Referee Report
QJE MS 42684

The topic of the paper is important. Qualitatively, most of the main results are in line what we should have expected based on prior studies, and the authors do a good job of discussing this. Given what we already know, the primary contribution of a study like this should be the quantitative estimates. However, the methodological approach of the paper requires overcoming monumental data limitations because unrealized capital gains are not observed in tax data. Unfortunately, I am not convinced that the authors approach overcomes these limitations and generates reliable quantitative estimates.

Main Comment
The paper needs a more serious treatment of measurement error. Errors in capitalization factors can be quantitatively consequential for estimating wealth (Smith, Zidar, Zwick 2023). The authors multiply such an error-prone measure of wealth by an error-prone measure of the return to capture appreciation. Errors could cause issues not only for income but also rank in the income distribution when Haig-Simons income is used (discussion on p. 8). I need to be convinced these estimates are reliable despite compounding multiplicative errors and reranking effects. Convincing readers on this point makes or breaks a measurement paper.

On the surface, nothing in the results screams to me that it must be driven by errors, but it is hard to be confident. One way to start building a case for the authors' method would be to include some more detailed comparisons to the related work you are building on (e.g. SZZ for wealth, Yagan 2023 and a few others for tax rates), probably in an Appendix, that unpacks the drivers of any differences between your estimates and others' and assesses/defends whether they are driven by measurement error or improved methods.

A more ambitious and compelling way to address the issue could be to use realization data in tax records. When someone realizes a capital gain, we observe a market value, so we could compare that to the value implied by the flow*cap factor. And we observe the capital gain, so we could compare that to the flow*cap factor*return (cumulatively over the entire holding period). Maybe one could even model measurement error explicitly and identify the distribution of errors using realization data (under the assumption errors are independent of realization or something similar). Whether this is the best route to a credible estimate or if there are others, I do not know.

Second Comment
I am not sure what to make of the discussion of the imperfections of Haig-Simons income around capital gains and changes in discount factors on p. 7. Capital gains reflect a combination of changes in expected cash flows and changes in discount rates. My understanding, from Aguiar, Moll, and Scheuer (2024 WP), is that the former are economic income, the latter are income iff the gain is realized.

It seems like the authors are aware of this issue but believe it to be quantitatively negligible. I am unsure whether Eeckhout's (2024) paper can be claimed as a definitive account of this, as I think this is controversial in finance. I would like to see a more robust argument on this point, or, more

ambitiously, the use of some realization data and the methods in Aguiar, Moll, and Scheuer (2024 WP) to estimate the distribution of an improved income concept. Relatedly, the volatility in top income shares discussed at the end of p. 16 seems likely to be driven in part by discount rates; is there an argument to be made that using moving averages somehow helps with the underlying conceptual issue, at least for short-term variation in discount rates?

Minor Comments
On p. 4: "Finally, SZZ ultimately scale their estimates of private business wealth to totals from the Financial Accounts, while we leave ours unadjusted. As a result, our estimates of business wealth are appreciably higher, and lead to greater estimated wealth concentration." This is an important deviation, and I think it should be defended more substantially. There is a little bit of this on p. 13 but a single data point (from a good year economically) is not quite enough.

The shares in Figure 1b appear to sum to a number greater than 1.

The same quantity is called "Value" in eq (1) and "MVAsset" in eq (4).