Osher Lifelong Learning Institute, Spring 2025

Contemporary Economic Policy Issues

Washington University in St. Louis

Host: Jon Haveman, Ph.D.
National Economic Education Delegation

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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.

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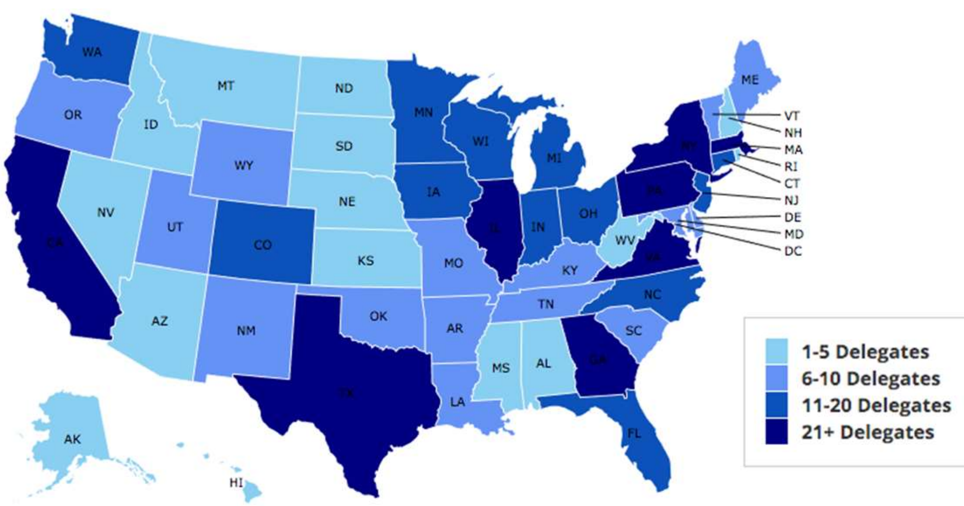
2

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: 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?



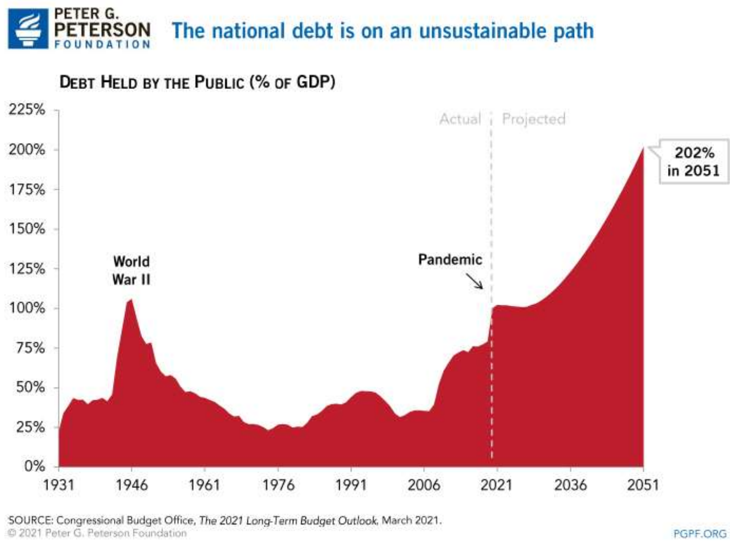
Available NEED Topics Include:

- 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

Course Outline

- Contemporary Economic Policy
  - **Week 1 (4/29): US Economic Update & Tariffs (Geoffrey Woglom, NEED)**
  - Week 2 (5/6): Federal Debt (Geoffrey Woglom, NEED)
  - Week 3 (5/13): Economics of Immigration (Jon Haveman)
  - Week 4 (5/20): Autonomous Vehicles (Jon Haveman)

The Federal Debt is Becoming A Problem



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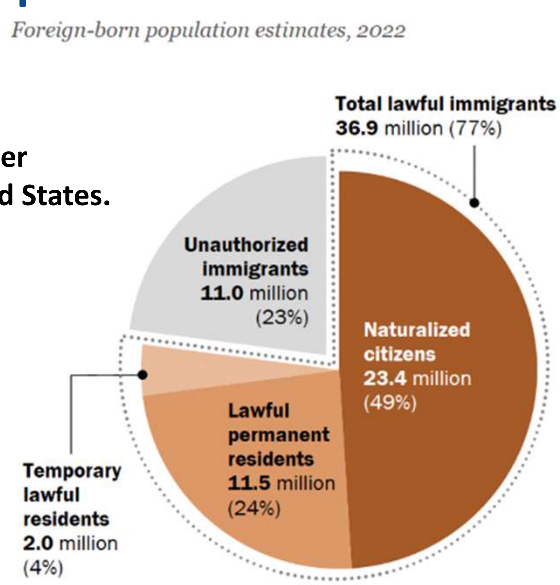
Immigrant Population in 2022



Categories and total number of immigrants in the United States.

Total Foreign-Born Population: 47.9 million

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https://www.pewresearch.org/fact-tank/2019/07/12/how-pew-research-center-counts-unauthorized-immigrants-in-us/

Autonomous Vehicles

Submitting Questions

- Submit questions in the chat or raising your digital hand. I will try to address questions as they come up.
- We will do a verbal Q&A once the material has been presented.
- Slides will be available from the NEED website tonight (https://needelegation.org/delivered_presentations.php).
- My macro site: https://sites.google.com/view/macro-current-issues/economic-update

US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
April 29, 2025

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11

Outline for the Talk

- **Quick Overview of State of the Economy**
- **"Liberation Day" primer on**
  - Tariffs
  - Trade Deficits
- **End with a Review of Key Takeaways (which will be highlighted in red)**
- **Take a 5 minute Break after about 40 minutes**

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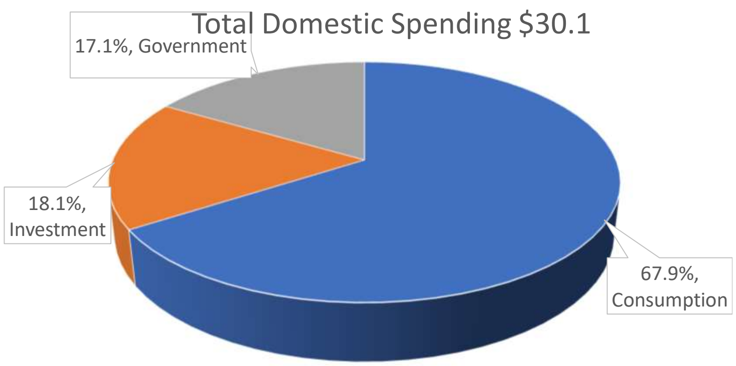
Gross Domestic Product: 2024 = $29.2 tr



$30.1
Less Imports
-$4.1
Plus Exports
+$3.2
Equals GDP
$29.2

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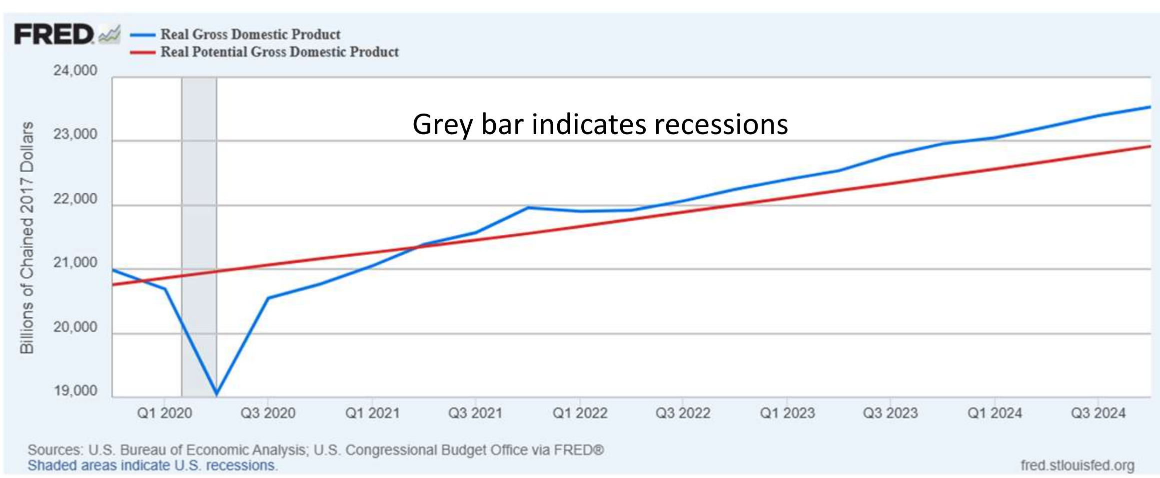
GDP and 'Potential' during the Recovery



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Source: Fred, St Louis Fed

14

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. (Doesn't always work!)

Recessions are caused by a drop in total spending (remember the consumer).

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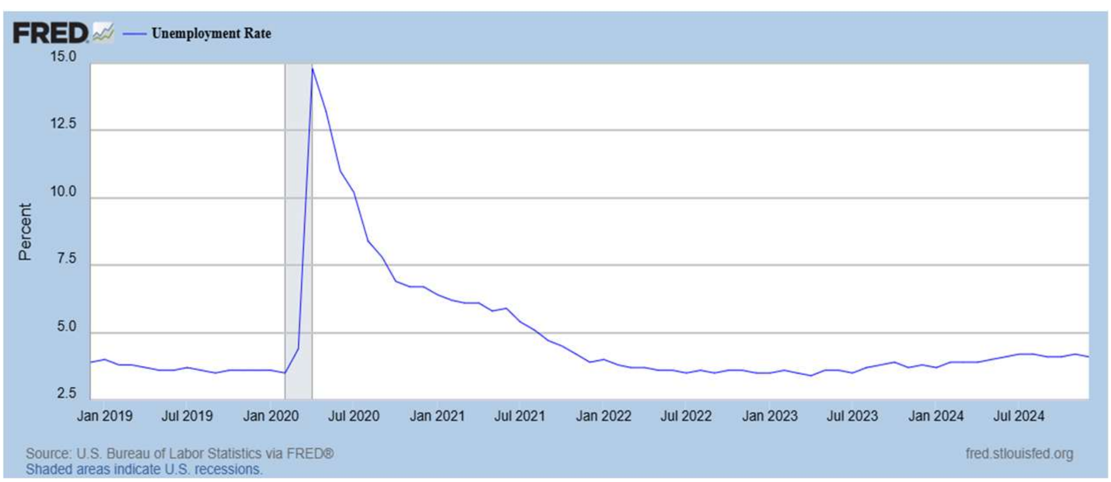
Unemployment is Near Record Lows



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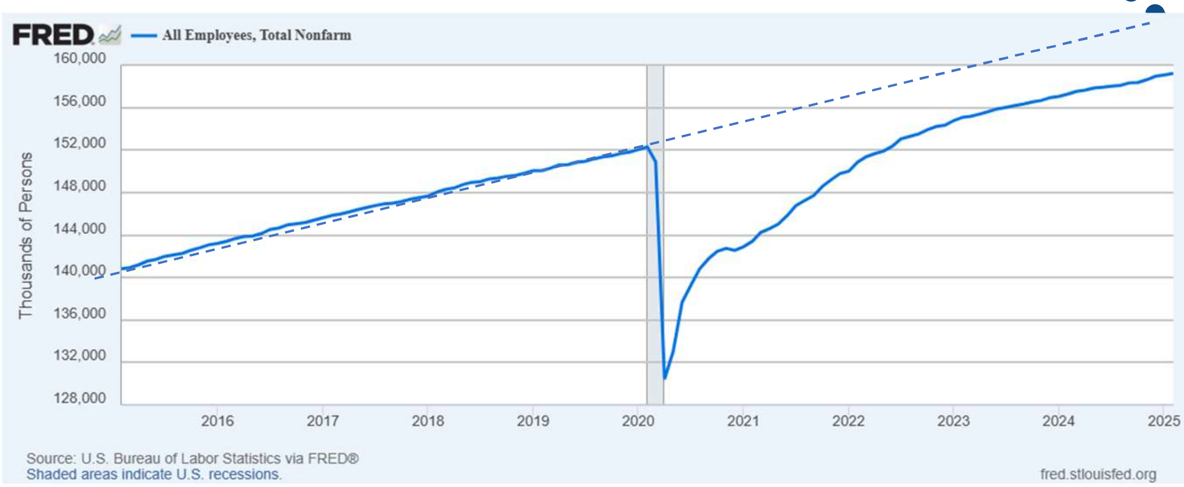
Where Have All the Workers Gone?



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Source: Fred, St Louis Fed

17

The Aging of the Labor Force

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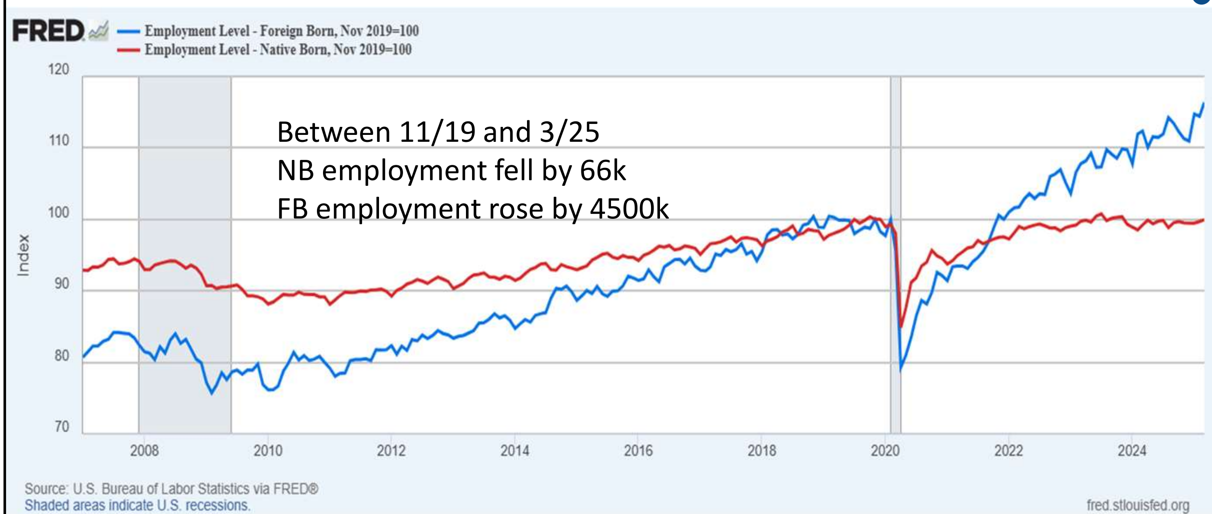
18

Supplemented by Foreign Workers



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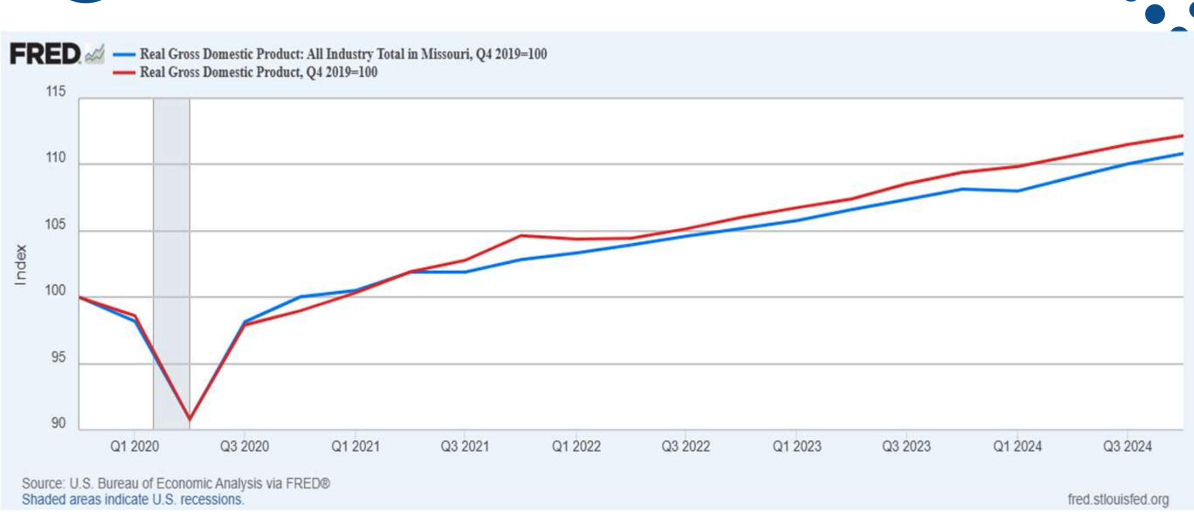
How is Missouri Doing?



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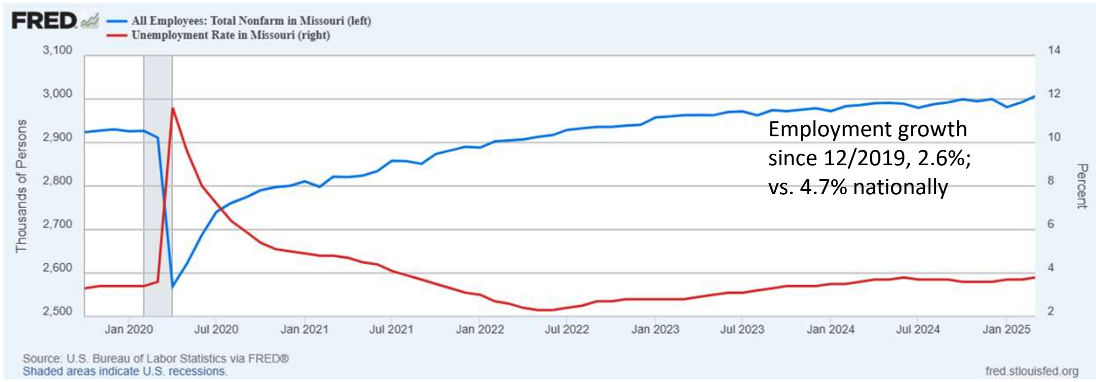
Labor Market in Missouri

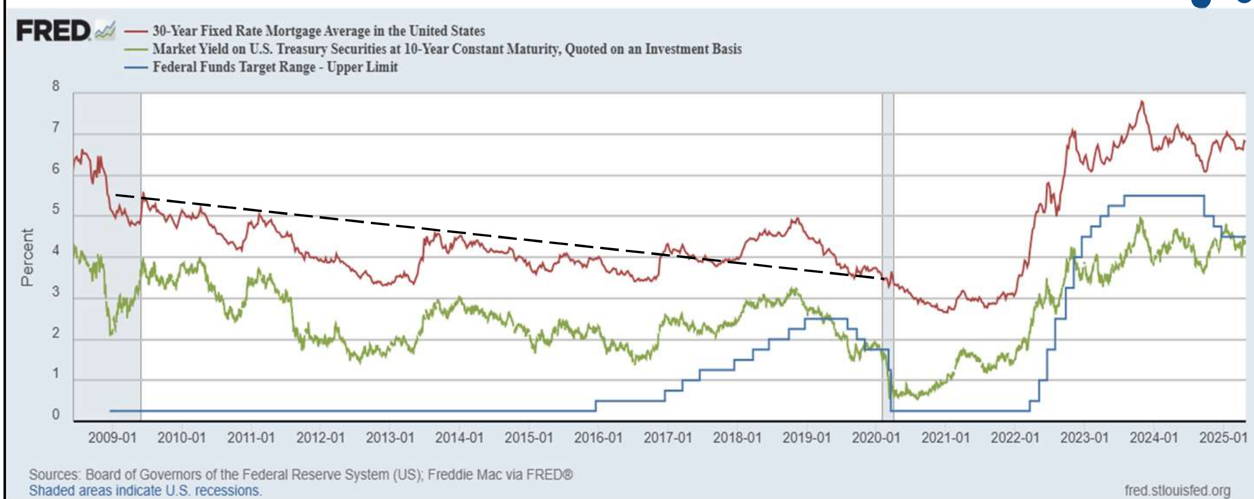


Overall Good News on the Real Side

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.

- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News is pretty good, but progress on inflation seems to have stalled.

Interest Rates: Era of Falling Rates Over?



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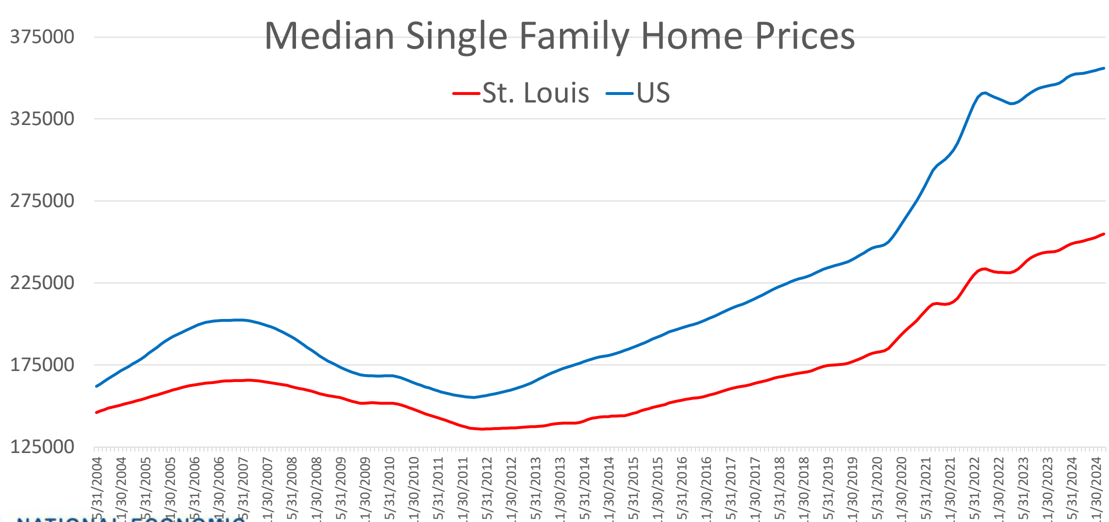
National Housing Market and Closer to Home



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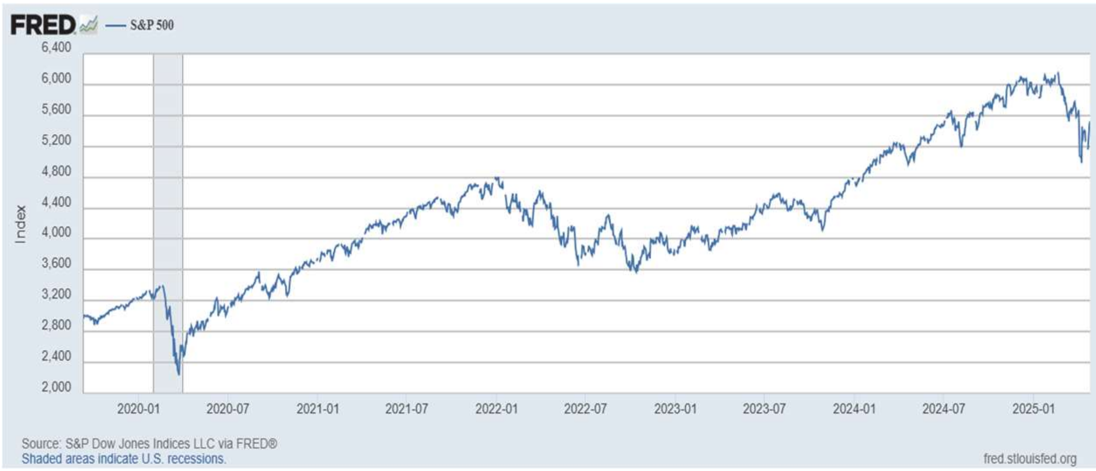
https://www.zillow.com/research/data/

Stock Prices: Don't Look at Your Retirement Acct!



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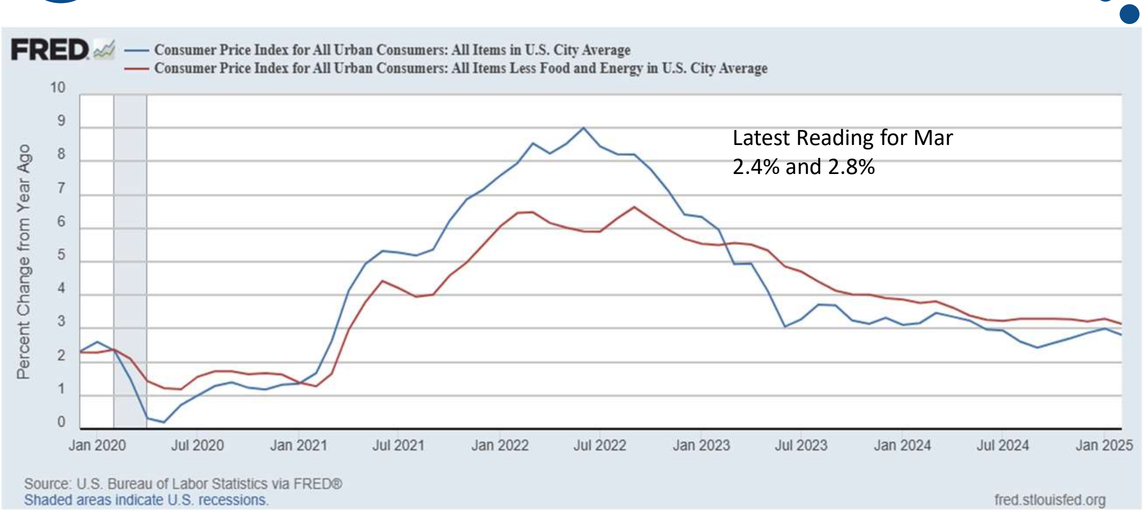
Inflation during the Recovery (CPI)



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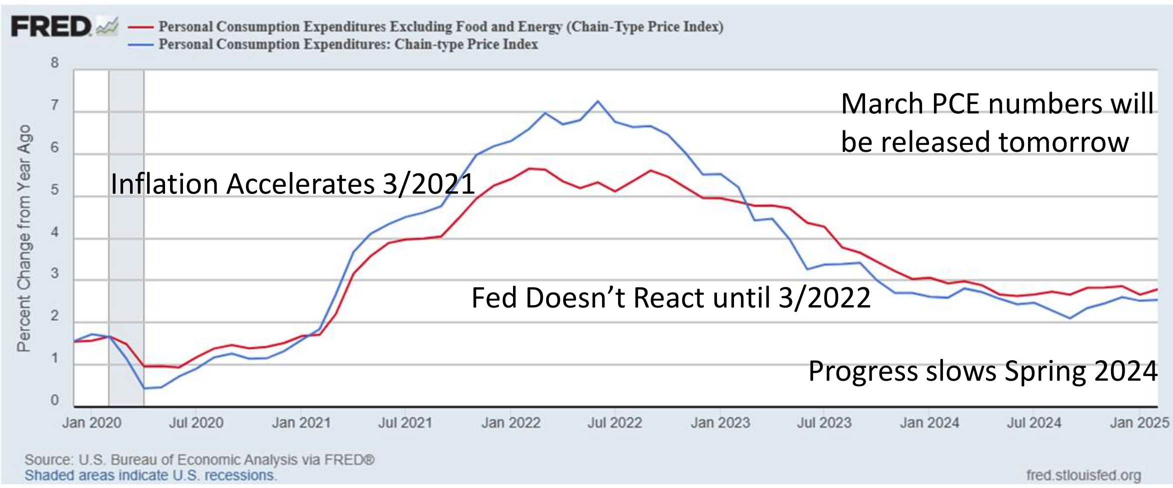
Fed's Measure (PCE)



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CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

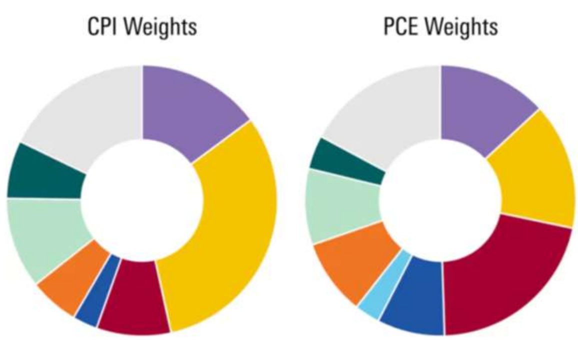
Feb:

CPI, 2.8%

PCE, 2.5%

Core CPI, 3.1%

Core PCE, 2.8%.



Category	CPI	% PCE
Food	15	13
Housing	32	15
Healthcare	9	21
Financial	3	8
Nonprofits	0	3
Recreation	6	9
Transporation	11	9
Energy	7	4
Other	18	17

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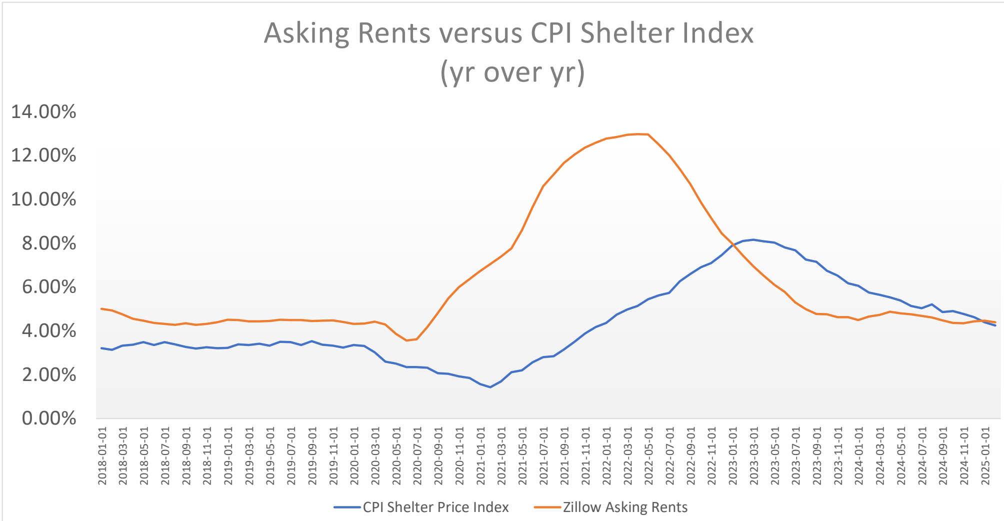
28

https://www.morningstar.com/markets/whats-difference-between-cpi-pce

The Problem with Measuring Housing Costs



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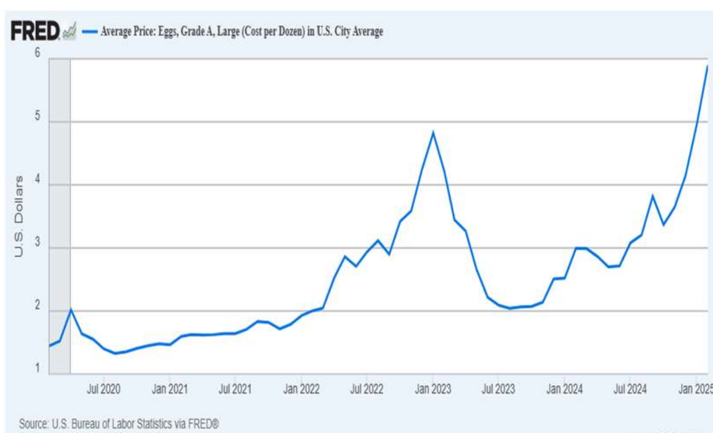
29

https://www.zillow.com/research/data/

Uses of Inflation Measures

Two Reasons for Measuring Recent Inflation:

1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?



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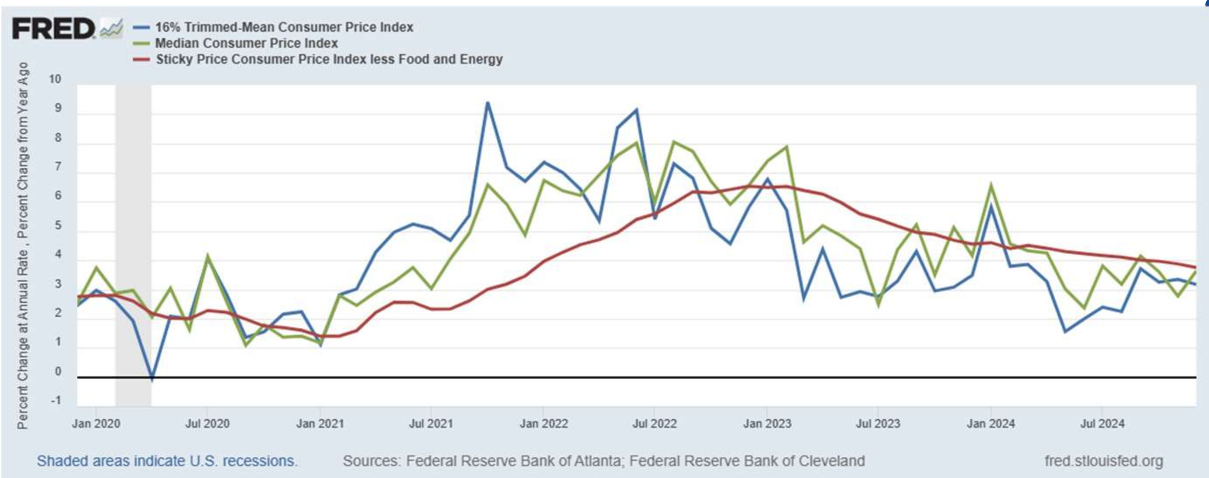
30

Measuring "Underlying" Inflation



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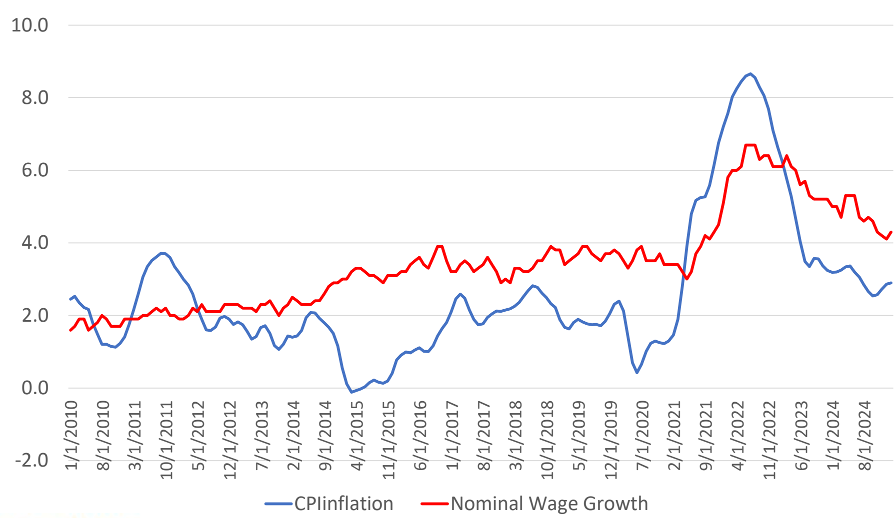
Wages Haven't Kept Pace with Inflation, Yet



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32

Federal Reserve of Atlanta, "Wage Tracker" and BLS

The State of the Economy & Policy Effects

- In terms of output and employment the economy is fully recovered
- Inflation is still a bit elevated, but close to Fed target.

Policy Effects

- Biden Fiscal Stimulus led to a rapid recovery, but may have been too big.
- Fed reacted too little and too late and let inflation get out of control.
- But since Spring 2023, Fed has been close to perfect.

But Dark Clouds Are Looming on the Horizon,

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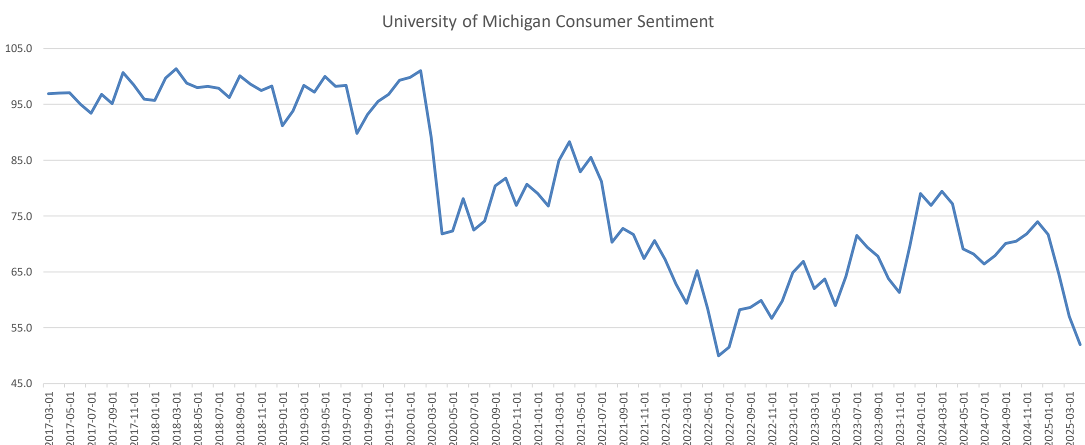
Consumer’s Are Not Happy (2/3rds of GDP)



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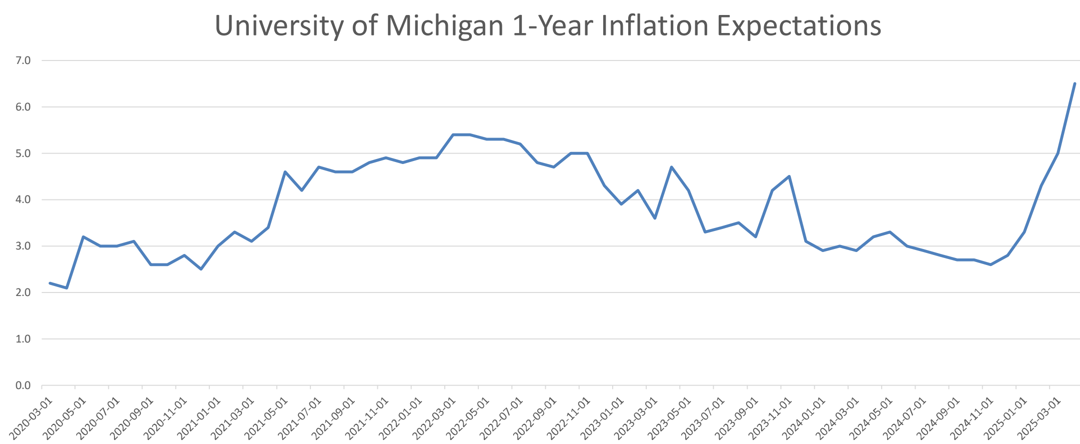
34

They Are Worried about Inflation



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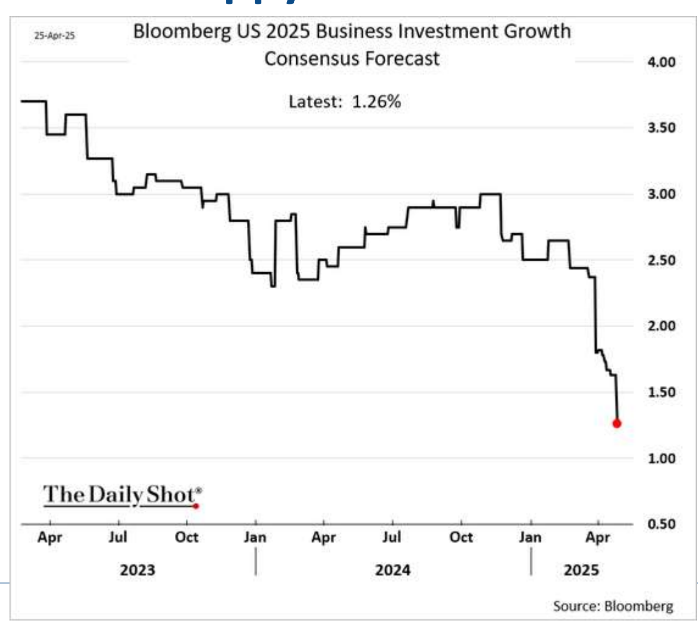
Busineses aren't Too Happy Either



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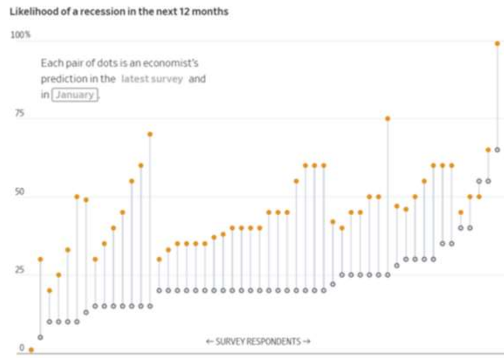
36

Professional Forecasters Are Worried

ECONOMY

Economists Tell Us Their Forecasts for Recession Risk, Growth and Inflation

Our survey shows economists expect slower growth and see a recession as more likely. They were pessimistic a year ago, too, and were wrong.

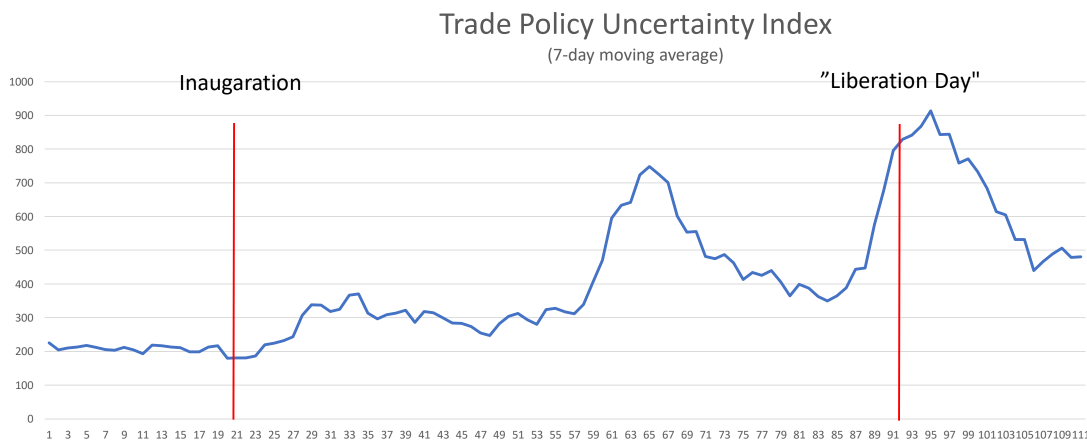


Note: Limited to respondents who provided recession forecasts in both January and April.
Source: Wall Street Journal survey of economists

By Peter Santilli Follow and Anthony DeBarros Follow
April 17, 2025 5:30 am ET

Why the Doom & Gloom

What Was the Source of the Uncertainty?



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https://www.policyuncertainty.com/trade_uncertainty.html

39

A Brief Primer on Tariffs

- ***Tariffs* are a sales tax on imported goods, *collected* from importers**
- **The *burden* of the tariff in general falls on buyers of imports (consumers and firms) to the extent of higher prices and on the foreign country.**
- **Economist don't like tariffs in general because they reduce the gains from trade**
  - More efficient utilization of global resources: Why doesn't Patrick Mahomes mow his own lawn
  - Economies of scale for producing for large markets.
- **Gains to Trade Taken to a New Level with Global supply chains**

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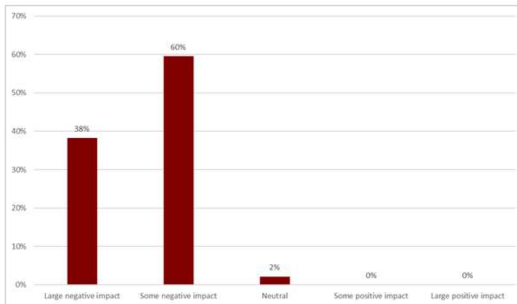
40

I Guess They Didn't Ask Peter Navarro

Question 8: How do you expect the Trump administration's announced policies, if enacted, to affect economic growth in the U.S in 2025?

Number of responses: 47



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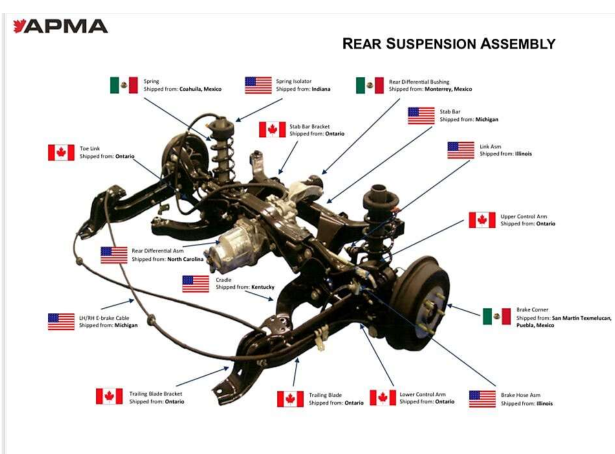
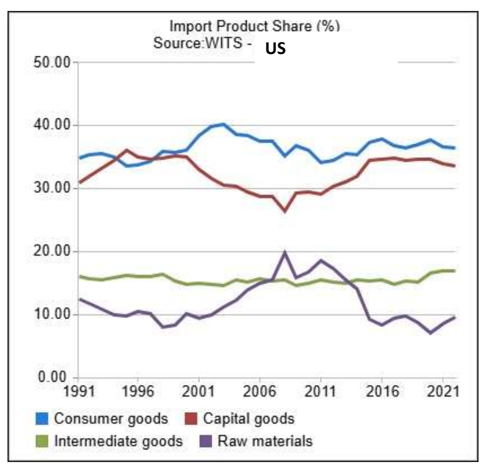
https://www.kentclarkcenter.org/wp-content/uploads/2025/03/RESULTS-2025-03-12-Survey-16.pdf

Gains to Trade with Global Supply Chains





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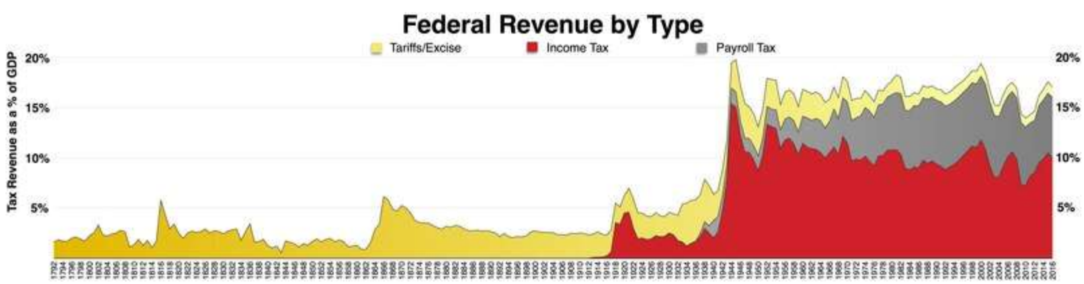
https://www.cato.org/blog/trumps-automotive-tariffs-will-hurt-american-consumers-producers

Possible Economic Arguments for Tariffs

- **Possible arguments for tariffs**
  - National Defense – strategic resource. Do we need the capacity to make our own computer chips, just in case?
  - "Infant" Industry
  - Temporary strategy to reduce foreign tariffs

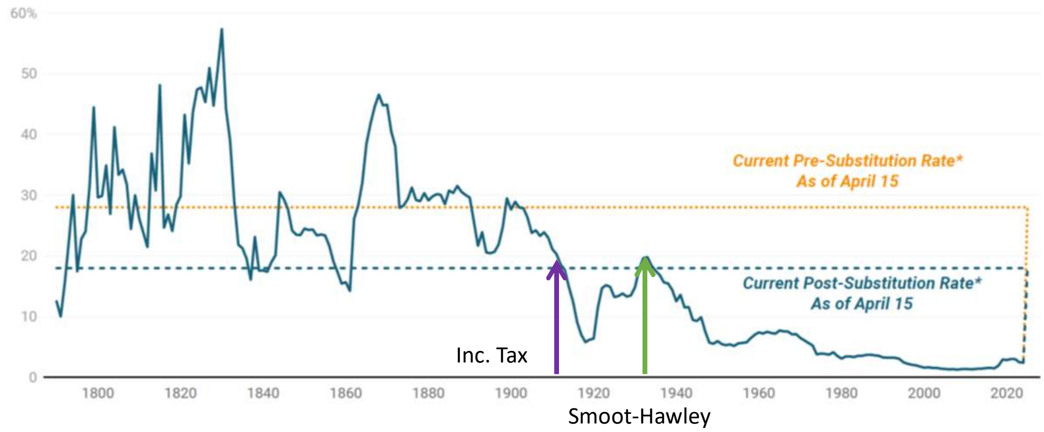
History of the Source of Federal Revenues



1913; Sixteenth Amendment. The Congress shall have the power to lay and collect taxes on incomes, from whatever source derived…
1930; Smoot Hawley Tariff.
1935; Social Security and Payroll taxes.

https://en.wikipedia.org/wiki/File:Federal_taxes_by_type.pdf

History of US Average Effective Tariff Rates



https://budgetlab.yale.edu/research/state-us-tariffs-april-15-2025

The Original Reciprocal Tariffs

- **Reciprocal Trade Agreements Act of 1934**
  1. President has the authority to negotiate bilateral trade agreements allowing for the *reciprocal* tariff *reductions* of up to 50% of Smoot Hawley.
  2. 32 Bilateral trade agreements signed between 1934 and 1945.
  3. Sets a precedent of Congress delegating tariff authority to the President.
- **General Agreement on Tariffs and Trade 1947**
  1. Outgrowth of Bretton Woods – Multilateral reciprocity.
  2. Average tariffs fall from 22% in1947 to 5% in 1999.

https://en.wikipedia.org/wiki/Reciprocal_Tariff_Act

https://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade

World Trade Organization (WTO) 1995

- GATT was only a set of legal agreements and had no organizational structure.
- New trade issues arose, e.g., intellectual property rights, non-tariff barriers to trade.
- More efficient and "binding" dispute resolution.

China joins the WTO in December of 2001.

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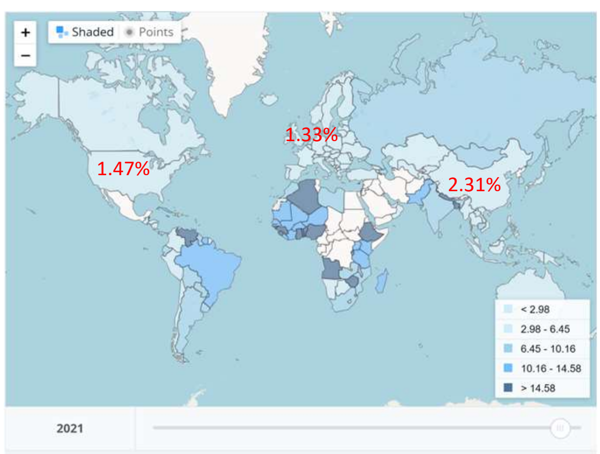
Tariffs in 2021

Key Takeaway:
Tariffs have been generally very low



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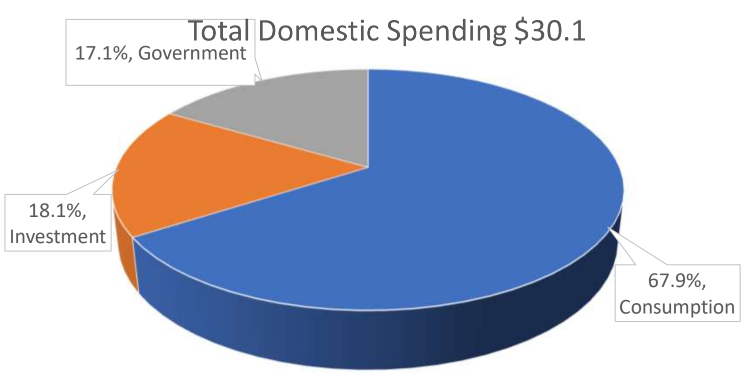
Doesn’t Congress Set Taxes, including Tariffs?

- **Yes, but Congress has delegated the authority to *raise* tariffs 3 times**
  1. 1962: If imports threaten national security following an investigation by the Secretary of Commerce
  2. 1974: If the US International Trade Commission finds that a surge in imports is harming domestic industries
  3. 1977: President declares a national emergency due to “an unusual and extraordinary threat” originating outside the US

President Trump has been claiming tariff authority from 1&3., but is being challenged in courts.

Gross Domestic Product*:* 2024 = $29.2 tr

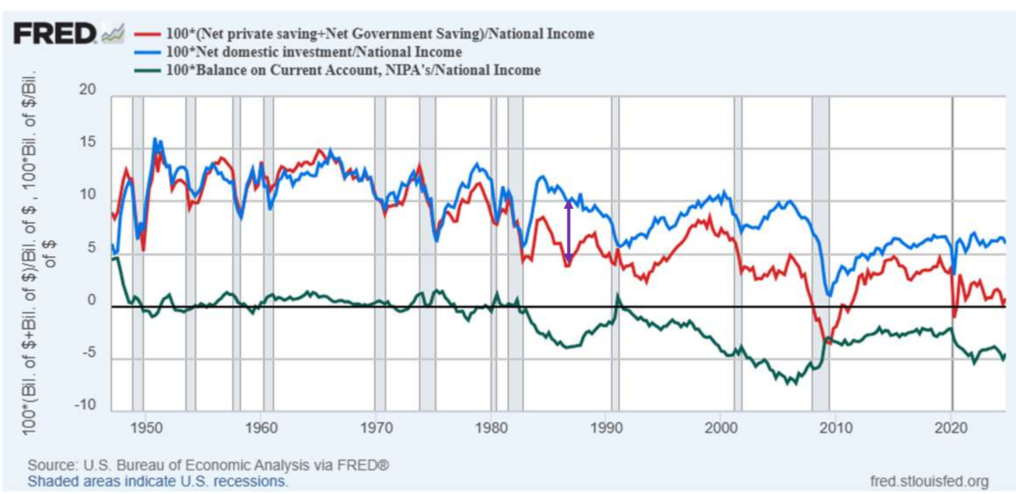


$30.1
Less Trade Deficit
Exports (EX)-
Imports (IM)
$3.2 -$4.1 =$ -0.9
Equals GDP (*Y*)
$29.2

Basic GDP Accounting

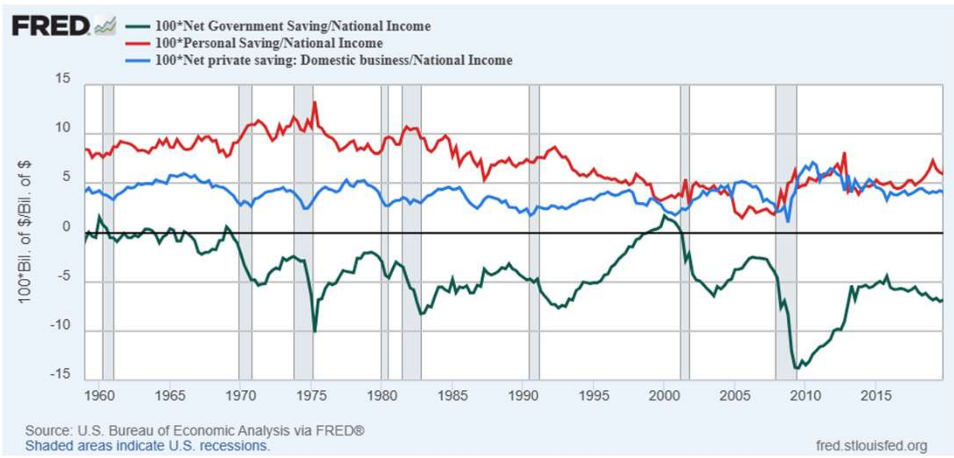
- Trade Deficit is when imports (IM) exceed exports (EX)
- Trade Deficits arise when we spend domestically more than we produce
- *Y - C - I – G = -IM + EX, $29.2-$30.1=-$0.9*
- Useful definition *Y – C – G* is "National Saving" & rearranging;
- *(Y – C - G)– I* = National Saving less Investment = *-IM + EX = Trade Deficit*
- We spend more than we produce when national saving isn't sufficient to finance our investment, so we borrow from abroad.
- Trade Deficit = Borrowing from foreigners = National Saving less Investment.
- Key Takeaway: **Trade Deficits are Associated with an imbalance of national saving and investment**

History of Saving, Investment and Trade Balance



Persistent Trade Deficits Start in the 1980s

Three Components of National Saving



Movements in National Savings are Dominated by Government Deficits

Trade Deficits

- **Remember, trade deficits occur when national saving is insufficient to finance investment.**
- **Three possible causes (not mutually exclusive):**
  1. Low national saving due to government deficits
  2. Low national saving due to low private saving.
  3. High levels of investment.
- **Good Trade Deficits: South Korea from 66-76?**
  - GDP growth averaged around 10%
  - Investment about 25% of GDP
  - National Saving about 22%
  - Government Deficit of about 3%

Good Trade Deficits Allocate International Saving to the most productive investments.

https://www.nber.org/system/files/chapters/c7523/c7523.pdf

US Trade Balance 2022

US with all countries: - Total Imports (IM) +Total Exports(EX) =-$3.4 tr+$2.1 tr = $-1.2 tr

Partner Name	Trade Balance (	Export (US$	Import (US$	Import Partner	Export Partner
China	-421,851,068.76	153,837,022.41	575,688,091.17	17.07	7.46
Mexico	-134,799,887.42	324,377,768.94	459,177,656.36	13.61	15.73
Vietnam	-124,478,427.55	11,398,113.40	135,876,540.95	4.03	0.55
Canada	-91,736,882.34	354,887,051.26	446,623,933.61	13.24	17.21
Germany	-77,858,794.14	72,549,705.24	150,408,499.38	4.46	3.52
Japan	-74,140,635.37	80,304,526.18	154,445,161.54	4.58	3.89
Ireland	-66,550,002.92	15,955,712.86	82,505,715.78	2.45	0.77
Other Asia, nes	-52,365,066.95	43,710,241.52	96,075,308.47	2.85	2.12
Korea, Rep.	-49,389,767.73	71,469,488.66	120,859,256.40	3.58	3.47
Thailand	-47,419,528.09	15,592,499.44	63,012,027.52	1.87	0.76
Italy	-44,464,212.96	27,410,694.46	71,874,907.42	2.13	1.33
India	-43,659,713.14	47,332,140.04	90,991,853.18	2.70	2.30

Partner Name	Trade Balance (	Export (US$	Import (US$	Import Partner	Export Partner
Netherlands	37,274,136.43	72,876,622.27	35,602,485.84	1.06	3.53
Hong Kong, China	20,881,771.61	25,815,866.21	4,934,094.60	0.15	1.25
Singapore	14,022,454.76	46,163,161.05	32,140,706.29	0.95	2.24
Australia	13,692,808.65	30,197,630.66	16,504,822.02	0.49	1.46
United Arab Emirates	13,537,464.12	20,851,481.26	7,314,017.14	0.22	1.01
United Kingdom	12,515,462.34	77,261,013.67	64,745,551.33	1.92	3.75
Brazil	12,207,187.03	53,577,707.16	41,370,520.13	1.23	2.60
Panama	11,481,043.45	12,030,212.44	549,168.99	0.02	0.58
Belgium	8,049,449.29	35,523,380.69	27,473,931.40	0.81	1.72
Dominican Republic	6,710,012.87	13,853,339.85	7,143,326.98	0.21	0.67
Chile	6,526,583.18	23,327,985.47	16,801,402.28	0.50	1.13
Argentina	5,558,851.32	12,850,390.09	7,291,538.76	0.22	0.62

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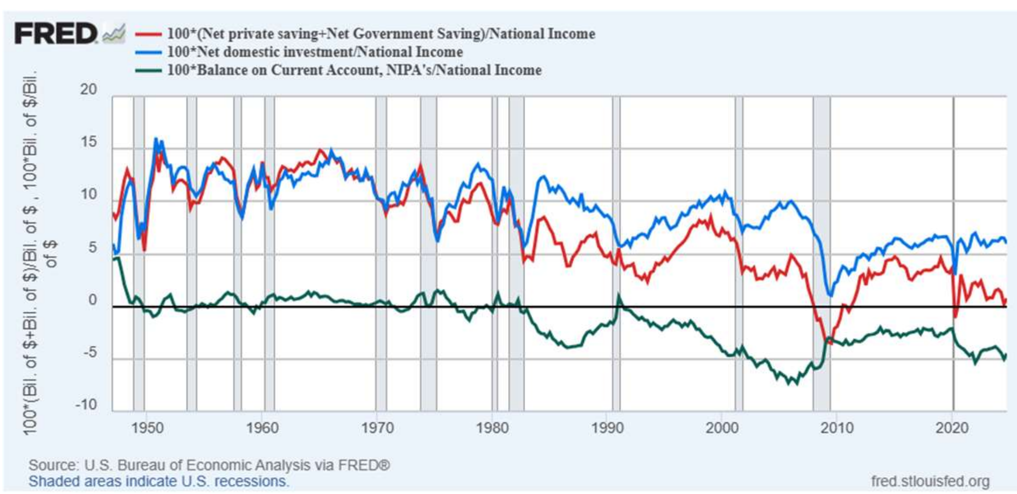
US: Since 2000s, Good or Bad?



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What about the China Shock?

- **2000 Economist View of the Effects of Increasing Trade**
    1. Free Trade leads to more gains than losses
    2. Trade was not the major cause of the decline in manufacturing employment nor in the rise of inequality.
    3. Increasing trade would affect low skilled wages generally and not by trade-exposed workers speciifically.
    4. Worker mobility was high.
- **Given 4, increasing trade should provide gains for most.**

https://www.nber.org/system/files/working_papers/w21906/w21906.pdf

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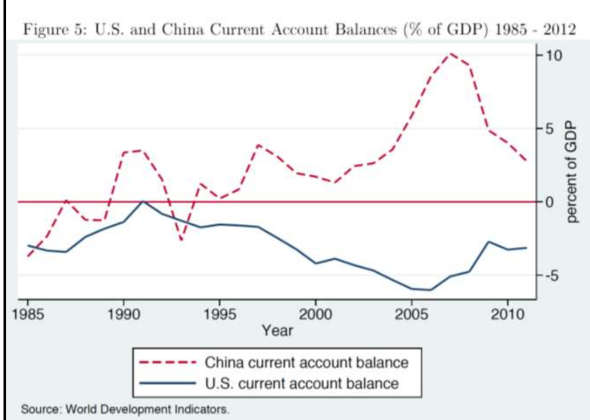
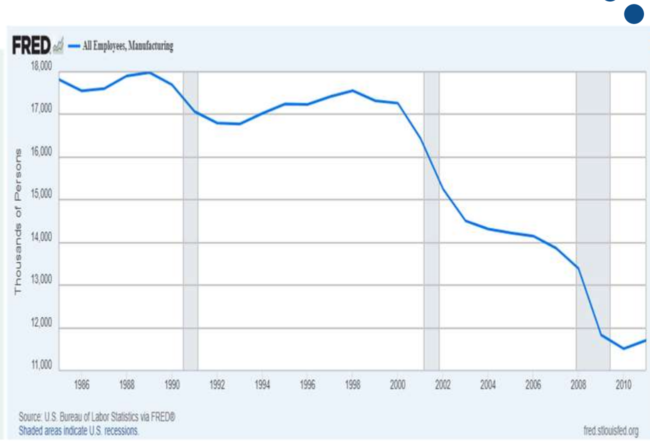
57

The China Shock





Reminder: China Joins WTO in December of 2001

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58

Autor et. al.'s Conclusion

While these results do not at all suggest that international trade is in the aggregate harmful to nations-indeed, China's unprecedented rise from widespread poverty bears testimony to trade's transformative economic power-it makes clear that trade not only has benefits but also significant costs. These include distributional costs, which theory has long recognized, and adjustment costs, which the literature has tended to downplay.

China shock showed that a rapid influx of imports can cause harm that is geographically concentrated and long lasting to communities with import competing industries.

Tariffs and Trade Deficits

- **Remember, Trade Deficits are the mirror image of investment greater than national saving.**
- **For the trade deficit to fall either national saving must rise and/or investment must fall (not what we want).**
- **For national saving to rise**
  - Households and businesses must save more, or
  - The government deficit must fall.

So, What Do Tariffs Do?

- **Tariffs do increase national saving by raising revenue, but also**
- **Decrease the demand for the goods subject to the tariff, which**
- **Increases the value of the dollar, thereby**
  - Lowering our exports as domestic goods cost more to foreigners.
  - Offsets some but not all of the effect of the tariff on total imports, as non-tariffed imports are cheaper.
- **Net Effect (first approximation)**
  - Exports fall, **Total Imports** fall, and the change in the trade balance is solely due to reduced government deficit.
  - Composition of imports changes while the relative share of non-tariffed imports rises.
  - Winners and Losers and rent seeking?

Trump "Reciprocal" Tariffs

Suspended for 90 days

- **Easy Peasey – Charge the rate country imposes on us.**
- **Complications**
  - Non-tariff barriers, strict labeling requirements, state procurement policies.
  - Exchange rate policy that leads to undervalued currency.
  - ***Not***, Value Added Taxes
- **Complicated and Controversial, but *NOT* what was done.**
- **Instead, half of the bilateral trade surplus with the US divided by total exports to the US 0.5(EX-IM)/EX.**

Example, Lesotho (2022 data)

(EX-IM)/EX=
($236m-$7m)/$236m=0.97

"Reciprocal" Tariff = 0.5(.97)= .485,

49% tariff rate (actually, 50%)

Facts about Lesotho:

GDP/Pop =$1,073;

Population 2.1 million

Overall Trade Balance -$349 million

Average eff. tariff rate against US = 10%

https://wits.worldbank.org/CountryProfile/en/USA

https://www.imf.org/en/Publications/WEO/weo-database/2024/October

More Generally

- Bilateral Trade Surplus, by itself, doesn't have much economic significance, and certainly doesn't have any general relationship to the level of tariff or non-tariff barriers.
- Pastrick Mahomes runs a trade deficit with the teenager who mows his lawn!
- Is the teenager "ripping off" Patrick Mahomes.

China may be the exception.

Tariffs as of April 15

Current Tariffs

U.S. Tariffs	Retaliatory Tariffs
20% broad tariff on all Chinese imports (effective February 4; increased March 4)	China 10%/15% list (announced February 4)
10% tariff on Canadian potash and energy (effective April 2)	Canada 25% list (announced March 4)
25% tariff on all Mexican imports and other Canadian imports* (effective March 4)	China 10%/15% list (announced March 4)
25% tariff on all automobiles, with an exemption for US content** (effective April 3)	Canada 25% list (announced March 13)
25% tariff on all steel and aluminum imports	China broad 125%

U.S. Tariffs	Retaliatory Tariffs
Modified April 2 announcement: 10% minimum tariffs on all countries ex. China, Canada, & Mexico; 125% tariff on China (effective April 9, modified April 9, 90-day duration)***	China suspension of exports of minerals and magnets (announced April 11)****

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Source for this and following slides:
https://budgetlab.yale.edu/research/state-us-tariffs-april-15-2025

Estimated Macro effects

- **Tariff Revenue 2026-2035: between $2.4 and $1.8 trillion**
- **2025 growth in GDP falls by 1.1 percentage points.**
- **Change in the Price *Level* 3.0 points.**
- **2 Estimates of Average Effective Tariff Rates**
  - No substitutton effects – 25.6% (Chinese imports 14% of total)
  - Substitution effects – 15.6% (Chinese imports fall to 3% of total!)

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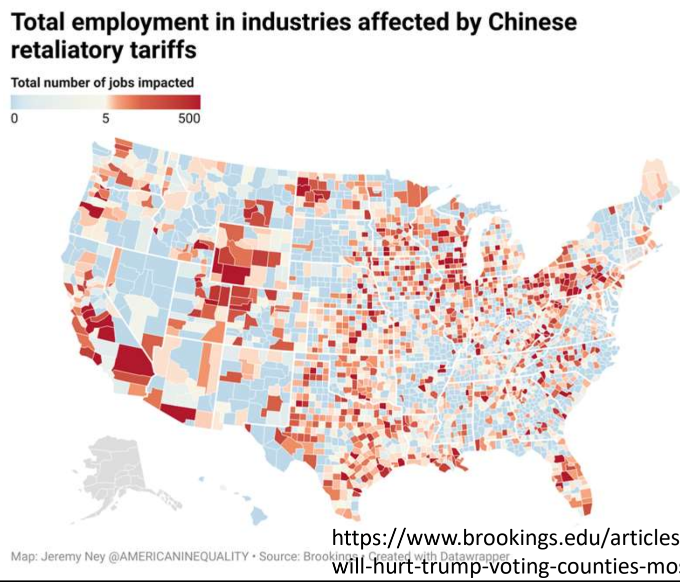
Retaliation by China



https://www.brookings.edu/articles/chinas-retaliatory-tariffs-will-hurt-trump-voting-counties-most/

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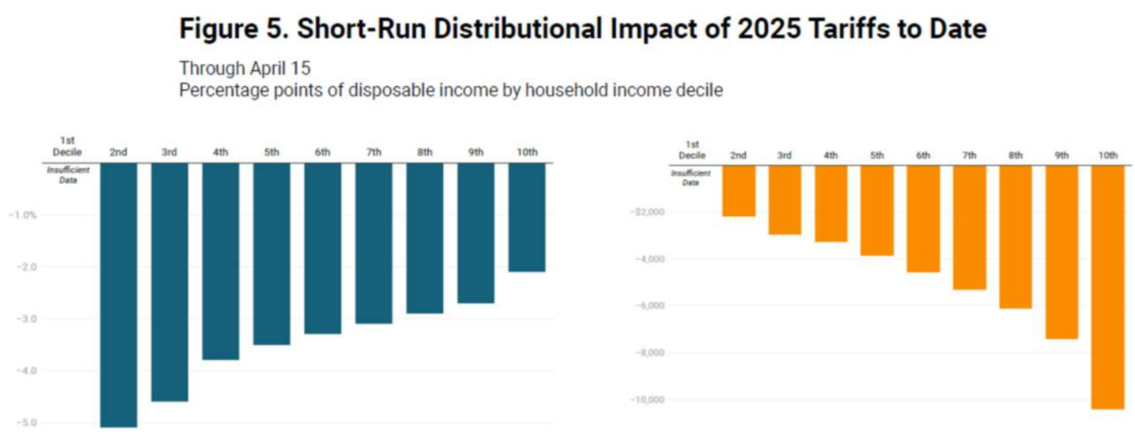
Distributional Effects



Poor hurt relatively the most, "regressive" tax

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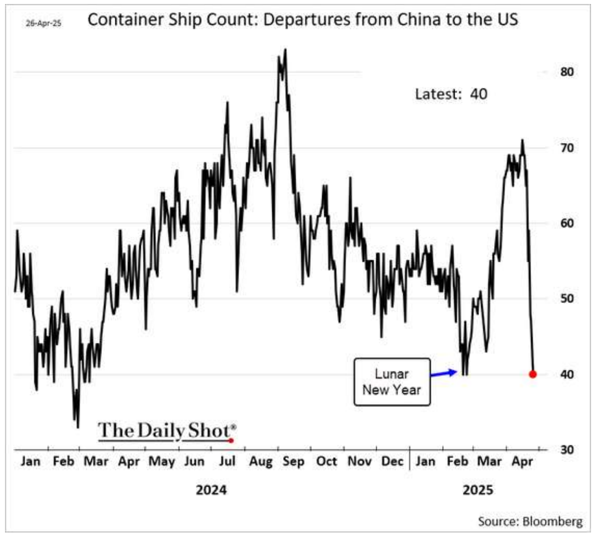
68

You Can't Turn the Effects of Tariffs On & Off



Yes but it Lowers the Deficit, Raising National Saving

- $2.4 to $1.8 trillion over ten years in perspective.
- Non-partisan Joint Committee on Taxation recently estimated that the Republican tax plans including extending 2017 tax cuts will raise deficits by $5.5 trillion over the next ten years.
- Are spending cuts the size needed to prevent rising deficits likely?

https://punchbowl.news/wyden_merkley_neal_boyle_release_new_estimate_of_republican_tax_planpdf/

Limitations & Ominous Mystery

- How do you estimate Effects of Policy Changes that haven't been seen in nearly 100 years?

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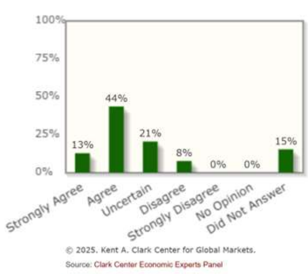
Interpreting Those Signals

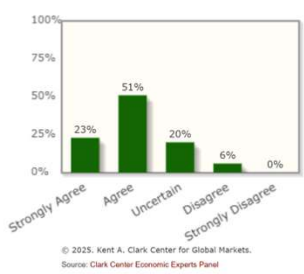
Question B:

The recent volatility in Treasury market prices is primarily due to concerns about US macroeconomic prospects.

Responses



Responses weighted by each expert's confidence



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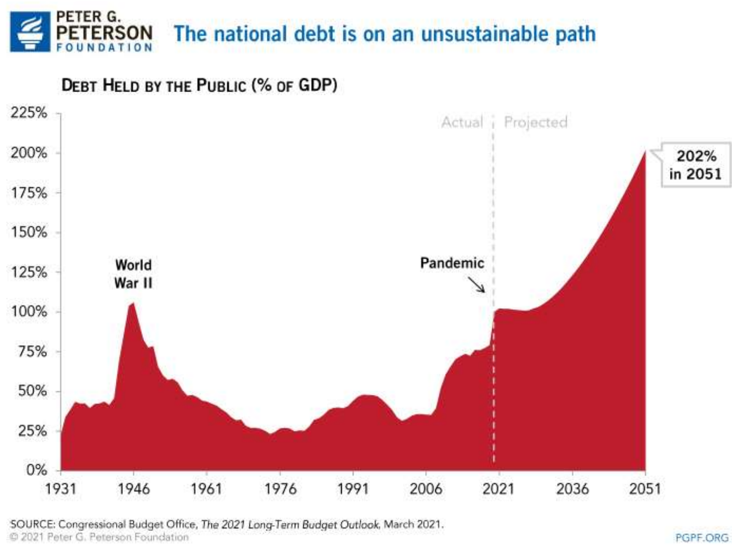
Key Takeaways on Tariffs and Trade Deficits

- Trade Deficits occur when National Saving is less than investment.
- Tariffs had been falling from 1947 and were still quite low.
- Trade deficits that reflect a countries productive investment opportunities are *good.*
- China Shock (2001-2011) showed that not all expansions of trade are beneficial.
- The way to reduce the trade deficit is to increase national saving.
- Trump tariffs will hurt the poor relatively the most.
- Financial Markets are Flashing Warning Signals.

My Google Site

- https://sites.google.com/view/macro-current-issues/economic-update

Next Week: The Federal Debt is Becoming A Problem



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75

Let's Hear from You!

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76