Shopping bags were full in America in the last two decades – at least before the crisis. But the wages the majority of American households have at their disposal have grown at much more pedestrian rates. While growing inequality – the top 1% have done extremely well while the rest has lagged behind – is one problem, it is not the only one: The contrast between the growth of consumer spending and sluggish incomes is a more general phenomenon. As the gap between spending and wages widened, the savings rate fell and borrowing rose. America’s growing financial imbalances became a global phenomenon when emerging markets such as China stepped in to finance American overconsumption. In this paper I track the development of saving and borrowing in the U.S. economy over the past 50 years, showing that the financial imbalances that erupted in the financial crisis of 2008 were long in the making.

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