The Housing Cost Disease

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Abstract

We use a simple two-sector life cycle economy with bequests to explain the rising trends in wealth-to-income ratios, housing wealth and wealth inequality that have been documented in most advanced countries at least since the '70s, as a consequence of a rising labor efficiency in manufacturing (housing cost disease). When consumption inequality across households is sufficiently large, the housing cost disease has adverse effects on a measure of social welfare based on an egalitarian principle: the higher the housing's value appreciation, the lower the welfare benefit of a rising labor efficiency in manufacturing.

Keywords: both

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