



# WEALTH LEVELS, WEALTH INEQUALITY, AND THE GREAT RECESSION

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The Great Recession caused an unprecedented decline in wealth holdings among American households. Between 2007 and 2009, average housing prices in the largest metropolitan areas fell by nearly one-third, as measured by the Case-Shiller home price index. Stock prices also collapsed, with the Dow Jones Index losing nearly half of its value between mid-2007 and early 2009. These developments were exacerbated by a doubling in the unemployment rate from 5 to 10 percent between December 2007 and October 2009 and a large reduction in earnings due to increased unemployment, wage and hour cuts, and furloughs.

The housing, stock, and job markets have all improved since 2009, but at very different rates. The stock market rebounded relatively quickly and returned to prerecession levels by the middle of 2013. The July 2013 unemployment rate of 7.4 percent was below the recession peak of 10.0 percent, but was still substantially higher than the 4.7 percent rate of mid-2007. However, the most important source of wealth for most Americans is their home, and by mid-2013 home prices were still 20 percent below their mid-2007 values.

This research brief assesses two questions about the extent to which the Great Recession altered the level and distribution of wealth through 2013—the most recent year of data available on wealth held by American families.

1. By how much did wealth levels decline during the Great Recession, and by how much did they recover through 2013?
2. Did wealth inequality increase, decrease, or remain steady during the Great Recession?

The data used to answer these questions come from the Panel Study of Income Dynamics (PSID), a nationally representative survey of U.S. families that has been collected since 1968<sup>1</sup>. Here, we report on changes in net worth, i.e., the total value of all financial and real assets minus any debts. More extended results on the issues discussed here can also be found in an article by the authors published in the November 2013 issue of the *Annals of the American Academy of Political and Social Science*.

## Changes in Wealth Levels

Leading up to the Great Recession, median family wealth (50th percentile) increased from \$87,992 in 2003 to \$98,872 in 2007 (see Table 1)<sup>2</sup>. While the absolute increase at the median from 2003 to 2007 was about \$11,000 (+12.4%), increases above the median were substantially greater. Net worth at the 75th percentile increased by more than \$65,000 from 2003 to 2007 (+21.8%); at the 95th, net worth rose by more than \$436,000—an increase of 36.3% in only four years. Meanwhile, net worth at the 25th percentile, at only \$10,129 in 2003, declined by about \$3,000 to \$6,966 (-31.2%). For those at the 5th percentile, net worth was already negative in 2003 and fell even further to -\$13,482 in 2007.

In the aftermath of the Great Recession, net worth declined for everyone. The 95th percentile declined by over \$200,000 in just two years between 2007 and 2009 (-12.8%), while the median fell by \$28,000 (-28.4%). The net worth of the 25th percentile was only \$2,723 in 2009 (-60.9%). At the 5th percentile, indebtedness more than doubled, to \$27,689 (+105.4%).

By 2013, despite the Great Recession, wealth at the 90th and 95th percentiles were higher than in 2003. At all lower points in the wealth distribution, net worth decreased between 2003 and 2013. For example, net worth at the median was about \$32,000 lower in 2013 than 10 years earlier (\$56,335 vs. \$87,992; -36.0%). These trends also apply to mean net worth, which rose by more than \$86,000 between 2003 and 2007 (+25.6%), and then declined by \$115,000 between 2007 and 2013 (-27.2%), reflecting the broad destruction of private wealth.

While stock prices rebounded relatively quickly after the collapse in 2007, housing prices did not. As a result, the median of wealth not held in real estate (not shown in tables) declined by about only \$6,900 between 2007 and 2013 (-29.8%), compared to a decline in median total net worth of about \$42,500 (-43.0%). Affluent households are more likely than other households to hold stocks and have large portfolios, which allowed them to benefit from the gains in the stock market. As a result, net worth not held in real estate actually increased at the 95th percentile between 2003 and 2013 from \$740,700 to \$834,100 (+12.6%). The same was not the case at the 75th percentile, the median, or at the bottom of the distribution. That is, even excluding real estate, net worth fell at all points of the distribution except the top quintile between 2003 and 2013.

## Changes in Wealth Inequality

Table 1 provides a snapshot of American families for the decade that began a few years before and ended a few years after the Great Recession. Because the PSID collected data on wealth holdings since 1984, we can put the recent changes in historical perspective. Figure 1 (next page) reports net worth values for households at the 25th, 50th (median), 75th, 90th and 95th percentiles relative to 1984. The value on the y-axis represents the percent change in wealth relative to 1984. The figure demonstrates that wealth grew substantially throughout most of the wealth distribution in the two decades leading up to the Great Recession. However, the growth rate was much greater at the top of the wealth distribution than elsewhere. For example, net worth for the 95th percentile more than doubled between 1984 and 2007 while that for the median/50th percentile group grew by about 40 percent. Wealth at the 25th percentile was basically unchanged through about 2005 and then began to fall even prior to the Great Recession. In sum, wealth inequality was increasing prior to the Great Recession.

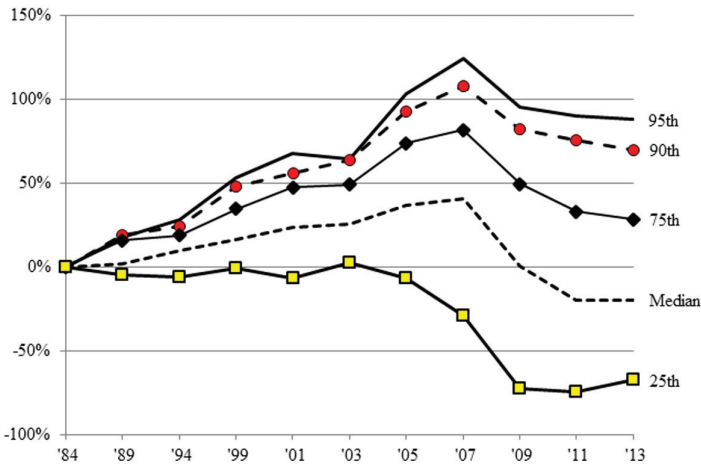
Table 1. Wealth of American households before and after the Great Recession (in 2013 dollars)

	2003	2007	2009	2013
<b>Mean</b>	<b>337,233</b>	<b>423,592</b>	<b>411,178</b>	<b>308,276</b>
<b>Percentiles</b>				
5 <sup>th</sup>	-9,749	-13,482	-27,689	-27,416
25 <sup>th</sup>	10,129	6,966	2,723	3,200
<b>50<sup>th</sup> (median)</b>	<b>87,992</b>	<b>98,872</b>	<b>70,801</b>	<b>56,335</b>
75 <sup>th</sup>	302,221	367,959	302,412	260,405
90 <sup>th</sup>	736,853	934,223	819,824	763,099
95 <sup>th</sup>	1,192,639	1,629,133	1,420,304	1,364,834

Source: Panel Study of Income Dynamics (based on 2013 early release data); calculations by the authors.

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**Figure 1. Change in wealth since 1984 for various percentiles (in 2013 dollars)**

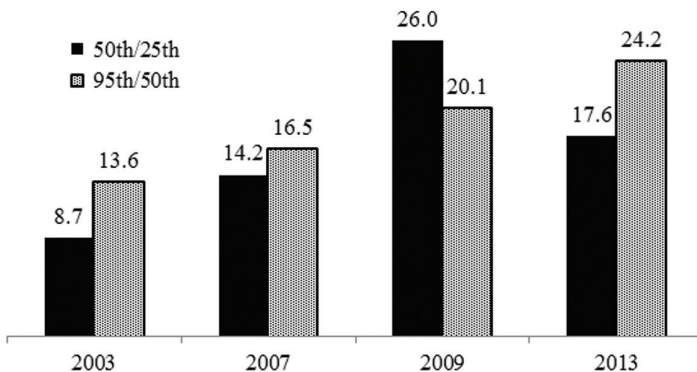


Source: Panel Study of Income Dynamics (based on 2013 early release data); calculations by the authors.

After 2007, wealth declined throughout the distribution, but the relative declines were smaller at the top. Looking over the entire period from 1984 to 2013, the 95th percentile still nearly doubled, the 75th percentile increased by about one third, while the median fell by 20% relative to its 1984 value. The 25th percentile, which started at a very low level in 1984, had fallen by more than 60% by 2013.

A common way to depict disparities in wealth is by ratios of wealth at various percentiles of the wealth distribution. Using this approach, Figure 2 displays wealth inequality during the most recent decade—the few years just before and just after the Great Recession. Households at the 50th percentile had 8.7 times the net worth of those at the 25th percentile in 2003, increasing to 26.0 times the net worth just two years after the onset of the Great Recession. By 2013, however, this gap had declined, largely due to the continued decline in median net worth. The gap, however, still remains twice the size that it was one decade earlier.

**Figure 2. Trends in wealth inequality: ratio of 50th to 25th and 95th to 50th percentiles of wealth**



Source: Panel Study of Income Dynamics (based on 2013 early release data); calculations by the authors.

Wealth disparities in the upper half of the wealth distribution, on the other hand, have shown no signs of decline. In 2003, households at the 95th percentile held 13.6 times more wealth than the median household. This gap increased to 20.1 in 2009 and then 24.2 in 2013.

## Conclusions

Through at least 2013, there are very few signs of significant recovery from the losses in wealth experienced by American families during the Great Recession. Declines in net worth from 2007 to 2009 were large, and the declines continued through 2013. These wealth losses, however, were not distributed equally. While large absolute amounts of wealth were destroyed at the top of the wealth distribution, households at the bottom of the wealth distribution lost the largest share of their total wealth. As a result, wealth inequality increased significantly from 2003 through 2013; by some metrics inequality roughly doubled.

The American economy has experienced rising income and wealth inequality for several decades, and there is little evidence that these trends are likely to reverse in the near term. It is possible that the very slow recovery from the Great Recession will continue to generate increased wealth inequality in the coming years as those hardest hit may still be drawing down the few assets they have left to cover current consumption and the housing market continues to grow at a modest pace.

Also see: Pfeffer, Fabian T., Sheldon H. Danziger, and Robert Schoeni. 2013. "Wealth Disparities Before and After the Great Recession." *Annals of the American Academy of Political and Social Science* 650(1):98-123.

### Footnotes

- <sup>1</sup> The 2013 estimates are based on the early release of the 2013 wave of the PSID, with adjustment to account for known differences between early release and final release estimates of wealth (based on 2011).
- <sup>2</sup> All dollar amounts are expressed in inflation-adjusted 2013 dollars.

*This research summary is a brief description of key findings from work carried out under the Russell Sage Foundation's Great Recession Initiative. More detail about that initiative and the projects funded can be found on the RSF website at [russellsage.org/research/social-effects-great-recession](http://russellsage.org/research/social-effects-great-recession).*

*Russell Sage has also co-sponsored a website to disseminate scholarly work on the effects of the Great Recession—the Recession Trends website can be found at [stanford.edu/group/recessiontrends/cgi-bin/web](http://stanford.edu/group/recessiontrends/cgi-bin/web).*