Top Wealth in the US: New Estimates and Implications
by M. Smith, O. Zidar, and E. Zwick

Discussion by E. McGrattan

EFG, February 2020
Measuring Wealth Shares
Measuring Wealth Shares

• SZ have convinced many to take the following seriously...
Top 0.1% Share of Total Wealth

![Graph showing the share of total household wealth over time from 1915 to 2015. The graph compares different data sources and methodologies, including Baseline Saez and Zucman (2016), Estate tax data (Kopczuk and Saez, 2004), Our Preferred Estimate, Raw SCF, and Raw SCF + Forbes 400.](image)
Measuring Wealth Shares

- SZ have convinced many to take the figure seriously
- SZZ have cast doubts but give SZ too much credit
Measuring Wealth Shares

- SZ have convinced many to take the figure seriously
- SZZ have cast doubts but give SZ too much credit
- My takeaway: Never use SZ’s estimates as the benchmark
Top 0.1% Share of Total Wealth
Capitalizing Income: SZ vs SZZ

SZ: \[ \hat{W}_{c,g} = \frac{y_{c,g}}{r_c} \]

SZZ: \[ \hat{W}_{c,g} = \frac{y_{c,g}}{r_{c,g}} \]

\[ \hat{W} = \text{estimate of “wealth”} \]
\[ y = \text{“capital” income on tax return} \]
\[ r = \text{return} \]
\[ c = \text{category, not necessarily asset category} \]
\[ g = \text{group, eg top 0.1%} \]
SZZ: New Estimates and Implications

- Share of wealth of top 0.1% in 2014
  - SZ: 19%
  - SZZ: 13%

- Mechanically, Warren’s tax plan raises:
  - SZ: $146 billion
  - SZZ: $76 billion
Let’s Unpack This

<table>
<thead>
<tr>
<th>( \hat{W} / \text{GDP} )</th>
<th>SZ</th>
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<tbody>
<tr>
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\[
\begin{array}{cccc}
\hat{\mathcal{W}} / \text{GDP} & \text{SZ} & \text{SZZ} \\
\hline
\text{Top .1%} & \text{All} & \text{Top .1%} & \text{All} \\
\hline
\text{Taxable interest} & .77 & 4.0 & .52 & 4.1 \\
\text{Taxable C-corp equity} & & & & \\
\text{Proprietors} & & & & \\
\text{S corporations} & & & & \\
\text{Pensions} & & & & \\
\text{Housing} & & & & \\
\text{Total} & .77 & 4.0 & .52 & 4.1 \\
\hline
\end{array}
\]

⇒ Punch lines: \( \frac{.77}{4} = 19\% \), \( \frac{.52}{4.1} = 13\% \)
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⇒ Little disagreement in totals because SZZ mostly use SZ’s
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\[ \Rightarrow \text{Most disagreement in taxable interest wealth of top} \]
Looking Under the Lamppost

- In 2014,
  - IRS reports 94 $B in taxable interest
  - BEA reports 1,394 $B in total interest

⇒ Very little income under SZ’s lamppost!
Looking Under the Lamppost

• Furthermore,
  
  ○ SZ’s taxable interest wealth isn’t data
  
  ○ SZ take categories in FOF and guess taxable shares
  
  ⇒ No reliable totals!
Looking Under the Lamppost

• Situation has gotten worse over time
  ○ Untaxed incomes have grown after ERISA
  ○ Distribution of taxed income more skewed

⇒ Let’s look at IRS taxable interest
Lorenz Curve for 1977 Taxable Interest
Lorenz Curves for Taxable Interest

- **1977**
- **2014**
Lorenz Curves for Taxable Interest

• Suggests:
  ◦ Capitalization method overstates rise in inequality
  ◦ Bottom may have sufficient resources in retirement

What about capital income more generally?
More Generally

- Capitalization method has problems
  - Most capital income isn’t taxable
  - Distribution of untaxed incomes is not observed

Let’s dig a bit more by comparing BEA and IRS incomes
Most Capital Income is Untaxed

<table>
<thead>
<tr>
<th>%Y/GDP, 2014</th>
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<tr>
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## Especially in Recent Years

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<td>Total</td>
<td>7.2</td>
<td>19.1</td>
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Some Questions

- What is $\hat{W}_{1\%}/\hat{W}$ an input to?

- Are there sufficient resources in retirement for 99.9%?
Sufficient Resources in Retirement for Bottom?

- Knowing capitalized tax incomes won’t help answer this
Sufficient Resources in Retirement for Bottom?

- Knowing capitalized tax incomes won’t help answer this
- Want this measure of wealth:

\[
\sum_{s=0}^{\infty} \frac{c^i_{t+s}}{R^i_{t,t+s}} = W_t^i + \sum_{s=0}^{\infty} \frac{w^i_{t+s} h^i_{t+s}}{R^i_{t,t+s}} + \sum_{s=0}^{\infty} \frac{(T_r - Tax)_t^i}{R^i_{t,t+s}}
\]

↑

SZ, SZZ only consider small part of this
Sufficient Resources in Retirement for Bottom?

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  - Financial
  - Human
  - Entitlement

- But, knowing small part of \( \int W_t^i di \) is not enough since
  - All components large in aggregate
  - Very dissimilar in distribution
Sufficient Resources in Retirement for Bottom?

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\(\text{Financial} \quad \text{Human} \quad \text{Entitlement}\)

• But, knowing small part of \(\int W_t^i di\) is not enough since
  
  ○ All components large in aggregate
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• Other IRS data provide clues about consumption
Study of Retirement Incomes

- **Study:**
  - Tracks individuals 55-61 before and after drawing SS

- **Findings:**
  - Most have no reduction in real spendable income
  - Replacement rates typically higher for lower incomes

*Using Panel Tax Data to Examine the Transition to Retirement*
by Brady, Bass, Holland, and Pierce
Recommendations

- For this paper:
  - Don’t rely on any of SZ’s imputations
  - Put error bounds on all estimates
  - Show SZ figure with these bounds (or not at all!)

- More generally:
  - Focus on entire distribution, especially bottom
  - Use computers rather than napkins for policy analysis