

2020

36th IARIW General Conference

Paper Prepared for the 36th IARIW General Conference, Oslo, Norway, August 24-28, 2020

Income and Wealth Volatility: Evidence from Italy and the USA in the Past Two Decades

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Income volatility and wealth volatility are central objects of investigation for the literature on inequality and income and wealth dynamics. However, to the best of our knowledge, no existing study looks at the two concepts in a comparative way for the same individuals. We try to fill this gap by adopting a battery of descriptive methods from the seminal contributions of Moffitt and Gottschalk (2002, 2012). For this purpose, we use equivalised measures of income and wealth drawn from household longitudinal data from the United States (PSID) and Italy (Banca d'Italia's SHIW) covering years 2002 to 2014. Contrary to our initial expectations, we find that in both countries wealth volatility takes significantly higher values than income volatility. We then investigate the determinants of wealth volatility by exploring the dynamics of assets prices in Italy and the US, using data on rates of return to various components of wealth from the Jordà-Schularick-Taylor Macrohistory Database. In particular, we decompose the variance of wealth in order to disentangle the share of volatility that is due to changes in asset prices from a residual component, and find that changes in the market values of stocks and real estate assets drive most of wealth volatility in our data. We also show that income and wealth volatility are higher in the United States and that the overall trend in both countries is increasing over time. Furthermore, we find evidence that the volatility of both income and wealth is higher during the years of the Great Recession, more so for the US than for Italy. We conclude by exploring volatility in consumption and find that it predictably behaves in line with income volatility in both countries.

References

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