

Osher Lifelong Learning Institute, Spring 2022

Contemporary Economic Policy

Bradley University
March-April, 2022

Host: 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: 640+ 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

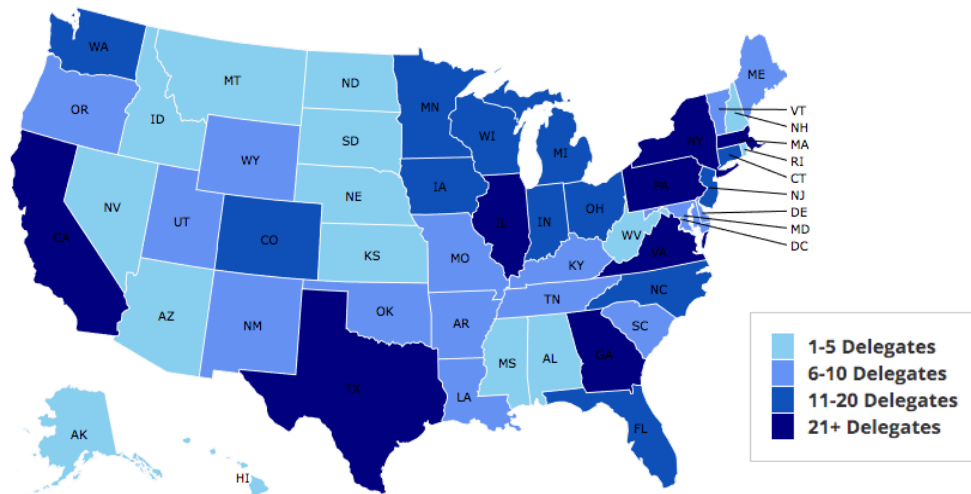


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Where Are We?



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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

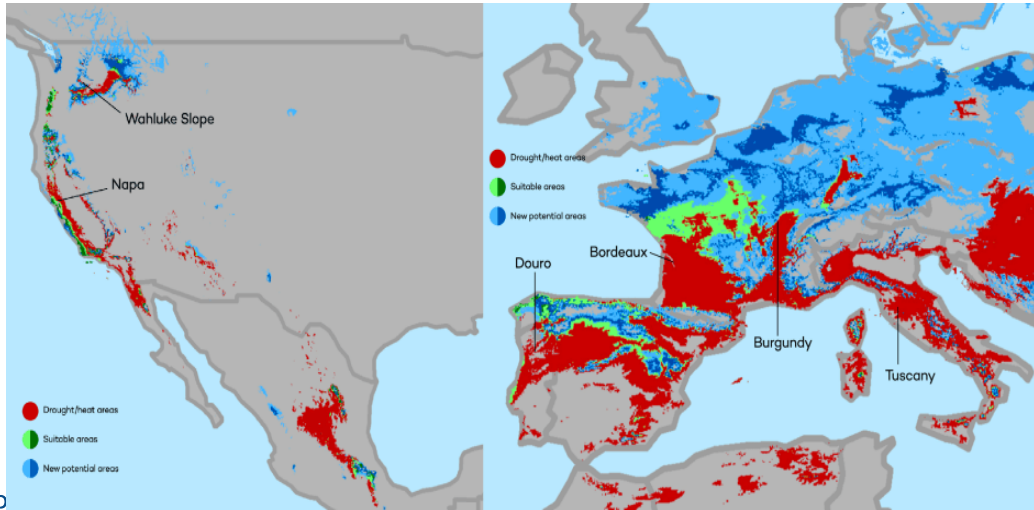
- **Contemporary Economic Policy**
 - **Week 1 (3/7): US Economic Update & Prospects for Inflation**
 - Week 2 (3/14): Climate Change Economics (Sarah Jacobson, Williams College)
 - Week 3 (3/21): Federal Debt (Geoffrey Woglom, Amherst College)
 - Week 4 (3/28): Trade and Globalization (Alan Deardorff, University of Michigan)
 - Week 5 (4/4): Economics of Immigration (Robert Gitter, Ohio Wesleyan Univ.)
 - Week 6 (4/11): The Black-White Wealth Gap (Jon Haveman, NEED)



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Climate Change Economics

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



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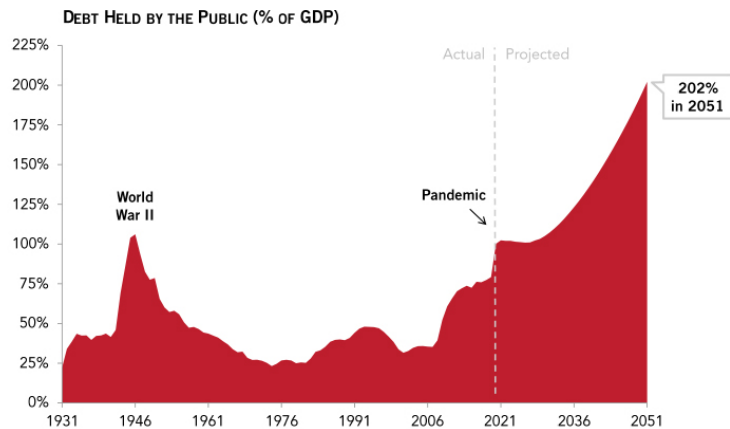
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The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



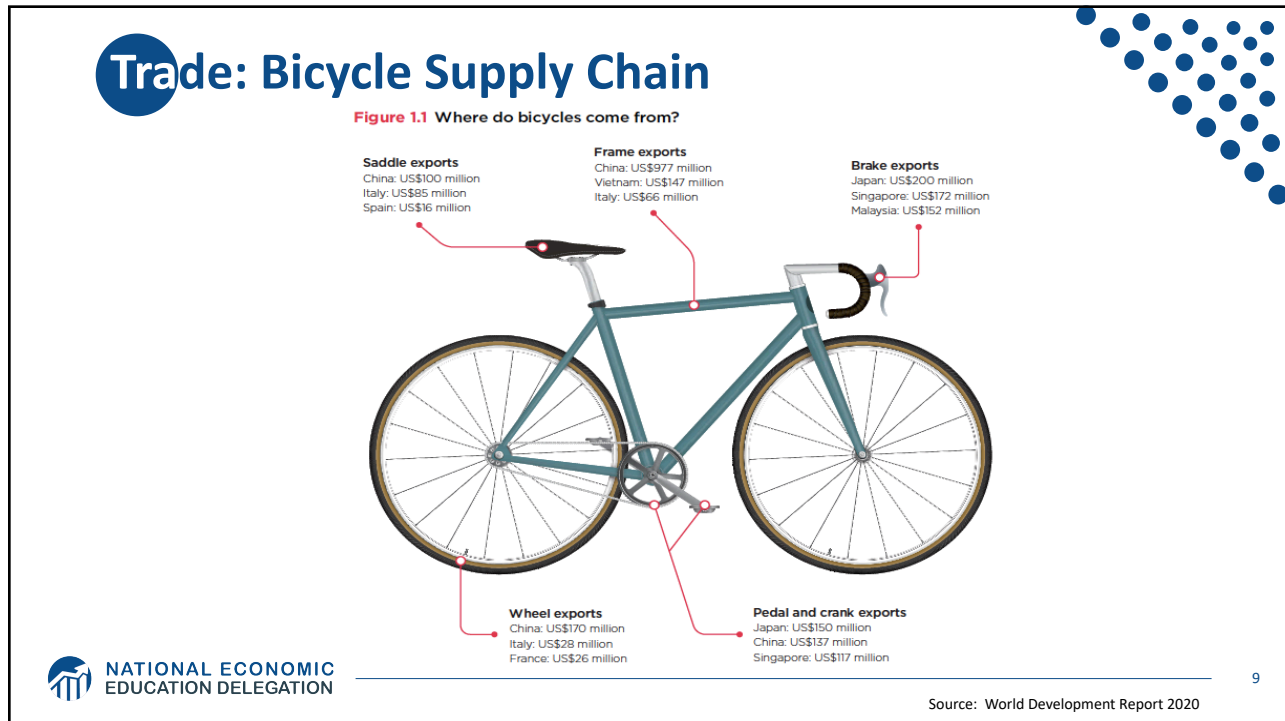
SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.
© 2021 Peter G. Peterson Foundation

PGPF.ORG

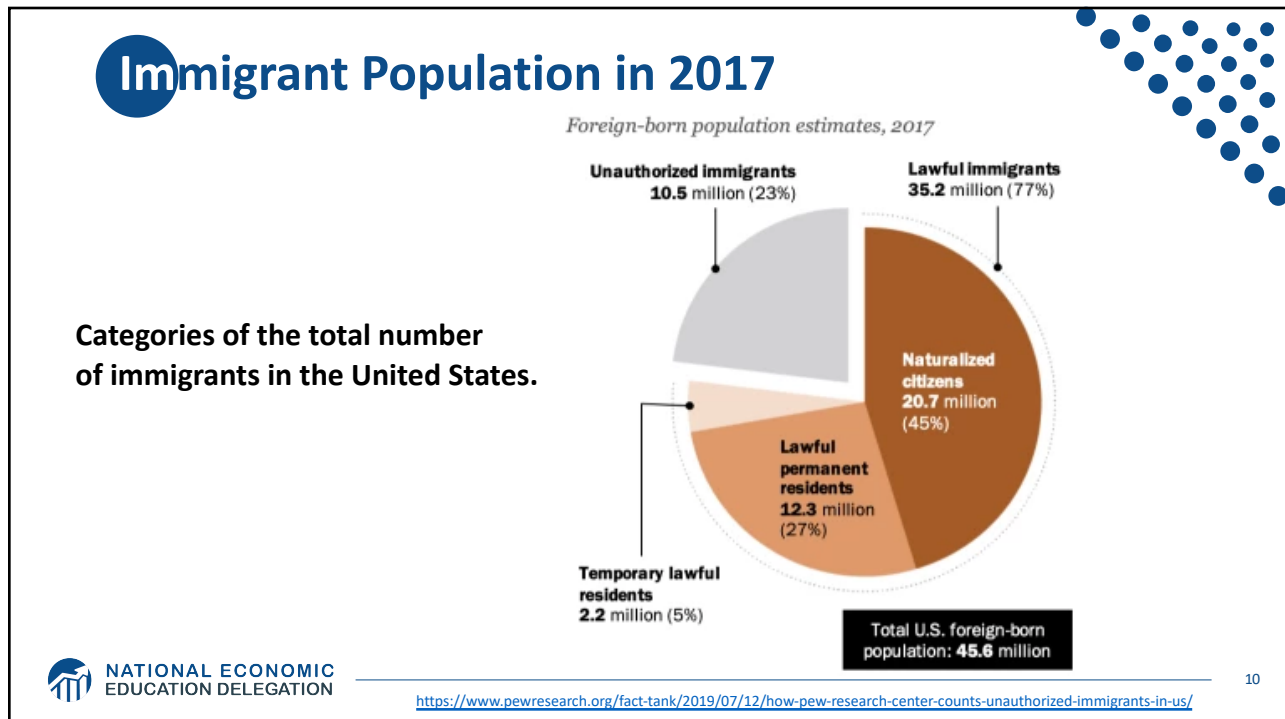
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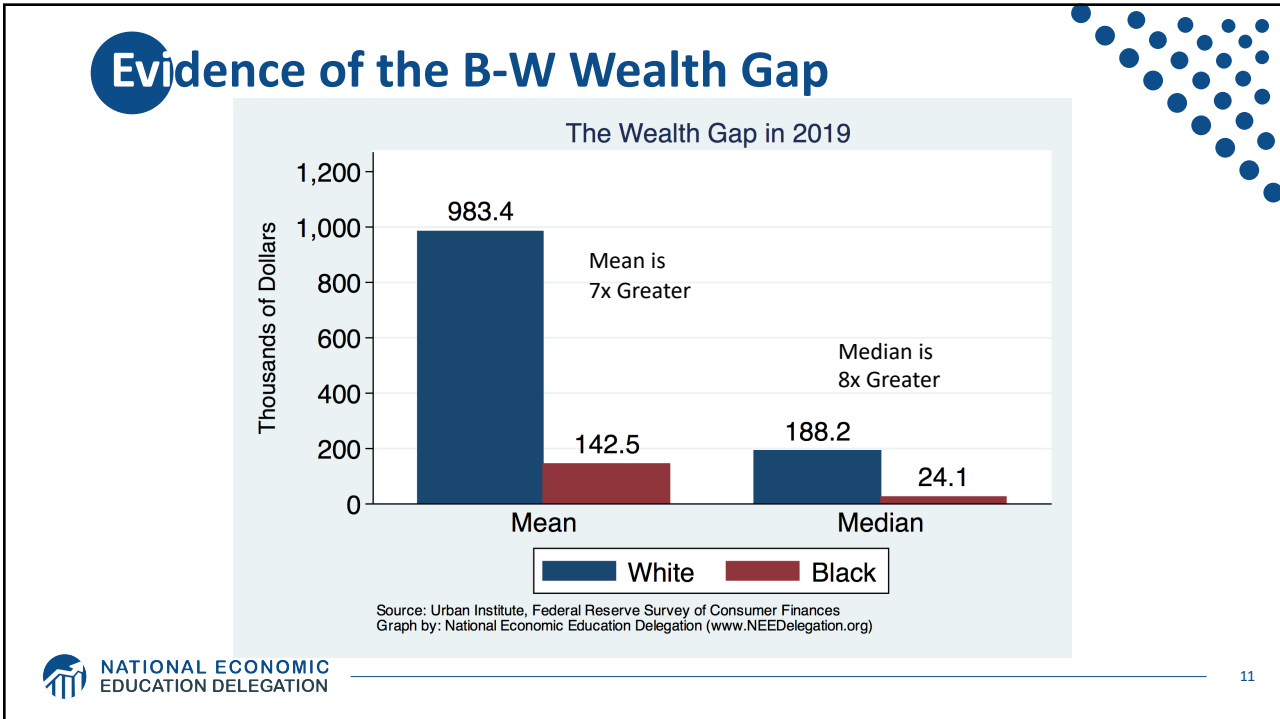
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An Economic Update & the Prospects for Inflation

Bradley University
March 7

Geoffrey Woglom
Professor of Economics, Emeritus
Amherst College

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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://needdelegation.org/delivered_presentations.php)**



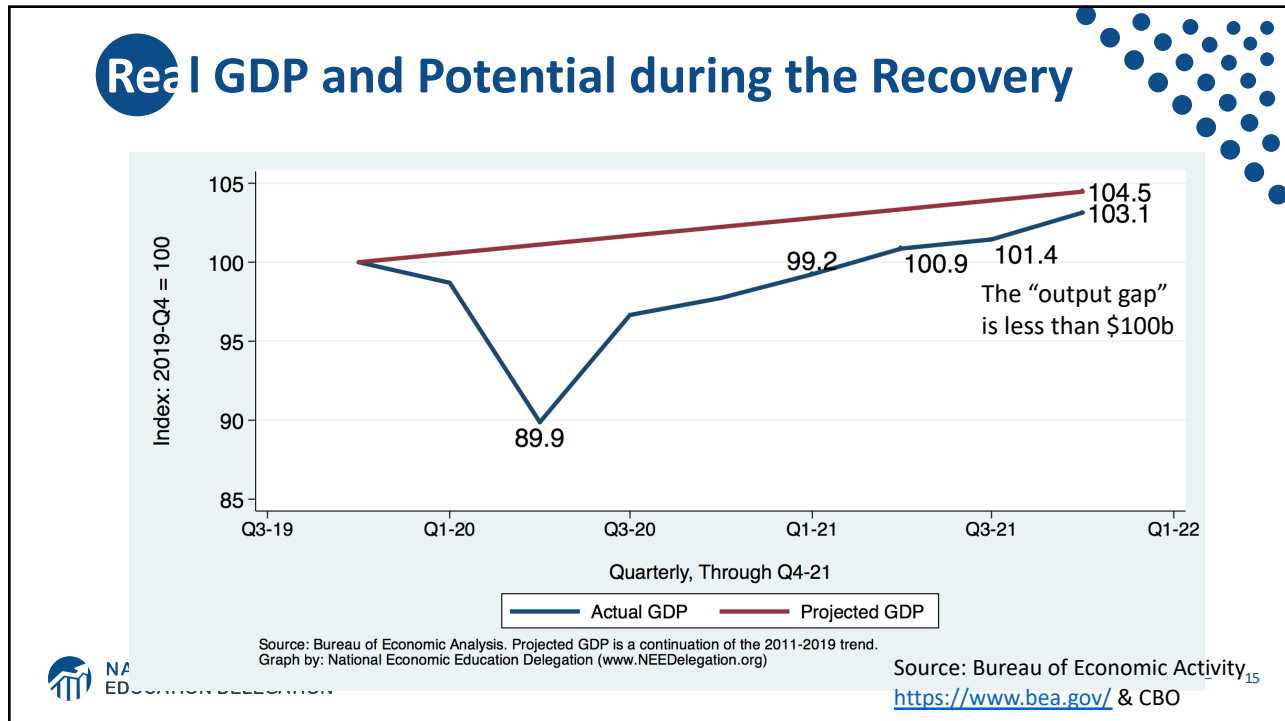
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Outline for the Talk

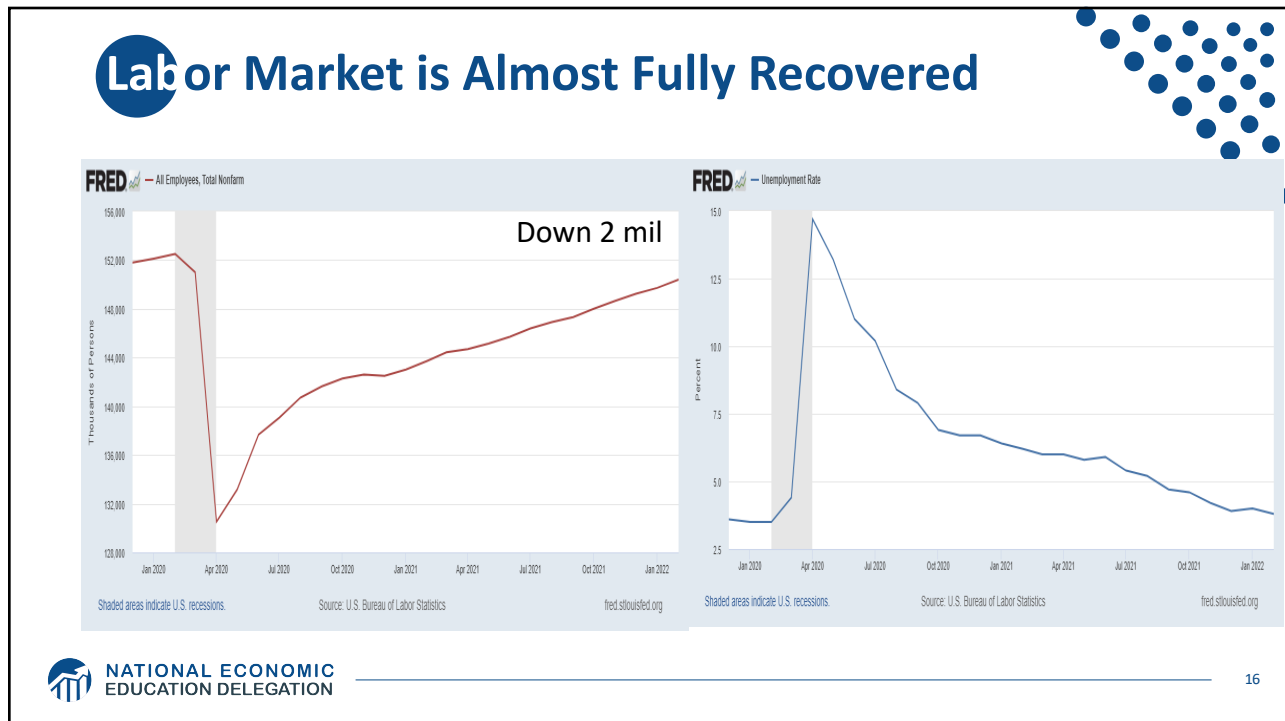
1. **Quick summary of the state of the economy.**
2. **Closer look at inflation and whose to blame (in my opinion).**
3. **What's at stake at controlling inflation.**
4. **Brief thoughts on the effects of the Ukraine crisis.**



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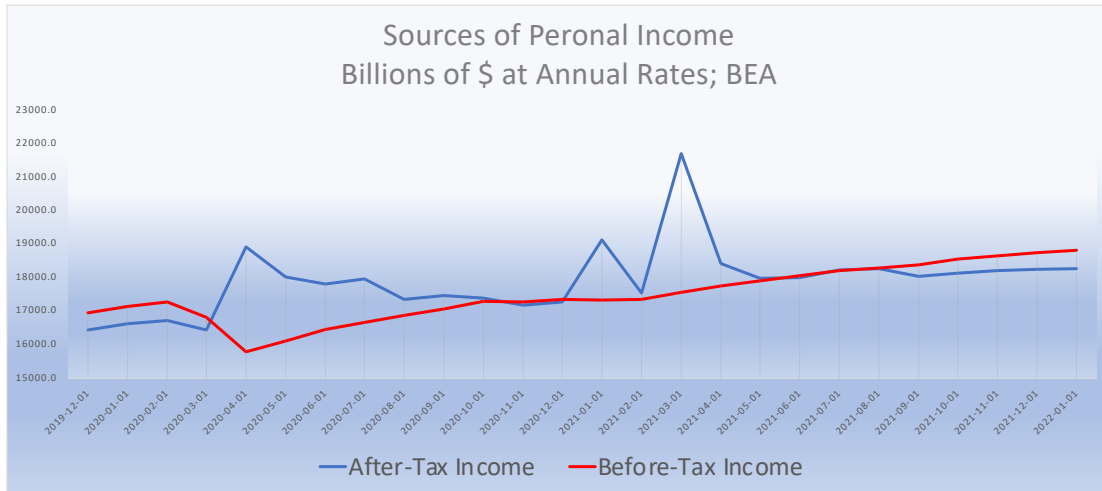


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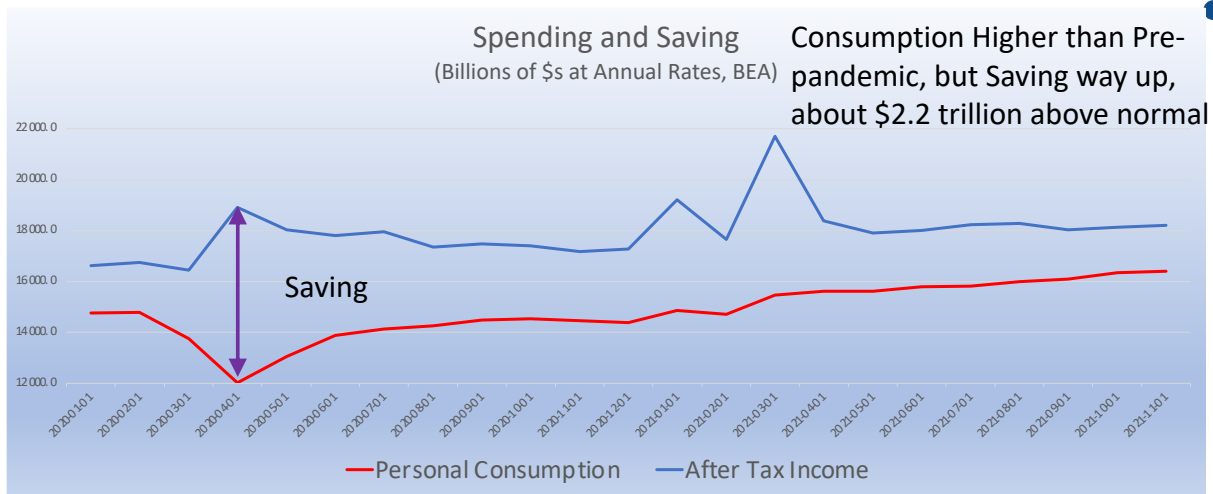
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Fiscally Driven Recovery



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Households Lead the Way



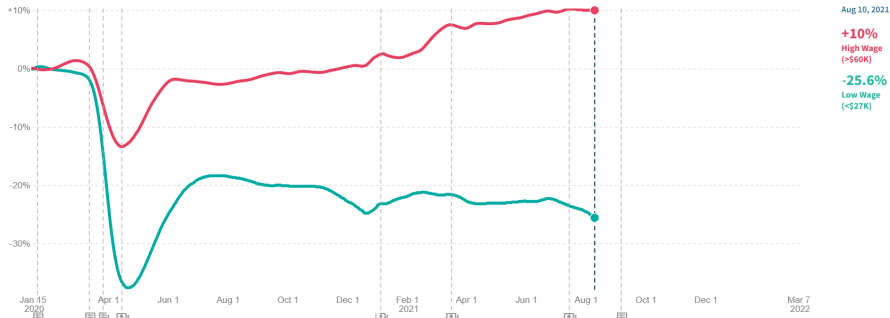
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K-Shaped Recovery

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Percent Change in Employment*

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).



*Change in employment rates (not seasonally adjusted), indexed to January 4-31, 2020. This series is based on payroll data from Paychex and Intuit, worker-level data on employment and earnings from Earnin, and timesheet data from Kronos. 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 Kronos and Paychex data.

last updated: September 24, 2021 next update expected: March 20, 2022

data source: Earnin, Intuit, Kronos, Paychex

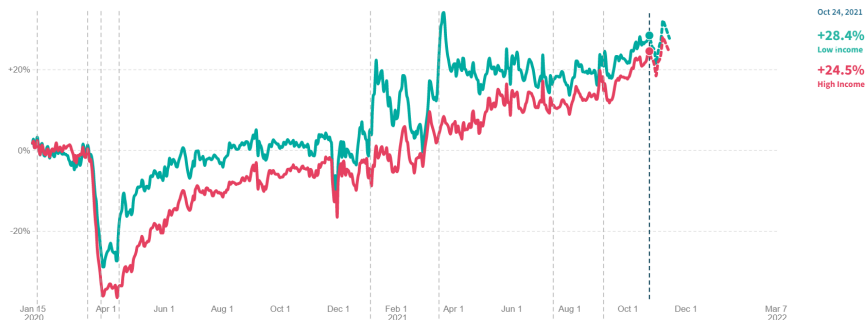
visit tracktherecovery.org to explore

Stimulus Payments Saved Low Income Families

OPPORTUNITY REGIONS ECONOMIC TRACKER HARVARD UNIVERSITY BILL & MELINDA GATES FOUNDATION

Percent Change in All Consumer Spending*

In the United States, as of October 24 2021, total spending by low-income consumers increased by 28.4% compared to January 2020.



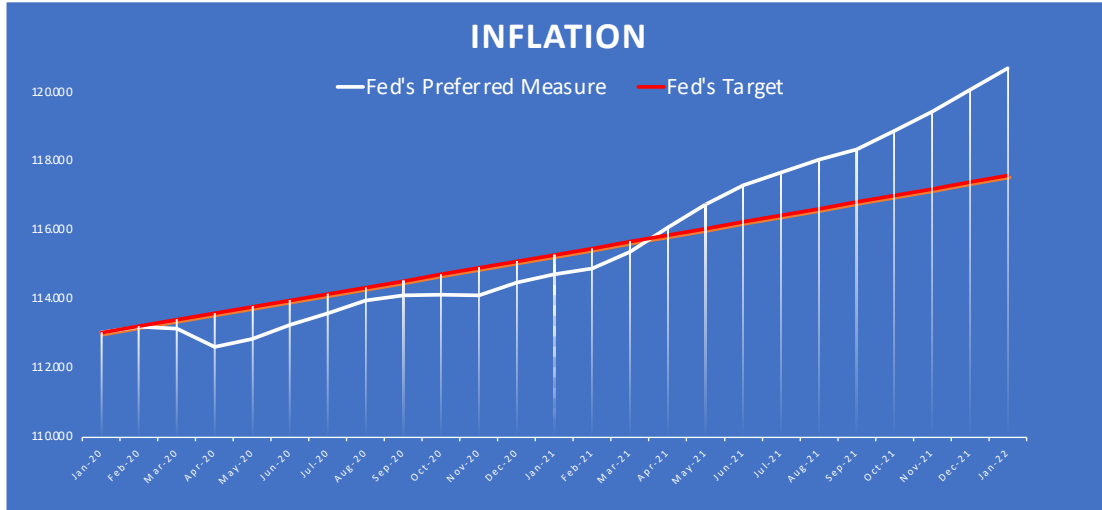
*Change in average consumer credit and debit card spending, indexed to January 4-31, 2020 and seasonally adjusted. The dashed segment of the line is provisional data, which may be subject to non-negligible revisions as newer data is posted. This series is based on data from Affinity Solutions.

last updated: November 24, 2021 next update expected: March 07, 2022

data source: Affinity

visit tracktherecovery.org to explore

Inflation during the Recovery



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Stabilizer in Chief: the Fed



Jerome Powell
February 2018

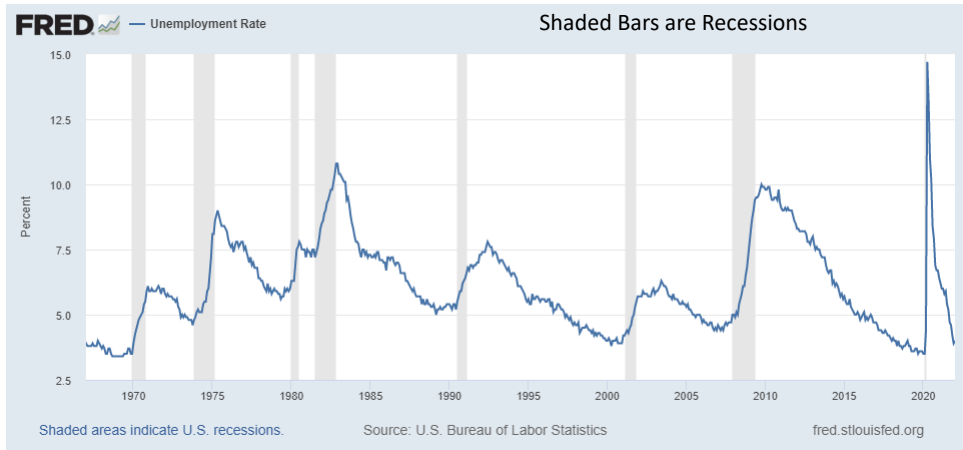
• The Fed's Dual Mandate:

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.

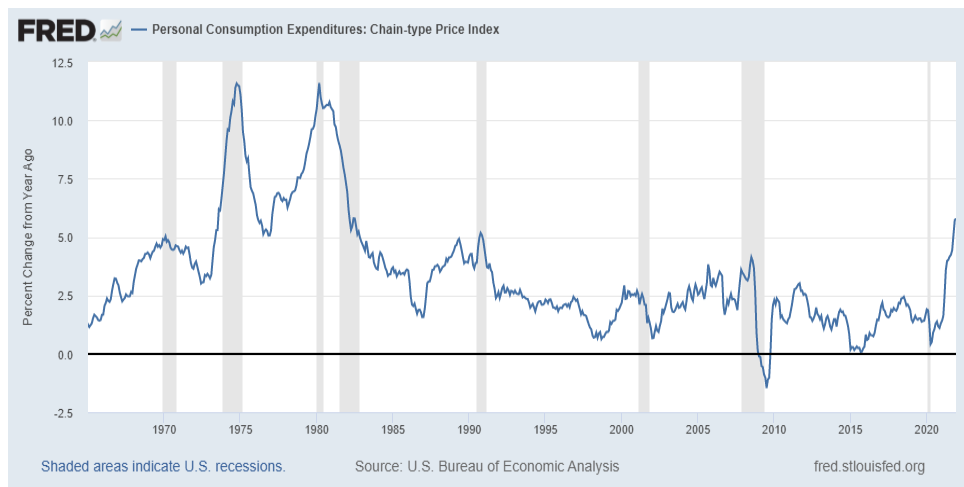
• **Fiscal Policy (taxes and spending, President and the Congress) can affect inflation and unemployment, but it is the Fed's job to achieve the dual mandate**

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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.



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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.**



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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.



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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.



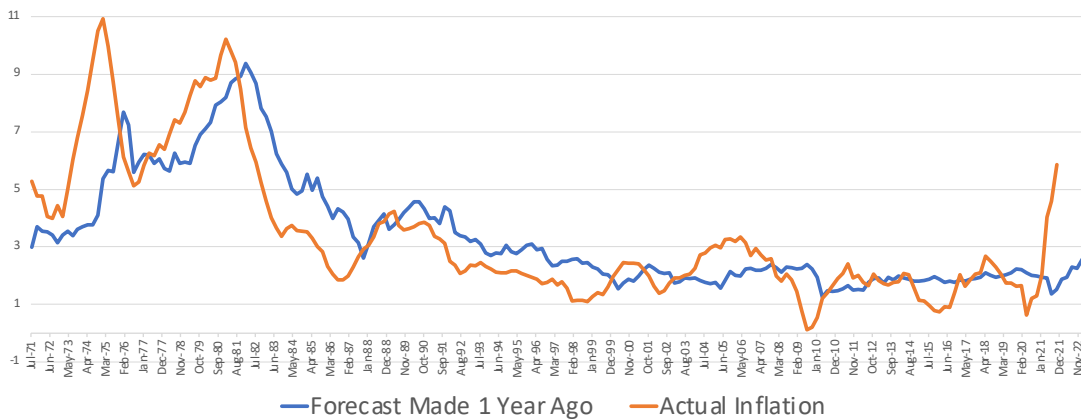
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The Great Moderation

- 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

Expectations and Subsequent Inflation



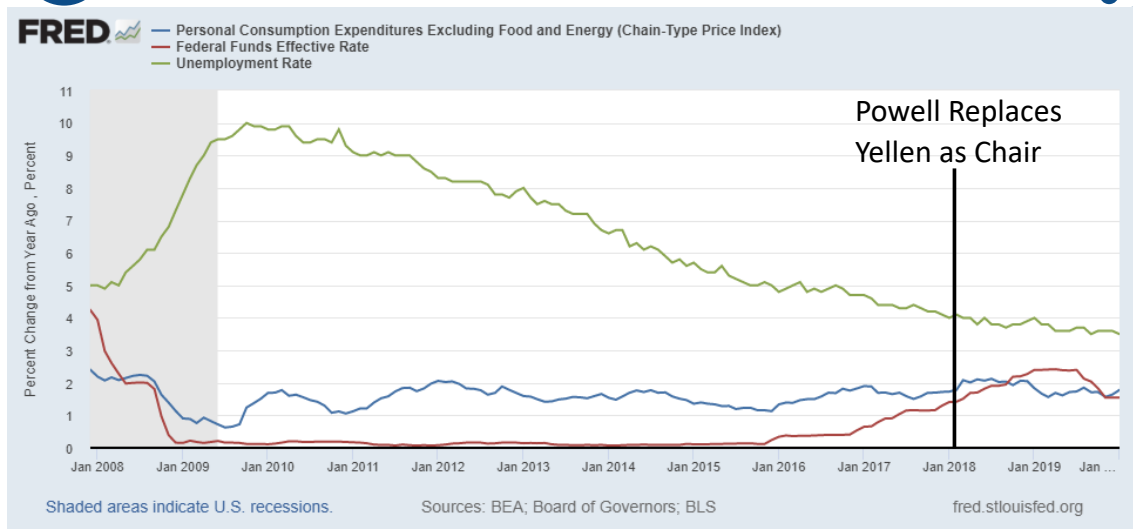
Forecasts: Philadelphia Fed, “Survey of Professional Forecasters”

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.

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Why Did Powell Do It?



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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!

So Far Inflationary Expectations Look Stable

- Professional forecasters, financial markets and the Fed itself think that inflation in 2022 will be in the 2.5-3%, range

| Variable: | Median Fed Forecasts from 12/15/21 FOMC Meeting | | | |
|-------------------|---|------|------|------------|
| | 2022 | 2023 | 2024 | Longer run |
| Unemployment rate | 3.5 | 3.5 | 3.5 | 4.0 |
| Inflation | 2.6 | 2.3 | 2.1 | 2.0 |
| Interest rate | 0.9 | 1.6 | 2.1 | 2.5 |

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



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The Conflict in Ukraine and the US Economy

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



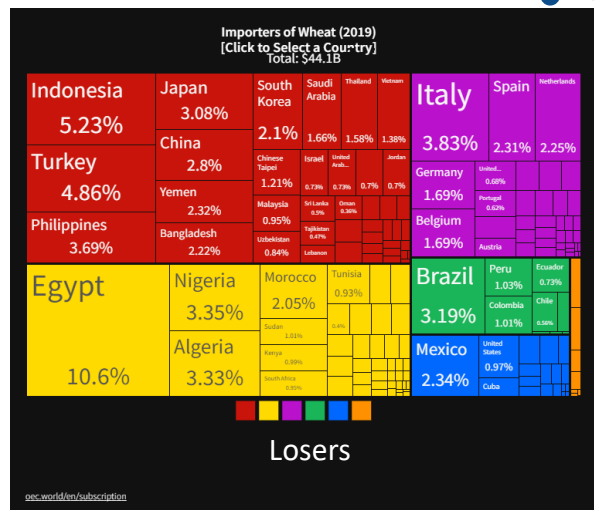
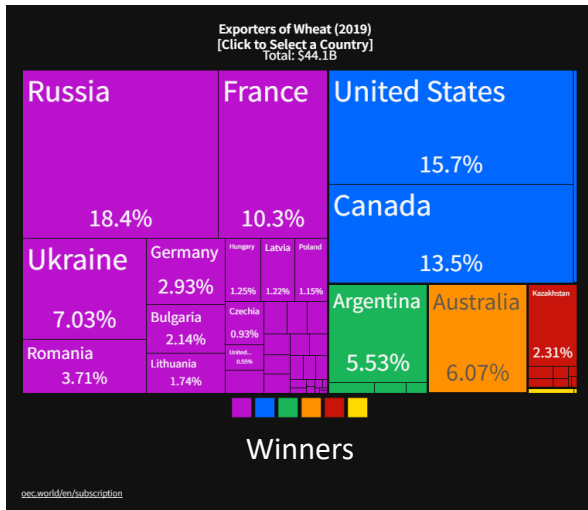
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The Fear Index



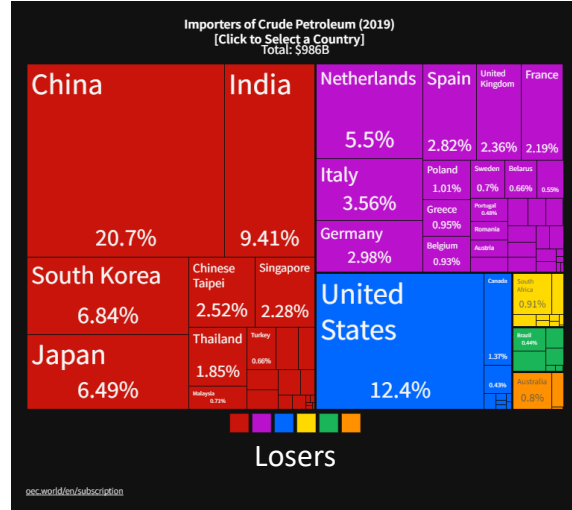
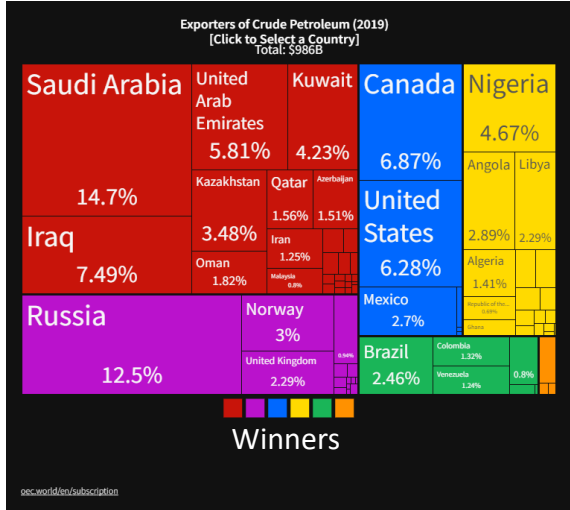
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The Price of Wheat is Likely to Rise (further)

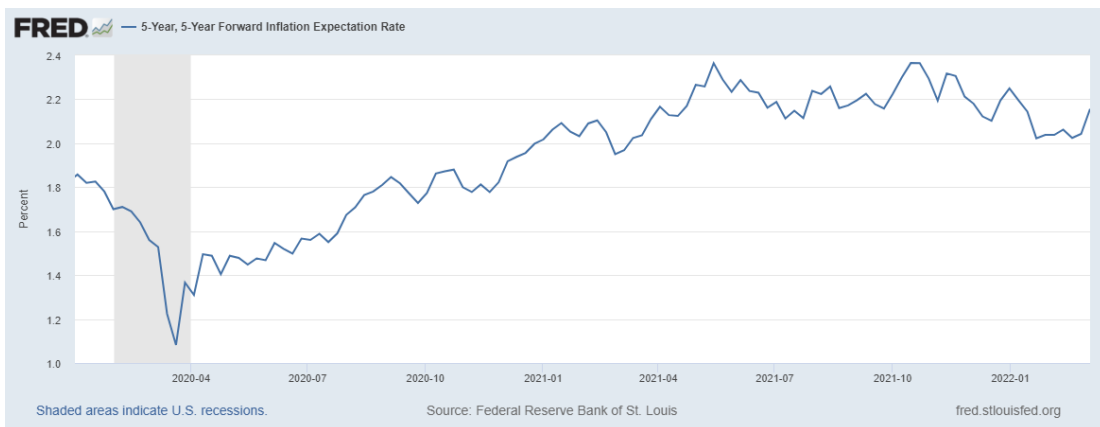


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The Price of Oil is Likely to Rise (further)



Inflationary Expectations Still Stable



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



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Let's Hear from You!

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