

## **A conversation with Dean Baker on August 8, 2013**

### **Participants**

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**Note:** This set of notes was compiled by GiveWell and gives an overview of the major points made by Dean Baker.

### **Summary**

GiveWell spoke with Dean Baker of the Center for Economic and Policy Research about what he believes are the most promising funding opportunities for philanthropists, both in the U.S. and internationally. Conversation topics included: defending the Social Security program in the U.S., improving corporate governance, developing new models to finance drug research, and facilitating medical travel.

### **Promising funding opportunities in the U.S.**

#### **Defending Social Security**

##### *Importance of Social Security*

Social security is an important social program for two key reasons:

1. It keeps many millions of people—mostly elderly people—out of poverty and ensures that they have a decent standard of living.
2. It serves as a model social program.
  - a. It shows that the government can execute large programs efficiently because it is a \$700 billion program with low administrative costs and low fraud rates.
  - b. It shows that universal programs have low administrative costs, which strengthens the case for creating other universal social programs.

##### *Threats to Social Security*

Recently, politicians have discussed implementing cuts to the Social Security program as part of a “grand bargain.” In the short term, these kinds of cuts could undermine the quality of the program. Over the long term, decreased quality might undermine the popularity of Social Security among the middle class, risking the elimination of the program.

Proposed cuts to Social Security include:

- Changing how cost of living adjustments are calculated, which would cut benefits by about 3%.
- Raising the retirement age.
- Changing the benefit formula to cut benefits for “wealthy retirees,” which would include people who are not actually wealthy, such as people who earned an average of \$40,000

per year during their careers (this would be necessary in order to get substantial savings using this method).

### *Other organizations in this space*

The AFL-CIO and AARP are large organizations that support Social Security. However, AARP is not a reliable defender of the program. AARP has made deals in the past that would allow the elimination of large social programs. For example, in 1995, the Newt Gingrich-led Congress tried to privatize Medicare, but AARP abstained from the debate because it had set up lucrative deals with large insurance companies that would pay off if Medicare were privatized.

### *Potential funding opportunities*

A funder could have a large impact by granting \$2 to \$3 million per year to defend Social Security. Since Social Security is a politically popular program, a small amount of money spent organizing its proponents can overwhelm greater amounts of money spent by opponents, as shown by responses to Peter Peterson's expensive and unsuccessful campaigns to weaken the program. Other funding opportunities include funding research on Social Security and increasing public education about the program.

## **Improving corporate governance**

### *Excessive pay for top executives*

There has been a breakdown in corporate governance during the last three decades in the United States, leading to excessive payment for top executives. CEOs often make \$20 to \$40 million per year even when their companies are declining. Extremely high CEO salaries are uncommon in Europe—top executives in Germany and France usually receive about \$3 to \$5 million per year.

Excessive pay for top corporate executives causes distorted pay scales throughout society, leading to higher salaries for university presidents, non-profit managers, and others. Excessive pay for leaders of organizations can account for part of the increasing income inequality in the United States.

### *Corporate governance structure*

Corporate governance should ensure fair executive compensation. In principle, top executives are accountable to their organizations' directors. However, directors typically owe their positions to top executives and are paid large sums of money for little work, so in practice they do not provide oversight on top executives' decisions.

Theoretically, shareholders are able to hold both company executives and directors accountable, but shareholders usually opt to sell a company's stock if they do not support its activities instead of organizing to change a company's management.

### *Funding opportunities*

Funding opportunities to address the problems of excessive executive compensation and inadequate corporate governance include:

- Organizing public pension holders and mutual fund investors to demand improved corporate governance. Since \$3 trillion of corporate stocks are owned by public pension funds, the public is a significant shareholder in many corporations.
- Increasing public awareness about corporate governance issues. The Center for Economic and Policy Research (CEPR) is working to increase awareness of these issues by publicizing a list of directors who overpaid CEOs at unsuccessful companies.

### **Supporting labor movements**

Labor movements are an important positive social force for two key reasons:

1. They support middle class living standards. In the post-World War II period, autoworkers, steel workers, and other members of the middle class received good wages and benefits packages largely due to the support of labor unions.
2. They support broad progressive change in society. Labor movements successfully supported efforts for Social Security, Medicare, Medicaid, Head Start, and civil rights. Many of these policy changes may have been accomplished without the support of labor movements, but they likely would have come later and at a higher cost.

Labor movements are in a difficult position today. Unions represent only about 6% of all workers in the private sector, and they are weak in the public sector as well. It is important to support labor movements going forward, whether it involves supporting existing unions, supporting new unions, or establishing new kinds of labor organizations.

#### *Funding opportunities*

A funder could make a significant impact by supporting low-budget, grassroots labor movements. There has been a recent push among fast food workers for higher wages that has grown quickly and with little funding. More funding could enable replication and expansion of these kinds of movements.

### **Money in politics**

Attempts to decrease money in politics by pursuing specific policy changes, such as repealing the Citizens United ruling, are unlikely to make a significant impact. Regardless of which reforms are made to the political system, wealthy people will be able to manipulate the political process. It would require drastic alteration of U.S. laws to prevent people from buying newspapers or other media outlets. Therefore, rich people will likely continue to have a greater ability to broadcast their preferred political messages.

Funders could have a larger impact by donating to campaigns rather than trying to remove money from politics entirely. It would also be worthwhile to advocate for public funding for political candidates who would otherwise lack sufficient funds to participate.

## **Immigration policy**

### *Increasing high-skilled immigration*

U.S. policy should increase high-skilled immigration permits in order to increase competition and lower wages for high-skilled workers in the U.S.

To offset the potential “brain drain” that occurs when high-skilled workers emigrate from developing countries, the U.S. could require high-skilled immigrants to pay 10% of their wages to source country governments for 10-15 years.

### *Low-skilled immigration*

The U.S. should not increase low-skilled immigration permits. More low-skilled immigration would lower wages for recent low-skilled immigrants to the U.S. It is a counterproductive policy to have immigrants continually lower each other’s wages.

Taken to the extreme, if the U.S. were to adopt an open borders policy, the U.S. population would expand massively, possibly quadrupling in size. Then, there would not be a significant difference between the living standards of recent immigrants to the U.S. and the living standards of people in developing countries.

## **Climate change**

### *Transforming habits in the U.S.*

There is low-hanging fruit in promoting energy conservation in the U.S. because the habits of people in the U.S. often entail the excessive use of resources.

Changes in consumption patterns and habits that could significantly decrease energy use include:

- Driving less often
- Driving fewer large cars
- Working fewer hours

In Europe, the average per capita carbon dioxide emissions are 40-50% as much as in the U.S. This is partly because the average work year in Europe is 20% shorter. When people have more income and less leisure time, as they do in the U.S., they are more likely to pay to do energy-intensive forms of tasks rather than dedicating their time to do less energy-intensive forms of tasks.

### *Bolder action is necessary*

President Obama has taken small actions on climate change but has done nothing transformative with regard to U.S. energy production. He has only spent about \$500 million on environmental policies in a \$16 trillion economy, which is too little to have a significant effect.

## **Promising international funding opportunities**

### **New models for financing drug development**

In the U.S., prescription drugs are expensive due to patents and other forms of intellectual property protection that enable companies to charge high prices. However, drugs are not usually expensive to produce. Companies claim that drug research is expensive, but they are often including the costs of developing “copycat” drugs, which are drugs meant to take a portion of sales from other companies’ drug monopolies. The costs of breakthrough drug development, without including other costs, are much lower.

#### *Funding opportunities*

A funder could improve the drug development system by proving the viability of alternatives to patent-supported research. If a funded drug were successful, it might establish a cheaper and more practical way to develop drugs, making drugs cheaper on a global scale. Therefore, the potential impact is large.

Alternative drug research funding mechanisms include:

- Prize funds. A government or international body could purchase drug patents based on the drugs’ usefulness and then allow the patents to enter the public domain. This would ensure that new drugs are sold as generics. Joseph Stiglitz is a prominent supporter of this model.
- Direct funding. Research could be funded up front and then all research could be made public. The testing process would be transparent and trustworthy. All breakthroughs would be in the public domain.

Ideally, a philanthropist pursuing this kind of project would be independent but allied with a trustworthy and committed government. Collaboration with a government would help ensure that, if a drug were developed, it could go through the approval process without the interference of other drug companies. Also, if drug development were successful, the government would receive public credit and could scale up the successful research funding mechanism(s).

#### *Non-profit funders in a competitive drug development landscape*

A non-profit funder could avoid competition from for-profit drug companies by focusing on researching drugs that would primarily benefit people in the developing world. A new funder would only be competing with other non-profit funders already in this space, such as the Gates Foundation.

#### *Other applications of innovative funding mechanisms*

Innovative funding mechanisms could also be applied to public development of agricultural technology, crop research, bioengineering, and other scientific research.

### **Facilitating medical travel**

Due to enormous differences in health care costs between the developed and the developing world, there is a growing “medical travel” industry, in which people from developed countries travel to high-quality facilities in countries such as India and Thailand to receive major surgeries at a tenth of the cost.

The effects of this trend are mixed because medical travelers are receiving cheaper health care and supporting developing economies, but they might also be taking away medical resources that would have been used by local people.

### *Funding opportunities*

There is a way to make medical travel beneficial for both developed and developing countries. A funder could set up a reliable system for medical travel, in which they guarantee high-quality health care and handle any legal liability or insurance issues for the medical traveler. The funder could use 10 - 20% of their revenues to finance healthcare for low-income people in developing countries. This self-sustaining model could be expanded widely.

Since patients who are fully insured would have no incentive to participate in medical travel, insurance companies could incentivize medical travel by returning one fourth to one half of the cost savings to the patient.

### **Developing world culture**

It might be productive to develop new systems for supporting art and culture in the developing world. In one possible system, many individuals could pay for an artist’s work up-front on the condition that the artist’s work is not subject to copyright protection. This system would allow people around the world to experience more art from developing countries. Dr. Baker’s co-founder at CEPR, Mark Weisbrot, is working on this issue with the Ecuadorian government, which may experiment with this system.

### **Improving economic research and economic policy**

#### *Washington Consensus and development*

Mainstream economic views about the best development policies, often referred to as the Washington Consensus, are not necessarily the best policies for developing countries. For example, South Korea implemented policies that the Washington Consensus has long disapproved of, such as capital controls and protectionism, but it is a development success story. In 1960, South Korea was as poor as countries in sub-Saharan Africa, but today it has comparable living standards to Italy.

Institutions like the International Monetary Fund and the World Bank support Washington Consensus-like thinking and have proved resistant to change. When reform-minded economists join the World Bank, they usually are not able to change its policies. It is not clear why this

happens; perhaps it is because many people profit from the World Bank's policies and do not want to see them change.

However, some prominent economists, such as Dani Rodrik, Jeffrey Sachs, and Joseph Stiglitz, are now challenging mainstream economic views about development.

### *Following proven economics*

Building consensus among economists about the best economic policy options may be more important than developing alternative economic theories. As Paul Krugman has shown, economic policymakers often implement suboptimal policy because they ignore standard, proven economic theory. For example, standard theory developed by Keynes suggests that when the economy is below full employment, increasing government spending can decrease unemployment. However, developed countries generally did not implement Keynesian policy following the "Great Recession." Consequently, developed economies have experienced slow recoveries from the recession.

Improved data collection and empirical research on monetary policy would probably not significantly influence the Federal Reserve's policies because its decisions are limited by institutional forces. For example, the Fed possessed the information and the necessary policy tools to prevent the recession and to speed the recovery: it could have prevented the housing bubble by communicating the existence of the housing bubble to the public, and it could have quickened recovery from the recession by pursuing looser monetary policy. However, it did not implement these policies because of institutional forces, such as political interests and inflexible policymakers.

### *Improving measures of GDP*

Alternative measures of GDP, such as measures that account for environmental degradation, could in theory facilitate important shifts in ideas about desirable economic outcomes. The World Bank once produced a measure of economic growth that discounted the use of natural resources. Measures such as these are more accurate and useful for determining successful economic policies. However, this World Bank measure has not been used often, so it is unclear whether there is much to be accomplished along these lines.

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