IV

WEALTH
AND ECONOMIC MOBILITY

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The growing concern about economic inequality voiced by scholars, policy makers, and journalists has been addressed primarily to inequality of income. And with good reason: as noted throughout this volume, studies confirm that over the last three decades there has been a marked rise in income inequality in the United States.

In tracking trends in economic inequality, less attention has been given to inequality of wealth and the relation of wealth to economic mobility. Yet any full consideration of economic well-being, inequality, or economic mobility must include careful attention to wealth.

Wealth is a vital component of family economic well-being and has the potential to contribute to economic mobility. Wealth often produces a flow of cash that families can use for current consumption. Wealth can also provide collateral for loans to boost consumption, make investments in businesses or human capital development, or provide security during periods of unemployment or other disruptions of income. In addition, wealth can provide security for retirement. It can also be passed to children or others. Parents can use their wealth to boost their children's prospects and well-being; they can increase their children's human capital by paying for higher education or helping them invest in business ventures or other enterprises. Similarly, negative wealth or debt is a major determinant of well-being. In the extreme, persistent debt can lead to bankruptcy, which not only results in loss of most assets, but usually constitutes a formidable barrier to future credit.

Understanding wealth is important to fully comprehend economic mobility in the United States, especially the effect of wealth on economic mobility across generations. Because the incomes of parents and children are highly correlated, it is important to ask whether there is a similar correlation between the wealth of parents and their children and, if so, what the modes of wealth transmission might be.

THE TOOLS FOR UNDERSTANDING WEALTH

Wealth is assets minus debt. Assets are typically understood as having both a financial dimension (checking accounts and stocks and bonds) and a non-financial dimension (real estate holdings, businesses, jewelry, art, boats, and vehicles). Debt includes home mortgages, loans against real estate, credit card balances, and installment loans. Retirement assets that are not liquid are not included in most calculations of family wealth,[1] nor is the value of future payments, such as those from Social Security and most pension plans.

There are two primary sources of information about wealth in the United States. The first and most representative of the entire U.S. population is a triennial survey conducted since 1989 by the Board of Governors of the Federal Reserve Board. The Survey of Consumer Finances (SCF) includes questions about the income, assets, and debt of around 4,500 randomly selected families.[2] A second survey is especially useful in tracing changes in wealth across generations. The University of Michigan's Panel Study of Income Dynamics (PSID) has been following an original sample of 5,000 American families and their offspring (and their families when they become adults) since 1968.[3]

TRENDS IN FAMILY WEALTH AND WEALTH DISTRIBUTION

From 1989 through 2004, the growth of wealth in the United States was strong but unevenly distributed (see Table 1). SCF data show that total wealth doubled over this period, growing from $25.9 trillion to $50.2 trillion.[4] However, there were large differences between families in wealth accumulation.

At every position in the distribution, net worth improved between 1989 and 2004. But, net worth at the 10th percentile was minuscule. Though wealth increased at the 10th percentile, families near the bottom of the wealth distribution had great difficulty accumulating assets that exceeded their debts and their net worth typically hovered around zero.

By contrast, families at the top did not have any difficulty accumulating wealth. Figure 1 plots the percentage of total U.S. wealth owned by families occupying various sections of the wealth distribution for selected years between 1989 and 2004. During this time, the bottom 50 percent of families controlled an average of around 3 percent of personal wealth in each year. By contrast, the top 1 percent of families controlled 30 percent or more of the wealth each year. Though its share of wealth peaked in 1995 and then declined slightly, over the entire period from 1989 to 2004 wealth held by the top 1 percent increased by about 3 percentage points—an amount roughly equal to the entire wealth owned by the bottom half of the distribution. Combining the three sections for families above the 90th percentile shows that these 10 percent of families controlled about 70 percent of the wealth in a typical year. The remaining 30 percent of wealth was distributed among 90 percent of families.

GROWTH AT THE TOP OF THE WEALTH DISTRIBUTION

The growth of wealth at the top of the distribution is confirmed in computations performed by Edward Wolff of the Levi Institute of Economics in New York City, who counted the number of households worth at least $1 million, $5 million, and $10 million in the SCF in each of the survey years between 1989

TABLE 1 **Average Wealth of Households at 10th, 25th, Median, 75th, and 90th Percentiles of the Distribution of Wealth, Selected Years 1989-2004 (Thousands, 2004 Dollars)**

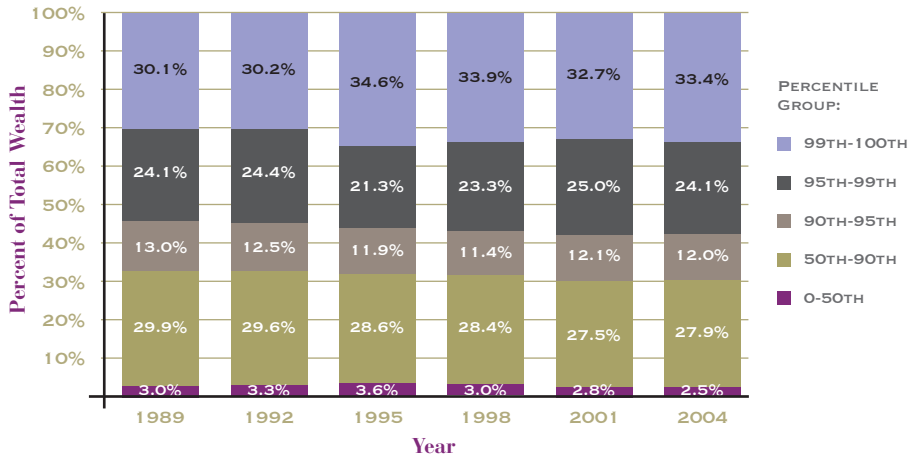
Wealth Percentile	Year					
	1989	1992	1995	1999	2001	2004
10th	*	*	0.1	*	0.1	0.2
25th	8.1	9.6	12.3	11.5	13.6	13.3
Median	68.8	65.3	70.8	83.2	91.7	93.1
75th	216.2	194.6	197.8	242.2	301.7	328.5
90th	539.5	470.2	469.0	572.9	782.2	831.6

Note: The means for the respective years from 1989 through 2004 are 277.9, 246.1, 260.7, 328.5, 423.9, and 448.0.

** < 0.1*

Source: Kennickell, 2006, p. 9.

FIGURE 1 **Percent of Wealth Held by Various Percentile Groups, Selected Years 1989–2004**



Source: Kennickell, 2006, p. 11.

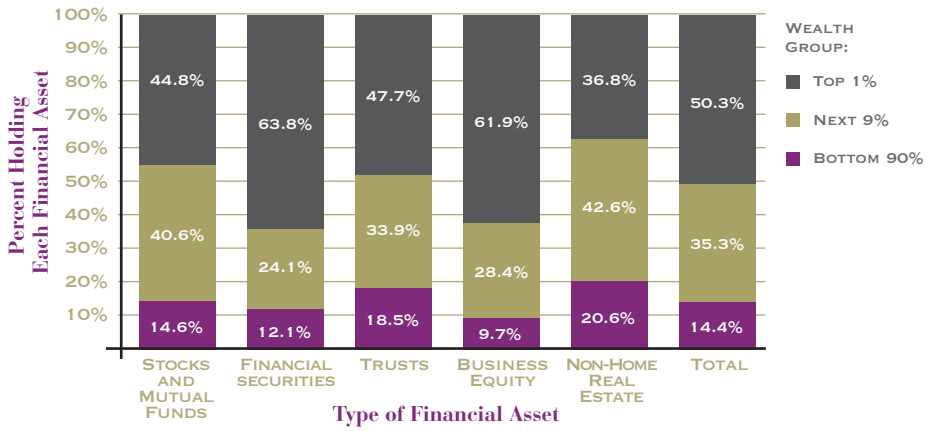
TABLE 2 **Number of Millionaires and Multimillionaires, Selected Years 1989–2004**

Year	Total Number of Households (Thousands)	$1 Million: Number (Thousands)	$1 Million: Index*	$5 Million: Number (Thousands)	$5 Million: Index*	$10 Million: Number (Thousands)	$10 Million: Index*
		Number and Index of Households with Net Worth Exceeding:					
1989	93,009	3,024	3.25	297	0.32	65	0.07
1992	95,462	3,104	3.25	277	0.29	42	0.04
1995	99,101	3,015	3.04	474	0.48	190	0.19
1998	102,547	4,783	4.66	756	0.74	239	0.23
2001	106,494	5,892	5.53	1,068	1.00	338	0.32
2004	112,107	6,466	5.77	1,120	1.00	345	0.31

**The index is computed by dividing the number of households with net worth of $1 million, $5 million, or $10 million in each year by the total number of households in that year and multiplying by 100.*

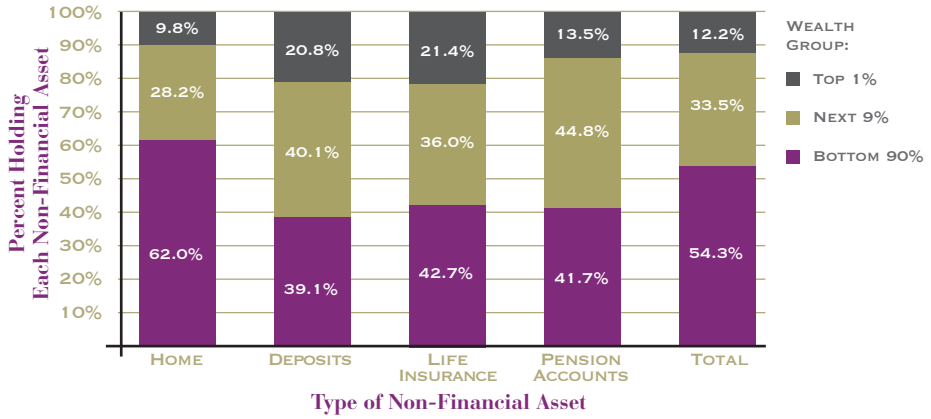
Source: Wolff, 2007, p. 43.

FIGURE 2A **Percent of Several Financial Assets Held by Various Wealth Groups, 2004**



Source: Wolff, 2007, p. 48.

FIGURE 2B **Percent of Several Non-Financial Assets Held by Various Wealth Groups, 2004**



Source: Wolff, 2007, p. 48.

and 2004. Table 2, based on Wolff's findings, shows that the growth in millionaires of various degrees is consistent with the data on changes in the entire wealth distribution shown in Table 1 and Figure 1.

If the rise in millionaires over the period is impressive, more than doubling in raw numbers and increasing by more than 75 percent as a percentage of the population (from an index of 3.25 to 5.77), the rise in households worth $10 million or more is more impressive still, from an index of 0.07 to 0.31, increasing more than fourfold.

DISTRIBUTION OF ASSETS

Assets, the raw material of wealth, consist primarily of stocks and other financial instruments and non-financial property, especially housing.[6] Not surprisingly, both types of assets are unequally distributed, but financial assets much more so.

Based on an analysis of SCF data by Wolff, Figure 2a describes the financial and Figure 2b describes the non-financial assets controlled by the top 1 percent, the next 9 percent, and the bottom 90 percent of the wealth distribution in 2004.[5] The top 1 percent of households controlled an average of 50 percent of all financial assets and over 60 percent of both financial securities and business equity (Figure 2a). Adding the top two sections of the total bar graph shows that the top 10 percent controlled 85 percent

of all financial assets, leaving around 15 percent for the bottom 90 percent of the distribution.

In contrast to financial assets, non-financial assets are more equally distributed (Figure 2b). Even so, the top 10 percent controlled nearly half the assets. The most equally distributed asset was housing, with the bottom 90 percent controlling over 60 percent of housing value and the top 1 percent controlling less than 10 percent.

HOUSING AND FAMILY WEALTH

Housing is central in accounting for the wealth of most Americans. Table 3 illustrates this point by showing the percentage of families in selected income groups that own their home and the median value of the homes they own. Although they own few stocks and other assets, over 40 percent of the bottom quintile of families own their homes and the median value of their homes is $70,000.

Examining the income distribution in ascending order, we see that the likelihood of home ownership increases systematically, rising from 40 percent of families in the bottom quintile to 95 percent of families in the top decile of income. The value of homes increases similarly, reaching a median of $225,000 for families in the ninth decile and $450,000 for families in the top decile. Thus, consistent with all the data on wealth and assets examined here, there is a substantial increase in the likelihood of owning a home and in the value of the home at the higher end of the income distribution.

Still, a bigger share of families own their home than any other asset, and nearly all the wealth of many families is tied up in their homes. In this sense, housing is probably the most important bulwark against rising inequality in the United States. However, recent difficulties in housing credit are creating serious problems with home ownership in the bottom of the distribution.[7]

NEGATIVE WEALTH: DEBT AND BANKRUPTCIES

As the 2007 crisis in housing credit illustrates, debt plays two roles in family wealth. Some debt, especially a home mortgage, is often considered good debt because families are purchasing a place to live and making a long-term investment simultaneously. However, a lot can go wrong with both homes and home mortgages, especially variable interest mortgages: home owners can have an unexpected loss of income, the housing market can decline leaving home owners with more debt than the market value of their house, variable interest rates can rise more than expected, and owners can misjudge the difficulty of maintaining their mortgage payments over the long term. Nearly all of this happened in the recent housing finance crisis. Nonetheless, investment in housing works out well for most families.

There is a fine line between ensuring that low-income families have access to credit to purchase a home and luring families into borrowing under terms that put them at excessive risk. Where to draw this line will always be a problem. Most Americans would probably prefer a modest level of bankruptcy rather than less

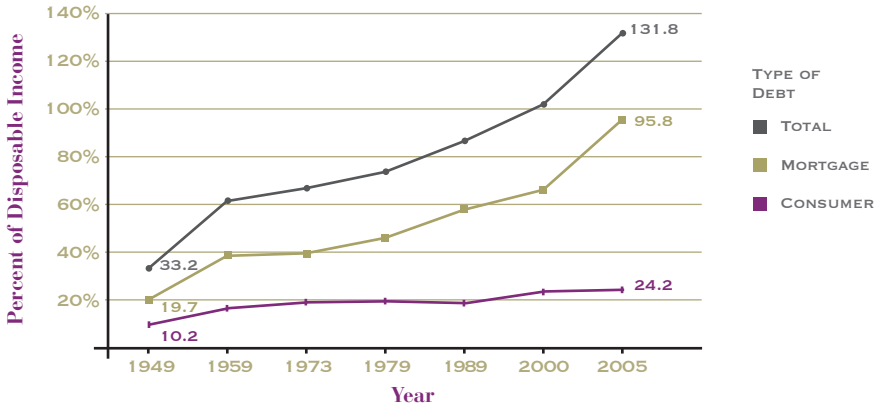
TABLE 3

Housing Ownership and Value by Income Group, 2004

Income Group	Percentage of Families that Own Homes	Median Home Value ($ thousands)
Lowest Quintile	40.3%	70
Second Quintile	57.0	100
Middle Quintile	71.5	135
Fourth Quintile	83.1	175
Ninth Decile	91.8	225
Top Decile	94.7	450

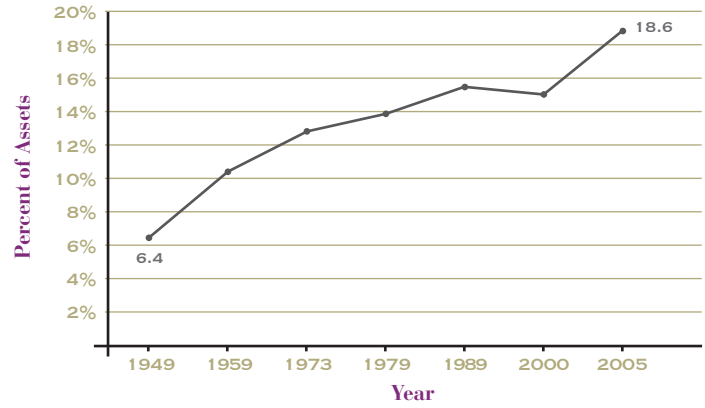
Note: The median value is based on the houses owned by families and does not include zeroes.
Source: Bucks et al., 2006, p. A22.

FIGURE 3A **Household Debt as Percent of Disposable Income, Selected Years 1949–2005**



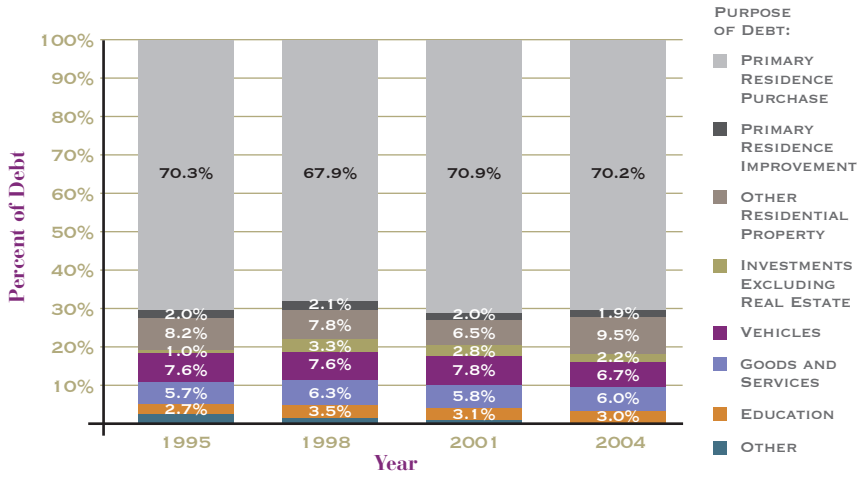
Source: Mishel et al., 2007, p. 271.

FIGURE 3B **Household Debt as a Percent of Assets, Selected Years 1949–2005**



Source: Mishel et al., 2007, p. 271.

FIGURE 4 **Percent of Debt Incurred for Various Purposes, Selected Years 1995–2004**



Source: Bucks et al., 2006, p. A32.

bankruptcy at the cost of maintaining credit markets that are so tight that low-income families are unable to purchase homes.

Non-mortgage debt, especially of the high-interest variety like credit cards, can also get consumers in over their heads and lead to financial crisis and even bankruptcy. Figure 3a provides a summary of total debt, mortgage debt, and consumer credit debt expressed as a percentage of disposable personal income in selected years since 1949. There are almost no exceptions to the pattern of continuous increases in debt of all types since 1949. Total debt has increased nearly fourfold over the period. As shown in Figure 3b, even expressed as a percentage of all household assets, which were also rising during this period, debt rises virtually every year.

Although Figures 3a and 3b show that indebtedness has increased in recent years, the SCF seems also to show that Americans are not borrowing primarily to purchase consumer goods. Figure 4 summarizes the purposes for which families took on debt in selected years between 1995 and 2004.

Note the stability across the decade in the reasons families borrow money. In every year, about 70 percent of family debt is incurred to purchase a home and another 2 percent to make home improvements. In most years, about 8 percent or 9 percent of debt is assumed to purchase residential property other than

the primary residence. In all probability, a sizable number of these purchases are made as investments. About 3 percent of borrowed money in each year is used to invest in education and another 7 or 8 percent to purchase vehicles. Thus, families are incurring debt primarily to buy their homes, purchase cars, or make investments in property or human capital. Only a little over 5 percent of debt is incurred to buy consumer goods and services, and this figure has been stable for a decade.

DEBT AND INCOME LEVEL

Figure 5 summarizes the types of debt incurred in 2004 by families of various income levels. Here we see a close relationship between a family's economic status as measured by its income and the likelihood it has taken on debt. Only about half the families with incomes in the bottom quintile have any debt at all, as compared with about 70 percent of families in the second quintile and between 85 percent and 92 percent of families above the second quintile.

More than half of all families (54 percent) have no credit card debt, and less than 30 percent of families in the bottom quintile have credit card debt. The data in Figure 5 refute the notion, often expressed in the media, that Americans are taking on mountains of debt in order to support consumer buying sprees.

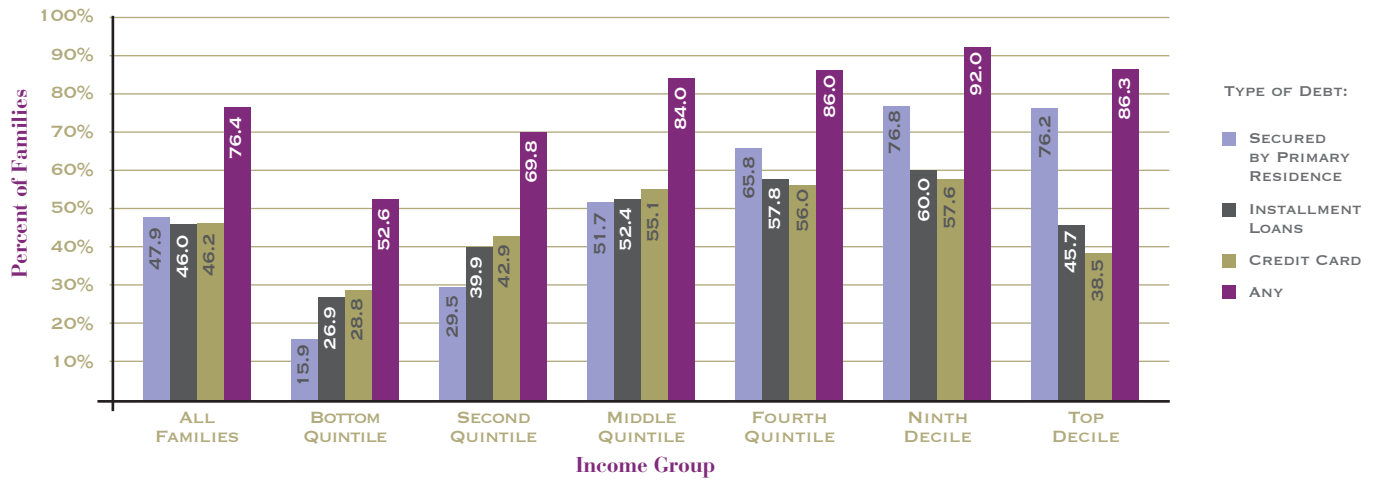
Nonetheless, some families do incur excessive debt. The rapid rise in debt held by some American households could prove troublesome in the long run. In fact, as shown in Figure 6, bankruptcies increased in most years between 1980 and 2003 before falling dramatically after 2005.

The steep decline after 2005 followed passage of federal bankruptcy legislation making it more difficult for individuals to declare bankruptcy. Because the legislation was controversial and took almost a decade for Congress to enact, at least some of the rise in bankruptcies during this period can be attributed to individuals trying to file before Congress enacted stricter bankruptcy laws. The decline in bankruptcies does not mean that families now have less difficulty with excessive debt than in the past. Ironically, they may have more difficulty because the stricter bankruptcy law does not allow them to liquidate debt as easily as was once possible.

Families likely to experience trouble with excessive debt are concentrated at the bottom of the income distribution. Figure 7 shows the relationship between income and high debt in 2004. High debt is debt that requires total debt service payments that equal or exceed 40 percent of income, a widely accepted threshold above which households begin occupying dangerous territory. The relationship between income and high debt shows a clear pattern: the lower the income, the higher the rate

FIGURE 5

Percent of Families Holding Debt by Type of Debt and Income Group, 2004



Source: Bucks et al., 2006, p. A28.

of excessive debt. Whereas only 2 percent of households in the top income quintile have high debt ratios, almost 30 percent of households in the bottom quintile have problematic levels of debt.

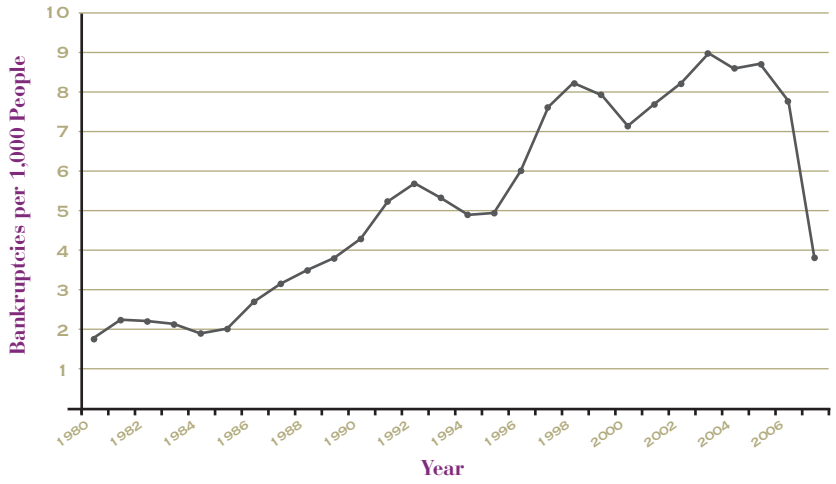
WEALTH MOBILITY ACROSS GENERATIONS

How wealth is distributed in the current generation is important, but equally important is whether the winners in a given generation can pass their winnings on to their children or use their fortunes to boost the economic prospects of their children.

When Americans talk about equal opportunity, they usually mean that everyone should have a shot at high earnings as well as the chance to accumulate the financial and non-financial components of wealth that are the symbols of economic success and the foundation of long-term economic security.

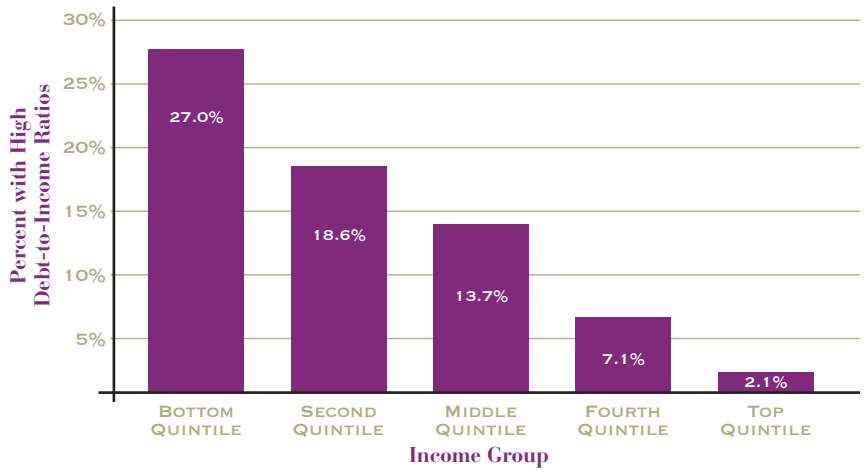
As we have seen elsewhere in this volume, there is a substantial relationship between the family income of parents and children. The most recent evidence indicates that about half the difference in income between families persists into the second generation.[8] Is the wealth of parents and their children similarly associated?

FIGURE 6 **Bankruptcy Rates per 1,000 People between Ages 18 and 65, 1980–2007**



Source: James Sherk of the Heritage Foundation using data from the Administrative Office of the U.S. Courts.

FIGURE 7 **Percent of Households with Debt-to-Income Ratios Greater than 40 Percent by Income Quintile, 2004**



Source: Mishel et al., 2007, p. 277.

Relationship between Parental and Adult Child Wealth

A first-order question about wealth mobility is whether there is a relationship between the wealth of parents and that of their children. The tool for producing a comprehensive picture of wealth transmission between parents and children is a measure called "intergenerational wealth elasticity"[9] This number tells us "what percentage variation to expect in the child's [wealth] in connection with a percentage variation in the parents' [wealth]."[10] For example, if intergenerational wealth elasticity were 0.4, then if the wealth of a given set of parents were 50 percent above the average of their generation, their children's wealth would be 0.4 times 50 percent, or 20 percent, above the average wealth of their generation.[11] Elasticities of between 0.4 and 0.5 indicate that the wealth of children is strongly correlated with the wealth of their parents and that it could

take several generations for the influence of wealth on subsequent generations to disappear.[12] Recent studies have found wealth elasticities between .32 and .50.[13]

Another tool for measuring the intergenerational correlation of wealth is the wealth transition matrix. As illustrated in Figure 8, the matrix divides the wealth distribution of parents and their adult children into five groups of equal size and then locates each parent-adult child pair in one cell of the matrix. Figure 8 shows that adult children tend to fall in the same or adjacent wealth quintiles as their parents, thereby indicating a positive correlation in wealth between the generations.

As with the income transition matrix discussed in Chapter I "Economic Mobility of Families Across Generations," Figure 8 shows that there is "stickiness" at both tails of the wealth distribution, meaning that the greatest wealth similarity between parents and offspring is at the extremes of the distribution. Thirty-six percent of the adult children are in the top quintile just as their parents were at a similar age, and 36 percent of the adult children are in the bottom quintile just as their parents were. Only 7 percent of children born to parents in the bottom wealth quintile make it to the top wealth quintile as adults, much like the 6 percent of those born to parents in the bottom income quintile end up in the top income quintile in adulthood (see Figure 4, Chapter I).

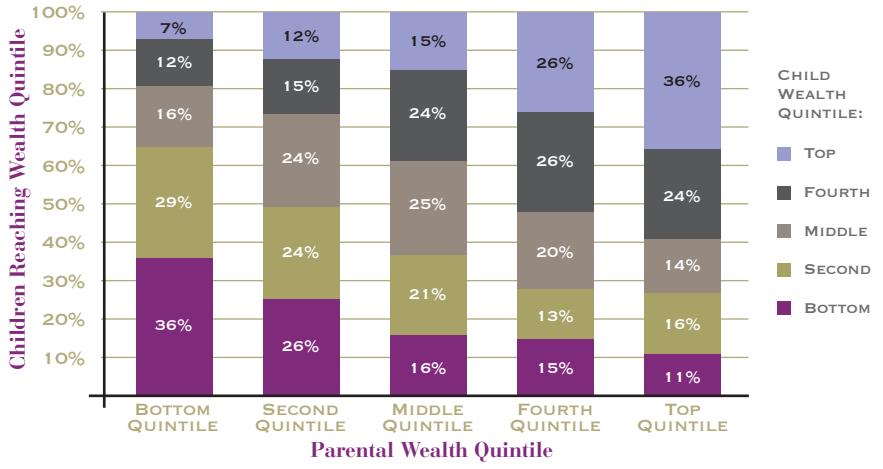
Despite the clear relationship between wealth in the two generations, there was nonetheless movement by adult children to wealth quintiles other than the one occupied by their parents. Perhaps most notable is that nearly 35 percent of the adult children of parents in the bottom wealth quintile moved up to the top three quintiles, while 41 percent of adult children with parents in the top quintile moved down to the bottom three quintiles. As pointed out by wealth researchers at the University of Michigan and the University of Chicago, these results imply a "much greater" level of intergenerational fluidity than "suggested by recent accounts in the popular press."[14]

Sources of Wealth: The Role of Gifts and Inheritances

As the data on wealth transmission suggest, wealthy parents tend to have wealthy adult children and poor parents tend to have poor adult children, but there is nonetheless movement between generations up and down the wealth distribution. But what is the source of wealth in the second generation? Parents could help their children achieve wealth by making investments in their development or by giving them money directly. By contrast, adult children could save money, make investments, start businesses, take risks, or engage in other enterprising activities that allow them to build their own wealth.

Although no existing data source allows us to completely separate each of these possible sources of wealth in the second generation, it is possible to estimate how much wealth in the second generation comes from transfers from parents or others and how much comes from the efforts of the children themselves. This information is important because to the extent that transfers from parents or others comprise most wealth accumulation in the children's

FIGURE 8 **Percent of Children in Each Wealth Quintile Compared to Parental Wealth Quintile**



Source: Charles and Hurst, 2003, p. 1163.

generation, wealth mobility could be tightly circumscribed.

Extent of wealth transfers. Wolff's analysis of the SCF data for selected years between 1989 and 1998 shows that between 20 and 24 percent of all households received some type of wealth transfer at some time.[15] Thus, the majority of families do not receive substantial gifts or inheritances from their parents or others. Families that do receive wealth transfers are the fortunate recipients of a kind of windfall financial advantage, but most families obtain their wealth through their own enterprising activities.

Value of wealth transfers. Wolff's analysis of the SCF shows consistency in the average value of transfers across the years, with a low mean transfer of $50,000 in 1992 and a high of $54,500 in 1998.[16] Table 4 describes the contribution of these transfers to the wealth of households with various levels of wealth (including transfers) in 1998. As might be expected, although the overall probability of a given household receiving wealth transfers was a little more than 20 percent, the probability varied both with the amount of wealth transferred and the total wealth of the households.

Only about 10 percent of families with wealth of under $25,000 received transfers while about 45 percent of households with wealth of over $1 million received transfers. Similarly, the mean value of wealth transferred increased with household wealth. Of families with less than $25,000 in wealth, the relatively few that received transfers got about $53,000 on average. However, families with wealth of $1 million and over received transfers averaging more than $1.3 million.

Surprisingly, despite the fact that the amount of wealth transferred is greater for households with more wealth, expressing transferred wealth as a percentage of total household wealth shows an inverse relationship between total household wealth and the amount of wealth transferred. In percentage terms, households with relatively less wealth have a greater boost in wealth because of the wealth transfers they receive.

For example, families in the wealth category of $25,000 to $49,999 receive transfers that amount to more than 45 percent of their total wealth, even though the mean amount transferred was only about $82,000. But families with total wealth of over $1 million, that on average received transfers in excess of $1.3 million, experienced only about a 17 percent boost in total wealth from these very large transfers. A relatively small wealth transfer provides a bigger boost to low-wealth families than a relatively big transfer provides to relatively wealthy families.[17]

Timing of wealth transfers. Wealth transfers from parents are more useful to adult children if they receive the transfers before they themselves grow old. With a $50,000 gift from a parent, a 30-year-old starting a family can make investments in the continued well-being of the family. By contrast, the 60-year-old close to retirement is likely to be in a better economic position already. Figure 9, based on new analyses of the SCF by Desmond Toohey of the Urban Institute, shows the percentage of families, divided into three age groups, that receive transfers of various types.

TABLE 4 **Percent of Households with Wealth Transfers and Amount of Transfers, 1998**

Wealth Category	Percent of Households with Transfers	Mean Amount of Wealth Transfer*	Transfers as Percent of Total Wealth
Under $25,000	9.9 %	52.7	** %
25,000 - 49,999	20.0	82.4	45.5
50,000 - 99,999	19.6	100.8	27.1
100,000 - 249,999	26.0	120.5	19.6
250,000 - 499,999	31.7	180.4	16.5
500,000 - 999,999	35.5	427.4	22.6
$1,000,000 and over	44.9	1,325.9	17.1

** In thousands of 1998 dollars. Zeroes are not included in calculations of means.*

*** The average level of wealth in the under $25,000 wealth group is so small that the transferred wealth is almost 10,000 times greater than the average wealth.*

Source: Wolff, 2002, p. 262.

Not surprisingly, both the percentage of families that receive a transfer and the average amount of the transfer increases substantially with age. While only 12 percent of the families under age 30 had received a transfer of any type, over 25 percent of those over age 50 had received them. Older adult children are more likely to have received transfers than young adult children because the majority of transfers are given as inheritances at the parent's death and not as gifts while the parent is still alive. Adult children are much more likely to receive money from inheritances than from either trusts or from gifts during their parents' lifetime.

The amount of wealth transferred from parents to adult children in all the categories identified in the SCF are substantial, ranging from nearly $43,000 to over $2 million with a mean of around $110,000 for those under 30, $131,000 for those between ages 30 and 50, and $275,000 for those over age 50.[18] Trusts are by far the most valuable, but they are also the most infrequent (Figure 9). The general conclusion from Figure 9 is that although only between a fifth and a quarter of families receive wealth transfers, those who do get a lot of money, much of which comes during or after middle age.

OTHER FACTORS ASSOCIATED WITH WEALTH TRANSFERS

Wealth is a broad measure of parent-child persistence in economic well-being that reflects a number of other types of similarity between parents and their offspring. Several studies have shown similarities between parents and their adult children in income, asset ownership, consumption, and years of schooling. The literature on similarity in income, a fundamental building block of wealth, is especially extensive.

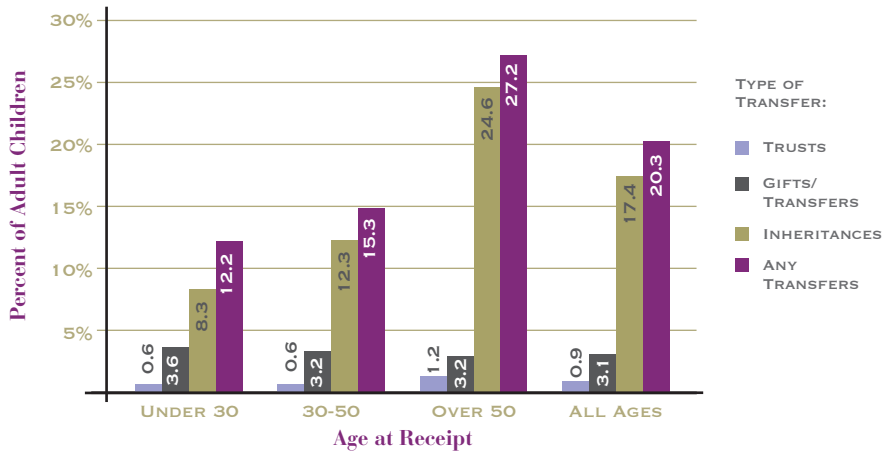
There is also strong evidence that parents exert genetic influences on their children's abilities, not least their intellectual capacity.[19] As discussed in Chapter I "Economic Mobility of Families Across Generations," studies show that there is a substantial correlation between the income of parents and their adult children.

At least two studies show that in each of the other areas of parent-child similarity—including asset ownership, consumption, and years of schooling—there is also considerable similarity between parents and their adult children. Particularly remarkable is the finding in a study conducted at the University of Michigan, based on the PSID, that the influence of parents extends even to the types of assets held by adult children.[20] More specifically, the researchers found, controlling for income, that adult children are similar to parents in holdings in bank accounts and in the probability of stock ownership.

CONCLUSION

The evidence on wealth transmission and mobility across generations shows that many parents in the United States are able to pass along behaviors related to wealth accumulation, to have several types of influence on their children's development and behavior that lead to wealth accumulation (or not), and, in some cases, to provide their children with inheritances or other transfers of wealth.

FIGURE 9 **Percent of Adult Children Receiving Transfers by Age at Receipt and Type, 2004**



Source: Desmond Toohey of the Urban Institute using data from the Survey of Consumer Finances.

There is also good evidence that the correlation in income between parents and children contributes substantially to their similarity in wealth. It probably takes four or five generations for all influences on wealth accumulation that parents pass on to succeeding generations to completely dissipate. Together, all of these factors tend to reduce wealth mobility across generations.

However, studies also show that the wealth of adult children tends to move nearer to the mean of wealth for all families, either from above in the case of parents with above-average wealth or from below in the case of families with below-average wealth.

Further, not more than a quarter of families actually receive inheritances and more than half the wealth owned by families in the current generation is generated by their own earnings from employment, business ventures, or investments. Even adult children with parents in the lowest fifth of the wealth distribution have well over a 60 percent chance of moving out of the bottom—and nearly a 20 percent chance of making it to the top two quintiles of wealth.

An important implication of the research on wealth is that the American economy continues to facilitate the production of great increases in wealth in each generation and most families along the income distribution have managed to improve their wealth in recent years. Although we might wish that there were even more wealth mobility, the American economy continues to reward hard work and risk-taking.

NOTES

[1] Kennickell, 2006.

[2] In certain complex households, the survey divides all individuals living in the household into the "primary economic unit" (PEU) and the rest of the household. The PEU is the economically dominant individual or couple and all others in the household that are financially interdependent with the dominant individual or couple. The interviews last for up to two hours. About 30 percent of those asked to participate refuse. However, among the wealthiest families, the refusal rate is as high as 90 percent. Because of this problem, the survey actually consists of two samples, a random sample representative of the population and an over-sample of relatively wealthy families. The two samples are weighted to produce estimates for the entire population. See Bucks, Kennickell, and Moore, 2006.

[3] For more information about the Panel Study on Income Dynamics, see http://psidonline.isr.umich.edu.

[4] Kennickell, 2006.

[5] Wolff, 2007.

[6] Though beyond the scope of this report, it is interesting to note that there are substantial differences in asset ownership between white and nonwhite families. In 1994, the value of assets held by the median white family was more than seven times that held by the median nonwhite family. For more, see Conley, 1999.

[7] As Ben Bernanke, Chairman of the Federal Reserve, recently put it, "Given their weaker credit histories and financial conditions, subprime borrows default on their loans more frequently that prime borrowers. The consequence of default may be severe for homeowners, who face the possibility of foreclosure, the loss of accumulated home equity, and reduced access to credit." See House Committee on Financial Services, 2007.

[8] For a discussion of the intergenerational income elasticity, see Sawhill and McLanahan, 2006; and Chapters I and II in this volume.

[9] Several recent studies based on the PSID have produced estimates of wealth elasticities. Mulligan, 1997, averaged wealth across several years for both parents and their adult children to increase the reliability of his wealth measures, examined several different combinations of parents and offspring, and used a number of approaches to correcting for measurement error to produce four separate estimates of elasticity ranging from .32 to .50; Mulligan concluded that the most reliable of the estimates was probably closer to .5 (see Mulligan, 1997, especially Chapter 7). In another high-quality study using the PSID, Charles and Hurst, 2002, found that the elasticity of child wealth with respect to parent wealth was .37. Other studies estimate elasticities between .4 and .5 (Kotlikoff and Summers estimate an elasticity of .46). An early study by Menchik based on Connecticut probate records reported an elasticity of .75. However, this study is flawed because the data are for one state, both parents and children had to have died in the same state, only estates of $40,000 or over (over $300,000 in 2007 dollars) were included, and less than one-third of the children's generation was found (300 children of 1,050 parents who had children eligible for the sample). See Kotlikoff and Summers, 1981; Menchik, 1979, and Charles and Hurst, 2003. For an additional explanation of the difference between intergenerational elasticity and the intergenerational correlation, see note 10 in Chapter II "Trends in Intergenerational Mobility."

[10] Solon's definition was written to apply to income mobility, but the concepts and the mathematical calculations are the same for wealth elasticity as for income elasticity; see Solon, 2002.

[11] Solon, 2002.

[12] It should be noted that these estimates of how many generations income or wealth will continue to have an influence are estimates based on mathematical calculations and are not based on actual empirical data.

[13] See Mulligan, 1997; and Charles and Hurst, 2003.

[14] Charles and Hurst, 2003, p. 1157.

[15] Wolff, 2002. It is difficult to get good information on how many parents contribute to their child's education, but it appears to be more than is captured by the SCF. According to the National Postsecondary Student Aid Study, based on interviews with a representative sample of students, the percent of parents who provide help with tuition varies greatly by the type of institution their child is attending. The range is from 19 percent of parents providing tuition aid for students attending public two-year institutions to 48 percent for students attending private doctoral and liberal-arts institutions. A substantial number of students also live at home where they probably receive lots of in-kind assistance. Interestingly, there appears to be an inverse relationship between the percent of parents who help with tuition and the likelihood that students live at home. For example, although only 19 percent of students attending public two-year institutions receive help with tuition from their parents, over 65 percent of them live at home. By contrast, although nearly half of students attending private doctoral and liberal arts institutions receive help from parents with tuition, only 13 percent of them live at home. See Choy and Berker, 2003.

[16] Because of some very large transfers, the mean value of the wealth transfers was higher and more variable than the median, rising to over $345,000 in 1995 from around $312,000 in 1989 and $313,000 in 1992 before falling to $256,900 in 1998. Due to both the changes in the average amount transferred and the rapid increase in average wealth, especially after 1995, wealth transfers reached a high of 35.5 percent of wealth in 1995 before falling sharply to 19.4 percent in 1998. See Wolff, 2002, Table 1.

[17] Wolff, 2002.

[18] The means were computed based only on the adult children who actually received transfers. Zeroes were omitted.

[19] Plomin, 2004.

[20] Chiteji and Stafford, 2000.

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The Economic Mobility Project is a unique nonpartisan collaborative effort of The Pew Charitable Trusts that seeks to focus attention and debate on the question of economic mobility and the health of the American Dream. It is led by Pew staff and a Principals' Group of individuals from four leading policy institutes—The American Enterprise Institute, The Brookings Institution, The Heritage Foundation and The Urban Institute. As individuals, each principal may or may not agree with potential policy solutions or prescriptions for action but all believe that economic mobility plays a central role in defining the American experience and that more attention must be paid to understanding the status of U.S. economic mobility today.

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