Jared Bernstein: Keynote address to Roosevelt Institute 10th Anniversary, 12/11/14

Like a slightly less pretty transformation of a caterpillar into a butterfly, so too are there various life stages one goes through in becoming a policy wonk.

Speaking for many of the people I've worked with and come to know over the years, including a number of people in this room, your heart often gets you into this work, but early on, it's your head that does the heavy lifting.

You're trying to learn the language, to understand the literature and the history of your area of interest, to learn the number crunching skills, or more broadly, how to separate fact from fiction, to recognize and to craft a cogent and convincing argument.

In my early work with the Roosevelt Institute, I encountered many students going through this stage, and the Institute, even in its embryonic days, was already helping to provide them with some context, with feedback and outlets for their work, and with some input from more experienced scholars.

Often at this early stage you're trying to figure out both what rings your bells—what is it that gets you excited. I remember running big "mag" tapes back a Columbia, where you'd type your request into a terminal and some guy would hopefully load the right tape on the mainframe miles away.

My friends and I got a huge kick out of that—with that not-so-little tingle of joy we'd get when this little note came back that our tape was loaded, we knew we wanted to build the quantitative case. Other colleagues found that numbers, tables, and figures on a page had little to do with what they cared about.

Here too, the RI continues to provide a critical contextual function. Learning the trade is of course essential, but it's not obvious what policy analysts actually do in this world, nor is it obvious how our roles interact with other in the process. There's great diversity in this work. I interact with

communications experts, budget wonks, econometricians, financial market regulators, poverty analysts, politicians and their staffs, and importantly—those who have money to support our work and those who want some of that money.

RI brings many of these people together and in doing so, exposes its membership to a world that I know I found confusing back in the pre-RI era. Under the venerable assumption that you keep this endeavor going for another 10, 20, 100 years, the troops will arrive at the battlefront ready to quickly engage with the opposition with more force, purpose, and results.

So I thank the RI for what you're doing, I give myself a slight pat on the back for recognizing your importance right out of the gate…and that's the end of the uplifting part of the speech. Let's turn to the challenges. And let's do so from the lens of the RI.

Not to put too fine a point on it, the dominant economic model is deeply flawed. I was recently at a meeting with Joe Stiglitz, RI's chief economist. We were talking about inequality and growth and I thought Joe was particularly "on" that day. And almost every intervention he made was an explanation of how markets and people and institutions function in ways that significantly depart from the dominant classical model.

The idea that profit maximizing individuals with rational expectations and full information interact with market-driven price signals to achieve the best of all possible worlds is but a happy fairy tale. In the real world, price signals are distorted by market dominance, regulatory capture, discrimination, bargaining power deficits, and rent seekers.

My own research finds, using standard CBO data, that the unemployment rate has been above the so-called natural rate—meaning that the job market has been slack—70 percent of the time since 1980. The impact of that much slack on workers' wages, inequality, and the bargaining power of middle and low-wage workers has been profoundly negative.

And yet, prominent economists not only teach the classical model at top universities, but they win Nobel prices for their work. Yes, others, like Stiglitz, Krugman, and Schiller also win Nobels, and that's great. But it's also confusing. When contradictory models exist, the explanations for what we observe in the economy are up for grabs.

Take one of the most profound economic challenges we face: high and rising levels of economic inequality across many advanced economies. I can show you prominent analyses arguing that this is merely the benign outcome of technology and globalization. Or it's superstar managers finally getting their just desserts—their marginal product. You may recall Greg Mankiw arguing that Robert Downey, Jr. must have deserved the $50 million he was recently paid to portray Iron Man, because…wait for it…he got $50 million. Now, I'll bet he would have taken the gig for say, I dunno, $48 mil, suggesting at least the possibility of some kind of undeserved rent here. Heck, I myself would take the part for a couple hundred K—could I really be $49.8 million worse than Downey?

I can of course also show you work—some excellent examples of which are associated with RI—that explains the large and growing roles of rents in the growth in inequality, of non-productive if not destructive financial market "innovations," of the absence of full employment, of the sharply diminished presence of institutional forces like unions or enforced labor standards that in periods of more equal growth helped to balance the bargaining power of labor and capital.

In other words, competing explanations abound.

Now, let's introduce a bit of political economy. In a world where explanations are up for grabs, which ones do you think politicians will grasp? In fact, let me be more precise in a very important way. Explanations aren't just up for grabs—they're for sale. This is something that is relatively new at least in the think tank world. It's always been the case that money in politics could buy the politics and the policy it wanted, though that's worse now. But today, if you want 2 plus 2 to equal 5, you can buy that

too from a faux think tank. And "he-said, she-said" reporting will often feel compelled to present both sides.

Outside of the inequality debate, there may be no better example of this up-for-grabs, up-for-sale problem than the fact that supply-side, trickle down theories still dominate on Capitol Hill, and not just there but increasingly in states across the nation. And to really get what's going on, you've got to couple that with "crowding out" theories regarding budget deficits: the idea—one embraced by no less than the CBO—that federal budget deficits crowd out private borrow and drive up interest rates.

So here's their game plan: you cite supply-side theory to cut taxes on the wealthy based on the argument that the increased economic activity will boost labor supply, investment, and productivity that will trickle down to the middle class and poor.

But what really happens next is that the structural budget deficit grows (as does after-tax inequality). So then you cite the crowd-out theory to force deficit reduction, but of course you can't raise taxes—that would violate the supply-side doctrine. So you have to cut spending. And there, you cite the wonderful incentive effects you deliver to the poor by cutting the safety net.

I'm not trying to bum anyone out. To the contrary, to cycle back to where I started, RI has been on top of this charade from its inception. And in ways I couldn't have imagined back in the day, it has morphed into exactly the type of beast that can fight this destructive paradigm, for at least three reasons.

First, there's the head thing I mentioned earlier. The Institute has always been about rigorous, fact-based arguments. Yes, I know we dwell in a fact-free zone right now, and I've often had people complain to me—maybe you have too—that I'm too wedded to facts and sound measurement and statistical significance—that while I'm calculating confidence intervals, they're winning elections.

But while I very much understand that argument, it's not for me, and it's probably not for you either. We've got to be true to ourselves and truth involves facts as best as we can discern them. I know people who feel differently and who spend their working lives generating, promoting, and defending arguments which they don't really believe. They do so in some cases because they're paid handsomely…in others, because it gets them the attention they seek. In others, because they're ideologically motivated and the facts have a liberal bias.

As I said, that's not me, and it's not you either. Our goal must be to build and power the lampposts that guide the path back to Factville. Which, when you put it that way, also sounds like a job-creating infrastructure project!

Second, RI has become a premiere organization for thinking about and building a new economics, about which I can only say Godspeed.

And third, there's the heart, which I kind of blew by back at the top with all that emphasis on the learning curve. I've met dozens of RI emissaries over the years, and while the laws of statistics would suggest there must be some among you who are downright unpleasant, I've yet to meet them.

That's important, because it takes more than a big head to get to the type of change I've tried to describe this evening. This town is crawling with the smartest people in the room. What's often missing are big hearts to complement the big heads. Our heart-to-head ratio needs a boost.

That's kind of abstract, I know, so what is it I'm talking about here?

Simple. I'm talking about empathy. I talking about WITT versus YOYO—that's We're-in-this-together versus You're-on-your-own. I'm talking about recognizing our interconnectedness, our interdependence. For the nerds in the room, I'm talking about interdependent utility functions, which

implies that if the distribution of wealth and power becomes too skewed, it's a big problem—an existential problem--for all of us.

So to the young people in the room and to the RI fellows coming down the pike, please continue to develop your big brains. You'll need them, especially as the brains of my generation continue to age and atrophy at an alarming rate. But don't forget your hearts, your empathy, your connectedness.

Because at the end of the day, that combination—heads and hearts and facts all in the service of a new economic model—cannot be stopped.

Thank you.