

## **A conversation with Dr. Jared Bernstein, September 20, 2017**

### **Participants**

- Dr. Jared Bernstein – Senior Fellow, Center on Budget and Policy Priorities (CBPP)
- 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. Bernstein.

### **Summary**

The Open Philanthropy Project spoke with Dr. Bernstein of CBPP as part of an update on our 2016 grant to support the Full Employment Project. The conversation focused on Dr. Bernstein's current research agenda and other CBPP projects.

### **Research agenda**

Dr. Bernstein's work consists of a mix of long-term projects (e.g. 10- to 20-page papers) and near-term projects (e.g. blog posts, TV and radio appearances once or twice a week).

### **Monetary policy**

Dr. Bernstein is now less enthusiastic about a 4% inflation target and more enthusiastic about either price level targeting or aggregate wage targeting.

It's important for the Fed to signal to the rest of the world that the US is aiming for higher inflation. Dr. Bernstein thinks some form of level targeting might be more credible than increasing the inflation target to 4%, given that US hasn't consistently hit the existing 2% target. A regime shift to level targeting would a) act as a more stimulative monetary policy and b) avoid the current confusion around whether to treat the 2% target as a ceiling or an average.

When deciding on a price level target, it would be important to take lasting supply-side changes (e.g. changes in productivity growth) into consideration. Dr. Bernstein does not have strong priors about what the best target would be. He does think we're able to measure wages and prices fairly well compared to overall output.

### **Reducing trade imbalances**

Trade imbalances can lead to distortionary financial flows and may contribute to the risk of secular stagnation. These may be partially driven by a global savings glut (as proposed by Ben Bernanke). Some people have proposed capital controls to regulate financial flows. Joseph Gagnon (Peterson Institute for International Economics) recently wrote a helpful book on currency problems.

Dr. Bernstein's paper on reducing trade imbalances will present a number of ideas in this space to see what gets attention and traction.

## **Direct job creation**

There is a continuum of potential job creation policies that Dr. Bernstein is interested in. They might include, in order from less- to more-significant government involvement:

- a) Relatively small-scale interventions to help some classes of disadvantaged people find jobs,
- b) subsidies from the Federal government to private employers to pay for some significant percentage of wages for some number of months, to encourage new job creation, or
- c) a federal job guarantee (as written about by William Darity Jr. and others, whom CBPP might commission a paper from).

## **Full Employment Fund**

Within fiscal policy, Dr. Bernstein is working on a paper proposing a "Full Employment Fund," which would be a discretionary government fund that could expand and contract to match demand shortfalls and recoveries.

## **Fiscal space**

Dr. Bernstein plans to further elaborate his argument that there is more fiscal space than is commonly thought, even in expansions.

## **Other Projects**

### **Conference**

CBPP plans to hold a conference, ideally in February of next year, about reaching people left behind at full employment. Dr. Bernstein hopes to have four state- or city-level economists, who are implementing on the ground ideas, give talks about what's worked and what hasn't. Jesse Rothstein (UC Berkeley) is helping to organize this.

The Ford Foundation has contributed \$40,000 to partially fund this.

### **Commissioned papers**

CBPP recently published a paper by Harold Pollack (University of Chicago) on programs for unemployed youth that appear to reliably reduce their likelihood of being either perpetrators or victims of violent crime.

Timothy Bartik (W.E. Upjohn Institute for Employment Research) is writing a paper for CBPP on boosting recovery in Rust Belt areas that have experienced manufacturing job loss.

### *Commissioned paper for potential GDP project*

Dr. Bernstein has been planning to estimate potential output using new Congressional Budget Office (CBO) data, but the release of the CBO model keeps getting delayed.

However, Dr. Bernstein was impressed by a recent paper by Olivier Coibion, Yuriy Gorodnichenko, and Mauricio Ulate on estimating potential output. He approached the authors about writing a paper for CBPP's output gap project and they agreed. The new paper will focus on developing Figure 14 from the earlier paper (which compares actual GDP to estimates of potential output made using the Blanchard-Quah approach at various times) and explaining why those measurements, if taken seriously, imply that the economy has more remaining slack than is commonly accepted.

Dr. Bernstein thinks we're unlikely to be able to directly measure the output gap or the non-accelerating inflation rate of unemployment (NAIRU) very well.

### **New book with Dean Baker**

Dr. Bernstein and Dean Baker plan to write another book to serve as a companion to some of the standard reading in undergrad economics (e.g. Greg Mankiw). The book will present ways in which theoretical models diverge from what typically happens in the real world (e.g., that the "natural rate" of unemployment isn't actually known, that the economy has only been at "full" employment 30% of the time since 1980, etc.). A university press has expressed interest in publishing.

### **"On the Economy" podcast**

Dr. Bernstein thinks the "On the Economy" podcast is high quality and that having a forum where progressives discuss economic concepts in simple, intuitive ways is a valuable product. The podcast has a relatively small listenership (in the hundreds). He considers the podcast an investment; there is some chance it might gain a wider audience over the next few years.

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<http://www.openphilanthropy.org/research/conversations>*