

Osher Lifelong Learning Institute, Winter 2022

Contemporary Economic Policy

Dartmouth College
April-May, 2023

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: 653+ 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

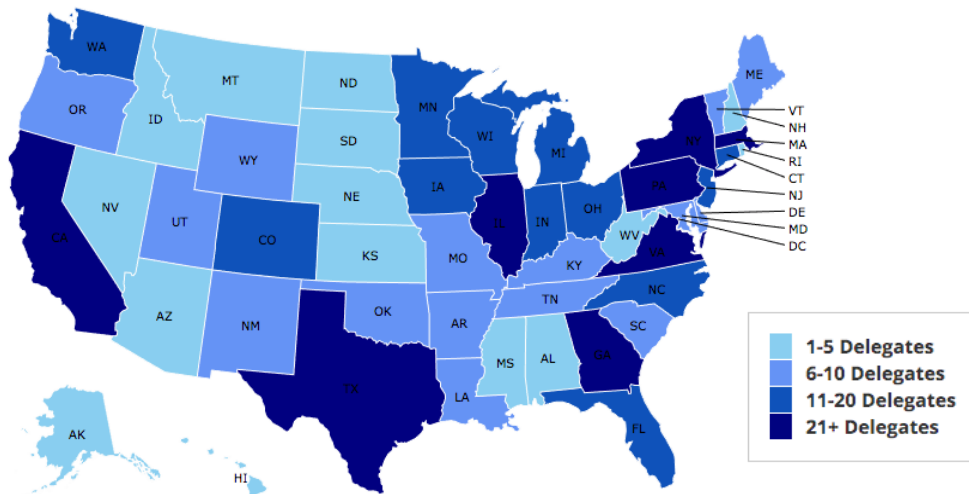


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Where Are We?



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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
- Healthcare Economics



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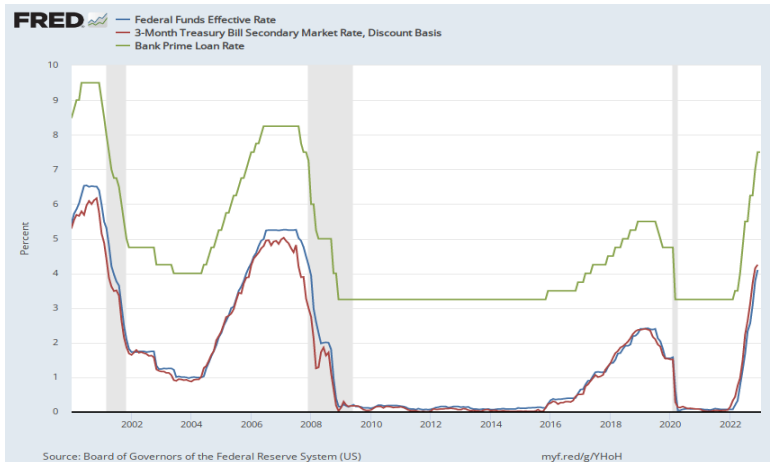
Course Outline

- **Contemporary Economic Policy**
 - Week 1 (4/3): US Economic Update (Geoffrey Woglom, Amherst College)
 - Week 2 (4/10): Monetary Policy (Geoffrey Woglom)
 - Week 3 (4/17): Healthcare Economics (Jon Haveman, NEED)
 - Week 4 (4/24): Trade and Globalization (Alan Deardorff, University of Michigan)
 - Week 5 (5/1): Trade Deficits and Exchange Rates (Alan Deardorff)
 - Week 6 (5/8): Cryptocurrencies (Jon Haveman)



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The Fed and Short-term Interest Rates

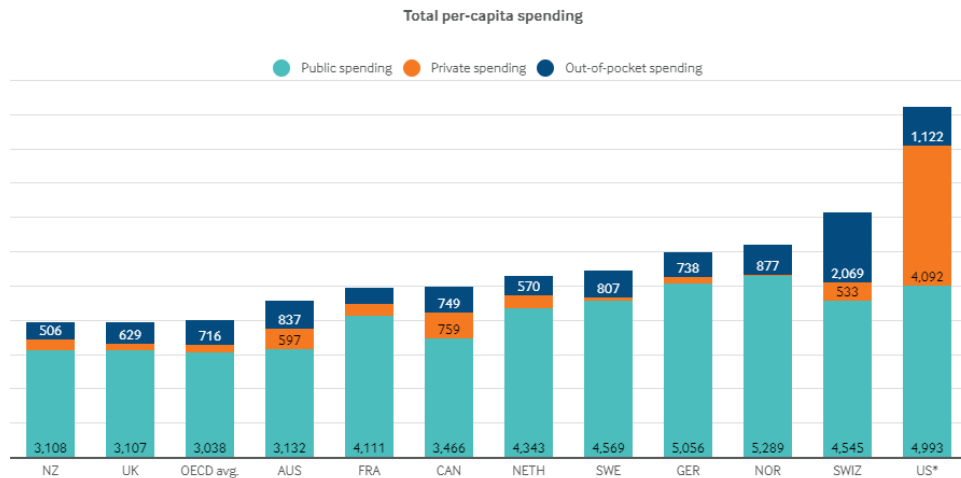


Blue is the fed funds rate.
 Red is the rate on 3 month Treasuries.
 Green is the prime bank lending rate

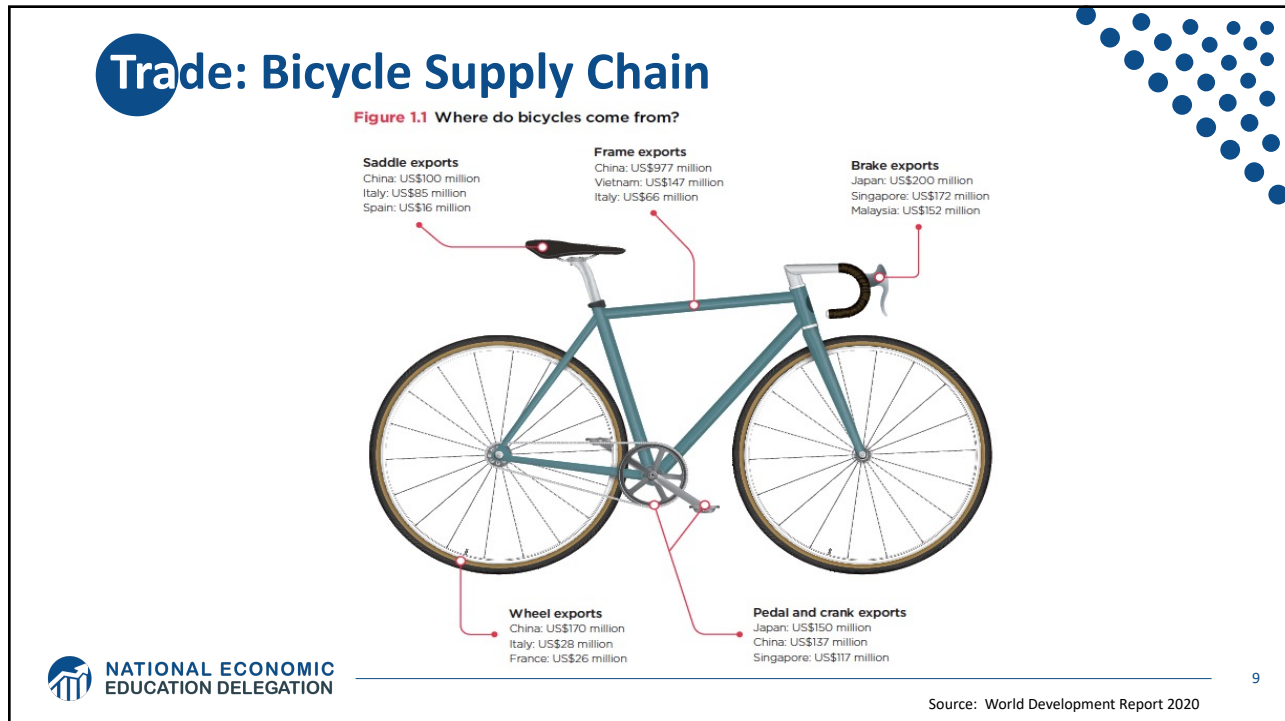
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International Comparison: Health Spending

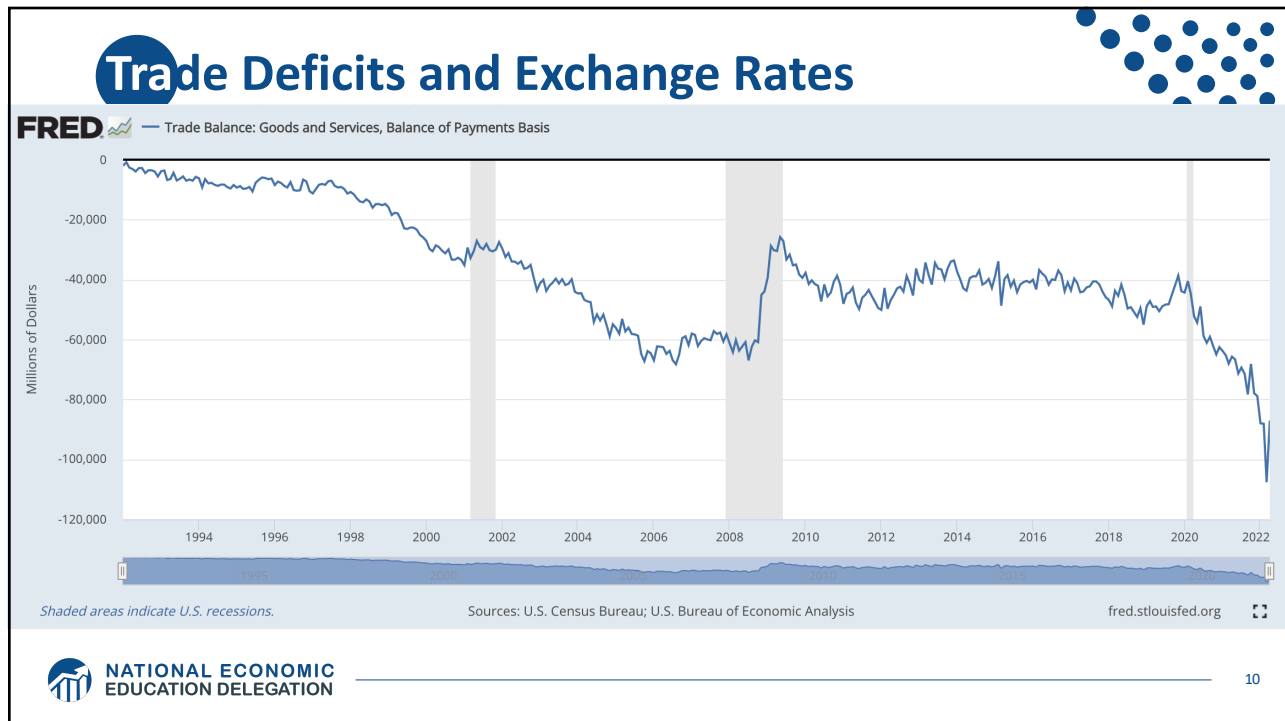
Dollars (US\$), adjusted for differences in cost of living



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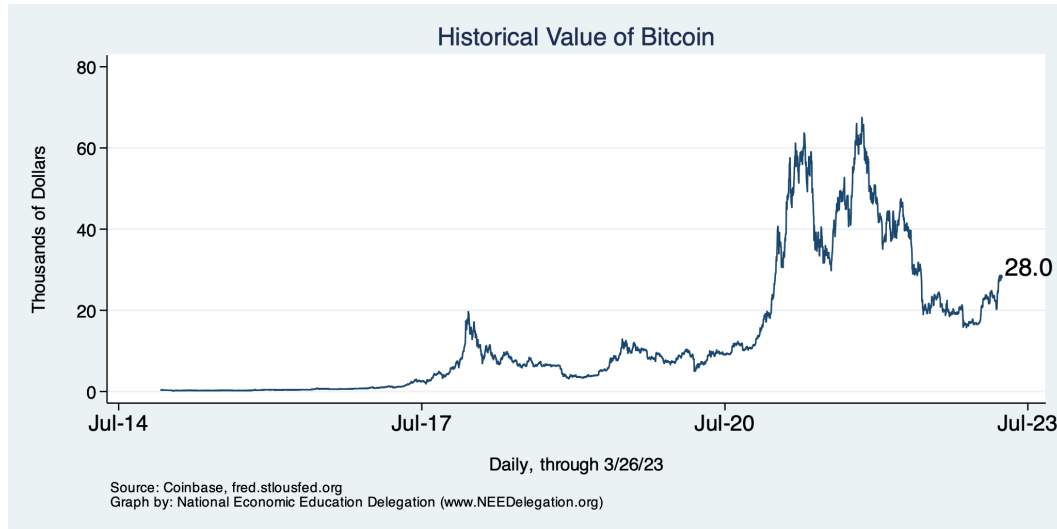


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Bitcoins: What **Was** All the Excitement About?



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Submitting Questions

- **Please submit questions in the chat, or by raising your digital “hand.”**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**



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Credits and Disclaimer

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

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombek, 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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INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
April 3, 2023



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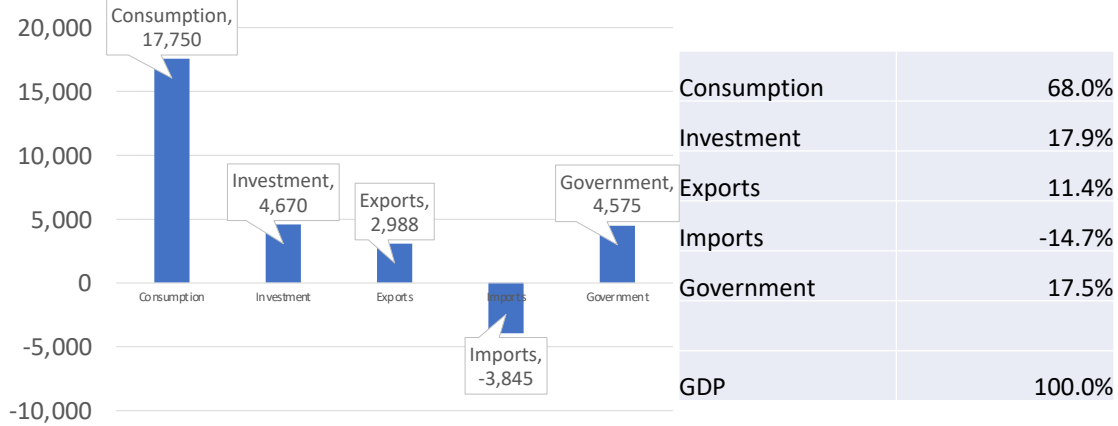
Outline for the Talk

1. Summary of the state of the economy.
2. The Effect of M&F policies.
3. What lies ahead for the economy.
4. The implications of recent bank failures

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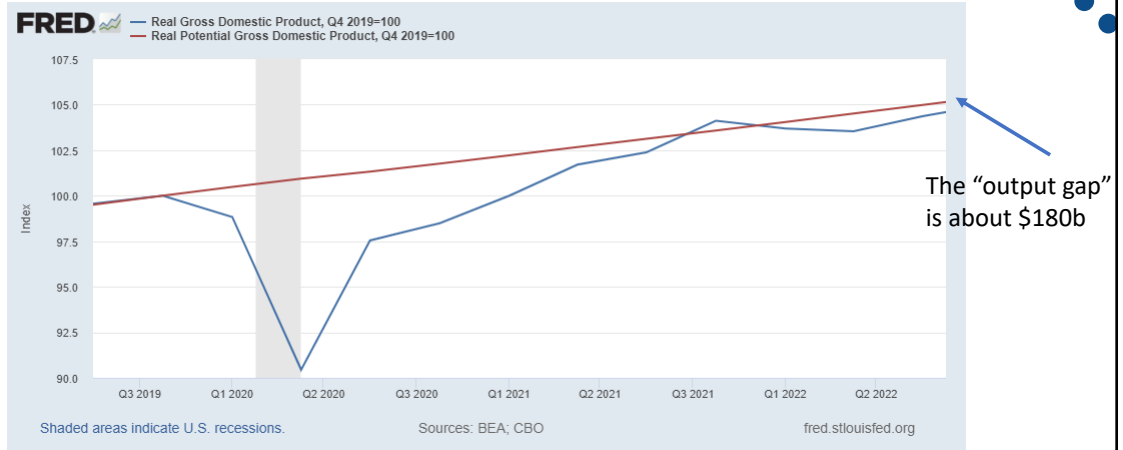
Gross Domestic Product

Components of 2022Q4 GDP, \$26.1 tr



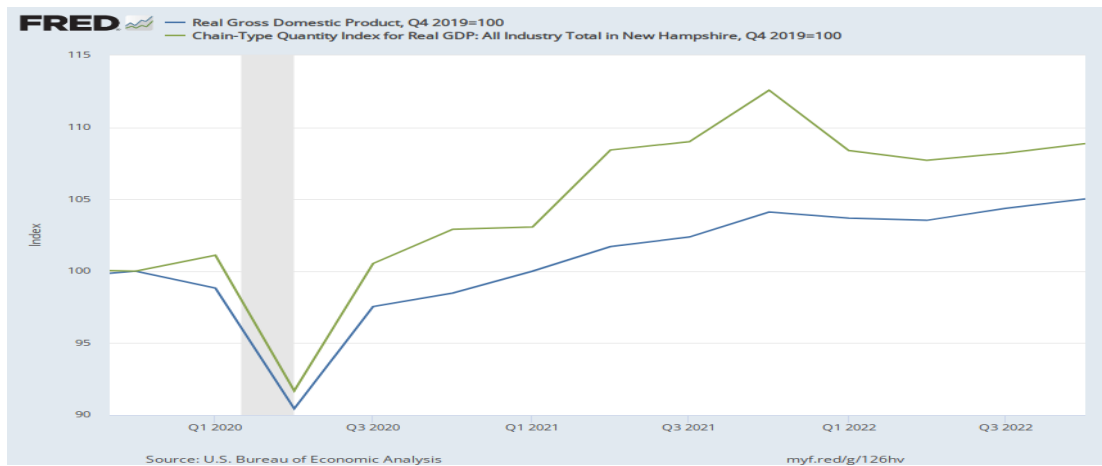
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Real GDP and 'Potential' during the Recovery



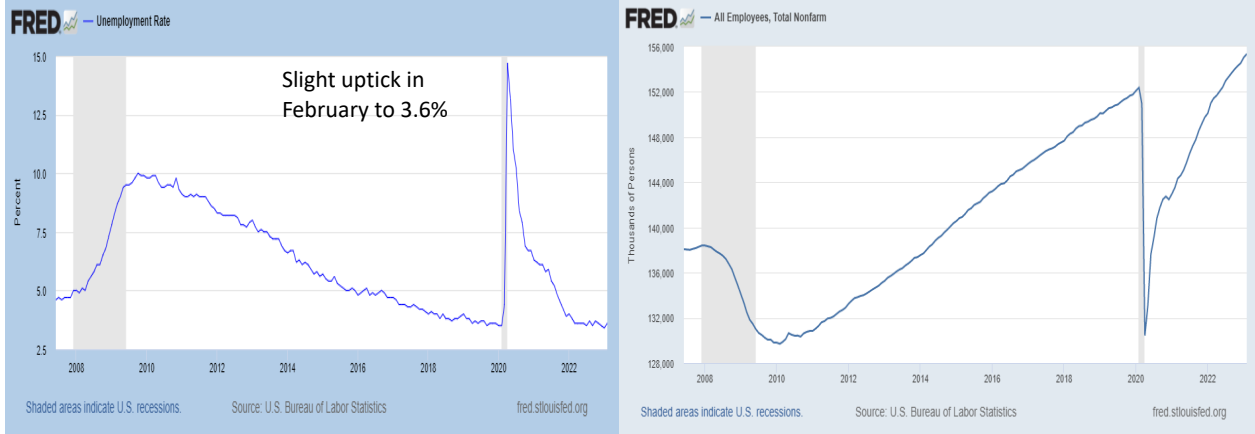
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The Granite State is Outperforming



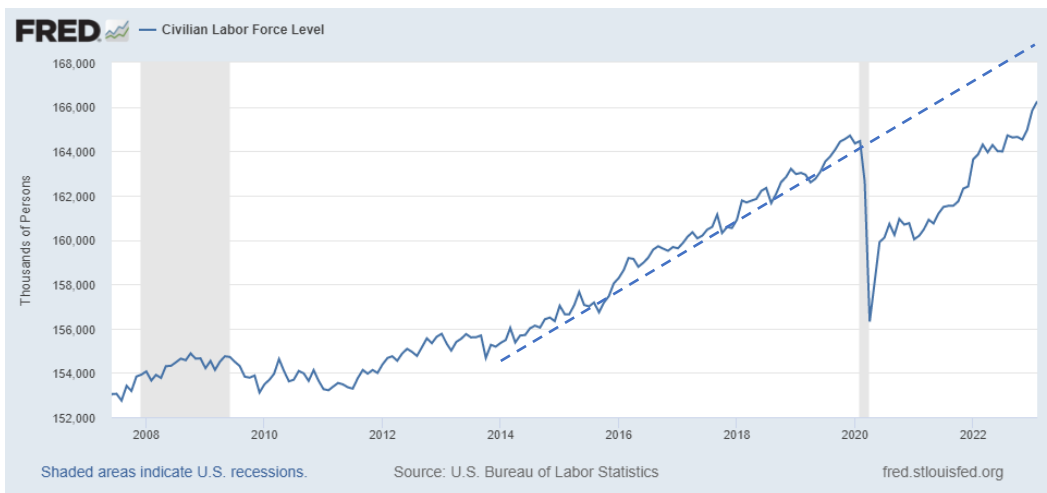
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Labor Market: Fully Recovered?



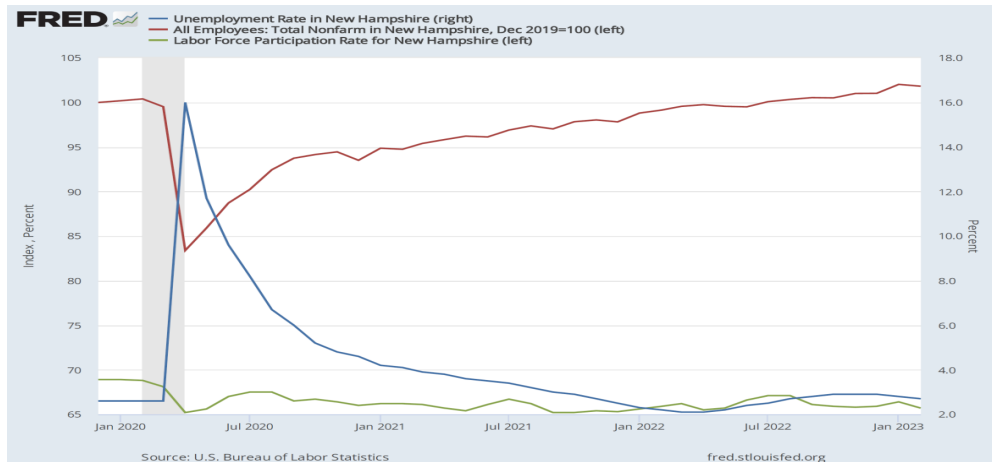
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Where Have All the Workers Gone?



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Labor Market in New Hampshire



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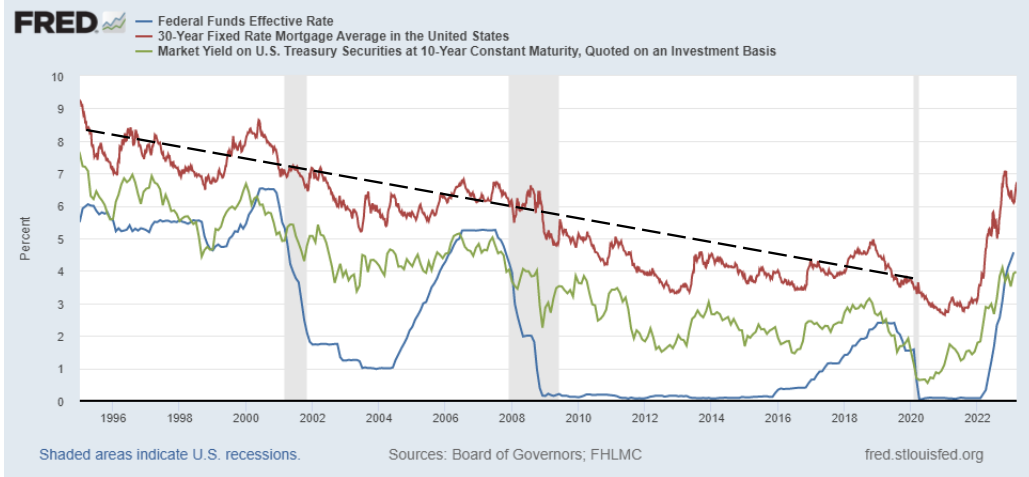
Overall Good News on the Real Side

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Fly in the ointment: labor force has lost over 1.5 million workers.
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good!



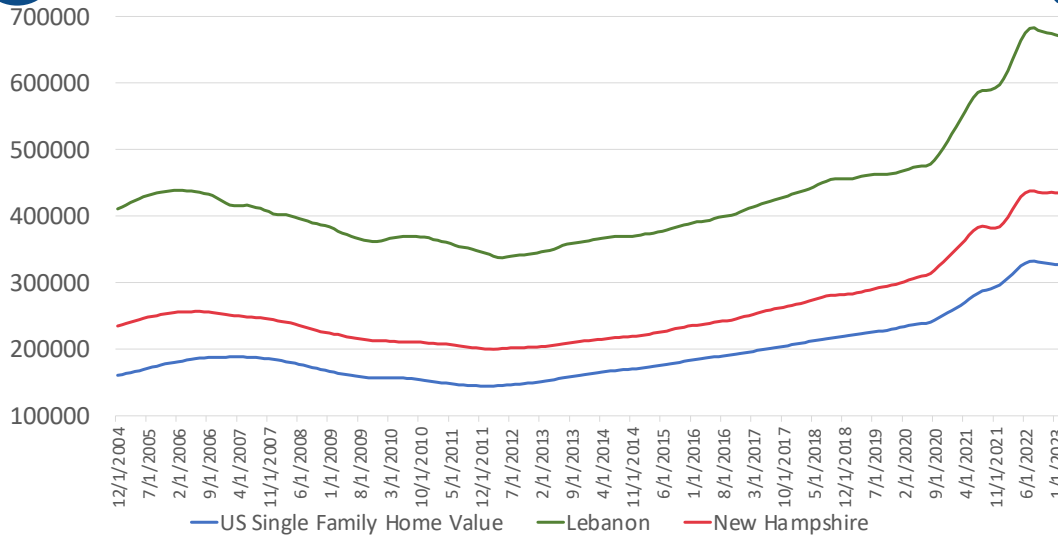
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Interest Rates: Era of Falling Rates Over?



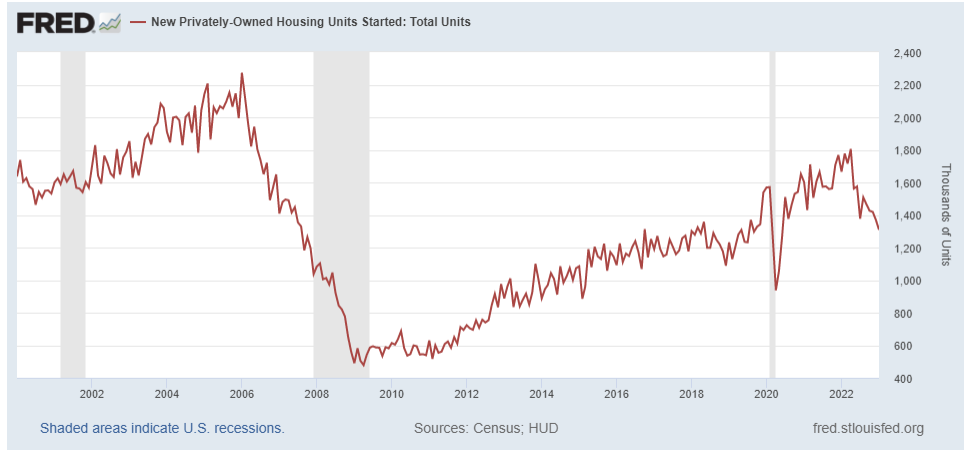
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National Housing Market and Closer to Home



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The Fall in Prices is Having an Effect



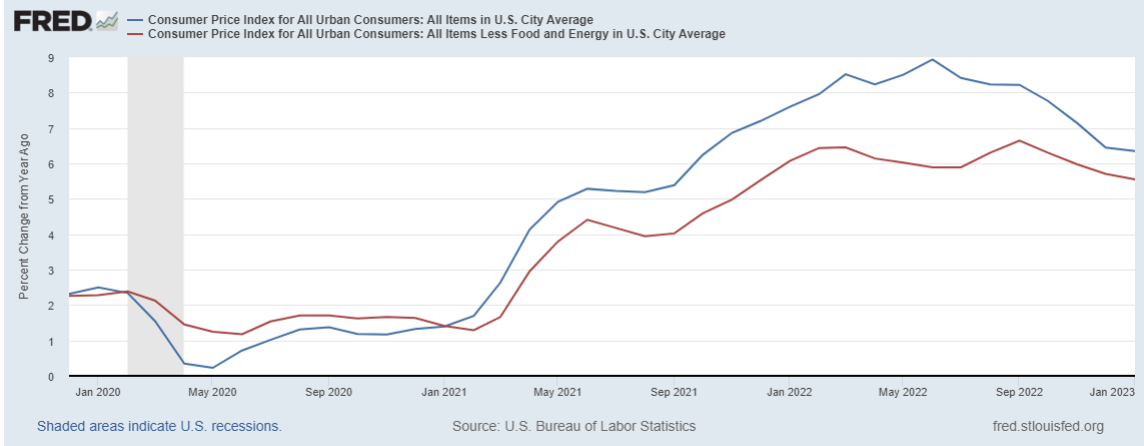
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Stock Prices: Fear about Rates and Recession



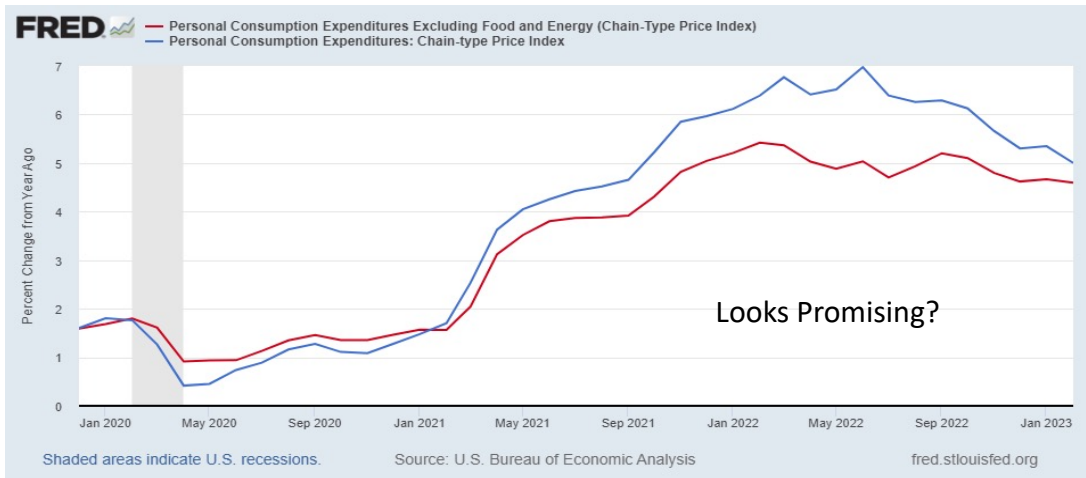
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Inflation during the Recovery (CPI)



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Fed's Measure (PCE)

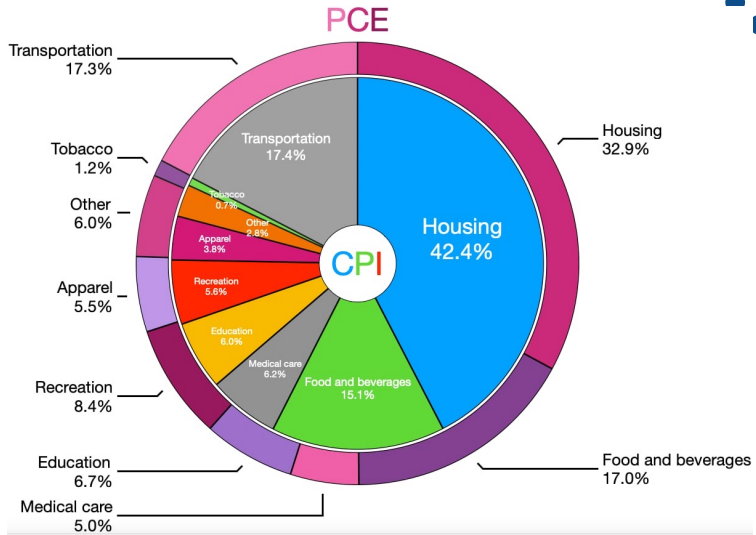


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CPI vs. PCE: Differences

CPI tends to be higher (Feb):
 CPI, 6.0%
 Core CPI, 5.5%
 PCE, 5.0%
 Core PCE, 4.6%.

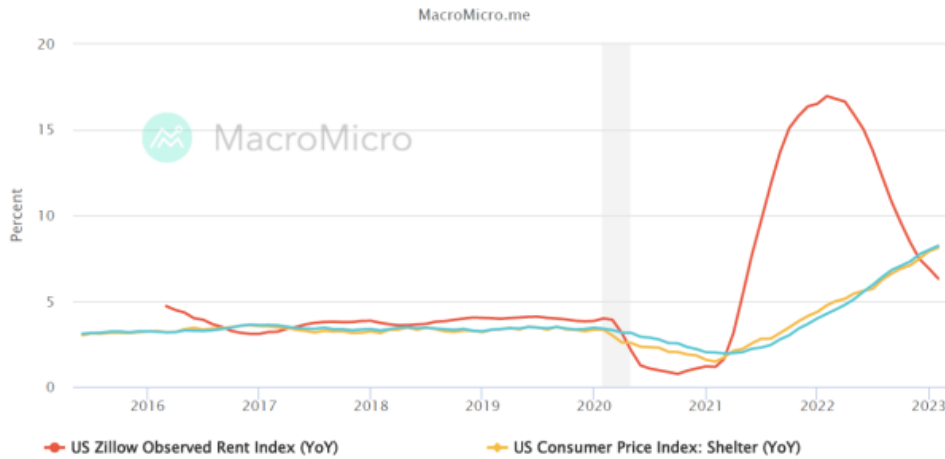
Typically more like 0.5 % pts.



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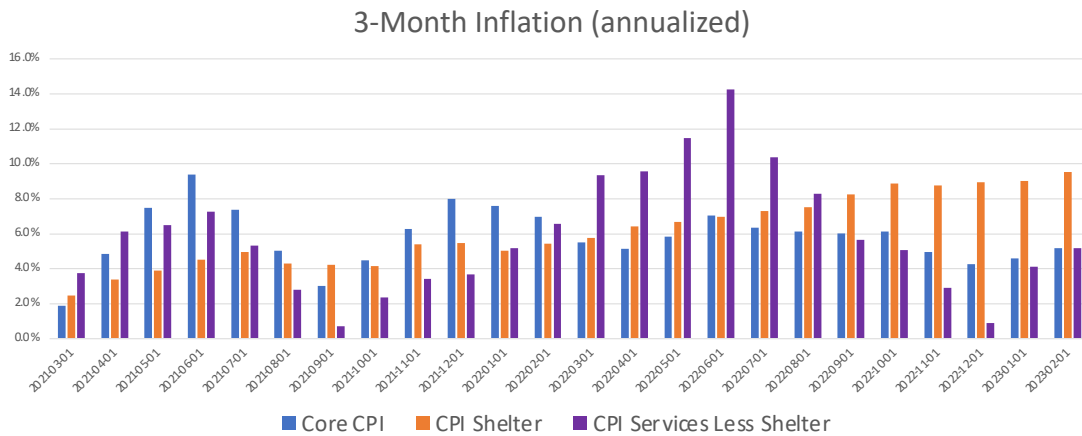
Rents Paid versus Asking Rents

US Rent CPI vs. Zillow Rent Index



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Inflation: A Closer Look

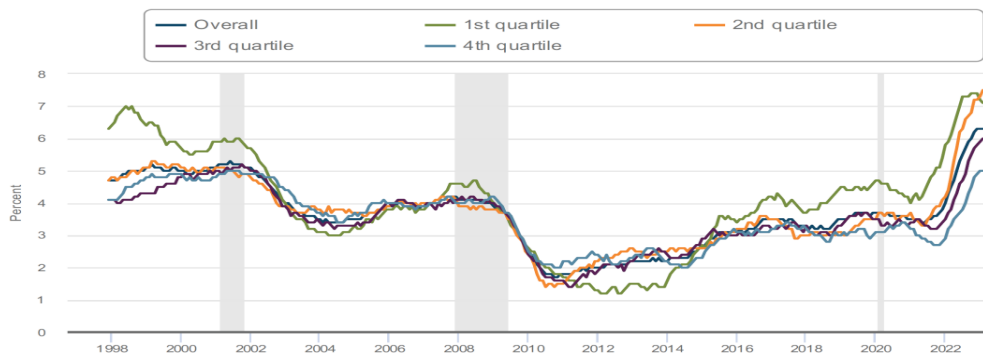


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Wages Haven't Kept Pace with Inflation

Wage Growth Tracker by Wage Level

12-month moving average of median wage growth for each category, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations

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The “Nominal” Side

- Inflation: There is a lot of work still to be done.

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Policy Effects: Fiscal

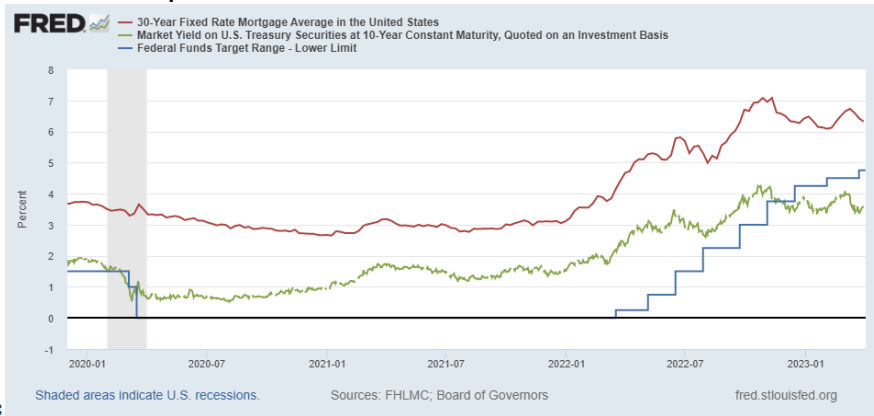
- 2020-2021: massive stimulus. Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.



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Policy Effects: Monetary

- 2020-2/2022: policy interest rate at zero, new round of quantitative easing.
- 3/2022-present: most rapid increase in interest rates since Paul Volcker



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Where we Stand

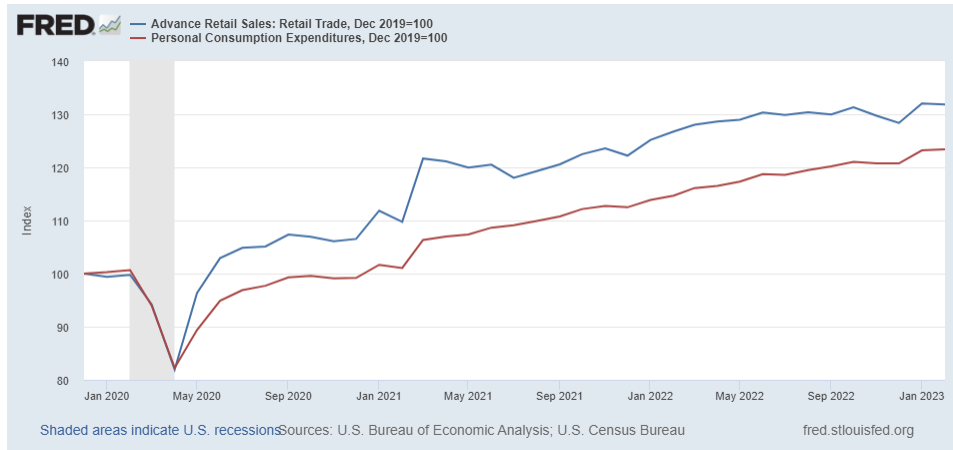
- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Monetary policy was too easy for too long, but since March of last years has been much more restrictive.
- Yes, there were supply chain issues that temporarily raised inflation, but there was (is?) too much total spending.

So, where are we headed?

What will the Fed do?

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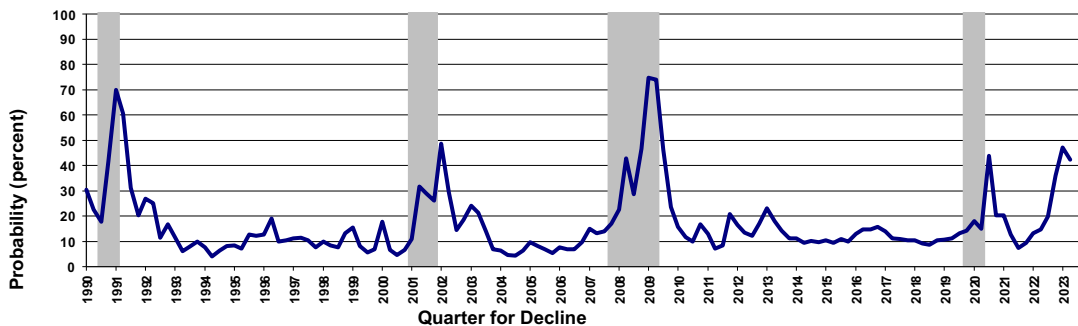
Latest Numbers on Consumption



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Forecasters Are in fact Seeing the “R” Word

The Anxious Index
One-Quarter-Ahead Probability of Decline in Real GDP
Quarterly, 1990:Q1 to 2023:Q2



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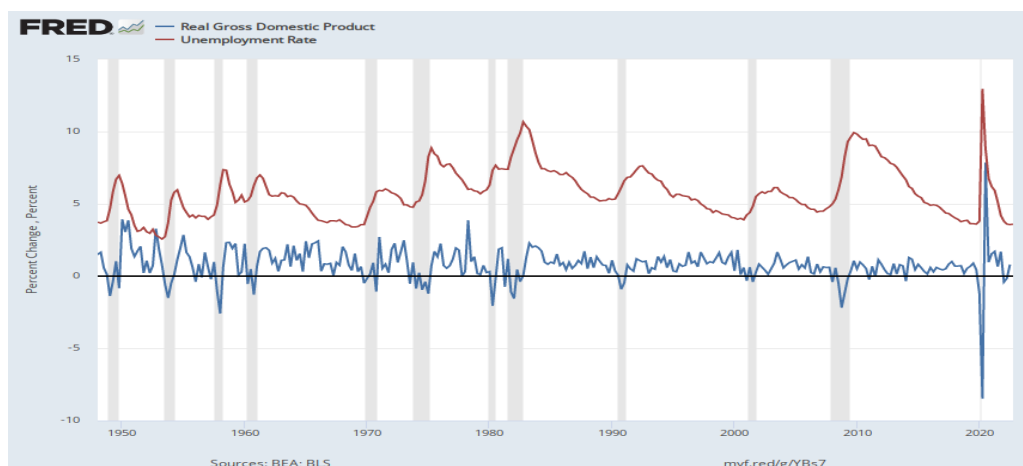
What is a Recession?

- 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.



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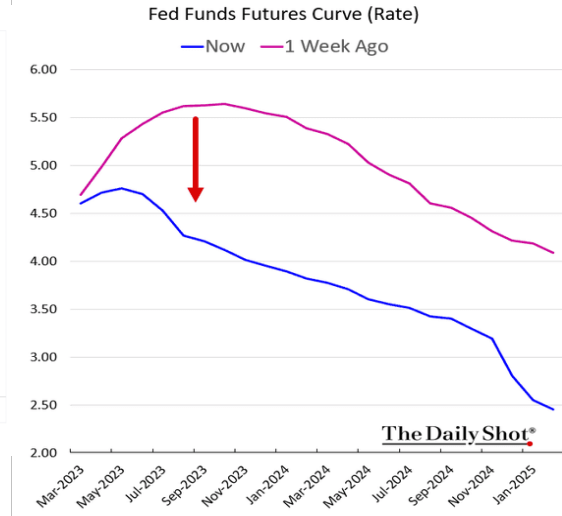
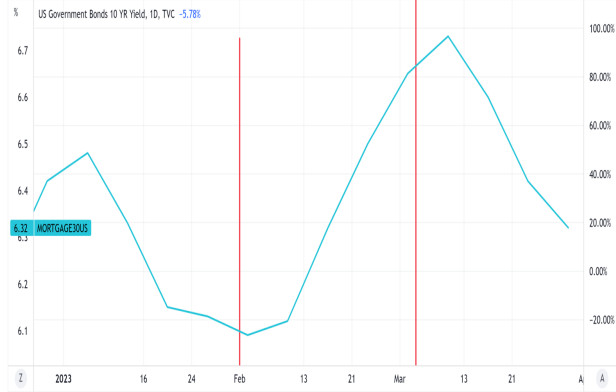
Real GDP Growth and Recessions



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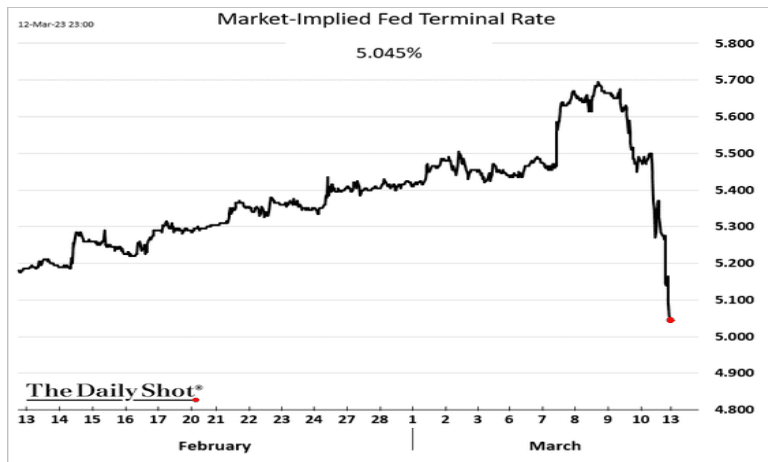
On March 3rd Powell Emphasized Rate Hikes

grvgiom published on TradingView.com, Apr 03, 2023 11:30 UTC-4



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Something Happened Over the Weekend



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Silicon Valley Bank

- Regional mid-sized bank with \$212b in assets; \$6billion in capitalization (15th largest).
- Focused on loans to venture capital and managing the deposit accounts of startups.
- Very rapid growth in deposits and assets between 2021 and 2022, which led to big investments in “safe” long-term Treasury bond.
- The market value of these bonds fell drastically due to the Fed’s rise in interest rates.
- No problem! The bank does not incur “losses” unless it sells the bonds before maturity.



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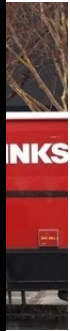
Whoops!

- Concentrated and sophisticated depositors see the problem and want to get their money out (FDIC insurance guarantees deposits up to \$250 thousand, and 90% above this amount!).
- Deposit withdrawals force SVB to sell those bonds.
- Precipitating a classic bank run and leading to the FDIC seizing the bank on Friday.



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Silicon Valley's Not So Wonderful Life



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FDIC Bank Closures, in General

1. "Auction" off the failed bank; all depositors paid in full.
2. Payoff insured deposits and liquidate bank assets
 - Under Dodd-Frank, the FDIC is supposed to use the cheaper procedure.
 - In either case, funding comes from banks payments of deposit insurance premium.



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But, in This Case:

- Janet Yellen announced that all depositors would be paid in full, and there would be complete insurance of all bank deposits for a year.
- Senior Executives all fired.
- Fed created a new lending program, so that banks can borrow against Treasury bonds without realizing losses.
- The rationale was to prevent bank run spreading to other midsize banks.
 - Two other banks recently closed
 - Stock prices of a number of similar sized banks have plummeted.



Problems with the Bailout

- **Political:**
 - Did political favoritism play a role in bailing out well connected, sophisticated silicon valley depositors.
 - Why didn't bank regulators see this coming?
- **Economic:** has the moral hazard of "too big to fail" been increased.
- **For the Fed:** Will the Fed have to scale back its interest rate increases to prevent wide scale financial crisis?



Turbulence in the Treasury Market

grwoglom published on TradingView.com, Apr 02, 2023 16:41 UTC-4
 US Government Bonds 2 YR Yield, 30, TVC 4.040% -0.015 (-0.37%)



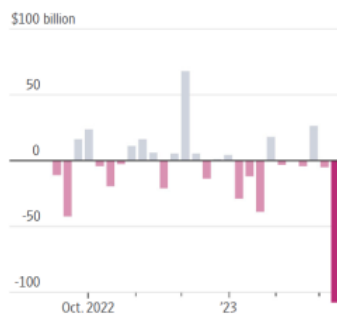
TradingView

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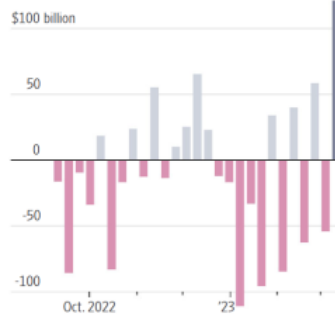
Is This a Problem?

Deposits, change from a week earlier

SMALL BANKS



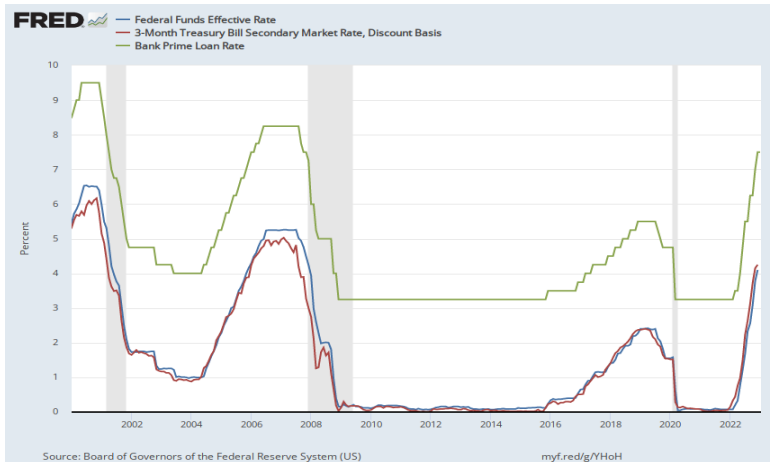
LARGE BANKS



Note: Includes domestically chartered commercial banks. Large banks are defined as the top 25 ranked by domestic assets. Small banks are those not in the top 25.
 Source: Federal Reserve
 Nate Rattner/THE WALL STREET JOURNAL

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The Fed and Short-term Interest Rates

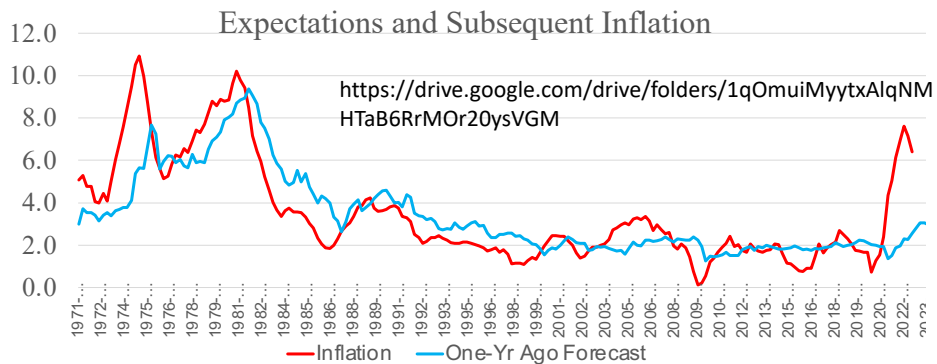


Blue is the fed funds rate.
Red is the rate on 3 month Treasuries.
Green is the prime bank lending rate

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Next Week

What explains MP up until 3/22, and why the reversal?



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Let's Hear from You!

Geoffrey Woglom
grwoglom@amherst.edu

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