



Osher Lifelong Learning Institute, Spring 2023 Contemporary Economic Policy Issues

Olli – Washington University, St. Louis
May, 2023

Host: Jon Haveman
National Economic Education Delegation



NATIONAL ECONOMIC
EDUCATION DELEGATION

1

1



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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

2

2

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

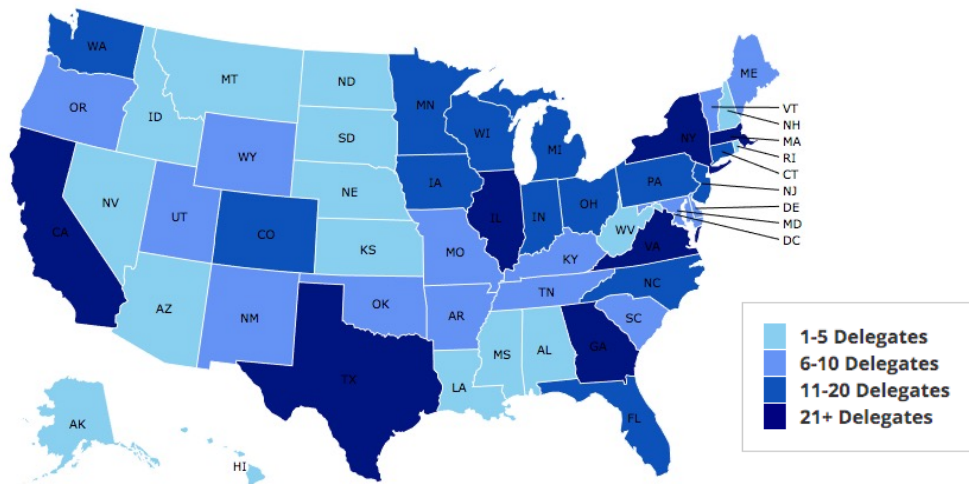
- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development



3

Where Are We?



4

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



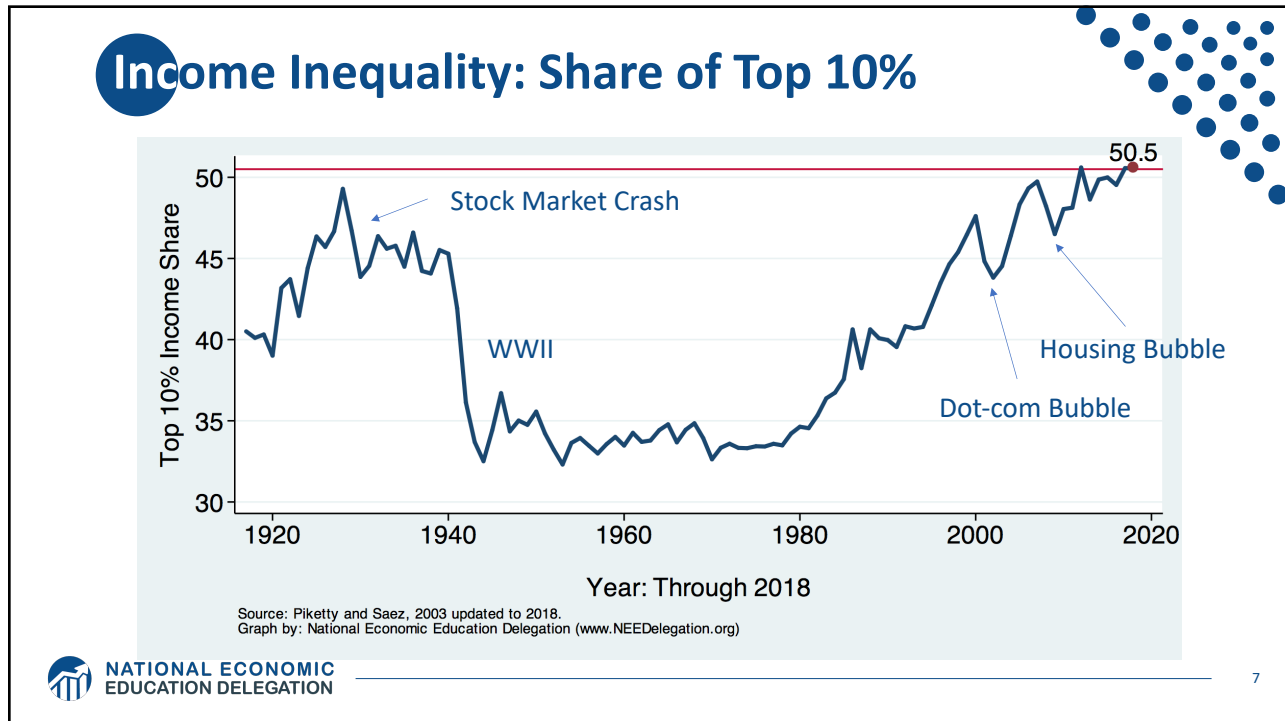
5

Course Outline

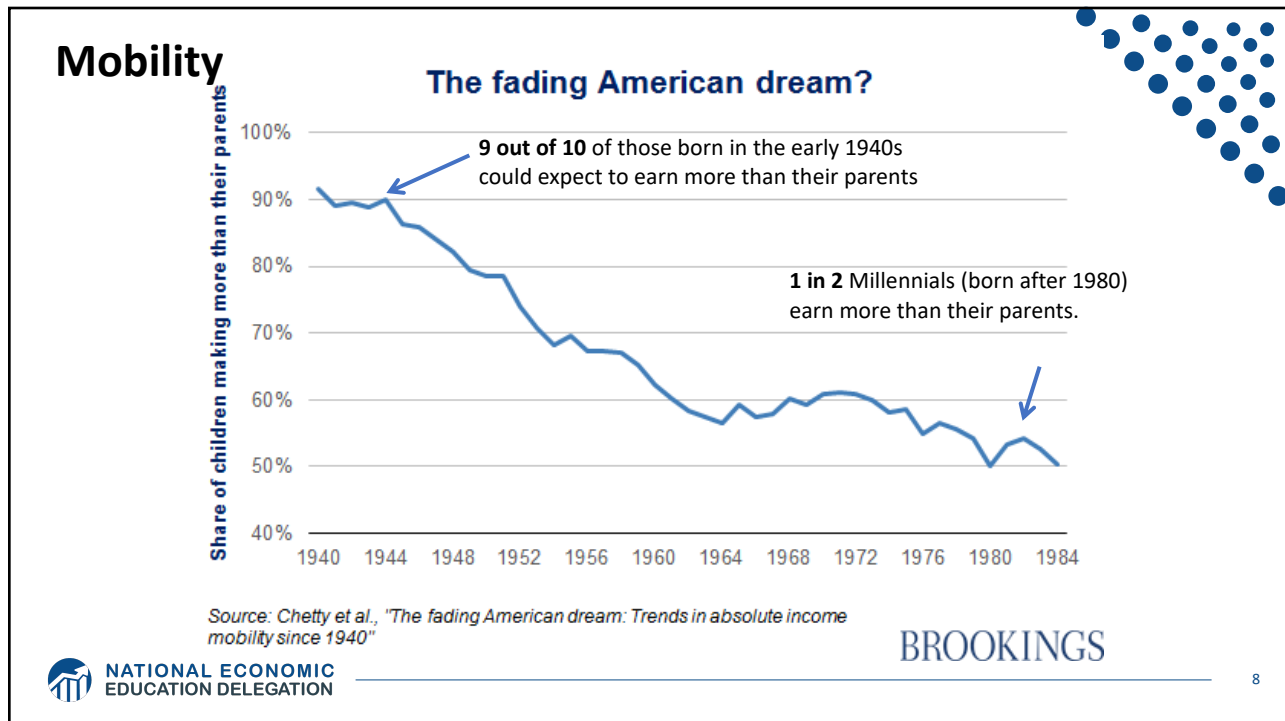
- **Contemporary Economic Policy**
 - Week 1 (5/5): US Economic Update (Geoffrey Woglom, Amherst College)
 - Week 2 (5/12): Economic Inequality (Adina Ardelean)
 - Week 3 (5/19): Economic Mobility (Kathryn Wilson, Kent State Univ.)
 - Week 4 (5/26): The Black-White Wealth Gap (Jon Haveman, NEED)



6

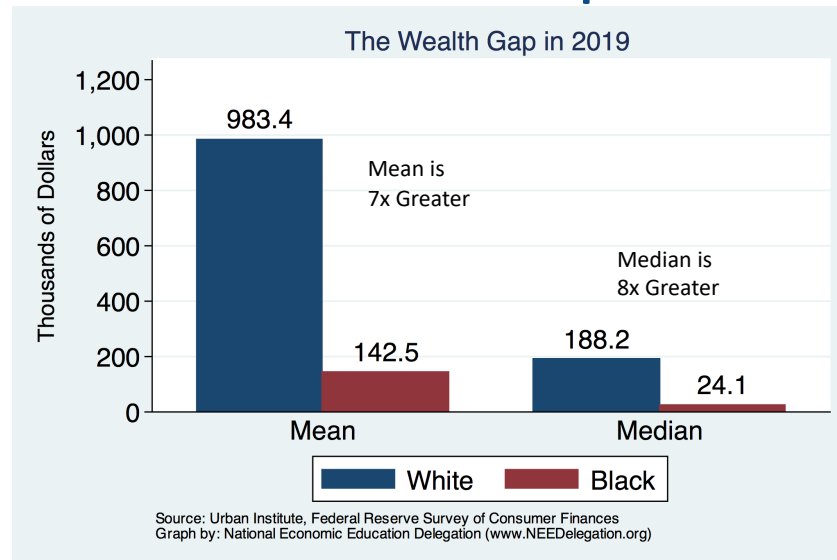


7



8

Evidence of the B-W Wealth Gap



9

Submitting Questions

- Please submit questions of clarification in the chat or raise your “digital” hand.
 - 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 at the course web site later today.
<https://sites.google.com/view/macro-current-issues/home>

10

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).



NATIONAL ECONOMIC
EDUCATION DELEGATION

11

11

INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
May 5, 2023



NATIONAL ECONOMIC
EDUCATION DELEGATION

12

12

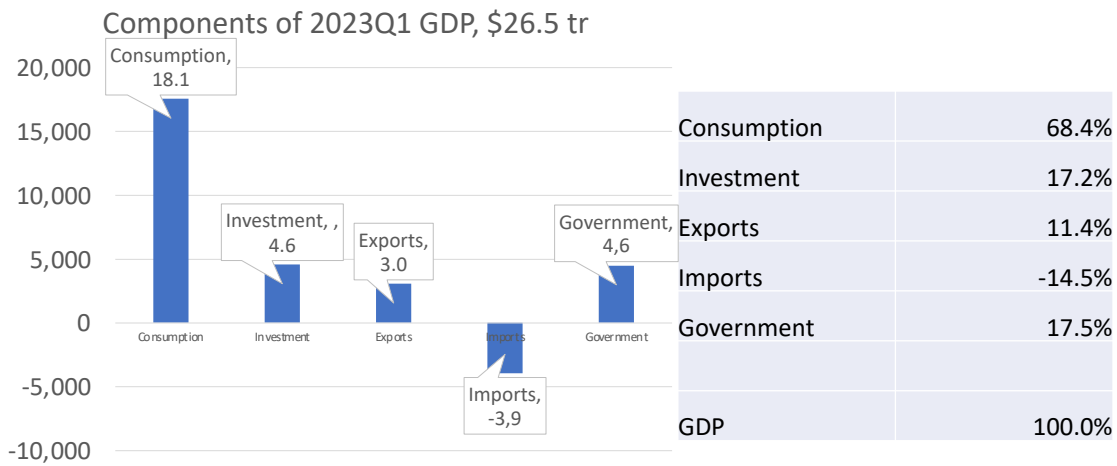
Outline for the Talk

1. Summary of the state of the economy.
2. The Effect of M&F policies.
3. What lies ahead for the economy.
4. Wild Cards
 1. Bank Failures.
 2. Debt Ceiling Crisis.



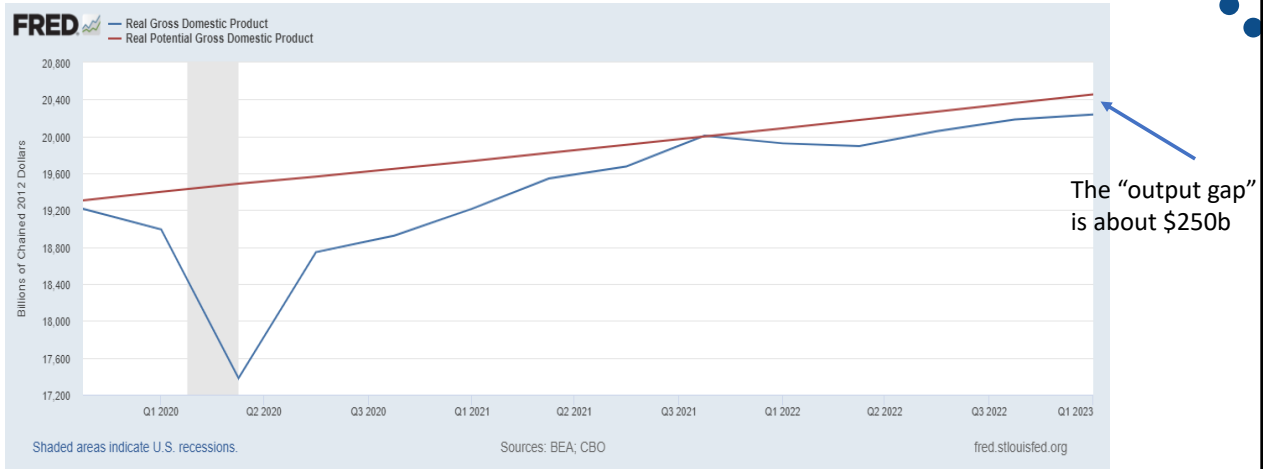
13

Gross Domestic Product



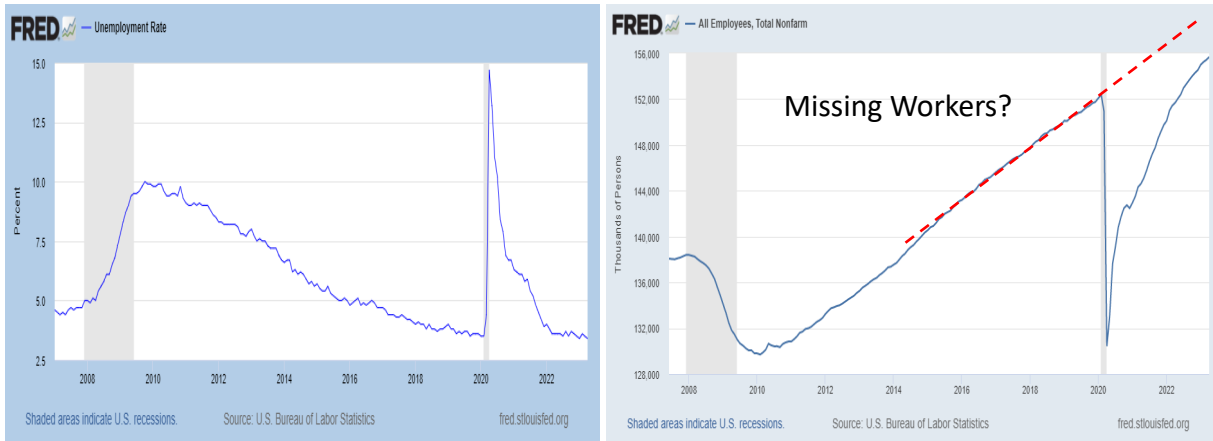
14

Real GDP and 'Potential' during the Recovery



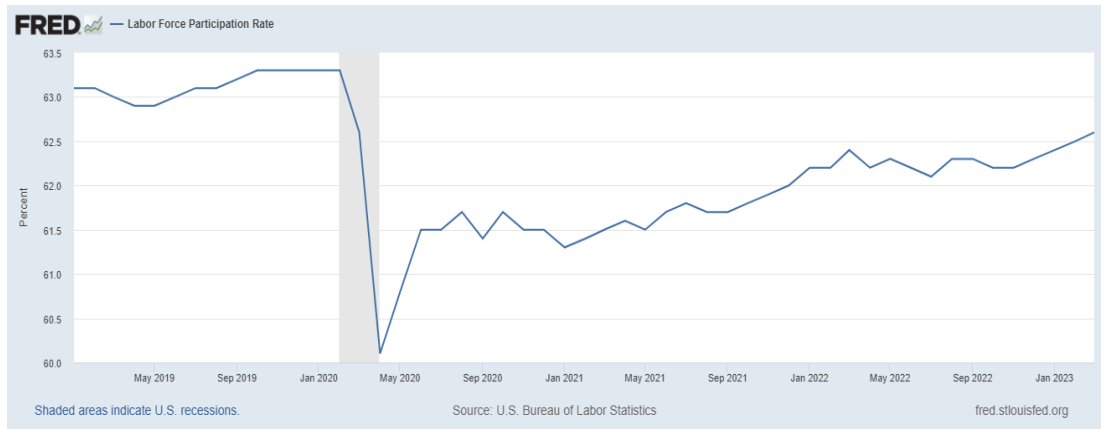
15

Labor Market: Fully Recovered?



16

The Great Resignation?



NATIONAL ECONOMIC
EDUCATION DELEGATION

17

17

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!

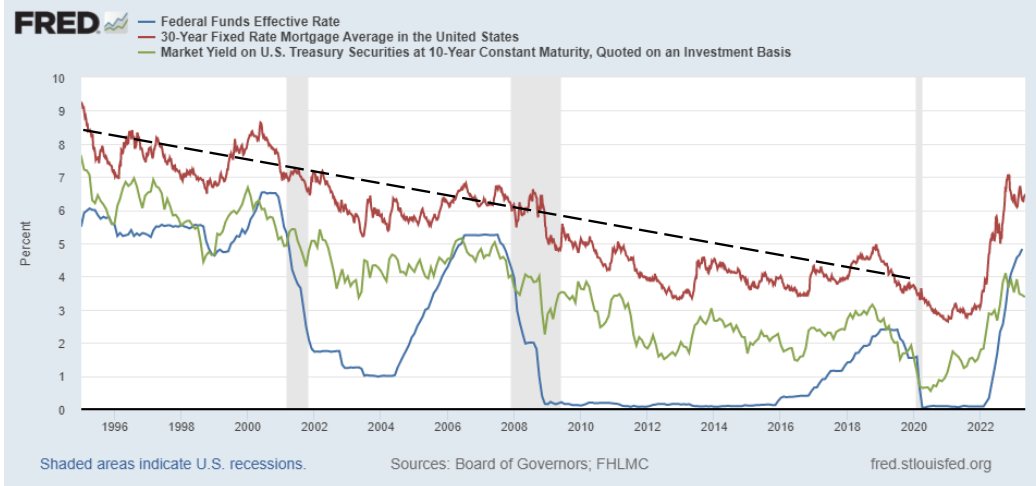


NATIONAL ECONOMIC
EDUCATION DELEGATION

19

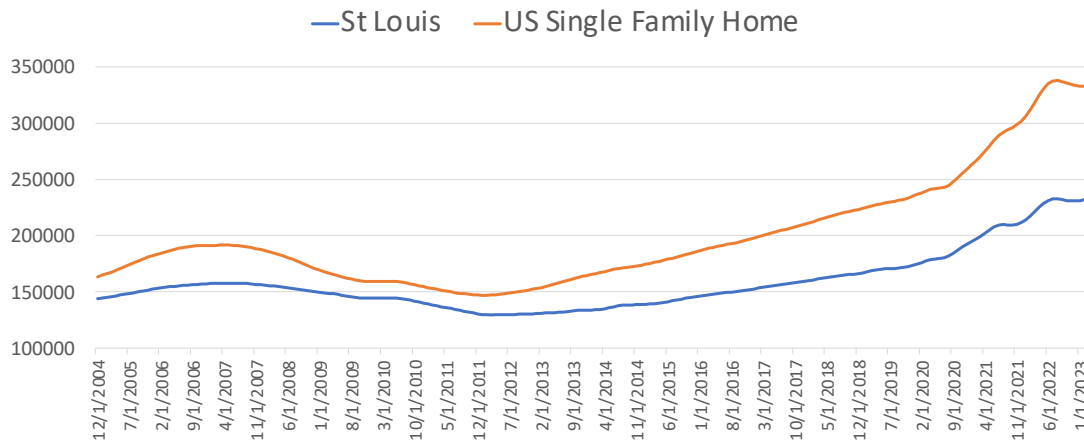
19

Interest Rates: Era of Falling Rates Over?



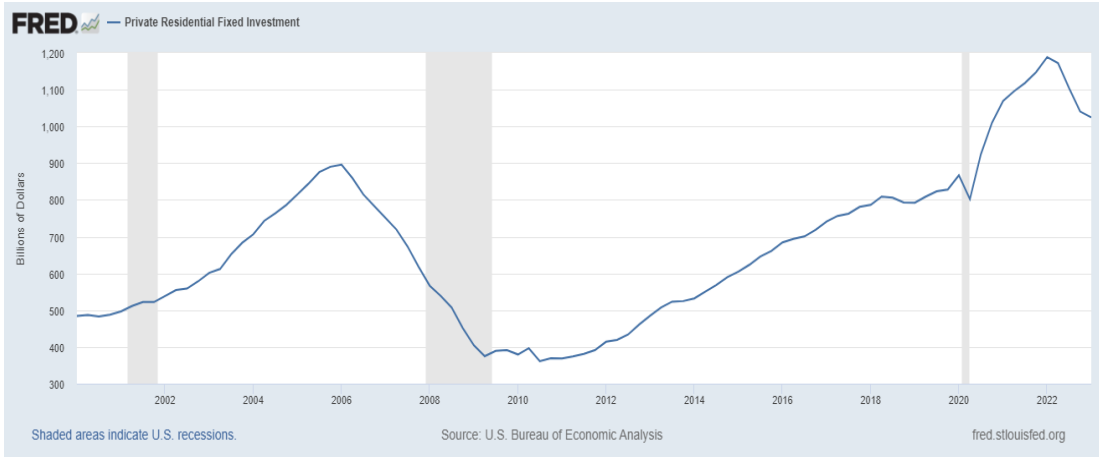
20

National Housing Market and Closer to Home



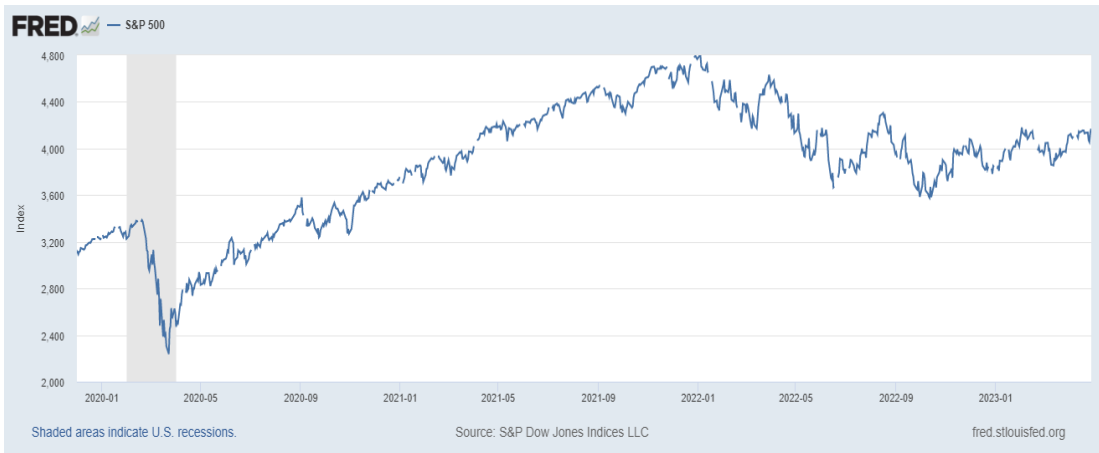
21

The Fall in House Prices is Having an Effect



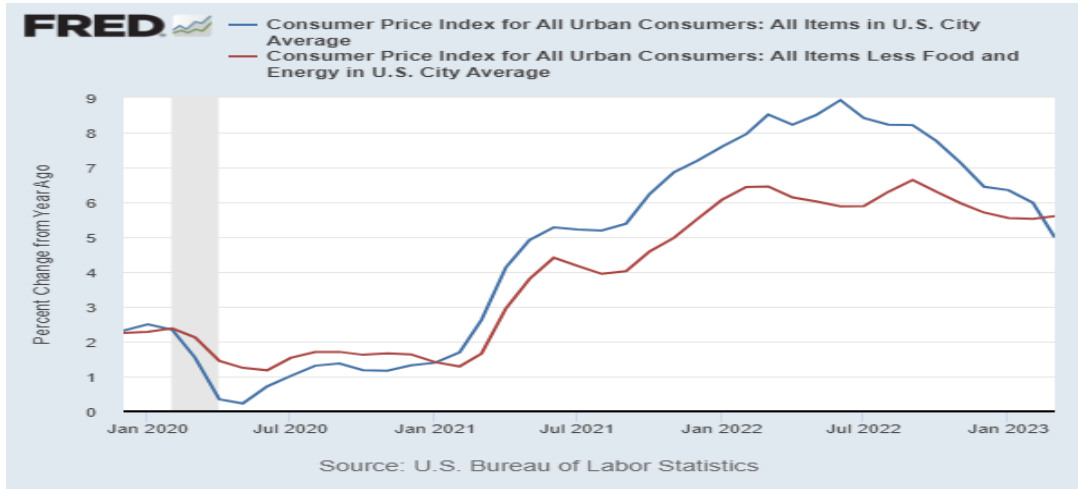
22

Stock Prices: Fear about Rates and Recession

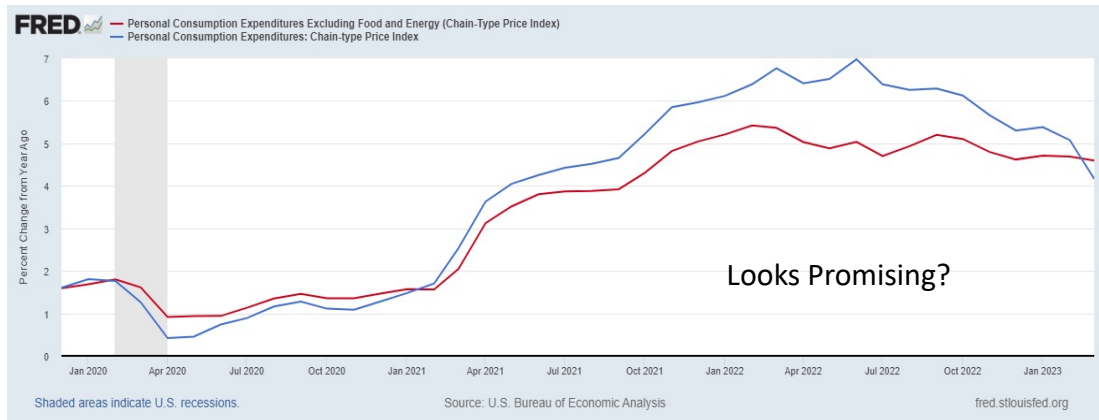


23

Inflation during the Recovery (CPI)



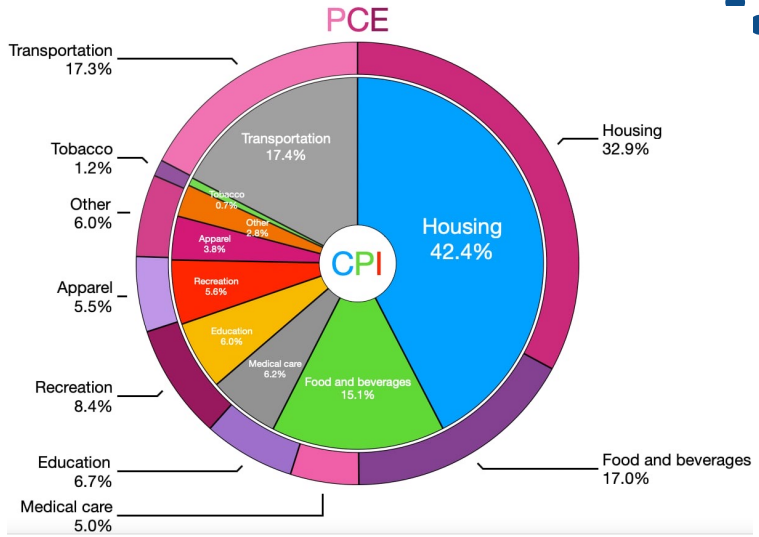
Fed's Measure (PCE)



CPI vs. PCE: Differences

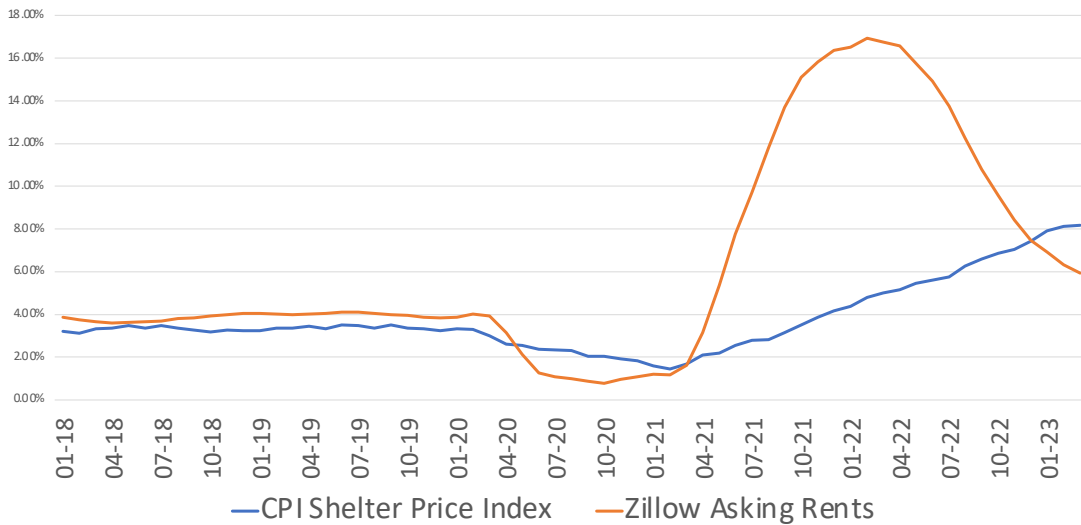
CPI tends to be higher (Mar):
 CPI, 4.9%
 Core CPI, 5.6%
 PCE, 4.2%
 Core PCE, 4.6%.

Typically more like 0.5 % pts.



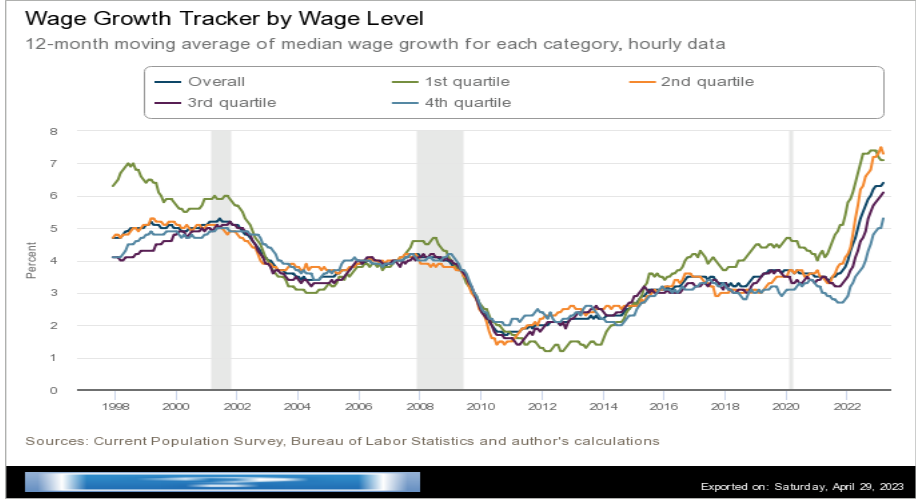
26

Rents Paid versus Asking Rents



27

Wages Haven't Kept Pace with Inflation



28

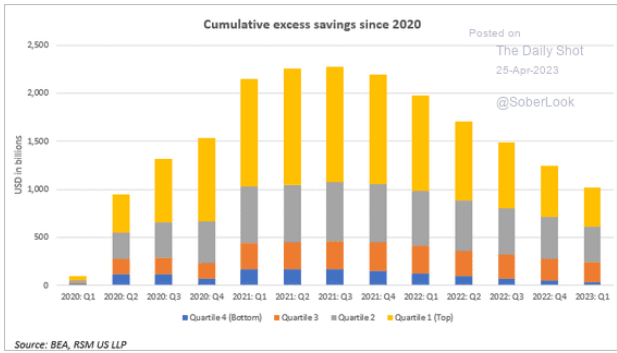
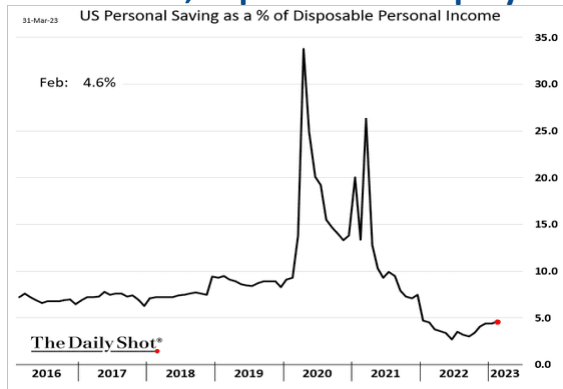
The "Nominal" Side

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

29

Policy Effects: Fiscal

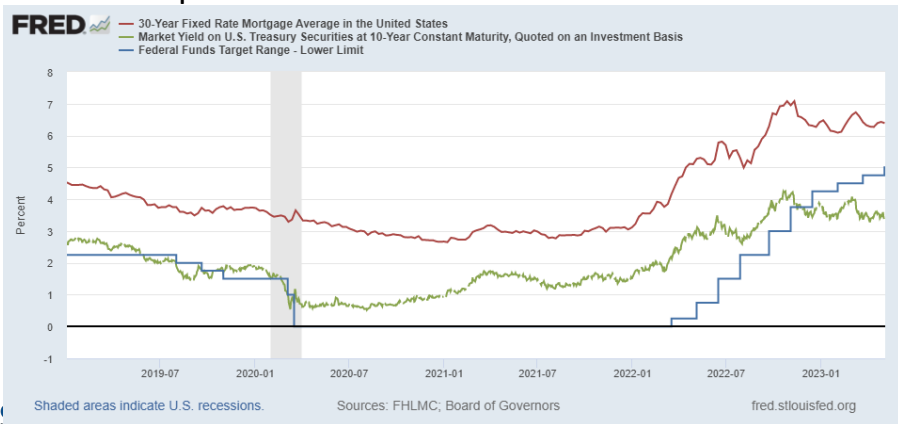
- 2020-2021: massive stimulus. Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.



30

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



31

Where we Stand

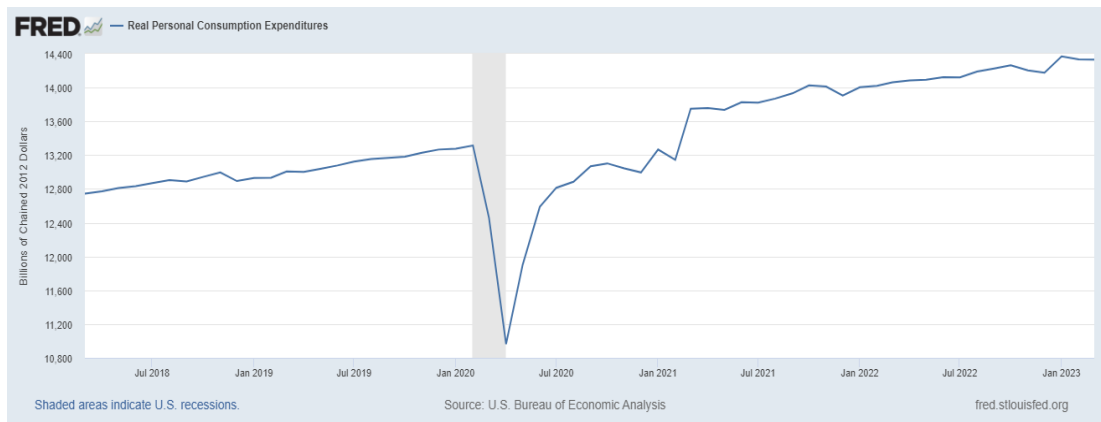
- The ARP was probably too big, but helped many poor families, and the Fed was aware of the size of the stimulus.
- Monetary policy was too easy for too long, but since March of last years has been much more restrictive.
- Yes, there were supply chain issues that temporarily raised inflation, but there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

So, where are we headed?

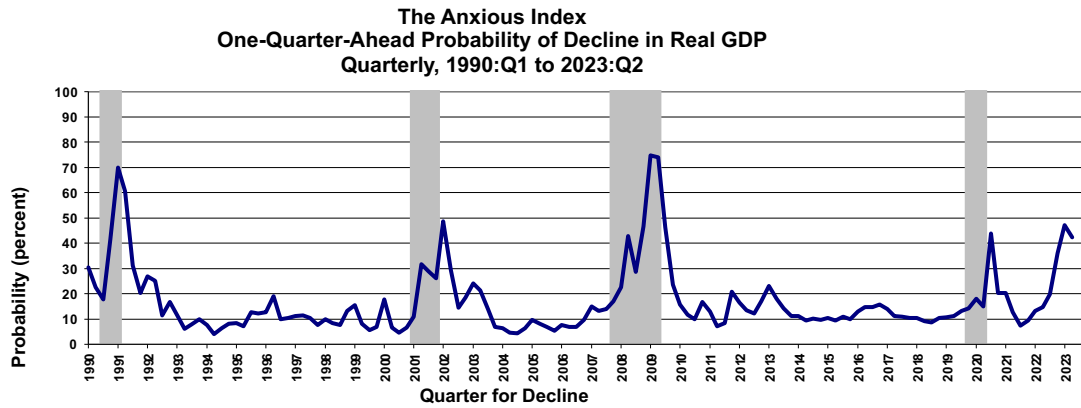
What will the Fed do?



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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

34

34

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.**

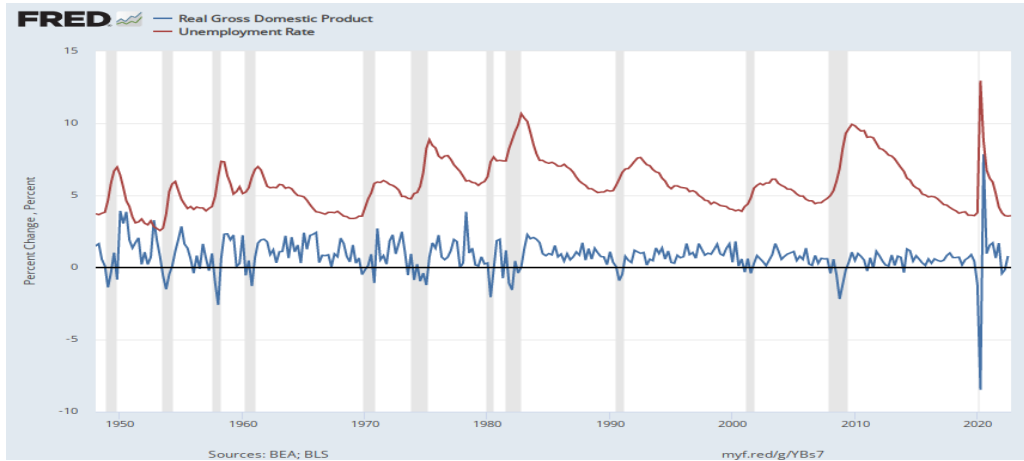


NATIONAL ECONOMIC
EDUCATION DELEGATION

35

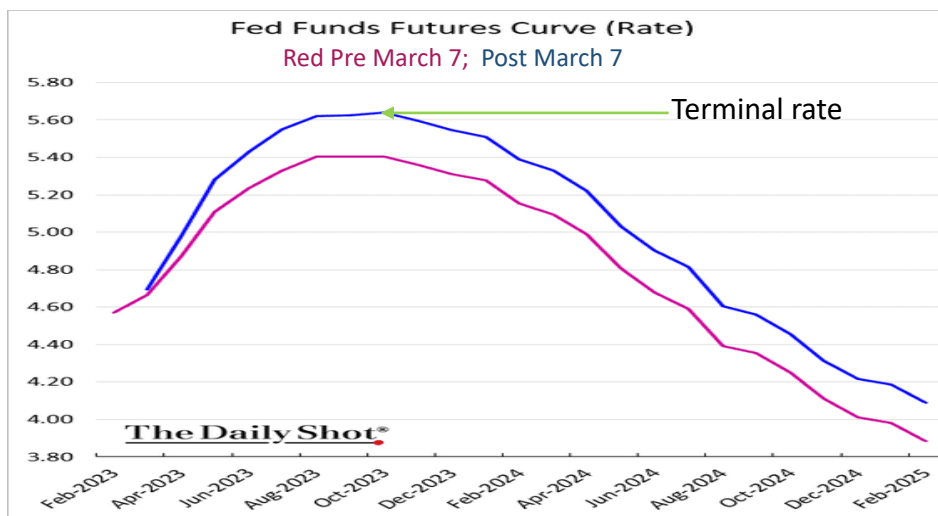
35

Real GDP Growth and Recessions



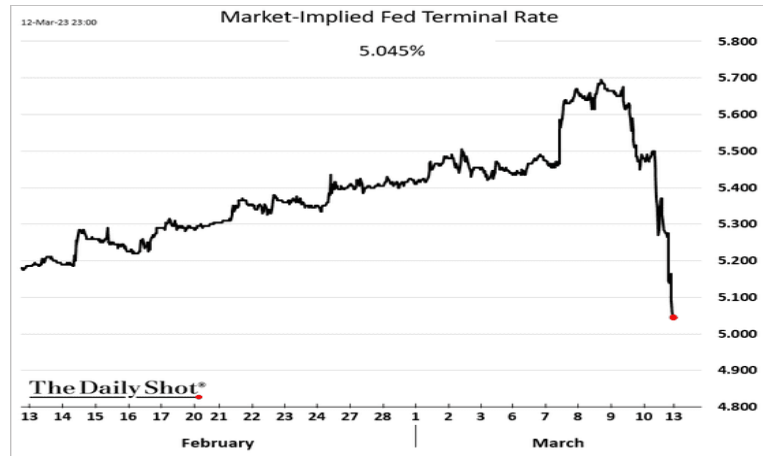
36

On March 7th Powell Emphasized Rate Hikes?



37

Something Happened the Next Weekend!



NATIONAL ECONOMIC
EDUCATION DELEGATION

38

38

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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

39

39

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.



NATIONAL ECONOMIC
EDUCATION DELEGATION

40

40

Silicon Valley's Not So Wonderful Life



NATI
EDUC

41

41

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.



42

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.



43

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?

44

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

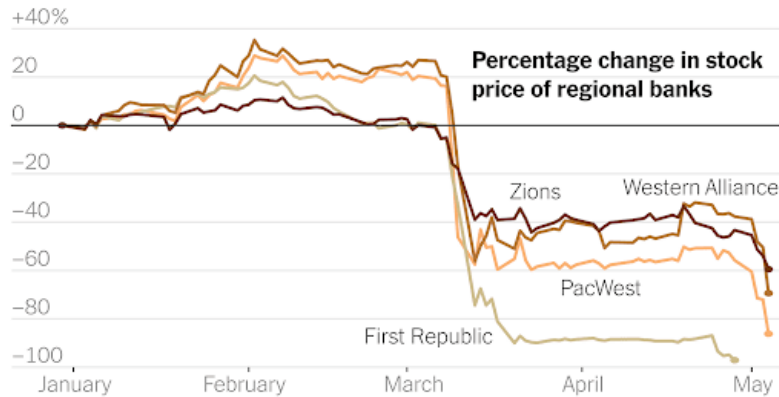
DealBook: JPMorgan Chase has returned to the familiar role of bank rescuer. 7 MIN READ

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

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

45

We Are Still in Danger



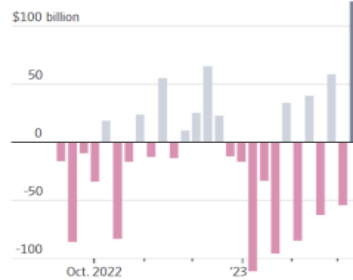
Short-term and Long-Term Problem?

Deposits, change from a week earlier

SMALL BANKS



LARGE BANKS



Note: Includes domestically chartered commercial banks. Large banks are defined as the top 25 ranked by domestic assets. Small banks are those not in the top 25.
Source: Federal Reserve
Nate Rattner/THE WALL STREET JOURNAL

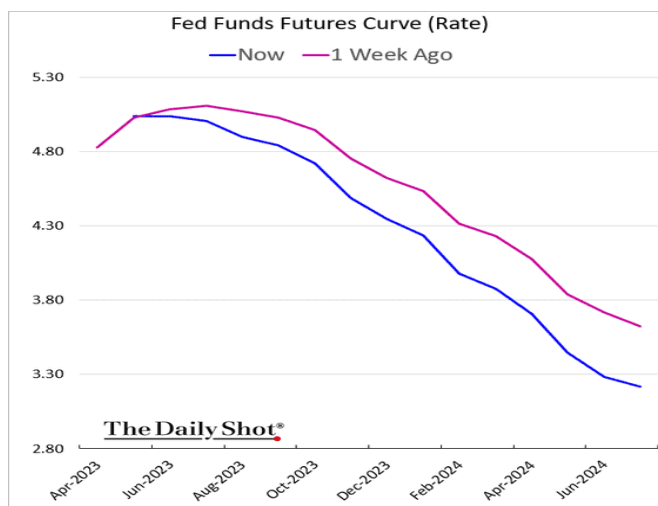
And, Then There is the Debt Ceiling

- **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.



Interest Rates and the May 3rd Fed Meeting



This AM's Employment Report



50

Fed Remains Optimistic

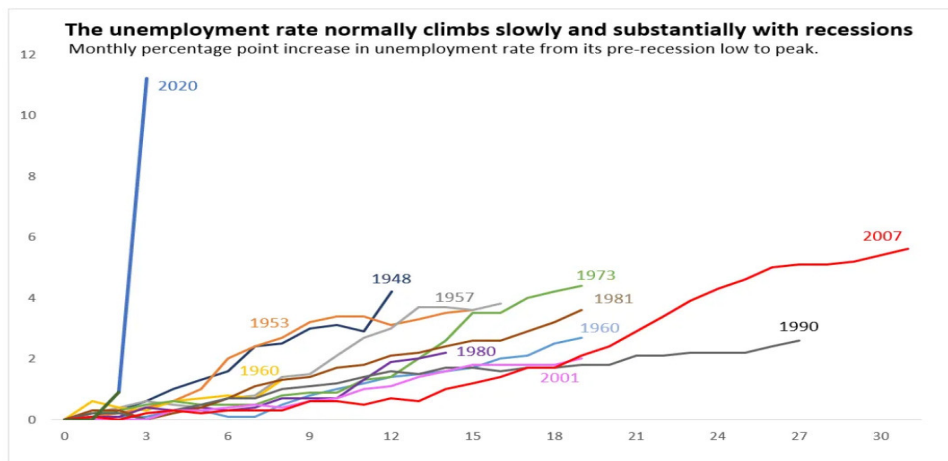
| Variable (in percent) | Medians | | | |
|--------------------------|---------|------|------|------------|
| | 2023 | 2024 | 2025 | Longer Run |
| RGDP growth | 0.4 | 1.2 | 1.9 | 1.8 |
| Dec. | 0.5 | 1.6 | 1.8 | 1.8 |
| Unemployment | 4.5 | 4.6 | 4.6 | 4.0 |
| Dec. | 4.6 | 4.6 | 4.5 | 4.0 |
| Inflation | 3.2 | 2.5 | 2.1 | 2.0 |
| Dec. | 3.1 | 2.5 | 2.1 | 2.0 |
| Core Inflation | 3.6 | 2.6 | 2.1 | |
| Dec. | 3.5 | 2.5 | 2.1 | |
| Federal Funds | 5.1 | 4.3 | 3.1 | 2.5 |
| Dec. | 5.1 | 4.1 | 3.1 | 2.5 |

51

Next Week: Why is Sen Warren so Angry?



Sen Warren is Right



Source: Bureau of Labor Statistics. Calculations by Claudia Sahm.



Economists' Frustration with MP & Inflation

Olivier Blanchard 12/30 Twitter Post:

Inflation is fundamentally the outcome of the distributional conflict, between firms, workers, and taxpayers... The source of the conflict may be too hot an economy. But in the end, forcing the players to accept the outcome, and thus stabilizing inflation, is typically left to the central bank... It is a highly inefficient way to deal with distributional conflicts...



Things to Ponder

The Fed through monetary policy has the most influence on the short-run behavior of the (world?) economy. These governmental decisions are made “technocratically” and not democratically.

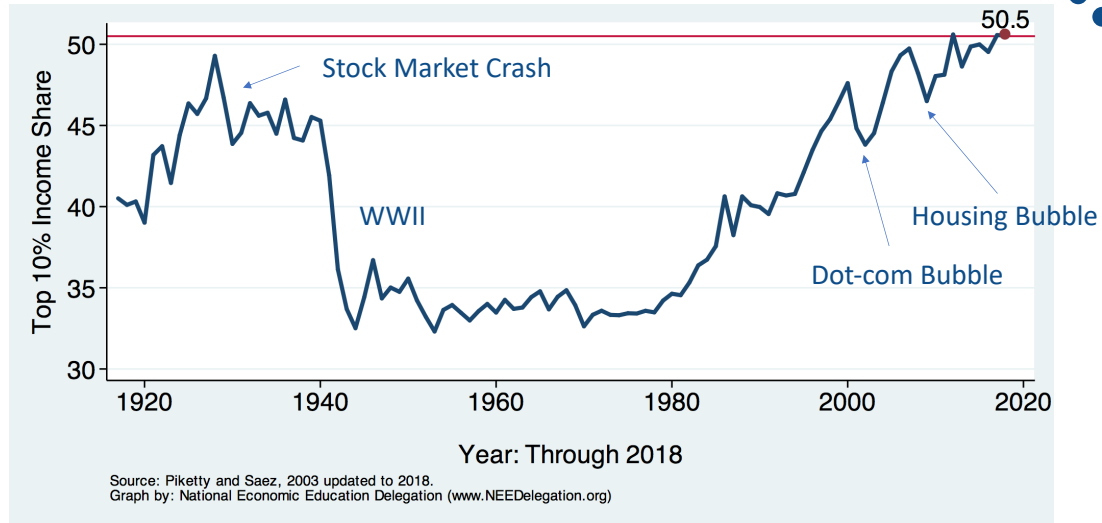
Congress has mandated the Fed to pursue:

1. Both the inflation goal and the unemployment goal.
2. The mandate does not include anything about the effects of Fed policy on other countries.

Is there a better way to conduct monetary policy, while maintaining a credible commitment to low inflation?



Income Inequality: Adina Ardelean



NATIONAL ECONOMIC
EDUCATION DELEGATION

56

56

Let's Hear from You!

Geoffrey Woglom
grwoglom@amherst.edu

Contact NEED: Info@NEEDelegation.org

Submit a testimonial:
www.NEEDelegation.org/testimonials.php

Support NEED:
www.NEEDelegation.org/donate.php



NATIONAL ECONOMIC
EDUCATION DELEGATION

57

57