

Osher Lifelong Learning Institute, Winter 2022

Contemporary Economic Policy

West Virginia University
January-February, 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: 649+ members

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

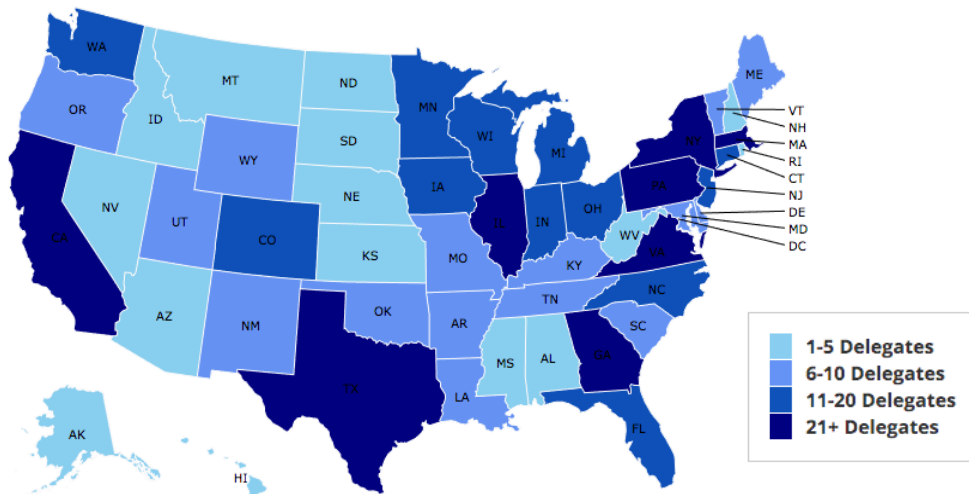
• Global Partners: 48 Ph.D. Economists

- Aid in slide deck development



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Where Are We?



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Available NEED Topics Include:

- 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



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Course Outline

- **Contemporary Economic Policy**
 - Week 1 (1/27): US Economy & Coronavirus Economics
 - Week 2 (2/3): Federal Debt (Geoffrey Woglom, Amherst College)
 - Week 3 (2/10): The Black-White Wealth Gap (Me)
 - Week 4 (2/17): Health Economics (Veronika Dolar, SUNY, Old Westbury)
 - Week 5 (2/24): Monetary Policy (Geoffrey Woglom, Amherst College)
 - Week 6 (3/3): Autonomous Vehicles (Me)

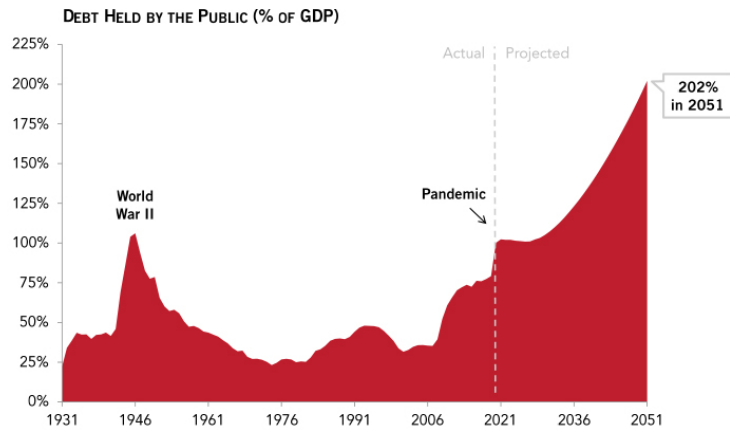


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The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
© 2021 Peter G. Peterson Foundation

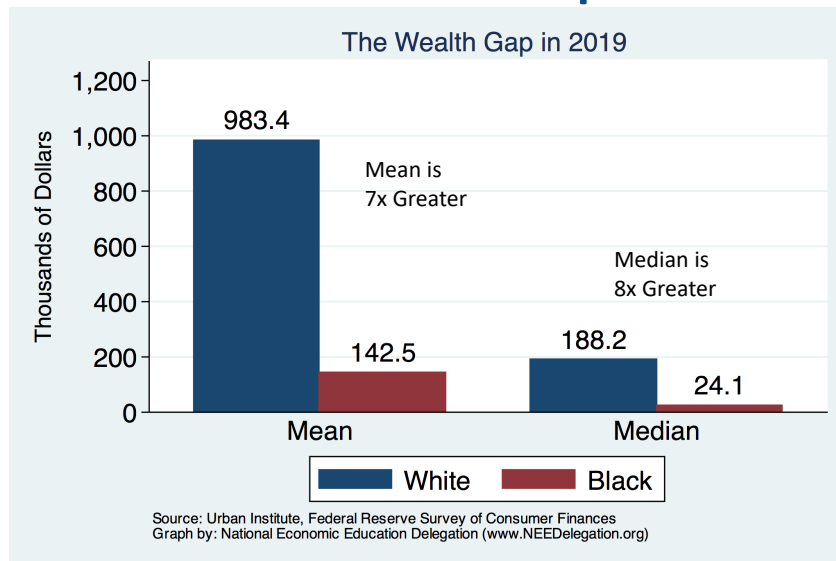
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Evidence of the B-W Wealth Gap



Source: Urban Institute, Federal Reserve Survey of Consumer Finances
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

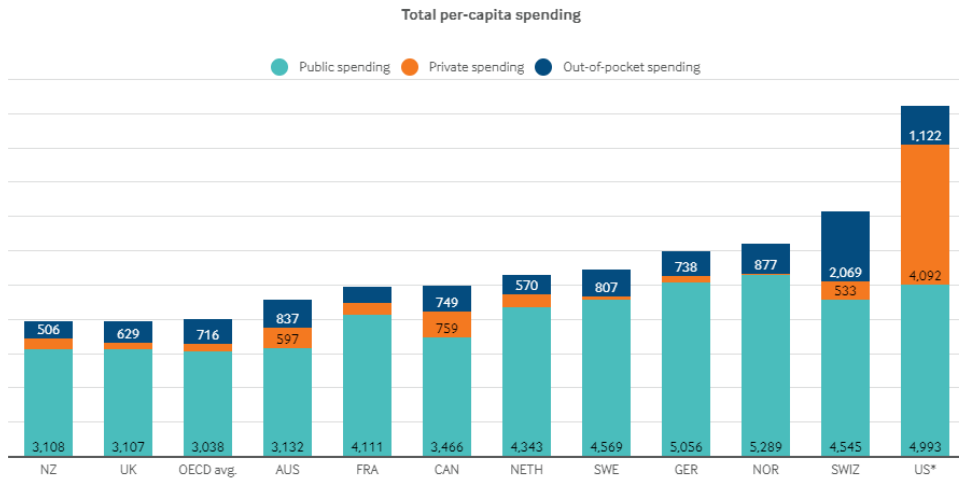


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International Comparison: Health Spending

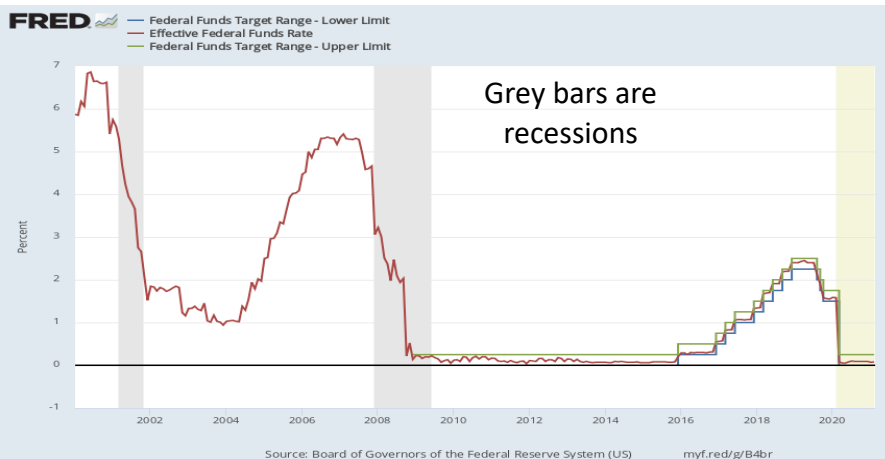
Dollars (US\$), adjusted for differences in cost of living



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Monetary Policy Is About the Interest Rate



The FOMC does not set an exact number for the Federal funds rate. Instead, it sets an upper (green line) and lower (blue) range. "The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent..." (4/28/2021)

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Autonomous Vehicles



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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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US Economy and Coronavirus Economics



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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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Outline

- **State of the pandemic**
- **The U.S. Economy**
- **Hot Topics**
 - Government policy
 - Debt
 - Inflation
 - Great resignation

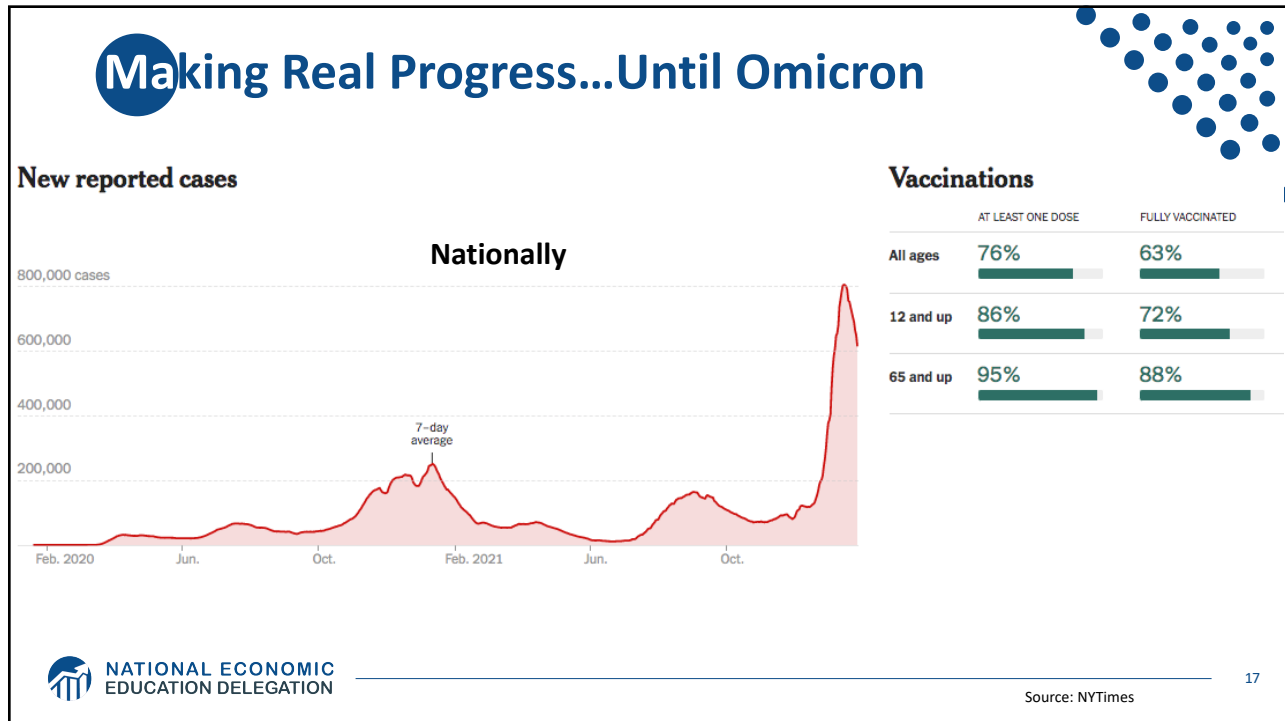


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State of the Pandemic



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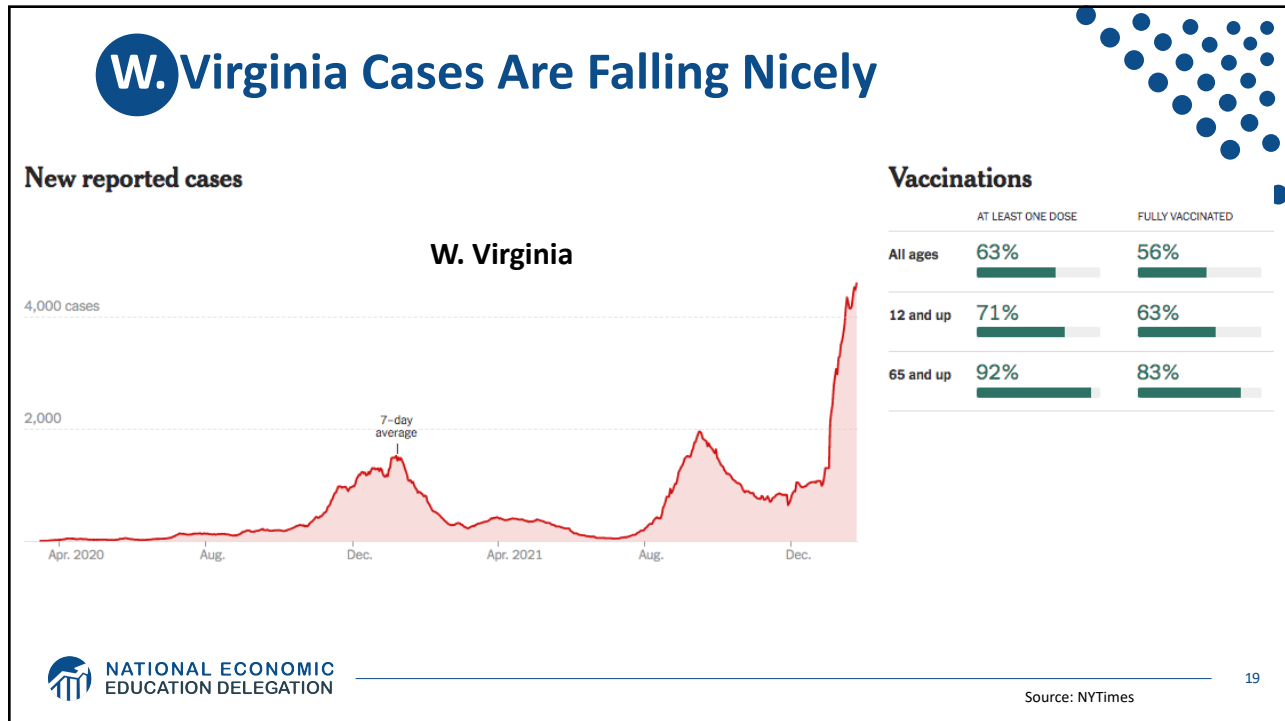
Omicron is Making Things Difficult

- Covid-related absences:
 - Are creating headaches for businesses that were struggling to hire workers even before Omicron.
 - Restaurants and retail stores have cut back hours.
 - Broadway shows called off performances.
 - Airlines canceled thousands of flights over the holidays because so many crew members called in sick;
 - on one day last month, nearly a third of United Airlines Workers at Newark Liberty International Airport, a major hub, called in sick.

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Source: NYTimes.com

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Some Basic Statistics

Statistic:	Value
Population	331.1 Million
Labor Force	160.9 Million
Employment	144.9 Million
Gross Domestic Product (GDP)	\$22.1 Trillion
Income per Capita	\$35,805
Ave. Hourly Earnings	\$30.33

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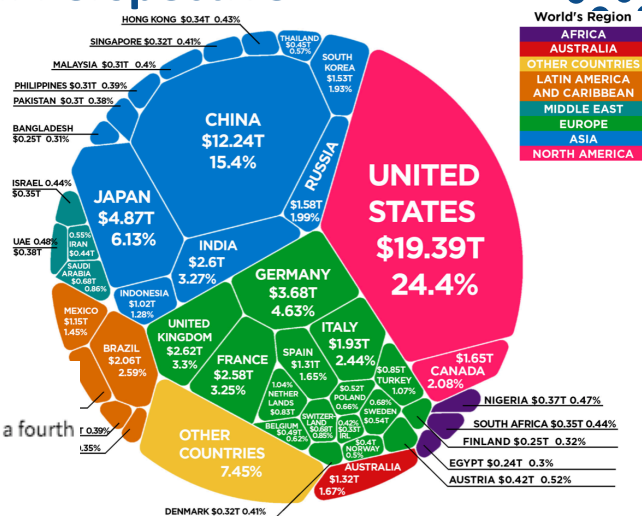
U.S. Economy in Global Perspective

U.S. Real GDP:

\$19.202 trillion in 2019-Q4
\$17.258 trillion in 2020-Q2
\$19.806 trillion in 2021-Q4

% Share of the Global Economy

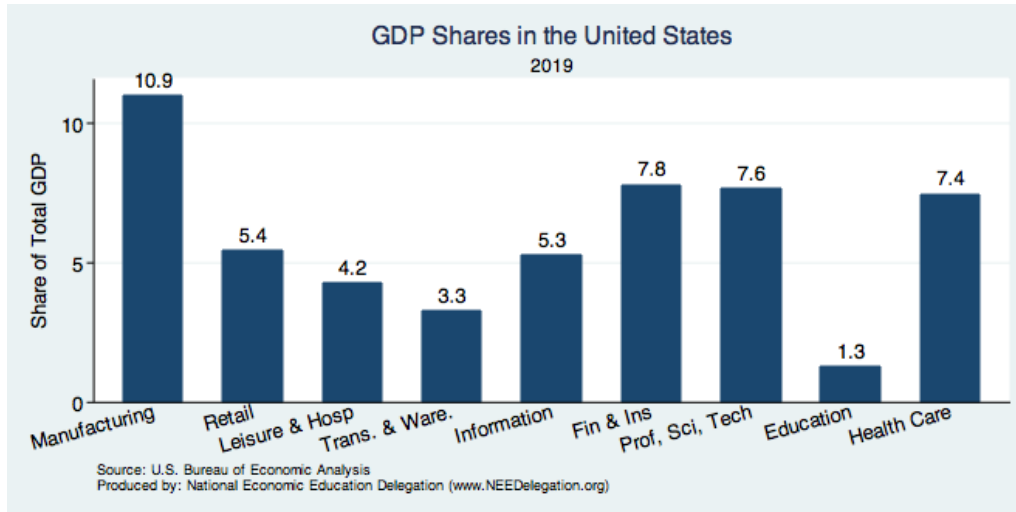
The 173 countries outside the top 20 make up less than a fourth of the total global economy.



Article and Sources:
<https://howmuch.net/articles/the-world-economy-2017>
<http://databank.worldbank.org/data/download/GDP.pdf>

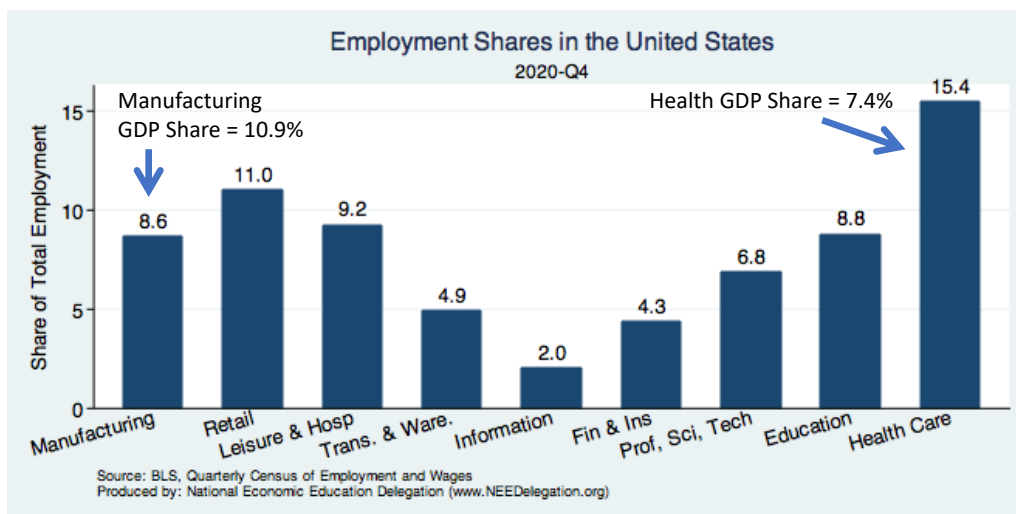
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Composition of the U.S. Economy: GDP



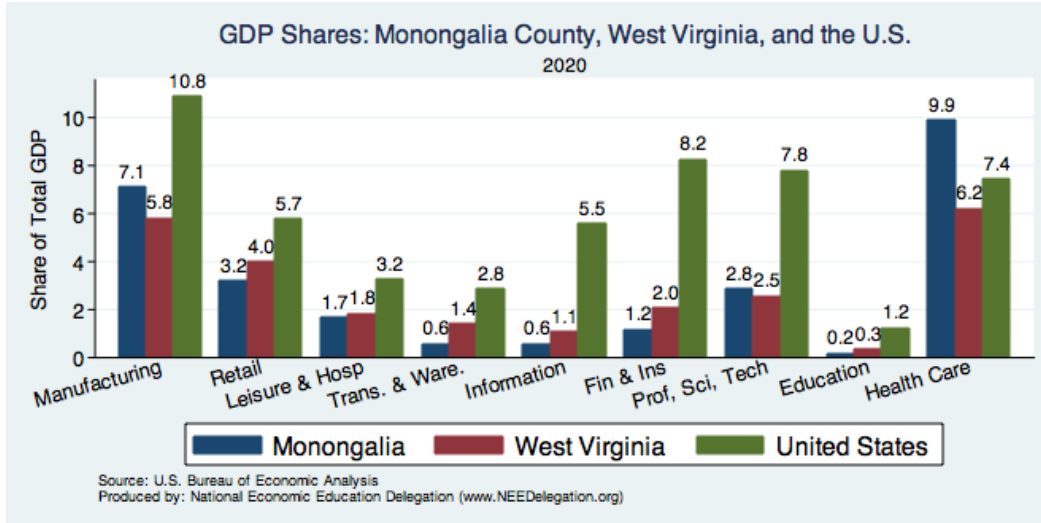
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Composition of the U.S. Economy: Employment



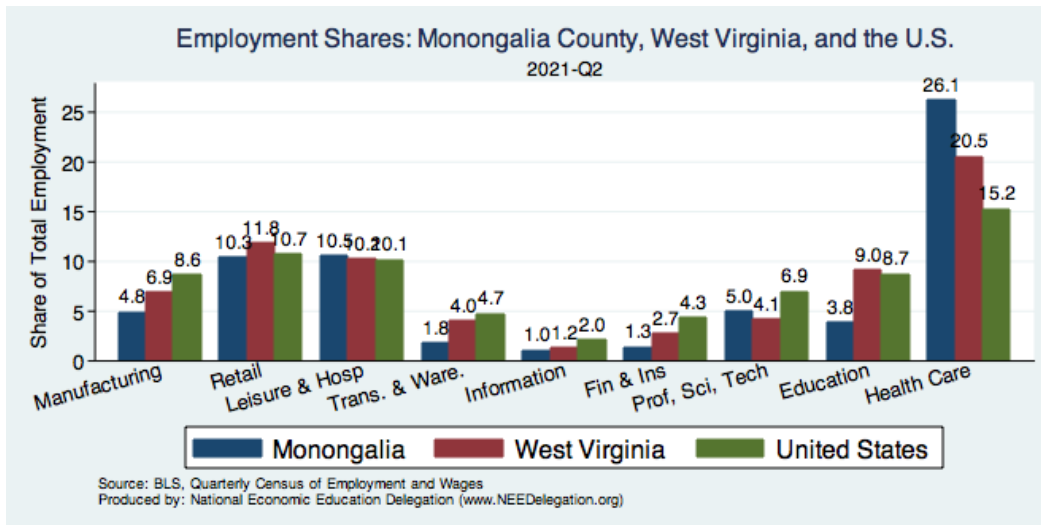
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Mingo County GSP: Trans & Warehousing



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Monongalia County Employment: Health

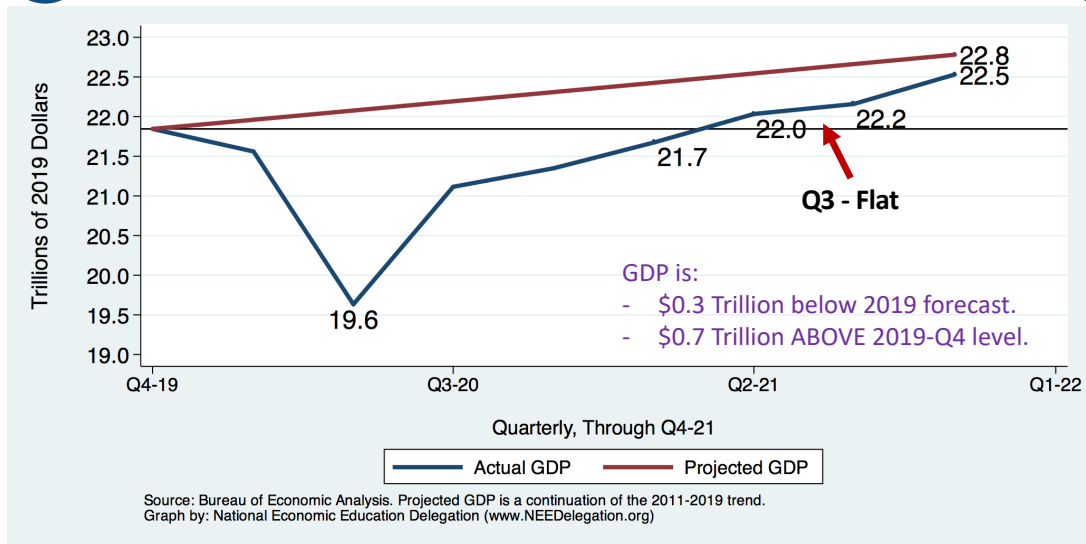


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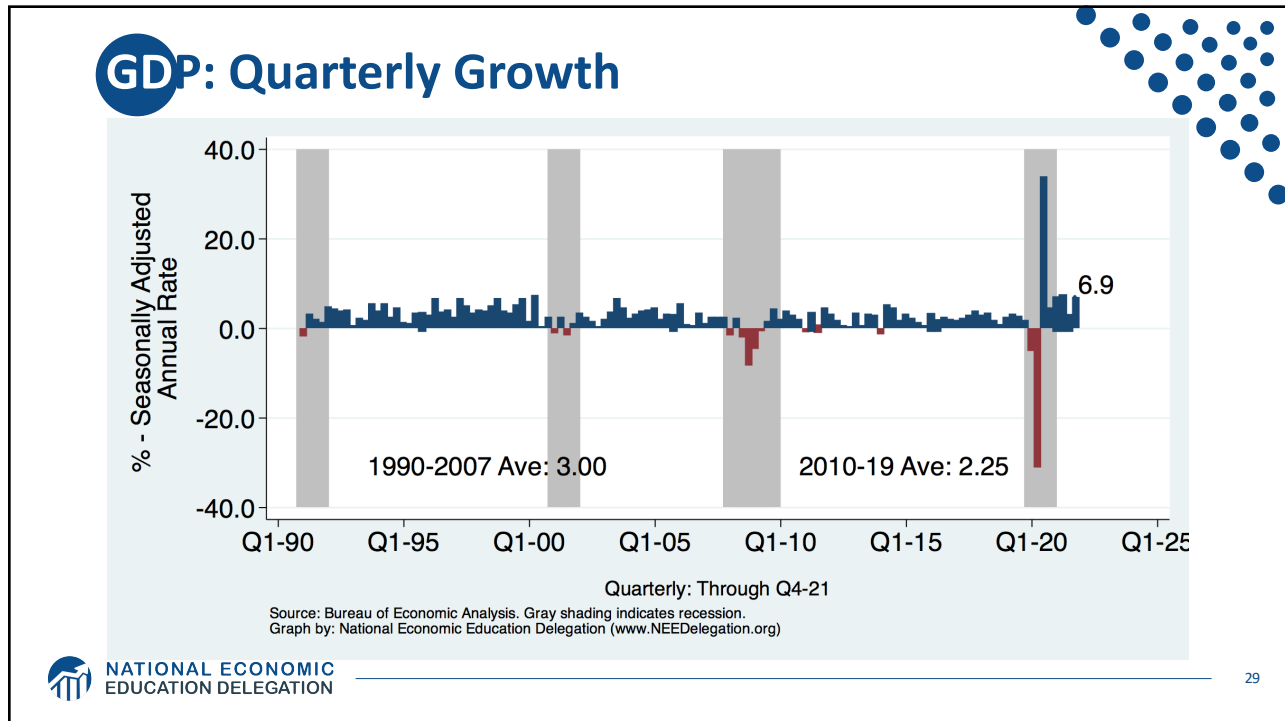
Evidence of Impact

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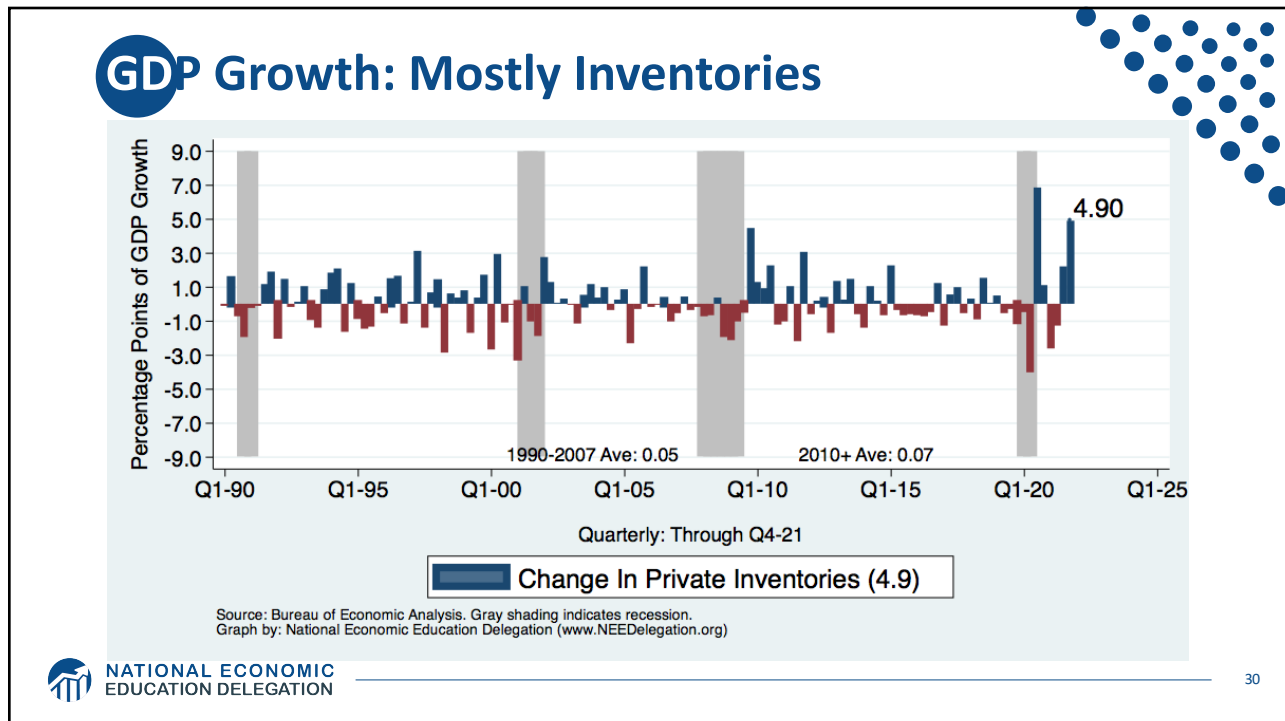
GDP Trajectory: Pandemic Plunge!



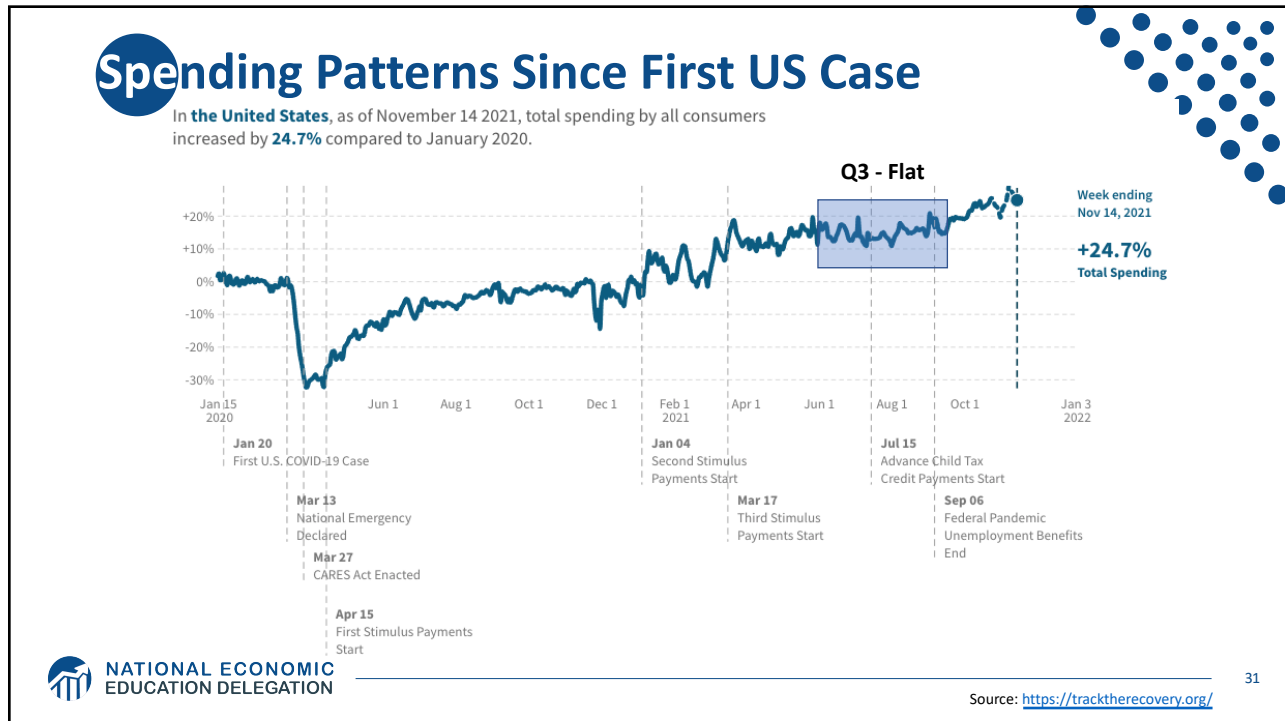
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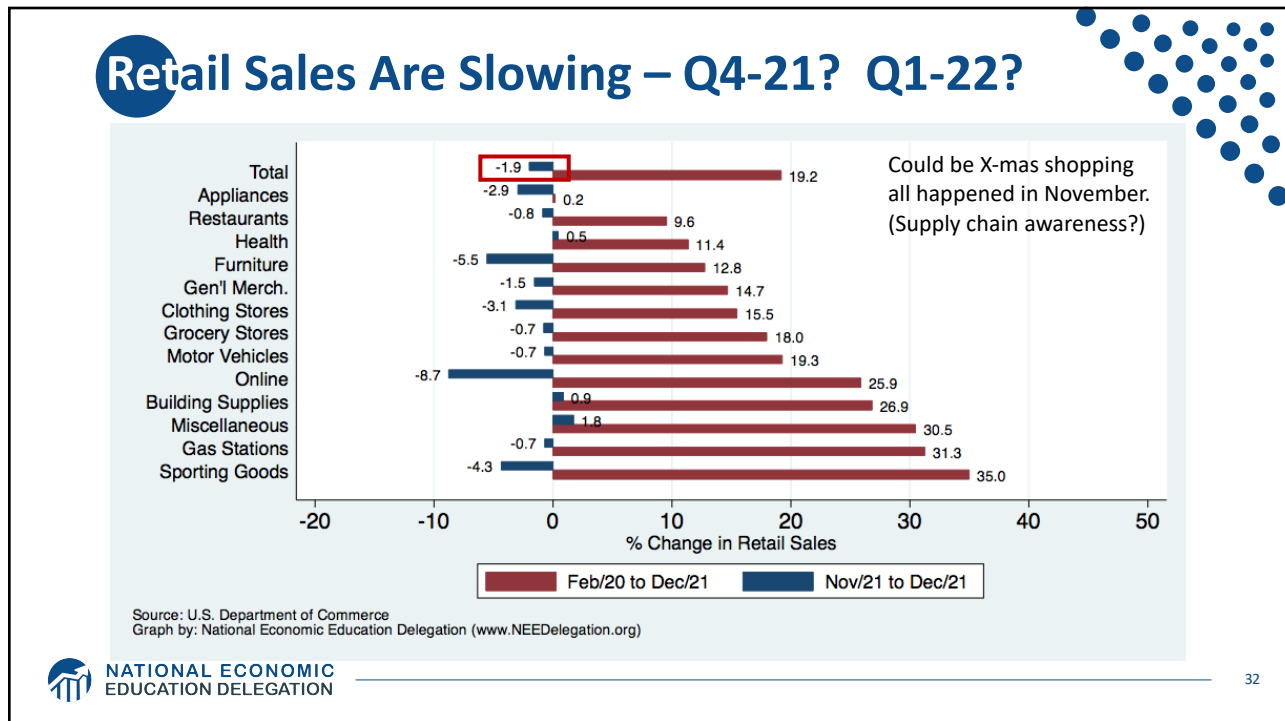
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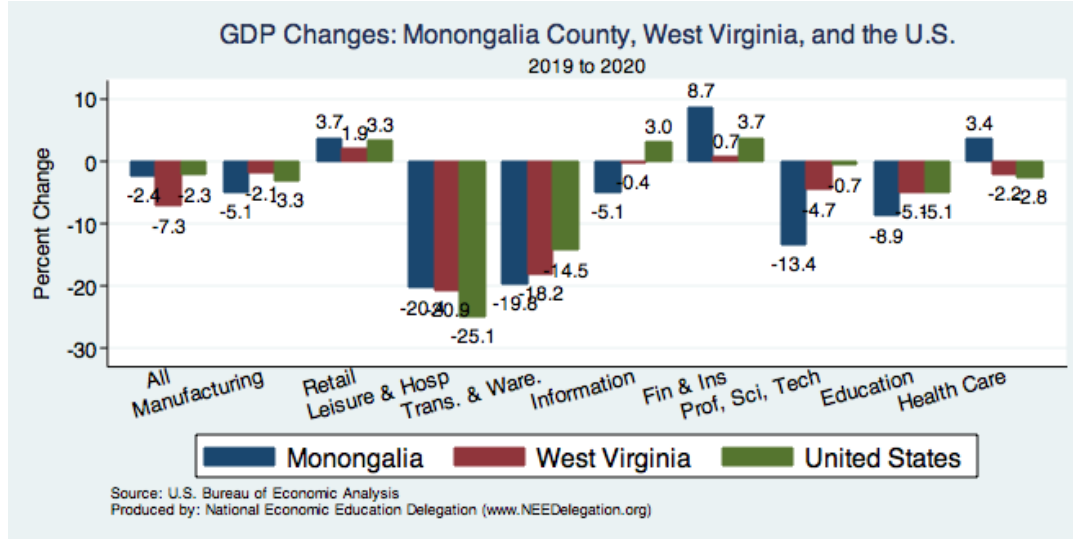


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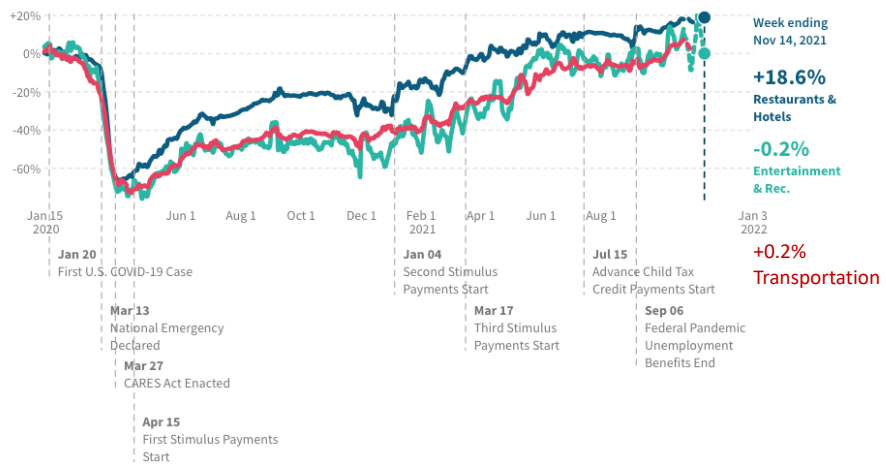
But Not All Industries Were Equally Harmed



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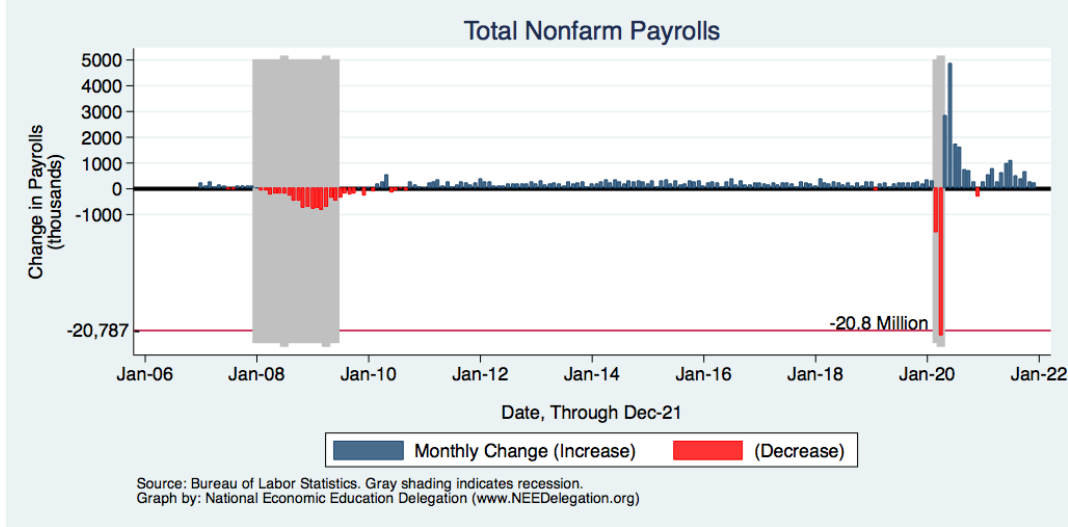
Spending Patterns – Hardest Hit Sectors

In the United States, as of November 14, 2021, restaurant and hotel spending by all consumers increased by **18.6%** compared to January 2020.



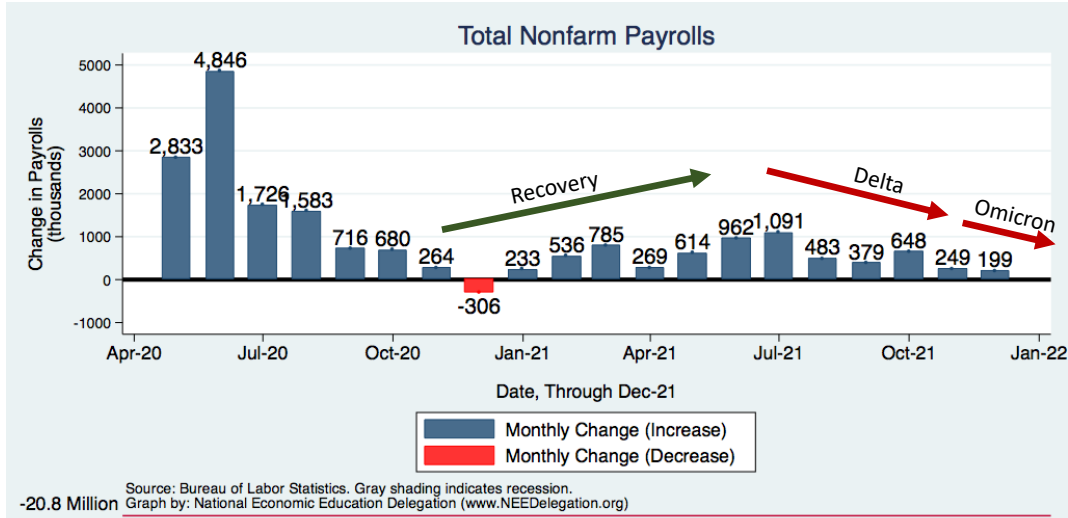
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Monthly Changes in Nonfarm Employment



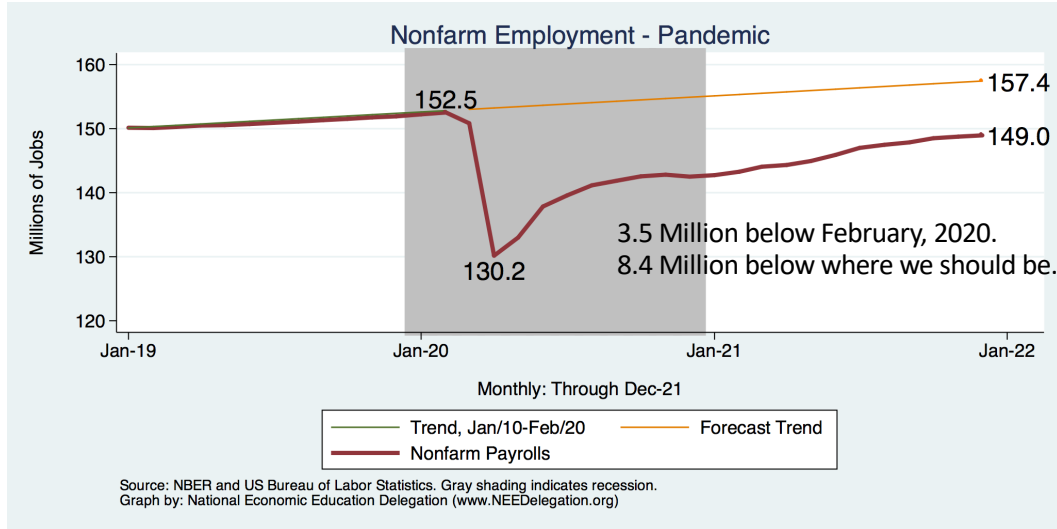
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Monthly Changes in Nonfarm Employment



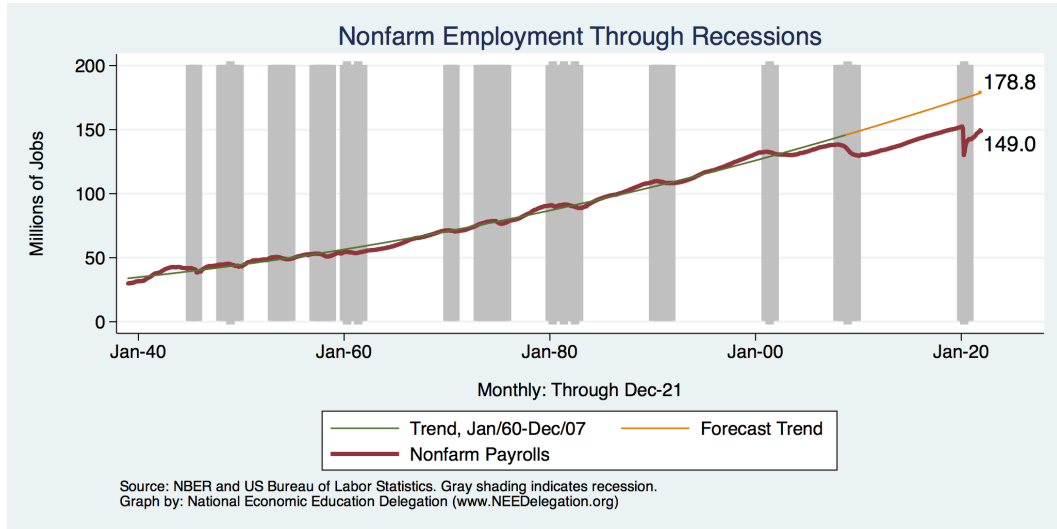
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Employment Gap

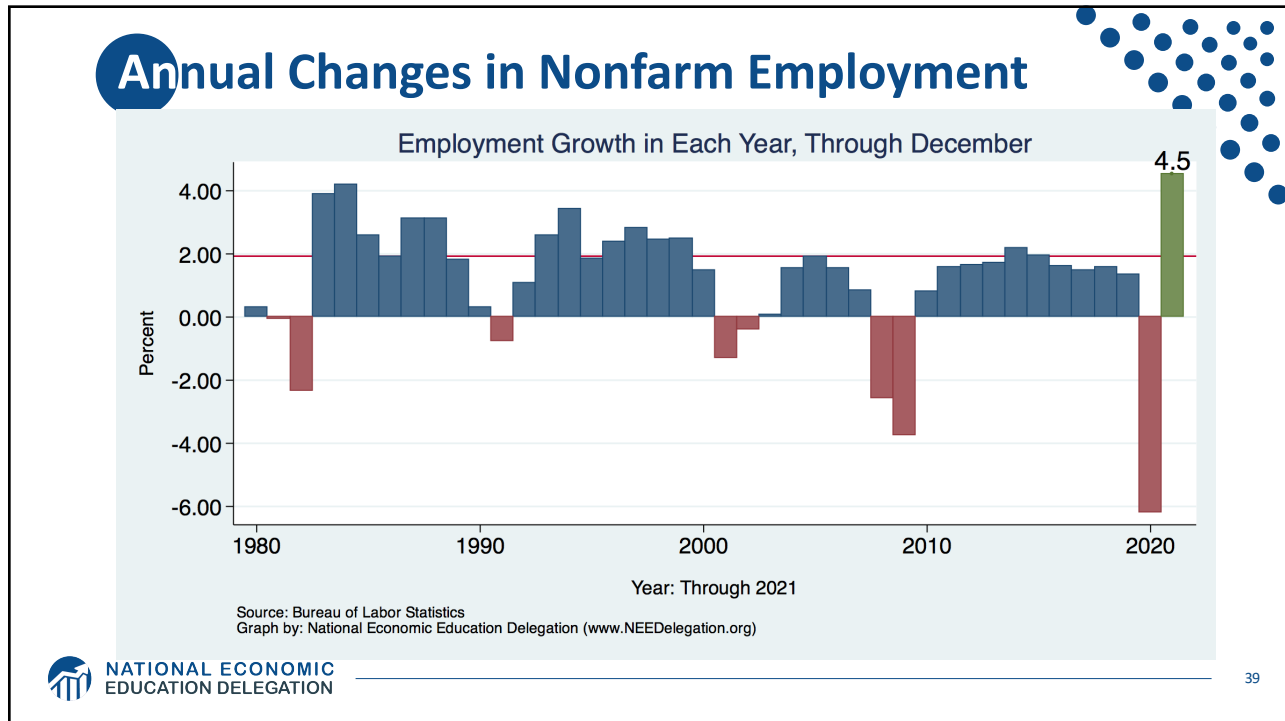


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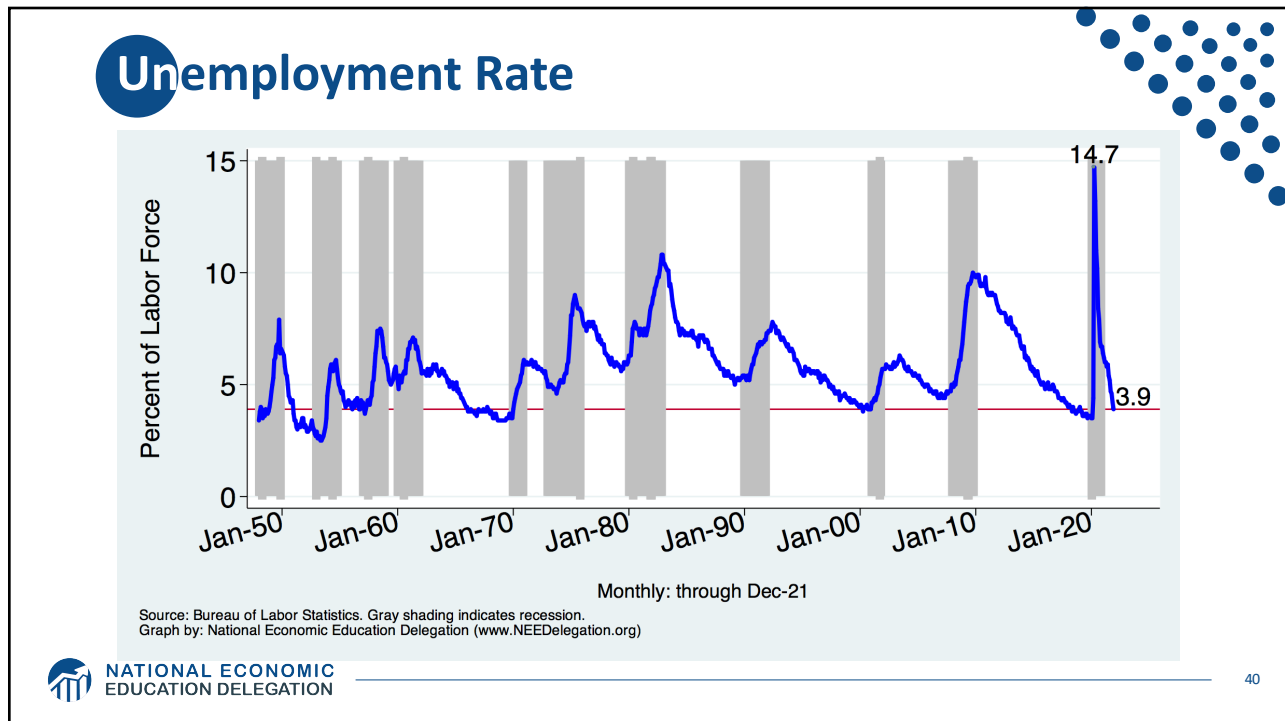
Employment Gap – In Historical Perspective



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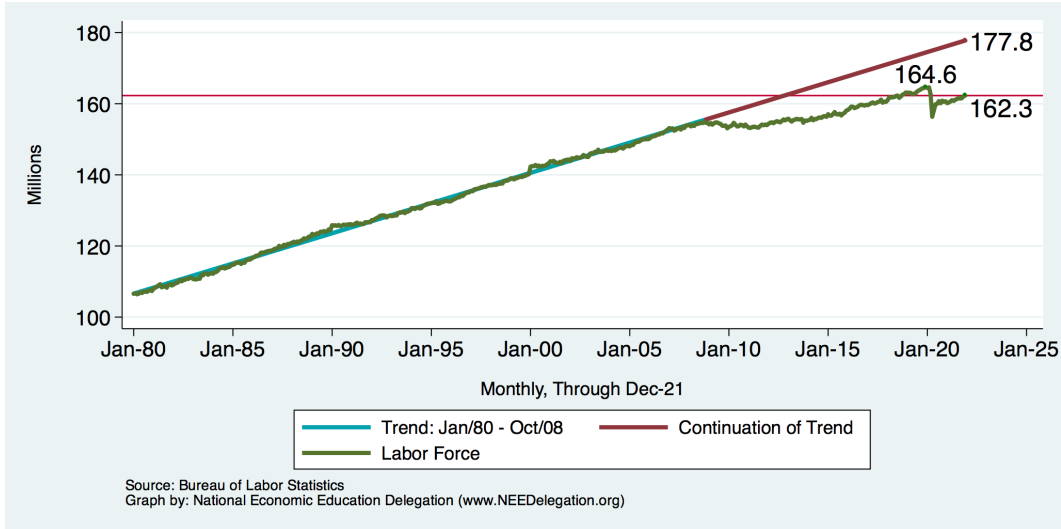


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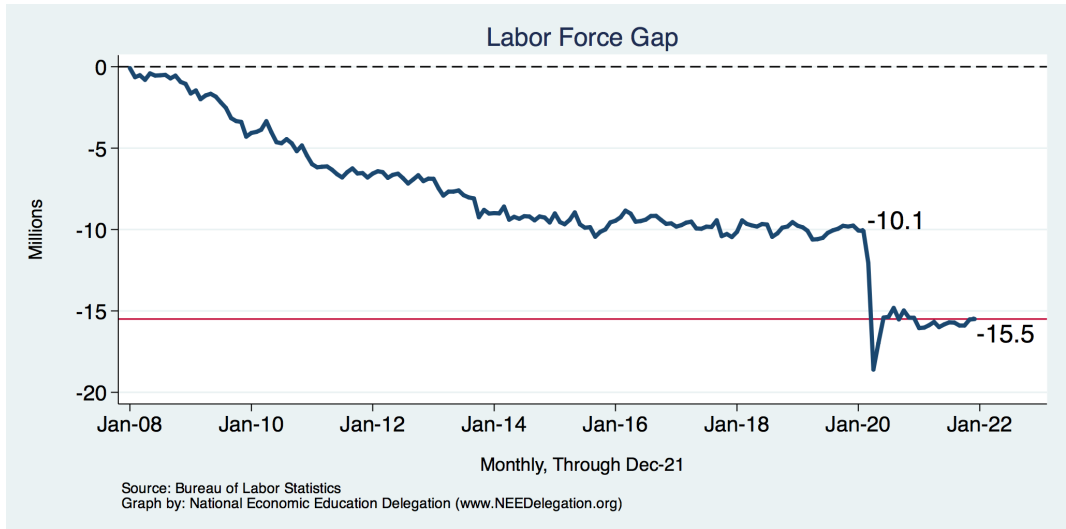
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Trends in Labor Force Participation



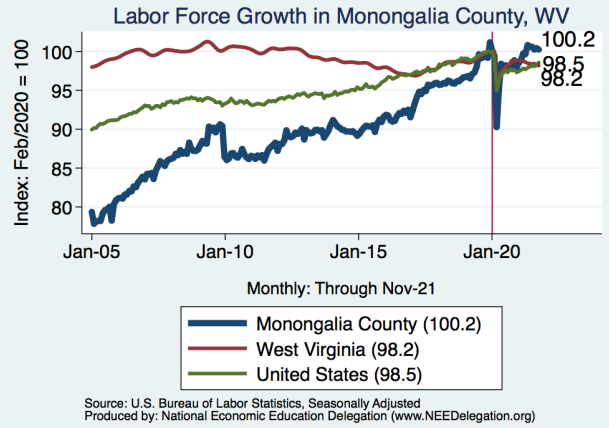
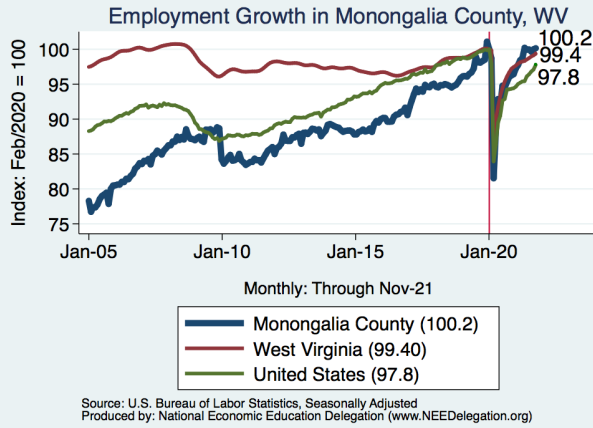
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Labor Force is Shrinking – Drives Down UR



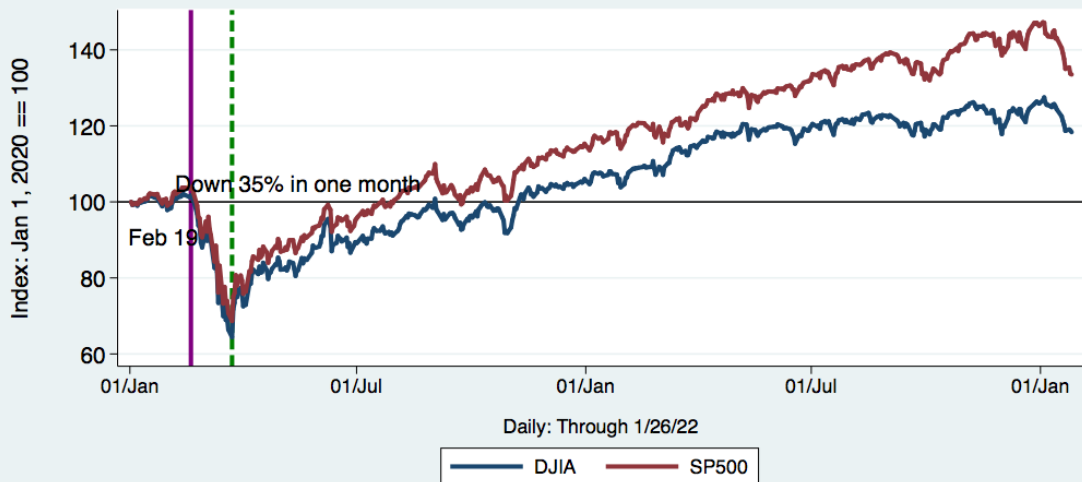
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Employment in Monongalia County



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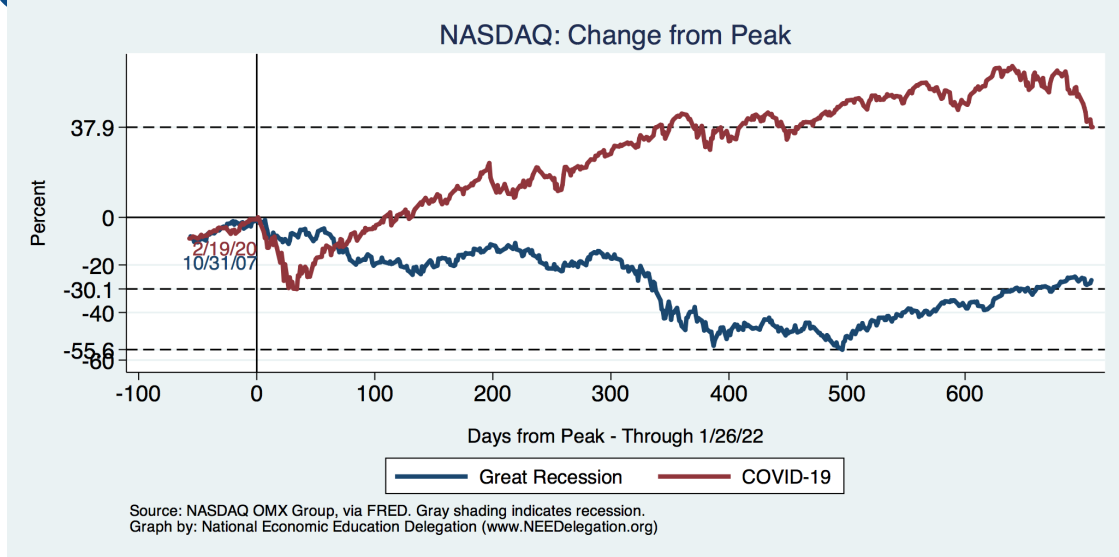
Stocks: Bounced Back Quicker This Time



Source: NASDAQ OMX Group, via FRED. Gray shading indicates recession.
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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Stocks: Bounced Back Quicker This Time



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Hot Topics

- Government policy
- Inflation
- Great resignation
- Housing markets
- Structural changes

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What Have Been Policy Effects?

- **MONETARY POLICY (Fed)** acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.
- **FISCAL POLICY (Congress)** acted quickly, but inevitably made some mistakes.
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B (\$268b)
 - Paycheck Protection Program, C- (\$525b)

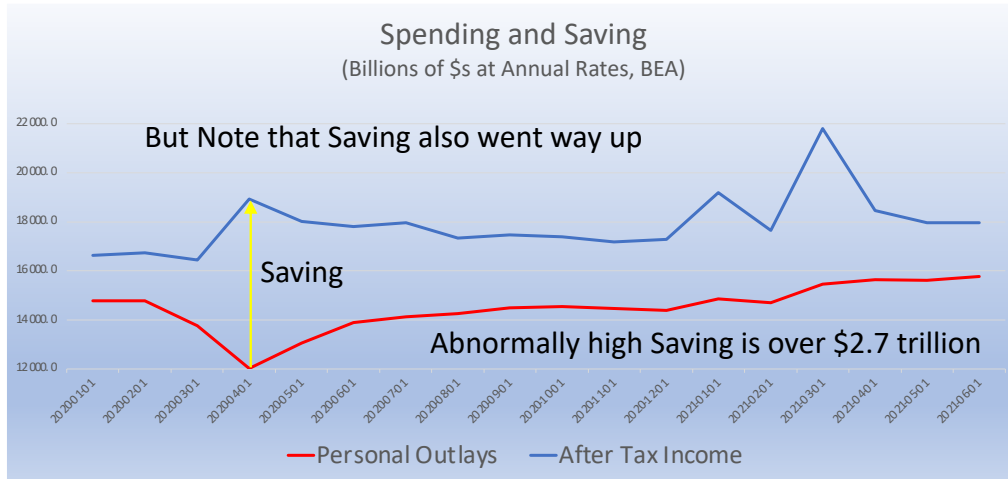
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Recovery Due to Immense Fiscal Stimulus and Control of COVID



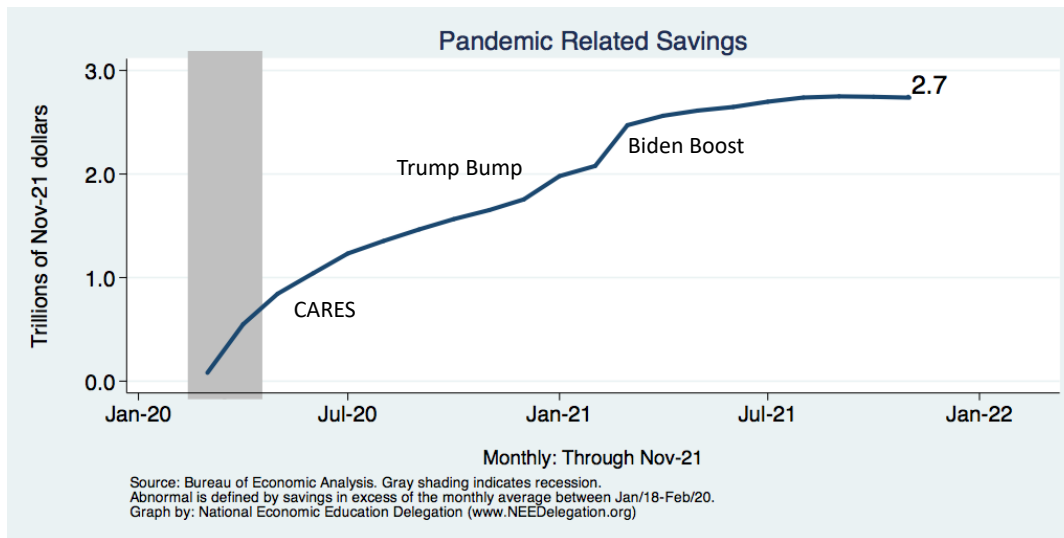
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Stimulus allowed Spending to Recover



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Abnormally High Savings



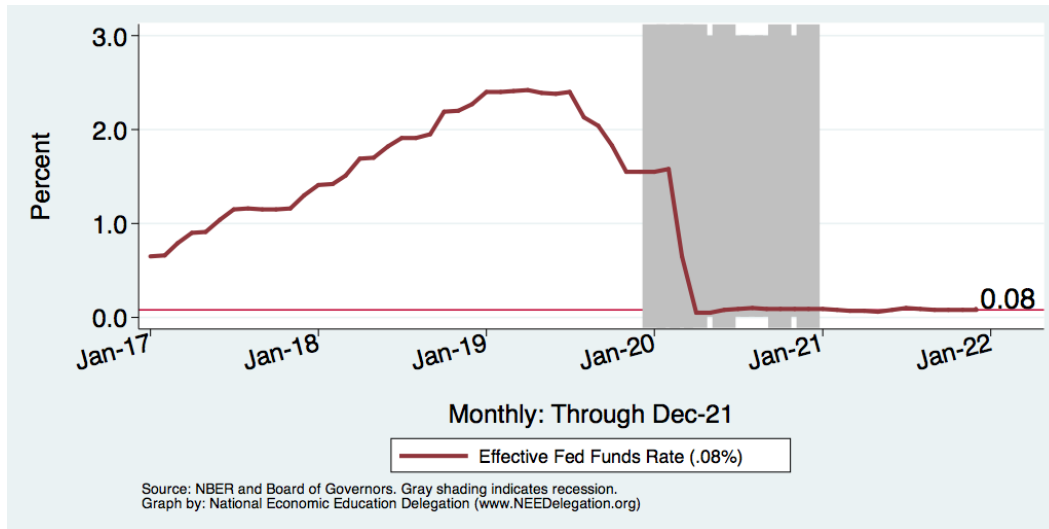
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Monetary Policy: Federal Reserve

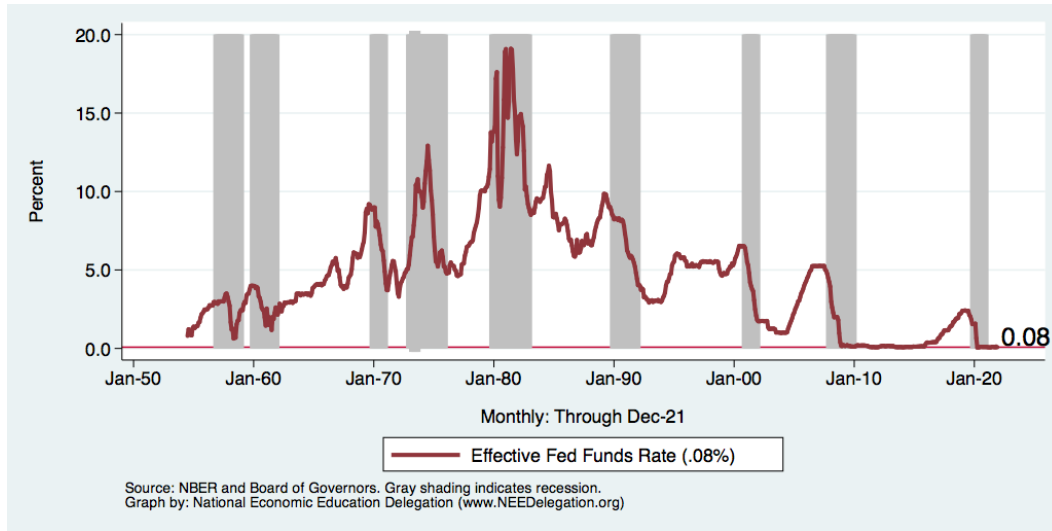
- **Primary goal is to keep interest rates low, to facilitate continued borrowing.**

- Federal Funds Rate – rate at which banks lend to each other, usually overnight.
- Purchases of U.S. Treasury securities – keep money flowing to the government at low rates of interest.

Federal Funds Rate – Last 5 Years

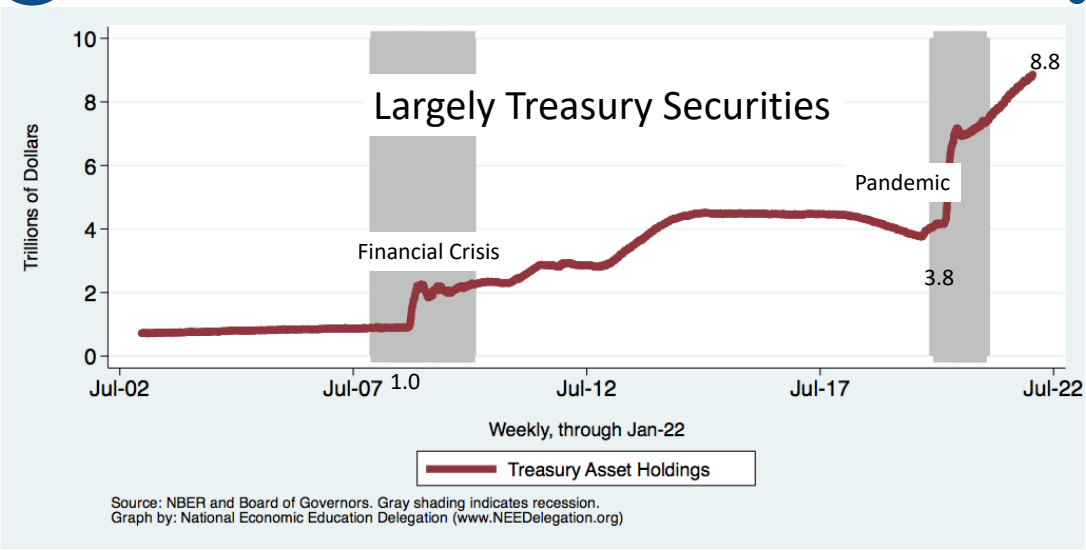


Federal Funds Rate



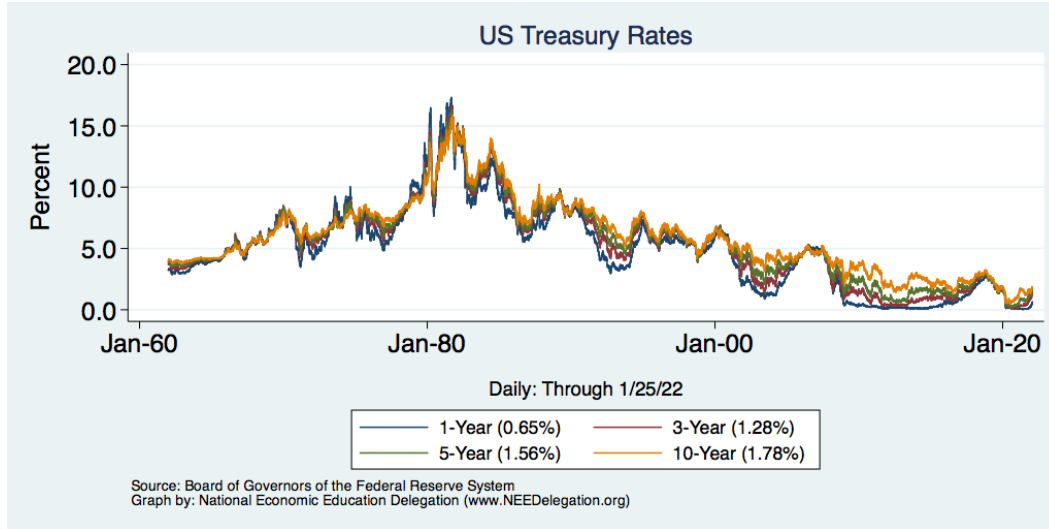
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Federal Reserve Assets



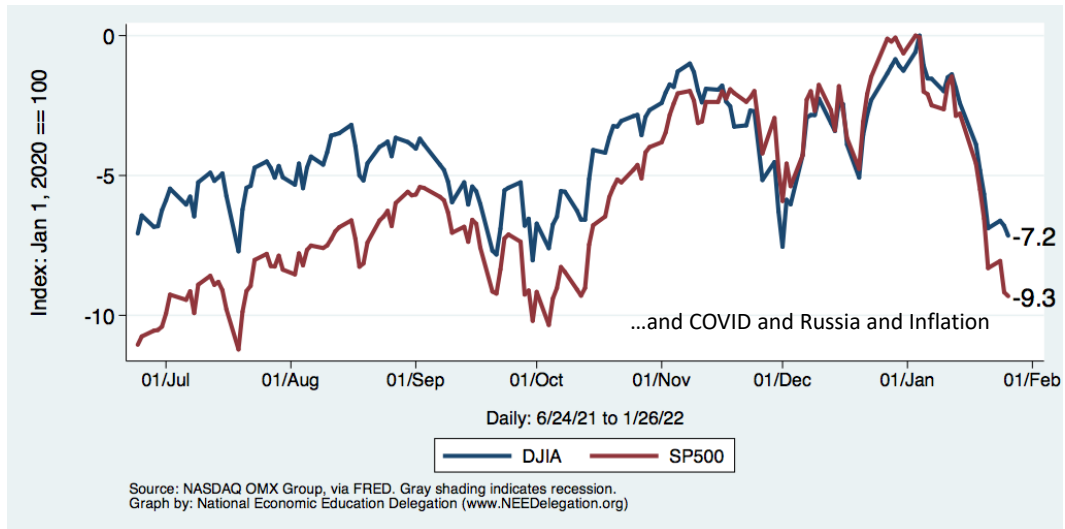
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Treasuries – Low Interest Rates



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Markets Respond To Fed Policies



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Recovery/Recession for Whom?

Top 10 S&P Stocks:

1. Apple
2. Microsoft
3. Amazon
4. Facebook
5. Alphabet Class A shares
6. Alphabet Class C shares
7. Berkshire Hathaway
8. Johnson & Johnson
9. Visa
10. Procter & Gamble

Top 10 S&P Stocks vs. Bottom 490, Year-to-Date Performance

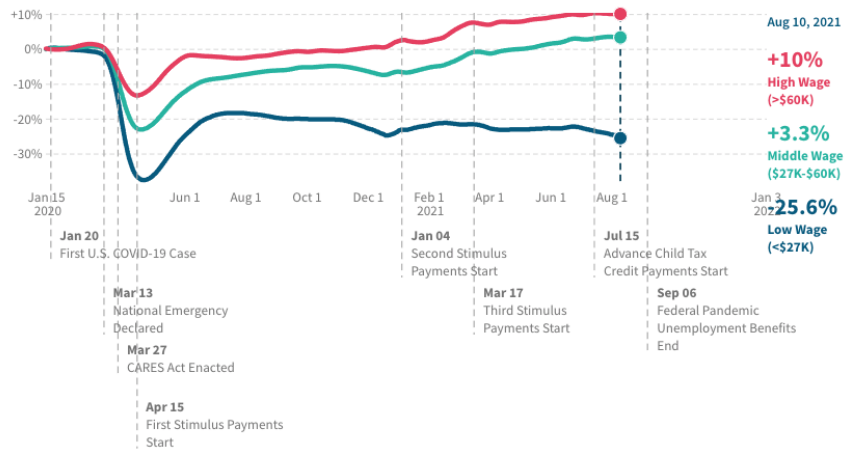


Source: TrendPlaybook.com, Bloomberg

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Low Wage Employment is Lagging

In the United States, as of August 10 2021, employment rates among workers in the bottom wage quartile decreased by **25.6%** compared to January 2020 (not seasonally adjusted).

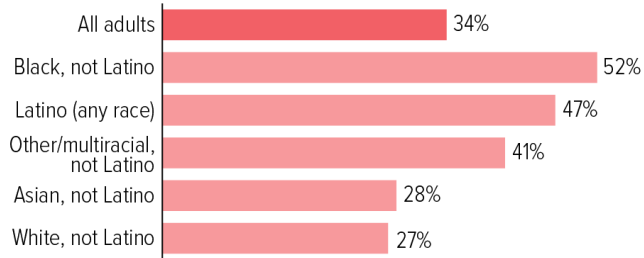


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Low Income Troubles

1 in 3 Adults Had Trouble Paying for Usual Household Expenses in Last 7 Days

Share of adults reporting that it was somewhat or very difficult for their household to pay for usual expenses



Note: Other/multiracial, not Latino = people identifying as American Indian, Alaska Native, Native Hawaiian or Pacific Islander, or more than one race. Percentages exclude individuals who did not respond to the question.

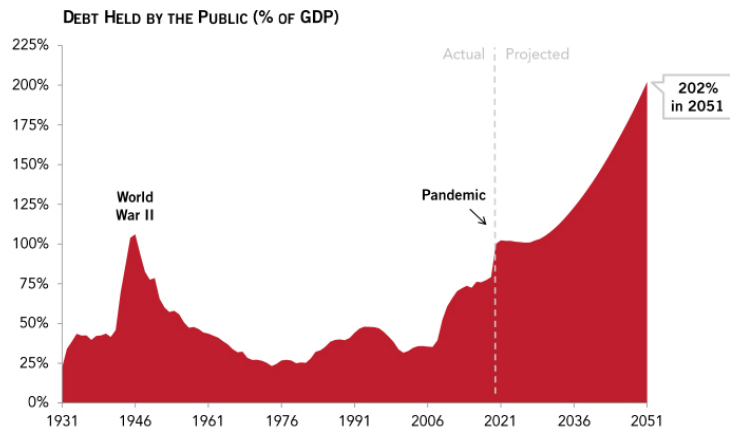
Source: CBPP analysis of Census Bureau Household Pulse Survey tables for October 28 – November 9, 2020

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

A Problem Exacerbated...Not Created



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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Current Deficits in Perspective:

- The budgetary cost of the 3 major fiscal packages during the pandemic was over \$5 trillion. As a share of the economy this is almost the size of war production in 1943.

(Romer, *Brookings Papers on Economic Activity*, 3/25/2021.)

- Since March of 2021, Fed net holdings of US Treasury bonds have increased by \$2.7 trillion.



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Inflation



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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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63 Source: Investopedia

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We're Buying Mostly ... Stuff

Real monthly household spending at an annualized rate, trillions of chained 2012 dollars

a. Goods

Household spending on goods

Pre-pandemic trend

April 2021 11% above trend

b. Services

Household spending on services

Pre-pandemic trend

April 2021 7% below trend

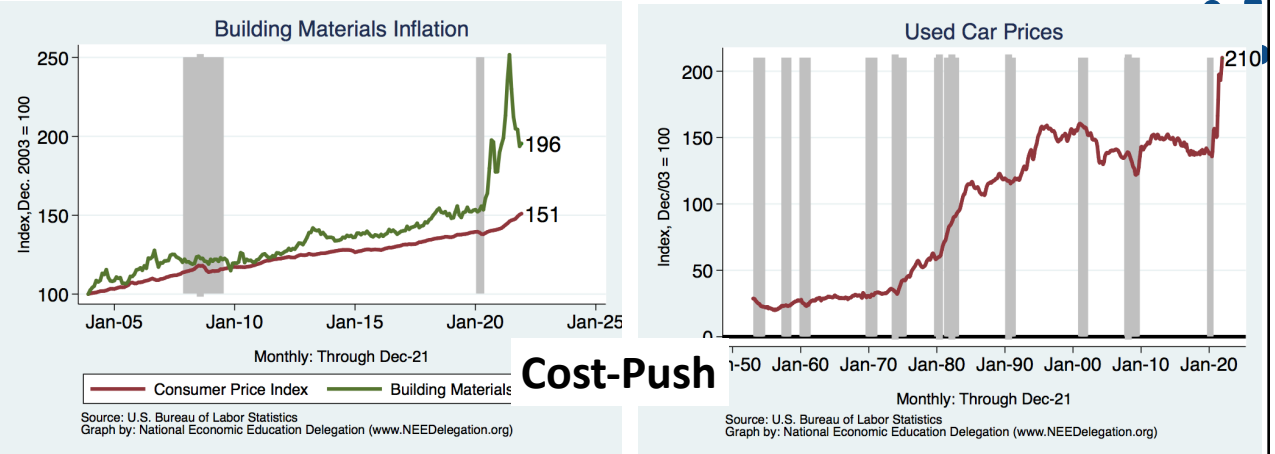
Demand-Pull

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64 Source: Jason Furman, PIIE

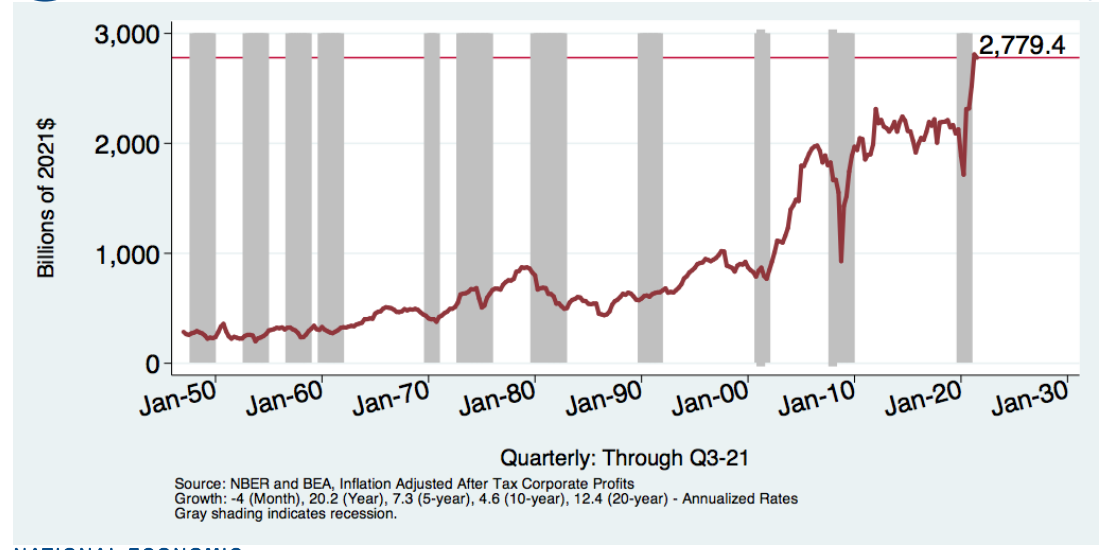
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Inflation: Concentrated

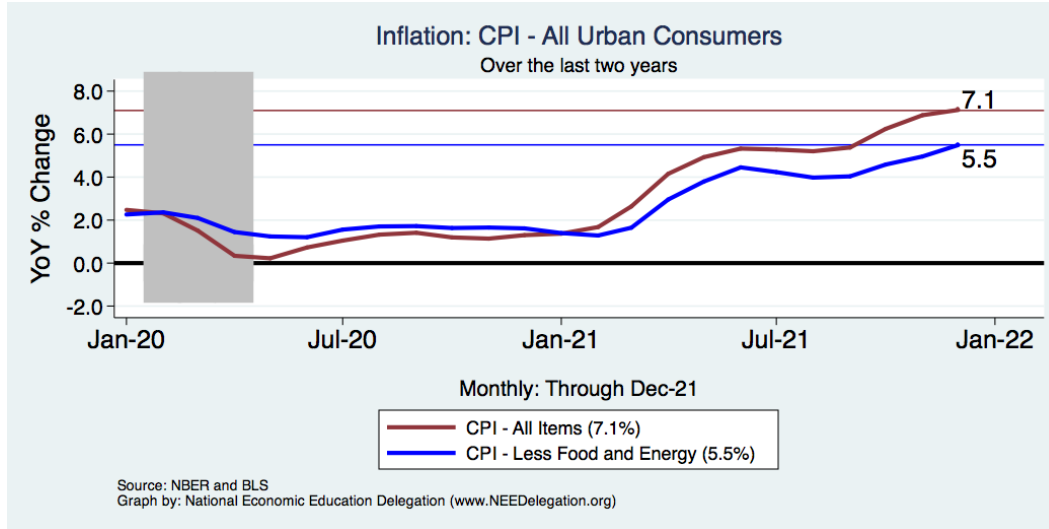


Cost-Push

Corporate Profits...Adding to Inflation?

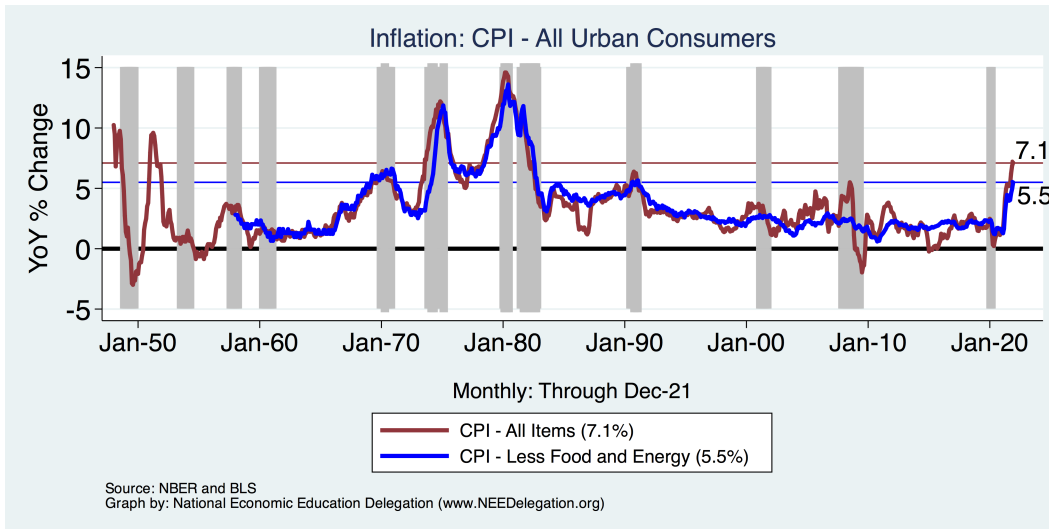


Inflation – Climbing! Should we worry?



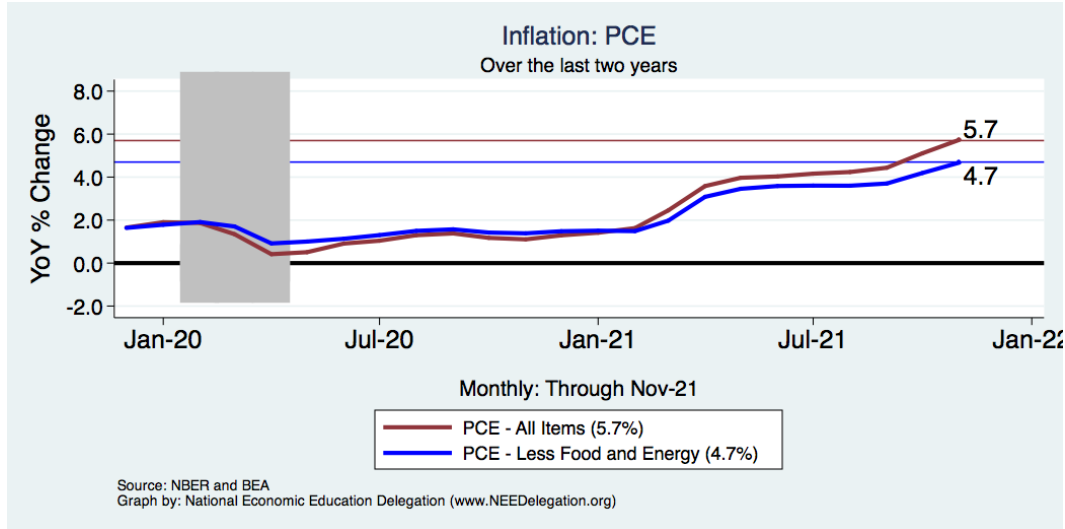
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Inflation in Historical Perspective

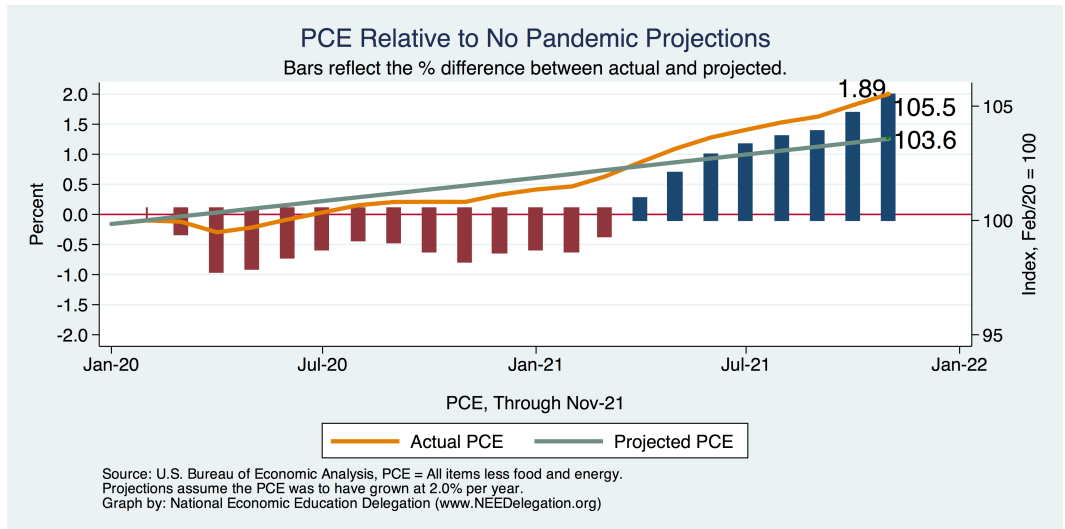


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Inflation – The Fed’s Metric! Should we worry?



Inflation – PCE and Fed Suggest: I don't know.



Puzzle: Is Inflation Permanently Higher?

- **Fed: Price increases may be:**
 - 1) rebound from low prices last year;
 - 2) temporary due to supply chain disruptions; e.g., used cars, bldg supplies.
 - 3) influenced by rising wages in the future.
- **Omicron:**
 - Lessen inflation in the short term.
 - Increase it in the long term by increasing supply chain issues.
- **Nobody knows, but Fed has wavered in its optimism.**
 - Uncertainty hurts both workers and businesses – hard to plan.



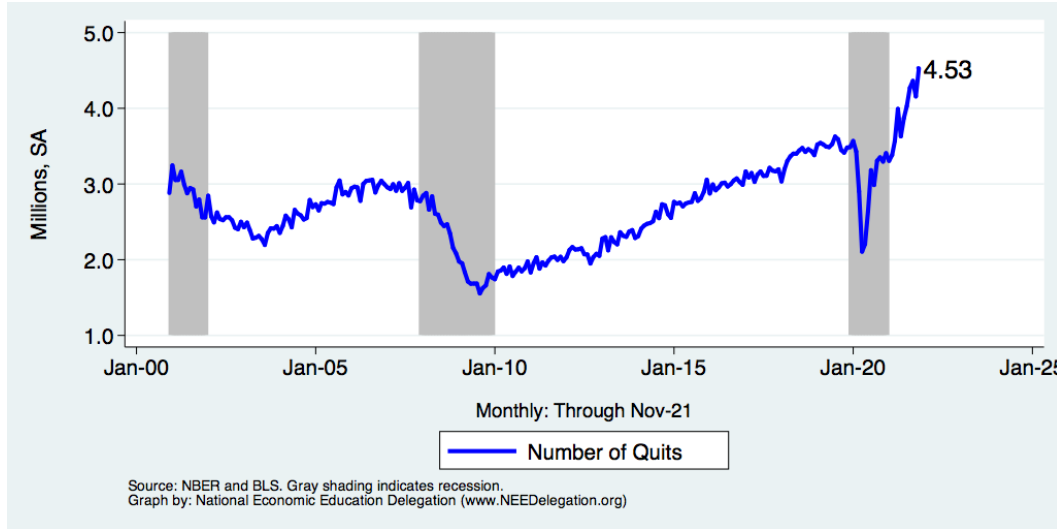
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The Great Resignation



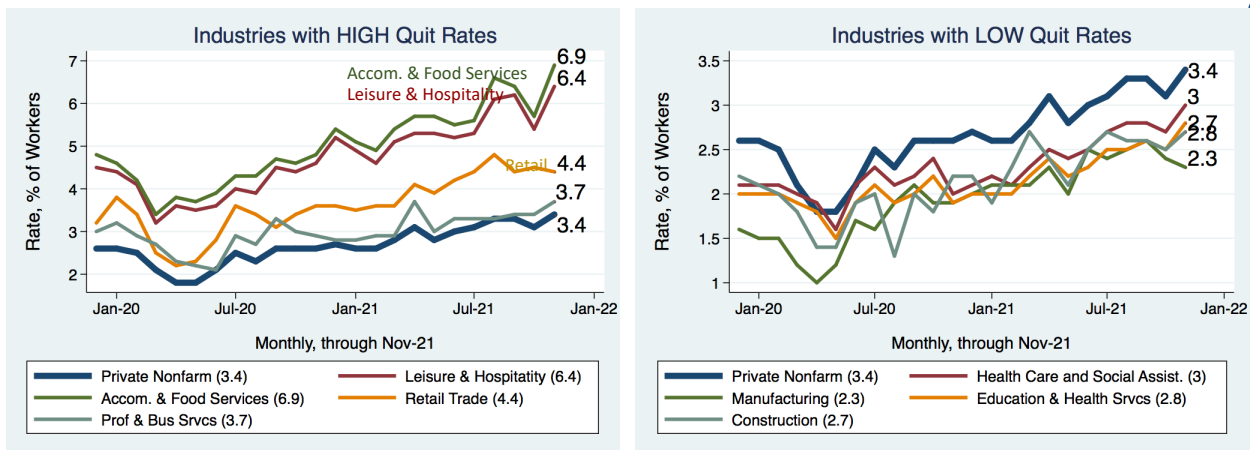
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Quits Are High! The Great Resignation



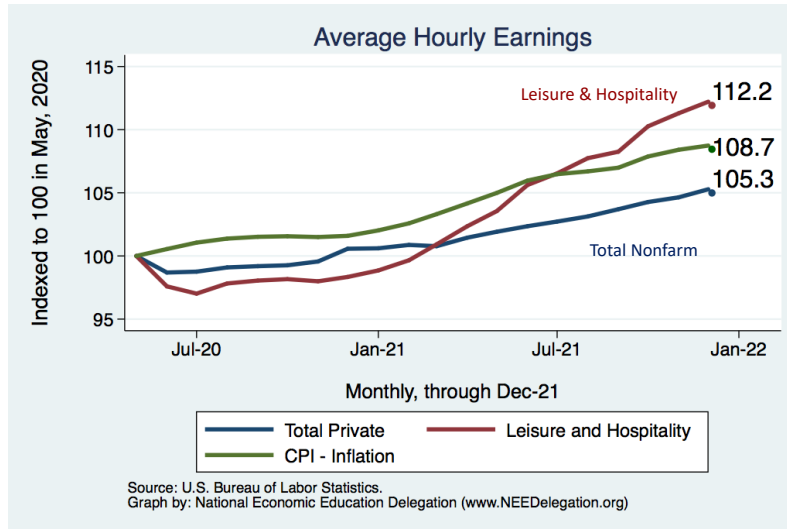
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Quits – Rising, but More in Some Industries



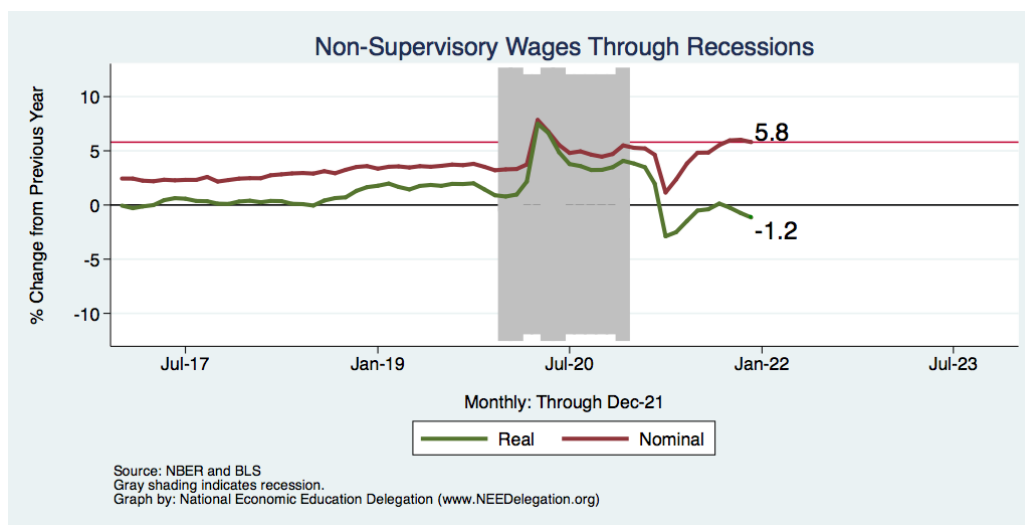
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This is Happening Despite Rising Wages



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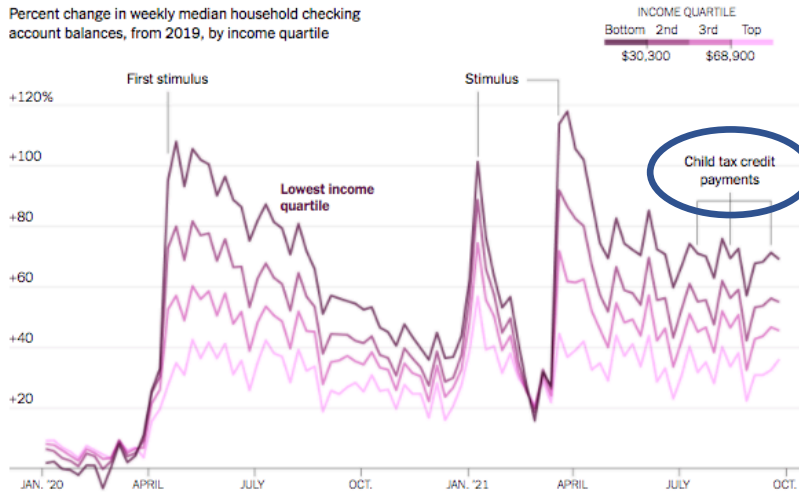
Inflation Adjusted Wages Are Falling



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Declining Resources May Change Things

Percent change in weekly median household checking account balances, from 2019, by income quartile



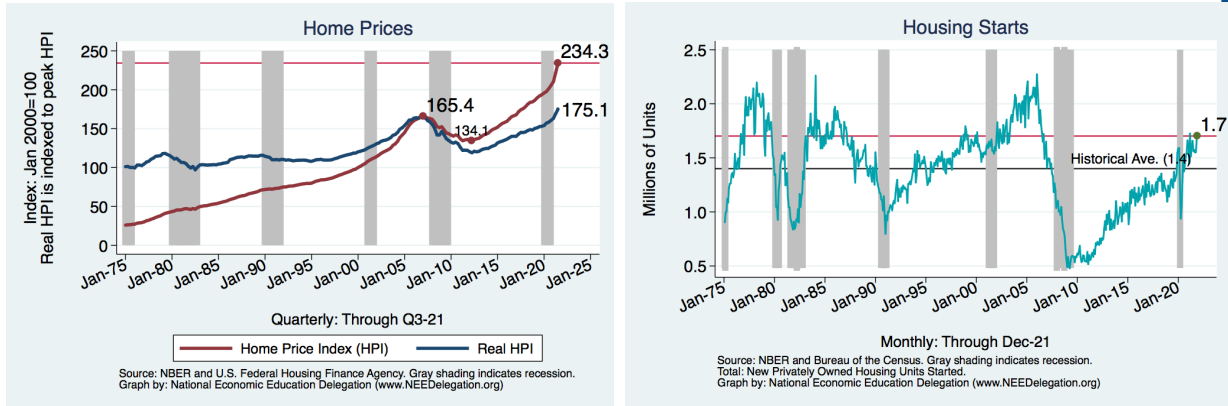
Income quartiles are based on 2019 household income, after taxes and withholdings. Quartile benchmarks shown are rounded to the nearest \$100. - Source: J.P. Morgan Chase Institute - By Ella Koeze

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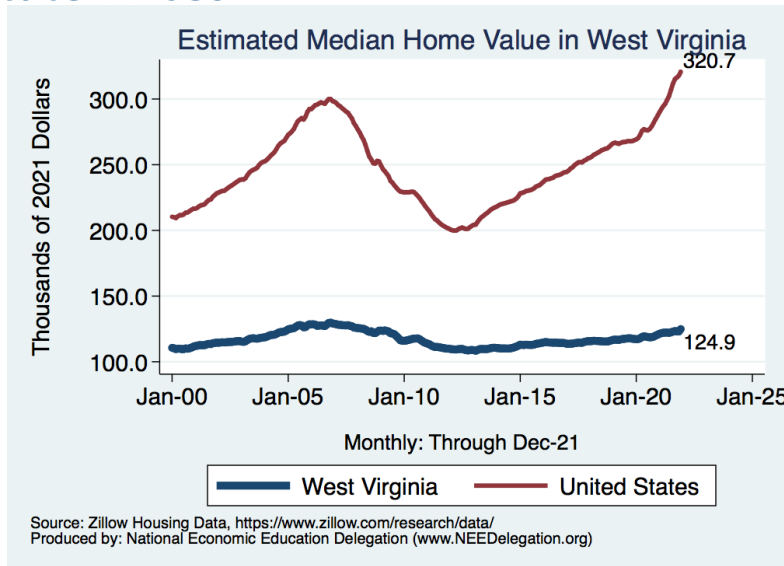
Real Estate

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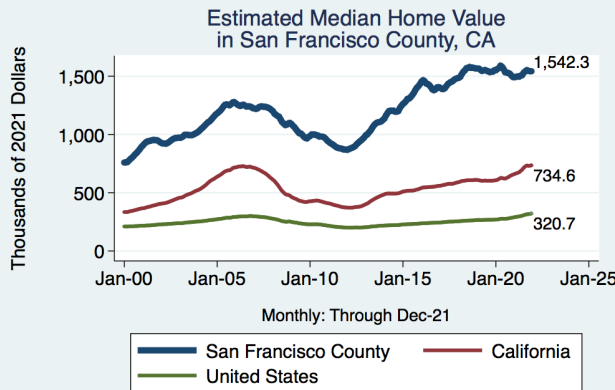
Home Prices and Housing Starts



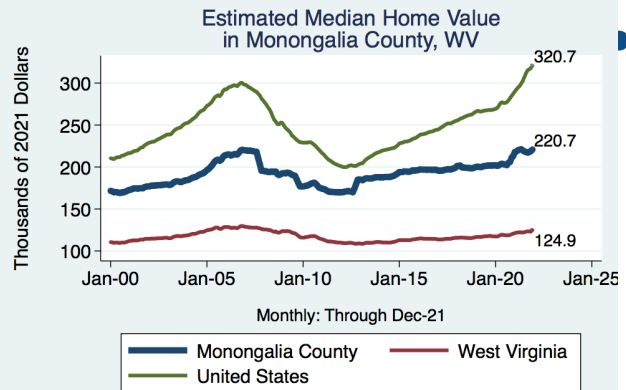
Real Estate Prices



RE Experiences Differ!



Source: Zillow Housing Data, <https://www.zillow.com/research/data/>
 Produced by: National Economic Education Delegation (www.NEEDelegation.org)



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Primary Topics Covered

- **GDP**
 - Recovered the decline, but not where it should be.
 - Won't recover previous forecast until late 2022.
- **Employment**
 - Still down 8.4 million jobs relative to forecast. (3.5 million relative to Feb/20).
 - Labor force is 2.5 million smaller than at the beginning of the pandemic.
 - Rising wages are not enticing low-wage workers back to work.
- **Inflation**
 - Going to be high for a while, but transitory – maybe?

Conclusion

- Recovery is well underway, but may be slowing.
- GDP will likely have expanded 5% percent in 2021, 3-4% in 2022.
- 2021 was an odd year.
 - Workers attained the upper hand.
 - Supply chains broke.
 - Inflation surged.
 - The economy rebuilt itself.
- **Biggest problems:**
 - Supply chain bottlenecks.
 - Labor force participation.



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Best Measures of Progress

- **INFLATION** – getting it under control.
- **REAL WAGES**– need to see progress.
- **WORKFORCE PARTICIPATION** – need growth here to get GDP growth.

Pay no attention to the unemployment rate.

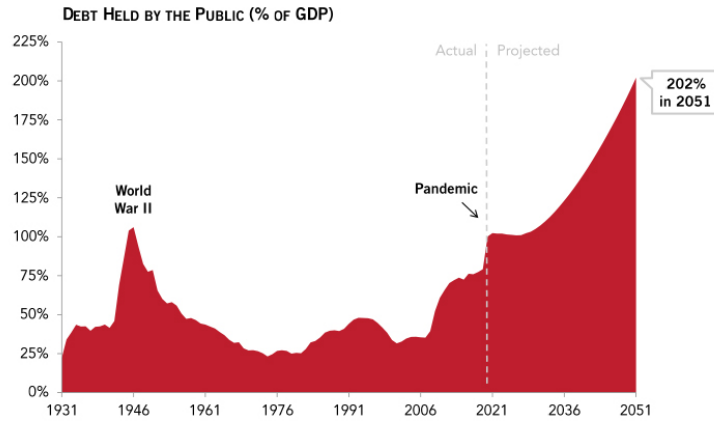


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The Federal Debt - W/Geoffrey Woglom



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
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Thank you!

Any Questions?

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Structural Changes?

- **Pandemic has been an accelerant.**
 - Not a change agent.

- **Retail**
- **Telecommuting**
- **Telehealth**
- **Business travel?**

- **Wealth concentration**
- **Industry concentration**
- **Automation**

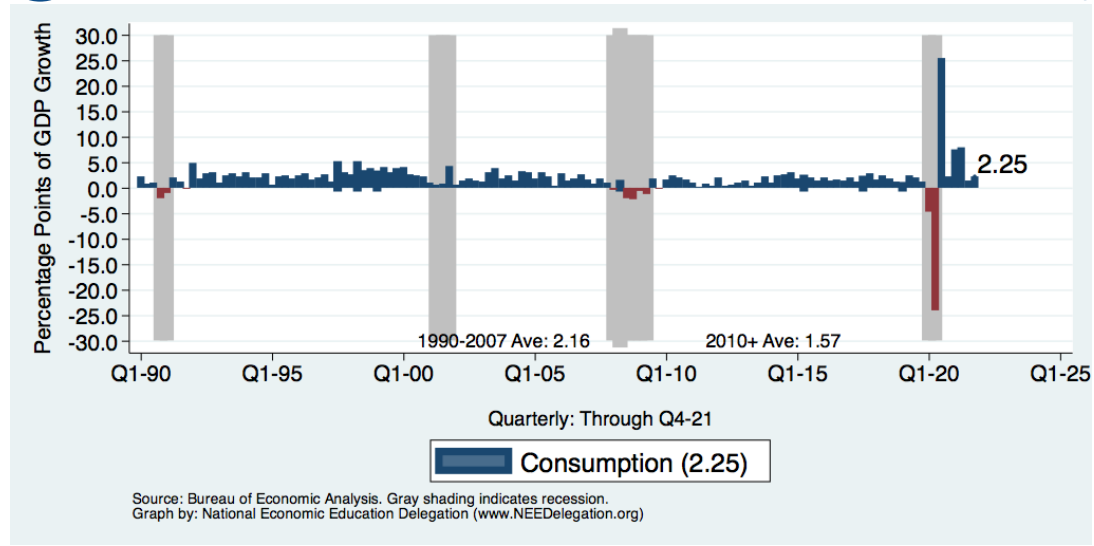


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Consumption: Quarterly Growth

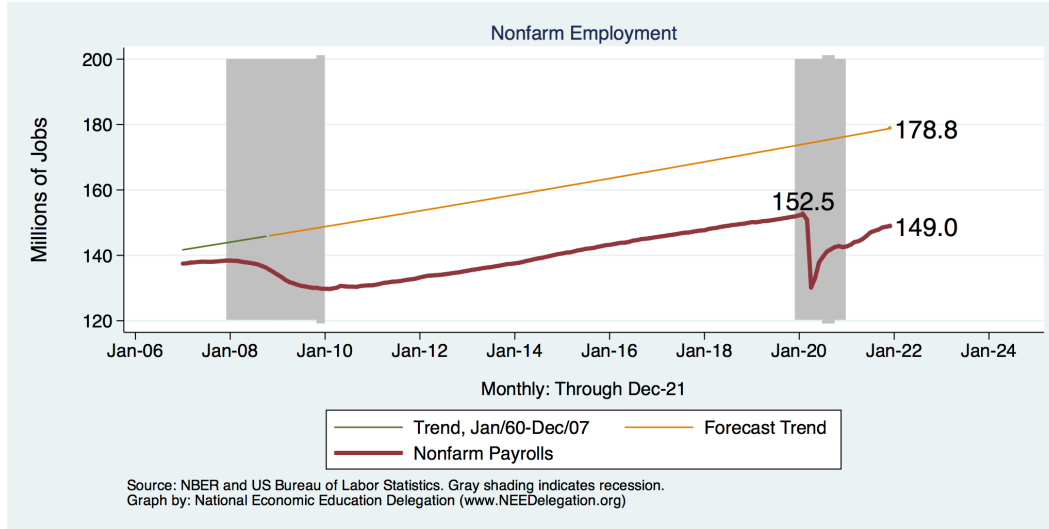


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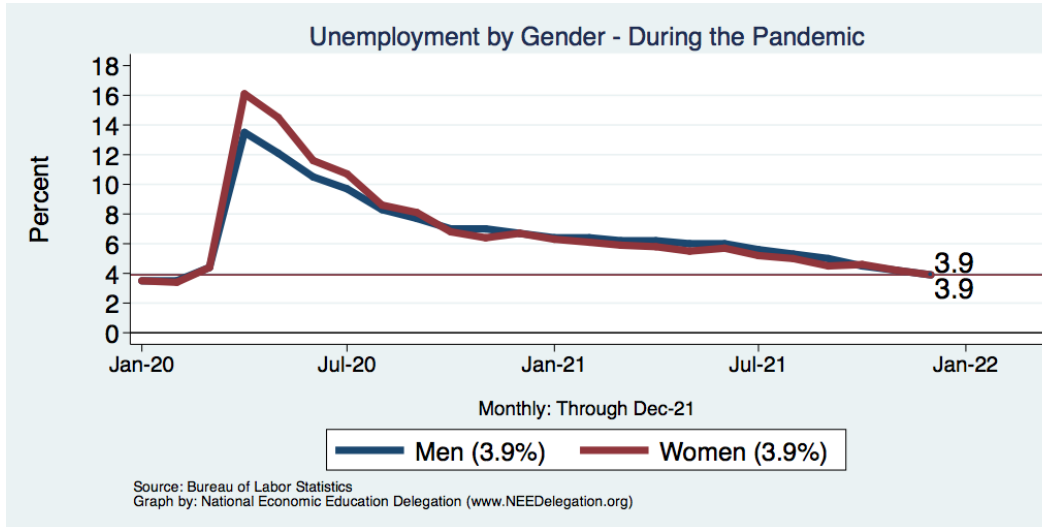
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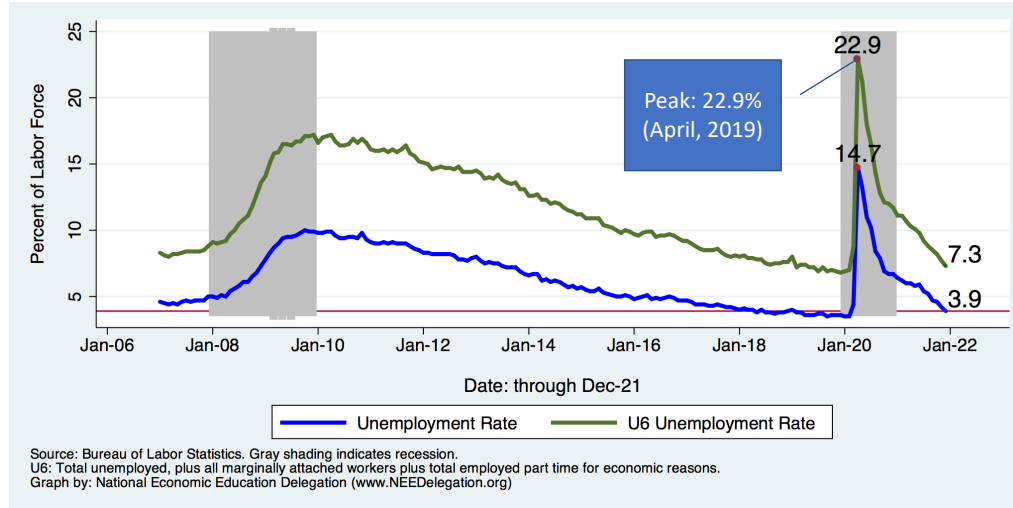
Employment Gap



Affected Women More Than Men?

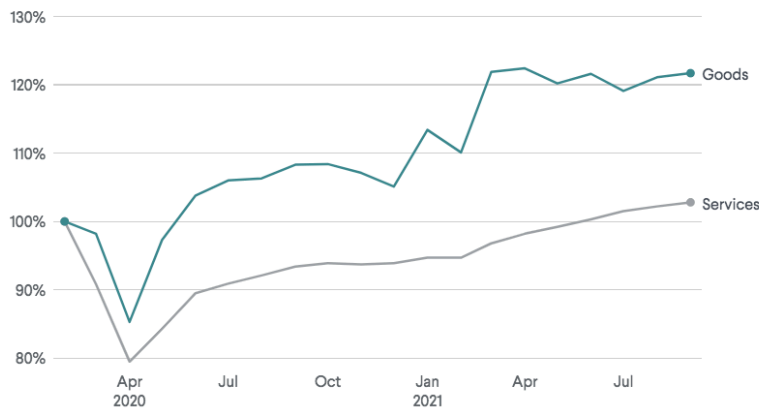


Another Measure: Unemployment



Supply Chains Are at the Core

Pandemic Triggers Greater Demand for Goods
 Personal consumption expenditures relative to February 2020



Source: U.S. Bureau of Economic Analysis via Federal Reserve Bank of St. Louis.

What Are Supply Chains?

The Journey of a Semiconductor

Steps and firm locations in the production of a smartphone chip

Design

1. Intellectual property licensed (Europe)
2. Design software developed (U.S.)
3. Chip designed (U.S.)

Equipment

4. Manufacturing equipment developed (U.S., Europe, Japan)

Materials

5. Silicon dioxide mined and refined (U.S.)
6. Silicon formed into ingot (Japan)
7. Ingot sliced into wafers (South Korea)

Manufacturing

8. Wafers imprinted with circuits (Taiwan)
9. Chip packaged (Malaysia)
10. Chip assembled (China)

Sale

11. Smartphone sold to consumers (U.S.)

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<https://www.cfr.org/article/what-happened-supply-chains-2021>

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Why does spending matter?

Spending Categories as Share of GDP (2019)

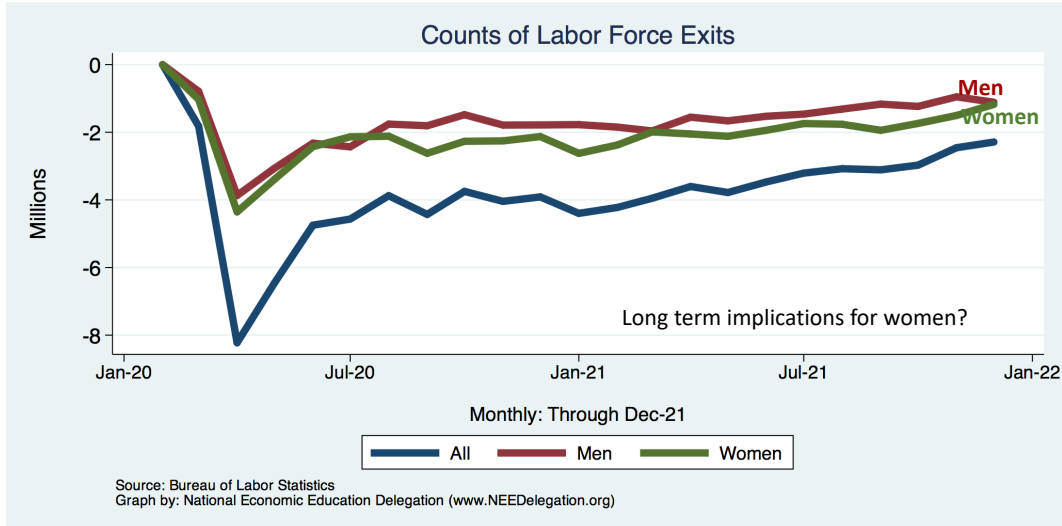
Spending:	
Goods	20%
Services	44%
Total	64%

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Affected Women More Than Men



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Why Women More Than Men?

- Women are disproportionately represented in low-wage and face-to-face jobs.
- Our childcare and school systems don't meet the needs of working mothers.
- COVID-19 has upended the labor market, with disastrous consequences for working women and their families.
 - Many women continued working in high risk jobs.
- The difference in impact is waning.

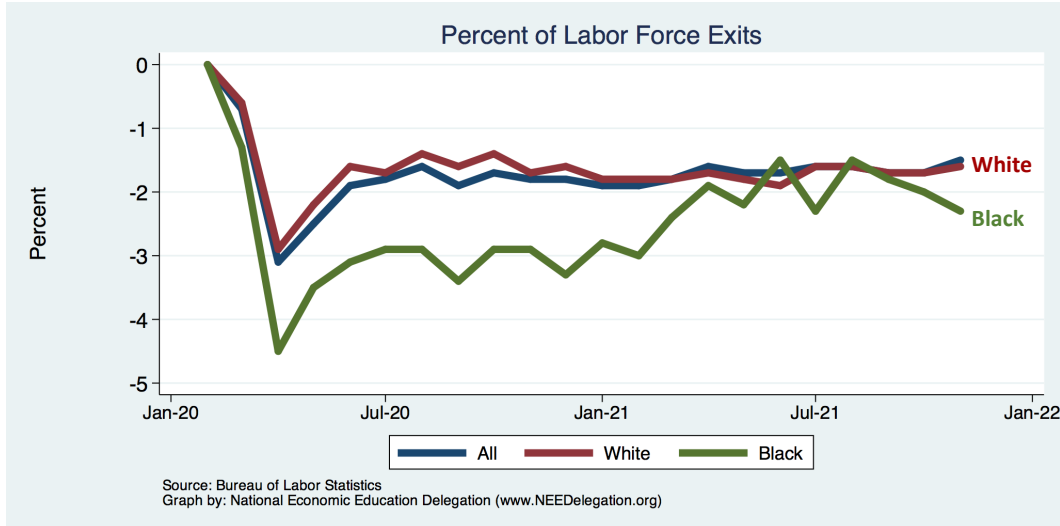


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Affecting Black Workers More than White



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What Index to Follow: CPI or PCE?

- **CPI is the headline statistic, followed by most newspapers.**
 - Allows more granularity – ability to look at specific products.
- **PCE is the one followed by the Fed.**
 - Why?
 - Accounts for short term fluctuations in consumer purchases.
 - Based on more reliable data.
- **Fed generally pays attention to the core inflation #s.**
 - Excluding food and energy.



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Inflation: Critical Issues

- **Inequities**

- Price changes vary wildly across goods.
- How inflation hits you depends on what you buy and your level of income.
 - o Some evidence that lower income individuals face higher inflation.

- **Online inflation is much lower than the CPI**

- Estimates suggest about 2% lower.

- **Both have implications for the policy response.**

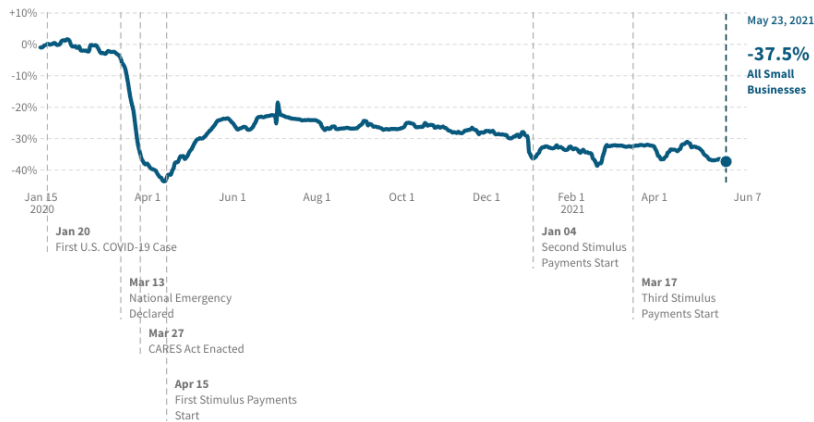
- Safety net? Antitrust action?

A Hard-Hit Sector: Small Business

Small Biz Closures in the United States

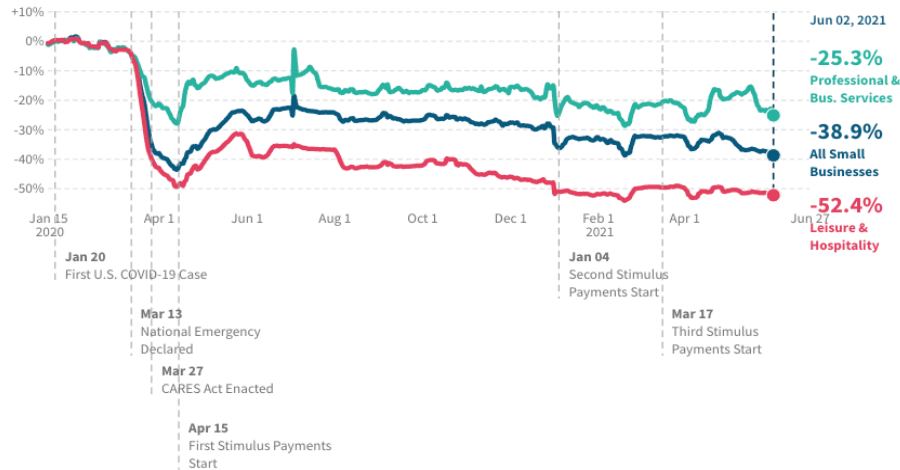
In **the United States**, as of May 23 2021, the number of small businesses open decreased by **37.5%** compared to January 2020.

[DOWNLOAD CHART](#)



Small Businesses: They Didn't Get Enough PPP

In the United States, as of June 02, 2021, the number of small businesses open decreased by **38.9%** compared to January 2020.



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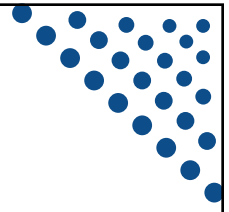
A "K-shaped" recovery?

Executive Summary

- Those with financial wealth/residential real estate have seen its value grow in excess of inflation.
- High income earners (>60k/yr) have largely kept their jobs;
 - middle and low income earners have depressed employment rates
- Women are disproportionately exiting labor force.
- Food insecurity has been very high.

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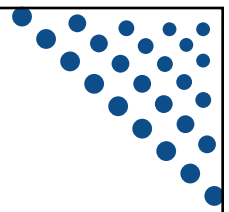
Coronavirus and Inequality



- Resources to weather the storm.
- Racial inequities.
- Educational inequities
- Telecommuting
- Low wage jobs are at risk.

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www.NEEDelegation.org/LocalGraphs



For every state and county in the United States.
Detailed graphs on employment, housing, moves, and other statistics.

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