



HARVARD Kennedy School

MOSSAVAR-RAHMANI CENTER for Business and Government **30** YEARS

CREATING PUBLIC VALUE BY
ENGAGING BUSINESS AND
GOVERNMENT

March 2014

ANNUAL DAVOS DEBRIEF PACKS MALKIN PENTHOUSE



M-RCBG's Business & Government PIC hosted its annual Davos Debrief in late January – a chance for students, faculty and staff who didn't attend this prestigious gathering to gain insight into what was discussed and who was there.

The World Economic Forum holds the summit yearly in Davos Switzerland and among those who attended were HKS Professor David Gergen, M-RCBG fellow and former president of Mexico **Felipe Calderón** and M-RCBG Senior Fellow **Binta Brown** (pictured above).

For full coverage of the debrief, visit the *Harvard Gazette* at www.news.harvard.edu/gazette/story/2014/02/the-doings-at-davos/.

STUDENTS MEET WITH M-RCBG DIRECTOR LAWRENCE SUMMERS AND CO-DIRECTOR JOHN HAIGH AT SPRING SEMESTER RECEPTION



Floors 3-5, Belfer Building

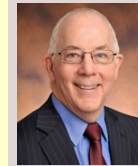
Seminars & Events

M-RCBG has over 50 seminars and events scheduled for the spring semester. Visit www.mrcbg.org for a complete listing.

Rethinking Electricity Distribution Regulation; **Ignacio Perez-Arriaga, MIT and Universidad Pontificia Comillas.** Bell, Mar. 3, 12:30-2.



The Energy Outlook; **Adam Sieminski, US Energy Information Administration.** Bell, Mar. 10, 12-1:30.



The Water-Energy Nexus in Oman and Abu Dhabi; **Mattijs Van Maasackers, HKS.** Bell, Mar. 24, 12-1:30.



Can Negotiating a Uniform Carbon Price Help to Internalize the Global Warming Externality?; **Martin Weitzman, Harvard.** L-382, Mar. 26, 4:10-5:30.



Next Generation Compliance and Enforcement at U.S. EPA; **Cynthia Giles, EPA.** Bell, Mar. 27, 11:45-1.



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FACULTY AND PROGRAM UPDATES

Ruggie's Just Business named outstanding title of 2013

Just Business: Multinational Corporations and Human Rights, written by Professor **John Ruggie**, M-RCBG Faculty Affiliate, and published last year, was recently named an Outstanding Academic Title for 2013 by *Choice*. Each year, *Choice*, which reviews publications for academic libraries, publishes a list of outstanding academic titles that were reviewed during the previous calendar year. This prestigious list reflects the best in scholarly titles reviewed by *Choice* and brings with it the extraordinary recognition of the academic library community.



Bilmes class nominated for "most valuable course" award



Introduction to Budgeting and Financial Management (MLD-411), taught by **Linda Bilmes**, Daniel Patrick Moynihan Senior Lecturer in Public Policy and M-RCBG faculty affiliate, was nominated by HKS alumni for a "Most Influential Course" Award. The award, sponsored by HKS's SLATE

(Strengthening Learning and Teaching Excellence) Initiative, sought input from alumni who graduated five years ago on the long-term impact of the HKS curriculum; asking which course provided them with particularly valuable insights, frameworks and tools that they continue to use in their work.

M-RCBG affiliates organizing Risk, Perception and Response Conference March 20-21

M-RCBG Senior Fellow **Lisa Robinson** and Regulatory Policy Program (RPP) faculty affiliate **James K. Hammitt** are organizing a two-day conference at the Harvard School of Public Health titled Risk, Perception, and Response. How people react to scientific evidence of risk is mediated by many factors, including how risk information is perceived and communicated, how we react to social and cultural influences, and how choices are structured. Examples abound of situations where individuals' risk perceptions lead them to act in ways that appear contrary to their own interests, overreacting to or neglecting risks. This conference will address how situations in which individuals are likely to respond poorly be identified, and what can be done to improve their responses. Cass Sunstein will be the event's keynote speaker. For more information or to register, visit www.hsph.harvard.edu/hcra/risk-perception-and-response-conference/.

HPCA releases four new discussion papers

Harvard Project on Climate Agreement (HPCA) affiliates have released the following four papers since January 2014. More information can be found at www.belfercenter.org/climate.

Feeling the Heat: Temperature, Physiology & the Wealth of Nations. Authors Geoffrey M. Heal and Jisung Park released a new Discussion Paper that presents a model of labor supply under thermal stress, building on a longstanding physiological literature linking thermal stress to health and task performance. Exploring the question, "Does temperature affect economic performance—and has it always affected social welfare through its impact on physical and cognitive function?"

The Optimal Energy Mix in Power Generation and the Contribution from Natural Gas in Reducing Carbon Emissions to 2030 and Beyond. Carlo Carraro, Massimo Tavoni, Thomas Longden, and Giacomo Marangoni evaluate the consistency of economic incentives and climate objectives in Europe, with regard to energy markets. In this context, they examine policy interactions between the EU-ETS and Europe's renewable target—and the role of natural gas in a transition to a low-carbon economy.

Comparability of Effort in International Climate Policy Architecture. The comparability of domestic actions to mitigate global climate change has important implications for the stability, equity, and efficiency of international climate agreements. **Joseph E. Aldy** and William A. Pizer examine a variety of metrics that could be used to evaluate countries' climate change mitigation effort and illustrate their potential application for large developed and developing countries.

Can Negotiating a Uniform Carbon Price Help to Internalize the Global Warming Externality? Martin L. Weitzman finds that, in theory, if countries agree to negotiate an international agreement in terms of a harmonized shadow price on carbon and if passage of the agreement is conditioned on a simple majority of countries voting in favor, then the incentives that countries face can lead to their agreeing to a uniform shadow price on carbon that is close to the price that would lead to an efficient outcome in terms of emissions abatement.

M-RCBG Senior Fellow Mills elected to Harvard Corp.



M-RCBG Senior Fellow **Karen Gordon Mills**, A.B. '75, M.B.A. '77, has been elected to become a member of the Harvard Corporation. Mills served until recently as the administrator of the U.S. Small Business Administration, and is now a senior fellow at Harvard Business School and at M-RCBG.

She will begin her service as a Fellow of Harvard College on

July 1, having been elected by the Corporation with the consent of the Board of Overseers, in accordance with the University's charter.

Of the appointment, Harvard President Drew G. Faust said: "Karen Mills has ably led a major federal agency through a time of challenge and change, and she has served Harvard and Radcliffe with distinction and devotion in a series of important governance roles."

A public servant with a strong commitment to innovation and entrepreneurship and extensive experience in Harvard governance, Karen Gordon Mills served in President Obama's Cabinet from April 2009 through August 2013 as the administrator of the U.S. Small Business Administration. In that role, she was a member of the president's National Economic Council, led a federal agency of more than 3,000 employees, and managed a loan guarantee portfolio of nearly \$100 billion while also assuring that nearly a quarter of U.S. government prime contracts were awarded to small businesses. She is credited with having guided the SBA through a period of significant renewal and change in the aftermath of the global economic crisis that unfolded in 2008-09, including efforts that supported two record years for SBA-backed lending to small business.

"Our Harvard community includes the most remarkable students, staff, and faculty, and together they have potential to contribute to and influence our world in so many meaningful ways. With that in mind, it is an honor to take on this important role," Mills said. "I look forward to working with the entire leadership team and President Faust to help shape the future of this great University and its continued role as a driving force for critical thinking, innovation, and excellence."

At M-RCBG, Mills is focusing her attention on U.S. competitiveness, entrepreneurship, and innovation.

To read the full *Harvard Gazette* article, visit: http://news.harvard.edu/gazette/story/2014/02/chenault_gordon_mills_named/. To hear a recent M-RCBG seminar podcast with Karen Mills, visit <https://soundcloud.com/harvard/sets/m-rcbg-podcasts>

Jorgenson on Japanese Abenomics



The following is an excerpt of an article written by M-RCBG Faculty Affiliate and Professor **Dale Jorgenson**. To read it in its' entirety, visit the *Nikkei Asian Review* at <http://asia.nikkei.com/print/article/13173>.

Jan. 11 marked the first anniversary of the Emergency Economic Measures for the

Revitalization of the Japanese Economy. This important Cabinet Office document spelled out the so-called three arrows of Abenomics -- "bold" monetary policy, "flexible" fiscal policy and a "new" growth strategy for Japan. Together, these three arrows were intended to extricate the Japanese economy from decades of stagnation.

First-year reviews of Prime Minister Shinzo Abe's emergency measures are arriving almost daily from leading commentators. Abe's economic adviser, professor Koichi Hamada, has graded monetary policy an A, fiscal policy a B, and the growth strategy an E for effort, spelling out the prime minister's name. The conclusion is that Abenomics has been a mixed success at best.

According to the International Monetary Fund, the rate of consumer price inflation in Japan will achieve Abe's announced goal of 2%. This counts as a solid A for the Bank of Japan's quantitative and qualitative easing, initiated under BOJ Gov. Haruhiko Kuroda. Under Kuroda's leadership, the BOJ has belatedly responded to the U.S. Federal Reserve's unconventional monetary policies, which are just now ending.

The IMF's authoritative Fiscal Monitor predicts the Japanese government's cyclically adjusted primary balance, the IMF's preferred indicator of fiscal sustainability, will improve from -9.5% of gross domestic product in 2013 to -6.8% in 2014. This would leave Japan far short of a sustainable fiscal policy of around -3%, even with the legislated increase in the consumption tax that will take place on April 1, 2014.

This moderately pessimistic view of Japan's fiscal policy does not take into account the cabinet decision of Dec. 5 -- Economic Measures for Realization of a Positive Cycle -- further relaxing fiscal policy. This added flexibility in anticipation of the consumption tax increase will be insufficient to achieve Abe's 2% growth target. Flexible fiscal policy deserves a B.

M-RCBG SENIOR FELLOWS UPDATE

This spring, M-RCBG senior fellows are offering seven study groups on a range of topics at the interface of business and government:

Esko Aho's study group is exploring new roles for government that help foster business innovation. He is former prime minister of Finland and head of government relations at Nokia.

Richard Balzer's study group is examining the role of coaching in achieving excellence. He is a leadership consultant to a wide range of clients including large multinationals.

Justin Fox's group is exploring different ways of thinking about the future. He is editorial director of the Harvard Business Review Group.

Eion Gahan's group is investigating the changing landscape of trade agreements. He is former Head of the Trade, Environment, and Survey Analysis Department in Forfás, the Irish government agency for enterprise policy.

Vikram Mansharamani's group is learning about the role of investors, regulators, and the press in creating financial bubbles. He is author of *BOOMBUSTOLOGY: Spotting Financial Bubbles before They Burst*.

James Segel's group is discussing the politics behind the Passage of Dodd-Frank. He was Special Counsel to Congressman Barney Frank when he was Chairman of the House Financial Services Committee.

Lisa A. Robinson's group is learning about the role of benefit-cost analysis through discussions with experienced practitioners. She specializes in the economic analysis of environmental, health, and safety regulations.

Read about these study group offerings, and how to participate, here: www.hks.harvard.edu/centers/mrcbg/students/sg. Applications to join the 2014-15 M-RCBG senior fellows program are due Tuesday, April 1. To read about the program, please go to: www.hks.harvard.edu/centers/mrcbg/about/fellows/srfellows

Frankel appointed to the Bank of Mauritius



Jeffrey Frankel, James W. Harpel Professor of Capital Formation and Growth and M-RCBG affiliate, has been named an external member of the Monetary Policy Committee (MPC) of the Bank of Mauritius. The MPC meets four times a year, mainly to set interest rates for the country.

Financial Regulation and Microcredit: Lessons from Mexico and Indonesia



On February 6, 2014, **Jay Rosengard**, Director of the Financial Sector Program at the Kennedy School, spoke to the Regulatory Policy Program Seminar about the role of financial sector regulation in promoting and inhibiting access to credit for low-income borrowers in Mexico and Indonesia.

Rosengard reviewed regulatory responses to Mexico's 1994 "Tequila" Crisis and Indonesia's 1997 economic collapse to illustrate the consequences of bank consolidation, which is common in the aftermath of financial crisis in many countries. Regulators in both cases called for policies to promote consolidation, claiming that large banking institutions would improve the stability to the financial system.

Yet as the banking sector grew less competitive, Rosengard argued, banks in Mexico and Indonesia became "too big to manage, too big to regulate, and too big to fail." In oligopolistic markets these banks began to enjoy large profit margins and saw little incentive to make small and micro loans, which can be challenging for banks to administer but are important for small businesses.

In contrast, banks in competitive markets may pursue loan opportunities beyond high-margin consumer financial products, such as credit cards. The availability of small and micro loans to farmers and small businesses enables productivity-enhancing capital investments like expanding a shop or purchasing enhanced seed varieties.

To achieve a better balance of risk management and financial inclusion, Rosengard said the solution lies somewhere between deregulation and reregulation. He offered recommendations for what he called "smart regulation": sound risk management with competition and inclusion.

The Spring 2014 New Directions in Regulation Seminar series is sponsored by the Regulatory Policy Program at the Mossavar-Rahmani Center for Business and Government. For information please visit www.hks.harvard.edu/centers/mrcbg/programs/rpp/seminars

-Kevin Rowe

To access many of our seminars and events as podcasts via Soundcloud and iTunes, please visit www.mrcbg.org