

Wealth Inequality and Endogenous Growth

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Abstract

Advanced economies have been experiencing productivity slowdowns, rising inequality, and low consumption-to-wealth ratios in recent decades. Using an analytically tractable endogenous growth model with heterogeneous households, I emphasize a channel that connects inequality with productivity growth through aggregate consumption demand and the returns to R&D. Given realistic increases in wealth (inclusive of income) inequality, the calibrated model generates transition dynamics featuring productivity slowdowns, low aggregate demand, and low real interest rates, consistent with the empirical trends. The welfare cost of rising inequality is substantial and is nearly equally split between changes in the consumption distribution and slow growth.

Keywords: wealth inequality, productivity slowdowns, aggregate demand, real interest rates, transition dynamics.

JEL Codes: E20, O40, G51, C61.

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