Wealth Inequality: Long-Term Trends and the Long Recession

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Society for the Study of Social Problems, San Francisco
August 18, 2014

Results reported here come from a collaborative project with Sheldon Danziger and Robert Schoeni funded by the Russell Sage Foundation
Why Wealth?

- Unique effects of wealth on individuals and families
  - Consumption
  - Insurance
- Particularly high degree of inequality
Data & Measures

Panel Study of Income Dynamics (PSID)

- Nationally representative household panel (since 1968)
  - Allows cross-sectional & longitudinal analyses
  - Detailed wealth data collected since 1984
  - High validity of wealth data (up to ~98th percentile)

- Household net worth measures = sum of
  - Home equity (home value - mortgages)
  - Financial assets (checking, savings, stocks, mutual funds, etc.)
  - Real assets (business, farm, vehicle)
  - Retirement assets (annuities, IRA)
  - Debt (credit card, student loan, medical, etc.)
Changes in the Wealth Structure
Background
Changes in the Wealth Structure
Wealth Mobility

Long-term trends
Indebtedness
Wealth declines before the recession

Pfeffer
Wealth Inequality & the Great Recession
Large declines in median net worth during the recession

- A third lower than 10 years ago
- 20% below level in the 1980s

Declines were distributed very unevenly

- Those with less wealth lost more in relative terms
- By some measures, inequality nearly doubled in last 10 years
Changes in the Wealth Structure

Wealth Mobility

Long-term trends
Indebtedness
Wealth declines before the recession

Pfeffer
Wealth Inequality & the Great Recession
Increasing indebtedness at the bottom

Table: Changes in Net Worth (in 2013-$)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2007</th>
<th>2013</th>
<th>Loss 2003-2013</th>
<th>Δ</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5th</td>
<td>-9,749</td>
<td>-13,482</td>
<td>-27,416</td>
<td>-17,667</td>
<td>(181%)</td>
<td></td>
</tr>
<tr>
<td>25th</td>
<td>10,129</td>
<td>6,966</td>
<td>3,200</td>
<td>-6,929</td>
<td>-68%</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>87,992</td>
<td>98,872</td>
<td>56,335</td>
<td>-31,657</td>
<td>-36%</td>
<td></td>
</tr>
<tr>
<td>75th</td>
<td>302,221</td>
<td>367,959</td>
<td>260,405</td>
<td>-41,817</td>
<td>-14%</td>
<td></td>
</tr>
<tr>
<td>90th</td>
<td>736,853</td>
<td>934,223</td>
<td>763,099</td>
<td>26,246</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>95th</td>
<td>1,192,639</td>
<td>1,629,133</td>
<td>1,364,834</td>
<td>172,196</td>
<td>14%</td>
<td></td>
</tr>
</tbody>
</table>
Wealth declines before the recession

Percentage Changes in Net Worth

Including housing wealth

Excluding housing wealth

P25  Median  P75  P90  P95

0  .2  .4  .6  .8  1  1.2  1.4

2003  2005  2007  2009  2011  2013

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Wealth Mobility
(since 2007)
Incidence of losses & gains

Table: Incidence of Losses and Gains

<table>
<thead>
<tr>
<th>Incidence</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gained at least 10%</td>
<td>32%</td>
</tr>
<tr>
<td>Changed by less than 10%</td>
<td>10%</td>
</tr>
<tr>
<td>Lost 10%-100%</td>
<td>49%</td>
</tr>
<tr>
<td>Feel into debt</td>
<td>9%</td>
</tr>
</tbody>
</table>
Who lost?

Predicted % loss for hh with children in the middle income & wealth quintile with a white, married, college-educated head aged 35-54

Baseline Income Q1 HS Grad Non-White 55-64 No Child Pfeffer
Who lost?

Predicted % loss for hh with children in the middle income & wealth quintile with a white, married, college-educated head aged 35-54
## Movements across the wealth hierarchy

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Lowest quintile</td>
<td>60</td>
<td>30</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>100.0</td>
</tr>
<tr>
<td>2nd quintile</td>
<td>26</td>
<td>44</td>
<td>25</td>
<td>5</td>
<td>1</td>
<td>100.0</td>
</tr>
<tr>
<td>3rd quintile</td>
<td>12</td>
<td>18</td>
<td>44</td>
<td>22</td>
<td>3</td>
<td>100.0</td>
</tr>
<tr>
<td>4th quintile</td>
<td>6</td>
<td>8</td>
<td>20</td>
<td>49</td>
<td>18</td>
<td>100.0</td>
</tr>
<tr>
<td>Highest quintile</td>
<td>2</td>
<td>1</td>
<td>5</td>
<td>18</td>
<td>73</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Summary

- Profound changes in the wealth structure
  - Typical household worth a third less compared to 2003
  - Top of distribution [*much*] higher compared to 2003 [*1980s*]
  - Greatly increasing levels of indebtedness
Summary

- Profound changes in the wealth structure
  - Typical household worth a third less compared to 2003
  - Top of distribution [much] higher compared to 2003 [1980s]
  - Greatly increasing levels of indebtedness

- Movement of households across the distribution
  - Half of all households lost more than 10% of net worth
  - 9% of households fell into debt
  - Disadvantaged groups, esp. non-whites, suffered largest losses
  - Low mobility across the wealth hierarchy (esp. top & bottom)
THANK YOU

More details can be found here

Housing & Stock Market Trends

Year

Shaded areas represent PSID field periods

Case–Shiller Index (20 metrop. areas)

Dow–Jones Index