

# On the Impact of Government Debt on Income Distribution in a Post-Keynesian Framework with Workers' Savings

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## Abstract

This paper examines the complex relationship between government debt and income distribution within a post-Keynesian framework. Extending the model of You and Dutt (1996), we model both capitalists and workers as holders of government bonds, enabling a more nuanced analysis of income distribution dynamics. In our model, public debt accumulation does not invariably lead to greater inequality, but it can reduce income disparities instead. The mechanism at work diverges from the conventional account according to which a redistribution from taxpayers to bondholders occurs. Instead, the more important channel operates through the expansionary effects of public borrowing. When the analysis is extended to allow for an endogenous rise in real interest rates, the outcome also reflects the dampening of investment and, consequently, reduced growth. The distributional consequences of higher debt therefore depend on the forces driving accumulation and the extent to which they generate expansionary dynamics.

**Keywords:** Government debt, income distribution, growth, interest rates, workers' savings, post-Keynesian model

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