



2018 Grantee Conference

Conference Proceedings

September 27, 2018 • 8:15 a.m. – 5:30 p.m.

Sessions and meals will all take place in the District Ballroom, located on the lower level of the Mayflower Hotel (1127 Connecticut Ave. NW).

Agenda

Breakfast 8:15 – 9:00 a.m.

Welcome and Introduction 9:00 – 9:15 a.m.

Heather Boushey, Executive Director and Chief Economist, Washington Center for Equitable Growth

Session I: Market Power 9:15 – 10:45 a.m.

Recent research points to a number of troubling trends that threaten to weaken and destabilize our economy: A larger share of U.S. national income has been flowing to individuals at the top of the income and wealth ladder; there is evidence of decreasing competition and increasing concentration and a decline in new business formation; and questions about the role of higher inequality on demand. This session will explore new evidence on the effects of market power.

Jacob Robbins *Kaldor and Piketty's facts: The rise of monopoly power in the United States*

Discussant: Jason Furman

The macroeconomic data of the past 30 years has overturned at least two of Kaldor's famous stylized growth facts: constant interest rates and a constant labor share. At the same time, the research of Piketty and others has introduced several new and surprising facts: an increase in the financial wealth-to-output ratio in the US, an increase in measured Tobin's Q_t and a divergence between the marginal and the average return on capital. In this paper, we argue that these trends can be explained by an increase in market power and pure profits in the US economy, i.e., the emergence of a nonzero-rent economy, along with forces that have led to a persistent long term decline in real interest rates. We make three parsimonious modifications to the standard neoclassical model to explain these trends. Using recent estimates of the increase in markups and the decrease in real interest rates, we show that our model can quantitatively match these new stylized macroeconomic facts.

Daniel Carpenter *What's at Stake in Rulemaking? Financial Market Evidence for Banks' Influence on Administrative Agencies*

Discussant: Austin Clemens

Governments worldwide use administrative rulemaking to craft economic regulation, and businesses engage in costly activity to influence this process. How much is at stake in rulemaking? How can we tell whether firms obtain meaningful influence? We use intraday event study methods to analyze how firms' stock responds to the announcement of new rules. We find that commenting firms obtain stock returns between 5 and 12 percentiles higher than those that abstained. Observed rulemaking participation by publicly traded banks alone accounts for \$3.2 billion to \$7.8 billion in excess returns. The aggregate influence of commenters on all Dodd-Frank rules is likely far larger. These results, as well as case studies of two rules, suggest that firms shape policy in rulemaking net of their influence on rule drafting, that business-induced rulemaking changes may account for billions of dollars in profits, and that rulemaking comprises an important site of political inequality.

Break 10:45 – 11:00 a.m.

Session II: Inequalities in the Labor Market 11:00 a.m. – 12:30 p.m.

The labor market is the primary means of distributing national income to people across the economy. The bottom 80 percent of Americans on average receive 80 percent of their income from earnings. Recent research underscores that economic power plays a large role in determining employment outcomes, including getting hired or earning a fair day's pay. How do inequalities in wages, bargaining power, and the evolving labor market affect workers' economic security and opportunity as well as broad-based economic growth?

Heather Sarsons *Interpreting Signals: Evidence from Medical Referrals*

Discussant: Randy Albelda

This paper provides evidence that a person's gender influences the way others interpret information about his or her ability and documents the implications for gender inequality in labor markets. Using data on physicians' referrals to surgical specialists, I find that referring physicians view patient outcomes differently depending on the performing surgeon's gender. Physicians become more pessimistic about a female surgeon's ability than a male's after a patient death, indicated by a sharper drop in referrals to the female surgeon. However, physicians become more optimistic about a male surgeon's ability after a good patient outcome, indicated by a larger increase in the number of referrals the male surgeon receives. Physicians also change their behavior toward other female surgeons after a bad experience with one female surgeon, becoming less likely to refer to new women in the same specialty. There are no such spillovers to other men after a bad experience with one male sur-

geon. Consistent with learning models, physicians' reactions to events are strongest when they have just begun to refer to a surgeon. However, the empirical patterns are consistent with Bayesian learning only if physicians do not have rational expectations about the true distribution of surgeon ability.

Suresh Naidu *The Language of Contract: Promises and Power in Union Collective Bargaining Agreements*

Discussant: David Howell

We document determinants of control rights in union contracts using a new corpus of 30,000 collective bargaining agreements from Canada from 1986 through 2015. Using ideas and methods from computational linguistics, we extract measures of rigidity and worker control from the text of the contract clauses. Motivated by a model of efficient contract design, we analyze how rigidity and authority in contracts varies according to firm-level factors and external factors. We document that contracts impose obligations equally on firms and workers but give entitlements mostly to workers. An increase in personal income tax rates is associated with an increase in worker entitlements, consistent with a substitution effect away from taxed compensation (income) and toward untaxed compensation (control rights as amenities). Lower local sectoral unemployment rates and provincial governance by pro-labor parties is associated with increased worker authority, consistent with effects of changed bargaining power for workers. Finally we find that unanticipated negative wage shocks due to low COLA adjustments relative to inflation are associated with higher strike rates and strike intensity, but this effect is attenuated by contracts with higher worker authority, consistent with positive worker rents from control rights.

Lunch 12:30 – 2:00 p.m.

Doctoral research preview

Equitable Growth supports faculty as well as current Ph.D. students through its grant program. An important aim of the Grantee Conference is providing networking opportunities, particularly for early career scholars, in order to nurture a new generation of scholars interested in the relationship between inequality and growth. In that spirit, lunch discussion will feature doctoral research. Attendees will be assigned seating according to general research area, and each table will include a few graduate students. Brief descriptions of students' research will be distributed at the tables, and we encourage informal discussion of their work and how it relates to others' work.

Panel discussion: What is wealth and why does it matter? 2:00 – 3:15 p.m.

Moderator: Heather Boushey

Panelists: Bradley Hardy, Jonathan Fisher, Claudia Sahn

Wealth and the unequal distribution of wealth has notable effects on both inequality and growth. Measuring wealth, however, especially the intergenerational transmission of wealth, has been difficult, as has uncovering the mechanisms through which wealth impacts mobility and opportunity, other dimensions of inequality, such as income and consumption, or household finances and financial decision-making. Understandably, efforts to close the wealth gap or encourage wealth accumulation have aimed to ameliorate inequalities and create a more stable economy, but structural barriers based on race, gender, and other factors remain. What role does wealth play in shaping inequality and impacting growth? What are the open research questions we should focus on?

Break 3:15 – 3:30 p.m.

Session IV: Reducing Inequality 3:30 – 5:00 p.m.

Shocks to income, such as unemployment or stoppages in work due to health problems or other factors, can be an immediate source of financial harm for individuals and households. In the aggregate, they are an important determinant of inequality. Public policies aimed to protect against these kinds of negative income shocks or ameliorate the impact of such shocks play an important role in addressing the causes of inequality and stabilizing the economy. What role can social insurance and other public policies play in protecting against shocks or helping individuals rebound from them? What are the larger economic impacts of such programs?

Manasi Deshpande *Disability Receipt and Financial Outcomes*

Discussant: Jeffrey Liebman

Although there is a substantial literature on the effects of disability benefits on labor supply, there is little evidence on the effects of disability benefits on consumption or well-being. We use Social Security Administration disability records linked to bankruptcy, foreclosure, and deeds records to estimate the effect of disability benefits on financial outcomes. We find that being approved for disability benefits results in large reductions in bankruptcies and foreclosures. We are currently studying effects on evictions and home transactions.

Danny Yagan *Undirected Migration*

Discussant: Abigail Wozniak

This paper studies directed migration—moves from struggling areas to booming areas—after Great Recession local shocks. I find that individuals who migrated from a severely shocked area to a mildly shocked area enjoyed higher 2015 earn-

ings and employment rates than those who migrated to another severely shocked area. Yet out-migrants were *less* likely to migrate to a mildly shocked area than to another severely shocked area. Controlling for distance traveled, migration was orthogonal to destination shock intensity. The results suggest limited insurance from out-migration and are consistent with labor misallocation.

Closing Dinner 6:00 – 8:30 p.m.

State Ballroom, Mayflower Hotel

- **Cocktails and hors d'oeuvres** 6:00 – 6:45 p.m.
- **Dinner and keynote** 6:45 – 8:30 p.m.
Emmanuel Saez—*Equitable growth along three dimensions: Measurement, mechanisms, and policies*