

Osher Lifelong Learning Institute, Summer 2022

Contemporary Economic Policy

University of Hawaii, Manoa
July-Aug, 2022

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

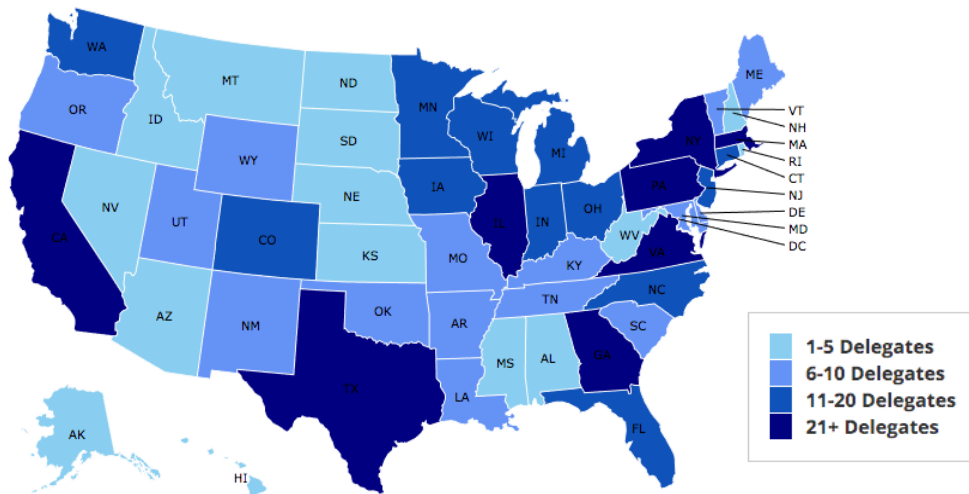


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Where Are We?



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Available NEED Topics Include:

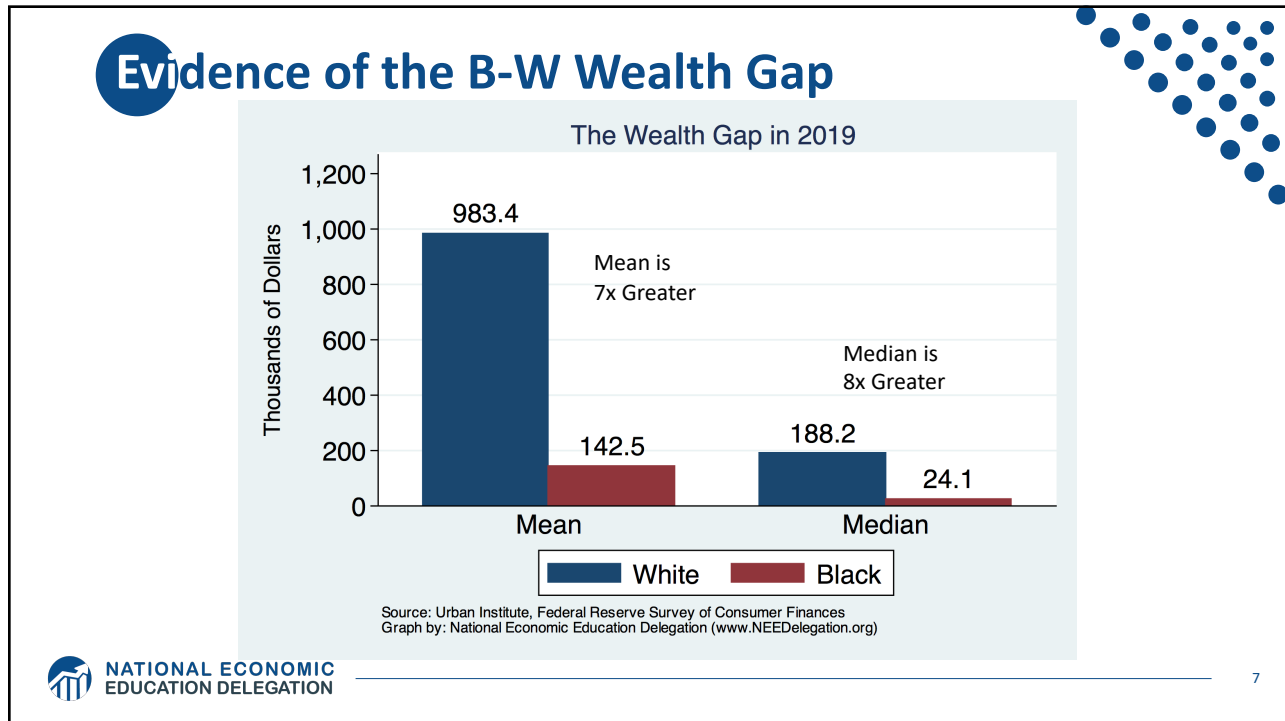
- Coronavirus Economics
- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy



Course Outline

- **Contemporary Economic Policy**
 - **Week 1 (7/8): Economic Update (Geoffrey Woglom, Amherst College)**
 - Week 2 (7/15): The Black-White Wealth Gap (Jon Haveman, NEED)
 - Week 3 (7/22): Cryptocurrencies (Geoffrey Woglom, Amherst College)
 - Week 4 (7/29): Gender Pay Gap (Jon Haveman, NEED)
 - Week 5 (8/5): Federal Debt (Joseph Carolan, Oakland University)
 - Week 6 (8/12): Autonomous Vehicles (Jon Haveman, NEED)



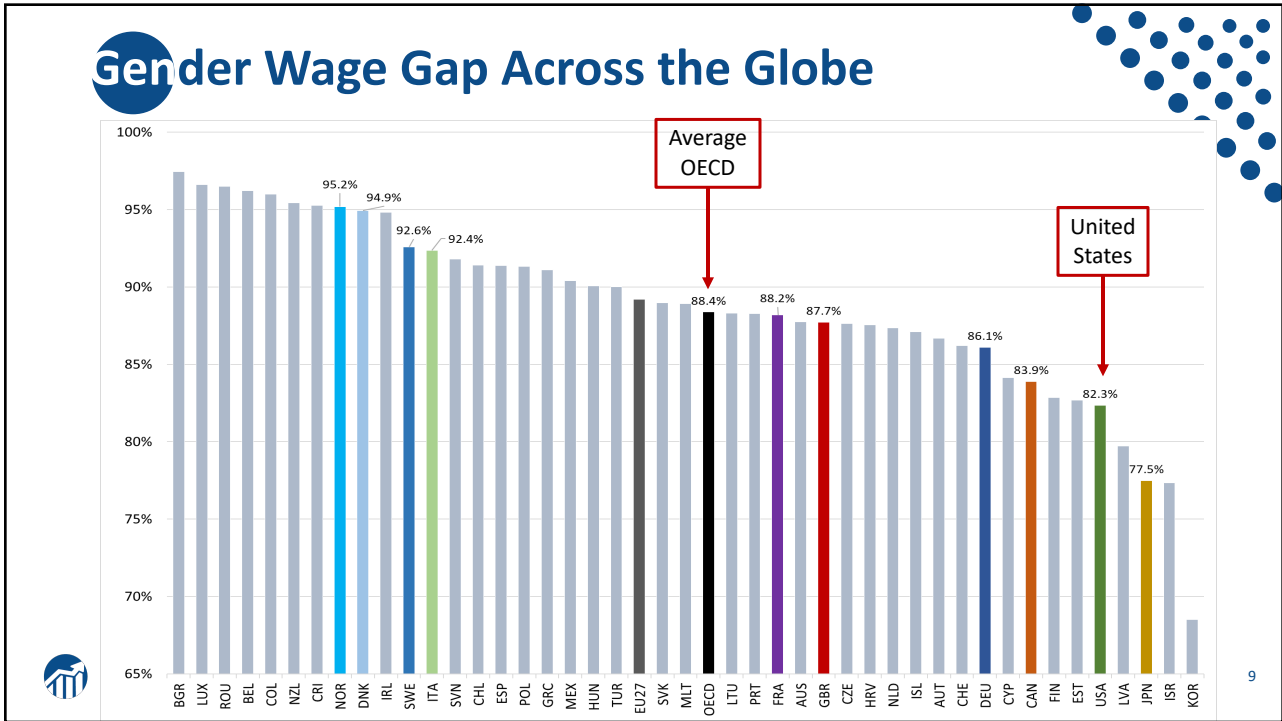


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Gender Wage Gap Across the Globe

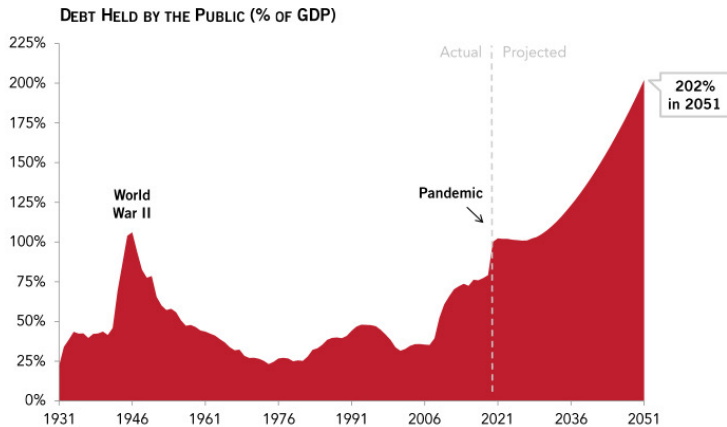


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The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



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



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Autonomous Vehicles: Jon Haveman



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Submitting Questions

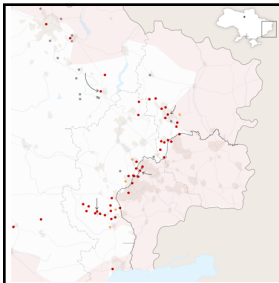
- **Please submit questions of clarification in the chat.**
 - I will try to handle them as they come up.
- **We will do a verbal Q&A once the material has been presented.**
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**
- **Slides will be available from the NEED website tomorrow (https://needelegation.org/delivered_presentations.php)**



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US Economy and Russia/Ukraine Conflict

Geoffrey Woglom, Ph.D.
Amherst College, emeritus
July 8, 2022

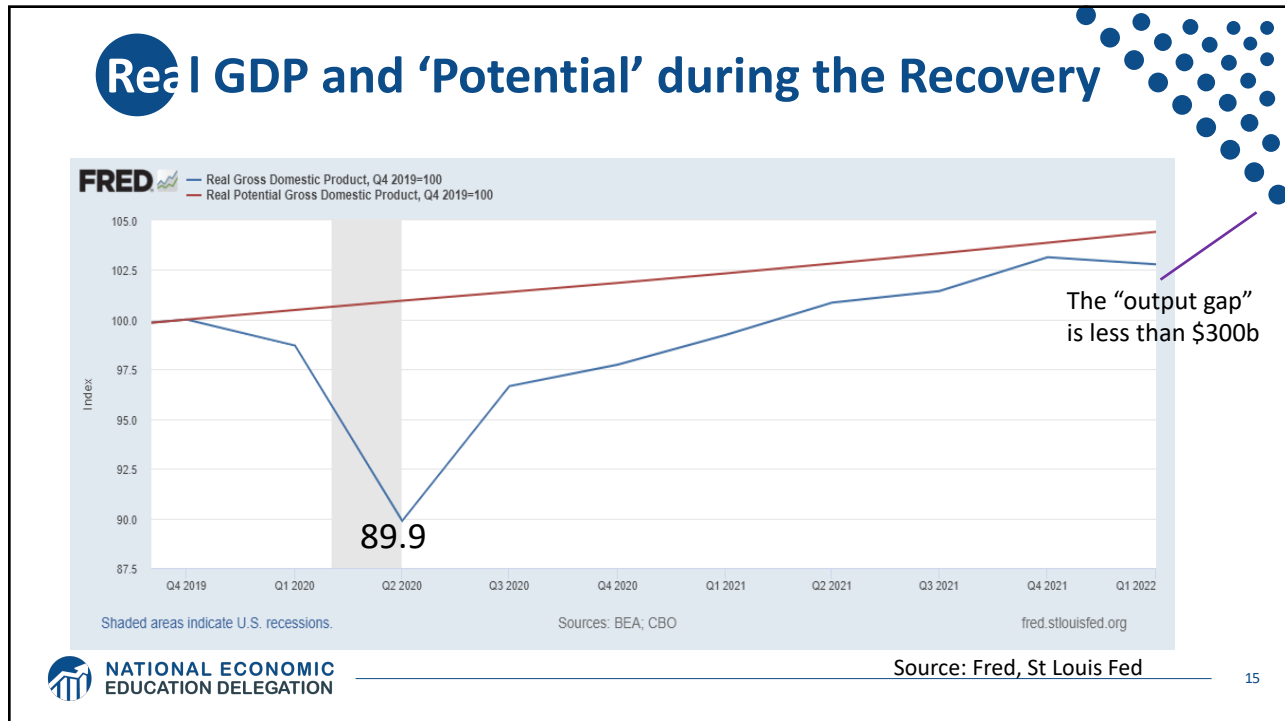


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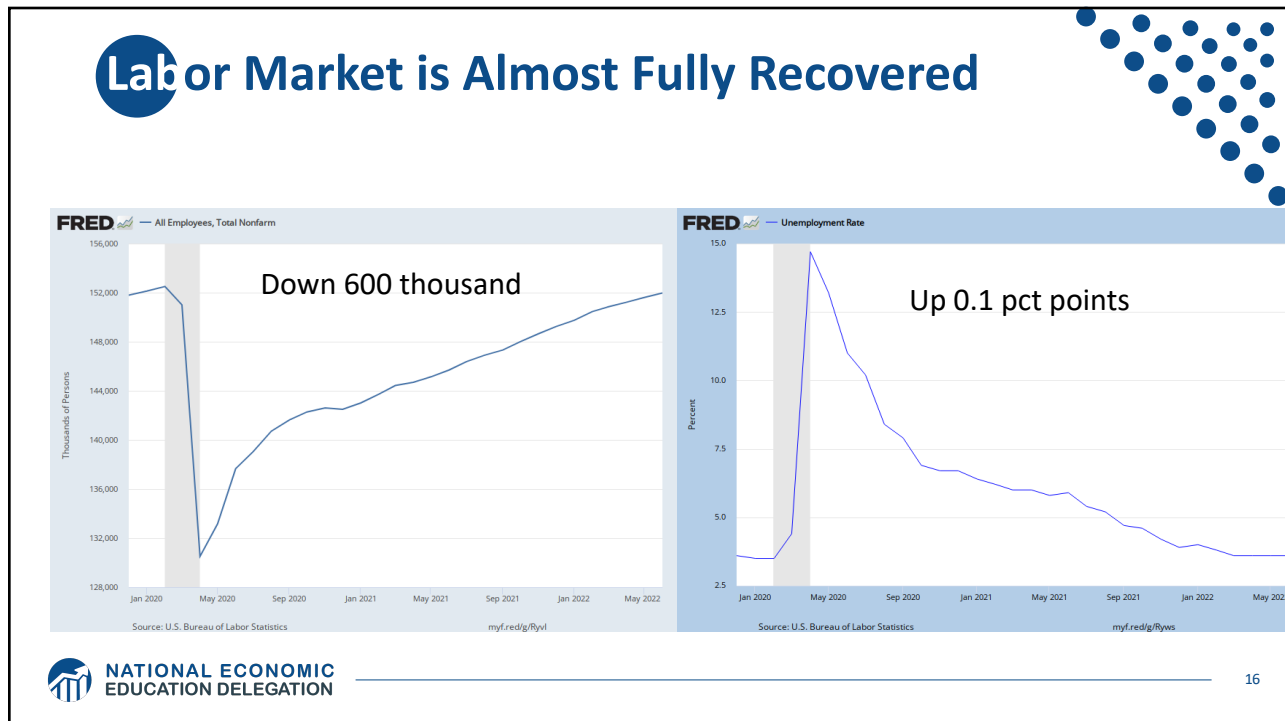
Outline for the Talk

1. Quick summary of the state of the economy.
2. Closer look at inflation and whose to blame (in my opinion).
3. Current confusion on the state of the economy.
4. What's at stake in controlling inflation.
5. Brief thoughts on the effects of the Ukraine crisis. (if there is time)

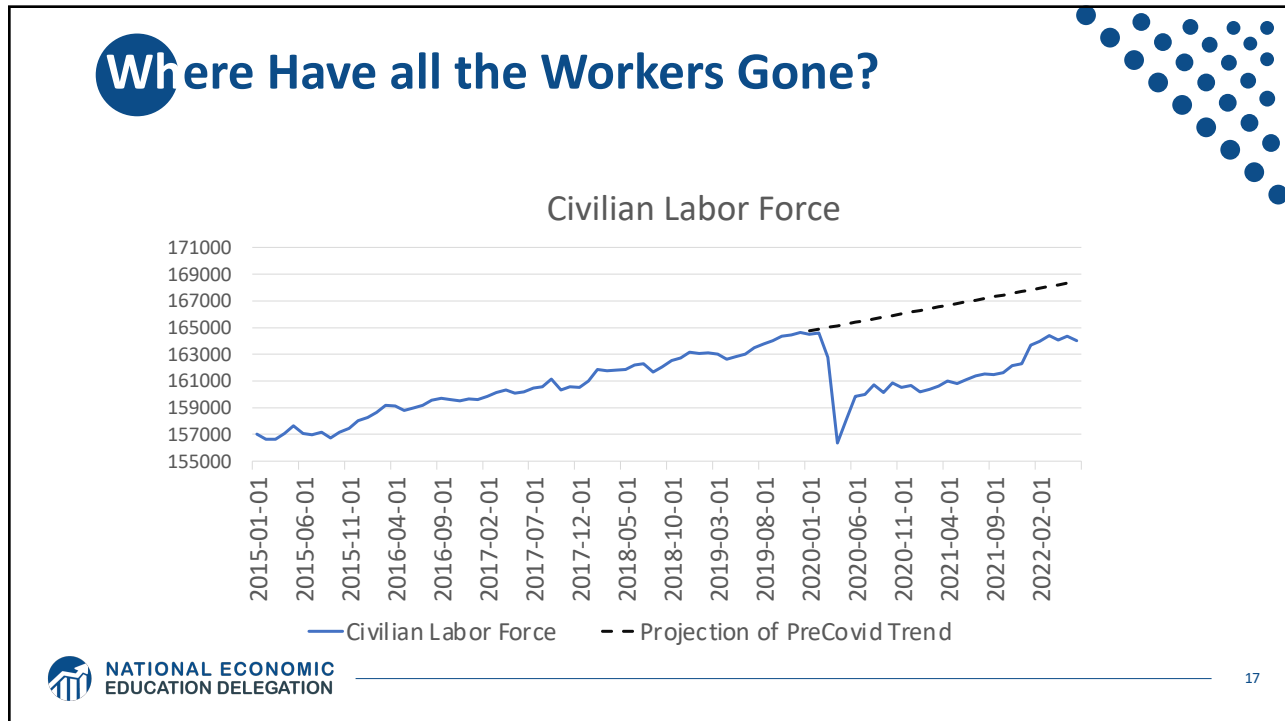
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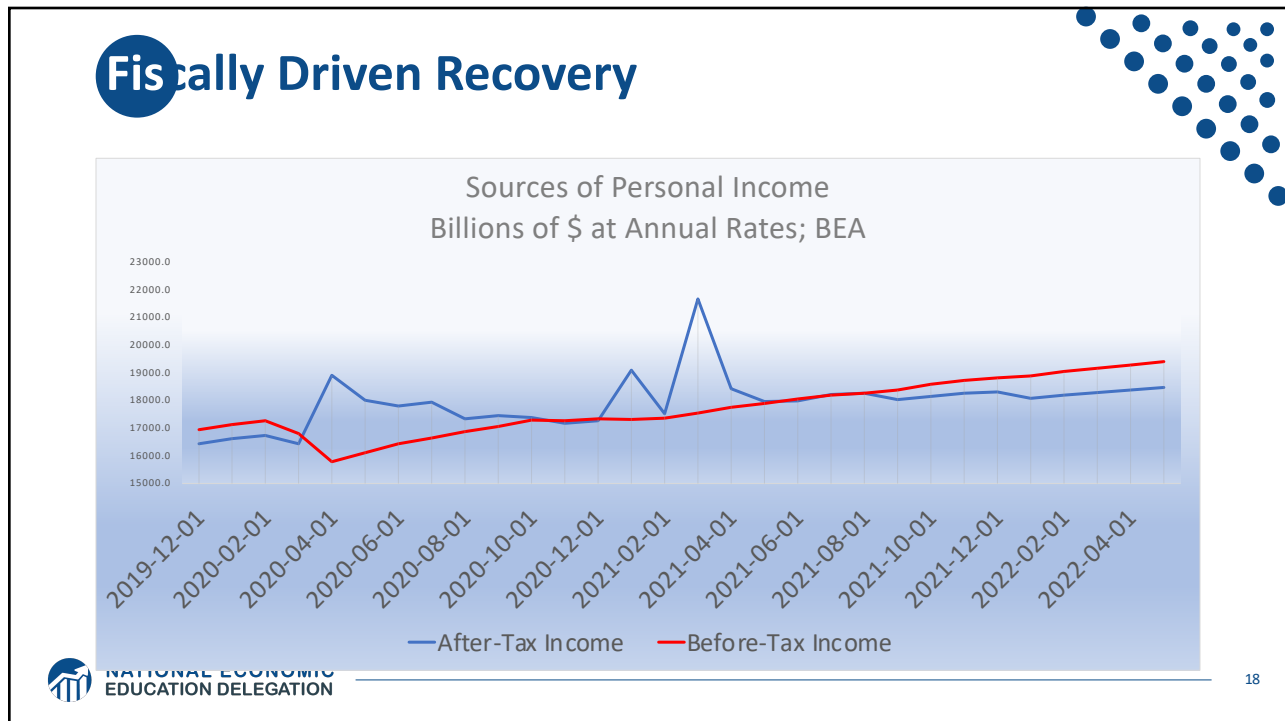
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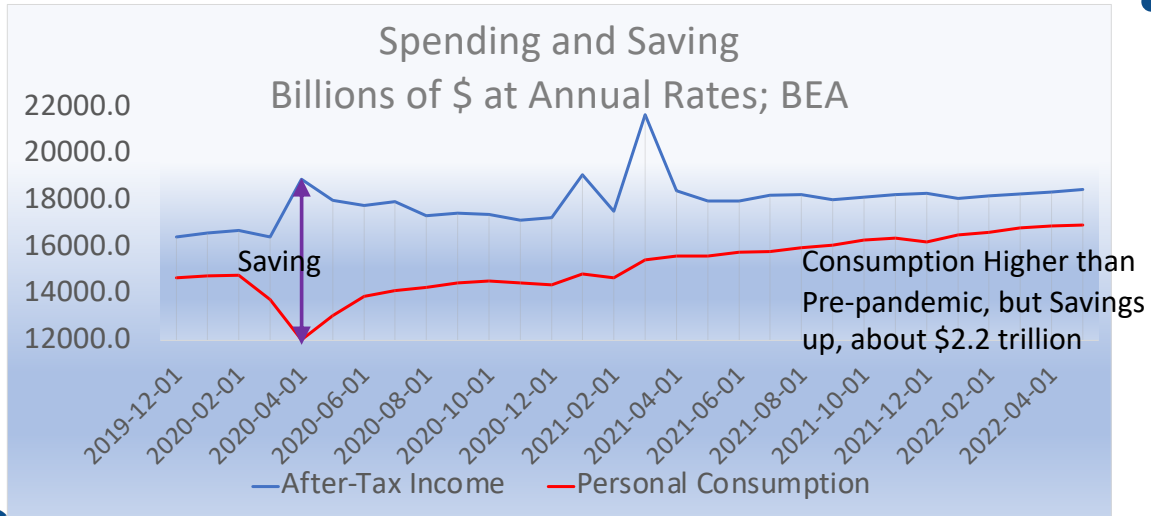


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Households Lead the Way

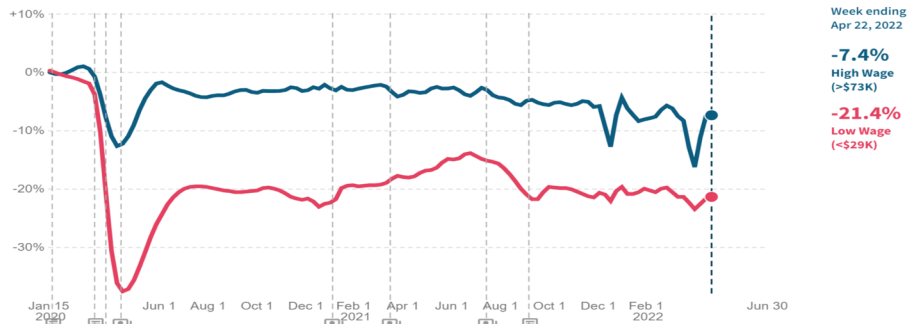


K-Shaped Recovery

OPPORTUNITY HIGHLIGHTS ECONOMIC TRACKER HARVARD BROWN BILLY MELINDA SATEL

Percent Change in Employment*

In the United States, as of April 22 2022, employment rates among workers in the top wage quartile decreased by 7.4% compared to January 2020 (not seasonally adjusted).



data source: Earmint, Intuit, Kronos, Paychex

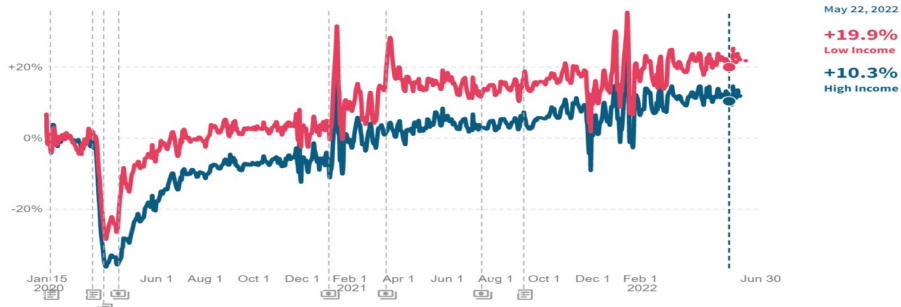
*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earmint, and timesheet data from Kronos. The dotted line is a prediction of employment rates based on Kronos and Paychex data.
last updated: June 17, 2022 next update expected: July 01, 2022

Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER HARVARD UNIVERSITY FEDERAL RESERVE BILL & MELINDA GATES FOUNDATION

Percent Change in All Consumer Spending*

In the United States, as of May 22 2022, total spending by high-income consumers increased by 10.3% compared to January 2020.

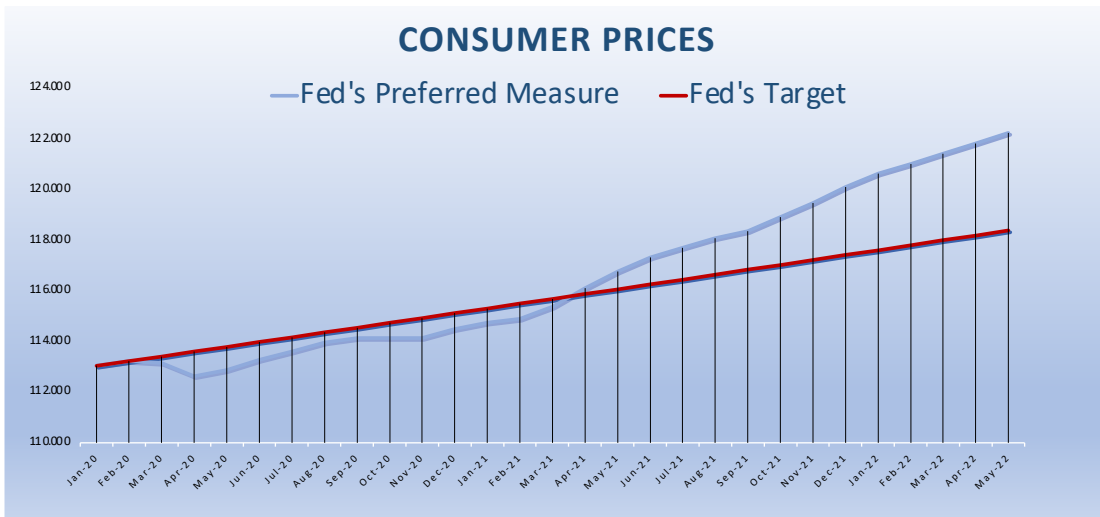


*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.
 last updated: June 21, 2022 next update expected: July 01, 2022

data source: Affinity

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Inflation during the Recovery



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Stabilizer in Chief: the Fed



Jerome Powell
February 2018

- **The Fed's Dual Mandate:**

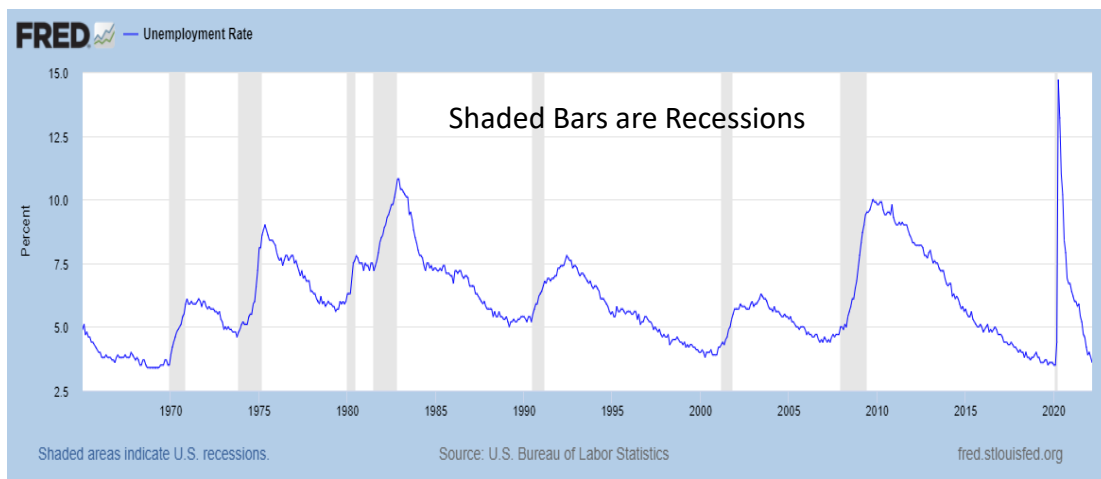
1. "Stable prices" which means 2% rate of inflation in the Personal Consumption Price Index (which corresponds to about 2.5% inflation in the more well-known CPI).
2. "Maximum employment" which means the highest level of employment (lowest unemployment rate) consistent with mandate 1.

- **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**



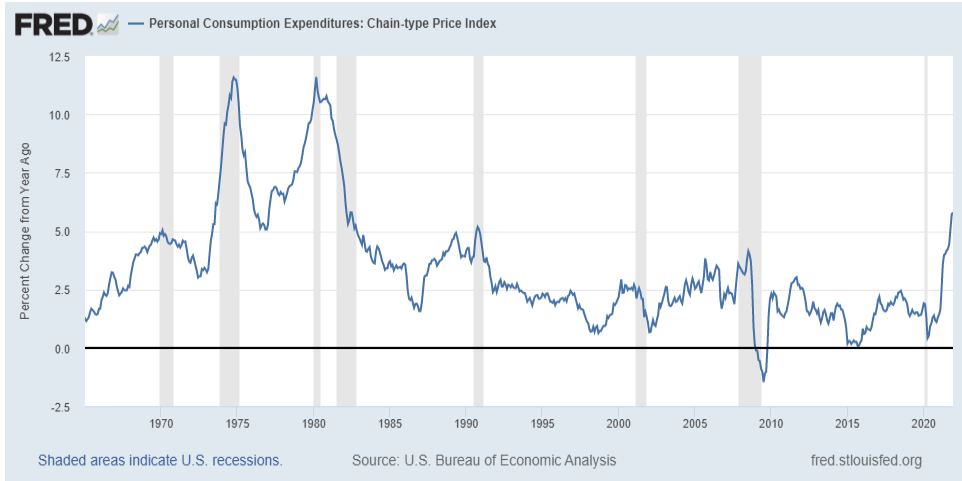
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Track Record on Unemployment



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Track Record on “Price Stability”



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Determinants of Unemployment & Inflation

- **Unemployment:** The higher the level of total spending, the lower the unemployment rate.
- **Inflation:**
 1. Too much spending and inflation rises (Vietnam).
 2. Increase in production costs (e.g., “supply chain bottlenecks.”)
 3. Expectations of high inflation can cause inflation to be high.



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The Fed's Affects the Economy via Interest Rates

- Higher Interest rates discourage firms from buying new plant and equipment, households from buying new homes and tend to lower stock and house prices (!).
- Reduced spending tends to lower production and employment and eventually lowers inflation.



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Become a Central Banker in One Slide!

- If you are more concerned that inflation is too high, raise interest rates.
- If you are more concerned that unemployment is too high, lower interest rates.
- Inflation and unemployment just right: keep rates the same.



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One Big Complication: Lags

- **Milton Friedman: Monetary Policy affects GDP and Inflation with Long and Variable (Unpredictable) Lags.**
- **Raising interest rates today does nothing to spending today nor to inflation.**
- **But over time spending slows and eventually inflation falls.**
- **Friedman believed that lags led to the Fed to “oversteering” the economy consistently.**



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The Great Moderation

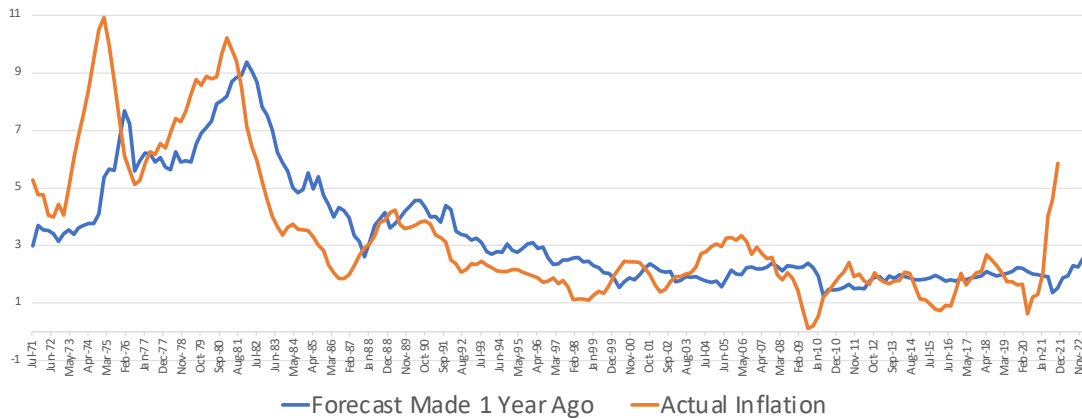
- **From 1990 until 2008, the performance of the US economy was extraordinary and even Milton Friedman gave kudos to the Alan Greenspan.**
- **We (economist) thought we knew why: Central Bankers finally listened to us on the importance of stabilizing inflationary **expectations**, starting with Paul Volcker.**
- **Volcker was determined to reduce inflationary expectations.**



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“Anchoring” Inflation Expectations

Expectations and Subsequent Inflation



Forecasts: Philadelphia Fed, “Survey of Professional Forecasters”

This Inflation is Different!

12-month, percentage price increase, selected items in the CPI

Category:	Weight in CPI, 2022	December 1981	May 2022
All Items	100%	8.9	8.6
Services	60.3	13.0	5.7
Commodities	40.0	6.0	7.2
Housing	42.0	10.2	6.9
Transportation	18.9	11.0	19.4
Food	14.3	4.3	9.7
Medical Care	8.4	12.5	3.7
Energy	8.3	11.9	34.6
Used Cars	4.0	20.3	16.1

Sources: BLS and Fred data from the St Louis Federal Reserve Bank



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 is too much total spending and in the absence of bold Fed actions is likely to continue.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion and today's strong retail sales numbers suggest they are prepared to spend it.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.



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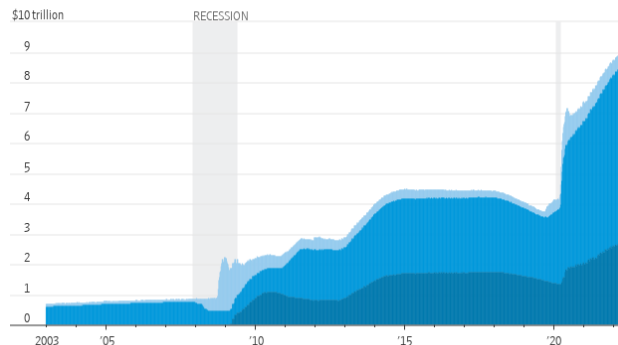
Fed Policy during the Recovery

- Zero interest rates until March and a Big QE program

Bond Binge

The Federal Reserve's asset holdings have more than doubled since March 2020

■ Mortgage bonds ■ Treasuries ■ Other



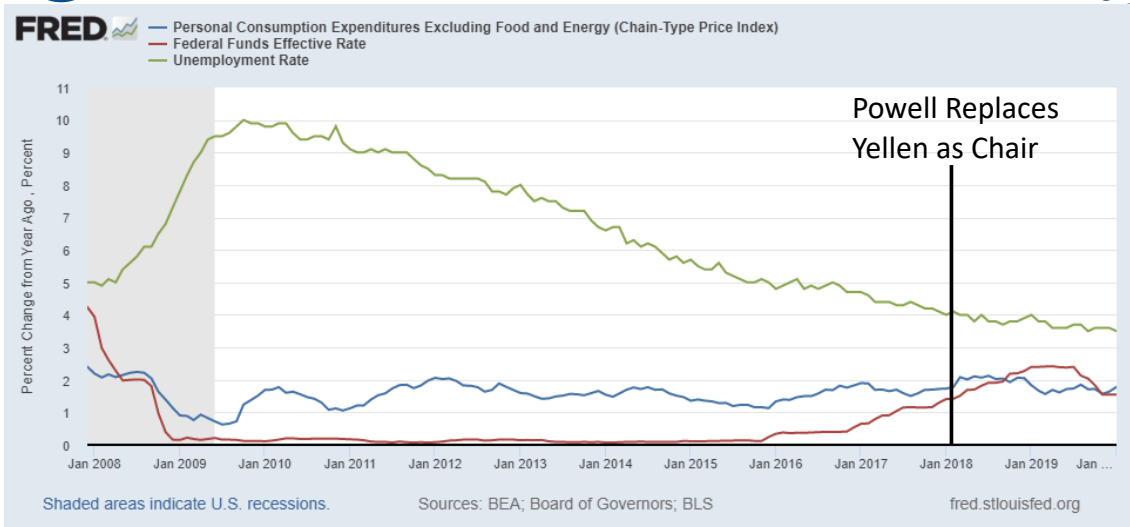
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Source: Federal Reserve

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Why Did Powell Do It?



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Policy Changes under Powell

- In the Fed's dual mandate put more emphasis on the employment goal relative to the inflation goal.
- Inflation goal switched from targeting forecasted *future* inflation to trying to achieve average *realized* inflation of 2%

Have they forgotten about Lags!



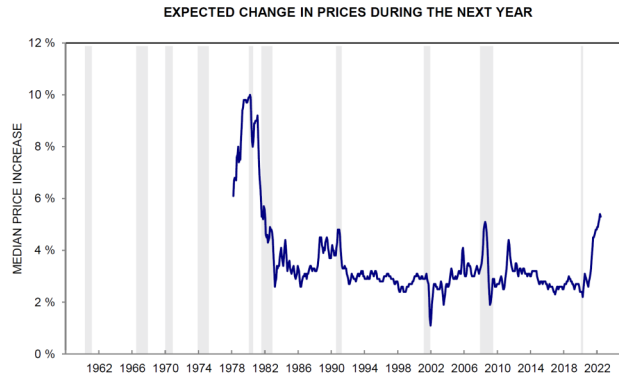
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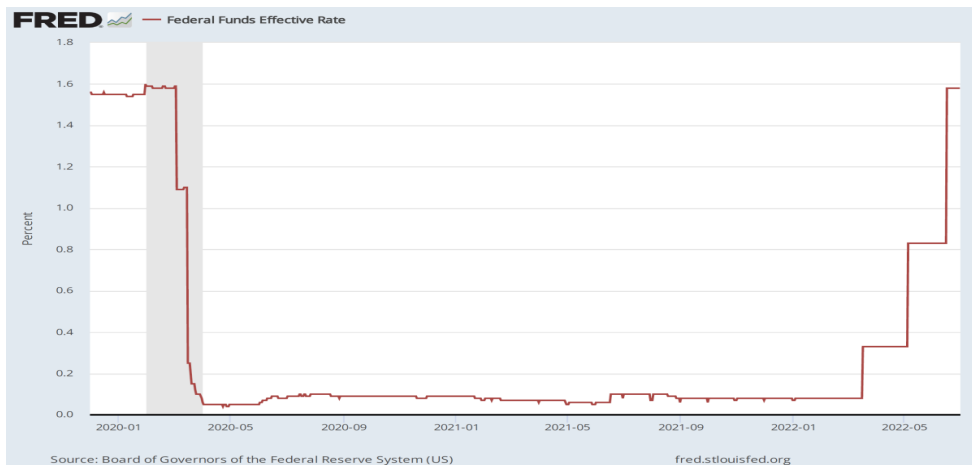
But, Boy Have Things Changed!

- Powell's Wakeup Moment



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Three Increases in 3 Meetings



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Reality sets in at the FOMC, June Meeting

Percent

Variable	Median ¹			
	2022	2023	2024	Longer run
Change in real GDP	1.7	1.7	1.9	1.8
March projection	2.8	2.2	2.0	1.8
Unemployment rate	3.7	3.9	4.1	4.0
March projection	3.5	3.5	3.6	4.0
PCE inflation	5.2	2.6	2.2	2.0
March projection	4.3	2.7	2.3	2.0
Core PCE inflation ⁴	4.3	2.7	2.3	
March projection	4.1	2.6	2.3	
Memo: Projected appropriate policy path				
Federal funds rate	3.4	3.8	3.4	2.5
March projection	1.9	2.8	2.8	2.4

Good Luck with these Forecasts!

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FOMC Minutes from June Meeting

Members judged that, **with high and widespread inflation pressures and some measures of longer-term inflation expectations moving up somewhat**, it would be appropriate for the postmeeting statement to note that the Committee was **strongly committed to returning inflation to its 2 percent objective**. As the further firming in the policy stance would likely result in some slowing in economic growth and tempering in labor market conditions, members also agreed **to remove** the previous statement language that had indicated an expectation that **appropriate policy would result in a return of inflation to 2 percent and a strong labor market**.

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And, There is More!

In discussing potential policy actions at upcoming meetings, participants continued to anticipate that ongoing increases in the target range for the federal funds rate would be appropriate to achieve the Committee's objectives. In particular, participants judged that an increase of 50 or 75 basis points would likely be appropriate at the next meeting. Participants concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognized the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist.

More Reality on Wall Street Too

WSJ, SURVEY OF PROFESSIONAL FORECASTERS, JUNE (MEDIANS)			
	2022	2023	
CHANGE IN REAL GDP	1.3	1.4	
APRIL	2.6	2.4	
UNEMPLOYMENT	3.7	4.2	
APRIL	3.4	3.6	
INFLATION (CPI)	7.0	3.3	
APRIL	4.8	2.8	
FEDERAL FUNDS RATE	3.3	3.5	
APRIL	2.0	2.7	

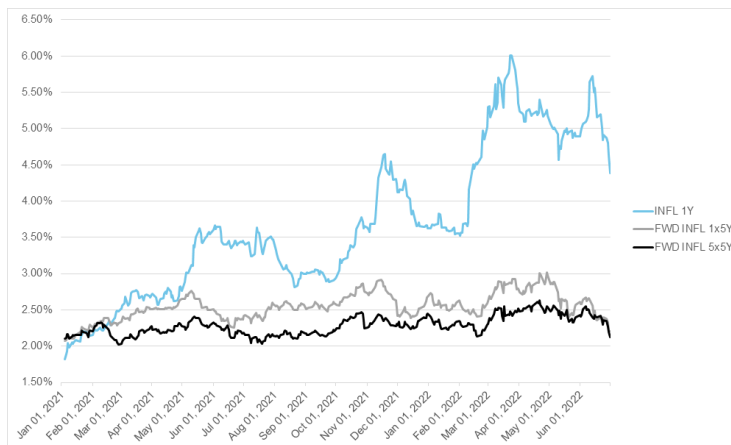
Fed and Wall Street Forecasters are Similar

- By 2023, inflation will come down substantially.
- The federal funds rate will stay below 4 percent.
- Unemployment will rise less than 0.5 percentage points.

I don't get it. This scenario only works if most of inflation is due to supply issues and expectations of inflation are "well anchored," so that the Fed achieves a "soft landing."

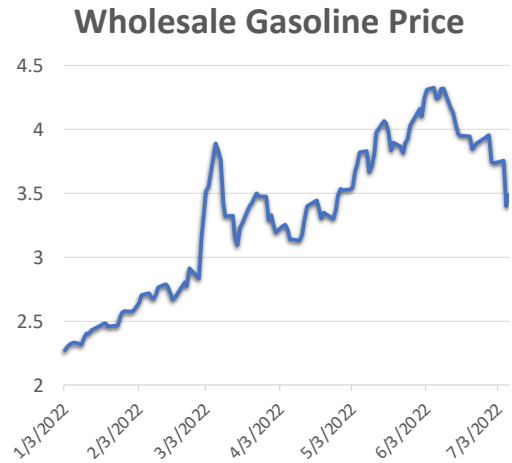
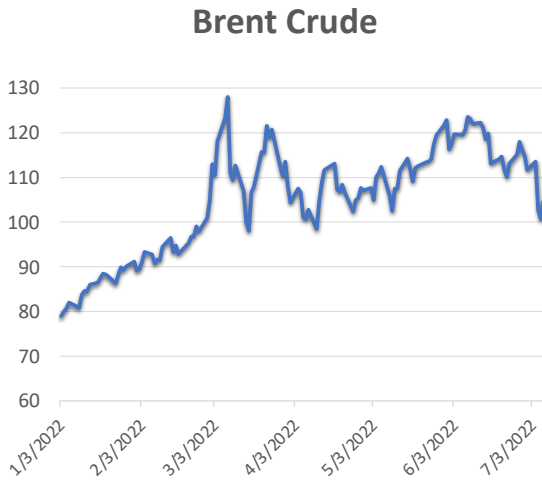
Financial Markets on the Expectations Story

Historical chart of the ICE U.S. Dollar Inflation Expectation Indexes



<https://www.theice.com/iba/usd-inflation-indexes>

Supply Shocks Easing ?



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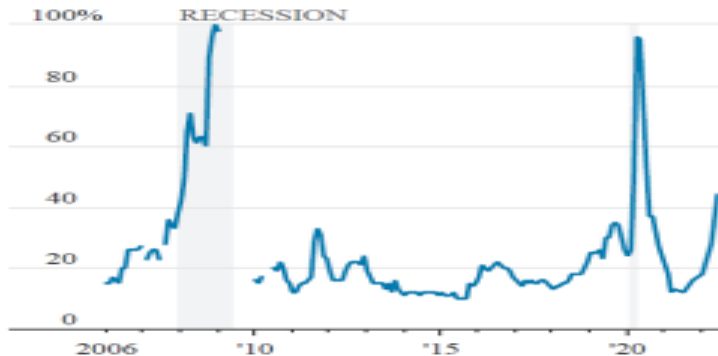
<https://markets.businessinsider.com/>

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But Wall Street is also Worried about Recession

Probability the U.S. is in a recession in next 12 months including today



Note: Gaps indicate question not asked or data unavailable.
Source: Wall Street Journal surveys of economists

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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.



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Real GDP Growth and Recessions

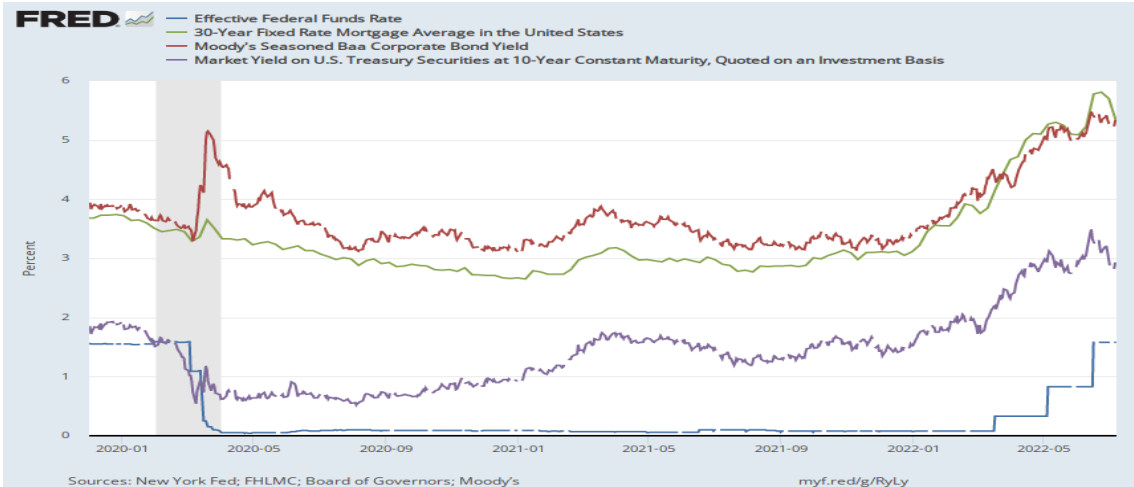


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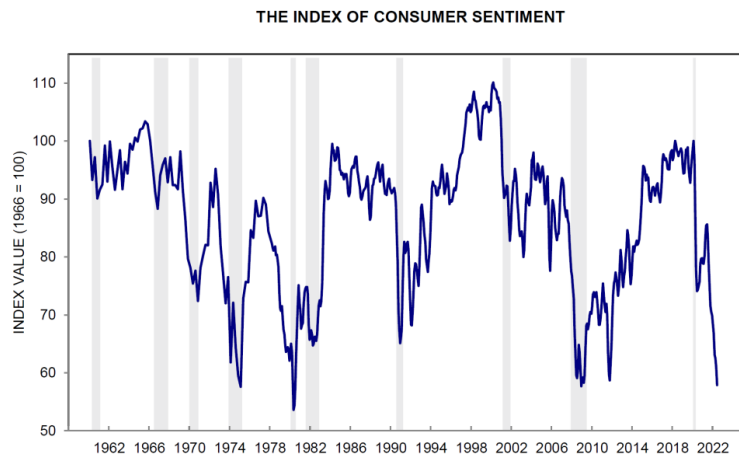
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The Case for Recession: Long-term Rates?



The Case for Recession: Consumers are Worried



So, What Will it Be?

- Darned if I know.
- **And What Makes Matters Worse is the June Employment Report that came out this AM**
- **No recession: firms added 375K jobs.**
- **Recession: Employment fell by 315K and Labor Force also fell.**



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If Unemployment Starts to Rise

The Fed will have a very difficult choice

- a) Keep interest rates high(in an election year) to slow inflation**
 1. stalling the recovery.
 2. disrupting financial markets.
- b) Don't let rates rise too much cushioning the effect on employment**
 1. avoids a recession (maybe).
 2. inflationary expectations become unanchored



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The Conflict in Ukraine and the US Economy

- **Short run**

- Uncertainty
- Increase in Cost of Food and Fuel

- **Long run**

- Decrease in Globalization
- The Role of the Dollar as a International Reserve Currency.



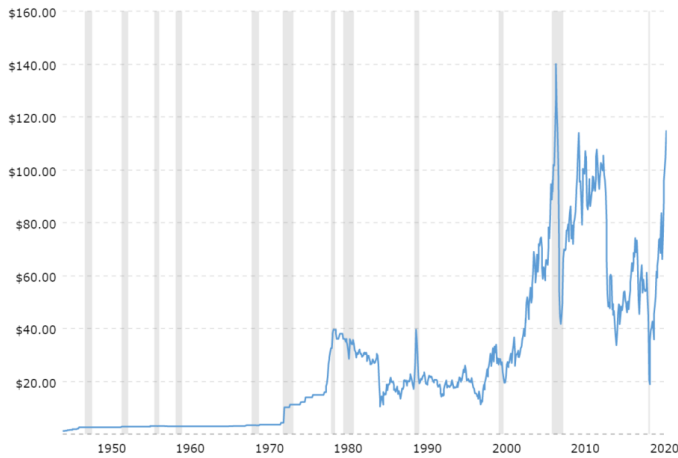
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The Fear Index



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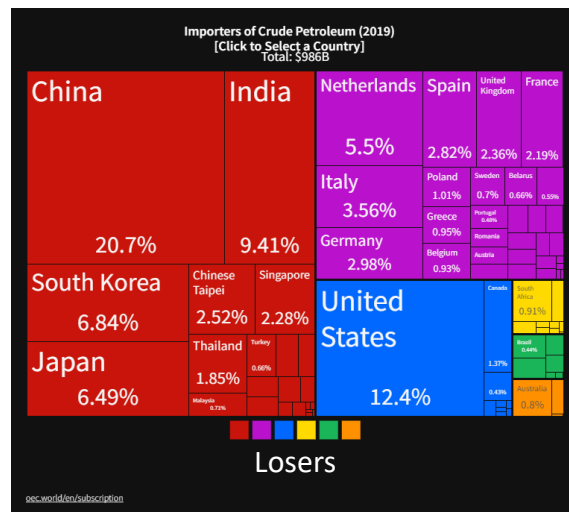
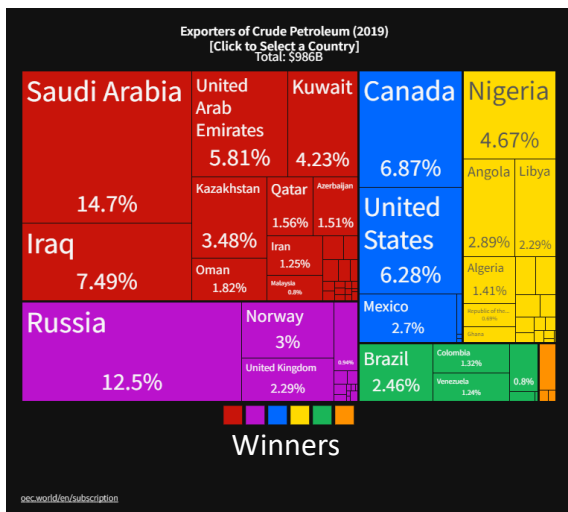
Supply Shocks: Then and Now



Historical Oil Price
 Source: 'https://www.macrotrends.net/1369/crude-oil-price-history-chart'

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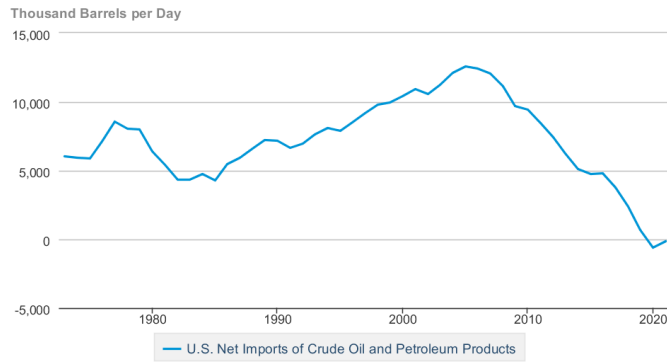
The Price of Oil is Likely to Stay High



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How Much Will the US be Hurt?

U.S. Net Imports of Crude Oil and Petroleum Products



Source: U.S. Energy Information Administration

In the 1970s, the US as a whole was less wealthy when oil price went up.

Not now (fracking)

But, unless you own an oil well, you are likely to feel the pinch!

Wheat Prices Also Look Scary

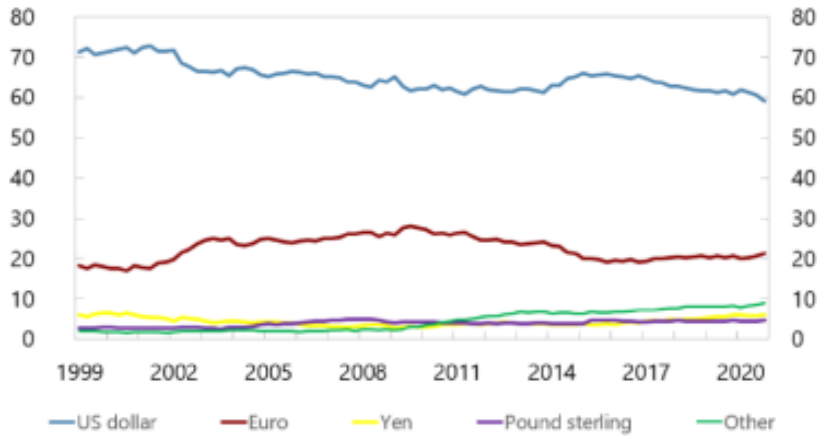


Wheat Futures Prices

Source: <https://www.macrotrends.net/2534/wheat-prices-historical-chart-data>

Demand for Dollars by Central Banks

(currency composition of global foreign exchange reserves, percent)



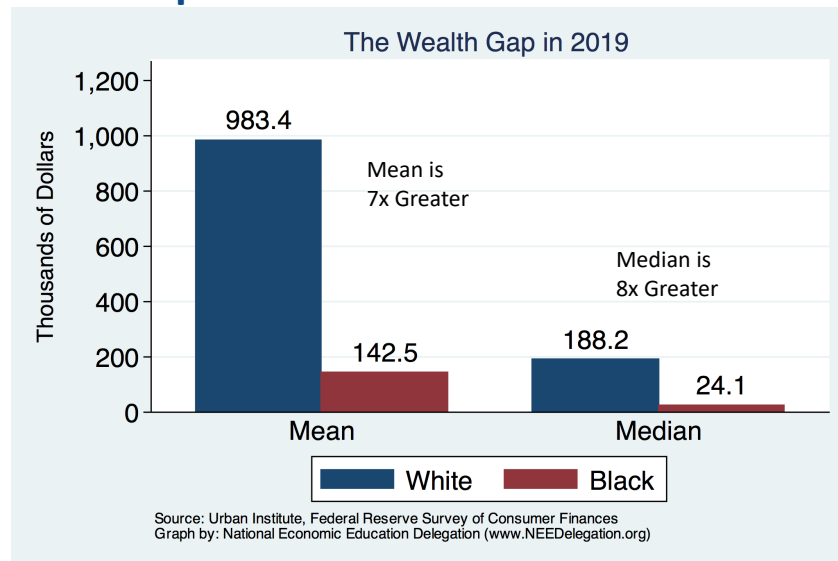
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Source IMF Currency Composition of Official Exchange Reserves

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B-W Wealth Gap: Jon Haveman



Source: Urban Institute, Federal Reserve Survey of Consumer Finances
Graph by: National Economic Education Delegation (www.NEEDelegation.org)



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Questions?

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For every state and county in the United States.

Detailed graphs on employment, housing, moves, and other statistics.



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