

# Prospects for the U.S. Economy

## Is a K-shaped economy sustainable?

---

Gennaro Zezza

Levy Economics Institute, and Università di Cassino (IT)



**Bard**

# Contents

1. Wynne Godley's legacy
2. Financial balances and sustainability
3. AI and income distribution: a K-shaped economy
4. Conclusions – Q&A



Levy Institute 40th Anniversary Conference

# The Stock-Flow Consistent approach

- The SFC approach provides a tight framework for modeling the interactions between real and financial markets
- It has a rigorous, yet flexible structure to accommodate alternative theoretical – and empirical – closures
- In its post-Keynesian version, it has been found to be effective to understand/predict financial or economic crisis
- It is becoming the core of macroeconomic models for addressing energy transition, climatic change and the interaction of the economy with the environment

# Godley's legacy in academic publications

Estimated Annual SFC Model Publications (1990-2026)

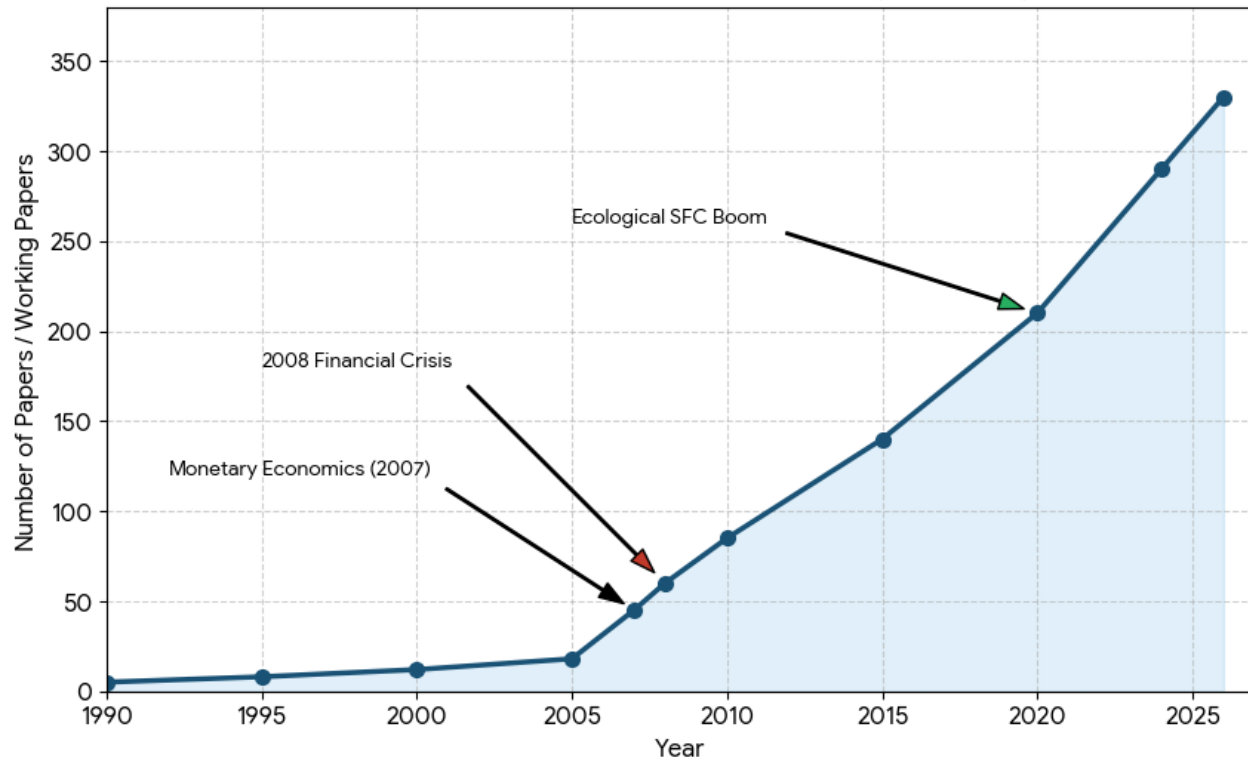
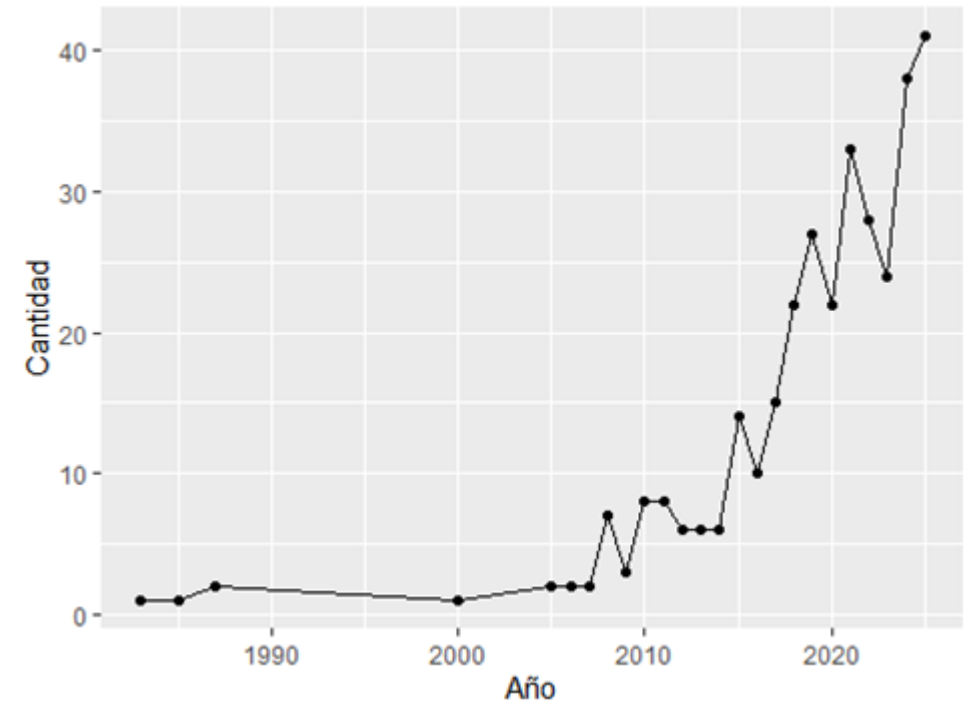


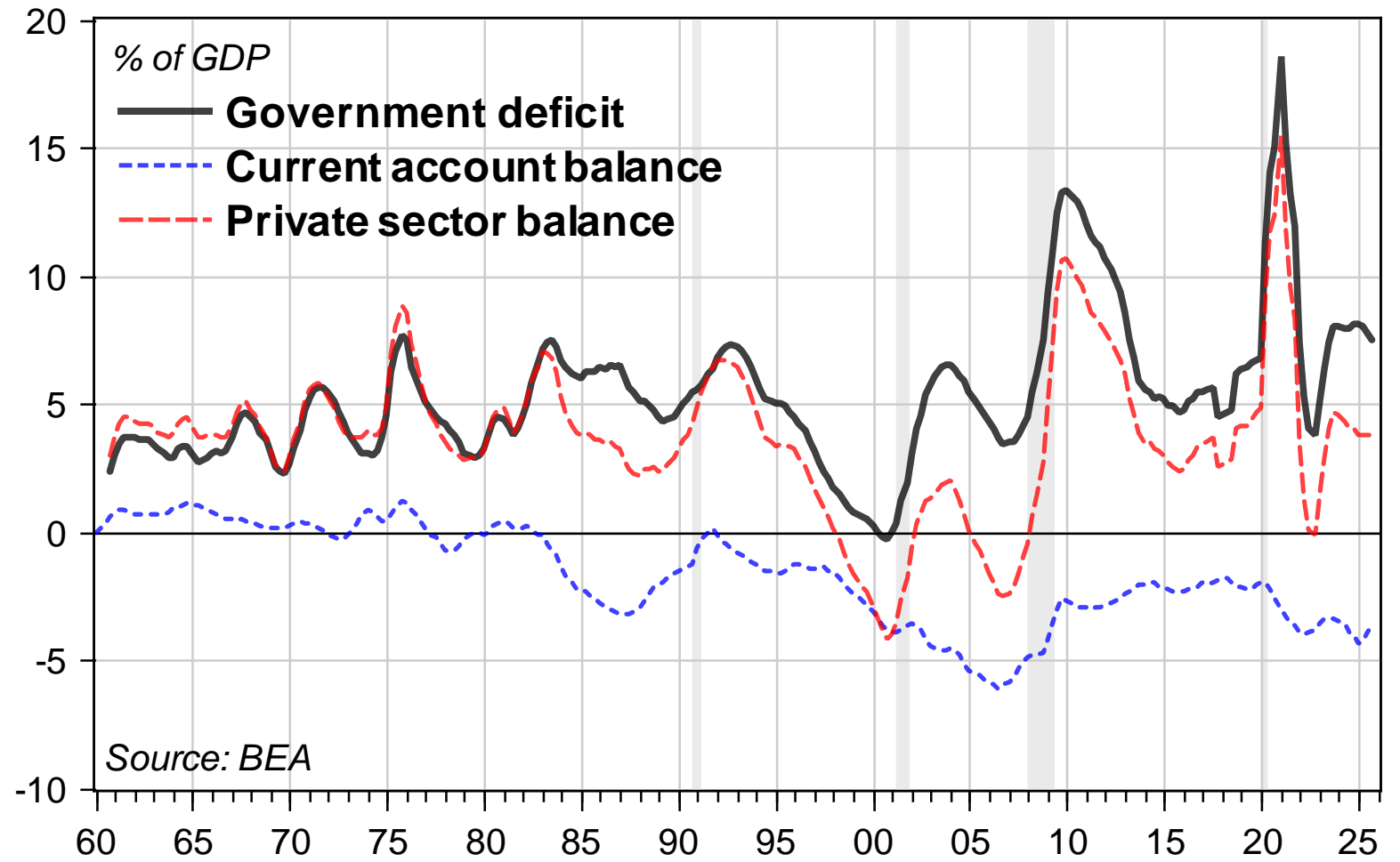
Figura 2: Publicaciones por año



# Financial balances

$$(S - I) = (G - T) + CAB$$

Figure 1 Financial balances

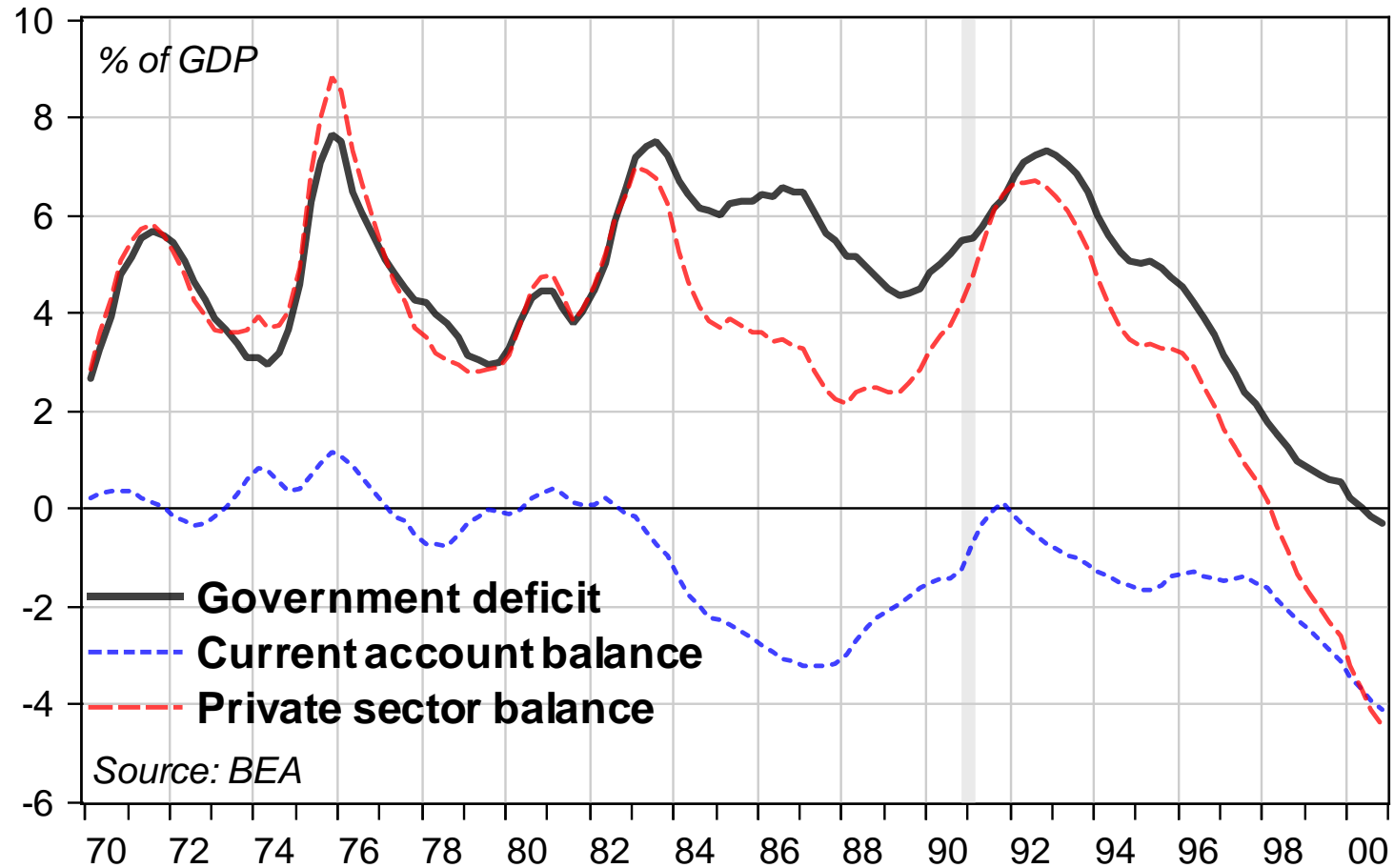


# Seven unsustainable processes (1999)

- the fall in private saving into ever deeper negative territory;
- the rise in the flow of net lending to the private sector;
- the rise in the growth rate of the real money stock;
- the rise in asset prices at a rate that far exceeds the growth of profits (or of GDP);
- the rise in the budget surplus;
- the rise in the current account deficit;
- the increase in the United States' net foreign indebtedness relative to GDP

# Predicting the 2001 recession

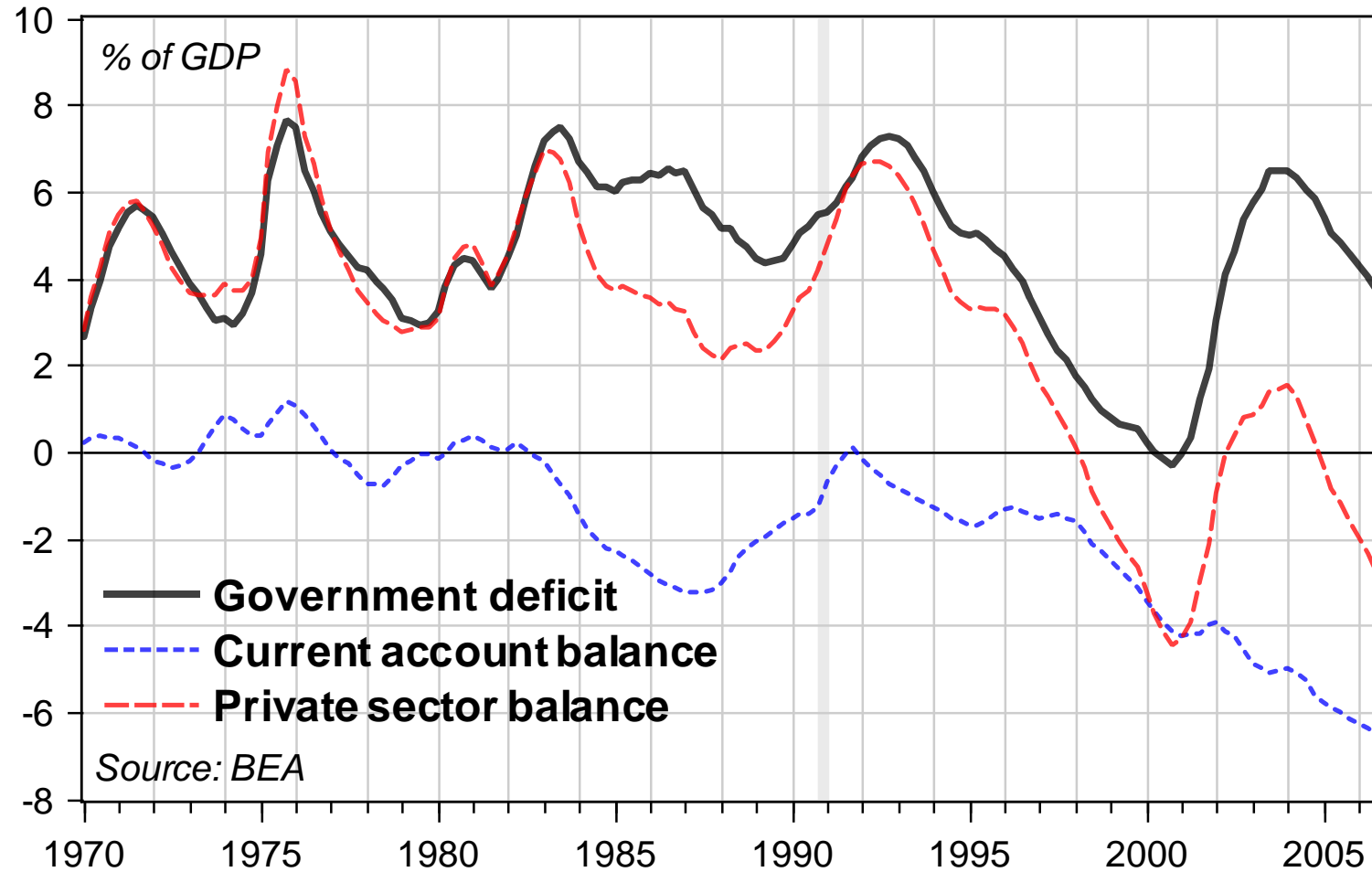
Figure 2 Financial balances (pre 2001)



Source: BEA

# Predicting the Great Recession

Figure 3 Financial balances (pre 2007)



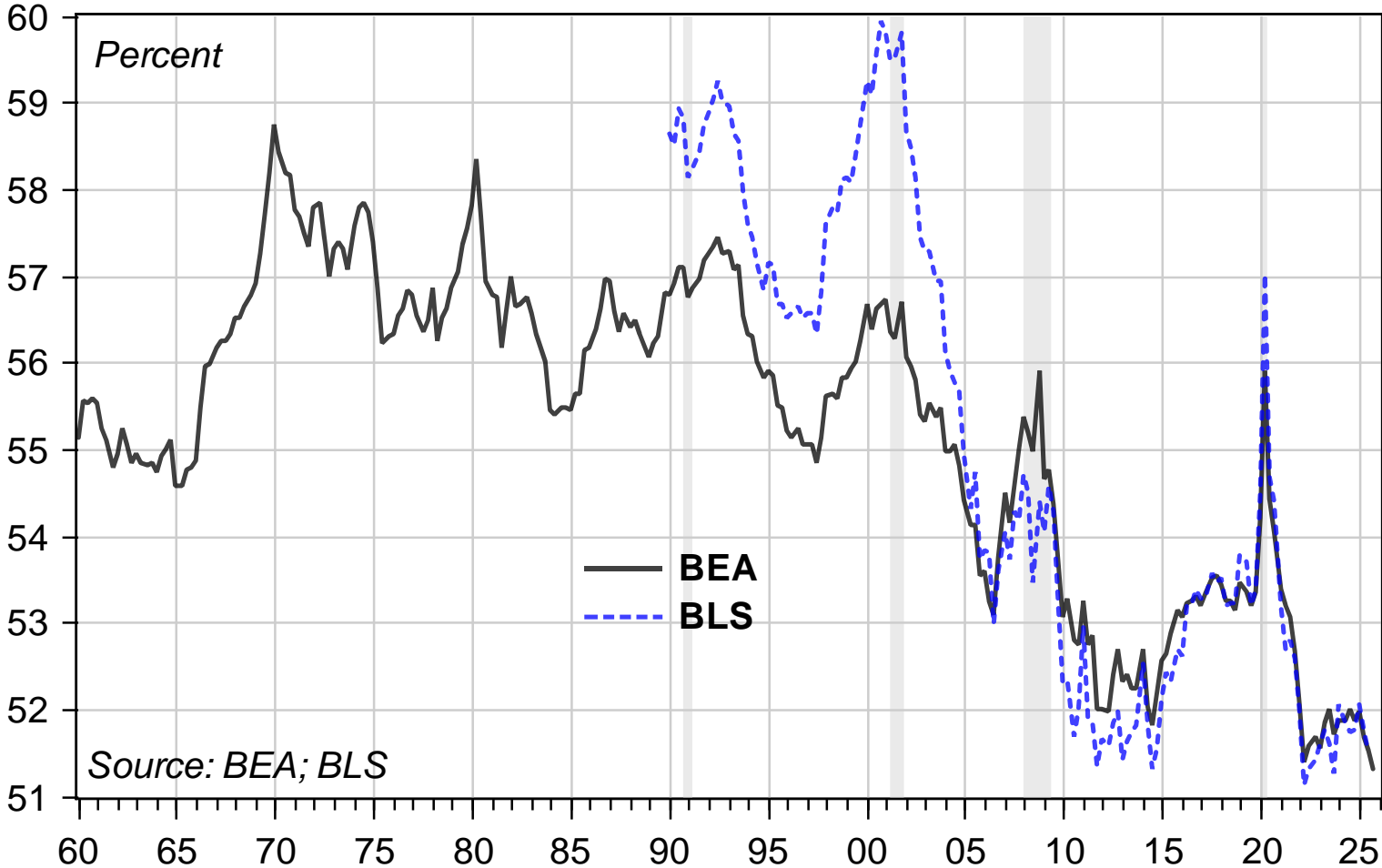
Source: BEA

# Growth in a financialized economy

While growth in the post-WW2 first three decades was the result of a balanced increase in productivity and real wages, the new regime which started in the 1980s shows a growing relevance of debt-driven aggregate demand, along with an increase in income and wealth concentration.

# Labor share

Figure 4. U.S. Labour share



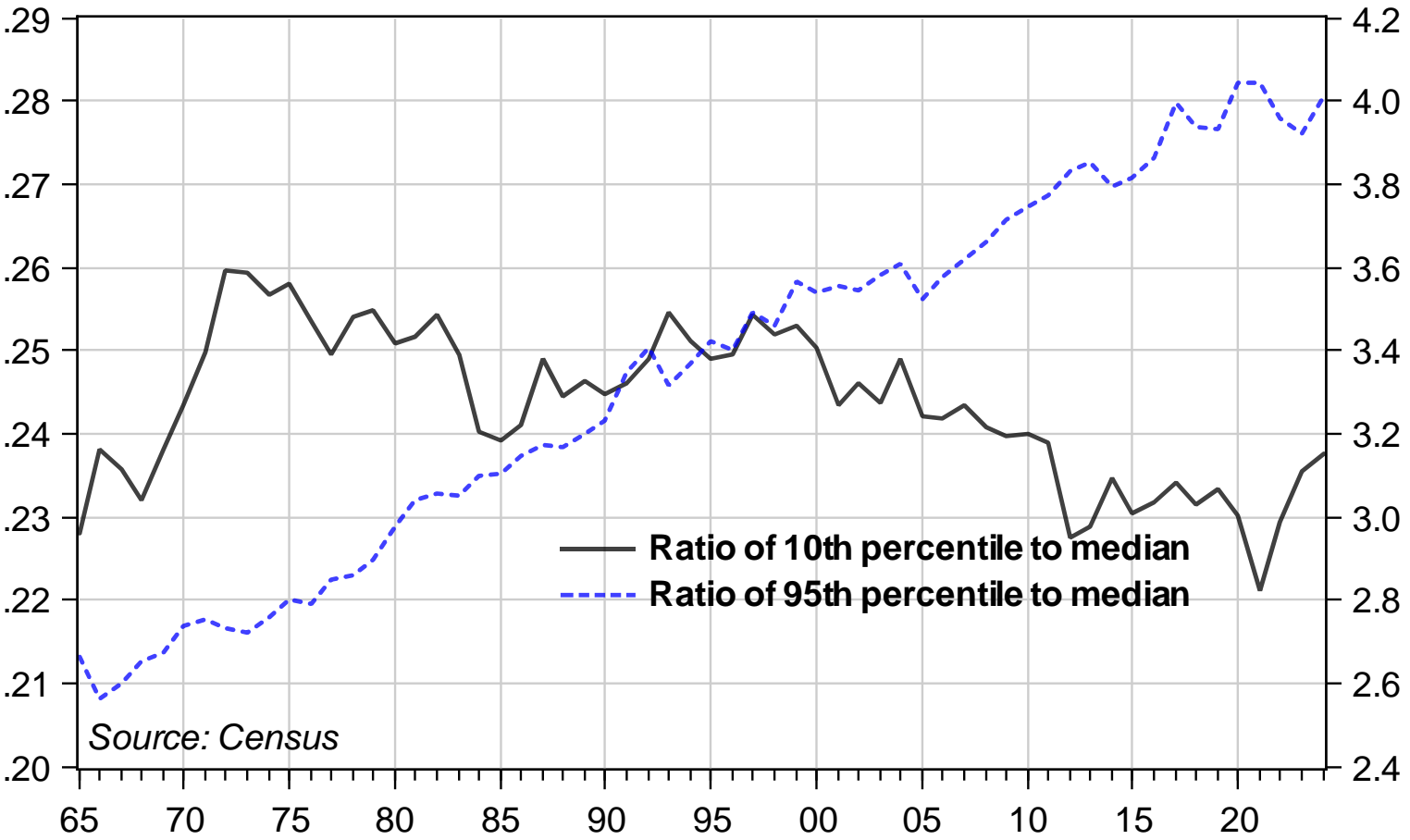
Source: BEA; BLS

Levy Institute 40th Anniversary Conference



# Income concentration

Figure 5. Income distribution

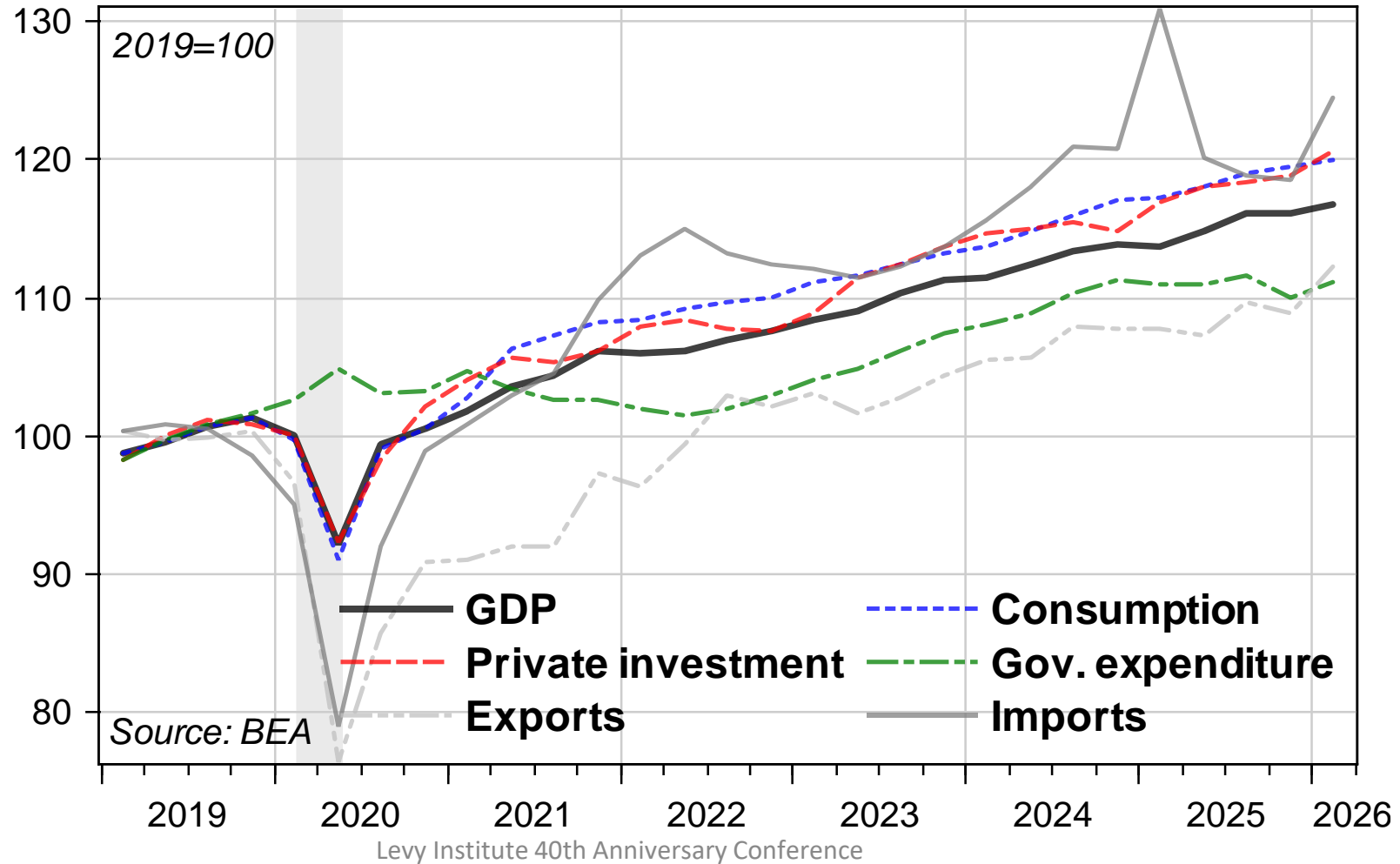


Source: Census



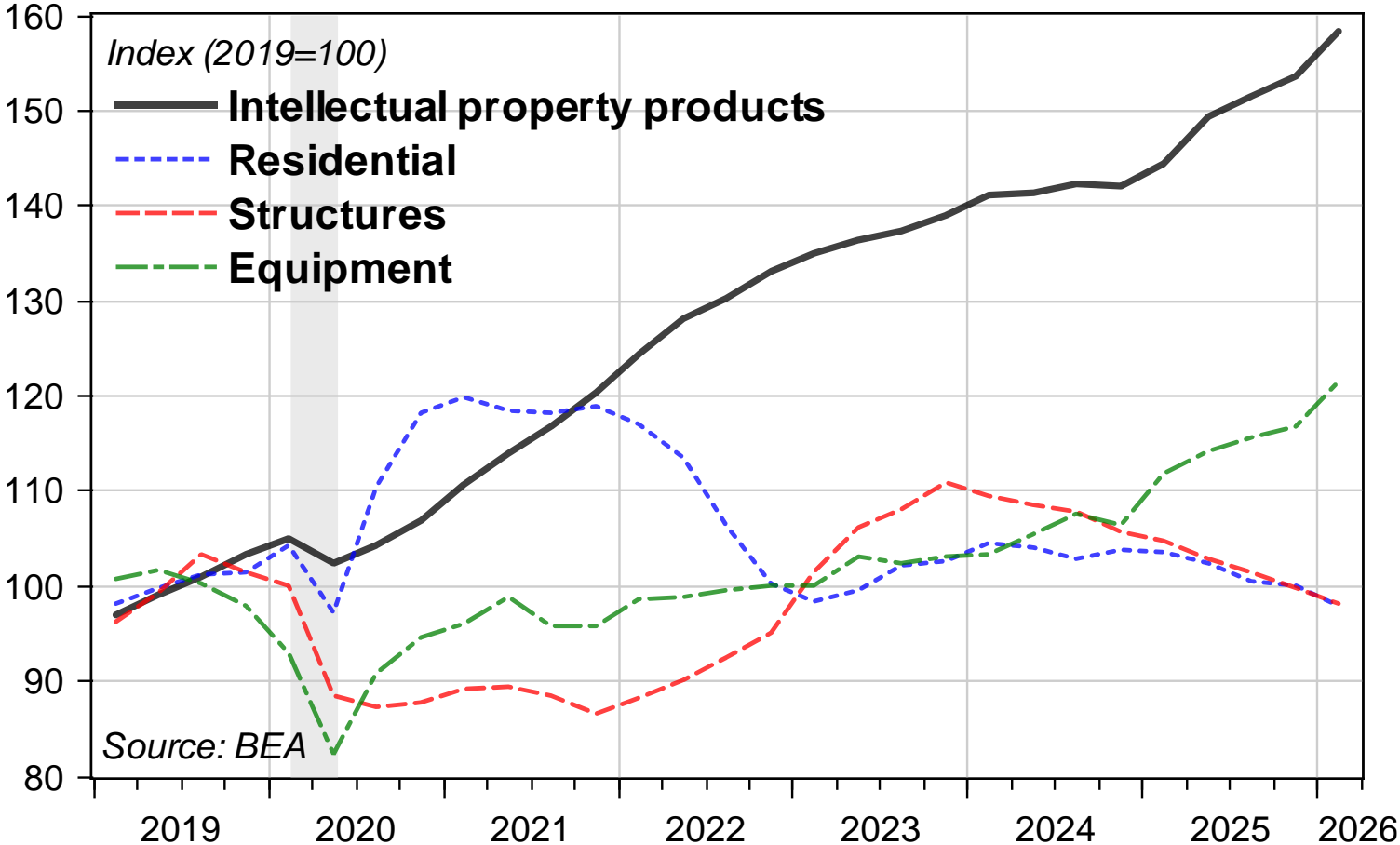
# The drivers of U.S. growth

Figure 6. U.S. GDP components



# Software is the major type of investment

Figure 7 Private Fixed investment

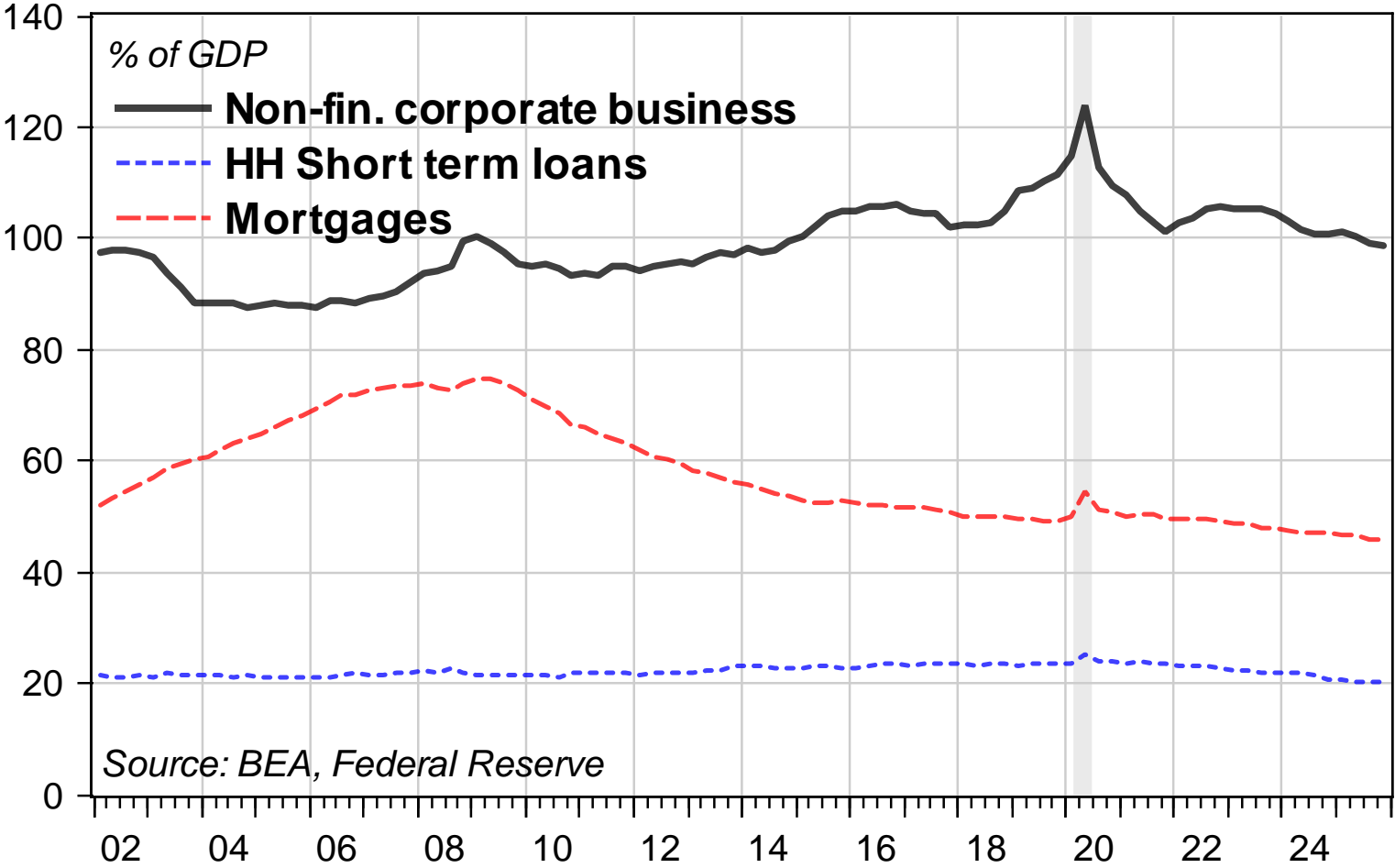


Source: BEA



# Private demand no longer based on debt?

Figure 8 Private debt

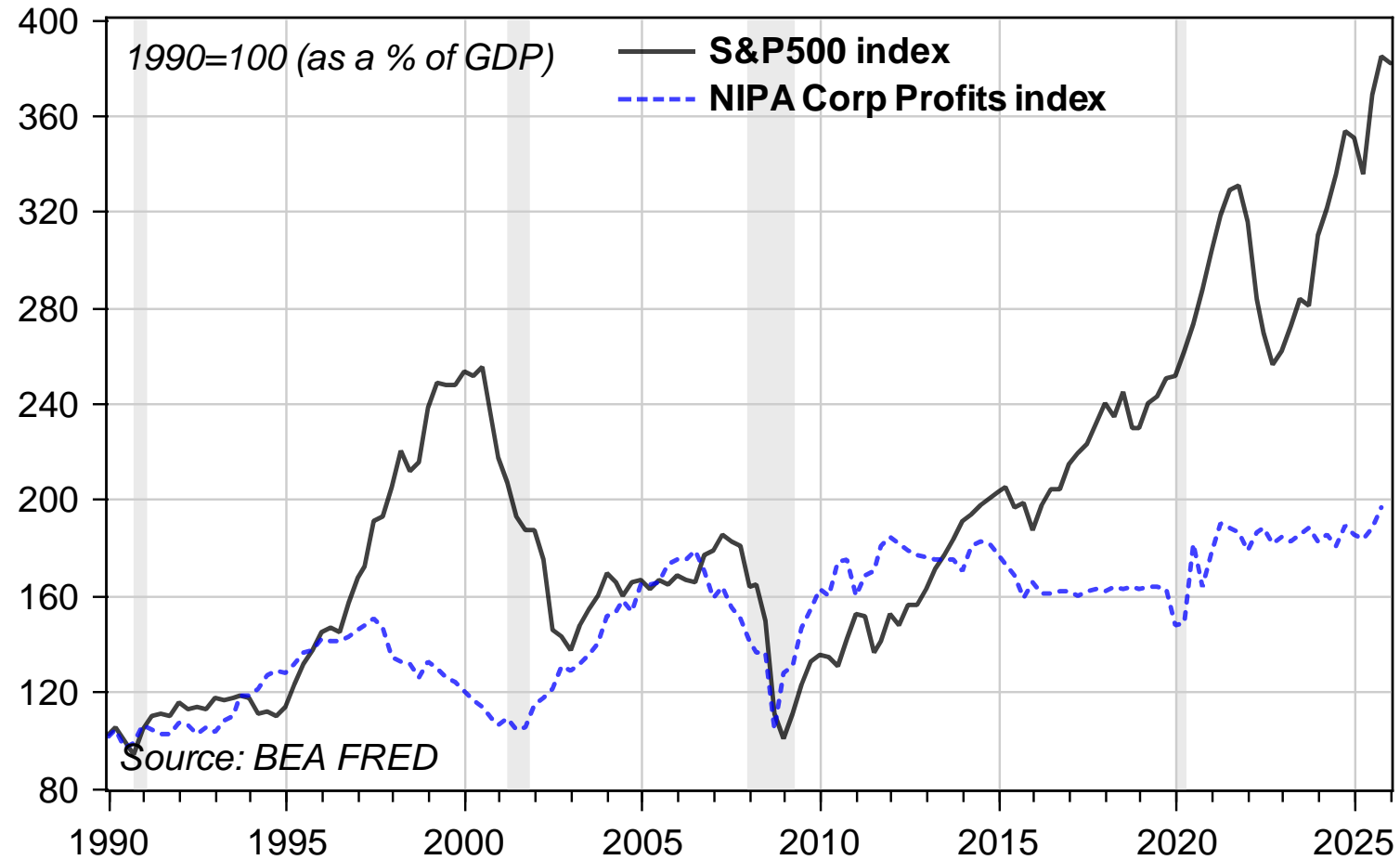


Source: BEA, Federal Reserve



# The dot-com and AI bubbles

Figure 9. U.S. Real S&P500 and NIPA Corporate Profits indices



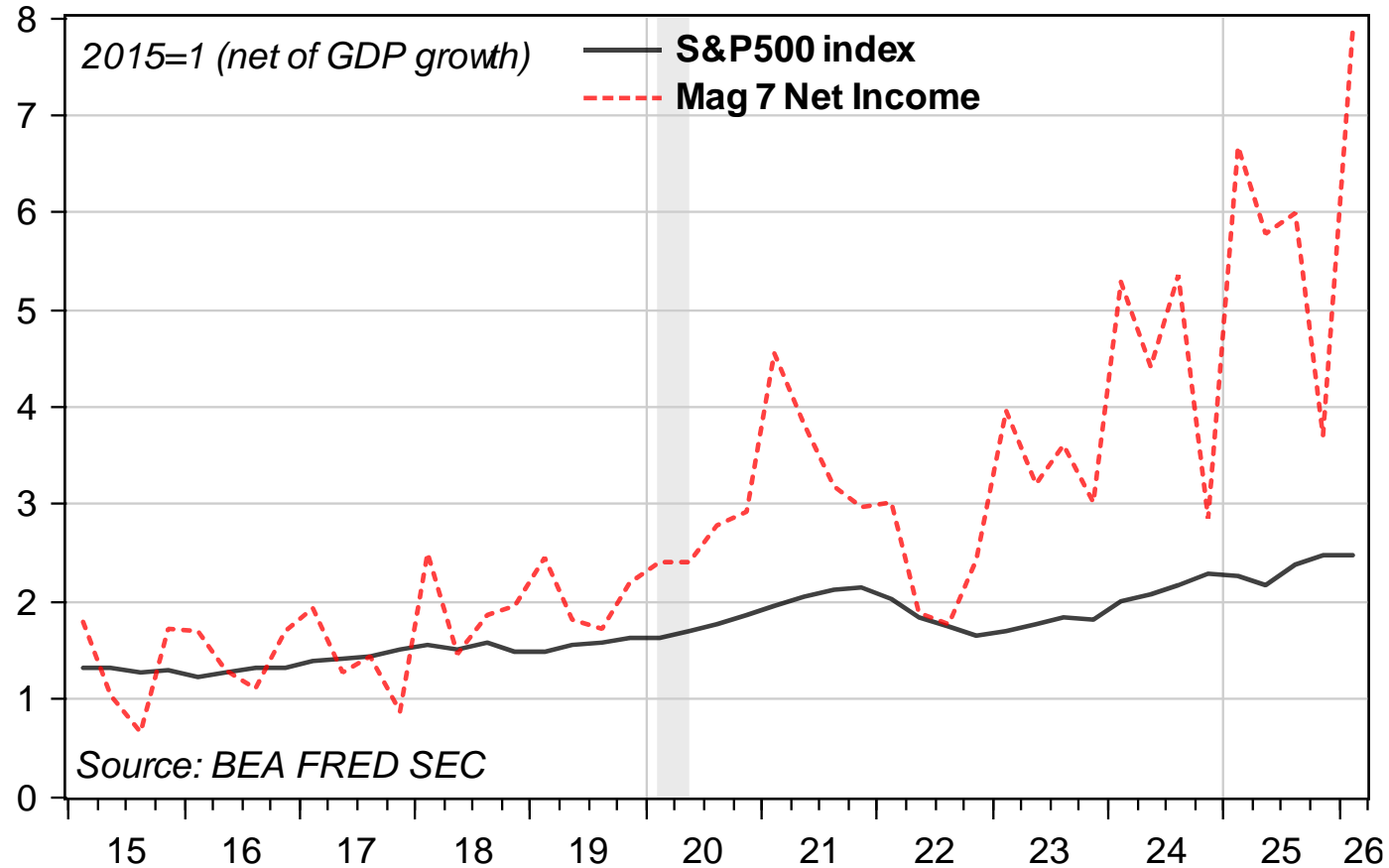
Levy Institute 40th Anniversary Conference



THE LEVY  
ECONOMICS  
INSTITUTE

# The AI bubble

Figure 9b. U.S. S&P500, Mag 7 Net Income indices

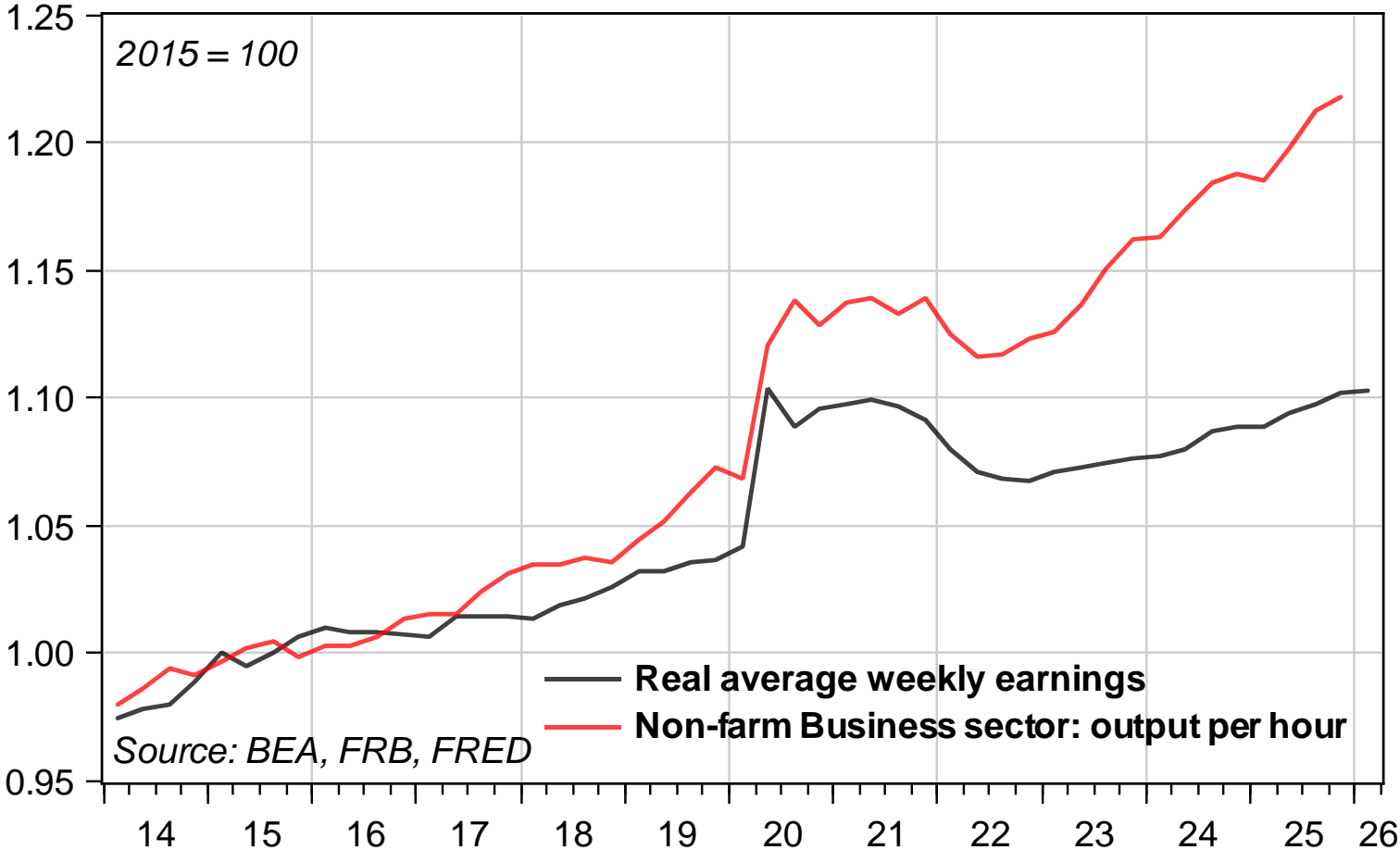


Mag 7: Alphabet/Google, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla



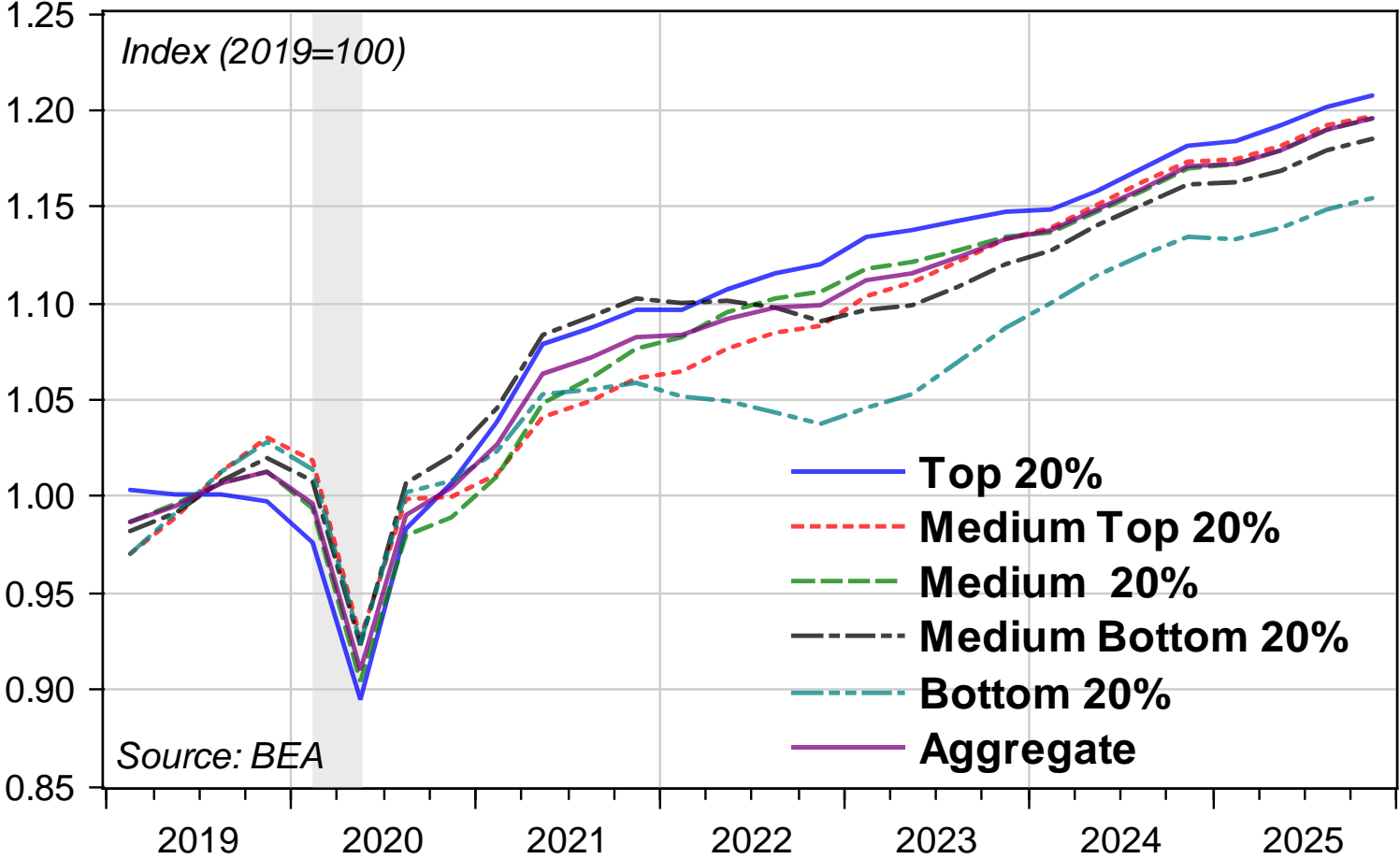
# Workers are left behind

Figure 10. Real wages and productivity



# Will conspicuous consumption fill the gap?

Figure 11. U.S. Households: Consumption by Quintiles



Source: BEA

Levy Institute 40th Anniversary Conference



THE LEVY  
ECONOMICS  
INSTITUTE

# Conclusions

- A time of multiple sources of uncertainty!!!
- Geopolitical tensions
- Shocks to prices of oil and energy
- Impact of AI on employment
- If the K-shaped economy continues to increase the gap between different social groups, will the system be economically (and politically!) sustainable?