

Will the Middle Class Ever Save Again?

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Paper Abstract: I look at wealth trends from 1983 to 2013, particularly for the middle class, on the basis of the Survey of Consumer Finances. Asset prices plunged between 2007 and 2010 but then rebounded from 2010 to 2013. Median wealth plummeted by 44 percent over years 2007 to 2010, almost double the drop in housing prices and wealth inequality was up sharply. These two movements can be traced to the high leverage of middle class families, the high share of homes in their portfolio, and the plunge in house prices. Rather remarkably, there was virtually no change in median (and mean) wealth and wealth inequality from 2010 to 2013 according to the SCF. A decomposition analysis based on “pseudo-panels” indicates that for the middle three wealth quintiles, capital revaluation explained more than 100 percent of the change in their simulated mean wealth over the 1983-1989, 1989-2001, 2001-2007, and 2010-2013 periods and 90 percent over 2007-2010, while dissavings made a negative contribution. Trends in inequality as measured by the P99/P2080 ratio were largely influenced by differences in rates of return and savings rates between the top one percent and the middle three wealth quintiles. Over 1983-1989, the higher savings rate of the top group explained over 100 percent of the 9.0 percentage point rise in the simulated P99/P2080 ratio. Over 1989-2001, the simulated ratio rose by 18.5 percentage points, with the higher rate of return of the middle group making a negative contribution and the higher savings rate of the top group making a positive contribution. Over years 2001-2007, there was very little change in the simulated ratio because the higher rate of return of the middle group offset their lower savings rate. Between 2007 and 2010 the simulated P99/P2080 ratio spiked by 28.7 percentage points, with each factor accounting for about half the change. Over 2010-2013, the higher savings rate of the top group made a positive contribution and the higher returns of the middle group a negative contribution to the 6.7 percentage points advance in the simulated ratio.