Discussion of "Wealth Inequality Dynamics in Europe and the United States: Understanding the Determinants"

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NYU-Carnegie Rochester, April 29, 2022

- $1. \ \mbox{Collect, expand, harmonize wealth and income inequality stats from US and EU$
- 2. Decompose growth in wealth shares
 - Asset prices
 - Income inequality (split between labor and capital income)
 - Savings rates (as a residual)
- 3. Counterfactual analyses comparing US to France
 - Partial out individual growth components to isolate key drivers

- $1. \ \mbox{Wealth}$ inequality has grown in US, not in EU
- $2. \ \mbox{Asset prices, income ineq, and savings rate inequality all matter in US}$
- $3. \ \mbox{Larger}$ role for house price growth in EU
- 4. Non-financial business assets more important in EU than in US



(b) Top 1% Wealth Share



(a) Composition of top 1% wealth share in Europe^(b) Composition of top 1% wealth share in United States



(a) Top 1% Wealth Share in France

(b) Top 1% Wealth Share in United States

Bottom line: First step in an ambitious agenda. Many avenues to explore.

Comment 1: Missing Ingredients?

Question: Why do the French and American stories diverge?

Comment 1: Missing Ingredients?

Chicago Hot Dog



Saucisson Toulouse



Comment 1: Missing Ingredients?

Claim: Methodologies and data sources differ substantially





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Tax Return Data Wealth Estimates Distributional National **Tax Rate Progressivity Income Accounts (DINA)** Piketty Saez 2003 Saez Zucman 2016 Piketty Saez Zucman 2018 Saez Zucman 2019 Income tax data Tax Return Data Tax Return Data **DINA** estimates by type of income +**Financial Accounts** Wealth Estimates Macro tax data Number of tax Macro data +National Income returns Allocation assumptions Rate of return Accounts Macro data assumptions +Allocation assumptions

Some Key Assumptions 1. Equal rate of return across income distribution on fixed income 2. Ownership of Ccorporations 3. Ownership of pension wealth

Some Key Assumptions 1. Allocation of retained earnings 2. Allocation of pension income 3. Allocation tax gap across income distribution

Some Kev Assumptions 1. Incidence assumptions by type of tax (e.g., corporate tax and sales tax) 2. Reliance on wealth and DINA estimates 3. Treatment of EITC and other tax and transfer programs



Key: US income and wealth series built from tax returns

- $1. \ \mbox{Mechanical correlation in decompositions}$
- 2. Tweaks to methodology in one series affect all series





United States





Unexplored: Role of retained earnings and dividends for top inequality in France

SURVEYS VS. INCOME TAX DATA + CAPITALIZATION

Key: French series rely heavily on household surveys

- 1. Off-balance sheet (i.e., non-taxable) wealth in France is very important
- 2. EU surveys known to miss wealthy individuals
- 3. "Offshore" wealth in France likely bigger at top than in US (my prior)

32. More precisely, this category regroups income attributed to life insurance and pension funds. Before 1998, life insurance income was entirely exempt from income tax. Since 1998, only capital income withdrawn from the account has been taxed (see Goupille-Lebret and Infante 2018 for more details). As a result, total life insurance income reported in the tax data corresponds to less than 5% of its counterpart in national accounts. Due to this limitation, we do not try to capitalize taxable income from life insurance assets and rely exclusively on our survey-based imputation method to impute life insurance assets.

It is worth stressing that some of these components have increased significantly in recent decades.³³ In particular, life insurance assets did not play an important role until the 1970s, but gradually became a central component of household financial portfolios during the 1980s and 1990s. As a result, these elements are either missing or underreported in income tax returns and the corresponding assets cannot be recovered using the capitalization method. To overcome this issue, we develop an imputation procedure based on wealth and housing surveys.



from household surveys since 1970.⁴¹ The share of wealth imputed using surveys increases markedly from 37% in 1970 to 63% in 2014, mainly due to the continuous decline in business assets over the period. Online Appendix Figures D.2 and D.3 also

SURVEYS VS. INCOME TAX DATA + CAPITALIZATION GOUPILLE-LEBRET INFANTE (2018)

Assurance-vie is the most important financial asset owned by French households in 2010 and represents one guarter of total transmission at death. Despite its name, Assurance-vie no longer has insurance features; instead, it is used as a vehicle for wealth accumulation and transmission. It is a flexible "wrapper" or savings account that holds financial assets (equities, bonds...) for tax purposes. In the U.S., the closest equivalent of Assurance-vie accounts would be an unlimited Roth IRA with preferential inheritance taxation.³

SURVEYS VS. INCOME TAX DATA + CAPITALIZATION GOUPILLE-LEBRET INFANTE (2018)

Assurance-vie is now the most widespread financial asset in France. Over a third of the French population has an Assurance-vie account, and it represents 38% of the financial assets owned by households and 23% of total transmission at death.¹¹ It is used to finance supplemental retirement benefits, long-term financial projects, or transmission at death.

SURVEYS VS. INCOME TAX DATA + CAPITALIZATION VERMEULEN (2018)

distribution is less than perfect. This paper has investigated how differential unit non-response in household wealth surveys affects tail wealth estimates. The results are striking. Survey wealth estimates are very likely to underestimate wealth at the top, and this often by multiple percentage points. Countries that seem to have a more equal wealth distribution might not be so upon closer scrutiny.

SURVEYS VS. INCOME TAX DATA + CAPITALIZATION Vermeulen (2018)

TABLE 9

THE PERCENTAGE WEALTH SHARE OF THE TOP 1 PERCENT OF HOUSEHOLDS

		Regression	
	Survey	Including Forbes	Δ
	(1)	(2)	(3)=(2)-(1)
Countries using indiv	idual information to over	sample	
U.S.	34	31–37	-3 to $+3$
U.K.	13	14–18	+1 to +5
France	18	19–21	+1 to $+3$
Spain	15	15–17	+0 to $+2$
Finland	12	13–15	+1 to +3
Countries using geog	raphic income to oversar	nple	
Germany	24	32–34	+8 to $+10$
Belgium	12	15–16	+3 to +4
Countries using geog	raphic information to ov	ersample	
Austria	23	31–32	+8 to +9
Portugal	21	23–27	+2 to +6
Countries using no o	versampling		
Italy	. 14	20–21	+6 to +7
Netherlands	9	10–19	+1 to $+10$

Source: Author's calculations based on the SCF, the HFCN, the WAS, and Forbes World's Billionaires.

SURVEYS VS. INCOME TAX DATA + CAPITALIZATION Greenwald Leombroni Lustig Van Nieuwerburgh (2021)



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SURVEYS VS. INCOME TAX DATA + CAPITALIZATION



Claim: Differences in methodology and institutions likely amplify US vs. EU gaps

- 1. Missing equity income held indirectly through businesses, pensions, insurance
- 2. Relative reliance on surveys vs tax data
- 3. Different tax incentives for income to appear on tax returns

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New Puzzle: Given macro forces, how did wealth inequality in France not go up?

Comment 2: Heterogeneous Returns Smith Zidar Zwick (2021)



Result: Ultrarich take more risk, earn higher returns in fixed income portfolios

COMMENT 2: HETEROGENEOUS RETURNS Smith Zidar Zwick (2021)



Comment 2: Heterogeneous Returns Smith Zidar Zwick (2021)



Result: Accounting for heterogeneity affects top portfolios

Comment 2: Heterogeneous Returns Garbinti Goupille-Lebret Piketty (2021)

impact of about price machanions on measur mequancy (see Section mit for more actually).

28. Saez and Zucman (2016) gather bonds, deposits, and savings accounts into a unique asset class (fixed-income claim), which is obtained by capitalizing taxable interests. As the returns associated with these two categories of fixed-income claim may be very different, capitalizing them together could be problematic (Kopczuk 2015; Bricker et al. 2016). Because deposits and savings accounts do not yield taxable interests in France, we are able to disentangle bonds from deposits and savings accounts. While bonds are estimated by capitalizing taxable interests (interests from bonds), deposits and savings accounts are imputed using our survey-based imputation method (see Section 2.2.3).

Comment 3: What is Wealth?



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Key: Suitable wealth definition depends on the question

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Example: If we care about calibrating and testing heterogeneous agent models:

- 1. Unfunded pensions likely resemble wealth to agents ightarrow saving behavior
- 2. Include student debt without human capital asset?
- 3. How should we treat depreciation?
 - Current exclusion makes an implicit incidence assumption
 - Krusell Smith (2015) show treatment of depreciation matters for r > g debate

COMMENT 4: HOUSING RETURNS AND TOP WEALTH FROM STATE-LEVEL COLLAPSES IN SMITH ZIDAR ZWICK (2021)



Key: Heterogeneous house price growth \rightarrow decompositions overstate role of savings

COMMENT 4: HOUSING RETURNS AND TOP WEALTH

FROM STATE-LEVEL COLLAPSES IN SMITH ZIDAR ZWICK (2021)



Key: Heterogeneous house price growth \rightarrow financial wealth \neq utility (Rosen Roback)

Comments for the Authors

- 1. It would be great to have an appendix table that summarizes sources and methods for each country, including income, wealth, asset prices.
- 2. The methodology for group-by-asset decompositions was pretty unclear to me. What are the underlying homogeneity assumptions?
- 3. The definition of "business" versus "financial" was pretty unclear to me. How does this vary across country? How much private, closely held business shows up in the financial category for each country?
- 4. How do the assumptions on transfers in the DINA vary across these countries? What is the total amount of transfers relative to national income?
- 5. What is the role of demographic forces in each country? E.g., the aging of the population and the composition of wealth for older people?

New Puzzle: Why didn't French inequality go up?

- 1. Methodological differences
 - Heterogeneous returns
 - Retained earnings in business wealth
 - EU surveys miss top wealth
- $2.\,$ Structure of pensions and education finance \rightarrow measurement
 - Maybe there are no assets backing unfunded pensions
 - But individuals definitely view this as wealth
 - Is French financing of higher ed more progressive?
- 3. Behavioral/fundamental differences?

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