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### Has Consumption Inequality Mirrored Income Inequality

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#### Abstract:

We revisit to what extent the increase in income inequality over the last 30 years has been mirrored by consumption inequality. We do so by constructing an alternative measure of consumption expenditure, using data from the Consumer Expenditure Survey (CE), that employs a demand system to correct for systematic measurement error. Specifically, we consider trends in the relative expenditure of high-income and low-income households for different goods with different expenditure elasticities. Our estimation exploits the difference in the growth rate of luxury consumption inequality versus necessity consumption inequality. This "double-differencing," which we implement in a regression framework, corrects for mis-measurement that can systematically vary over time by good and income group. Our results show that consumption inequality has tracked income inequality much more closely than estimated by direct responses on expenditures.

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