



HARVARD Kennedy School

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

CREATING PUBLIC VALUE BY  
ENGAGING BUSINESS AND  
GOVERNMENT

November 2013

Floors 3-5, Belfer Building

## GENSLER ADDRESSES FORUM FOR GLAUBER LECTURE



On July 21, 2010, as President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, Chairman of the Commodity Futures Trading Commission (CFTC) Gary Gensler gathered a core group of his senior staff to address the daunting task that now lay before the agency: overhauling

U.S. government oversight of the \$400 trillion derivatives markets in just one year.

On October 29, 2013, Gensler gave the 2013 Annual Glauber Lecture in the John F. Kennedy Jr. Forum, reporting on the progress of the CFTC toward financial sector regulatory reform to support a more “transparent, competitive market” for swaps, futures, and other derivatives. In Dodd-Frank, Congress directed CFTC to complete 60 new regulatory rules to implement various provisions of the law in the year that followed. This task has taken CFTC three years, even though it’s an agency with 675 staff that completes two or three new rules in a typical year. Gensler said the CFTC has now largely completed the task.

Already the reforms have brought the majority of trades in what was once a famously opaque market onto online trading platforms and central clearing-houses where prices and volumes are publicly viewable. The reforms have also established a more comprehensive oversight regime for large U.S. financial institutions and the thousands of registered legal entities they maintain outside of the country.

While Gensler spoke of the pride his agency feels in completing the reforms, he acknowledged the remaining challenges to financial reform and economic recovery. CFTC must now oversee and enforce these new rules in the rapidly expanding derivatives market in spite of budget cuts and staff furloughs at the agency – a job that Gensler likened to doubling the number of major league baseball teams without increasing the number of umpires. Meanwhile, Gensler said, the U.S. budget crisis, turmoil in European economies, and the perception among large financial institutions that they enjoy an implicit guarantee from taxpayers, continue to pose systemic risk to the global economy.

This annual lecture honors **Robert Glauber** and his long record of distinguished contributions to the U.S. and world financial systems, as well as his long and successful scholarship and teaching which have characterized his career at Harvard. The event occurs with the generous support of the National Association of Securities Dealers, now known as the Financial Industry Regulatory Authority (FINRA). –Kevin Rowe, MPP '14

## Seminars & Events

M-RCBG has over 50 seminars and events scheduled for the fall semester. Visit [www.mrcbg.org](http://www.mrcbg.org) for a complete listing.



*The Economic Benefits of Reducing our Dependence on Oil;* **Carl Pope, Carol Lee Rawn and Robbie Diamond.** Bell Hall, Nov. 4, 12-1:30.

*Mortality Risk Reduction from Air Quality Index Forecasts;* **Joseph Aldy, HKS.** L-382, Nov. 6, 4:10-5:30.



*Environmental Protection, Rare Disasters, and Discount Rates;* **Robert Barro, Harvard.** L-382, Nov. 13, 4:10-5:30.

**Paul Tucker, Former Deputy Governor, Bank of England.** Bell Hall, Nov. 14, 11:45-1.



*Environmental Taxes and Fiscal Reform;* **Dale Jorgenson, Harvard.** Bell Hall, Dec. 2, 12-1:30.

*Weather, Salience of Climate Change, and Congressional Voting;* **Erich Muehlegger, Harvard.** L-382, December 4, 4:10-5:30.



Search Groups:  
M-RCBG



@HKS\_BizGov



MRCBG

## FACULTY AND PROGRAM UPDATES

*Jay Rosengard honored by the Irish Tax Institute*



Irish Tax Institute President Helen O'Sullivan recently conferred an Honorary Fellowship of the Institute on **Jay Rosengard**, Adjunct Lecturer in Public Policy and Director of the Financial Sector Program, in recognition of his contribution to global tax research and education. This was only the fourth time the Institute has bestowed such an honor in its 46-year history. In October, Rosengard also co-hosted the Global Tax Policy Conference in Dublin, Ireland, titled "Shaping Tax Policy – The Global Landscape." The event hosted delegates from 30 countries.

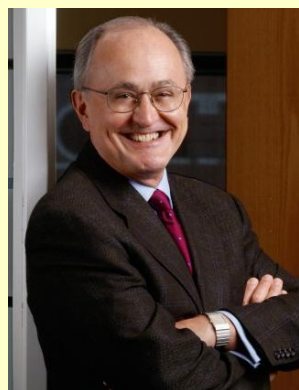
*M-RCBG welcomes Neal Wolin as a new senior fellow*



As M-RCBG's newest senior fellow, **Neal S. Wolin** will be conducting research and engaging with students on topics related to financial services regulatory reform and fiscal issues, including the debt limit and tax reform. Prior to his arrival, he was the Deputy Secretary of the Treasury from May 2009 until September 2013 and

was the longest serving Deputy Treasury Secretary in U.S. history. In the past, Wolin served as the Treasury Department's Chief Operating Officer and supervised all Treasury bureaus and domestic and international policy offices as well as its management, legal, public affairs and congressional affairs functions. He played a key role in formulating and executing the U.S. government's response to the financial crisis of 2008-2009 – including its economic recovery and financial reform plans. President Obama said Wolin's "deep knowledge and excellent judgment helped us prevent a second Great Depression, pass tough new Wall Street reform, strengthen our financial system, foster growth here at home, and promote economic development around the world."

*Ruggie speaks at International Bar Assoc. conference*



At a plenary session at the International Bar Association Conference in Boston on October 10, **John Ruggie**, Faculty Chair of the Corporate Social Responsibility Initiative was interviewed by Chris Jochnick, Director of the Private Sector Department at Oxfam America. Ruggie discussed the difficulties of the externalities of globalization, especially the impact of

multinational corporations with complex supply chains. The session was introduced by CSRI Senior Fellow **John Sherman**.

*Rohini Pande publishes on truth telling by third party auditors and the response of polluting firms*



**Rohini Pande**, Mohammed Kamal Professor of Public Policy at HKS and M-RCBG faculty affiliate, has co-authored an article recently published in the *Quarterly Journal of Economics* titled, "Truth-telling by Third-party Auditors and the Response of Polluting Firms: Experimental Evidence from India." It

reports on a two-year field experiment in the Indian state of Gujarat that sought to curb conflict by altering the market structure for environmental audits of industrial plants to incentivize accurate reporting. There were three main results. First, the status quo system was largely corrupted, with auditors systematically reporting plant emissions just below the standard, although true emissions were typically higher. Second, the treatment caused auditors to report more truthfully and very significantly lowered the fraction of plants that were falsely reported as compliant with pollution standards. Third, treatment plants, in turn, reduced their pollution emissions. The results suggest reformed incentives for third-party auditors can improve their reporting and make regulation more effective.

*Robert Stavins interviewed on climate policy*

Attempts at crafting an international protocol to counter the effects of climate change have run into obstacles in recent years. Although the United Nations Framework Convention on Climate Change (UNFCCC) continues its series of Conferences of the Parties (UN-COP) aimed at identifying practical and effective solutions to global warming, little headway has been made. **Robert Stavins**, Albert Pratt Professor of Business and Government and Director of the Harvard Environmental Economics Program and its subsidiary Harvard Project on Climate Agreements, focuses his research on diverse areas of environmental economics and policy, and has written extensively on the promise of cap-and-trade policies to help reduce carbon emissions. To read the Q&A or view the video, visit: [www.hks.harvard.edu/news-events/publications/insight/markets/robert-stavins-on-climate-policy](http://www.hks.harvard.edu/news-events/publications/insight/markets/robert-stavins-on-climate-policy).



**Robert Stavins**  
Albert Pratt Professor of Business and Government



## STUDENT INTERNSHIP UPDATES

*U.S. Treasury: Tracey Hsu, MPP '14*

I began my summer with Synergos Consulting Services, exploring the role that private sector companies play in advancing social impact. I had the pleasure of working with Audrey Philippot (MPA '12) and Rajash Sarin (MC/MPA '11) to identify innovative sources of development financing for social business initiatives, and map out diagnostics for firms interested in pursuing multi-stakeholder partnerships. For the remainder of my summer, I worked with Jinu Koola (MPA/ID '12) on the World Bank desk at the U.S. Department of the Treasury. Our work entailed liaising closely with the U.S. Executive Director's Office in the World Bank on various fiscal and operational management issues, as well as supporting international negotiations for the 17th replenishment of the World Bank's concessional financing window. It was deeply invigorating to go to work every day, thinking through how best to translate President Jim Kim's vision for a modernized "solutions bank" into reality. From analyzing the World Bank's historic lending to higher-income countries, to making the case to the Office of Management and Budget on the continued importance of U.S. contributions to the World Bank, I have grown tremendously in my understanding of the intricacies of multilateral negotiations, and the steep challenges facing institutional reform.

Above all, this summer left me truly in awe of the HKS network. Not only did I thoroughly enjoy the dynamic and challenging experiences facilitated by my supervisors (all HKS alumni), but I was also able to tap into the expertise of my HKS peers serving as interns within Treasury, State, Office of Management and Budget, and the Senate Finance Committee, to develop timely and relevant development policy solutions. My sincere gratitude goes out to M-RCBG for enabling such an enriching, memorable, and inspiring summer experience.



Summer 2013 U.S. Treasury interns, from left to right: Kyu Sin, Tracey Hsu, Zeina Shuhaibar, and Alex Jutca, all MPP'14s.

## *UNFCCC: I-Chun Hsiao, MPP '14*

I was an intern on the Implementation Strategy Unit (ISU) of the Executive Direction and Management (EDM) Programme at the United Nations Framework Convention on Climate Change (UNFCCC) secretariat in Bonn, Germany. Among other things, the ISU coordinates strategy and support to the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP). The ADP was established in December 2011 at the 17th session of the Conference of the Parties (COP 17) in Durban, South Africa and it has two workstreams: the first focuses on the scope, structure, and design of the 2015 global climate agreement, and the second focuses on actions to enhance mitigation ambition. The ADP is mandated to develop a protocol, another legal instrument, or an agreed outcome with legal force under the Convention that is applicable to all parties.

I had two major responsibilities during my internship:

- Drafted ADP.2013.14. Informal Note, which provides the outgoing co-chair's perceptions of and reflections on the progress made by the ADP. As an important input to COP 19 in Warsaw, it reflects on the work of the ADP over the past year; urges the process to move into a more focused and formal mode of work; and calls upon parties to move beyond their preferred positions and work together to deliver an outcome that everyone can support.
- Drafted a paper which provides a political analysis of party positions on the principle of equity in the 2015 global climate agreement. The paper explores the concept of common but differentiated responsibilities and respective capabilities in the climate context, highlights the main approaches (top-down, bottom-up, and hybrid) as well as the enabling elements

(transparency and comparability, indicators, and accountability and compliance) to put this principle into operation. Once finalized, the paper will be published as part of a series on agreement design by the UNFCCC.



I-Chun Hsiao (MPP '14) at the UN Campus in Bonn.

## RPP SEMINAR SPOTLIGHT

*Carbon Markets and the Future of International Climate Policy*, by Kevin Rowe, MPP '14



Professor Billy Pizer, of Duke University's Sanford School, speaks at a recent RPP seminar.

Even as hopes for a binding international agreement to substantially reduce global greenhouse gas emissions have faded in recent years, a bottom-up international climate policy regime is emerging. Seven countries and the European Union now have regional, national, or sub-national emissions trading schemes (ETS), and similar policies are under

consideration in at least five other countries. As this bottom-up international climate regime evolves, both economists and environmentalists have identified linkages between national and subnational ETSs as a potential area for expanding the impact of domestic carbon markets.

At one of last month's Regulatory Policy Program's seminars, Professor William Pizer of Duke University's Sanford School of Public Policy responded to the excitement about expanding carbon markets by addressing one of the risks associated with linking programs -- the prospect of delinking linked systems. Delinkage may be likely, Pizer argued, and the consequences could be disruptive and costly. The design and management of ETS policies has been the subject of intense and at times rapidly shifting debates in domestic political systems, and many of these design features -- such as price floors and ceiling, banking provisions, and levels of ambition -- are transmitted across linked systems. If domestic political forces push to strengthen, weaken, or significantly change their ETS systems, linked systems will be affected in turn.

To illustrate these risks and potential strategies for mitigating them, Pizer described a scenario in which the European Union and Australia, which have agreed to link their respective ETSs after 2015, decide to delink in 2020. He showed how delinkage -- or even speculation about delinkage -- could result in high transaction costs and economic inefficiencies as regulated firms and investors move their permit holdings back onto their national systems and prices diverge. This suggests the need for governments to consider how to plan for delinking when making arrangements to link, akin to provisions in private contracts that establish terms for withdrawal from an agreement. To listen to the podcast, visit [www.mrcbg.org](http://www.mrcbg.org) and click on "iTunes" or "SoundCloud".

## CSRI HOPES TO EMPOWER WOMEN ENTREPRENEURS

The Corporate Social Responsibility Initiative (CSRI)'s new report, *The Coca-Cola Company's 5by20 Initiative: Empowering Women Entrepreneurs across the Value Chain*, was recently co-published with Business Fights Poverty. Authored by CSRI Senior Fellow **Beth Jenkins** and Research Fellows Kara Valikai and Piya Baptista, the report examines Coca-Cola's commitment to economically empower five million women entrepreneurs through its global value chain by the year 2020. By studying and sharing some of the early lessons of implementing this initiative in "real time," the authors hope that it will be possible for other companies and development partners to accelerate their own progress in developing models that achieve both business benefit and development impact through tackling some of the world's most pressing development challenges.

Expanding economic opportunity and choice is also a challenge that companies have a comparative advantage in addressing through their core business operations and value chains. An increasing number of economic multiplier studies have demonstrated the impact. For example, a 2010 study of the bank Standard Chartered in Ghana revealed that it generated \$400 million in economic value-added, approximately 2.6% of GDP, and supported nearly 156,000 jobs, approximately 1.5% of the workforce.

A similar study of multinational brewer SABMiller in Honduras in 2009 revealed that its local subsidiary, Cervecería Hondureña, generated \$405 million in economic value-added and supported 100,000 jobs. And yet the role of the private sector in expanding economic opportunity and choice has been a relatively neglected part of the corporate social responsibility debate. It is one that CSRI at the Harvard Kennedy School has endeavored, over the years, to address. Visit [www.hks.harvard.edu/m-rcbg/CSRI/](http://www.hks.harvard.edu/m-rcbg/CSRI/) to download the report.

*Nelson speaks at Business Civic Leadership Center conference*



CSRI Director **Jane Nelson** served on a cross-sector panel on "Tapping Into Partners for Scalable Impact" at the Business Civic Leadership Center's annual conference in Washington on October 10. Joined on the panel by colleagues from UPS, E&Y, and TechnoServe, Nelson stressed the need for companies to focus on their core competencies.