M-RCBG Director Larry Summers on What He Supports in a New Tax Plan

Excerpted from Summers’ Oct. 25 op-ed in the Washington Post: In the context of the current debate about how to make some alterations to the current tax system, I would suggest the following five elements in the spirit of 1986:

1. **Reduce rates but not revenue.** A core principle in 1986 was that rates cuts had to be financed by base broadening such as mortgage and health deductions and scaling back unrelated business write-offs. This ensured that the beneficial effects of rate cuts were not offset by the risks of larger deficits. I have been a major proponent of deficits and fiscal expansion to spur recovery but now, when unemployment may fall below 4 percent and the Fed is tightening, is not the time to expand the long-run deficit.

2. **Broaden the corporate base by limiting international sheltering.** Revenue is foregone and the economy is hurt when companies are permitted to avoid taxes on profits earned abroad by relocating them in Ireland, the Cayman Islands and other jurisdictions and building up cash. A U.S. company that benefits from U.S. commercial advocacy, U.S. negotiations on its behalf, U.S. research and development and so on should pay a minimum tax on its foreign income of 15 to 20 percent.

3. **Work to increase neutrality across investments and means of financing.** The tax system as now structured encourages leverage because interest payments on debt are deductible and dividend payments are not. There are also biases between investments with different depreciation lives. Moving toward limits on interest deductibility in situations like many private equity deals where debt has equity-like risk premiums would raise revenue and increase financial stability.

4. **Attack tax shelters.** The most powerful driver of change in 1986 was stories about corporations reporting huge profits to shareholders on their 10k and then paying no taxes. At a minimum, public companies should be required by the IRS to publicly reconcile their publicly reported income and their tax reported income.

5. **Eliminate special benefits for non-corporate business — instead of adding to them.** Currently pass-throughs are taxed at a lower rate than corporations after accounting for dividend and capital gains taxes that are also paid on (some) corporate income. Businesses operating at a large scale should be required to incorporate.

To read Larry Summers’ full op-ed, visit www.larrysummers.com.
Stavins receives Publication of Enduring Quality Award

Over the summer, the Association of Environmental and Resource Economists (AERE) recognized two influential empirical papers on induced innovation in environmental economics with the Publication of Enduring Quality (PEQ) award, one of which was co-written by Prof. Robert Stavins. “The Induced Innovation Hypothesis and Energy-Saving Technological Change,” by Richard G. Newell, Adam B. Jaffe, and Stavins, appeared in the Quarterly Journal of Economics. Stavins’ paper studies the effect of energy price increases on the relationship between cost and product characteristics. They find evidence that technological change became biased towards energy efficiency after the increase in energy prices in the 1970s. The findings suggest that the post-1973 energy price increases accounted for between one quarter and one half of the improvements in energy efficiency of air conditioners and water heaters over the 20-year period ending in 1993. The award citation stated, in part: Environmental outcomes are influenced by the cumulative effects of technical change. Through price incentives, market-based environmental policies may be able to shift the path of innovation towards cleaner technologies, making the attainment of environmental goals more feasible. The idea that the direction of innovation is influenced by relative prices goes back to Hicks and his theory of induced innovation. A key empirical question is whether there is evidence of this effect in contexts relevant to environmental problems and, if so, the magnitude of the effect. The papers honored with the 2017 PEQ award study the effects of energy prices on energy efficiency.

CRI participates in UN General Assembly side event

During the week of the UN General Assembly, CRI’s Director Jane Nelson spoke at a number of side events focused on strengthening collaboration among governments, companies and civil society organizations to support the Sustainable Development Goals (SDGs). This included an event that CRI co-hosted with Business Fights Poverty and Barclays in partnership with CDC Group (the UK’s Development Finance Institution), the Business Council for the United Nations, the World Business Council for Sustainable Development, the United Nations Office for Partnerships, the UK’s Business in the Community, Business for Social Responsibility (BSR), the United States Council for International Business and Change. Attended by 150 professionals across sectors, Nelson moderated a panel on collaborative models of innovation for the SDGs.

M-RCBG welcomes 2017-2018 Doyukai fellow

Masaaki Ozaki is the 2017-2018 Doyukai Fellow in residence at M-RCBG. He comes to the center from Obayashi Corporation’s Tokyo Headquarters where he serves as Chief of Marketing Planning in the Building Construction Division.

Doyukai fellows are in residence at M-RCBG for one year and conduct research on a variety of topics, as part of our Kansai Keizai Doyukai Program. Recent topics have included energy sector restructuring, project management within the current global economy, and the development of appropriate enterprise risk management models for utility companies.

Bilmes publishes and is appointed to a UN committee

Linda Bilmes, Daniel Patrick Moynihan Senior Lecturer in Public Policy, was recently appointed by the Secretary General of the United Nations to serve on the UN Committee of Experts on Public Administration (CEPA) for a four year term. The Committee is responsible for supporting the work of the Economic and Social Council (ECOSOC) concerning the promotion and development of public administration and governance among Member States notably in relation to the 2030 Agenda for Sustainable Development and in support of the implementation and progress reviews of the Sustainable Development Goals.

Bilmes has also co-published a study on the cost of the proposed North-South Rail Link (NSRL) that would connect North and South Stations. She undertook this project as part of her Greater Boston Applied Field Lab work, with Congressman Seth Moulton. According to the new research, the project could cost $6 billion for a “maximum build,” which would include four tracks, two tunnels, and three stations. The price tag drops to an estimated $3.8 billion for a “minimum build,” which consists of two tracks, one tunnel, and two stations. The figures are inflated to 2025 dollars, which is the assumed midpoint of construction.

The estimates were calculated using a robust set of historical project data from the Federal Transit Administration. The figures were substantially lower than those calculated during the last major study of the link project, conducted by the Massachusetts Bay Transportation Authority in 2003.
M-RCBG welcomes new senior fellows

Among the senior fellows being welcome this fall to M-RCBG are the former Special Assistant for international affairs to the French defense minister, the former head of the Budgets Department at the Ministry of Finance in Israel, a former president and CEO of the Federal Reserve Bank of Atlanta, the Chief of the Commodities and Environment Unit in the IMF Research Department; a former director of smart regulation in the EU and seasoned executives in health care and public infrastructure development.

“Senior fellows are a vital resource to our center. They bring valuable experience as practitioners, and their strong academic orientation enables them to provide significant insights. Their work here enriches our understanding of the business-government relationship,” said Richard Zeckhauser, Frank Plumpton Ramsey Professor of Political Economy and chair of M-RCBG’s fellows selection committee. “We welcome these new colleagues, and look forward to their effective interaction with our faculty, our students, and others engaged with the work of the center,” said John Haigh, M-RCBG Co-Director.

The Senior Fellows Program is designed to strengthen the connection between theory and practice as the center examines and develops policies at the intersection of business and government. Every senior fellow is sponsored by a Harvard faculty member. During their time at M-RCBG, they undertake a substantial research project and offer a study group for students.

M-RCBG hosts pension underfunding conference

On October 19-20 approximately 50 academics, policymakers, practitioners gathered at Harvard for Gathering Storm: The Risks of State Pension Underfunding, a conference on state pension underfunding, hosted by HKS faculty member and former M-RCBG director Roger Porter and M-RCBG senior fellow Tom Healey.

Across the United States, state and local government-sponsored pension plans are in trouble. Some are substantially underfunded to the extent that their assets are unable to meet future liabilities without either outsized investment returns or large cash infusions. Based on discount rate assumptions used by plan sponsors (generally 7.5%), the estimated unfunded liability exceeds $1 trillion. Using more conservative assumptions, the liability could soar to $5 trillion. At least half a dozen states are dangerously underfunded.

Final copies of the papers presented during this two-day event will be made available to the public via the Center’s website or in a published volume.

Ruggie awarded A.SK Social Science Award 2017

John G. Ruggie, Berthold Beitz Professor in Human Rights and International Affairs, will receive the A.SK Social Science Award 2017, a prestigious international prize in the social sciences given every two years by the WZB Berlin Social Science Center.

As United Nations Assistant Secretary General for Strategic Planning (from 1997-2001), he was responsible for creating the U.N. Global Compact, the world’s largest voluntary corporate sustainability initiative. As U.N. Special Representative for Business and Human Rights (from 2005-2011), he developed the Guiding Principles on Business and Human Rights.

The principles, endorsed unanimously by the U.N. Human Rights Council, serve as the authoritative blueprint for states and companies to ensure socially responsible business conduct.

Bhat receives 2017 Dunlop Thesis Prize


The Organization for Economic Co-operation and Development (OECD) has added a human rights chapter to its Guidelines for Multinational Enterprises and the European Union has revised its social responsibility rules based on the so-called Ruggie Rules. Many states, including Germany, are developing national action plans on business and human rights. The Guiding Principles have been endorsed by the International Bar Association, and incorporated into the statutes and policies of FIFA, the global governing body of professional football.
Recent Op-eds from M-RCBG faculty affiliates

Jason Furman at Vox: The real cost of the Republican tax cuts (Nov. 1)...even if one believes the plan will increase the overall size of the economy, spending cuts or tax increases will almost certainly still be required to pay for it. Analyses that do not account for those spending cuts or tax increases, whether they occur in the near term or in the longer term, obscure who will ultimately be hurt by them. Indeed, the very opportunity to obscure who will ultimately pay for the tax cuts likely explains why Congress pursues deficit-financed tax cuts more often than revenue-neutral tax reform or tax cuts accompanied by spending cuts.”

Carmen Reinhart at Project Syndicate: Fear Factor in Today’s Interest Rates (September 25). “Atlantic-hugging policymakers and pundits, buffered by a continent and a large ocean, may not fully appreciate the significant effect on global financial markets that the threat posed by North Korea has had in recent months. But competition for safe assets has clearly heated up.”

Jeff Frankel at Project Syndicate: Why Financial Markets Underestimate Risk (September 25). “Today’s economy is in a ‘risk-on’ period, when investors exchange safe-haven assets like US Treasury Bills for riskier ones, from real estate to carry-trade currencies. But when such behavior assumes that economic conditions are more stable than they are, as seems to be the case today, trouble inevitably follows.”

Recent working papers from M-RCBG’s fellows and affiliated faculty

Linking Heterogeneous Climate Policies (Consistent with the Paris Agreement). Michael A. Mehling, Gilbert E. Metcalf, and Robert N. Stavins | M-RCBG Faculty Working Paper No. 2017-03

Partnerships for Sustainable Development: Collective action by business, governments and civil society to achieve scale and transform markets. Jane Nelson | Corporate Responsibility Initiative Research Report No. 73 | July 2017

Multinationals as global institution: Power, authority and relative autonomy. John Ruggie | Published in Regulation and Governance | June 2017


Tilting at Windmills: Making a case for reframing electric sector climate policies. Lawrence Makovich | M-RCBG Associate Working Paper No. 78

Regulating the Data that Drive 21st-Century Economic Growth: The Looming Transatlantic Battle. Christopher Smart | Chatham House, US and the Americas Programme | June 2017

To download the papers, visit: www.hks.harvard.edu/centers/mrcbg/publications/working-papers-and-reports

HEEP awards student prizes for the 2016-2017 year

The Harvard Environmental Economics Program has, for the eighth 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. Winners Karl Aspelund, Shauna Theel, and Andreas Westgaard are pictured here from left to right. Additional recipients include Jisung Park and Austin Tymins.