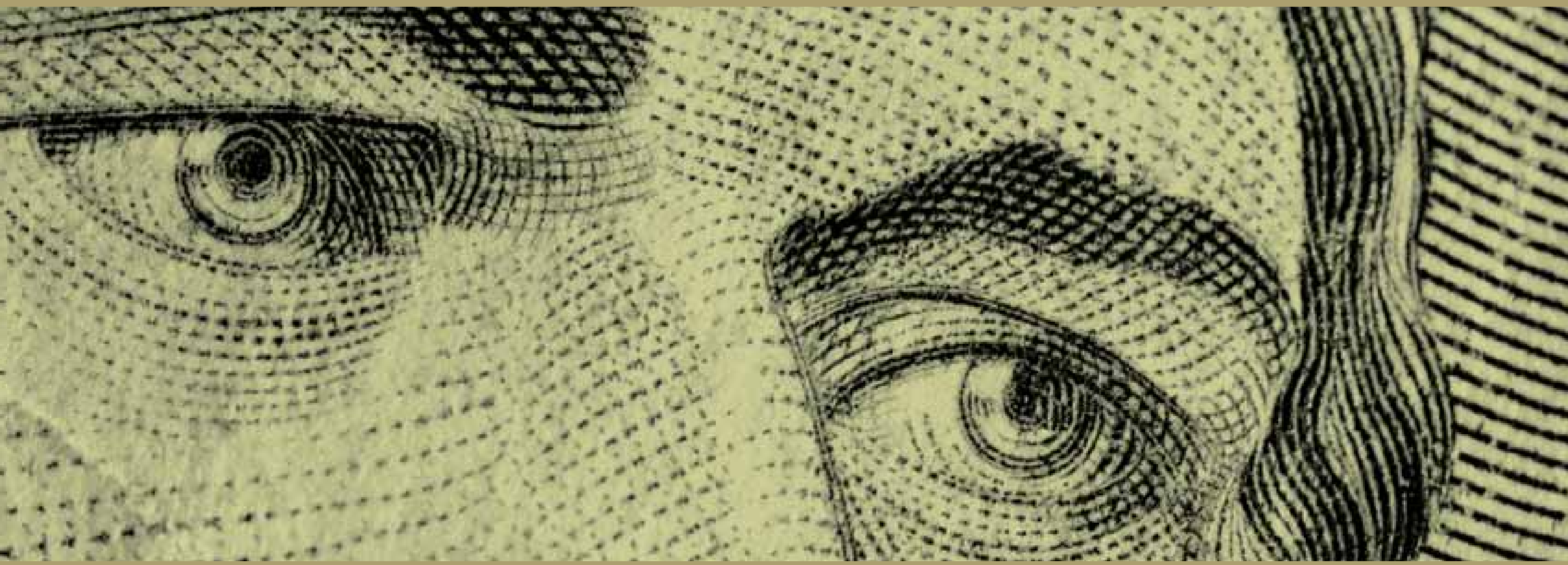


Kauffman Economic Outlook A QUARTERLY SURVEY OF LEADING ECONOMICS BLOGGERS

FIRST QUARTER 2011

KAUFFMAN
The Foundation of Entrepreneurship
www.kauffman.org

Kauffman Economic Outlook

A QUARTERLY SURVEY OF LEADING ECONOMICS BLOGGERS

in partnership with Palgrave's Econolog.net

First Quarter, 2011

TIM KANE
Senior Scholar
Ewing Marion Kauffman Foundation

February 2011

KAUFFMAN
The Foundation of Entrepreneurship

www.kauffman.org

INTRODUCTION

This paper reports the results of a survey of top economics bloggers. The survey was conducted in mid-January 2011 by soliciting input from top economics bloggers as ranked by Palgrave's Econolog.net. While many (around 50 percent) of the respondents have participated in all quarterly surveys, the results across quarters are not directly comparable.

Core questions that recur each quarter and topical questions submitted by participating bloggers were designed in coordination with a distinguished board of advisors, which includes:

Robert X. Cringely . . . . *I, Cringely*

Laurie Harting . . . . *Palgrave's Econolog*

Paul Kedrosky . . . . *Infectious Greed*

Lynne Kiesling . . . . *Knowledge Problem*

Donald Marron . . . . *DMarron.com*

Mark Perry . . . . *Carpe Diem*

Wade Roush . . . . *Xconomy.com*

Allison Schrager . . . . *Free Exchange*

Nick Schulz . . . . *Enterprise Blog*

Yves Smith . . . . *Naked Capitalism*

Alex Tabarrok . . . . *Marginal Revolution*

Mark Thoma . . . . *Economist's View*

The Kauffman Foundation is dedicated to the idea that entrepreneurship and innovation drive economic growth. Naturally, this new technology of blogging is a fascinating one, both for its effect on the economic research frontier, but also as an innovation in its own right. A survey of so many high-profile participants offers a unique opportunity for discussion, and this survey should be viewed as one way of summarizing some of the insights of the community of economics bloggers.

KEY FINDINGS

THE ECONOMY

Economics bloggers are less pessimistic in their outlook on the U.S. economy than they were at the end of 2010, though 77 percent believe overall conditions are mixed, facing recession, or in recession. For an economy in which growth is the norm, 31 percent of respondents think that the U.S. economy is worse than official statistics indicate, and only 10 percent believe it is better. When asked to describe the economy using five adjectives, "uncertain" remains the most frequently used term to describe the economy.

POLICY RECOMMENDATIONS

Although the panel is largely non-partisan, a three-to-one majority of top economics bloggers believe the government is too involved in the economy. The top policy recommendation (selected from a small set of choices) is for the government to "reduce regulatory burdens and fees on new firm formation" and "approve trade agreements with South Korea, Colombia, and Panama," with 92 percent support.

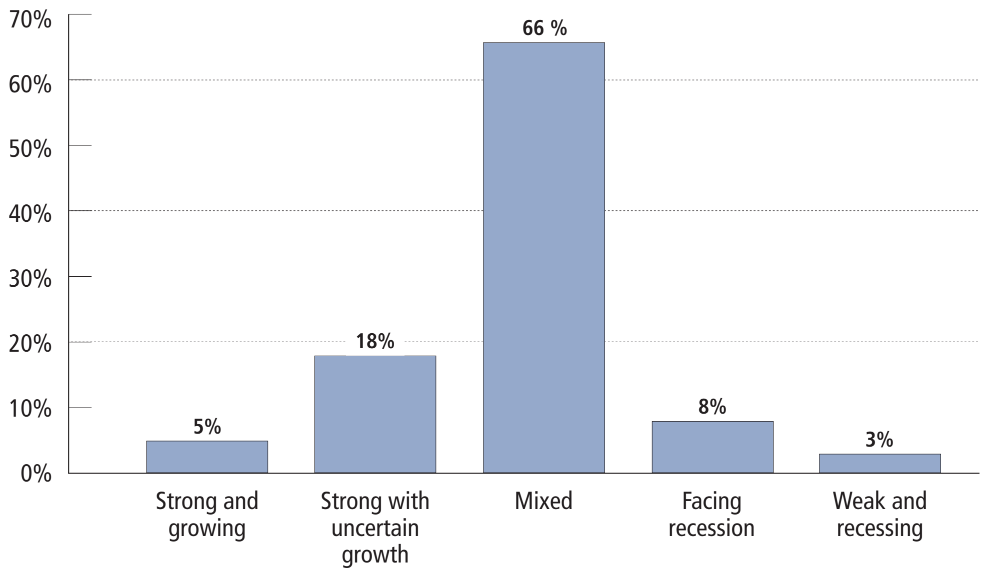
Promoting entrepreneurship is a consensus agenda among policymakers. However, only 32 percent agree with a policy of "subsidizing new firm formation with targeted spending and tax benefits," with 68 percent disagreeing (24 percent strongly). The alternative option to "reduce regulatory burdens and fees on new firm formation" is favored by 92 percent of respondents. Rather than recommending that the government get more involved in helping entrepreneurs, top economics bloggers recommend it simply do less to hinder them.

SURVEY RESULTS

The Kauffman Economic Outlook includes core questions that will recur each quarter and one-time-only topical questions. Core questions focus on two areas, and are presented in the charts and tables that follow: the performance of the U.S. economy and policy assessments and recommendations. Finally, there are topical questions provided by economics bloggers themselves, which are not categorized.

U.S. ECONOMIC PERFORMANCE

How do you assess the overall condition of the U.S. economy right now?



Three respondents (5 percent) believe the economy is "strong and growing," as overall opinion has shifted slightly and seems to be improving since last quarter. Eleven respondents (18 percent) believe the economy is "strong with uncertain growth." Sixty-six percent say conditions are "mixed," and the remainder say the economy is "facing recession" (8 percent) or "weak and recessing" (3 percent).

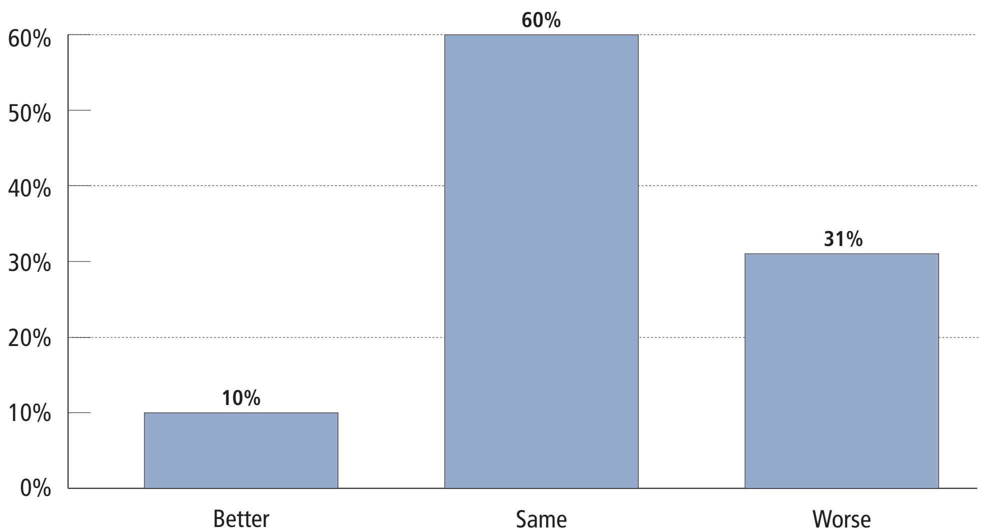
[Kauffman Economic Outlook—2011 Q1]

How do you assess the overall condition of the U.S. economy right now?
(open text response)

[Kauffman Economic Outlook—2011 Q1]

U.S. ECONOMIC POLICY

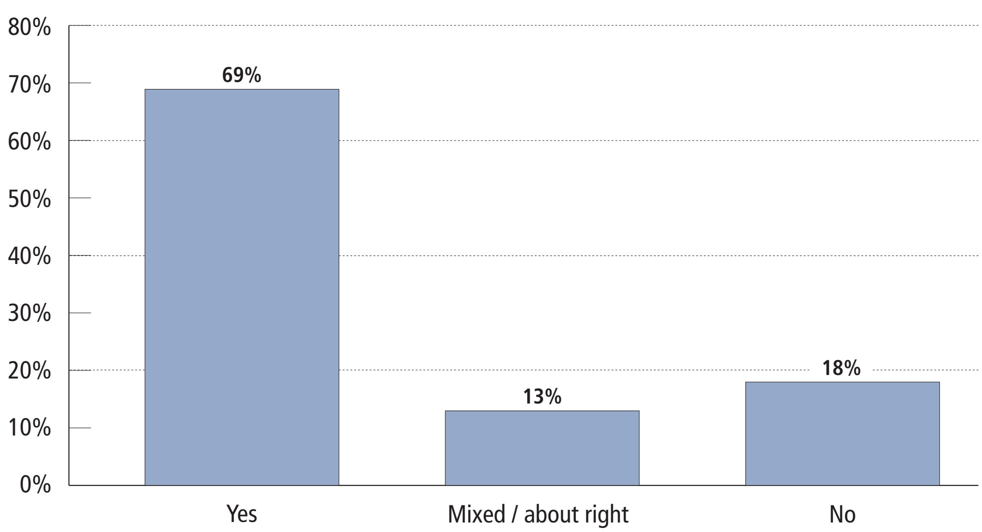
Is the U.S. economy doing better or worse than official government statistics show?



[Kauffman Economic Outlook—2011 Q1]

Skepticism about official statistics remains the rule among economics bloggers. In fact, skepticism is not as negative as last quarter, but that may well be explained by the weak employment data that was reported during the late autumn months. Regardless, only 10 percent of our panel thinks the U.S. economy is doing better than official statistics indicate.

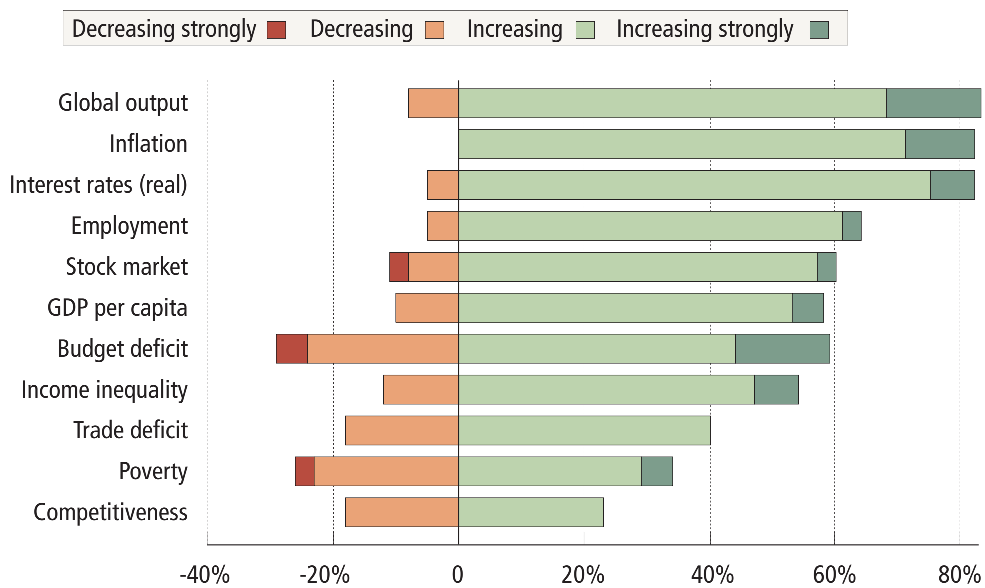
Is the U.S. federal government too involved in the U.S. economy?



[Kauffman Economic Outlook—2011 Q1]

A large majority (69 percent) of economics bloggers believe the U.S. government is too involved in the economy, four times more than those who hold the opposite view. This response is noteworthy given the balanced and largely non-partisan identification of respondents.

What are the prospects for the following over the next three years?
(In the U.S. unless stated otherwise)



Projecting three years ahead, economics bloggers expect global output, inflation, and interest rates to rise faster than anything else. The happy news is that two-thirds of respondents anticipate employment growth in the United States. Opinion is split about expectations of higher poverty and inequality levels, which is actually an improvement in the outlook from previous quarters.

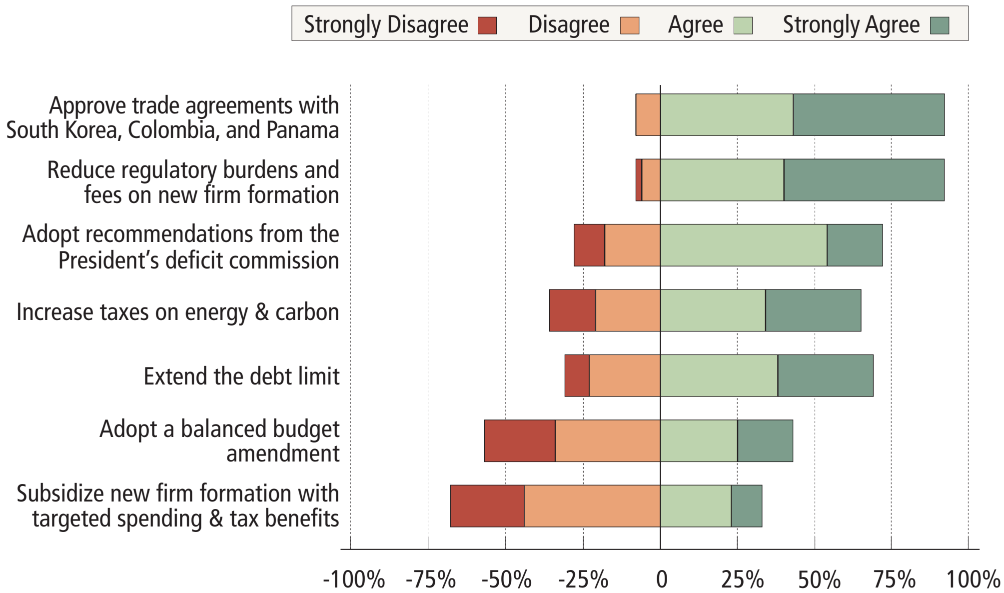
[Kauffman Economic Outlook—2011 Q1]

	Decreasing strongly	Decreasing	About the same	Increasing	Increasing strongly
Global output	0%	8%	10%	68%	15%
Inflation	0%	0%	18%	71%	11%
Interest rates (real)	0%	5%	13%	75%	7%
Employment	0%	5%	31%	61%	3%
Stock market	3%	8%	28%	57%	3%
GDP per capita	0%	10%	32%	53%	5%
Budget deficit	5%	24%	13%	44%	15%
Income inequality	0%	12%	34%	47%	7%
Trade deficit	0%	18%	42%	40%	0%
Poverty	3%	23%	40%	29%	5%
Competitiveness	0%	18%	59%	23%	0%

[Kauffman Economic Outlook—2011 Q1]

U.S. ECONOMIC POLICY

The U.S. federal government should... (select one or more)



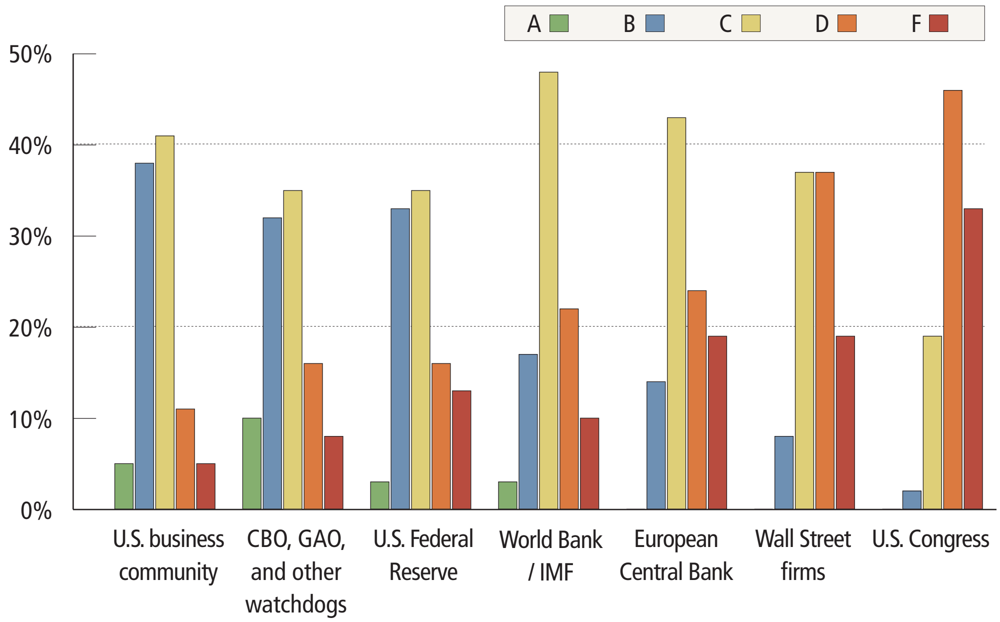
[Kauffman Economic Outlook—2011 Q1]

When asked to evaluate a variety of policy proposals, the top recommendation was to reduce regulatory fees and burdens on new firm formation, with 92 percent in agreement. Ninety-two percent also favor approval of trade agreements with South Korea, Colombia, and Panama. The panel also supported the adoption of recommendations from the President's deficit commission (72 percent).

	Strongly Disagree	Disagree	Agree	Strongly Agree
Approve trade agreements with South Korea, Colombia, and Panama	0%	8%	43%	49%
Reduce regulatory burdens and fees on new firm formation	2%	6%	40%	52%
Adopt recommendations from the President's deficit commission	10%	18%	54%	18%
Increase taxes on energy & carbon	15%	21%	34%	31%
Extend the debt limit	8%	23%	38%	31%
Adopt a balanced budget amendment	23%	34%	25%	18%
Subsidize new firm formation with targeted spending & tax benefits	24%	44%	23%	10%
Suspend foreclosures	5%	8%	56%	32%

[Kauffman Economic Outlook—2011 Q1]

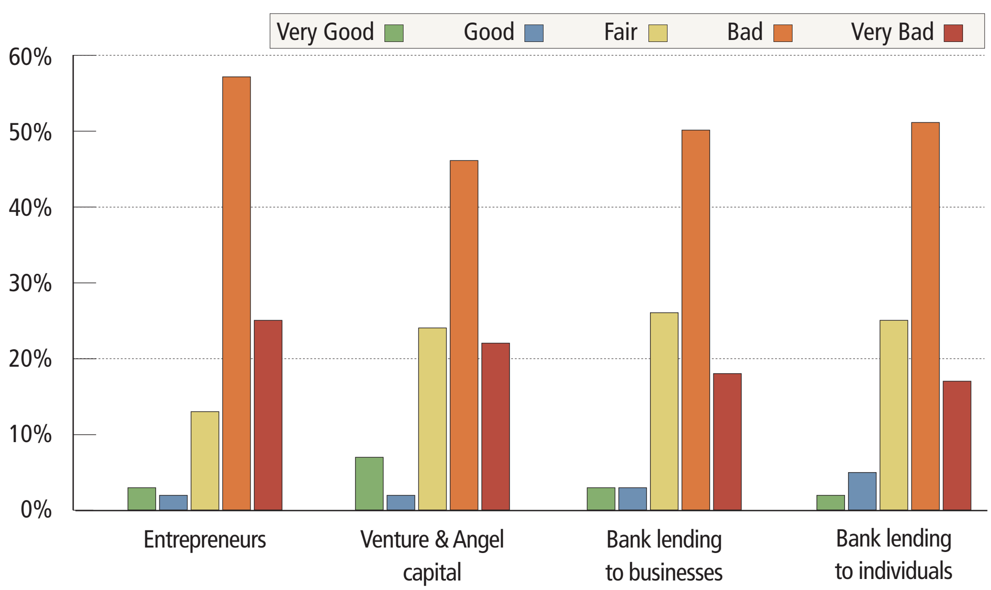
How do you grade the performance of the following organizations and institutions? (A = best, F = fail)



[Kauffman Economic Outlook—2011 Q1]

The only group bloggers rate less favorably than Wall Street firms (with 8 percent As and Bs) is the U.S. Congress (no As and one B). Actually, 33 percent of our panel give Congress an F this quarter. Nearly one-quarter of economics bloggers gave the Federal Reserve a D or an F.

What is your sense of the conditions that exist for the following:

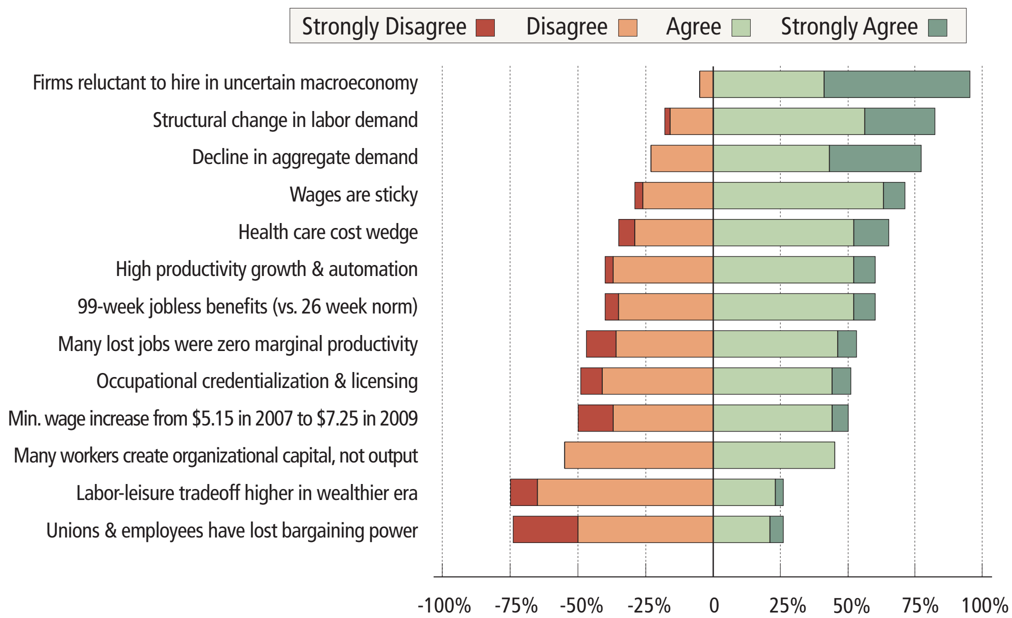


[Kauffman Economic Outlook—2011 Q1]

In every category of business, conditions right now are rated as "fair, bad, or very bad" by more than 90 percent of respondents.

OTHER TOPICAL QUESTIONS FROM PARTICIPATING BLOGGERS

The *New York Times* asked and many bloggers answered: Why Haven't Jobs Come Back in the U.S.? Tyler Cowen, Arnold Kling, Dean Baker, Mark Thoma, Casey Mulligan, and others have offered answers. Do you agree or disagree with the following causes of persistently high unemployment?



[Kauffman Economic Outlook—2011 Q1]

	Strongly Disagree	Disagree	Agree	Strongly Agree
Firms reluctant to hire in uncertain macroeconomy	0%	5%	41%	54%
Structural change in labor demand	2%	16%	56%	26%
Decline in aggregate demand	0%	23%	43%	34%
Wages are sticky	3%	26%	63%	8%
Health care cost wedge	6%	29%	52%	13%
High productivity growth & automation	3%	37%	52%	8%
99-week jobless benefits (vs. 26 week norm)	5%	35%	52%	8%
Many lost jobs were zero marginal productivity	11%	36%	46%	7%
Occupational credentialization & licensing	8%	41%	44%	7%
Min. wage increase from $5.15 in 2007 to $7.25 in 2009	13%	37%	44%	6%
Many workers create organizational capital, not output	0%	55%	45%	0%
Labor-leisure tradeoff higher in wealthier era	10%	65%	23%	3%
Unions & employees have lost bargaining power	24%	50%	21%	5%

[Kauffman Economic Outlook—2011 Q1]

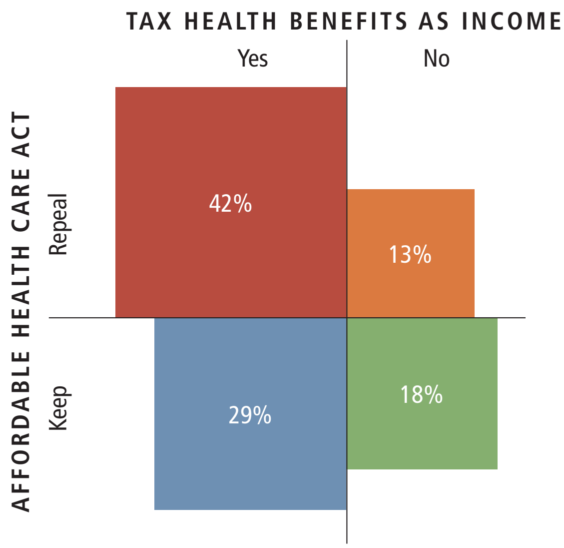
The number of competing explanations for the jobless recovery can be a bit mind-numbing, but the panel of economics bloggers had very strong feelings about which were true and which were not. Far and away the most popular explanation (with 95 percent agreeing and a full majority agreeing "strongly") was the reluctance of firms to hire in an uncertain macroeconomy. Two other explanations were supported by a four-to-one margin: a structural change in the demand for labor (e.g., more knowledge jobs and a secular decline in muscle jobs) and an overall decline in aggregate demand. That means the bloggers think both a recessionary slump and a technological change in the economy are to blame, not one versus the other. The two ideas that bloggers rejected are (1) the theory that unions and employees have lost bargaining power, and (2) the U.S. level of wealth has increased the labor-leisure trade-off to the extent that people are more willing to tolerate leaving the labor force.

Many ideas had equal levels of agreement and disagreement, without very strong responses in either direction. But a handful of explanations had a roughly two-to-one ratio of agreement:

- *> the traditional Keynesian story of sticky wages*
- *> the supply-side story of health care costs as a wedge in hiring costs*
- *> the structural story of dis-employment from automation and high productivity growth*
- *> the behavioral story of quadrupling jobless benefits as an incentive not to work*

OTHER TOPICAL QUESTIONS FROM PARTICIPATING BLOGGERS

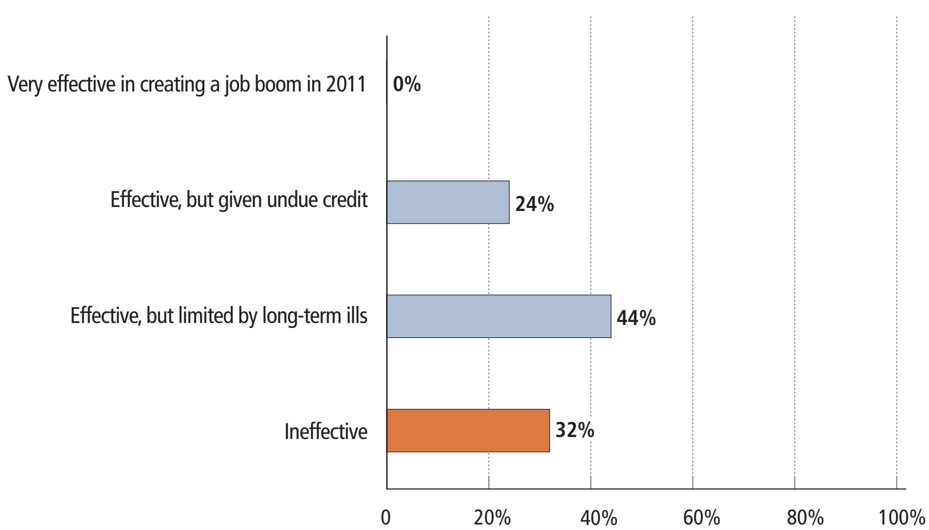
Dean Baker (Beat the Press) argues there is no evidence that the Affordable Health Care Act is killing or destroying jobs. The President's deficit commission recently suggested simplifying the tax code by treating health benefits as taxable income. What would you recommend?



[Kauffman Economic Outlook—2011 Q1]

There were four possible responses to this question, which is really two questions in one, and the results show that the debate over health care reform is more complicated than whether or not Congress should repeal the Affordable Health Care Act. The most popular recommendation was to repeal the health reform bill and tax health benefits as income (42 percent), and the second-most popular was to keep the health reform law but tax health benefits as income (29 percent). This reveals that the largest consensus was to treat health benefits as taxable income, supported by seven in ten respondents. Notably, the least popular option is to repeal health reform and leave health benefits alone (13 percent), which was the norm in the United States for decades before 2009.

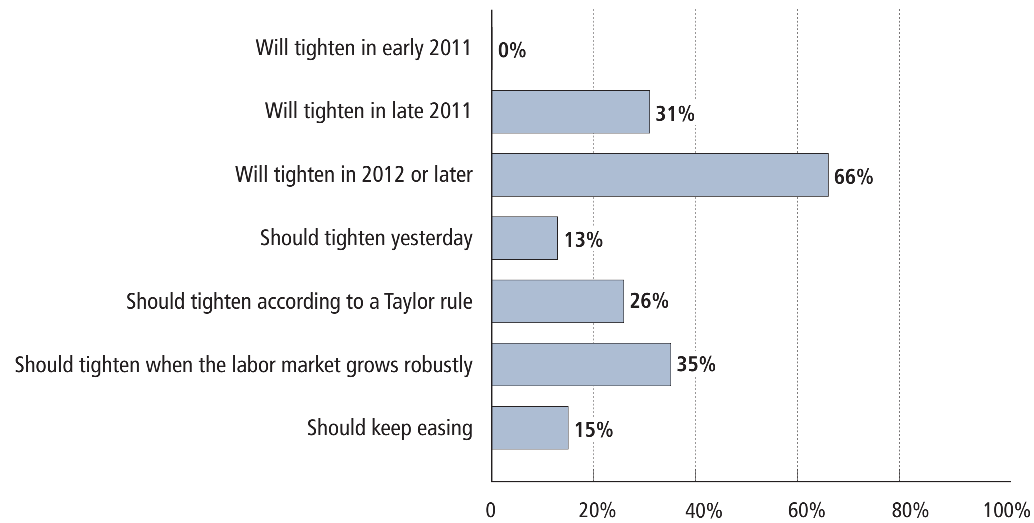
How effective will the social security tax cut and the extension of the 2001–03 tax cuts enacted during the lame duck session be in stimulating job creation?



[Kauffman Economic Outlook—2011 Q1]

The bipartisan tax deal struck between congressional Republicans and the White House surprised many political observers, but our panel is not confident that it will jump-start the recovery, at least not in 2011. Not a single respondent believed the new stimulus will be very effective in creating a jobs boom this year. On the other hand, 66 percent did agree that it would be "effective" over an unspecified time horizon. One-quarter of respondents believed that the bill would be given undue credit, since the economy is expected to recover on its own without any government intervention. Nearly half thought the effectiveness will be limited by other long-term ills. One-third of respondents simply think the tax cuts will be ineffective.

When will the Federal Reserve begin tightening monetary policy? When should it tighten?

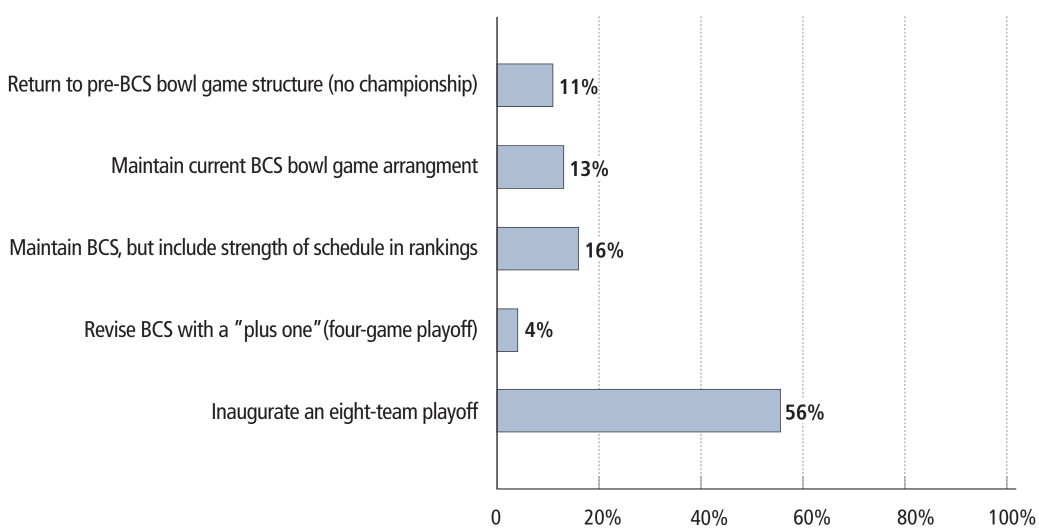


[Kauffman Economic Outlook—2011 Q1]

No respondents think the Federal Reserve will tighten monetary policy in the first half of the year, but one-third think it will start in late 2011. Two-thirds think the Fed will tighten in 2012 or later.

Opinions on what the Fed should do were mixed. Eight respondents think the Fed should already have tightened (13 percent), about the same number who think the Fed still should be easing monetary policy (15 percent). The bulk of respondents think the Fed should follow a Taylor rule (26 percent) or use discretion to tighten once the labor market is stronger (35 percent).

College Football just wrapped up its Bowl Championship Series (BCS) with a win of No. 1 Auburn over No. 2 Oregon, yet many wish to see a different end-of-season structure. What would you recommend?



[Kauffman Economic Outlook—2011 Q1]

Apparently, economics bloggers are not traditionalists. A majority want to see college football end its season with a playoff of eight teams (56 percent) or a "plus one" of four teams (4 percent). Opinion was evenly split among the minority who would preserve some kind of Bowl structure, with 13 percent in favor of leaving the existing Bowl Championship Series in place, 16 percent in favor of tweaking the BCS to consider strength of schedule in the rankings, and a surprising 11 percent in favor of returning to the pre-BCS setup

METHODOLOGY & PANEL SELECTION

Invitations were sent to nearly 200 top economic bloggers, most of whom were on the Palgrave's Econolog.net December 2010 rankings (its methodology is described at http://econolog.net/stats.php). Some blogs with multiple authors have more than one respondent in the panel. For example, both James Hamilton and Menzie Chinn, co-bloggers at EconBrowser.com, are participants, as are Tyler Cowen and Alex Tabarrok, co-bloggers at Marginalrevolution.com. The panel includes a total of sixty-three respondents.

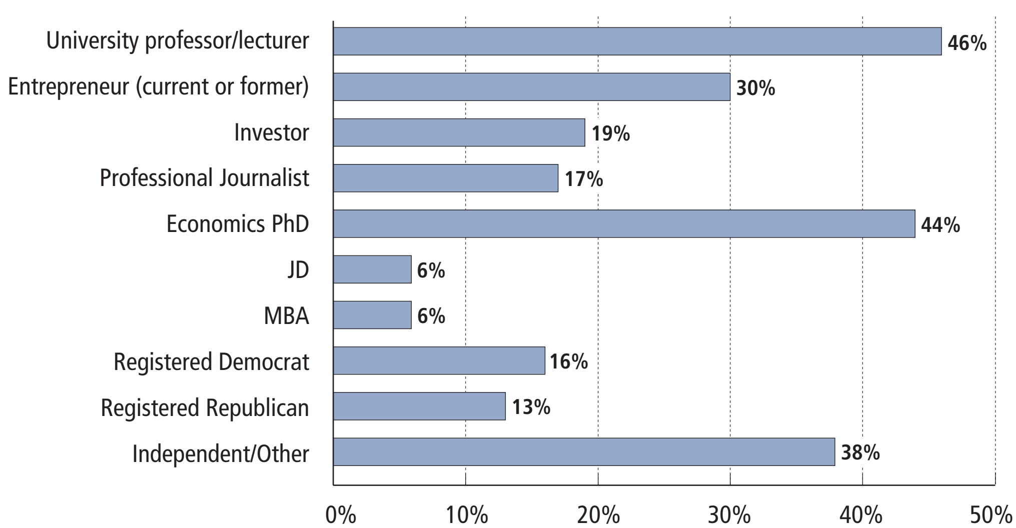
The panels from previous quarters are not directly comparable to this quarter's panel. Roughly half of all bloggers participated in both quarters, so comparisons between the results have a large margin of error.

The policy of the Kauffman Economic Outlook is that survey panelists and their blog names will be released, but all individual responses and comments will remain anonymous. A list of participants is included in the appendix.

Panelists were asked to describe their political affiliation, with the intent being to show whether the panel has an ideological bias. We find that, among those who answered this question, one-third consider themselves Independent, with 16 percent Democrat and 13 percent Republican.

The last question asked economics bloggers to described their occupations and backgrounds. These responses were not exclusive (meaning respondents could select one or more). Nearly half are university professors, one-third are former or current entrepreneurs, one-fifth are investors, and nearly half have a PhD in economics.

Please describe yourself (check all that currently apply)



[Kauffman Economic Outlook—2011 Q1]

APPENDIX

LIST OF RESPONDENTS

Individual responses will not be released, but names and/or blogs of the participants in the Kauffman Economic Outlook include:

Amol Agrawal, *Mostly Economics*
Pedro Albuquerque, *Incentives Matter*
Ryan Avent, *Free Exchange*
Dean Baker, *Beat the Press*
Joshua Barro, *PublicSectorInc.com*
David Beckworth, *Macro and Other Market Musings*
Taggert Brooks, *A Random Walk*
Bryan Caplan, *EconLog*
Menzie Chinn, *EconBrowser*
Bill Conerly, *Businomics*
Jeff Cornwall, *The Entrepreneurial Mind*
Robert Cringely, *I, Cringely*
Atanu Dey, *Atanu Dey*
Art Diamond, *artdiamondblog.com*
Craig Eyermann, *Political Calculations*
Eric Falkenstein, *Falkenblog*
Will Franklin, *WILLisms*
Daniel Gross, *Yahoo! Finance*
GYSC, *Economic Disconnect*
James Hamilton, *EconBrowser*
Robin Hanson, *Overcoming Bias*
Ken Houghton, *Angry Bear*
Tim Iacono, *The Mess That Greenspan Made*
Tim Kane, *Growthology.org*
Stephen Karlson, *Cold Spring Shops*
Paul Kedrosky, *Infectious Greed*
Arnold Kling, *EconLog*
Drea Knufken, *Business Pundit*
Richard Langlois, *Organizations and Markets*
Robert Lawson, *Division of Labour*
Bob Litan, *Growthology.org*

APPENDIX

LIST OF RESPONDENTS (continued)

Steve Malanga, *Real Clear Markets*
Michael Mandel, *Mandel on Innovation and Growth*
Geoffrey Manne, *Truth on the Market*
Donald Marron, *dmarron.com*
Chris F. Masse, *MidasOracle.org*
Jeff Miller, *A Dash of Insight*
Mike Munger, *Kids Prefer Cheese*
Craig Newmark, *Newmark's Door*
Matt Nolan, *The Visible Hand in Economics*
Michael Panzner, *Financial Armageddon*
Mark Perry, *Carpe Diem*
James Picerno, *The Capital Spectator*
E.J. Reedy, *Data Maven at Kauffman.org*
Wade Roush, *Xconomy*
Felix Salmon, *Felix Salmon*
Andrew Samwick, *Capital Gains and Games*
Frederic Sautet, *Coordination Problem*
Allison Schrager, *Free Exchange*
Nick Schulz, *Enterprise Blog*
Mike Shedlock, *Mish's Global Economic Trend Analysis*
Amity Shlaes, *The Forgotten Man, CFR*
Daniel Sokol, *Antitrust and Competition Policy Blog*
Gordon Smith, *The Conglomerate*
Alex Tabarrok, *Marginal Revolution*
Mark Thoma, *Economist's View*
Claus Vistesen, *Alpha.Sources*
Steve Waldman, *Interfluidity*
Robert Waldmann, *Angry Bear*
David Weman, *A Fistful of Euros*
John Whitehead, *Environmental Economics*
Glen Whitman, *Agoraphilia*
David Zetland, *Aguanomics.com*