Edward Wolff's "Recent Trends in the Size Distribution of Household Wealth" (Summer 1998, pp. 131–150) makes many valid observations about household wealth distributions in the United States. However, there are several key points where we believe he is in error. The most troubling is the claim of a very large decline in household wealth from the 1980s into the 1990s. Relying on the Survey of Consumer Finances (SCF), he argues that median constant dollar value of household wealth fell from 1983 to 1995 by about 11 percent while the mean increased only slightly. Moreover, the mean declined by 10 percent between 1989 and 1995 while the median was falling an astonishing 17 percent!

What could plausibly have caused household wealth to fall so much during the expansionary 1990s, a period characterized by a large stock market surge? The most likely answer is that it simply did not happen. For example, between 1984 and 1994, median household wealth from the Panel Study of Income Dynamics (PSID) shows a modest rise of about 9 percent while mean wealth grew by 14 percent. Moreover, aggregate data from the Federal Reserve Board's Balance Sheets also indicate a rise in mean per household net worth—excluding pension reserves—of 4.4 percent, from \$193,693 in 1984 to \$202,224 in 1994 (measured in 1996 dollars). When pension fund balances are included, the increase becomes 15 percent. Data from the Health and Retirement Survey (HRS) also show substantial increases in household wealth from 1992 to 1996.

A second problem involves Wolff's claim—again relying on SCF data—that absolute and relative wealth of African American families has actually fallen in recent years. Here, Wolff's own data raise suspicions, as it is very difficult to believe that black wealth rose steadily from 1983 to 1992, but then suddenly fell by 17 percent from 1992 to 1995. SCF sample sizes are probably too small to depict racial wealth trends accurately. Data from the PSID, which over-samples lower-income and African American families, show instead a steady rise in wealth of African Americans throughout the wealth distribution from 1984 to 1989 and then to 1994. Instead of a 7 percent decline in mean wealth as suggested by SCF, PSID data indicate a 33 percent increase in mean wealth of black households between 1984 and 1994.

Our problems go beyond factual questions to the reasons racial wealth differentials are so large. The reason mentioned by Wolff can easily be dismissed—differential financial inheritances. The vast majority of households—both white and non-white—do not receive any financial inheritances. Using PSID, mean inheritances (in 1996 dollars) for black households were about $1,000; for white households about $10,000. Even if these inheritances were completely saved so that they show up in current household wealth, they would account for a small fraction of racial wealth differences.

Why then do African American households save so much less than white households do? In our view, it is premature to jump to race- and ethnic-specific explanations. Instead, the nonlinear concave relation between wealth and income apparently explains much of the large racial wealth discrepancies. If we compare wealth of the median black household to the 25th percentile white household (who have about the same household income), the wealth levels are almost the same. The fundamental question is why low and moderate income American households save so little, no matter what their race or ethnic background is.

Why should the PSID be considered more reliable, especially given Wolff's claim that surveys like PSID only represent middle class respondents? Conceptual differences are unlikely to explain it. In contrast to the PSID, Wolff's SCF data exclude vehicles but include defined-contribution pension plans, but the latter should increase secular wealth growth. Recently, we investigated the representativeness of households in wealth surveys such as the PSID and HRS which do not contain oversamples of the very wealthy. It turns out that only the richest six in every ten thousand American households are not represented in the PSID, but are in the SCF. Although these extremely wealthy households have a large impact on cross-section estimates of mean household wealth, this is not an unambiguous improvement, particularly for time series issues.

The wealthy elite remain a difficult population to sample and SCF response rates are often extremely low. In 1983, only 9 percent of the oversampled wealthy households agreed to participate. Given the extreme skew of the wealth distribution and the inherent difficulty in sampling this population, wave-to-wave variability in SCF estimates for the extremely wealthy are unstable and produce considerable variability in its population-wide wealth estimates over time. Consider Wolff's data for households with incomes above $75,000. In the three years between 1992 and 1995, SCF data indicate that mean wealth fell by about $157,000 (17 percent). Time series estimates of mean household wealth are much more variable in the SCF than in any of the other household surveys (and more variable relative to the Federal Reserve Balance Sheet benchmark). If one wants to explain why the vast majority of people have different amounts of wealth, we may be better off with surveys that provide at least 90 percent accurate estimates of wealth, with the compensating gain of time-series stability and of having information on many of the explanatory factors that might matter.

Our assessment is that wealth levels are rising strongly from the 1980s throughout the 1990s, and are now more equity-based. There are strong forces shaping the distribution which need additional study: households are heterogeneous in their savings propensities. There are grasshoppers as well as ants even after we account for observable characteristics including household income. Similarly, conditional on saving rates, there are both winners and losers in terms of realized returns.

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