A conversation with Dr. Josh Bivens on February 6, 2014

Participants

- Josh Bivens — Research and Policy Director, Economic Policy Institute
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Note: This set of conversation notes was compiled by GiveWell and gives an overview of the major points made by Dr. Josh Bivens.

Summary

GiveWell spoke with Dr. Josh Bivens as part of its shallow investigation of US macroeconomic policy. Conversation topics included: philanthropic involvement in macroeconomic policy issues, macroprudential policy, and funding opportunities related to macroeconomic policy.

Lack of advocacy for aggressive macroeconomic policy

The Federal Reserve System ("the Fed") received a significant amount of pressure from conservatives to reduce its intervention in the economy following its response to the Great Recession, but it received little pressure to increase its efforts to reduce unemployment. The lack of pressure from the organized left was especially notable. There may have been less liberal pressure on the Fed because many liberals believe that fiscal policy is a more effective means of reducing unemployment at the zero lower bound than monetary policy.

Dr. Bivens believes that many Fed policymakers worry that additional political engagement in monetary policy would be a mistake. Although policymakers might welcome support for their current policies, they seem to worry that more vocal engagement by political agents might be harmful in the future when the Fed needs to raise interest rates to prevent inflation.

Dr. Bivens believes that fears about popular control of macroeconomic policy are overblown because:

- The economy is still far from achieving full employment today. More pressure from liberals would likely lead to better policies in the short term, and long-term consequences could be dealt with in the future if they become a problem.
- The Fed is usually too conservative in its projections of the non-accelerating inflation rate of unemployment (NAIRU). When the unemployment rate nears 5.5%, experts will debate whether the economy is approaching the NAIRU. Dr. Bivens does not want the Fed to be overly cautious in this situation; he would like to see evidence of accelerating inflation before the Fed slows the growth of the economy. People have generally been confident that the NAIRU is near 5.5%, but in the late 90s, the unemployment rate fell below 4% for a couple of months without accelerating inflation.

- As Lawrence Summers argues, it might be the case that the economy will consistently struggle to generate sufficient demand for the next couple of decades. In such a situation, pressure from liberals for more aggressive macroeconomic policy would be very useful and would be unlikely to lead to problems.

Lack of philanthropic involvement in macroeconomic policy issues

It seems that, generally, foundations pay little attention to macroeconomic policy issues. This may be because:

- Macroeconomics has traditionally been seen as a complex, technocratic, politically neutral policy area that should be left to the experts in the field, such as policymakers at the Fed.
- The idea that liberal pressure on the Fed could lead to better policy outcomes was unpopular for the last 30 years. This may be partly because in many periods, such as the late 90s, the labor market was strong enough that looser Fed policy would have been undesirable.
- Foundations want tangible results, but it would be difficult to measure the results of a macroeconomic policy campaign. A campaign to raise the minimum wage in the next year has a clearly defined goal, whereas in macroeconomic policy, the campaigns would likely not be able to achieve results on a short time horizon and it would be difficult to link outcomes, e.g., Fed decisions, to a foundation's activities.

Funding opportunities

A philanthropist could fund a "shadow" Federal Open Market Committee of economists that would comment on the Fed's actions after each Federal Open Market Committee meeting. If prominent economists were on such a committee, it might be able to attract significant attention. Tom Schlesinger of the Financial Markets Center may have tried this idea in the 1990s.

A particular policy issue that could use more advocacy and organizational support is aid to state and local governments during macroeconomic downturns. During recessions, state budgets decrease dramatically, which causes a significant drag on the economy. Empirical estimates of the effect of increased federal Medicaid matching funds during the recession show that aid to state and local governments is a very effective countercyclical policy. Advocates should work to support a policy of automatic revenue sharing with states that is based on eligibility requirements (in the same way that unemployment insurance and food stamps are based on eligibility requirements) so that states automatically receive aid during recessions.

An ambitious policy change idea, once proposed by Alan Blinder, is to create a Fed-like institution that would have significant control over fiscal policy. This would be a technocratic group that would have authority to increase government spending on shovel-ready projects during economic downturns and enact taxes when the economy seems to be overheated.

It would also be beneficial to fund research and advocacy on ways that the Fed could directly provide people with money during recessions. For example, perhaps the Fed could use postal checking accounts to give out money.

In general, ways to reduce Congress's total control of fiscal policy, whether through more automatic stabilizers or other mechanisms, would improve macroeconomic policy.

Macroeconomic research opportunities

Valuable macroeconomic research opportunities include:

- More empirical estimates of the effect of fiscal and monetary policy interventions. For example, there have not been enough empirical studies of the effects of quantitative easing.
- More analyses of the effect of high unemployment rates on wage growth for people across the wage distribution.
- Increased monitoring of current trends in the economy. Data collection on current conditions in various markets takes a lot of time and effort but is essential to effective macroeconomic policymaking.

Models for a macroeconomic policy advocacy campaign

Dr. Bivens is not aware of any past advocacy campaigns related to macroeconomic policy, but there may have been campaigns he is not aware of.

However, a campaign that may serve as a model is Americans for Financial Reform (AFR)'s work on financial regulation. Financial regulation is a complex topic that is hard to generate excitement about, but AFR seems to have been successful at combining policy expertise with successful grassroots campaigns. Marcus Stanley, Policy Director at AFR, may have ideas about how to translate this success to a macroeconomic policy campaign.

Ideally, a macroeconomic policy advocacy institution would be actively monitoring macroeconomic policy at all times and would be able to scale up quickly during times of macroeconomic crisis or for particularly important policy campaigns.

Macroprudential policy

GiveWell asked Dr. Bivens about the concern that low interest rates in an economy with moderate levels of unemployment could cause economic bubbles.

Dr. Bivens is skeptical that low interest rates in a moderate-unemployment environment would cause bubbles, though he does not believe that it is impossible. Bubbles do not always develop during times of low interest rates. For example, in the recent housing bubble, the fastest housing price growth occurred when interest rates were rising from 2004-2006.

Furthermore, if lower interest rates foster bubbles, it seems that the Fed should have more tools to fight bubbles in addition to its power to alter short-term interest rates. For example, if the Fed believed that there were a bubble in the housing market, it should be able to require higher down payments or lower loan-to-value ratios on mortgages. Or, if the Fed believed that there were a stock market bubble, it should be able to place higher margin requirements on buying stocks with debt. If the Fed had the tools to target specific asset bubbles, then market actors would have to take the Fed's possible actions into account in their investment decisions, which would incentivize them to prevent bubbles from growing.

Dr. Bivens is confident that the Fed would be able to recognize the formation of bubbles in real time. Bubbles that are capable of doing macroeconomic damage take a significant amount of time to grow. For example, in 2004, it was clear that home prices were rising at an unsustainable rate.

Other people to talk to

- Damon Silvers — Director of Policy and Special Counsel, AFL-CIO
- Dean Baker — Co-Founder, Center for Economic and Policy Research
- Justin Wolfers — Senior Fellow, Brookings Institution
- Brad DeLong — Economics Professor, University of California, Berkeley

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