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Who are the Asset Poor? Levels, Trends and Composition, 1983-1998

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The booming U. S. economy of the 1990s, particularly the big run-up in the stock market, has created the impression that all American households are doing well, particularly in terms of wealth acquisition. As we shall show, this is decidedly not the case. In this paper, we develop several measures of "asset poverty," and use them to document changes from 1983 to 1998 in the extent to which American households are unable to rely on an asset cushion to sustain themselves during temporary hard times. These measures indicate that in the face of the massive growth in overall assets in the U. S., the level of asset poverty has actually been rising. In addition to showing the trends in overall asset poverty in the U. S., we describe both the patterns of asset poverty rates for various socioeconomic (e.g., race, age, schooling, family structure) groups over the 1983-1998 period.

In Section I and II of the paper, we briefly describe the current measure of official income poverty that serves as the basis for assessing the status of the nation's least well-off citizens, and show the levels of official poverty for the years for which asset poverty measures are available. We also present the trend in median family income for these years. Section III presents the alternative asset poverty measures that we use in the paper and describes the data sources that we use in our analysis. These alternative measures employ alternative concepts of wealth, but use the same poverty cutoff thresholds; we also measure asset poverty by employing an absolute dollar cutoff, irrespective of family size. Section IV presents our estimates of asset poverty for the entire population that flow from our definitions. In Section V, we present more details on asset poverty in 1998 period for the entire population, as well as subgroups of the population distinguished by race, age of the household head, education of the household head, tenure status, and family type. Section VI investigates trends in asset poverty over the entire 1983 to 1998 period for the entire population, as well as the various subgroups. Section VII shows the decomposition of these trends for subperiods of this entire period; namely for the period from 1983 (a recession year) to the recovery year of 1989, and from 1989 to a later peak year, 1998. Finally, in section VIII, we summarize our results and offer a few conclusions.

I. The Concept of Poverty: Resources and Needs

Although reducing poverty is a nearly universal goal among both nations and scholars, there is no commonly accepted way of identifying who is poor. Some argue for a multidimensional poverty concept that reflects the many aspects of well-being. In this context, people deprived of social contacts (with friends and families) are described as being socially isolated, and hence poor in this dimension. Similarly, people living in squalid housing are viewed as "housing poor," and people with health deficits as "health poor." Economists tend to prefer a concept of hardship that reflects "economic position" or "economic well-being," somehow measured. This economic concept underlies the official United States poverty measure, and the proposed revision of it based on the National Research Council (NRC) Panel Report (see below).

The measurement of economic poverty seeks to identify those families whose economic position (or economic well-being), defined in terms of command over resources, falls below some minimally-acceptable level. In addition to requiring a precise definition of economic position or well-being, the measure must specify a minimum level of well-being (or "needs") in terms that

are commensurate with "resources."[1] Such a measure does not impose any norm on people's preferences among goods or services (e.g., necessities vs. luxuries) or between work and leisure. Moreover, it allows for differentiation according to household size and composition, and it enables intertemporal variability in access to these resources and (in principle, at least) one's ability to "enjoy" the fruits of the resources (e.g., one's health status). It does, however, link "access to resources" to "economic position" or "well-being," hence excluding many factors that may affect "utility" but are not captured by "command over resources."

Within this economic perspective, there are substantial differences regarding the specific economic well-being indicators believed to best identify those whose economic position lies below some minimally acceptable level. For example, the official United States poverty measure relies on the *annual cash income* of a family, and compares this to some minimum income standard or "poverty line." An alternative--and equally legitimate--position is that the level of *annual consumption* better reflects a family's level of living, or that some measure of a family's *capability to be self-reliant* identifies a nation's truly needy population.[2]

II. Official U. S. Poverty and Median Incomes: 1983-1998

A. The Official U. S. Poverty Measure

The official United States definition of poverty has played a very special role in the development of social policy in this country. A case can be--indeed, has been--made that the most important contribution of the War on Poverty era was the establishment of an official, national poverty line. Because of the official adoption of this measure, the nation made a commitment to annually chart the nation's progress toward poverty reduction by publishing and publicizing a statistical poverty index. As Professor James Tobin (1970) put it: because of this official measure "no politician will be able to ...ignore the repeated solemn acknowledgments of society's obligation to its poorer members."

The official United States poverty measure (including the recently proposed revisions in it[3]) has several distinct characteristics. First, it is a measure of income poverty; the purpose is to identify those families that do not have sufficient annual cash income to meet what is judged to be their annual needs. As such, it compares two numbers for each living unit--the level of their annual cash income and the level of income that a unit of its size and composition requires in order to secure a minimum level of consumption. By relying solely on annual cash income as the indicator of resources, this measure ignores many potential sources of utility or welfare (e.g., social inclusion, or "security") that may be weakly tied to cash income. Second, it is an absolute measure of poverty. Cash income is compared to income requirements, and that is it. As a result,

[1]Sen (19823) considered the needs standard (or poverty line) to have "some absolute justification of its own," it being a level below which "one cannot participate adequately in communal activities, or be free of pubic shame from failure to satisfy conventions" (p. 167).
[2] See Haveman and Mullikin (2001) for a discussion of the advantages and disadvantages of these alternatives.

[3]This proposed revision is described in the report of the Panel on Poverty and Family Assistance, which was appointed by the Committee on National Statistics of the National Research Council of the National Academy of Sciences (NAS). See Citro and Michael (1995).

even if the income of every nonpoor individual in the society should increase, the prevalence of poverty in the society would not be affected.

The economic resources concept on which the measure rests has been subject to many criticisms.[4] Similarly, the arbitrary nature of the denominator of the poverty ratio--the minimum income needs indicator--has also been criticized (See Ruggles, 1990). Given its conceptual basis and the crude empirical evidence on which the dollar cutoffs rest, the United States official poverty lines are essentially arbitrary constructs. Adjustments in the poverty line to account for different family sizes and structures also rest on weak conceptual and empirical foundations.

B. Official Income Poverty and Median Income, 1983-1998

In spite of criticisms of it, the official U. S. poverty measure provides a baseline against which to judge estimates of asset poverty. The following table presents estimates of the percent of families in the U. S. which were poor in those years over the 1983-1998 period for which we are able to study asset poverty, together with estimates of median family income for these years.

[4]The most fundamental criticisms of the official measure focus on this basic social objective on which it rests. Perhaps actual cash income is not the most salient indicator of well-being or position. Similarly, in assessing poverty trends over time, perhaps the general trend in the overall level of living should be taken into account. Other proposed poverty indicators reflect these alternative judgements. Aside from taking exception to the social objective that underlies the official measure, most other criticisms of it focus on the adequacy of the annual cash income measure of "command over resources." While the current cash income numerator of the poverty ratio may reflect the extent to which the family has cash income available to meet its immediate needs (and hence be desirable for determining eligibility for program benefits or financial assistance), it indicates little about the level of consumption spending potentially available to the family. For many families, annual income fluctuates substantially over time. Unemployment, layoffs, the decision to undertake mid-career training or to change jobs, health considerations, and especially income flows from farming and self-employment may all cause the money income of a household to change substantially from one year to the next. Even as an indicator of a family's ability to meet its immediate needs, the current income measure is flawed--it reflects neither the recipient value of in-kind transfers (e.g., Food Stamps and Medicaid, both of which are major programs in the United States supporting the economic wellbeing of low income families) nor the taxes for which the family is liable. The failure to reflect the effect of taxes is particularly troublesome in the United States context. The Earned Income Tax Credit (EITC) has expanded into a major form of income support for the low income working population. However, because the refundable payments are viewed as negative taxes, they are not reflected in the definition of income used in the official poverty measure. Similarly, whereas current cash income--and hence the official poverty measure--reflects financial flows in the form of interest and dividends from the assets held by individuals, the assets themselves are not counted, nor is the value of leisure (or voluntary nonwork) time reflected in the measure. This is less the case for the NRC-proposed revision to the official poverty measure, as it attempts to account for some in-kind benefits in assessing the relationship of resources to needs. The United States official poverty measure is also silent on the differences in the implicit value that families place on income from various sources. Income from public transfers, market work, and returns on financial assets are treated as being equivalent in contributing to the family's well-being. As an absolute measure of poverty, the United States official measure also implicitly assumes that it is the circumstances of those at the bottom of the distribution that matters, and not income inequality per se. A growing gap between those with the least money income and the rest of society need not affect the official poverty rate.

Year	Poverty Rate for Families	Median Family Income ($ thousands 1999)
1983	12.3	$41.1
1989	10.3	46.0
1992	11.9	43.4
1995	10.8	44.4
1998	10.0	47.8

Both of these income-based indicators of well-being closely followed macroeconomic conditions since the beginning of the 1980s. The official income poverty rate stood at over 12 percent at the end of the severe recession of the early-1980s. During the several years of economic growth following that recession, poverty fell steadily reaching a level of 10.3 percent by 1989. By 1992, family poverty had again risen as the recession early in that decade also took its toll. However, in the prolonged expansion of the 1990s, official poverty again fell, to 10.8 percent in 1995 and to its lowest level since the 1970s—10 percent---in 1998.

This pattern parallels changes in median family income over this period. Median family income grew from $41,100 to $46,000 in 1989, before falling to $43,400 during the recession of the early-1990s. Persistent growth during the 1990s led to growth in median family income to its highest level during the period of $47,800.

III. Asset Poverty: Concepts and Data

With this background of trends in official poverty and median family income over the 1983-1998 period, we now turn to the definition and measurement of "asset poverty." A proposal for an asset poverty was first advanced by Oliver and Shapiro (1997).

A. Definitions and Conventions

We define a household or a person as being 'asset poor' if the access that they have to wealth-type resources is insufficient to enable them to meet their basic needs for some limited period of time.

This statement leaves open a number of issues on which judgments are required in order to develop a measure of asset poverty.

What are 'Basic Needs'?

We begin with the assumption that household needs can be met by access to financial resources. While there is no commonly accepted standard for the minimum amount of financial resources necessary to meet needs, we use the family-size conditioned poverty thresholds recently proposed by a National Academy of Science panel as alternatives to the long-standing official thresholds.[5] The panel recommended that the thresholds should represent a dollar amount for

[5]See Citro and Michael (1995).

food, clothing, shelter (including utilities), and a small additional amount to allow for other common, everyday needs (e.g., household supplies, personal care, and nonwork-related transportation). One threshold was developed for a reference family consisting of two adults and two children using Consumer Expenditure Survey data, and the reference family threshold was then adjusted to reflect the needs of different family types and geographic differences in the cost of living. These thresholds we use are based on the three-parameter equivalence scale for reflecting the needs of families of various sizes and structures.[6] The 1997 threshold for a reference family of two adults with two children is $15,998, which compares with the current official threshold of $16,276.[7]

What Period of Time?

While the poverty thresholds indicate the level of basic needs for households of various sizes and structures, they measure these needs over the course of a year. This leaves open the question of how long any stock of wealth-type resources should be expected to sustain a household in meeting its basic needs, should there be no other resources available.

A reasonable standard might be that families should have an asset cushion that allows them to meet basic needs—the threshold poverty line--for three months, should all other sources of support fail. With this standard, a four person family (two adults and two children) that had net financial assets of less than $4000 in 1997 would be declared "asset poor," which would be the analogue of being income poor. Similarly, a one-person family with assets below $2500 or a six person family with assets below $6,900 would likewise fall below the basic needs threshold. In an alternative approach, we set an absolute standard of $5000, implying that a household is poor if they have wealth-type resources of less than that amount.

What is 'Wealth'?

The third issue concerns the concept of wealth that we will employ in measuring asset poverty. In this study, we define **marketable wealth (or net worth, NW)** as the current value of all marketable or fungible assets less the current value of debts, as the primary measure of wealth. Net worth is thus the difference in value between total assets and total liabilities or debt.[8] (See Appendix) This NW concept is the primary measure of wealth because it reflects wealth as a store of value and therefore a source of potential consumption. We believe that this is the concept that best reflects the level of well-being associated with a family's holdings. Thus, only assets that can be readily marketed (that is, "fungible" ones) are included.[9]

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[6] Three-parameter scale = (ratio of the scale for 2 adults to one adult is 1.41. For single parents (adults + .8 + .5 * children - 1) $^{.7}$; all other families (adults + .5 * children) $^{.7}$.

[7] Our poverty line calculation is drawn from "U.S. Census Bureau (1999); Table C1: CPI-U adjustment, Table C2: Three-parameter scale.

[8] Note that net worth excludes the value of vehicles that may be owned. The rationale for excluding vehicles is that for most families, particularly poor families, autos tend to be necessary for work-related transportation, and therefore not readily available for sale to meet immediate consumption needs.

[9] Likewise, both social security and pension wealth, defined as the present value of future expected social security and pension benefits, respectively, are excluded from the definition of wealth used here, since they cannot be drawn against to meet immediate consumption requirements.

Alternatively, we present estimates of asset poverty that are based on two more restrictive definitions of wealth. In the first case, we use **net worth less home equity (NW – HE)**. In this definition, we presume that it would be untoward to require a household to sell their home in order to secure the financial resources necessary to tide them over a period without income sources. Finally, we use an even more restrictive definition, namely **liquid assets (Liquid)**, defined as cash or easily monetizable financial assets, excluding IRAs and pension assets. (See Appendix.)

B. Data Sources

The data that we use in this study are the 1983, 1989, 1992, 1995, and 1998 Surveys of Consumer Finances (SCF) conducted by the Federal Reserve Board. Each survey consists of a core representative sample combined with a high-income supplement. The supplement is drawn from the Internal Revenue Service's Statistics of Income data file. For the 1983 SCF, for example, an income cut-off of $100,000 of adjusted gross income is used as the criterion for inclusion in the supplemental sample. The advantage of the high-income supplement is that it provides a much "richer" sample of high income and therefore potentially very wealthy families. The SCF also has the advantage of providing exceptional detail on both assets and debt (several hundred questions are asked). For example, it asks each household to identify both first and second mortgages and home equity credit lines, as well as the institutions granting the loans and the interest rates charged. Credit card balances are asked for each credit card held by the family, as well as interest charges.

IV. Asset Poverty in the U. S.: 1983-1998

Our overall estimates of the level of asset poverty in the U.S. are provided in the following tabulation for the years 1983-1998. We present estimates for all three of the definitions of assets mentioned above, and show the rate for the liquid-assets-below-the-$5000-absolute standard as well.

Year	NW <.25 Poverty Line	[NW – HE] <.25 Poverty Line	Liquid <.25 Poverty Line	Liquid < $5000
1983	22.4	36.9	33.2	40.1
1989	24.7	37.3	36.4	39.2
1992	24.0	37.9	37.5	40.5
1995	25.3	40.0	43.8	51.5
1998	25.5	36.8	39.7	45.3

As expected, the most inclusive measure of assets, Net Worth, yields the lowest poverty rates among the four measures shown; the values range from 22.4 percent in 1983 to 25.5 percent in 1998. Subsequent to the recession of the early-1980s, NW asset poverty rose by about 2 percentage points by 1989, then fell slightly during the recession of the early-1990s, and again rose during the prolonged period of growth during the decade of the 1990s. It's level at the end of the period was the highest level recorded.

The asset poverty rate rises to 35 to 40 percent when home equity is excluded from the definition of assets. For the NW – HE measure, asset poverty is lowest in 1982 and 1998, and reaches a peak of 40 percent in 1995. The two Liquid asset poverty measures have their lowest levels during the 1980s, with substantial increases from 1989 to 1995. Even at the end of the 1990s growth period, Liquid asset poverty stood at nearly 40 percent when the poverty thresholds are used to measure basic needs, and at more than 45 percent when the absolute $5000 standard is set as the norm.

For all of the measures except the NW – HE measure, asset poverty at the end of the period exceeded both its 1983 level, and its level during the recession of the early-1990s. Interestingly, the time pattern of asset poverty rates does not reflect macroeconomic conditions, and does not parallel that of income poverty or median family income.

V. The Structure of Asset Poverty in 1998

In this section we present descriptive statistics on asset poverty for different demographic and labor market groups in the final year, 1998. The population groupings that we discuss include divisions by (a) age group, (b) race/ethnicity, (c) education, (d) marital status and presence of children, and (e) tenure status.

A. 1998 Overall Asset Poverty Rates

Table 1 repeats the overall asset poverty rates for all U. S. households in 1998, using the conventions regarding basic needs, time periods and wealth-type resources defined above.

Table 1
Asset Poverty by Four Definitions, 1998

Poverty Concept	Households
NW < .25 Poverty Line	25.5%
[NW – HE] < .25Poverty Line	36.8%
Liquid < .25 Poverty Line	39.7%
Liquid < $5000	36.4%

Source: Authors' calculations based on 1998 SCF, 1998 dollars.

Table 1 shows very high asset poverty rates. Using Net Worth less home equity combined with the three-month cushion, over 35 percent of the nation's households are asset poor. The liquid asset definition of wealth-type resources has about forty percent of the nation's families in asset poverty. The most expansive definition of wealth-type resources—Net Worth--indicates a national asset poverty rate of nearly 30 percent. Using the absolute definition of asset poverty, over 35 percent of the nation's households are asset poor.

1998 Asset Poverty Rates by Race

Table 2 presents the racial breakdown of asset poverty rates for households. The racial disparities are enormous, with the poverty rate for minorities (Blacks/Hispanics) being about double those for whites. [10] Using the 3-month cushion criterion, the rates for whites range from 21 percent to 34 percent; the range for Blacks/Hispanics is 45 percent to 65 percent.

Using the absolute cutoff of $5000, about 40 percent of white households have liquid assets below this cutoff, while nearly 70 percent of Black/Hispanic households have less than this amount of financial reserves.

Table 2
Asset Poverty by Race, Four Definitions, 1998

Poverty Concept	Households	
	Whites	Blacks/Hispanics
NW < .25 Poverty Line	20.5%	45.3%
[NW – HE] < .25Poverty Line	30.8%	60.5%
Liquid < .25 Poverty Line	33.5%	64.7%
Liquid < $5000	39.6%	69.0%

Source: Authors' calculations based on 1998 SCF, 1998 dollars.

B. 1998 Asset Poverty Rates by Age of Household Head

Table 3 shows the asset poverty rates for households headed by various age groups. As with the racial comparisons, the gaps here are enormous. Irrespective of the measure used, households headed by people less than 25 years of age have remarkably high asset poverty rates—for example, more than 75 percent do not have a stock of asset wealth in any form sufficient to support poverty line consumption for a three month period. 81 percent of these young households have less than $5000 of liquid assets. These poverty rates fall monotonically by age. For households headed by a person aged 35 to 49, asset poverty rates are one-half or less of the rates for the young households. Those age 62 or more have asset poverty rates using the quarter-year cushion criterion which range from 11-26 percent.

[10] We have combined African Americans and Hispanics into a single group for two reasons. The first is the relatively small sample sizes for these two groups and the associated sampling variability. The second is some changes in the wording of questions on race and ethnicity over the five SCF surveys. In particular, in the 1995 and 1998 surveys, the race question does not explicitly indicate non-Hispanic whites and non-Hispanic blacks for the first two categories, so that some Hispanics may have classified themselves as either whites or blacks. In the case of the former, there is no way to correct the classification.

Table 3
Asset Poverty by Age of Household Head, Four Definitions, 1998

Poverty Concept	Households				
	<25 years	25-34 years	35-49 years	50-61 years	>62 years
NW < .25 Poverty Line	70.7%	46.8%	23.5%	15.0%	11.0%
[NW – HE] < .25Poverty Line	75.3%	59.8%	33.8%	27.4%	22.9%
Liquid < .25 Poverty Line	70.0%	59.2%	39.7%	29.8%	26.2%
Liquid < $5000	81.2%	64.9%	44.2%	36.3%	31.5%

Source: Authors' calculations based on 1998 SCF, 1998 dollars.

C. 1998 Asset Poverty Rates by Education of Household Head

Table 4 presents the asset poverty rates by the education level of the household head. As with age, the asset poverty rates fall monotonically by the education of the head. Asset poverty rates for households headed by a person with four or more years of college are about one-third of those of families with a head who has not completed a high school degree. While over two-thirds of families headed by a person with less than a high school degree have less than $5000 of liquid assets, less than 24 percent of the college graduates have so low an asset cushion.

Table 4
Asset Poverty by Education of Household Head, Four Definitions, 1998

Poverty Concept	Households			
	<High School	High School	1-3 Years College	College Grad
NW < .25 Poverty Line	40.2%	26.5%	24.5%	15.3%
[NW – HE] < .25Poverty Line	58.7%	39.6%	34.8%	20.8%
Liquid < .25 Poverty Line	64.8%	45.6%	36.5%	19.1%
Liquid < $5000	68.7%	51.9%	43.8%	23.8%

Source: Authors' calculations based on 1998 SCF, 1998 dollars.

D. 1998 Asset Poverty Rates by Housing Tenure

The pattern of asset poverty rates by housing tenure is shown in Table 5, and is revealing. For homeowners, using the asset measure that includes the value of home equity, the asset poverty rate is less than 10 percent, compared to rates of over 60 percent for renters. While the rates become closer when asset concepts that exclude home equity are used, the asset poverty rates of

renters remain more than double those of homeowners. Indeed, nearly three-fourths of renters have less than $5000 of easily accessible assets, compared to about one-third of homeowners. It seems clear that homeownership provides more than home equity, and is associated with the ownership of a wide range of financial assets.

Table 5
Asset Poverty by Housing Tenure, Four Definitions, 1998

Poverty Concept	Households: Homeowners	Households: Renters
NW < .25 Poverty Line	6.4%	63.0%
[NW – HE] < .25Poverty Line	23.5%	63.0%
Liquid < .25 Poverty Line	26.6%	65.4%
Liquid < $5000	31.4%	72.7%

Source: Authors' calculations based on 1998 SCF, 1998 dollars.

F. 1998 Asset Poverty Rates by Family Type

Asset poverty rates vary substantially by family type, as is shown in Table 6. The lowest asset poverty rates are observed among married couple families aged 65 years or older. Using the 3-month cushion criterion, they range from 4 percent when home equity is included in the asset definition to 19 percent using the most liquid asset definition. The rates for two-parent families with children range from about 25 percent to 44 percent, while the rates for families with children and a female single-parent range from 54 percent to 70 percent. For male-headed single-parent families the poverty rates range from 37 percent to 54 percent. The comparable rates for households headed by men and women but with no children present are in 35 percent to 50 percent range (not shown); interestingly, the asset poverty rates for such families are somewhat higher for male-headed families than those headed by a female.

Table 6
Asset Poverty by Family Type, Four Definitions, 1998

Poverty Concept	Households: <65 years Married Children	<65 years Married No Child	<65 years Female Head Children	<65 years Male Head Children	>65 years Married	>65 years Single Female	>65 years Single Male
NW < .25 Poverty Line	25.3%	19.0%	53.7%	36.8%	4.0%	17.3%	13.1%
[NW – HE] < .25Poverty Line	39.3%	28.9%	64.4%	47.8%	12.8%	30.3%	30.8%
Liquid < .25 Poverty Line	44.4%	27.9%	69.8%	53.9%	19.1%	31.9%	32.7%
Liquid < $5000	45.9%	34.9%	74.2%	63.3%	20.7%	39.9%	38.9%

Source: Authors' calculations based on 1998 SCF, 1998 dollars.

VI. Trends in Asset Poverty: 1983-1998

In Table 7, we summarize the patterns of asset poverty in both 1983 and 1998 for the four definitions of asset poverty. Table 7 also shows the percent change in asset poverty rates between 1983 and 1998, a fifteen-year period. Note that the first year, 1983 is a recession year, while 1998 is the sixth year of a sustained recovery, with the economy at full employment. Given these different macroeconomic conditions, it is expected that the rates of asset poverty would have fallen over this period.

For three of the asset poverty measures—NW < .25 Poverty Line, Liquid < .25 Poverty Line, and Liquid < $5000---our expectation regarding the change in the level of poverty is not met. Increases in asset poverty of 14, 20, and 13 percent, respectively, are recorded for these definitions. Only for [NW – HE] < .25Poverty Line, the measure that excludes home equity while maintaining other (primarily, financial and pension wealth) holdings does the prevalence of asset poverty not increase (though it remains virtually unchanged). In spite of the enormous increase in financial and pension wealth holdings over this period, 37 percent of the nation remains in wealth poverty by this definition.

While this pattern holds for the white population, the situation is quite different for Blacks and Hispanics. For Blacks/Hispanics, decreases in asset poverty rates are observed for all of the measures except Liquid < .25 Poverty Line which remains virtually unchanged. The decreases range from 4 percent to 13 percent.

Irrespective of definition, households headed by people less than age 25, ages 25-34, and ages 35-49 experienced the largest increases in asset poverty. Using the broadest and the narrowest definition of assets— NW < .25 Poverty Line and Liquid < .25 Poverty Line—the increases in asset poverty ranged from 25-27 percent for the youngest group and from 29-32 percent for the 25-34 year olds, and from 28-33 percent for the 35-49 year olds.

Across education groups, all of the groups except those with some college education experienced an increase in asset poverty over this 15-year period. For the NW < .25 Poverty Line and [NW – HE] < .25Poverty Line measures, both of which include pension plan and IRA assets, the two low schooling groups and the college graduates experienced a substantial increase in asset poverty. However, using these measures the group with some college but not a degree experienced decreases in asset poverty. Using the measure based on a Liquid Asset measure of wealth— Liquid < .25 Poverty Line —a very large increase in asset poverty over the period is recorded for all of the schooling groups. However, the increase was substantially smaller for the group with some college than for the remaining groups. The increase in liquid asset poverty is exceptionally large for families headed by a college graduate; Liquid < .25 Poverty Line asset poverty grew by 62 percent over the period, from 12 percent to 19 percent.

Irrespective of the asset measure used, asset poverty for renters grew by between 15 and 27 percent over the period. However, the patterns of asset poverty change are substantially different for homeowners. Using the asset measure that includes homeowner equity, the rate of poverty increased by 77 percent over the period, albeit from a very low base of 4 percent in 1983. The

ostensible reason is the very high growth in mortgage debt as a percent of house value, which almost doubled over the period from 1983 to 1998. When the net asset value of the own home is excluded from the asset base ([NW – HE] < .25Poverty Line), the rate of asset poverty for homeowners actually fell. Relatively small increases in asset poverty—14 to 18 percent--are recorded for homeowners using the liquid asset based measures.

Table 7
Asset Poverty Rates, 1983 and 1998, and Percent Changes, 1983-1998

		1983				1998				Percent Change			
		NW<.25 Poverty Line	[NW–HE]<.25Poverty Line	Liquid < .25 Poverty Line	Liquid < $5000	NW < .25 Poverty Line	[NW–HE] < .25Poverty Line	Liquid < .25 Poverty Line	Liquid < $5000	NW < .25 Poverty Line	[NW – HE] < .25Poverty Line	Liquid < .25 Poverty Line	Liquid < $5000
	Total	22.4%	36.9%	33.2%	40.1%	25.5%	36.8%	39.7%	45.3%	14.0	-0.3	19.5	12.9
Race	White	17.1%	30.0%	26.9%	33.5%	20.5%	30.8%	33.5%	39.6%	19.8	2.6	24.7	18.4
	Black/Hispanic	47.4%	69.9%	63.8%	71.8%	45.3%	60.5%	64.7%	69.0%	-4.4	-13.4	+1.0	-3.9
Age	< 25	55.6%	63.0%	56.1%	70.7%	70.7%	75.3%	70.0%	81.2%	27.1	19.6	24.7	14.8
	25-34	36.3%	51.4%	44.8%	53.6%	46.8%	59.8%	59.2%	64.9%	29.1	16.3	32.1	21.0
	35-49	17.7%	36.2%	30.9%	35.4%	23.5%	33.8%	39.7%	44.2%	33.1	-6.7	28.3	24.9
	50-61	13.8%	27.8%	26.2%	29.5%	15.0%	27.4%	29.8%	36.3%	8.6	-1.5	13.9	23.1
	62+	9.9%	21.9%	22.5%	30.5%	11.0%	22.9%	26.2%	31.5%	11.6	4.5	16.5	3.2
Education.	<High School	29.8%	50.0%	50.0%	56.9%	40.2%	58.7%	64.8%	68.7%	35.1	17.3	29.6	20.7
	High School	20.9%	36.1%	33.6%	40.6%	26.5%	39.6%	45.6%	51.9%	26.7	9.8	35.9	27.9
	1-3 Years College	25.5%	37.8%	31.1%	38.8%	24.5%	34.8%	36.5%	43.8%	-4.1	-7.8	17.4	12.8
	College Grad	11.3%	19.3%	11.8%	17.6%	15.3%	20.8%	19.1%	23.8%	34.9	7.8	62.0	35.2
Tenure	Homeowner	3.6%	26.5%	22.6%	27.6%	6.4%	23.5%	26.6%	31.4%	76.9	-11.5	17.9	13.6
	Renter	54.8%	54.8%	51.7%	61.7%	63.0%	63.0%	65.4%	72.7%	14.9	14.9	26.5	17.8
Family Type	< 65 years, Married, Children	21.6%	42.2%	37.6%	40.6%	25.3%	39.3%	44.4%	45.9%	16.9	-6.8	18.1	13.0
	< 65 years, Married, No Child	12.9%	25.0%	19.9%	25.1%	19.0%	28.9%	27.9%	34.9%	46.9	15.7	40.1	38.9
	< 65 years, Female Head, Children	48.1%	67.0%	63.4%	68.4%	53.7%	64.4%	69.8%	74.2%	11.6	-3.8	10.0	8.5
	65+ years, Married	5.5%	16.3%	17.4%	22.6%	4.0%	12.8%	19.1%	20.7%	-27.8	-21.6	10.1	-8.5
	65+ years, Female Head	15.3%	28.0%	29.0%	41.7%	17.3%	30.3%	31.9%	39.9%	13.1	8.3	9.9	-4.4
	65+ years, Male Head	21.1%	40.2%	40.2%	49.6%	13.1%	30.8%	32.7%	38.9%	-37.8	-23.4	-18.7	-21.6

Source: Authors' calculations based on the SCF for 1983, 1989, and 1998.

Among families headed by a person less than 65 years, the largest increases in asset poverty are recorded for childless married couples—the increases range from 16 percent to 47 percent. Young female headed families experienced the lowest percentage increases in asset poverty—ranging from –4 percent to +12 percent. Among families headed by a person aged 65 years or more, the change in asset poverty levels varies substantially by type. Female headed families in this category—primarily widows—experienced modest increases in asset poverty. However, for both aged married couples and older single male households, decreases in asset poverty are recorded for most measures. For older single male households, the reductions in asset poverty range from 19 to 38 percent.

In sum, then, overall asset poverty grew modestly over this 15-year period from 1983 to 1998. Among population subgroups, however, the patterns of growth vary substantially—large increases in asset poverty are recorded for:

- whites relative to racial minorities,
- families headed by a person aged less than 50 years relative to older families,
- families headed by a person with little schooling and for college graduates, relative to those with some college (the result for college graduates reflects the low base from which the percentage change is calculated,
- renters relative to homeowners, and
- families headed by a person less than 65 years (irrespective of marital status and the presence of children), relative to families headed by a person 65 years or older.

VII. Sub-period Asset Poverty Trends—1983-1989 and 1989-1998

The trends discussed in the previous section and shown in Table 7 summarize asset poverty developments over the entire period from 1983 to 1998—from a distant recession year to a recent full employment year. In this section, we decompose these long period trends into trends over two separate periods—from the recession year 1983 to a relatively full employment year later in that decade, 1989, and from that year to 1998. The latter comparison, between two full employment years, should be revealing in terms of the underlying structure of asset holdings over the last decade.

Table 8 presents the pattern for the entire population, and for racial groups within the population. For all households, asset poverty rose slightly for three of the four asset measures during the early period, and fell slightly for the Liquid < $5000 measure. Basically, little change in overall asset poverty is recorded over this period. Similarly, for most of the asset poverty measures, rather small increases in asset poverty occurred from 1989 to 1998, over the two recent full employment years. Only for the absolute asset standard definition— Liquid < $5000—is a substantial increase of 17 percent recorded over this recent peak-to-peak period.

However, the difference in the patterns of asset poverty growth over the two periods between whites and blacks is unexpected and surprising. While asset poverty for white families decreased by all of the measures during the 1980s, asset poverty among Blacks/Hispanics increased over this period. Precisely the reverse pattern exists over the 1989-1998 period. During this period, asset poverty for whites reversed course, and grew substantially, increasing by from 15-39 percent depending on the asset measure. However, for Blacks/Hispanics, asset

poverty declined substantially over this peak-to-peak comparison period. Depending on the asset measure, asset poverty for Black families fell by from 9 to 19 percent during this last decade. This divergent pattern is noteworthy and the reasons for it are not immediately obvious. However, the results do accord with findings reported in Wolff (forthcoming) that the home ownership rate among black families rose during the 1990s and the share of black households with zero or negative net worth declined.[11]

Table 8
Asset Poverty Rates; Total and by Race, w/ Percent Changes

	Year					Percent Change		
	1983	1989	1992	1995	1998	1983-1989	1989-1998	1983-1998
Total								
NW < .25 Poverty Line	22.4%	24.7%	24.0%	25.3%	25.5%	10.3	3.2	14.0
[NW – HE] < .25Poverty Line	36.7%	37.3%	37.4%	40.0%	36.8%	1.6	-1.4	-0.3
Liquid < .25 Poverty Line	33.2%	36.4%	37.5%	43.8%	39.7%	9.6	9.1	19.5
Liquid < $5000	40.1%	38.7%	40.5%	51.5%	45.3%	-3.6	17.1	12.9
White								
NW < .25 Poverty Line	17.1%	16.6%	19.1%	20.2%	20.5%	-2.9	23.4	19.8
[NW – HE] < .25Poverty Line	30.0%	26.7%	31.0%	34.1%	30.8%	-11.1	15.4	2.6
Liquid < .25 Poverty Line	26.9%	25.9%	29.8%	38.2%	33.5%	-3.7	29.5	24.7
Liquid < $5000	33.5%	28.5%	32.5%	46.0%	39.6%	-14.9	39.0	18.4
Black/Hispanic								
NW < .25 Poverty Line	47.4%	53.6%	43.2%	46.1%	45.3%	13.1	-15.5	-4.4
[NW – HE] < .25Poverty Line	69.9%	74.7%	64.3%	64.8%	60.5%	6.4	-19.0	-13.4
Liquid < .25 Poverty Line	63.8%	72.9%	66.8%	66.3%	64.7%	14.3	-11.2	+1.0
Liquid < $5000	71.8%	76.2%	70.4%	74.1%	69.0%	6.1	-9.4	-3.9

Source: Authors' calculations based on the SCF for 1983, 1989, 1992, 1995, and 1998.

Table 9 presents similar results for age groups. For the youngest and oldest age groups, substantial growth in asset poverty occurred during the 1980s, in spite of the move from a deep recession to full employment. During the 1989-1998 period, asset poverty remained nearly constant at rates around 70-75 percent for families headed by young people, but fell substantially from rather low rates of from 15-30 percent for the families headed by a person aged 62 or more. The picture is more mixed for the intermediate age groups. For families headed by a person aged 25-34, asset poverty rose in both sub-periods, irrespective of the measure used. For families headed by a person aged 35-61, asset poverty growth patterns vary substantially between the sub-periods depending on the measure used.

The sub-period pattern of asset poverty changes for educational groups is shown in Table 10. For each of the schooling groups considered individually, asset poverty grew substantially during

[11] Because of the rather unexpected turnaround of results in 1989, we also used a second set of weights in the calculations for 1989 -- X42001. This variable is a partially design-based weight constructed at the Federal Reserve using original selection probabilities and frame information along with aggregate control totals estimated from the Current Population Survey. The results for 1989 were almost identical with the new set of weights.

the recent 1989-1998 peak-to-peak period, with especially large increases recorded for families headed by a college graduate. This contrasts with the growth pattern during the 1980s, during which time asset poverty declined substantially for the two groups with some college education, while it either fell or rose modestly for the two groups with no more schooling than a high school degree. Again, the substantial growth in asset poverty for each of the educational groups over the recent decade is surprising and unexpected. Clearly, the fabled run-up in financial asset holdings for those with education and schooling has by-passed the bottom quarter of this group.

Table 11 presents the sub-period growth patterns for renters and homeowners. For renters, asset poverty levels increased by all of the measures during both sub-periods. However, while asset poverty fell during the 1980s for homeowners by all of the measures, sizable increases in asset poverty using the Net Worth or Liquid Asset definitions are recorded over the recent decade. These increases ranged from 20 percent to 95 percent. During this period, only the measure based on the Net Worth – Home Equity asset concept indicates no increase in asset poverty.

Finally, we present the sub-period patterns of asset poverty for families of various structures in Table 12. Consider, first, families headed by a person less than age 65. During the 1980s, asset poverty fell by all measures for two-parent families with children; however, for childless families and especially for female-headed families, asset poverty rose during the 1980s. Again, a surprising and unexpected twist occurs during the most recent decade, from 1989 to 1998. In this period, asset poverty rose for intact families with children by all measures. For families without children, asset poverty continued its growth but at an accelerated rate. However, for female-headed families with children, asset poverty fell by all measures during the recent decade, by from 4 to 17 percent.

Some surprising twists are also seen for the families headed by a person aged 65 years or more. For female headed older families, asset poverty increased during the 1980s, but fell by most of the measures over the peak-to-peak years spanning the 1990s. Just the reverse pattern is observed for older families headed by a male. Rapid decreases in asset poverty are recorded for the 1980s, but by most measures these were reversed in the 1990s.

Table 9
Asset Poverty Rates by Age, w/ Percent Changes (1983 and 1998)

	Year			Percent Change		
	1983	1989	1998	1983-1989	1989-1998	1983-1998
Ages < 25						
NW < .25 Poverty Line	55.6%	70.1%	70.7%	25.9	0.9	27.1
[NW – HE] < .25Poverty Line	63.0%	73.9%	75.3%	17.3	1.9	19.6
Liquid < .25 Poverty Line	56.1%	76.1%	70.0%	35.5	-8.0	24.7
Liquid < $5000	70.7%	76.7%	81.2%	8.5	5.9	14.8
Ages 25-34						
NW < .25 Poverty Line	36.3%	42.7%	46.8%	17.8	9.6	29.1
[NW – HE] < .25Poverty Line	51.4%	54.1%	59.8%	5.2	10.6	16.3
Liquid < .25 Poverty Line	44.8%	50.4%	59.2%	12.5	17.5	32.1
Liquid < $5000	53.6%	53.6%	64.9%	0.0	21.1	21.0
Ages 35-49						
NW < .25 Poverty Line	17.7%	22.1%	23.5%	25.1	6.4	33.1
[NW – HE] < .25Poverty Line	36.2%	35.0%	33.8%	-3.4	-3.4	-6.7
Liquid < .25 Poverty Line	30.9%	32.1%	39.7%	3.6	23.8	28.3
Liquid < $5000	35.4%	33.2%	44.2%	-6.2	33.2	24.9
Ages 50-61						
NW < .25 Poverty Line	13.8%	11.2%	15.0%	-18.8	33.7	8.6
[NW – HE] < .25Poverty Line	27.8%	27.6%	27.4%	-0.9	-0.6	-1.5
Liquid < .25 Poverty Line	26.2%	27.9%	29.8%	6.6	6.8	13.9
Liquid < $5000	29.5%	31.1%	36.3%	5.5	16.6	23.1
Ages 62+						
NW < .25 Poverty Line	9.9%	13.1%	11.0%	32.6	-15.9	11.6
[NW – HE] < .25Poverty Line	21.9%	25.6%	22.9%	16.8	-10.6	4.5
Liquid < .25 Poverty Line	22.5%	28.1%	26.2%	24.9	-6.7	-16.5
Liquid < $5000	30.5%	32.4%	31.5%	6.2	-2.8	3.2

Source: Authors' calculations based on the SCF for 1983, 1989, and 1998.

Table 10
Asset Poverty Rates by Education, w/ Percent Changes (1983 and 1998)

	Year			Percent Change		
	1983	1989	1998	1983-1989	1989-1998	1983-1998
<High School						
NW < .25 Poverty Line	29.8%	32.3%	40.2%	8.6	24.4	35.1
[NW – HE] < .25Poverty Line	50.0%	48.2%	58.7%	-3.7	21.8	17.3
Liquid < .25 Poverty Line	50.0%	49.7%	64.8%	-0.6	30.4	29.6
Liquid < $5000	56.9%	53.5%	68.7%	-6.1	28.5	20.7
High School Graduate						
NW < .25 Poverty Line	20.9%	25.4%	26.5%	21.6	4.2	26.7
[NW – HE] < .25Poverty Line	36.1%	36.6%	39.6%	1.4	8.3	9.8
Liquid < .25 Poverty Line	33.6%	34.9%	45.6%	4.0	30.6	35.9
Liquid < $5000	40.6%	38.0%	51.9%	-6.3	36.5	27.9
1-3 Years College						
NW < .25 Poverty Line	25.5%	19.2%	24.5%	-25.0	27.9	-4.1
[NW – HE] < .25Poverty Line	37.8%	32.7%	34.8%	-13.4	6.4	-7.8
Liquid < .25 Poverty Line	31.1%	26.4%	36.5%	-15.0	38.2	17.4
Liquid < $5000	38.8%	29.6%	43.8%	-23.9	48.2	12.8
College Graduate						
NW < .25 Poverty Line	11.3%	9.6%	15.3%	-15.2	59.2	34.9
[NW – HE] < .25Poverty Line	19.3%	15.3%	20.8%	-20.9	36.2	7.8
Liquid < .25 Poverty Line	11.8%	13.5%	19.1%	14.7	41.2	62.0
Liquid < $5000	17.6%	13.2%	23.8%	-25.3	81.0	35.2

Source: Authors' calculations based on the SCF for 1983, 1989, and 1998.

Table 11
Asset Poverty Rates by Housing Tenure, w/ Percent Changes

	Year			Percent Change		
	1983	1989	1998	1983-1989	1989-1998	1983-1998
Homeowner						
NW < .25 Poverty Line	3.6%	3.3%	6.4%	-9.7	95.8	76.9
[NW – HE] < .25Poverty Line	26.5%	23.5%	23.5%	-11.6	0.1	-11.5
Liquid < .25 Poverty Line	22.6%	22.2%	26.6%	-1.8	20.0	17.9
Liquid < $5000	27.6%	23.9%	31.4%	-13.4	31.2	13.6
Renter						
NW < .25 Poverty Line	54.8%	60.8%	63.0%	10.9	3.6	14.9
[NW – HE] < .25Poverty Line	54.8%	60.7%	63.0%	10.6	3.9	14.9
Liquid < .25 Poverty Line	51.7%	60.5%	65.4%	17.0	8.1	26.5
Liquid < $5000	61.7%	64.9%	72.7%	5.2	12.0	17.8

Source: Authors' calculations based on the SCF for 1983, 1989, and 1998.

Table 12
Asset Poverty Rates by Family Structure, w/ Percent Changes

	Year			Percent Change		
	1983	1989	1998	1983-1989	1989-1998	1983-1998
<65 years, Married, Children						
NW < .25 Poverty Line	21.6%	21.3%	25.3%	-1.7	19.0	16.9
[NW – HE] < .25Poverty Line	42.2%	36.8%	39.3%	-12.6	6.7	-6.8
Liquid < .25 Poverty Line	37.6%	36.9%	44.4%	-1.9	20.4	18.1
Liquid < $5000	40.6%	36.5%	45.9%	-10.1	25.6	13.0
< 65 years, Married, No Child						
NW < .25 Poverty Line	12.9%	13.5%	19.0%	4.2	41.0	46.9
[NW – HE] < .25Poverty Line	25.0%	25.4%	28.9%	1.7	13.7	15.7
Liquid < .25 Poverty Line	19.9%	20.9%	27.9%	5.0	33.4	40.1
Liquid < $5000	25.1%	22.7%	34.9%	-9.8	54.0	38.9
< 65 years, Female Head, Children						
NW < .25 Poverty Line	48.1%	63.0%	53.7%	30.9	-14.8	11.6
[NW – HE] < .25Poverty Line	67.0%	77.2%	64.4%	15.3	-16.6	-3.8
Liquid < .25 Poverty Line	63.4%	75.0%	69.8%	18.2	-6.9	10.0
Liquid < $5000	68.4%	77.3%	74.2%	13.1	-4.0	8.5
>65 years, Married						
NW < .25 Poverty Line	5.5%	5.7%	4.0%	3.1	-30.0	-27.8
[NW – HE] < .25Poverty Line	16.3%	16.4%	12.8%	0.5	-22.0	-21.6
Liquid < .25 Poverty Line	17.4%	17.2%	19.1%	-0.9	11.0	10.1
Liquid < $5000	22.6%	19.5%	20.7%	-14.0	6.3	-8.5
>65 years, Single Female						
NW < .25 Poverty Line	15.3%	16.8%	17.3%	10.0	2.9	13.1
[NW – HE] < .25Poverty Line	28.0%	33.2%	30.3%	18.6	-8.7	8.3
Liquid < .25 Poverty Line	29.0%	38.4%	31.9%	32.1	-16.8	9.9
Liquid < $5000	41.7%	43.3%	39.9%	3.8	-7.9	-4.4
>65 years, Single Male						
NW < .25 Poverty Line	21.1%	24.3%	13.1%	15.3	-46.0	-37.8
[NW – HE] < .25Poverty Line	40.2%	26.6%	30.8%	-34.0	16.0	-23.4
Liquid < .25 Poverty Line	40.2%	24.6%	32.7%	-38.9	33.1	-18.7
Liquid < $5000	49.6%	36.6%	38.9%	-26.3	6.4	-21.6

Source: Authors' calculations based on the SCF for 1983, 1989, and 1998.

VIII. Summary and Conclusions

The patterns of asset poverty over the 1983-1998 period that we have presented are both discouraging and confusing. They are discouraging because of the very high rates of asset poverty for the U.S. population, irrespective of the definition used. In 1998, one fourth of the U.S. population have insufficient Net Worth to enable them to get by for 3 months at a poverty line level of living, and nearly one-half have liquid assets of less than $5000.

These high levels of asset poverty for the entire population disguise even higher rates for various groups. Using a standard of [NW – HE] < .25Poverty Line, the following indicates asset poverty rates in 1998 for some of the groups with a high prevalence of families with few resources:

- Total 37%
- Blacks/Hispanics 61%
- Head aged less than 25 years 75%
- Head aged 25-34 years 60%
- Head with less than a high school degree 59%
- Renters 63%
- Nonaged Female heads with children 64%

The growth in asset poverty over time is also discouraging. Of the four asset poverty measures that we used, 3 indicated growth in the prevalence of asset poverty over the 1983-1998 period, ranging from 13-20 percent ([NW – HE] < .25Poverty Line showed no change over this period).

The confusing part of the story concerns the pattern of growth in asset poverty over the two sub-periods—1983-1989 and 1989-1998. For the population as a whole, asset poverty did not change substantially during the 1980s, in spite of the recovery from a severe recession. However, during the peak-to-peak prosperity years from 1989-1998, asset poverty for the total population unexpectedly increased for three of the four measures.

When looking at several of the sub-groups of the population, surprising twists in the patterns of asset poverty change over the 1980s and 1990s are seen. The following summarizes some of the most surprising of these twists using the [NW – HE] < .25Poverty Line measure of asset poverty.

	Percent Change: 1983-1989	Percent Change: 1989-1998
Whites	-11	+15
Blacks/Hispanics	+6	-19
Less than High School Degree	-3	+22
Some College	-13	+6
College Graduate	-21	+36
Non-Aged Families with Children	-13	+7
Non-Aged Female Head with Children	+15	-17
Aged Female Head	+19	-9

Source: Authors' calculations based on the SCF for 1983, 1989, and 1998.

For groups that are generally viewed as not vulnerable—whites, college educated, families with children—the recovery from the recession of the early-1980s resulted in reductions in asset poverty. However, for these same groups, the prosperity of the 1990s saw an unexpected increase in asset poverty.

The reverse pattern holds for groups generally viewed as vulnerable—Blacks/Hispanics, female headed families with children, and aged single women. In these cases, the Reagan recovery of the 1980s led to unexpected increases in asset poverty, while the peak-to-peak prosperity period of the 1990s witnessed sizable reductions in asset poverty.[12]

Explanation of these unexpected patterns is not obvious, and awaits further investigation.

[12] The pattern for families headed by a person with less than a high school degree does not follow this pattern. For these families, asset poverty fell during the recovery of the 1980s, but rose substantially during the 1990s.

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APPENDIX I

Net worth = the gross value of owner-occupied housing
\+ other real estate owned by the household
\+ cash and demand deposits
\+ time and savings deposits
\+ certificates of deposit and money market accounts
\+ government, corporate, and foreign bonds, and other financial securities
\+ the cash surrender value of life insurance plans
\+ the cash surrender value of pension plans, incl. IRAs, Keogh ,401(k)s
\+ corporate stock and mutual funds
\+ net equity in unincorporated businesses
\+ equity in trust funds

\- mortgage debt
\- consumer debt, including auto loans and credit card balances
\- other debt.

Liquid = cash and demand deposits
\+ time and savings deposits
\+ certificates of deposit, and money market accounts
\+ government, corporate, and foreign bonds, and other financial securities
\+ the cash surrender value of life insurance plans
\+ corporate stock and mutual funds.