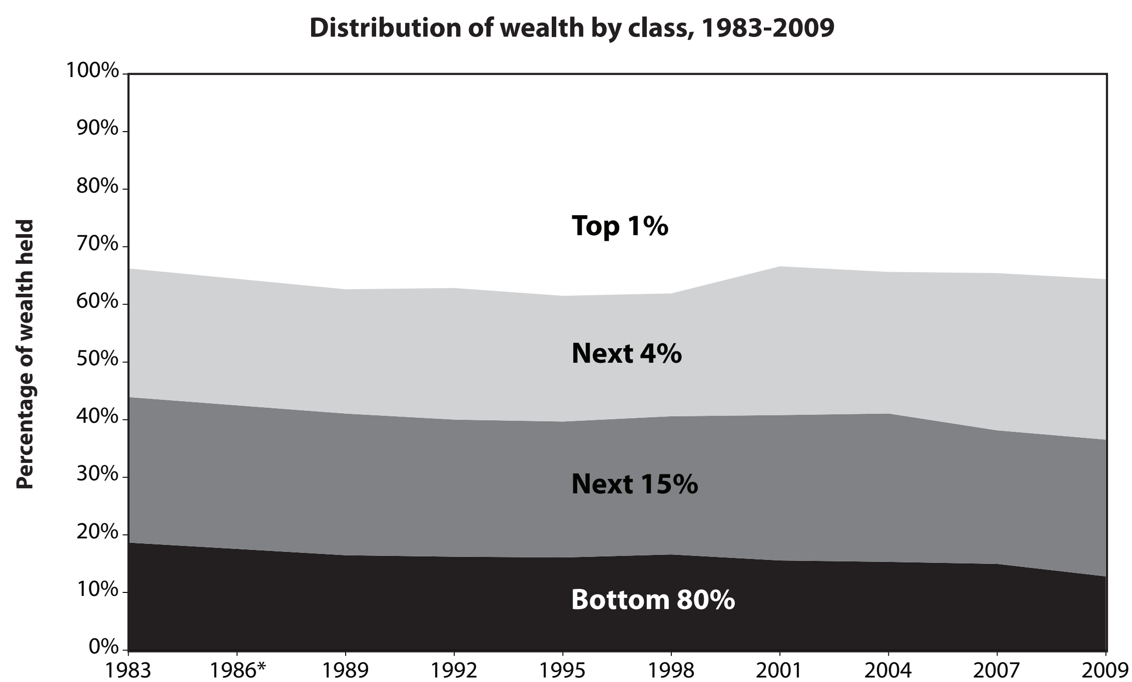
Income and Asset Disparity in America Today: A Summary by the Chalmers Center for Economic Development

Derived from the Economic Policy Institute's *The State of Working America's Wealth, 2011.*

Income Disparity in the Land of Plenty

What is the largest economic justice issue facing America today? One possibility is the growing income disparity we have experienced in recent years. Recovery from the recent economic recession (2007-2009) has proceeded on two tracks: one for typical families and workers, who continue to struggle against high rates of unemployment and 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 Economic Policy Institute's recent study (2009) entitled *The State of Working America's Wealth* reveals startling findings on asset allocation in the US: In 2009, the wealthiest 1% of U.S. households had net worth that was 225 times greater than the median or typical household's net worth. This is the highest ratio on record.



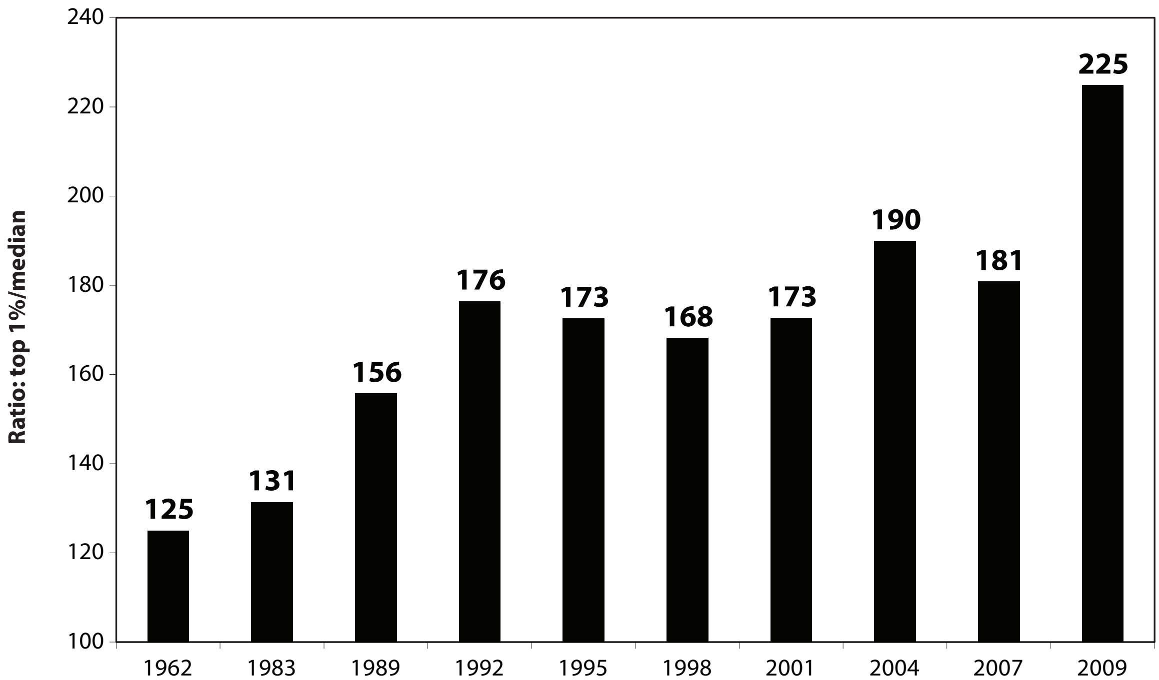
* Data for 1986 calculated by linear approximation.

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

The distribution of wealth in the US, as with historical changes in the distributions of income and wages, has become more unequal over time. **Figure A** above illustrates the share of all wealth held by households in various portions of the wealth distribution. Since 1983, the top 5% of wealth holders consistently held more than 50% of our nation's wealth, but the share increased from 56.1% in 1983 to 63.5% in 2009. In contrast, the bottom 80% of wealth holders consistently held less than 20% of all wealth. As one can see from the figure, this share of wealth declined from 18.7% in 1983 to only 12.8% in 2009 among the nation's poorest.

Unequal asset allocation in America is growing rapidly, and the middle and low-income classes have born the brunt of America's recent economic struggle. **Figure B** below 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.

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



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

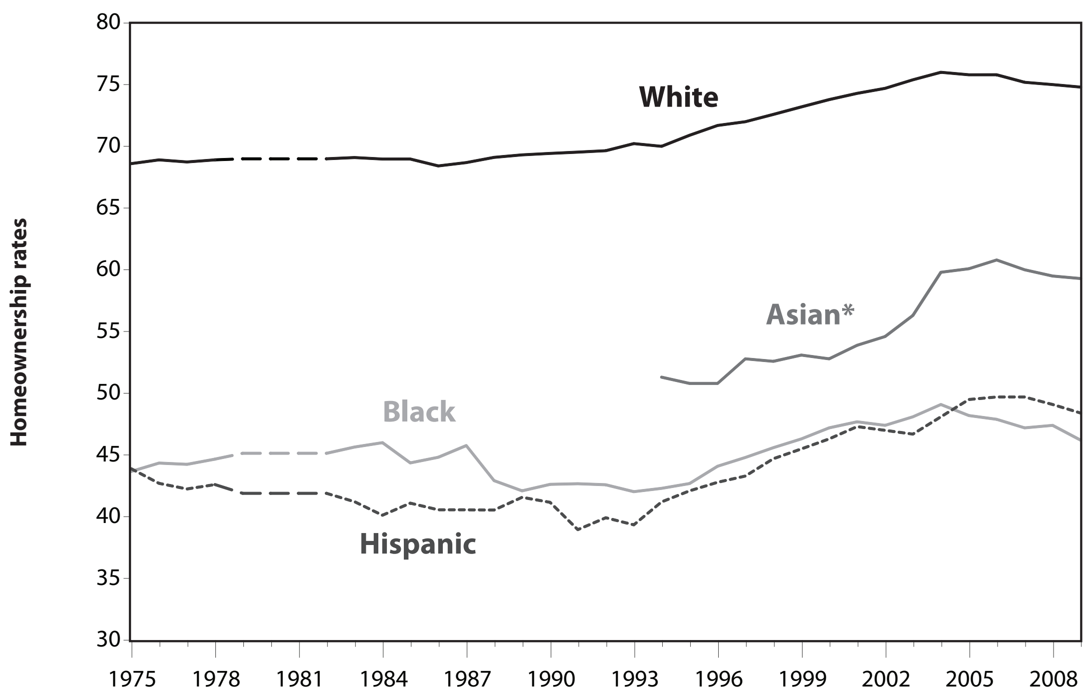
Economic and Racial Inequality in the Land of the Free

Net worth or wealth is determined by two components—assets and liabilities (what you own – what you owe = net worth). Assets have positive worth and may be in the form of property, personal belongings, or financial holdings. There are a myriad of assets that households may possess, such as houses, stocks, and bonds.

The historical legacy of the black economic experience shows up in profound racial disparities in wealth in our nation—disparities that are far larger than those in wages or incomes. In 2009, the median net worth of black households was only $2,200—the lowest ever recorded. The median net worth among white households was $97,900. When considering low net worth, the experience of black households again differs significantly from that of white households. However, this measure 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. By 2009, black households were nearly twice as likely to have zero or negative net worth as white households (39.9% vs. 20.3%)

Let's examine homeownership as an example of asset disparity by race. As with other measures of wealth, homeownership rates vary dramatically by income and demographics. **Figure C** below reveals a historical 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.

Homeownership rates by race, 1975-2009



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

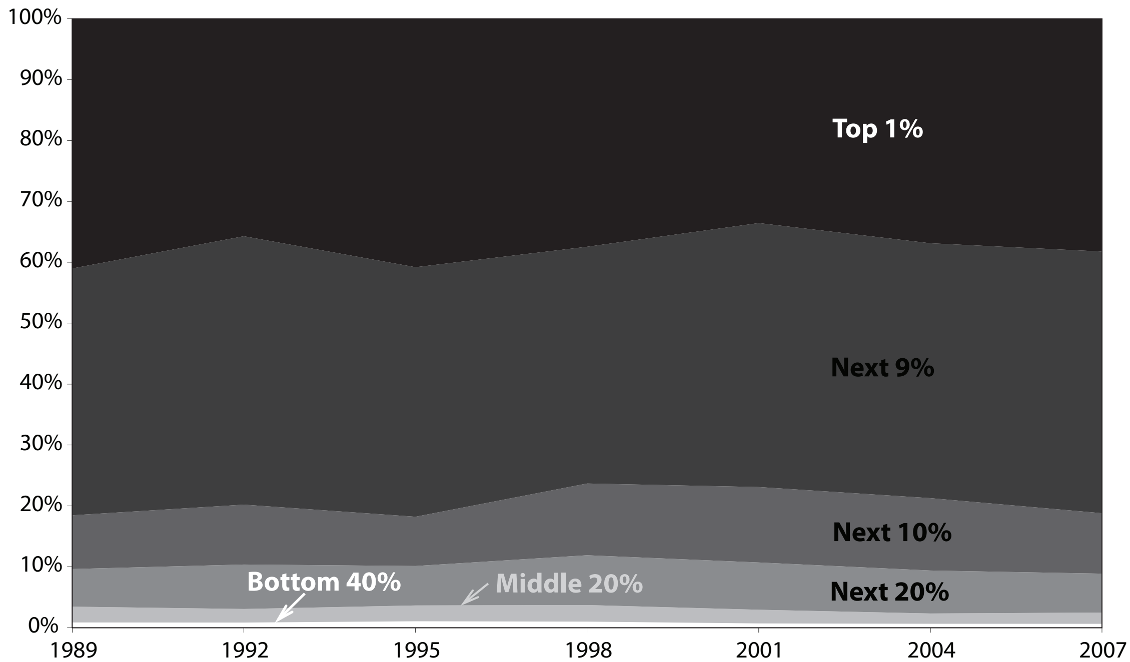
NOTE: Where data are unavailable from 1979 to 1982, the 1978/1983 average is substituted.

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

Perhaps even more striking than home ownership is the stratification in stock market assets by wealth class. In 2007, the wealthiest 1% of households owned an average of $4.2 million in stocks. 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 in the US.

The imbalanced distribution of stock assets has persisted over time. As **Figure D** below reveals**,** 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.

Distribution of stock market wealth by wealth class, 1989-2007



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

How Should God's People Respond?

Upon initial review, this data on asset and income disparity can feel overwhelming and even disheartening. How can the church respond to this growing inequality in our nation and our cities with biblical justice and hope? As we read in *Why Do IDAs Make Sense for God's People?,* matched savings for low-income people is a strategy that mirrors the Lord's heart for equity and economic sufficiency for all people. Along with training in financial literacy and mentoring, matched savings provides a context in which God's people can build relationships and provide hope for those who struggle financially, socially, emotionally, and spiritually.

Start the process of addressing income and asset disparity with small action steps. With your task force, discuss the following questions.

- How have you used assets to become and remain financially stable?
- Think about your city or community. Discuss how asset disparity manifests itself locally.
- How might matched savings through IDAs be a part of a bigger strategy to address this issue?

References

American Bankruptcy Institute (ABI). 2010. “Annual U.S. Filings.” Alexandria, Va.: ABI.
<http://www.abiworld.org/Content/Navi-
gationMenu/NewsRoom/BankruptcyStatistics/Bankruptcy_Filings_1.htm>

Broom, Leonard, and William Shay. 2000. “Discontinuities in the Distribution of Great Wealth: Sectoral Forces Old and New.” Working Paper No. 308, prepared for the Conference on Saving, Intergenerational Transfers, and the Distribution of Wealth, Jerome Levy Economics Institute, Bard College, June.

Bucks, Brian K., Arthur B. Kennickell, and Kevin B. Moore. 2009. “Changes in U.S. Family Finances From 2004 to 2007: Evidence From the Survey of Consumer Finances.” Federal Reserve Bulletin, February.
<http://www.federalreserve.gov/pubs/bulletin/2009/ pdf/scf09.pdf>

CoreLogic. 2010. “Negative Equity Report Q3.” Press Release. Santa Ana, Calif.: CoreLogic, December 13.
<http://www.corelogic.
com/uploadedFiles/Pages/About_Us/ResearchTrends/Q3_2010_Negative_Equity_FINAL.pdf>

Economic Report of the President. 2011. Washington, D.C.: U.S. Government Printing Office. Tables B-95 and B-96.

Federal Reserve Bank of New York. 2010. “Quarterly Report on Household Debt and Credit.” Research and Statistics Division, Microeconomic and Regional Studies, November.
<http://www.ny.frb.org/newsevents/news/regional_outreach/2010/DistrictReport_ Q32010.pdf>

Federal Reserve Board. 2010a. “Flow of Funds Accounts of the United States: Annual Flows and Outstandings (Z.1).” Washington, D.C.: Board of Governors of the Federal Reserve System. Table B.100 and L.218.
<http://www.federalreserve.gov/datadownload/ Choose.aspx?rel=Z.1>

Federal Reserve Board. 2010b. “Household Debt Service and Financial Obligations Ratios.” Washington, D.C.: Board of Governors of the Federal Reserve System. <http://www.federalreserve.gov/releases/housedebt/default.htm>
Forbes. 2010. “The Forbes 400: The Richest People in America.” <http://www.forbes.com/wealth/forbes-400>

Freddie Mac (Federal Home Loan Mortgage Corporation). 2010. “Monthly Volume Summary.” Table 6, Total Single-Family Delinquency Rate. McLean, Va.: Freddie Mac. <http://www.freddiemac.com/investors/volsum/>

Shiller, Robert. 2010. “Real Home Price Index.” Updated data sets relating to Irrational Exuberance, Second Edition. Princeton, N.J.: Princeton University Press. <http://www.irrationalexuberance.com/index.htm>

U.S. Census Bureau, Department of Commerce. 2009. “American Housing Survey.” Tables 3-12 and 4-12. Washington, D.C.: Census Bureau. <http://www.census.gov/hhes/www/housing/ahs/ahs09/ahs09.html>

U.S. Census Bureau, Department of Commerce. 2010a. “Families and Living Arrangements From the Current Population
Survey,” Historical Time Series: Table HH-1. Washington, D.C.: Census Bureau.
<http://www.census.gov/population/socdemo/hh-fam/ hh1.xls>

U.S. Census Bureau, Department of Commerce. 2010b. “Housing Vacancy Survey.” Annual Statistics, Table 22. Washington, D.C.: Census Bureau. <http://www.census.gov/hhes/www/housing/hvs/annual09/ann09ind.html>

U.S. Census Bureau, Department of Commerce. 2010c. “Housing Vacancy Survey.” Historical Tables, Tables 7, 8, and 14. Washington, D.C.: Census Bureau. <http://www.census.gov/hhes/www/housing/hvs/historic/index.html>

Wolff, Edward. 2010. Unpublished analysis of the U.S. Federal Reserve Board, Survey of Consumer Finances and Federal Reserve Flow of Funds, prepared for the Economic Policy Institute.