Osher Lifelong Learning Institute, Spring 2022

Contemporary Economic Policy

University of Alabama-Huntsville
April-May, 2022

Host: Jon Haveman, Ph.D.
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.

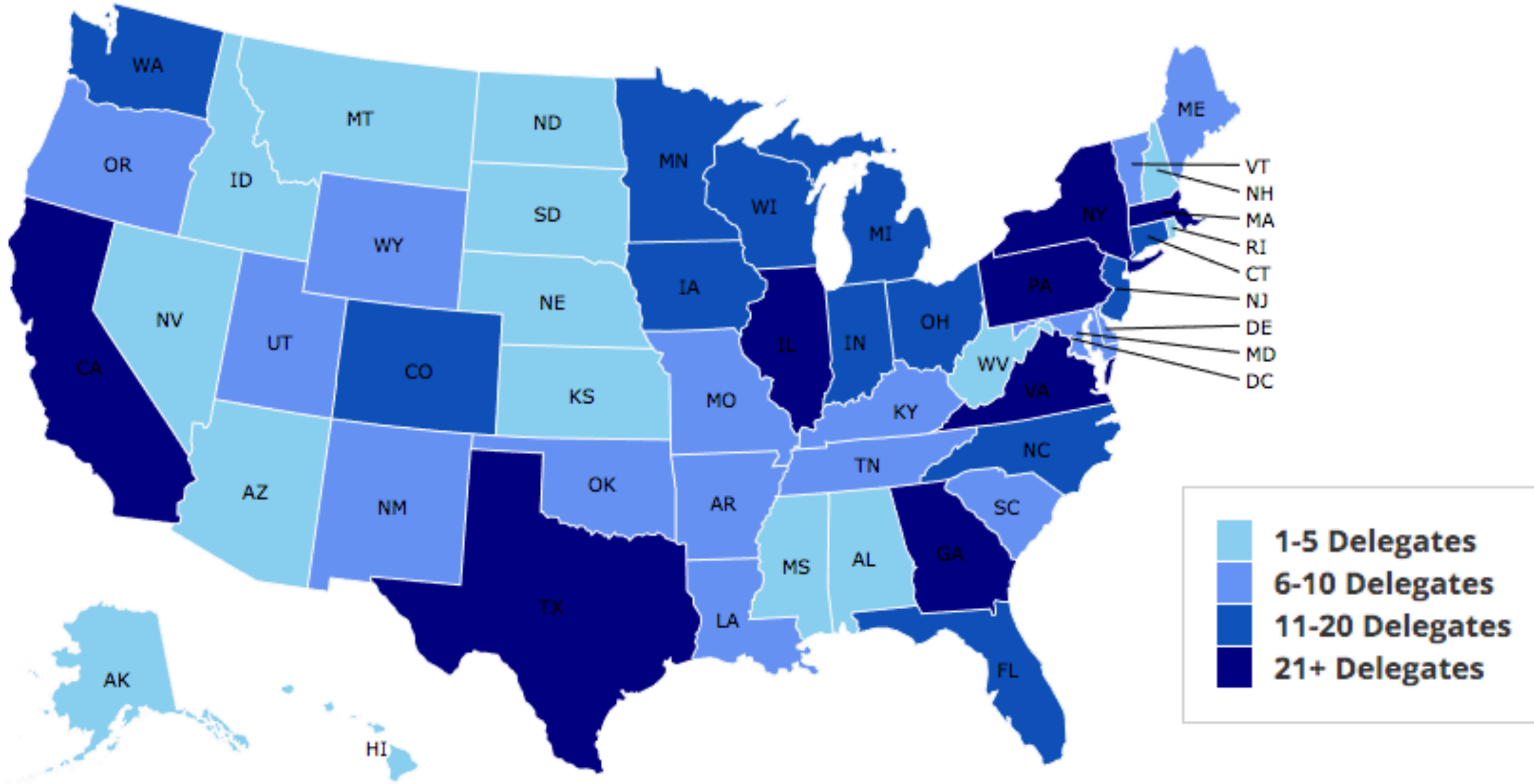
- **Mission**
  - NEED unites the skills and knowledge of a vast network of professional economists to promote understanding of the economics of policy issues in the United States.

- **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: 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

Where Are We?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NH
MA
RI
CT
NJ
DE
MD
DC
AK
HI
1-5 Delegates
6-10 Delegates
11-20 Delegates
21+ Delegates

Available NEED Topics Include:

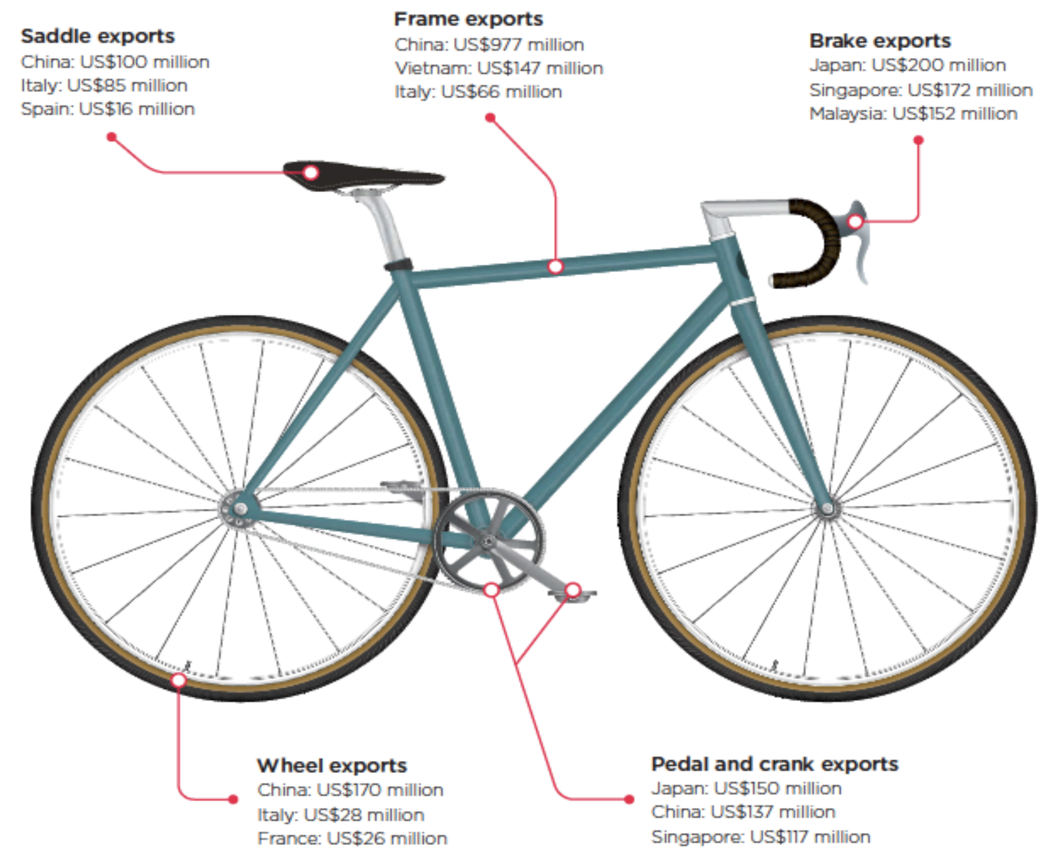
- Coronavirus Economics
- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

Course Outline

- **Contemporary Economic Policy**
  - **Week 1 (4/11): US Economy & Russia/Ukraine Conflict**
  - Week 2 (4/18): Trade and Globalization (Alan Deardorff, University of Michigan)
  - Week 3 (4/25): The Black-White Wealth Gap (Stephanie Seguino, Univ. of Vermont)
  - Week 4 (5/2): Economic Mobility (Kathryn Wilson, Kent State University)
  - Week 5 (5/9): Cryptocurrencies and the Future of Money (G. Woglom)
  - Week 6 (5/16): Autonomous Vehicles (Jon Haveman, NEED)

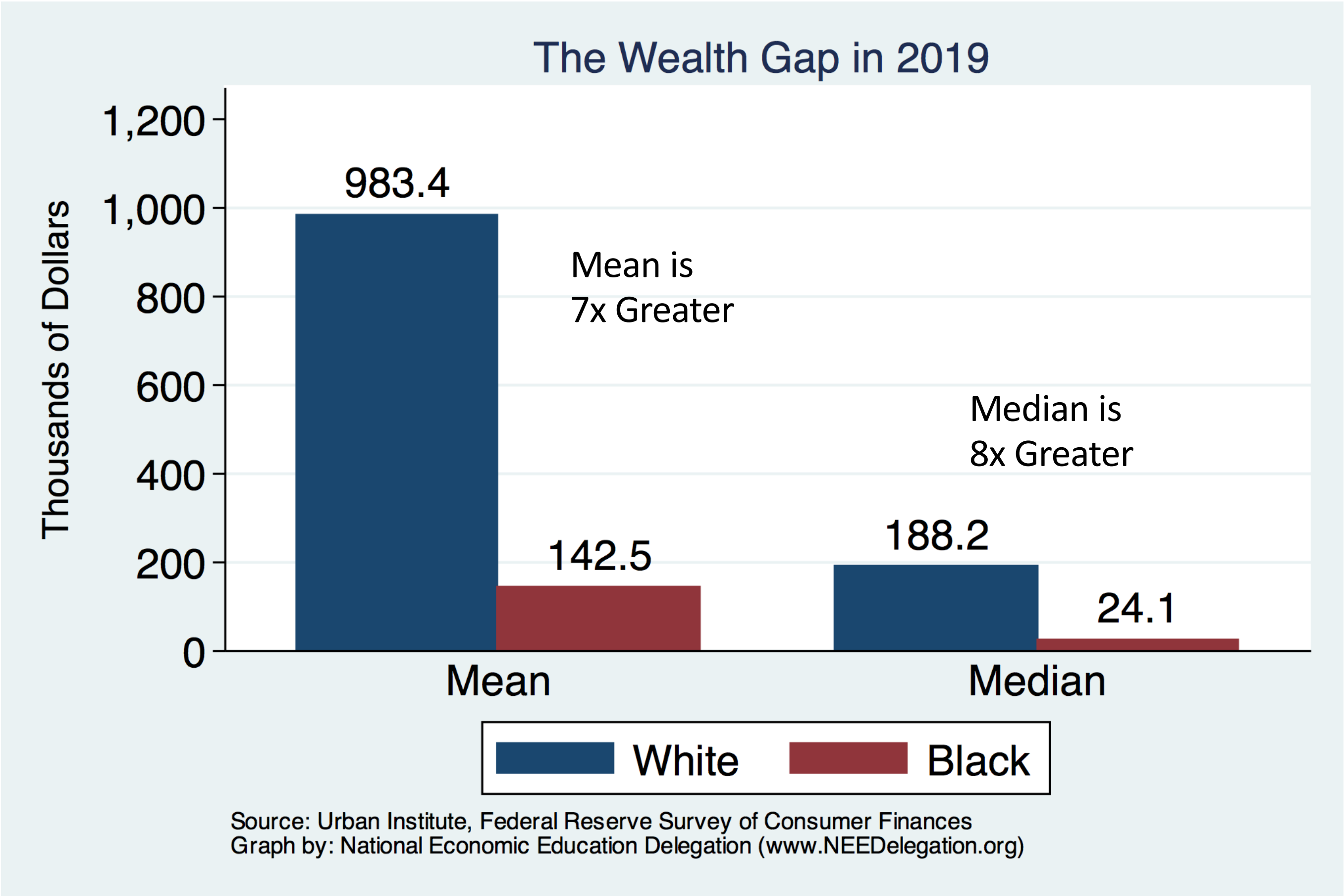
Trade: Bicycle Supply Chain

Figure 1.1 **Where do bicycles come from?**



Source: World Development Report 2020

Evidence of the B-W Wealth Gap



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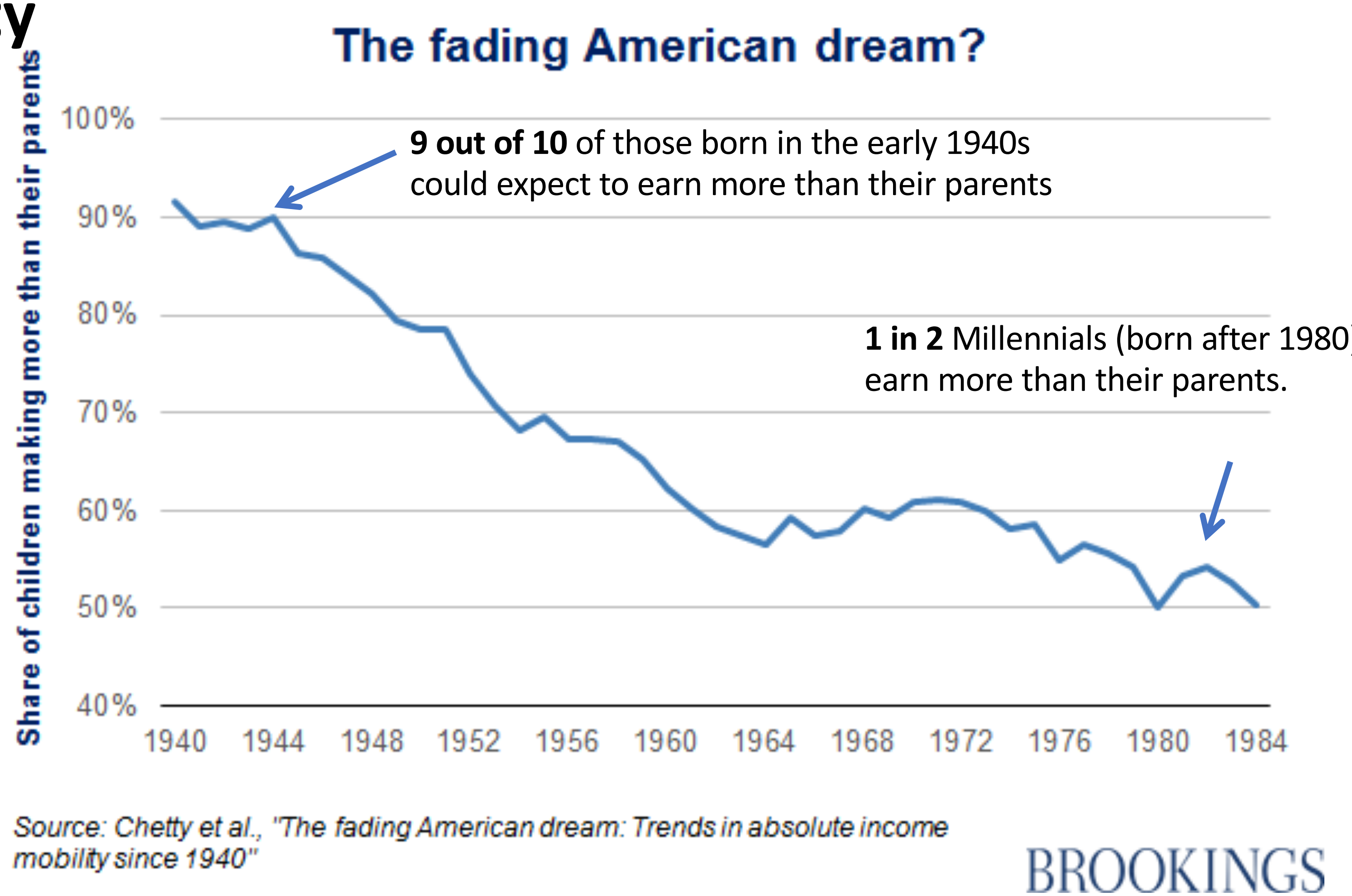
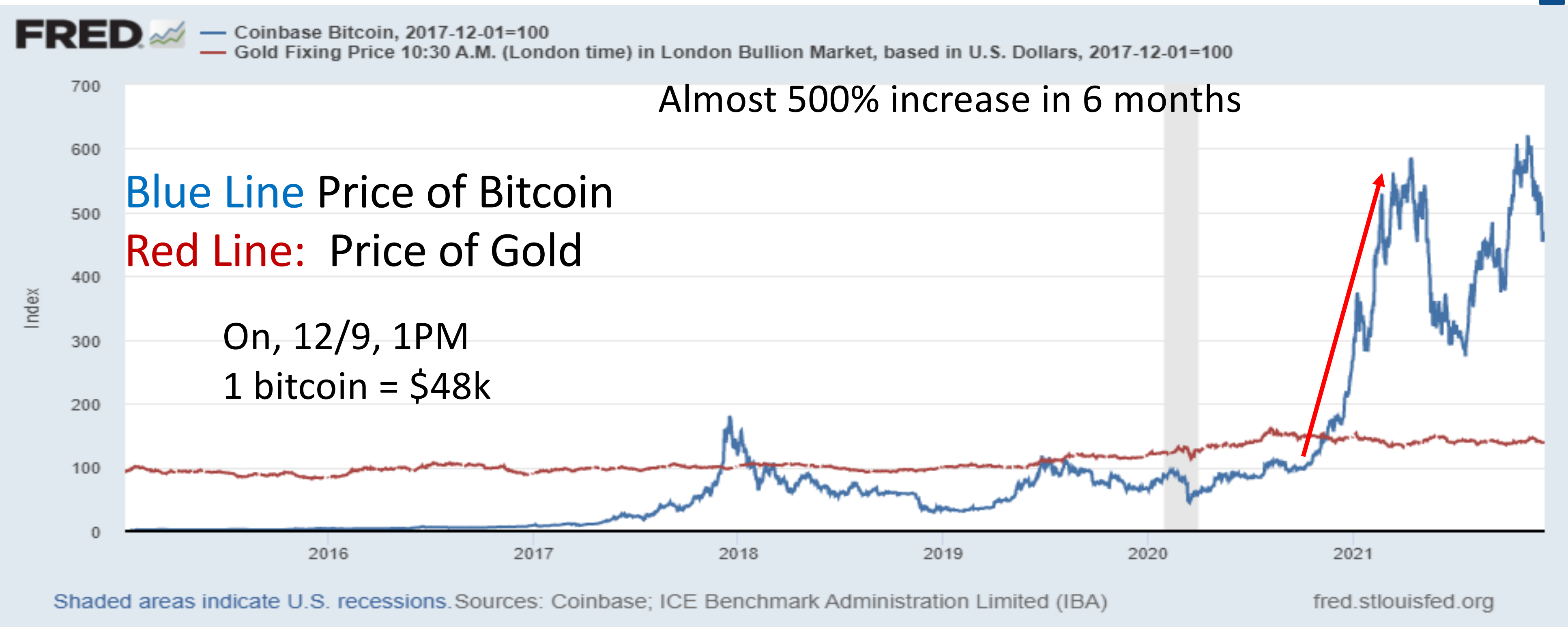
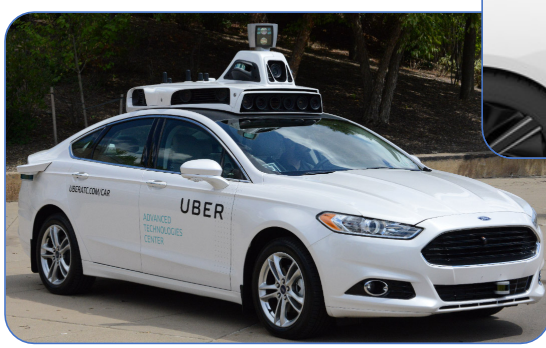
Mobility

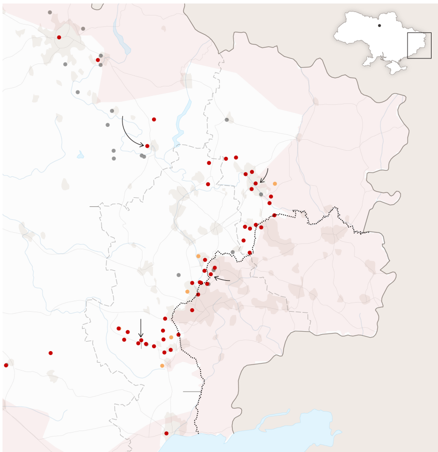

The fading American dream?
Share of children making more than their parents
100%
90%
80%
70%
60%
50%
40%
1940
1944
1948
1952
1956
1960
1964
1968
1972
1976
1980
1984
9 out of 10 of those born in the early 1940s could expect to earn more than their parents
1 in 2 Millennials (born after 1980) earn more than their parents.
Source: Chetty et al., "The fading American dream: Trends in absolute income mobility since 1940"
BROOKINGS

Bitcoins: What is the Excitement About?



Autonomous Vehicles





US Economy and Russia/Ukraine Conflict

Geoffrey Woglom, Ph.D.
Amherst College

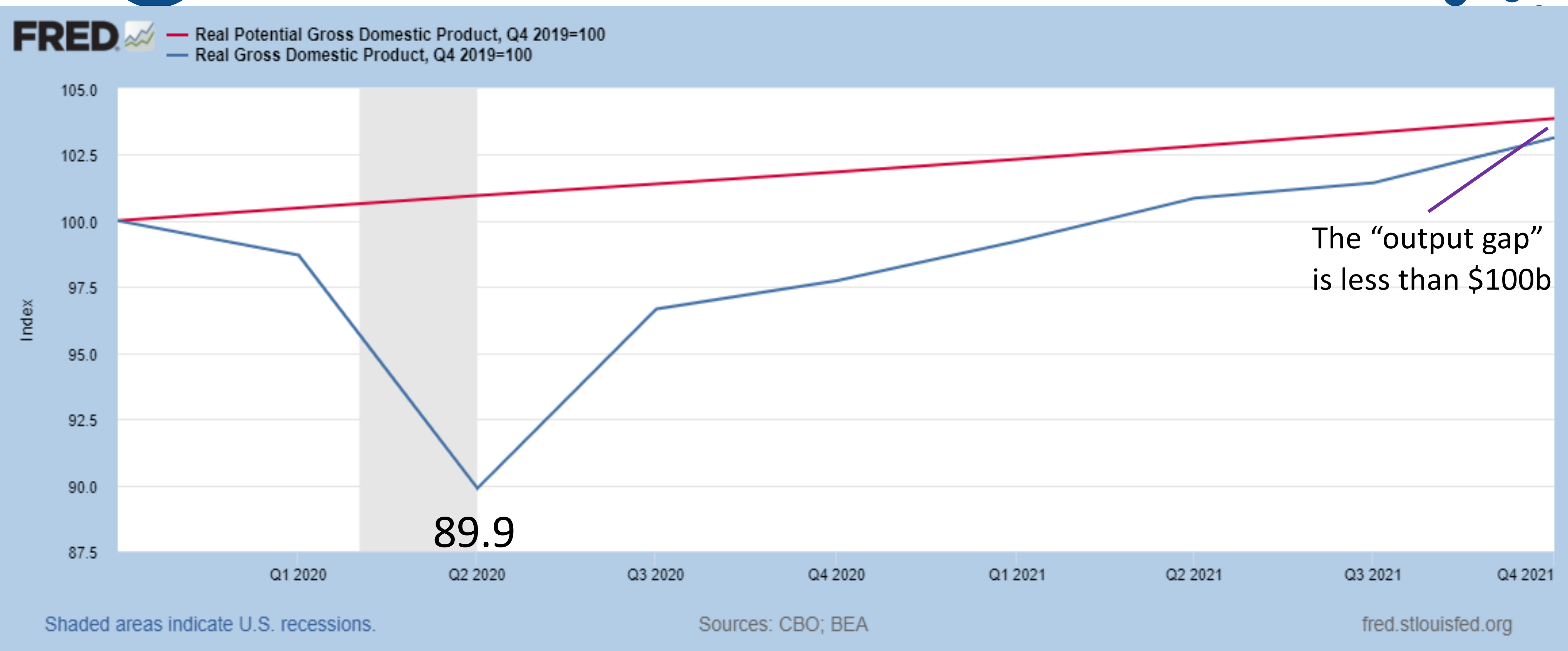
Submitting Questions

- 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)

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. What's at stake at controlling inflation.
4. Brief thoughts on the effects of the Ukraine crisis.

Real GDP and 'Potential' during the Recovery



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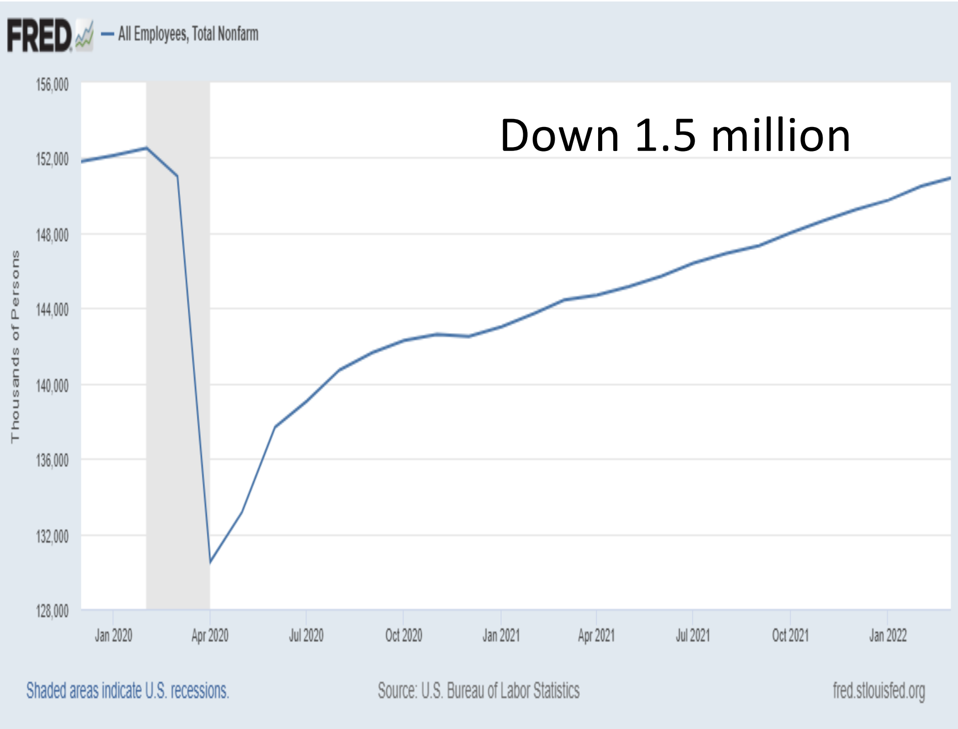
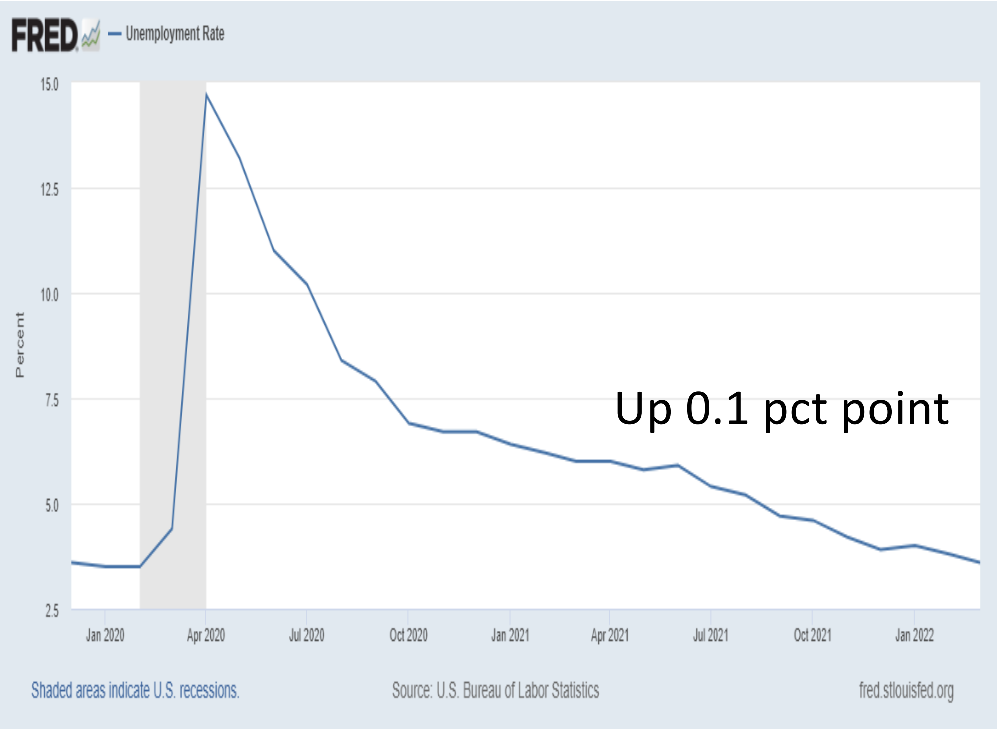
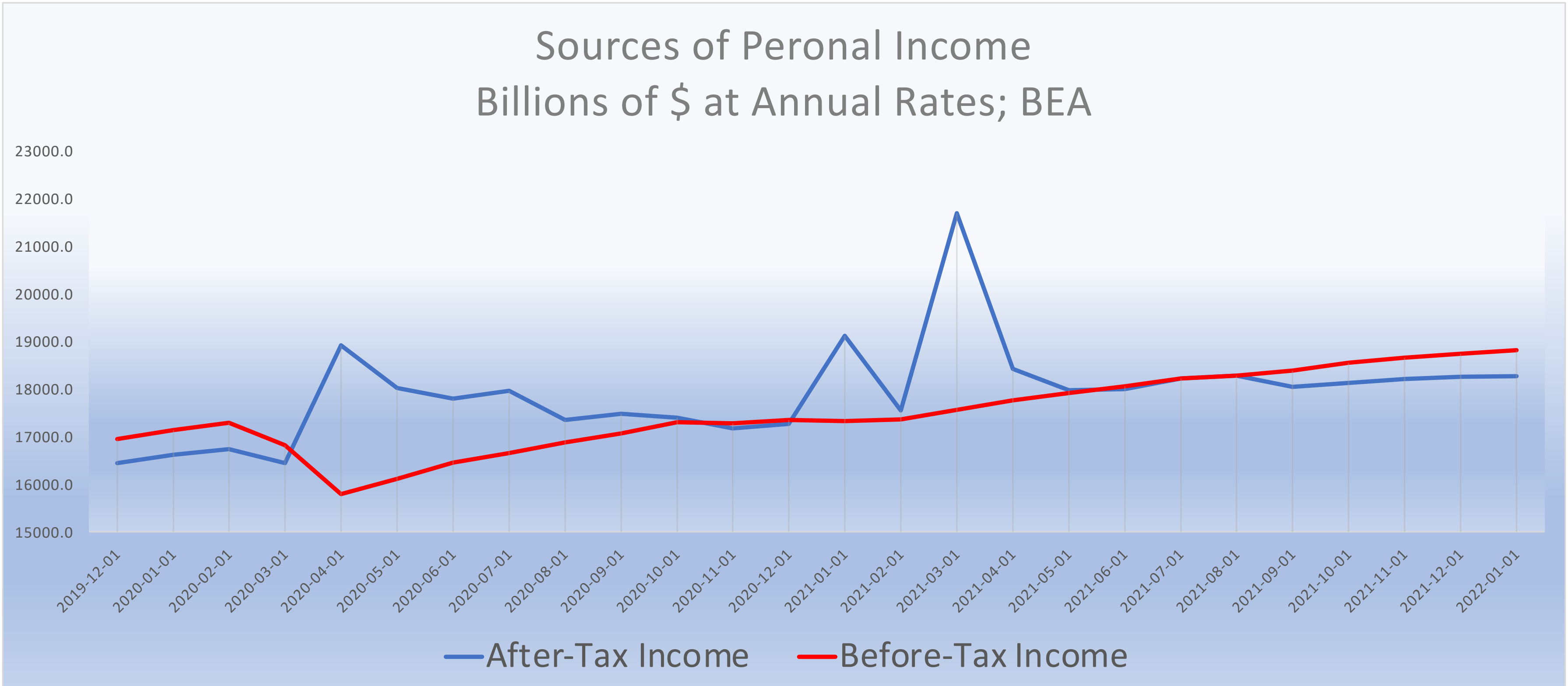
Source: Fred, St Louis Fed

Labor Market is Almost Fully Recovered

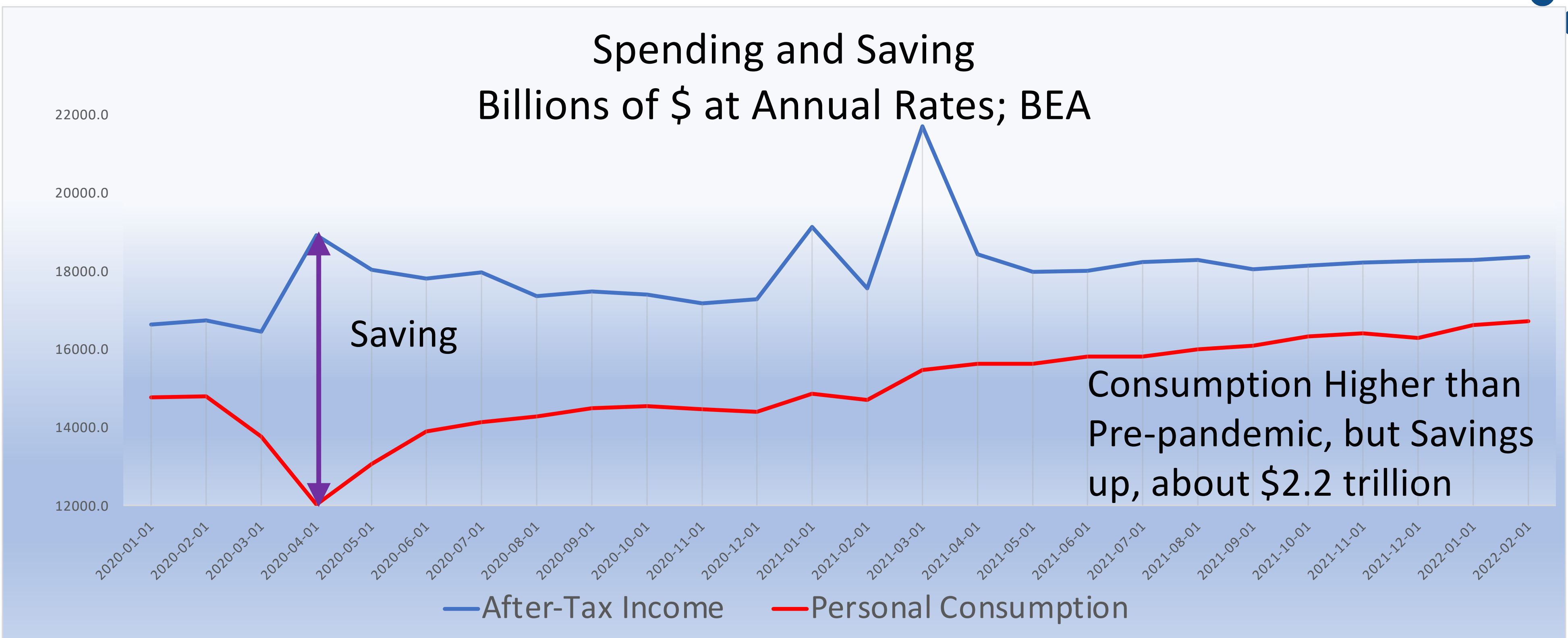




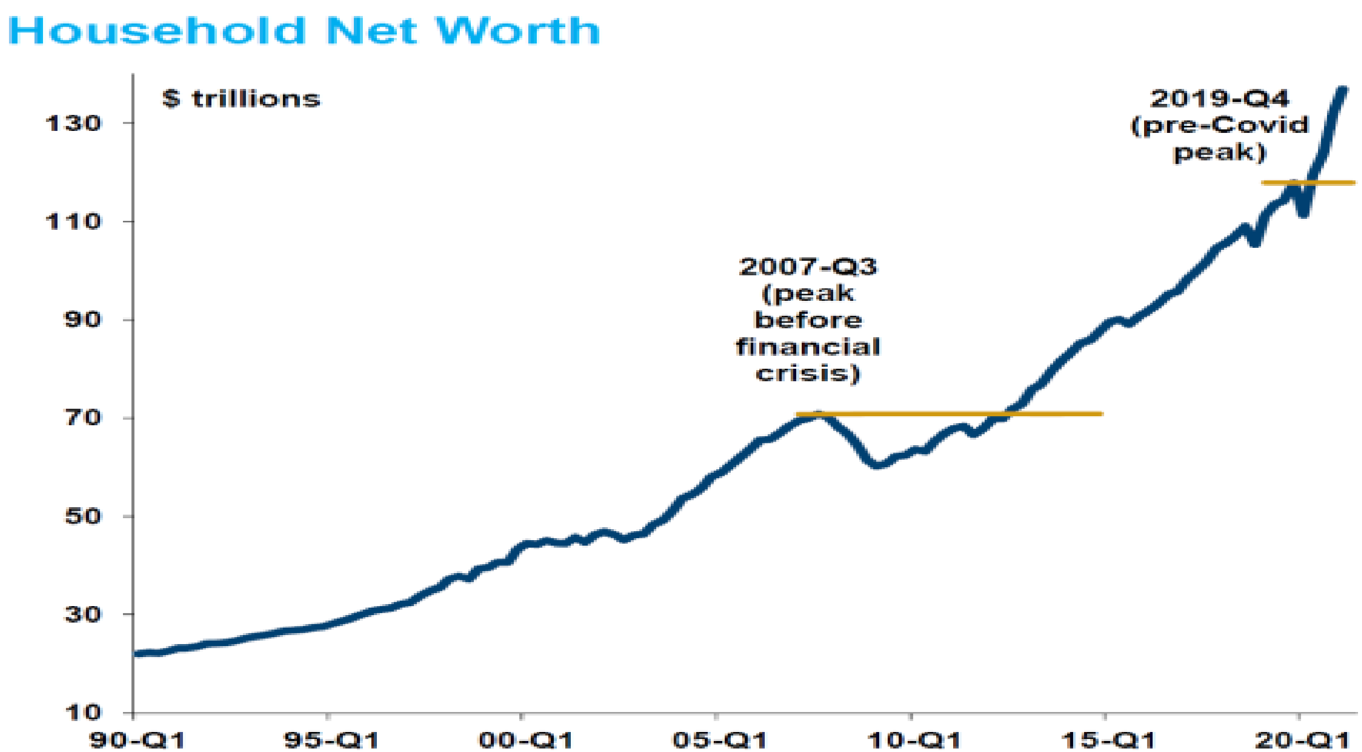
Fiscally Driven Recovery



Households Lead the Way

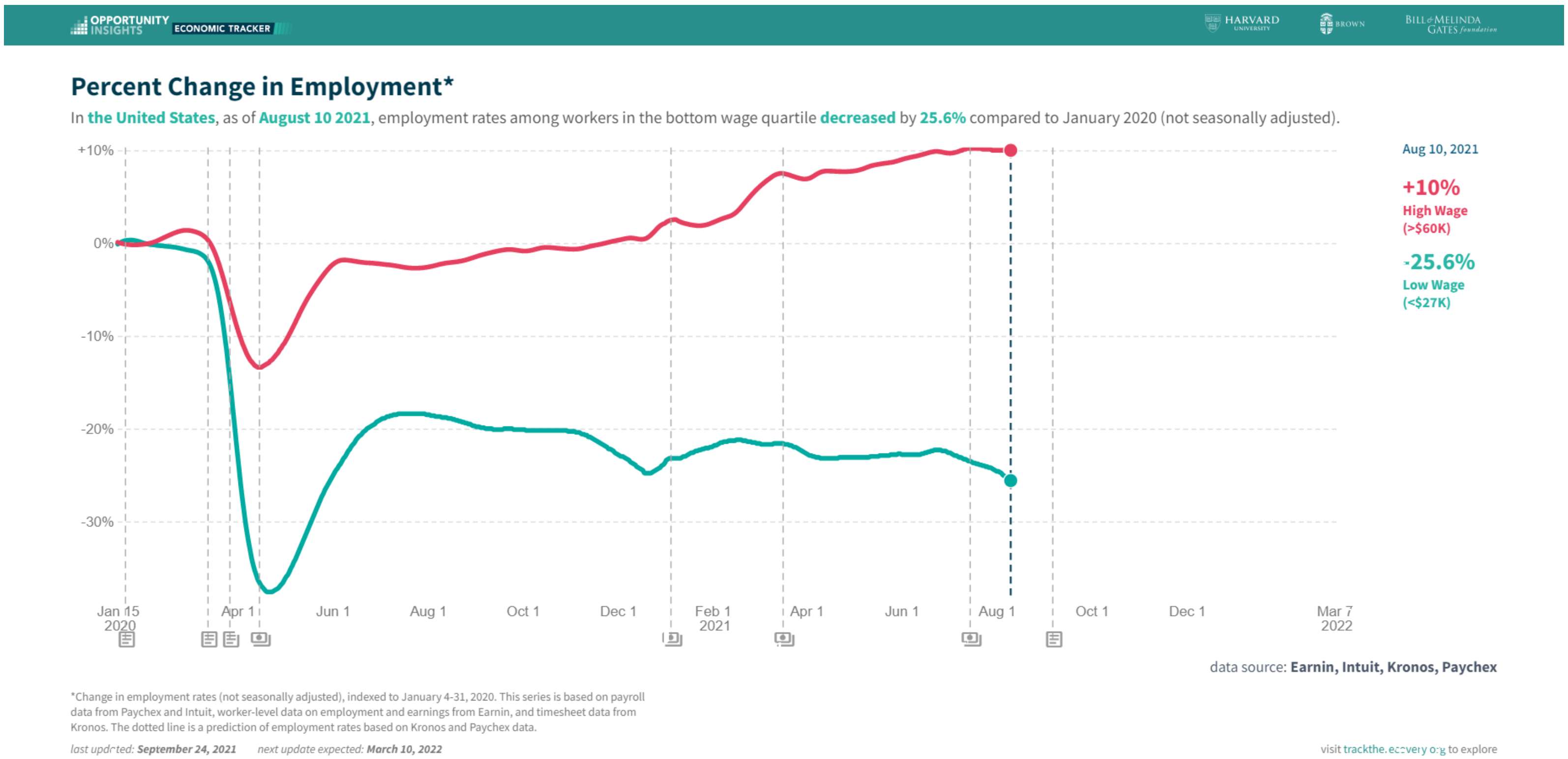


Overall Households Are Doing Well

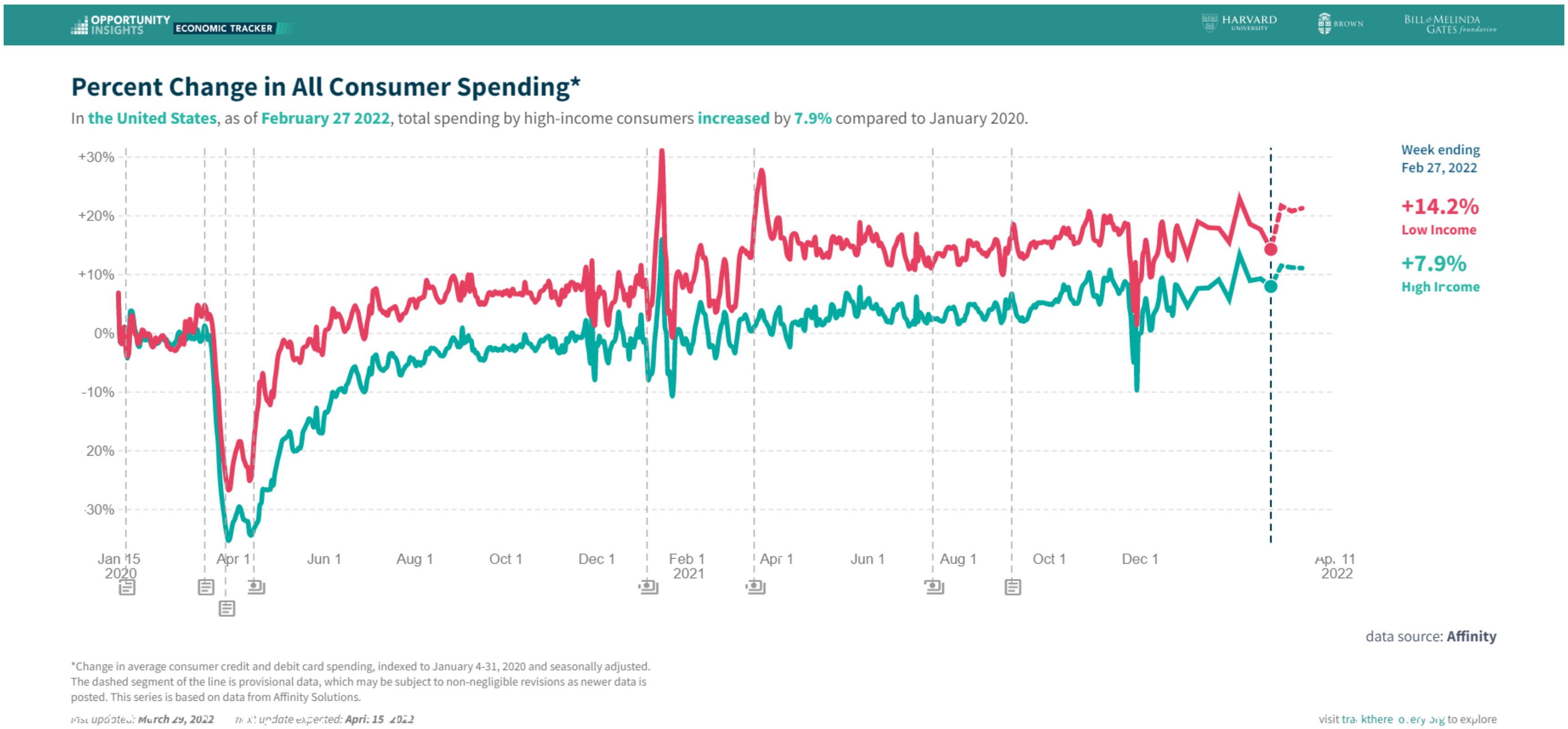


Source: Financial Accounts of the United States, Federal Reserve Board via Haver Analytics

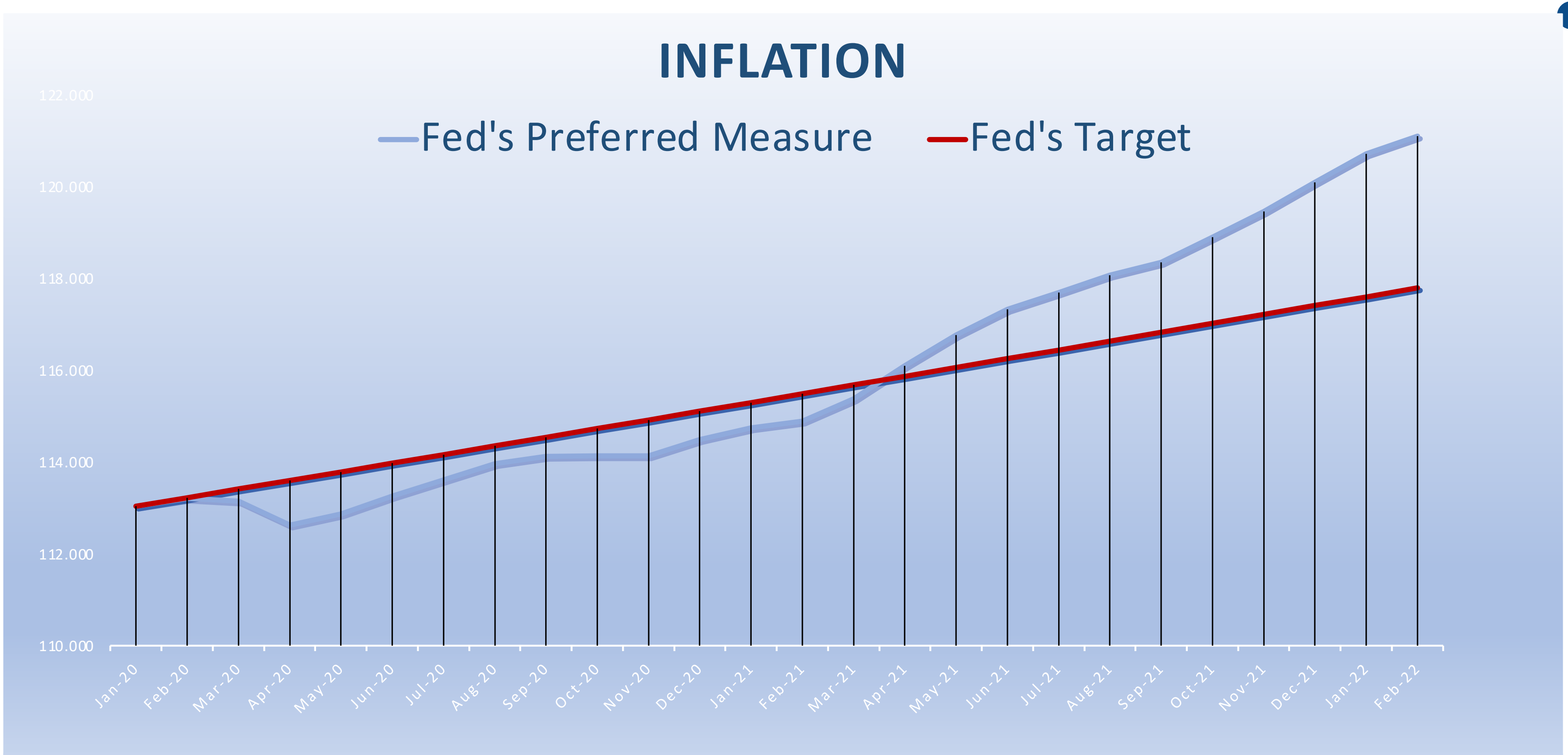
K-Shaped Recovery



Stimulus Payments Saved Low Income Families



Inflation during the Recovery

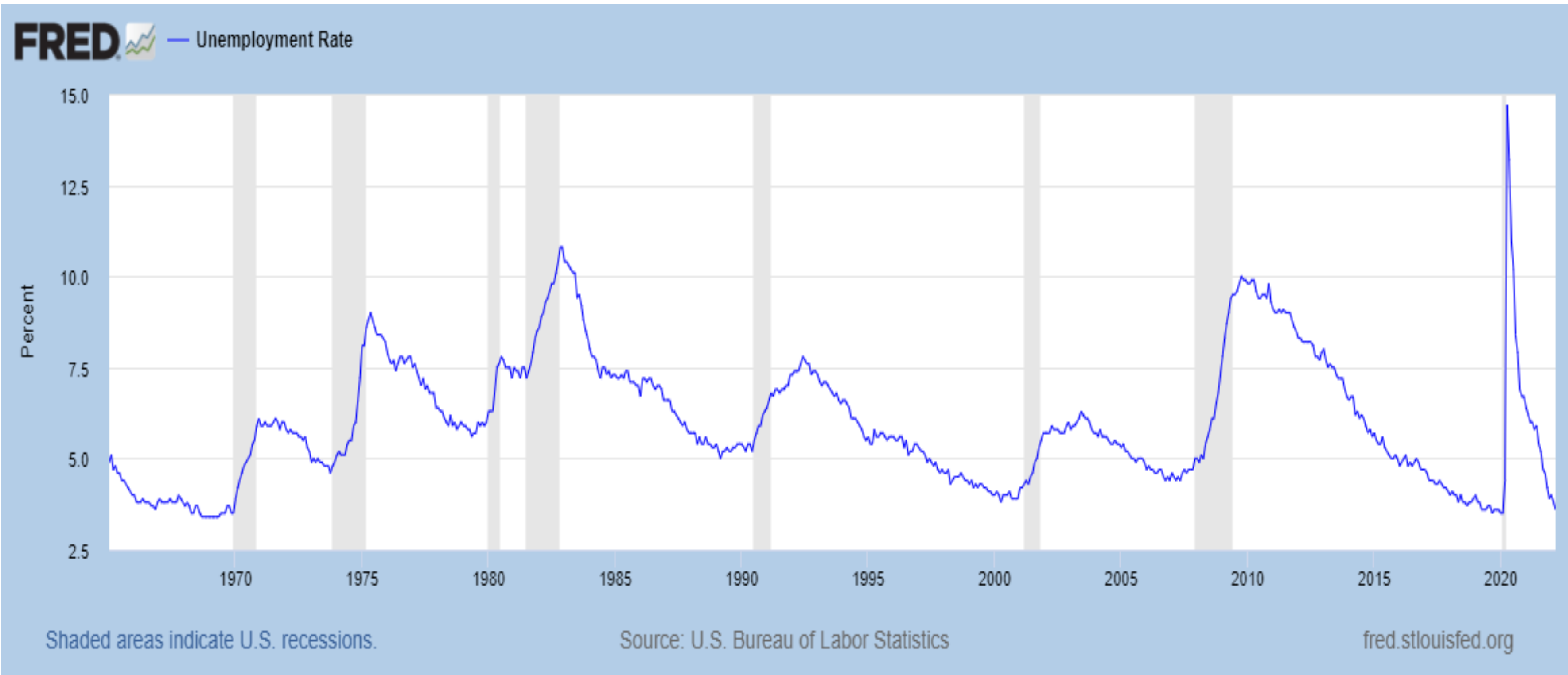


Stabilizer in Chief: the Fed

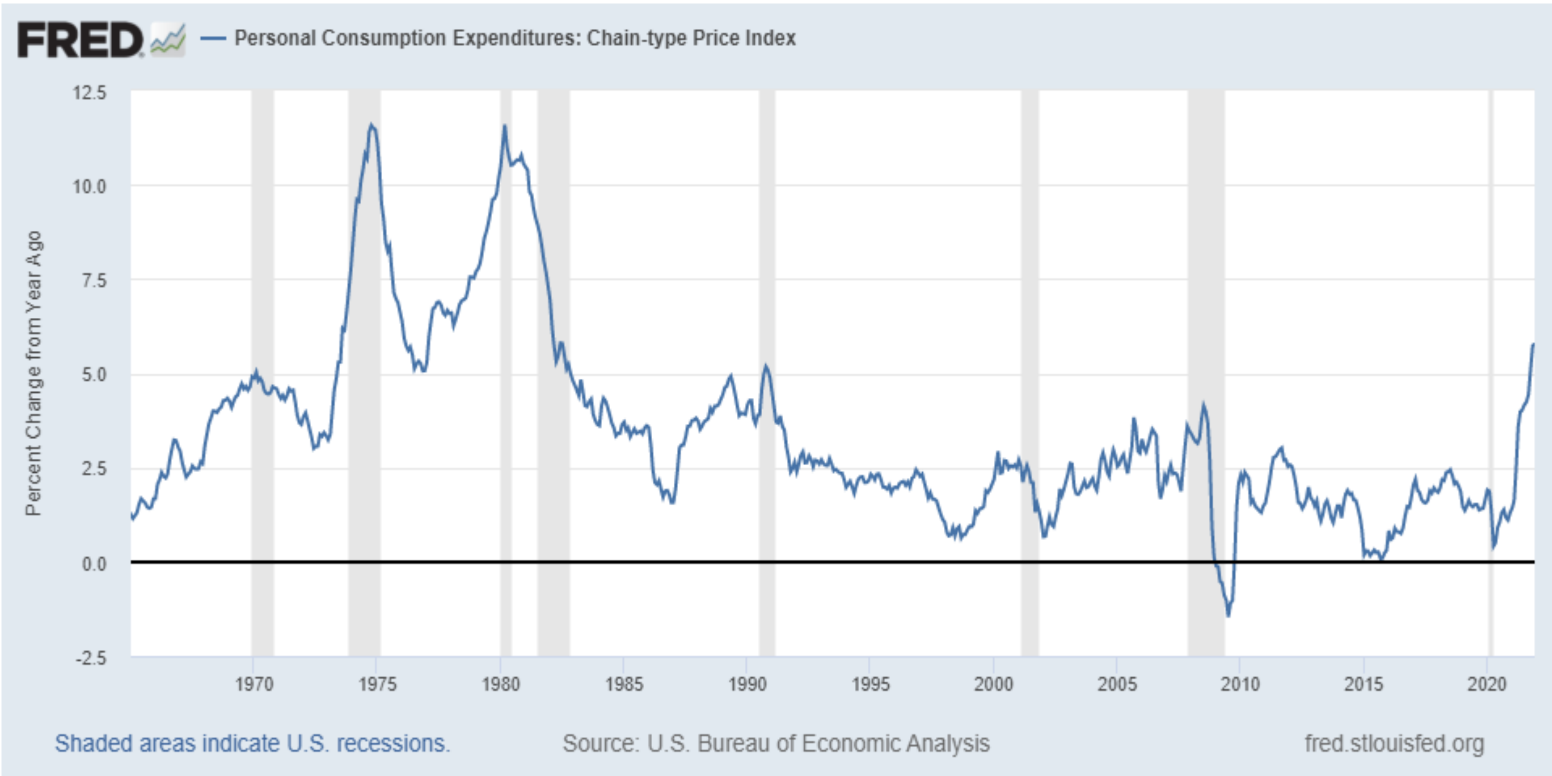
Jerome Powell
February 2018

- **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**

Track Record on Unemployment



Track Record on "Price Stability"



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.

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.

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.

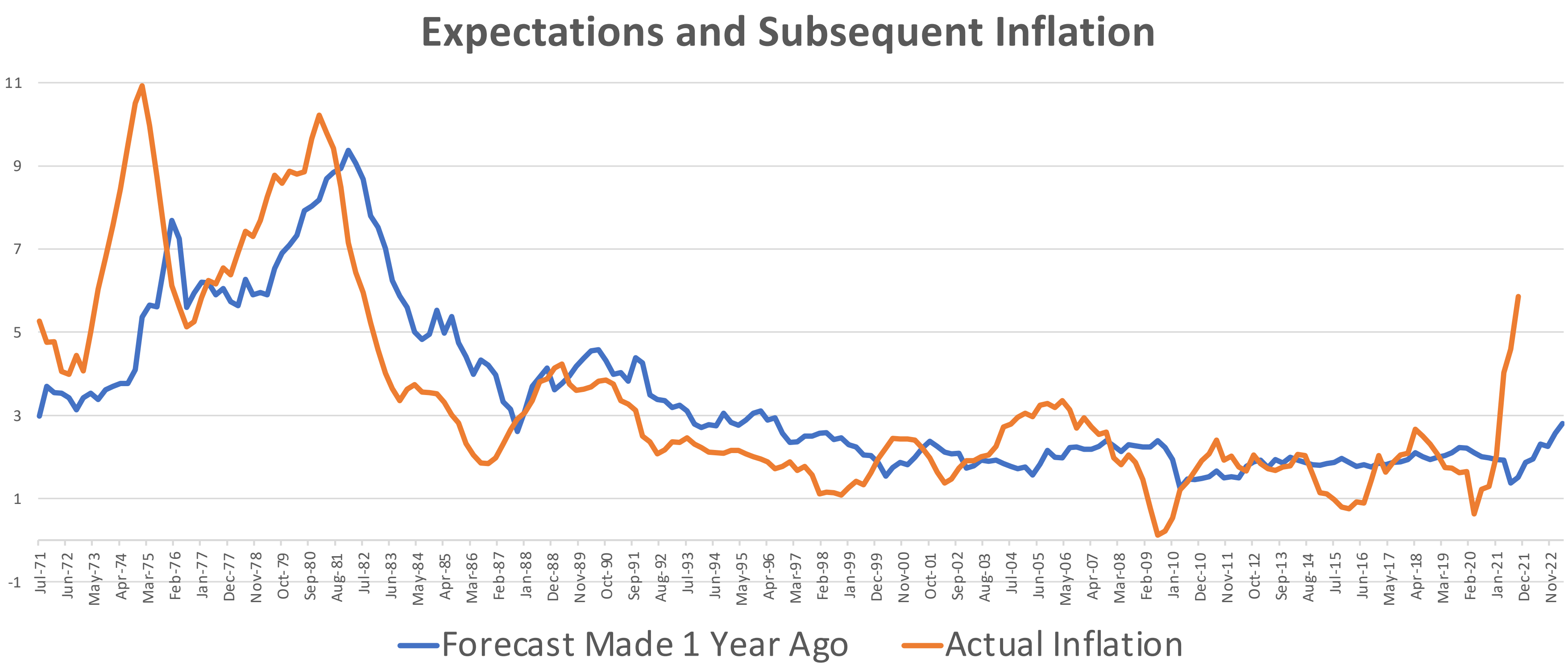
One Big Complication: Lags

- 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.

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.

"Anchoring" Inflation Expectations

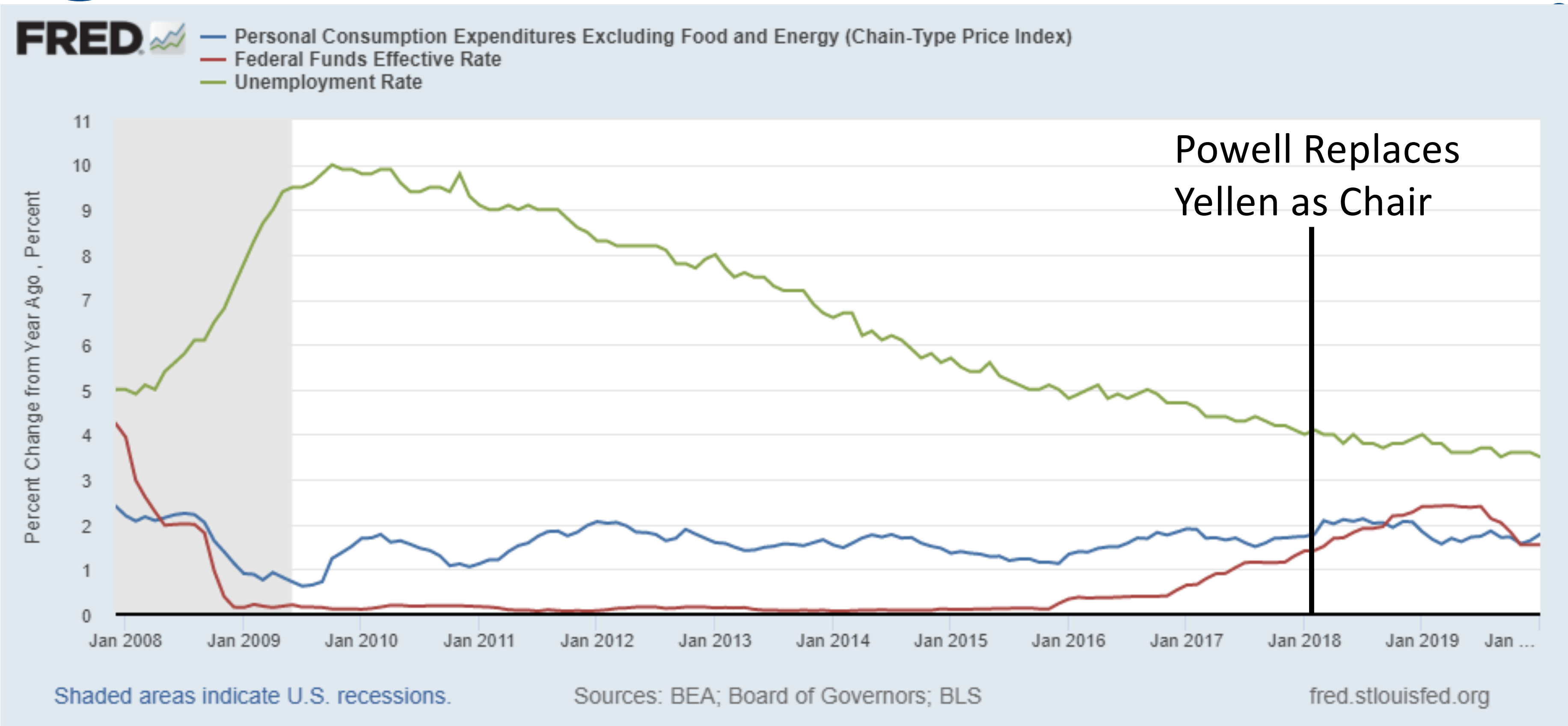


Forecasts: Philadelphia Fed, "Survey of Professional Forecasters"

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.

Why Did Powell Do It?



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%

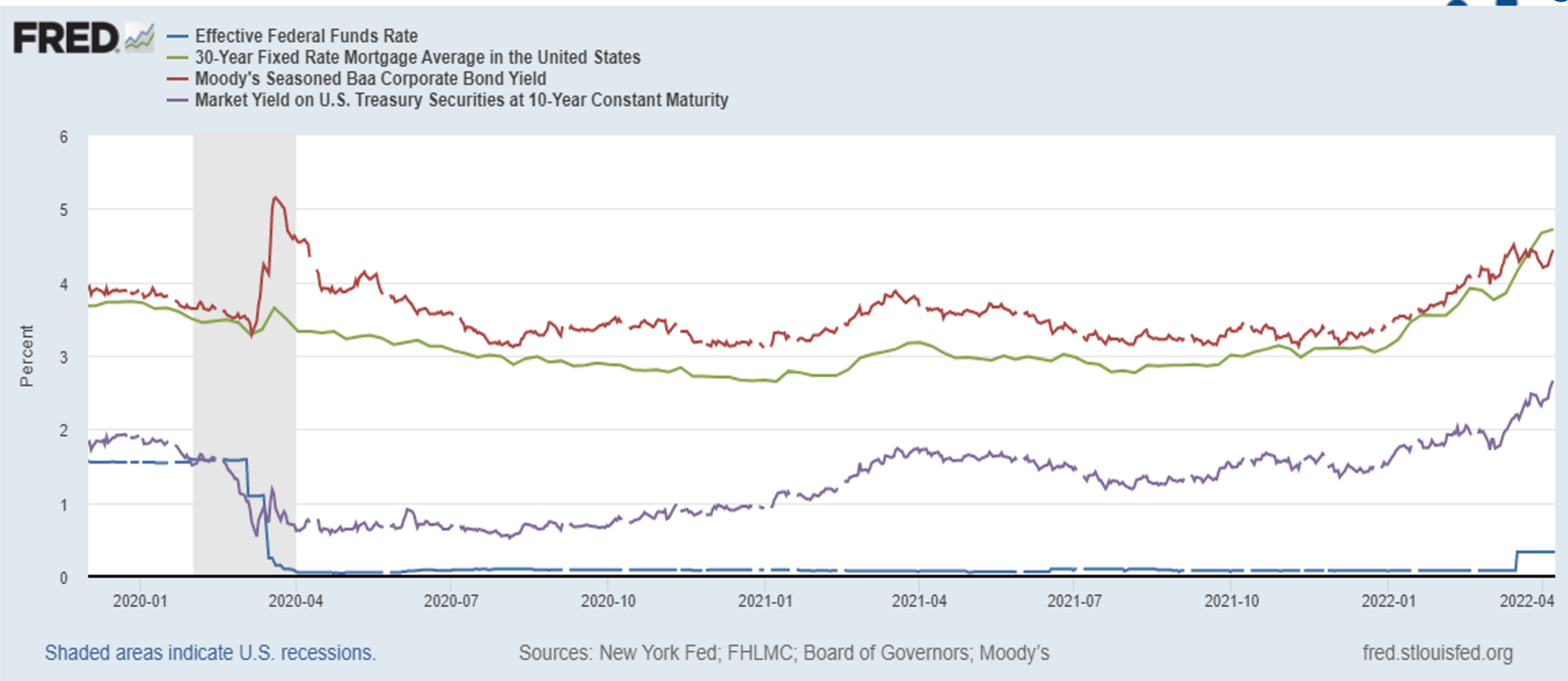
Have they forgotten about Lags!

Note: At the moment, the price level is 3 percent higher than the target level. Will Powell shoot for deflation?

Fed Policy Statement, 3/16/2022

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee expects to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities at a coming meeting.

Pandemic Interest Rates



So Far Inflationary Expectations Look Stable

- **Professional forecasters, financial markets and the Fed itself think that inflation in 2023 will be in the 2.5-3.3%, range**

Economic Projections of the FOMC, March 2022*

	2022	2023	2024	Longer Run
Change in Real GDP	2.8	2.2	2.0	1.8
December projection	4.0	2.2	2.0	1.8
Unemployment Rate	3.5	3.5	3.6	4.0
December projection	3.5	3.5	3.5	4.0
PCE Inflation	4.3	2.7	2.3	2.0
December projection	2.6	2.3	2.1	2.0
Core PCE Inflation	4.1	2.6	2.3	--
December projection	2.7	2.3	2.1	--
Federal Funds Rate	1.9	2.8	2.8	2.4
December projection	0.9	1.6	2.1	2.5

** Median projections*

Source: Federal Open Market Committee, Summary of Economic Projections, March 2022

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Good Luck with these Forecasts!

Even with the War in Ukraine!

WSJ¸SURVEY OF PROFESSIONAL FORECASTERS (APRIL)

	2022	2023	2024
CHANGE IN REAL GDP	2.6	2.2	2.1
JANUARY FORECAST	3.3	2.4	2.2
UNEMPLOYMENT	3.4	3.6	3.7
JANUARY FORECAST	3.5	3.5	3.5
INFLATION	4.8	2.8	2.4
JANUARY FORECAST	3.0	2.4	2.3
FEDERAL FUNDS RATE	2.0	2.7	2.5
JANUARY FORECAST	0.3	0.9	1.6

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If Expectations Start to Increase

The Fed will have a very difficult choice

a) Raise interest rates a lot (in an election year) to slow inflation

1. stalling the recovery.
2. disrupting financial markets.

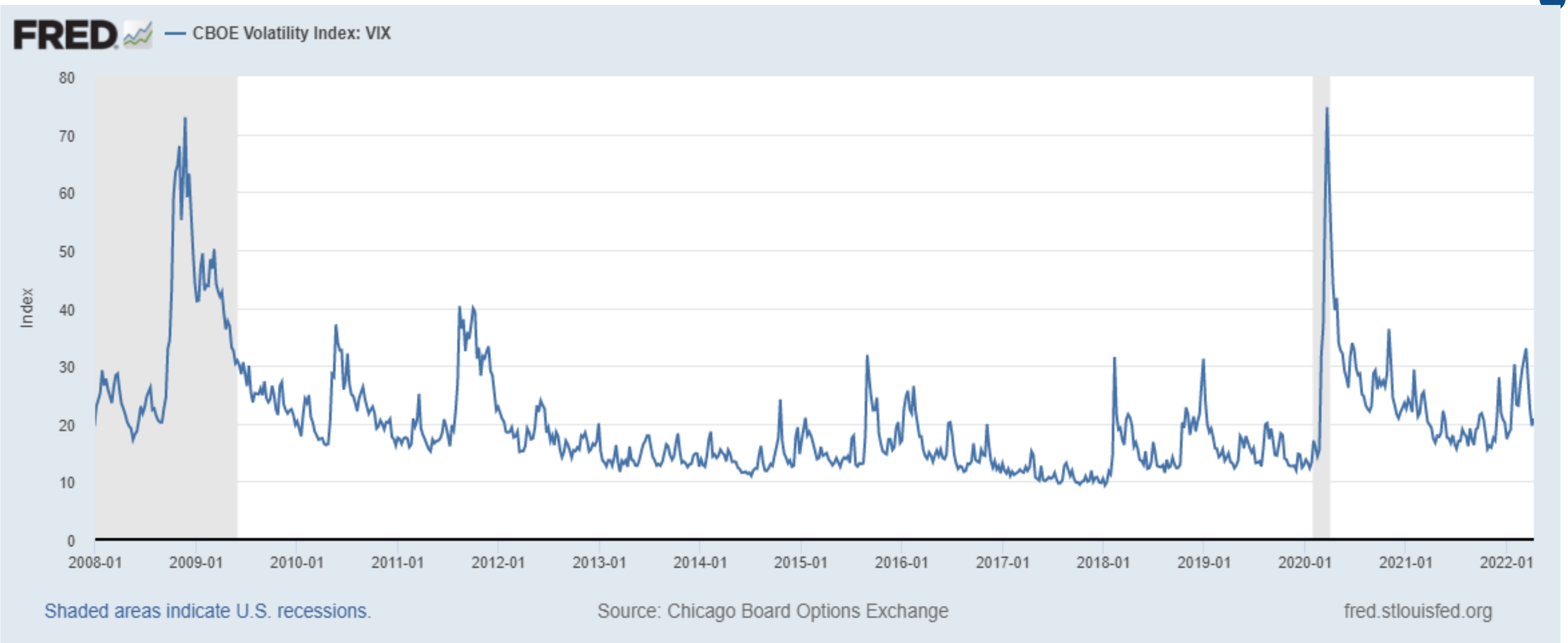
b) Raise interest rates slowly and moderately to cushion the effect on employment

1. avoids a recession (maybe).
2. inflationary expectations become unanchored

The Conflict in Ukraine and the US Economy

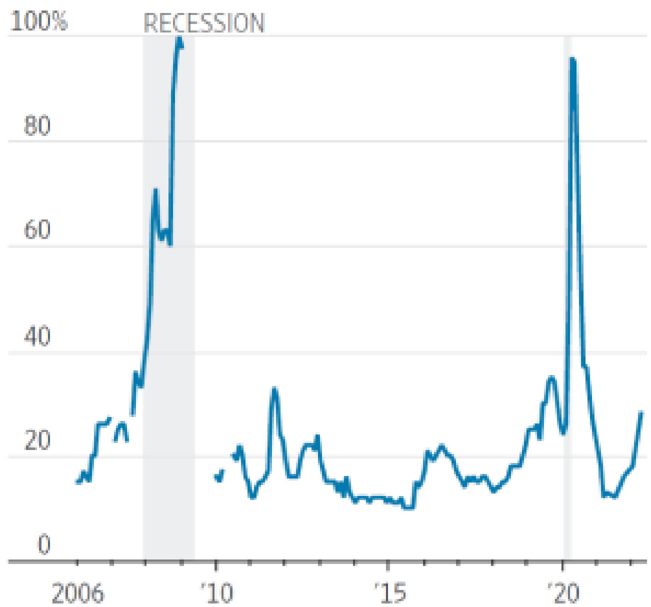
- **Short run**
  - Uncertainty
  - Recession?
  - Increase in Cost of Food and Fuel
- **Long run**
  - Decrease in Globalization
  - The Role of the Dollar as a International Reserve Currency.

The Fear Index



But, Economist Are Using the “R” Word

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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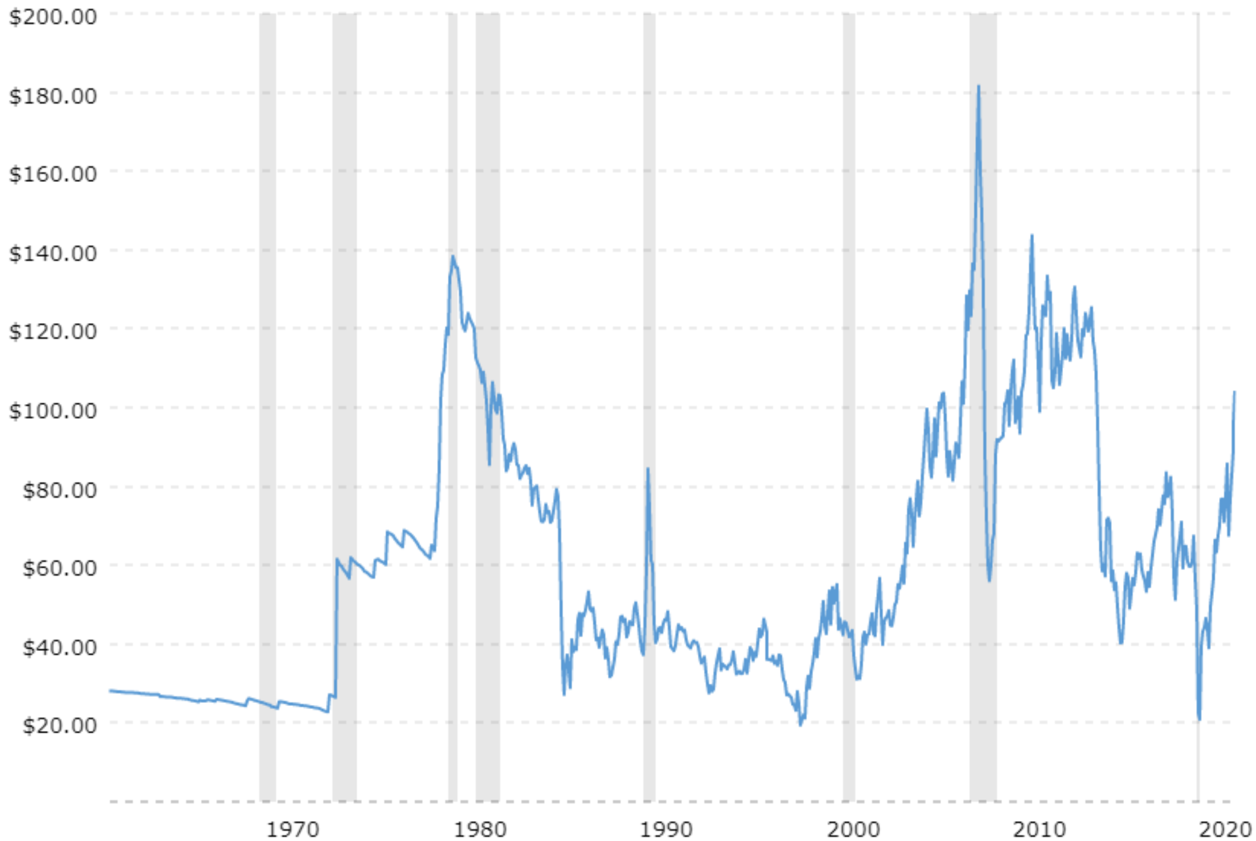
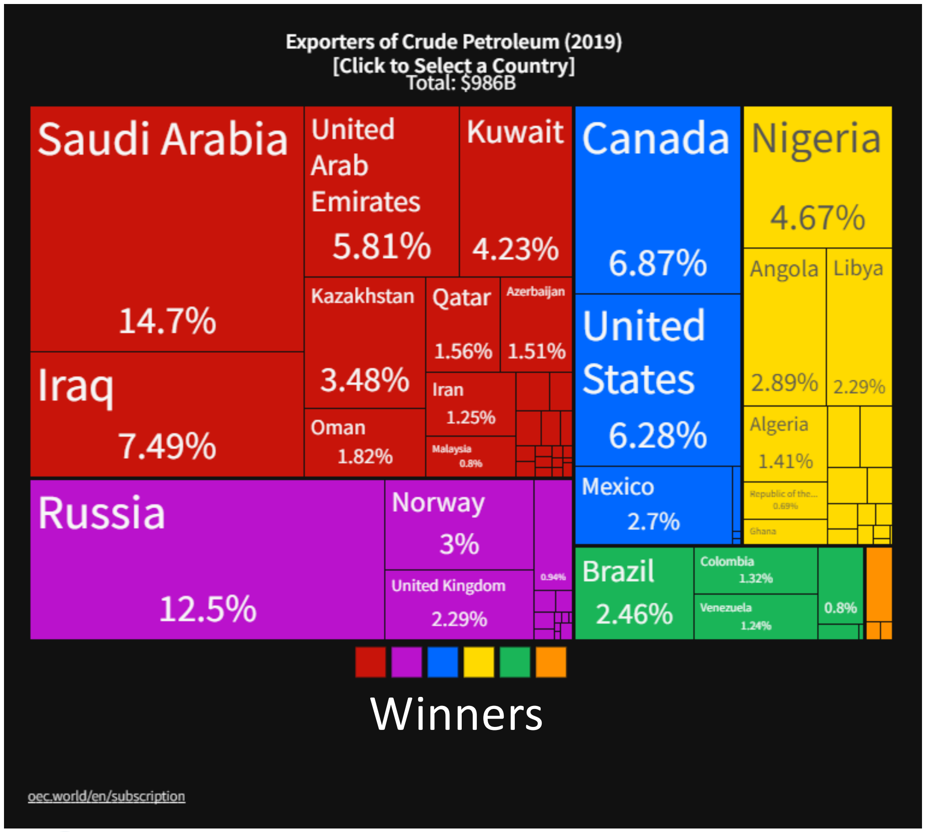
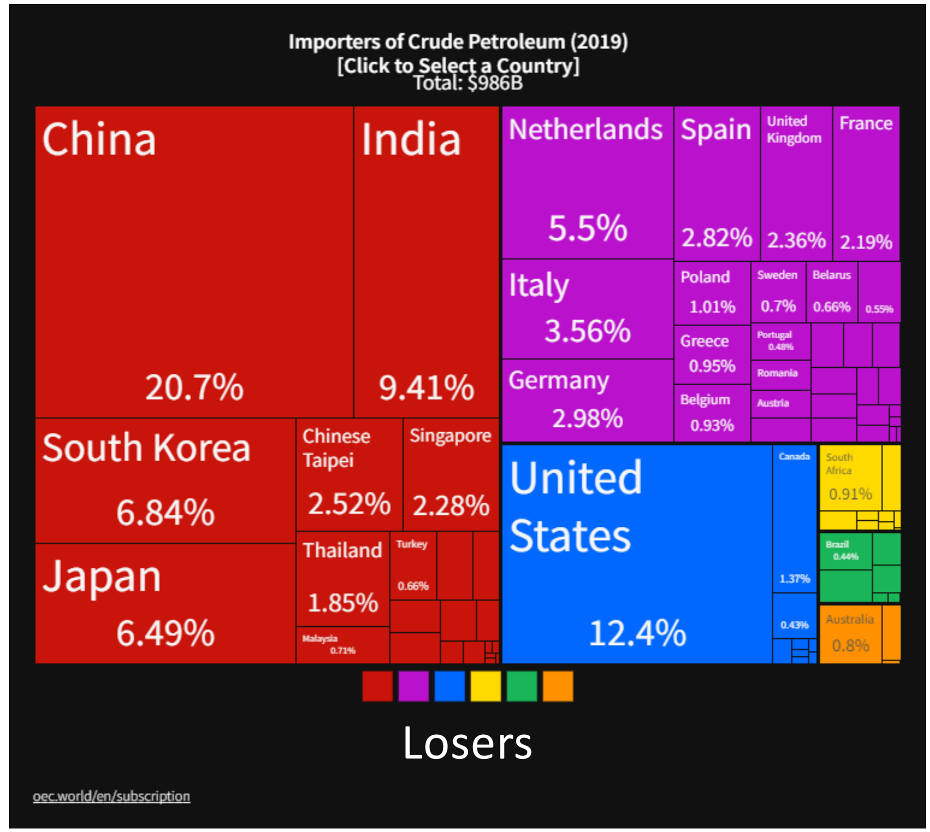
Supply Shocks: Then and Now



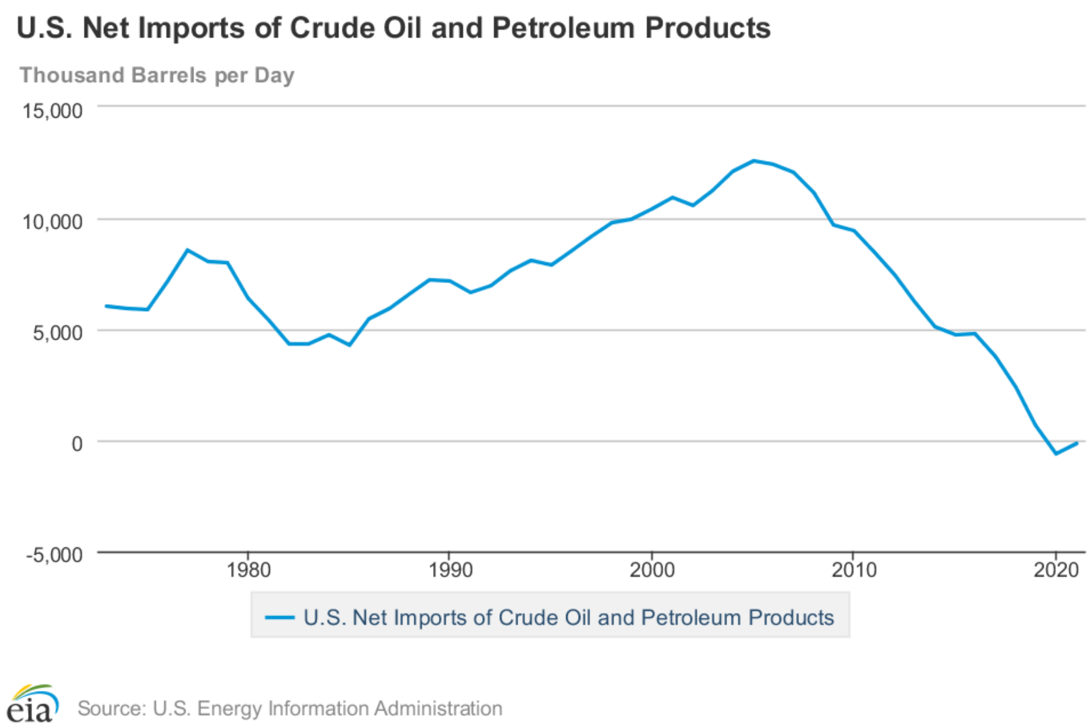
Historical Oil Price
adjusted for Inflation
Source: macrotrends.net

The Price of Oil is Likely to Rise (further)





How Much Will the US be Hurt?



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

Not now (fracking)

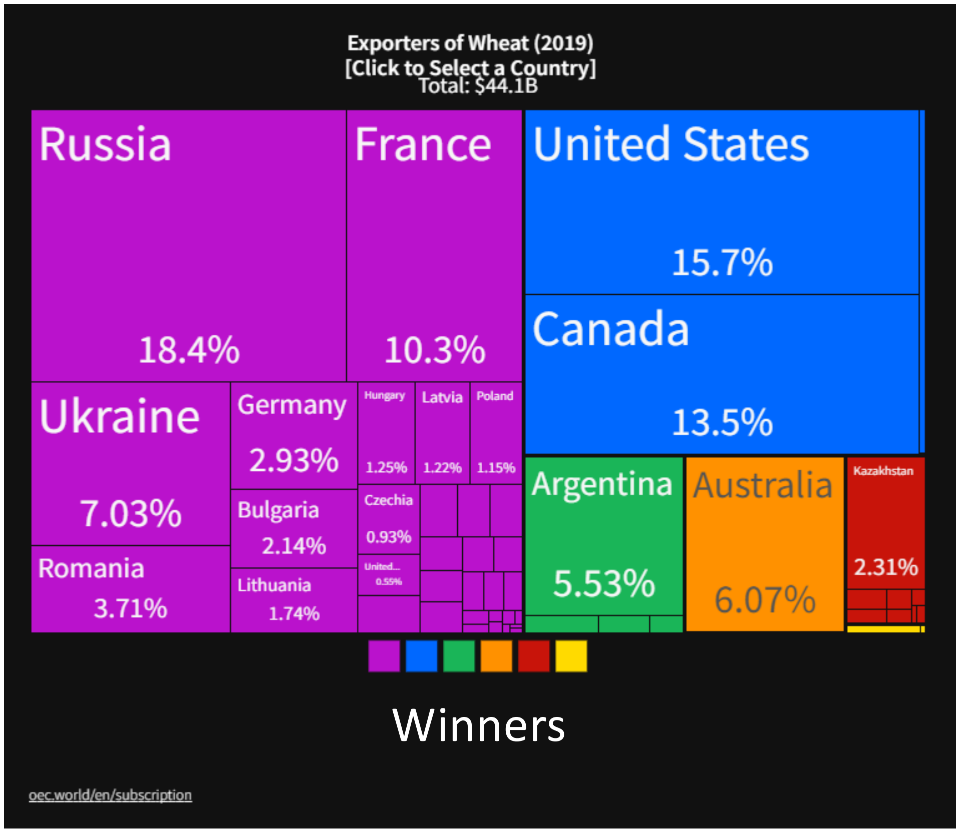
But, unless you own an oil well, you are likely to feel the pinch!

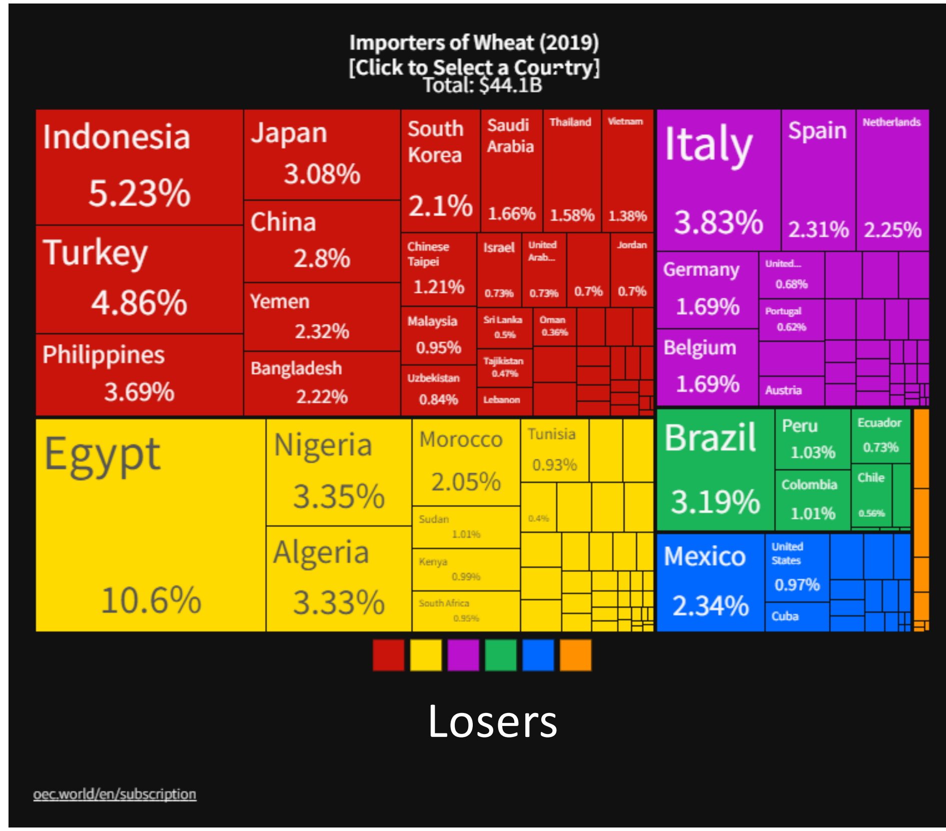
Wheat Prices Also Look Scary

Wheat Futures Prices **NOT** Adjusted for inflation

Source: Macrotrends.net

The Price of Wheat: Winners and Losers



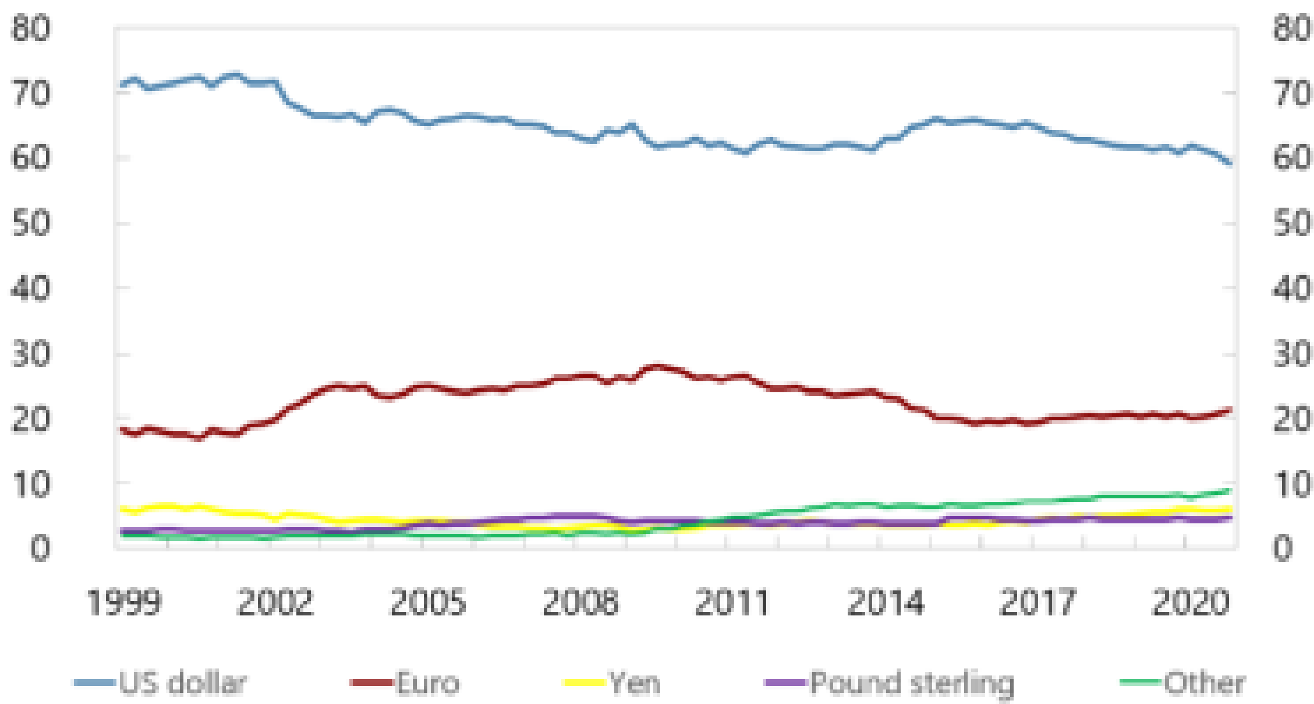


Long-run Effects

- **Deglobalization to Protect Supply Chains.**
- **New Developments to avoid-US imposed financial wars.**
  - China's alternative to SWIFT
  - Rise of crypto currencies
  - The Dollar's Role as a reserve Currency

Demand for Dollars by Central Banks

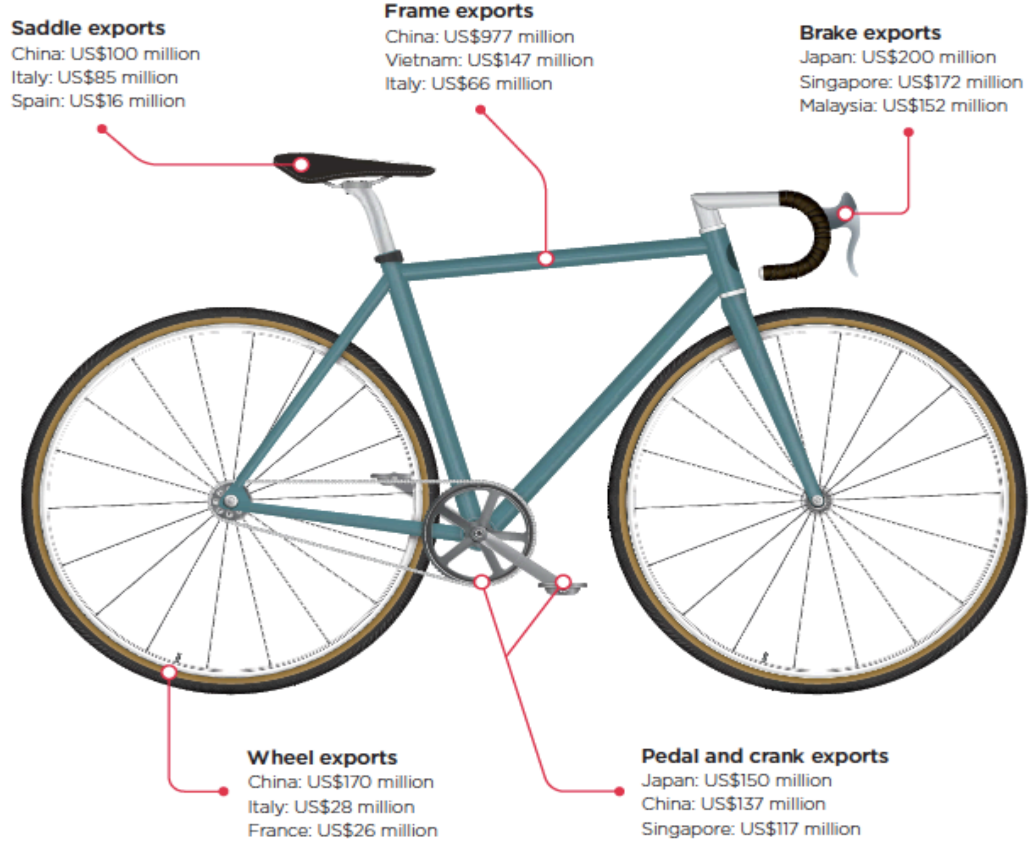
(currency composition of global foreign exchange reserves, percent)



Source IMF Currency Composition of Official Exchange Reserves

Trade: Bicycle Supply Chain

Figure 1.1 Where do bicycles come from?



Source: World Development Report 2020

Questions?

www.NEEDelegation.org

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