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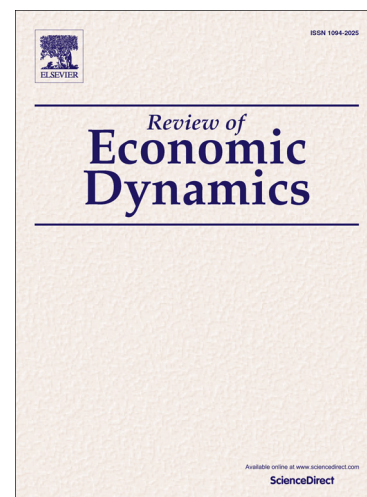
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Persistent Heterogeneous Returns and Top End Wealth Inequality[‡]

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Abstract

We document in US data that returns to wealth across households are significantly heterogeneous, and persistently so. Motivated by this observation, we build a tractable general equilibrium model where households face persistent idiosyncratic returns to study the US wealth distribution. We show theoretically that the wealth distribution in the model admits a Pareto tail and characterize how the tail index depends on salient equilibrium variables including capital-output ratio, labor share, interest rate, and growth rate. Quantitatively, to match the observed US wealth distribution it requires significant heterogeneity in returns, consistent with our empirical findings. Finally, we show in the model that financial deregulation and a reduction in US corporate tax rates can generate the joint evolution of rising wealth inequality, rising capital-output ratio and declining labor share since the 1980s.

Keywords: Top End Wealth Inequality; Pareto Wealth Distribution; Sufficient Statistics; Heterogeneous Returns; $r-g$; Corporate Tax; Financial Deregulation

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