

Reimagining the Economy

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Introduction and motivation

Economics and economic policy are currently in flux. The broad consensus -- known variously as neo-liberalism, market fundamentalism, or the Washington Consensus -- that until recently shaped the approach of many governments to the economy has been dissipating. Its manifestation on the international stage -- hyper-globalization -- has similarly been under retreat. While the substance and content of each of these terms remain contested, they nevertheless denote a common predilection for expanding the scope of market activity while limiting the role of government.

The deficiencies of these policy mindsets are now well recognized. Not only have they failed to produce robust economic growth, they have generated increased inequality and economic insecurity within nations while leaving societies hostage to financial crises, the advance of climate change, and a paucity of good jobs. When unexpected shocks hit, such as the economic contraction caused by the Covid-19 pandemic, the vulnerabilities of the disadvantaged are further compounded.

The problems of our contemporary economy exhibit themselves to ordinary people in three related fashions. First, we have experienced a phenomenon that economists call “labor market polarization” -- the disappearance of manufacturing, energy, sales, and clerical jobs that traditionally served as a stepping stone to the middle-class, especially for those without a college education. Skill-intensive and professional occupations, and to some extent low-wage personal services at the bottom end, have meanwhile expanded. Second, economic gaps between select thriving metropolitan areas and lagging regions have widened. The former have been able to take advantage of the opportunities afforded by the new economic context, while the latter have stagnated and suffered persistent joblessness and progressive social dislocation. Third, the legacy of structural racism has concentrated rising insecurity and diminished economic opportunity on communities of color. In the U.S., income gaps between Black and white households, which narrowed in the two decades after the Civil Rights movement, stopped closing 30 years ago; the racial wealth gap today is as large as it was in 1970. These trends not only produce economic inequality, insecurity, and racial exclusion, they also lie at the heart of the economic discontent that has empowered authoritarian populists at the polls and political polarization more generally. To varying extents these developments have affected all societies in the world, though they are more evident in those, such as the U.S., where inequality was greater to begin with and weak national public safety nets are weaker still in the regions in which the left behind are concentrated.

A consequence of viewing markets as self-correcting and market forces as racially and socially inclusive was that governments lagged in developing pro-active strategies to counter the problems in the productive sphere of the economy. Technological change, globalization, market power, and the evolving structure of jobs were regarded as inevitable and largely immutable, even though they are clearly shaped at least in part by policy. Ironically, market enthusiasts lauded the role of universities and government-sponsored research in creating virtuous cycles of expansion in places like Silicon Valley, while at the same time failing to acknowledge the how absence of public action has intensified destructive cycles of decline in former industrial regions and blocked communities of color from access to good schools and good jobs. Although there has been promising experimentation by local

governments and civic organizations at the frontline of the economic dislocations – in sectoral training, regional economic development schemes, and social programs that target disadvantaged youth, for example – these efforts have remained small in scale, uncoordinated across regions, and disconnected from national debates on economic policy.

There are signs of change. In the U.S., to take the most obvious example, the nature of conversations around fiscal policy, monetary policy, anti-trust, industrial policy, trade policy, social policy, labor market policy, and racial inclusiveness has undergone significant transformation over the last five or six years and in particular in the last year and a half. President Biden openly talks about reviving labor's bargaining power against employers as his Secretary of Treasury seeks an international agreement to raise taxes on corporations. The Fed tries to dispel fears about inflation to encourage greater fiscal spending. Industrial policy, long a taboo subject, has become an explicit government objective, motivated in part by China's own aggressive industrial policy and in part by a concern that left to work on their own markets will concentrate the gains from new technologies in a handful of superstar cities. And in the aftermath of the killing of George Floyd, all levels of government are recognizing the persistence of structural racism in the U.S. Some of these changes may have been prompted by the immediate need to respond to the Covid-19 pandemic. But they are no doubt in part also a reaction to the accumulated tensions, imbalances, inequities, and failed promises of the previous era.

In some ways, policy, especially at the state and local level, has reacted more quickly to the disappointments of recent decades than have economic ideas. But if policy changes are to be more than fleeting, they will need to be underpinned by new ways of thinking about the economy and how it should be governed. What we need are the ideational frameworks, narratives, and evidence that will animate and propel more lasting changes in our economic arrangements.

It is possible, and perhaps even likely, that such new frameworks and narratives will come from outside the economics discipline. Economists tend to work best in problem-solving mode rather than as grand theorists of economic systems. But its problem-driven nature is also what allows economics to be transformed in useful directions – as long as the frameworks and narratives in question are grounded in concrete realities and rigorous empirical analysis, connected to real problems. For economists to be willing to embrace new ideas, they will need to be able to test and evaluate the mechanisms that would justify a more active approach to economic policy.

Our approach

We aim to produce scholarship that serves ultimately to reshape economic narratives. We believe this task can be best fulfilled by developing, integrating, and disseminating three kinds of knowledge. First, we will collect systematic evidence on the incidence and variety of local labor market, industrial, and development policies as they exist, both in the U.S. and other national contexts. A quantitative knowledge base is indispensable to understand the world as it is, to test alternative conceptions of the economy, and to design policies that are consistent with these conceptions. Second, we will call on the experience of practitioners to bear on questions of institutional constraints and opportunities. The experiential knowledge of local actors and policy makers, many of whom have developed sophisticated approaches to policy experimentation quite apart from the academy, can fill gaps in quantitative analyses and illuminate possibilities for policy evaluation that would otherwise go unexplored. Third, we will bring the perspectives of social and organizational theorists to identify the inequality-perpetuating features of existing institutions, interpret successful institutional arrangements, and develop alternative

institutional trajectories for the future. Conceptualizers and theorists are required not only to make sense of data; they are needed to help us imagine possibilities that are far from current practices.

These three types of knowledge are complementary and we hope to exploit the synergies among them. They help us connect ground-level perspectives with high-level analyses; empirical research with qualitative/theoretical work; and positive with normative analyses -- all in the context of substantive problems associated with the creation of prosperous and inclusive economies.

We propose a work program that is economics-centered, but multidisciplinary, that uses the theoretical and empirical tools of economics, but is also informed and enriched by work in other disciplines. For instance, although economics has lately come to recognize its failure in understanding the persistence of racism in market relationships, other disciplines have built power frameworks precisely on the basis of such an understanding. Our ultimate goal is to go beyond the analysis of how our current economy works (or doesn't) to consider new structures, governance mechanisms, and forms of market economy and capitalism. We will couple empirical analysis of existing arrangements with an examination of alternative designs for market institutions. In pursuing this goal, we will undertake studies of economic transformation at all levels: local, regional, national, and global.

We take it as a given that building more prosperous economies will require doing more than redistributing income after the fact. It will require fundamental changes in how income is created in the first place. Redesigning market institutions to accommodate such changes would be easier if the economics profession was less hostile to market inventions beyond the narrow domains of education, health, the environment, and transportation infrastructure. Unless we are free to experiment with a much broader range of policies that affect how capital and labor are allocated, we are unlikely to achieve more than modest progress in making economic growth and development more inclusive.

Consider the historical aversion of mainstream economists to industrial and place-based policies. Although this aversion has obvious ideological origins, it likely has methodological origins, too. If we cannot estimate the impact of such policies on outcomes of interest, we are likely to fall back on what accepted ideology tells us about these interventions. For instance, the lack of systematic data on trade and industrial policies in the 1960s and 1970s may have allowed the narrative that countries only succeed by "getting the prices right" to take firm hold in policy circles. Non-economists and non-traditional economists countered with alternative narratives that painted state intervention in a more favorable light. However, when pitted against models, these qualitative narratives were overmatched.

Constructing alternative narratives begins by having access to more complete data. Giving economists access to new data would allow them to evaluate the impact of untested policy interventions and encourage them to reconsider which interventions are justified. Just as randomized controlled trials on poverty alleviation by development economists and studies of early-childhood education by labor economists have moved mainstream opinion in favor of these interventions, better data on industrial policy, active labor market policy, and local economic development policy would encourage economists to analyze many interventions that historically have been considered ill-advised.

An essential ingredient beyond data and research is forging new conversations between practitioners and academics. Without the blessing of or guidance from mainstream economics, policy makers at local and national levels have experimented with alternative ways of helping disadvantaged families, local businesses, communities, and regions create wealth. In the U.S., the most powerful interventions to arrest violence in poor urban areas and connect those victimized by mass incarceration with job referral

networks have come from community experimentation. Much of the knowledge about these experiments exists outside of the domain of academic journals. It is instead embedded within communities of practice. There are enormous intellectual arbitrage opportunities from bringing these communities of practice into conversation with economists and other scholars. The practitioners could guide economists to interventions that are worthy of study; academics could help practitioners think more systematically about policy strategy, design, and evaluation. The practitioner-scholar connection would lead not just to new research and better policy but also to expanded university curricula about these policies, drawing both on quantitative research and case-study evidence.

On practitioners, we need to distinguish between two domains. One is outside-the-beltway practitioners who are experimenting in the field often without much guidance from academic research. They are generating knowledge and insight that circulates within their communities of experience but often fails to penetrate academic discussion. Bringing economists in contact with this group would broaden scholarly horizons about how to address inequality and close regional and racial economic divides. A second domain of practice consists of inside-the-beltway policy analysts who translate research into policy action and outputs for consumption by policy actors. The first group of practitioners are in a sense positioned at the beginning of the knowledge production chain, since their experiences are key inputs into research design. We will engage them early in the project as a font of ideas for how to evaluate economic policy. The second group of analysts are positioned closer to the end of the knowledge production chain as they process and broadcast ideas coming out of academic research. We will engage them later in the project, as we seek to disseminate our ideas in national and global policy circles.

When it comes to economists and other scholars, we plan to engage academics of different stripes, of varying degrees of embeddedness in historically disadvantaged communities, and at varying levels of seniority (as postdoctoral fellows, academic visitors, participants in major events). One selection mechanism will be based on stage of career: postdocs for economists who are just starting out and in the process of crafting their early research agendas, sabbatical leaves for scholars just past the tenure hurdle who have acquired the freedom to pursue new ideas, and established scholars at the peak of their careers whose views carry substantial weight in the economics profession. Other (and complementary) selection mechanisms will be to identify scholars whose work in a sense has approached the door of new ideas but hasn't yet opened it—and for whom engagement with practitioners and other scholars could have a formative impact on their subsequent work—and to invite scholars whose knowledge of accumulated disadvantage has yet to penetrate the mainstream.

Main Program Activities

The narrative-expanding activities that we propose involve creating new research infrastructure, conducting novel policy-oriented research, and fomenting new conversations among scholars and between scholars and policy practitioners. Below, we describe the specific activities that will comprise our project, the deliverables from each of these activities, and approximate timelines for completing them. This discussion substantiates the budget, the details of which accompany the proposal. We also highlight that many of our activities will be coordinated with Daron Acemoglu and David Autor of MIT, who are leading a parallel and complementary project on technological change, the future of work, and how societies can create better jobs for those without a college education.

I. Research Infrastructure: Regional Economic Development Database

We will construct a Regional Economic Development Database (REDD) to use in our own research and to promote new forms of academic and policy-oriented scholarship. The REDD will enable us to document and evaluate the impacts of policy interventions intended to promote economic growth and help disadvantaged workers across a diverse set of regional and national contexts. By making the REDD freely and easily available, we will expand the sets of policy questions subject to rigorous analysis by economists and other scholars. In its complete form, we expect the REDD to identify, catalogue, and harmonize measures of interventions related to industrial, labor and place-based policies across U.S. cities, counties, and states from 1980 forward. We will construct parallel data for a set of developing countries and possibly the European Union. Targeted policies will include tax breaks and other financial incentives offered to firms in return for building or expanding production or R&D facilities, business extension services, sectoral and other targeted worker training programs (including those that focus on individuals with past experience of the criminal justice system), assistance to small business and entrepreneurs in historically disadvantaged communities, community development block grants, and other regional and national economic development programs. (We will not target interventions related to education, the environment, health, or infrastructure, as these are already well studied in the literature.) We will develop the REDD in four stages.

- Convene policy practitioners in regional and community economic development and experienced scholars of the subject to craft a strategy for constructing the REDD. Practitioners will guide us in defining and identifying the appropriate policy categories, the budgetary processes governing the financing of these policies, communities that have historically been excluded from regional development efforts, and methods for assembling the data. The convening will be concentrated in year 1 and include a U.S.-focused, in-person workshop; a developing-country-focused, in-person workshop; and an E.U.-focused, virtual workshop. Each event will occur at HKS and involve 10-15 individuals from outside of Harvard and MIT.
- Conduct pilot studies of specific regions in the U.S., select developing countries, and possibly the E.U. to test and refine data construction methods and processes. These pilots will provide a cost-effective way of determining the ultimate policy and regional scope of the REDD. We will complete pilot studies in years 1 and 2, which will involve hiring 4-5 predoctoral fellows, and 3-4 PhD student research assistants. The hiring of PhD students will serve as a recruitment device for involving future scholars in the broader project.
- Assemble complete data for the U.S., select developing countries, and possibly the E.U. and produce research that analyzes the impacts of individual policies, interactions between policies, and sources of heterogeneity in policy impacts. The policy-driven research will have three objectives: (i) to create systematic evidence on the impact of understudied policies on improving local, regional, and national economic well-being and closing gaps in economic opportunity across social groups; (ii) to evaluate synergies and complementarities between conventional and unconventional policies (e.g., does the strength of the regional social safety net affect the efficacy of targeted worker training or does state-level tax policy interact with industrial policy in determining the investment incentives that firms perceive); and (iii) to illuminate the connection between policies and market institutions in raising living standards and improving regional and racial economic outcomes (e.g., does the ownership structure of firms—traditional family firm, large publicly traded multinational, private-equity venture—affect how firms respond to industrial or labor-market policies). Data assembly and research will be

concentrated in years 3 to 5 of the project and will entail hiring 4-5 predoctoral fellows, 3-4 PhD student research assistants, and 1-2 postdoctoral fellows.

- Disseminate the REDD to the broader community, which we discuss in more detail below.

In the data construction for developing countries and the E.U., we anticipate working with universities and research institutions in the regions and that these entities will bring additional resources to the table to help expand the REDD beyond the United States.

II. Convening Scholars and Practitioners to Promote New Ways of Thinking in Economics (coordinated with MIT)

One of our central activities will be to create venues in which we expose economists to new ways of thinking about policy interventions and market institutions.

- **Dialogues:** We will organize a series of public conversations between (i) a prominent economist and a leading practitioner in economic development, and (ii) a prominent economist and a leading scholar on inequality or political economy from another discipline. These dialogues will be moderated by HKS faculty and organized around questions designed to broaden the thinking of economists about the institutional foundations of market economies and the nature of policy interventions that should be on the table when considering how to create more prosperous societies. HKS will coordinate with MIT on the topics we cover and the scholars and practitioners we invite. During years 1 to 5, we anticipate holding one dialogue per year which will occur at HKS, Washington, DC, or in regional venues if these are deemed to enhance the impact of the event.
- **Workshops:** We will organize an annual workshop in which economists interact with policy practitioners and scholars from other disciplines to discuss new ways of approaching significant economic, social, and racial challenges confronting the U.S. and the world. Participants will be eligible to receive seed funding for research ideas that emerge from the workshops. During years 1 to 5, we anticipate organizing 1 workshop per year involving 10-12 participants from outside of Harvard and MIT. Some workshops will occur in regions under study to encourage interaction with local business and government leaders. We anticipate providing \$50k in research seed grants per year as part of the project.

III. Major Conferences (coordinated with MIT)

We will organize major conferences that convene thinkers to focus on a specific theme. One event will occur in year 2 or 3 of the project and a second event will occur in year 4 or 5 of the project. We may host the conference in Washington, DC if we judge that the event will be more impactful if located there (and which may allow for cost sharing with a DC-based institution). We will coordinate with MIT in planning and organizing the conference. Over years 1 to 5, we anticipate organizing 2 total conferences involving 8-10 speakers and approximately 100 attendees.

IV. Seminar Series (coordinated with MIT)

We will organize academic seminar presentations featuring research by ourselves, the postdocs and academic scholars that we host, and other scholars whose work is related to our project. Academic seminars are the primary venue in which economists share and refine their ideas and engage each other in debate. A successful seminar can have a profound impact on the ultimate success of a research

project and the acceptance of a set of ideas by the broader economics profession. Harvard and MIT already have many successful and well-attended seminars organized around subfields in economics (e.g., labor economics, economic development, international economics, political economy, public economics). Rather than create a competing seminar, we will co-host presenters in existing seminars series (which entails paying the costs of these seminar slots), which will guarantee a hearing of the ideas our project generates by leading scholars in the discipline. Over years 1 to 5, we anticipate inviting 6-8 seminar visitors per year (with 5-6 of these being from outside of the Boston area).

V. Dissemination of Knowledge

Each of our activities will have a substantial dissemination component to ensure that that we reach a broad and diverse audience. The specific dissemination activities will include:

- Website: A REDD website will make the data freely available to researchers and practitioners. Part of the site will include data replication packages (which allow a researcher to replicate the analysis of a finished paper), which PhD students can use in course assignments.
- Data Visualization Platform: The platform, inspired by the highly influential site of OpportunityInsights.org for their research on social mobility, will communicate research insights to the informed public (journalists, policy practitioners, congressional staffers, professional researchers, business and civic leaders) in an engaging, non-technical, and visually compelling manner. The more advanced material on the site will be at level suitable for undergraduate or master's level courses.
- Policy Briefs and Ideas Briefs: These briefs, which will be coordinated with MIT, will summarize learning and prepare videos from public dialogues, workshops, and other events. The briefs will be designed to have maximum impact on social media, which is how younger scholars and policy markets now communicate their ideas and insights.
- Working Paper Series: This series, joint with MIT, will disseminate research from our collective projects to research and policy communities.

Over years 1 to 5, activities related to dissemination will require hiring a front-end web developer/information designer, and professional writer, each at 50% time. We will coordinate with other entities at HKS in hiring these individuals (to ensure they are each employed full time at Harvard).

VI. Pedagogy

To advance the teaching of new ideas in economics, we will create and disseminate material that can be used in undergraduate, master's, and PhD economics courses (as described above), and launch a new course track in the Social and Urban Policy area at HKS (which co-PI Hanson chairs) on inequality in America and the broader world. The track will consist of analytical courses, which examine market institutions and design and the causes and consequences of inequality and regional and racial economic divides, and policy modules, which explore specific policy areas and communities of practice in depth. Some courses will be new and others revamped versions of existing offerings. As HKS allows cross-registration with MIT (and Tuft's Fletcher), these courses will be available to a broader group of students beyond Harvard.

VII. Postdoctoral Fellows and Academic Visitors

Each year, we will select 2 to 3 outstanding postdoctoral fellows for a one-year stay at HKS (where these fellows will be in addition to the postdoctoral fellows involved in the REDD), whom we will choose based on the connection between their research and the goals of our project. Being at HKS while at this formative stage of their careers will expose fellows to a broader set of ideas than they are likely to have encountered in graduate school. In a similar vein, each year we will invite 2 to 3 leading economists to visit HKS and participate in project activities. We commit to selecting fellows and visitors in an inclusive manner. Visitors will have offices in a common area, allocated by HKS specifically to the program.