



HARVARD Kennedy School

## MOSSAVAR-RAHMANI CENTER for Business and Government

Summer 2018

CREATING PUBLIC VALUE BY  
ENGAGING BUSINESS AND  
GOVERNMENT

[www.mrcbg.org](http://www.mrcbg.org)

### SUMMERS ON A RESCUE PLAN FOR THE HEARTLAND



The national unemployment rate hit 3.9 percent in April, the lowest level since 2000. Still, wage growth has been and remains underwhelming. More alarming, America faces a historic crisis of male joblessness in what we call the Eastern Heartland.

Some of these places, like Detroit and Cleveland, were once industrial powerhouses that have been hammered by automation and an exodus of industrial employment to places with lower labor costs. Other places, like Mississippi, spent much of middle 20th century escaping from excruciating poverty, only to experience increases in joblessness over the past 20 years.

Federal policy can't bring the Rust Belt back to its former glory, and we shouldn't try to artificially relocate economic activity to less productive places. But we must do more to fight the scourge of long-term joblessness, and we should focus our efforts in the places where joblessness is most severe.

To meet this challenge, many economists have argued for a universal basic income or more generous earned-income tax credit. We would support an E.I.T.C. expansion. But the most direct way to encourage work is with a new wage subsidy that benefits workers and encourages companies to replace joblessness with employment.

To read M-RCBG Director **Larry Summers'** full op-ed (co-written with Edward Glaeser), visit [www.nytimes.com](http://www.nytimes.com).

### FURMAN ON THE COMING DEBT CRISIS



The US unemployment rate is down 4.1 percent, and economic growth could well increase in 2018. Consumer and business confidence is high. What could go wrong?

A group of distinguished economists from the Hoover Institution, a public-policy think tank at Stanford University, identifies a serious problem. The federal budget deficit is on track to exceed \$1 trillion next year and get worse over time. Eventually, ever-rising debt and deficits will cause interest rates to rise, and the portion of tax revenue needed to service the growing debt will take an increasing toll on the ability of government to provide for its citizens and to respond to recessions and emergencies.

None of that is in dispute. But the Hoover economists then go wrong by arguing that entitlements are the sole cause of the problem, while the budget-busting tax bill that was passed last year is described as a "good first step." Entitlement programs support older Americans and those with low incomes or disabilities...it is dishonest to single out entitlements for blame.

To read **Jason Furman's** full co-written op-ed, visit [www.washingtonpost.com](http://www.washingtonpost.com).

### Seminars & Events

M-RCBG has over 80 seminars and events scheduled each semester. Below are a few that are available for streaming as pod-casts. Visit [mrcbg.org](http://mrcbg.org) to link to them via iTunes or SoundCloud.



*A Progress Report on Deconstructing the Expert State;* **Joe Goffman**, Harvard Environmental Law Program.

*Can Business Fix Broken Politics in an Age of Upheaval?* **Ben Heineman**, senior fellow at HKS and HLS.



*Regulatory Policy: The EU Variation;* **Elizabeth Golberg**, M-RCBG senior fellow.



*Geopolitics of Energy;* **Jason Bordoff**, Center on Global Energy Policy, Columbia University.



*The Rate and Direction of Innovation-Led Growth;* **Mariana Mazzucato**, University College London.



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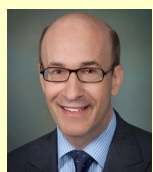
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## *Growthpolicy.org releases five new interviews*

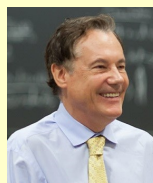
M-RCBG's *Growthpolicy.org* pulls together the work of economists, lawyers, political scientists, historians, sociologists, and educators, from across Harvard's undergraduate and graduate schools. It captures rigorous research as well as the key takeaways from that research. More than half of the entries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



Economic inequality, policy making for the criminal justice system and fairness in labor markets with **Rafael Di Tella**, William Ziegler Professor of Business Administration at Harvard Business School.



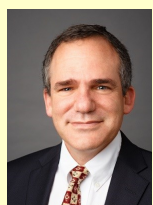
Growth, inequality, financial crises, and the future of money with **Kenneth Rogoff**, Professor of Economics and Thomas D. Cabot Professor of Public Policy at Harvard University.



Income inequality, sustainability, and corporate social responsibility with **Geoffrey Jones**, Isidor Straus Professor of Business History at Harvard Business School.



Inequality, Thomas Jefferson in the 21st Century, and the future of the U.S. Constitution with **Annette Gordon-Reed**, Charles Warren Professor of American Legal History at Harvard Law School and Professor of History in the Faculty of Arts and Sciences at Harvard University.



Jobs, inequality, financial crises, and the future of the Internet with **Shane Greenstein**, Martin Marshall Professor of Business Administration at Harvard Business School and co-chair of the Harvard Business School Digital Initiative.



M-RCBG hosted a panel on April 19 titled *On the Rebound: Prospects for a US-UK Free Trade Agreement*. From left to right: Camilla Cavendish, M-RCBG senior fellow; M-RCBG Director Larry Summers, Ed Balls, M-RCBG research fellow; and Mehek Sethi, MPP1. The discussion included research from a working paper of the same name from Balls and M-RCBG research fellow Peter Sands.

## *M-RCBG welcomes Overholt as a senior research fellow*



M-RCBG welcomes **Bill Overholt** as a senior research fellow at the Center. He recently published *China's Crisis of Success*, which provides new perspectives on China's rise to superpower status, showing that China has reached a threshold where success has eliminated the conditions that enabled its growth.

Overholt has been a Senior Fellow at Harvard Asia Center and HKS since 2008. In 2013 he began spending the majority of his time in Hong Kong as Senior Fellow at the Fung Global Institute. His career includes 14 years conducting and managing policy research at think tanks, seven years at Harvard University, and 21 years running investment bank research teams.

Previously he held the Asia Policy Distinguished Research Chair at RAND's California headquarters and was Director of the Center for Asia Pacific Policy; concurrently he was Visiting Professor at Shanghai Jiaotong University and, earlier, Distinguished Visiting Professor at Korea's Yonsei University. During 21 years in investment banking, he served as Head of Strategy and Economics at Nomura's regional headquarters in Hong Kong from 1998 to 2001, and as Managing Director and Head of Research at Bank Boston's regional headquarters in Singapore.



**Linda Bilmes**, M-RCBG faculty affiliate and Daniel Patrick Moynihan Senior Lecturer in Public Policy, hosted a recent Forum panel on Biodiversity and the Future of Conservation. It included biologist EO Wilson (center) and Jonathan Jarvis (right), former Director of the National Park Service (2008-2017). The event was live streamed on C-SPAN and can also be viewed by visiting <http://iop.harvard.edu/forum/climate-change-biodiversity-and-future-conservation-america>.



*Excerpts of recent op-eds from our faculty affiliates*



*Why China Won't Yield to Trump (Jeffrey Frankel)...*[In April], US President Donald Trump enacted steel and aluminum tariffs aimed squarely at China. On April 2, China retaliated with tariffs on 128 American products. Trump then announced 25% tariffs on another 1,300 Chinese products, representing some \$50 billion of

exports. In response, China threatened 25% tariffs on 106 US exports (including soybeans, cars, and airplanes), to go into effect whenever the US tariffs do. Yes, if these measures go into effect, it will amount to a trade war – one that the United States is not likely to win.

While economists generally argue that everybody loses a trade war, some defend Trump's actions as a shrewd negotiating tactic to impel China to adjust its trade policies, such as the requirement that foreign companies share their intellectual property (IP) to gain access to the Chinese market. Yet Trump does not understand the basics of such a negotiation: he thinks that a country with a trade deficit necessarily has the stronger negotiating position. In reality, the surplus country is often in the stronger position, because it has accumulated financial claims against its "opponent." *Project Syndicate*, Apr. 17.



*Whatever Happened to Saving for a Rainy Day? (Carmen Reinhart)...*More than a decade ago, I undertook a study, together with Graciela Kaminsky of George Washington University and Carlos Végh, now the World Bank's chief economist for Latin America and the Caribbean, examin-

ing more than 100 countries' fiscal policies for much of the postwar era. We concluded that advanced economies' fiscal policies tended to be either independent of the business cycle (acyclical) or to lean in the opposite direction (countercyclical). Built-in stabilizers, like unemployment insurance, are part of the story, but government outlays also worked to smooth the economic cycle.

The benefit of countercyclical policies is that government debt as a share of GDP falls during good times. That provides fiscal space when recessions materialize, without jeopardizing long-run debt sustainability...Fast-forward to the United States in 2018. Trillion-dollar deficits as far as economists can project are *prima facie* evidence that the arc of fiscal policy in the US bends in the wrong direction. *Project Syndicate*, Mar. 30.

*M-RCBG awards undergraduate Dunlop paper prize*

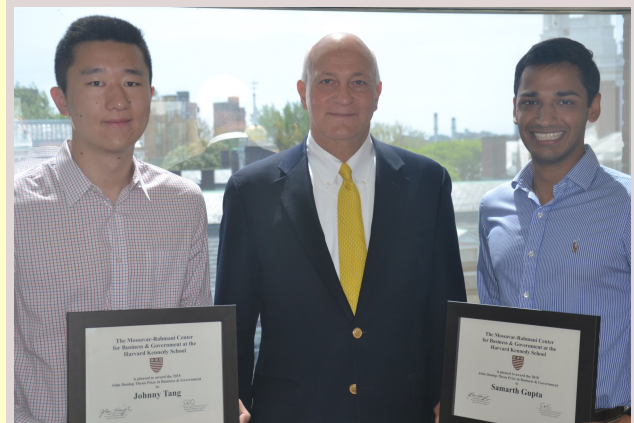
M-RCBG is pleased to announce the winners of the 2018 John T. Dunlop Prize in Business and Government. Samarth Gupta has won for his thesis, *The Rent is Too Damn High and the Coverage is Too Damn Low: Evidence from Medicaid Expansion and Eviction Rates*. He was a senior at Harvard College and graduated in May with an A.B. in Economics.

Johnny Tang has also won for his thesis, *Wrong Turns and Right Tails: Identifying Detours in New York City Taxi Rides*. He was also a senior at Harvard College, and graduated in May with an A.B. in Applied Mathematics.

The John T. Dunlop Thesis Prize in Business and Government is awarded to graduating seniors who write the best thesis on a challenging public policy issue at the interface of business and government. Each prize carries a \$1000 award.

This year's winning thesis by Gupta examines the impact of Medicaid expansions on eviction from rental housing, with the hypothesis that some cases of evictions are driven by having to pay for medical care, especially in emergency settings. In his winning thesis, Tang explores New York City taxi services and uncovers evidence that taxi drivers offer lower quality taxi services to passengers by taking detours in response to financial incentives.

In explaining why the Center chose to award the John Dunlop prize to Gupta and Tang this year, John A. Haigh, co-director of M-RCBG, said that their "theses are of significant interest to the Mossavar-Rahmani Center for Business and Government. They are ambitious and well-executed, and the results are robust and important for policy...our review committee was impressed with the sophistication of their analyses."



*2018 John Dunlop Undergraduate Thesis Prize winners, Johnny Tang (left) and Samarth Gupta (right) with M-RCBG Co-Director John Haigh (center).*

### *M-RCBG awards 21 summer travel grants*

M-RCBG is pleased to provide funds to HKS students for travel related to summer internships. A few of the awards are listed below:

*Arthur Abal.* PUR Project. Bogota, Colombia.

*Edouard Aubry.* Region on Innovation and Digital Conseil Regional d'Île-de-France. Saint-Ouen, France.

*Kai Dittman.* "Innovation in Public Policy Leadership" Program. Préfecture de Region Occitanie/Campus France. Toulouse, France.

*Ryan Madsen.* Food~Water~Energy Consortium. Beirut, Lebanon.

*Matteo Malacarne.* World Bank, Latin America and Caribbean Region within the Energy and Extractives Global Practice. Washington, D.C.

*Camil Mekouar.* World Bank. Maputo, Mozambique.

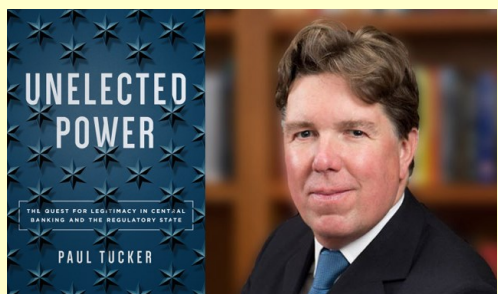
*Stefan Norgaard.* Champion Mayors for Inclusive Growth, OECD. Paris, France.

*Shira Stites.* EBRD Residence Office, European Bank for Reconstruction and Development (EBRD). Minsk, Belarus.

*Andrew Swab.* U.S. Department of the Treasury, Office of Critical Infrastructure Protection. Washington, D.C.

*Lena Yoon.* New York State Office of the Attorney General, Investor Protection Bureau. New York

### *Tucker publishes on legitimacy in central banking*



**Paul Tucker**, M-RCBG research fellow and chair of the Systemic Risk Council has recently published

*Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State.* In it, he draws on a wealth of personal experience from his many years in domestic and international policy-making to tackle the big issues raised by unelected power, and enriches his discussion with examples from the United States, Britain, France, Germany, and the European Union. Blending economics, political theory, and public law, Tucker explores the necessary conditions for delegated but politically insulated power to be legitimate in the eyes of constitutional democracy and the rule of law. He explains why the solution must fit with how real-world government is structured, and why technocrats and their political overseers need incentives to make the system work as intended. Tucker explains how the regulatory state need not be a fourth branch of government free to steer by its own lights, and how central bankers can emulate the best of judicial self-restraint and become models of dispersed power. For more info, visit: <https://press.princeton.edu>.

### *HEEP awards 2017-2018 student paper prizes*

The Harvard Environmental Economics Program has, for the ninth consecutive year, awarded three prizes to Harvard University students for the best research papers addressing a topic in environmental, energy, or natural-resource economics – one prize each for an undergraduate paper or senior thesis, master's student paper, and doctoral student paper.

**Robert Stavins**, A.J. Meyer Professor of Energy and Economic Development at Harvard Kennedy School (HKS) noted, "This year's submissions were of especially high quality, addressing a number of important topics in environmental and resource economics. We are delighted that the HEEP paper competition has engaged students across the University, and we hope it serves to encourage further research on this set of issues in the future."

*The Ana Aguado Prize for the best paper by a doctoral student* is shared between:

Cuicui Chen, "Slow Focus: Belief Evolution in the U.S. Acid Rain Program." Ph.D. candidate in Public Policy. Dissertation committee chair: Ariel Pakes, Steven McArthur Heller Professor of Economics. Harvard University Faculty of Arts and Sciences.

Todd Gerarden, "Demanding Innovation: The Impact of Consumer Subsidies on Solar Panel Production Costs." Ph.D. Candidate in Public Policy.

*The Mossavar-Rahmani Center Prize for the Best Paper by a Master's Student* is shared between:

Patricia Florescu and Jack Pead, "Realizing the Value of Bonneville Power Administration's Flexible Hydroelectric Assets," Second Year Policy Analysis Exercise (or "PAE," Master in Public Policy capstone project).



*Bob Stein (left) gave a seminar on April 12 titled Managing Risk to Improve Public Pension Plan Funding as part of M-RCBG's weekly Business & Government Seminar Series. He is pictured here with M-RCBG senior fellow Tom Healey (right).*