World Knowledge Forum 2013

Economics Lecture - Gregory Mankiw

While the U.S. government stood approximately 32 hours away from its debt ceiling deadline with nary a solution in sight, Harvard Professor of Economics and author, Gregory Mankiw presented a sliver of optimism to a packed Vista Hall at the World Knowledge Forum in Seoul.

Interspersing imagery and excerpts from Oliver Wilde and Mark Twain in his illustrations, he raised fiscal issues currently plaguing the United States, while suggesting reforms on how to deal with such issues.

Citing Mark Twain's, "It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so," Dr. Mankiw sought to dispel two assumptions regarding healthcare reform today.

The reduction of healthcare costs without a reduction in quality, and the federal government's hope to avoid raising taxes on the middle class were assumptions that had missed the fundamental issue.

"Technology is coming up with new and better ways to prolong and enhance life," Dr. Mankiw said. After challenging the audience to choose between the past quality of healthcare at past healthcare prices versus those of today, it was clear that "healthcare is actually a better bargain now but we are not thinking of it in the right way."

The real issue was one of equity.

"We face this wrenching question that is, to what extent do we let inequality rise over time, and to what extent do we let everybody get access to these technologies and have increased taxes pay for it?"

If such rising costs were here to stay, so long as quality stayed on par, revenues to fund these increases could come from three tax reforms, as presented by Dr. Mankiw.

A broadening of the U.S. tax base by disallowing numerous deductions currently in place could serve as one source of additional revenue while reducing overall inefficiency. A value-added tax, one of the most efficient taxes for collecting revenue, but would negatively affect the middle class more, was another option.

The one reform Dr. Mankiw called himself "a big fan of" was a gasoline tax. Such a tax would not only raise needed funds, but also reduce negative externalities, or unintended consequences associated with driving.

"Global climate change, emission of carbon dioxide, congestion, accidents, and other negative externalities are sufficiently large, and the 40 cent per gallon gasoline tax that we currently have in the U.S. is not sufficiently large enough to correct them."

Should reform evade governments such as the US, Dr. Mankiw put forth a scenario that compared the consequences for Western Europe, whose tax rates are substantially higher than those of the US.

"One of the issues that we are going to face is whether Americans are going to work less than what they do today. If they work less, then this will be reflected in a lower per capita income," he said.

Whether Americans work more or less in the future, Dr. Mankiw did inject a sense of guarded optimism by citing a well known sociology experiment, the Robbers Cave study, in which two competing groups could only overcome a superordinate goal by working in unison. With Democrats and Republicans playing the role of the two groups, perhaps unity could indeed be achieved in overcoming this superordinate goal of tax reform.

Thirty two hours after Dr. Mankiw's lecture, the world will know what direction the US is heading in.