PARALLEL PATHS

Atish Rex Ghosh profiles **Kristin Forbes,** who straddles academia and policymaking

DEWORMING children seems an unlikely interest for economist Kristin Forbes, who has spent most of her professional career straddling academia and policymaking. But the professor at the Massachusetts Institute of Technology's (MIT's) Sloan School of Management has been willing to tread unlikely paths as well.

Forbes, who is also an external member of the Bank of England's Monetary Policy Committee, has focused on such international issues as financial contagion—that is, how economic problems spread from country to country—cross-border capital flows, capital controls, and how economic policies in one country have spillover effects in others.

But when presented with evidence by colleagues that one of the most cost-effective ways to keep children in developing economies in school was to rid them of parasitic worms, she helped form a charity aimed at deworming kids.

Still, academic research and policymaking absorb most of Forbes's time—whether at MIT, the World Bank, the Bank of England, or the US Treasury Department, among other places.

Yet her path was not predestined—and more than once, luck or coincidence played a crucial role. Growing up in Concord, New Hampshire, she developed a passion for the outdoors and attended a public high school. Though it was hardly a low-performing school (about half of the class would go on to college), most of her classmates set their sights on the University of New Hampshire. Forbes's counselors were bemused when she aspired to more prestigious colleges, such as Amherst or Williams. But in an early instance of forging her own path, Forbes did indeed end up going to Williams College.

A wealth of choices

At Williams, Forbes was confronted by a wealth of choices and wound up in courses on astrophysics, religion, psychology—and economics. She credits her Econ 101 professor, Morton ("Marty") Schapiro (later, president of Williams College) with inspiring her interest in the subject—mostly by applying basic economic concepts to everyday life. He spoke of the diminishing, and eventually negative, marginal utility of consuming too much beer (not an irrelevant example on college campuses). Still, she dithered between economics, history, and political science (enjoying the interplay between the subjects), but finally majored in economics and graduated summa cum laude.

After graduation, Forbes pondered what to do next—vacillating between law or following in her father's footsteps and becoming a doctor—but ended up in Morgan Stanley's investment banking program. Though she learned about markets (knowledge that would later come in handy for her economics research), Forbes soon realized that investment banking was not for her. And then she caught a lucky break—Richard Sabot, one of her professors at Williams, put her in touch with Nancy Birdsall, who was finishing up the World Bank's 1993 study of how nations in East Asia achieved economic success and was looking for a researcher to help apply its insights to Latin America.

So Forbes went to the World Bank for a year—and got her first taste of policy-oriented research. Working with Birdsall and Sabot inspired Forbes to become a career economist like them and made her realize that she needed a PhD to do so and to affect the world the way they did.

At MIT Forbes's perspective was, therefore, not quite like that of most grad students, who tend to be enthralled more by the models and theories themselves than by their application to real-world problems. It was just that perspective that earned Forbes prestige when her examination of the impact of income inequality on growth was published in the *American Economic Review* in 2000. The study was part of an assignment for Jerry A. Hausman's econometrics course at MIT.

In the mid-1990s, income inequality was hardly a hot topic. But Birdsall and Sabot had found that income inequality was bad for growth, and—at least in policy circles—that finding had made somewhat of a splash. Forbes reexamined the question, using newer data and more sophisticated (and recently developed) techniques, and found that the sign had flipped! Comparing across countries, income inequality is bad for growth, but looking within a country, she found that growth and rising inequality are positively related.

Beyond getting her published in a distinguished journal, the experience taught Forbes the importance of careful analytical work in policy conclusions. Forbes is perhaps best known for her work on financial contagion. This is a defining theme of her life's work. She was writing in the aftermath of the financial crises in Asian and other emerging market countries when "contagion" seemed rife.

Her papers dissected what was meant by contagion—a term hitherto used very loosely—and thereby helped clarify when and why it occurs. As Roberto Rigobon, a co-author and fellow professor at MIT once remarked, "Kristin is one of the leaders in the empirical analysis of contagion. Her papers are a tour de force for anyone interested in measuring its importance, existence, and extent." Stijn Claessens, senior advisor at the Federal Reserve Board, the US central bank, who has also done research with Forbes on the topic, says: "She sets the academic bar very high, yet keeps the policy relevance of the work always in mind and motivates others by pointing out big gaps in our understanding. And she delivers her insights in an easy digestible way."

In another oft-cited paper, Forbes looked at the impact of imposing capital controls, going beyond traditional analyses of their macroeconomic effects to study how controls affected small and medium-sized enterprises' access to financing—previously ignored by academics and policymakers alike.

Such analysis has earned Forbes a well-deserved reputation for policy-oriented academic research. Yet an overly narrow focus on analytical work for policy purposes is not without risks—particularly of misinterpretation by others. For example, Forbes's findings on the impact of capital controls on financing for small and medium-sized enterprises are often taken to mean that governments should avoid controls on capital inflows because of the burden on smaller compared with larger firms. That may be true, but the main policy alternative for a country facing a capital-inflow-fueled credit boom is a prudential measure. Such a measure would likely have an even greater disproportionate impact on small enterprises, which tend to rely more on bank financing than do larger firms.

Similarly, Forbes's paper on income inequality and growth should not be interpreted as implying that inequality is good for growth. Subsequent research shows that results depend on the sample chosen, and estimates based solely on how variables changes over time, the technique Forbes used, typically pick up only the short-term positive association between inequality and growth. The negative impact is identified by analyzing how a variable changes both over time and across countries.

Prank call?

Forbes, who has spent a considerable part of her career in official circles, is well aware of the subtleties of applying academic research to draw policy conclusions. After her stint at the World Bank, Forbes's next opportunity to be involved directly in policy work came when she returned from a run one day in 2001 to find a message on her answering machine from someone named John Taylor. He was inviting her to come down to the Treasury Department in Washington, DC, for a chat. At first, she thought it was a joke. Of course she knew who Taylor was—the Stanford University professor who had just been appointed Under Secretary of the Treasury for International Affairs in the new George W. Bush administration. But why would he want to talk to her? She very nearly erased the message.

In the end, she returned Taylor's call, and it turned out that he wanted her to set up a new Treasury division to monitor vulnerability around the world in the aftermath of the Asian and Russian crises. Forbes was undecided. Ever since her World Bank days, she had felt the pull of both the academic and policy worlds and believed the two did not interact enough. But as an aspiring assistant professor at MIT, her priority was to publish in leading academic journals—not gallivant in the corridors of power in Washington.

She turned down the offer twice, until the late Rudiger Dornbusch, her former advisor at MIT and a leading international economist who had made his name in both academic and policy circles, called to admonish her. He refused to let her off the phone until she had started to pack her suitcase. "This is why we do the academic research we do . . . to actually affect policy and affect the world. You need to go and do this," he told her.

Real-world data

So Forbes went back to Washington in 2001. It was, she says, "a fascinating experience to try to apply academic research to the real world with real-world data, where you're not telling everyone that contagion will happen nine months after the fact. You actually have to do it ahead of time. And it does introduce a whole new set of issues of how we can take what we write about and make it applicable in real time." Her time at Treasury also pulled Forbes into a host of other issues that she had never thought about before. One was working on the US Millennium Challenge Account—a program to help make US foreign aid more effective by developing criteria to determine which countries would be eligible.

Back at MIT the following year, Forbes began writing academic papers on some of the issues she had encountered in the policy context—including financial contagion—until the phone rang again. This time it was an invitation to join the US President's Council of Economic Advisers. There, Forbes worked on many hot topics in international economics, including possible currency manipulation by major trading partners and international taxation.

On an issue that was then in the headlines—the huge sums of money parked abroad by US multinational corporations to avoid high corporate taxes—Forbes was again able to bring her analytical skills to bear in debunking popular myths. These corporations commonly complained that they could not finance investment in the United States because it would cost so much to repatriate the funds. The natural implication was that they should receive, at least, a one-time tax holiday to help spur investment in the United States.

To Forbes and her colleagues on the economic council, that did not ring true—but without solid evidence, they had no way of refuting this claim. The corporations seemed to have a compelling case, which was quashed only by Forbes's subsequent research, which showed that when firms do repatriate funds, they typically use them to pay dividends rather than investing in physical plants or employing more workers.

An open mind

This interplay between academia and policy—research informing policy decisions, policy questions inspiring research—has become a hallmark of Forbes's work. Unlike many, however, she is also willing to keep an open mind and to shift her views in light of new studies and evidence. Her early work on capital controls, for instance, tended to emphasize their costs. But recent studies on capital controls' role in mitigating financial stability risks and the growing awareness that in financially open economies there is little practical distinction between prudential measures and capital controls, have persuaded Forbes of their potential to bolster financial resilience.

Her advice to young researchers is very much in the same vein: choose topics that are important and that you care about; ask yourself why you are doing this work; be intellectually inquisitive; explore all angles of the issue; then base your conclusions on solid analytics.

Forbes will not discuss current policy issues because she is a member of the Bank of England's Monetary Policy Committee, although she recently announced she is returning to MIT and will be unable to seek another term on the committee. But consistent with her theme that policy decisions should be based on firm empirical evidence, she is obviously perturbed by the anti-expert, anti-elite, facts-don't-matter attitude that seems to have crept into popular discourse. Through her research, she continues to try to explain basic economic facts—to the public and to policymakers—in the hope of positively influencing how important decisions are made. At the same time, she urges academics to spend more time talking to people outside their ivory towers: "we really need to—all of us, policymakers and academics—get out and talk to businesses, and talk to the man on the street, and talk to people and better understand what they are worried about and what they are thinking about."

Much of Forbes's professional life has been devoted to international economics—she even got married in Bretton Woods, New Hampshire, where the IMF and World Bank were conceived in 1944 (though she hastens to explain that she chose the hotel more for its convenient location than for its historical associations). Not surprisingly, therefore, she is concerned about the current backlash against globalization. Part of the problem, she believes, is economists' inability to communicate to the general public in ways that are understandable and applicable to people's lives.

> She is willing to keep an open mind and shift her views in light of new evidence.

While some of the antiglobalization sentiment stems from concerns about extreme income and wealth inequality, she also believes that the impact of globalization on inequality should not be exaggerated. In the United Kingdom, she notes, income inequality in recent years has fallen, or at least not increased, as wages in lower brackets have risen faster than in some higher brackets. Yet, among many, there is incredible frustration and fear about change—eventually manifested in the British vote to leave the European Union, or Brexit. Economists—academics and policymakers—must better understand and better explain how globalization can benefit all.

Deworming children

As elevated as academic research can be, sometimes it has an impact on the personal, which is why Forbes became involved in the deworming project. It is an example of how she has applied her skills broadly, taking many different, sometimes unexpected, but often rewarding paths.

A few years ago, academic research by fellow MIT professors Rachel Glennerster and Esther Duflo, together with Michael Kremer of Harvard University, found that one of the most cost-effective ways of ensuring that children in developing economies stay in school is to rid them of parasitic worms that often make them too ill to attend school. The findings prompted them to form a charity dedicated to deworming children in developing economies, and Forbes volunteered her business school savvy to help establish the organization.

"It's amazing," the proud mother of three says enthusiastically, "how the power of good economic research can raise significant amounts of money in donations. Just give children one pill a year, and it gets rid of their worms and they can learn more. They are not as lethargic, they absorb more minerals in food, they are healthier. So—incredibly easy, incredibly effective. By now, some 25 to 30 million children have been dewormed—all thanks to good academic research!" ■

Atish Rex Ghosh is the IMF's historian.