

Macro Roundup Article

Headline: [Pettis On CBO Numbers](#)

Article Link: <https://twitter.com/michaelxpettis/status/1626164929165160449>

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Tweet: .@michaelxpettis argues that “rising income inequality pushes up the savings of the rich, and if this cannot be matched with higher investment or a lower trade deficit, it must be matched with either higher unemployment or higher debt.”

Summary: While there are many reasons for the surge in US debt over the past four decades, one of the main reasons has to do with the economic impact of the rise in US income inequality during this period. Rising debt was the nearly automatic consequence of rising income inequality. Because the rich save a larger share of their income, rising income inequality tends to force up ex-ante savings. But this increase in the savings of the rich must be balanced. Today what mainly drives investment are increases in expected demand, and rising income inequality normally reduces expected demand by reducing the share of income that goes to consumption (all income is either consumed or saved). If the higher savings of the rich cannot be balanced by higher investment or lower trade deficits, they must be balanced by lower savings elsewhere in the economy. Policymakers don't want to see higher unemployment, so either the Fed will respond by encouraging a surge in household borrowing, or Washington will respond by increasing the fiscal deficit.

Primary Topic: Fiscal Deficits

Topics: Fiscal Deficits, Fiscal Policy, GDP, Inequality, Op-Ed/Blog Post, Savings Glut/Trade Deficit, Theory, Workforce

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