



## Summers on entitlements



Few economic virtues are more universally applauded than thrift.

Going back at least to Ben Franklin, Americans have equated greater thriftiness with greater worthiness. Progressives decry the limited saving and wealth

accumulation of middle-income families and express alarm over the widely reported “fact” that 40 percent of Americans cannot come up with \$400 in an emergency. Conservatives applaud thrift as an aspect of self-reliance and propose ideas such as health-savings accounts to help families prepare for emergencies. Moderates believe universal social insurance programs such as Social Security and Medicare, which they label as entitlements, should be modest or even curtailed out of fiscal prudence.

In the current economic context of extremely low interest rates, however, these views are more wrong than right. The federal government should provide more, not less, social insurance. If it did, the result would be reduced inequality, a more secure middle class and a stronger economy.

The real challenges that keep middle-class families up at night are retirement, economic dislocation and supporting their children as they go to college and then buy a first home. These cost far more than \$400 and are not best met by personal saving. Rather, a generous and well-functioning society in which Social Security meets retirement needs, appropriate unemployment and wage insurance programs cushion economic shocks, adequate public funding holds down college costs, and health insurance has generous coverage would greatly reduce the need for most households to save.

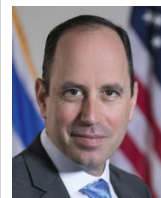
What makes this an especially propitious time to expand, rather than contract, government-provided social insurance is the current macroeconomic environment. After adjusting for inflation, the interest rate on safe debt securities is essentially zero.

The clear verdict: We don’t need fewer entitlements for the American middle class. We need more.

To read M-RCBG Director Lawrence H. Summers full op-ed in *The Washington Post*, click here: [www.washingtonpost.com/opinions/2020/01/07/we-dont-need-fewer-entitlements-middle-class-we-need-more/](http://www.washingtonpost.com/opinions/2020/01/07/we-dont-need-fewer-entitlements-middle-class-we-need-more/).

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



#### CHALLENGES AND OPPORTUNITIES IN THE ISRAELI ECONOMY

**Eran Nitzan, Embassy of Israel**  
Jan. 30, 11:45am-1pm  
Bell Hall



#### FOR PEOPLE AND PLANET: A COMPANY ON A MISSION TO IMPROVE LIVES WITH PLANT-BASED FOODS

**Jeanette Fielding, Upfield**  
Feb. 13, 11:45am-1pm  
Bell Hall



#### EXTRA TIME: 10 LESSONS FOR AN AGING WORLD

**Camilla Cavendish, M-RCBG Senior Fellow**  
Mar. 10, 11:45am-1pm  
Allison Dining Room



#### KEY ISSUES THAT WILL SHAPE ENERGY POLICY IN THE NEW DECADE

**Cheryl LaFleur, former FERC Commissioner**  
Mar. 12, 11:45am-1pm  
Allison Dining Room

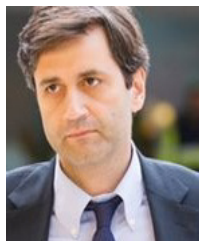


#### REGULATING THE INTERNET

**Michael Fitzpatrick, Google**  
Apr. 2, 11:45am-1pm  
Bell Hall

## M-RCBG welcomes two new incoming senior fellows

M-RCBG has announced two new senior fellows who joined the Center in January. They include:



**George Chouliarakis** was Former Alternate Minister of Finance of Greece - responsible for fiscal policy, the government budget, the medium-term fiscal strategy, and the public debt - and former Chairman of the Council of Economic Advisers. While at M-RCBG, his research will involve “Preparing for future shocks: Lessons from the global financial crisis for fiscal policy and the European Monetary Union.”



**Jeffrey (Jeff) Fuhrer** was Executive Vice President and Senior Policy Advisor at the Federal Reserve Bank of Boston until stepping down at the start of 2020. While at M-RCBG, he will pursue a research project entitled “Issues in Monetary Policy Framework Design.”



**Jo Johnson** is a President’s Professorial Fellow at King’s College London and Chairman of TES Group, owner of the Times Educational Supplement, a leading peer-to-peer marketplace for teacher resources, recruitment and software services. He was also a Member of Parliament from 2010-2019. While at M-RCBG, he will pursue a research project called “Global Britain.”

## HEEP releases new podcast

The Harvard Environmental Economics Program (HEEP) has released a new podcast series titled “Environmental Insights.” HEEP Director Robert Stavins serves as host and interviews people working at the intersection of economics and the environment.

The podcast is intended to inform listeners about important issues relating to an economic perspective on developments in environmental policy, including – but not limited to – the design and implementation of market-based approaches to environmental protection.

Click here to listen: <https://soundcloud.com/environmentalinsights/interview-with-gina-mccarthy> and sign up to follow for notification of future episodes.

## HPCA hosts COP-25 side event focused on reducing GHG emissions through carbon pricing



As negotiators from around the world arrived in Madrid for the second week of the 25th UN Climate Change Conference (COP-25), the Harvard Project

on Climate Agreements (HPCA) hosted an official COP side event on Monday (Dec. 9, 2019) focusing on the potential for reducing greenhouse gas (GHG) emissions through the use of carbon pricing.

Moderated by Robert Stavins, A.J. Meyer Professor of Energy and Economic Development at HKS and Director of HPCA (third from left in above photo), the discussion featured speakers from both academia and practice, including Joseph Aldy, Professor of the Practice of Public Policy at HKS, who served as a Special White House Advisor for climate change and energy policy during the Obama Administration.

Stavins initiated the discussion with a review of his recent research paper comparing the effectiveness of carbon taxes versus cap-and-trade policies to achieve meaningful reductions in GHGs in the United States and elsewhere. Stavins explored similarities and differences between the two policy approaches, concluding that the design details of a particular instrument are at least as important as the differences between the two policies – and that through informed policy design, the merits of each approach can be combined to some degree in a hybrid instrument.

Aldy (left in above photo) focused his remarks on his recent research on carbon tax review and updating, arguing that a pragmatic strategy for institutionalizing such policies would be through an “act-learn-act” approach, in which goals and tax schedules are consistently reevaluated and revised to keep up with the current science.

The COP25 side event was co-hosted by the Enel Foundation and Tsinghua University’s Global Climate Change Institute.

- Doug Gavel

## Stavins on the Madrid climate conference's real failure

Press accounts of the Madrid climate conference that adjourned on Dec. 15 are calling it a failure in the face of inspirational calls from youth activists and others for greater ambition. But based on my 25 years following and analyzing this process together with scholars and government officials from around the world, I believe the reality is more complicated.

True, this round of climate talks did not produce an aspirational statement calling for greater ambition in the next round of national pledges. In my view, that's not actually very significant in terms of its real effects, even though organizations such as Greenpeace and Extinction Rebellion framed this as the key task for this meeting.

On the other hand, the talks failed to reach one of their key stated goals: writing meaningful rules to help facilitate global carbon markets. As an economist, I see this as a real disappointment – although not the fatal failure some portray it to be. [...]

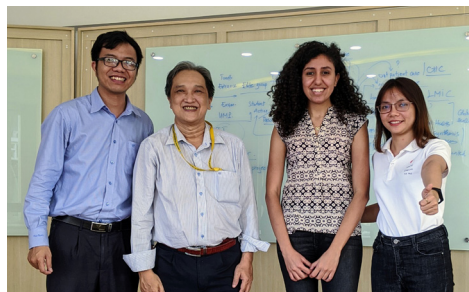
Are there ways to persuade nations to increase their [carbon-reduction] commitments over time? One key strategy is linking national policies, so that emitters can buy and sell carbon emissions allowances or credits across borders.

For example, California and Quebec have linked their emissions trading systems. On Jan. 1, 2020, the European Union and Switzerland will do likewise. [...] Expanding carbon markets in this way lowers costs, enabling countries to be more ambitious. One recent study estimates that linkage could, in theory, reduce compliance costs by 75%. But for such systems to be meaningful, each country's steps must be correctly counted toward its national target under the Paris Agreement. This is where Article 6 of the Paris Agreement comes in. Writing the rules for this article was the primary task for negotiators in Madrid... Unfortunately, Brazil, Australia and a few other countries insisted on adopting accounting loopholes that made it impossible to reach agreement in Madrid on Article 6...

But if they had adopted guidance that extended much beyond basic accounting rules, as some countries wanted, the result could have been restrictive requirements that would actually impede effective linkage. This would have made it more expensive, not less, for nations to achieve their Paris targets. As Teresa Ribera, minister for the Ecological Transition of Spain, observed at COP-25, "No deal is better than a bad deal" on carbon markets and Article 6.

To read Robert Stavins' full op-ed at *The Conversation*, visit <https://theconversation.com/the-madrid-climate-conferences-real-failure-was-not-getting-a-broad-deal-on-global-carbon-markets-129001>

## Winter travel funding recipient: Nourhan Shaaban, Ho Chi Minh City



Over the past 30 years, Vietnam transitioned from being one of the world's poorest nations into an emerging economy. Despite this

transition, the healthcare sector still faces many challenges including chronic crowding at hospitals, shortages of qualified medical staff, and a rapid increase in non-communicable diseases. The Vietnamese government recognizes that the country could greatly benefit from scalable entrepreneurial innovations in health technology.

Nourhan Shaaban's (pictured above, second from right with colleagues) goal is to propose recommendations to support the creation and scalability of promising health technology startups in Vietnam, and potentially other emerging markets. This winter, she traveled to Ho Chi Minh City to conduct in-depth interviews with startup founders, funders, healthcare experts, and policy makers. Through her interviews, she examined different aspects of the health tech startup ecosystem, including access to capital, regulations, mentorship, hiring and talent, data and security, among other things.

## M-RCBG and HEEP announce call for student paper prize applicants

The John Dunlop Thesis Prize in Business and Government is an annual award for Harvard undergraduates, 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. For more information and to read papers from past winners, visit: <https://www.hks.harvard.edu/centers/mrcbg/students/dunlop2>.

The Harvard Environmental Economics Program (HEEP) will award three prizes in May 2020 for the best research papers addressing topics in environmental, energy, and natural-resource economics: The Enel Endowment for Best Undergraduate Paper or Senior Thesis (\$1,000), the Mossavar-Rahmani Center Prize for Best Masters Student Paper (\$1,500), and the Ana Aguado Prize for the Best Paper by a Doctoral Student (\$2,000). For more information please visit the <https://heep.hks.harvard.edu/> or contact Casey Billings at [Casey\\_Billings@hks.harvard.edu](mailto:Casey_Billings@hks.harvard.edu).

## Working paper roundup

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

*The \$64 Billion Massachusetts Vehicle Economy.* (Linda Bilmes et al)



Policymakers and budgetary analysts have long argued that roads are heavily subsidized. The diffusion of spending among federal, state, and local government entities, along with the complexity of indirect costs, make it difficult to understand the fully loaded cost of the vehicle economy. Individual families may track the personal costs of car ownership to their budgets, but they rarely consider the total cost of operating and maintaining the vehicle economy because the vast majority of roads and parking areas are provided free at the point of use. This study is intended to increase transparency regarding road-related spending and to provide a comprehensive estimate of the economic cost of Massachusetts' vehicle economy.

*Report on the Proposed Changes to the Federal Mercury and Air Toxic Standards.* (Joseph Aldy et al)



In 2012, the Environmental Protection Agency (EPA) promulgated the Mercury and Air Toxics Standards (MATS) to regulate the emissions of mercury and other air toxics at electricity generating units (EPA 2012). The agency argued that this rule-making is “appropriate and necessary” because: (1) electricity generating

units are the largest domestic source of mercury emissions, and they emit other hazardous air pollutants; (2) these emissions pose a hazard to public health; and (3) effective emission controls are available. In 2015, the Supreme Court ruled that EPA must consider costs in making an appropriate and necessary finding and remanded the regulatory finding to EPA, but permitted implementation of the regulation to proceed (*Michigan v. EPA*).

*Shrinking the Tax Gap: Approaches and Revenue Potential.* (Natasha Sarin, Lawrence H. Summers)



Between 2020 and 2029, the IRS will fail to collect nearly \$7.5 trillion of taxes it is due. It is not possible to calculate with precision how much of this “tax gap” could be collected. The analysis suggests that with feasible changes in policy, the IRS could aspire to shrink the tax gap by around 15 percent in the next decade

—generating over \$1 trillion in additional revenue by performing more audits (especially of high-income earners), increasing information reporting requirements, and investing in information technology. These investments will increase efficiency and are likely to be very progressive.

*Measuring Household Wealth in the Panel Study of Income Dynamics: The Role of Retirement Assets.* (Karen Dynan)



While the Panel Study of Income Dynamics (PSID) has much to offer researchers studying household behavior, one limitation is that its summary measure of wealth is not as broad as those of other commonly used surveys, such as the Survey of Consumer Finances (SCF), because it does not include the value of defined-contribution (DC) pensions.

This paper describes the pension data available in the PSID and shows how they can be used to create a more comprehensive picture of household finances. We then compare various measures derived from these data with their counterparts from the SCF. Along a number of dimensions, the PSID data line up fairly well. Notably, an augmented summary measure of PSID wealth that includes the value of DC pensions is considerably closer to the SCF summary measure than to the standard measure for the median household. We conclude by presenting several examples of research areas where using a broader measure of wealth might be important.

*Economic Principles for Medicare Reform* (Amitabh Chandra and Craig Garthwaite)



This paper develops an economic framework for Medicare reform that highlights trade-offs that reform proposals should grapple with, but often ignore. Central to their argument is a tension in administratively set prices, which may improve short-term efficiency but do so at the expense of dynamic efficiency (slowing innovations in

new treatments). The smaller the Medicare program is relative to the commercial market, the less important this is; but in a world where there are no market prices or the private sector is very small, the task of setting prices that are dynamically correct becomes more complex. Reforming Medicare should focus on greater incentives to increase competition between Medicare Advantage plans, which necessitates a role for government in ensuring competition; premium support; less use of regulated prices; and less appetite for countless “pay for performance” schemes. They apply this framework to evaluate Medicare for All proposals.

