Angus Deaton

PrincetonUniversity 361 Wallace Hall Princeton, NJ 08544 Phone: 609.258.5967 Fax: 609.258.5974 Email: deaton@princeton.edu

HOME
PAPERS
MULTIMEDIA
LETTERS
POVERTY
HEALTH
SURVEYS
COURSES
CV
LINKS
CONTACT

Letter from America: Economists without Borders

from the Royal Economic Society Newsletter, October 1998

Economists often share a secret sympathy with those non-economists, journalists, and policy-makers who accuse us of being overspecialized, over-formal, obsessed with methodology, with theory not fact, and with the "sophisticated" analysis of unreliable data. It was not an outsider, but a former editor of Econometrica, now President of the University of Chicago, who wondered whether it might not be time to split that journal into its constituent parts, Esoterica and Trivia. Viewed from outside the United States, American economics is often seen as something worse than irrelevant. Joan Robinson used to like to accuse neoclassical economics of being an apologia for capitalism, and it is not hard to find examples where the label fits. So it is a pleasure to be able to report cases where economists need not apologize to anyone or for anything.
I had the privilege two weeks ago to attend the third annual "Social Security Day" at the National Bureau of Economic Research. As most readers of this newsletter will know, the NBER is a non partisan research organization that acts as an umbrella for a large collection of research projects and workshops. Each year, it organizes in Cambridge, Massachusetts, a "Summer Institute," an overlapping festival of workshops in almost all areas of economics. Social Security Day is a one day workshop held during the Institute, and is organized by Martin Feldstein, the president of the NBER.

Britain is one of the few Western countries whose state pension scheme will not need large scale reform in the coming decades. The United States pension scheme, Social Security, will need such a reform. Many different schemes are currently under discussion, including raising the retirement age, partially replacing the current pay-as-you-go system by a set of individual accounts, investing part of the Social Security trust fund in the stock market, as well as some combination of raising taxes and reducing benefits. None of these options is without losers as well as gainers, and all involve serious political risk, even if some of the poison has been (at least temporarily) removed from the debate by the transformation of the federal government's deficit into a surplus. There are the usual political divides. Conservatives tend to be in favor of market based solutions that reduce the role of government, arguing for individual saving accounts, with the government providing no more than a safety net. They are deeply concerned by the possibility (certainty) of political interference in the investment of any trust fund, and with the impossibility of constructing institutions that will prevent it. Those more skeptical of market solutions worry about increasing inequality, with the reduction of the insurance, and about the administrative costs and possible abuses by the financial sector of millions of individual accounts, issues on which Britain has had some recent experience.

The most remarkable feature of the Social Security Day was the ability of economists of very different political positions and, perhaps even more divisively, of different academic specialities to work together and pool their different analytical skills. Feldstein himself has taken strong public positions in favor of individual accounts, and much of his academic work tends to support that avenue of reform. But this does not prevent the NBER from doing its job under his direction, which is to provide a forum for broad discussion. Nor does it prevent Feldstein from exposing his arguments to the fiercest professional criticism, nor from using his personal accumulation of economic theory and practice as a public good to benefit others' work. On the other side of the argument, Peter Diamond has been an effective public voice drawing attention to the distributional consequences of various reforms, and to the effects of apparently small administrative costs on the ultimate accumulations in individual accounts. Yet Diamond's fundamental work in macroeconomics provides the framework within which almost all serious discussion of social security rests.

Both Feldstein and Diamond might be labeled as public economists, and perhaps the largest fraction of the group could be similarly classified. But there were also health economists and demographers—much hinges on projections of life-expectancy, and on the relationship between mortality and income, including perhaps whether the current system is progressive or regressive. Finance specialists from economics departments and business schools were there to discuss portfolio allocation, risk sharing, the costs of being in the market, the possibilities for portfolio management, including whether Americans might ever be able to "short" their own GDP. Macroeconomists and general equilibrium theorists traded the (infinitely many) fine points of equilibria in overlapping generations models, microeconomists and welfare economists reminded us about incentives, moral hazard, and the powerless of the unborn, and political economists and game theorists worried about the political viability of economically attractive solutions. Micro econometricians argued about the determinants of saving, of mortality, and of portfolio choice, and there were empirical results from data sets with hundreds of thousands or even millions of observations. We saw some of the first fruits of the new Bureau of the Census centers for data analysis, behind whose “fire-walls” it is beginning to be possible to merge survey data with government administrative records. There were economists from economics departments, from business schools, from law schools, from schools of public health, and from government and international agencies.

Much of the material was technical, and there was no lack of mathematical economics or econometrics, close enough to the frontiers to please any editor of Econometrica. Indeed, many would have thought the discussion esoteric, perhaps even many economists. Yet this workshop was the opposite of trivial, presenting clear, serious and relevant thinking, with a harvest of important insights about the many sides of a truly complex issue. There are times when economists need make no apology for their profession.

Angus Deaton's Letter from America appears every six months in the Royal Economic Society's Newsletter. For more information, visit http://www.res.org.uk/society/newsletters.asp.

Return to Angus' full list of Letters from America.

Princeton University; Princeton, NJ 08544; USA
Phone: 609.258.6403; Fax: 609.258.5974