

## Martin Feldstein

Most boards give academics a wide berth today. They fear the stereotype of a university professor out of touch with

from Oxford. The renowned, and often controversial, economist brings intellectual gravity to every board he serves.

**"His economic knowledge is extremely important."**

—Carla Hills, director, AIG

business reality. Moreover, the academic loves to lecture fellow directors as if they were students.

"In this era, not all boards really consider directors with an academic background," confirms **Karen Horn**, the former **Bank One** chief executive. But that's a mistake when it comes to economist **Martin Feldstein**, the George P. Baker professor of economics at Harvard University. "Marty's incisive mind is not unrelated to his academic history," points out Horn. She sees him in action on the TRW board.

Feldstein is the recipient of numerous honorary doctorates—not to mention an old-fashioned, hard-earned Ph.D.

Feldstein is not restricted to flights of highly theoretical fancy. His widespread reputation—owing in part to his frequent contributions to the *Wall Street Journal* and other publications—grew mainly out of the practical solutions he's developed over the years for key economic problems.

Among the best known is his 1999 scheme for shoring up the decreasingly flush Social Security system. Feldstein tried coming up with a compromise between the conservative ambition of privatizing Social Security outright and the left-wing goal of leaving retirees a form of guaranteed minimal income.

In evaluating Feldstein's proposal, the *Boston Globe* had this to say: "[M]ore than any academic, Feldstein has made the leap from academic abstraction to the political realities of Washington."

His contributions to the realities of the boardroom are just as shrewd, says fellow AIG director **Carla Hills**. Hills, the former U.S. trade representative, praises Feldstein's "vast experience as a superb economist." At AIG, "his economic knowledge is extremely important," she says. "He understands the markets extremely well, as well as the economics of the financial services industry."

Horn credits Feldstein with a knack one encounters in most Outstanding Directors: the ability to build a consensus. "He uses his intellectual aggressiveness in a way that invites other people to participate," she reports. "He's so bright, you imagine people will back off in awe. But he brings such charm and openness that he really invites other people



### BORN

November 15, 1939 in New York City, 60 years old.

### EDUCATION

PhD and BA from Oxford, AB Harvard, 1961.

### CAREER HISTORY

Currently CEO of the National Bureau of Economic Research. Formerly chair of the Council of Economic Advisors. Also a professor of economics at Harvard.

### FAMILY

He and wife Kathleen have two grown daughters.

### HOME

Bellefont, Massachusetts.

### FAVORITE RESTAURANT

Hammersly's Bistro, Boston.

### I DON'T LEAVE HOME WITHOUT ...

A laptop computer, a scientific calculator, and a Palm Pilot.

### CURRENT BOARDS

American International Group, Columbia/HCA, J.P. Morgan & Co., TRW.

into the exploration.”

“He keeps you focused and on your toes,” Horn adds.

As an example, Horn points out Feldstein’s frequent exhortations of the TRW nominating committee, which she chairs. Identifying new potential board members can run the risk of being a subjective, nepotistic, touch-feely type of enterprise, she notes. But Feldstein helps keep the process as objective and disciplined as possible.

“Over the years, Marty keeps reminding me of the qualities we’re looking for in directors,” Horn relates. “When we choose new board members, and they don’t meet some of his criteria, he comes back to us very nicely. He says ‘All right, you’ve met this and that criteria, but these remain to be considered.’”

Where Feldstein’s intellect and analytical abilities shine are in his compensation committees. And increasingly boards recognize the need to have their Number One people on the comp committee. The excesses in CEO compensation mean that this area is receiving increasing focus from investors and the media.

Compensation plans have become so

mind boggling that few, if any, compensation committee members completely understand how they work. Feldstein, for one, can hold his own against the sometimes-shaky economic views of executive compensation consultants. “Compensation has become very complex,” Feldstein admits.

One of the most challenging aspects of compensation, he says, is the fundamental task of comparing the CEO’s pay package to those of other companies’ top executives with similar responsibilities. “It’s not easy to compare apples to apples,” Feldstein quips. “But that’s what you have to make sure you’re doing,” says Feldstein.

Multi-year bonus systems, hard-to-value option packages, and incompatible CEO duties exacerbate the problem. “I think it’s important that boards and comp committees are aware of some of these ambiguities.”

Nor is he afraid to embrace a challenge.

Feldstein rejoined the board of HCA—the healthcare concern formerly known as Columbia/HCA—in the wake of multiple, highly public charges of fraud and excessive billing. One of those charges led to a land-

mark \$750 million settlement with the Federal government. When CEO **Thomas Frist, Jr.** asked Feldstein to come back on the board—which he had previously served in the company’s glory days of astounding growth—the economist didn’t shrink from the prospect.

Instead, he installed himself in the eye of the HCA storm by taking a seat on the Ethics, Compliance and Corporate Responsibility Committee. “Our strategy has been to bend over backwards to be absolutely clean, to get out of any business where there’s been any conceivable question about impropriety,” Feldstein says. “I’ve applauded and reinforced that.”

It should really come as no surprise that Feldstein knows his way around delicate public relations issues. After all, he’s been a player on the American political scene for decades. From 1982 to 1984 he served as chairman of the Council of Economic Advisers, and was President **Ronald Reagan**’s chief economic counselor. It was in that role that he earned the nickname “Doctor Gloom” for his frequent pronouncements on the dangers of the government’s deficit spending.

Besides being a good board member, Feldstein is viewed by his colleagues as an excellent friend.

Horn tells the story of turning to Feldstein when she needed help. She had just accepted a seat on the board of an organization doing substantial work in Russia.

“I knew nothing about Russia,” Horn confesses. When she gave her friend Feldstein a call, he invited her to visit Cambridge. Upon arrival, she was delighted to find that Feldstein had arranged a full day of appointments with Russian experts from Harvard and the Massachusetts Institute of Technology.

*Martin, Kate, Margaret and Janet Feldstein*

