



Furman and Summers on the budget deficit in *Foreign Affairs*



The United States’ annual budget deficit is set to reach nearly \$1 trillion this year, more than four percent of GDP and up from \$585 billion in 2016. As a result of the continuing shortfall, over the next decade, the national debt—the total amount owed by the U.S. government—is projected to balloon from its current level of 78 percent of GDP to 105 percent of GDP. Such huge amounts of debt are unprecedented for the United States during a time of economic prosperity.

Does it matter? To some economists and policymakers, the trend spells disaster, dragging down economic growth and potentially leading to a full-blown debt crisis before too long. These deficit fundamentalists see the failure of the Simpson-Bowles plan (a 2010 proposal to sharply cut deficits) as a major missed opportunity and argue that policymakers should make tackling the national debt a top priority. On the other side, deficit dismissers say the United States can ignore fiscal constraints entirely given low interest rates (which make borrowing cheap), the eagerness of investors in global capital markets to buy U.S. debt (which makes borrowing easy), and the absence of high inflation (which means the Federal Reserve can keep interest rates low).

The deficit dismissers have a point. Long-term structural declines in interest rates mean that policymakers should reconsider the traditional fiscal approach that has often wrong-headedly limited worthwhile investments in such areas as education, health care, and infrastructure. Yet many remain fixated on cutting spending, especially on entitlement programs such as Social Security and Medicaid. That is a mistake. Politicians and policymakers should focus on urgent social problems, not deficits.

But they shouldn’t ignore fiscal constraints entirely. The deficit fundamentalists are right that the debt cannot be allowed to grow forever. And the government cannot set budget policy without any limiting principles or guides as to what is and what is not possible or desirable.

There is another policy approach that neither prioritizes cutting deficits nor dismisses them. Unlike in the past, budgeters need not make reducing projected deficits a priority. But they should ensure that, except during downturns, when fiscal stimulus is required, new spending and tax cuts do not add to the debt. This middle course would tolerate large and growing deficits without making a major effort to reduce them—at least for the foreseeable future. But it would also stop the policy trend of the last two years, which will otherwise continue to pile up debt.

To read the full essay, visit www.foreignaffairs.com.

SEMINARS AND EVENTS

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



HOW HORIZONTAL SHAREHOLDING HARMS OUR ECONOMY--AND WHY ANTITRUST LAW CAN FIX IT

Einer Elhauge, HLS
Feb. 7, 11:45am–1pm
Bell Hall



THE PURPOSE AND FUTURE OF THE CORPORATION

Colin Mayer, Univ. of Oxford
Feb. 21, 11:45am–1pm
Bell Hall



FINTECH, SMALL BUSINESS & THE AMERICAN DREAM

Karen Mills, HBS
April 4, 11:45am–1pm
Bell Hall



RULES FOR THE NEW DIGITAL ECONOMY

Tom Wheeler, former chair of the FCC (2013-2017)
April 11, 11:45am–1pm
Bell Hall



HOW TO MAKE THE DIGITAL ECONOMY MORE COMPETITIVE

Jason Furman, HKS
April 18, 11:45am-1pm
Allison Dining Room

Santos visits as Angelopoulos fellow



Juan Manuel Santos, the former president of Colombia and 2016 Nobel Peace Prize winner for his efforts to end more than 50 years of civil war in his country, spent the fall semester at M-RCBG as the Angelopoulos Global Public Leaders Fellow. While here, he shared the lessons he learned

as president, working on issues related to peace and reconciliation, poverty, human rights, and the environment. Santos earned a mid-career master's in public administration from HKS in 1981.

The Angelopoulos Global Public Leaders program provides opportunities for high-profile leaders who are transitioning out of public office or other leadership positions to spend time in residence at Harvard Kennedy School reflecting, teaching, learning, and conducting research. During his time at the Kennedy School, Santos met with students and collaborated with scholars and researchers. He also lectured, wrote and participated in public discussions and forums.

Santos served as president of the Republic of Colombia from 2010-2018. He was the country's first foreign trade minister, and he served as finance minister and national defense minister. He created the Good Government Foundation (Fundación Buen Gobierno). During his time working as a columnist and deputy director of El Tiempo newspaper, Santos was awarded the King of Spain prize for journalism. He was also elected president of the Freedom of Expression Commission for the Inter-American Press Association.

Santos becomes the fourth Angelopoulos Global Public Leaders Fellow since the program's inception in 2011. Previous fellows are Felipe Calderón, former president of Mexico; Tarja Halonen, former president of Finland; and Ban Ki-moon, former secretary-general of the United Nations.

Haigh to co-teach spring course on Corporate Citizenship

M-RCBG Co-Director **John Haigh** will be teaching BGP-231M: Corporate Citizenship and Public Policy: Can Business Advance the Public Interest? with **Richard Cavanagh** and **Benjamin Heineman**. The course will explore the role of business in formulating, influencing and implementing public policy. For additional information, copy and paste this link into your browser: bit.ly/2BlwjmL

Zeckhauser honored for 50 years of teaching at Harvard



This past fall, **Richard Zeckhauser**, Frank P. Ramsey Professor of Political Economy at Harvard Kennedy School (HKS), was honored with a symposium to celebrate 50 years of teaching at Harvard. The day-long event was held at HKS and included remarks from Edward Glaeser, Jeffrey Liebman, Daniel Schrag and Cass Sunstein. M-RCBG Director Larry Summers also spoke at the event as part of a panel discussion on behavioral economics and behavioral finance. Zeckhauser graduated from Harvard College (summa cum laude) and received his PhD. in Economics from Harvard. He is an elected fellow of the Econometric Society, the National Academy of Medicine (National Academy of Sciences), and the American Academy of Arts and Sciences, and is a Distinguished Fellow of the American Economic Association. Uncertainty is at the core of most of Zeckhauser's research investigations. His contributions to decision theory and behavioral economics include the concepts of quality-adjusted life years (QALYs), status quo bias, betrayal aversion, and ignorance (states of the world unknown) as a complement to the categories of risk and uncertainty. His work frequently explores ways to promote the health of human beings, to help markets work more effectively, and to foster informed and appropriate choices by individuals and government agencies. Outside academics, Zeckhauser is a Senior Advisor to Equity Resource Investments, a real estate private equity firm. He has won multiple national championships in contract bridge.

To listen to remarks from the Symposium and to read more about the event, visit www.hks.harvard.edu/centers/mrcbg/news-events/RJZ50.

M-RCBG publishes new working papers

More than a dozen new working papers were published by M-RCBG this past fall. Here are a selected few:



Can the Trading System Survive US-China Trade Friction? (**Robert Z. Lawrence**)

Donald Trump has sought to change US trading relationships by raising protection at home and taxing the offshore activities of US companies abroad. These measures, which both use and violate trade rules, have provoked retaliation from other countries.

Such friction has restricted and distorted trade and investment, undermined the rules-based trading system and perhaps permanently damaged global value chains that depend on stable rules for market access. Trump has justified some of his measures as a response to China's alleged unfair practices and indeed, China has adopted industrial and technology policies that are formally neutral between domestic and foreign firms but in practice have led foreign firms to complain about discriminatory practices that favor Chinese firms. The US friction with China is unfortunate because instead of trying to bully China into submission in a tariff war, the US could have dealt with many of its concerns more effectively by cooperating with other countries and taking actions that are consistent with maintaining the rules-based system.



'Deal or No Deal' Businesses' Views on the Endgame of the Brexit Negotiations. (**Ed Balls, Peter Sands** et al)

Brexit presents profound changes for British businesses:

from how they trade, to how they are regulated and how they employ people. This paper represents the fourth phase of a research project in a series examining the impact of Brexit on small and medium-sized British businesses, examining their views as we reach the endgame in the Brexit negotiations, with the publication of the Government's Draft Withdrawal Agreement ("DWA") and Draft Political Declaration ("DPD"). This research is primarily based on 180 interviews with over 120 small and medium-sized businesses, academics and trade association over the past two years, and draws on interviews and research from previous papers. The key conclusion from these interviews is unambiguous: the vast majority believe a "No Deal" outcome would be extremely damaging, and is a "worst-case scenario". While preferable to "No Deal" the

"Blind Brexit" that would result from the combination of the DWA/DPD would mean continued and damaging uncertainty, which is already having a negative impact for many businesses.



Policy Evolution Under the Clean Air Act. (**Richard Schmalensee and Robert N. Stavins**)

The U.S. Clean Air Act, passed in 1970 with strong bipartisan support, was the first environmental law to give the Federal government a serious regulatory role, established the architecture of the U.S. air pollution control system, and

became a model for subsequent environmental laws in the United States and globally. We outline the Act's key provisions, as well as the main changes Congress has made to it over time. We assess the evolution of air pollution control policy under the Clean Air Act, with particular attention to the types of policy instruments used. We provide a generic assessment of the major types of policy instruments, and we trace and assess the historical evolution of EPA's policy instrument use, with particular focus on the increased use of market-based policy instruments, beginning in the 1970s and culminating in the 1990s. Over the past 50 years, air pollution regulation has gradually become much more complex, and over the past twenty years, policy debates have become increasingly partisan and polarizing, to the point that it has become impossible to amend the Act or pass other legislation to address the new threat of climate change.



Better Regulation: European Union Style. (**Elizabeth Golberg**)

The European Union is often criticised for producing too many – sometimes badly written – laws which interfere too much with the lives of citizens and business in areas better regulated at national or local level. Red tape and bureaucracy are seen as major failings

of the EU. The European Commission, as the European Union executive, has responded to this criticism by giving priority to regulatory policy, termed 'Better Regulation'. Using strategic planning, impact assessment, consultation and evaluation as its main tools, 'Better Regulation' aims to prepare and adapt EU policy and legislation in knowledge of its expected economic, environmental and social impacts, avoiding unnecessary burdens and red tape for citizens, businesses and public authorities. The assessment of regulation from the design phase to implementation, with public consultation throughout the process, has become systematic.

To learn more, copy and paste this link into your browser: bit.ly/2BdCjxw

Harvard Project conducts ambitious program at COP-24

The Harvard Project on Climate Agreements conducted an ambitious program of panel events and meetings with delegates at the Twenty-Fourth Conference of the Parties (COP-24) of the United Nations Framework Convention on Climate Change (UNFCCC), held in Katowice, Poland in December 2018. This was the eleventh of the annual COPs in which the Harvard Project has participated, beginning with COP-13 in Bali, Indonesia in December 2007.

At COP-24, the Harvard Project focused, in particular, on the elaboration of Article 6 of the Paris Agreement. Article 6 deals with international cooperation to address climate change and has the potential to significantly advance cost-effective, market-oriented mechanisms to reduce greenhouse-gas emissions.

The Harvard Project's first side-event panel, on December 11, 2018, was "Elaborating and Implementing Article 6 of the Paris Agreement" – co-sponsored with the Enel Foundation. It was based in large part on a research paper written by Michael Mehling (Massachusetts Institute of Technology) and released by the Harvard Project, titled "Governing Cooperative Approaches under the Paris Agreement."

The many questions surrounding the governance of solar-geoengineering technologies in the decades ahead was the focus of the Harvard Project's second side-event panel. Harvard's Solar Geoengineering Research Program co-sponsored the event, and the Program's Faculty Director, David Keith, spoke on the panel, titled "Governance of Solar Geoengineering Deployment." **Robert Stavins**, Director of the Harvard Project, moderated the panel.

M-RCBG paper prize announced

The John Dunlop Thesis Prize in Business and Government is an annual award for Harvard undergraduates. The award 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 provided to the winning entry. The application deadline for the 2018-19 academic year is May 8, 2019 at noon.

For more information and to read papers from past winners, visit: <https://www.hks.harvard.edu/centers/mrcbg/students/dunlop2>.

Three new scholars arrive at the Center

M-RCBG welcomed the following scholars in January 2019:



Angela Garcia Calvo, Visiting Fellow, will be researching the interactions between large firms and governments in late industrializing economies and their influence in shaping economic transformation, focusing on Spain and South

Korea and their trajectories in banking, ICT and automobiles. She has a PhD in in Political Economy from the London School of Economics.



Valerio Landi Nispi, Post-Doctoral Fellow, researches international economics, with a particular focus on capital controls in emerging economies. He previously worked as an economist at the Bank of Italy and has a PhD in

Economics & Finance from Bocconi University.



Demian Reidel, Senior Fellow, will pursue a research project entitled 'Implementing an inflation targeting regime with high inflation, weak institutions and a large fiscal deficit.' He was previously the vice-president of the Central Bank of

Argentina. He has a PhD in Economics from Harvard.

Reinhart awarded Carlos Prize

Carmen Reinhart, Minos A. Zombanakis Professor of the International Financial System at Harvard Kennedy School, has been awarded the prestigious King Juan Carlos Prize in Economics. The prize recognizes influential Spanish or Latin American economists.

The award committee, headed by the governor of the Bank of Spain, recognized Reinhart's influence in both academic and policy fields. It highlighted her research in macroeconomics and international finance. Her contributions to the understanding of the causes and effects of international capital flows on financial crises, such as the U.S. sub-prime crisis, the Asian financial crisis, and the eurozone sovereign debt crisis, mentioning her book, written with Kenneth Rogoff, *This Time It's Different: Eight Centuries of Financial Folly*.

The King Juan Carlos Prize, awarded every two years, was created in 1986 by the Jose Celma Prieto Foundation. The award is presented by the king in a ceremony at the Bank of Spain.

