TUCK SCHOOL OF BUSINESS AT DARTMOUTH
Leadership in the Global Economy
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Course Setting: Five Years Beyond the Trough of the Great Recession, What Next?

Today the world continues to struggle with the aftermath of the World Financial Crisis and Great Recession. Today the world continues to struggle with the aftermath of the World Financial Crisis. This crisis helped create deep recessions and high unemployment in most of the world's advanced economies. Economic recovery has taken hold in most of them, but that road is long and uneven. In finance and many other important sectors in many countries, levels of activity remain below pre-Crisis levels—and/or the recovery remains very sluggish relative to many other earlier recoveries. In addition, global capital markets remain quite fragile, with activity supported by continued historic interventions by many of the world's largest central banks.

Beyond the world's advanced countries, many middle- and low-income countries—China, India, and other rapidly developing economies—continue to grow smartly, but at rates far slower than their peak pre-Crisis years. Some business and government leaders in advanced countries see this growth as an opportunity to seize. Others contend that developing-country growth hurts them, and advocate for government policies to ameliorate this harm. And, leaders in many emerging markets are voicing greater concern about even slower growth in the future.

Several business-policy challenges await the rest of 2014 and beyond. How will the Euro-zone challenges of deflation, joblessness, and financial fragility resolve? How will the new Chinese leadership tell a new story about the "Chinese Dream" for a more-balanced, slower-growth future for the economy and country? Can India's new leadership re-kindle pro-growth policies? Will Mexico's dramatic policy reforms hold? Will geopolitical tensions in the Ukraine and Middle East derail recovery? Can the United States continue to make progress in healing its damaged labor market and in overcoming a slower speed-limit rate of growth? How will governments manage tensions over international trade, investment, tax, and currency policies? And, how will the answer to all of these questions affect global business leaders?

Governments undertook historic efforts to arrest the Crisis. Many central banks slashed target policy rates to near zero and undertook unprecedented expansions of their balance sheets by creating trillions of dollars out of thin air. Fiscal authorities around the world collectively borrowed trillions of dollars to support capital markets and aggregate demand, and they have assumed trillions of dollars more in various financial liabilities. Some of this fiscal loosening was by choice; some was a dramatic result of the collapse in private economic activity. In many countries, the fiscal and monetary stimulus measures that were initially seen as extraordinary and exigent now are persisting years beyond the Crisis trough. Should such extraordinary stimulus persist? When and how should it be unwound? Many voice concern about these questions.

Many governments also undertook historic interventions to prevent the collapse of other non-financial firms and/or industries deemed too strategic to fail. Iconic here was the tens of billions of dollars, bankruptcy assistance, and majority ownership the U.S. government provided to General Motors—arguably the most important global company of the 20th century. This support, however, was not sufficient to stave off the 2013 historic bankruptcy filing by the home city of General Motors, Detroit.

In the past several years venerable companies have gone bankrupt; leading CEOs have been fired; and there remains widespread hope yet uncertainty amidst workers, investors, and voters. How did the world get to this point? Who or what is responsible? What government policies can and should be pursued to improve world markets? What leadership challenges—and opportunities—will this ongoing crisis presented to you as your business career unfolds?

Course Goal: Your TPOV on Leading at the Intersection of Countries and Companies

One of the most striking developments of the World Financial Crisis—one whose causes and consequences will take years to fully understand—was the sharp expansion of the role of national governments in global business. This expansion has been both direct (e.g., nationalizing banks and companies in many other industries) and indirect (e.g., borrowing and printing trillions by central banks and fiscal agents).

Global businesses today encounter national governments as customers, as competitors, and as regulators across all key strategic dimensions. What has become commonplace is the leaders of global businesses and national governments struggling to understand each other's goals, constraints, and methods. Many CEOs and boards of directors are today finding that government leaders—and often their citizens as well, per movements such as Occupy Wall Street in America—who look askance at them, wary of their motives and consequences.

This dynamic, then, presents a central question for LGE: how will you lead global companies when national governments have so many more connections to your business—connections that often spring from government wariness, not support, of the private sector?

In this course, each of you is going to work to develop your own answers to this question—that is, your own Teachable Point of View about how business leaders should lead companies amidst increasingly-present governments of many countries. The framework we will use to organize your Teachable Point of View is Congressional testimony.

What is a Teachable Point of View? As we will discuss day one, academic and consultant Noel Tichy has characterized the Teachable Point of View (TPOV) as follows.

- "A teachable point of view is a leader's opinion on what it takes to win and what it takes to lead others … A teachable point of view becomes the basis for leaders to present a dynamic, compelling story to others. These stories create a case for change, a vision for where the organization is going, and an understanding of how to get there."
- "Acquiring a teachable point of view involved in-depth preparation by the leaders. Once they had a TPOV, they thought of creative ways to find teaching and learning opportunities. They tried to turn every interaction into a learning and teaching event."

Successful leaders—both in business and outside—tend to be individuals who can develop and articulate TPOVs in a way that others find compelling. You should note here the important contact point between LGE and Personal Leadership from last year. Remember how you learned in Personal Leadership about the six leadership-style templates? Successful TPOVs can be an important part of many leadership styles (e.g., the "visionary style")—and its component parts of Ideas, Values, Emotional Energy, and Edge can contribute to all six leadership styles.

Course Structure: Congressional Hearings and Testimony

The opening LGE week will set the stage for the course (class #1) and for where the global economy is today (class #2). Then, each of the next eight weeks will be centered around Congressional hearings at which you students will deliver testimony imagining that you are CEO of a globally engaged company or other global organization.

In the U.S. Congress, two of the most powerful committees with jurisdiction over matters of global business are the Committee on Ways and Means in the House of Representatives and the Committee on Finance in the Senate. Our LGE topics fall mainly under the purview of these two committees, and so your testimony each day should be directed either to Chairman and Representative Dave Camp (Republican, Michigan) or to Chairman and Senator Ron Wyden (Democrat, Oregon). When members of a Congressional committee are deliberating economic policy, they often convene hearings at which they invite witnesses to deliver a statement of testimony and then answer questions—sometimes under oath. Witnesses are often CEOs of companies or other organizations with business of relevance to the matters at hand. Each witness delivers oral testimony, which almost always is strictly limited to no more than five minutes, and written testimony, which can be longer and which enters the official Congressional record.

Please note that these U.S. practices for how the federal government engages the business community are qualitatively very similar to practices of many other countries throughout the world. Whatever countries you end up leading companies from and in, the ability to articulate TPOVs to government officials and other stakeholders will be a critical skill. To allow you to tailor LGE to the countries of your interest, on any given day—or, indeed, throughout the entire course—you should feel free to prepare any aspect of the course—general conversation, daily oral testimony, or longer written testimony—from the perspective of any country you like. Thus, for example, in our second week you can evaluate government support for strategic industries for any country you choose. Or, in our last week you can evaluate the need (or lack thereof) for a "New Deal for Globalization" from the perspective of any country you choose.

A typical week will consist of two days exploring a broad theme of importance in today's global economy. The general structure for each week will be as follows.

Day One

- *Around the World*. First, we will revisit any topics that might remain from the previous class session. Next, we will have a conversation about "Around the World"—i.e., LGE-relevant headlines of world current events that you or I have seen. To aggregate class preferences and to allow me to preview your ideas in advance of each class, please use of the on-line Around the World forum provided in Canvas.
- *Oral Statements of Testimony*. I will take a few minutes to introduce the hearing topic—with connections to the world today and to tools and ideas from your GEM core course last year. Then about four students will deliver their oral testimony on that day's topic. Each selected student will sit before the room at the witness table and speak. *Consistent with the practices of nearly every Congressional committee, you will have no more than five minutes in which to make your statement. No exceptions.*
- *Question-and-Answer Period*. The opening statements will lead to a full-class conversation in which anyone can ask questions of the witnesses about their testimony, which witnesses will answer as if under oath. I will loosely serve the role of Committee Chairman as needed, to help maintain an engaging and insightful conversation.

Day Two

- *Around the World:* Another open period to discuss current events and news items.
- *Summary and Debrief of the Hearing*. After *Around the World*, we will summarize and debrief the hearing of the previous day. People can share their assessments of the testimonies and subsequent discussion—both in terms of substance and style—to assemble perspectives on the business-leadership challenges of the week's topic.
- *Expanded Discussion of Weekly Topic*. This will provide an opportunity to examine the week's theme in a broader context. This discussion will explore international considerations, other industries and different student perspectives. As part of this discussion, I will convey my TPOV for your consideration. My thoughts and the overall discussion will be organized around and guided by a PowerPoint deck that contains key data, principles, frameworks, and linkages for you to reflect on and use in the future.

For each LGE session you can pick whatever company, industry, and home country you would like to imagine being CEO of—and you can change across days if you like. Whatever perspective you adopt for a given day, you should be prepared to deliver and deliberate testimony from that perspective. Here are some possibilities.

- The perspective of the company you matched with for your initial post-Tuck placement.
- The perspective of the company you hope to match with initially post-Tuck.
- The perspective of a company you hope to match with at some point in the future.
- The perspective of a company currently involved in the topics we are covering in LGE.

You may *not* write testimony from the perspective of yourself today. Part of my pedagogical TPOV is that too many leaders suffer from too little capacity to imagine and articulate possibilities. In LGE you will be required to testify in an imagined leadership role.

How Should You Prepare for and Participate in Class?

You are expected to prepare for, attend, and actively participate in every class.

Each week, there are two different ways you can participate in class conversation. One is offering to read and defend your testimony. Another is speaking in the general flow of the class—especially in the post-testimony conversation. And, a third is providing Canvas content by posting and commenting on Around the World items and by commenting on testimony students might post. As described below, participation in class conversation is one-third of your course grade. I evaluate based on both the quantity and quality of your interventions.

I encourage you to prepare each day with classmates, in whatever forum you find most constructive. However, your Congressional testimony (daily or longer—see grading description below) needs to be drafted by yourself alone, to practice developing your personal TPOVs.

For each week the syllabus lists two sets of recommended readings: contextual readings that explain and frame the week's issues and current-events readings of recent/ongoing examples of these issues. Beyond the syllabus readings, however, you should feel free to prepare for class using any other information you find relevant for your understanding of that week's issues. In particular, you may wish to review references in these readings or to find information specific to the company/organization from which you are providing your TPOV (e.g., recent coverage in the financial media or recent regulatory filings).

Course Grading

Your LGE course grade will be determined equally by the following three parts.

Class Participation

- This will be based on the quality and quantity of both your in-class participation and your online participation, which, as noted above, can entail Around the World material or testimony commentary. Offering oral testimony counts towards this part of you grade. More generally, so does your engagement in class conversation and online discussions.

Oral Testimony Hand-Ins

- You will need to hand in between one and eight oral testimonies, due each class session during which we have a Hearing. *Again, no oral statement should exceed five minutes. Given the pace at which most people speak, this means that the written version of an oral testimony should not exceed about two pages.* The more oral testimonies you prepare and hand in, the higher marks you will receive for this part of your grade. To maintain a fair balance, you should not expect to present in class all oral statements you prepare.

Longer Written Testimony Hand-In

- Select one of the eight topics we cover in the course, and prepare and hand in a longer testimony—up to five pages of double-spaced text—of your TPOV on this business policy issue. Your long testimony must be handed in to me or Rick Rielly by 4:00 p.m. EST on Friday, November 14.

I encourage you to engage with this class as much as you can via conversation and testimonies. Also, after class ends all LGE students will be eligible to participate in the LGE Forums, a lunch-hour Around the World conversation I will moderate periodically in the Winter and Spring terms. The LGE Forum is an optional discussion group to continue our learning in LGE.

The Academic Honor Principle

I take the Academic Honor Principle very seriously and have very clear policies for this course. As a reminder to all of us, here is a statement of Tuck's Academic Honor Principle.

> "Integrity and honesty in the performance of academic activities, both in the classroom and outside, are essential to the educational experience for which the Tuck School has always stood. Each member of the Tuck community accepts the personal responsibility to uphold and defend high ethical standards in all academic endeavors, and to promote an atmosphere in which honest and imaginative academic work may flourish."

Let me articulate how this Academic Honor Principle applies to LGE.

- *Class Conversation*: The goal of each day is to have a spirited yet respectful and fact-based exchange of opinions. To maintain a flourishing classroom atmosphere, your participation in class conversation should *at all times* respect the diversity of opinions being articulated, discussed, and defended. Teachable Points of View are, by definition, subjective. This is not to say that you should not engage and challenge the TPOVs of others—and yourself. It is to say that you should do so recognizing that many of the core questions of this course do not lend themselves to inherently right or wrong answers. It is also to say that a very important leadership skill is being able to respectfully and constructively agree to disagree with others. *One important point here: this course is not an exercise in preaching the Teachable Points of View of Matt Slaughter. I have my own TPOVs on LGE topics, which I will share to varying degrees to help support your learning. Your course grade in no way depends on how similar or dissimilar your TPOVs are to mine.*
- *Testimony Hand-Ins*: Any testimony hand-ins should be written by yourself only. Any references should be appropriately cited according to Tuck School guidelines. I regard plagiarism of any form, no matter how small or extensive, to constitute a severe violation of the Academic Honor Principle.
- *Longer Testimony Hand-In*: Your one longer testimony hand-in should be written by yourself only. Any references should be appropriately cited according to Tuck School guidelines. I regard plagiarism of any form to constitute a severe violation of the Academic Honor Principle.
- *Use of Laptop Computers and Other Communication Devices*. To provide a first-class learning environment, and out of respect for fellow students and visitors, students shall not use laptop computers, cellular telephones, or any other electronic communication device in any class session unless explicit permission to do so is granted by me. If your active learning is enhanced by using a laptop or other device for note taking, please just ask me about it.
- Finally and most importantly, you should recognize that the principle ingredient in the successful operation of the Academic Honor Principle is good faith among all parties. Situations occasionally arise in which the application of the Academic Honor Principle is unclear. In such cases, please just contact me for clarification.

Week One: September 8-9
Course Introduction and Global Economic Overview

Overview: In Class #1, we will preview LGE and explore the Teachable Point of View. In Class #2, we will survey the current global economic environment as a framework for the range of LGE topics we will cover together. What is the prognosis for near-term growth and inflation in key parts of the world? What medium- and longer-term challenges await? What opportunities are there for leaders to tell new TPOVs to guide the global economy? Imagine that for your country of interest, you were chief of staff to the head of state. What "To Do List" would you hand to this leader? Do you think s/he is currently addressing topics on your list and, if so, succeeding at that? Why or why not?

Testimony Topics: None.

Readings: There are four readings for class this week.

1. "How Leaders Develop Leaders," by Eli Cohen and Noel M. Tichy, 1997.
   This article explains the research on and practice of the TPOV.
2. "When Giants Slow Down," *The Economist*, 7/27/13.
   This reading examines how speed-limit rates of economic growth have been much faster in many emerging markets than in many advanced countries in earlier decades—and yet are slowing down quite noticeably. It also discusses why future speed-limit rates of growth in many fast-growth economies look set to be slower.
3. "Breaking Up the Euro Area: The Merkel Memorandum," *The Economist*, 8/11/12.
   This hypothetical memo to Chancellor Angela Merkel from her most trusted advisors outlines how and why Germany might break up of the Eurozone. She is one of the most powerful women leaders in the world today, and it is quite likely she has had to ponder (or is still pondering?) these sorts of options. Were you she, what would you do today?
4. "How Business Can Rescue the Economy," by Peter G. Peterson, *Bloomberg Businessweek*, 11/5/09.
   This closing editorial from Peter G. Peterson, billionaire co-founder of the private-equity firm Blackstone, argues that, "It's time for corporate leaders to step up with a Marshall Plan-type movement that takes an active role in the public interest." Do you agree?

Important Note on Broad Readings to Support LGE: By design, LGE aims to extend your understanding and use of many topics from your GEM core course. Your GEM materials may occasionally be useful references for LGE. Also, as we will discuss in Class Session #1, to maximize your LGE learning I recommend that you keep abreast of current global economic and financial matters by regularly reading items such as *The Financial Times, The New York Times, The Wall Street Journal*, and *The Economist*. You are encouraged to suggest articles and issues for our *Around the World* discussions each day.

Week Two: September 15-16
Government Support for Strategic Industries: Sound or Poor Policy?

Overview: Many world governments have long attempted to foster faster economic growth in industries deemed to be "strategic." In many countries, the spur to identify and support strategic industries (through what is typically called "industrial policy") is now stronger because of slow growth and high unemployment in the wake of the World Financial Crisis and Great Recession.

An industry that today garners support in many countries is clean-technology energy industries such as solar and wind power. China, Germany, Spain, the United Kingdom, the United States, and others have recently provided billions of dollars in support through mechanisms including direct subsidies, low-interest loans, price supports, and trade barriers. Advocates claim that clean-tech will spawn critical innovations and thus many good-paying "green" jobs. Critics worry that government efforts have rewarded inefficient, politically connected companies and have stifled sustainable innovation. Have these interventions in clean-tech been sound or poor public policy?

A critical issue we will explore this week is what makes an industry "strategic." Beyond energy, many world governments are deeply involved in many other industries. The U.S. list includes residential real estate (through both fiscal, monetary, and regulatory policy), higher education (through public provision of loans to students), and health care (through public supply of and demand for health-care services in many forms). And, add automobiles to the list for the United States and many other countries over the past several years: think of the tens of billions of dollars in emergency assistance provided to General Motors and Chrysler, including loans pre-bankruptcy, heavily managed bankruptcy, and ownership post-bankruptcy. What criteria do you think define an industry as strategic?

Testimony Topics: For the clean-tech industry, please explain to the Committee your views on recent government support. Was government support sound or unsound? Why? Was there some sort of market failure where government intervention made good sense? How did interventions in this industry affect your company—were you helped, hurt, or unaffected? Looking ahead, how would you recommend that the government define whether a particular industry is strategic? (*Feel free to write testimony for a different industry; if you do, then please comment on the same set of questions—including the critical last one of definition.*)

Contextual Readings: Each of the two short readings from *The Economist* both surveys the recent worldwide resurgence in industrial policy and discusses the economic and political rationales for favoring certain industries. The Brookings white paper considers these rationales in the context of clean energy. Finally, many of this week's issues were raised in portions of GEM's *The Choice*, which you could re-visit for additional context.

1. "Tinker, Tailor," *The Economist*, 10/1/11.
2. "Picking Winners, Saving Losers," *The Economist*, 8/5/10.
3. *The Choice*, by Russell Roberts—passages addressing strategic-industry arguments.
4. *Clean Energy: Revisiting the Challenges of Industrial Policy*, The Brookings Institution Climate and Energy Project, June 2012.

Current-Events Readings: There are two sets of current-events readings for class this week. One set is for the clean-tech industry, which will be our primary focus. The other set is a collection covering other industries that commonly receive "strategic" support: higher education, housing, automobiles.

For clean tech, there are nine additional short readings. One is a TPOV provided by then-U.S. Secretary of Energy Steven Chu, at a 2011 hearing convened by the U.S. House Energy and Commerce Committee to examine U.S.-government support of the clean-tech industry. The other readings offer facts and analysis of different governments' support for different key parts of the clean-tech industry. (The link to the full Chu hearing is at http://energycommerce.house.gov/hearings/hearingdetail.aspx?NewsID=9090.)

1. Testimony by Steven Chu, Secretary U.S. Department of Energy, November 2011.
2. "Obama Green-Tech Program that Backed Solyndra Struggles to Create Jobs," *The Washington Post* news story, 9/14/11.
3. "In Rush to Assist a Solar Company, U.S. Missed Signs," *The New York Times* news story, 9/22/11.
4. "Car-Battery Start-Ups Fizzle," *The Wall Street Journal* news story, 5/30/12.
5. "China Group Slams U.S. Wind-Turbine Tariffs," *The Wall Street Journal* news story, 7/30/12.
6. "Renewed Tax Credit Buoys Wind-Power Projects," *The New York Times* news story, 3/21/13.
7. "The Cost Del Sol," *The Economist* news story, 7/20/13.
8. "China Aims Solar-Panel Tariffs at U.S., South Korea," *The Wall Street Journal* news story, 7/18/13.
9. "Tariffs Boost Solar-Panel Makers in the U.S." *The Wall Street Journal* news story, 7/25/14.

If you want to examine other industries often deemed strategic, here are a set of further readings.

Higher Education:
1. Remarks by President Obama on College Affordability, 8/23/13.
2. "Student Lenders Are Pressed to Ease Terms," *The Wall Street Journal* news story, 7/25/13.
3. "Ripping Off Young America: The College-Loan Scandal," *Rolling Stone*, 8/29/13.
4. "Legal Education on Trial: Is the Third Year Necessary?" *The Wall Street Journal* news story, 8/26/13.

Housing:
1. "The Cult of Home Ownership Is Dangerous and Damaging," *The Financial Times* op-ed, 8/27/13.
2. "House Bill Ending Fannie and Freddie Shows Promise, *The Washington Post* house editorial, 7/25/13.

Automobiles:
An excellent reference here would be to the various TPOVs (including mine) voiced during the 11/19/08 hearing convened by the U.S. House Financial Services Committee, "Stabilizing the Financial Condition of the American Automobile Industry." This resides at http://financialservices.house.gov/hearing110/hr111908.shtml.

Many countries continue to support their automobile manufacturers. It might be most efficient to search the situation for a country of interest, if this is an industry you want to examine. For example, here is a recent reading on the situation in Canada.

1. "Reactions Are Mixed in Canada as Chrysler Bluntly Calls for More Help." *The New York Times* news story, 3/3/14.

Week Three: September 22-23
The World Financial Crisis: Are Pay Caps for Financial Executives the Solution?

Overview: As the world struggles to rebuild normal functioning in global capital markets, regulators in many countries are looking to restructure regulation to minimize (or eliminate?) the probability of future such crises. Perhaps the most heavily scrutinized area for reform is in the structure and/or level of compensation in financial companies. Many argue that excessive pay and/or poor compensation structures contributed to the crisis, e.g., by allowing key executives to realize large payouts on profits even if such profits later disappeared. In many countries the issue of finance compensation continues to draw sharp attention: e.g., debates in the United Kingdom of special taxes on bankers' bonuses; controversy in the United States amidst large payouts to executives—at AIG, or more recently the "London Whale" for JPMorgan; and the "Occupy Wall Street" protests in the United States, where some called for salary caps.

Testimony Topics: Please explain to the Committee your views on the compensation practices in financial services. Are there features in the typical structure and/or level of compensation in this industry that contributed to the World Financial Crisis? What changes to pay practices do you recommend? In particular, the Committee will be especially interested in your views on whether finance executives are paid too much and or paid in the wrong way. Is there a market failure where government intervention makes good sense? Or, are there other capital-market issues more important than executive compensation that deserve higher priority? More generally, is finance a strategic industry meriting special government oversight? And, how are you addressing these issues inside your company?

Contextual Readings: The first two contextual readings are Congressional testimonies by two academics well known for their scholarship on executive compensation; each discusses a number of key issues at hand, with ample references and historical examples of policies targeting executive compensation. The Economist reading is a short survey of executive compensation.

1. Congressional Testimony by Professor Lucian Bebchuck.
2. Congressional Testimony by Professor Kevin Murphy.
3. *The Economist*, "Attacking the Corporate Gravy Train," 5/28/09.

Current-Events Readings: There are 11 current-events readings for class this week. Fin-reg reform in general, and bankers' pay in particular, remains a prominent issue in many countries. These 11 readings survey some key companies, countries, and policy issues. Many of these articles link to additional academic or policy studies (e.g., #11, the GAO report) that you can examine if you like to explore a particular angle.

1. A letter to all G20 leaders by U.K. Prime Minister Gordon Brown, German Chancellor Angela Merkel, and French President Nicholas Sarkozy. Written in advance of the 2009 G20 summit, this letter argues for coordinated reform of financial compensation. It was written near the trough of the World Financial Crisis and Great Recession; what TPOV did these leaders voice about finance?
2. "Meet Them in St. Louis: Bankers Move," *The Wall Street Journal* news article, 12/13/12.

3. "Pay Still High at Bailed-Out Companies, Report Says," *The New York Times* news article, 1/28/13. (The report on which this article is based can be found at: http://www.sigtarp.gov/Audit%20Reports/2013_SIGTARP_Bailout_Pay_Report.pdf.)
4. "Swiss Vote for Corporate Pay Curbs," *The Financial Times* news article, 3/3/13.
5. "Europe's Finance Chiefs Reject British Move to Ease Caps on Bank Bonuses," *The New York Times* news article, 3/5/13.
4. "Regulators Get Banks to Rein In Bonus Pay," *The Wall Street Journal* news article, 4/24/13.
5. "Regulatory Rift Develops Globally Over Financial System," *The Wall Street Journal* news article, 7/17/13.
6. "Life on Wall Street Grows Less Risky," *The Wall Street Journal* news article, 9/10/13.
7. "Investment Banks Set to Cut Pay Again Despite Rise in Profits," *The Financial Times* news article, 12/2/13.
8. "There Is No Such Thing as the Banking Profession," *The Financial Times* op-ed column, 2/12/14.
9. "For Proof Wall Street Is Changing, Look at Citigroup's Numbers," *The New York Times* news article, 7/15/14.
10. "Bank of England Unveils Stricter Rules on Bonuses," *The Financial Times* news article, 7/30/14.
11. *Large Bank Holding Companies: Expectations of Government Support*, U.S. Government Accountability Office, July 2014 (This is just the executive summary of the full report, which you can find and read on-line if you like.)

No obligation, but if you are interested in the broader issue of financial-regulation reform, then you might be interested in the work of the Squam Lake Group, which Tuck Professor Ken French and I helped create. Our non-partisan, non-affiliated Group of 15 academics wrote several white papers aimed at offering guidance on regulatory reform. All our white papers can be found on-line via the Council on Foreign Relations or at the home page of us Lakers (which can be found at http://www.squamlakegroup.org/). Many of these individual white papers were collected and expanded upon in our book, *The Squam Lake Report: Fixing the Financial System*, published in 2010 by Princeton University Press: http://press.princeton.edu/titles/9261.html.

Week Four: September 29-30
Rise of the Emerging Markets—Causes and Consequences

Overview: One of the most remarkable features of globalization in the past generation has been the rapid economic growth realized by so many middle and low-income countries, such as the BRIC nations of Brazil, India, China, and Russia (as discussed week one).

The single biggest goal of current economic policy in many emerging markets is to foster continued productivity growth—growth in output per worker. Productivity growth is the only way for any country to enjoy sustained increases in living standards. In the past generation, China in particular has realized the world's greatest episode of productivity growth. Since the start of the "Open Door" policy economic reforms in 1978, average living standards have risen by a factor of almost 20. India and many other countries have had similar, albeit not quite as dramatic, growth runs. Despite all this growth, per capita income in many fast-growth markets remains a fraction of that in many advanced countries. Their growth may well have far to go.

But this economic integration has already generated massive changes in the global economic landscape on dimensions such as international trade and investment. And it has also generated important political pressures for both companies and countries as well. In the United States, for example, many today regard the very large trade deficit with China—$318.4 billion in 2013—as a symbol for all that is unfair about emerging markets in general and China in particular.

Many business and government leaders in advanced countries levy three particular charges of unfair competition at developing countries in China. One is unfair efforts to keep currencies "artificially" low; in particular, that that China is a "currency manipulator" whose yuan peg to the U.S. dollar should be somehow offset by retaliatory trade barriers levied against Chinese imports until China changes its currency regime. A second is that intellectual property is inadequately protected; in particular, that China's explicit government support of "indigenous innovation" by Chinese companies involves outright theft of IP from western multinationals operating in China. And a third is unfairly low wages: that countries like India and China pay wages too low to fairly compete in global markets against higher-wage advanced nations.

Testimony Topics: We in the U.S. Congress are trying to understand what unfair advantages, if any, fast-growth emerging markets wield over the United States today and what our government should do about these advantages. As a global corporate leader, how do you explain the emerging-market success? Is this success driven by unfair advantages like currency manipulation, IP theft, or wage undercutting? How is your company engaging these markets—as a source for new revenue, as a center for reducing costs, or as something else? How does your emerging-market engagement affect your U.S. workers and other stakeholders, like local communities in which you operate? Do you support the U.S. Congress taking a tougher stand against these countries? The Committee is especially interested in hearing explicit answers to whether you agree that developing countries have one of the three unfair advantages cited above, and whether you support Andy Grove's idea for U.S. tariffs on imports from developing countries to help close the U.S. bilateral trade deficits with these countries.

Contextual Readings: Our discussions this week will draw and build on the GEM the framework for what forces drive a country's long-run "speed limit" rate of economic growth. The week-one article, "When Giants Slow Down," discusses whether and why the speed limits are slowing down for a number of key emerging markets. For any particular emerging market in which you might be interested this week, an excellent resource for exploring the current economic and policy situation are the country reports of the Economist Intelligence Unit, available on-line through Feldberg Library.

Current-Events Readings for This Week: Below are listed 12 recent articles that address emerging-market issues such as currency regimes, IP protection, and wages. As with earlier weeks, several of these suggested readings link to additional resources such as related articles, policy studies, and academic studies. You can explore whatever particular topics you like.

1. "Emerging Economies—Taking a Stand," *The Financial Times*, 7/16/14.

    This article analyzes the recent announcement by the five BRICS countries to create their own multilateral bank aimed to support their countries' development, currency regimes, and other policy goals—in defiance of their unhappiness with the current function and governance of the World Bank and the International Monetary Fund.

2. "Multinationals Fret as China's Anti-Monopoly Probes Intensify," *The Financial Times*, 8/6/14.

    This article examines how global multinational companies are becoming more concerned about whether Chinese regulators are increasingly favoring Chinese companies.

3. "Modi Revs Up Reform," *The Wall Street Journal*, 8/20/14.

    This article discusses the prospects for whether new Indian Prime Minister Modi will pursue policies to accelerate India's speed limit.

4. "Mexico Passes Fresh Energy Laws, Advancing Sector Reform," *The Wall Street Journal*, 8/2/14.

    This article discusses the efforts of President Pena Nieto to open Mexico's energy sector to foreign investment and know-how—as part of his broader efforts to liberalize a number of Mexican industries (such as education) to accelerate economic growth.

5. How the U.S. Lost Out on iPhone Work" and "In China, Human Costs Are Built into an iPad," *The New York Times*, 1/21/12 and 1/25/12.

    This pair of Pulitzer-Prize-winning articles that garnered a great deal of attention examines the nuanced interactions that one of the world's leading companies, Apple, has with China. Who gains and who loses from these interactions?

6. "China and IP Protection" *The Financial Times*, 3/22/11.

    This piece cites a recent survey of thousands of businesses operating in China on the IP problems they face, and discusses the recent trends in Chinese IP policy.

7. "U.S. Ups Ante for Spying on Firms" *The Wall Street Journal*, 2/21/13.

This front-page story explores the U.S. government's new anti-espionage policies in light of new reports on pervasive IP espionage from China and elsewhere.

8. "The Rise of China's Innovation Machine," *The Wall Street Journal*, 1/16/14.
   This front-page story explores the different ways in which China is expanding its output in knowledge-intensive innovation activities.

9. "The Other Elephant." *The Economist*, 11/4/10.
   Written on the eve of U.S. President Obama's trip to India, this article discusses the opportunities and threats that Indian companies and workers present to America.

10. "Outsourcing to India Draws Western Lawyers," The New York Times, 8/4/10.
    This article examines one of the important forces driving India's economic success post-1991: the inflow of capital, ideas, and know-how from foreign multinational companies in skill-intensive activities like law.

11. "Bad Roads, Red Tape, Burly Thugs Slow Wal-Mart's Passage in India," *The Wall Street Journal*, 1/12/13.
    This article examines the various challenges a large global business like Wal-Mart faces expanding in a fast-growth emerging market like India.

12. Andy Grove, "How America Can Create Jobs," *BusinessWeek*, 7/1/10.
    This recent essay by the founder and former CEO of Intel garnered much attention, in large part because it advocated a U.S. trade war against countries like China and India: "The first task is to rebuild our industrial commons. We should develop a system of financial incentives: Levy an extra tax on the product of offshored labor. (If the result is a trade war, treat it like other wars -- fight to win.)" Do you agree with this TPOV?

Week Five: October 6-7
Global Warming and Climate Change

Overview: There is now a consensus among most scientists that the world's average temperature is rising and that a major force causing this rise is carbon-dioxide emitted through human industrial activity. Recently, the U.S. Congressional Budget Office summarized the policy challenge of global warming and climate change.

> "The amount of damage associated with [global] warming remains uncertain, but there is some risk that it could be large and perhaps even catastrophic. Reducing that risk would require restraining the growth of CO_2 emissions—and ultimately limiting those emissions to a level that would stabilize atmospheric concentrations—which would involve costs that are also uncertain but that could be substantial."

It is now well documented that three main fuel sources account for almost all human CO_2 emissions: coal, oil, and natural gas. Stated slightly differently, the two main activities that emit CO_2 are electricity generation (where globally the predominant power sources are coal and, increasingly, natural gas) and transportation (where globally the predominant power source is petroleum derivatives).

World governments remain far apart on how (and, in some cases, whether) to control CO_2 emissions. A fundamental reason for this is that these emissions are a *global externality*: firms and consumers around the world do not price the cost of these emissions into their consumption and production choices, and emissions in one country do not stay within its borders but rather pollute the entire world.

And, there is a large unanswered question of international distributive justice. The *stock* of most old pollutants already in the atmosphere today was produced by today's high-income countries. But, today and for any foreseeable future, the *flow* of most new pollutants going into the atmosphere is and will be produced by today's low-income countries because today and for any foreseeable future, global demand for carbon-based energy—for both electricity generation and transportation—will be accounted for by low-income countries.

This week we will analyze the policy challenges of global warming and CO_2 emissions.

Testimony Topics: We in the U.S. Congress are trying to understand what how, if at all, national governments should address global warming and climate change in an increasingly global economy. Please share with the Committee the views of you and your company regarding a climate change. Do you agree that CO_2 emissions create a global externality? If so, should governments try to limit these emissions? What are the efficiency (and other?) trade-offs among the three main policy options to limit CO_2 emissions: command-and-control regulations, a cap-and-trade system, or taxation? Might different countries rationally differ in what policies they prefer for addressing CO_2 emissions? For example, does the intuition of a tax on CO_2 emissions mean that every firm in every country should pay the same tax? Should low-income countries somehow face a smaller burden to reduce CO_2 emissions than high-income countries?

Contextual Readings: Global warming and climate change can be usefully framed in two somewhat distinct lines: the underlying science—on the effects to date of human CO_2 emissions and on the possible future effects of CO_2 emissions—and the possible public-policy options towards changing market-driven CO_2 emissions. This week we will focus on the pubic-policy questions; thus the contextual readings below. Of course, you should feel free to bring into discussion as you like issues of the underlying science.

1. *Policy Options for Reducing CO_2 Emissions*, U.S. Congressional Budget Office, February 2008. This executive summary nicely consolidates the main points of the overall report (which, if you like, you can locate online and read in its entirety).
2. "Getting Warmer: A Special Report on Climate Change and the Carbon Economy," *The Economist* 12/3/09. This overview essay from this special report lays out several key issues about climate change. There are a number of references in this special report you can consult as you like.
3. "Is It Worth It?" *The Economist* 12/3/09. This essay examines the economic costs and benefits of mitigating climate change.
4. "Unpacking the Problem," *The Economist* 12/3/09. This essay proposes a set of policies to mitigate climate change.
5. *Risky Business: A Climate Risk Assessment for the United States*. June 2014. The executive summary of this new report (which, if you like, you can locate online and read in its entirety) frames climate change in the finance perspective of risk management. Leading this report are three prominent private and public-sector leaders: Michael Bloomberg, Hank Paulson, and Thomas Steyer. You can also read Hank Paulson's TPOV on climate change and the impetus for and logic of this report in his related 6/21/14 *New York Times* op-ed column, "The Coming Climate Crash." Do you find persuasive his TPOV?

Current-Events Readings: Below are listed 10 recent articles that address various climate-change issues of relevance this week. As with earlier weeks, several of these suggested readings link to additional resources such as related articles, policy studies, and academic studies. You can explore whatever particular topics you like.

1. "Blueprints for Taming the Climate Crisis," *The New York Times*, 7/8/14. This news-and-analysis article surveys a new UN study that forecasts what policy and economic changes might be necessary to avoid catastrophic climate change.
2. "Climate-Change Report Was Watered Down, Says Leading Scientist," *The Financial Times*, 4/26/14. This news article opens with the following provocative sentence: "A politically sensitive part of the latest report by the world's leading authority on climate change was gutted at the insistence of government officials, one of the study's authors has revealed."
3. "Industry Awakens to the Threat of Climate Change," *The New York Times*, 1/23/14. This news article discusses how many large global companies are starting to think more strategically about how climate change might shape their business.
4. "Rethinking How to Split the Costs of Carbon," *The New York Times, 12/24/13*. This news-and-analysis article discusses mechanisms that might address the global nature of the global-warming externality.

5. "China, India to Drive World's Growing Energy Use," *The Wall Street Journal*, 7/25/13. This news article summarizes the annual *International Energy Outlook* report from the Energy Information Agency of the U.S. Department of Energy. The full report (it is long!) can be found here: http://www.eia.gov/forecasts/ieo/.
6. "Asian Coal Use Grows Despite Gas Challenge," *The Wall Street Journal* news article, 7/25/13. This article describes the rising use of coal for electricity fuel in Asia.
7. "The East Is Grey," *The Economist*, 8/10/13. This briefing examines how concerns both within and beyond China about its pollution are shaping Chinese policy choices.
8. "Airpocalypse Drives Ex-Pats Out of Beijing," *The Financial Times*, 4/1/13. This news column analyzes how poor air quality is complicating multinationals' efforts to post expatriates to Beijing.
9. "No Need to Panic About Global Warming," *The Wall Street Journal* op-ed column, 1/26/12. This op-ed was penned by 16 scientists who are skeptical of the scientific evidence on both global warming and humanity's contribution thereto.
10. "Why the Global Warming Skeptics are Wrong," *The New York Review of Books* essay, William Nordhaus, 3/22/12. In this essay, climate-change scholar William Nordhaus addresses global-warming skeptics.

Week Six: October 20-21
What to Do With Immigration Policy?

Overview: Immigration policy is an important dimension of globalization with which countries grapple. Two economic concerns are commonly voiced about freer immigration: that sending countries suffer a "brain drain" loss of key individuals' talent and taxes; and that natives in receiving countries suffer downward wage pressure via stiffer labor-market conditions. Beyond these economic concerns, immigration often raises even larger questions about national sovereignty, ethics, and legality.

Where immigration policy is arguably most live of an issue today is the United States. On June 27, 2013, by a 68-32 vote the U.S. Senate approved passage of the Border Security, Economic Opportunity, and Immigration Modernization Act. This 1,198-page piece of legislation (which you can examine here--http://www.govtrack.us/congress/bills/113/s744/text) would dramatically overhaul U.S. immigration law on all essential dimensions including high-skilled immigration, less-skilled immigration, and a path to citizenship for the estimated 11 million immigrants currently in America illegally. Since Senate passage of this bill, however, little immigration-reform progress has been made in the U.S. House of Representatives. Indeed, prospects for House movement dimmed considerably when a few months ago House Majority Leader Eric Cantor lost his district's primary election to a largely unknown opponent whose main campaign plank was claiming that Cantor's pro-immigration-reform views were too lenient.

At the same time, America's immigration stall has also been fostered by the recent crisis of tens of thousands of undocumented children arriving on the country's southern border from mainly Latin American countries. This crisis has raised deep questions about the ethical responsibility towards migrants driven by safety and political, rather than economic, concerns. More broadly, immigration policy connects with countries' overall demographic considerations. Dozens of countries today confront populations and labor forces that are growing much more slowly than they used to—or, indeed, that are already or are soon to start shrinking in absolute terms: Japan, Russia, and China are three such examples. These demographic patterns are driven largely by birth rates and death rates; beyond these slow-moving forces, immigration is the main policy lever countries might pull to alter these overall patterns.

Of greatest relevance to global business leaders may be America's high-skilled immigration policy. For many years, April 1 has been the day the U.S. Citizenship and Immigration Services begins accepting new H-1B visa petitions for the subsequent fiscal year, which started a few weeks ago on October 1. Established by the Immigration Act of 1990, each H-1B visa allows a company to sponsor a highly educated foreigner—typical occupations include architects, doctors, engineers, and scientists—to work in the United States for at least three years. The H-1B program, which accounts for nearly all skilled immigrants admitted to work here each year, is currently capped annually at 65,000 with a bachelor's degree or higher plus an additional 20,000 with a master's degree or higher. As was the case in many earlier years, for fiscal 2015 demand for H-1B visas was so high that within five days of April 1, 2014 U.S. CIS closed the visa-application window and allocated the visas via lottery among the much-larger number of applications received (this year a record 172,500).

The Senate bill would greatly expand skilled immigration into the United States. It would boost the annual H-1B cap to 110,000, plus another 25,000 per year for advanced-degree graduates in science, technology, engineering, and mathematics from U.S. schools, and with the possibility of raising the annual cap to 180,000 should demand warrant it. The Senate bill would also create a new merit visa that would each year allow up to 250,000 skilled immigrants based on a points system based on educational attainment and employment history. There would also be a visa category for foreign entrepreneurs looking to start businesses in America, akin to the current EB-5 program. However, the bill would sharply restrict the ability to sponsor and deploy skilled immigrants for companies that employ a sufficiently large number of immigrants in their U.S. workforce. Many immigrant-intensive IT companies have voiced strong concerns that these restrictions would severely impair their competitiveness.

Testimony Topics: Please share with the Committee the views of you and your company regarding the Border Security, Economic Opportunity, and Immigration Modernization Act.

- In terms of high-skilled immigration: What criteria should guide U.S. immigration policy towards highly skilled workers? Should it be trying to balance market supply and demand? Should it be some broader economic or non-economic goal? Do all Americans benefit from skilled immigrants, or do some Americans feel wage pressure due to greater labor-market competition? Should the answer to this question matter for U.S. immigration policy—or that of any other country in the world? Do highly skilled immigrants contribute to your company? Are there any downside costs to your colleagues? Should there be any restrictions on how reliant any single company in American can be on skilled immigrants? All things considered, what limits—if any—should there be on skilled immigration into America?
- In terms of less-skilled immigration: What criteria should guide U.S. immigration policy towards low-skilled workers? Should it be trying to balance market supply and demand? Should it be some broader economic or non-economic goal? Do all Americans benefit from less-skilled immigrants, or do some Americans feel wage pressure due to greater labor-market competition? Should the answer to this question matter for U.S. immigration policy—or that of any other country in the world? Do less-skilled immigrants contribute to your company? Are there any downside costs to your colleagues? All things considered, what reforms to less-skilled-immigration policy do you recommend to this Committee?
- In terms of policy towards illegal immigrants: Should there be a path to citizenship for immigrants in America illegally? If so, what should that path look like? If not, why not? Would you opt for a path to legal status without citizenship? Should the treatment of illegals be somehow linked to border security or to other parts of overall immigration reform? Please share your views on children: how should these most-vulnerable migrants be addressed?

Contextual Readings: The three contextual readings survey both the research on the economics of high-skilled immigration and also the current policy discussion of high-skilled immigration. The first reading addresses what we know about how skilled immigrants shape important economic outcomes including productivity growth and wages. Read at least its two-page executive summary; the more-detailed analysis is in the following three sections. It focuses on the United States, but the economic linkages discussed here apply more generally. The second and third readings analyze some of the legislative particulars and fiscal and economic implications of the U.S. Senate proposal for immigration reform. The NFAP white paper contrasts current U.S. law with possible legislative changes, much from the perspective of the hiring companies. The CBO analysis models how S.744 would alter fiscal revenues, fiscal outlays, and several key economic outcomes such as GDP and wages. All three framing readings contain numerous references to other studies that you can pursue as you like.

1. *Talent, Immigration, and U.S. Economic Competitiveness*, June 2013 white paper, Gordon H. Hanson and Matthew J. Slaughter.
2. *House and Senate Legislation on High-Skill Immigration*, June 2014 policy brief, National Foundation for American Policy.
3. *The Economic Impact of S.744*, June 2013, U.S. Congressional Budget Office.

Current-Events Readings: There are 15 short current-events readings for class this week. Several explore the current immigrant debates in other countries such as Canada, Chile, Germany, and Norway. Others examine particular immigration-policy proposals that have been floated in different countries in recent years. And, a few Congressional testimonies, including one by Bill Gates, offer sharply different TPOVs: which do you find compelling? Why?

1. "The New Land of Opportunity for Immigrants Is Germany," *The Washington Post* news article, 7/27/14.
2. "Anti-Immigration Party Occupies the Center of an Uneasy Debate in Norway," *The New York Times* news article, 1/23/14.
3. "Drain or Gain?" *The Economist*, 5/26/11.
4. "Green-Card Blues." *The Economist*, 10/28/10.
5. "Give Me Your Scientists." *The Economist*, 3/5/09.
6. Congressional Testimony by William H. Gates, Chairman of Microsoft, March 12, 2008, before the U.S. House Committee on Science and Technology. Do you agree with this TPOV in support of skilled immigration?
7. Congressional Testimony by Ronil Hira, Rochester Institute of Technology, April 22, 2013, before the U.S. Senate Committee on Judiciary. Do you agree with this TPOV that is critical of skilled immigration? (http://www.judiciary.senate.gov/hearings/hearing.cfm?id=8cbd56caad16c74c7ff47a4bf3bfabdf)
8. Congressional Testimony by Brad Smith, General Counsel of Microsoft, April 22, 2013, before the U.S. Senate Committee on Judiciary. Do you agree with this TPOV in support of skilled immigration? (http://www.judiciary.senate.gov/hearings/hearing.cfm?id=8cbd56caad16c74c7ff47a4bf3bfabdf)
9. "A Look at the Details of the Senate Bipartisan Immigration Bill," *The Washington Post* news article, 5/21/13.
10. "CBO: Senate Immigration Bill to Save $175 Billion," *The Wall Street Journal* news article, 6/18/13.
11. "Indian Outsourcing Firms Cry Foul on Bill," *The Wall Street Journal* news article, 8/28/13.
12. "Chinese Investors Get Picky Over U.S. Visa-for-Cash Deal," *The Wall Street Journal* news article, 3/19/13.
13. "Other Countries Court Skilled Immigrants Frustrated by U.S. Visa Laws," *The Washington Post* news article, 2/18/13.
14. "The Lure of Chilecon Valley," *The Economist*, 10/13/12.
15. "Canada Seeks Immigrants Who Fit Better," *The Wall Street Journal* news article, 8/31/13.

Week Seven: October 27-28
Should Multinational Corporations Pay More Taxes to Avoid Exporting Jobs?

Overview: Many of the concerns articulated about globalization often involve multinational corporations. These companies are commonly alleged to be "exporting jobs" out of their home countries into foreign affiliates located abroad. Moreover, it is commonly alleged that a primary motive for exporting jobs is to evade home-country profits by locating employment and other activity abroad in lower-tax jurisdictions. Do multinational companies really export jobs, and really do so for tax reasons? How should home-country governments tax the foreign operations of these companies?

Many governments around the world today worry about global corporations somehow unfairly evading their tax liabilities. At the same time, many of these governments have been changing their business-tax laws—or contemplating such changes—to try to attract and retain the high-value operations of these global corporations. Governments of the United Kingdom and the United States have been among the most prominent in debating the tax obligations—both legal and moral—of global corporations, often in high-profile hearings at which company executives have been called to defend their tax and broader business practices. In the United States, this issue exploded onto the front pages in spring and summer of 2014 amidst a wave of "inversions" in which a U.S.-headquartered multinational company becomes a foreign-headquartered multinational company by merging with a foreign-headquartered company and locating abroad the nationality of the newly merged entity. President Obama referred to such companies as "corporate deserters" and shared the TPOV that, "I don't care if it's legal. It's wrong."

President Obama has proposed reform of U.S. international-tax laws, in a proposal entitled, "The President's Framework for Business Tax Reform." A main piece of this reform would be to curtail deferral of taxation of foreign-source income. The reason deferral exists in U.S. tax code is that nearly all foreign countries operate territorial tax systems, not worldwide tax systems like ours. Under worldwide taxation, U.S. multinational companies are taxed not just on their U.S. earnings but also on their foreign-source earnings as well—at a current national statutory rate of 35%, highest among the 34 OECD countries in contrast to the current OECD average corporate tax rate of about 24%.

Under current U.S. law, active business income earned by a foreign affiliate of a U.S. multinational is generally subject to U.S. tax only when those earnings are repatriated to the U.S. parent (e.g., via a dividend payment). This practice of "deferring" the U.S. tax liability on unrepatriated earnings accords with that of nearly all major countries: most other OECD exempt altogether foreign-source income while the remainder allows substantial deferral.

Testimony Topics: Please share with the Committee whether current U.S. tax law helps or hinders the global operations of your multinational company. How important are tax considerations to your firm's strategic planning? Can you please explain to the Committee whether and why the tax burden on companies like yours should be decreased, kept the same, or increased? And, very importantly, can you please tell the Committee if your company exports jobs out of the U.S. and if you think corporate inversions are a legitimate business strategy? If you could start from scratch, what sort of corporate-tax policy would you recommend for the

U.S. government? Please try to be as specific as possible with your recommendations. In particular, please state: whether you think the statutory tax rate should be changed (and, if so, to what level); whether particular industries should receive lower tax rates than others (and why); and whether or not the government should tax the foreign earnings of its global companies.

Contextual Readings: The three contextual readings for this week lay out some of the essential facts about current tax law in the United States and other countries—both specifics about the law and comparative data. International tax can get fascinatingly complicated very quickly; these two readings provide sufficient basics that we can deliberate intelligently both the main issues of taxation of global companies and the broader issues of the role of these companies in the global economy in terms of jobs, wages, and economic opportunity. The recent Peter Merrill testimony offers an excellent overview of the current global tax environment here in mid-2014. The White House document frames clearly different policy options. *The Financial Times* analysis column succinctly summarizes the economics driving corporate inversions.

1. Congressional Testimony by Peter Merrill, Principal of PWC, July 22, 2014, before the U.S. Senate Committee on Finance.
2. *The President's Framework for Business Tax Reform*, The White House, February 2012. This document lays out and explains President Obama's proposed changes to business taxation; the proposals for international tax appear mainly in pages 13-15.
3. "Tax Avoidance: The Irish Inversion," *The Financial Times* analysis column, 4/30/14.

Current-Events Readings: There are 17 current-events readings for class this week. The first five offer some TPOVs and context on the current U.S. feud over corporate inversions. You can find literally dozens and dozens of related articles in the recent financial press. Other readings explore tax issues in other countries today, such as Japan and India. Still others explore the more general role of multinational companies in today's global economy—e.g., the strong TPOV voiced by Apple CEO Tim Cook.

1. Congressional Testimony by Allan Sloan, Senior Editor of *Fortune* magazine, July 22, 2014, before the U.S. Senate Committee on Finance. This testimony offers a sharp TPOV on corporate inversions that echoes the cover-story that *Fortune* ran at about the same time. Do you agree with this TPOV on the taxation of global companies?
2. "Ignoring the Facts About Corporate Inversions," The Wall Street Journal op-ed column by Miles D. White, CEO of Abbott Laboratories, 7/18/14. This op-ed offers a TPOV on corporate inversions that is diametrically opposed to that of Allan Sloan, based in part on Mr. White's recent decision to sell part of Abbott to a company to be domiciled in the Netherlands. Do you agree with this TPOV on the taxation of global companies?
3. Open Letter from Senator Richard J. Durbin to Gregory D. Wasson, CEO of Walgreens, 7/22/14. In this letter Senator Durbin articulates a clear TPOV to CEO Wasson, whose company Walgreens is currently headquartered in Senator Durbin's state of Illinois but at the time was considering an inversion to be domiciled in England. Do you agree with the Senator's TPOV? If you were Mr. Wasson, how would you have replied to this letter?
4. "The Muddled Road to Overhauling Corporate Taxes," *The New York Times* news article, 8/6/14.

5. "How Tax Inversions Became the Hottest Trend in M&A," *The Wall Street Journal* news article, 8/5/14.
6. "Japan's Abe Sets Corporate Tax Cut Target," *The Financial Times* news article, 6/13/14.
7. "U.S. Tech and Pharma Park Cash Offshore, *The Financial Times* news article, 6/13/14.
8. "Taxing Time for Corporates in India," *The Financial Times* news article, 12/22/13.
9. Congressional Testimony by Tim Cook, CEO of Apple, May 21, 2013, before the U.S. Senate Permanent Sub-Committee on Investigations. Do you agree with this TPOV on the taxation of global companies?
   (http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code_-part-2)
10. Congressional Testimony by William J. Sample, Corporate Vice President of Microsoft, September 20, 2012, before the U.S. Senate Permanent Sub-Committee on Investigations. Do you agree with this TPOV on the taxation of global companies?
    (http://www.hsgac.senate.gov/subcommittees/investigations/hearings/offshore-profit-shifting-and-the-us-tax-code)
11. "OECD Unveils Global Crackdown on Tax Arbitrage by Multinationals," *The Financial Times* news article, 7/19/13.
12. "Starbucks Resumes Tax Payments in Britain," *The Wall Street Journal* news article, 6/23/13.
13. "Apple's Web of Tax Shelters Saved It Billions, Panel Finds," *The New York Times* news article, 5/20/13.
14. "How Apple Sidesteps Billions in Taxes," *The New York Times* news article, 4/28/12.
15. "Big U.S. Firms Shift Hiring Abroad," *The Wall Street Journal* news article, 4/19/11. This front-page story generated much attention on the hiring patterns of U.S multinationals in the 2000s.
16. "A Warning Sign from Global Companies," by Matt Slaughter and Laura Tyson, *Harvard Business Review* March 2012. This short piece by Laura and me presents some facts about the role of global companies in the U.S. economy.
17. 7/1/10 op-ed in *The Wall Street Journal* op-ed by Martin Baily, Matt Slaughter, and Laura Tyson, "The Global Jobs Competition Heats Up." We three advised on a McKinsey Global Institute Report, *Growth and Competitiveness in the United States: The Role of Its Multinational Companies,* key points of which this op-ed highlights. Do you agree with our TPOV?

Week Eight: November 3-4
Fiscal Challenges & Solutions:
To Avoid Fiscal Crisis, How Much Taxation of the Wealthy or Spending Cuts?

Overview: For many countries, the current and longer-term fiscal outlook is sobering. Very large fiscal deficits have recently been run to try to help stabilize economic employment and output in the wake of the World Financial Crisis and Great Recession. In recent years several countries including Greece, Ireland, and Portugal required massive international fiscal assistance—even with which Greece required two major "controlled" defaults. In recent weeks Argentina again defaulted, a continuation of its woes in the wake of its major default in 2001.

In the medium and long term, aging populations and slow economic growth are expected to exert substantial fiscal pressure on dozens of countries including China, India, Italy, Japan, Spain, the United Kingdom, and the United States. It is unclear what countries will summon the political will to close their deficits without crisis; thus, for example, the historic 2011 decision of S&P to downgrade U.S. long-term Treasury debt from AAA.

For many countries, the fiscal problems of the federal government are compounded by fiscal pressures at the state and local levels. The 2013 bankruptcy of Detroit, Michigan was perhaps the most vivid example of these localized fiscal woes: its world-leading automobile companies were eclipsed by global competitors, its government failed to match outlays and promises with the eroding economic base, and its citizens who had better opportunities fled. Today Detroit is slashing outlays and cutting pension and health-care outlays to its retirees.

Many analysts—citizens, business leaders, elected and appointed government officials—say that large fiscal deficits require tax increases in addition to spending cuts. But such arguments raise the important distributive-justice question of who should pay how much in taxes? In many countries, voices are arguing that high-income, high-wealth individuals should pay higher taxes. Recent budgets in France and Italy levied a 3% tax surcharge on high earners, and newly elected President Hollande is pushing to raise the top marginal income tax rate in France to 75%. In the United States, at the start of 2013 the top personal income-tax rate in America rose from 35% back to the 39.6% it had been for much of the 1990s. Despite this, disagreement continues to rage about the proper tax rates for the well-off.

Other voices say that fiscal stability requires greater spending restraint—in particular, slower growth or outright cuts in spending on "entitlement" programs that support the economic well-being of citizens through transfers to boost income, pay for health insurance, and provide other benefits such as food and shelter. In many countries cuts to entitlement spending would fall predominantly on the elderly, and thus raise the important issue of intergenerational justice. For example, the three main U.S. entitlement programs of Medicaid, Medicare, and Social Security transfer resources mainly from younger workers—and future generations—to the currently old. As with discussions of taxation of the well-off, here, too, there are sharp disagreements: over the fairness, timing, and scale of restraint on entitlement-transfer spending. Why should today's vulnerable elderly sacrifice to support the extravagant consumption of the wealthy, some will ask.

Testimony Topics: In your role as CEO of a global organization, can you please tell the Committee how the current and looming fiscal deficits affect your business?

- Do you think that a sound way to start closing these fiscal gaps is for high-income, high-net worth executives such as yourself to pay higher taxes? If so, please be very specific on what tax increases you advocate—starting at what earnings level, and how large of increases—and be specific on whether you would renounce your personal citizenship in response to your personal taxes becoming unacceptably burdensome.
- Do you think that a sound way to start closing these fiscal gaps is for slower growth or outright cuts in fiscal transfers to health and income entitlement programs such as Medicaid, Medicare, and Social Security? If so, please be very specific on what spending restraints you advocate?
- If you support neither of these broad policy options, then please explain why not and what alternative(s) you favor.

Contextual Readings: There are six scene-setting readings for the fiscal issues this week. The first pair of readings from *The Economist* present issues common across so many countries. The next five contextual readings examine the particular case of the United States. As you review these contextual readings, try to recall and apply the fiscal framework from GEM: what are the definitions of G and T; how do governments choose different levels of G and T; how do households and companies—and thus overall countries—react to changes in fiscal policy? You may well want to review briefly your GEM notes on fiscal policy to prepare for this week.

1. "Hunting the Rich" and "Diving Into the Rich Pool," *The Economist*, 9/24/11. This cover story and related analysis story examine the economics and politics underlying the recent drive in so many countries to have governments raise taxes on high-income people.
2. *The Long-Term Budget Outlook*, June 2014, U.S. Congressional Budget Office. Provided here is the executive summary of CBO's long-term fiscal outlook for America. CBO provides a central estimate along with sensitivity analysis based on factors such as labor-productivity growth and health-care costs. You can read particular parts (or all!) of the outlook online.
3. *The Distribution of Household Income and Federal Taxes, 2008 and 2009*. Congressional Budget Office, July 2012. This short document gives an overview of who earns what in income and who pays what in taxes in America, using the most-current data available at the time of writing this report.
4. "The Numbers inside a Hot-Button Issue." *The Wall Street Journal*, 8/6/12. This short but powerful essay by David Wessel explicates several key facts about the U.S. budget challenges.
5. "America's Debt Dilemma: A Looming Crisis," *The Financial Times*, 1/21/13. This short analysis piece by Robin Harding frames the overall U.S. budget challenge.
6. "Tracking Your Federal Tax Dollars." *The Wall Street Journal*, 11/6/10. This short article by Laura Saunders draws on then-current non-partisan analysis to summarize America's current spending choices in a very personal way by showing where federal taxes go for two hypothetical families: a working couple with income of $200,000 and a retired couple with income of $100,000. The data are now a bit dated, but the relative orders of magnitude are still accurate.

Current-Events Readings: There are 12 current events readings for class this week. Some readings discuss the current and future fiscal situations in particular jurisdictions around the world. Other readings offer personal TPOVs on what constitutes just taxation. And, still others offer particular policy proposals for raising revenue and/or curbing spending.

1. "Expatriate Americans Break Up with Uncle Sam to Escape Tax Rules." *The Wall Street Journal*, 6/22/14. This news article discusses Americans renouncing their citizenship for tax reasons.
2. "Constitutional Council Approves Hollande's 75% Tax on High Earners," *The Financial Times*, 12/29/13. This headline is self-explanatory about current French tax policy.
3. "That Russian Movie Star, Gérard Depardieu," *The New York Times*, 1/3/13. What do you think of the fiscal-mobility TPOVs of Gérard Depardieu and Vladimir Putin in the context of France aiming to tax high-earners at much higher rates?
4. "Indigestion for 'Les Riches' in a Plan for Higher Taxes." *The New York Times*, 8/7/12. This news story examines French citizens contemplating moving to avoid higher taxes.
5. "Achtung Baby: Bono Defends U2 Tax Moves," *Forbes*, 9/24/13. This column examines the TPOV of global music icon Bono regarding the tax planning he and his band U2 have undertaken over many years to reduce their overall tax liability. Do you agree with Bono's TPOV?
6. "Uneasy in the Political Climate, Mickelson Talks Like Someone Ready to Step Away," *New York Times*, 1/20/13. In this news article PGA Hall of Fame golfer Phil Mickelson voices concerns about the higher federal and state tax rates he now faces. What do you think of the TPOV he voices here?
7. "U.S. Public Finance: Day of Reckoning," *The Financial Times*, 12/3013. This analysis column examines the sobering fiscal facts facing many U.S. states and municipalities, with a particular focus on Chicago, Illinois.
8. "Detroit Files for Bankruptcy," *The New York Times*, 7/18/13. This news story presents the sobering economic and fiscal facts that brought this iconic city to bankruptcy.
9. "The Unsteady Fiscal States of America," *The Economist*, 7/27/13. This essay presents the sobering fiscal facts facing many U.S. states and municipalities.
10. "The Buffet Alternative Tax," *The Wall Street Journal*, 9/20/11. This house editorial takes issue with Warren Buffet's long-standing argument—made most recently in a *New York Times* op-ed—that high-income people like him pay too little in taxes.
11. "Buffet's Moral Foundation Shapes Tax Idea," *Bloomberg*, 9/29/11. This essay by Roger Lowenstein offers a different analysis of Buffet's tax ideas than that of the WSJ.
12. "Raise Taxes but Not Tax Rates," *The New York Times*, 5/4/11. This op-ed by Martin Feldstein draws an important distinction on ways to boost total tax revenue. Do you like his TPOV?

Week Nine: November 10-11
Do We Need A New Deal for Globalization?

Overview: Political pressure for a more protectionist tilt to economic policy has risen significantly in recent years in many countries—even before the World Financial Crisis. In many countries, this policy drift reflects a sharp drop in voters' support for more open borders. The outcome is rising support for barriers to trade, investment, and immigration—and to market forces more generally—in many countries. Thus did the *Financial Times* run a set of front-page stories in July 2007 entitled, "Protectionist Backlash Sweeping Rich Nations"—a backlash that more-recent data shows is, if anything, stronger today.

Why is this protectionist drift? The Scheve/Slaughter essay offers an explanation for this protectionist drift: policy is becoming more protectionist because voter attitudes are becoming more protectionist, and this shift in attitudes is a result of stagnant or falling incomes for so many workers—often juxtaposed against sharply rising incomes for those near the top. (The essay also offers a TPOV for how to arrest the protectionist drift.)

For a period in spring 2014, the best-selling non-fiction book in America was, unexpectedly to nearly all, the dense economics tome *Capital in the 21st Century*, by French economist Thomas Piketty. This impressive work first documents rising income and wealth inequality around the world in recent decades; it then discusses why capitalism is likely to perpetuate widening inequalities except during times of massive economic and social disruption such as wars; and it finally argues for new policies to temper inequality including a global wealth tax and high marginal income tax rates on high-earners. *Capital* generated great attention and controversy in many countries, both because of poor income growth and related rising inequality in so many countries—and because of the radical nature of the policy proposals.

The sobering empirical reality in many (but not all) countries cannot be disputed at this point: income inequality on nearly all conventional measures has been rising sharply in recent years, and in many countries this skewness of income growth has been accompanied by flat to falling real incomes for a sizable share of workers. Justly or not, many who feel threatened by globalization argue that governments should do more to curtail—not expand—the forces of the global economy and technological change. Thus, for example, the Occupy Wall Street movement a few years ago in America and its minimum-wage push today—and the ongoing civil and sometimes violent protests even in fast-growth countries such as Brazil (surrounding the recent World Cup), India (per the vow of new Prime Minister Modi to oversee a new government "dedicated to the poor—the poorest of the poor sent me here, and our dream is to fulfill their dreams"), and China (per the voice new President Xi is giving to the "China dream" of the burgeoning Chinese middle class). Are globalization and innovation unfairly favoring the proverbial one-percenters? And, if so, what is to be done?

Testimony Topics: The Committee is interested to hear whether you care about recent earnings trends in the United States and many other countries, with poor real and relative earnings growth for most workers? Please feel free to answer from the perspectives of you as a citizen, as a taxpayer, and as a successful business leader. Do you agree with the idea that addressing falling earnings via tax redistribution will work? More generally, what responsibility, if any, do those stakeholders who benefit from economic forces like globalization—in particular, multinational firms and high-skill, high-income individuals—bear for helping share those gains more broadly?

Contextual Readings: The literature on widening income and wealth inequalities in countries around the world has become vast in recent years; these contextual readings try to offer a concise overview. The first two readings summarize and comment on *Capital*; additional links and references to this work can easily be found here. The next four readings summarize recent cross-country evidence on the skewness of income growth—often with falling incomes for many. The seventh reading focuses on the U.S. case.

1. "Thomas Piketty's 'Capital,' Summarized in Four Paragraphs," *The Economist*, 5/3/14. This short essay is a self-explanatory essential read.
2. "A Modern Marx," The Economist, 5/3/14. This short essay argues that this "blockbuster book is a great piece of scholarship, but a poor guide to policy." Do you agree with this TPOV?
3. "ILO Reports Rebound in CEO Pay and Widening Income Inequality," *The Financial Times*, 6/3/13.
4. *World of Work Report 2013: Repairing the Social Fabric*, June 2014, International Labor Organization. The short executive-summary of this report is what the above *FT* article summarizes. It offers a global overview of current employment and income patterns; acknowledging the obvious variance in the particular circumstances of countries, it nevertheless states that "economic and social inequalities remain high or are rising in most regions." On-line you can explore in greater detail this report and/or particular countries.
5. "Spectre of Stagnating Incomes Stalks Globe." *The Financial Times*, 6/27/11. This article by Chris Giles—and a related set of articles the FT ran in subsequent days, which you can review if you like—documents stagnant and/or falling earnings for large shares of workers in countries such as Germany, Japan, the U.K., and the U.S.
6. "The Rise of the Global Elite," *The Atlantic*, January/February 2011. This cover-story essay by Chrystia Freeland documents and discusses the stunning growth in income in so many countries for the very small set of highest-skilled, highest-income workers.
7. "Can the Middle Class Be Saved?" *The Atlantic*, September 2011. This essay examines the downward pressure on the income of so many Americans—both the economic facts and possible policy responses.

Current-Events Readings: There are 12 current-events readings offered for this week, including a few with TPOVs by me. Overall, do you think we need some sort of new deal for globalization?

1. "Fast-Food Workers Intensify Fight for$15 an Hour," by Steven Greenhouse. *The New York Times*, 7/27/14. Do you support increasing the minimum wage? If so, to what level and why?
2. "AFL-CIO Finds Hope in Inequality Debate," by Robin Harding. *The Financial Times*, 7/2/14. What role should labor unions play in today's global economy?
3. "Inequality Is Not Inevitable," by Nobel-laureate Joseph Stiglitz. *The New York Times*, 6/27/14 (note that this essay was the last in a many-part series the *NYT* ran on inequality, called The Great Divide, which you can explore on-line). This essay offers a sharp TPOV that government policy can ameliorate market forces towards inequality.
4. "The CEO Aristocracy," by Robert Samuelson, *The Washington Post*, 6/23/14. Do you think that CEOs today constitute a separate aristocratic class?
5. "Walmart, Starbucks, and the Fight Against Inequality," by Timothy Egan. *The New York Times*, 6/19/14. What role can and should global companies-and their leaders?-play in offsetting inequality?
6. "Next UAW Chief Faces Two-Tier Wage Dispute," by Christina Rogers. *The Wall Street Journal*, 6/2/14. Are two-tier wage systems just? Will you look to implement them when you are a leader?
7. "Our Economic Pickle," by Steven Greenhouse. *The New York Times*, 1/12/13.
8. "The Backlash against the Rich Has Gone Global," by Gideon Rachman, *The Financial Times*, 8/6/12. This essay offers a TPOV that "an international backlash against the wealthy … is reshaping politics from Europe to the U.S. to China." Do you agree?
9. "The Crisis of Middle-Class America," by Edward Luce, *The Financial Times*, 7/30/10.
10. 10/7/09 op-ed in *The Financial Times* by Matt Slaughter, "Time to Tackle America's Widening Inequality." Do you agree with this TPOV?
11. 10/3/12 op-ed in *The Financial Times* by Matt Slaughter, "Hope for the Disillusioned U.S. Heartland." Do you agree with this TPOV?
12. "A New Deal for Globalization," by Kenneth F. Scheve and Matt Slaughter, *Foreign Affairs*, July/August 2007. In this essay, we argue that further trade and investment liberalization need to be linked to fiscal progressivity. Do you agree with this TPOV?