The State of the Recovery and the Challenges Ahead

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Maplewood Rotary Club

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NATIONAL ECONOMIC EDUCATION DELEGATION

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National Economic Education Delegation

- **Vision**
  - One day, the public discussion of policy issues will be grounded in an accurate perception of the underlying economic principles and data.
- **Mission**
  - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.
- **NEED Presentations**
  - Are **nonpartisan** and intended to reflect the consensus of the economics profession.

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Who Are We?

- **Honorary Board: 54 members**
  - 2 Fed Chairs: Janet Yellen, Ben Bernanke
  - 6 Chairs Council of Economic Advisers
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - Akerlof, Smith, Maskin
- **Delegates: 590+ members**
  - At all levels of academia and some in government service
  - All have a Ph.D. in economics
  - Crowdsource slide decks
  - Give presentations
- **Global Partners: 44 Ph.D. Economists**
  - Aid in slide deck development

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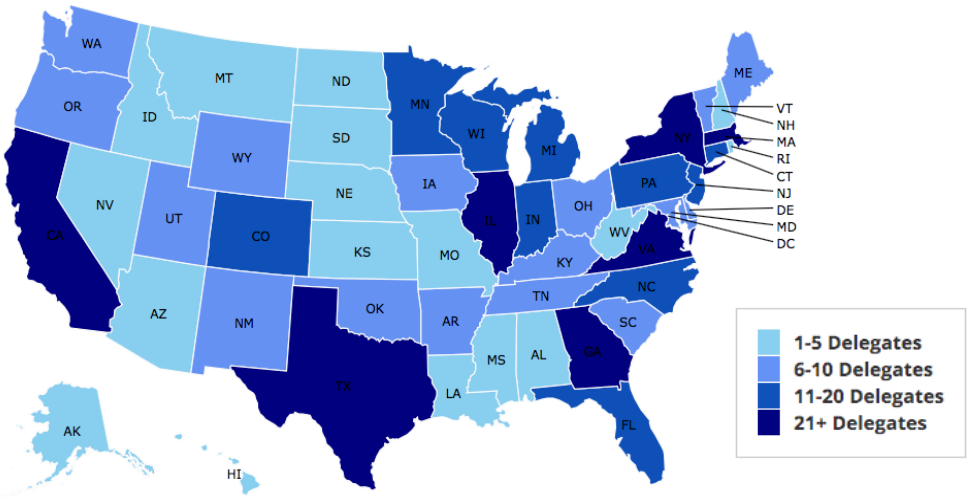
Where Are We?



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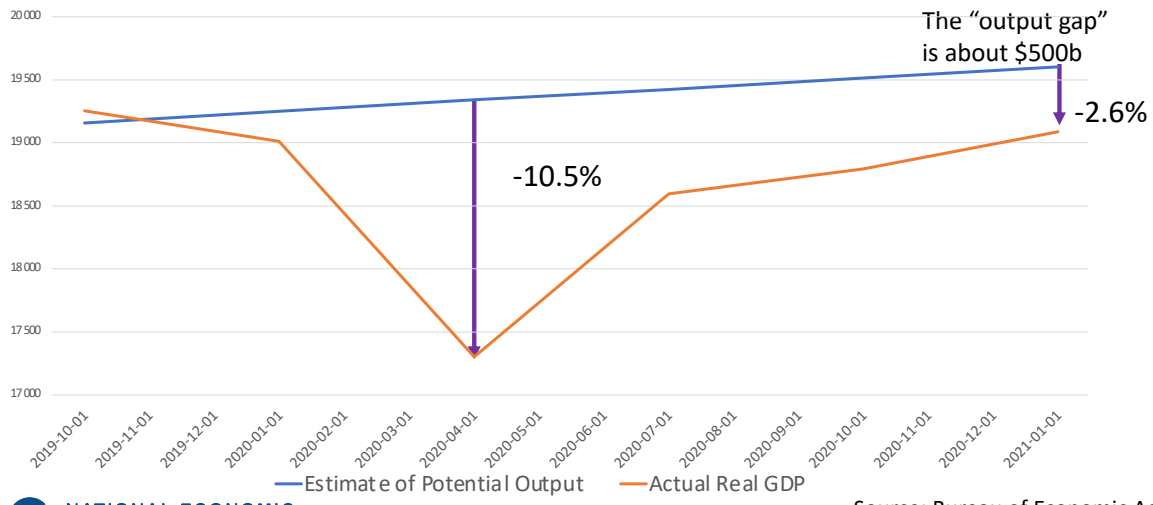
Available NEED Topics Include:

- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles

Credits and Disclaimer

- **This slide deck was authored by:**
  - Geoffrey Woglom, Amherst College, emeritus
- **This slide deck was reviewed by:**
  - Jon Haveman
- **Disclaimer**
  - NEED presentations are designed to be nonpartisan.
  - It is, however, inevitable that the presenter will be asked for and will provide their own views.
  - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

Real GDP and Potential during the Recovery



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Source: Bureau of Economic Activity https://www.bea.gov/ & CBO

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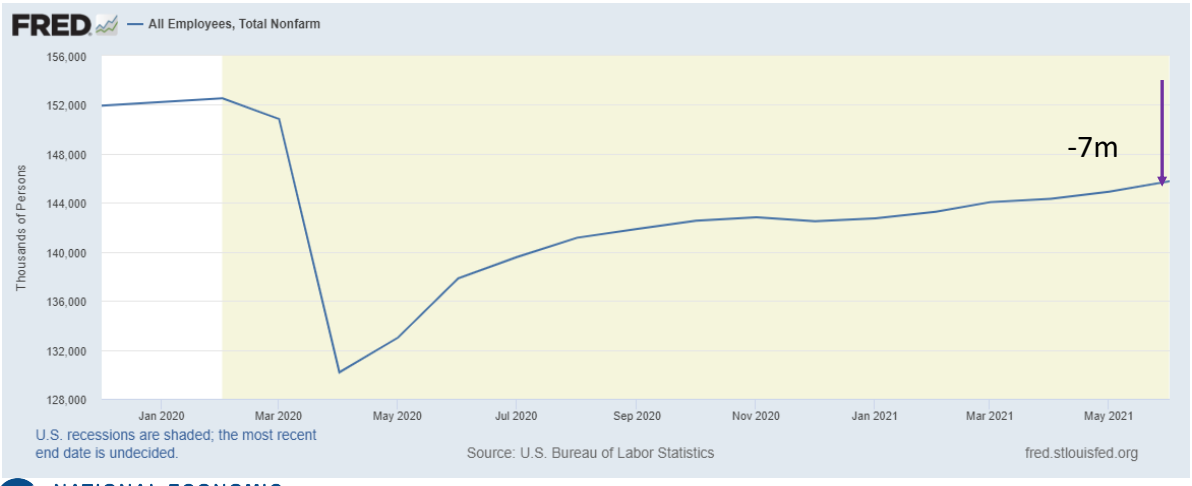
How about the Labor Market?



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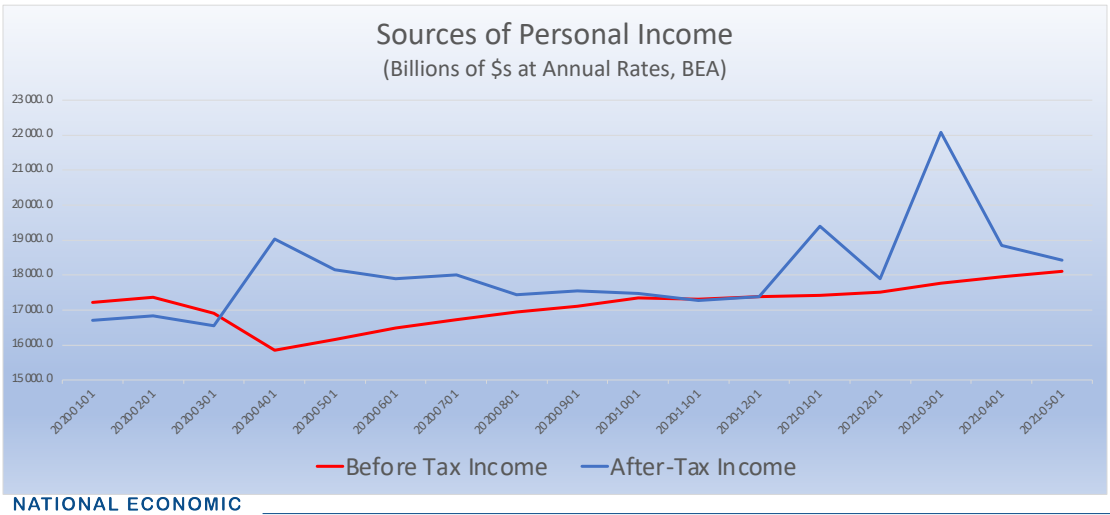
Recovery Due to Immense Fiscal Stimulus and Control of COVID



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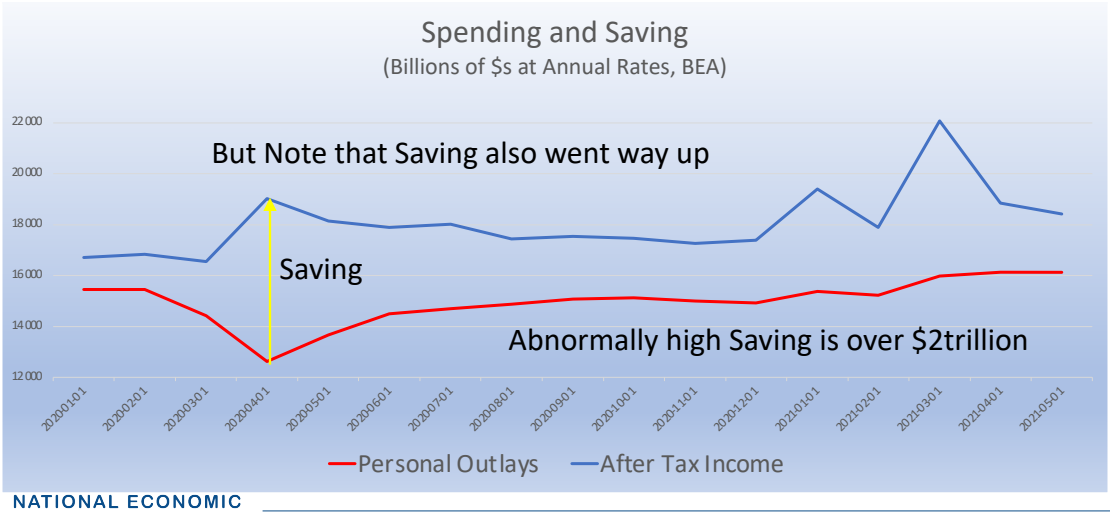
Stimulus allowed Spending to Recover



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Production and Employment on Tap for a Full Recovery

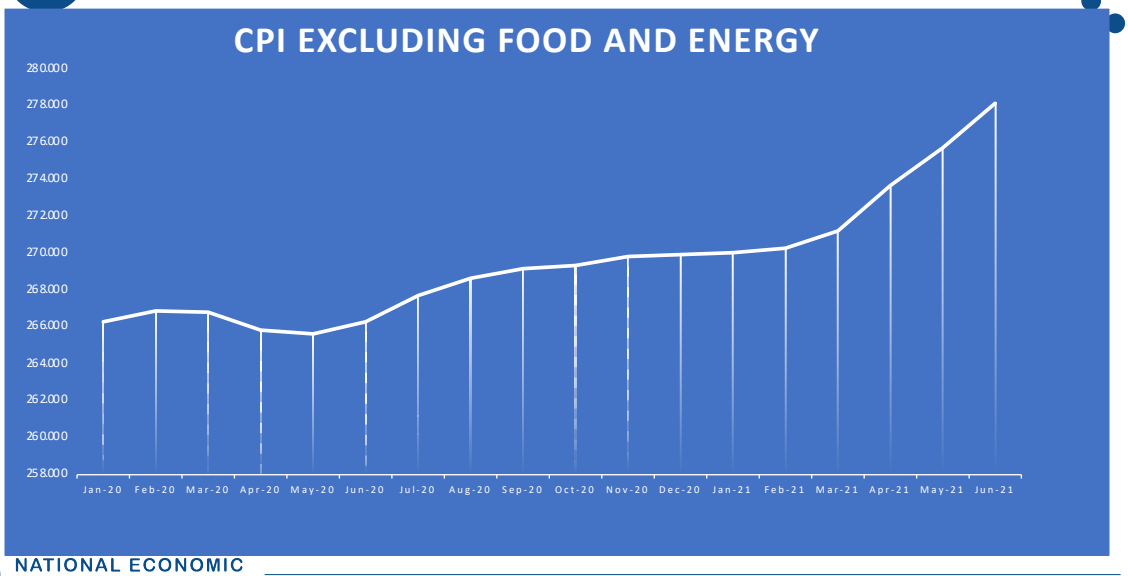
- **Fiscal Stimulus is Not Done.**
  - Emergency Unemployment will continue until September 4th.
  - Expanded Child Tax Credit Payments start this month and continue to the end of the year.
  - Infrastructure on the Horizon?
- **Monetary Policy is committed to maintaining near zero interest rates:**

  The Committee decided to keep [short-term intertest rates near zero] until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment… (Policy Statement 6/16)
- **Proviso: We keep the Pandemic under Control**

Ah, But What about Inflation?

- **Ugliness is Also in the Eye of the Beholder: It depends on the starting point for measuring price increases:**
- **Annualized Percentage Changes in the CPI (excl food and energy)**
  - May to Jun, 11.1%
  - Jun 2020 to Jun 2021, 4.5% (highest since 10/91!)
  - Feb 2020 (since the start of the recession), to Jun 2021 3.1%
- **A Picture Might Help!**

Inflation during the Recovery



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Recent Inflation Has Been More than 2.5%

- **But why?**
  1. Price increases are “catching up” for declines in early 2020.
  2. Supply disruptions due to the virus –e.g., used car prices have risen by 45 percent.
  3. Labor shortages due to
     1. Too generous unemployment benefits.
     2. Covid Fears and Family responsibilities.
     3. Mismatch of available workers and jobs.
  4. Total spending is growing too fast.
- **Notice, that except for 4., the other reasons are temporary,**

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Democratic Economists Can Disagree

Treasury Secretary Jane Yellen, 3/14:

To get a sustained high inflation like we had in the 1970s, I absolutely don't expect that. We have had very well anchored inflationary expectations, and a Federal Reserve that's learned how to manage inflation.

Former Treasury Secretary Larry Summers, 3/26:

It may be that a way will be found to bring it under control. But as I look at $3 trillion of stimulus, $2 trillion of savings overhang, …,rates expected by the Federal Reserve to be at zero for three years even in a booming economy, …, and much new fiscal stimulus to come — I'm worried.

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How Does the Fed "Manage" Inflation?

- **The Fed has a "dual mandate"**
  - Price stability (2% inflation, which corresponds to 2.5% in CPI)
  - Maximum employment consistent with price stability.
- **When the Fed fears a rise in inflation, they raise interest rates to lower total spending.**
- **When the Fed fears rising unemployment, they cut interest rates to increase total spending.**
- **These tools are far more effective when inflationary expectations are stable, or as in Yellen's jargon, well anchored at 2%.**

At the moment, the Fed appears to be more concerned about its employment objective than in the past. Could this change lead to inflationary expectations becoming "unmoored?"

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So, What's the Problem?

If the Fed sees an uptick in inflation, can't they raise interest rates?

- **Economic Problems**
  1. Total Spending has tremendous inertia, it could take months for a rise in interest rates to slow spending;
  2. Significant danger of "overshooting." What would a substantial rise in interest rates do to stock prices, financial stability, Federal deficit?
- **Political Economic Problem**
  1. Would the Fed raise rates with the 2022 elections pending?
  2. A substantial rise in rates would make our deficit and debt problems much, much worse.

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Financial Press Is Confused (as am I)

Higher Inflation Is Here to Stay for Years, Economists Forecast

By Gwynn Guilford and Anthony DeBarros July 11, 2021 09:00 am ET

Americans should brace themselves for several years of higher inflation than they've seen in decades, according to economists who expect the robust post-pandemic economic recovery to fuel brisk price increases for a while.

Inflation Set to Medium-High

By Justin Lahart 1 hour ago

Inflation is unlikely to spiral any higher but could be stronger than in the pre-pandemic years for some time.

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So, Too the Bond Market

***NYTimes*, 7/8, "The Bond Market Is Telling Us to Worry About Growth, Not Inflation"**

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Thank you!

What Do You Think?

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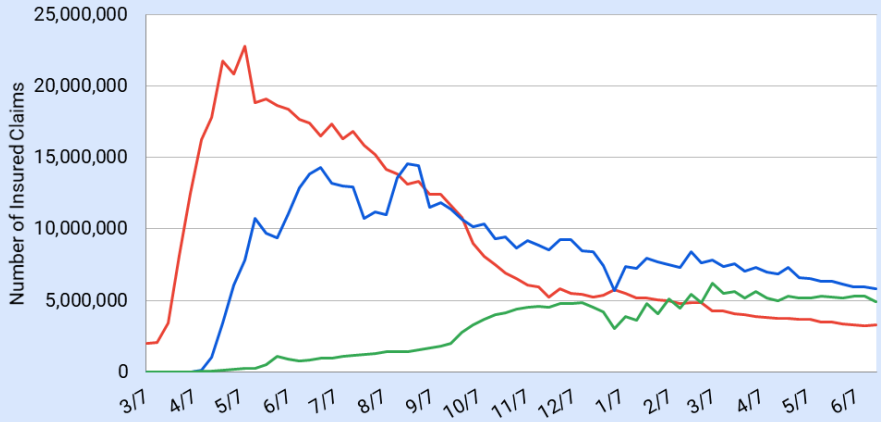
Insured Unemployment, by Program (State, PUA, and PEUC)



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