

A conversation with Jared Bernstein on June 3rd, 2015

Participants

- Dr. Jared Bernstein – Senior Fellow, Center on Budget and Policy Priorities (CBPP)
- Alexander Berger – Program Officer, US Policy, Open Philanthropy Project
- Karl Smith – Consultant, Open Philanthropy Project

Note: This set of notes was compiled by the Open Philanthropy Project and gives an overview of the major points made by Dr. Bernstein.

Summary

The Open Philanthropy Project spoke with Dr. Bernstein to get an update on the progress of its grant to support CBPP's Full Employment Project: <http://www.givewell.org/labs/causes/macroeconomic-policy/CBPPgrant>. Conversation topics included the publication of Dr. Bernstein's new book, The Full Employment Project's events and papers, and monetary policy at the Federal Reserve.

Panel on *The Reconnection Agenda* and other recent Full Employment Project events

Dr. Bernstein's book *The Reconnection Agenda: Reuniting Growth and Prosperity* was published in April 2015. The Center for American Progress held a panel event for the book in May, which drew a good crowd.

Dr. Bernstein wants his book to be read closely by campaigners and economists who might have direct influence over policy in upcoming years. The book has had some influence so far, with some campaigns using the book to frame their positions on the relationship between international trade and full employment.

In March 2015, CBPP hosted an event on full employment featuring former Federal Reserve Chairman Ben Bernanke as the keynote speaker. The event helped to catalyze an important and widely-read online debate between Ben Bernanke and former US Treasury Secretary Larry Summers on the causes of slow economic growth in the US since the 2008 recession.

Recent, upcoming, and proposed papers for the Full Employment Project

Wage targeting

In June 2015, Josh Bivens published a paper for the Full Employment Project on wage targeting (available here: <http://www.cbpp.org/research/full-employment/a-vital-dashboard-indicator-for-monetary-policy-nominal-wage-targets>). Wage targeting is an alternative or complement to a target unemployment rate that the Federal Reserve could use to guide decisions on setting interest rates.

The paper also discusses the increasing proportion of income accruing to capital and decreasing proportion of income accruing to labor in the US in recent years. Even if wage growth exceeded the wage targets discussed in the paper, it would still take several years for the balance of wages and profits in the national income to return to pre-recession levels. Dr. Bernstein plans to promote the paper to gain visibility for wage targeting.

Triggers and automatic stabilizers

Ben Spielberg and others at CBPP are working on an upcoming paper on “triggers” set to indicate that a recession is occurring, and on automatic stabilizers that could mitigate negative impacts of a recession. An example of an automatic stabilizer is automatically increasing the federal government’s contribution to state Medicaid expenditures when a previously set trigger indicates that a recession is happening. For these types of policies, it is important to set the “on” triggers and “off” triggers carefully. Often, the automatic stabilizer is set to turn “off” too soon.

State fiscal relief was also an effective response to the 2008 recession included in the American Recovery and Reinvestment Act. Dr. Bernstein would like state fiscal relief to be automatically triggered during a recession, instead of requiring action from Congress. The political feasibility of automatic stabilizer policies, including state fiscal relief, may be greater than it initially appears. States that would benefit from fiscal relief during a recession may be reluctant to ask the federal government for assistance for political reasons, but if fiscal relief was automatic, there would likely be less resistance to accepting federal dollars. Automatic state fiscal relief would not be fiscally neutral, but, as a temporary intervention, cost estimates would likely not be prohibitively high.

Once this work is completed, CBPP will work with policy makers to implement ideas generated by the research to improve the effectiveness and timeliness of countercyclical policies.

Other papers

Mark Zandi and Alan Blinder are working on another upcoming paper for the Full Employment Project about which fiscal and monetary policies worked well in the response to the 2008 recession.

Dr. Bernstein has proposed other papers for the Full Employment Project on fiscal policy and full employment, and on what the US can learn about full employment from European countries.

Monetary policy at the Federal Reserve

A central component of the traditional model used by the Federal Reserve for setting interest rates is the Phillips curve, which argues that there is an inverse relationship between inflation and unemployment. When unemployment goes down, wages go up due to increased pressure on employers, which passes through to higher prices. However, Federal Reserve Chair Janet Yellen and other governors have appeared to doubt that model recently, arguing that resource utilization, not wage inflation, may drive price inflation. In this alternative model, a lack of wage growth would not necessarily represent a reason not to raise interest rates, since unemployment could affect inflation through channels other than wage growth.

The Federal Reserve plans to raise interest rates this year. The decision to raise interest rates does not appear to be due to quantitative analysis of wage growth or inflation (either actual or expected), but simply because rates have been low for several years. There appears to be a surprising lack of organized thinking informed by quantitative analysis in this area, which could make further research quite valuable.

*All Open Philanthropy Project conversations are available at
<http://www.givewell.org/conversations>*