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

Discussion by E. McGrattan
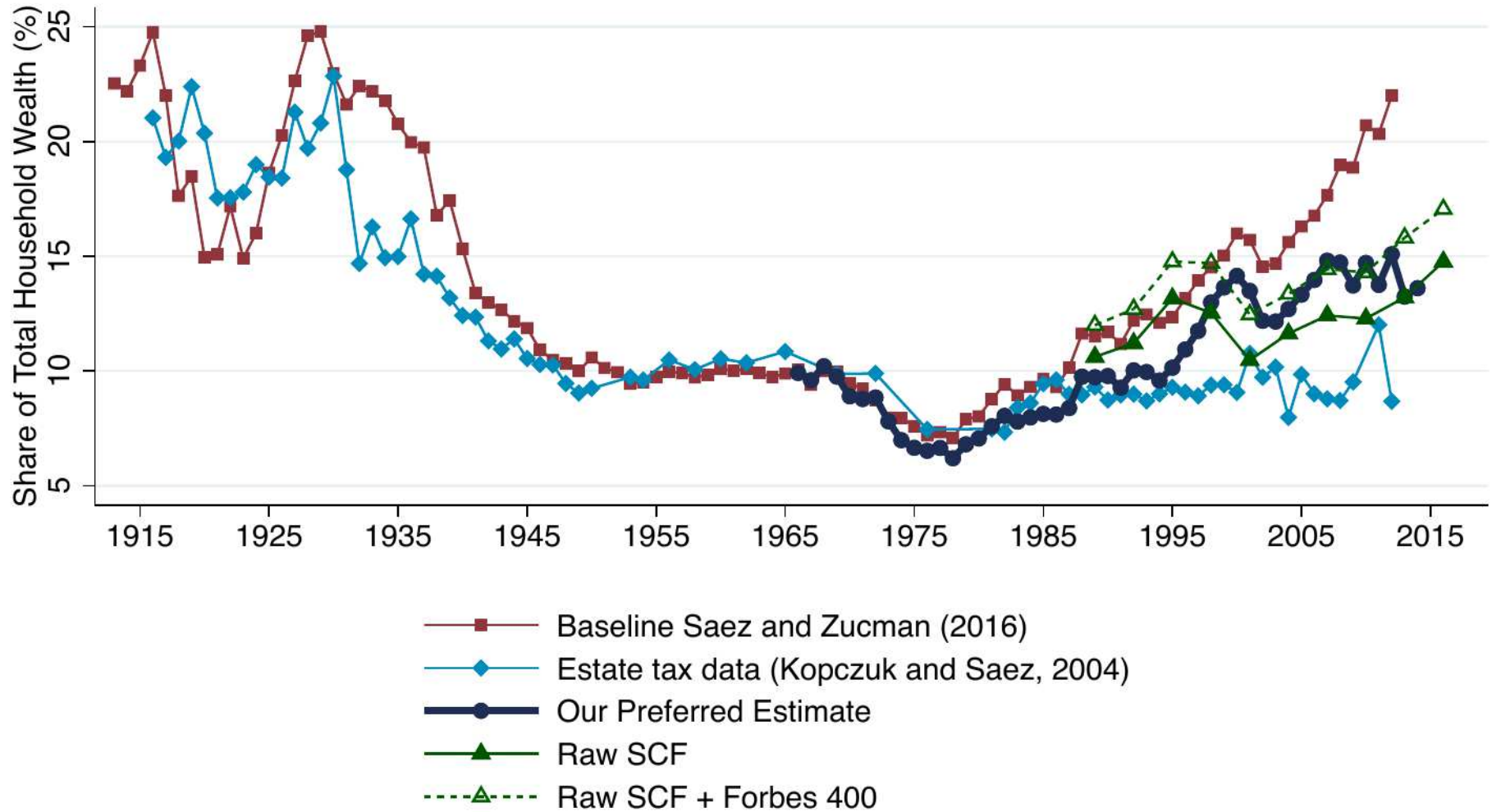
EFG, February 2020

Measuring Wealth Shares

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- SZ have convinced many to take the following seriously...

Top 0.1% Share of Total Wealth

Measuring Wealth Shares

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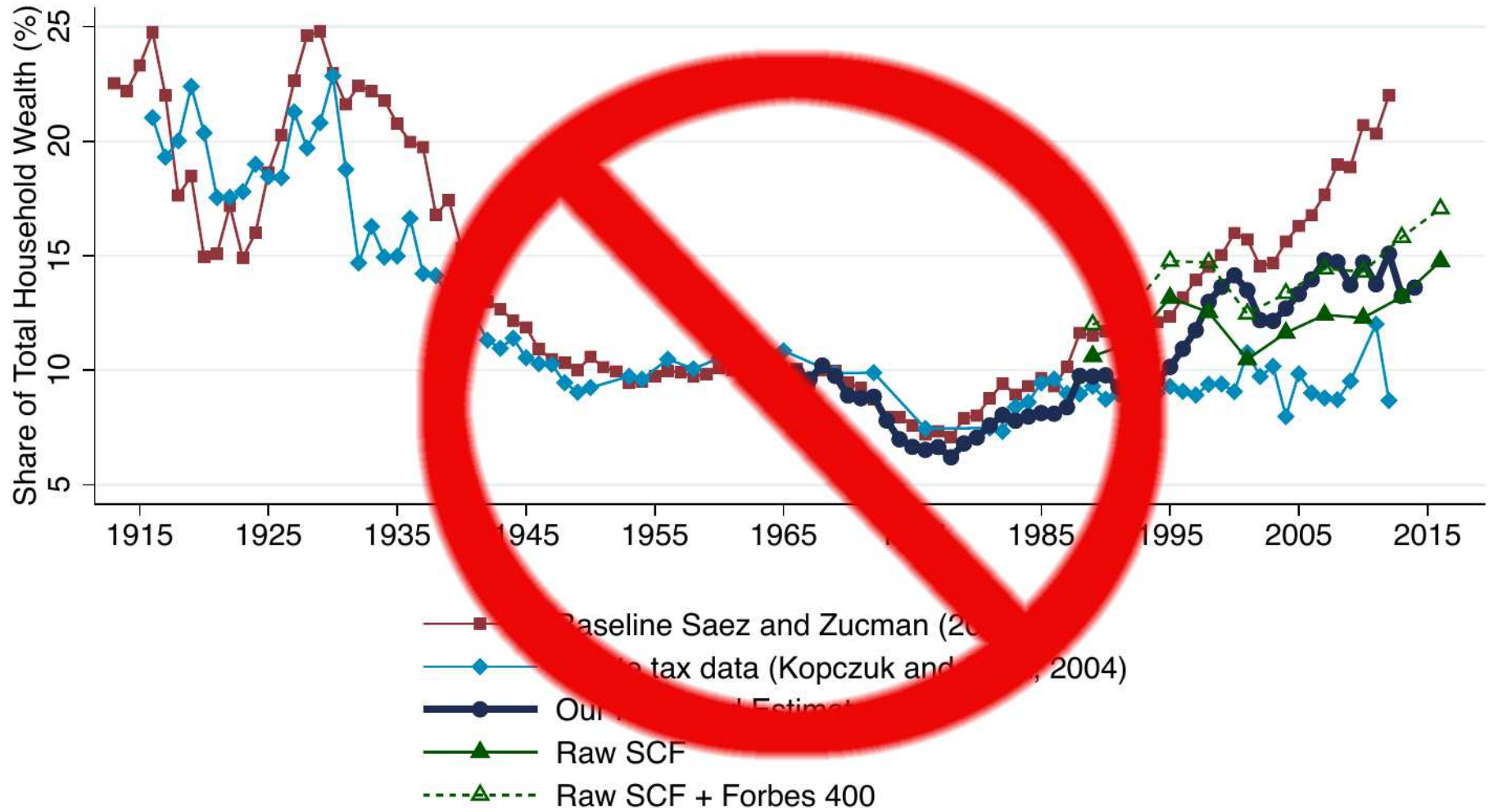- SZZ have cast doubts but give SZ too much credit

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

Legend:
- Baseline Saez and Zucman (2016)
- Estate tax data (Kopczuk and Saez, 2004)
- Our Preferred Estimate
- Raw SCF
- Raw SCF + Forbes 400

Capitalizing Income: SZ vs SZZ

$$\text{SZ}: \quad \hat{W}_{c,g} = \frac{y_{c,g}}{r_c}$$

$$\text{SZZ}: \quad \hat{W}_{c,g} = \frac{y_{c,g}}{r_{c,g}}$$

$\hat{W}$ = estimate of "wealth"

y = "capital" income on tax return

r = return

c = category, *not* necessarily asset category

g = 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

$\hat{W}$/GDP	SZ		SZZ	
	Top .1%	All	Top .1%	All
Taxable interest				
Taxable C-corp equity				
Proprietors				
S corporations				
Pensions				
Housing				
Total				

Let's Unpack This

$\hat{W}$/GDP	SZ		SZZ	
	Top .1%	All	Top .1%	All
Taxable interest				
Taxable C-corp equity				
Proprietors				
S corporations				
Pensions				
Housing				
Total	.77	4.0	.52	4.1

Let's Unpack This

$\hat{W}$/GDP	SZ		SZZ	
	Top .1%	All	Top .1%	All
Taxable interest				
Taxable C-corp equity				
Proprietors				
S corporations				
Pensions				
Housing				
Total	.77	4.0	.52	4.1

$\Rightarrow$ Punch lines: $.77/4 = 19\%$, $.52/4.1 = 13\%$

Let's Unpack This

$\hat{W}$/GDP	SZ		SZZ	
	Top .1%	All	Top .1%	All
Taxable interest		.63		.63
Taxable C-corp equity		.63		.63
Proprietors		.41		.41
S-corporations		.16		.22
Pensions		1.4		1.5
Housing		.73		.73
Total	.77	4.0	.52	4.1

⇒ Little disagreement in totals because SZZ mostly use SZ's

Let's Unpack This

$\hat{W}$/GDP	SZ		SZZ	
	Top .1%	All	Top .1%	All
Taxable interest		.63		.63
Taxable C-corp equity		.63		.63
Proprietors		.41		.41
S-corporations		.16		.22
Pensions		1.4		1.5
Housing		.73		.73
Total	.77	4.0	.52	4.1

Estimates →
seem low
↘

$\Rightarrow$ Little disagreement in totals because SZZ mostly use SZ's

Let's Unpack This

$\hat{W}$/GDP	SZ		SZZ	
	Top .1%	All	Top .1%	All
Taxable interest	.27	.63	.07	.63
Taxable C-corp equity	.31	.63	.25	.63
Proprietors	.07	.41	.06	.41
S corporations	.05	.16	.06	.22
Pensions	.04	1.4	.03	1.5
Housing	.03	.73	.05	.73
Total	.77	4.0	.52	4.1

$\Rightarrow$ 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

$\Rightarrow$ 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
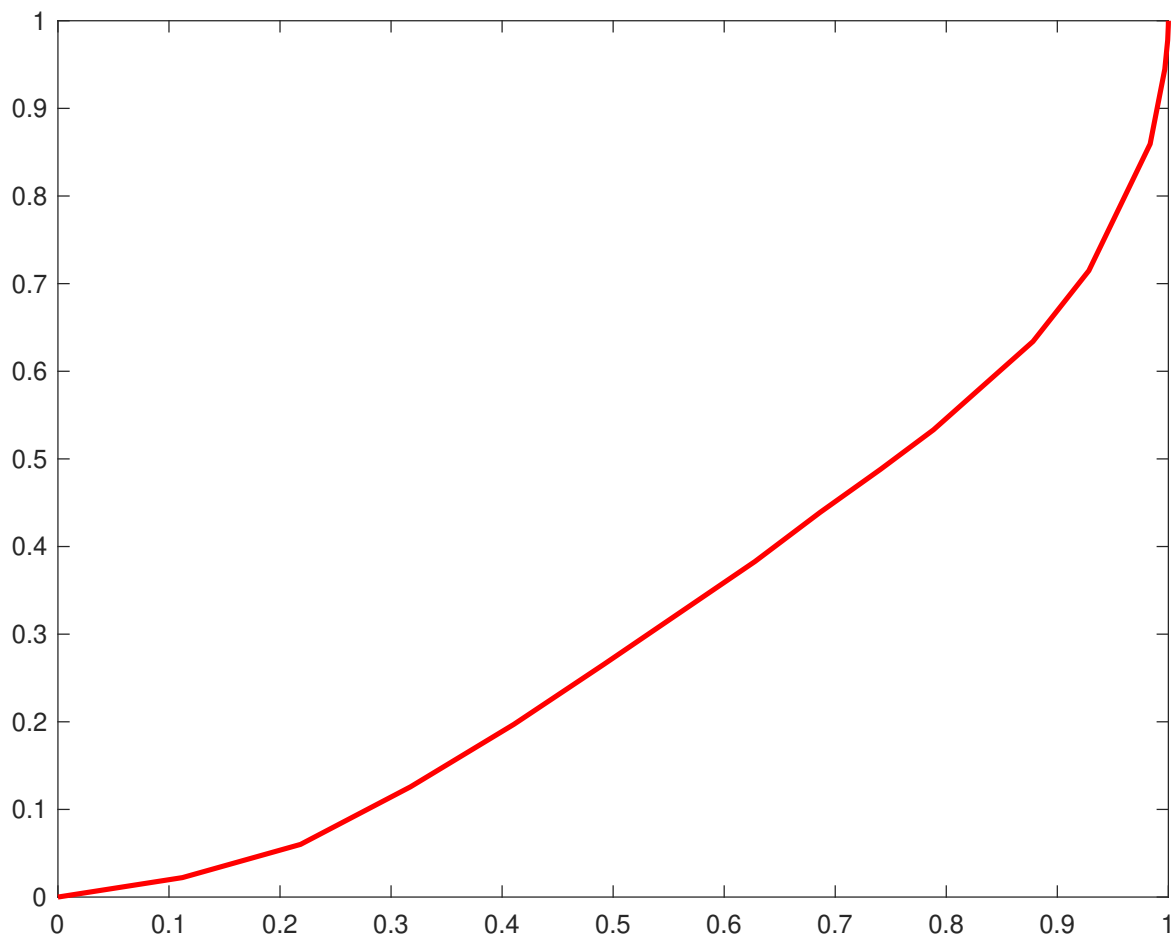
⇒ No reliable totals!

Looking Under the Lamppost

- Situation has gotten worse over time

    - Untaxed incomes have grown after ERISA

    - Distribution of taxed income more skewed

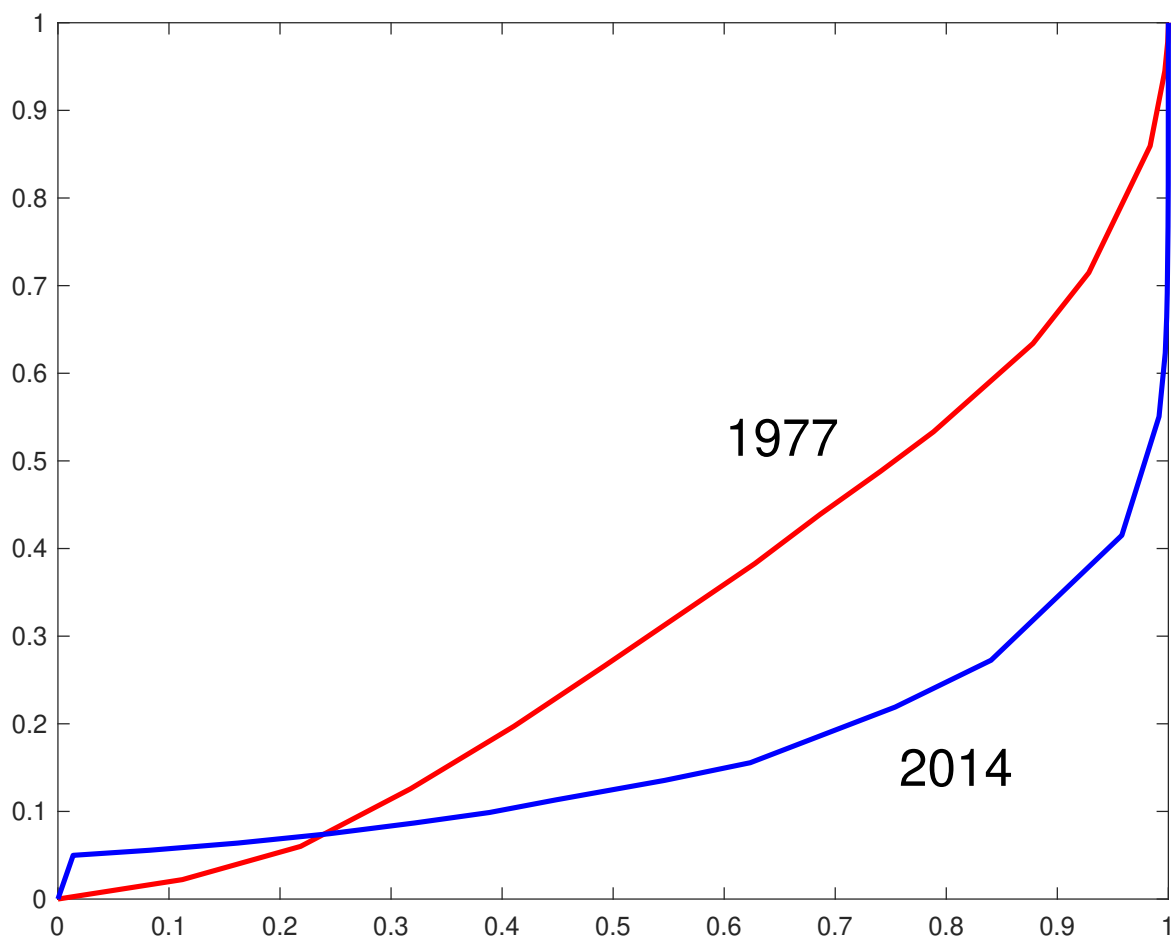$\Rightarrow$ Let's look at IRS taxable interest

Lorenz Curve for 1977 Taxable Interest

Lorenz Curves for Taxable Interest

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

%Y/GDP, 2014	IRS	BEA	% Untaxed
Interest			
Dividends			
Proprietors			
Total			

Most Capital Income is Untaxed

%Y/GDP, 2014	IRS	BEA	% Untaxed
Interest			93
Dividends			73
Proprietors			40
Total			68

Most Capital Income is Untaxed

%Y/GDP, 2014	IRS	BEA	% Untaxed
Interest	0.5	7.7	93
Dividends	1.5	5.4	73
Proprietors	4.9	8.3	40
Total	6.9	21.4	68

Especially in Recent Years

%Y/GDP, 2014	IRS	BEA	% Untaxed
Interest	0.5	7.7	93
Dividends	1.5	5.4	73
Proprietors	4.9	8.3	40
Total	6.9	21.4	68
%Y/GDP, 1977			
Interest	2.7	10.0	73
Dividends	1.3	2.2	40
Proprietors	3.1	7.0	55
Total	7.2	19.1	62

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:

$$\sum_{s=0}^{\infty} \frac{c_{t+s}^i}{R_{t,t+s}^i} = \underbrace{W_t^i}_{\text{Financial}} + \underbrace{\sum_{s=0}^{\infty} \frac{w_{t+s}^i h_{t+s}^i}{R_{t,t+s}^i}}_{\text{Human}} + \underbrace{\sum_{s=0}^{\infty} \frac{(Tr - Tax)_{t+s}^i}{R_{t,t+s}^i}}_{\text{Entitlement}}$$

$\uparrow$

SZ,SZZ only consider small part of this

Sufficient Resources in Retirement for Bottom?

- Knowing capitalized tax incomes won't help answer this

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- 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?

- Knowing capitalized tax incomes won't help answer this

- Want this measure of wealth:

$$\sum_{s=0}^{\infty} \frac{c_{t+s}^i}{R_{t,t+s}^i} = \underbrace{W_t^i}_{\text{Financial}} + \underbrace{\sum_{s=0}^{\infty} \frac{w_{t+s}^i h_{t+s}^i}{R_{t,t+s}^i}}_{\text{Human}} + \underbrace{\sum_{s=0}^{\infty} \frac{(Tr - Tax)_{t+s}^i}{R_{t,t+s}^i}}_{\text{Entitlement}}$$

- But, knowing small part of $\int W_t^i di$ is not enough since

  - All components large in aggregate

  - Very dissimilar in distribution

- 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