

Response of Inequality to a Growth Rate Slowdown in Japanese Economy during the Lost Decades*

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Abstract

In this paper, we conduct time-series analysis about how variances of income and consumption across households have responded to the growth rate slowdown of output called the lost-decades in Japan. We construct monthly series of inequalities from the 1980s to 2000s using micro data set on Japanese households, the Family Income and Expenditure Survey (FIES), and investigate statistically when and how time series property of inequalities have changed. We find that the lost decades has come together with permanent slowdown of income and consumption inequality growth and weakening of income and consumption correlation. We construct a dynamic general equilibrium model with households enjoying heterogeneous income profiles and analyze the nature of changes in economic environments during the early 1990s that have affected both aggregate economic slowdown and developments of inequalities across households.

Keywords: Income risk, Consumption inequality, Structural change

JEL Classification: E21, D12, D31

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