

Fiscal Policy and the Saving Glut of the Rich

by Bianchi, Ceneri, Melosi, and Villa

Discussion by

Carlo Galli

UC3M and CEPR

New Challenges for Monetary-Fiscal Policy Interactions

Sveriges Riksbank, October 6-7th, 2025

The Paper in a Nutshell

- In post 1980s US
 - “Saving glut of the rich”: \uparrow savings of rich, \uparrow debt of middle class
 - \uparrow federal fiscal transfers and federal debt, \downarrow inflation
- Unified explanation: structural change in fiscal revenue policy
 - pre 1980s: *unfunded* transfers, fiscal inflation, low debt
 - post 1980s: transfers *funded* by progressive taxes, accounts for
 - distributional patterns of household debt & savings
 - federal debt rise
 - “conquest of American inflation”

Great paper! I learned a lot

A Sketch of the Simple Model

Two-Agent New-Keynesian model

- Households supply labour, consume, pay taxes/receive transfers
 - *Poor* trade household debt
 - *Rich* trade household debt (w/ frictions) + govt debt + firm shares
- Firms are standard and face price adjustment costs á la Rotemberg
- **F** borrows and sets taxes/transfers s.t. *persistent* shocks, **M** sets interest rates
- **Funded** transfer shocks
 - **F** borrows & taxes the Rich through time
 - **M** follows Taylor principle
- **Unfunded** transfer shocks
 - **F** does *not* adjust taxes or debt
 - **M** accommodates by keeping rates constant, inflation stabilises debt

Core Mechanism

Funded transfer shocks

- Govt debt \uparrow , will be repaid with future taxes *on the Rich*
- Rich savings \uparrow , Poor & Govt debt \uparrow
 \Rightarrow anticipation of future taxes/transfers (persistence is important)
- Output \downarrow , inflation \downarrow , real rate \uparrow

Unfunded transfer shocks

- No response by **M** nor taxes
- Inflation \uparrow , real Govt debt \downarrow
- Real rate \downarrow , Rich savings and Poor debt \downarrow

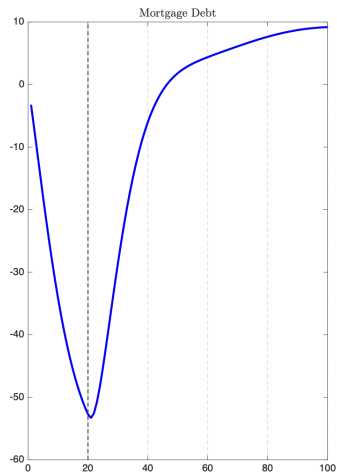
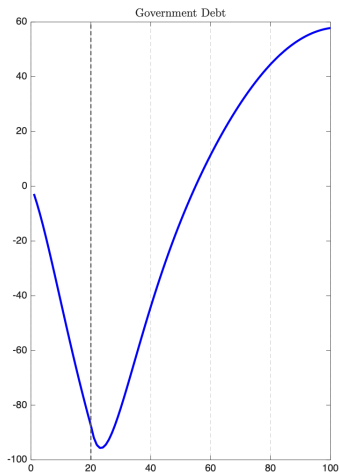
Quantitative Model

Very rich

- Shocks: discount rate, investment efficiency, loan premium, productivity, wage markup, spending, transfers (permanent/transitory + funded/unfunded), monetary
- Frictions: investment adj. costs, capital utilisation costs, private loan utility, consumption + labour + capital taxes, firm operating costs, staggered price + wage setting
- Fiscal inflation & funded vs unfunded Govt debt as in Bianchi, Faccini, Melosi (2023 QJE)

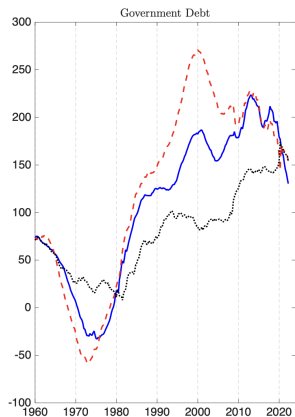
Results

a thought experiment: announced Unfunded \rightarrow Funded policy shift

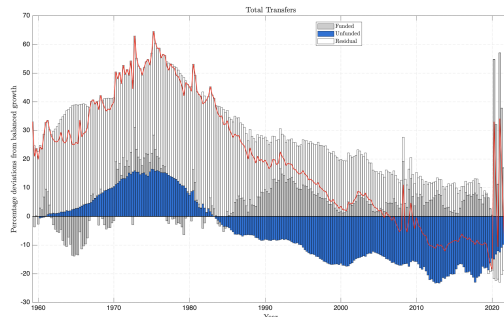
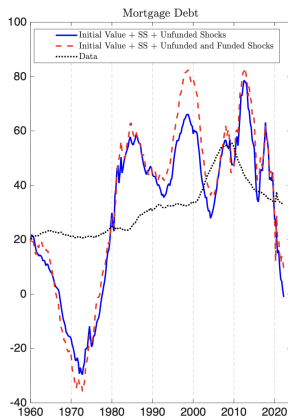


Results

structural model decompositions



(a) Transfers Contribution to Public/Private Debt



(b) Unfunded/Total Transfers Contribution

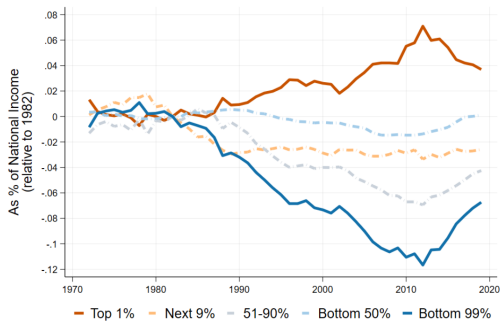
Comments

- Motivation
 1. saving glut of the rich
 2. federal debt buildup
- (Some) Explanations
 1. International macro
 2. Fiscal policy
 3. Inequality more broadly

The Saving Glut of the Rich

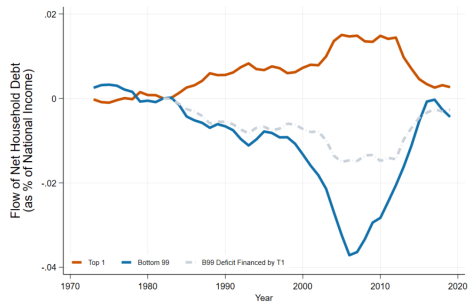
Mian, Straub, Sufi (2025)

Large divergence in savings



(a) *Saving by income group*

Top lends to Bottom (esp. middle class)



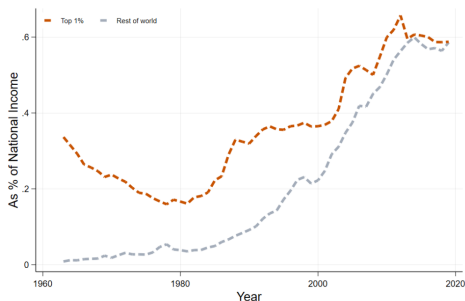
(b) *10 year MA change in net household debt*

International Macro

- Other popular explanations for US debt buildup and twin deficits
 - US exorbitant privilege, conquest of American inflation
- How much of US public & private \uparrow is accounted for by domestic vs external borrowing?

International Macro

- Other popular explanations for US debt buildup and twin deficits
 - US exorbitant privilege, conquest of American inflation
- How much of US public & private \uparrow is accounted for by domestic vs external borrowing?
- Domestic & global saving gluts are comparable

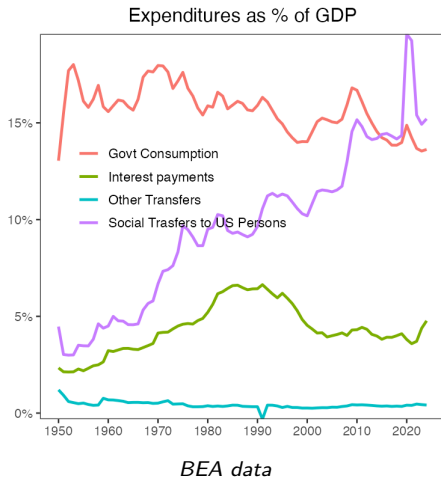


US Safe asset demand by Top 1% and RoW

Source: Mian, Straub, Sufi (2025)

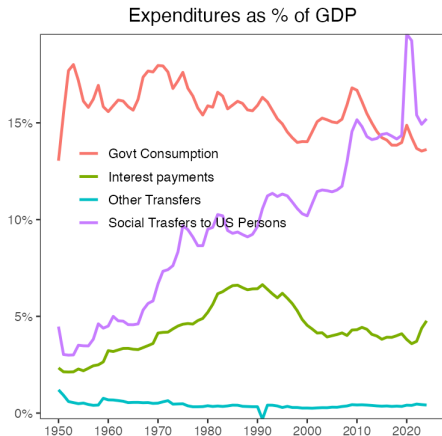
Fiscal Policy

Larger \uparrow in transfers and redistributive policy

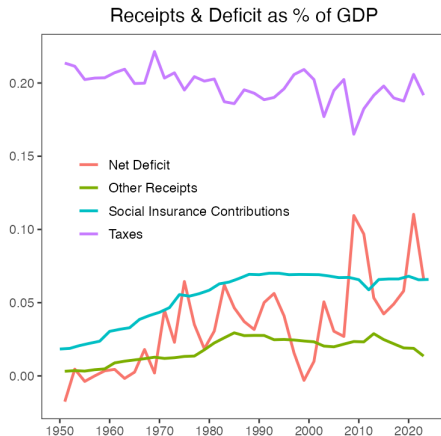


Fiscal Policy

Larger \uparrow in transfers and redistributive policy



Funded by deficits + social insurance contributions



Fiscal Policy and Tax Progressivity

Key idea of the paper:

- Shift in funding mix from inflation to debt & taxes
- \uparrow Tax share of the Top suggests \uparrow Progressivity
- Top saves in anticipation of higher future taxes

Fiscal Policy and Tax Progressivity

Key idea of the paper:

- Shift in funding mix from inflation to debt & taxes
- \uparrow Tax share of the Top suggests \uparrow Progressivity
- Top saves in anticipation of higher future taxes

Questions

1. Mechanism reliance on tax progressivity & redistribution
vs
non-Ricardian household response to redistribution

Fiscal Policy and Tax Progressivity

Key idea of the paper:

- Shift in funding mix from inflation to debt & taxes
- \uparrow Tax share of the Top suggests \uparrow Progressivity
- Top saves in anticipation of higher future taxes

Questions

2. Comparison with $\uparrow\uparrow$ income/wealth inequality story
 - we should also expect a \uparrow tax base of the Top

Fiscal Policy and Tax Progressivity

Key idea of the paper:

- Shift in funding mix from inflation to debt & taxes
- \uparrow Tax share of the Top suggests \uparrow Progressivity
- Top saves in anticipation of higher future taxes

Questions

2. Comparison with $\uparrow\uparrow$ income/wealth inequality story
 - we should also expect a \uparrow tax base of the Top
 - marginal vs average tax rates

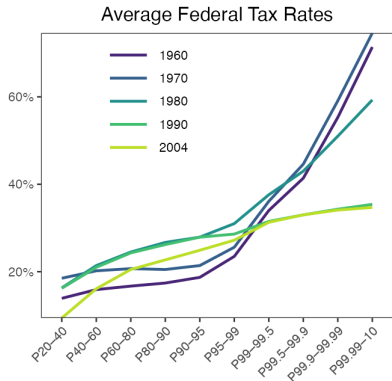
Fiscal Policy and Tax Progressivity

Key idea of the paper:

- Shift in funding mix from inflation to debt & taxes
- \uparrow Tax share of the Top suggests \uparrow Progressivity
- Top saves in anticipation of higher future taxes

Questions

2. Comparison with $\uparrow\uparrow$ income/wealth inequality story
 - we should also expect a \uparrow tax base of the Top
 - marginal vs average tax rates



Piketty and Saez (2007)

Inequality and Saving Rates

Alternative, complementary story:

- Rich get richer (inequality, tax rates)
- Non-homothetic preferences (Straub (2019))
⇒ higher saving rates, higher savings

Figure 6: Saving Rate by wealth percentile over time



Mian, Straub, Sufi (2025)

Conclusion

- First-order question
- Highlighting proposed vs competing mechanisms would help a lot
- Impressive paper!