

Comments on Measurement of Top Wealth Shares

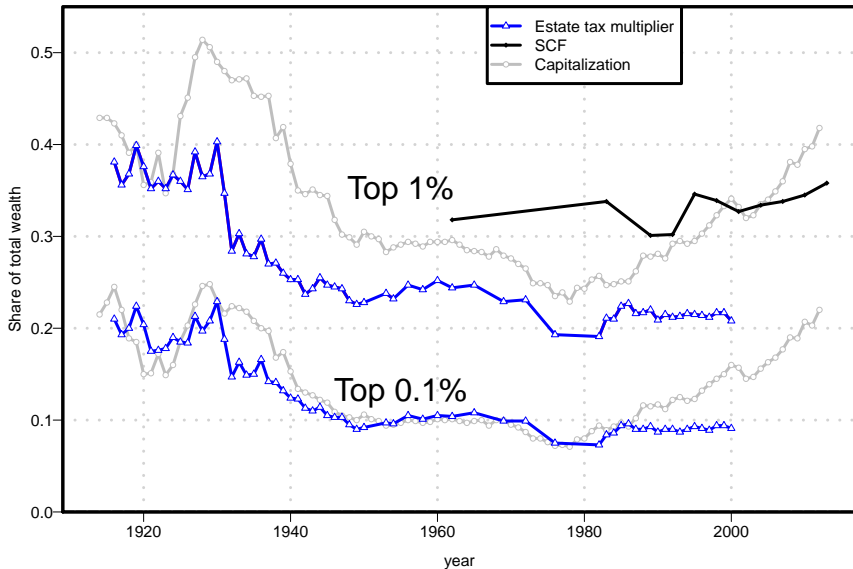
...see Wojciech Kopczuk, "What Do We Know About the Evolution of Top Wealth Shares in the United States?", *Journal of Economic Perspectives*, Winter 2015 for related discussion

November 2015

Three ways of measuring top wealth shares:

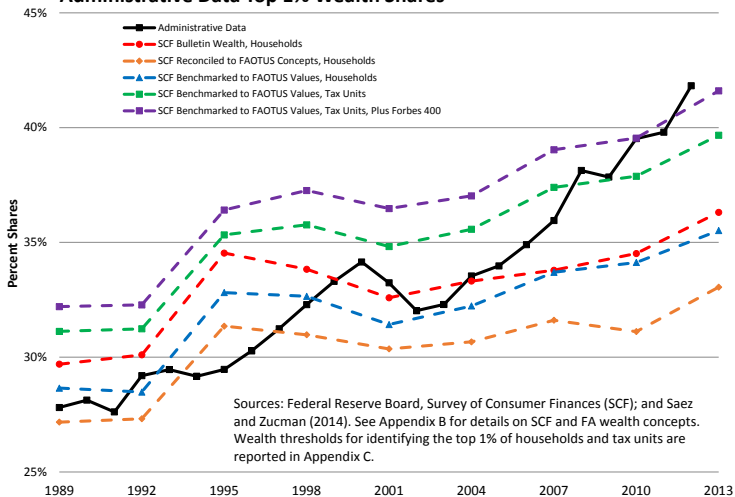
- Survey data, SCF: observe wealth for a sample (Bricker et al. 2015)
- Estate tax data, mortality multiplier: wealth from estate tax returns, weighted by inverse mortality $\frac{1}{m}$ to get distribution (Kopczuk-Saez, 2004, IRS estimates)
- Capitalization method: distribution of capital income from income tax returns, multiply by inverse rate of return $\frac{1}{r}$ (asset class-specific) to get wealth (Saez-Zucman, 2015)

Top 1% and 0.1% wealth share

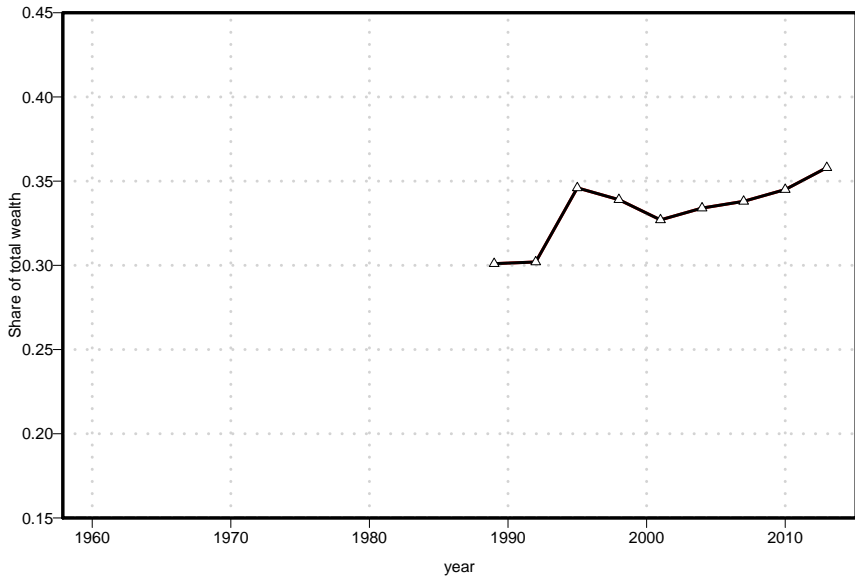


Wealth shares: capitalization vs SCF (Bricker et al, 2015)

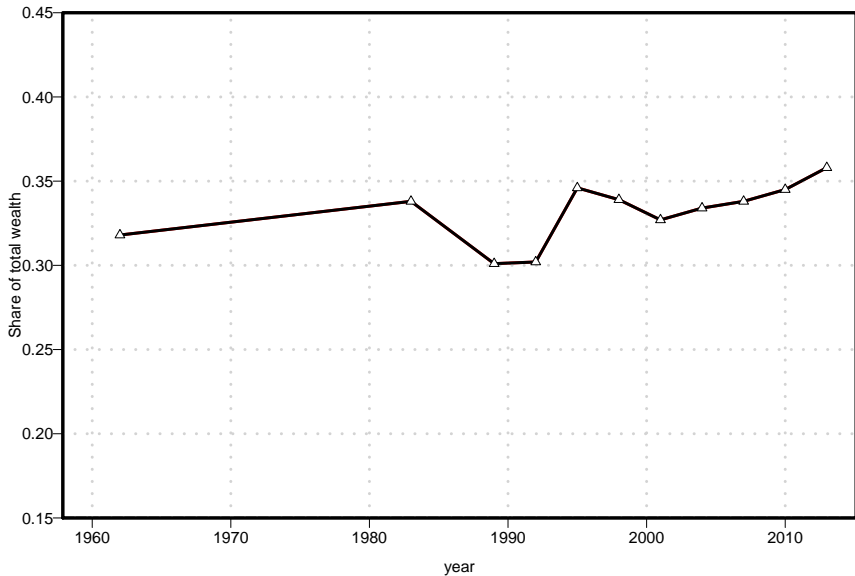
Figure 11. Reconciling Survey of Consumer Finances (SCF) and Administrative Data Top 1% Wealth Shares



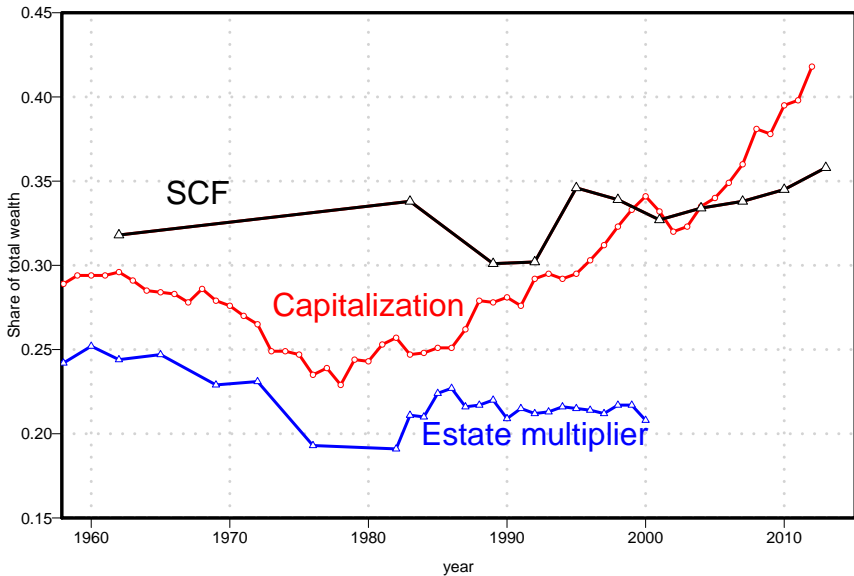
Top 1% wealth share in the SCF



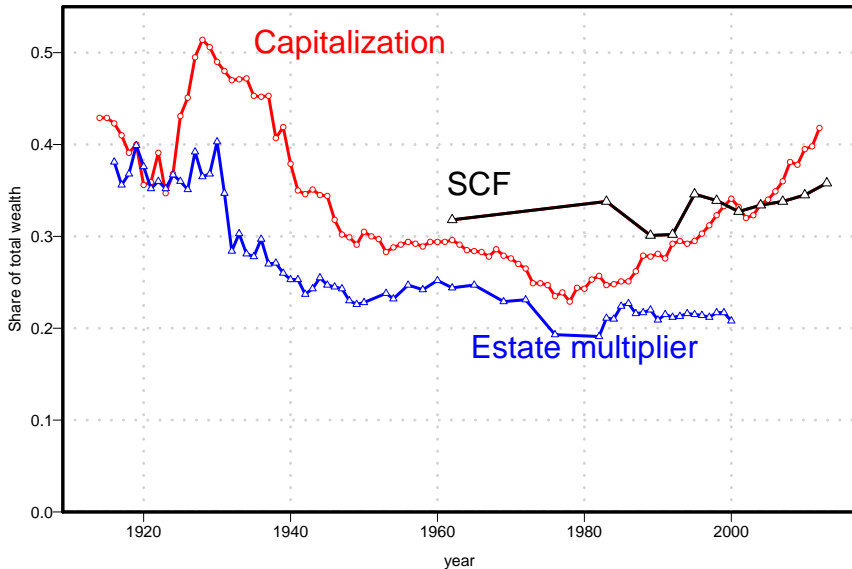
Top 1% wealth share in the SCF, add 1962 and 1983



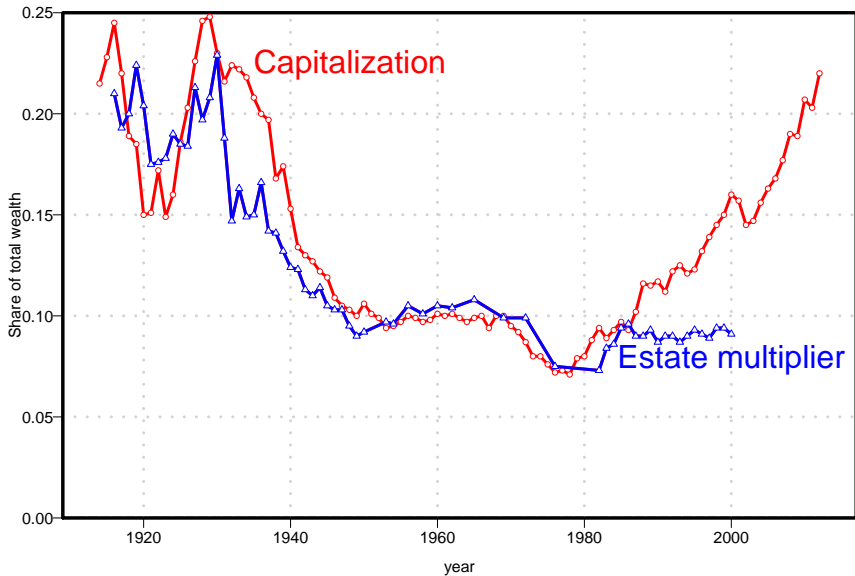
Top 1% wealth share in the SCF, comparison



Top 1% wealth share in the SCF, all years



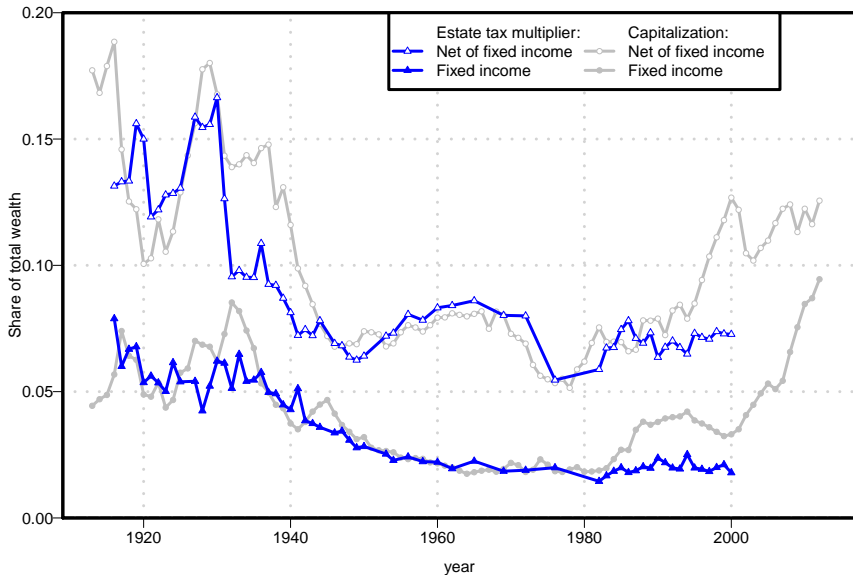
Top 0.1% wealth share



Comparison to estate tax data

- Level differences:
 - Different unit of observation
 - Different coverage of assets (e.g. DC wealth and debt not in capitalization series)
- Divergence starting after 1986 (not in the 1970s). Jump in fixed income component — state and local bonds unobserved before, imputed; observed after 1986.
- Run up in the stock market in late 1990s not visible in estate tax data. Also, not visible in the SCF

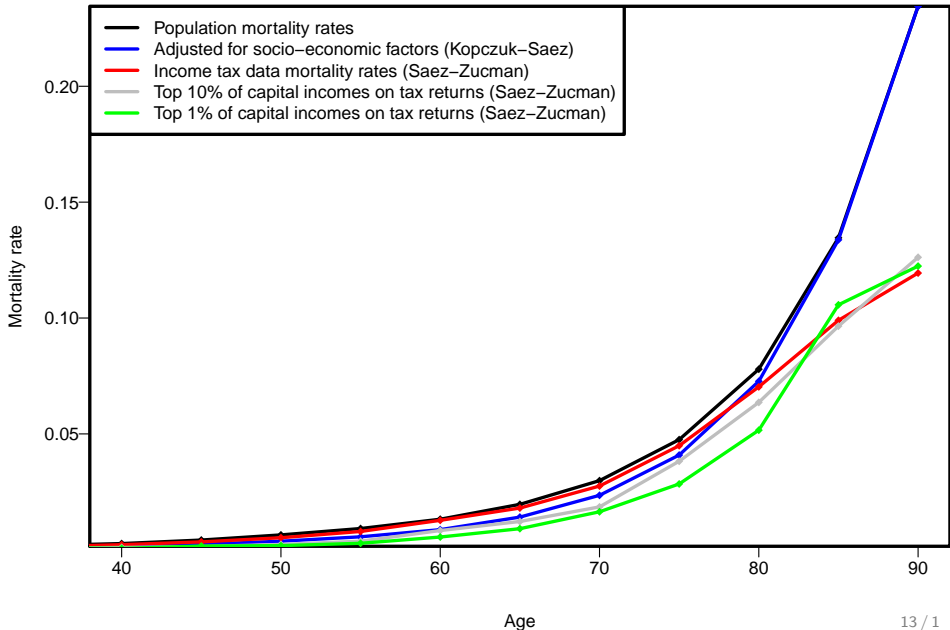
The role of fixed income



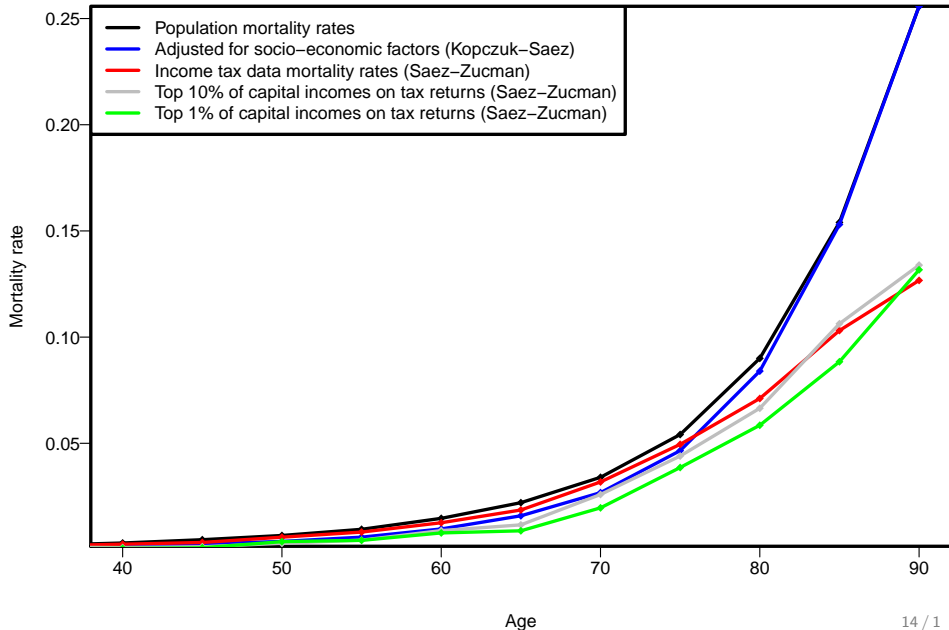
Comparison to estate tax — explanation in Saez-Zucman

- End of life planning important — I (Kopczuk, 2007) agree. That paper uses mid-1970s data. I know of no evidence that would imply massive increase or decline in avoidance/evasion.
- They take decedents from income tax, use mortality multiplier from K-S to recover capital income distribution. It does not work — their conclusion is that these multipliers are off.
- ...however, one of the points of estate tax planning is not to realize income shortly before death. They effectively have a test!
There is no reason why income tax returns shortly before death would be representative of capital income distribution
- They show mortality rates constructed using administrative tax data that imply widening mortality differentials. Conclude that K-S have incorrect socioeconomic mortality adjustments
- Let's compare mortality profiles...

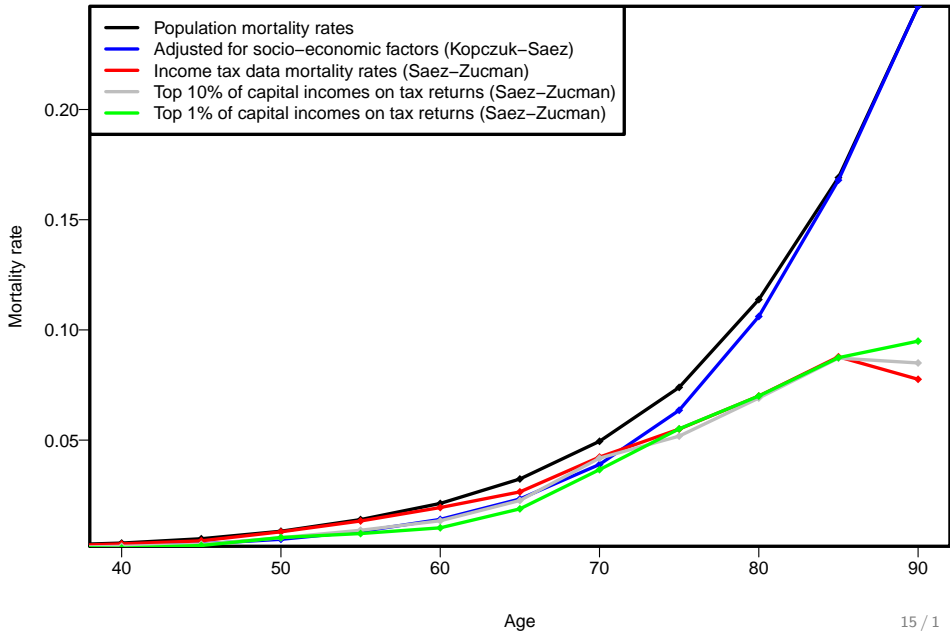
Mortality profiles in 2004-8



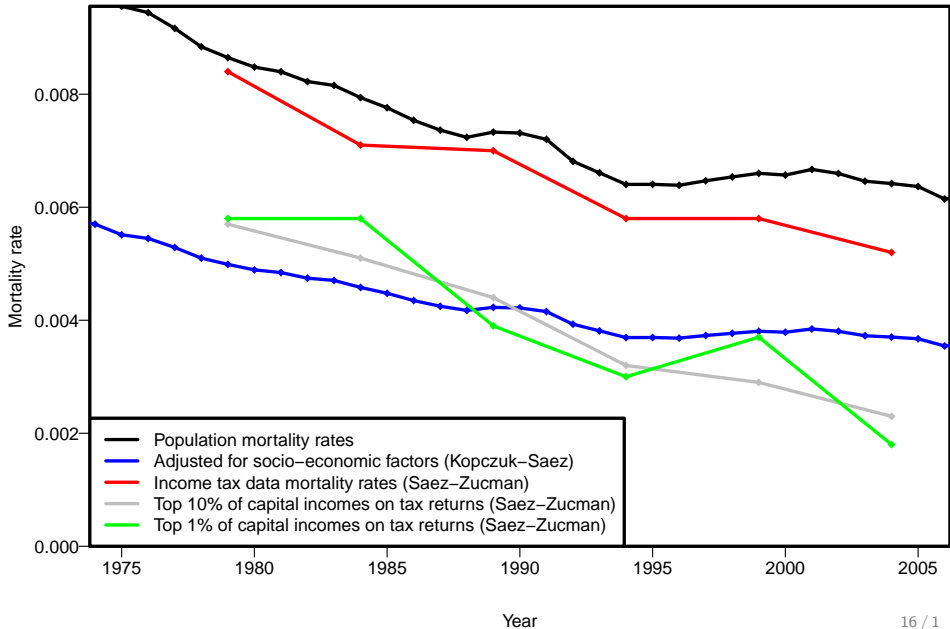
Mortality profiles in 1999-2003



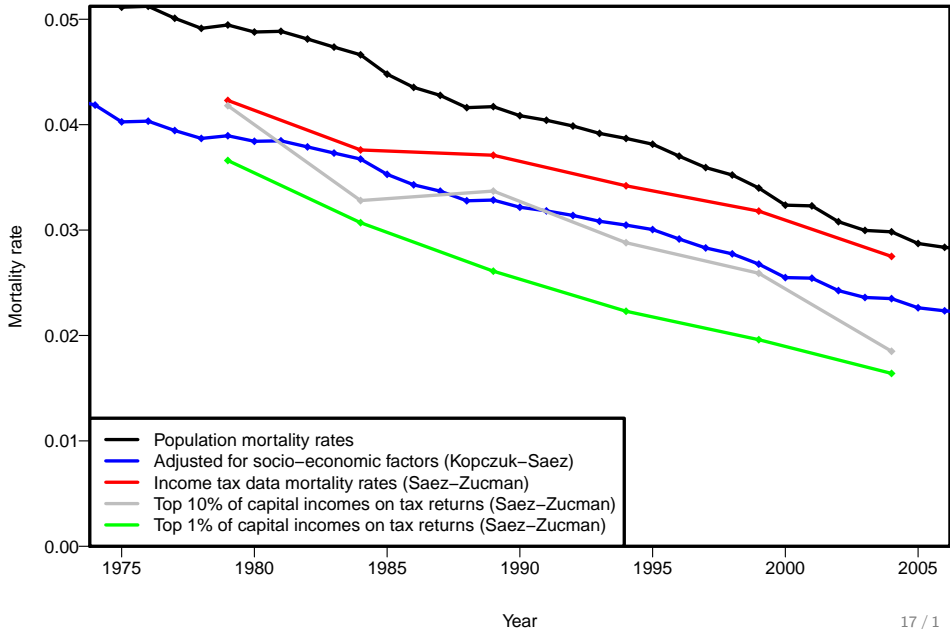
Mortality profiles in 1979-1983



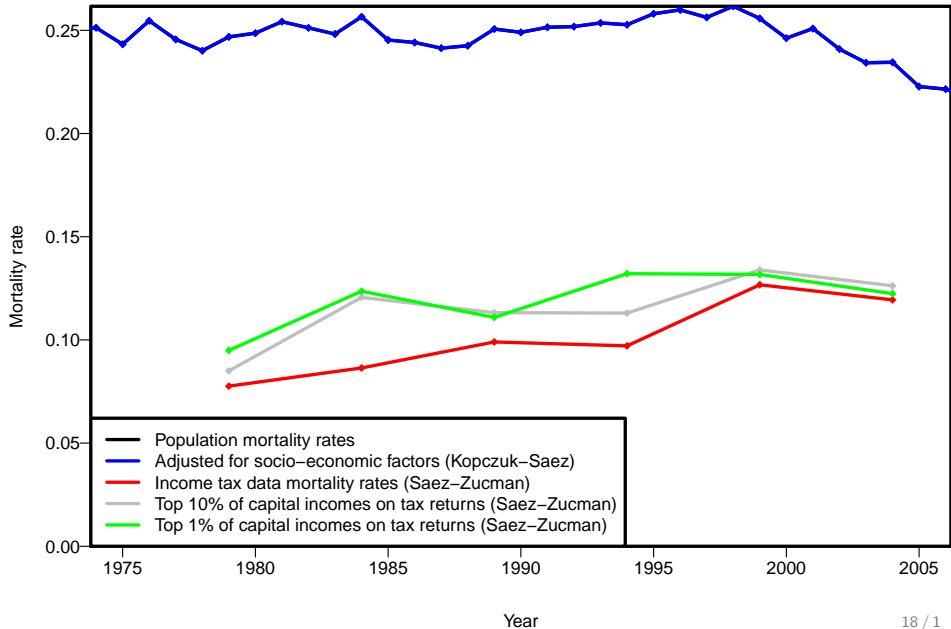
Mortality over time at age 50



Mortality over time at age 70



Mortality over time at age 90



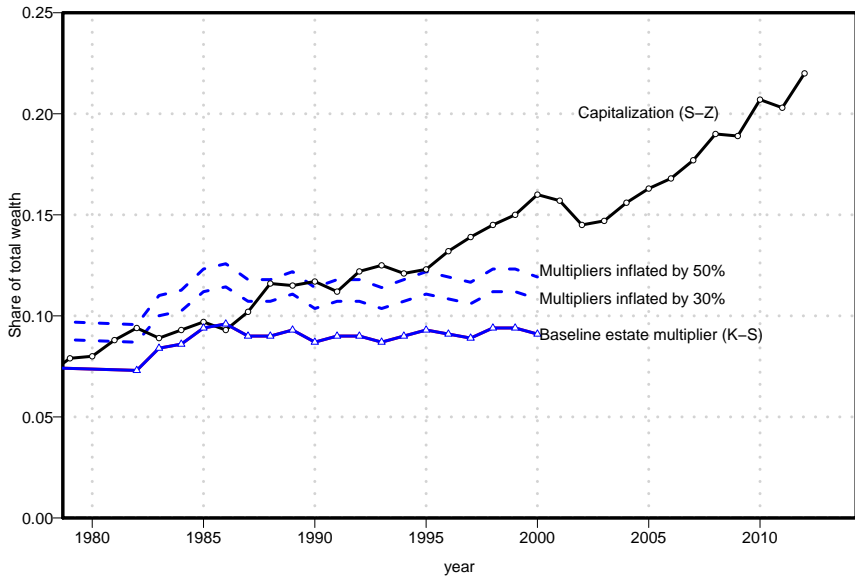
Mortality comparison

- Widening mortality differential are intriguing but...
- Population mortality rates in Saez-Zucman are off. This is especially true at older ages and it was worse in the 1970s than today
- As the result their evidence of widening mortality differentials appears to be just due to their population baseline becoming more representative
- Why problems here? Low income, old, sick people need not file. Realization of capital income shortly before death is tax inefficient.

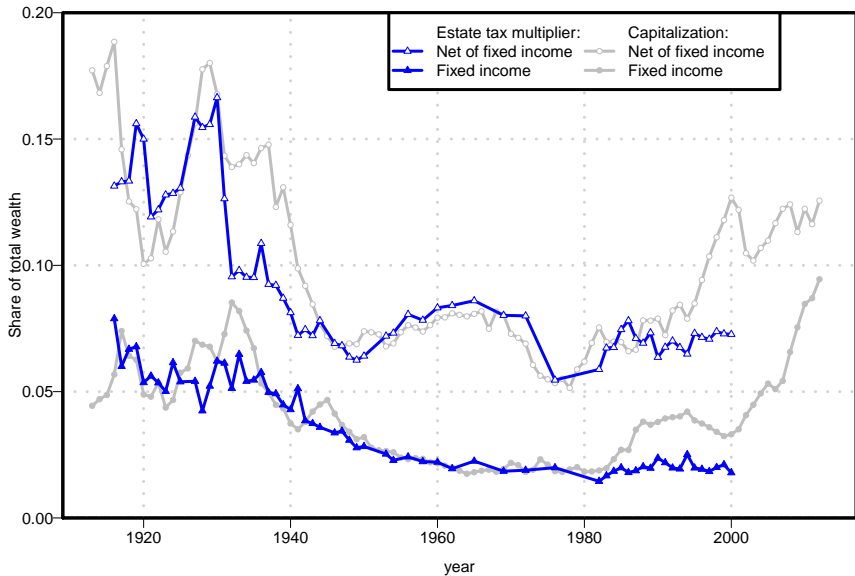
How much could mortality differences explain anyway?

- The potential of a bias in mortality multipliers to affect top shares is there but it is limited.
- Changing multipliers scales the population and wealth of that population
- Assuming Pareto distribution with parameter a ($a \approx 1.5$) and adjusting mortality multiplier by a factor of γ implies modification of the top share by a factor of $(1 + \gamma)^{1/a}$.
- For $\gamma = 0.3$ (huge), it would be an adjustment by 20%. The estate-based Top .1% share in 2000 is 9.1, capitalization share is 16%.

Adjustment of mortality multiplier

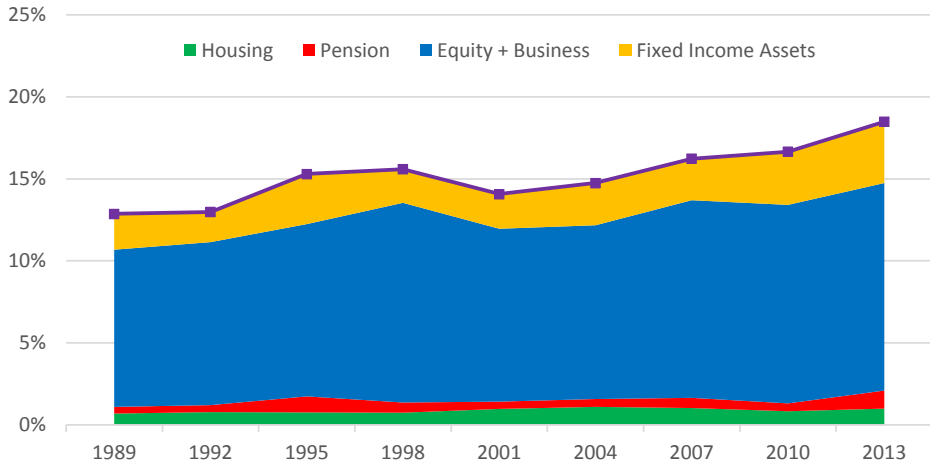


The role of fixed income

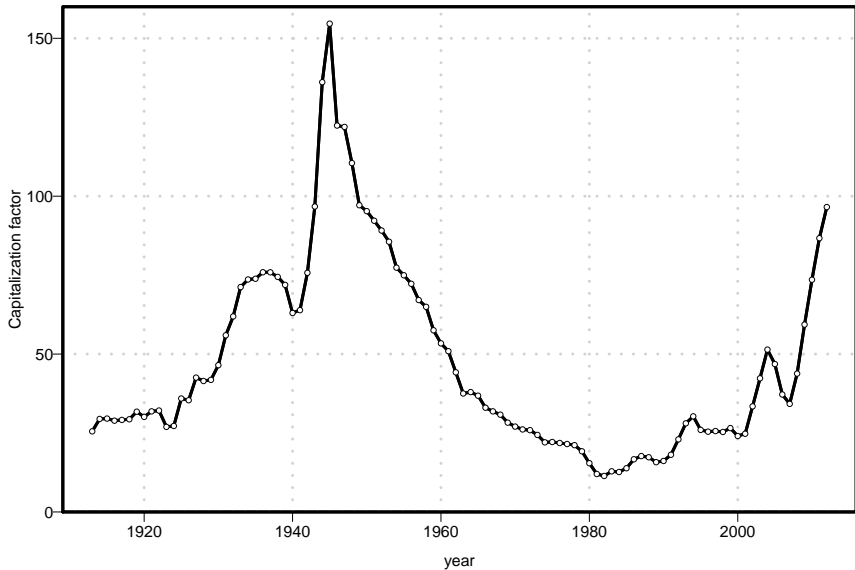


Fixed income in the SCF (Bricker et al, 2015)

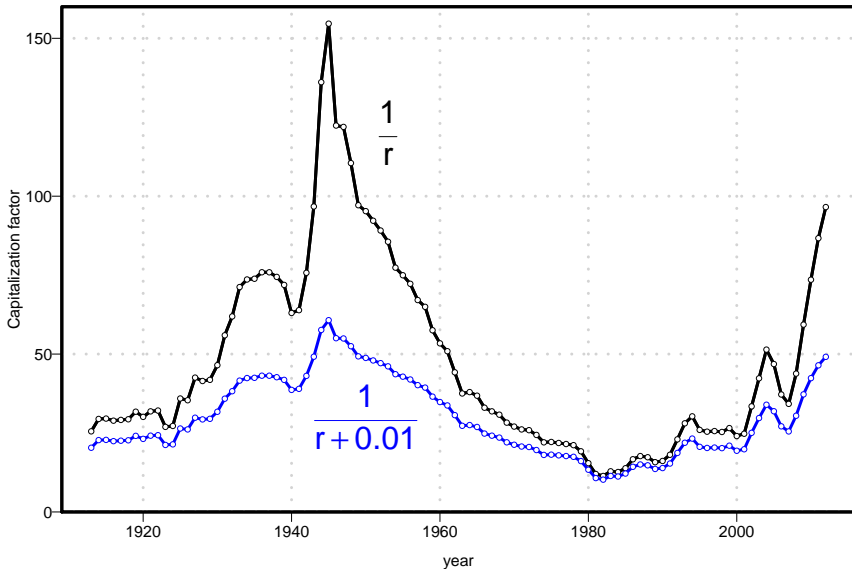
A. SCF Top 0.1%



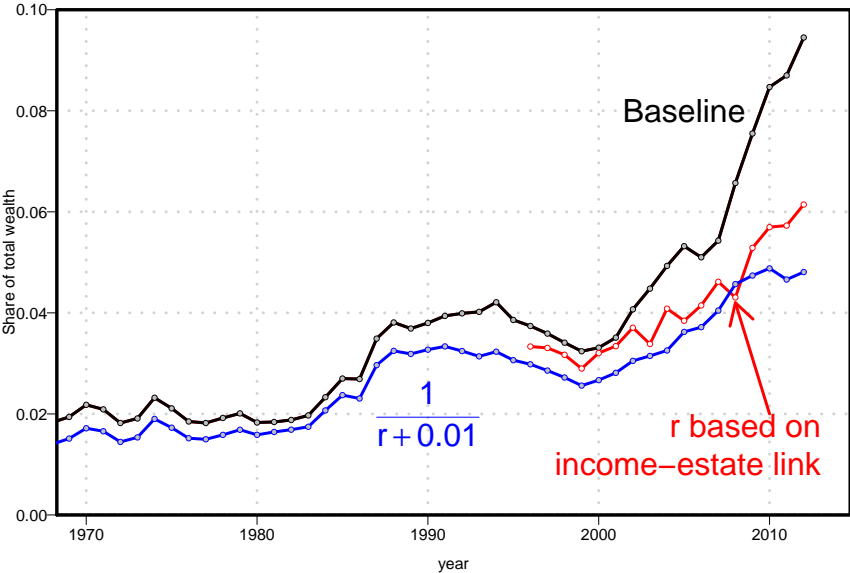
Capitalization factor for fixed income



Capitalization factor for fixed income, sensitivity



Contribution of fixed income to top 0.1% share, sensitivity



Conclusions

- Three different approaches, each makes very different assumptions
- Not reconciled.
- If Saez-Zucman are right, we'd need:
 - SCF getting worse over time
 - ...and estate tax avoidance dramatically increasing in the 1980s and 1990s (S-Z estimate in 2000 was 16%, gap 7%; in 1986 there was no gap)
- Fixed income patterns are puzzling. My best bet: problems with capitalization factors.
- Bias in income-tax based mortality rates suggests problems with identifying top wealth holders based on capital income tax data

Top 1% and 0.1% wealth share

