

Osher Lifelong Learning Institute, Fall 2026

Contemporary Economic Policy

University of Hawaii, Manoa

Host: Jon Haveman, PhD
Executive 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

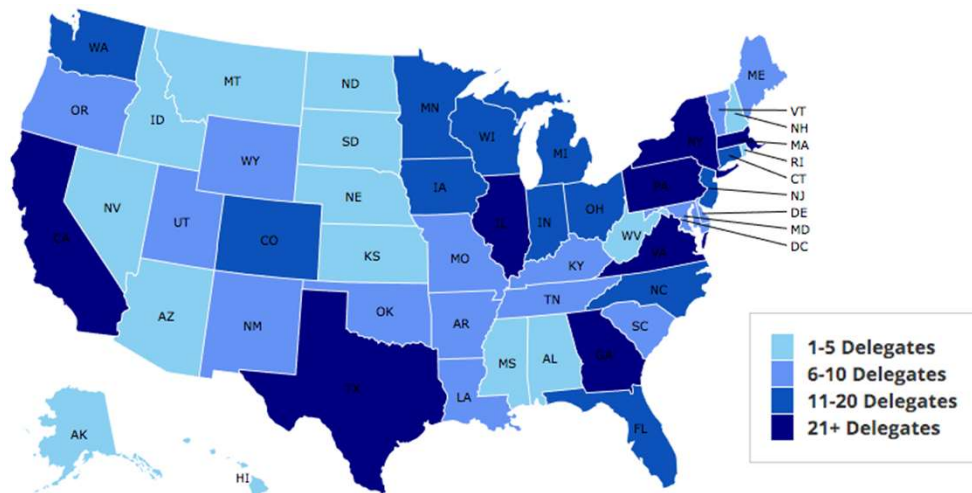
- Aid in slide deck development



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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



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Course Schedule

Contemporary Economic Policy

- **Week 1 (10/23): Economic Update, Geoffrey Woglom, Amherst College**
- Week 2 (10/30): The Economics of Tariffs, Tibor Besedes, Georgia Institute of Technology
- Week 3 (11/06): Economic Mobility, Joseph Carolan, Oakland University
- Week 4 (11/13): The New, New Inequality, Geoffrey Woglom, Amherst College
- Week 5 (11/20): Health Care Economics, Robert Rebelein, Vassar College



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Submitting Questions

- I encourage questions. Please put questions in the chat and I will answer them periodically during the talk,
- We will do a verbal Q&A once the material has been presented.
- Slides are available from the NEED website
https://needecon.org/delivered_presentations.php.

INFLATION



US Economy: Update & The Recent Rise in Interest Rates

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
October 23, 2026



Outline for the Talk

Part 1

- **Overview of State of the Economy:** Remarkable resilience in the face of wars, oil prices & tariffs, but worrying signs.
- **Major uncertainties going forward, particularly AI**

Part 2

- **The Runup in World Wide Interest Rates.**
- **Why This is Important.**
- **How to Read the Messages in Rising Interest Rates**



Judging the State of the Macroeconomy

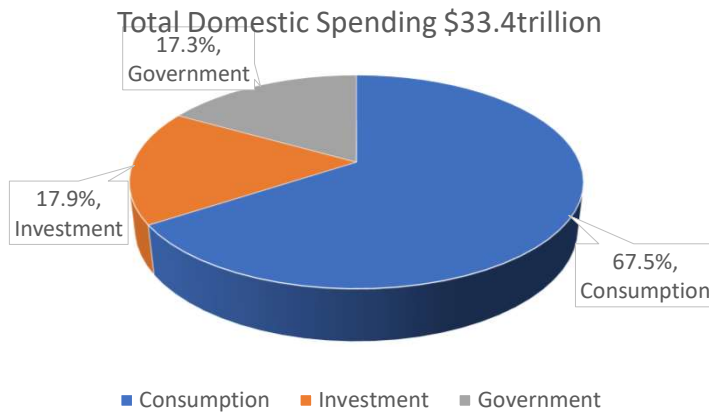
The Fed's Definition:

1. **Get the economy to the highest levels of output (GDP) and employment, while**
2. **Keeping inflation low and stable, or at 2%**

What about the climate change; poverty, health care?

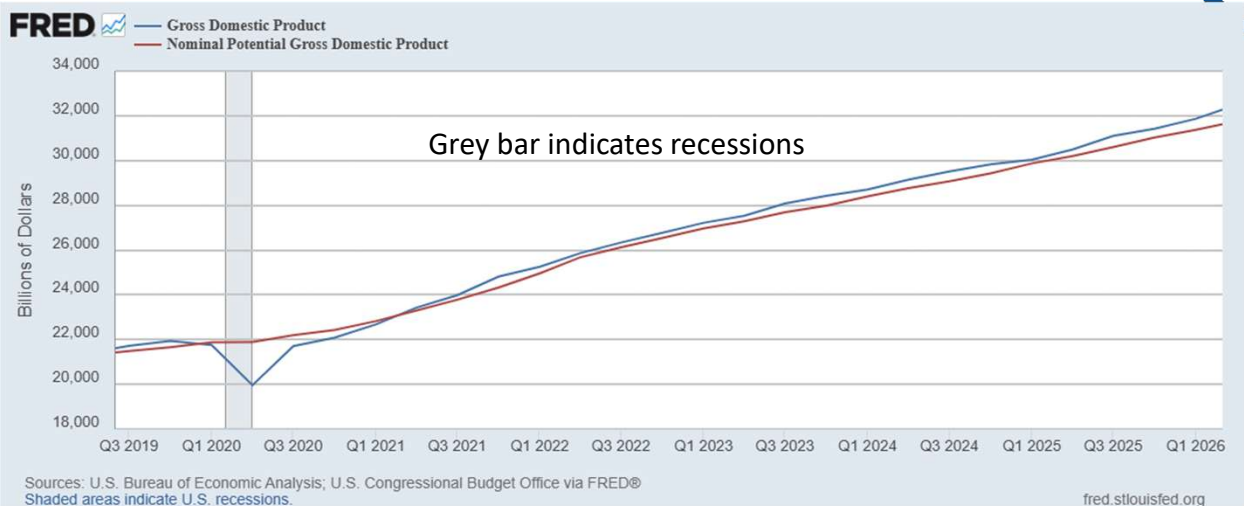


Gross Domestic Product: 2026Q2 = \$32.6 tr



\$33.4
Less Imports
-\$4.7
Plus Exports
+\$3.8
Equals GDP
\$32.6

GDP and 'Potential' during the Recovery



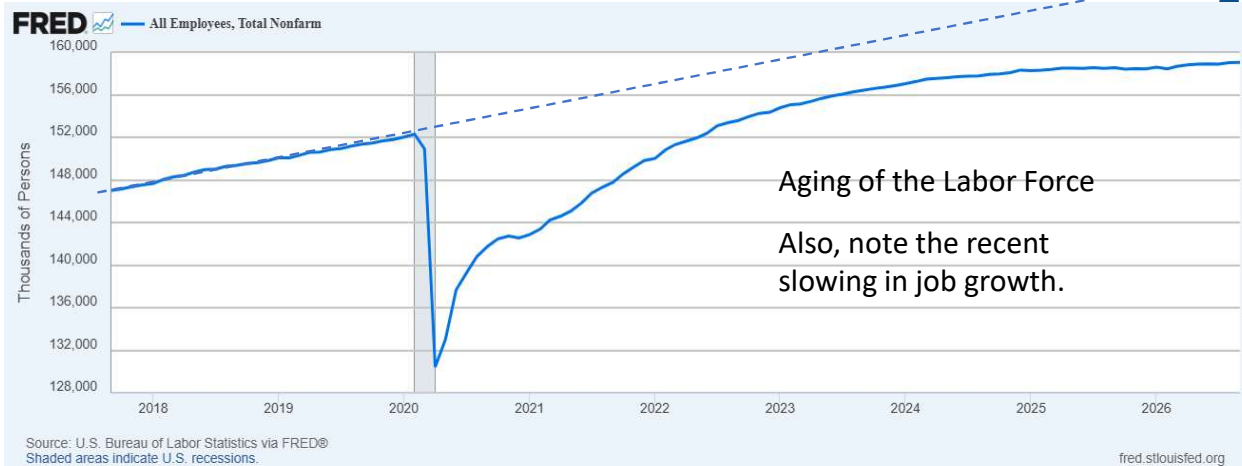
Unemployment is Near Record Lows



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Where Have All the Workers Gone?

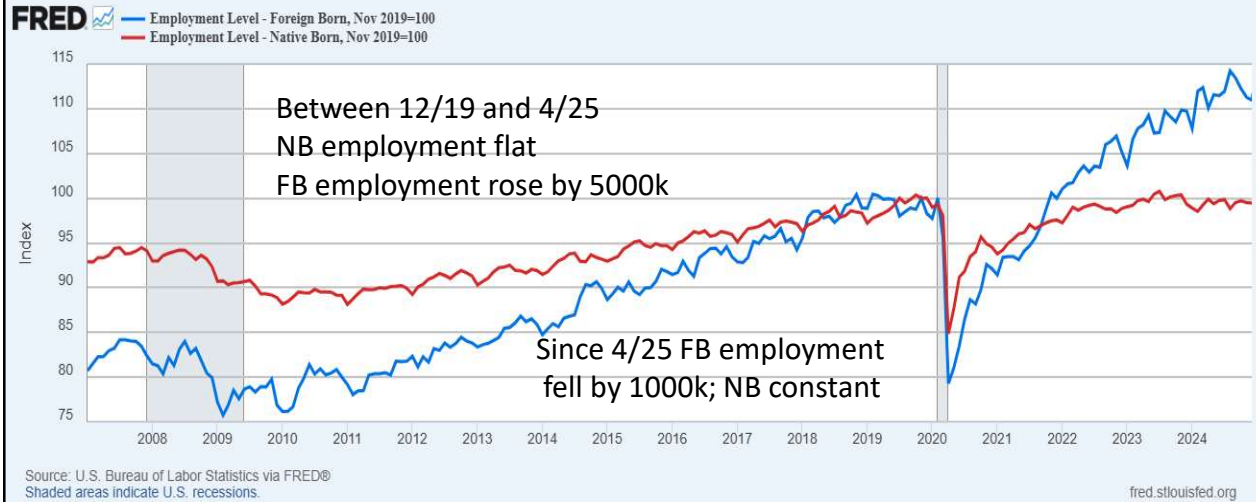


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Source: Fred, St Louis Fed

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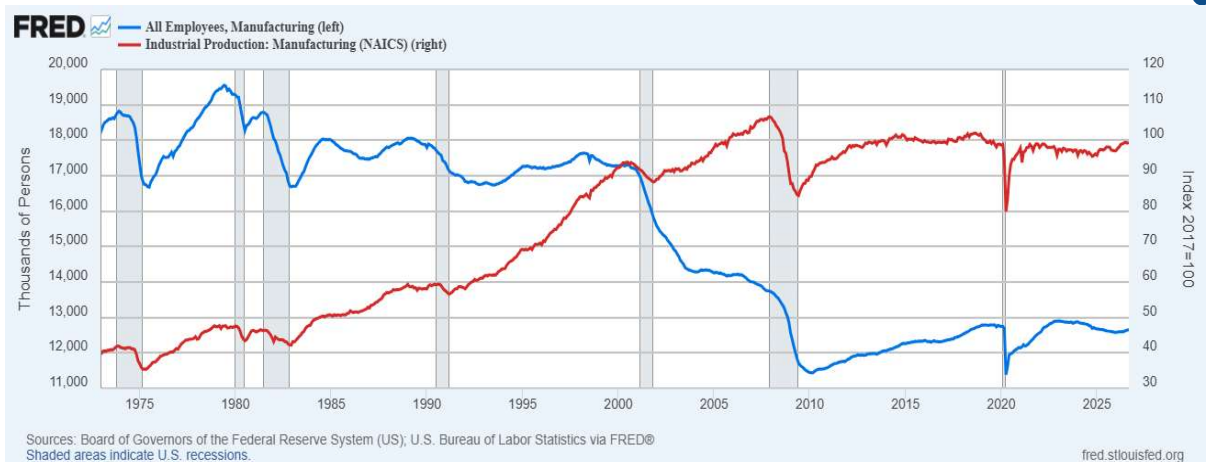
Could Have Been Worse , but for Foreign Born Workers



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What About Manufacturing?



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The Real Side of the Economy is Still Good

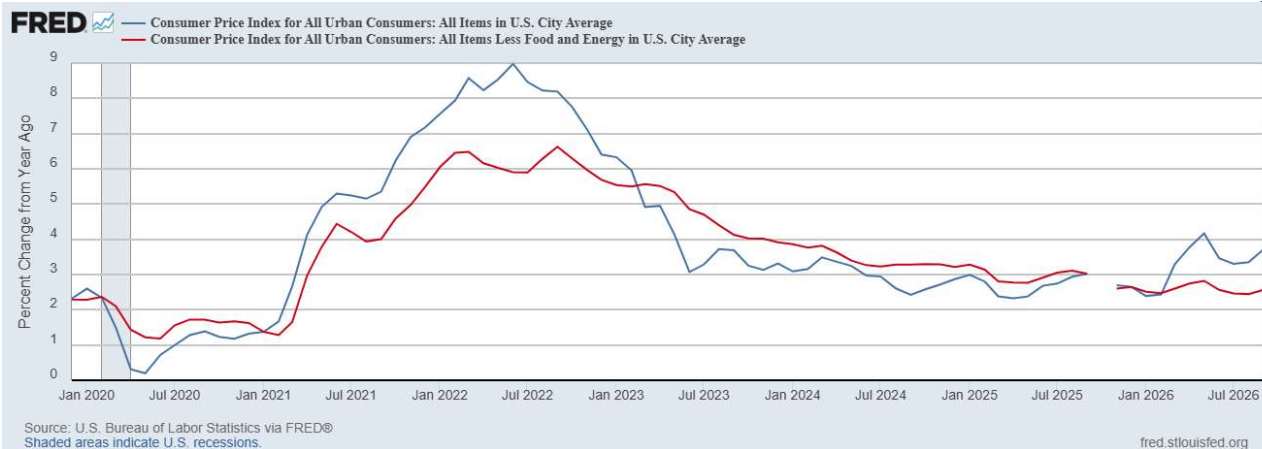
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Macro Goal number 1, check
- But what about goal number 2, the “nominal” side of the economy



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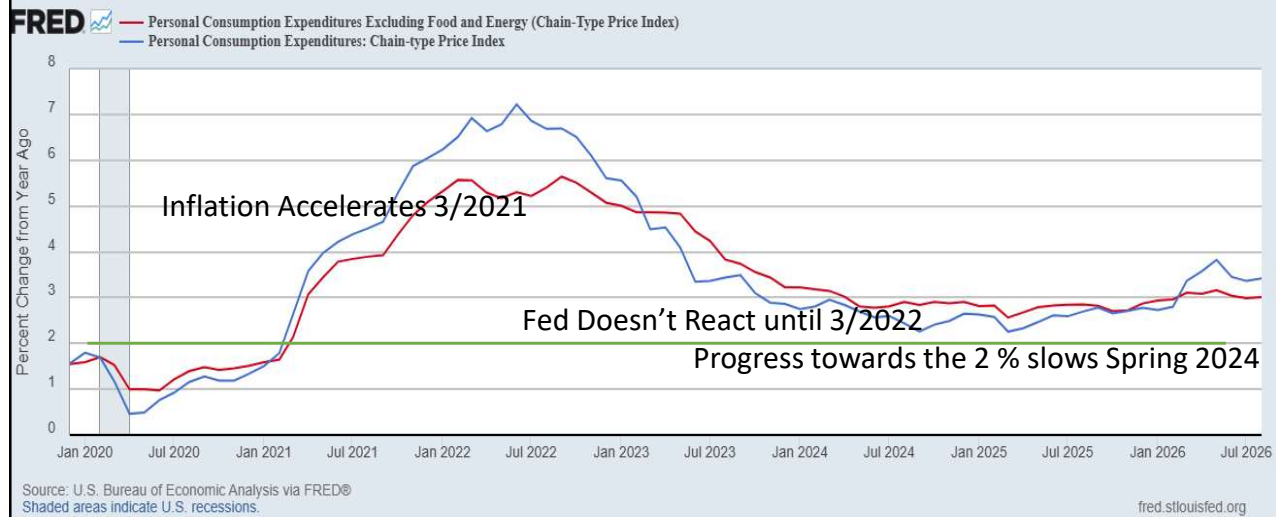
CPI Inflation



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Fed's Measure (PCE)



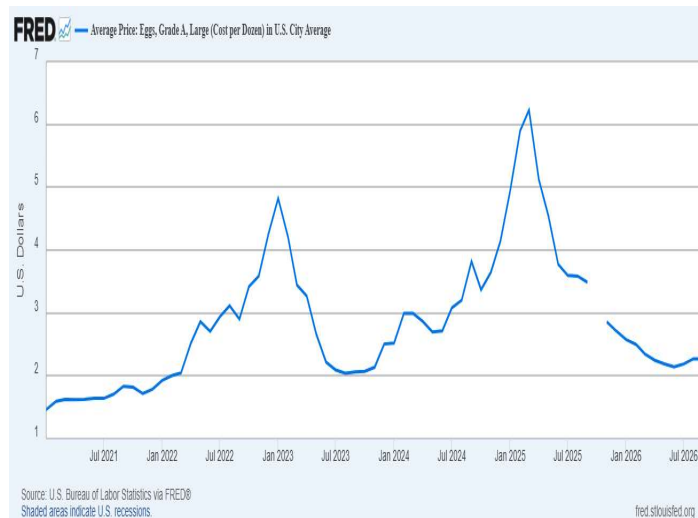
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Uses of Inflation Measures

Two Reasons for
Measuring Recent
Inflation:

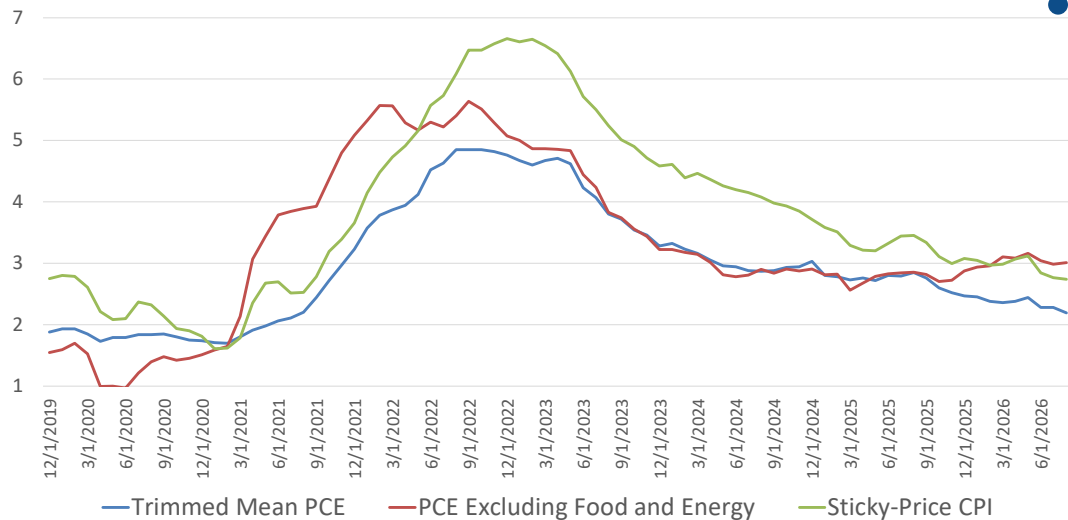
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?



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Measures of Underlying Inflation (?)



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CPI vs. PCE: Differences

CPI typically tends to be 0.3 pct point higher

Aug:

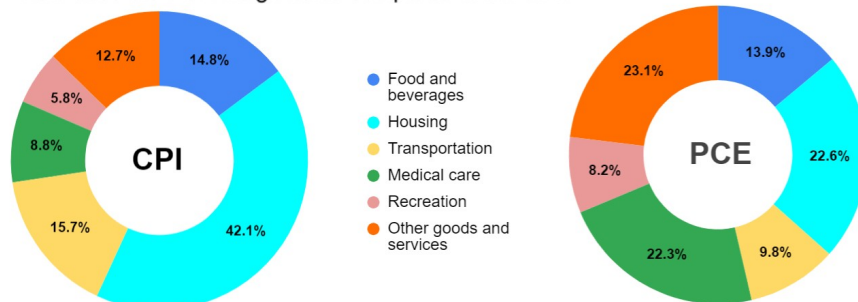
CPI, 3.4%

PCE, 3.4%

Core CPI, 2.4%

Core PCE, 3.0%.

How does the PCE weigh items compared to the CPI?



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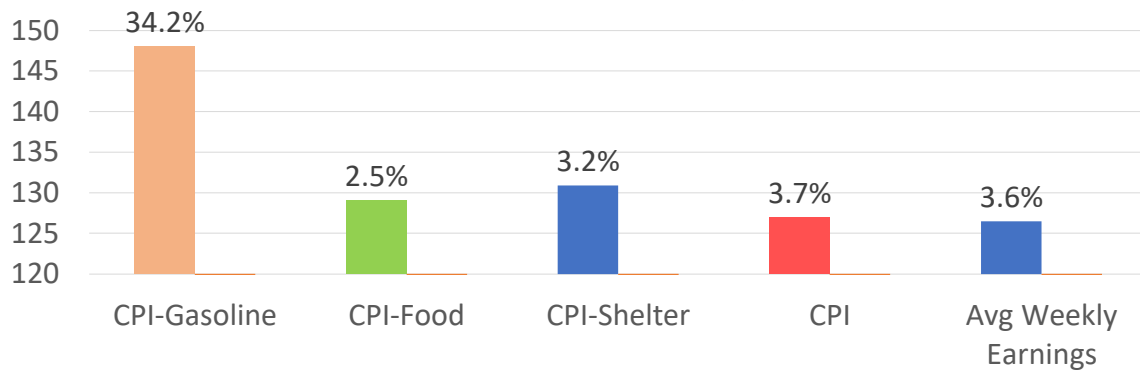
Source: BLS, BEA

Hutchins Center
on Fiscal & Monetary Policy
at BROOKINGS

<https://www.brookings.edu/articles/how-does-the-government-measure-inflation/>

"Affordability"

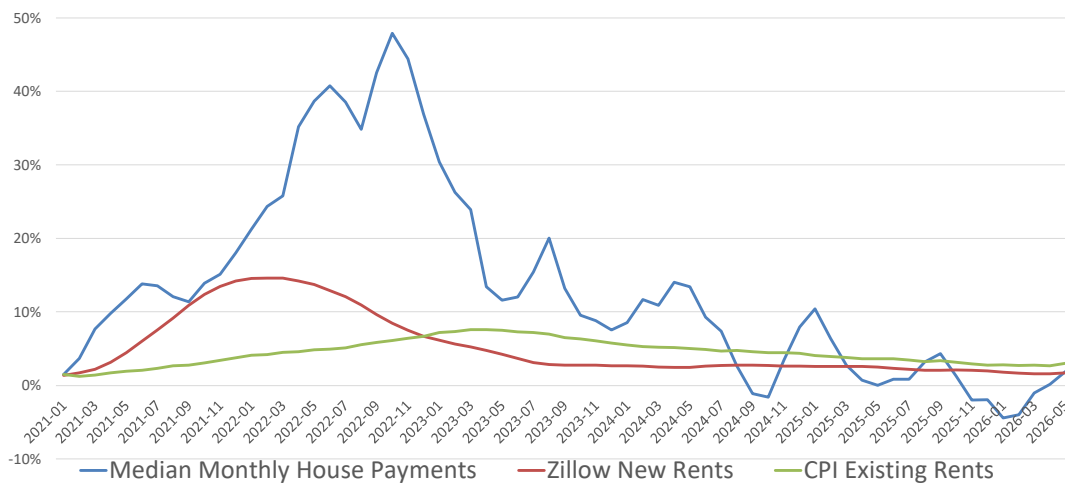
Bar: Sept, 2026 Price Levels Relative to 3/21
Data Label: Last 12-month growth



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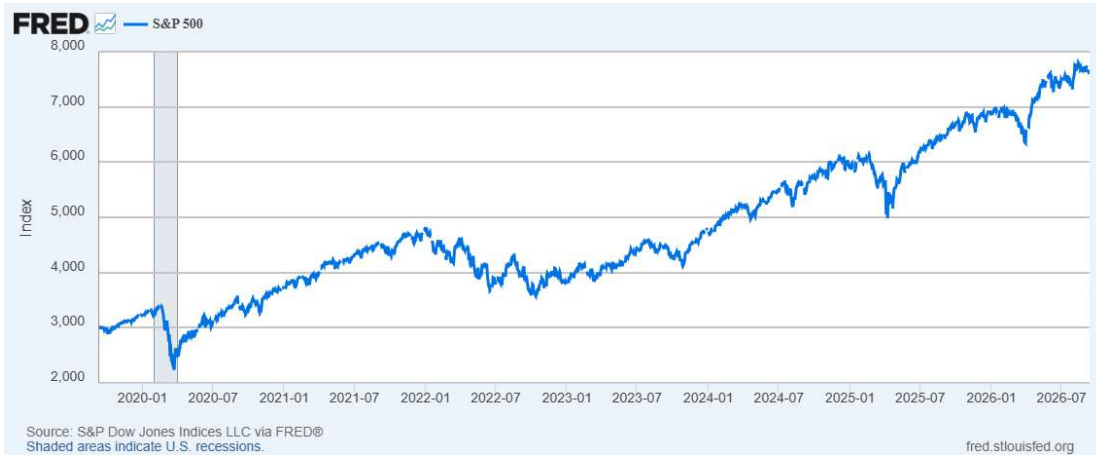
Three Measures of Cost of Housing Inflation



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Stock Prices: Tariffs, What Tariffs; War, What War?



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Interest Rates: Era of Falling Rates Over?



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The State of the Economy & the Future

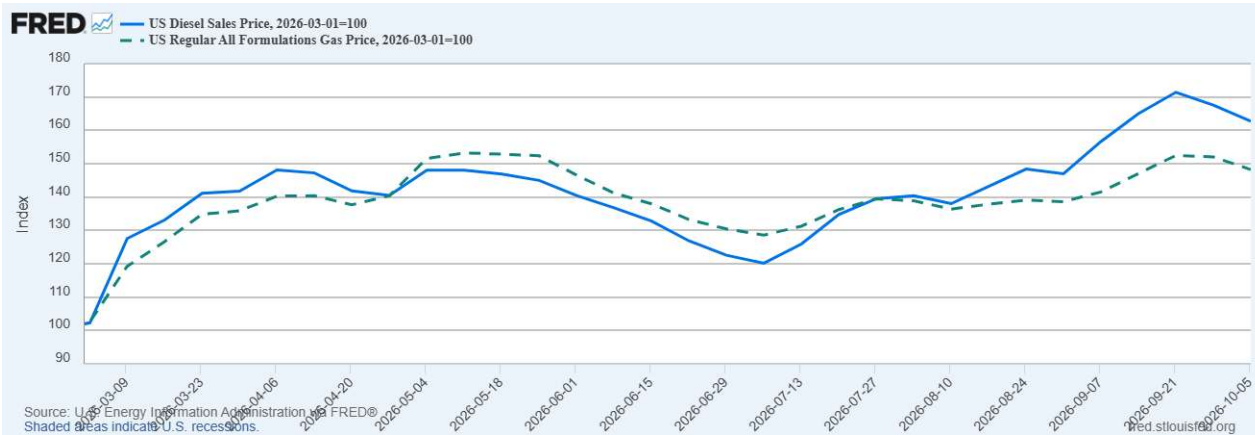
- **The key indicators for judging the macro economy are still good**
 - Output and unemployment are close to their “full employment” levels,.
 - Inflation is still elevated, but some of this is due to “price shocks.”
- **Concerns**
 1. K-shaped growth.
 2. Is the AI boom sustainable?
 3. Price shocks may get worse due to war in Iran.



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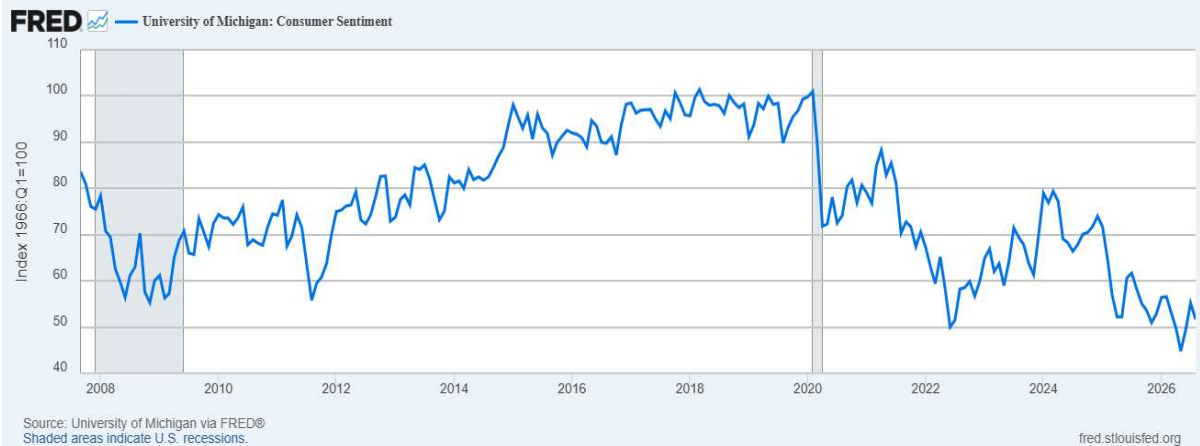
The Rise in Diesel is Bigger & More Inflationary



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Consumers Are Very Pessimistic



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“Vibe” Recession ?

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The Stock Market is Being Driven by Tech

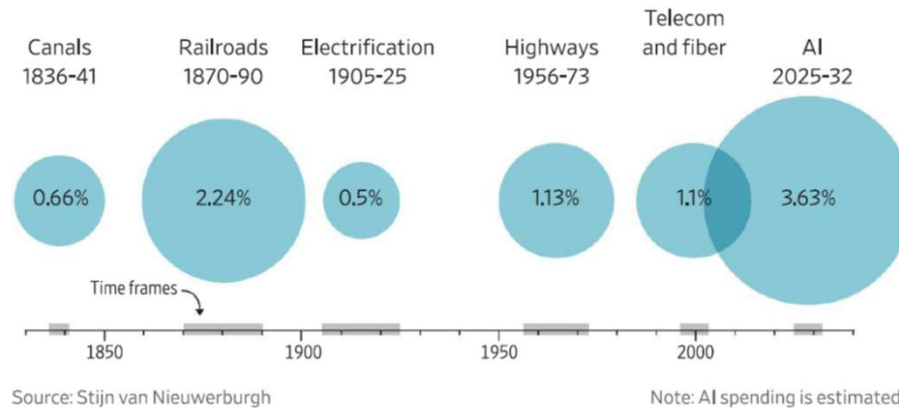


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AI Boom is Unprecedented

Average annual infrastructure spending as a percentage of GDP



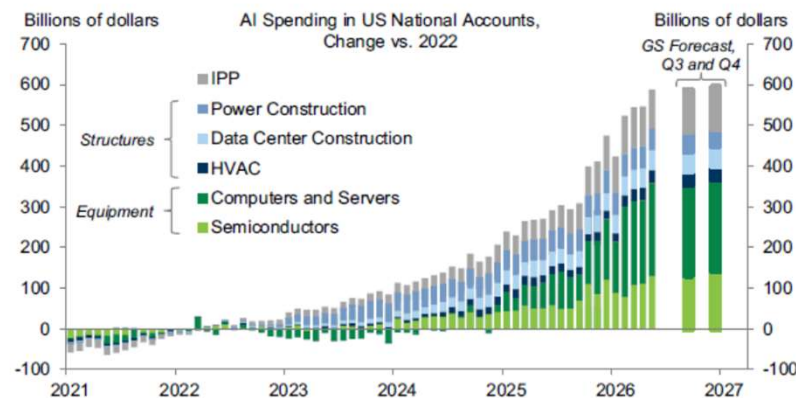
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https://www.brookings.edu/wp-content/uploads/2026/09/4c_Van-Nieuwerburgh.pdf

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How Important is AI Spending?

Exhibit 1: We Estimate That US AI Investment Will Total Almost \$600bn in 2026



Source: Goldman Sachs Global Investment Research, Department of Commerce



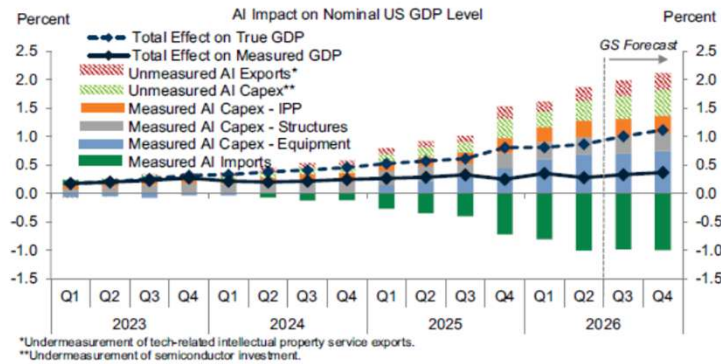
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2% of GDP
10% of Total Business
Fixed Investment
15% Investment in
Equipment

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But that Overstates its Effect on GDP

Exhibit 9: We Estimate That Spending on AI Now Totals 2% of GDP, but Some Spending Is on Imported Goods and Some Is Not Captured in the GDP Statistics, Resulting in a 0.5% Net Impact on Measured GDP



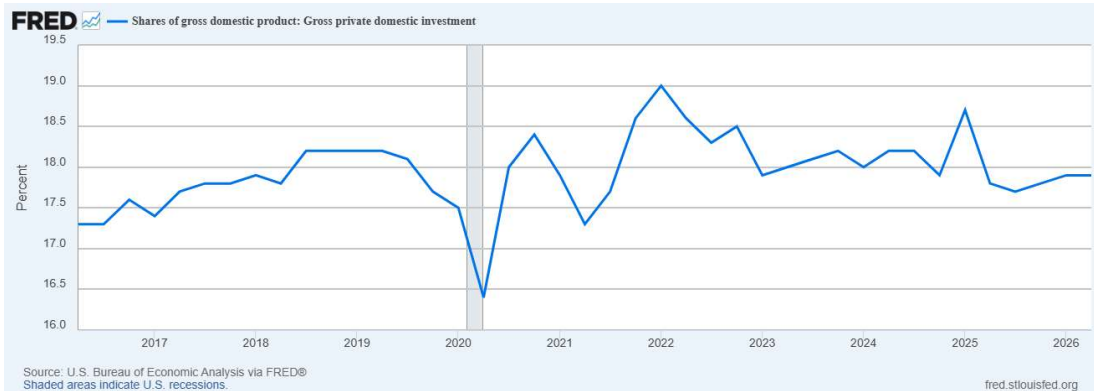
Source: Goldman Sachs Global Investment Research



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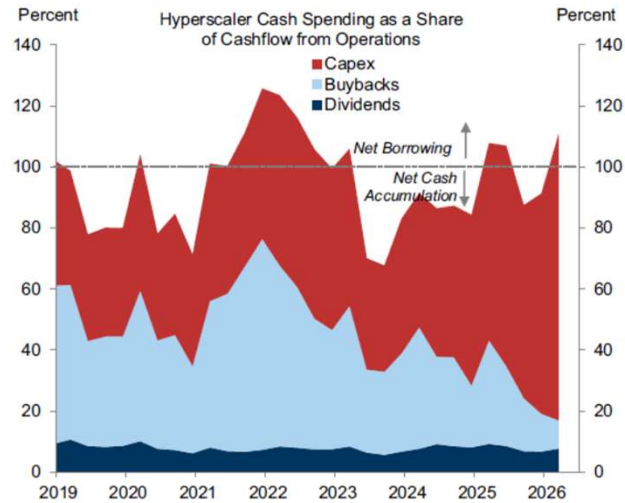
Is AI Spending Crowding out Other Investment?



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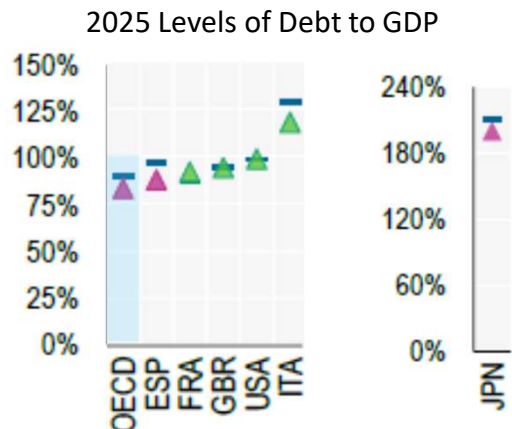
How Will AI Spending Be Financed?



Part 2 Intro: The World-Wide Rise in Rates



Why Do High Interest Rates Matter?



Effects of 1 pcp increase in interest rates on CBO projections for 2056.

1. Debt-to-GDP ratio rises from 175% to 222%.
2. Deficit rises from 9.1% to 14% of GDP.
3. Interest on the debt rises from 6.9% to 11.4%, at which point it would comprise 60% of total federal revenue.



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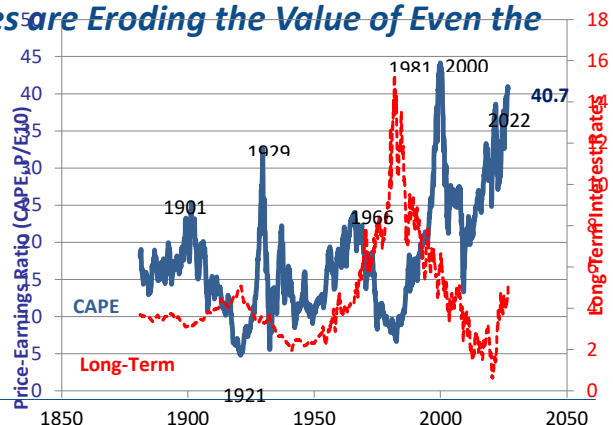
OECD (2026), *Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure*, OECD Publishing, Paris, <https://doi.org/10.1787/e9d80efd->

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Why Do High Interest Rates Matter 2?

- Housing shortage and housing affordability.
- *WSJ, 10/5 headline: The Surge in Rates is Blowing Up Commercial Real-Estate Deals.*
- *WSJ, 10/8 headline: Rising Rates are Eroding the Value of Even the Most High-Flying Tech Stocks*

- The Stock Market



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<https://shillerdata.com/>

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Key Questions

1. What Caused the Increase?
2. Are High Rates Likely to Persist?



Oversimplified Determinants of Interest Rates

1. The Fed sets “money market” interest rates (maturities less than 6 months).
2. Interest rates on short-term bonds (1 to 3 years) depend on market expectations of the evolution of money markets rates over the life of the bond.
3. Longest- term bonds (30 year) mostly reflect expectations of interest rates when the Fed will meet (at least on average) its objectives.



The Federal Funds Rate, the Policy Instrument

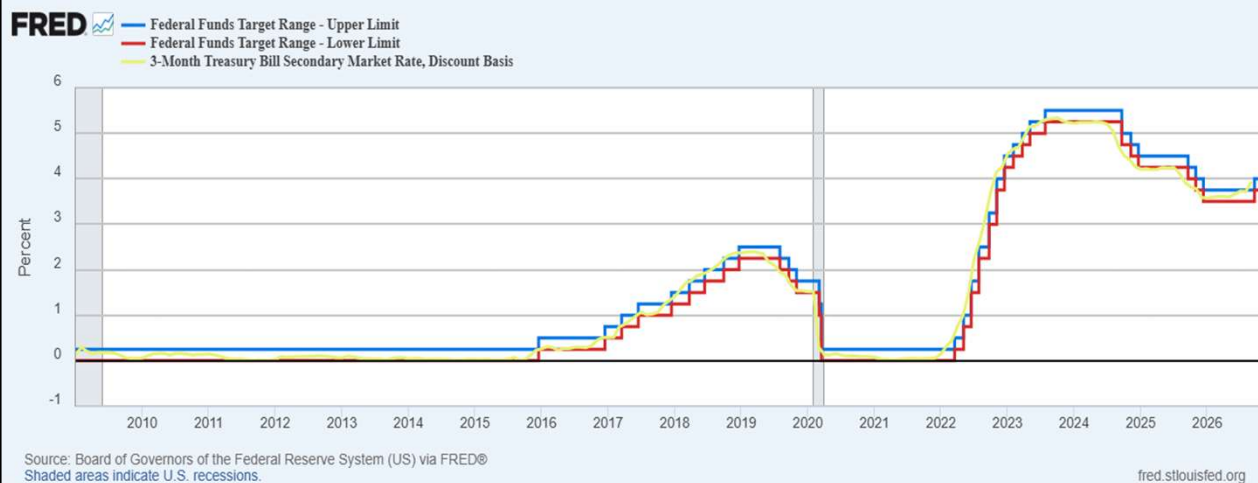
- The *federal funds* rate is the interest rate charged on overnight loans of bank reserves between two banks.
- The Fed sets a target range for the federal funds rate; currently 3.75% to 4.00%.
- If the market federal funds rate rises above 4%, the Fed buys government securities which increases the supply of bank reserves.



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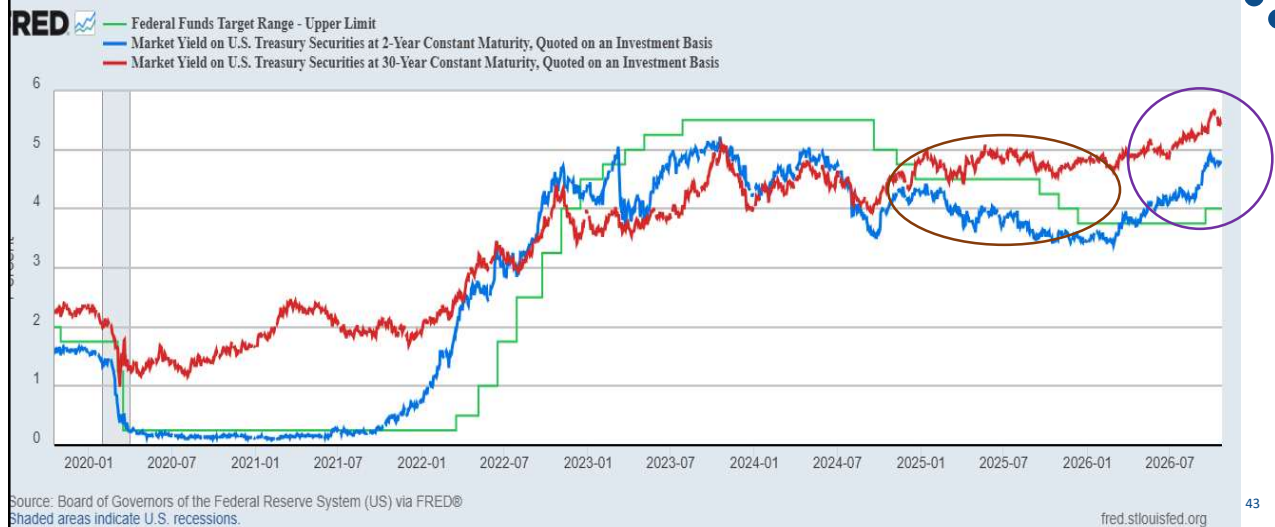
The Fed Essentially Sets the 3-month rate



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Reading the Interest Rate Tea Leaves

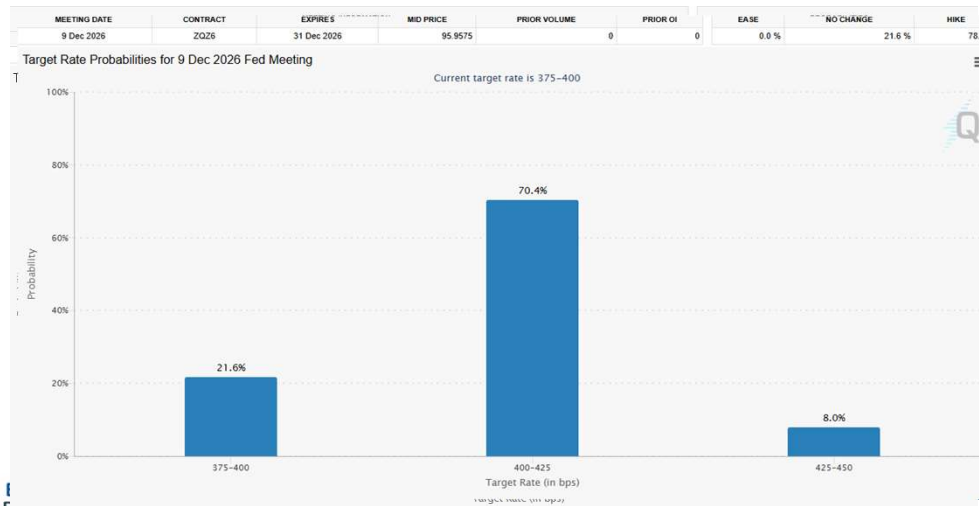


Since the Start of the Iran war

- 2-yr rate rises (on 3/3) first in anticipation that the Fed would raise the federal funds rate.
 - 30-yr Rates also starts to rise but by less
 - Fed raises the federal funds rate in September.
- 1) Short-rates are signaling substantial increase in the federal funds rate in the next year or so.
 - 2) Long-term rates are signaling that a substantial fraction of those increase will persist.

When Will the Fed Act?

Not Before the election.



<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

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Causes of Permanently Higher Rates

- Persistently, high 30-yr interest rates are unlikely to be due to the AI investment boom. More likely, credit markets are signaling that US (and many other developed countries) fiscal debt and deficits are not sustainable.
- The Worst-Case Scenario: A run on the dollar.

A Cheerful (?) Final Note:



Rudy Dornbusch

The crisis takes a much longer time coming than you think,...

and then it happens much faster than you would have thought.

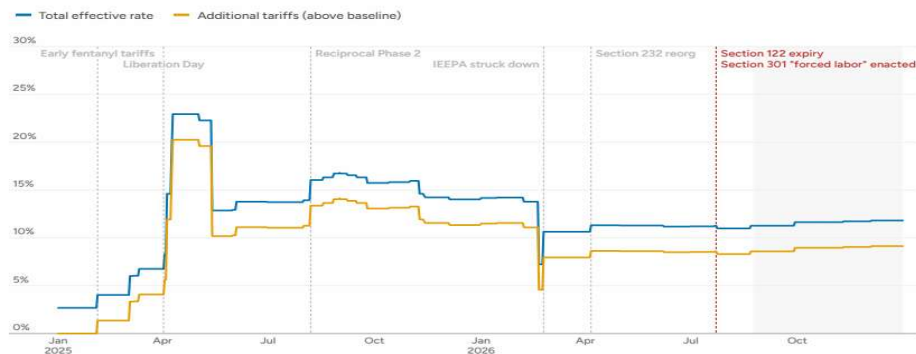


My Google Site

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



Next Week: Economics of Tariffs



Source: The Budget Lab analysis.

The overall statutory tariff rate over time, for the selected scenario. Dashed vertical lines mark major tariff policy changes. The grey band marks the projected period.



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Let's Hear from You!

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