

STATE OF WORKING AMERICA
PREVIEW

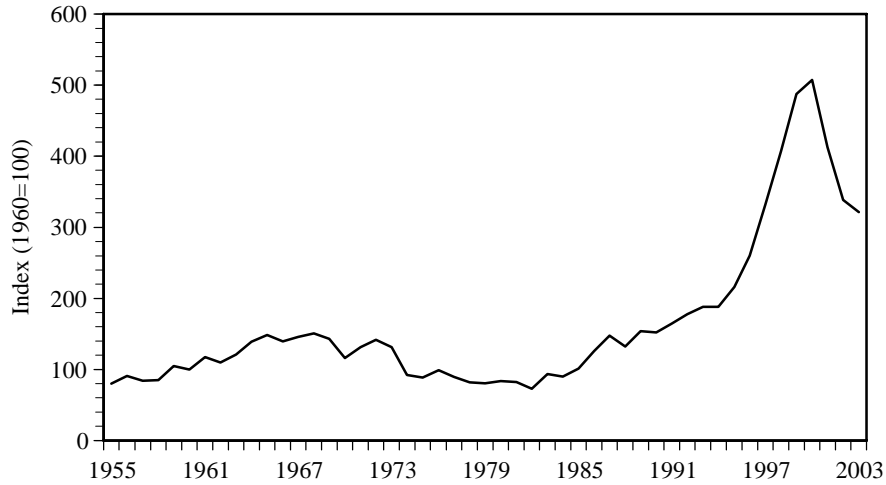
Wealth: Stock ownership

While the 1990s witnessed a breathtaking run-up in the price of stocks, the beginning of the new decade saw a significant stock market collapse. As **Figure 4C** illustrates, the inflation-adjusted value of the Standard & Poor's 500 index of stocks increased 234% between 1990 and 2000, then fell 22% between 2000 and 2003. During the stock market boom, when discussions of its performance seemed ubiquitous in the national discourse, about half of all U.S. households had no stock holdings of any form, either direct (owning shares in a particular company) or indirect (owning shares through a mutual fund or through a 401(k)-style, defined-contribution pension plan). This fact contradicts the notion that the average household is greatly invested in the stock market. The reality is that the average household is not greatly affected by the volatility inherent to the stock market.

The most recent year of data available on the distribution of stock ownership is from 2001, which was a recessionary year (the recession was officially dated March 2001 to November 2001). Additionally, this time period was marred by corporate scandal and corruption that facilitated the fall of the stock market. **Table 4.8** shows that 51.9% of households held stock of some kind in 2001, which leaves almost half of households without any stock holdings. Only 40.1% of Americans held stock worth more than \$5,000.

The top segment of **Table 4.9** provides a more detailed description of the distribution of stock ownership by wealth class. In 2001, the wealthiest 1% of households owned an average of almost \$3.6 million in stocks. The holdings of the next 9% of households averaged \$512,300. By comparison, the average direct and indirect stock holdings of the middle 20% of households were small,

FIGURE 4C Growth of U.S. stock market, 1955-2003 (2003 dollars)



Source: Author's analysis of data from ERP.

TABLE 4.8 Share of households owning stock, 1962-2001

Stock holdings	1989	1992	1995	1998	2001
Any stock holdings					
Direct holdings	13.1%	14.8%	15.2%	19.2%	21.3%
Indirect holdings	24.7	28.4	30.2	43.4	47.7
Total	31.7	37.2	40.4	48.2	51.9
Stock holdings of \$5,000 or more*					
Direct holdings	10.0%	11.4%	12.3%	13.6%	14.6%
Indirect holdings	16.9	21.5	22.7	32.2	36.8
Total	22.6	27.3	28.8	36.3	40.1

* Constant 1995 dollars.

Source: Wolff (2004).

at \$12,000, and the average for the bottom 40% of households was just \$1,800. Average assets for a middle-class household totaled \$125,500 (\$12,000 in stocks plus \$113,500 in other assets in 2001). Fewer than 10% of all assets were in stock holdings for middle-class households.

TABLE 4.9 Average household assets and liabilities by wealth class
(thousands of 2001 dollars)

Asset type	Top 1%	Next 9%	Next 10%	Next 20%	Middle 20%	Bottom 40%	Average
Stocks*							
1962	\$2,617.4	\$133.9	\$14.9	\$4.8	\$1.2	\$0.3	\$41.6
1983	1,699.5	109.7	13.1	5.0	1.7	0.4	30.1
1989	1,282.8	141.0	27.6	9.7	4.0	0.7	31.7
1998	2,743.7	316.7	86.4	29.9	10.0	1.8	78.0
2001	3,568.4	512.3	131.9	41.3	12.0	1.8	106.3
All other assets							
1962	\$2,847.4	\$491.6	\$233.6	\$129.9	\$70.3	\$16.7	\$142.0
1983	6,540.8	849.0	343.2	176.6	86.9	18.3	235.8
1989	9,090.9	933.3	368.9	201.5	96.8	21.0	279.3
1998	8,649.8	897.7	360.0	196.8	106.0	25.9	267.3
2001	9,449.5	1,221.1	438.4	234.6	113.5	26.6	328.3
Total debt							
1962	\$193.3	\$37.8	\$28.0	\$29.0	\$28.7	\$16.1	\$25.9
1983	444.5	74.0	53.5	36.4	28.3	13.6	34.9
1989	484.7	98.7	53.3	48.2	37.0	26.1	46.3
1998	307.1	114.0	71.7	51.5	49.7	26.5	51.7
2001	325.8	122.3	79.9	60.5	50.5	25.5	54.5
Net worth							
1962	\$5,271.5	\$587.7	\$220.4	\$105.7	\$42.8	\$0.9	\$157.7
1983	7,795.8	884.7	302.8	145.2	60.3	5.1	231.0
1989	9,889.0	975.6	343.2	163.0	63.9	-4.4	264.6
1998	11,086.4	1,100.3	374.7	175.3	66.3	1.2	293.6
2001	12,692.1	1,611.0	490.3	215.3	75.0	2.9	380.1

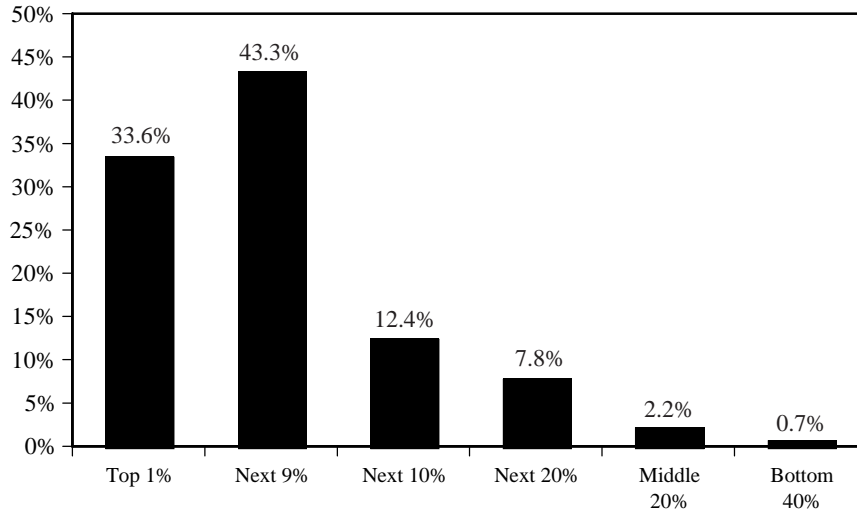
*All direct and indirect stock holdings.

Source: Wolff (2004).

Although the value of stock holdings grew by an average of 36.3% between 1998 and 2001, this growth was not evenly distributed across wealth classes. Stock holding increased 30.1% and 61.8% for the top 1% and next 9%, respectively. The increases were well below average for the bottom 60% of households. The total value of stocks owned by the middle 20% of households, for example, grew only 20% between 1998 and 2001. There was no change in value for stocks held by the bottom 40%.

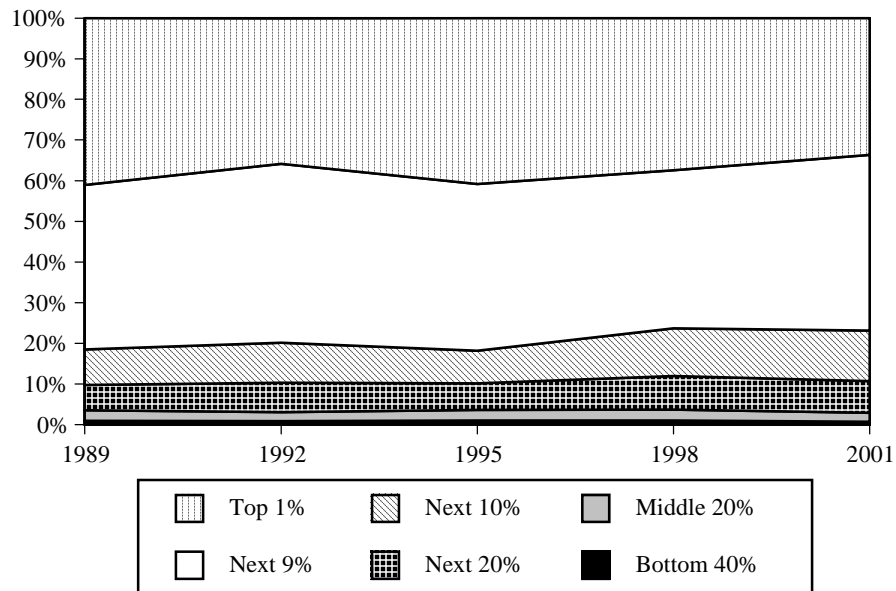
Figure 4D (derived from Table 4.9) presents the distribution of stock market holding by wealth class in 2001. The top 1% owned 33.6% of all stock market holdings, while the next 9% owned 43.3%. The bottom 90%, by far the

FIGURE 4D Distribution of stock market holdings, by wealth class, 2001



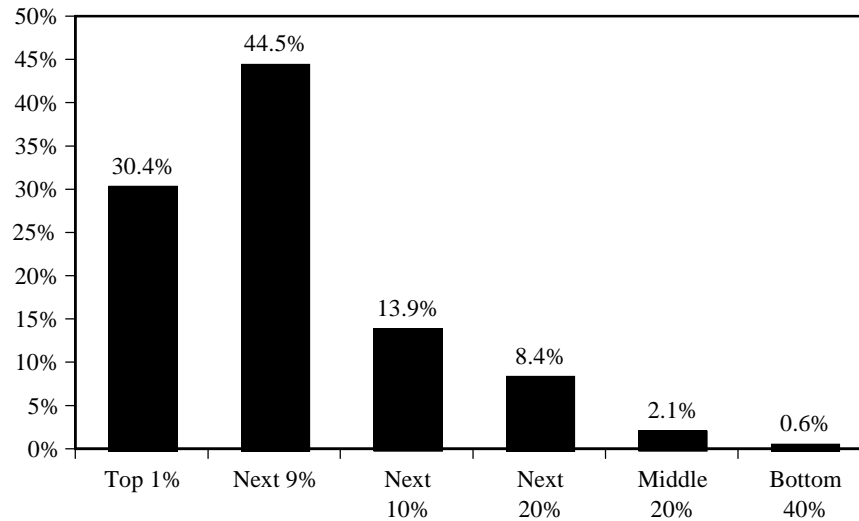
Source: Wolff (2004).

FIGURE 4E Distribution of stock market wealth by wealth class, 1989-2001



Source: Wolff (2004).

FIGURE 4F Distribution of growth in stock market holdings, by wealth class, 1989-2001



Source: Wolff (2004).

largest wealth class by population, only owned 23.1% of all stock market holdings. **Figure 4E** (derived from Table 4.9) shows that the persistent and imbalanced distribution of stock market wealth by class continued throughout the 1990s boom years. Marginal gains were made in stock market wealth holding by the bottom 80% from 1989 to 2001. They held 9.8% of all stock market wealth in 1989, and this increased to 11.9% in 2001.

For further insight, **Figure 4F** (derived from Table 4.9) illustrates the distribution of the growth in stock market holdings, by wealth class, between 1989 and 2001. Almost a third (30.4%) of the growth over the period went to the wealthiest 1% of households, while 44.5% of stock market growth went to the next 9% of households. The middle 20% of households received only 2.1% of the rise in the overall value of stock holdings over the period. There was almost no growth (0.6%) in stock market holdings for the bottom 40%. These figures illustrate that, even for middle- and lower-class households that held stock, growth in the value of stocks did little to increase the living standards of these households over the last decade.

TABLE 4.10 Concentration of stock ownership by income level, 2001 (percent)

Income level	Share of households	Percent who own	Percent of stocks owned	
			Shares	Cumulative
Publicly traded stock				
\$250,000 or above	2.7%	72.7%	58.8%	58.8%
\$100,000-249,999	11.3	52.1	20.0	78.8
\$75,000-99,999	9.3	31.3	5.2	84.0
\$50,000-74,999	17.5	25.3	9.8	93.8
\$25,000-49,999	27.7	15.7	4.9	98.8
\$15,000-24,999	14.8	7.9	0.9	99.7
Under \$15,000	16.7	3.7	0.3	100.0
<i>All</i>	100.0	21.3	100.0	
Stocks in pension plans*				
\$250,000 or above	2.7%	75.4%	24.3%	24.3%
\$100,000-249,999	11.3	76.0	35.5	59.8
\$75,000-99,999	9.3	70.8	12.9	72.7
\$50,000-74,999	17.5	61.1	15.2	87.9
\$25,000-49,999	27.7	36.3	10.0	97.9
\$15,000-24,999	14.8	16.1	1.3	99.2
Under \$15,000	16.7	6.5	0.8	100.0
<i>All</i>	100.0	41.4	100.0	
All stocks**				
\$250,000 or above	2.7%	93.9%	40.6%	40.6%
\$100,000-249,999	11.3	88.3	27.9	68.6
\$75,000-99,999	9.3	79.8	8.9	77.4
\$50,000-74,999	17.5	73.1	11.8	89.3
\$25,000-49,999	27.7	49.2	8.3	97.6
\$15,000-24,999	14.8	25.7	1.3	98.9
Under \$15,000	16.7	11.0	1.1	100.0
<i>All</i>	100.0	51.9	100.0	

* All defined contribution stock plans including 401(k) plans.

** All stock directly or indirectly held in mutual funds, IRAs, Keogh plans, and defined-contribution pension plans.

Source: Wolff (2004).

Stocks are also highly concentrated by household income. **Table 4.10** reports the share of all stock owned by households at different income levels. In 2001, the 2.7% of all households with annual incomes of \$250,000 or more owned 40.6% of all stocks (see the bottom section of Table 4.10). Households with annual incomes of \$100,000 or more—about 14.0% of all households—controlled

68.6% of all stock. By contrast, the 27.7% of households with annual incomes in the \$25,000-\$49,999 range owned just 8.3% of all stocks by value. The concentration of stocks within upper income levels holds true even for stocks in pension plans, such as 401(k)s. The main difference between stock holdings in pension plans and other (direct) stock holdings is that pension assets are more evenly distributed *among high-income households*. While the highest-income group—households with an annual income above \$250,000—controls 58.8% of all publicly traded stock, these high earners own 24.3% of stocks in pension plans, and households in the \$100,000-\$249,999 range own an even greater share (35.5%). At the same time, the bottom three-fourths of households—those with annual incomes of \$49,999 or less—still hold only 12.1% of all stocks in pension plans (compared to 6.1% of publicly traded stock).

The high concentration of stock ownership means that the gains associated with the late 1990s stock boom were highly concentrated among those with the most wealth and income. Moreover, the losses from the bust years will also be concentrated among those with higher incomes.