Course Setting: In the Wake of the World Financial Crisis, What Next?

Today the world continues to struggle with the aftermath of the World Financial Crisis. This crisis helped create deep recessions and high unemployment in most of the world’s advanced economies. Economic recovery has taken hold in most of them, but that road is long and uneven. In finance and many other important sectors in many countries, levels of activity remain well below pre-Crisis levels. And global capital markets remain quite fragile. Perhaps most importantly, the deep liquidity and solvency problems facing many European banks and sovereigns continue to threaten damage that could exceed that of late 2008 and 2009.

Beyond the world’s advanced countries, many middle- and low-income countries—China, India, and other rapidly developing economies—have continued to deliver dynamic economic growth, even amidst the depths of the financial crisis. Many business and government leaders see this growth as an opportunity to seize. Others contend that developing-country growth hurts them, and advocate for government policies to ameliorate this harm. And, leaders in many BRIC and beyond countries are voicing greater concern about the durability of their economic strength. These concerns are increasingly matched by hard data, with slow-downs in economic growth over the past year even in vanguard emerging economies like Brazil, India, and China.

Interwoven as cause and effect with these many policy challenges is the ongoing World Financial Crisis. A key starting point for the Crisis was the price collapse for residential real estate, mainly in the U.S. but in many other countries, too. The Crisis quickly spread to many asset classes, with sharp declines in prices and transactions around the world. This spread has been a vivid example of globalization in action: poor lending decisions for American homes triggered worldwide damage thanks to the span of mortgage-linked derivative products. Today, the Crisis is in a dramatic new phase of concern about the solvency of sovereign debtors including Greece, Portugal, Ireland, Spain—and perhaps even larger countries such as Italy.
Governments undertook historic efforts to arrest the Crisis. Many central banks slashed target policy rates to near zero and undertook unprecedented expansions of their balance sheets by creating trillions of dollars out of thin air. Fiscal authorities around the world collectively borrowed trillions of dollars to support capital markets and aggregate demand, and they have assumed trillions of dollars more in various financial liabilities. Some of this fiscal loosening was by choice; some was a dramatic result of the collapse in private economic activity. These fiscal swings have led to today’s dramatic phase of the World Financial Crisis described above. And many governments undertook historic interventions to prevent the collapse of other non-financial firms and/or industries deemed too important to fail. Iconic here was the tens of billions of dollars, bankruptcy assistance, and majority ownership the U.S. government provided to General Motors—arguably the most important global company of the 20th century.

Venerable companies have gone bankrupt; leading CEOs have been fired; and there remains widespread uncertainty amidst workers, investors, and voters. How did the world get to this point? Who or what is responsible? What government policies can and should be pursued to improve world markets? What leadership challenges—and opportunities—will this ongoing crisis presented to you as your business career unfolds?

Course Goal: Your TPOV on Leading at the Intersection of Countries and Companies

One of the most striking developments of the World Financial Crisis—one whose causes and consequences will take years to fully understand—has been the sharp expansion of the role of national governments in global business. This expansion has been both direct (e.g., nationalizing banks and companies in many other industries) and indirect (e.g., borrowing and printing trillions by central banks and fiscal agents).

Global businesses today encounter national governments as customers, as competitors, and as regulators across all key strategic dimensions. And the leaders of global businesses and national governments struggle to understand each other’s goals, constraints, and methods. Many CEOs and boards of directors are today finding that government leaders—and their citizens, per the Occupy Wall Street movement emerging in the United States today—who look askance at them, wary of their motives and consequences.

This dynamic, then, presents a central question for LGE: how will you lead global companies when national governments have so many more connections to your business—connections that often spring from government wariness, not support, of the private sector?

In this course, each of you is going to work to develop your own answers to this question—that is, your own Teachable Point of View about how business leaders should lead companies amidst increasingly-present governments of many countries. The framework we will use to organize your Teachable Point of View is Congressional testimony.

What is a Teachable Point of View? As we will discuss day one (and as we discussed in Ex Comm last spring), academic and consultant Noel Tichy has characterized the Teachable Point of View (TPOV) as follows.
• “A teachable point of view is a leader’s opinion on what it takes to win and what it takes to lead others … A teachable point of view becomes the basis for leaders to present a dynamic, compelling story to others. These stories create a case for change, a vision for where the organization is going, and an understanding of how to get there.”
• “Acquiring a teachable point of view involved in-depth preparation by the leaders. Once they had a TPOV, they thought of creative ways to find teaching and learning opportunities. They tried to turn every interaction into a learning and teaching event.”

Successful leaders—both in business and outside—tend to be individuals who can develop and articulate TPOVs in a way that others find compelling. You should note here the important contact point between LGE and Personal Leadership from last year. Remember how you learned in Personal Leadership about the six leadership-style templates? Successful TPOVs can be an important part of many leadership styles (e.g., the “visionary style”)—and its component parts of Ideas, Values, Emotional Energy, and Edge can contribute to all six leadership styles.

Course Structure: Congressional Hearings and Testimony

The opening LGE class will set the stage for the course and for where the global economy is today. Then, each of the next eight class meetings will be structured like a Congressional hearing at which you students will deliver testimony imagining that you are CEO of a globally engaged company or other global organization.

In the U.S. Congress, two of the most powerful committees with jurisdiction over matters of global business are the Committee on Financial Services in the House of Representatives and the Committee on Banking, Housing, and Urban Development in the Senate. Our LGE topics fall mainly under the purview of these two committees, and so your testimony each day should be directed either to Chairman and Representative Spencer Bachus (Republican, Alabama) or to Chairman and Senator Tim Johnson (Democrat, South Dakota). When members of a Congressional committee are deliberating economic policy, they often convene hearings at which they invite witnesses to deliver a statement of testimony and then answer questions—sometimes under oath. Witnesses are often CEOs of companies or other organizations with business of relevance to the matters at hand. Each witness has the opportunity to deliver oral testimony, which almost always is strictly limited to no more than five minutes, and written testimony, which can be longer and which enters the official Congressional record.

Please note that these U.S. practices for how the federal government engages the business community are qualitatively very similar to practices of many other countries throughout the world. Whatever countries you end up leading companies from and in, the ability to articulate TPOVs to government officials and other stakeholders will be a critical skill. To allow you to tailor LGE to the countries of your interest, on any given day—or, indeed, throughout the entire course—you should feel free to prepare any aspect of the course—general conversation, daily oral testimony, or longer written testimony—from the perspective of any country you like. Thus, for example, on our second day you can evaluate government support for strategic industries for any country you choose. Or, on our last day you can evaluate the need (or lack thereof) for a “New Deal for Globalization” from the perspective of any country you choose.
A typical class day will have four parts, each approximately one quarter of the total class time.

1. **Around the World.** First, we will revisit any topics that might remain from the previous class session. Next, we will typically have a short conversation about “Around the World”—i.e., LGE-relevant headlines of world current events that you or I have seen. To aggregate class preferences and to allow me to preview your ideas in advance of each class, please use of the on-line spreadsheet at [http://tinyurl.com/LGEAroundTheWorld](http://tinyurl.com/LGEAroundTheWorld).

2. **Oral Statements of Testimony.** I will take a few minutes to introduce the topic—typically by making connections back to relevant GEM tools and ideas. Then about three students will deliver their oral testimony on that day’s topic. Each selected student will sit before the room at the witness table and speak. Consistent with the practices of nearly every Congressional committee, you will have no more than five minutes in which to make your statement. No exceptions.

3. **Question-and-Answer Period.** The opening statements will lead to a full-class conversation in which anyone can ask questions of the witnesses about their testimony, which witnesses will answer as if under oath. I will loosely serve the role of Committee Chairman as needed, to help maintain an engaging and insightful conversation.

4. **Summary of the Hearing and My TPOV.** The end of each class will build in time for me to draw together the conversation and offer some summary thoughts and perspectives on the facts and business-leadership challenges of the day’s topic. In doing this, I will often convey my TPOV for your consideration. My summary thoughts each day will be organized in a short PowerPoint deck, with key data items, principles, frameworks, and linkages for you to reflect on and use in the future.

For each LGE session you can pick whatever company, industry, and home country you would like to imagine being CEO of—and you can change across days if you like. Whatever perspective you adopt for a given day, you should be prepared to deliver and deliberate testimony from that perspective. Here are some possibilities.

- The perspective of the company you matched with for your initial post-Tuck placement.
- The perspective of the company you hope to match with for your initial post-Tuck placement.
- The perspective of a company you hope to match with at some point in the future.
- The perspective of a company currently involved in the topics we are covering in LGE.

You may not write testimony from the perspective of yourself today. Part of my pedagogical TPOV is that too many leaders suffer from too little capacity to imagine and articulate possibilities. In LGE you will be required to testify in an imagined leadership role.

**How Should You Prepare for and Participate in Class?**

You are expected to prepare for, attend, and actively participate in every class.
Each day, there are two different ways you can participate in class conversation. One is offering to read and defend your testimony. The other is speaking in the general flow of the class—especially in the post-testimony conversation. As described below, participation in class conversation is one-third of your course grade. I evaluate based on a combination of the quantity and quality of your interventions. To receive high marks on this part of the course, it is neither necessary nor sufficient to speak every day—nor to deliver testimony one day.

I encourage you to prepare each day with classmates, in whatever forum you find most constructive. However, your Congressional testimony (daily or longer—see grading description below) needs to be drafted by yourself alone, to practice developing your personal TPOVs.

For each day, the syllabus lists as set of readings I recommend to help your preparation. As appropriate, I will offer guidance for their relative importance. Beyond the syllabus readings, however, you should feel free to prepare for class using any other information you find relevant for your understanding of that day’s materials. In particular, you may wish to review references in these readings, and also information specific to the company/organization from which you are providing your TPOV (e.g., recent coverage in the financial media or recent regulatory filings).

Course Grading

Your LGE course grade will be determined equally by the following three parts.

Participation in Class Conversation

- This will be based on the quality and quantity of your in-class participation. Offering oral testimony counts towards this part of you grade. More generally, so does your engagement in overall class conversation.

Daily Oral Testimony Hand-Ins

- You will need to hand in between one and eight oral testimonies, due each class. *Again, no oral statement should exceed five minutes.* *Given the pace at which most people speak, this means that the written version of an oral testimony should not exceed about two pages.* The more oral testimonies you prepare and hand in, the higher marks you will receive for this part of your grade. To maintain a fair balance in class conversation, you should not expect to present in class all oral statements you prepare. I will aim to return each week’s daily testimonies to you with my comments in advance of next week.

Longer Written Testimony Hand-In

- Select one of the eight day’s topics, and prepare and hand in a longer testimony—three to five pages of double-spaced text—of your TPOV on this business policy issue. Due by 4:00 p.m. on Friday, October 12.

I encourage you to engage with this class as much as you can via conversation and testimonies. Let me add that it is difficult for me to foresee how a student would earn a grade below S. Also, after class ends all LGE students will be eligible to participate in the LGE Forums, a lunch-hour Around the World conversation I will moderate every so often the rest of the academic year. The LGE Forum is an optional discussion group to continue our learning of LGE materials.
The Academic Honor Principle

I take the Academic Honor Principle very seriously and have very clear policies for this course. As a reminder to all of us, here is a statement of Tuck’s Academic Honor Principle.

“Integrity and honesty in the performance of academic activities, both in the classroom and outside, are essential to the educational experience for which the Tuck School has always stood. Each member of the Tuck community accepts the personal responsibility to uphold and defend high ethical standards in all academic endeavors, and to promote an atmosphere in which honest and imaginative academic work may flourish.”

Let me articulate how this Academic Honor Principle applies to LGE.

- **Class Conversation:** The goal of each day is to have a spirited yet respectful and fact-based exchange of opinions. To maintain a flourishing classroom atmosphere, your participation in class conversation should *at all times* respect the diversity of opinions being articulated, discussed, and defended. Teachable Points of View are, by definition, subjective. This is not to say that you should not engage and challenge the TPOVs of others—and yourself. It is to say that you should do so recognizing that many of the core questions of this course do not lend themselves to inherently right or wrong answers. It is also to say that a very important leadership skill is being able to respectfully and constructively agree to disagree with others.

One important point here: this course is *not* an exercise in preaching the Teachable Points of View of Matt Slaughter. I have my own TPOVs on LGE topics, which I will share to varying degrees to help support your learning. Your course grade in no way depends on how similar or dissimilar your TPOVs are to mine.

- **Daily Testimony Hand-Ins:** Any daily testimony hand-ins should be written by yourself only. Any references should be appropriately cited according to Tuck School guidelines. I regard plagiarism of any form, no matter how small or extensive, to constitute a severe violation of the Academic Honor Principle.

- **Longer Testimony Hand-In:** Your one longer testimony hand-in should be written by yourself only. Any references should be appropriately cited according to Tuck School guidelines. I regard plagiarism of any form, no matter how small or extensive, to constitute a severe violation of the Academic Honor Principle.

- **Use of Laptop Computers and Other Communication Devices.** To provide a first-class learning environment, and out of respect for fellow students and visitors, students shall not use laptop computers, cellular telephones, or any other electronic communication device (e.g., iPhones and Blackberries) in any class session unless explicit permission to do so is granted by me.

- Finally and most importantly, you should recognize that the principle ingredient in the successful operation of the Academic Honor Principle is good faith among all parties. Situations occasionally arise in which the application of the Academic Honor Principle is unclear. In such cases, please just contact me for clarification.
Class One: Thursday, September 13
Course Introduction and Global Economic Overview

Overview for Today: We will survey the current global economic environment, as a framework for the range of LGE topics we will cover together. What is the prognosis for near-term growth and inflation in key parts of the world? What medium- and longer-term challenges await? Where and how are the new intersections between countries and companies most visible?

Testimony Topics for Today: None.

Readings for Today: There are four readings for class today.


2. “A Game of Catch-Up: Special Report on the World Economy,” The Economist, 9/24/11. This collection of readings examines how speed-limit rates of economic growth (remember speed limits from GEM?) have been much faster in many emerging markets than in many advanced countries, both before and since the World Financial Crisis. It also discusses the prospects for future speed-limit rates of growth.

3. “Be Afraid,” The Economist, 10/1/11. This cover story from last fall’s issue of The Economist argues that, “Unless politicians act more boldly, the world economy will keep heading towards a black hole.” Many would say this advice still applies today. Do you agree?

4. “How Business Can Rescue the Economy,” by Peter G. Peterson, Bloomberg Businessweek, 11/5/09. This closing editorial from Peter G. Peterson, billionaire co-founder of the private-equity firm Blackstone, argues that, “It’s time for corporate leaders to step up with a Marshall Plan-type movement that takes an active role in the public interest.” Do you agree?

Important Note on Broad Readings to Support LGE: By design, LGE aims to extend your understanding and use of many GEM topics. Your chapters of the GEM text (by Bernard, Knetter, and Slaughter) may occasionally be useful references for LGE. Also, to maximize your LGE learning I recommend that you keep abreast of current global economic and financial matters by regularly reading items such as The Financial Times, The New York Times, The Wall Street Journal, and The Economist. And, as you are reading these publications, please be sure to suggest articles and issues for our Around the World discussions each day.
Overview for Today:  Many world governments have long attempted to foster faster economic growth in industries deemed to be “strategic.” In many countries, the spur to identify and support strategic industries (through what is typically called “industrial policy”) is now stronger because of slow growth and high unemployment in the wake of the World Financial Crisis.

Automobiles, which many countries deem to be strategic, has been one of the global industries most severely pressured by the turmoil of the Crisis. In response, well over a dozen countries—including Canada, China, Germany, France, and the United States—undertook extraordinary measures to support auto companies operating in their borders. Outside of finance, which we will address tomorrow, the most prominent industrial support in many countries was for automobiles. In the United States alone: approximately $65 billion dollars were allocated to Chrysler and General Motors; the federal government oversaw in great detail their bankruptcy filings; and today the U.S. government retains substantial ownership in these two companies while having guided key strategic decisions including selecting new executives and boards of directors, R&D strategies, product mixes, dealer relationships, and cross-border production structures. Have these interventions in automobiles been sound or poor public policy?

A newer industry that garners support in many countries is clean-technology energy industries such as solar and wind power. China, Germany, Spain, the United Kingdom, the United States, and others have recently been providing billions of dollars in support through mechanisms including direct subsidies, low-interest loans, price supports, and trade barriers. Many countries claim that clean-tech will spawn critical innovations and thus many good-paying “green” jobs. Have these interventions in clean-tech been sound or poor public policy?

Testimony Topics for Today: Please choose either automobiles or clean tech, and for your industry explain to the Committee your views on recent government support for that industry. Was government support sound or unsound? Why? Was there some sort of market failure where government intervention made good sense? How did interventions in this industry affect your company—were your helped, hurt, or unaffected? Looking ahead, how would you recommend that the U.S. (or any other) government proceed in evaluating whether a particular industry is strategic?

Readings for Today: There are two sets of short readings for class today—one for automobiles and one for clean-tech. You are not responsible to review both sets of readings: I am giving you the option of focusing on either industry based on your particular preferences. (Of course, you are free to review all the readings if you like!) Everyone should start with the following two readings from The Economist, each of which is a short survey on the worldwide resurgence in industrial policy trying to support strategic industries.

- “Tinker, Tailor,” The Economist, 10/1/11.
For automobiles, there are eight additional short readings—all based on the 11/19/08 hearing convened by the U.S. House Financial Services Committee, “Stabilizing the Financial Condition of the American Automobile Industry.” These other eight are all examples of TPOVs; you need not read all eight, but pick and choose as you like. (This hearing we discussed last spring in ExComm, and resides at http://financialservices.house.gov/hearing110/hr111908.shtml).

1. Testimony by Rick Wagoner, CEO of General Motors.
2. Testimony by Robert Nardelli, CEO of Chrysler.
3. Testimony by Alan Mullaly, CEO of Ford.
4. Testimony by Ron Gettelfinger, President of the United Auto Workers union.
5. Testimony by Matt Slaughter.

For clean tech, there are eight additional short readings—many focused on issues of the 11/17/11 hearing convened by the U.S. House Energy and Commerce Committee to examine U.S.-government support of the clean-tech industry. This and some of the other readings (such as my op-ed) offer TPOVs on industrial policy in support of clean tech. The other readings offer some facts and analysis of the U.S. clean-tech industry and government support for it—in particular, a company called Solyndra that eventually went bankrupt after receiving support including a $528 million loan and a visit from President Obama. (The hearing with Secretary Chu resides at http://energycommerce.house.gov/hearings/hearingdetail.aspx?NewsID=9090).

1. Testimony by Steven Chu, Secretary U.S. Department of Energy.

Finally, many of the broad topics of today relate to issues raised in The Choice, which you read last year in GEM and which you could re-visit relevant portions of for today if you like.
Class Three: Wednesday, September 19
The World Financial Crisis: Are Pay Caps for Financial Executives the Solution?

Overview for Today: As the world struggles to rebuild normal functioning in global capital markets, regulators in many countries are looking to restructure regulation to minimize (or eliminate?) the probability of future such crises. Perhaps the most heavily scrutinized area for reform is in the structure and/or level of compensation in financial companies. Many argue that excessive pay and/or poor compensation structures contributed to the crisis, e.g., by allowing key executives to realize large payouts on profits even if such profits later disappeared. In many countries the issue of finance compensation continues to draw sharp attention: e.g., debates in the United Kingdom of special taxes on bankers’ bonuses; controversy in the United States amidst large payouts to executives—at AIG, or more recently the “London Whale” for JPMorgan; and the “Occupy Wall Street” protests in the United States, where some called for salary caps.

Testimony Topics for Today: Please explain to the Committee your views on the compensation practices in financial services. Are there features in the typical structure and/or level of compensation in this industry that contributed to the World Financial Crisis? What changes to pay practices do you recommend? In particular, the Committee will be especially interested in your views on whether finance executives are paid too much and or paid in the wrong way. Is there a market failure where government intervention makes good sense? Or, are there other capital-market issues more important than executive compensation that deserve higher priority? If so, please state exactly what they are and why you think they matter more than regulating pay. How are you addressing these issues inside your company?

Readings for Today: There are six readings for class today.

1. An open letter to all G20 leaders by U.K. Prime Minister Gordon Brown, German Chancellor Angela Merkel, and French President Nicholas Sarkozy. Written in advance of the September 2009 G20 summit (hosted by President Obama in Pittsburgh), this letter argues the need for coordinated reform of financial compensation.
2. “Regulation of Executive Compensation in Financial Services,” 2010 white paper by the Squam Lake Group (and also chapter from The Squam Lake Report).
3. Testimony by Professor Lucian Bebchuck.
4. Testimony by Professor Kevin Murphy.
5. A recent short survey of executive compensation from The Economist, “Attacking the Corporate Gravy Train.”

No obligation at all, but if you are interested in the broader issue of financial-regulation reform, then you might be interested in the complete work of the Squam Lake Group, which Professor Ken French and I helped create. Our non-partisan, non-affiliated Group of 15 academics wrote several white papers aimed at offering guidance on regulatory reform. All our white papers can be found online via the Council on Foreign Relations. These individual white papers were collected and expanded upon in our book, The Squam Lake Report: Fixing the Financial System, published in 2010 by Princeton University Press: http://press.princeton.edu/titles/9261.html.
Class Four: Thursday, September 20
Are Advanced-Country Capital Markets on the Wane? And Is This Good or Bad?

Overview for Today: Today we will discuss one of the strongest industries in many countries, of direct interest to many of you as a past and future employer: financial services. In the years leading up to the financial crisis, much attention was paid by financial and government leaders of the U.K., Germany, France, the U.S., and others to the rising worry that American capital markets—especially the nexus of capital-market activities in New York—may be weakening relative to financial centers abroad such as London, Hong Kong, and Dubai. For example, in 2007 U.S. Treasury Secretary (and former Goldman Sachs CEO) Henry M. Paulson convened a conference, “U.S. Capital Markets Competitiveness,” at which speakers included Warren Buffett, James Dimon, Alan Greenspan, Jeffrey Immelt, and John Thain. (This is archived here: http://www.treasury.gov/press/releases/hp304.htm). Commonly cited data include the falling share of global initial public offerings being listed on U.S. exchanges (see, e.g., data assembled by the non-partisan Committee on Capital Markets Regulation, at www.capmktsreg.org).

Now, in the wake of the World Financial Crisis, many in finance still argue that the competitiveness of advanced-country capital markets continues to wane—and that policymakers should act to stop this. At the same time, other voices in these countries—including several key government officials—argue precisely the opposite: that finance is too large, with resulting direct and indirect costs that governments must work to reduce. For example, European Commission president José Manuel Barroso recently proposed a tax on financial transactions as a matter of “fairness.”

Today we will bring our LGE tools to bear on this issue. How should the competitiveness of a country’s capital markets be measured? Does it matter if a country’s strength here is truly on the wane? And what policy measures, if any, could or should arrest this decline?

Testimony Topics for Today: Please explain to the Committee your views on the competitiveness of American capital markets. Do U.S. capital markets have sufficient strengths to draw on to preserve their global competitiveness in the coming years? What, if anything, should the U.S. government do here? The Committee is especially interested in hearing whether you support the idea of a new taxpayer subsidy for financial companies to stimulate their U.S. hiring: yes or no? The Committee is also especially interested in an alternative bill that, following the lead of the EU, recommends a new financial-transactions tax: yes or no on this new tax? The Committee is also quite interested in hearing whether your company’s U.S. operations will be shrinking, in real or relative terms, in the coming years. How are you managing the need to re-deploy key colleagues around the world?

Readings for Today: There are eight readings for class today.

1. A survey of global financial centers, from The Economist magazine. Entitled “Magnets for Money,” it was published three years ago on the cusp of the financial crisis—but its many structural, long-term issues remain very relevant today.
2. “IPOs: Location, Location, Location.” The Financial Times, 5/31/12. This piece discusses where around the world IPOs have recently been happening.
3. “Fleeing to Foreign Shores,” The New York Times, 6/7/11. This piece highlights the decision of Reva Medical CEO Robert Stockman—who is a Tuck graduate and current chairman of the Tuck MBA Advisory Board—to launch its IPO in Australia.
5. An article about how finance companies are today substituting computers for traders from The Wall Street Journal on 8/8/12, “Now It’s Man Versus Machine.”
6. An article about how finance companies are today moving jobs off of Wall Street from The New York Times on 7/1/12, “Financial Giants Are Moving Jobs Off Wall Street.”
7. An article on the growth of financial-services activity in India from The New York Times on 8/12/08, “Cost Cutting in New York, But a Boom in India.”
8. A companion same-day article from The New York Times, “Leaving Wall Street for a Job Overseas”, which discusses the personal choices many bankers face when their company offers them postings in rising financial centers abroad.
Class Five: Wednesday, September 26
BRICs and Beyond in the Global Economy: Benefit or Threat?

Overview for Today: One of the most remarkable features of globalization in the past generation has been the rapid economic growth realized by so many middle and low-income countries, such as the BRIC nations of Brazil, India, China, and Russia (as discussed in the day-one survey).

The single biggest goal of current economic policy in many BRIC countries is to foster continued productivity growth—growth in output per worker. Productivity growth is the only way for any country to enjoy sustained increases in living standards. In the past generation, China in particular has realized the world’s greatest episode of productivity growth. Since the start of the “Open Door” policy economic reforms in 1978, average living standards have risen more than ten-fold. India and many other countries have had similar, albeit not quite as dramatic, growth runs. Despite all this growth, per capita income in many fast-growth markets remains a fraction of that in many advanced countries: in 2011, about $1,750 in India, $6,000 in China—and $48,000 in America. BRIC growth may well have far to go.

But this economic integration has already generated massive changes in the global economic landscape on dimensions such as international trade and investment. And it has also generated important political pressures for both companies and countries as well. In the United States, for example, many today regard the very large trade deficit with China—$295.5 billion in 2011—as a symbol for all that is unfair about BRIC countries in general and China in particular. The 2008 and 2010 Congressional elections saw many open-markets supporters defeated by explicitly protectionist challengers, many of whom single out China in particular.

Many business and government leaders in advanced countries levy two particular charges of unfair competition at developing countries in China. One is unfair efforts to keep currencies “artificially” low; in particular, that that China is a “currency manipulator” whose yuan peg to the U.S. dollar should be somehow offset by retaliatory trade barriers levied against Chinese imports until China changes its currency regime. The other is that intellectual property is inadequately protected; in particular, that China’s explicit government support of “indigenous innovation” by Chinese companies involves outright theft of IP from western multinationals operating in China.

Testimony Topics for Today: We in the U.S. Congress are trying to understand what unfair advantages, if any, China and other BRIC countries wield over the United States today and what our government should do about these advantages. As a global corporate leader, how do you explain the BRIC economic success? Is this success driven by unfair advantages like currency manipulation or IP theft? How is your company engaging these markets—as a source for new revenue, as a center for reducing costs, or as something else? How does your BRIC engagement affect your U.S. workers and other stakeholders, like local communities in which you operate? Do you support the U.S. Congress taking a tougher stand against China and other countries? The Committee is especially interested in hearing explicit answers to whether you agree that developing countries are manipulating their currencies; whether you support Andy Grove’s idea for U.S. tariffs on imports from developing countries to help close the U.S. bilateral trade deficits with these countries; and whether you think China’s treatment of IP is somehow too lax.
Readings for Today: There are several readings for class today—select among them as you like.

   This pair of stories analyzes the recent 79-19 U.S. Senate vote in favor of a law that would levy U.S. tariffs against any country that “manipulates” its currency.

   “One Step Forward, One Back,” *The Economist*, 10/8/11
   This pair of articles offers commentary on this U.S. Senate vote.

3. How the U.S. Lost Out on iPhone Work” and “In China, Human Costs Are Built into an iPad,” *The New York Times*, 1/21/12 and 1/25/12.
   This pair of in-depth articles that garnered a great deal of attention examines the nuanced interactions that one of the world’s leading companies, Apple, has with China. Who gains and who loses from these interactions?

   This piece cites a recent survey of thousands of businesses operating in China on the IP problems they face, and discusses the recent trends in Chinese IP policy.

   This op-ed by Matt Slaughter summarizes the major findings of new report by the U.S. International Trade Commission that surveyed thousands of U.S companies about the business damage they suffer from IP infringement in China. (The actual report, “China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy,” can be found on-line). Do you agree with my TPOV?

   This front-page story explores why Applied Materials, “one of Silicon Valley’s most prominent firms,” relocated its Chief Technology Officer to China.

   Written on the eve of U.S. President Obama’s trip to India, this article discusses the opportunities and threats that Indian companies and workers present to America.

   This article examines one of the important forces driving India’s economic success post-1991: the inflow of capital, ideas, and know-how from foreign multinational companies in skill-intensive activities like law.

   This recent essay by the founder and former CEO of Intel garnered much attention, in large part because it advocated a U.S. trade war against countries like China and India:
   “The first task is to rebuild our industrial commons. We should develop a system of financial incentives: Levy an extra tax on the product of offshored labor. (If the result is a trade war, treat it like other wars -- fight to win.)” Do you agree with this TPOV?
Overview for Today: Immigration policy is an important dimension of globalization that countries grapple with. Two economic concerns are commonly voiced about freer immigration: that sending countries suffer a “brain drain” loss of key individuals’ talent and taxes; and that natives in receiving countries suffer downward wage pressure via stiffer labor-market conditions.

Consider the U.S. case. For many years, April 1 has been the day the U.S. Citizenship and Immigration Services begins accepting new H1-B visa petitions for the subsequent fiscal year, which started a few weeks ago on October 1. Established by the Immigration Act of 1990, each H1-B visa allows a company to sponsor a highly educated foreigner—typical occupations include architects, doctors, engineers, and scientists—to work in the United States for at least three years. The H1-B program, which accounts for nearly all skilled immigrants admitted to work here each year, is currently capped annually at 65,000 with a bachelor’s degree or higher plus an additional 20,000 with a master’s degree or higher.

Is this enough supply to meet market demand? More generally, what criteria should guide U.S. immigration policy towards highly skilled workers? Should it be trying to balance market supply and demand? Should it be some broader economic or non-economic goal? Do all Americans benefit from immigrants, or do some Americans feel wage pressure due to greater labor-market competition? Should the answer to this question matter for U.S. immigration policy—or that of any other country in the world? The most-recent change to U.S. high-skilled immigration policy was the Employ American Workers Act of 2009, which made hiring skilled immigrants much harder for the hundreds of U.S. companies that had received financial assistance during the Crisis. Was this Act a good or bad thing for American workers? Companies? The economy?

Testimony Topics for Today: Please share with the Committee the views of you and your company regarding the Employ American Workers Act and, more generally, overall U.S. high-skilled immigration policy. Do highly skilled immigrants contribute to your company? Are there any downside costs to such colleagues—in particular, for your U.S.-born colleagues? What principles should guide overall immigration policy? Given these principles, should the number of annual new H1-B visas—and or other key visas—be decreased, kept the same, or increased?

Readings for Today: There are eight readings for class today.

1. “Drain or Gain?” The Economist, 5/26/11.
4. Congressional Testimony by William H. Gates, Chairman of Microsoft, March 12, 2008, before the U.S. House Committee on Science and Technology. Do you agree with this TPOV in support of skilled immigration?
5. Congressional Testimony by Ronil Hira, Rochester Institute of Technology, March 31, 2011, before the U.S. House Committee on Immigration Policy and Enforcement. Do you agree with this TPOV that is critical of skilled immigration?
6. Wadhwa, Vivek, AnnaLee Saxenian, Ben Rissing, and Gary Gereffi. 2007. America’s New Immigrant Entrepreneurs. Duke University and University of California mimeograph. You surely do not need to read this entire mimeograph, but it summarizes interesting recent research linking immigrants to start-up companies.
7. 3/11/09 op-ed in The Wall Street Journal by Paul Danos, Robert Hansen, and Matt Slaughter, “It’s a Terrible Time to Reject Skilled Workers.” Do you agree with our TPOV?
8. 6/21/12 op-ed in The Wall Street Journal by Matt Slaughter, “How Skilled Immigrants Create Jobs.” Do you agree with my TPOV?
Overview for Today: Many of the concerns articulated about globalization often involve multinational corporations. These companies are commonly alleged to be “exporting jobs” out of their home countries into foreign affiliates located abroad; moreover, it is commonly alleged that a primary motive for exporting jobs is to evade home-country profits by locating employment and other activity abroad in lower-tax jurisdictions. Do multinational companies really export jobs, and really do so for tax reasons? If so, how should home-country governments tax the foreign operations of these companies?

President Obama has recently proposed reform of U.S. international-tax laws, in a proposal entitled, “The President’s Framework for Business Tax Reform.” A main piece of this reform would be to curtail deferral of taxation of foreign-source income. The reason deferral exists in U.S. tax code is that nearly all foreign countries operate territorial tax systems, not worldwide tax systems like ours. Under worldwide taxation, U.S. multinational companies are taxed not just on their U.S. earnings but also on their foreign-source earnings as well—at a current national statutory rate of 35%, highest among the 32 OECD countries in contrast to the current OECD average corporate tax rate of about 23%.

Under current U.S. law, active business income earned by a foreign affiliate of a U.S. multinational is generally subject to U.S. tax only when those earnings are repatriated to the U.S. parent (e.g., via a dividend payment). This practice of “deferring” the U.S. tax liability on unrepatriated earnings accords with that of nearly all major countries: of the 29 other OECD nations, most exempt altogether foreign-source income while the remainder allow deferral.

Testimony Topics for Today: If you could start from scratch, what sort of corporate-tax policy would you recommend for the U.S. government? Please share with the Committee whether current U.S. tax law helps or hinders the global operations of your multinational company. How important are tax considerations to your firm’s strategic planning? Can you please explain to the Committee whether and why the tax burden on companies like yours should be decreased, kept the same, or increased? And, very importantly, can you please tell the Committee if your company exports jobs out of the U.S.?

Readings for Today: There are seven short readings for class today.

3. “How Apple Sidesteps Billions in Taxes,” The New York Times, 4/28/12. This article analyzes how Apple has recently minimized its overall tax liability. Do you agree with its activities?
4. “G.E.’s Strategies Let It Avoid Taxes Altogether,” The New York Times, 3/24/11. This article, which tries to analyze why G.E. has paid very little U.S. federal taxes in recent years, generated a large amount of controversy. Do you agree with its analysis?
Class Eight: Thursday, October 4
How Much Should the Wealthy Pay to Help Avoid Fiscal Crisis?

Overview for Today: For many countries, the current and longer-term fiscal outlook is sobering. Very large deficits are currently being run—and are forecast to be continued for many years into the future. In the immediate term, the fiscal situation is extremely dire. Barring ongoing help from other countries, central banks, or international lenders, countries including Greece, Ireland, and Portugal are illiquid and/or insolvent. Similar problems are close approaching for Spain and, perhaps, additional countries including Italy, Japan, the United Kingdom, and the United States. Thus, the World Financial Crisis that started in residential real estate has in many places devolved into a sovereign debt crisis. It is unclear what countries will summon the political will to close their deficits without crisis; thus, for example, the historic decision last year of S&P to downgrade U.S. long-term Treasury debt from AAA.

Many analysts—citizens, business leaders, elected and appointed government officials—say that these large fiscal deficits require tax increases in addition to spending cuts. But such arguments raise the important distributive-justice question of who should pay how much in taxes? In many countries, voices are arguing that high-income, high-wealth individuals should pay higher taxes. Recent budgets in France and Italy levied a 3% tax surcharge on high earners, and newly elected President Hollande is pushing to raise the top marginal income tax rate in France to 75%. In the United States, disagreement rages about similar tax increases for the well-off—often defined as those earning at least $250,000 per year.

Testimony Topics for Today: In your role as CEO of a global organization, can you please tell the Committee how the current and looming fiscal deficits affect your business? Do you think that a sound way to start closing these fiscal gaps is for high-income, high-net worth executives such as yourself to pay higher taxes? If so, please be very specific on what tax increases you advocate—starting at what earnings level, and how large of increases. If not, please explain why not and what alternative you favor.

Readings for Today: There are nine short readings for class today.

1. “Hunting the Rich” and “Diving Into the Rich Pool,” The Economist, 9/24/11. This cover story and related analysis story examine the economics and politics underlying the drive in so many countries today to have governments raise taxes on high-income people.
4. “Tracking Your Federal Tax Dollars.” The Wall Street Journal, 11/6/10. This short article by Laura Saunders draws on current non-partisan analysis to summarize America’s current spending choices in a very personal way by showing where federal taxes go for two hypothetical families: a working couple with income of $200,000 and a retired couple with income of $100,000.
5. “OK, You Fix the Budget.” The New York Times, 11/14/10. This article by David Leonhardt explains many of the basic trade-offs facing the United States (and other countries) for closing its fiscal deficit. The article was accompanied by a very interesting on-line tutorial at which you can select various tax and spending options and see the cumulative deficit impact of your choices. See http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html.
8. “Buffet’s Moral Foundation Shapes Tax Idea,” Bloomberg, 9/29/11. This essay by Roger Lowenstein offers a different analysis of Buffet’s tax ideas than that of the WSJ.
Overview for Today: Political pressure for a more protectionist tilt to economic policy has risen significantly in recent years in many countries—even before the World Financial Crisis. In many countries, this policy drift reflects a sharp drop in voters’ support for more open borders. The outcome is rising barriers to trade, investment, and immigration in many countries. Thus did the Financial Times run a set of front-page stories in July 2007 entitled, “Protectionist Backlash Sweeping Rich Nations.” At the November 2008 summit of the G20 nations, all 20 assembled leaders pledged to not implement any new protectionist policies. However, by March 2009 analysts at the World Bank reported that 17 of the G20 (including the United States) had broken this pledge—a trend that subsequent analysis has found continuing and broadening. For example, a recent report from the International Chamber of Commerce reveals “alarming” levels of G20 trade protectionism. Based on both measures implemented recently and pending measures, it calculates that the five most-protectionist countries are Russia, the United States, India, Argentina, and Brazil.

Why is this protectionist drift? The Scheve/Slaughter essay offers an explanation for this protectionist drift in the United States: policy is becoming more protectionist because voter attitudes are becoming more protectionist, and this shift in attitudes is a result of stagnant or falling incomes. The essay also offers a proposal for how to arrest the protectionist drift: a New Deal for globalization that would link more globalization with more fiscal progressivity.

Topics for Today: The Committee is interested to hear whether you care about recent earnings trends in the United States and many other countries, with poor real and relative earnings growth for most workers? Please feel free to answer from the perspectives of you as a citizen, as a taxpayer, and as a successful business leader. Do you agree with the idea that addressing falling earnings via tax redistribution will work? More generally, what responsibility, if any, do those stakeholders who benefit from economic forces like globalization—in particular, multinational firms and high-skill, high-income individuals—bear for helping share those gains more broadly?

Readings for Today: There are seven readings for class today.

2. “Spectre of Stagnating Incomes Stalks Globe.” The Financial Times, 6/27/11. This article by Chris Giles—and a related set of articles the FT ran in subsequent days, which you can review if you like—documents stagnant and/or falling earnings for large shares of workers in countries such as Germany, Japan, the U.K., and the U.S.
3. “The Backlash against the Rich Has Gone Global,” by Gideon Rachman, The Financial Times, 8/6/12. This essay offers a TPOV that “an international backlash against the wealthy … is reshaping politics from Europe to the U.S. to China.” Do you agree?
5. “A New Deal for Globalization,” by Kenneth F. Scheve and Matt Slaughter, Foreign Affairs, July/August 2007. In this essay, we argue that further trade and investment liberalization need to be linked to fiscal progressivity. Do you agree with this TPOV?
6. 10/7/09 op-ed in The Financial Times by Matt Slaughter, “Time to Tackle America’s Widening Inequality.” Do you agree with this TPOV?