

A conversation with Mike Konczal on January 23, 2014

Participants

- Mike Konczal — Fellow, Roosevelt Institute
- Alexander Berger — Senior Research Analyst, GiveWell

Note: This set of notes was compiled by GiveWell and gives an overview of the major points made by Mr. Konczal.

Summary

GiveWell spoke with Mike Konczal as part of its investigation of U.S. macroeconomic policy. Conversation topics included: macroeconomic policy research, advocacy for improved macroeconomic policy, and potential funding opportunities in this space.

Macroeconomic policy research

Current state of monetary policy research

Research on monetary policy is primarily conducted within the Federal Reserve System (“the Fed”). The Fed is a fairly insular institution. Prior to the US government bailout in 2008, the Fed made little effort to be transparent. Since 2008, the Fed has slightly increased its transparency, e.g. by holding more frequent press conferences, because it has received increased political scrutiny and has used historically unprecedented tools, such as quantitative easing.

There is very little independent research on monetary policy relative to most other policy issues.

Privately funded macroeconomic policy research

Traditionally, many right-wing think tanks have had monetary policy researchers, but these researchers have generally been driven by ideology, have not produced rigorous research, and have focused on fringe topics, such as the benefits of a gold standard.

Recently, other political organizations have become interested in funding their own macroeconomic policy research.

The Brookings Institution recently received a significant amount of funding to conduct research on macroeconomic policy.

Mr. Konczal is not aware of any private groups doing research on monetary policy that have broad, popular support behind them. Unions do not sponsor research on this issue, and liberal think tanks are typically focused on budgets and labor policy. Liberal think tanks, which tend to focus on labor economics, does not spend a significant amount of time researching monetary policy.

Academic macroeconomics

Academic macroeconomists typically conduct research on esoteric problems rather than policy-relevant issues such as how to prevent recessions and how to achieve full employment. Therefore, academic macroeconomists are not always well placed to provide helpful policy advice to the Fed and other institutions.

Academic macroeconomists often point out the difficulty of doing convincing research when experiments are not possible. Mr. Konczal agrees that data and verification issues are a major limitation to the potential certainty that macroeconomic research can provide.

Academic economists who do policy-relevant work

Many of the most prominent participants in macroeconomic policy debates today, such as Paul Krugman, Kenneth Rogoff, and Michael Woodford, were trained during the late 1970s and 1980s, when academic macroeconomics was more policy-oriented. The models and techniques taught during those years helped economists to form views about important topics, such as the relative usefulness of fiscal and monetary policy in different situations, whereas more recent academic work seems to have been less informative.

Many of the people who are currently doing policy-relevant work in macroeconomics formerly worked at institutions like the International Monetary Fund, the World Bank, and the US Council of Economic Advisers. People who work at those kinds of institutions today care about macroeconomic research but do not have sufficient support from current academic macroeconomists.

Advocacy for improved macroeconomic policy

Political environment around macroeconomic policy advocacy

In Washington D.C., the Fed has a huge amount of institutional prestige and credibility, so people are reluctant to challenge its policies. Most people who have critiqued the Fed in the past have had particular conservative ideologies, so senators and other politicians are wary of discussing monetary policy publicly and being seen as unknowledgeable ideologues.

Lack of advocacy network for macroeconomic policy

Many high-profile economists, such as Paul Krugman and Christina Romer, have advocated for the Fed to increase its effort to reduce unemployment.

However, there is no advocacy network or advocacy institution that works to improve macroeconomic policy in the short- or long-term. Macroeconomic policy is the political issue with the least advocacy capacity relative to the size of the issue. When policy ideas such as increasing the minimum wage receive public attention, a network of scholars and

activists are prepared to influence the discourse around that issue. No such network exists for macroeconomic policy, as is evident from the lack of advocacy during the current macroeconomic downturn.

Advocacy movements that engaged with macroeconomic policy

One of the few grassroots movements that engaged with Fed policy was the Occupy Wall Street movement. It argued that the Fed needed better policy, but ended up being coopted by views like Ron Paul's.

There were protests related to monetary policy during the Volcker era, but otherwise advocates have not generally tried to influence Fed policy.

Opportunities to improve macroeconomic policy

Funding an advocacy organization

It would be valuable to fund an advocacy organization or a center at an existing institution to influence the debate about macroeconomic policy issues and to direct attention to the problem of high unemployment. Such an organization could also pursue other important activities, including:

- Educating senators about monetary policy. The questions senators ask during hearings make it clear that their understanding of monetary policy is limited.
- Responding quickly to news events relevant to macroeconomic policy.
- Carrying out public education campaigns.

A few outstanding people could have a large impact in this area. This organization would be especially valuable in the near future as the Fed begins its tapering process.

An organization that focused exclusively on Fed policy might be assumed to be purely ideological. Having the validation of a respected institution, such as the Center for American Progress, would be important for such an organization's credibility.

Potential improvements to US macroeconomic policy

Mr. Konczal believes that the Fed should adopt a higher inflation target in order to improve the performance of the US economy. Many other scholars agree with this view. However, Mr. Konczal believes that it would be difficult to advocate for this policy because few people have thought about how to publicize or explain why a higher inflation target would be beneficial.

Additionally, there is some uncertainty about whether a higher inflation target would have an impact on the economy. Some scholars argue that the Fed is incapable of generating higher inflation in the current macroeconomic environment, citing the Fed's struggle to reach its current 2% inflation target as evidence for their view. Others argue that the Fed could generate more inflation if it took more extreme action.

Promising research areas

More research on why high numbers of people are leaving the labor force would be valuable. When people leave the labor force, they are not considered to be “unemployed” by official government statistics, so some analysts argue that the government may be underestimating the “real” unemployment rate.

More research is needed on long-term unemployment, which is one factor that may be affecting labor force participation. Research could focus on the reasons for long-term unemployment and the potential for the long-term unemployed to become re-employed in the future. To better understand labor force dynamics, the US government could alter its surveys in order to collect more useful data.

Research on job openings would also be useful. Many analysts are concerned that there are many jobs available in the U.S. for which no one in the labor force has the necessary skills, but it is not clear businesses are actually making a significant effort to fill these jobs.

Potentially useful public goods for macroeconomic policy researchers

Some analysts argue that Fed transcripts should be released 2-3 years after meetings take place instead of after 5 years as in the current system. Faster access to transcripts would be valuable because it would increase the Fed’s transparency and would help the public to understand and critique its decisions. If researchers could provide more timely feedback to recent Fed decisions, they might be able to influence the Fed’s policies.

Other people and organizations to talk to

- Jared Bernstein — Senior Fellow, Center on Budget and Policy Priorities
- The Institute for New Economic Thinking
- Josh Bivens — Research and Policy Director, Economic Policy Institute
- Joe Gagnon — Senior Fellow, Peterson Institute for International Economics
- Christina Romer — Professor of Economics, University of California, Berkeley
- Heather McGhee — Vice President of Policy & Outreach, Demos

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