

Contact: Mark Primoff
845-758-7412
primoff@bard.edu

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**STRUCTURAL WEAKNESSES AND INSTABILITY OF GLOBAL ECONOMY
KEEP U.S. ECONOMY ON FRAGILE GROUND,
NEW LEVY ECONOMICS INSTITUTE STUDY SAYS**

ANNANDALE-ON-HUDSON, N.Y.— Despite continued growth, with GDP expanding and the unemployment rate decreasing to its lowest level since the start of the global financial crisis in 2008, the U.S. economy remains fragile because of three persistent structural problems: weak demand for U.S. exports, fiscal conservatism, and a four-decade rise in income inequality, a new study from the Levy Economics Institute of Bard College argues.

“These fundamental structural characteristics make economic growth in the United States dependent on increasing indebtedness and asset market inflation, which as the recent experience has shown is a highly unstable process,” writes the Levy Institute’s Macro Modeling Team— President Dimitri B. Papadimitriou and Research Scholars Michalis Nikiforos and Gennaro Zezza—in their Strategic Analysis, *Destabilizing an Unstable Economy*. Using the Levy Institute’s stock-flow consistent macro model, the study provides a baseline and three alternative medium-term scenarios: a dollar appreciation and reduced growth in U.S. trading partners scenario; a stock market correction / private sector deleveraging scenario; and a third scenario combining the first two. Their findings in each strongly suggest that CBO projections for growth—already revised downward in each of the past two years—remain implausible, with continued economic growth in the United States becoming increasingly dependent on an unsustainable rise in private sector indebtedness, especially household indebtedness.

Stressing that an increase in the debt-to-income ratio of the household sector was one of the main reasons behind the crisis of 2007–8, the authors maintain that policymakers must address the rise in income inequality over the last four decades, which has continued uninterrupted since the financial crisis. “The transfer of income shares from the middle class and lower-income households toward households at the top of the income distribution is a serious drag on demand, since the saving rate of the latter is much higher than that of the former,” they write. “Achieving sustainable economic growth in the United States requires, first and foremost, addressing these fundamental issues: a decrease in income inequality, international cooperation to rebalance the global economy and improve the U.S. external position, and relaxation of the government’s fiscal stance. The alternative is a future of secular stagnation or debt-driven recoveries that will result in increasingly severe financial and economic crises.”

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Strategic Analysis: *Destabilizing an Unstable Economy*

To read the full text of this policy paper or to learn more about the Levy Economics Institute of Bard College, please visit <http://www.levyinstitute.org/publications/destabilizing-an-unstable-economy>.

(3.9.16)