

## **A conversation with Robert Johnson on February 18, 2014**

### **Participants**

- Dr. Robert Johnson — President, Institute for New Economic Thinking; Senior Fellow and Director of the Project on Global Finance, Roosevelt Institute; former Chief Economist, U.S. Senate Banking Committee
- Alexander Berger — Senior Research Analyst, GiveWell

**Note:** These notes were compiled by GiveWell and give an overview of the major points made by Dr. Johnson.

### **Summary**

GiveWell spoke to Dr. Johnson to learn more about opportunities for philanthropy in macroeconomics. Conversation topics included monetary policy and financial regulation, efforts by the Institute for New Economic Thinking (INET) to encourage non-traditional scholarship, and other funders in this space.

### **Preventing and responding to recessions**

Economic downturns are highly correlated with a wide range of issues in areas including nutrition, education, crime, drug abuse, and domestic violence. Preventing or minimizing the harm of recessions accordingly carries major humanitarian weight.

#### *Preventing financial crises*

Financial institutions often take extreme risks because they know that, given the importance of financial markets to the economy, the Federal Reserve is likely to bail them out if they go bankrupt. Therefore, it is important to use regulation to ensure that financial institutions act prudently.

There is work to be done on creating a responsible system of financial innovation that would prevent financial crises. One possible model is the Food and Drug Administration's drug approval process, which requires manufacturers to conduct trials and seek permission prior to sales, whereas right now financial innovations are considered safe until proven otherwise. It is particularly important for the Federal Reserve to try to prevent financial crises because of its limited capacity to stimulate the economy when short-term nominal interest rates are at or near zero.

After the 2008 financial crisis, the popular opinion of the Federal Reserve fell dramatically. Whereas it was once a top-rated agency in polls, along with the Centers for Disease Control, the Federal Reserve now ranks below the Internal Revenue Service.

### *Responding to recessions*

Whereas Dr. Johnson is focused on trying to reduce systemic risks—and therefore the likelihood of another financial crisis—many other macroeconomists are focused on improving the capacity to respond to recessions. Generally speaking, these individuals think that regulators are limited in their ability to affect change and that a better, more stable financial system is not feasible. These people tend to focus on how the Federal Reserve could do a better job making monetary policy or what kinds of fiscal policy Congress should enact.

### *Progressive think tanks*

In the past several years, progressive think tanks have been underrepresented in debates about monetary policy. Progressive think tanks were not sufficiently prepared to make significant contributions during the development of the Troubled Asset Relief Program (TARP) after the 2008 financial crisis. Progressive think tanks tend not to hire people with expertise in finance, whereas conservative think tanks, such as the American Enterprise Institute (AEI), the Cato Institute, and the Manhattan Institute for Policy Research, tend to have teams or several individuals with financial expertise. Progressive think tanks should be more engaged in monetary policy, which has important ramifications for labor markets.

## **The Institute for New Economic Thinking (INET)**

### *Changing assumptions*

INET seeks to change the assumptions that underlie academic research on monetary policy to be more reflective of political and economic realities. Academic economists tend to work with models of financial markets that assume a level of structure and predictability that practitioners do not perceive to be realistic. Models based on these assumptions can be problematic when, for example, they don't recognize the need for limits on leverage. Getting economists to assume less certainty could have major implications for improving the system of financial regulation.

### *Encouraging critical discourse and multi-disciplinary approaches*

INET supports less orthodox methodological approaches to studying economics. For instance, they have funded research on the behavioral psychology of hedge fund and private equity managers, to help eventually develop a better understanding of risky behaviors in financial markets.

INET also tries to encourage more independent thinking. A large portion of all academic macroeconomists are or have been at some point in their careers affiliated with the Federal Reserve system. As a result, there is a tendency not to be too critical of the Federal Reserve's decisions.

INET's efforts to encourage critical, multi-disciplinary, and independent discourse include:

- Encouraging debate at conferences by putting people with opposing views (e.g. critics and supporters of the Federal Reserve) on the same panels.
- Funding researchers with a wide range of political perspectives.
- Engaging with international economists, who tend to be more receptive to alternative approaches.
- Inviting experts from other fields (e.g. anthropology, political science, and journalism) to private forums that are typically dominated by financial macroeconomists.
- Connecting traditional macroeconomists with people who have more experience of the practical realities of financial markets.

### *Curating data sets*

INET supports some efforts to collect and clean data sets and make them accessible to scholars. For example, INET and the Alfred P. Sloan Foundation funded the digitization of a large number of bankruptcy records, including personal bankruptcy data from 1870 to 1990, which may have otherwise been destroyed. INET has also supported efforts to collate data sets on the price of rice and other food grains in China and Japan dating from the 1400s.

### **Actors in this space**

Funders in this space include:

- The Alfred P. Sloan Foundation.
- The Peter G. Peterson Foundation.
- George Soros, the founder of INET and the Open Society Foundations (OSF).

Few major foundations have supported work on macroeconomics and finance.

Other groups addressing these topics include:

- The Hutchins Center on Fiscal and Monetary Policy, a new group at the Brookings Institution.
- The Peterson Institute for International Economics.
- The Washington Center for Equitable Growth

### **Recommended reading**

[Secrets of the Temple: How the Federal Reserve Runs the Country](#), by William Greider, is about the political economy of the Federal Reserve.

*All GiveWell conversations are available at <http://www.givewell.org/conversations/>*