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The Richest Rich Are in a Class by Themselves

By Peter Coy April 03, 2014

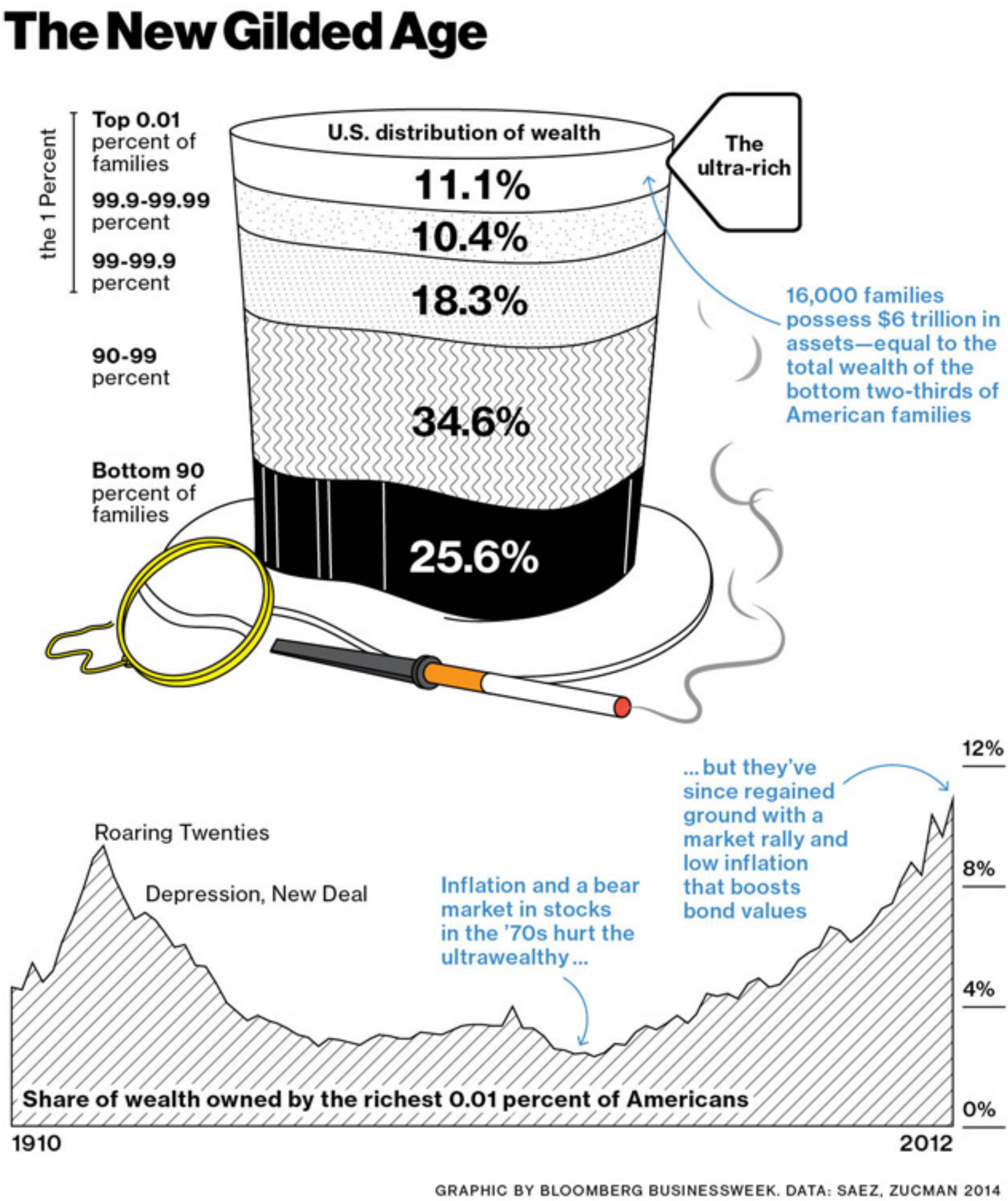
The rallying cry of the Occupy Movement was that the richest 1 percent of Americans is getting richer while the rest of us struggle to get by. That's not quite right, though. The bottom nine-tenths of the 1 Percent club have about the same slice of the national wealth pie that they had a generation ago. The gains have accrued almost exclusively to the top tenth of 1 Percenters. The richest 0.1 percent of the American population has rebuilt its share of wealth back to where it was in the Roaring Twenties. And the richest 0.01 percent's share has grown even more rapidly, quadrupling since the eve of the Reagan Revolution.

These figures come out of a clever analysis by economists Emmanuel Saez of the University of California at Berkeley and Gabriel Zucman of the London School of Economics, who is a visiting professor at Berkeley. The Internal Revenue Service asks about income, not wealth, which is the market value of real estate, stocks, bonds, and other assets. Saez and Zucman were able to deduce wealth by exploiting IRS data going back to when the federal income tax was instituted in 1913. They figured out how much property different strata of society owned by looking at the income that was generated by that property, such as dividends and capital gains. To simplify, if a family reported $1 million in rental income one year and the market rate of return on rental properties was 10 percent, then Saez and Zucman concluded that the family must have owned property worth $10 million.

The message for strivers is that if you want to be very, very rich, start out very rich. The threshold for being in the top 0.1 percent of tax filers in 2012 was wealth of about $20 million. To be in the top 0.01 percent—that's the 1 Percent club's 1 Percent club—required net worth of $100 million. Of course, even $100 million is a pittance to Bill Gates, whose net worth, according to the Bloomberg Billionaires Index, is nearly 800 times that.

Saez and Zucman's figures are so new that there is no academic paper to accompany them. According to a presentation posted online, the conventional wisdom among economists has been that inequality in wealth has grown less than inequality in income. Attempts have been made to explain the supposed discrepancy: Maybe the working rich hadn't had time to accumulate wealth, the theory goes, or maybe their income was going to high taxes or charity or low-yielding investments, "preventing them from accumulating large fortunes."

Saez and Zucman's answer is that there really is no discrepancy: Wealth is rising right along with income. "Our work shows that top wealth has surged," Saez wrote in an e-mail.

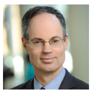


Previous research to measure wealth used the Federal Reserve's Survey of Consumer Finances, which collects a very small sample of the richest Americans, and records on the federal estate tax, which covers only the dead. Saez and Zucman argue that their methodology is the best yet because the IRS data—tax evasion notwithstanding—is of high quality. It's also annual and broken down by types of income, and it covers every family, not just a sample.

For the two economists, picking the correct rates of return for different types of assets was among the trickiest procedures. The assumed rate of return is the bridge from income, which they could observe, to assets, which they couldn't. A strong indication that they got the rates right is that their method works for charitable foundations, for which they had publicly disclosed data on both income and assets.

Saez said by e-mail that "wealth-specific taxes become important tools to think about." You don't have to agree to find his and Zucman's data useful. Writing about the findings on their blog, House of Debt, economists Atif Mian of Princeton University and Amir Sufi of the University of Chicago Booth School of Business say, "Simple measurement is often a bit boring, but it is also absolutely crucial for thinking about the overall economy."

The bottom line: *The superrich have seen their share of the nation's wealth quadruple since the early 1980s*.



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