



# *Osher Lifelong Learning Institute, Fall 2022* Contemporary Economic Policy Issues

University of California, Santa Cruz  
Fall, 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: 652+ members

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

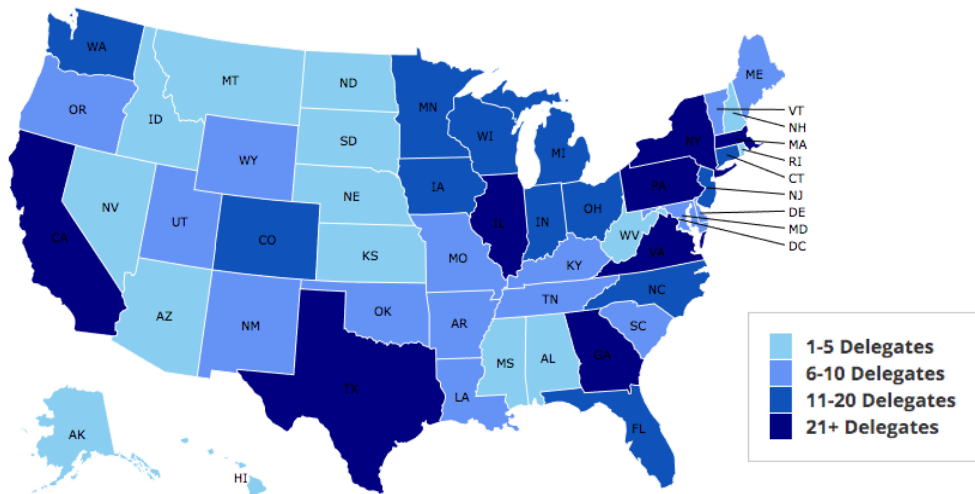
## • Global Partners: 49 Ph.D. Economists

- Aid in slide deck development



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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

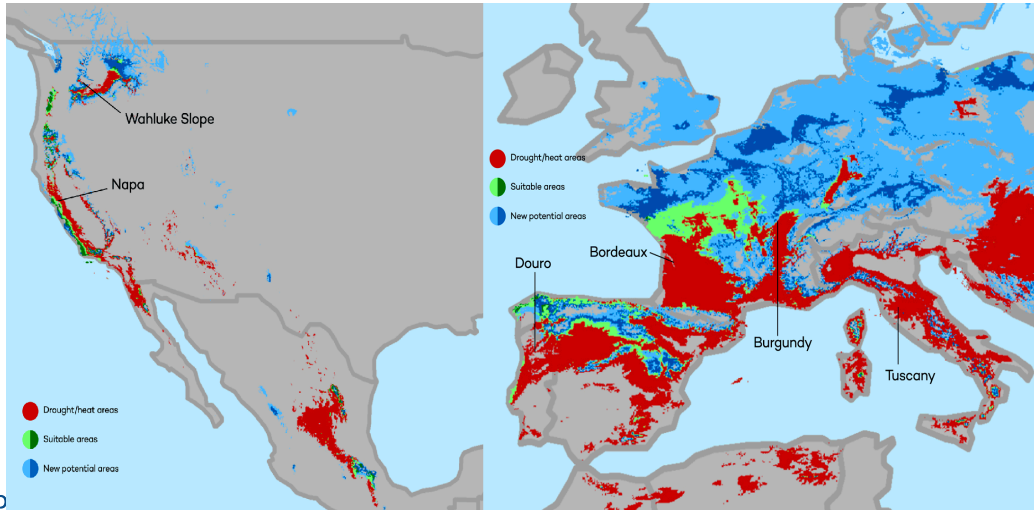
- **Contemporary Economic Policy**
  - **Week 1 (10/3): Economic Update (Jon Haveman, NEED)**
  - Week 2 (10/10): Climate Change Economics (Trevor O'Grady)
  - Week 3 (10/17): Economics of Immigration (Roger White, Whittier College)
  - Week 4 (10/24): Autonomous Vehicles (Jon Haveman, NEED)



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# Climate Change Economics

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



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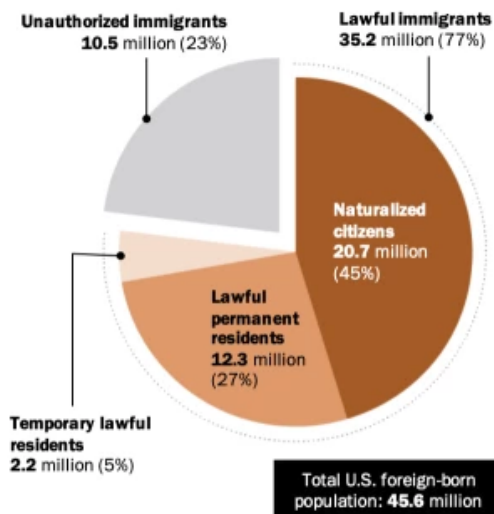
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# Immigrant Population in 2017

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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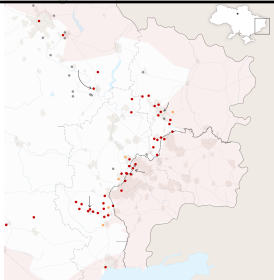


# Autonomous Vehicles



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# US Economy: Update



**Jon Haveman, Ph.D.**  
NEED  
October 3, 2022



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## Credits and Disclaimer

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

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- 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.
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## Outline

- **About the U.S. Economy**
- **Recession – The State of the US Economy**
- **Global Comparisons**
- **Inflation**
- **On the policy response:**
  - To the pandemic
  - To inflation



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## Some Basic Statistics

Statistic:	Value
Population	333.1 Million
Labor Force	164.7 Million
Employment	152.7 Million
Gross Domestic Product (GDP)	\$24.9 Trillion
Income per Capita	\$64,908
Ave. Hourly Earnings	\$32.36

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## U.S. Economy in Global Perspective

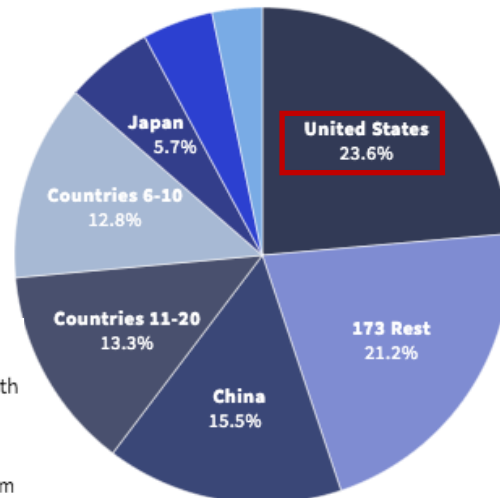
### U.S. Nominal GDP:

**\$21.747 trillion in 2019-Q4**  
**\$19.487 trillion in 2020-Q2**  
**\$24.852 trillion in 2022-Q2**

### % Share of the Global Economy

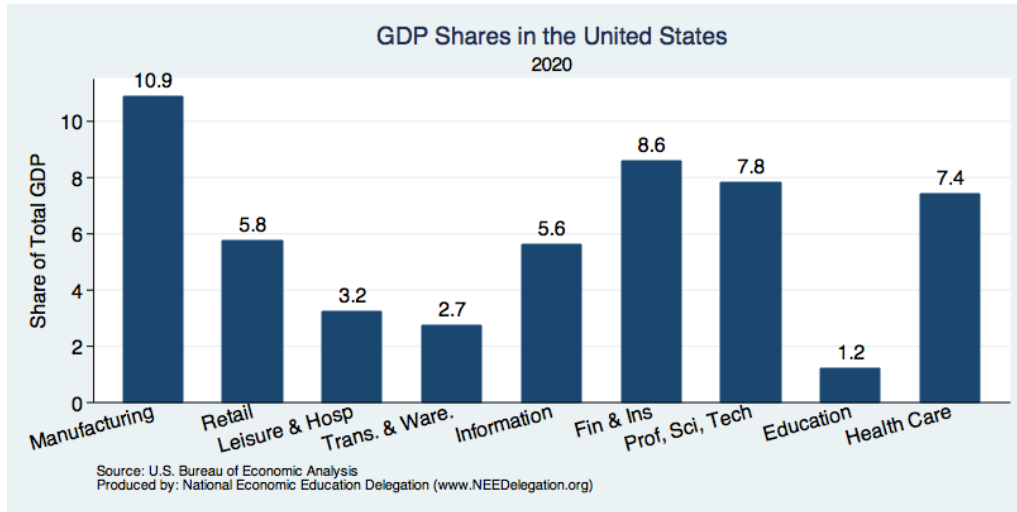
The 173 countries outside the top 20 make up less than a fourth of the total global economy.

United States
  173 Rest
  China
  Countries 11-20
  Countries 6-10
  Japan
  Germany
  United Kingdom



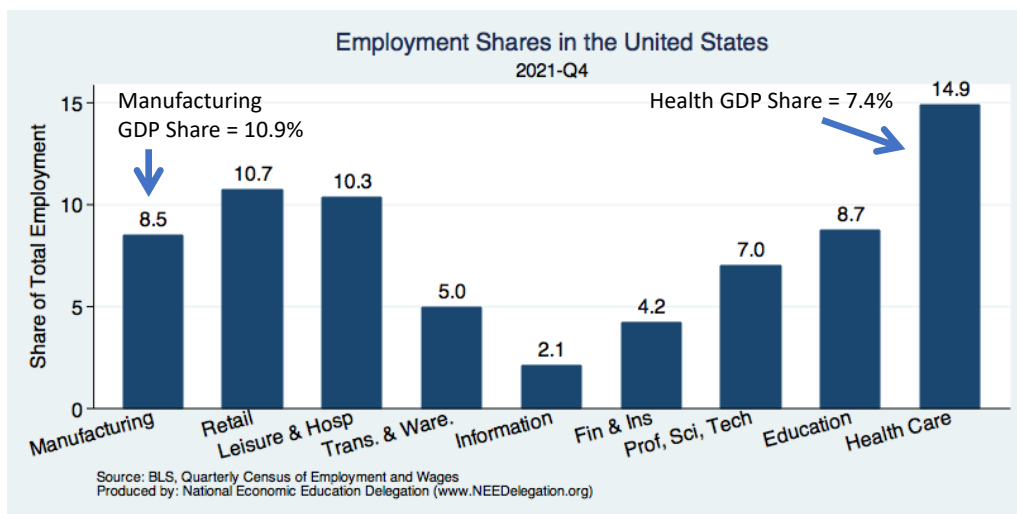
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## Composition of the U.S. Economy: 2020



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## Composition of the U.S. Economy: Employment



Note: Does not add to 100% because of omitted sectors.

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# Recession(?)



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## Headline:

### **G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession**

- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.



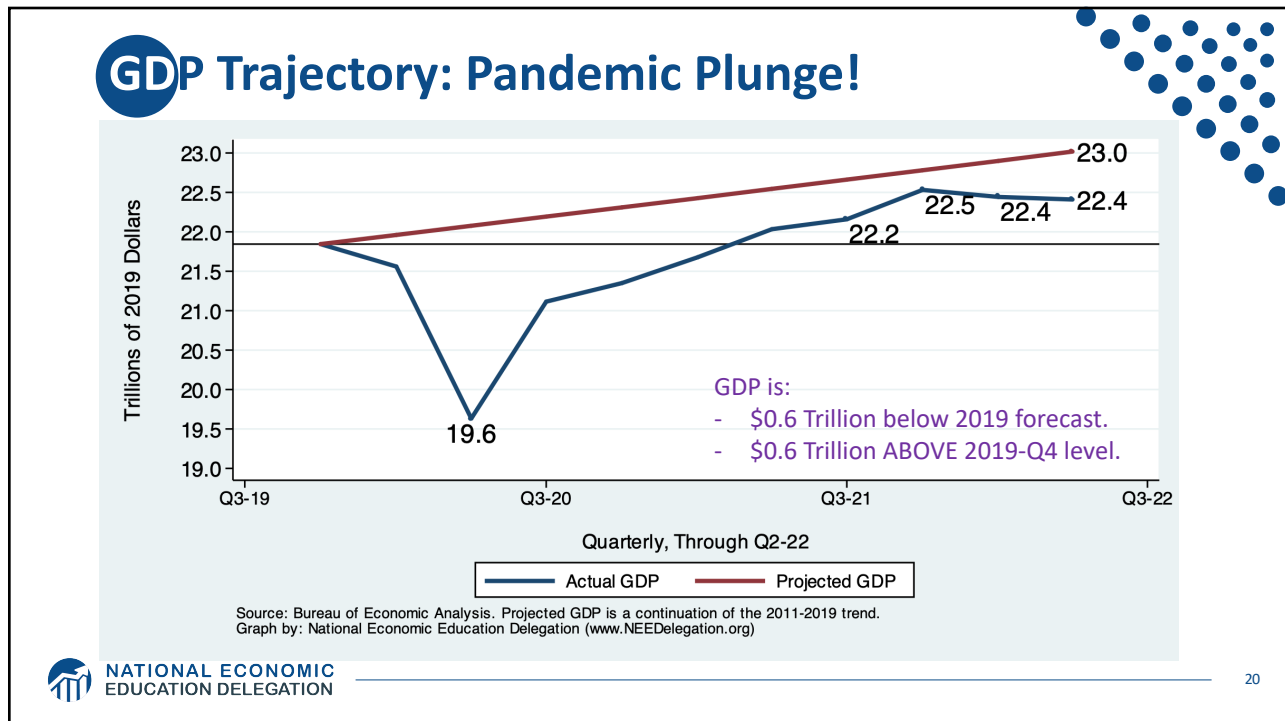
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## What Is “Accounting” for the Decline?

- **Expenditures drive GDP growth.**
  - GDP is the sum of four categories of spending:
    - Consumption
    - Investment – **housing/business/inventories**
    - **Government spending**
    - Net Exports: Exports – Imports



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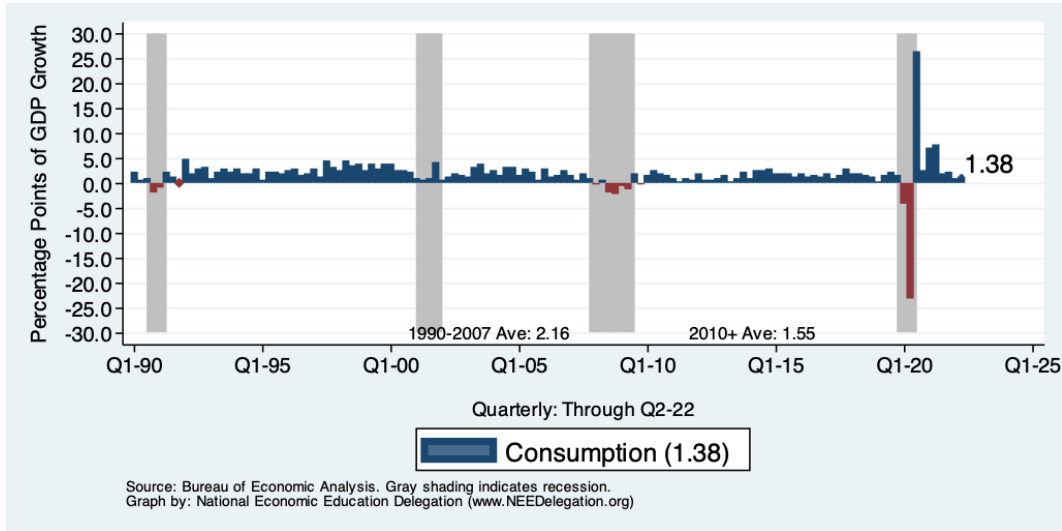
## Recession? Two Quarters....

- **Depends on what is driving the drop.**
  - Inventories
  - Housing
  - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**



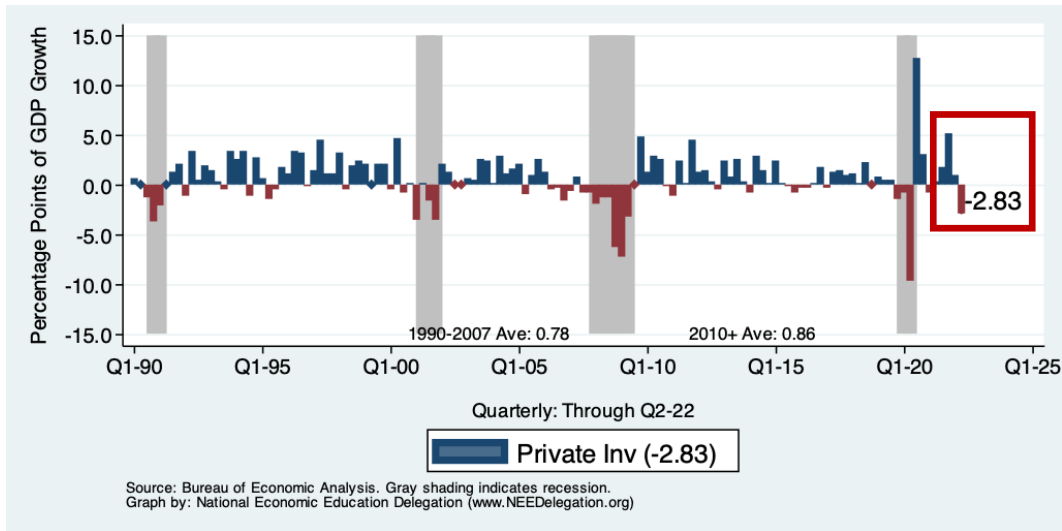
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## Contribution to GDP Growth: Consumption



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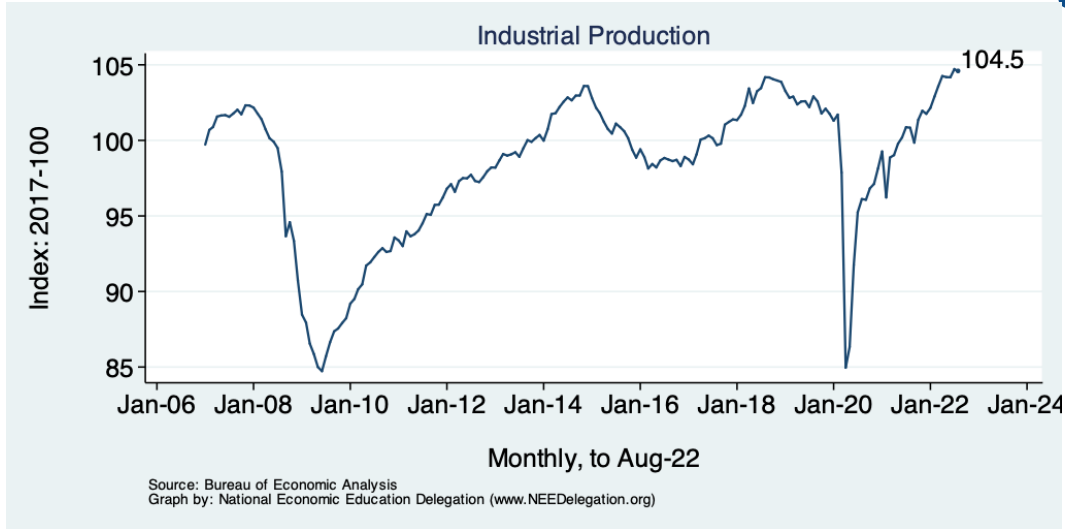
## Contribution to GDP Growth: Inventories



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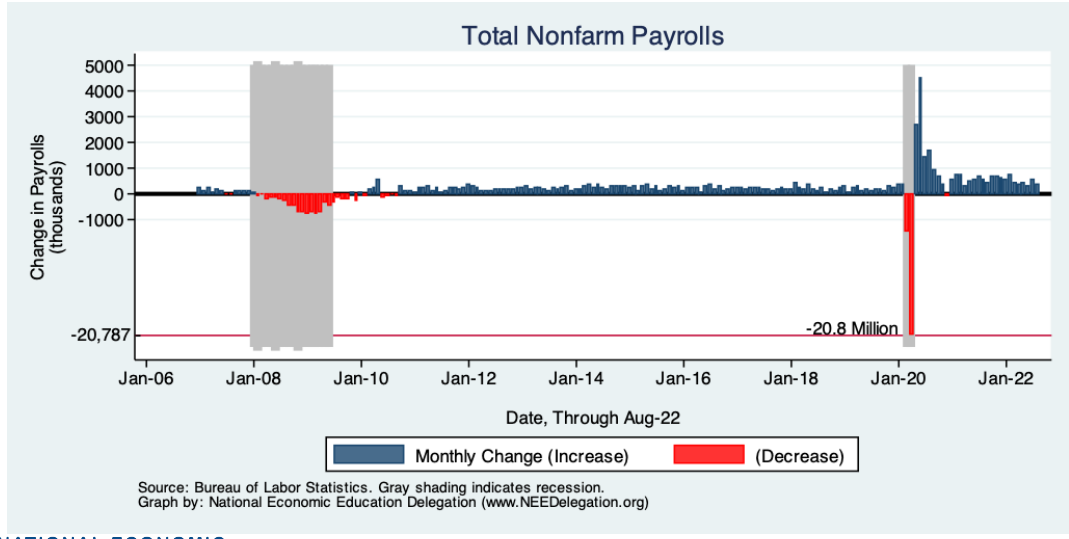


# Industrial Production (Manuf, Util, Mining)



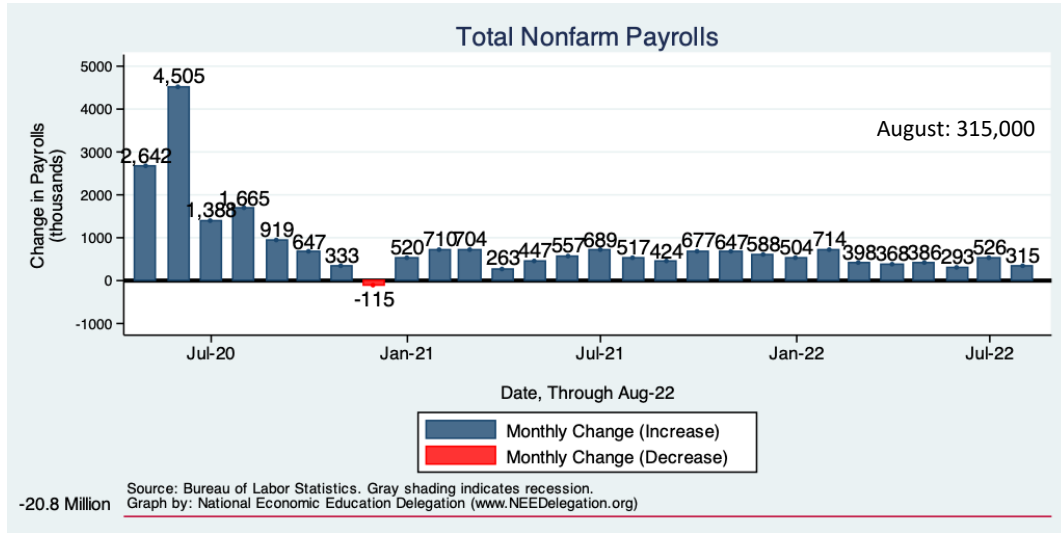
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# Monthly Changes in Nonfarm Employment



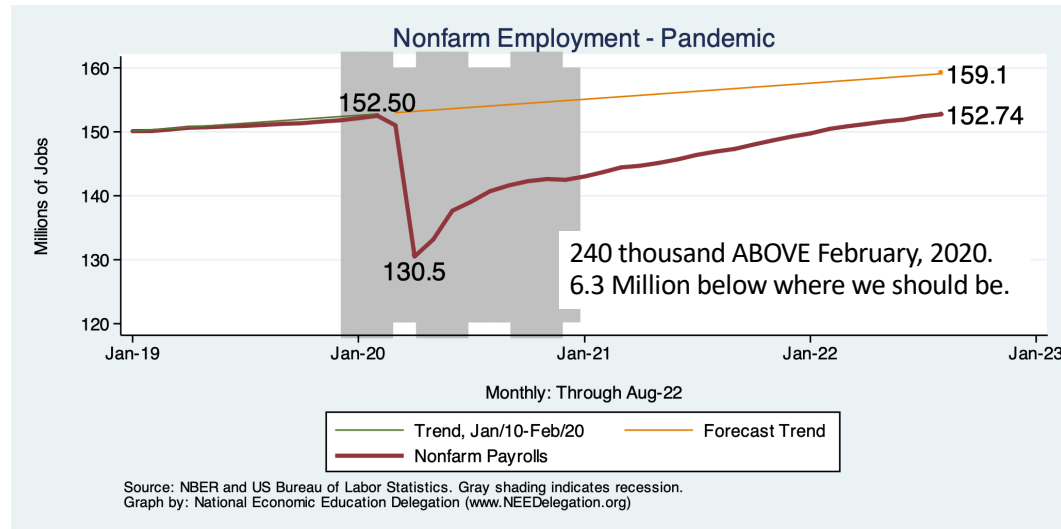
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# Monthly Changes in Nonfarm Employment



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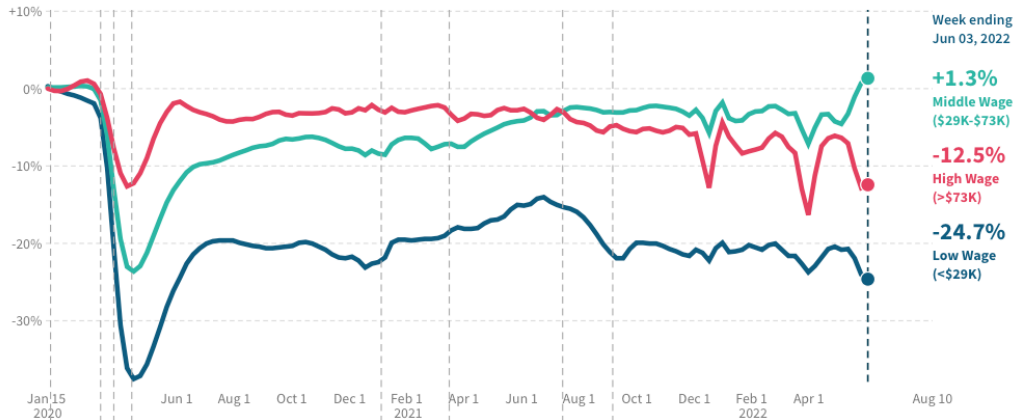
# Employment Gap



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# Low Wage Employment is Lagging

In the United States, as of June 03 2022, employment rates among workers in the bottom wage quartile decreased by **24.7%** compared to January 2020 (not seasonally adjusted).

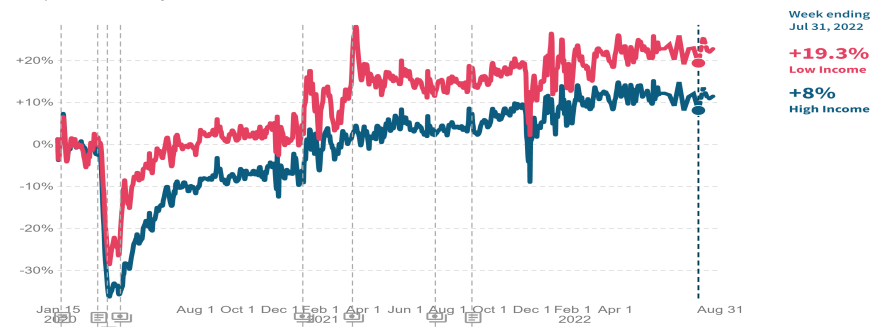


# Stimulus Payments Saved Low Wage Workers

OPPORTUNITY INSIGHTS ECONOMIC TRACKER HARVARD UNIVERSITY AFFINITY BILLY & MELINDA GATES FOUNDATION

## Percent Change in All Consumer Spending\*

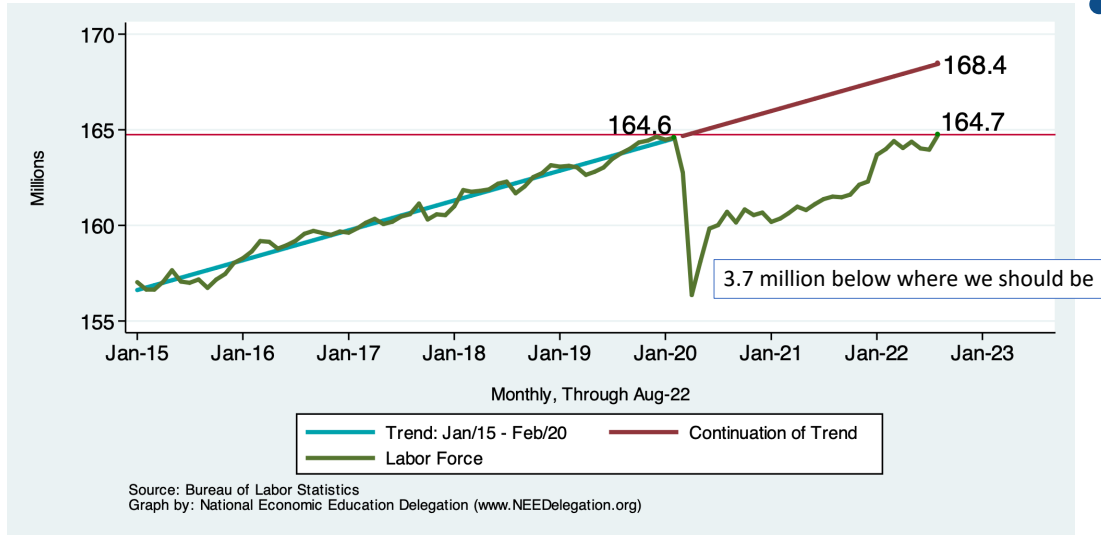
In the United States, as of July 31 2022, total spending by high-income consumers increased by **8%** compared to January 2020.



data source: Affinity

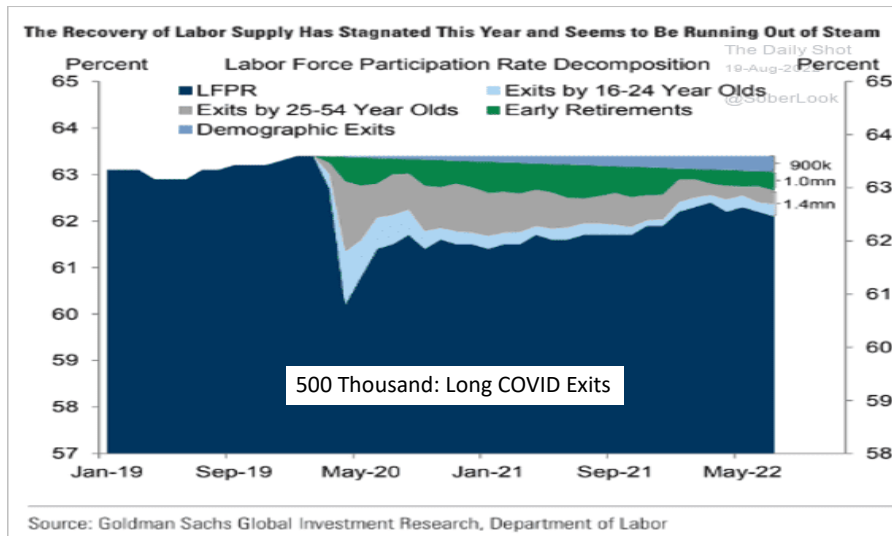
\*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.  
last updated: August 30, 2022 next update expected: September 07, 2022

## Where Have All the Workers Gone?

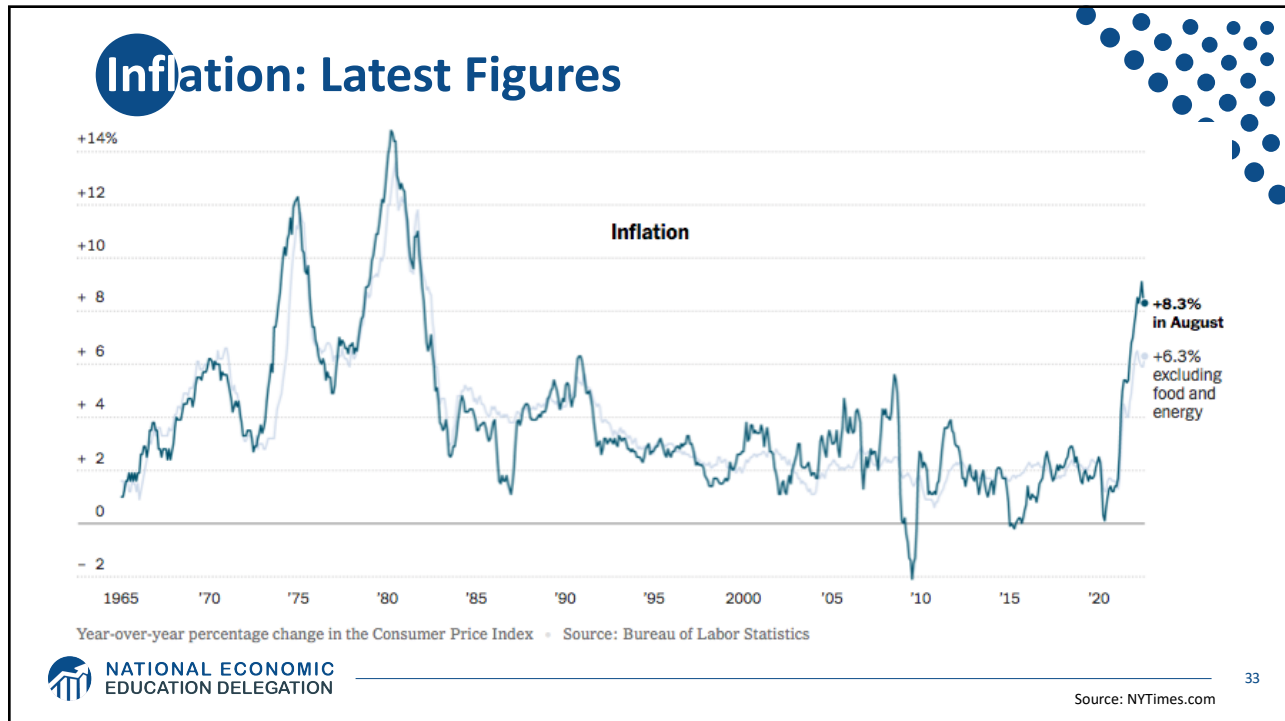


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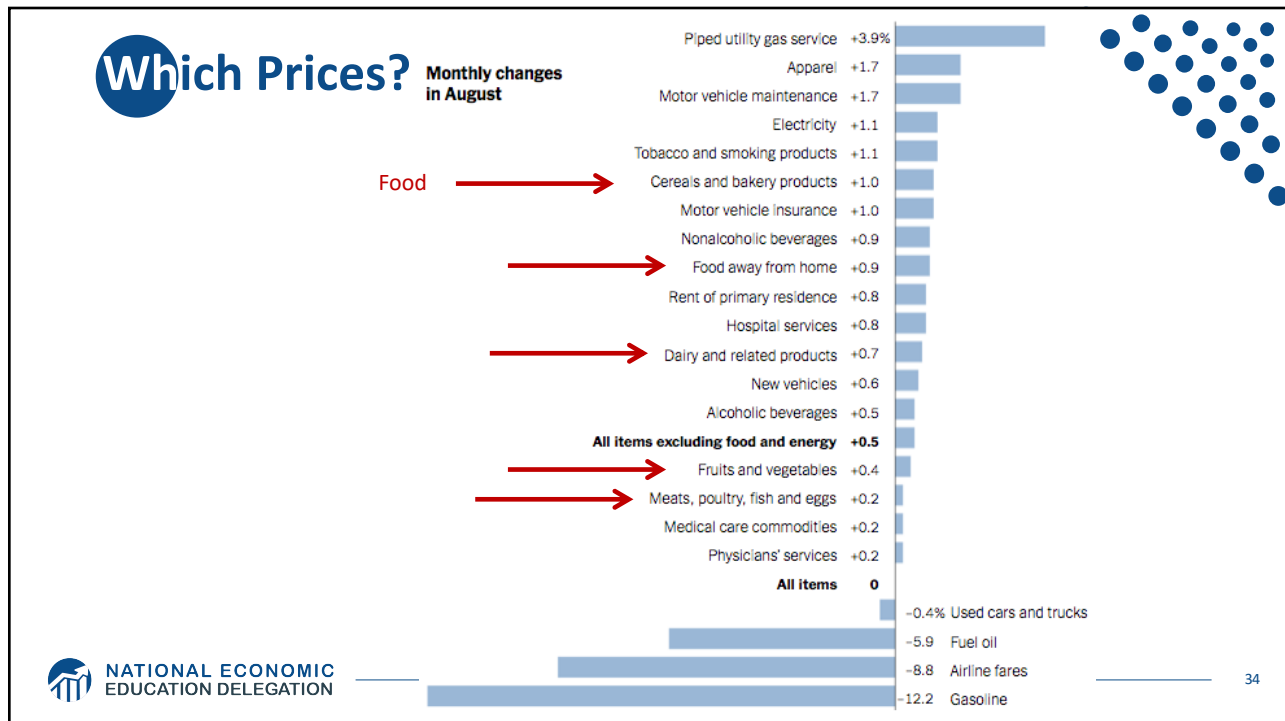
## Some Explanations



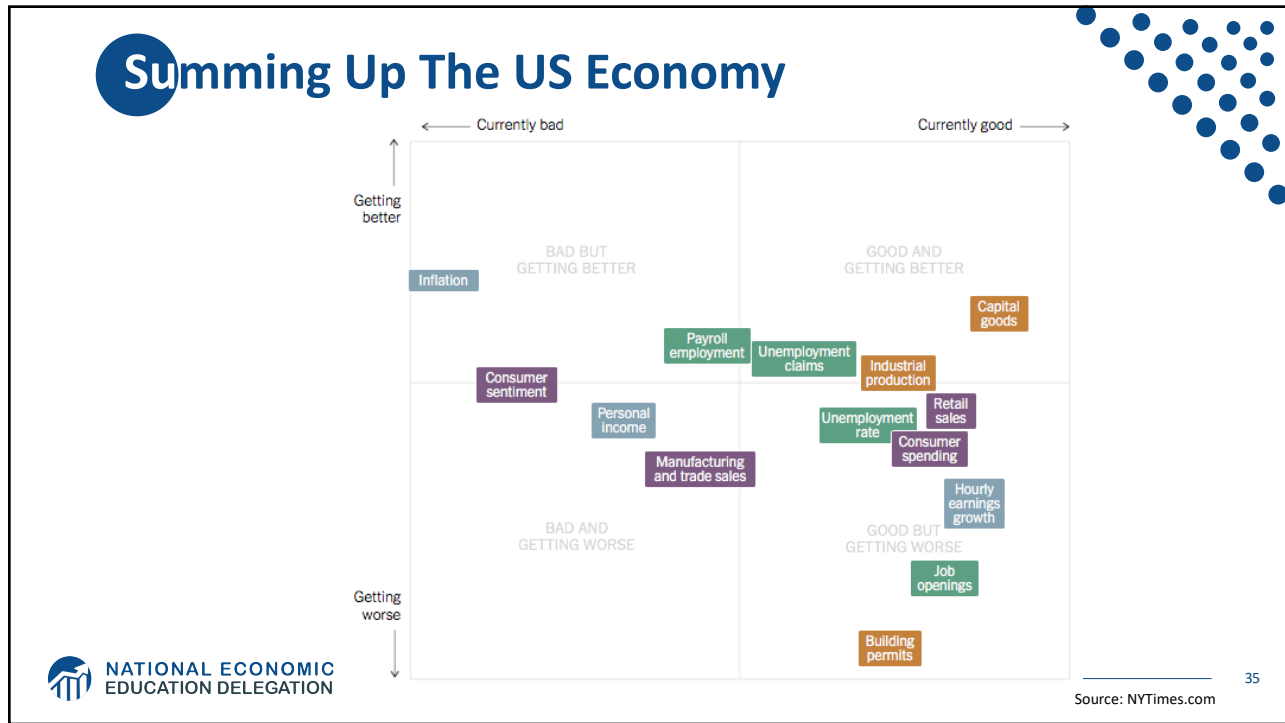
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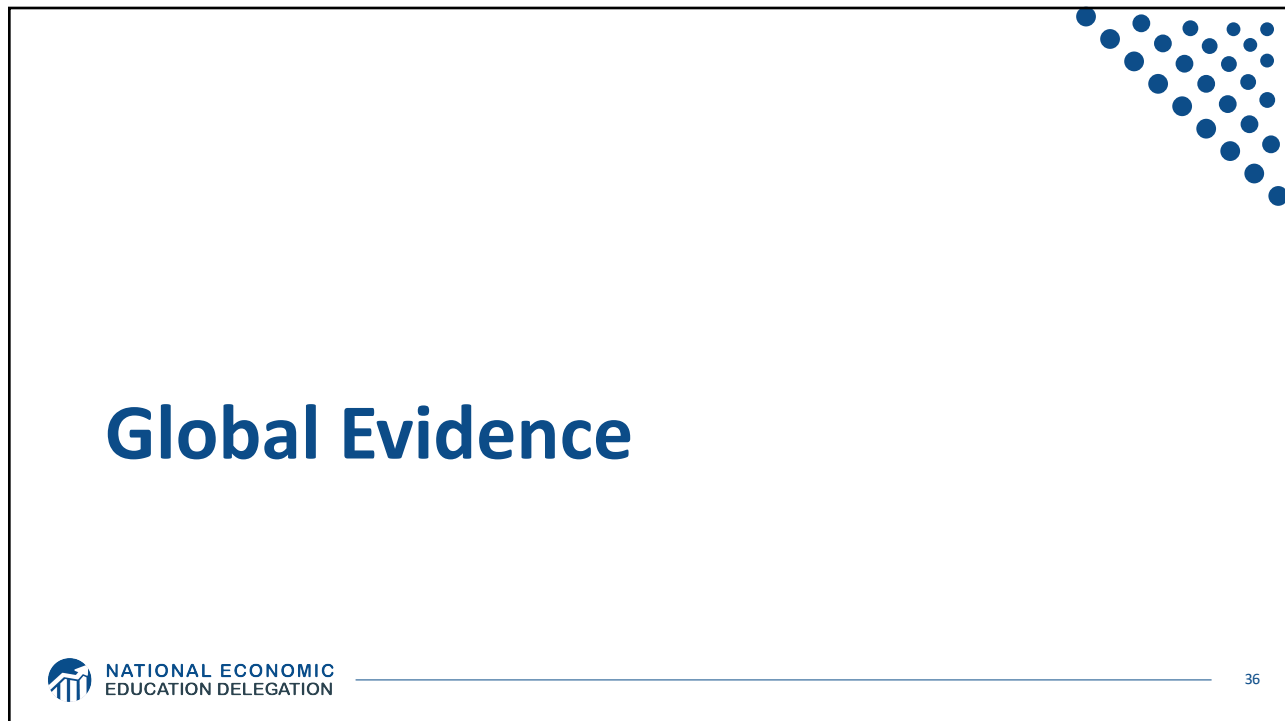
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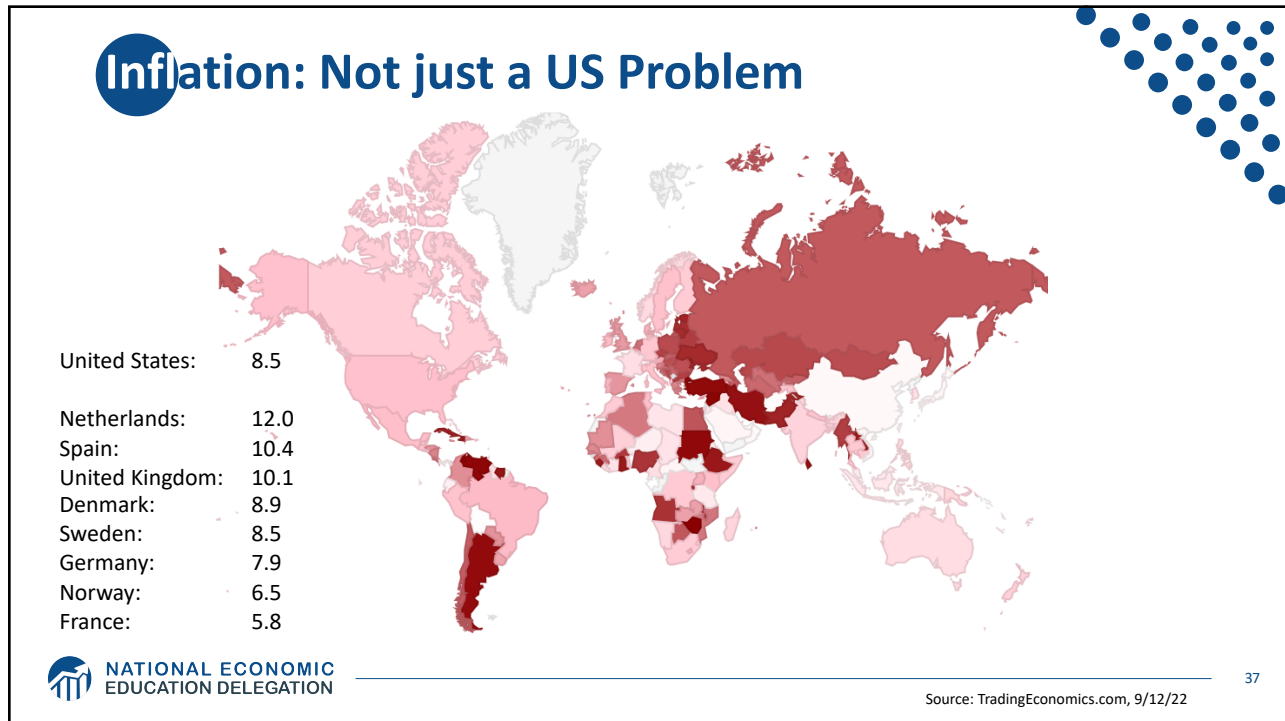
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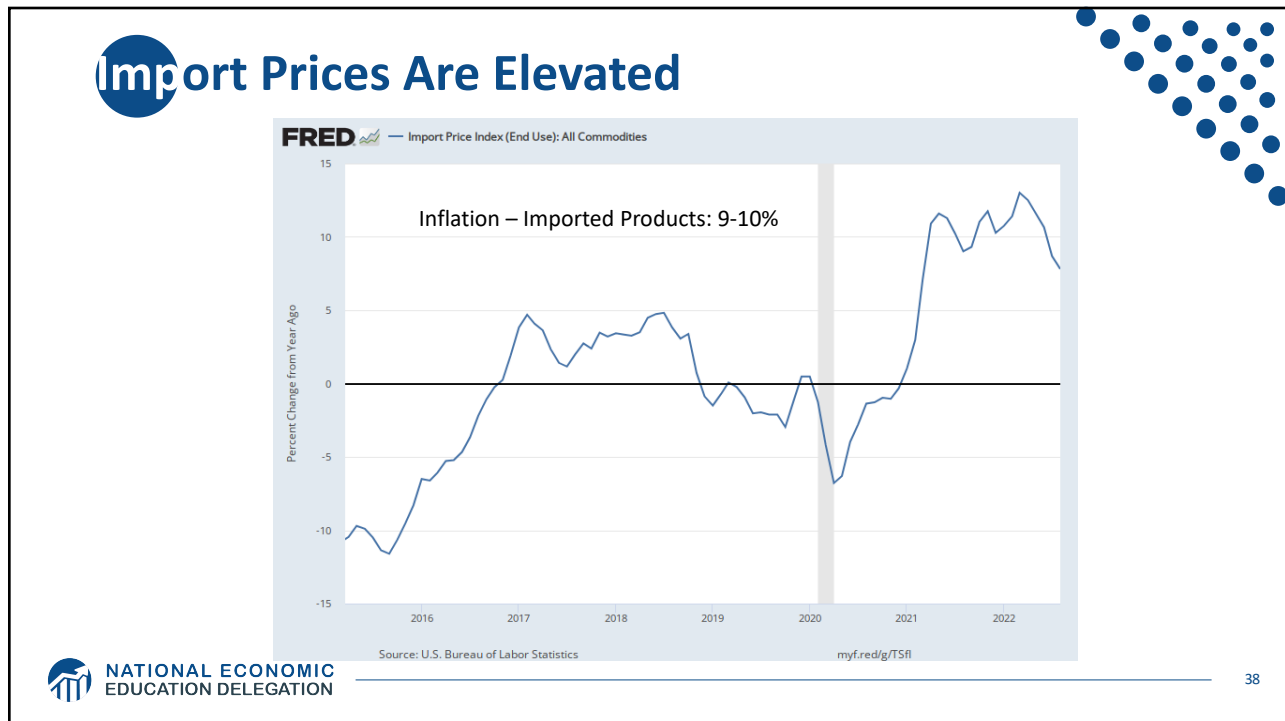
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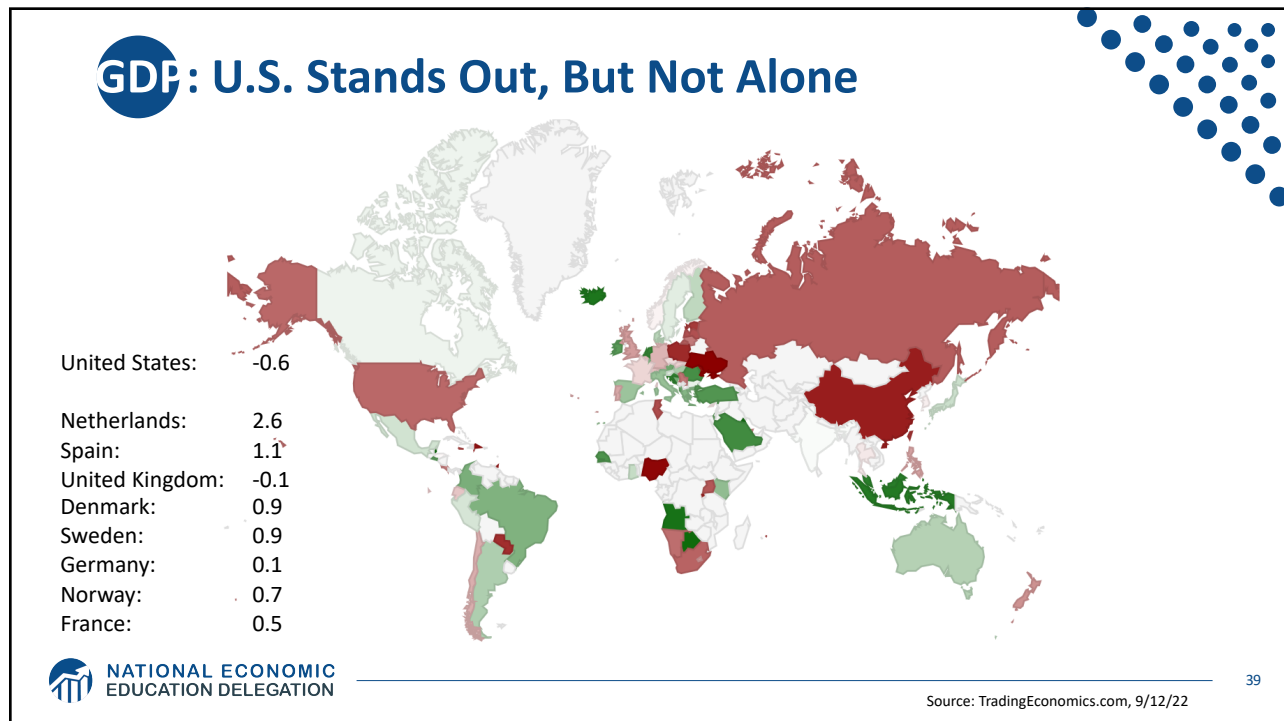
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## Global Summary

- **Developed economies are uniformly down.**
  - Not entirely a surprise. The bounce back from the early closures was rapid.
- **We have very little experience with this type of a global shock.**
  - Entirely possible that interconnected economies will be on a similar cycle.
- **Somewhat surprising because the economic responses varied across countries. However:**
  - Significant stimulus was a common theme.
  - Supply chain issues are a common theme.
  - Shifts from purchases of services to goods was a common theme.
    - And now the shift back.

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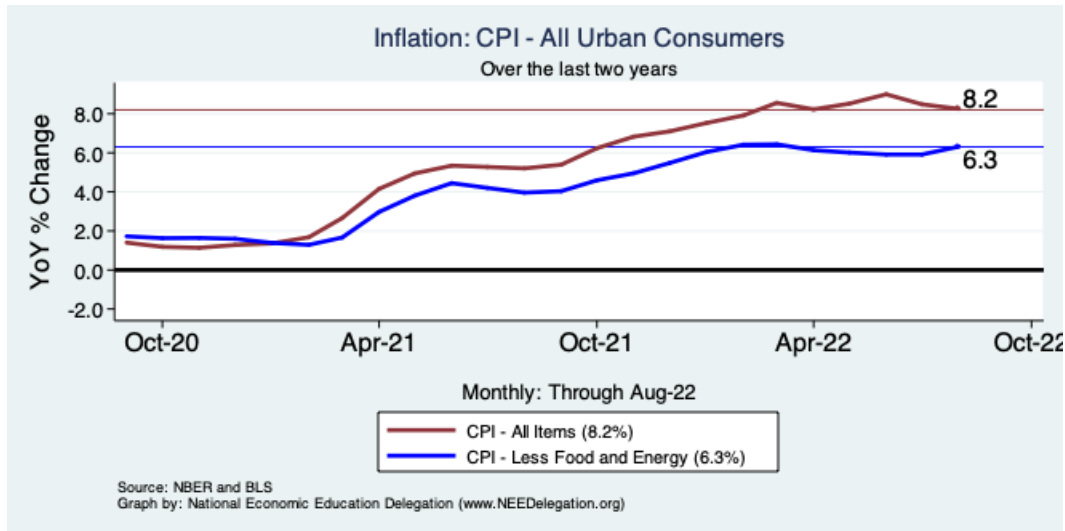
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# Inflation

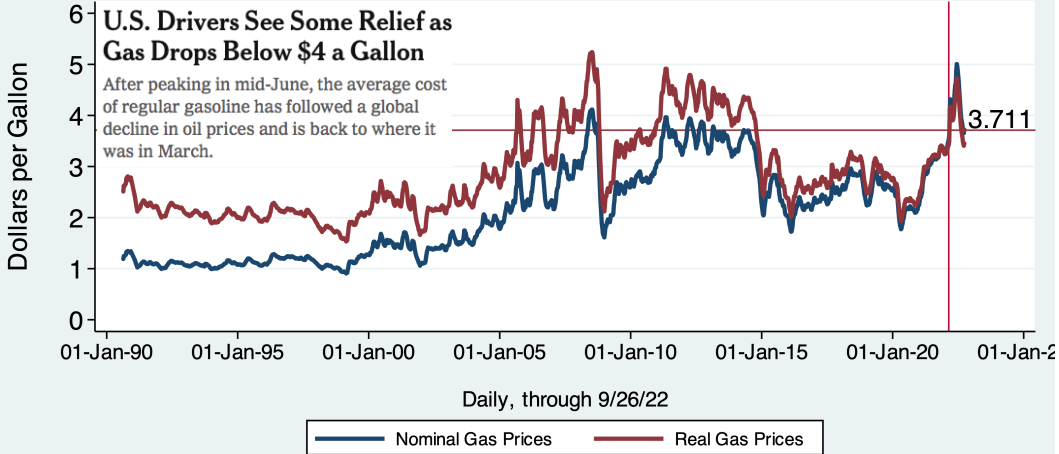
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## Inflation – Climbing! Or Turning Around?



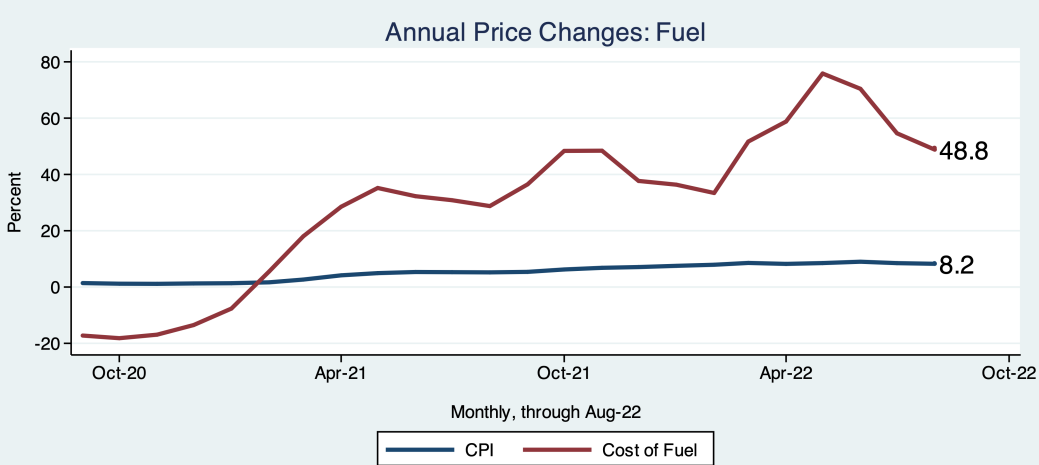
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## Gas Prices: National Average at the Pump



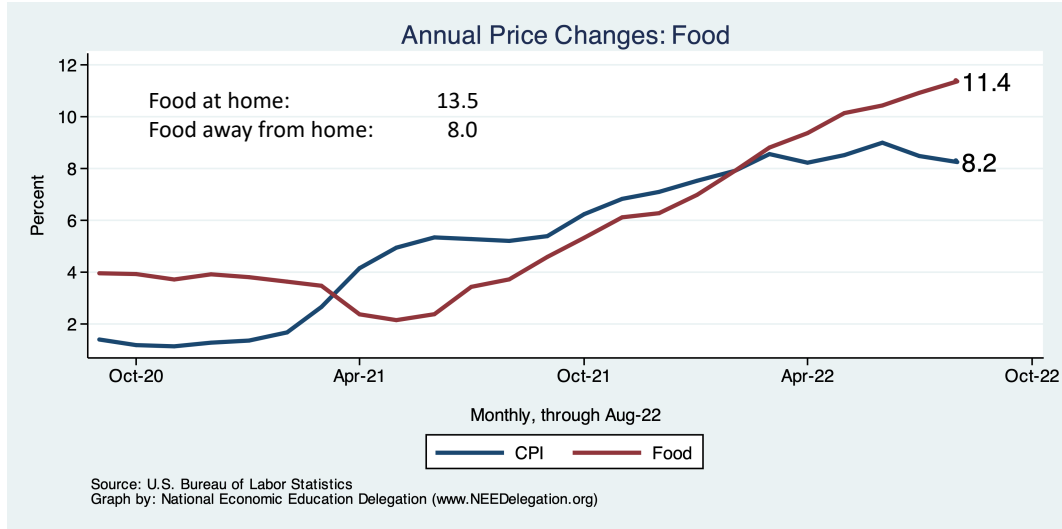
Source: U.S. Bureau of Labor Statistics, U.S. Energy Information Administration  
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

## Fuel Costs Are Still Elevated



Source: U.S. Bureau of Labor Statistics  
 Graph by: National Economic Education Delegation (www.NEEDelegation.org)

# Food Costs Continue to Rise



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# 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.

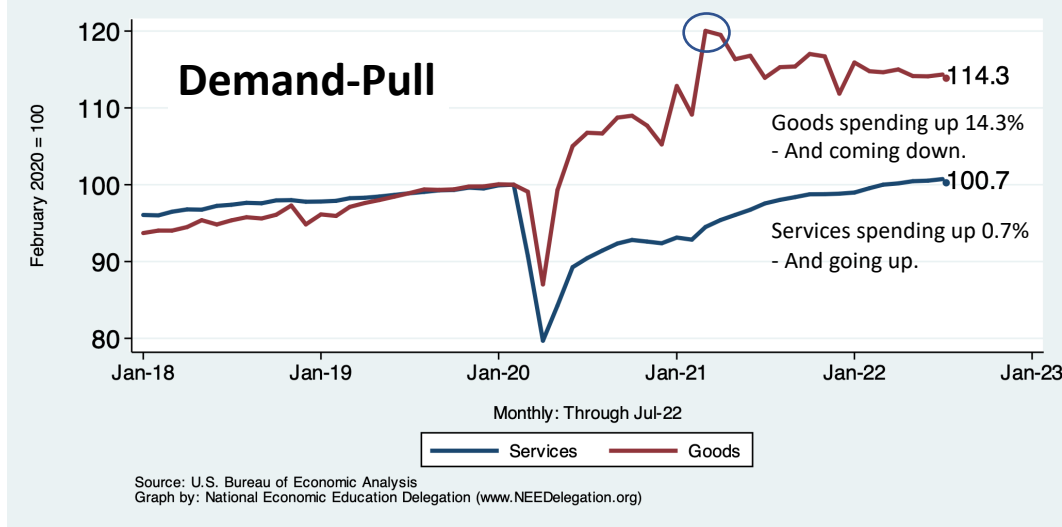
## Built-In



When prices rise, wages rise too, in order to maintain living costs.

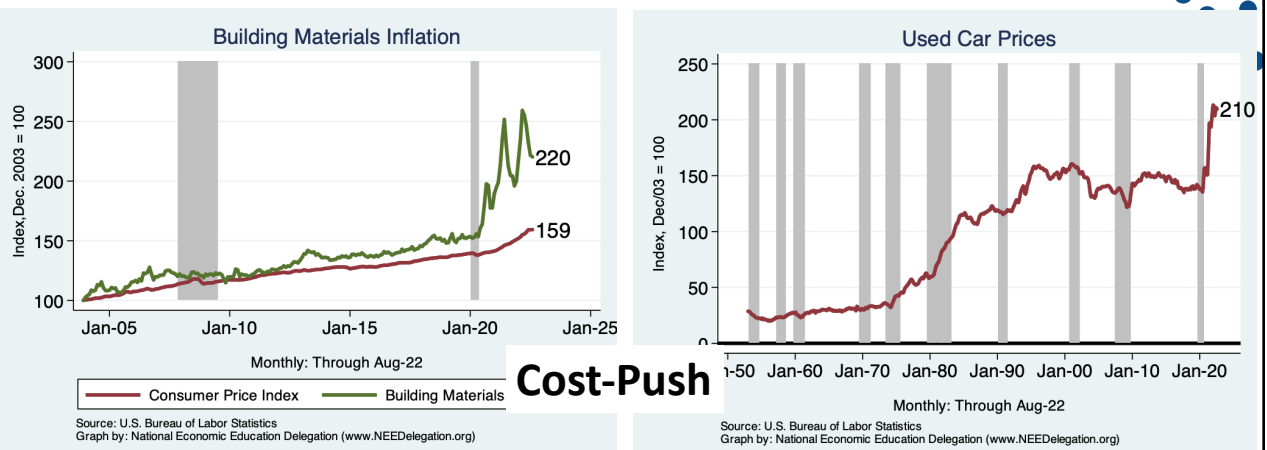
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## Spending Patterns Changed - More Goods!



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## Inflation: Concentrated

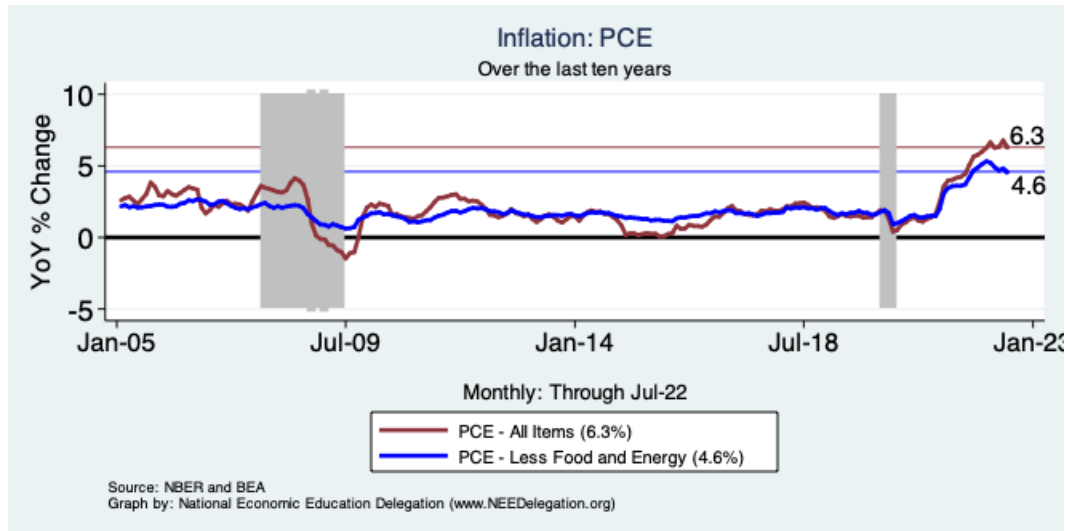


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# Supply Chains



# Fed's Preferred Measure of Inflation

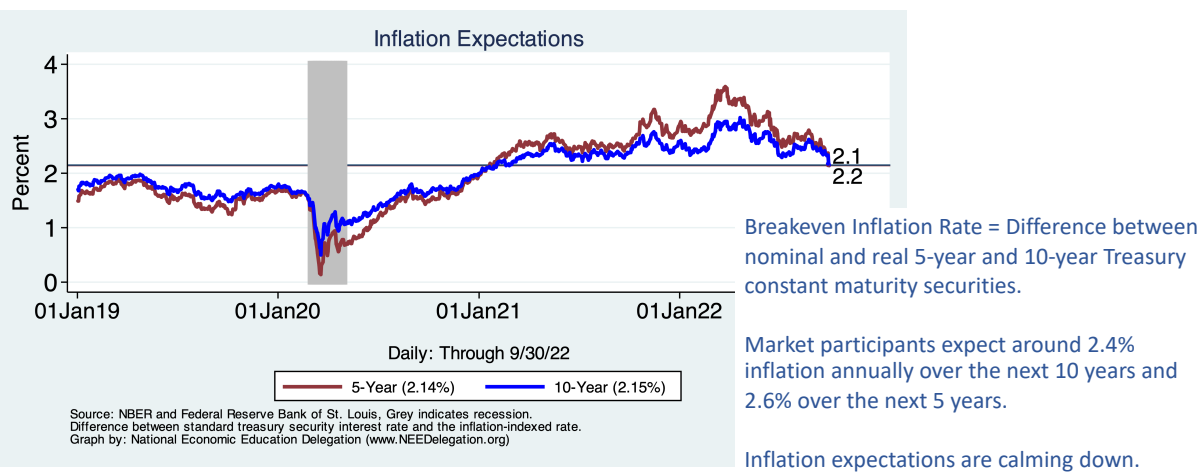


## My Diagnosis for the Uptick in Inflation

- Spending patterns have changed dramatically.
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was also too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. 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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## Measure of Inflation Expectations

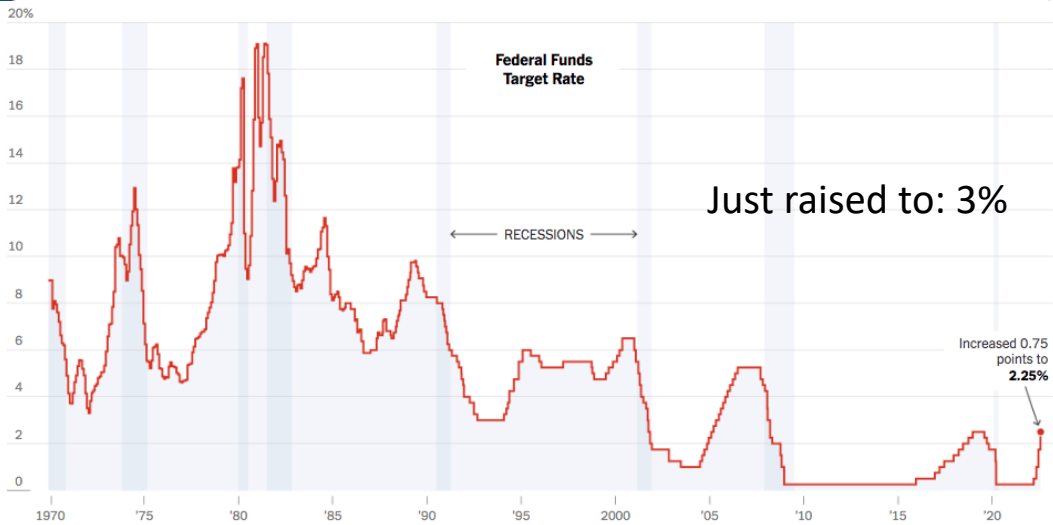


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# What's the Fed Doing About It?

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## Federal Funds Rate



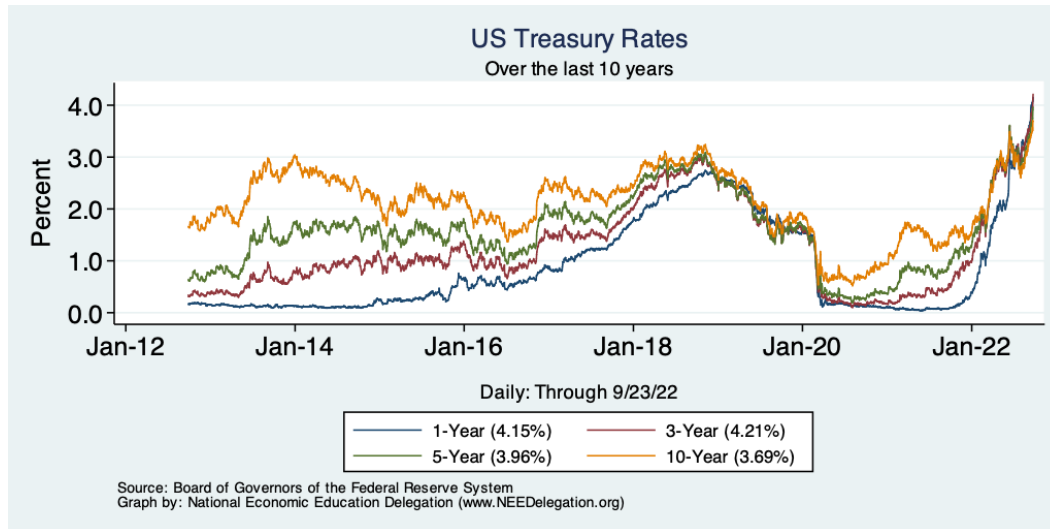
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# Implications for Demand

- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

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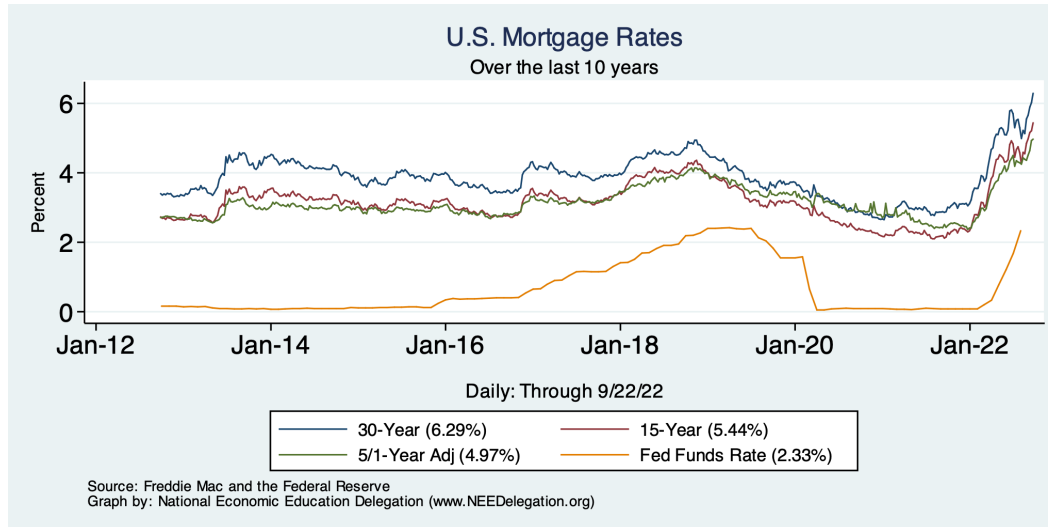
# Treasuries



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## Mortgage Rates



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## Takeaways

### • Is a recession on the horizon?

- Larry Summers, Jamie Dimon, and Elon Musk are worried about a recession.
- While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
  - o Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
  - o Job creation remains robust – 315k in August.

### • What about GDP?

- 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
- Much of this lower growth was driven by lower inventory.
  - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.



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# The Role of Policy

- Did it get us into this mess?
- Can it get us out?

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## Policy-Induced Inflation/Downturn?

- **The big questions is: What is responsible for the cycles related to the pandemic?**
  - **Policies**
    - The United States spent \$5 trillion in pandemic related programs.
      - There remains \$2 trillion in excess savings.
    - What role did local shutdowns play?
    - What role did the nature of business support play?
      - In particular, the lack of support for small businesses.
  - **Natural fear and self preservation?**
    - More goods and less services.
    - Leaving the labor force.
    - Bouncing back too aggressively and optimistically (inventories)?
  - **Natural struggles of an economy to respond to changes?**

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## Did Politicians Get Us Into This Mess?

- **Clear that policy played a significant role.**
  - Too much untargeted spending.
- **How should we think about that?**
  - Washington sausage making comes with tradeoffs:
    - Quality comes from moving slowly, but perhaps misses the window of opportunity.
    - Haste makes waste. Pandemic spending has clearly not been as thoughtful as it might have been.
- **But there is lots of blame to throw around.**
  - Economies just don't respond very well to significant shocks.



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## Can Politicians/ Policymakers Get Us Out?

- **Well, no.**
- **President Biden: Really has very little control over aggregate demand or prices.**
  - Could put price controls in place. But nobody wants that.
- **Congress: similarly hamstrung.**
- **Federal Reserve: Acting aggressively, which seems to be paying off.**



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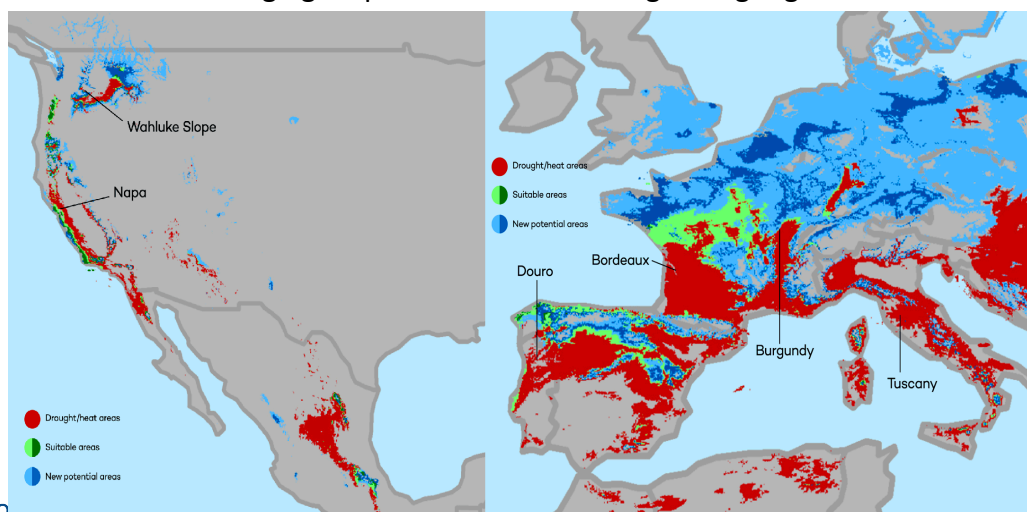
## Bottom Line:

- **Politicians did what they felt was necessary.**
  - They also did the best they could.
- **The pandemic threw spanners in the works that neither politicians nor economists had/have the answers to**
- **Blaming anybody for actions or inactions, for economic woes (inflation) is not reasonable.**
  - Though a case could be made that the Fed should have acted sooner.
    - But we don't really know if that would have made a difference.
- **Really left with the Fed doing the best that it can...and being patient.**

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## Climate Change Economics: Trevor O'Grady

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



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**Thank you!**

# Any Questions?

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Jon@NEEDelegation.org

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



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