Rough proposal to Open Philanthropy

The Economic Policy Institute (EPI) proposes a series of activities that will undertake research and make recommendations related to the proper stance of American macroeconomic policy. The last decade should have shown conclusively that there is no more important area of economic policy research and implementation than macroeconomic stabilization, yet research and policy analysis regarding these issues in the think-tank and research institute ecosystem is surprisingly thin.

EPI has a long track record of rigorous quantitative analysis and has been a rare outlier among the DC think-tank world in maintaining an active macroeconomic policy component to our work. But the importance of this issue has grown and there are many more activities that EPI could undertake if this aspect of our work was properly resourced. For 2016 and 2017, we propose to undertake a set of the following activities if resources are forthcoming, with specific activities depending on: the scale of resources, assessments following preliminary investigation regarding which would be the most influential in policy debates, and consultation with allies/advisors on what would are the most pressing reseach gaps that need filled in to helpfully advance these policy debates:

Proposed research investigations and activities

The overarching goal of all of these research activities is to identfy and build support for macroeconomic policy measures which will minimize periods of economic slack, aid in the equitable distribution of national income, and maximize the long-run rate of economic growth. We will both identify "blue-sky" policies which would be maximally effective but have small constituencies in the policy world at the moment as well as more pragmatic policies that could be instituted by policymakers immediately.

-Regular monitoring of all data releases relevant to debates over macroeconomic policy, with a particular focus on the state of slack in the labor market. The model for this type of activity would be our monitoring of the monthly jobs and unemployment numbers from the BLS. Every month on jobs-day, EPI pours a considerable amount of resources – at least senior economists, three research assistants, and a good chunk of our communications staff, into making sure our analysis of the monthly employment and wage numbers is inserted into the voluminous economic commentary that day. Our coverage of "jobs day" has been widely replicated by other think tanks and research institutions, but even with this enhanced competition we are extraordinarily successful in making our analysis part of the overall discussion. We could extend this level of coverage and monitoring and comment to a range of other data releases, including data on price inflation, employment costs (the ECI and productivity data particularly), and quarterly releases on gross domestic product.

-Research on the effects of slack demand on estimates of potential output. A growing body of research highlights the potential effects of hysteresis – where slack demand can erode potential output. We propose to continue research on the extent of hysteresis. Crucially, we also propose to research if hysteresis is symmetric. Too much commentary now implicitly assumes it is not: extended periods of demand slack are thought to harm productive capacity, but extended periods of rapid demand growth are not very often assumed to heal or build productive capacity. Obviously the world is not Keynesian always and everywhere and there are times when rapid demand growth will indeed run up against capacity constraints. But we think the degree of positive hysteresis is important to know.

Key research components of this activity would include research on the responsiveness to rapid demand growth of: (1) The labor force participation rate; (2) Average hours worked (particularly by households in the bottom half of the income distribution); (3) Fixed investment and research and development spending by firms; and (4) The college enrollment rate.

Further, research on how labor productivity overall and total factor productivity (TFP) respond to economic slack would also be undertaken. Too often TFP in particular is assumed to be entirely exogenous to demand-side developments. But if decreasing slack and subsequent wage pressures can induce firms to undertake labor-saving technological changes (or adopt ones that other firms have innovated), then even TFP growth could be plausibly affected by the state of demand tightness.

-Research and analysis on possible sources of "secular stagnation" and its implications for policy. A growing body of evidence indicates that the sluggish demand growth that has been the prime impediment to a rapid recovery from the Great Recession might be a chronic featue of the US economy going forward. Prime suspects contributing to this chronically slow demand growth include the rise in income inequality which has pushed much income to higher-saving households at the top of the income distribution as well as the "global savings glut" and the transfer of this glut to dollar-denominated assets. We would aim to empirically estimate how much each of these influences could have contributed to slowing demand growth. A key puzzle to be solved is why the increase in inequality did not seem to lead to an increase in the personal savings rate. One theory is that the excess of savings seem to have manifested in the business sector - meaning that savings by high-income households may have largely been done through retained business income. Another theory is that higher *desired* savings spurred by upward redistribution has so slowed economic growth (through Keynesian demand-channels) that *realized* savings have actually fallen. Another theory is simply that the propensity to consume among high-income families rose so sharply because of asset market (stocks in the 1990s and houses in the 2000s) bubbles that spurred positive wealth impacts that the demand drag never manifested itself until the post-2007 period.

Besides sources of stagnation, we would also aim to explain the implications of chronic demand shortfalls for policy - particularly macroeconomic policy. The past generation of macroeconomic policymaking has been undertaken under the assumption that supply constraints, not demand constraints, were the primary inhibition on economic growth. If secular stagnation is real, this assumption must reverse and policies to loosen the demand constraint must take center stage.

-Another set of activities will center around what policymakers and economists should have learned from the Great Recession and the ensuing slow recovery. These lessons should span the potential benefits and costs of strict financial regulation, the proper approach to suspected asset market bubbles, the efficacy of fiscal stimulus or austerity in a low inflation/interest rate environment, and the extent of unconventional tools available to monetary policymakers.

The first set of activities in this sphere could include a conference or meeting of experts, combined with a series of commissioned papers on key lessons. Eventually this set of papers could be compiled in a book that could be presented with the incoming administration and Congress in early 2017.

-Other activities will center on the question of why wage growth is so sluggish even as unemployment has fallen in half and approached pre Great Recession levels in recent quarters. We would specifically look to examine structural factors that could be pushing down with ever-greater force on wage growth over time, meaning that unemployment needs to be lower and lower in successive periods to generate positive wage growth. Some of these factors could include declining unionization, declining real value of the minimum wage, increasing global integration, and declining safety net expenditures that may insulate workers from the damage stemming from joblessness (unemployment insurance and cash welfare (TANF)). We propose to augment traditional macroeconometric wage equations with variables capturing these structural factors to see if better fit and predictions could be made.

-A criticism of the Fed's actions since the Great Recession began has been that they have exacerbated some measures of inequality. The most common claim concerns the effect of quantitative easing on asset prices. A key counter-vailing influence of the Fed's actions on fostering greater equality over this time is the effect they have had in reducing unemployment. The strongly progressive benefits of genuine full employment need further explication. We propose to estimate detailed Phillips wage regressions for workers by wage decile, education, and education.

Besides the progressive benefits running through hourly wage changes, we also propose to examine the responsiveness of total hours worked at various segments in the household wage distribution. Our hypothesis would be that hours in the bottom half of the household income distribution are strongly responsive (for good or bad) to changes in unemployment.

-Thomas Piketty's *Capital in the 21st Century* posited that coming decades could see a pervasive rise in the economy-wide share of income accruing to profits rather than wages. There is some evidence that this could already be happening in the US economy. This has important implications for macroeconomic policy. If the rise in the profit share is due to rising concentration in the American economy (growing monopoly power in key, large sectors), then this could be a potential explanation for the sluggish growth in investment in recent years – monopolists (almost by definition) produce less output than a competitive market would and hence need less capacity on hand. This would lead to a decline in investment at every level of the real interest rate and hence would constitute a potential explanation for "secular stagnation".

We propose a set of activities to examine trends in the overall profit share as well as by relatively disaggregated industries. We also propose to gather evidence testing the hypotheses that large sectors of the economy are notably more concentrated over the last decade than in periods before.

Needed resources for these activities:

Most of the resources need would be staff time. The key positions involved would be researchers (economists, research assistants and an added position to handle the additional statistical programming that would be needed on an ongoing basis for this project), as well as members of our communications and publications staff for outreach

Specifics include:

EPI Director of Research and Policy, 50% time:

Labor Economist I/II, 50% time:

Senior Labor Economist, 25% time for one year:

Senior Labor Economist, 25% time:

Research assistant, 100% time:

New statistical programmer, 100% time:

This much research staff-time plus the resources needed for outreach and amplification of results (details below) would require $750,000 over two years. We can provide a more granular and detailed budget report anytime between now and the final proposal.

Outreach and Policy amplification efforts:

On top of these positions, EPI's effectiveness in pushing our ideas and analysis into the policy discussion is amplified greatly by a range of communications initiatives – including social media work, podcasts, and pitching to traditional media. For each dollar EPI spends in research activities, we spend an additional 30 cents on communications staff and resources to make sure our ideas get out into the world to have maximum influence. In our well-funded issue areas like work on the minimum wage, our communications and outreach apparatus has been extraordinarily effective. We have used infographics and interactive web-tools to amplify our research findings.

Many of the efforts germane to this set of activities will involve using social media and standard media pitching to get our research and policy recommendations covered in elite media. We have found over the years that being able to provide citations to one's work in elite media is a key currency of credibility on Capitol Hill, so while influencing policymakers is clearly the end-game, a key tool in this is having our work being widely cited in the press.

EPI has a long and growing track record in this regard. In the *New York Times,* EPI research was cited in articles and columns 39 times in 2015, including 6 times in editorials, in the *Washington Post,* EPI research was cited 88 times in 2015, up from 67 times in 2014, in *The Wall Street Journal,* EPI research was cited 52 times in 2015, up from 48 times in 2014. EPI is, by far, the largest center-left presence in elite media among any of the center-left think tanks that focus on economic issues.

Our website in 2015 hosted 3.8 million sessions with 5 million pageviews. We have 90,000 Facebook fans and 30,000Twitter followers (and our Twitter followers are high-quality, with most of the relevant main journalists who cover labor markets and Fed following our work). All in all, EPI's ability to both deliver rigorous, high-quality research and get findings injected into the policy debate is unparalleled.