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

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Princeton and NBER

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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>
<thead>
<tr>
<th>#</th>
<th>β-heterogeneity</th>
<th>earnings heterogeneity</th>
<th>persistent</th>
<th>transitory</th>
<th>tax progressivity</th>
<th>return heterogeneity</th>
<th>mean differences</th>
<th>return risk</th>
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<tbody>
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</table>

**Source:** Hubmer Krusell Smith (2020).
I agree that the forces that HKS emphasize are important drivers of U.S. wealth inequality.

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

2. Discussion of other drivers that strike me as first order
   - Lifecycle and demographic trends
   - Falling interest rates and asset price growth
   - Inherited wealth
   - Others (family firms/entrepreneurs, savings rates and capital gains, etc)
#1 Striking decline of U.S. tax progressivity

1962

**Total Tax rates, 1962 (by pre-tax national income)**

- Estate tax
- Individual income taxes
- Payroll taxes
- Corporate & property taxes
- Sales taxes

2018

**Total Tax rates, 2018 (by pre-tax national income)**

- Estate tax
- Individual income taxes
- Payroll taxes
- Corporate & property taxes
- Sales taxes

Source: Saez Zucman (2019).
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**

- **Aaa yield**
- **UST 10-year yield**
- **Deposit yield**

**Private Equity**

- Legal svc
- Offices of physicians
- Offices of dentists
- Building equipment cntrctr
- Management/techncl consulting svc
- Other specialty trade cntrctr
- Misc. durable goods merch whlsl
- Computer sys design/related svc
- Residential building constr
- Grocery/related product whlsl
- Other heavy constr
- Other professional/technical svc
- Building foundation/exterior cntrctr
- Services to buildings/dwellings
- Activities related to real estate
- Machinery/supply merch whlsl
- Automobile dealers
- Nonresidential building constr
- Building material/supp dealers
- Highway, street,bridge constr
- Other miscellaneous mfg.
- General freight trucking
- Restaurants
- Traveler acmdtn
- Lessors of real estate

**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)

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

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

*Source:* Alvaredo, Garbinti and Piketty (2017)
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