An Urban Institute Project Exploring Upward Mobility

Opportunity and Ownership Facts

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How Did Income and Wealth Change for Middle-Income Families Over the Last Two Decades?

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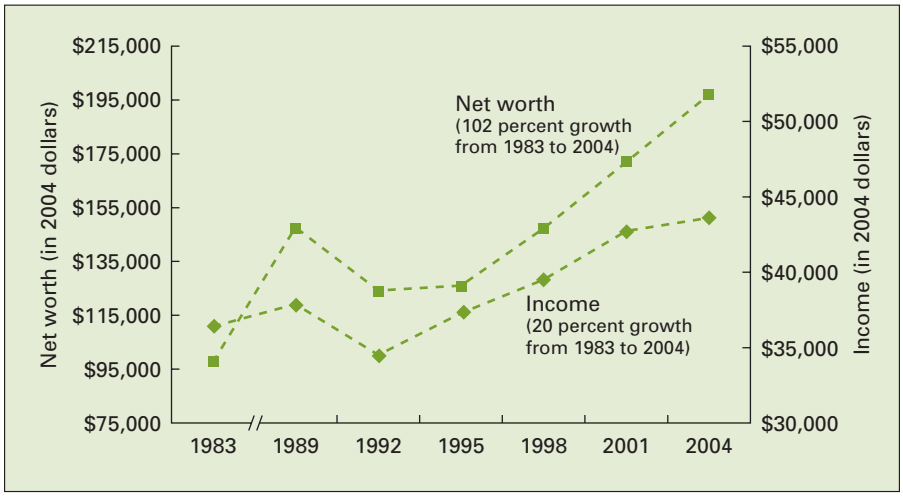
Over the last two decades, American households have generated healthy increases in wealth, but only modest increases in income. According to the Federal Reserve Board's Surveys of Consumer Finances (SCF), between 1983 and 2004, middle-income households (between the 40th and 60th percentiles) gained only about 20 percent in gross income, or an average of less than 1 percent per year.[1] However, their net worth—the value of what they own minus the value of what they owe—jumped by over 100 percent, a rapid growth of 3.35 percent per year. These families' debt rose by $40,000 (over 200 percent), but it was overshadowed by a $140,000 increase in assets.[2]

Nearly 40 percent of this increased net worth came from the housing market. Mortgage debt rose about $30,000, but home values increased by $70,000. Some gains in housing wealth resulted from rising homeownership rates; the share of middle-income households owning homes increased from about 60 percent in 1983 to 71 percent in 2004.

Liberalized lending policies played a role in expanding debt. Using more sophisticated technologies to price credit based on individual risk factors and characteristics, banks and other lenders can now loan capital to more risky customers, albeit at higher interest rates than prime loans. From 1994 to 2003, the subprime mortgage market grew explosively, rising by an astonishing 25 percent each year.

Still, over 60 percent of the gain in net worth—or about $60,000—resulted from the appreciation and ownership of financial assets, net of consumer and other non-mortgage debt. Nearly all net additions to middle-income borrowing were added mortgage debt.

Growth in Net Worth and Income for Middle-Income Households, 1993–2004



Source: Robert Lerman and Henry Chen, The Urban Institute (2006).
Notes: Calculations are based on the 1983, 1989, 1992, 1995, 1998, 2001, and 2004 Surveys of Consumer Finance, Federal Reserve Board. Middle-income households are defined as those between the 40th and 60th percentiles of income.

Notes

1. Data from the Current Population Survey, however, show annual household income growth for this middle-income group at 1.3 percent per year. Some evidence suggests increased undercounting, since national income account data reveal yearly growth of 1.8 percent in disposable income, 1.7 percent in compensation, and 1.6 percent per year in wage and salary income (all per household).

2. Since 1989, the Federal Reserve Board has conducted the SCF every three years to measure income, assets, and liabilities. Asset data include bank accounts, mutual funds, stocks, and 401(k) and other defined contribution pensions, as well as automobiles, businesses, and homes (generally the most valuable household asset). The SCF excludes most consumer durables such as furniture or appliances, the current value of defined benefit pensions, and future Social Security payments.

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