Research Seminar "Quantitative Economics"

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Abstract

The Preference for Wealth and Inequality: Towards a Piketty Theory of Wealth Inequality

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Abstract
What are the consequences of the preference for wealth for the accumulation ofcapital and for the dynamics of wealth inequality? Assuming that wealthper seisa luxury good, inequality tends to rise whenever the interest rate is larger than theeconomic growth rate. This induces the economy to converge towards an equilib-rium with extreme wealth inequality, where the capital stock is equal to the goldenrule level. Far from immiseration, this equilibrium results in high wages and in thegolden rule level consumption for ordinary households. We then introduce shocksto the preference for wealth and show that progressive wealth taxation preventswealth from being held by people with high saving rates. This permanently re-duces the capital stock, which is detrimental to the welfare of future generation ofworkers. This also raises the interest rate, to the benefit of the property-owningupper-middle class. By contrast, a progressive consumption tax successfully andpersistently redistributes welfare from the very rich to the poor.