Adv

Journal of Money, Credit and Banking / Volume 40, Issue 5 / pp. 929-965

Household Debt and Income Inequality, 1963–2003

MATTEO IACOVIELLO

First published: 19 July 2008

https://doi.org/10.1111/j.1538-4616.2008.00142.x

The author thanks two anonymous referees, Zvi Hercowitz, Dirk Krueger, José Víctor Ríos Rull, and Mirko Wiederholt, as well as seminar and conference participants for suggestions that improved the paper. Part of this research was conducted at the European Central Bank as part of the ECB Research Visitor Programme; the author would like to thank the ECB for hospitality and support.

PDF

Abstract

I construct an economy with heterogeneous agents that mimics the time-series behavior of the earnings distribution in the United States from 1963 to 2003. Agents face aggregate and idiosyncratic shocks and accumulate real and financial assets. I estimate the shocks that drive the model using data on income inequality, aggregate income, and measures of financial liberalization. I show how the model economy can replicate two empirical facts: the trend and cyclical behavior of household debt and the diverging patterns in consumption and wealth inequality over time. While business cycle fluctuations can account for the short-run changes in household debt, its prolonged rise of the 1980s and the 1990s can be quantitatively explained only by the concurrent increase in income inequality.

LITERATURE CITED

Aiyagari, S. Rao. (1994) "Uninsured Idiosyncratic Risk and Aggregate Saving. *Quarterly Journal of Economics*, **109**, 659–84.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Technology .

Google Scholar

Brav, Alon, George M. Constantinides, and Christopher C. Geczy. (2002) “Asset Pricing with Heterogeneous Consumers and Limited Participation: Empirical Evidence. *Journal of Political Economy*, **110**, 793–824.

Web of Science® | Google Scholar

Cagetti, Marco, and Mariacristina De Nardi. (2005) “ Wealth Inequality: Data and Models.” Working Paper, Federal Reserve Bank of Chicago .

Google Scholar

Campbell, Jeffrey, and Zvi Hercowitz. (2005) “ The Role of Collateralized Household Debt in Macroeconomic Stabilization.” NBER Working Paper 11330.

Google Scholar

Campbell, John Y., and Gregory N. Mankiw. (1989) “ Consumption, Income and Interest Rates: Reinterpreting the Time Series Evidence.” In *NBER Macroeconomics Annual 1989*, edited by Olivier J. Blanchard and Stanley Fisher, pp. 185–216. Cambridge, MA : MIT Press.

Web of Science® | Google Scholar

Card, David, and Thomas Lemieux. (1994) “Changing Wage Structure and Black-White Wage Differentials. *American Economic Review Papers and Proceedings*, **84**, 29–33.

Web of Science® | Google Scholar

Castaneda, Ana, Javier Díaz-Giménez, and Victor Ríos-Rull. (2003) “Accounting for the U.S. Earnings and Wealth Inequality. *Journal of Political Economy*, **111**, 818–57.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Frederick, Shane, George Loewenstein, and Ted O'Donoghue. (2002) “Time Discounting and Time Preference: A Critical Review. *Journal of Economic Literature*, **40**, 351–401.

Web of Science® | Google Scholar

Heathcote, Jonathan, Kjetil Storesletten, and Gianluca Violante. (2004) “ The Macroeconomic Implications of Rising Wage Inequality in the United States.” Working Paper, Georgetown University .

Google Scholar

Heaton, Jonathan, and Deborah Lucas. (1996) “Evaluating the Effect of Incomplete Markets on Risk Sharing and Asset Pricing. *Journal of Political Economy*, **104**, 443–87.

Web of Science® | Google Scholar

Huggett, Mark. (1993) “The Risk Free Rate in Heterogeneous-Agents, Incomplete Insurance Economies. *Journal of Economic Dynamics and Control*, **17**, 953–70.

Web of Science® | Google Scholar

Iacoviello, Matteo. (2005) “House Prices, Borrowing Constraints and Monetary Policy in the Business Cycle. *American Economic Review*, **95**, 739–64.

Web of Science® | Google Scholar

Jappelli, Tullio. (1990) “Who Is Credit Constrained in the U.S. Economy *Quarterly Journal of Economics*, **105**, 219–34.

Web of Science® | Google Scholar

Katz, Lawrence, and David Autor. (1999) “ Changes in Wages Structure and Earnings Inequality.” In *Handbook of Labor Economics*, edited by Oscar Ashenfelter and David Card. Amsterdam : Elsevier.

Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

January, 1–18.

Google Scholar

Krueger, Dirk, and Fabrizio Perri. (2006) “Does Income Inequality Lead to Consumption Inequality? Evidence and Theory. *Review of Economic Studies*, **73**, 163–94.

Web of Science® | Google Scholar

Krusell, Per, Burhanettin Kuruşçu, and Anthony A. Smith, Jr. (2001) “Time Orientation and Asset Prices. *Journal of Monetary Economics*, **49**, 107–35.

Web of Science® | Google Scholar

Krusell, Per, and Anthony A. Smith, Jr. (1998) “Income and Wealth Heterogeneity in the Macroeconomy. *Journal of Political Economy*, **106**, 867–96.

Web of Science® | Google Scholar

Lawrence, Emily. (1991) “Poverty and the Rate of Time Preference: Evidence from Panel Data. *Journal of Political Economy*, **119**, 54–77.

Web of Science® | Google Scholar

Lemieux, Thomas. (2006) “Increasing Residual Wage Inequality: Composition Effects, Noisy Data, or Rising Demand for Skill *American Economic Review*, **96**, 461–98.

Web of Science® | Google Scholar

Ludvigson Sydney. (1999) “Consumption and Credit: A Model of Time-Varying Liquidity Constraints. *The Review of Economics and Statistics*, **81**, 434–47.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Piketty, Thomas, and Emmanuel Saez. (2003) “Income Inequality in the United States, 1913-1998. *Quarterly Journal of Economics*, **1**, 1–39.

Web of Science® | Google Scholar

Ríos-Rull, Victor. (1999) “ Computation of Equilibria in Heterogeneous-Agents Models.” In *Computational Methods for the Study of Dynamic Economies*, edited by Ramon Marimon and Andrew Scott. New York : Oxford University Press.

Web of Science® | Google Scholar

Samwick, Andrew A. (1998) “Discount Rate Heterogeneity and Social Security Reform. *Journal of Development Economics*, **57**, 117–46.

Web of Science® | Google Scholar

Solon, Gary. (1992) “Intergenerational Income Mobility in the United States. *American Economic Review*, **82**, 393–408.

Web of Science® | Google Scholar

Storesletten, Kjetil, Chris I. Telmer, and Amir Yaron. (2004) “Cyclical Dynamics in Idiosyncratic Labor-Market Risk. *Journal of Political Economy*, **112**, 695–718.

Web of Science® | Google Scholar

Tauchen, George. (1986) “Finite State Markov-Chain Approximations to Univariate and Vector Autoregressions. *Economics Letters*, **20**, 177–81.

Web of Science® | Google Scholar

Warner, John T., and Saul Pleeter. (2001) “The Personal Discount Rate: Evidence from Military Downsizing Programs. *American Economic Review*, **91**, 33–53.

Web of Science® | Google Scholar

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

ABOUT WILEY ONLINE LIBRARY

Privacy Policy
Terms of Use
About Cookies
Manage Cookies
Accessibility
Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential