



Osher Lifelong Learning Institute, Winter 2022
Contemporary Economic Policy

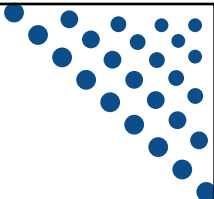
University of Pittsburgh, PA
March-April, 2023

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: 652+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

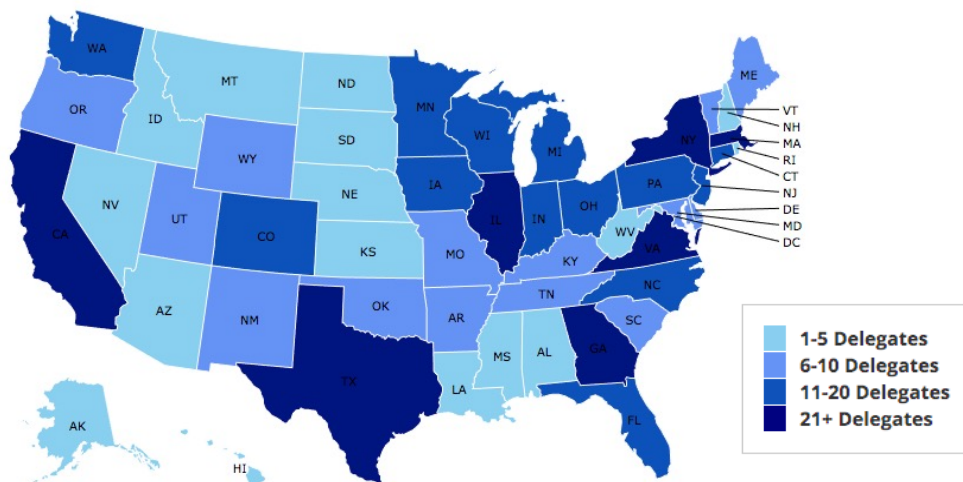
- **Global Partners: 48 Ph.D. Economists**

- 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

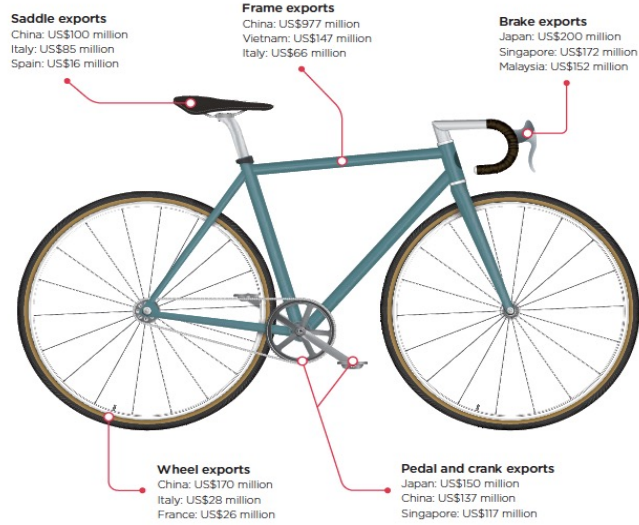
- **Contemporary Economic Policy**
 - **Week 1 (3/15): US Economic Update (Geoffrey Woglom, Amherst College)**
 - Week 2 (3/22): Trade and Globalization (Alan Deardorff, University of Michigan)
 - Week 3 (3/29): Cryptocurrencies (Geoffrey Woglom)
 - Week 4 (4/5): Climate Change Economics (Sarah Jacobson)
 - Week 5 (4/12): Autonomous Vehicles (Jon Haveman, NEED)



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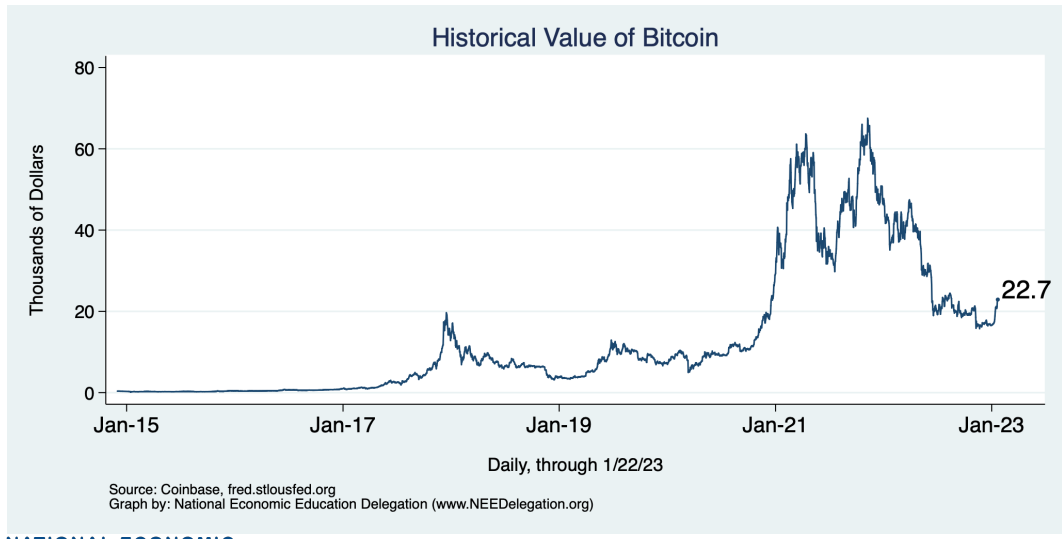
Trade: Bicycle Supply Chain

Figure 1.1 Where do bicycles come from?



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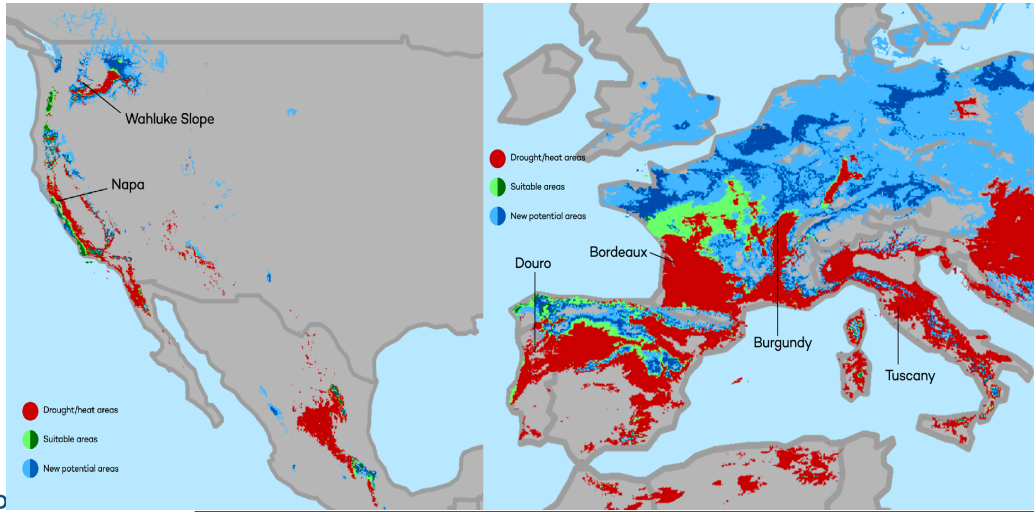
Bitcoins: What Was All the Excitement About?



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Climate Change Economics

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



Autonomous Vehicles



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.**
- **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 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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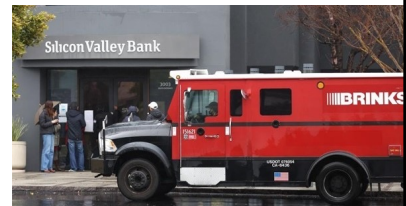
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INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
March 15, 2023



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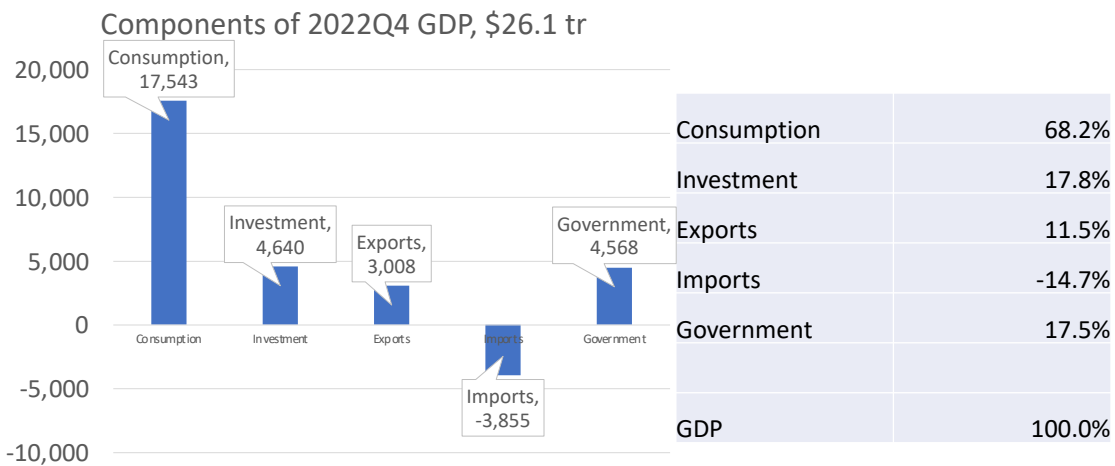
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Outline for the Talk

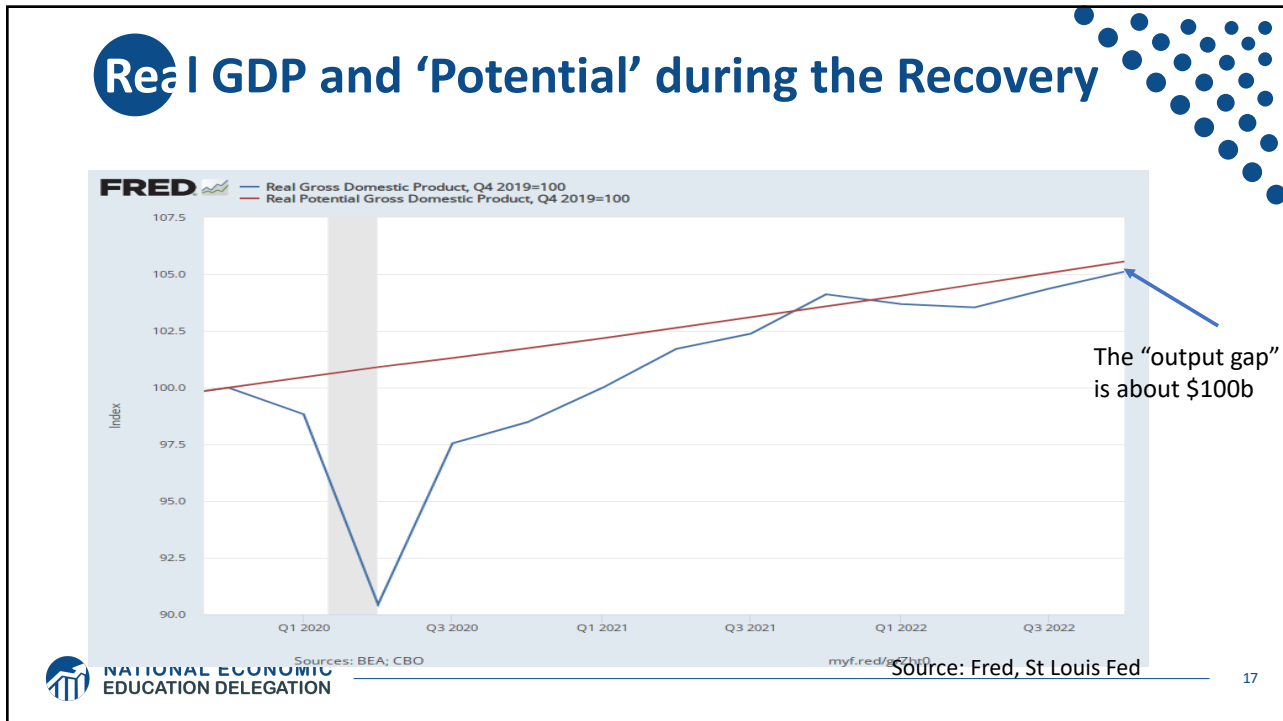
1. Summary of the state of the economy.
2. The Effect of M&F policies.
3. What lies ahead for the economy.
4. The implications of recent bank failures

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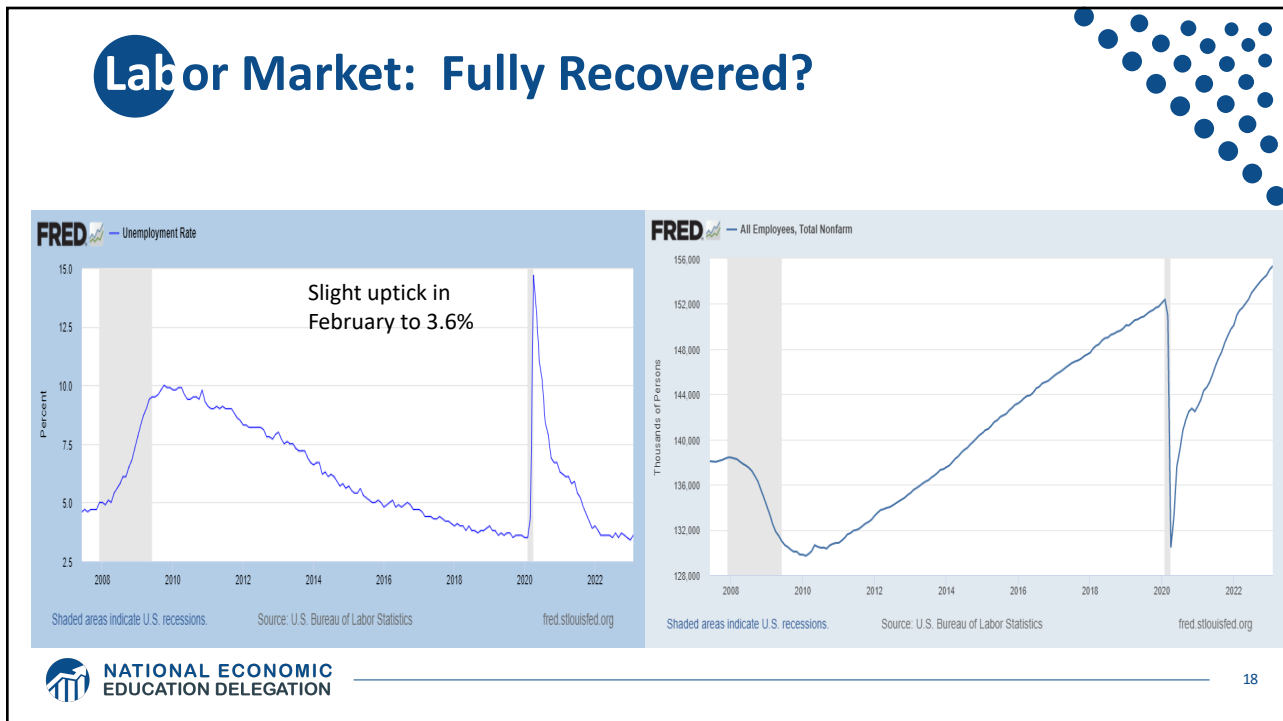
Gross Domestic Product



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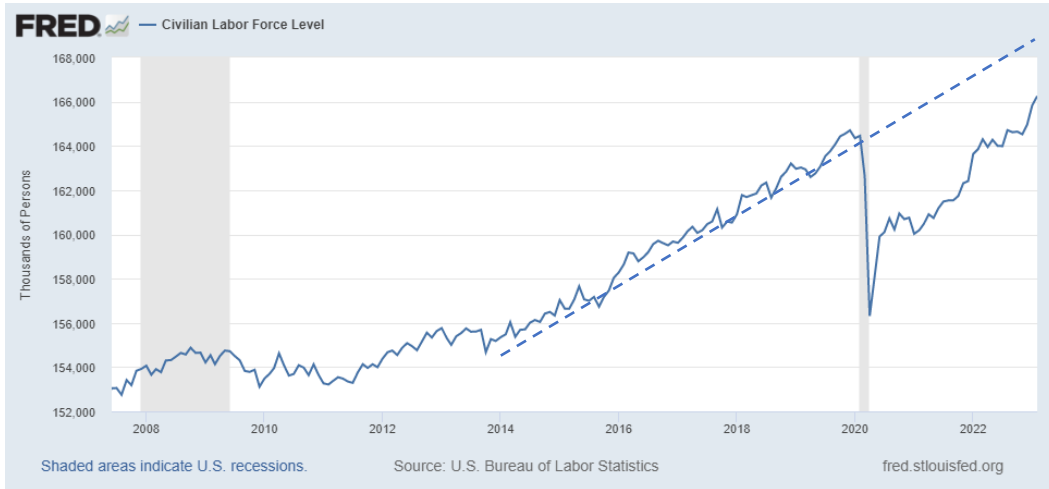


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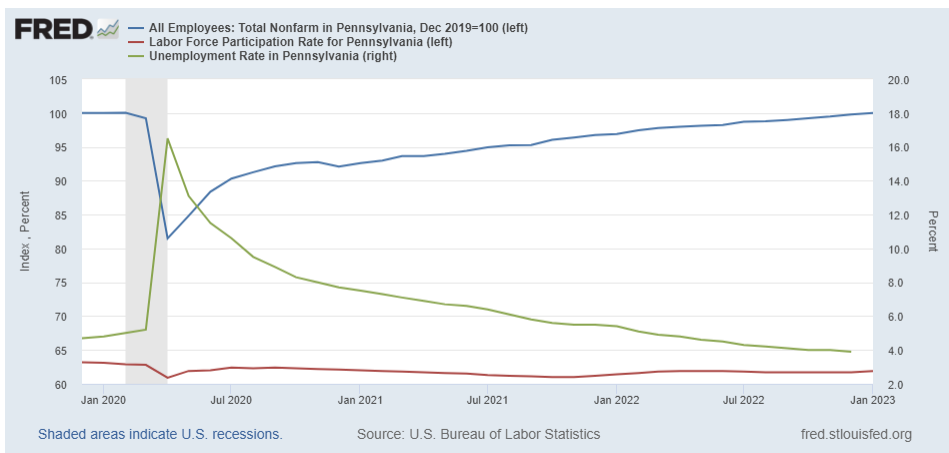


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Where Have All the Workers Gone?



Labor Market in Pennsylvania



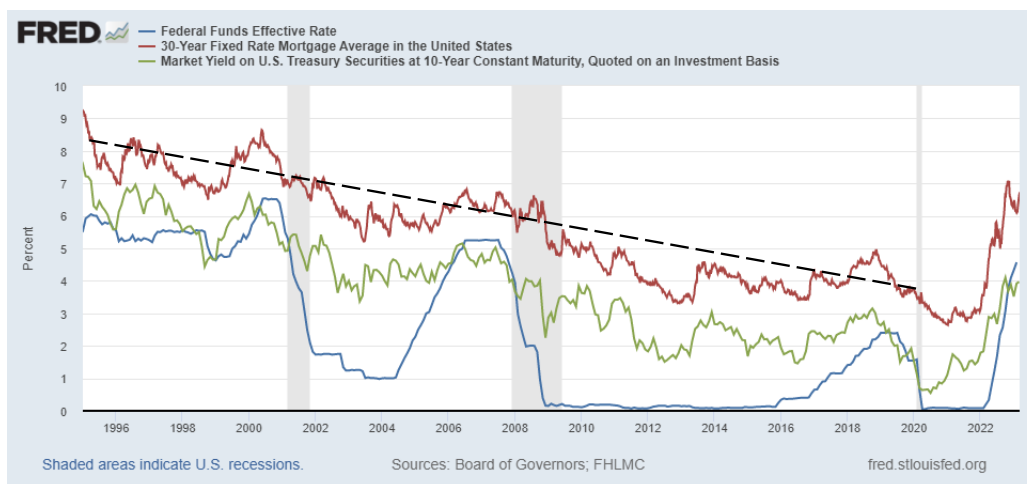
Overall Good News on the Real Side

- 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!

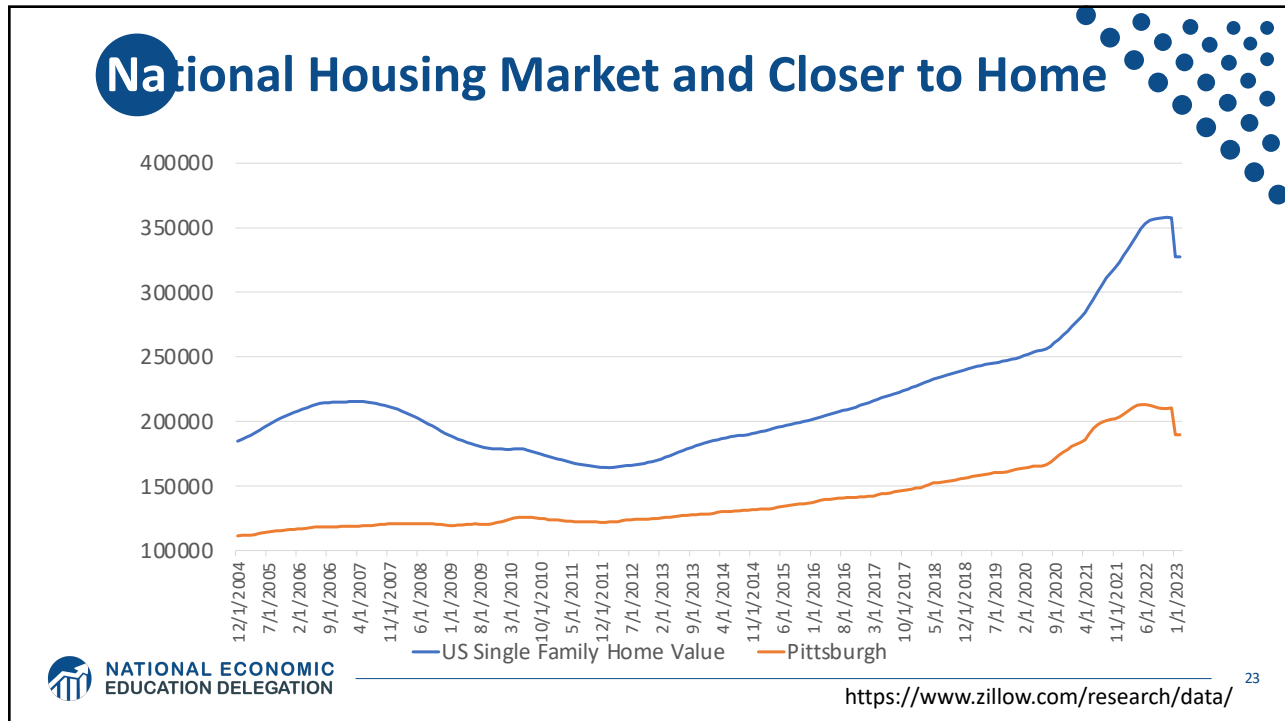


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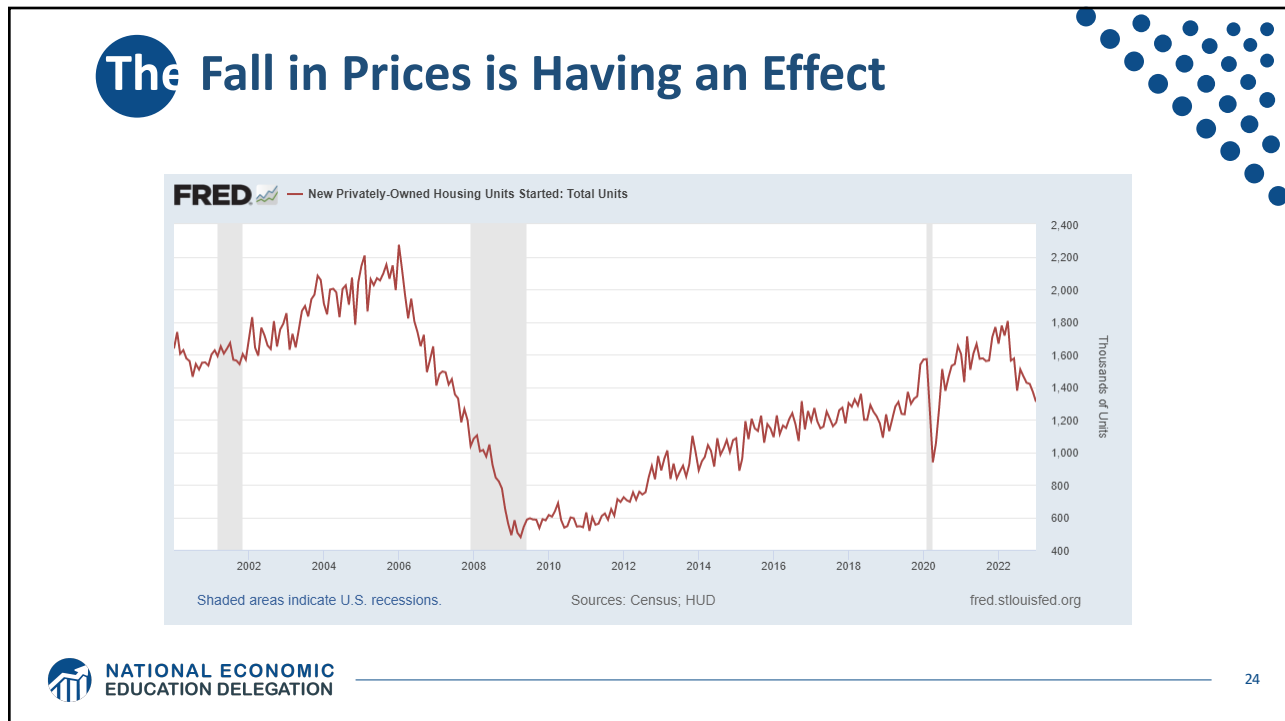
Interest Rates: Era of Falling Rates Over?



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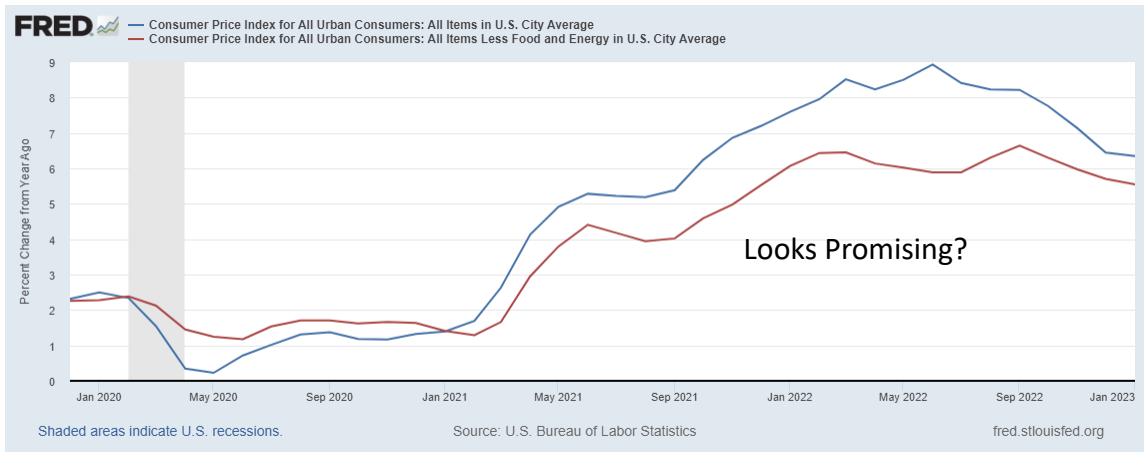
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Stock Prices: Rates and Recession?



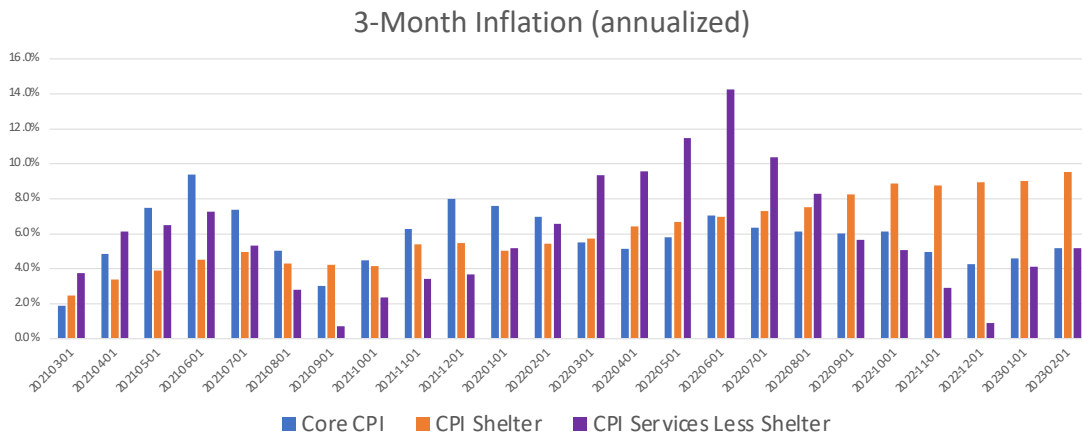
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Inflation during the Recovery



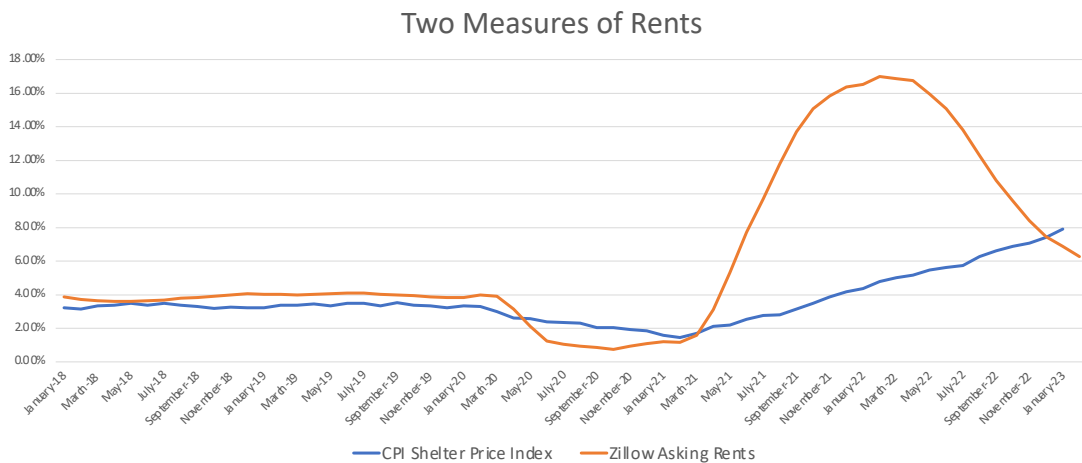
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Inflation: A Closer Look



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Rents Paid and Rents Asked For



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Wages Haven't Kept Pace with Inflation



The "Nominal" Side

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

Policy Effects

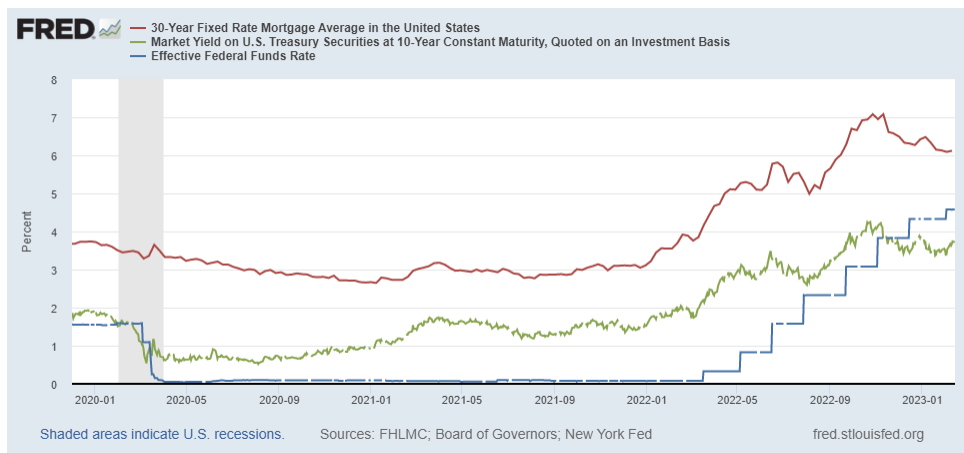
Fiscal:

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

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**

Accommodative Monetary Policy until 3/2022



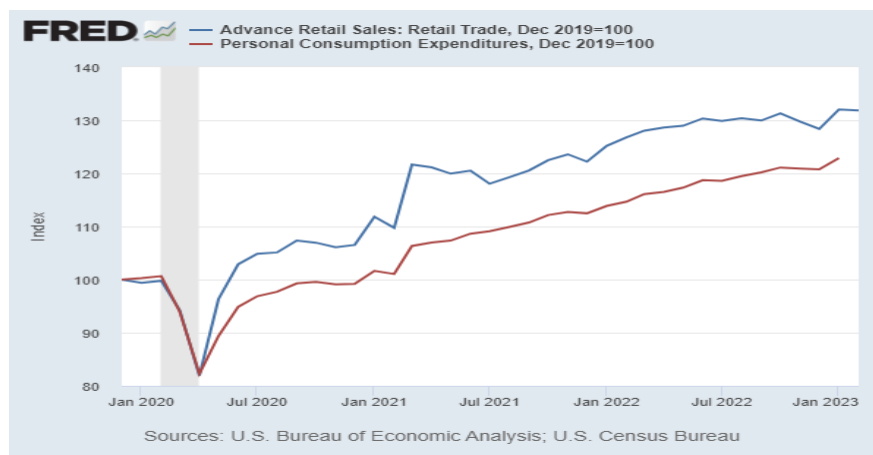
Where we Stand

- 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.

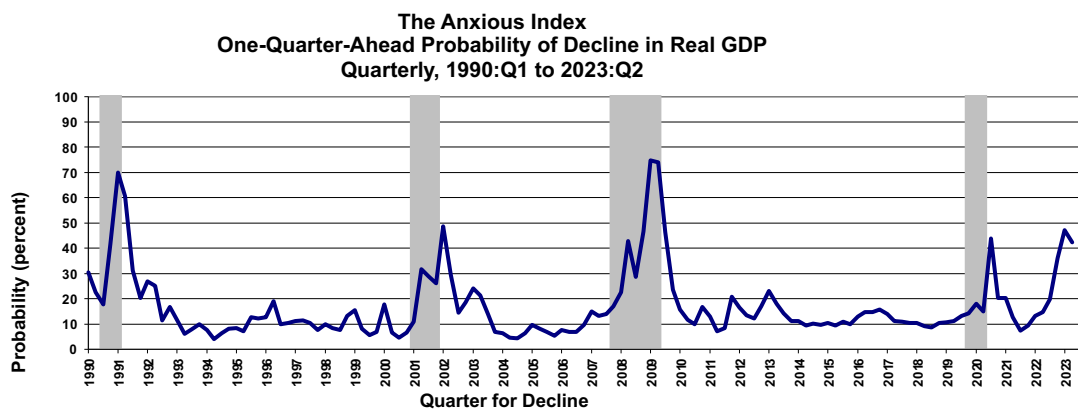
So, where are we headed?

What will the Fed do?

Latest Numbers on Consumption



Forecasters Are in fact Seeing the “R” Word



The shading shows the period beginning with each NBER peak and ending with the corresponding trough.



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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.**

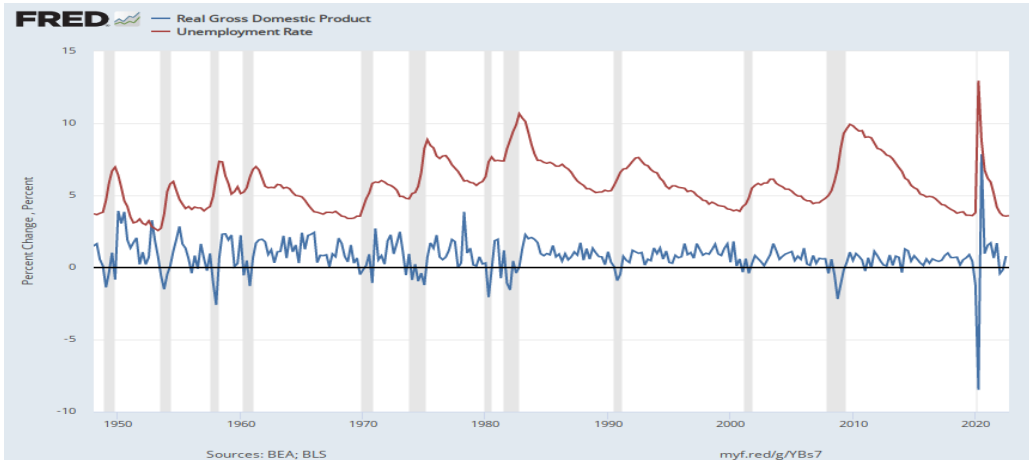


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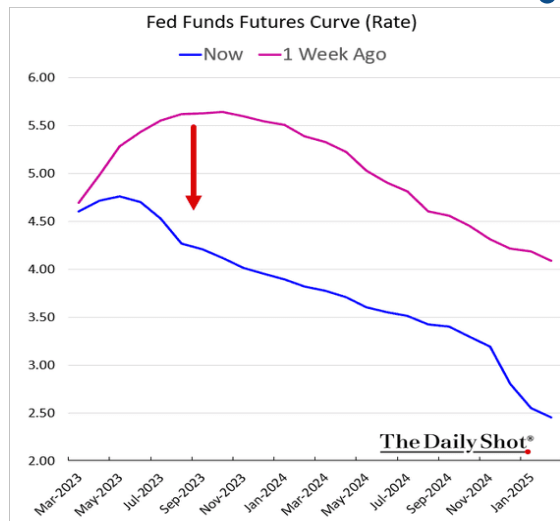
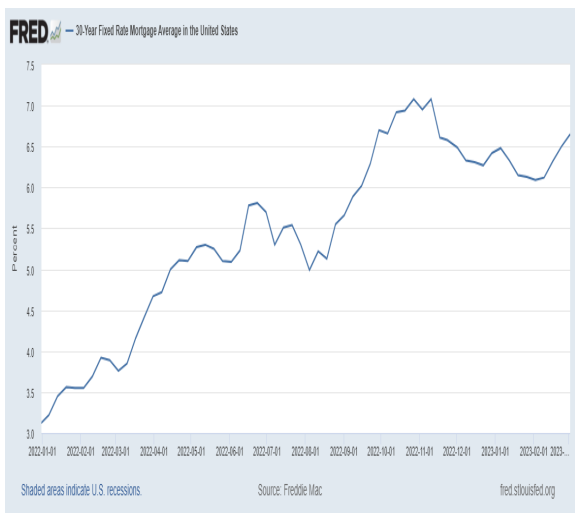
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Real GDP Growth and Recessions



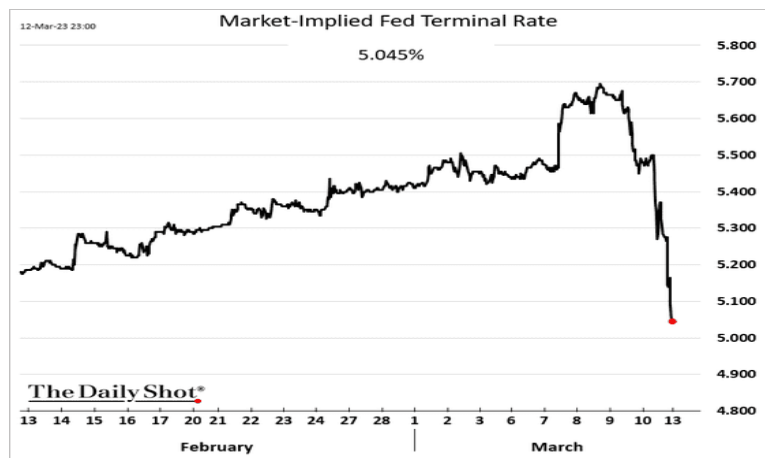
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On March 3rd Powell Emphasized Rate Hikes



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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.



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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?



Sadly, It Looks as if Things Could Get Worse

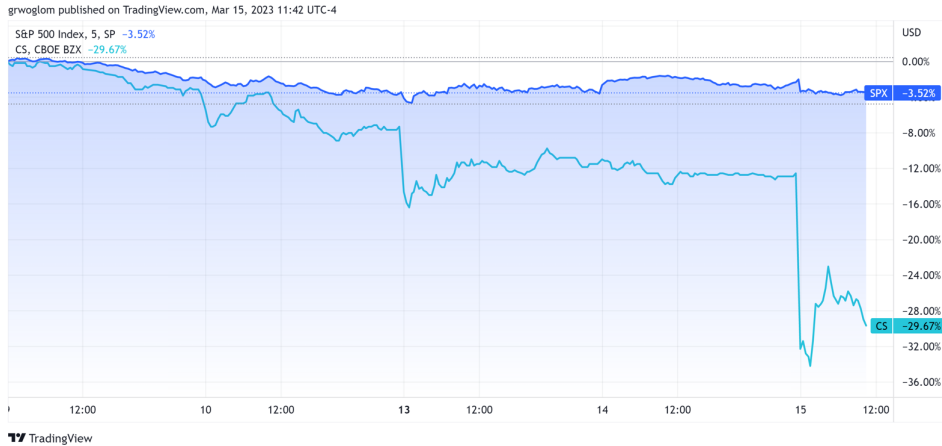
Credit Suisse a large Bank (45th largest in the world) with a significant US presence is in trouble

WSJ, 3/15: "Credit Suisse has been the problem child of European banking for several years. Repeated scandals [and financial losses](#) have hammered the 166-year-old bank, which combines a wealth-management business catering to the world's elite rich with a Wall Street investment bank."

But, the danger is contagion and European bank shares were down.



Credit Suisse Takes a Beating

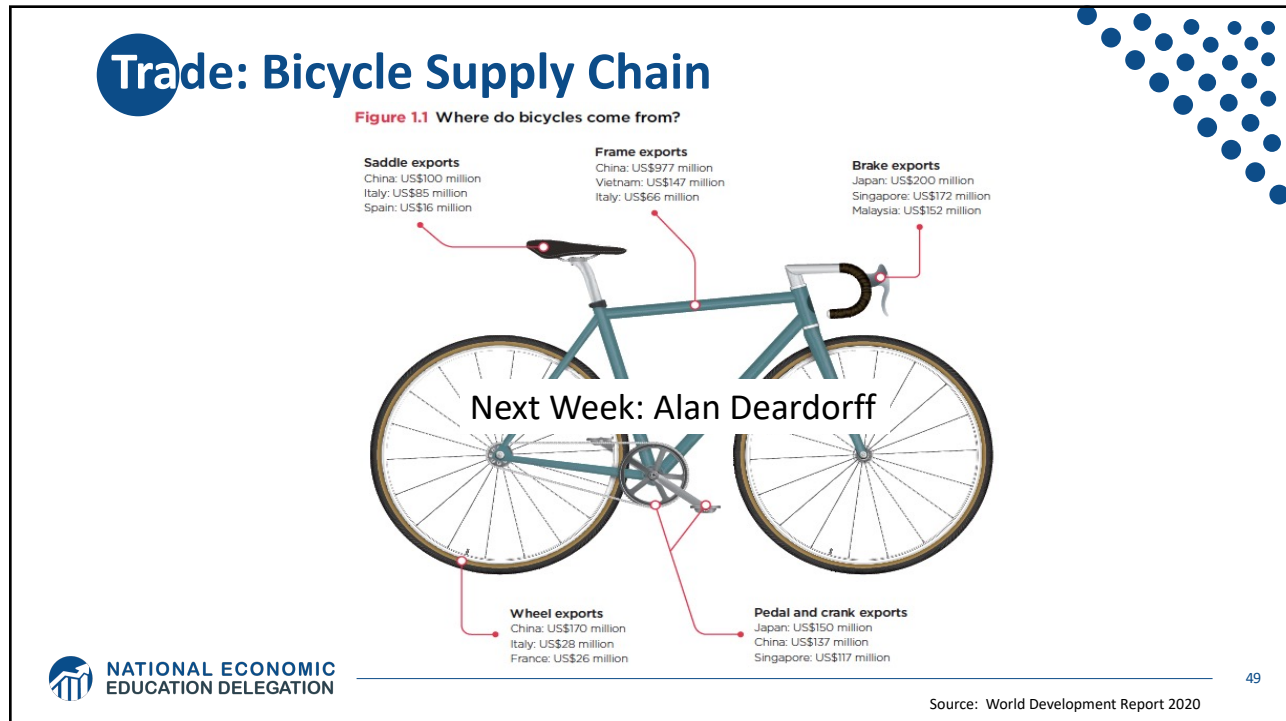


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Turbulence in the Treasury Market



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Let's Hear from You!

Geoffrey Woglom
grwoglom@amherst.edu

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