U.S. HOUSE COMMITTEE ON
FINANCIAL SERVICES
DEMOCRATS

Rep. Maxine Waters, Ranking Member

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Keynote Remarks
AFL-CIO Monetary Policy Conference
Implications of Globalization & Secular Stagnation for Monetary Policy
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I want to thank my dear friend, President Richard Trumka, as well as the AFL-CIO for having me as the keynote speaker for today's Monetary Policy Conference. I'm so honored to be here among you all today. I would be remiss if I didn't acknowledge the pall hanging over today's event. My thoughts and prayers go out to all of those impacted by Sunday's terrible attacks in Orlando.

In the aftermath of the 2008 crisis, the AFL-CIO led the charge for a strong and comprehensive response to the meltdown, and you were central in helping us pass what ultimately became the Dodd-Frank Wall Street Reform and Consumer Protection Act. But let me thank everyone here today for not stopping back in 2010, when the law was passed. As one lobbyist put it, the passage of Dodd-Frank was only "half-time" of a long game to stop financial reform.

We are now playing a ***tough*** second-half, and the opposing team just brought an unpredictable quarterback off the bench, who's willing to play dirty and break the rules to win. And just last week, the Chairman of the Committee where I serve – House Financial Services – unveiled his radical plan to deregulate just about every corner of the financial sector and tie the Fed's hands in supporting the economy through monetary policy again. Appropriately enough, he did it in an exclusive club house in New York City, in the shadow of Wall Street – and then proceeded to Trump Tower to ask for the blessing of the Republican Party's new leader.

So thank you for continuing your work, because everything is really on the line. You understand the need to not only play a strong defense, but to also shine a bright light on the topics that matter to workers. I am pleased to be here at this important event today that stresses how an *uneven* recovery – one that leaves behind workers, low-income Americans, and people of color – is really an *incomplete* recovery.

State of the Economy: More Progress Needed

As I see it, our economy has made remarkable progress since we emerged from the worst recession since the Great Depression. Indeed, swift action on the part of the Federal Reserve, Democrats in Congress, and the Obama Administration brought our economy back from the brink of total collapse. A number of economic indicators point to this progress: In May, private sector job growth continued to climb for the 75th consecutive month. At 4.7 percent, our unemployment rate has fallen by more than half since the depths of the recession to its lowest level since 2007. Since the crisis hit, our GDP is up across the board, and our housing market has largely steadied.

Yet, even as our economy is showing signs of new life, the severity of the recession and the slow pace of the recovery means that millions of American families have yet to get back on their feet.

Workforce Participation

While the unemployment rate has indeed fallen substantially, a closer look at alternative measures of unemployment show our workforce has yet to *fully* recover. For example, the unemployment rate reaches 9.4 percent when you take into account other groups such as discouraged workers, workers who are marginally attached to the labor force, and those who work part-time but would prefer full-time employment.

Further, the labor force participation rate shows a decline in the number of Americans who are employed as a share of the population. Part of this downward trend can be explained by structural factors — such as increasing numbers of retirees and more young people going to college — but it raises important questions about the significant number of people who have given up looking for work all together. In a disappointing development, last month's jobs report found that although the headline unemployment rate fell, this was a result of the fact that more than 600,000 people dropped out of the labor force. It may be too soon to judge whether this is an anomaly or the mark of a troubling trend, but it's a critical reminder of the importance of looking beyond the headline figures when assessing whether the economy is strong enough to support those seeking employment.

Wages

Another sign of slack in the labor market is the weakness we've seen in wage growth. Wage growth, since the recovery began in mid-2009, has generally been low and flat. This isn't surprising because the weak labor market of the last seven years has put enormous downward pressure on wages. But it is unusual for an economy at or near full employment, where we should expect to see wages grow as employers must compete for a smaller pool of talent.

Indeed, to recover from years of wage stagnation, workers really need to see higher wage growth over an extended period. As the Economic Policy Institute points out, labor's share of corporate income typically falls as profits increase more rapidly in the early stages of a recovery, but rises again late in a recovery as workers regain their bargaining power. To date, labor's share of corporate income hasn't seen a reliable increase, and the modest gains we've seen so far certainly come nowhere near the level needed to make up for losses incurred since the Great Recession.

Women

Also of concern is that recent evidence suggests women, particularly older women, may face employment obstacles in the post-crisis economy. One recent study from the University of California at Irvine and Tulane University found that the résumés of older women received far fewer callbacks for job interviews than identical résumés of older men and of younger applicants of either gender. Absent a stronger labor market, employment discrimination against older women is likely to persist.

Minority Communities

Finally, the numbers make clear that minority communities in particular have had a much more painful experience, both during the recession and in the recovery that has ensued.

Our overall unemployment rate peaked at 10 percent in 2009. Yet for African-Americans, unemployment reached almost 19 percent in 2010, and it remained above 10 percent through the first half of 2014. At 8.2 percent today, the unemployment rate for African-Americans is still well above the rate of white Americans.

Latinos fared slightly better, but their levels of unemployment continue to be much higher than their white counterparts. Unemployment for Latinos peaked at 13 percent in 2009, and didn't fall or stay below 10 percent until November of 2012. Today, the unemployment rate for Latinos remains elevated at 5.6 percent.

Beyond the employment gap, the wealth gap also remains unacceptably high along racial lines. According to the Pew Research Center, the current gap between African-Americans and whites has reached its highest point since 1989. The current white-to-Hispanic wealth ratio has reached a level not seen since 2001. Between 2010 and 2013, the median wealth of white households *increased* nearly 2.5 percent, while the median wealth of African-American and Hispanic households *fell* 33 percent and 14 percent. It's created a reality today in which the typical African-American household has only $11,000 in accumulated wealth and the typical Hispanic household has just more than $14,000. Compare that to an average of $140,000 for white households, and you can see how severe the racial wealth gap really is.

Indeed, the Great Recession has cast a long shadow – one that will have consequences for generations of middle-class and low-income families, minority communities, women, and workers of all walks of life seeking upward mobility for themselves and their children.

The Role of Congress

Monetary Policy

It is against this backdrop that I want to frame some of the issues we are grappling with in Congress, and specifically on the Financial Services Committee.

Not far from here, the rate setting body of the Federal Reserve, the Federal Open Market Committee (FOMC), is convening today and will come to a decision tomorrow on whether to maintain the current stance of monetary policy or nudge rates higher.

As you know, the Fed's decisions have serious implications for working Americans who rely on borrowing to make ends meet. Low-income and minority communities, in fact, rely disproportionately on credit to finance auto loans, college, home mortgages, and other consumer spending. And thus, any increase in rates will undoubtedly make it more expensive for them to borrow. Particularly when employment for vulnerable populations and wage growth remains below expectations, I remain concerned about how Fed policy, and particularly any premature rate increases that slow the economy, could impact my constituents and your members.

Although Chair Yellen has expressed cautious optimism about the path for our economy's growth, I have full confidence in Chair Yellen's appreciation for the fact that we cannot lose sight of the weaknesses in our economy, which sometimes can be overshadowed by the progress in headline numbers. In an economic environment where room for improvement in the labor market remains, where there is anemic growth and volatile conditions abroad, and where the U.S. dollar remains strong, I understand and support the Chair's cautious and prudent approach.

When the Chair comes before the Financial Services Committee next week, I believe it will be important to encourage the Fed to continue to work toward the full employment aspect of its dual mandate in a number of ways: First, by accounting for a broad range of labor market indicators, including wage growth, prior to any shifts in interest rates. Second, by increasing the diversity of voices present within the highest ranks of the Federal Reserve System. Third, by engaging in outreach at both the national and regional level. And fourth, by challenging it to think creatively about its policy tool kit.

Before discussing these goals in greater detail I would like to make it abundantly clear that unlike many Republicans in Congress who have pushed destructive legislation that would jeopardize the Fed's independence and undermine its commitment to full employment, I believe that maintaining the independence of our central bank is paramount to ensuring confidence in our financial system. The fact is that the Federal Reserve's operational monetary policy independence and dual mandate have served the American people well. Such independence ensures that policy decisions are empirically driven, rather than motivated by short-term political pressures. It is therefore within the context of holding the Fed accountable for achieving its dual mandate that I make the following recommendations.

Accounting for a Broad Range of Labor Market Indicators, Including Wages

First and foremost, before taking any further steps to raise rates and slow the nation's economy, the Federal Reserve must continue to look at the full picture when assessing the health of the labor market and determining whether it has successfully fulfilled its legal mandate to promote full employment.

As I mentioned earlier, this includes far more than merely looking at the headline unemployment rate, which fails to capture the many Americans, who despite their best efforts, had to give up looking for work all together. This number also ignores the more than six million Americans who are under-employed or who would work more hours to make ends meet if only the economy was strong enough to support them.

Of course, the unemployment rate also fails to consider whether a stronger labor market is having a meaningful impact on wages. So far in this recovery, we've yet to see meaningful wage growth for working families, and this should be a tell-tale sign that our workforce is not at full employment. By raising rates prematurely, the Fed runs the risk of denying millions of Americans a shot at bargaining for better wages and a better living.

Apart from the fact that rising wages are a good indicator of a healthy labor market, it's important that we recognize that the Fed is indeed well positioned to nudge wages higher through its monetary policy by holding rates low until the labor market tightens until the point that employers must pay higher wages to recruit and retain workers. Doing so is also consistent with the Federal Reserve's statutory mandate to promote full employment. This is crucial as the likelihood that a Republican controlled Congress will take action to raise the Federal minimum wage to a livable wage is regrettably low.

Thanks in large part to the leadership of the AFL-CIO and the work of the broader labor movement, it is now widely understood, at least within Democratic circles, that wages for countless working families are well below the level they need to be in order to meet their most basic needs.

Prematurely raising rates can have adverse consequences for the millions of Americans who are doing everything they can to make ends meet in an economy that has yet to truly support their efforts. That's why those of us who have a window into the plight of our constituents, or fellow union members, must continue to support and push the Fed to consider a wide range of labor market indicators in determining whether the economy is at "full employment."

Increasing the Level of Racial and Occupational Diversity at the Regional Reserve Banks

Second, addressing the needs of diverse and underserved communities will only receive the attention it deserves if those communities have a seat at the decision-making table. Unfortunately, more progress still must be made in that regard.

Class B and Class C directors of the Regional Federal Reserve Banks are required by law to represent the interests of the public, yet the level of racial, ethnic, and gender diversity on those boards remains far too low. The current make-up of these positions also suggests that these members are falling short of capturing the full range of our great country's perspectives and experiences.

According to Federal Reserve data analyzed by the GAO, between 2006 and 2010, representation of women and minority directors remained low across all classes of directors. The data also showed a striking lack of occupational diversity, with labor and consumer groups under-represented compared to other industry groups on the Regional Banks' boards. Only five of the 202 directors served as consumer representatives, and only six directors served as labor representatives.

Given that these directors are a key link between the Federal Reserve System and the communities they serve regarding the economic conditions across the country, it matters that they understand and communicate the disproportionate hardships faced by traditionally underserved communities. That's why the lack of racial and ethnic diversity among the 12 current Reserve Bank presidents is so troubling to me. Surely individuals with diverse backgrounds would jump at the opportunity to shape the course of our nation's economy.

To address this distressing lack of diversity, I offered an amendment in the Financial Services Committee that would change the Federal Reserve Act to explicitly provide for consideration for the interests of traditionally underserved populations and consumers in selecting regional Federal Reserve Bank Directors to represent the public's interests. Although my amendment passed, the amendment was attached to a broader proposal that Democrats couldn't back and which never became law.

To continue to push for progress on this issue, I also recently joined with Congressman John Conyers, Senator Elizabeth Warren and over one hundred other House Democrats in calling on the Fed to take action on its own to ensure that its leadership reflects the composition of our diverse nation. Indeed, our letter called upon the Federal Reserve, in its search for regional Bank directors to serve beginning in 2017, to engage in an inclusive process to consider candidates from a diverse set of backgrounds, including a greater number of African-Americans, Latinos, Asian and Pacific Americans, women, and individuals from labor, consumer, and community organizations.

I know Chair Yellen takes personal responsibility for increasing the level of racial, ethnic, gender and occupational diversity within the senior-ranks of the Federal Reserve, and hope that with continued encouragement from Congress, organized labor, and the public at large, we can make the lack of diversity a concern of the past.

Outreach by Federal Reserve Officials

Third, the Board of Governors and the regional Federal Reserve banks must redouble their efforts to engage with local communities to better understand how their policies affect low-wage and vulnerable populations. Chair Yellen, no doubt, has worked hard to expand community engagement efforts, but more can be done across the Federal Reserve System to ensure that policymakers fully grasp the implications of their policies.

There are any number of ways that the Federal Reserve could more effectively and routinely consider the impact that its policies have on the most vulnerable in our society. I often tell my own staff that they have to get out and meet people, and visit the agencies that our Committee oversees. The same could be said for the Federal Reserve System. I think that getting Members of the Board out into the communities that have yet to reap any benefit from the recovery would go a long way toward better understanding what it means to truly have full employment.

Thinking Outside the Box to Address the Economic Needs of the American People

Fourth, amid the lingering effects of a brutal recession, the American people would be well served by a Federal Reserve that challenges itself to think creatively about its policy tool kit, in order to fulfill its mandate to promote full employment and meet the needs of our communities.

You all remember that as the financial crisis worsened back in 2008, the Fed worked quickly – over a single weekend, in fact – to extend emergency loans to the giant insurance company AIG. And as history has proven, this decision required the Fed to put its full weight into finding a solution for an urgent problem.

On the monetary policy side, again, you all recall that when the Fed dropped the federal funds rate to the zero lower bound, many doubted that it had the tools to further stimulate the economy through monetary policy. But through bold and innovative action, the Federal Reserve proved its critics wrong. Rather than accept the zero lower bound as the best it could do, or resign itself to the fact that it had never done anything like it before, the Fed chose to undertake an historic quantitative easing program that played a critical role in helping households, workers and businesses alike.

With a Republican Congress that refuses to address the most basic needs of working families, a growing number of community advocates and labor unions have been raising important questions. If the Fed can work so expeditiously to stop a crisis in the financial sector, what is their duty to use that same ingenuity to approach the problems facing workers? Again, these are important questions, and I think we should all query whether the Fed can go beyond its traditional toolkit to achieve a full recovery for everyone.

The Role of Regulatory Policy and Republican Attacks on Fed Independence

Lastly, I would be remiss if I didn't mention at this conference the role of the Federal Reserve in regulatory policy. As all of you surely know, the Fed's post-crisis regulatory responsibilities for safeguarding the financial system grew substantially as part of the Dodd-Frank Act. Unfortunately, Republican amnesia about the crisis and the need for reform has driven them to relentlessly push an agenda to undercut the important progress that we made.

As I mentioned at the start of my remarks, the Chairman of the House Financial Services Committee just unveiled a radical proposal that represents a special interest wish-list for every industry we, as lawmakers, are expected to oversee. In addition to their usual attacks on the Consumer Financial Protection Bureau, the Republican plan would handcuff the Federal Reserve in its regulatory responsibilities, requiring endless cost-benefit analysis tilted toward special interests. Their plan would repeal the Fed's independent funding as a banking regulator, and would require them to provide roadmaps to the banking industry to help them evade capital rules. It would strike the Volcker Rule— Dodd-Frank's ban on speculative trading at banks and investments in hedge funds—and completely repeal the Fed's role as the new regulator for systemically important shadow banks.

The plan also would revive dangerous legislation that seeks to undermine the monetary policy independence of the Fed by imposing a strict rules-based monetary policy regime subject to GAO review that would dramatically curtail its discretion, its independence from short-term political pressure and its ability to make effective decisions based on a wide range of economic data. Chair Yellen did not mince words when she described the possibility that these proposals could become law "a grave mistake."

Since Republicans took control of the House in 2011, they have proposed various iterations of this kind of destructive legislation designed to cripple the Fed's ability to set monetary policy and I am pleased that we have been successful in beating this back. But we have many fights ahead of us, and I would encourage all of you to continuing lending your voices to this cause. After all, workers are only able to build wealth if their income isn't stolen by financial predators the minute they cash their checks.

Conclusion

I'd like to wrap up by noting that too many Americans have an inaccurate view of the Federal Reserve. They see it as a faraway entity that makes abstract decisions that have no bearing on their day-to-day lives. To the contrary, the Fed's policies have a direct and significant connection to every aspect of the lives of American workers – from influencing the rates they pay on loans, to overseeing our nation's payment systems, to ensuring that Wall Street never again puts taxpayers on the hook for their risky behavior.

Indeed, we will never have an inclusive and complete recovery without having a Federal Reserve focused on the needs of our most vulnerable Americans. I appreciate the opportunity to discuss these issues with you today, and I stand ready to partner with you moving forward, so that we can advance an agenda that prioritizes the needs of working families.

Let me again thank the AFL-CIO, President Trumka, and all of you here today for providing me with the opportunity to address these key priorities.

Thank you.

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