Discussion of Hubmer Krusell Smith (2020) "Sources of U.S. Wealth Inequality: Past, Present, and Future"

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Overview

Great paper!

1. **Central question:** What are the sources of U.S. wealth inequality?
2. **Valuable contribution:** Quantitative model w/ some key features
   - Return heterogeneity is increasing in assets
3. **Interesting Result:** key driver of wealth inequality is tax progressivity

Quantitative Summary

Tax progressivity no longer keeping wealth inequality in check

Table 2: Contribution of various channels for steady state wealth inequality in the benchmark model

#		top 10%	top 1%	top 0.1%	top 0.01%	Gini
1	β-heterogeneity	8.8%	7.7%	3.8%	2.0%	0.050
2	earnings heterogeneity	−27.5%	−17.8%	−9.5%	−6.4%	−0.173
3	persistent	−5.0%	−7.5%	−4.2%	−2.9%	0.009
4	transitory	−11.6%	−4.3%	−1.7%	−0.9%	−0.109
5	tax progressivity	−21.3%	−61.8%	−71.2%	−67.1%	−0.148
6	return heterogeneity	29.5%	18.4%	6.6%	2.8%	0.192
7	mean differences	25.8%	16.7%	6.0%	2.6%	0.174
8	return risk	0.7%	2.2%	3.3%	2.5%	0.004

Source: Hubmer Krusell Smith (2020).

Outline of Comments

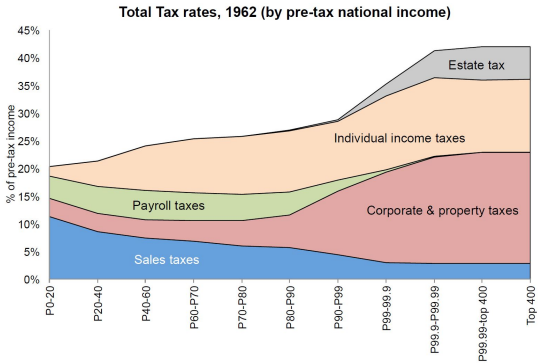
I agree that the forces that HKS emphasize are important drivers of U.S. wealth inequality.

1. Discussion of evidence on these channels
    1. **Tax progressivity:** improve measurement and mechanism discussion
    2. **Portfolio and return heterogeneity:** clarify role of pensions, pvt biz, concentrated holdings

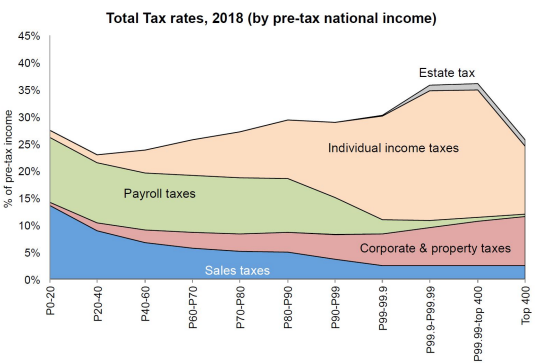
2. Discussion of other drivers that strike me as first order
    1. Lifecycle and demographic trends
    2. Falling interest rates and asset price growth
    3. Inherited wealth
    4. Others (family firms/entrepreneurs, savings rates and capital gains, etc)

#1 Striking decline of U.S. tax progressivity

1962



2018



Source: Saez Zucman (2019).

#1 Improving HKS's calibration of the tax system

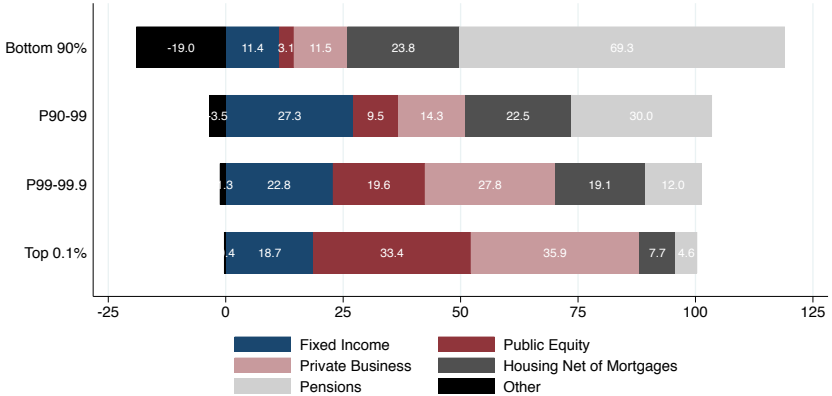
HKS use a tax series that stops in 2000 (assume flat thereafter), ignores estate tax.

- But substantial force driving the decline as measured by Saez and Zucman (2019) is falling corporate and estate tax revenues
- McGrattan and Prescott (2005) argue that declines in taxes on corporate income and corporate distributions can account for much of the growth in US stock market value relative to GDP since 1960
- Not clear how well HKS's calibration of the tax system captures both these aspects of capital taxation and the implications for the growth in equity prices.

Suggestion #1: use SZ (2019) tax estimates that are more comprehensive & current.

#2 Portfolios do vary a lot across wealth distribution

Public and private equity key at the top, pensions and housing for bottom 90%



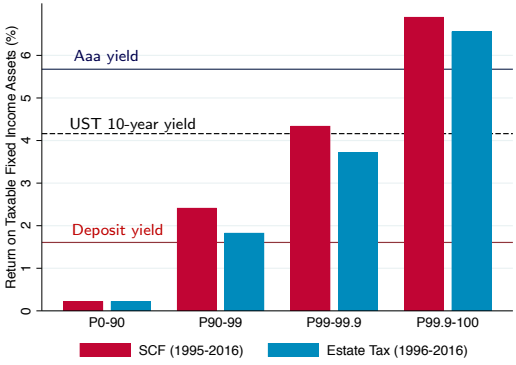
Suggestion #2: Clarify how pensions are treated and how portfolio concentration within asset class matters for $r(a)$, especially for public and private equity at the top

Source: Smith, Zidar, and Zwick (2020).

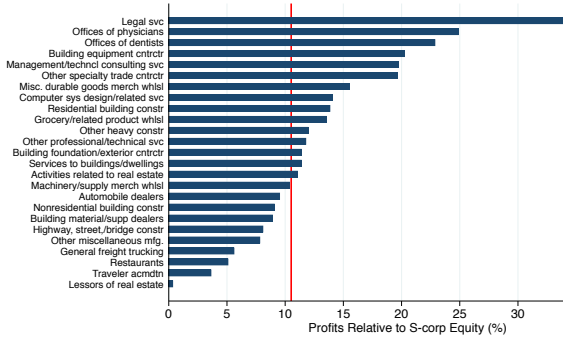
#3 Heterogeneous Returns...

but some of the private equity heterogeneity reflects human capital returns/ tax incentives

Fixed income



Private Equity

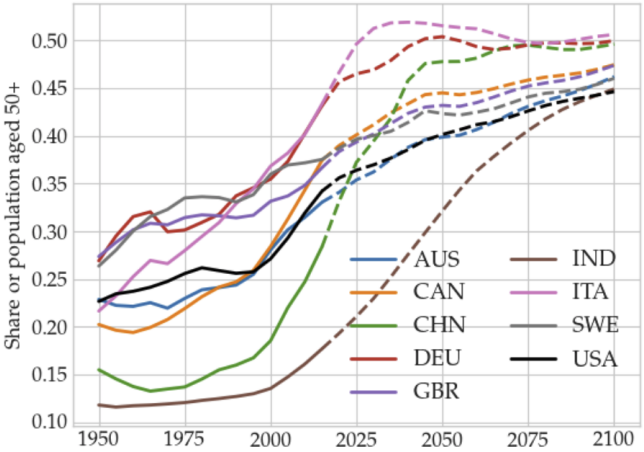


Source: Smith, Zidar, and Zwick (2020).

Suggestion #3: Consider/ mention other important drivers

1. Lifecycle and demographic trends
2. Falling interest rates and asset price growth
3. Inheritance
4. Family firms, savings differences, and others

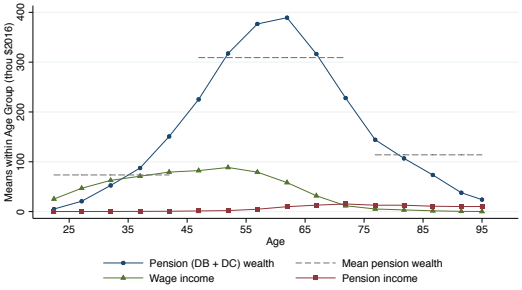
1. Demographics are key driver of W/Y (and Wealth inequality)



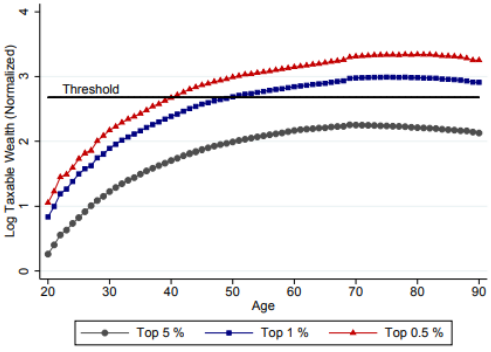
Source: Auclert Malmberg Martenet Rognlie (2019). Prelim findings that simple shift-share estimate implies large effects on W /Y (150 pp in the US).

1b. Lifecycle wealth profiles → demographic composition matters a lot

Pension Wealth

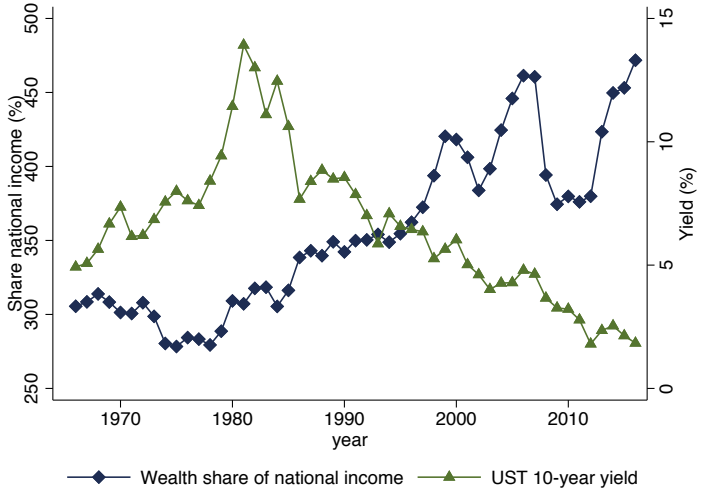


Wealth at the Top



Sources: Smith, Zidar, and Zwick (2020); Jakobsen, Jakobsen, Kleven, and Zucman (2019).

2. Interest rate declines contribute to asset price and wealth growth



Source: Smith, Zidar, and Zwick (2020)

3. Inherited wealth can be a substantial share of total wealth

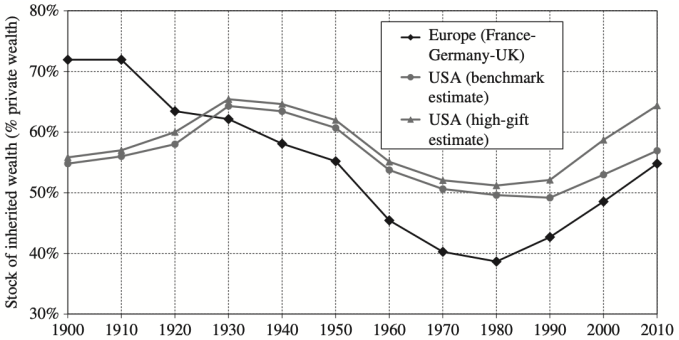


FIGURE 1. Share of inherited wealth, Europe and the USA 1900–2010.
Notes: Simplified definitions using inheritance vs. saving flows; approximate lower-bound estimates. The inheritance share in aggregate wealth accumulation was over 70% in Europe in 1900–10. It fell abruptly following 1914–45 shocks, down to 40% in the 1970–80 period. It was back to about 50–60% (and rising) in 2000–10. The US pattern also appears to be U-shaped but less marked, and with significant uncertainty regarding recent trends, due to data limitations.

Source: Alvaredo, Garbinti and Piketty (2017)

Conclusion

Other important drivers to consider/mention

1. Lifecycle and demographic trends
2. Falling interest rates and asset price growth
3. Inheritance
4. **Entrepreneurs and Family firms**. See Atkeson and Irie (2020), who argue that "improving our understanding of the economics of the process by which families found new firms and then, eventually, diversify their wealth is central to improving our understanding of the distribution of great wealth and its evolution over time."
5. Others

Bottom line: very nice paper, need to consider these other forces to have full accounting of wealth concentration