

Why Do the Rich Save So Much?

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Abstract

This paper considers several alternative explanations for the fact that households with higher levels of lifetime income ('the rich') have higher lifetime saving rates (Dynan, Skinner, and Zeldes [?]; Lillard and Karoly [?]). The paper argues that the saving behavior of the richest households cannot be explained by models in which the only purpose of wealth accumulation is to finance future consumption, either their own or that of heirs. The paper concludes that the simplest model that explains the relevant facts is one in which either consumers regard the accumulation of wealth as an end in itself, or unspent wealth yields a flow of services (such as power or social status) which have the same practical effect on behavior as if wealth were intrinsically desirable.

Keywords: saving, consumption, Life Cycle model, rich, bequests, inheritance

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