



*Osher Lifelong Learning Institute, Spring 2025*

## Contemporary Economic Policy

University of Massachusetts Boston

Host: Geoffrey Woglom, Ph.D.  
Director, National Economic Education Delegation



## 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: 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

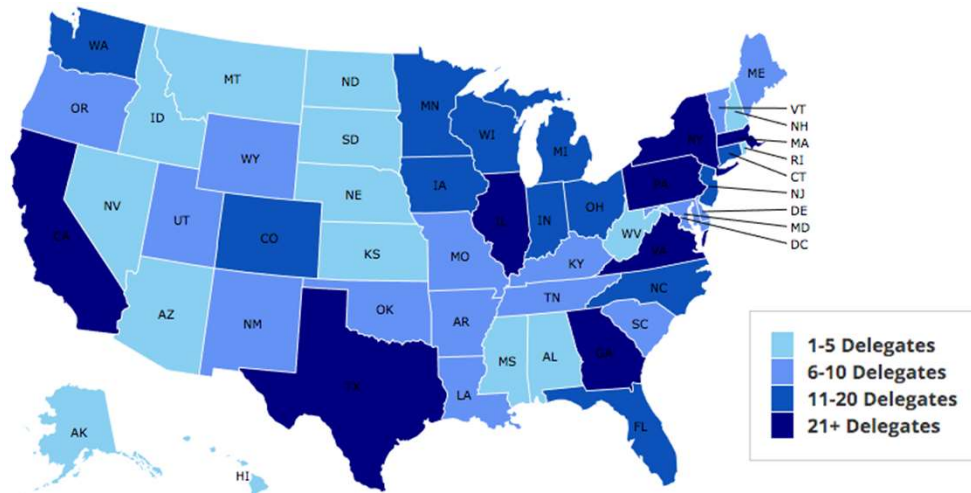
## • Delegates: 652+ members

- 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?



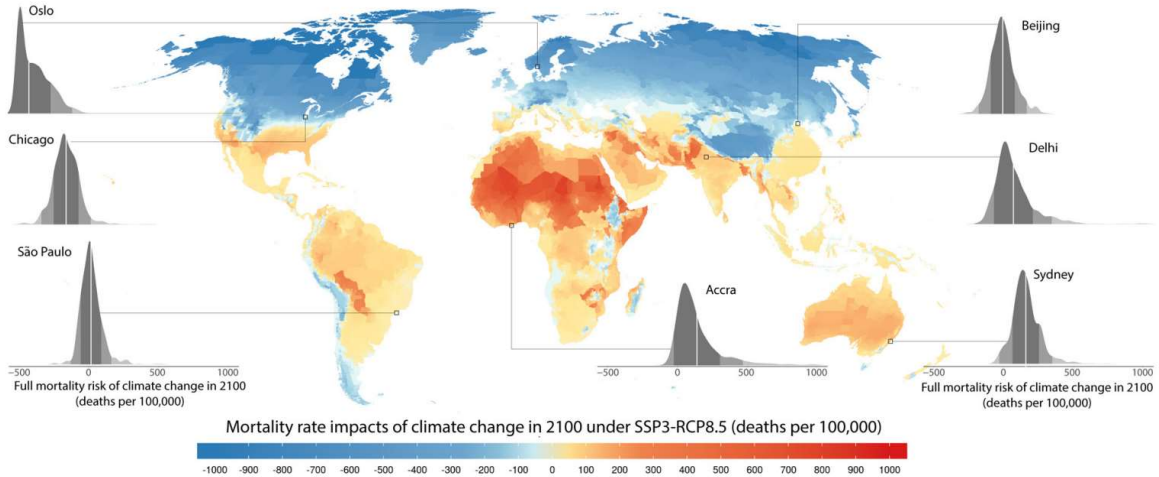
## Available NEED Topics Include:

- 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 (3/18): Economic Update (Geoffrey Woglom, Amherst College)**
  - Week 2 (3/25): Climate Change (Sarah Jacobson Williams College)
  - Week 3 (4/1): Autonomous Vehicles (Arkadiusz Mironko, Indiana University)
  - Week 4 (4/8): Federal Debt and Deficits (Brian Peterson, LaGrange Colleg)
  - Week 5 (4/15): Tariffs and Their Effects (Alan Deardorff, UMichigan)

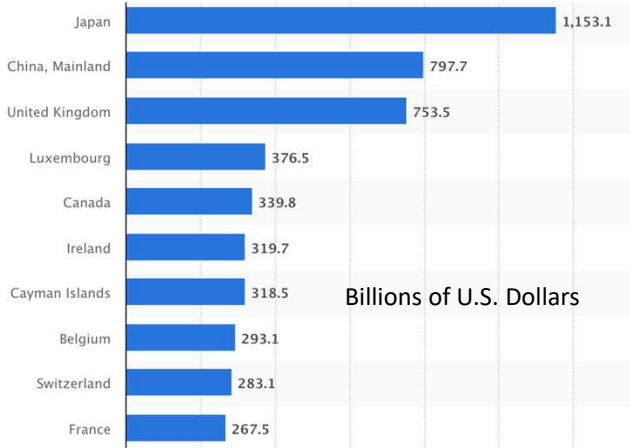
# How Damages Will Vary Globally: Mortality as an Example



# The Future?

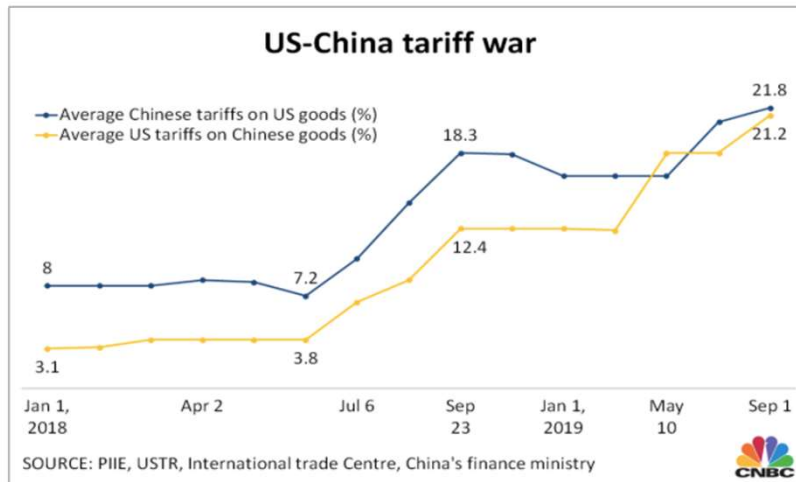


## Who Holds Debt to Foreigners,



Foreign ownership is relatively recent  
 – in 1990 foreign ownership was less than 20%  
 – peaked at 40+%  
 – now is 29.4%

## US-China Tariff War – Tariff Rates



Source: CNBC.com

The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.

## Submitting Questions

- Submit questions 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.
- Slides will be available from the NEED website tonight ([https://needelegation.org/delivered\\_presentations.php](https://needelegation.org/delivered_presentations.php)).
- My macro site: <https://sites.google.com/view/macro-current-issues/economic-update>



## US Economy: Update

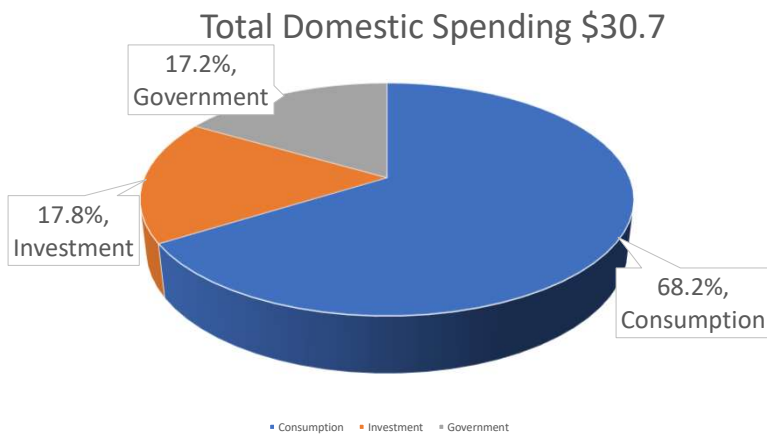
**Geoffrey Woglom,**  
Professor of Economics  
Amherst College, emeritus  
March 18, 2025



## Outline for the Talk

1. Summary of the state of the macroeconomy.
2. The Effect of M&F policies on the recovery.
3. Major Uncertainties going forward
4. The Battle over extending Trump Tax Cut

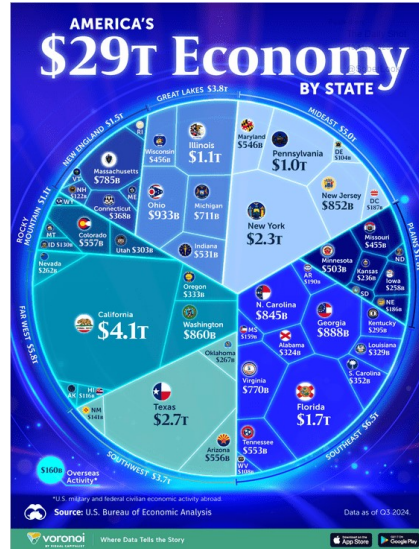
## Gross Domestic Product: 2024Q4 = \$29.7 tr



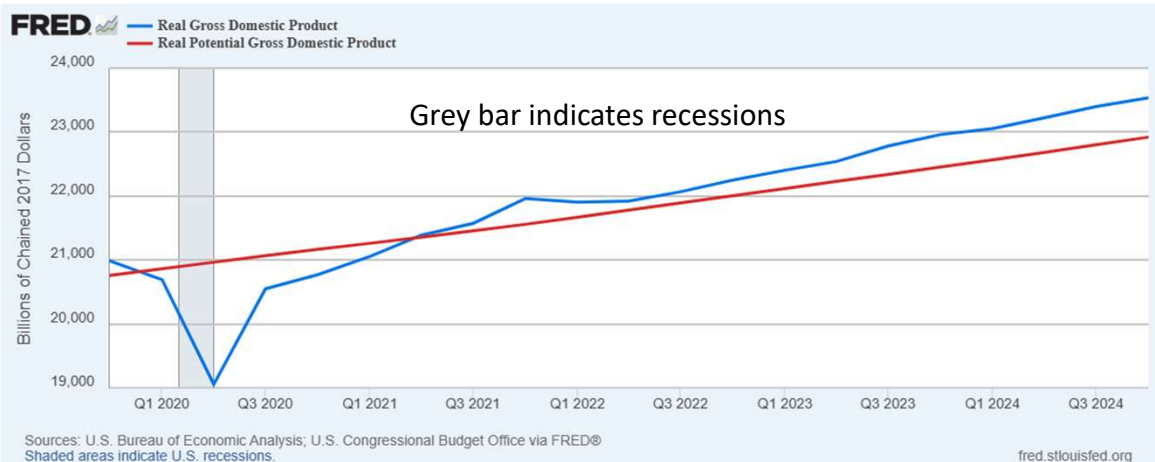
**\$30.7**  
**Less Imports**  
**-\$4.2**  
**Plus Exports**  
**+\$3.2**  
**Equals GDP**  
**\$29.7**



# Different Breakdown



# GDP and 'Potential' during the Recovery





# What is a Recession?

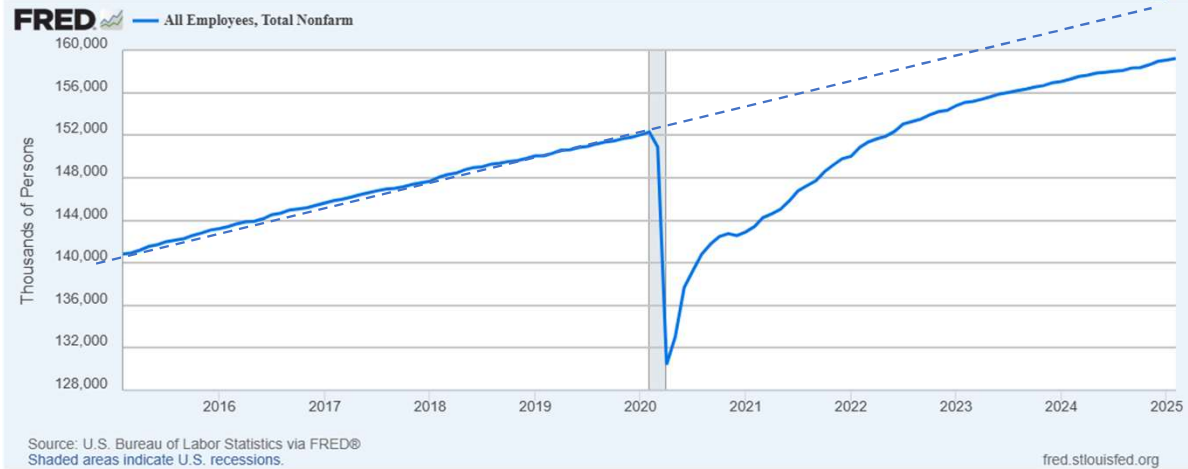
- Defined by the National Bureau of Economic Research (NBER)
- “The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”
- Popular Rule of Thumb: Two or more, consecutive quarters where Real GDP falls. (Doesn't always work!)

Recessions are caused by a drop in total spending.

# Unemployment is Near Record Lows



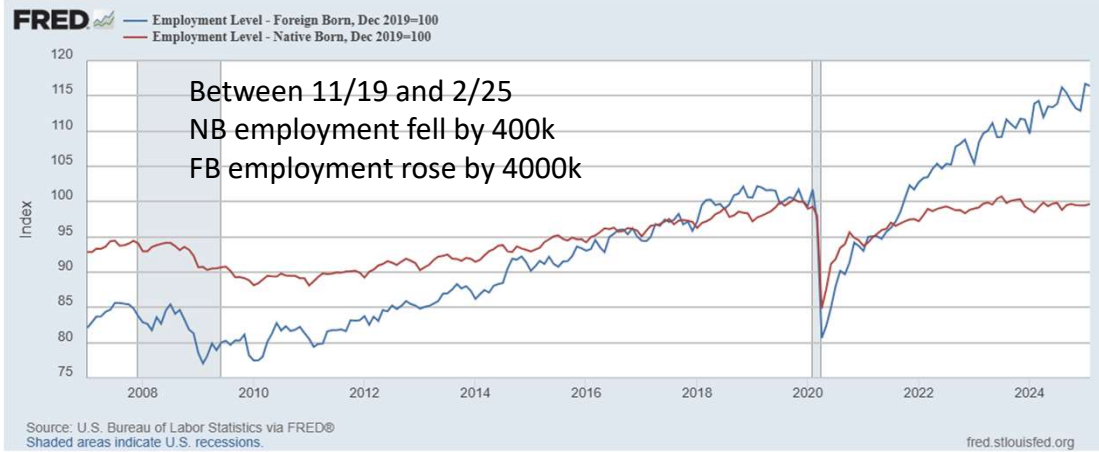
# Where Have All the Workers Gone?



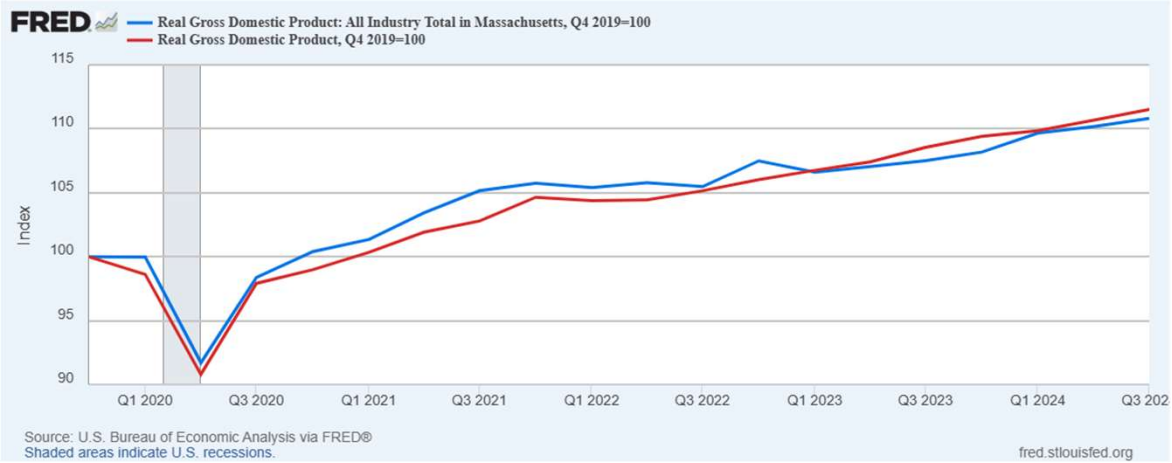
# The Aging of the Labor Force



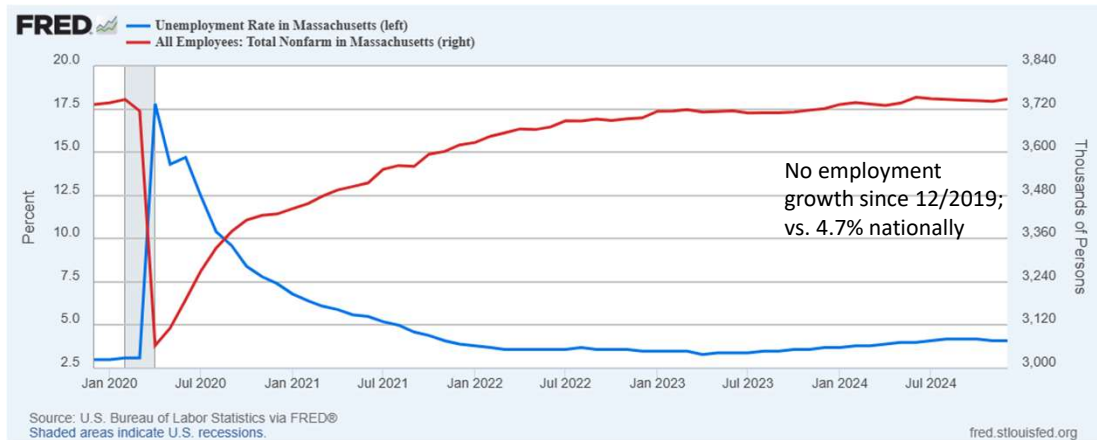
# Supplemented by Foreign Workers



# How is Massachusetts Doing?



## Labor Market in Massachusetts

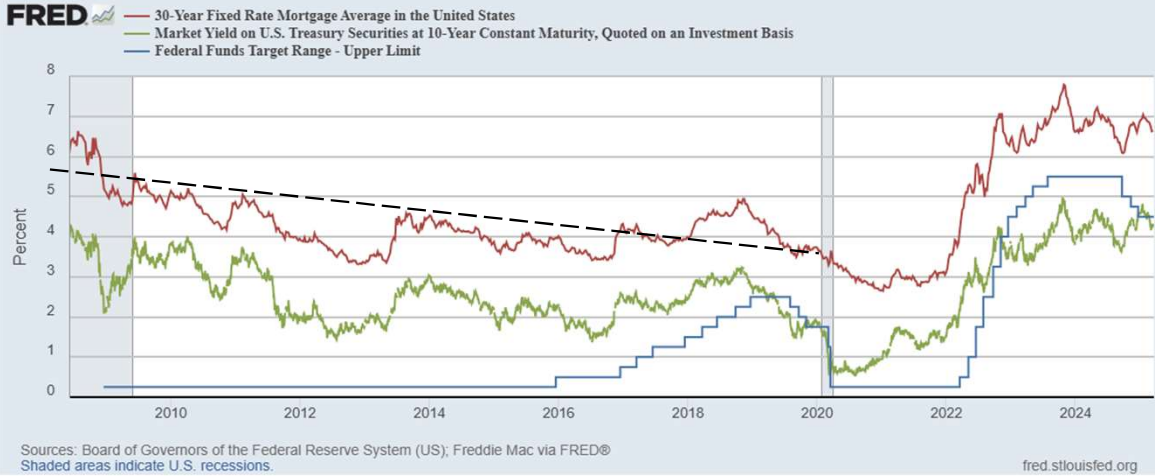


## Overall Good News on the Real Side

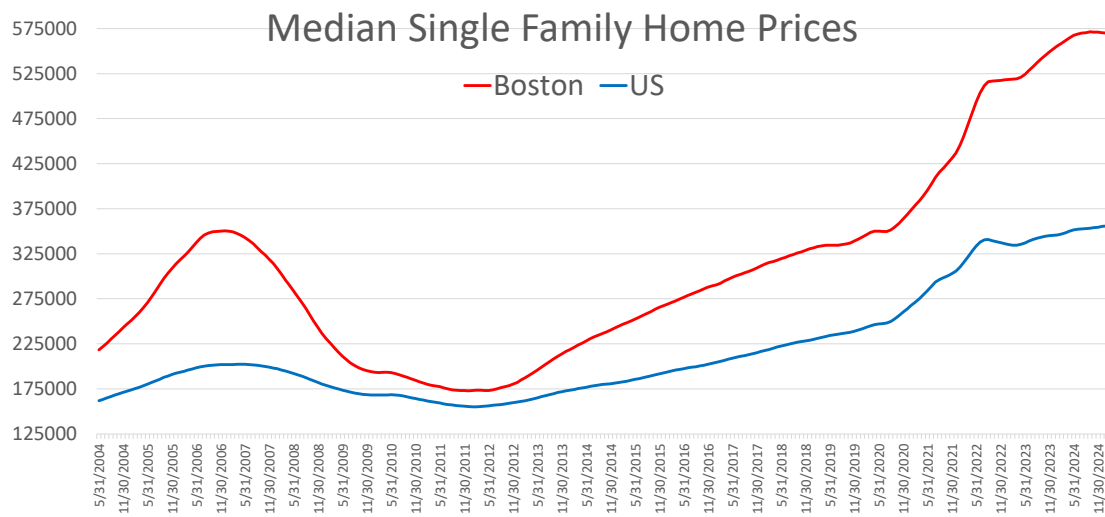
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good, but is getting better.



# Interest Rates: Era of Falling Rates Over?



# National Housing Market and Closer to Home



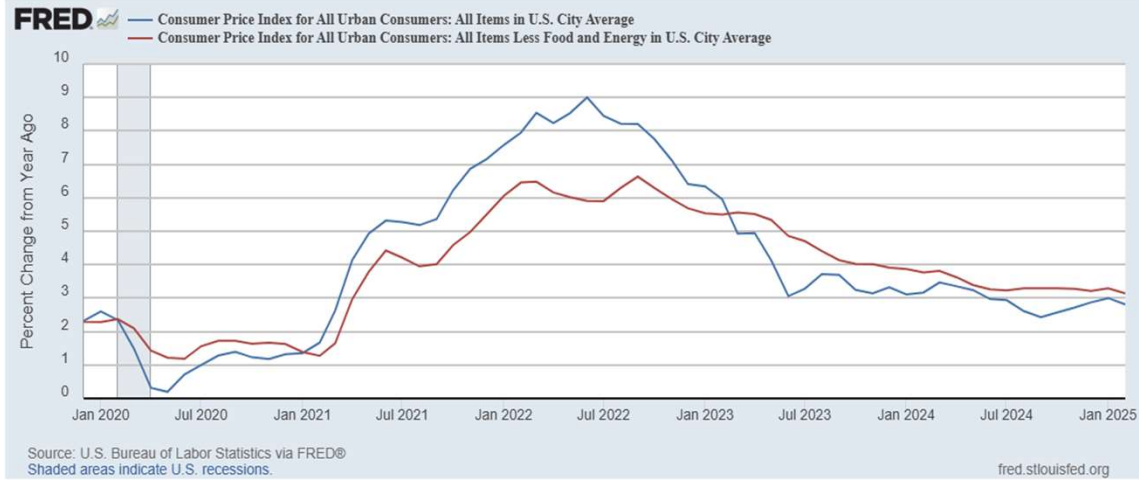
# Housing Construction is Slowing?



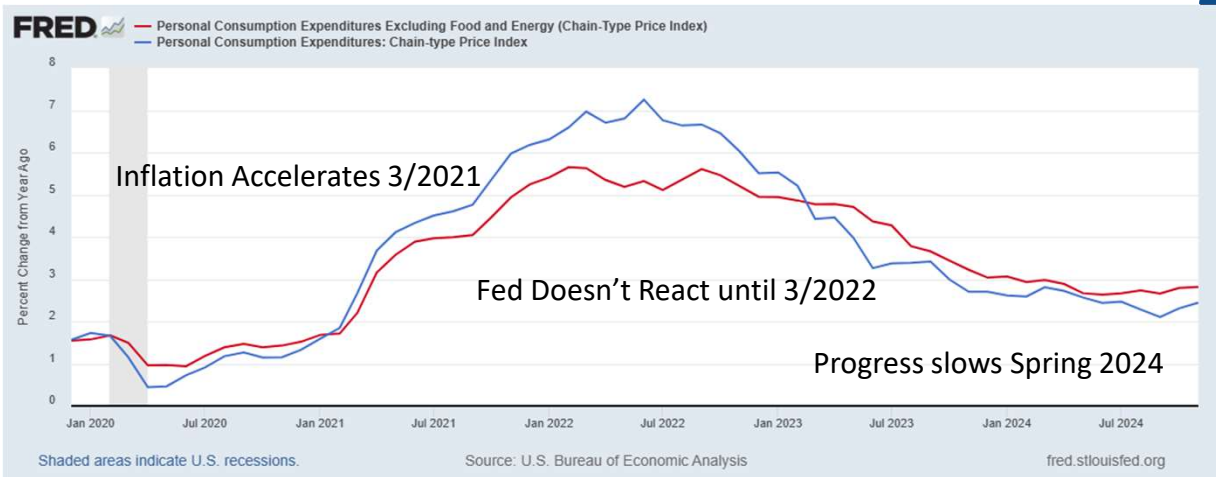
# Stock Prices: Don't Look at Your Retirement Account!



# Inflation during the Recovery (CPI)



# Fed's Measure (PCE)





# CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

JAN:

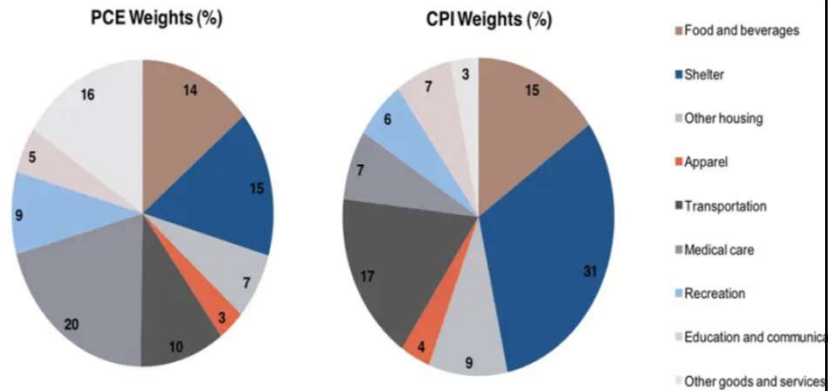
CPI, 3.0%

PCE, 2.5%

Core CPI, 3.3%

Core PCE, 2.6%.

Chart 18: PCE vs CPI – weight comparisons

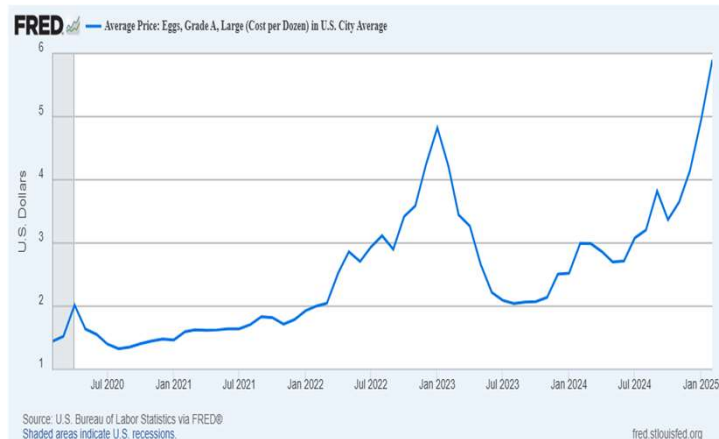


Source: Haver Analytics, SG Cross Asset Research/Economics

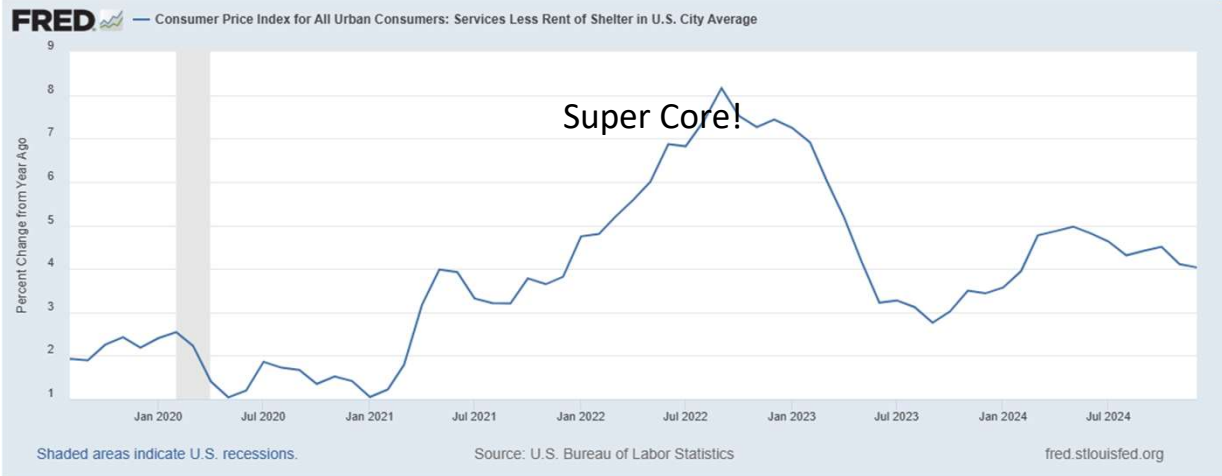
# Uses of Inflation Measures

Two Reasons for Measuring Recent Inflation:

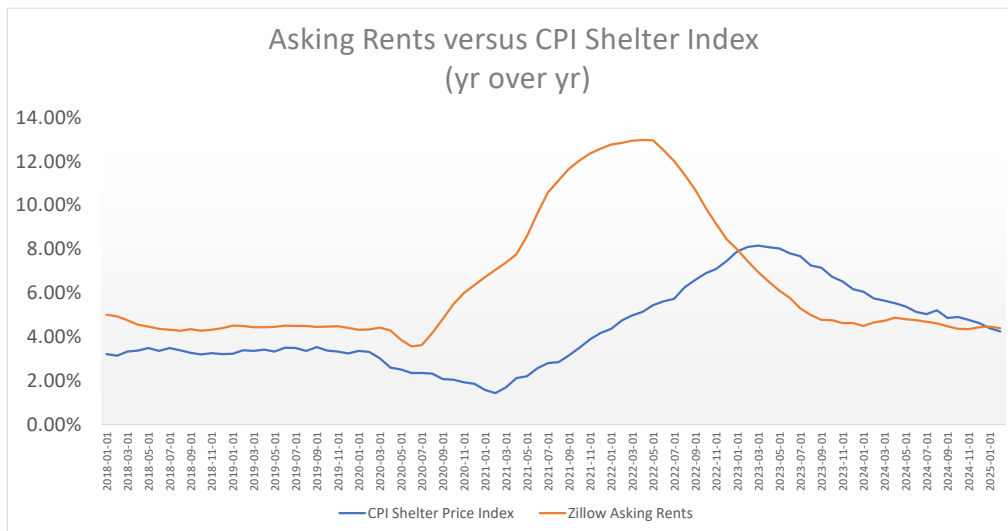
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?



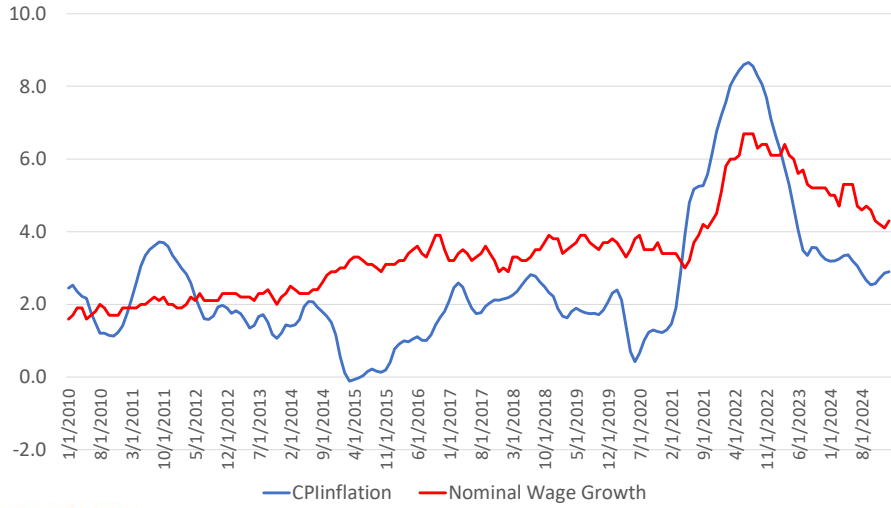
# Measuring "Underlying" Inflation



# The Problem with Measuring Housing Costs



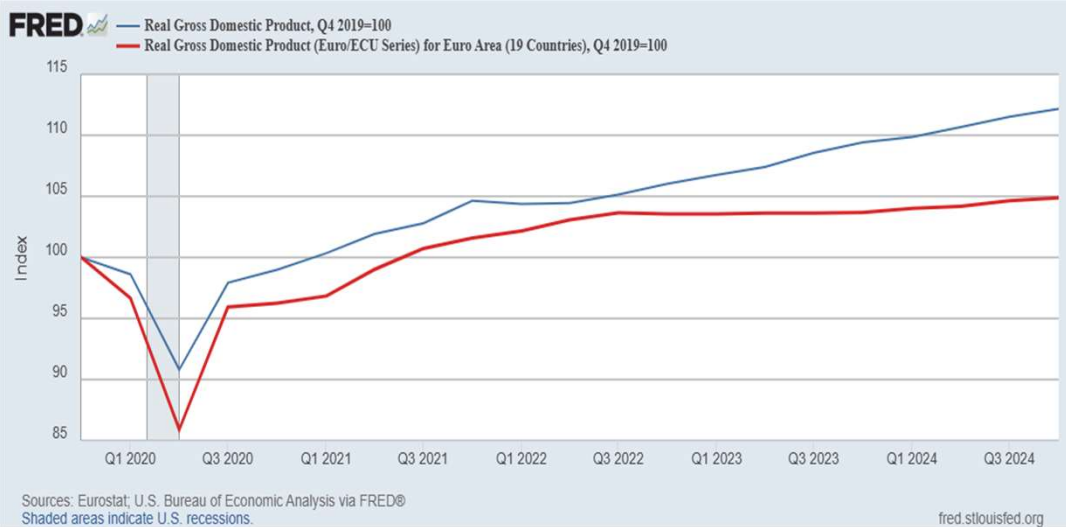
# Wages Haven't Kept Pace with Inflation, Yet



Federal Reserve of Atlanta, "Wage Tracker" and BLS

35

# International Comparisons: Real GDP



Sources: Eurostat; U.S. Bureau of Economic Analysis via FRED®  
Shaded areas indicate U.S. recessions.

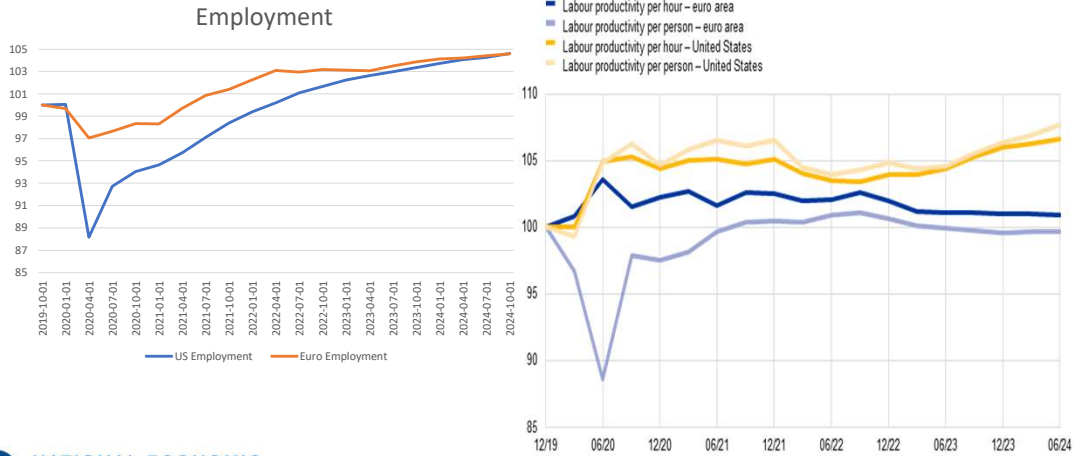
fred.stlouisfed.org



36

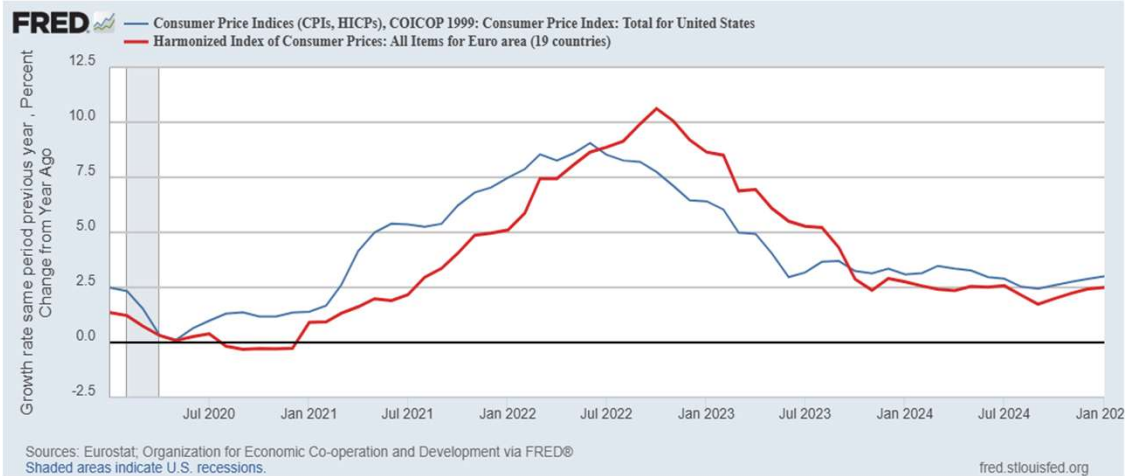
# Why?

## Labour productivity in the euro area and the United States (Q4 2019 = 100)



[https://www.ecb.europa.eu/press/economic-bulletin/focus/2024/html/ecb.ebbox202406\\_01~9c8418b554.en.html](https://www.ecb.europa.eu/press/economic-bulletin/focus/2024/html/ecb.ebbox202406_01~9c8418b554.en.html)

# International Comparison: Inflation



Sources: Eurostat; Organization for Economic Co-operation and Development via FRED®  
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

# Summary on the State of the Economy

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

The Economy ended in 2024 in good shape

But, what's next?

# Two Views on Where we are Headed

Percent **Fed, December 2024**

Variable	Median <sup>1</sup>			
	2025	2026	2027	Longer run
Change in real GDP	2.1	2.0	1.9	1.8
September projection	2.0	2.0	2.0	1.8
Unemployment rate	4.3	4.3	4.3	4.2
September projection	4.4	4.3	4.2	4.2
PCE inflation	2.5	2.1	2.0	2.0
September projection	2.1	2.0	2.0	2.0
Core PCE inflation <sup>4</sup>	2.5	2.2	2.0	
September projection	2.2	2.0	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	3.9	3.4	3.1	3.0
September projection	3.4	2.9	2.9	2.9

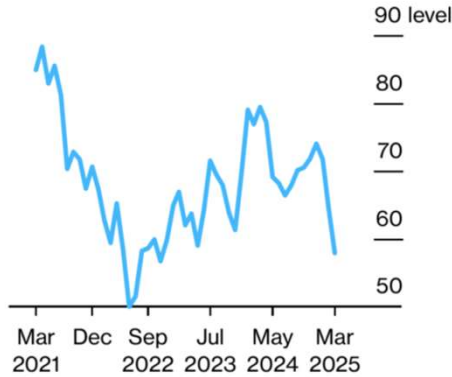
Variable (in percent)	Survey of Professional Forecasters (February 14, 2025)			
	2025	2026	2027	2028
<b>RGDP growth</b>	2.4	2.2	1.8	2.0
<b>Unemployment</b>	4.2	4.2	4.3	4.3
<b>Inflation ( PCE)</b>	2.4	2.3	2.0	N/A
<b>Core Inflation</b>	2.4	2.3	2.1	N/A
<b>3mo Tbill rate</b>	4.1	3.6	3.1	3.0

<https://www.philadelphiafed.org/-/media/FRBP/Assets/Surveys-And-Data/survey-of-professional-forecasters>

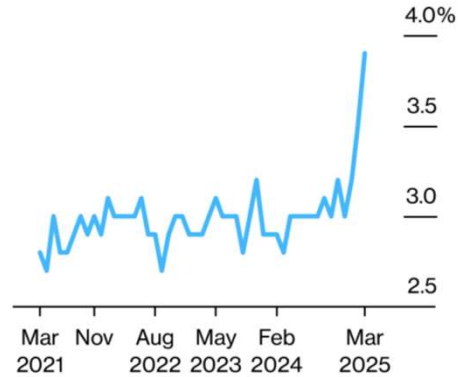
Fed Projections Updated Tomorrow on my Google Site!

## Some Worrying Recent Signs

Consumer sentiment index



5-10 year inflation expectations

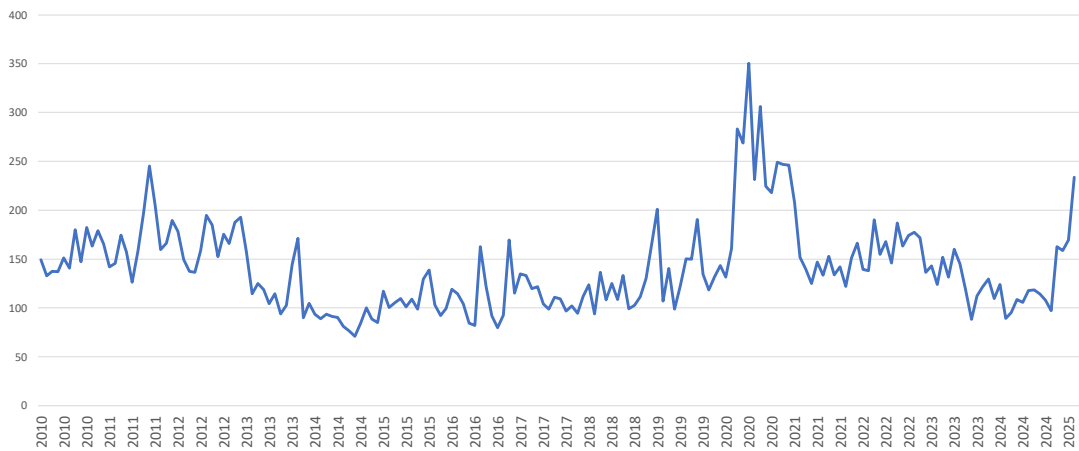


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<https://www.bloomberg.com/news/articles/2025-03-15/fed-rate-policy-trump-s-trade-salvos-test-nerve-of-world-s-central-bankers>

41

## Economic Policy Uncertainty Index



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Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com). 42

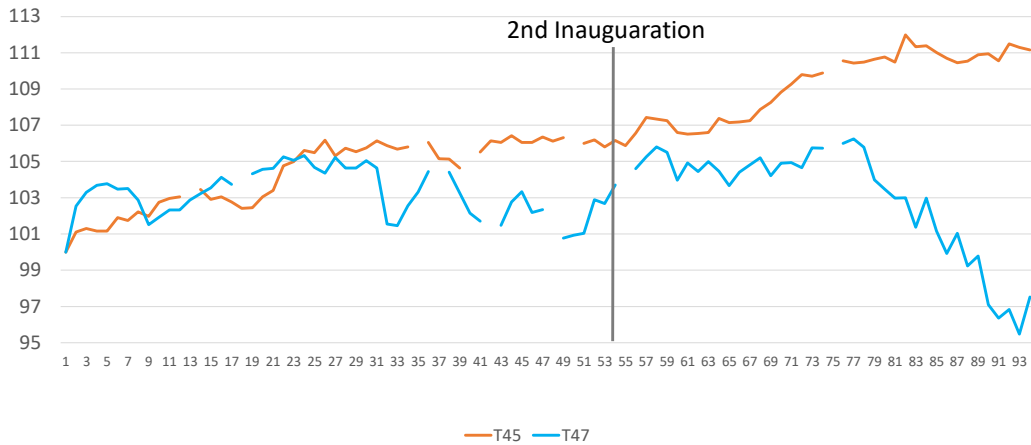
# Major Uncertainties

## Short Run:

- Tariff Effects on inflation and on total demand?
- TCJA and future income taxes?

1. Has the reduction in inflation stalled; is the labor market too strong?
2. Immigration and labor force growth?

# Stock Market following the 2 Trump Victories





## What Is Different

- **Trump 45**
  - Tax Cut (TCJA), December 2017
  - Tariffs, March 2018
- **Trump 47**
  - Tariffs Announced, Feb 2025
  - TCJA extension fight just starting through “Budget Reconciliation”

## Citizen's Guide to “Budget Reconciliation.”

- **Procedure successfully used 22 times since 1974 to avoid a Senate filibuster.**
- **Reconciliation can be used for changing taxes and spending (not Social Security) subject to the Byrd Rule.**
- **Byrd rule:**
  1. No extraneous provisions.
  2. No increase in the deficit after 10 year window.
- **Reconciliation games played by both parties:**
  1. BBB.
  2. 2017 Trump Tax Cut

## Reconciliation and CBO Projections

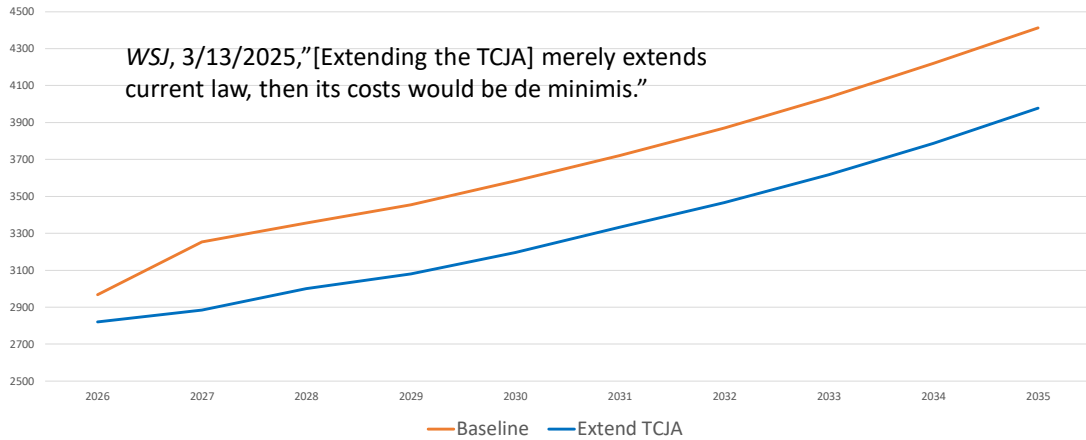
- For the CBO to be effective it must be perceived to be (and must be) nonpartisan.
- Therefore, CBO “baseline” projections and legislative scoring must not try to predict changes in legislation.
- Instead, CBO must analyze the data based on the current law as written (e.g., 2017 Personal Tax cuts expire this year).
- CBO is allowed to provide analyses of policy options. (“Options for Reducing the Deficit: 2025 to 2034,” <https://www.cbo.gov/publication/60557>)

## The Reconciliation Game in Action

By Fiscal Year, in Billions of Dollars

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018-2022	2018-2027
<b>Total Estimated Changes in Revenues</b>	-144.3	-270.9	-257.0	-234.8	-199.6	-163.9	-148.9	-146.4	-61.5	-19.8	-1,107.0	-1,649.0
<b>Total Changes in Direct Spending</b>												
Estimated Budget Authority	-8.6	9.1	1.8	-13.9	-21.8	-26.0	-28.8	-32.1	-21.1	-52.9	-33.3	-194.1
<b>Impact on Deficit</b>	135.7	280.0	258.8	221.0	177.8	137.9	120.1	114.3	40.4	-33.1	1,073.7	1,454.9

## When is a Tax Cut, Not a Tax Cut?



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<https://www.cbo.gov/publication/60114>

<https://www.cbo.gov/publication/61172>

## Consequences

- **Under the Current Baseline.**
  1. 2035 Deficit, \$2.5 trillion; Debt, \$52.0 trillion.
  2. Net Interest, \$1.8 trillion.
- **Extend Just Income Tax Provisions of TCJA**
  1. 2035 Deficit, \$3.1 trillion; Debt \$53.7 trillion.
  2. Net Interest, \$1.9 trillion
- **And, that is before “making room” for no taxes on overtime, social security, and tips!**



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50

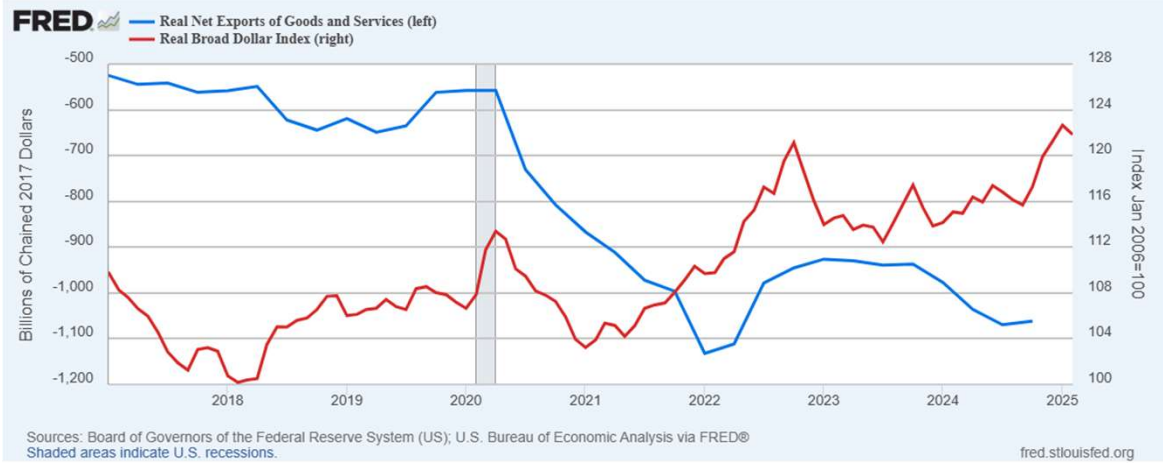
## A Brief Primer on Tariffs and Trade Deficits

- **How do you spend more than your income?**
  - Sell assets.
  - Borrow.
- **Accounting Identity: the amount of spending over income must be financed by a decrease in net worth.**
- **Same is true for a country**
  - Total expenditures in excess of income must equal net asset sales and borrowing from foreigners
  - Jargon: net exports must equal net capital inflows

## Do Tariffs Affect Net Capital Inflows

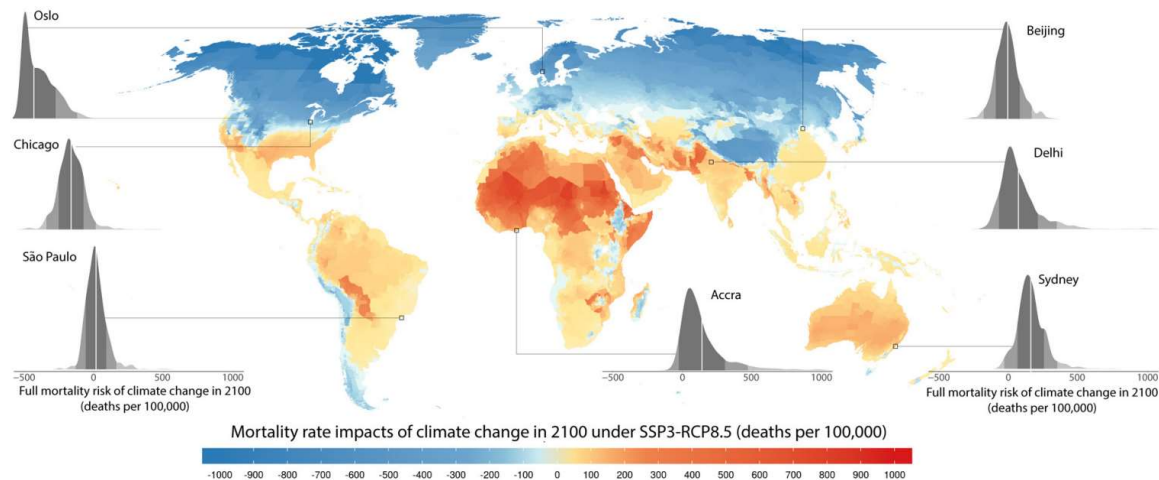
- **Not much; net capital inflows are primarily determined by interest rates at home and abroad.**
- **So, what happens?**
  - Tariff decreases the demand for the imported goods subject to the tariff.
  - Increases the value of the dollar, which
    - o Lowers our exports as domestic goods cost more to foreigners.
    - o Offsets some but not all of the effect of the tariff on total imports.
  - Net Effect (first approximation)
    - o Exports fall, **Total Imports** fall, no change in trade **balance**.
    - o Composition of imports changes while the relative share of non-tariffed imports rises.
    - o Winners and Losers?

# Net Exports and the Value of the Dollar



# Google Site

# Next Week How Damages Will Vary Globally: Mortality as an Example



## Let's Hear from You!

**Geoffrey Woglom**  
**[grwoglom@amherst.edu](mailto:grwoglom@amherst.edu)**

Contact NEED: [Info@NEEDEcon.org](mailto:Info@NEEDEcon.org)

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