



March 2015

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NEWLY LAUNCHED **GROWTHPOLICY.ORG** HIGHLIGHTS
 SCHOLARSHIP ON ECONOMIC OPPORTUNITY AND GROWTH

GROWTHPOLICY

Scholarly Work from Harvard

Where will the jobs of the future come from? What should we do about growing inequality? How do we prevent the next financial crisis? After months of culling the most compelling scholarship from around Harvard University, the Mossavar-Rahmani Center for Business & Government has launched GrowthPolicy.org, a website showcasing the work of Harvard faculty in addressing these questions. The site provides a carefully reviewed collection of what Harvard scholars are saying about the causes and cures for the most pressing challenges to economic opportunity and growth.

“The depth and breadth of material at Growthpolicy.org serves as a valuable source of Harvard-based scholarship in an increasingly global economy,” announced John Haigh, co-director of the Center and executive dean of Harvard Kennedy School. “Our goal in bringing this research together is to inform debate about the role of policy in achieving shared, sustainable prosperity, and to make this work easily accessible to decision-makers outside the university for greatest impact.”

GrowthPolicy.org currently has more than 1,300 entries, including research papers, op-eds, blogs, videos and books, with new content being added daily. The listings are from economists, lawyers, political scientists, historians, sociologists and educators from across the University. Recent posts include everything from a report on inclusive prosperity and a review of eight centuries of financial crises to a video on the slowdown in

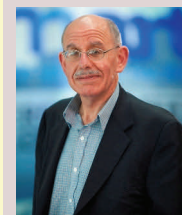
Seminars & Events

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



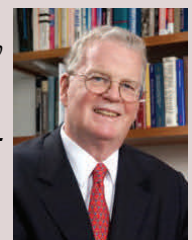
Does Better Information Lead to Better Choices?; Gilbert Metcalf, Tufts.
 L-382, Mar. 11.
 4:10-5:30.

Voting on Prices vs. Voting on Quantities in a World Climate Assembly; Martin Weitzman, Harvard.
 L-382, Mar. 25.
 4:10-5:30



Success and Failure in Regulating Australia's Natural Monopolies; Henry Ergas, Univ. of Wollongong.
 Carr, Mar. 25.
 11:45-1.

Drowning in Benefit Costs: New Jersey Case Study; Thomas Healey, Healey Development.
 Bell, Mar. 26. 11:45-1.



China's growth and a book on African development.
 To learn more, visit www.growthpolicy.org.



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Three working papers released by M-RCBG senior fellows

Three new working papers by M-RCBG senior fellows address the impacts of federal regulations on community banking, principles for transnational economic integration, and strategies that businesses and governments can use to create and capture value.

In their paper, "The State and Fate of Community Banking," M-RCBG senior fellow **Marshall Lux** and research assistant Robert Greene (MPP16) document the dramatic changes that have occurred in the U.S. banking sector in recent years, and the impacts of Dodd-Frank on community banks. Lux and Greene find that while the number of community banks is still large (6,094 versus 100 large banks in mid-2014), 40 percent have disappeared since 1994, and during this time, their share of U.S. banking assets has fallen by over half – from 41 percent to 18 percent – compared with an 18 percent to 46 percent increase in assets at the largest institutions.

Senior fellow **Ole Gunnar Austvik**'s paper, "Negotiating and Adapting Optimal Integration," explores the scale and scope of countries' ability to maneuver in a transnational economic integration process. Drawing from convergence, integration, and international trade theories, it considers what an optimal degree of economic integration would look like.

M-RCBG senior fellow **Paul Verdin**'s paper, written with Koen Tackx of Solvay Brussels School of Economics and Management, examines the question, "Are you creating or capturing value?" Verdin and Tackx propose a simple framework showing the critical role of managing the interaction and the dynamics between value creation and capture. They then illustrate the framework with recent data from companies across a variety of industries.

These and other papers by senior fellows can be found at: www.hks.harvard.edu/centers/mrcbg/publications/awp.



M-RCBG Director Lawrence Summers (l) and Tarja Halonen (c), former President of Finland, at a recent reception welcoming her to HKS as the Angelopoulos Global Public Leaders Fellow.

B&G PIC convenes annual Davos Debrief

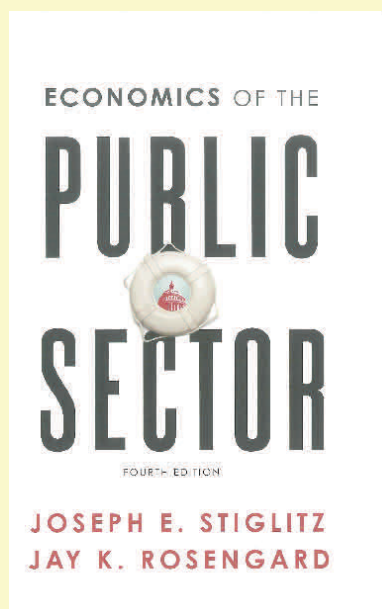
For the past several years, the student-run Business & Government Professional Interest Council has organized a Davos Debrief. This year's Debrief featured four Harvard leaders just back from the World Economic Forum in Davos, Switzerland: Marcela X. Escobari, Executive Director, Center for International Development; David Gergen, Director, Center for Public Leadership; **Robert Lawrence**, Albert Williams Prof. of International Trade & Investment; and Joshua R. Sanes, Jeff C. Tarr, Professor of Molecular and Cellular Biology. B&G PIC co-chair Hany Beshr (MC/MPA15) introduced the panelists, and **John Haigh**, HKS Executive Dean and Co-Director of M-RCBG, moderated the panel. One of the themes from this year's Debrief was the important role of brain science in public policymaking, and how human behavior is ruled by systems that govern human impulses to consume, compete, and seek power, as well as emotions such as fear and anger. To be effective, noted the panelists, public policies need to understand and take into account these systems.

Here, M-RCBG faculty affiliate Robert Lawrence speaks at the Davos Debrief.



Rosengard's public finance textbook in fourth edition

Jay Rosengard, Adjunct Lecturer in Public Policy and Director of M-RCBG's Financial Sector Program, has announced publication of the newest edition of the world's best-selling public finance textbook, "Economics of the Public Sector." He co-authored the book with Nobel Laureate Joseph Stiglitz. This fourth edition has been fully revised to reflect the latest developments in public policy and economic research.



HEEP affiliates participate in ASSA Panel on Energy Efficiency

Several Harvard Environmental Economics Program (HEEP) affiliates participated in a panel on January 3, 2015, "Explaining the Energy Paradox," at the annual meeting of the Allied Social Science Association (which includes the American Economic Association) in Boston. "Energy paradox" (and the closely related term, "energy-efficiency gap") refers to the apparent phenomenon that energy-efficient technologies, while offering considerable promise for reducing the financial costs and environmental damages associated with energy use, are not adopted by consumers and businesses to the degree that would seem be justified, even on a purely financial basis. Speakers included: Hunt Allcott, Kenneth Gillingham, Michael Greenstone, Erich Muehlegger, Richard Newell, Karen Palmer, and **Robert Stavins**.



Michael Greenstone presents at the panel.

Upcoming senior fellow study groups

Eoin Gahan on the Changing Landscape of International Trade:

- March 9: Anthony R. Quinn, Director, Public Policy and International Trade, ASTM International on Industrial Standards and Their Role in International Trade; 11:45-1pm; Hauser Conference Room (Ground Floor Belfer).
- March 11: Ricardo de Souza Moteiro, Minister-Counselor, Trade and Investment, Embassy of Brazil to the United States on Brazil: Trade Strategy and Trade Promotion; 11:45-1pm; Hauser Conference Room (Ground Floor Belfer).

Lewis Kaden on Rebuilding the American Dream: The Markle Task Force on Jobs, Opportunity, and Economic Security:

- March 25: Liz Shuler, Secretary Treasurer, AFL-CIO on Skill Training and Development by Business Government and Academic Institutions; 4:15-5:30pm; L-130 (Bolton), Littauer Building.

Pande publishes research on pollution in India

Rohini Pande, Mohammed Kamal Professor of Public Policy at HKS, has recently co-authored a study on pollution in India, supported in part by M-RCBG's Sustainability Science Program. The study, *Lower Pollution, Longer Lives: Life Expectancy Gains if India Reduced Particulate Matter Pollution*, was co-authored by Michael Greenstone, Janhavi Nilekani, Nicholas Ryan, Anant Sudarshan and Anish Sugathan, and was published in the *Economic and Political Weekly* last week.

According to the study, over half of India's population is exposed to deadly air pollution and lives in areas where fine particulate matter pollution is above the country's standards for what is considered safe.

Using a combination of ground-level in situ measurements and satellite-based remote sensing data, a new study by economists from three U.S. universities – Chicago, Harvard and Yale – has calculated that 660 million people live in areas that exceed the Indian National Ambient Air Quality Standard (NAAQS) for fine particulate matter (PM 2.5) pollution. It shows that if India reverses this trend to meet its air quality standards, those 660 million people would gain about 3.2 years onto their lives, and compliance with Indian air quality standards would save 2.1 billion life-years.

It suggests improved monitoring, civil penalties and pricing scheme to reduce pollution.

To learn more, visit: www.epw.in/special-articles/lower-pollution-longer-lives.html.

SSP's Livio Valenti wins \$1 million from Verizon

Giorgio Ruffolo Research Fellow in the Sustainability Science Program Livio Valenti and his Vaxess Technologies teammates were recently awarded \$1M and the Verizon Powerful Answers Award, a year-long global challenge to discover and help bring to market technology-based solutions with the potential to change our world.

Each year, more than 2.4 million people die from diseases that could be prevented by vaccines, and more than 20% of children born each year do not receive proper immunization. This occurs because 97% of vaccines require cold storage between 2° and 8°C, and a lack of cold chain infrastructure limits this access. Vaxess Technologies, based in Cambridge, Mass., has created a soluble, silk-stabilized vaccine that can be shipped without refrigeration, and extend the global reach and access to vaccine products.

For more information on Vaxess Technologies, visit: www.vaxess.com.

HEEP releases major research paper on energy efficiency

The Harvard Environmental Economics Program (HEEP)—together with the Duke University Energy Initiative—has released a paper titled “Assessing the Energy-Efficiency Gap.” The “energy-efficiency gap” refers to the apparent phenomenon that energy-efficient technologies, while offering considerable promise for reducing the financial costs and environmental damages associated with energy use, are not adopted by consumers and businesses to the degree that would seem to be justified, even on a purely financial basis.

The paper explores possible explanations for the energy-efficiency gap. It is the culmination of a two-year research project supported by the Alfred P. Sloan Foundation and directed by Richard Newell, Gendell Professor of Energy and Environmental Economics at Duke University’s Nicholas School of the Environment and Director of the Duke University Energy Initiative, and **Robert Stavins**, Albert Pratt Professor of Business and Government at the Harvard Kennedy School and Director of HEEP.

Professors Newell and Stavins—and Todd Gerarden, a Ph.D. student in Public Policy at Harvard University—authored the paper. It draws in part from a research workshop held at the Harvard Kennedy School in October 2013, in which most of the U.S.-based scholars (primarily, but not exclusively, economists) conducting research on the energy-efficiency gap participated. HEEP co-sponsored a second such research workshop with the Centre for European Economic Research (ZEW) in Mannheim, Germany in March 2014, where European economists explored the same topic. Closely-related research was presented by panelists at the annual conference of the Allied Social Science Association in January 2015.

HEEP faculty fellows participate in ASSA Roundtable on EPA’s Clean Power Plan

James Stock, a Faculty Fellow of the Harvard Environmental Economics Program (HEEP), organized a roundtable discussion that took place on January 4, 2015, at the annual meeting of the Allied Social Science Association (ASSA), held this year in Boston, entitled “The Economics of the EPA’s Proposed Regulation of CO₂ Emissions from Power Plants.” Professor Stock was a member of President Obama’s Council of Economic Advisors in 2013–2014, where he worked on the development of this important regulatory proposal. HEEP and Harvard Project Director Robert Stavins participated in the roundtable panel.

Roundtable participants focused on the Obama Administration’s Clean Power Plan, with which the U.S. Environmental Protection Agency would regulate CO₂ emissions from existing power plants. Existing coal-fired power plants are the largest single source of CO₂ emissions in the United States, and the Clean Power Plan—if implemented—would be an important element of U.S. policy to reduce greenhouse-gas emissions.

M-RCBG Director Lawrence Summers on raising interest rates

I cannot recall a moment when the gap between what markets expect the US Federal Reserve to do and what the Fed itself has forecast it will do has been as large. Markets predict that the Fed will raise rates only to 1.6 per cent by the end of 2017; the Federal Open Market Committee’s average forecast is 3.5 per cent.



Such a divergence raises the risk of volatility and poses a communications challenge for the Fed. More important, it raises the question of what should guide future policy.

Especially after February’s very strong employment report, there can be no doubt that cyclical conditions are normalising. The unemployment rate now is at its postwar average level, and continues to fall. Job openings are above their historic average. Other indicators such as the insured unemployment rate suggest a normal or rapidly normalising economy. All of this taken in isolation would suggest that interest rates should not remain at zero much longer.

On the other hand, the available inflation data suggest little cause for concern. The core consumer price index has averaged 1.1 per cent over the past six months; if housing costs were stripped out it would be zero. Wages actually fell in December and over the past year employment costs have risen 2.25 per cent which, in conjunction with productivity growth of only 1 per cent, suggests inflation of below 2 per cent. Perhaps most troubling: market indications suggest inflation is more likely to fall than rise.

The Fed has rightly made clear that its decisions will be data dependent. The further key point is that it should allow the flow of information on inflation rather than on real economic activity to determine its timing in adjusting interest rates. And it should not raise rates until there is clear evidence that inflation, and inflation expectations, are in danger of exceeding its 2 per cent target. To read the full *Financial Times* op-ed, visit: www.ft.com.