Lecture 7 - Low Interest Rates Macro

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Contents

1 Impacts on taxation issues

Does **class income affect saving propensities**? The answer is necessarily yes.

If, then the rich can be taxed.

This all amounts to: why do the rich save in the first place? Utility for wealth == there is a Pareto improvement in this case. Public debt is a way for them to "feel rich", while at the same time

Thrift is good for society Culture too

However the big issue with public debt is

Paper of Jean Baptiste Michau.

According to neoclassical economics, income taxation must strike a balance between equity and efficiency. Redistributing income leads to efficiency losses, as it dimishes workers' incentives to produce income in the first place. Income redistribution leads to lower output, but also to output that is distributed more equally. According to the first welfare theorem, a market economy leads to a Pareto optimal outcome: it is impossible to make someone better off without making someone else worse off. This basic equity-efficiency trade-off is pervasive in the political debate and underlies much of modern public economics, following Mirrlees [1971].

However, Keynesian economics provides a mechanism through which more redistribution might actually increase output overall, at the same time as it reduces inequality. The idea that the economy suffers from a shortage of aggregate demand coming from increases in inequality has been put forward recently by mainstream academics such as Raghuram Rajan, former chief economist of the IMF, and now governor at the Bank of England (Rajan [2010]), as well as by Robert Reich, US Secretary of Labor from 1993 to 1997 (Reich [2011]). This was noted by Minsky [1976]: "Although class ideas with respect to consumption are alluded to in The General Theory, and although class income affects the saving propensities in the work of Keynesian economists, such as N. Kaldor and J. Robinson, in general in the mainstream Keynesian literature the law for the determination of the surplus (i.e., the consumption function) treats income as a homogeneous glob in determining consumption behavior."

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