

**Roosevelt Concept Paper: Macroeconomic Research Capacity
March 2016**

The current political moment provides a unique opportunity for academics and activists investigating the role of the Federal Reserve in driving economic policy and economic outcomes. Traditionally, the Fed has been considered a technocratic agency outside politics. However, since the Fed played an enormous and untraditional role in the Great Recession, we see a new public understanding of the part Fed policy plays in countering the business cycle. Further, continued deadlock in the legislative branch suggests the Fed will be required to take on additional responsibility in future recessions. As a result, Fed personnel and policy is becoming a focus of intense public debate—similar to the way Supreme Court nominees and decisions are scrutinized and debated.

We believe rigorous research and policy proposals focused on monetary policy and Fed tools have the potential to inform this new debate, influence future appointments, and shape future policy. The Roosevelt Institute has considerable expertise in monetary policy, and additional resources would allow our Fellows to play a leading role in this essential work.

Roosevelt’s Reach and Expertise

In the last year, the Roosevelt Institute has gained increasing recognition for our economic policy work—which has directly translated into growing influence with policymakers on the Hill, presidential candidates, the media, and in the public debate more broadly. Notably, we’ve been able to leverage the incredible response to *Rewriting the Rules*—our 2015 comprehensive economic agenda authored by Roosevelt Institute Chief Economist Joseph Stiglitz along with coauthors including Roosevelt Fellow Mike Konczal—into a growing platform to elevate cutting-edge macroeconomic policy analysis.

Konczal in particular is increasingly recognized as a leading voice on economic policy and reform. In a February 2016 *New York Times* article, Paul Krugman called Konczal “one of our most powerful advocates of financial reform, heroic critic of austerity, and a huge resource for progressives.”

Led by Konczal—along with Fellow JW Mason—our work on financialization, corporate short-termism, and monetary policy has garnered 80+ press hits in the last year—and directly informed policy and politics. As a non-partisan organization, we regularly seek to share our work with every major presidential candidate of both parties. The Clinton campaign especially has shown a great deal of interest in our work. Members of Roosevelt’s research team have met numerous times with Secretary Clinton and/or the Clinton policy team, to share with her our publicly available financial reform and short-termism agendas, as well as our overall approach to the economy. Governor O’Malley’s campaign also accepted our offer to brief his team on financial reform, adopting to his reform plan a significant amount from our agenda. We also briefed Senator Sanders’ Budget Committee staff and entertained a request that we appear at a Senate Budget Committee event. We have briefed dozens of Senators, House members, and their staff, including the full House Democratic Policy and Communications Committee and full Senate Democratic Caucus. We are also briefing the full Democratic caucus in the House this spring, and have had requests to brief the Congressional Progressive Caucus.

We are also advising regulators and members of Congress who are pursuing policy changes informed by our work. We are currently working with Senator Tammy Baldwin’s office on two policy solutions stemming from our reports: regulatory solutions to ensure pensions are adequately funded and not used for share buybacks, and legislative fixes to reform securities laws abused by activist hedge funds.

Beginning to shed a brighter light on Fed policy, in December 2015 we released a new paper on monetary policy and Visiting Fellow Carola Binder testified before the House Full Employment Caucus, making the case that the rules guiding the central bank can be changed to promote accountability, transparency, and more equitable economic growth.

Expanding Our Macroeconomic Work

The same Roosevelt team that has helped put corporate short-termism on the national agenda has now begun to focus on Fed policy. Roosevelt Fellows and staff are already contributing to both the academic and public debate on the role of the Fed in promoting growth, creating jobs, and regulating the financial sector. However, we currently have limited capacity to pursue our full research agenda. As a full-time Fellow, Mike Konczal plays a number of roles at Roosevelt including that of primary author on reports produced by Joseph Stiglitz's inequality project. Meanwhile, JW Mason and Carola Binder divide their time between Roosevelt and teaching responsibilities. Our two staff research assistants support multiple Fellows and projects.

Additional resources would enable Roosevelt to conduct deeper investigations of monetary policy and macroeconomic outcomes. Specifically, hiring an additional staff economist and a part-time research assistant would allow Konczal and Mason to focus on a research agenda that is on hold because of funding and capacity constraints. This work would move beyond a focus on loose monetary policy to examine 1) the broader range of tools available to Fed policymakers and 2) the true size of the output gap and the capacity of the Fed to close the gap. The two key projects Konczal and Mason would tackle are:

- **Monetary Policy Toolkit:** As demonstrated by the Federal Reserve's scattershot approach to the Great Recession, we need more tools in the Fed policy toolkit. This is especially critical and timely since chances are the next recession will occur at/near the zero lower bound when the Fed's traditional tools will be ineffective. Our work here would focus on building out a set of additional research-backed tools the Fed could employ, such as setting interest rates across the yield curve to expand on the Fed's traditional short-term interest rate setting. We will also look deeper into the potential for expanding credit directly—which research shows has played a role in the current recovery. At each point of our work, we would expand and formalize our findings and proposals into a toolkit capable of directing both the Fed and, more importantly, those who hope to keep them accountable.
- **Anti-Hysteresis:** We believe there is a real need to investigate what we are, as a working title, calling "anti-hysteresis," or the potential to undo the damages of the Great Recession. The Great Recession has caused many to leave the labor force and led to a fall in the labor share of overall national income. Though the economy is still in the recovery process, many are now arguing that we are already near full employment and should start slowing the economy by raising interest rates. However, that could lead to a permanent reduction in the workforce participation rate. We plan to further investigate the potential consequences, costs, and benefits of keeping interest rates low. We can estimate the costs of inflation, but must also assess the economic benefits from higher employment levels, higher wages, increased productivity, and increased small business startups that lower rates would support. Because the anti-hysteresis work will focus so deeply on labor market outcomes, this research will require collaboration between our macroeconomic policy team and a labor economist. This role is likely to be filled by Roosevelt Visiting Fellow Christian Moser, who recently received his PhD in economics from Princeton and will be on faculty at the Columbia Business School beginning this summer.

As we have done with our other economic research, we will utilize our communications and advocacy teams to ensure this expanded body of research has external impact. This may involve small closed-door

conferences, public events, and digital strategy, along with targeted outreach to media and policymakers.

To execute on this important macroeconomic research agenda, we will need to increase our staff capacity by adding a full-time economist and a part-time research assistant at a cost of \$200,000. The total cost of Roosevelt's financialization and economic policy work is \$2.5 million.