Policy Hits and Misses of 2021

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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
    - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
  - 3 Nobel Prize Winners
    - 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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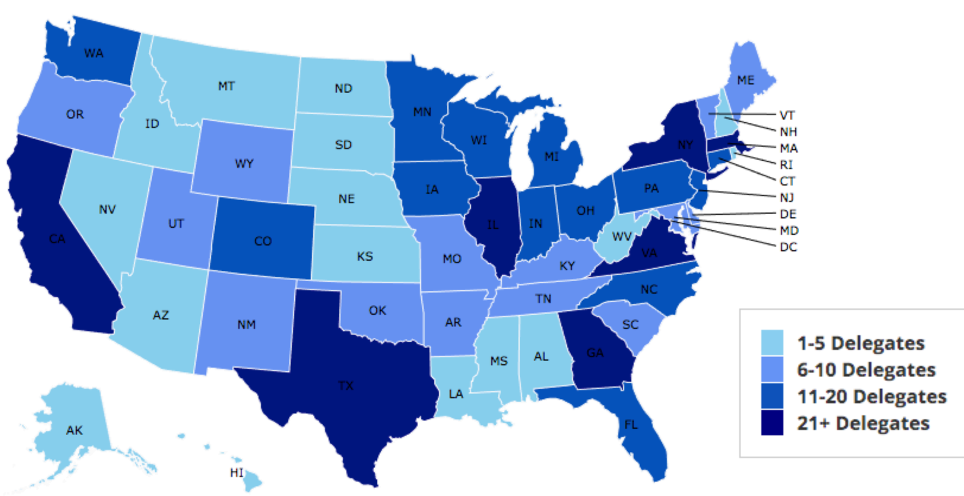
Where Are We?



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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
- CryptoCurrencies
- Black-White Wealth Gap
- Autonomous Vehicles
- US Monetary Policy

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Credits and Disclaimer

- **This slide deck was authored by:**
  - Geoffrey Woglom, Amherst College, emeritus
- **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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Hits and Misses in 2021

Hits: Direct more resources to the mostly poor, young

1. Early Child Care & Universal preK in BBB
2. Expanded Child Tax Credit in ARP and proposed for 1 more year in BBB.

Misses: The Fed and the Resurgence of Inflation

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Investing in the Young: House Passed BBB

- **CBO estimates:**
  - Early Child Care: $273 billion
  - Universal preK: $109 billion
- **The funding for both Programs start phasing out in 2028**

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James Heckman, Nobelist, in 12/2012

"The highest rate of return in early childhood development comes from investing as early as possible, from birth through age five, in disadvantaged families. Starting at age three or four is too little too late, as it fails to recognize that skills beget skills in a complementary and dynamic way. Efforts should focus on the first years for the greatest efficiency and effectiveness."

- Caveat: Heckman is not in favor of universal provisions of BBB.

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ARP and the Expanded Child Tax Credit

1. Eligibility expanded from children aged 16 to 17.
2. Increased the maximum benefit from $2000 per child to $3600 per child 0-5 years and to $3000 for other children.
3. Made the credit fully refundable and payable monthly.

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One Estimate of the Child Tax Credit & Poverty

Effect of Child Tax Credit on Monthly Poverty Rate in November 2021 by Children's Race and Ethnicity

NUMBER OF CHILDREN IN POVERTY

Children	Pre-COVID Relief	With COVID Relief/ No CTC	With COVID Relief +CTC	Number Moved Out of Poverty (CTC only)	Number Moved Out of Poverty (COVID Relief + CTC)
All	14,080,000	12,759,000	9,007,000	3,752,000	5,073,000
White	4,670,000	4,236,000	2,859,000	1,376,000	1,811,000
Black	3,244,000	2,904,000	2,154,000	749,000	1,089,000
Latino	4,947,000	4,488,000	3,140,000	1,348,000	1,807,000
Asian	725,000	679,000	523,000	156,000	202,000

Center on Poverty and Social Policy at Columbia University, Monthly SPM Poverty for November 2021

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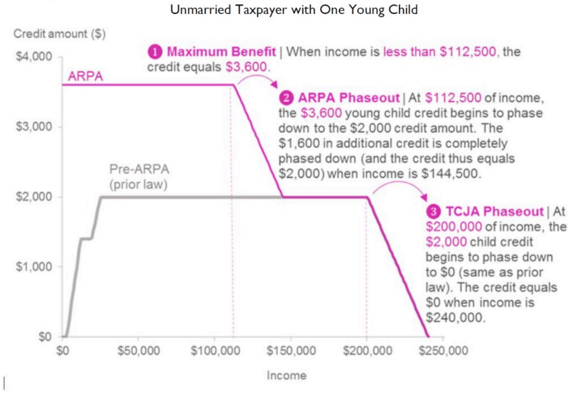
Economic & Political Problems

Figure 1. Child Credit Amount by Income in 2021 Before and After ARPA

Unmarried Taxpayer with One Young Child



Sources: CRS calculations based on Internal Revenue Code §24 and P.L. 117-2.

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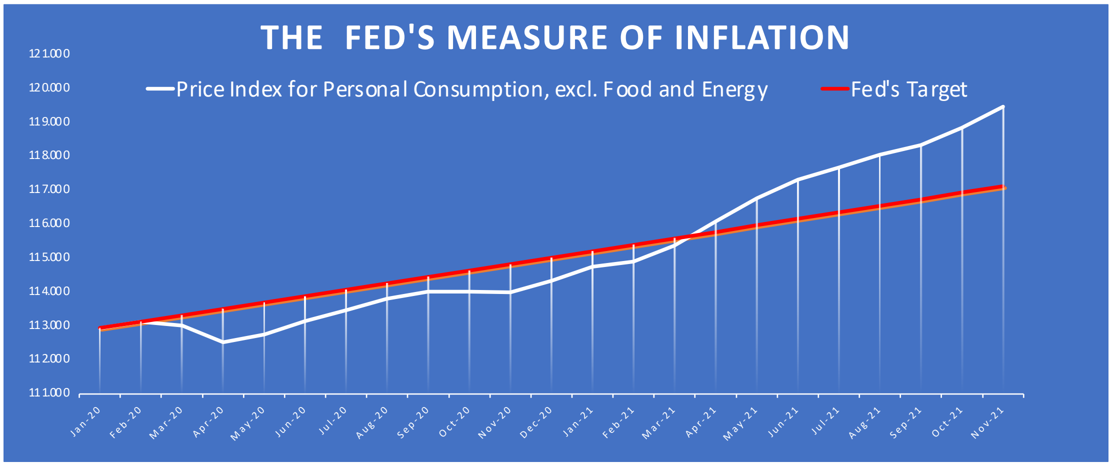
Inflation: Fed’s Policy Miss



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What’s at Stake: Inflationary Expectations

- **Monetary Policy is much easier if the people believe that the Fed will achieve its inflation target.**
- **Economic Theory suggests if expectations of inflation are stable than actual inflation will vary less over the business cycle and return to the target level sooner**
- **Paul Volcker put the world into a costly and deep recession in 1982 to bring down inflation and to “anchor” inflationary expectations**

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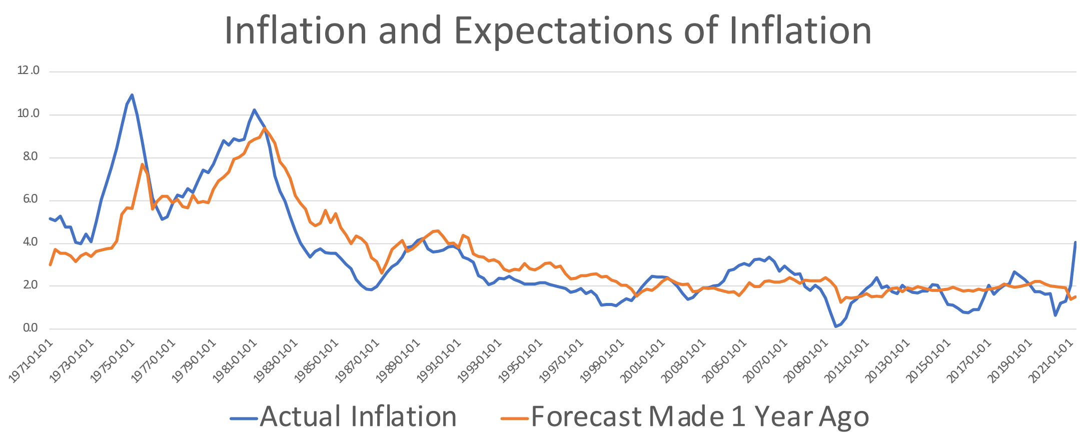
"Anchoring" Inflation Expectations



Forecasts: Philadelphia Fed, "Survey of Professional Forecasters"

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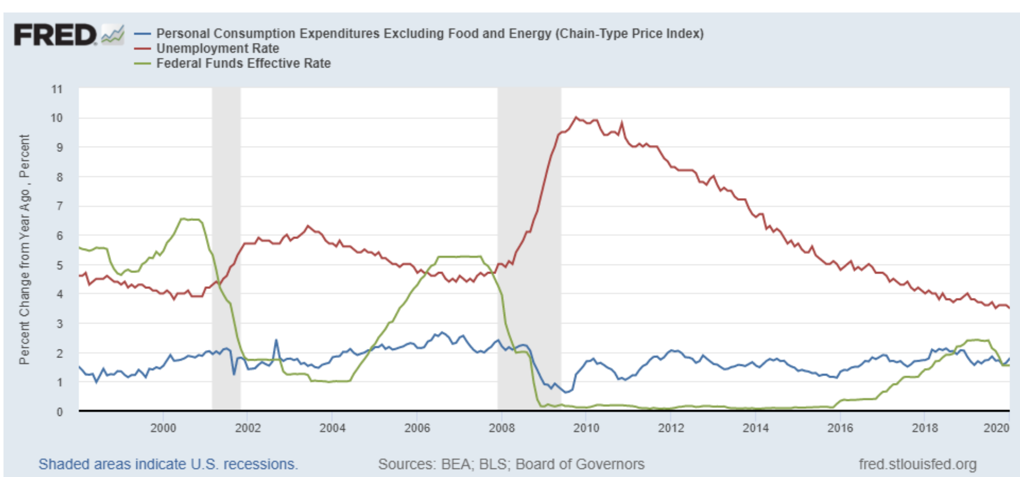
Why Did Jay Powell Do It?



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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%

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Fed's December 15th Policy Statement

- The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to keep [short-term interest rates the same]. With inflation having exceeded 2 percent for some time, the Committee expects it will be appropriate to maintain this [level of interest rates] until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment.

What they did was to slow the rate at which the Fed was buying long-term and risky assets (i.e., they slowed the rate at which stimulus was being added)

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Minutes from the December 15th Fed Meeting

- "Some participants also remarked that there could be circumstances in which it would be appropriate for the Committee to raise the target range for the federal funds rate before maximum employment had been fully achieved."
- "Some participants judged that a less accommodative future stance of policy would likely be warranted and that the Committee should convey a strong commitment to address elevated inflation pressures."

Agreed, but did they?

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So Far Inflationary Expectations Look Stable

- Professional forecasters, financial markets and the Fed itself think that inflation in 2022 will be slightly above 2.5%
- But, if that changes the Fed will have a difficult choice:
  a. Raise interest rates a lot (in an election year) stalling the recovery and disrupting financial markets.
  b. Hold tight as the Genie of inflationary expectations is let out of the bottle.

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Thank you!

Any Questions?

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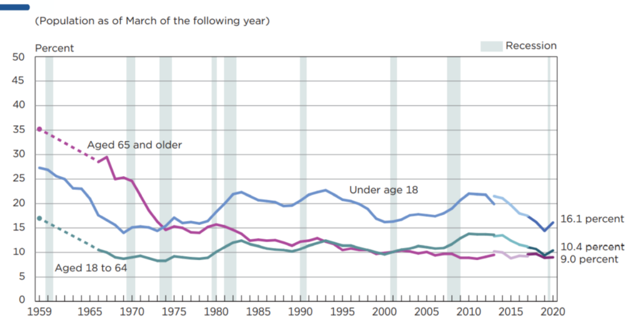
Poverty Rates by Age: 1959 to 2020



United States Census Bureau

Source: 1959 to 2021 Current Population Survey, Annual Social and Economic Supplement
Income and Poverty in the United States: 2020 (census.gov), Poverty Thresholds (census.gov)

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