Questions I hope the Federal Reserve Could Answer

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Wonderful effort so far this conference to see how the macroeconomy effects different communities

• How well our safety-net does, or does not, respond to the business cycle
  • The perverse pattern of unemployment insurance
  • The collapse of AFDC support as TANF during downturns
  • Difficult political friction in policy delays to economic downturns

• Revaluation of debt

• Hysteresis effects of shocks
Positive steps

• These papers are all good for asking how macro-economic effects can shape inequality

• Or make exacerbate inequality
How does the Fed view the relationship between inequality and growth?

• The IMF thinks inequality hurts growth
• The OECD thinks inequality hurts growth
• The Federal Reserve?
There is now a global consensus that inequality hurts economic growth.
Growth over 10 years, and the duration of growth spells falls as inequality rises

Jonathan D. Ostry, Andrew Berg, Charalambos G. Tsangarides,
Key finding of the IMF Study—making the rich richer does not make the economy grow

• “We find an inverse relationship between the income share accruing to the rich (top 20 percent) and economic growth. If the income share of the top 20 percent increases by 1 percentage point, GDP growth is actually 0.08 percentage point lower in the following five years, suggesting that the benefits do not trickle down.”
Another key finding—grow the economy from the bottom up and everyone benefits

• “Instead, a similar increase in the income share of the bottom 20 percent (the poor) is associated with 0.38 percentage point higher growth.”
Another key point—inequality leads to capture of public policy by the elite who benefit from the high level of inequality

• “At the same time, enhanced power by the elite could result in a more limited provision of public goods that boost productivity and growth, and which disproportionately benefit the poor (Putnam 2000; Bourguignon and Dessus 2009).”
“New OECD analysis suggests that income inequality has a negative and statistically significant impact on medium-term growth.”

Overall US growth rate was 5 percentage points less from 1990-2010 because of the growth in inequality that occurred from 1985 to 2005.
What we ask depends on what we want answered, is the Fed innocent of inequality problems if we ask different questions?

• A different set of key stylized facts:
  • The gap between wages and productivity goes with the rise of household debt
  • The rising share of finance as a share of GDP
  • The rising compensation in finance relative to non-financial activities
Compensation and productivity 1948-2012
The Big Gap

Economic Policy Institute Chart showing
Real Hourly Compensation and Net-Productivity

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So we can buy what we make, instead of being paid, we use debt and borrow.
A rising share of GDP to Finance

The correlation of financial sector compensation and the wage gap

Source: https://runawayinequality.org/unions-environmentalists-a-movement/
Is Price Stability an issue?
Labor markets have performed worse with price stability

![Seasonally Adjusted Monthly Unemployment Rate Graph]

- Mean = 5.2
- Months below 6.0% = 72.5%
- Std Dev = 1.42

- Mean = 6.0
- Months below 6.0% = 58.6%
- Std Dev = 1.48

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America’s economic majority—who holds the money (income)
America’s democratic makeup—who holds the votes