Consumer Protection Economics at the FTC
Prepared Remarks for Chief Economist Roundtable

By

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Good afternoon. I want to thank Larry[1] for putting together this session. I have always admired him for his ability to move between the policy and academic world. Of course, that admiration, like everything I say today, is just my opinion. The opinions I express today, including but not limited to those about Larry, do not necessarily represent the positions of the Federal Trade Commission or any of the individual Commissioners.

A few years ago, I was at an NBER conference where one of the papers concerned why auto insurance is not priced by the mile. I forget who the author was, but I found the paper interesting at the time. Currently at the Federal Trade Commission, we are interested in how automobile insurance is priced, but we are focusing on a different question from the one covered at the academic conference. Rather than analyzing why the price does not depend on something that an academic imagines *in theory* could matter, we are studying why the price of auto insurance *in fact* depends on something that might surprise you – credit scores. Congress has charged us with understanding why insurance companies use credit scores to set insurance rates. The companies tell us that, even controlling for experience ratings, credit scores predict claims. The concern, though, is that they are a proxy for race. To satisfy the Congressional mandate, we have a data set from several major auto insurers that gives policy characteristics and claim losses for a large sample of drivers. We will also be able to match this information with demographic information. From this, we expect to be able to ascertain whether credit scores are useful in predicting claims and/or whether they proxy for race.

From my perspective as Bureau Director, it is clear that sound economic research can be highly influential; but the research that ends up being influential and the research valued in academia are not necessarily the same. As I have recently written in an article with Alden Abbott from the Bureau of Competition, I believe this point applies to antitrust research.[2] For those of you who are interested, I brought copies of that article along. Today, though, I thought I would focus my prepared remarks on the other main mission of the Federal Trade Commission, consumer protection.

Larry has asked us to keep our preliminary comments brief, so let me discuss just one other current consumer protection issue we confront. Shortly after I arrived at the Commission, the FTC held a joint workshop with HHS on the growing problem of childhood obesity. There are several possible reasons for this problem.[3] One factor that is consistently raised with the FTC is

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[1] Lawrence J. White, currently Arthur E. Imperatore Professor of Entrepreneurial Studies and Professor of Economics at New York University Stern School of Business and former member of the Federal Home Loan Bank Board and chief economist in the Antitrust Division of the U.S. Department of Justice.

[2] Alden F. Abbott and Michael A. Salinger, "Learning from the Past: The Lessons of Vietnam, IBM, and Tying," *Competition Policy International*, Vol. 2, No. 1, Spring 2006.

[3] Many of these factors have been examined by Cutler, Philipson, and others. David M. Cutler, Edward L. Glaeser, and Jesse M. Shapiro, "Why Have Americans Become More Obese?" 17(3) *J. of Econ. Perspectives*, 2003, 93-118; Tomas J. Philipson and Richard A. Posner, "The Long Run Growth in Obesity as a Function of Technological Change," NBER Working Paper

the possibility that childhood obesity is caused by food advertising, particularly on TV. Based on research that BE's Pauline Ippolito and Debra Holt are currently doing, it appears that blaming TV-based food advertising for obesity is misplaced. First of all, compared to the late 1970's when kids were thinner, kids are not watching more television. Nielsen reported that in 1976 children watched approximately 4 hours of television per day. Estimates of current viewing vary, but consistently find lower viewing times. For instance, the Kaiser Family Foundation estimated that in 1999 children watched less than 3 hours of television per day. When you think about it, this should not be a surprise. When I was a kid, we did not have video games, instant messaging, computer games, DVDs, video movies, and the like. Kids may be sitting in front of screens more than they used to, but it is not in front of advertising-supported television shows; and they are not watching more food ads.

~~Without discussing in detail the other issues we are working on, I will make three observations~~ about our consumer protection work.

First, what makes the work interesting is that it can really matter. In academia, we get excited when our papers show up having many citations in the *Social Science Citation Index*. At the Fb6 Tw 12185.0404 T bTsf0 12 487 k8Tf112 7 tim amused. It successfully lobbied Congress to bar the FTC from studying insurance without a specific Congressional mandate like the one for the study I just mentioned.

Second, more often than not, the work that turns out to be influential is not all that sophisticated technically. When you know what the interesting issues are and you can get good data, a simple comparison of means can do the trick.