Federal Financial Analytics, Inc.

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Contact: Matthew Shaw
mshaw@fedfin.com
202.589.0880


## First-Time Study: How FRB Monetary Policies Worsen U.S. Income Inequality

> Even the best-intentioned actions often have risks – as the FRB tries to improve U.S. growth and ensure financial stability, it has made U.S. income inequality even worse. The central bank's portfolio skews asset prices in favor of the wealthy while ultra-low rates for prolonged periods of time push downward on the ability of most Americans to save for retirement, home ownership, and other life goals. Blockages in the financial pipeline exacerbate the income-inequality impact of monetary policy, lengthening "lower for longer" and forcing the FRB to hold so large a portfolio despite resulting market distortions and risk.

**WASHINGTON, D. C.**, September 19, 2016 – As the Federal Reserve sits down tomorrow to reconsider its unprecedented accommodative policy, a new study from Federal Financial Analytics, a Washington-based analytical firm, points to the unintended cost to U.S. income inequality of prolonged ultra-low interest rates in concert with the FRB's multi-trillion dollar portfolio. The study is based on White House, regulatory, central-bank, and academic research assessing aspects of this challenge. But, for the first time, it pulls all of these together with a U.S.-specific focus that takes the post-crisis regulatory framework into account.

"It's clear that the FRB does not want to make low- and moderate-income households poorer – quite the contrary," said FedFin managing partner Karen Shaw Petrou. "But, income inequality is nonetheless rising faster and more sharply than it otherwise would due to the FRB's actions," she continued. As a result, careful attention needs quickly to be given to why the FRB's ambitious effort to promote robust economic recovery is in fact only making the rich richer and the financial system still less stable."

As detailed in this study, the FRB has also recognized the significant economic and social-welfare cost of income inequality. However, it has generally attributed the cause of rising inequities in wealth distribution to factors such as fiscal policy and underlying social-infrastructure challenges. These play a major role that indeed warrant urgent attention, but this study points also to income-inequality drivers within the FRB's control:

- The FRB's portfolio creates market pricing incentives that favor the assets held by wealthier people (e.g., stocks and bonds) versus the assets low- and moderate-income individuals and families hold (principally deposit accounts, see below, and homes).
- Ultra-low rates make it very difficult for low/mod households to find safe stores of value (e.g., insured deposits) that provide returns sufficient to fund wealth accumulation (e.g., save for a down payment, buy a car to get to a job, finance education, etc.).
- Banks have reduced capacity to make loans that advance low/mod wealth accumulation because balance sheets now include large volumes of non-productive assets (e.g., Treasuries) and capital constraints that make adding new loans more challenging. Thus, normalizing rates will not solve for income inequality, although some pressures sharply widening it would abate.
- These income-inequality problems might be solved if non-banks took over from banks, but this would further dampen the FRB's ability to transmit monetary policy, make finance less stable, and increase consumer risk.

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