Asset Prices and Inequality

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Inequality

362 = 3,600,000,000
+$542 - $1 trillion

244 miles!

to Younker's

(Oxfam, 2015)
Who Cares?

(Wilkinson & Pickett, 2012)
“The workers are important for the market as buyers of commodities. But as sellers of their commodity—labor power—capitalist society has the tendency to restrict them to their minimum price” (Marx, 391).

In fact…there is solid evidence, coming from places like the International Monetary Fund, that high inequality is a drag on growth, and that redistribution can be good for the economy” (Krugman, 2008).
Asset Prices

Average Home Price in US (1975-2014)
Asset Prices
“…Asset prices become relevant only to the extent they may signal inflationary or deflationary forces.”

API is viewed as a lever through which the “toxic side effects” of CPI can be manipulated “without getting into the business of deciding what is” an appropriate price.

(Bernanke, 2000; Inflation)
Debt

US Home Prices

Mortgage Debt Outstanding (billions)
Debt

Margin Debt and the Dow Jones Industrial Average

Percent of GDP

CPI-deflated DJIA (1915 = 100)
Debt

“A property today is worth as much as banks will lend against it.”

(DebtDeflation; Hudson, 2010)
Indebtedness in US

Components of US Debt as a fraction of GDP

(Farley, et. al, 2014)
Financial Sector as % of GDP

GDP share of US Financial Industry

Source: Philippon, 2008
Indebtedness in US
Financialization of US Economy

GDP share of US Financial Industry

Credit market debt, net of gov’t

Source: Philippon, 2008
The Era of De-Growth?

- $\text{GDP}$
- $\text{GDP less FIRE}$
- Wealth Transfer
- Decoupling?

- ~2% of population
- ~20% of GDP
Inequality and Mortgage Debt
What Are We To Do?

Interest Policy to Stabilize and Regulate

Monetary Policy to Curb Speculation and Reduce FIRE Size

Tax Policy to Reduce Inequality & Regulate

Thank You!
As interest rates stay low, taxes are shifted to structure, and capital gains stay low, prices stay high. This trinity creates the conditions for credit to drive a positive feedback loop that concentrates wealth to the owners of assets.
References

Tax Theory...

The Laffer Curve

Labor Tax Laffer Curves for USA and EU-14

Capital Tax Laffer Curves for USA and EU-14
“…interest rates will tend to rise during (inflationary) asset price booms and fall during (deflationary) asset price busts.”

(Bernanke, 2000)
What Causes Inequality?

Piketty

When \( r > g \): inherited wealth grows faster than output and income: Horatio Alger becomes RIP.

...but Piketty estimates wealth using stock market valuations.

The Cambridge Debate: the same combination of \( k \) and \( l \) can have the lowest cost at different rates of profit. No clear relationship between value of capital and profitability. Piketty’s key assumption about how wages and profits respond to the size of the capital stock does not apply.

Parramore
The goal of economics becomes the maximization of the monetary value of goods and services net of costs...given existing distributions of purchasing power

“The refusal of modern economists to make ‘interpersonal comparisons of utility’ means in effect that they use wealth rather than happiness as the criterion for an efficient allocation of resources.”

Why Ignored?

PPI: Kaldor-Hicks

Farley et. al., 2014
Asset Pricing

CAPM  NPV

\[ P^*i < R - P^*t_p \]
Asset Pricing

\[ P = \frac{R + E[\Delta P_{t+1}]*(1-t_{cg})}{i + t_p} \]

\[ \{ i \downarrow t_p \downarrow t_{cg} \} \quad P \uparrow \]
Inequality and Asset Prices
Asset Pricing

\[ E[\Delta P_{t+1}] = \frac{P(i+t_{p})-R(1-\Delta R)}{R} \]