

Osher Lifelong Learning Institute, Spring 2023

Contemporary Economic Policy

University of Arizona
May-June, 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**

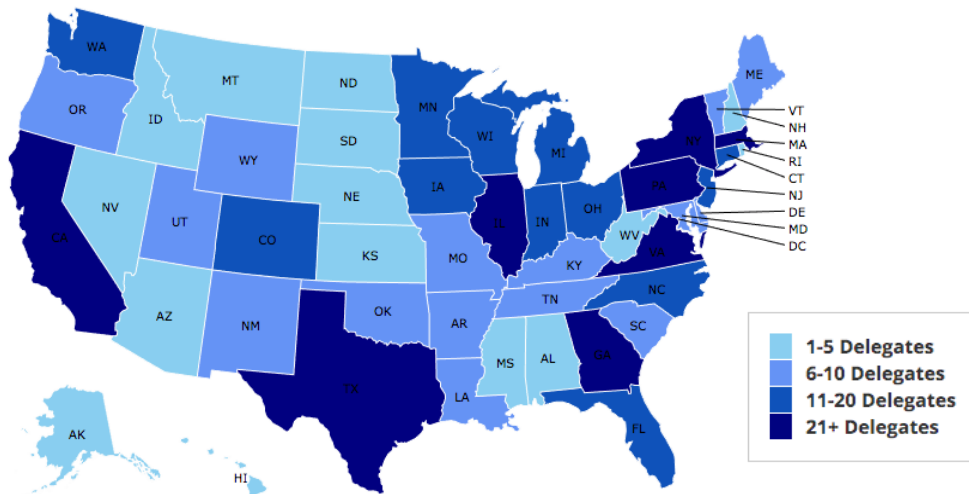
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

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

- Aid in slide deck development



Where Are We?



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
- US Social Policy



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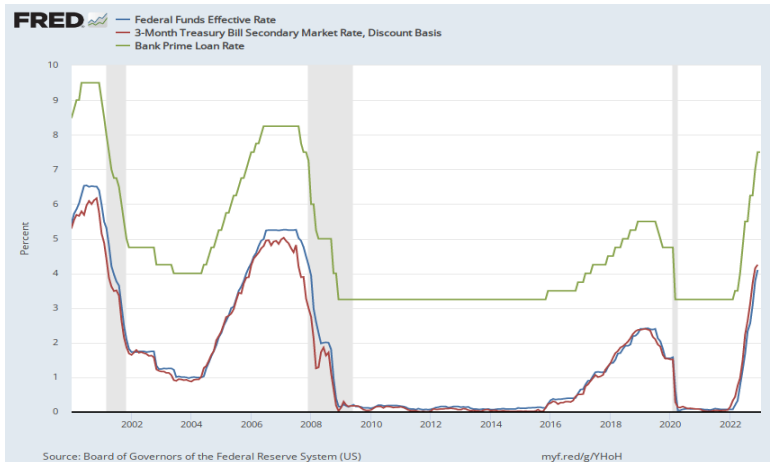
Course Outline

- **Contemporary Economic Policy**
 - Week 1 (5/16): US Economy (Geoffrey Woglom, Amherst College)
 - Week 2 (5/23): Monetary Policy (Geoffrey Woglom)
 - Week 3 (5/30): Health Care Economics (Kelley Cullen, E. Washington University)
 - Week 4 (6/6): Trade and Globalization (Alan Deardorff, University of Michigan)
 - Week 5 (6/13): Trade Deficits and Exchange Rates (Alan Deardorff)
 - Week 6 (6/20): Cryptocurrencies (Jon Haveman, NEED)



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The Fed and Short-term Interest Rates

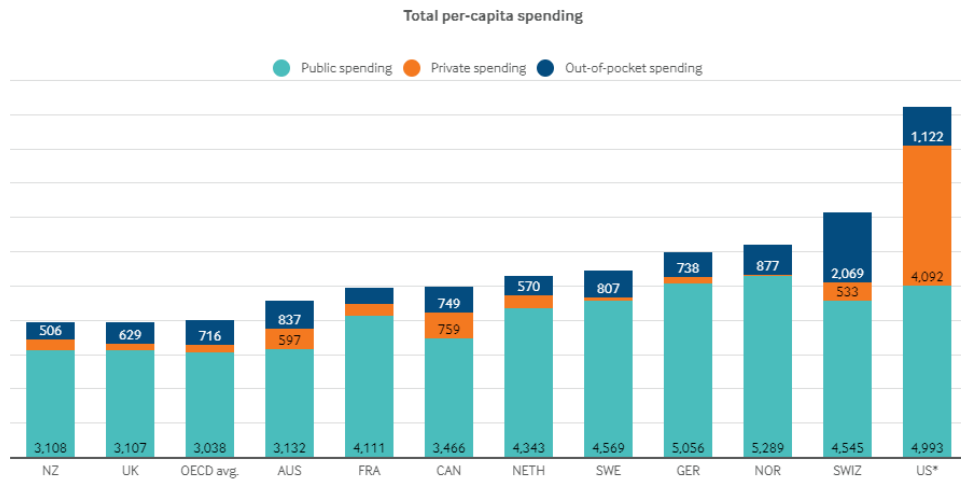


Blue is the fed funds rate.
Red is the rate on 3 month Treasuries.
Green is the prime bank lending rate

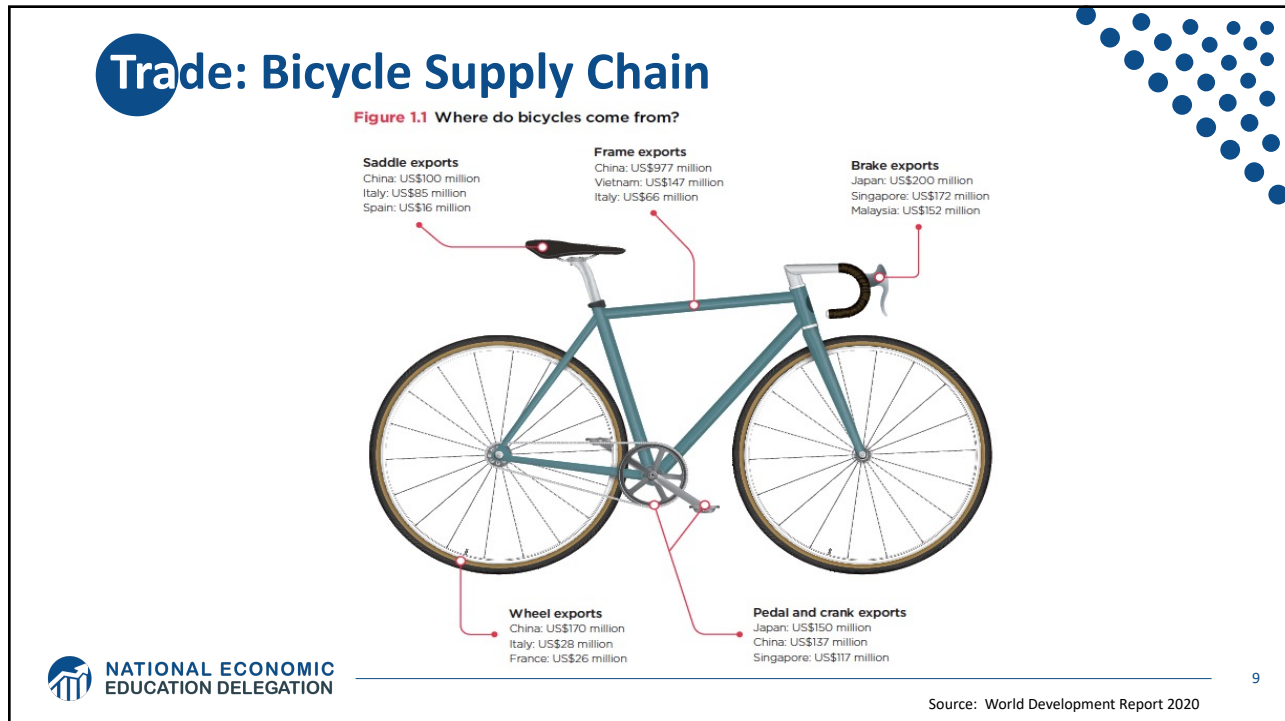
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International Comparison: Health Spending

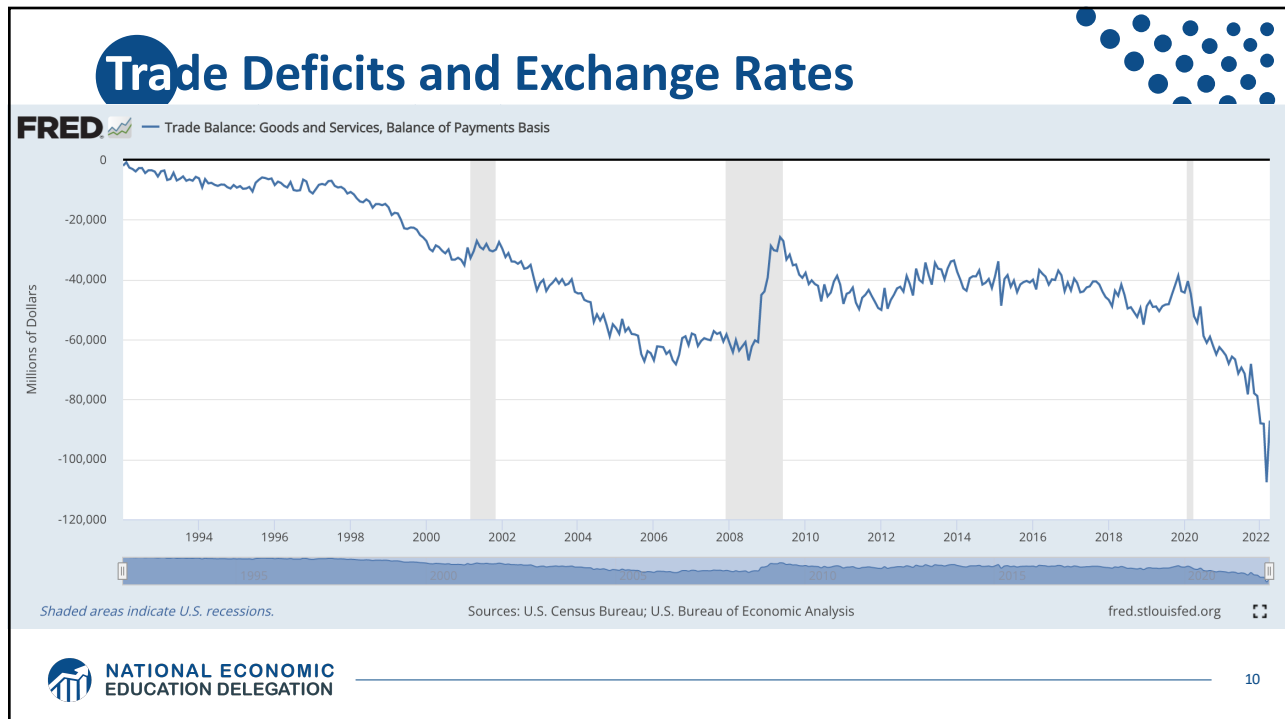
Dollars (US\$), adjusted for differences in cost of living



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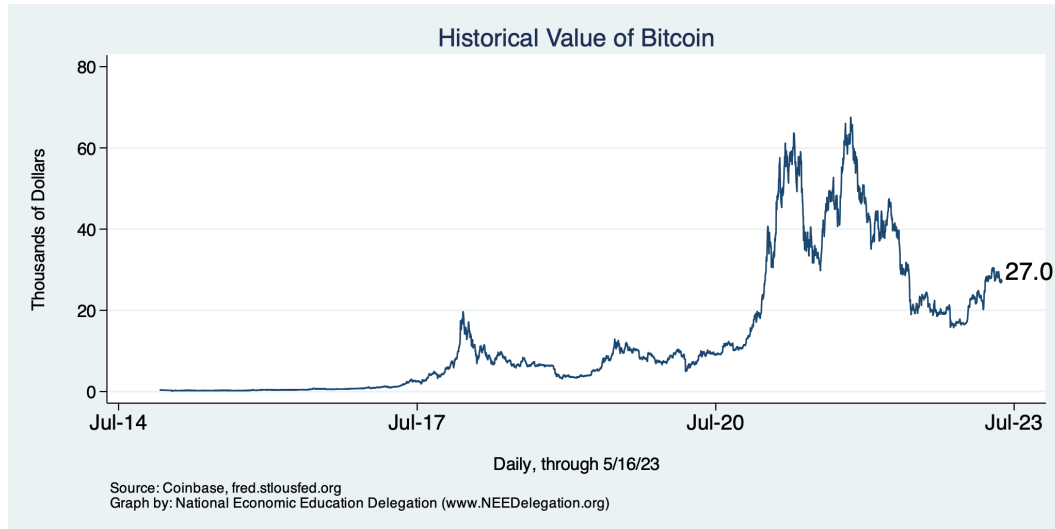


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Bitcoins: What **Was** All the Excitement About?



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Submitting Questions

- **Please submit questions in the chat.**
 - I will try to handle them as they come up, but may take them in a bunch as time permits.
- **We will do a verbal Q&A once the material has been presented.**
 - And the questions in the chat have been addressed.
- **OLLI allowing, we can stay beyond the end of class to have further discussion.**



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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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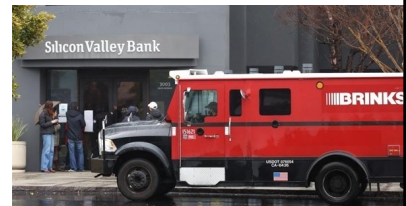
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INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
May 16, 2023



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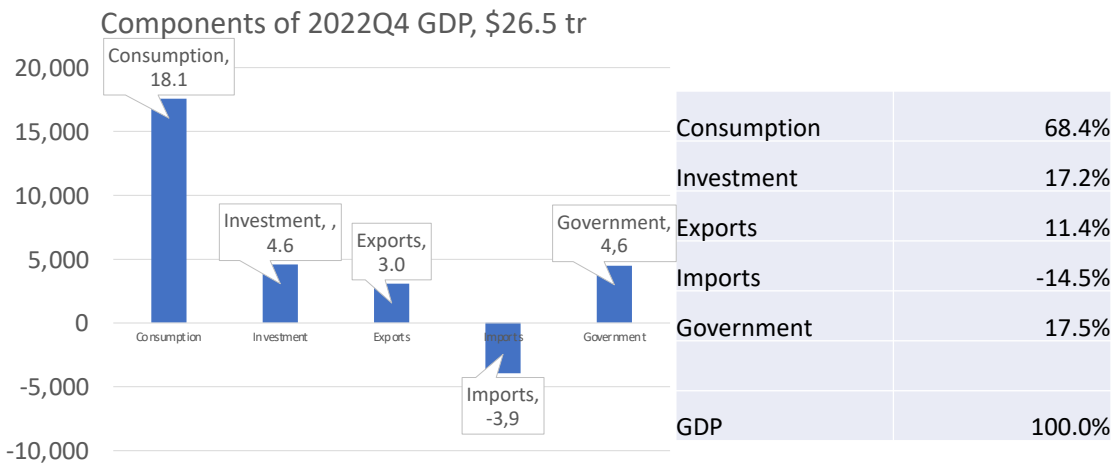
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Outline for the Talk

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

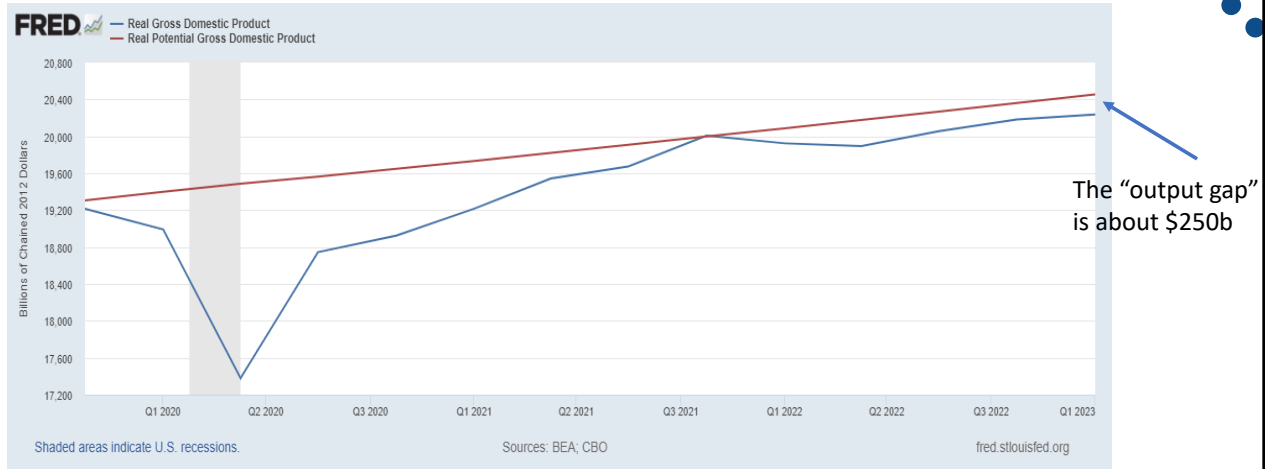
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Gross Domestic Product



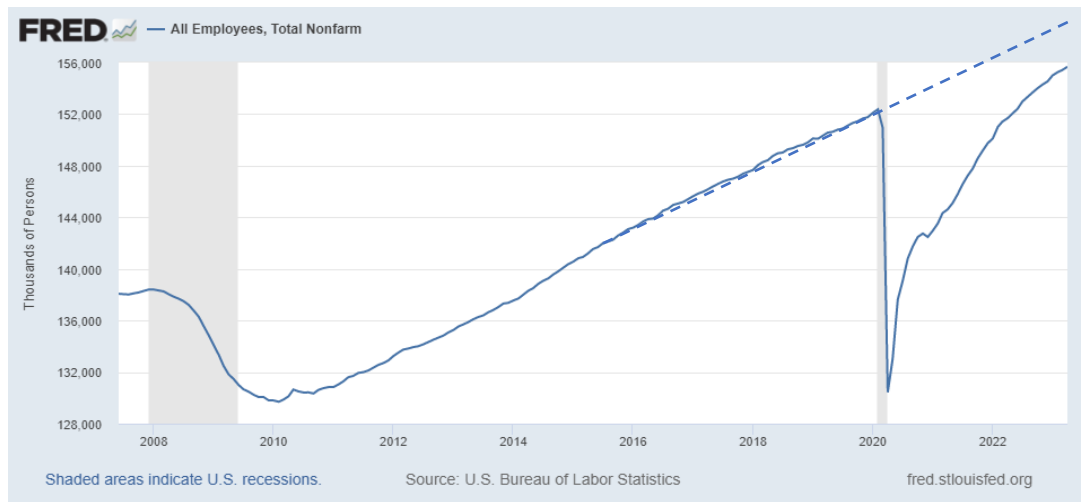
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Real GDP and 'Potential' during the Recovery



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Where Have All the Workers Gone?



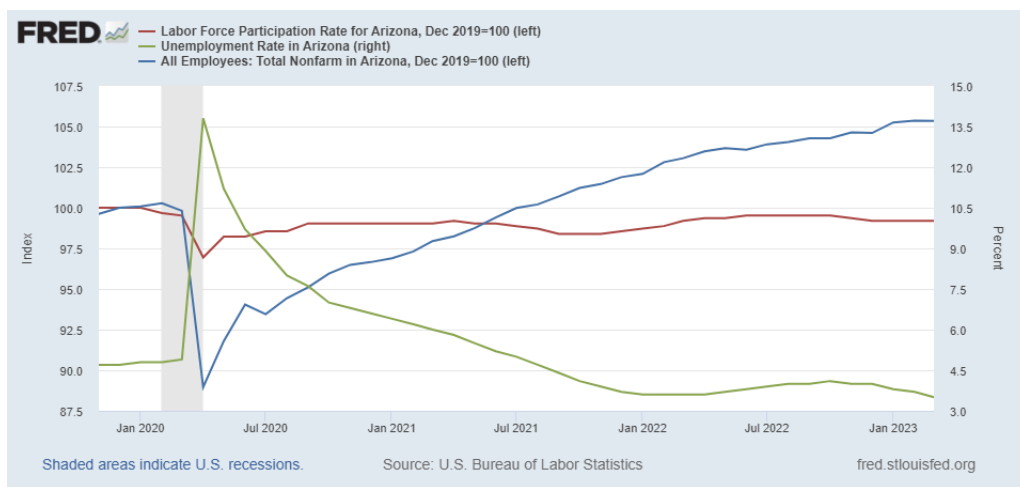
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The Great Resignation?



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Labor Market in Arizona



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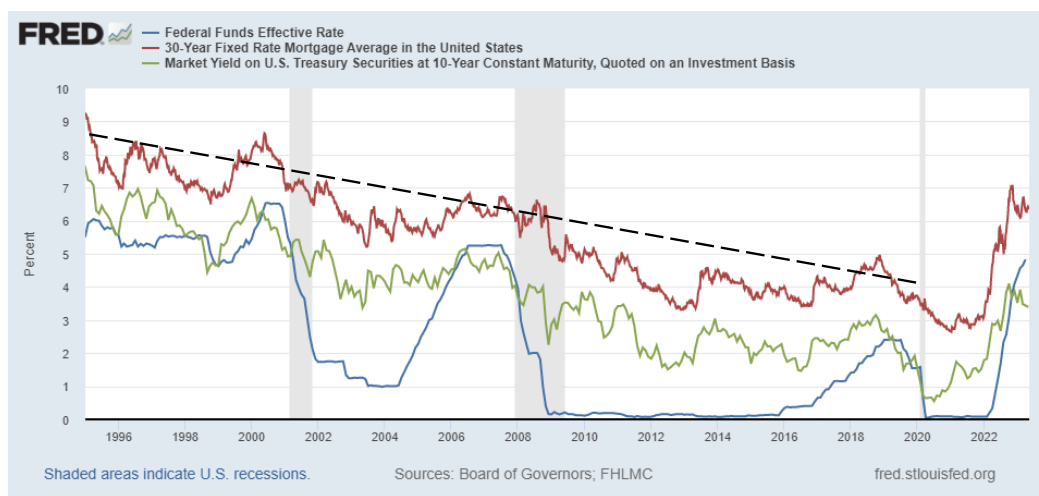
Overall Good News on the Real Side

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good!

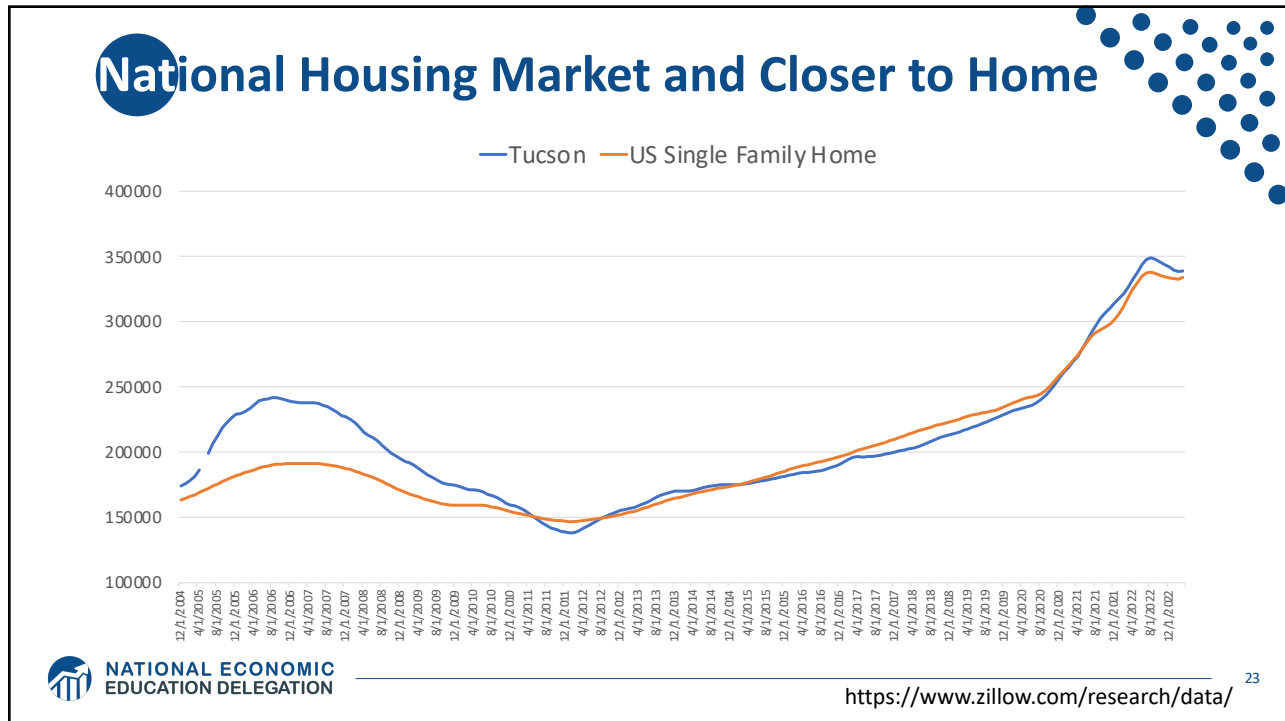


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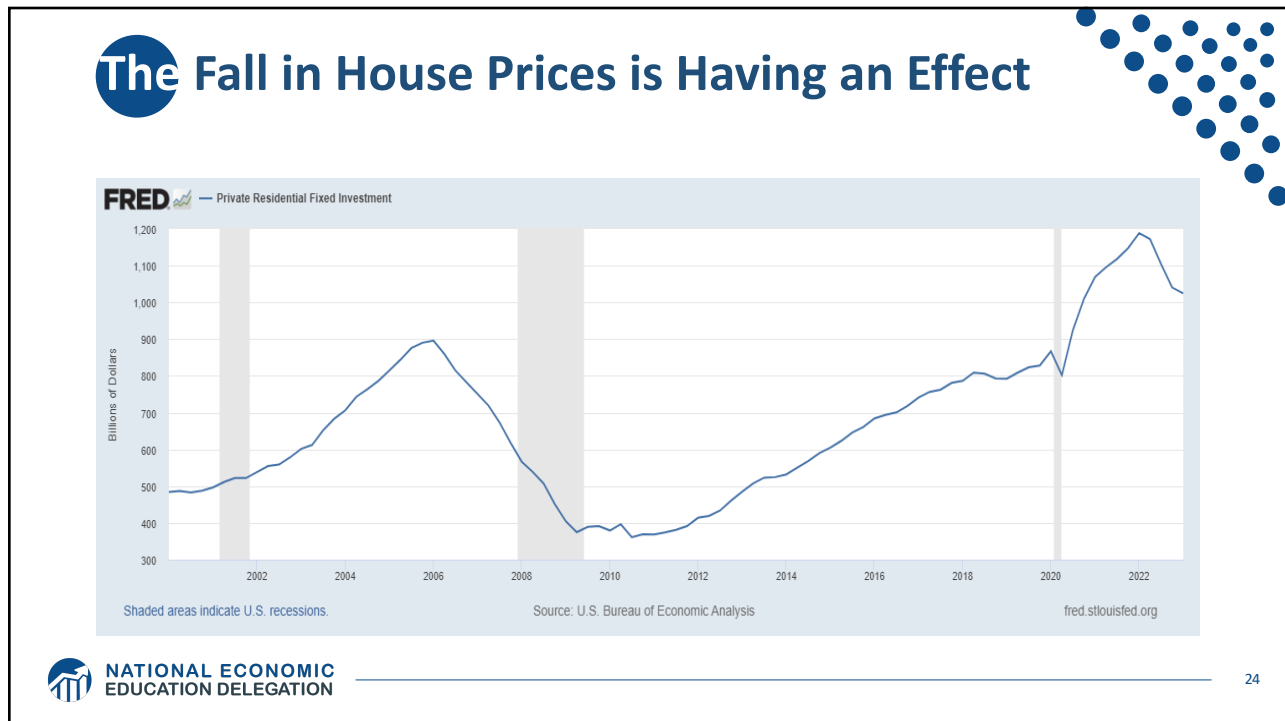
Interest Rates: Era of Falling Rates Over?



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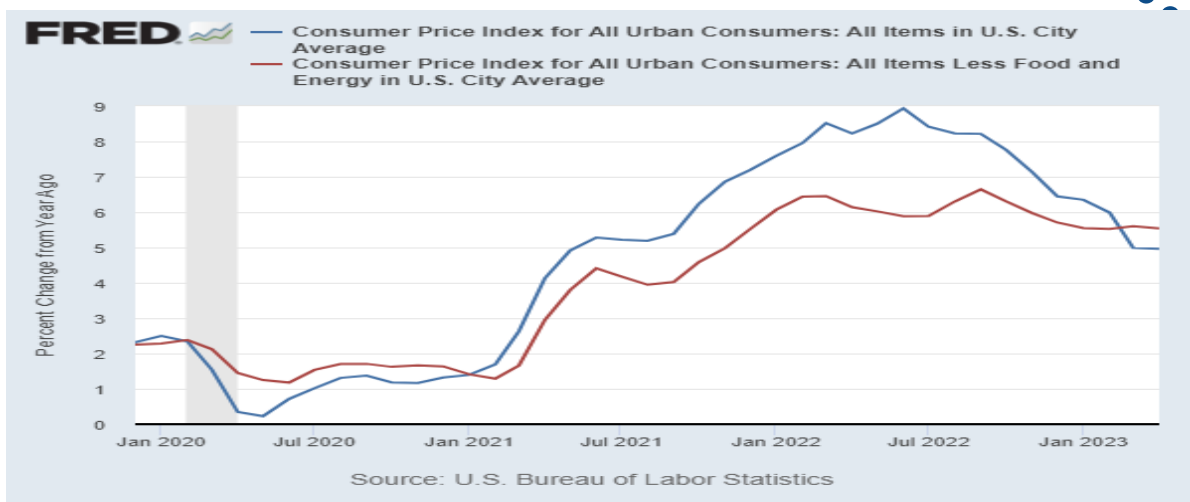
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Stock Prices: Fear about Rates and Recession



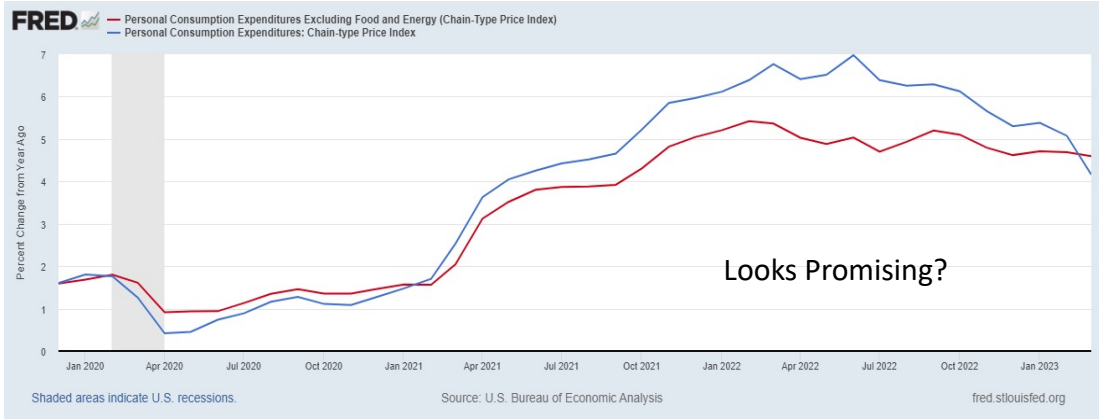
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Inflation during the Recovery (CPI)



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Fed's Measure (PCE)

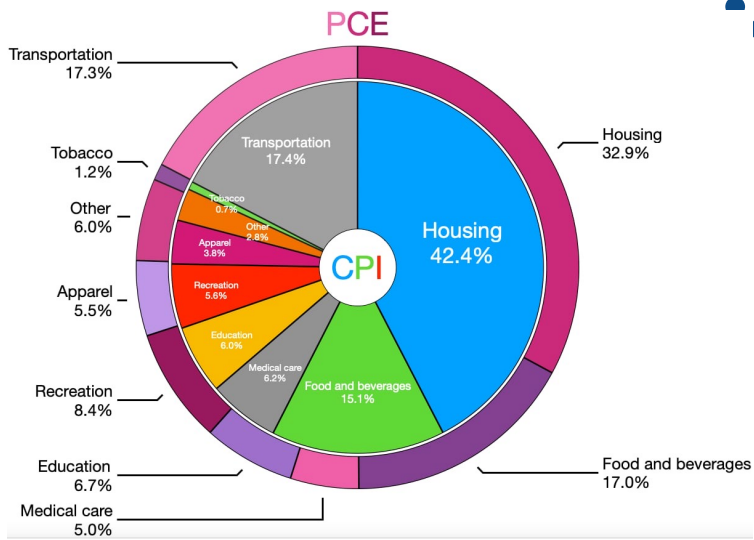


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CPI vs. PCE: Differences

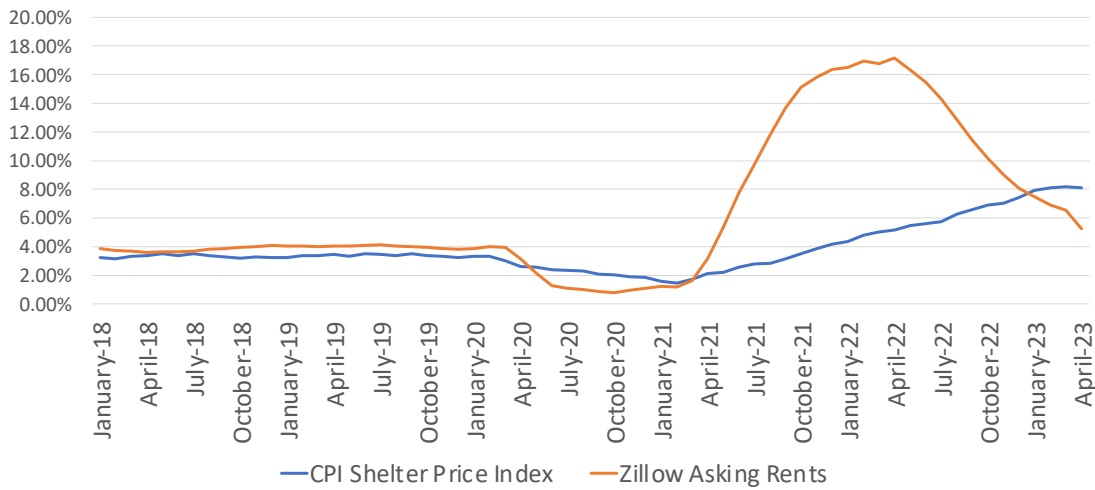
CPI tends to be higher (Mar):
 CPI, 4.9%
 Core CPI, 5.6%
 PCE, 4.2%
 Core PCE, 4.6%.

Typically more like 0.5 % pts.



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Rents Paid versus Asking Rents

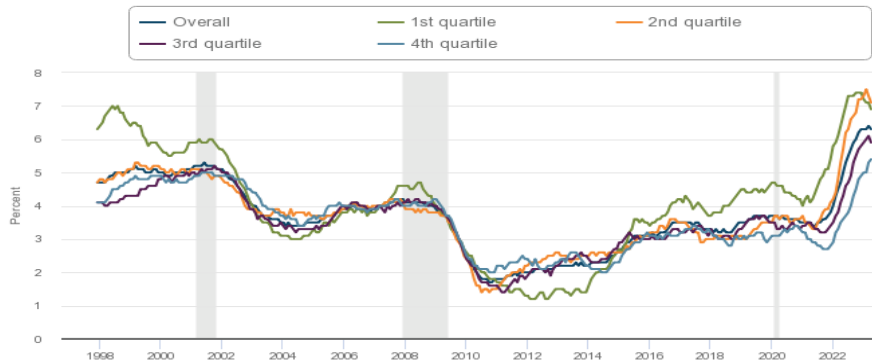


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Wages Haven't Kept Pace with Inflation

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

Exported on: Tuesday, May 16, 2023

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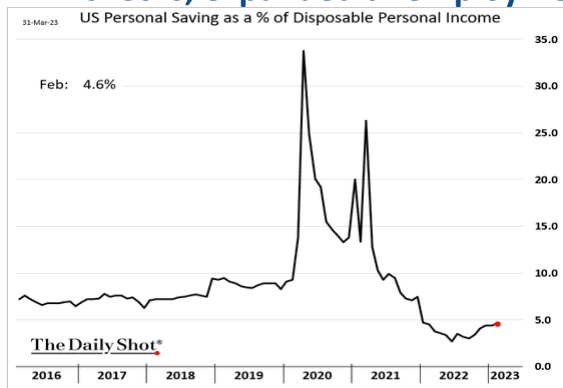
The "Nominal" Side

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

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Policy Effects: Fiscal

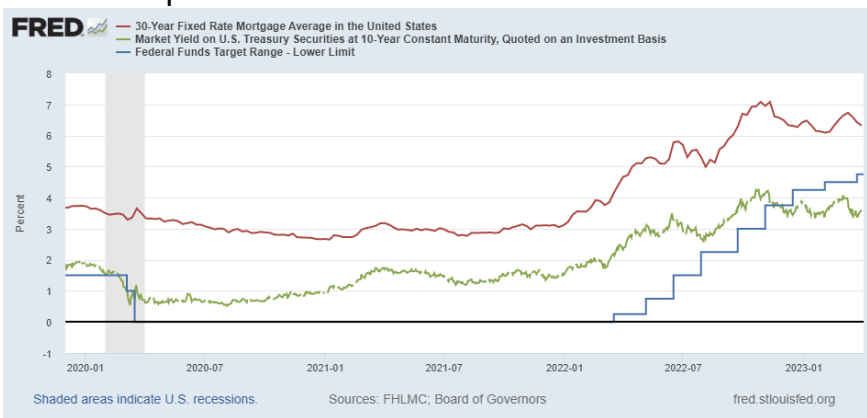
- 2020-2021: massive stimulus. Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.



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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

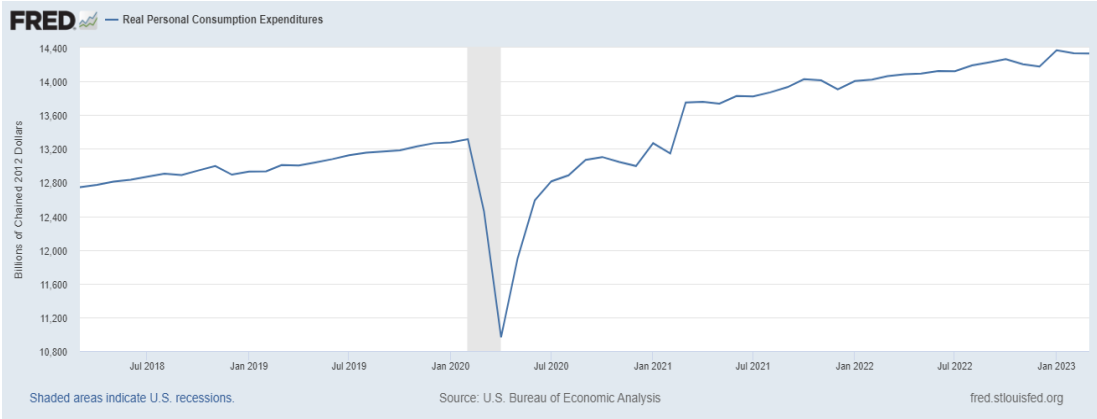
- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Monetary policy was too easy for too long, but since March of last years has been much more restrictive.
- Yes, there were supply chain issues that temporarily raised inflation, but there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

So, where are we headed?

What will the Fed do?

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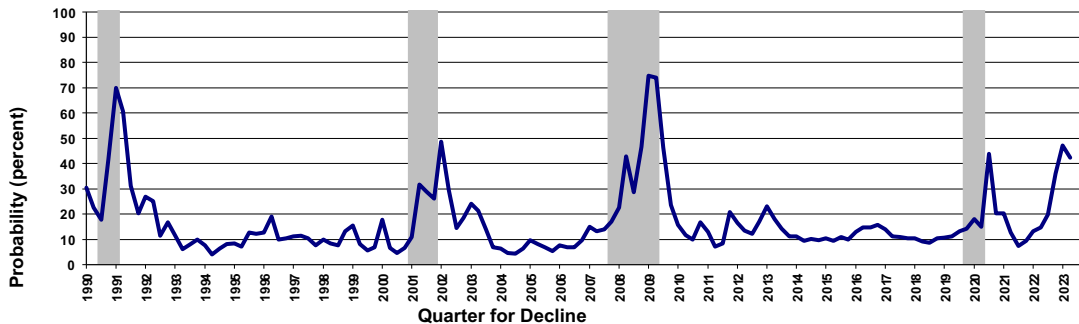
Latest Numbers on Consumption



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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



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

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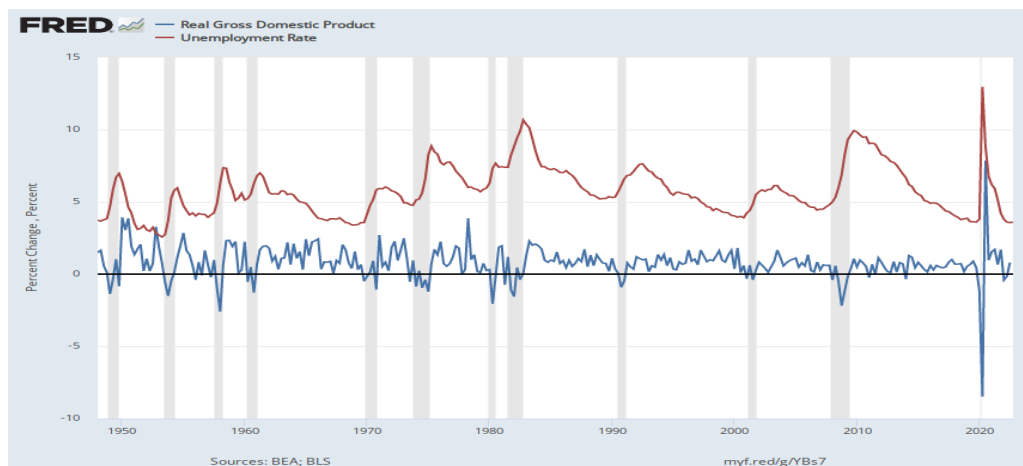
What is a Recession?

- 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.



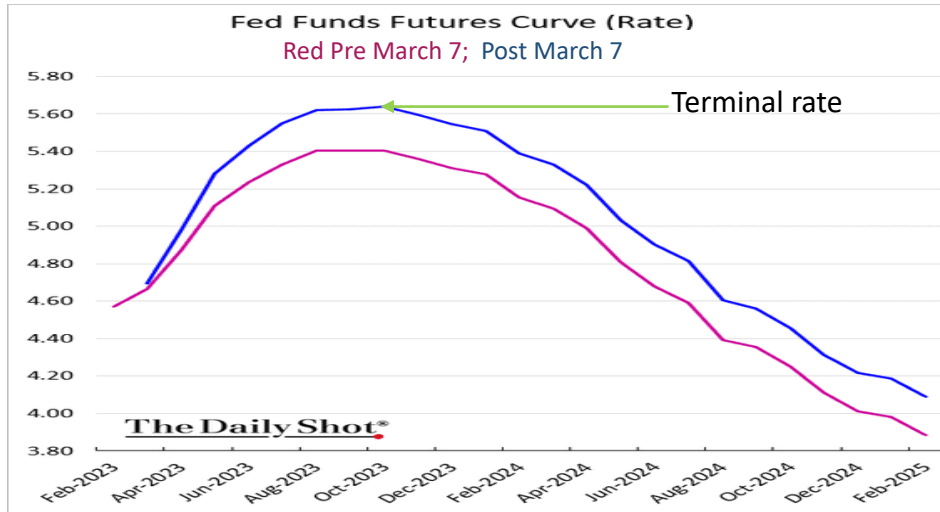
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Real GDP Growth and Recessions

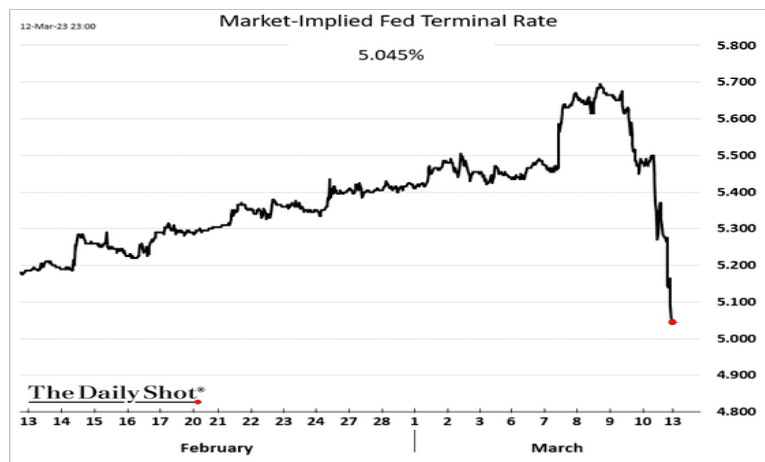


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On March 7th Powell Emphasized Rate Hikes?



Something Happened the Next Weekend!



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?

Another Shoe Drops?

First Republic Bank Is Seized by Regulators and Sold to JPMorgan Chase

The deal, which will allow 84 First Republic branches to reopen as JPMorgan branches on Monday, was a dramatic move aimed at curbing a two-month banking crisis.

5 MIN READ

The three banks that failed this year were bigger than 25 that crumbled in 2008.



Jim Wilson/The New York Times

DealBook: JPMorgan Chase has returned to the familiar role of bank rescuer. 7 MIN READ

Here's what comes next for First Republic and for depositors' money. 4 MIN READ

Front Page of the *NYTimes*, May 1, 2023

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And, Then There is the Debt Ceiling Fiasco



• Biden Can:

1. Declare Debt Ceiling unconstitutional due to 14th amendment.
2. Direct the Treasury to Mint a \$5 trillion coin.
3. Direct the Treasury to replace existing bonds with very high coupon payments, so that they sell for more than their face value.

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Next Week: Why is Sen Warren so Angry?



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Let's Hear from You!

Geoffrey Woglom
grwoglom@amherst.edu

Contact NEED: Info@NEEDEcon.org

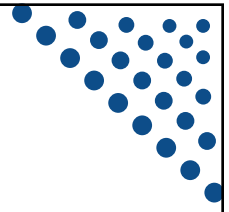
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