Democracy Dies in Darkness

ECONOMIC POLICY

Meet the ordinary people who are mobilizing around monetary policy

By Ylan Q. Mui

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District resident Shemethia Butler never finished college or studied finance. But she plans to fly to Wyoming this week for one of the most elite economic conferences in the world. Her goal: schooling the central bankers gathered among the Grand Tetons in Jackson Hole about the hard realities of her own kitchen-table economics.

There's $899 in monthly rent for the two-bedroom apartment she shares with her 5-year-old daughter, $83 to $90 for electricity, $40 for her cell phone. Meanwhile, Butler brings in less than $700 a month from her part-time job at McDonald's. She doesn't need a spreadsheet to know that the numbers don't add up.

"I'm going to Wyoming to let these bankers in Jackson Hole know that we are not in recovery," said Butler, 34. "I need them to understand. I need them to see where I'm coming from."

The three-day meeting in Jackson Hole, sponsored by the Federal Reserve Bank of Kansas City, includes a keynote by Fed Chair Janet Yellen. In the past, notable speakers have included Columbia University economist Michael Woodford and Bank of India Gov. Raghuram Rajan. The atmosphere is decidedly academic, with strict rules governing the presentation and debate of research papers that can run 50 pages or longer -- not the typical setting for a populist uprising.

This year the conference is focused on the health of labor markets, a key consideration for the Fed as it weighs when to end its unprecedented support for the American economy. And activist groups have become increasingly worried that workers themselves are not included in the discussion.

The Center for Popular Democracy is slated to release a letter Tuesday signed by more than 60 left-leaning organizations, ranging from community groups to bigger players such as the Economic Policy Institute, Public Citizen and Demos. They are calling on the Fed to keep its easy-money policies in place until wages start to rise and what has been an exceptionally uneven recovery begins to broaden out. Butler, along with several other workers and activists, intend to trek through the mountains to deliver that message in person before the conference begins Thursday.

"We are writing to remind you that the American economy is not working," the letter reads. "We hope that in the coming months and years, the Federal Reserve's leaders will make a more concerted effort to listen to our voices."

The Fed is an unusual target for this type of grassroots campaign, more typical in protests against big companies such as Wal-Mart or around issues like voting rights. Monetary policy can be an abstract concept, rife with jargon and inscrutable acronyms. Criticism of the Fed has typically come from economists debating its mathematical models, politicians bristling over the independent central bank's powers or frustrated investors attempting to divine its intentions.

"Most people don't really understand much about what the Fed does and certainly not why it does what it does," said Allan Meltzer, a professor at Carnegie-Mellon University and Fed historian. "It's rather remote from most people's current experience and interests. It's very hard to summon public outrage, whether it's deserved or not."

The Fed's charge is to keep prices stable and encourage maximum employment. It operates by setting the interest rate at which banks lend to each other overnight. That rate, in turn, influences the cost of borrowing throughout the economy. Lower rates help stimulate consumer and business spending -- and with any luck, create jobs -- while higher rates help quell an overexuberent economy and rising prices.

The Fed slashed its target for interest rates to zero in 2008 to combat the financial crisis and has kept it there ever since. It has pumped trillions of dollars into the economy for an additional boost. But now, the unemployment rate is falling faster than many at the Fed expected. Job growth is reaching into higher-wage industries after years of being concentrated in low-paying sectors. For the first time since the recession, the central bank is seriously debating if the economy is ready to stand on its own.

That is enough to worry activist groups -- particularly since hope of federal legislation on issues such as the minimum wage, extending unemployment benefits and paid leave stand little chance of passing in a polarized Congress. The Fed is one of the only games left in town.

"Monetary policy is central to our economy and our society, and the discourse around monetary policy needs to be democraticized," said Ady Barkan, senior attorney for the Center for Popular Democracy. "We can't leave the debate about Fed policies up to academics and elite bankers and corporate executives."

The unusually contentious battle last year over who would lead the Fed also help stoke interest in the institution, he said. President Obama had initially planned to nominate former Treasury Secretary and close adviser Lawrence H. Summers for the post. But Democrats balked at Summers' role in deregulating the financial industry during the Clinton administration and **his** disparaging comments about women made when he was president of Harvard University.

The pressure from liberal groups helped ensure that Summers could not secure the votes to win confirmation in the Senate. He eventually withdrew his name, and Obama instead nominated Yellen, who was the second-in-command at the Fed.

Yellen may be particularly sympathetic to the activists' arguments, at least relative to previous Fed chairmen. In a speech Chicago in March, she invoked individual stories of struggling workers to illustrate the human toll of high unemployment -- an unorthodox move in an institution more famousfor obfuscation. The next month, she met with representatives from the AFL-CIO, which did not sign the joint letter, and has repeatedly cited the high number of involuntary part-time workers and those who have given up looking for a job as reasons to be patient in withdrawing the Fed's support. Yellen is slated to speak about the labor markets Friday in Jackson Hole.

"These and other indications that significant slack remains in labor markets are corroborated by the continued slow pace of growth in most measures of hourly compensation," she said in congressional testimony last month.

It is unclear how much grassroots opposition may influence Fed thinking -- particularly since it occurs so rarely. Meltzer said he could not recall activists ever gathering at Jackson Hole. The last public campaign mobilized against the Fed was in the 1980s, when then-Chairman Paul Volcker was hiking interest rates to stem double-digit inflation. Though he successfully brought prices under control, the economy went into recession as a result. Farmers and construction workers were particularly hard hit by the rate hikes, and they mailed blocks of wood to the Fed in protest and blocked its entrances with tractors.

The measures did little to sway Volcker, according to Stephen Axilrod, who worked at the Fed for three decades and was among Volcker's key aides. His course had been set.

“None of that, in my head, had much to do with anything,” Axilrod said.

But he and other Fed watchers acknowledge that the central bank is in a new era. Public confidence in government and financial institutions is shaky at best. The Fed has made a concerted effort to increase transparency and connect with Main Street. At the same time, lawmakers have launched several efforts to curtail the Fed's powers -- or even get rid of it altogether. Though such proposals stand little chance of passing, they can shift public perception of the central bank.

“Part of it is part of a reputational issue,” said Sarah Binder, a professor at George Washington University and senior fellow at the Brookings Institution. “The Fed's credibility depends on people believing that they're going to do what they say they're going to do.”

And right now, the Fed's next step is not all that clear. Prominent economists outside of the institution -- and several top officials within it -- are arguing that the Fed has goosed the economy to its limit. Some worry it could be even laying the groundwork for the next bubble: The major U.S. stock indexes have roughly doubled in value since the depths of the recession. The Dow Jones Industrial Average has hit 15 record highs this year alone.

But Butler still has a long way to go to before rebuilding her life after losing her job at the Golden Corral due to budget cuts a few years ago. At McDonald's, she makes $9.50 an hour, and she pulls in extra money by baby-sitting or doing her friends' hair. It's still not enough to make ends meet.

"Things may be fine on Wall Street, but they are not fine on my street," Butler said. "And if [central bankers] lived on my street, they would definitely change their mind."