Income, Wealth, and Debt and the Great Recession

October 2012

The Russell Sage Foundation and **The Stanford Center on Poverty and Inequality**

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KEY FINDINGS

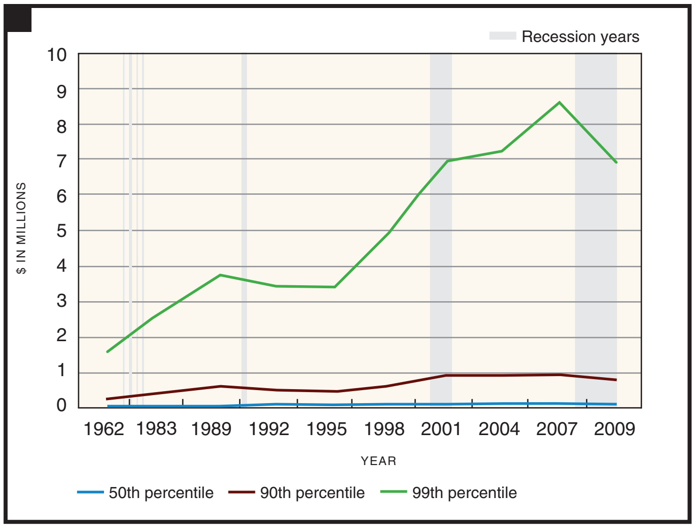
- During the Great Recession, the wealthiest Americans lost the most wealth in absolute terms, whereas the middle classes lost the most in proportional terms. This pattern arises mainly because middle class losses in the housing market have been substantial.
- Whereas the Great Depression ultimately brought about substantial declines in income inequality, the Great Recession has not yet had a similarly compressive effect. The recently released Survey of Consumer Finances shows, for example, that the middle classes suffered steeper income losses than the top of the distribution.
- Median household income has declined from the beginning of the Great Recession through to 2011.

The Great Depression is often cast as the beginning of the end for the late Gilded Age. Because it brought on the institutional reforms of the New Deal, it led to dramatic reductions in income inequality and set the stage for a long period of comparatively low inequality. The purpose of this recession brief is to ask whether the Great Recession, like the Great Depression, is likewise shaping up as a compressive event that will reverse some of the run-up in inequality of the so-called New Gilded Age. This question can be taken on by examining recent and long-term trends in wealth inequality, income inequality, median incomes, and debt.

The evidence presented below will suggest that the Great Recession has not typically worked to reduce inequality. The labor market has been slow to recover, with job losses concentrated among young and minority men with less than a high school degree, which means that the bottom of the income distribution has not fared all that well. Wealth inequality has also increased. The wealthy did suffer large losses in wealth early on in the recession, as the financial crisis unraveled the stock market, but since then they have recovered. Meanwhile, middle class home owners lost much wealth with the housing crisis, especially the emerging Black and Latino middle class who bought first homes in the mid-2000s.

We review these and other effects of the recession in four sections covering wealth inequality, income inequality, median incomes, and debt. The theme throughout: The Great Recession has been a "business as usual" recession in which those at the bottom have fared especially poorly while those at the top have, after heavy initial wealth losses, recovered rather quickly.

FIGURE 1. Changes in Wealth (in 2009 Dollars) at Various Percentiles of the Wealth Distribution, 1962–2009



Source: Kennickel, Arthur B. (2011).

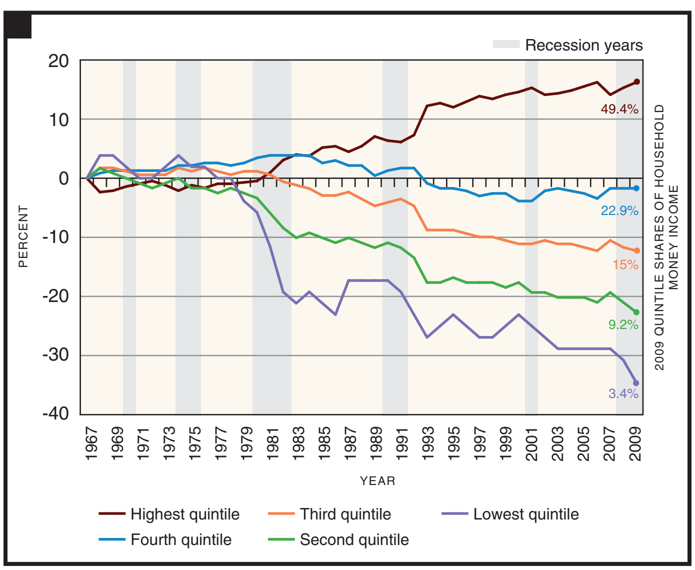
Wealth Inequality

It is useful to begin by considering changes in the distribution of wealth (where wealth is understood as the value of all assets less the value of all outstanding debt). Figure 1 shows average wealth at the 50th, 90th, and 99th percentiles of the wealth distribution between 1962 and 2009. From 1962 to 2007, wealth in the middle of the distribution grew by 171% (from $46,000 to $125,000). But this growth was dwarfed by accumulation at the top. Wealth at the 90th percentile grew by 242% (from $276,000 to $945,000), while wealth at the 99th percentile grew by a staggering 452% (from $1,634,000 to $9,016,000).

What has happened since the recession? From 2007 to 2009, the wealthiest Americans have lost the most in absolute terms (approximately $1.74 million at the 99th percentile), whereas the middle class has lost the most in proportional terms. Those at the 50th percentile lost 23% of their wealth, as opposed to 13% and 20% at the 90th and 99th percentiles, respectively. The most recent release of the Survey of Consumer Finances (which brings in 2010 data) bears out this general pattern: It shows that middle-class families lost the most wealth in proportional terms while those at the top have, by 2010, recovered their wealth lost in the recession. This pattern arises because middle class losses in the housing market have been substantial and persisting. Indeed, home values for the middle class (their biggest asset) dropped 30% nationwide from their 2006 peak, with little sign of recovery.

What about the very bottom of the distribution? The latest Survey of Consumer Finances shows that low-income families, which tend to have very few assets, have also lost some of their wealth, albeit not as much in proportional terms as middle-class families. The latter result is the only compressive one to be had.

FIGURE 2. Percent Change in Shares of Adjusted Household Income by Quintile (Share of Income of Each Quintile Relative to Share in 1967)



Source:DeNavas-Walt, Proctor, and Smith (2010), Table A-2, pages 40–43.

Income Inequality

Is there any evidence of compression in the income distribution? Figure 2 shows income shares of various quintiles in the U.S. from 1967 to 2009 using household-size adjusted data from the Census Bureau. It's anchored at 100 percent in 1967 to highlight changes in income shares over time.

We find that the bottom quintile's share of income was 5.2 percent in 1967, but it fell to 3.6 percent by 2008 and then to an all-time low of 3.4 percent in 2009 (a drop from start to finish of about 45 percent). The second quintile also lost share, falling 20 percent from 11.9 to 9.2 percent of total income in 2009, again an all-time low. Even the middle quintile experienced a 10 percent drop in share over this recession, while the fourth quintile showed little change, ranging between 22 and 24 percent of total income. In contrast, the top quintile share rose from 42.5 to 49.4 percent of total income in 2009, an all-time high (similar to that reached in 2006, before the recession). Hence the top income share has risen through the recession, while the bottom has dropped precipitously, mainly due to job losses. In the two post-recession years (not shown in Figure 2), this general pattern of rising inequality continues apace, with the lowest-quintile share falling to 3.2 in 2011 and the highest-quintile share increasing to 51.1 in 2011 (see DeNavas-Walt, Proctor, and Smith, 2012, Table A-2).

Other measures of income tend to tell a similar story. The same trends emerge, for example, with data from the Congressional Budget Office, which include all types of cash and noncash income, employee benefits, realized capital gains, and the burden of all taxes, including tax rebates. The recently released Survey of Consumer Finances (SCF), which can be used to compare trends from 2007 to 2010, again shows that the middle classes suffered steeper losses than the top of the distribution, although the income going to the top decile in the SCF did also decline. The main surprise from the SCF is that there are modest income gains between 2007 and 2010 at the very bottom of the distribution, largely due to the expansion in enrollment and benefits of the food stamp (SNAP) program.

The foregoing data do not include various forms of capital income that are not realized in a given year. An even more thorough account of income from wealth—whether realized or not—is useful for understanding the full distribution of economic resources, especially as far as the very top of the income distribution is concerned. To address this issue, Jeff Thompson and I recently developed a measure of "More Complete Income" (MCI) using the Survey of Consumer Finances (SCF) from 1988-89 to 2006-7 and also using simulations to adjust for property and employment income losses in 2008 and property income recovery in 2009. We first subtracted reported property income from the SCF, then systematically added back the returns on financial wealth, retirement assets, housing, other investments (including real estate), and business income for owners and proprietors. Figure 3 shows the trend in the Gini index of income inequality using the MCI measure, alongside a more traditional measure of income also derived from the SCF. The figure suggests increasing inequality in both measures, with inequality highest in 2006-07, but with 2008-09 higher than 2003-04 using either income measure. Standard after-tax SCF income inequality peaked in 2000-01, rose in 2006-07, but has now receded to 2000-01 levels. Inequality using MCI declined in the recessions of the early 1990s and in 2008, but rose faster between 1992 and 2007 than it did using SCF income. Thus, even in the aftermath of the current recession, income and wealth inequality do not seem to be reversing course to any significant degree. Note that these patterns closely mirror the ones for wealth alone in figure 1.

The simple conclusion is that, by virtually all measures, this recession has not been a compressive event. Income inequality based on MCI reached an all-time-high in 2007, but fell slightly by 2009. Still, inequality in 2009 remains above the 2004 level, and the general trend toward greater inequality is clear.

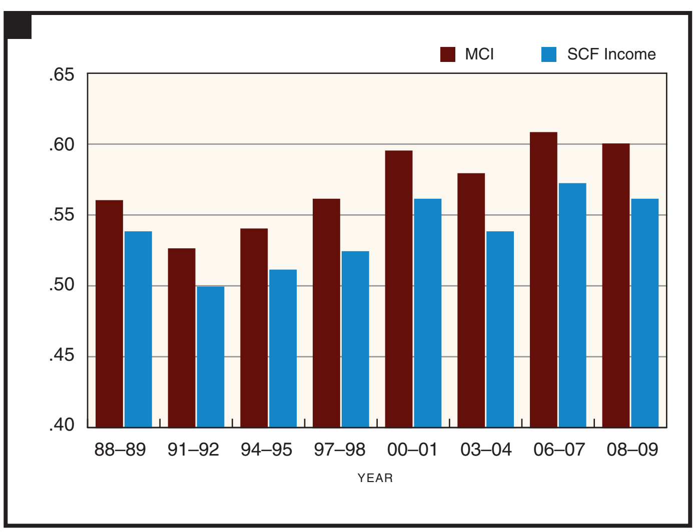
Median Incomes

The foregoing results speak to trends in the extent to which income and wealth are unequally distributed. It's equally important, however, to consider how the typical family has fared in absolute terms. Although it's well known that much of the income gains of recent decades have gone to the very top, we also want to know whether the middle classes have experienced at least some income gains during this period. We turn to this question next.

Figure 4 shows median family income from 1953 to 2009. Family income rose strongly and consistently up until about 1973. It then stayed fairly flat until the mid-1980s, when it began increasing again until the recession of the early 1990s. Sustained increases returned in 1993 throughout the Clinton years until 2001, when median family income began falling for the next four years. A slight uptick ensued in 2006 and 2007, but this has since reversed with the beginning of the Great Recession. Moreover, when one examines monthly CPS data on total household incomes over the past year, the evidence suggests that median household income continues to fall through the first half of 2011 (see figure 5). The same conclusions come out of the 2012 report *Income, Poverty, and Health Insurance Coverage in the United States*, and the recently released Survey of Consumer Finances.

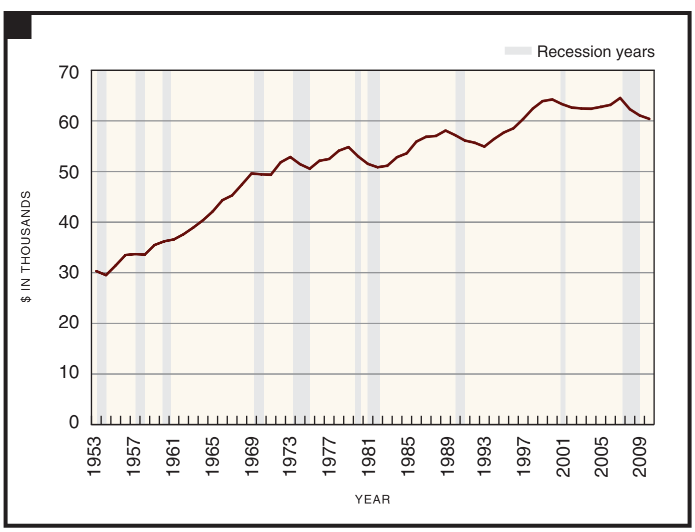
Does this general trend hold across all demographic groups? Figure 6 shows the trends for three racial and ethnic groups: Whites, Blacks, and Hispanics of any race (as good long-term data are not available for Asian Americans). Since the 1950s, gaps between Whites and both Blacks and Hispanics have not been shrinking and, if anything, have been widening. This pattern arises because gains for Whites have outpaced those of minority groups (excluding Asians). With the recession, this general pattern shifted, as the incomes of all racial and ethnic groups decreased.

FIGURE 3. Gini Index with SCF Income and MCI



Source: Author's own calculations from Suvey of Consumer Finances.

FIGURE 4. Median Family Income, 1953–2010



Source: United States Census Bureau, Historical Income Tables.

The same pattern of widening gaps is observed across different family types. Figure 7 shows median family income for three family types: married-couple, single-mother, and single-father. As this figure reveals, married-couple families have experienced substantial gains over much of the period, whereas single-parent incomes are, by contrast, either stagnating or increasing only slowly. This figure also shows that, for families of all types, median incomes have fallen in the recession.

Debt

The bad news is therefore legion: the Great Recession has not had a compressive effect on wealth and income inequality, and it's sharply reduced median income for a wide range of families. Is there any silver lining to be found?

The data on debt are more encouraging. That is, Americans are making some progress digging themselves out of debt, although of course likely at the cost of reducing overall consumption. Figure 8 shows both debt service payments and total household financial obligations as a percent of disposable personal income. These two trend lines largely mirror each other, showing a steady increase in debt from the early 1990s to 2007, followed by a sharp reversal (approximately 2 percentage points) after the recession. The most recent Survey of Consumer Finances indicates that debt has not expanded since 2007. The key question is of course whether this historic reversal in debt accumulation signals a fundamental behavioral change or only a transitory response to the Great Recession.

Conclusions

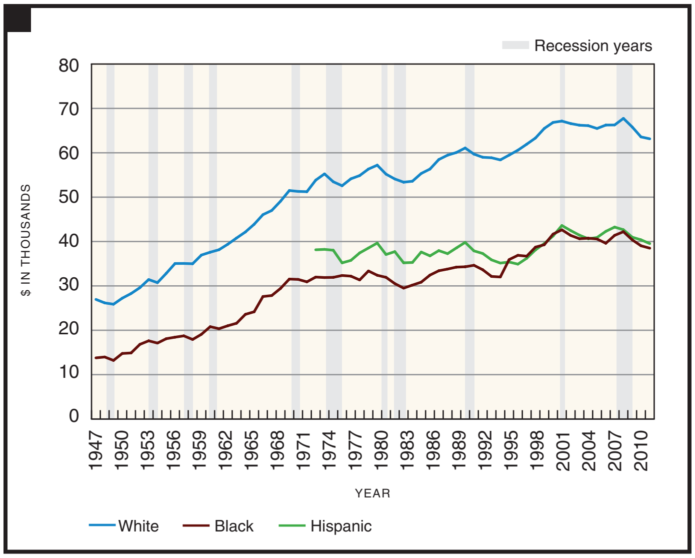
So where do we stand? The financial crisis and the resulting recession dramatically reduced wealth and income, but the well-off appear to be recovering nicely, especially due to rapidly recovering incomes from financial capital and corporate profits. Income inequality continues to increase, however, and the typical American family is experiencing recession-induced declines in family income. Although many Americans are attempting to pay down the large debts racked up since the 1990s, this may of course mean a slower recovery as fewer consumer dollars flow into the economy in the form of consumer purchases of goods and services.

The Great Recession has not, in short, been the deeply compressive event that the Great Depression so famously was. Can it yet become one? In answering that question, what likely matters most is whether a full-throated recovery is imminent. If we face a period of protracted stagnation or, worse yet, another recession, there may well be increasing pressure for fundamental institutional changes, such as higher tax rates at the top, that could in turn lead to less inequality.

FIGURE 5. Median Household Income Index (HII): January 2000–June 2011

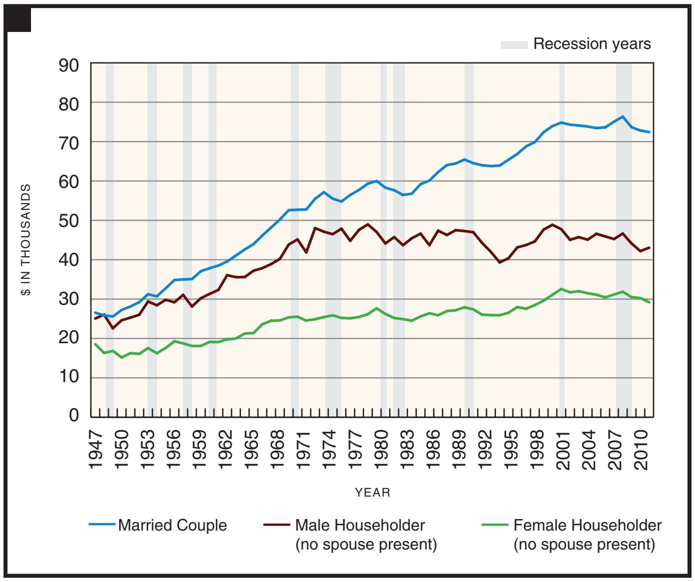
Source: John Coder and Gordon Greene, Sentier Research, Annapolis Maryland, 2012.

FIGURE 6. Median Family Income by Race/Ethnicity of Household Head, 1947–2010



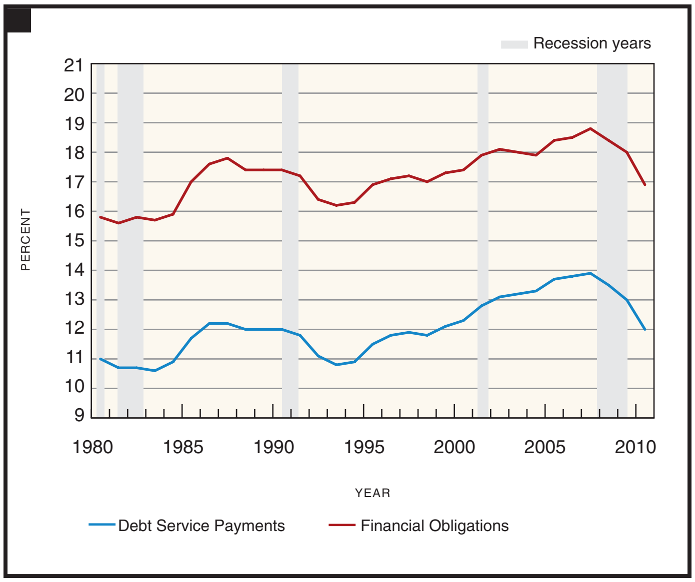
Source: United States Census Bureau, Historical Income Tables.

FIGURE 7. Median Family Income by Family Type, 1947–2010



Source: United States Census Bureau, Historical Income Tables.

FIGURE 8. Household Debt Service Payments and Household Financial Obligations as a Percent of Disposable Personal Income



Source: Federal Reserve System.

ADDITIONAL RESOURCES

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SUGGESTED CITATION

Smeeding, Timothy. 2012. *Income Wealth and Debt and the Great Recession*. Stanford, CA: Stanford Center on Poverty and Inequality.

This publication was supported by Grant Number AE00101 from the U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (awarded by Substance Abuse Mental Health Service Administration).

To further explore the data presented here and to produce customized graphs on recession trends, go to www.recessiontrends.org