

FOREIGN AFFAIRS

A True Scholar

Martin Feldstein, 1939–2019

By [Kenneth S. Rogoff](#) July 22, 2019



Martin Feldstein at the Reuters Investment Outlook Summit, June 2008 [Reuters](#) / [Brendan McDermid](#)

Martin Feldstein, one of the world's great economists, passed away on June 11, at the age of 79. To the general public, he was best known as the chair of the Council of Economic Advisers under President Ronald Reagan, as well as the author of hundreds of [popular opinion pieces](#) and a [frequent](#)

[commentator](#) on public policy. During his tenure at the CEA in the early 1980s, Feldstein was famously willing to take principled stands when he disagreed with his boss, as when he argued that Reagan-era deficits might come at a cost in terms of lower public and private investment. As a public intellectual, he was a rare moderate voice. During the 2008 financial crisis, for instance, he strongly argued for higher government spending rather than tax cuts to stimulate the economy, even though his own research suggested that cutting taxes would lead to higher long-run growth. Similarly, although he firmly believed in the importance of enforcing contracts, he championed an innovative plan for writing down subprime debt after the crisis.

But Feldstein's reputation extended well beyond the general public. Within the economics profession, he was a towering figure. Few economists in modern memory can rival his impact on the field. He was one of the most cited economists of his time, and even today, decades after his peak research output, he still [ranks 13th](#) in Research Papers in Economics' list of economists by citation. Feldstein championed a renaissance in empirical, policy-oriented research through his influential work on public finance; through his students, who included Lawrence Summers, Raj Chetty, and Jeffrey Sachs; and, above all, through his three-decades-long leadership of the National Bureau of Economic Research, which he transformed from a sleepy academic institute into the backbone of contemporary empirical economics research. The bureau's Summer Institute, in particular, has become the place for researchers to learn new ideas before they hit the academic circuit.

Feldstein published perhaps his most famous paper in 1980, setting out the “Feldstein-Horioka puzzle.” Together with his co-author, Charles Horioka, he demonstrated that the level of a country’s public and private saving is highly correlated with its level of public and private physical investment. The Feldstein-Horioka result might seem obvious, but it is actually surprising. A rational investor presumably wants the greatest return available, so money should flow to the countries where investments are the most profitable, rather than sticking around in its owner’s country. If vast new mineral deposits are discovered in Australia, for example, one would expect the resulting investment boom to be financed through savings from all over the world, not just from Australia. This does happen, but as Feldstein and Horioka observed, countries seem to depend much more on their own savings for national investment than one would expect given the diversity of world opportunities. They argued that international capital markets create much more friction for investors than do domestic capital markets and that global capital markets are thus not as open as one might think. At first, economists doubted that such a crude explanation could be right, given the huge capital flows that seem to go back and forth around the world. But they have struggled to find a better explanation.

FEW ECONOMISTS IN MODERN MEMORY CAN RIVAL FELDSTEIN'S IMPACT ON THE FIELD.

Indeed, since 1980 economists have published hundreds of papers in top journals trying to prove Feldstein wrong and hundreds more arguing that even if he had the facts right, his logic was off. The upshot of all that literature is, roughly speaking, that Feldstein’s original results have proven surprisingly durable and stand as an important counterpoint to

the view that foreigners will always freely lend for good projects anywhere. Today, we better understand one of the factors Feldstein might have underplayed, which is that large segments of most modern economies are effectively not traded and that this friction spills over into capital markets. But over the years, those who have [declared the Feldstein-Horioka puzzle solved](#) have done so at their peril. The 2010 euro crisis was only the latest reminder that sustained large current account deficits often end in tears.

Relatedly, Feldstein labored in vain in recent years to [explain](#) to the Trump administration that the trade balance is a macroeconomic phenomenon that depends on the levels of savings and investment in the United States. Without changing those fundamentals, beating up on China and Mexico is like squeezing a balloon: U.S. bilateral deficits will just migrate to other regions.

A RICH TAPESTRY

A true scholar, Feldstein prized open debate. Although his own views were on the economic center-right, he understood that ideas morph, facts change, and economics is an evolving science. His was a voice of reason and moderation. He would make his case, but he would then engage with, and respect, his adversaries' counterarguments. Yes, he won all the awards the American Economic Association had to give and, in 2004, was elected the body's president. Despite his success, he always relied on the force of his logic, not his power in the profession, to make his case.

An enormously prolific intellect, Feldstein produced literally hundreds of serious academic papers while simultaneously editing and writing dozens of books. Those of us who struggle

to write even one or two academic papers a year could only look in awe at the outpouring of his ideas.

Feldstein met his final illness with grace. Most of his colleagues had little inkling that anything was seriously wrong, and he continued to write and speak with insight and clarity until the end. My first clue came in mid-March of this year, when I was asked to write and deliver in his place the honorific G-30 lecture at the annual International Monetary Fund–World Bank meetings. I knew Feldstein well enough to know that he would never shirk a major professional commitment. I did not speak to him directly, but I was told that the title of his talk was to be “Is This the Beginning of the End?”

I did not know what he had in mind—just that Feldstein had a famous gift for sensing economic problems long before the rest of us. Not sure what to do, I adapted his title to “[Is This the Beginning of the End of Central Bank Independence?](#)” This was surely much narrower than Feldstein’s theme; one can only guess what richer tapestry he would have woven.

Feldstein’s passing leaves a vast hole in academia and in the world of reasoned, rational public debate.