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Op-Ed Joseph Stiglitz explains why the Fed shouldn't raise interest rates

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As central bank governors, Federal Reserve officials, economists and reporters convene for the annual economic policy retreat in Jackson Hole, Wyo., this weekend, the question on everyone's mind is: Will the Fed raise interest rates come September?

The answer should clearly be "no." The preponderance of economic data indicates that the predictable costs of premature tightening — slower job and wage growth — far outweigh the risk of accelerating inflation.

Six years into a lackluster U.S. expansion, price growth for personal consumption expenditures — excluding food and energy — has averaged less than 1.5% annually in the recovery, well below the Fed's unofficial 2% inflation target. It slowed to 1.3% so far in 2015.

Global economic forces are poised to drive inflation still lower. Last week, oil prices fell to $42, a low not seen since February 2009. Europe's growth remains anemic and is likely to remain so: The IMF forecast for 2015 is just 1.5%. And while it is difficult to piece together a precise picture of what is happening in China, most experts see growth slowing markedly, with effects in other emerging markets.

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With a weaker euro and yuan, our exports will decrease and our imports increase. Together, this will put pressure on domestic businesses and the job market, which is hardly robust.

Despite a headline unemployment rate of 5.3%, the true labor market situation faced by working families in the United States remains dire. Millions remain trapped in disguised unemployment and part-time employment. As of July, the nation faced a jobs gap of 3.3 million — the number needed to reach pre-recession employment levels while also absorbing the people who entered the potential labor force. The true unemployment rate, including those working part time involuntarily and marginally attached, is more than 10.4%.

Poor labor market conditions are also reflected in wages and incomes. So far this year, wages for production non-supervisory workers, which tracks closely to the median wage, fell by 0.5%. Median household income — a better indicator of how well the economy is doing as seen by the typical American than GDP — at last measure was lower than it was a quarter-century ago.

It is hard to see why the Fed would choose slower job and wage growth for most Americans just to protect against the theoretical risk of moderately higher inflation. But, then again, it's often hard to understand the Fed's policy choices, which tend to contribute to widening inequality in the United States.

Too often, after the end of one recession, the Fed, fearing inflation, has used monetary policy to dampen the economic expansion. Its maneuvers keep inflation low but unemployment higher than it otherwise would be, negatively affecting all workers, not just those out of a job. Workers in jobs face greater stresses, downward pressure on wages and diminished opportunities for upward career mobility. The costs of higher unemployment are borne disproportionately by people in lower-income jobs, who also tend to be disproportionately people of color and women.

After the 2008 crisis, the Fed tried to stimulate the economy by buying bank debt, mortgage-backed securities and Treasury assets directly from the market — so-called quantitative easing — which disproportionately benefited the rich. Data on wealth ownership show clearly that the portfolios of the rich are weighed more toward equity, and one of the main channels through which quantitative easing helped the economy was to increase equity prices.

So quantitative easing was yet another instance of failed trickle-down economics — by giving more to the rich, the Fed hoped that everyone would benefit. But so far, these policies have enriched the few without returning the economy to full employment or broadly shared income growth.

The Fed has been forthright in pointing out the limits of monetary policy to help the economy. Fiscal policy could lead to stronger and more equitable growth, but the Republican-led Congress has demanded austerity.

Still, there is more the Fed could do. It could do more to curb excessive debit card fees and the anti-competitive charges that credit and debit cards impose on merchants. These fees lead to higher prices and lower real incomes of workers. It could also do more to encourage lending to small and medium-sized businesses.

Easiest of all, it could choose not to raise interest rates. All policy is made under uncertainty. In this case, however, the risks are one-sided: Ordinary Americans in particular will be hurt by a premature rate rise, as the economy slows, unemployment increases and there is even more downward pressure on wages.

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