

## **A conversation with Dr. Josh Bivens and Dr. Ben Zipperer, November 14, 2016**

### **Participants**

- Dr. Josh Bivens – Research and Policy Director, Economic Policy Institute (EPI)
- Dr. Ben Zipperer – Economist, EPI
- Alexander Berger – Program Officer, U.S. Policy, the Open Philanthropy Project

**Note:** These notes were compiled by the Open Philanthropy Project and give an overview of the major points made by Dr. Josh Bivens and Dr. Ben Zipperer.

### **Summary**

The Open Philanthropy Project spoke with Dr. Bivens and Dr. Zipperer of EPI as an update on an Open Philanthropy Project grant. The \$500,000 grant to support EPI's macroeconomic policy research was awarded in June 2016. Conversation topics included updates on EPI's macroeconomic research and activities, current macroeconomic trends in the U.S., and the possible economic impact of the new presidential administration.

### **Macroeconomic research and activities**

EPI's macroeconomic research team is focused primarily on two projects: a) a paper on productivity growth, and b) a dataset of labor market indicators.

#### **Productivity growth**

This paper will argue that the recent trend in low productivity growth rates is not expected to continue in the long term and is a symptom of decreased demand. This analysis will involve testing the historical relationship between wages and productivity growth.

#### **Labor market indicators**

EPI is assembling state-by-state annual data on labor market indicators, broken out by variables such as race, gender, income grouping, and wage grouping.

#### *Defining labor market slack*

One component of this work will be finding a measure or several measures of labor market slack. Some standard unemployment and labor force participation indicators from the Current Population Survey can be used for this. However, the team is also interested in looking at labor market flow indicators – e.g., turnover rates, hires, and voluntary terminations – that have not been used as widely in this type of analysis but are available at the state level. These are key indicators in most modern theories of the labor market.

#### *Goals*

1. **Analyze disparity-related outcomes** – This dataset will be used to analyze how different racial and gender groups are affected by labor market slack. Strong claims have been made about disparities in the labor market that this data can help test and elaborate on – e.g., it is possible that unemployment rate differences between racial groups may not change as much when the labor market tightens, but that there are larger differences in hours worked. Ultimately, this will allow the team to show the expected benefits of closing the gaps between these groups.
2. **Create a more nuanced labor market discussion** – This project is part of a larger shift away from discussing the labor market in terms of job gains and losses, and towards more sophisticated discussions that help clarify the role of specific policies – e.g., the minimum wage, monetary and fiscal policy. EPI is interested in playing a larger role in facilitating these types of discussions.

### *Effort involved*

This work requires a substantial amount of data cleaning and ensuring that there are sufficient data-points in each state for the different variables of interest.

### **Output gap analysis**

The team has also been engaged in a series of informal discussions with Dr. Jared Bernstein and Dr. Andrew Levin on their economic output gap analysis.

### **Staff and time allocation**

Dr. Zipperer joined EPI this fall. Previously, he worked for the Washington Center for Equitable Growth.

For the past three months, Dr. Bivens has been spending approximately two thirds of his time on macroeconomic research. He plans to continue this time allocation through this fall and then shift to strategic and non-research activities

## **Current macroeconomic trends**

### **Slack in the labor market**

It is difficult to offer a quantitative estimate of the remaining slack in employment. It may be more effective to use nominal wage growth as evidence of decreased slack. The fact that wage growth has not occurred in recent years suggests that slack is not decreasing.

### **Wage inflation**

The negative consequences of economic “overheating” – aggregate demand outpacing the supply of goods and services – may be overstated. Conventional inflation and unemployment targets may be inadequate to realize robust wage growth and also mask vast differences in wage gains that accrue to those at the bottom versus the top when the labor market tightens. EPI’s data collection and analysis above will highlight these differences and provide a strong evidentiary framework for more rigorous targets.

## **Impact of the U.S. election on macroeconomic policy and trends**

### **Shift in focus towards fiscal policy**

Given the outcome of the election, EPI will likely shift more of its focus towards fiscal policy. It could be particularly beneficial to increase understanding of why the efficiency of a fiscal stimulus plan is important. If President-elect Donald Trump's proposed tax cut and infrastructure plans proceed, it is possible that they will create some fiscal stimulus. It is important to explain to that this stimulus could have occurred at a much lower cost.

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