The Bureau's contribution to international economic research: a tribute to Martin Feldstein

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This personal tribute expresses gratitude for the days spent around 1050 Mass. Ave, a fixture of my professional life on either side of the Atlantic.

During the last thirty years, the NBER *brought people together* and *encouraged empirical research* (Feldstein 2006). In numbers, Summer Institute attendance reached fourteen hundred economists from around the world and there are about two million annual downloads of *Working Papers*, of which there are now over fourteen thousand. In addition, the Bureau launched projects on important issues of international economic policy, without sliding into advocacy. The International Seminar on Macroeconomics, the Inter American Seminar on Economics and the East Asian Seminar of Economics spread habits of comparative research and policy analysis as well as international professional standards for economists. Specific projects on China, Japan, Africa or Europe complement regular seminars on geographical areas. Through Marty's leadership, a Bureau for international economic research emerged[2].

Suffice it to say that the Bureau inspired the Centre for Economic Policy Research, a very successful attempt at bringing European economists together[3]. Actually, I first heard about the plan of Richard Portes while visiting the late Bill Branson, program director for International Studies, at the house they shared off Linnaean Street, a few blocks from the vacated Harvard dorm where Summer Institute offices where located in the early 1980s.

As I am writing this in Cambridge, I have with me this year's gift (and the 2007 umbrella) but mouse, mat, cap, mugs, bags and other gifts of yesterday can be found at home, along with cryptically annotated Summer Institute papers[4]. The great tradition of a clambake evening notwithstanding, the group dinner was once served at the Museum of Fine Arts in Boston, a unique cultural feat!

The role of a catalyst for international economic research is probably recognized inside and outside the NBER family so I focus on two incidental aspects: Marty's distrust of European monetary integration and his reluctance in promoting economic research on Africa. I picked these points together not because of some manifest destiny linking the two areas but because they illustrate my perspective on the Bureau's President. The distrust is not contradicted by a

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[1] Thanks to Jim Poterba for inviting me to write this tribute and regrets for not making it on 24 July.

[2] *One of the NBER's great strengths is its ability to bring a whole range of economic researchers to bear on important questions as they emerge* (Clement 2008)

[3] In his *attempt to reflect …on the opportunities and pitfalls of moving from economics as a scientific field to economic policy making*, Wyplosz (1999) states unambiguously (note 5): *The CEPR is a network which operates like the NBER*. Portes (1997, p. 59) concludes that *society on balance* benefits (italics in the text) *from professional groupings and from the standards and criteria that they impose. This is the fundamental objection to and defense against abuse by users. But we must use wisely and responsibly the privilege of being recognized as a profession*.

[4] Let me take this opportunity to renew the plea for a continuation of the NBER diaries, which were threatened with extinction a few years ago.

practical belief in cooperation among the core democratic industrialized areas of the world – which we share as members of the Trilateral Commission. Indeed, I prefer his criticism of the DGII report of 1990 to indifference about EMU. That being said, the reference to *the future peace and stability of Europe* in Feldstein (1992) troubled my job as chairman of the ECOFIN when trying to pick up the pieces from the Danish "no" to the Maastricht treaty. A reconstructed exchange at the margin of a council meeting in Brussels follows:

Q: "Your American friends regret EMU!"

A: "Well at least he cares!".

The reluctance appeared to be shared by the family[5]. Yet, it did not prevent a project "Economic Research on African Development Successes" from being organized by Sebastian Edwards and David Weil. The background conference was held on the day Jim Poterba's appointment was announced, so that both Presidents were very positive about the new venture, underwritten by the Gates Foundation.

Let me then blend other recollections of Marty, extending across the Boston-Washington corridor, with Africa before looking back at Maastricht and all that.

This year memories were in the air: before interpreting the current state of the national economy at the Monetary Economics meeting, run by David and Christine Romer, Larry Summers recalled that thirty years ago Marty was his teacher and Jim his student![6] I became a faculty research fellow two years later and spent a whole two weeks at various Harvard locations, when everyone fitted in the 1050 seminar room. I moved back to the old country at the beginning of the Sonesta epoch and tried making the various International Finance and Macro program meetings, where the small group atmosphere of the early days remains largely the same after all these years. Listening to the papers, and especially their discussion, became a fixture of my professional, not just academic, life because of the positive interaction between the research presented at Bureau meetings and the implications for steering policy and research agendas[7].

The comparative advantage is clear: *If I as a professor at Harvard—forgetting the Bureau—were to call up economists in six other departments and say, "How would you like to work on my study?" They would say, "I don't understand; I'm a professor at Yale (or Princeton or Chicago)." It would be like the Harvard football team calling some guy from Yale and saying, "How would you like to play for us?" Nobody thinks that about the Bureau. It's perfectly natural to participate*

[5] Notwithstanding three case studies, two in Edwards and Liaquat (1986) plus Branson and Macedo (1989).

[6] In fact this was the time we met at the Brookings Panel with Pentti Kouri, my thesis adviser: Feldstein and Summers (1978) is followed by Kouri and Macedo (1978). One of Pentti's insights was that the oil crises transferred wealth between countries with different asset preferences and savings propensities. This process has received renewed attention in Blanchard, Giavazzi and Sa (2005). By the way, this *Brookings Paper* came out as NBER *Working Paper No. 11137*, unlike the previous two: in the meantime, Marty's view of the Bureau as *neutral ground* had gained currency beyond universities.

[7] Two jobs where the Atlantic dimension helped were in Brussels at DGII (now Directorate General ECFIN, where I participated in the *One Market, One Money* report led by Michael Emerson in the late 1980s) and in Paris at the OECD Development Centre (where Bill Branson contributed to a 2001 study I co edited titled *Don't Fix don't float*).

in an NBER study. It's a neutral ground on which people can come together and do research (Clement 2006). With reference to Stan Fischer's presentation on Israel at the Monetary Economics meeting, Marty adds: *Paul Samuelson was here today, which is really quite unusual, and I was sitting next to him in the meeting room next door. After everybody had gone around the room and introduced themselves, he said, "This must be what Copenhagen was like in the 1920s when Niels Bohr was bringing physicists together from around the world." I really thought that was a nice sentiment.* In that connection, he emphasizes: *we're a very decentralized organization, so there are these separate programs and program directors.*

This seems to be the spirit of the regular events on Europe, Latin America and East Asia, and it is also behind the project seeking *to identify and analyze success stories in African economic development, build a larger cadre of economists with an interest in African development, and develop research resources on Africa (particularly accessibility to data)*. This ambition of bringing economics to bear on social change I harbored already in 1976, when I interacted at the Banco de Portugal with MIT economists led by the late Rudi Dornbusch[8].

In the plenary meeting of the Trilateral Commission last Spring in Washington, Marty chaired a panel on "the global financial crisis: averting risks to the system amidst global shifts in economic power", featuring David Rubenstein, Naoki Tanaka and Andrew Crockett and other perspectives of businessmen, policymakers and academics from the North American, Asia Pacific and European regions. His gloomy assessment of the state of the national economy incorporated the expectation that monetary, fiscal and financial responses would not be adequate, underlining the conditional nature of economic forecasts and the slippery slope of policy advice. This is a lesson that can surely be applied to the European Union, where multi-level governance is so complex it discourages reform design, let alone its implementation. The complexity goes beyond the EU treaties from Maastricht to Lisbon, permeates the policy process and discourages reform.

In Feldstein (1992), *those countries that are not part of the monetary union would be political outsiders.* He then concludes with a veiled reference to war that still influences the official commentary: *The consequences of this for the future peace and stability of Europe, while difficult to contemplate with any certainty, may well be unfavourable.* Feldstein (1997) comes back to the issue and writes: *the one-size-fits-all monetary policy is seen as not working either for the countries that have weak demand and ought to have a more stimulative policy or, on the other hand, for those that are discovering they're becoming less competitive because their domestic prices are rising and they can't adjust monetary policy*. And he reiterates that monetary union essentially implies fiscal union: *If the Italians run a large fiscal deficit, it's effectively a European fiscal deficit. It's not a specifically Italian one* as again in Feldstein and Feldstein (1998) and his 2005 *Working Paper.*

[8] Aside from presentations at Bureau events, I remember vividly when Paul Krugman was commuting from Boston to Washington while at the Council of Economic Advisers with Marty because his visits to New Haven and Princeton made my wife and I feel in tune with the Boswash corridor. Thirty years after, Paul and I were asked to speak about economic advice: Krugman (2008) is a remembrance of his first assignments but also a foretaste of his latest book.

As mentioned, the economic issues were addressed in numerous Bureau publications, not least by the program director of International Finance and Macroeconomics, e.g. Frankel and Rose (1998), Frankel (2008). They are also prominent in recent reports from the European Commission. Summarizing, Noord et al (2008) recall that there was a lively academic and political debate on the viability or desirability of a monetary union for Europe and add: *many tended towards a pessimistic view and this may have adversely affected perceptions of the euro area's performance in its early years*. According to the report, fiscal and monetary policies supported each other*, aside from a spell of pro-cyclical fiscal policies during the dotcom boom*. At the same time, the single currency did not accelerate the pace of structural reform, so that productivity growth below the US and the UK economies *reflects a backlog in structural reform in a number of Member States.* There has been less progress than expected in the cross-border integration of services (an area in which price rigidities persist) and the integration of financial markets has been more visible in wholesale than in retail markets. The disappointing perception of the euro's success by the public is nevertheless attributed to factors such as food and energy price rises, even though the complex governance of the eurozone deprives its fifteen members of the advantages of flexible integration[9].

This in turn may lower the political incentives for reform in all 27 nations among which the Lisbon agenda of making the European economy the most competitive knowledge economy in 2010 stands out as a striking example of reform inertia.

The multi-level governance of the Lisbon agenda, also called growth and jobs, interacted perversely with an attempt at bringing together several departments, from research to social affairs, from energy to environment, under the coordination of the general secretariat of the European Commission. The role of the economics and finance department has been minor and the department of financial services has been largely absent from the process, in spite of the importance of European capital markets. It will therefore be difficult for the macrofinancial stability framework called for by the recent report of the Bank of International Settlements to receive a coordinated response from both sides of the Atlantic, which dominate international finance, while East Asia (defined as ASEAN, China, Korea and Japan) has become the hub of trade flows[10].

[9] EMU was discussed while having lunch last week with Anna Schwartz, and she seemed as skeptical as Marty, even though I suggested that the "euro holdup" I detected in my own country showed not an inherent governance flaw but rather the limits of external pressure, which Alesina and Tavares (2003) correctly ascribe to *the quest of small countries in European integration*. While I believe Anna (and Marty) tend to neglect small countries, the argument in the text about flexible integration has greater scope and builds on a CEPR report, Dewratipont at al (1995).

[10] In the Kouri model, changes in the exchange rate are scaled by trade elasticities and by the ratio of trade to foreign assets and liabilities, evaluated at the long run equilibrium rate. Philip Lane collected numbers for 2004 on bilateral foreign asset holdings and liabilities which were used in a BRUEGEL report presented by Jean Pisani-Ferry to the 8th ASEM finance meeting in Korea. In my discussion I reported a ratio of foreign trade to finance (excluding intra-regional transactions) of 10% in North America, 14% in Europe and 30% in East Asia. Moreover, to the extent that the current crises exacerbate the significance of international wealth transfers, the remaining fourth of world GDP accounted for by the rest of the world cannot be ignored, even in the short run.

Without such a macrofinancial stability framework, the current crises are less likely to be managed cooperatively and more likely to elicit defensive or exploitative responses in major economies, with negative spillovers for smaller players and the emerging international system. I hope the Bureau continues to bring people together and to encourage empirical research: the case for international economic research is even more compelling than during Marty's long watch.

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