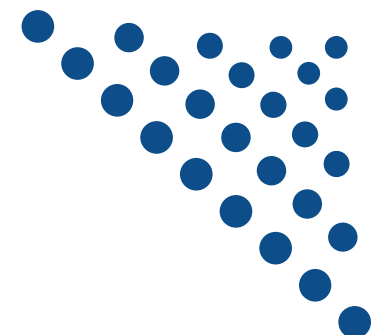


Osher Lifelong Learning Institute, Winter 2025

Contemporary Economic Policy

Berkshire Community College

Host: Geoffrey Woglom, Ph.D.
Director, National Economic Education Delegation



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.

Who Are We?

- **Honorary Board: 54 members**

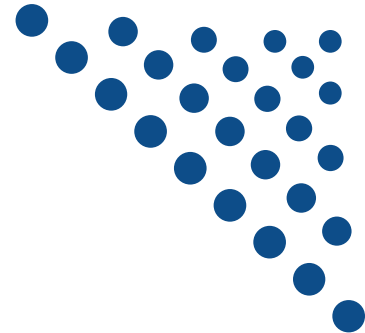
- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - Akerlof, Smith, Maskin

- **Delegates: 652+ members**

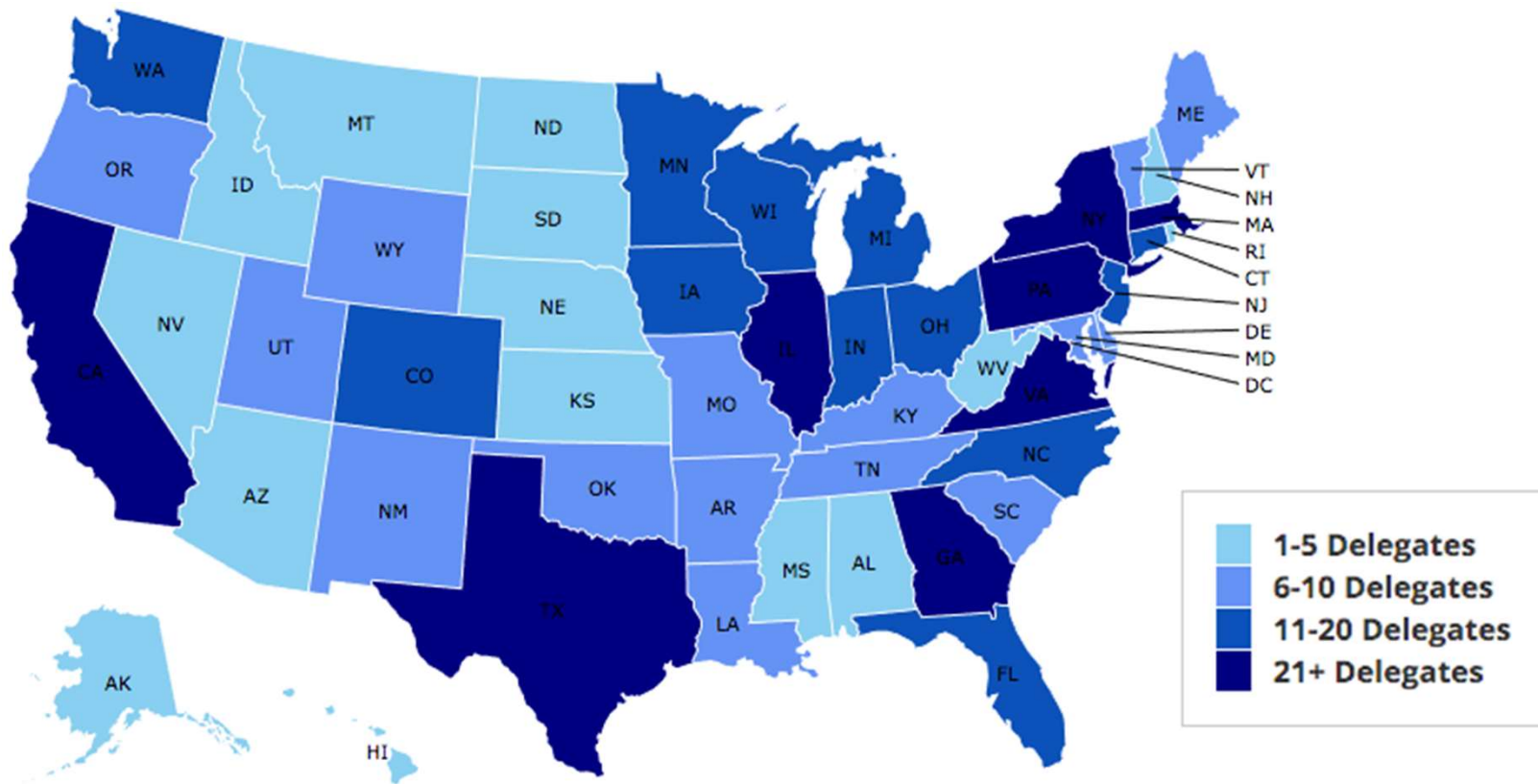
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 48 Ph.D. Economists**

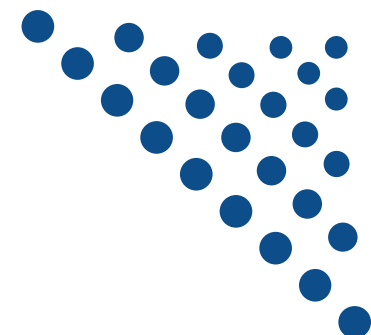
- Aid in slide deck development



Where Are We?

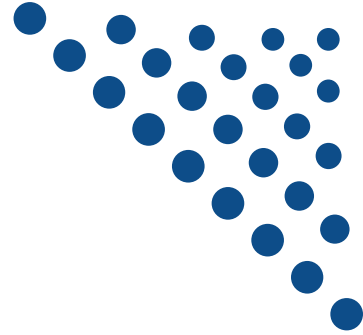


Available NEED Topics Include:



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

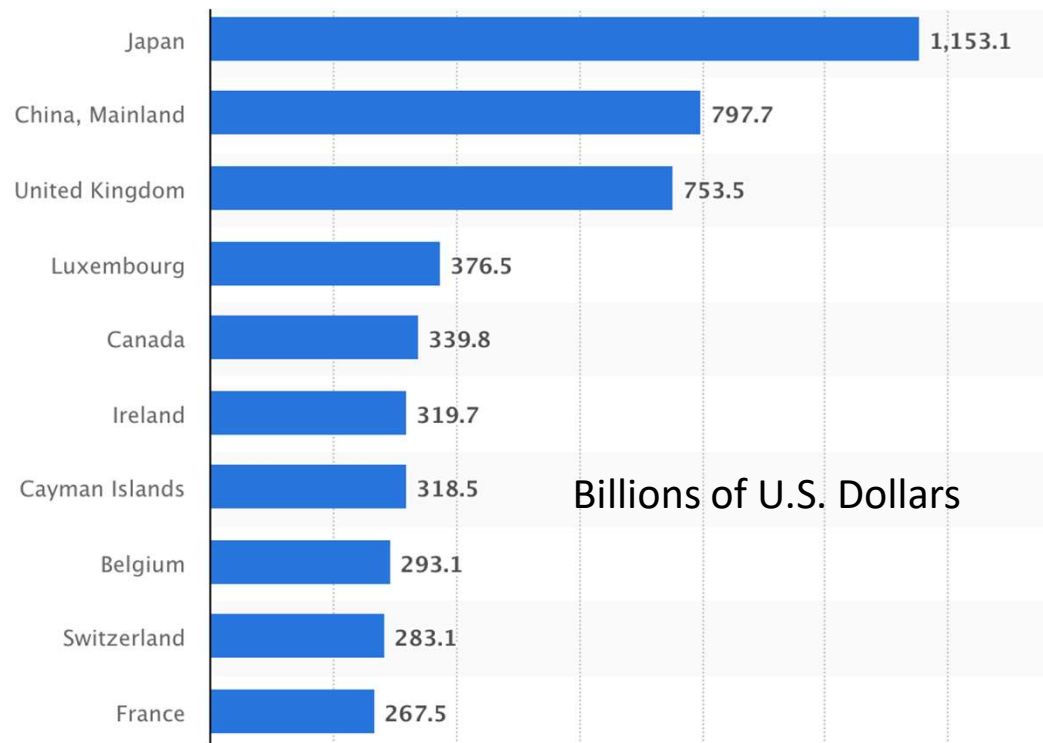
Course Outline



- **Contemporary Economic Policy**

- **Week 1 (1/21): Economic Update (Geoffrey Woglom, Amherst College)**
- Week 2 (1/28): Federal Debt and Deficits (Robert Rebelein, Vassar College)
- Week 3 (2/04): Health Economics (Robert Rebelein, Vassar College)
- Week 4 (2/11): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 5 (2/18): Tariffs and Their Effects (Alan Deardorff Umichigan)
- Week 6 (2/25): The New Inequality (Geoffrey Woglom, Amherst College)

Who Holds Debt to Foreigners,



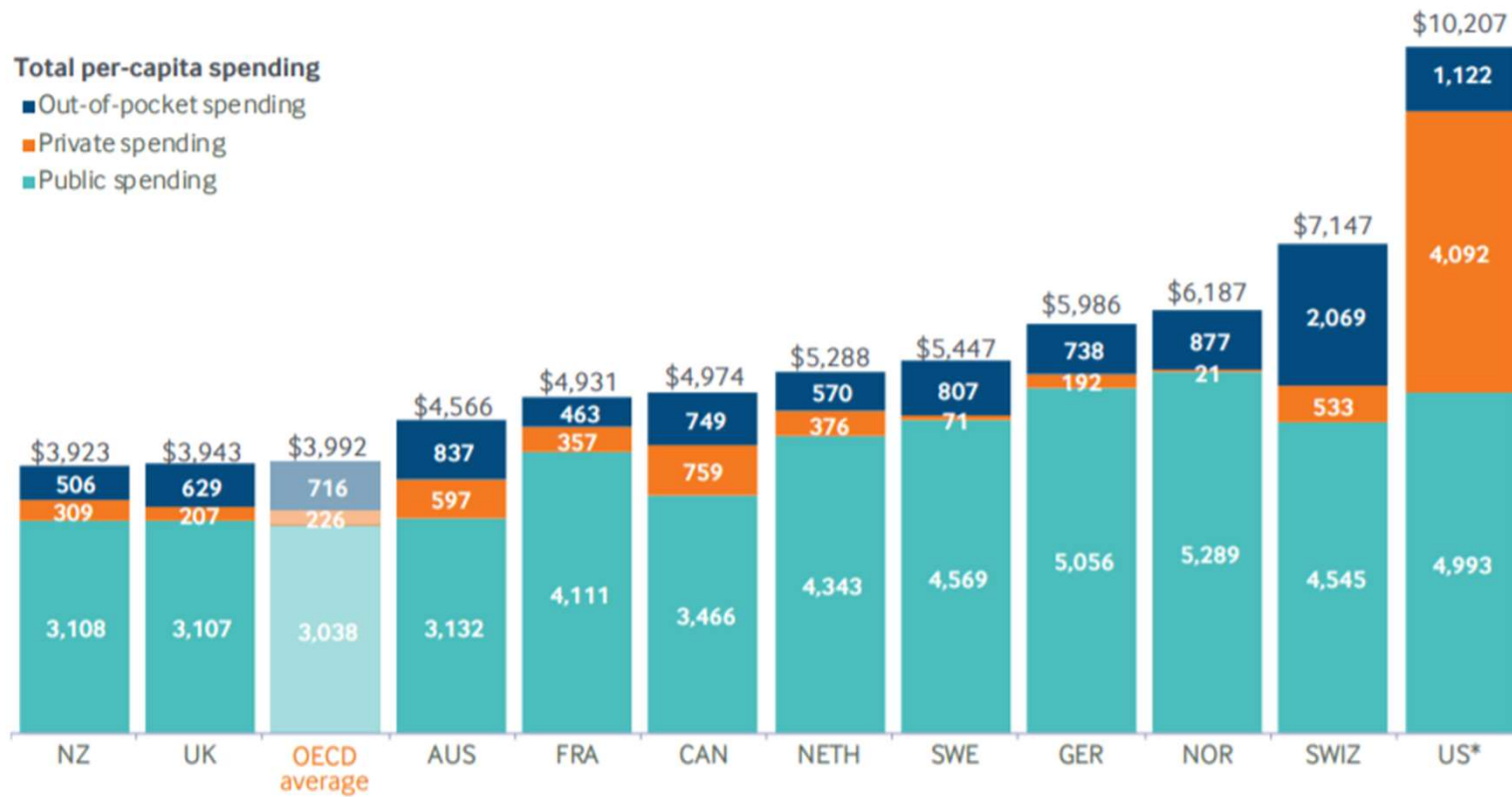
Foreign ownership is relatively recent
– in 1990 foreign ownership was less than 20%
– peaked at 40+%
– now is 29.4%

International Per Capita Healthcare Spending

Dollars (US\$), adjusted for differences in cost of living

Total per-capita spending

- Out-of-pocket spending
- Private spending
- Public spending

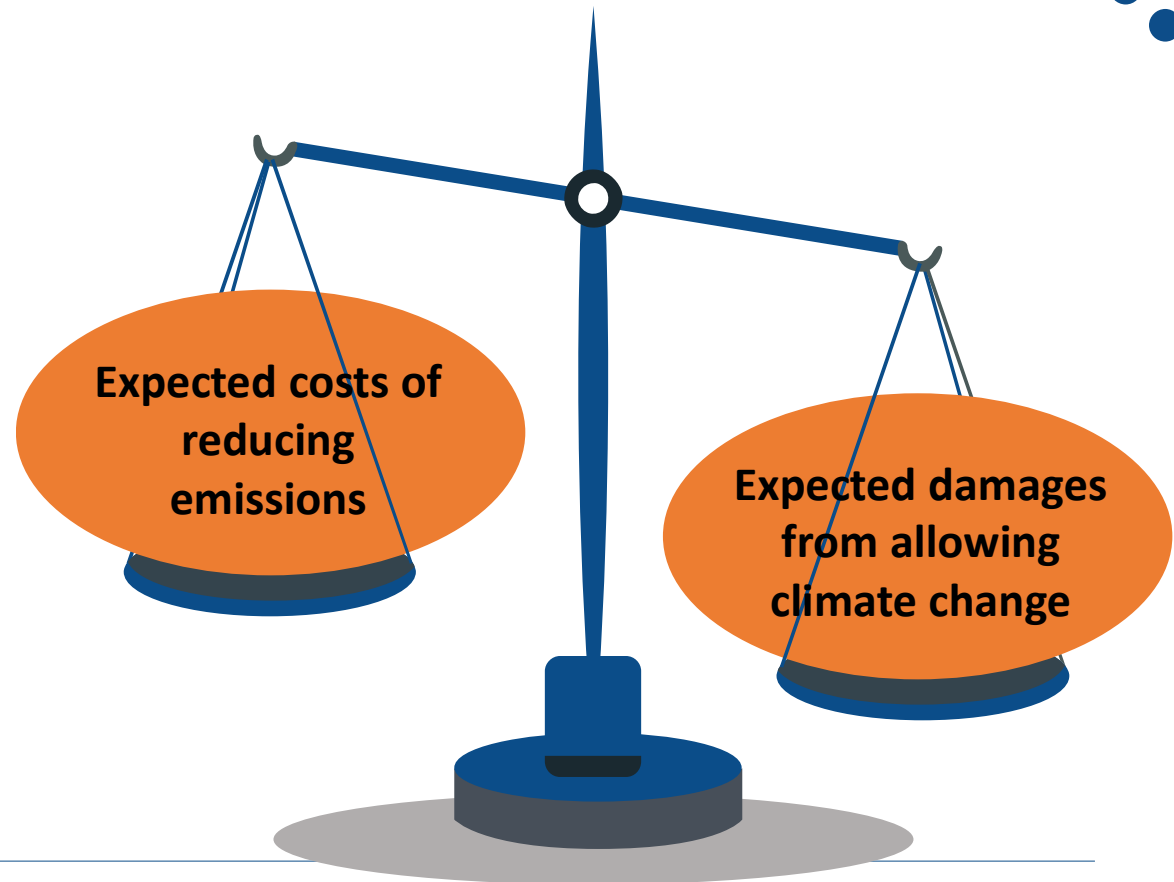


How Economists Decide How Much to Fight Climate Change: Cost Benefit Analysis

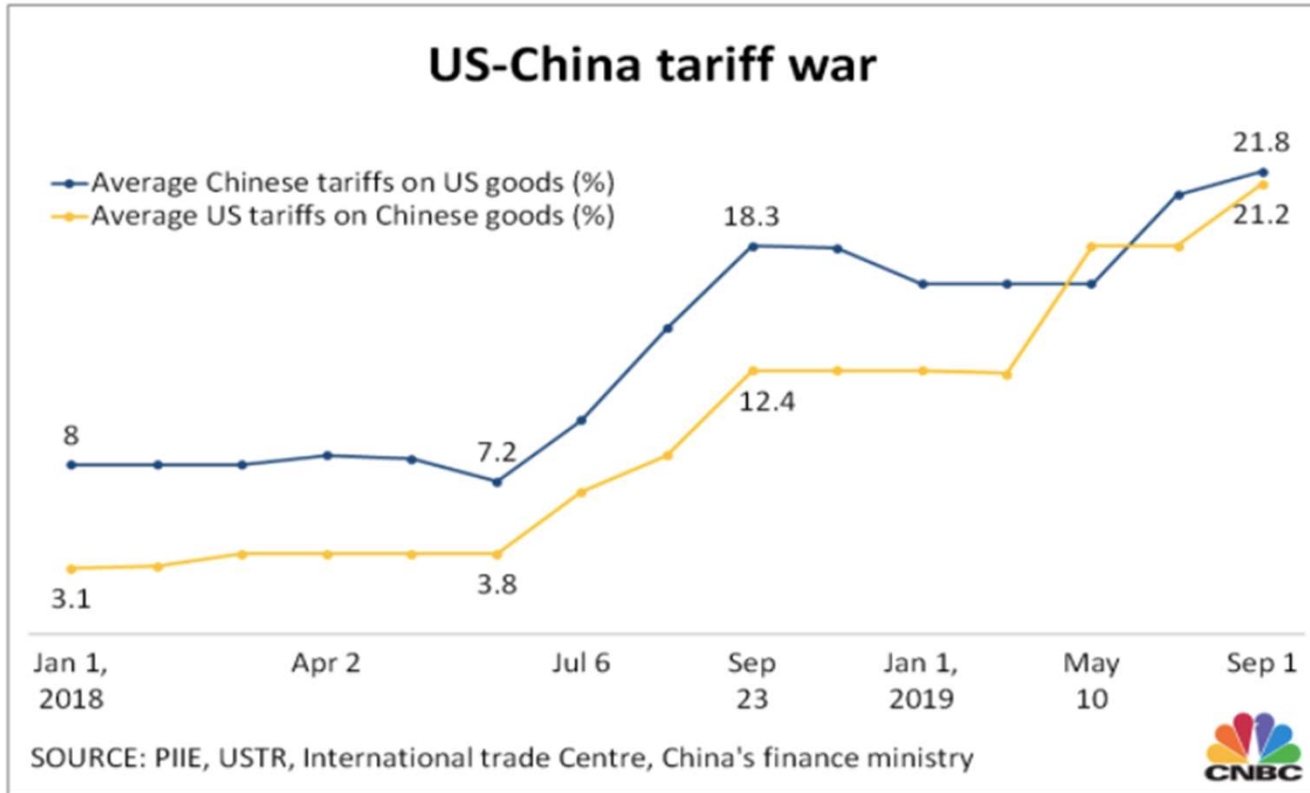
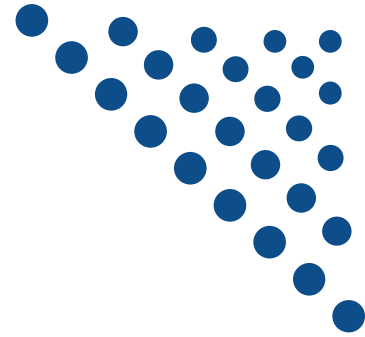
Abating greenhouse gas emissions is costly...

... but without action, climate change damages are even more costly.

Goal is not zero emissions, but efficient level that achieves a balance.



US-China Tariff War – Tariff Rates

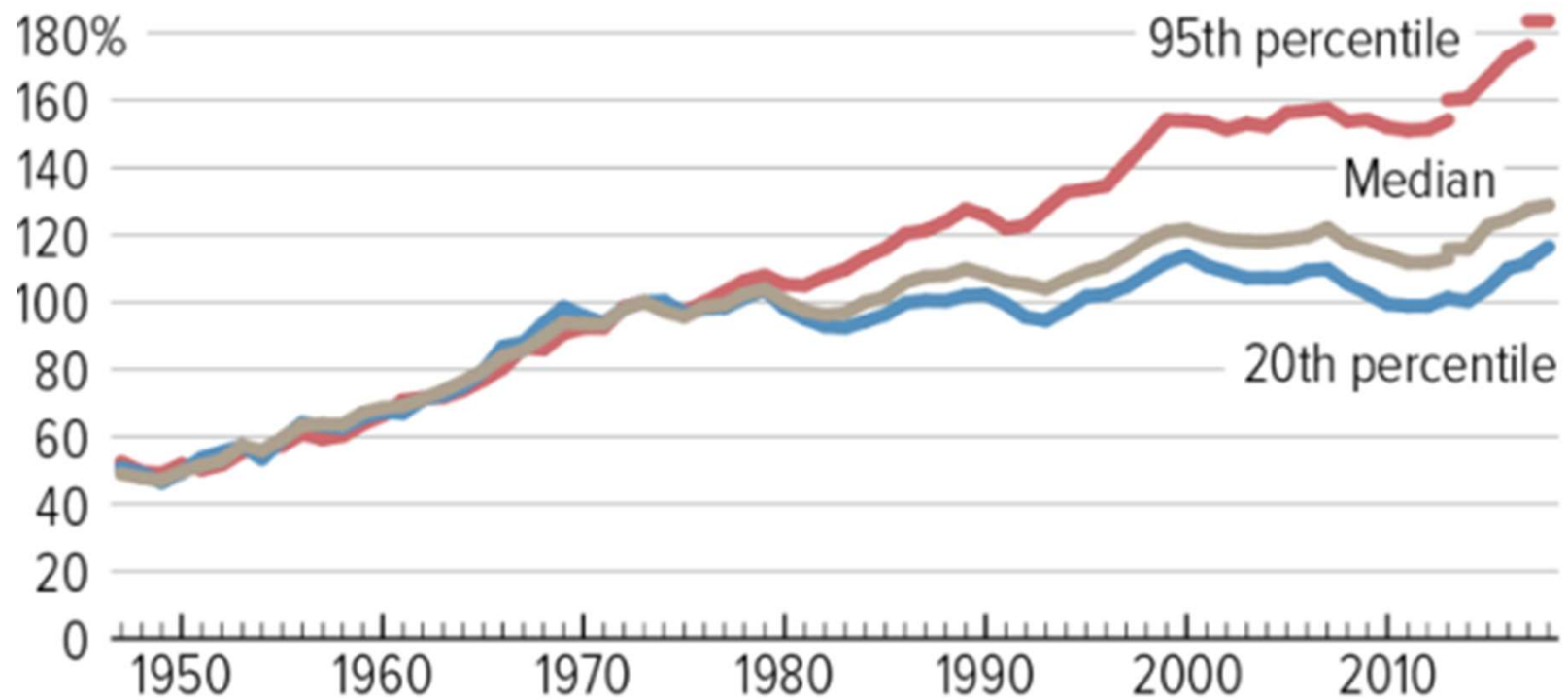


Source: CNBC.com

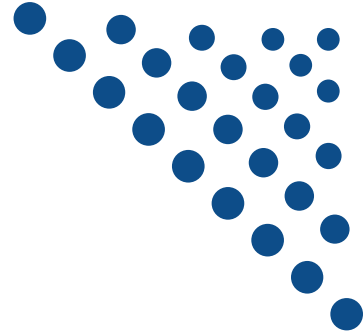
The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.

The Abrupt Increase in Inequality

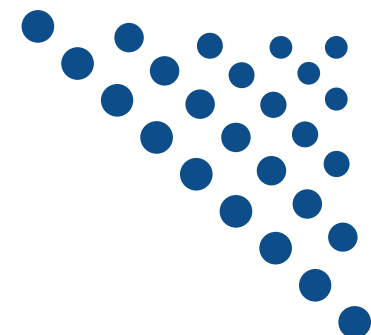
Real family income between 1947 and 2018, as a percentage of 1973 level



Submitting Questions



- Submit questions in the chat. I will try to handle them as they come up.
- We will do a verbal Q&A once the material has been presented.
- Slides will be available from the NEED website tonight (https://needelegation.org/delivered_presentations.php).
- My macro site: <https://sites.google.com/view/macro-current-issues/economic-update>

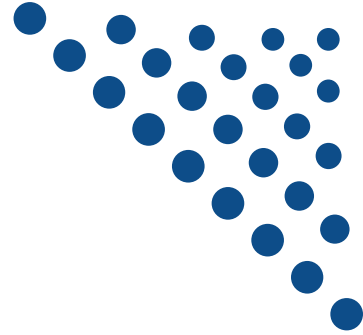


US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
January 21, 2025



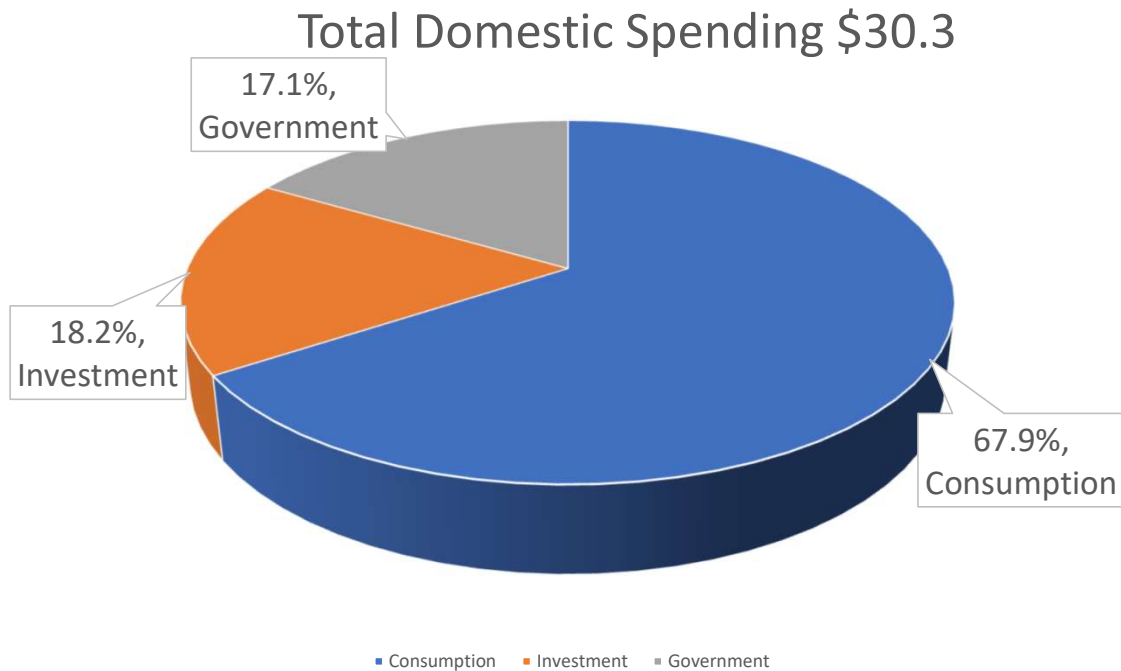
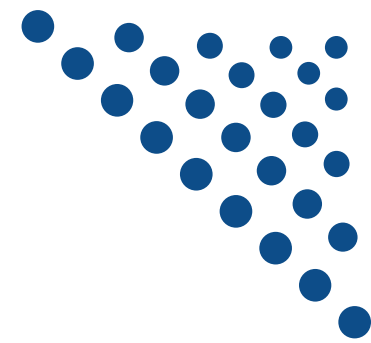
Outline for the Talk



- 1. Summary of the state of the macroeconomy.**
- 2. The Effect of M&F policies on the recovery.**
- 3. Major Uncertainties going forward**
 1. Has the inflation dragon been slain?
 2. Can we achieve 3% real GDP growth?
 3. What is going on in the long-term bond market?

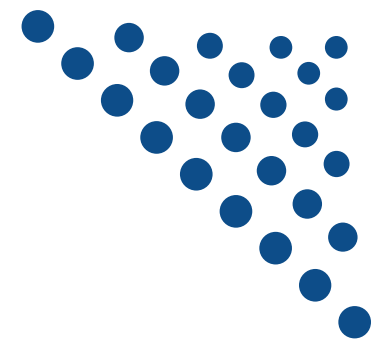


Gross Domestic Product: 2024Q3 = \$29.4 tr



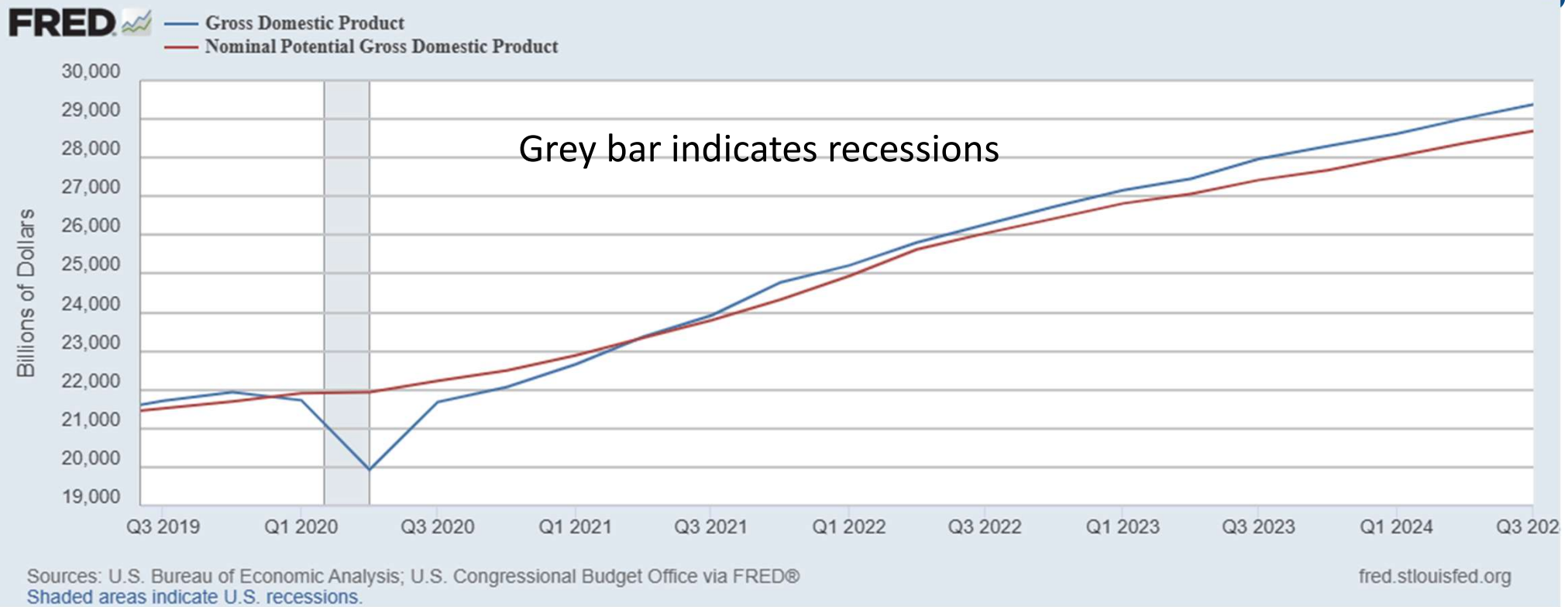
\$30.3
Less Imports
-\$4.2
Plus Exports
+\$3.2
Equals GDP
\$29.3 (close enough)

Different Breakdown

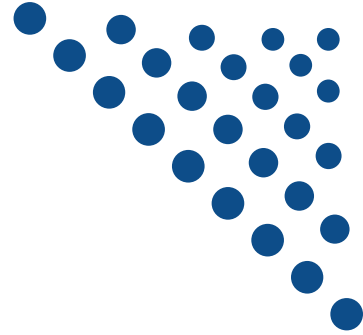


Note: State and Local Government comprises 10% of GDP!

GDP and 'Potential' during the Recovery



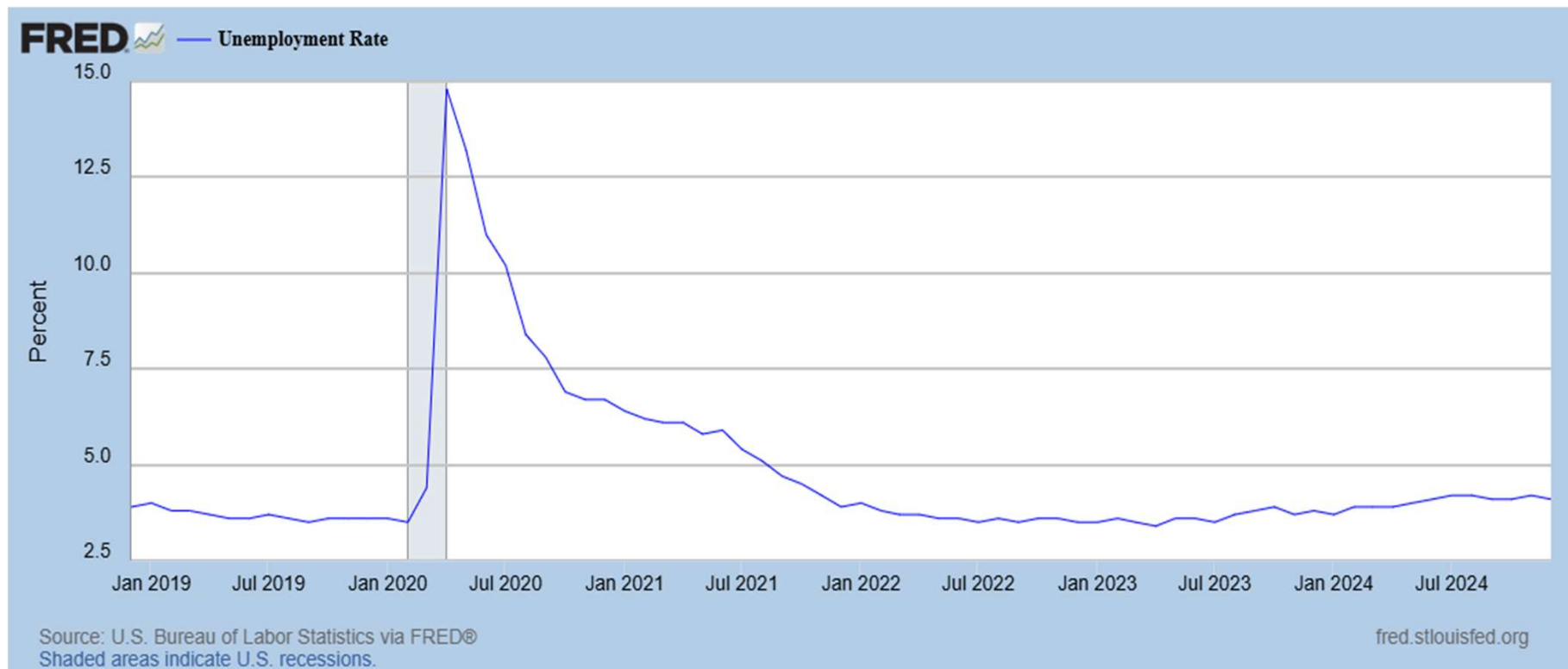
What is a Recession?



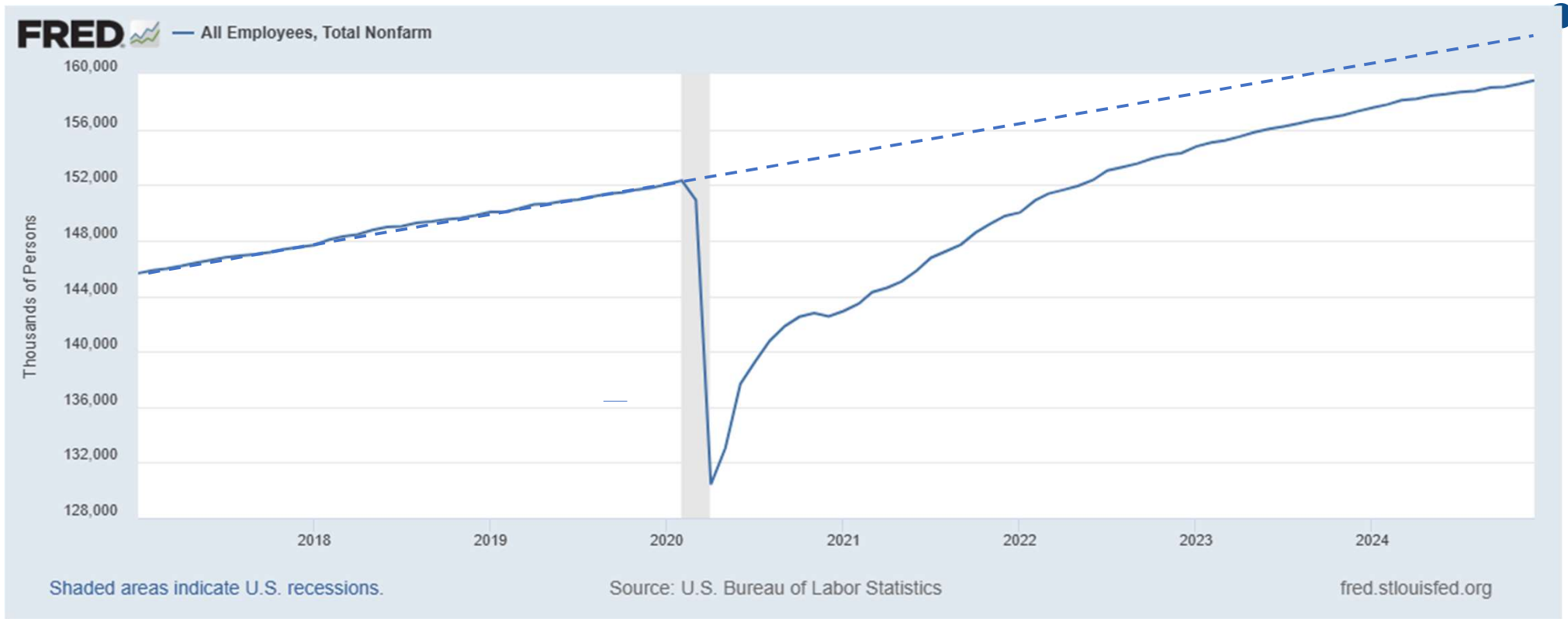
- **Defined by the National Bureau of Economic Research (NBER)**
- **“The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”**
- **Popular Rule of Thumb: Two or more, consecutive quarters where Real GDP falls. (Doesn't always work!)**

Recessions are caused by a drop in total spending.

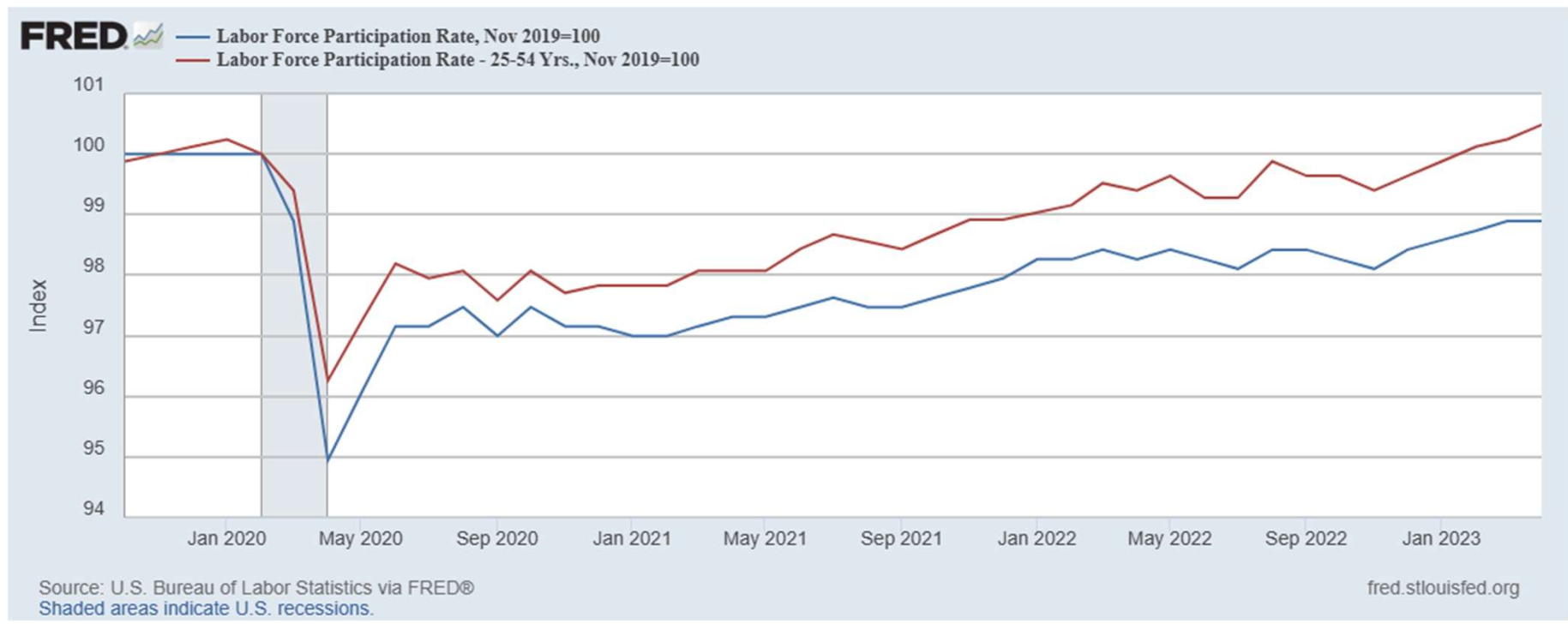
Unemployment is Near Record Lows



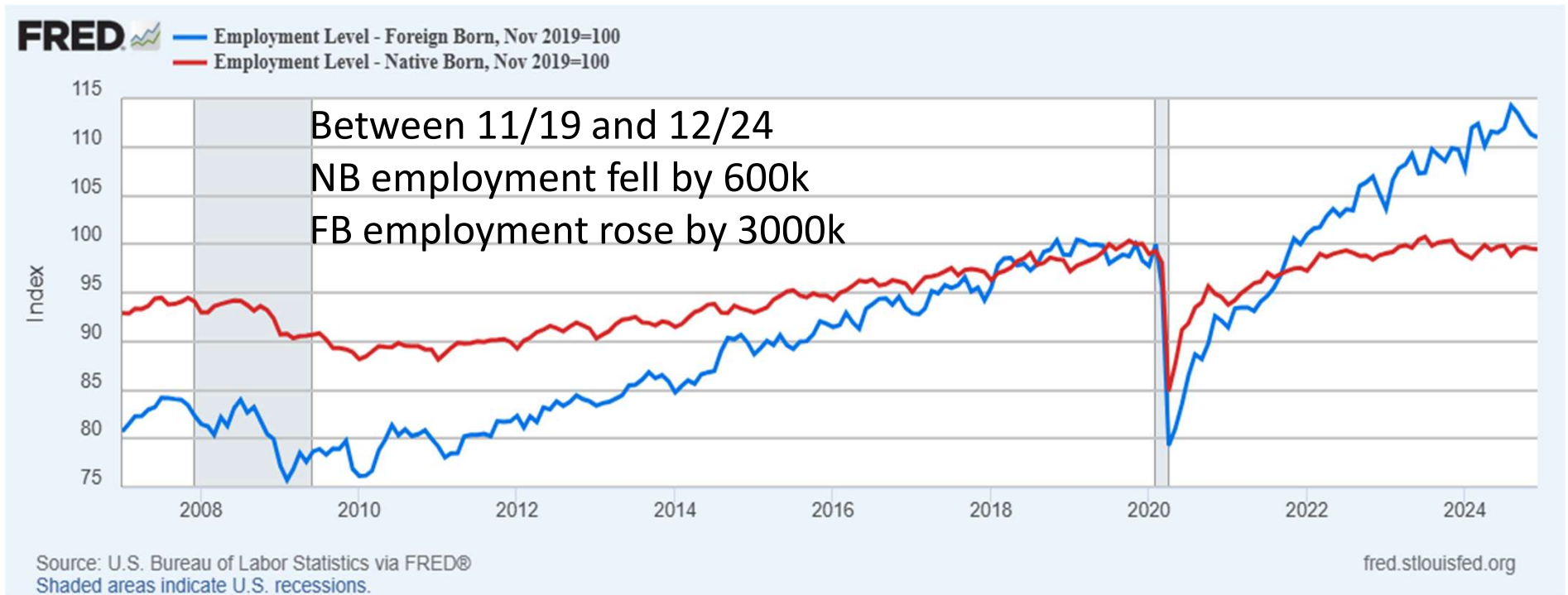
Where Have All the Workers Gone?



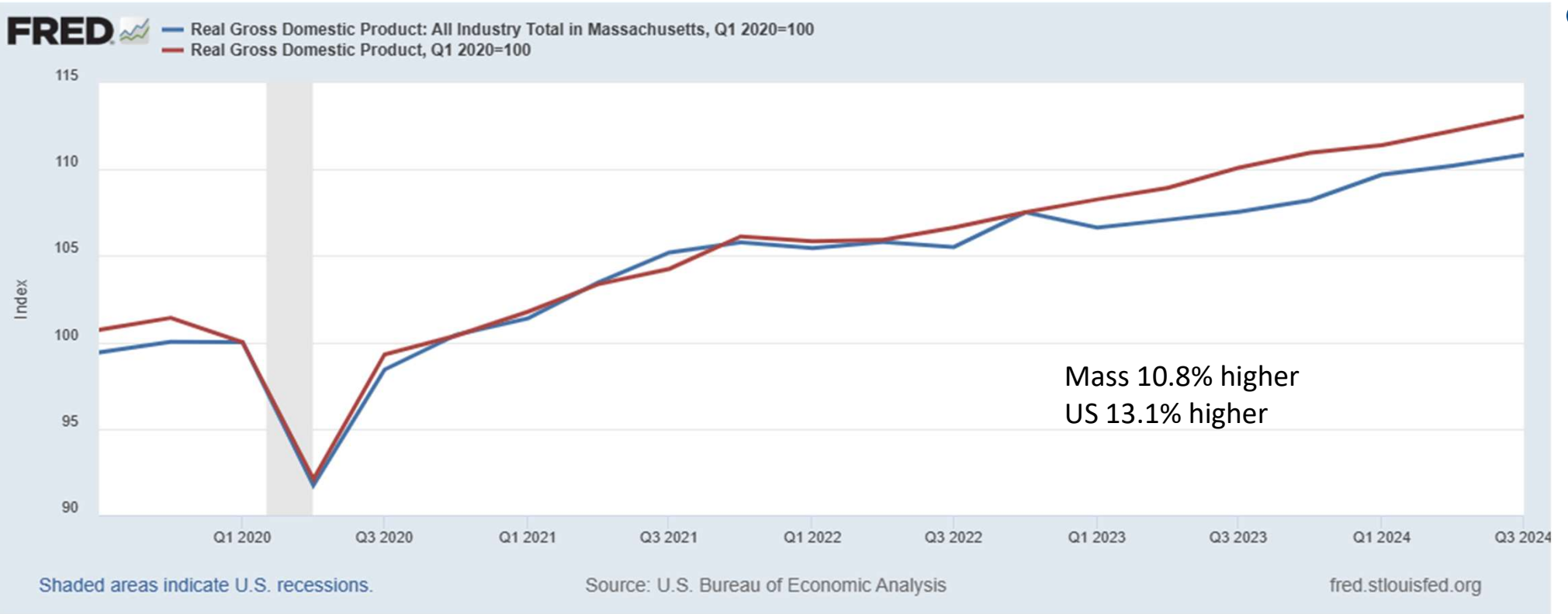
The Aging of the Labor Force



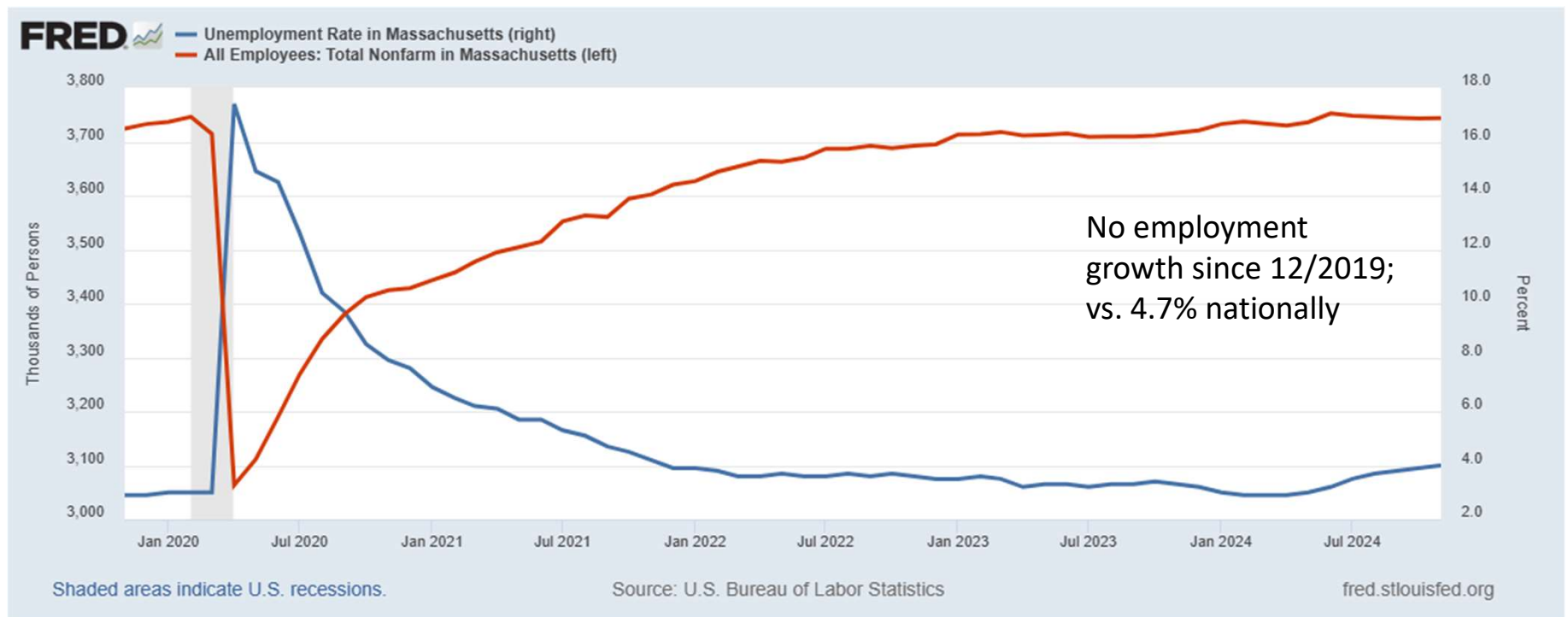
Supplemented by Foreign Workers



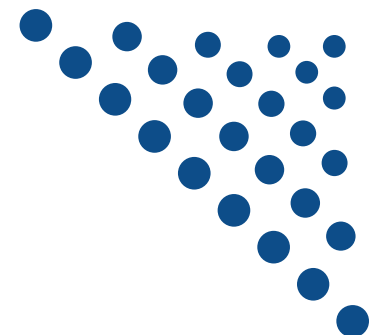
How is Massachusetts Doing?



Labor Market in Massachusetts



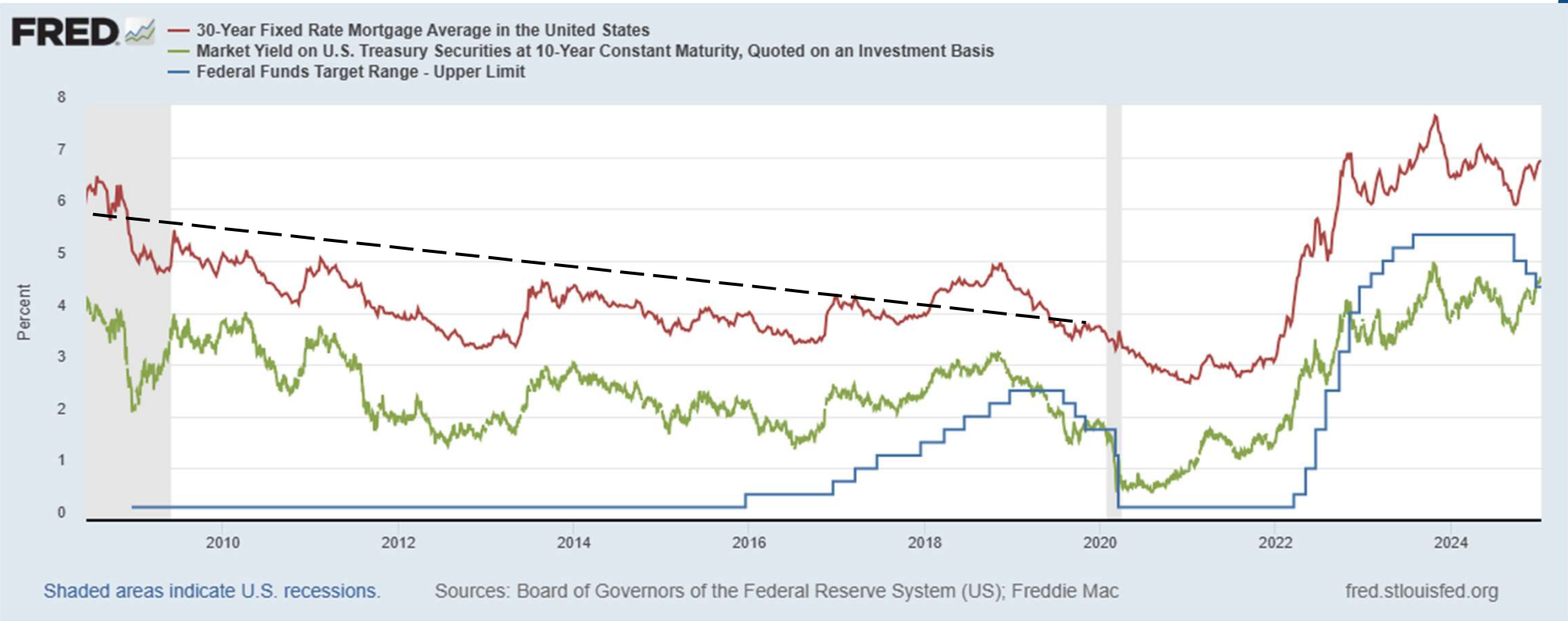
Overall Good News on the Real Side



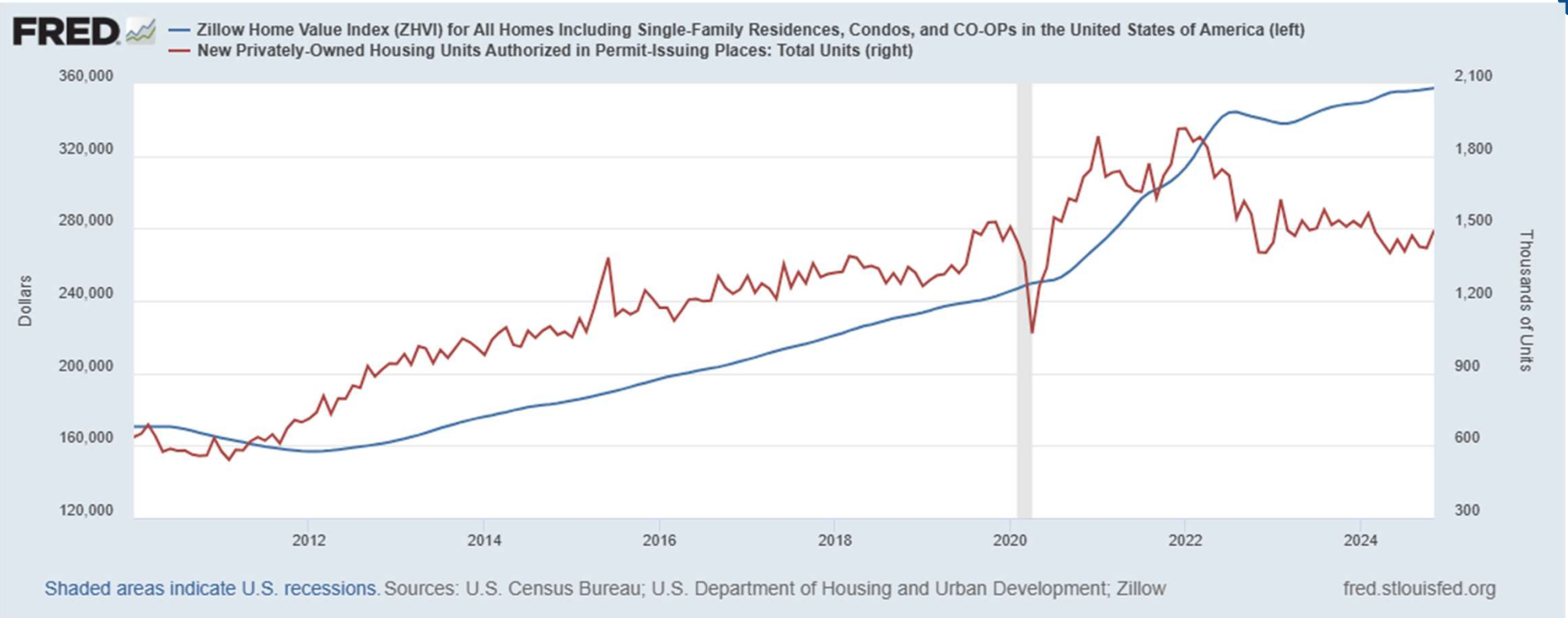
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation

- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good, but is getting better.

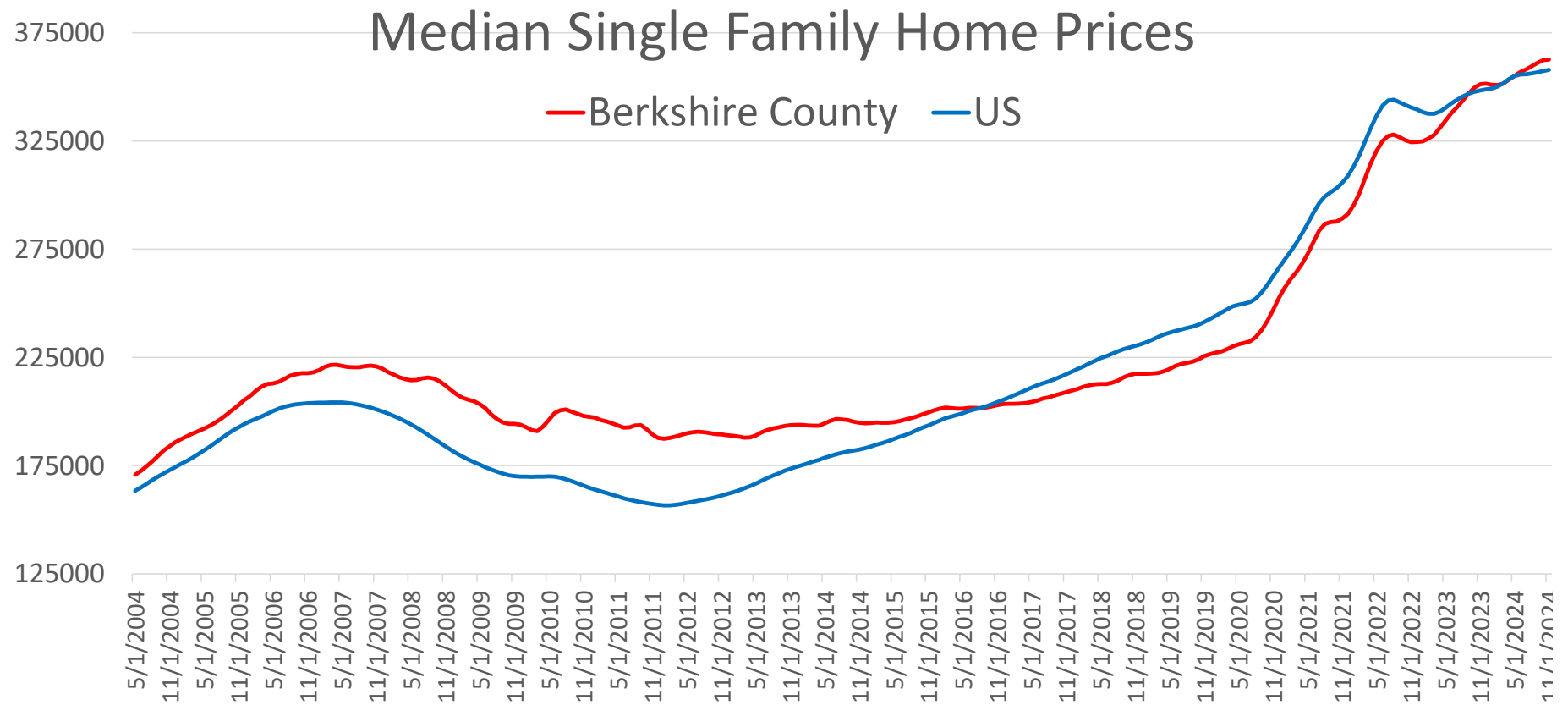
Interest Rates: Era of Falling Rates Over?



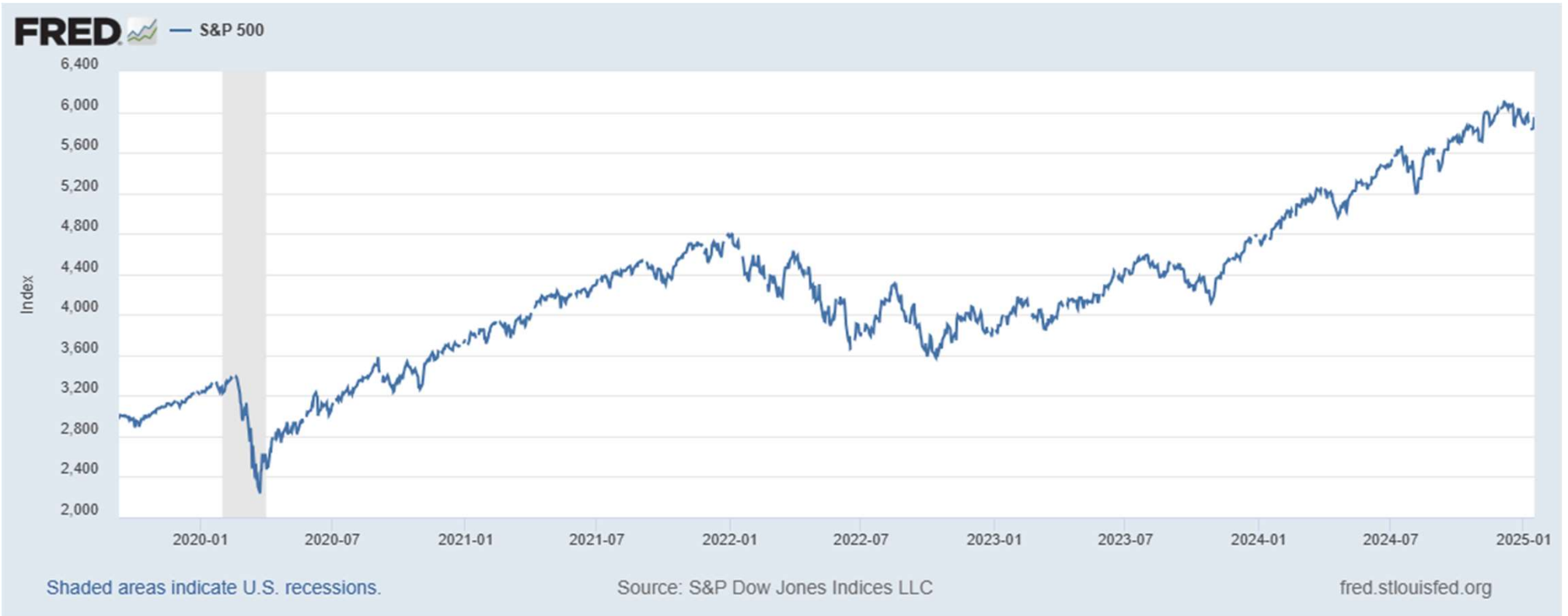
Mortgage Rates are Having an Effect ?



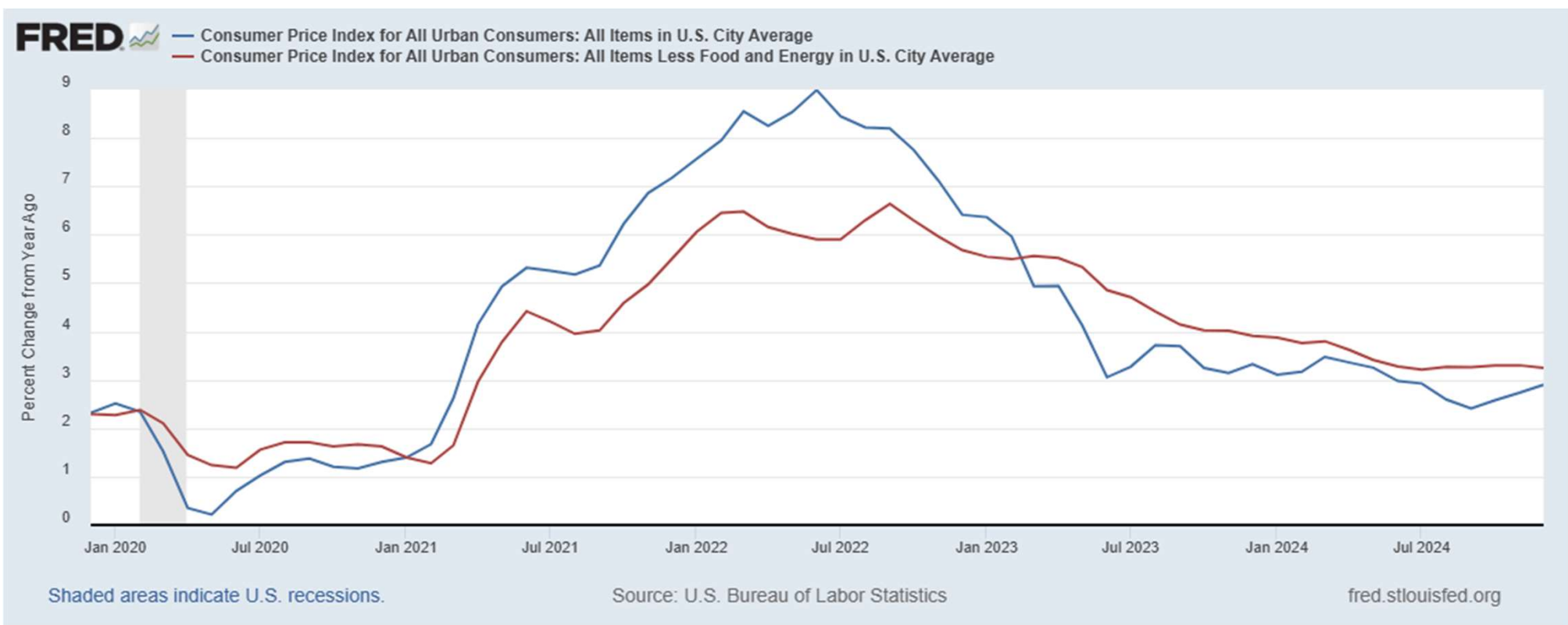
National Housing Market and Closer to Home



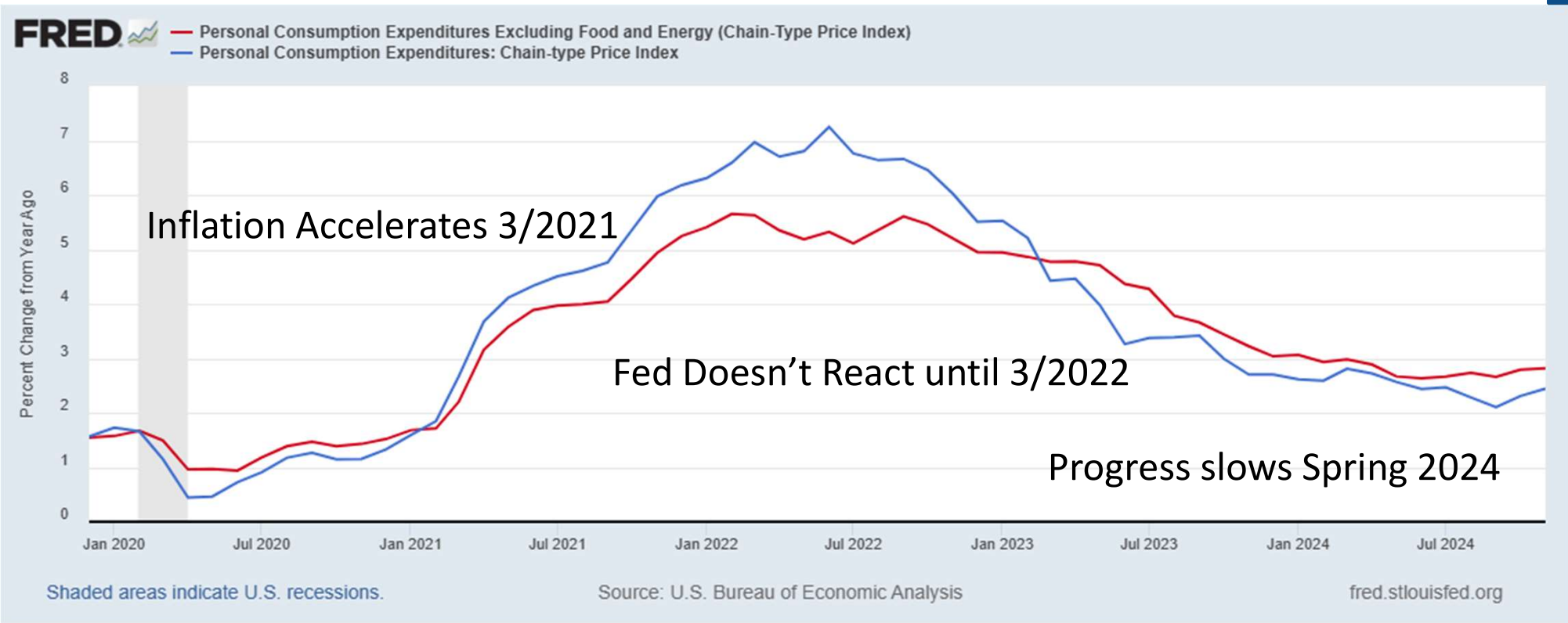
Stock Prices: Fear Giving Way to Greed (to Fear)



Inflation during the Recovery (CPI)



Fed's Measure (PCE)

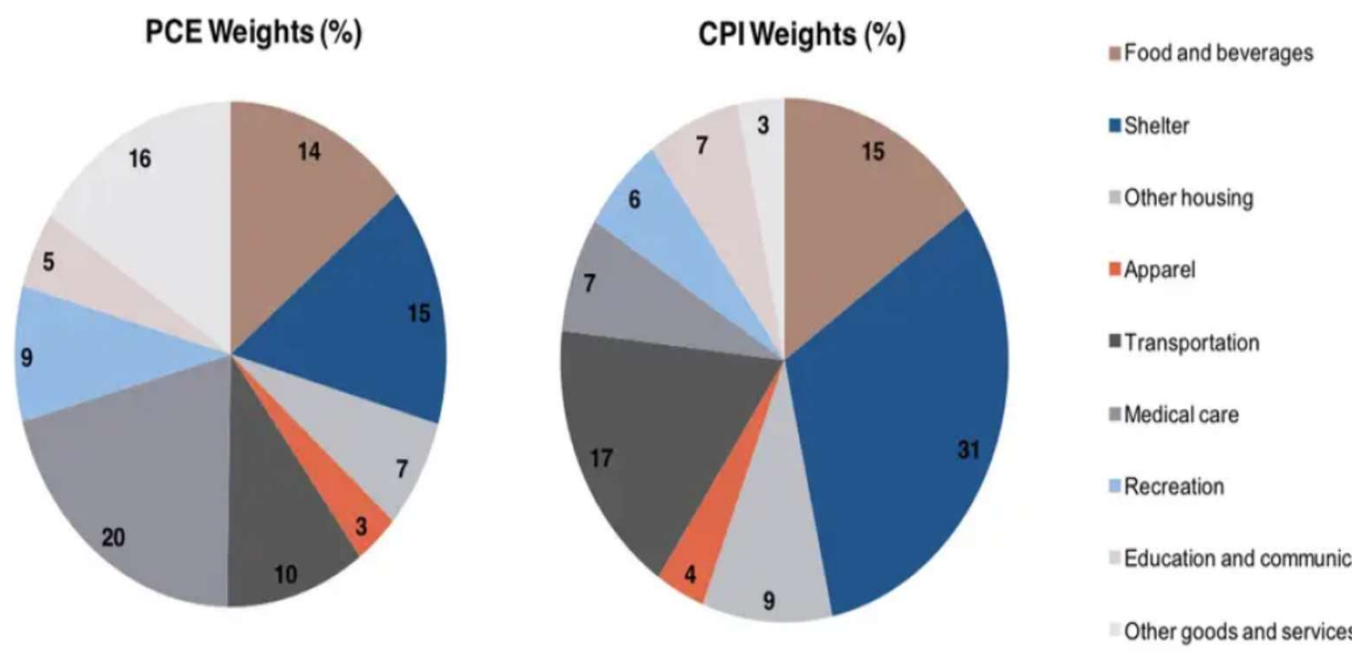




CPI vs. PCE: Differences

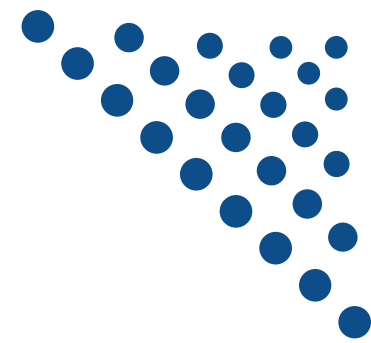
CPI tends typically to be 0.3 pct point higher
NOV:
CPI, 2.7%
PCE, 2.4%
Core CPI, 3.3%
Core PCE, 2.8%.

Chart 18: PCE vs CPI – weight comparisons



Source: Haver Analytics, SG Cross Asset Research/Economics

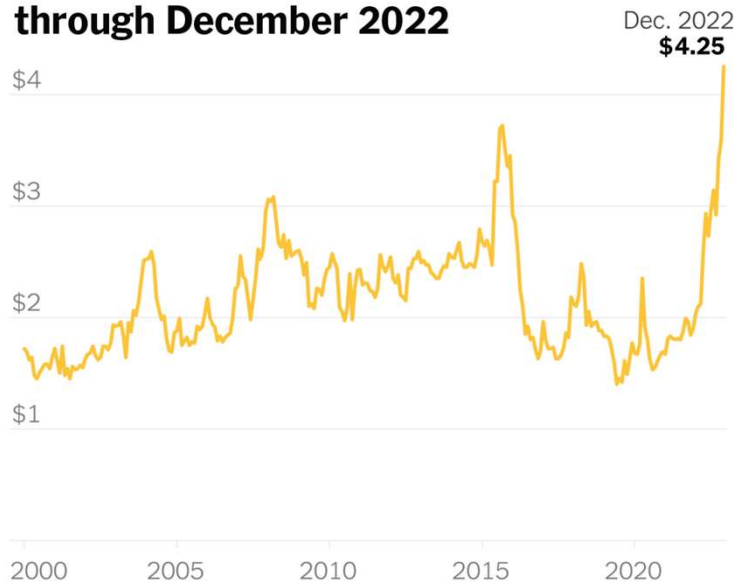
Uses of Inflation Measures



Two Reasons for Measuring Recent Inflation:

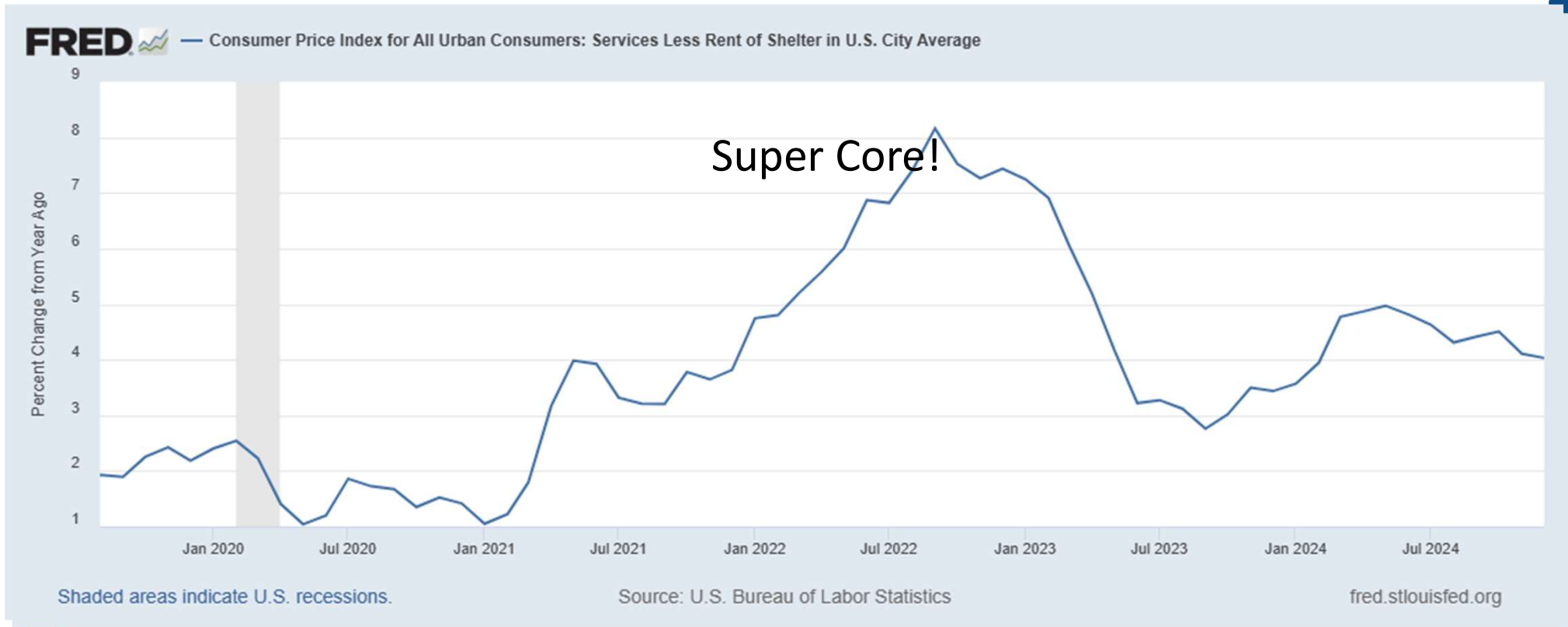
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?

Monthly price for a dozen eggs through December 2022

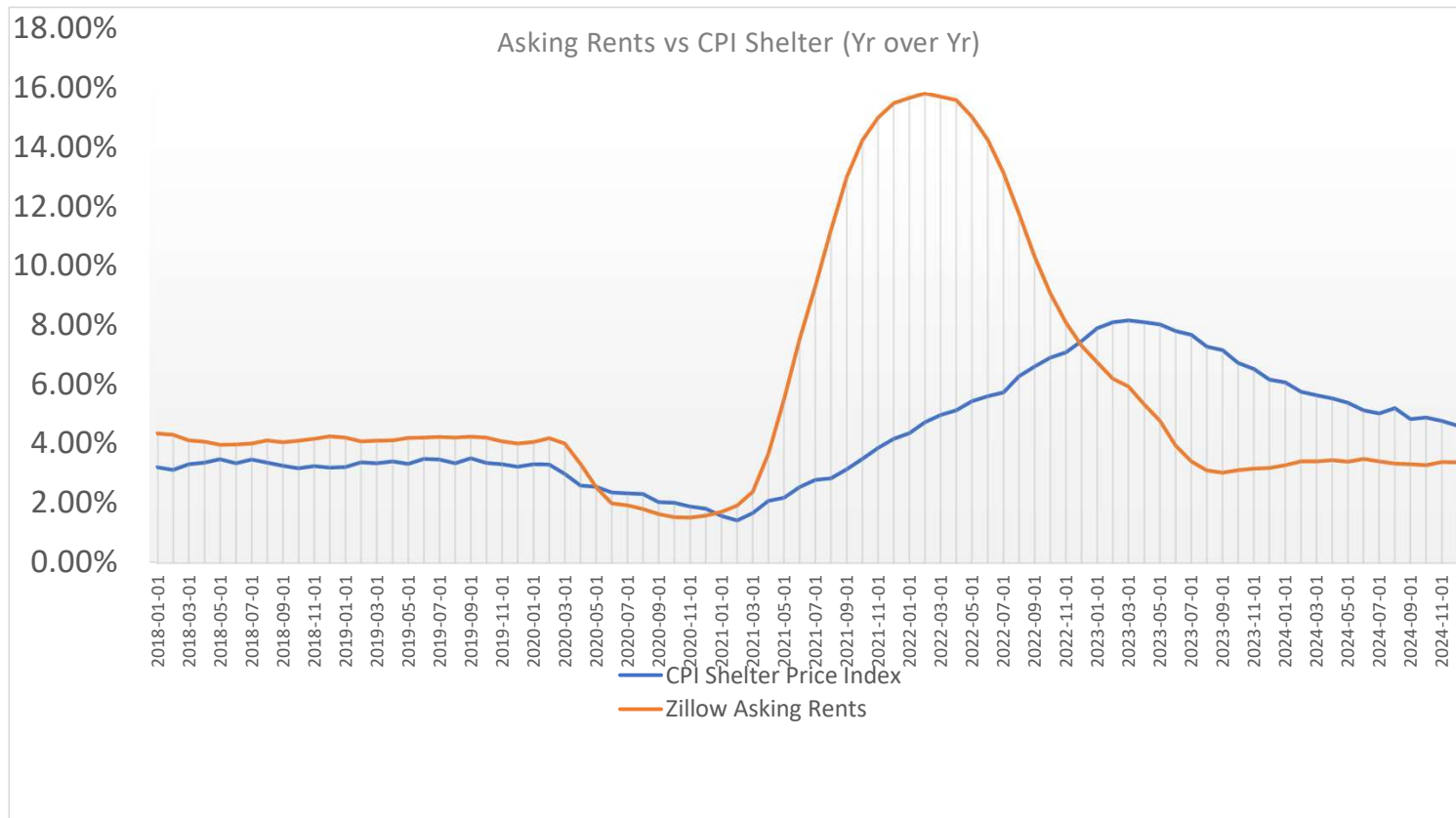
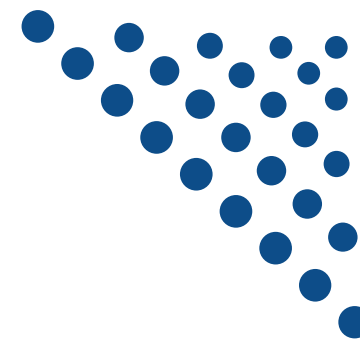


Prices are adjusted for inflation in Dec. 2022 dollars.
Source: Bureau of Labor Statistics

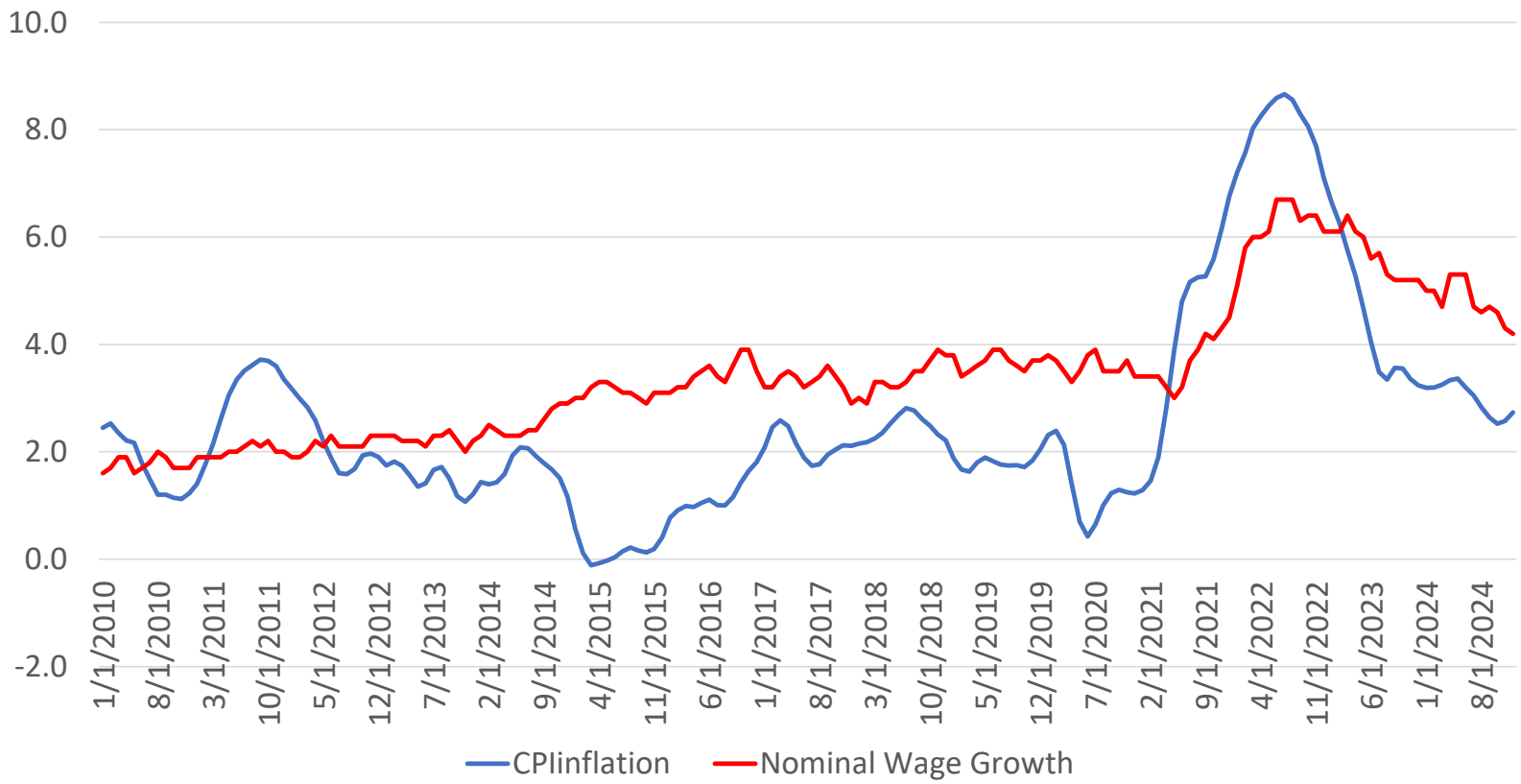
Measuring “Underlying” Inflation



The Problem with Housing Costs



Wages Haven't Kept Pace with Inflation, Yet

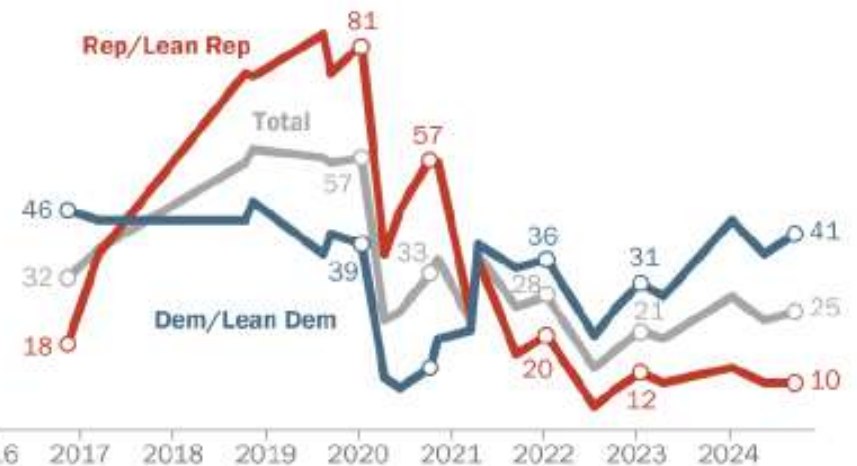


The “Nominal” Side

- **Inflation:** A lot of progress on inflation, but we are not at the target yet.
- **But, this is not the popular view**

A quarter of Americans rate economic conditions positively, little changed over the past year

% who say economic conditions in the country today are excellent/good

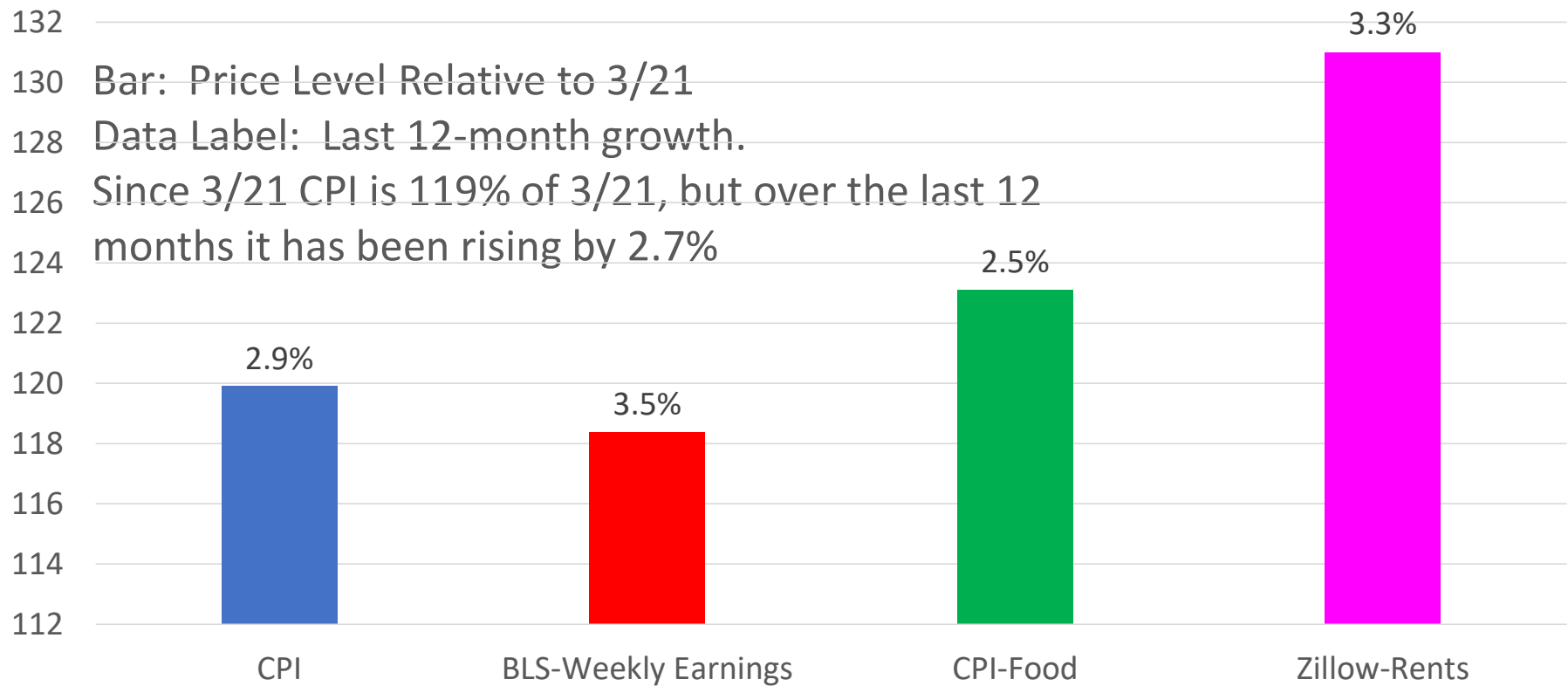
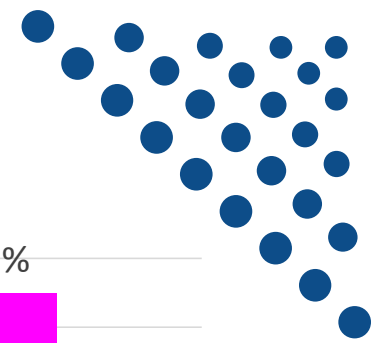


Source: Survey of U.S. adults conducted Aug. 26-Sept. 2, 2024.

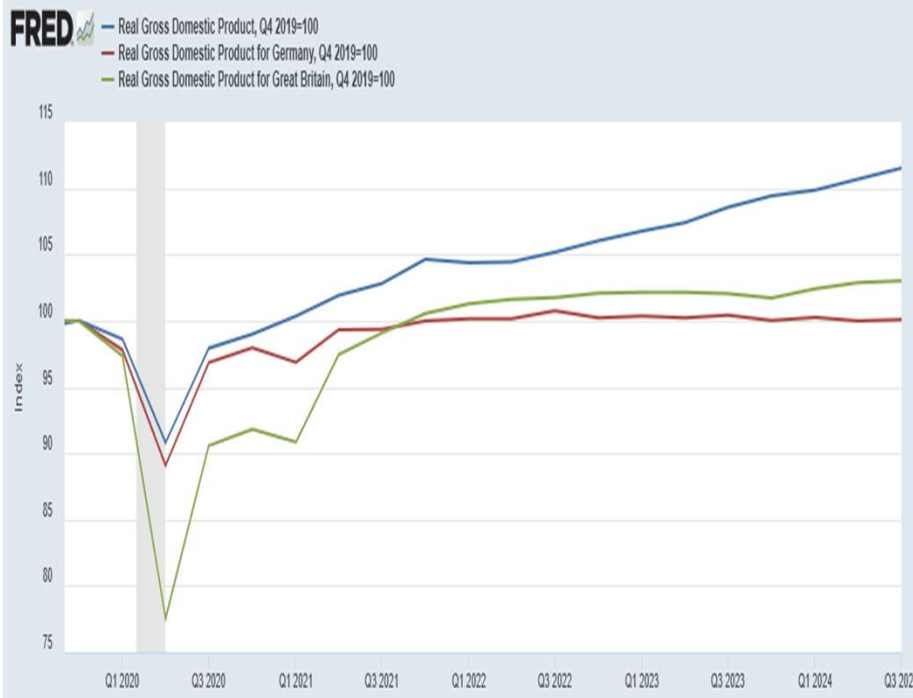
PEW RESEARCH CENTER



High Prices vs Inflation

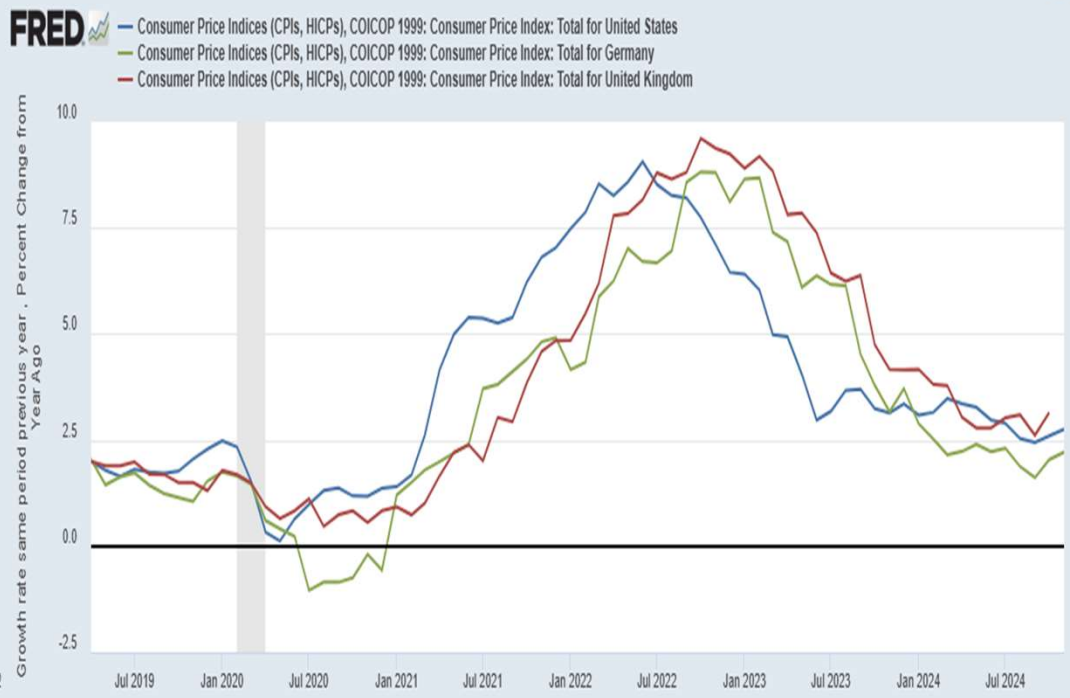


International Comparisons



Shaded areas indicate U.S. recessions. Sources: Eurostat; International Monetary Fund; U.S. Bureau of Economic Analysis

fred.stlouisfed.org

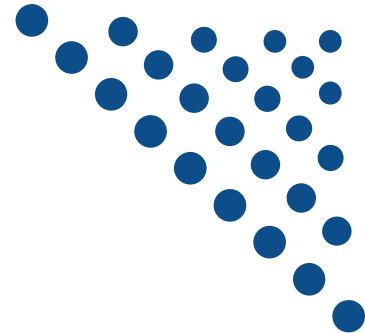


Shaded areas indicate U.S. recessions.

Source: Organization for Economic Co-operation and Development

fred.stlouisfed.org

Policy Effects on the Economy

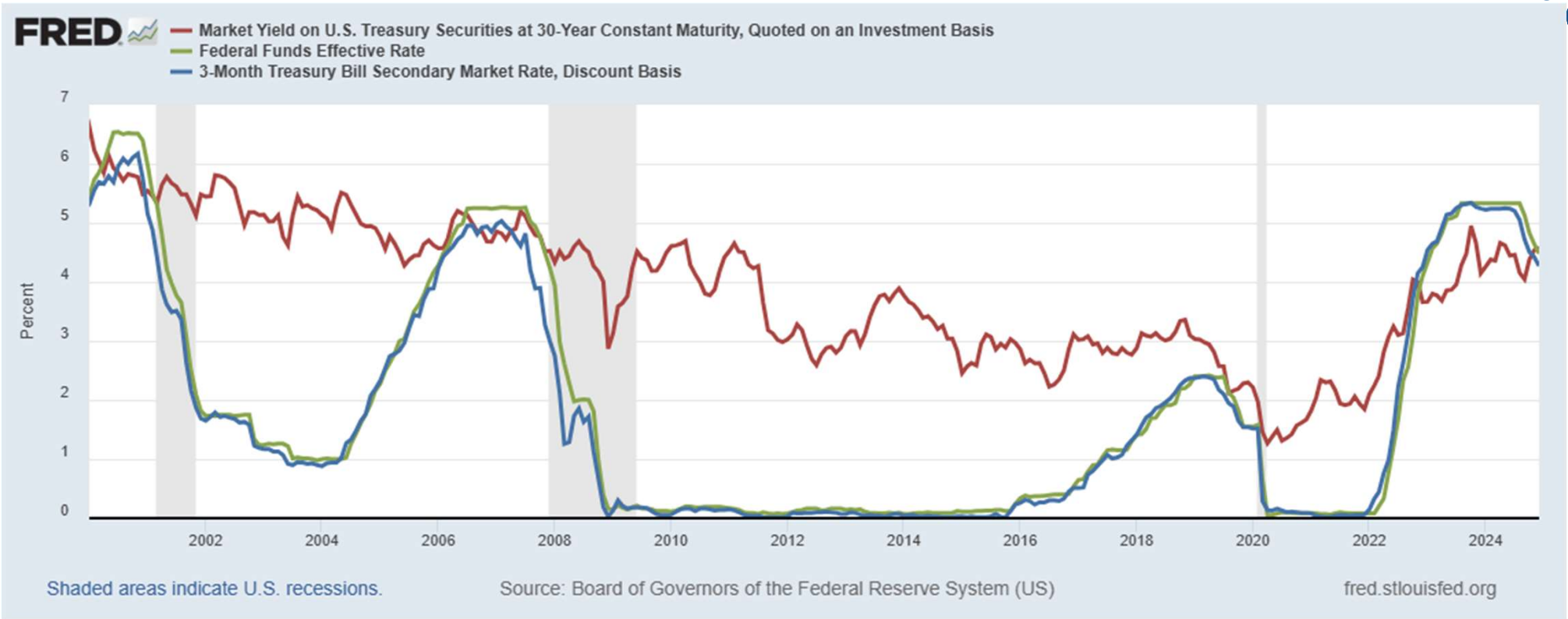


- **Stabilization policies aim to affect the level of total spending or “aggregate demand.”**
- **Fiscal Policies of increasing spending and/or cutting taxes can raise total spending. (Congress and the President)**
- **Monetary Policy affects total spending by setting short-term interest rates (the federal funds rate): lower interest rate leads to more spending (the Fed)**

Except in deep recessions, the Fed has primary responsibility for stabilization policies.



The Fed and Short-Term Rates



Policy Effects:



Fiscal: 3 massive stimulus packages, including “stimulus checks,” starting in March 2020 and the last in March of 2021.

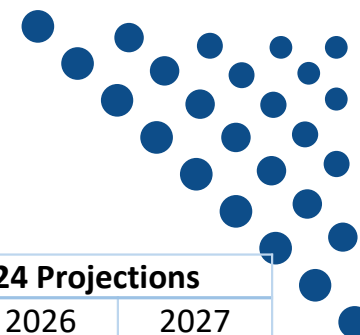
Monetary (the FED)

- 2020-2/2022: short-term policy interest rate, “the federal funds rate” at zero, accommodated fiscal stimulus.
- 3/2022-8/2024: most rapid increase in interest rates since Paul Volcker.
- 9/2024-present: 3 rate cuts for a total of 1 ppt.

My personal assessment:

1. Fiscal stimulus saved the economy, but probably too big.
2. Fed did not react soon enough to the rise in inflation, but since then A+

Government Views on the Current State



Percent **Fed, December 2024**

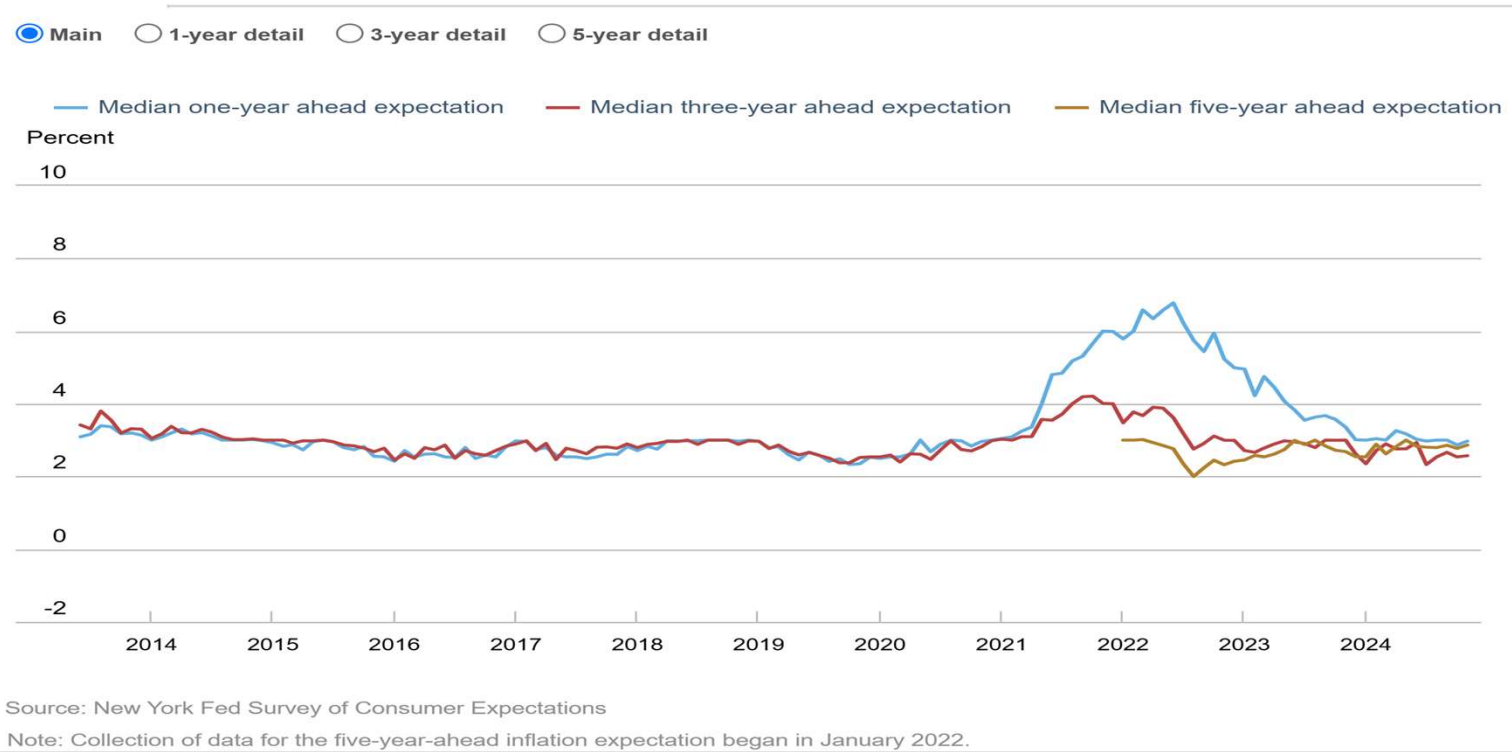
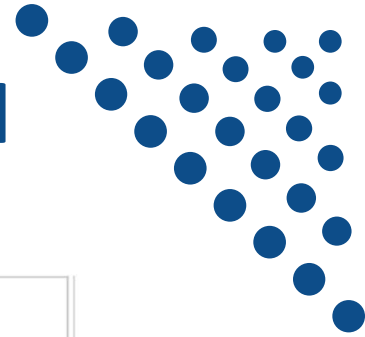
Variable	Median ¹				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.5	2.1	2.0	1.9	1.8
September projection	2.0	2.0	2.0	2.0	1.8
Unemployment rate	4.2	4.3	4.3	4.3	4.2
September projection	4.4	4.4	4.3	4.2	4.2
PCE inflation	2.4	2.5	2.1	2.0	2.0
September projection	2.3	2.1	2.0	2.0	2.0
Core PCE inflation ⁴	2.8	2.5	2.2	2.0	
September projection	2.6	2.2	2.0	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.9	3.4	3.1	3.0
September projection	4.4	3.4	2.9	2.9	2.9

Variable (in percent)	CBO December 2024 Projections			
	2024	2025	2026	2027
RGDP growth	2.3	1.9	1.8	1.8
Unemployment	4.2	4.3	4.4	4.4
Inflation (PCE)	2.5	2.2	2.1	2.0
Core Inflation	3.2	2.4	2.3	2.3
Federal Funds	4.6	3.7	3.4	3.4

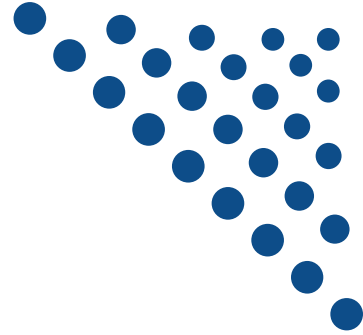
<https://www.cbo.gov/system/files/2024-12/60890-Economy.pdf>

Austin Goolsbee, President of the Chicago Fed, The economy is on a “golden path” and will achieve the “mother of all soft landings.”

Long-Term Inflation Expectations Remained “Well Anchored”



Major Uncertainties



Short Run:

- **Tariff Effects on inflation and on total demand?**
 - **TCJA and future income taxes?**
- 1. Has the reduction in inflation stalled; is the labor market too strong?**
 - 2. Immigration and labor force growth?**
 - 3. What is going on in the bond market?**



1. What is Good Economic News These Days?



grwoglom published on TradingView.com, Jan 15, 2025 15:46 UTC-5



TradingView

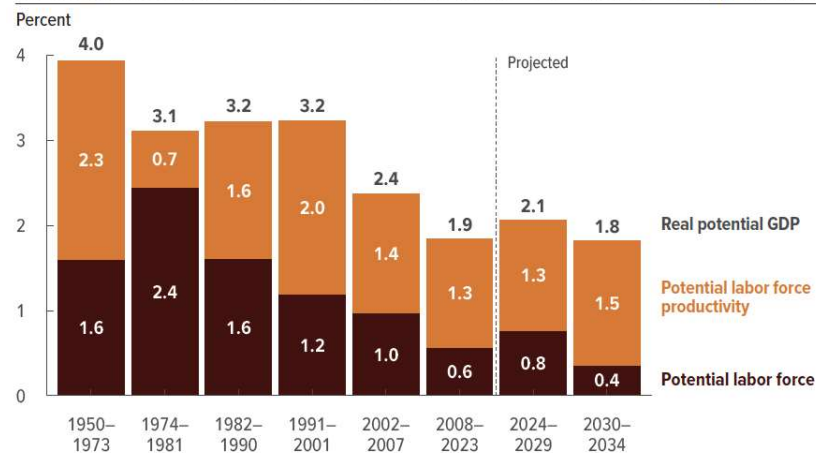
2. Scott Bessent and the First 3 of 3-3-3 Goals

1. 3 percent real GDP growth
2. 3 percent budget deficit as a percentage of GDP
3. 3 millions barrels of oil.

Fact: So far in the Biden administration, real GDP growth has averaged 2.85%

But, when Biden took office the unemployment rate was 6.4%

Average Annual Growth of Real Potential GDP and Its Components



The amount of output the economy can produce if labor and capital are employed at their maximum sustainable rates is projected to grow by an average of 2.1 percent a year through 2029, faster than it has since the recession that began in late 2007. That faster growth of potential GDP stems mainly from CBO's projection of a surge in net immigration through 2026, which increases the projected growth of the labor force.

Data source: Congressional Budget Office. See www.cbo.gov/publication/60039#data.

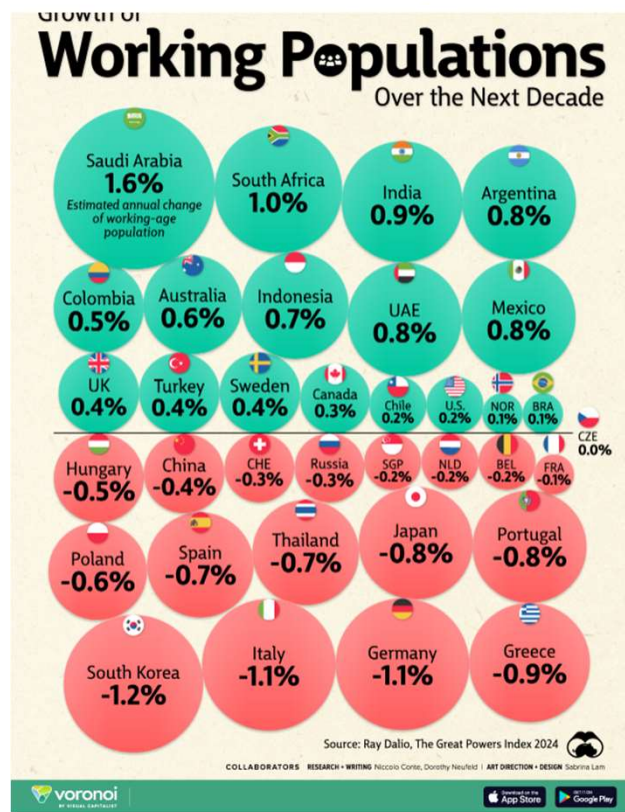
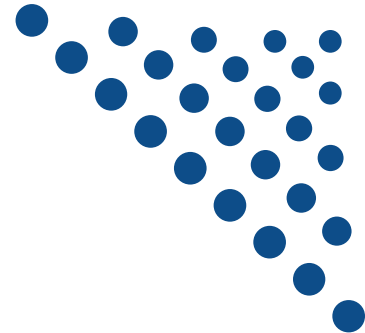
Real values are nominal values that have been adjusted to remove the effects of changes in prices.

Real potential GDP is CBO's estimate of the amount of real GDP that can be produced if labor and capital are employed at their maximum sustainable rates. Its growth is the sum of the growth of the potential labor force and of potential labor force productivity. The potential labor force is CBO's estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts. Potential labor force productivity is the ratio of real potential GDP to the potential labor force.

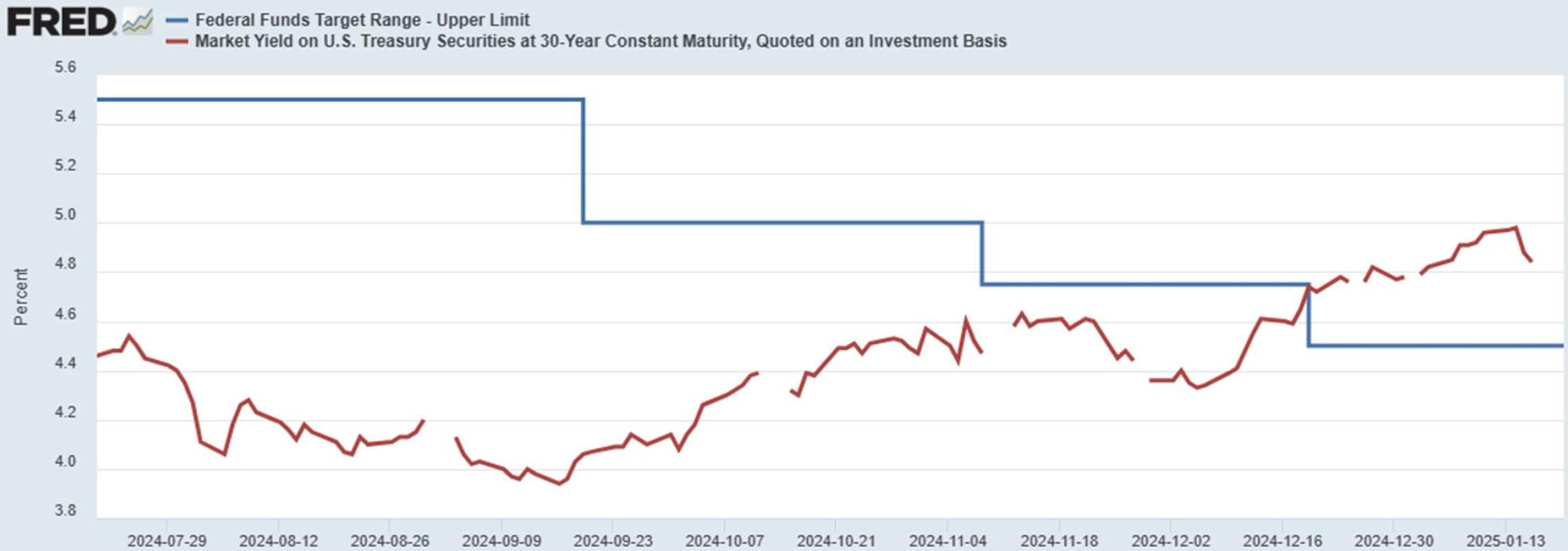
The bars show average annual growth rates over the specified periods. Those rates are calculated using calendar year data.

GDP = gross domestic product.

Random: Food for Thought



Bond Vigilantes?

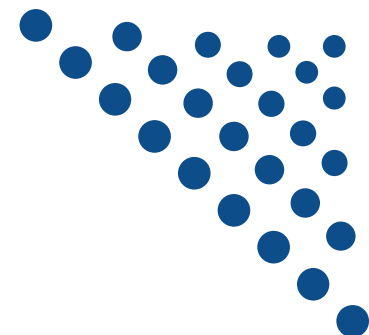


Shaded areas indicate U.S. recessions.

Source: Board of Governors of the Federal Reserve System (US)

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Interest Rates on Different Maturities



- **Paradox?**

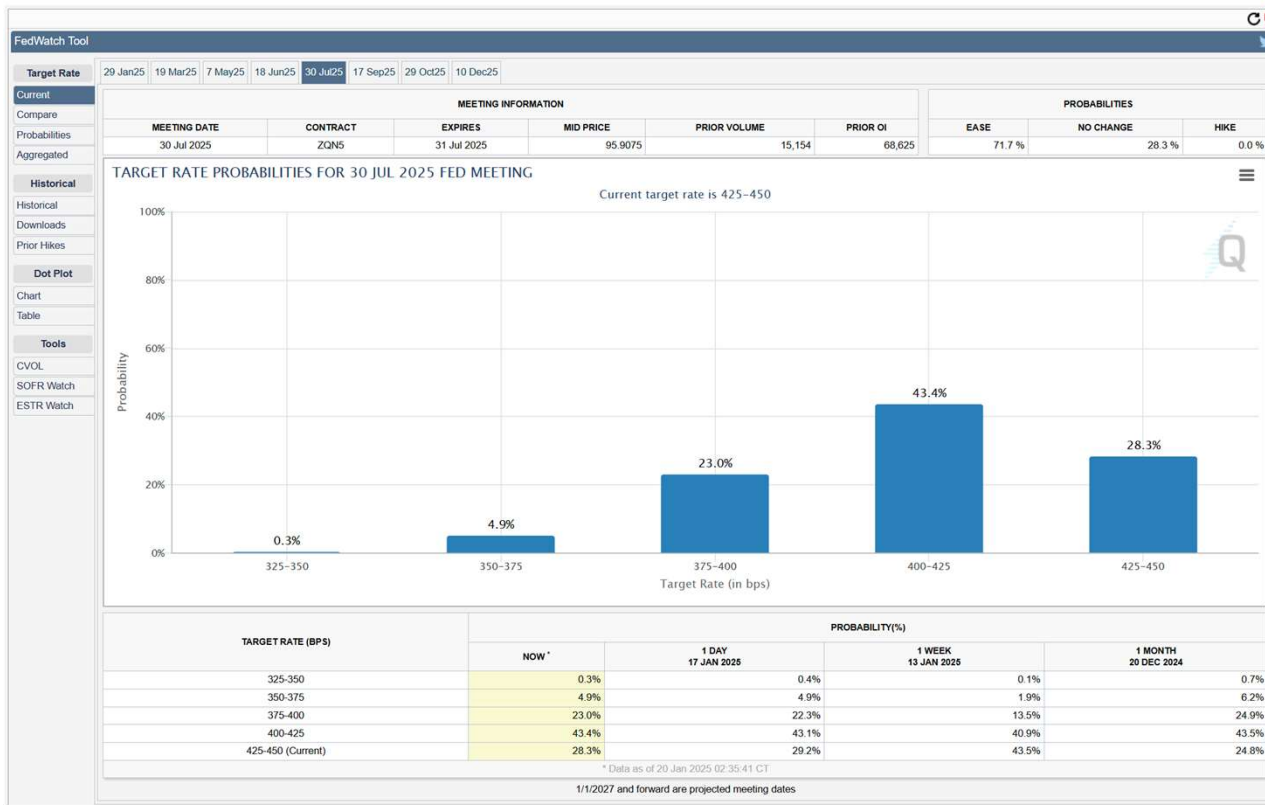
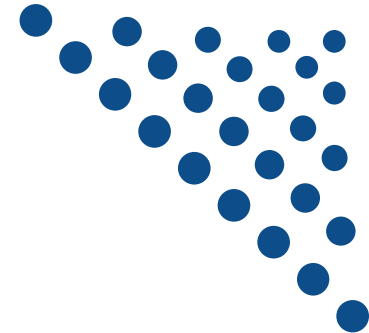
- Yesterday, you could buy a 6-month Treasury paying 4.3% annual interest or a 1-year interest rate paying 4.2%.

- **Resolution:**

- If you expect that 6-month interest rates will fall over the 6 months, the 1 year could be equally attractive.

- **Bottom Line: long-term interest rates depend on the expected average short-term rates over the life of the bond.**

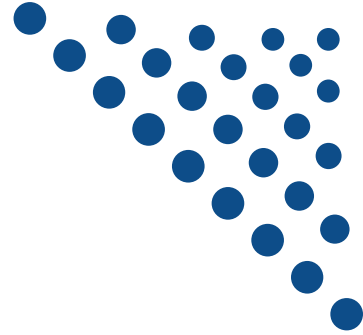
Market Expectations of Fed Policy



But What About Long-term Bonds?

- Basic Idea is still true: 30-yr bond interest rate depend on average of Fed funds rate over the next 30 years.
- Key Question: at horizons from 5 to 30 years from now what will the Federal Funds rate be?
- On average, business cycle effects offset each other, so Fed policy, on average, will neither be expansionary nor contractionary.
- So, over the 5 to 30 year horizon the fed funds rate should be the “neutral rate”
- If the Fed is “credible,” markets will believe they will achieve their inflation objective on average.

The Neutral Interest Rate

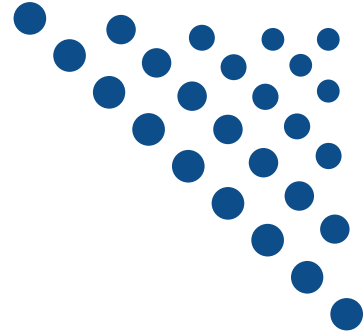


- The short-term interest rate that is consistent with GDP equal to potential and stable inflation. It is neither expansionary or contractionary monetary policy.
- It is not a constant over time, but depends primarily on investment and national saving (where deficits lower national saving) and long-run inflation.

Fed's Estimate of the Neutral Rate over Time

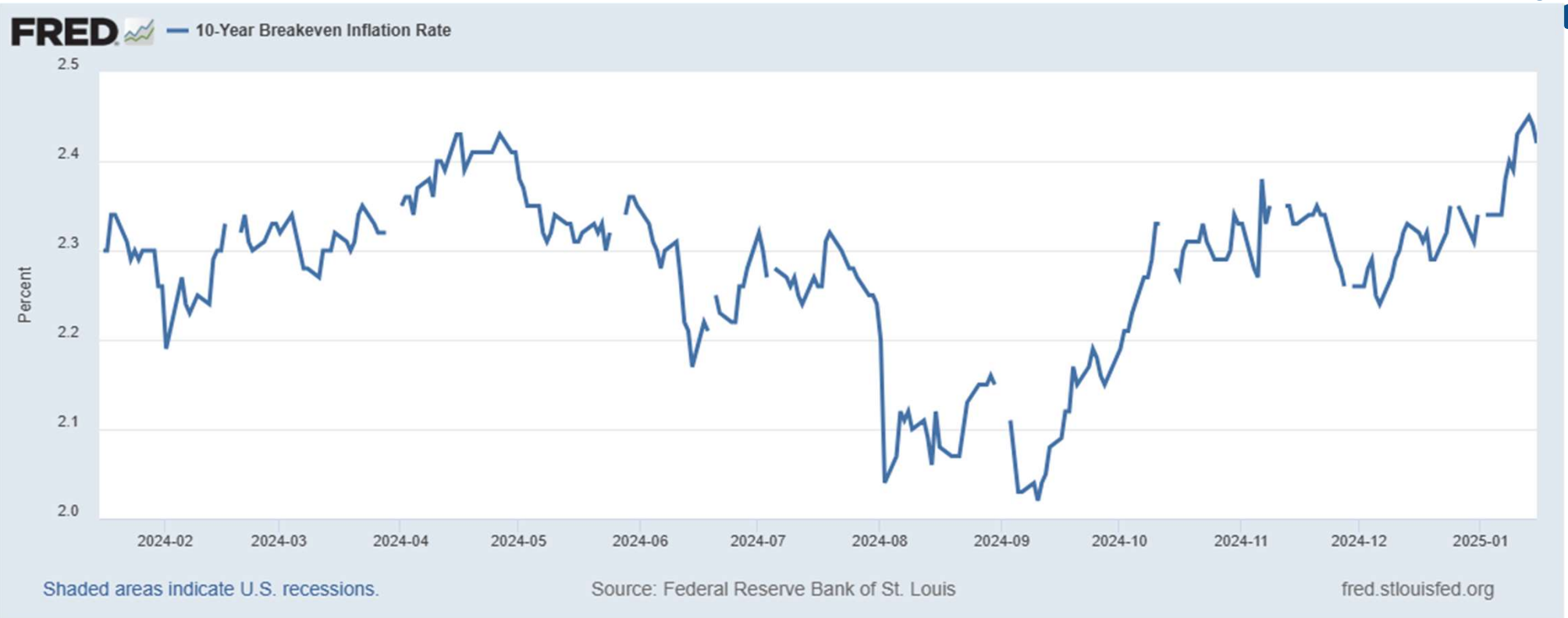


Interpreting the Bond Market

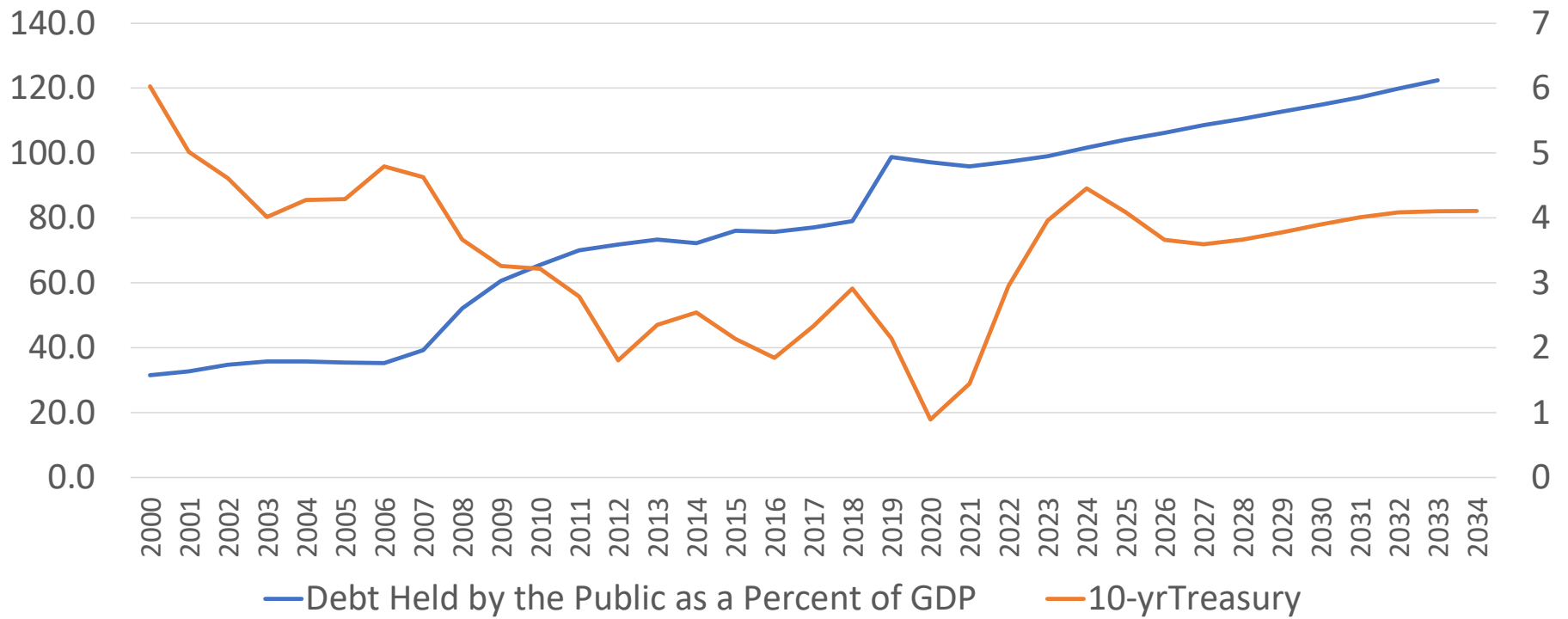
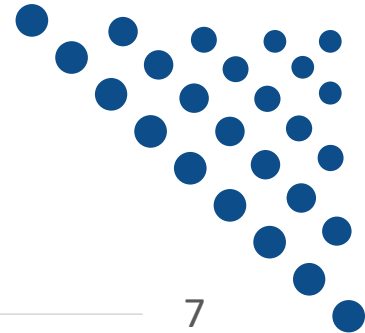


- Will the Fed be able to achieve target of 2% inflation?
- Will rising debt and deficits finally raise the neutral interest rate

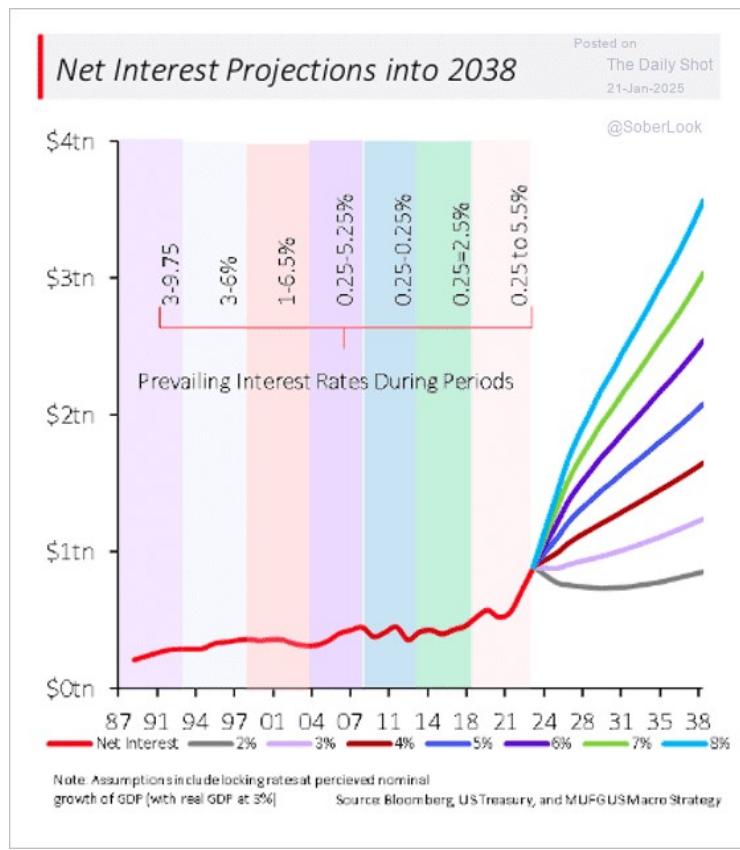
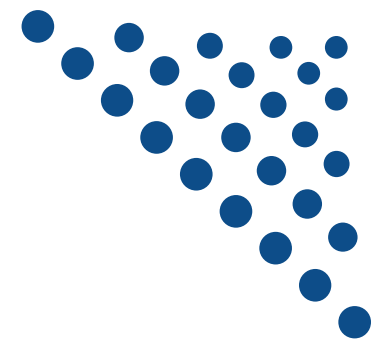
Is Fed Credibility Eroding?



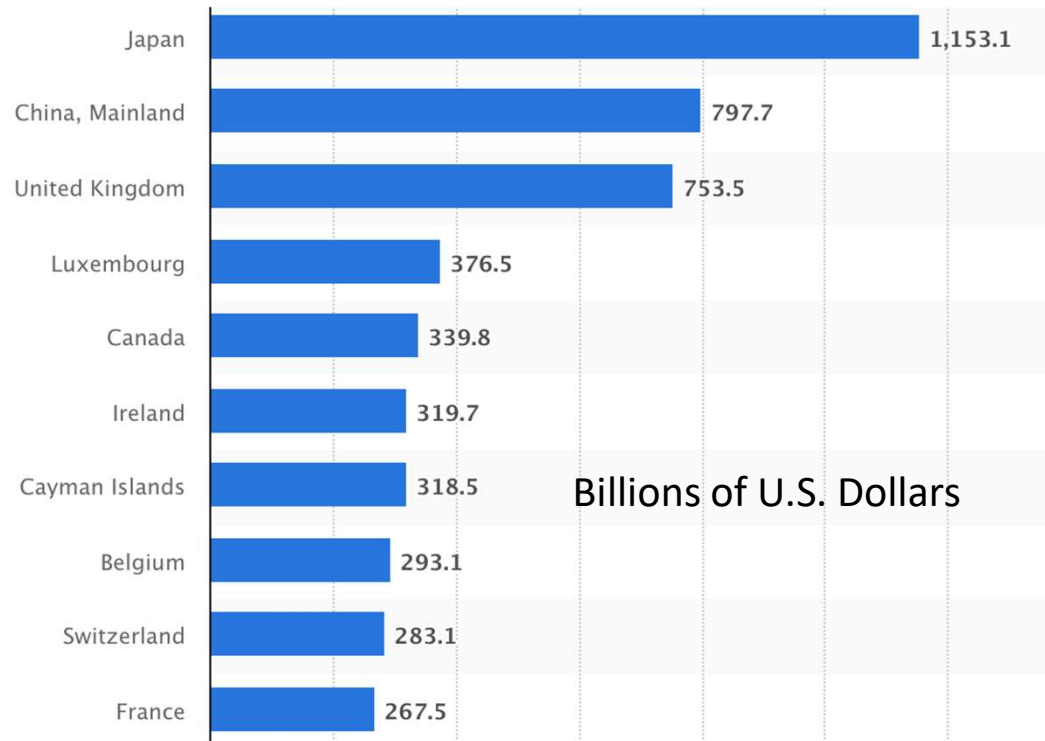
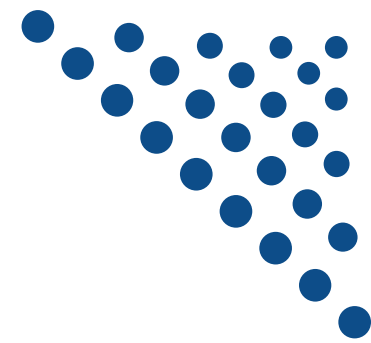
Is the Fiscal “Free Lunch” Over?



Possible Consequences?

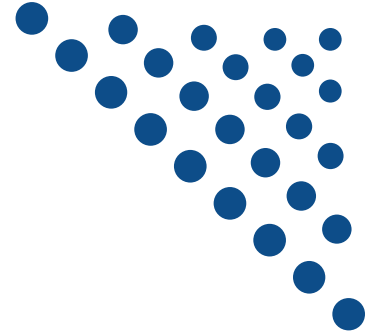


Next Week Who Holds Debt to Foreigners, Jan. 2024



Foreign ownership is relatively recent
– in 1990 foreign ownership was less than 20%
– peaked at 40+%
– now is 29.4%

Let's Hear from You!



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