

POLS/ECON 409 · Solutions to 21st Century Problems (2)

Questions 1–3 establish the big picture, questions 4–11 pertain to fiscal policy, and questions 12–13 to regulation. Question 14 asks “so what?” We can tackle them in any order.

1. Over the course, we’ve learned about the crisis of the Great Recession and the secular changes in the economy that coincided with it. What are the key unresolved economic problems facing the US and European countries?
2. What are the range of solutions to these problems? Which actors can (or should) take them on? Which solutions are changes in policy only and which solutions first require changes in institutions?
3. What actual reforms are we likely to get? What would it take to get your preferred solutions? Are crises necessary or sufficient? A blessing or a curse?
4. For many Keynesians – like Krugman, Stiglitz, and recently Larry Summers and others – the solution to post-crisis economic problems is to create more aggregate demand through fiscal stimulus (monetary stimulus being too weak and poorly targeted in a liquidity trap). What do you think? Galbraith is sympathetic but skeptical that these measures can bring back 1990s level growth. What is his objection?
5. How does Galbraith’s vision of a “slow growth” world differ from the fast growth of the 20th century? Does his vision accord with Piketty’s? With Frase’s?
6. Galbraith argues for more social insurance at a time when many have advocated cuts. What is his argument? What do you think?
7. One problem we haven’t discussed is paying for the retirement of aging populations. Consider the following trends: higher capital-to-GDP ratios, dwindling opportunities for private investment, rising Social Security retirement ages, and shifts to defined contribution pensions. In the long run, are these trends compatible, or will some of them need to change?
8. Piketty argues that high marginal income tax rates would help redistribute income without hurting productivity. What is your view? In light of the gyrating top rate over the 20th century, is another swing (back to high marginal taxes) likely or even possible? What sort of shock would be big enough?

9. Global taxes on wealth involve difficult steps – establishing a global taxation system (unprecedented) and routinely taxing financial assets (rare, although taxes on capital gains and real property are not). Assess separately the political and economic *feasibility* of global wealth taxes, and their *necessity* for achieving common economic goals. (Both Piketty and Galbraith weigh in on this.) Can you imagine unintended consequences?
10. Why is there so little politics in Piketty’s discussion of wealth taxes? What would it mean for a global wealth tax to be decided democratically, a process to which Piketty ostensibly defers? Who receives the global tax? What forms of global tax evasion might emerge?
11. Why did early modern states tax real estate and “windows and doors”? Does this have any relevance for 21st century taxation of capital?
12. Blyth suggests the best way to handle future financial crises is to refuse to bail out banks. Why does he say this? Is he right?
13. What should be done about executive compensation? Are executives fairly compensated in the US and UK today, or do they exploit their position to wrest unearned millions from their firms? Does high compensation produce bad incentives for firms, especially banks? How can these incentives be improved?
14. Public debates on economic policy must contend with Quiggin’s zombies – arguably inadequate solutions like austerity and “a little more education,” as well as basically fictional creatures like the confidence fairy and the hyperinflation bogeyman. Even if we can – as scholars – determine the range of “effective” policies for achieving various goals, how can we translate that knowledge into the public sphere when economic knowledge itself is contested? To what extent do our biggest public policy problems arise from disagreements on the facts? From disagreements on goals? How does this relate to the problem of “post-democracy”?

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