

# Social Class II

# Lisa Keister and Stephanie Moller, Wealth Inequality in the United States

- Genre of the article: review of existing research
  - Wealth vs. income
- Key questions:
  - 1. How big is wealth inequality in the U.S.?
  - 2. How can we measure wealth?
  - 3. What are the trends in wealth inequality?
  - 4. What explains wealth inequality?
  - 5. How is wealth passed on from one person to another?

# 1. How big is wealth inequality in the U.S.?

- Key sentence:

- “The top 1% of wealth owners owned nearly 40% of the net worth and 50% of financial assets in the late 1980s and 1990s.” (p.63)

- Big compared to what?

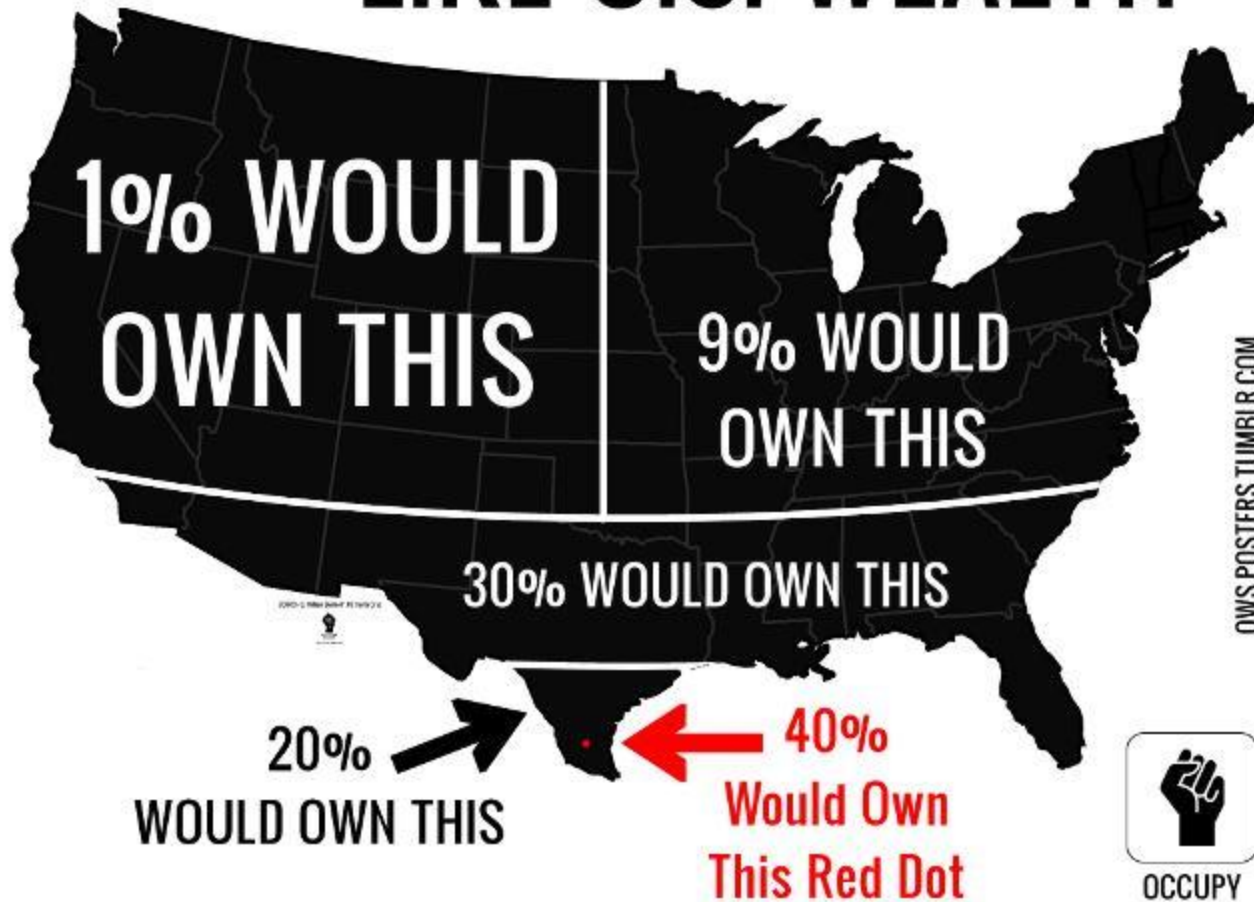
- Compared to earlier times (historical comparison)

- “During this same period (late 1980s and 1990s), the top 1% enjoyed two thirds of all increases in household financial wealth, and movement into the top segments of the distribution was nearly nonexistent.” (p.63)

- Compared to other countries (international comparison)

- “Moreover, while inequalities of wealth were consistently more extreme throughout Europe for many decades, by the early 1990s, the United States had surpassed all industrial societies in the extent of inequality of family wealth.” (p.63)

# IF U.S. LAND WERE DIVIDED LIKE U.S. WEALTH



## 2. How can we measure wealth?

- Measuring wealth is hard especially if we are interested in those who have the most of it. Why?
  - There are very few of them and surveys cannot capture them
  - They are reluctant to disclose information
  - They often do not know how much they have

### 3. What are the trends in wealth inequality?

**TABLE 2** Percent of total net worth held by position in the wealth distribution, 1962–1995

	<b>Gini coefficient</b>	<b>Top 1%</b>	<b>Top 20%</b>	<b>2<sup>nd</sup> 20%</b>	<b>3<sup>rd</sup> 20%</b>	<b>Bottom 40%</b>
1962	0.80	33.5	81.2	13.5	5.0	0.3
1983	0.80	33.8	81.3	12.6	5.2	0.9
1989	0.85	37.4	83.6	12.3	4.8	-0.7
1992	0.85	37.2	83.9	11.4	4.5	0.2
1995	0.87	38.5	83.9	11.4	4.5	0.2

Data are from the Survey of the Financial Characteristics of Consumers for 1962 and the Survey of Consumer Finances for other years.

**Table 2. Share of Total Net Worth by Percentile of Wealth Owners, 1989-2010**

Percentile of Net Worth Distribution	Year							
	1989	1992	1995	1998	2001	2004	2007	2010
0% -50%	3.0%	3.3%	3.6%	3.0%	2.8%	2.5%	2.5%	1.1
50%-90%	29.9	29.6	28.6	28.4	27.4	27.9	26.0	24.3
90%-99%	37.1	36.9	33.2	34.7	37.1	36.1	37.7	40.0
99% to 100%	30.1	30.2	34.6	33.9	32.7	33.4	33.8	34.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Source:** Arthur B. Kennickell, Ponds and Streams: Wealth and Income in the U.S., 1989 to 2007, FEDS Working Paper 2009-13, Federal Reserve Board, Washington, DC, January 2009; and unpublished 2010 SCF data.

## 4. What explains wealth inequality?

- **Macro approaches (what markets do):**
  - The value of an asset depends on movements of the market (most wealth is in real estate, but also in business assets and stocks & bonds)
- **Micro approaches (what individuals and families do):**
  - Income
  - Age (life cycle)
  - Race (education, culture, red-lining)
  - Family structure (marriage, widowhood: up, more kids, divorce: down)

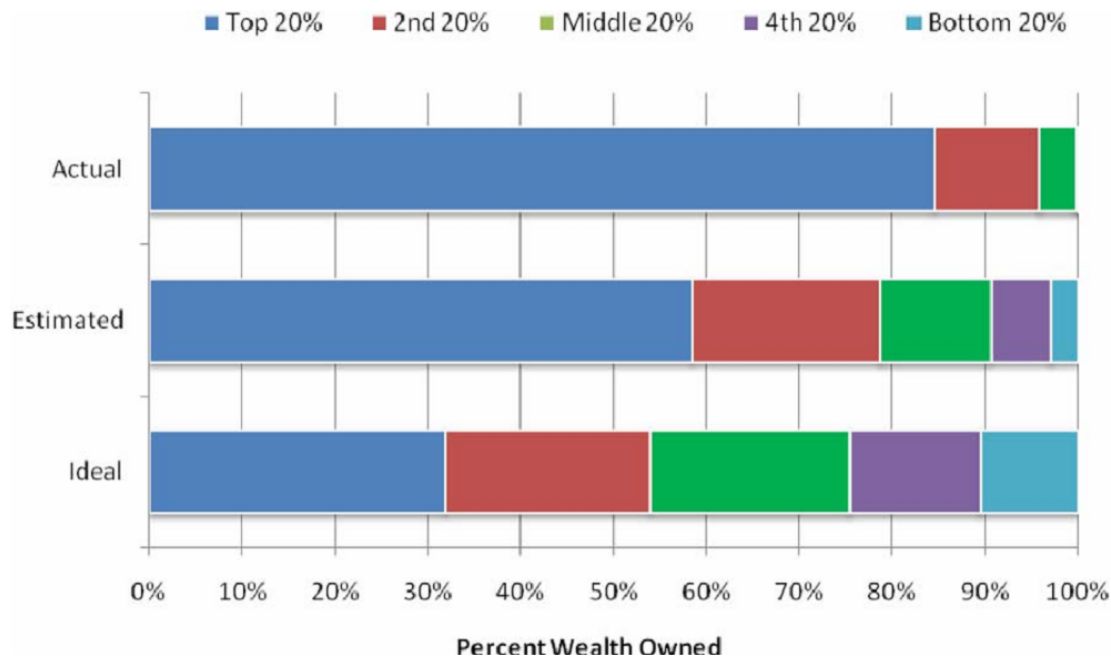


## 5. How is wealth passed on from one person to another?

- Three ways to inherit:
  - Bequest (at the death of the parent/benefactor)
  - Inter-vivos transfers (90% of intergenerational wealth transfer)
  - Transfers of cultural and social capital

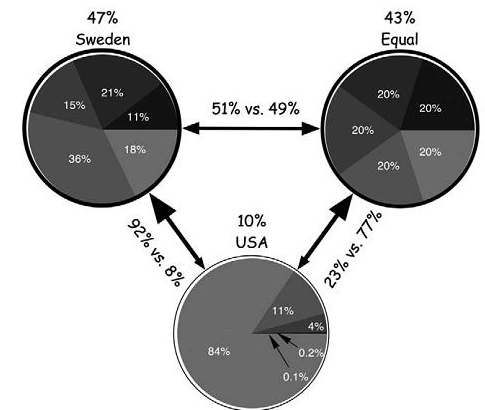
# Wealth in the US

- 1. We vastly underestimate inequalities in our country
- 2. Even that we think is too much.
- 3. Given the Rawlsian choice, people in the US prefer Sweden



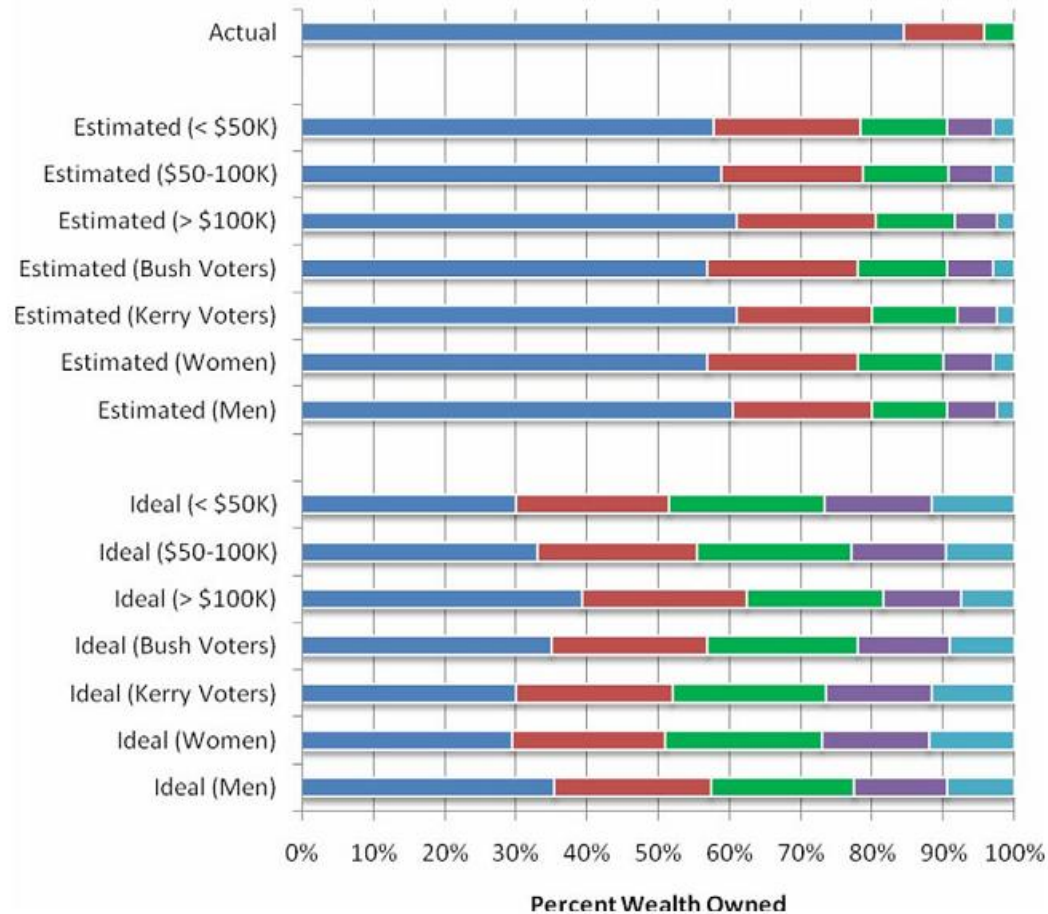
**Fig. 2.** The actual United States wealth distribution plotted against the estimated and ideal distributions across all respondents. Because of their small percentage share of total wealth, both the “4th 20%” value (0.2%) and the “Bottom 20%” value (0.1%) are not visible in the “Actual” distribution.

■ Top 20% ■ 2nd 20% ■ Middle 20% ■ 4th 20% ■ Bottom 20%



**Fig. 1.** Relative preference among all respondents for three distributions: Sweden (upper left), an equal distribution (upper right), and the United States (bottom). Pie charts depict the percentage of wealth possessed by each quintile; for instance, in the United States, the top wealth quintile owns 84% of the total wealth, the second highest 11%, and so on.

# There is not much difference by income, political views or gender

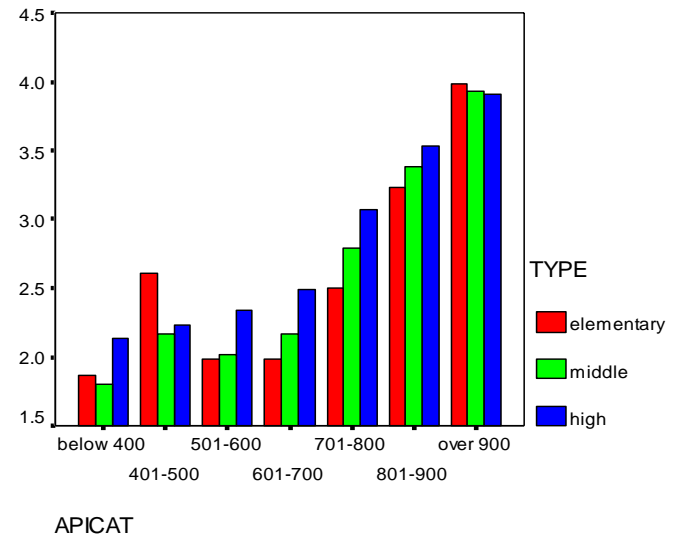
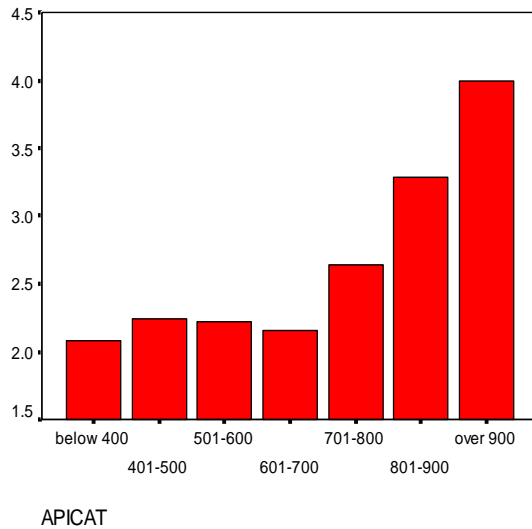


**Fig. 3.** The actual United States wealth distribution plotted against the estimated and ideal distributions of respondents of different income levels, political affiliations, and genders. Because of their small percentage share of total wealth, both the “4th 20%” value (0.2%) and the “Bottom 20%” value (0.1%) are not visible in the “Actual” distribution.

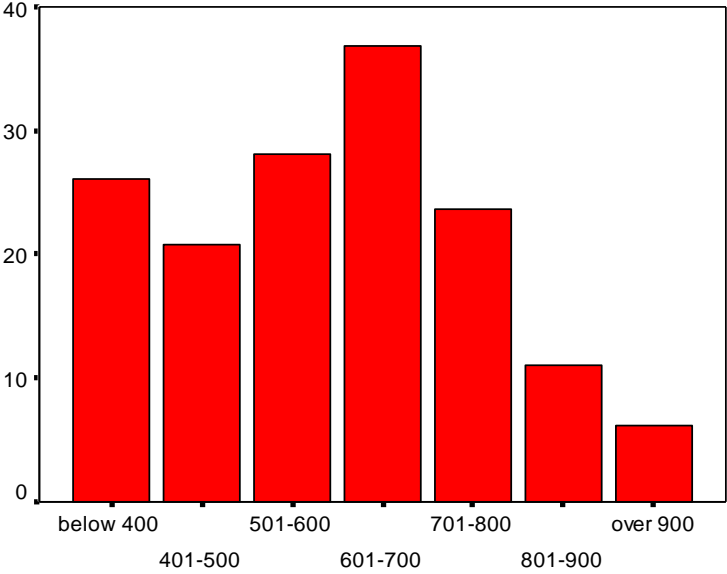
# Transfer of cultural capital

## Data from California public schools

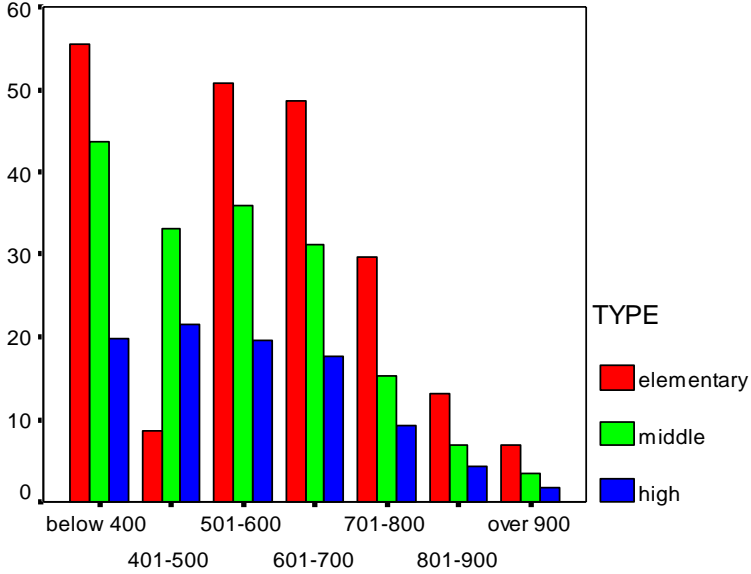
### Parents' education and school quality (2006)



# Percent English language learners in California public schools and school quality

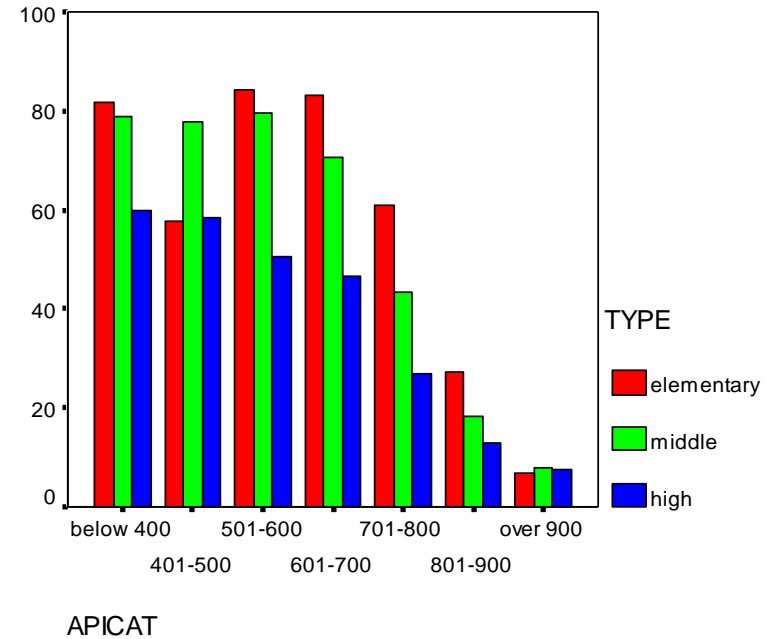
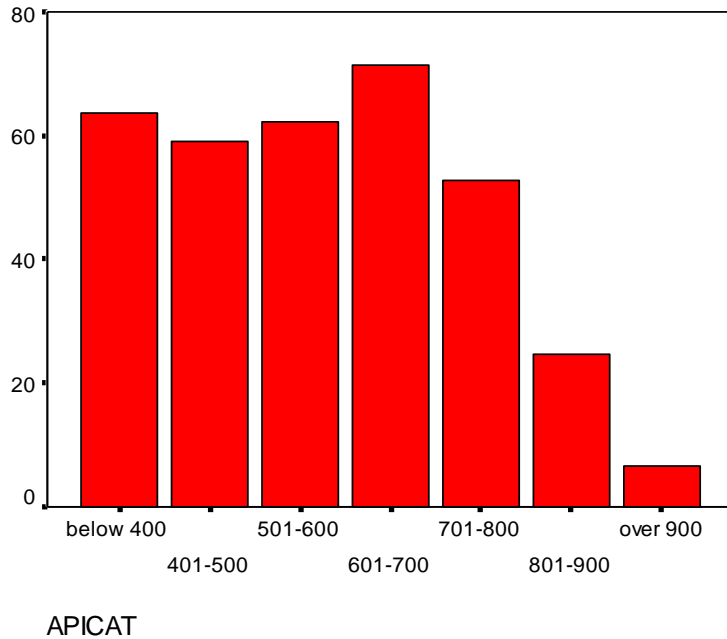


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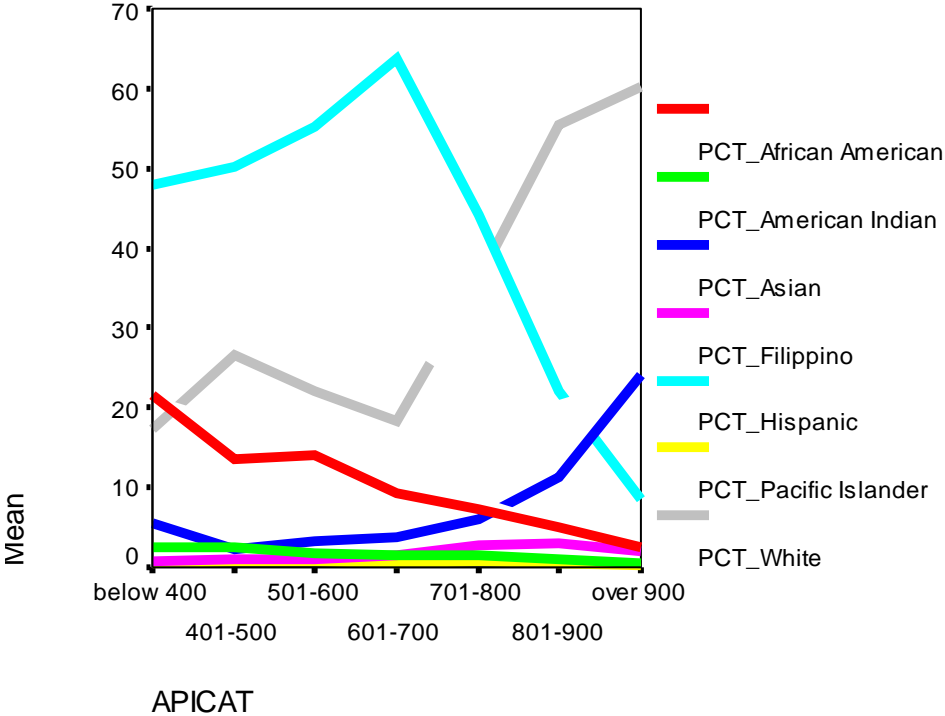


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# Percent poor in California public schools by school quality



# Racial composition of California public schools by school quality



# Happiness and Class

## GENERAL HAPPINESS \* SUBJECTIVE CLASS IDENTIFICATION Crosstabulation

% within SUBJECTIVE CLASS IDENTIFICATION

		SUBJECTIVE CLASS IDENTIFICATION				Total
		LOWER CLASS	WORKING CLASS	MIDDLE CLASS	UPPER CLASS	
GENERAL HAPPINESS	VERY HAPPY	18.8%	27.3%	36.7%	41.5%	31.7%
	PRETTYHAPPY	46.4%	61.8%	55.5%	50.9%	57.8%
	NOT TOO HAPPY	34.8%	10.9%	7.8%	7.5%	10.5%
Total		100.0%	100.0%	100.0%	100.0%	100.0%



# Happiness over time

- Income and Happiness in the US from 1945-2000 (Layard 2005).

