Trends in Household Wealth Inequality Using the Distributional Financial Accounts

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Abstract submission to: NBER/CRIW Conference on Measuring and Understanding the Distribution and Intra/Inter-Generational Mobility of Income and Wealth (March 2020)

Wealth inequality is an important characteristic of the United States economy, with evidence mounting that inequality has increased over the last 30 years. The explosion of interest in the wealth distribution has also highlighted limitations of the existing data sources. This paper uses a new quarterly data source for household wealth—the Distributional Financial Accounts (DFAs)—to study the evolution of wealth inequality within and across key demographic groups both during the business cycle and over longer periods.

The DFAs are constructed by integrating two statistical products produced by the Federal Reserve Board: the Financial Accounts of the United States and the Survey of Consumer Finances (SCF). The Financial Accounts are U.S. national accounts that contain quarterly measures of aggregate household assets and liabilities. The SCF is a household survey that collects detailed balance sheet measures of a representative sample of households (including of very wealthy households) every three years. By using temporal disaggregation techniques, the DFAs combine the SCF's distributional information with the Financial Accounts' national accounting framework to produce quarterly and timely distributional measures of U.S. household wealth in a manner that is consistent with both data sets. The DFAs were first published by the Federal Reserve Board in March of 2019 and will be updated regularly through the most recent quarter shortly after each Financial Accounts publication.

In this paper, we highlight two key applications of this new data source. First, the DFAs allow a detailed look at how household wealth and its components have evolved on a quarterly basis in the period since 1989. The data confirm wealth inequality has increased considerably over this period, with much of the increase driven by high returns and growing concentration of private and public business equity. Embedded in the DFAs is rich demographic information, due to the range of household characteristics gathered by the SCF. For instance, we find that wealth has shifted toward the highly educated, but also that the wealth share of the top one percent of college graduates has increased sharply compared to that of other college graduates. We explore these trends in wealth inequality by income, race, education, geography, and birth cohorts over the past 30 years.

Second, the relatively high frequency of the DFAs make it suitable for studying the business cycle dynamics of the wealth distribution. For example, we explore the quarterly movements in relative financial positions for each wealth group before, during, and after the dot-com era and the Great Recession. We find that the wealth share of the top 1 percent was strongly pro-cyclical over this period due to a high concentration in risky assets. In contrast, the wealth share of households in the 90-99th percentiles of the wealth distribution varied counter-cyclically, while the share for households in the bottom 90 percent of the wealth distribution displayed little cyclical behavior over this period. These dynamics, as well as those for other subpopulations, are typically difficult to observe in other data sets because peaks and troughs often fall between times of survey measurement.