

## William C Dudley: "Remarks at the Economic Press Briefing on the Regional Economy"

Remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Economic Press Briefing on the Regional Economy, Federal Reserve Bank of New York, New York City, 10 August 2017.

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Good morning, and welcome to the New York Fed's Regional Economic Press Briefing. Today, we will provide an update on economic conditions in the region, and then discuss the issue of regional wage inequality. As always, what I have to say reflects my own views and not necessarily those of the Federal Open Market Committee or the Federal Reserve System.<sup>1</sup>

### Current Economic Conditions

The Federal Reserve has pursued an accommodative monetary policy since the Great Recession to facilitate achieving our dual mandate of maximum sustainable employment and price stability. This policy stance has provided support to the economy and helped lower the unemployment rate from 10 percent at the depths of the Great Recession to 4.3 percent currently. Measures of underemployment have also improved considerably and are near pre-crisis levels.

Stronger labor market conditions are perhaps the best means to improve the economic well-being of most Americans, particularly those who have been struggling and are most vulnerable to economic downturns. Improved job opportunities have helped to support household income growth, consumption, and saving, as well as the housing market. And, as discussed in the Fed's recent [Monetary Policy Report](#) and in Chair Yellen's [testimony](#) before Congress, it is encouraging that unemployment rates continue to fall for most major demographic groups, including African-Americans and Hispanics. At the same time, we should remain concerned about those groups, for which the jobless rates remain above the unemployment rate for the nation. Our outlook anticipates a continued moderate growth trend, with some further strengthening in the labor market and an increase in inflation over the medium term toward our objective of 2 percent.

Although job growth in our region has slowed somewhat in recent months, economic activity continues to expand. After outpacing the United States as a whole for a number of years, job growth in New York City is now running a bit below the national average. And, as has been the case for some time, job growth in Northern New Jersey remains a little below New York City's pace. Over the past year, job growth has flattened out in much of upstate New York, with Albany remaining a bright spot in the region. Unfortunately, Puerto Rico and the U.S. Virgin Islands both remain mired in economic difficulties with no clear signs of a revival.

While the post-crisis expansion is now the third-longest on record, by historical standards it has been marked by a relatively weak pace of growth, with annual GDP growth averaging just 2.1 percent since mid-2009. Wage growth has also been comparatively modest even as unemployment has declined. In part, this likely reflects the fact that productivity growth has been sluggish compared to historical experience. Relative income differences are likely to get more attention when economic growth is weak and people do not see significant improvement in their absolute income levels. With that in mind, as we consider how to address the issues of income inequality and mobility, we should also consider how to improve flagging productivity growth, because that would help raise the level of household income.

### Wage Inequality

Today's briefing will focus on labor market inequality, including wage inequality in our region.

Currently, we see comparatively high levels of inequality in the labor market in terms of differences in the wages workers earn. This situation has been in the making for several decades. Since the early 1980s, wages have increased more rapidly for workers toward the top of the income distribution than for the median worker, and much more rapidly than for workers toward the bottom of the distribution. Further, this increase in inequality can be seen throughout the entire distribution of wages.

In my view, two main factors are responsible for this pattern of differential wage growth and the resulting increase in wage inequality. First, advances in technology have dramatically changed the nature of work, increasing the skill requirements for many jobs while displacing others. Second, the pace of globalization has accelerated in recent decades, with increased cross-border trade, investment, immigration, and the emergence of global supply chains. Together, these economic forces have contributed to significant job losses in certain sectors, most notably manufacturing. The resulting decline in demand for middle- and lower-skilled workers has resulted in fewer jobs and has depressed wages for many in those industries. Other, less important factors behind the rise in inequality include the decline in private sector labor unions and the falling real value of the minimum wage.

At the same time, technological change and globalization have created jobs in areas such as engineering and software development. Demand has been particularly high for knowledge workers, resulting in strong wage growth in certain sectors. All told, the forces of technological change and globalization have contributed to wage inequality by pushing up wages for those toward the top, and stifling wage growth for workers toward the middle and bottom of the wage distribution. As I have said in previous remarks, we need to do a better job of helping those hurt by globalization.<sup>2</sup>

Monetary policy can help support economic growth, but it is much less powerful in addressing the structural factors that underpin inequality in the labor market. That said, understanding the causes and consequences of economic inequality is important to the Fed. We are working hard at producing research, information, data, and analysis so that we can better understand inequality and participate in an informed debate on how to best address it. One significant initiative within the Federal Reserve System is the creation of the Opportunity and Inclusive Growth Institute at the Minneapolis Fed. The Institute conducts research to measure, analyze, and make recommendations to improve the economic well-being of all Americans, with a particular focus on structural barriers that limit full participation in economic opportunity and advancement.

### **Lagging Economic Mobility**

In a free market economy, some wage inequality is inevitable given variability in individuals' endowments, skill sets, and education levels. These attributes influence the demand for their services and the wages they are paid. We don't expect those just starting out to have the skills of more experienced workers.

But, the access and opportunity needed to attain the attributes associated with higher wages may not be uniform—and that is concerning. Inequality reflects impediments to people reaching their potential. These include limits on access to education, credit, transportation, and housing. Such impediments may discourage workers from investing in themselves, and may lead some to drop out of the labor force. We should all work to ensure that people have opportunities to develop their skills, build human capital, and improve their job prospects.

To me, inequality is especially problematic when it reflects and reinforces barriers to economic mobility. Too many parents are increasingly pessimistic about their children's economic future. According to a recent Pew Research Center survey, only 37 percent of American parents think their children will be better off financially than they are.<sup>3</sup> This is a deeply troubling finding. I

believe that income inequality is generally less problematic when it does not impede economic mobility and when economic mobility is high. While the “rags to riches” story has been a popular theme in U.S. history, income mobility in the United States is now notably lower than in many other advanced economies.

Unfortunately, substantial differences in economic mobility exist within the United States. Important research by Raj Chetty and his co-authors suggests that upward mobility strongly depends on where one grew up.<sup>4</sup> That is, places themselves seem to have a measureable effect on economic outcomes for children as they reach adulthood. In particular, this research indicates that higher upward mobility is associated with areas that are less residentially segregated by race or income, and that have higher-quality schools, stronger social networks, greater community involvement, and stable family structures. Significantly, they find that places with greater upward economic mobility tend to have lower income inequality. This evidence suggests that there is a fundamental inequality of opportunity for advancement that is tied to where people live. Reducing inequality of opportunity is something we should all work toward.

## Directions for Policy

So, what are some specific ways policy can address inequality and improve economic mobility? While this is a difficult and complex set of issues with no easy answers, I do have a few thoughts. First and foremost, we can improve the quality of education for our most vulnerable citizens. Children who attend better schools and attain higher levels of education have more favorable long-term outcomes, including better job prospects and higher earnings. There are large disparities in the quality of education a student receives, which are highly correlated with where that student lives. We need to look for ways to provide higher-quality education regardless of where people live. Reducing the role of local property taxes in school financing to better equalize school quality across locations is one example.<sup>5</sup>

In addition, education’s benefits start very early in life and are cumulative. While we need to further strengthen primary and secondary education, there is convincing evidence that educational investments in early childhood have especially high rates of return in terms of lifetime earnings and are associated with many other positive outcomes.<sup>6</sup>

Workforce development is another key policy area that can improve economic mobility and reduce inequality. Because of the swift pace of economic change driven by advances in technology and globalization, we ought to step up efforts to help workers build the skills necessary to adapt to change. This means providing these types of services at the local level. These efforts should include innovative workforce development programs, coursework and certifications in key skills that are in demand, and fostering partnerships between higher education institutions and local employers. Here, I would point to Monroe Community College in Rochester as a model of successful collaboration with employers to create job-training programs that align with current employment opportunities.<sup>7</sup>

## Conclusion

The issues of economic inequality and income mobility are among the most important that we face as a nation and as a region. These issues are particularly relevant for our region because the Second District is home to some of the highest and lowest levels of wage inequality in the country. Next, Research Officer Jaison Abel will discuss regional economic conditions and wage inequality.

Thank you for your kind attention.

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<sup>1</sup> Jaison Abel, Jason Bram, Gerard Dages, Richard Deitz and Joseph Tracy assisted in preparing these remarks.

- <sup>2</sup> See William C. Dudley, [Benefits and Challenges from Globalization](#), May 11, 2017.
- <sup>3</sup> Pew Research Center, “Global Publics More Upbeat About the Economy,” June 5, 2017.
- <sup>4</sup> Chetty, Raj, Nathaniel Hendren, Patrick Kline, and Emmanuel Saez. 2014. “Where is the Land of Opportunity? The Geography of Intergenerational Mobility in the United States,” *Quarterly Journal of Economics*, 129(4): 1553–1623. Chetty, Raj and Nathaniel Hendren. 2016. “The Impacts of Neighborhoods on Intergenerational Mobility II: County-Level Estimates,” National Bureau of Economic Research Working Paper No. 23002, December.
- <sup>5</sup> See William C. Dudley, [Economic Opportunity and Income Mobility](#), April 11, 2016.
- <sup>6</sup> Heckman, James J. 2006. “Skill Formation and the Economics of Investing in Disadvantaged Children,” *Science* 312, 1900.
- <sup>7</sup> For a discussion of examples from Rochester and other parts of the region, see William C. Dudley, [Workforce Development and Reinvention in the Rochester Economy](#), August 12, 2015.