



Jeremy Clift profiles **Laura Tyson**, the first woman to head the U.S. Council of Economic Advisers

Tyson speaking at a gender symposium in Davos, Switzerland.

## Minder of the Gaps

**L**AURA TYSON spends a lot of her time thinking about gaps and deficits—what’s not there, what’s missing: the jobs gap, the income gap, the education gap, the gender gap, and maybe the most disturbing gap of all, the yawning U.S. fiscal deficit.

She worries that the United States is losing its preeminence, that the American dream of rising prosperity is getting tougher to realize.

“Even before the Great Recession, American workers and households were in trouble,” says Laura D’Andrea Tyson, professor of economics and business at the University of California, Berkeley, who has a number of firsts to her name. The first woman to chair the Council of Economic Advisers (under President Bill Clinton), she also was the first woman to head the London Business School, where she founded the school’s Center for Women in Business.

“The rate of job growth between 2000 and 2007 slowed to only half its level in the three previous decades. Productivity growth was strong, but far outpaced wage growth, and workers’ real hourly compensation declined, on average, hurting even those with a university education,” she says during an interval between teaching MBA students.

Tyson believes that protests against rising income inequality in the United States—where the top 1 percent of society are hugely wealthy compared with the bottom 99 percent—represent the new cause of our times. “It’s a

generational issue now for people from their mid-20s to mid-30s. They’re in that world, just like I was in the anti-Vietnam War movement.”

The protests that began as demonstrations against Wall Street bailouts and corruption have spiraled into “occupy” movements around the world, particularly in advanced economies.

### Breaking glass ceilings

An architect of Clinton’s domestic and international economic policy agenda during his first term, Tyson was the highest-ranking woman in the Clinton White House when she succeeded Robert Rubin as director of the National Economic Council from February 1995 to December 1996.

Clinton was attracted to Tyson’s advocacy of “aggressive unilateralism” on trade, which he found to be realistic and pragmatic. Her book *Who’s Bashing Whom? Trade Conflict in High-Technology Industries*, published in 1992, set the tone for how Clinton would negotiate with the Japanese on protectionist trade issues.

The problem, at the time, was the dramatic challenge Japan and Europe posed to the United States, particularly in high-tech manufacturing and exports.

Rejecting unfettered free trade, Tyson proposed expanding market access through tough negotiations on tariffs and barriers to trade, backed by a credible threat of retaliation against those who closed their markets to U.S. imports.

## Applied economics

President Clinton, in his autobiography, *My Life*, says he chose Tyson as chair of the Council of Economic Advisers because she impressed him with her knowledge of technology, manufacturing, and trade, “the microeconomic issues I felt had been too long ignored in the making of national economic policy.”

Although she later won their respect, her appointment provoked an uproar among mainstream economists who openly challenged her credentials and analytical skills. “While economists are often the butt of jokes, it’s rare for one to be the target of a public mugging by other economists,” noted the magazine *Businessweek* in February 1993.

But in some respects her combination of economic analysis with pointed and calculated political strategy was ahead of the times. Now at the Haas School of Business at Berkeley, Tyson still thrives on the cut and thrust of economic debate and political dissent, writing regular blogs and articles for magazines and newspapers, including the *New York Times* Economix blog and the *Financial Times* A-List.

“I teach a course on doing business in emerging markets,” says Tyson, who is married to screen writer Erik Tarloff, author of the novel *Face-Time* as well as episodes of the hit TV series *M\*A\*S\*H*. He currently writes a blog for the *Atlantic* magazine. “I tell the class it’s half about strategy—I’m not a strategist, but I’ve been around; I’m on boards and I’ve run business schools, and I understand strategy—and half about economics.”

## Skepticism about markets

Obviously the profession has moved on, but what academic economists were upset about, *Businessweek* said, was “that she is far more open than most economists to the idea of government action.”

“We must not be hoodwinked by the soothing notion that, in the absence of U.S. intervention, the fate of America’s high-technology industries will be determined by market forces,” Tyson wrote in *Who’s Bashing Whom?* The magazine noted, “This skepticism about the invisible hand’s wisdom makes her persona non grata in a profession where belief in markets is imbibed with mother’s milk.”

Economist James Galbraith came to her defense. Writing in the liberal monthly magazine *American Prospect* in March 1993, he said she was careful and precise, and neither “polemical nor trendy.” The threat, he said, was to “professional economists whose totemization of the market has provided them with a ready-made policy platform. What will these people do, if their all-purpose formulas are no longer sufficient? Maybe the old boys really are threatened by this appointment.” (See Box 1.)

## Worried about competition

In her study of trade and employment with Berkeley professor John Zysman, Tyson examined the causes of the 1980s decline in manufacturing employment in the United States and the general deterioration in the country’s international

competitive position, looking into the employment effects of trade in four industries—apparel, automobiles, semiconductors, and telecommunications equipment. Regularly cited factors such as the rising value of the dollar, protectionism, and slow growth in foreign markets were important. But she found that other factors, including the government’s adherence to a free trade policy when others played by a different set of rules, were relatively more significant.

“She persuaded Clinton and his economic advisers to embrace a variant of managed trade—trade agreements that established desired outcomes of trade rather than leaving the results to the free flow of goods—when seeking to promote the development and expansion of high-tech industries. This policy was instrumental,” say James and Julianne Cicarelli in their book *Distinguished Women Economists*, “in the veritable explosion in the volume of international trade that took place in the late 1990s, propelling the U.S. economy into an unprecedented boom that can only be described as the perfect expansion.”

## Changing actors

Today, the actors may have changed, but many of the worries are similar. Tyson is still concerned about faltering U.S. economic performance. But today the apprehension is more about China and other dynamic emerging markets, although Tyson is quick to point out that Clinton never faced anything

Box 1

### Economics: Changing the paradigm

The global economic crisis has undermined economists’ belief in the infallibility of markets.

“The fundamental mistake was believing that individual rational actors would essentially discipline themselves,” says Tyson, reflecting on the global economic crisis during a visit to New York. “Now first of all, I said ‘rational,’ and we have all this evidence accumulating that individual actors are not always rational, and the economic models didn’t take account of that.

“And then the models basically said when you put all these individual decisions together, it will add up to something that makes sense. But what you can see is if individuals are behaving irrationally—then you add herd instincts to that—the system can actually go quite off the rails. And it went off the rails.

“Now economists realize that the efficiency of markets is questionable. We’ll look seriously at behavioral, predictable errors that people make. We will put more regulation in place because actually we don’t believe anymore that people will get it right themselves. They will respond to the rules and, therefore, we’d better think about what the rules are.

“So I think there really has been a significant shift in terms of thinking about market failure. Why do we assume that markets have complete information? They mostly don’t have, or if they have complete information, it’s overlooked by actors who aren’t paying attention. For either reason, we have to assume they can really end up in not optimal outcomes. So that’s a big, big change. I think it’s a huge change.”

like the economic slowdown that confronts President Barack Obama. “The magnitude of the problem is very, very different and the [U.S.] political climate now is also worse.”

The world has become much more connected and interdependent, so that problems in one part of the world are now much more likely to affect other parts. “By most measures of interdependence, probably by all measures that you could come up with, the world is more interdependent,” she says.

“And that, to my mind, does mean that there is a need for more coordination, understanding and coordination, of financial market policy and capital flows. We have a much more complex global finance system, and we haven’t figured out appropriately how to regulate it,” says Tyson, currently a senior advisor at the McKinsey Global Institute, Credit Suisse Research Institute, and The Rock Creek Group investment firm.

### Good mentors

Tyson’s father was a second-generation Italian-American who fought in World War II. He was very goal oriented and pushed his children to achieve. Born in Bayonne, New Jersey, in 1947, Tyson graduated from Smith—a private women’s college—summa cum laude and earned her Ph.D. in economics at the Massachusetts Institute of Technology in 1974, where she was mentored by Evsey Domar, a Russian-born economist who developed an important growth model and who kindled in Tyson an interest in Soviet-style command economies. Consulting for a period for the World Bank, she worked on the socialist economies of eastern Europe, partnering briefly with well-known Hungarian economist Béla Balassa, as well as with development economist Irma Adelman, at that time one of the highest-ranking women at the Bank. She taught economics at Princeton for three years, then shifted in 1978 to Berkeley, where she has been off and on since.

Her parents had advised her to study business. But “I was



U.S. President Bill Clinton after announcing Tyson will chair the National Economic Council.

one of these instant converts to economics after taking one course. I always saw it as a great tool for doing public policy, so I just stuck with it. And I think I made the right decision. I still like economics.”

One of the authors of the annual *Global Gender Gap* report, produced by the World Economic Forum, Tyson sees women making progress around the world—but slowly, and still lagging especially in political representation (see Box 2).

Her links to the Clintons and advocacy for women made her a natural supporter of Senator Hillary Clinton in her 2008 bid to win the Democratic nomination for president. She became a late convert to Obama’s cause after Clinton dropped out of the race that June.

Vocal in President Obama’s defense, she is also a member of his nonpartisan Council on Jobs and Competitiveness, which is chaired by General Electric CEO Jeffrey Immelt. The daunting goal of the council is to find new ways to pro-

#### Box 2

### Slow progress for women

The *Global Gender Gap* report is an attempt to measure how women are doing around the world.

“We look at 135 countries in terms of political representation gaps; economic opportunity gaps; access to education or educational performance gaps; and health care gaps,” says Tyson, who has promoted “affirmative search” as a way of advancing qualified women. “Since we started measuring in 2006, most countries have made progress, particularly in education and health care. It’s in economic opportunities and political representation that women lag most. Around the world, women hold fewer than 20 percent of all national decision-making positions.”

“Our aim is to focus on whether the gap between women and men . . . has declined, rather than whether women are ‘winning’ the ‘battle of the sexes,’” says the report, coauthored with Ricardo Hausmann, director of the Center for International Development at Harvard University.

Stressing that the work is comparative rather than prescriptive, she says that the report has moved toward analyz-

ing best practices, for example how governments have tried to improve political representation or how companies have improved recruitment and retention of women. Tyson has a lot of experience and ideas in this field. She is on the boards of several companies, and in 2003 she was tapped by the British government to figure out how to improve diversity in corporate boardrooms.

She singles out the World Bank 2012 *World Development Report* on gender equality as particularly helpful at pulling together research on how gender affects development.

“One of the things I learned from this very sensible report is the extent to which access to credit for women is important,” she says. “We know that there’s a small-business problem in access to credit in general across societies at very different development levels, whether you’re a developed society or not. Then there are reasons why it turns out to be even worse for women, even harder for a small business that’s headed by a woman.”



mote growth by investing in American business to encourage hiring, to educate and train workers to compete globally, and to attract jobs and businesses to the United States.

### Job polarization

Global interdependence, competition, and technological change, says Tyson—who was part of Obama’s Economic Recovery Advisory Board set up after the global economic crisis to help generate ideas and analysis to revive the U.S. economy—have led to the polarization of job opportunities in many advanced economies, with employment growth in high-wage professional, technical, and managerial occupations, as well as in low-wage food-service, personal-care, and protective-service occupations.

By contrast, employment in middle-skill white-collar and blue-collar occupations fell, particularly in manufacturing. Hard-pressed American households cut way back on saving, borrowed against their home equity, and increased their debt to maintain consumption. This in turn contributed to the housing and credit bubbles that burst in 2008, requiring painful deleveraging ever since.

She believes the United States is underinvesting in three major areas that help a country create and retain high-wage jobs: skills and training of the workforce, infrastructure, and research and development.

She points to recent studies by Michael Spence and Sandile Hlatshwayo and by David Autor about how technological change and globalization are hollowing out job opportunities and depressing wage growth in the middle of the skill and occupational distributions, although she argues that it’s a dynamic process, with wages rising in countries that were once seen as attractive. “China may start to lose jobs to other countries.”

Global competition has bred rising income inequality in the United States, says Tyson, who serves on the boards of Morgan Stanley, AT&T, Silver Spring Networks, and CBRE Group, Inc. Three forces, she says, are behind the U.S. labor market’s adverse structural changes:

- skill-biased technological change, which has automated routine work while boosting demand for highly educated workers with at least a college degree;
- global competition and the integration of labor markets through trade and outsourcing, which have eliminated jobs and depressed wages; and
- America’s declining competitiveness as an attractive place to locate production and employment.

The polarization of employment opportunities is also happening elsewhere. But some countries, such as Germany, are doing something about it, while the United States is becoming a less attractive place to locate production and employment, according to a recent McKinsey study. One reason for the U.S. relative decline is the weaknesses of its education system, says Tyson, who is also on the boards of MIT and the Peterson Institute of International Economics. The United States, she says, has very uneven education attainment levels that are related to family income: children from poorer families find it difficult to go to college. In

addition, even as the education system is producing workers whose skills do not match those required for high-quality jobs, immigration restrictions make it difficult to attract and retain foreign talent.

### What to do

The United States has made several attempts to work out a response.

In its influential 2005 report, “Rising Above the Gathering Storm,” the National Academies warned that the U.S. competitive position in innovation was eroding and called for significant increases in government investment in research and development, education, and infrastructure to reverse this trend. Other countries took note, even borrowing ideas from the report, but in a sobering follow-up document, the National Academies concluded that the U.S. competitive position has continued to decline.

The widening U.S. fiscal deficit, coupled with the retirement of the baby boom generation, which puts extra pressure on pensions and health care, adds new complexity to tackling all these gaps at once and calls for some difficult choices.

“The challenge is daunting and inescapable,” says Tyson. “A plan to reduce the long-run deficit must be crafted both to address the growth deficit and to reverse the nation’s competitive decline at the same time. We must invest more in the foundations of innovation even as we spend less on most other government programs.”

But despite the drawbacks, the greater interdependence brings huge benefits overall, she argues.

“The world has had dramatic success in eradicating global poverty—there’s still a long way to go, but a lot of progress: dramatic success in technological breakthroughs; dramatic success in building a middle class for the world economy.

“All those things are great and that’s part of the interdependence, but the interdependence does mean that instability in one place can move quickly to another place. The contagion effect is real, engulfing the world, and the problem can happen very quickly. So that suggests the need for increased multilateral coordination.” ■

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