GWIKS FISCAL POLICY FORUM

International Conference

“Charting a Sustainable Fiscal Future: U.S. and Korean Insights”

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SUMMARY REPORT

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Dr. Jay Shambaugh:
Jay Shambaugh starts the discussion by noting that this panel comes at a remarkable moment of massive shifts in U.S. trade policy. He points out that the average weighted tariff in the U.S., which has stayed below five percent and around one to two percent for the past several decades, has now returned to levels not seen since the Great Depression. He also emphasizes that trade policies are changing faster than ever before because they are no longer being made through the traditional rules and institutions that once guide them, creating a period of tremendous uncertainty and rapid transformation in global trade.

Alan Wm. Wolff:
Alan Wolf begins by emphasizing the unprecedented concentration of tariff authority in the U.S. presidency. He notes that the president now has virtually free rein to impose tariffs on any product, with little institutional restraint from Congress, the courts, or markets. Major partners such as the EU, Japan, and Korea have effectively legitimized this approach by accommodating U.S. demands through negotiations, which has reinforced unilateral policymaking. While the current system is unlikely to change soon, Wolf stresses that it is not immutable and that shifts in domestic politics or global relations could eventually restore a rules-based framework for trade.

He then turns to the broader economic and global implications. Tariffs, he explains, have significant distributional effects, as their burden falls disproportionately on lower-income households, even while aggregate indicators such as unemployment and stock prices remain stable. The dollar has weakened, supply chains are strained, and U.S. goods are losing competitiveness abroad, yet the rest of the world is moving forward with new cooperative arrangements outside U.S. leadership. Wolf concludes that although tariff revenues are politically addictive, efficiency and openness will ultimately prevail, as history and economic logic first articulated by Adam Smith consistently favor freer trade.

Tami Overby:
Tammy Overby begins by criticizing the inconsistency and unilateral nature of recent U.S. trade policy. She argues that the imposition of “reciprocal tariffs” violates the Free Trade Agreement between the U.S. and Korea and undermines America’s credibility as a reliable partner. Despite Korean firms investing heavily in the United States and doing exactly what the U.S. government had encouraged, such as building advanced manufacturing facilities and creating high-quality jobs, they have faced unfair treatment and growing uncertainty. She points to incidents such as the detention of Korean engineers in Georgia as examples of how U.S. policy has become unpredictable and politically driven. As a result, she warns that many in Asia now view the United States as neither a predictable nor a credible trade partner.

In response, Overby explains that South Korea is increasingly pursuing diversification to reduce its dependence on the U.S. market. She expects Korea to strengthen its engagement with regional frameworks such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). At the same time, she stresses that future U.S.–Korea economic cooperation must be based on reciprocity that benefits both sides rather than a zero-sum approach rooted in real estate logic. Trade agreements, she concludes, can only endure when both parties perceive them as mutually beneficial, and Korea’s strategy now reflects a pragmatic search for balance and stability in an uncertain global environment.

Global Trade Policy Shifts - Fiscal Stabilizer or Growth Dampener?

- **Alan Wm. Wolff — Senior Fellow, Peterson**
- **Tami Overby — Partner, DGA Group**
- **Moderator: Dr. Jay Shambaugh — Professor of Economics and International Affairs, GW and former Under Secretary for International Affairs at the U.S. Treasury Department**

Discussion 1:
Jay Shambaugh raises the question of how durable U.S. tariff revenues are over a ten-year horizon, noting that recent collections reach about 30 billion dollars in a single month, which would imply over 4 trillion dollars over a decade. He asks whether such revenues can truly persist, given that firms and trading partners are likely to adjust in response. Alan Wm. Wolff argues that a flat global tariff of 10–15 percent eventually creates serious administrative complexity, rent-seeking, and political favoritism, while also distorting supply chains and raising costs even for essential goods such as medical equipment, steel, and aluminum. Over time, he expects public backlash and policy reversal as these costs become apparent. Tami Overby adds that large multinationals can adapt by reorganizing global production, but small and medium-sized firms have far fewer options. She also predicts a sharp increase in exemption requests, benefiting lawyers and consultants, and warns that the United States risks undermining its credibility as a rules-based leader in global trade, signaling that powerful countries can disregard the very norms they once established.

Discussion 2:
Jay Shambaugh asks how tariffs and reshoring affect U.S. output over time, noting that any fiscal gains from tariffs could be offset by slower economic growth. Tami Overby responds that many firms front-loaded imports after Trump's election, temporarily delaying inflation, but warns that as inventories of intermediate goods run down, price pressures will inevitably rise. Alan Wm. Wolff agrees that tariffs are inflationary not only because import prices increase but also because domestic producers raise prices when supply becomes constrained. Both emphasize that the U.S. cannot quickly replace key imported inputs or skilled labor, making sustained protectionism economically costly. Tami Overby argues that full self-sufficiency replicates inefficient models like North Korea's, contradicts Adam Smith's principle of specialization, and that the United States should instead focus on high-value technological sectors and deeper cooperation with partners such as South Korea.

Infographics

Global Trade Policy Shifts - Fiscal Stabilizer or Growth Dampener?

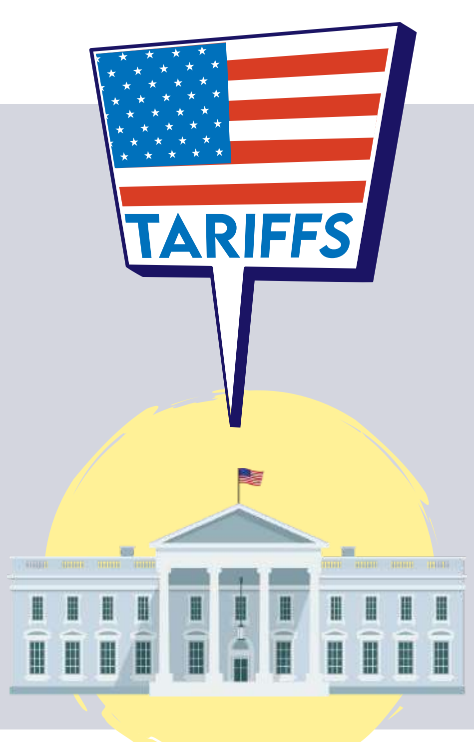
SHAMBAUGH'S HIGHLIGHTS

The U.S. is undergoing massive trade-policy shifts.

Average tariffs have risen
from 1-2% to
GREAT DEPRESSION-ERA LEVELS.

Trade policies are changing outside traditional institutions,
creating major uncertainty.

WOLFF'S HIGHLIGHTS



Tariff authority is now concentrated in the U.S. presidency
with little institutional restraint.

By yielding to U.S. demands, key partners have legitimized unilateralism,
but political or geopolitical shifts could still restore a rules-based trade system

Tariffs hurt lower-income households,
while long-term efficiency favors free trade.

OVERBY'S HIGHLIGHTS

Recent U.S. "reciprocal tariffs" violate the KOR-US FTA
and undermine the US's credibility as a reliable partner.

Korean firms face unfair treatment and growing policy uncertainty
despite heavy U.S. investment.

Korea is diversifying through regional frameworks (e.g., CPTPP, RCEP)
seeking balanced, stable, and reciprocal cooperation.

Aging Demographics, Labor Supply, and Productivity

- Dr. Wendy Edelberg — Senior Fellow, Brookings
- Martha Gimbel — Executive Director, The Budget Lab
- Moderator: Dr. Michael Horrigan — President, W.E. Upjohn Institute for Employment Research

Dr. Wendy Edelberg:
Wendy Edelberg focuses on two key issues in her talk: the projected trajectory of U.S. immigration under the current policy and how these changes reshape labor-market dynamics and potential employment growth.

Edelberg projects that net migration in 2025 will range between –500,000 and +100,000, with the most likely outcome falling on the negative side. Such an outcome would represent the first instance of negative net migration in at least a century, reflecting the militarization of the southern border, suspension of asylum and temporary entry programs, and intensified deportation efforts. Her estimates differ from those of the Congressional Budget Office (CBO) primarily because she anticipates greater voluntary out-migration, as many immigrants face a more hostile environment and often leave with family members. While the CBO expects fewer departures due to concerns over reentry restrictions, Edelberg argues that deteriorating social and legal conditions will dominate these considerations.

She explains that recent labor-market developments make little sense without considering immigration. The sharp increase in immigration between 2022 and 2024 temporarily boosted labor supply, allowing strong job growth without significant wage pressure. With the shift toward a more restrictive immigration regime, however, break-even employment growth drops from roughly 200,000 jobs per month earlier in the year to only 10,000 to 40,000. This implies that even small employment gains can now be consistent with a steady unemployment rate of around 4.3 percent. Edelberg argues that the current moderation in hiring does not signal weakness but instead represents a new equilibrium driven by slower labor-force expansion and tighter immigration policy.

Martha Gimbel:
Martha Gimbel examines how artificial intelligence interacts with the labor market and challenges overly optimistic narratives about its broader economic role.
She argues, first, that AI's current impact on labor markets remains limited. Measures such as occupational shifts, job shares in AI-exposed sectors, and unemployment duration reveal no meaningful deviation from historical patterns, suggesting that ongoing labor-market changes are not primarily driven by AI.

Second, she cautions that AI is not a remedy for deeper structural problems such as population aging or declining immigration. Empirical evidence provides no indication that automation or augmentation can offset these demographic constraints. Gimbel emphasizes that policymakers should view AI not as a panacea but as a tool whose potential must be assessed with realistic expectations.

Aging Demographics, Labor Supply, and Productivity

- Dr. Wendy Edelberg — Senior Fellow, Brookings
- Martha Gimbel — Executive Director, The Budget Lab
- Moderator: Dr. Michael Horrigan — President, W.E. Upjohn Institute for Employment Research

Discussion 1:
The moderator begins by asking Martha Gimbel about the challenges of measuring AI exposure across tasks and occupations, noting that her paper uses data from large language models to trace how AI uses maps onto job activities. Martha Gimbel explains that there is no single correct way to measure AI exposure, which is why her study relies on multiple metrics. Existing approaches vary widely, and many are highly imperfect, with some even relying on simply asking ChatGPT which tasks it can perform and treating the responses as data. She cautions against overstating the precision of such measures and emphasizes that researchers have struggled for years to distinguish between cognitive and non-cognitive tasks. Usage data, such as that from Anthropic, can provide a somewhat clearer picture by tracking conversations and mapping them to occupations, but it remains incomplete.

Discussion 2:
The moderator asks whether the rapid developments in artificial intelligence can realistically be captured in short-term labor market data. Martha Gimbel responds that technological diffusion takes time, explaining that for any new technology to reshape employment, it must first be developed, adopted by users, integrated into viable business models, and then yield measurable productivity changes. She notes that while tools like ChatGPT have spread quickly, much of their use remains personal rather than business-related, meaning their influence on workforce composition will take years to materialize. In her view, the process of translating AI innovation into occupational shifts is gradual, and researchers should be cautious about drawing strong conclusions from only a year or two of data.

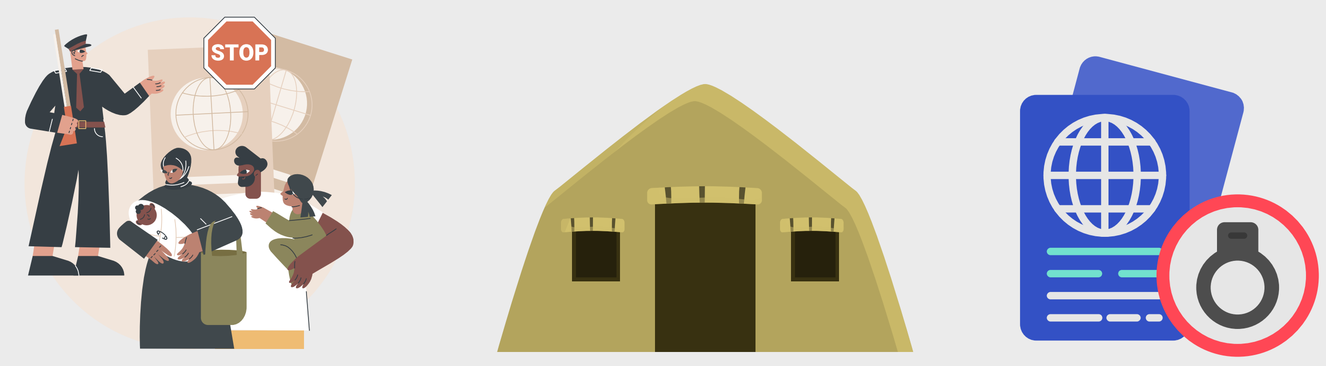
Discussion 3:
The discussion turns to how AI may change the structure of work. The moderator contrasts earlier forms of automation, which mainly replaced routine or lower-skill jobs, with the current wave of AI that may affect more cognitive and higher-skill occupations. Still, he suggests that AI is more likely to serve as a complementary tool that increases efficiency rather than a full substitute for human labor. Martha Gimbel agrees and notes that claims predicting massive job losses among white-collar workers are overstated. She explains that the conversation about AI and work has become emotionally charged and often detached from data. Instead of focusing on short-term fears, she argues for flexible labor market institutions and adaptive policy frameworks that help workers adjust as the effects of AI unfold gradually over time.

Discussion 4:
The moderator begins by asking how slower labor force growth in the United States will affect productivity, automation, and AI adoption. Wendy Edelberg responds that it will likely accelerate automation and raise productivity, as seen in Japan’s experience with limited immigration. The moderator asks how changes in immigration levels would affect the U.S. economy. Wendy Edelberg replies that immigration policy is a policy choice, and lower immigration would push industries such as agriculture toward greater automation. The moderator then raises concerns about declining skilled immigration and international students, and Wendy Edelberg explains that this trend weakens the U.S. education sector and slows productivity growth, as immigration has long been a key driver of innovation and economic expansion. The moderator further questions whether restrictive immigration policies could worsen the slowdown in productivity, and Wendy Edelberg agrees, saying they will likely reinforce weak total factor productivity growth, though labor productivity may rise temporarily due to higher capital per worker. Finally, when asked about recent downward revisions in employment data, Wendy Edelberg cautions that the numbers are preliminary and may understate true employment, as many immigrant workers are not included in unemployment insurance records.

Aging Demographics, Labor Supply, and Productivity

EDELBERG'S HIGHLIGHTS

In 2025, net migration is projected at −500,000 to +100,000, meaning the U.S. will likely have **more people leaving** than entering for the first time in a century.



Stricter southern border enforcement

suspension of asylum

intensified deportations

reduce labor-force growth as more immigrants leave voluntarily.

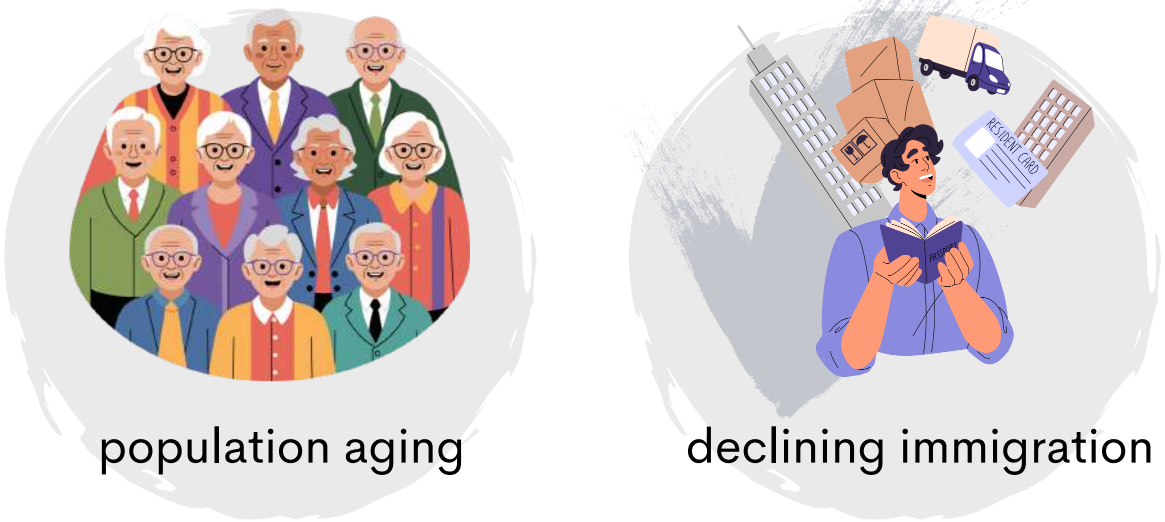
With slower labor-force growth, **break-even job gains drop to just 10K–40K jobs/ month** enough for unemployment to hold around 4.3%.

GIMBEL'S HIGHLIGHTS

AI's current labor-market impact is limited.

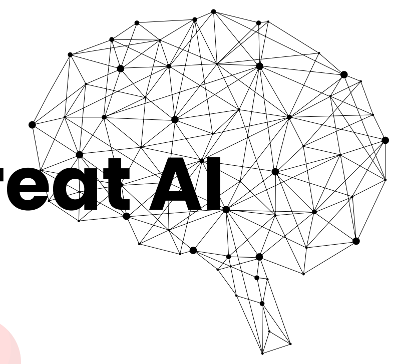
Job trends show **no major deviation** from historical patterns.

AI is not a remedy for deeper structural challenges, such as



population aging

declining immigration



Policymakers should treat AI

as a useful tool

NOT as a cure-all,

and set expectations realistically.

DISCUSSIONS

AI's effects on jobs are gradual & hard to measure, with current tools offering limited precision.

Slower labor growth and tighter immigration boost automation now but hurt long-run U.S. productivity.

U.S. Fiscal Policy in an Uncertain World

- **Maya MacGuineas — President, Committee for the Responsible Federal Budget**
- **Moderator: Dr. Danny Leipziger — Managing Director of The Growth Dialogue; Professor of Practice of International Business, GW**

Maya MacGuineas introduces the Committee for a Responsible Federal Budget as a nonpartisan nonprofit organization focused on promoting fiscal responsibility in the United States. She explains that the committee's work centers on four main areas: policy analysis, legislative engagement, communications, and public outreach. Its policy team functions like the Congressional Budget Office, interpreting complex budget information in an objective and accessible way. Legislatively, the committee seeks to advance bipartisan cooperation, which she views as essential for achieving meaningful fiscal reform but increasingly difficult in a polarized political environment. She also highlights efforts to improve public understanding through accurate media coverage and education campaigns on Social Security reform. Maya MacGuineas concludes that although bipartisanship is harder to achieve than in the past, it remains the only viable path toward responsible fiscal governance.

Discussion 1:
Danny Leipziger asks Maya MacGuineas about two major sources of revenue loss, tax noncompliance and tax expenditures, and how she views their importance for fiscal reform. Maya MacGuineas explains that both must be addressed to reduce the fiscal gap. The government fails to collect a large share of taxes already owed, much of it from small businesses rather than wealthy tax evaders, and this should be fixed before considering new tax hikes. She also criticizes both parties for avoiding difficult choices: Republicans reject any tax increases, while Democrats limit them to the very rich, even though real fiscal repair will eventually require higher taxes on the middle class. Regarding tax expenditures, she points out that they will cost over 20 trillion dollars in lost revenue during the next decade through deductions and credits that mainly benefit high-income households, such as the mortgage interest deduction. These policies are politically popular but economically inefficient. She concludes that fiscal responsibility requires honesty about who pays and who benefits, warning that continued borrowing will deepen intergenerational unfairness by passing today's debt burden to future generations.

Discussion 2:
Danny Leipziger points out that most policy debates about fiscal restraint focus narrowly on discretionary spending, even though it accounts for less than one-fifth of the federal budget. He notes that the vast majority of expenditures are tied to mandatory programs such as Social Security, Medicare, and debt service, which continue to grow as the debt-to-GDP ratio rises. Maya MacGuineas agrees, explaining that nearly all projected spending growth over the next decade stems from health care, retirement, and interest payments, while discretionary spending, although politically easier to cap, represents only a shrinking share of the total budget. She adds that even previously untouchable areas like Medicaid have recently been reduced, often for partisan rather than policy reasons. Maya MacGuineas argues that policymakers show far greater willingness to cut programs for the poor than to reform universal benefits, which she considers a misplaced priority. She concludes that fiscal reform should aim to protect the most vulnerable while enhancing efficiency and long-term growth, acknowledging the trade-offs between fairness and sustainability.

U.S. Fiscal Policy in an Uncertain World

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Discussion 3:
Danny Leipziger highlights the limited redistributive impact of U.S. fiscal policy compared to European systems, noting that while pre-tax inequality levels are similar, post-tax redistribution is much stronger in countries like France or those in Scandinavia. He raises the need for more detailed analysis of tax and expenditure incidence to understand who ultimately bears the burden and who benefits. Maya MacGuineas explains that her organization does not conduct such modeling directly but instead relies on credible research from institutions such as the Congressional Budget Office and the Brookings Institution. She observes that European systems typically feature more regressive taxation combined with progressive spending, whereas the U.S. has a progressive tax code but relies heavily on universal spending programs. In her view, future reform should scale back benefits for those who do not need them and focus instead on strengthening targeted programs that support lower-income households.

Discussion 4:
Danny Leipziger then turns to global corporate taxation, noting that U.S. corporations pay a smaller share of total revenue than their international counterparts and that multinational firms often shift profits abroad. Maya MacGuineas responds that international taxation is one of the most technically challenging areas of fiscal policy, complicated by the high mobility of capital. She explains that the 2017 corporate tax cut was driven largely by concerns about corporate inversions, though it also reduced overall revenue. To address this, she advocates implementing a minimum tax for both corporations and individuals to ensure a fair baseline contribution. Maya MacGuineas also notes that health care remains another major driver of fiscal imbalance, where entrenched interests among pharmaceutical companies, hospitals, and insurers make reform difficult. She concludes that both corporate tax reform and health care restructuring are essential for long-term fiscal sustainability.

Infographics

U.S. Fiscal Policy in an Uncertain World

MACGUINEAS' OVERVIEW

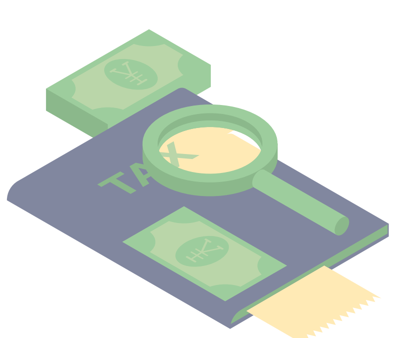
Committee for a Responsible Federal Budget is a nonpartisan
promoting fiscal responsibility through analysis, legislative engagement, communication, and public outreach.

A view that bipartisan cooperation, while harder today than the past,
is still only viable path toward responsible fiscal governance

DISCUSSIONS

1

Closing the fiscal gap requires addressing



- **tax noncompliance**
- **large tax breaks**

that will eventually benefit higher-income households.

2

Fiscal pressure is driven by mandatory programs, including

- **Social Security**
- **Medicare**
- **Debt service**

not discretionary spending.

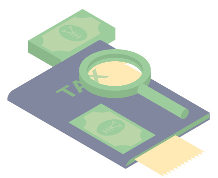
3

U.S. policy needs more targeted support that support lower-income households

with fewer universal benefits for higher-income households.

4

Long-term fiscal sustainability depends on



- **minimum taxes**
- **health care reform**

to curb revenue loss and rising costs.

Policy Challenges for the United States

- **Dr. Douglas Holtz-Eakin — President, The American Action Forum**
- **Moderator: Dr. Tara Sinclair — Professor of Economics and International Affairs and former Deputy Assistant Secretary for Macroeconomics in the Office of Economic Policy at the Department of Treasury**

Dr. Tara Sinclair opens the discussion by highlighting concerns about the U.S. fiscal outlook and asks Douglas Holtz-Eakin to comment on the sustainability of current fiscal policy. Douglas Holtz-Eakin argues that the United States faces a structural fiscal imbalance, as discretionary spending now represents a minor share of the budget while entitlement programs such as Social Security, Medicare, and Medicaid operate on autopilot. He notes that the Social Security trust fund is projected to be depleted within seven years, which legally requires Congress to act. Although politicians have long avoided reform for electoral reasons, he views this as a turning point that reshapes the political calculus. In his view, the first step is to raise additional revenue by lifting the payroll tax cap, followed by a gradual restructuring of benefits to ensure long-term solvency.

Tara Sinclair then asks about the broader macroeconomic implications of U.S. fiscal policy, particularly its effect on the dollar's reserve currency status. Douglas Holtz-Eakin responds that the dollar faces growing pressure both from deliberate geopolitical challenges and from the unsustainable accumulation of debt. He emphasizes that maintaining the dollar's role as the global reserve currency requires stabilizing the debt-to-GDP ratio and restoring fiscal credibility. He characterizes the current policy stance as a form of intergenerational inequity, arguing that today's fiscal excesses transfer debt burdens to future generations. For him, ensuring fiscal discipline is essential not only for domestic stability but also for preserving the dollar's privileged position in the international monetary system.

Turning to trade policy, Tara Sinclair raises the question of whether recent tariffs contribute meaningfully to fiscal revenues. Douglas Holtz-Eakin dismisses the notion, calling tariffs a highly distortionary and regressive instrument that undermines industrial competitiveness. Using the example of steel tariffs, he explains that protectionist measures destroy more manufacturing jobs than they save, while yielding negligible fiscal benefits. He further criticizes the growing political tendency on both the right and the left to justify government intervention on national security grounds, arguing that this trend reflects an unhealthy use of state power for political objectives rather than sound economic reasoning.

In the final segment, Tara Sinclair shifts the discussion to artificial intelligence and its potential impact on the U.S. economy. Douglas Holtz-Eakin acknowledges that AI can perform a large share of existing tasks but argues that its short-run effects on employment remain limited. Drawing a parallel with earlier technological waves, he notes that productivity gains typically materialize only after firms adapt their business models to new technologies. While AI may eventually raise efficiency and create new forms of work, he warns that persistent fiscal imbalances undermine the capacity of the economy to absorb technological change. For him, addressing chronic deficits is therefore not only a fiscal necessity but also a prerequisite for sustaining long-run growth in an AI-driven economy.

Infographics

POLICY CHALLENGES FOR THE UNITED STATES

The U.S. faces a structural fiscal imbalance due to entitlement programs

Social Security

Medicare

Medicaid

that drive long-term deficits.

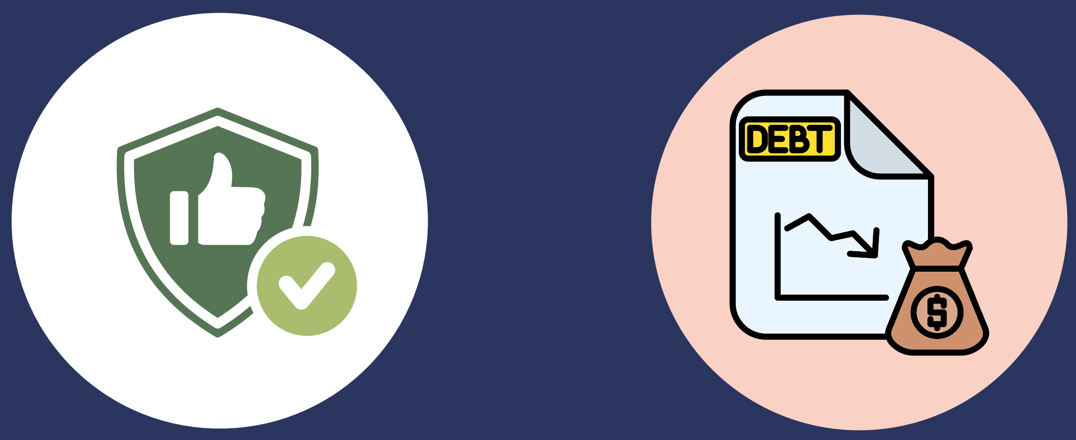
The Social Security trust fund will be

depleted within

7 YEARS

requiring congressional action and making reform unavoidable.

Stabilizing the economy and preserving the dollar's reserve currency status requires



restoring fiscal credibility

stabilizing the debt-to-GDP ratio

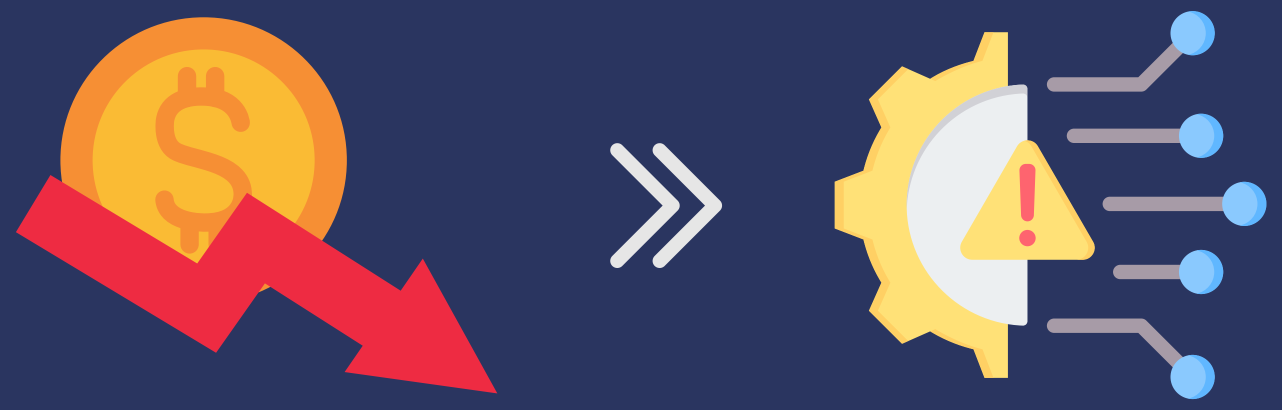
Tariffs provide little revenue, are distortionary, and destroy more manufacturing jobs than they save,

despite political appeal.

AI's long-run benefits will emerge only after firms adapt business models;

short-run effects on employment remain limited.

Persistent fiscal deficits undermine the economy's capacity to absorb technological change.



Fiscal Sustainability: Pro-Growth Policies & Government Debt Management

- Dr. Kent Smetters — Faculty Director of the Penn Wharton Budget Model, University of Pennsylvania
- Jessica Riedl — Senior Fellow, Manhattan Institute
- Moderator: Dr. Elena Patel — Co-Director of the Urban-Brookings Tax Policy Center

Dr. Kent Smetters:
Kent Smetters argues that although U.S. federal debt is clearly on an unsustainable path, there are viable ways to restore fiscal stability without collapsing the economy or undermining the safety net. He notes that the debt problem is often misunderstood because discussions typically overlook implicit debt embedded in pay-as-you-go programs such as Social Security and Medicare. These intergenerational transfers are roughly twice as large as the explicit Treasury debt and severely constrain long-term fiscal policy. Using an overlapping-generations model that endogenizes financial markets, Kent's team find that under current law the system could face a bank-run-like crisis or default within twenty years even under optimistic assumptions.

To resolve this problem, he presents an illustrative reform package that combines tax-base broadening, spending restraint, gradual entitlement reform, and immigration policy changes. The simulation shows that such measures could reduce the debt-to-GDP ratio below 100 percent while promoting economic growth and nearly eliminating old-age poverty. Although not everyone benefits in the short run, Kent emphasizes that the plan would improve welfare for most households and leave future generations better off, achieving both fiscal sustainability and stronger health-care coverage.

Jessica Riedl:
Jessica Riedl warns that the U.S. fiscal outlook is dire, with deficits projected to reach 14 percent of GDP and debt potentially surpassing 200 percent under current policies. Interest costs are rising rapidly, soon overtaking major programs like Medicare and Social Security, even under low interest rate assumptions. Economic growth alone cannot solve the problem, as labor force growth is stagnating, productivity gains from technologies like AI are uncertain, and any boost in growth would also raise spending obligations.

To stabilize debt around 100 percent of GDP, the speaker argues that the U.S. must achieve non-interest savings of about 2.5 percent of GDP now and roughly 5 percent in the long run through a mix of tax increases and spending cuts. However, most of the adjustment would need to come from Social Security and Medicare, which account for the bulk of the long-term shortfall. She emphasizes that political apathy and the illusion of "easy fixes" like taxing the rich or cutting defense are major obstacles, warning that each year of delay makes reform far more costly.

Fiscal Sustainability: Pro-Growth Policies & Government Debt Management

- **Dr. Kent Smetters — Faculty Director of the Penn Wharton Budget Model, University of Pennsylvania**
- **Jessica Riedl — Senior Fellow, Manhattan Institute**
- **Moderator: Dr. Elena Patel — Co-Director of the Urban-Brookings Tax Policy Center**

Discussion 1:
In response to the moderator's question about why warnings about U.S. debt are not resonating with the public or policymakers, Kent Smetters explains that people misunderstand key issues. Many overestimate the economic power of AI, believing it will drive enough productivity to solve fiscal problems, but his analysis shows that AI's long-term effect on growth is modest and cannot meaningfully improve programs like Social Security or Medicare, which are structurally indexed to wages and costs. He also notes that markets misread current interest rates, overlooking the risk of a sudden loss of confidence that can trigger a bank-run-like crisis rather than a gradual adjustment. Finally, he argues that media sensationalism and exaggerated past warnings have created public fatigue, making people dismiss genuine fiscal risks and hindering serious, evidence-based discussion about debt sustainability.

Discussion 2:
The moderator asked Jessica Riedl why repeated warnings about the federal debt have failed to resonate with the public and how that could be changed. In response, Riedl explains that warnings about Social Security and Medicare have lost credibility because past advocates failed to communicate that reforms were meant to be gradual rather than immediate. As a result, with most baby boomers already retired, meaningful adjustments are now far more difficult. She emphasizes that both political parties prioritize short-term electoral gains by offering tax cuts and benefits to win votes, while voters themselves oppose any personal sacrifices and demand lower taxes alongside higher spending. Given this combination of apathy, misinformation, and polarization, she warns that genuine fiscal reform is unlikely without an external shock such as a bond market backlash that forces policymakers to act.

Infographics

Fiscal Sustainability: Pro-Growth Policies & Government Debt Management

SMETTERS'S HIGHLIGHTS

U.S. debt is unsustainable partly because implicit liabilities in

Social Security Medicare

TWICE

the size of explicit Treasury debt.

Current law could lead to a bank-run-like crisis or default

within

20 YRS

even under optimistic assumptions.

A balanced reform package can stabilize debt below 100% of GDP.

tax-base broadening

spending restraint

gradual entitlement reform

immigration changes

The plan would improve long-run welfare, reduce old-age poverty,

and leave future generations better off.

RIEDL'S HIGHLIGHTS

The U.S. faces a dire fiscal outlook:

deficits could hit

14% of GDP

debt could exceed

200%

under current policies

Interest costs are exploding,

soon overtaking Medicare and Social Security; economic growth cannot close the gap.

Stabilizing debt requires non-interest savings of about 2.5% of GDP in savings,

rising to

5% long term

mostly from Social Security and Medicare reform.

Political apathy and unrealistic "easy fix" narratives make

delay extremely costly and reform increasingly difficult.

Innovation Policy and R&D: Will a Changing Landscape Lead to More Competitiveness?

- Dr. Robert Atkinson — President, Information Technology and Innovation Foundation
- Dr. Darrell West, Senior Fellow, Governance Studies, Center for Technology Innovation; Douglas Dillon Chair in Governance Studies, Brookings Institution
- Moderator: Dr. Shahid Yusuf — Chief Economist, Growth Dialogue, GW School of Business

Dr. Robert Atkinson:
Robert Atkinson argues that discussions of economic performance are often conceptually confused because competitiveness, productivity, and innovation are distinct though overlapping dimensions. He defines competitiveness as a country's ability to sell goods abroad at favorable terms of trade, noting that the United States has failed to do so given its strong dollar and large trade deficit, while Korea has maintained stronger performance through trade surpluses. He explains that productivity is not the same as competitiveness, since a country can have high productivity in non-traded sectors yet remain uncompetitive in global markets. Turning to Korea, he warns that its competitiveness will face pressure from U.S. protectionism and China's industrial expansion, while productivity is constrained by demographic decline, weak service-sector performance, and an overprotected small-firm sector that limits creative destruction. Finally, he argues that Korea's innovation momentum has stalled because of hierarchical culture and rote education, and that sustaining growth will require greater entrepreneurship, risk-taking, and social openness.

Dr. Darrel West:
Darrell West discusses innovation policy in the United States and its implications for Korea, arguing that the Trump administration lacks a coherent vision and pursues contradictory policies that undermine its stated goal of maintaining U.S. technological leadership. He notes that while tax cuts and deregulation may support innovation, tariff policies raise costs for key inputs such as steel and aluminum, making it more expensive to build data centers essential for AI development. West criticizes Trump's interference in higher education and technology firms, as well as restrictive immigration measures that reduce access to foreign talent crucial for American innovation. He warns that this inconsistency and political chaos could erode the foundations of long-term U.S. innovation, while also creating uncertainty for allies like Korea that depend on stable trade relations and open markets.

Innovation Policy and R&D: Will a Changing Landscape Lead to More Competitiveness?

- **Dr. Robert Atkinson — President, Information Technology and Innovation Foundation**
- **Dr. Darrell West, Senior Fellow, Governance Studies, Center for Technology Innovation; Douglas Dillon Chair in Governance Studies, Brookings Institution**
- **Moderator: Dr. Shahid Yusuf — Chief Economist, Growth Dialogue, GW School of Business**

Discussion 1:
The moderator compares R&D investment and innovation between the United States and Korea, noting that Korea invests 5.21 percent of GDP in R&D, the second-highest in the world after Israel, and has a highly educated labor force and rapidly growing output of AI-related patents and papers. Despite these strengths, Korea's growth rate remains below 2 percent and productivity stays low, leading him to ask why Korea is underperforming relative to its potential. He also questions whether the United States, which invests 3.45 percent of GDP in R&D, should continue spreading its R&D across sectors or focus more on AI, given that data center investments currently drive much of U.S. growth.
Robert Atkinson responds that U.S. R&D spending is generally sufficient, especially in AI, where American firms such as Google and Microsoft already lead globally. However, he warns that the United States is overinvesting in AI while neglecting traditional manufacturing R&D, arguing that a strong manufacturing base remains essential. He suggests that Korea's high R&D intensity largely reflects its semiconductor-heavy industrial structure and that while Korea excels in advanced manufacturing, it lags in software and AI talent. Thus, he concludes that the U.S. should invest more in manufacturing R&D, whereas Korea should expand AI and software R&D.

Darrell West agrees, emphasizing that AI is not a narrow field but a foundational technology driving innovation across sectors including autonomous vehicles, e-commerce, health care, finance, and manufacturing. He says the current level of U.S. AI investment is adequate and that the main challenge lies in ensuring the broader innovation ecosystem, including institutions, education, and human capital, remains strong enough to sustain long-term technological leadership.

Discussion 2:
The moderator questions why U.S. manufacturing productivity remains stagnant despite heavy R&D investment, noting that two-thirds of all R&D and patents come from manufacturing but few gains in output or competitiveness follow. Robert Atkinson responds that most R&D is concentrated in biotechnology and semiconductors, with little occurring in other sectors, and argues that innovation follows long waves, meaning productivity gains from new technologies like AI have yet to materialize. He predicts a temporary slowdown before broader diffusion leads to growth, warning that excessive regulation could delay progress. Darrell West agrees, suggesting that innovation is accelerating but productivity takes time to catch up. He points to rising automation in manufacturing and calls for more R&D devoted to public-good applications of AI, such as climate change and inequality, which currently attract too little investment.

Discussion 3:
The moderator raises concerns about the macroeconomic risks of AI-driven job displacement, asking what would happen if 40 to 50 percent of the workforce becomes redundant within a few years. Robert Atkinson dismisses this scenario, arguing that fears of mass unemployment reflect a misunderstanding of how technological progress works. He says automation reduces costs, boosts demand, and creates new jobs elsewhere in the economy, noting that productivity has risen ninefold since 1900 without sustained unemployment. Darrell West agrees that large-scale unemployment is unlikely but warns that even small job losses can have major political and social effects, as seen after the 2008 crisis. He emphasizes the growing skills mismatch and calls for greater public support for lifelong learning, warning that most adults currently bear the cost of retraining alone.

Infographics

Innovation Policy and R&D: Will a Changing Landscape Lead to More Competitiveness?

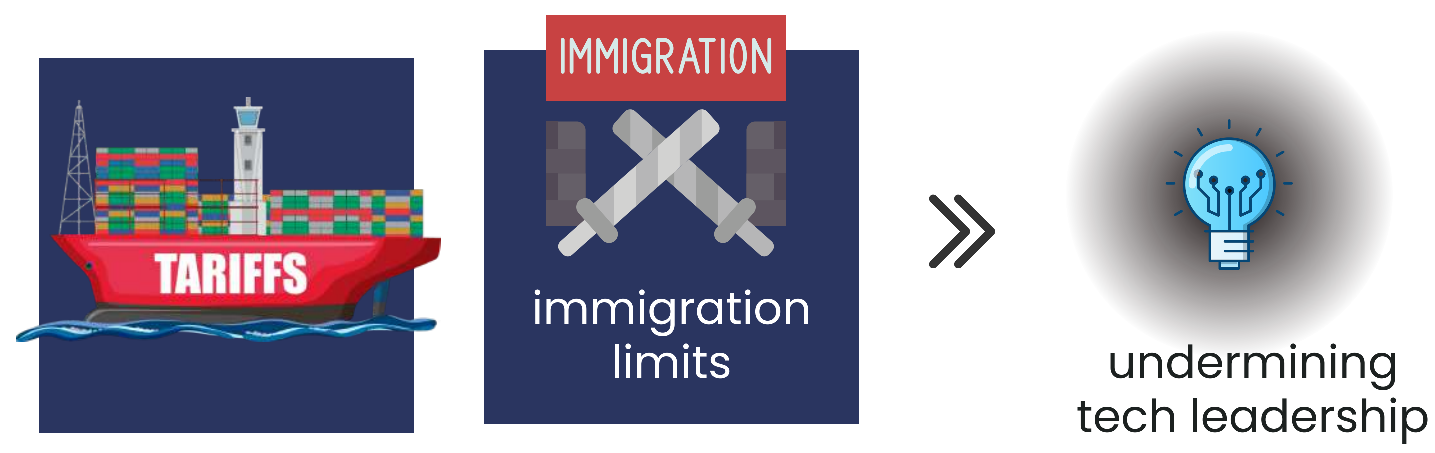
ATKINSON'S HIGHLIGHTS

Korea's competitiveness and productivity are pressured by

Innovation is slowing due to hierarchical culture and rote education.

WEST'S HIGHLIGHTS

U.S. innovation policy is inconsistent with



Policy chaos creates uncertainty for Korea and weakens long-term innovation.

DISCUSSION 1

- **Korea's high R&D spending hasn't produced** strong growth or productivity.
- **Atkinson:** **needs more manufacturing R&D;** **needs software/AI talent.**

DISCUSSION 2

- **U.S. manufacturing productivity lags despite heavy R&D concentration.**
- **AI productivity gains will be slow;** excessive regulation could hold back progress.

DISCUSSION 3

- **Atkinson: Mass AI job loss is unlikely;** automation historically creates new jobs and raises productivity.
- **West: Even small job losses can cause major political and social impacts, requiring strong retraining systems.**

Geopolitics, Security, and Macroeconomic Stability

- Dr. Jay Shambaugh — Professor of Economics and International Affairs, GW and former Under Secretary for International Affairs at the U.S. Treasury Department
- Dr. Randall Jones — Distinguished Fellow, Korea Economic Institute of America (KEIA)
- Col. (Ret.) Mark Cancian — Senior Adviser, Defense and Security Department, Center for Strategic and International Studies (CSIS)
- Moderator: Matthew Goodman, Distinguished Fellow for Geoeconomic Studies, Council on Foreign Relations (CFR)

Dr. Jay Shambaugh:
Jay Shambaugh explains that economics and national security are deeply connected through fiscal policy. He first notes that a country's economic capacity ultimately determines its defense capability, as illustrated by conflicts such as Ukraine where the ability to expand production of weapons and critical materials proves decisive. He then emphasizes that sustaining defense industries and resilient supply chains requires substantial fiscal resources, creating a persistent trade-off between national security and economic efficiency. U.S. policies such as the CHIPS Act and steel tariffs, he argues, show how industrial policy can protect strategic sectors while imposing significant implicit costs. He further contends that long-term security depends on cooperation with trusted allies and diversification of supply chains, yet rising geopolitical tensions make such partnerships increasingly fragile. Finally, he warns that policy uncertainty, particularly from U.S. fiscal and trade volatility, discourages investment, raises borrowing costs, and threatens fiscal stability in small open economies such as Korea. He concludes that the need to balance security, resilience, and efficiency places growing pressure on public finances worldwide.

Dr. Randall Jones:
Randall Jones emphasizes that Korea's fiscal sustainability, though currently strong, faces growing risks from rapid population aging and the world's lowest fertility rate. He notes that while government debt and spending remain low by OECD standards, social expenditures on health care, long-term care, and pensions are rising sharply and could reach 26 percent of GDP by mid-century. To maintain fiscal soundness, he argues that Korea must sustain labor input by reversing the fertility decline and boosting employment among youth, women, older persons, and foreign workers. He also calls for comprehensive pension reform and stronger revenue mobilization through a broader income tax base and higher value-added taxes. Without such measures, he warns, public debt could exceed 150 percent of GDP by 2060, but effective labor and tax policies can stabilize it. He concludes by suggesting legal enforcement of the fiscal rule, the establishment of an independent fiscal institution, and a reconsideration of the institutional balance of fiscal authority within the government.

Col. (Ret.) Mark Cancian:
Mark Cancian explains that the Trump administration views Indo-Pacific security relationships as largely transactional, emphasizing U.S. economic benefits even when trade and security goals conflict. Using South Korea as an example, he notes that shorter conscription periods and demographic decline threaten the country's defense capacity, urging a broader approach that incorporates more civilians and contractors. He predicts renewed U.S. pressure on Seoul to increase cost-sharing for American forces, since the administration sees alliances through an economic lens, and observes that these troops are not easily deployable elsewhere. He also anticipates a gradual shift from troop-based deployments to long-range strike capabilities and cautions that U.S. fiscal stability can unravel suddenly if confidence in its creditworthiness collapses, much like the fall of Lehman Brothers.

Geopolitics, Security, and Macroeconomic Stability

- **Dr. Jay Shambaugh — Professor of Economics and International Affairs, GW and former Under Secretary for International Affairs at the U.S. Treasury Department**
- **Dr. Randall Jones — Distinguished Fellow, Korea Economic Institute of America (KEIA)**
- **Col (Ret.) Mark Cancian — Senior Adviser, Defense and Security Department, Center for Strategic and International Studies (CSIS)**
- **Moderator: Matthew Goodman, Distinguished Fellow for Geoeconomic Studies, Council on Foreign Relations (CFR)**

Discussion 1:
The moderator raises concerns about growing uncertainty in economic data, noting that government shutdowns and misinformation undermine confidence in official statistics, and asks how this affects the intersection of economics and national security. Jay Shambaugh responds that while missing a single data release is not critical, actions that undermine trust in data, such as politicizing statistical agencies, can have serious consequences. He warns that when markets lose confidence in official data, psychological factors dominate decision-making, raising the risk premium on national debt and increasing fiscal instability. Jay Shambaugh concludes that data transparency and credibility are essential for maintaining a country's financial integrity, especially for highly indebted economies like the United States.

Discussion 2:
The moderator asks how countries can balance growing fiscal pressures from aging populations, rising social welfare demands, and increased defense spending. Jay Shambaugh argues that while such trade-offs are economically manageable, deep political polarization undermines fiscal discipline and makes bipartisan cooperation difficult, turning the problem into one of politics rather than economics. Randall Jones emphasizes that Korea’s main challenge lies in sustaining an egalitarian society, noting that its pension system leaves retirees near the poverty line and that public resistance to higher taxes threatens the social safety net. Mark Cancian adds that although Korea’s defense spending is relatively high by international standards, the Trump administration still sees it as insufficient, contrasting this with the United States, which effectively defers the costs of its fiscal choices to future generations.

Infographics

Geopolitics, Security, and Macroeconomic Stability

SHAMBAUGH'S HIGHLIGHTS

- **Economic strength underpins national defense and secure supply chains.**
- **Security requires major fiscal resources,** creating trade-offs with efficiency.
- **Policy volatility in the US raises global risks,** especially for small open economies like Korea.

JONES'S HIGHLIGHTS

- **Korea's fiscal risks stem from rapid aging and very low fertility.**
- **Social expenditures could surge,** pushing debt toward 150% of GDP by 2060 without reform.
- **Stronger labor input, pension reform, and tax expansion** are needed for stability.

CANCIAN'S HIGHLIGHTS

COST

- **U.S. alliances are seen transactionally,** with pressure on Korea for higher cost-sharing.
- **Korea's defense capacity is limited by** demographic decline and shorter conscription period.
- **A shift toward long-range strike systems** and risks from U.S. fiscal instability is expected.

Energy and Fiscal Policy: Powering the Economy Sustainably

- **Henry Haggard — Non Resident Fellow, Baker Institute**
- **Gabriel Collins, JD — Baker Botts Fellow in Energy and Environmental Regulatory Affairs; CES Lead, Energy and Geopolitics in Eurasia, Baker Institute**
- **Moderator: Clara Gillispie, Senior Fellow for Climate and Energy, Council on Foreign Relations (CFR)**

Gabriel Collins:
Gabriel Collins emphasizes that both the United States and South Korea are highly industrialized economies that require abundant, affordable, and resilient energy to sustain their industries and human well-being. He highlights the importance of reliable, dispatchable power sources that function regardless of weather or external shocks and identifies two key areas for future cooperation: natural gas (LNG), which provides a cleaner and stable baseload alternative to coal and strengthens both Korea's energy security and U.S. commercial interests, and advanced nuclear power, where collaboration in reactor manufacturing and supply chains, already exemplified by Korean firms like Doosan, can greatly expand. He concludes that natural gas and nuclear energy are central to deepening bilateral, commercial, and strategic ties between the two countries.

Henry Haggard:
Henry Haggard expresses optimism about the future of U.S.–Korea energy relations, arguing that energy security is central to Korea's national security and that Korea's lack of natural resources drives its success through innovation, investment, and partnership with the United States. He emphasizes that Korea effectively chooses the U.S. as its sole strategic and economic ally, particularly in energy cooperation, where joint investment, R&D, and industrial integration are already strong. He highlights Korea's competitiveness in nuclear power, battery technology, and critical minerals, noting that collaborations in advanced reactors, energy storage, and green data centers position both nations for growth. He also points to expanding trilateral cooperation with Japan and argues that China's geopolitical behavior further strengthens U.S.–Korea alignment in energy and industrial policy, making their alliance both resilient and essential for global energy security.

Discussion 1:
Clara Gillispie begins by appreciating Henry Haggard's optimism and asks how the United States and Korea can manage political and economic risks such as industrial restructuring, inflation, and trade uncertainty while maintaining resilience and long-term cooperation in energy policy. Gabriel Collins responds that South Korea clearly chooses the United States as its key ally in both security and economic relations and that resilience depends on the U.S. acting as a consistent partner because policy inconsistency weakens trust even among allies. He explains that maintaining predictable policies, either through steady federal involvement or a stable regulatory environment, helps Korean investors plan with confidence. Henry Haggard agrees and says that Korean firms view uncertainty as a challenge to manage rather than a reason to retreat, emphasizing that Korea focuses on adapting to changes rather than reconsidering the partnership. He concludes that only a major shift in Korean public sentiment can threaten the alliance, which remains strong, pragmatic, and essential for both countries.

Discussion 2:
Clara Gillispie notes that the U.S.–Korea partnership proves resilient despite past conflicts and highlights growing cooperation in energy, particularly LNG. She asks how the relationship can expand in this area. Henry Haggard explains that Korea, as the largest importer of U.S. LNG, builds a deeply integrated energy and industrial partnership, exemplified by ventures like the GS Caltex–Chevron refinery, making LNG trade central to both countries' economic prosperity. Gabriel Collins adds that LNG differs from nuclear energy because it operates entirely on commercial terms yet carries strategic value. He emphasizes that gas is immediate and scalable, serving as a practical bridge fuel in the ongoing global energy transition, and that its flexibility strengthens both the U.S.–Korea alliance and broader energy security.

Infographics

Energy and Fiscal Policy: Powering the Economy Sustainably

COLLINS'S HIGHLIGHTS

The US and Korea need abundant, affordable, and resilient energy to support industries and well-being.

LNG provides cleaner, reliable baseload power sources that

strengthen

- energy security
- commercial interests

Advanced nuclear cooperation
in reactor manufacturing and supply chains

can deepen strategic and industrial ties between US and Korea.

HAGGARD'S HIGHLIGHTS

Korea's energy security relies on deep partnership with the U.S.,
driven by Korea's natural resource scarcity and innovation strategy.

Korea's competitiveness in

nuclear power
batteries
critical minerals

make joint work on
advanced reactors, energy storage, and green data centers
a strong engine for future U.S.–Korea growth.

Trilateral cooperation with Japan and rising China-related risks make

the U.S.–Korea energy alliance more essential than ever.

AI and Fiscal Stability — Growth, Displacement, Productivity?

- **Dr. Michael Horrigan — President, W.E. Upjohn Institute for Employment Research**
- **Dr. Kunmin Kim — Director, ICT Budget Division, Ministry of Economy and Finance, Republic of Korea**
- **Moderator: Kyle Renner — Program Manager, Fiscal Policy Forum, GWIKS**

Dr. Michael Horrigan:
Michael Horrigan explains that demographic headwinds and slowing population growth substantially constrain U.S. employment expansion, making immigration a critical source of labor force sustainability. Citing Congressional Budget Office projections, he notes that average monthly job gains may decline from 120 thousand to roughly 60 thousand by 2033. He compares this projected slowdown with historical patterns in manufacturing, where output continues to rise even as employment falls, emphasizing that productivity growth has stagnated since 2008 while demand for skilled labor has intensified. He then discusses recent evidence on AI, showing that occupations with high AI adoption, typically professional and high-wage, are expected to expand faster than average. This suggests that AI largely complements rather than replaces human labor, while low-education jobs with high AI exposure are likely to shrink as capital-labor ratios adjust.

Dr. Kunmin Kim:
Kunmin Kim outlined South Korea's comprehensive AI strategy, emphasizing that AI should be viewed not merely as an industry but as a fundamental economic transformation. He explained that South Korea aims to become the world's third major AI power after the United States and China by implementing a broad policy mix that includes tax incentives, fiscal support, deregulation, and state-owned enterprise reform. While initial investments focus on infrastructure, the long-term priority will shift toward talent development and industry-wide AI adoption. The government plans to build national AI computing and semiconductor ecosystems in partnership with the private sector, expand green-energy-powered data centers, and attract and train AI experts. As a manufacturing-oriented economy, South Korea also seeks to develop precision production systems and software-defined "dark factories" driven by AI, with Kim concluding that these initiatives will enhance industrial competitiveness and promote both growth and fiscal sustainability.

Discussion 1:
The moderator asks how the United States and South Korea can develop worker-centered AI policies that achieve automation and productivity gains without causing major labor disruptions or political instability. Michael Horrigan responds that if AI complements rather than replaces labor, demographic-driven labor shortages can lead to higher wages and greater investment in retraining, highlighting the need for government support programs and nationwide standardization of credentials. Kunmin Kim adds that in Korea, AI should collaborate with rather than replace senior, immigrant, and low-skilled workers, emphasizing the importance of policies centered on human-technology coexistence.

Discussion 2:
The moderator asks whether AI can help accelerate worker reskilling and upskilling, making the difficult transition to new types of work more efficient. In response, Kunmin Kim explains that while true mastery still requires experience, AI enhances that process by filling the final gap of human expertise, noting that Korea is already testing physics-based large action models to achieve this. Michael Horrigan adds that AI-powered simulation and personalized learning tools, such as forklift training programs or interactive tutoring systems, can transform education and workforce training by accommodating diverse learning styles and providing immediate feedback, ultimately changing how workers acquire new skills.

Infographics

AI and Fiscal Stability – Growth, Displacement, Productivity?

HORRIGAN'S HIGHLIGHTS

The US faces demographic headwinds

Monthly job gains may drop **by 2033** (CBO)

from **120K** (2024)

to **60K** (2034)

Immigration

is thus essential for labor force sustainability.

Productivity growth has stagnated since 2008

even as manufacturing output continued to rise with fewer workers.

AI complements high-skill labor

rather than replaces human labor

but many **low-skill jobs** with high AI exposure may shrink as capital-labor ratios adjust.

KIM'S HIGHLIGHTS

Korea's goal to become the world's third AI powerhouse

after the US and China

The government's AI strategy integrates

a policy mix, including tax incentives, fiscal support, deregulation, state-owned enterprise reform.

Gov's plan to build national AI computing & semiconductor ecosystems by including:

- green-energy-powered data centers
- precision manufacturing systems
- software-defined "dark factories"

to enhance **industrial competitiveness** and promote both **growth and fiscal sustainability**

POLICY IMPLICATIONS

Nationwide standardization of credentials

to technological change are necessary to maintaining productivity and fiscal stability.

AI should collaborate with rather than replace

senior, immigrant, and low-skilled workers while centering human-technology coexistence

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