https://www.brandeis.edu/global/news/2019/yellen-conversation.html

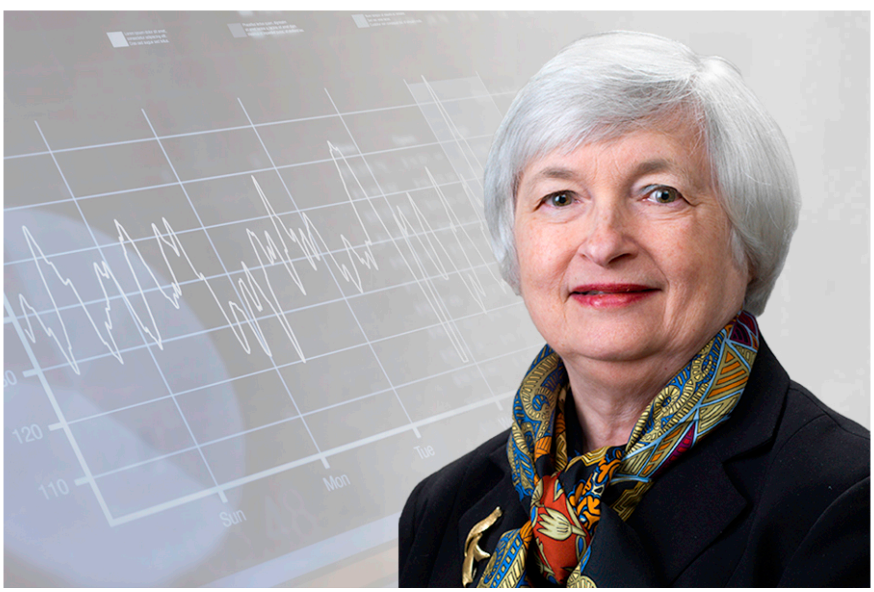
News Categories In the Headlines Archives For the Media

News & Media > 2019 > Janet Yellen Q&A

A conversation with Janet Yellen

In advance of Brandeis visit, former Fed chair discusses U.S. economic outlook, inflation risks and carbon taxes

August 28, 2019 | By Brian Messenger



Former Federal Reserve chair Janet Yellen will speak at Brandeis Sept. 21.

Featured Stories

Fintech report: Brandeis Internationa Business School a global leader

Trailblazing economist Janet Yellen, the first woman to lead America's central bank, is coming to Brandeis.

Yellen, who chaired the Federal Reserve Board from 2014 to 2018, will be the featured speaker at Brandeis International Business School's **all-alumni Reunion Weekend** on Sept. 20-22. The event will commemorate the school's 25th anniversary.

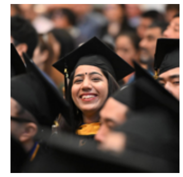
Reunion Weekend registration is **now open**.

Yellen will speak Sept. 21 alongside **Stephen Cecchetti**, the Rosen Family Chair in International Finance and a professor at the International Business School. The conversation is open to all members of the Brandeis University community, including students, faculty, staff and alumni.

Yellen is currently a distinguished fellow in residence at the Brookings Institution's **Hutchins Center on Fiscal and Monetary Policy** in Washington, D.C. Prior to chairing the Federal Reserve, she served as the Fed board's vice chair, as president and chief executive officer of the Federal Reserve Bank of San Francisco, and as chair of the White House Council of Economic Advisors.

Yellen is also professor emerita at the University of California at Berkeley, where she was the Eugene E. and Catherine M. Trefethen Professor of Business


Landing her dream job at Deloitte


Success stories: 232 graduates honored at Brandeis IBS diploma ceremony

News Categories

All News

School News

Faculty

Innovation

Events

Alumni

and Professor of Economics. Prior to Berkeley, she worked as an assistant professor of economics at Harvard University, an economist at the Federal Reserve Board, and a lecturer at the London School of Economics.

In anticipation of her visit to campus, we asked Yellen about the future of the U.S. economy, whether low unemployment will impact inflation, and why she supports the creation of a carbon tax system to combat climate change.

What are the long-run prospects for the U.S. economy?

I am quite concerned about the long-run prospects for the U.S. economy. I worry that absent significant public policy initiatives, living standards for the typical American worker will stagnate in the years ahead. This has been the prevailing pattern in the U.S. for many decades and I fear that breakthroughs in artificial intelligence and machine learning will only serve to reinforce this pattern.

There are several factors that contribute to this disturbing trend. First, productivity growth looks to have declined for reasons that are not entirely apparent. Over the entire postwar period, nonfarm business productivity has risen about 2.2% per year. Until the first OPEC oil shock in 1973, productivity growth averaged 2.8% per year and subsequent to that shock fell to just around 1.5%. Productivity growth picked up considerably in the 1990s but since 2007 it's averaged only 1.3%. Much of the decline represents a diminished contribution from technical progress or total factor productivity growth. Some economists contend that recent technological breakthroughs simply don't compare in terms of productivity impacts with those of earlier times; others find that the dynamism of the U.S. economy — the pace of "creative destruction" whereby resources are reallocated from less productive to more dynamic firms — has slowed. A decline in productivity growth translates into a decline in the pace of average real compensation growth.

In addition, there's been a huge rise in inequality in the U.S. resulting in a growing divergence between "mean earnings" and "median earnings" — the earnings of the typical worker. This divergence

About
Programs
Careers
Information For
Admissions
Faculty &
Research

institutional changes that have diminished the bargaining power of labor.

Finally, since around 2000, the share of the GDP pie accruing to labor has also declined, which means that real average hourly earnings have been growing less quickly than productivity. The share of the pie accruing to "capital" has risen. These disturbing trends pertaining to the living standards of typical American workers are resulting in very worrisome developments in American society, including diminished labor force participation by prime-age workers, and rising mortality rates for white prime-age workers due to increased deaths of despair: suicide, alcoholism and the opioid epidemic.

How low can unemployment drop without raising inflation?

Unemployment has declined to the lowest level in 50 years and there is no sign of rising inflation. In fact, inflation has been running under the Federal Reserve's 2% target for the last seven years — something that is a significant concern because it could lead to an erosion of inflation expectations, which would pull inflation down further and is particularly dangerous in a world of low interest rates.

The last time unemployment reached such a low level, in 1969, inflation had already risen to around 5%. The truth is that no one knows for sure how low unemployment can drop without raising inflation but I see the labor market as quite tight now and — although inflation has remained very low — wage increases have picked up during the expansion, presumably reflecting a diminution of labor market slack. The pace of wage increases at this point is still consistent with low inflation: with trend productivity growth running at roughly 1% and wage increases running around 3%, unit labor costs are rising at roughly a 2% pace — in line with the Fed's inflation objective. Firms are not at present experiencing significant pressure on their profit margins, pressure that could eventually prompt them to push through more rapid price increases.

Furthermore, profit margins have risen significantly over the last two decades, so there is scope for them to possibly erode without triggering inflationary pressure. I do think that wage increases will continue to pick up, especially if the labor market tightens further, and somewhere down the line I think that will translate into upward pressure on inflation. But inflation expectations are now well anchored, possibly even a bit too low, and the Phillips curve — the slope of which measures the impact of a decline in labor market slack on inflation — has become very flat. So we will not likely see a rapid or dramatic increase in inflation even if the labor market tightens somewhat further.

An important question is whether the unemployment rate remains a good measure of labor market slack and how to assess the current value of the "natural rate of unemployment" — the rate consistent with stable inflation. That rate looks to have declined substantially, partly due to an older and better-educated workforce. Moreover, prime-age labor force participation, which has declined considerably in recent decades, has been moving higher as the tight labor market is inducing individuals who were not looking for work to take jobs and incenting many workers to stay in the labor market longer than they may have planned. There may be further scope for prime-age labor force participation to rise, and this represents an additional margin of slack that is not reflected in the unemployment rate. Finally, I believe that labor's bargaining power has likely declined, and that's also working to hold down wage increases.

In your opinion, why are carbon taxes the right approach to curbing climate change?

I believe that climate change is a serious problem demanding an immediate policy response and a carbon tax offers the most cost-effective lever to reduce carbon emissions at the scale and speed that is necessary. The emission of greenhouse gases into the atmosphere, resulting in global warming, is a classic example of an externality — a situation where an activity which is privately beneficial causes social harm. The most efficient way to counter that harm is to impose a tax that reflects the damage. The tax affects the prices of all activities that cause carbon emissions, inducing individuals and firms to appropriately factor the environmental harm caused by these emissions into account in their decisions.

A carbon tax is therefore the "first best" policy to address carbon emissions. Intuitively, an economywide carbon tax, especially one that is levied upstream, at the point where fossil-fuels are produced and sold into the economy, affects every private decision that directly or indirectly generates carbon emissions. It minimizes the economic costs of attaining any given carbon emissions reduction goal, permitting ambitious environmental goals. A carbon tax also creates appropriate incentives for emissions-reducing technological changes and new technologies make it less expensive to reduce emissions over time. Given the lags in the development of these technologies, it makes sense for the size of the carbon tax to gradually increase over time. Many studies show that "command and control" policies that direct firms or households to deploy particular technologies to reduce emissions are far more costly than a carbon tax.

Of course, a carbon tax places burdens on households and consumers and for that reason is often resisted by voters. I am supportive of an approach that would redistribute the proceeds of a carbon tax to consumers on a lump sum basis. I recently spearheaded an economist's statement supporting a "carbon dividends plan" along these lines. Our statement received the endorsement of 27 Nobel Prize winners, almost all past chairs of the Council of Economic Advisers, and over 3,500 economists. I see broad bipartisan support for an approach along these lines.

Celebrate the unifying power of business at Brandeis International Business School's ***all-alumni Reunion Weekend****, Sept. 20-22, 2019.* ***Register now****.*

August 29, 2019

A 'truly inspirational' class

August 23, 2019

Real talk at Orientation 2019

June 14, 2019

Brandeis IBS attracts top Indian students

June 6, 2019

Innovation for the greater good

415 South Street, Waltham, MA 02453 (781) 736-2252
globaladmissions@brandeis.edu