

Feldstein, Martin

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Stepping Down as NBER President

Martin Feldstein*



Photo by Matthew Poterba

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My decision to step down as president of the NBER was a very difficult one. The NBER has been the central focus of my professional life. I have taken great satisfaction from watching the Bureau grow and become the nation's leading economic research organization — and from being able to shape that growth — the new programs, working groups, projects, conferences, and activities like the Summer Institute and the “pin factory visits.”

But after 31 years I was ready to be relieved of the day-to-day administrative responsibilities and to have more time to read and think and write. And I also knew it would be in the interest of the NBER, and therefore of the economics profession, to have a new leader for the Bureau who would bring new ideas and new initiatives.

I am so pleased that the very careful and elaborate search process for my successor, directed by a committee chaired by Mike Moskow, reached the decision that Jim Poterba was the right person for the job and that Jim agreed to take it on. I cannot think of anyone who would be a better leader of the NBER in the years ahead — with his breadth of interests in economics, his intellectual ability, the respect that he has in the profession, and his willingness to give of himself for the benefit of the organization. I'm confident that he will do an outstanding job.

The growth and the success of the Bureau has been due to the quality and the enthusiasm of all of those who have participated in the process. What has happened these past three decades was only possible because of the efforts of the Program Directors, the Working Group leaders, and the heads of the individual projects and of the annual conferences. In all of those years, no one whom I asked to assume these leadership roles disappointed me or their colleagues — a remarkable measure of their commitment to these activities. And, of course, the success of the NBER also reflects the participation of the entire family of Research Associates and Faculty Research Fellows. Your participation

**Based on my remarks at the NBER dinner on July 24, 2008.*

NBER *Reporter*

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in meetings and projects, your research and writing — all of those yellow-covered Working Papers and chapters in NBER volumes — have made the NBER what it is today.

Many thanks are in order on this occasion. The NBER's Board of Directors has been an important source of advice and support throughout these years. I am grateful to all of them and, in particular, to those who served as chairmen. Eli Shapiro, who is here tonight, was chairman of the NBER in 1982 when President Reagan asked me to come to Washington as CEA chairman. I asked Eli if he would take over as president while I was in Washington — and promised that I would be back in two years. I remain very grateful to him for what he did then. And since Eli would no longer be Chairman, I asked the late Walter Heller, who was then on our board and who had been President Kennedy's CEA chairman, if he would take over as Chairman of the NBER — thus reinforcing the message that the NBER is a nonpartisan organization.

All of us who have participated in NBER activities have benefited from the small but excellent Bureau staff. They have made it possible to have the conferences, the publications, the program meetings, and the Summer Institute without placing an undue administrative burden on the researchers. They have created and developed the many useful features of the NBER website and the NBER datasets. And the excellent people who have worked on grants administration and on accounting have made it easy and attractive for NBER researchers to manage research grants through the NBER.

Crucial to the management success of the Bureau have been the individuals who worked most closely with me in the NBER administration: Charlie McClure — who was there in the beginning and is here tonight — David Hartman, Geoff Carliner, and Sue Colligan.

When I became NBER president back in 1977 I inherited the responsibility for an organization with a long and glorious history. The NBER tradition included the major work on business cycles by Mitchell and Burns, the studies of capital accumulation by Simon Kuznets, the work on monetary economics of Friedman and Schwartz, Gary Becker's work on human capital, Bob Lipsey's work on international trade, and many, many others.

It is not an exaggeration to say that the

NBER initiated the study of empirical economics in the United States, going back to Kuznets' work on the national income accounts and to so many volumes of laboriously accumulated and analyzed data on various aspects of the U.S. economy.

But by 1977 there were new challenges and new opportunities for the NBER. There was a new generation of researchers with sophisticated econometric skills to analyze the large quantities of machine-readable data that were being made available for the first time.

Four Goals

In leading the NBER I have had four goals. Fortunately, these goals also seemed to fit with the needs and the desires of the current generation of economic researchers. Let me tell you what they are and why I think they are important.

My first goal was to bring researchers together. As we all know, in any department there are at most one or two faculty members in each specialized field. There were in general no opportunities back in the 1970s for researchers in fields like taxation, international trade, or labor markets to come together in relatively small groups to discuss research and to provide criticisms and suggestions. So I thought that the NBER could fill that gap through program meetings and more recently working groups. We started with 7 programs—organized by David Bradford, Bill Branson, Bob Fogel, Richard Freeman, Ben Friedman, Zvi Griliches, and Bob Hall. Because of them, the programs flourished. We now have nearly 20 Programs and more than a dozen less formal Working Groups.

My second goal was to encourage empirical research. I was part of the first generation of economists to have the advantage of high-speed computers, machine-readable datasets, sophisticated econometric theory, and other things that we now all take for granted. These features increased enormously the ability to do good empirical research. But doing useful empirical work is diffi-

cult. It is easy to misinterpret how the data are constructed and to misunderstand the institutions with which the economy operates.

But with the help of colleagues who do understand the data and the institutions, it is very much easier to do good and useful empirical research. I saw the NBER as a way of encouraging and facilitating such empirical research. The program meetings would be a place where NBER researchers would get useful advice about the data that they are using and about the institutional framework. The applied theorists could benefit from exposure to discussions about actual economic problems. And those doing empirical work could benefit from the insights of the theorists.

My third goal was to have NBER research inform public and private decisionmaking. Without an institutional mechanism to deliver research to that broader public, there is the danger that the results of good research would be known only to a small number of academic specialists. Now the NBER Working Papers and books make research by the nation's best researchers available to a large audience in the United States and the rest of the world.

A key feature of NBER papers — as you all know — is that they do not advocate policy or editorialize about existing policy proposals. Instead the aim is to analyze what is happening in the economy and how alternative policies might affect the economy's performance. This approach has allowed the NBER to have researchers with a broad spectrum of different policy views working together within the Bureau in a way that has not been true of other think tanks. And it has given NBER Working Papers greater credibility. Last year, readers around the world downloaded some 2.3 million copies of NBER Working Papers.

My final goal during these past 30 years was to organize NBER projects on important topics that were otherwise not getting adequate attention from first-rate research economists. These "top-down" projects brought small groups of NBER researchers together

to investigate a wide range of topics over the years. Having that research in NBER volumes or in special journal issues focused attention on those results. There have been far too many such projects for me to comment on them all. But I look back with pride at the first three projects that I initiated: one on youth labor markets organized by Dick Freeman and David Wise, one on capital formation headed by Ben Friedman, and one on the implications of rational expectations theory for macroeconomic policy organized by Stan Fischer. And I am equally pleased with the newest of those top-down projects that will study "African Successes" under the leadership of Sebastian Edwards and David Weil.

So those were my initial four goals—bringing researchers together, encouraging empirical research, communicating to decisionmakers, and organizing research projects on important policy-relevant topics—and they remained my goals for the NBER throughout the 30 years.

In addition the NBER has used its unique position in the United States to develop relations with economists in other parts of the world. We started in Europe with the International Seminar on Macroeconomics. Its success led to the Inter-American Seminar, the East Asian Seminar, several U.S.-Japan annual meetings, and annual conferences in China and India. I think the dozens of NBER economists who have participated in these meetings understand the world better because of that experience and are therefore better economists.

Looking Ahead

Being president of the NBER has been a wonderful experience for me. It has been a source of intellectual excitement and of personal satisfaction. It has continued to educate me about a wide range of economic issues and research findings. I will miss my role as president but I will continue as a Research Associate and as the head of the Working Group on the Economics of National Security, perhaps the most

neglected important subject in economics. I will of course continue to teach at Harvard, as I have throughout my years as NBER president.

The NBER is a unique and a great

organization. It provides a way to develop first class research that can contribute to the public policy process, research that can make this country and the world a better place. It's important

that we never lose sight of this purpose, this challenge, and this responsibility. I'm pleased that I will continue to be a part of this outstanding organization.

Thank you.

Research Summaries

Who Pays for Obesity?

Jay Bhattacharya*

The rapid increase in the prevalence of obesity over the past few decades has attracted much interest by economists about its cause, but far less interest in its economic consequences. Of particular importance is the question: who pays for obesity? In this report, I review the contribution that my colleagues and I have made toward answering that question.

Many people have argued that the rising prevalence of obesity over the past decades is socially expensive because the obese consume more medical resources than thinner people. While it is certainly true that obesity is the cause of, and is associated with, many conditions that are expensive to treat, it does not logically follow that obesity is socially expensive. The true social costs of obesity depend upon the extent to which obese individuals impose costs on others, costs that they do not take into account when they do things that affect their body weight. Yet despite the vast literature on the medical costs of obesity, there is nothing available to answer the question of who pays these costs—the obese themselves, or someone else?

One important mechanism by which the obese might impose costs on others is through pooled health insurance. In pooled insurance, high medical expenditures for one member of the pool are paid in part by every member of the pool. Thus, the high costs of treating an obese individual are shared by members of the pool—that is, the costs of obesity are paid for, in part, by other people. In a recent paper, Neeraj Sood and I consider this possibility.¹

Two key necessary conditions must be met for obesity to cause social loss in a pooled health insurance setting: 1) being obese must increase health expenditures over being thinner; and 2) being in a health insurance pool must cause individuals to change their eating and exercising. The latter condition is not obvious, but is nevertheless crucial for obesity to cause loss through the health insurance mechanism; without it, the implicit transfer of funds from the thin to the obese that pooled health insurance induces is socially costless. Obese individuals in the pool are made better off by exactly the amount that thin individuals are made worse off. While pooled insurance induces redistribution from thin individuals to overweight ones, there is no net cost to society.

In addition to developing a formal model, Sood and I use nationally repre-

sentative data to estimate the social costs of obesity through the health insurance mechanism. Because we account for the second necessary condition in our empirical work, our estimate of social cost is an order of magnitude lower than estimates of the cost of obesity reported in the literature that ignore this condition. This makes sense because it is unlikely that people gain much weight in response to the incentives induced by being part of a pooled health insurance plan.

My paper with Sood is premised on the idea that under some circumstances, obesity might induce a social loss if there is pooled health insurance. However, whether health insurance actually pools medical expenditure risk associated with obesity is an empirical issue. In the case of obesity, there is good reason to think that there may be considerably less pooling than is traditionally thought for some types of health insurance. If, in a given insurance plan, there is no effective pooling between the obese and thin, then the obese pay for their higher expected medical expenditures.

In another paper, Kate Bundorf and I consider whether wage penalties associated with being obese undo pooling in employer provided health insurance.² Legal and other constraints make charging obese workers higher premiums for health

*Bhattacharya is a Faculty Research Fellow in the NBER's Programs on Health Care and Health Economics. His profile appears later in this issue.