

# Can Economics Save the World from Rising Geopolitical Incertitude?

By Naoyuki Haraoka




There has been growing public distrust in the political elites' ability to deal with economic policy issues, such as continuous deflation, fiscal debt, expanding income inequality, and increasing job insecurity from structural adjustments due to globalization. The general public have a reason to distrust them, because most of these elites are intellectuals, graduates of prestigious universities or graduate schools, who are having to face an unprecedented landscape which they have never learned about. We are undergoing a significant paradigm shift in our epoch, symbolized by the United States adopting a lower profile in the domain of the economy as well as security, the US-China conflict over sensitive technologies, and a malfunctioning capitalism creating unacceptable levels of income inequality. The Fourth Industrial Revolution, driven by digital technology, has added further uncertainty by raising the possibility of low-skilled or medium-skilled labor being replaced by AI or IoT. The political elites are not yet well equipped with knowledge to deal with this possible rise in unemployment. But neither the general public nor the elites should be blamed for the political instability caused by their conflicting views and values. The paradigm shift goes beyond their experience and learning. In a globalized world, these conflicting views could lead to geopolitical crises, and so both ordinary people and intellectuals should strive to educate themselves to find suitable responses to them. No text book can provide these answers. Symposiums and forums are the best way to explore solutions, with

leading thinkers as speakers who may not be prepared with answers but who could provoke new ideas among the audience and participants. The elites and the general public must begin collaborating to find solutions to the geopolitical and economic uncertainties we face today, and the key to this collaboration must be respect for knowledge.

Knowledge must not be monopolized by political elites but needs to be widely shared among the public. Prestigious universities are not the only places where one can acquire knowledge and become an intellectual. People who are not fortunate enough to have the opportunity to learn at high-level academic institutes could educate themselves, at least about current policy issues, by paying attention to the work of think tanks. Distrust of elites should not lead to distrust of knowledge or intelligence. A truly intelligent person loves knowledge and learning regardless of his or her academic record.

This issue's subject is how economics can work to allay rising geopolitical uncertainty. Economics is often referred to as a dismal science and is not popular among the public, so it is a good subject to examine the public's anti-elitism. Anti-elitism could in a sense be anti-economics. But economics is not a monopoly of the elites, since it can provide vital knowledge for solving a wide range of critical issues, such as how to mitigate income inequality – one of the factors behind rising geopolitical risks.

The issue's cover story attempts to provide readers



with ideas to provoke positive thinking about the future. It will be seen that education is a crucial means for reducing the income gap between rich and poor. Capacity building by self-education through reading a think tank's publications or attending a policy seminar organized by a think tank may help to mitigate the excessive gap, and we hope our cover story helps to stimulate curiosity to learn about economics, in particular. It is also important to reiterate the crucial role of education in tackling the possible increase in unemployment due to the Fourth Industrial Revolution. Only those people with high skills or expertise gained through self-education, even if they are graduates, will be able to survive the serious competition in the machine age.

The first article of the cover story is my own short essay on "Economic Policy in an Age of Rising Geopolitical Risks". You may recall French economist Thomas Piketty's excellent book on income inequality, *Capital in the Twenty-First Century* (2013). Dr. J. Bradford DeLong, a distinguished economics professor at U.C. Berkeley, and his colleagues surveyed new issues on income inequality being developed by economists stimulated by Piketty's book and published *After Piketty: The Agenda for Economics and Inequality* in 2017. He kindly contributed a leading article on the political economy agenda after Piketty.

This is followed by interviews with three other economists. Dr. Heather Boushey, president & CEO of the Washington Center for Equitable Growth, who is also

one of the editors and contributors of *After Piketty: The Agenda for Economics and Inequality*, talks about the concern that income inequality today could be socially fixed by inheritance and thus result in reduced equality of opportunity. In particular, limited access to good education would seriously hamper social mobility and further increase income inequality.

Another contributor to *After Piketty: The Agenda for Economics and Inequality*, Dr. Mark Zandi, chief economist of Moody's Analytics, warns about the risk of income inequality destabilizing the economy and thus lowering growth potential through poor households' increased access to mortgage debt and credit card debt, as well as rich households' increasing dependence upon asset prices. This is an important observation, suggesting income inequality would be a problem not only in the social or political context but also in the macroeconomic context.

Finally, Dr. Linda Yueh, a distinguished economic journalist and author of *The Great Economists: How Their Ideas Can Help Us Today* (2018), responded to a wide range of questions on the role of economics today, not only about income inequality but also about the global economy in the face of the US-China technology war, post-Keynesian policies with little room for fiscal and monetary policy being implemented effectively, and even about the future of the capitalist economy.



**(Brief Introductions)****COVER STORY 1****Economic Policy in an Age of Rising Geopolitical Risks**

By Naoyuki Haraoka

Economists should unite in studying the wide range of reasons for income inequality and how to mitigate or eliminate them, returning to the original question set by classical economics in the 19th century that market mechanisms cannot achieve income equality but only optimal allocation of resources.

**COVER STORY 2****Suggestion on a Political-Economy Agenda after Piketty**

By J. Bradford DeLong

This discusses not only the economic research agenda suggested by Piketty's first book, *Capital in the Twenty-First Century* in 2013 but also that suggested by his second book, *Capital and Ideology*, in 2019. It points out that the central political-economic problem is that the center-right has become the "merchant right", a party working exclusively for the interests of those who have property.

**COVER STORY 3**

Interview with Dr. Heather Boushey, President &amp; CEO of the Washington Center for Equitable Growth

**Institutionalized Income Inequality Hampers Social Mobility**

By Japan SPOTLIGHT

In dealing with institutional drivers of inequality such as inheritance or gender inequality, we need to give people access to information to understand the problem.

**COVER STORY 4**

Interview with Dr. Mark Zandi, Chief Economist, Moody's Analytics

**Income Inequality Destabilizes Business Cycle & Lowers Growth**

By Japan SPOTLIGHT

A distinguished economic forecaster mentions that macroeconomic models need to catch up to the growing chasm between the rich and the poor in many parts of the world.

**COVER STORY 5**Interview with Dr. Linda Yueh, an economist at Oxford University and the London Business School, and author of *The Great Economists: How Their Ideas Can Help Us Today***Learning from the Author of *The Great Economists* – Linda Yueh**

By Japan SPOTLIGHT

The current breakdown in consensus around the economic system poses an opportunity for another battle of ideas to ensure that the system is reformed and made suitable for the needs of the 21st century.

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