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Opportunity and Inclusive Economic Growth

Remarks by

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Good morning, and thank you. It is a pleasure to be here. I would like to use my time today to answer the question posed by the title of this session: What can the Fed learn from research on opportunity and inclusive growth? But, first, let me remind you that the views expressed are my own and do not necessarily reflect those of anyone else on the Federal Open Market Committee or in the Federal Reserve System.

Some of the Fed's purview—including consumer protection, community development, and financial stability—can help to support inclusive growth. But monetary policy cannot address these issues directly. I do, however, see a direct line between research on opportunity and inclusive growth and our dual mandate of maximum employment and price stability. Fulfillment of our mandate is likely easier if certain other conditions are present. For example, if the channels of upward social mobility are open and working for all, we are likely to see both higher labor market participation and higher productivity—both of which make it easier to attain maximum employment amid low and stable inflation. The better we understand the channels that affect the health and function of the overall economy, the better we can calibrate our policy decisions to deliver on our dual mandate.

Those channels consist of several areas that are, largely, not ours to make policy about but are important for our policies to be effective in promoting the conditions for prosperity. They include health, housing, transportation, childcare, disability services, education, access to the financial system, and access to capital.

First, I would like to address monetary policy. In pursuing its dual mandate, the Federal Reserve is essentially trying to foster and maintain the conditions in which the economy and all its participants can thrive. Research has shown that the benefits of a strong economy—with high employment and stable prices—are especially significant for less advantaged groups.[1] These groups also tend to see the greatest gains later in an expansion, meaning that they benefit the most from sustained periods of growth—like the expansion we were experiencing before the pandemic, which was the longest on record.[2] For example, during the pre-pandemic expansion, the long-standing disparity between unemployment rates for prime-age African Americans and Hispanics and their white counterparts began to close. In fact, disparities in labor market outcomes just prior to the onset of the pandemic were the narrowest in at least 50 years. At the same time, inflation remained low—lower, in fact, than our 2 percent target for most of that time—and showed little sign of picking up despite the strong labor market.

Unfortunately, the pandemic brought about the most rapid and severe labor market contraction of the past 80 years. It also had a noticeably larger effect on the unemployment rates of women and of Black and Hispanic individuals than it did on most other demographic groups. And while job losses were widespread across all sectors of the economy, workers with less education were particularly hard hit. This was especially true for those unable to work remotely or in jobs that required in-person interactions.

As the economy reopened and began to recover, unemployment rates for those groups initially affected the most—Black and Hispanic workers—also fell more sharply. Today, while material disparities in unemployment rates along racial lines persist, these disparities have almost returned to the narrower ranges we saw just before the pandemic.

[1] See Tomaz Cajner, Tyler Radler, David Ratner, and Ivan Vidangos (2017), "Racial Gaps in Labor Market Outcomes in the Last Four Decades and over the Business Cycle," Finance and Economics Discussion Series 2017-071 (Washington: Board of Governors of the Federal Reserve System, June), https://doi.org/10.17016/FEDS.2017.071.

[2] See, for example, Stephanie R. Aaronson, Mary C. Daly, William L. Wascher, and David W. Wilcox (2019), "Okun Revisited: Who Benefits Most from a Strong Economy?" *Brookings Papers on Economic Activity,* Spring, pp. 333–75, https://www.brookings.edu/wp-content/uploads/2019/03/Aaronson_web.pdf.

However, as the economy has recovered, strong demand and a variety of supply constraints have contributed to the fastest increases in consumer prices since the early 1980s. Inflation, too, has disproportionate effects on, and is felt most acutely by, those who can least afford it. Price increases have been particularly sharp for necessities like food, transportation, and shelter, which make up a substantial portion of household budgets for people on the lower end of the pay scale. Lower-income households also have less in savings to buffer price increases, meaning that they not only feel the effects more forcefully, but they also feel them immediately. The savings they do have are more likely to be in cash or noninterest-bearing accounts, which means inflation directly erodes the purchasing power of their savings.

Monetary policy cannot address the specific reasons that low-income households suffer the most from high inflation. But these reasons help to illustrate the importance of low inflation: Low inflation is key to achieving a long and sustained expansion—an economy that works for all. Pursuing our dual mandate is the best way for the Federal Reserve to promote widely shared prosperity. At the same time, it is critical for monetary policymakers to understand the many and varied conditions that can make our policies more effective in fostering prosperity.

Now let me turn to these concomitant conditions for prosperity outside of the Fed's mandate, which nevertheless should be carefully studied. Many of them are straightforward, like housing, transportation, and childcare. Even as remote work has increased, many jobs remain in person and on site. If people cannot live near work, either because of the cost or because jobs are located in nonresidential areas, they must commute. Commuting depends on public or personal transportation—which in turn relies on infrastructure, such as roads and highways. And time spent commuting affects childcare decisions. Caring responsibilities overall—for children or for other relatives—can keep people out of the workforce, and the onus falls disproportionately on women. This was particularly evident during the pandemic, and particularly true for Black and Hispanic mothers.[3]

Financial participation is also clearly connected to prosperity. Being unbanked means less financial security. Less access to credit means a smaller, or even nonexistent, safety net, but it also means less opportunity, be that buying a house to build capital, funding education, or starting a business.

But there are other, less obvious—or even less quantifiable—issues. Beyond location, a home provides both basic needs, such as shelter, and invaluable benefits, such as a sense of personal safety and dignity. It is a refuge in which our minds and bodies can recuperate and regenerate so we are prepared to participate in all aspects of life, including the next day's work. The costs of living in disadvantaged areas or of dealing with financial hardship can be seen in all areas of life. Higher stress, the frequent necessity of working more than one job, the absence of benefits, and the time and money spent commuting—all these exact a financial and psychological toll. There is a fundamental aspect of our humanity, which is to live a more fulfilling existence—to enjoy the richness of life. In an economy that works for all, we should not live to work, but work to live. These are the factors that will allow people to thrive.

[3] See Joshua Montes, Christopher Smith, and Isabel Leigh (2021), "Caregiving for Children and Parental Labor Force Participation during the Pandemic," FEDS Notes (Washington: Board of Governors of the Federal Reserve System, November 5), https://www.federalreserve.gov/econres/notes/feds-notes/caregiving-for-children-and-parental-labor-force-participation-during-the-pandemic-20211105.html.

Of course, policies that can address these important issues are not made by Fed policymakers. But the research agenda we are discussing today helps us to understand better those aspects of well-being that allow people to prosper and to enrich their lives more broadly. Thank you.