



Osher Lifelong Learning Institute, Spring 2025

Contemporary Economic Policy

University of Minnesota

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
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 652+ members**

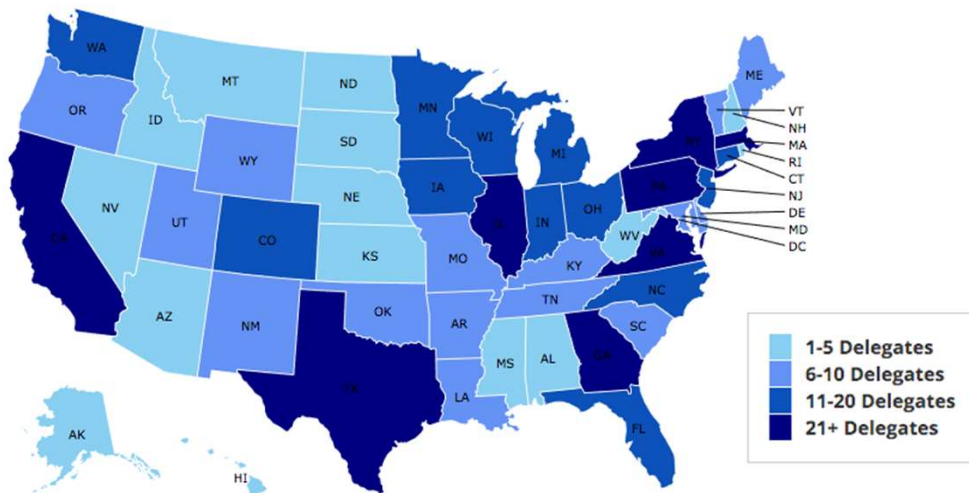
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

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

- Aid in slide deck development



Where Are We?



Available NEED Topics Include:

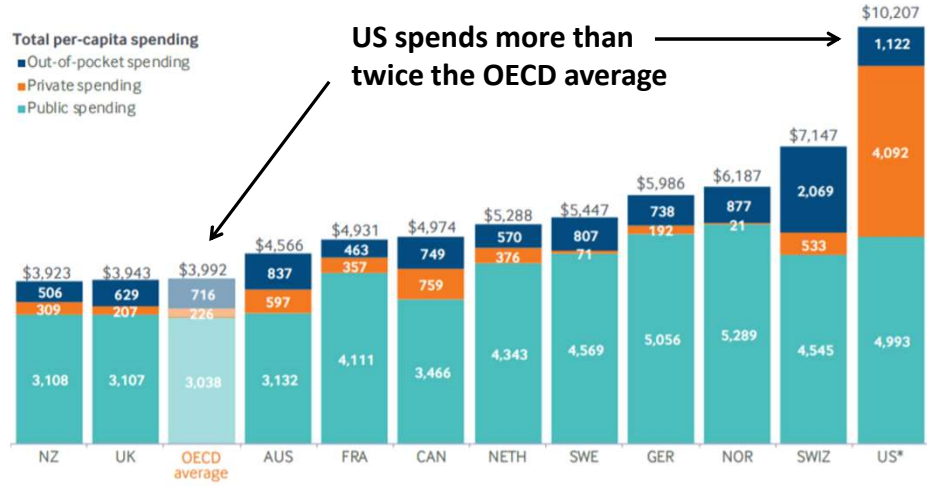
- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

Course Outline

- **Contemporary Economic Policy**
 - **Week 1 (4/3): Economic Update (Geoffrey Woglom, Amherst College)**
 - Week 2 (4/10): Health Economics (Robert Rebelein, Vassar College)
 - Week 3 (4/7): The New Inequality (Geoffrey Woglom, Amherst College)
 - Week 4 (4/24): Immigration (Jon Haveman, Exec Director, NEED)
 - Week 5 (5/1): Federal Debt and Deficits (Dmitriy Stolyarov U of Michigan)

International Per Capita Healthcare Spending

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



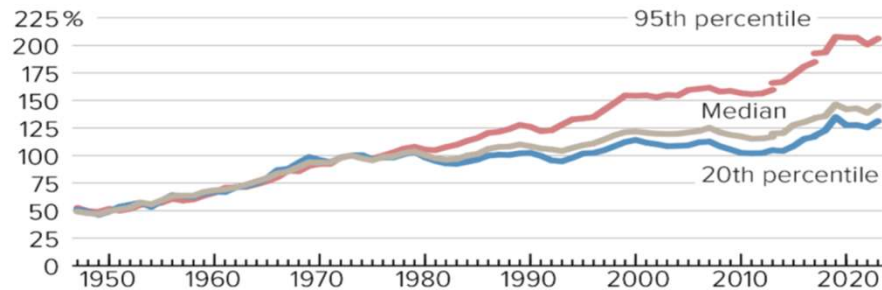
Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes* (Commonwealth Fund, Jan. 2020).

The Abrupt Increase in Inequality

FIGURE 1

Income Gains Widely Shared in Early Postwar Decades — But Not Since Then

Real family income between 1947 and 2023, as a percentage of 1973 level



Note: Breaks indicate implementation of a redesigned questionnaire (2013) and an updated data processing system (2017).

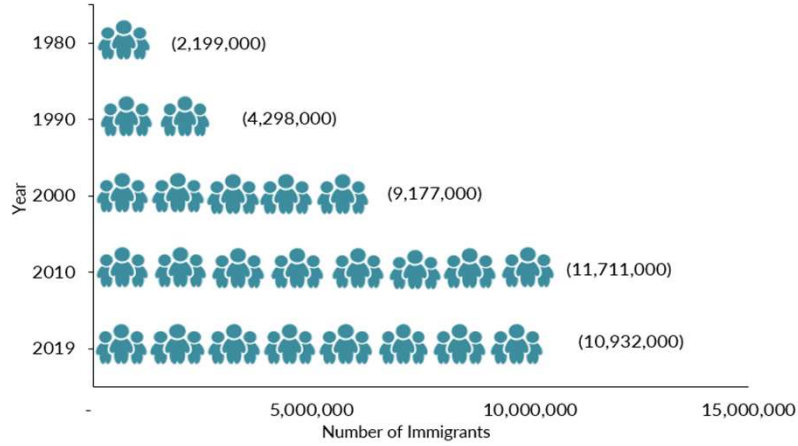
Source: CBPP calculations based on U.S. Census Bureau Data



CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Source: Arloc Sherman, Danilo Trisi, and Joseph Cureton, "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, Policy Futures, Dec. 11, 2024.

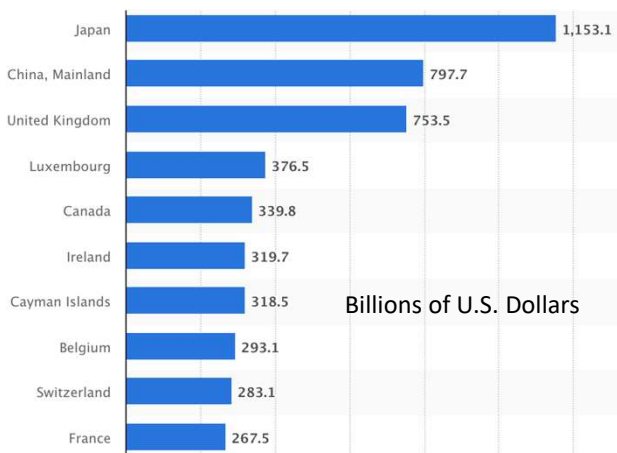
Mexican-Born People in the US



About 10.6 million in 2022 (Latest data)
1 in 14 people born in Mexico currently lives in the US



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%



Source: <https://www.statista.com/statistics/246420/major-foreign-holders-of-us-treasury-debt/>

Submitting Questions

- Submit questions in the chat. I will pause periodically to address questions.
- 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>



INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
April 3, 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. “Liberation Day” is Today!
 2. The Battle over extending Trump Tax Cut (time permitting).

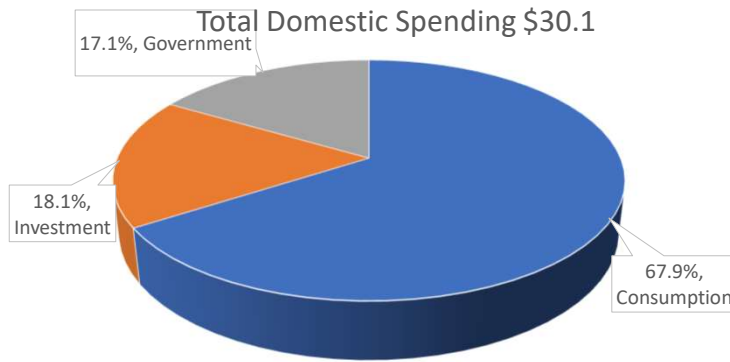


Revised Outline

- **Quick Overview of State of the Economy**
- **“Liberation Day” primer on**
 - Tariffs
 - Trade Deficits



Gross Domestic Product: 2024 = \$29.2 tr

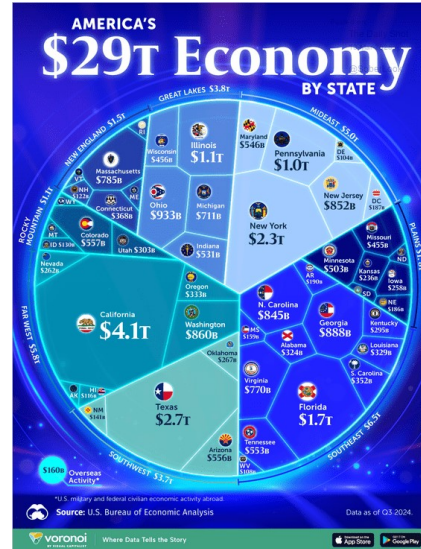


\$30.1
Less Imports
-\$4.1
Plus Exports
+\$3.2
Equals GDP
\$29.2

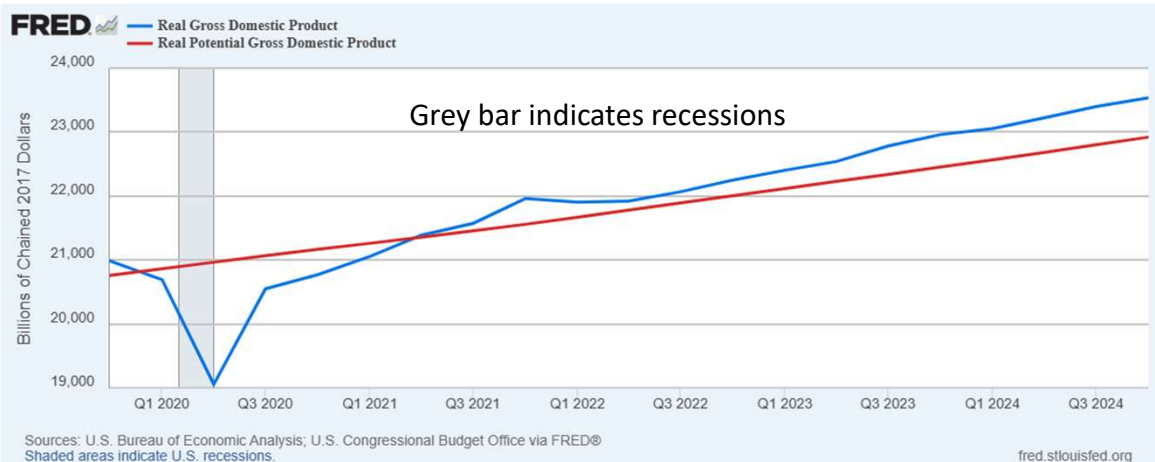
The Trade Balance and GDP

- Trade Deficit is Imports (4.1) minus Exports (3.2) = 0.9
- GDP (29.2) = Total Domestic Spending (30.1) minus Trade Deficit (0.9), so
- Trade Deficit (0.9) = Total Domestic Spending (29.2) minus GDP (29.2)
- Trade Deficit = Borrowing from foreigners = Investment + Government Deficit - Household saving

Different Breakdown



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!)

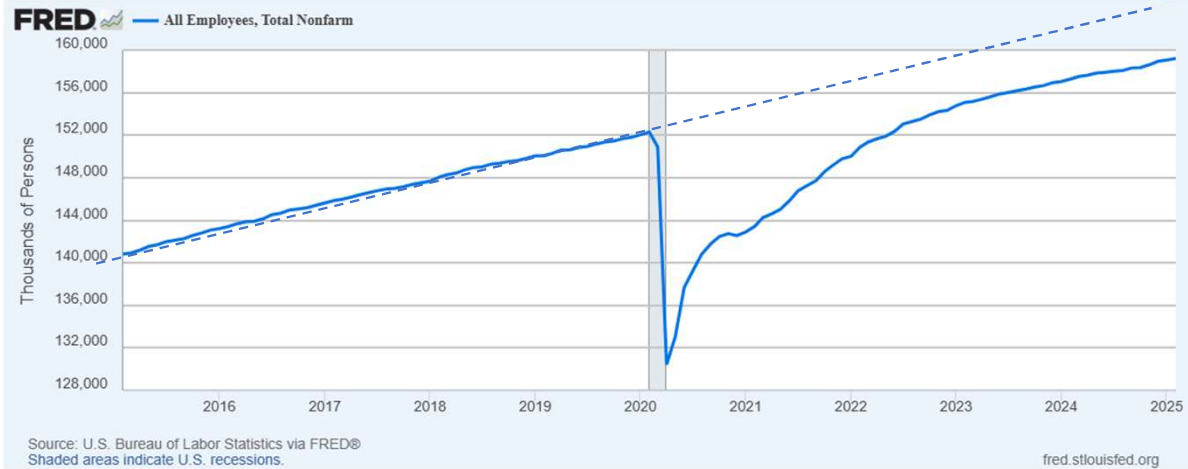
Recessions are caused by a drop in total spending (remember the consumer).



Unemployment is Near Record Lows



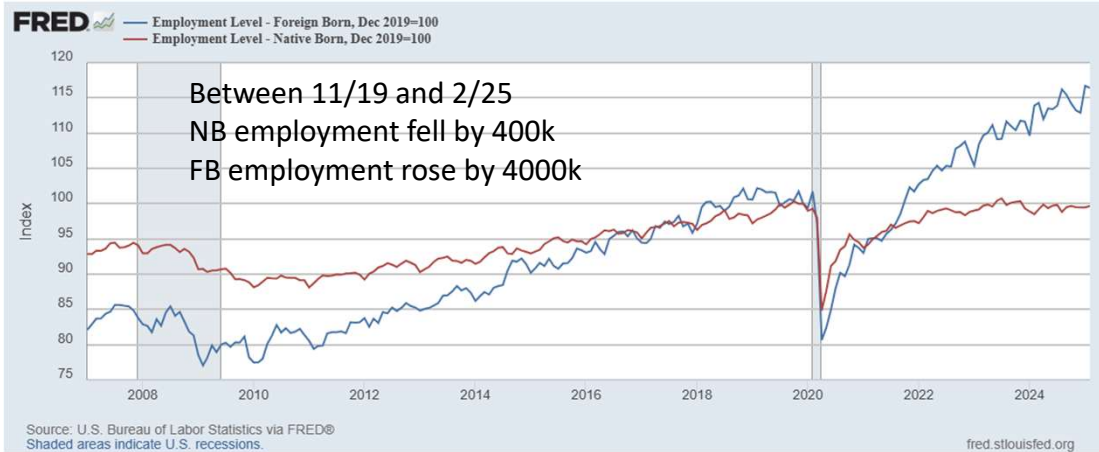
Where Have All the Workers Gone?



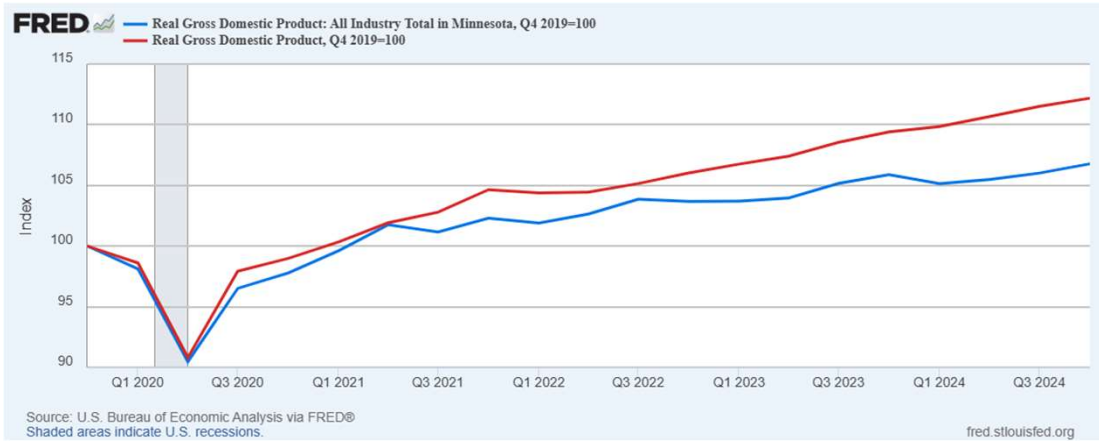
The Aging of the Labor Force



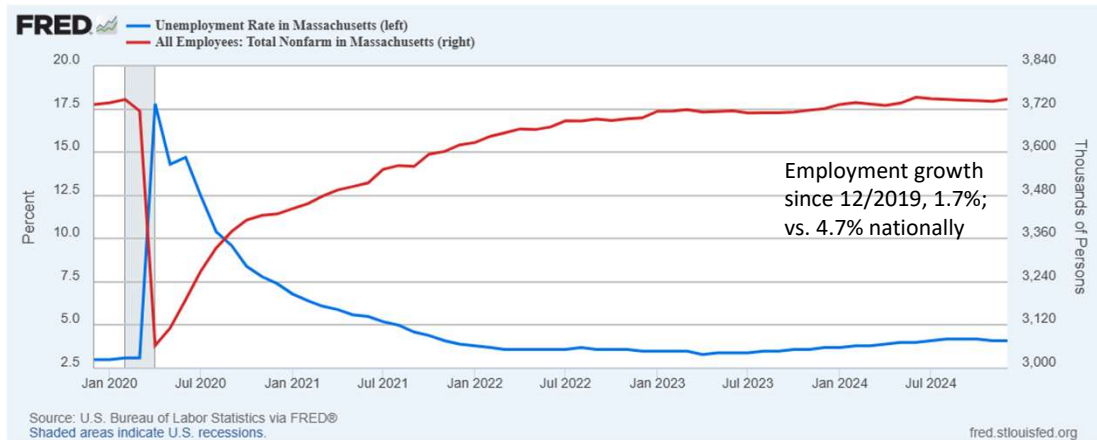
Supplemented by Foreign Workers



How is Minnesota Doing?



Labor Market in Minnesota

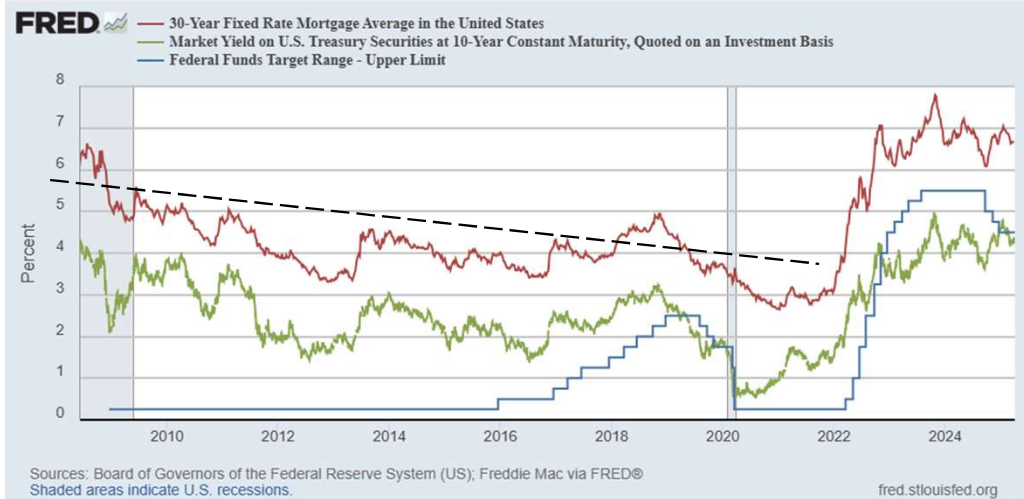


Overall Good News on the Real Side

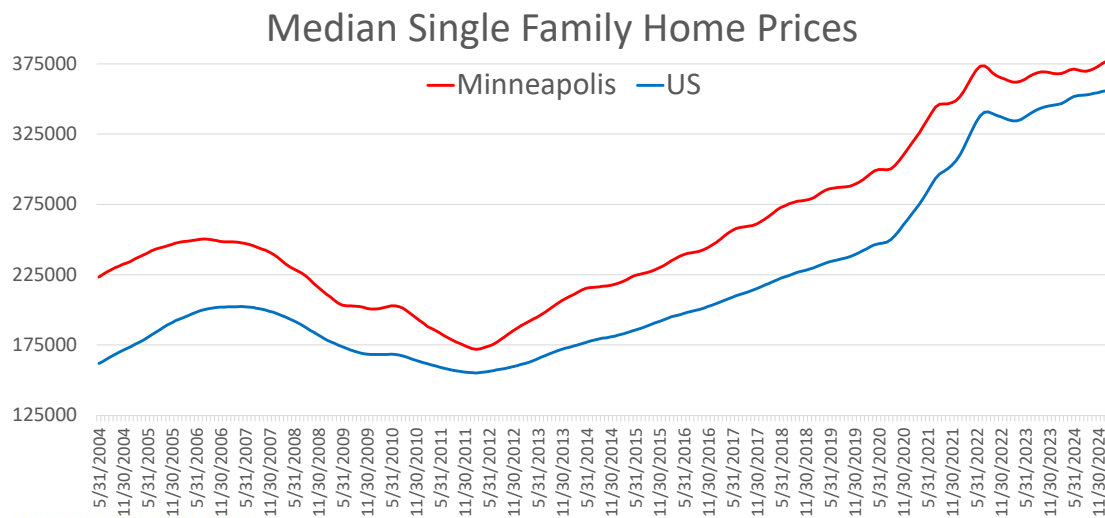
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good, but is (was?) getting much better.



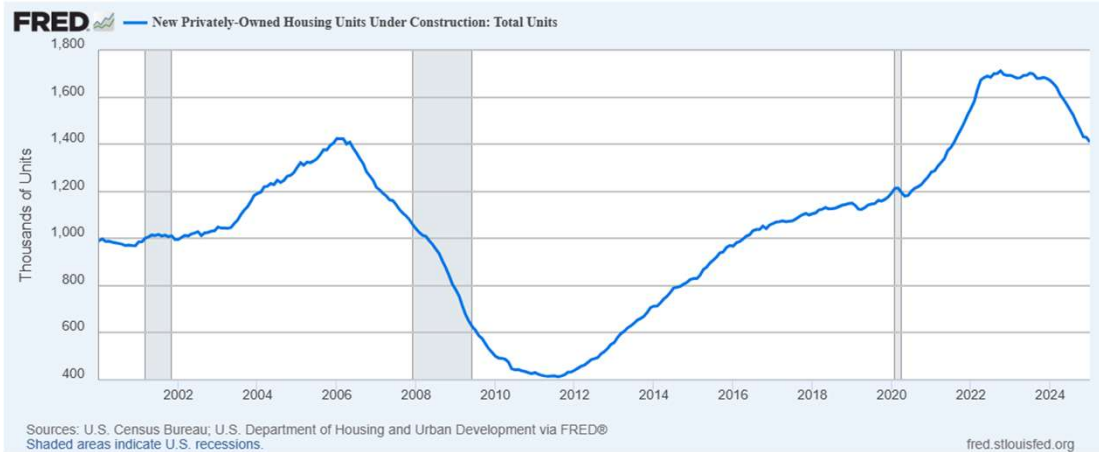
Interest Rates: Era of Falling Rates Over?



National Housing Market and Closer to Home



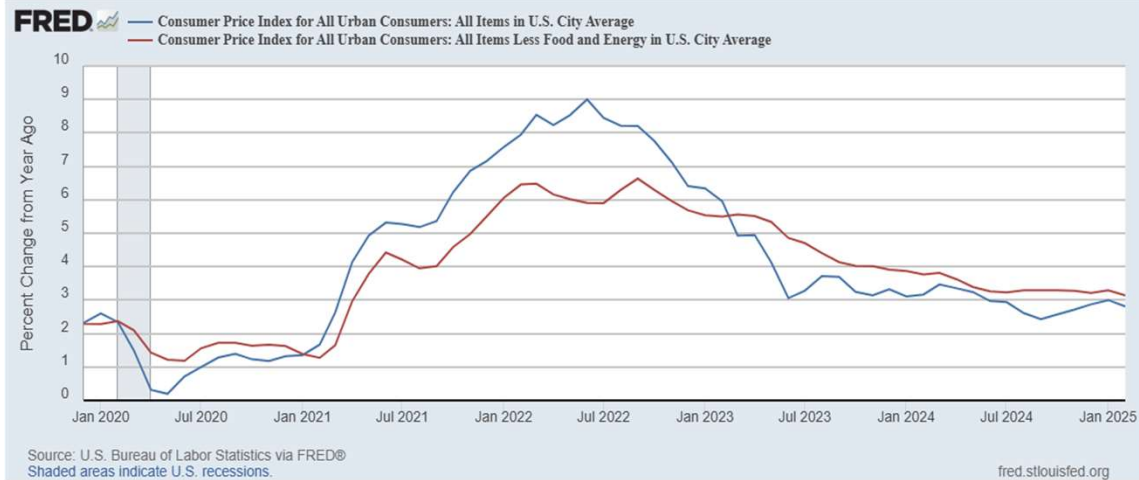
Housing Construction is Slowing?



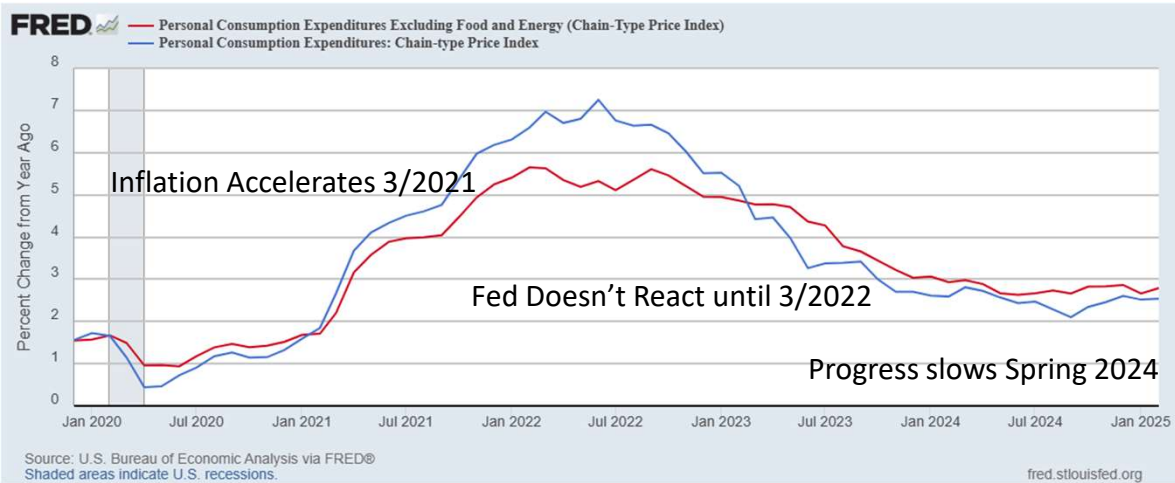
Stock Prices: Don't Look at Your Retirement Account!



Inflation during the Recovery (CPI)



Fed's Measure (PCE)



CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

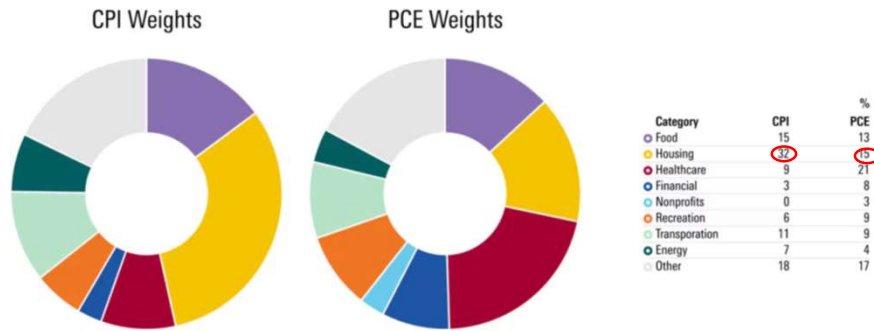
Feb:

CPI, 2.8%

PCE, 2.5%

Core CPI, 3.1%

Core PCE, 2.8%.

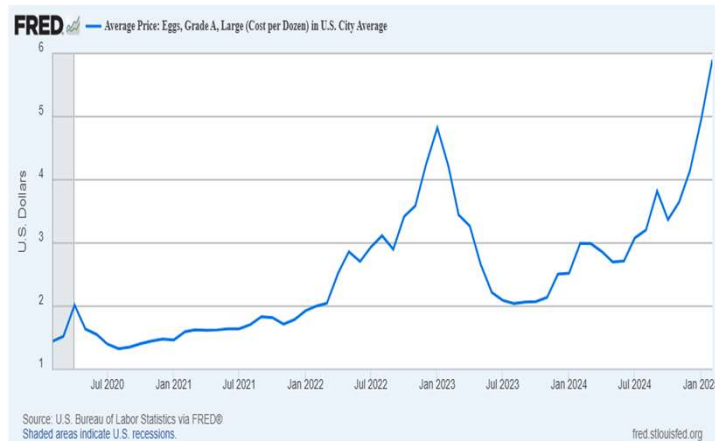


<https://www.morningstar.com/markets/whats-difference-between-cpi-pce>

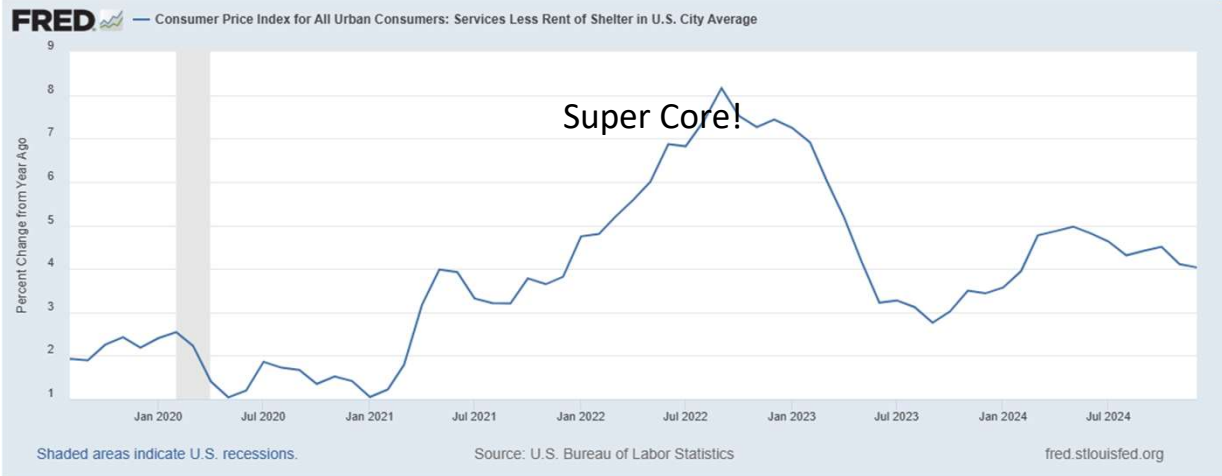
Uses of Inflation Measures

Two Reasons for Measuring Recent Inflation:

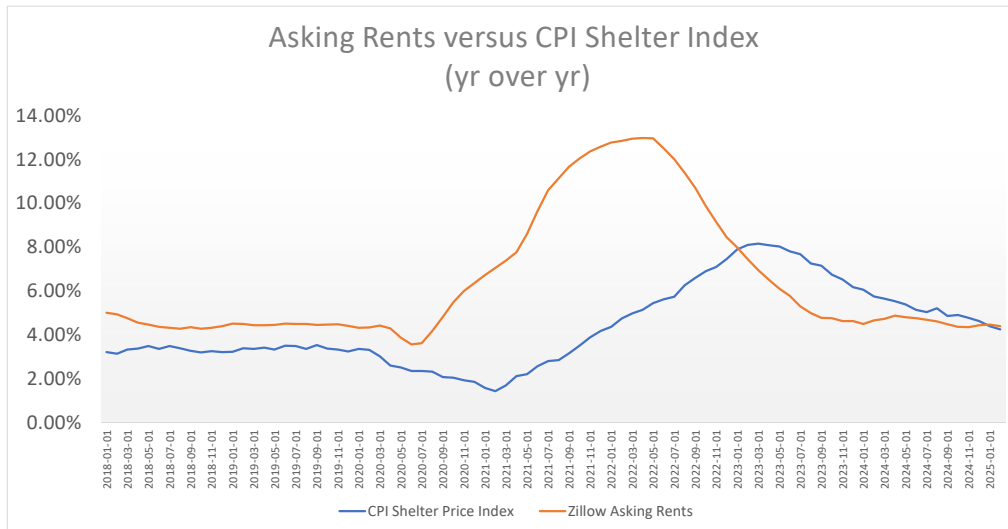
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?



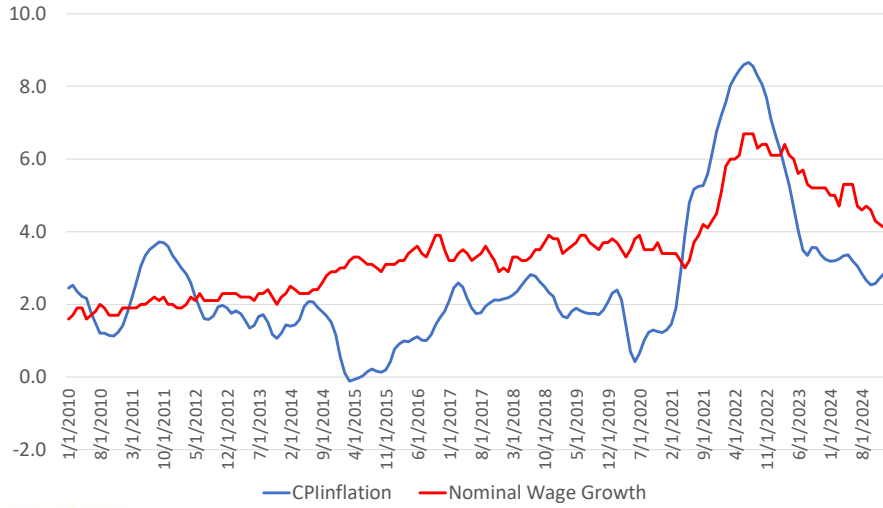
Measuring "Underlying" Inflation



The Problem with Measuring Housing Costs



Wages Haven't Kept Pace with Inflation, Yet

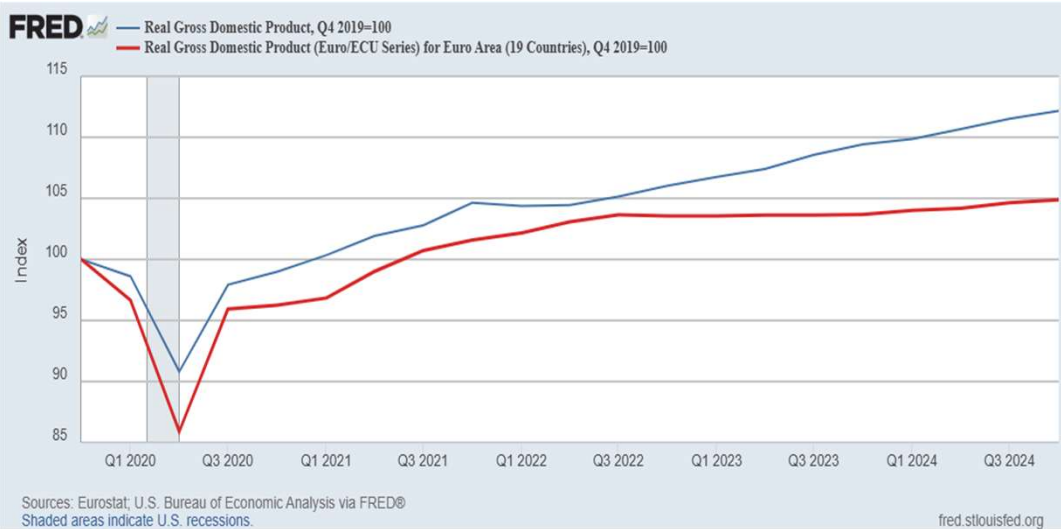


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Federal Reserve of Atlanta, "Wage Tracker" and BLS

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International Comparisons: Real GDP



Sources: Eurostat; U.S. Bureau of Economic Analysis via FRED®
Shaded areas indicate U.S. recessions.

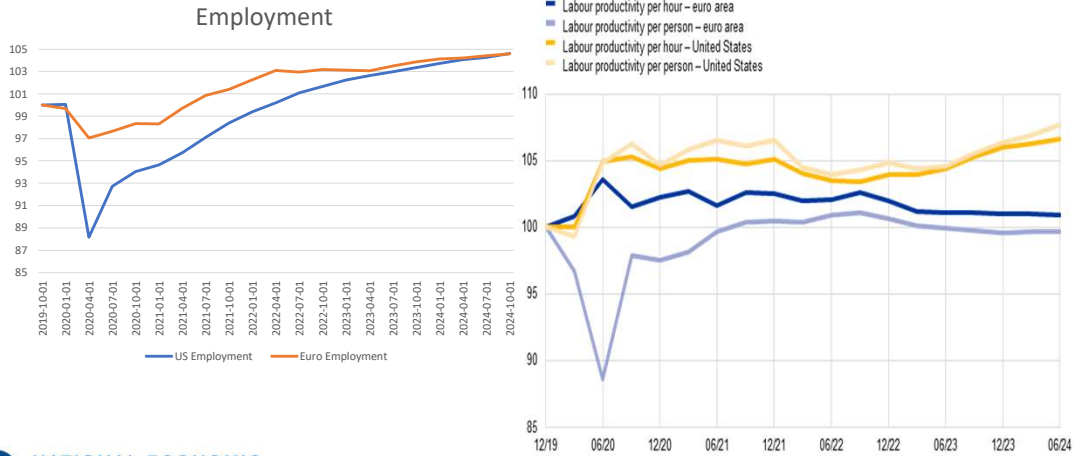
fred.stlouisfed.org

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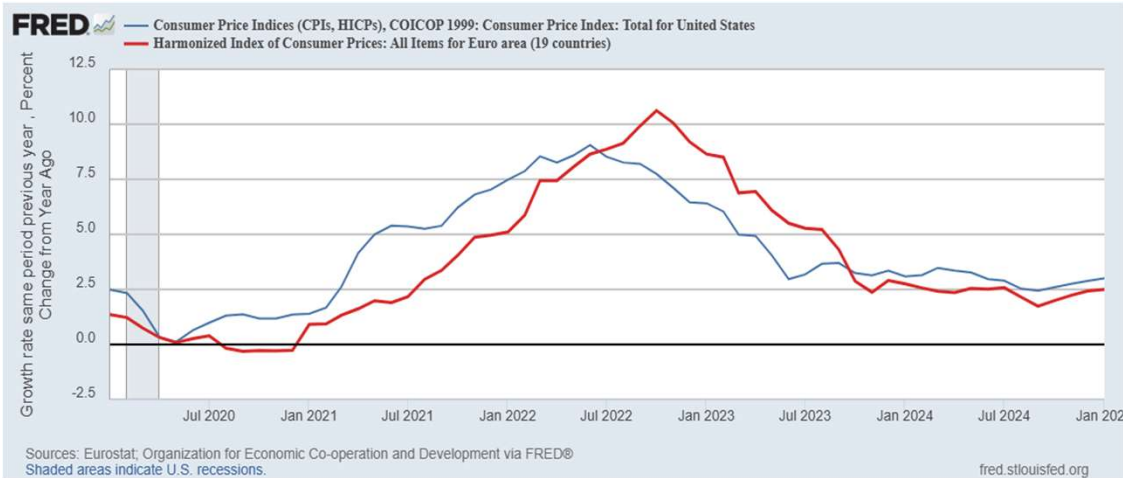
Why?

Labour productivity in the euro area and the United States (Q4 2019 = 100)



https://www.ecb.europa.eu/press/economic-bulletin/focus/2024/html/ecb.ebbox202406_01~9c8418b554.en.html

International Comparison: Inflation



The State of the Economy & Policy Effects

- In terms of output and employment the economy is fully recovered
- Inflation is still a bit elevated, but close to Fed target.

Policy Effects

- Biden Fiscal Stimulus led to a rapid recovery, but may have been too big.
- Fed reacted too little and too late and let inflation get out of control.
- But since Spring 2023, Fed has been close to perfect.

But What is Next?

Two Views on Where we are Headed

Fed. March 19, 2025

Percent

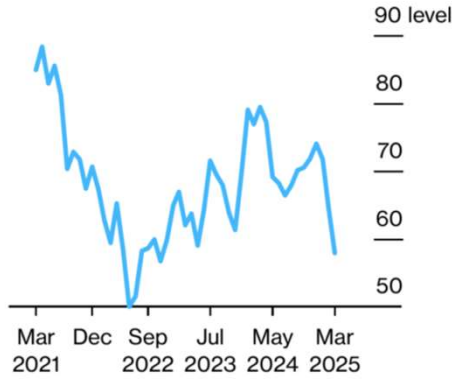
Variable	Median ¹			
	2025	2026	2027	Longer run
Change in real GDP	1.7	1.8	1.8	1.8
December projection	2.1	2.0	1.9	1.8
Unemployment rate	4.4	4.3	4.3	4.2
December projection	4.3	4.3	4.3	4.2
PCE inflation	2.7	2.2	2.0	2.0
December projection	2.5	2.1	2.0	2.0
Core PCE inflation ⁴	2.8	2.2	2.0	
December projection	2.5	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.4	3.1	3.0
December projection	3.9	3.4	3.1	3.0

Variable (in percent)	Survey of Professional Forecasters (February 14, 2025)			
	2025	2026	2027	2028
RGDP growth	2.4	2.2	1.8	2.0
Unemployment	4.2	4.2	4.3	4.3
Inflation (PCE)	2.4	2.3	2.0	N/A
Core Inflation	2.4	2.3	2.1	N/A
3mo Tbill rate	4.1	3.6	3.1	3.0

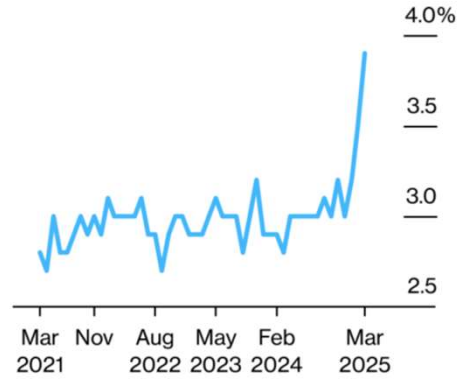
<https://www.philadelphiafed.org/-/media/FRBP/Assets/Surveys-And-Data/survey-of-professional-forecasters>

Some Worrying Recent Signs

Consumer sentiment index



5-10 year inflation expectations



<https://www.bloomberg.com/news/articles/2025-03-15/fed-rate-policy-trump-s-trade-salvos-test-nerve-of-world-s-central-bankers>

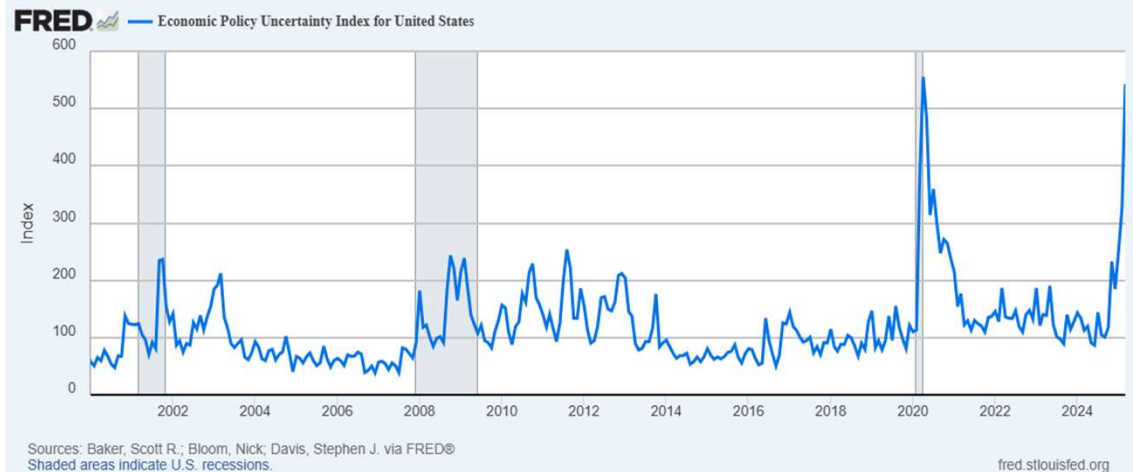
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Financial Markets are Worried about Inflation



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Economic Policy Uncertainty Index



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Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com. 45

Major Uncertainties

Economic Uncertainties:

- Has the reduction in inflation stalled; is the labor market too strong?
- Immigration and labor force growth?

Policy Uncertainties:

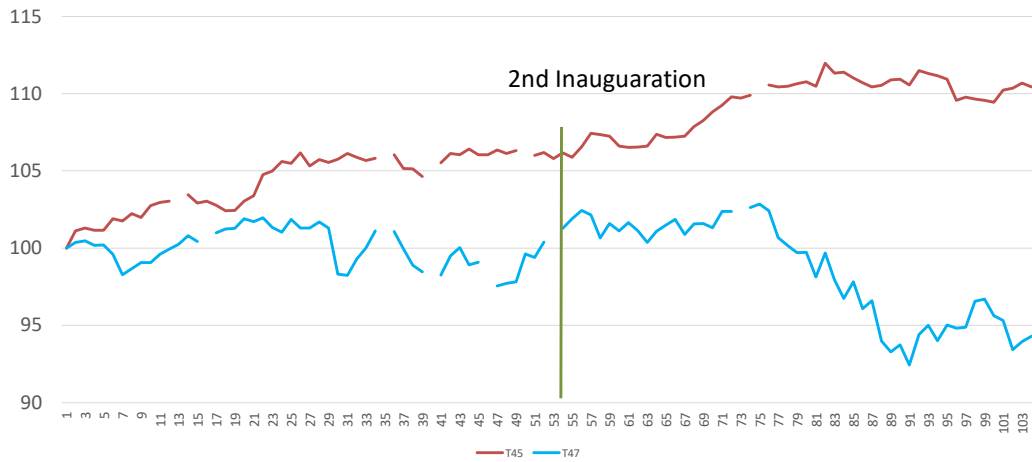
- Tariff Effects on inflation and on total demand?
- TCJA and future income taxes?



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Stock Market following the 2 Trump Victories



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What Is Different

- **Trump 45**
 - Tax Cut (TCJA), December 2017
 - Tariffs, March 2018
- **Trump 47**
 - Tariffs Announced, Feb 2025; Yesterday was “Liberation” day
 - TCJA extension fight just starting through “Budget Reconciliation”



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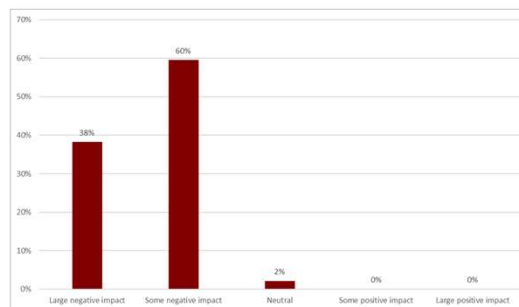
A Brief Primer on Tariffs and Trade Deficits

- **Tariffs** are a sales tax on imported goods, *collected* from importers
- The *burden* of the tariff in general falls on buyers of imports (consumers and firms) to the extent of higher prices and on the foreign country.
- Economists don't like tariffs in general because they reduce the gains from trade
 - More efficient utilization of global resources: Why doesn't Patrick Mahomes mow his own lawn
 - Economies of scale for producing for large markets.
- **Possible arguments for tariffs**
 - National Defense – strategic resource
 - “Infant” Industry
 - Temporary strategy to reduce foreign tariffs

I guess they didn't ask Peter Navarro

Question 8: How do you expect the Trump administration's announced policies, if enacted, to affect economic growth in the U.S in 2025?

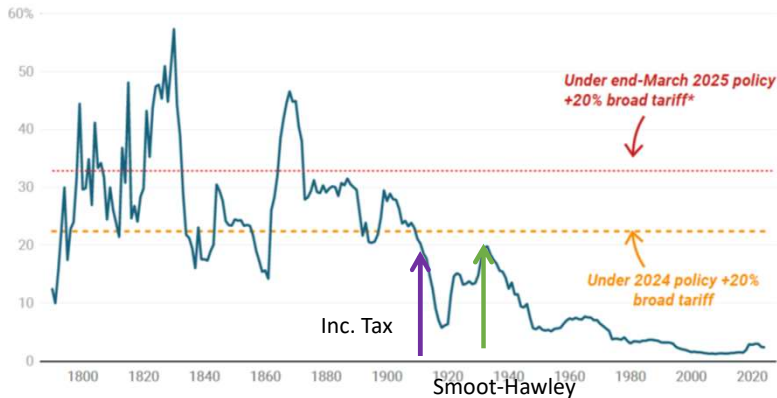
Number of responses: 47



History of US Tariff Rates

Figure 3. U.S. Average Effective Tariff Rate Since 1790

Customs duty revenue as a percent of goods imports



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<https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april>

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Doesn't Congress Set Taxes, including Tariffs?

- **Yes, but Congress has delegated the authority to set tariffs 3 times**
 - 1962: If imports threaten national security following an investigation by the Secretary of Commerce
 - 1974: If the US International Trade Commission finds that a surge in imports is harming domestic industries
 - 1977: President declares an "unusual and extraordinary threat" originating outside the US



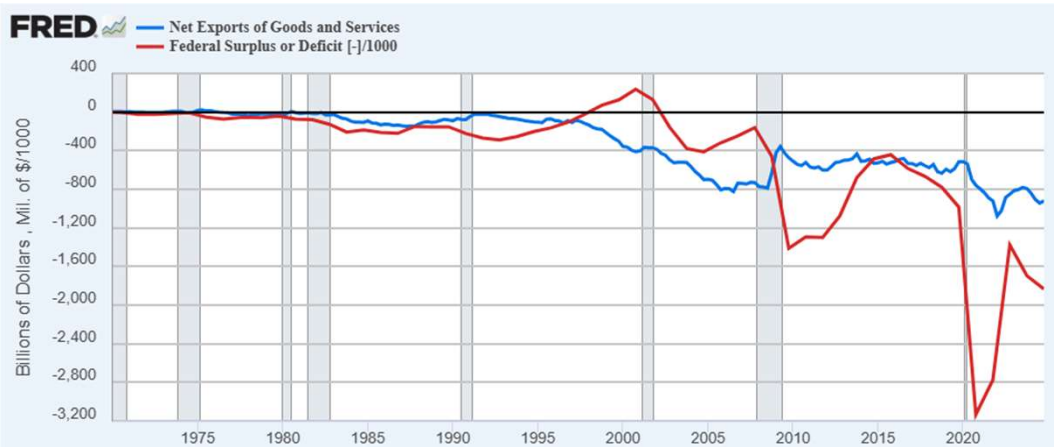
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Trade Deficits

- *Trade Deficits* are caused by the US spending more than it produces
- This means that household saving is less than the financing needs of the government deficit and firms invest.
- So, we borrow from abroad to make up the difference.
- Trade Deficit is *determined* by the government deficit and the excess of investment over household saving

2/3rds of the Story: Twin Deficits



Sources: U.S. Bureau of Economic Analysis; U.S. Office of Management and Budget via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

What do Tariffs Do

- **Most importantly, they do not do much to government deficits, to household saving or to investment!**
- **So, what happens?**
 - Tariffs decrease the demand for the imported goods subject to the tariff.
 - Increase the value of the dollar, which
 - o Lower our exports as domestic goods cost more to foreigners.
 - o Offsets some but not all of the effect of the tariff on total imports, as non-tariffed imports are cheaper.
 - Net Effect (first approximation)
 - o Exports fall, **Total Imports** fall, no change in trade **balance**.
 - o Composition of imports changes while the relative share of non-tariffed imports rises.
 - o Winners and Losers?



April 2nd Tariffs

- **Across the board 10% rate on imports from all countries with notable exception of Russia, and no new tariffs on Canada and Mexico.**
- **In addition, “reciprocal tariffs” on countries with relatively large trade surpluses with the US.**
- **The average Effective tariff rate rises to 22.5%, the highest since 1909 (before income taxes)**

Source for this and following slides:

<https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april>



What is a Reciprocal Tariff

- **Easy Peasey – Charge the rate country imposes on us.**
- **Complications**
 - Non-tariff barriers, strict labeling requirements, state procurement policies.
 - Exchange rate policy that leads to undervalued currency
- **Complicated and Controversial, but *NOT* what was done.**
- **Instead, half of the trade surplus with the US divided by total exports to the US.**



Partial List

China	67	34
Christmas Island	10	10
Cocos (Keeling) Islands	10	10
Colombia	10	10
Comoros	10	10
Cook Islands	10	10
Costa Rica	17	10
Côte d'Ivoire	41	21
Democratic Republic of the Congo	22	11
Dominica	10	10
Dominican Republic	10	10
Ecuador	12	10
Egypt	10	10
El Salvador	10	10
Equatorial Guinea	25	13
Eritrea	10	10
Ethiopia	10	10
European Union	39	20



Estimated Macro effects

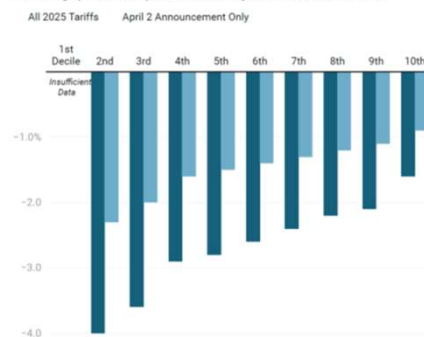
- **Tariff Revenue 2026-2035: between \$3.1 and \$2,5 trillion**
- **2025 growth in GDP falls by 0.9 percentage points.**
- **Change in the Price Level 2.3 percentage points.**

Distributional Effects

- **Tariffs hit the poorest hardest**

Figure 4. Short-Run Distributional Impact of 2025 Tariffs

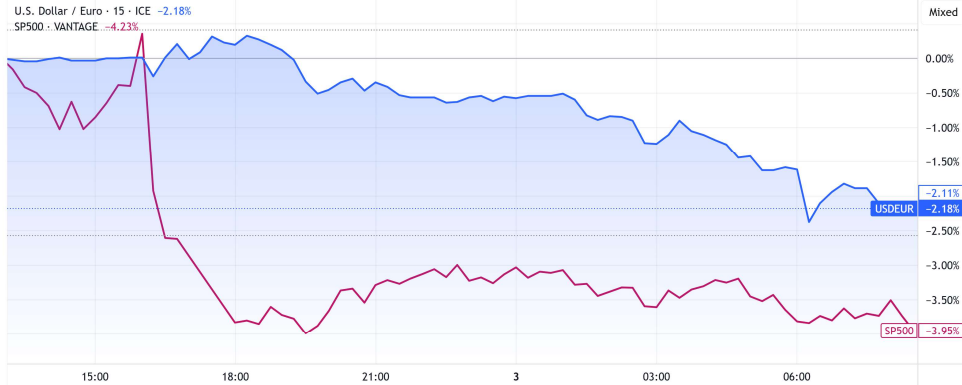
Percentage points of disposable income by household income decile



Limitations & Ominous Mystery

- How do you estimate Effects of Policy Changes that haven't been seen in over 100 years?

grvoglom published on TradingView.com, Apr 03, 2025 10:29 UTC-4



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Citizen's Guide to "Budget Reconciliation."

- Procedure successfully used 22 times since 1974 to avoid a Senate filibuster.
- Reconciliation can be used for changing taxes and spending (not Social Security) subject to the Byrd Rule.
- Byrd rule:
 1. No extraneous provisions.
 2. No increase in the deficit after 10 year window.
- Reconciliation games played by both parties:
 1. BBB.
 2. 2017 Trump Tax Cut



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Reconciliation and CBO Projections

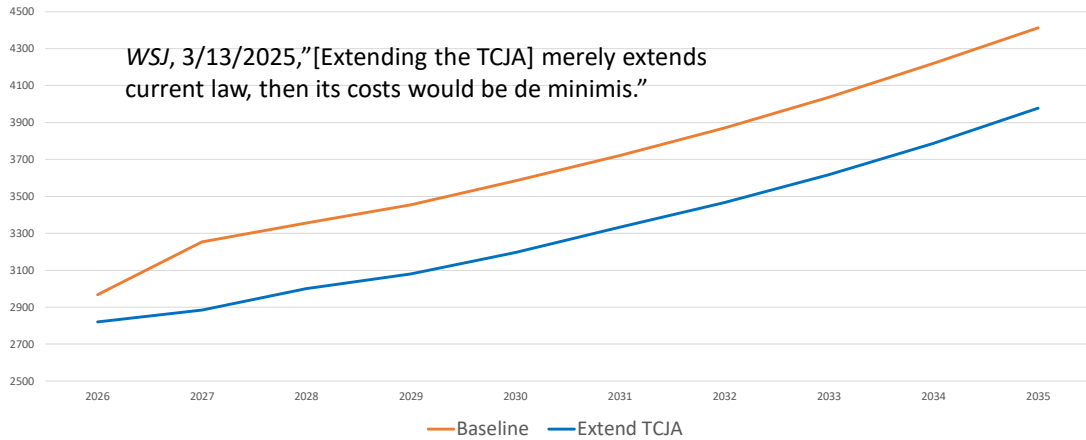
- For the CBO to be effective it must be perceived to be (and must be) nonpartisan.
- Therefore, CBO “baseline” projections and legislative scoring must not try to predict changes in legislation.
- Instead, CBO must analyze the data based on the current law as written (e.g., 2017 Personal Tax cuts expire this year).
- CBO is allowed to provide analyses of policy options. (“Options for Reducing the Deficit: 2025 to 2034,” <https://www.cbo.gov/publication/60557>)

The Reconciliation Game in Action

By Fiscal Year, in Billions of Dollars

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
Total Estimated Changes in Revenues	-144.3	-270.9	-257.0	-234.8	-199.6	-163.9	-148.9	-146.4	-61.5	-19.8	-1,107.0	-1,649.0
Total Changes in Direct Spending												
Estimated Budget Authority	-8.6	9.1	1.8	-13.9	-21.8	-26.0	-28.8	-32.1	-21.1	-52.9	-33.3	-194.1
Impact on Deficit	135.7	280.0	258.8	221.0	177.8	137.9	120.1	114.3	40.4	-33.1	1,073.7	1,454.9

When is a Tax Cut, Not a Tax Cut?



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<https://www.cbo.gov/publication/60114>

<https://www.cbo.gov/publication/61172>

Consequences

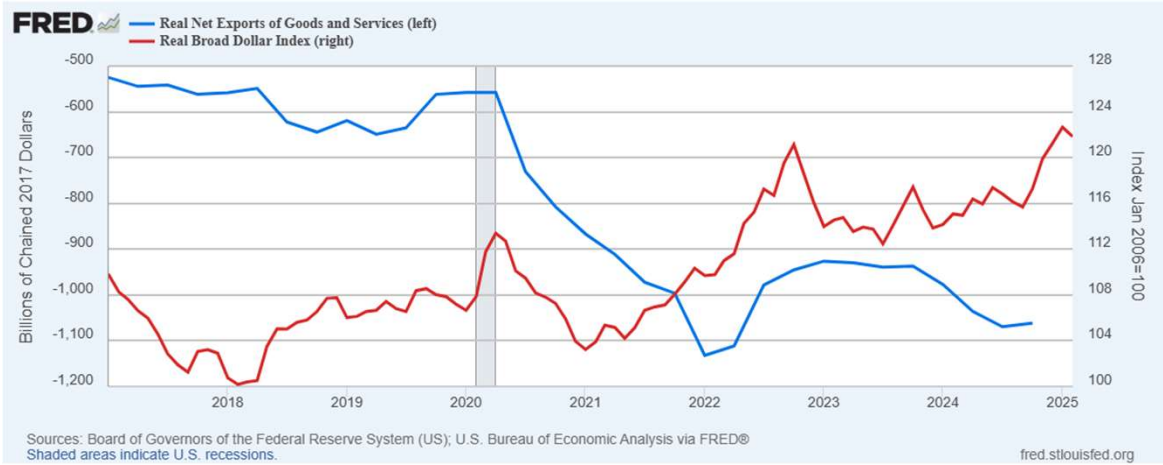
- **Under the Current Baseline.**
 1. 2035 Deficit, \$2.5 trillion; Debt, \$52.0 trillion.
 2. Net Interest, \$1.8 trillion.
- **Extend Just Income Tax Provisions of TCJA**
 1. 2035 Deficit, \$3.1 trillion; Debt \$53.7 trillion.
 2. Net Interest, \$1.9 trillion
- **And, that is before “making room” for no taxes on overtime, social security, and tips!**



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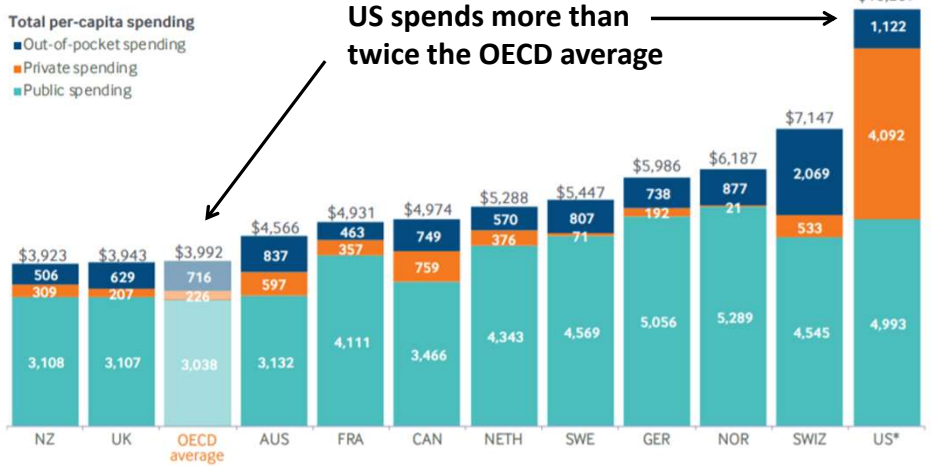
66

Net Exports and the Value of the Dollar



Next Week: Intl Per Capita Healthcare Spending

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



Source: Roosa Tikkanen and Melinda K. Abrams, *U.S. Health Care from a Global Perspective, 2019: Higher Spending, Worse Outcomes* (Commonwealth Fund, Jan. 2020).

My Google Site

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



Let's Hear from You!

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