



Osher Lifelong Learning Institute, Winter 2022
Contemporary Economic Policy

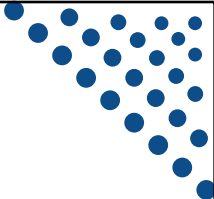
University of Hawaii, Manoa
February-March, 2022

Jon Haveman, Ph.D.
National Economic Education Delegation

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1

1



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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2

2

Available NEED Topics Include:

- Coronavirus Economics
- US Economy
- 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



5

Course Outline

- **Contemporary Economic Policy**
 - Week 1 (2/4): US Economy & Coronavirus Economics
 - Week 2 (2/11): Federal Debt (Geoffrey Woglom, Amherst College)
 - Week 3 (2/18): Economic Inequality (Stephanie Seguino, Univ of. Vermont)
 - Week 4 (2/25): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
 - Week 5 (3/4): Climate Change (Me)
 - Week 6 (3/11): Health Economics (Me)

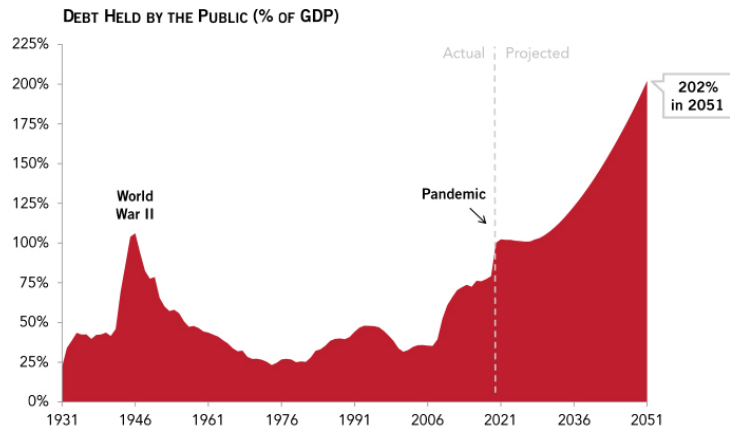


6

The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



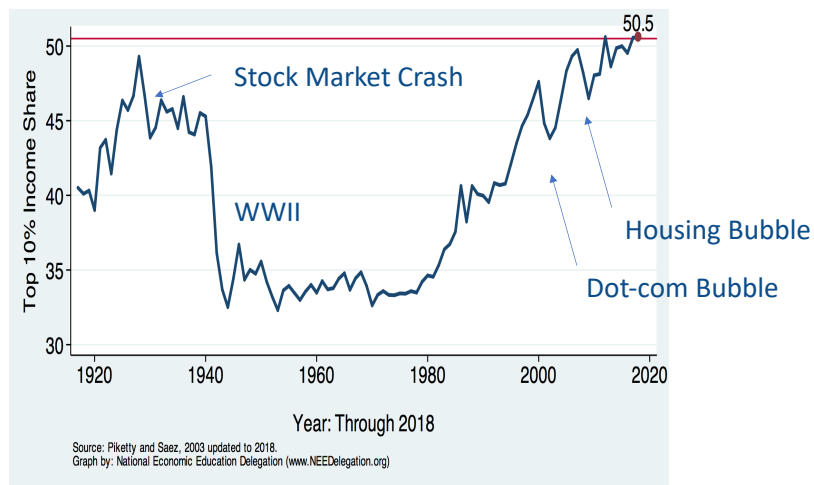
SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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7

National Income Inequality: Share of Top 10%



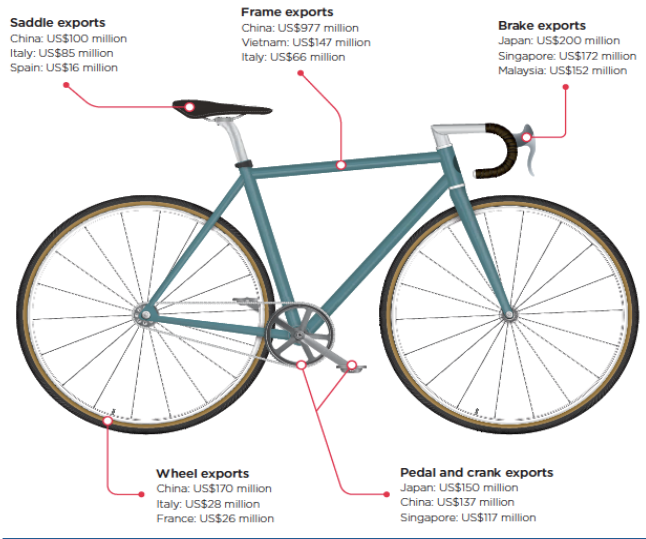
Source: Piketty and Saez, 2003 updated to 2018.
Graph by: National Economic Education Delegation (www.NEEdelegation.org)



8

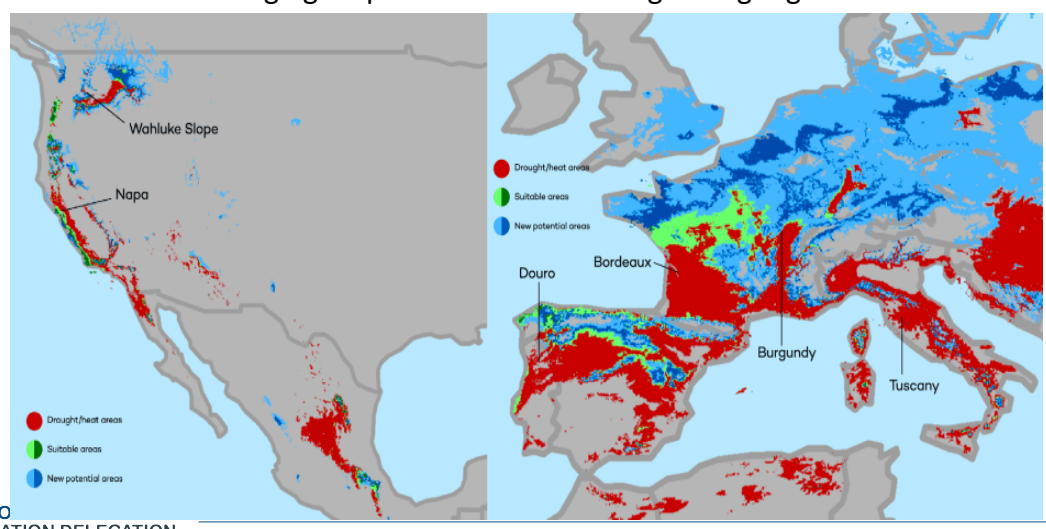
Trade: Bicycle Supply Chain

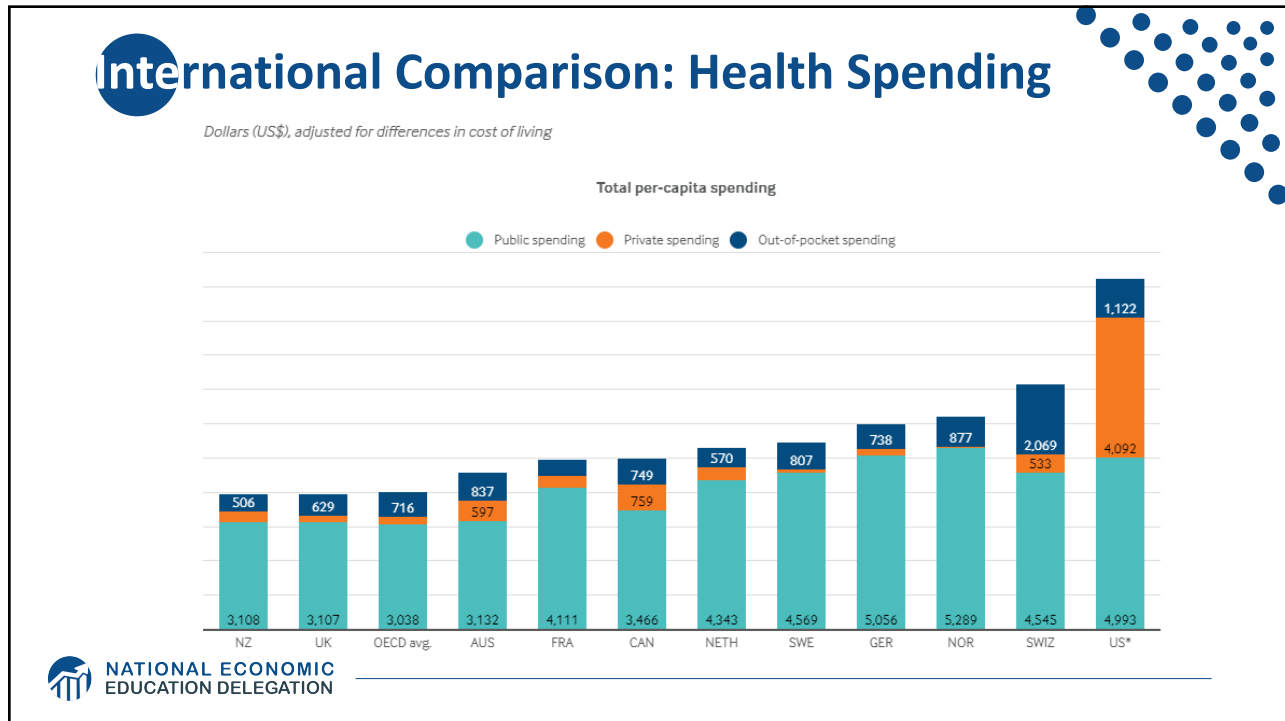
Figure 1.1 Where do bicycles come from?



Climate Change Economics

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





11

Submitting Questions

- **Please submit questions in the chat.**
 - 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.

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12



US Economy and Coronavirus Economics



13

Credits and Disclaimer

- **This slide deck was authored by:**
 - Jon D. Haveman, NEED
 - Scott Baier, Clemson University
 - Geoffrey Woglom, Amherst College (Emeritus)
 - Brian Dombeck, 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).

14

Outline

- State of the pandemic
- The U.S. Economy
- Hot Topics
 - Government policy
 - Inflation
 - Great resignation
 - Housing markets

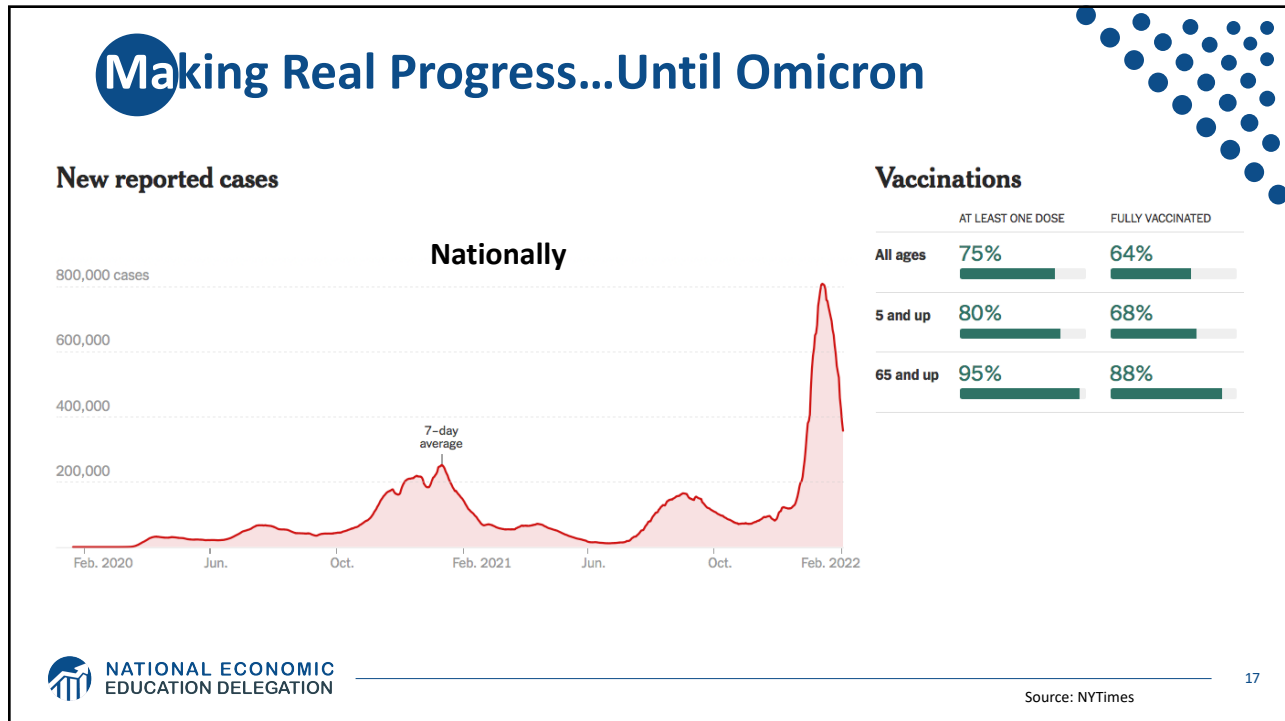


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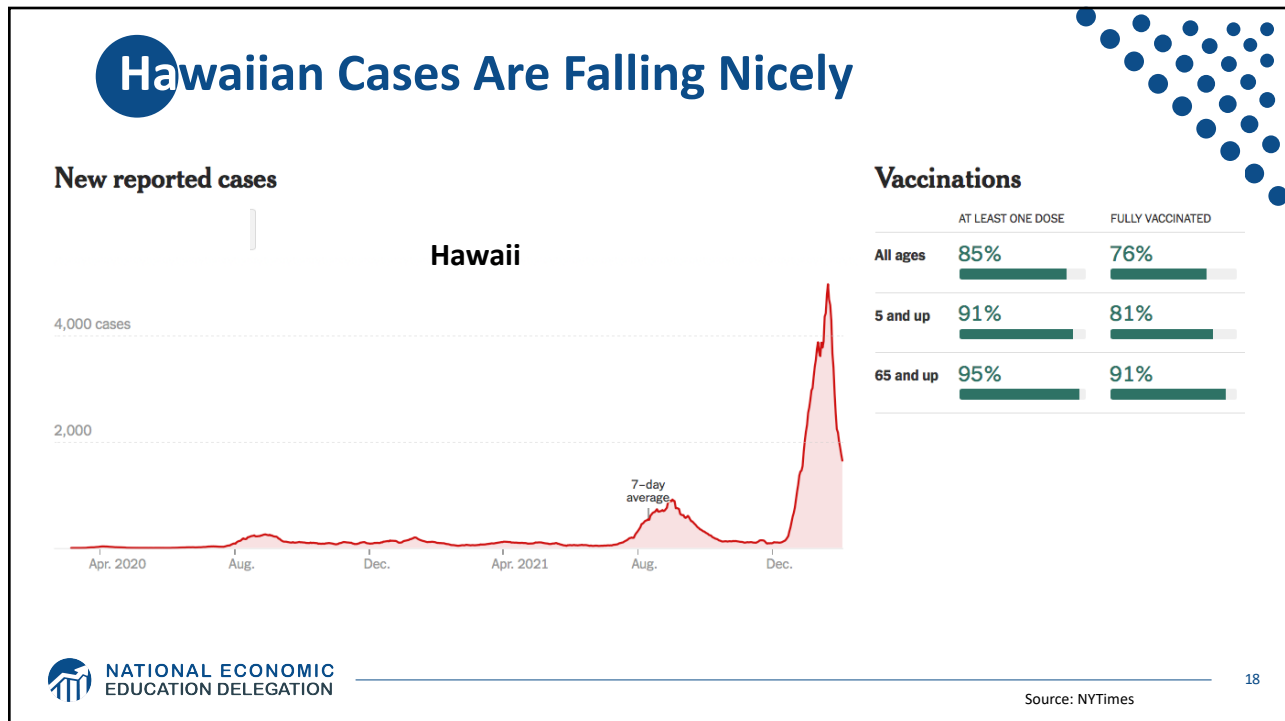
State of the Pandemic



16



17



18

The U.S. Economy



19

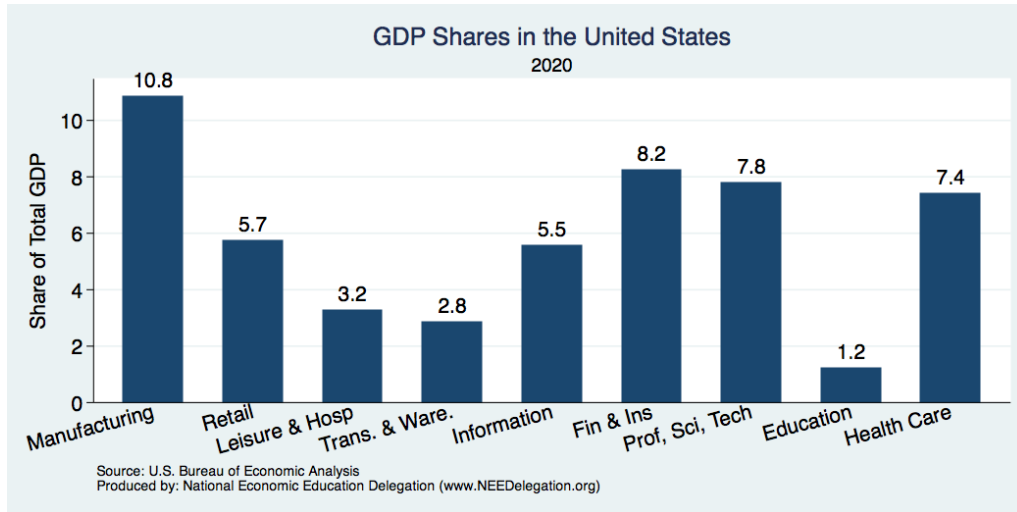
Some Basic Statistics

Statistic:	Value
Population	331.1 Million
Labor Force	160.9 Million
Employment	144.9 Million
Gross Domestic Product (GDP)	\$22.1 Trillion
Income per Capita	\$35,805
Ave. Hourly Earnings	\$30.33



20

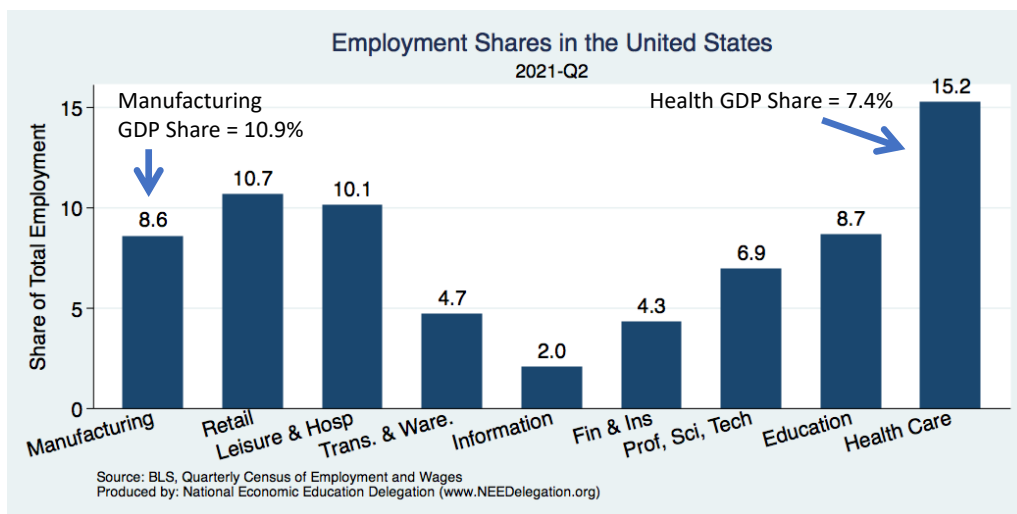
Composition of the U.S. Economy: GDP



Note: Does not add to 100% because of omitted sectors.

21

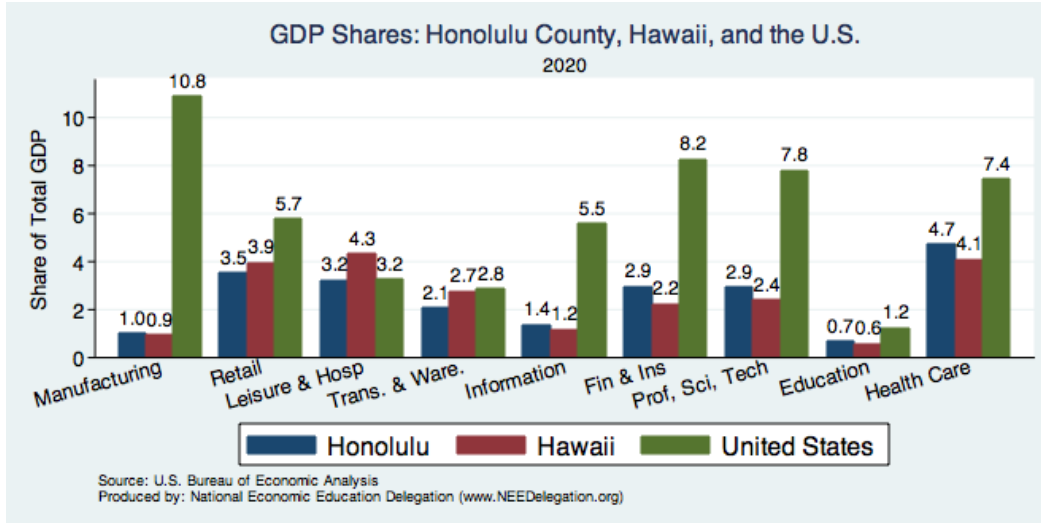
Composition of the U.S. Economy: Employment



Note: Does not add to 100% because of omitted sectors.

22

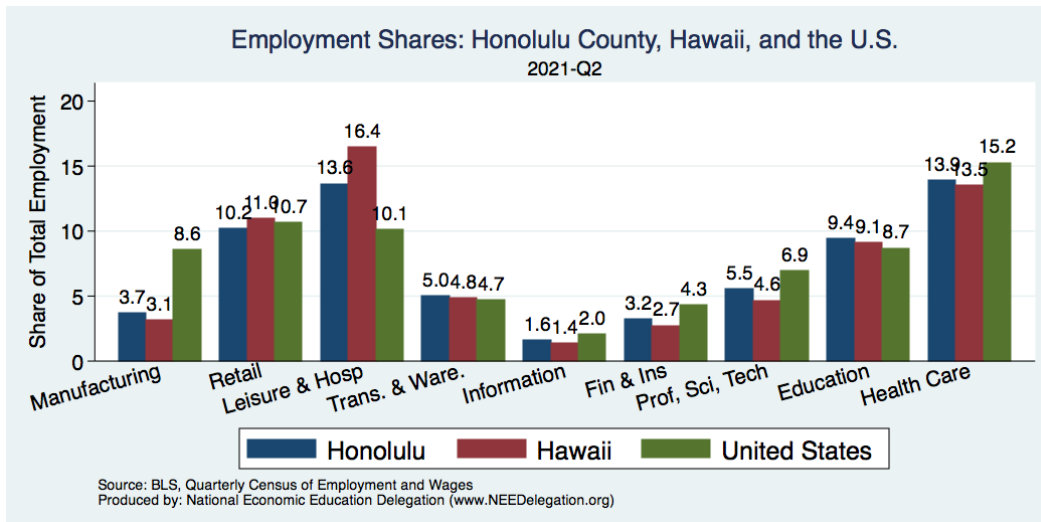
Honolulu County GSP: Finance & Health



Note: Does not add to 100% because of omitted sectors.

23

Honolulu County Employment: Health & Leisure



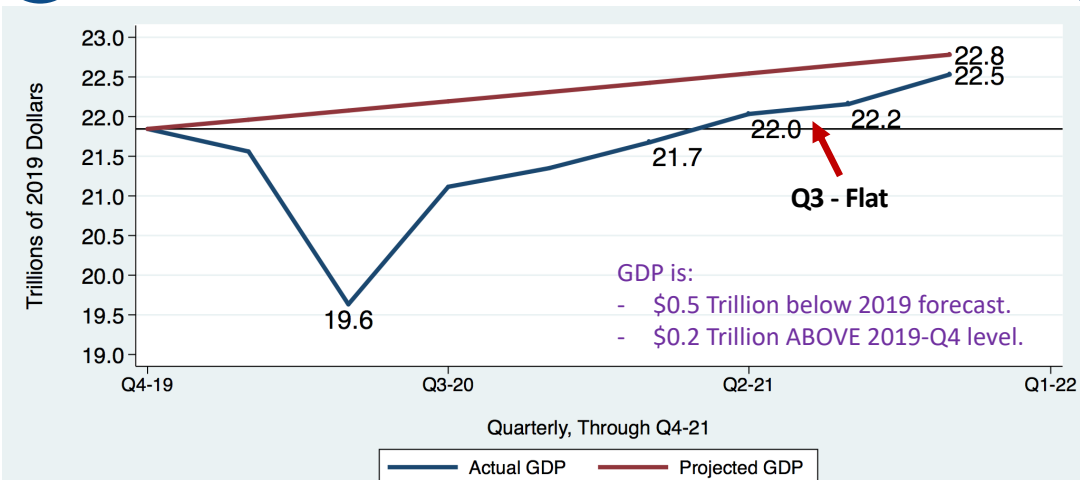
Note: Does not add to 100% because of omitted sectors.

24

Evidence of Impact

25

GDP Trajectory: Pandemic Plunge!

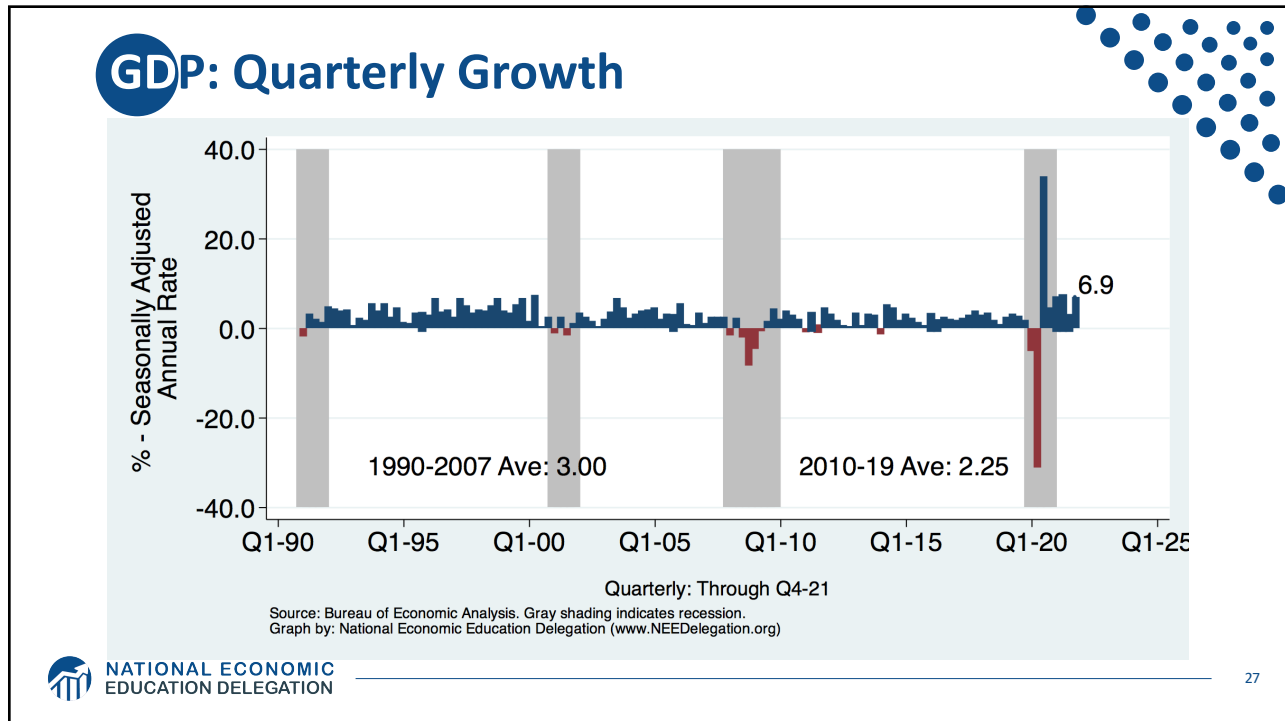


GDP is:

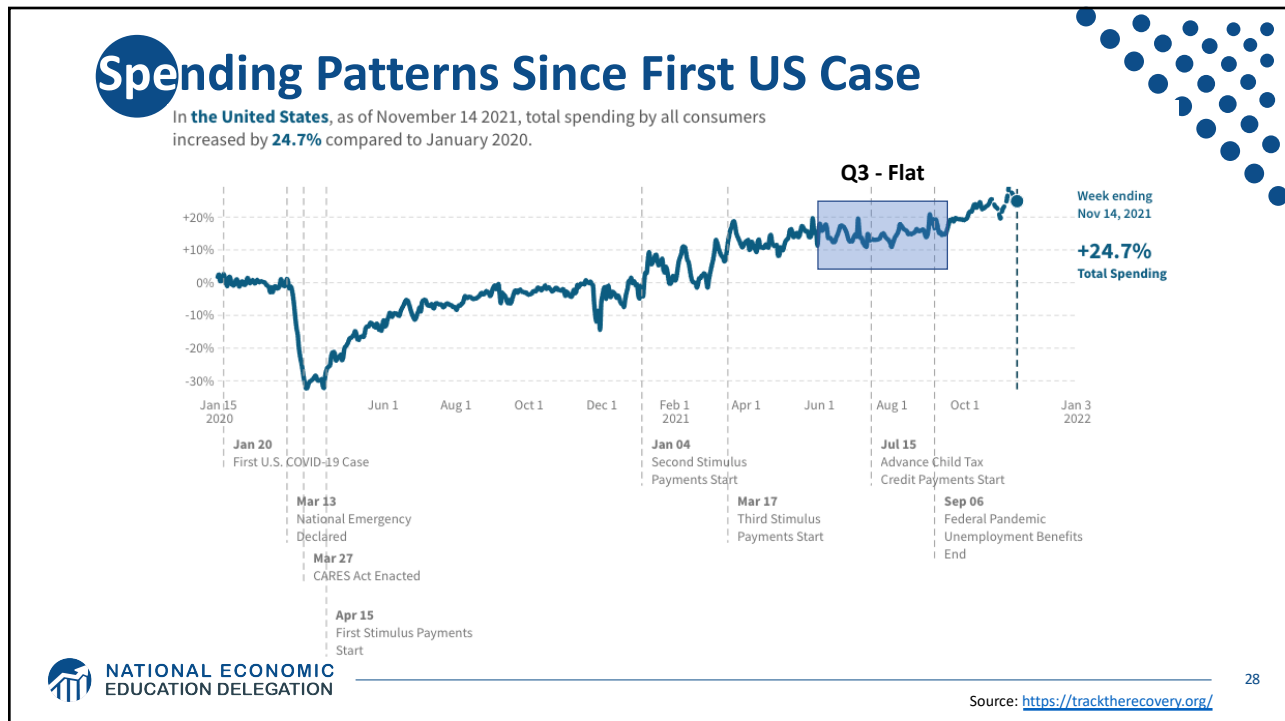
- \$0.5 Trillion below 2019 forecast.
- \$0.2 Trillion ABOVE 2019-Q4 level.

Source: Bureau of Economic Analysis. Projected GDP is a continuation of the 2011-2019 trend.
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

26

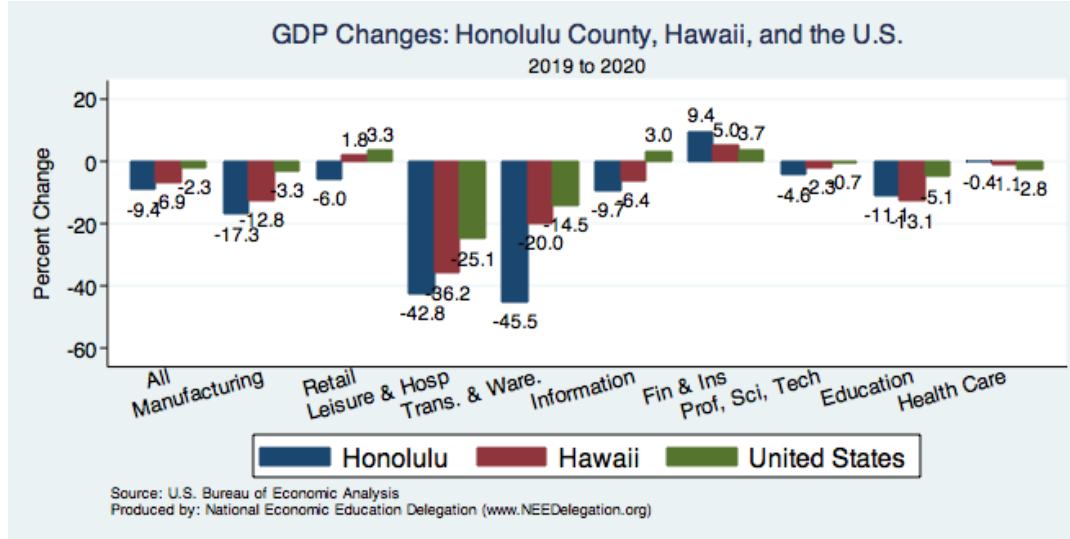


27



28

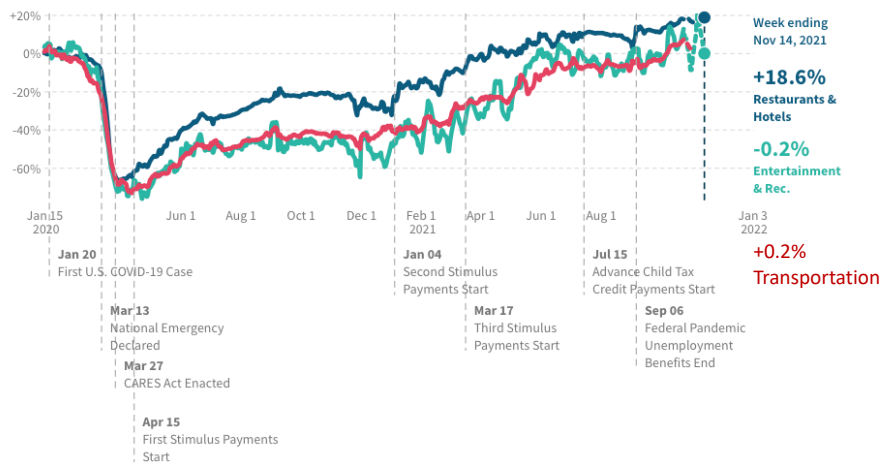
But Not All Industries Were Equally Harmed



29

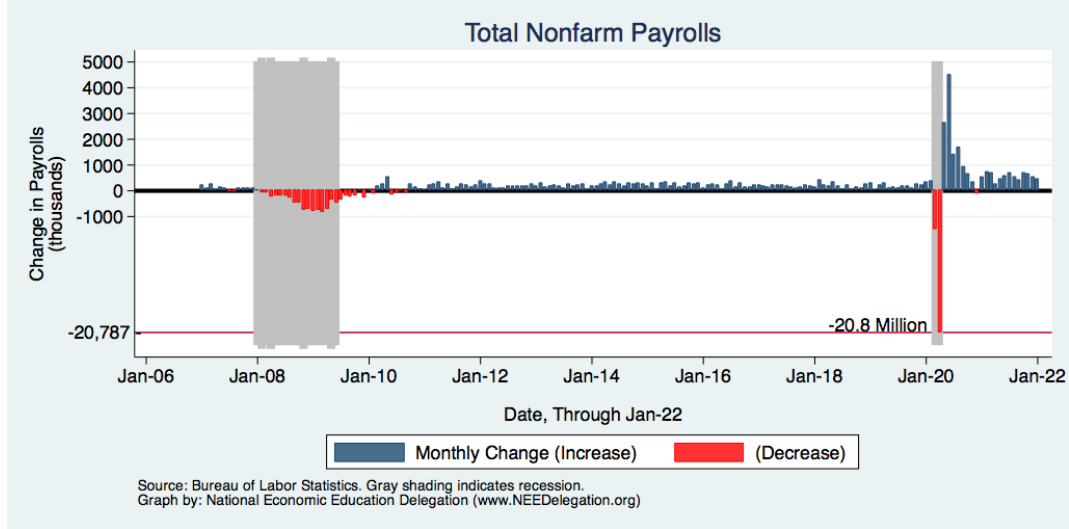
Spending Patterns – Hardest Hit Sectors

In the United States, as of November 14, 2021, restaurant and hotel spending by all consumers increased by **18.6%** compared to January 2020.



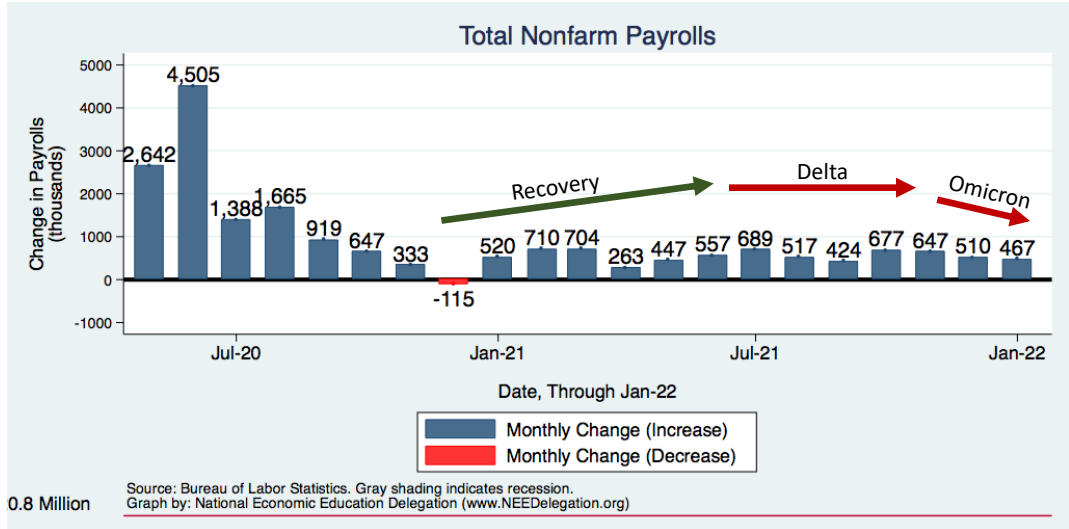
30

Monthly Changes in Nonfarm Employment



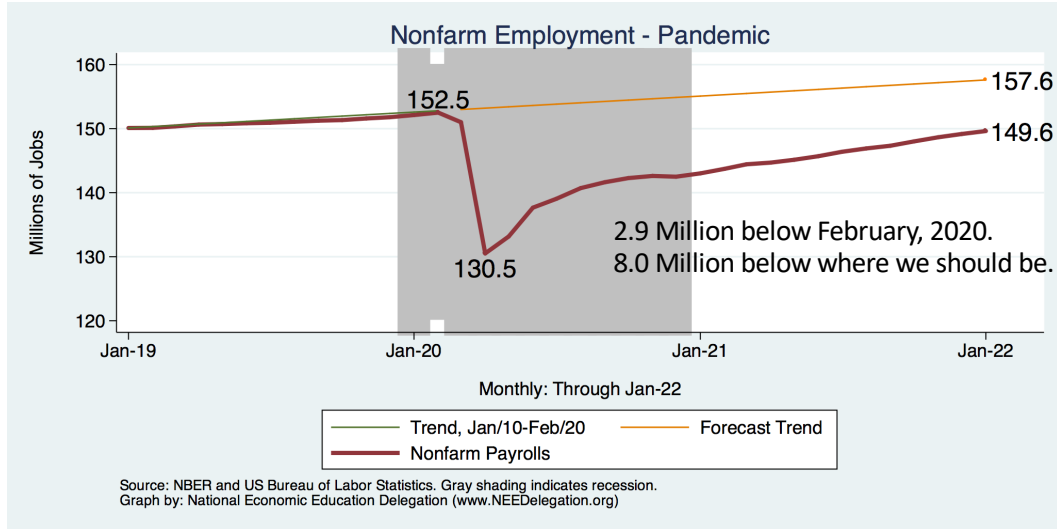
31

Monthly Changes in Nonfarm Employment



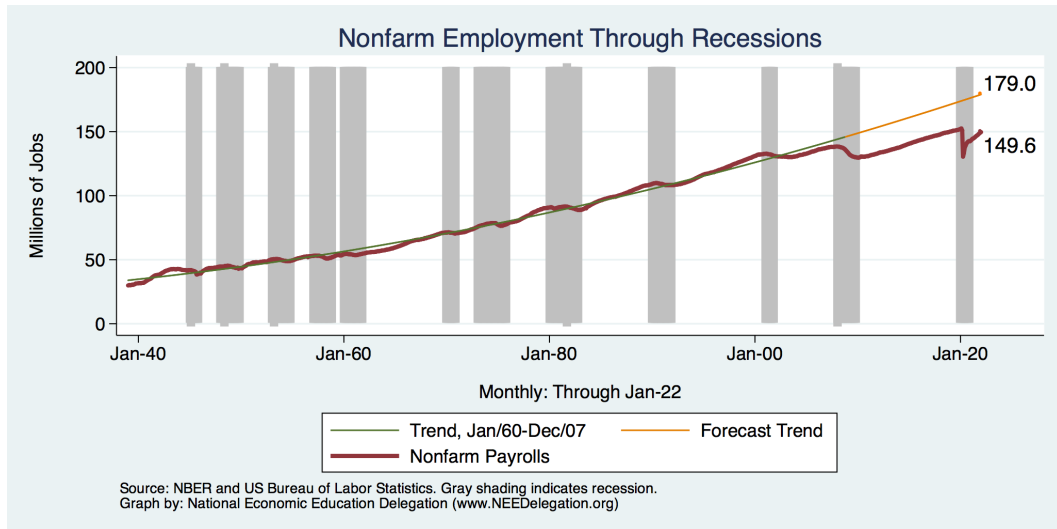
32

Employment Gap

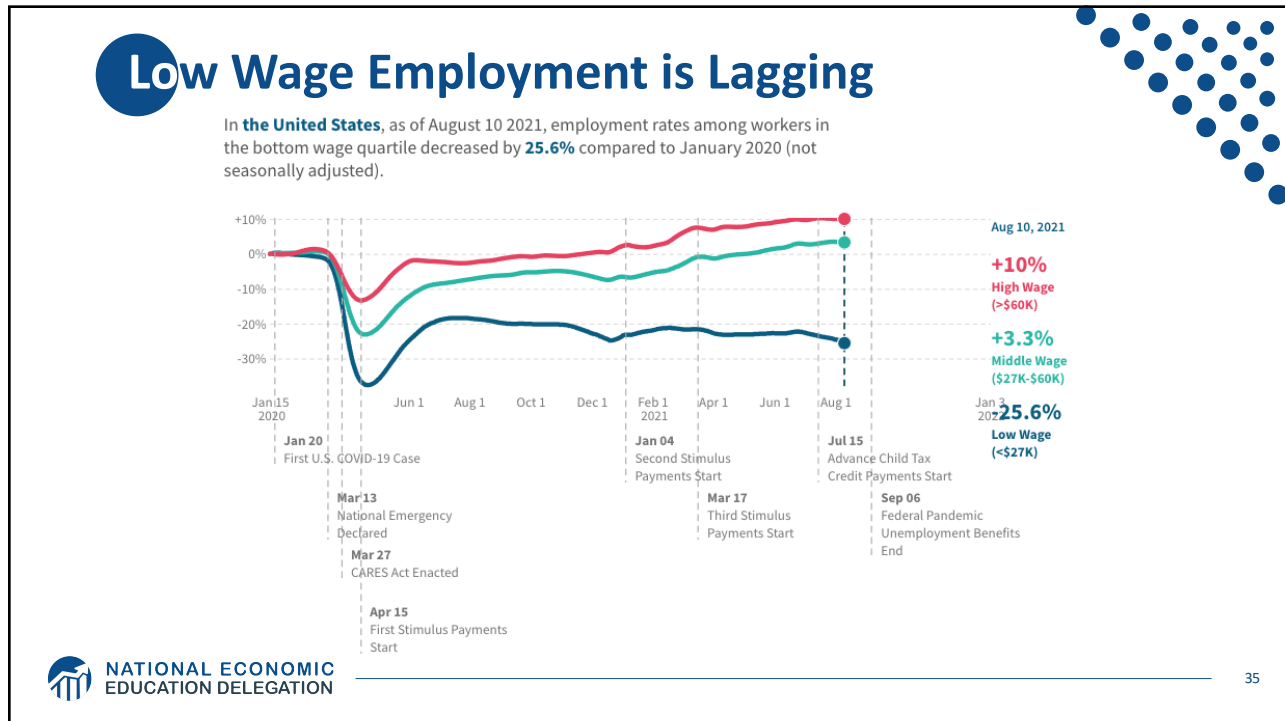


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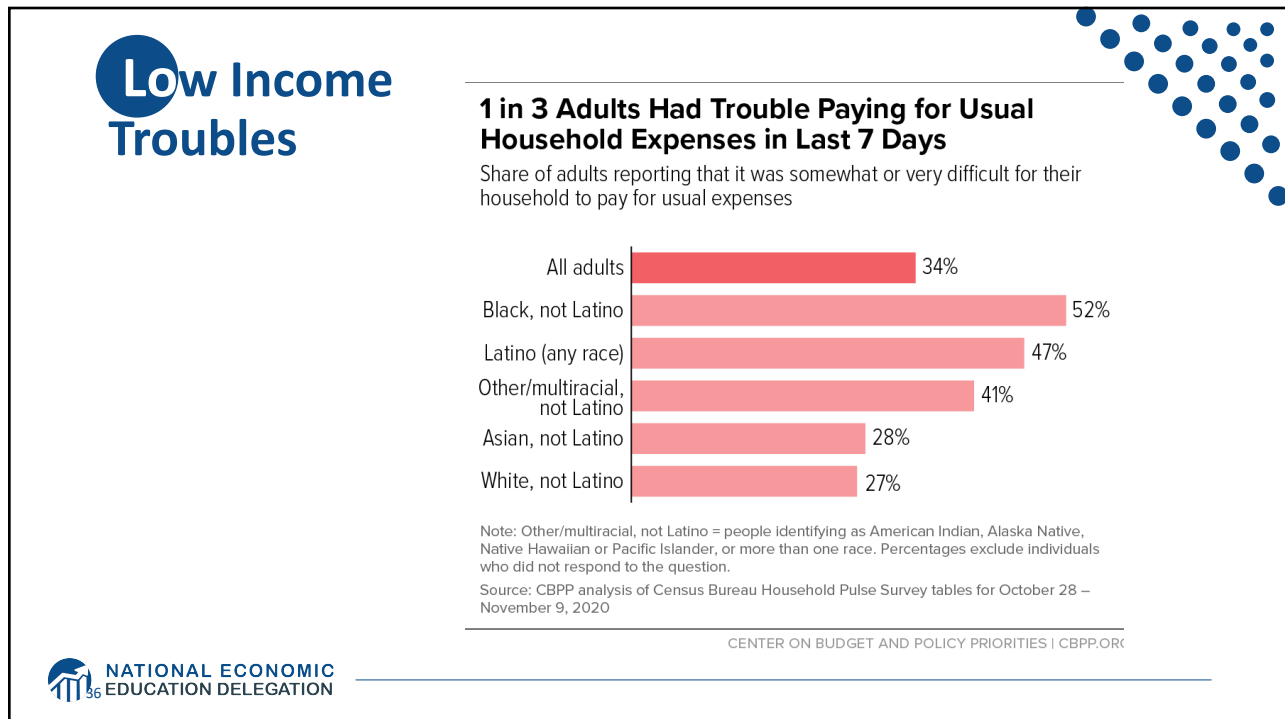
Employment Gap – In Historical Perspective



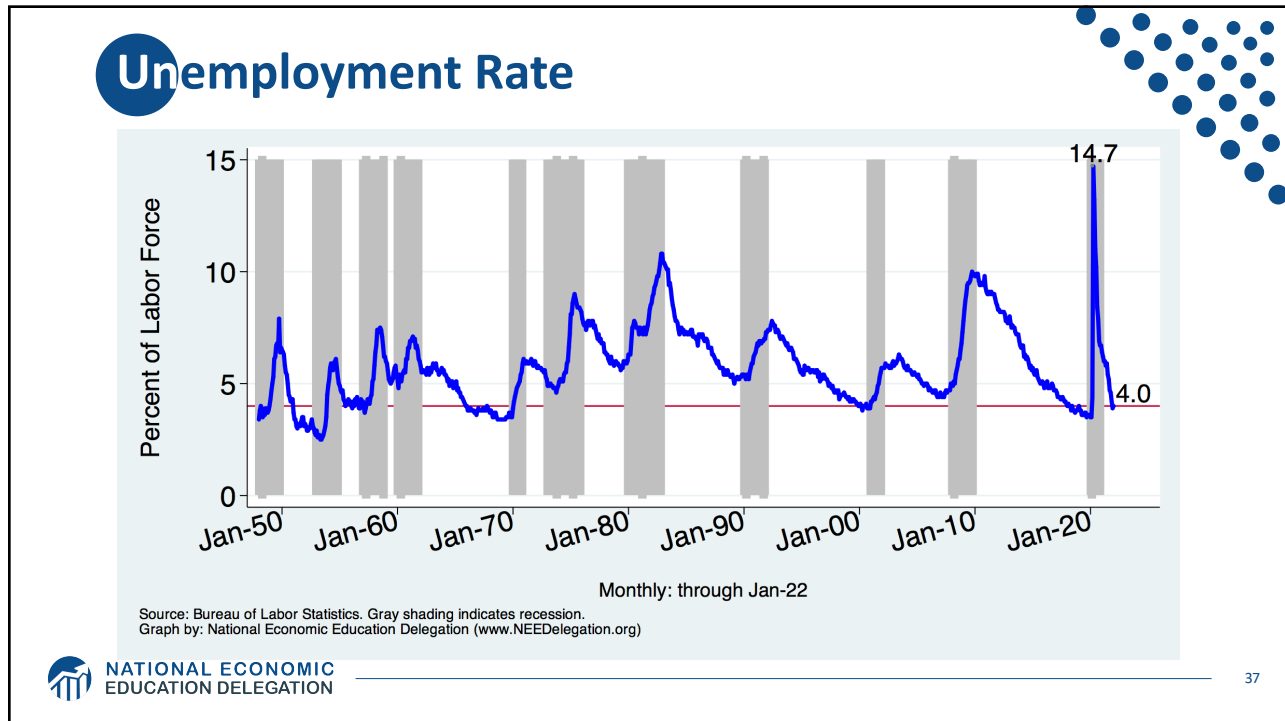
34



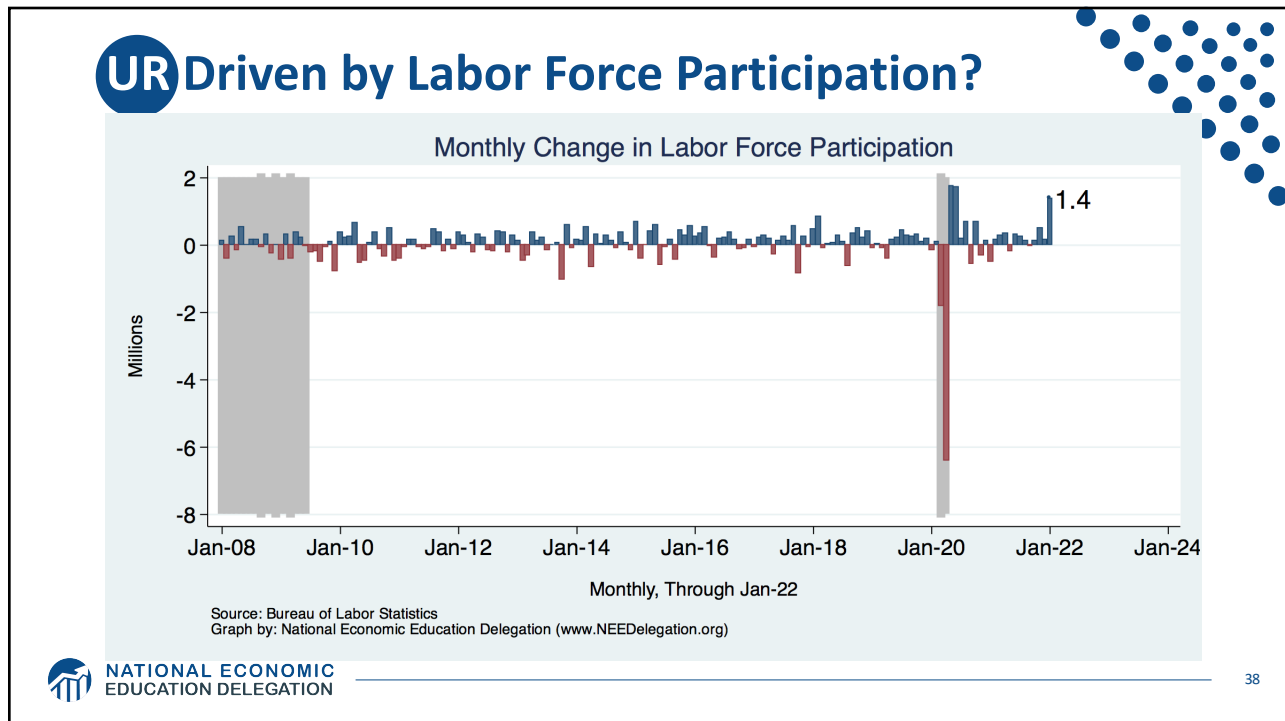
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36

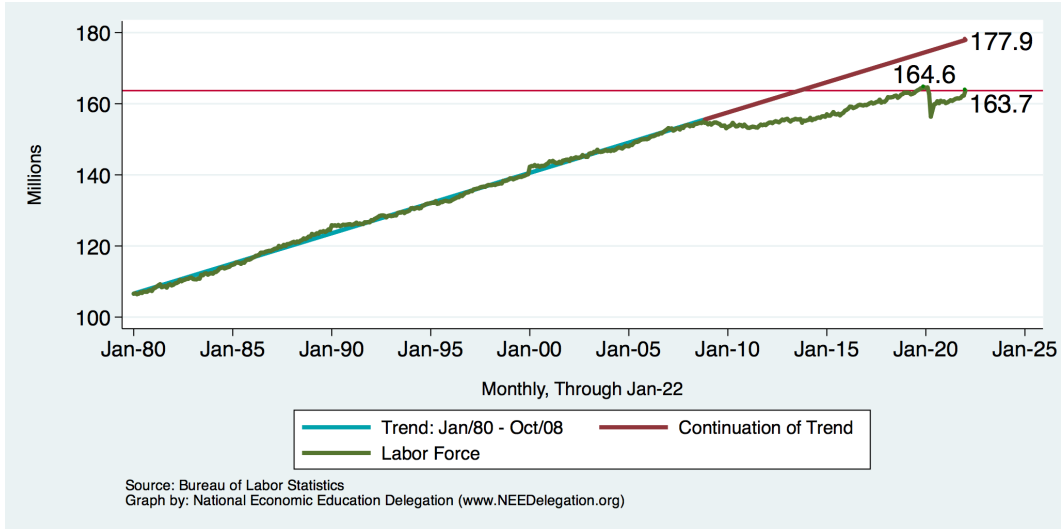


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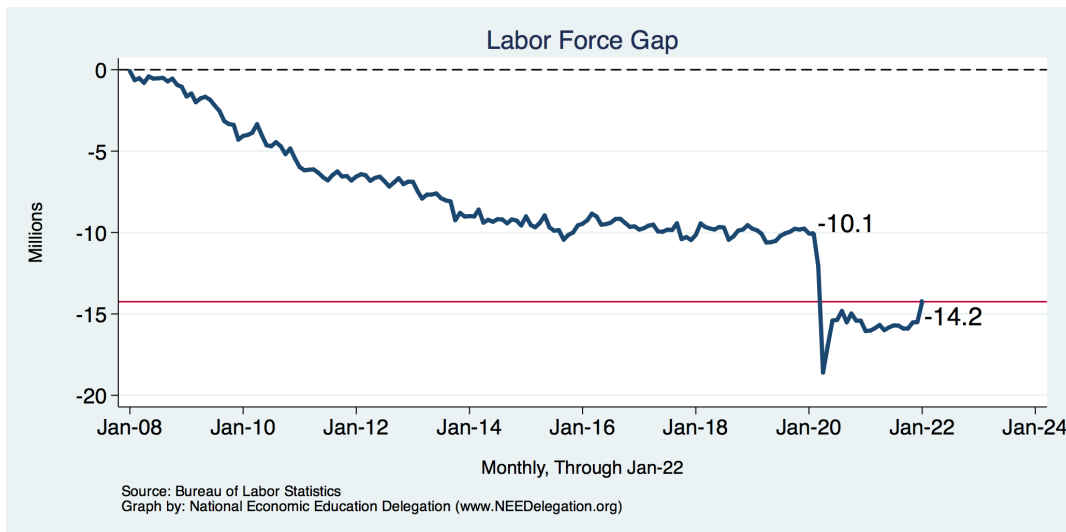
38

Trends in Labor Force Participation



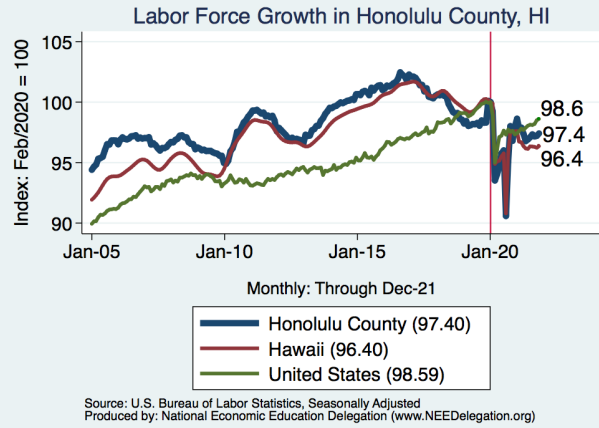
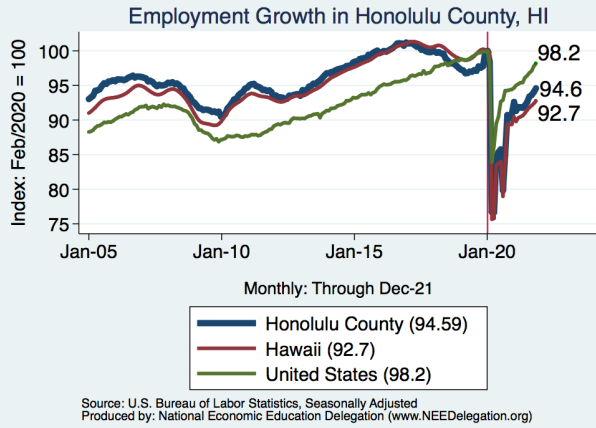
39

Labor Force is Shrinking – Drives Down UR



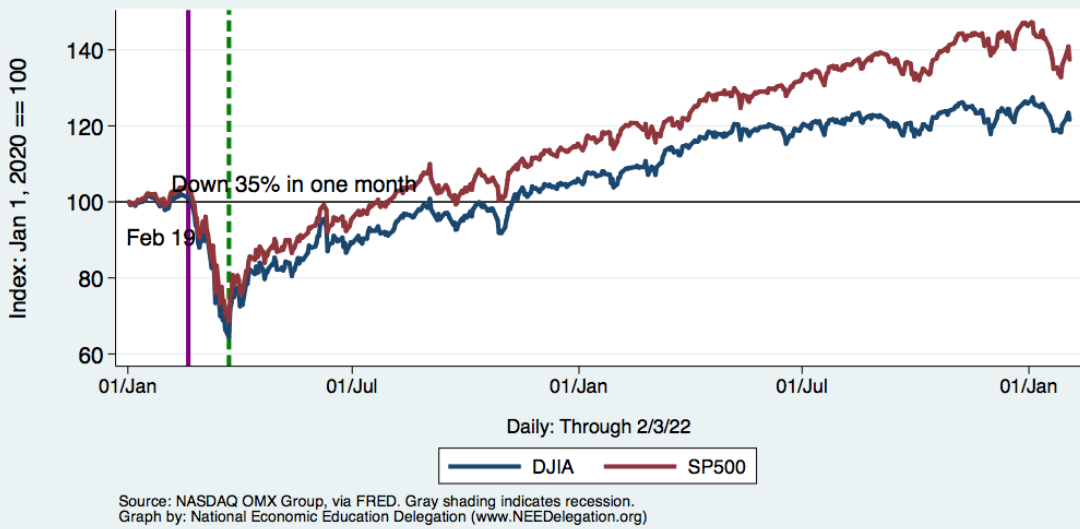
40

Employment in Honolulu County



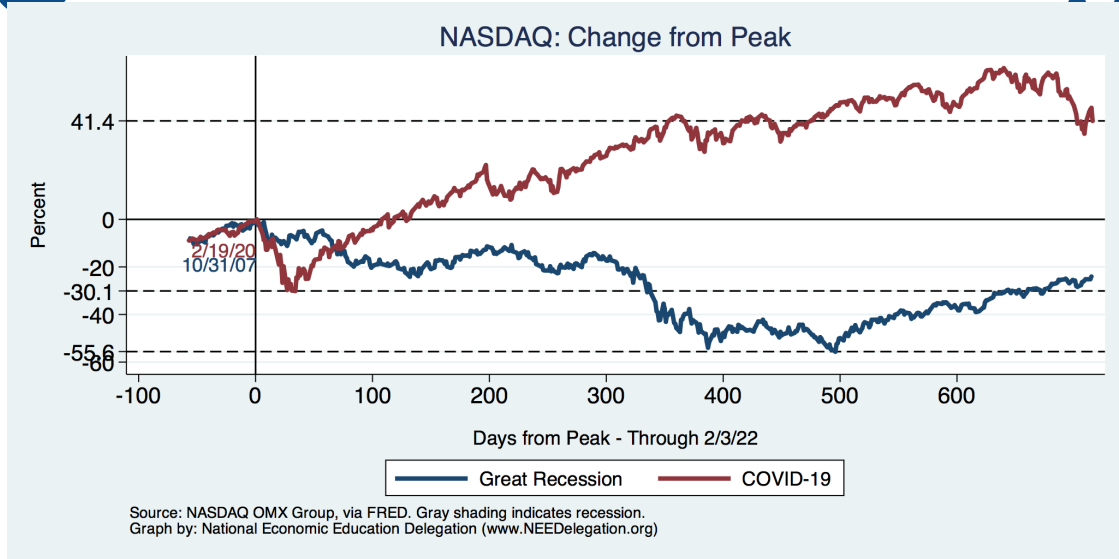
41

Stocks: Bounced Back Quicker This Time



42

Stocks: Bounced Back Quicker This Time



43

Hot Topics

- Government policy
- Inflation
- Great resignation
- Housing markets

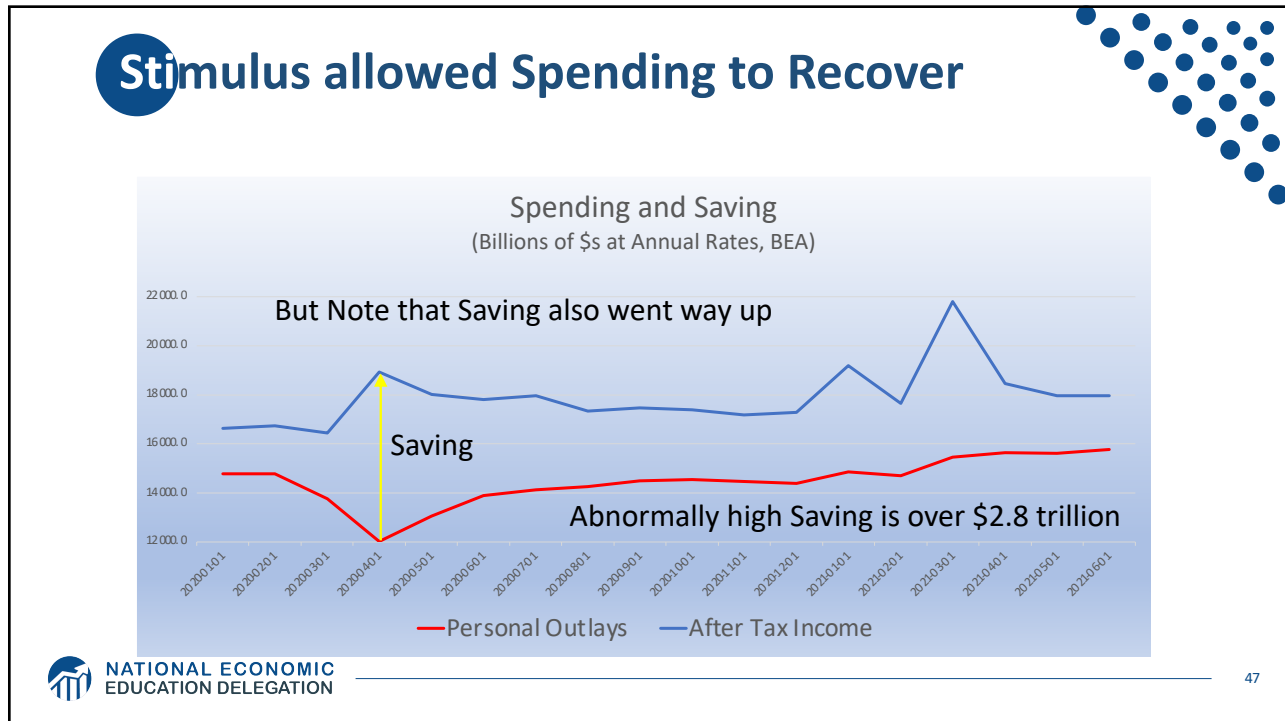
44

What Have Been Policy Effects?

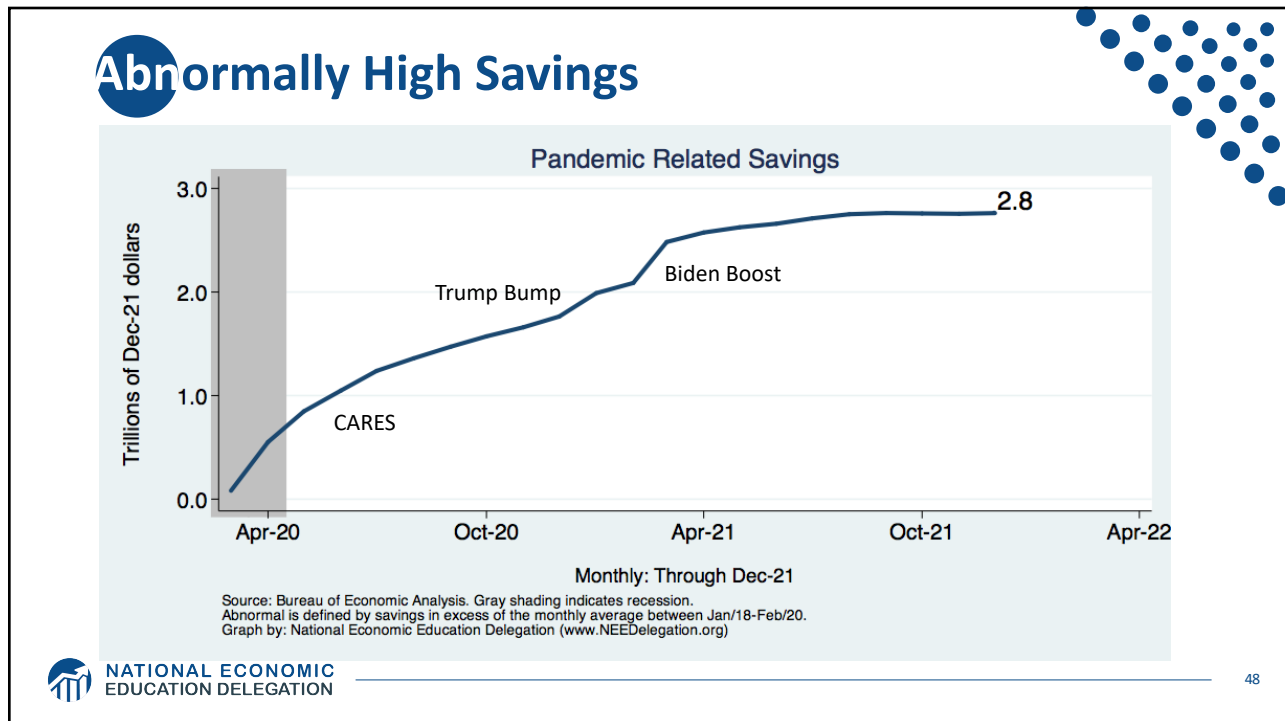
- **MONETARY POLICY (Fed)** acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.
- **FISCAL POLICY (Congress)** acted quickly, but inevitably made some mistakes.
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C- (\$525b)

Recovery Due to Immense Fiscal Stimulus and Control of COVID





47



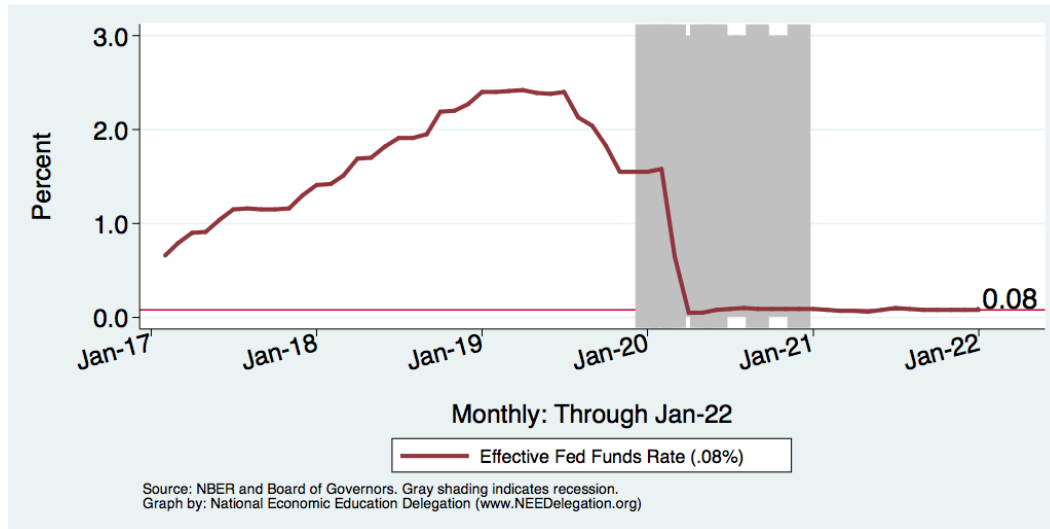
48

Monetary Policy: Federal Reserve

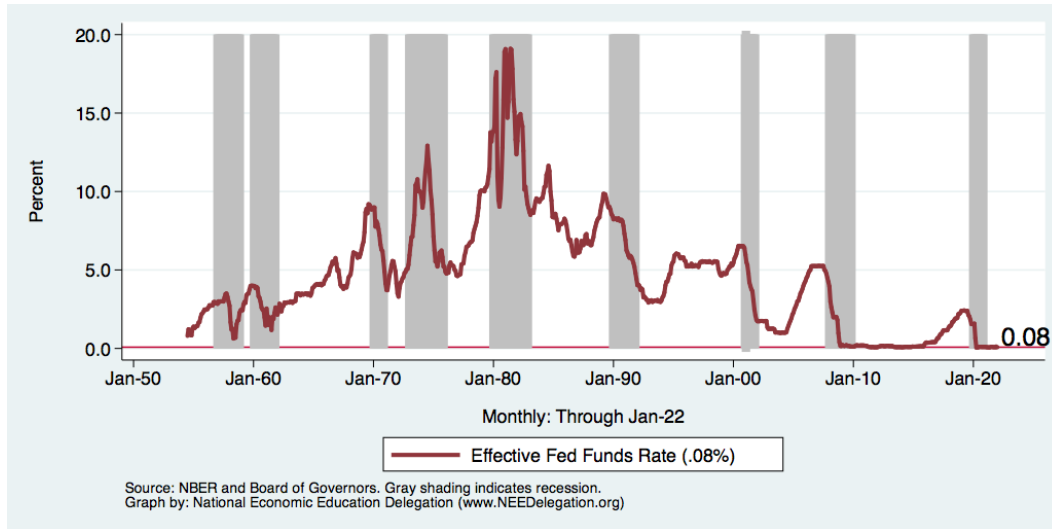
- **Primary goal is to keep interest rates low, to facilitate continued borrowing.**

- Federal Funds Rate – rate at which banks lend to each other, usually overnight.
- Purchases of U.S. Treasury securities – keep money flowing to the government at low rates of interest.

Federal Funds Rate – Last 5 Years



Federal Funds Rate

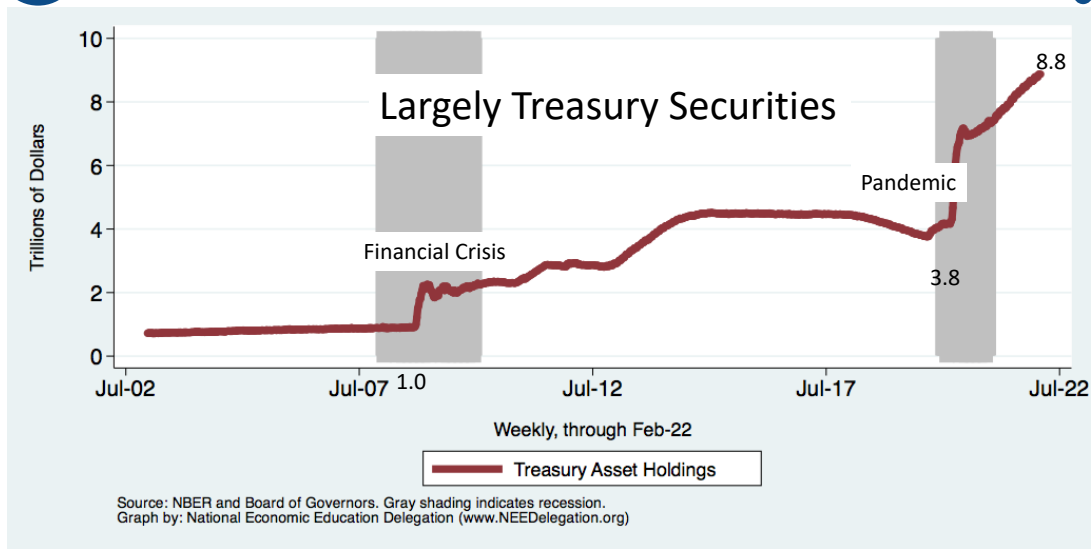


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51

51

Federal Reserve Assets

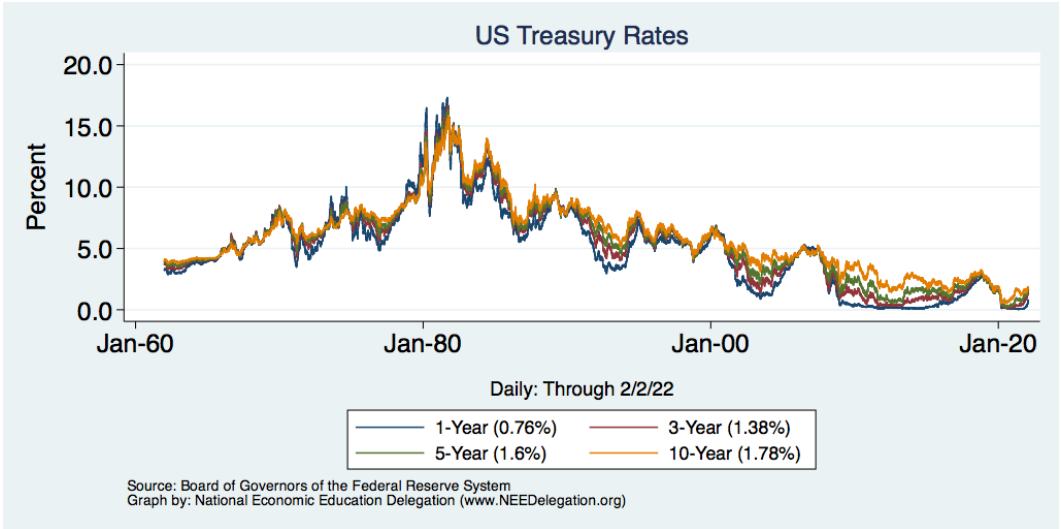


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52

52

Treasuries – Low Interest Rates



Inflation

How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

Demand-Pull

When demand for goods/service exceeds production capacity.

Cost-Push

When production costs increase prices.

Built-In

When prices rise, wages rise too, in order to maintain living costs.

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55 Source: Investopedia

55

We're Buying Mostly ... Stuff

Real monthly household spending at an annualized rate, trillions of chained 2012 dollars

a. Goods

Household spending on goods

Pre-pandemic trend

April 2021 11% above trend

b. Services

Household spending on services

Pre-pandemic trend

April 2021 7% below trend

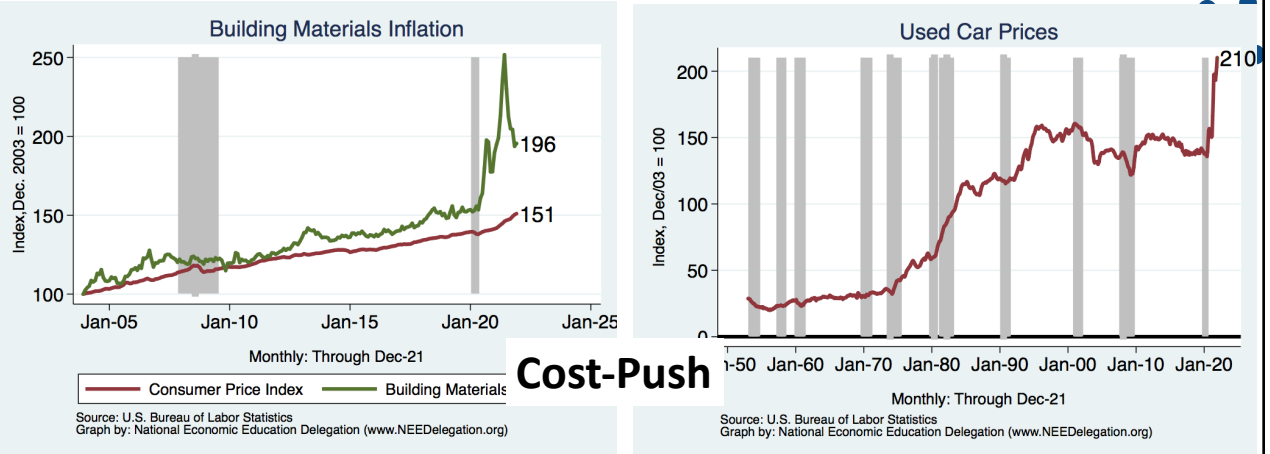
Demand-Pull

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56 Source: Jason Furman, PIIIE

56

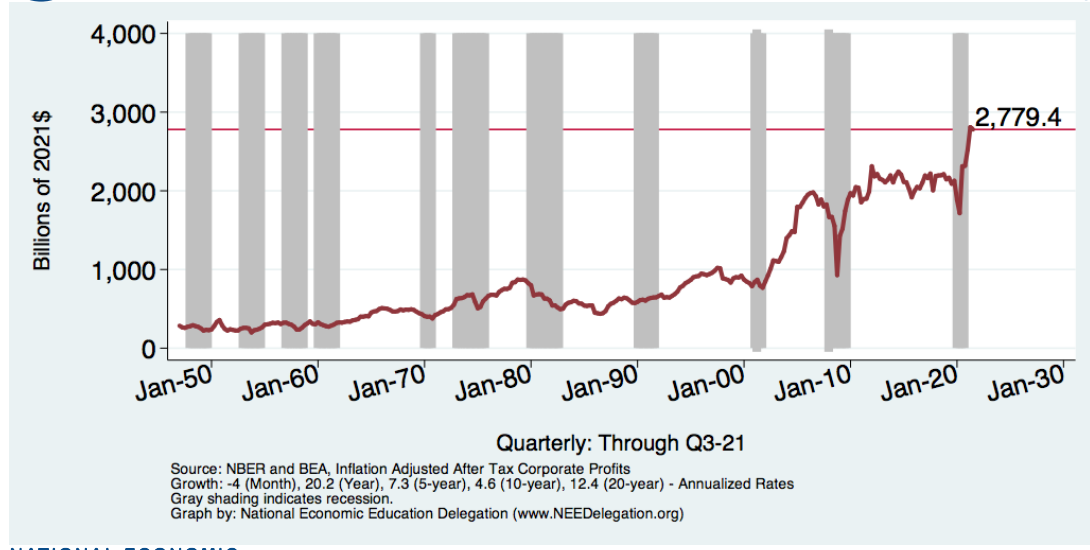
Inflation: Concentrated



Cost-Push

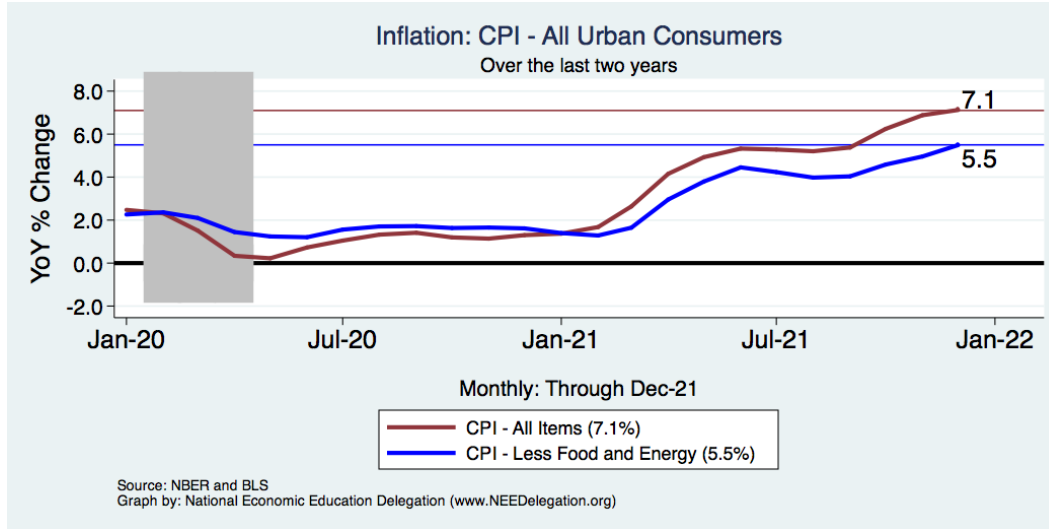
57

Corporate Profits...Adding to Inflation?

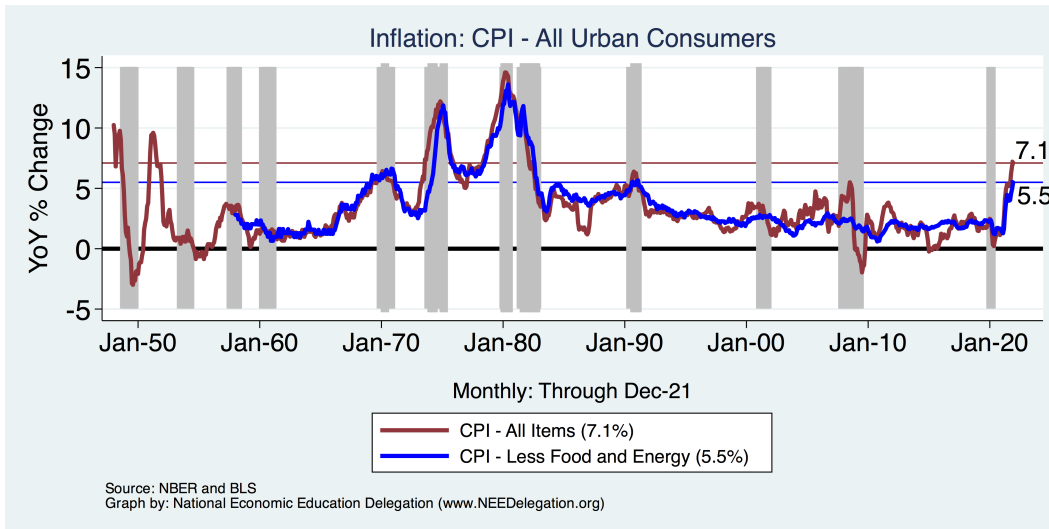


58

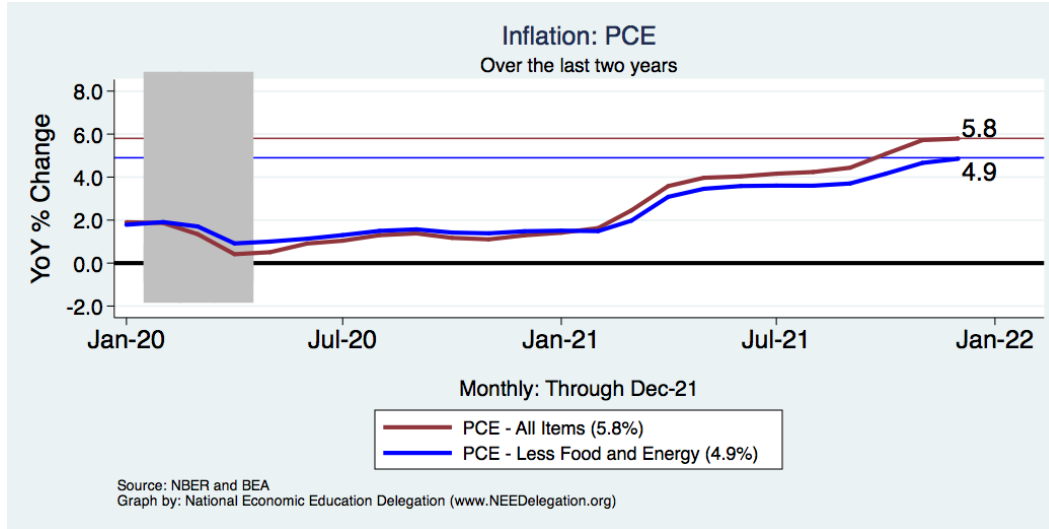
Inflation – Climbing! Should we worry?



Inflation in Historical Perspective

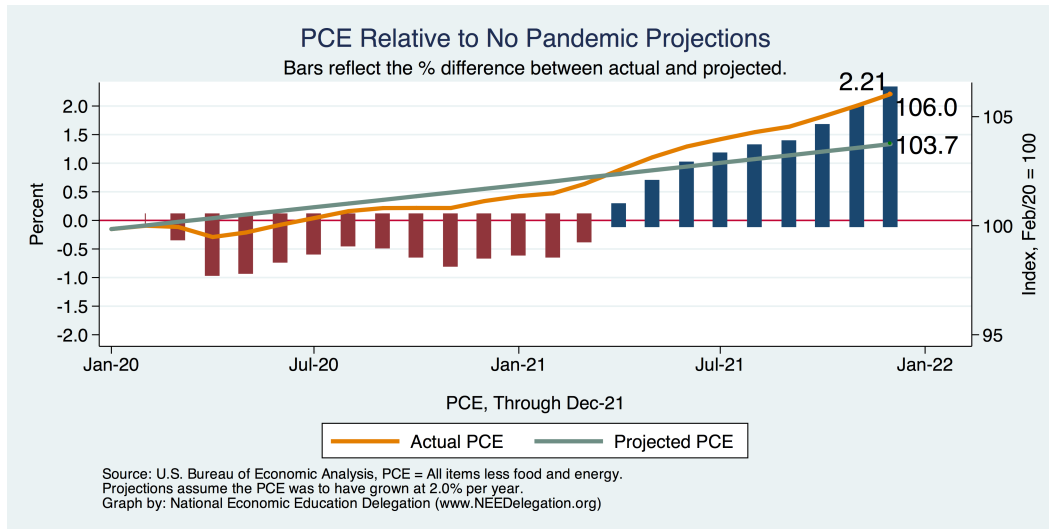


Inflation – The Fed’s Metric! Should we worry?



61

Inflation – PCE and Fed Suggest: I don't know.



62

Puzzle: Is Inflation Permanently Higher?

- **Fed: Price increases may be:**
 - 1) rebound from low prices last year;
 - 2) temporary due to supply chain disruptions; e.g., used cars, bldg supplies.
 - 3) influenced by rising wages in the future.

- **Omicron:**
 - Lessen inflation in the short term.
 - Increase it in the long term by increasing supply chain issues.

- **Nobody knows, but Fed has wavered in its optimism.**
 - Uncertainty hurts both workers and businesses – hard to plan.



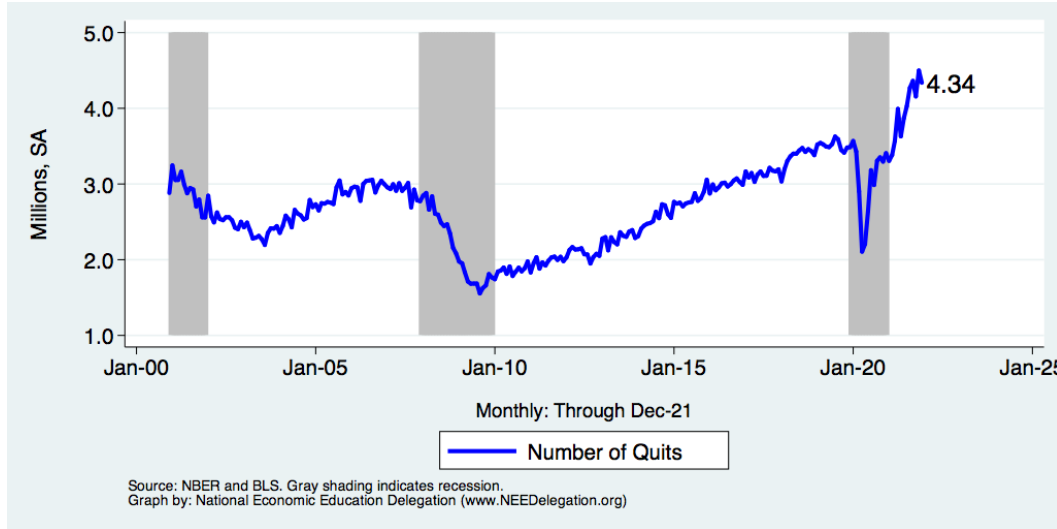
63

The Great Resignation

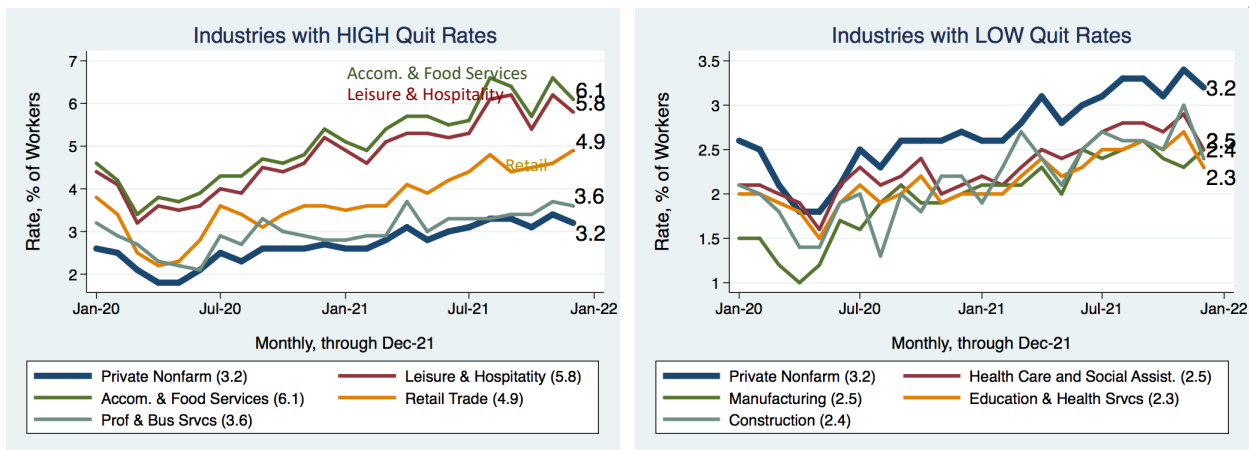


64

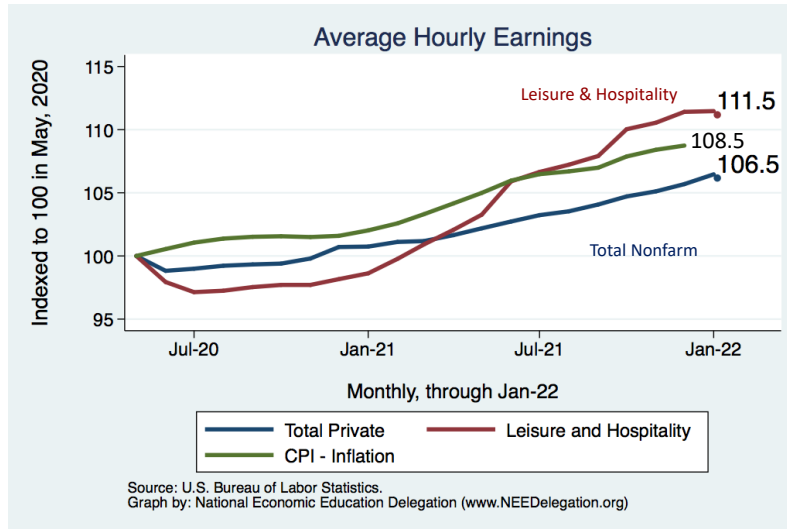
Quits Are High! The Great Resignation



Quits – Rising, but More in Some Industries

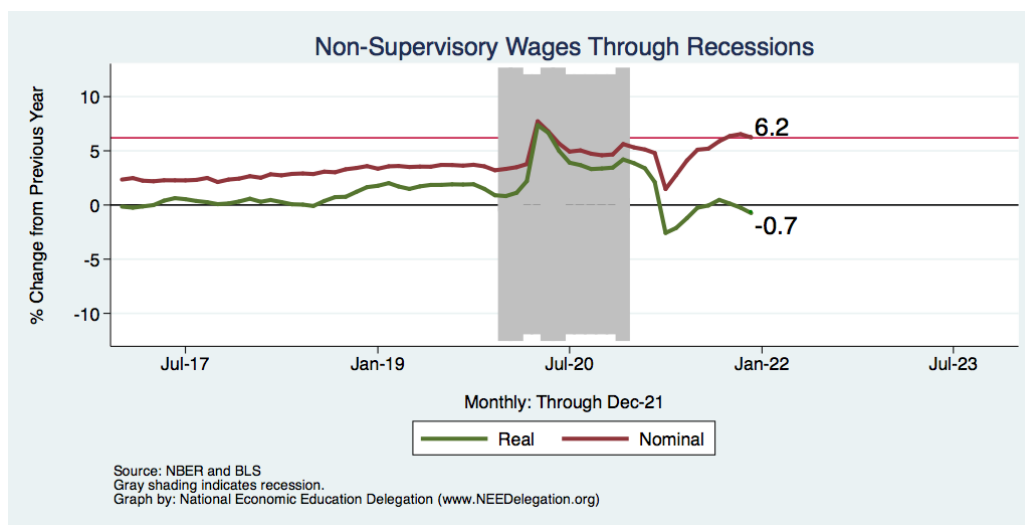


This is Happening Despite Rising Wages



67

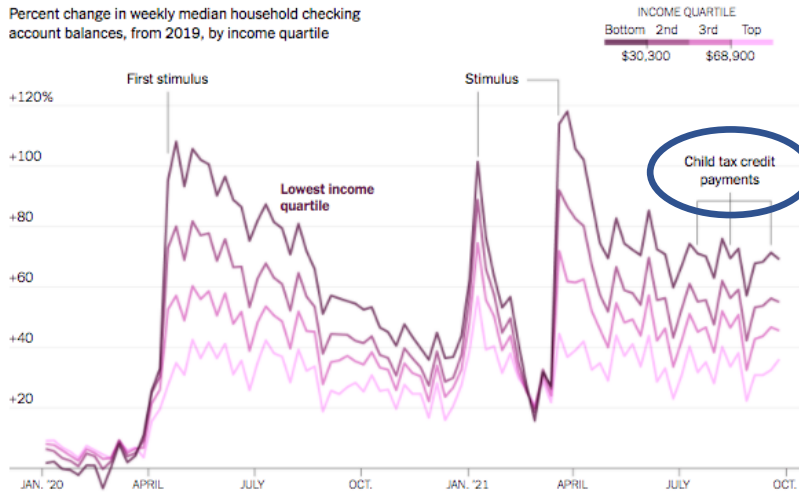
Inflation Adjusted Wages Are Falling



68

Declining Resources May Change Things

Percent change in weekly median household checking account balances, from 2019, by income quartile

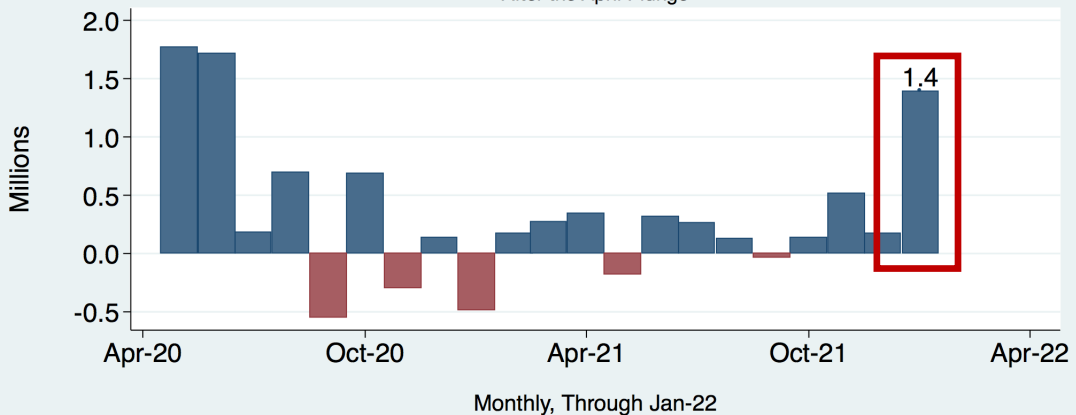


Income quartiles are based on 2019 household income, after taxes and withholdings. Quartile benchmarks shown are rounded to the nearest \$100. Source: J.P. Morgan Chase Institute By Ella Koeze

69

CTC Expiration Spurs Labor Force Growth

Monthly Change in Labor Force Participation
After the April Plunge



Source: Bureau of Labor Statistics
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

70

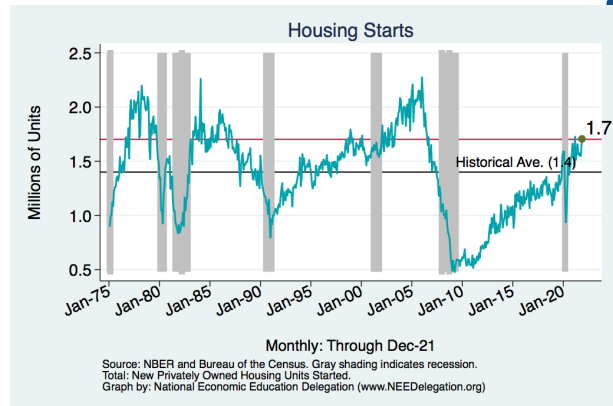
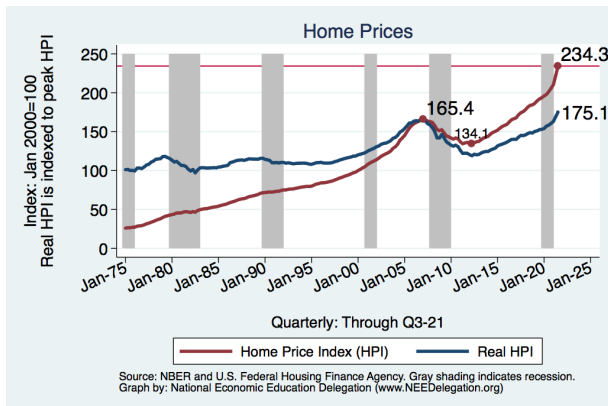
Real Estate



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71

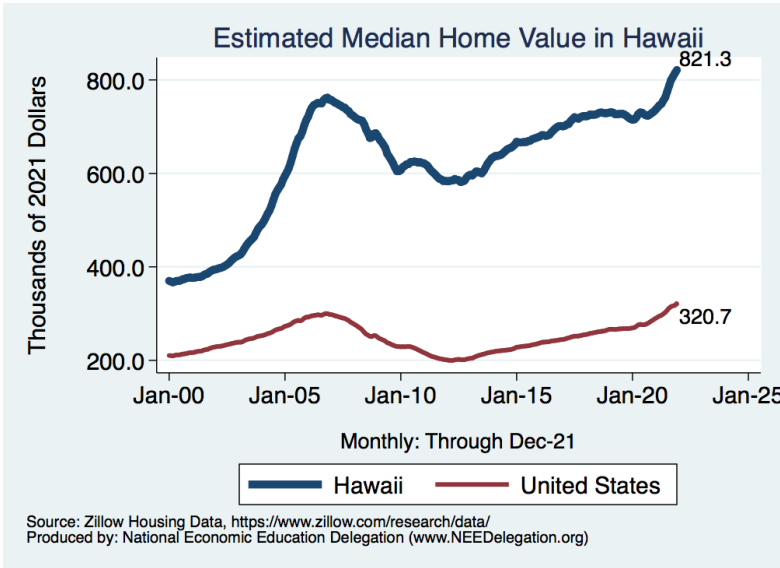
Home Prices and Housing Starts



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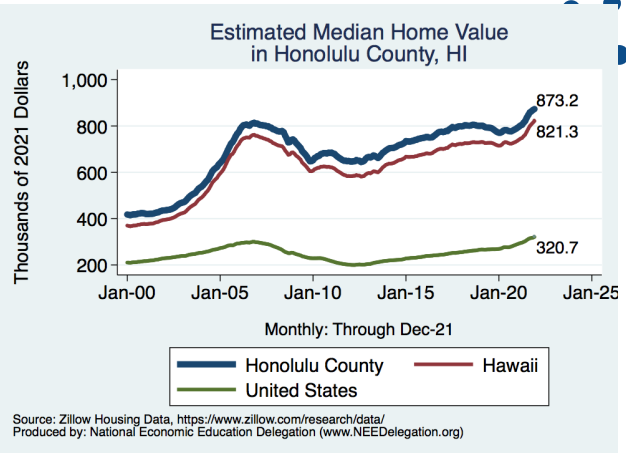
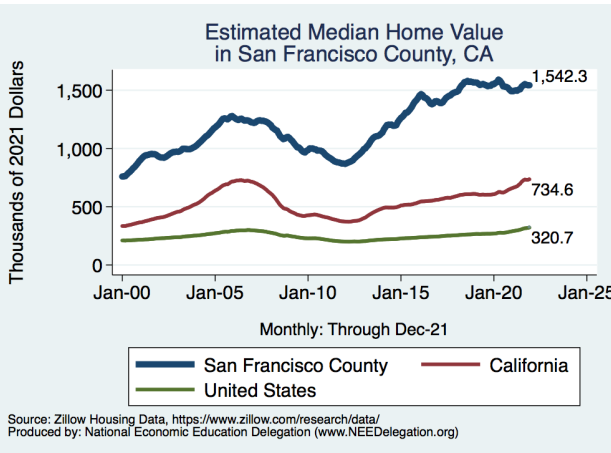
72

Real Estate Prices



73

RE Experiences Differ!



74

Primary Topics Covered

- **GDP**

- Recovered the decline, but not where it should be.
- Won't recover previous forecast until late 2022.

- **Employment**

- Still down 8.0 million jobs relative to forecast. (2.9 million relative to Feb/20).
- Labor force is 0.9 million smaller than at the beginning of the pandemic.
- Rising wages are not enticing low-wage workers back to work.

- **Inflation**

- Going to be high for a while, but transitory – maybe?



Conclusion

- **Recovery is well underway, but may be slowing.**
- **GDP expanded by 5.7% percent in 2021, 3-4% in 2022.**
- **2021 was an odd year.**
 - Workers attained the upper hand.
 - Supply chains broke.
 - Inflation surged.
 - The economy rebuilt itself.
- **Biggest problems:**
 - Supply chain bottlenecks.
 - Labor force participation.



Best Measures of Progress

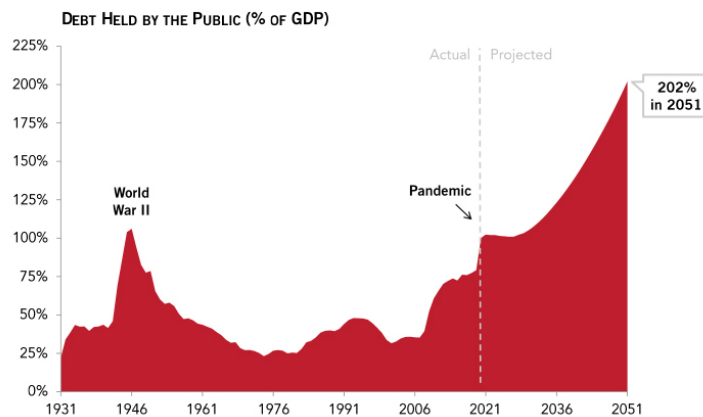
- INFLATION – getting it under control.
- REAL WAGES– need to see progress.
- WORKFORCE PARTICIPATION – need growth here to get GDP growth.

Pay no attention to the unemployment rate.

The Federal Debt – with Geoffrey Woglom



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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Structural Changes?

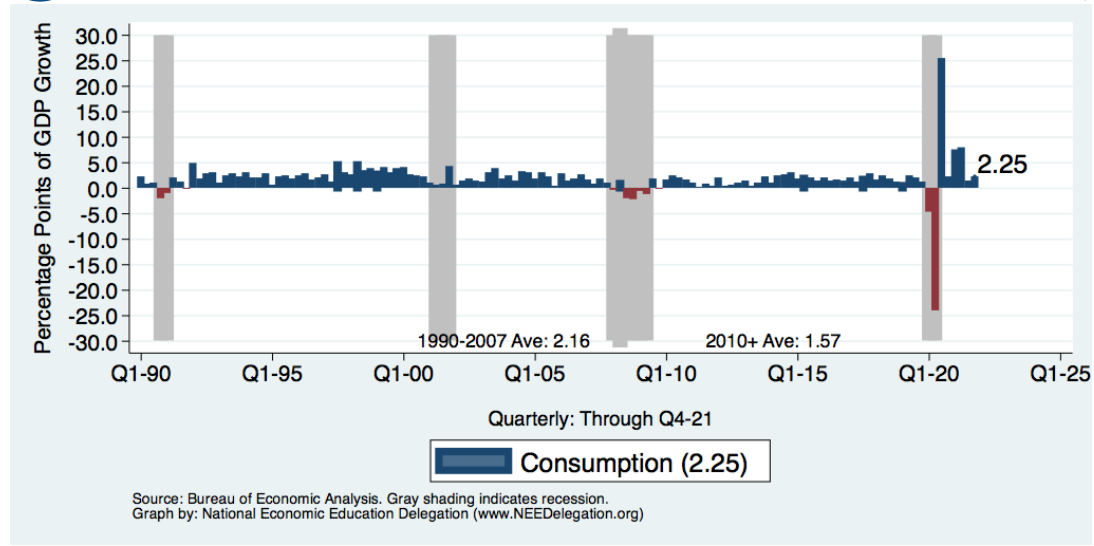
- **Pandemic has been an accelerant.**
 - Not a change agent.

- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**

- **Wealth concentration**
- **Industry concentration**
- **Automation**

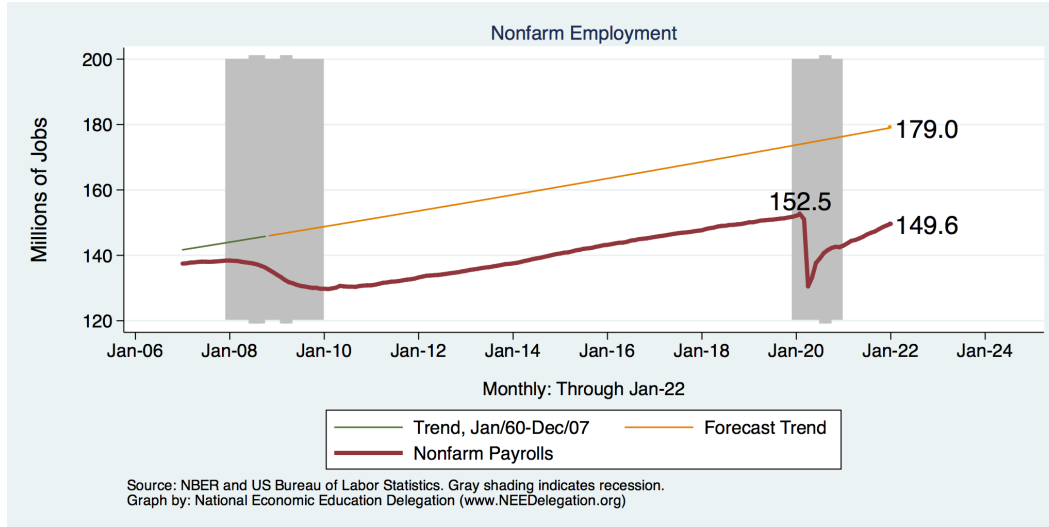
81

Consumption: Quarterly Growth



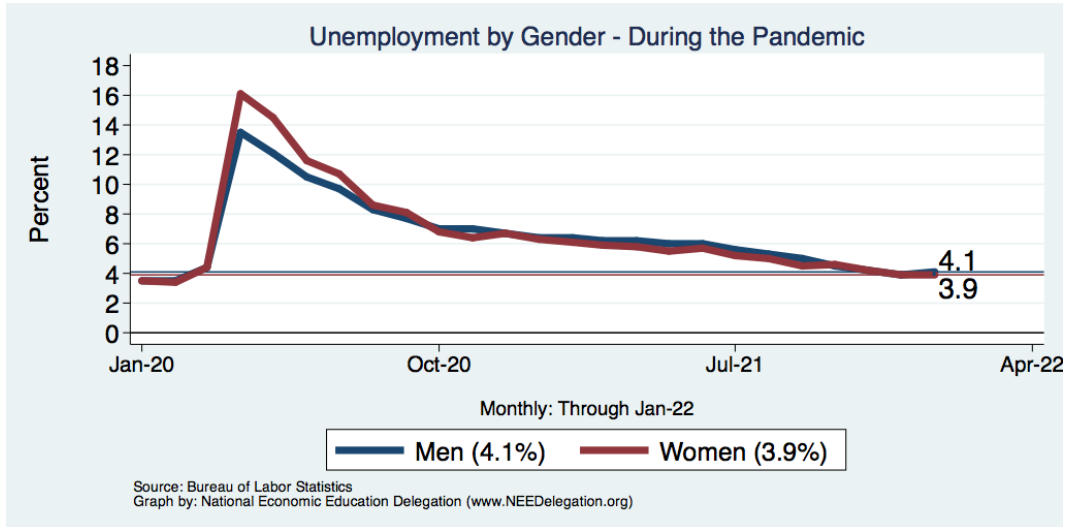
82

Employment Gap



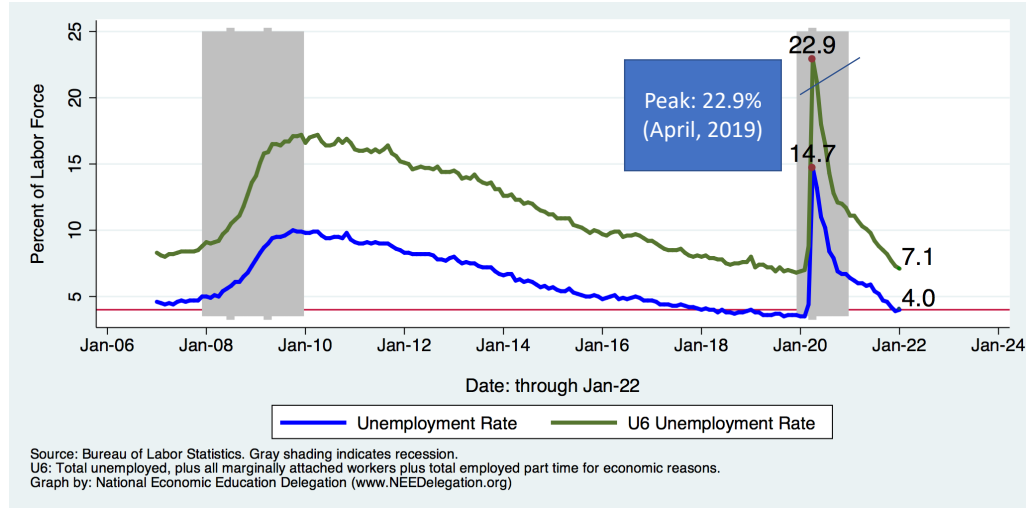
83

Affected Women More Than Men?



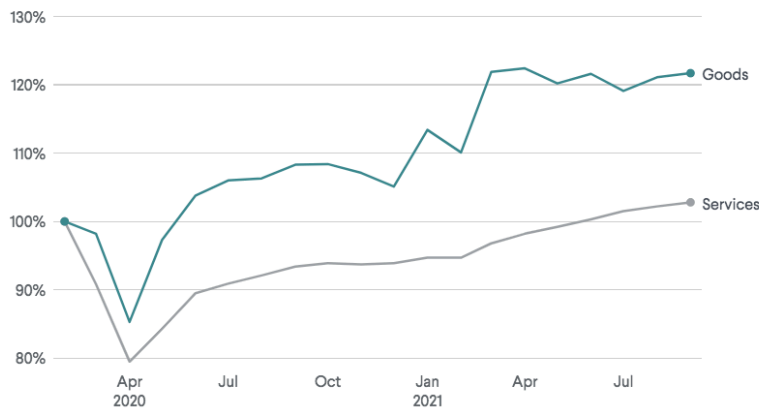
84

Another Measure: Unemployment



Supply Chains Are at the Core

Pandemic Triggers Greater Demand for Goods
 Personal consumption expenditures relative to February 2020



Source: U.S. Bureau of Economic Analysis via Federal Reserve Bank of St. Louis.

What Are Supply Chains?

The Journey of a Semiconductor

Steps and firm locations in the production of a smartphone chip

Design

1. Intellectual property licensed (Europe)
2. Design software developed (U.S.)
3. Chip designed (U.S.)

Equipment

4. Manufacturing equipment developed (U.S., Europe, Japan)

Materials

5. Silicon dioxide mined and refined (U.S.)
6. Silicon formed into ingot (Japan)
7. Ingot sliced into wafers (South Korea)

Manufacturing

8. Wafers imprinted with circuits (Taiwan)
9. Chip packaged (Malaysia)
10. Chip assembled (China)

Sale

11. Smartphone sold to consumers (U.S.)

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87
<https://www.cfr.org/article/what-happened-supply-chains-2021>

87

Why does spending matter?

Spending Categories as Share of GDP (2019)

Category	Share of GDP
Goods	20%
Services	44%
Government spending	16%
Nonresidential Fixed Investment	13%
Residential Fixed Investment	4%
Net exports	-3%
Total	64%

Spending:
 Goods 20%
 Services 44%

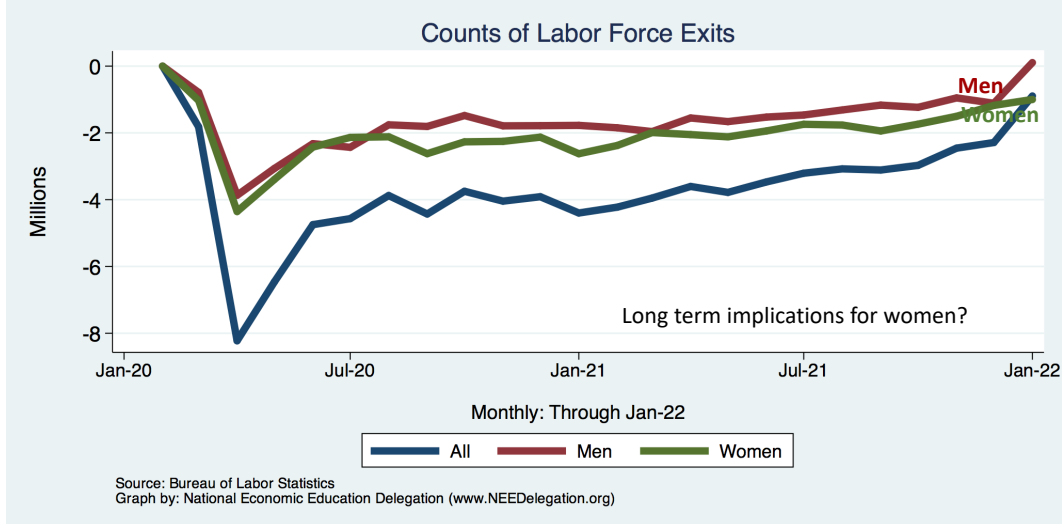
Total 64%

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88

88

Affected Women More Than Men



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89

89

Why Women More Than Men?

- Women are disproportionately represented in low-wage and face-to-face jobs.
- Our childcare and school systems don't meet the needs of working mothers.
- COVID-19 has upended the labor market, with disastrous consequences for working women and their families.
 - Many women continued working in high risk jobs.
- The difference in impact is waning.

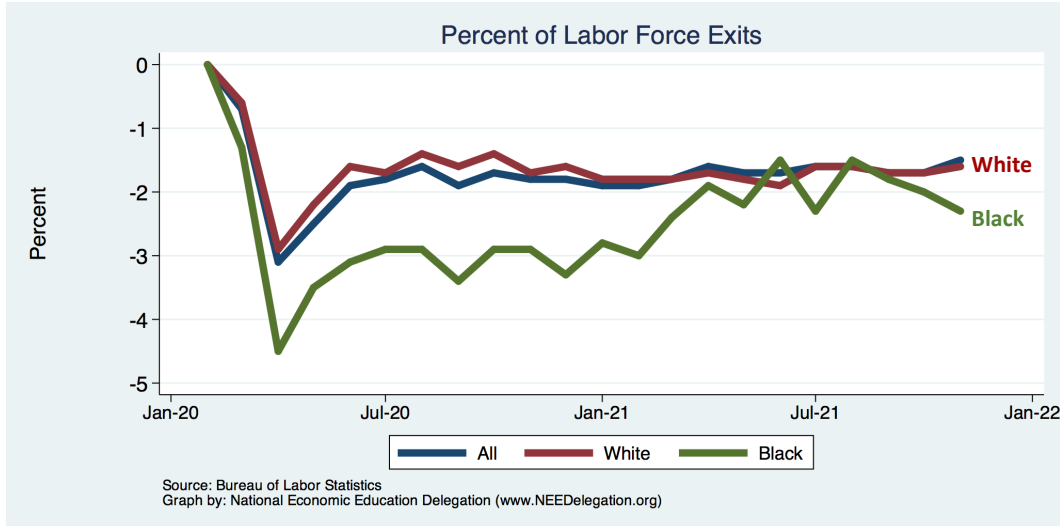


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90

Affecting Black Workers More than White



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91

What Index to Follow: CPI or PCE?

- **CPI is the headline statistic, followed by most newspapers.**
 - Allows more granularity – ability to look at specific products.
- **PCE is the one followed by the Fed.**
 - Why?
 - Accounts for short term fluctuations in consumer purchases.
 - Based on more reliable data.
- **Fed generally pays attention to the core inflation #s.**
 - Excluding food and energy.



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92

92

Inflation: Critical Issues

- **Inequities**

- Price changes vary wildly across goods.
- How inflation hits you depends on what you buy and your level of income.
 - o Some evidence that lower income individuals face higher inflation.

- **Online inflation is much lower than the CPI**

- Estimates suggest about 2% lower.

- **Both have implications for the policy response.**

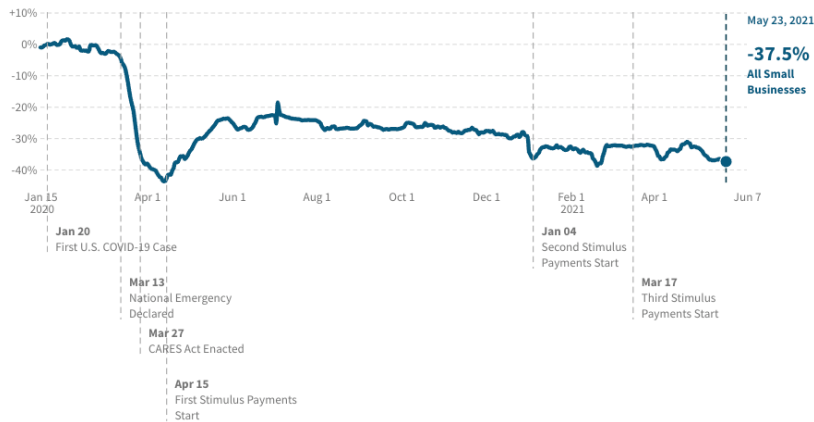
- Safety net? Antitrust action?

A Hard-Hit Sector: Small Business

Small Biz Closures in the United States

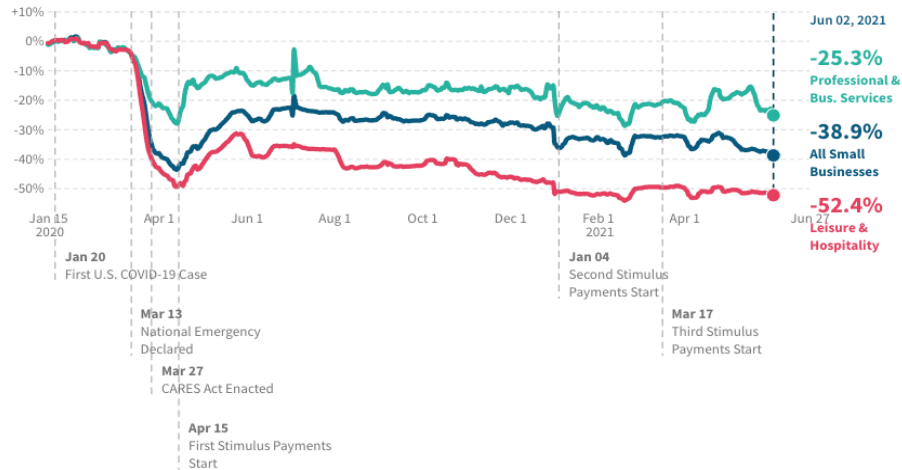
In **the United States**, as of May 23 2021, the number of small businesses open decreased by **37.5%** compared to January 2020.

[DOWNLOAD CHART](#)



Small Businesses: They Didn't Get Enough PPP

In the United States, as of June 02, 2021, the number of small businesses open decreased by **38.9%** compared to January 2020.



95

A "K-shaped" recovery?

Executive Summary

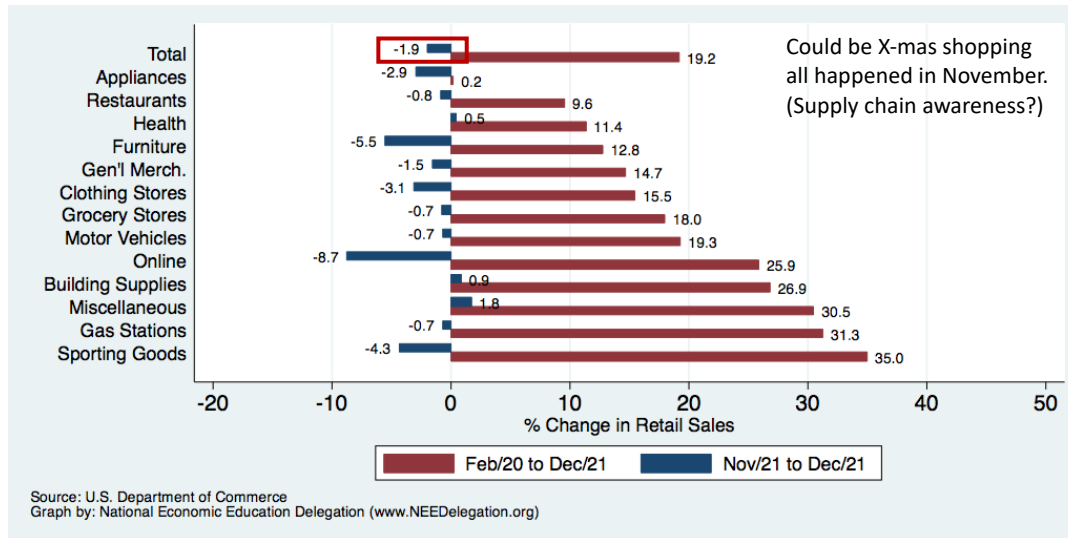
- Those with financial wealth/residential real estate have seen its value grow in excess of inflation.
- High income earners (>60k/yr) have largely kept their jobs;
 - middle and low income earners have depressed employment rates
- Women are disproportionately exiting labor force.
- Food insecurity has been very high.

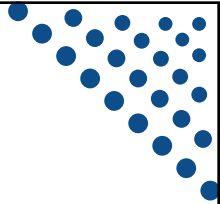
96

Coronavirus and Inequality

- Resources to weather the storm.
- Racial inequities.
- Educational inequities
- Telecommuting
- Low wage jobs are at risk.

Retail Sales Are Slowing – Q4-21? Q1-22?





www.NEEDelegation.org/LocalGraphs

For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.

