

# The Andover Economic Review

AER

---

## Issue 1



# 2025

Edited by the Andover Economics Society at Phillips Academy



# Table of Contents

---

<b>Intro to the Andover Economic Review.....</b>	<b>2</b>
<b>Income Redistribution: Problems of Politics and Migration by Andrew Liu.....</b>	<b>3</b>
<b>Changes in Japan’s Labor and Immigration Policy Address Depopulation Concerns by Henry Zimmerman.....</b>	<b>9</b>
<b>A Recipe for Disaster: How Change, Money and Behavior Create Financial Crises by Jakob Kuelps.....</b>	<b>12</b>
<b>Will the Green Transition Save China’s Economic Growth? by Lisa de Boer .....</b>	<b>16</b>
<b>L’état, C’est Quoi?: Balanced Power versus Absolute Rule in the Rupture of Financial Bubbles by Grant DeHoog.....</b>	<b>19</b>

# Intro to the Andover Economics Review

---

Welcome to the Andover Economic Review!  
This is a collection of writing by students in the Andover Economics Society, the result of hours of research and work. Enjoy reading a range of economic topics, from financial disasters to monetary policy!



# Income Redistribution: Problems of Politics and Migration by Andrew Liu

---

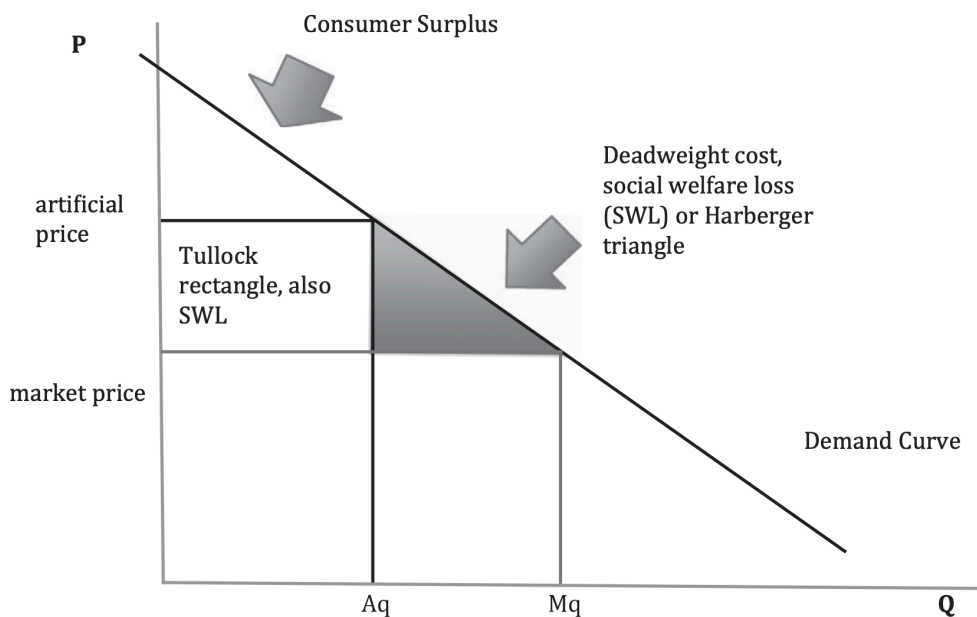
Rising income and wealth inequality has become one of the predominant social issues in the 21st century. It is the root of both social unrest and political instability (Qureshi, 2023). In this, the solution to inequality seems simple: economic redistribution. Those who have the most need the least, and those who have the least need the most. As a result, in the process of wealth redistribution, each dollar taken from the rich results in less lost utility than the utility gained by the poor.

Unfortunately, wealth redistribution is a topic that spans both moral and ideological battlegrounds. Surrounding questions of both process and intensity, it has become one of the most politically polarizing subjects in the United States (Ares, Bürgisser, and Häusermann, 2021). This is important because redistribution policy in this country is implemented through the Federal system. As individual states implement self-contained systems of redistribution, political polarization widens the differences between state-to-state policy. First, this essay explains why redistributive radicalization is politically encouraged in sub-national regions. Then, it observes the resulting economic spillovers that manifest through migrational externalities. Lastly, it covers several ways to move forward with policy in the future.

## **The Causes of Sub-National Political Polarization in Redistributive Policy**

In public choice theory, constituents of a political municipality act based on their own, often fiscal, self-interests. They support policies that they perceive will make them better off and oppose those that will make them less well off while remaining ignorant about issues that do not affect them. Likewise, public choice theory posits that politicians will also act in their self-interest, enacting policies that will garner support for their election, not necessarily those that benefit the whole.

This imbalance between politicians’ motives and those of society can create a phenomenon known as rent-seeking, where politicians cater to the needs of minority concentrated voting blocks and lobbyists, groups that hold more voting power than the unorganized majority. In effect, these smaller organized entities vote politicians into power while simultaneously gaining free “rent” in the form of favorable legislation, the benefits of which are greatly outweighed by the inefficiencies caused to society. By creating policies that do not reflect the actual needs of an economy, rent-seeking introduces artificial prices into the market, which—as seen in Figure 1—creates deadweight losses for society as a whole.



GRAPH 3.1 Tullock’s rectangle

Figure 1: Societal losses are represented by Tullock’s rectangle and Harberger’s triangle. (Rodriguez, 2021)

The effects of rent-seeking are intrinsically tied to income redistribution, as redistributive policies are often the “rent” that politicians leverage for support. Collectively referred to as “pork-barrel” policies, such redistributive legislation will often disregard economic efficiency in

favor of big-name programs that will appease voter blocks. The result is increased polarization in economic policy and an inflated divide between the policies that benefit the rich and those that benefit the poor. Politicians in different states will cater to different directions, causing a rift between jurisdictions.

As shown in Figure 2, the nature of politics has allowed per capita welfare spending to vary as much as 370% between different states. States also differ in their methods of taxation. There are 41 states with income and wage taxes, and 30 contribute to income redistribution by using progressive taxation, taxing higher incomes at higher rates. However, 11 states implement flat tax rates, and nine do not even have an income tax. By taxing all individuals the same or removing income tax altogether, these states forgo a large part of income redistribution, the actual act of taking money away from the wealthy.

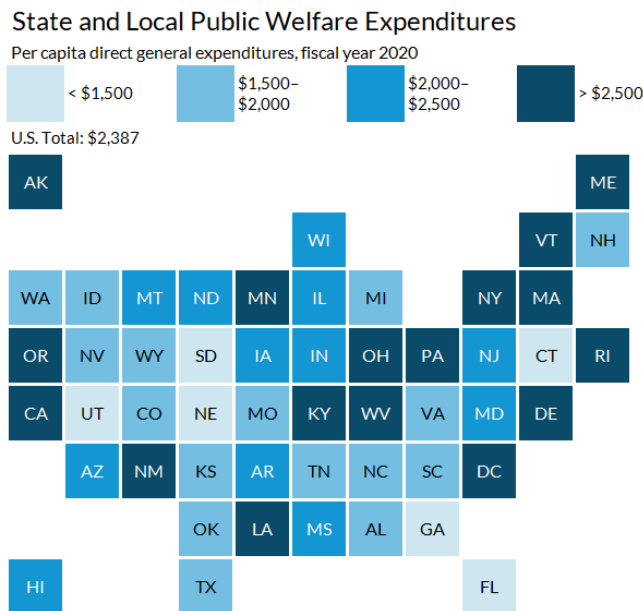


Figure 2: Differences in State Per Capita Welfare Spending

With some states ranking amongst the most progressive countries in redistributive taxation and others ranking amongst the least, political polarization has distorted the landscape of redistribution across the country.

### Migrational Consequences of Contrasting Sub-national Redistributive Policy

By creating significant regional differences in redistributive policy, sub-national political polarization creates negative fiscal externalities when migration is considered. Under individual interests, low-skill labor will naturally migrate to high-income redistribution areas with greater

welfare. Likewise, high-skill labor will be attracted to areas of low-income redistribution where taxation is minimized. The system bears the consequences as a whole; the non-migrating resident will consequently see a jurisdiction with far more welfare recipients than it can support or one with far more wealth imbalance that does not get redistributed.

Figure 3 visualizes the process of migration, where Region 1 and Region 2 are jurisdictions with unequal wages at  $n_1$ , their native populations. The regions are modeled by the lines  $f_1'(l_1)$  and  $f_2'(l_2)$ , respectively. When migration is allowed, labor will flow until a wage equilibrium is reached at  $l_1^e$ , the new labor population. The model changes when a per capita subsidy is added to Region 1, represented by the line  $f_1'(l_1) + s$ . The equilibrium point of the subsidized region always occurs further to the right, representing an increase in migration caused by income redistribution.

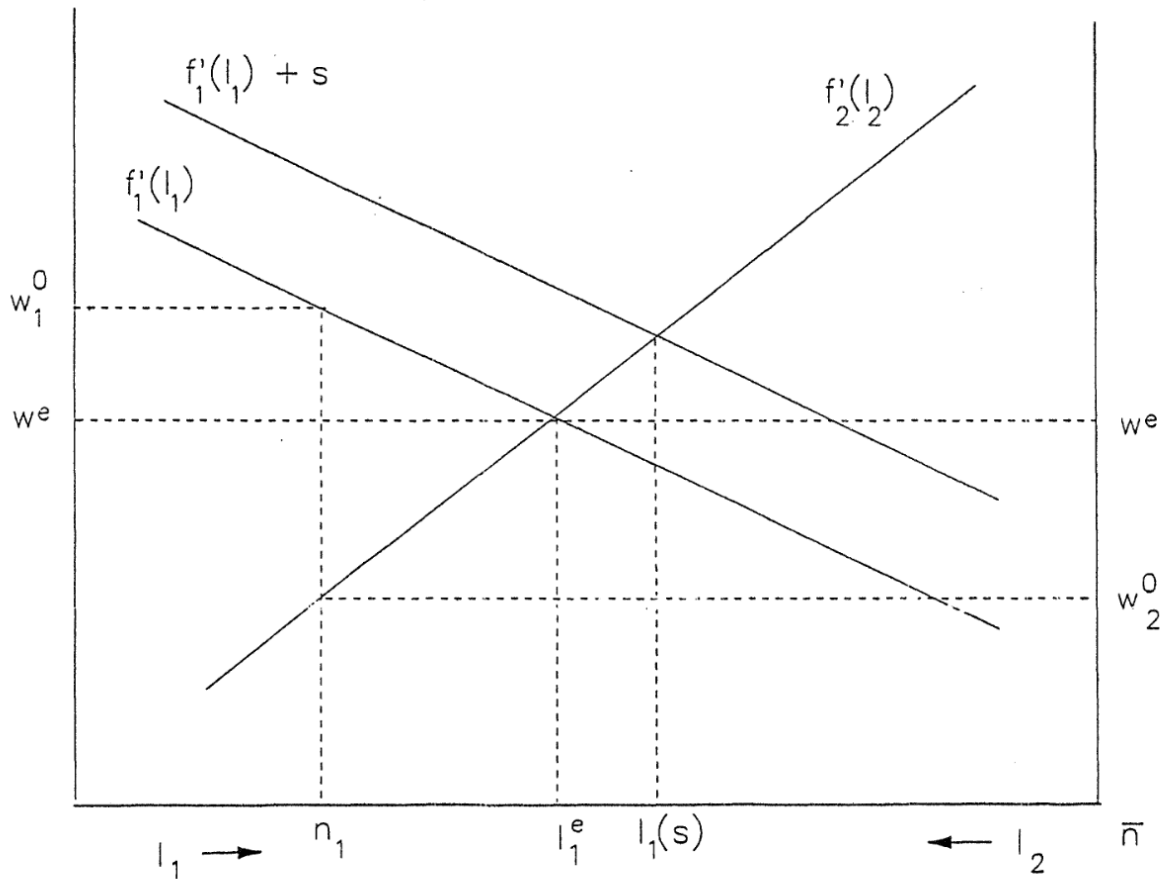


Figure 3: Labor Flow and Wages with Migration Between Jurisdictions.

As progressive taxation pays for subsidies in a redistributive system, migration of redistribution beneficiaries places a higher fiscal burden upon existing high earners. Since the gross earnings of individuals native to the jurisdiction have not changed, the result is a

deadweight loss within the jurisdiction. Figure 4 illustrates this through an income distribution frontier curve.

Line PQ represents possible income distributions between high and low earners in a closed-border scenario. Point A shows a possible distribution point of income without migration. When migration is allowed, an influx of low-income migrants decreases the pay of native low-earners. Simultaneously, increased overall labor increases the income of high earners/owners of production, pushing the income distribution point upwards to A'. At this point, subsidies are implemented to raise the income of low earners back to pre-migration levels. However, this income redistribution must also cover new migrant low earners, burdening high earners and bringing income distribution down to Point C. Point C's position below the original income distribution curve indicates the deadweight loss caused by migration and income redistribution.

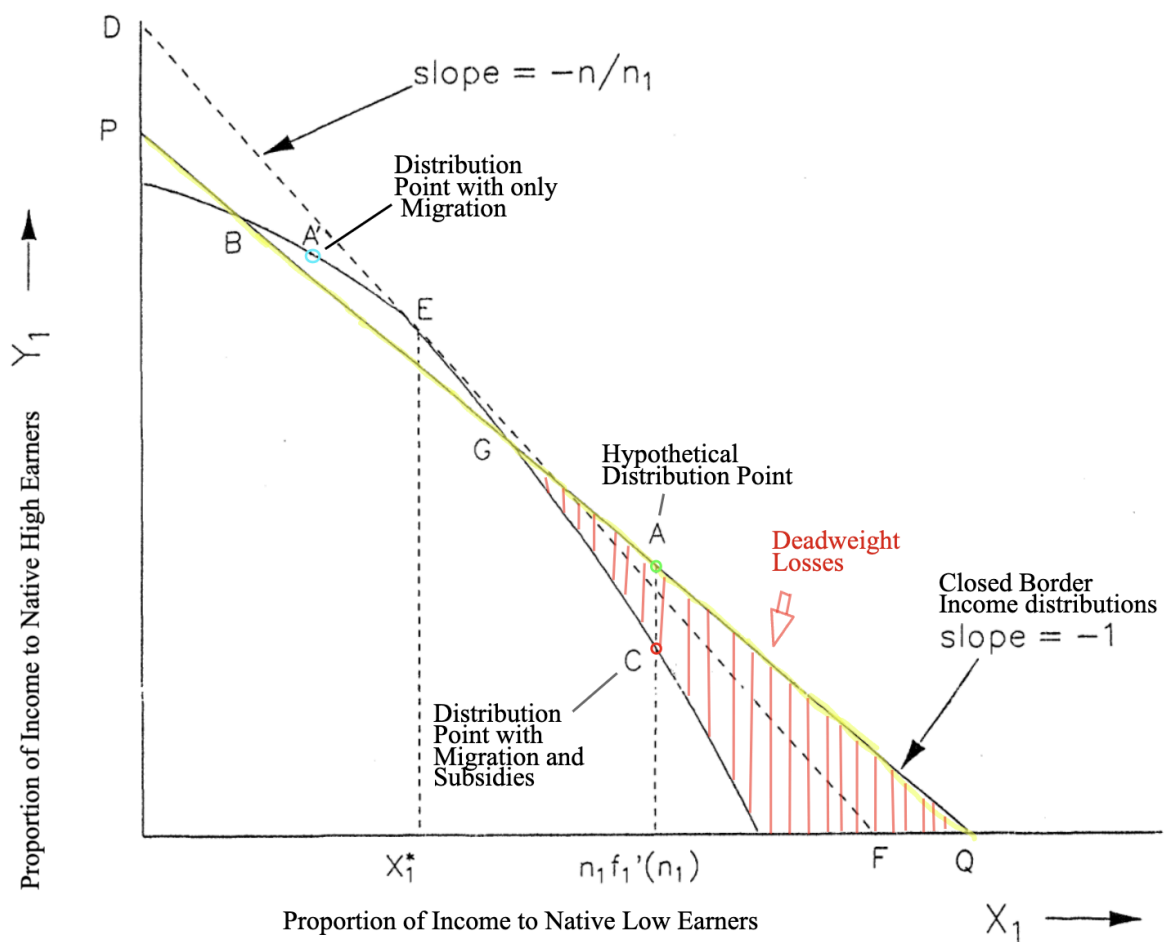


Figure 4: Income Distribution Frontier with Migration.

Although this example specifically addresses low earners moving to high subsidy areas, a similar logic can be applied to high earners moving to low tax/redistributive areas. The marginal resource cost of sheltering income through migration is a quantifiable reduction in tax efficiency. The result is money taken out of the system and, similarly, a net loss on society.

### **Policy Suggestions**

By creating fiscal externalities, a politically motivated federal redistribution system naturally creates a question of equity efficiency. Solutions must balance a desire for equality with such public policy's associated economic and political consequences.

One viewpoint—the consensus in the traditional literature—is that the national government should take sole responsibility for redistribution, thus eliminating all interstate spillovers. Since gross wages balance out from migration, any state redistributive effort is nullified.

In contrast, more recent work has suggested that the possibility of state redistribution cannot be ruled out. The argument is that states will interfere with individual policy, regardless of national redistribution, due to inherent variance across a federal system. To address this inevitability, it is said that states should be allowed to make independent policy decisions. Monitored by the national government, no action should be taken on the national level if states can prevent externalities. However, as externalities eventually occur, it is the job of the national government to act as a rebalancing force to correct for deviations between states using nationwide policy.

This essay presents a third observation, the causal link between political polarization and migratory inefficiencies. Through public choice theory, politicians are rewarded for bold actions that sway voters, ones that either overpromise on welfare or undercut its funding. The result is an ever-increasing variance between state policies, variances that are the root cause of migratory fiscal externalities. When political motives leak into the economy, it becomes a case of analyzing the system as a whole instead of only looking at the consequences. In the process, it becomes clear that political reform is intrinsically linked to redistributive solutions, especially when politics can sway voters into decisions that hurt them in the long run.

Changing the motives of local political entities will be vital to increasing the efficiency of redistribution, crucially adding to current state and government balancing solutions. In this world of increasing inequality, income redistribution is one of the most pressing issues in developed societies. However, the focus is often solely on the deliverables of specific redistributive ideas. In reality, it is just as essential to examine the execution, one that requires a balance of political, economic, and social considerations to be genuinely effective.

# Changes in Japan’s Labor and Immigration Policy Address Depopulation Concerns

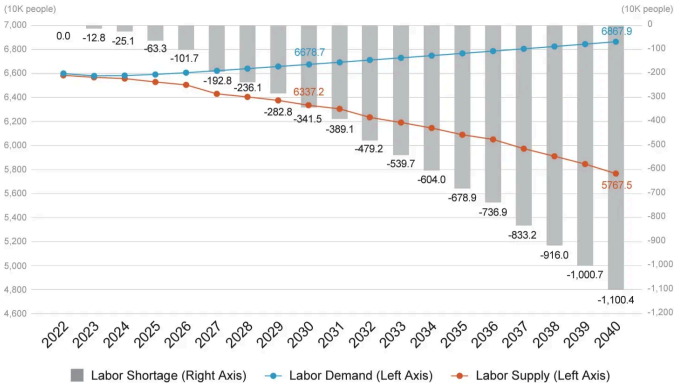
## by Henry Zimmerman

On Friday, June 14th, 2024, Japan’s legislature significantly altered the law that governs foreign workers’ visas. Many more industries are now allowed to accept low-skilled foreign workers, who can stay for five years compared to the three years previously allotted. As the native population is projected to decline by 40% by 2065 while shifting towards a healthier work environment, Japan is compelled to shore up the supply side of its labor market.

After the shift to manufacturing from agriculture, Japan’s birth rate started to drop; this

phenomenon is seen in many developed countries including Italy and France. The first mention of depopulation by the government was in 1966 regarding the decline and eventual desertion of rural villages; the first law addressing it was signed in 1979. Japan’s population has been declining since 2009, and acute labor shortages are common across rural areas such as Hokkaido. As the pool of workers shrinks, local companies are forced to compete for workers, ultimately increasing

the average wage. In response to the lack of willing successors, many older business owners have to close their businesses when they retire instead of passing them on.



In Japan, hours have declined in response to shifts in work culture. This is reflected in a ~40% decrease in hours worked per worker from 2000 to 2024. Earlier this year, new overtime legislation was established limiting truck drivers to 960 hours a year of overtime, and construction workers to 720, reducing the most profuse overtime hours. However, the average Japanese worker still clocks in 24 hours of overtime a month, one of the highest rates for developed countries. These reforms, which aim to rein in unhealthy hours, in turn, end up exacerbating labor shortages as well. The transportation and construction sectors remain heavily reliant on overtime hours, and without more workers prices will likely rise. For example, there is currently a 5:1 ratio between job openings and job seekers in the construction industry.

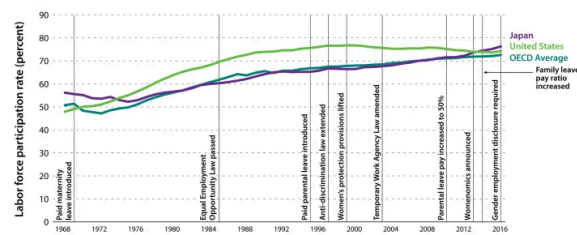
Japan’s demographic issues aren’t as simple as opening the borders and granting visas at will. Japan has a fraught relationship with foreigners, so while importing workers is economically beneficial, it is also unpopular due to nationalistic sentiments and negative views of immigrants. The latter has prevailed in the past, buoyed by a lack of urgency supported by increases in worker productivity. However, Japan has reached a point where worker productivity alone can no longer keep pace with depopulation.



Since Japan has largely rejected immigration as an economic tool to solve its labor shortage, policymakers have gotten creative. The government is taking a multi-faceted approach to combating labor scarcity resulting from long-term demographic changes. No one piece of legislation sums up Japan’s efforts; instead, local, regional, and national governments are working with constituents to find solutions.

One measure that has proven to be effective on a large scale is coordinated initiatives to increase labor force participation. Many of these efforts are based on ‘Womonomics’, the idea put forward by Shinzo Abe, the former prime minister of Japan, that more women in the workplace are essential for the economy. These endeavors have been largely successful, as the labor force participation rate for women has risen from a low of 48% in 2012 to a high of 55% in 2023, an increase of 4.5 million workers. Much of this has been achieved by improving daycare access, delegitimizing traditional gender roles, and setting targets for women in the workplace.

FIGURE 6. Prime-age Women’s Labor Force Participation and Selected Japanese Policy Developments, 1968–2016



Source: CESifo 2015; Ikuo 2017; Japan Times 2016; OECD Economic Surveys; OECD Labour Force Statistics; Rawstron 2011.

HAMILTON PROJECT  
BROOKINGS

Workforce participation is not a permanent solution with a declining population. The government has addressed this by catalyzing growth in worker productivity. In the transportation and logistics sector, labor shortages are eased by increasing the speed limits on expressways for

trucks. Companies and even municipal governments are embracing AI usage to perform labor-intensive administrative tasks.

The most drastic step taken so far to head off job vacancies is the recent expansion of the low-skilled worker visa program. Japan has more than doubled its target to 820,000 workers over the next five years. These workers have a temporary status and in most scenarios must stay employed at the same employer in a few specific industries. It is exceedingly difficult to attain mobility or permanent residence society in Japan under the temporary visa. Under the previous version of the program, only 37 foreigners were granted permanent resident status by switching to the skilled worker visa after learning Japanese. The new law contains provisions that make even permanent residents uncertain about their place in the country. However, this legislation also signals a step towards continuing economic prosperity.

Japan's landmark foreign worker reform has the potential to supercharge Japan's economy. Even so, it brings up more questions than it answers for Japan. What is the cost of immigration? Should we avoid domestic wage prices and labor competition? Would immigration bring more social stability than short-term work programs? Can an array of patchwork solutions fend off an existential threat? That's up for debate, but for now, Japan has chosen short-term labor.

# A Recipe for Disaster: How Change, Money and Behavior Create Financial Crises

by Jakob Kuelps

---

Mark Twain once said, “History never repeats itself, but it often rhymes.” When analyzing the financial crises from the early 18th to the early 20th century, this thought seems to hold true. For example, while the 1721 South Sea Bubble in England did not occur in the exact same way as the Crash of 1929 in the U.S., there are many similarities between the two. When looking at financial crises more broadly – including recent ones – a clear pattern emerges. Financial crises are caused by the interplay of the extremes of three factors: novel changes, the availability of money, and human behavior.

Almost all financial crises are linked to some type of novel change. These changes range from new opportunities to negative events. Specific ingredients of such change are often political factors or technological and other advances.<sup>1</sup> The Panic of 1861, for example, was caused when the Southern states of the U.S. seceded from the Union in 1860-1861 and the Confederates attacked Fort Sumter. This novel negative change required the Union government to raise funds for the Civil War. The process initially chosen to do so caused most major Northern banks to stop redeeming banknotes in gold and silver, which fueled the Panic of 1861. The secession was a singular political factor that triggered a host of responses leading to the Panic of 1861. Similarly, the South Sea Bubble of 1721 was influenced by a novel change. The change in this case was an auction for government debt, which the South Sea Company won, combined with rights granted to the same company to exclusively benefit from certain colonial territories. Again, a political factor—namely the ambition of the government to refinance its debt—contributed to the formation of the crisis. Finally, the Crash of 1929 was also driven by novel change. In this case, however, technological advancement leading to new opportunities was the catalyst. Following the First World War, a manufacturing boom was unleashed due to the shift from steam to electric power in the 1920s. This led to the production of automobiles more than tripling within a decade. The 1920s were also characterized by numerous inventions including radio broadcasting, commercial aviation and textile innovation, among others.<sup>9</sup> These novel changes offered new opportunities and created one element of the conditions necessary for the Crash of 1929.

In addition to some sort of novel change, positive or negative, financial crises are also influenced by the availability of money for investment. Usually a period of “easy money”

precedes a financial crisis. This means that money is readily available either in the form of credit or from additional money being injected into the system through governments or central banks.<sup>10</sup> This is often the result of economic policy and, for a number of crises, is also associated with new financial instruments. The availability of money becoming “tight” usually triggers the crisis. This means that the supply of liquidity dries up as banks stop lending and governments or central banks disincentivize borrowing and limit money growth. A good example of the availability of money and its influence in the creation of a financial crisis is the Mississippi Bubble of 1721. In this case, the French monarchy injected money into its economy through the introduction of paper money that was no longer backed by stable assets such as gold and silver.<sup>11</sup> While this initially stimulated investment by adding liquidity to the economy, people used the new paper currency for financial investments, buying shares primarily of the Mississippi Company. This increase in demand drove up the company’s stock price. However, when investors later asked Banque Royale—the issuer of the paper money and the first central bank of France—to convert it back into hard currency, the bank was not able to. The amount of paper money far exceeded available hard reserves, which led to a liquidity crisis. Another example of an expanding money supply followed by liquidity drying up is the Panic of 1791. The U.S. government established the Bank of the United States in 1791 to consolidate government debt and add liquidity to the economy through loans and other financial instruments.<sup>15</sup> Financial investors rushed to buy government bonds and shares or the promise of shares (subscription rights, or “scrip”) in the Bank of the United States. Speculative demand drove up prices, which caused inflation and would eventually lead to a credit and liquidity crunch. This limited liquidity prevented investors from borrowing to meet their financial obligations, forcing them to sell their holdings. This led to a strong drop in the value of the Bank of the United States shares and government bonds.

The final common ingredient to all financial crises are the extremes of human behavior in relation to investing, namely exuberance and fear. Often financial crises are preceded by a period of extreme optimism and excitement, which causes investors to speculatively drive up asset prices in the hope of further financial gains. This positive hype then turns negative as a result of a particular trigger, causing investors to lose confidence and rush to sell in order to try and avoid losses. As investors tend to move in sync, this leads asset prices to plummet rapidly, sometimes just as irrationally as they rose. One example of this cycle of human behavior is the Crash of 1929. Investors were excited by the technological progress of the 1920s. They believed that the valuations of firms influenced by electrification and manufacturing advances would continue to rise exponentially. This led them to push stock prices to levels that were no longer connected to the underlying value of companies. When the economy weakened in the course of 1929, investors lost confidence not only in individual stock prices but also in the broader financial system. This loss of confidence was compounded by negative media coverage, all of which led masses of investors to sell their shares and drive down prices. Similarly, the South Sea Bubble was driven by the initial excitement for new investment opportunities and the promise of high

returns from colonial exploitation. When these returns did not materialize to the extent that asset prices had jumped up, collective selling caused the market to collapse. One crisis that did not follow this classic exuberance and fear cycle is the Panic of 1861. In this case there was no prior excitement. The secession of the Southern states from the Union and the realization that the Civil War would not be over quickly led to widespread fear. This was exacerbated by a loss of confidence in the financial system stemming from the first steps the Union government took to fund the Civil War.

While novel changes, the availability of money, and irrational human behavior all play a role in the formation of financial crises, it is the interplay of these factors that causes such crises to develop. Neither a political factor or technological advance on its own (novel change), nor a standalone new financial instrument or economic policy (availability of money) suffices to create a sustained market panic. When these factors work together, however, a financial crisis is often the result. The Crash of 1929 is a good example. Novel technological advances in the 1920s created economic growth that excited investors and let them dream of limitless returns. This positive sentiment driven by innovation would have gone nowhere without the availability of money and low interest rates. After World War I, the Federal Reserve kept interest rates low to encourage economic recovery and expansion. At the same time, the government did not impose restrictions on lending for banks. This caused a highly liquid and unregulated credit environment, allowing for exuberant investors to borrow money easily to invest and fueling a massive bubble in asset prices. In early 1929, the Federal Reserve grew concerned about the excessive speculation in the stock market and began raising interest rates and restricting credit. Liquidity was restricted while the economy slowed, causing investors to panic and realize that share prices had reached unsustainable levels. The result of the combination of all three factors was the Crash of 1929. Similarly, the combination of novel changes, the availability of money and human behavior led to the Mississippi Bubble. The novel changes in this case were the new financial instruments created by the French monarchy, which led to both the sudden abundance of money described above and excitement amongst investors of a new system that would reap outsized returns. When investor confidence collapsed, however, because paper money could not be converted to hard assets, the faults of the novel economic policies were exposed, and liquidity evaporated.

Naturally, financial crises vary in which of the three factors described previously carries the most weight. This often also influences how easily they can be controlled. Take, for example, the Panic of 1791, which was largely driven by economic policy and new financial instruments such as the BUS (Bank of the United States) scrips issued by the U.S. government. Because the government was directly responsible for the assets involved in the speculation through the Bank of the United States, it was somewhat easier for it to restore confidence in these assets by repurchasing them and keeping a certain level of liquidity in the market. This was not the case for the bubble preceding the Crash of 1929, which was largely driven by exuberance across the

entire stock market due to the technological advances of the 1920s. Generally, however, it can be said that for all financial crises earlier government intervention, including attempting to stop the spread of a financial crisis to the banking system, would have mitigated the overall economic impact of the respective crisis.

When analyzing the major financial crises in Europe and the U.S. from 1721 to 1939 it becomes clear that there is a common “recipe for disaster.” Each crisis was caused by an interplay of novel developments, the abundance of money, and irrational human behavior. Often the novel changes were driven by political factors or technological advances, while economic policies and financial instruments influenced the availability of money, and human excitement or fear determined market behavior. While the novel changes usually remained constant, money tended to be “easy” in the build-up to a financial bubble and then turned “tight” as it burst. Similarly, human behavior often went from exuberant as a crisis formed to fearful as it emerged. The combination of these three factors, though different for each financial crisis, lies at the heart of each of their developments. Perhaps such crises cannot be avoided altogether, but closely monitoring these three factors could help policymakers react more quickly to limit broader economic damage in the future.

# Will the Green Transition Save China's Economic Growth?

## by Lisa de Boer

---

Throughout the 21st century, China has been known as one of the world's fastest-growing economies in the world. It has previously posted GDP growth rates as high as 14.23% in 2007, and a stunning average growth rate of 8.82% from 2000 to 2022. However, over the past decade, China's economic growth has been on a steady decline. The average growth rate from 2014 to 2024 was 6.47%, and though this is still incredibly high compared to most economies, this drop shows a significant slowdown from the first decade of the century. Policymakers have been looking for new ways to boost the economy as old strategies don't apply anymore, and some think that China's green transition may provide this opportunity.

For most of the late 20th century up to the present day, China's GDP growth has been driven largely by infrastructure investment, real estate development, and credit growth. However, all three 'fields' are starting to see a decline.

From 2003 to 2016, infrastructure expansion accounted for 9-20% of China's average annual growth rate. Total highway mileage tripled from 50,127 km in 2000 to 142,983 km in 2013, and 12,996 km of high-speed railway lines were constructed between 2008 and 2013, presenting the longest network in the world. Through improving the transport network, national productivity and GDP increased greatly with investments in the construction itself. Moreover, transport only accounted for 8% of total infrastructure investment according to the Global Infrastructure Hub. Other uses of capital include water efficiency, treatment, and distribution; housing; medical infrastructure; agriculture; disaster management; and others. However, powering GDP growth through infrastructure development at the scale that China has been doing is not sustainable as the economy's demand for infrastructure will eventually run out. In fact, a paper in the *Journal of Development Economics* even calls the investment "excessive from a welfare standpoint" as the repercussions of oversupply are starting to become clearer, especially in the housing sector.

Real estate historically contributed over 25% of China's GDP and has been considered the economic backbone of the country. However, in recent years, the sector has been facing both cyclical and structural challenges. The strong economic and cultural appeal of real estate in China allowed home prices to keep rising at an unnatural rate, resulting in an enormous housing

bubble. Furthermore, the higher home prices made it easier for real estate developers to borrow and overleverage, ultimately leading to the collapse of two of China's largest real estate companies: Evergrande and Country Garden. In combination with the economic damages brought by the pandemic, the burst of China's housing bubble has depleted consumer confidence and savings. Most middle-income families in China have a large portion of their wealth stored in real estate, so although house prices do not contribute directly to GDP, the housing sector's downturn has resulted in a slump in the National Consumer Confidence Index and much more stringent consumer spending. Structural changes have also presented problems for real estate; China's aging population and slowing urbanization both mean demand for housing is falling and in Q3 2024, real estate accounted for only 4.9% of GDP. These are stark reminders that China needs to find other industries to support its GDP growth.

Another big driver of China's rapid economic growth was credit creation, especially by local governments. However, the government's budget deficit has been growing due to increased spending to stimulate the economy post-COVID compounded with falling government revenues. The Chinese government, especially its regional administrations, relies heavily on land-related tax revenues, with the selling of land use rights and collection of land-related taxes accounting for a staggering 38% of total revenue in 2021. This is obviously not a sustainable model, and with the crisis of the housing industry, the dangers of overreliance on one source of income have become more apparent. Increasingly aware of the risks of excessive debt, the central government has been working to curb overleveraging, decreasing investment in the economy and increasing financial strain on firms. This is a big problem for a country such as China where the public sector plays a big role in generating employment and demand in the economy.

Alongside the boom in manufacturing and exports, many have pointed to the development of renewable energy as a promising strategy to boost China's economic growth. Additionally, the rising urgency of climate action has provided both a political and an economic incentive for a green transition. In 2023 alone, China installed 217 gigawatts (GW) of solar capacity, an amount greater than the total capacity of any other nation. Not only does China have the largest market share globally of wind and solar technologies, but it also possesses a near monopoly on crucial parts of the supply chain, including the mining and refining of essential minerals such as lithium. Furthermore, China's electric vehicle (EV) industry has been booming, with EV or hybrid cars accounting for over 50% of cars sold in the Chinese market. China's EV exports were \$42 billion, representing a 13,300% increase from 2017 to 2023. These examples all reflect China's phenomenal success in expanding green industries.

All of this is possible through the rapid growth of the green bond market. At the end of 2015, China launched its "Green Bond Issuance Guidelines," laying the foundation for its green bond market; as early as 2016, China became the largest issuer of green bonds, accounting for 39% of global issuance. In 2023 alone, Chinese issuers issued a total of \$131.3 billion,

maintaining its position as top issuer worldwide. This rapid growth was driven by rigorous incentives for green finance compared to traditional finance. As Dr. Ma Jun—former chief economist at the People’s Bank of China and present Chairman of the Green Finance Committee at the China Society for Finance and Banking—says, in order for the government to successfully guide the economy in a certain direction, you need to “[make] sure that the conditions are right, that the infrastructure is ready for the growth.” And indeed, the government has provided both ideological and financial incentives. On 22 September 2020, President Xi Jinping announced China’s “dual carbon goals” of peaking emissions before 2030 and achieving carbon neutrality before 2060, signaling a clear directive and strong commitment to sustainable finance. Regulatory measures have made financing costs of green bonds lower than that of non-green bonds, while also enhancing their liquidity, making green finance a more attractive option in all regards.

China’s push to drive economic growth through green industries has proven successful, with the renewable energy sector playing a particularly significant role. In 2023, renewable energy accounted for 9.0% of total GDP and a stunning estimated 40% of overall GDP growth. Without the contribution of clean-energy sectors in 2023, China would have seen its GDP rise by just 3.0%, instead of the 5.2% actually recorded. This underscores the critical role that renewable energy and other green industries now play in sustaining economic expansion. As China faces challenges such as slowing traditional industrial growth and shifting global demand, its strategic pivot toward greener industries not only supports GDP growth but also positions the country as a leader in the global clean energy transition.

The green transition and rapid expansion of the renewable energy sector present a significant opportunity for China, offering the shift in economic strategy that policymakers have been searching for. As traditional drivers such as infrastructure investment, real estate, and credit expansion lose momentum, green industries have emerged as a promising long-term alternative and already contributed substantially to GDP growth. However, while this shift offers a viable path for sustaining economic expansion, it is unlikely to restore China to the double-digit growth rates of the past. As the economy matures and moves toward a more developed model, slower growth will become the norm. The green transition may not bring back China’s past growth rates, but it can provide a foundation for long-term economic stability and strengthen the country’s position as a global leader in clean energy.

# L'état, C'est Quoi?: Balanced Power versus Absolute Rule in the Rupture of Financial Bubbles

## by Grant DeHoog

---

In the early 18th century, Britain and France both experienced monumental financial crises—the South Sea Bubble and the Mississippi Bubble—triggered by close ties between governments and companies that fueled rampant speculation. In both cases, numerous actors pursued self-interest and greed, leading to speculative frenzies. However, the divergent governmental systems of the two nations resulted in markedly different management of the crises and their repercussions. Britain's constitutional framework, exemplified by the enactment of the Bubble Act, facilitated effective crisis management and economic recovery. In contrast, France's lack of a strong parliament allowed unchecked inflation and speculation, exacerbating the disaster. While Britain's balanced governance mitigated the fallout, France's absolutist monarchy intensified the financial catastrophe, leading to prolonged economic stagnation.

Prior to the Glorious Revolution of 1688, Britain's government closely resembled France's absolutist regime, with the Crown exercising substantial control over financial matters. The British monarchy frequently accrued excessive debt, monopolizing available capital and crowding out private credit markets. After the Glorious Revolution, Parliament emerged as a critical check on royal authority, leading to the creation of institutions like the Bank of England (BoE) that held responsibilities toward "public credit" and imposed limits on lending to the Crown. Members of Parliament often served on the BoE's board, fostering transparency and aligning financial policies with the people's interests. Its close relationship with Parliament ensured a system of oversight, restricting the institution from acting in complete self-interest. Additionally, its private-public charter aligned the BoE's interests with those of the public instead of solely serving the Crown.

In contrast, France's absolute monarchy enabled the Crown to act with unchecked greed and self-interest, manipulating public credit to its advantage by altering the price of specie. The Crown's unchallenged authority allowed it to engage in extravagant spending and prolonged wars, depleting the Treasury. To address the looming threat of governmental bankruptcy resulting

from these self-serving actions, the regent, driven by greed, convened a special council that decided to debase the currency by 20%. This move effectively transferred wealth from the populace to the state, undermining public credit and trust.

The Mississippi Company exploited the Crown's economic weakness and absolutist tendencies by offering favorable refinancing terms, granting the Crown the largest stake in the company, and ensuring the continuation of central control over state finances. John Law asserted, "an absolute prince who knows how to govern can extend his credit further and find needed funds at lower interest rates than a prince who is limited in his authority"; therefore, "supreme power must reside in only one person." Law's philosophy was fundamentally flawed as it disregarded the risk inherent in the Crown's ability to arbitrarily deflate or inflate the currency.

Driven by greed and lacking any parliamentary or central bank oversight to control the money supply, Law and the regent manipulated the price of specie to mitigate government debts and fuel the bubble. The weakness of the French Parliament, which lacked genuine legislative authority and primarily served to register royal edicts, failed to provide any meaningful check on Law's ambitious and self-serving actions. When Law and the regent reduced the precious metal content of coins by 40% in 1718, Parliament's objections were swiftly and forcibly suppressed; vocal opponents were arrested and exiled, rendering the body passive.

Law, acting in concert with the regent, manipulated the economy through frequent specie readjustments, altering the price of gold 23 times and silver 35 times between 1719 and 1720, all without parliamentary oversight. These actions created artificial inflation and fueled speculative investments, inflating the bubble to unsustainable levels. When the bubble eventually burst, there was no lender of last resort or institution tasked with protecting the "public credit." Historian Niall Ferguson noted that the Mississippi Bubble, "fatally set back France's financial development, pushing Frenchmen off paper money and stock markets for generations." The monarchy's fiscal crisis remained unresolved, and the failure to reform financial institutions contributed to the eventual outbreak of the French Revolution in 1789.

In Britain, despite the presence of self-interested and greedy actors, the distribution of powers between the Crown and Parliament helped mitigate the financial crisis when the South Sea Bubble collapsed. The South Sea Company (SSC) was established in 1711 by Robert Harley and it offered to swap government bonds for company shares and reduce the government's interest payments—a proposal similar to that of the Bank of England. The state, acting in self-interest, accepted this deal even though it was too good to be true, which ultimately hurt the long-term solvency of the SSC. Additionally, the SSC engaged in widespread corruption, even bribing members of Parliament. In spite of the state, members of Parliament, and the Crown acting in self-interest, the constitutional checks provided by Parliament mitigated the crisis.

The share price of the SSC skyrocketed, fueled by speculative investments sparked by the company's growing ties with the state. Recognizing the dangers of unchecked speculation, Parliament took action by passing the Bubble Act in June 1720, which forbade the establishment of unchartered joint-stock companies. While the act stifled some innovation by limiting the formation of new companies and dissolving existing ones, it helped prevent further rampant speculation and consolidated investment within the SSC.

When the bubble burst, the Bank of England intervened as the lender of last resort, restoring the solvency of the company, protecting the "public credit," and ultimately stabilizing the country's economy. It is true that in the aftermath, London saw slower growth and temporary stagnation; however, the results were nowhere near as disastrous as in France and the long-term outlook of the country was bright as it strengthened faith in liberal institutions and the outcomes of the Glorious Revolution. After speculation had cooled down, the Bubble Act was not rigorously enforced, allowing business activities to resume and innovation to continue; however, it still served as a measure Parliament could enforce to chill speculation. The Industrial Revolution gained momentum later in the century, propelled by innovations and investments that were made possible within Britain's flexible yet structured institutional environment.

The experiences of the South Sea and Mississippi bubbles demonstrate that the power to bail out the economy and adjust interest rates must be distributed among multiple, accountable entities to prevent unchecked actions that can lead to financial catastrophes. This lesson is relevant today given former President Donald Trump's rhetoric about setting interest rates, including his suggestion that presidents should "have a say" in such decisions. Additionally, the Heritage Foundation—a conservative think tank—has released Project 2025, a policy roadmap for a potential future Trump administration. Authored by Paul Winfree, former director of the Domestic Policy Council under Trump, the project advocates for ending the Federal Reserve, eliminating its dual mandate (thus removing responsibility toward public credit and labor), and returning to the gold standard. While Trump has tried to distance himself from this plan, his administration still holds close ties to it. Such proposals could eliminate essential checks and balances in monetary policy, making speculative bubbles like the Mississippi Company more likely.

# Sources

---

