

Macro Roundup Article

Headline: [Reconsidering the "2020s as 1940s" Analogy](#)

Article Link: <https://theovershoot.co/p/reconsidering-the-2020s-as-1940s>

Author(s)	Matt Klein
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Tweet: [.@M_C_Klein speculates that one reason we didn't see a post pandemic boom was that the current reflation isn't associated with private sector deleveraging.](#)

Summary: The wartime reflation worked better because it was so much larger. Recall that private indebtedness fell by roughly 70 percentage points of NGDP between 1940 and 1945. The private debt stock fell somewhat during the war, but the real magic was the 122% increase in incomes. That gave the private sector a clean slate to spend the next six decades leveraging back up—until the global financial crisis. This time around, private indebtedness has been flat. The nominal income surge that we actually experienced was large enough to be inflationary, but too small to reset private borrowing capacity. Would we have enjoyed more investment and more productivity gains if the private sector had shed its legacy debt constraints? Or would that simply have made inflation even worse by allowing nominal spending to rise even faster relative to real output?

Primary Topic: Business Cycle

Topics: Business Cycle, Inflation, Op-Ed/Blog Post, Theory

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