

A conversation with Dr. Josh Bivens, September 18, 2017

Participants

- Dr. Josh Bivens – Director of Research, Economic Policy Institute (EPI)
- Alexander Berger – Program Officer, US Policy, Open Philanthropy Project

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

Summary

The Open Philanthropy Project spoke with Dr. Bivens of EPI as part of an update on our 2016 grant (<https://www.openphilanthropy.org/focus/us-policy/macro-economic-policy/economic-policy-institute-macro-economic-policy-research>). Conversation topics included EPI's upcoming advocacy and research priorities.

Fed advocacy

Jackson Hole summit

Dr. Bivens attended the Jackson Hole summit this year. He participated in an inflation target panel on the first day which went well and got good press coverage. Gene Sperling was also on the panel. The second day was focused on advocating for Janet Yellen's reappointment as Fed Chair, and the panel was more sparsely attended (in part because the main meeting was underway at that point).

Upcoming priorities

EPI's priorities over the next few months include:

1. Sustaining momentum on advocacy for a higher inflation target (which seems to have slowed somewhat). The Hutchins Center at Brookings plans to hold an event in the next few months to start that work up again. EPI is mainly focused on keeping the policy conversation going in this area rather than on doing new research on it. Dr. Bivens' paper arguing for a 4% inflation target and its accompanying open letter came out in June; co-signers of the letter included Jason Furman, Joseph Stiglitz, and Brad DeLong. That said, Dr. Bivens believes the conversation about revising the inflation target should be broadened out to incorporate other mechanisms for preparing for the next recession.
2. Bringing attention to upcoming Board appointments. EPI has come out against Randal Quarles' appointment by issuing a statement on its website and talking with the House Financial Services Committee and a couple of Senate offices. EPI also helped Fed Up with its open letter opposing Quarles. Most of the discussion around Quarles that Dr. Bivens is aware of has focused on his views on financial regulation.

Fed Up is the only group Dr. Bivens is aware of that's mobilized to advocate for Janet Yellen's reappointment. Dr. Bivens expects the chair appointment will get media attention once it's announced that a decision will be made soon, but he doesn't see much organizing by groups trying to influence it now, particularly on the conservative side.

Research

Productivity and wage growth

EPI plans to expand its research on productivity and wage growth to get more variation and statistical power, including analyzing cross-industry and industry-by-state data to see whether the lag between wage growth and productivity growth shows up at the industry level (Dr. Bivens expects that it will). Research assistants at EPI are working on this.

While Dr. Bivens isn't certain that there's a lot of slack left in the economy, he thinks the balance of risks favors more aggressive policy.

EPI is also looking at whether tightened labor markets are correlated with a closing of labor market gaps between various demographic groups. The racial unemployment gap seems fairly invariant to the business cycle (in ratio terms), but the gap in prime-age EPOP does appear to close when labor markets tighten. Dr. Bivens also expects to find significant compression of the difference in annual hours worked between various demographic groups when labor markets tighten. The hours-worked margin for the bottom half may be more important to overall income than the hourly wage margin (the last edition of *The State of Working America* documented this to some extent).

There are still some methodological questions about modeling wages and unemployment; EPI assembled its state-level dataset in part to work on settling on a standard methodology. In part, EPI is trying to determine whether prime-age EPOP or the unemployment rate is a better predictor of wage growth.

The Fed is holding a conference at the Board in October on the relationship between labor market conditions and racial unemployment and wage gaps.

Measuring slack

In addition to forecasting wage growth, EPI wants to look at other various measures of slack besides unemployment rate (which Dr. Bivens thinks is probably not the best measure), e.g., monthly hires over stock of unemployment, or quit rates (which indicate some level of confidence among workers that they'll be hired again quickly). Using state-level data for these measures offers more statistical power and variation.

Dr. Bivens thinks most economists are unlikely to focus on carefully measuring slack because simply documenting an empirical phenomenon isn't seen as groundbreaking or likely to receive much attention. The Fed has some incentives to appropriately measure slack. The Fed's models likely include some relationship

between unemployment rate and wages; it would be interesting to know how the Fed currently estimates that.

Ben Zipperer

Over the last couple of months, Ben Zipperer has mainly been working on minimum wage issues. Responding to the Seattle minimum wage study took some time. EPI plans to eventually release a paper Mr. Zipperer wrote on interpreting estimates of job loss in the minimum wage debate, which includes documenting the extent of churn in the low-wage labor market. He's also acted as data lead on the racial unemployment gaps and state wages work.

Recent engagement and response to research

Some of EPI's research is intended to directly influence policymakers, but getting media coverage helps policymakers take research more seriously. Which reporters (rather than just how many) cover something is also important.

Dr. Bivens was impressed with the attention J. W. Mason's recent paper received (though the conversation seems to have now slowed somewhat). He thinks the Roosevelt Institute did a good job garnering interest (e.g. by getting Jason Furman to comment on it).

In general, Dr. Bivens has been pleased with how much the progressive economic establishment has engaged in debates around slack and higher inflation targets. He thinks EPI's views have gotten a fair hearing and have persuaded some people. He has been especially surprised by the level of support for a higher inflation target.

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