[c]	4.5	11.7
Ratio of S&P index to house prices	−2.1	3.2
Consumer price index (CPI)	5.7	3.7

[a]In percentage points.

[b]Computed from balance sheet totals for owner-occupied real estate in current and 1982 dollars. *Source*: U.S. Council of Economic Advisers (1992), pp. 422–423.

[c]Standard and Poor's Composite Index. *Source*: U.S. Council of Economic Advisers (1992), p. 403.

[d]Source: U.S. Council of Economic Advisors (1992) p. 361.

greater between 1983 and 1989 than over the 1962–83 period, but it is hard to confirm this with available data. At any rate, it appears unlikely that the change in income inequality by itself could have accounted for the rapid increase in wealth inequality after 1983.

The second factor is the change in relative asset prices. A second source of wealth accumulation is through capital appreciation on existing assets. If portfolio composition differs between wealth classes, then changes in relative asset prices could also account for part of the observed change in wealth inequality. Two assets in particular stand out in this regard. The first is owner-occupied housing, which as we saw above, is the chief asset of the bottom 80 percent of the wealth distribution and accounted for about 60 percent of the value of their gross assets in 1989. Moreover, the bottom 90 percent of families accounted for almost two-thirds of the value of owner-occupied housing. The second is corporate stocks. In 1989, the top 10 percent of households (ranked by wealth) accounted for almost 90 percent of oustanding stock shares. Thus, if stock prices rise relative to housing prices, the distribution of wealth will shift in favor of the upper wealth classes, and away from the middle and lower middle class, thus increasing wealth inequality.

As shown in Table 14, this is exactly what happened between 1983 and 1989, when stock prices (measured by the Standard and Poor's index) increased by 11.7 percent per year and housing prices by 8.4 percent. In contrast, between 1962 and 1983, housing prices increased faster, 6.6 percent per year in comparison to 4.5 percent.

A third factor is the rate of inflation. As we saw above, there is greater indebtedness of lower wealth families than richer ones. In 1989, the debt-equity ratio was 5 percent for the super-rich and 37 percent for percentiles 40 to 80. Among the bottom two quintiles, household debt was greater than the total value of assets. Thus, if inflation is high, real debt will depreciate relatively more for lower wealth groups than upper ones, thus lowering overall wealth inequality.[13] This did in fact happen between 1962 and 1983, when prices (as measured by the Consumer Price Index) were rising at an annual rate of 5.7 percent. Between 1983 and 1989, in contrast, inflation slowed to 3.7 percent per year.

The sharp increase in wealth inequality from 1983 to 1989 thus appears due to a correspondingly sharp rise in income inequality, the increase of stock prices relative to housing prices, and relatively slow inflation. In comparison, wealth inequality was about the same in 1983 as in 1962 because the sharp growth of income inequality over this period was offset by the relative decline of stock prices to housing prices and by relatively rapid inflation.

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[13]See Wolff (1979) for more discussion of this point and an analysis of the effects of inflation on wealth inequality over the 1969–75 period.