The Kyoto Protocol — the first meaningful attempt by the international community to limit greenhouse gas emissions — expires in 2012, leaving scholars and policymakers to figure out where we go from there. That question lies at the heart of the Harvard Project on International Climate Agreements, directed by Harvard Kennedy School Professor Robert Stavins, whose mission is to conduct research and outreach on post-2012 international climate policy.

In “Three Key Elements of Post-2012 International Climate Policy Architecture,” Stavins and Yale environmental economist Sheila Olmstead (Stavins’s former doctoral student) offer guidelines for a workable climate policy.

They start off by assessing the protocol’s strengths and weaknesses — a prerequisite for charting the post-Kyoto landscape. One strength they cite is that the protocol grants nations the freedom to meet their emissions targets in any way they choose. The authors also identify weaknesses, including the fact that the protocol does not constrain many of the world’s leading producers of greenhouse gases. The United States, responsible for about 19 percent of global emissions, never ratified the protocol. China, the largest single producer of carbon dioxide, and other countries with rapidly growing economies, including India and Brazil, currently face no restrictions on their greenhouse gas output. An equally grave deficiency, Stavins and Olmstead note, is that the protocol, “with its five-year time horizon (2008 to 2012), represents a relatively short-term approach for what is fundamentally

(continued on page 7)
“While the federal deficit captures the news headlines, there is a deep and pervasive fiscal crisis in state finance,” writes Harvard Kennedy School Lecturer Linda Bilmes in a paper on the effect of the Great Recession on the states’ fiscal health. The problem was not caused by fiscal extravagance, Bilmes explains, because state spending increases during the decade were, in aggregate, modest. But since the recession began, revenues have fallen dramatically, and the sharp growth in joblessness has meant a greater demand for state services, particularly Medicaid. With federal assistance disappearing, and states financing large portions of their programs in the bond markets, there are plenty of reasons for long-term concern. “But for now, the urgent need is to provide well-designed assistance to the states to protect vital services, help solve the unemployment problem, and begin the process of repairing the yawning hole in state balance sheets,” Bilmes concludes.

Linda Bilmes
The Fiscal Crisis in State Government—And What Should Be Done About It

Studying the way consumers adapt and respond to tax changes, Harvard Kennedy School Assistant Professor of Public Policy Erich Muehlegger and Lesley Chiou of Occidental College looked at how Chicago-area smokers responded to a per-pack excise tax increase of about 46 percent in 1993. Using sales data from 85 supermarket locations, the researchers found that smokers responded by stockpiling cigarettes, by switching to less expensive brands, and by crossing the border into Indiana to escape the tax entirely. “Our results inform the public policy implications of tax increases, especially for ‘sin’ taxes with non-fiscal motives,” they write. “For these taxes, consumer avoidance directly undermines policy objectives. Any tax intervention meant to either directly or indirectly discourage consumption should take these consumer responses into account.”

Erich Muehlegger
Consumer Response to Cigarette Excise Tax Changes

“While the share of prescriptions dispensed as generics has generally been increasing in the U.S. over the last decade, generating substantial margins for retail pharmacies, the introduction of Medicare Part D shifted formerly cash-paying customers to insured customers benefiting from the bargaining power of pdps (prescription drug plans), thereby reducing manufacturer and retail pharmacy gross margins,” write Professor Joseph Newhouse, of Harvard Kennedy School and the Harvard School of Public Health, and Ernst Berndt, of the mit Sloan School of Management. “Medicare Part D also shifted dual Medicare and Medicaid eligibles from Medicaid to pdps, increasing revenues for manufacturers, but likely decreasing margins for retail pharmacies, as Medicaid reimbursement to pharmacies has traditionally been more generous than that by the private sector insurers. It is likely that demand facing retail pharmacies became more price elastic following the implementation of Part D.”

Joseph Newhouse
Pricing and Reimbursement in U.S. Pharmaceutical Markets

“The Wire, which depicted inner-city Baltimore over five seasons on HBO, shows ordinary people making sense of their world,” Geyser University Professor William Julius Wilson and Harvard doctoral student Anmol Chaddha write in a September Washington Post op-ed on why the series is being featured in a Harvard class. “Its complex characters on both sides of the law defy simplistic moral distinctions. Critics loved it. Its fans hung on every episode. We think it is more than just excellent television. Of course, our undergraduate students will read rigorous academic studies of the urban job market, education and the drug war. But the HBO series does what these texts can’t. More than simply telling a gripping story, The Wire shows how the deep inequality in inner-city America results from the web of lost jobs, bad schools, drugs, imprisonment, and how the situation feeds on itself.”

William Julius Wilson
Why We’re Teaching The Wire at Harvard
The Importance of Being Grossed Out

A range of things cause people to feel disgusted — poor hygiene, body products, moral offenses — and it is no surprise that people avoid the things that disgust them. But is disgust such a powerful emotion that it can cause someone to give away a possession simply because it’s been in the proximity of the offensive stimulus? That is what Harvard Kennedy School researchers Jennifer Lerner and Richard Zeckhauser, along with Carnegie Mellon University psychology graduate student Seunghee Han, explore in their latest paper.

More often than not, people faced with a decision to stay with what they have or exchange it for something else will stick with what they know and not disrupt the status quo. The researchers hypothesized, however, that if someone associates a current possession with an experience that disgusted them, he or she will be more likely to overcome the status quo bias and discard the object in favor of something else. They further hypothesized that even someone who is told that a disgusting experience should not affect the attractiveness of a possession will still prefer to exchange it.

In their working paper, “Disgust Promotes Disposal: Souring the Status Quo,” the authors describe the two experiments carried out to investigate their hypotheses. In the first, participants were randomly divided into two groups. All were given a covered box they were told contained office supplies, and were theirs to keep. Then the two groups were shown one of two film clips. One group watched a neutral video on the Great Barrier Reef; the other watched a disgust-promoting scene from the film Trainspotting in which a man uses a filthy toilet. Participants were then offered the chance to exchange their box of stationery for another one of equal value. Those who watched the disgusting video were significantly more likely to trade away their possession (more than 50 percent did so), overcoming the status quo bias, than those who watched the neutral video (only 32 percent).

“Disgust can drive choice even when decision makers have no good reason to prefer one item over another,” write the authors. “Perhaps surprisingly, participants reported no influence of disgust on their choices, but identified other barely relevant characteristics as influences.”

In the second experiment, participants went through a similar test, but this time they were warned after watching the video that its nature could have an effect on the next part of the experiment (in which they chose to keep or swap their boxes). The warning very clearly stated that they should try their best not to let the pleasant or unpleasant nature of the video influence how they felt about the box. Although the trading percentages were slightly lower than in the first experiment, the researchers were surprised to find that disgusted participants still traded at a significantly higher level than those exposed to a neutral stimulus.

“The finding that disgust promotes disposal has real-world implications that range from the minor to the monumental,” the authors conclude. “In a broad array of cases, people’s propensity to stick with the status quo could be powerfully counteracted by feelings of incidental disgust…. Thus, a senior citizen who b有多数人may suffer more social isolation than mere foul smell would seem to merit, perhaps accelerating a health decline via lack of social support…. Similarly, a cancer patient who is nauseated by chemotherapy drugs may be too inclined to switch to alternative treatments, to her detriment.”

Lerner explains that these findings can have a significant effect on policy decisions: “At the policy level, the results reveal strategies for changing human behavior,” she says. “If the existing system is failing, and should be changed, then one powerful way to persuade people to change is to associate the existing system with disgust. For example, if you want to encourage people to give up smoking, then you create an association between smoking and, say, disgusting pictures of cancerous lungs…. Rather than as a way to discourage existing behavior, you can also use it to encourage new behavior. You might think of something that people find disgusting, such as injecting themselves with needles at home for medically prescribed treatment. Often, doing such treatments at home can save a lot of health expense, but people want to go in to the hospital instead because they find the blood and needles disgusting. Considerable health-care dollars could be saved if the psychology of disgust were taken into account, creating positive associations with the home treatment.”
Exaggerating the Importance of Good Governance

China would rank poorly on most scales of good governance, yet it has experienced growth and development over the past decade. So if China can flourish without good governance, what does that imply for the concept of good governance in general?

Good governance is an idea that, while useful, has become inflated to the point of clouding development thinking for academics and practitioners, Merilee Grindle writes in “Good Governance: The Inflation of an Idea.” Born out of an anti-statist era in the 1980s, the concept initially provided a technical framework for reducing corruption and leadership failures while enhancing accountability and political engagement. Today, too many causes have latched on to good governance, argues Grindle, making it difficult to develop realistic agendas. According to one count, 45 different issues were associated with good governance in 1997; by 2002 that number had grown to 116. This “idea inflation” has led to long agendas that hinder results. To become more effective, good governance must be rethought.

There are real-world examples that demystify good governance and its link to democracy. Certain Latin American countries are democratic but have high corruption, while certain East Asian countries have extremely limited democracy but exhibit good governance. Bangladesh has recently experienced growth despite little governance of any kind. The United States, a country known for good governance, exhibited a failure in that area with its response to Hurricane Katrina, whereas Pakistan acted speedily after the 2005 earthquakes. These examples, which dispute conventional wisdom, must be analyzed to improve understanding.

“These outliers suggest that when researchers conflate good governance with the capacity to grow or the existence of democracy, they are probably oversimplifying very complex relationships,” Grindle writes.

Certain countries have seen strong growth in the absence of good governance, challenging the assumption that good governance is essential for growth and poverty reduction. They must be accounted for when reevaluating the concept.

“China in the past 30 years is instructive,” Grindle observes. “In all likelihood, most Chinese citizens would benefit from better governance — but it is clear that the growth of the economy or foreign investment or poverty reduction have not been contingent upon this advancement.”

Complexity and diversity among countries make models for good governance difficult. A one-size-fits-all institutional blueprint is impossible to create because every country has a unique context and history. What worked for an Asian country in one era might not work for an African country in another.

“Explorations of historical experience can do much to illuminate issues of timing and complexity,” writes Grindle.

The inflation of good governance has made the idea too complex by adding so many issues to the agenda. As Grindle argues, the concept has grown too large to be reasonable. Researchers must truncate the agenda by prioritizing the issues. The focus should be not on perfecting good governance but, rather, on achieving “good enough governance,” a concept Grindle coined years ago.

To achieve good enough governance and counter idea inflation, researchers and practitioners must let theory inform practice and vice versa. Ideas are important for development, but they must evolve to accommodate constant change. Researchers should use developing countries for testing ideas, but also as a ground for spawning new ones. By focusing on the complexity of development, factoring in the historical experience of each country, and acknowledging the idea inflation of good governance, researchers can help make development research and practice more realistic, and thus more successful.

“Good governance is important; but like many other good ideas, it is not a magic bullet,” writes Grindle.
An Island Nation with Poor Ports

Over the past 10 years, Indonesia has transformed from an authoritarian state into the world’s first majority Muslim, multi-party democracy. The country’s successes and challenges as a new democracy are the subject of the Ash Center’s Rajawali Foundation Institute for Asia report, “From Reformasi to Institutional Transformation: A Strategic Assessment of Indonesia’s Prospects for Growth, Equity, and Democratic Governance.”

Prompted by concerns that Indonesia’s fledgling democracy might be faltering, despite general praise for the country’s steady progress, an HKS team led by Professor Anthony Saich explored Indonesia’s problems of inadequate infrastructure, inequality, and a stunted economy. The report is part of a larger initiative to expand and strengthen policy research and training in the country.

“The achievements of the Reformasi era (1998 to present) are important and lasting,” Saich says. “But Indonesia must undertake a substantive institutional transformation, and it must do so quickly to make the most of globalization and avoid the pitfalls of heavy dependence on natural resources and low-wage manufacturing.”

Indonesia currently ranks 96th out of 133 countries for its infrastructure. Only 55 percent of its roads are paved. Low capacity and frequent cargo delivery delays at the nation’s ports have forced many companies to opt for more efficient ports in neighboring Singapore for shipments.

The report’s authors argue that spending on public health and academic achievement has been similarly inadequate. “At 1.1 percent of Gross Domestic Product (GDP), Indonesia spends less on public health than any country in the region,” they write. Current academic curricula lack a strong focus on science and technology, reflected in the country’s research and development spending of only 0.05 percent of GDP.

Because it exports non-value-added natural resources while importing finished goods it could produce domestically, Indonesia is currently in a trade deficit with China. Its heavy reliance on commodities—including palm oil, copper, and nickel—makes the country more susceptible to price fluctuations, leading to an overvalued exchange rate and depressed long-term employment.

The report argues that deep-seated corruption is at the heart of the country’s economic and social challenges. Recent decentralization to regional authorities has fragmented power, making accountability difficult. “We used to have one dictator,” says David Dapice, an Ash Center economist and one of the report’s authors. “Now we have hundreds of dictators because every little county head thinks of himself as a Suharto.”

The report’s authors recommend several measures for moving Indonesia away from its legacy of corruption. Because the country’s electoral processes are often dysfunctional and vary across the country, the authors propose exploring changes to the models by which politicians are elected, to reduce some of the complexities in elections and incentivize politicians to act more in the public interest.

To ensure longer-term prospects for growth, Indonesia could benefit from attracting foreign investment to the region. China’s adoption of international standards of accountability and transparency has drawn foreign interest to the region; by following China’s example, Indonesia could halt ineffective practices influenced by domestic interests.

With over half its population living just above the poverty rate, Indonesia has a small middle class. It could promote a more entrepreneurial economy by expanding access to public education and social services, including better credit and bankruptcy protection, to strengthen this “missing middle.”

Other recommendations include encouraging Indonesia to create intergovernmental bodies to oversee decentralization and channeling public dissatisfaction with corruption into larger NGO watchdog groups, which would in turn give people more of a stake in their democracy’s ongoing stability.

According to the report, “Indonesia is changing, but most of the dynamic economies of East Asia are changing faster. . . . Our main motivation in writing this report was to provide a framework for future research relating to the country’s institutions and institutional change.”

← KH
SECURITY

The Best Way to End a Civil War

Perhaps the best way to end a civil war is not to start one in the first place. But since conflicts of this sort appear to be inevitable as well as frequent, it makes sense to look at how they’re resolved and to find out whether some ways of ending civil wars are better than others in terms of human casualties, long-term stability, and democratization. When Monica Duffy Toft began her research in this area, she ran head-on into a pervasive bias among academics and policymakers alike. For the most part, “people only considered negotiated settlements,” she says. “If you talked about victory and defeat, you were seen as advocating violence.” The dominant assumption at the time, moreover, was that negotiated settlements were less costly in human lives than letting a war run its course. “Since what we really wanted was democracy,” Toft says, “the supposition was that if a settlement was based on democratic principles, then that would lead to a democratic outcome.”

Her findings, presented in the book she published earlier this year, *Securing the Peace: The Durable Settlement of Civil Wars*, were surprising. One salient conclusion was that “civil wars ended by negotiated settlement are more likely to recur than those ending in victory by one side.” Bringing the war to a close through a democratic process has no bearing on the prospects for democratization after the war. And contrary to conventional wisdom, ending a war through negotiations results in more deaths, on average, than resolving it on the battlefield.

As to why that’s the case, Toft found that negotiated accords were much more fragile than people had realized. Although they saved lives in the short run, they cost more lives in the long run if the brokered peace fell apart and violence broke out again, often deadlier than before. The settlements tended to leave countries in a relatively demilitarized state that made them unstable over the long haul.

Previous researchers, who usually looked at how countries were faring about five years — and one election cycle — after “peace” was achieved, had not recognized this. “International peacekeepers normally stick around for just the first election,” Toft says, “and the commitment tends to drop off soon afterwards.”

Her analysis has turned up another interesting and perhaps unexpected result: Rebel victory generally leads to a better outcome for the country and its people than victory by the reigning state. In order to win, rebel forces need a strong institutional capacity and broad support among the populace — both of which help in the postwar period.

The correct policy is not necessarily to support the rebel cause, Toft says, “as there are rebels, as well as governments, that you don’t want to see in power.” But if a third party is going to secure a peace at the bargaining table, it should understand that, in many instances, rebel victories have led to relatively favorable outcomes. One reason is that rebels come to power not only with goodwill but also with the capacity and might to uphold the peace, which is often lacking in third-party settlements. A settlement in which security has been established during and after negotiations offers the best “prospects for enduring peace, liberty, and prosperity following a civil war,” she says. “Failing that, support in pursuit of victory, especially victories by rebels, may be a worthy objective.”

“If you talked about victory and defeat, you were seen as advocating violence.”

Toft started with a fresh slate, approaching the subject from a strictly empirical perspective. She looked at all civil wars from 1940 to 2007, 137 of which met her criteria of being a major conflict in which one of the combatants was an internationally recognized state.
Informal Economy
(continued from page 1)

informal employment in Colombia, Ecuador, Mexico, Panama, and Peru accounts for 53.6 percent, a slight increase from previous years. In sub-Saharan Africa, informal employment is estimated to account for 72 percent of all employment. And it includes a diverse range of workers, from home-based garment manufacturers to street vendors.

In her latest paper, “Global Recession and the Informal Economy: Evidence From Latin America and Beyond,” Chen looks at the impact of the global recession on the informal workforce. Based on preliminary findings from an ongoing multi-country study, the report focuses on home-based producers, street vendors, and waste pickers. It reveals that the informal economy has been just as exposed to the violent economic storms as the formal one.

Nearly two-thirds of the workers in the sample reported that the volume of their trade or work had decreased in the first half of 2009. The drop in demand for exported goods, for example, led to a drop in demand for waste materials used in manufacturing.

Scrap buyers in Bogotá, Colombia, used to buy plastic products of any color and type, Chen reports. By mid-2009, they were purchasing only select types of plastic. Waste pickers, who were once paid a small sum to take away old newspapers and other such items, were now being charged for the material.

Informal workers also reported increases in their business costs. The price of raw materials and utilities had risen. Some said they were unable to pay the higher fees that municipalities, desperate for revenues, were charging for spaces at local markets.

In addition, rising unemployment caused an influx of new informal workers and growing competition. For example, waste pickers in Chile, who had organized themselves into a recycling cooperative, saw an increase in unorganized pickers, called ‘flyers’, who not only competed for available waste but also “scavenged indiscriminately, leaving trash in disorder on the streets.”

The global economic crisis, put simply, was making the poorest poorer still. Nearly 80 percent of respondents reported a decrease in profits, Chen found. Already in desperately difficult situations, many were looking for more work, but only 4 percent said they’d been able to find any.

“They called for a new vision of the economy which recognizes a continuum of economic arrangements—from formal to informal.”

In Bogota, a 55-year-old woman said she had become certified as a street sweeper to supplement her income from waste picking but couldn’t find a job.

“I am trying to get another job and they say, ‘No, you are already too old, already too old,’” the woman said. “So, what am I to do?”

Prospects for recovery in the informal economy when the crisis is over are still uncertain. The study’s preliminary findings suggest that “lingering unemployment in the formal economy, persistent underemployment in the informal economy, and other factors (such as inflation) are still driving increased competition within the informal economy.”

But, as informal workers explained, their “livelihoods were already in crisis before the global economic crisis,” Chen writes.

Informal workers hoped that as well as leading to immediate assistance, including soup kitchens, low-interest loans, and an embargo on laws that undermine their livelihoods (such as laws that ban street vending) the crisis would transform how the informal economy was viewed.

“They called for a new vision of the economy which recognizes a continuum of economic arrangements—from formal to informal—and the contribution to the economy of each point on the continuum,” Chen concludes. ← RDO
Climate Policy
(continued from page 1)

a long-term problem,” given that once greenhouse gases enter the atmosphere they persist for decades if not centuries. Rather than attempting to provide a detailed solution to the global warming problem, Stavins and Olmstead propose the elements they believe a workable strategy will need to incorporate. The first is broader participation among the most important industrialized and so-called developing nations. Expanded involvement is essential if we are to come to grips with a problem that is truly global in nature. Large developing countries must play an active role in this process, given that they will soon surpass industrialized nations in total emissions. Since these countries tend to be less energy-efficient, they offer the greatest opportunities for low-cost emissions cuts.

The second suggestion is to extend the time horizon of an agreement, because five years is obviously not long enough to address an issue of this scope. The authors stress, however, that long-term targets should remain flexible in light of uncertainty over future growth rates, new technological developments, and the science of climate change. An extended time frame would place a considerable burden on future generations—a situation that politicians often favor.

The third suggestion is to make climate policy cost-effective, and hence politically viable, by working with the market rather than against it. So-called cap-and-trade systems—whereby one party (a company) can fulfill its emissions obligations by paying another party to make the cuts instead—has worked well in the European Union, which has the world’s largest emissions trading program. Cap-and-trade programs have also been successfully employed in the United States to eliminate leaded gasoline in the 1980s and to cut sulfur dioxide emissions from power plants.

Stavins and Olmstead see such programs—possibly used in concert with carbon taxes that are based on similar principles—as important tools in a post-Kyoto world. One can find fault with any of the approaches under consideration today, Stavins says, but in taking on a problem like global warming, “we may have to settle for less than perfection and go with something that works, despite its potential shortcomings.” ← SN