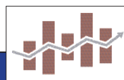

EPI BRIEFING PAPER

ECONOMIC POLICY INSTITUTE • *STATE OF WORKING AMERICA* • MARCH 23, 2011 • BRIEFING PAPER #292

THE STATE OF WORKING AMERICA'S WEALTH, 2011

Through volatility and turmoil, the gap widens

BY SYLVIA A. ALLEGRETTO

The deflation of the housing bubble which started in 2006 pushed the U.S. economy into recession by the end of 2007. As house prices fell and already low equity (due to second mortgages) vanished, foreclosures and "upside down" mortgages, in which homeowners owe more on their mortgages than their homes are worth, became a vicious cycle. Given the reliance of typical families on housing as a source of wealth, the housing debacle has devastated the net worth of millions of American households.

The Great Recession officially lasted from December 2007 through June 2009—the longest span of recession since the Great Depression. The recovery since then has proceeded on two tracks: one for typical families and workers, who continue to struggle against high rates of unemployment and continued foreclosures, and another track for the investor class and the wealthy, who have enjoyed significant gains in the stock market and benefited from record corporate profits.

The Main Street–Wall Street divide remains as big as ever in the aftermath. This brief takes a historical view of wealth and its components, and places a special emphasis on the bursting of the housing bubble, which thus far has resulted in $6 trillion of lost wealth; an additional $2 trillion is expected.

Why is wealth important? Like wages and income, overall wealth is central to a family's standard of living. Wealth—particularly liquid assets such as savings and

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checking account balances and direct holding of stocks and bonds—can help families cope with financial emergencies that arise due to unemployment or illness. Wealth also makes it easier for families to invest in education and training, start a small business, or fund retirement. More tangible forms of wealth such as cars, computers, and homes can directly affect a family's ability to participate fully in work, school, and community life.

One of the most salient points from this analysis is that the distribution of wealth, like wages and incomes, is highly unequal—but only much more so.[1] Key among the findings in this brief are the following:

- The destruction of wealth that resulted from the Great Recession was widespread but not uniform. From 2007 to 2009, average annualized household declines in wealth were 16% for the richest fifth of Americans and 25% for the remaining four-fifths.
- The divvying up of the total wealth pie, even as the pie shrank, was made more uneven due to larger drops in wealth for those at the bottom. The share of wealth held by the richest fifth of American households increased by 2.2 percentage points to 87.2%, while the remaining four-fifths gave up those 2.2 percentage points and held onto just 12.8% of all wealth.
- The wealthiest 1% of U.S. households had net worth that was 225 times greater than the median or typical household's net worth in 2009. This is the highest ratio on record.
- In 2009, approximately one in four U.S. households had zero or negative net worth, up from 18.6% in 2007. For black households the figure was about 40%.
- The median net worth of black households was $2,200 in 2009, the lowest ever recorded; the median among white households was $97,900.
- Even at the 2007 economic peak, half of all U.S. households owned no stocks at all—either directly or indirectly through mutual or retirement funds.
- Homeownership rates fell from a peak of 69.0% in 2004 to 67.2% in 2009, and house prices fell 32% from 2006 through the first quarter of 2009. Prices have since rebounded slightly but were at mid-2003 levels in the third quarter of 2010.
- Because of the housing bust, home equity as a percent of home value fell from 59.5% in the first quarter of 2006 to 36.2% in the fourth quarter of 2009. For the first time on record, the percent of home value that homeowners own outright dropped below 50%—meaning that banks now own more of the nation's housing stock than people do.

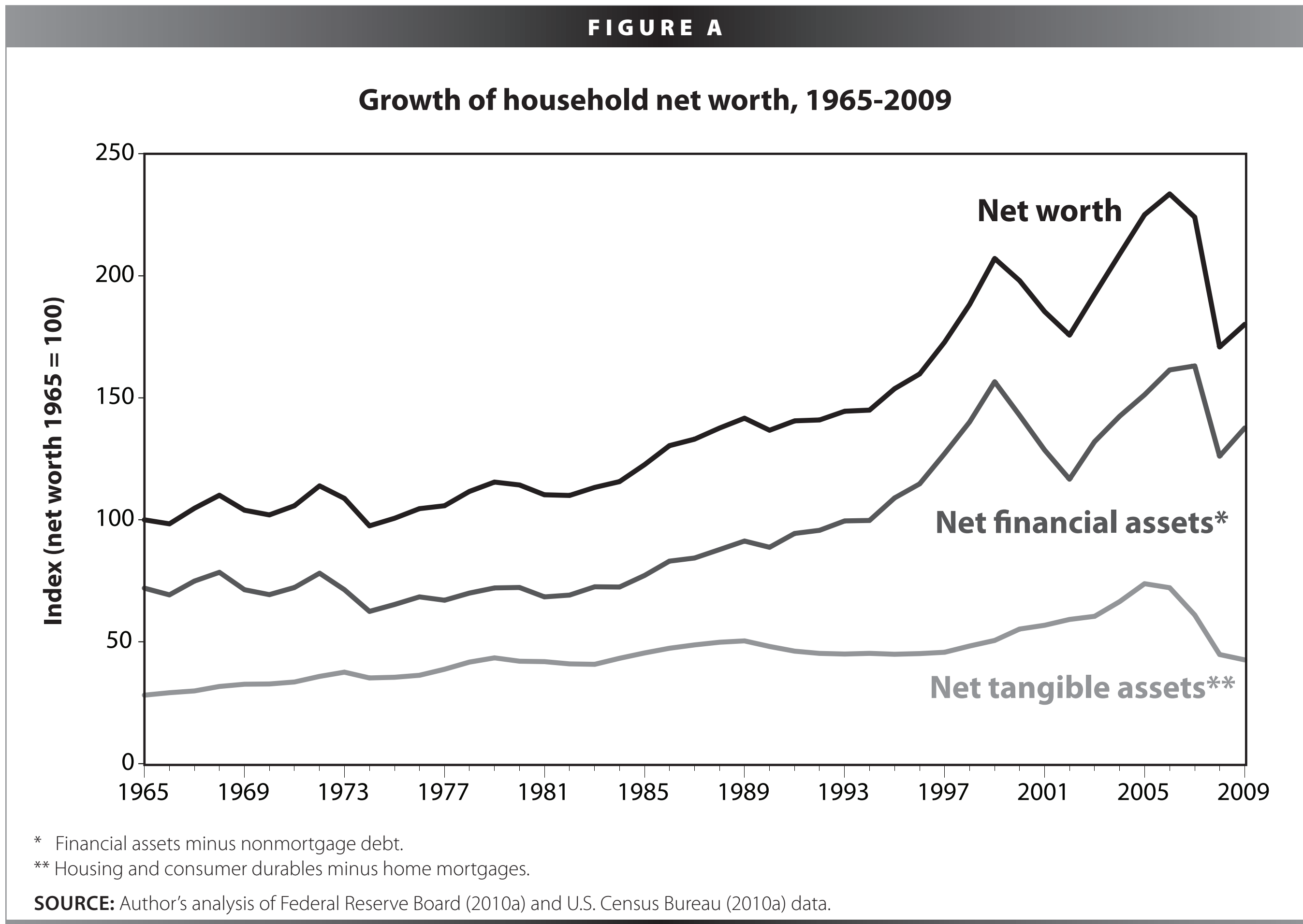
Net worth: Drop during the Great Recession hits less wealthy and black households hardest

The definition of net worth, also referred to as wealth, is the sum of all assets minus the sum of all liabilities. Assets include items such as real estate, bank account balances, stock holdings, retirement funds (such as 401(k) plans), and individual retirement accounts (IRAs). Liabilities include mortgages, credit card debt, outstanding medical bills, and student loan debt. Net worth excludes assets in defined-benefit pension plans because workers do not legally own the assets held in these plans and thus do not necessarily benefit or suffer from gains or losses in the value of assets used to pay the defined benefits.[2] For similar reasons, this analysis also excludes Social Security and Medicare from net worth calculations. But given the very low levels of wealth owned by the households in the bottom of the wealth distribution in the United States, the implicit wealth provided to them by defined-benefit pension plans and Social Security is absolutely crucial to their ability to achieve acceptable living standards during their retirement years.

For decades the average net worth of households was fairly stable from year to year and grew at an annualized modest pace—about 1.5% from 1965 to 1995. In the mid-1990s, as seen in **Figure A**, net worth began to grow at an escalating pace and has since exhibited extreme volatility as illustrated by two peaks (1999 and 2006), each followed by precipitous declines. The first steep run-up in wealth, from around 1995 to 1999, was at an annualized pace of 7.7%, and was the result of the stock market bubble; its bursting in early 2000 produced annualized declines in net worth of 5.3% from 1999 to 2002. Net worth rebounded at a rapid pace from 2002 to 2006 (7.4% annualized), but much of the increase was due to a growing housing bubble; with its deflation average net worth plummeted at an annualized rate of 8.3% from 2006 to 2008.

FIGURE A

Growth of household net worth, 1965-2009



* Financial assets minus nonmortgage debt.
** Housing and consumer durables minus home mortgages.

SOURCE: Author's analysis of Federal Reserve Board (2010a) and U.S. Census Bureau (2010a) data.

The growth pattern of net financial assets (financial assets minus nonmortgage debt), also shown in Figure A, closely mirrored that of overall net worth. The run-up and decline in net financial assets was less than that of overall net worth from 2002 to 2008 because so much of overall wealth movements were dominated by housing—a nonfinancial asset. The third line in the figure shows the growth in net tangible assets (i.e., tangible assets—housing and consumer durables—minus home mortgages). Net tangible assets plummeted from 2006 to 2008 as house values markedly declined. They had not yet recovered heading into 2010.

As mentioned, a key feature of the wealth distribution is that it is dramatically more unequal even than the distributions of wages or incomes.[3] **Table 1** shows household income, net worth, and net financial assets for the top 1%, the next 9%, and everyone else. The 1% of households with the highest incomes received 21.3% of all income in the economy.

TABLE 1

Distribution of income and wealth, 2009

	Distribution of:		
	*Household income**	*Net worth*	*Net financial assets*
All	100.1%	100.1%	100.0%
Top 1%	21.3	34.6	42.7
Next 9%	25.9	38.5	40.2
Bottom 90%	52.9	27.0	17.1

* Reflects 2007 data; 2009 update based on changes in asset prices between 2007 and 2009 using Federal Flow of Funds data.

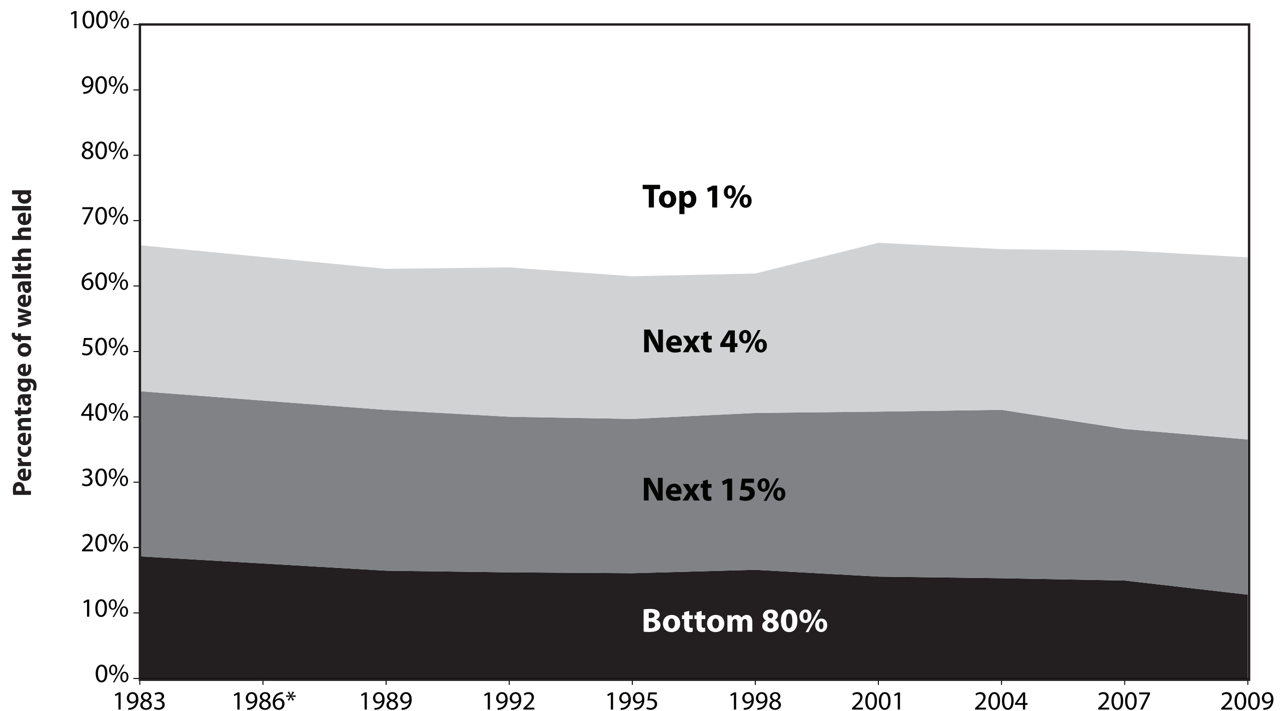
SOURCE: Wolff (2010).

At the same time, the top 1% of wealth-owning households owned 34.6% of all net worth and an even larger share—42.7%—of all net financial assets that provide direct financial returns. The bottom 90% of income-earning households received 52.9% of all income, while the bottom 90% of households in terms of wealth controlled just 27.0% of all net worth and 17.1% of direct financial returns.

A longer time frame shows that the distribution of wealth, as with historical changes in the distributions of income and wages, has become more unequal over time. **Figure B** illustrates the share of all wealth held by households in various

FIGURE B

Distribution of wealth by class, 1983-2009



* Data for 1986 calculated by linear approximation.

SOURCE: Author's analysis of Wolff (2010).

portions of the wealth distribution. Since 1983 the top 5% of wealth holders consistently held more than 50% of all wealth, but the share increased from 56.1% in 1983 to 63.5% in 2009. The bottom 80% of wealth holders consistently held less than 20% of all wealth, but the share declined from 18.7% in 1983 to 12.8% in 2009.

Table 2 displays the data illustrated in Figure B as well as additional detail about the distribution of wealth from 1962 to 2009. In 2009, the top fifth of households held 87.2% of all wealth, while the middle fifth held 3.3% (its lowest recorded share) and the bottom fifth actually had negative net worth—what they owed (net of what they owned) was equivalent to 1.4% of all net worth.

TABLE 2

Changes in the distribution of wealth, 1962-2009

									Percentage-point change				
Wealth class*	**1962**	**1983**	**1989**	**1998**	**2001**	**2004**	**2007**	**2009****	***1962-83***	***1983-89***	***1989-2001***	***2001-07***	***2007-09***
Top fifth	**81.0%**	**81.3%**	**83.5%**	**83.4%**	**84.4%**	**84.7%**	**85.0%**	**87.2%**	**0.4**	**2.2**	**0.9**	**0.6**	**2.2**
Top 1%	33.4	33.8	37.4	38.1	33.4	34.3	34.6	35.6	0.3	3.6	-4.0	1.2	1.0
Next 4%	21.2	22.3	21.6	21.3	25.8	24.6	27.3	27.9	1.2	-0.8	4.2	1.5	0.6
Next 5%	12.4	12.1	11.6	11.5	12.3	12.3	11.2	11.6	-0.2	-0.5	0.7	-1.1	0.4
Next 10%	14.0	13.1	13.0	12.5	12.9	13.4	12.0	12.2	-0.9	-0.1	-0.1	-0.9	0.2
Bottom four-fifths	**19.1%**	**18.7%**	**16.5%**	**16.6%**	**15.6%**	**15.3%**	**15.0%**	**12.8%**	**-0.4**	**-2.2**	**-0.9**	**-0.6**	**-2.2**
Fourth	13.4	12.6	12.3	11.9	11.3	11.3	10.9	10.6	-0.8	-0.3	-1.0	-0.5	-0.2
Middle	5.4	5.2	4.8	4.5	3.9	3.8	4.0	3.3	-0.2	-0.4	-0.9	0.0	-0.6
Second	1.0	1.2	0.8	0.8	0.7	0.7	0.7	0.3	0.2	-0.3	-0.1	-0.1	-0.4
Lowest	-0.7	-0.3	-1.5	-0.6	-0.4	-0.5	-0.5	-1.4	0.4	-1.2	1.1	-0.1	-0.9
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**					

* Wealth defined as net worth (household assets minus debts).
** 2009 update based on changes in asset prices between 2007 and 2009 using Federal Reserve Flow of Funds data.

SOURCE: Wolff (2010).

The years 1989, 2001, and 2007 (chosen based on the data available) coincide closely with recent business cycle peaks. An analysis that compares cyclical peaks—referred to as a peak-to-peak analysis—is instructive to determine changes in wealth during similar phases of the business cycle. The last three columns in Table 2 offer such analysis. This type of share analysis is a zero sum game; for example, it illustrates that 0.6 percentage-point gain in wealth for the top fifth came at the expense of the bottom four-fifths between 2001 and 2007. More recently (2007-09), wealth migrated upwards by another 2.2 percentage points to the top fifth. Such transfers were the case for every year of data in the table.

TABLE 3

Changes in average wealth by wealth class, 1962-2009 (thousands of 2009 dollars)

									Annualized growth				
Wealth class*	**1962**	**1983**	**1989**	**1998**	**2001**	**2004**	**2007**	**2009****	***1962-83***	***1983-89***	***1989-2001***	***2001-07***	***2007-09***
Top fifth	**$773.0**	**$1,137.6**	**$1,338.4**	**$1,482.7**	**$1,943.5**	**$2,069.5**	**$2,357.5**	**$1,711.5**	**1.8%**	**2.7%**	**3.1%**	**3.2%**	**-16.0%**
Top 1%	6,384.5	9,441.7	11,976.9	13,427.1	15,371.8	16,795.5	19,167.6	13,976.8	1.9	4.0	2.1	3.7	-15.8
Next 4%	1,010.8	1,561.7	1,728.3	1,896.5	2,970.9	3,039.4	3,782.1	2,734.3	2.1	1.7	4.5	4.0	-16.2
Next 5%	472.5	679.2	744.2	820.4	1,135.4	1,197.6	1,242.7	908.4	1.7	1.5	3.5	1.5	-15.7
Next 10%	267.0	366.8	415.7	453.8	593.9	654.4	664.0	477.5	1.5	2.1	3.0	1.9	-16.5
Bottom four-fifths	**$45.5**	**$65.3**	**$66.0**	**$73.9**	**$89.6**	**$93.7**	**$103.8**	**$62.9**	**1.7%**	**0.2%**	**2.5%**	**2.4%**	**-25.1%**
Fourth	128.0	175.8	197.4	212.3	260.8	276.6	301.0	208.3	1.5	1.9	2.3	2.4	-18.4
Middle	51.9	73.0	77.4	80.3	90.8	93.0	109.6	65.0	1.6	1.0	1.3	3.1	-26.2
Second	9.1	16.5	13.5	14.6	16.9	16.4	18.4	5.5	2.9	-3.4	1.9	1.4	-60.7
Lowest	-7.0	-4.2	-24.2	-11.7	-9.9	-12.9	-13.8	-27.2	2.4	-29.2%	7.4	-5.5	-33.7
Median	**51.1**	**71.9**	**76.9**	**79.8**	**89.0**	**88.4**	**106.0**	**62.2**	**1.6%**	**1.1%**	**1.2%**	**2.9%**	**-26.7%**
Average	**191.0**	**279.8**	**320.5**	**355.6**	**460.4**	**488.8**	**554.5**	**392.6**	**1.8**	**2.3**	**3.0**	**3.1**	**-17.3**

* Wealth defined as net worth (household assets minus debts).
** 2009 update based on changes in asset prices between 2007 and 2009 using Federal Reserve Flow of Funds data.

SOURCE: Wolff (2010).

Figure B and Table 2 show how the share of wealth is distributed across households (by the amount of wealth held). **Table 3** puts these allocations into 2009 dollars. The big picture indicates that over the long run wealth grows along with an expanding economy. But wealth and many of its components have shorter-run fluctuations due to business cycle dynamics—booms and busts—which are embedded within long-run trends. Thus, over a shorter time frame wealth may decline. For example, average (and median) wealth declined from 1989 to 1992—due to the July 1990 to March 1991 recession (amounts for 1992 and 1995, available in the data, are not shown due to space).

Again, a peak-to-peak analysis is instructive. Over the last business cycle (2001-07), wealth grew for all classes except the lowest one-fifth of wealth holders, whose indebtedness (negative wealth) increased, while wealth grew fastest for those at the top. In fact, wealth consistently grew at a faster pace in 2001-07 for the top 20% than in any peak-to-peak period. For instance, relative peak-to-peak growth for the top fifth versus the bottom four-fifths was 3.1% versus 2.5% during the 1989-2001 period, and 3.2% versus 2.4% from 2001 to 2007. Conversely, the drop in wealth that was widespread from 2007 to 2009 was relatively larger for the bottom four-fifths (-25.1%) than for the top fifth (16.0%).

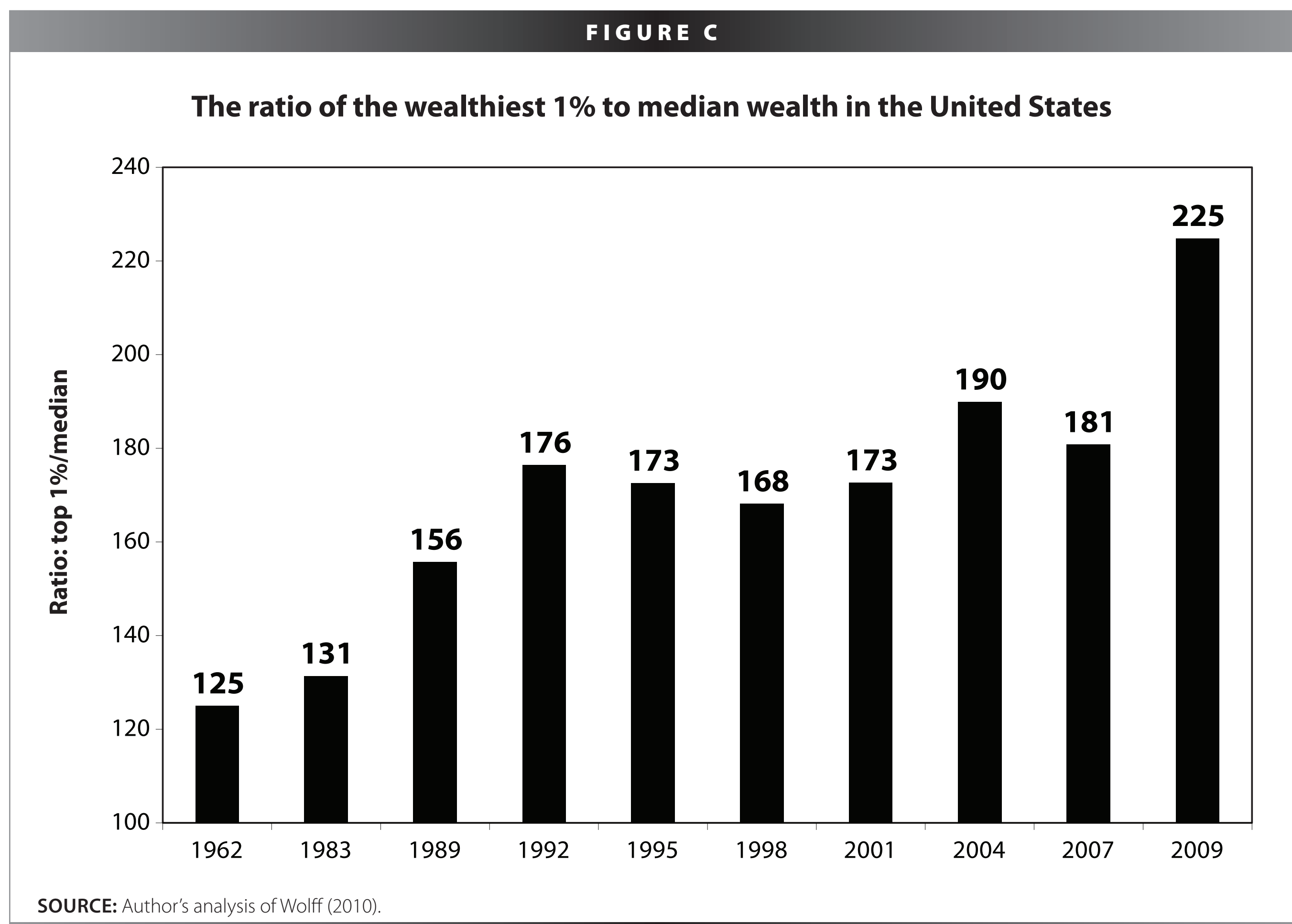
In 2007—prior to the Great Recession—median net worth was $106,000 (consisting primarily of home equity, as discussed later). This value increased by $17,000, or 2.9% annually, from 2001. Net worth for the top 1% was $19.2 million in 2007—an increase of $3.8 million from 2001, representing annualized increases of 3.7%. Wealth holdings drop off sharply for households below the top 1%. For instance, at the 2007 peak, the 4% of households just below the top 1% had an average net worth of $3.8 million, and households that were between the top 80th and 90th percentiles had an average net worth of $664,000. The poorest households (bottom 20%) experienced annualized *declines* of 5.5% on average over the 2001 to 2007 period as their net worth fell to -$13,800 in 2007.

The updated figures for 2009 reflect the enormous destruction of wealth due to the bursting of the housing bubble. As a general rule, households with less wealth have a greater share of their wealth embedded in their homes. Thus, it is not surprising that the fallout from the deflating housing bubble disproportionally affected them. On average, the top 20% lost 16.0% and the bottom 80% lost 25.1% of their total wealth in 2008 and 2009. Average wealth of the bottom 80% was just $62,900 in 2009—a dropoff of $40,900 from 2007 and slightly less, in inflation-adjusted terms, than it was more than a quarter-century ago in 1983. Those at the top also lost ground but not nearly as much, percentage-wise. Average wealth of the top 1% was close to $14 million in 2009, down $5.2 million from 2007. Declines in wealth were greatest for the two lowest wealth classes, which recorded average declines of 60.7% and -33.7% since 2007, respectively. The lowest 20% had -$27,200 of wealth in 2009. Since 2001 there has been a continual erosion of wealth for this class regardless of cyclical timing. The small gains (i.e., less negative wealth) made throughout the 1990s and the early 2000s for this bottom cohort have steadily eroded away.

The uneven distribution or inequality of wealth has not only persisted but has grown over time. **Figure C** shows the ratio of the average wealth of the top 1% to the wealth of the median or typical household. In 1962 the ratio was 125. In other words, the wealthiest 1% of households averaged 125 times the wealth of the median household. However, that large disparity is dwarfed by today's wealth gap; the wealthiest 1% of households averaged 225 times the wealth of the median household in 2009.

FIGURE C

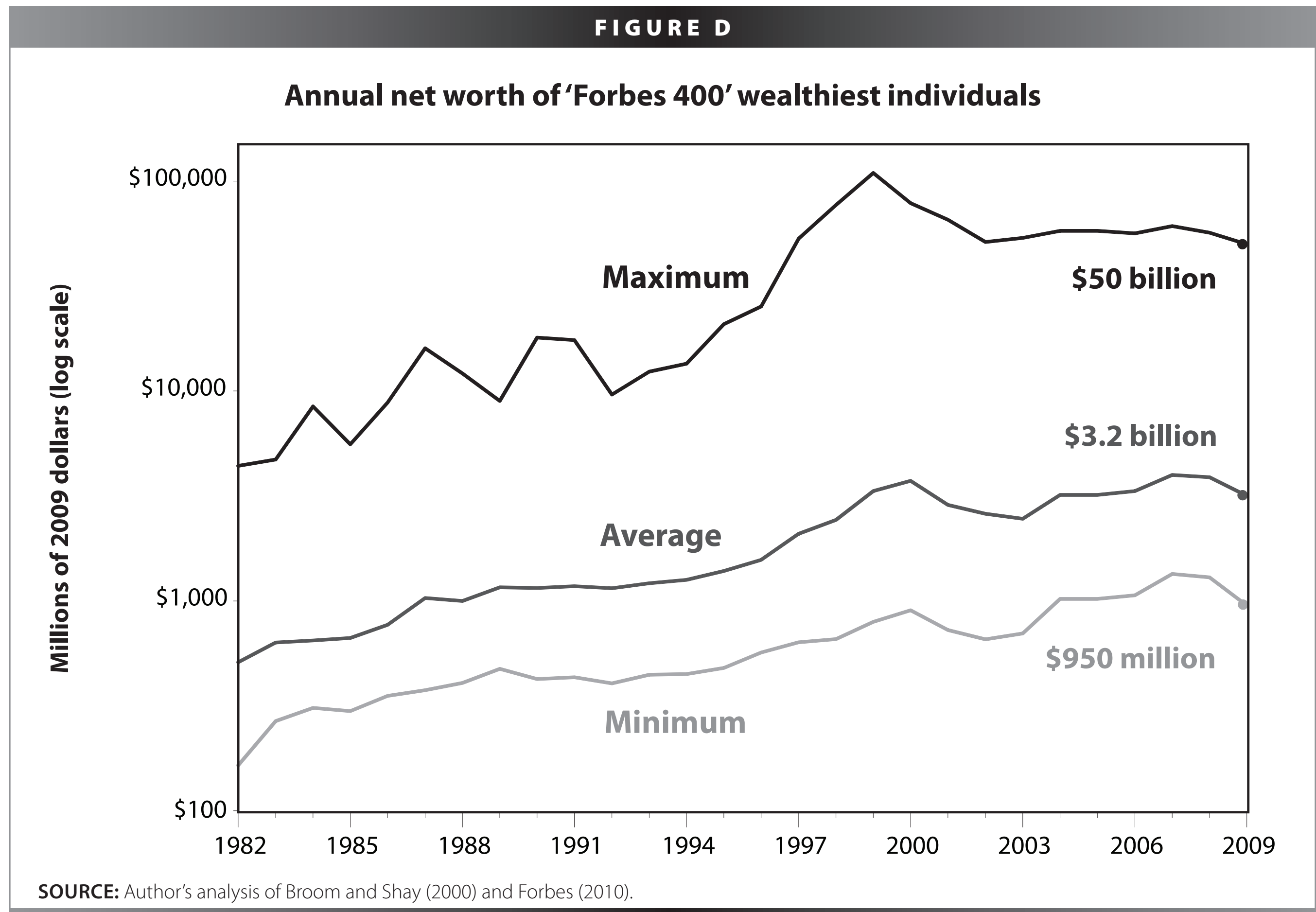
The ratio of the wealthiest 1% to median wealth in the United States



SOURCE: Author's analysis of Wolff (2010).

Thus far the uppermost slice of wealth that has been analyzed has been the top 1%. The "Forbes 400" —the very top of the top—is a list of the richest people in the United States and their net worth. **Figure D** shows the minimum, average, and maximum levels of wealth (2009 dollars) of the ultra rich. The graph shows wealth holdings on a log scale, which compresses large differences to allow the three lines to fit on the same graph. Average wealth for the top 400 trended upward and increased by 633% from 1982 to 2000—from $509 million to $3.7 billion (middle line). Average wealth of this group decreased in two periods, the first time after the bursting of the tech-stock bubble (2000), and the second time due to the bursting of the housing bubble. In 2009 wealth of the Forbes 400 averaged $3.2 billion—up 523% from 1982.

FIGURE D



SOURCE: Author's analysis of Broom and Shay (2000) and Forbes (2010).

In 2009, the price of admission to the Forbes 400 was just short of $1 billion, and the collective net worth of these 400 individuals was $1.3 trillion. However, even for this group of the super-rich there remains much variance between the top and the bottom. In 1982 the maximum wealth holders among the 400 had about 8.6 times that of the average held by this elite group. The largest disparity was in 1999, when the ratio was 32.8-to-one. In 2009 the super-rich had just over 15 times the wealth of the average held by the Forbes 400—due mostly to dramatic stock market losses of those at the very top. At the extreme other end of the wealth spectrum are a significant percentage of households that have low, zero, or negative net worth. **Table 4** reports the share of all households with zero or negative net worth (the first row of data) and net worth of less than $12,000 (the second row). In 2009 nearly one in four households had zero or negative net worth, while 37.1% had net worth of less than $12,000. In other words, more than a third of U.S. households have wealth holdings that are so low they are extremely vulnerable to financial distress and insecurity.

TABLE 4

Changes in the distribution of wealth, 1962-2009 (percent of all households)

										Percentage-point change				
Net worth	**1962**	**1983**	**1989**	**1992**	**1995**	**1998**	**2001**	**2004**	**2007**	**2009****	***1962-83***	***1983-89***	***1989-2001***	***2001-07***	***2007-09***
Zero or negative	23.6%	15.5%	17.9%	18.0%	18.5%	18.0%	17.6%	17.0%	18.6%	24.8%	-8.1	2.4	-0.3	1.0	6.2
*Less than $12,000**	34.3	29.7	31.8	31.2	31.9	30.3	30.1	29.6	30.0	37.1	-4.6	2.1	-1.7	-0.1	7.1

* Constant 2008 dollars.
** 2009 update based on changes in asset prices between 2007 and 2009 using Federal Reserve Flow of Funds data.

SOURCE: Wolff (2010).

TABLE 5

Wealth by race, 1983-2009 (thousands of 2009 dollars)

Race	1983	1989	1992	1995	1998	2001	2004	2007	2009**
Average wealth*									
Black	$63.6	$67.1	$72.0	$59.4	$79.3	$83.1	$119.1	$131.3	$83.1
White	338.2	400.1	387.2	352.9	436.9	583.6	627.2	697.9	499.5
Black-to-white ratio	0.19	0.17	0.19	0.17	0.18	0.14	0.19	0.19	0.17
Median wealth									
Black	$6.3	$2.9	$15.8	$10.3	$13.2	$12.9	$13.4	$9.6	$2.2
White	94.1	111.8	93.8	85.8	107.5	128.9	134.3	148.6	97.9
Black-to-white ratio	0.07	0.03	0.17	0.12	0.12	0.10	0.10	0.06	0.02
Households with zero or negative net wealth (%)									
Black	34.1%	40.7%	31.5%	31.3%	27.4%	30.9%	29.4%	33.4%	39.9%
White	11.3	12.1	13.8	15.0	14.8	13.1	13.0	14.5	20.3
Black-to-white ratio	3.0	3.4	2.3	2.1	1.9	2.4	2.3	2.3	2.0
Average financial wealth***									
Black	$31.0	$31.7	$39.6	$29.9	$49.5	$52.4	$69.9	$73.1	$52.4
White	240.8	292.4	288.1	265.2	335.3	447.7	457.0	512.4	380.5
Black-to-white ratio	0.13	0.11	0.14	0.11	0.15	0.12	0.15	0.14	0.14
Median financial wealth									
Black	$0.0	$0.0	$0.2	$0.3	$1.6	$1.3	$0.3	$0.5	$0.2
White	26.2	35.4	28.8	25.4	49.5	51.0	40.9	45.1	36.1
Black-to-white ratio	0.00	0.00	0.01	0.01	0.03	0.03	0.01	0.01	0.01

* Wealth defined as net worth (household assets minus debts).
**2009 update based on changes in asset prices between 2007 and 2009 using Federal Reserve Flow of Funds data.
*** Financial wealth is liquid and semi-liquid assets including mutual funds, trusts, retirement, and pensions.

SOURCE: Wolff (2010).

The racial divide in net worth

The historical legacy of the black economic experience shows up in profound racial disparities in wealth, disparities that are far larger than those in wages or incomes. **Table 5** presents several measures of wealth for blacks and whites. In terms of average wealth, both groups held record amounts of wealth in 2007, but by 2009 each had experienced large reductions. The relative decline was larger for blacks—37% compared with 28% for whites. These relative decreases are noted by the decline in the black-to-white ratio from 0.19 to 0.17. Stunningly, the median net worth (second section of Table 5) of black households was the lowest ever recorded in the survey from which these data are derived, at just $2,200 in 2009, compared with $97,900 for whites. Moreover, the median black-to-white ratio also was the lowest, at 0.02. The average wealth of whites was six times that of blacks, but the median wealth of whites was 44.5 times that of blacks in 2009. The reason the black-to-white ratio for median wealth (0.02) is lower than the black-to-white ratio for average wealth (0.17) is that there is somewhat more inequality in wealth among blacks than among whites—that is, the ratio of median-to-average wealth is lower for blacks than for whites.

When considering low net worth, the experience of black households again differs significantly from that of white households. In 2009, black households were nearly twice as likely to have zero or negative net worth as white households (39.9% vs. 20.3%) This measure had improved dramatically in the 1990s, from black households being 3.4 times as likely as white households to have zero or negative net worth in 1989 to 1.9 times as likely in 1998. This was due largely to the fact that there was a 13.3 percentage-point decline in black households with zero or negative net worth, from 40.7% in 1989 to 27.4% in 1998. The respective percentages were fairly stable for both racial groups from 2001 to 2007 before they increased notably in 2009. The black-to-white ratio in 2009 (2.0) is nearly the lowest ever for these data, but unfortunately the drop in the ratio since 2007 was due to increases in the shares of both racial groups with zero or negative net wealth and not due to improvements in wealth that lifted people out of this category.

The last two sections of Table 5 show that black households were especially unlikely to hold financial assets such as stocks and bonds. (Specific asset holdings are discussed in depth in the next section.) In 2009, the average financial wealth of black households ($52,400) was only 14% of the average financial wealth of white households ($380,500). At $200 the median financial wealth for black households was less than 1% of the corresponding figure for whites ($36,100). Again, the reason the black-to-white ratio for median financial wealth is lower than the black-to-white ratio for average financial wealth is that there is somewhat more inequality in financial wealth among blacks than among whites—that is, the ratio of median-to-average financial wealth is lower for blacks than for whites.

In summary, the Great Recession affected the entire continuum of the wealth distribution, but those in the bottom four-fifths were hit relatively harder than those in the top fifth. The data on net worth reveal that the highly unequal distribution of wealth persisted and the gap continued to widen to record levels in 2009. A growing share of the population, now nearly one in four U.S. households, has little or no net worth. The wealthiest 20% of the population now controls 87.2% of all wealth, while the bottom 80% share the 12.8% balance. Wealth concentration was more intense even within the top fifth, as the top 1% amassed 35.6% of all wealth in 2009—the largest share ever reported in these data. In the foreseeable future, there is no reason to believe that the large and increasingly wider disparities in wealth holdings will change or reverse direction.

Assets: Stock gains in recent decades help the rich but most U.S. households have minimal or no stock holdings

Net worth or wealth is determined by two components—assets and liabilities. Assets have positive worth and may be in the form of property, personal belongings, or financial holdings. There are a myriad of assets households may possess, such as houses, stocks, and bonds. The distribution of assets among income and wealth classes varies significantly by the

type of asset. Some assets, such as stocks and bonds, are highly concentrated among a relatively small number of households. Other assets, such as houses, are more widely held. The distributional differences of these assets are strongly related to overall wealth holdings. Wealthy households, for example, tend to hold a much higher percentage of their wealth in stocks and bonds, whereas less-affluent households typically hold most of their wealth in housing equity—which is why the recent troubles in housing have disproportionally affected the middle class.

TABLE 6

Distribution of asset ownership across households, 2007

	Percentage of all holdings of each asset				
Wealth class	***Common stock excluding pensions****	***All common stock*****	***Non-equity financial assets******	***Housing equity***	***Net worth***
Top 5%	**79.2**	**69.2**	**76.1**	**33.1**	**59.1**
Top 0.5%	36.3	28.2	40.9	6.5	25.5
Next 0.5%	12.0	10.1	9.1	5.7	9.0
Next 4%	30.9	30.9	26.2	20.9	24.6
Bottom 95%	**20.8**	**30.8**	**23.9**	**66.9**	**41.0**
Next 5%	9.7	12.1	8.1	13.0	12.3
Next 10%	6.4	9.9	7.1	19.2	13.4
Bottom 80%	4.7	8.9	8.7	34.7	15.3
Total	100.0	100.0	100.0	100.0	100.1

* Includes direct ownership of stock shares and indirect ownership through mutual funds and trusts.

** Includes direct ownership of stock shares and indirect ownership through mutual funds; trusts; and IRAs, Keogh plans, 401(k) plans, and other retirement accounts.

*** Includes direct ownership of financial securities and indirect ownership through mutual funds, trusts, and retirement accounts, and net equity in unincorporated businesses.

NOTE: Totals may not sum to 100 due to rounding.

SOURCE: Wolff (2010).

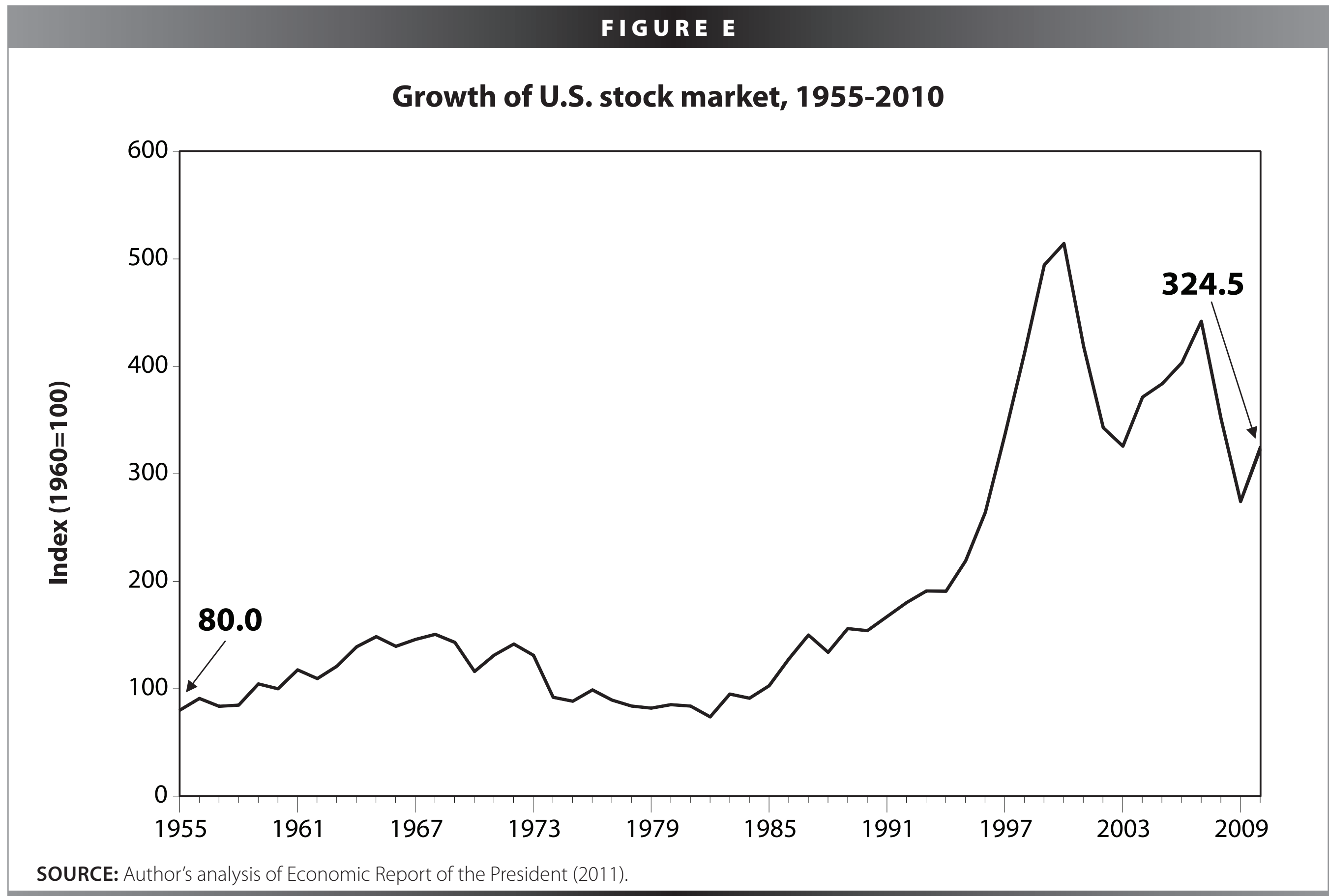
Table 6 shows the distribution across wealth classes of several types of household assets in 2007. As documented above, the deflation of the housing bubble and the effects from the Great Recession resulted in a severe loss of wealth. The 2007 data represent an expansionary peak, and it remains to be known how the recession affected these specific distributions, but large share shifts are generally uncommon over short time frames, and in any case wealth has become more concentrated at the top over the longer term. The wealthiest 5% of households owned the lion's share of common stock excluding pensions (79.2%), common stock held either directly or through pensions (69.2%), and non-equity financial assets (76.1%). The top 5% held a smaller but still disproportional share (33.1%) of housing equity, about the same as that held by the entire bottom 80% (34.7%). The bottom 80% held just 4.7% of stock excluding pensions, and that share increased to only 8.9% when stocks in pension funds are included. Table 6 shows that the distribution of all assets favor those at the top, though not so much in housing equity—which is the bulk of wealth for those in the bottom 80%—as in other assets. The following section delves further into the reality of stock market holdings.

Stocks

The stock market has experienced its ups and downs in the last 50 years, but an era of extreme volatility defined the last 15 (see **Figure E**). Evidence of the two recent bubbles is unmistakable. The inflation-adjusted value of the Standard & Poor's 500 index of stocks increased 234% between 1990 and 2000 (from a value of 154.01 in 1990 to 514.32 in 2000) and then dropped by over a third between 2000 and 2003. The market regained more than 60% of those losses from 2004 to 2007, only to lose those gains and then some from the steep decline from 2007 to 2009. In 2010, the stock market rebounded, as indicated by the 2010 uptick in the figure.

FIGURE E

Growth of U.S. stock market, 1955-2010



SOURCE: Author's analysis of Economic Report of the President (2011).

Even more recently, the S&P 500 in February 2011 was up about 65% off of its low in February 2009.The Dow Jones Industrial Average bottomed out in March 2009 at around 6,600, but its 2010 average was above 10,500 and its February 2011 average was above 12,000. The strong rebound in stocks amidst persistently high unemployment—which surpassed 9% in May 2009 and averaged 9.6% in 2010—is evidence of a disconnect between Wall Street's financial markets and Main Street's employers and workers. The news media devote much time and entire outlets to minute-by-minute dissection of the stock market. But data on stock ownership show that the stock market, by and large, is of little or no direct financial importance to the majority of U.S. households.

TABLE 7

Share of households owning stock, 1989-2007

Stock holdings	1989	1992	1995	1998	2001	2004	2007
Any stock holdings							
Direct holdings	13.1%	14.8%	15.2%	19.2%	21.3%	20.7%	17.9%
Indirect holdings	24.7	28.4	30.2	43.4	47.7	44.0	44.4
Total	31.7	37.2	40.4	48.2	51.9	48.6	49.1
Stock holdings of $6,000 or more*							
Direct holdings	10.0%	11.4%	12.3%	13.6%	14.6%	13.5%	11.2%
Indirect holdings	16.9	21.5	22.7	32.2	36.8	31.0	30.9
Total	22.6	27.3	28.8	36.3	40.1	34.9	34.6

* Constant 2003 dollars.

SOURCE: Wolff (2010).

Even during the profound run-up in stocks in the latter 1990s and into the 2000s, just over half of U.S. households held stock either directly or indirectly (see **Table 7**). By 2007, just under half (49.1%) of all households had stock holdings of any form and just over a third (34.6%) had stock holdings that exceeded $6,000. Direct holdings are shares bought in a particular company. Indirect stock holdings are shares bought through a mutual fund or contributions to a 401(k)-style, defined-contribution pension plan that holds stocks for its beneficiaries. Importantly, direct ownership of stocks is a liquid asset—meaning that it may be turned into cash quickly without significant loss—and just 17.9% of households owned this type of asset in 2007. Conversely, indirect stock holdings, held by 44.4% of households, are largely nonliquid; premature withdrawals from IRAs and 401(k)s carry stiff tax penalties.

Ownership of stocks, other assets, and debt vary considerably depending on where a household falls on the wealth spectrum. **Table 8** provides details of stocks, other assets, debt, and net worth by wealth class. The value of stock holdings (both direct and indirect) for each wealth class increased on average between 1989 and the height of the technology bubble in 2001 (recall that the stock market collapsed between 2000 and 2003 and therefore the full impact was not yet evident in 2001). Then stock holdings declined as the 2001 recession took hold and a jobless recovery ensued well into 2003. Comparing the 2001 peak to the 2007 peak, stocks were down 2.6% for the top 1% but off a larger 29.6% for the middle fifth.

TABLE 8

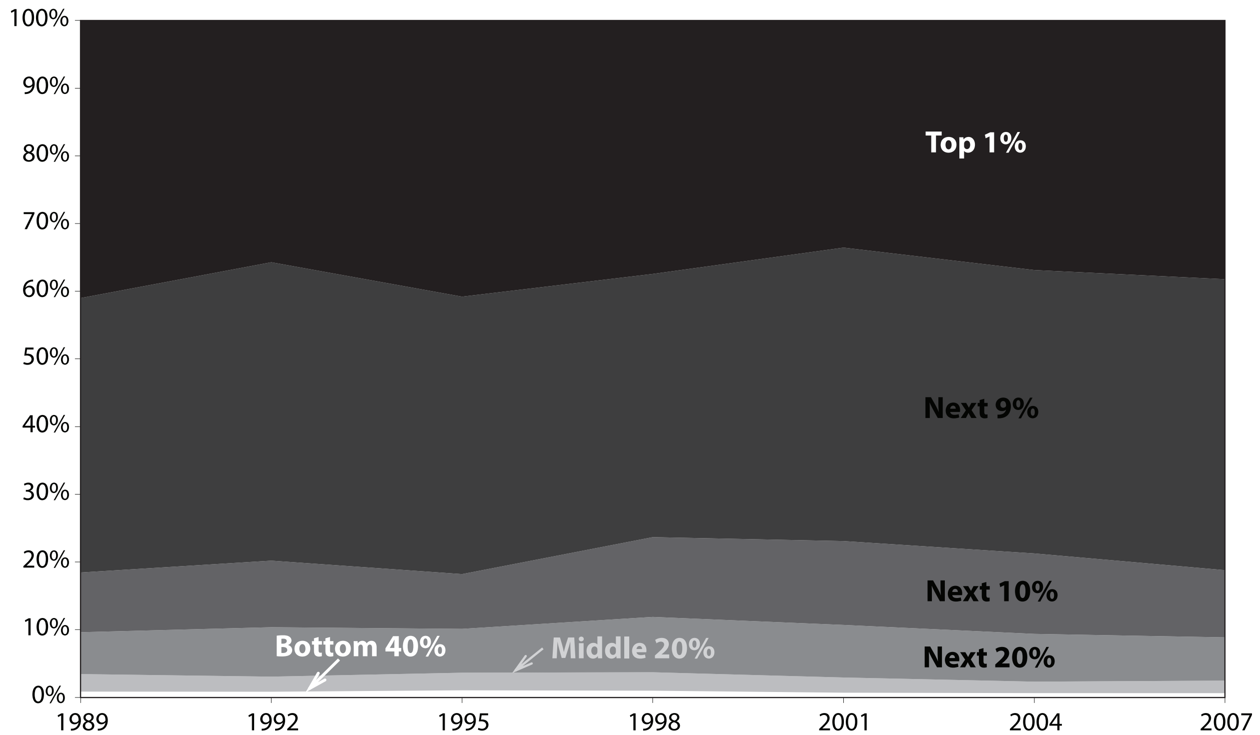
Average household assets and liabilities by wealth class, 2007 (thousands of 2009 dollars)

Asset type	Top 1%	Next 9%	Next 10%	Next 20%	Middle 20%	Bottom 40%	Average
Stocks*							
1962	$3,170.0	$162.1	$18.1	$5.8	$1.5	$0.4	$50.4
1983	2,058.3	132.8	15.9	6.0	2.1	0.5	36.5
1989	1,553.7	170.7	33.4	11.7	4.9	0.8	38.4
1998	3,322.9	383.5	104.6	36.3	12.1	2.2	94.4
2001	4,321.8	620.4	159.7	50.0	14.5	2.2	128.8
2004	3,720.4	469.4	119.9	35.6	8.6	1.6	101.0
2007	4,211.0	526.1	109.3	35.2	10.2	1.7	110.3
All non-stock assets (such as housing equity)							
1962	$3,448.6	$595.4	$282.9	$157.3	$85.1	$20.2	$172.0
1983	7,921.8	1,028.2	415.6	213.9	105.3	22.1	285.6
1989	11,010.3	1,130.4	446.8	244.1	117.3	25.4	338.2
1998	10,476.0	1,087.2	436.0	238.4	128.4	31.3	323.8
2001	11,444.7	1,478.9	531.0	284.1	137.5	32.2	397.7
2004	13,694.5	1,731.3	651.5	347.3	168.5	39.9	477.5
2007	15,452.4	2,082.9	678.9	380.5	196.7	47.6	544.7
Total debt							
1962	$234.1	$45.8	$34.0	$35.1	$34.8	$19.5	$31.4
1983	538.4	89.6	64.8	44.1	34.3	16.5	42.3
1989	587.0	119.5	64.6	58.4	44.8	31.6	56.1
1998	371.9	138.1	86.8	62.4	60.2	32.0	62.6
2001	394.6	148.1	96.8	73.3	61.2	30.9	66.0
2004	643.5	197.7	117.9	106.5	84.2	39.0	89.8
2007	536.9	237.4	124.9	114.5	97.2	47.0	100.4
Net worth							
1962	$6,384.5	$711.7	$267.0	$128.0	$51.9	$1.1	$191.0
1983	9,441.7	1,071.5	366.8	175.8	73.0	6.2	279.8
1989	11,976.9	1,181.6	415.7	197.4	77.4	-5.4	320.5
1998	13,427.1	1,199.2	453.8	212.3	80.3	1.5	355.6
2001	15,371.8	1,951.1	593.9	260.8	90.8	3.5	460.4
2004	16,795.5	2,002.9	654.4	276.3	92.9	2.5	488.8
2007	19,167.6	2,371.5	663.3	301.2	109.6	2.3	554.5

* All direct and indirect stock holdings.

SOURCE: Wolff (2010).

FIGURE F

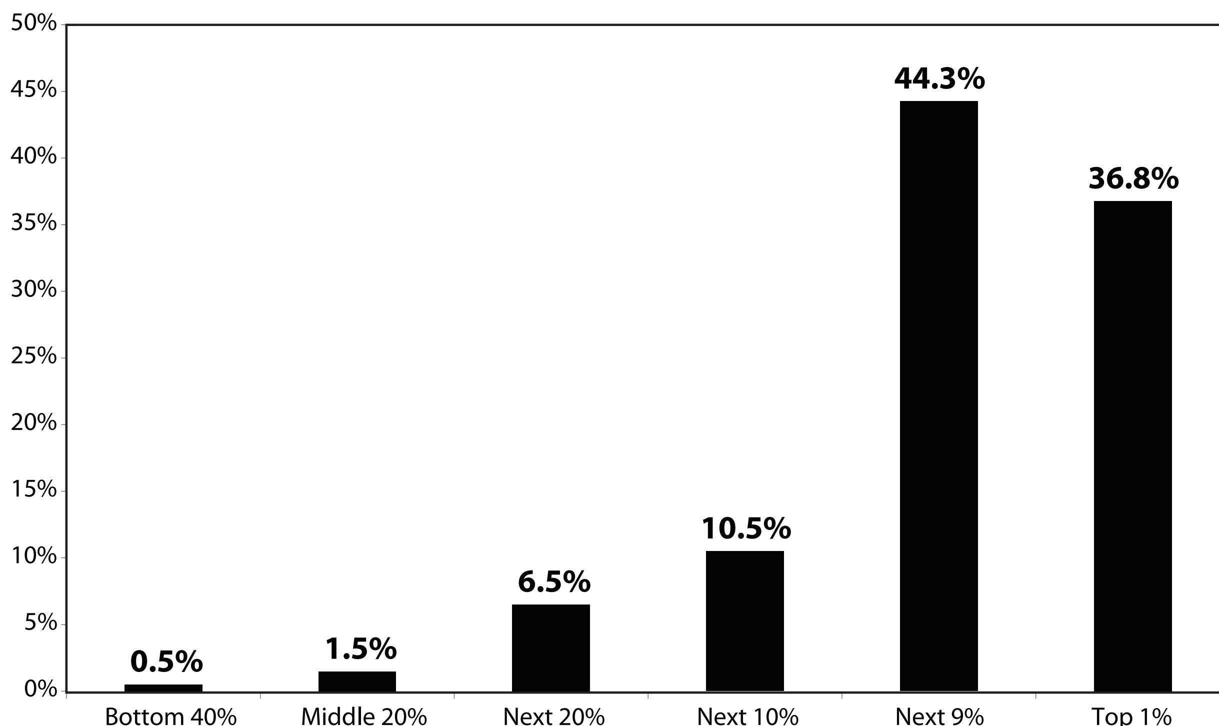


SOURCE: Author's analysis of Wolff (2010).

In 2007, the wealthiest 1% of households owned an average of $4.2 million in stocks (in 2009 dollars). The next 9% owned an average of $526,100. By comparison, the average stock holdings of the middle 20% of households was just $10,200, and the average for the bottom 40% was $1,700. These data confirm that stock ownership is not very pervasive in the middle and lower wealth classes. Assets (stocks plus all other assets) held by the middle 20% totaled $206,870 in 2007, but just 4.9% were in stock holdings. By comparison, the top 1% held an average of $19.7 million in total assets and 21.4% were in stock holdings.

The imbalanced distribution of stock assets has persisted over time, as seen in **Figure F**. Over the entire period from 1989 to 2007, the wealthiest 1% never held less than one-third of all stock wealth. The top 20% consistently held about 90%, leaving approximately 10% to the bottom four-fifths of households. Despite the bursting of two recent bubbles (Figure E) the stock market still grew—by about 44%—from just prior to the first run up in 1994 to 2009. Unsurprisingly, given the unequal stock holdings at the beginning of the period, the growth in stocks through the

FIGURE G



SOURCE: Author's analysis of Wolff (2010).

run-up of the 2007 bubble was also distributed very unequally across wealth classes. **Figure G** shows the distribution of the growth of stock wealth from 1989 to 2007. The unprecedented growth, for the most part, was enjoyed by wealthy investors: 81.1% of the rise in the overall value of stocks holdings over the period went to the wealthiest 10% of households, compared with 1.5% to the middle 20% and 0.5% to the bottom 40%.

Stock holding is not only highly correlated with wealth class; it is also highly correlated with income. **Table 9** gives the share of all stock owned by households at different income levels. Predictably, higher-income households are much more likely to own stocks. Households with incomes at or above $250,000 represented just 3.6% of all households, but 95.4% of these households owned some form of stock (bottom panel) and collectively they owned more than half (53.7%) of all stock. Comparatively, 27.1% of households had incomes between $25,000 and $49,999, but only 39.3% of these households owned any form of stock, and collectively they owned just 5.7% of all stock holdings.

The concentration of stocks within upper-income levels holds true even for stocks in retirement plans such as 401(k) s. The main distributional difference between stock holdings in pension plans and other (direct) stock holdings is that pension assets are more evenly distributed *among high-income households*. Further, upper–middle-income households are more likely to be invested in pension plans than in publicly traded stock. The highest income group—households with an annual income above $250,000—controlled 65.6% of all publicly traded stock, while the second-highest income group—households with an annual income from $100,000 to $249,999—controlled 14.5%. These two groups combined represent one in five households. By comparison, the highest income group controlled 34.3% of

TABLE 9

Concentration of stock ownership by income level, 2007

Income level	Share of households	Percent who own	Percent of stocks owned	
			Shares	*Cumulative*
Publicly traded stock				
250,000 or above	3.6%	62.4%	65.6%	65.6%
100,000-249,999	15.5	34.3	14.5	80.1
75,000-99,999	10.4	25.1	7.1	87.3
50,000-74,999	17.5	19.0	5.5	92.7
25,000-49,999	27.1	10.8	4.4	97.1
15,000-24,999	12.7	6.1	0.9	98.1
Under 15,000	13.3	5.5	1.9	100.0
All	100.0	20.7	100.0	
Stocks in pension plans*				
250,000 or above	3.6%	85.6%	34.3%	34.3%
100,000-249,999	15.5	75.7	33.5	67.8
75,000-99,999	10.4	60.8	12.1	79.9
50,000-74,999	17.5	49.6	11.8	91.7
25,000-49,999	27.1	28.8	6.9	98.6
15,000-24,999	12.7	15.2	1.0	99.6
Under 15,000	13.3	5.3	0.4	100.0
All	100.0	40.2	100.0	
All stocks**				
250,000 or above	3.6%	95.4%	53.7%	53.7%
100,000-249,999	15.5	84.5	21.5	75.2
75,000-99,999	10.4	71.1	9.0	84.3
50,000-74,999	17.5	58.1	7.7	92.0
25,000-49,999	27.1	39.3	5.7	97.7
15,000-24,999	12.7	23.1	1.1	98.8
Under 15,000	13.3	11.2	1.2	100.0
All	100.0	48.6	100.0	

* All defined contribution stock plans including 401(k) plans.
** All stock directly or indirectly held in mutual funds, IRAs, Keogh plans, and defined-contribution pension plans.

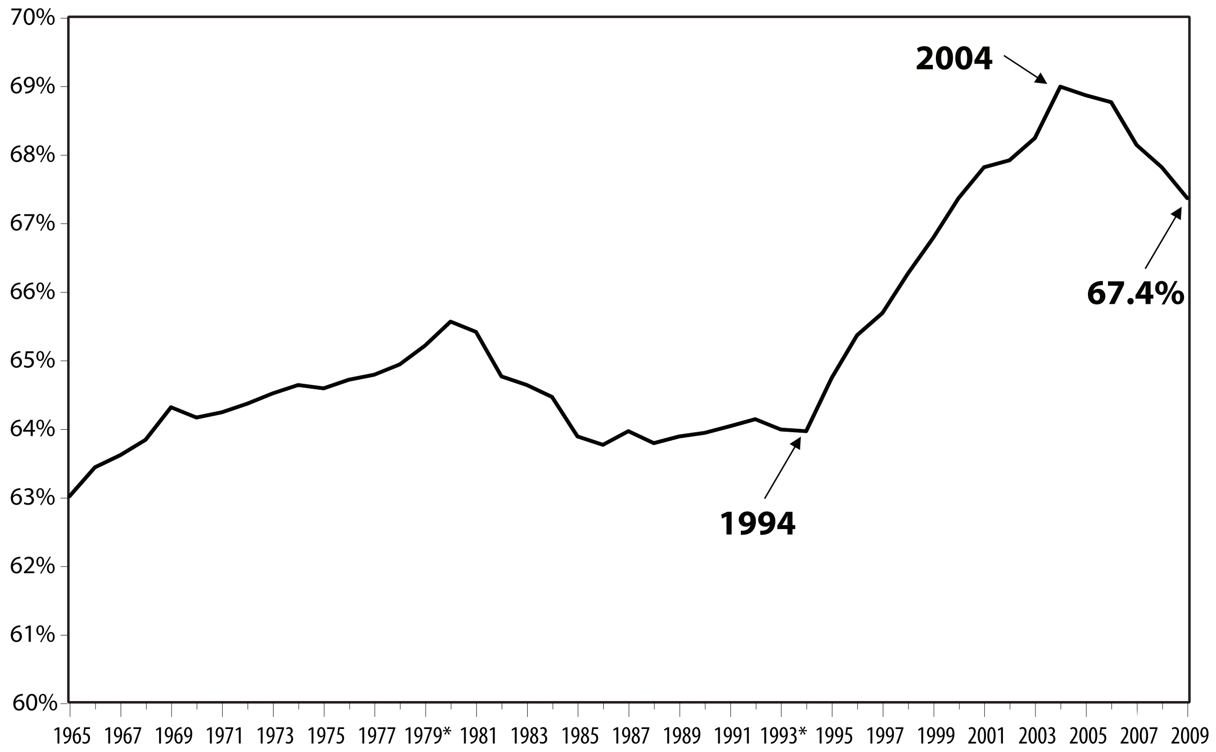
SOURCE: Wolff (2010).

stock holdings in pension plans, while the second-highest income group controlled 33.5%. At the same time, the bottom four-fifths of households—coincidentally those with annual incomes of $99,999 or less—also held about a third (32.2%) of all stock in pension plans and 19.9% of publicly traded stock.

Importantly, this discussion has exposed the fallacy that all or even most American households are invested in the stock market. Fewer than half of households have any stock holdings, and only about a third have stock holdings—either direct or indirect—that are worth more than $6,000. To a large extent, low- to moderate-income households depend on labor income alone to meet their financial obligations, as they own very little stock that can be cashed in during times of economic hardship.

FIGURE H

Annual homeownership rates, 1965-2009



* Data for 1979, 1993, and 2002 have been adjusted to account for annual revisions.

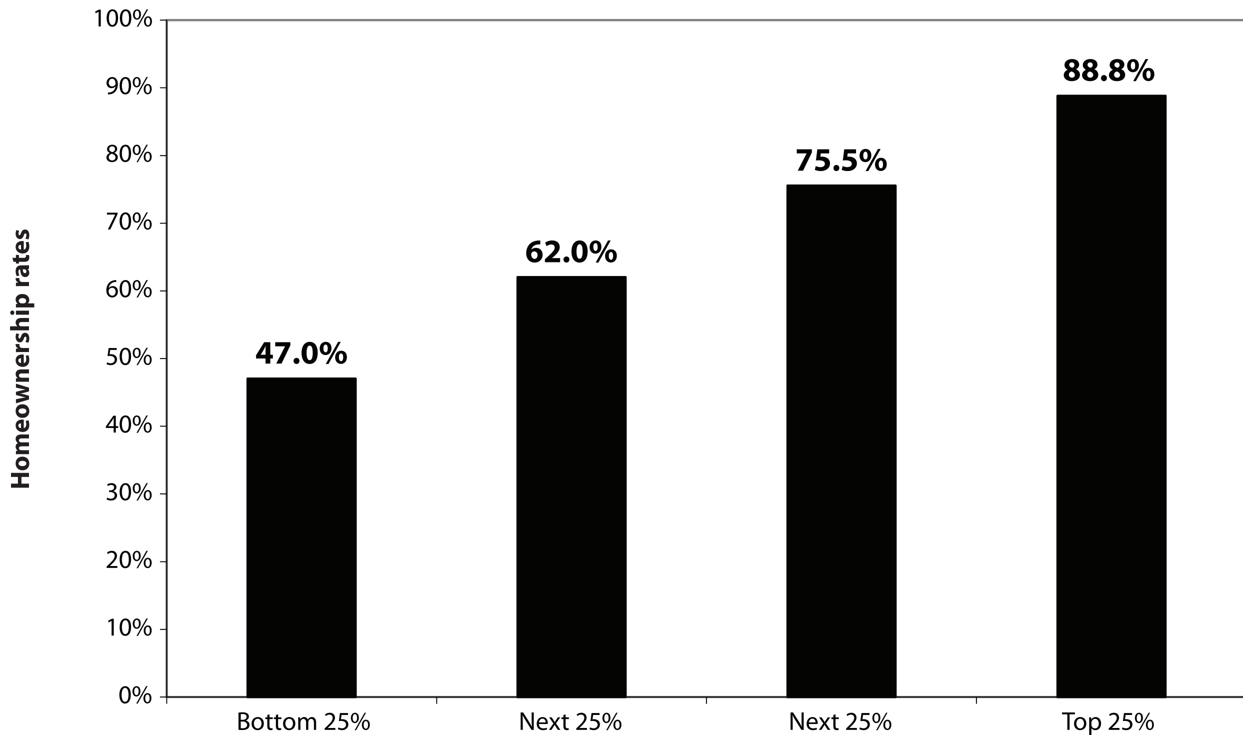
SOURCE: U.S. Census Bureau (2010c) data.

Homeownership

Typically, much attention is paid to the ups and downs of the stock market, but the fact is that housing equity is a far more important form of wealth for most households. The second section of Table 8, which shows the distribution of all non-stock assets by household wealth, makes this point indirectly. In 2007, the middle 20% of households held $196,700 in non-stock assets, and only $10,200 in stocks. In other words, non-stock assets—which are overwhelmingly housing equity—made up about 95% of this group's wealth.

In the United States homeownership has long been associated with solid footing on the economic ladder, and yet the housing crash has meant that for a broad swath of people homeownership is no longer a reality. Foreclosures have mounted, and the fallout is predicted to continue throughout 2011. Census data expose the collapse in the housing market as revealed by the decline in homeownership rates (see **Figure H**). Starting in 1994, a strong economic expansion in the United States coincided with a steep increase in homeownership rates. The bursting of the technology bubble in 2000 and the 2001 recession that followed barely slowed the rate of increase and the rate peaked in 2004—prior to the housing bust. The decline started gradually from 2004 to 2006, then it became much steeper from 2006 to 2009—a decline that may not have run its course. The last time homeownership fell so steeply was in the deep recession of the early 1980s.

FIGURE I

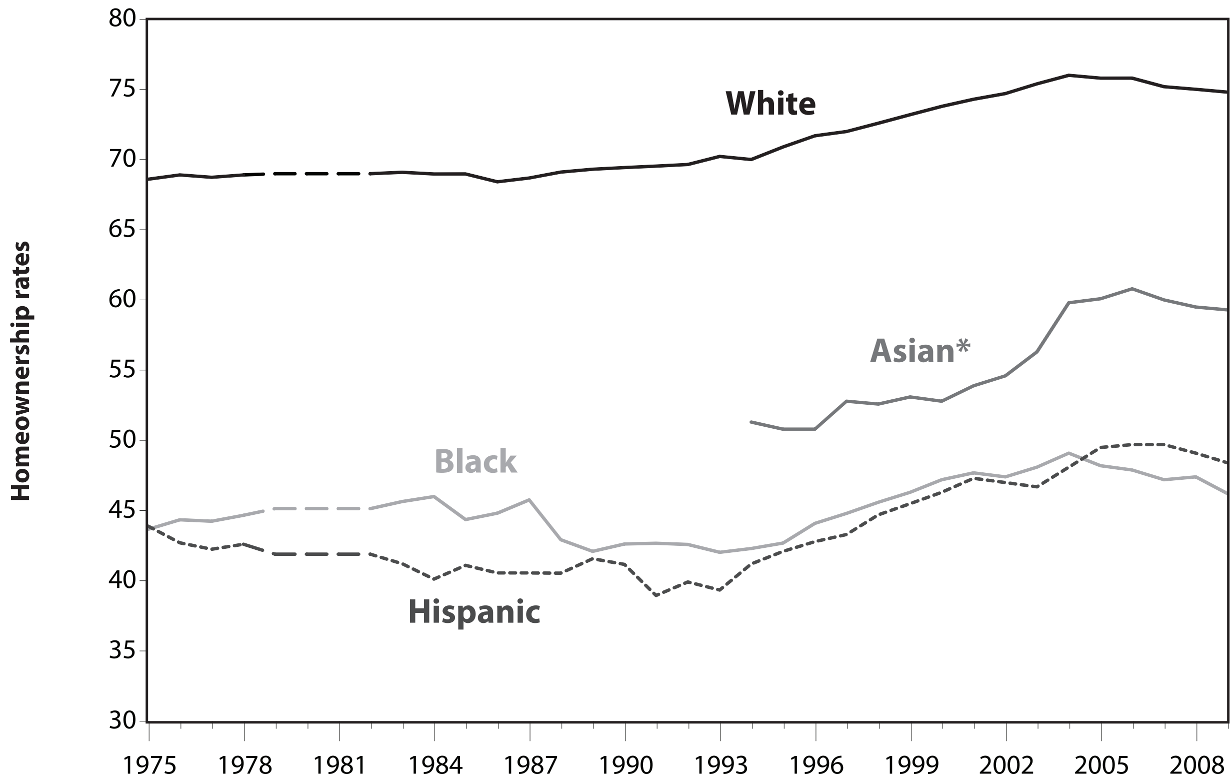


SOURCE: Author's analysis of U.S. Census Bureau (2009) data.

As with other measures of wealth, homeownership rates vary dramatically by income and demographics. **Figure I** shows that in 2009 (the most recent data available by income), 88.8% of households in the top 25% of the income distribution were homeowners, compared with just 47.0% in the bottom 25%. **Figure J** gives a longer time frame for homeownership by race. In 2009, about three out of four white households, less than half of black and Hispanic households, and 60% of Asian households owned homes. The peak and subsequent decline in homeownership rates did not necessarily coincide with race. Furthermore, the recent declines were not uniform by race, as the hardest-hit group thus far has been blacks.

FIGURE J

Homeownership rates by race, 1975-2009



* Asian includes Native Hawaiian/Pacific Islander. Data for this population are unavailable prior to 1994.

NOTE: Where data are unavailable from 1979 to 1982, the 1978/1983 average is substituted.

SOURCE: U.S. Census Bureau (2010b).

Liabilities: Mortgage debt spikes during the 2000s

Assets are one side of the ledger that tallies net worth, liabilities or debts are the other. It is important to note that debt is not *necessarily* a problem—there is good and bad debt. Access to borrowing and thus debt may afford households a tremendous economic opportunity. Debt allows consumers to buy houses and cars, invest in education, and purchase other big-ticket items and necessities that provide services over many years. Debt may also be used to cope with short-term economic setbacks such as unemployment or illness. Debt becomes a burden only when required debt payments begin to crowd out other economic obligations or opportunities or when it is accumulated for unproductive reasons.

TABLE 10

Household debt by type, 1949-2009

	All debt as a share of all assets	As a share of disposable income			
		*All debt**	*Home mortgage***	*Home equity loans****	*Consumer credit*
1949	**6.2%**	**33.1%**	19.7%	--	10.2%
1959	10.3	58.9	37.1	--	16.3
1973	12.6	66.4	39.1	--	19.7
1979	13.7	73.6	46.2	--	19.8
1989	14.5	86.1	56.6	5.0%	20.3
2000	14.7	100.7	65.5	5.6	23.8
2007	18.2	137.6	100.8	10.9	24.6
2009	20.5	128.1	93.9	9.4	22.7
Average annual percentage-point change					
1949-59	0.4%	2.6%	1.7%	--	0.6%
1959-73	0.2	0.5	0.1	--	0.2
1973-79	0.2	1.2	1.2	--	0.0
1979-89	0.1	1.2	1.0	--	0.0
1989-2000	0.0	1.3	0.8	0.0%	0.3
2000-07	0.5	5.3	5.0	0.8	0.1
2007-09	1.2	-4.7	-3.4	-0.7	-0.9

* Includes subcategories not listed here, including security credit and commercial mortgages.
** Includes loans made under home equity lines of credit and home equity loans secured by junior liens.
*** Data for 1989 refer to 1990.

SOURCE: Federal Reserve Board (2010a).

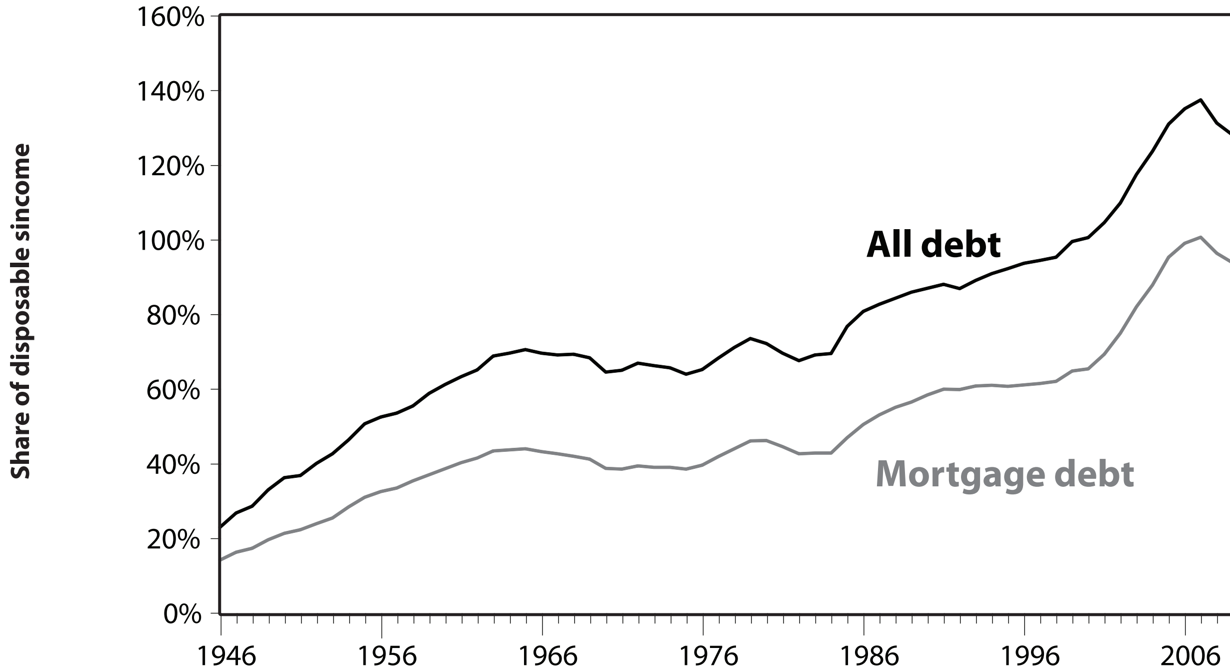
Debt as a share of all assets was the highest on record in 2009—20.5% (see **Table 10**). The sum of all debt—as a share of annual disposable personal income—fell from its 137.6% peak in 2007 to 128.1% in 2009. Unfortunately, the recent reversal was not due to a significant jump in disposable income, which actually slowed over the period. Instead it was due to the housing debacle, which resulted in households reining in their spending and borrowing. The spending and borrowing slowdown was due to a confluence of events. Some was certainly involuntary due to credit constraints, and some was due to a lack of confidence in and the eroding conditions of the economy. Unemployment steadily increased to 10% by the end of 2009, a share that represented more than 15 million unemployed workers.

Mortgage debt as a percentage of disposable income declined from a 100.8% high in 2007 to 93.9% in 2009, the steepest drop on record. Consumer credit debt (mostly credit card debt and auto loans) also fell as a share of disposable income, from 24.6% in 2007 to 22.7% in 2009. The historical trajectory of debt levels and the notable highs reached in 2007 are depicted in **Figure K**. The top graph shows that all debt rose from about 25% of disposable income at the end of World War II to more than 60% by the early 1960s. Overall debt levels then remained roughly constant through the mid-1980s, when they again began to increase rapidly. By 2007, overall debt was at a peak (137.6% of disposable income) and has since been on the decline. In 1947 mortgage debt was about 14% of disposable income, but by 2007 that share had increased to 100.8%; it too has since been falling.

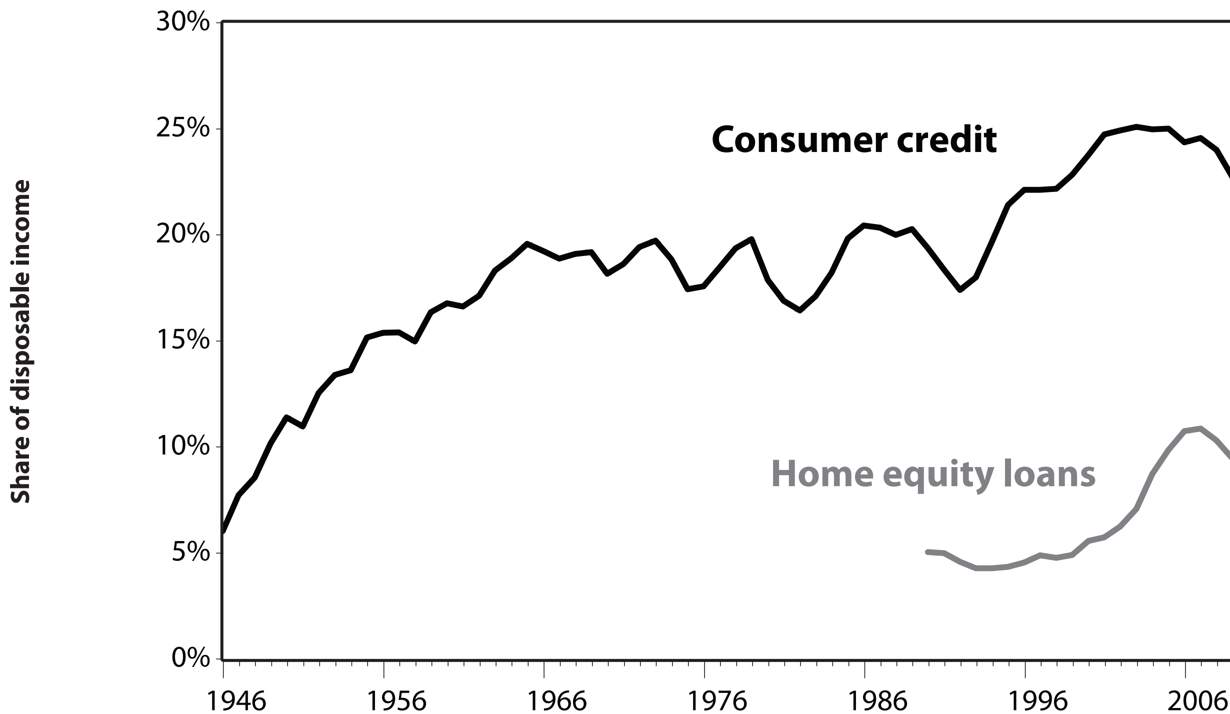
FIGURE K

Debt as a percentage of disposable income, 1946-2009

All debt and mortgage debt



Consumer credit and home equity loans



NOTE: Data for home equity loans are unavailable prior to 1990.

SOURCE: Author's analysis of Federal Reserve Board (2010a) data.

Furthermore, as homeownership rates and home values increased, so did home equity loans—shown in the bottom half of Figure K. The steep growth rate in home equity loans indicates that households were increasingly spending their accumulated equity rather than saving it—a huge problem once the housing bubble burst. Many households had become dangerously overleveraged, and that combined with the housing problems and the lengthy recession were a lethal mix for the accounting ledgers of many U.S. households.

Table 10 and Figure K show data at the aggregate level. As with all the analyses in this brief, these data mask important distinctions regarding the distribution of debt by wealth class (see the third panel, "total debt," of Table 8). The debt distribution has several striking features. First, debt is more equally distributed than assets or net worth. In 2007, the average household in the top 1% had a net worth more than 175 times greater than that of the typical household (the middle 20%). However, in the same year, the average debt held by the top 1% was about 5.5 times greater than the average for the middle 20%. Second, for typical households, debt levels are high compared with the value of assets. In 2007, the average outstanding debt of households in the middle 20% was $97,200. This debt level was almost 10 times greater than the corresponding $10,200 average for stock holdings and about half of the total value of all other assets.

Debt service

As mentioned above, debt is not necessarily a problem, but problems arise when debt payments begin to crowd out other economic obligations. A useful measure for assessing debt burden is the financial obligations ratio—the ratio of debt payments (including minimum required payments on mortgages, consumer debt, automobile leases, and rent)

TABLE 11

Financial obligations ratio, 1980-2009

(as a percent of disposable personal income)

	Renters	Homeowners		
	Total	*Total*	*Mortgage*	*Consumer*
1980	**24.3%**	13.8%	8.3%	5.4%
1989	25.1	15.4	9.9	5.5
1995	26.0	14.7	9.4	5.3
2000	29.6	14.9	8.7	6.2
2007	25.1	17.5	11.2	6.3
2009	24.7	16.5	10.8	5.8
Percentage-point change				
1980-89	0.8%	1.7%	1.6%	0.1%
1989-2000	4.5	-0.5	-1.2	0.7
2000-07	-4.5	2.6	2.5	0.1
2007-09	-0.4	-0.9	-0.5	-0.5

SOURCE: Federal Reserve Board (2010b).

to disposable personal income. **Table 11** gives the average household financial obligations ratio separately for renters and homeowners. The ratios for both fell from 2007 to 2009 as the housing crisis unfolded. Rents fell as vacancy rates increased, and it may be that those who were able to hold on to their homes were better able to afford them. Renters

spent about a quarter of their disposable income on minimum debt payments in 2009, whereas homeowners spent an average of 16.5% (10.8% on mortgages and 5.8% on consumer debt). From 1980 to 2009 the financial obligations ratio for renters changed little—it was slightly higher in 2009, and for homeowners the ratio increased from 13.8% to 16.5%—an increase of 2.7 percentage points. This increase in homeowners' financial obligations ratio from 1980 to 2009 was mostly driven by mortgages, which explains why the ratio dropped a full point from 2007 to 2009.

The financial obligations ratio does not capture many additional costs incurred by low-income families who may be forced to rely on nontraditional lending services (such as pawn shops) and rapid-cash providers (such as nonbank check-cashing services). These entities often charge extraordinary fees compared with traditional lending institutions and constitute significant sources of debt service expenses for many low-income families.

A second measure of household debt service—the debt service ratio—is reported by income percentile in **Table 12**. Like the financial obligations ratio, the debt service ratio is a ratio of minimum debt payment to disposable personal income. The difference between these two measures is that the debt service ratio is narrower—it does not include, for example, rent payments, but instead includes only payments on mortgage and consumer debt. Apart from the top 10%

TABLE 12

Household debt service as a share of household income, by income percentile, 1989-2007

Percentile of household income	1989	1998	2001	2004	2007	Percentage-point change 1989-2001	Percentage-point change 2001-07
Top fifth							
Top 10%	8.7%	10.3%	8.1%	9.3%	8.4%	-0.6	0.3
Next 10%	15.7	16.8	17.0	17.3	19.7	1.3	2.7
Bottom four-fifths							
Fourth	16.9%	19.1%	16.8%	18.5%	21.7%	-0.1	4.9
Middle	16.3	18.6	17.1	19.4	19.8	0.8	2.7
Second	13.0	16.5	15.8	16.7	17.2	2.8	1.4
Lowest	14.1	18.7	16.1	18.2	17.6	2.0	1.5
Average	12.9%	14.9%	12.9%	14.4%	15.5%	0.0	2.6

SOURCE: Bucks, Kennickell, and Moore (2009).

of households there is not a lot of variation in this ratio by income group. In 2007, households in the top 10% of household income spent 8.4% of their income meeting minimum required debt payments—down from 9.3% in 2004. In comparison, the figures for middle-income households increased from 19.4% in 2004 to 19.8 in 2007.

Hardship

A commonly used rule-of-thumb for the burdensomeness of debt is that debt service payments consuming more than 40% of household income constitute an economic hardship. **Table 13** looks at such hardship by income percentiles. In all years, high debt burdens were negatively associated with income. Additionally, the share of households with high debt burdens increased from one cyclical peak to the next (1989, 2001, and 2007), regardless of income level. In 2007, 3.8% of households in the top 10% had high debt burdens, compared with 14.7% on average. Note that data in this

TABLE 13

Share of households with high debt burdens*, by income percentile, 1989-2007

Percentile of household income	1989	1998	2001	2004	2007	Percentage-point change 1989-2001	2001-07
Top fifth							
Top 10%	1.9%	2.8%	2.0%	1.8%	3.8%	0.1	1.8
Next 10%	3.4	3.5	3.5	2.4	8.1	0.1	4.6
Bottom four-fifths							
Fourth	5.8%	9.8%	6.5%	7.1%	12.7%	0.7	6.2
Middle	11.0	15.8	12.3	13.7	14.5	1.3	2.2
Second	14.5	18.3	16.6	18.6	19.5	2.1	2.9
Lowest	24.6	29.9	29.3	27.0	26.9	4.7	-2.4
Average	10.0%	13.6%	11.8%	12.2%	14.7%	1.8	2.9

* A high debt burden is a ratio of debt to income greater than 40%.

SOURCE: Bucks, Kennickell, and Moore (2009).

TABLE 14

Share of households late paying bills, by income percentile, 1989-2007

Percentile of household income	1989	1992	1995	1998	2001	2004	2007	Percentage-point change 1989-2001	2001-07
Top fifth									
Top 10%	2.4%	1.0%	1.0%	1.6%	1.3%	0.3%	0.2%	-1.1	-1.1
Next 10%	1.1	1.8	2.8	3.9	2.6	2.3	2.1	1.5	-0.5
Bottom four-fifths									
Fourth	5.9%	4.4%	6.6%	5.9%	4.0%	7.1%	4.1%	-1.9	0.1
Middle	5.0	6.9	8.7	10.0	7.9	10.4	8.3	2.9	0.4
Second	12.2	9.3	10.1	12.3	11.7	13.8	11.5	-0.5	-0.2
Lowest	18.2	11.0%	10.2	12.9	13.4	15.9	15.1	-4.8	1.7
Average	7.3%	6.0%	7.1	8.1%	7.0%	8.9%	7.1%	-0.3	0.1

SOURCE: Bucks, Kennickell, and Moore (2009).

table include renters but not rental payments, and so the share of low-income households struggling to meet debt and housing obligations in 2007 is probably higher than the 26.9% indicated here.

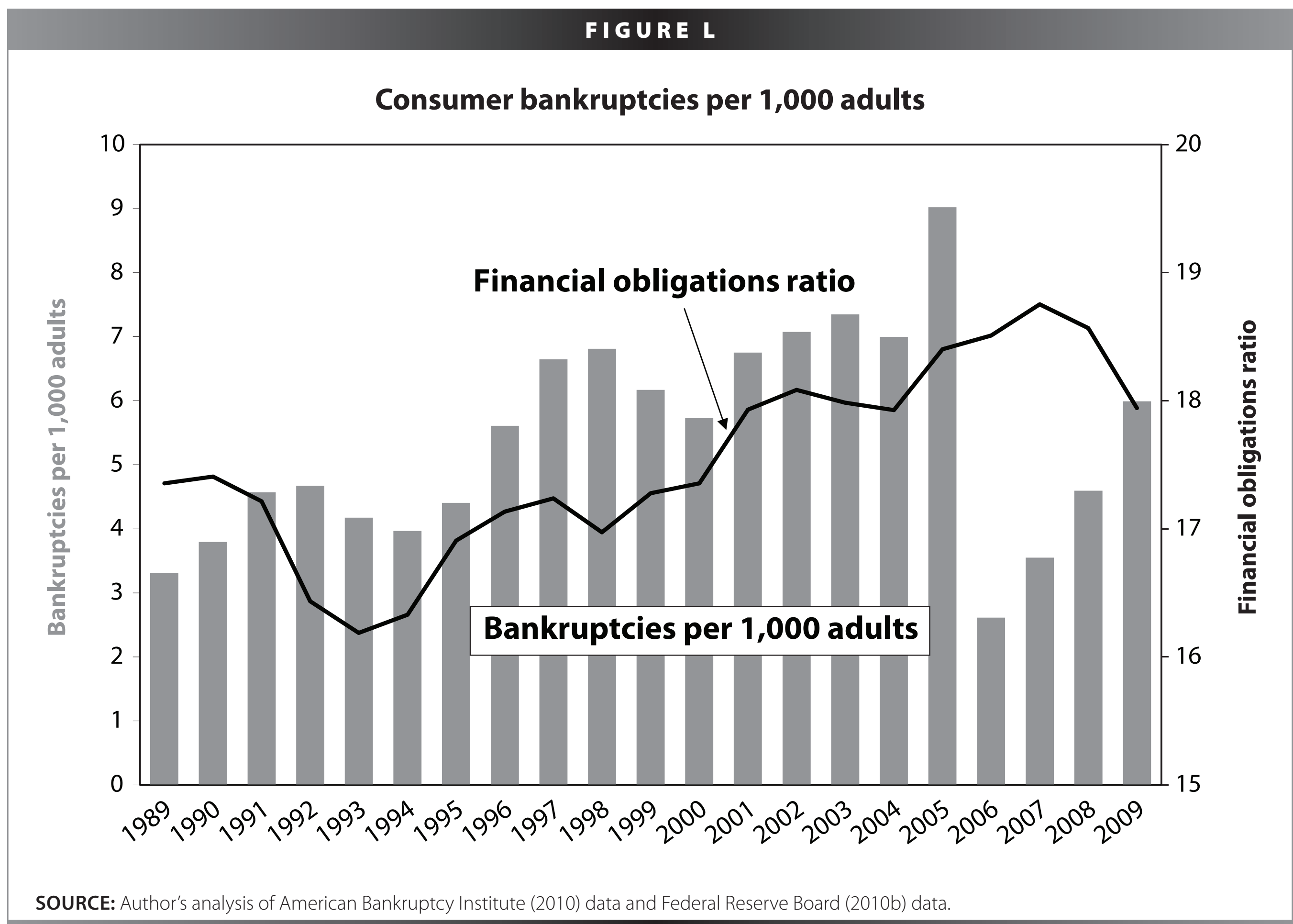
Table 14 shows another measure of the impact of debt on economic hardship, the share of households, by income level, that were late paying bills. In 2007, about 7.1% of all households were 60 days or more late in paying at least one bill. Not surprisingly, the share of households behind on their bills was strongly related to income. Very few (0.2%)

of the highest income group were late in paying bills, while 15.1% in the lowest income range were behind on at least one bill. Table 14 also illustrates a decrease in the percentage of late-paying households between 2004 and 2007 for all income groups. The peak-to-peak average was relatively stable—7.3% in 1989, 7.0% in 2001, and 7.1% in 2007. In general, there were declines from 1989 to 2001 and small increases from 2001 to 2007 across income groups.

Bankruptcy

The opportunity to start anew through fair and reasonable bankruptcy laws is crucial for those who are faced with insurmountable debt. This is especially important given that research has shown that severe misfortune precedes the vast majority of personal bankruptcies. More than half are associated with medical emergencies, and a large share of the rest result from either job loss or divorce. Job losses during the Great Recession tallied 8.4 million, and long-term unemployment and underemployment hit record highs as the recession continued and a weak recovery followed.[4] A second chance through reasonable bankruptcy is as important as ever. **Figure L** tracks the rate of personal bankruptcies from 1989 through 2009 along with the average financial obligations ratio (debt plus financial obligations payments

FIGURE L



SOURCE: Author's analysis of American Bankruptcy Institute (2010) data and Federal Reserve Board (2010b) data.

divided by disposable personal income). The rate of bankruptcies trended upward from 1989 through 2005 along with an increasing debt burden. At the 2005 peak, nine out of 1,000 adults declared personal bankruptcy. The large jump in 2005 was due, in part, to an anticipated change in bankruptcy law that went into effect in October of that year. Thus, filings were front loaded prior to implementation of the new law, which made personal bankruptcy more

complicated and dramatically more expensive. As a result the number of bankruptcy filings plummeted 70% from 2005 to 2006—from 2 million to 600,000 filers.

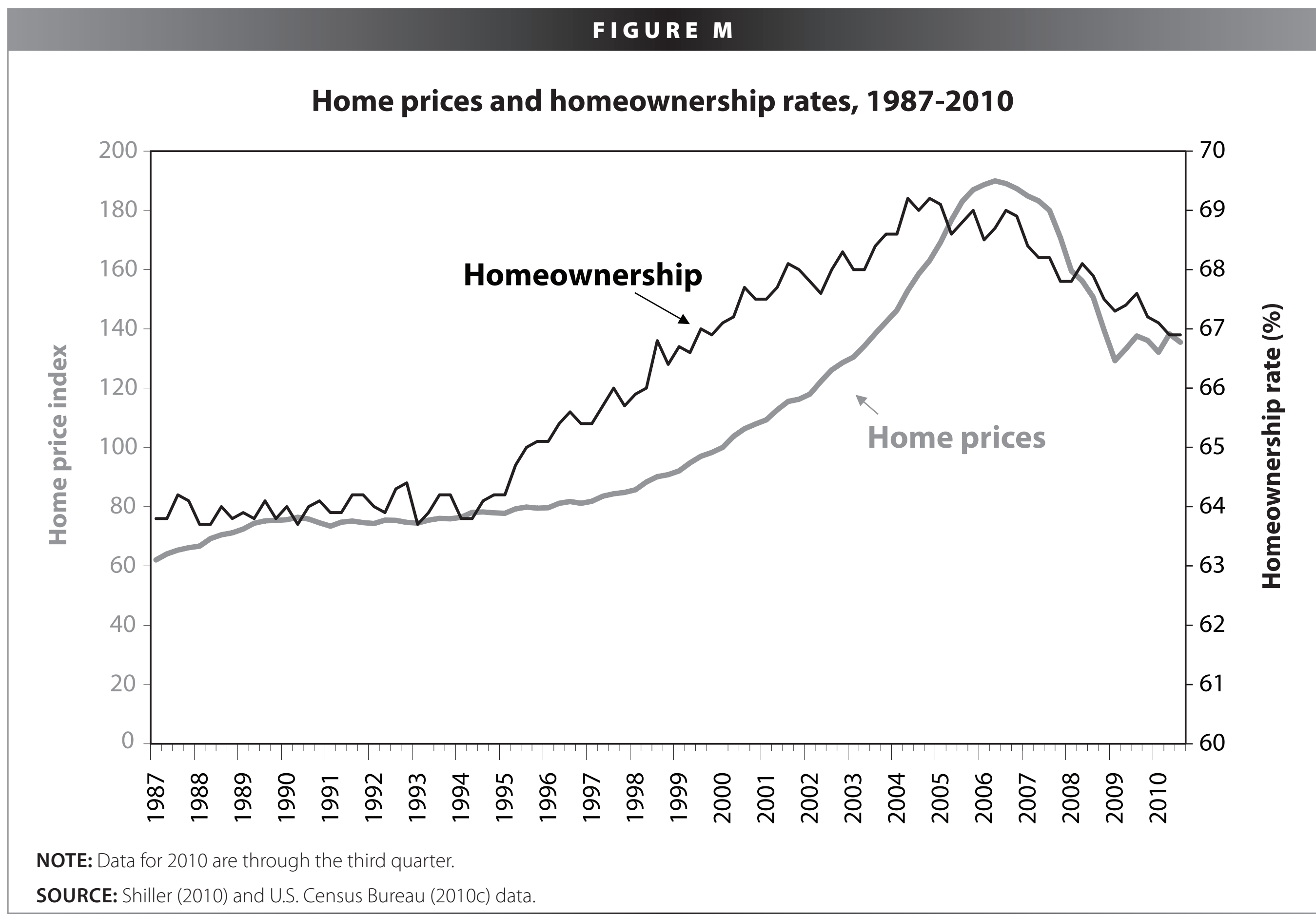
Bankruptcies rose or fell in line with the financial obligations ratio from 1989 through 2005; the correlation is even stronger if you compare bankruptcies with the financial obligations ratio one year earlier. But the correlation from 2006 to 2009 was negative. Bankruptcies fell but the ratio increased in 2006, and in 2007 the ratio peaked and then declined over the next two years while bankruptcies rose. Backers of the 2005 reform said it was needed, at least in part, because people weren't really in distress when they declared bankruptcy—there was no longer a stigma to it. But the recent annual increases in the face of the high cost of declaring bankruptcy belie such reasoning. In 2009 bankruptcies were still lower than in the years just prior to the 2005 change in bankruptcy law, but they are quickly catching up. An explanation for the decline in the financial obligations ratio during the recession is not readily apparent, but it is possible that the tide of foreclosures eliminated much housing debt, and may even have given stricken households a means to avert bankruptcy.

The housing meltdown: Rising mortgage debt and plummeting prices leave nearly a quarter of mortgage holders 'under water'

Mortgage debt and home equity loans as a percentage of disposable income have increased dramatically over the long term, but both recently fell after the housing bust and during the Great Recession. This section is devoted to further expanding the discussion of housing issues.

The bursting of the housing bubble has enormous implications for the home equity wealth of homeowners. **Figure M** shows the increase in home prices from 1987 to the third quarter of 2010 as measured by the Standard & Poor's/Case-Shiller

FIGURE M



NOTE: Data for 2010 are through the third quarter.

SOURCE: Shiller (2010) and U.S. Census Bureau (2010c) data.

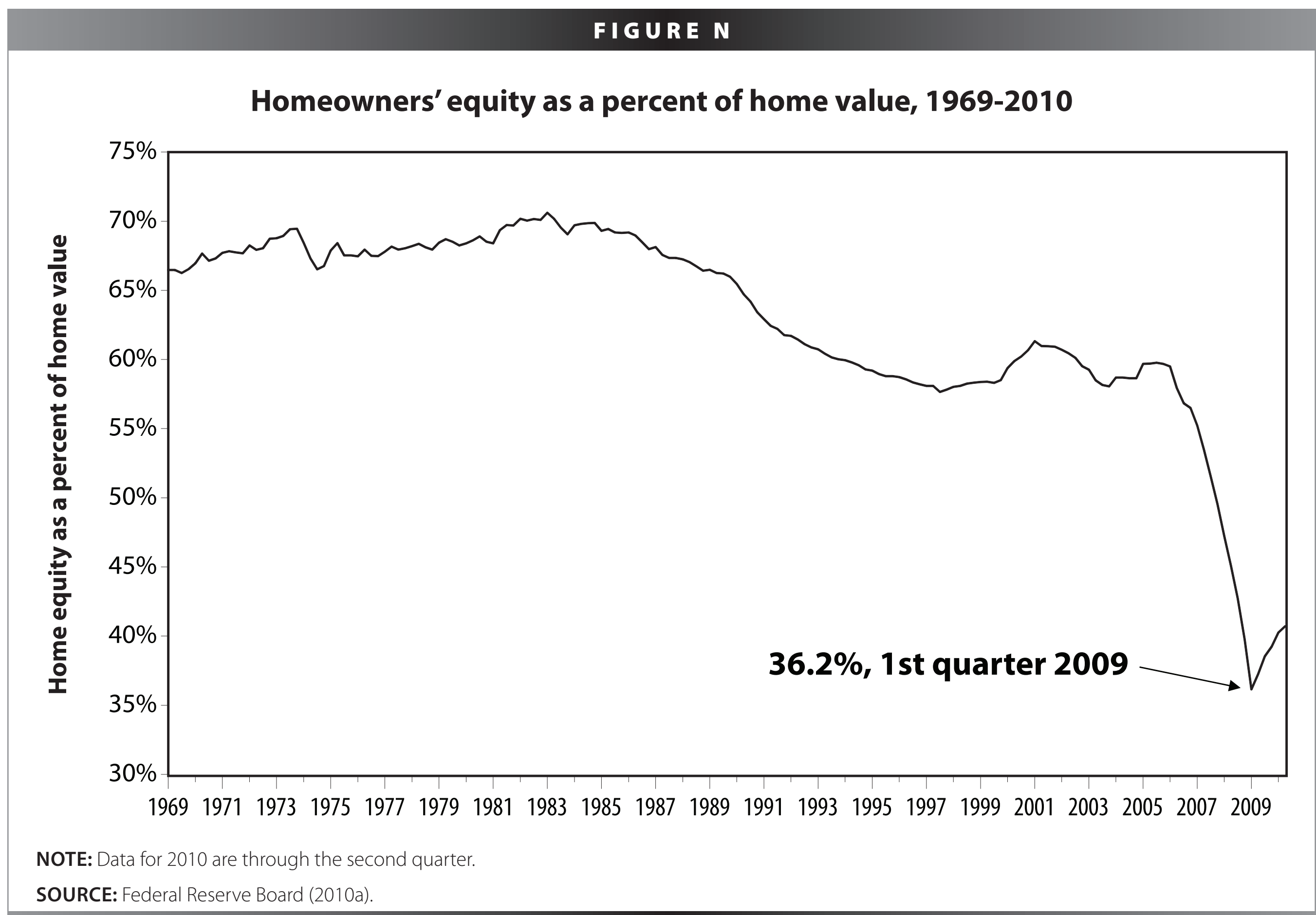
U.S. National Home Price Index. It also shows the trend in homeownership rates. The dramatic run-up in home prices from the mid-1990s to 2006 is striking, with double-digit or near-double-digit annual increases from mid-2002 to 2005. The growth in home prices reached its peak in the second quarter of 2006. Home prices fell dramatically and continuously from 2006 to the first quarter of 2009—a 32% decline overall. Prices have since rebounded slightly but were at mid-2003 levels in the third quarter of 2010.

As with prices, homeownership rates also increased steadily from the mid-1990s to 2004. The decline in homeownership rates slightly preceded price declines, but both have decreased considerably and neither has yet to recover. Prices have seemed to stabilize but homeownership rates continued their downward trend through the third quarter of 2010. Homeownership is currently at 1999 rates.

The value of a home is defined as the current market value, i.e., its price or how much it would sell for if it were put on the market. Home equity is the value of a home minus the outstanding balances of mortgages (including home equity loans). **Figure N** shows the ratio of homeowners' equity to the value of their homes, i.e., the percent of home value that homeowners own outright. This equity ratio was quite stable and averaged 68.2% from 1969 to the latter

FIGURE N

Homeowners' equity as a percent of home value, 1969-2010



NOTE: Data for 2010 are through the second quarter.

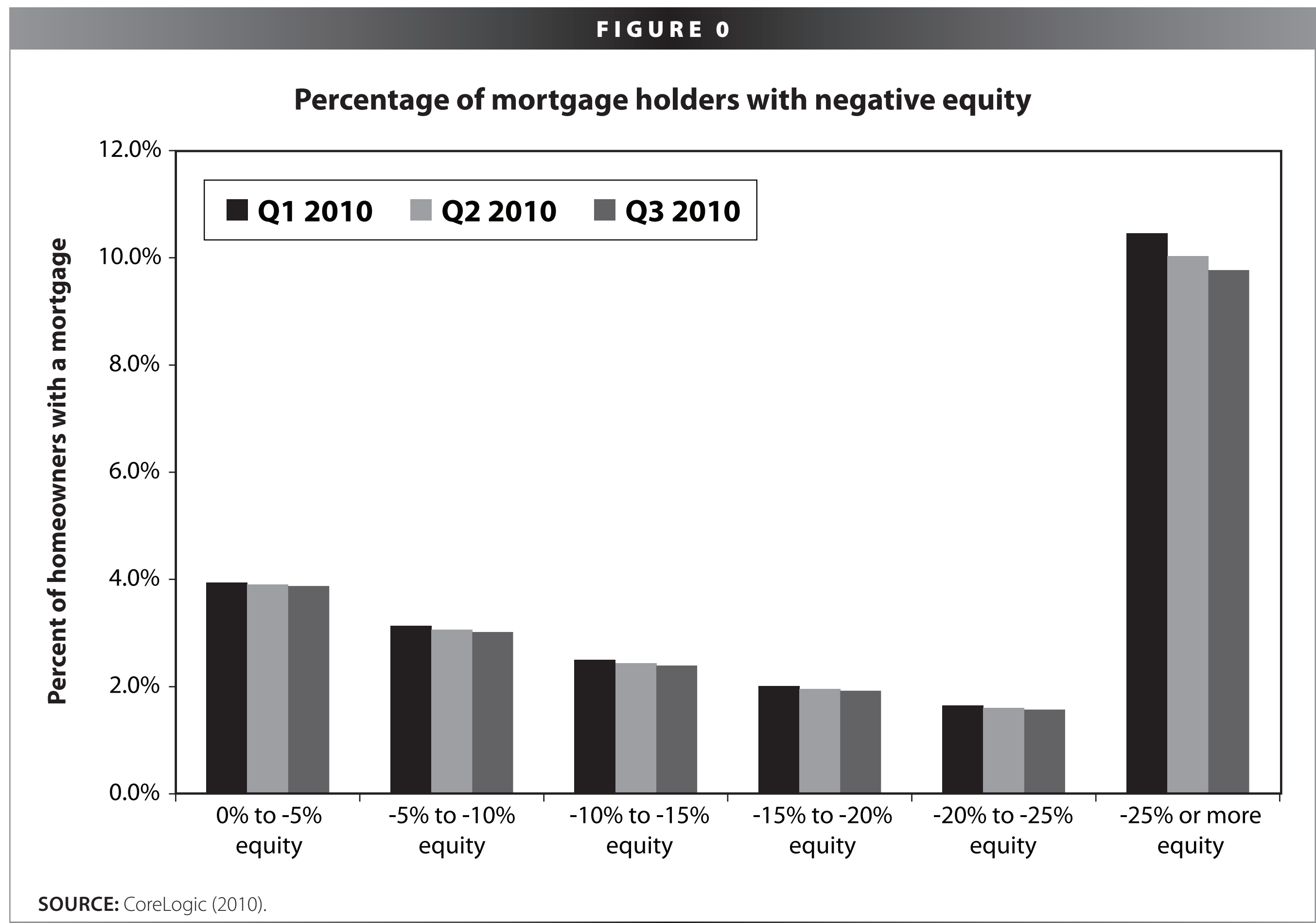
SOURCE: Federal Reserve Board (2010a).

1980s, but it began a descent in the latter 1980s; the rate of decline picked up around 1989 and continued through 1997. This means that even as home prices were increasing at an escalating pace from around the mid-1990s to mid-2006 (see Figure M), at times logging double-digit annual increases, the percent of home value that homeowners owned outright was actually falling.

A large part of this decline was driven by an increase in home equity loans (as shown in Figure K). Many ordinary homeowners as well as sophisticated bankers and investors believed home prices would continue to rise, or at least level off after rising so spectacularly. Homeowners used their accumulated equity to finance spending during a time of stagnating wages. Unsurprisingly, Figure N shows that as house prices began to fall in the second half of 2006, home equity as a percent of home value fell sharply, dropping 23.3 percentage points from the first quarter of 2006 (59.5%) to the fourth quarter of 2009 (36.2%). For the first time on record, the percent of home value that homeowners owned outright dropped below 50%—meaning that banks now own more of the nation's housing stock than people do. Homeowner equity has been below 50% for almost three years. Because home equity is the primary source of wealth for a large majority of households, these declines have had devastating effects on the economic security of many, if not most, homeowners.

The numerous innovative financial instruments in mortgage lending also played a role in the trend in home equity. Many buyers purchased homes with small (or zero) downpayments, and so even as home prices were skyrocketing a large share of new homeowners had little or no equity at closing—let alone when prices started to fall. As Figure M showed, there is a strong correlation between homeownership and housing prices. Families scrambled to get into the housing market during the run-up in home prices because many felt that prices would continue their ascent; buying a home would be a smart investment. Potential buyers also felt they would be priced out of the market if they waited, and many who had previously been excluded from the market due to credit risk factors like low income, a small or no downpayment, or a troubled or nonexistent credit history saw those barriers fall. New mortgage products allowed

FIGURE 0



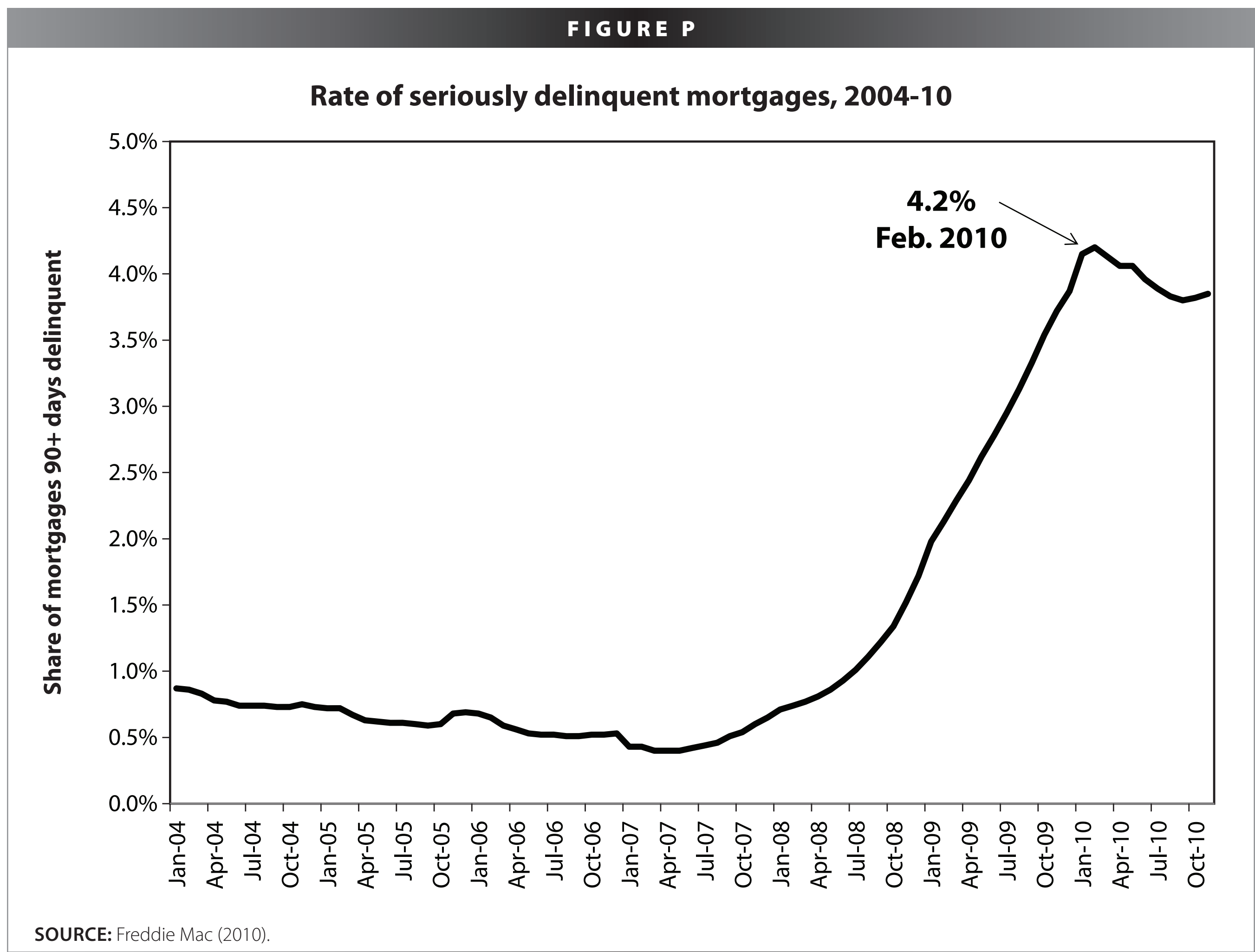
SOURCE: CoreLogic (2010).

buyers to assume mortgages at higher than market interest rates (subprime mortgages) and/or at adjustable rates that would reset and increase monthly payments by a significant amount. The belief in ever-increasing home prices and the ability to refinance on the added equity gave borrowers a false sense of financial security. Once housing prices began to drop, refinancing became more difficult as homeowners began to see their home equity fall and mortgage delinquencies began to climb. Currently we are in a vicious cycle of falling prices and continued foreclosures. As prices fall, foreclosures increase; as foreclosures increase, prices fall and a new round of mortgages are turned upside down (what is owed on the house is more than it is worth).

The latest data show home equity as a percent of home value to be at a low 40.3%. **Figure O**, which shows the share of mortgage holders with various degrees of negative equity in the first three quarters of 2010, suggests that housing woes have yet to run their course. In the third quarter 2010, 10.8 million mortgages, representing 22.5% of homeowners with mortgages, had zero or negative equity.[5] A significant share of those mortgages—nearly 10%—were upside-down by 25% or more. Those in negative equity had small improvements in 2010, but this was due primarily to foreclosures of severely negative equity rather than an increase in home values. Furthermore, the share of families seriously behind on their mortgage payments remains high after some recent improvement (**Figure P**).

FIGURE P

Rate of seriously delinquent mortgages, 2004-10

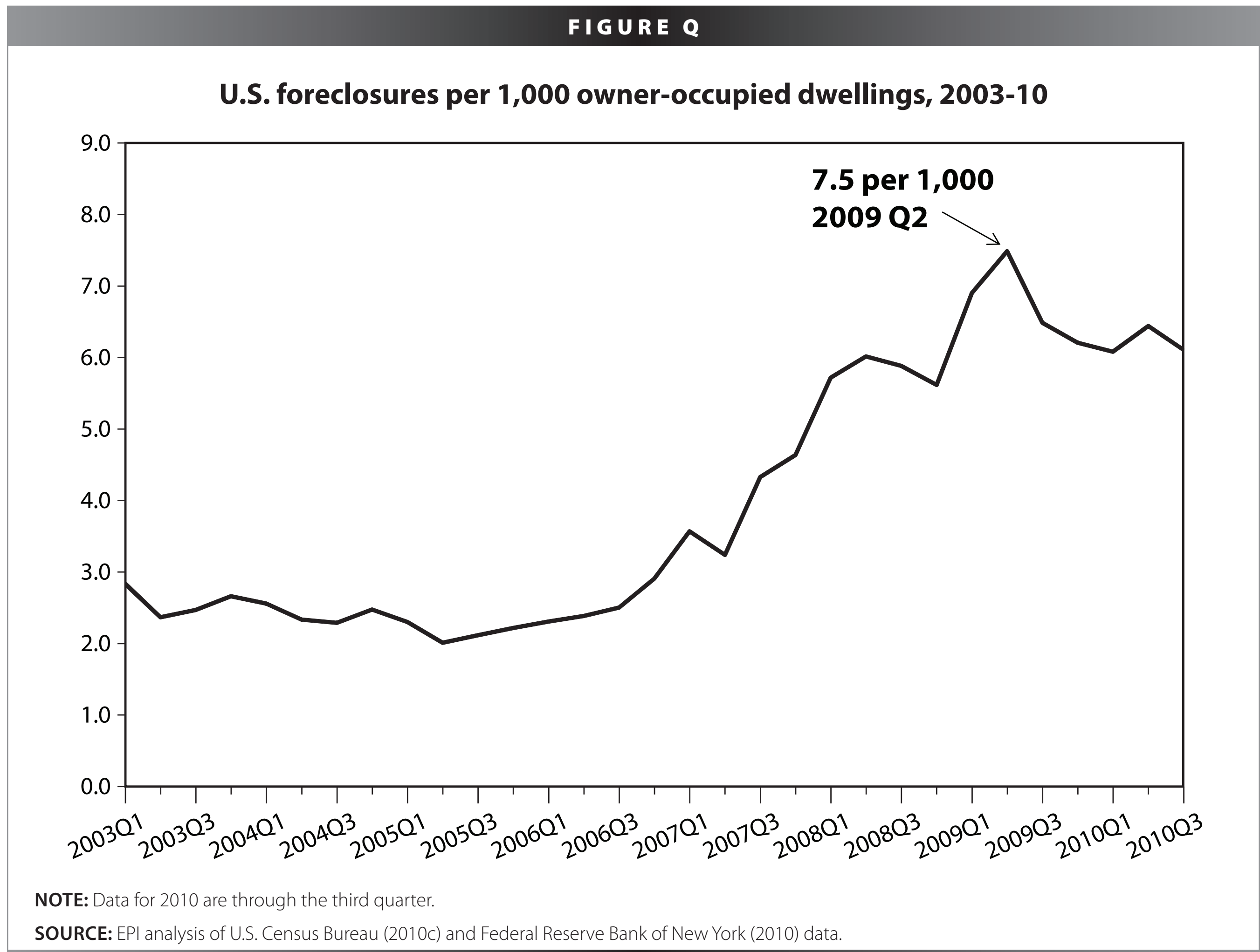


SOURCE: Freddie Mac (2010).

The high percentage of underwater mortgages and elevated delinquency rates mean that foreclosures will remain a problem for some time to come. **Figure Q** shows how foreclosure rates started to trend upward in early 2006 as the housing crisis started to unfold. Foreclosures peaked in the second quarter of 2009 at 7.5 per 1,000 and have since improved modestly to 6.1 per 1,000 in the third quarter of 2010. It is clear that the ramifications and economic consequences of the housing bust have not been fully realized heading into 2011.

FIGURE Q

U.S. foreclosures per 1,000 owner-occupied dwellings, 2003-10



NOTE: Data for 2010 are through the third quarter.

SOURCE: EPI analysis of U.S. Census Bureau (2010c) and Federal Reserve Bank of New York (2010) data.

Conclusion

The Great Recession was preceded by the bursting of a housing bubble that was at least a decade in the making. The economic impact spread far and wide, but the burden was not shared equally by all. The destruction of wealth from 2007 through 2009 averaged 16% annually for the richest fifth of American households, but the decline was 25% annually for those in the bottom four-fifths of household wealth. Many typical families who thought they had solid footing in the middle class have faced foreclosure and/or lengthy spells of unemployment. Moreover, the recovery (officially under way in July 2009) has been tepid—especially in the labor market—and has yet to bring substantial relief to those suffering from this economic shock. The rebound in stocks—the Dow Jones Industrial Average and the S&P 500 are up about 70% from their recessionary lows of the spring of 2009—is of little help to average households, as about half have no stock investments of any form.

The source of wealth for typical or middle-income households is home equity. As a percent of home value, home equity fell sharply due to the housing bust, from 59.5% in first quarter of 2006 to 36.2% in the fourth quarter of 2009. In 2009, approximately one in four U.S. households had zero or negative net worth, up from 18.6% in 2007. For black households the figure was about 40%.

The loss of wealth due to the housing bust and the Great Recession further increased an already vast wealth divide. From 2007 to 2009, the bottom four-fifths of wealth holders gave up 2.2 percentage points of wealth to the top fifth of wealth holders; in 2009, the wealthiest households—the top 1%—had net worth 225 times greater than that of the median or typical household, the highest ratio on record.

The wealth that a typical family manages to accrue is central to its standard of living, and housing equity, rather than stocks or bonds or other financial assets, is its most important form of wealth. But with homeownership rates continuing to fall, foreclosure rates high, and prices that hit bottom in 2009 and have only leveled off and are still fragile, it is clear that American families have yet to experience the full extent of this devastating bust.

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*—The author would like to extend special thanks to her extremely capable research assistant **Andrew Green** of EPI, and to EPI economist **L. Josh Bivens** for insightful comments. This research relies heavily on data from the Survey of Consumer Finances analyzed by **Edward Wolff,** professor of economics at New York University, and she is grateful for Dr. Wolff's contribution.*

Endnotes

1. See *The State of Working America* at http://www.stateofworkingamerica.org for information and interactive charts on wage and income inequality.
2. Their companies are affected, however, because changes in asset values change the contributions companies have to pay to meet future defined benefits.
3. The data used in Figure A are from the Federal Reserve Board's Flow of Funds Accounts of the United States. These data are timely, but since they are based on economic aggregates they do not allow an analysis of how wealth is distributed across the population. The Survey of Consumer Finances (SCF) is used to conduct a distributional analysis by demographics. The SCF, also collected by the Federal Reserve Board, is one of the country's primary sources of data on wealth. The major drawback of the SCF is that it is only conducted every three years and the latest data currently available are from 2007. (The 2010 SCF, fielded from April to December, will give further insight into household finances post-Great Recession, but results will not be available until early 2012; by 2010 the stock market had rebounded significantly from the bottom that occurred in March 2009. A special 2009 SCF that re-interviewed the 2007 respondents will also be released sometime in 2011.) However, much of the analysis that follows uses the 2007 SCF along with the change in asset prices from the Flow of Funds data (December 2009) to provide 2009 estimates. Thus it should be noted that the effects from the bursting of the housing bubble and the Great Recession will be reflected in some but not all of the analyses that follow. Other relevant data and sources are used in this brief and are referenced throughout.
4. Underemployment is defined by the Bureau of Labor Statistics as persons marginally attached to the labor force (those who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the past 12 months); discouraged workers (a subset of the marginally attached, who have given a job-market-related reason for not currently looking for work); and persons employed part time for economic reasons (those who want and are available for full-time work but have had to settle for a part-time schedule).
5. The sum of all of the third quarter 2010 bars in Figure O is 22.5%, reflecting a total of 10.8 million mortgages.

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