

## A conversation with Joseph Gagnon on February 4, 2014

### Participants

- Joseph Gagnon — Senior Fellow, Peter G. Peterson Institute for International Economics; former Associate Director at the Division of International Finance and Senior Economist, US Federal Reserve Board
- Alexander Berger — Senior Research Analyst, GiveWell

**Note:** These conversation notes were compiled by GiveWell and give an overview of the major points made by Dr. Gagnon.

### Summary

GiveWell spoke with Dr. Gagnon as part of its investigation of macroeconomic policy. Conversation topics included: the state of macroeconomic research, funding opportunities to improve macroeconomic research, and advocacy around macroeconomic policy issues.

### Macroeconomic research

Research economists are often incentivized to work on research questions with a small scope because a) if a question is smaller in scope, it is more likely to have a definitive answer, and b) if a question is obscure and particular, it is less likely that someone else is an expert on it, so an economist can become the leading expert on that topic.

However, many hundreds of research economists, spread out across hundreds of institutions, are working in areas that may be relevant to improving US macroeconomic policy. Increasing knowledge about macroeconomic policy is a major issue on economists' research agenda today.

Many macroeconomists point to the lack of high-quality data for answering macroeconomic questions as a significant problem. However, international macroeconomic data is currently underutilized. We now have high-quality macroeconomic data from a large number of countries covering at least the last 2-3 decades, but few economists focus on analyzing it. International economists typically focus on issues such as exchange rates and trade balances while most macroeconomists typically only analyze data from the US and a few other advanced economies. Economists at the International Monetary Fund and Organisation for Economic Co-operation and Development are notable exceptions.

Since quantitative easing (QE) is a new policy, a lot of research remains to be done on its likely effects. Analyses that attempt to predict the effects of QE are often based on the past relationship between changes in a central bank's total assets and the corresponding effect on the growth rate of GDP, but this is a crude analysis. Dr. Gagnon believes that *what* a central bank buys under its QE policy may be just as important as *how much* the central bank buys, but this is an area where further research could be quite illuminating.

There is not a consensus among economists that the government and the Fed are capable of improving the current economic situation. Some broadly left-leaning academics, such as David and Christina Romer, have tried to do data-driven research on important macroeconomic questions such as the effectiveness of fiscal policy. However, their analyses have not persuaded many of the economists who disagree with them (who are typically right-leaning) because those economists are not convinced by the theoretical arguments supporting the empirical analyses.

Dr. Gagnon expects the "zero lower bound" to continue to be an important issue for monetary policy in the future.

### **Funding opportunities to improve macroeconomic research**

More macroeconomists might work on research that benefits society if there were more funding for this type of research. Monetary incentives to conduct policy-relevant research may help counteract the academic incentives to focus on esoteric research topics. For example, Dr. Gagnon believes that more funding for National Science Foundation-type grants to macroeconomists to work on policy-relevant research would be valuable. With \$100,000, a funder could likely pay for one semester of an academic's time, a research assistant, and computer and data support.

To generate more policy-relevant research, a funder could also work with a prestigious academic journal (such as the American Economic Review, the Quarterly Journal of Economics, or the Journal of Political Economy) to organize a conference. The funder would sponsor the conference and provide funding for papers from top applicants. If the journal were prestigious enough, many top economists would likely be interested, though the framing of the conference would matter substantially. The topic would have to be well articulated and motivated in order to yield a focused and productive conference. Scholarly associations that run journals may be willing to work with a funder on this project.

Economists may need more funding to buy access to data, but Dr. Gagnon does not believe that funding for data collection itself is currently an important gap.

### **Macroeconomic policy advocacy**

"Tight money" advocates were very critical of the Federal Reserve's response to the Great Recession, predicting that the Fed would cause high inflation with its policies. Tight money advocates' predictions turned out to be incorrect. "Loose money" advocates were much less organized and played less of a role in the public debate. If loose money advocates had been more engaged, the Federal Reserve might have done more to reduce unemployment. Dr. Gagnon believes that it would have been good for loose money advocates to have been more politically active.

However, these labels may not apply as well going forward, as circumstances, and policy recommendations, change. Most macro-economists accept the need for rule-based

monetary policymaking, but there is currently disagreement between those, like John Taylor of Stanford, who want to stick to the conventional rules, and those, like the new Fed Chair Janet Yellen, who believe that the exceptional nature of recent economic events (e.g. the zero lower bound and the harm to household balance sheets from the collapse of the housing bubble) may continue to warrant more activist policies. Future disagreements may not map clearly to the "tight" vs "loose" monetary policy discussion.

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