

May you Live in Interesting Times:

HBS, the Outlook for MBA and Executive Ed., and
Causes, Government Interventions, and
Consequences of the Great Recession

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Overview

- HBS Today
- Perspectives on the “Great Recession” of 2008/2009
- Global Imbalances and the long-term puzzle of the U.S. Current Account Deficit
- Discussion

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HBS Today

A Presentation to HBS Clubs



HBS Today

HBS at a Glance: FY 08

What's New in the MBA Program

Impact of the Global Crisis at HBS

- Curriculum & Research
- Educational Programs
- HBS Business Model
- What We've Done



HBS at a Glance: FY 08

- MBA Program
 - 1,796 students enrolled from 70+ countries
- Executive Education Programs
 - 9,345 participants in 3 comprehensive programs and 60+ open enrollment programs
- Harvard Business Publishing
 - Source of business thought leadership, disseminated through *HBR*, books, cases, interactive products
- Alumni
 - 70,000 graduates in 152 countries
 - 75 geographic alumni clubs and 10 affinity associations
 - healthcare, entrepreneurship, African American, etc.



New in the MBA Program

- Joint degree programs with Kennedy, Law, and Medical schools
- Immersion Experience Program (IXP) complements curriculum with field-based learning
 - 2009: China, Europe, India, Israel, Mexico, New Orleans, Silicon Valley, healthcare in Boston
- Admissions outreach
 - Science-based business fellowships used to recruit students in science and engineering
 - 2+2 Program to recruit potential students earlier in their careers, from diverse backgrounds
- New Social Entrepreneurship Fellowship for recent graduates launching social enterprises



Curriculum & Research

- New research and cases on the crisis
 - JP Morgan Chase and Bear Stearns case
 - Public Risk Management case
 - Subprime Crisis case
- Website featuring faculty research and commentaries
 - <http://www.hbs.edu/economic-crisis/>



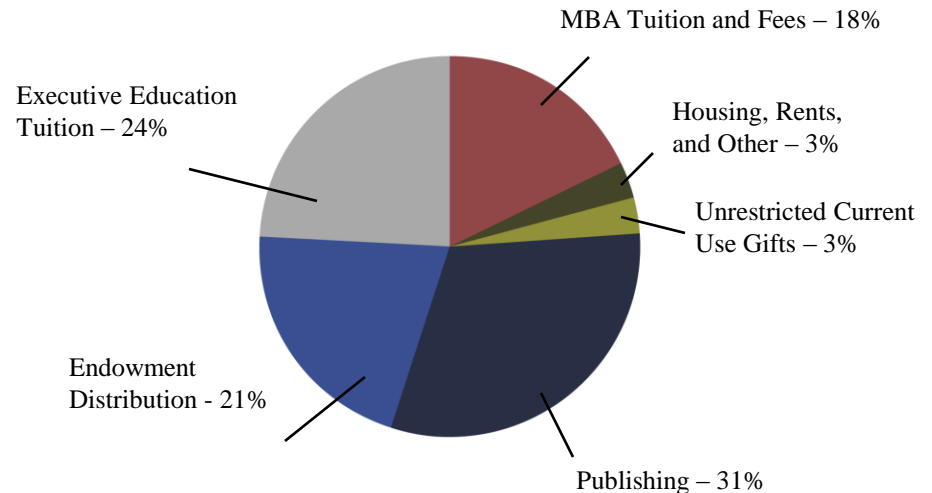
Educational Programs

- MBA Admissions: applications are up – consistent with past economic downturns
- MBA Career Services/Recruiting
 - Job postings are down ~30%
 - Job offers are down. 10-15% of 2008 grads still on job market (compared to 3-4% in recent years)
 - Particular challenges for international students wanting to work in the U.S. - limitations on TARP recipients to sponsor visas
 - Alumni who have positions, please contact MBA Career Services
- Executive Education offering new programs
 - Global Economic Crisis: Diagnosis, Analysis, and Action (March 2009)
 - Turnaround Management Strategies (June 2009)

HBS Business Model

- Harvard endowment down by ~30%
- HBS has diversified revenue sources compared with other Harvard schools
- Still, 20% of HBS budget comes from the endowment
- Other sources of revenue – publishing, executive education – are market sensitive

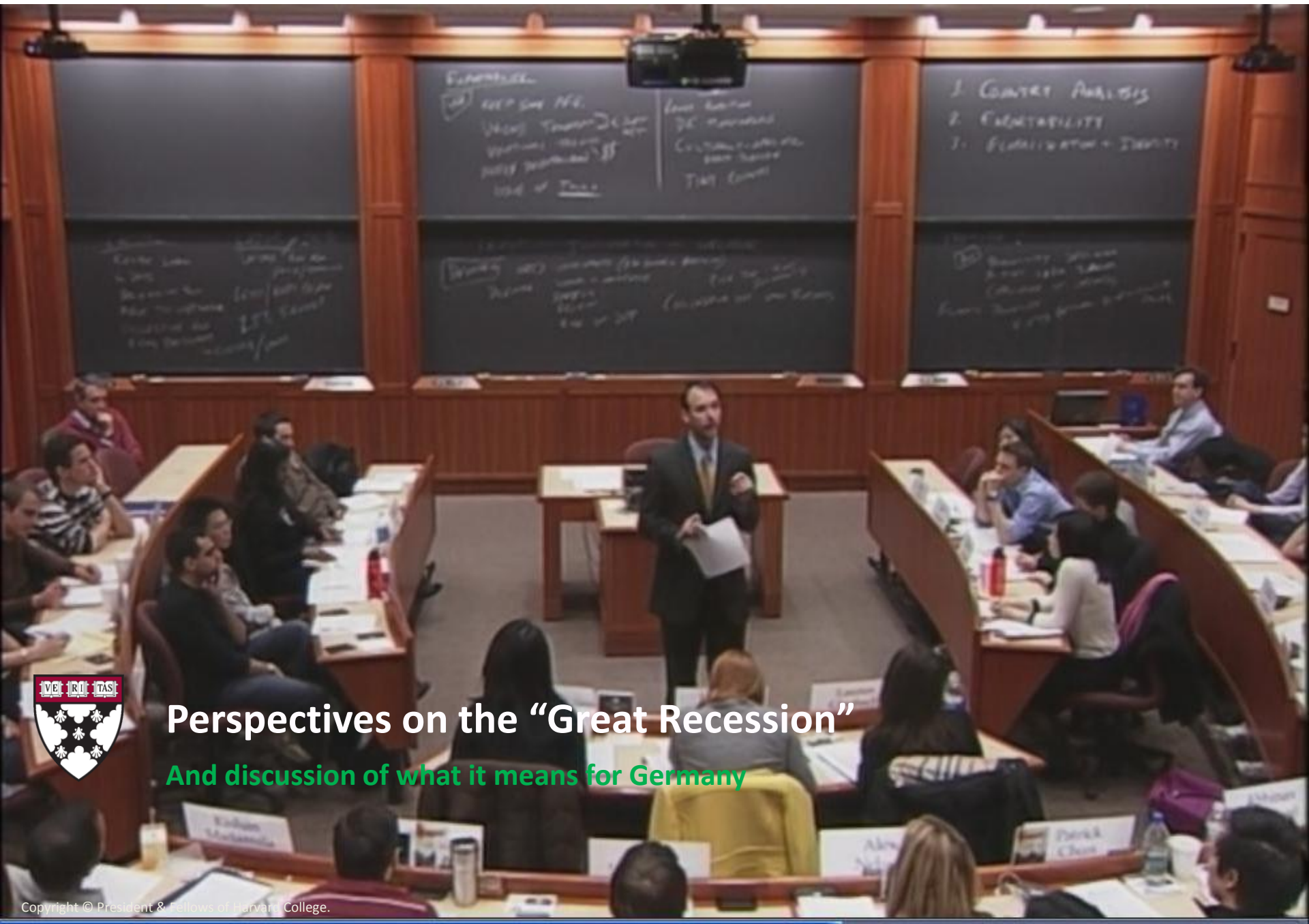
HBS Revenue: FY 08





What We've Done

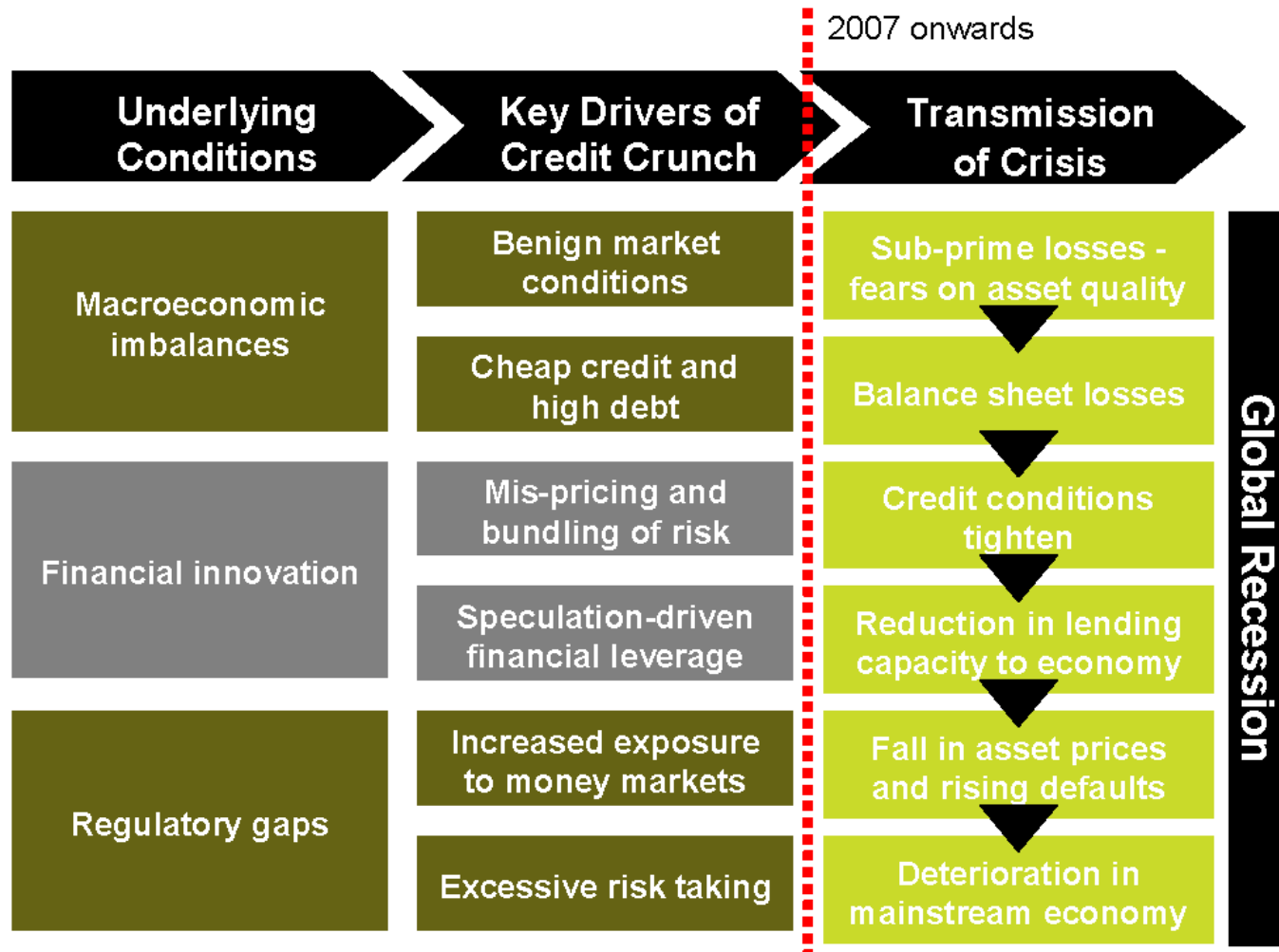
- Budget reductions of 10%
- Salary freeze
- University-wide voluntary early retirement incentive for staff
- New faculty hires have slowed but not stopped
- Further cuts are being planned – donations to universities are a 'lagging economic indicator'



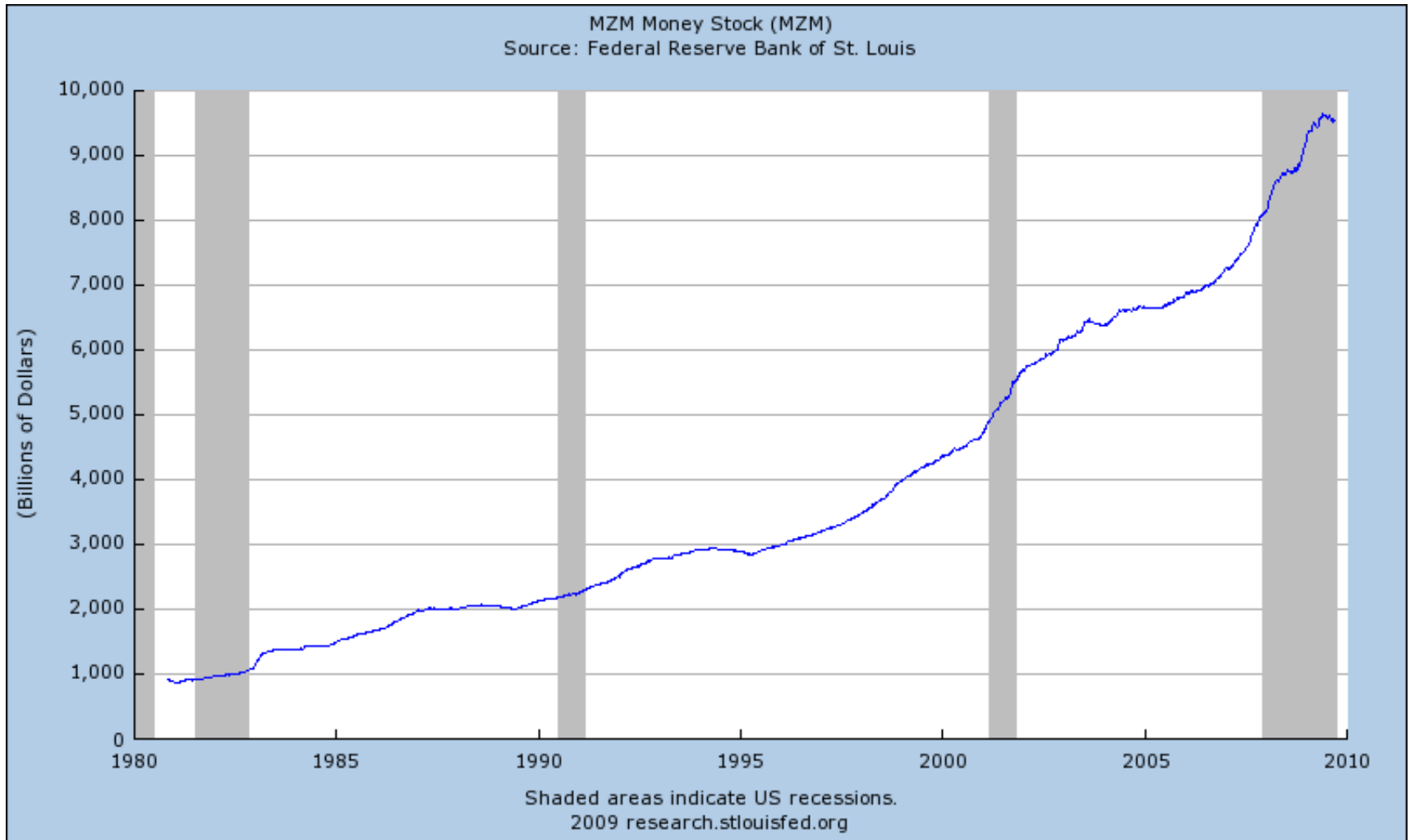
Perspectives on the “Great Recession”

And discussion of what it means for Germany

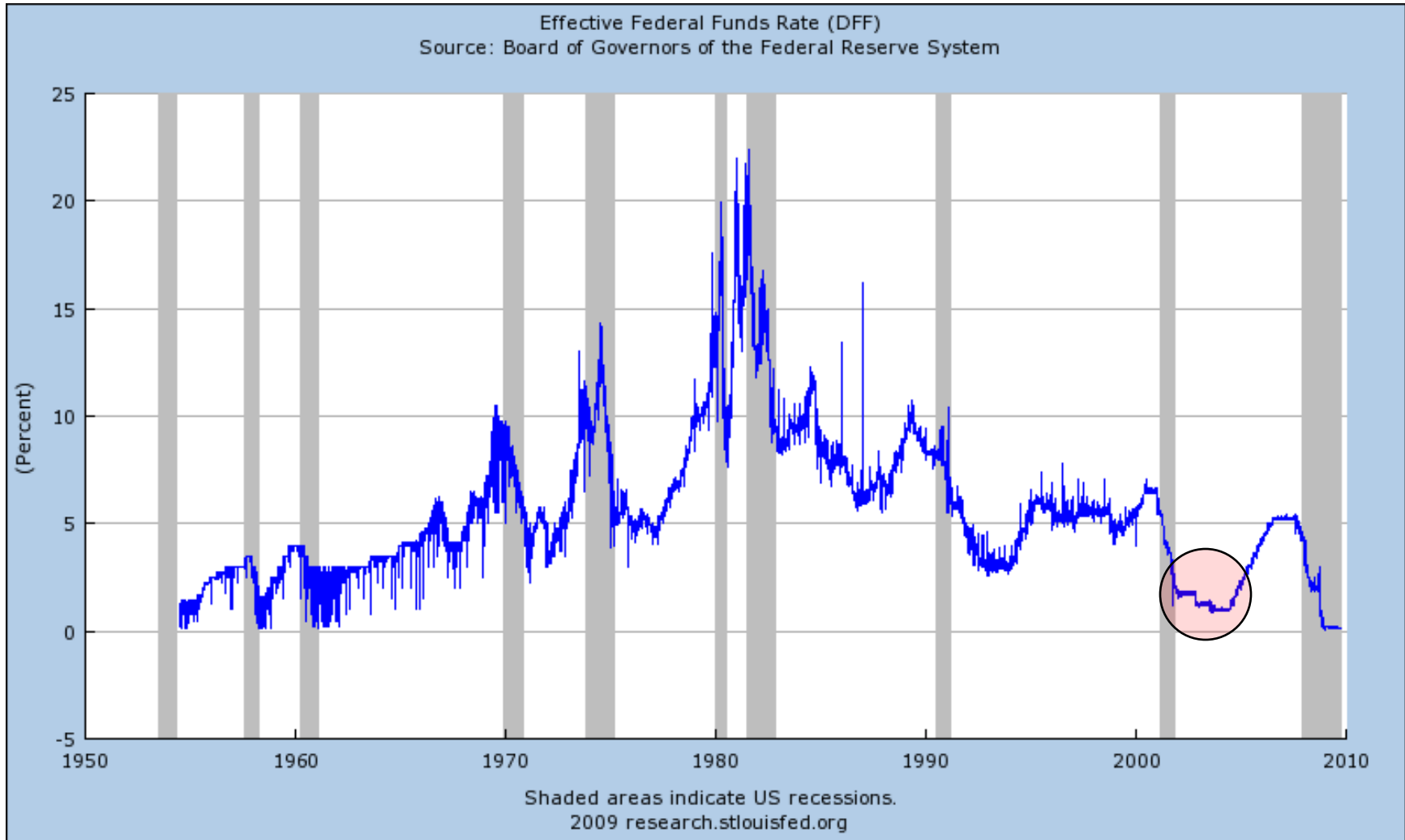
We are (hopefully) nearing the end of a very big U.S. recession.



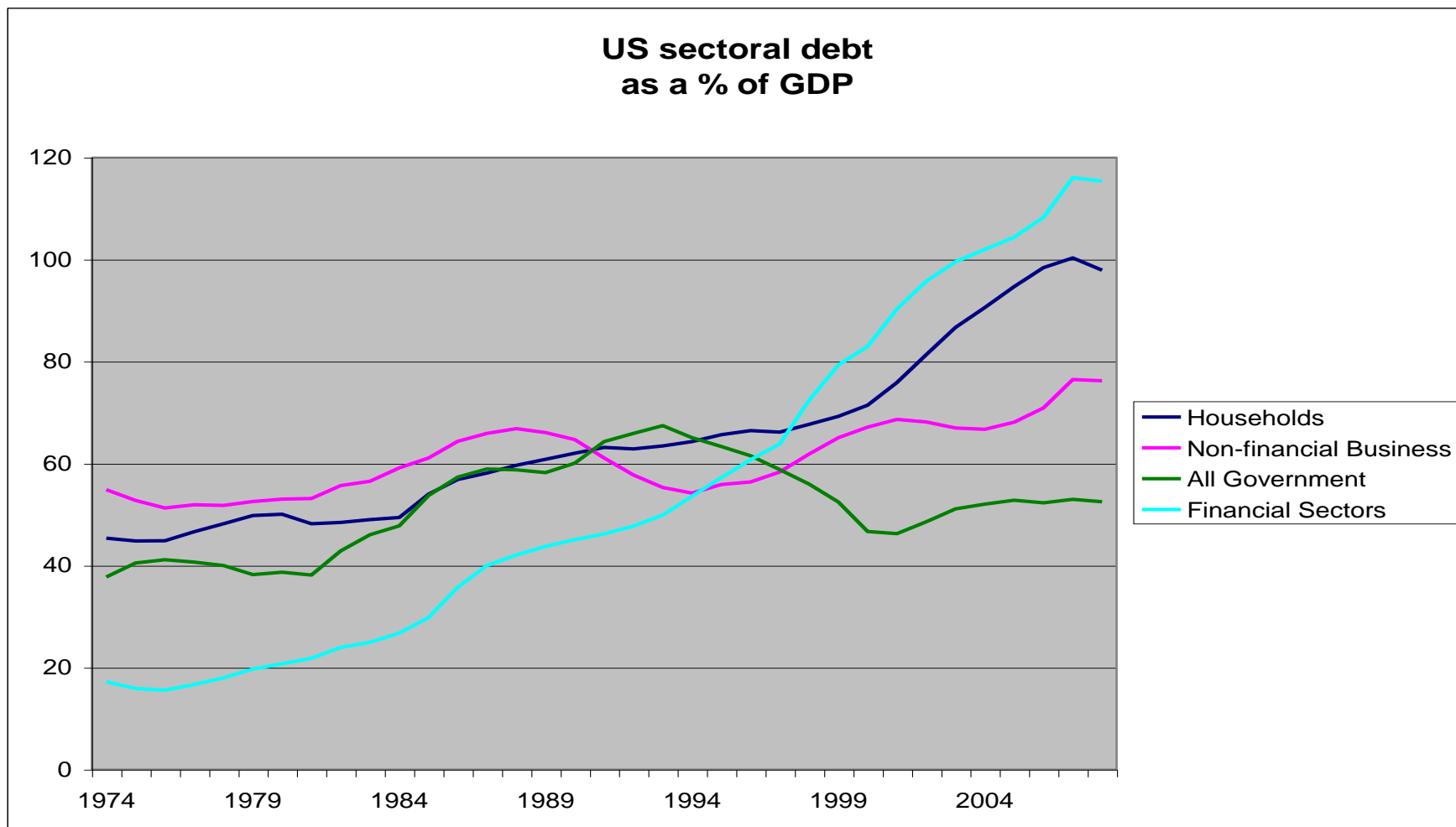
It arose because expansionary monetary policy...



...fueled by low interest rates...



... and excessive leverage ...

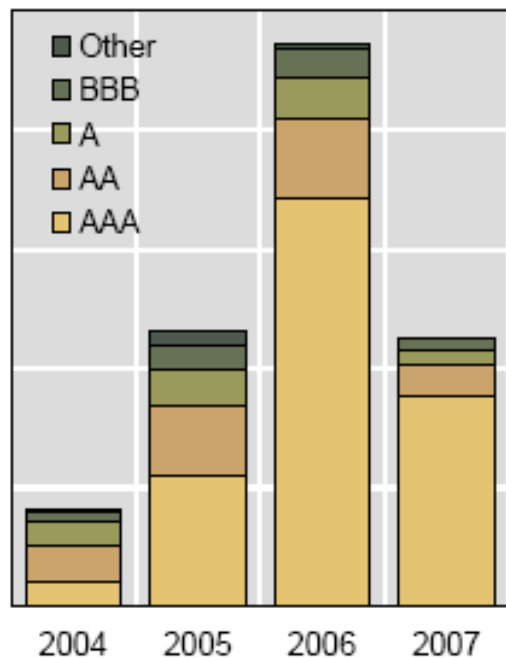


... and financial engineering ...

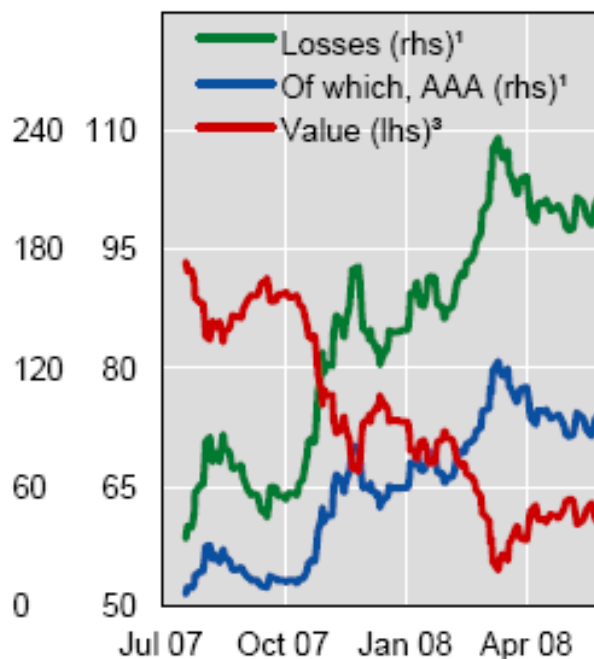
In January 2008, there were 12 AAA-rated companies in the world. At the same time, there were 64,000 structured finance instruments rated AAA, including collateralised debt obligations.

Losses from Mortgage-backed Securities

Outstanding subprime MBS securities¹

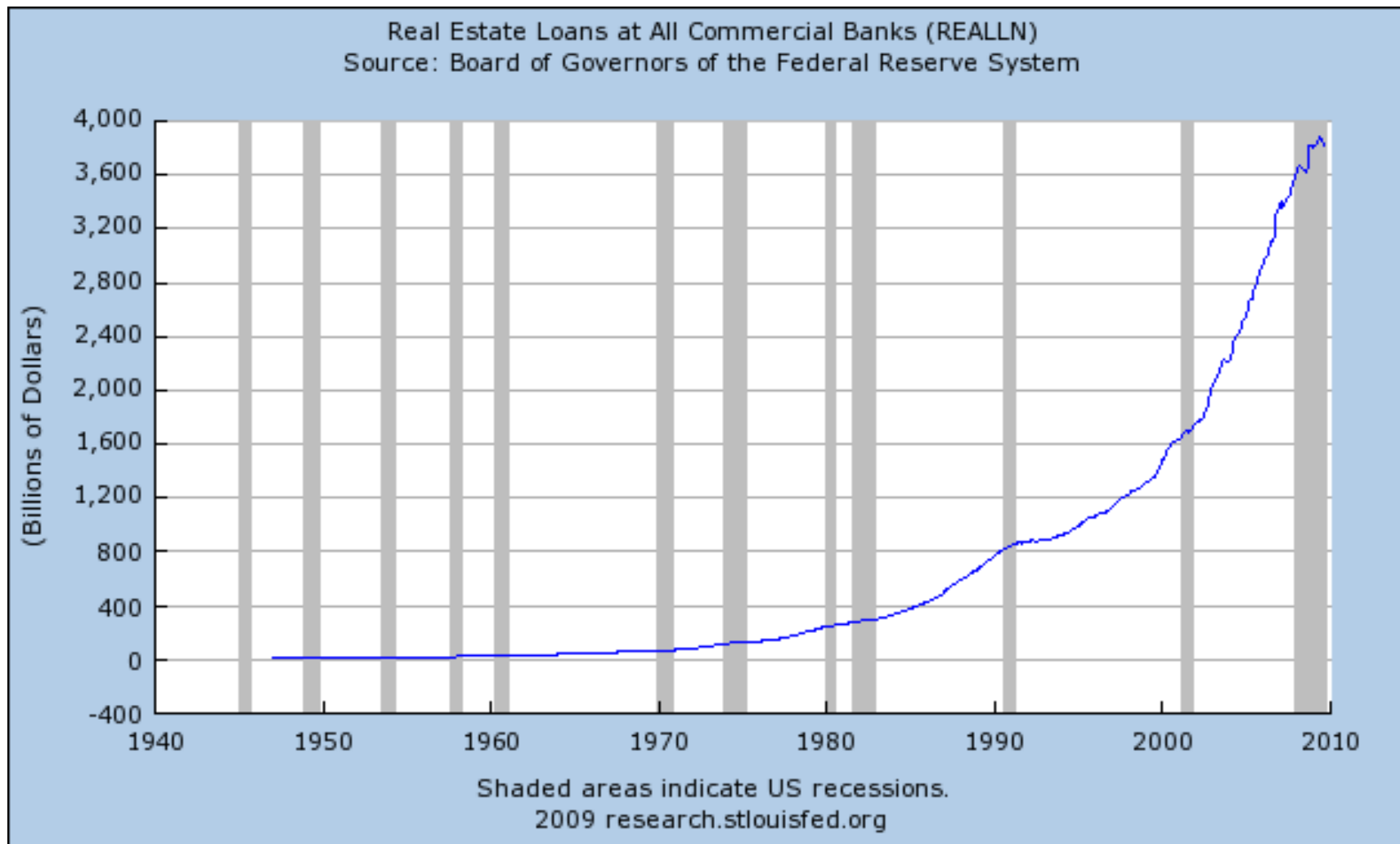


Subprime MBS: ABX-implic value and losses²

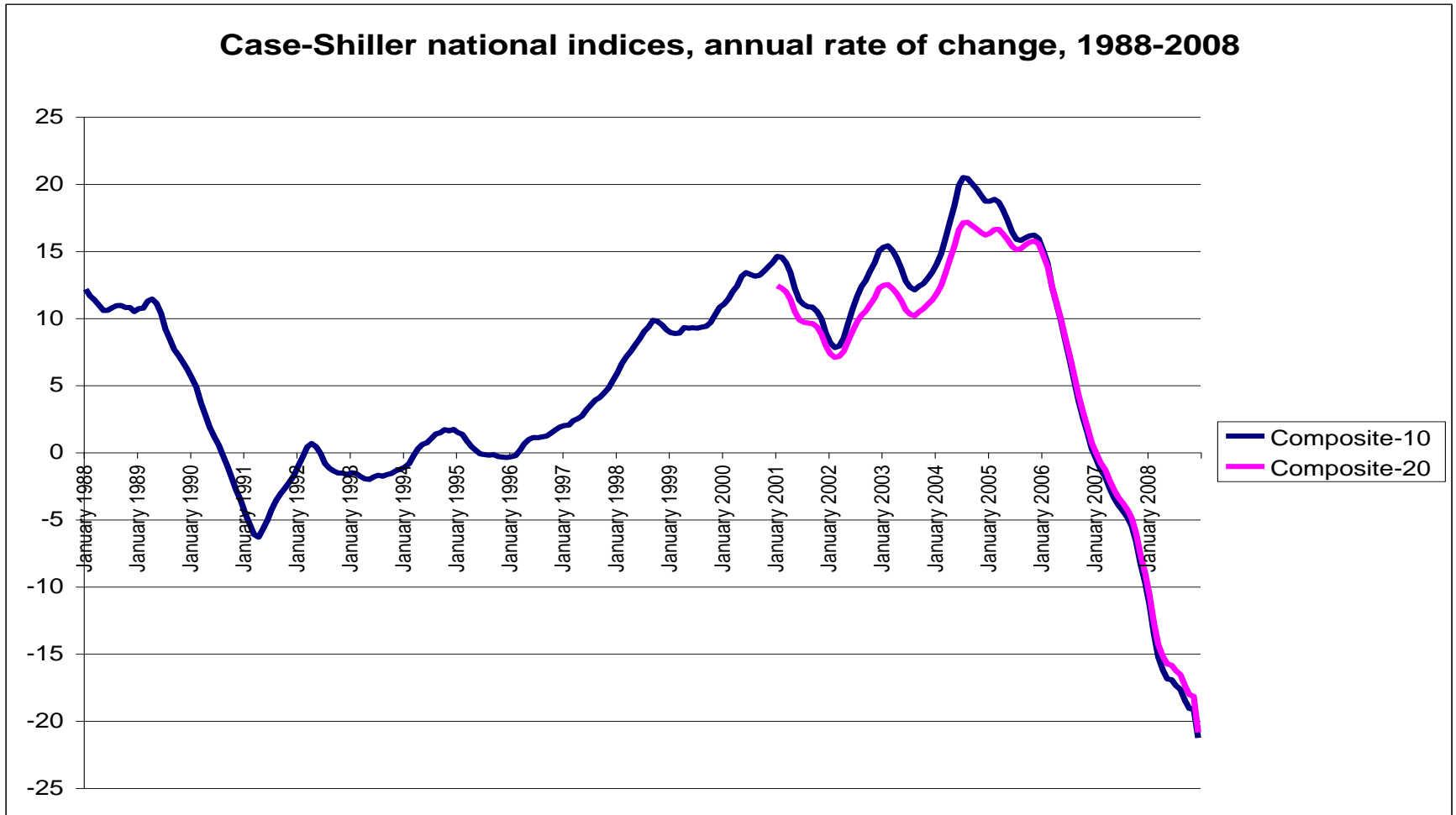


In billions of US Dollars.

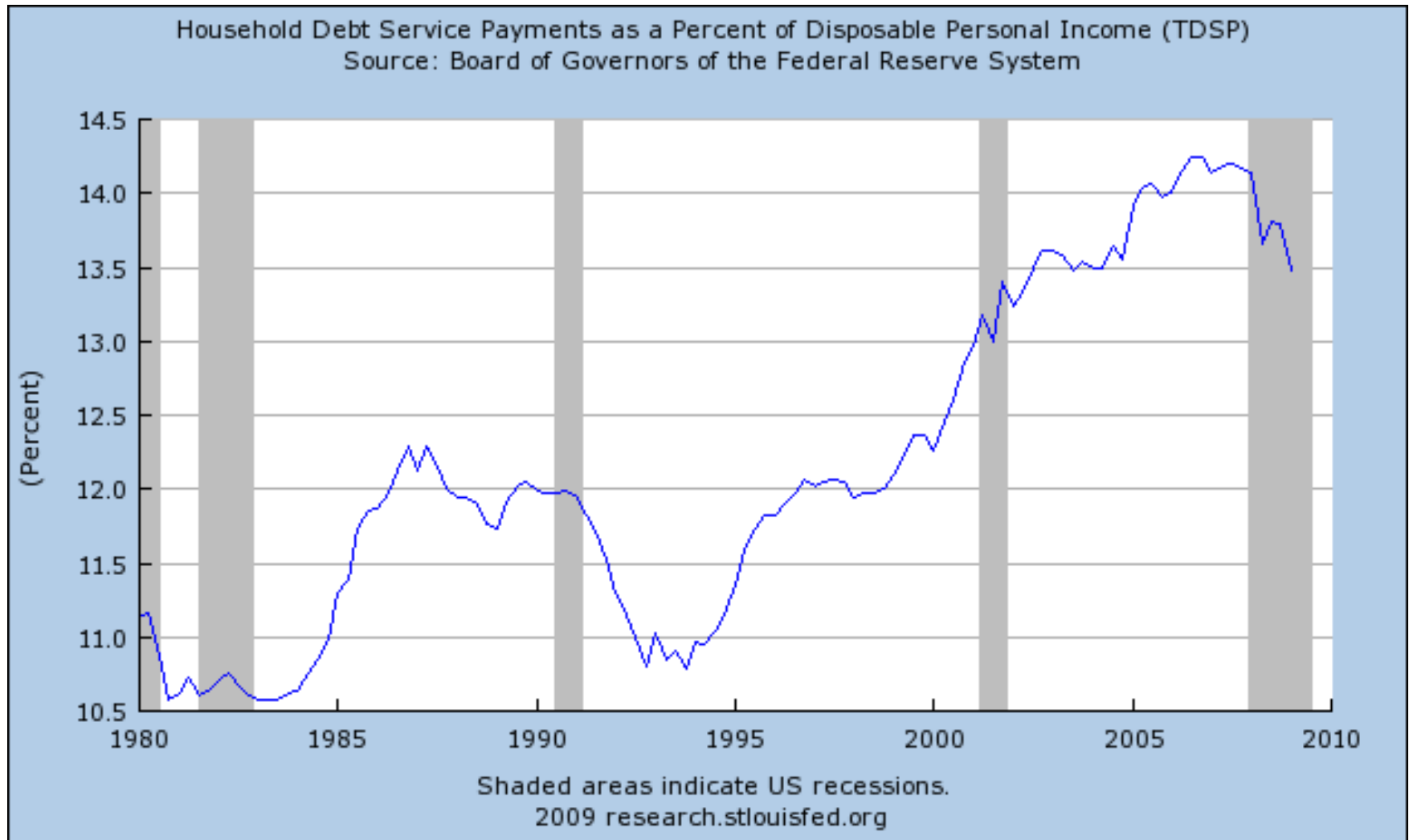
...and excessive lending ...



... led to a property bubble that burst ...



...leaving consumers indebted...



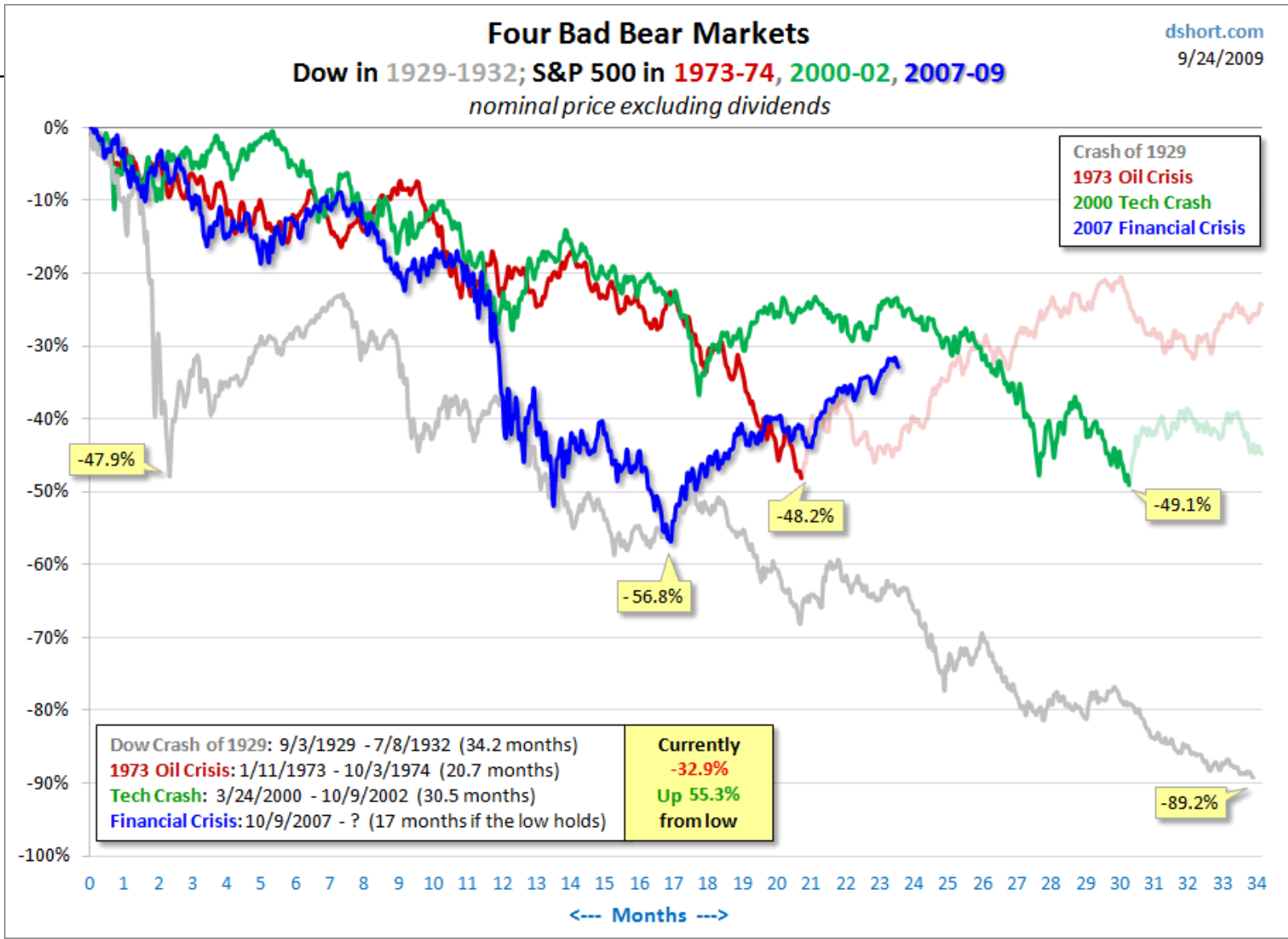
... and hurting investment bank balance sheets.

Bank	Loss (Billion USD)
Citigroup	\$39.10
UBS AG	\$37.70
Merrill Lynch	\$29.10
HSBC	\$20.40
Royal Bank of Scotland	\$15.20
Morgan Stanley	\$11.50
Wachovia	\$11.10
American International Group	\$11.10
Credit Suisse	\$9.00
Bank of America	\$7.95
Deutsche Bank	\$7.70
HBOS	\$7.06
BayernLB	\$6.70
Mizuho Financial Group	\$5.50
JP Morgan Chase	\$5.50

Top 15 banks writing down assets from collateralized debt obligations (CDO) and mortgage-backed securities (MBS), 2007-2008.

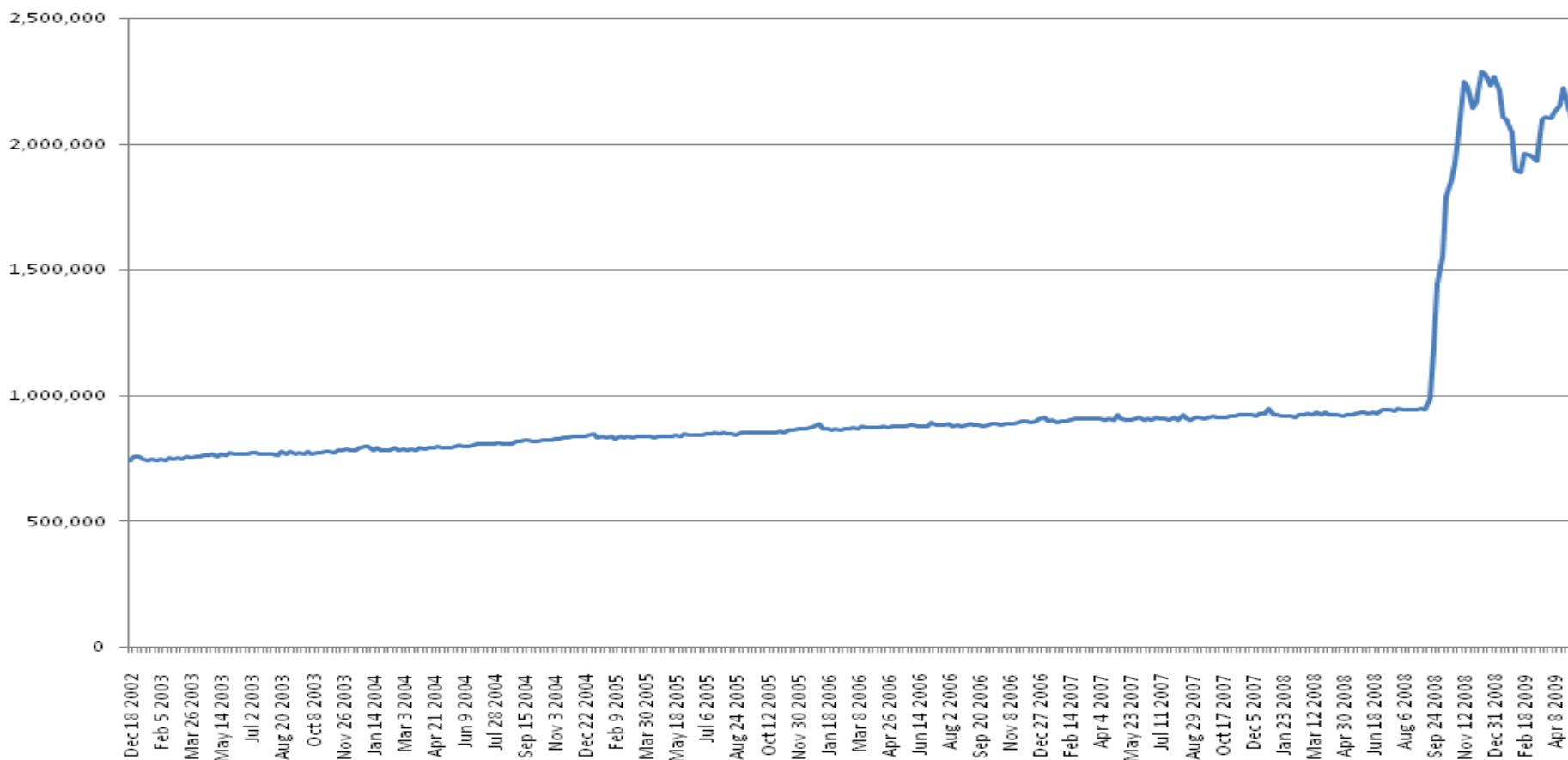
Total for top 50 banks = \$295 billion.

In good news, it's not a Great Depression.



We're avoiding the 1930s with monetary expansion ...

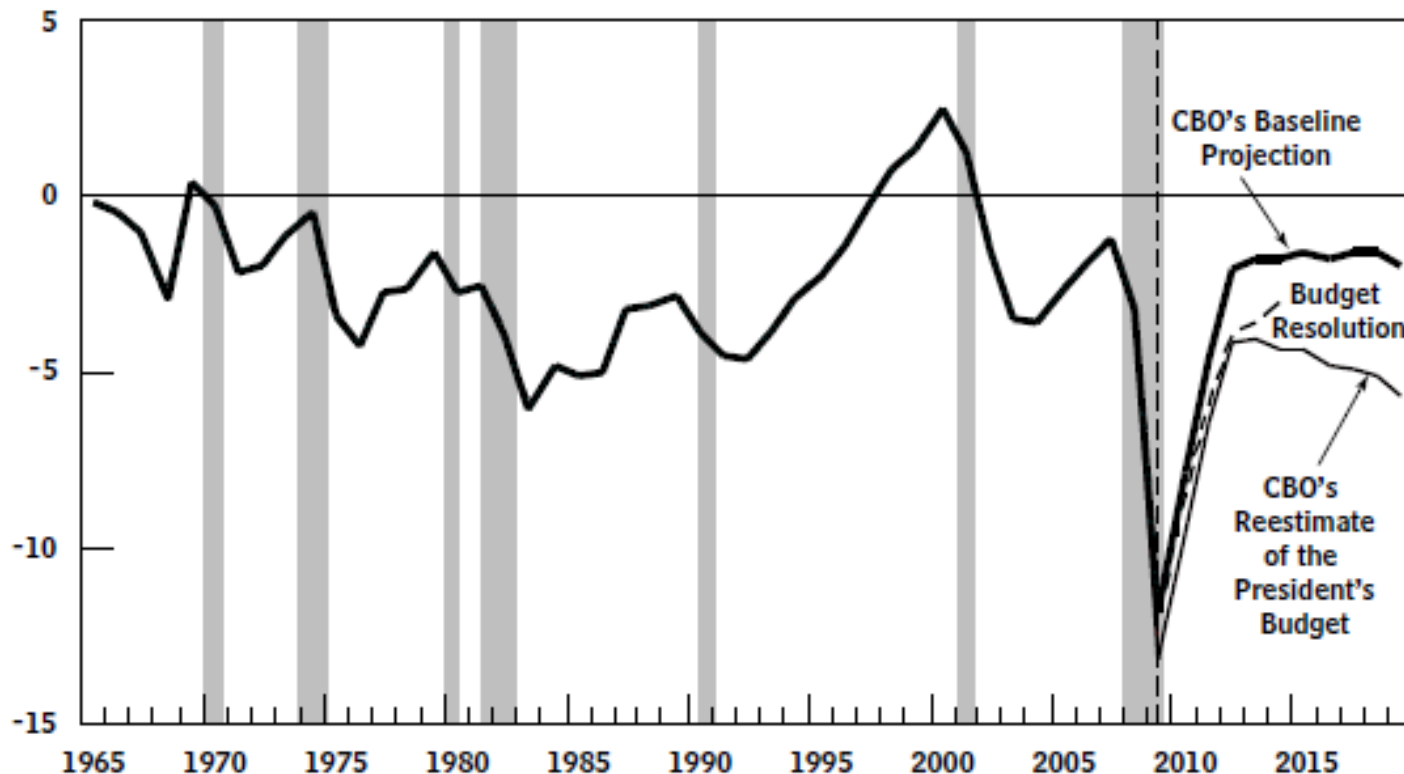
Total factors supplying reserve funds (Fed balance sheet), 2002-9 (\$m)



... and a huge fiscal stimulus.

Total Deficit or Surplus, 1965 to 2019

(Percentage of GDP)

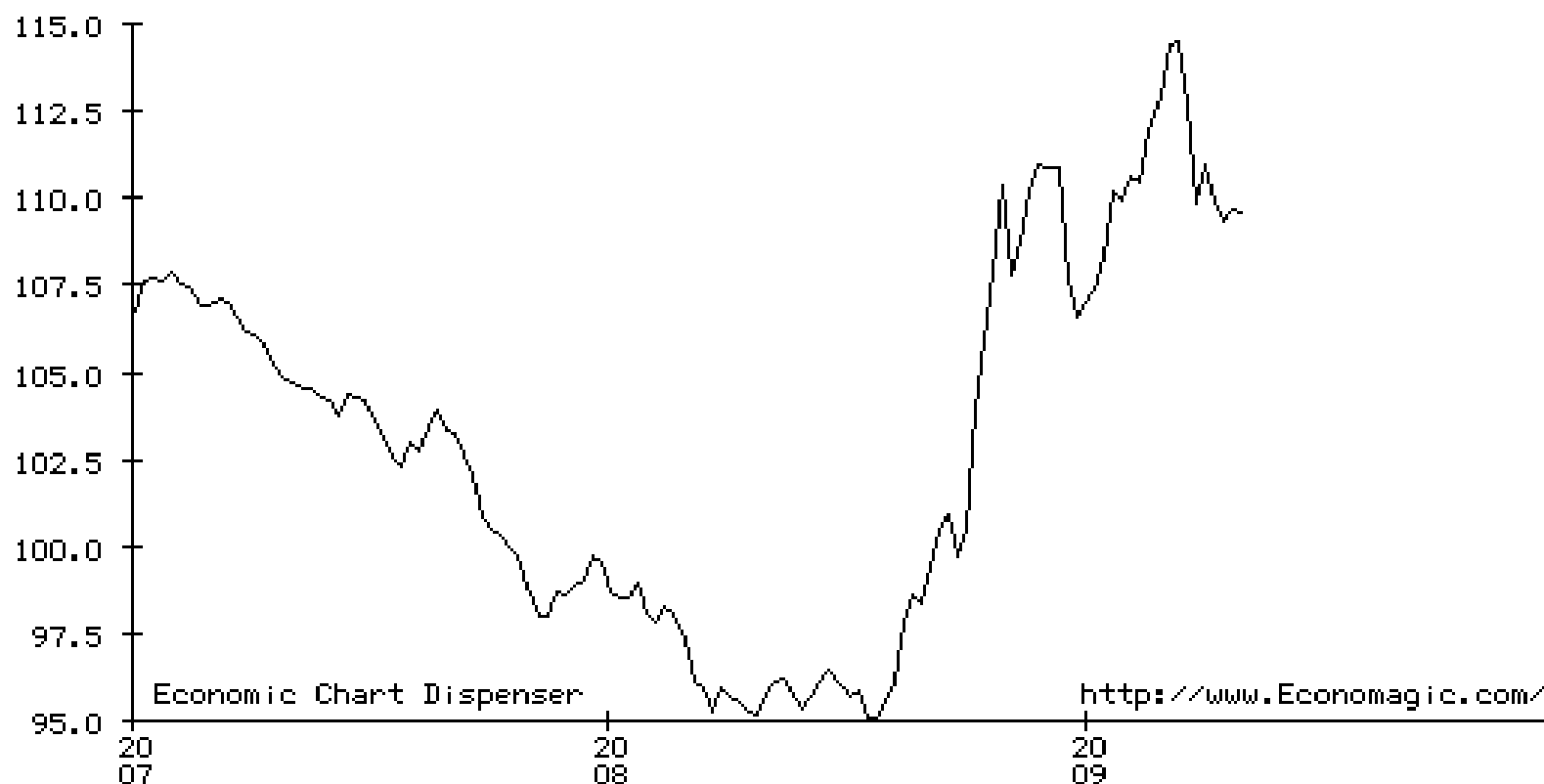


Source: Congressional Budget Office.

U.S. Budget
2009: \$1.84 Tn
of new borrowing
(deficit = 12.9%
of GDP)
FY2010: \$1.26
Tn of new
borrowing (8.5%
of GDP) [1942 =
14% of GDP]

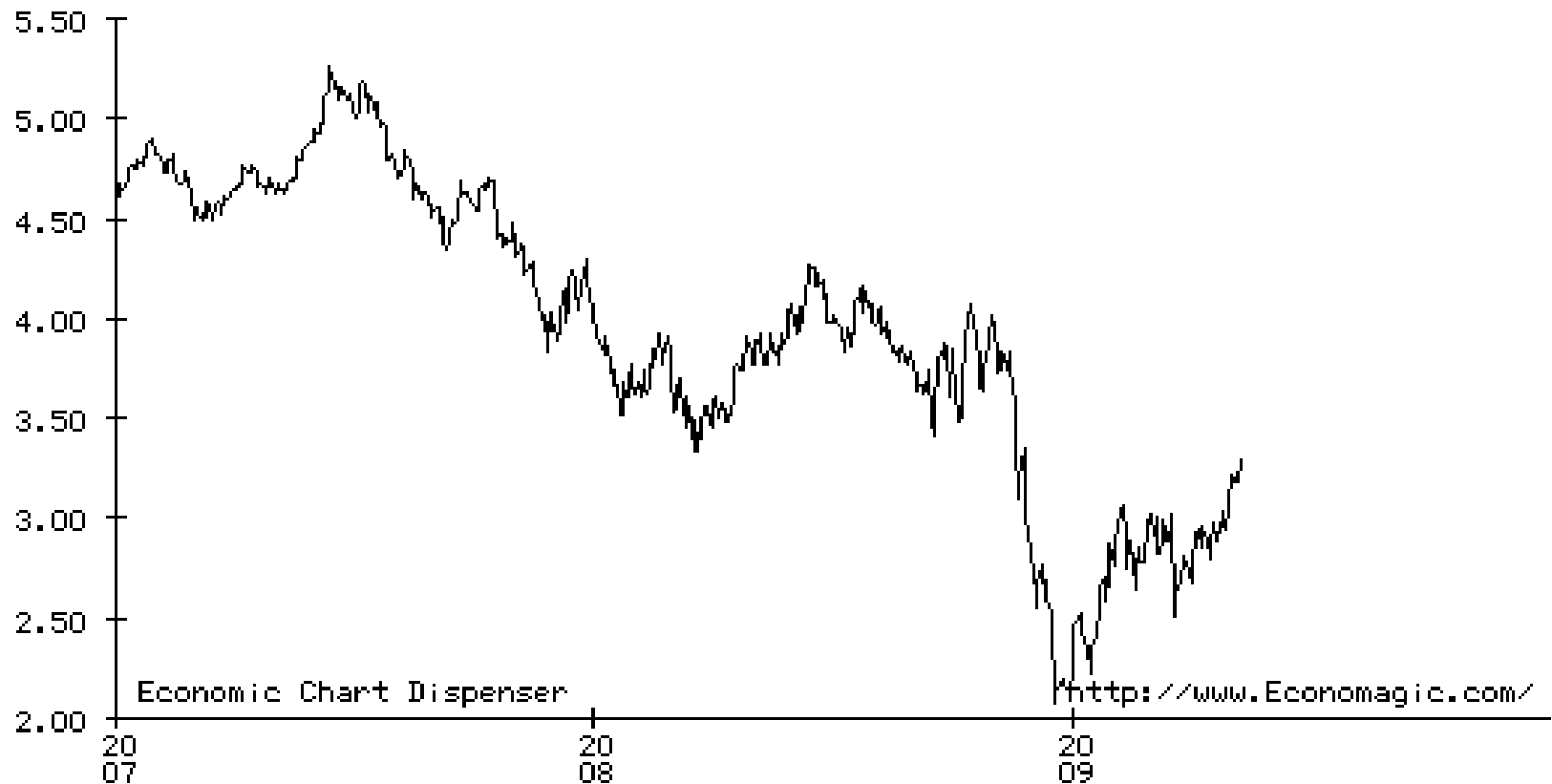
So why has the dollar rallied?

Trade Weighted Exchange Index Broad: Index January 1997=100



Along with U.S. Treasuries?

10-year Treasury Constant Maturity (daily)

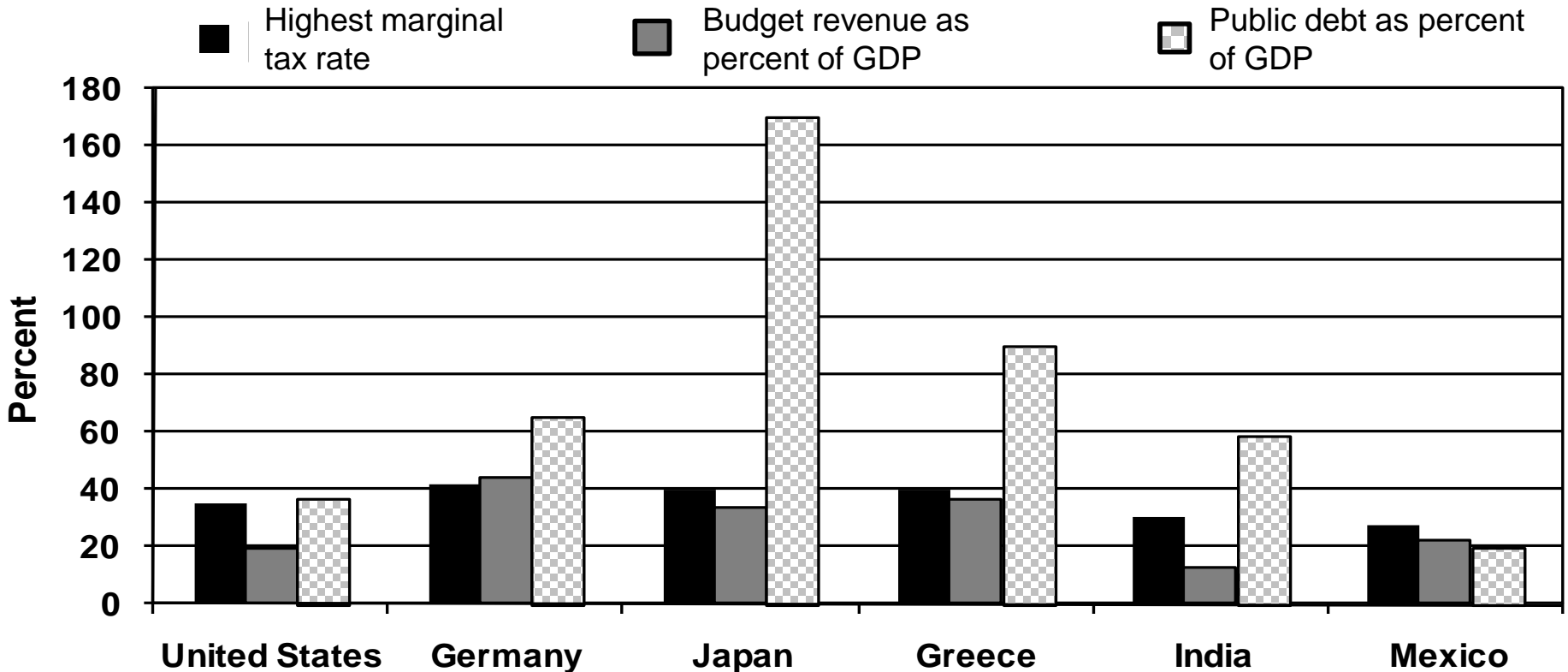


Because this is a global crisis ...

Country	GDP (2009)	Industrial Production	Unemployment
Japan	-6.4%	-34.2%	4.8%
South Korea	-6.0%	-10.6%	3.7%
Singapore	-8.8%	-0.5%	3.2%
Hungary	-6.0%	-19.6%	9.9%
South Africa	-1.8%	+8.5%	23.5%

Source: *The Economist*, 30 May 2009

...that is wreaking havoc on public finances around the world.



Sources: World Bank, World Development Indicators; Economist Intelligence Unit, EIU Data Services.

But some are hit more than others.

Projected 2009 real GDP change

Country	2009 GDP _R
U.S.	-2.8%
UK	-4.1%
Germany	-5.6%
Japan	-6.2%
Taiwan	-7.5%
Russia	-6.0%

Region	2009 GDP _R
Eurozone	-4.2%
Central / Eastern Europe	-3.7%
Africa	+2.0%
Middle East	+2.5%
South Asia	+4.3%
China	+6.5%

Source: IMF, *World Economic Outlook*, April 2009

GDP and Savings – Investment Balance

1. $GDP = C + I + G + (X-M)$ [consumption]

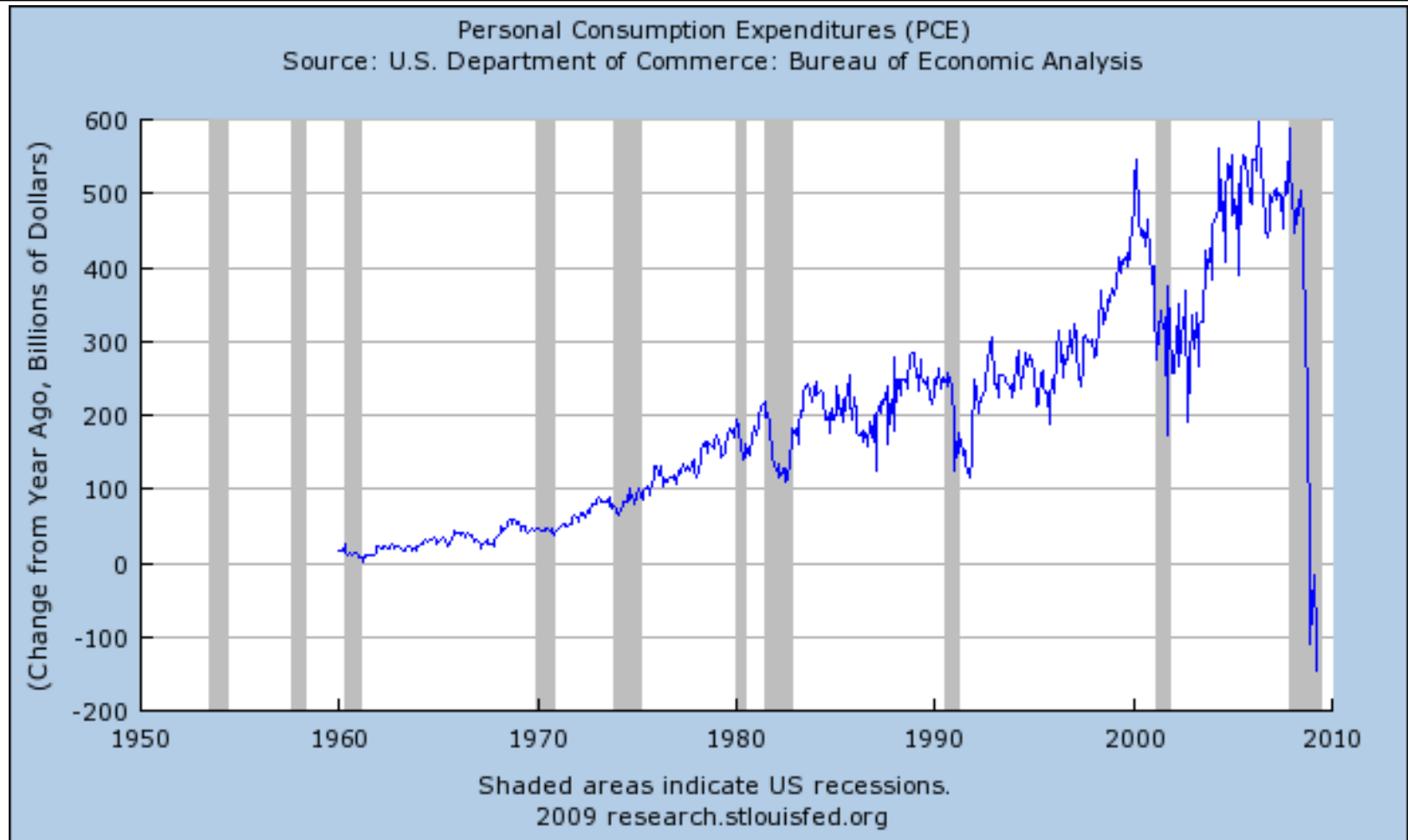
2. $GDP = C + S + T - Tr$ [income]

$$(C + I + G + X - M) = GDP = (C + S + T - Tr)$$

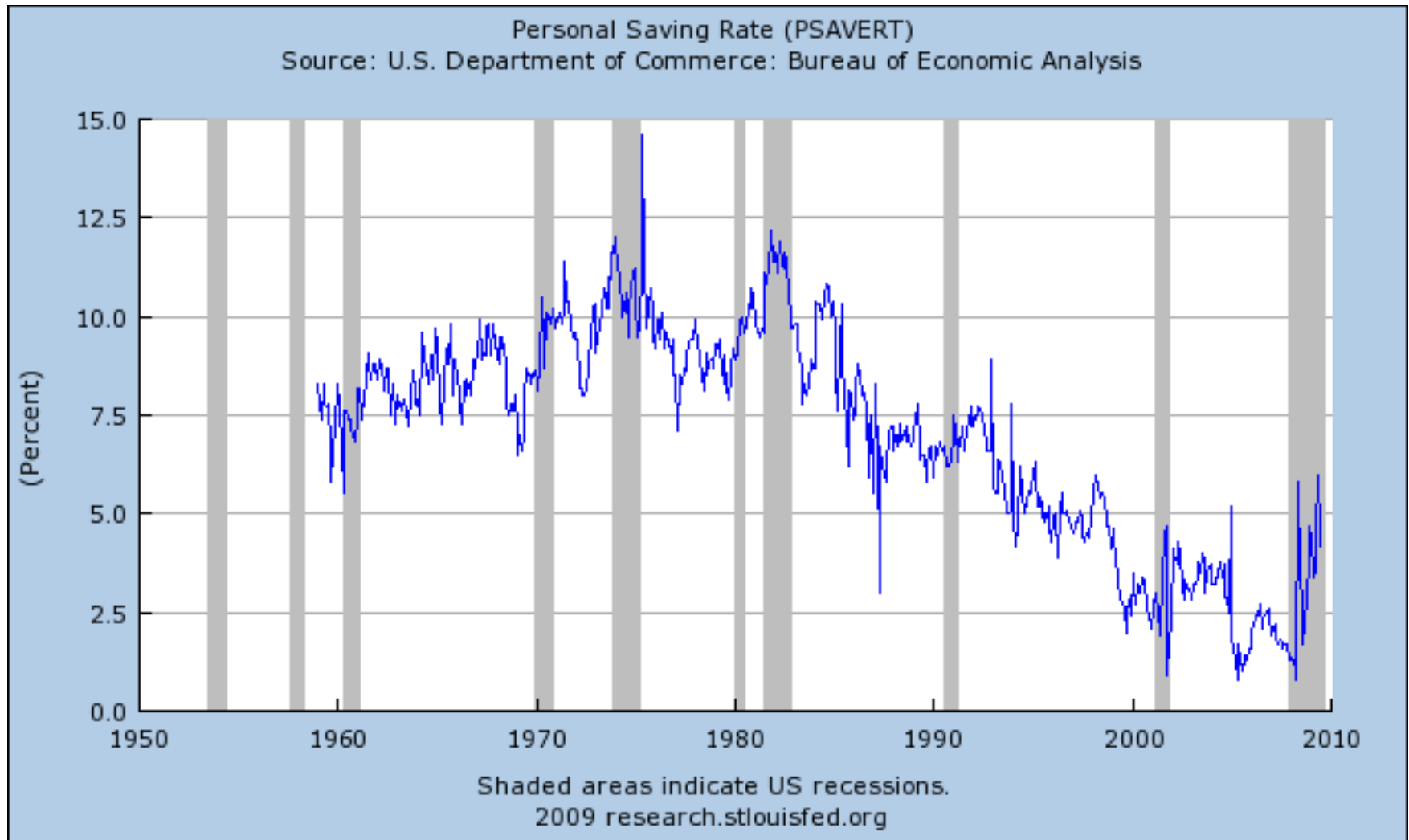
$$I = S + (T - G - Tr) + (M - X)$$

$$I = S_{\text{private}} + S_{\text{public}} + S_{\text{foreign}}$$

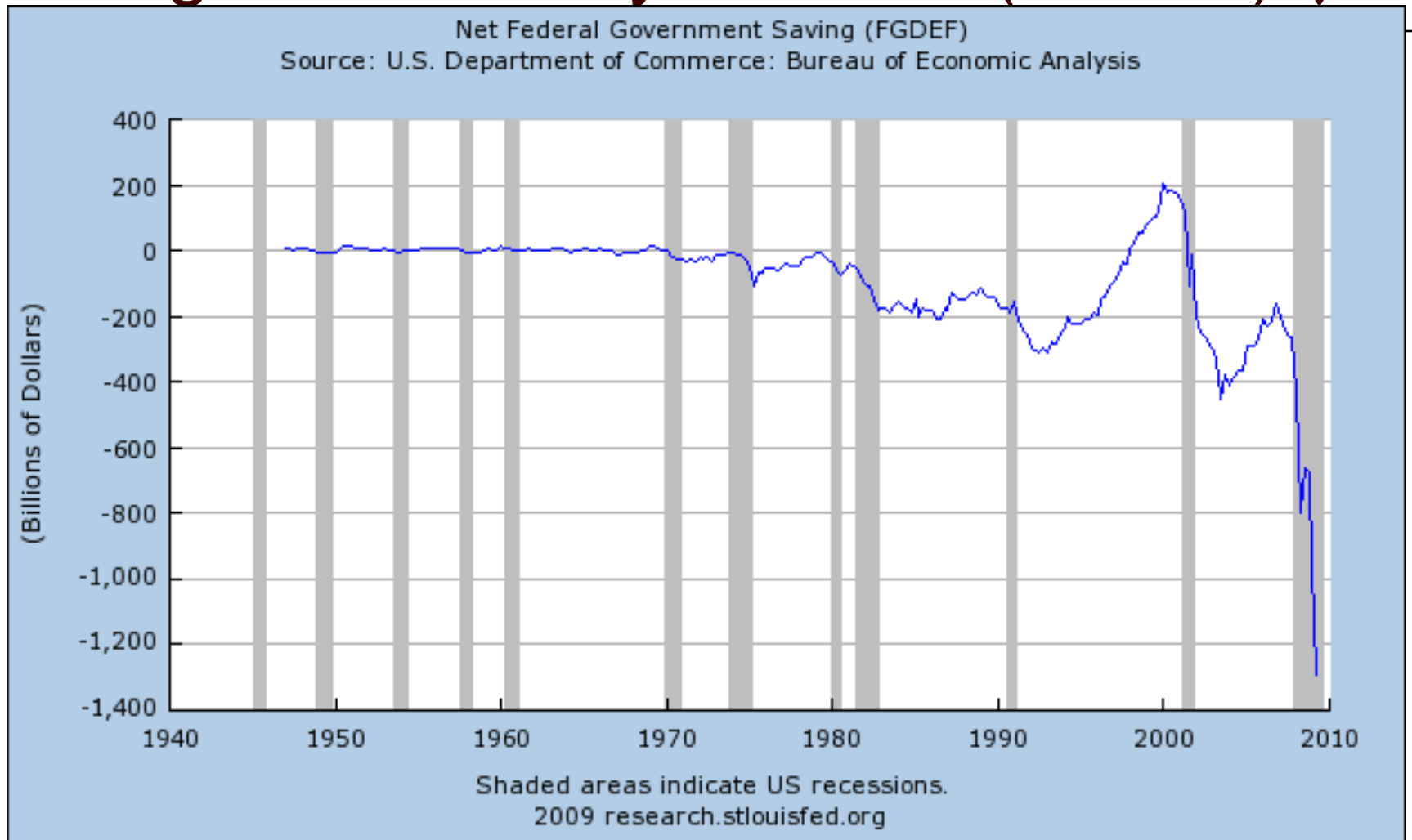
How Americans are reacting (1): Consumption ↓



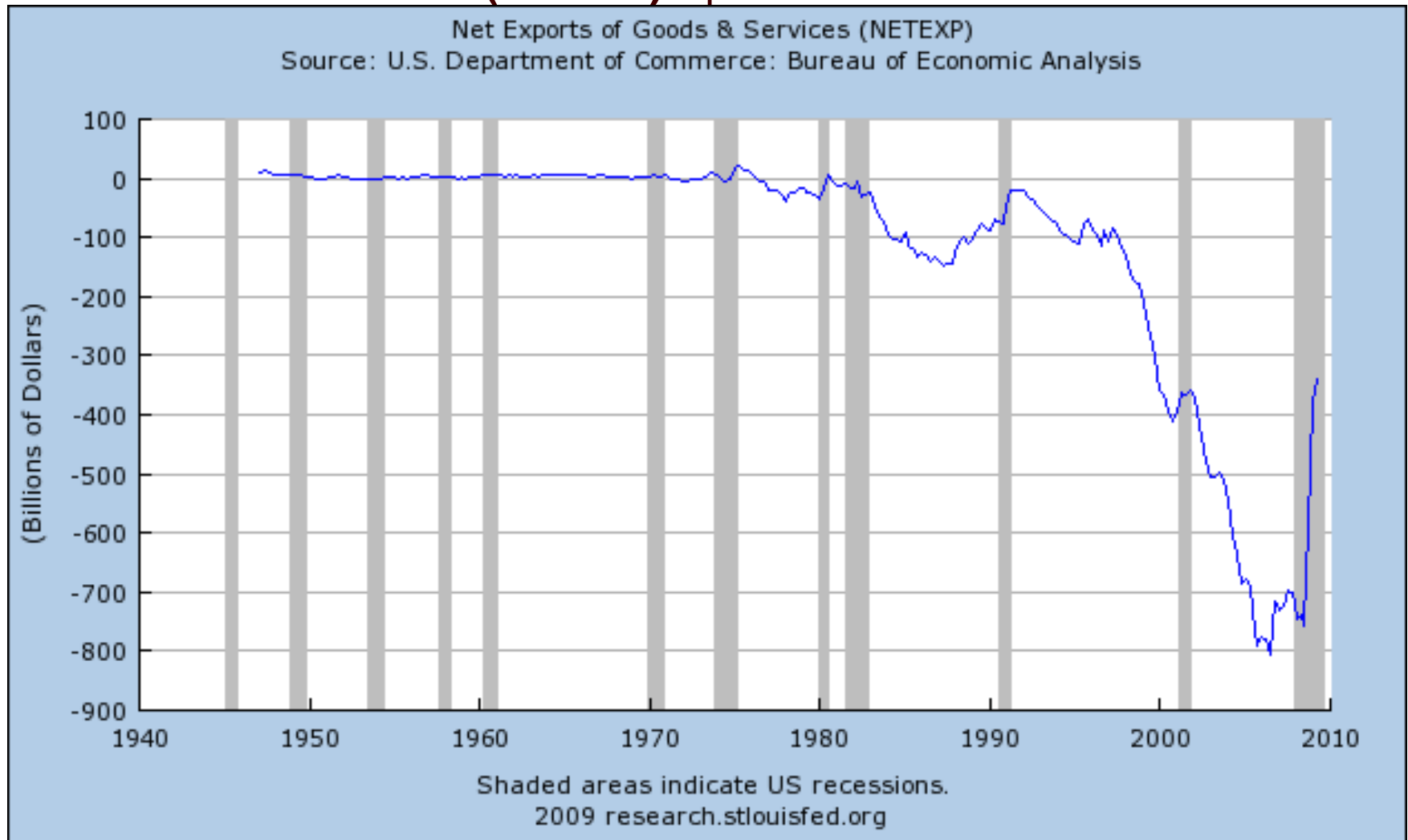
How Americans are reacting (2): Savings ↑



At the same time, the government budget is severely strained (T-Tr-G) ↓

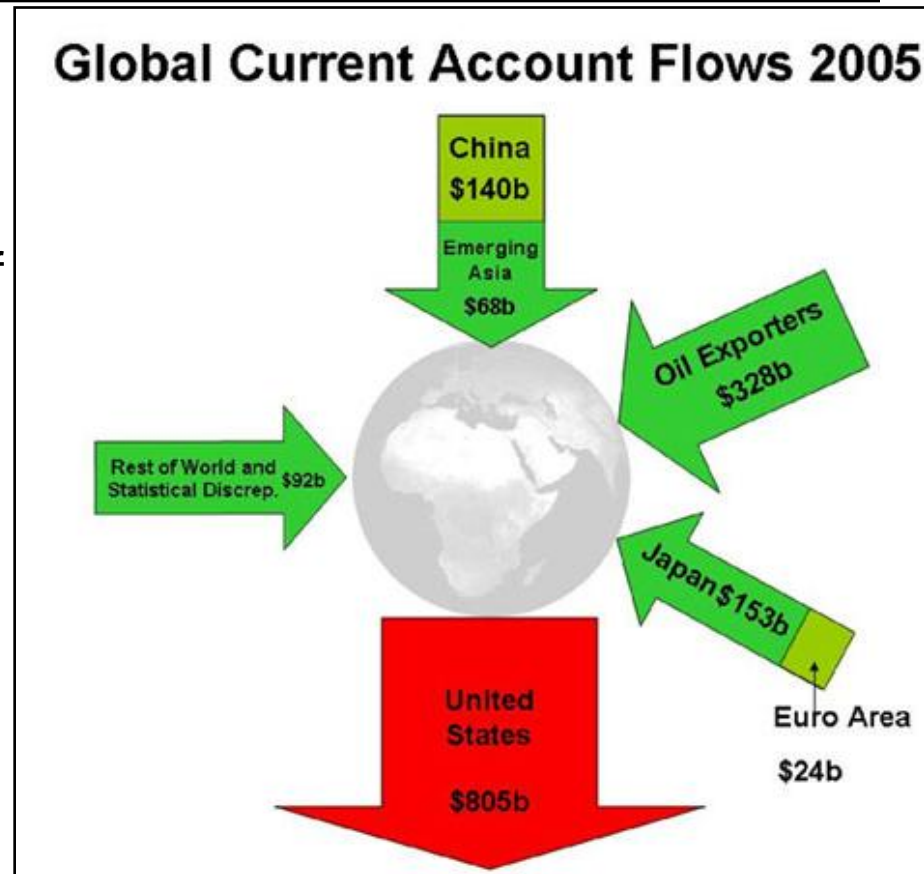


Is this going to correct trade imbalances? $(X-M) \uparrow$



Balance of Payments

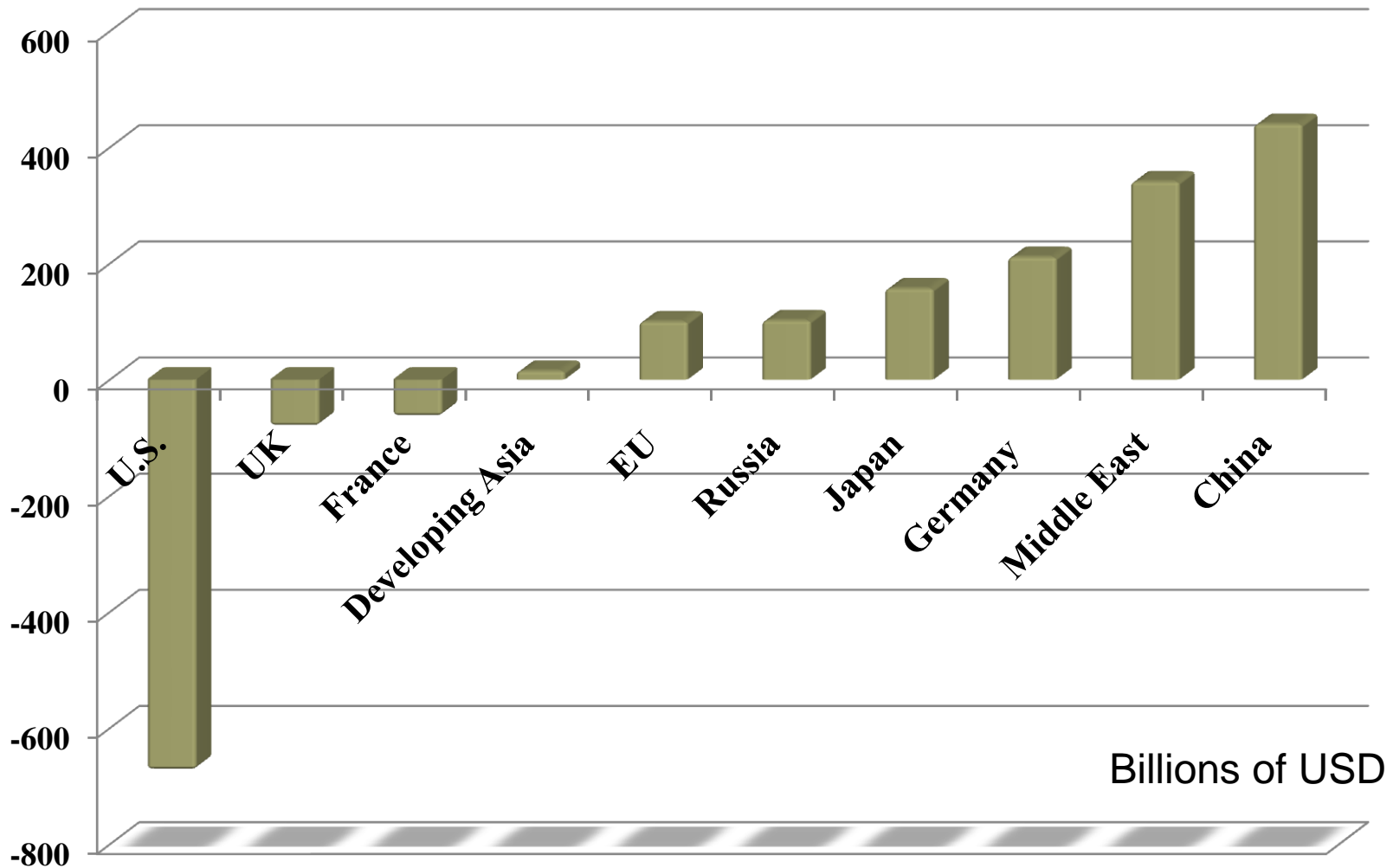
- Record of a country's transactions with the rest of the world
- Four components:
 1. Current Account (CA): flows of goods and services
 2. Financial Account (FA): changes in assets and liabilities
 3. Errors and Omissions (E&O)
 4. Changes in Official Reserves (Δ reserves)
- $CA + FA + E\&O + \Delta\text{reserves} = 0$



U.S. Current Account

- A wild ride
 - The U.S. spent; saved nothing
 - Consumed 75% of world surplus
 - Accumulated debt with the rest of the world
- Unsustainable model
 - Emerging-market will exchange real claims for financial claims sooner or later
 - Many thought this would produce an economic crisis, but we got a different global recession...so will the U.S. current account deficit bring a second downturn?

Propping up the world, even in a downturn – Current Accounts, 2008



Is this sustainable?

Country	Trade Balance*	Current Account Balance*	Budget Balance (%GDP)	Industrial Production ^	Unemployment rate
USA	-604.9	-542.3	-13.5	-10.7	9.7
Japan	+10.8	+114.0	+ 2.7	-22.8	5.7
China	+267.0	+364.4	-4.2	+12.3	9.0
Germany	+179.4	+158.0	-4.7	-16.9	8.3
U.K.	-135.2	-52.5	-14.4	-9.3	7.9
France	-65.3	-54.0	-8.2	-13.0	9.8

*Latest 12 months, \$Billions

^% change on previous quarter, annual rate

Source: *The Economist*, 21 September 2009

Or is this?

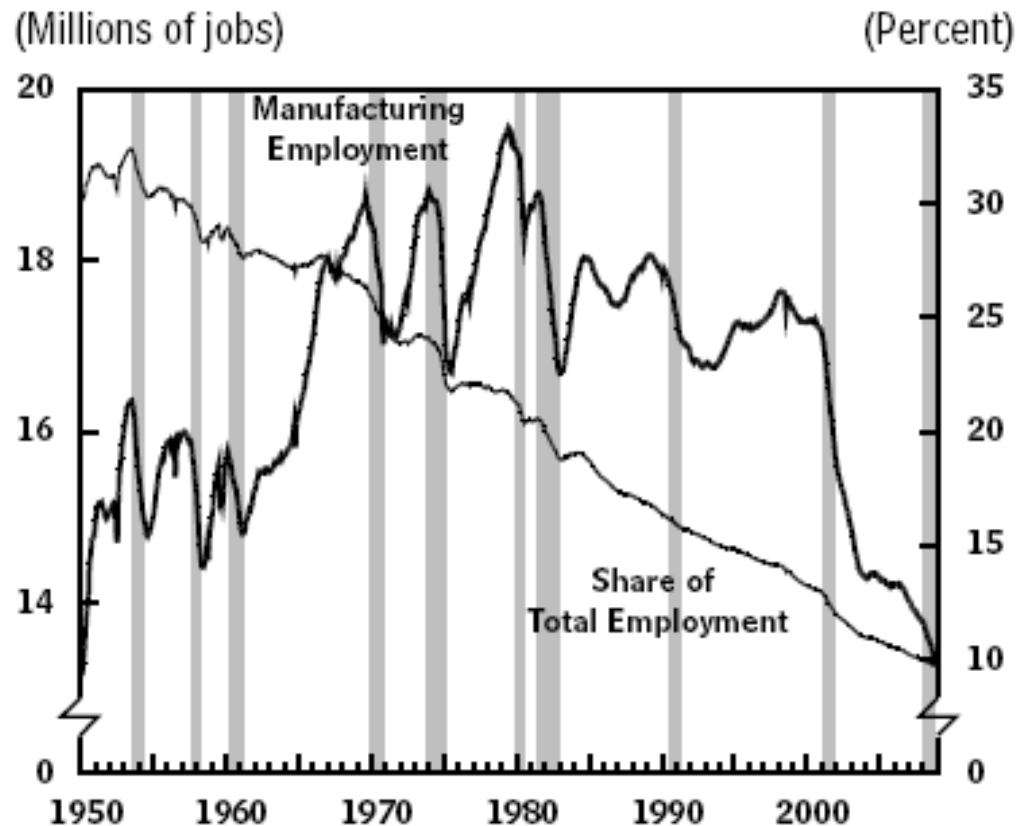
Healthcare Spending as % GDP

Country	1970	1980	1990	2000	2007
USA	7.0	8.8	11.9	13.3	16.0
France	5.3	7.0	8.4	9.2	9.5
Germany	6.2	8.7	8.5	10.3	10.7
Switzerland	5.5	7.4	8.3	10.4	10.9
Japan	4.5	6.5	5.9	7.6	7.8

Pharmaceuticals have grown from 6% of all healthcare spending (1970s and 1980s) to 8-9% (at present)

And what about the broader economic transformation underway?

Manufacturing Employment



Source: Congressional Budget Office based on data from Department of Labor, Bureau of Labor Statistics.

Conclusion – globalization's legitimacy is at stake

