



HARVARD Kennedy School

MOSSAVAR-RAHMANI CENTER for Business and Government

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GOVERNMENT

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SUMMERS ON THE CASE FOR PLACE-BASED EMPLOYMENT POLICIES



New research by M-RCBG Director **Lawrence Summers** and Harvard's Benjamin Austin and Edward Glaeser published in the Spring 2018 edition of Brookings Papers on Economic Activity (BPEA). It maps growth in the share of men who are not working across major regions of the United States, revealing that the share of men aged 25-54 without work has nearly tripled over the last 50 years, and that this rise is disproportionately centered in the eastern parts of the American heartland from Mississippi to Michigan.

In decades past, Americans were much more likely to move across counties and states in search of work. Between 1950 and 1992, mobility across counties never dropped below six percent. Since 2007, the share of American residents who moved across counties has never exceeded 3.9 percent. As a result, incomes in poorer parts of the country are no longer catching up with those in wealthier parties of the country as quickly as they used to, and regional gaps in employment have become large and enduring.

[T]he rate of non-employment for working age men has nearly tripled over the last 50 years, generating a terrible social problem that is disproportionately centered in the eastern parts of the American heartland. Should more permanent economic divisions across space lead American economists to rethink their traditional skepticism about place-based policies?

At the same time there has been a wide variation in economic growth in different regions of the country. While coastal states have seen their real economies grow by 330 percent over the past 40 years and the western heartland has seen growth of 461 percent, the eastern heartland's economy has grown by only 181 percent.

A look at men without jobs across the country illustrates large differences in the rise of American non-employment across regions and the hardening of America's geographic divisions. In 2016, 51 percent of 25- to 54-year-old men in Flint, Michigan were not employed. In Alexandria, Virginia, it was five percent. As has been widely documented, education plays a major role in hardening the divide between more educated workers that benefit from the modern economy and their less-educated peers.

To read the full paper, visit www.hks.harvard.edu/centers/mrcbg/publications/fwp.

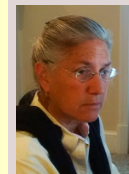
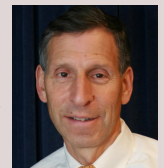
Seminars & Events

M-RCBG has over 80 seminars and events scheduled each semester. Below are a few of the upcoming events. For a complete listing, visit www.mrcbg.org.



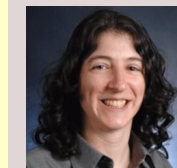
A Progress Report on Deconstructing the Expert State; **Joe Goffman, Harvard Environmental Law Program.** Bell, Apr 5. 11:45am-1pm.

How Smartphone Use Impacts Perceived Waiting Times; **Mark Fagan, HKS.** Bell, Apr 19. 11:45am-1pm.



The Paris Agreement: Thoughts of a Negotiator on its Significance and Future; **Sue Biniaz, UN Foundation Senior Fellow.** Wexner 434, Apr 19. 4:30pm.

Air Quality and Health Implications of Energy Strategies; **Denise Mauzerall, Princeton.** Bell, Apr 23. 12-1:30pm.



Regulatory Flexibility for Good or for Ill; **Sarah Jacobson, Williams.** L-382, Apr 25. 4:15-5:30pm.



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LAWRENCE ON WHY THE FOCUS ON TRADE DEFICITS IS MISLEADING



M-RCBG faculty affiliate **Robert Z. Lawrence** recently published a policy brief at the Peterson Institute for International Economics that includes five reasons why the focus on trade deficits is misleading. In it, he argues that trade deficits are not a good measure of how well a country is doing with

respect to its trade policies. He writes that trade policies are not necessary bad, do not necessarily cost jobs or reduce growth, and are not a measure of whether foreign trade policies or agreements with other countries are fair or unfair.

He further argues that efforts to use trade policy and agreements to reduce either bilateral or overall trade deficits are also unlikely to produce the effect the Trump administration claims they will. Such efforts could prove counterproductive and lead to friction with US trading partners, harming the people the policies claim to help. The US benefits both from importing and from exporting; to raise US living standards, therefore, trade policies should aim to reduce trade and investment barriers at home and open markets for US products abroad. In its criticism of past trade policies, the administration has cited the \$752.5 billion deficit in goods in 2016, which was four percent of GDP. But this focus on trade in goods alone is too narrow.

Lawrence's policy brief uses the broader definition of the trade balance that includes trade in services – financial services, tourism, consulting, and the like – which makes up more than a third of US trade. Trade in services also provides employment, generates US income, and enhances US welfare. The United States had a \$247.7 billion surplus in services trade in 2016, bringing the total trade deficit in goods and services down to about \$500 billion.

In assessing trade balances, it is more appropriate to consider goods, services, and indeed the net earnings of Americans from investing and working abroad. Lawrence therefore focuses on the trade balance that includes all these elements and that is more commonly defined as the current account, which was 2.4 percent of US GDP in 2016.

To read the full policy brief, visit: <https://piie.com/publications/policy-briefs/five-reasons-why-focus-trade-deficits-misleading>.

Growthpolicy.org releases two new interviews

M-RCBG's *Growthpolicy.org* pulls together the work of economists, lawyers, political scientists, historians, sociologists, and educators, from across Harvard's undergraduate and graduate schools. It captures rigorous research as well as the key takeaways from that research. More than half of the entries are blog posts, opinion pieces, interviews, cases, and conference presentations. Recently posted interviews include:



Employment, inequality, and the relationship between corporate purpose and financial performance with **George Serafeim**, Jakurski Family Associate Professor of Business Administration at Harvard Business School. He says, "all nations have agreed to the Sustainable Development Goals and they represent tens of trillions in investments and opportunities for value creation. Hundreds of millions of jobs will be created aligned with achieving them."



Income inequality, the "Ikea Effect," and humblebragging with **Michael Norton**, Harold M. Brierley Professor of Business Administration at Harvard Business School. He says, "Because income inequality has become so extreme in the United States over the past decades, it is clear that no single policy change is likely to reduce inequality very much at all. This is particularly true of wealth inequality, which is both more extreme and stickier over time."



This semester, Linda Bilmes' students are participating in projects for the Rappaport Greater Boston Applied Learning Lab and the Bloomberg Field Lab. Here, they are assisting Congressman Seth Moulton to help coastal communities, particularly Newburyport, connect to the federal Community Ratings System in order to access flood mitigation loans and favorable flood insurance rates for residents.

Recent op-eds and research from our faculty affiliates



*Trump is breaking the environment beyond repair (Linda Bilmes)...*Humpty Dumpty famously cannot be “put back together” again. For those who care about the environment, every day since Donald Trump took office is a Humpty Dumpty day — with something being broken beyond repair. The federal government

has started selling off parcels of the Bears Ears and Grand Staircase-Escalante National Monuments to anyone who hammers four poles into the ground and pays a \$212 fee. The Trump administration has also slapped a 30 percent tariff on imported solar panels — making it more expensive for Americans to go solar and crippling the domestic solar panel installation industry. *Boston Globe*, Feb. 20.



*The Fed Should be Careful What it Wishes For (Carmen Reinhart)...*Empirical relationships in economics are sufficiently fragile that there is even a “law” about their failure. As British economist Charles Goodhart explained in the 1980s,

“any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes.” Central banks in advanced economies have recently been providing a few more case studies confirming Goodhart’s Law, as they struggle to fulfill their promises to raise inflation to the stable plateau of their numerical targets. *Project Syndicate*, Feb. 28.



*Macroeconomic effects of the 2017 tax reform (Jason Furman)...*In December 2017, Congress enacted the most sweeping set of tax changes in a generation, lowering statutory tax rates for individuals and businesses and altering the tax base—in some cases to remove distortionary tax preferences and in some cases to create

new ones. The law generated substantial debate on many issues, notably about its long-term impact on the capital-labor ratio, GDP per worker, real wages and, in the transition to the new steady state, economic growth...Broadly speaking, we agree that a simple neoclassical model of the economy can provide useful insights in assessing the macroeconomic consequences of the tax changes. *Brookings Papers on Economic Activity*, Mar. 8.



*Why Tillerson’s departure is bad for US climate change policy (Robert Stavins)...*On January 3, 2017, two weeks before Inauguration Day, I posted an essay on my blog on “Trying to Remain Positive,” in which I searched for any remotely positive elements of the incoming Trump admin-

istration. When it came to climate change, I wrote, “the least worrisome development in regard to anticipated climate change policy may be the nomination of Rex

Tillerson.” I noted that as the CEO of ExxonMobil, the position Tillerson had before stepping down to become Secretary of State, he recognized the reality of man-made climate change, supported a carbon tax and called the Paris climate accord an “important step forward.” [Enter Mike Pompeo], a consistent, long-term and vocal skeptic of the science of climate change... *PBSNewsHour*, Mar. 16.



*Is Technology Hurting Productivity? (Jeffrey Frankel)...*It is possible that new technologies are not just doing less to boost productivity than past innovations. They may actually have negative side effects that undermine productivity growth, and that reduce our well

being in other ways as well. In recent years, productivity growth in developed economies has been stagnating. The most prominent explanations of this trend involve technology. Technological progress is supposed to increase economies’ productivity and potential growth. So what’s going on? *Project Syndicate*, Mar. 19.

Student paper prize details and deadlines

Several student paper prizes have upcoming deadlines. Details include:

HEEP Paper Prize: The Harvard Environmental Economics Program (HEEP) will award three prizes in May for the best research papers addressing topics in environmental, energy, and natural-resource economics.

- Enel Endowment Prize for Best Undergraduate Paper or Senior Thesis: \$1,000
- Mossavar-Rahmani Center Prize for Best Masters Student Paper: \$1,500
- Ana Aguado Prize for Best Paper by a Doctoral Student: \$2,000

The deadline for receipt of submissions is Wednesday, May 2 at 4:00 PM. For additional information, visit: <https://heep.hks.harvard.edu/event/student-paper-prize-2018>.

John Dunlop Undergraduate Thesis Prize. The John Dunlop Thesis Prize in Business and Government is an annual award for Harvard undergraduates and is given to the Harvard College graduating senior who writes the best thesis on a challenging public policy issue at the interface of business and government. A \$1000 prize will be awarded to the winning entry. The application for the 2017-2018 academic year is May 4 at noon. For more information, visit: www.hks.harvard.edu/centers/mrcbg/students/dunlop2.

*M-RCBG 2017 summer funding recipient:
Shen Zheng, Bill and Melinda Gates Foundation*



HKS student Shen Zheng (right) with a Nigerian colleague at the Bill & Melinda Gates Foundation.

Last summer, I was an associate at the Program-Related Investment (PRI) team for the Bill & Melinda Gates Foundation. My major task was to assist the Deputy Director of the PRI team to develop a strategy that could strengthen the enabling environment to support the success of the joint fund between the Bill & Melinda Gates

Foundation and China Africa Development Fund (CADFund); and also to identify investment opportunities in the health and agriculture sectors in the internally prioritized African countries.

I worked closely with colleagues from the Foundation's China and Ethiopia offices, and collaborated with a team of McKinsey consultants based in Nairobi, Kenya. We started with extensive interviews with the Foundation's Chinese and African leadership teams as well as with McKinsey internal experts and African government officials, and then leveraged existing strategy pieces and internal strategy workshops to identify six initiatives that the Foundation has a comparative advantage to make sustainable impact in the space of China-Africa economic engagement.

I am proud that I could contribute to such an important strategy project to further the China-Africa economic engagement, and help the Foundation identify opportunities for the largest impact investment commitment in its history. This rewarding and fulfilling learning experience would not come true in the absence of the financial assistance from the Mossavar-Rahmani Center for Business & Government. I am grateful to the summer funding committee at the Center.

US UK free trade panel scheduled for April 18

On Wednesday, April 18, M-RCBG will be hosting a panel titled *On The Rebound: Prospects for a US-UK Free Trade Agreement*. Panelists will include: M-RCBG Director **Lawrence Summers**; **Ed Balls**, M-RCBG research fellow and former UK Shadow Chancellor; **Camilla Cavendish**, M-RCBG senior fellow, and **Mehek Sethi**, MPP1.

The event will be held in Starr Auditorium (2nd Fl Belfer Building) from 4:30-6pm.

The event coincides with the release of a paper on the same topic from Balls and **Peter Sands**.

HEPG meets in DC to discuss electricity markets

At its third meeting of the year, held in March in Washington, D.C., approximately seventy Harvard Electricity Policy Group members – academics, regulators, utility managers, and others – braved the most recent nor'easter to discuss new and ongoing questions related to the design and operation of electricity markets.

Topics discussed spoke to some of the most fundamental assumptions and institutions underlying electricity markets for the past two decades. Members revisited the "one in ten" reliability standard for high voltage system operations (no more than one day of service interruption in ten years), which has been cited for so long that actual origin is unknown, asking whether it remains relevant in today's electric system, especially considering that most outages experienced by end users are related to the distribution system and not covered by this standard.

The group also revisited one of the fundamentals of market design, financial transmission rights, discussing a recent proposal in California to change how these rights are allocated and auctioned. The meeting closed with a review of the current state of the law defining the line separating state and federal jurisdiction over electricity markets, a topic that is looming large as many states pursue their own policy agendas related to electricity supply.

Smart publishes paper on the Internet of Things

M-RCBG senior fellow **Christopher Smart** has co-written a new working paper titled *Financing the Internet of Things: An Early Glimpse of the Potential*. As the Internet of Things begins to deliver gains in productivity and savings on everything from appliances and automobiles to turbines and pipelines, new opportunities have emerged in the realm of finance. The networks of sensors and Big Data analytics that help prescribe more efficient maintenance schedules and predict potential system failures can also deliver new levels of transparency to those who provide loans and insurance to these industrial and infrastructure investments. Especially in developing countries, where operational and political risks are already high, analytics that can monitor operations and productivity gains should help open up new pools of money from otherwise skittish lenders and investors. Initially, realizing these benefits will require the design of aggregated data streams that predict outcomes reliably based on similar equipment or installations. The longer-term challenge will be to process these data while protecting the confidentiality of the operators, satisfying the national security concerns of governments and defending against cyber-attacks.

To download the paper, visit: www.hks.harvard.edu/centers/mrcbg/publications/awp.