

INSTABILITY HUB - RESEARCH FUNDING CALL

[Rebuilding Macroeconomics](#) (RM), funded by the Economic and Social Research Council (ESRC) and hosted by the National Institute of Economic and Social Research (NIESR), is inviting calls for research proposals under its Instability Hub. Our long-term aim is to transform macroeconomics back into a policy relevant social science.

Our intermediate step is to provide recommendations to the ESRC as to the future shape and direction of research in Macroeconomics. Project proposals should thus aim to identify promising areas for future research (on a “proof of principle” basis), rather than seeking to obtain definitive results from what will be limited project budgets.

RM will consider proposals which are genuinely innovative; which are oriented towards policy-relevant problems; and which are rigorous but may be overlooked by traditional funding sources. We are particularly interested in interdisciplinary proposals and the introduction of new methods.

Process

The application procedure will consist of two stages.

- For Stage 1, applicants should submit an outline statement of up to 1,000 words, using the form provided. An indicative outline cost level should also be supplied, though a formal costing is not required at this stage.

Stage 1 applications should be submitted to r.arnold@niesr.ac.uk by July 18, 2018.

- Successful applicants from Stage 1 will be invited by Hub Leaders to proceed to Stage 2. They will be required to submit a more detailed version of their proposals, including: a Case for Support; a Justification of Resources; a Timetable; an Impact and Communications Plan; and a formal Budget.

The budget limits for projects are £25,000 to £150,000, at 100% fEC. Successful applications will be funded at 86% fEC.

Criteria for Research Funding Call

In March, the Instability Hub ran its exploratory workshop meeting. The purpose was to bring together diverse groups of researchers and policy makers, each interested in Macroeconomic Instability, but approaching that topic from different angles. Following on from the meeting, the Hub Leaders (Profs Roger Framer and Jean-Philippe Bouchaud) are seeking proposals for pilot research projects that address this fundamental question: *Why are Economies Unstable?*

We seek to initiate a genuine conversation between teams of researchers, each working on issues around macroeconomic instability but using different approaches. We hope to generate a collaborative and productive dialogue between these teams by holding regular meetings. These meetings would provide a platform for participants to present their ideas to each other, learn from and challenge each other's assumptions and ways of thinking, and to consider possible new methods of investigation.

We are looking for genuinely fresh and interdisciplinary approaches, although we recognize that even within economics there exist groups within the discipline that may have fresh ideas and methods that deserve consideration. We seek not only proposals that may come from outside the existing economics profession, but also proposals from economists who are open to dialogue and who may be combining new tools and methods from other disciplines with existing economic ideas.

Macroeconomic Instability

A summary of the workshop meeting and presentations can be found [here](#), where we highlight the questions that arose which we are interested in pursuing.

The self-correcting mechanism present in core macroeconomic models appears to be questionable today. A decade after the Great Recession and we face unexpectedly weak productivity and the lingering spectre of 'secular stagnation.' Such persistent economic underperformance has corrosive effects on standards of living over time.

A key theme which emerged from our workshop is the extent to which economic agents can learn about the future from the past as assumed in these core macroeconomic models. This foundational assumption enables the use of probability methods to be deployed over time and for the system to converge to a unique long run equilibrium independent of its initial conditions.

Questioning this foundational assumption (ergodicity) opens-up a number of potentially fruitful directions for future research.

- One approach might be to consider how agents learn and make decisions in the face of radical uncertainty. Robert Lucas famously acknowledged that 'in cases of (radical) uncertainty, economic reasoning will be of no value.' Perhaps there is a case for adapting more of an engineering approach aimed at solving specific real-world problems at hand and

less rather less concern with pure scientific insight. This need not be limited to models which proved vulnerable in the past.

- Another approach might take research towards more serious inclusion of psychology and sociology into macroeconomics. Rather than assume agents have consistent, well-behaved and stable preferences, one might recognise the role of culture and narratives in decision taking. There is plenty of evidence to support the importance of culture and sense making in purposeful decision taking. Other disciplines offer richer explanations of behaviour that allow us to have a fuller explanation of ‘animal spirits.’

- Yet another approach might be closer to the physical sciences where the idea of stable equilibria has long been surpassed by new methods such as dynamical systems, chaotic models, and agent based models. These methods have progressed since they were first proposed, and both approaches open-up the possibility of a radically different approach to macroeconomics.

- Another approach might be the development of macroeconomic models that have been outside of the mainstream in the past. Perhaps there are aspects of psychology which can help us to advance the work of economists such as Minsky. The build-up and loss of confidence have many explanations outside of economics which may be usefully incorporated.

We have no wish to be overly prescriptive and this list of ideas is not exhaustive. We welcome proposals which take a different approach that we may have neglected. In the second round of the application process, reviewers will be asked to put high weight on the degree to which a proposal might help to test *new* approaches and methodologies for understanding Instability.

We hope to fund between two and four projects. The amount of funding allocated to the instability hub (depending on the quality of the research proposals) might be in the neighbourhood of £250,000. Please plan accordingly. We ask applicants to provide a flexible budget. Tell us how you would spend £60,000 over two years if you are successful. But also tell us how you would spend £100,000 or more. If we have four promising applications, they will all be funded at the lower level. But if two or three proposals stand out, we may choose to fund a small number of projects on a higher scale.

The management team stresses that they put high weight on proposals that are interdisciplinary, and which introduce new methods. Above all, the project proposals should be new and ambitious. By funding different projects from different approaches we are seeking to generate a genuine dialogue across groups and across disciplines. We look forward to your application.