(15) Poterba, James M., Samwick, Andrew A. "Stock Ownership Patterns, Stock Market Fluctuations, and Consumption." Brookings Paper on Economic Activity, 1995, 2: 295-372.

The paper describes the changing pattern of stock ownership, and investigates whether changing ownership patterns have altered the links between stock values and consumption, and explores the wealth effect of stock price fluctuations. Examining the data, they find that though some measures of stock market valuation confirm that the stock prices is at a post world war II high, others suggest that the increase in stock prices is not unprecedented. They also examined the claim that individual investors account for less than half of equity ownership, and find that, by making adjustments to the data, though there is an increasing trend away from direct ownership of corporate stocks to ownership through financial intermediaries, individual investors have control over two thirds of outstanding stock either directly or through a fiduciary.

They study the cross sectional pattern of equity ownership, and find that though the stock ownership has become more equal it remains highly concentrated, and that more than one third of the gains or losses on corporate stocks and two thirds of the capital gains on directly held corporate stocks accrue to a very small percentage of households with the largest portfolios of corporate stocks. They also find that net worth is distributed more unequally than income, nonequity financial assets are distributed more equally than net worth, and equity holdings are distributed less equally than nonequity financial assets.

They analyze the relationship between stock market returns and consumption by testing whether the stock market has a causal wealth effect on consumption, or is simply a leading indicator that forecasts future changes in consumer spending. They address the question of whether stock price fluctuations affect consumer spending through a wealth effect by examining whether stock returns forecast changes in the composition of consumer spending, as high income households that are likely to own stocks are more likely to spend on luxury goods. They find that their results using micro and macrodata do not support the existence of an important wealth effect, and that there is only weak evidence that the consumption growth of those with larger stock portfolios is more closely correlated with stock market fluctuations than is the consumption of those with small portfolios.

Then they consider the effect of changing stock ownership patterns on the link between stock returns and consumption, and find that their results do not support the view that changing patterns of stock ownership alter the link between share price fluctuations and consumption. Then also consider whether the source of stock price fluctuations affects the predictive power of stock returns for future consumption growth, and find that changes in stock prices predict similar changes in consumption regardless of their source.

They conclude that "it is possible that the effect of stock price fluctuations on consumption operates through channels other than a direct wealth effect, for example, by altering consumer confidence".