

# The One Percent

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the one percent, income inequality, wealth inequality, social stratification, social mobility, economic sociology

## Abstract

Recent protest movements brought attention to the one percent, a segment of the population that is critical to understanding inequality and social mobility but that attracts relatively little research attention. In this article, I survey current research on the one percent in the United States. I distinguish income from wealth and show that both are very concentrated but that the concentration of wealth, particularly financial wealth, is extremely high. I describe the demographic traits and finances of households who are in the one percent and discuss how these have changed in the past decade. I review literature that explains rising top incomes, and I propose that future research will usefully concentrate more on top wealth owners and on the demographic and life course processes that underlie income and wealth concentration. I conclude by speculating about why Americans are so tolerant of resource concentration.

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**Occupy Wall Street (OWS):** a protest movement that started in September 2011 and is focused on raising awareness about inequality, the wealthy, and related issues

**Income:** the flow of funds into a household over time from wages or salaries, government payments, investments, gifts, etc.

**Wealth or net worth:** total property owned by a household at one time; usually measured as net worth or total household assets less total debts

**Survey of Consumer Finances (SCF):** household survey data collected by the Board of Governors of the Federal Reserve System triennially since 1983; includes oversamples of high-income households

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## INTRODUCTION

Occupy Wall Street (OWS) and related protest movements that started in September 2011 generated popular interest in income and wealth concentration by drawing attention to the gap between the financial status of the top one percent and that of other Americans (the other 99%). The movement began in Zuccotti Park in New York's Wall Street financial district and quickly spread throughout the country, raising awareness about the power and advantages enjoyed by top income and wealth holders and related issues regarding the influence and regulation of corporations. The movement's slogan—"we are the 99%"—gained popularity by suggesting that top income earners and wealth owners are both extraordinarily privileged and insulated from the negative effects of financial downturns of the sort that shocked the US economy starting in 2007. Indeed, during the 2007–2009 recession, the United States lost 8.5 million jobs (Hout et al. 2011), and unemployment reached a 26-year high of 10% (Bur. Labor Stat. 2012); wage and salary growth for private industry workers slowed to a 20-year low (Bur. Labor Stat. 2012); home values fell by about one-third (Fligstein & Goldstein 2011, Grusky et al. 2011a); foreclosures and personal bankruptcies rose to record levels (Treas 2010); and large numbers of middle-class families had to borrow from their retirement savings to pay basic living expenses (Wolff et al. 2011). Yet, as OWS supporters publicized, the share of total income going to top earners had risen continuously since the 1980s and was higher in 2007 than it had been since the Great Depression (Congr. Budget Off. 2011).

In this review, I assess the current state of knowledge about the one percent, a segment of the population that is central to understanding social stratification and mobility but that attracts relatively little research attention. I start by defining income and wealth, two concepts that are important for identifying and understanding the one percent but that are often not distinguished carefully in academic

writing or public discourse. I discuss the data challenges involved in conducting research on high income and wealth, and I summarize and evaluate the current state of knowledge about two distinct groups: (a) the top one percent of income earners and (b) the top one percent of wealth owners. I provide an overview of contemporary levels of income and wealth concentration, and I situate these trends historically by describing long-term patterns in income and wealth ownership. I then describe the demographic traits, income, and wealth of the households in the one percent in the past decade. Finally, I discuss explanations for the growing concentration of income and propose that future research should focus more on top wealth owners and on the demographic and life course patterns that contribute to resource concentration. I conclude by briefly speculating about why Americans are relatively tolerant of income and wealth concentration.

Throughout the article, I review published research, but I also present original empirical estimates from the 2001–2010 Surveys of Consumer Finances (SCF) to summarize patterns in resource concentration and to highlight issues that future research might address. My focus is on sociological research, but I also include economic research, where the one percent attracts more attention. I focus on the United States in order to provide sufficient depth regarding a single case. Because income and wealth concentration are not perfectly correlated with general patterns of inequality over time (Hacker & Pierson 2010) and because there are other excellent reviews available on broader trends in income inequality (Lemieux 2008, McCall & Percheski 2010), I do not provide a thorough review of the inequality literature. Similarly, I do not assess literature on elite studies because it has been reviewed elsewhere (Khan 2011, 2012).

## DEFINING THE ONE PERCENT: INCOME AND WEALTH

The one percent can be defined by either their income or their wealth. The two terms are

often used interchangeably, but this can be misleading because they have very different meanings and potentially different implications for understanding resource concentration. Income is a flow of funds into the household over time from wages or salaries, businesses, investments (i.e., interest and dividend income), capital gains, government transfer payments, gifts, and other sources. Income can be measured at either the individual or household level, and income from various sources can have different implications for well-being. For example, wage/salary income involves work and time commitments that are very different from those required to manage the investments that produce interest/dividend income or to run a business that produces business income. In contrast, wealth refers to the things people own at a single point in time and is usually measured as net worth (total household assets less total liabilities or debts). Assets include real assets (e.g., the home or primary residence, other real estate, business equity, vehicles) and financial assets (e.g., transaction accounts, certificates of deposit, bonds, stocks, mutual funds, retirement accounts). Debts include mortgages, consumer debt, student loans, and other liabilities. Financial wealth is total financial assets, a measure of relatively liquid assets such as stocks and bonds that, for most households, refers to nonhousing wealth. Financial wealth is particularly significant for understanding resource concentration because ownership of financial assets tends to be even more highly concentrated than ownership of real assets. Net worth and financial wealth are both usually measured at the household level because many assets, such as the family home, tend to be jointly owned.

Both income and wealth have important advantages, and although they are related, the correlation between the two is relatively low, suggesting that considering them separately tells only part of the financial story. Income is essential for paying for current needs and desires, and it can provide a degree of social and political power. Income becomes wealth only when it is saved, and the advantages of wealth ownership are even more far-reaching. The family

home, for instance, has both current use value and investment value. Similarly, a business can provide current income and long-term investment advantages. Wealth can enhance educational attainment, occupational opportunities, political power, and social influence. It provides a buffer against income interruptions; medical emergencies; and other crises, such as accidents and natural disasters (Keister & Moller 2000, Shapiro 2004, Wolff 2002). Wealth can create more wealth when it is reinvested, and it can generate income in the form of interest or dividends. Perhaps most significantly, wealth can be passed to future generations to extend these benefits indefinitely. Total household income and total household net worth have been correlated at about 0.50 to 0.60 since 2001 (my estimate from the SCF), a pattern that reflects extremes and that underscores the importance of defining income and wealth clearly. At one extreme are households that have high income from current work but have relatively low savings and, as a result, low wealth; for instance, some top executives, surgeons, and professional athletes have high salaries but relatively low savings rates and thus low wealth. At the other extreme are households with high net worth but low income; for example, a person who inherited high wealth or a retiree who saved consistently over the working years may have high levels of assets but low income from current work. The correlation is further complicated by the fact that those with high wealth are also likely to receive interest/dividend income, highlighting the importance of specifying income and wealth sources.

## DATA CHALLENGES AND STRATEGIES

Studying top incomes and wealth creates unique data challenges that account for at least some of the gap in current knowledge about these households. By definition, the one percent is a small portion of the population, making it unlikely that they will be adequately represented in most social and economic surveys unless they are deliberately oversampled. Yet

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**Financial wealth:**  
total financial assets  
(e.g., stocks, bonds)  
but excluding real  
assets (e.g., housing,  
other real estate)

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because this group receives large proportions of total household income and owns large proportions of household wealth, including some assets that other households are unlikely to own (e.g., businesses, bonds), their absence from survey samples biases distributional estimates. In addition, high-income and high-wealth households are more reluctant to report financial information than other households, or they may provide inaccurate information in surveys because they do not know details about their income and wealth. These problems can lead to additional bias in survey data that can be resolved only through careful efforts to ensure reporting accuracy and sample retention. Longitudinal data can be useful for understanding income and wealth concentration, but collecting data on high-income and high-wealth households over time creates additional problems. For instance, sample attrition and declining sample representativeness over time are both inevitable in longitudinal data but disproportionately affect high-income/high-wealth households and lead to bias that compounds over time. Similarly, studying high income and wealth over long historic periods can be useful for understanding income and wealth concentration, but the need for data over long stretches of time creates its own problems. In particular, survey data on income and wealth did not exist prior to the 1950s for income and the 1980s for wealth, and the available data are often limited in detail and not comparable to each other over time (Atkinson et al. 2011; Moore et al. 2000; Piketty & Saez 2003, 2006). One exception was the Survey of the Financial Characteristics of Consumers (SFCC) from 1962, which includes household income and wealth data (Projector & Weiss 1966); however, the SFCC was conducted once and thus cannot be used to study patterns over time.

Researchers use three data sources and strategies to deal with these challenges. First, the SCF, a unique data set that provides highly accurate information on cross sections of top income earners and wealth owners, has become standard in research on resource concentration. The SCF is a triennial survey of US households

collected by the Board of Governors of the Federal Reserve System since 1983; the survey also includes two panels in 1986–1989 and 2007–2009. The survey contains detailed information about household income, assets, debts, balance sheets, demographics, attitudes toward risk, relationships with financial institutions, and related information (Johnson & Moore 2005). Particularly noteworthy is that the SCF uses a dual-frame sample design to adequately represent all households: (a) a multistage national area probability sample and (b) a sample of high-income households identified with Internal Revenue Service data (Johnson & Moore 2005, Kennickell 2008). The unique sample design improves the likelihood that top incomes and wealth are represented and that both widely held assets (e.g., homes, cars) and those held more narrowly by wealthy households (e.g., businesses, bonds) are included (Johnson & Moore 2005, Kennickell 2009a). Unique efforts to improve data accuracy and impute missing values make the SCF particularly useful for studying households with high income and wealth (Kennickell 2008, 2011).

Second, to study issues regarding changes in income and wealth over time, researchers have relied on several data sets that contain repeated cross sections or longitudinal data on the same households (Gouskova & Stafford 2009; Keister 2000a,b; Kopczuk et al. 2010). For example, the decennial US Census and the Current Population Survey (CPS) are useful for understanding trends in income ownership and concentration because of their large sample sizes and detailed content on household financial status (Burkhauser et al. 2012, Kopczuk et al. 2010). The Census is an important source of information on income sources for large samples at regular intervals. Similarly, the CPS, a monthly household survey conducted by the US Census Bureau for the Bureau of Labor Statistics, can be used effectively to understand changes in income over time. Because the CPS includes detailed data on income, some assets, debts, demographic traits, labor force characteristics, and related issues, it is widely used to study labor earnings and income inequality. The National

Longitudinal Survey of Youth, the Panel Study of Income Dynamics, the Health and Retirement Survey, and the Survey of Income and Program Participation all include both income and household wealth information and are longitudinal. Each of these data sets includes very detailed information on the same households over long periods, allowing researchers to study lifetime incomes and wealth accumulation rates that are not possible with cross-sectional data sets. Unfortunately, these longitudinal data sets include only small numbers of high-income or high-wealth households, making it difficult to generalize about the one percent.

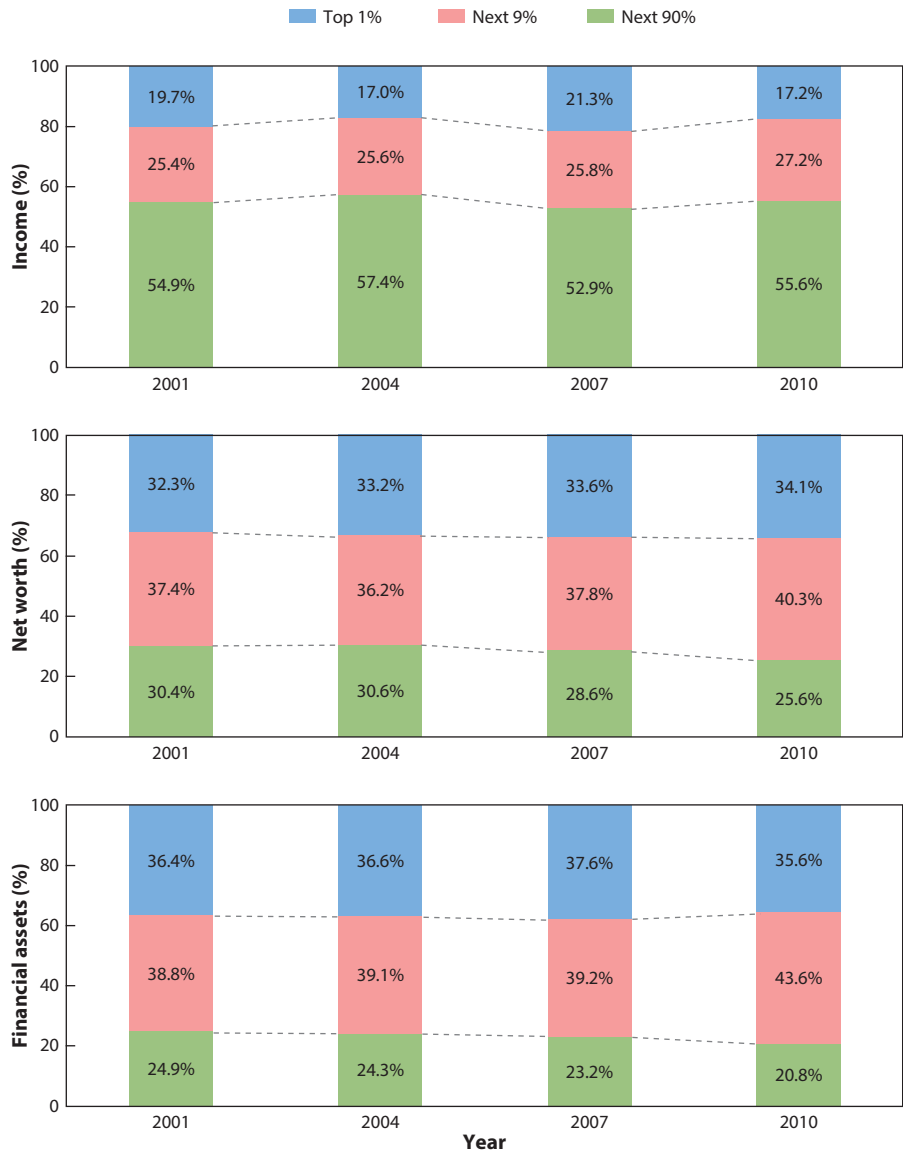
Third, to study patterns in resource concentration over long historic periods, researchers have begun to use government tax records to estimate the holdings of the one percent by income and wealth (Atkinson & Piketty 2007, Atkinson et al. 2011, Piketty 2005, Piketty & Saez 2006). The US government has collected and published income tax data since 1913, when they established a progressive income tax system, and these data tend to be relatively similar over time (Atkinson et al. 2011, Piketty 2005). Income tax records allow researchers to estimate both total household income and income sources (e.g., wage/salary income, capital gains income, business income) for top earners and to examine how these have changed over time in response to business cycles, social change, and government policies. Because other Western (non-US) governments have also collected and published income tax data since the early twentieth century, similar estimates can be generated for other countries, allowing comparisons of patterns cross-nationally to study the effects of structural variation and public policy on income and wealth concentration (Atkinson et al. 2011, Piketty 2005). Estate tax data are also available for the United States, and researchers are effectively using these to estimate wealth holdings over long periods for top wealth holders (Kopczuk & Saez 2004). These data have their own limitations: They include only top incomes and wealth, the unit of observation is the individual rather than the household, and they might be biased because of tax evasion.

However, researchers have used them to study long-term patterns in a way that is not possible with survey data.

In the remainder of this article, I provide basic empirical estimates of income and wealth concentration to summarize current knowledge and highlight gaps in the literature that future research might address. I use the SCF to produce these estimates because I want to accurately represent top income earners and wealth holders and because I focus on contemporary, cross-sectional patterns rather than longitudinal or historic trends. I report values for 2001, 2004, 2007, and 2010, the most recent years for which SCF data are available. I use median values because income, net worth, and financial assets are highly skewed; I show values for the top one percent, the next nine percent, and the remaining 90% to highlight the unique characteristics of those in the top of the income and wealth distributions. The SCF contains five imputed cases for each observed household as part of its effort to accurately represent income and wealth (Kennickell 2008, 2011). Consistent with the strategy used by other researchers (e.g., Kennickell 2003, 2008, 2009b), I use the five imputations as independent observations to take into account uncertainties in imputation, and I use sample weights to correct for oversampling. When I report demographic traits, individual characteristics (e.g., gender, race/ethnicity) refer to the respondent. I use the consumer price index (CPI-U) to deflate income and wealth values; I report all values in 2010 dollars. I define other terms in the text below.

## CONTEMPORARY INCOME AND WEALTH CONCENTRATION

**Figures 1** and **2** use the SCF to summarize what we know about income and wealth concentration. **Figure 1** shows the percentage of total income going to various segments of the distribution, including income from earnings, investments, transfer payments, and other sources. **Figure 2** shows median household income; the thresholds defining the top of the



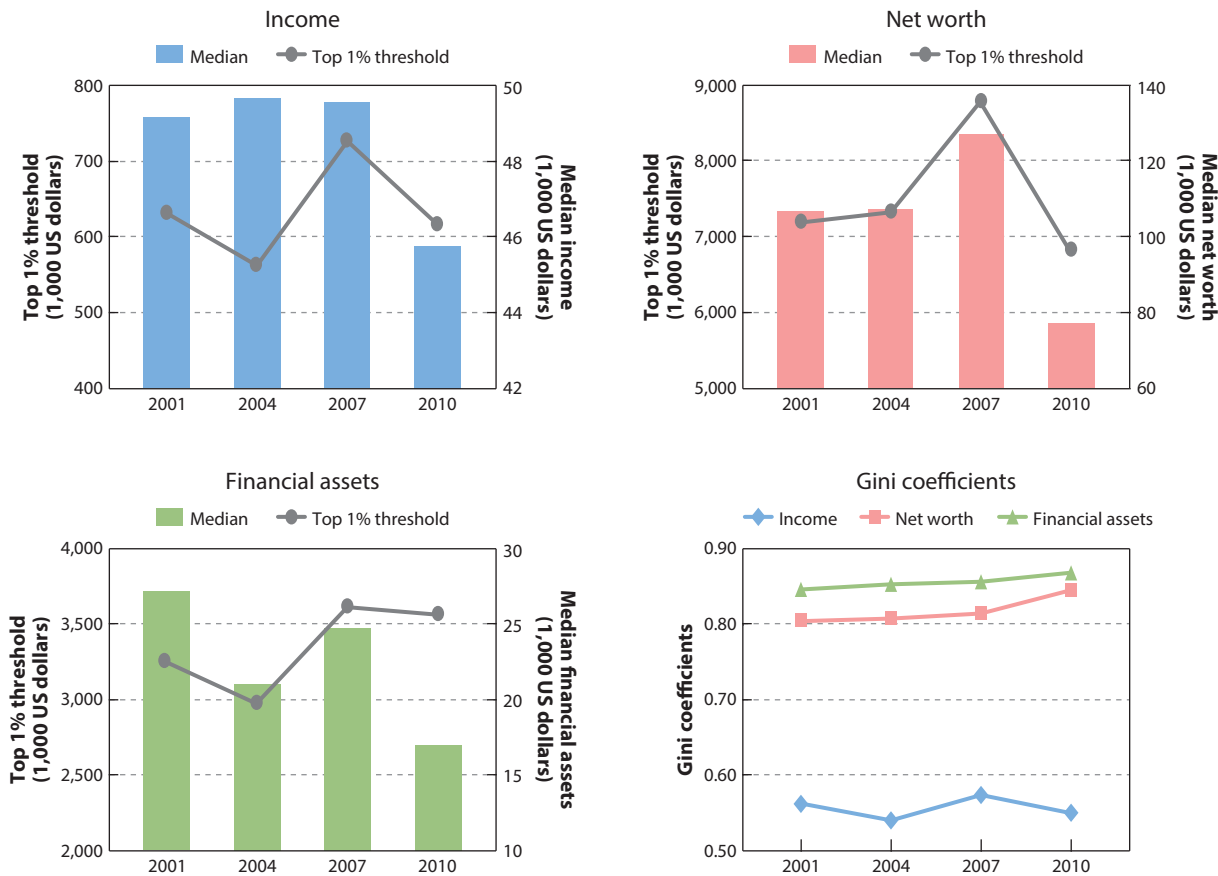
**Figure 1**

The one percent by income and wealth. Source: Author's estimates based on the 2001–2010 Surveys of Consumer Finances (<http://www.federalreserve.gov/econresdata/scf/scfindex.htm>). Bars indicate the percentage of total household income, net worth, or financial assets owned.

**Gini coefficient:** an indicator of income/wealth concentration; ranges from 0 to 1, with 0 indicating perfect equality (as in income equality) and 1 indicating perfect inequality

income and wealth (net worth and financial assets) distributions; and the Gini coefficients for income, net worth, and financial assets. These figures show that the highest-paid Americans receive a very large portion of total household income. Consistent with other estimates

(Kennickell 2009b, Wolff 2010), **Figure 1** shows that in 2010, the top one percent of income earners received more than 17% of total household income, and the next 9% received over 27% of total income in that year. **Figure 1** also illustrates that the top one percent has



**Figure 2**

What does it take to be rich? Source: Author's estimates based on the 2001–2010 Surveys of Consumer Finances (<http://www.federalreserve.gov/econresdata/scf/scfindex.htm>).

consistently received nearly 20% of total household income, with a noticeable increase to 21.3% in 2007 at the height of the economic bubble. Although the top one percent lost 4% of their income share between 2007 and 2010, the next 9% actually gained slightly. This does not suggest that income levels for the top 10% increased; rather, it signals a reordering of the distribution as those at the bottom were more likely to lose jobs and thus income (Grusky et al. 2011b). Yet, the 2007–2009 recession had a somewhat equalizing effect as the percentage of total income going to top earners in 2010 returned to 2004 levels. **Figure 2** shows that median household income fell nearly 8% as a result of the recession, a decline caused by

losses in both earned income and capital gains income (Kennickell 2009b) despite an increase in the prevalence of young adults living with their parents (Smeeding et al. 2011).

Although it receives less research attention, wealth ownership is even more highly concentrated than income. As **Figure 1** shows, the top one percent of wealth owners has held more than one-third of total net worth since 2001 (Kennickell 2000, 2003; Kopczuk & Saez 2004; Kopczuk et al. 2010). In 2010, the top one percent owned more than 34% of net worth, and the next 9% owned an additional 40%, leaving just over 25% of net worth for the remaining households. Because the 2007–2009 recession eroded both the housing wealth and

savings of most households, there were important changes in wealth ownership between the 2007 and 2010 SCF data waves. Particularly notable is that the share of total net worth held by the top one percent increased between 2007 and 2010. **Figure 2** shows that median net worth increased modestly between 2001 and 2004, spiked to more than \$126,000 dollars in 2007, and fell by nearly 40% in 2010. This table also shows that the threshold for inclusion in the top one percent of net worth owners is high (\$6.8 million in 2010), but it is also considerably lower than it was in 2007. Another important change not shown here is that during the 2007–2010 period, debt increased as a share of total net worth across the wealth distribution, and the portion of net worth accounted for by housing wealth rose. The housing wealth increase was particularly evident for those in the lower half of the wealth distribution. These patterns are consistent with those obtained from estate tax records and estimates of the wealth of the Forbes 400 (approximately the top 0.0002% of the population) (Kopczuk & Saez 2004, Kopczuk et al. 2010); they are also consistent with estimates that suggest declines in the importance of capital incomes at the top of the income distribution (Piketty & Saez 2003, 2006).

Ownership of financial wealth is even more concentrated than ownership of net worth. **Figure 1** shows that the top one percent has consistently owned 35% of financial assets since 2001. The next 9% of households has consistently owned at least 38% of financial assets, with their share rising to nearly 44% in 2010. Thus, the top 10% of wealth owners owned nearly 80% of financial assets in 2010, and the remaining 90% of the population owned 20%. Despite a rise in financial asset values and because of the degree to which financial asset ownership is concentrated, there was only a slight increase in the percentage of financial assets owned by the wealthiest households in the years preceding the recent financial crisis and recession. **Figure 1** shows that between 2004 and 2007, the top one percent increased their share of total household financial assets from 36.6% to 37.6%, whereas the next 9%

increased their portion of financial assets by only 0.1%. Estimates for median financial asset values and thresholds for distributional segments shown in **Figure 2** underscore the extent of financial asset ownership concentration and its relative constancy since the early 2000s.

The Gini coefficient is another important indicator of the degree to which resource ownership is concentrated; the Gini tends to be correlated positively with top income shares but has a slightly broader definition (Leigh 2007). The Gini is a proportion ranging from 0 to 1, with 0 indicating perfect equality and 1 indicating perfect inequality. Conceptually, if a single household were to receive all income or own all wealth, the Gini coefficient would equal 1. The Gini is a common measure of income inequality, and it is becoming standard in research on wealth disparities (Keister 2000b, 2005; Wolff 2001; Wolff & Zacharias 2009). The Gini coefficient for income has risen overall since the early 1980s, but it was relatively stable between 2000 and 2010 (Domhoff 2013a, McCall & Percheski 2010). **Figure 2** includes estimated Gini coefficients for total income, net worth, and financial assets from the SCF for 2001 through 2010. I use the standard practice of treating negative net worth values as zero when calculating the net worth Gini. As **Figure 2** illustrates, the Gini coefficient for income was 0.56 in 2001, increased to 0.57 in 2007, and declined again to 0.55 in 2010. Consistent with other estimates, however, the Gini coefficients for net worth and financial asset ownership show that ownership of these resources is much more concentrated. The net worth Gini, which had been relatively stable between 1983 and 2001 (Wolff 1998, 2010), rose from 0.81 in 2001 to 0.85 in 2010. Likewise, the Gini for financial asset ownership grew from 0.85 in 2001 and to 0.87 in 2010 (Wolff 2010). One surprising pattern is that between 2001 and 2007 wealth inequality did not increase as much as income inequality did. As others have shown, this reflects the fact that asset values during that period increased, but household debt was also expanding and cancelling out asset gains for many households (e.g., Wolff 2002, 2010).



## HISTORIC TRENDS

A recent surge in research on historic trends in income concentration allows us to put contemporary patterns in context. Specifically, between the early twentieth century and today, there is a clear U-shaped pattern in income inequality and in the share of total household income received by top earners (Atkinson et al. 2011, Burkhauser et al. 2012, McCall & Percheski 2010, Volscho & Kelly 2012). Between 1913 and the mid-1970s, the general trend in income inequality was downward, with the exception of an increase in the 1920s. Likewise, the share of total income held by the top one percent fell sharply from nearly 24% at its peak in 1928 to 8.9% in 1975–1976 (Piketty & Saez 2003, 2006; Volscho & Kelly 2012). The pattern reversed after 1980: In 1981, the top one percent received about 10% of total income, but by 2007, their share had risen to more than 20% (Kopczuk et al. 2010, Piketty & Saez 2003, Volscho & Kelly 2012). Although estimates of income concentration vary slightly with the data and measures used, the U-shaped pattern is clear across data sets and estimation techniques (Burkhauser et al. 2012, McCall & Percheski 2010, Piketty & Saez 2003). Moreover, although the pattern is somewhat more extreme for men, the U-shaped pattern of inequality has been evident for both genders (Kopczuk et al. 2010). Recent evidence suggests that the 1914–1945 drop in top income shares was due entirely to a fall in top capital incomes—rather than to changes in wage income—reflecting the political turmoil of world wars and the Great Depression (Atkinson et al. 2011, Piketty 2005). In contrast, shares of wage incomes, capital gains, and business incomes have all increased since 1980, with the growth in wage incomes accounting for most of the overall increase in shares of top incomes (Atkinson et al. 2011). In particular, during two recent economic expansions, the real incomes of the top one percent grew dramatically; they rose by 10.1% from 1993 to 2000 and by 10.3% from 2002 to 2007, whereas wages for the other 99% rose by 2.7% and 1.3%, respectively (Atkinson et al. 2011).

Long-term trends in top wealth shares have followed a different pattern. In the early twentieth century, the share of total wealth owned by the top one percent was very high, reaching peaks near 35% of total wealth during the economic boom of the 1920s (Kopczuk & Saez 2004, Lampman 1962). Growing asset values concentrated wealth, particularly financial wealth, at the top of the distribution. Following the 1929 stock market crash and the ensuing Great Depression, however, top shares declined dramatically. Wealth shares of the top one percent continued to decline through the 1930s and 1940s in tandem with declines in income shares (Wolff & Marley 1989). The 1950s brought another era of prosperity and, with it, increased wealth at the top of the distribution; however, these gains were modest, and wealth concentration subsequently began to decline again (Kopczuk & Saez 2004, Wolff & Marley 1989). Top wealth shares—including net worth and financial wealth—continued to decline through the 1970s, increased slightly in the early 1980s, and have remained relatively stable since then. As **Figure 1** shows, the share of wealth owned by the top one percent has been extremely high in recent years, but it has remained quite stable (Wolff 2010, Wolff & Zacharias 2009). Although data challenges make it extremely difficult to study groups within the top one percent, some evidence suggests that resources may be concentrated even at the top of the wealth distribution and that the households with the very highest levels of wealth ownership may have seen gains in their share of total wealth that are not apparent in survey data. In particular, evidence from research on the Forbes 400 suggests that those with very high wealth have experienced significant gains, particularly during the economic booms of the 1990s and the mid-2000s (Kopczuk & Saez 2004). I do not provide more detailed information about subgroups within the one percent because even with its oversamples of high-income households, the SCF is unable to accurately capture the very top of either the income or the wealth distribution.

## THE ONE PERCENT: DEMOGRAPHIC AND FINANCIAL TRAITS

Who are the one percent? Policy reports provide basic demographic traits for top income earners and wealth holders (Kennickell 2009b; Wolff 2002, 2010), but we otherwise know little about these households. **Table 1** shows the demographic traits of those in the top one percent, the next nine percent, and the remainder of the distributions by income and wealth. Consistent with other evidence regarding wealth ownership (Keister & Moller 2000, Oliver & Shapiro 2006, Wolff 2001), this table shows that members of the one percent are disproportionately male, white, and married. Most have children and are employed, although they are much more likely than the typical American to be self-employed, consistent with other research (Bricker et al. 2011, 2012; Freeland 2012; Raffalovich et al. 2009). This latter finding is consistent with work that shows that entrepreneurship is an important way people move up in the wealth distribution (Keister 2005), although there is little evidence that having wealth leads to higher rates of business startup (Kim et al. 2003, 2004). **Table 1** also shows that the one percent tend to be middle-aged, to have at least a college education, and to be employed in professional and managerial occupations. Other estimates from the SCF (not shown) suggest that these patterns have not changed much over the last decade, nor do the demographic patterns vary much when wealth is defined as financial wealth rather than net worth. Moreover, the patterns are almost identical for the top 0.5% of income earners and wealth owners. One area in which there was some change between 2007 and 2010 (i.e., following the recession) was in self-employment. In 2007, 48.6% of the top one percent (defined by net worth) were self-employed (not shown), but in 2010, nearly 56% of the top one percent were self-employed. More detailed analyses suggest that it was the self-employed who were better able to weather the financial storm; this is consistent with evidence that the top one

percent of wealth owners experienced the greatest wealth loss during the recession but that their assets allowed them to withstand the crisis better than others (Grusky et al. 2011b).

The income sources and wealth types held by those in the top one percent provide additional insight into their lives and financial situations. **Table 2** includes my estimates from the SCF of 2010 income and assets for the one percent, again defined by household income and net worth. Note that in **Table 2** the top 1%, next 9%, and next 90% are defined by total household income (for income sources) and by net worth (for assets) (the cells are percentages of total income or assets and do not sum to 100 because of rounding error). The table shows that top income earners received significant portions of their income from wages and salaries but that earned income (wages and salaries) was much more important for those in the lower 90% of the income distribution. Not surprisingly, business and capital gains income are more important sources of total income for top income earners than for ordinary households. The table also shows important trends over time. The most significant change for top earners is that earned income became a much more significant portion of total income, rising from just more than 45% of the total in 2001 to more than 50% in 2010. This change reflects rising salaries for very top earners as well as declines in capital gains following the 2007–2009 financial crisis. Capital gains were more than 23% of total household income for the top one percent in 2001 but less than 8% of the total in 2010. For other households, the change in capital gains income was not nearly as dramatic during that decade. Those in the next 9% experienced a decline in capital gains income, but given that this income never accounted for more than 6% of their total income, the loss was less extreme than at the top of the distribution.

In addition, **Table 2** shows that top wealth holders are unique in both the nonfinancial and financial assets that they own: Financial and business assets were the most commonly held assets for the very wealthy, and although

**Table 1 Who are the one percent?**

| Sociodemographic characteristic           | Income |         |          | Net Worth |         |          |
|---|--------|---------|----------|-----------|---------|----------|
|   | Top 1% | Next 9% | Next 90% | Top 1%    | Next 9% | Next 90% |
| <b>Male</b>                               | 97.8   | 95.3    | 70.4     | 95.8      | 87.8    | 71.2     |
| <b>Age</b>                                | 55.0   | 51.9    | 50.3     | 60.2      | 60.1    | 49.5     |
| <b>Race/ethnicity<sup>a</sup></b>         |        |         |          |           |         |          |
| White, non-Hispanic                       | 90.9   | 84.9    | 69.2     | 92.5      | 90.0    | 68.6     |
| African American                          | 0.2    | 3.9     | 15.0     | 0.5       | 2.2     | 15.1     |
| Hispanic                                  | 1.8    | 3.2     | 11.6     | 1.2       | 1.7     | 11.8     |
| Other                                     | 7.1    | 8.0     | 4.3      | 5.9       | 6.1     | 4.5      |
| <b>Married, with children<sup>b</sup></b> | 53.3   | 48.6    | 29.6     | 40.2      | 33.4    | 31.3     |
| <b>Married, no children<sup>b</sup></b>   | 39.9   | 42.3    | 24.8     | 50.3      | 45.2    | 24.4     |
| <b>Education<sup>c</sup></b>              |        |         |          |           |         |          |
| Less than high school                     | 1.7    | 0.9     | 14.7     | 0.1       | 2.1     | 14.6     |
| High school                               | 2.3    | 10.1    | 33.2     | 8.2       | 11.0    | 33.1     |
| Some college                              | 3.9    | 12.6    | 25.1     | 5.3       | 14.6    | 24.9     |
| College                                   | 30.4   | 34.3    | 17.7     | 38.0      | 31.0    | 18.0     |
| Graduate school                           | 61.8   | 42.1    | 9.2      | 48.4      | 41.3    | 9.4      |
| <b>Occupation</b>                         |        |         |          |           |         |          |
| Managerial/professional                   | 84.3   | 70.8    | 22.8     | 72.9      | 55.7    | 24.4     |
| Technical/sales                           | 8.6    | 11.9    | 22.9     | 6.4       | 8.8     | 23.2     |
| Not working                               | 6.7    | 9.2     | 34.2     | 19.5      | 30.4    | 31.9     |
| <b>Number of households</b>               | 2,875  | 4,221   | 25,314   | 3,253     | 4,081   | 25,076   |

Source: Author's estimates from the 2010 Survey of Consumer Finances. Top 1%, next 9%, and next 90% are defined by total household income (for income sources), by total nonfinancial assets (for nonfinancial assets), and by financial assets (for financial assets). All values are percentages except age and number of households.

<sup>a</sup>Race/ethnicity is for the respondent.

<sup>b</sup>Married includes living with a partner.

<sup>c</sup>Education is the highest level completed.

there were some changes resulting from the recession, these assets have been dominant in the portfolios of the very wealthy for at least the last decade. As the table indicates, total financial assets accounted for more than 45% of total assets in 2001 for the top one percent; this proportion declined over the decade as the value of business assets increased (primarily in the first part of the decade) and then as the value of stocks fell (in the second part of the decade). Indeed, business assets account for a very large portion of total assets held at the top of the distribution: Between 2001 and 2010, the top one percent held between 32% and 41% of their total assets in the form of businesses. This is in stark contrast to those in the rest

of the distribution, for whom the primary residence was the most commonly held asset. For most households, the portion of total assets accounted for by the primary residence fell following the recession even as housing values declined; this reflects a drop in the value of financial assets, including transaction accounts, certificates of deposit, and a small amount of stock owned by these households. Consistent with other published reports, estimates (not shown) indicate that at the bottom of the distribution, notably for households in the bottom quintile of the wealth distribution, vehicles continued to account for a large portion of total assets, and declining housing values had an important negative effect, particularly for African

**Table 2** The finances of the one percent

|  | 2001   |          |          | 2004   |          |          | 2007   |          |          | 2010   |          |          |
|--|--------|----------|----------|--------|----------|----------|--------|----------|----------|--------|----------|----------|
|  | Top 1% | Next 90% | Next 90% | Top 1% | Next 90% | Next 90% | Top 1% | Next 90% | Next 90% | Top 1% | Next 90% | Next 90% |
| <b>Income (for top income earners)<sup>a</sup></b>   |        |          |          |        |          |          |        |          |          |        |          |          |
| Wage/salary income                                   | 45.3   | 67.8     | 77.4     | 47.1   | 71.6     | 75.3     | 38.5   | 66.7     | 73.3     | 50.3   | 72.1     | 70.0     |
| Business   | 24.2   | 15.8     | 4.7      | 28.0   | 14.8     | 4.6      | 28.6   | 18.1     | 6.2      | 31.8   | 15.2     | 6.1      |
| Interest/dividend                                    | 5.6    | 6.5      | 2.5      | 8.4    | 4.3      | 1.7      | 7.6    | 4.5      | 1.7      | 7.9    | 4.8      | 1.6      |
| Capital gains  | 23.3   | 5.9      | 1.0      | 13.7   | 2.8      | 0.2      | 22.9   | 5.6      | 0.7      | 7.9    | 0.9      | -0.6     |
| Other income   | 1.7    | 3.8      | 14.4     | 2.7    | 6.6      | 18.2     | 2.3    | 5.2      | 18.1     | 2.1    | 7.0      | 22.9     |
| <b>Number of households</b>                          | 3,110  | 3,438    | 15,662   | 3,505  | 3,295    | 15,795   | 3,403  | 3,603    | 15,079   | 2,875  | 4,221    | 25,314   |
| <b>Assets (for top net worth owners)<sup>b</sup></b> |        |          |          |        |          |          |        |          |          |        |          |          |
| <b>Nonfinancial assets</b>                           |        |          |          |        |          |          |        |          |          |        |          |          |
| Primary residence                                    | 8.4    | 21.5     | 47.9     | 10.8   | 27.0     | 54.2     | 10.0   | 26.2     | 55.5     | 9.3    | 24.8     | 53.1     |
| Other real estate                                    | 11.3   | 11.5     | 5.8      | 14.0   | 13.9     | 6.3      | 10.6   | 14.9     | 7.1      | 13.4   | 13.1     | 7.1      |
| Business equity                                      | 32.6   | 15.1     | 4.8      | 34.5   | 14.2     | 4.3      | 41.3   | 17.1     | 3.6      | 36.7   | 14.1     | 4.2      |
| Vehicles   | 0.6    | 1.8      | 7.4      | 0.6    | 1.7      | 6.8      | 0.7    | 1.6      | 6.2      | 0.7    | 1.7      | 7.2      |
| Other nonfinancial assets                            | 1.4    | 0.8      | 0.5      | 1.2    | 1.0      | 0.7      | 0.9    | 0.6      | 0.6      | 0.7    | 0.8      | 0.6      |
| <b>Financial assets</b>                              |        |          |          |        |          |          |        |          |          |        |          |          |
| Transaction accounts                                 | 4.4    | 4.9      | 5.4      | 3.7    | 5.3      | 5.0      | 2.9    | 4.0      | 4.2      | 4.7    | 5.6      | 4.7      |
| Certificates of deposit                              | 0.3    | 1.3      | 2.1      | 0.5    | 1.7      | 1.6      | 0.7    | 1.4      | 1.9      | 0.7    | 1.9      | 1.7      |
| Bonds  | 4.2    | 1.7      | 0.2      | 4.5    | 1.5      | 0.2      | 2.9    | 1.5      | 0.1      | 3.8    | 1.2      | 0.1      |
| Stocks   | 16.4   | 9.2      | 3.0      | 10.9   | 7.0      | 1.8      | 10.6   | 6.7      | 1.6      | 9.0    | 5.5      | 1.4      |
| Pooled investment funds                              | 4.9    | 7.4      | 3.1      | 6.7    | 6.7      | 2.7      | 8.5    | 6.3      | 1.8      | 9.1    | 6.6      | 1.5      |

(Continued)

**Table 2 (Continued)**

|                             |       |       |        |       |       |        |       |       |        |       |       |        |
|-----------------------------|-------|-------|--------|-------|-------|--------|-------|-------|--------|-------|-------|--------|
| Retirement accounts         | 5.8   | 16.1  | 13.7   | 5.8   | 15.2  | 13.0   | 6.1   | 15.0  | 13.7   | 7.6   | 19.6  | 15.0   |
| Other financial assets      | 9.7   | 8.5   | 6.1    | 6.7   | 4.8   | 3.5    | 4.9   | 4.7   | 3.6    | 4.5   | 5.0   | 3.3    |
| <b>Number of households</b> | 3,285 | 3,749 | 15,176 | 3,568 | 3,579 | 15,448 | 3,418 | 4,098 | 14,569 | 3,253 | 4,081 | 25,076 |

Source: Author's estimates from the Survey of Consumer Finances. Top 1%, next 9%, and next 90% are defined by total household income (for income sources) and by net worth (for assets). Percentages do not sum to 100 due to rounding error. Pooled investment funds exclude money market mutual funds but include stock mutual funds, tax-free bond mutual funds, government bond mutual funds, and a combination of other mutual funds, such as hedge funds. Retirement accounts include IRAs and Keogh accounts.

<sup>a</sup>Income by source, as a percentage of total household income.

<sup>b</sup>Percentage of total household assets accounted for by various assets.

Americans and Hispanics (Fry & Taylor 2013, Kennickell 2009b, Shapiro et al. 2008).

## EXPLAINING INCOME AND WEALTH CONCENTRATION

Efforts to understand the one percent have largely focused on explaining growth in top wage incomes (versus business or capital income) because wage/salary income changes have been the primary cause of the increasing income going to top earners (Atkinson et al. 2011, Frydman & Saks 2010). Explanations for growing top wage/salary income focus primarily on CEO compensation and fall into three broad groups: economic, political, and social. There are four economic or market-oriented explanations. First, high and growing CEO salaries may reflect managers' abilities to extract rents from firms (Bebchuk & Fried 2003, Bebchuk et al. 2002, Bebchuk & Grinstein 2005). Economists often assume that corporate boards construct CEO compensation packages to solve an agency problem. That is, the CEO is supposed to make decisions that maximize shareholder returns, but it is in the CEO's interest to maximize personal income and wealth. The board can construct a compensation package that aligns CEO and shareholder interests, but current speculation among financial economists proposes that in reality CEOs use compensation to manipulate boards and drive up their own incomes (Bebchuk et al. 2002, Bebchuk & Grinstein 2005). There is some evidence that this rent seeking may explain the recent rise in CEO compensation (Bebchuk & Fried 2003), including important historical indications that stagflation and the deregulation and financialization that followed helped align CEO incentives with those of shareholders (Fligstein 2002). However, long-term historic data from the 1950s through the 1970s raise questions about the empirical patterns because they show that both base pay and options were lower even though there is no evidence that boards were stronger (Frydman & Saks 2010).

A second market-oriented explanation is that firms have become considerably larger, and

particularly in lucrative fields where CEO talent is both scarce and in high demand, large firms may be able to pay top prices to attract the best leaders, thus driving up salaries (Gabaix & Landier 2008). Again, firm size and compensation are correlated, but this does not appear to be true prior to the mid-1970s, nor does it seem to explain the dramatic increase in income concentration starting in the 1980s; historic data from the 1950s through the 1970s show that both base pay and options were lower even though there is no evidence that boards were stronger (Frydman & Saks 2010). Third, rather than demanding CEOs with firm-specific skills, corporations now want leaders with general knowledge of management (increasing returns to generalists) and thus have to pay more to attract talented managers. Again, this explanation works well for more recent data, but it does not explain the sharp increase in pay that started in the 1970s (Frydman & Saks 2010) or why lawyers, hedge fund managers, investment bankers, and professional athletes have garnered more income over time (Kaplan & Rauh 2009). Finally, it is possible that periods of high economic growth disproportionately benefit top income earners, who retain these benefits in subsequent slow growth periods (Roine et al. 2009, Volscho & Kelly 2012).

Others offer political explanations for the growth in top incomes. For example, rightward shifts in Congress have lowered taxes on high incomes and capital gains benefiting top earners (Domhoff 2013a, Hacker & Pierson 2010, Phillips 2002, Volscho & Kelly 2012), while declining labor union power and slow wage labor growth have weakened the income position of most Americans (Bartels 2008, McCall & Percheski 2010, Volscho & Kelly 2012). Some argue strongly that growing income concentration is a direct result of government's role in corporate structure and pay; of the functioning of financial markets and financial deregulation; and of corporate relations with industry, including corporate influence in Washington, corporate giving, and deliberate corporation manipulation of congressional decision making (Hacker & Pierson 2010). Indeed, important

recent work confirms that the one percent of wealth holders have much more political influence than does the rest of the population (Gilens 2012, Page et al. 2013), and perhaps more important, that their policy preferences are much more conservative with respect to economic regulation, taxation, and social welfare policies than are those of most Americans (Page et al. 2013). Related work underscores the specific role of financialization—the simultaneous growth of the financial services sector, an increase of nonfinancial firms in financial activity, and deregulation of financial activity—as a cause of growing income concentration (Epstein & Jayadev 2005, Irvin 2008, Tomaskovic-Devey & Lin 2013). Changing tax rates, the decline of labor unions, and the rightward shift in Congress do correlate positively with growth in top incomes (Hacker & Pierson 2010, Volscho & Kelly 2012), but evidence that trade openness correlates with changes in income concentration is mixed (Roine et al. 2009, Volscho & Kelly 2012).

There are also important social explanations for the increasing proportion of wage income going to top earners. For example, DiPrete and coauthors (2010) propose that the change in executive pay that has occurred in recent years is a market-level (rather than a firm-level) process that can be understood only when inter-firm processes are considered explicitly. They build on research documenting the widespread use of peer groups in setting CEO salaries (Faulkender & Yang 2010, Porac et al. 1999) to argue that this process, known as benchmarking, leads to growth in top salaries that cannot be explained by purely economic processes. They propose that there are multiple ways in which benchmarking increases CEO salaries: Firms may use upwardly biased samples of peer groups to establish CEO salaries; they may use data from aspirational (or ideal) peers, which may create upward bias; or they may use lagged data about peer compensation and generously update that in calculating current compensation (DiPrete et al. 2010). Alternatively, benchmarking a few outlier cases to high salaries may filter through the system, leading

to overall higher top salaries. Another explanation for top salaries that is social at its core is the argument that corporations prize charisma in their CEOs because they are unable to effectively evaluate other traits. As a result, corporations are increasingly willing to pay large sums for CEOs who are impressive to analysts and the media but who may lack the experience and skills to run the company (Khurana 2002).

There are at least two important gaps in research on the one percent. First, very little attention is devoted to wealth (versus income) concentration, yet wealth ownership is very highly concentrated and has enormous advantages. Although the share of nonsalary incomes (e.g., from capital gains, businesses) going to top earners has clearly increased over time (Atkinson et al. 2011), research has focused almost exclusively on changes in total income going to the top or on changes in the earnings component (McCall & Percheski 2010) with little regard for ownership of net worth held by the one percent of wealth owners, changes in capital gains or business income, or the joint income-wealth distribution. Research on CEO compensation addresses changing use of stock options (Bebchuk & Grinstein 2005, Frydman & Saks 2010, McCall & Percheski 2010), and the fascinating new study of top wealth holders' politics begins to fill this gap (Page et al. 2013). However, important questions about wealth ownership are still understudied in the social sciences. One important issue that is worth investigating is the relative importance of inheritance versus individual and household traits in creating wealth. Some evidence suggests that individual and household traits account for a larger proportion of wealth ownership than would be expected by chance (Keister 2005), and my estimates from the 2010 SCF suggest that about half of those in the top one percent by wealth have inherited. However, cited estimates of the likelihood of inheriting are dated (Blinder 1988, Menchik 1980, Menchik & Jiankopoulos 1998, Wilhelm 2001), and claims about the role of individual and household traits in generating wealth far exceed current empirical knowledge (Freeland 2012, Gokhale

& Villarreal 2006). Related to inheritance, we also know very little about the role played in wealth accumulation of active saving from current income. There is a literature that explores the relationship between income and savings rates (see, for example, Leigh & Posso 2009), but this relationship is only tangentially related to understanding wealth concentration. Similarly, consumption has attracted the attention of those interested in household finances (De Graaf et al. 2005, Frank 1999, Schor 1998), but we know little about the budgets and household finances of the one percent and whether these contribute to resource concentration. Finally, we know that social network processes affect income inequality (DiMaggio & Garip 2012), but we know little about how these affect wealth concentration.

Second, we know little about the demographic or life course processes that contribute to the status of the one percent, particularly for those with high wealth. To be sure, there are related literatures that address how individual and household traits correlate with income and wealth, and we know that wealth varies by race/ethnicity (Fry & Taylor 2013; Pew Hisp. Cent. 2012; Shapiro 2004; Taylor et al. 2011a,b), age (Keister 2000b, Wolff 2010), and family structure (Keister 2004, Zagorsky 2005). Evidence also suggests that the representation of women and people of color in CEO positions in Fortune 500 companies is growing (Zweigenhaft & Domhoff 2003, 2006, 2011). Similarly, although elite boarding schools are sources for Ivy League colleges and ultimately for major corporations and there has historically been little diversity at any part of this chain (Cookson & Persell 1985, Domhoff 2013b), recent evidence suggests that diversity may be increasing in boarding schools (Khan 2011, 2012). Other recent work suggests that groups that have traditionally been underrepresented among the wealthy are also experiencing significant upward mobility and may be more visible among the elite in coming years. For example, although immigrants tend to have low wealth and are underrepresented in the elite (Borelli 2013; Hao 2007; Keister

2000a,b), evidence suggests that Mexican, Chinese, and Indian Americans are all experiencing significant upward wealth mobility that may lead to important changes in the composition of the one percent (Agius Vallejo 2009, 2012; Borelli 2013; Keister et al. 2013). Members of non-Protestant religious groups also have traditionally been underrepresented in the top one percent (Keister 2003; Sorokin 1925, 1927); however, recent evidence suggests that white Roman Catholics (Keister 2007, 2011), Hispanic Catholics (Keister & Borelli 2014), and others (Amin & Sherkat 2014, Keister & Sherkat 2014, Zweigenhaft & Domhoff 1982) are experiencing considerable mobility. Despite these exceptions, wealth accumulation processes over the life course and their role in generating concentration in wealth at the top of the distribution have attracted limited attention.

## CONCLUSION

In this article, I reviewed current research on the one percent, a group that is important for understanding inequality and social mobility but that has attracted relatively little attention from academics. I began by distinguishing income from wealth, two concepts used to identify the one percent that are frequently used interchangeably but that have different meanings and different implications for understanding resource concentration. I then discussed data issues that pose challenges for studying the one percent, and I described contemporary trends in income and wealth concentration and put them in historic context. I provided original empirical estimates showing that the concentration of total household income is extremely high and has been for a decade, but that has equalized slightly following the 2007–2009 recession, reflecting declining capital gains income at the top of the distribution. I also showed that net worth and financial wealth ownership are much more concentrated than income; net worth concentration remained very high but was relatively stable following the recession as both

financial assets (the most common asset for top wealth holders) and housing assets (the most common asset for most Americans) lost value. Next, I summarized the demographic traits and financial holdings of those in the top one percent of income earners and wealth holders and showed that these households are typically male, white, and married with children. They are more likely than average to be self-employed, particularly following the recession. Finally, I discussed a growing literature on efforts to explain growth in top wage incomes, the area in which we have seen the most noticeable changes in recent years. This literature focuses on reasons for growing CEO salaries and offers economic (rent seeking, demand for CEO talents, demand for generalists), political (rightward shifts in Congress, declining taxes on high incomes, declining union power, financialization), and social (benchmarking, demand for charismatic CEOs) explanations. I then discussed two important gaps in explanations of resource concentration: There is little focus on top wealth holders (versus income earners) and there is relatively little knowledge of the demographic or life course processes that contribute to resource concentration.

Does this suggest, as the OWS protestors claim, that the one percent is both privileged and insulated from financial downturns? Given the advantages associated with both income and wealth, including the enormous political influence they have (Domhoff 2013a, Gilens 2012, Page et al. 2013), there is little question that members of the one percent are extraordinarily privileged. Their advantage was eroded during the recession, suggesting that they are not completely immune to the negative effects of business cycles; however, the ability of the one percent to both weather the financial storm and recover from it is also clear, suggesting that there is a good deal of truth to claims that they are very insulated. Perhaps most remarkable is that most Americans are still relatively disinterested in differences in pay and, presumably, wealth (Osberg & Smeeding 2006). There are at least three reasons why. First is



homophily—that is, we tend to spend most of our time with people like us. Even those who are extremely rich or extremely poor spend most of their time in the company of other very rich or very poor people, giving them little reason to think about inequality most of the time. Second, rising tides lift all boats. Even as inequality worsens, most people have tended to fare better. Some segments of the population have fared worse over time, but people are largely faring better than prior generations. This creates in-

dividual well-being even in the face of growing inequality. Third, there is some evidence of mobility. Despite overall trends in inequality, some groups have been upwardly mobile; combined with the American ethos that anyone can make it, evidence that some people are moving up suggests that if I am not doing well, it is my fault. Until more people are aware of the continued extremes in income and wealth concentration and are motivated to act, these are likely to continue.

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