

# Interview: Ludwig Straub and Robert Ulbricht

**CAN YOU TELL US A BIT MORE ABOUT THE GENESIS OF THE PAPER? IN PARTICULAR, HOW DID YOU COME UP WITH THE IDEA OF THE PAPER? AND HOW DID YOU START WORKING TOGETHER ON THE PROJECT?**

**Both:** The project started in Munich, where we met each other during graduate school. This paper was our first project together, and we began writing it in 2010/11, after we realized one important fact. Financial crises, like the one we were just going through at the time, not only reduce production and employment, but also information, in that after one or two years with little or limited access to funding, it's really not clear anymore what the current financial and economic situation of a firm is like. Will the firm be able to recover quickly and catch up with unaffected firms? Did the firm have to liquidate capital or assets that may have been important for the recovery? Will customers that were lost due to the adverse financial situation come back after the crisis? Is the firm going to be able to hire back qualified workers, qualified R&D staff, or qualified management it had to let go during the crisis?

Those questions matters because when information is lost, it creates uncertainty and hesitation. In the context of our paper, the uncertainty matters for future access to finance: when banks have too little information, they won't lend. This is how a financial crisis can cause economic damage that far outlives the crisis itself. In other words, when the banks are recapitalized and the financial sector is regaining health, information is still lost. And lost information endogenously prolongs the economic malaise through reduced lending, even when banks are fully recapitalized. This link, between financial crises and endogenous uncertainty, is what drove us to writing this paper.

**“Financial crisis can cause economic damage that far outlives the crisis itself.”**



**WORKING ON RESEARCH IDEAS TAKES TIME, AND THIS PAPER IS NO EXCEPTION. YOU'VE TOLD US THAT YOU'RE CURRENTLY WORKING ON A REVISION FOR THE REVIEW OF ECONOMIC STUDIES, IN WHICH YOU ARE EXPLORING NEW APPLICATIONS OF YOUR MECHANISM. COULD YOU TELL US MORE ABOUT IT? MORE GENERALLY, HOW HAS THE PAPER EVOLVED OVER TIME?**

**Both:** The paper has evolved significantly over time, mostly because we have evolved as researchers. In some sense, its evolution is a nice example of how a single idea can be explored in many different ways. One important extension we are currently exploring for our revision is a more bank lending-based model of the financial market. A tremendously successful and influential empirical literature has documented how lost access to bank loans can really make a significant difference to a firm's health, with large short-run, and importantly, persistent effects on production and employment. What we are currently exploring is an extension of our current setting to one that specifically



captures bank lending, in the sense of debt contracts. In this context, less information and more uncertainty about firms' conditions, precisely leads to less bank lending since lenders care about downside risk in debt repayment.

**WE WANT TO UNDERSTAND MORE ABOUT THE CAREER PATH OF SUCCESSFUL YOUNG RESEARCHERS IN ECONOMICS. WHAT WERE YOUR MAIN RESEARCH TOPICS DURING THE PHD? WHAT HAVE YOU BEEN WORKING ON TILL THEN?**

**Robert:** My research was a bit all over the place when I was in graduate school. Besides my work with Ludwig, I wrote papers on contract theory, industrial organization and political economy, reflecting how my research interests shifted over the course of my PhD. When I entered the PhD program in Munich, I was initially drawn to micro theory. But then, after visiting Northwestern during my 4th year and being exposed to its many excellent seminars and grad courses, I realized that what excited me the most were the first-order and real world questions that are routinely asked in macroeconomics. It was there at Northwestern where, while looking for an idea for my job market paper, I realized that the way in which households and firms collect information about various aspects of their economic life, and limitations in their ability to do so, can have important macroeconomic consequences. My work with Ludwig was born from that idea.

More recently, I have explored related ideas in my works with Ryan Chahrour, Isaac Baley and Ana Figueiredo. With Ryan, I am trying to assess the extent to which (a lack of) information can generate waves of optimism and pessimism among households and firms and its relevance for understanding aggregate economic fluctuations. With Ana and Isaac, I am studying how learning about one's own skills matters for career choices, and how mistakes can have long-term consequences for earnings.



**Ludwig:** Aside from a few outliers (e.g. a micro theory paper) the main topics I explored during my PhD were, broadly speaking, the macroeconomics of debt and inequality. I would count the project with Robert into the former topic. As an example for the latter topic, in my job market paper, I studied the effects of income inequality on natural interest rates, wealth, and wealth inequality. These two topics have stayed with me since then. In my more recent work, I have tried to bring together these two fields, asking questions such as: Is the rise in economic inequality we have seen around the world related to the rise in debt levels? (The answer is yes.) Can we think of debt as a form of financial income inequality, which may exacerbate existing labor income inequality trends? (The answer is also yes.)



**WHAT'S YOUR PERSONAL RESEARCH AGENDA? BESIDES THE SUBJECTS ON WHICH YOU ARE WORKING, WHAT THEMES IN MACROECONOMICS DO YOU SEE AS PARTICULARLY PROMISING? THAT IS, IF YOU WERE A YOUNG PHD NOW, WHICH QUESTIONS WOULD YOU LIKE TO TACKLE?**

**Ludwig:** This is clearly a biased response, but I see a lot of excitement and potential in the area of Keynesian heterogeneous-agent macroeconomics. A growing number of economists have started working on this topic (e.g. Axelle has a terrific paper (1), I also worked on it myself) but I think we are only scratching the surface. The reason I think this is very promising, is that it not only allows for macro to make contact with micro data (e.g. data on inequality of income and wealth), but also make contact with classic aggregate macro models, such as the IS-LM model. That's a really unique achievement. Among questions that fascinate me are how shocks propagate in such models, what the proper microfoundations are in these models, and how one can bring those models together with evidence from behavioral economics on actual household decision making.

“I see a lot of [...] potential in the area of Keynesian heterogeneous-agent macroeconomics.”

**Robert:** One area of economics that I am really excited about lately is the interaction between macro and labor economics. On the one hand, one of the very first things that we teach our undergraduates about business cycles is that they have real life consequences for many people, mainly because they create and destroy jobs. On the other hand, it has not been until recently that macroeconomists started incorporating these consequences into their models. I am excited about seeing more research exploring the link between business cycles and job markets, especially when financial markets provide imperfect insurance against

earning losses as in the heterogeneous-agent frameworks that Ludwig was mentioning.

**WE SOMETIMES HEAR THAT THE ECONOMICS DISCIPLINE IS SLOW TO ADOPT NEW**

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**METHODS AND IDEAS. DO YOU SHARE THIS VIEW, OR DO YOU THINK THE PROFESSION GIVES A FAIR CHANCE TO YOUNG RESEARCHERS?**

**Ludwig:** In my own inexperienced view, economics as a discipline could definitely do better in educating and promoting women and under-represented minorities. This is unfortunately especially true for macro, which is lagging behind other fields in those regards. This is probably the most important 'infirmity' in economic research. Regarding new methods and ideas, I can't speak for other economics, but I love any papers with those, however crazy it might seem. I think that's what's driving us forward. Surely not everything that is radical is great, but it holds the promise of a completely new and refreshing perspective or approach.

**Robert:** I think that's right, we need to do much better as a discipline to improve diversity. In fact, it seems plausible that more diversity will ultimately help widening our perspective and bring in new ideas. When thinking about how to improve diversity, one thing that is important to





keep in mind is how early economics starts lacking behind other fields. In the U.S., white, non-Hispanic male students are about three times as likely to major in economics compared to female and underrepresented minority students. This suggests that a really important question that we should ask ourselves is, how we can design undergraduate courses to engage broader audiences?

**FINALLY, WOULD YOU HAVE A PERSONAL ADVICE TO GIVE TO OUR PHD STUDENTS AT PSE?**

**Robert:** As someone who got his PhD from a European program, I have a good sense about how it can be particularly challenging

to prepare for the job market and get exposure when graduating outside the US. In my case, the single most important decision I made was visiting Northwestern for a year (and then again later in the months before my job market). I could not possibly overstate the importance of that visit. How much getting exposed to new ideas and interacting with faculty and students outside my own program helped me prepare for the job market and find a job. I know that not everyone might have the opportunity to arrange a visit to another institution during their PhD, but if this is something that's possible, I absolutely recommend seizing that opportunity.

**Ludwig:** When I was reading papers as a PhD student, I always had the same feeling, after each one of them. Namely, this is a really great paper, but it already does everything! What am I supposed to work on? Until one day, a close friend shifted my perspective. He asked, whether I understood the world around me, the economy, how agents interact, how prices are determined, how shocks propagate, etc. Of course, my answer was no. So he said: There you have it, go work on understanding it.

(1) Axelle Ferriere, Assistant Professor at PSE, Executive Director of the SCOR-PSE Chair.

**SHORT BIOGRAPHIES**



**Ludwig Straub** is an Assistant Professor of Economics at Harvard University. His research focuses on macroeconomics and international economics. Ludwig received his PhD in economics from MIT in 2018 and holds undergraduate and master's degrees in mathematics and physics.

**Robert Ulbricht** is an Assistant Professor of Economics at Boston College. His research focuses on macroeconomic, search & matching on labor markets and political economy. Robert received a PhD in economics from the University of Munich.