

To Have or Not to Have: Understanding Wealth Inequality

Abstract:

What determines differences in wealth accumulation across households? We document two new empirical facts related to this old question. First, the variation in wealth accumulation by income is mainly driven by differences in participation in asset markets rather than by differences in the amounts invested. Wealth differences are a matter of to have or not to have. Second, the large differences in asset market participation by income are closely related to differences in trading opportunities, suggesting that market incompleteness is income-dependent. Combining these two facts, we develop a novel model of wealth accumulation with a focus on asset market participation and income-dependent market incompleteness. We show that the calibrated model accurately captures differences in wealth accumulation across households and the joint distribution of income and wealth. Decomposing the wealth accumulation process, we find that the income-dependence of market incompleteness is a key driver of differences in wealth accumulation. Finally, we show that policies that facilitate access to the housing market improve wealth accumulation, but mostly for the middle class.

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