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Making the Rich Richer

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One of the greatest scenes in movie history occurs at the end of Casablanca. Humphrey Bogart is standing over the gestapo major's body with a smoking gun. When the police drive up, the French colonel announces that the major has been shot and orders his men to "round up the usual suspects."

Nearly all Democrats, and even many Republicans, now agree that inequality is a serious problem. They are desperately struggling to find ways to address the problem. Meanwhile, they will likely stand by and watch as the Fed raises interest rates. They will mostly like jump on board of the Trans-Pacific Partnership (TPP) and other trade deals that may come before Congress. While these policies go into effect, which are designed to redistribute income upward, we can count on our political leaders rounding up the usual suspects: looking for reasons why most workers are not sharing in the gains from economic growth.

Starting with the Fed, the purpose of raising interest rates is to slow economic growth and to keep workers from getting jobs. The ostensible rationale is that if the unemployment rate gets too low, then wages will start rising more rapidly and then we could have a problem with inflation. In order to ensure that inflation doesn't become a problem, the Fed raises rates and keeps the unemployment rate from falling further.

This is about as much of smoking gun as anyone can ask for. After all, we know that wages will rise more rapidly if the unemployment rate falls further. And we know that workers at the middle and bottom of the income distribution will disproportionately benefit from wage increases as the unemployment rate falls. And, as one more piece of the puzzle, we know that the unemployment rate has been much higher by any measure over the years since 1980 when inequality was growing than it had been in the years up to 1980 when workers shared in the gains of economic growth.

Yet somehow we are supposed to ignore Fed policy when it comes to determining economic policy. The Washington Post editorial page, that great mouthpiece of elite opinion, expressed the sentiment perfectly last week. It essentially said it would be okay if the Fed started raising rates soon, or they could wait somewhat longer, sort of like they were deciding on which color suit to wear. Hey, might this decision affect the job prospects of millions of workers and the wages of tens of millions? Don't bother the folks at the Washington Post editorial board; they're busy trying to figure out the causes of wage inequality.

There is a similar story on trade. Our trade pacts over the last three decades have been designed to redistribute income upward. They have quite deliberately placed U.S. manufacturing workers in direct competition with low paid workers in the developing world. The predictable result of this policy is lower wages for U.S. manufacturing workers as millions lose jobs to foreign competition. Furthermore, the loss of jobs in manufacturing puts downward pressure on wages in other sectors as displaced workers in manufacturing are forced to look for jobs in the retail and service sector.

There was nothing inevitable about this pattern of trade. It was done by design. Instead of writing trade deals that focused on making it easier for foreign manufactured goods to be brought into the United States we could have written trade deals that would have made it easier for foreign doctors, lawyers, and other high-end professionals to train to U.S. standards and compete with our professionals. This would have offered gains to consumers and the economy in the same way as low-cost shirts and shoes from China offer gains. However in this case the losers would be doctors, lawyers, and other high-end professionals.

But the politicians in Washington chose not to write trade deals this way. High end professionals have more political clout than ordinary workers. Therefore they are still largely protected from foreign competition. We only subject less-educated workers to international competition.

This situation is made worse when the dollar becomes over-valued as is now the case. This increases the downward pressure on the wages of workers subject to international competition. To address the problem of foreign countries deliberately pushing up the value of the dollar to gain an edge in trade, many economists and unions have urged rules on currency in the TPP.

It seems virtually certain that the TPP will not include any currency rules. After all, it just the jobs and wages of ordinary workers at stake. The Washington Post expressed elite concerns beautifully in an editorial that essentially paraphrased the famous Barbie doll line about math being hard, telling readers that currency values are hard.

Of course there are issues in designing currency rules, but none that are obviously insoluble. If you want hard, look at the leaked TPP chapter on intellectual property. There are plenty of very hard issues there, but when the question is profits for Pfizer, Microsoft, or Disney, our trade negotiators are up to the task. But when the issue is currency rules that could benefit ordinary workers they get Barbie doll stupid.

The main point of the TPP is writing rules on patents, copyrights and regulations more generally that will favor corporations. In other words, it's about making the rich still richer.

But the elites are likely to get their way on both Fed policy and the TPP. But don't worry; they will spend lots of time and money trying to uncover the causes of inequality.