

Questions I hope the Federal Reserve Could Answer

William E. Spriggs

Chief Economist to the AFL-CIO and,
Professor, Department of Economics
Howard University

Wonderful effort so far this conference to see how the macroeconomy affects 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

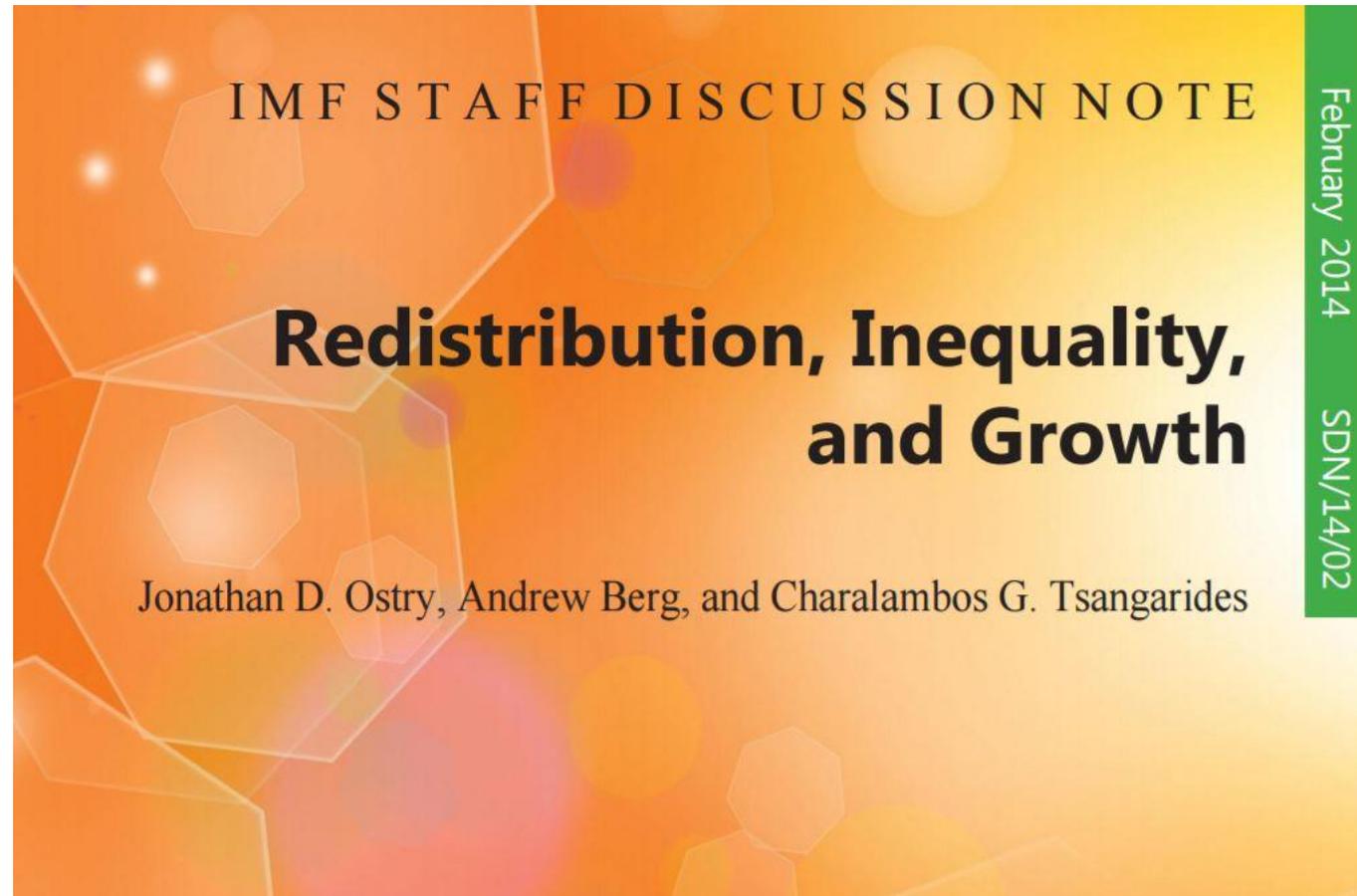
Positive steps

- 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

Figure 4. Growth, inequality, and redistribution

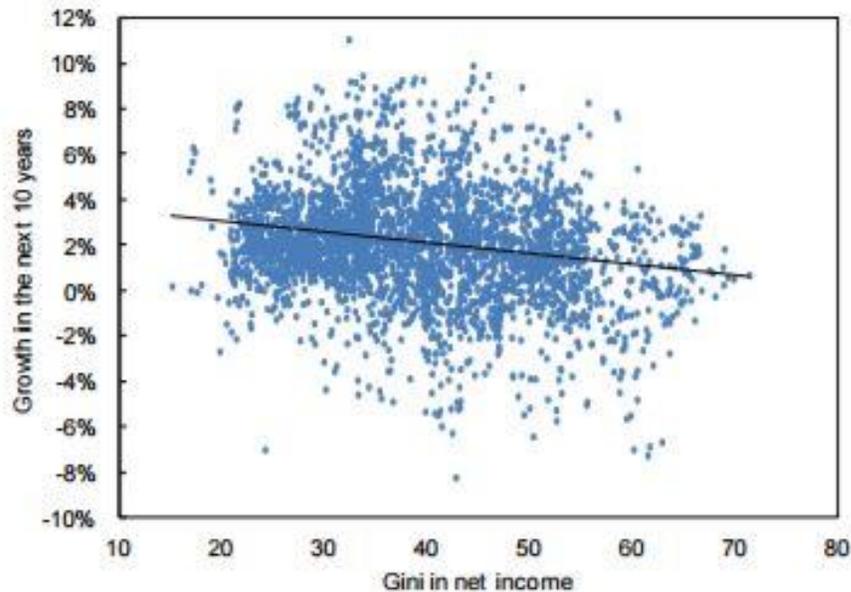
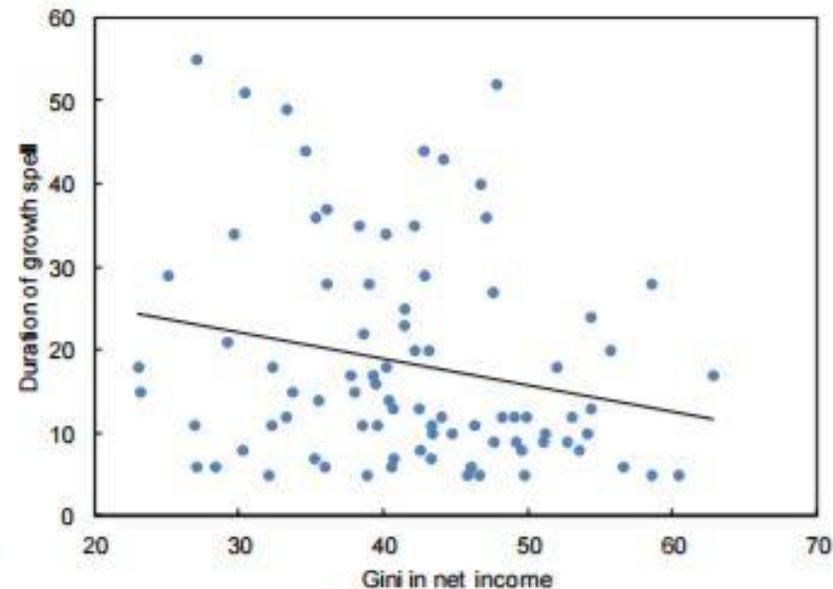


Figure 5. Duration of growth spells, inequality, and redistribution



Jonathan D. Ostry, Andrew Berg, Charalambos G. Tsangarides,
<http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>

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.”

How is inequality linked to growth?

New OECD analysis suggests that income inequality has a negative and statistically significant impact on medium-term growth. Rising inequality by 3 Gini points, that is the average increase recorded in the OECD over the past two decades, would drag down economic growth by 0.35 percentage point per year for 25 years: a cumulated loss in GDP at the end of the period of 8.5 per cent.

Focus on Inequality and Growth

December 2014



Does income inequality hurt economic growth?

Widespread increases in income inequality have raised concerns about their potential impact on our societies and economies. New OECD research shows that when income inequality rises, economic growth falls. One reason is that poorer members of society are less able to invest in their education. Tackling inequality can make our societies fairer and our economies stronger.

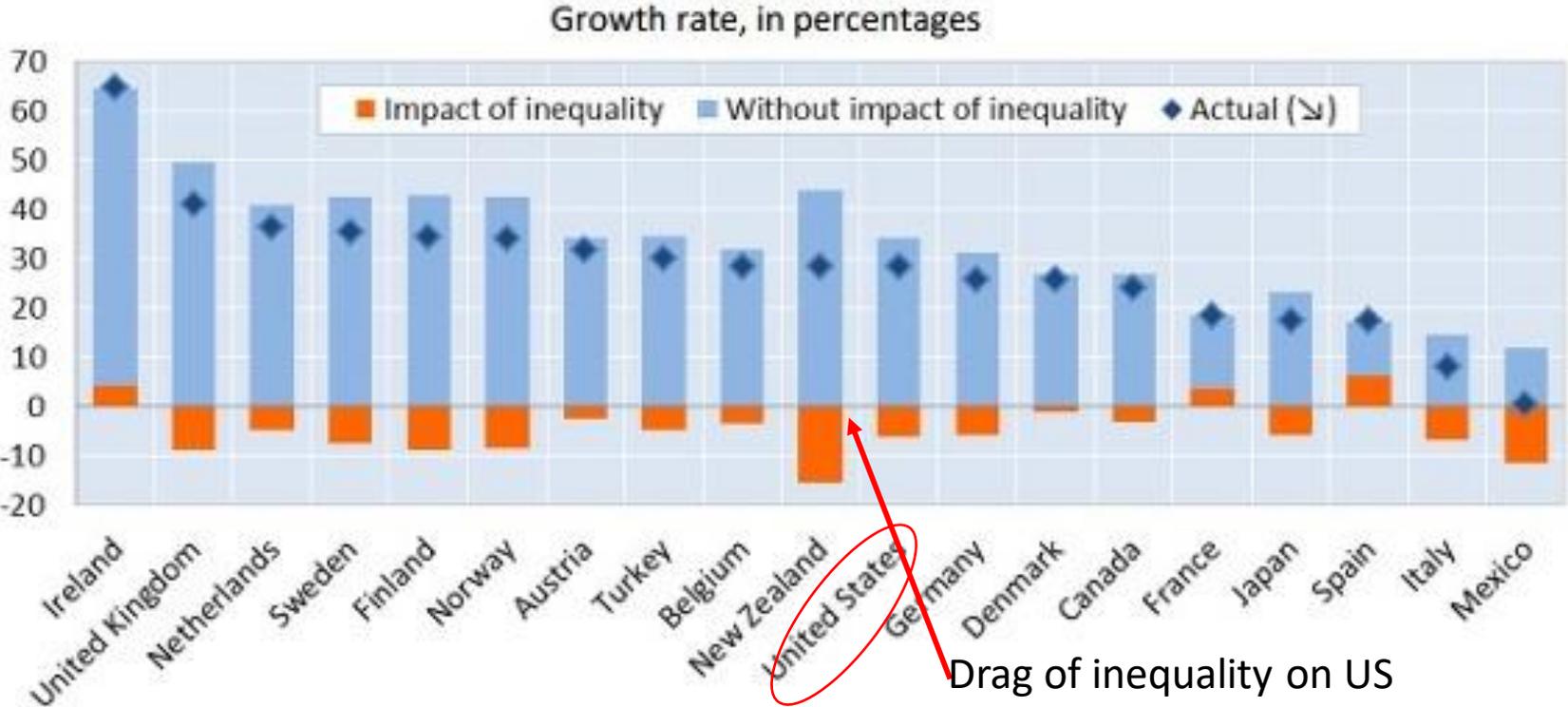
<https://www.oecd.org/social/Focus-Inequality-and-Growth-2014.pdf>

Department of Economics

HOWARD
UNIVERSITY

Overall US growth rate was 5 percentage points less from 1990-2010 because of the growth in inequality that occurred from 1985 to 2005

2. Estimated consequences of changes in inequality (1985-2005) on subsequent cumulative growth (1990-2010)



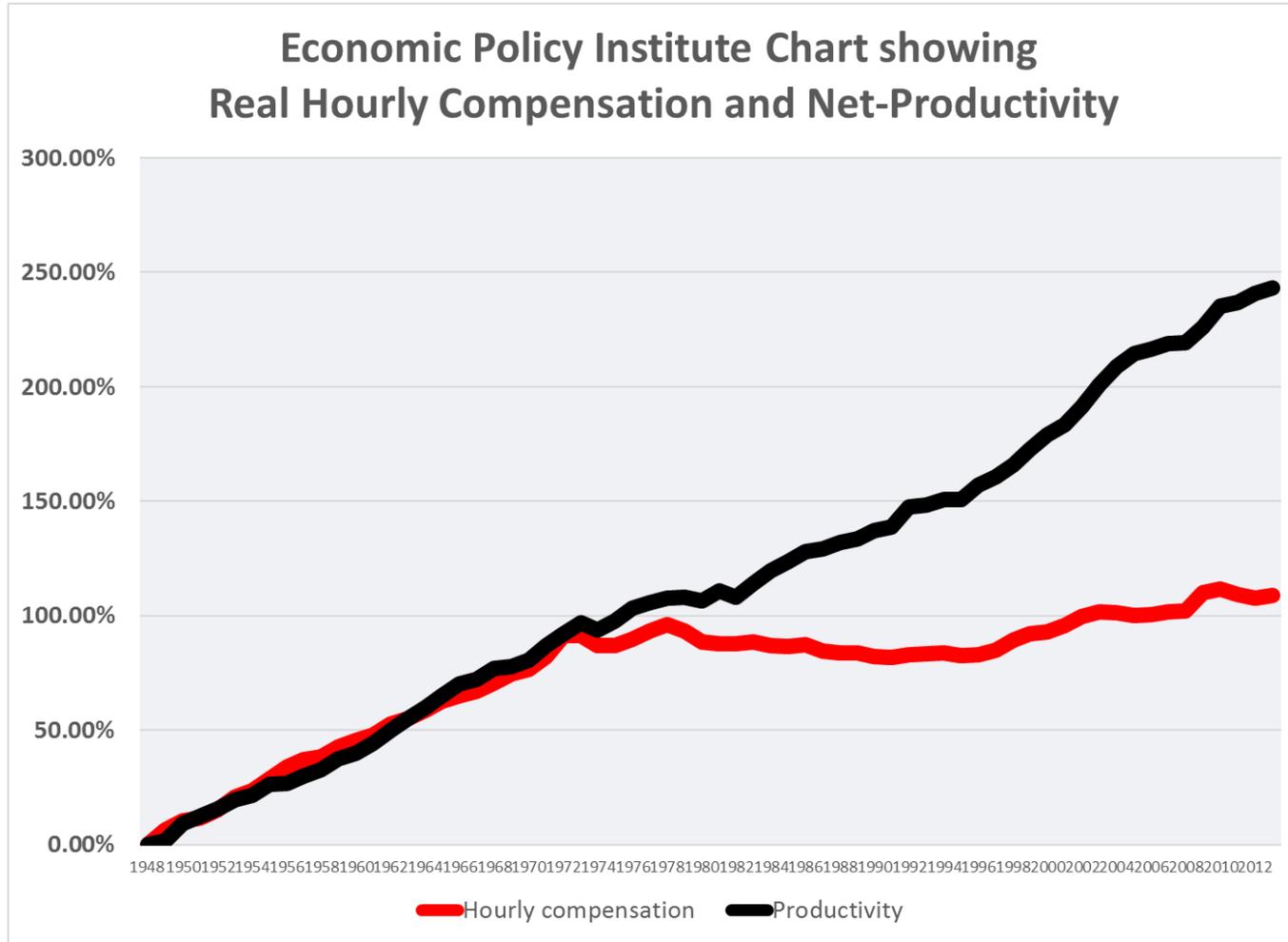
Drag of inequality on US growth

What we ask depends on what we want answered, is the Fed innocent of inequality problems if we ask different questions?

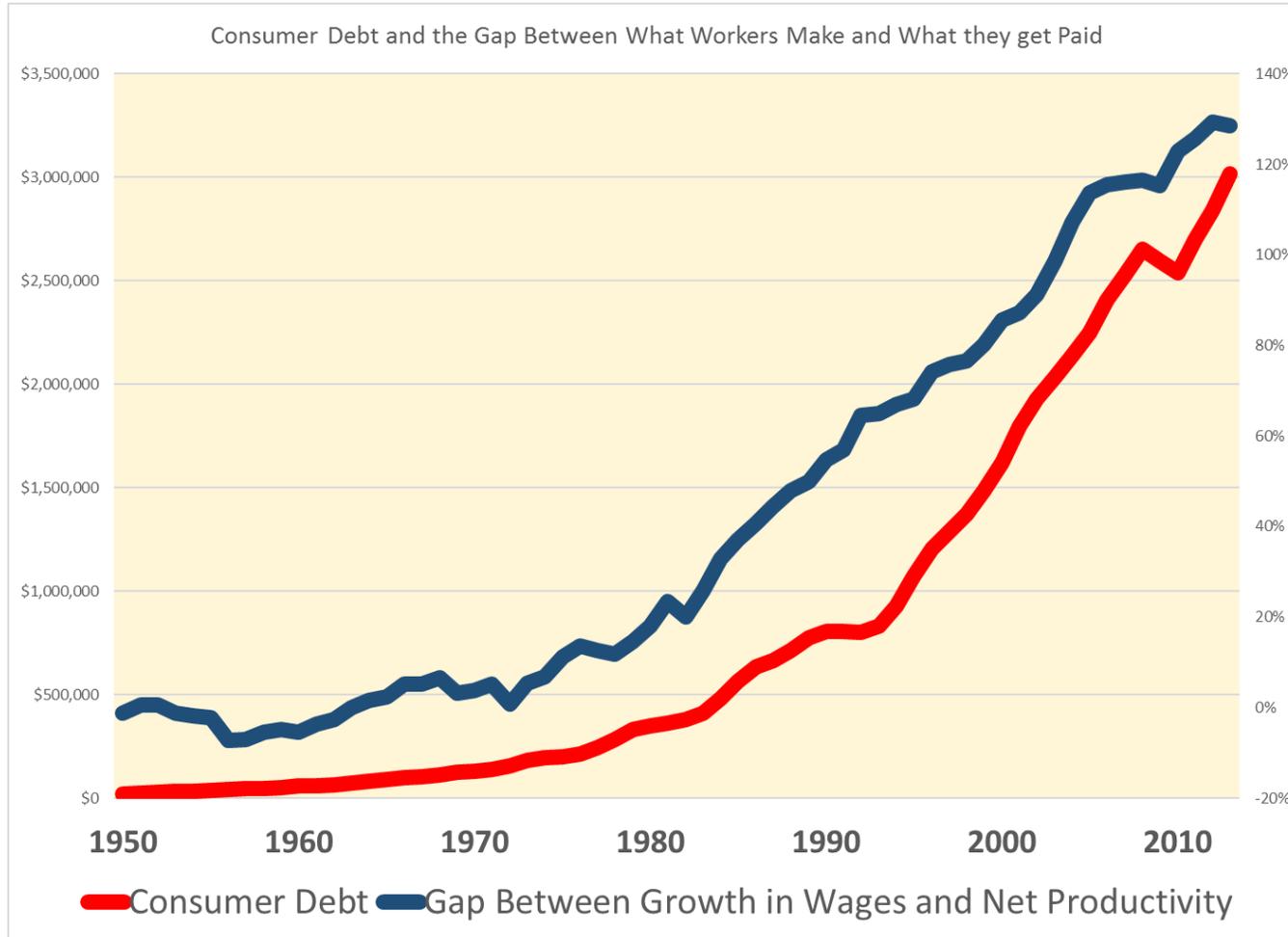
- A different set of key stylized facts:
 - The gap between wages and productivity goes with the rise of household debt
 - The rising share of finance as a share of GDP
 - The rising compensation in finance relative to non-financial activities

Compensation and productivity 1948-2012

The Big Gap

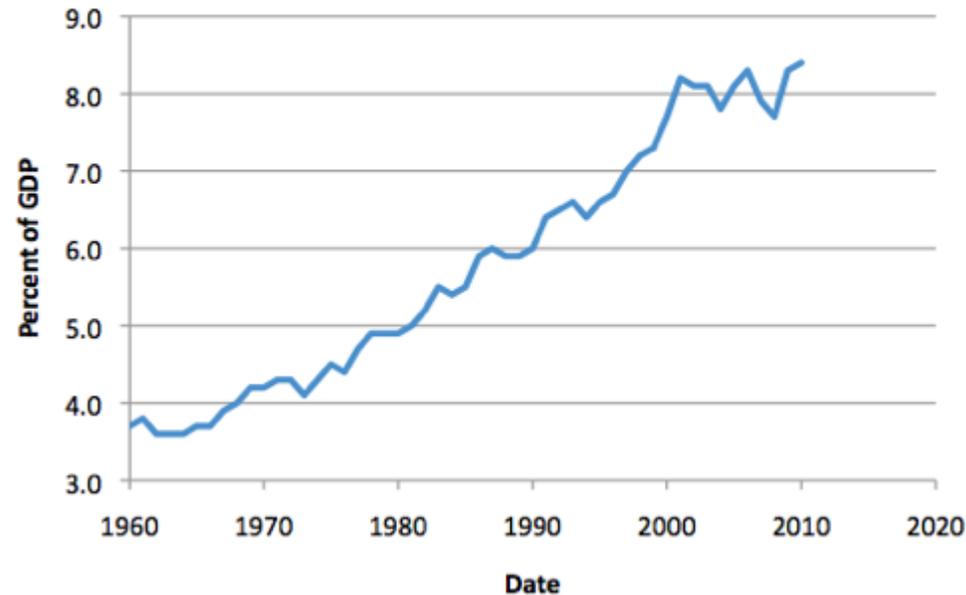


So we can buy what we make, instead of being paid, we use debt and borrow



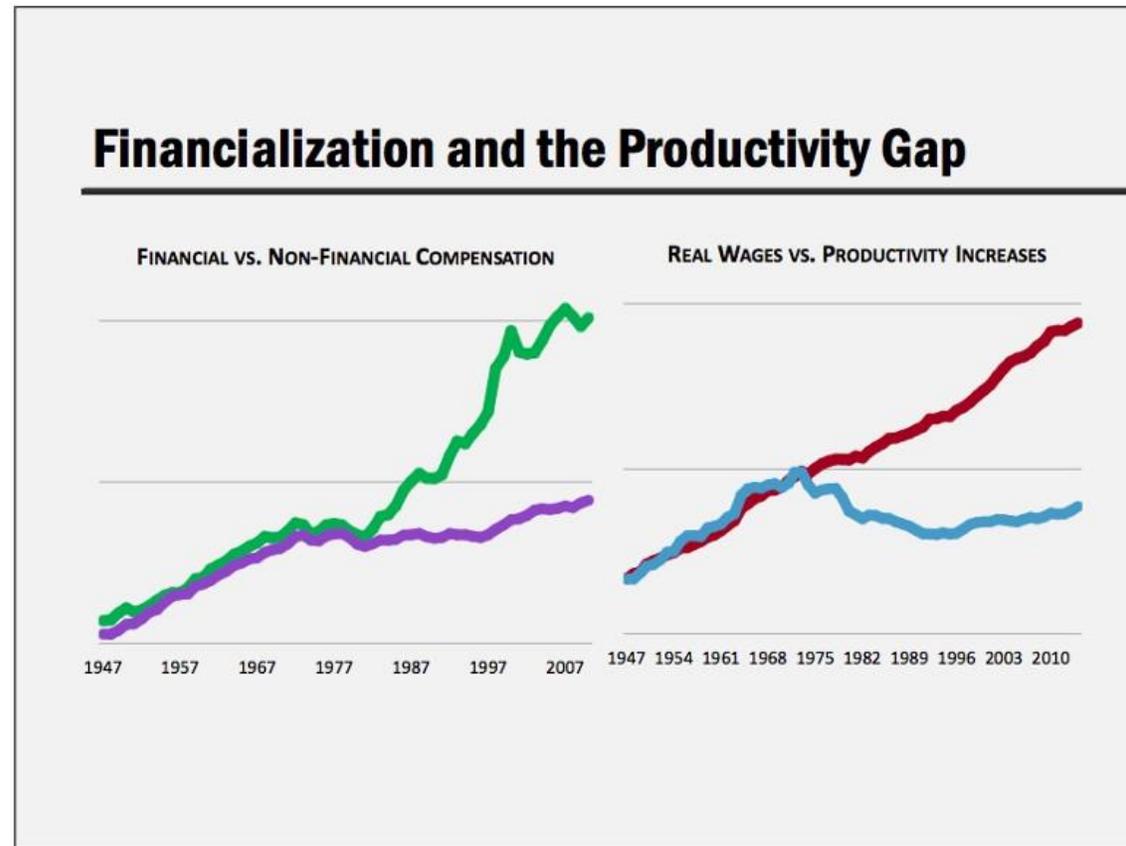
A rising share of GDP to Finance

**Finance and Insurance Value Added
as a Share of GDP**



Source: Brad DeLong, <https://delong.typepad.com/sdj/2011/10/the-financialization-of-the-american-economy.html>

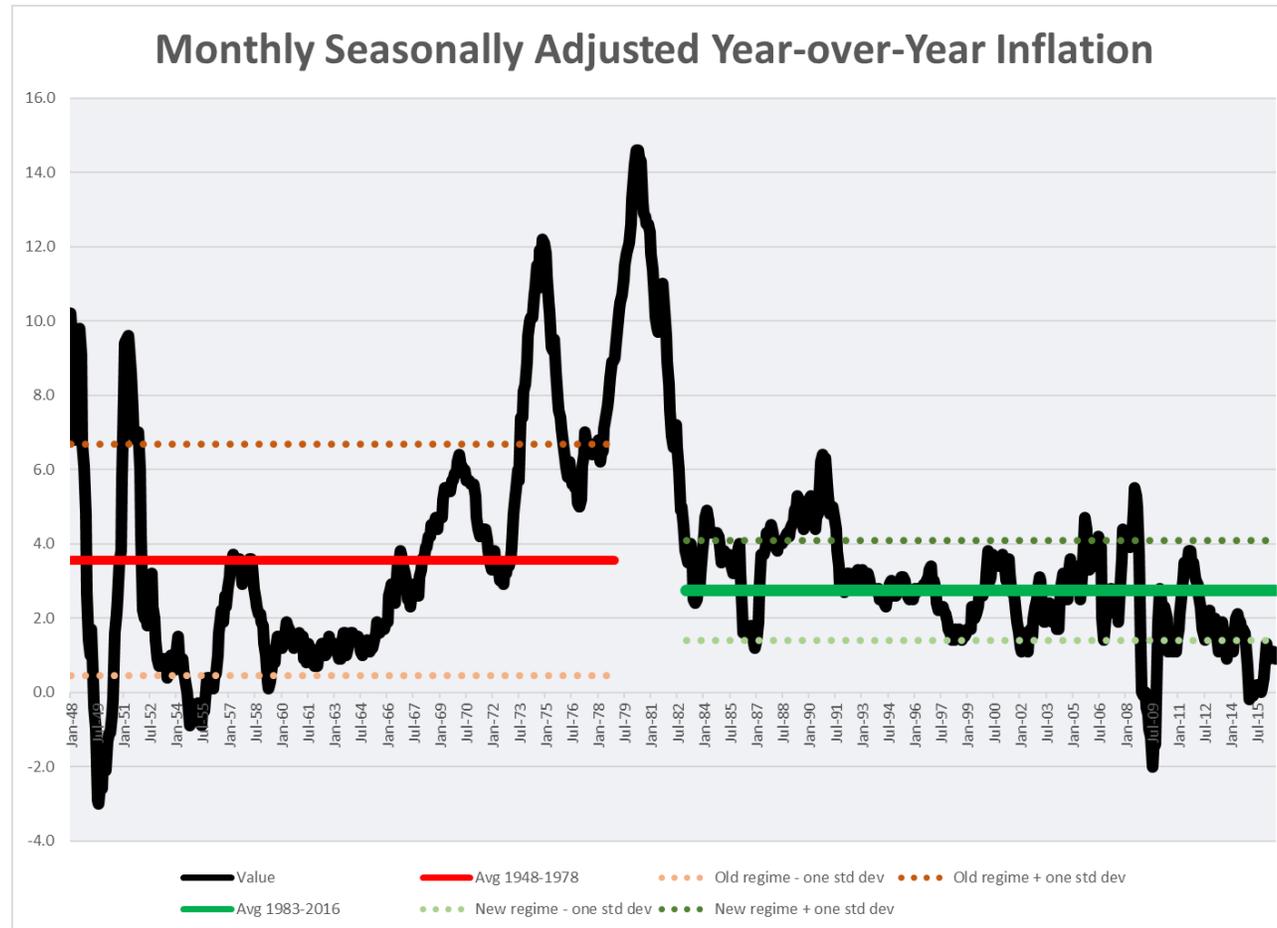
The correlation of financial sector compensation and the wage gap



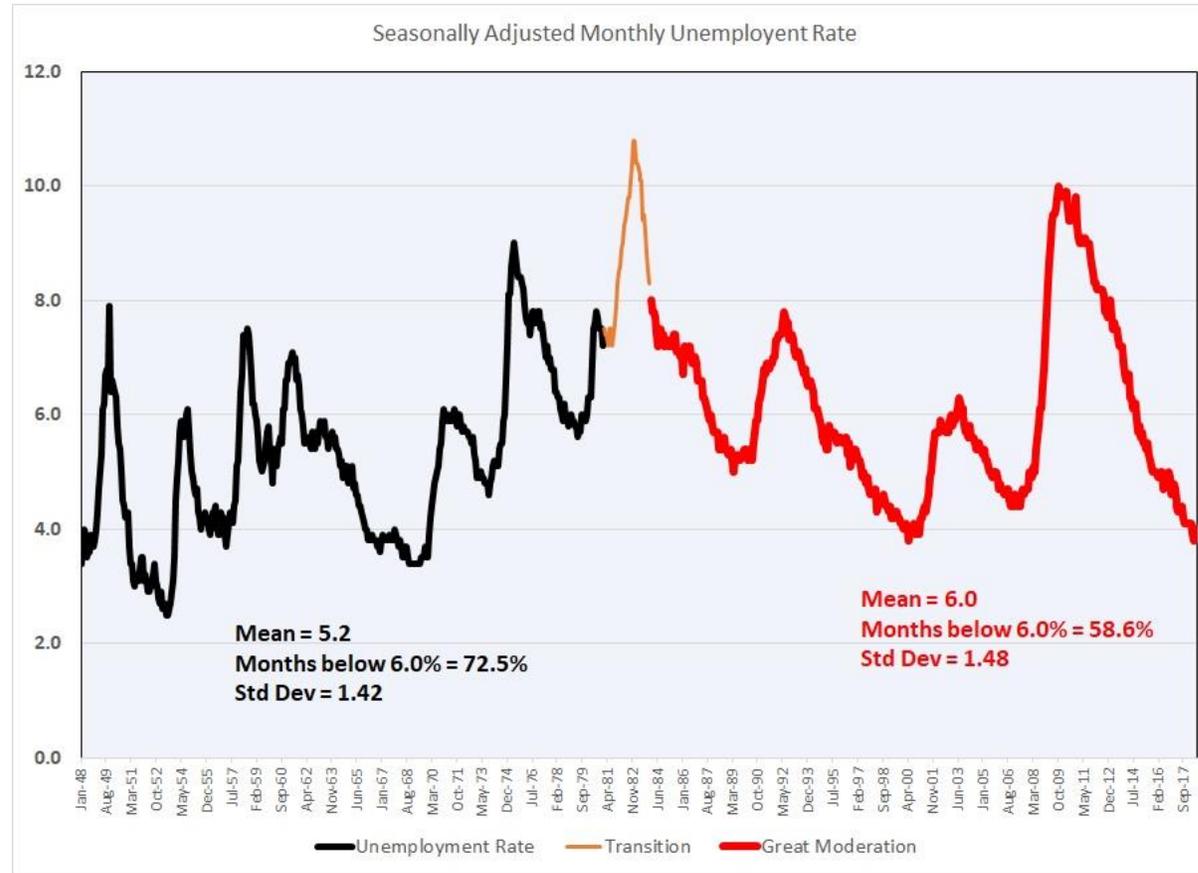
Source:

<https://runawayinequality.org/unions-environmentalists-a-movement/>

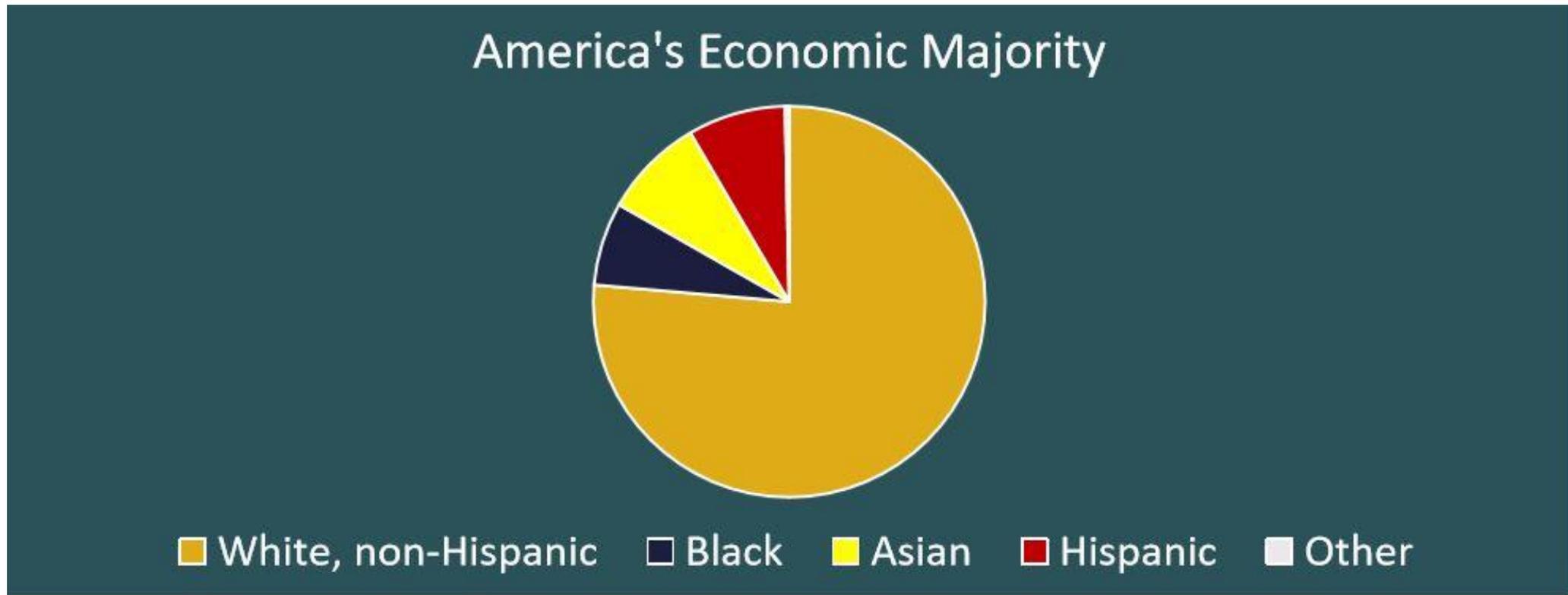
Is Price Stability an issue?



Labor markets have performed worse with price stability



America's economic majority—who holds the money (income)



America's democratic makeup—who holds the votes

