Introduction and comments on:

Top Wealth In America

by Smith, Zidar, and Zwick

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WEALTH AND ITS DISTRIBUTION

Wealth is the sum of marketable assets minus debts owned by US households (housing, pension funds, fixed claim assets, corporate equity, other businesses)

US financial accounts: total household wealth August 2020 $\simeq$ \$100T (=5 GDP years up from 2.5 GDP years in 1970s)

Wealth provides safety for bottom 90% and power at the top

Wealth always more concentrated than income (bottom 50% has almost no wealth in any country)

$\Rightarrow$ Estimating wealth and its distribution is important but difficult (no systematic admin data on wealth)

WEALTH DISTRIBUTION ESTIMATION

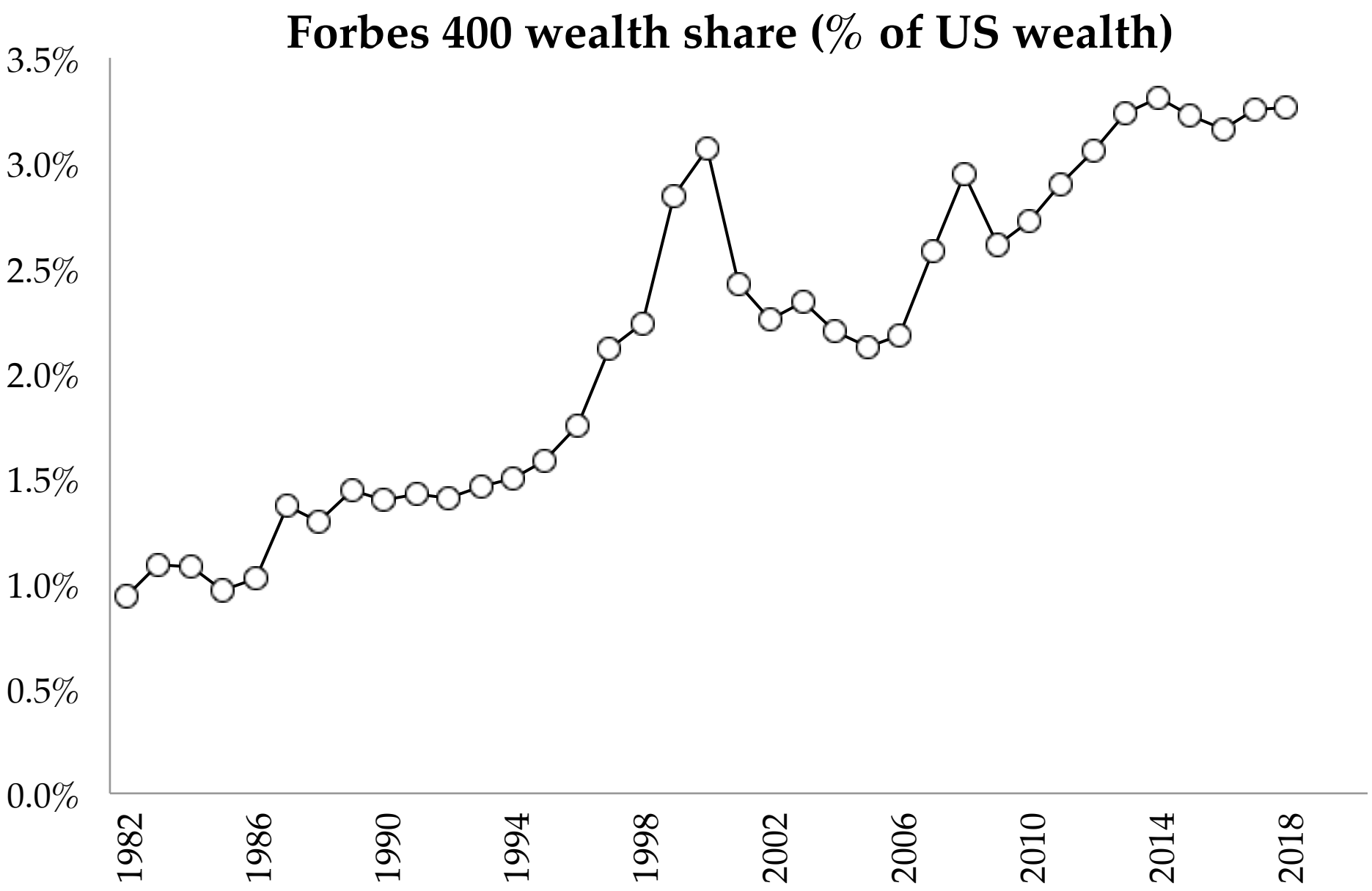
4 imperfect sources and methods:

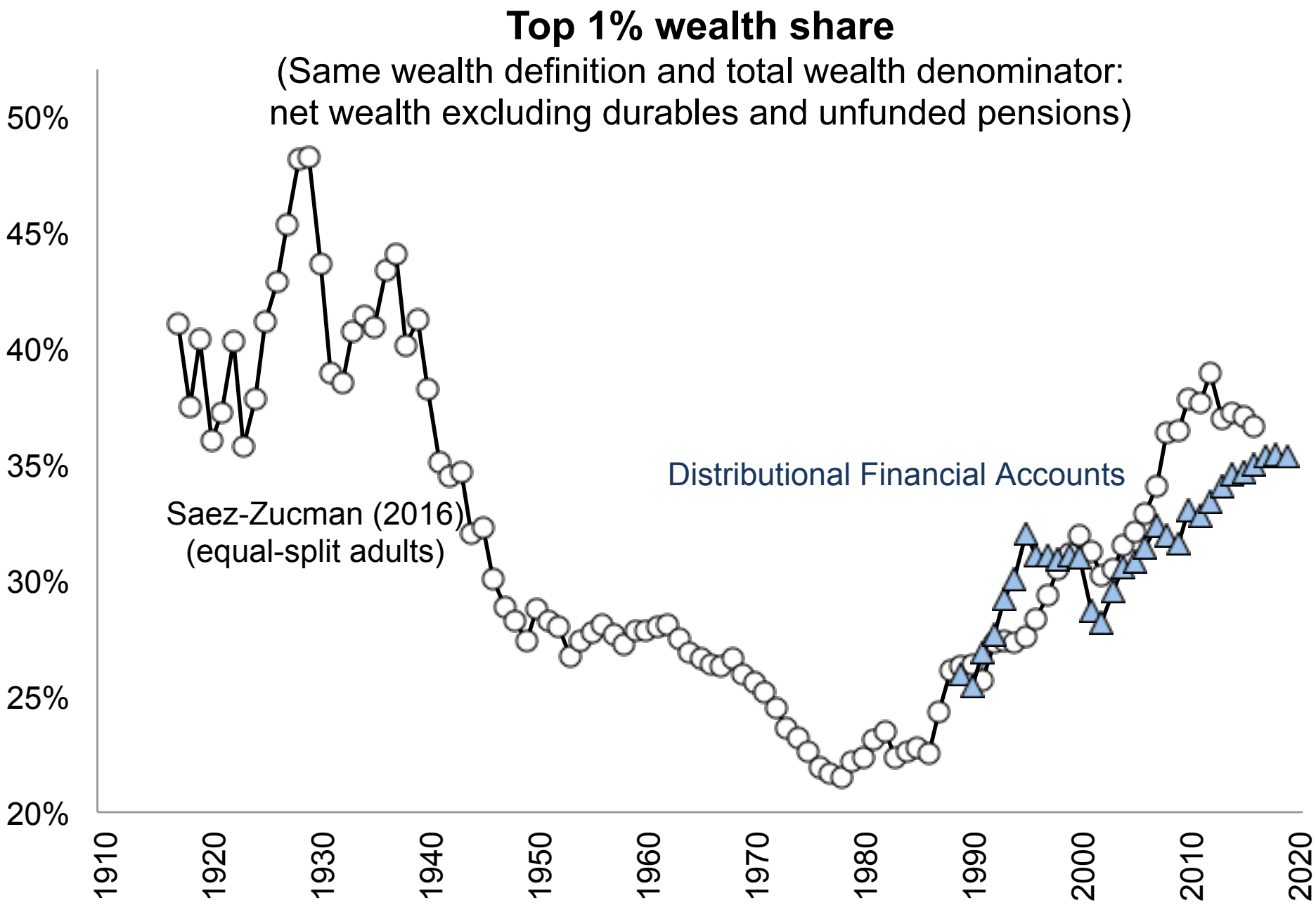
1) Forbes 400 rich list since 1982 using direct information on business holdings

2) Estate tax data measures wealth at death, can weigh by inverse probability of death (covers less than top .1%, suffers from tax avoidance+growing social mortality gap)

3) Survey of Consumer Finances (triennal since 1989): recently combined with financial accounts to create quarterly Distributional Financial Accounts

4) Capitalized incomes: infer wealth from capital income reported on tax returns (Saez and Zucman QJE 2016)


Forbes 400 wealth share (% of US wealth)
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
1982
1986
1990
1994
1998
2002
2006
2010
2014
2018


Top 1% wealth share
(Same wealth definition and total wealth denominator:
net wealth excluding durables and unfunded pensions)
50%
45%
40%
35%
30%
25%
20%
1910
1920
1930
1940
1950
1960
1970
1980
1990
2000
2010
2020
Saez-Zucman (2016)
(equal-split adults)
Distributional Financial Accounts

SAEZ-ZUCMAN CAPITALIZATION METHOD

Combines financial accounts with micro income tax data

Divide wealth by asset class (interest bearing assets, corporate equity, business assets, pensions, etc.)

Compute aggregate return for each asset class: e.g. r=(total taxable interest)/(total interest bearing assets), etc.

Infer wealth by multiplying each capital income component by corresponding $1/r$

Key assumption: use uniform return by asset class that we tested using SCF, estate-income linked data, and private foundation data

Smith, Zidar, Zwick (2020) refine capitalization method

UNDERSTANDING THE DISCREPANCIES

Two factors explain almost all the top wealth share discrepancies between Smith, Zwick, Zidar and Saez-Zucman

1) Interest capitalization: they use AAA Moody rate (20+ years maturity corp bonds) at the top

2) Corporate equity capitalization: they use almost only dividends while we use both realized capital gains and dividends

INTEREST RATE CAPITALIZATION

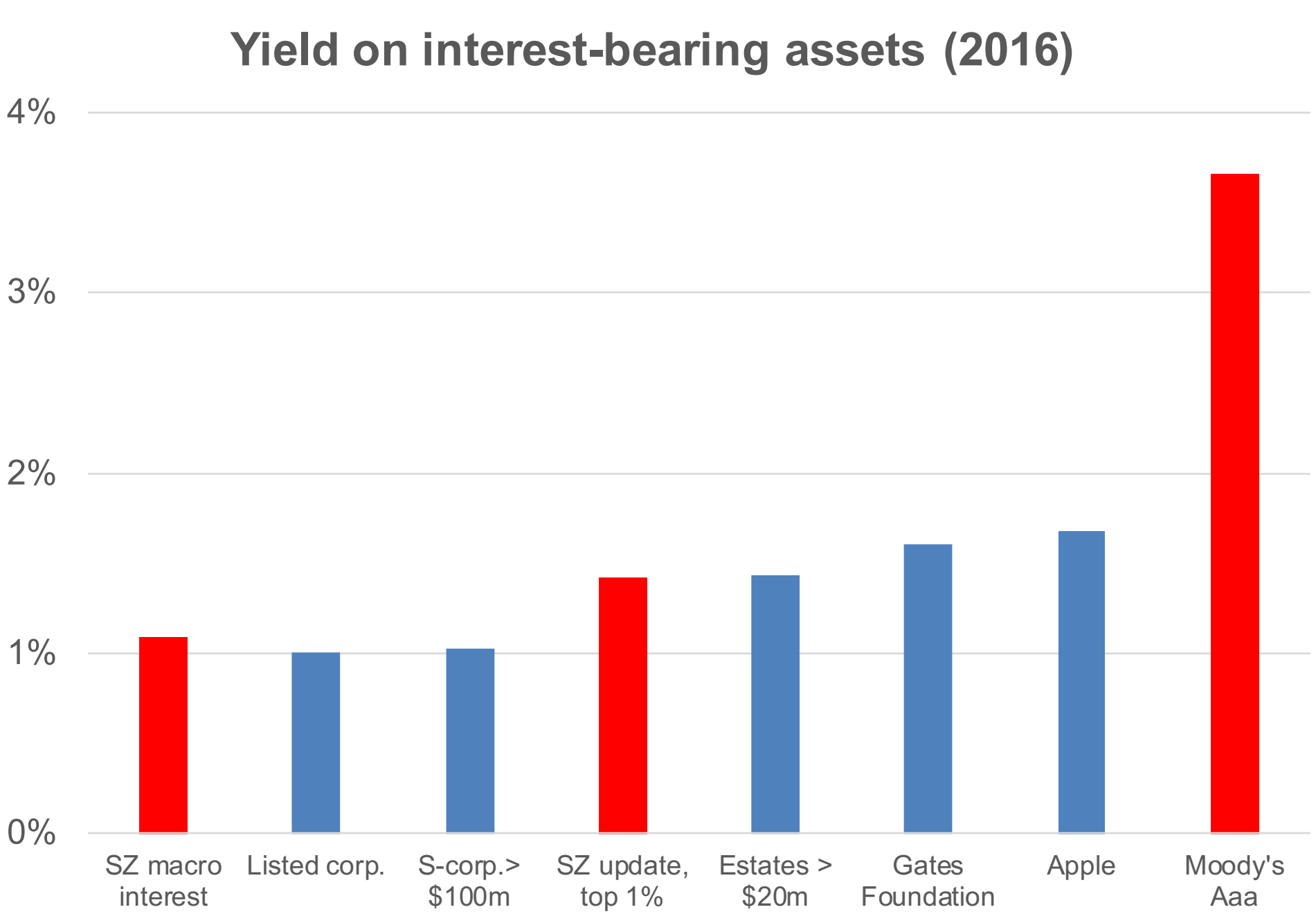
Theory: if wealthy have interest rate r_w higher than average $r_m \Rightarrow$ Should use r_w to capitalize interest (instead of r_m)

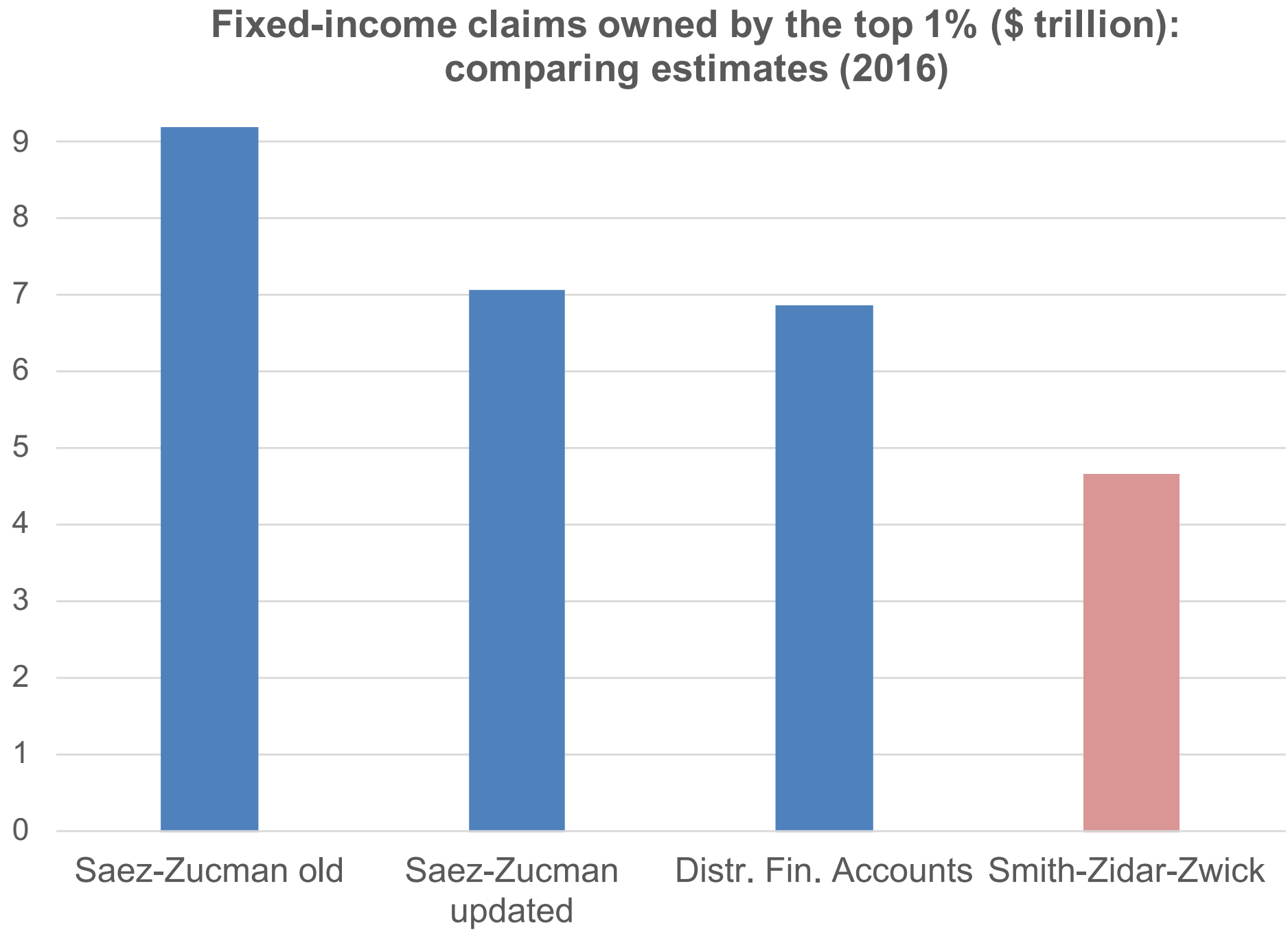
Data: r_w possibly slightly higher than r_m since Great Recession but nowhere close to r_{aaa}

Saez-Zucman 2020 update uses $r_w = 1.4 \cdot r_m$ since 2008 based on linked income-wealth evidence

SZZ flaw: Top interest earners do have high interest rate like r_{aaa} but this is selection (high $r \Rightarrow$ high rW) and not relevant for capitalization

SCF pitfall: 30% of interest earned through passthroughs (S-corps+partnerships) but assets classified in business wealth


Yield on interest-bearing assets (2016)
4%
3%
2%
1%
0%
SZ macro interest
Listed corp.
S-corp.> $100m
SZ update, top 1%
Estates > $20m
Gates Foundation
Apple
Moody's Aaa


Fixed-income claims owned by the top 1% ($ trillion): comparing estimates (2016)
9
8
7
6
5
4
3
2
1
0
Saez-Zucman old
Saez-Zucman updated
Distr. Fin. Accounts
Smith-Zidar-Zwick

CORPORATE EQUITY CAPITALIZATION

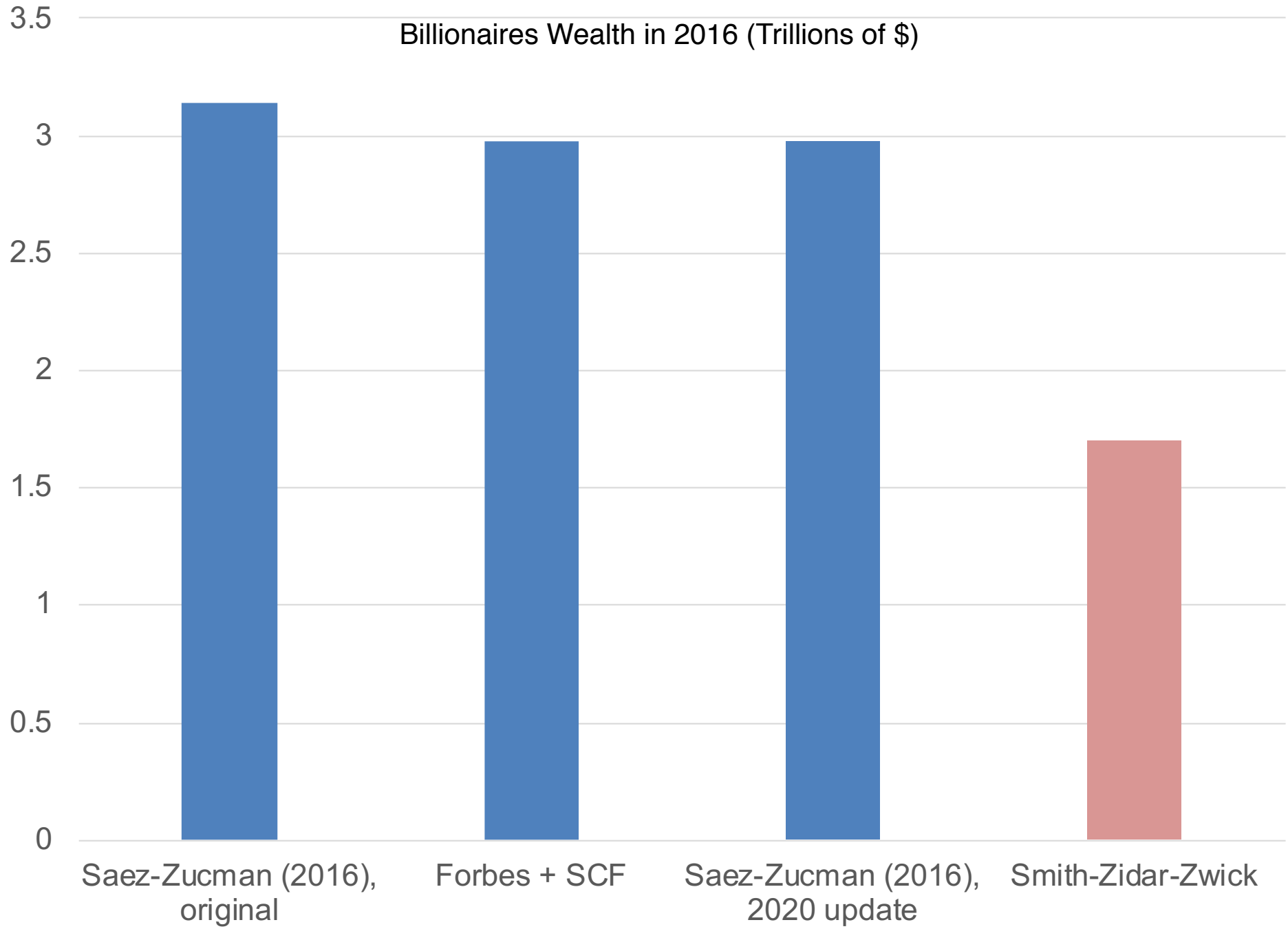
Many top billionaires own companies paying no dividends (Amazon, Facebook, Google, Berkshire Hathaway, Telsa, etc.)

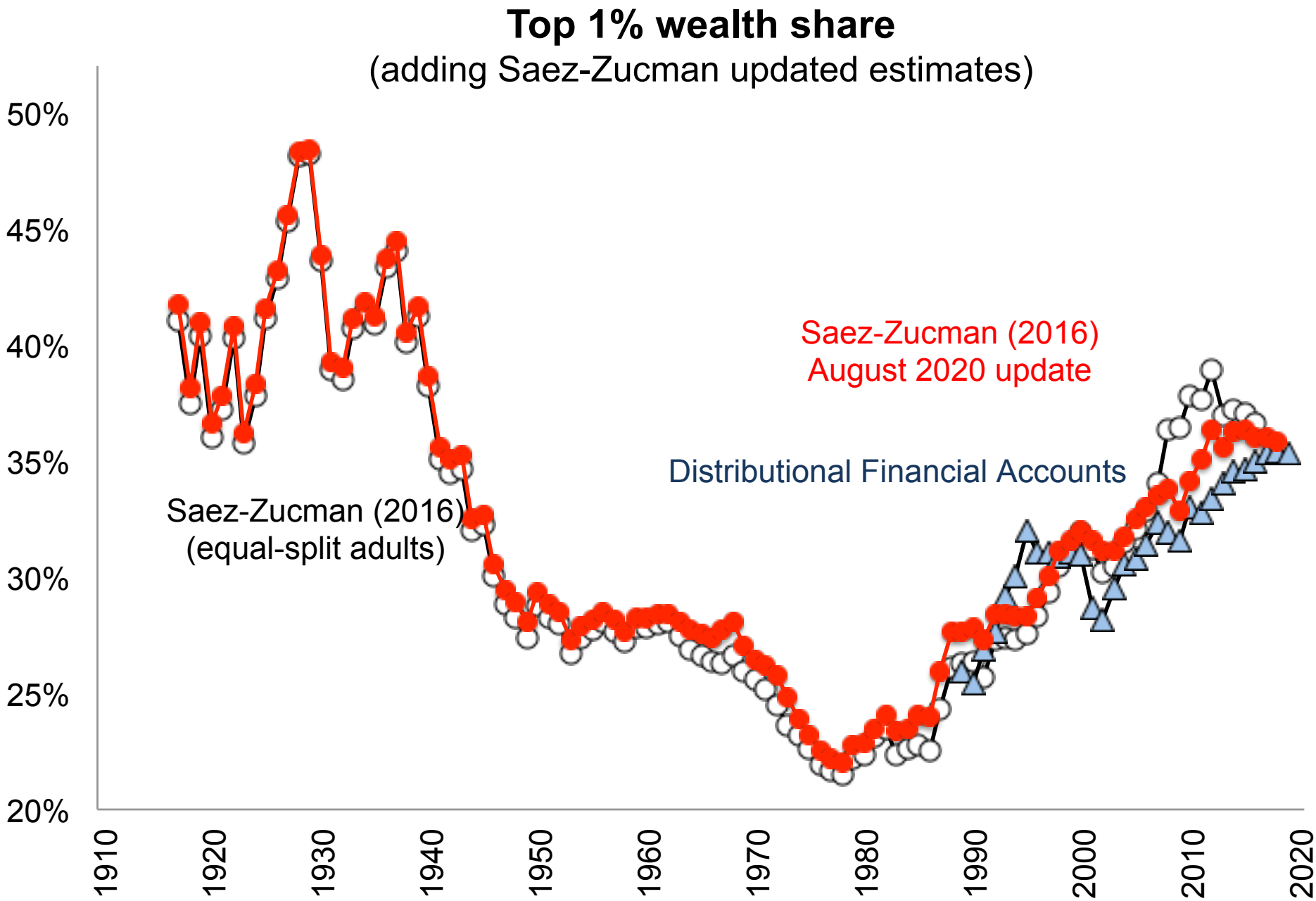
$\Rightarrow$ Capitalizing using dividends only cannot capture their wealth (even with capital gains it is challenging)

$\Rightarrow$ SZZ underestimate billionaires' wealth (relative to Forbes)

Old Saez-Zucman got the correct billionaire wealth but not the correct composition (too many bonds, too few stocks)

Saez-Zucman 2020 update now adjusts corporate equity for billionaires to match Forbes (capitalization can't beat direct ownership measures)


Billionaires Wealth in 2016 (Trillions of $)
3.5
3
2.5
2
1.5
1
0.5
0
Saez-Zucman (2016), original
Forbes + SCF
Saez-Zucman (2016), 2020 update
Smith-Zidar-Zwick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(adding Saez-Zucman updated estimates)
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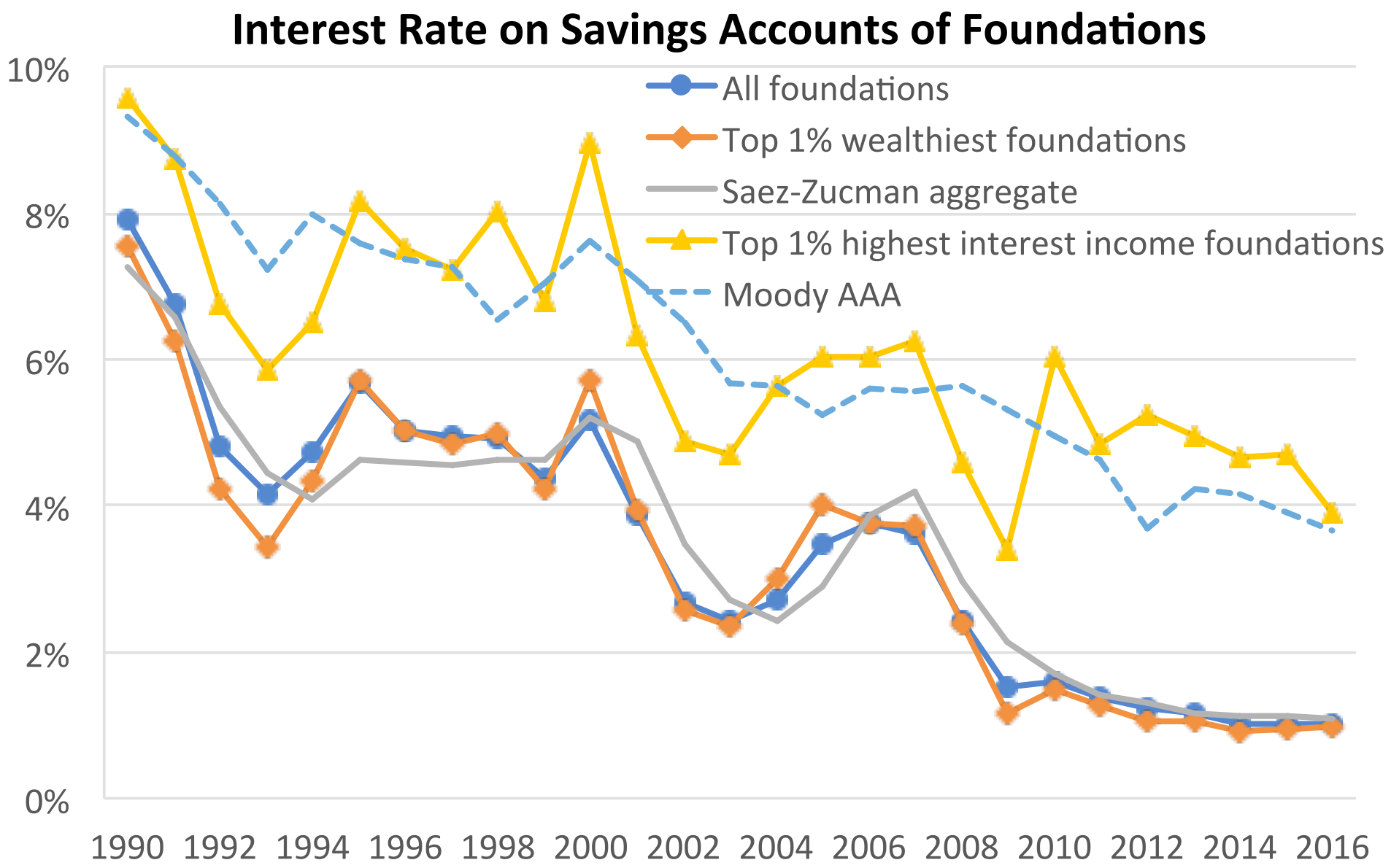
CAPITALIZATION TEST OF FOUNDATIONS

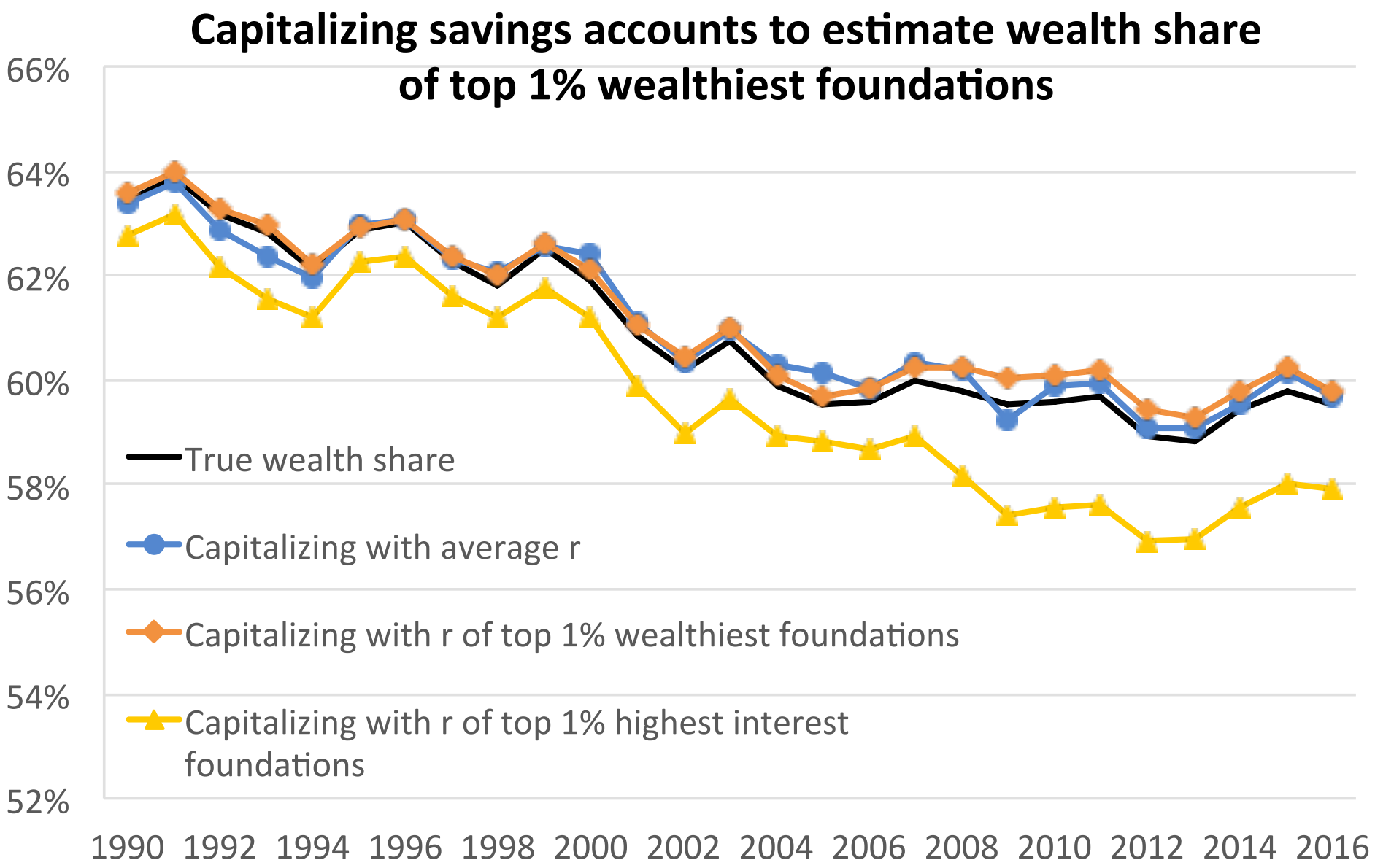
Testing the capitalization method with foundations that report both savings accounts and interest earned on such accounts

1a) Interest rate of top 1% wealthiest foundations same as average

1b) Interest rate of top 1% highest interest income foundations much higher (close to AAA)

2) Capitalizing using the SZZ method underestimates savings accounts of wealthiest foundations and hence under-estimates top wealth share


Interest Rate on Savings Accounts of Foundations
10%
8%
6%
4%
2%
0%
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
2016
All foundations
Top 1% wealthiest foundations
Saez-Zucman aggregate
Top 1% highest interest income foundations
Moody AAA


Capitalizing savings accounts to estimate wealth share of top 1% wealthiest foundations
66%
64%
62%
60%
58%
56%
54%
52%
True wealth share
Capitalizing with average r
Capitalizing with r of top 1% wealthiest foundations
Capitalizing with r of top 1% highest interest foundations
1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010 2012 2014 2016

END NOTE

These comments are based on a new paper (to be posted on our websites soon):

Saez, Emmanuel and Gabriel Zucman. 2020. "Trends in US Income and Wealth Inequality: Revising After the Revisionists,"

where we discuss recent criticisms (including Smith, Zidar, and Zwick 2020) and update our Saez-Zucman wealth series and Piketty-Saez-Zucman income series in light of these critiques