U.S. Family Wealth from 1989 to 2013: Evidence and Analysis

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November 20, 2014

Congressional Research Service
7-....
www.crs.gov
RL33433

CRS REPORT
Prepared for Members and
Committees of Congress

Summary

U.S. family wealth has been an underlying consideration in congressional deliberations on various issues, including education, taxation, social welfare, and recovery from the 2007-2009 recession. This report analyzes the change over time in the level and concentration of family wealth as measured by net worth (i.e., assets minus liabilities) to help inform those policy deliberations.

According to the Federal Reserve's latest Survey of Consumer Finances (SCF), in 2013, mean family net worth was $534,600 and median family net worth was $81,200. The median is the value at which one-half of wealth-owners have lower values and one-half have higher values of wealth. The median is a more reliable indicator of the wealth of the "typical" family than is the mean, which, because of the way in which the mean is calculated, can be greatly affected by a relatively small number of families with high values of net worth. Mean family net worth is more than six times median family net worth, which suggests a concentration of wealth among families at the upper end of the wealth distribution.

The change over time in the relationship between the mean and median indicates how the distribution of wealth across families has changed. Both mean and median net worth increased from 1989 to 2007, with the mean typically increasing to a greater extent than the median. This suggests that in recent decades wealth became more concentrated among families at the upper end of the distribution. Both measures fell between 2007 (the outset of the 2007-2009 recession) and 2010 (the first full year of recovery). The relatively greater decline in the median than in the mean between 2007 and 2010 suggests that the recession and slow recovery had a proportionately greater effect on families in the bottom half of the wealth distribution than those further up the distribution.

According to a September 2014 article in the *Federal Reserve Bulletin*, which presents data from the 2013 SCF, "The improvements in economic activity along with changes in house and corporate equity prices combined to effectively stabilize average and median family net worth between 2010 and 2013 after both measures fell dramatically between 2007 and 2010."

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Introduction

Policy makers are concerned about the wealth of U.S. families because of the relationship between wealth and economic well-being. Wealth is a store of future income that serves a critical economic security function. In times of economic hardship, such as unemployment, illness, or divorce, wealth is an additional source of income to help pay expenses and bills. For older individuals, wealth is an important source of retirement income. In addition, wealth is a significant factor influencing the strength of economy-wide consumer spending, which in turn sets the pace of economy-wide recovery and job creation. Moreover, deliberations by Congress on such issues as taxation, education, housing, and entitlements could have implications for the accumulation of wealth by families.

To help inform these policy debates, this report analyzes data from 1989 to 2013 of the Survey of Consumer Finances (SCF) on the trend in the level and concentration of wealth across families. The report subsequently examines the roles of financial assets and home ownership in wealth accumulation. It concludes with a review of explanations for the accumulation and distribution of wealth across families.

U.S. Family Wealth

Data and Limitations

Data regarding family wealth are very limited. Some data are available from estate tax returns,[1] but these reflect only the small proportion of the population that is subject to the tax.[2] The U.S. Census Bureau periodically reports on net worth and asset ownership, but the data are drawn from the Survey of Income and Program Participation, which over samples lower-income families. As a result, the Census Bureau data on wealth underestimate average (mean) and total family wealth.[3]

The most comprehensive source of data on the wealth of U.S. families is the SCF. The Federal Reserve Board (Fed), in cooperation with the Treasury Department, sponsors the SCF. Since 1992, data for the SCF have been collected by NORC, a research organization at the University of Chicago. The survey is conducted every three years, collecting detailed statistics not only on the level, but also the composition of family assets, liabilities, and before-tax income. In the SCF, wealth is measured by net worth (i.e., total value of assets minus total value of liabilities).

The SCF counts both financial and nonfinancial (real) assets. Financial assets include the value of checking and savings accounts; stocks, bonds, and mutual funds; annuities and life insurances;

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[1] See, for example, Wojciech Kopczuk and Emmanuel Saez, "Top Wealth Shares in the United States: 1916-2000, Evidence from Estate Tax Returns," *National Tax Journal*, vol. 57, no. 2 (2004), pp. 445-488.

[2] The estate tax exemption was $5.25 million in 2013, and 0.13% of all deaths incurred estate and gift tax liability, according to the *Tax Policy Center*, "Tax Facts," available at http://www.taxpolicycenter.org/TaxFacts/listdocs.cfm?topic2id=60.

[3] For additional information on this point, see Alfred O. Gottschalck, "Net Worth and the Assets of Households: 2002," Current Population Reports P70-115, U.S. Census Bureau, April 2008. Wealth data over time from the Census Bureau series are available at http://www.census.gov/hhes/www/wealth/wealth.html.

and tax-deferred retirement accounts (e.g., individual retirement accounts and 401(k) accounts). Real assets include the value of principal residences, corporate and non-corporate businesses, vehicles (e.g., cars, trucks, boats, and airplanes), and miscellaneous valuables (e.g., antiques, jewelry, and coins). Liabilities include home mortgages and consumer debt (e.g., credit card balances and auto and student loans).

Because of the substantial uncertainty associated with estimating the current value of families' future income streams from Social Security, Medicare, and defined benefit private pensions, these assets are not included in the SCF calculation of family net worth. Some argued that these are assets families have no direct control over and, therefore, are inconsistent with a concept of wealth as a marketable store of value that could be a source of potential consumption. The SCF has been criticized for these exclusions. Others have argued that some items the SCF counts toward net worth (e.g., vehicles) should be excluded.[4] At least one researcher has constructed estimates of net worth that include pension and Social Security benefits, but exclude vehicles.[5]

To improve the accuracy of its data, the SCF uses a sample design consisting of two parts: (1) a standard, geographically based random sample and (2) a supplemental oversample of relatively wealthy families drawn from a list of statistical records derived from Internal Revenue Service (IRS) data. The over sampling of these families provides a means of correcting for nonresponse, which is differentially higher among families with high net worth. Correcting for nonresponse bias in wealth estimates makes the SCF better able than other surveys to gather complete and detailed information on high-income and high-net worth families.[6]

Median and Mean Family Net Worth

Two summary measures commonly used to describe the level and concentration of wealth are median and mean net worth. If all wealth-owning families are ranked from poorest to richest, median net worth is that of the family in the middle of the distribution. Put another way, it is the value at which one-half of families in the distribution have less wealth and one-half have more wealth. In the case of wealth distribution, the median is a more reliable indicator of the wealth of the "typical" family than the mean because of the way in which a mean is calculated. To derive mean net worth, the value of all wealth owned by families is added up and then divided by the total number of families. If a minority of high-wealth families own more than one-half of all wealth, the mean will be greater than the median. The difference between the median and mean indicates the general shape of a distribution.

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[4] See, for example, Scott Winship, *Middle Class Wealth: It's Not as Bad as It Looks*, July 5, 2012, http://www.brookings.edu/research/opinions/2012/07/05-middle-class-winship; and Diana Furchtgott-Roth, senior fellow and director of the Hudson Institute's Center for Employment Policy, *The Wealth Inequality Mirage*, October 7, 2010, http://www.hudson.org/index.cfm?fuseaction=publication_details&id=7388#.

[5] The study found that these adjustments to the measurement of wealth, through 2001, increased the value of median net worth and had a small equalizing effect on the distribution of net worth as compared with the standard SCF estimates. See Edward Wolff, "The Retirement Wealth of the Baby Boom Generation," *Journal of Monetary Economics*, vol. 54, no. 1 (January 2007), pp. 1-40.

[6] Javier Diaz-Gimenez, Jose-Victor Rios-Rull, and Andy Glover, "Facts on the Distribution of Earnings, Income, and Wealth in the United States: 2007 Update," *Federal Reserve Bank of Minneapolis Quarterly Review*, vol. 34, no. 1 (February 2011).

According to SCF data shown in **Table 1**, mean family net worth in each year was substantially greater than median net worth.[7] The mean ranged from almost four to more than six times the median during the 1989-2013 period. As explained above, such a relationship indicates considerable concentration of wealth among families in the upper half of the wealth distribution.

Table 1. Median and Mean Family Net Worth, 1989-2013

(2013 dollars)

Year	Median	Mean	Mean-to-Median Ratio
1989	$84,800	$336,100	4.0
1992	80,500	303,200	3.8
1995	87,800	321,900	3.7
1998	102,500	404,400	4.0
2001	113,700	521,900	4.6
2004	114,800	554,200	4.8
2007	135,400	626,300	4.6
2010	82,800	534,500	6.5
2013	81,200	534,600	6.6

Source: Federal Reserve Board, 2013 SCF Chartbook, http://federalreserve.gov/econresdata/scf/files/2013_SCF_Chartbook.pdf.

Mean family net worth typically increased to a greater extent than median family net worth from 1992 through 2007,[8] which suggests that the wealth distribution became more concentrated at the upper end of the distribution over time. Since 2007, reflecting the negative impact of the deep 2007-2009 recession and the subsequent slow recovery on income and asset prices, both measures decreased (see **Table 1**). Between 2007 and 2013, median family net worth declined by 40.0% and mean net worth declined by 14.6%. The median declining less than the mean indicates net worth decreased more, on average, for those in the lower half of the wealth distribution.

The decrease in median net worth to $81,200 in 2013 dropped median family wealth almost to its level 21 years earlier ($80,500 in 1992). Mean net worth of $534,600 in 2013 was essentially unchanged from its value in 2010, remaining near the level of net worth reached 12 years earlier ($521,900 in 2001).

That median net worth declined and mean net worth was unchanged between 2010 and 2013 was the result of a continuing general decline in asset prices, notably housing prices. The median family's total asset holdings fell 11%, from $200,600 in 2010 to $177,900 in 2013. The mean total asset holdings fell a more modest 3%, from $656,200 in 2010 to $638,900 in 2013.

Helping to offset falling asset prices' negative effect on net worth was a substantial decrease in families' debt holdings between 2010 and 2013. The median family's debt holdings fell 20%,

[7] SCF data are consistent from 1989 forward. All values are before-tax and inflation adjusted (expressed in 2013 dollars). SCF data are available at http://federalreserve.gov/econresdata/scf/scfindex.htm.

[8] Arthur B. Kennickell, *Ponds and Streams: Wealth and Income in the U.S., 1989 to 2007*, FEDS Working Paper 2009-13, Federal Reserve Board, Washington, DC, January 2009.

from $75,800 in 2010 to $60,400 in 2013. The mean value of debt holdings decreased 13%, from $140,000 in 2010 to $122,300 in 2013.

Share of Total Net Worth by Percentile of Wealth Owners

A more detailed picture of the distribution of family wealth emerges from examining the share of total net worth held by various percentiles of the wealth distribution. The top 3% of families accounted for 54.4% of total net worth in 2013. The next 7% of families held 20.9% of all wealth. Taken together then, the top 10% of wealth-owning families accounted for a 75.3% share of total net worth, and the share of wealth held by the bottom 90% was 24.7% in 2013.[9]

Family net worth appears to have become more concentrated in recent decades.[10] According to SCF data, the wealth share of the top 3% increased from 44.8% in 1989 to 51.8% in 2013. The share of net worth of the next 7% was 20.9%, effectively unchanged since 1989. Therefore, taken together the share of wealth held by the top 10% of wealth owners grew from 67.2% in 1989 to 75.3% in 2013. A decline in the share of net worth occurred in the remaining 90% of families, falling from 33.2% in 1989 to 24.7% in 2013.[11]

Asset Prices and Wealth

In addition to accumulating wealth through saving of current income, those who own assets may see their wealth grow or shrink due to rising or falling asset prices. The distribution of such assets as stocks and homes has implications for who benefits from asset appreciation and who is harmed by asset depreciation.

Stock and Housing Price Appreciation, 1989-2007

The appreciation of stock values during the 1990s and of home values into the first decade of the 21st century appears to have substituted for saving from current income as a means of increasing family wealth. A number of studies estimated a close connection between the decline in the household saving rate during the 1990s and the rapid rise in equity prices.[12] Empirical analyses similarly estimated that appreciation in housing prices through the mid-2000s drove up the value

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[9] Jesse Bricker, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, vol. 100, no. 4, September 2014, p.10, available at http://www.federalreserve.gov/econresdata/scf/scfindex.htm.

[10] Ibid., p. 11.

[11] Other research shows a long historical decline in the concentration of wealth in the United States from the late 1920s into the late 1970s, and shows a marked increase since then, driven by a rising share of wealth at the very top. See, for example, Emmanuel Saez and Gabriel Zucman, "The Distribution of US Wealth, Capital Income and Returns since 1913," March 2014, available at gabriel-zucman.eu/files/SaezZucman2014Slides.pdf.

[12] See, for example, Annamaria Lusardi, Jonathan Skinner, and Steven Venti, *Saving Puzzles and Saving Policies in the United States*, National Bureau of Economic Research, Working Paper 8237, April 2001; and Dean M. Maki and Michael G. Palumbo, *Disentangling the Wealth Effect: A Cohort Analysis of Household Saving in the 1990s*, Board of Governors of the Federal Reserve, Finance and Economics Discussion Series 2001-12, April 2001.

of residential assets, which substituted for saving out of current income as a way to accumulate wealth.[13]

The median value of stock owned by families tripled in real terms between 1989 and 2001.[14] Once equity prices stopped steadily increasing after 2000, the rapid rise in housing prices through 2006 appears to have kept the saving rate low.[15] Whereas the real median value of stock fell by 16% between 2001 and 2007, the median value of primary residences rose by 39% over the same period.[16]

Although the share of families owning their primary residences grew much less (5 percentage points to 69%) than the share of families directly owning stock (19 percentage points to 51%) between 1989 and 2007, residential assets are more widely distributed than stock.[17] In 2007, the wealthiest 10% of families held 38.5% of the gross equity in principal residences compared with 90.4% of the value of stock.[18] Families in the next 40% of the distribution (the 50th to 90th percentile) held 48.9% of the gross equity in principal residences compared with 9.0% of the value of stock. Thus, if appreciation in house prices substituted for saving out of current income, it did so for a much larger proportion of the population than did stock price appreciation. Specifically, families in the upper half of the wealth distribution stood to benefit more than others from rising house prices whereas the top 10% of wealth-owning families stood to benefit the most from rising stock prices.

Stock and Housing Price Depreciation, 2007-2010

The 2007 SCF was completed as the economy entered a financial crisis. Because results from the 2010 SCF were not going to be available until 2012, respondents to the 2007 survey were reinterviewed shortly after the December 2007-June 2009 recession ended to assess its impact on the wealth of U.S. families.

According to results (released in March 2011) from the reinterview of SCF families who had originally been interviewed in 2007, 63% of families (the majority) experienced a loss in net worth between 2007 and 2009. The median percentage decrease in net worth among these families was 45%.[19]

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[13] See, for example, Eric Belsky and Joel Prakken, "Housing's Impact on Wealth Accumulation, Wealth Distribution and Consumer Spending," National Association of Realtors National Center for Real Estate Research, 2004, available at http://www.realtor.org/research/ncrer/rewealtheffect; John D. Benjamin, Peter Chinloy, and G. Donald Jud, "Real Estate Versus Financial Wealth in Consumption," *Journal of Real Estate Finance and Economics*, vol. 29, no. 3, 2004; and John N. Muellbauer, "Housing, Credit and Consumer Expenditure," paper prepared for the Federal Reserve Bank of Kansas City's Jackson Hole Symposium, August 2007, available at http://www.kansascityfed.org/publicat/sympos/2007/PDF/2007.08.15.Muellbauer.pdf.

[14] Federal Reserve Board, *2010 SCF Chartbook*, available at http://federalreserve.gov/econresdata/scf/files/2010_SCF_Chartbook.pdf.

[15] CRS Report RS21480, *Saving Rates in the United States: Calculation and Comparison*, by (name redacted).

[16] Federal Reserve Board, *2010 SCF Chartbook*.

[17] Ibid.

[18] Arthur B. Kennickell, *Ponds and Streams: Wealth and Income in the U.S., 1989 to 2007*, FEDS Working Paper 2009-13, Federal Reserve Board, Washington, DC, January 2009.

[19] Jesse Bricker, Brian Bucks, and Arthur Kennickell et al., *Surveying the Aftermath of the Storm: Changes in Family Finances from 2007 to 2009*, Federal Reserve Board, Finance and Economics Discussion Series Working Paper 2011-17, March 2011.

The broad-based downward shift of the wealth distribution between 2007 and 2009 was reflected in reductions in median and mean summary measures. The drop in median net worth (23%) was greater than the drop in mean net worth (19%), which suggests that the balance sheets of families in the lower half of the wealth distribution were proportionately more adversely affected by the 2007-2009 recession than those further up the distribution.

Among financial assets, the median value of stocks fell most sharply (23%) during the recession. Nonfinancial assets experiencing declines in median value comparable to stocks included vehicles (26%), business equity (24%), and equity in nonresidential property (23%). Although the median value of primary residences fell by a smaller percentage (12%), primary residences' absolute value dropped by $18,700 (expressed in 2009 dollars), much more than that of any other financial or nonfinancial asset.

Decreases in the value of home equity and stocks as well as business equity all contributed to the overall decline in net worth during the 2007-2009 recession. Further, there was a change in the composition of assets held by families. Primary residences as a proportion of total assets fell by 1.5 percentage points. Stocks' and business equity's share dropped by 4.7 percentage points. However, with homes being a much more widely held asset than stocks and business equity, housing price depreciation appears to have had the larger role in changes in family net worth during the recession, according to data from the 2009 reinterview of 2007 SCF families.

Results from the 2010 SCF provide statistical evidence in support of the respective roles of house and stock price depreciation in reducing net worth since 2007. "Although declines in the values of financial assets or business were important factors for some families, the decreases in median net worth [between 2007 and 2010] appear to have been driven by a broad collapse in house prices."[20]

Stock Prices Rebound, but Housing Prices Fall Further, 2010-2013

Results from the 2013 SCF indicate that the pattern of change in asset values since 2010 of a decreased median and unchanged mean (discussed above) is a major factor behind the behavior of total net worth in this most recent period. The value of the median family's total asset holdings fell another 11%, from $200,600 in 2011 to $177,900 in 2013. The mean value of asset holdings fell a more modest 3%. The larger drop in median than in mean asset holdings indicates that gains and losses in asset values were unevenly distributed across families. The median value of stocks, which are only held by about 14% of families, increased 26% from $21,400 in 2010 to $27,000 in 2013; and the mean value of stock holdings increased 31% from $224,800 in 2010 to $294,300 in 2013. In contrast, the median and mean value of families' primary residence, an asset held by 67.3% of families, both fell. The median value of primary residences decreased 7%, from $182,200 in 2010 to $170,000 in 2013; and the mean value decreased 6%, from $280,100 in 2010 to $262,600 in 2013.[21]

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[20] Ibid., p. 1.

[21] Jesse Bricker, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, vol. 100, no. 4, September 2014, p.16, available at http://www.federalreserve.gov/econresdata/scf/scfindex.htm.

Factors Potentially Affecting the Accumulation and Distribution of Family Wealth

Researchers often use the distribution of income as a starting point for understanding the accumulation and distribution of wealth. Higher income families are generally better positioned to set more aside, and thus accumulate greater wealth, than those at the lower end of the income distribution.[22] As shown in **Table 2**, four of every five families in the top 10% of the income distribution saved in 2013 compared with one of every three families in the bottom 20% of the income distribution.[23]

Despite income and wealth generally increasing in tandem, wealth is more concentrated than income. The ratio of the mean to median is an indicator of the degree of concentration in a distribution because, as previously mentioned, the mean can be greatly affected by a few high-value observations. Evidence from the 2013 SCF indicates that families' mean income was 1.9 times more than median income whereas families' mean net worth was 6.6 times more than median net worth—almost 3.5 times the mean to median income ratio. The larger mean-to-median ratio reflects the survey result that wealth is more concentrated than income among families at the upper end of the respective distributions.

Table 2. Family Income and Net Worth by Income Class

(2013 dollars)

Percentile of Income	Income ($ in thousands)		Net worth ($ in thousands)		Percentage of Families Who Saved
	Median	Mean	Median	Mean	
All families	46.7	87.2	81.2	534.6	53.0
less than 20%	15.2	15.2	6.4	64.6	31.7
20% to 40%	30.4	30.5	27.9	113.1	40.9
40% to 60%	48.7	49.6	55.4	164.8	49.6
60% to 80%	77.9	80.0	161.3	350.9	64.5
80% to 90%	121.7	123.5	287.9	631.4	73.3
90% to 100%	223.2	397.5	1,125.9	3,327.3	83.4

Source: Jesse Bricker, Arthur B. Kennickell, Kevin B. Moore, and John Sabelhaus, "Changes in U.S. Family Finances from 2010 to 2013: Evidence from the Survey of Consumer Finances," *Federal Reserve Bulletin*, vol. 100, no. 4, September 2014.

[22] Income in the SCF includes wages and salaries; self-employment and farm income; returns from real estate, partnerships and subchapter S corporations, trusts and estates; interest and dividends; realized capital gains and losses; pension, Social Security, annuity and disability payments; payments from unemployment insurance or workers' compensation; and alimony and child support.

[23] The percentage of all families in the 2013 SCF that saved in the previous year was 53.0%. It is the lowest savings rate reported by respondents to the SCF since the question was first asked in the 1992 survey.

Analysts have sought explanations for the greater concentration of wealth than income across families. A common explanation is that as individuals' incomes rise during their working lives they save (accumulate wealth) for their retirement years. Upon retirement, income falls and so does saving as retirees draw down wealth to maintain living standards. However, empirical studies have estimated that saving for retirement cannot completely explain people's saving behavior and the higher concentration of wealth than income.[24]

Researchers added to their statistical model of savings behavior a variable for unpredictable events (e.g., job loss and divorce) that, like retirement, could reduce an individual's standard of living. They estimated that saving for so-called precautionary reasons contributes to but does not fully explain a distribution of wealth that is more concentrated than the distribution of income.[25]

As a result, analysts have sought other explanatory variables. Entrepreneurship is one such factor.[26] Although business owners (the self-employed or entrepreneurs) are a small proportion of the population, the group comprises a much larger share of the wealthiest families—more than one-half of the top 1% of the wealth distribution.[27] Researchers estimated that entrepreneurs are more motivated than others to save because they encounter difficulty borrowing funds to start or expand firms.[28] In other words, those who want to start their own businesses have learned they typically need to fund it from their own savings.[29]

Another contributory factor may be the desire of wealthier families to bequeath assets to their children. Analysts estimated that this desire prompts wealthy families to save at a high rate and helps to explain why families in the upper end of the wealth distribution even in old age do not consume all their assets. Researchers further suggest that bequests take the form not only of financial capital (i.e., assets), but also of human capital (i.e., years of education).[30] Wealthy parents may be able to pass on greater earnings abilities to their children because wealthier families are less affected by educational borrowing constraints than families further down the wealth distribution. In other words, wealthy parents can more easily finance their children's post-secondary education compared with parents who have amassed less savings, increasing the probability that children of the wealthy will earn more, save more, and accumulate more wealth.

[24] Marco Cagetti and Mariacristina De Nardi, "Wealth Inequality: Data and Models," *Macroeconomic Dynamics*, vol. 12, suppl. 2 (2008), pp. 285-313.

[25] Luis Cubeddu and Jose-Victor Rios-Rull, "Families as Shocks," *Journal of the European Economic Association*, vol. 1, no. 2-3 (April-May 2003), pp. 671-682; and Vincenzo Quadrini and Jose Victor Ríos-Rull, "Understanding the U.S. Distribution of Wealth," *Federal Reserve Bank of Minneapolis Quarterly Review*, spring 1997, pp. 22-36.

[26] Vincenzo Quadrini, "Entrepreneurship, Saving and Social Mobility," *Review of Economic Dynamics*, vol. 3, no. 1 (2000), pp. 1-40.

[27] Marco Cagetti and Mariacristina De Nardi, "Entrepreneurship, Frictions, and Wealth," *Journal of Political Economy*, vol. 114, no. 5 (October 2006), pp. 835-870.

[28] Robert W. Fairlie and Harry A. Krashinsky, *Liquidity Constraints, Household Wealth, and Entrepreneurship Revisited*, Institute for the Study of Labor, IZA Discussion Paper No. 2201, Bonn, Germany, revised October 2011.

[29] Erik Hurst, Annamaria Lusardi, Arthur Kennickell, and Francisco Torralba, "The Importance of Business Owners in Assessing the Size of Precautionary Savings," *The Review of Economics and Statistics*, vol. 92, no. 1 (February 2010), pp. 61-69.

[30] Mariacristina DeNardi, "Wealth Inequality and Intergenerational Links," *The Review of Economic Studies*, vol. 71, no. 3 (July 2004), pp. 743-768.

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