



Osher Lifelong Learning Institute, Fall 2023 **Contemporary Economic Policy**

Dominican University
Fall, 2023

Jon Haveman, Ph.D.
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
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 4 Nobel Prize Winners
 - o Akerlof, Smith, Maskin, Bernanke

• 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

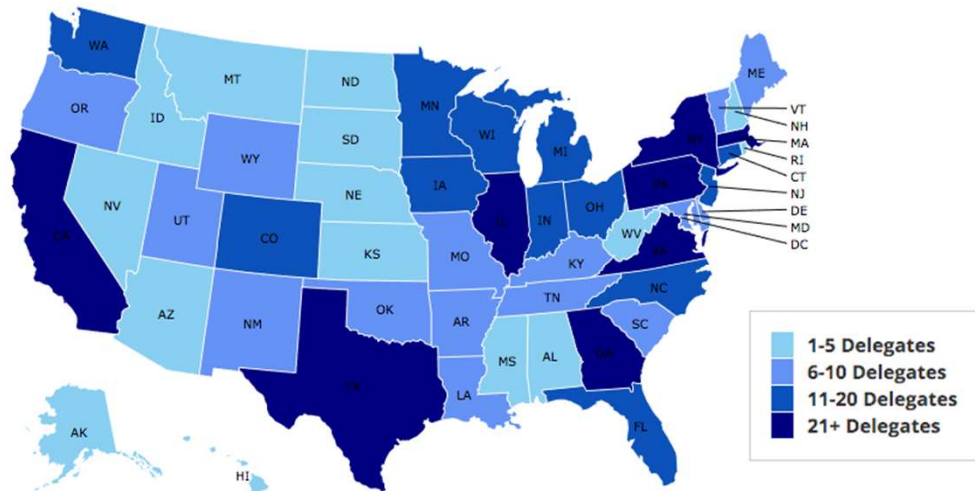
- Aid in slide deck development



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Where Are We?



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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



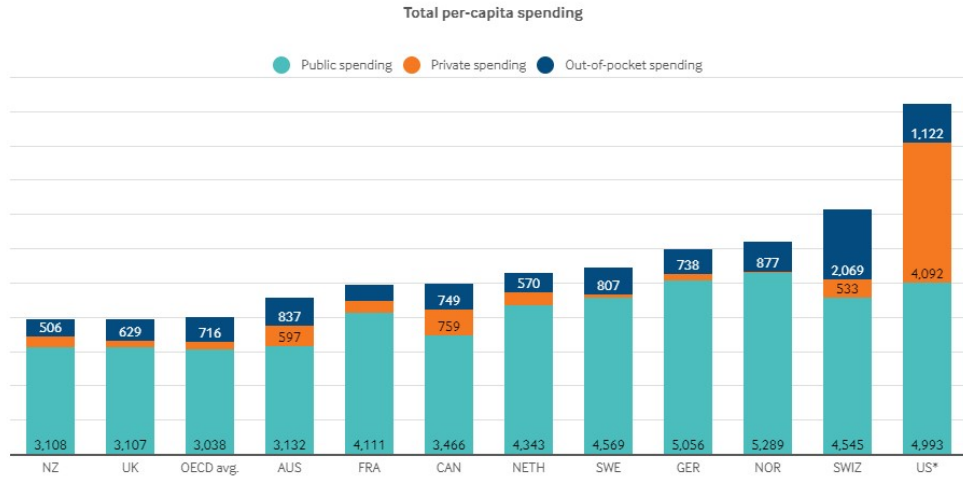
Course Outline

- **Contemporary Economic Policy**
 - Week 1 (11/1): Economic Update (Geoffrey Woglom Amherst College)
 - Week 2 (11/8): Healthcare Economics (Jon Haveman, NEED)
 - Week 3 (11/15): Climate Change Economics (Jon Haveman)
 - Week 4 (11/22): Autonomous Vehicles (Jon Haveman)



International Comparison: Health Spending

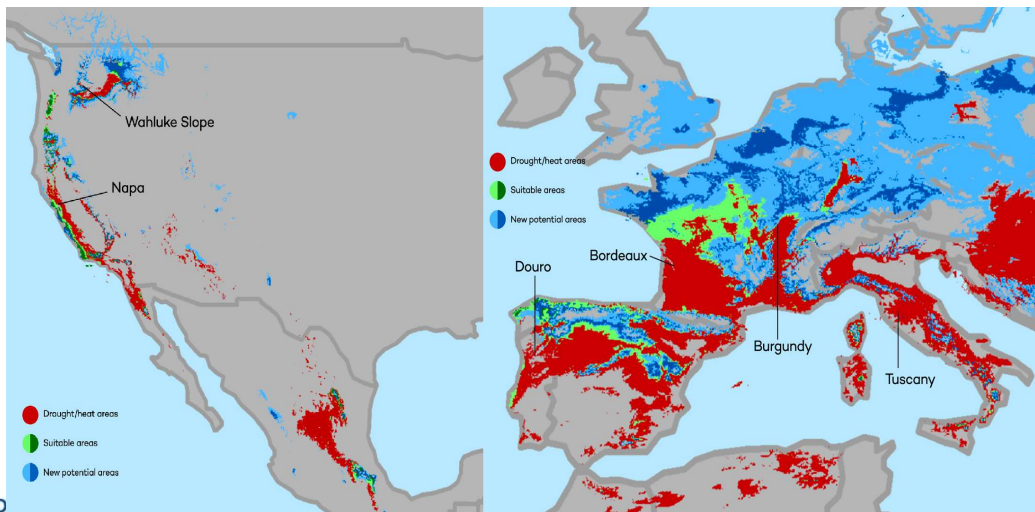
Dollars (US\$), adjusted for differences in cost of living



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Climate Change Economics

The changing map of the world's wine-growing regions.



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Autonomous Vehicles



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Submitting Questions

- **Please submit questions in the chat or raise your digitalhand.**
 - I will try to handle them as they come up, but may take them in a bunch as time permits.
- **We will do a verbal Q&A once the material has been presented.**
 - And the questions in the chat have been addressed.
- **Slides will be posted at**
https://needecon.org/delivered_presentations.php

My Google Site:

<https://sites.google.com/view/macro-current-issues/home>



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INFLATION



US Economy: Update

Geoffrey Woglom,
 Professor of Economics
 Amherst College, emeritus
 November 1, 2023



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11

Credits and Disclaimer

- **This slide deck was authored by:**

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombek, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

- **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).



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Outline for the Talk

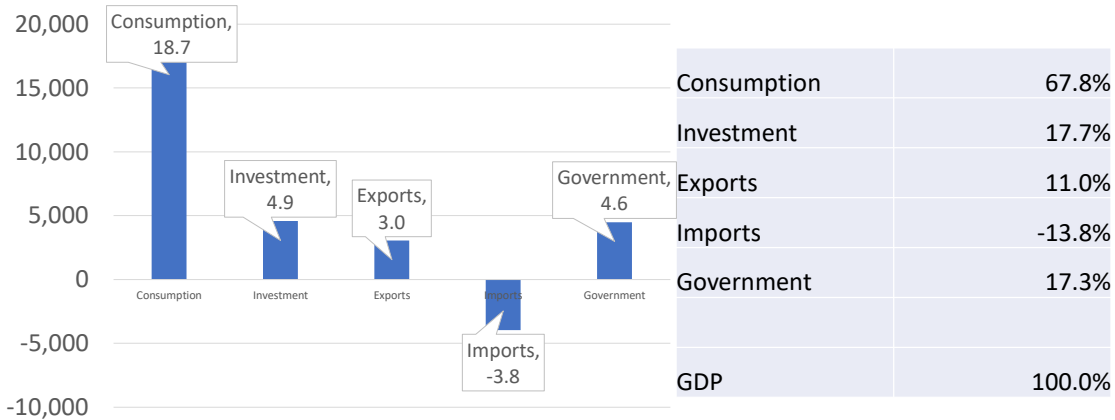
1. Summary of the state of the macroeconomy.
2. The Effect of M&F policies.
3. What lies ahead for the economy.
4. What will the Fed do at its next policy meeting 10/31-11/1

Important things that will *NOT* be covered today

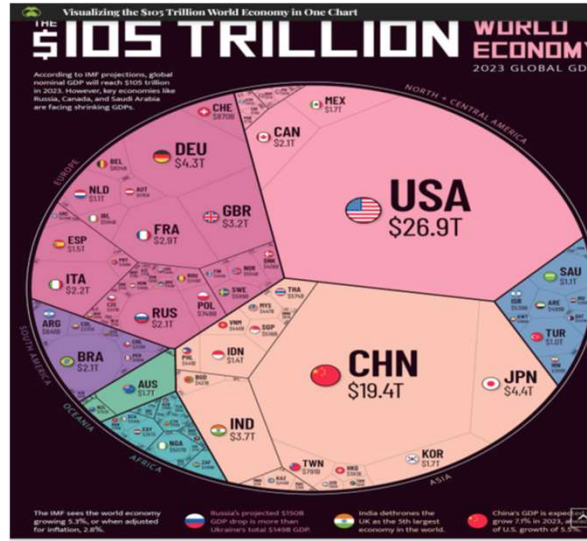
1. Income inequality.
2. Climate change.
3. And many other important economic issues. Why NOT?

Gross Domestic Product

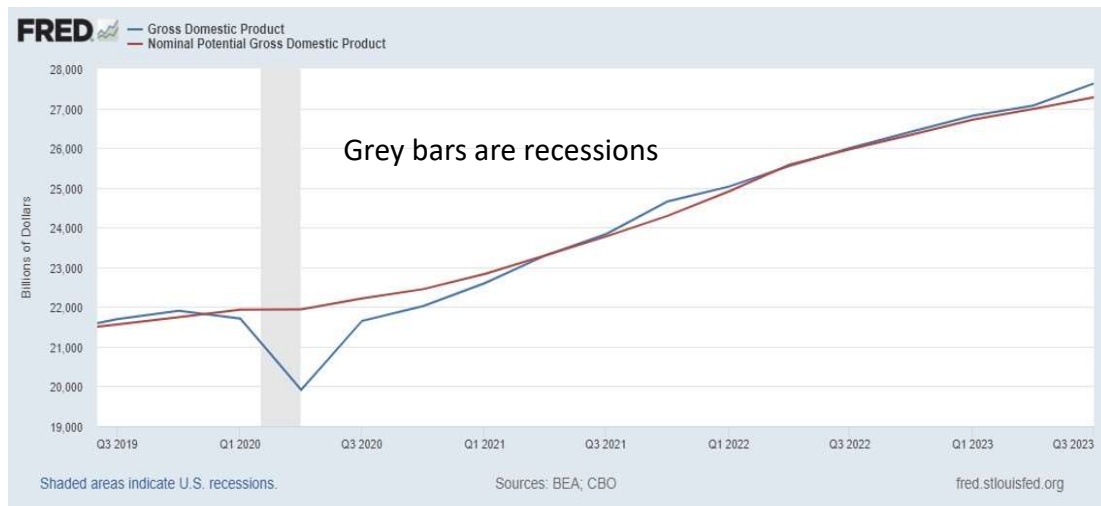
Components of 2023Q3 GDP, \$27.6 tr



The Size of the World Economies



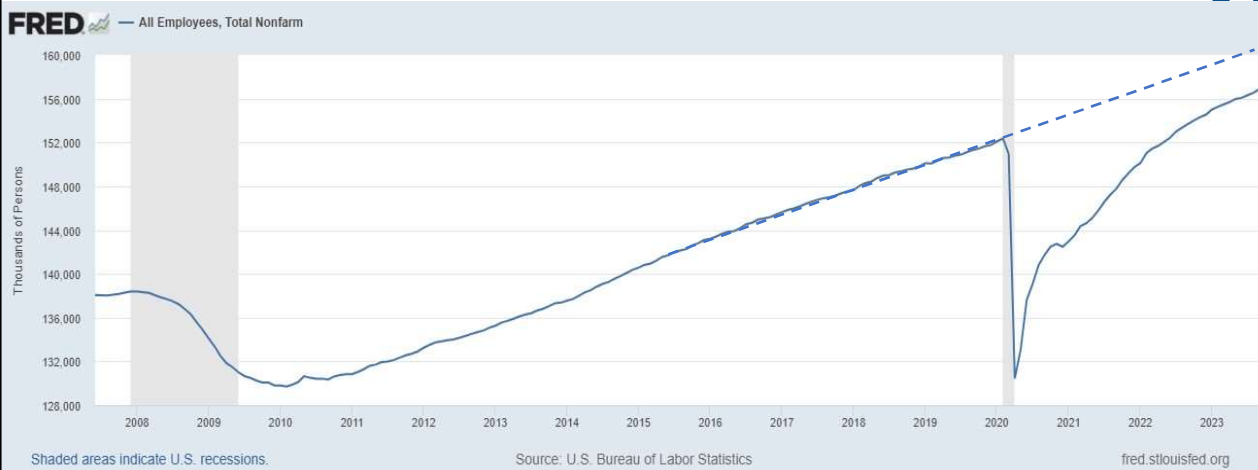
GDP and 'Potential' during the Recovery



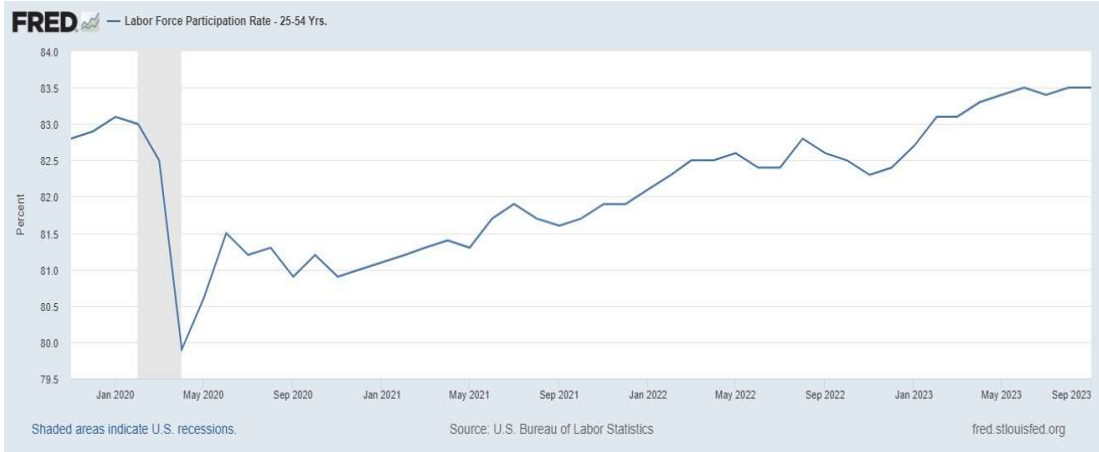
Unemployment is Near Record Lows



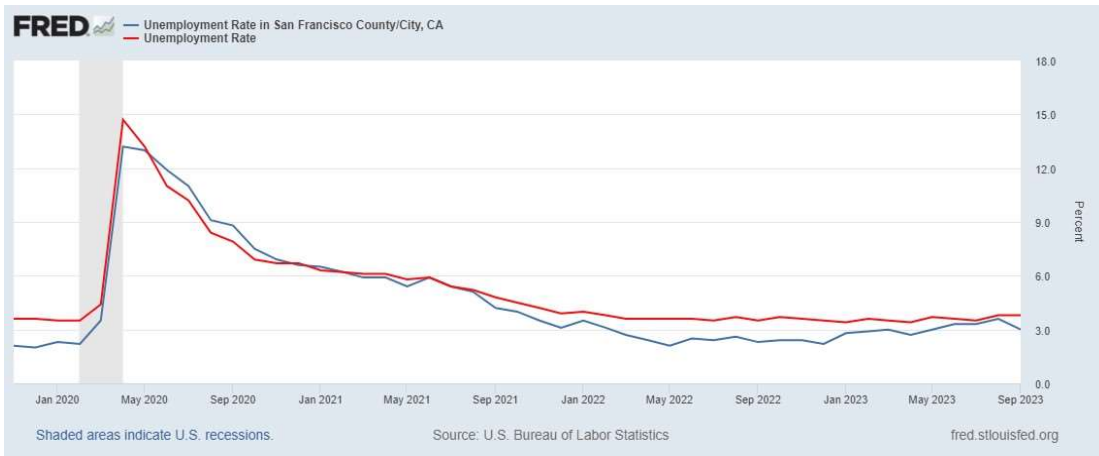
Where Have All the Workers Gone?



The Great Resignation?



How is San Francisco Doing: Unemployment?



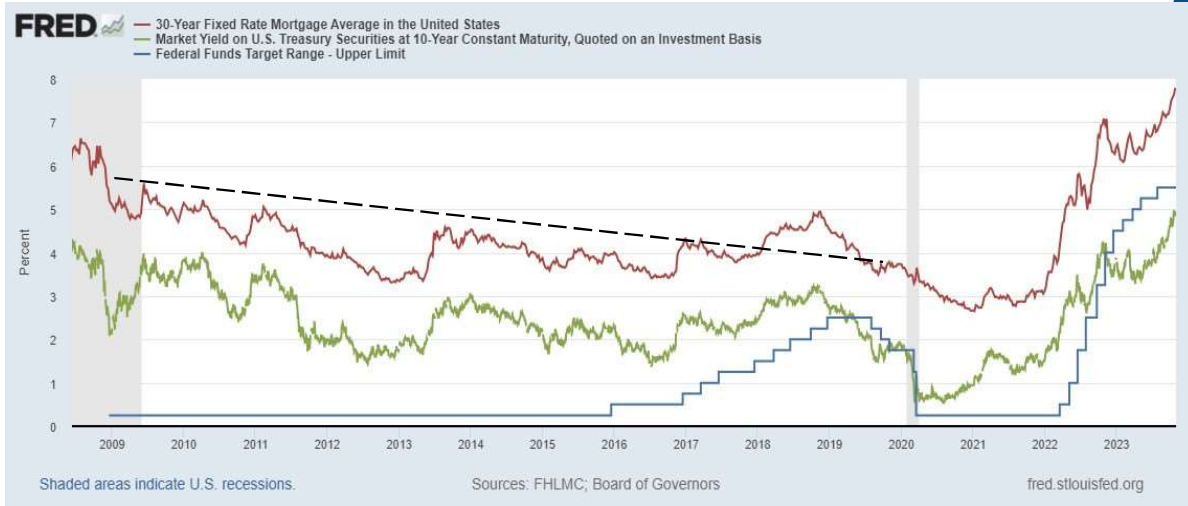
How About Employment?



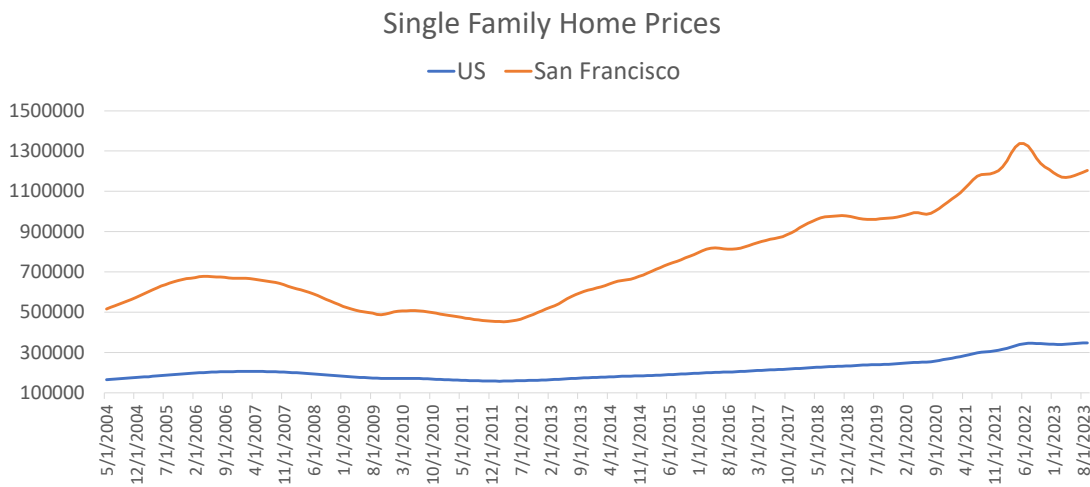
Overall Good News on the Real Side

- **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!**

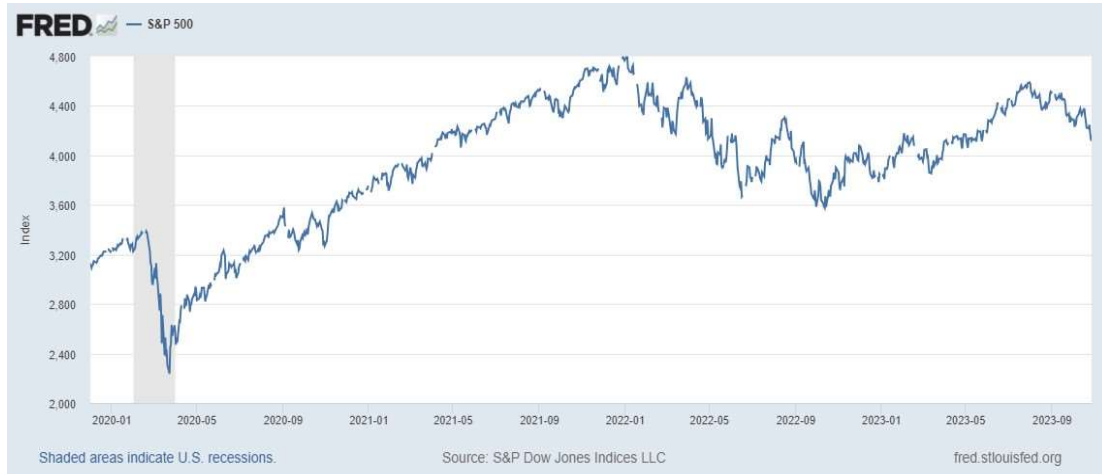
Interest Rates: Era of Falling Rates Over?



National Housing Market and Closer to Home



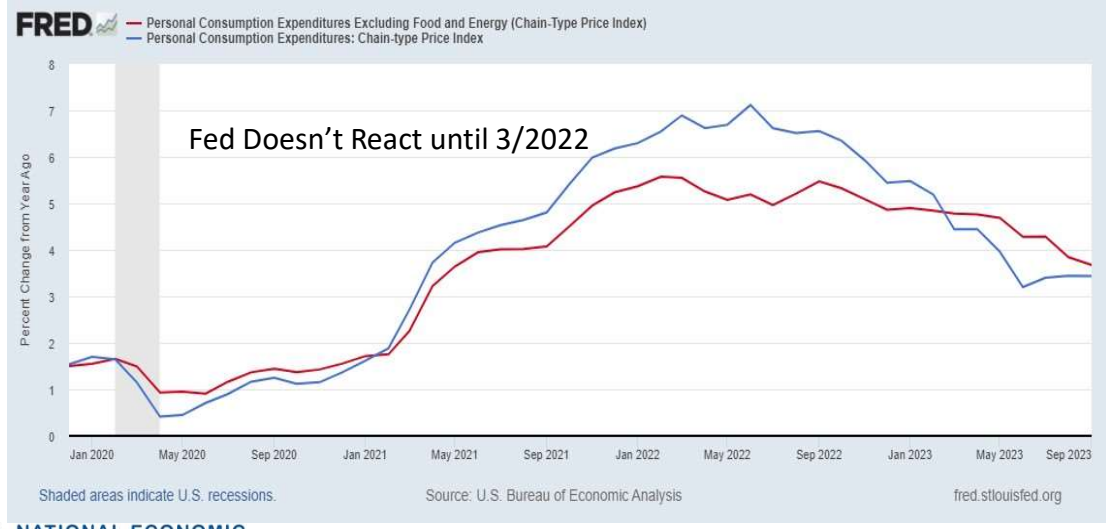
Stock Prices: Greed Giving Way to Fear?



Inflation during the Recovery (CPI)



Fed's Measure (PCE)

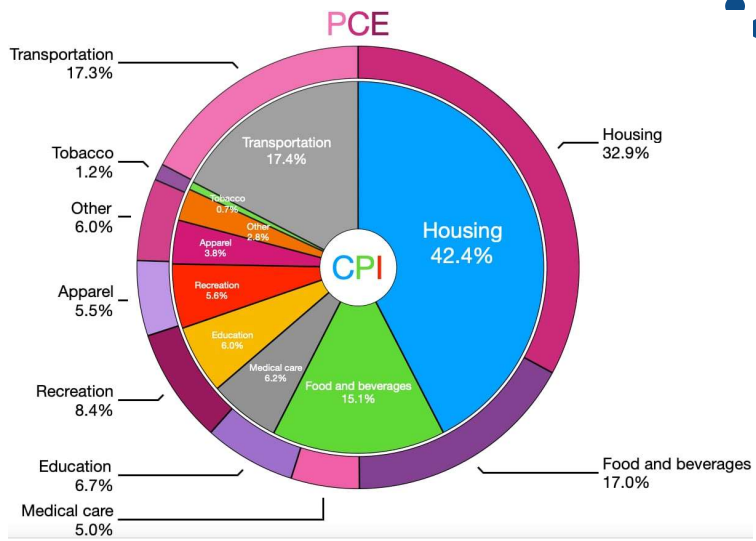


CPI vs. PCE: Differences

CPI tends to be higher (Sep):
 CPI, 3.7%
 PCE, 3.4%

Core CPI, 4.1%
 Core PCE, 3.7%.

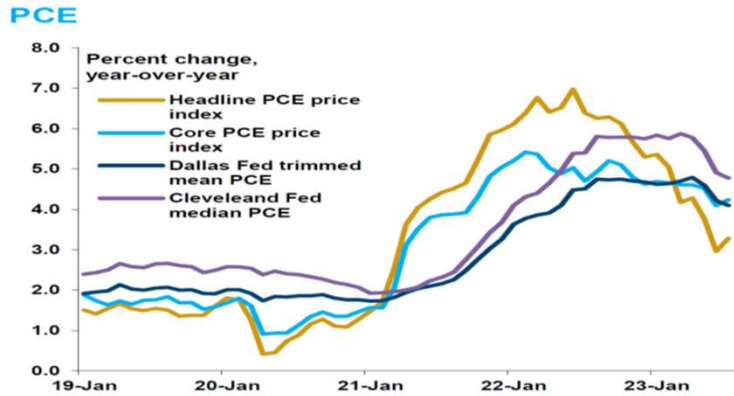
Typically more like
 0.5 % pts.



Measuring “Underlying” Inflation

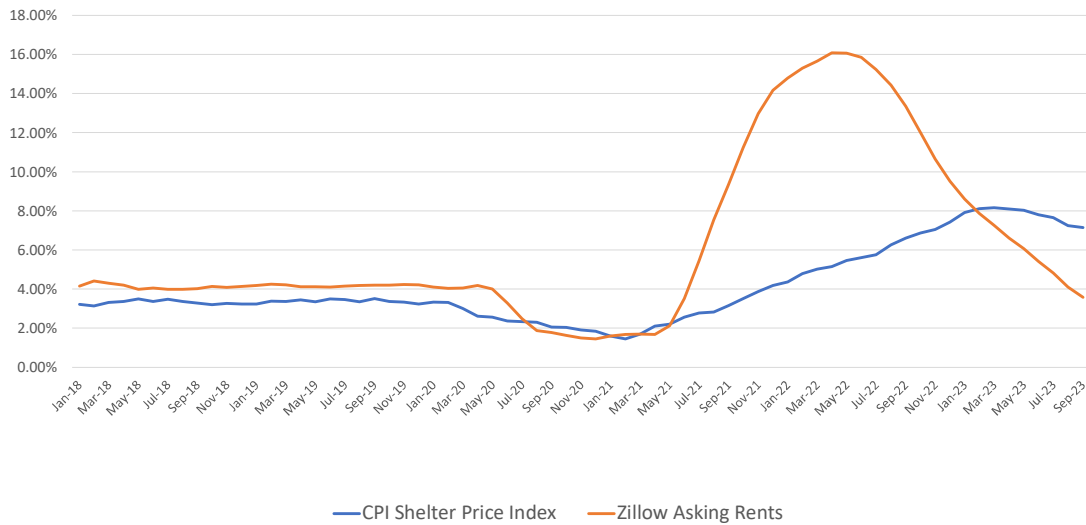
Two Reasons for Measuring Recent Inflation:

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

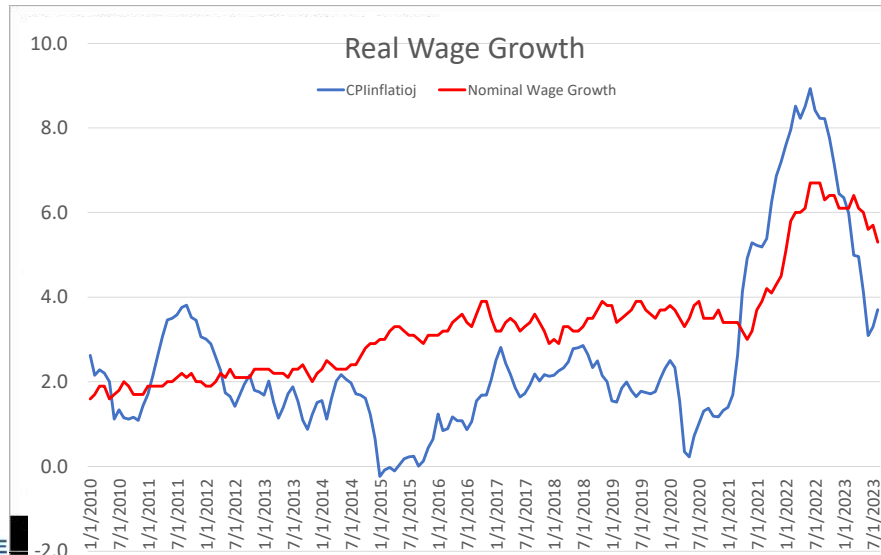


Sources: Bureau of Economic Analysis, Federal Reserve Bank of Dallas, and Federal Reserve Bank of Cleveland via Haver Analytics

Rents Paid versus Asking Rents



Wages Haven't Kept Pace with Inflation



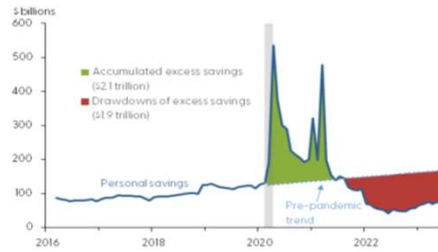
The "Nominal" Side

- Inflation: There is still work to be done.

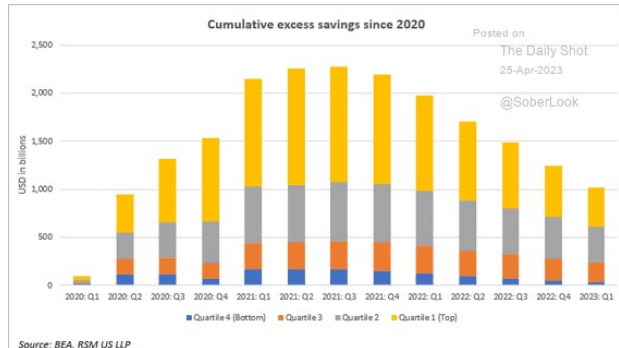
Policy Effects: Fiscal

- 2020-2021: massive stimulus, \$4.6t: Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.

Aggregate Personal Savings



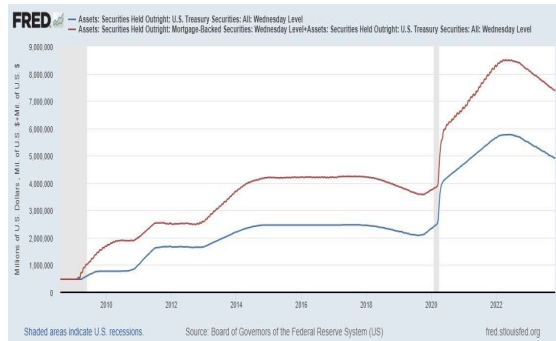
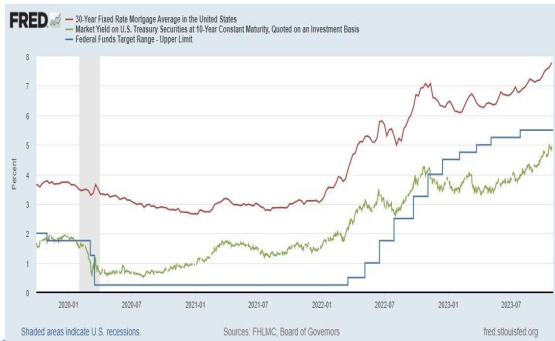
Source: Abdelrahman, Hamza et al., "Excess No More? Dwindling Pandemic Savings," Federal Reserve Bank of San Francisco, Aug. 2023. <https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/>



Source: BEA, RSM US LLP

Policy Effects: Monetary

- 2020-2/2022: policy interest rate at zero, new round of quantitative easing.
- 3/2022-present: most rapid increase in interest rates since Paul Volcker



Where we Stand

- **Bidenomics?**

- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Chips Act
- Inflation Reduction Act.

More importantly, Presidents don't have much effect on the economy in the short run.

- **Monetary policy was too easy for too long, but since March of last year has been much more restrictive.**
- **Yes, there were supply chain issues that temporarily raised inflation, but there was (is?) too much total spending.**

So, where are we headed?

What will the Fed do?



Fed's View in September

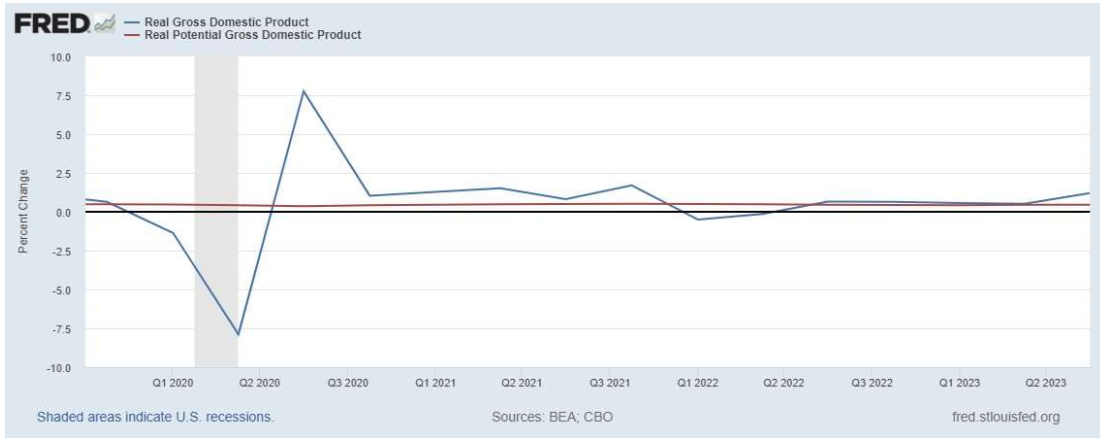
Percent

| Variable | Median ¹ | | | | |
|---|---------------------|------|------|------|------------|
| | 2023 | 2024 | 2025 | 2026 | Longer run |
| Change in real GDP | 2.1 | 1.5 | 1.8 | 1.8 | 1.8 |
| June projection | 1.0 | 1.1 | 1.8 | | 1.8 |
| Unemployment rate | 3.8 | 4.1 | 4.1 | 4.0 | 4.0 |
| June projection | 4.1 | 4.5 | 4.5 | | 4.0 |
| PCE inflation | 3.3 | 2.5 | 2.2 | 2.0 | 2.0 |
| June projection | 3.2 | 2.5 | 2.1 | | 2.0 |
| Core PCE inflation ⁴ | 3.7 | 2.6 | 2.3 | 2.0 | |
| June projection | 3.9 | 2.6 | 2.2 | | |
| Memo: Projected appropriate policy path | | | | | |
| Federal funds rate | 5.6 | 5.1 | 3.9 | 2.9 | 2.5 |
| June projection | 5.6 | 4.6 | 3.4 | | 2.5 |

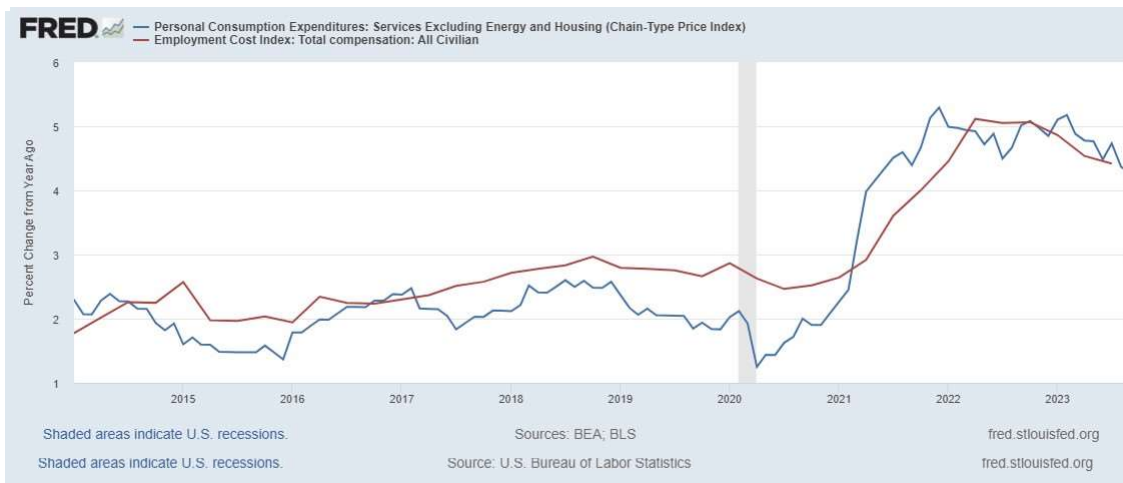
Austin Goolsbee, President of the Chicago Fed. The economy is on a "golden path" and will achieve the "mother of all soft landings."



GDP in Q3: Good News ?



Employment Cost Index

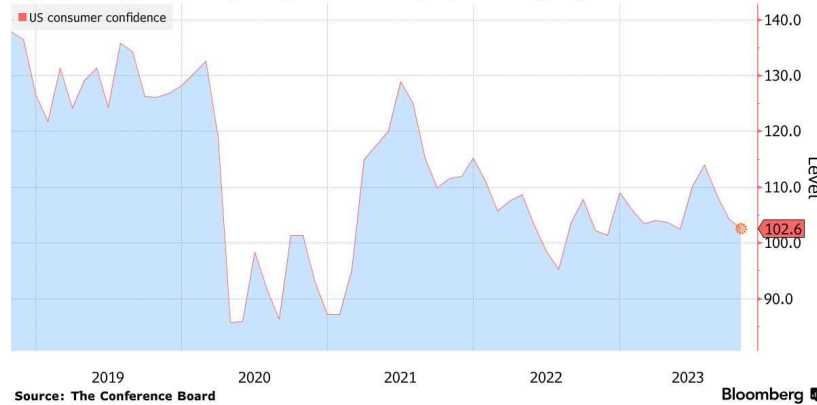


More Bad News for Biden: Gas Prices!



Can We Continue to Count on Consumers?

US Consumer Confidence Wanes in October High prices, particularly for groceries and gas, are weighing on sentiment



Key Players' Views on the Risk of a Recession

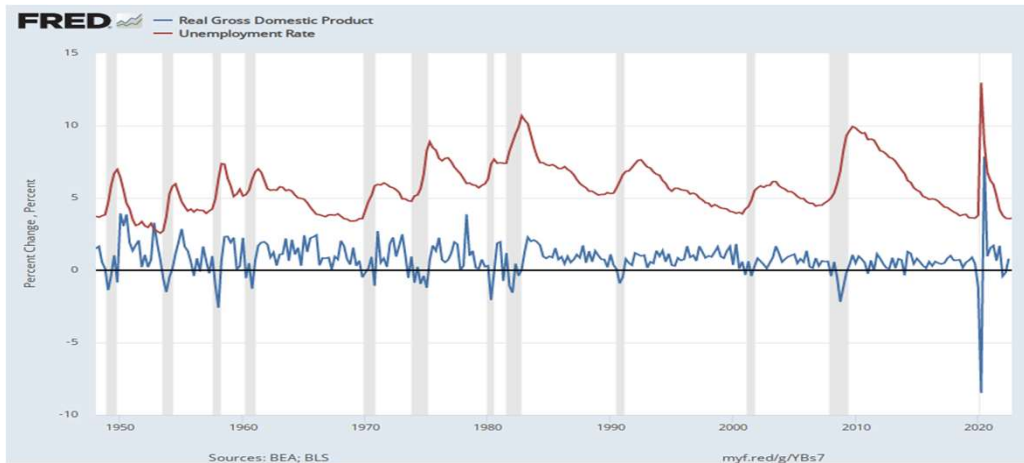
| Forecaster | Estimated U.S. Recession Probability (Next 12 Months) |
|-----------------------|---|
| Federal Reserve Staff | 0% |
| Yield Curve* | 61% |
| Economists | 48% |
| Consumers | 69% |
| Goldman Sachs | 15% |
| Bank of America | 35-40% |
| CEOs** | 84% |

Source: Federal Reserve Bank of New York, Wolters Kluwer, The Conference Board, Goldman Sachs Investment Research, Bank of America. Data based on surveys and projections conducted August-September. *Based on a New York Fed model estimating recession probabilities using 10-year minus 3-month Treasury yield spreads, based on data from 1959-2009. **Conference Board Q3 CEO survey probability of a recession over the next 12-18 months.

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.**
- **Recessions are caused by decreases in total spending.**

Real GDP Growth and Recessions

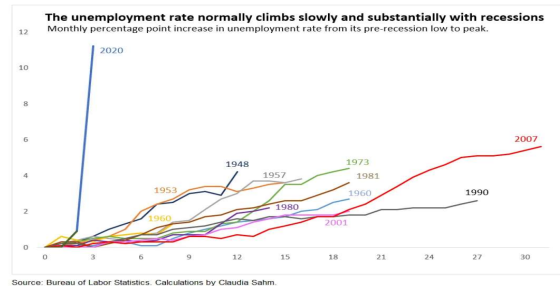


Monetary Policy is Tough



They are Both Right!

Warren:



Powell:

“We are taking the only measures we have to bring inflation down....Will working people be better off if we just walk away from our job and inflation remains at 5 or 6 percent?”



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And, It Will Only Get Harder

- **Biden has tied his campaign to the performance of the economy, but it is the Fed that can affect the economy between now and 11/24**
- **Known Unknowns**
 - Congressional paralysis and possible government shutdown, 11/17.
 - Wars in Ukraine and Israel.



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Unknown Unknowns!

grwglom published on TradingView.com, Oct 30, 2023 15:52 UTC-4

US Government Bonds 10 YR Yield, 30, TVC 4.879% +0.009 (+0.18%)



TradingView



Here Is What They Did Today

FEDERAL RESERVE press release



For release at 2:00 p.m. EDT
2023

September 20 November 1,

Recent indicators suggest that economic activity has been expanded at a stronging-at-a solid pace in the third quarter. Job gains have slowed-in-recent-months moderated since earlier in the year but remain strong, and the unemployment rate has remained low. Inflation remains elevated.

The U.S. banking system is sound and resilient. Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation.

The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks.

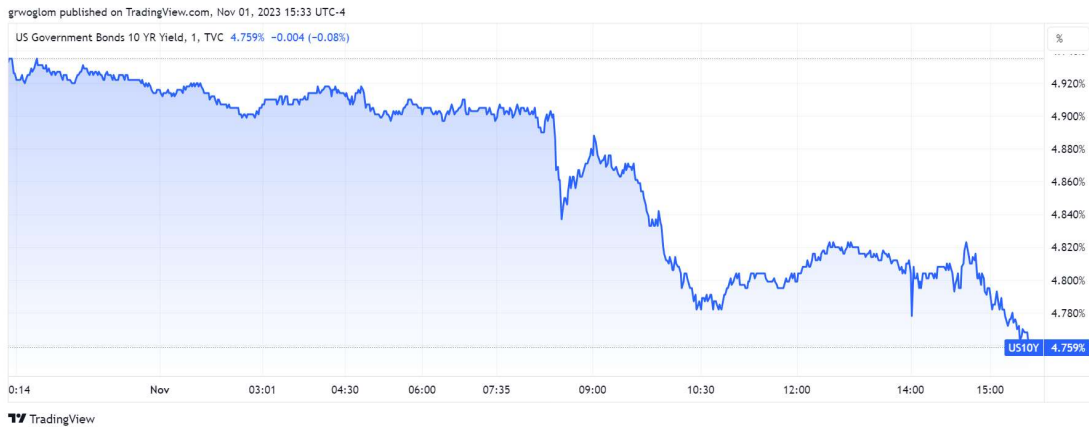


The Rest: No Changes!

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 5-1/4 to 5-1/2 percent. The Committee will continue to assess additional information and its implications for monetary policy. In determining the extent of additional policy firming that may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in its previously announced plans. The Committee is strongly committed to returning inflation to its 2 percent objective.



Bond Market Reaction



Stay Tuned!

11/3 Employment Report for October
 11/14 CPI Report

Upcoming Monetary Policy Meetings:

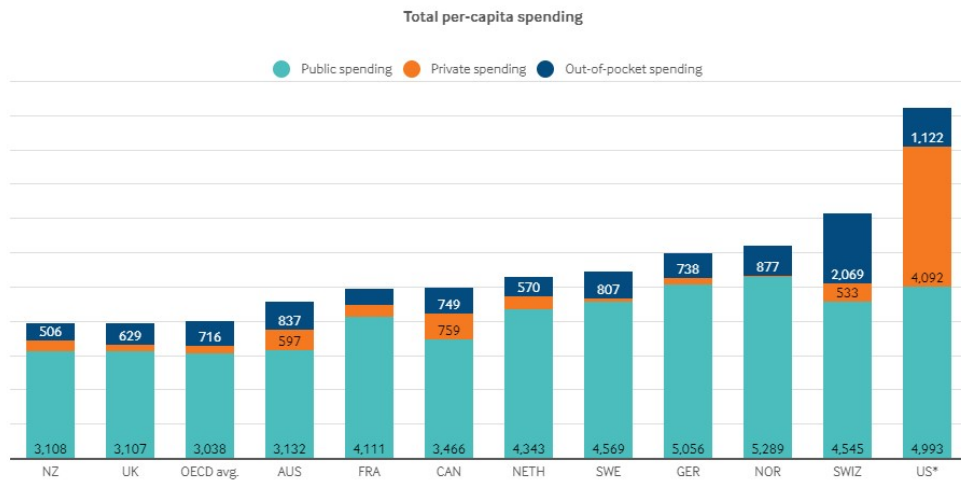
- 12/12-12/13 (Updated Economic Projections)

Visit My Google Site for more info:

<https://sites.google.com/view/macro-current-issues/home>

International Comparison: Health Spending

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





Let's Hear from You!

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<https://sites.google.com/view/macro-current-issues/home>

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