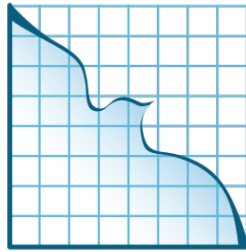
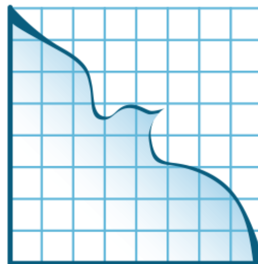


ECONOMISTS for PEACE & SECURITY

"Inflation and Inequality"
ASSA New Orleans Panel Session

January 5, 2023; 2:30 - 4:30 PM

- Dr. Allen Sinai (Moderator)
- The Hon. LaToya Cantrell, Mayor, City of New Orleans
- Dr. Jason Furman, Harvard University
- Dr. William Darity, Duke University
- Dr. Joseph Stiglitz, Columbia University



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"Inflation and Inequality"
ASSA New Orleans Panel Session

Linda Bilmes: Good afternoon. I am Linda Bilmes, Co-Chair of Economists for Peace and Security (EPS), and I hold the Daniel Patrick Moynihan Senior Lecturer Chair in Public Policy and Public Finance at the Harvard Kennedy School. I am delighted to welcome you to the second session that Economists for Peace and Security is sponsoring today. I see some familiar faces in the room from the earlier session, which focused on how we can revise the way we produce national and international economic statistics to incorporate environmental values.

Economists for Peace and Security is a group of experts in economics and related fields dedicated to world peace and economic justice. It was founded by Kenneth Arrow, Lawrence Klein, Robert Solow, Robert Schwartz, and Barbara Bergman. From the beginning, we have interpreted our mission broadly to include not only nuclear disarmament but also preventing the root causes of conflict. Our Fellows and Members have an interest in public policy challenges including social inequity, economic distress, access to healthcare, and protecting the planet.

The group of individuals who have been involved as trustees of Economists for Peace and Security includes some of the finest minds in these fields, including Nobel laureates Amartya Sen, Daniel McFadden, Eric Maskin, Roger Myerson, Oscar Arias, George Akerlof, Robert Solow and Joseph Stiglitz, my long-time co-author who is here on his 2nd EPS panel of the day, and numerous prominent thinkers including Sheila Bair, Jason Furman, Robert Reich, George Papandreou, James Galbraith, Sir Richard Jolly, Allen Sinai, who is moderating this afternoon's panel, and many, many others.

This panel is focused on two critical issues that are dominating the headlines, inequality – referring particularly to the vast income disparities that have been growing for the past three decades, and inflation – which has returned like an unwanted ghost from the past. I'm delighted to introduce this panel and our distinguished moderator, Allen Sinai. Allen was a pioneer in the use of quantitative macroeconomic and econometric techniques for economic forecasting and is one of the leading forecasters in the world, with a background spanning academia, finance, business and government. Among his many roles in a long career, Allen has taught at Northwestern, the University of Chicago, MIT, Brandeis and Boston University, served as Chief Economist at Lehman Brothers, worked closely with the Federal Reserve and Bank of Japan, and is currently President and Chief Economist/Strategist of Decision Economics, an economics and financial markets forecasting and advisory firm. Most importantly, he is a long-time Fellow – and friend – of Economists for Peace and Security. Allen will now introduce the session and our panelists.

Allen Sinai: The title of this Session of Economists for Peace and Security (EPS) at the 2023 ASSA Meetings is "Inflation and Inequality."

The two, Inflation and Inequality, in and of themselves, are important topics of the day. Inflation is way high, the highest since the 1960s, '70s or '80s. The two represent short-run and long-run issues for the American economy, the Federal Reserve, Washington fiscal policy, financial markets, and the sentiment of America.

Inflation is currently the highest since the 1970s and 1980s, perhaps worsening an already huge threat to the future of America, that's Inequality. Inflation has, in and of itself, become one of the most important economic and political issues facing the country.

Inequality is a transcending problem—longer-run a societal, economic and political dynamic that has taken down countries throughout history and fomented political revolutions.

Both Inflation and Inequality, their interactions and policies to deal with them, are the subject of this Session.

Some Recent History
The Intersection of Inflation and Inequality, and Perspectives

After many years of very, very low price inflation, an External Shock, a unique non-economic event, COVID-19 and a resulting Pandemic, shut down the U.S. economy, producing an unprecedented two-month depression in a severe downturn but for only two months, with price deflation.

Then, at the end of the first stage of the Pandemic, as new vaccines began to be used a huge rebound occurred, starting in April 2020. Pent-up Demands were unleashed. Ultra-Easy Monetary Policy that had been put into place—zero interest rates and Quantitative Easing (QE)—took hold. The Massive Fiscal Stimulus responses that would not have happened except for the COVID Event provided a huge lift to the economy and continue to do so.

Against the restraint of the Supply Shock from the Pandemic, particularly food, energy and the labor market; inflation, not surprisingly, shot up, and exceeded, in its ascent, all thought likely.

Inflation does appear to have peaked or is peaking. But don't expect inflation to decline rapidly to the Federal Reserve's 2% target.

Historically, inflation stays "Sticky High" after accelerating to cyclical highs. Sticky-High inflation is not just a problem for the economy and policymakers, it also presents an inequality problem because it particularly hits lower-income families that typically have a big proportion of budgets in basic purchases. This crowds-out other purchases and reduces the standard-of-living for many families.

Inequality, broadly defined as inequality of income, wealth, more recently education, healthcare and opportunity, is made worse by permanently higher inflation. This is a large set of areas of impact. Janet Yellen, Secretary of the Treasury, has emphasized education. Others healthcare. And I add, opportunity.

An Historical Perspective

Perhaps at the center of the divisiveness in the politics of America, certainly in historical perspective, and at the heart of a longer-run competition identified by President Biden as between China and the US, Inequality is real. The question of which form of capitalism will prevail, liberal or democratic, the US form, or authoritarian capitalism, the China form, will be front-and-center in coming years. This has been framed in Branko Milanovic's "Capitalism Alone."[1]

The Session

For this Session, "Inflation and Inequality," we have a distinguished Panel.

First is Mayor LaToya Cantrell, Mayor of the host city for the ASSA this year, New Orleans, a perfect person for the topics of this Session, particularly for an intellectual, liberal, out-of-touch-with-reality guy like me, and perhaps some of the attendees.

Nothing could be more nitty-gritty, on-the-ground, than the running of New Orleans, what you do, Mayor Cantrell, representing your constituents—people from all walks of life, income levels, rich and poor, hard-working city employees, from a place in the United States that has been particularly hardhit by the Pandemic, climate change, and where so many struggle to make a living for their families in a difficult economy.

And you, in the thick of things, running this city and dealing with its people and problems every day, living and breathing it every day, immersed in a city thought to be deeply in the difficulties that inflation and inequality bring, are particularly able and qualified to provide dimensions of insight to us.

My wife says I don't listen enough. And, so I listen when she says it, but then I stop listening. I think one of the problems in America is that we don't listen enough—to the people who live, work and struggle with the inflation, inequality, and negative effects from inflation that make inequality worse.

Those of us who make or contribute to policy, particularly at the federal level, or who influence policy, may not feel the reality of income and wealth inequality, and often are remote, except academically, from that reality.

In my life at Lehman Brothers, did I really understand what was going on in the "trenches" for "ordinary" Americans? When I advised Congress in Washington and, yes, Presidents or their Administrations, Democratic and Republican, did I really have the "feel," other than from where I grew up, in Detroit Michigan, of the pain and suffering from inflation and inequality?

We need to know about this because we can't do anything about inequality if we don't know what is going on and how it really is. To know about it, we need to listen, especially to those who are living it.

And so, I am not often welcome at dinner parties up in the Northeast, friends' dinner parties in the Boston area, where I now live, because I complain to them that they are not listening. They are listening, but only to each other, not to whom they ought to be listening. That's a recipe for disaster

[1] Branko Milanovic, "Capitalism Alone, the Future of the System that Rules the World." Harvard University Press, Cambridge, Mass., 2019.

in the politics of America. And in the history of the world, it's a recipe for revolutions!

After the Mayor will be Jason Furman from Harvard's Department of Economics and the Kennedy School. Jason was Chair of the Council of Economic Advisers in the Obama Administration from 2013 to 2017 and the Chief Economic Adviser to President Obama.

His title is "The Progressive Case for Inflation Reduction."

We then have by Zoom, Sandy Darity, joining this Session remotely. Sandy is Director of the Dubois-Cook Center on Social Equity at Duke University, focusing on inequality, particularly race, class and ethnicity's history, on slavery and reparations. He's the most distinguished scholar in America and the world on these topics. His title is "Making America Great for the First Time."

And then, finally, the fourth panelist, Joe Stiglitz, a Nobel Prize winner for, among other things, Asymmetric Information, and who has written a number of books on today's topic, including The Price of Inequality (2012), People, Power, Profits (2015), and The Great Divide: Unequal Societies and What We Can Do About Them (2015).

Joe was a winner of the John Bates Clark Medal in 1979 for the most distinguished economist under 40. Currently, he is a University Professor at Columbia. He also served as Senior Vice President and Chief Economist at the World Bank (1997-2000) and Head of the Council of Economic Advisers in the Clinton Administration from 1995 to 1997.

His title is "Inequality and Inflation."

Now, the Agenda. Each speaker has 10-to-15 minutes for opening comments. After these presentations and some closing remarks, I will moderate an interactive Q&A and discussion with the panelists and the audience.

Mayor Cantrell, the floor is yours.

LaToya Cantrell: I will be speaking just from notes. I can't believe we don't have another microphone in the City of New Orleans. The mayor is blamed for everything. Don't blame me for that.

Allen Sinai: Can you snap your fingers to make it happen?

LaToya Cantrell: I wish. I wish. I wish.

LaToya Cantrell: Thank you all so much for being here, and it really is great to welcome you to the City of New Orleans, the over 7,000 economists that are here.

The City of New Orleans is definitely back, I would say!

We were the face of COVID when it came our way in March 2020, right after Mardi Gras. We became a hotspot in the country.

And so, it caused me to make some very quick and swift decisions, shutting our city down and the like, because we were on the path of having thousands of people die in our city.

Because of the guidelines we put forth, and because of the civic trust that was demonstrated by our residents, we were able to beat back COVID-19 and, of course, move through and be able to open up our city, preparing ourselves for Mardi Gras 2023.

Today is King's Day, so you can see my little earrings with the King cake and all. It's just the start of Mardi Gras season, but definitely a great start with you all here.

I mentioned COVID simply because it was the economists I had to lean on every step of the way to ensure that I made the right decisions that would impact our fiscal stability. And, of course, having to shut down, this city being one that is driven primarily by hospitality and tourism, you can only imagine how we were hard hit, definitely fighting for resources from the Federal government, for direct allocation of American Rescue Plan dollars.

We really did not get funded when money did come through the CARES Act, $70 million not fully reimbursed, although we did everything right. Our state took our dollars and that impacted us directly.

I will say that the single fight for direct allocation has been the lifeblood in saving our city, with the ability to not only open up, but to get back to basic city services and the like, and to do more, quite frankly, and be transformative as we rebuild ourselves and our lives from COVID-19.

We will be hosting the 71st Miss Universe competition in New Orleans next week. That's a big deal; again, just a reflection of how our city is bouncing back.

But it was economists, listening, that prompted me to take out a certificate of indebtedness so that we could have money to rely upon. You don't wait until you run out of gas before you have the dollars to put more gas in the tank.

What it was, it served as a lifeline as we moved through 2021 and 2022 being able to tap into those dollars from that COI, but also leveraging it with other dollars, for necessary support. It's meaningful that I have your ear. I just wanted to say thank you for what you all do, because I understand, in terms of being Mayor of this city, how it's helped us be fiscally prudent, fiscally sound.

We now have the largest fund balance we have ever had in the history of our city, over $136 million. And, of course, being at the forefront of climate change and other disasters that may come our way, we have to make sure that we're able to stand up, beat back whatever, all the things that come,

e.g., Ida, a hurricane. Well, we missed a hurricane. But we just had a tornado. This city is on the forefront of climate change.

And so, when you think about inflation and also inequality, again, the City of New Orleans is known as a long, storied history of a city that CARES forgot. Because when we think about disparity gaps in our city, those that are the most vulnerable are supported.

My motto is our ability to meet people where they are. If we're going to deal with inflation, and if we're going to deal with inequality, you have to meet them where they are, where they live in this city. You have to know that Census Tract in order to activate resources and services for your people. That's how I operate. That's how we were able to move through COVID, being very specific about where the issues were, but going to the people.

When I think about it, and as I'm talking about inflation, and how we're managing through it, and inequality, and going back to that model of meeting people where they are, I first start with talking about livable wages and workforce development. This is key.

On livable wages, what we had to do here was start with City Hall. I had to start with where I can demonstrate that the City is focusing on where the needs are the greatest, within our own community, meaning those who work for the City.

And also, we have to make sure that the people we depend upon to serve are factored into how they are impacted by inflation. So, I very quickly moved to increase wages, the minimum wage to $15 an hour. This is something that I could do as Mayor for city employees in order to increase the minimum wage for our city overall. For the private sector, we have to go to the State of Louisiana. I wanted to be an example for private industry of what we need them to do to take care of people. Meet the people where they are. Because that is a part of our economic driver, and, of course, the infrastructure of this city.

So, I moved forward with not only increasing the minimum wage, but also a cost-of-living adjustment of 5%, which happened in 2022. We did a lump-sum payment. This was something that wasn't promised on the front end, because we didn't have the money. But I told my folks, if the dollars really came to pass, meaning through the American Rescue Plan and direct allocation, then I could make some sound and solid decisions because I knew what we would have, and not be surprised, if you will, about what would be taken away at the state level from the City of New Orleans.

That cost-of-living adjustment, and making the decision that it was going to be a lump sum, meant the world to our people. They were able to get the money in a lump sum, and then make sound and solid decisions for their families of how they would spend that money. I come from a single home, a single mom. I come from paycheck-to-paycheck, welfare to work. And so, I know firsthand how that lump sum, or just a little bit of dollars, can go a long way when you get it at one time. And, it's been transformational for our people.

But, that also was impacted by a 2.5% pay raise for 2023, 2.5% raise for 2024, just living in that margin of 2022 up to 2025, thinking about when we should see greater change in our economy.

In addition to that has been our workforce. Understanding, you heard me say that hospitality is the driver, right? But also, the need to diversify our economy has been front-and-center about what we

do in our city. On the front end, having our hospitality industry and our workers suffer tremendously through COVID-19, I had to come up with ways to get them back to work. So, not just by lifting up programs to provide resources or money to them directly, but also diversifying their skill sets.

One quick thing that we did was in technology. We are a fast-growing city relative to tech in our city, and so one thing we did was train hospitality workers for tech sales. We had to get them to understand that as they pitch that risotto, as they pitch that drink, as they provide customer service, it was transferable and translatable to tech sales. And so, we were able to put money into providing training. Now I can stand here and say that multiple dozens of people have been trained, they are now making $85,000 to $100,000 a year and they are not going back to hospitality. Although that's a great thing. But you have to diversify your economy and that means giving people tools to be better, to protect themselves and their families, and to put more money into their pockets.

This also speaks to climate change and resiliency.

This city, New Orleans, is on the forefront of climate change. We are diversifying relative to green infrastructure; for example, blue infrastructure, making sure that we are putting in and spending millions of dollars, literally daily, on infrastructure improvements throughout the city. Drainage projects. Holding water. Bringing it up and going into our drains. Mitigating flooding throughout this community.

We have to be smart about what we do, but that also means training people for the jobs of the future, expect where those jobs are right now. We have spent hundreds of millions, actually over $1 billion, and so much more, that will be put into the ground in this particular area of infrastructure. We have to train our folks for jobs that are now and that's how we believe that as we train them, we give them access to real opportunity. We are meeting people where they are. That's growing our economy, growing our people.

In the space of energy, New Orleans is very well positioned to be the energy capital of the world. We saw how microgrids seem now a part of what we're talking about. We saw it firsthand when we were hit by Hurricane Ida last year; but again, how that impacted other cities around the country. And so, with that, the City of New Orleans is positioned in wind manufacturing, offshore wind generation, hydrogen, and the like. Grooming our people, training our people, for these areas is what we are doing and it's paying dividends.

In addition, we have restructured procurement practices. So, when I talk about these millions of dollars, over $1 billion, that we have to put into the ground and infrastructure, money already Federal Government allocated, we have to do the job. It's on a deadline. We have to get the projects done. But the contracts are multi-million dollar projects and therefore we have de-bundled the contracts associated with these projects, because we need to give our people a better fair shake and an advantage of being able to bid on these projects. So we de-bundled, meaning that small minority contractors, our small contractors across-the-board, have a greater opportunity of getting a fair shake. With de-bundling, we've been able to spread out the support. And now I can say that we have subs, that were previous subs, now serving as primes. Large-scale companies are now subs. That's how we turn the map around and diversify, giving people better opportunities and a greater shake in our city.

This also speaks to that blue and green economy as well, the de-bundling that's happening as it relates to costs associated with energy and utilities. That's a big deal here. Our people are paying so much for utility bills, whether electricity and/or water. This is something we know that we have to deal

with.

We have a climate action plan that we have adopted. It is heavily embedded with solar energy, Solar For All programs, that we stood up wanting to get the bear out of people's pockets. That's attaching them to additional resources to help pay their bills. But we know we are looking at long-term sustainability, trying to get the bear out of their pocket over the long haul.

The Solar For All and other opportunities, energy efficient homes, weatherization, are something we are doing to help our people in the city as it relates to inflation and inequality.

I also wanted to talk about housing and affordability. That is a big issue as well when we talk about inflation, something we don't take lightly. We have been able to leverage over $71 million in this COVID environment, getting people help on rent. We are still a city of majority renters, with about 45% home ownership.

We have to focus on moving folks to home ownership, no doubt about that. We've set up programs with soft seconds, and the like, that are getting people into homes. But we also are structuring to keep them in homes. It's necessary for us to do. We have put over $71 million into rental and utility assistance for over 17,000 households.

This, again, gives us an ability, as we are getting the money out the door, to tap into additional resources coming from the Federal Government because there were other cities that were struggling to get the money out. But when money's on deadline, it needs to hit the ground. So, we are positioning ourselves to be able to meet people where they are with those dollars in real time.

We even stood up an eviction diversion program that received a national award, keeping people from being on the street.

Also, food insecurity. I heard that mentioned. We were able to leverage resources, created a food security task force, and put over 500 hospitality workers and restaurants to work to feed our community. We leveraged over $30 million to do that.

I'm most proud of, as I think about this guaranteed income pilot program, universal basic income is something I have embraced and joined mayors across the country in standing up for. Right now we do have a pilot program, 125 Opportunity Youth. It's the first universal basic income program, focusing on the youth, in the country.

It's a $350 stipend that's given to 125 persons so they can become fiscally stable. We partner with the University of Pennsylvania and Tulane University, in terms of managing the data, and of course being able to prove the effectiveness of this particular program.

What I'm saying is that we are doing multiple things on so many different levels to deal with inflation and the inequities in our city. But what I will say, and I'll leave you with this, more will come out in Q&A, as the mayor of the city, what I'm seeing when I think about inflation, is also as relates to these projects I kind of touched on. <u>We are seeing bids come back anywhere 47% to 120% higher</u>, meaning the cost to the project. So, when you think about, on the ground, what does that mean? It really means that <u>we're going to have to pick and choose and prioritize which projects we can move forward on.</u>

We don't want to spend all our money at one time. But again, when you have money that's on deadline, it forces you to make some solid and tough decisions about which project you will advance—sooner rather than later. But then, also, I'm sure as economists, I have to be very... What do you call it? I forget the word. We can't spend it all. We have to be prudent in our practices. So, I don't want to take on a project where the project cost has gone up 100% today and if I wait it out two to three years and come back, the cost can come down. I want to try my best to be conservative in terms of how we approach these projects and how we prioritize them, because you can spend it all at one time, and then the city is screwed.

The city is screwed when we're talking about green infrastructure, flood mitigation practices and the like. We have to prioritize. I'm just sharing that with you. Hopefully, you can share something with me, some insight on that. But it is something that is keeping me up at night when I'm talking about a city on the forefront of Climate Change, which already has changed. And, of course, there are Infrastructure projects that need to get done on a timeline and on deadline for the money. And, at the same time, we want to keep our city and citizens and your visitors safe as well.
So thank you again for indulging me. Thank you for having me. Welcome to New Orleans and let's get on with the program.

Allen Sinai: I like the way you do things. I like the way you do things. And you know what? I need somebody to help me with my budget.

Let us turn now to Jason Furman.

The Progressive Case for Inflation Reduction

Jason Furman: I'm not good going after the mayor though because she just covered everything so incredibly well and I'm just going to talk about three variables.

Her comments are a reminder why federal government policy can often be so much easier than local policy because you just have to do every single thing when you are a mayor, especially dealing with a city like New Orleans and the challenges you outlined so well.

I was very involved in the response to the Financial Crises and in the years after. I was involved in a number of projects to distill the lessons learned and to come up with ideas on what could be done better next time. And, when you're sitting in a Think Tank or something and writing lessons learned from an after action report, you usually think the lessons learned in your real report are going to be completely irrelevant. No one's going to ever look at it and care.

COVID-19, The Pandemic, Policy Responses and Inflation

This time, compared with the Financial Crises of 2006 to 2008, we were actually really successful.

In responding to COVID, the COVID responses didn't make any of the mistakes that were made in responding to the Financial Crises. Instead, it made a brand new set of mistakes. And I, for almost my entire career, starting in the 1990s, was on the more expansionary side of almost every macro debate. Over the last two years, I, for the first time, found myself not on the more expansionary side of the debate. I want to go through and explain that. I should caveat this by saying in what I think are the apocryphal words of then Chinese Premiere Zhou Enlai when asked to evaluate the French Revolution 200 years after the revolution, said "it's too soon to tell."

That's a little bit the case with the macro response here. In some sense, you can think of it if we sent a million soldiers to a foreign country. They won the War, which is fantastic. Today we found out the unemployment rate is 3.5%, tied for the lowest it's been in 50 years, which is just inspiring and exciting. But we haven't yet figured out if those one million soldiers are going to get back safely. And until you get those soldiers back safely, you can't really evaluate whether the War Plan itself was successful.

So there's a common phrase that it's better to err on the side of doing too much, not doing too little. In some sense, I agree with this, it's unobjectionable. It does have the word err, which implies that you actually can make an error and it's not really very quantitatively useful.

How Much is Enough in an Aberrant Situation?

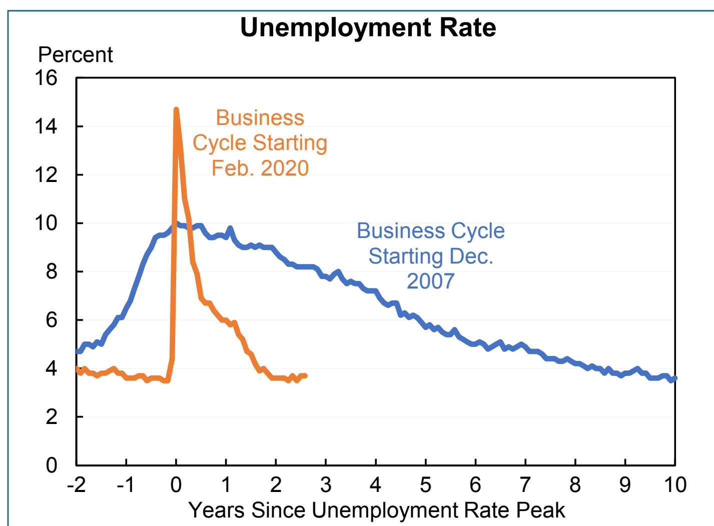
Do you want to do $1 trillion or $10 trillion or $100 trillion? Surely, at some point you actually can err on the side of doing too much, not too little. So to look back and try to evaluate what was being done, it's too soon to tell because we haven't seen the exit yet. These things are really impossible. This isn't like a controlled experiment in a hundred countries, getting one treatment, then a new 100

countries, and getting another.

I'll just briefly do a little bit of comparison with the economic experience coming out of the Financial Crisis in the United States during 2006-2009 and a little bit of comparison with the Euro area to see what we can glean from the two.

Unemployment Rate peaked much higher and recovered much faster than last time…

Chart 1:

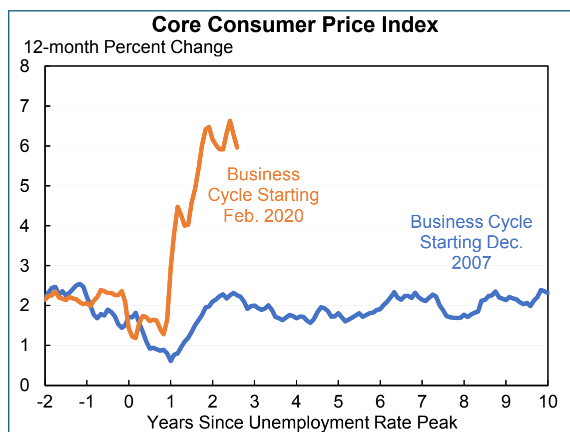


So, this is the unemployment rate and doesn't include the latest numbers (Friday, Jan. 5, 2023). We can add another little wiggle down to 3.5%. So much better this time. It went higher, it fell much faster, it came down much faster and went lower. At this stage in the last Recovery, the unemployment rate was still 8% and going to take another seven years to get to where it is now.

Inflation, on the other hand, has been much higher this time. It wasn't anything to be noticed in the last recovery (Chart 2). This time it's gone, as Allen said, to the highest rate in decades. Although the last two months were a decent amount better, it remains to be seen whether that lasts or not. If you try to put these together, you can look at the incomes of households over comparable periods for the last two episodes.

…But inflation has risen much higher this time

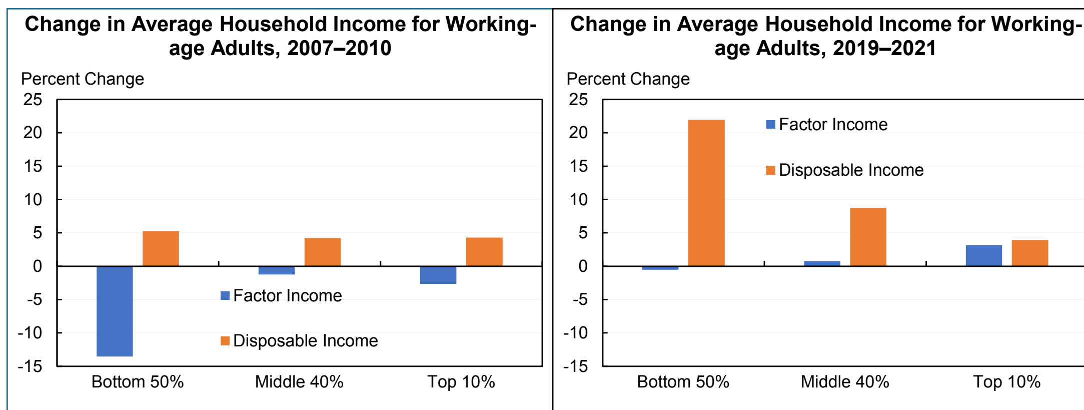
Chart 2:



Sources: Bureau of Labor Statistics (BLS); Macrobond.

*Taxes and transfers cushioned the blow in 2010,
while amplifying the gains Post-Pandemic

Chart 3:



On the left of Chart 3, you see the 2007 through 2010 experience. This is the brunt of the Financial Crisis. The blue bars are what happened to people's market income. That went down. That's because you still had really high unemployment in the year 2010. They especially went down for the bottom 50% who bore the brunt of the job losses where there was a truly horrific economic impact.

The orange bar shows what happened to disposable income after taxes and transfers.

You can see that back then, policy, which I think was inadequate, did do actually a pretty good job of insulating people. Incomes went up over that terrible, terrible period for the economy. When you took into account what you got from the government, you were actually better off by about 5% in 2010 relative to 2007.

Now look at the current episode, which you can see on the right. The same sort of period of time, 2019 to 2021, is as earlier. But here, the blue bars are pretty small because the economy had mostly recovered by 2021. The orange bars, after taxes and transfers, show enormous gains, especially at the bottom. Some of the biggest gains in income we have ever seen are represented because of the taxes and especially the transfers.

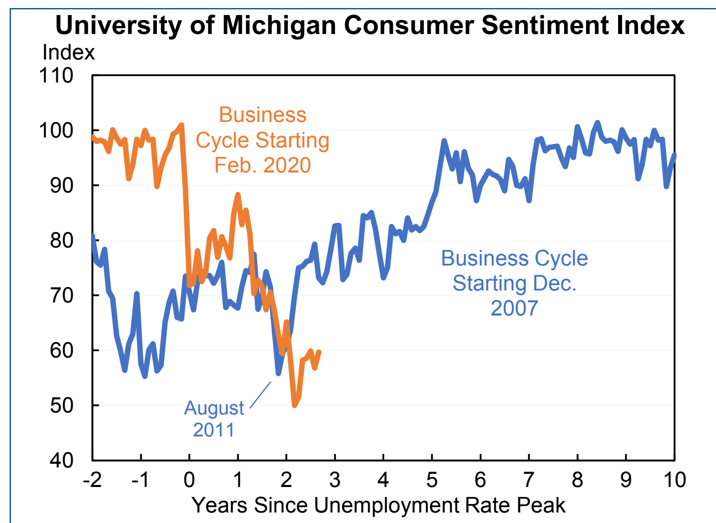
So how do consumers evaluate all of this?

Chart 4 shows U. of M. Consumer Sentiment over the two episodes.

*Note: Working-age is 20-64.
Sources: Realtime Inequality (Blanchet, Saez, Zucman); author's calculations.

Overall consumer sentiment was higher and rising faster following the Financial Crisis

Chart 4:



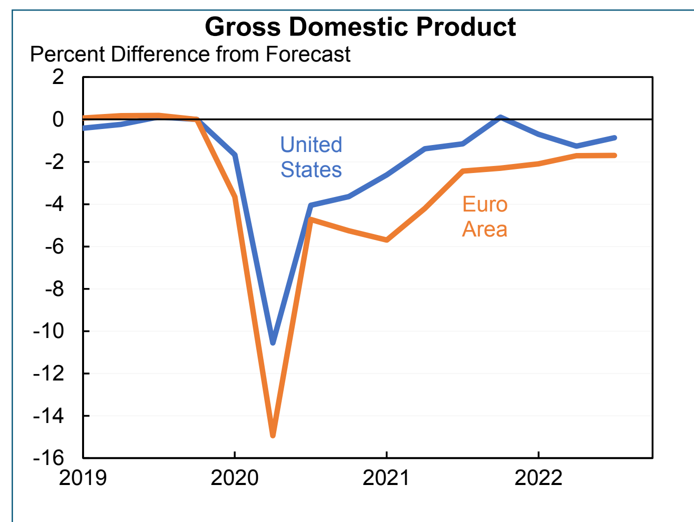
In some ways I look back with envy and wish that we had an unemployment rate of 3.5% in the year 2010. Consumers look like they might have rather had the slow high unemployment recovery from the Financial Crisis rather than the high inflation that exists now. This isn't the perfect measure, but you can look at a variety of survey-based measures of how people feel about the economy and, in general, they seem to report feeling more negative now, the orange line consumer sentiment, than they did then. The blue line, this is imperfect partisanship. All sorts of things show up in this. But for people, it's hardly clearcut that the 3.5% plus higher inflation is better than the 8% unemployment rate plus lower inflation.

Let's now just quickly look at the United States compared with the Euro area.

Chart 5 shows the gap in Real GDP from the forecasts made prior to the Pandemic.

U.S. output recovered faster than European output, but they converged by mid-2022…

Chart 5:



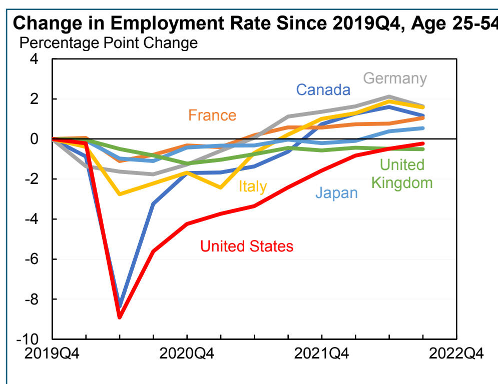
Sources: Bureau of Labor Statistics (BLS); Macrobond.
Bureau of Economic Analysis (BEA); Eurostat; Macrobond; Congressional Budget Office; European Central Bank (ECB); author's calculations.

If the Pandemic hadn't affected the economy, you'd expect to see just a horizontal line. That's what the economy should have done. Instead, it went way down. It recovered and went way up. The United States recovered faster than Europe, but subsequently Europe basically caught up with the United States. And, that's even despite having a much more negative supply shock in the form of the large increases in natural gas and food prices associated with the Russian invasion of Ukraine.

And, in fact, wherever you look, every country in the world basically has recovered pretty well. Some a bit better than others; some worse than others. But no matter what was done in policy when the social distancing lessened or ended what households took away on their own, economies rebounded.

The U.S. has fared relatively poorly in terms of employment

Chart 6:

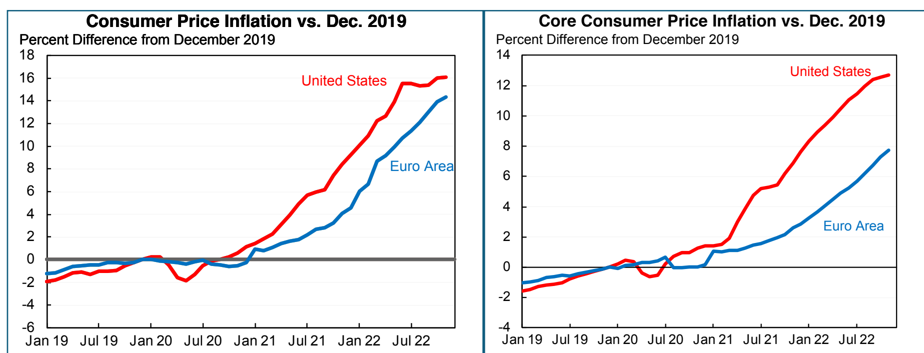


On employment (Chart 6), the United States has actually done worse than almost everywhere except the current basket case of the United Kingdom. The employment rates are generally higher in most other countries than prior to the Pandemic. The employment rate in the United States for prime age workers is still a little bit lower than it was. So you had this thing that we also saw after the Financial Crises, which is that GDP recovered better in the United States than elsewhere. Employment lagged and fell behind where other countries were.

And, then finally there is inflation. If you look at cumulative inflation, Core inflation, taking out Food and Energy, is about four to five percentage points higher in the United States than in the Euro area. Even overall inflation is still a little bit higher in the United States, despite the fact that the Russian invasion of Ukraine had a much bigger impact on the supply side of the European economy through the prices of electricity and the like.

The United States has had more inflation—especially Core inflation

Chart 7:



Sources: Organisation for Economic Co-operation and Development (OECD) via Macrobond; author's calculations
Note: Seasonally adjusted using Macrobond. HICP-U for United States.
Sources: Eurostat; Bureau of Labor Statistics; Macrobond; author's calculations.

So, to summarize the facts before I get to interpretation, this time in the U.S. and elsewhere, there was a faster recovery than after the Financial Crises of 2006-08, a slightly faster GDP recovery than Europe, but a slower employment recovery. And, the United States has considerably more inflation than it did in the Financial Crises or than Europe or really any other country.

So, what's the interpretation of this fact pattern?

There are two broad stories at work and the relative magnitudes of them I'm not entirely sure of, but both of them are quite important!

The first is that last time we had a Financial Crisis, this time we had a Natural Disaster. You tend to recover from natural disasters relatively quickly. A V-shaped Recovery is the norm after a natural disaster. After a Financial Crisis, it's normally sort of an L. The economy goes down in growth and stays down.

You can look at 800 years of history of Financial Crises and countries a decade later tend not to have recovered the per capita GDP they had when the Crisis hit. Natural Disasters are nothing like that!

This hypothesis is consistent with just about every country in the world when their economy re-opened, GDP went back roughly to the track it was on. The other piece of this, though, is the difference in the amount of support given to the economy.

Hypothesis 1 for the difference:
U.S.—Smaller vs. larger fiscal support

Chart 8:

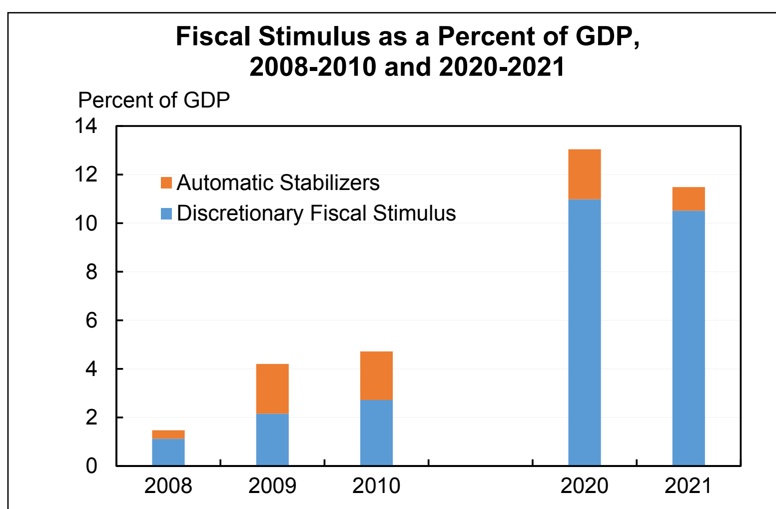


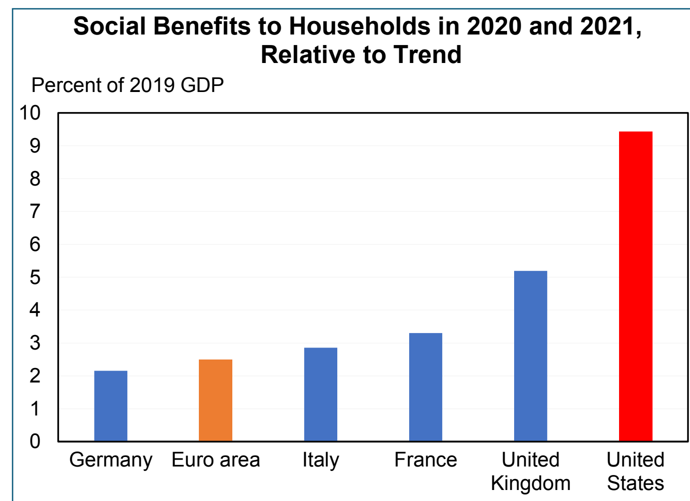
Chart 8 shows fiscal stimulus as a percent of GDP. It was much bigger in 2020 and 2021 than in the Financial Crises. Now it was the Financial Crises, I used to brag and correctly so, that provided the largest discretionary countercyclical fiscal response to a Recession the United States has ever mounted. I never thought it was large enough, but we had never done anything so large as those left-hand side bars. We did something way larger this time, larger than ever outside of World War II. The United States' response was also considerably larger than what you saw elsewhere.

Note: Calendar year.
Sources: Calculations based on Council of Economic Advisers (2014); Congressional Budget Office; Office of Management and Budget; Bureau of Economic Analysis; Macrobond.

Chart 9 looks at a subset of the fiscal response, social benefits to households in 2020 and 2021 compared with the prior episode, before the Pandemic.

Hypothesis 2 (con't): Smaller vs. larger support across countries

Chart 9:



This was a combination of discretionary changes where the law was updated and checks sent out and other things that happened automatically. The unemployment insurance system is more generous to begin with in Germany. You can see that the United States was at 9% of GDP, Germany at 2% of GDP. And, this is only a subset of the support, as a whole about 25% of GDP. This doesn't include state and local assistance nor does it include the Paycheck Protection Program (PPP). It doesn't include money spent on the health response and the like. But, there still was quite a large difference in fiscal policies.

I don't have time to go into it now, but for a variety of reasons I think at the margin the first amount of assistance helps GDP, but then you run up against a supply constraint. You can't really expand supply more and so it shows up more in inflation and that's why the gap in inflation rates, for example, between the United States and Europe is a much larger one than the gap between the two economies seen in terms of GDP. We have got sort of, I'm making this up, one extra unit of GDP for four extra units of inflation on the last couple of dollars spent. It should be noted that monetary policy also played a role in bringing us to where we are now.

Actual monetary policy cut short-term interest rates to zero or near-zero. There was an extraordinary expansion in the Federal Reserve's balance sheet that held down long-term interest rates. All that was quite welcome.

But then came 2021. This sort of normal monetary policy rule, a very dovish version of the Taylor rule, was screaming that interest rates should be raised. The Federal Reserve basically took another year before it lifted up the federal funds rate.

I think if you quantify the impact of this on inflation, it's probably smaller than the impact from fiscal policy on inflation. But in some ways, it was also more of an egregious error. Congress, you always expect to make political choices. In March 2021, the economy was still hazy. That June, and in

Note: Trend social benefits spending based on average growth rate for 2018 and 2019.
Sources: Organisation for Economic Co-operation and Development; author's calculations.

September through December 2021, the Federal Reserve should have been a more technocratic institution, had more data at its disposal, and able to move more quickly. But it did not.

So, I have talked about two problems. My important point isn't that these two plagues were on both houses. I think I probably would rather have had this problem, the "too much" problem than the "too little" problem we had last time during the Financial Crises of 2006 – 2009.

But that doesn't mean we shouldn't try to do better than in both of these episodes. Too little is just a big problem. I'm not going to devote much time to it because my guess is people understand and believe it and have internalized it. But a worker that lost a job in the Great Recession, you look at earnings two years later and it's considerably lower than what would have been if they hadn't lost their job. So, this can be scarring and can have long-run impacts; in fact, not just on workers but the economy as a whole.

On the other side though, I think too much can be a problem. I am not going to do justice to everything on this overly tiny print list. But one thought is that some of the temporary employment gains may come from an impermanent inflation loss or be borrowed from future inflation losses. You get more of an employment gain up front and then raise the unemployment rate to get rid of the inflation you got through the lower rate.

When you look at the benefits of low unemployment, I think they are quite large, but I would get more troubled by a half point increase in the unemployment rate than I would be excited about a half point reduction.

I think that if in an involuntary recession, millions of people are thrown out of work simultaneously. In some ways, that's a much bigger problem than getting the unemployment rate a few tenths lower. As I said, for a variety of reasons that I don't have time to go into, I think at the margin, the extra assistance when you make something too large, you're going to get more inflation than output, especially in a severely supply constrained economy that was pretty predictable and predicted for the year 2021.

Real wages may be countercyclical, especially if you have a big burst of inflation.

Do workers have the bargaining power early to say, we had 8% inflation last year, give me an 8% raise? I can tell you I didn't have enough bargaining power to go to my university and get the normal raise I should get relative to inflation. A lot of American workers, unless they switched jobs, had the same experience. There weren't a lot of 10% raises if you stayed with the same employer last year, which means a lot of real wage losses.

Fifth, and this is something that I didn't think so much about two years ago as I do now. The public's assessment is different from what economists think. We're very attuned to inflation illusion. I can go to somebody and say, sure, you lost on real wages, but what about your $200,000 mortgage that now just got $20,000 wiped off? That's like you got $20,000.

Inflation and Inequality—Stimulative Macro Policy Can Offset Inflation's Negative Effect on Inequality

Through first approximation inflation has winners and losers. The losses are more second order than first order. The net loss is second order.

The first order is winners and losers. I've yet to meet somebody that's excited about winnings from inflation. No one thinks they win. No one notices their winnings. No one can be convinced of it. Moreover, inflation affects people across the income distribution quite differently. Unemployment is more concentrated. That's why I care more about unemployment, but the public feels a little bit differently.

Finally, high inflation gives less room for monetary policy flexibility in the future. High debt gives less room for fiscal policy and to some degree, just like I think we did not repeat the mistake of the Financial Crises of doing too little, next time we may make the opposite mistake as this last time. We may say, oh wait, we did too much last time, let's not do that again. And we may end up doing too little and getting a depressed business cycle upswing.

So what does this mean? I think we can do better at getting to something more like Goldilocks. Some of it just comes from quantifying the fiscal side. Part of my passion on this topic is that I was going through really carefully trying to quantify what I thought the size of the fiscal support should be, putting out numbers and ideas on it.

What Congress and frankly originally President Trump, who came up with the idea of $2,000 checks, I don't think the result of careful calculation. It was something else and Nancy Pelosi accepted it for political reasons and then Joe Biden did it. So it's not surprising that it was hardly optimal. So I did this recent set of lessons about the latest experience in an article with Wendy Edelberg and Tim Geithner.[2]

One highlight is that the fiscal response really can protect households. We saw a decent job of that both in the Financial Crises and this time. We can create a wedge if we choose between a Recession and the economy as a whole and how it impacts especially the most vulnerable. I think there is no excuse for people to suffer a lot. It doesn't need to happen. Fiscal and monetary policy really can speed a Recovery. There's no way we would have had a 3.5% unemployment rate today if we didn't have such large monetary and fiscal policy responses. But policymakers can do too much. And you want to ideally sort of quantify it, not just use slogans, go through the numbers.

A big part of quantification would mean to have better automatic state laws, I proposed a set of ideas that would link federal assistance to Medicaid programs and the economic situation in states. If there was a recession in your state, you could get more money for Medicaid so you don't need to cut people off health insurance because of a balanced budget.

If we had had something like that, we could have done more for states and localities after the Financial Crises and we would've done a little bit less now, although hopefully not for cities, just for the terribly hurt states.

[2] April 27, 2022, W. Edelberg, J. Furman, T. F. Geithner, "Lessons Learned from the Breadth of Economic Policy During the Pandemic." Hamilton Project, Ch. I, April 2022.

There is still a lot we need to learn about protecting jobs. I find it really vexing that our jobs went down much more than our GDP went down. The fact that not just Germany, which has very different institutions from the United States, the UK, which has reasonably similar ones, did much better at protecting jobs tells me that may be possible in the future, but we are not all the way there.

And then finally, one way to square, number one, protecting households with number three, avoiding doing too much, is through better targeting. Some of this will involve improving administrative systems and programs before the next recession strikes.

Policy Thoughts

If there is a Recession in 2023. I don't think a large amount of fiscal stimulus will be warranted. It could be a mild Recession. The Federal Reserve probably won't lower short-term interest rates to zero. I think relief will still be very much needed, e.g., expanding unemployment insurance, expanding nutritional assistance, expanding assistance to states and cities that are adversely impacted by it. And, so the way you could have more relief with less stimulus is if you can improve targeting. I think this should be an ongoing discussion. As I said, there's a lot of evidence that we still need to absorb from what's already happened. There's a lot we'll learn from what's to come, but at least for now, that's the way I'm thinking about it.

Allen Sinai: Thank you Jason for that macro look at Inflation, its negative implications, behavior vs. that of the Great Financial Crises, and your perspectives on policy answers.

Our next speaker is Sandy Darity.

Making America Great For the First Time!

William (Sandy) Darity Jr.: I'd like to begin by just making an observation that's connected to Jason's comments about automatic stabilizers. I'd like to just suggest, and this is actually not part of my central presentation, that if we had a federal job guarantee, that would be the most effective automatic stabilizer to address the potential problem of joblessness that's associated with a Recession.

At the request of the organizers, I've been asked to present a set of remarks that are more heavily focused on Inequality than Inflation. But I will have a couple of observations about inflation, nonetheless.

Inequality and the Black and White American Wealth Gap

I'd like to begin with a provocation. I'd like to argue that America never has been a true democracy. Apart from the structural features that embed sustained minority rule into the fabric of our national political process, the persistent exclusion of black Americans from full citizenship mutilates the Democratic ideal. To "Make America Great for the First Time" requires the nation to confront its history of white supremacy.

The racial wealth gap stands as the key economic indicator of the cumulative intergenerational effects of American white supremacy. Closing the racial wealth gap by raising black assets to a level sufficient to match the average net worth of white Americans is the central task needed to produce the material conditions for full citizenship for black Americans.

How Much is the Racial Wealth Gap?

What is the size of this gap? At the median, it is approximately $45,000 per person. At the mean, it exceeds $300,000 per person. And these are comparatively conservative estimates of the magnitude of the per person differential in black and white wealth. I'm going to argue that for purposes of addressing the racial wealth gap, it is far more important to focus on the mean gap rather than the median. That is to say, look at the conventionally interpreted average rather than the middle of the distribution.

Now, folks frequently say you should look at the middle of the distribution because those households or individuals are more representative of the typical experience of members of each of those groups, since the median excludes outlier values. However, I'm going to argue that if we're thinking about the racial wealth gap, we need to look at the mean gap rather than the median.

There are three reasons. The first is the concentration of wealth in the United States—97% of the wealth held by white households is held by those with a net worth above the white median. So, if we were to focus on the median, we will be focusing on a wealth differential that omits an overwhelming amount of the net property value held by white households.

Second, this concentration of wealth at the upper end of the distribution is not exclusively because of a handful of white billionaires. Of course, there is a handful of white billionaires, but that's not the sole reason why we have this huge concentration at the upper end of the distribution. In fact, 25% of white households have a net worth in excess of $1 million, while that's true for only 4% of black households.

And, third, this differential cannot be explained away by class differences between blacks and whites. White working class households have two to three times the net worth of black professional managerial households. This is not a question of sheer class differences across racial lines. This is a matter of racial differences in access to wealth.

And, here's one of my first two remarks about inflation.

First, I want to argue or just put on the table that inflation is peripheral to influencing the racial wealth gap. Controlling inflation is not going to have much effect on the racial wealth gap in either direction. Indeed, the uneven impact of inflation presumably hurts those the most who have the least, but the uneven impact of inflation falls far more heavily on incomes than it does on wealth.

Now let me also add that if we focus on the mean differential in wealth, then if we assign an amount of funds to eliminate that mean differential per person, and I said approximately $300,000, multiply that by the 40 million Black Americans whose ancestors were enslaved in the United States, we come up with a sum that's required to close the racial wealth gap in the vicinity of $13 to $14 trillion.

How was this racial wealth gap created? It was primarily the consequence of a set of policies conducted by the United States Federal Government.

The first of these involves land reform in the late 19th century.

Initially, the newly emancipated, formerly enslaved were promised 40 acre land grants as restitution for their years of bondage. That was a promise not kept. In fact, once the program was underway, President Andrew Johnson actually reversed the policy, and restored the land that had already been distributed to some of the Freedmen back to the former slaveholders. Subsequently no significant allocation of land was made to the Freedmen. At the same time, the Federal Government began distributing 160 acre land grants to one-and-a-half million white Americans under the terms of the Homestead Act of 1862. Trina Shanks Williams, a scholar at the University of Michigan, estimates that at least 45 million living white Americans continue to be beneficiaries of the Homestead Act land patents.[3]

Following that initial phase of racially uneven land distribution a set of massacres took place dating from the Civil War to World War II.

100 of these massacres took place with perhaps the most notorious occurring in Tulsa, Oklahoma in 1921.

In the year 1919 alone, 35 massacres took place. As a consequence, the year became known as the Red Summer. It's interesting to note that Louisiana is the state that probably had the largest number of these white terrorist attacks on black communities or on black elected officials.

[3] Trina William Shanks, "The Homestead Act: A Major Asset-Building Policy in American History" in M. Sherraden (Ed.), Inclusion in the American Dream: Assets, Poverty, and Public Policy. New York: Oxford University Press 2005 pp. 20-41.

1866 in New Orleans, 1868 in St. Bernard Parish, 1873 in Colfax, Louisiana, 1874 in Coushatta. And the New Orleans, Colfax and Coushatta massacres all functioned effectively as coup d'états, where there was the murder or ouster of elected officials who were objectionable to the former Confederates. 1900 in New Orleans again, 1910 in Shreveport and 1919, Bogalusa, Louisiana. The latter was during the Red Summer.

Now, what's significant about these massacres in the context of establishing or perpetuating the racial wealth gap is the fact that not only were black lives lost but the Federal Government didn't intervene, and in some instances was fully complicit as the source of the arms used by white terrorists.

The third set of federal policies involves the fact that in the 20th century, the Federal Government moved away from land distribution as a mechanism for asset building and towards subsidizing home ownership. It did so, in part, under the aegis of the Federal Housing Administration (FHA), but then subsequently under provisions of the GI Bill. And, in both cases, resources for home ownership that supported the creation of a white middle class in the United States did not have the same effect on black America because of the discriminatory application of these measures.

The final set of policies I'd like to mention also are anchored in the 20th century, the 1950s and 1960s, where the expansion of the Federal Highway system was conducted frequently by running freeways through the heart of black communities, in the process destroying black owned businesses in black business districts.

So, <u>what's the solution to a problem that was created</u> by federal policies?

<u>I would argue that it is the provision of a new set of federal policies.</u> This set of federal policies would fall under the orbit of a National Reparations Plan, which would have four characteristics.

The first is that the plan would establish who is eligible to receive compensation associated with the reparations program. In the work I've done with Kirsten Mullen and with Dania Francis, we established two criteria for eligibility.[4] The first is what we refer to as a lineage criteria: an individual would have to establish that they have at least one ancestor who was enslaved in the United States of America. The second is an identity standard: an individual would have to demonstrate that they self-identified on a legal document as black negro African-American or Afro-American for at least 12 years before the enactment of a Reparations Plan or the enactment of the Study Commission for a Reparations Plan.

<u>The premise here is that black Americans whose ancestors were enslaved in the United States should be the recipients of reparations of this type.</u> This is because the debt owed to them began with the failure to distribute the land grants under the 40 acres plan to their ancestors. Moreover, the national policies I have described here created the wealth deficit. Those policies are not the source of any wealth differential that might exist between white Americans and more recent black immigrants to the United States.

The second characteristic of a Plan must be establishing the amount. And as I said earlier, the amount that would be required to eliminate the racial wealth gap is approximately $13 to $14 trillion. That should set the baseline for an appropriate reparations program in terms of the sum of money that would be needed.

[4] William A. Darity Jr. and A. Kirsten Mullen, "From Here to Equality: Reparations for Black Americans in the Twenty-First Century." Chapel Hill; University of North Carolina Press 2020, pp. 258-59, and William Darity Jr. and Dania Frank, "The Economics of Reparations," American Economic Review (Proceedings), May 2003, pp. 326-29.

Now is my second comment about inflation. An expenditure of that magnitude does of course carry with it an inflation risk and so, as a consequence, an appropriate reparations plan must be designed in such a way that minimizes the prospects of producing significant inflation. This can be accomplished by taking two significant steps. The first step is not to provide compensation solely in the form of cash transfers, but in the form of less liquid assets like endowments, trust funds or annuities to reduce the pace at which people would be spending the funds.

The second dimension that could minimize inflation is to spread the payments over several years. In our book From Here to Equality, Reparations for Black Americans in the 21st Century, we recommend doing it for no longer than a decade. These are two ways which you could minimize the inflation risk of what is a relatively substantial expenditure.[5]

The third dimension of a Reparations Plan concerns who would be responsible for paying it. In our plan, it's the Federal Government. This is because of the Federal Government's culpability, outlined previously in my remarks in explaining the range of policies that have generated the racial wealth gap in the United States. The Federal Government also is the only party that has the capacity to meet a debt of $14 trillion. The combined budgets of all the states and municipalities in the United States amount to less than $5 trillion. There are a host of initiatives being taken by some cities and some states to do something they are calling "reparations." But it's impossible for them to produce the program that would effectively eliminate the racial wealth gap, given the resources they have and that they are severely tax constrained.

The fourth and final characteristic of the Reparations Plan is the form that payments should take and whether or not those payments are cash transfers or less liquid assets. They should constitute direct payments to the eligible recipients. The eligible recipients should have full discretion over the use of the funds just as eligible recipients have had full discretion over the use of funds received in other instances of reparative justice. One of the key examples is the payments made by the U.S. Government to Japanese Americans who were subjected to mass incarceration during the course of World War II.

The final point is that establishing a project of this type could finally lead to closure on the harms and damages of the nation's racial history. It would mean that black Americans who are descendants of persons enslaved in the United States would have no further claims for race specific restitution from the United States Government. This is so long as there is no renewal of the atrocities that have taken place in the past.

Allen Sinai: Thank you, Sandy, for that striking and well-researched presentation on fixing the racial wealth gap, "Making America Great for the First Time." Now, Professor Joe Stiglitz.

[5] Darity and Mullen, Ibid., pp. 265-67.

Inequality and Inflation

Joseph Stiglitz: I am going to talk more about the inflation side of Inflation and Inequality, but I will come towards the end of my talk to the inequality side and the interaction between the two.

I agree with most of what Jason said and particularly his conclusions about most of the lessons to be learned. But I'm going to take a very different interpretation of the inflation that we face and more particularly about the policies we ought to have in response to that inflation, with a particular view that the policies we are currently adopting actually risk exacerbating inequality without having as much effect on inflation as might be hoped.

The beginning of what I'm going to talk about has basically four or five ideas.

First is trying to understand the underlying drivers, disturbances to the economy causing this period of very high inflation that we are experiencing.

One of the important things that we should have learned from the 1970's episode of inflation and what happened to inequality is it's not inflation that necessarily causes the inequality. It's the underlying disturbances that give rise to inflation.

The price of oil went up hugely in the 1970s. That was a major change in the production possibilities of the West. It was a cost of product, of what had to be paid for a critical input. The West was poorer and that was an External Shock to the economy. The particular ways we dealt with that was what led to the inflation and to more inequality. But many of the things experienced in the 1970s were caused by the underlying shock to the change in the terms of trade for the price of oil and not really a result of the inflation.

Lots of policy changes occurred, especially tight and tighter monetary policy in responses that exacerbated the inequality.

That means questions about what we want or whatever is the source of the inflation need to be thought about and how policies should respond to that underlying driver.

The main point I want to make about today's inflation is that the focus of monetary policy is wrong! It will worsen inequality and do little to tame inflation, unless we push tight monetary policy to unacceptable levels with long-run consequences. There are a host of better ways that would do a better job of taming inflation, that will have less deleterious effects on inequality, and that are better suited to a particular aspect of the situation we face now.

In thinking about the right policy, we need to recognize that in almost any episode of this kind we face a great deal of uncertainty. We all know we don't know, say, how long the war in Ukraine will last nor how quickly the supply-side problems confronted in the post-Pandemic world will last. There are some things that we might do that no matter what the outcome of our interpretations or disputes on the nature of inflation will be good for the economy.

[6] Much of this talk is based on a subsequently published paper, which contains references and sources for the data: "The Causes of and Responses to Today's Inflation," with Ira Regmi, The Roosevelt Institute, December 2022. https://rooseveltinstitute.org/publications/the-causes-of-and-responses-to-todays-inflation/

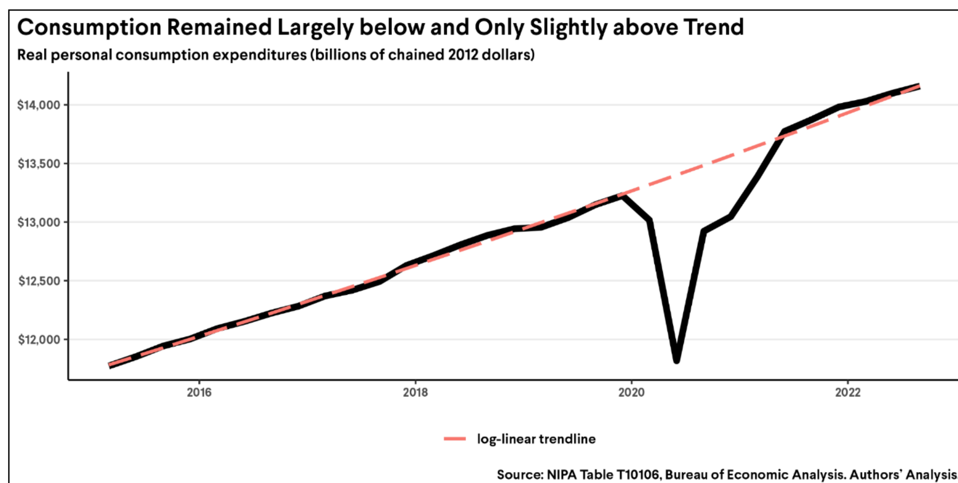
There are some other things that can occur such that if one interpretation turns out right and the other one wrong, there will be very adverse effects for a very long period of time. What I'm going to argue is that monetary policies of the kind we seem to be pursuing, if my interpretation is correct, are going to be very adverse and that there are other policies that are such so even if I'm wrong will still have benefits to our society.

I'm going to begin by talking about the underlying drivers of the high inflation that has emerged. The basic argument is that this inflation is not fundamentally excess aggregate demand. It is the supply shocks that were related to the Pandemic and the shifts in demand related to the Pandemic and some of the interactions between the two that are giving rise to inflation.

I'm also going to argue that the excess savings was not primarily caused by excess Pandemic spending and that those savings are not being spent down very quickly so are not really the source of today's inflation. An underlying theme is that the macroeconomics of the form that's been done generally is only of limited help when you have a sectoral shock like a Pandemic or oil price shocks of the sort often we've seen. In other words, standard macroeconomics uses an aggregate production function; it is as if there is just one sector. You don't focus on what happens to differing sectors. That is adequate a lot of the time. But some of the time, like this external shock, that kind of macroeconomic analysis is misleading and I would say even dangerous.

So, I'm going to go very quickly through some Charts here. They show that consumption largely remained below the trend it had before the Pandemic and War. So, the pandemic savings and the pandemic spending helped a lot, but even with that, aggregate consumption wasn't above trend or above it very significantly.

Chart 1:

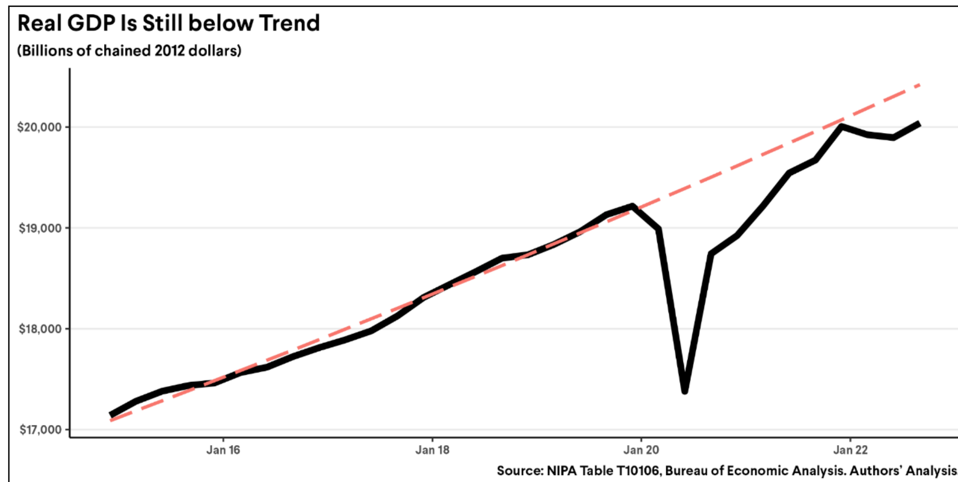


You want to look not only at consumption but business investment, government expenditures, and net exports.

Looking at all of those, total aggregate demand was actually below trend all the time and significantly below trend most of the time of Covid-19 and the Pandemic, including the period when inflation took off. This tells you that aggregate demand is not likely to have been the major source of the inflation that occurred.

[5] Darity and Mullen, Ibid., pp. 265-67.

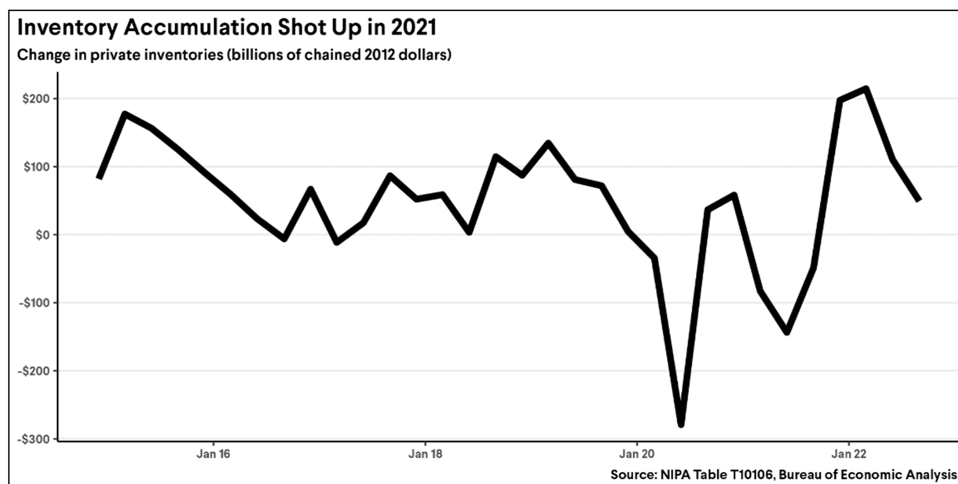
Chart 2:



Another way of looking at this is how aggregate demand compares with the Congressional Budget Office (CBO) estimate of potential output. This is the estimate done after the Pandemic, looking back, taking into account the shock of the Pandemic. Looking at it from a macroeconomic perspective, what is clear is that inflation was not driven by aggregate demand being greater than aggregate supply. Consistent with that is large inventory accumulation. When there are excess demands, inventories are decumulated. The data suggest otherwise.

Large inventory accumulation sign of weak aggregate demand

Chart 3:

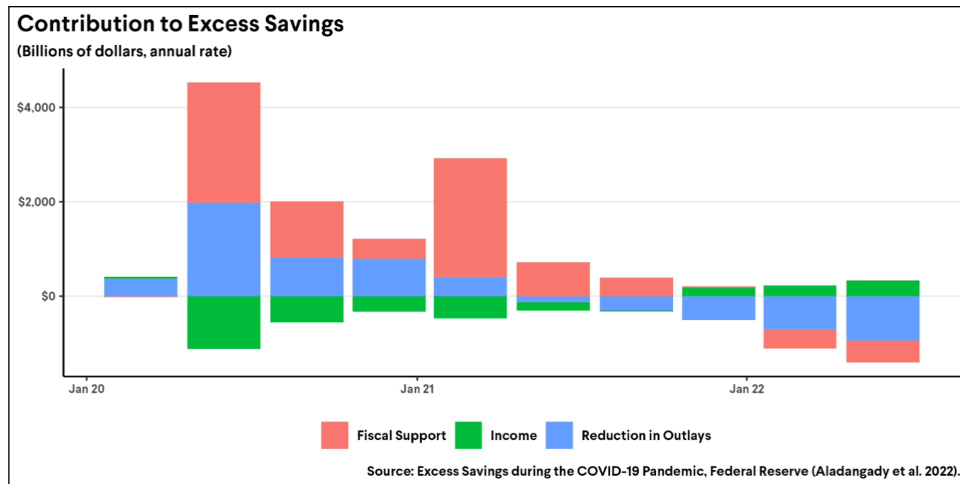


Now, this next Chart, Chart 4, was not done by me, but someone in the Federal Reserve System. Calculated is the various sources of excess savings, the savings that were above the level that would normally have been expected.

[6] Much of this talk is based on a subsequently published paper, which contains references and sources for the data: "The Causes of and Responses to Today's Inflation," with Ira Regmi, The Roosevelt Institute, December 2022. https://rooseveltinstitute.org/publications/the-causes-of-and-responses-to-todays-inflation/

High fiscal spending only partly the cause of excess savings

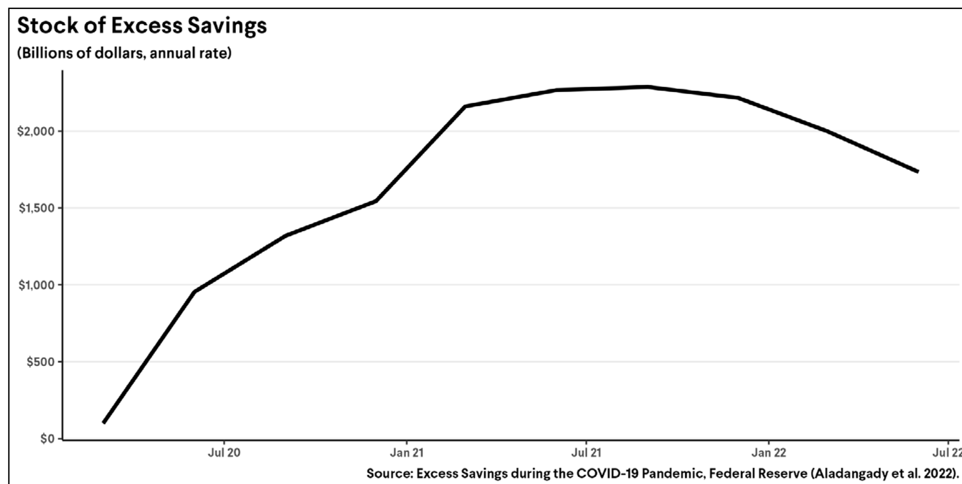
Chart 4:



What it shows is that in most of it, the pandemic spending did play a role, but a lot had to do with the fact that during the Pandemic people were sitting at home and not consuming. Interestingly, some of the consumption that did occur was consumption of tradable goods, not services; because those were disproportionately imported goods. The percentage increase in the demand was smaller and therefore the inflationary effect weaker.

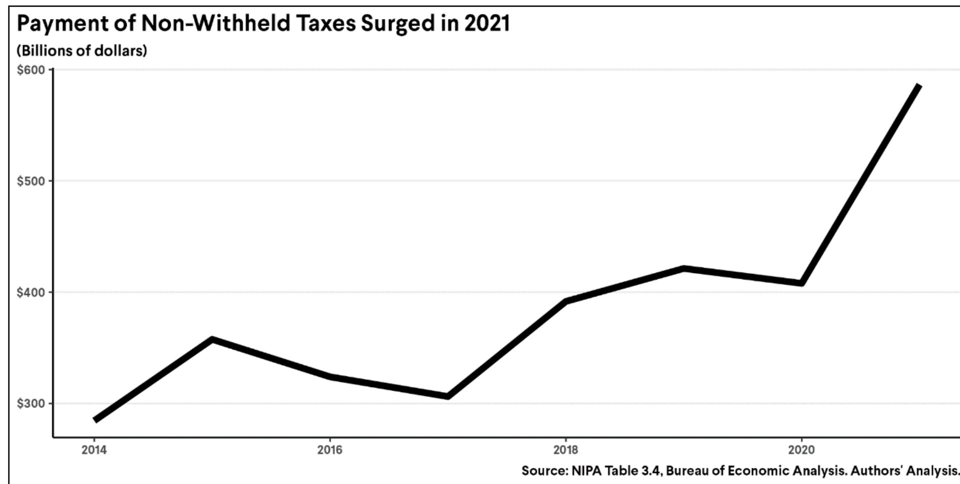
Finally, or almost so, excess savings has only been spent down very gradually.

CHART 5:



There is a good reason for this. There was a lot of uncertainty, meaning a higher demand for precautionary savings that haven't been spent down. Even this is a little bit misleading because much of the spending down of those excess savings went to pay taxes that were not withheld. There was less withholding than normal during the Pandemic.

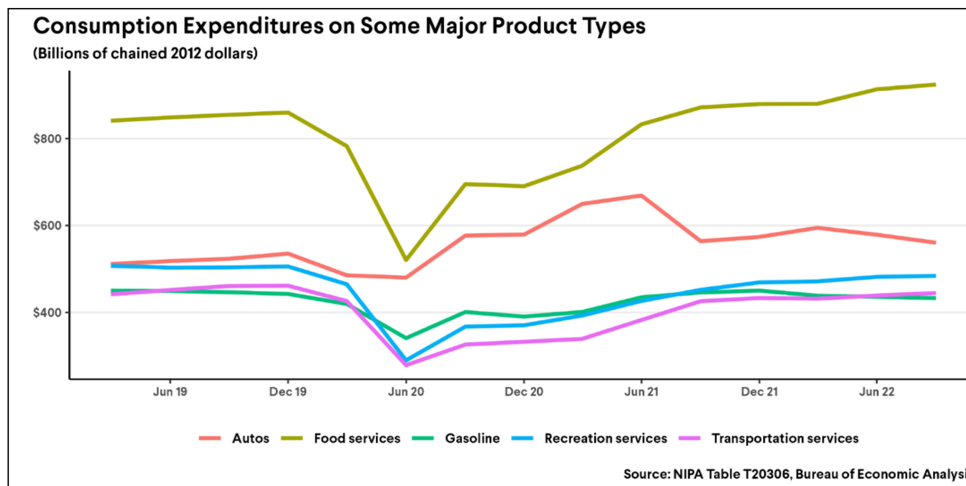
CHART 6:



Even the consumption of non-traded goods, which is the sector that you think would be most sensitive to excess spending, did not surge very much.

Consumption of non-traded goods (sector where prices most likely affected by excessive Pandemic spending) did not surge

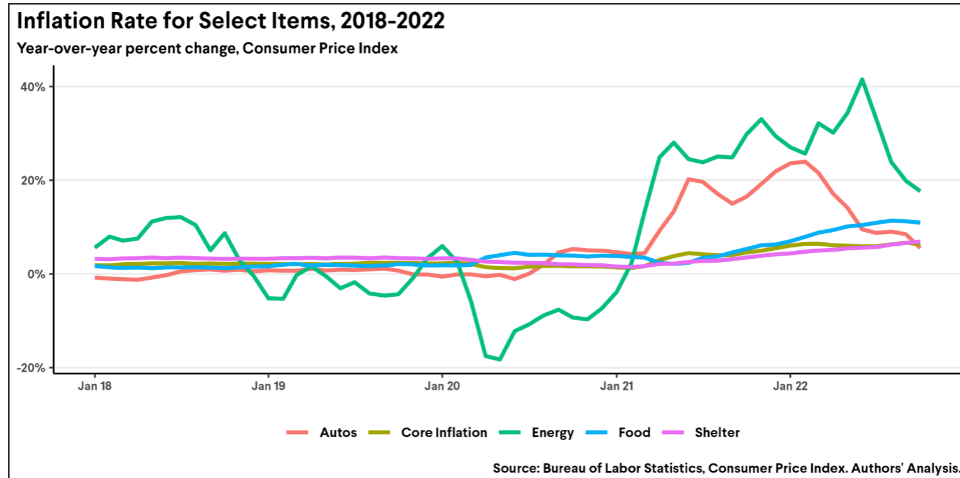
Chart 7:



Jason did point out that US inflation has been higher than Europe's, but this is one of those examples that can be read two ways. Jason reads it as showing that our pandemic spending had a big effect on inflation. But there's another way of looking at this data. We didn't get that much more inflation, and especially since the onset of the War, Europe has been much more affected by the increase in energy prices. Even if there is more inflation in the United States it's hard to be sure what it's attributed to. This is always a problem when there are multiple policy differences. Our labor market policies led to more job separations, contributing to a labor market with more churning—driving labor costs up. Moreover, the Pandemic hit our labor market worse directly: because of deficient health policies. We killed off more than 1 million individuals, many of them workers, more than Europe did. Again, Jason in the beginning of his talk mentioned we don't have random control experiments to test our theories. Actually, in the Pandemic we have many countries trying different policies from which we may be able to make some limited inferences, but in each of these cases we didn't do random controlled experiments.

Price increases centered on certain sectors with the timing not related to the gap between aggregate demand and potential output

Chart 8:

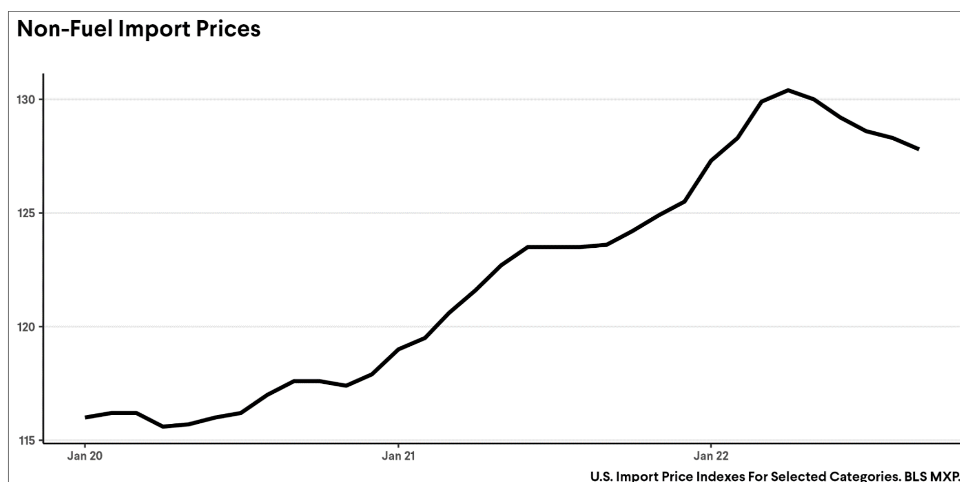


So, inferences are being made with a paucity of data and trying to see how the data fit with alternative hypotheses. The fact that there are such different patterns of prices across different sectors—and that we can understand these patterns by identifying specific sectoral problems—is consistent with our hypothesis of sectoral supply side interruptions/demand shifts as the driving force of the inflation rather than excess aggregate demand. Auto prices increased because of a lack of chips. House prices increased not because of increased aggregate demand for housing—killing off more than 1 million Americans and interrupting the inflow of migrants should have reduced aggregate demand. But there was a shift in where people wanted to live, and asymmetric price responses between places where demand increased and those where it decreased.

What do I think caused the inflation if it's not excess aggregate demand?

There are two major culprits, which I've already hinted at. The Pandemic, with its interrelated, pandemic-induced supply-side shortages (such as chips for automobiles) and demand shifts, induced by the Pandemic, partly induced by large changes in relative prices and supply shortages in other sectors. And all of this was exacerbated by the War. The price increases were centered on certain sectors of the economy and that included imported goods.

Chart 9:



To address the particular sectoral shortages, you would've had to reduce demand enormously. To put it another way, you would've had to cause a very severe economic downturn.

Consider the car shortage caused by a lack of chips. It would take a very big change in aggregate demand to filter down to eliminate that shortage. It was very big. What will eliminate that shortage in a better way than killing the economy? The elimination of the chip shortage. And in today's newspaper there was a discussion of the fact that Samsung is worried about a chip surplus. The price of chips has come down, car inventories are now building up, and the price of cars is beginning to come down.

Early on in the inflation many thought that it would be transitory. There were elements that were very transitory. There were lumber shortages, so the price of lumber went way up. Then we responded by producing more lumber. The price quickly came down. So that led a lot of people to think more generally that the inflation was going to be very transitory. That was a mistake. In an inter-complex, interdependent economy where you are doing just-in-time inventory in many sectors, resolving supply problems takes awhile. Resolving the supply side bottlenecks proved more difficult than most imagined; that kind showed itself less resilient.

As an example, just think about what happened to Southwest Airlines. Back in the early '90s, it was the best run airline, but the best run airline for normal times. That airline really minimized down time. It was the airline version of just-in-time inventory. So very efficient, but not designed for resilience. We were tested on resilience by the Pandemic. It's taken much longer than had been thought to resolve the supply side shortages so it wasn't very transitory, or at least not so transitory as many hoped. But it is transitory—a couple years later, most of the bottlenecks seem to have been addressed.

One of the aspects of this demand shift and unexpected lack of resilience is that there are asymmetries in responses that lead to inflation. Jason talked about some of those asymmetries. There were places where the demand for housing went up and prices went up. And, there were places where housing went down and prices went down, but not symmetrically. The housing price indices are very little related to the actual experience that people have in facing housing costs; housing costs are based on imputed rent, even though almost two-thirds of Americans live in homes they own, so an increase in "rents" doesn't affect them at all. This is especially important, because Housing is such a big part of the CPI.

Another supply side factor that seems to have played out is the exercise of market power. You not only see this in evidence of high markups, all of which would be consistent with supply shortages. But the markups are going up more in sectors and firms that had more market power before the Pandemic, consistent with the interpretation that market power had increased, was being exercised, and contributing to inflation.

There are a number of theories explaining why to expect that. One simple one is the Phelps-Winter customer market, which says that firms are trying to balance an increase in current profits against a loss of future profits. If they increase prices today and make a higher profit today, there is a cost—a loss of profits in the future, because there is a loss of customers.[7]

If there's uncertainty about the future, firms will tend to take the price increase today so that it is inflationary by itself.

[7] Phelps, E.S. and S.G. Winter Jr. (1970), "Optimal Price Policy under Atomistic Competition," in E.S. Phelps, et al, Microeconomic Foundations of Employment and Inflation Theory, New York: Norton. See also Greenwald, Bruce C., and Joseph E. Stiglitz 2003. "Macroeconomic Fluctuations in an Economy of Phelps-Winter Markets" in Knowledge, Information, and Expectations in Modern Macroeconomics: In Honor of Edmund S. Phelps, edited by Philippe Aghion, Roman Frydman, Joseph Stiglitz, and Michael Woodford, 123-136. Princeton, NJ: Princeton University Press.

Monetary Policy Tightening the Wrong Medicine for Supply Side Inflation

There is a debate about what is the role of the labor market. Even if wage increases hadn't initiated the inflation, workers' demands for higher wages might trigger a wage-price inflation spiral.

There were short-term corrections in relative wages, especially significant in, say, the hospitality sector with its underpaid workers. Average wages did go up, but those rates of increase of wages have now come down markedly. And one should see those as a correction to vastly underpaid workers who had a little bit more market power.

Thus, the picture today is very much that inflation is being tamed as the bottlenecks are being resolved. Inflationary expectations remain tame. In fact, one of the concerns is that wages are not keeping up with prices—there is no evidence of a wage-price spiral. And, in fact, and this is an important point, wages can and should increase at a pace faster than is sustainable in the long run, because markups can come down and the relationship between wages and prices is not fixed. We saw markups go up since the pandemic period and, hopefully, now we can see them coming down.

If markups come down, we can restore the pre-Pandemic level of real wages relative to trend. So yes, there's been some price inflation, the sectoral price increases have seeped into core inflation with some knock-on effects on wages, but we are now confronting a disinflationary process from where we were.

As a lot of the shortages, including oil, food, are easing, that disinflationary process will strengthen, with effects eventually seeping into core inflation.

Monetary Policy and Inequality—Other Policies

So, now let me talk about why monetary policy is not the right instrument to reduce inflation.

Because the inflation was not caused by excess aggregate demand, monetary policy doesn't address the underlying source of the problem. In fact, it could make things worse because it discourages the investment required to resolve the supply-side problem. In the customer markets that I mentioned, increases of interest rates actually are themselves inflationary. And, there is some empirical evidence that higher interest rates get passed on into rent, a very big part of the CPI.

Tight monetary policy increases inequality because of increased unemployment, decreased access to credit, and the decline in housing affordability from higher mortgage rates on increased monthly payments and declining real income that often accompanies periods of rising interest rates. The effects globally are even more adverse.

Let me just conclude by saying there are alternative policies that are real supply side policies, e.g., increasing green energy through investments in renewables that will lower energy prices; increasing food production by reversing agricultural policies of the past fifty years that have been aimed at restricting production, and instead encouraging production, leading in turn to lower prices; increasing labor supply with better healthcare, childcare, family leave policies, and changing immigration policies, thereby alleviating labor shortages, if they exist; stronger and better enforcement of antitrust policies, which will bring down mark-ups, lowering prices.

I've argued that there are disinflationary processes already at work. Some of these policies will reduce inflation further, and more quickly. But inflation will likely remain elevated from levels that we've experienced prior to the Pandemic. There is no wage-price spiral leading to explosive price dynamics; but there is some inflationary momentum so inflation won't come down to 2% quickly, unless monetary authorities take excessively contractionary measures. In the meanwhile, we need better protection policies that could be financed by a windfall profits tax.

Many of these policies have long-term benefits. This is true even if inflation turns out to be more transitory than seems the case now.

Discussion and Question and Answer Period

Allen Sinai: Let's now move to the Q. and A. and Discussion portion of this Session on "Inflation and Inequality." Let's follow with some quick comments from me, some discussion, and then some questions.

Starting from Joe's last comments, the point of redressing the wage share of national income is a very important part of the process that's going on. This is hard.

That's very important in the addressing of inequality. Monetary Policy—I am totally in agreement with Joe and Jason that it is the wrong policy for dealing with Inequality. And, for other reasons tight monetary policy alone takes a long, long time for any solution even if aggregate demand is the driving source of the surge in inflation.

History suggests that interest rates alone do not bring down inflation, but rising rates and their derivative effects can bring crunches, credit issues, bank failures, and the like as the price paid to weaken the economy enough, i.e., a Recession, to bring inflation down.

It doesn't matter where the inflation came from. The Federal Reserve missed it by being too late and indeed aiding and abetting higher inflation in its Forward Guidance, which opened the door for higher inflation, keeping low, near zero, interest rates for too long, and for the very rich to get richer. The policy of adding to the Federal Reserve's balance sheet supported excessive buying of stocks, investing in IPOs and the like, and mini-bubbles in financial market assets. The rich have lost some of that, but they are too smart as investors to stick around for any comeuppance. Their actions now are part of the current Bear Market in Equities, having walked away with mega-profits, much richer. There are more billionaires now than ever.

Now what do we do with these billionaires?

We should tax them. That would be quite logical and fair. And, some of the things you talked about at the end of your talk, Professor Stiglitz, would be very important to reduce inequality. Micro type policies can be financed by a small wealth tax. I don't believe that in this day and age we can't calculate wealth and enforce a billionaire tax if we have the political will.

Jason, what I would say about you and your presentation, you admit it, is changing one's mind often is a virtue. Who said that? What very famous person?

Jason Furman: James?

Allen Sinai: No, Winston Churchill. It was Winston Churchill. What was he referring to? Because he probably had a few drinks when he said it; he did drink a lot. You changed your mind and recanted—the Fed overdid it. The Federal Reserve is part of the pricing problem.

But what happens if you are walking across the street and a truck smashes into you and you collapse looking dead? If you were in bad shape to begin with, which the United States was in the Financial Crises of 2006-2009, then you don't get up very fast. But in this situation, the patient, the economy, was in excellent shape underneath and bounced up from the External Shock quickly, after having totally shut-down. Pentup Demands were then unleashed with medical science rather quickly

providing workable vaccines. This revived the patient and the unleashing of Pentup Demands revived the economy.

But in this situation, the patient, that is the economy, was in excellent shape underneath and bounded up quickly post-COVID-19.

Pentup Demands unleashed then added to the aggregate demand from the Ultra-Easy Federal Reserve policy response and was part of the surge and the inflation spiral upward.

The increases in aggregate demand against a Pandemic-constrained supply-side of the economy, labor and in the global supply chain, left oil, energy and food price inflation, and wages to shoot upward. Dynamic systems across all fields are very similar. Indeed, I think very much the same.

On the COVID-19 External Shock that shut-down the economy, i.e., flattened the patient, "paramedics," i.e., "first responders" appeared on the scene. Among the paramedics were monetary policy people. They did what they thought they had to do to save a potentially dead person. The patient, aka the economy, had shut down. The emergency medicine to pick it up was full-force Ultra-Easy Monetary Policy. This involved a quick move to a zero federal funds rate, another round of Quantitative Easing, i.e., adding more assets to an already very enlarged Federal Reserve balance sheet, and even setting up direct lending from the Federal Reserve to businesses, bypassing financial institutions, truly a "lender of last resort" function.

Fiscal policy, massive fiscal policy stimulus, was the other "paramedic" on the scene of the possibly dead patient, aka the economy. <u>From five programs under the Trump and Biden Administrations some 25% of GDP, even bigger than the shift of fiscal policy in World War II, stimulated and revived the patient.</u>

The fiscal stimulus was mostly transfers from the federal government to individuals and states and localities. The Transfers are working through the system, including what you see in New Orleans. It's a good thing for New Orleans, because you are constructing infrastructure that very likely was in terrible shape before the stimulus. Transfers at the government level take a long, long time to show up in purchases, at least two to as much as four years.

So good, Jason, that you changed your mind and are on the right track.

In retrospect, the Federal Reserve overdid it, as you indicated. And, it's good that the fiscal stimulus is being tuned back down because it, too, was overdone in the name of saving the patient. Monetary policy was post-emptive on price inflation—essentially "letting inflation run well above a 2% inflation target" on purpose to be sure the previous period of too low inflation was permanently over.

<u>Without knowing it, that announced Fed policy, post-emption, was a license to gains for the rich, the reason being essentially enhanced asset price inflation</u> supported and almost fully guaranteed by the Federal Reserve.

<u>This was a huge policy error by the Federal Reserve, although with good intentions, opening the door to a massive demand-driven price inflation process</u> as a consequence, started by the COVID-19

External Shock and the responses of Ultra Easy Monetary Policy and Massive Fiscal Policy stimulus. This aided and abetted the unexpected surge upward in price inflation.

Sandy, on your incredibly well-structured, totally persuasive presentation, the question I have is how to get it done? How are you going to get Establishment America, White or Black, to sign on to $13 trillion of Repatriations, Making America Great For the First Time. I'm with you. Am I white? What color am I? I'm with you on that. And, for you, as well, the Mayor of New Orleans, a wonderful and so well-articulated presentation.

LaToya Cantrell: I'm Black, I'm old.

Allen Sinai: You got everything going for you now.

The questions that I have for you, I hope you'll answer them. I think you are doing it better in New Orleans than the Federal Government and I applaud you.

My question is—do you think that on-the-ground local initiatives like yours that you are running from local government and your operation will get better results, faster, than the Federal Government? Take your fighting for the money the Federal Government didn't give you? Now, this is just meant to start the discussion. Let's lock the doors and not let anybody out , getting your questions and answers, and then the Panel will come back in response.

Question 1: I have one for Jason and Joe.

Both of you talked in some depth about the macro aggregate responses. But other than I believe one of Jason's slides, neither of you really broke down the responses by income group and especially heterogeneity in both labor market responses and wage responses. And so I'm curious, I mean my impression, Jason, is that your talk was titled something like "A Progressive Case for Inflation Reduction." And Joe, I know you're famously a progressive commentator on the dynamics of the economy. I'm curious whether either of you see the heterogeneous response that involves typically low income workers earning the biggest real wage gains over the last couple of years as influencing your perception of how this response functions and your perception of what we should do now and into the future.

Allen Sinai: Let's take two more questions and then collect them and make sure the answers are brief.

Question 2: For Professor Stiglitz. Most of your solutions seem to be rather long-term. And I understand all of your arguments against monetary policy interventions like the unemployment issue to fix an inflationary dynamic that's not driven by aggregate demand. Do you think that any steps are necessary in the short-term to at least display to consumers that action is being taken? Or is that not necessary if the long-term investments are being made?

Allen Sinai: There is one more in the row in front of you.

Question 3: My question's mostly for the Mayor, but I assume the whole Panel. We talked about inflation, we talked about inequality and the intersection. What are your constituents saying about whether inflation is making inequality worse? What does the Panel say about this? Is the inflation making inequality worse?

Joseph Stiglitz: One of the terrible things about the Pandemic was that it affected various groups differently. And as we said, it exposed inequalities in the country and exacerbated them. Also, what was interesting, some very micro data shows how the pandemic spending affected different income groups. That could be done by looking at ZIP codes where people live with different incomes. One of the striking things was that lower income people spent essentially all the pandemic money they received—they needed it to survive. And one of the things we didn't talk about, in a sense, they actually spent more than what was given because there was short-run eviction protection. So they could go into debt; because it wasn't that they were forgiven on their rent, they just couldn't be evicted. If they didn't pay their rent, they had more money to spend during the pandemic, but this was money they would have to pay back. That was something happening in the lower half of the population, which would have a dampening macroeconomic effect post-pandemic.

The upper half of the income distribution, we didn't target it as well as we should have done, so money went to people who added it to their cash balances. But if you had a choice about doing something in a rush and you couldn't fine tune the policy vs. not doing anything, it was the right thing to do; and as I've said, I think the evidence is that it hasn't caused the inflation because a lot of it just wound up in excess savings. We don't have the full counterfactual to test this, but I think it's pretty clear.
In terms of the labor market, the first thing I want to say is that the unemployment rate may not be the best measure of the state of the labor market. And that was one of the graphs that Jason displayed on employment rates, still below where they were pre-Pandemic.

So, our labor market isn't really recovered, despite the large declines of the unemployment rate. One way we measure unemployment is are you actively looking for a job? And there are many reasons why you might not be. What really concerns me is that we know that different groups are affected very differently by an increase in unemployment. So when you callously say, "Oh, we're going to increase the unemployment rate to 5.1% or 5.5%," what you're saying is, "We're going to increase the unemployment rate of African-American males, young males to 20%." That is a very different picture and presents a fundamental social problem. To me, that is probably one of the most important aspects of trying to cure today's inflation by increasing unemployment.

Now, there is a question about long-term versus short-term. Childcare provisions, changes in family leave policies, all those things would enable women to immediately join the labor force. That would have a major effect in the short run and over the long-term would have even a bigger effect.

One of the things we should have done is use the Defense Production Act (DPA) that we used for vaccines to increase renewable energy. And, that I think could have had a substantial effect on the supply of energy and energy prices.

There are other actions we could have done in the short-run. We could have used the DPA in other ways that would've alleviated inflation and its effects on inequality, even in the short-run.

Jason Furman: I'll be very brief. The Pandemic's impact was really regressive. The most vulnerable were those who lost jobs and suffered the most. The policy response was very progressive. It disproportionately gave money to the most vulnerable. When you look at the net o f those, if you just look at data on aftertax incomes, 2020 and 2021 are an extraordinary period of low poverty and a dramatic reduction in aftertax inequality. If you look at the recovery period, you're seeing the fastest wage growth for workers at the bottom than the top. For the bottom two quartiles, wage growth is out-pacing inflation. For the top two quartiles of workers, it's not. But, if you compare with

where we were before the Pandemic, yes it is outpacing inflation but only by a little bit. And prior to the Pandemic, it was by a lot.

So we were actually starting in 2015 seeing a reduction in wage inequality. That reduction in wage inequality has continued to enable the most vulnerable to see wage gains in excess of prices, which is not as much in excessive prices as they were before.

Allen Sinai: The last word, it certainly should go to a woman because women in my life, always have the last word.

Sandy Darity: Yeah, just very briefly, I agree with Jason's assessment on the differential back of inflation. As I said, the impact is primarily on incomes and does not have a significant set of implications for the wealth gap. Regardless of whether or not it's disproportionately affecting the wealth position of Blacks or Whites, the effects are so marginal that it's not going to have any strong implications for the differential in wealth.

And then, Allen, you asked about how you actually build the political foundation for getting Reparations to become a reality. That's a very challenging question. But I will say that the current environment is more propitious than at any other moment in my lifetime.

A research study that was done based upon survey data collected in the year 2000 found that 4% of White Americans endorsed monetary payments as reparations for Black Americans. By the year 2018, that figure had risen to about 15%. And at the midpoint of 2021, a UMass Amherst Survey indicated that proportion was closer to 30%. So the big issue is whether or not that trajectory can be sustained and what are the steps to be taken to sustain that trajectory. But I'll have to say whether or not it happens in my lifetime, it's closer to happening than at any point since the Reconstruction Era.

Allen Sinai: I share that this is a moment in history. It happened for me with the Election of Joe Biden, believe it or not. I think he has to run again, he has to win, and he has to have a Democratic House. And, if so, then a lot of things, more things, will happen and a lot has happened, progressive Democratic Party stuff, long overdue on a societal basis. Thus, this is a moment of time. Professor Darity, you gave a really incredibly well-structured presentation on Reparations and the rationale for Reparations. Getting it done is the big issue, but probably only with the running and reelection of President Biden.

Finally, I'm going to hand the microphone to Mayor Cantrell. You are the hostess here. I'm going to hand the microphone to the mayor who obviously gets things done here in New Orleans. And, you listened to us and our discussions, much very academic. Thank you for staying and your patience.

I think you got something from we academics. But what I got from you is that you get it done. Below your level, your people are getting it done. And with results that matter and help those at the bottom of the income and wealth distributions.

LaToya Cantrell: Well, I think that during this Pandemic it was very clear that mayors were on the front line and have been on the front line in advocating not only for what our constituencies need, but also in getting it done. And so I think that, yeah, the only way we were able to see a direct allocation from the Federal Government is because mayors who have been screwed by their states stood up and said, "Hey, our money isn't hitting the ground where the needs are the greatest. It's being redirected." So it was mayors who fought the fight and mayors who brought the dollars home so that we can

help our cities and our people.

Question 4: Mayor Cantrell, can I ask you while we have everyone here just to explain what happened? Because I'm not sure everybody knows about what happened with the implementation that well.

LaToya Cantrell: Well, here in New Orleans and the Federal Government in creating the CARES Act and the resources that would flow from it, those resources were sent to the state and the states then had to send money to the cities. Each state is different based on their own set of politics. And in Louisiana, we are a Red State. New Orleans is the Democratic city in the State of Louisiana. We are the backbone of this state. We carry it, but also we get the black eye. And with that we beat back Covid-19. As I mentioned at Hotspot, we led, we did everything right. We spent over $132 million as a city beating back Covid-19. And as a result of that, we sent our invoices and expenses, the invoices to the State of Louisiana. Every invoice was approved so that we did the right thing—money was spent the correct way, but we were not fully reimbursed our $132 million.

We were short-changed some $70 million. And the reason they said, "Huh?"

Well first of all, on the front end, since we were the hotspot, "New Orleans, you must not be doing things right because you are the hotspot." "It's only in New Orleans, Covid. It's only there."

Okay, so then we focused on doing the work, led out of this Covid, through it. And then it was, "Oh, you're not getting fully reimbursed because we have Covid in other parishes and now they're suffering." Well, damn!

So we got penalized for doing the job, saving not only our city, but the State of Louisiana because we are the backbone with our hospitality and leisure, tourism. So it was like we did the right thing. It was used against us, short-changed $70 million. That $70 million was used, meaning our public safety team, police, fire, EMMS, all when I talk about the $132 million was our response to Covid and our teams on the ground doing the work.

Fast forward, violent crime, "Oh, it's out of control." Well hell, if we would've gotten our $70 million when we needed it most, then we could have easily directed those dollars to help build our capacity relative to our public safety team. So it's like every step you take, you feel like you're getting beat back as well. That's what caused me to take on and fight single-handedly in my state for direct allocation, because our city got screwed. Art, what else?

Arthur Walton: I think it's important to know, and I'm the biggest fan in here. The Federal Government, when they sent the CARES Act money, there was a 500,000 population threshold. So if your city didn't have 500,000 people, the money went to the state. The mayor realized early on we weren't getting the money. The question was how do we solve that? So the mayor joined with the mayor from Miami. They wrote an editorial in the New York Times because Miami got screwed, too.

LaToya Cantrell: Who was a Republican. I'm a Democrat. Who gives a damn, and why should anyone, when we're fighting for our cities and people getting the money?

Arthur Walton: This is the way we work on the ground. We reached out through our lobbyists to Speaker Pelosi. The mayor gets on with Speaker Pelosi, this is what's happening on the ground. So the next help from the Federal Government, they lowered the threshold to 250,000. So it came directly to us.

LaToya Cantrell: And it helps other cities across the country.

Arthur Walton: The lesson...the struggle… If we don't do our job and the mayor doesn't reach out, it's the same thing over and over again.

Allen Sinai: One person over 500,000. You told me that, Arthur, when we first met, I was really appalled when I heard that. Amazing. And the solution you got to is also amazing. Just identify who you are for the audience.

LaToya Cantrell: That's Arthur Walton. He is my Director of Intergovernmental Relations.

Allen Sinai: Okay. Mayor Cantrell, do you have any good advice for us?

LaToya Cantrell: Well, just stay connected. Stay connected to the leaders who are on the ground, that is mayors who are first responders and know best about what their city and constituencies need. I forgot to answer a question that was asked of me. The gentleman back there, you asked me a question?

Question 5: The constituents, what are they saying about the intersection of Inflation and Inequality? What's hurting most?

LaToya Cantrell: Well, those who are the most vulnerable continue to hurt the most. And what they are saying is that while they have seen wage increases for city government, the lack of increases in the private sector is the problem. And, because we are so hospitality driven, it's been hell, I have to say. It's been hell getting industry to increase those wages that our people need. They are working two and three jobs to make ends meet. When they go to the grocery store, prices go up and you know the deal. But the biggest thing is the wage gap.

Allen Sinai: Okay. Well, thank you. The answer, I think, on inflation, it's not going to be solved by tight monetary policy. As we talked about here, monetary policy can affect interest rates but not deal much with inflation. With interest rates rising, it is almost inevitable that there will be casualties in the financial system and reverberations through the whole economy that will be negative. That may help reduce inflation but it will be negative for inequality as we defined it today.
If inflation comes down, it will not be the result of tight monetary policy.

Linda Blimes: I want to thank everyone who has attended and thank you for your patience. If you would like to receive a transcript of the Panel, please see Thea Harvey over here and give us your name. I also want to volunteer, the Mayor said that the Miss Universe pageant is here next week. We have 7,000 economists here. There are many women who might be happy to volunteer as contestants. Thank you very much to our Panelists today and the audience for your questions.

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