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ARE THE RICH GETTING RICHER, THE POOR GETTING POORER?

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The latest data on household wealth from the Census Bureau indicate that in inflation-adjusted dollars median net worth of the typical U.S. household dropped from $73,874 in 2000 to $68,828 in 2011. The losses, however, were shouldered entirely by the bottom 60 percent of all households. Net worth increased for the top 40 percent. Ominously, for the bottom 20 percent, net worth dropped from –$905 to -$6,029. Thus the conclusion that the rich are getting richer and the poor are getting poorer.

In drawing that conclusion there are several major problems. First, the Census Bureau estimates net worth from on information supplied by its *Survey of Income and Program Participation* that interviews a random sample of U.S. households. Those estimates are subject to errors from honest mistakes made by household respondents who are not able to provide accurate information and other respondents who deliberately misinform the enumerator or refuse to participate.

Second, the data are not presented by size of household. Which household is better off, the two-person household with a net worth of $88,000 or the three-person household with a net worth of $112,000?

Third, households in the top 20 percent in 2000 are not necessarily included in the top 20 percent in 2011. For some, changes in their personal and financial circumstances such as death, divorce, unemployment, and personal business failure may have dropped them into a lower quintile. Similarly, households in the bottom 20 percent may have climbed into a higher quintile due to marriage, inheritance, better-paying job, availability for full-time work following completion of a demanding course of studies, and bankruptcy.

Fourth, the asset value of pension income depends on the discount rate one chooses to use. To illustrate, at a discount rate of 3 percent a person who has a yearly pension benefit of $33,000 in perpetuity has an asset worth $1,100,000. At 2 percent it is worth $1,650,000. Because firefighters, police officers, and military personnel often are eligible for retirement after 20 years of service, the sample probably includes some persons receiving pension benefits as young as 40 years of age. It seems, however, that the Census Bureau values this asset in terms of accruals (money held in a pension fund) and therefore underestimates the value of this kind of asset.

Fifth, by deliberately holding interest rates low over the 2009-2011 period the Federal Reserve reduced the earnings of financial investments for many Americans making it more difficult for them to save and invest in other assets.

Sixth, the gains of the rich do not originate in the losses of the poor. Consider this: the Census data show that some of the households in the bottom 20 percent in terms of net worth are at the same time in the top 20 percent in terms of monthly household income. Indeed, there are some households in the lowest quintile with net worth above $250,000. And this: property owners in the bottom 20 percent have a positive net worth ($3,936) while renters have a negative net worth (-$11,275). Across all five quintiles, net worth of renters is much lower than from property owners. In the top 20 percent the net worth of property owners is 10 times greater than net worth of renters. Some renters simply prefer spending their incomes on consumption goods and services rather than accumulating assets.

Finally, the median net worth of married-couple households in 2011 was much higher than for other households. For married-couples in the third quintile net worth was $139,024. For male-headed households it was $27,316 and $22,184 for female-headed households. In all five quintiles net worth for married-couples increased for those who were older. For example, in the fourth quintile it rose from $68,330 for household heads below age 35 to $507,010 for heads 65 and older. However, married couples in 2011 made up only 50.4 percent of all households compared to 54.1 percent in 2000. Thus the decline of $5,046 in the net worth of all U.S. households from 2000 to 2011 is due in part to a drop in the proportion of high net-worth married-couple households.

There are other anomalies in the Bureau's published data. For householders in the top 20 percent with a graduate or professional degree median net worth in 2011 was $1,324,899. Persons in the bottom 20 percent with the same educational attainment reported negative net worth of -$6,791. No doubt these "poor" persons are much younger with debt accumulated in pursuing higher education and have not had enough years of work experience to earn the money necessary to invest in assets. This condition is suggested by other data indicating that net worth in all five quintiles is higher for older householders. In the third quintile, for instance, it rises from $6,682 for householders who are less than 35 years of age to $171,135 for those 65 and older.

Are the rich getting richer and the poor getting poorer? Or is it that married-couple households do much better than other households because they are more likely to have two adult wage earners and therefore are better positioned to put aside money for investment in a range of assets?

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