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Never Mind the Stock Market – a 2019 Financial Crisis Could Come from U.S. Economic Inequality

The U.S. economy is a powder keg when most Americans are highly-indebted lower-income households in hock to unregulated lenders. 2019's combination of debt burdens for those least able to sustain them, lenders with no capital backstops or liquidity facilities, and markets prone to flight at the height of the cycle looks a lot like 2007, but with even more risks because economic inequality is even worse.

WASHINGTON, DC, January 7, 2019 — In her latest ***Economic Equality*** blog post, Karen Petrou shows how U.S. economic inequality sows the seeds for a 2019 financial crisis. "Even if markets stabilize, President Trump eschews Twitter, the federal government begins anew, and all seems somehow otherwise right with the world, lower-income households have debt well in excess of their ability to repay it," Petrou said. "Despite all the capital banks have amassed since the great financial crisis, inequality poses unprecedented risk against which U.S. policy is totally ill-prepared," she continued.

The blog post takes aim at recent statements from the Federal Reserve and Treasury's Financial Stability Oversight Council that U.S. financial-stability risk is "moderate." This is only true if one looks at aggregate household-debt data; break it down to look at the most vulnerable households – at least half the U.S. population – and data tell the very different story detailed in this blog post. It also lays out sweeping research showing that, contrary to conventional wisdom about financial-stability risk, the best predictor of crisis is income inequality. "Markets are already flashing red and geopolitical risks remain acute," Petrou said. "Add in U.S. economic inequality, and it's clear that crisis risk in 2019 is anything but 'moderate."

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