



April 2013

Floors 3-5, Belfer Building

SUMMERS ON THE U.S. DEFICIT, INFRASTRUCTURE AND JOBS



As important as avoiding the repression of budget deficits is insuring that focus on the budget deficit does not come at the expense of other equally real deficits. Interest rates in the United States and much of the industrialized world are remarkably low right now. Indeed in real terms the government's cost of borrowing has recently been negative for horizons as long as 20 years. No one who travels from the United States abroad can doubt that we have an enormous infrastructure deficit. Surely even leaving aside any possible stimulus benefits, current economic conditions make this the ideal time for renewing the nation's infrastructure. Given a near-zero real rate, such investments need not increase debt-to-GDP ratios if their contribution to economic growth raises tax collections. Infrastructure deficits are only the most salient of the deficits the United States faces. We clearly are living nearly six years after the onset of financial crisis with substantial jobs and growth deficits. Consider this: An increase of just .15 percent in the growth rate maintained over the next 10 years would reduce the debt-to-GDP ratio in 2023 by about 2.5 percentage points, an amount equal to the much debated end of year tax compromise. Increasing growth also creates jobs and raises incomes.

This is an excerpt from a recent *Reuters* column from M-RCBG Director **Lawrence H. Summers**, titled "America Has Multiple Deficits."

BILMES ON STEPS TO CONTROL NATIONAL SPENDING



Congress should focus on three concrete steps to get better control over national spending. These are already standard practice in many state and local governments. First, Congress should adopt biennial budgeting — already used in several states and in the US Department of Veterans Affairs. Extending the budget cycle to two years and allowing agencies more leeway to manage resources would mean more efficient spending and less time and effort devoted to the annual budget cycle. Second, there should be more transparency over expenses, costs, and overheads. This means a better budgeting framework, including activity-based budgeting and capital budgeting. Nowhere is this reform more important than in the Pentagon, where former Secretary Robert Gates estimated that 30 percent of the budget is consumed by overhead costs. With these overheads buried among thousands of individual line-item expenditures, the current system makes it impossible for the department to separate the fat from the bone. Third, the congressional budget process, which has not been fundamentally changed in nearly 40 years, should be restructured and simplified. The current system is wildly complex, with dozens of committees and subcommittees overlapping and fighting over turf. The status quo makes it easy for lobbyists and special interest groups to influence practically every decision.

This excerpt is from a recent column in *The Boston Globe* by **Linda Bilmes**, Daniel Patrick Moynihan Senior Lecturer in Public Policy, titled "Hurling itself off successive cliffs, Congress shows dysfunction."

FRANKEL ON SEQUESTRATION



The rest of the world has continued to have great faith in U.S. treasury securities, surprising as that may be. So far the U.S. Treasury bill market is still the global safe haven and the dollar is still the favored reserve currency. But that could change at some point. Already over the last 10 years we have lost a lot of moral high ground in the sense of setting an example for the rest of the world. Other countries wanted to be like us, on so many different dimensions, and we have thrown that away. With respect to fiscal policy, our debt got downgraded from AAA for the first time in our history, as a result of the showdown over the debt ceiling in mid-2011. Our political deadlock over all aspects of fiscal policy is a continuation of that trend. Everyone sees that we don't have our act together.

The preceding statement is from a recent *Harvard Gazette* interview with Professor **Jeffrey Frankel** on whether the sequester impacts [the United States'] standing on the global economic stage.

Seminars & Events

M-RCBG has over 50 seminars and events scheduled for the spring semester. Please visit www.hks.harvard.edu/centers/mrcbg for a complete listing.



Decision-Making Under Scarcity: Navigating the Water-Energy Nexus in the Yellow River Basin; **Scott Moore, HKS.** Bell Hall, Apr. 1, 12-1:30pm.

The Odd Couple: Bank Regulation and Human Rights in Peru; **Dani Schydrowsky, Superintendencia de Banca, Seguros y AFP.** Fainsod, Apr. 3, 12-1pm.



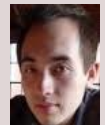
Who Gains and Who Loses? What We Know About the Distributional Effects of Environmental, Health, and Safety Regulations; **Lisa Robinson, HKS.** Fainsod, Apr. 4, 11:45am-1pm.

What Happens if Interest Rates Go Up 500 Basis Points?; **Thomas Healey, HKS.** Fainsod, Apr. 8, 1-2pm.



Monetary Policy and Wealth Management in a Small Petroleum Economy; **Øystein Olsen, Central Bank of Norway.** Bell Hall, Apr. 9, 12-1pm.

Evaluating Licensing Agreements for Technology Diffusion at the U.S. National Labs; **Gabe Chan, HKS.** Bell Hall, Apr. 22, 12-1:30pm.



Contracting for Environmental Outcomes in Sub-Saharan Africa; **Kelsey Jack, Tufts Univ.** L-382, Apr. 24, 4:10-5:30pm.

Power Sector Technology Investment Planning Under Uncertainty; **Nidhi Santen, HKS.** Bell Hall, Apr. 29, 12-1:30pm.



Follow us on Facebook!
www.facebook.com/MRCBG

FACULTY AND PROGRAM UPDATES

Scherer publishes on mergers and innovations in pharma industry



F. M. Scherer, Emeritus Professor of Public Policy and Corporate Management in the Aetna Chair, has co-authored a recently published paper in the *Journal of Health Economics*. The paper, co-authored with William S. Comanor of UCLA and UC Santa Barbara, considers the likely impact of the recent merger wave among the largest pharmaceutical companies on the rate of innovation. In other words, have recent mergers, which may

have been taken in response to lagging innovation, represented a self-defeating strategy that only made industry outcomes worse? To search for the article, visit: www.elsevier.com/locate/econbase.

Bilmes gives keynote; is appointed to board

Linda Bilmes, Daniel Patrick Moynihan Senior Lecturer in Public Policy, delivered the keynote address at the Carnegie Endowment for International Peace conference in Washington, DC on the tenth anniversary of the U.S. invasion of Iraq. The topic coincides with a paper that will be published this month titled, "The Financial Legacy of Iraq and Afghanistan: How Wartime Spending Decisions Will Constrain Future National Security Budgets." Additionally, Bilmes was appointed to the board of trustees of the Institute for Veterans and Military Families, the leading think tank on veterans issues in the United States.

Financial services for low-income households explored



At the March 1 conference "Bridging the Gap: How Can Banks Reach the Unbanked?" more than 50 scholars, government officials, and banking leaders gathered at Harvard Kennedy School to discuss new opportunities and challenges in bridging the gap between the unbanked and the banking sector. The event was co-organized by **Jay Rosen-gard**, Director of M-RCBG's Financial Sector Program, and offered participants an opportunity to assess over 30 years

of research on financial services for low-income households, as well as evaluate the latest alternatives to reach this population. The event was organized by the Ash Center for Democratic Governance and Innovation and the Mossavar-Rahmani Center for Business and Government, along with the SWIFT Institute. To review the conference's presentations, visit www.swiftinstitute.org/papers.

HEEP accepting submissions for student paper prize

The Harvard Environmental Economics Program will award three prizes in May 2013 for the best research papers addressing topics in environmental, energy, and natural-resource economics: The James M. and Cathleen D. Stone Prize for best senior paper or thesis; Christopher P. Kaneb Prize for best masters student paper; and The Enel Endowment Prize for best doctoral student paper. Visit www.hks.harvard.edu/m-rcbg/heap/ for additional information. The submission deadline is 5/3.

Atmospheric scientist speaks as part of the Energy Policy Seminar series

UC San Diego atmospheric scientist Prof. Veerabhadran Ramanathan spoke earlier this semester on the combined effects of airborne particulates which are masking some of the global warming impacts of increased atmospheric carbon dioxide, and the warming impacts of shorter-lived climate pollutants such as methane, ozone, HFCs, and black carbon. Ramanathan, who is the principal investigator for Project Surya, argued that control of the shorter-lived pollutants could play an important role in delaying some global warming that CO₂ mitigation alone cannot avert. He discussed the impacts of cookstove emissions in South Asia where, by reducing the black carbon emitted by cooking over open fires, there are both improved health outcomes among those exposed to cooking smoke and also a reduction in the global warming impacts of black carbon emissions. The project hopes to address some of the design problems that have hindered adoption in earlier cookstove efforts. Ramanathan spoke as part of the Energy Policy Seminar organized by M-RCBG's Consortium for Energy Policy Research and the Belfer Center's Energy Technology Innovation Policy research group.

HPCA releases two new Viewpoints

A new issue of the Harvard Project on Climate Agreements' *Viewpoints* series by Adele Morris, Warwick McKibbin, and Peter Wilcoxon examines the need for international carbon-pricing consultations. The authors argue that "a carbon price, arising either via a cap-and-trade market or a carbon tax, creates broad, efficient incentives to reduce greenhouse-gas emissions. Done well, it would gradually shift consumer demand, production methods, new investment, and technology development towards less emissions-intensive goods and services without unduly burdening poor households."

In a separate *Viewpoints* issue, Bard Harstad of Northwestern Univ. explores various climate-treaty options and the challenges of building a treaty into five categories: what drives investments in green technology; what are the appropriate emission caps; what is the appropriate duration of a treaty; and how to motivate compliance.

Stavins interviewed on PBS News Hour



Professor **Robert Stavins**, director of the Harvard Environmental Economics Program (HEEP), was recently interviewed by Paul Solman of *PBS News Hour* on the future of climate policy in the United States. Professor Stavins was surprised by the attention given to the issue by President Obama in his 2013 inaugural address, but remains skeptical of any potential action.

M-RCBG accepting senior fellow applications

Senior fellows at M-RCBG are distinguished professionals who pursue independent research that contributes to the center's mission. They are expected to complete a substantial writing project during their time here. Those interested in becoming a senior fellow should submit their CV and a three-page description of their proposed project to jennifer_nash@harvard.edu. The application deadline is 5/31.

Harnessing public-private partnerships and market-based tools for sustainable development in India



Pollution concentrations are higher in India than have ever been recorded in the developed world, with large negative impacts on health, life-expectancy and the environment. In a country that is home to one-third of the world's poor, how can policy best be designed to improve environmental quality and

effectively balance the tradeoff with economic growth? The *Governance Innovations for Sustainable Development: India Initiative* seeks to provide rigorous, real world evidence on the impact of innovative environmental policies in India, focusing on how public-private partnerships can raise efficiency and compliance with environmental standards. The Initiative is a joint effort of the Sustainability Science Program (SSP) and Evidence for Policy Design, led by Professor **Rohini Pande**. Projects are developed and conducted in collaboration with Indian regulators and industry partners to ensure policy relevance and avenues for scale-up upon project completion. A recently completed study has provided new evidence on the effectiveness of private third-party environmental audits at reducing plant-level pollution, which has been immediately relevant for environmental regulation in India and has been accepted for publication at a top peer-reviewed economics journal. The Initiative's flagship project is the design and evaluation of an emissions trading system (ETS) for particulate matter, conducted in partnership with the Ministry of Environment & Forests and three State Pollution Control Boards. This is the first such market in the developing world and the first randomized evaluation of an ETS anywhere. Other projects cover topics such as energy efficiency and the impact of transparency of information on pollution.