# A conversation with Justin Wolfers on February 26, 2014

## Participants

- Justin Wolfers — Professor of Economics and Public Policy, University of Michigan; Senior Fellow, The Brookings Institution
- Alexander Berger — Senior Research Analyst, GiveWell

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

## Summary

GiveWell spoke to Professor Wolfers to learn more about opportunities for philanthropy in macroeconomics. Conversation topics included the state of macroeconomic research and advocacy, ways to address the gap between economics and public policy debates, prediction markets, and existing sources of funding.

## Macroeconomic research and advocacy

### *Monetary vs. fiscal policy*

Monetary policy, which is managed by the Federal Reserve, tends to receive much more attention and research funding than fiscal policy. There are about one thousand PhD economists in the Federal Reserve system, typically working on monetary policy issues, compared to fewer than twenty on the Council of Economics Advisors (CEA) and the National Economic Council (NEC) combined. The CEA is the president's main source of economic advice. PhD economists would be better distributed across the U.S. federal bureaucracy if there were only a couple hundred at the Federal Reserve and many more in Congress and the White House.

There is also a lack of fiscal policy expertise: when the great recession hit, economists were embarrassed by how little they knew about exactly how fiscal policy should respond. There is broad agreement about the need for countercyclical fiscal policy—in which the government grows during recessions and shrinks during periods of growth—but the details of which policies should be cut or expanded from one period to the next are poorly understood. In the current political environment, any attempt to fight the ups and downs of the business cycle get embroiled in the debate over the appropriate size of the federal government. The logic of automatic stabilizers is that they are more robust to political intransigence, but economists do not think enough about the design of such policies or the political considerations that govern them. These questions deserve more attention from economists than they currently receive.

Many macroeconomic issues, including immigration reform, are not recognized as such, and there is insufficient research on these issues.

*Checks on the Federal Reserve*

The Federal Reserve plays an outsize role in research on monetary policy, prompting some concerns about the potential for harmful "groupthink." More independent sources of research support could help address that issue, though the structure of the Federal Reserve System, which includes twelve separate regional banks, already achieves that goal to some extent.

*Existing foundation efforts*

Professor Wolfers doubts that recent efforts on these topics by foundations have been particularly effective. The Peterson Foundation spends millions of dollars a year on efforts to address the budget deficit, with most of the support going to advocacy rather than rigorous research, and seems to have achieved relatively little. The Institute for New Economic Thinking (INET), a think tank launched by George Soros, has struggled to have much influence because it funds thinkers who are too far outside the mainstream. In both cases, the clear ideological agenda of the funders have undermined their impact.

**Economics and public policy**

Public debates on monetary and fiscal policy are not responsive to the consensus in economics. For example, many members of Congress pushed to reduce the budget deficit during the recovery from the Great Recession, despite the consensus among economists that government spending leads to growth during deep recessions. The disjunction between economists and policymakers is larger than it has ever been and is the most important economic policy problem today.

*Politicization*

Influential populist forces on the left and right, which have politicized the debate on monetary and fiscal policy, are somewhat responsible for the disjunction between economics and public policy. The "sensible right" has been silenced by Republican political advocate Grover Norquist and others. Solutions that involve empowering left-wing groups to counter right-wing groups could make the problem worse.

Despite deep ideological differences between Republicans and Democrats about the appropriate size of government, there are opportunities to make fiscal policy more responsive to economics. These opportunities include:

- Separating the debate about the size of government from debate about the role of government in fighting business cycle volatility. (Proponents of small government are not necessarily opposed to Keynesian policy during recessions.)
- Developing more technical fiscal policy expertise, so that economists are able to give better advice about, e.g., the best makeup of a stimulus bill or various automatic stabilizers.

- Looking for simple, technocratic solutions to non-ideological problems, e.g. problematic incentives created by Social Security disability benefits.

Though public discussions between economists on the left and right became very heated at times during the financial crisis and its aftermath, there may be more room for consensus than a reader of the popular press would imagine. For instance, New York Times columnist Paul Krugman sometimes characterizes Republicans as intransigent and uninformed, but most of Dr. Krugman's criticism is aimed at those with particularly extreme views. Professor Wolfers believes that many Republican economists, such as Greg Mankiw, Douglas Holtz-Eakin, and John B. Taylor would be willing to work with Democrats to find technocratic solutions.

**Potential funding opportunities around economic policy**

*Describing the consensus in economics*

Efforts to better understand the consensus among economists and to communicate the consensus to policymakers could help bridge the gap between economics and public policy. Models for accomplishing this include:

- A survey conducted by the Initiative on Global Markets (IGM) Forum that describes the positions of top economists on a variety of issues. It is useful to cite this survey when communicating with journalists and policymakers. The IGM surveys do not get as much attention in the media as Professor Wolfers thinks they should.
- The Congressional Budget Office (CBO), which acts as a research digester and has deep expertise and a reputation for honesty. It might be useful to have small, non-profit versions of the CBO, similar to the Brookings-Urban Tax Policy Center (TPC), that are focused on macroeconomic issues.
- The Center for Budget and Policy Priorities (CBPP), which has been successful.

*Advocacy*

Some progress could be made by advocating for policymakers to be better educated about the consensus in economics. The U.S. Chamber of Commerce, a business lobbying group, might be a good organization to lead these advocacy efforts, since they tend to be perceived as credible on the right.

*Training academics to engage in the policy debate*

Academic economists who are interested in policy often lack the skills or means to engage in the policy debate. It might be useful to train academics to write and place op-eds and to provide them with the contact information of editors of top newspapers. That said, academics do not need to be published in top newspapers to have an impact. Engaging in the economics blogosphere, which many policymakers follow, is a good way for economists to engage in the policy debate. Other interventions might include putting academics in contact with public relations people, funding media outlets similar to VoxEU, and funding professional writers to summarize and popularize academic work.

*Brookings Papers on Economic Activity*

Funding journals similar to the Brookings Papers on Economic Activity (BPEA) could help make economics more relevant to policy. However, BPEA has been doing this kind of work for about thirty years, and starting a similar journal from scratch would be quite difficult. BPEA has an annual budget of about $1 million, and it is difficult to say how the returns to investing those funds in BOEA compares to the returns from other activities they might be used to support.

*Summer programs for young economists*

Summer programs for graduate students can be hugely influential. As a graduate student, Professor Wolfers attended a two-week program on behavioral economics funded by the Russell Sage Foundation. The young economists who attended this program, all of whom are now professors, were able to produce cutting-edge research much more rapidly as a result of attending the program. This was a highly cost-effective intervention. A similar program for young macroeconomists on the relationship between economics and public policy could be useful.

In general, focusing on younger economists may be more cost-effective. Commissioning papers from senior academics can be expensive, and may not be effective since much of the work might have been done anyway in the absence of funding.

*Increasing diversity in the field*

Increasing the representation of women and people of color in the field of economics, for example by creating summer graduate programs and workshops for underrepresented groups, could result in a more diverse group of economic policymakers (especially since people from historically underrepresented groups seem to be disproportionately likely to be interested in policy).

The Committee for the Status of Women in Economics hosted a mentoring workshop in which senior female academics advised young female economists on how to succeed in academia. A randomized controlled trial found that, six years later, the women who participated in this workshop had published, on average, 0.5 more papers in the American Economic Review (AER) than women who did not. Generally, it costs about $100K to fund a new AER paper. The workshop was a small, inexpensive intervention with a large impact. Creating a similar program for other minorities in economics might have a similar impact.

*Policy tools*

Policy tools such as nominal GDP targeting and automatic stabilizers could help make policy more responsive to economic needs. Macroeconomists are not as focused on such tools as they could be. However, political constraints will make it difficult to pass such policies, and few economists understand or care enough about political economy considerations to write realistic policy proposals.

**Prediction**

*GiveWell asked Professor Wolfers the potential value of prediction tournaments in economics and about the value of prediction markets for economic questions.*

It is difficult to determine accuracy or credibility amongst economic pundits, because the sample size of major economic events is too small. A prediction tournament for specific economic measures, such as GDP, would probably not be very helpful, since there is already significant investment in those predictions and accuracy in those predictions doe not seem highly correlated with deeper economic understanding. It is possible that a conditional prediction tournament could encourage pundits to be more nuanced and more honest about uncertainty, and could help measure the consensus on important issues.

A number of prediction markets exist today, and it would not be difficult to set up more. In the short run, the highest-impact intervention would likely be to make prediction markets more user-friendly. Legal barriers to conducting real-money prediction markets in the U.S. are not a major obstacle, since markets in other countries seem to allow reasonably accurate predictions and can be visited by people in the U.S. The website PredictWise aggregates information from such markets.

**Sources of funding and support**

Macroeconomists generally do not need high levels of funding. Existing sources of funding include:

- The National Science Foundation (NSF).
- The Institute for New Economic Thinking (INET).
- The Washington Center for Equitable Growth.
- The Russell Sage Foundation, to a small extent.

**Other people to talk to**

- Ricardo Reis
- David Romer
- Alan Krueger
- Lawrence Katz
- David Rothschild