Unequal Growth*

Francesco Lippi
EIEF and LUISS

Fabrizio Perri
Federal Reserve Bank of Minneapolis

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Abstract

This paper argues that changes in household income dynamics in the U.S. over the past 50 years can account for a significant portion of the U.S. slowdown in aggregate growth. We first apply, using U.S. household data for the period 1967-2014, a simple statistical decomposition that connects aggregate growth to household growth opportunities, to cross sectional income inequality, and to the correlation between household income growth and income level. The decomposition documents two main changes over our period of analysis: the first is a large increase in cross sectional inequality, the second is an increase in the correlation between income growth and income levels. These two changes have opposite effects on aggregate growth, but their total effect is a reduction in aggregate growth. Second, we develop a simple structural model of growth opportunities. We use the model to understand what changes in household income dynamics are consistent with the observed patterns, to assess how much of the aggregate growth slowdown can be explained by these changes, and to measure the welfare impact of these changes.

JEL Classification Numbers: E3, E5

Key Words: Income distribution, Gibrat's law, Inequality, aggregate growth, Pareto distribution, speed of transition.

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