

The Demography of Wealth Inequality:
Marriage, Fertility, and Black-White Differences in Wealth

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Inequalities in wealth are a key dimension of stratification in the United States. In 1998, families in the top decile of the wealth distribution held nearly 70 percent of the total wealth in the country (Kennickell 2000, Table 5). Differences in wealth holdings between white and black Americans are also staggering. Among those ages 51 to 55, the median net worth of white households was about \$157,000 compared to only \$33,000 for Black households (Scholz and Levine 2003). These inequalities in wealth by race far exceed inequalities in income, education, and unemployment (Oliver and Shapiro 1995, Keister 2000). Yet, like education and income, wealth is an important component of well-being. Parents' wealth predicts children's education and health (Conley 1999). Moreover, wealth can be used to protect families and individuals against unexpected income shocks, finance educational opportunities, provide business capital, purchase a home in a good neighborhood, or help protect living standards after retirement (Scholz and Levine 2003). For all these reasons, the massive inequality in wealth experienced by white and black Americans is an important area of research.

Research in economics and sociology has shown that many factors influence wealth accumulation. These include age, differences in income and labor supply, savings behavior, changes in wages and interest rates, inheritances and in vivo transfers, home ownership, asset type or portfolio mix, educational and occupational opportunities including institutional racism, risk aversion, tastes and preferences, and consumption behavior (see Scholz and Levine 2003 for a review). Demographic processes such marriage and fertility also predict wealth status, although the role of these mechanisms is not well understood (Altonji and Doraszelski 2001; Menchik and Jianakoplos 1997; Lupton and Smith 2003; Keister 2004; Conley 2007). While many studies include simple controls for family structure, very few examine these relationships in detail. When these variables are included, they are frequently treated as nuisance parameters. Indeed in many studies, these coefficients are not reported. Most studies ignore issues of timing altogether

(such as the timing of marriage or first birth) and how the sequence or order of these processes is related to wealth accumulation. In sum, the existing literature has not considered a comprehensive set of demographic mechanisms or adopted a life course perspective in examining the relationship between demographic mechanisms and black/white differences in wealth inequality. The current paper addresses this gap in the literature.

There are several reasons why a detailed analysis of marriage and fertility advances our understanding of inequalities in wealth. First, marital status is strongly (positively) associated with wealth status. Family size is also related to wealth although the theoretically-predicted and empirically derived associations can be both positive and negative (Scholz and Levine 2003). Second, patterns of family formation have changed dramatically in recent decades, with large increases in nonmarital fertility, delays in first marriage, and increases in non-marriage. These demographic changes have been particularly pronounced among African Americans. These changes in the demographic determinants of wealth might help us understand how processes such as marriage and fertility choices contribute to the black/white wealth gap.

Our analysis has two parts. First, we describe how differences in marriage timing, marriage duration, fertility timing and levels, and the sequencing of fertility and marriage predict wealth accumulation by prime age. In particular, we examine the role that these demographic mechanisms play in explaining differences in wealth between white and black Americans. We also consider how the association between these demographic processes and wealth has changed across birth cohorts. That is, we consider how the association between demography and wealth differs by race and birth cohort.

Second, we consider how marriage and fertility influence processes of wealth accumulation over the life course. We consider trajectories of wealth accumulation from early adulthood (ages 25 to 29) to prime age (age 40-50). We use transition matrices to determine the likelihood that individuals will change their relative location in the wealth distribution as they age. We predict the likelihood of moving to a higher or lower quintile in the wealth distribution from early adulthood to prime age conditional on income and background factors. We then control for the timing and sequence of marriage and fertility to see how much these demographic factors explain wealth transitions over the life course. We consider key sequences such first birth then marriage, marriage then first birth, and first birth and second birth before any marriage.

Again, we conduct all analyses separately by race to show how these demographic sequences shape wealth trajectories differentially for white and black Americans.

The analysis uses the 1968 to 2005 public use waves of the Panel Study of Income Dynamics (PSID). The PSID is a longitudinal survey that began in 1968 with a representative sample of U.S. individuals and their families. For the past three decades, the survey has followed original sample members and all new family members, tracking children from their families of origin to their new households. The survey includes extensive socioeconomic and demographic information and has several repeated supplement on wealth. The PSID collected information annually from 1968 to 1997 and biannually thereafter. Wealth modules are available in seven survey waves (1984, 1989, 1994, 1999, 2001, 2003 and 2005). Overall, the PSID wealth data are quite complete and of high quality. The number of families not reporting either a dollar amount or a bracket in the PSID wealth categories is strikingly small, typically under 2 percent (Hurst, Luoh and Stafford, 1998).

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