The Emergence of a Finance Culture in American Households, 1989-2007

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Abstract

As the financial economy has expanded beginning in the mid-1980s, it has done so in part by selling more products to individuals and households, such as mortgages, second mortgages, mutual funds, student loans, car loans, insurance, and various forms of retirement products. This has allowed households access to new forms of assets and debts and new ways to fund their lifestyles. This giant expansion of the financial services sector occurred at the same time that income inequality and job insecurity increased dramatically in the U.S. This paper seeks to tease out empirically the relationship between these trends by examining data on the activities of households in the past 20 years. There are two views, one that focuses on how households reacted defensively to preserve their lifestyles and the other which focuses on households developing a more financial mindset to the management of their assets, debt, and consumption and thereby using the new opportunities to invest and borrow money to increase their consumption. We show some support for both views. Consumption of financial services has increased at an even rate at all levels of the income distribution. Attitudes toward indebtedness have generally become more lax. But trends toward more active financial management and embrace of risk-taking are largely confined to the top 20% of the income distribution. For those lower on the income distribution financial strategies are a means to get by, while those at the top embrace finance as an opportunity to get ahead.
Introduction

Financialization, broadly understood to mean the increasingly important role of financial markets, motives, actors, and institutions in the operation of the economy (Epstein 2005), has attracted increasing attention in recent years (Krippner 2005; Orhangazi 2008; Dore 2008; Davis 2009). Scholars have produced a growing number of studies on the origins, dimensions, and effects of financialization across multiple domains, both in the U.S. and elsewhere (Zorn et al 2004; Krippner 2011; Tomaskovic-Devey and Lin 2011; Lin and Tomaskovic-Devey 2013; Baud and Durand 2011).

One piece that has received less attention is the role of households in financialization. As the financial economy has expanded, it has done so in large part by selling more products to households, such as mortgages, second mortgages, mutual funds, stock trading accounts, student loans, car loans, insurance, and various forms of retirement products (Greenwood and Scharfstein 2012; Aalbers 2008).

This has been particularly true in the United States, where increasing consumption of financial products and services has deepened households’ involvement in financial markets dramatically during the past two decades. In credit markets, real median household debt levels increased 179% from 1989-2007 as consumers took on an ever-wider array of credit card, home equity, mortgage, student, and payday loans (Wolff 2007; Goldstein 2012). This trend is also apparent in the widespread acquisition and trading of investment assets. The percentage of households with direct holdings of stock equities or equity mutual funds increased and the frequency of transactions more than tripled over this period (Kremp 2010). In 2005, fully one-fifth of all residential mortgage loans were for the purchase of non-occupancy investment properties.
There is a sense among many social scientists that these trends are indicative of a more fundamental underlying shift in economic culture and behavior toward financial activities (Martin 2002; Langley 2008; Davis 2009). Akerlof and Shiller (2009, p.157) assert that the increasing prominence of the stock market during the 1990s made investment success a popularly understood indicator of intelligence. Davis characterizes the U.S. in the early 21st century as a "portfolio society," in which “investment becomes the dominant metaphor to understand the individual’s place in society" (2009, p.193). Davis proposes that this has created a new finance culture. From this perspective, taking on greater debt, using house value appreciation to fund expenses such as education and current consumption, and frequent trading in the stock market all reflect a trend toward more active, entrepreneurial management of household finances.

Economists and sociologists have studied fragmentary pieces of this process, including changes in household portfolio mix, shifts in attitudes about risk, financial literacy, and the performance of retail stock investors (see Tufano 2009 for an overview). Scholars have also studied evolving patterns of participation in particular financial markets, including credit cards (Manning, 2001; Zinman 2009), mortgage credit (Dynan and Krohn 2007; Mian and Sufi, 2010), and stock equities (Kremp 2010). Yet we lack a panoramic analysis of the financialization of American households over the previous two decades. The purpose of the present paper is to lay a conceptual and empirical groundwork for how social scientists might think about this multi-faceted issue. Our goal is to provide an overall view of who was becoming more financialized, how, and why?

Lurking behind these questions are several alternative accounts about how broader changes in the structure of the American economy – wage stagnation, increasing inequality, job insecurity and risk culture – may have compelled different kinds of households to adapt by embracing
financial activities in different ways. The “new risk economy” has altered the life-chances and mobility strategies of Americans by placing new pressures on households’ lifestyles while valorizing new forms of entrepreneurial risk-taking. At the same time, the giant expansion of the financial services sector has allowed households access to new forms of assets and debts and new ways to fund their lifestyles.

There are two views about how this propelled households’ turn to finance, one that focuses on how households reacted defensively to preserve their lifestyles, and the other that suggests households embraced the logic of the risk economy and developed a more aggressive mindset for managing their assets and debts. The first explanation is one where households are left with little choice but to support their lifestyles by becoming more indebted (Rajan 2010; Trumbull 2012; Cynamon and Fazzari 2009).

The second posits a new finance culture whereby households became attuned to the opportunities presented by the increasing availability of financial products (Davis 2009; Martin 2002; Langley 2008). They come to see their income and wealth as assets that can be leveraged to create more income and allow them to consume more things. They take on more debt and risk to intentionally leverage their assets and potentially increase their returns. They buy and sell stocks. They come to view their houses as assets and they use refinancing and home equity loans to take cash out of their homes to support their current consumption (Greenspan and Kennedy 2008).

We use triennial data from the Survey of Consumer Financial to chart changes in the financial activities and attitudes of households across an array of different indicators since 1989. We find two differing patterns of expansion across two dimensions of household financialization. There is substantial growth in the use and holding of financial products of all kinds all across the income distribution. This spread is more or less linear across all income groups over time. This
implies that the financial sector firms sought out customers for its products and made them available to people up and down the income distribution. Not surprisingly, those with the highest income have the most financial products.

But for most portions of the socio-economic distribution, there is little discernible evidence that increasing use of financial services has brought about a significant shift in cultural norms about risk and return for anyone but the top 10-20% of the income distribution. It is here that we find people more actively managing their financial situations and adopting a more thoroughly financial mindset. The new finance culture has been embraced by the upper class and the upper middle class, who are the principal beneficiaries of economic growth in the past 20 years. These “winners” in the income race have magnified their advantages by deploying their assets in a more risky fashion. We have some evidence that those on the bottom by necessity had to become more financially savvy. But much of this appears to be defensive and in response to declining income opportunities.

Our results extend and qualify previous arguments about the increasing integration of American households into the financial economy (Davis 2009). Our findings imply that household financialization (in the sense of the increased use of financial products) should be seen as a broad-based process extending across the income distribution. However, to the extent that we can discern a deepening culture of risk-taking and strategic deployment of assets, this is concentrated within those higher-income groups who were already most financialized. Finance became implicated in the economic lives of all types of households as they have sought to adjust to the realities of the new economy, but in different ways.

We elaborate our argument by first considering how the rise of the shareholder value movement made working conditions for most Americans less secure and less remunerative. Then,
we consider the effects of these changes. We discuss the idea of lifestyle and consider how households may have adapted. Here, we use the extant literature to discuss how a finance culture might have arisen, and we generate hypotheses about which parts of the income distribution might have adopted this culture. Then we introduce our data and examine which hypotheses best account for the changing patterns of financial attitudes and behavior among American households. We conclude by considering what this means about the response to growing income inequality in the U.S. and what additional research is needed.

**Shareholder Value, Inequality, and Insecuritization in the U.S. since the 1980s**

Households located in different parts of social structure have faced different challenges and opportunities as the larger economy in the U.S. has changed in the past 30 years. By understanding the nature and timing of these changes and connecting them to the stratification of the population, we will be in the position where we can make some hypotheses about how households in various social positions had to change the way they saved, borrowed and invested in response to potential pressures on their lifestyles.

The late 1970s marked the beginning of an era of rising inequality and declining economic security for U.S. households. The 1970s was a period of slow economic growth, high inflation, and high interest rates. Corporate America found itself at the end of the decade with lots of cash, low stock prices, and assets that were undervalued on their books (Zorn et. al. 2004). In the late 1970s, the institutional investment community pushed management of the largest corporations to work to raise stock prices, i.e. to increase shareholder value (Useem 1993). The main strategy to pursue this was corporate reorganization. Layoffs, selling off low performing divisions, outsourcing, and
buying back shares of stock were all seen as actions that would increase shareholder value (Fligstein and Shin 2007).

The 1980s shareholder value led merger movement had a profound effect on the jobs of millions of Americans. One of the main outcomes was massive layoffs of blue collar workers and the closure of a large part of America’s manufacturing capacity (Davis 2009). Unionized blue collar workers who were predominantly male high school graduates who lost their jobs during the 1980s never recovered financially from those layoffs (Farber 1996; 1997).

The 1980s produced a large growth in income inequality, at least part of which was caused by the lack of opportunities for those who were downsized and outsourced (Tomaskovic-Devey and Lin 2012; Lin and Tomaskovic-Devey 2013). The U.S. Federal Government under Republican Party control, supported financial and labor market deregulation and changed tax policy in ways that concentrated more income among the highest income households (Volscho and Kelley 2012; Hacker 2006). The 1990s saw the return of better macro-economic conditions and rapidly rising stock prices. But, the growth of inequality continued during this period, driven predominantly by rising incomes in the top 10% and especially the top 1% of the income distribution, with continuing stagnation below (Saez 2009; Volscho and Kelley 2012; Mishel et. al. 2007).

The increased attention to shareholder value increased labor market risks in all sorts of ways (Fligstein and Shin 2004; Kalleberg 2009). During the 1980s and 1990s, corporate provision of benefits decreased, especially for those in the bottom 40% of the distribution. Defined benefit pensions (where firms promised employees a pension based on their final salaries and years of work) and health insurance were cut back and employees had to pay more for the benefits they got (Hacker 2006). There was a growth in contingent employment where work was based on temporary contracts (Kalleberg 2009). Newly created job positions were concentrated at the
bottom of the income distribution during the 1990s (Wright and Dwyer 2003), and positions were increasingly part time. Employment became less secure throughout the occupational structure. Rates of involuntary job loss increased, even during the high-growth years of the late 1990s. White collar workers became almost as susceptible to layoffs as blue collar workers (Aronson and Sullivan 1998).

This high-risk labor market resulted in marked increases in economic anxiety across the occupation structure, and most dramatically so amongst upper middle-class white-collar workers who had previously been insulated from dislocations in the labor market. It also spawned a variety of compensatory cultural discourses, which framed the new economy as a “brave new world” in which entrepreneurial “free-agents” could advance themselves through active management of their human and financial capital (Sennet 1998; Langley 2008).

The main goal of our research is to examine how these larger changes shaped the differential incorporation of households into the financial economy. Households were pushed to adjust their lifestyles in response to this new economic order. But financial markets also dangled the prospect of new opportunities to maintain or enhance one’s lifestyle (Rajan 2010). We turn now to considering some alternative scenarios about how households may have dealt with these changes by using financial strategies.

**Financial Adaptation: Credit, Lifestyle, and Emergence of a Finance Culture**

How did finance become implicated as Americans adapted to heightened labor market risks, stagnating wages, and increasing income inequality? Obviously, people in different levels of the income and education distributions faced very different economic prospects and might have made quite different decisions.
In order to theorize households’ behavior it is useful to consider the sociological concept of lifestyle. Lifestyle can be conceived of as the cultural meanings and identities attached to consumption (Bourdieu, 1984; Sobel, 1981). What we consume has a meaning that reflects who we are and how we want others to perceive us (Schor, 1998). It draws boundaries and allows privileged groups to claim social distinction (Bourdieu, 1984). Moreover, pursuit of a particular lifestyle can easily lead to competitive consumption where individuals or groups feel pressure to “keep up with the Joneses” by buying ever more expensive consumer goods (Schor 1998).

In our paper, the main measure of social status is the place of a household in the income distribution. While income is not the only variable that determines lifestyle (see Bourdieu, 1984 for example), we take it for a useful proxy for our purposes. We are not interested in what people are consuming per se, but instead in their ability to fund their consumption given their current income. Since income inequality shifted dramatically in the U.S. in the past 25 years, it follows that the lifestyles of households at any level of that distribution proved more difficult to maintain particularly relative to those who were situated just above you. As the share of income at the top of the distribution increased, it put pressure on those below to try to keep up (Frank 2007; Charles and Lundy (2012). These pressures extended down all the way to the bottom of the distribution where incomes were declining both in constant and relative terms (Saez 2009).

Most people’s reaction to threats to their lifestyle and consumption involve trying to preserve their style of life (Elias 1994). In the past 25 years, the easiest way to close the gap between what you were earning and what you needed to preserve your position was to borrow. To accomplish this, there had to be a huge expansion of credit (Rajan 2010; Hyman 2011). During the 1970s, many lower-income and minority households had long had only limited access to credit (Krippner 2011). But, after 1985, securitization was used to securitize not just mortgages, but
second mortgages, home loans, student loans, and credit card debt. This propelled a broad expansion of the credit availability to all sorts of households (Rajan 2010; Kendall, 1996; Erturk et. al. 2007). In the aggregate, it would appear that credit expansion allowed Americans to counter their growing insecurity, thereby maintaining their lifestyles and positions in the status hierarchy (Hacker, 2006; Leicht and Fitzgerald, 2007).

Of course, protecting one’s lifestyle in response to economic change involves not only maintaining current consumption, but also securing one’s future position. Here new investment opportunities – particularly the mass-participatory booms in the stock market during the 1990s (Kremp 2010) and in real estate markets during the 2000s (Goldstein 2012) – offered households new avenues to supplement their income and wealth. Here again we might expect that labor market insecurity may have also played a role by spurring more households to embrace investment as a substitute for the economic security that had formerly derived form the stable career and defined-benefit pension. Of course, in the case of real estate, investment activity is closely associated with increased mortgage borrowing activity.

So far, we have only discussed the idea that in order to protect their lifestyles various groups would respond by consuming more debt and investment products from the financial services sector. This implies a *quantitative* expansion in their financial activities. But, another provocative idea is that a new cultural frame emerged during this period, which we refer to as a “finance culture.” This frame emphasized that households should take more responsibility for their financial affairs. Beginning with pension reform and the switch from defined-benefit to defined contribution plans, Americans have been encouraged to shift their outlook from being passive to active financial subjects (Langley 2008). Davis (2009) argues that people have had to become their own “financial economists” in order to manage their consumption, investments, and debts.
The idea of a finance culture implies that financialization also entailed a qualitative shift in households’ understanding of and orientation toward financial markets: savvy, financially oriented households learned to consciously embrace risk-taking and to relax their attitudes towards taking on debt as a means to not just secure their lifestyles, but to expand them (Martin 2002). This shift in attitude was accompanied by a set of concrete financial strategies to accomplish this end. Households began to look at their income and wealth as assets to be deployed. They became more involved in the purchase of stocks and mutual funds in order to enhance wealth. Houses became an asset that they could borrow against and thereby generate income. As the value of the house increased, they refinanced or got a home equity loan to take money out of a house. This money could be used to fund enhanced consumption activates like the purchase of a more expensive car, or upgrades to an existing house.

**Hypotheses**

It is useful to formalize these arguments into a set of hypotheses. We first consider the degree to which households felt that their lifestyles were under some pressure. As the income distribution became more unequal over much of this period, we posit that those at the bottom of the income distribution were more likely to perceive their income had declined than those at the top.

**Hypothesis 1:** Lower income households are more likely to perceive that their incomes have been falling over time. Only the highest income groups will perceive that their incomes have been rising over time.

From the late 1980s, Americans have been pushed to become more active in the management of their money, investments, and debt because of growing income inequality and changes in benefits like pensions and health care. Financial services firms saw this as an
opportunity to sell financial products to all parts of the income distribution and provide financial advice to clients in order to secure their business.

Hypothesis 2: Because of the expansion of financial services, there should be a general increase in the holding of all kinds of financial instruments including accounts, credit cards and stock or mutual funds across the income distribution. There should also be an increase in the use of professionals who provide such advice.

The issue of whether or not these changes produced the emergence of a finance culture is important to explore. We generate several versions of this hypothesis in order to highlight the difference of opinions about the existence and spread of such a culture across the income distribution. One possibility, implied by Davis (2009), is that everyone became more financially savvy as they were encouraged to take responsibility for their economic futures. Households across the income distribution actively managing their assets by participation in the stock market and using their house to borrow money to support their lifestyles.

Hypothesis 3A: The emergence of a finance culture implies that all households across the income distribution should have more of a taste for risk and a more relaxed attitude towards taking on debt. We should also observe behavior consistent with these new attitudes. We should see more stock market investment and more withdrawal of money from their homes for income to support their current lifestyles.

Another alternative emphasizes how the need to engage in financial behavior was been spread unevenly across the stratification structure. Since higher income groups already had access to financial markets, financialization is really about the popularization of finance whereby lower and middle income groups increasingly come to adopt a financial orientation toward managing their economic lives (Rajan, 2010). As incomes stagnated, middle and working class households, who had previously been less involved in financial markets, suddenly had both a heightened impetus and expanded opportunities to participate.

Hypothesis 3b: We ought to observe all households, but particularly the bottom 40-60% of the income households driving the expansion of financial practices. These groups began the period with the most latent demand due to their previous impediments. They faced the strongest pressures
to become more financially attuned as a way to finance a better life in the face of declining incomes.

Another version of this story is that the households who had the financial resources to take advantage of the expansion of new financial opportunities were concentrated amongst the top 20% of the income distribution. But in order to do so, they needed to change their attitudes towards risk and debt. They needed to take active control over their income and wealth and deploy their resources more aggressively. These households saw the rising stock market in the 1990s and the rising housing market in the 2000s as exploitable opportunities. Moreover, because incomes were rising the most at the very top, it is here that the status competition for positional goods was felt most strongly. As a result, we expect that it is the top 20% of the income distribution was where the finance culture took root.

Hypothesis 3c: It was predominantly in the upper income strata where households not only felt the need but also had the means to take more responsibility for their financial welfare. They bought more stocks and began to see their houses as assets and their mortgages as ways to get financial leverage. As a result, they use debt more creatively to engage in status competition for positional goods, particularly housing.

Finally, a fourth possible dynamic is that several of the stories could be true, but during different time periods. Financial sophistication would begin with the top 20% of the income distribution during the 1990s. Here, we have people who have money and knowledge and who are feeling the pressure to expand their consumption activities. We expect these financial tactics to spread to the lower part of the income distribution during the 2000s as they became available. All segments of the income distribution eventually become involved in financialization, but they do so in a sequenced fashion.

Hypothesis 3d: We ought to observe the diffusion of changed attitudes towards risk and debt emanating from the top of the income distribution downward to the bottom over time. We ought to also observe the diffusion of financial behavior like stock purchasing and taking money out of a house to support current consumption as diffusing downward as well.
Data and Methods

One needs data over time that documents both socioeconomic characteristics, attitudes towards risk and debt, and financial activities in order to examine these alternative patterns of household financialization. We are fortunate that the Federal Reserve has conducted the Survey of Consumer Finances (SCF) every three years since 1989 (1989, 1992, 1995, 1998, 2001, 2004, and 2007) which provides the best data we have that includes attitudes towards various kinds of financial risks, sources of financial information, and detailed information on sources of debt and investment. The SCF is a household survey that reflects a series of snapshots. It includes around 4000 households with an oversample of high-income households (for more information on the surveys, see www.federalreserve.gov/econresdata/scf/scfindex.htm).¹ The SCF is a repeated cross-sectional survey. One might prefer longitudinal data that tracks individuals over time but the SCF is appropriate for the present goal, which is to describe the distributional contours of household financialization.

Our primary goal is to track how financial attitudes and behaviors spread across households who were similarly situated in the income distribution. Our basic strategy is to chart the patterns for various attitudinal and behavioral indicators broken down across different income groups, and consider how these patterns changed over time.

Here, we use 6 household income percentile groups to index a household’s relative position in the stratification structure: 0-20%, 20-40%, 40-60%, 60-80%, 80-90%, and 90-100%. While

¹ The SCF was conducted before 1989, but those earlier waves are not comparable due to methodological changes. While labor market changes and rising income inequality were well on their way by 1989, households were still figuring out how to adjust to the changing circumstances generated during the earlier parts of the 1980s. Beginning in 1989 allows us to get leverage on many of the issues in which we are interested.
there is arbitrariness to using any income breaks, these give us sufficient detail to detect patterns. We utilize survey weights in order to render our descriptive estimates representative of the population of U.S. households.

In order to measure how households feel about how they have fared in terms of pressures on their lifestyle, we use the following question: “Relative to the prices for things you buy, has your income increased in the past five years, remained constant, or decreased in the past five years”. This question captures the degree to which a household feels itself a winner or loser in the recent economic race. It offers a way to measure the pressures households feel on trying to preserve their lifestyles.

In trying to measure the existence of a finance culture, we include both attitudinal and behavioral measures. The attitudinal measures in the SCF are not extensive. We choose two attitudinal measures that get at aspects of a finance culture (neither of which is perfect). One aspect of a finance culture is a respondent’s attitude towards risk. Taking financial risk is core to thinking financially. To index the degree that households are comfortable assuming more risk, we use the following question in the SCF:

Which of the following statements on this page comes closest to the amount of financial risk that you are willing to take when you save or make investments?

1. Take substantial financial risk expecting to earn substantial returns
2. Take above average financial risks expecting to earn above average returns
3. Take average financial risks expecting to earn average returns
4. Not willing to take any financial risk

For a discussion of the meaning of this measure, see Grable and Lytton (2001).
In our analyses, we collapse this question into three categories: take substantial or above average risks, take average risks, and take no risks.

One of our arguments about the finance culture is that households adopt a more relaxed attitude towards debt. If households decide to tap into the equity on their house by refinancing or taking out a home equity loan, they are taking on debt now to fund current consumption. The SCF does not contain a general question about attitudes towards taking on debt. But, the SCF does ask “Do you think it is right to borrow money to fund expenses when one’s income declines?” This question is answered “yes” or “no”. We expect that over time if there is a finance culture, more people will answer “yes.”

**Results**

**Income Pressures**

Figure 1 presents perceptions of the household’s real income growth over the preceding five years, broken down by income level. The left panel shows the percentage who report negative income growth, while the right panel shows the portion who report positive income growth. The remainder represents those who report constant real income (not shown). There are two main trends apparent in the figure. First is increasing portion of households who perceive their income as having gone down over the past five years, coupled with the decreasing portion who perceive their income as having gone up. Negative income growth becomes more common in all of the income groups except the top 10%. Overall, the percentage of households experiencing negative income growth rises from 32% in 1989 to 42% in 2007, with particularly significant growth after 2001. Meanwhile, percentage of households who perceive their income as having risen has dropped dramatically from 28% in 1989 to 18% by 2007, and this occurs across all income levels. This
sobering fact implies that nearly half of American households are feeling downward pressure on their current style of life and consumption. We note that this does not include data from 2010 after the current financial meltdown when one could expect that household income would have dropped even further.

(Figure 1 about here)

The second important pattern is the clear association between income trajectory and income level. When we consider how perceived income growth varies across income groups, we see a pattern that confirms hypothesis 1. The plurality of people in both of the bottom two quintiles report negative income growth over the previous five years, and this increased from about 40% to about 50% over the period. Meanwhile, the portion who have seen their income rise dropped from about 20% to about 10%. In contrast, at the top the income distribution, between 50-60% of households perceive their real income as having increased over the previous five years and only about 10-20% report experiencing declines. These results dramatically show the effects of 18 years of increasing income inequality in the U.S. Only in the top 10% of the income distribution do the majority of households report increasing income. Poor families and middle class families alike have tended to face stagnant or declining income.

**Household Financialization 1: Financial Holdings and Consumption of Financial Services**

We know that the financial services industry has greatly expanded its activities in the past 20 years. It follows that this supply side increase of all sorts of services and tools must trickle over to households. After all, someone is holding all of those mortgages, home equity loans, student loans, credit cards, debt, stocks and mutual funds. Figures 2-5 provide a test of hypothesis 2, which states that all income groups will increase their consumption of financial services.
Figure 2 presents data on the number of accounts of all forms other than credit cards that households have with financial institutions. Here we see roughly parallel growth across the income distribution. Since 1995 (the data were not collected in earlier waves of the SCF), the average number of accounts has risen for all households across income levels. But, clearly the levels of consumption vary significantly across the distribution. The highest income household had somewhere around 4.5 such accounts in 1995 and that grew to 5.2 in 2007 while the lowest income household only had 1 in 1995 which grew to 1.5 in 2007. This implies that financial institutions were able to get households at all income levels to open up new kinds of accounts and purchase new kinds of financial products.

(Figure 2 about here)

Figure 3 contains data on the average number of credit cards in each household by income group. Here, we see a similar pattern. Higher income households tend to have more credit cards in general, but the financial industry succeeded in getting all people to open and maintain more accounts. The slightly widening gap between the top income groups and the bottom suggests this trend was more pronounced among the affluent.

(Figure 3 about here)

Figure 4 presents data on whether or not households get professional advice when making investment or borrowing decisions. Seeking out financial advice implies that people are more connected to the financial services industry, and that their decision-making is more likely to be guided by such contacts. The question asks whether or not a household gets advice from a wide variety of sources and respondents can answer as many of the categories as apply. We consider the following responses to be a professional: lawyer, accountant, banker, broker, or financial planner. If the household identifies any one of these, they are coded as having used the services of a
financial professional. The figure shows quite clearly that the use of such professionals is highly related to income. The top decile of the income distribution is 35-40% more likely than the bottom 20% to seek out such advice. But, it is clear that over time, all income groups are more likely to get some form of financial advice particularly during the housing bubble from 2004-2007. One interesting result is that those at the bottom appear to be closing the gap with the rest of the distribution.

(Figure 4 about here)

Finally, figure 5 shows the growth of stock or mutual fund ownership across the income distribution (Kremp 2010). The measure we use does not include retirement accounts or pension plans that invest in stocks. It only includes whether or not the household owned stocks or mutual funds directly. This is a good measure of the degree to which households are financialized because stock or mutual fund ownership outside of the context of pensions requires people to actively seek out stock brokers or brokerage firms (Kremp 2010). During the 1990s, the overall percentage of households that directly owned stock or mutual funds increased from about 20% to around 31% at the peak of the stock market in 2001. But in the aftermath of the 2001 stock market crash the rate of household stock ownership had retreated to near its pre-boom level (23% in 2007).

(Figure 5 about here)

As with almost all other indicators of financial involvement, there are huge differences in stock ownership across income groups over time. All of the income groups see increasing holdings during the stock bubble of the 1990s and early 2000s, with significant declines after 2001. The biggest movement (both upward and downward) occurs within the top 20% of the income distribution. By 2007, the ownership rate in the top two income categories had dropped back to the same level as 1989. Meanwhile, ownership expansion in the middle portions of the income
distribution was more modest during the 1990s. But the gains were also more permanent: by 2007
the ownership rate in the 60th-80th percentile was still 10% greater than 1989. The bottom 60% of
the income distribution barely participated in the stock boom of the 1990s and their rates of stock
or mutual fund ownership were quite low throughout the period.

All households became more involved in the financial system over time in line with
hypothesis 2. They interacted more frequently with financial professionals when making decisions,
and they held increasing numbers of credit cards and other accounts including mortgages, bank
accounts, and equity and mutual funds. Not surprisingly, variations in financial market
involvement are strongly related to income. The highest income groups consistently held more of
all of these financial services and instruments and they ended up consuming more of them over
time.

We offer two interpretations of the pattern here. First, obviously one needed to have money
to invest in order to consume financial products and gain access to credit. Across all indicators the
level of holdings seem to be related rather straightforwardly to income. Second, and more
interesting, is the fact that the trend lines tend to grow in parallel. That is, consumption of financial
services and the interjection of financial services professionals into households’ financial decision-
making rose roughly in tandem for all income groups over time. This suggests that the increased
supply of these instruments may have been the main cause of their expansion. The one exception to
this is stock ownership, which evidences a more complex pattern, which shows high participation
in the boom of the 1990s for the top income brackets and little participation for the bottom 60%.
In this section we turn to analyzing attitudinal and behavioral indicators of more active or savvy financial management. One useful attitudinal indicator is the degree to which individuals are altering their conceptions of risk. In our theoretical discussion, we argued that willingness to take on risk reflects a more informed and aggressive orientation toward financial market participation.

Hypothesis 3 a-d offered different views about how attitudes towards risk might have spread across different income groups.

The SCF data indicate that risk tolerance among American households rose sharply during the 1990s, but then retreated somewhat after 2001. We suspect this pattern reflects increasing household participation in the stock market bubble of the 1990s, which was followed the stock market crash in 2001. Overall, the percentage of households who say they take no financial risks declined from 47% in 1989 to 35% in 2001, and then crept back to 39% in 2007. The percentage of who say they take above average or high risks rises from 14% in 1989 to 25% in 2001 and then dips to about 22% by 2007. The timing of these changes is consistent with Akerlof and Schiller’s (2011) argument that the rising stock market attracted households who wanted to be part of the new economy and accustomed them to be more comfortable with risk-taking (see also Langley 2008). But, we note that between 75% and 85% of all households report taking either average risk or no risk throughout the period. If a self-conscious culture of aggressive financial risk-taking exists in the U.S., it is restricted to less than a quarter of households.

Figure 6 shows the proportion of households who see themselves as taking above-average or high risks, broken down by income levels. This figure dramatically shows a huge difference in risk tolerance for the top and bottom of the income distribution. At the bottom of the income distribution, only 10% embrace above average risk, and this changes little over time. At the top of
the income distribution, above average risk-taking grows from about 20% of the households in 1989 to 45% in 2001. There is a more or less linear association between income level and the proportion who embrace risk.

(Figure 6 about here)

Figure 6 suggests that the change in risk taking attitudes is really a product of the top 60% of the income distribution and especially the top 40% of the income distribution. There is some evidence of a staggered rise during the early 1990s, which implies diffusion: Those within the top 10% began to embrace more risk-taking first, followed by the 80-90th percentiles after 1992, and then by the 60-80th percentiles after 1995. In later years, the proportion within each of these groups changes in parallel.

Overall, it is clear that the top of the income distribution, which has experienced the most income growth, is where risk orientations are most aggressive and where the change has been most dramatic. Although some middle-income households have participated in the shift toward a risk-oriented finance culture, the evidence is most consistent with hypothesis 3c, which suggests that a finance culture that involves taking more risks is focused on the top parts of the income distribution.

Norms about Debt-Funded Consumption

We next consider the degree to which people embrace more liberal norms about the appropriateness of debt-funded consumption to maintain one’s lifestyle in the face of income shocks. Given that so many households, particularly in the bottom part of the income distribution
have experienced increasingly negative income growth over time, it is interesting to explore how their attitudes about using debt to support their lifestyles may have changed.

Figure 7 shows that there has been a substantial increase from about 45% to about 55% who feel it is all right to borrow to support one’s lifestyle if income declines. This increase holds over those groups whose incomes have increased, remained constant and decreased. This implies that it is not the experience of downward income mobility that is driving this attitudinal trend. Those who have experienced positive income growth actually exhibit the largest increase in agreement, from about 42% in 1989 to 55% in 2007.

(Figure 7 about here)

The bottom panel of Figure 7 shows responses to the same question, broken down by levels of household indebtedness (household debt-to-income ratio). Here again there is a broad-based upward trend in the percentage of households who believe it is okay to go into debt holds to support one’s lifestyle. Amongst the least indebted quartile (this corresponds to the approximately 25% of households who have zero debt) people do tend to maintain a less positive view. The percentage of this group who approve of such behavior grows only from about 41% to 44% over the period. But for the other 75% of the indebtedness distribution, a majority support the new norm of borrowing to sustain one lifestyle in the face of declining income, and they converge to a higher rate of approval over time. Overall, patterns in figure 7 suggest a secular shift in beliefs about borrowing and debt-funded consumption – not merely a justificatory response by those who whose incomes were declining or those who were highly indebted.

Taken together, our attitudinal measures provide evidence that American households became willing to take on more financial risk over time and that they became more accepting of debt as a tool to support a given lifestyle against income shocks. But, these shifts also imply quite
different social processes for different ends of the income distribution. The top of the income distribution, which has seen the most income gains from 1998-2007, has become much more accepting of risk and more accepting of borrowing when times become difficult. The bottom of the income distribution rarely takes financial risks, but is willing to find borrowing acceptable to keep a lifestyle in place. The losers of the inequality game have been pushed to shift their attitudes on borrowing to maintain their lifestyles. The winners have taken their gains and gotten used to higher levels of risk and reward. This offers support for hypothesis 3c, which argues that if there is a new finance culture, it is most prevalent in the top part of the income distribution.

*Frequency of Stock Trading*

Earlier we argued that a finance culture does not just imply a shift in attitudes towards debt and risk, but also more active management of financial assets. Figure 8 shows the average number of annual transactions reported across the income categories among those households who have a stock brokerage trading account. Note that the 0-20\(^{th}\) income quintile is omitted because the small number of stockowners in this category results in unstable estimates. We see a similar pattern whereby the active trading of stocks grows at a far greater rate the higher one goes in the income distribution. Those in the top 10\(^{th}\) increased their trading dramatically in the mid-1990s, followed by the 80\(^{th}\)-90\(^{th}\) percentile households in the late 1990s. Stockowners in the middle- and lower quintiles increased their activity during this period as well, but only slightly. We note that it was only in the top 10\(^{th}\) where the embrace of active trading persisted. These households continued to trade about once a month on average even after the stock market crash of 2001. This is support for hypothesis 3c.

(Figure 8 about here)
The House as an Automatic Teller Machine (ATM)

The final indicator of finance culture we examine, is the incidence and uses of home equity borrowing. Davis (2010) has argued that home equity borrowing is a consummate instance of a finance culture insofar as it involved a) conceptualizing houses as income-producing capital assets, and then b) using debt in order to leverage against the asset to pursue various other economic purposes. Goldstein (2012) has shown that the bulk of household debt-to-income growth from 1989-2007 comes from three sources: mortgages on primary residences, home equity loans on those residences, and the purchase of other real estate including second homes and commercial property by households. Home equity debt was the fastest growing type of debt from 2001 through 2007. This reflects the real estate bubble of this period, when many households took advantage of rising housing prices by borrowing money against their increasing equity. Greenspan and Kennedy (2008) estimate that households were extracting over $500 billion in equity annually on average between 2002-2007.

Figure 9 shows the proportion of all homeowners with home equity borrowings,\(^4\) broken down by income level. The overall upward trend is dramatic. By 2007, approximately one third of all homeowners carried some sort of home equity debt for purposes other than purchasing the property. We see clear effects of income levels on this practice. The rising popularity of home equity borrowing was led by those homeowners in the top two income quintiles. Homeowners in the top 10% of the income distribution are more than three times as likely as those in the bottom quintile to engage in this practice, and more than twice as likely as homeowners in the second

\(^{4}\) This includes any home equity loan balances, active use of home equity lines of credit, or balances on refinanced purchase mortgage in which the borrower extracted additional cash. The plots begin at 1995 because the SCF contained only limited data on equity extraction for earlier years.
income quintile. Even as borrowing against one’s house became easier and more commonplace during the housing bubble years, it remained a disproportionately upper-middle class practice.\(^5\)

(Figure 9 about here)

For what sorts of consumptive purposes were households using extracted equity? Figure 10 shows the percentage of all homeowners who report using an outstanding home equity loan or cash taken out from refinancing for the given type of purpose. Note that homeowners who have multiple home equity loans could be counted for multiple purposes. Over time, we see large increases in the percentage of homeowners who borrow against their house for two different sets of purposes: investments and home renovations on the one hand, and paying daily living expenses and bills on the other hand. This fits with the view that homeowners increasingly saw their houses as assets and sought to leverage against them in order to maximize their market value and increase salability (e.g. by installing luxury kitchens). But they also increasingly saw them as tools to fund consumption by covering living expenses and paying off bills. Of course, “living expenses and bills” is an ambiguous category insofar as may include paying off credit card debt that originally accrued for any number of purposes. Mian and Sufi (2010) use proprietary credit data that indicates the majority of equity extracted for consumption was used for actual direct outlays rather than paying off credit card bills.

Only a small portion of homeowners borrowed to fund “extravagant” consumption like luxury auto purchases, home entertainment systems, vacations, weddings, and recreation, and the incidence of this behavior rose only slightly over the study period. This casts some doubt on the popular view that home equity loans were being widely used as a cash machine to fund large

\(^5\) We also explored the possibility that income level and income trend might interact in shaping the probability of using one’s house as an ATM, but we found no evidence to support this.
luxury purchases. Nor were a significantly growing number of homeowners extracting equity for educational and/or medical expenses. Only 1-2% of homeowners report doing so throughout the study period. Instead, homeowners were most commonly reinvesting borrowed equity into their house, or alternatively using it to cover “normal living expenses” and pay off credit card bills.

(Figure 10 about here)

Summary

We conclude that if there is a new finance culture, the evidence suggests that those in the top 20% of the income distribution, who have been the biggest beneficiaries of economic growth in the past two decades, are its main bearers. They have become accustomed to taking on financial risks, using the services of financial professions at a high rate, trading frequently in the stock market, and demonstrating their financial savvy by using the equity in their homes to fund their lifestyles. While other income groups participated in this movement in some ways, it is clear that the most intensive and multi-faceted finance culture centered amongst the most well off 20% of the population.

Conclusions

This paper was intended as an exploration of the financialization of household activities in the United States from 1989-2007. A number of recent studies examine how financialization of the U.S. economy has contributed to growing inequality (e.g. Tomaskovic-Devey and Lin 2011; Lin and Tomaskovic-Devey 2013). Here we invert this formulation to consider how growing inequality and insecurity propelled households’ turn to financial activities. We have considered how households in different socio-economic positions embrace finance in different ways by charting patterns of participation across several indicators over time. Our results qualify existing claims
about the scope of household financialization (Davis 2009), and they shed new light on the segmented shape of this transformation. It is useful to briefly summarize some of the main findings and then to suggest what steps should be taken to explore them more thoroughly.

One of the main results is that position in the income distribution in the U.S. is the best predictor of households’ involvement in using financial goods and services. While all households have been involved in the expansion of financial services over the past 20 years, the most well off households continue to lead across every category of financial services consumption. Even as the much discussed “democratization” of finance and the rise of “sub-prime” lending have brought more lower-income households into the financial economy, this has not undermined the strong effect of income level on participation.

The income divide is even more significant when we consider not just rates of financial services consumption, but the growth of finance culture. Here we see clear segmentation. In contrast to the parallel trend lines for financial services consumption, the development of financialized attitudes and strategies is mostly concentrated among the top 20% and especially the top 10%. We interpret this as being a reflection of the accumulation of the resources of those in the top income quintile. They had the most money and assets to begin with, their incomes rose the most over the period, and they participated in the positional struggle over valued consumption items like houses, second houses, and luxury cars. The winners in the “new economy” have learned that financial activities offer an opportunity to get even further ahead by taking risk and leveraging assets.

For the 40% of households living at the bottom of the income distribution, life chances have declined dramatically in the past 20 years. Their income growth is negative, they are vulnerable to not having enough money to survive, and as a result tend to be extremely risk averse.
For these households the growth of finance has meant new products to cope with a changing economic landscape. When they borrow, they tend to use their borrowing for routine household expenses such as paying bills, medical expenses or financing education. The rapid expansion of credit availability to those in the bottom 40% has not produced a finance culture.

These results present grist for both imageries we discussed. The expanding financial sector worked to provide a supply of new financial products and services at whatever level of income. But, to the extent it occurred, the development of a finance culture was much more heavily concentrated in the upper echelons of the income distribution. Those at the top were much more apt to be comfortable with expanding their risk, trading actively, and leveraging their assets. So, if there is an increase in households becoming their own financial economists, it is heavily graded by income.

The evidence is also strong that in the face of a squeeze on their incomes, households at all levels of the income distribution felt it was legitimate to take on more debt to support their existing lifestyle. Our findings suggest that the way in which finance became implicated in the lives of U.S. households largely mirrors the broader stratification of socio-economic life, particularly in terms of widening income inequality. But, while the vast expansion of credit and the wide availability of financial products allowed households to try to maintain their current lifestyles, it has not leveled the ability to buy valued goods and services across the income distribution. Instead, it has ironically just made everyone keep pace.

Our results imply several research opportunities. We have barely scratched the richness of the SCF. The SCF has amazing detail on a wide variety of consumer purchases, assets, and credit. For example, there is data on the amounts and types of mortgages, interest rates paid, types of automobiles purchased, student loans, pensions, and demographic data on age, race, household
structure, education and occupation. Scholars can use that data to examine how stratification affected consumption, investment, and indebtedness across social groups.

The idea that a finance culture has taken hold in the top part of the income distribution needs to be explored more fully. It is important to understand how high income households learn how to think financially. There is lots of evidence that most people do not think this way, but from our data higher income households do appear to think differently about risk, debt, and the deployment of their assets. It may be the case that this culture will eventually move down to other parts of the income distribution as well. We have some evidence that risk taking increased for the 40-80% of the income distribution albeit not as much as the top 20%.

There have been two large asset bubbles in the American economy in the past 20 years, first in the stock market in the 1990s and then in the housing market from 1998-2007. Our results support the idea that the finance culture first emerged in the 1990s among households who were trying to take advantage of rising equity prices. When the stock market crashed in 2001, these very same people found a new financial opportunity: using their house as a cash machine. After that bubble burst, one can surmise that the finance culture has not died out, but instead is waiting for the financial services industry to serve up the next new thing.

Finally, it is useful to consider the degree to which increased levels of indebtedness, increased levels of participation in financial markets, and the American-style household finance culture has expanded to other countries. Many of the advanced industrial countries have experienced increases in income inequality in the past 20 years. Many of these societies have also witnessed financial and labor market deregulation. There have been constant political struggles, particularly in Europe, over maintaining current levels of the social safety net. One would predict that the pressures for households to become more indebted in order to support their current
households and adopt a finance culture is most likely to exist in the other liberal market economies like Great Britain, Australia, Canada, and New Zealand. Here, social protection is less and reliance on markets higher. But households in many social democracies also faced these pressures on their current lifestyles and how they have responded is an important question for subsequent research.
References


Frank, Robert. 2007. *Falling Behind: How Rising Inequality Harms the Middle Class.* Berkeley, Ca.: University of California Press.


Figure 1: Households’ Perceived Change in Real Income over Preceding Five Years, by Income Percentiles

% Negative 5-year income growth

% Positive 5-year income growth

Note: To save space the figure does not show the residual middle category (those who report no change/constant real income).

Source: Survey of Consumer Finances
Figure 2: Mean number of different accounts with financial institution, excluding credit cards, by income percentiles

Source: Survey of Consumer Finances
Figure 3: Mean number credit cards, by income percentiles

Source: Survey of Consumer Finances
Figure 4: Percentage of households who get information from a financial professional when making decisions about investing or borrowing, by income percentile

Source: Survey of Consumer Finances
Figure 5: Percentage of households who directly hold stocks or mutual funds, by income percentile

Source: Survey of Consumer Finances
Figure 6: Percentage of respondents who report taking "above-average" or "high" financial risks in order to achieve above-average returns, by income percentiles

Source: Survey of Consumer Finances
Figure 7: Percentage of households who agree it is right to borrow to support one’s lifestyle when income declines, by 5-year income trajectory and by indebtedness quartile

Source: Survey of Consumer Finances
Figure 8: Average annual number of stock trades among households with a brokerage account, by income percentile

Note: The bottom income quintile is omitted because there are not enough households with a brokerage account to generate accurate estimates.

Source: Survey of Consumer Finances
Figure 9: Percentage of homeowners borrowing against home equity, by income percentile

Note: This figure shows the percentage of homeowners in a given income percentile group who have debts from a home equity loan, home equity line of credit, or cash-out refinance loan on the primary residence.

Source: Survey of Consumer Finances
Figure 10: Percentage of all homeowners borrowing against home equity, by the reported use of borrowed funds

Note: This figure shows the percentage of all homeowners who have home equity debt for a given purpose.

Source: Survey of Consumer Finances