Thinking About Economic Policy:
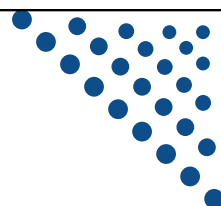# Everything is Economic Policy!

Jennifer Klein's Macroeconomics Class
April 12, 2019

Jon Haveman, Ph.D.
Executive Director, NEED

NATIONAL ECONOMIC
EDUCATION DELEGATION

1

Who Am I?

NATIONAL ECONOMIC
EDUCATION DELEGATION

2

What is NEED?

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.

Who Are We?

- **Honorary Board: 44 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: 361 members**
  - At all levels of academia and some in government service
  - All have a Ph.D. in economics
  - Crowdsource slide decks
  - Give presentations
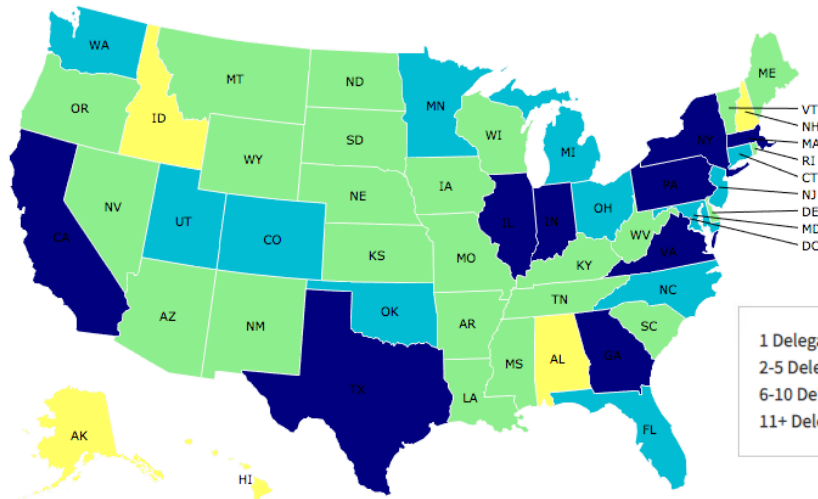- **Global Partners: 42 Ph.D. Economists**
  - Aid in slide deck development

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

5

Where Are We?

1 Delegate - Yellow
2-5 Delegates - Green
6-10 Delegates - Light Blue
11+ Delegates - Blue

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

6

Let's Talk About Policy

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

7

Important Policy Issues

- **Immigration**
- **Climate Change**
- **Federal Budget/Debt**
- **Social Safety Net**
- **Inequality**
- **International Trade**

- **U.S. Economy**
- **Gun Safety**
- **Economic Mobility**
- **Education**
- **Housing**
- **Etc.**

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

8

How Can Economists Contribute to Thinking about IMMIGRATION?

- **Economists can address underlying questions:**
  - Do immigrants take jobs from U.S. born workers?
  - Does immigration help to grow the economy?
  - Do immigrants cost U.S. born workers through government benefits?
  - Are we full?

NATIONAL ECONOMIC EDUCATION DELEGATION

9

Important Policy Issues

- **Immigration**
- **Climate Change**
- **Federal Budget/Debt**
- **Social Safety Net**
- **Inequality**
- **International Trade**

- **U.S. Economy**
- **Gun Safety**
- **Economic Mobility**
- **Education**
- **Housing**
- **Etc.**

NATIONAL ECONOMIC EDUCATION DELEGATION

10

How Can Economists Contribute to Thinking about CLIMATE CHANGE?

- **They can assess behavioral reactions to climate change.**

- **They can measure the damage and estimate the economic costs of fighting climate change.**

- **They can help design smart policies that minimize costs.**
  - Balance economic growth with GHG emission mitigation.

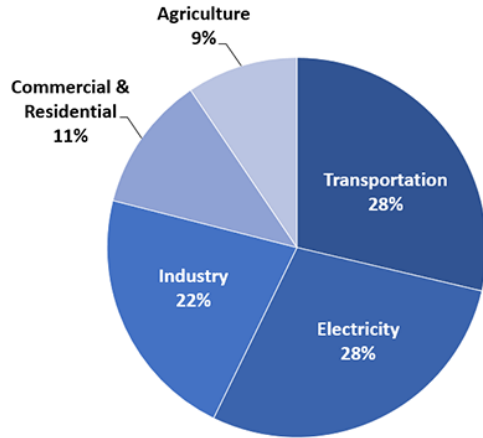**NATIONAL ECONOMIC EDUCATION DELEGATION**

11

Pollution Is Different From Oranges

- **Human activity creates pollution.**
  - The goal is not zero pollution but society's best balance between pollution and human benefits.

- **Pollution is an EXTERNALITY: a side effect (cost or benefit) that affects someone else when something is bought or sold.**
  - The power company sells you electricity for your house, but the pollution from the power plant affects everyone, not just you!
  - This is a *market failure.*

- **All of the effects are not always felt by the buyers and sellers.**
  - The price of electricity does not reflect all of the costs—there is too much pollution.
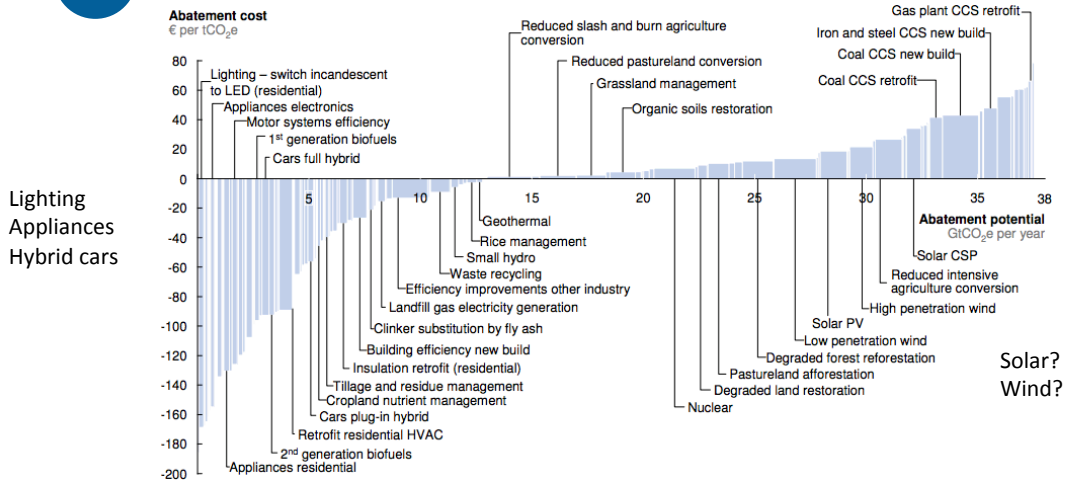 - Electricity is too cheap. The balance is wrong.

NATIONAL ECONOMIC EDUCATION DELEGATION

6

Total U.S. Greenhouse Gas Emissions by Economic Sector in 2016

Agriculture
9%

Commercial &
Residential
11%

Transportation
28%

Industry
22%

Electricity
28%

U.S. Environmental Protection Agency (2018). Inventory of U.S.
Greenhouse Gas Emissions and Sinks: 1990-2016

NATIONAL ECONOMIC EDUCATION DELEGATION

Global GHG Abatement Cost Curve

Abatement cost
€ per tCO_2e

80
60
40
20
0
-20
-40
-60
-80
-100
-120
-140
-160
-180
-200

Lighting – switch incandescent to LED (residential)
Appliances electronics
Motor systems efficiency
1st generation biofuels
Cars full hybrid

Lighting
Appliances
Hybrid cars

Geothermal
Rice management
Small hydro
Waste recycling
Efficiency improvements other industry
Landfill gas electricity generation
Clinker substitution by fly ash
Building efficiency new build
Insulation retrofit (residential)
Tillage and residue management
Cropland nutrient management
Cars plug-in hybrid
Retrofit residential HVAC
2nd generation biofuels
Appliances residential

Reduced slash and burn agriculture conversion
Reduced pastureland conversion
Grassland management
Organic soils restoration

Gas plant CCS retrofit
Iron and steel CCS new build
Coal CCS new build
Coal CCS retrofit

Abatement potential
$GtCO_2e$ per year

Solar CSP
Reduced intensive agriculture conversion
High penetration wind
Solar PV
Low penetration wind
Degraded forest reforestation
Pastureland afforestation
Degraded land restoration
Nuclear

Solar?
Wind?

5   10   15   20   25   30   35   38

Note: The curve presents an estimate of the maximum potential of all technical GHG abatement measures below €80 per tCO_2e if each lever was pursued aggressively. It is not a forecast of what role different abatement measures and technologies will play.
Source: Global GHG Abatement Cost Curve v2.1

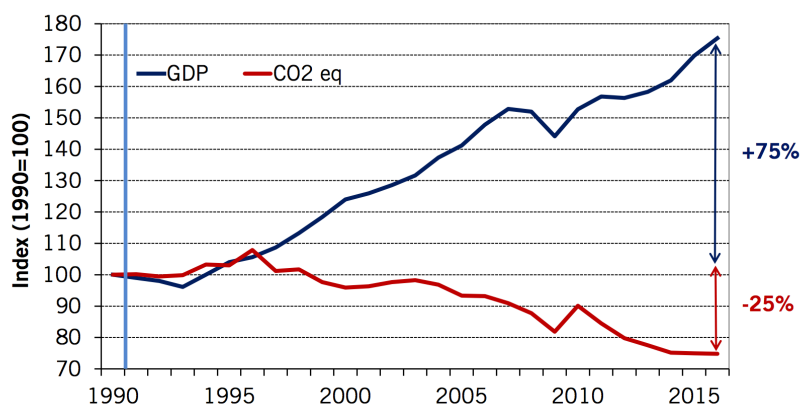**NATIONAL ECONOMIC EDUCATION DELEGATION**

Policies That Reduce Emissions: Directly

- **Regulation**
  - Emissions standards or limits

- **Market oriented policies**
  - Putting a price on emissions
    - Subsidizing green energy
    - Tax or cap & trade

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

15

Real GDP and Domestic CO_2eq Emissions[1] In Sweden, 1990-2016

[1] In accordance with Sweden's National Inventory Report, submitted under the UNFCC and the Kyoto Protocol. CO_2 = approx. 80 % of total CO_2eq emissions. Preliminary data for 2016.

Sources: Swedish Environmental Protection Agency, Statistics Sweden

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

Important Policy Issues

- Immigration
- Climate Change
- Federal Budget/Debt
- Social Safety Net
- Inequality
- International Trade

- U.S. Economy
- Gun Safety
- Economic Mobility
- Education
- Housing
- Etc.

NATIONAL ECONOMIC EDUCATION DELEGATION

17

How Can Economists Contribute to Thinking about TRADE AND GLOBALIZATION?

- **They contribute to understanding of trade:**
  - Why it happens.   Understanding the trade deficit.

- **They can measure the damage or benefits from trade.**

- **They can help design policies that maximize benefits.**

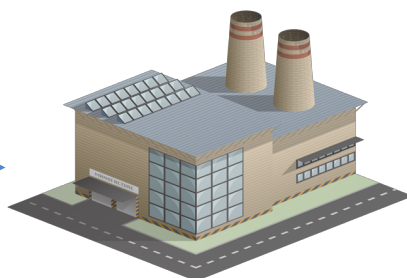**NATIONAL ECONOMIC EDUCATION DELEGATION**

18

Why Do Countries Trade?

- EFFICIENCY:
  - Allocates production across countries efficiently so that countries can specialize in what they are best at producing
- Varieties
  - More choice for consumers
  - Better inputs for our production
- Competition
  - Brings in cheaper goods
    - o makes consumers better off

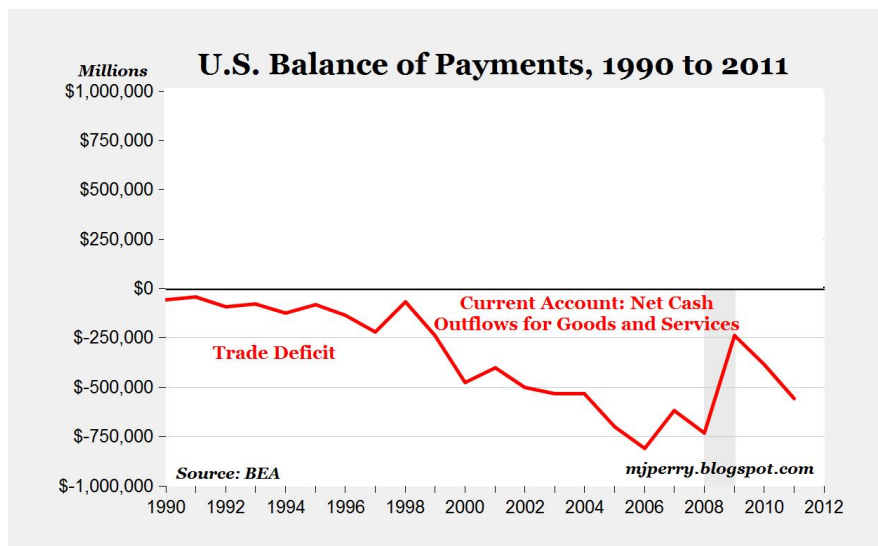**NATIONAL ECONOMIC**
EDUCATION DELEGATION

How to Think About Imports

- **Think about international trade as the introduction of a new technology.**

Airplanes
(Exports)

Laptops/iPhones
(Imports)

NATIONAL ECONOMIC
EDUCATION DELEGATION

20

How to Think About the Trade Deficit

U.S. Balance of Payments, 1990 to 2011

Millions

Current Account: Net Cash
Outflows for Goods and Services

Trade Deficit

Source: BEA

mjperry.blogspot.com

NATIONAL ECONOMIC
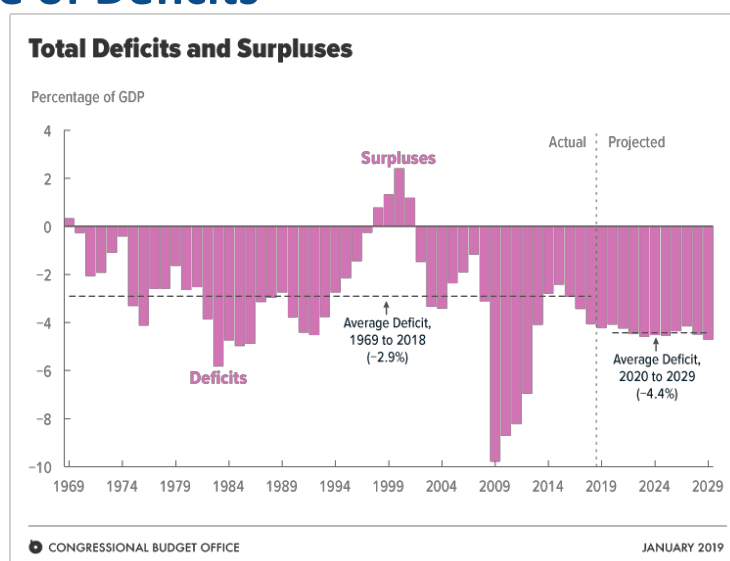EDUCATION DELEGATION

21

Important Policy Issues

- **Immigration**
- **Climate Change**
- **Federal Budget/Debt**
- **Social Safety Net**
- **Inequality**
- **International Trade**

- **U.S. Economy**
- **Gun Safety**
- **Economic Mobility**
- **Education**
- **Housing**
- **Etc.**

NATIONAL ECONOMIC
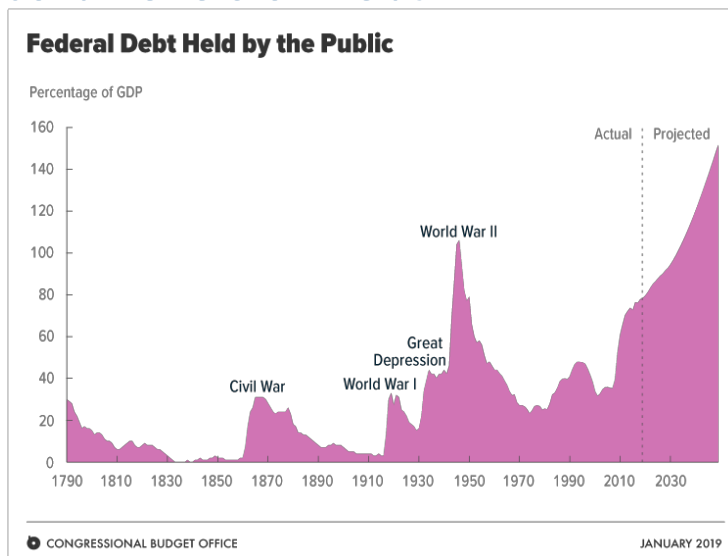EDUCATION DELEGATION

22

Economics of the Federal Budget and Debt

- **How does government spending affect the economy?**
- **How much does the debt matter?**
  - Do we have to pay it back?
  - Does it matter for the current economy?
  - Does it matter what we borrow for?
  - How does it affect the pattern of government spending?
- **How do we most efficiently address the debt?**

NATIONAL ECONOMIC
EDUCATION DELEGATION

23

A Future of Deficits

Total Deficits and Surpluses

Percentage of GDP

NATIONAL ECONOMIC
EDUCATION DELEGATION

24

Source: Congressional Budget Office, The Budget and Economic Outlook: 2019 to 2029

And Record Levels of Debt

Federal Debt Held by the Public

Percentage of GDP

CONGRESSIONAL BUDGET OFFICE

JANUARY 2019

NATIONAL ECONOMIC EDUCATION DELEGATION

25

Source: Congressional Budget Office, The Budget and Economic Outlook: 2019 to 2029

Perspectives on Increased Debt

- **Government borrowing crowds out private capital and investments.**
  - Weakened by ability to borrow from abroad.

- **Is it reasonable to borrow at low interest rates for investments?**
  - For example, infrastructure.

- **Does debt impose a burden on future generations?**
  - Does it inevitably have to be paid off?

- **In time, it may start to crowd out other government spending.**
  - Diminishing policy priorities in the budget.

NATIONAL ECONOMIC EDUCATION DELEGATION

26

4/12/19

Important Policy Issues

- Immigration
- Climate Change
- Federal Budget/Debt
- Inequality
- Social Safety Net
- International Trade

- U.S. Economy
- Gun Safety
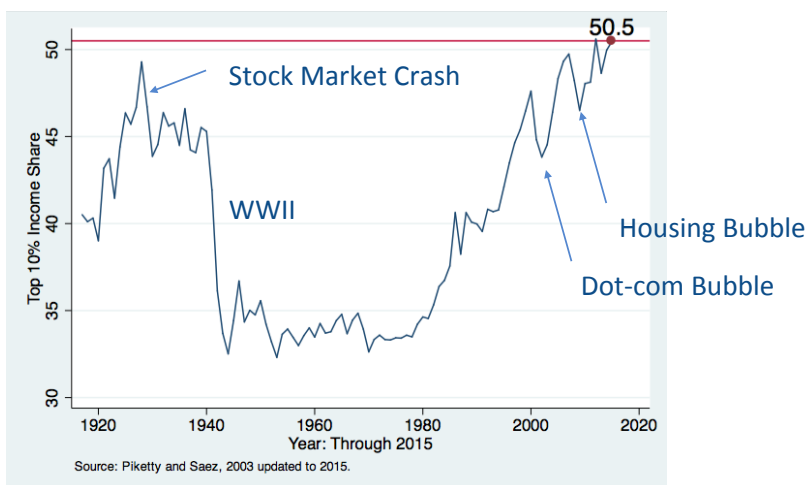- Economic Mobility
- Education
- Housing
- Etc.

NATIONAL ECONOMIC
EDUCATION DELEGATION

27

How Can Economists Contribute to Thinking about *INEQUALITY*?

- How to measure it?
- Can there be too much?
- How do we address it?

NATIONAL ECONOMIC
EDUCATION DELEGATION

28

14

National Income Inequality: Share of Top 10%

Source: Piketty and Saez, 2003 updated to 2015. Series based on pre-tax cash market income including realized capital gains and excluding government transfers.

NATIONAL ECONOMIC EDUCATION DELEGATION

Why Does Inequality Matter?

- **Too little inequality can:**
  - Reduce individual motivation
  - Slow economic growth

- **Too much inequality can:**
  - Slow growth
  - Reduce individual motivation

- **Too much inequality may also:**
  - Divide society
  - Distort political environment
  - Reduce political participation
  - Reduce investments in public goods
    - Education
    - Environmental protections

NATIONAL ECONOMIC EDUCATION DELEGATION

What do we do about Inequality?

- **Depends on why it comes about?**
  - Differential access to education?
  - Competition in the economy?
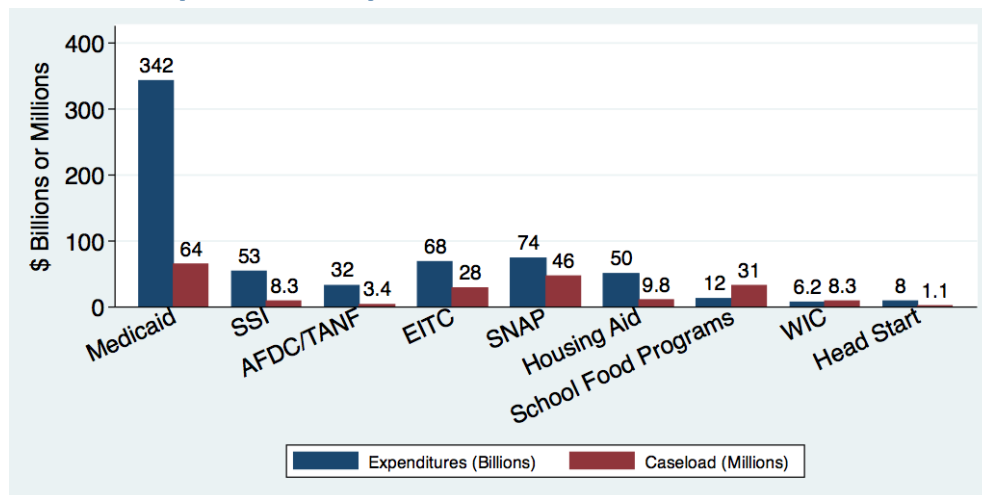 - Different levels of power between capital and labor?

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

31

Important Policy Issues

- **Immigration**
- **Climate Change**
- **Federal Budget/Debt**
- **Inequality**
- **Social Safety Net**
- **International Trade**

- **U.S. Economy**
- **Gun Safety**
- **Economic Mobility**
- **Education**
- **Housing**
- **Etc.**

**NATIONAL ECONOMIC
EDUCATION DELEGATION**

32

How Can Economists Contribute to Thinking about Trade and Globalization?

- Measuring the size of the programs.

- Measuring the benefits and costs.

- Evaluate the efficacy of programs
  - Example: Universal Basic Income

NATIONAL ECONOMIC
EDUCATION DELEGATION

33

U.S. Safety Net Expenditures ($ Billions) and Caseload (Millions), 2014 or 2015

NATIONAL ECONOMIC
EDUCATION DELEGATION

34

How large are welfare/work disincentives?

- **United States: old-style AFDC/Food Stamp programs reduced work by around 500 hours per year among recipients.**

- **TANF likely has smaller effects on work (designed to encourage/require work).**

- **International evidence suggests fairly small effects of cash assistance on work.**

NATIONAL ECONOMIC EDUCATION DELEGATION

35

Thank you!

Any Questions?

www.NEEDelegation.org
<presenter name>
<presenter email>

Contact NEED: Info@NEEDelegation.org

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

NATIONAL ECONOMIC EDUCATION DELEGATION

36