Osher Lifelong Learning Institute, Fall 2022

Contemporary Economic Policy

Berkshire Community College
September-October, 2022

Geoffrey Woglom,
Professor of Economics Emeritus, Amherst College
National Economic Education Delegation

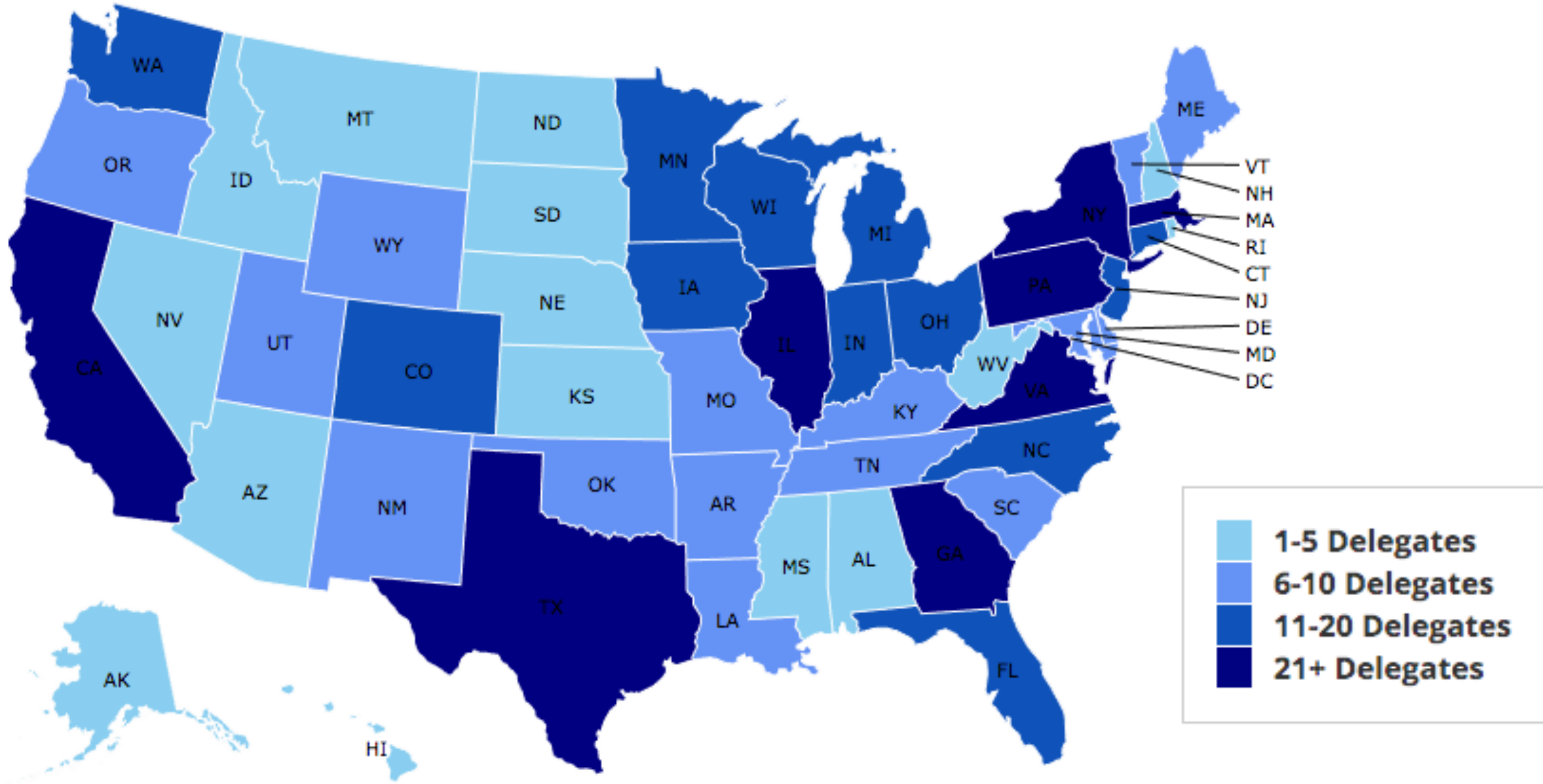
National Economic Education Delegation

- **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
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - 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: 49 Ph.D. Economists**
  - Aid in slide deck development

Where Are We?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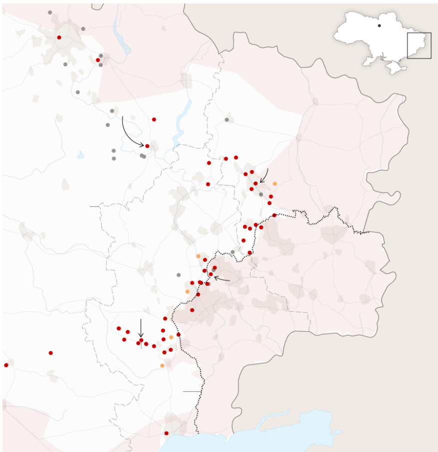
1-5 Delegates
6-10 Delegates
11-20 Delegates
21+ Delegates

Available NEED Topics Include:

- Healthcare 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

Advisory about Recording

- Each week, our class sessions will be recorded to the cloud and distributed to those that request it or to all class members (depending on your preference) within 24 hours. It will only be distributed to enrolled class members and for the sole purpose of enhancing our learning. I ask that you do not forward or share it with members outside of our classroom community. If any of you ever feel uncomfortable with my recording or distributing a recording of a class session, please notify me.



US Economy: Update

Geoffrey Woglom,

Professor of Economics

Amherst College, emeritus

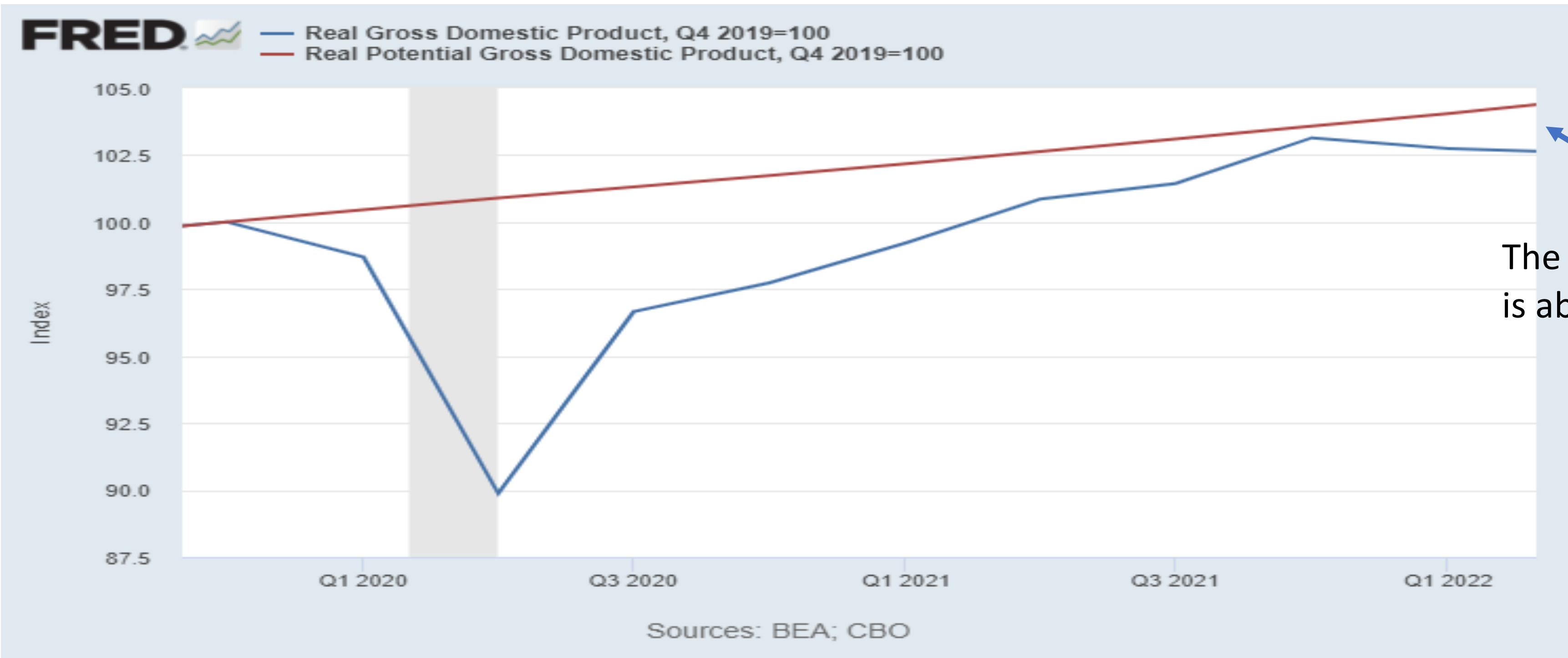
September 20, 2022

NATIONAL ECONOMIC EDUCATION DELEGATION

Outline for the Talk

1. Quick summary of the state of the economy.
2. Current confusion on the state of the economy.
3. What's at stake in controlling inflation.
4. What lies ahead for the economy.

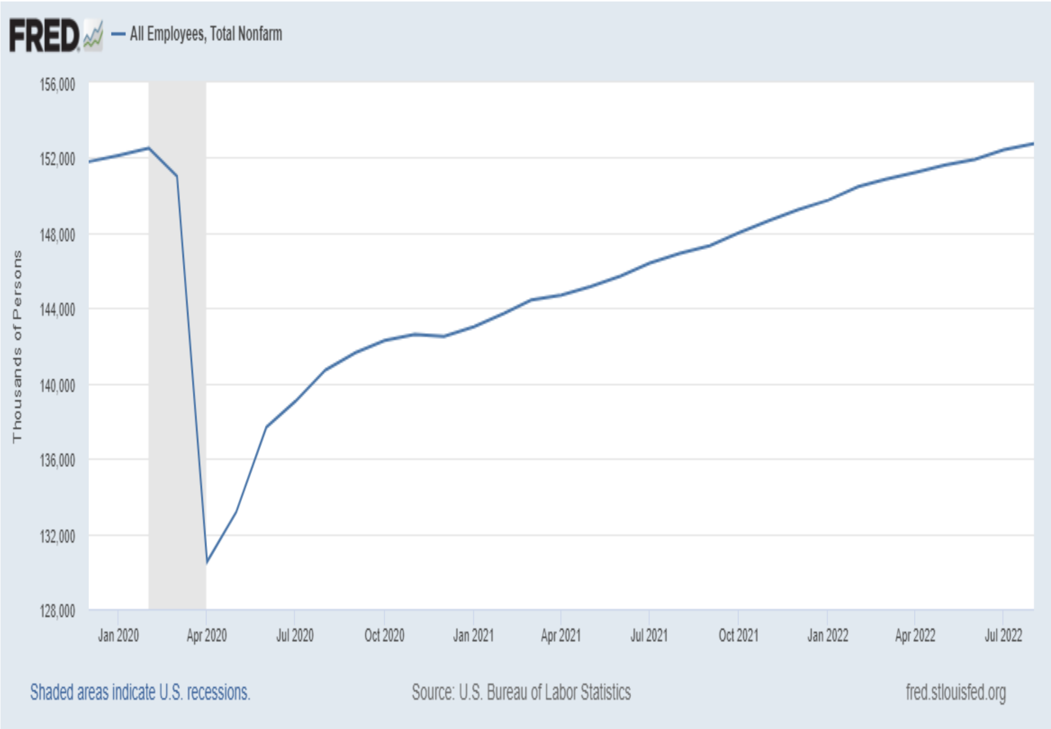
Real GDP and 'Potential' during the Recovery

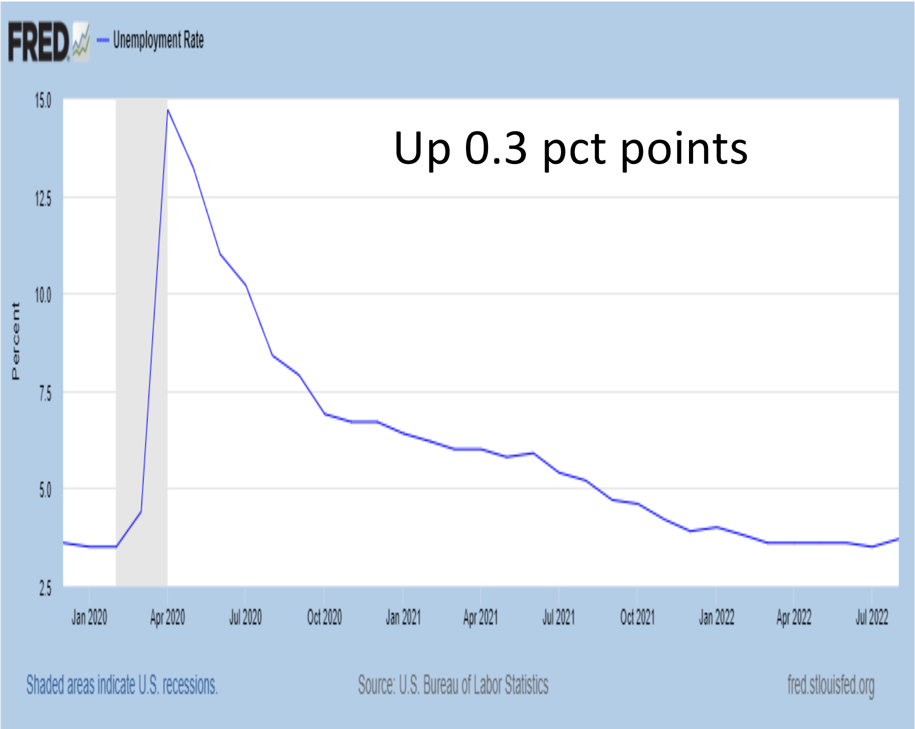


The "output gap" is about $400b

Source: Fred, St Louis Fed

Labor Market is Almost Fully Recovered





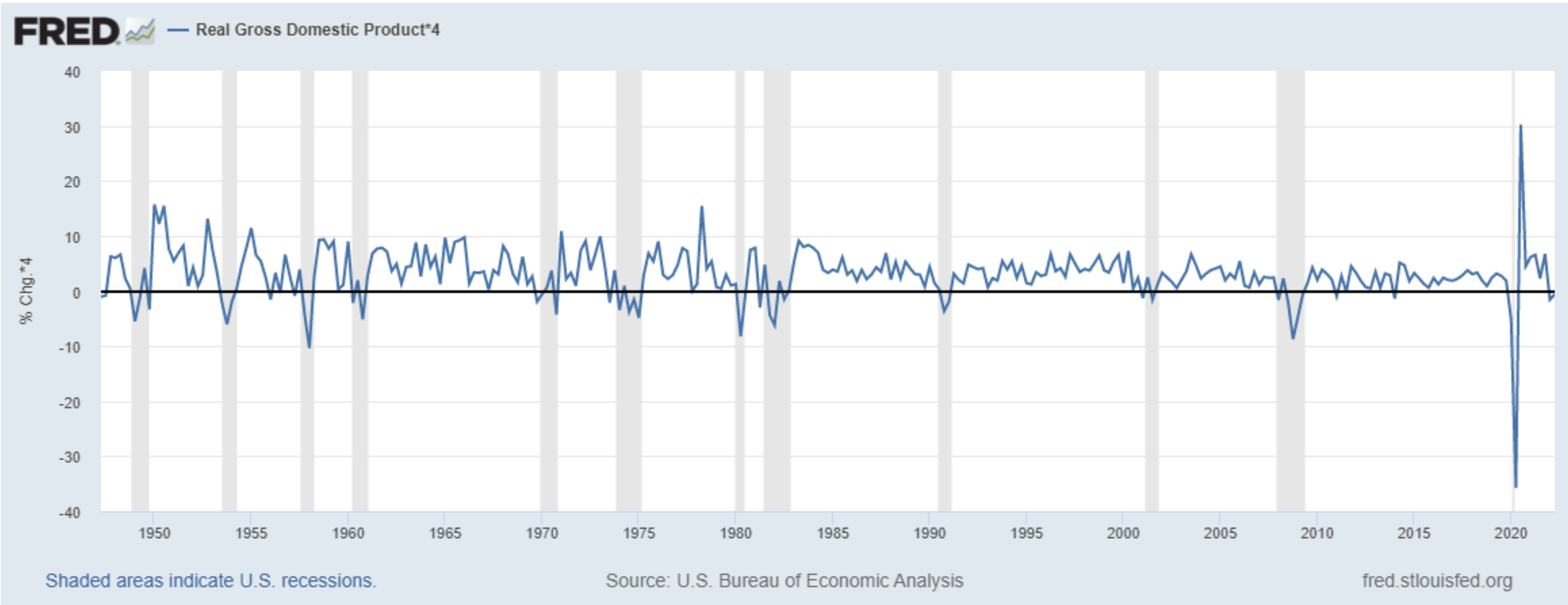
Three (Apparent) Mysteries

1. Does 2 consecutive quarters of negative real GDP growth mean we are in a recession?
2. Does the uptick in the unemployment rate mean a weak economy headed for recession?
3. Where have all the workers gone?

First, 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



NATIONAL ECONOMIC
EDUCATION DELEGATION

Recession or No Recession: What do you think?

- Employment has grown continually.
- But the unemployment rate is up and GDP growth is negative
- Poll1
- Why does it matter?
- It may be a measurement issue. An alternate measure of GDP (GDI) was up 1.7% in Q1 and 1.3% in Q2.
- Very unlikely, the NBER will call a recession *starting* in the first half of this year.
- But is the uptick in the unemployment rate a sign of a weak economy and a looming recession?

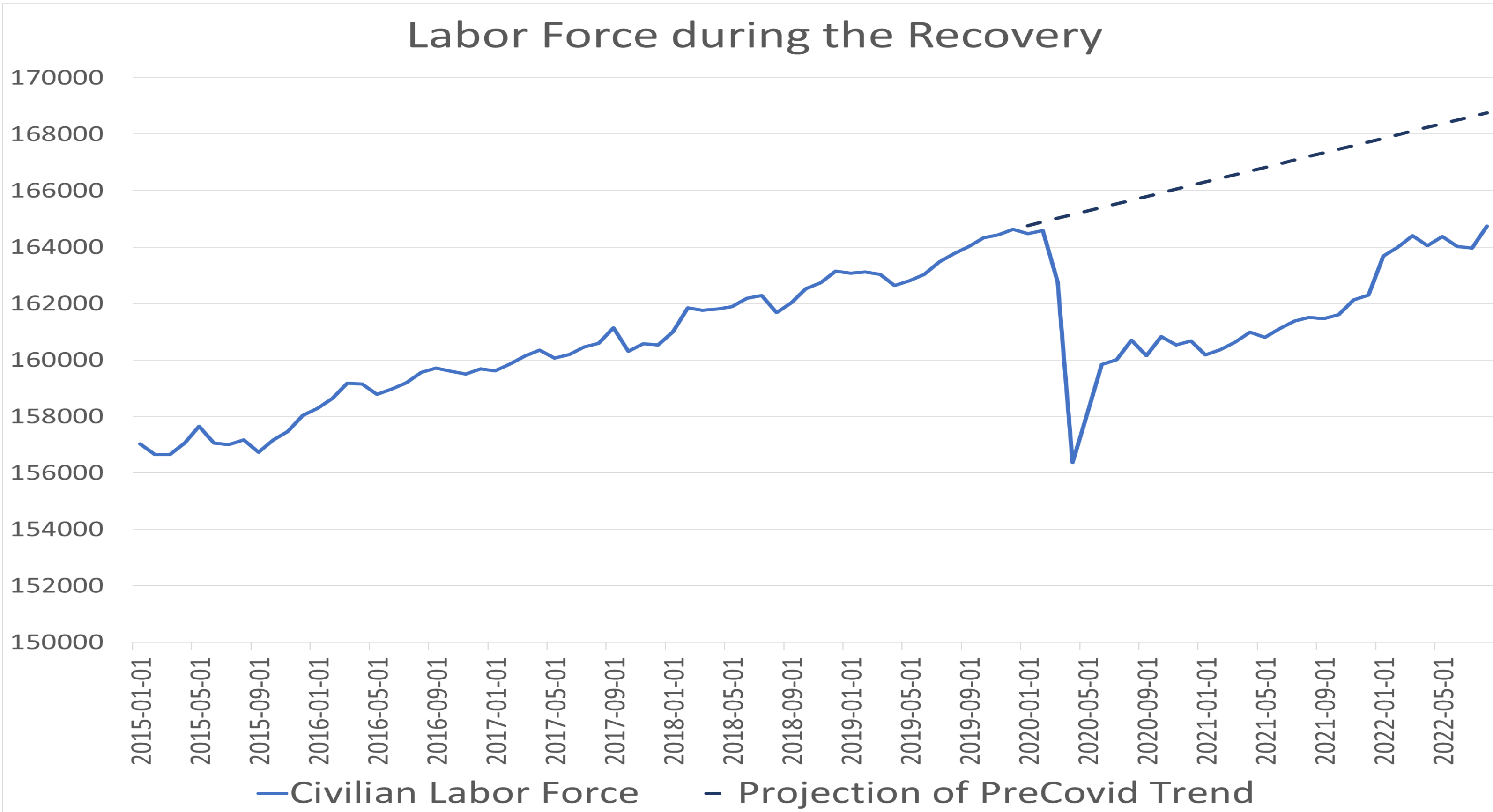
Some Definitions

- CNPopulation=Labor Force+ Not in the Labor Force
- Not in the Labor Force are people without jobs and who are not looking for jobs
- Labor Force(LF) =Employed (E) + Unemployed(U).
- Unemployed are people without a job who are actively seeking to find a job.
- Unemployment rate(UR) is U/LF

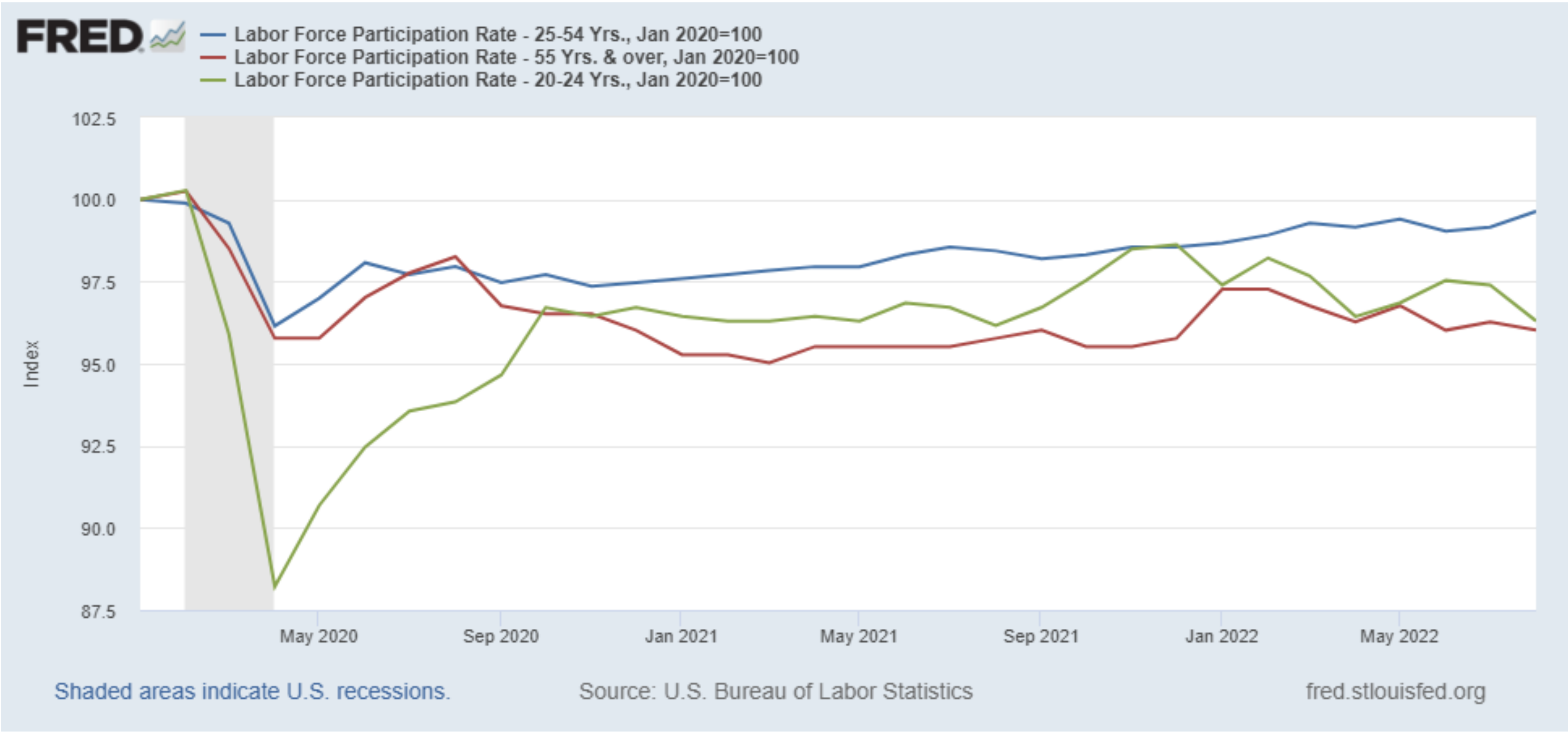
Some Arithmetic

- July: LF = 164.0; E=158.3; U=5.7, so UR=5.7/164=3.5
- August LF =164.7; E=158.7; U=6.0, so UR = 6/164.7=3.65, rounded to 3.7
- How did both the number of unemployed increase 300K and the number of employed increase by 400K?
- Is the increase in LF a sign of a weakening economy?
- Poll2.

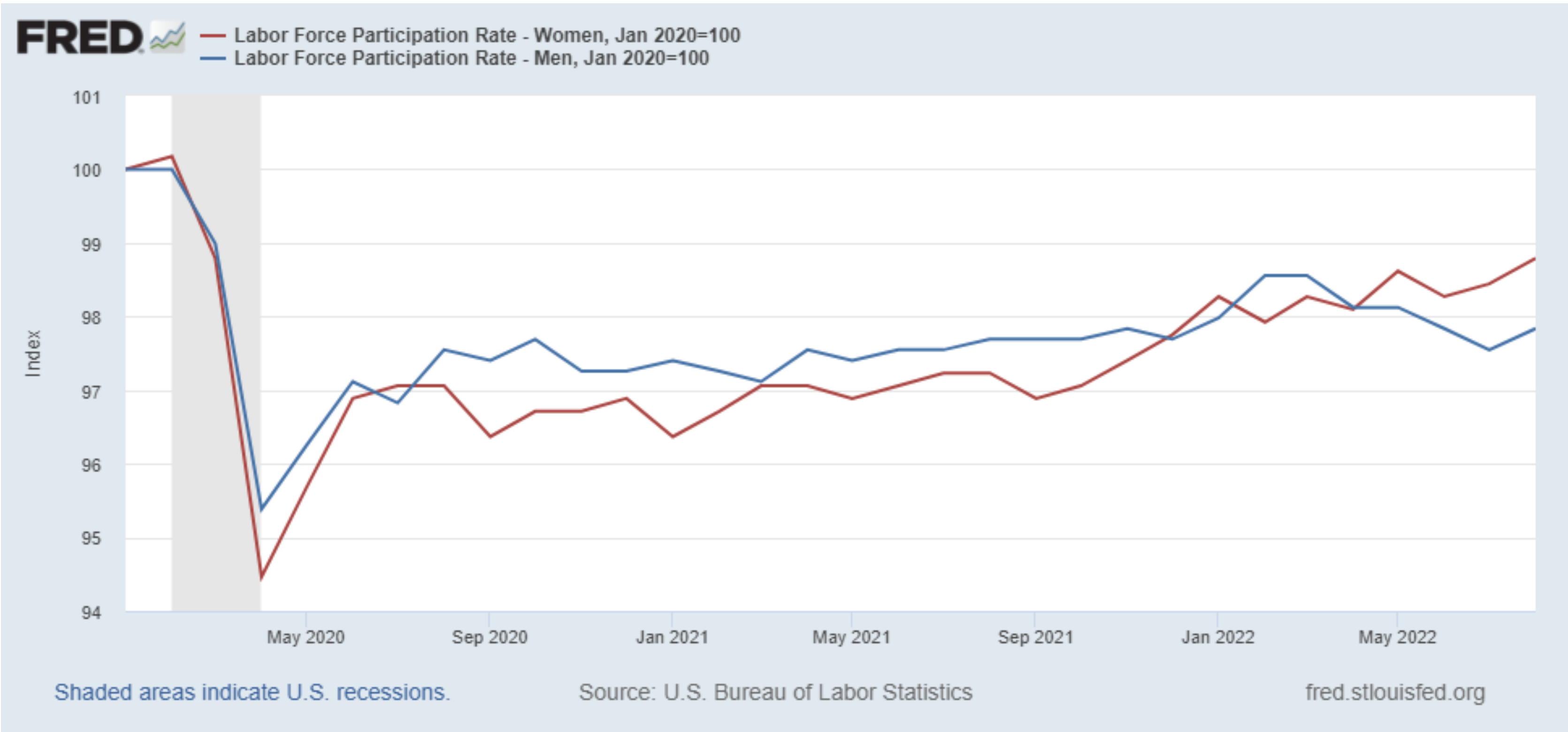
Where Have All the Workers Gone?



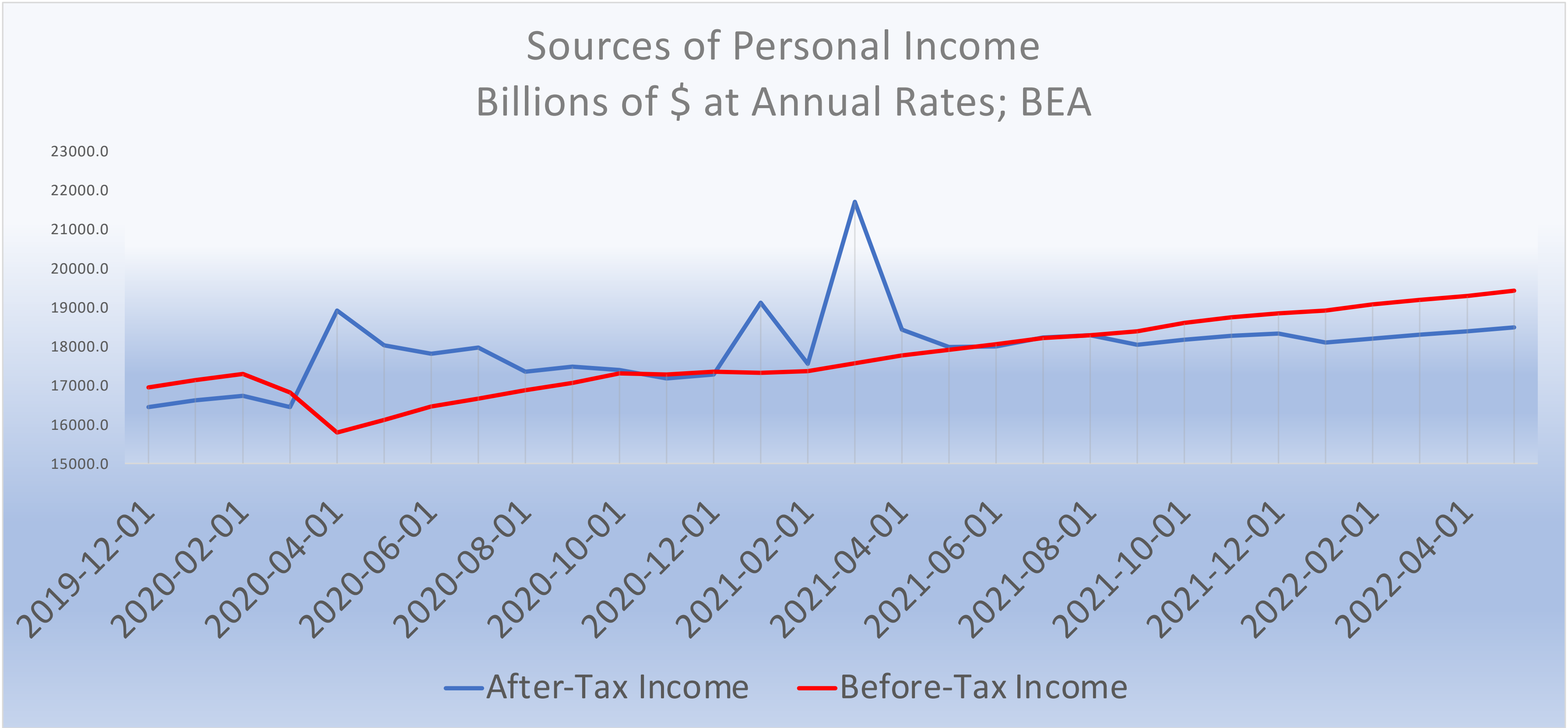
Age Seems to Matter



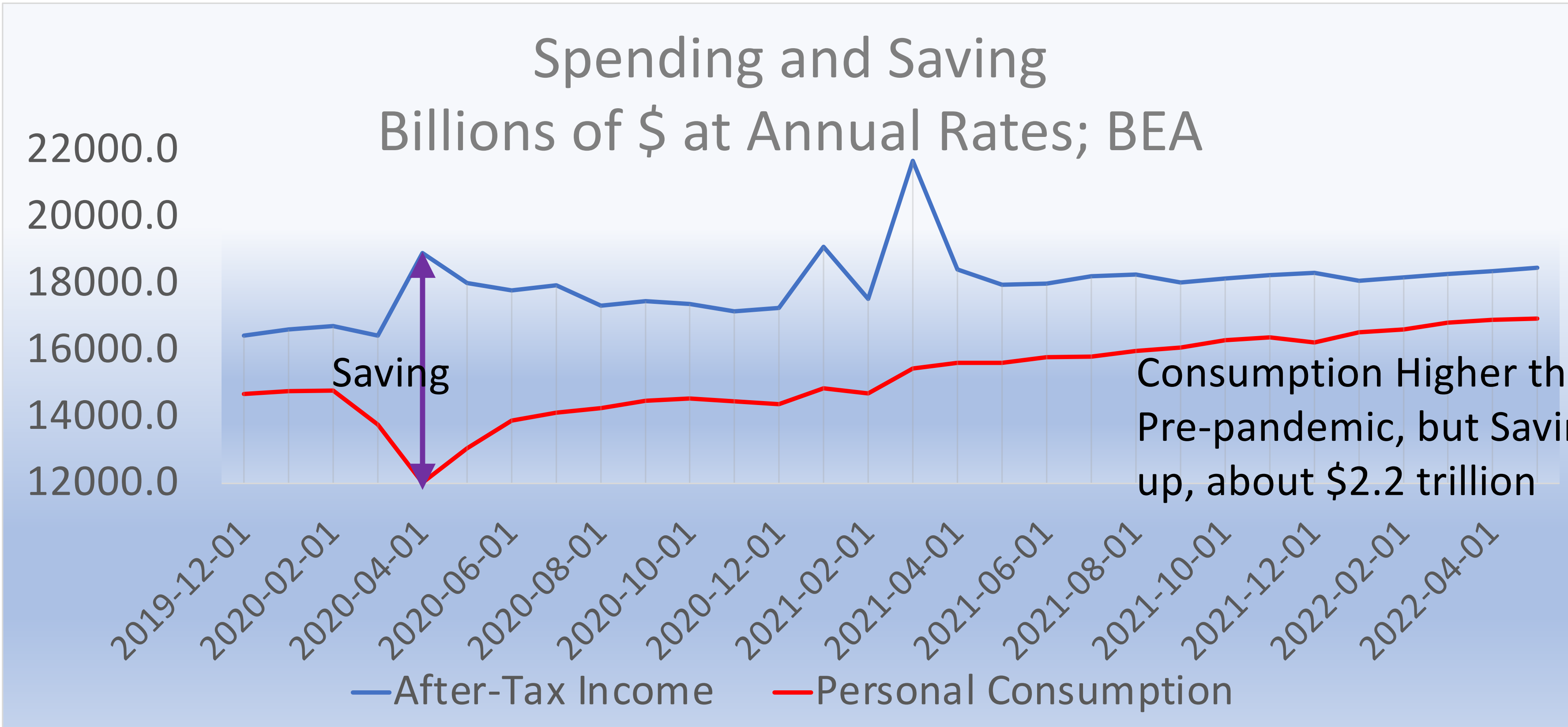
Gender Also Matters



Fiscally Driven Recovery



Households Lead the Way

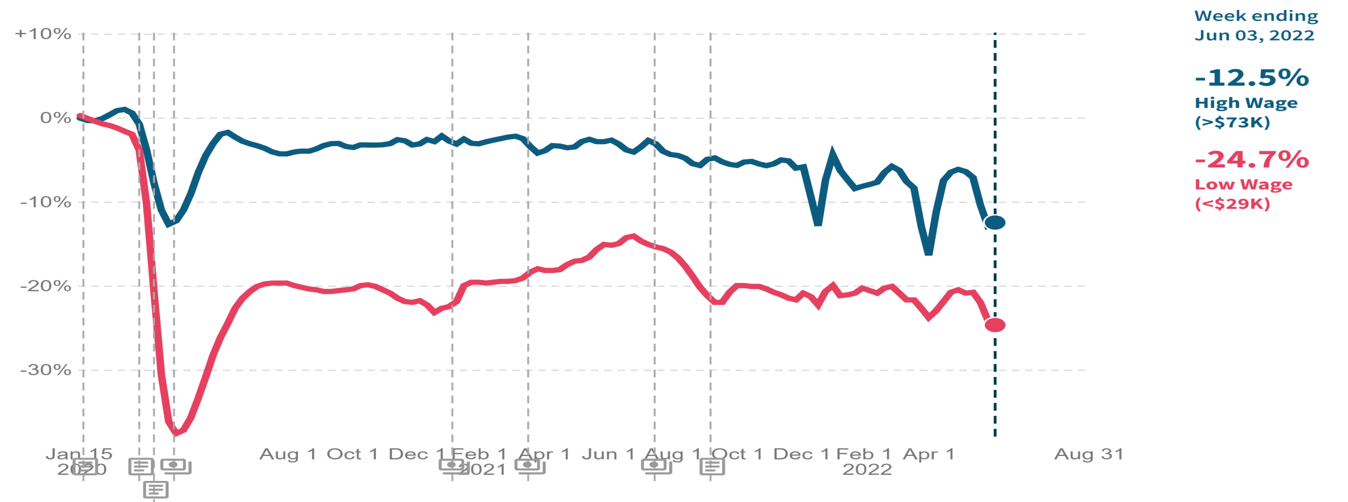


K-Shaped Recovery

OPPORTUNITY INSIGHTS ECONOMIC TRACKER

Percent Change in Employment*

In **the United States**, as of **June 03 2022**, employment rates among workers in the top wage quartile **decreased** by **12.5%** compared to January 2020 (not seasonally adjusted).



data source: **Earnin, Intuit, Kronos, Paychex**

*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.

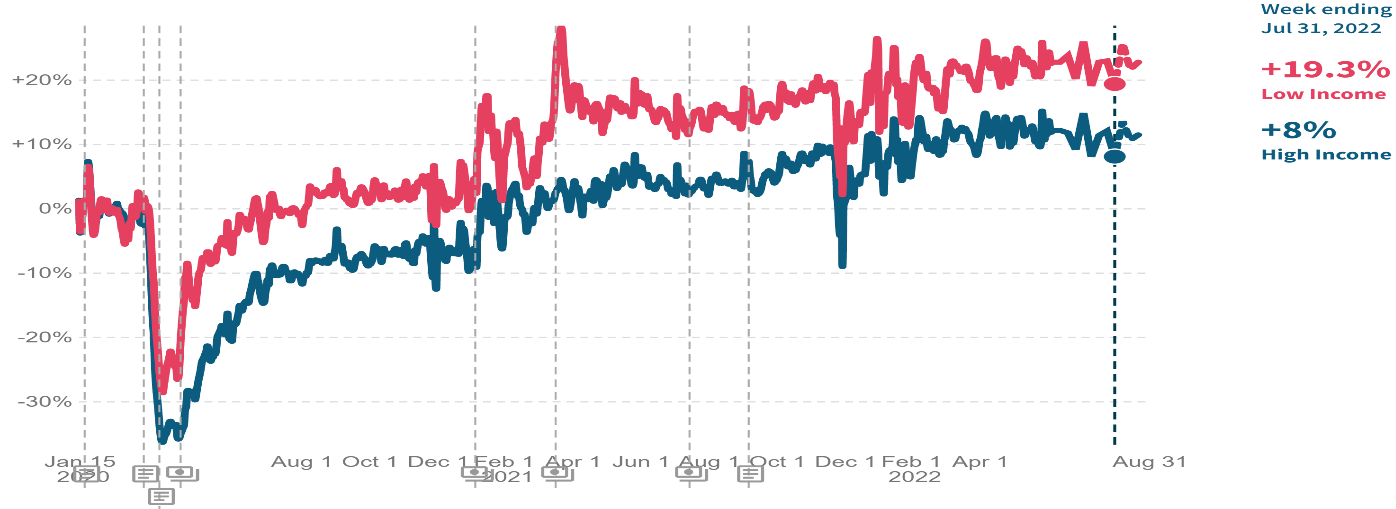
last updated: ***July 21, 2022*** *next update expected:* ***September 02, 2022***

Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER — HARVARD UNIVERSITY — BROWN — BILL & MELINDA GATES foundation

Percent Change in All Consumer Spending*

In **the United States**, as of **July 31 2022**, total spending by high-income consumers **increased** by **8%** compared to January 2020.

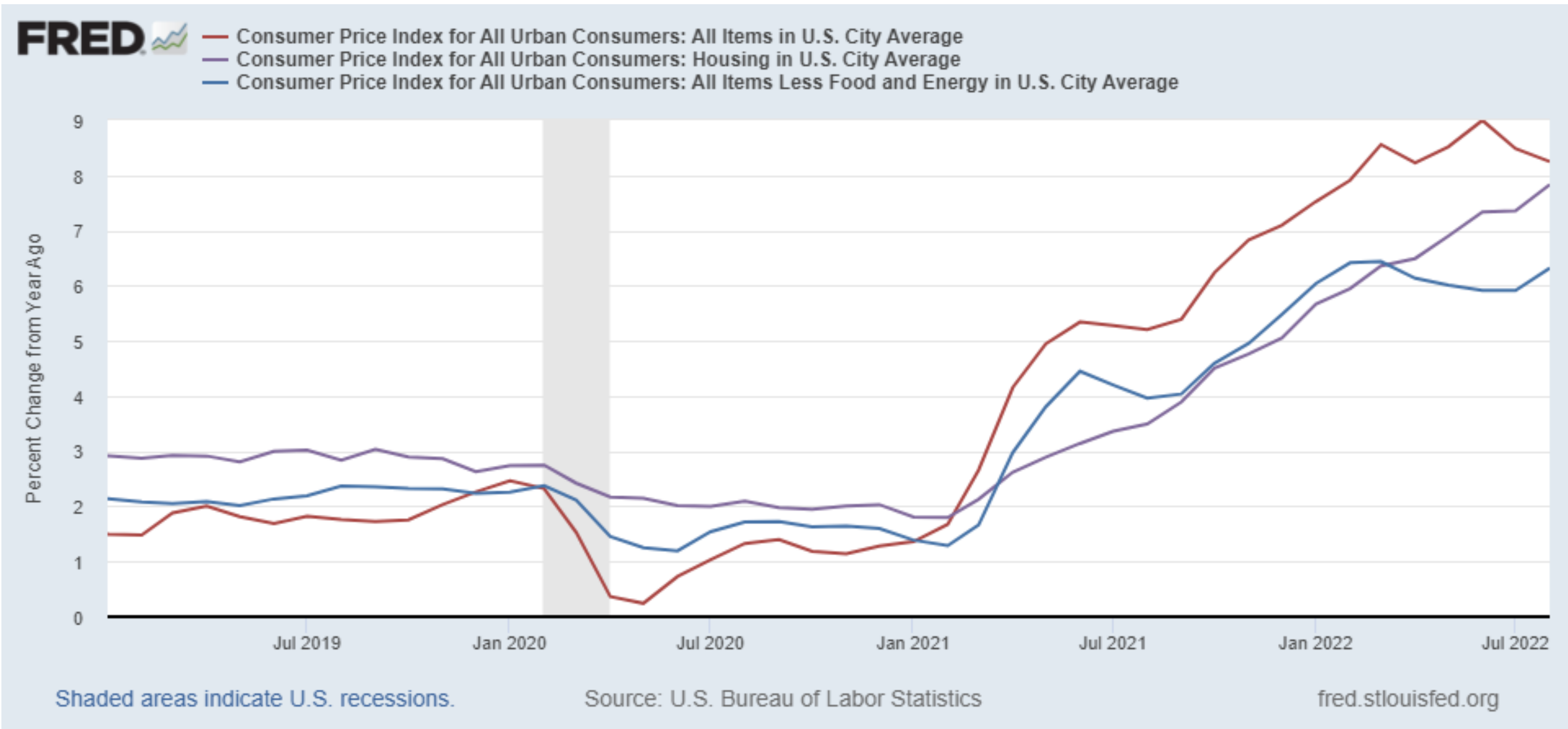


data source: **Affinity**

*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: ***August 30, 2022*** *next update expected:* ***September 07, 2022***

Inflation during the Recovery



The Stock Market Wasn't Happy

S&P 500

Data delayed at least 15 minutes • Source: FactSet • By: Ella Koeze

Stabilizer in Chief: the Fed

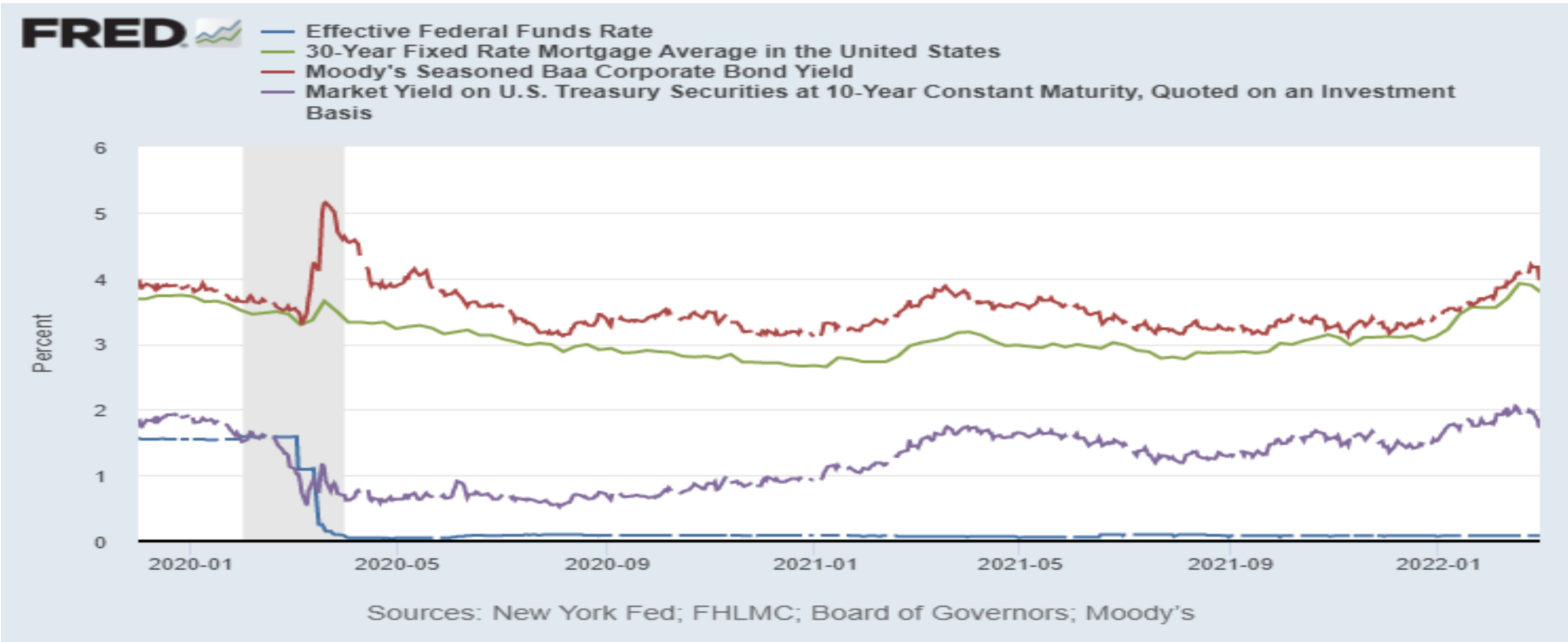
Jerome Powell
February 2018

- **The Fed's Dual Mandate:**
    1. "Stable prices" which means 2% rate of inflation in tl on Price Index (which corresponds to about 2.5% inflation in the mo
    2. "Maximum employment" which means the highest level of employment (lowest unemployment rate) consistent with mandate 1.
- **The Fed affects the economy via interest rates, raising them when they are more worried about inflation and lowering them when they are more worried about unemployment.**
- **Fiscal Policy (taxes and spending, President and the Congress) can affect inflation and unemployment, but it is the Fed's job to achieve the dual mandate**

The Fed on November 4, 2021

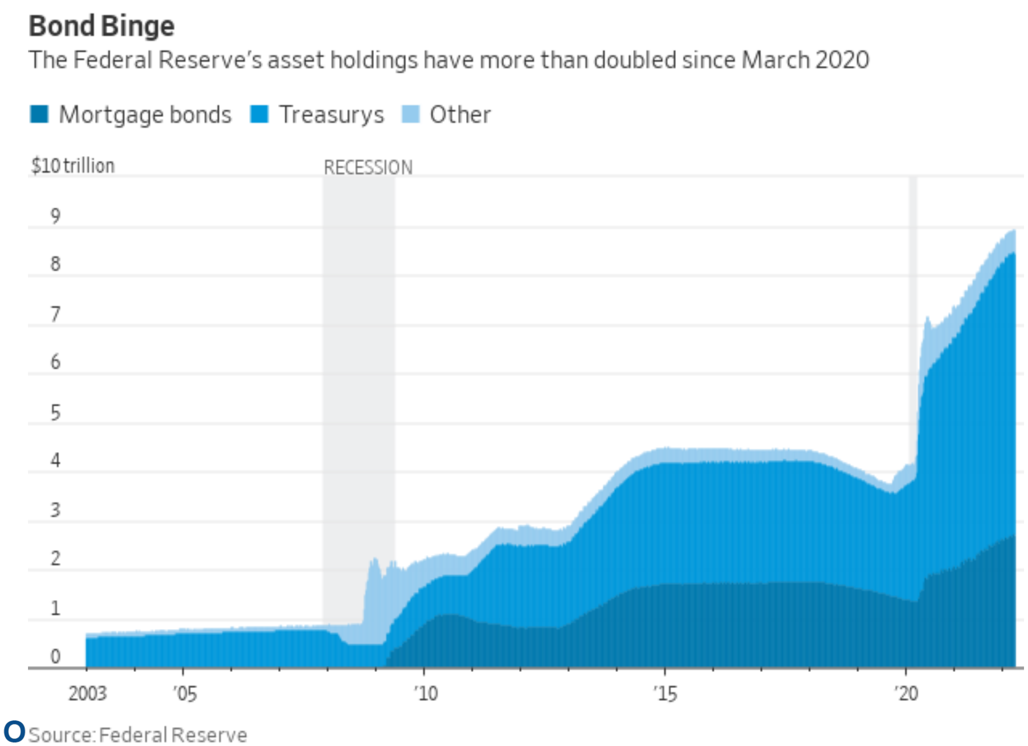
The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved.

Accommodative Monetary Policy!



Fed QE during the Recovery

- **Zero interest rates until March and a Big QE program**



Why?

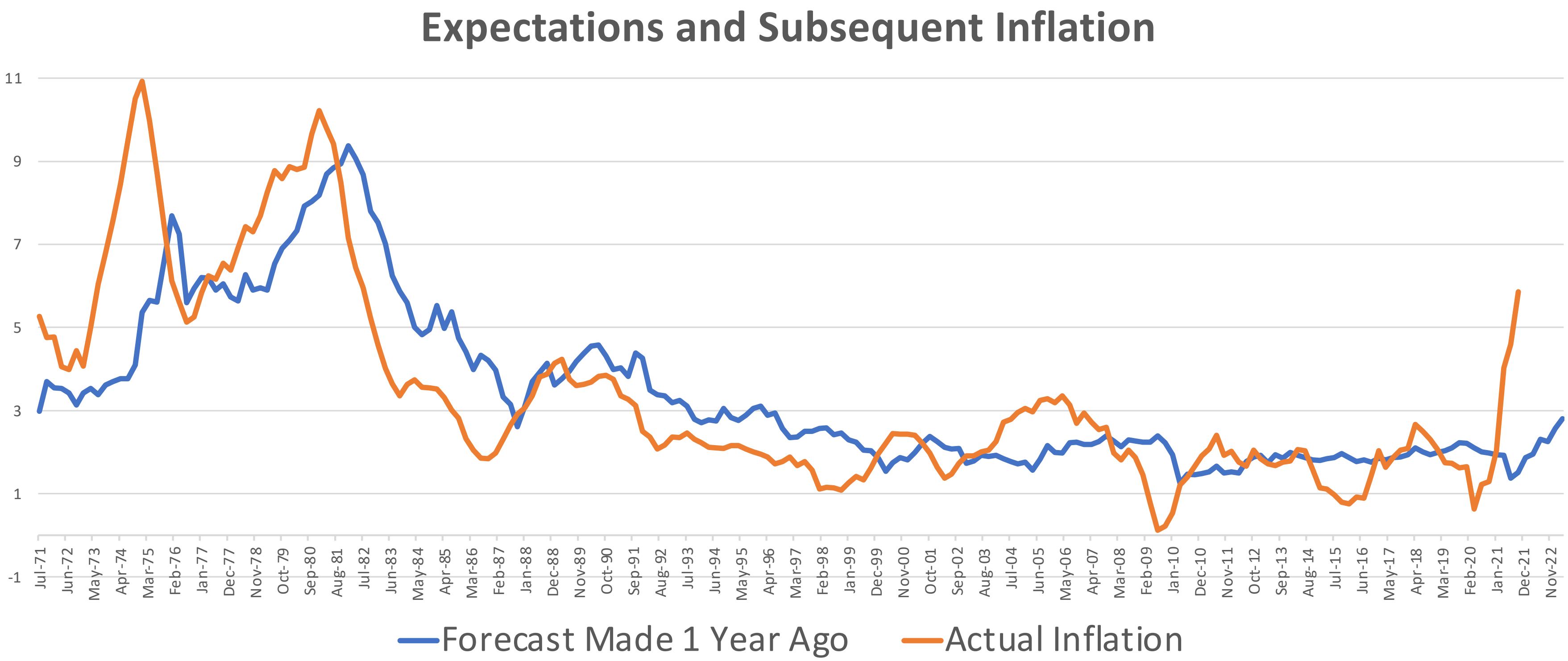
- **“Supply Chain Disruptions” can have a *temporary* effect to raise the rate of inflation.**
- **The Fed had had a recent history of raising interest rates *before* the economy achieved full employment**
  1. Average inflation during the 2010s was only 1.6 percent.
  2. The unemployment rate in Nov of 2021 was 4.2 percent, whereas pre-pandemic it was 3.5 percent.

(More on this in 2 weeks)

What's at Stake?

- If people expect inflation, that can lead to high actual inflation.
- Paul Volcker in 1981 realized this point and wrung inflation out of the system with a massive recession.
- Unemployment peaked at 11%.
- Europe's lost decade.
- Latin America Debt Crisis.
- But, (for the US) it worked!

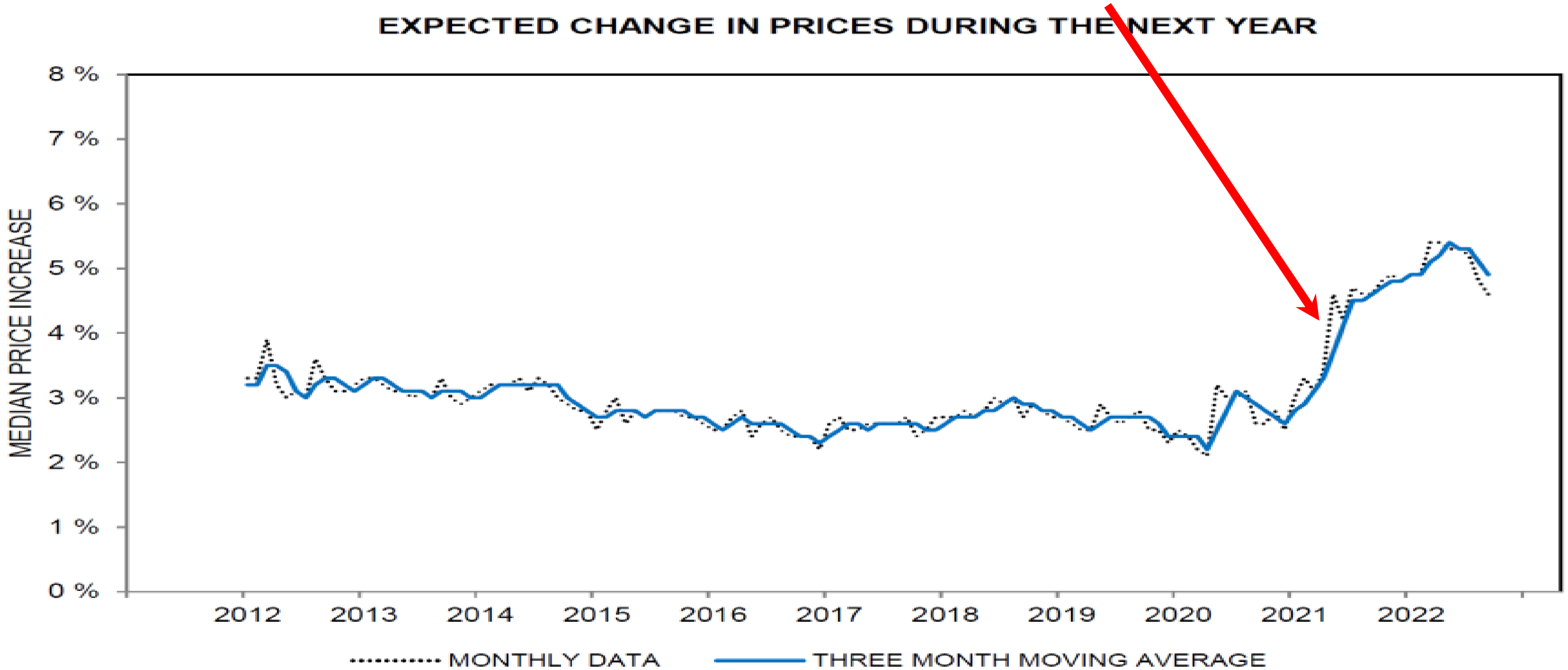
“Anchoring” Inflation Expectations



Forecasts: Philadelphia Fed, “Survey of Professional Forecasters”

But, Boy Have Things Changed since November!

May

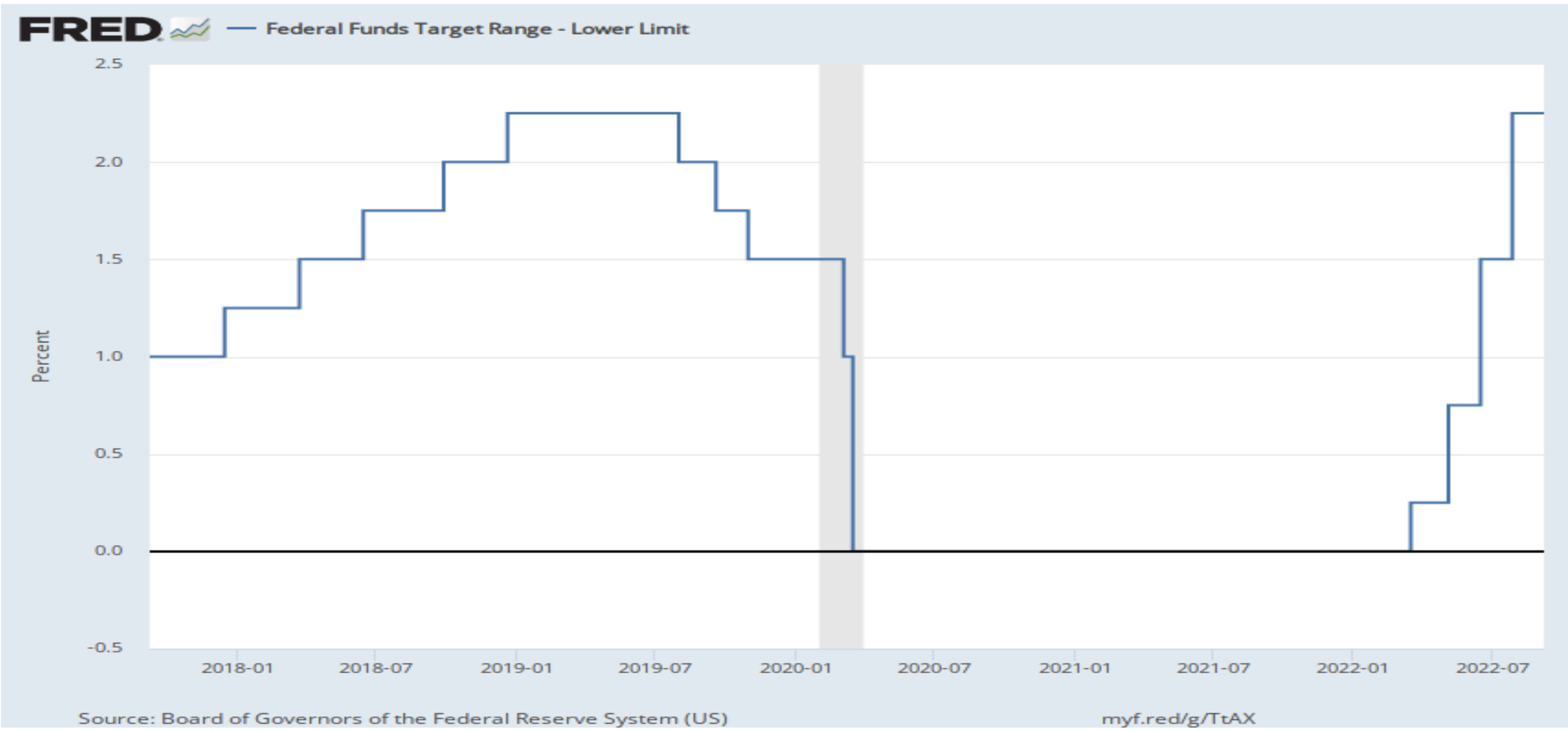


"Surveys of Consumers," University of Michigan, ©

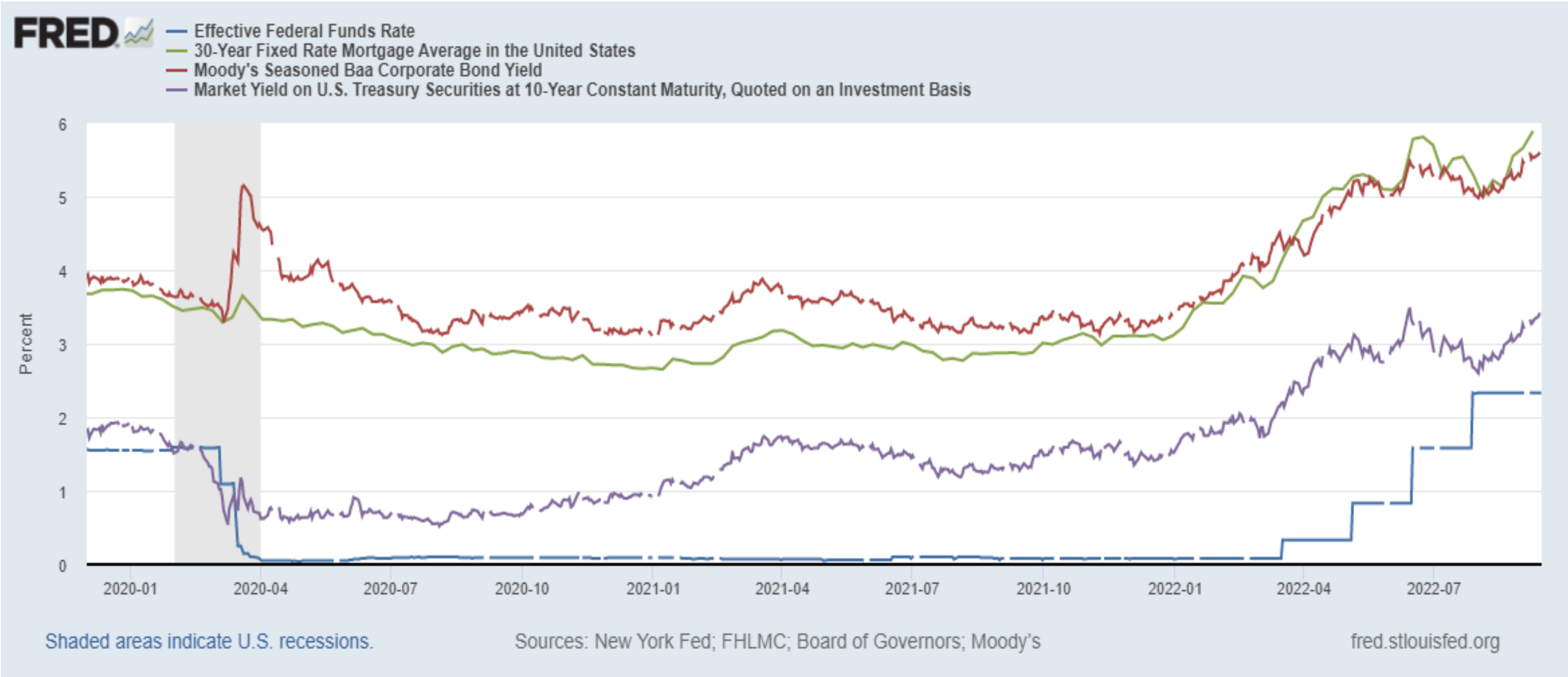
Chair Powel at Jackson Hole Conference (8/26)

Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain.

Four Increases in 4 Meetings



Interest Rates are Headed Higher



My Diagnosis for the Uptick in Inflation

- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was and is (?) too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than $2 trillion.

Consumers Are Spending Some of It!

Where we Stand

- **The ARP was probably too big, but the Fed was aware of this.**
- **The growth in real GDP is slowing but there is still a great deal of momentum.**
- **The Fed's Choice**
  1. Slam on the brakes by raising interest rates by 75 (100?) basis points at their meeting. (The following meeting is a week before the election)
  2. Go for a smaller increase to show resolve, but try to avoid a recession.

Poll3.

So, What Lies Ahead?

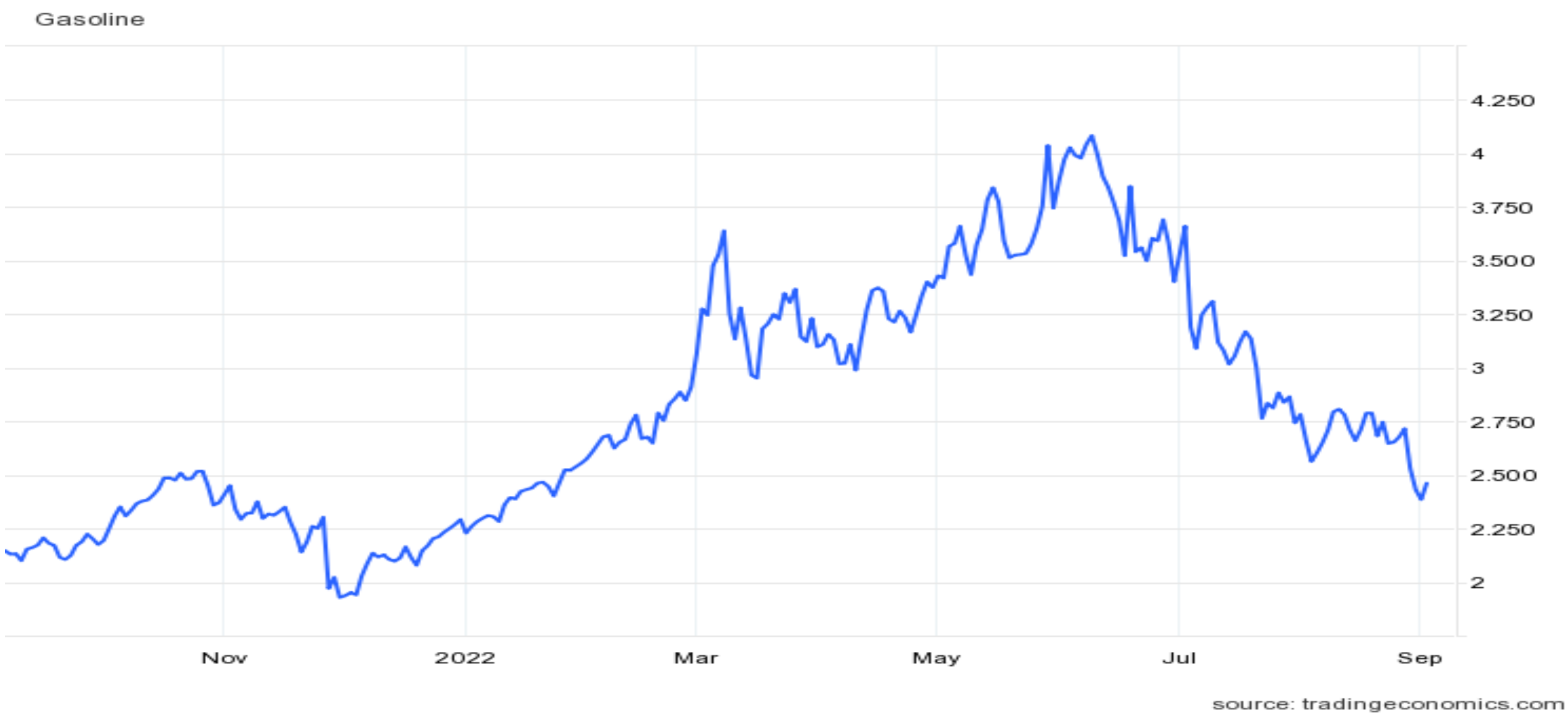
Darned if I know!

1. **What will happen to the War in Ukraine; gas prices, food prices the EU economies?**
2. **Michigan Survey of Consumer Sentiment and Expectations of Inflation released next week?**

- **The Goal: a “Soft Landing”?**
- **Working in the Fed’s favor**
  1. Supply pressure easing.
  2. Gasoline Prices Falling.
  3. Financial Market Expectations of Inflation are pretty stable.

Global Supply Chain Pressures

Gas Prices


Gasoline
4.250
4
3.750
3.500
3.250
3
2.750
2.500
2.250
2
Nov
2022
Mar
May
Jul
Sep
source: tradingeconomics.com

Financial Market Expectations of Inflation

Stay Tuned (Next Fed Meeting this PM)!

But now Let's Hear what you think?

1. Are we headed for a recession?
2. Will the Fed be successful in taming?
3. Should (will?) the state of the economy affect the midterms?