

Osher Lifelong Learning Institute, Winter 2022

Contemporary Economic Policy

American University
March-May, 2022

Host: Jon Haveman, Ph.D.
National Economic Education Delegation



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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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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: 651+ 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: 49 Ph.D. Economists

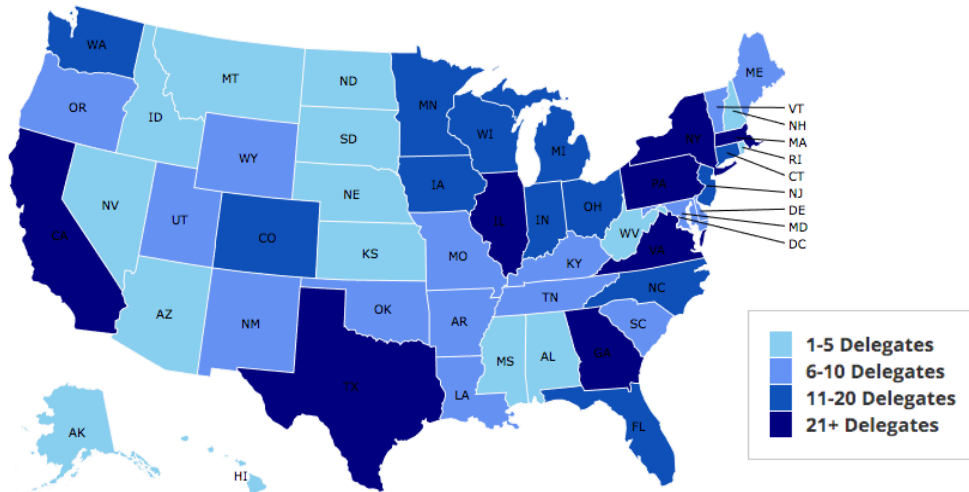
- Aid in slide deck development



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Where Are We?



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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

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Course Outline

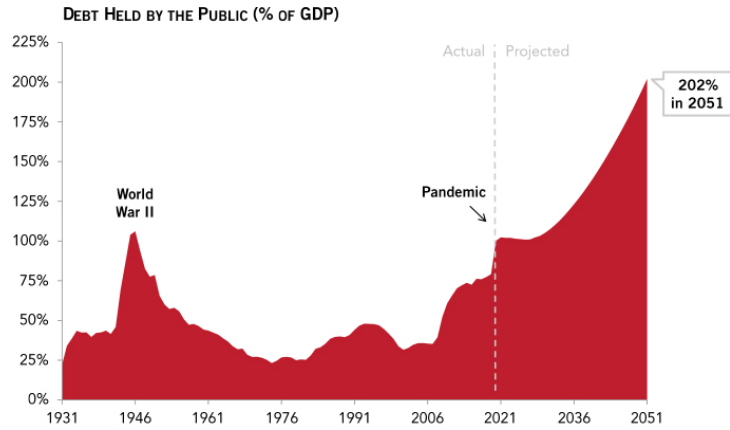
- **Contemporary Economic Policy**
 - **Week 1 (3/11): US Economy & Coronavirus Economics**
 - Week 2 (3/18): Federal Debt (Brian Peterson, Central College)
 - Week 3 (3/25): Trade and Globalization (Alan Deardorff, Univ. of Michigan)
 - Week 4 (4/1): Healthcare Economics (Veronika Dolar, SUNY-Old Westbury)
 - Week 5 (4/8): Economics of Immigration (Jennifer Alix-Garcia, Oregon St. Univ.)
 - Week 6 (4/15): Economic Inequality (Kyle Montanio, Colorado University - Denver)
 - Week 7 (4/22): Economic Mobility (Kathryn Wilson, Kent State University)
 - Week 8 (4/29): Discrimination in US Policy History (Jon Haveman, NEED)
 - Week 9 (5/6): The Black-White Wealth Gap (Mike Shor, Univ. of Connecticut)
 - Week 10 (5/13): The Gender Wage Gap (Mallika Pung, Univ. of New Mexico)

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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. © 2021 Peter G. Peterson Foundation

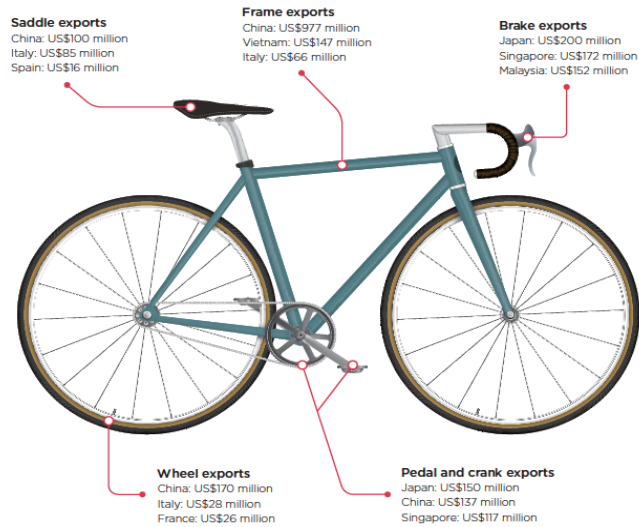
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Trade: Bicycle Supply Chain

Figure 1.1 Where do bicycles come from?

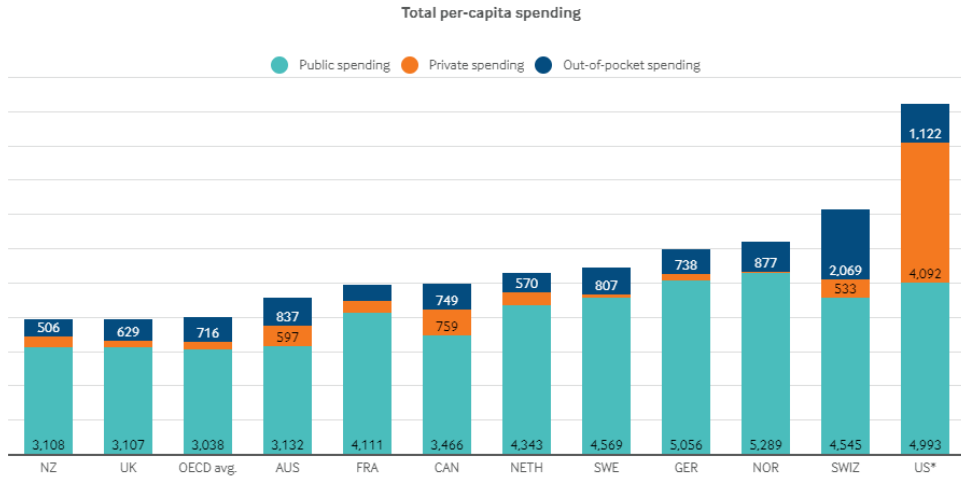


Source: World Development Report 2020

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International Comparison: Health Spending

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



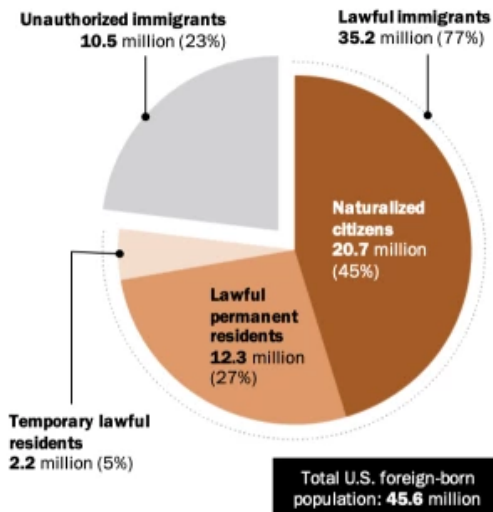
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Immigrant Population in 2017

Foreign-born population estimates, 2017

Categories of the total number of immigrants in the United States.



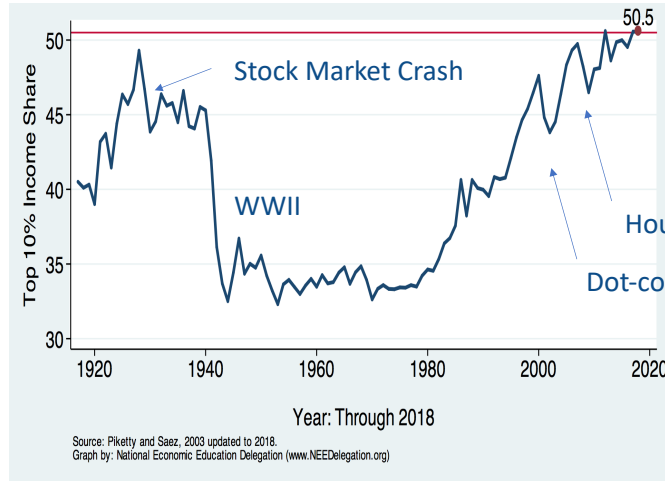
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<https://www.pewresearch.org/fact-tank/2019/07/12/how-pew-research-center-counts-unauthorized-immigrants-in-us/>

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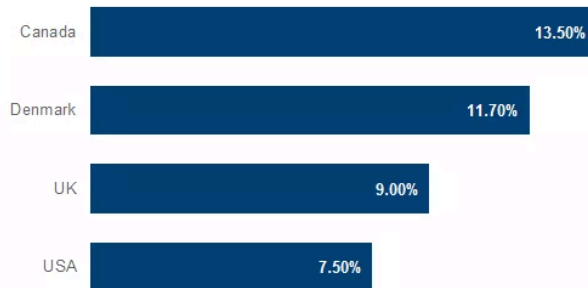
National Income Inequality: Share of Top 10%



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Reflections on the American Dream

Relative mobility is almost twice as high in Canada



■ Probability that a child born to parents in the bottom fifth of the income distribution reaches the top fifth

Sources: Chetty et al., "Where is the land of opportunity? The geography of intergenerational mobility in the United States" (USA); Blenden and Machin, "Up and down the generational income ladder in Britain: Fast changes and future prospects" (UK); Boserup, Kopczuk, and Kreiner, "Intergenerational Wealth Mobility: Evidence from Danish Wealth Records of Three Generations." (Denmark); Corsik and Heisz, "The intergenerational earnings and income mobility of Canadian men: Evidence from longitudinal tax data" (Canada)

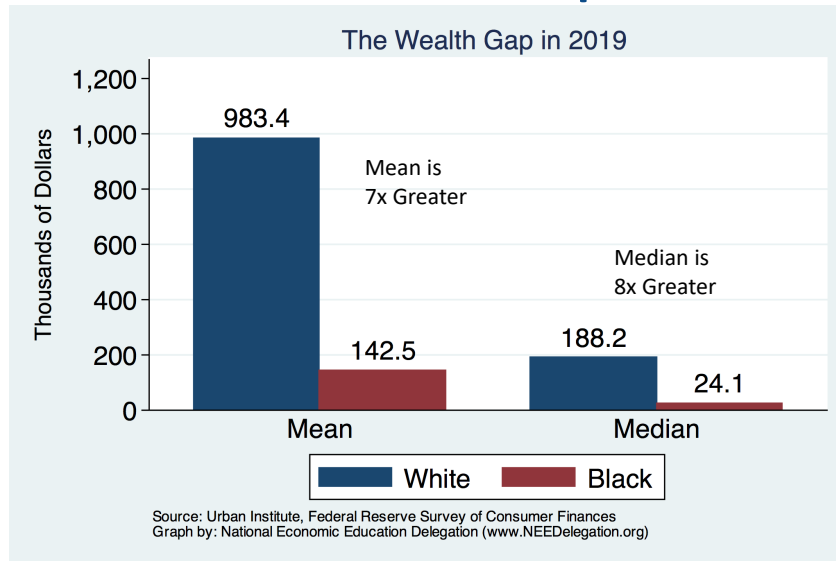
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Events/Policies with Direct Wealth Implications

- **Slave trade**
 - The first deprivation.
- **Slavery**
- **40 acres (and a mule)**
 - The second deprivation.
 - Discriminatory distribution of land.
- **Freedmen’s Bank**
 - Lax oversight and dissolution.
- **Jim Crow Laws & Economic Policy**
 - Convict leasing, debt peonage, chain-gang, sharecropping, and lynching.
- **Homestead Act**
 - Discriminatory distribution of land.
- **Land theft and destruction**
 - E.g., Black Wall Street – Tulsa, 1921.
- **GI Bill**
 - Discriminatory access – Levittown
- **Federal Housing Authority**
 - Redlining
- **And many more.**

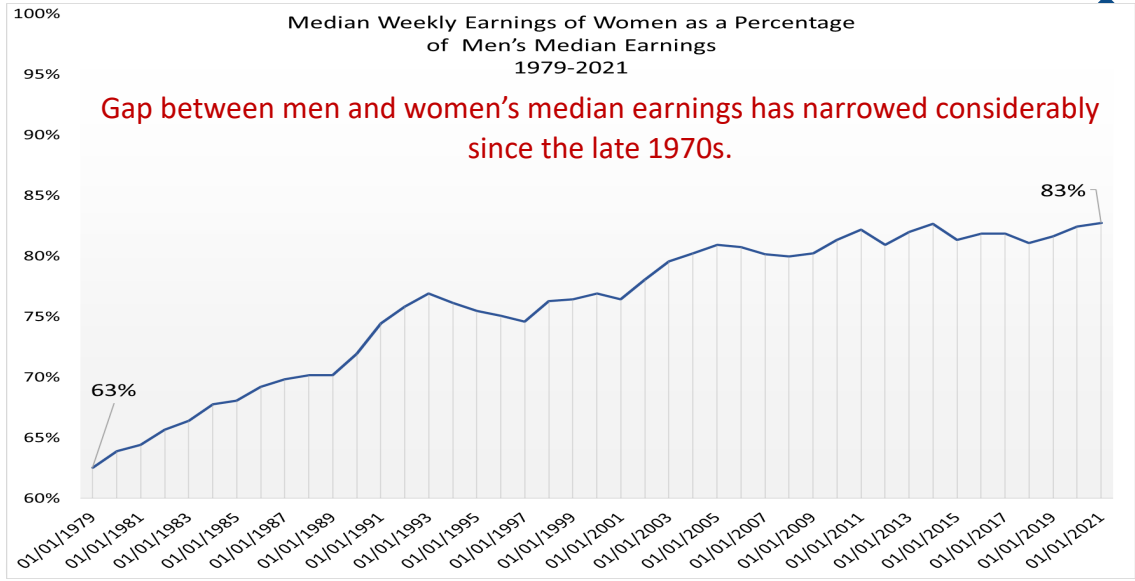
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Evidence of the B-W Wealth Gap



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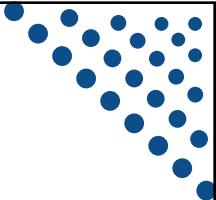
Gender Wage Gap Over the Years



US Economy and Coronavirus Economics


Doris Geide-Stevenson, Ph.D.
 Weber State University
 March 11, 2022





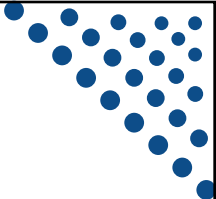
Outline

- **State of the pandemic**
- **The U.S. Economy**
 - Total Output
 - Policy Support
 - Labor Market
 - Inflation
 - Equity Markets
 - Housing Markets
 - Great Resignation


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State of the Pandemic

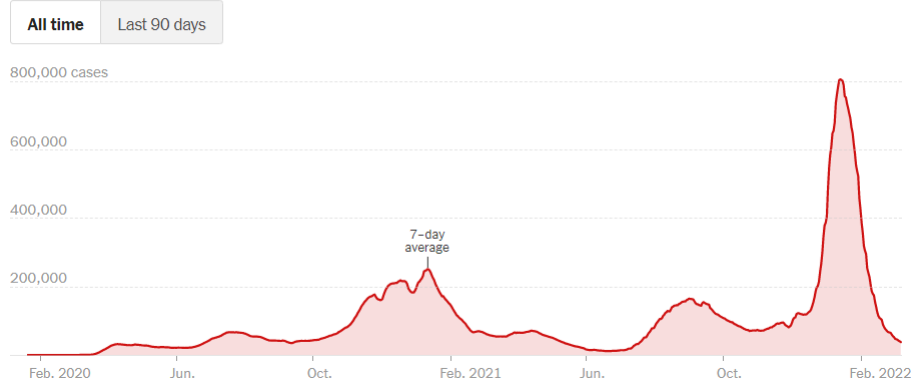
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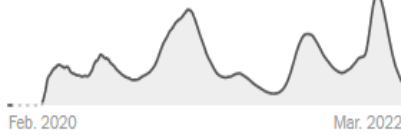
Making Real Progress .. Then Omicron

New reported cases

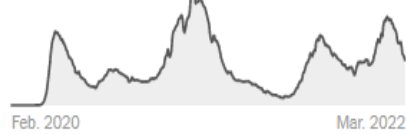


Hospitalizations and Deaths

Hospitalized



Deaths



Total Covid deaths in the US: **964,674** (Johns Hopkins Coronavirus Resource Center, March 10, 2022)

and now – the Russian invasion of Ukraine

How far have Russian troops advanced?



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Credits and Disclaimer

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

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- 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).



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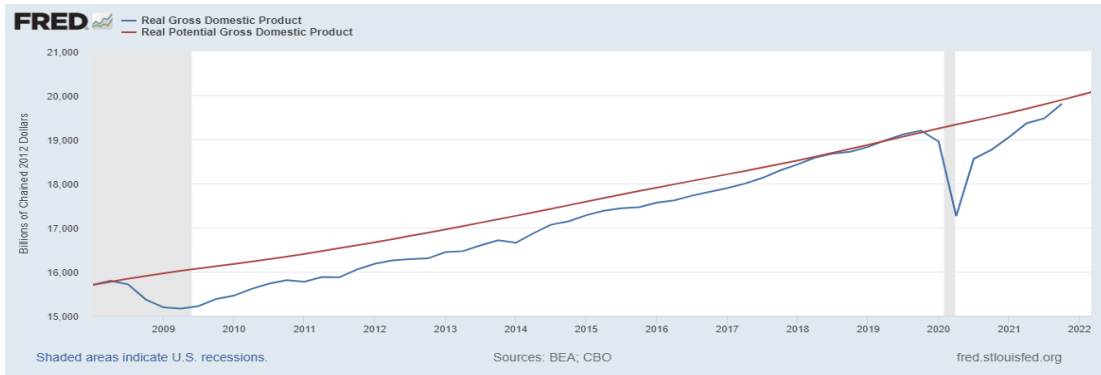
The U.S. Economy

The Role of the Pandemic versus Policy Adjustments? And what now?



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GDP Trajectory: Pandemic Plunge and Recovery

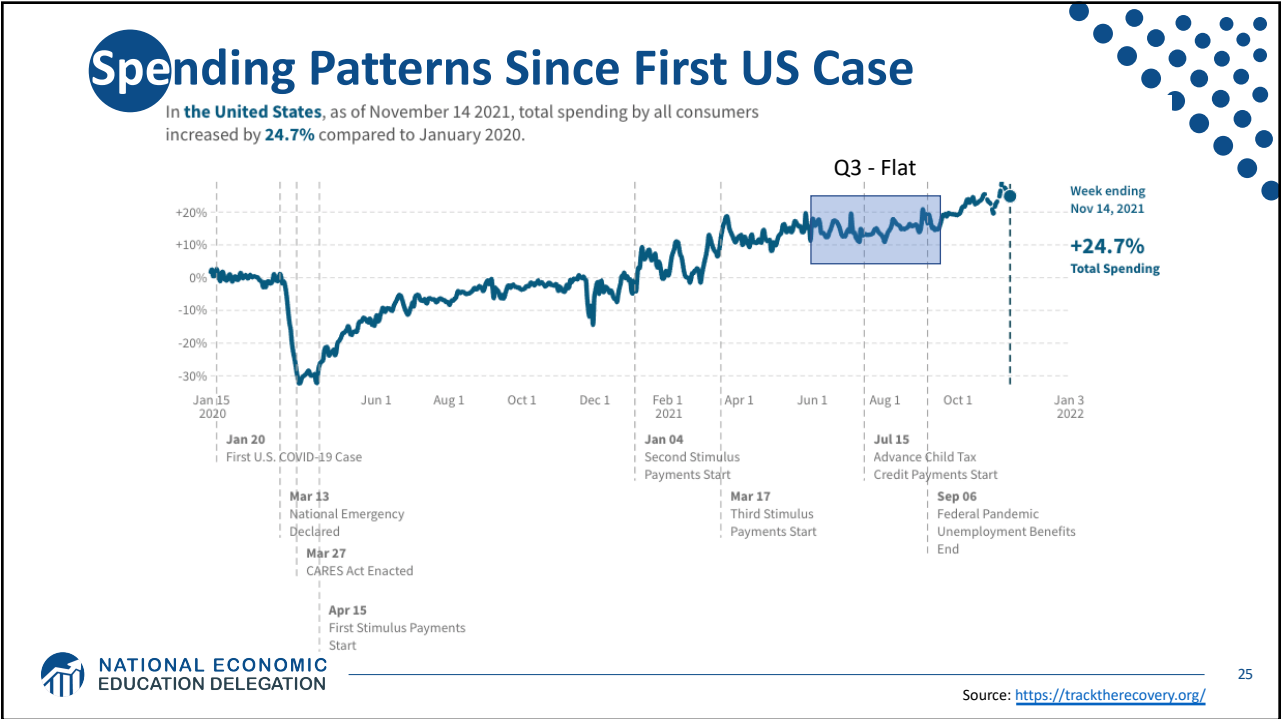


Real GDP = Total value of production = Consumption + Investment + Government Purchases + Net Exports

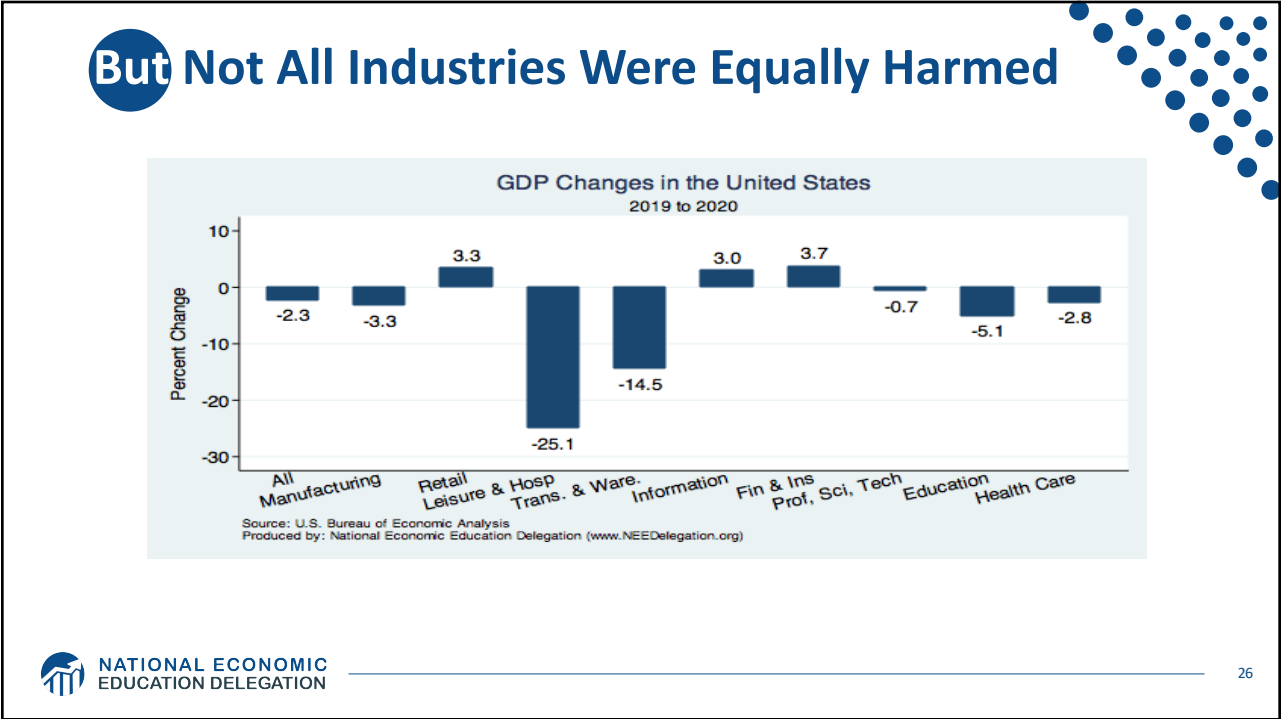
Almost no **Output Gap** compared to the start of the pandemic, but a quick recovery.



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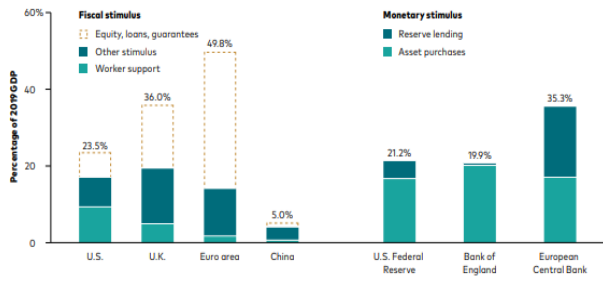
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Unprecedented Policy Support

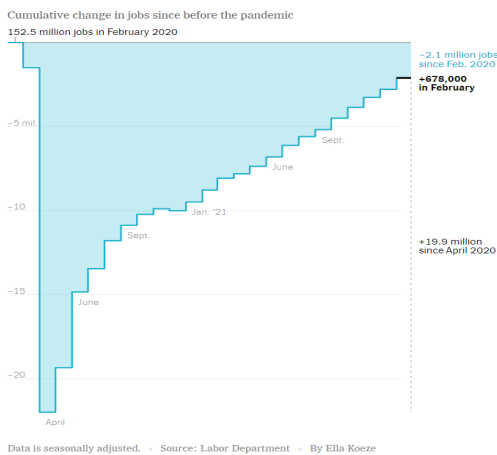
FIGURE I-1
A macroeconomic policy experiment in real time



Notes: All stimulus percentages are based on 2019 Nominal GDP. Fiscal stimulus: For worker support for the euro area, an average of spending for Germany, Italy, and Spain is

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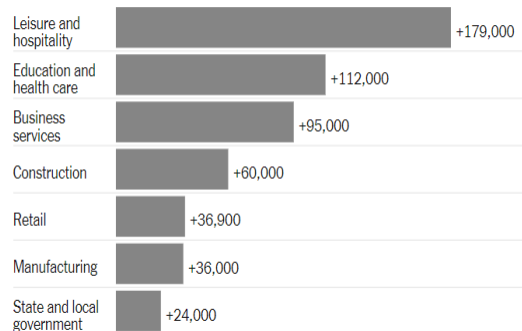
Employment Changes - US



Data is seasonally adjusted. - Source: Labor Department - By Ella Koeze

The leisure and hospitality sector gained the most jobs in February.

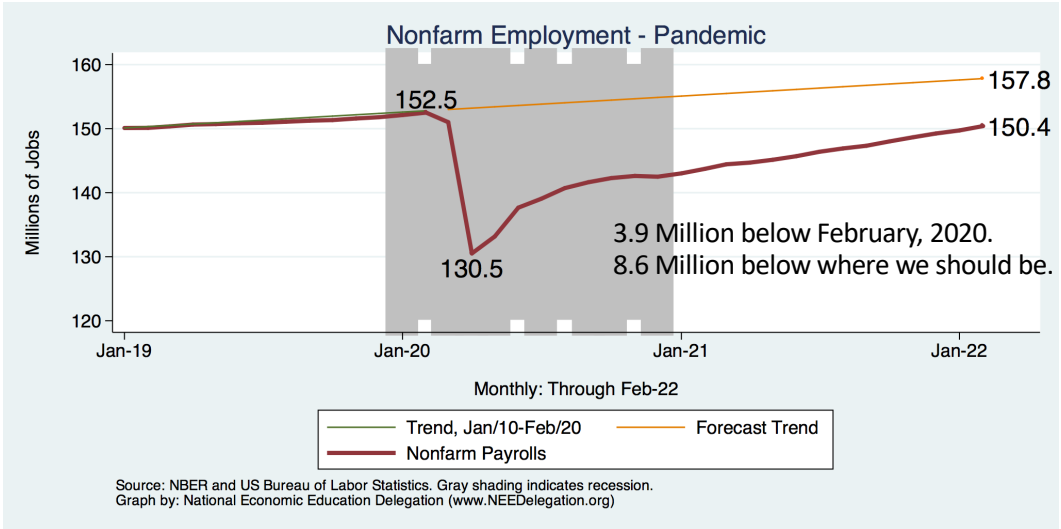
Change in jobs from January to February, by sector



Data is seasonally adjusted. - Source: Bureau of Labor Statistics - By Ella Koeze

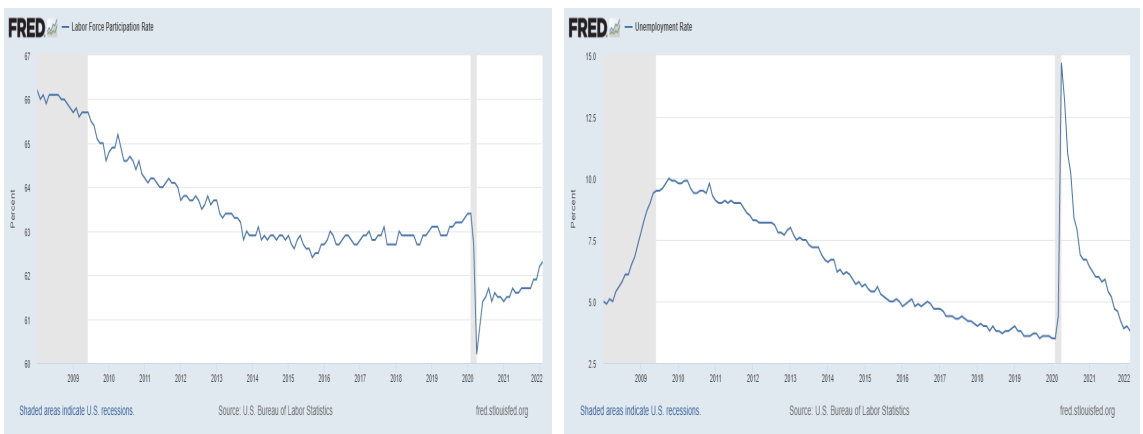
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Employment Gap



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Labor Force Participation and Unemployment



Unemployment rate is still somewhat misleading.

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Inflation and Asset Markets

Inflation, Equity Markets, Housing Markets



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Inflation News

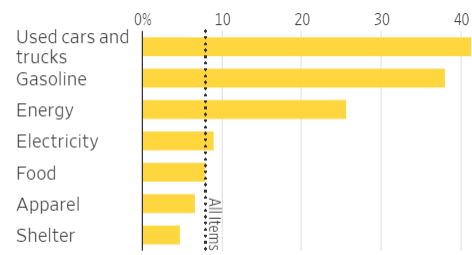
Consumer-price index, percent change from a year earlier



Source: Labor Department

January 2022

CPI, 12-month change ending in February



Source: Labor Department

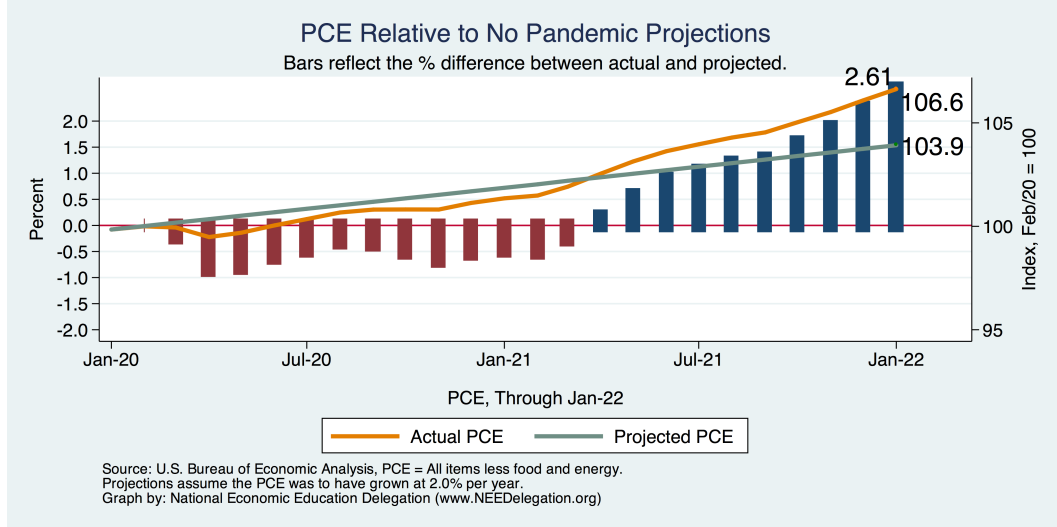
All items: 7.9% - new four decade high



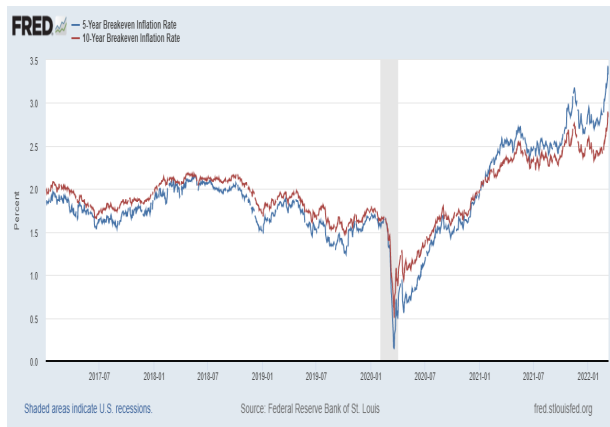
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Source: Wall Street Journal

Inflation Targeting over the longer term?



Measure of Inflation Expectations



Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.9% of inflation annually over the next 10 years and 3.4% over the next 5 years.

Inflation expectations are increasing – especially after the Russian invasion.

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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Source: Investopedia

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We're Buying Mostly ... Stuff

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

a. Goods

b. Services

Demand-Pull

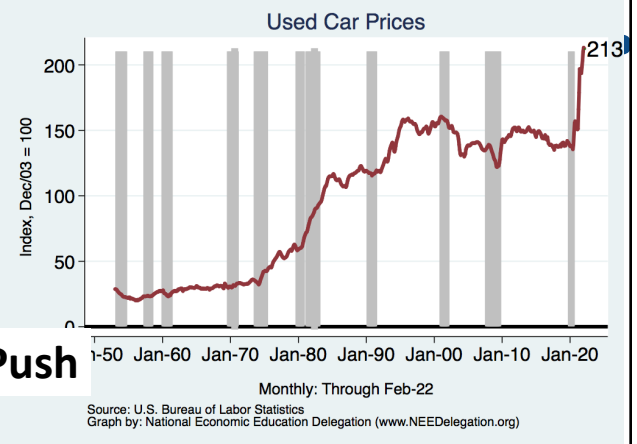
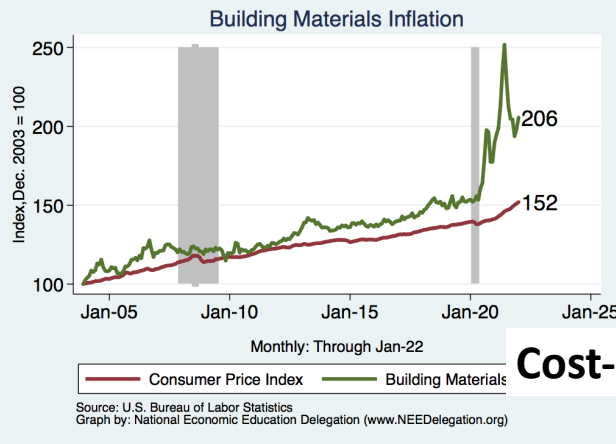
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Source: Jason Furman, PIIE

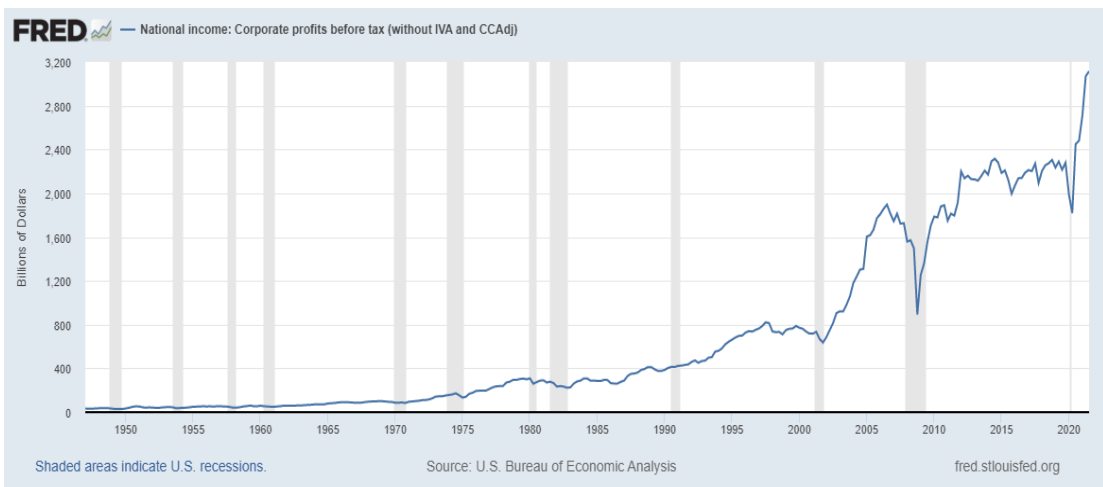
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Inflation: Concentrated



Cost-Push

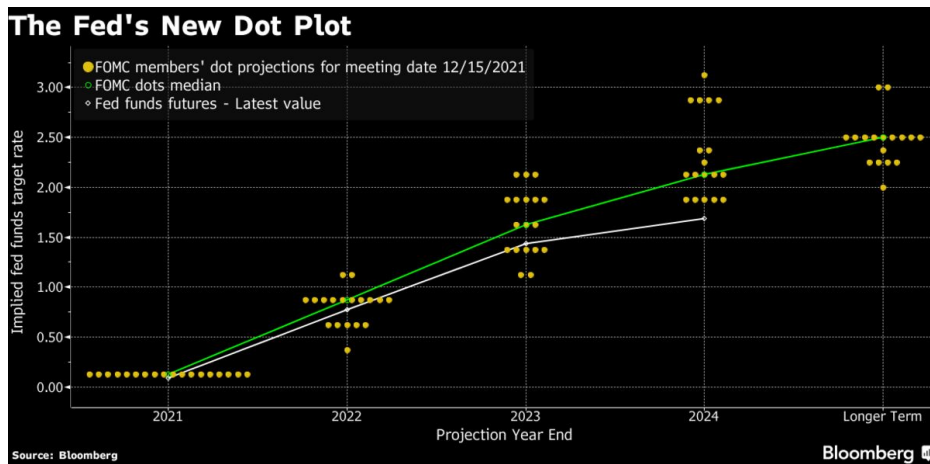
Corporate Profits...Adding to Inflation?



Will Inflation continue to be elevated?

- Very likely yes, at least through 2022.
- Continued supply chain issues (China, US staff shortages, Russia-Ukraine conflict)
- Mitigated by decrease in demand (policy support decreased), but consumers are back to substituting toward in-home consumption which can create bottlenecks
- Sanctions on Russia will impact energy markets.

Projected Policy Changes - Fed



Fed Reaction

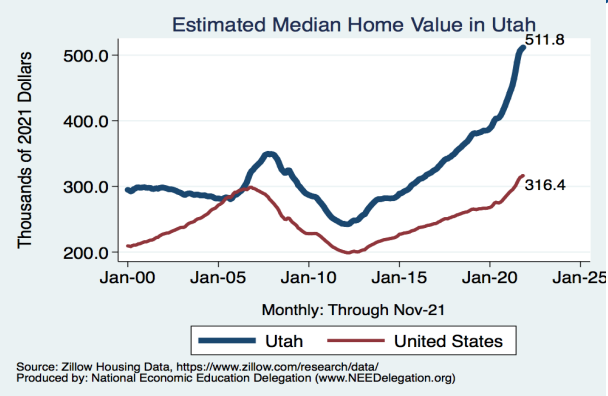
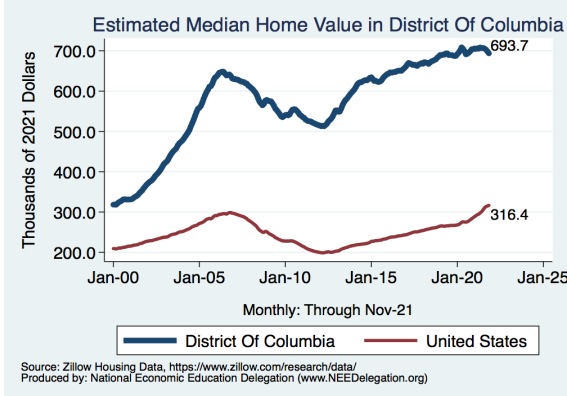
- Very likely to raise interest rates faster than expected – especially if the labor market keeps recovering (fewer demand/supply imbalances, continued recovery of the labor force participation rate and low unemployment rate).

Equity Markets – Is there still Overvaluation?



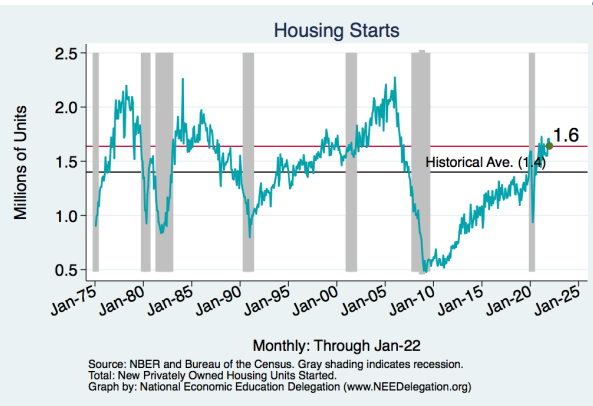
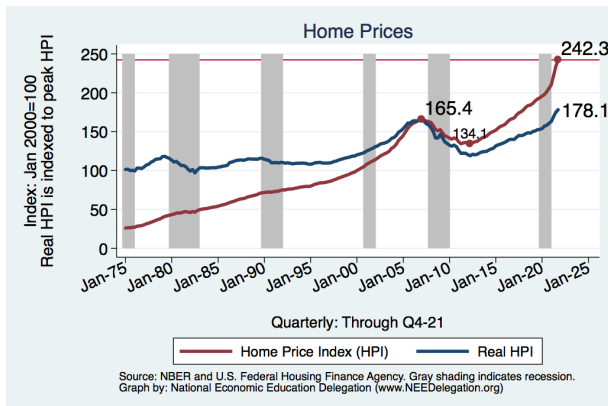
Maybe yes – based on negative real earnings yields (inflation adjusted earnings per share) which indicates that profits are not keeping up with share price increases (even though corporate profits are increasing).

Real Estate Prices



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Home Prices and Housing Starts

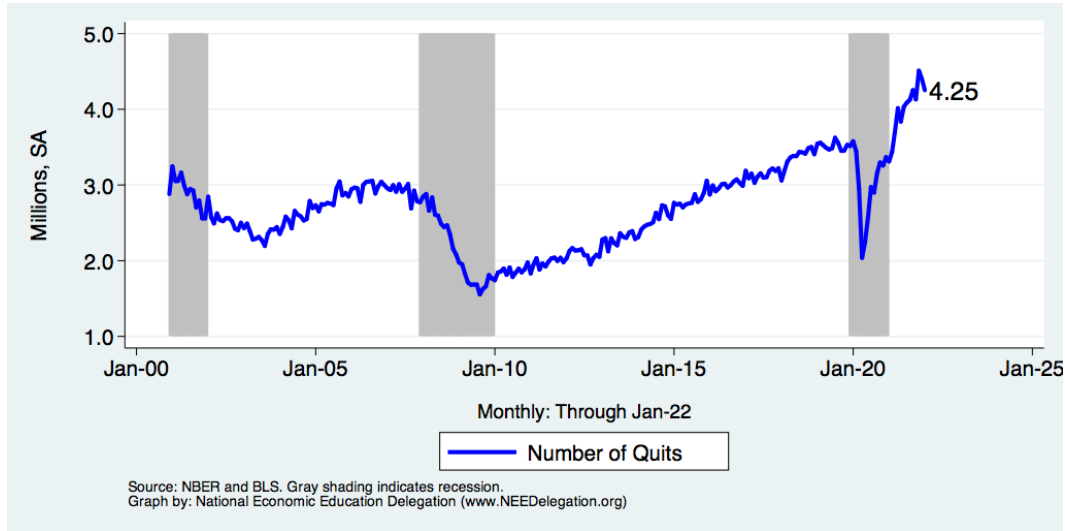


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The Great Resignation

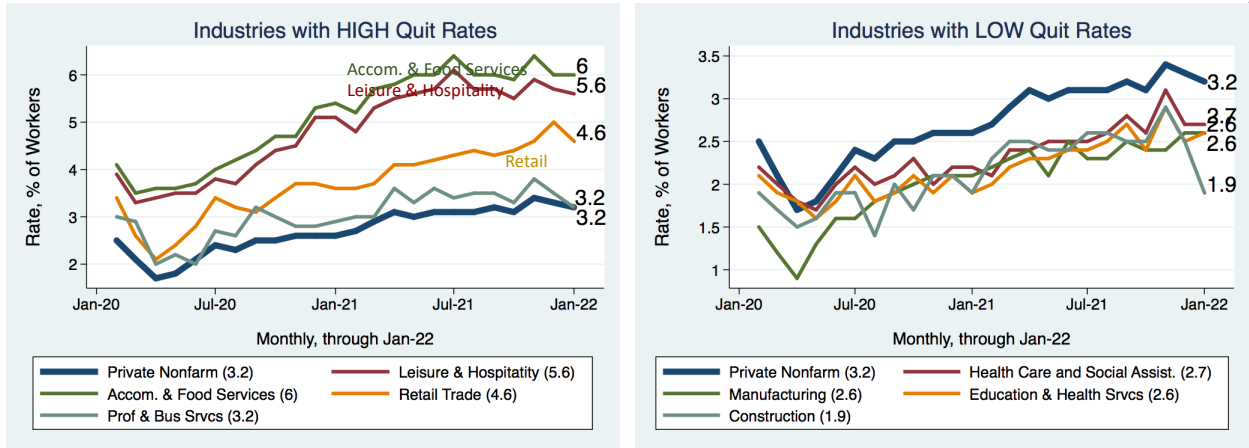
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Quits Are High! The Great Resignation



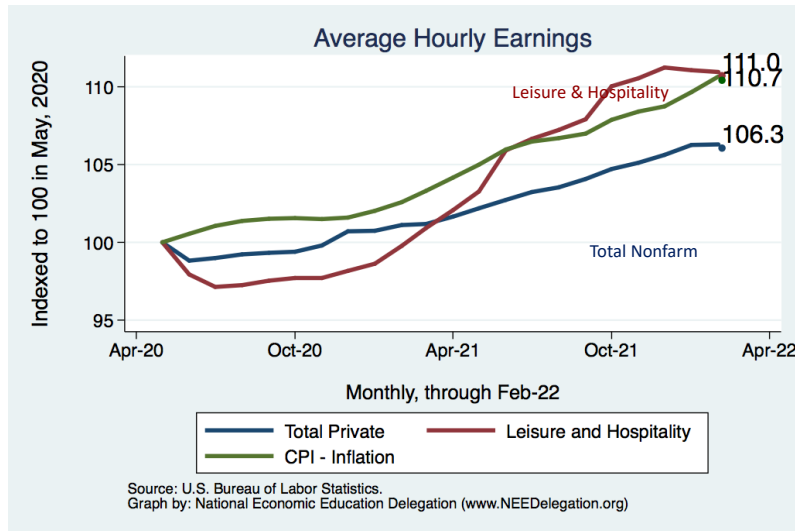
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Quits – Rising, but More in Some Industries



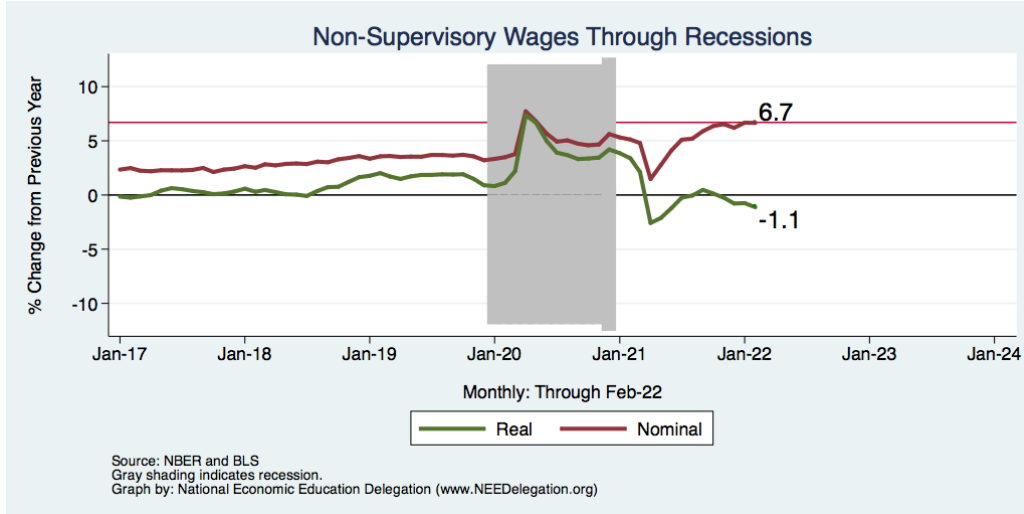
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This is Happening as Nominal Wages Rise



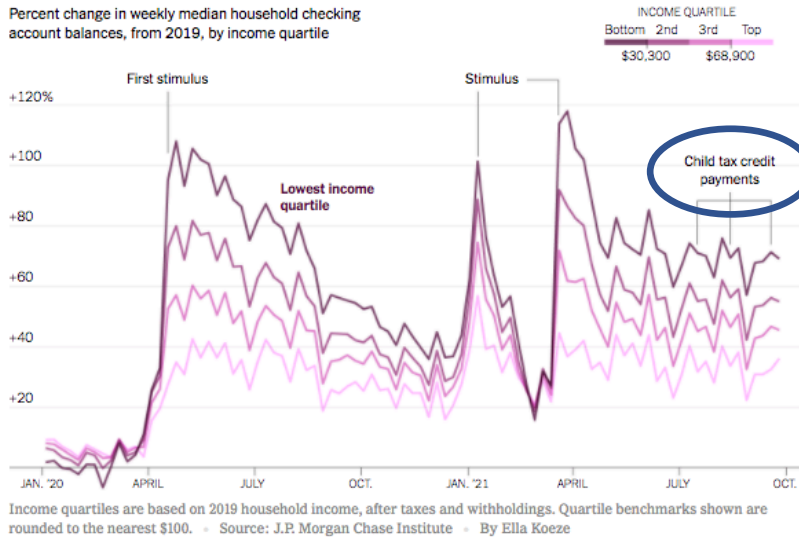
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Inflation Adjusted Wages Are Falling



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Declining Resources May Change Things



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Primary Topics Covered

- **GDP**

- Recovered the decline, but not where it should be.
- Won't recover previous forecast until late 2022. Growth: 4.0%

- **Employment**

- Still down 8.6 million jobs relative to forecast. (3.9 million relative to Feb/20).
- Labor force is 2.5 million smaller than at the beginning of the pandemic.
- Rising wages are just now starting to entice low-wage workers back to work.

- **Inflation**

- Going to be high for a while – definitely not transitory.



Conclusion

- **Recovery was V-shaped!**

- **GDP will likely have expanded 5.5% percent in 2021, about 4% in 2022.**

- **Physical health determines economic health for the economy.**

- Variants may well slow our progress: Omicron.
- Gov't missteps may also hinder progress.

- **Biggest problems:**

- Supply chain bottlenecks.
- Labor force participation.
- Russian invasion of Ukraine.



Best Measures of Progress – Conclusion

- Inflation – getting it under control.
- Real wages – need to see progress.
- Workforce participation – need growth here to get GDP growth.

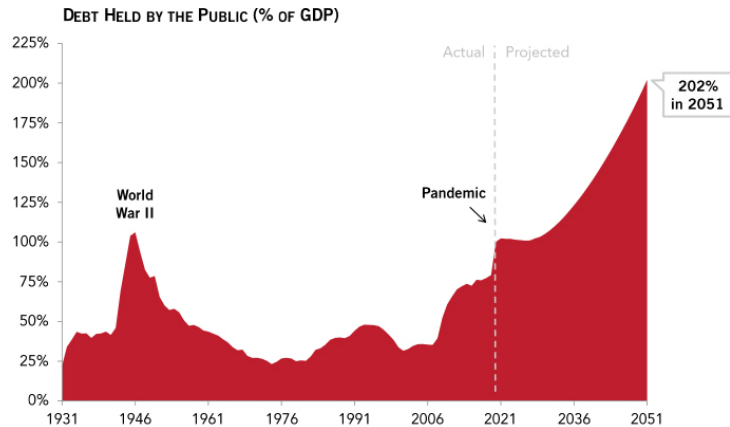
Pay less attention to the unemployment rate.



The Federal Debt: Brian Stevenson



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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Thank you!

Any Questions?

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