

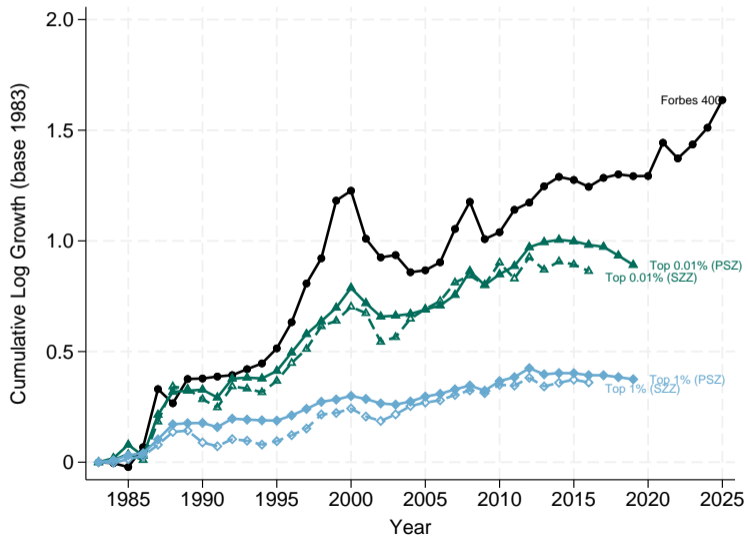
# Wealth Inequality, Asset Prices, and Monetary Policy

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# What Do We Know About Rise in Wealth Inequality?



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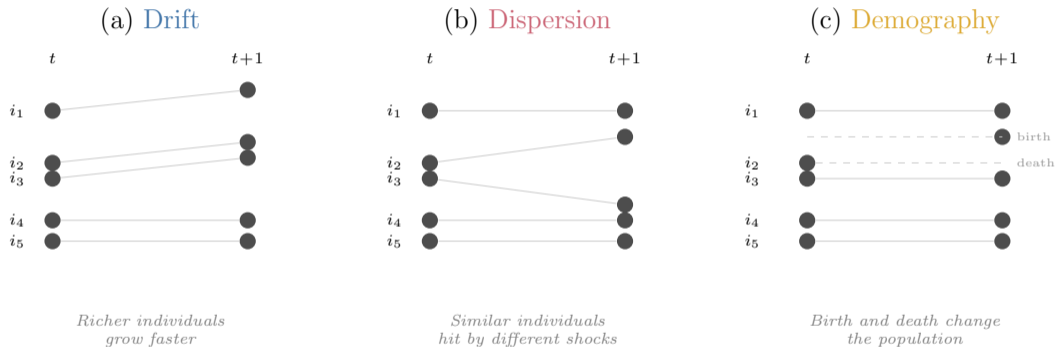


Figure 2: Three scenarios with similar increases in inequality.

# What Do We Know About Rise in Wealth Inequality?

One can decompose the growth of top wealth share into these three components:

$$\text{Total} = \text{Drift} + \text{Dispersion} + \text{Demography}$$

- ▶ *Drift*: average growth rate top households – average growth rate in economy
- ▶ *Dispersion*: new fortunes arriving in top percentile displacing the old
- ▶ *Demography*: deaths of wealthy + pop. growth → pushes top share down

# What Do We Know About Rise in Wealth Inequality?

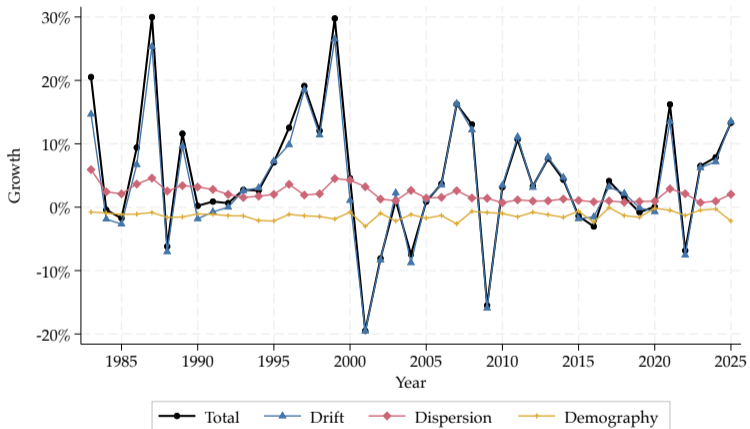
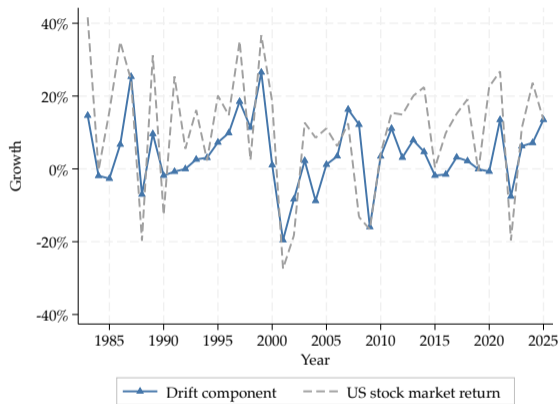


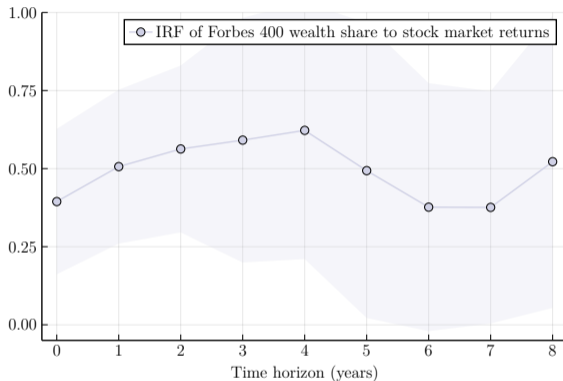
Figure 3: Decomposing Annual Growth of Top Wealth Share

## Zooming on the Drift Component



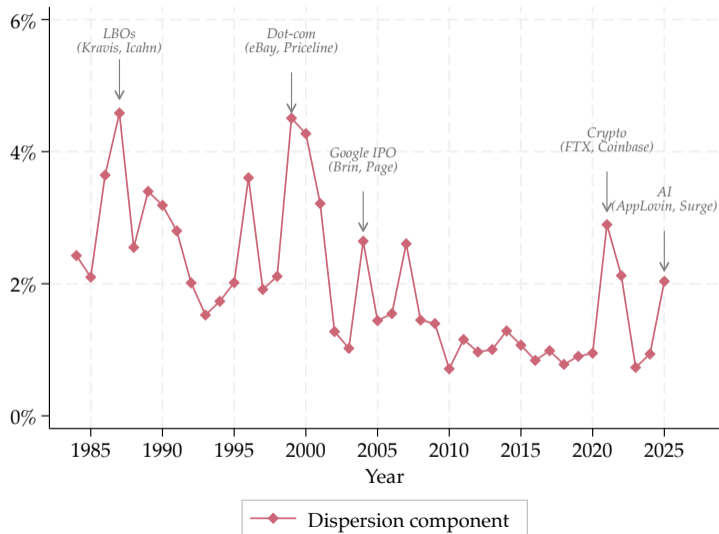
Drift component largely driven by stock market returns

## Zooming on the Drift Component

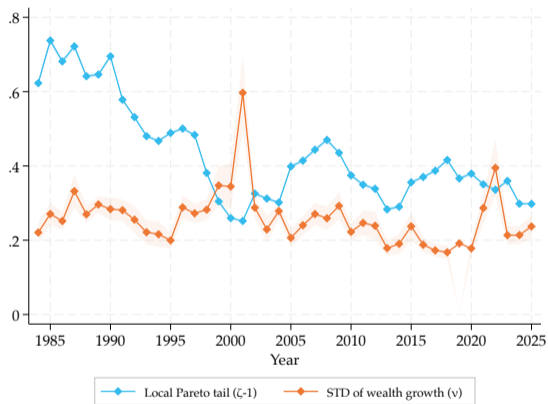


$R_M \uparrow 10\% \implies$  Top Wealth  $\uparrow 9.5\%$   
 $\implies$  US Household Wealth  $\uparrow 4.5\%$   $\implies$  Top wealth share  $\uparrow 5\%$

# Zooming on the Dispersion Component



## Zooming on the Dispersion Component

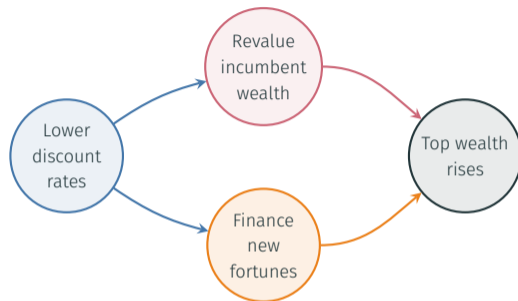


- Dispersion component theoretically approximated by  $\approx 1/2(\zeta - 1)STD^2$

Table 1: Decomposition for Growth of Top Wealth Share

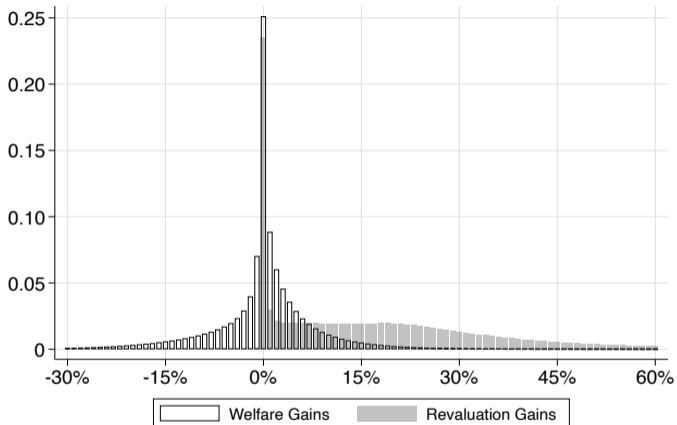
	Total	Drift		Dispersion	Demography
		Reval.	Savings		
1983–2005	4.0%	1.5%	1.4%	2.6%	–1.5%
2005–2025	3.9%	1.6%	2.1%	1.3%	–1.1%

# Monetary Policy and Inequality



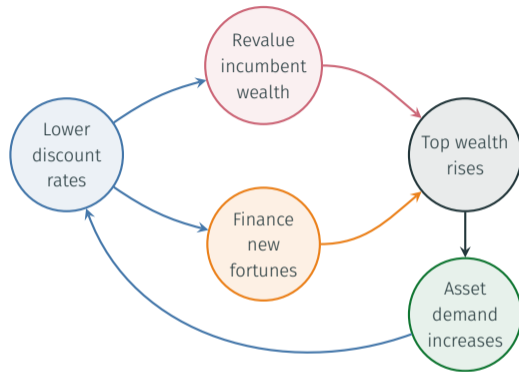
- ▶ **Revaluation:** lower rates capitalize cash flows at higher multiples.
- ▶ **Financing:** lower rates reduce the cost of capital for entrepreneurs.
- ▶ These two channels look similar in wealth data, but not in welfare.

# Revaluation gains vs Welfare gains for Norwegian Households (1993-2018)



- ▶ Revaluation gains are high and positive
- ▶ Welfare gains are small and centered around zero

# Monetary Policy and Inequality



- ▶ Feedback effect of wealth inequality on discount rates
  - ▶ Rich households have higher demand for assets in general
  - ▶ Rich households have particularly higher demand for high-duration assets
- ▶ Feedback effect large because shocks to wealth inequality mean-revert slowly

- ▶ Technology creates new fortunes; lower discount rates amplify them.
- ▶ Wealth concentration and asset prices reinforce each other.
- ▶ What matters for welfare effect of low rates is who sells and who issues.