

# Week 1: Student feedback

March 30, 2022

## Questions

- Is the difference between the two sets of authors simply driven by assumptions on how to define this phenomena?
- “Does the TRA 1986 adjustments by AS deal with the issue comprehensively? One can even make the case that there would have been a number of other such policies over the last century and what actually matters is the lifetime income of the people regardless of the way it was sourced”
- “A question that I have is whether we should care about income inequality and wealth inequality in different ways. This is not a very developed question—my intuition says yes, since income can be used to immediately purchase goods and services, whereas the assets included in wealth are less liquid.
- What is the behavioural model for wealth accumulation?
- “How does income inequality or wealth inequality change for different genders? Does it follow the similar pattern for poor female and for poor male?”
- “How does marriage preference interplay with the income/wealth inequality for different gender groups?”

## Highlevel summary of student discussion and questions:

- A few students bring up the question “why should we care / when should we care about inequality” and argue that the results should be more grounded in changes in welfare.
- A lot of the discussion hinges on what can be measured and what makes sense to measure. This is true in for income and for wealth. The data limitations seem to exclude important sources of inequality like human capital wealth and untaxed assets such as overseas cash/bitcoin. A few students are suprised that SZ they use the same rate of return across the wealth distribution.

## Student questions / discussion

- **Raman Chhina:**

- “Inequality is a subjective phenomenon and assessing one set of measurement choices in isolation is not a well defined exercise. For example, if one is concerned with high inequality leading to cronyism or hijacking of political process then one would measure inequality in a very different way as compared to if one was rather interested in inequality causing high poverty.”
- Is the difference between the two sets of authors simply driven by assumptions on how to define this phenomena?
- “I feel that the analysis of inequality should be more grounded and linked directly to measuring its detrimental and possibly beneficial aspects.”
- “Does the TRA 1986 adjustments by AS deal with the issue comprehensively? One can even make the case that there would have been a number of other such policies over the last century and what actually matters is the lifetime income of the people regardless of the way it was sourced”

- **Victor Gamarra:**

- “Perhaps one important point for further discussion would be the different definitions of wealth and its own trends over time. Would the estimates change dramatically if authors use alternative definitions? For example, due to globalization, the richest american households may have wealth around the globe and these assets are not considered in the authors’ estimates.”
- Doesn’t buy that AS really shift the priors set by PSZ.

- **Clara Kyung:**

- We should care about inequality in so far as it has welfare implications. She thinks that SZ draw an arbitrary line when excluding Social Security transfers. More broadly, thinks that wealth should be consider including wealth in human capital and durables.
- “A question that I have is whether we should care about income inequality and wealth inequality in different ways. This is not a very developed question—my intuition says yes, since income can be used to immediately purchase goods and services, whereas the assets included in wealth are less liquid.

- **Hugo Lopez Lopez:**

- In PS finds their exclusion of government transfers questionable, given that they are not distributionally neutral.

- Has a paragraph concerned with their mapping from income to wealth. What is the behavioural model? “Something that really bothers me is that they state that their equation for the share of wealth can be understood as some ”steady-state” equation, precisely because there is no behavioural model driving any form of constancy. But maybe I’m missing something?”
- AS make some estimations that require extrapolation, which Hugo is not comfortable with. He also doesn’t like splitting of household units, b/c the labor supply of the household is influenced by marriage.

- **Philip Monagan:**

- Points out that while AS make reasonable corrections to PS methods, he thinks they are fundamentally limited by the data in similar ways to PS.
- “(1) What data are the authors missing in the generation of their estimates, and how feasibly could this data be collected? (2) To what extent could improved data improve the estimation process? ”
- “It would be interesting to apply the wealth capitalization method to a context in which wealth levels can be accurately estimated; consider, for example, Denmark, where a wealth tax is calculated. If the capitalization method works in this context, perhaps greater confidence can be placed in the estimates.”
- “Another question would be the analysis of how savings rates and income interact to generate variations in wealth. The authors hinted at this interaction at many times throughout the paper, but it appears limitations in data may prevent a full and robust treatment of this question”

- **Xiaoyun Tang:**

- Worries that PS cannot measure a variety of non-taxed assets;
- Why exclude Human Capital from wealth measurement?

- **Miguel Valenzuela:**

- Finds correction for underreporting at the top and bottom potentially misleading “How do Auten and Splinter account for the rising gig economy and the fact that more and more Americans earn income from multiple and alternative sources such as Social media and the service industry?”
- “How does Saez account for Gold or Cryptocurrency as a store of wealth? Are bank accounts in Switzerland being considered or other tax-havens for the world’s” 1% in this analysis?

- **Ruoxuan (Rebecca) Wu:**

- Agrees with AS that government transfers should be included in measures.
- Regarding constant rate of return on wealth “this result is surprising to me given the rapid development of the financial service industry in the past decades, which make tax avoidance easier for the wealthy. Moreover, none of the papers propose any direct approach to measure the extent of potential tax avoidance by wealth groups and correct for the biases.”

- **Xiaoqi Zhou:**

- “How does income inequality or wealth inequality change for different genders? Does it follow the similar pattern for poor female and for poor male?”
- “How does marriage preference interplay with the income/wealth inequality for different gender groups?”

- **Bruno Aravena Maguida**

- “However, there are elements that make important differences in these calculations that are not incorporated by Saez and Zucman (2016), and that makes us wonder to what extent can we consider the precision of those results.”
- Notes that a key issue with the PS / SZ approach (and AS for that matter) is that the focus on one flow at a time (income, capital income etc) and this can mask important adjustments.