



## Research Working Papers

# Uninsurable Income Risk and the Welfare Effects of Reducing Global Imbalances

by: Ayşe Dur, Andrew Glover and Jacek Rotherth

February 14, 2024

Encouraging savings in debtor economies can help balance their current accounts while raising wages globally.

---

RWP 24-02, February 2024

We highlight the welfare effect of policies that balance global current accounts when households face uninsurable income risk and borrowing constraints. Subsidizing savings in debtor economies reduces current account imbalances and raises the welfare of almost all citizens by increasing world capital, raising wages, and improving insurance for low-wealth households. The same balancing of current accounts is achieved by taxing savings in lender economies; however, this policy hurts most households by reducing global capital. These results suggest that balancing global imbalances may be a positive byproduct of raising investment rates, especially in debtor countries.

JEL Classifications: E2, E44, F32, F36, F4

## Article Citations

- Dur, Aye, Andrew Glover, and Jacek Rotherth. 2024. "Uninsurable Income Risk and the Welfare Effects of Reducing Global Imbalances." Federal Reserve Bank of Kansas City, Research Working Paper no. 24-02, February. Available at <https://doi.org/10.18651/RWP2024-02>

## Related Research

- Dávila, Julio, Jay H. Hong, Per Krusell, and José Víctor Ríos-Rull. 2012. "Constrained Efficiency in the Neoclassical Growth Model with Uninsurable Idiosyncratic Shocks." *Econometrica*, vol. 80, no. 6, pp. 2431-2467. Available at <https://doi.org/10.3982/ECTA5989>.
-

## Author



### Andrew Glover

#### Research and Policy Advisor

Andrew Glover is a research and policy advisor in the economic research department at the Federal Reserve Bank of Kansas City. His research studies labor and credit markets from a macroeconomic perspective. Prior to joining the Federal Reserve of Kansas City, Mr. Glover was an assistant professor of economics at the University of Texas at Austin. He earned his PhD from the University of Minnesota in 2011.

---