THE HUFFINGTON POST

Progressives Do Not Take The Fed Seriously. Meet The People Trying To Change That

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June 4, 2015

Progressive activists have no shortage of ambitious economic policy goals. They include the $15 minimum wage, Social Security expansion, Medicare for all and debt-free college -- to name just a few.

One item not on the list? Federal Reserve policy to create jobs and boost wages.

But a growing number of liberal-leaning economists and a new, Fed policy-centered coalition of progressive groups are trying to change that. They are on a mission to keep the Federal Reserve from raising interest rates until the economy sees real wage growth. It is a cause that they argue is essential to raising living standards and reducing income inequality, and they are making their case in policy papers, meetings with Federal Reserve officials and yes, even demonstrations. They believe that President Barack Obama has neglected the Fed -- even failing to fill two vacant seats on the Federal Reserve Board of Governors -- to the detriment of paychecks around the country.

The progressive economists and activists merely recognize what Wall Street has long accepted as true: The Fed's monetary policy is one of if not the most important single factors in the real economy. In that battle to guide Fed policy, Wall Street is joined by the GOP, which routinely pressures the Fed to rein itself in.

The degree to which the Fed turns the faucet of money on or off has a direct effect on the jobs available to Americans -- and the wages they are able to demand once they are working. In fact, slowing wage growth is a feature of Fed policy, not a bug. A decision to limit the flow of money, even if based on sound concerns about inflation, is designed to lower prices by putting thousands of Americans out of work and driving down wage growth.

Janet Yellen, a liberal-leaning economist who has long focused on wage growth, runs the Fed. Progressives successfully championed her for the post, derailing the bid of Obama's top pick of

Larry Summers, yet there has barely been a peep from them as Yellen and her colleagues consider putting the brakes on the economy.

To understand the case the progressives are making, it's important to know a little bit about the Fed, how it works and why it matters so much to the American economy.

How Does The Fed Work?

In controlling the country's money supply, the Federal Reserve System, more commonly known as the "Fed," is charged with what is often called a "dual mandate": maximizing employment and maintaining stable prices. It does this primarily by adjusting the Federal Funds Rate, which is the interest rate at which banks lend to one another overnight using funds kept at the Federal Reserve. (It also can adjust the Discount Rate, which is the rate at which the Fed lends to banks directly.) The Fed body responsible for adjusting the rate is the Federal Open Market Committee, which consists of 12 members -- seven presidentially appointed Federal Reserve Board governors, including the chair of the Fed, and a rotating group of five regional Federal Reserve Bank presidents.

How the Fed chooses to adjust the money supply is what is known as monetary policy. In a weak economy, the Fed is inclined to engage in monetary stimulus, which means lowering rates to prompt a virtuous cycle of economic growth. Banks respond to the cheaper credit available to them by providing cheaper credit to consumers and businesses. Consumers benefit from lower interest rates on home mortgages, cars and student loans. Businesses get lower interest rates on the loans they need to pay employees, maintain inventory and pay other bills. The money consumers and business owners save on financing their debt then gets cycled back into the economy in demand for goods and services. This in turn stimulates hiring, lowering unemployment and ultimately raising wages as employers compete for workers.

If economic growth gets higher than the Fed believes is consistent with its inflation target, the Fed contracts the money supply, raising rates to prevent excessive inflation. That is because if debt remains cheap, wages could grow so high that businesses must constantly raise prices to remain afloat. People's financial assets decline in value, as does the purchasing power of workers' wages. The Fed adjusts rates with a target of 2 percent inflation, in an effort to avoid levels of inflation that would "reduce the public's ability to make accurate longer-term economic and financial decisions."

While the 2 percent target has become sacred in Fed policy circles, it is based on no more evidence than any other figure -- and those other figures, such as target unemployment, are adjusted routinely. Taking some of the halo off the 2 percent number, some economists argue, would give the Fed much more flexibility to help workers.

There is a human cost to the Fed raising rates. People lose their jobs, and wages decrease. This can help businesses keep prices down, when rising wages might otherwise create pressure to increase prices. A rate hike also has a disproportionate effect on low-income communities of color, since people in those communities are often the last to see jobs and wage growth return after a recession and suffered from higher unemployment rates and lower wages than their white peers to begin with.

The Fed, liberal economists say, is planning to cause all of this pain with precious little evidence that it is even remotely necessary. Despite years of steady economic growth and rising employment, prices remain well below the Fed's inflation target.

There is, in fact, no evidence of much price inflation at all.

So Why Cause Needless Suffering?

The degree to which the Fed has emphasized employment and wages, versus the threat of inflation, has varied greatly over the decades based both on its leadership and economic circumstances. Dean Baker, co-director of the Center for Economic and Policy Research, notes in his book *The End of Loser Liberalism: Making Markets Progressive*, that starting in 1980, the Fed shifted its monetary policy in favor of the anti-inflation prong of its dual mandate at the expense of full employment. Paul Volcker, Fed chair from 1979 to 1987, increased interest rates to wipe out high inflation, allowing the unemployment rate to reach almost 11 percent in 1982. Since then, the Fed has shifted its monetary policies modestly based on circumstances. But with rare exception, it has not allowed unemployment to get low enough to generate significant wage growth for the large majority of American workers.

The severity of the recent recession yielded an unusually broad consensus in favor of keeping rates low. Since 2008, under both the Republican-appointed Fed chair, Ben Bernanke, and the current Democrat-appointed chair, Yellen, the federal funds rate has remained at what is known as the "zero lower bound" – between 0 and 0.25 percent. In fact, the Fed went even further, purchasing trillions in securities between 2008 and 2014, in a program known as quantitative easing. The aim of the program was to keep credit flowing by maintaining high demand for public and private debt.

Now, after positive GDP growth in 19 of the last 21 quarters since 2011 and the official unemployment rate nearing 5 percent, Yellen has indicated that the Fed will soon raise the rate. How much to raise the rate -- and when the Fed will do that -- is unclear. Unemployment remained flat from March to April, which may make the Fed more cautious. The next fed committee meeting is June 16-17, and the results of the meeting will be watched closely.

What Would Progressive Fed Policy Look Like?

Baker and other economists think the Fed should allow wages to grow more substantially before raising rates.

Josh Bivens, research and policy director of the Economic Policy Institute, argues in an August 2014 fact sheet that the Fed should look for 3.5 percent growth. In the first quarter of 2015, wages were up 2.6 percent from the year before -- a growth rate that many economists say doesn't have a real impact on regular people's lives.

Jared Bernstein, senior fellow at the Center on Budget & Policy Priorities and former economic adviser to Vice President Joe Biden, shared Bivens' preference for the Fed to wait for 3.5 percent nominal wage growth before raising the rate.

The unemployment rate is within distance of [the Fed's full employment target], and yet inflation and wage pressures are nowhere to be seen. My admonitions here are not to slow the economy down too soon, and that would be until GDP growth reaches workers through their paychecks.
Jared Bernstein, The Center on Budget and Policy Priorities

In short, these economists want Yellen to act more like Chair Alan Greenspan did in the late 1990s. At the time, Greenspan repeatedly declined to raise rates, claiming that the "softness in compensation growth" continued to make employment a greater concern than inflation. In doing so, Greenspan faced down criticism both from the financial industry and dissent from Fed committee members like Yellen, then the Fed governor.

The result of Greenspan's decision, many argue, was one of the few periods of broadly distributed wage growth since before the 1973 recession. From 1995 to 2000, the bottom 20 percent of workers saw double-digit wage increases.

It is an odd turn considering that Greenspan's handling of the dot-com and housing bubbles, and libertarian ideology, have made him a bête noire of the left.

"A lot of economists do not like to acknowledge it, but Greenspan -- and I have trashed him endlessly -- was not an orthodox economist," Dean Baker said. "Greenspan did something nobody thought was right, and he was right. High school degree workers were getting pay raises. It was not Clinton, but Greenspan who did it."

These economists believe that postponing a rate hike is risk-free, because price inflation has remained defiantly low for so long. From April 2014 to April 2015, personal consumption expenditures excluding food and energy -- the metric the Fed uses to measure inflation -- went up just over 1 percent, according to the Bureau of Economic Analysis. That level of price inflation occurred during a period in which the economy created nearly 2.8 million more jobs, bringing the official unemployment rate from 6.2 percent to 5.4 percent, according to the Bureau of Labor Statistics.

In the long term, Bivens and Baker would like to see the Fed be altogether more concerned about wages and employment than inflation. They believe that the Fed's price inflation target could go higher than 2 percent without tolerating dangerous inflation rates. A higher inflation target would have allowed the Fed to pursue a more aggressive quantitative easing program and push wages upward faster.

Baker says that the Fed should be most concerned about the rate at which prices are inflating, rather than a particular percentage range. And he believes that an uptick in inflation is rarely so abrupt as to be beyond adjustment.

"If we had a jump in inflation even from 1.5 percent to 2 percent and then 2.5 the next month, then I'd say we should hit on the brakes," Baker said.

Other economists from major world financial bodies, like Olivier Blanchard of the International Monetary Fund and Eric Rosengren of the Federal Reserve Bank of Boston, have also publicly endorsed higher inflation targets.

More conservative economists argue that even if prices remain stable and low, a rate hike would head off asset inflation in, for example, the housing and stock markets. Mark Calabria, director of financial regulation studies at the Cato Institute, expressed concern that the Fed's low interest rates have allowed financial asset prices and corporate leveraging to reach "disconcerting" levels.

The liberal economists share Calabria's concerns about asset bubbles, but believe that the Fed has tools other than raising interest rates at its disposal to address them.
They note that the Fed has the power to regulate the banks and other commercial institutions with which it does business.

The Fed, they say, also has a bully pulpit that can be used to dampen the excessive expectations of growth in a particular industry that lead assets to be overvalued. A July 2014 Monetary Policy Report by the Fed Board of Governors warned against high asset prices in the social media and biotechnology industries.

"For whatever reason, [Yellen] has not done it since," said Baker of the Fed's July 2014 cautionary remarks. "If you show the evidence that these are overpriced, it will have an impact on prices."

How's The Economy Doing?

Yellen has been a consistent advocate of monetary stimulus, keeping rates low and buying financial assets. As chair, Yellen has adopted a consensus-driven approach to her leadership, including listening to some more inflation-wary members of the Fed committee.

Baker estimates that a sustained series of rate hikes would reduce the economic growth rate by half a percentage point, and the economy would create 500,000 fewer jobs per year.

The low official unemployment rate hides the fact that millions of Americans have settled for part-time work or dropped out of the labor force entirely. The Bureau of Labor Statistics estimates that when counting workers employed part-time for economic reasons, and those who have not looked for a job recently due to discouragement, the unemployment rate was 11.6 percent from the middle of 2014 through the beginning of 2015. Tellingly, despite the creation of 2.8 million jobs from April 2014 to April 2015, labor force participation remained flat at 62.8 percent.

Several small business owners who spoke to The Huffington Post also expressed concern about the fragile state of the recovery, and warned against a premature rate hike.

Mike Brey, CEO of Hobby Works, which has several retail locations in Maryland and Virginia, said that business only began to rebound in the latter half of 2014. Hobby Works employs 38 people. Brey recently rehired a worker for Hobby Works' warehouse location, and plans to hire another employee if sales continue to pick up.

Brey says the lower that Fed rates are, the better terms he gets on bulk purchases from wholesalers. A single quarter-point rate hike would probably not affect what Hobby Works does on a "day-to-day basis," he says. Rather, he is more worried about the effects of a rate hike on the still-precarious consumer confidence of the lower-middle and middle-class consumers who frequent his stores.

I feel like we are in a recovery, but it has taken pretty long to get here. To me, it still feels a little bit uneasy. Mike Brey, CEO of Hobby Works

Ron Nelsen, owner of Pioneer Door, a retail garage door company in Las Vegas, says that garage door sales have increased as consumers have begun buying homes in large numbers again.

"I think true consumer demand has been here for a year or two," Nelsen said. "Maybe the end of 2013 and last year really felt like people were opening up their pockets again."

Nelsen worried that a Fed rate hike could hurt the consumers who buy his company's garage doors.

"If it affected my customers' base disposable income, it would be huge," he said.

Mobilizing Main Street -- and Martin Luther King Jr. Boulevard

Having ideas about what the Fed should do is one thing, and actually influencing the Fed's decisions is another thing entirely. It is unclear exactly how to change a Fed decision, but it undoubtedly takes more than the public comments of a few economists.

Fed Up, a new coalition of community organizations and labor unions led by the Center for Popular Democracy, is trying to turn the complex policy arguments of economists like Baker, Bivens and Bernstein into a grassroots political movement. The goal is to get the Fed to recommit itself to genuine, equitable full employment policies. In particular, Fed Up, whose main concern is aptly summed up by its homepage whatrecovery.org, has mobilized urban communities of color to lobby the Fed for pro-employment monetary policies that account for the disproportionately high unemployment and economic hardship levels in their communities.

Ady Barkan, a Center for Popular Democracy staff member who directs the Fed Up campaign, said that while Fed policy is more difficult to explain to community activists than issues like the minimum wage and Medicaid access, the coalition has made headway in educating people about the importance of the Fed to their daily lives.

"We have developed materials explaining why the Fed matters and why higher interest rates could hurt you," Barkan said. "It is not just that it will mean higher mortgage rates, car rates and student loan rates, but that when the economy slows down, workers have less leverage. We are finding that people are excited by it and recognize why it matters to them."

Fed Up released a study in March, "Wall Street, Main Street and Martin Luther King Jr. Boulevard: Why African Americans Must Not Be Left Out of the Federal Reserve's Full-Employment Mandate," highlighting the still-high unemployment rate among black Americans, and lopsided impact of the Great Recession on black wealth and wages. In 2014, the study reports, black unemployment remained at 11.4 percent, while it was 5.3 percent for whites.

The study notes that even prior to the recession, African-Americans were losing ground economically. The median black worker suffered a 3.1 percent wage cut from 2000 to 2014, the study says, compared to a 2.5 percent increase for the median white worker. Between 2007 and 2013, median household wealth declined 43 percent among African-Americans, compared with 27 percent for whites.

In addition to calling on the Fed to postpone any planned rate hikes, Fed Up is asking for structural reforms that would broaden its mandate and subject it to greater influence from working people. It wants the Fed to study the effects of inequality and how non-monetary policies like the minimum wage affect the economy. It recommends making the selection of regional Fed presidents more transparent and open to public input. And it is demanding that Fed officials meet regularly with working people and community organizations.

Fed Up organized press conferences in eight cities with regional Federal Reserve banks in March to publicize the study's findings about racial disparities in wages and employment. In November, Fed Up activists met with Yellen, Vice Chair Stanley Fischer, and Governors Lael Brainerd and Jerome Powell in Washington.

Barkan believes the Fed governors were receptive to Fed Up's stance.

"They listened very carefully and asked good follow-up questions and seemed to be really moved and grateful for the conversation," Barkan said.

While Fed Up has convened meetings and published reports, it has not shied away from public protests. In what the Wall Street Journal called "a first for Jackson Hole," Fed Up sent a group to protest a possible rate hike at the Fed's annual Jackson Hole, Wyoming, meeting in August 2014. The protests yielded a meeting between the group and Kansas City Fed President Esther George. Fed Up says it has scheduled additional meetings with regional Fed presidents.

Lobbying the Fed is a delicate task because it is seen as novel -- even subversive. The Fed has traditionally been viewed as a nonpartisan, technocratic institution that should be left to its own devices by politicians and political movements.

But progressive advocates argue that the Fed has not always been impartial. Regional Fed presidents and Fed governors routinely survey business and financial leaders to help make interest rate decisions. And the mere fact that regional Fed presidents are largely elected by private bankers, these progressives say, means that the financial community has an outsize say in Fed policy.

“What central bank independence has really meant is independence from all sectors except the financial sector,” Bivens said. “Organized labor? Of course they should not be allowed to have a voice at the central bank, but the financial sector does.”

What's more, progressives note, the political right has wasted no time heaping criticism on the Fed for what it perceives as excessive stimulus. And attacking the Fed has not just been a campaign trope for tea party-friendly presidential candidates like Rick Perry. Congressional Republicans regularly pressure Yellen, too. In an April hearing, Rep. Scott Garrett (R-N.J.), a member of the House Financial Services Committee, complained to Yellen that the Fed was supposed to check Congress’ desire for looser monetary policy, but now Congress found itself trying to check the Fed.

A couple months before that, Garrett questioned Yellen about a speech she gave on economic inequality. He argued that the timing of the speech -- it was a few weeks before the 2014 midterm elections -- "clearly indicate[s] that the Fed is already acting and making decisions clearly on a partisan political basis."

“In recent years, [the Fed is] just getting criticized up and down from the right that they are priming the pump for hyperinflation,” Bivens said. “If the right is going to pressure them, pressure from the left is more important than ever.”