Inequality and economic growth

Lessons from research funded by our academic grant program and new lines of inquiry

December 2019
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Foreword

By Heather Boushey, president and CEO, Washington Center for Equitable Growth

The Washington Center for Equitable Growth is a nonprofit research and grantmaking organization dedicated to advancing evidence-backed ideas and policies that promote strong, stable, and broad-based economic growth. This report is a snapshot of our academic grantmaking over the past 6 years, with a look ahead to our 2020 round of grantgiving.

We are excited to share the details of our now multimillion-dollar grants portfolio and our network of more than 200 scholars, who are deepening our understanding of whether and how inequality affects U.S. economic growth and stability—at a unique moment when these findings are critical for the future prosperity and well-being of our nation. The work embodied in this report would not be possible without the many people—our funders, our Steering Committee, and our Research Advisory Board—who helped Equitable Growth launch, develop, and grow our grant program. I would like to share with you their contributions alongside those of our staff who helped us ensure our grantmaking is academically rigorous and policy relevant.

In the overview of the report itself, we call out our current and former members of our Steering Committee by name and title to acknowledge their advice and guidance. But let me just say here how much I appreciate the knowledge and wisdom you have all imparted to me personally over the past 6 years and the guidance you have provided our staff. Thank you Melody, Alan, Janet, Karen, Jason, John, Emmanuel, Bob, Janet, Laura, and Raj. Your help remains indispensable.

Our funders, of course, make our own grantmaking possible. Without their sustained financial support, we would not have been able to support the research we do and, in some cases, the critical findings flowing from that research would not have been shared with the light of day. Our founding funder, the Sandler Foundation, led by the late Herb and Marion Sandler, envisioned the importance of the wide scope of our grantmaking and supported us with generous and continued funding. The William & Flora Hewlett Foundation, The Orange County Community Fund, and the Ford Foundation also were early and continuing backers of Equitable Growth. Early on, too, the Kellogg Foundation, the John D. and Catherine T. MacArthur Foundation, the Rockefeller Family Fund, the Rockefeller Foundation, and the Ewing Marion Kauffman Foundation provided key support.

We have benefited greatly and learned so much from the Russell Sage Foundation, with whom we have co-funded research projects since our first round of grantmaking in 2014 and whose collaboration we also value. Joining these foundations in the ensuing years of our grantmaking are the Economic Security Project, the JPB Foundation, the Omidyar Network, the Open Philanthropy Project, the Siegel Family Endowment, and the Jim and Cathy Stone Foundation. We also look forward to working together with several new funders in 2020, among them the Gates Foundation, the Alfred P. Sloan Foundation, and the Bernard Spitzer Charitable Trust. Such wide and generous support from our funders and several foundations in the philanthropic community that wish to remain anonymous sustains our growing grants program.
When we founded Equitable Growth in 2013, our first task was to launch our academic grant program. Special thanks to Nick Bunker, Kate Crawford, Brad DeLong, Sarah Miller, Olenka Mitukiewitz, Carter Price, and Pedro Spirakovsky-Gonzalez for their work to set up our first round of grantmaking. In 2014, the former head of the grants program, Elisabeth Jacobs, worked with Korin Davis, now our Academic Programs director, to see that first round of grantgiving through to completion and formalize the grant program. Thank you, Elisabeth, for your dedication to our organization, and a special thanks to Korin, who since 2014 has built out our academic grantgiving program to the size and scope it is today.

Every year, Korin works with me and the staff, the Steering Committee, and Research Advisory Board to refine and update our annual Request for Proposals, lead the labor-intensive peer-review process, and engage the Steering Committee in its decision-making and approval process in order to select our annual grantees. Providing Korin and I with key support are the current staff at Equitable Growth. Our Director of Tax Policy and chief economist Greg Leiserson weighs in early and often with key advice throughout our annual grantmaking cycles. Helping Greg and Korin with drafting the annual Request for Proposals and reviewing submissions are our Director of Labor Market Policy and economist Kate Bahn, Computational Social Scientist and the head of our GDP 2.0 initiative Austin Clemens, Director of Family Economic Security Policy Alix Gould-Werth, Senior Policy Advisor Liz Hipple, who leads our mobility work, Director of Markets and Competition Policy Michael Kades, and Vice President Casey Schoeneberger.

So many of our other staff support these grantgiving efforts. In particular, Academic Programs Associate Diane Wren and Senior Manager for Academic Engagement Christian Edlagan both provide essential support for the administration of the grants program and the support of our grantees. As we work through the crafting of the annual process of deciding what research questions to prioritize, encouraging scholars to apply, giving each application the attention it deserves, and making decisions on what research to fund, every member of Equitable Growth's team plays a critical role. I encourage you to check them out on our website, and they should take a collective bow for their part in making the underpinnings of this report happen.

There are so many scholars and policymakers in our network who have helped guide our grantgiving in ways large and small. Take a look on our website, in the “Elevating Research” channel near the top of the site, to get an idea of how many have helped us over the years. I and my staff at Equitable Growth remain in touch with nearly all of them every year for advice and peer review. We look forward to working with them in 2020 and the years ahead.

All of these individuals mentioned here and highlighted in this report contributed in so many different ways to the success of our grantgiving. The views of all of these scholars and organizations are, of course, their own. Yet without their help and advice, we at Equitable Growth would not have been about to create the breadth and depth of our grants program and the enduring impact of all this academic research, which never sits on a shelf but instead helps inform decision-making by policymakers.

Indeed, the scholars and research highlighted in this report are emblematic of the large-scale, evidence-backed ideas that are key to understanding what research can currently tell us about the pathways to building equitable growth across our nation. Critically, this research and these cutting-edge scholars are helping policymakers understand pressing future questions that need to be answered about how inequality obstructs, subverts, and distorts broadly shared economic growth. We at Equitable Growth look forward to continuing this quest in 2020 and beyond.
Overview

The Washington Center for Equitable Growth is a nonprofit research and grantmaking organization dedicated to advancing evidence-backed ideas and policies that promote strong, stable, and broad-based economic growth. Our grant program, now entering its seventh year, is critical to this mission. By supporting scholarly research, Equitable Growth seeks to deepen our understanding of whether and how inequality affects economic growth and stability.

Our academic grant program includes a portfolio of cutting-edge scholarly research investigating the various channels through which economic inequality may or may not impact economic growth and stability, both directly and indirectly. We have provided grants to more than 200 researchers, beginning in 2014. In total, Equitable Growth has distributed more than $5.6 million in grants. In 2019, we announced $1.064 million divided among 14 grants to 33 researchers and 13 grants to doctoral student researchers.

This research does not sit on a shelf. Equitable Growth bridges the gap between academia and policy by fostering research that is relevant to today’s policy debates, and by informing policymakers of cutting-edge research. Our in-house team of nearly 40 staff then focuses on making the research findings relevant to the policymaking community. We engage policymakers on specific issues that flow from our research interests: how to measure economic growth and well-being, taxing capital, how to ensure competition in the market, how to raise wages, and how to ensure family economic security. We also engage policymakers by asking them what research questions they need answered, so that academic research can be relevant and actionable. (See Figure 1 on p.4.)

Equitable Growth focuses on questions about the role of economic inequality in the functioning of the economy, and we support inquiry using many kinds of evidence, relying on a variety of methodological approaches and cutting across academic disciplines. We have a keen interest in measurement and data collection, and tend to fund research using empirical techniques that can show causality. We also are interested in supporting efforts to increase diversity in the economics profession and across the social sciences because we recognize the importance of diverse perspectives in broadening and deepening the research on inequality and growth.
How Equitable Growth bridges the gap between academia and policymakers

Our unique model provides policymakers with data-driven evidence and academics with an understanding of policy issues in need of investigation.

Our Steering Committee, made up of former top policymakers and leading academics, guides our research priorities, helps write our annual Request for Proposals, and reviews and approves funding decisions. Its members are:

- Former White House Domestic Policy Council Director Melody Barnes
- Princeton University economist and former Vice Chairman of the Board of Governors of the Federal Reserve System Alan Blinder
- Equitable Growth President and CEO Heather Boushey
- John Bates Clark medal winner and Harvard University economist Raj Chetty (former member)
- Princeton University economist Janet Currie
- Harvard University economist Karen Dynan
- Harvard University faculty member and former White House Council of Economic Advisers Chair Jason Furman
- Former White House Chief of Staff and Co-founder of Equitable Growth John Podesta
- John Bates Clark Medal winner and University of California, Berkeley economist Emmanuel Saez
- Nobel Laureate and Massachusetts Institute of Technology economist Robert Solow
- University of California, Berkeley economist and former Chair of the White House Council of Economic Advisers and Director of the White House National Economic Council Laura Tyson (former member)
- Former Federal Reserve Chair and Chair of the Council of Economic Advisers Janet Yellen
Equitable Growth supports research in four core areas that we think are particularly important for understanding the relationship between inequality, growth, and well-being:

- Macroeconomic policy
- Market structure
- The labor market
- Human capital and well-being

These categories evolved somewhat over time. Early on, we focused on the roles played by individual and institutional actors and how they contributed to or were affected by the sources of economic inequality. Research findings suggested that there were also notable structural barriers standing in the way of strong, stable, and broad-based economic growth, so our questions evolved to include a greater focus on structural issues.

Our earlier focus on entrepreneurship, for example, shifted as we came to see it as deeply affected by the larger issues of human capital development and market structure, as well as macroeconomic issues such as access to credit. So now, we examine the issue of encouraging innovation under the larger issue of market structure. To be clear, we always ask questions about large forces in the economy, and we still ask questions at the micro level.

What follows is a description of our four funding channels, how they evolved, and examples of emblematic research in each category that demonstrate how we seek to achieve our mission of developing and supporting evidence-based ideas for achieving strong, stable, and broad-based economic growth. Readers will probably note that some grants could fall into more than one category. We value research that has implications for a number of questions and issues.
Macroeconomic policy
Equitable Growth focuses on the role of inequality in the macroeconomy, a core line of inquiry we’ve pursued since our founding. Fundamental questions for us are what the implications of inequality are for business cycle dynamics, as well as for monetary and fiscal policy. The research highlighted in this section is emblematic of how our academic grantmaking supports research projects that are critical to understanding how the rise of economic inequality in the United States over the past five decades may affect macroeconomic growth and stability. Specifically, Equitable Growth-funded research is providing answers to key questions about:

- The role of inequality in the macroeconomy
- How to measure economic inequality
- How taxes affect economic inequality and growth

In each of these areas, our research offers up key findings for policymakers to consider, with some of them now part of the policymaking toolkit as research continues.

The role of inequality in the macroeconomy

In 2018, we funded research from Adrien Auclert of Stanford University and co-author Matthew Rognlie of Northwestern University that led to the publication of an important working paper for understanding the impact of inequality on economic growth.¹ As they explained in a post on the Equitable Growth website, the authors developed a model, based on known facts about individuals’ marginal propensities to consume and their saving behavior, that can be used to understand the potential effect of an increase in inequality on economic output.² Their research showed that increasing inequality can increase demand for assets to smooth erratic income flows. And when monetary policy is constrained, they demonstrated that this increase in asset demand can slow economic growth.
In her forthcoming work, former Equitable Growth Dissertation Scholar Christina Patterson, now a postdoctoral researcher at Northwestern University and slated to join the faculty of the University of Chicago Booth School of Business in 2020, used funding from Equitable Growth to support an exploration of a number of macroeconomic issues, in particular how recessions are exacerbated by economic inequality. She finds that the fact that recessions have a disproportional effect on low-income workers with a relatively high marginal propensity to consume, or MPC, amplifies the impact of recessions. She presented her preliminary work at an Equitable Growth seminar in 2019.³

These key insights and other research on the role of inequality in the macroeconomy may help monetary policymakers understand how the rise in demand for assets in the U.S. economy among the wealthiest in the nation led to a glut of savings that slowed rather than powered economic growth.

**How to measure economic inequality**

To understand features of the U.S. economy, those features need to be measured. Equitable Growth provides significant support for research that improves the measurement of economic phenomena. An early grant to Stanford University’s Jonathan Fisher, David Johnson of the University of Michigan, Timothy Smeeding of the University of Wisconsin-Madison, and Jeffrey Thompson of the Federal Reserve System supported their project looking at the joint distribution of income, consumption, and wealth to think about inequality in new ways. They find that when examined through a lens of two or three of these factors together, inequality is increasing more rapidly than when it is examined for only one factor.⁴

In 2017, we provided support for the first WID.world conference to help launch their World Inequality Report, which synthesized the research on inequality across dozens of countries.⁵ Additionally, Equitable Growth is helping to support the Global Income Dynamics project, headed by Fatih Guvenen of the University of Minnesota, Luigi Pistaferri of Stanford University, and Princeton University’s Gianluca Violante, which is assembling panel administrative data across several nations to measure inequality, income volatility, income mobility, and more in an internationally comparable way.⁶

These research projects help power Equitable Growth’s own GDP 2.0 initiative, which makes the case that the Bureau of Economic Analysis at the U.S. Department of Commerce should measure the distribution of income growth as routinely as it measures aggregate growth.⁷ Among many scholars who have
contributed to this work, especially notable are the pioneering efforts of Thomas Piketty at the Paris School of Economics, Equitable Growth Steering Committee member Emmanuel Saez at the University of California, Berkeley, and Equitable Growth grantee and UC Berkeley economist Gabriel Zucman, who together have created a series of distributional national accounts dating back to the 1910s.8

How taxes affect economic inequality and growth

Equitable Growth’s long-standing interest in the role of the federal tax system in affecting both inequality and growth began in 2015, when we convened a group of top scholars on the subject to help us determine where the organization could have the greatest impact in terms of research and policy. In a paper summarizing the discussion at that convening, “Taxing Capital,” David Kamin of New York University School of Law provided a roadmap, laying out the research needed on the taxation of corporations, capital gains, and wealth.9

In 2017, Equitable Growth awarded a grant to Stanford University’s Luigi Pistaferri, who is using wealth and income tax data collected in Norway to better understand wealth inequality by studying how wealth accumulates and how it is distributed across individuals and households.10 He and his co-authors recently published their findings in Equitable Growth’s working paper series.11 In 2018, grantee Juliana Londoño-Vélez, who will soon join the faculty of the University of California, Los Angeles, received a doctoral grant to estimate the impact of wealth taxes on reported wealth and on the use of tax-evasion strategies, making use of data from Colombia.12

Equitable Growth also helped support a paper by Harvard University’s Stefanie Stantcheva and co-authors Ufuk Akcigit of the University of Chicago and Salomé Baslandze of the Einaudi Institute for Economics and Finance on taxation and the international mobility of inventors.13 The authors found that migration decisions of inventors with the greatest number of high-quality patents are influenced by top tax rates, with higher tax rates in a country reducing the number of such inventors in that country.

These grants are emblematic of the research needed to understand how wealth inequality affects economic growth and how the taxing of wealth could play a role in reducing economic inequality. These are all big questions that policymakers are grappling with today and are a part of the economic debate in the United States as the nation approaches the 2020 elections.
With an eye on these important tax issues, Equitable Growth, in our 2019 round of grantmaking, announced two new grants in the macroeconomic realm, including one focused on taxes and another on wealth inequality. Juan Carlos Suarez Serrato of Duke University, Mark Curtis of Wake Forest University, and Eric Ohrn of Grinnell College will study the role of tax policies in determining the level and distribution of income in the United States. Building on previous research, they will examine the impacts of bonus depreciation—a business tax break that was significantly expanded by the Tax Cuts and Jobs Act of 2017—on outcomes such as wage levels and jobs gained or lost for workers of various skill levels.

In addition, Scott Kominers and Ravi Jagadeesan of Harvard University, Mohammad Akbarpour of Stanford University, and Piort Dworczak of Northwestern University will carry out theoretical work on the design of markets in the presence of significant wealth inequality. Their research may be useful for monetary policymakers seeking tools to understand how wealth inequality cascades across markets.

See Figure 2 for a graphic understanding of how our macroeconomic grantmaking and policy research help connect academic research to important policy questions.
Our core questions of interest in the macroeconomic policy channel are:

- What are the implications of the large and sustained increase in inequality across income and wealth groups, as well as the disparate performance of different geographies and demographic groups, for the long-term stability of our economy and its growth potential?
- What are the implications of this increase for public policy, and how do public policies affect these relationships?
- What is the relationship between wealth accumulation and the intergenerational transfer of wealth on intra- and intergenerational economic mobility?
- How do wealth transfers impact economic mobility differently for different groups?
- What are the main channels through which high and rising income inequality and a high and increasing share of property income in total income can affect macroeconomic performance and the response of the economy to macro policy?

Areas of interest to Equitable Growth include but are not limited to:

- **Business cycle dynamics**: Has high inequality changed the frequency, severity, or duration of downturns? Has it increased the financial vulnerability of households in ways that influence the business cycle?
- **Monetary policy**: Do monetary policy instruments or rules have important distributional effects? Does (and should) monetary policy operate differently in an economy with high inequality and a high capital share of income?
- **Fiscal and tax policy**: What are the implications of increasing inequality for countercyclical fiscal policy? How does the tax system affect inequality in incomes, wealth, and other measures of well-being?
- **Political economy**: Is inequality challenging the effectiveness of political institutions? What is the relationship between domestic economic inequality and global economic integration?

Academic letters of inquiry are due by 11:59 p.m. EST on January 26, 2020. If invited, full proposals will be due by 11:59 p.m. EDT on May 3, 2020. Doctoral/postdoctoral submissions are due by 11:59 p.m. EST on Sunday, February 2, 2020. Full proposals will be reviewed by our research and policy staff, external peer reviewers, and members of our Steering Committee. Funding decisions will be announced by July 2020. Please see the macroeconomic policy section of our current Request for Proposals for further information.
Human capital and well-being
Equitable Growth investigates the impact of inequality on the development of human capital and well-being in the U.S. economy. In previous years, we combined human capital with the labor market as a core area of our grantmaking, but now we believe human capital and well-being deserve more focused attention. The high priority we place on this set of issues stems from an understanding from decades of economic research that human capital—the education and skills developed by workers and potential workers throughout their lives—is fundamental to the potential of the economy, families, and society. As such, we are also deeply interested in policy mechanisms that can mitigate the consequences of inequality on human capital development and well-being.

In our grantmaking on this issue over the years, we’ve asked about the extent to which income, discrimination, social and labor market institutions, and neighborhoods affect human capital development and therefore future economic outcomes. In recent years, our research priorities deepened to include a number of specific questions about intergenerational mobility, including the effect of childhood circumstances such as income and neighborhood, as well as the maintenance of safety net programs, on adult outcomes.

There is much evidence on the importance of investments in health and education early in life for the development of human capital, which improves mobility prospects, but there is less research into how structural changes in the labor market and in society might be obstructing upward mobility for current and future generations. We also pay increasing attention to economic stability for families, focusing on the impacts of income volatility, erratic work schedules, and changing family circumstances. We want to know how all these issues affect both well-being today and human capital development tomorrow, and ultimately economic growth and stability.

The research grants and findings highlighted in this section of the report demonstrate how data-driven academic research can point out the importance of human capital and well-being in social and economic arenas including:
Productivity and the safety net

Intergenerational mobility

Family economic stability and well-being

In each of these subject areas, Equitable Growth-funded academics are answering important questions about the links between human capital and well-being and U.S. economic growth.

Productivity and the safety net

Equitable Growth-funded research is investigating human capital development that supports stronger economic productivity. One important early grant by Equitable Growth, alongside follow-up funding, supported a research agenda that examined how opportunity influences innovation and growth, carried out at Harvard University’s Lab for Economic Applications and Policy under the direction of Raj Chetty. The grants supported a series of influential research papers, including “Who Becomes an Inventor in America? The Importance of Exposure to Innovation,” by Chetty and his Harvard colleague Alex Bell, Xavier Jaravel of the London School of Economics, Neviana Petkova of the U.S. Treasury Department’s Office of Tax Analysis, and John Van Reenen at the Massachusetts Institute of Technology.17

These researchers detail four intriguing attributes of how economic inequality impacts innovation:

- Children from families whose income puts them in the top 1 percent across the United States are 10 times as likely to become inventors as those from below-median income families.
- Examining race and gender reveals similar gaps.
- Differences in innate ability explain relatively little of these results.
- Exposure to innovation during childhood makes a child considerably more likely to become an inventor.

These findings have powered an array of follow-up research, some of it being conducted by Equitable Growth grantees.18

Recent research also suggests that the social safety net plays an important role not only in promoting well-being but also in supporting human capital development.19 This research, by Hilary Hoynes of the University of California, Berkeley, and Diane Whitmore Schanzenbach of Northwestern University, shows that childhood safety net programs, including Medicaid, the Earned Income Tax Credit, the Child
Tax Credit, the Supplemental Nutritional Assistance Program, and Temporary Assistance for Needy Families (formerly Aid to Families with Dependent Children), have lasting positive effects on the lives of poor children.

While this work was not funded by Equitable Growth, the organization, in light of the significance of the research, awarded Hoynes a 2019 grant to study the long-term effects of different types of welfare reforms. Our hope is that this study can shed light on the implications of funding social welfare programs today on our nation’s human capital tomorrow. She, along with co-authors Jordan Matsudaira of Columbia University and Pauline Leung and Zhuan Pei, both of Cornell University, will examine the long-run results of a series of experiments with low-income workers and families conducted in the 1980s and 1990s by MDRC, a public policy research organization. The experiments included various forms of employment incentives and subsidies, job training and search assistance, time limits, and sanctions.

**Intergenerational mobility**

Intergenerational mobility is an important area for grantmaking at Equitable Growth because it is key to strong, stable, and broad-based economic growth and well-being. The work of grantees Trevon Logan of the University of California, Santa Barbara, Bradley Hardy of American University, Rodney Andrews of the University of Texas at Dallas, and Marcus Casey of the University of Illinois at Chicago exemplifies our approach to this issue. The four researchers will measure the correlation between historical residential segregation and contemporary intergenerational mobility. Their preliminary findings, presented by Logan at an Equitable Growth event in 2018, indicate that places with higher historical segregation have lower contemporary intergenerational mobility.

Work by Ellora Derenoncourt, now a postdoctoral research associate at Princeton University and slated to join the faculty of the University of California, Berkeley in 2020, also examines the role of geography and community and intergenerational mobility. In a project funded by Equitable Growth, Derenoncourt finds that policy changes in northern cities in response to the Great Migration of African Americans out of the South in the 20th century—including increased spending on policing—changed the environments in which children grew up and can explain 43 percent of the upward mobility gap between black and white men in those cities today.

These and other findings are helping policymakers understand the importance of historic and contemporary economic policies that contribute to enduring economic inequality.
Family economic stability and well-being

Equitable Growth recognizes the importance of family economic stability for the development of human capital (for parents and their children), as well as for the well-being of individuals and families and the broader U.S. economy. One common labor practice with significant and broad-ranging negative consequences is precarious scheduling. Research on this issue supported by Equitable Growth is increasing the interest of policymakers in policies to support more stable scheduling practices.

In our first year of grantmaking, Equitable Growth supported research to address the impact of unstable work schedules on human capital and well-being. Beginning in 2014, we funded research by Joan C. Williams of the University of California Hastings College of the Law, Susan Lambert of the University of Chicago School of Social Service Administration, and Saravan Kesavan of the University of North Carolina Kenan-Flagler Business School to work with Gap Inc., a clothing store chain, to determine the consequences of unstable work schedules in its retail outlets on workers' families, health, and productivity, and on the company itself.

This groundbreaking research, which is ongoing, shows the significant consequences of precarious scheduling on workers' families and their own health, productivity, and morale, as well as on the company's bottom line. And it has led to Gap making significant changes to its scheduling practices.

A 2015 grant to UC Berkeley’s Daniel Schneider and UC San Francisco’s Kristen Harknett to investigate a proposed change to Walmart Inc.'s scheduling practices provided early funding for what has developed into the Shift Project. The authors produced a number of insightful papers exploring the impact of unpredictable schedules. One is on worker health and well-being. Another is on job turnover and downward wage mobility. A third is on material hardship for workers. And two others are on the impact of unstable schedules on the children of workers, including on the quality of childcare and on child behavior.

In 2019, Equitable Growth announced three new grants on the issue of work schedules, building on the increasing evidence that unstable schedules are affecting economic stability and family well-being significantly.

Equitable Growth is supporting research by Anna Gassman-Pines of Duke University and Elizabeth Ananat of Columbia University to identify the consequences of such scheduling regulation on workers with young children. Using daily diaries compiled by workers (a more accurate tool than survey questions), the researchers will evaluate the Philadelphia Fair Workweek Standard, which was enacted in 2018 and will take effect in 2020.
In addition, Erin Kelly, Hazhir Rahmandad, and Alex Kowalski, all of the Massachusetts Institute of Technology, will collaborate with a warehousing firm to study the consequences of unpredictable scheduling on both workers and the firm. They will investigate the risks of certain schedules for workers’ health and well-being, as well as the relationships between schedules and worker turnover, absenteeism, and productivity. They also will develop an experiment that provides workers with greater control over their schedules and measure the effects on worker well-being and firm productivity.

Peter Fugiel, a doctoral student at the University of Chicago, will draw on longitudinal data from the National Longitudinal Survey of Youth to examine the extent to which employers compensate workers with low-quality schedules by offering higher pay. His and others’ research from our 2019 cohort of grantees could not be more timely for policymakers seeking to understand how to help workers cope with the fast-changing dimensions of U.S. workplaces.

These and other grants in Equitable Growth’s portfolio of funded research are helping policymakers identify solutions that will lead to the development of human capital and support the well-being of workers and their families, as well as enhance productivity. See Figure 3 for a graphic display of how our sets of investments in human capital and well-being are playing out in academic and policy arenas.

Equitable Growth identified the relationship between economic inequality and the development of human capital as a fundamental issue.

Equitable Growth focused on schedule stability as a potential issue affecting development of human capital and well-being, for workers and their children, as well as productivity.

With Equitable Growth grants from 2014 to 2016, Joan C. Williams, Susan Lambert, and Saravanan Kesavan, working with Gap, found that stable work schedules improve worker and family health, productivity, and profits.
Our 2020 Request for Proposals in human capital and well-being seeks answers to the following questions:

- How does economic inequality affect the development of human capital and intergenerational mobility?
- To what extent can the institutions that support the development of human capital—from early childhood care to the social safety net—mitigate inequality’s potential impacts on human capital development and enhance well-being and growth?
- Through what channels do these effects occur?

Areas of interest to Equitable Growth include but are not limited to:

**Human capital development**

- How does inequality and access to opportunity impact the potential for the development of human capital across gender, race, ethnicity, and place, as well as across income, earnings, or wealth distributions?
- What policy interventions or structural changes targeting human capital development may be effective in breaking the link between family background and economic outcomes?
- What characteristics of neighborhoods have a causal effect on the development of human capital and on intergenerational mobility?
- Relatedly, which place-based programs or interventions are most effective in promoting economic mobility, and for whom?

**Well-being**

- What role do public policies such as labor market regulations, social insurance, and safety net policies play in the development of human capital and access to opportunities over the life cycle?
- What role do they play in individual and family well-being, labor force participation, and consumption?
- How do social safety net programs that support well-being impact the macroeconomy?

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The labor market
The 2018 grant cycle marked the first year that Equitable Growth’s grantmaking included a separate labor market category, though since our founding, we have supported research on the labor market through our human capital channel. Labor income accounts for more than two-thirds of national income, and the operation of the U.S. labor market—how markets match skills to jobs, how wages are set, and how firms improve productivity through their management of employees—is key to economic growth.

Further, since labor income is how most people support themselves and their families, the workings of the labor market are a crucial determinant of most people’s well-being. Equitable Growth’s research in this area explores how inequality affects the labor market and how the labor market does or does not generate equitable growth.

The establishment of a separate category reflects the significance we attach to the changes taking place in the U.S. labor market, including:

- The increases in state and local minimum wages in the face of inaction at the federal level
- Wage setting by firms
- The effects of discrimination in the labor market
- Declining worker power and the future of organized labor
- The effects of firm concentration on decreased employer competition for workers

We examine how these factors may reinforce each other and, in turn, may affect how wages are set and how workers are able to deploy their human capital, with implications for the equitable distribution of economic growth and intergenerational mobility.
The minimum wage

Minimum wages are a long-standing topic of economic research. Numerous states and cities are raising their own minimum wages above the federal minimum wage, providing considerable opportunity to examine the consequences of minimum wage increases. Equitable Growth is associated with a range of research seeking to determine the overall impact of minimum wage increases on incomes, on employment, and on businesses.

Equitable Growth Research Advisory Board member and grantee Arindrajit Dube of the University of Massachusetts Amherst finds that increased earnings at the bottom of the income distribution are the result of minimum wage increases, with the effect limited somewhat by reduced eligibility for public assistance. A working paper by U.S. Census Bureau economists Kevin Rinz and John Voorheis, both of whom had been awarded Equitable Growth grants for previous research, demonstrates that minimum wage increases reduce income inequality by driving up earnings at the lower end of the income distribution.

In 2018, grantees Sylvia Allegretto, Anna Godoy, and Michael Reich, along with Carl Nadler, all of the University of California, Berkeley, used an Equitable Growth grant to examine the impact of minimum wage increases on the food-services industry in six cities. They find robust, statistically significant, and positive effects of minimum wage increases on average earnings, with no significant negative employment effects. And in an important 2016 Equitable Growth working paper, Research Advisory Board member and grantee David Howell of the New School, along with co-authors Stephanie Luce and the late Kay Fiedler, argue that the test of “zero job loss” for the success of a minimum wage increase is too narrow, and that any negative impact on employment, while important, must be weighed against the value of earnings increases.

Equitable Growth is following up on this and other research with a 2019 grant to the University of Michigan’s Nirupama Rao and Max Risch. They will study how firms accommodate increases in the minimum wage, with a focus on changes in employment and income within firms, by looking at individual and business tax data. They will examine employment and wage effects across workers within firms, for both those who are affected by minimum wage increases and those who are not. Further research on firm wage setting will improve understanding of why the U.S. labor market is not seeing the wage increases anticipated by economists based on competitive labor market models.
Another 2019 grant from Equitable Growth went to Jennifer Romich, Scott Allard, Mark Long, and Heather Hill, all of the University of Washington. The support will help them link state administrative data to create a database that will enable researchers to analyze the impact of the very recent minimum wage increases and other policy changes in the state of Washington on household income and participation in government programs.

## Wage setting by firms in the workplace

Equitable Growth supports a variety of research aimed at learning more about the factors that influence how firms set wages, including government policies, labor market institutions, and firm characteristics.

In a paper supported by Equitable Growth, Patrick Kline of the University of California, Berkeley, Neviana Petkova of the U.S. Department of the Treasury, Heidi Williams of the Massachusetts Institute of Technology, and Owen Zidar of Princeton University used detailed data to understand the degree to which firms’ performances affect wages. They wanted to see how workers fare when their employers experience a positive income shock—in this case, the receipt of a valuable patent. Studying tech start-ups, they showed that about 30 percent of companies’ increased earnings from the receipt of valuable patents went to workers in the form of higher wages and that the benefits were concentrated among higher-income workers, which tended to exacerbate wage inequality at the firms.

The rise in market concentration has also led Equitable Growth to focus more on questions of labor market monopsony—the ability of firms, rather than markets, to set wages because of the difficulties workers face in searching for jobs and finding a good employment match. This can be due to employer concentration or other factors. One telling example of monopsony in action comes from the research of T. William Lester of the University of North Carolina at Chapel Hill, an early Equitable Growth grantee. In work funded by Equitable Growth, he compared the labor markets of San Francisco and the Research Triangle region of North Carolina, and found that in markets with lower labor standards, such as North Carolina, monopsony enables some firms to follow a low-road wage strategy, resulting in a wider range of compensation among firms in different geographic regions of the country.

Continuing to build on this and other research, Equitable Growth provided a 2019 grant to David Weil of Brandeis University and Ellora Derenoncourt at Princeton University to examine the degree to which broad-based wage increases by large
employers affect the wage-setting practices of smaller businesses. The two researchers will look at the impact of such actions as minimum wage increases by Amazon.com Inc. and Walmart Inc. and an executive order issued by President Barack Obama that raised the minimum wage paid by federal contractors.

Equally important to how firms set wages are the opportunities workers have to advance up the career ladder. With a 2019 grant from Equitable Growth, Nathan Wilmers at the Massachusetts Institute of Technology will seek to improve understanding of job mobility by distinguishing between those who move to a new job within their current employer and those who take a job with a new employer. The project may help explain whether increased within-organization job mobility is disproportionately benefiting high-income/high-skill workers and therefore contributing to inequality in the labor market.

The effects of discrimination in the labor market

Equitable Growth also supports a range of work seeking to document the consequences of gender and race discrimination on labor markets and labor market outcomes. For example, an employer who chooses a white job candidate over a black job candidate even though the black candidate is more qualified—and would be more productive—is choosing based on racism. This, in an economic sense, is counterproductive.

Equitable Growth seeks to push the boundaries on this research by supporting David Pedulla of Stanford University, who is continuing an important empirical line of research that builds on the innovative field-based experimental methods developed by the late Devah Pager, who was a co-author on this work. The research seeks to understand the dynamics of discrimination. Pedulla is combining an unusually large and broad audit study that drills down on data on race and gender with a survey of employers in an effort to provide a more precise assessment of how organizations perpetuate or address discrimination based on gender, race, and parental status.

Along this line of research, Equitable Growth 2016 grantees Joya Misra of the University of Massachusetts Amherst, and Marta Murray-Close of the U.S. Census Bureau, along with their co-author Eunjung Jee, also of the University of Massachusetts Amherst, demonstrate the persistence of the “motherhood penalty,” the reduced career wages received by mothers compared to childless women. They examined periods between 1986 and 2014, and found that it essentially did not change—while the gross pay gap between childless women
and mothers of two or more children narrowed, this was mainly because mothers
invested more in their human capital (education and workforce experience, for
example), not because of an actual reduction in the motherhood penalty. For
mothers of one child, the gap may have increased slightly.

Based on these results, the authors conclude that market forces alone will not
fully eliminate the motherhood penalty and that doing so will also require policy
changes aimed at supporting parents’ employment, such as childcare or paid
family and medical leave. Given the importance of two incomes for most U.S.
households, this kind of research can help policymakers sort out how to prevent
gender and race discrimination in U.S. workplaces.

Nancy Folbre of the University of Massachusetts Amherst and Kristin Smith
of the University of New Hampshire, with support from Equitable Growth, are
studying this dynamic by furthering policymakers’ understanding of wages in
care industries—health, education, and social services. Their research shows
that managers and professionals employed in these industries, where many
employers are in the public sector or are private nonprofits, receive significantly
lower compensation than those with comparable education and training in
other industries. They offer a number of reasons, including possible gender
discrimination and the lower value placed in labor markets on stereotypically
feminine work capabilities.

Another good example of the impact of policy and structural power in determining
economic outcomes is provided in a working paper by Ellora Derenoncourt at
Princeton University and fellow grantee Claire Montialoux of the University of
California, Berkeley. They find that an extension of the minimum wage in 1967
played an important role in the significant decline in the earnings difference
between white and black workers in the late 1960s and early 1970s.

Another form of discrimination gaining increasing attention relates to the
barriers placed in front of formerly incarcerated people seeking to enter or
return to the workplace. In 2019, in order to better understand these obstacles,
as well as the benefits of job training programs, Peter Blair of Harvard University
and Morris Kleiner of the University of Minnesota received an Equitable Growth
grant to examine how state laws governing the ability of ex-offenders to obtain an
occupational license affect their employment prospects and wages over time. The
researchers will create a publicly available database of statutory and administrative
laws throughout the United States on the subject.
Worker power and the future of labor unions

Worker power and the future of labor unions are key elements of how wages are set. W. Bentley MacLeod and Suresh Naidu of Columbia University and Elliott Ash of the University of Warwick used an Equitable Growth grant to document determinants of control rights in union contracts using a new corpus of 30,000 collective bargaining agreements in Canada from 1986 through 2015. Employing ideas and methods from computational linguistics, they measured the level of worker control and analyzed variation in contracts according to firm-level and external factors. They find that collective bargaining agreements set up obligations for employment for both the workers and the employers, yet offer entitlements, in the form of better working conditions, only to employees. In turn, these positive working conditions reduce the likelihood of labor conflict.

Economists generally agree that economic inequality tends to decline with higher rates of union membership and rise with lower union density, an understanding in need of further evidence given the breadth of legal barriers and firms' resistance to unionization. Another Naidu paper, authored in conjunction with Henry Farber, Ilyana Kuziemko, and Daniel Herbst, all of Princeton University, shows an explicit relationship. Their paper suggests that rates of union membership have a direct impact on income distribution.

In addition, motivated in part by the long-term decline in labor union membership in the United States, Alex Hertel-Fernandez is exploring, with his colleagues William Kimball and Thomas Kochan of the Massachusetts Institute of Technology, what services workers would want unions to provide if U.S. labor laws and traditional labor practices could be re-examined.

Figure 4 below captures the range of our work on the issue of the minimum wage, a key part of our academic grantmaking and policy analysis of the U.S. labor market.
Equitable Growth-funded research led to a broad body of minimum wage work that now plays a key role in the debate over minimum wage increases at the federal, state, and local levels.

A fundamental question for Equitable Growth is how the labor market functions and how individuals move up the job ladder.

Dube’s work and Equitable Growth’s body of minimum wage work now plays a key role in the debate over minimum wage increases.

Arindrajit Dube at the University of Massachusetts Amherst found that minimum wage increases lead to higher earnings at the bottom of the income distribution, limited somewhat by reduced public assistance.

Equitable Growth asked about the role of public policies in smoothing labor-market frictions and creating economic opportunity.
Our 2020 Request for Proposals on the labor market seeks answers to the following questions:

- How does inequality affect the labor market? How does the labor market affect equitable growth?
- What are the labor market impacts on intergenerational mobility, and have changes in employment relations, particularly related to domestic outsourcing, impacted the opportunity for job advancement and mobility?
- How prevalent is discrimination in the labor market, and what are its effects?
- What role does technology play in the organization of and returns to work?
- How do different technologies that facilitate outsourcing work to third-party providers shed light on how the workforce and workplaces are likely to change?

Areas of interest to Equitable Growth include but are not limited to:

Power in labor markets

- What is the relative bargaining power of workers versus employers, what influences that balance, and how does it affect pay levels, job quality, and economic growth?
- Do structural barriers or social norms affect labor market dynamics?
- What role do public policies, unions, and other forms of workplace organization play in determining labor market power?

Workplace organization

- How are labor market institutions succeeding or failing in the face of new forms of workplace organization?
- How prevalent are nontraditional work arrangements, such as contracting, domestic outsourcing, or gig work, and what are their implications for earnings levels and volatility, tenure and job security, access to benefits, and legal protections under the law?
- Do those effects differ for different demographic groups?

Returns to work

- What factors affect how economywide growth is or is not shared between different types of workers?
- To what degree do aggregate productivity changes pass through to individuals and via which mechanisms?
- How does domestic outsourcing affect wage determination in outsourcing and outsourced firms?
- How is inequality shaping the relationship between nonmarket and market work and individuals’ decisions on how to divide their time between the two?

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Market structure
Equitable Growth initially directed significant attention to entrepreneurship and innovation as a funding channel for its grantmaking because both are essential to economic growth. After several years, however, we revised this area to focus on market structure because of the increasing evidence—some of it from research we supported—showing that increasing market power is distorting markets and reducing innovation, as well as undermining entrepreneurship.56

Moreover, the accumulating evidence that market power is having an impact on labor markets prompted us to support research to understand whether and how these trends are affected by and contribute to economic inequality. We are now asking researchers to examine:

- The causes of increased market power
- The consequences of market power for product markets, new business formation, firm growth, business investment, and productivity
- The consequences of structural market power for labor markets and worker power

Let’s look at each of these new grantmaking issue areas in turn.

The causes of increased market power

In “Kaldor and Piketty’s facts: The rise of monopoly power in the United States,” co-authors Gauti Eggertsson, Equitable Growth 2017 Dissertation Scholar Jacob A. Robbins, and Ella Getz Wold, all of Brown University, examined five puzzling trends over the past 40 years involving economic growth and rising inequality:
1. Financial wealth has increased relative to investment.
2. The financial value of many firms now is permanently higher than the cost of their assets.
3. Investment has fallen relative to output despite higher profits and low interest rates.
4. The average rate of return on capital has stayed steady while interest rates have dropped.
5. The share of income going to labor has declined as the share of income going to profits has increased.\(^5\)

The authors concluded that the new facts can be explained by an increase in market power, caused by declining competition and increased concentration, and a decline in the “natural” interest rate. Robbins, now a postdoctoral researcher at Columbia University, presented this groundbreaking work at an Equitable Growth seminar. Equitable Growth, in its 2020 Requests for Proposals, is encouraging other research proposals on the impact of market power in the U.S. economy.

### The consequences of market power for product markets, firms, and business investment

We are also interested in empirical work that examines the effectiveness of policies to promote competition, including, but not limited to, the state of antitrust enforcement and regulatory approaches. Yet few data sources exist.

That’s why we provided a 2018 grant to Fiona Scott Morton of the Yale University School of Management to help fill this gap.\(^8\) Scott Morton is collecting empirical metrics of merger outcomes in order to analyze effects beyond prices, taking into consideration other factors such as employment, innovation, and efficiencies. Information will be collected before and after a merger. Data will then be compared to the outcomes predicted by the merging firms.

A second component of Scott Morton’s research will examine the purposes and outcomes of acquisitions in the high-tech sector to determine whether acquisitions are motivated by increased efficiencies or by the elimination of competitors, a question that is largely unexplored. This line of inquiry seeks to test whether recent acquisitions have stifled innovation.

As part of the grant, Scott Morton prepared a comprehensive literature review that provides policymakers, antitrust enforcers, and the courts with up-to-date
research on the impact of changes in antitrust enforcement over the past several decades, which she suggests are based more on new interpretations of existing law than on changes in the law.\textsuperscript{59} She will continue to update this literature review as new research emerges.

Similarly, 2019 grantees and University of Chicago colleagues Simcha Barkai (also affiliated with the London Business School) and Ezra Karger are constructing a comprehensive database of more than 125 years of U.S. Department of Justice and Federal Trade Commission antitrust enforcement actions—from 1890 to 2017.\textsuperscript{60} They will then link these data, which include actions against firms and individuals, to other government data to measure the effect of antitrust enforcement on economic output.

Then, there is our 2017 Equitable Growth doctoral grant to Brian Callaci, then a Ph.D. candidate at the University of Massachusetts Amherst and now a postdoctoral scholar at the Data & Society Research Institute. He shows how the franchising business model gives fast-food and other large companies the ability to effectively integrate their operations vertically but avoid antitrust prohibitions on such arrangements.\textsuperscript{61} Franchised chains replaced formal ownership and employment with contractual mechanisms that enable franchisers to exercise control over prices and suppliers and avoid having to bargain collectively with thousands of low-wage workers.

Moreover, Callaci finds that most franchisors impose noncompete agreements on franchisees, which prevent the latter from using the human and physical capital they have accumulated in the franchised business in alternative employment once the contract ends.

Equitable Growth, in its 2020 Requests for Proposals, is asking for proposals across a range of areas seeking to examine the consequences of market power for product markets, new business formation, firm growth, business investment, and productivity.
The consequences of structural market power for labor markets and worker power

In 2019, Equitable Growth announced several new grants in the area of market structure. David Berger of Duke University, Kyle Herkenhoff of the University of Minnesota, and Simon Mongey of the University of Chicago will study the extent to which corporate mergers might have a monopsonistic effect on competition in the U.S. labor market. They will look at the effects on compensation and numbers of jobs for low- and high-wage workers, and more broadly at labor’s share of business income. They will also study long-term effects on earnings for those who lose their jobs in the wake of a merger.

The Massachusetts Institute of Technology’s Simon Jäger and Benjamin Schoefer of the University of California, Berkeley will study the impact of shared corporate governance—workers participating in the management of the companies where they work. This is not so common in the United States but is the law in some other countries, including Germany. Their project will use reforms in the German law to analyze the effects of shared governance on such outcomes as wages, distribution of profits, and pay equity within firms.

Examining a more specific market, Randall Akee of the University of California, Los Angeles and Elton Mykerezi of the University of Minnesota will extend their prior work (alongside Richard M. Todd at the Federal Reserve Bank of Minnesota) studying business dynamics on and near American Indian reservations. With a 2019 grant from Equitable Growth, Akee and Mykerezi will focus on how large casinos acting as anchor businesses affect the transportation, food services, retail operations, and lodging industries. The research will not only produce new data on American Indian reservations, which is severely lacking, but also shed light on what economic development policies might be successful in isolated rural areas.

See Figure 5 for an emblematic breakdown of how Equitable Growth’s recent grantgiving in the market structure arena is boosting academic data gathering while also informing antitrust and competition policymakers.
Equitable Growth-funded research led to the development of a seminal database on antitrust academic research and policy analysis. Fiona Scott Morton at the Yale University’s School of Management prepared a comprehensive literature review that shows changes in antitrust enforcement are based more on new interpretations of existing law than on changes in the law. Equitable Growth asked about the causes and impact of changes in antitrust enforcement in recent decades. Equitable Growth made market power a priority because of rising evidence of its impact on markets, including workers, innovation, and entrepreneurship. Both federal antitrust agencies and others in the antitrust and competition arena are using our searchable online database of Scott Morton’s research.
Our 2020 Request for Proposals on market structure seeks answers to the following questions:

- What is the role of market structure in determining economic growth and its distribution?
- What is the relationship between inequality, market power, and economic growth?
- We are interested in research from an aggregate perspective, which has been common in the macroeconomic and labor literatures, as well as industry- or market-specific analysis that has been the focus of industrial organization literatures.

Areas of interest to Equitable Growth include but are not limited to:

**Existence and causes of market power**
- Is there increased market power in the economy, and if so, what are its causes?
- Areas of interest include studies of mergers, potential competition, and specific conduct.
- Is anticompetitive activity more common in some industries than others?

**Consequences of market power**
- What are the effects of market power on product markets, labor markets, new business formation, firm growth, business investment, productivity, and inequality?
- How have technological developments affected competition?

**Effectiveness of policy tools**
Equitable Growth is particularly interested in empirical work that examines the effectiveness of policies to promote competition, including, but not limited to:

- The state of antitrust enforcement
- Regulatory approaches
- Comparisons of the United States’ enforcement regime with other models

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Conclusion

This report summarizes what we’ve learned over the first 6 years of grantmaking at the Washington Center for Equitable Growth. We look forward to updating this in the future, showing each year how we are advancing knowledge about inequality, its effect on how the economy grows, and policies that can foster strong, stable, and broad-based economic growth. Research funded by Equitable Growth is playing an outsize role in advancing our understanding of these critical issues.

We also look forward to engaging with our network of academics and welcoming new scholars into our grantmaking program and our network in 2020 and beyond. Equitable Growth’s academic network includes members of our Steering Committee, Research Advisory Board, grantees, and the growing group of affiliated scholars—many of them featured in this report—who are working to understand how we can build a strong, stable, and equitable economy.

Equitable Growth is dedicated to bridging the gap between academia and policy by making sure research is relevant to today’s policy debates, and by informing policymakers of cutting-edge research. Our grant-funded research does not sit on a shelf. We engage with scholars up and down the career ladder through our grant program, as well as through conferences, seminars, and elevating research for both academic and policy audiences. Our team in Washington works to ensure that the findings from our grantmaking are accessible to the policymaking community and can guide the next iteration of economic policymaking. Please go to the “Elevating Research” page on our website and explore the ways you can connect with our network or take advantage of the support we offer.

Please check our 2020 Requests for Proposals as the deadline for applying is January 26, 2020.

Due to the generosity of our funders, we have been able to increase the amount of funding available in each successive grant cycle since 2014, enabling us to develop further evidence on the effects of inequality on equitable growth for policymakers. We look forward to your applications.
Endnotes


21 Hardy and others, “The historical shadow of segregation on human capital and upward mobility.”

Inequality and economic growth: Lessons from research funded by our academic grant program and new lines of inquiry


Washington Center for Equitable Growth, “Requests for Proposals 2020, Overview.”
Notes
The Washington Center for Equitable Growth is a non-profit research and grantmaking organization dedicated to advancing evidence-backed ideas and policies that promote strong, stable, and broad-based economic growth.