

Intelligence MEMOS



From: Laurence Kotlikoff
To: Global policymakers
Date: June 8, 2018
Re: **OUR ECONOMIC FUTURE AND HOW TO FIX IT**

(An extract of remarks at the C.D. Howe Institute's annual Jack Mintz Lecture)

Let me preface my remarks by apologizing for the economically illiterate demagogue who has become our president and saluting you, as a nation, for pushing back on his bullying tactics. Trump has a well-established track record of stealing from business associates. He will steal from Canada as much as you permit it.

But what I want to talk about today is the state of the world and how we address the seven enormous problems it faces.

Economists are called dismal scientists, and I won't disappoint.

Nuclear proliferation, climate change, an exploding population, growing inequality, automation, financial instability and fiscal insolvency are all immense problems and all are getting worse. The US and Russia seem to have resumed the nuclear arms race, and Iran and North Korea are still both working to gain the bomb.

The scientists' projected three-degree rise in global average temperature will put 275 million people under water as rising sea levels inundate Shanghai, Miami, Alexandria, Rio de Janeiro, New York, and Sydney among others.

The planet is on track to add 2.4 billion people over the next 35 years: seven more United States and almost two more Chinas.

The economic balance of power is shifting and the United States, which currently has 17 percent of the world's GDP will have 5 percent in 2100, while sub-Saharan Africa, China, India and the Middle East will account for two-thirds of the world's output as against one-third today. Importantly, this assumes that the entire world converges to the US level of labor productivity.

Many countries are fiscally insolvent, but don't know it because they keep most of their liabilities off the books. They need to use fiscal gap accounting, which puts everything on the books. The US official debt is \$20 billion. Its fiscal gap is \$196 billion. In the developed world, the huge size of the off-the-book liabilities reflect the looming increases in health and pension spending and a rapidly worsening ratio of working-age populations relative to the elderly.

Meanwhile smart machines are coming. They already land our planes, beat us at Jeopardy, read to us, check us through security, rub our backs, drive our cars, and sell us everything. What they don't do is buy anything and, thereby, provide demand equal to their supply. Instead, they are putting massive numbers of us out of work or out of good work.

This will only exacerbate the already alarming level of income inequality. Today, the wealthiest 5 percent of Americans hold 63 percent of the nation's wealth. The bottom 50 percent (!) hold just 1 percent. This picture of inequality is, however, less severe if one takes into account redistribution under the fiscal system.

More importantly, educational trends show that the upward mobility escalator of education is broken. Only 5 percent of the US population between 25 and 34 whose parents didn't finish high school have a college degree, while children of graduates are more than twice as likely to attend. And the wage premium for college graduates has ballooned to 75 percent since 1975. College grads now earn twice the wage of those with only high school.

What's to be done? My response is laid out in a free book at www.kotlikoff.net called *You're Hired*. This book lays out postcard length radical reforms for the tax, healthcare, Social Security, education and banking systems. The book also calls on all governments to do accurate fiscal gap accounting starting yesterday. This includes Canada!

America is in a bad way and heading downhill. Our democracy is being destroyed by a "President" who acts increasingly like a foreign agent intent on destroying our foreign relations as well as our international trade. His failure to address our country's fiscal insolvency is just one of the long list of reasons that makes him unfit to serve as our leader.

Canadians will need to be patient and extremely tough until this dark hour of US history passes and the country returns to the shining light on the hill that President Reagan referenced. Trump is a school-yard bully. Canada has to levy an ever steeper price for his trade infractions. You can't match him blow for blow. You need to respond, together with China, Mexico, and the EU with the maximum possible response, i.e., a complete embargo of US goods and services. Only then will this school-yard bully back down. The combined economies of Canada, China, Mexico and the EU are twice the size of the US economy. This is not a fight Trump can win, not that a trade war can ever be won. He is a coward and the way to deal with a coward is to hit him as hard as possible.

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