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

Discussion by E. McGrattan

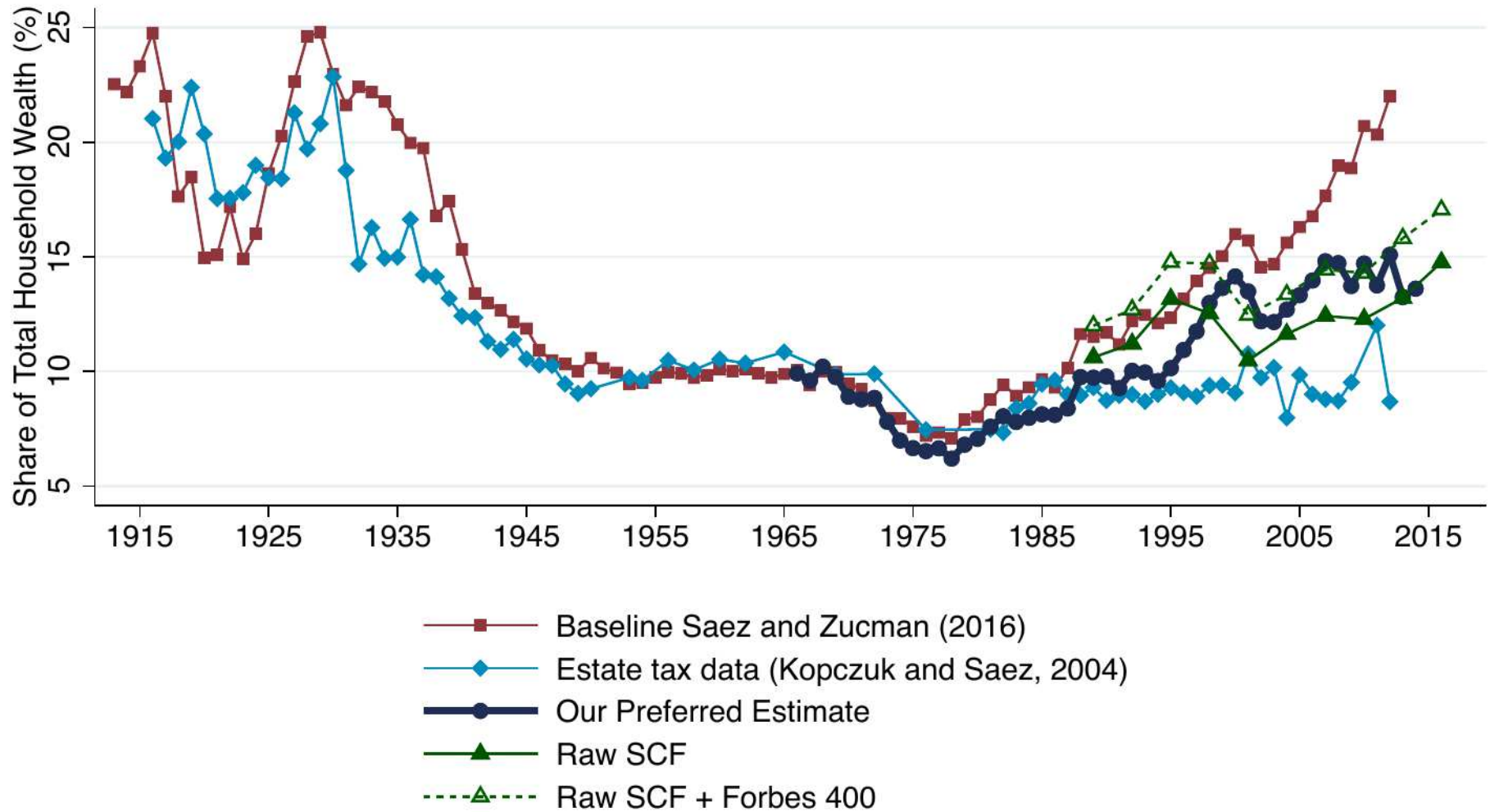EFG, February 2020

Measuring Wealth Shares

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

Top 0.1% Share of Total Wealth

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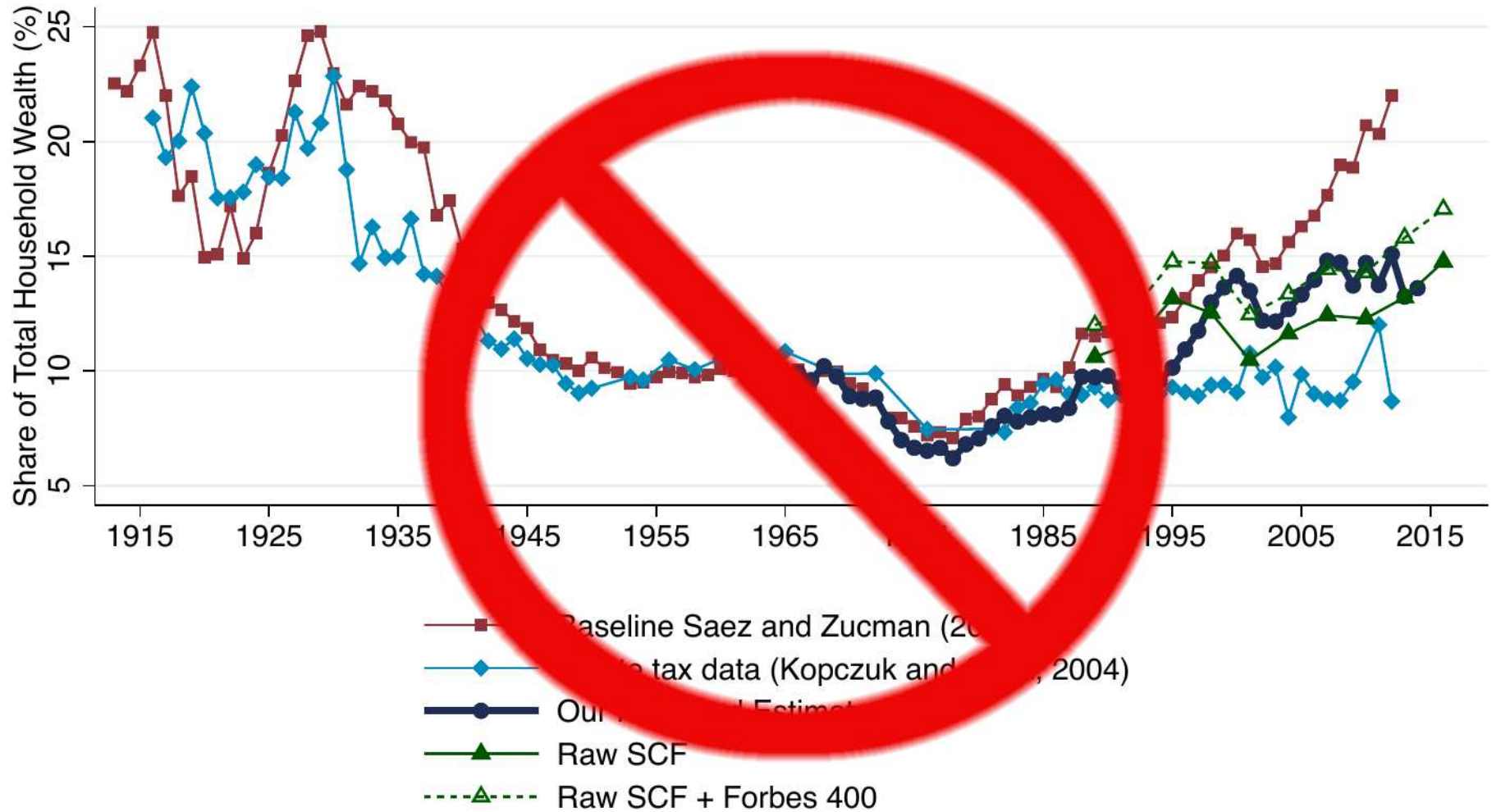
- SZZ have cast doubts but give SZ too much credit

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

Capitalizing Income: SZ vs SZZ

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

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

$y \quad =$ "capital" income on tax return

$r \quad =$ return

$c \quad =$ category, *not* necessarily asset category

$g \quad =$ 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	
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Taxable interest				
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Total	.77	4.0	.52	4.1

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$\Rightarrow$ Punch lines of SZ, SZZ: .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

$\Rightarrow$ 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

But...

But...

- Most interest isn't taxable

- The total wealth estimates are imputations

- More generally,

    - Most capital income isn't taxable

    - Distribution of capital incomes is not observed

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Let's dig a bit more by comparing BEA and IRS

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

Most Capital Income is Untaxed

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- Problems:
  - No reliable estimates of BEA distributions
  - Half of proprietors' income is imputed

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- Problems:
  - No reliable estimates of BEA distributions
  - Half of proprietors' income is imputed
  - Untaxed amount has changed overtime

With ERISA Came Growth in Untaxed

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Interest	0.5	7.7	93
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Proprietors	4.9	8.3	40
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%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

With ERISA Came Growth in Untaxed

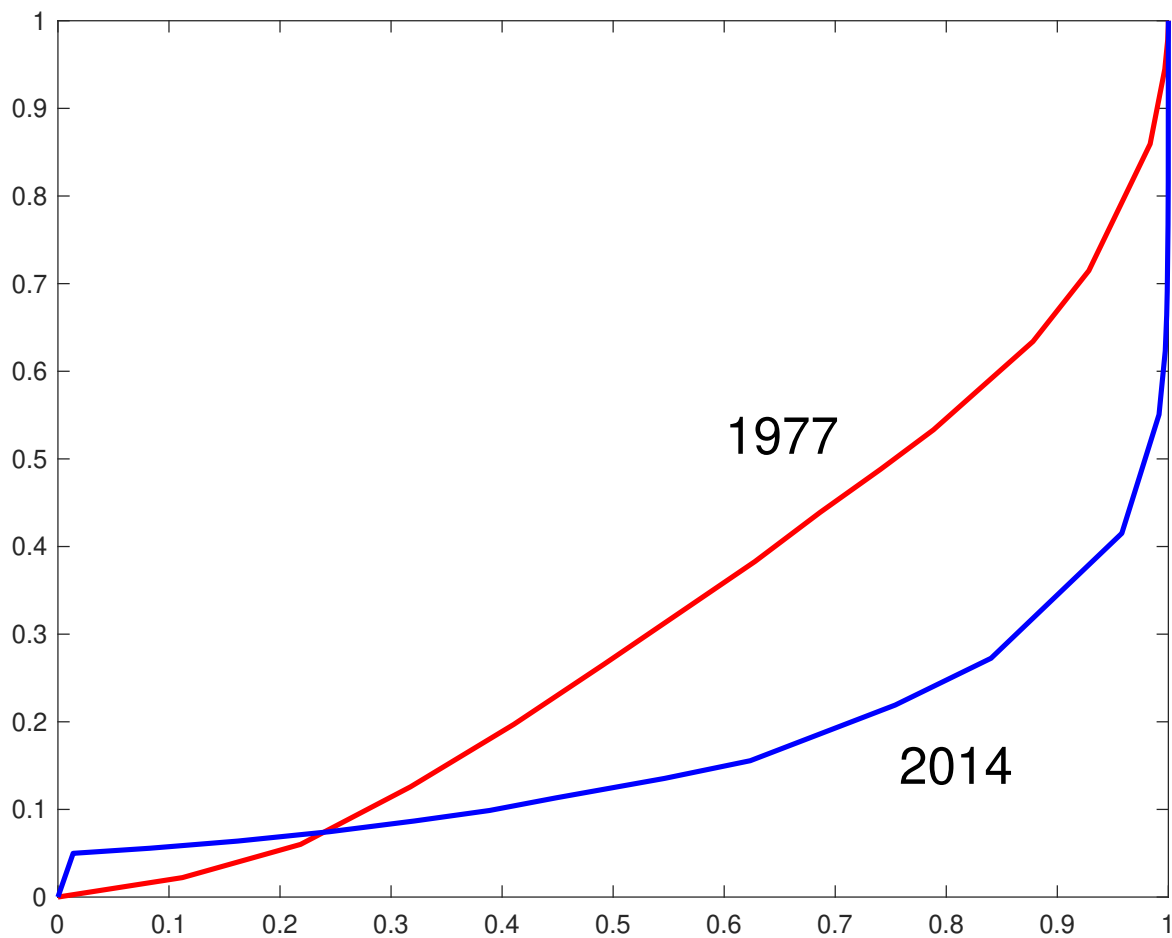... and changes in distribution of taxed incomes ...

Lorenz Curve for 1977 Taxable Interest
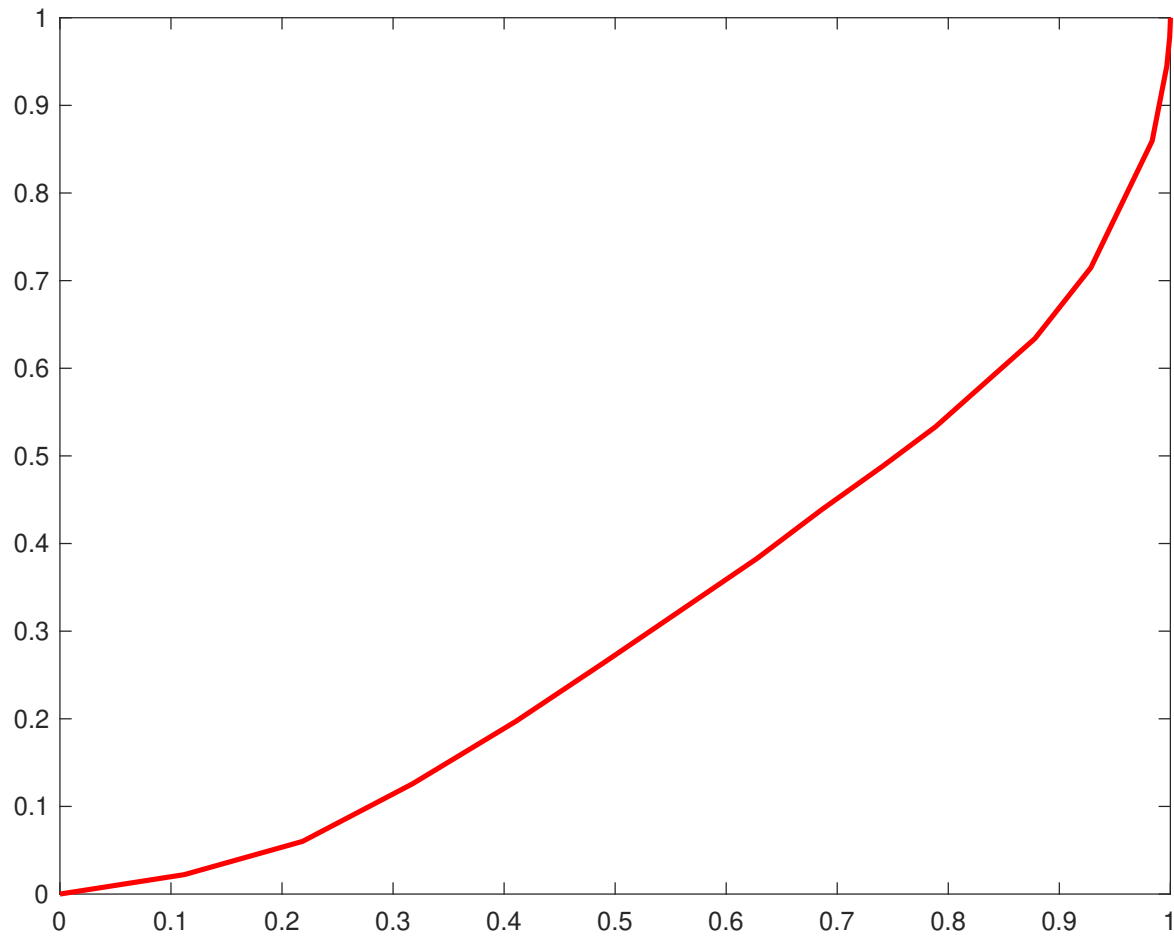
Lorenz Curves for Taxable Interest

Lorenz Curves for Taxable Interest

- Suggests:

  - Capitalization method overstates rise in inequality

  - Bottom may have sufficient resources in retirement

  Next, consider evidence from IRS study on this

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 use any of SZ 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