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ACCEPTED MANUSCRIPT

The Housing Cost Disease *

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Abstract

Using a simple two-sector life cycle economy with housing services and bequests, we show that a rising labor efficiency in the general economy relative to the construction sector can go a long way toward explaining a significant fraction of 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. This mechanism (which we label *housing cost disease*) has adverse effects on social welfare when the Planner puts sufficient weight on the less wealthy households.

KEYWORDS: Housing Wealth, Cost Disease, Overlapping Generations, Wealth Inequality.

JEL CODES: D91, O11, H2, G1.

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