

# “Will the Middle Class Ever Save Again?”

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# Highlights of the Paper

- Explores wealth trends in the United States from 1983 to 2013 on the basis of the Survey of Consumer Finances, with particular attention to the middle class, defined as the three middle income quintiles and to the 2007-2010 and 2010-2013 periods.
- The paper has two parts
  1. background on wealth trends in the United States from 1962 to 2013
  2. a decomposition of wealth trends for the 1983-2013 period into changes real rates of return on wealth, household income, the savings rate, and net inheritances and gifts.

# Definition of Wealth

- Wealth is defined as marketable wealth, which is the current value of all marketable or fungible assets less current debt.
- Assets include 1) housing, 2) other real estate, 3) bank deposits, certificates of deposit, money market accounts, 4) financial securities, 5) defined contribution pension plans, 6) corporate stock and mutual funds, and 8) trust fund equity.
- Liabilities are 1) mortgage debt, 2) consumer debt, and 3) other debt such as student loans.
- Excluded from assets consumer durables like cars and furniture, defined contribution pension plans and Social Security

# Wolff Addresses Four Issues:

1. What happened to the median wealth of Americans, particularly from 2007 to 2013?
2. Did wealth inequality rise over the Great Recession?
3. Did the debt of the middle class increase?
4. What are the trends in homeownership and share equity?

# Wolff Puts Forward Six Puzzles

1. Why did median wealth surge from 2001 to 2007 while median income was stagnant?
2. Why was wealth inequality flat in the 2001-2007 period when income inequality grew?
3. Why was there such a sharp plunge (44 per cent) in median wealth between 2007 and 2010 despite a moderate drop in median income and smaller declines in housing and stock prices?
4. Why was there such a steep increase in wealth inequality between 2010 and 2013 when income inequality fell and the ratio of stocks to housing prices was unchanged?

# Wolff Puts Forward Six Puzzles (continued)

5. Why has median (and mean) income failed to recover between 2010 and 2013 when asset prices surged?
  6. Why has income inequality increased so little between 2010 and 2013 when income inequality shot up and the ratio of stock prices to housing prices increased 29 per cent?
- Wolff argues that most of these puzzles are explained by the high leverage of the middle class, especially strong gains in median worth from 2001 to 2007.
  - Massive deleverage since 2007, house ownership fell from 77 per cent to 68 per cent for middle class and pension accounts from 53 per cent to 46 per cent.

# Specific Comments

1. What is the best definition of wealth from the point of view of well-being and economic security?
2. What is the household? Treatment of unattached individuals, adult children living at home, multi-generational families.
3. Does the middle class really do down to an annual household income of \$30,000. Does it stop at \$90,000?
4. Should household wealth be equalized like income?

# Specific Comments (continued)

5. Does a definition of wealth that excludes defined pension plans result in a biased trend of wealth over time when the share of the population with such plans is falling and the incidence of defined contribution plans, which are counted in wealth, is rising?
6. Does the exclusion of house prices for non-metropolitan areas affect the overall price trend for house prices?
7. What is the region dimension to trends in wealth in the United States?
8. How can there be no increase in the Gini coefficient for net worth from 1989 to 2001 where mean wealth growth was three times median wealth growth (3.0 per cent per year versus 1.1 per cent)?
9. Why is the Gini coefficient for income around 55 per cent? This is much higher than other Gini coefficients for the United States



# General Comments

1. Should increased home ownership be a goal of public policy?
2. What have been the political implications of the trends in wealth inequality?
3. What are the implications of a low interest environment for wealth trends?

Figure 1. Mean and Median Net Worth (in thousands, 2013 dollars)

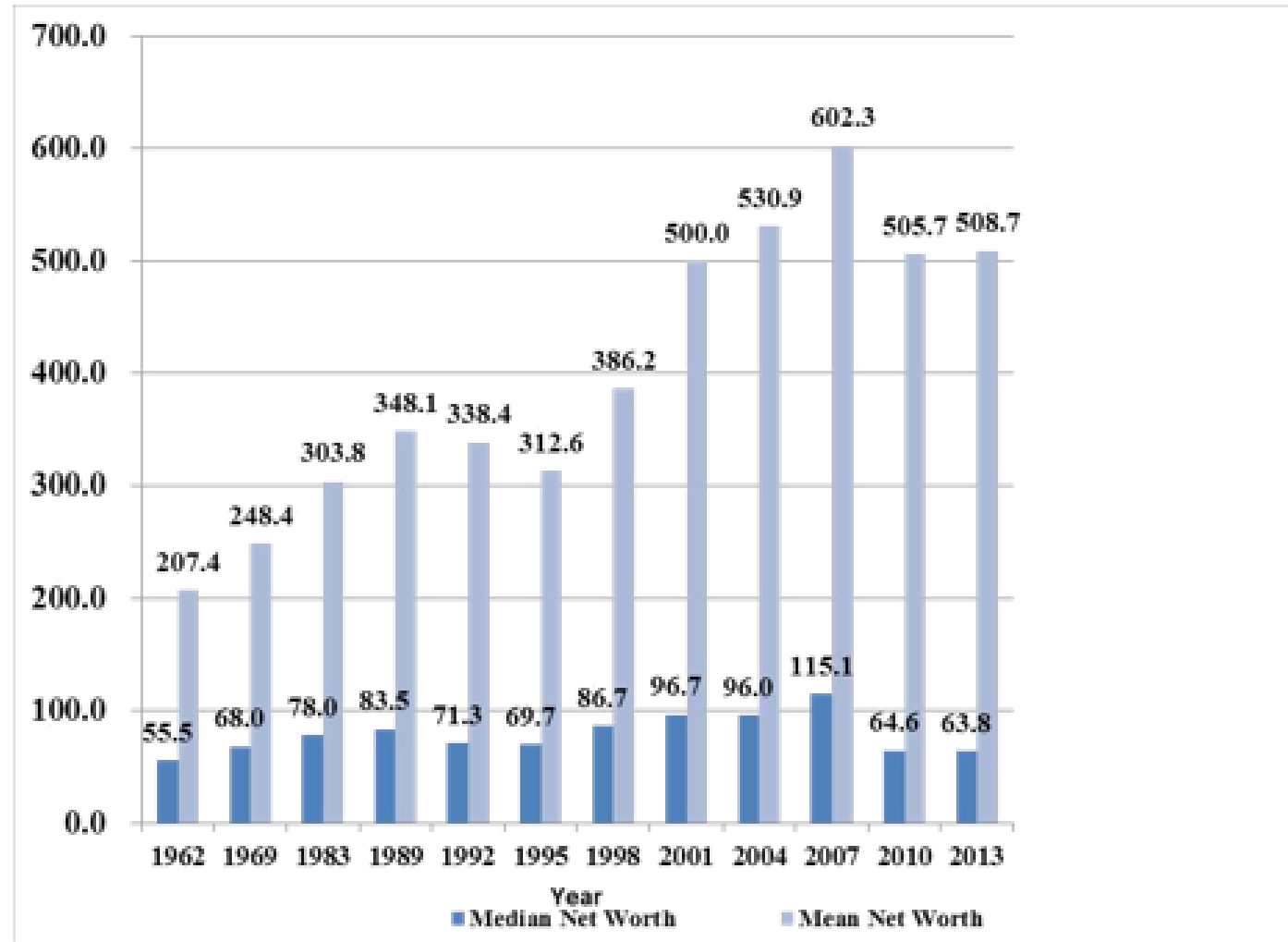


Figure 2. Mean and Median Household Income (in thousands, 2013 dollars)

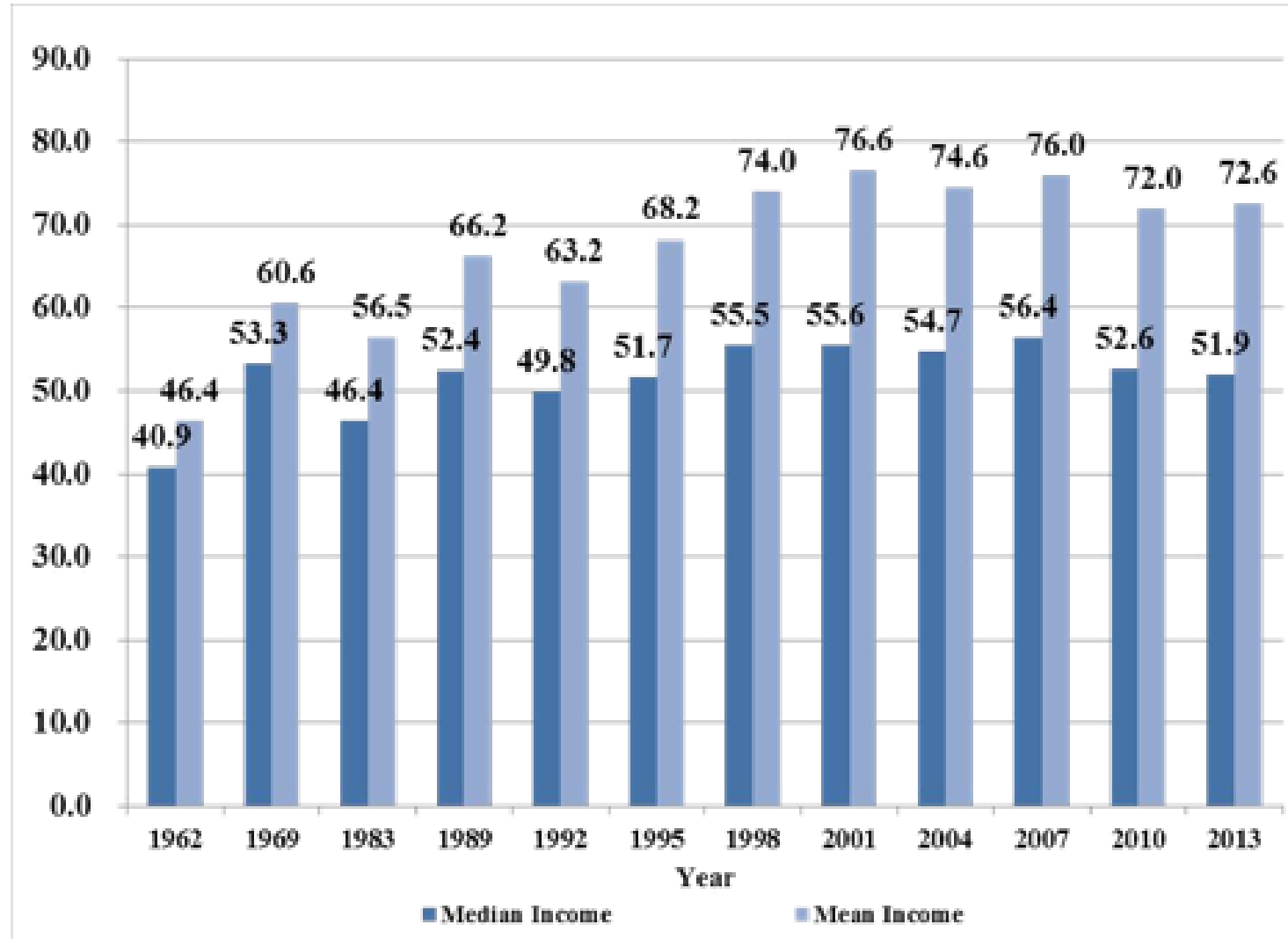
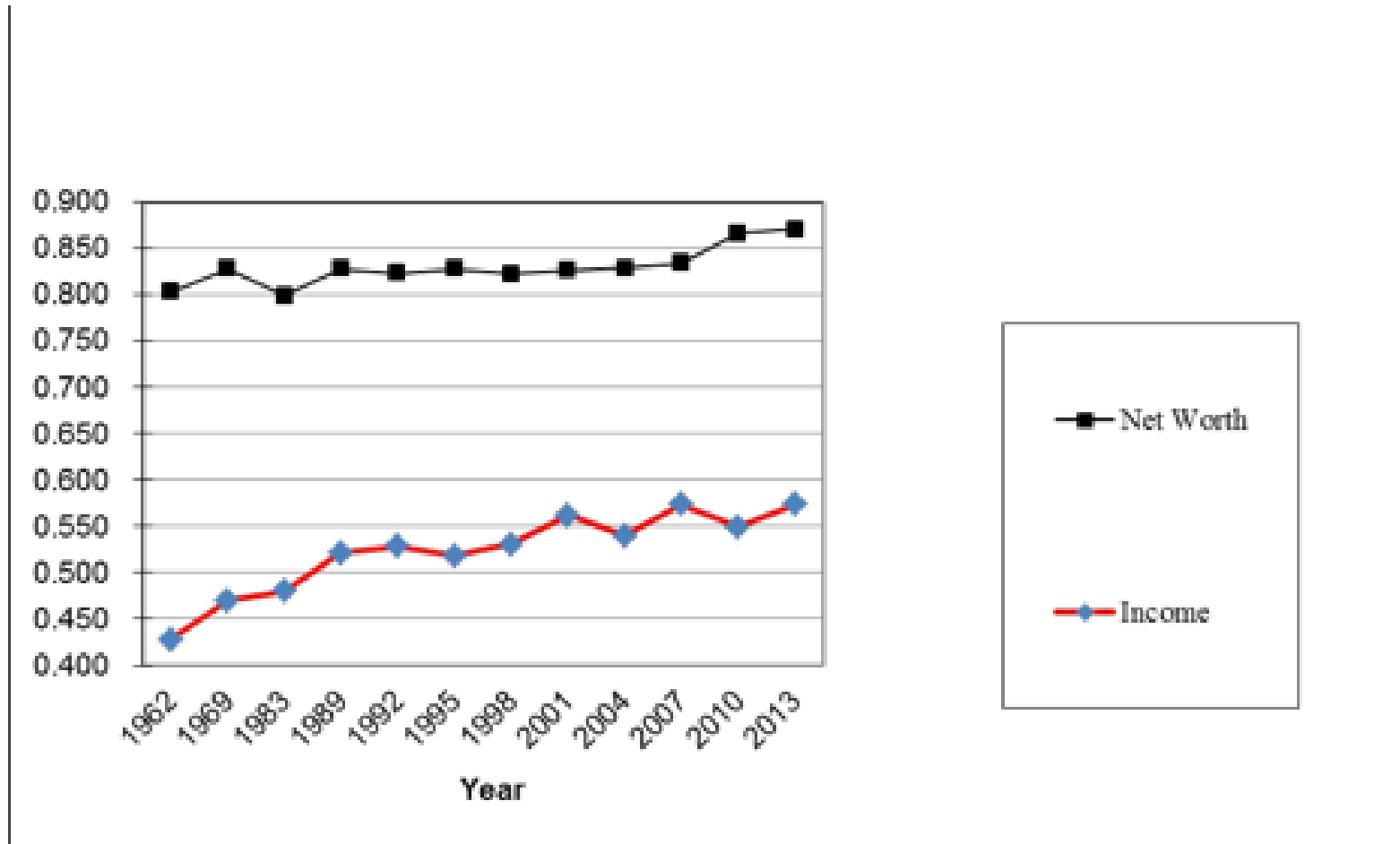


Figure 3. Wealth and Income Inequality (Gini coefficients)



**Table 1: Mean and Median Wealth and Income, 1962-2013**  
(In thousands, 2013 dollars)

Variable	1962	1969	1983	1989	2001	2007	2010	2013	
<b>A. Net Worth</b>									
1. Median	55.5	68.0	78.0	83.5	96.7	115.1	64.6	63.8	
2. Mean	207.4	248.4	303.8	348.1	500.0	602.3	505.7	508.7	
3. Percent with zero or negative net worth	18.2	15.6	15.5	17.9	17.6	18.6	21.8	21.8	
<b>B. Income (CPS)<sup>b</sup></b>									
1. Median	40.9	53.3	46.4	52.4	55.6	56.4	52.6	51.9	
2. Mean	46.4	60.6	56.5	66.2	76.6	76.0	72.0	72.6	
	<b>Annual Growth Rates (percent)</b>							<b>Percentage Change</b>	
	1962- 1983	1983- 1989	1989- 2001	2001- 2007	2007- 2010	2010- 2013	1962- 2013	2007- 2010	2010- 2013
<b>II Annual Growth Rates (percent)</b>									
<b>A. Net Worth</b>									
1. Median	1.63	1.13	1.22	2.91	-19.27	-0.39	0.28	-43.9	-1.2
2. Mean	1.82	2.27	3.02	3.10	-5.83	0.20	1.76	-16.0	0.6
<b>B. Income (CPS)<sup>d</sup></b>									
1. Median	0.61	2.03	0.48	0.26	-2.32	-0.45	0.47	-6.7	-1.3
2. Mean	0.93	2.66	1.21	-0.14	-1.78	0.29	0.88	-5.2	0.9

**Table 2. The Size Distribution of Wealth and Income, 1962-2013**

Year	Gini Coefficient	Percentage Share of Wealth or Income held by:								
		Top 1.0%	Next 4.0%	Next 5.0%	Next 10.0%	Top 20.0%	4th 20.0%	3rd 20.0%	Bottom 40.0%	All
<b><u>A. Net Worth</u></b>										
1962	0.803	33.4	21.2	12.4	14.0	81.0	13.4	5.4	0.2	100.0
1969	0.828	35.6	20.7	12.5	13.8	82.5	12.2	5.0	0.3	100.0
1983	0.799	33.8	22.3	12.1	13.1	81.3	12.6	5.2	0.9	100.0
1989	0.828	35.2	22.8	11.9	13.2	83.0	12.0	4.7	0.2	100.0
2001	0.826	33.4	25.8	12.3	12.9	84.4	11.3	3.9	0.3	100.0
2007	0.834	34.6	27.3	11.2	12.0	85.0	10.9	4.0	0.2	100.0
2010	0.866	35.1	27.4	13.8	12.3	88.6	9.5	2.7	-0.8	100.0
2013	0.871	36.7	28.2	12.2	11.8	88.9	9.3	2.7	-0.9	100.0

**Table 2. The Size Distribution of Wealth and Income, 1962-2013**

**B. Income**

1962	0.428	8.4	11.4	10.2	16.1	46.0	24.0	16.6	13.4	100.0
1969	0.469	10.4	12.4	10.3	15.9	48.9	23.4	16.4	11.2	100.0
1982	0.480	12.8	13.3	10.3	15.5	51.9	21.6	14.2	12.3	100.0
1988	0.521	16.6	13.3	10.4	15.2	55.6	20.6	13.2	10.7	100.0
2000	0.562	20.0	15.2	10.0	13.5	58.6	19.0	12.3	10.1	100.0
2006	0.574	21.3	15.9	9.9	14.3	61.4	17.8	11.1	9.6	100.0
2009	0.549	17.2	16.5	10.7	14.7	59.1	18.7	14.9	7.3	100.0
2013	0.574	19.8	16.5	10.8	14.7	61.8	17.8	11.1	9.4	100.0

**Table 3. Composition of Total Household Wealth, 1983 - 2013**

(Percent of gross assets)

<b>Wealth component</b>	<b>1983</b>	<b>1989</b>	<b>2001</b>	<b>2007</b>	<b>2010</b>	<b>2013</b>
Principal residence	30.1	30.2	28.2	32.8	30.7	28.5
Other real estate	14.9	14.0	9.8	11.3	11.6	10.2
Unincorporated business equity	18.8	17.2	17.2	20.1	17.7	18.3
Liquid assets <sup>a</sup>	17.4	17.5	8.8	6.6	7.7	7.6
Pension accounts <sup>b</sup>	1.5	2.9	12.3	12.1	15.1	16.5
Financial securities <sup>c</sup>	4.2	3.4	2.3	1.5	1.8	1.5
Corporate stock & mutual funds	9.0	6.9	14.8	11.8	11.2	12.7
Net equity in personal trusts	2.6	3.1	4.8	2.3	2.4	3.2
Miscellaneous assets <sup>d</sup>	1.3	4.9	1.8	1.7	1.7	1.5
<b><u>Total</u></b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Debt on principal residence	6.3	8.6	9.4	11.4	12.7	11.2
All other debt <sup>e</sup>	6.8	6.4	3.1	3.9	4.4	4.0
<b><u>Total debt</u></b>	<b>13.1</b>	<b>15.0</b>	<b>12.5</b>	<b>15.3</b>	<b>17.1</b>	<b>15.2</b>
<b><u>Selected ratios in percent:</u></b>						
Debt / equity ratio	15.1	17.6	14.3	18.1	20.6	17.9
Debt / income ratio	68.4	87.6	81.1	118.7	127.0	107.1
Net home equity / total assets	23.8	21.6	18.8	21.4	18.1	17.3
Principal residence debt as ratio to house value	20.9	28.6	33.4	34.9	41.2	39.3
Stocks, directly or indirectly owned as a ratio to total assets <sup>f</sup>	11.3	10.2	24.5	16.8	17.5	20.7



**Table 4. Composition of Household Wealth by Wealth Class, 2013***(Percent of gross assets)*

	All	Top One	Next	Middle
Asset	Households	Percent	19 Percent	3 Quintiles
Principal residence	28.5	8.7	28.0	62.5
Liquid assets (bank deposits, money market funds, and cash surrender value of life insurance)	7.6	6.1	8.4	8.1
Pension accounts	16.5	9.2	21.7	16.1
Corporate stock, financial securities, mutual funds, and personal trusts	17.4	27.3	16.3	3.4
Unincorporated business equity and other real estate	28.5	46.9	24.2	8.6
Miscellaneous assets	1.5	1.9	1.4	1.2
Total assets	100.0	100.0	100.0	100.0
<u>Memo (selected ratios in percent):</u>				
Debt / equity ratio	17.9	2.6	11.8	64.0
Debt / income ratio	107.1	38.2	96.6	125.0
Net home equity / total assets <sup>a</sup>	17.3	7.3	19.7	31.4
Principal residence debt / house value	39.3	16.5	29.5	49.8
All stocks / total assets <sup>b</sup>	20.7	24.6	22.7	9.5
<u>Ownership Rates (Percent)</u>				
Principal residence	65.1	96.9	95.1	66.7
Other real estate	17.4	75.5	44.0	12.4
Pension assets	49.2	88.7	84.0	44.4
Unincorporated business	10.4	76.6	25.6	6.6
Corporate stock, financial securities, mutual funds, and personal trusts	21.5	84.4	59.5	14.2
Stocks, directly or indirectly owned <sup>b</sup>	46.1	94.0	84.6	41.0
(1) \$5,000 or more	36.4	92.9	81.7	30.3
(2) \$10,000 or more	32.4	92.8	79.7	25.3

**Table 10. Confronting Piketty's Law**  
(percentage)

Period	Change in Gini Coeff.	Average Annual Rate of Return <sup>a</sup>			Piketty Variables		
		Top 1% ( $r_t$ )	Middle ( $r_m$ )	Diff.	$r^a$	$g^b$	Diff.
1983-1989	0.029	3.45	3.35	0.10	3.32	4.29	-0.97
1989-2001	-0.001	4.19	4.67	-0.48	4.35	3.06	1.29
2001-2007	0.008	3.92	5.58	-1.67	4.04	2.66	1.38
2007-2010	0.032	-6.52	-10.55	4.04	-7.28	-0.20	-7.08
2010-2013	0.005	6.16	6.94	-0.79	6.20	2.03	4.17
Correl. with Change in Gini Coeff.				0.74			-0.81

a. Source: Table 6.

b. Source NIPA Table 1.1.3 Real Gross Domestic Product, Quantity Indexes, available at:  
<http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1>