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Wealth of a Nation:

A Reassessment of Asset Inequality in America Shows At Least One Third of Households Are Asset-poor

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ABSTRACT. In order to determine whether the *distribution of wealth* in *American society* uncovers deeper fault lines of *inequality* than income alone, data from the 1984 Survey of Income and Program Participation is examined. The findings indicate that: (1) aggregate *shares of wealth* held by households are distributed far more unevenly than income shares, with extreme concentrations at the upper levels; (2) the data on wealth shows that the condition of *black America* is far more precarious, marginalized, and unequal than was thought previously; (3) *single and separated women* hold few assets in comparison with their male

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counterparts; (4) *families* and individuals raising *children* appear to undergo a decumulation of wealth regardless of marital status; and (5) one-third of American households have zero or negative net financial assets. *Redistributive and social welfare policies* based on income analyses and levels, the authors suggest, seriously underestimate the severity of the problems they are meant to address.

I

Introduction

OVER 25 YEARS AGO Richard Titmuss (1962) cautioned that the study of material equality and inequality must look beyond income. Social scientists have not heeded Titmuss' wisdom as income remains the lens through which economic inequality and material well-being are viewed. This paper, one in a series of analyses of these issues (Oliver and Shapiro, 1989), demonstrates the limitations of relying on income as a sole indicator of economic well-being. Our review indicates that measures of wealth uncover depths and patterns of economic inequality that are hidden when only income is considered.

Our analysis uses data from the 1984 Survey of Income and Program Participation (SIPP), which provides an impressive array of information on the wealth holding of a representative sample of American households. Unlike previous studies of wealth, which focused on shares held by the top wealth holders or which were based on relatively small samples of the total population, SIPP contains a large and comprehensive sample of the population. This large scale allows us, for the first time, to make detailed analyses of the wealth accumulation of the average American household and of various subgroups of the population. The analysis considers the general relationships between patterns of wealth and income for the total population, for whites and blacks and for males and females. We also present detailed examinations of the distribution of wealth by family status, educational achievement, age, and occupation. The results suggest that redistributive and social welfare policy based on income data alone underestimates seriously the extent and perhaps the sources of the problems they attempt to address.

In order to address these issues we first discuss briefly why relying solely on income is insufficient. We argue that social science's attempt to describe and explain inequality is hampered by its lack of attention to wealth as an important concept and variable, and suggest that wealth is a closer approximation to the Weberian notion of "life chances" than income. Next we review the extant literature on patterns of wealth holding in American society. The analysis and discussion follows.

II

Income and Wealth

INCOME refers to monetary gain within a specified period, typically one year. It represents society's distribution of produced wealth and the value placed on labor and skills within that time period, and is a good measure for a certain kind of asset over a very short time span. Although income is the most prevalent way of assessing economic well-being, families and households often have assets which in addition to income affect this well-being, such as wealth in the form of savings, investments, a home, and property. This more comprehensive view of economic well-being can be gained by incorporating characteristics of wealth.

Income is a transitory measure; past income does not necessarily indicate what resources are available currently, as it may have been spent as fast as it was received and the goods purchased quickly consumed. Wealth, on the other hand, is a more stable indicator of status or position in society and represents stored-up purchasing power. Furthermore wealth, unlike income, is accumulated over a lifetime and seldom changes quickly, except through inheritance or severe economic crises. It reflects savings and investments that can be drawn on in times of need. Wealth also reflects resources and status that can be passed on from one generation to the next.

Although people with more income generally have more wealth, these measures are not interchangeable and their relationship is not simple (Friedman, 1957). People can obtain wealth that is totally unrelated to their past income, for example through inheritance. On the other hand, income can be spent in ways that do not result in wealth accumulation. Miller and Roby (1970:67–68) argue convincingly that "current income is an inadequate indicator of the economic position of a family" because "income inadequately reflects the future command over resources" and "savings and pension accumulation are important in the future picture." Still, it is easy to appreciate why the measures are used interchangeably and why data on income have become a popular and conventional measure: not only do official governmental agencies collect and report on it regularly, but the data are also relatively "clean" and the definition of income is straightforward.

The neglected wealth dimension of inequality must receive more attention if we are to portray accurately the stratification system of advanced industrial societies. Furthermore, we see the conceptualization of economic resources in terms of wealth as a closer approximation to our existing theoretical understanding of the economic basis of stratification, particularly those which concentrate on Weberian approaches to "class." For Weber, a class occurs when ". . . a number of people have in common a specific causal component of their life chances," which are represented by ". . . economic interests in the possession of goods and opportunities for income" (Weber, 1946: 181). Note that for Weber, income would be only one aspect of the web of resources which promote a set of life chances.

Income and wealth are conceptually distinct; they tap separate yet related phenomena; and while both should be examined, their conceptual distinctiveness and differing theoretical implications should be separated. As a complement to income, wealth can provide a fresh look at traditional social science and policy questions.

III

Patterns of Wealth Holding in American Society

THE RETREAT from systematically including patterns of wealth holding in discussions of inequality and economic well-being has been explained by the lack of access to systematic, reliable data on wealth accumulation (Turner and Starnes, 1976: 20). The solution, a misleading one, has been to use income as a surrogate for wealth.

Some social scientists, however, have recognized the importance of wealth and attempt, with the best data available, to map out the distribution of wealth in American society among various populations and groups (Henretta and Campbell, 1978; Lampman, 1962; Miller and Roby, 1978; O'Hare, 1981; Proctor and Weiss, 1966; Smith, 1969; Smith and Franklin, 1974; Terrell, 1971; Turner and Starnes, 1978; Weisbrod and Hansen, 1968). Their work, while piecemeal and sometimes very limited, suggests more drastic fault lines of inequality than when income alone is examined.

Two major approaches have been used in the measurement and conceptualization of wealth holding. The first, termed the "estate multiplier" technique, estimates the distribution of individual wealth of the living on the basis of the reported wealth of the dead (Lampman, 1962; Smith, 1969; Smith and Franklin, 1974). This approach is preoccupied with uncovering the degree of concentration at the top of the wealth holding distribution. The findings indicate that the percentage of the total distribution of wealth in the United States held by the top one percent fluctuated somewhat (one-third to one-quarter) between 1922 and 1956. This concentration tended to decrease slightly over time, rising from 32 percent in 1922 to 38 percent in 1929, falling to 22 percent in 1949, and rising again only to 28 percent in 1956 (Lampman, 1962: 204). More recently, Smith (1969: 162–67) and Smith and Franklin (1974: 143–80) using the same methods showed that in the 1960s and 1970s the concentration of wealth at the top had become ossified in many ways. The top one percent held 27 percent of the wealth in 1958 and 1962, 26 percent in 1969, and 27 percent in 1972.

The second major way of measuring wealth is to examine the distribution and composition of wealth as derived from large national sample surveys. Here the picture is somewhat more complicated because of the lack of good data. Although the U.S. Census provides social scientists and data consumers with an abundance of data, for the most part it has failed to be a major source of data on wealth (Turner and Starnes, 1976: 20). Other more specialized surveys have served this purpose, notably two major surveys which were conducted by the University of Michigan in collaboration with the Board of Governors of the Federal Reserve in 1962 and 1983 (Proctor and Weiss, 1966; Avery *et al.*, 1984a, 1984b, 1986).

Both the 1962 and 1983 data paint a picture of extreme inequality in the patterns of wealth holding in modern American society. In 1962 about 16 percent of all consumer units had zero or negative net worth (the differences between assets and liabilities), while the top one percent had net worth with a mean value of $1,260,667 (Proctor and Weiss, 1966: 96–99). In 1983 the results showed little change: almost 20 percent of the families surveyed had zero or negative net worth and the top 2 percent possessed 28 percent of the total net worth in the sample (Avery *et al.*, 1984b: 861-62).

These surveys also showed dramatic differences in the value of various components of wealth for diverse groups in American society. For families with modest to average amounts of wealth the major source of wealth is their home; in 1962 equity in homes represented from a third to a half of the mean value of the wealth of consumer units, with mean average wealth holdings ranging from $1,000 to $49,999. For groups with wealth over $50,000, investments and business holdings were the major sources of assets, accounting together for 40 to 80 percent of their mean wealth (Proctor and Weiss, 1966: 110). By 1984 home ownership assumed even greater importance in the wealth portfolio of Americans. Although comparable data for 1962 is not readily available, reports from the Federal Reserve indicate that much of the real growth in the net worth of American families in the 1980s is a direct result of the inflationary spiral in home prices in the late 1970s. At the same time, ownership of liquid assets in the form of investments in stocks, bonds and businesses is still a characteristic of high income wealth holders (Avery, 1984b, 1986; Democratic Staff of the Joint Economic Committee, 1986).

The data on the wealth holding of American families demonstrate massive inequality not only between the top and the bottom rungs of society but also between whites and blacks (Henretta, 1979; Landry, 1987; O'Hare, 1983; Parcel, 1982; Terrell, 1971), the well educated and the poorly educated (Proctor and

Weiss, 1966), and the old and the young (Henretta and Campbell, 1978). Blacks hold less wealth than whites, and their wealth, unlike that of whites, is concentrated almost exclusively in home assets. The higher the education of the head of the household the greater the accumulation of wealth. That wealth seems to accrue with age has led economists to view the wealth accumulation process purely as a consequence of the combination of savings, earnings and consumption over time. The neoclassical life-cycle hypothesis assumes that (Brittain, 1978: 11)

> . . . each person starts with two main endowments—inheritance and earning power. Subject to various constraints, a person will tend to increase his wealth by saving and reinvestment. Inequalities generally increase over time because the wealthier are apt to save more.

According to neoclassical economists this process is ". . . one of gradual accumulation followed by decumulation" in which individuals draw upon their savings during retirement and old age.

IV

Description of the SIPP Data

SYSTEMATIC AND COMPREHENSIVE DATA on family assets and wealth ownership are now becoming widely available. The 1983 Survey of Consumer Finances, commissioned by the Federal Reserve Board, is one such study. An even larger (sample size five times as large) and more encompassing survey of family assets and liabilities was conducted in 1984 by the Census Bureau as a special supplement to its ongoing Survey of Income and Program Participation. One leading analyst says glowingly of SIPP: "the precision and extent of data collected on a large-scale probability sample of the United States population have no precedent" (David, 1985: 215). The SIPP data provide us with a unique opportunity to assess the comprehensiveness of income as a social indicator of material well-being and to begin reappraising the larger picture by constructing and presenting wealth measures.

SIPP is a longitudinal survey of adults in households obtained from a multistage stratified sample of the noninstitutional U.S. population. It is a multipanel survey in which a new sample is introduced at the beginning of each calendar year. The initial selection of households into the survey is made according to sample selection methods similar to those used for the Current Population Survey.

The first panel of 19,878 households was interviewed in October, 1983, and an attempt was made to reinterview these households at four month intervals thereafter. A special supplement on assets and liabilities was included in Wave 4 of the study, which was conducted in the last four months of 1984. After the weeding out of households that could not be reinterviewed or for which the data were imputed, information for 18,311 households remains. Some of the major types of assets covered by this supplement are savings accounts, stocks, mutual funds, bonds, Keogh and IRA accounts, equity in home and vehicles, value of property and businesses. Liabilities such as loans, credit card bills, medical bills, and personal debts are covered. (Cash value of insurance policies, value of jewelry, and household durables were not covered.) Thus SIPP provides an unusually comprehensive and rich source of information.

SIPP is not without its share of major problems, however. Random surveys of net worth always underrepresent the upper levels, primarily because of the difficulty in obtaining cooperation of a sufficient number of very wealthy subjects. For this reason SIPP may not be an adequate measure of wealth holding at the upper extremes. As a result, in comparison to the Federal Reserve study, the survey yields a very conservative estimate of distributional shares held by the upper extremes and thus underestimates the degree of overall inequality.[1] A major conceptual difficulty concerns how to define households and trace them longitudinally (Duncan and Hill, 1985). Households are defined as all individuals residing in a dwelling unit; hence, a household can consist of an extended family unit, unrelated individuals, or more than one nuclear family. Longitudinal difficulties, which are especially vexing in the SIPP design, need not concern us in this report on cross-sectional data. This initial contribution explores three major areas: the distribution of wealth and its relationship to income; broad comparisons of social groups including whites and blacks, males and females; and an analysis of the relationships between wealth and family status, educational achievement, age and occupational status.

V

The Measurement of Wealth

BEFORE LOOKING AT THE DATA, it is important to explain the logic behind the measures presented. Wealth can be conceptualized in several different ways (Lampman, 1962; Proctor and Weiss, 1966; Weisbrod and Hansen, 1968; Henretta and Campbell, 1978). Indeed, two major difficulties in analyzing wealth are the different definitions of wealth and, the subsequent lack of comparability in operationalizations. In this paper, wealth is operationalized by two concepts. First, Net Worth (NW) is the straightforward value of all assets less any debts. SIPP includes the following assets: home equity, net equity in vehicles, business equity, interest accounts in banks and other institutions, equity in stocks and mutual fund shares, real estate (other than own home) equity, U.S. Savings Bonds, checking accounts, mortgages held, IRA and Keogh accounts. All secured and unsecured debts, including outstanding bills, were then subtracted from assets.

Net Worth gives a comprehensive picture of all assets and debts, and how they have been apportioned; that is, what kind of life style is being supported. Yet, it may not be a reliable measure of command over future resources or of life chances for one's self and family. Net Worth includes, for example, equity in vehicles, which in cases other than dire emergencies are not ordinarily converted to purchase other resources, such as prep school for a family's children. Thus, equity in vehicles is not a likely repository for command over future resources. Likewise it is problematic to view equity in homes as a reasonable source of future resources. Most people do not sell their homes to buy a college education for their children, finance a business, make other investments, buy medical care, support political candidates, pursue justice in the courts, or to pay lobbyists to protect their special interests. Although loans for some of these purposes may be secured by home equity, this process is quite different from "cashing out" home equity. Even if a home is sold, the money that is received is used typically to lease or purchase replacement housing. The main point is that home equity cannot be considered to be a clear-cut source for future resources. For these reasons and others we have constructed another variable, Net Financial Assets (NFA), which includes only those financial assets normally available for and used as sources to command future resources. The specific difference between NW and NFA is that equity in vehicles and homes is excluded, although debts are subtracted from those assets also. In contrast to NW, NFA are assets which generate income and wealth. Because the distinction between NW and NFA is controversial and still open to debate, both measures will be presented. Removing vehicle and home equity (especially the latter) has profound effects: median NW is $32,609 and median NFA is $2,599.[2] Home ownership represents the largest portion of wealth for many groups; the importance of this component to various groups is an integral part of the ensuing analysis.

VI

The Wealth of a Nation: A Descriptive Portrayal

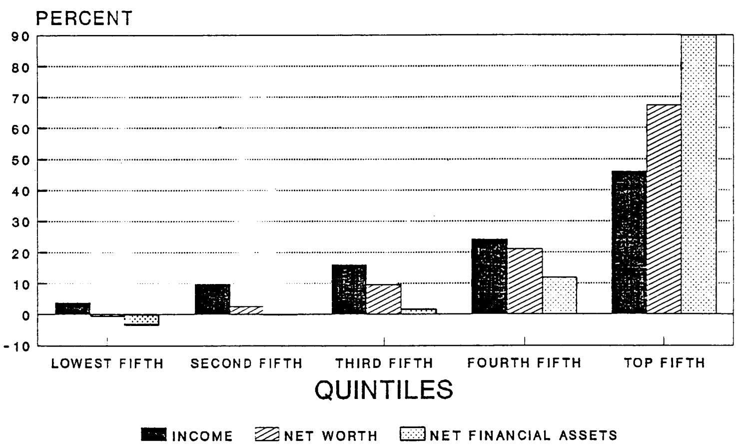
WE WILL USE the wealth data primarily to build a descriptive characterization of resource distribution in America. Because income is commonly used for this purpose, it is logical to compare NW and NFA medians with income medians. This procedure should show the serious inadequacy of relying on income as the predominant material indicator.

Data on aggregate shares of total income held are presented annually and usually are cause either for small celebration or concern regarding economic equality. Figure 1 displays the percent distribution of aggregate income for 1984 along with comparable distributions for NW and NFA.

The noteworthy items in this figure include not merely the well-known greater maldistribution of wealth as opposed to income but the extent of the concentration. Whereas the top 20 percent of American households earn over 43 percent of all income, the same 20 percent holds 67 percent of NW and nearly 90 percent of NFA. Similarly, as Table 1 shows, the top 5 percent collect over three times their proportionate share of income, but hold about seven times their share of NW and a very robust 11 times their share of NFA. Furthermore, the median wealth of the top one percent of the population is 22 times greater than that of the remaining 99 percent. Net Financial Assets are concentrated even more densely: the median of the top one percent is 237 times greater than the median of the other 99 percent of the population. The richest one-half of one percent (about 430,000 households) owns 40 percent of the corporate stock.

In addition to displaying this lopsided distribution, the data are noteworthy for showing the precarious position of 60 percent of American households. One third of American households have zero or negative NFA. In 1984 median household income was $21,744, median NW was $32,609, and median NFA was $2,599. Thus without safety nets—public, private, or relatives—the average

FIGURE 1
SHARES OF INCOME, NET WORTH, AND NET FINANCIAL ASSETS



SOURCE: 1984 SURVEY OF INCOME AND PROGRAM PARTICIPATION

Table 1
SHARES OF TOP WEALTH HOLDERS

	Income	Net Worth	Net Financial Asset
Top one percent	5.6%	14.5%	26.0%
Top five percent	18.1	34.2	55.3
Top ten percent	29.1	48.6	72.1

American household has enough NFA reserves to cushion only three months of financial hardship, provided they live at or below the poverty level (the 1984 poverty line for a family of four was $10,800, or about $900 per month). For the average American household the threat of financial hardship is a reality. Sudden unemployment or layoff, medical emergency, or even the demise of the family car can precipitate an immediate economic crisis.

Table 2 shows the strong relationship between annual household income and wealth. Wealth expands with increasing income, as higher earning groups are better able to acquire wealth-producing assets. It is widely known that the rate of savings rises with income (Morley, 1984); therefore, those below the poverty line ($10,800) have virtually no financial reserves to see them through during periods of unexpected curtailment of income. Normally, NW increases incrementally in tandem with income levels; the SIPP survey identifies several income thresholds above which jumps occur in the ratio of income to NW. Households with $35,000 to 40,000 in annual incomes hold over $51,000 in assets; households in the $55–60,000 range own over $90,000; those in the $75–80,000 range own nearly $150,000; households earning $100,000 to 110,000 hold $195,000; and those in the $250–300,000 income range possess $634,000 of NW assets. Another strong relationship is the degree to which wealth held by poor and average Americans is concentrated in home and vehicle equity as opposed to financial assets. Virtually all the assets of those below the poverty line are tied up in home and vehicle equity, whereas almost one-third of the assets held by house-

Table 2
MEDIAN HOUSEHOLD WEALTH, BY INCOME

Annual Household Income	Median NW	Median NFA	Ratio of Home and Vehicle Equity to NW
<$10,800	$ 5,358	$ 4	99%
$10,800-24,999	23,172	1,525	93
$25,000-49,999	47,242	5,149	89
$35,000-40,000	51,525	6,049	88
>$50,000	111,264	35,000	68
$55,000-60,000	90,530	25,540	72
$75,000-80,000	149,409	67,000	55
$100,000-110,000	195,878	93,000	52
$250,000-300,000	636,645	503,701	21

holds earning over $50,000 provide these households with sources of income not available to most wage-earning Americans.

Racial Differences in Wealth

Comparing household median income for whites and blacks is one way of looking at racial inequality. When examined annually, these figures are a convenient way of gauging whether the gap between blacks and whites is narrowing or widening.[3] Table 3 presents these figures, along with data for median wealth, among whites and blacks.

The ratio of black's to white's median income has hovered in the mid-50 to 60 percent range for about 20 years. The fluctuations have been relatively minor, gauged in tenths of a percent, and in many ways the society has become accustomed to this standard of inequality. Significantly, the wealth median data show a far more exaggerated pattern of economic inequality. White median NW is 11.7 times that of blacks; when home and vehicle equity is removed, 30 percent of white households have zero or negative assets versus 67 percent of black households. Home equity is a larger component of NW for blacks than for whites (68 versus 44 percent, respectively). When black-white comparisons are broken down by type of households, black female-headed households are distressingly poor: for every dollar of NW held by white female heads, black female heads average a mere two and one-half cents. In contrast, the black to white NW ratio for married couples is .232. Similarly, the NW ratio of black male-headed to white male-headed households is .248. Female headed households account for much of the white-black imbalance, but although black households headed by married couples are better off, the average household has zero NFA. When we add data on wealth to what is known already about the racial distribution of the economic pie, we find that the condition of black America is far more precarious, marginalized, and unequal than was thought previously.

Table 3.
MEDIAN HOUSEHOLD INCOME FOR WHITES AND BLACKS

	Median Income		Median NW			Median NFA	
	White	Black	White	Black	Ratio	White	Black
All	$22,920	13,812	$39,250	3,344	8.5%	$4,348	0
Married couples	29,112	22,968	53,985	12,500	23.2	7,200	0
Female householder	11,604	8,232	22,275	530	2.4	1,521	0
Male householder	18,060	14,064	11,500	2,850	24.8	1,435	0

Wealth, Gender and Family Status

A conventional way to assess the economic relationship of males and females is to look at earning power. Table 4 displays median income for male and female householders, again along with comparable wealth data. Unmarried female householders earn only 63 percent as much as their male counterparts earn, but their NW is 43 percent greater. The reasons for this finding, which is anomalous in relation to others in this Table, will be explored more fully when data on family status are presented.

Table 4 also presents data showing gender differences in conjunction with marital status and family structure. Overall, married couples are better off than any persons of other marital status and within each status, males fare better than females. For both males and females, those who are widowed are by far the most economically secure of nonmarried individuals. Indeed, among nonmarried persons only widows and widowers are above the medians for NW and NFA. Not only are the widowed absolutely well-off (over $41,000 for women and $47,000 for men), but widows also fare well comparatively when one examines female-male ratios of income and net wealth. Widows own 86.3 cents of NW for every dollar owned by a widower but corresponding ratios for divorced, single, and separated women are 73, 44.1, and a very poor 21.6 percent respectively. Single and separated women hold few assets both absolutely or in comparison to their male counterparts. Many life course factors involving age, death, marital status, the legal status of marriage dissolution, and the presence of children—when added to the prevailing sexism—contribute to these startling male-female differences.

Table 5 examines income and wealth by family status. Three sets of observations are especially pertinent. First, the differences between married and non-

Table 4
MEDIAN INCOME AND WEALTH FOR MALE AND FEMALE HOUSEHOLDERS

	Median Income	Median NW	Median NFA
Total	$21,744	$32,609	$2,599
Married-couple families	28,704	49,794	5,573
Male householder	17,424	9,750	850
Widowed	11,304	47,548	8,000
Divorced	19,848	12,850	1,000
Separated	19,260	5,547	0
Single	17,472	5,700	500
Female householder	10,920	13,925	500
Widowed	8,988	41,050	6,040
Divorced	13,872	9,375	0
Separated	9,120	1,200	0
Single	13,200	2,515	2

married individuals are tremendous: married couples possess well over four times as much NW as nonmarried individuals, even though their median earnings are only a little over twice as large. This difference is not explained by equity in a home, which is necessitated by space requirements for children. In addition, NFA of married couples are 9 times greater than households headed by non-married people. Second, these data illustrate graphically the vast differences in material life style and resource base between married couples who are raising families and those without children. The data on earnings would indicate that only very minor changes occur, but obviously this conclusion is seriously misleading.

Couples with children under the age of 18 have only 46.1 percent as much NW assets as couples without children; they have only 9.9 percent as much in NFA. Thus children have little impact on earning power, but traditional families with children have fewer economic resources at their disposal. Although poorer families are larger, it may also be the case that the cost of raising a family severely depletes the acquired assets of married couples, or parents may be transferring financial assets to human capital investments in their children in terms of housing choices, education, and the myriad of other expenses incurred in child rearing. Third, these data help focus a contemporary policy concern: what kind of material life style and security exist for households headed by single parents? The answers are complex and disturbing. The earning power of female-headed families with children under the age of 18 is below the poverty level, and these households control precious few assets of any kind ($1,200). This is not surprising in view of the burdens of child care and interrupted labor force histories. What may be surprising is that female-headed households with no children have a median NW of $23,900. This figure is 2.5 times that for their

Table 5
MEDIAN INCOME AND WEALTH BY FAMILY STATUS OF HOUSEHOLDER

	Median Income	Median NW	Median NFA
Married	$28,704	$49,775	$5,549
Couples, no children	29,700	69,999	15,054
Couples, with children	27,252	32,300	1,483
Unmarried	13,020	11,862	610
Male head, no children	17,088	9,551	1,000
Male head, with children	21,936	10,950	0
Female head, no children	11,184	23,900	2,000
Female head, with children	10,320	1,200	0

male counterparts, although these women earn only 65.4 percent as much as their male counterparts.

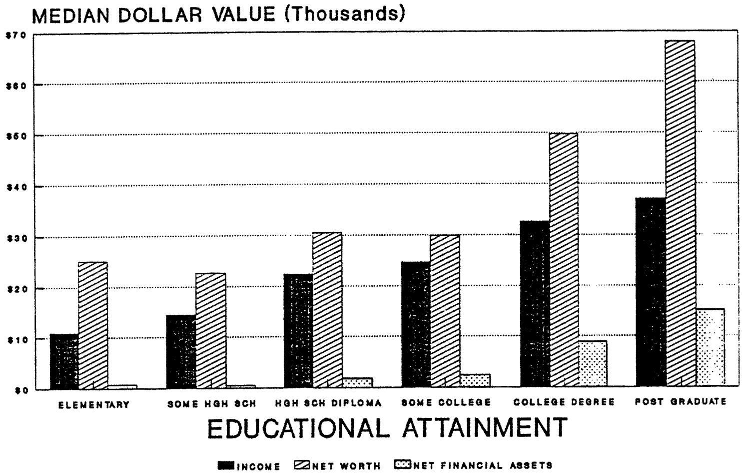
These anomalies are cause for concern, particularly the finding associated with the superior wealth position of single females without children. It is tempting to assume an "embourgeoisement" thesis that these are the professional, upwardly mobile career women who, without the aid of a mate and the burden of children, are amassing wealth at an unprecedented rate. On the other hand, this observation could be associated with the concentration of these women in strategically placed advantaged groups: older women, whites and home owners. Our examination of the social composition of male and female singles, both with and without children, tended to support the latter characterization rather than the former. Single women without children tended to be older, widowed, white and more likely to be a homeowner than single women with children. Although the likelihood of high occupational status was about the same for both groups of single women, social factors appear to differentiate these groups more substantially. Separation and widowhood impair the ability of single women with children to generate and preserve wealth. Compared to single men, single women without children were more likely to be older, and like single men raising children they had a higher rate of home ownership. These findings indicate that the superior wealth position of single women is highly reflective of their social characteristics rather than a new-found economically secure gender and professional status.

Educational and Occupational Disparities in Wealth

Figure 2 displays median income and wealth data by educational achievement. The correlations between educational attainment and income and wealth medians are relatively straightforward: more education leads typically to better paying jobs, which lead to higher income and greater wealth accumulation. Wealth can afford differential access to educational opportunity, and with only slight variations, the wealth data mirrors income. Furthermore, wealth medians increase dramatically for those with college degrees and postgraduate training. Median NW jumps from $29,820 for those with some college to nearly $50,000 for college graduates and to more than $67,000 for those with postgraduate degrees or training.

Table 6 shows occupational groupings of salaried and self-employed householders for median income and wealth data. Aggregate income data as well as intuitive sense lead to the conclusion that executives, managers, professionals and highly skilled technical workers are most able to enjoy the fruits of the good life and to be secure materially. Conversely, service workers and farmers appear to be the least likely to live the good life or to enjoy a secure future. In regard to salaried employees only, these assumptions are adequate predictors:

FIGURE 2
MEDIAN INCOME, NW, NFA FOR HOUSEHOLD HEAD BY, EDUCATIONAL ATTAINMENT



SOURCE: 1984 SURVEY OF INCOME AND PROGRAM PARTICIPATION

executives, managers, and professionals have NW assets over $40,000; service workers and farmers were the only occupational groups with assets under $10,000. When occupational groups are examined by self-employment, however,

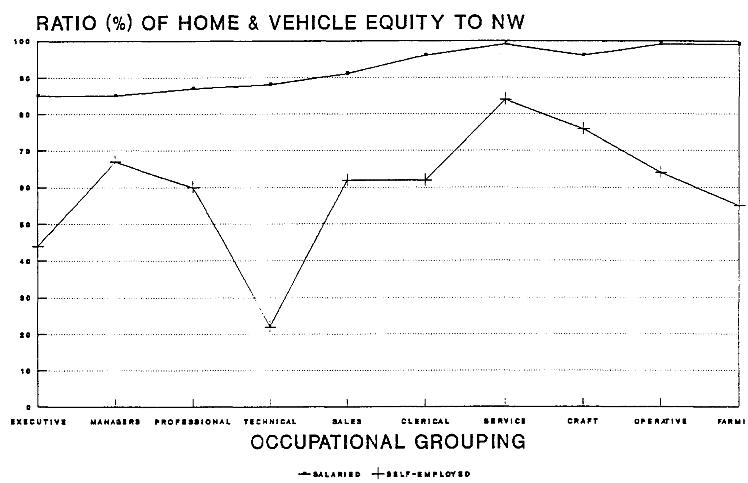
Table 6
MEDIAN INCOME AND WEALTH FOR SALARIED AND SELF-EMPLOYED, BY OCCUPATIONAL GROUPS

	SALARIED			SELF-EMPLOYED	
	INCOME	NW	NFA	NW	NFA
Occupational Group:					
Executive, administrative, manager	$37,500	$55,740	$8,500	$150,444	$84,880
Managerial related	35,640	41,975	6,400	97,094	32,199
Professional specialty	36,372	43,250	5,699	119,250	47,347
Technical	30,000	21,225	2,599	41,470	32,243
Sales	28,800	32,500	2,900	119,007	45,350
Adminstrative/clerical	22,332	18,223	700	102,269	39,300
Service workers	16,512	7,950	25	41,500	6,706
Precision, production, craft and repair	28,296	29,025	1,200	51,946	12,533
Operators, fabricators, laborers	24,000	16,878	300	64,130	23,632
Farming	18,000	9,500	182	123,684	55,999

dramatically different patterns emerge. One pattern is that self-employed individuals own from two to 14 times as much NW as their salaried counterparts. Farm owners hold $123,000 in assets versus $9,500 for farm workers; equity in land and equipment accounts for a large part of this difference. Another difference is that aggregate income data and common sense do not predict very well which occupations lead to either high or low levels of NW assets. Self-employed executives, professionals, sales representatives, office support providers, and farmers own over $100,000 in assets. Only self-employed technical and service workers hold less than $50,000 in assets.

Figure 3 highlights the difference in the composition of assets held by salaried and self-employed householders within occupational groupings. Assets held by the self-employed tend to include much higher proportions of financial assets, as opposed to homes, cars, and recreational vehicles. A high proportion of the wealth held by salaried employees (at least 85 percent for all occupations and as high as 99 percent for service workers and semi-skilled and unskilled workers) is composed of homes and vehicles. In sharp contrast, wealth held by the self-employed is more likely to take the form of investments that yield income and further enhance their existing wealth. Interestingly, although the self-employed do not earn substantially more annual income than salaried workers, they control

FIGURE 3
RATIO OF HOME AND VEHICLE EQUITY TO NW
FOR SALARIED AND SELF-EMPLOYED HH HEADS



SOURCE: 1984 SURVEY OF INCOME AND
PROGRAM PARTICIPATION

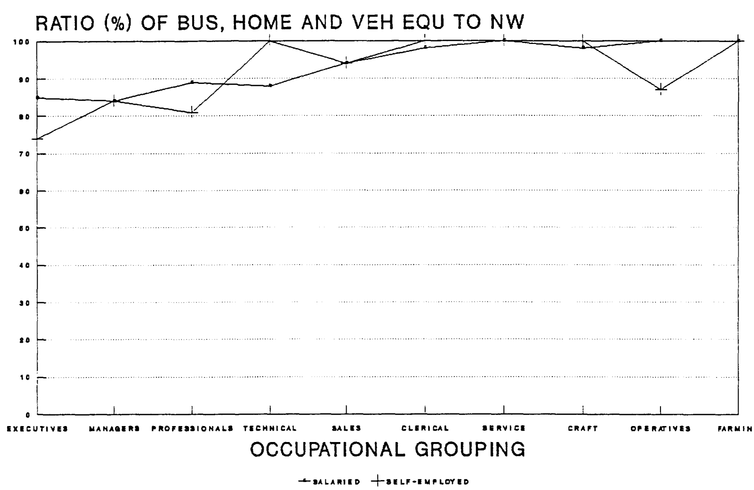
much greater resources and these resources are found in greater proportion in NFA. As a result, self-employed persons are in a better position to use resources to further their own interest.

The data presented in Figure 4 clarifies even further which occupational segments have large amounts of financial assets at their disposal. Self-employed executives, managers, and professionals have large amounts of financial assets and a significant portion of their holdings is liquid—that is, not tied up in homes, vehicles or businesses. Self-employed operatives, curiously, also have an excess amount of liquid assets above and beyond their holdings in business. Yet because their NW is comparatively small to begin with, their balance of liquid assets is still quite small by any measure. Finally, the vast differences in assets between farmers and farm laborers' assets are explained by farmers' equity in land and equipment.

Age Differences in Wealth

Figure 5 illustrates the relationship between income and wealth by age of householder. Income increases with age, peaks for 45–54 year olds, and then starts a swift descent, leaving those 75 and older with slightly more than $10,000 annually. Although this descent is rapid, the elderly fare relatively well: the medians for all age groups are above the poverty line. In regards to wealth

FIGURE 4
RATIO OF BUSINESS, HOME, AND VEH EQUITY
TO NW FOR SALARIED AND SELF-EMPL HEADS



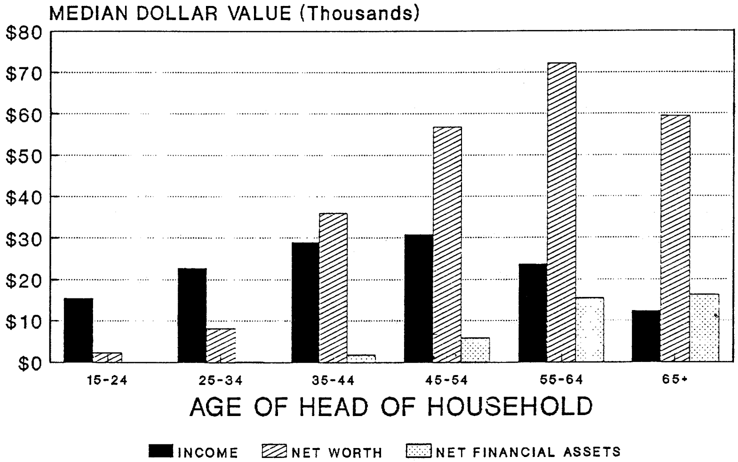
SOURCE: 1984 SURVEY OF INCOME AND
PROGRAM PARTICIPATION

acquisition, age is a significant factor. Years of steady, yearly earning power are required to build up NW and NFA assets. Households headed by young people accumulate wealth at a spectacular pace, from $2,000 for those under 25 to over $8,000 for 25–34 year olds to $56,000 for those aged 45 to 55. In general, wealth rises with age, peaks in the years between 55 and 64—the onset of retirement—and then decumulates slowly in the "golden years." Once acquired, large portions of wealth apparently are protected by various public programs and safety nets.

Access to Wealth

We have already noted that 34 percent of American households (30 percent of white and 67 percent of black households) have zero or negative NFA. Figure 5 displays the percent of households with zero or negative NFA for additional groups. Educational attainment is correlated strongly with holding financial assets: as four of ten (41%) households headed by someone with a high school diploma have no financial assets as compared to only two of ten (22%) households headed by college graduates. Age also is strongly associated with financial assets: 52 percent of households headed by those under 35 are asset-poor in contrast to 17 percent of households headed by those over 65. Finally, over six of ten (68%) single-parent households are absolutely asset-poor, reinforcing

FIGURE 5
MEDIAN INCOME, NW, AND NFA OF
HOUSEHOLD HEAD BY AGE OF HOUSEHOLDER



SOURCE: 1984 SURVEY OF INCOME AND
PROGRAM PARTICIPATION

our earlier finding that single-parent households are in an extremely precarious economic position.

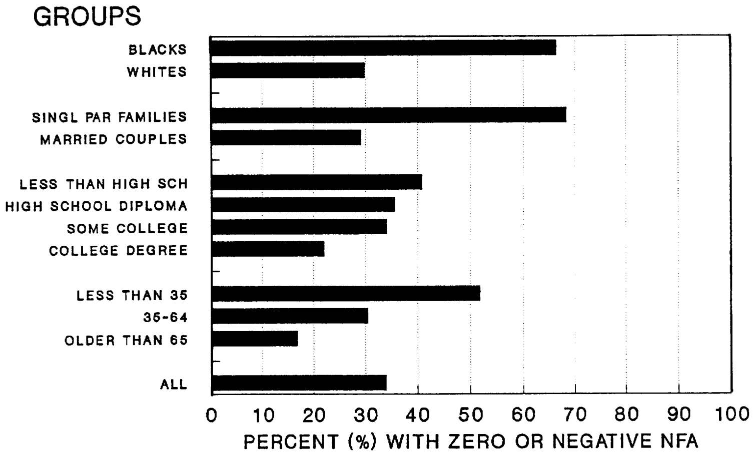
VII

Discussion and Conclusion

BOTH INCOME AND WEALTH are crucial to understanding the economic status of American households. Although descriptions of income inequality in American society abound in the social scientific literature, we suggest that a consideration of wealth in conjunction with income will result in a more accurate empirical portrayal of stratification, provide a better guide for social policy considerations, and enhance greatly our theoretical understanding of the sources and consequences of inequality. Alternative measures of wealth consistently uncover both depths and patterns of inequality that income conceals.

Aggregate shares of wealth held by households are distributed far more unevenly than income shares, with higher concentrations at the upper extremes. At least one-third of American households are wealth-poor; another one-third own very few assets. High incomes produce wealth, and (perhaps even more important for this discussion) the greater the wealth, the greater the income.

FIGURE 6
PERCENT OF VARIOUS GROUPS WITH ZERO OR NEGATIVE NET FINANCIAL ASSETS



SOURCE: 1984 SURVEY OF INCOME AND PROGRAM PARTICIPATION

Overall the ratio of black-white differences in wealth reaches an astoundingly low .117. The pattern of differences in wealth differs significantly from black-white income patterns, most starkly in the resource impoverishment of single black female householders.

The pattern of wealth holding uncovers greater inequality among nonmarried householders than among both married couples and divorced householders. Income data suggest that raising a family has no detrimental impact upon material well-being. Families and individuals raising children, however, appear to undergo a decumulation of financial wealth (which may be because they invest in the human capital of their children) regardless of marital status. Wealth data also reveal the depth and pattern of differences in economic resources available to self-employed householders as opposed to wage earners. Finally, the pattern of wealth holding by the elderly is virtually a mirror opposite of their income pattern.

These findings have significant and far-reaching policy implications. Redistributive and social welfare policies based on income analyses and levels seriously underestimate the severity of the problems they are meant to address. Indications are that income tends to obscure the sources of the problems, whereas including wealth could provide a clearer perspective and fresh start for social policy. A few examples should illustrate this fundamental point. Means-tested policies directed toward improving material life chances and opportunities for children vastly misjudge the relationship between children and household resources and fail to appreciate the overall precarious resource position of most families raising children. Knowledge regarding children and wealth decumulation points to more extensive coverage and more broadly based policies to enhance the life chances of American children. If policies aimed at reducing poverty included construction of a wealth-based poverty line in addition to a poverty line based on income, social policy would be generally more inclusive and specifically would target more blacks, women, and families of all kinds with children.

In addition, although home ownership is the major source of wealth for most Americans, it is becoming increasingly less available to more and more Americans. With the rise in housing prices due to inflation in the mid and late 70's, the rate of home ownership has declined from 65 percent in 1977 to only 60 percent today (Avery *et al.,* 1984a: 682). A truly redistributive policy would highlight federal assistance and programs to broaden home ownership at the lowest price feasible. More important, such a policy would target resource-poor families.

Another of our concerns has been to assess the degree of inequality and stratification in an advanced industrial society. SIPP data report heavy concentrations of wealth at the upper extremes, a finding which is neither new nor unexpected. This finding is similar to those from the Federal Reserve Board's specialized surveys and to estimates that rely on the estate-multiplier method. SIPP brings to our attention a new and important set of findings that demonstrate the extent and persistence of inequality among social groups based on race, gender, age, occupation, and education. This presentation does not pretend to be a detailed and complex analysis of this phenomenon, but it does demonstrate the need for greater attention to enhanced theoretical work and empirical specification in this area, a focus of our ongoing research.

Finally, wealth has been a weak link in our sociological understanding of the economic basis of stratification and inequality. Income is an aspect in the web of economic resources that promotes a particular configuration of life chances; wealth corresponds more closely to our sociological and theoretical conceptualization of life chances and class. According to Weber and Marx, a shared commonality of economic circumstances and interests is central to notions of class. Income may tap these commonalities for very short time periods. We are convinced, however, that wealth adds new dimensions to what is meant by "economic resources"; it shows clusters of material life chances based on the possession of wealth and the differential opportunities that these provide. Reworking ideas about class by including wealth as well as income would have many radical implications. We would have to reconsider the notion that social class mobility depends only on a large pay raise or a better paying job. More radical still is the implication for the assessment of America as a middle-class society. It is enough to say that the inclusion of wealth as a basic indicator sheds new light on our empirical description of inequality and material well-being and sharpens our theoretical understanding of class.

American capitalism has not distributed the ownership of financial wealth very broadly. If income reflects life style and if wealth indicates one's ability to shape life chances, the American social system has delivered access to life style far more democratically than it has distributed life chances. The question of who owns financial wealth—and who does not—is the buried fault line of the American social system.

Notes

1. For an attempt to remedy this problem see Avery *et al.* (1986). For a very critical assessment of these efforts see Ericksen (1988).

2. This analysis uses medians rather than means as the major descriptive measure of wealth. Means are more likely than medians to be affected by extreme values and therefore show larger values. Because the distribution of wealth is heavily skewed toward the low end, using the median provides a more accurate picture of the total distribution. All the data reported in the proceeding tables and figures are derived directly from SIPP. Also, the analysis presents data

from SIPP using the weights provided by the U.S. Census which approximates the U.S. population. Parallel analyses conducted on the weighted and unweighted samples showed similar results.

3. For a detailed analysis of black-white differences in wealth see Oliver and Shapiro (1989).

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The Deficit and Social Security

HENRY J. AARON of the Brookings Institution and the University of Maryland has edited a slim (151 page) book (*Social Security and the Budget,* Lanham, MD: University Press of America, 1990, $12.50 paper, $24.75 library binding) which is rocking budget making in Washington. It contains the proceedings of the First Conference of the National Academy of Social Insurance which was held in Washington, D. C. in December of 1989.

The book was cited by Senator Daniel Patrick Moynihan as the basis for his proposal that Congress should cut the Social Security tax. He pointed out that under recent changes in tax laws most American now pay more in social security taxes than they do in income taxes.

While it is generally assumed the call for this tax cut is a ploy to stall the tax cut on capital gains which is sought by the present Administration, there may be more to it than that. One thing has been clear to the Senator for quite some time, as evidenced in his statements in his broadly distributed newsletter. It is that the Old Age, Survivors, and Disability Insurance trust funds inflows, meant to finance the payments to beneficiaries, were excessive. Not only have the contributions from incomes of covered workers risen faster than the projections called for when the rates were last set, but interest inflows from the Treasury have exceeded expectations as well.

The welcome recognition of the hard work of that kindly mentor of graduate students at the University of Wisconsin, Edwin E. Witte, a key member of the group that wrote and secured passage of the original act brings to mind an episode related to this fact. As a brash Canadian-bred student at Wisconsin, I once said to Professor Witte, "I do not know why you set up the law as an