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Academic Economists to Consider Ethics Code

By SEWELL CHAN

WASHINGTON — When the Stanford business professor Darrell Duffie co-wrote a book on how to overhaul Wall Street regulations, he did not mention that he sits on the board of Moody's, the credit rating agency.

As a commentator on the economy, Laura D'Andrea Tyson, a former adviser to President Bill Clinton who teaches in the business school at the University of California, Berkeley, does not usually say that she is a director of Morgan Stanley.

And the faculty Web page of Richard H. Clarida, a Columbia professor who was a Treasury official under President George W. Bush, omits that he is an executive vice president at Pimco, the giant bond fund manager.

Academic economists, particularly those active in policy debates in Washington and Wall Street, are facing greater scrutiny of their outside activities these days. Faced with a run of criticism, including a popular movie, leaders of the American Economic Association, the world's largest professional society for economists, founded in 1885, are considering a step that most other professions took a long time ago — adopting a code of ethical standards.

The proposal, which has not been announced to the public or to the association's 17,000 members, is partly a response to "Inside Job," a documentary film released in October that excoriates leading academic economists for their ties to Wall Street as consultants, advisers or corporate directors.

Universities and medical schools have tightened disclosure requirements and conflicts of interest policies for scientists, engineers and doctors in recent years, and the main professional associations for political scientists, sociologists and psychologists have all adopted ethical codes.

During the American Economic Association's annual meeting, in Denver next week, its executive committee will take up a proposal to "consider the association's role regarding ethical standards for economists," according to an internal committee agenda obtained by The New York Times.

The association's president, Robert E. Hall of Stanford, would not elaborate on the proposal or say where he stood on it.

"Like my predecessors, I'm skeptical that the A.E.A. is well-positioned to cure any ethical lapses that economists may be committing outside the A.E.A. itself," he wrote in an e-mail. "Still, the topic might benefit from further discussion within the organization."

The proposal is likely to raise a host of questions: Should economists be required merely to disclose who finances their research, as many academic journals already require? Should they have to reveal which corporate clients they advise, consult for or give speeches to? Should they even be allowed to serve as corporate directors and officers, as many business and finance professors do?

Some scholars say the discussion is long overdue.

"I'm glad the A.E.A. is taking it up," said Dale W. Jorgenson, a former president of the association and a longtime Harvard professor (he advised the undergraduate thesis of Ben S. Bernanke, now the Federal Reserve chairman). "I'm hoping they take an activist position."

Professor Jorgenson said that academic economists had fallen behind scholars in other fields in their attentiveness to transparency, and should follow the example of the biomedical sciences, where money from the private sector is subject to rigorous disclosure rules. But another former president of the association, Robert E. Lucas Jr., said universities were better suited to handle the matter.

"It's good to get this stuff out in the open, but I don't like the idea of the A.E.A. watching over this," said Mr. Lucas, a Nobel laureate at the University of Chicago.

Mr. Lucas added: "What disciplines economics, like any science, is whether your work can be replicated. It either stands up or it doesn't. Your motivations and whatnot are secondary."

Since economics emerged as a modern discipline in the late 19th century, its practitioners have resisted formal ethical codes, said George F. DeMartino, an economist at the Josef Korbel School of International Studies at the University of Denver.

In "The Economist's Oath: On the Need for and Content of Professional Economic Ethics," to be published in January, Mr. DeMartino describes concerns dating to the 1920s about the influence of business on economic research, and cites multiple calls within the association for a code of conduct — all of which have been rebuffed.

After one such debate in 1994, the committee concluded that it might not have the relevant expertise to fairly judge ethical disputes; that a fair mechanism to resolve complaints would be hard to establish; and that any such effort could result in lawsuits and prove toothless because of a lack of sanctions for violators.

"I can see the case for specific rules on conflicts of interest, but that doesn't begin to exhaust the ethical challenges that confront economists," Mr. DeMartino said.

What is clear is that the film has rattled the profession.

"You could call this the âĂŸInside Job' effect," said David H. Autor, an M.I.T. professor who is a nonvoting member of the committee but had not heard of the proposal. "Certainly the implication of the movie was that people were selling their academic reputations to further the interests of moneyed individuals and institutions."

The film is particularly critical of R. Glenn Hubbard, dean of Columbia Business School and a director of MetLife; Frederic S. Mishkin, a professor at the same school who advises investment firms; and Martin S. Feldstein, a Harvard professor who resigned from the board of the American International Group, the insurance giant, after it was bailed out by the Fed and the Treasury.

All have held top posts. Professor Feldstein was chairman of the Council of Economic Advisers under President Ronald Reagan, a job Mr. Hubbard later held under Mr. Bush. Professor Mishkin was a Fed governor.

Mr. Hubbard said the association proposal "sounds like a very good idea," and Professor Mishkin said: "I strongly support having the A.E.A. clarify standards for disclosure, because increased transparency would benefit the public and the economics profession." (Professor Feldstein said he could not discuss his work for A.I.G. on the advice of lawyers.)

A recent paper by Gerald Epstein and Jessica Carrick-Hagenbarth of the University of Massachusetts, Amherst, found that many financial economists who weighed in on the Wall Street overhaul signed into law in July did not prominently disclose potential conflicts of interest.

As an example they cited Mr. Duffie, who like Mr. Mishkin was an author of "The Squam Lake Report," a volume of recommendations on financial reform that was published in June.

"Looking back on it, it was probably an oversight not to say that we not only talk to regulators but have affiliations with players in the financial services industry," Mr. Duffie said.

Others said they saw no problem with their multiple roles. Professor Clarida, of Columbia, said his experiences at Treasury and Pimco "enhance my academic work and my effectiveness in the classroom."

Ms. Tyson, who is an unpaid adviser to the Obama administration, said, "Provided everything is disclosed, there is no reason why an economist who happens to have associations in the private sector should be precluded from speaking out on policy issues."

But while many economists disclose corporate work on their Web sites, others do not. Professor Clarida provided a copy of his rÃľsumÃľ that lists his work for Pimco, but his Web page has an older version that does not.

Notes

[1] http://www.nytimes.com/2010/12/31/business/economy/31economists.html?