

## **Fed Listens: Seven Observations about Monetary Policy's Impact on Workers and Their Communities**

### **Summary by the Federal Reserve Bank of Chicago**

On October 17, 2019, the Federal Reserve Bank of Chicago hosted a “Fed Listens” event to better understand the perspectives of workers and their communities, especially those facing disadvantages, on the effects of monetary policy. Practitioners, advocates, and policymakers participated in two panel discussions focused on the Federal Reserve’s long-run monetary policy goals established by Congress, the trade-offs associated with different approaches to monetary policy, and how these approaches affect disadvantaged workers and their communities.

Chicago Fed President, Charles Evans, and Fed Governor, Michelle Bowman, opened the session by emphasizing that workers and community representatives can provide important insights to help guide the Fed’s work. The first panel discussed disadvantaged workers’ experiences in the labor market. Panelists shared their experiences in workforce development, human capital development for workers with a criminal record, community college education, and labor organizing. The second panel explored wealth-building in low- and moderate-income communities, from the perspective of financial counseling, neighborhood revitalization and small business development, community development finance institutions, and federal housing finance policy. David Wessel, director of the Hutchins Center for Fiscal and Monetary Policy at the Brookings Institution, moderated both panels.

Setting the stage for the panel discussions, Chicago Fed Executive Vice President Daniel Sullivan posed key questions of interest to Federal Reserve policymakers:

- Is unemployment below its natural rate, and should we worry about unemployment being too low?
- Which policy tools can help disadvantaged workers to be more productive and earn higher wages in the long run?
- Does the Federal Reserve need new monetary policy strategies?
- What kinds of macroeconomic conditions would best support efforts to build wealth in low- and moderate-income communities?

The panel discussions provided important and diverse insights into how monetary policy affects disadvantaged workers’ long-term employment prospects and their ability to build wealth. The panelists’ observations are summarized below.

#### **1. The national unemployment rate may not be able to fully capture whether the economy is at full employment.**

Panelists pointed to many reasons why the national unemployment rate is not sufficient for understanding whether the economy is at full employment. For one, panelists pointed to how labor market conditions are typically worse for workers they seek to help through their organizations, including dislocated workers, young workers, those with an arrest or a conviction, adults with spotty employment histories, and workers without a college degree. One panelist representing a workforce development agency questioned whether the term “full employment” characterized the state of the labor market for all workers, stating that in some neighborhoods, “it’s always a recession,” for example,

in Chicago neighborhoods with persistently high unemployment—between 15 and 17 percent. Panelists stressed that while such levels would be considered catastrophic for the country as a whole, they are among the lowest these communities have known. Several panelists said they did not believe the economy is at full employment because of the disproportionately high unemployment rates for African American men and those with disabilities, and emphasized that these group of unemployed workers represent an underutilized ‘talent pool’. A panelist who works with formerly incarcerated workers reentering the workforce also asked whether one could confidently speak of full employment conditions without completely understanding who was being left out of the unemployment data. A panelist representing a labor union noted that workers in some industries may be more willing to go on strike in a strong labor market. This may highlight how today’s low unemployment rate does not ensure good employment conditions for all workers.

## **2. Disadvantaged workers and their communities experience worse outcomes during recessions and recover more slowly.**

One panelist noted that the formerly incarcerated are hit particularly hard by a recession, as they tend to be among the last hired and the first fired. Panelists emphasized the need for such workers to experience lengthy employment periods so that they can enhance their work histories, support their families, and build wealth. A panelist working in Chicago neighborhoods noted that the business cycle also hits minority communities harder than others.

To illustrate this point, a panelist acknowledged that while economic conditions in Chicago’s low- and moderate-income neighborhoods may be better than ever, conditions are still worse than those associated with a recession in most of the nation. Another panelist pointed out that some African-American families remain reluctant to buy homes today, particularly in neighborhoods still recovering from the foreclosure crisis, which hit them especially hard. A panelist representing a labor union stated that in certain communities, it has taken a long time for wage gains to emerge; indeed, some private-sector employers still have not raised wages. Panelists also said that adverse outcomes from the recession endure for many low-income workers, in terms of unfavorable work contracts or unstable employment arrangements.

## **3. Labor market conditions have more direct effects on disadvantaged workers and their communities than does the inflation environment.**

Panelists emphasized that the strong economy provided new opportunities for workers that typically have difficulty participating in the labor market or securing higher wages and better working conditions. One panelist representing workers with arrest and conviction records shared that employers have become less selective in today’s tight labor market and are beginning to look at those workers as untapped talent. In some instances, employers have changed hiring practices and policies to be able to hire workers with criminal records. A few panelists noted that some, but not all, workers were finding it easier to secure higher wages, and one panelist noted industry-wide differences in the ability to obtain higher wages. A panelist representing a community college pointed out that employers experiencing difficulty finding skilled workers have become more interested in working with community colleges to develop training programs. The same panelist also noted that enrollment levels were lower during periods of economic expansion as young adults chose working over enhancing their skills through education.

On the subject of price stability, panelists had few direct examples of the effects of inflation on workers and their communities. Some panelists felt the concept of inflation was abstract for people dealing with the day-to-day challenges of making rent or paying for child care. Opinions varied across panelists on how sensitive low- and moderate-income communities are to changes in interest rates. One panelist specializing in housing finance spoke about the challenge house price inflation was causing creating for those seeking to purchase their first home, but acknowledged the unclear relationship between rising house prices and the general inflation rate targeted by the Federal Reserve. Several panelists shared their perspectives on factors that may be leading to higher prices in the housing market, such as construction and regulatory costs. They generally agreed that addressing these concerns is essential to increase the supply of affordable housing and enable first-time buyers to enter the market.

**4. Stable unemployment and inflation are better for disadvantaged workers and their communities than periods of major ups and downs in the economy.**

Panelists representing organizations that serve disadvantaged workers generally expressed concern about employment volatility and agreed that stable labor market conditions benefit these workers. Another panelist noted that workers with criminal records who are only beginning to enter to the labor force need additional time to strengthen their labor force attachment and build out their work history. The panelists also expressed concern that a recession could reverse the gains that have accrued to workers with criminal records during the expansion.

Panelists also agreed that stable conditions were more conducive to fostering wealth accumulation in low- and moderate-income communities. Several panelists shared their perspectives on economic stability and how community development finance institutions (CDFIs) are able to pass on lower interest rates to borrowers during periods of sustained low rates. One panelist representing a CDFI explained that economic and community development takes time, and CDFIs are better able to get their clients to a point where they might be able to get bank accounts or mortgages when economic conditions are stable. They also emphasized that people need sufficient time during good economic conditions to gather information about how to start businesses and secure financing. Similarly, a panelist pointed out that economic development takes a long time to have an impact, underscoring the risk of economic volatility undermining real estate development projects in low- and moderate-income neighborhoods.

**5. In the credit market, monetary policy is but one of several factors influencing borrowing and lending.**

One panelist noted the many reasons why low interest rates do not reach creditworthy households, including risk-based pricing and the difficulty of documenting income among self-employed workers. Also, others noted that mortgage borrowing may be low today because there is a thin inventory of homes for sale at prices that low- and moderate-income households can afford. Panelists described how the credit experiences of their constituents are also affected by economic cycles, with credit standards (including, downpayment or mortgage insurance requirements) being looser during an expansion and tighter during a contraction. Panelists agreed that low- and moderate-income households' access to credit was adversely affected during recessions.

However, panelists working with CDFIs emphasized the stabilizing role of CDFIs in providing credit to low- and moderate-income communities during recessions when the availability of credit dries up. While CDFIs tend to be small in scale, they often become an important lender in markets when banks pull

back. As mission-driven lenders, CDFIs also transmit low interest rates directly to their customers, panelists said.

**6. The link between the Federal Reserve’s monetary policy tools and income inequality is indirect and complex.**

Panelists generally recognized the limits of the Fed’s monetary policy tools for mitigating income inequality. However, many noted that extended periods of economic stability enable program and service providers to develop and deliver interventions that benefit disadvantaged workers and their communities. For example, a panelist representing a community college spoke about how their institution is training students and adapting curriculums so that their graduates can better match the skills employers say they need. Another reflected that periods of economic stability enable those not in the labor force—for example, the formerly incarcerated—to gain access to and seek job opportunities and, in due course, to develop human capital and build savings.

Panelists’ insights into how income inequality affects disadvantaged workers highlighted indirect connections with monetary policy. For example, one panelist noted the importance of reliable transportation infrastructure for accessing economic opportunities, recognizing that such funding depends, in part, on financial market stability and the availability of taxpayer resources. Another panelist noted that a lack of access to high-quality and affordable childcare leads to challenges in securing employment, a target of the Fed’s monetary policymaking. They also noted that, in some cases, even zero interest rates would not be enough to enable their constituents to buy a house, for example, due to the challenge of documenting income (in the case of someone working in the informal or ‘gig’ economy) or the burden of student loans.

**7. The Federal Reserve’s economic research and its ability to bring experts and policymakers together can have important roles in our nation’s policy deliberations on many important economic issues.**

Panelists noted that they had found research by Federal Reserve economists useful for understanding topics such as labor market discrimination. The moderator observed that the research done by Federal Reserve economists is providing important insights into when and how policy interventions may be effective at inducing sustainable wage growth, strengthening household economic resiliency during recessions, reducing labor market discrimination, and related issues. An audience member suggested that the Federal Reserve’s research could help “de-politicize” the issues related to income inequality. One panelist recognized the important role of the Fed as a convener in bringing together actors who can collaborate on policy solutions.