

Macro Roundup Article

Headline: [Why US Debt Will Continue To Rise](#)

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Tweet: [@michaelxpettis](#) argues that high US income inequality leads to structurally low US demand, as the wealthy are prone to save. As a result, the US is forced to choose between more debt and more unemployment.

Summary: The wealthy save a much larger part of their income than do workers or the middle class, and use a much smaller part for consumption, rising income inequality automatically reduces overall consumption and forces up savings by effectively transferring income from high consumers to high savers. If lower consumption is not balanced by higher investment, total demand must decline. To prevent this from happening, Washington typically does one of two things. First, the Federal Reserve can implement policies that encourage household borrowing to fund additional consumption. In that case, the reduction in the income share of ordinary Americans is balanced by an increase in their borrowing, so the same level of consumption can be maintained. Second, Washington can itself borrow and use the proceeds to replace the demand lost by the reduction in household consumption. Related: Pettis On CBO Numbers

Primary Topic: Growth

Topics: Fiscal Deficits, Fiscal Policy, GDP, Growth, Op-Ed/Blog Post

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