HEALTH ECONOMISTS IN THE REAL WORLD

JONATHAN GRUBER

PRESIDENTIAL ADDRESS TO THE AMERICAN SOCIETY OF HEALTH ECONOMISTS

EMORY UNIVERSITY
SEVENTH BIANNUAL CONFERENCE, AMERICAN SOCIETY OF HEALTH ECONOMISTS (ASHECON)
JUNE 11, 2018

The last quarter-century has seen a dramatic maturing of the health economics profession in the United States. When I was a graduate student in the early 1990s, it was exceedingly rare to enter the job market as a student in “health economics.” It didn’t matter how much you liked health economics or how focused your research was in that area; it wasn’t a career-optimizing decision to look for a job with that label.

There is a famous sports joke that makes the rounds whenever the local team is bad; we can use the example of my sad-sack favorite basketball team, the New York Knicks. The joke is that a kid is in school on “what your parent does for work day.” As they go around the room, children are reporting that their parents are teachers, businesspeople, lawyers, or the like. Then they get to little Ashley, who says, “My dad deals drugs.” The teacher thinks he must have heard it wrong, so he asks her again what her dad does. She says, “My dad sells illegal drugs to folks, to pay the bills.” The teacher is pretty shaken up by this statement, obviously, so he pauses class, pulls Ashley aside, and says, “Ashley, why did you say that this is what your dad does?” Ashley replies, “Well, he really plays for the Knicks, but what I said is a lot less embarrassing!”

Now take this joke and replace drug dealer with public finance economist, or labor economist, or industrial organization economist, and replace playing for the Knicks with being a health economist, and that is what it was like doing health economics 30 years ago. A lot has changed since then—although the Knicks are still terrible.

In 1990, the American Economic Review published just two articles in health economics; now it publishes about five per year. In the American Economic Journal: Economic Policy and American Economic Journal: Applied Economics, major new general-interest journals in health economics, about one in eight articles published in 2017 was in health economics. In 1990 there was just one significant health economics field journal, the Journal of Health Economics, while today there are multiple strong health economics journals, including ASHEcon’s own American Journal of Health Economics.

Jonathan Gruber (gruberj@mit.edu), Department of Economics, Massachusetts Institute of Technology, and NBER.


This content downloaded from 018.010.069.252 on January 22, 2020 07:18:44 AM
All use subject to University of Chicago Press Terms and Conditions (http://www.journals.uchicago.edu/t-and-c).
Part of the success of health economics is due to the powerful role that our profession is playing not only in pushing forward the frontier of scientific knowledge, but also in translating the lessons of our research for the real world. Innovations in health policy, from an expanded role for Medicare managed care organizations in the 1990s to the Part D drug benefit of 2003 to the Affordable Care Act (ACA) of 2010, all relied heavily on economics research and insights.

But while those in our profession are doing well, we could be doing better. Here I discuss where health economics is succeeding, and where it is failing, in influencing policy, and what our profession can do to move this forward in the future. I bring a unique perspective to this question, having been at the frontlines of some of the greatest successes our profession has had in influencing health policy, first through health-care reform in Massachusetts, and then through the ACA. What follows are a few of the crucial lessons that I have learned through that process.

Lesson 1: A Good Number Is Worth a Thousand Words

We think of both federal and state policymaking as a cesspool of conjecture and opinion, but in fact floating on top of this cesspool is the ship of fact. This ship may have sprung some leaks in recent years, but it is still afloat.

To prove this point, look no further than last year’s attempts to repeal the ACA. With a Republican president and majority of Congress, many assumed that ACA repeal was a done deal. And indeed, last spring, the question seemed to be what form repeal would take, not whether it would happen. Then a signal event changed the whole conversation: a Congressional Budget Office (CBO) report highlighted that current repeal efforts would raise the number of uninsured by 22 million or more. This fact got a lot of coverage and fundamentally shifted the debate; this may not have been the major reason why repeal failed, but it was one of the most important. The fact that a compelling estimate from an objective source of expertise could still matter in today’s partisan political environment is heartening.

This example more generally represents an important fact about policy making: the person who can produce the facts has a critical role to play in policy debates. I have been through many strange battles at the highest level of government about which team of nerds would get to produce the estimates that would be used for policy making. It is bizarre to see some of the most famous and important politicians in our nation fighting over which statistical model and team of experts would give them the numbers they use, but it reflects the outsize role that facts do still play in the debate.

Lesson 2: Objective Analyses Are Scarce

The countervailing lesson to the positive role of the CBO in health-care debates is that the CBO is relatively unique—and its role is circumscribed. The reason that I had a role in the debate over the ACA was that I had developed a microsimulation model that worked similarly to the CBO, and the model could fairly well predict what the CBO would say. When the ACA was being developed, there were hundreds of specific policy
parameters that had to be developed, from the exact schedule of subsidies to the particular size of the mandate penalty. In an ideal world, as policy makers were developing these policy parameters, they would have gone back and forth with the CBO, doing many runs to compare the impacts of various combinations. But the CBO isn’t set up this way; it doesn’t have the bandwidth. The CBO just wants to score relatively final proposals, not help in narrowing the structure of the legislation. Therefore my job was to be a “pre-CBO”—to help narrow the state space in a constructive way for the final bill that was sent to the CBO. So even at the federal level, where the CBO may have the final say, there is enormous room for objective analysis. And at the sub-federal level, CBO-like institutions are quite rare. Despite current perceptions of our broken political system, there is massive excess demand for facts—and you all are in a great position to provide them. This point brings us to our next lesson.

**Lesson 3: Meet the Demand**

If you think about how applied microeconomists spend their time, it is roughly divided 99 percent on estimating stuff, and 1 percent on explaining what it means. Sure, we have sections in our papers called “conclusions” or “policy implications,” but they are generally pretty wishy-washy and toothless; I include myself as one of the worst culprits.

A very influential moment in my career came in my first meeting with some CBO analysts, when I was discussing some elasticity I had estimated. I remember bravely and boldly concluding that this parameter would lie between some values $X$ and $Y$, where $Y$ was something like 100 percent higher than $X$. The analysts looked at me and said, “Policy makers don’t want a range, they want a number. What is the number?” I replied that I didn’t know, that I hadn’t really thought much about it.

As a profession we need to spend more time thinking about what we are doing actually means in terms of specific policies. This means spending more time thinking about policy modeling rather than just about estimation. It also means spending time working on topics that may not become pathbreaking research articles.

One example comes from my time on the Connector board, the body that was in charge of implementing Massachusetts health-care reform. One little-known fact about the Massachusetts reform is that the law itself was incredibly vague, and the hard work was actually left to the Connector board. For example, the law itself simply said that health insurance had to be “affordable,” but it didn’t define what that meant. We had to decide as a board what that meant in terms of what individuals actually contributed toward their subsidized insurance.

My first reaction was to simply avoid the conversation; after all, “affordability” isn’t even a real economic concept! But I realized quickly that if I wanted to contribute in a meaningful way to the debate, I would need to have something of value to say. So I decided to take a crack at defining affordability.

I collected data from the Consumer Expenditure Survey, the nation’s largest survey of consumer expenditure patterns. I simply defined “affordable” as “can pay for it without reducing spending on necessities,” and I defined necessities as shelter, utilities, food, and clothing. Although neither definition is rigorous and my calculations have never appeared
in any refereed publication, this empirical exercise was probably one of the most important I have ever done. Not only did it influence how we set up the subsidies in Massachusetts, but it was used during debates over how to set subsidies under the ACA. Were they perfect? No. But were they better than a data-free conclusion? Definitely. However, to make this work, I had to learn to explain clearly what I was finding; that leads to the next lesson.

Lesson 4: Don’t Assume Policy Makers Know, or Care About, Economic Principles

My very first policy advisory meeting was in the mid-1990s when I was a young professor. A senior colleague, Paul Joskow, invited me to meet and advise a gubernatorial candidate in Massachusetts. As the conversation touched on a policy idea I was very excited about, I spent several minutes discussing how this would be a Pareto improvement. It may have been, but at that point I completely lost the attention of the policy makers. Therefore, another goal that we need to strive for as a profession is moving from our jargon towards plain English terms that policy makers can understand. This can be hard, and it can lead to some uncomfortable trade-offs.

Lesson 5: Know When to Hold ‘Em and Know When to Fold ‘Em

To be a policy-oriented economist means triangulating between the perfect and the merely good. To see this, I return to another example from my time on the Connector board.

One thing that the board had to decide was how to structure the penalties for the individual mandate. During this debate, I made what I thought was the fairly obvious point that penalties should be higher for older individuals. After all, if the idea of the penalty was to penalize externalities imposed by individuals by being uninsured, then the penalty should be related to the size of those externalities—and they were much larger for older individuals. I made this point in what I thought was a fairly cogent and clear way... and the silence was deafening. Finally, one of the other board members said, “This is why I am glad I didn’t get a PhD in economics!” At that point I realized that this was a losing argument, and that it was probably second order relative to other aspects of designing the mandate penalty. So I shut up and moved on to the next battle.

On the other hand, sometimes you do need to fight as hard as you can for your principles. As an example, consider the design of the income-based tax credits that are made available for individuals in the health insurance exchanges. The Democrats on the Senate Finance Committee designing what became the ACA argued, and I strongly agreed, that these credits should target affordability—that they should be designed so that individuals pay a fixed percentage of income, on a rising scale. Republicans, on the other hand, argued for credits that were a fixed percentage of the premium. This meant that, for example, an older person would pay a higher percentage of their income than a younger person, or individuals in more expensive areas would pay a higher percentage of their income than those in less expensive areas.

I felt strongly that using premiums as a basis did not address the fundamental affordability concern. So I worked with Democratic staffers to fight for what became the ultimate
structure of the tax credits in the law. I used facts to show how this approach would violate affordability, and I tried to explain it as clearly as possible. And in the end our argument won out. Although the ultimate level and exact structure of the credits were not what I had in mind, the overall model was good enough to move on to the next fight.

Lesson 6: Think Federal, Act Local

When we think about policy making, we naturally default to thinking about the federal government and not state, county, or city governments. After all, if you change federal policy, you are affecting a lot more people!

However, that isn’t the right maximization problem that you should have in mind if you want to maximize your influence on policy. The right maximization problem is to consider where your marginal time will make the greatest difference. While working at the subnational level may impact fewer people, there are two big advantages.

First, you are competing with a lot fewer experts for the attention of the policy makers. Second, local policy makers are excited to work with local experts. Many universities, particularly public universities, have a strong relationship with state and local legislative bodies that can be used to help inject yourself into policy debates. So don’t just focus on national issues; there are critical state and local issues facing all of you right now where you can engage.

Lesson 7: Sweat the Small Stuff

A corollary to acting locally is to recognize that the biggest difference you can often make is not on the big questions but on the little ones. The truth is that for questions like whether we should have universal health insurance coverage, or even more so for issues like whether abortion should be legal, we have a lot to say, but policy makers’ underlying preferences (typically fact free) are going to dominate. These are the issues they feel they were elected to opine on, and while they may hear us on the margins it will be rare that we will change their views.

But policy makers don’t care a whole lot about a lot of the details that lie underneath their policy positions. This is where they are hungry for expert help—and where you can make the biggest difference. To be blunt, another article or op-ed making the case for single payer won’t matter nearly as much as, for example, detailed modeling of how changing tax credit levels might impact take-up and thereby program costs.

Lesson 8: Engage, Engage, Engage

Of course, I realize that what I lay out here is nearly the opposite of the signal that most of us get from our academic environments. We live in an environment where the standards for success are based on academic refereed publications, and those standards are rising all the time. Taking “time off” to work on policy work that is unlikely to do much to burnish your CV is not a recipe for rapid academic advancement. But you don’t have to choose.

Policy work doesn’t need to be a full-time, half-time, or even one-quarter-time obligation. It can fit naturally around the academic work you are doing. What matters is keeping
in mind the opportunities to do it. If you are doing research that has important implications for policy makers, let them know! One way is through the media or social media, but an even more effective avenue is through interpersonal connections. Most of us are no more than two or three steps from a policy maker who would be interested in what we are working on and for whom it might be a useful input to policy making. But it's up to us to take those two or three steps. Think about what types of policy makers might benefit from learning about your research. Think about how to explain it clearly to them. And then work your contacts to get it in front of them.

Lesson 9: Work the Staffers

As you engage, remember that it isn't just the policy makers themselves that matter; indeed, they may matter much less than the folks who work for them. One time I was talking to a fairly prominent member of the US House of Representatives who said that when he died he hoped he would come back as a Senate staffer. He was only partially joking.

 Especially when you sweat the small stuff, the politicians don't really understand it—and quite frankly they often don't care about it. They are focused on the big picture. But they still need to vote on actual legislation, not just on bold policy ideas. For this they turn to their staff to help them put together the detailed legislation, and quite frankly to explain to them what is in it. These staffers are the ones who are eager to work with you to sweat the small stuff. Getting their ear, and their engagement, is the key to successfully influencing the actual shape of legislation.

Now we come full circle to my earlier comments. These staff aren't interested in you for your instrumental variables or your ability to solve first-order conditions. They want to know how specific policy ideas will work in practice and how to think about setting up the details of the laws they are tasked to write. Your job is not to just go in there and hope they are impressed with your vita. Your job is to figure out how to meet them where they are: to figure out what questions they need to answer, and how to answer them in a clear and policy-relevant way.

Lesson 10: A Risky Long-Term Investment

Compared with many other sectors of the economy, economic academia is incredibly low variance. It is true that when we dive into a research project, we don't know how it will turn out. But the fact is that after a few years’ experience, most of the projects we work on end up with some useful end product. These endeavors are very different from innovative pursuits, where the odds of success are often much lower—although the payoff to success might be a lot larger. Perhaps no place represents this more extremely than the policy-making world.

There are hundreds of policy ideas for each one that becomes law, and there are policy makers who work for years on topics with little to show for it. You can't go into this enterprise with the same expected rate of success that you go with into research. But this does interact with the last lesson on optimizing engagement and balancing it with your other
obligations. As with any risky investment, the more shots you take, the more likely your efforts are to succeed. So if this policy making excites you, keep at it.

Moreover, just as this investment is risky, it also may have a very long-run payoff—what appears as failure today could be success years from now. For instance, one time I was talking to a prominent economist who had been working with Congress on tax policy close to the 1992 election. It was clear to everyone at that point that any policy discussions weren’t going to result in actual policy change, since the election was near and everyone was focused on that rather than on policy proposals. Yet, much to this economist’s surprise, the staff working on tax policy proposals were highly invested, slaving for hours and fighting hard over details that were unlikely to see the light of the day in that session. When he asked why, they told him that the details of today’s failed legislation are the basis for tomorrow’s successful legislation. When policy makers are working on new legislation, their starting point is often the bills that came before.

Indeed, at a number of points in developing the ACA, we referred to ideas and details that came from sources like the Clinton health-care reform effort or other subsequent policies that never became law, such as efforts to income-relate Medicare Part B premiums. The folks who worked hard to get the details right on those policies thus ultimately influenced the law that did pass. Even apparently failed investments in the near term can pay off in the long run.

In conclusion, the ASHEcon community represents the best and brightest that America has to offer in terms of understanding health policy issues. The research that health economists are doing, much of it presented at this ASHEcon meeting, has profound insights to offer to policy makers. So don’t just be satisfied with getting your research published. Take those lessons to the world and use them to help make the best health policy we can. We are at a fundamental crossroads for democracy in the United States, with unprecedented attacks on the very idea of expertise in policy making. The way to fight this trend is to double down as a profession in explaining why what we do is important—and how the lessons we are learning can make the world a better place.