

The State of the Recovery and the Challenges Ahead

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 Winston Salem Kiwanis Club
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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: 600+ members

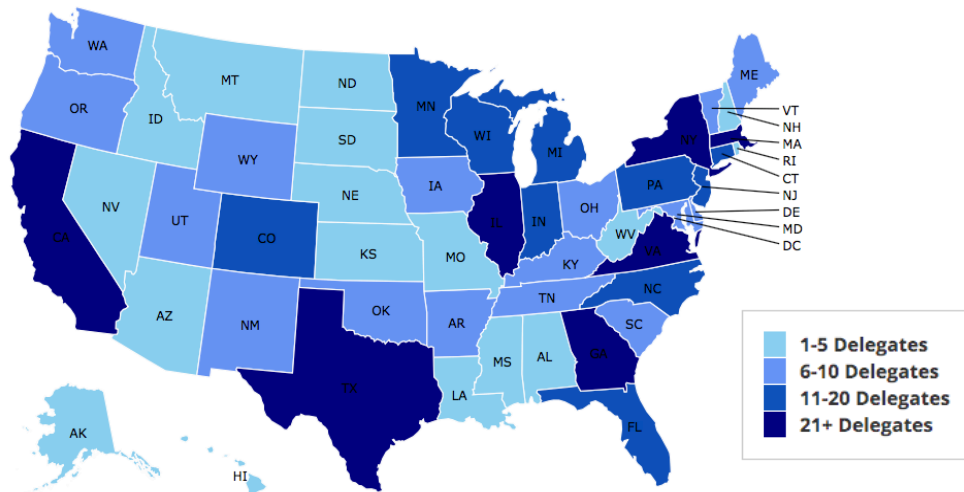
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

• Global Partners: 44 Ph.D. Economists

- Aid in slide deck development



Where Are We?



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 Monetary Policy



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Credits and Disclaimer

- **This slide deck was authored by:**
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- **This slide deck was reviewed by:**
 - Jon Haveman
- **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).



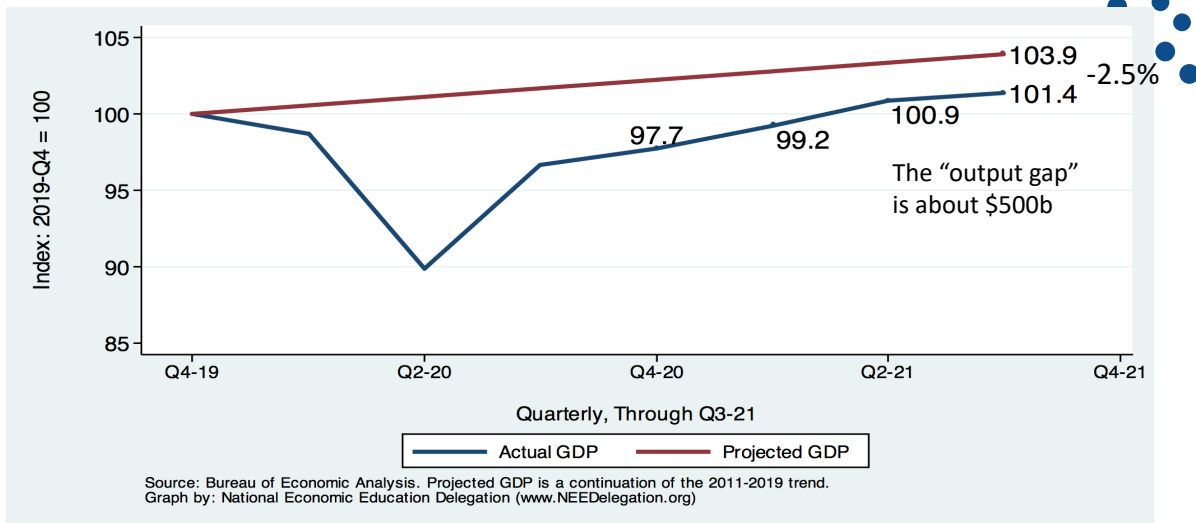
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Outline

- Quick Review of where the recovery stands.
- 3 Related economic puzzles all related to the persistence of inflation and the future of the recovery.
- Why are all eyes on the Fed next Wednesday.

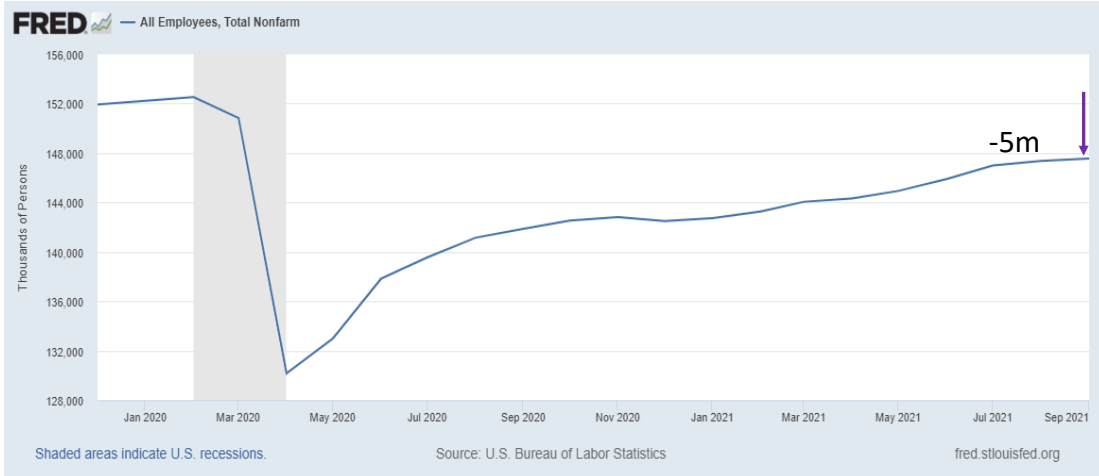
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Real GDP and Potential during the Recovery



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How about the Labor Market?



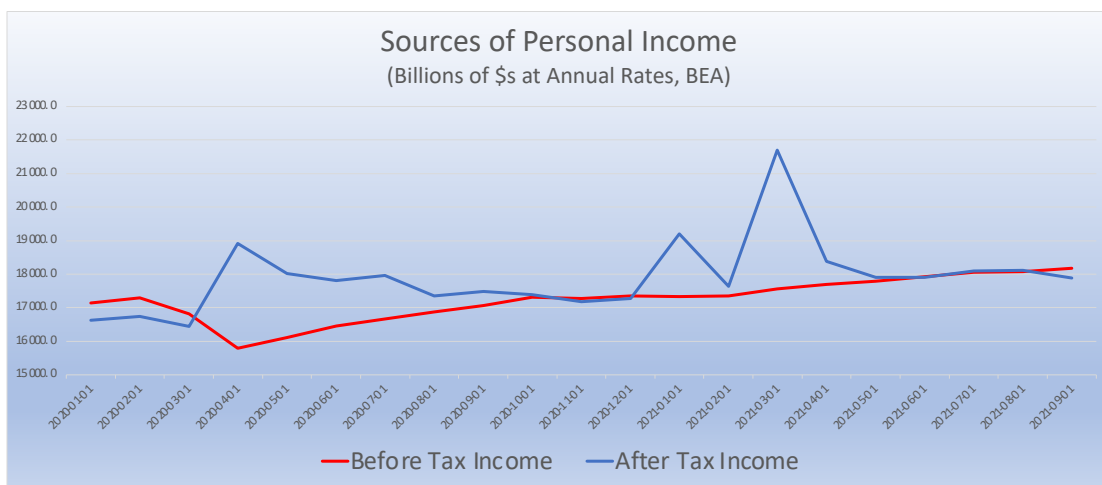
Source: BLS



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Recovery Due to Immense Fiscal Stimulus and Control of COVID



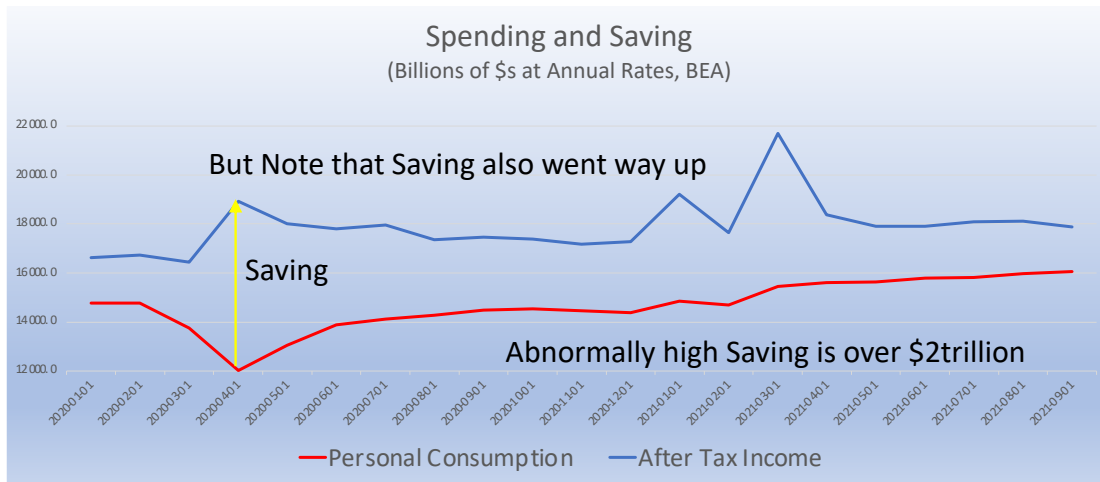
Source: BEA



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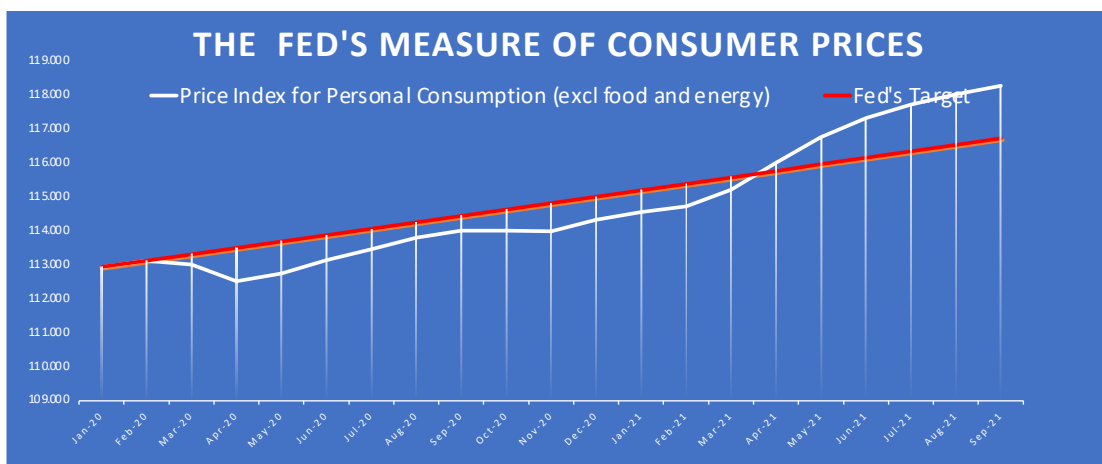
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Stimulus allowed Spending to Recover



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Inflation during the Recovery



Source: BEA

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Three Related Puzzles

1. How long will Supply Chain Bottlenecks persist?
2. Is there a Labor Shortage?
3. Will the increase In Inflation persist?

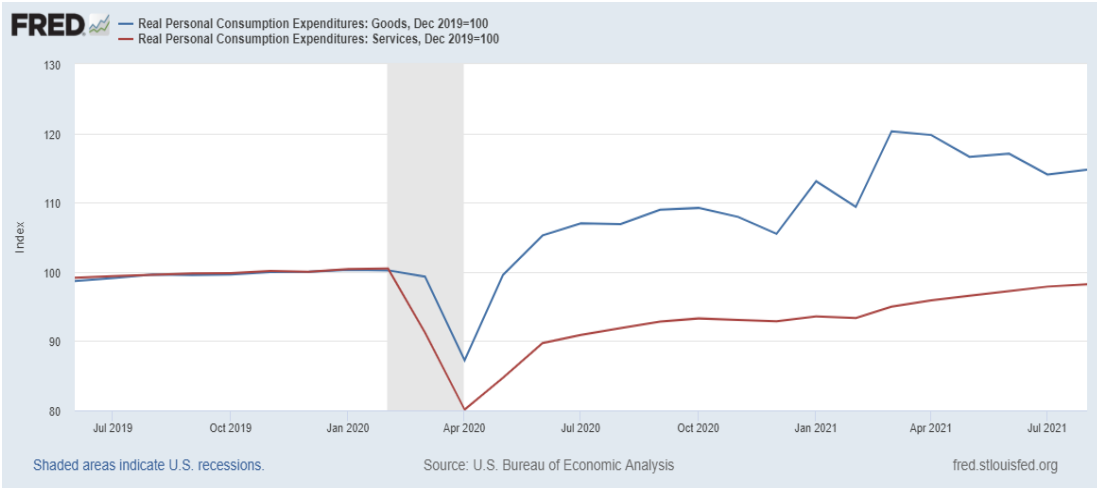
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1. Supply Chain Bottlenecks

- **Transportation Issues:**
 - Shortage of port workers.
 - Minnesota Trucking Association estimates 60,000 person shortage of truck drivers (*The Atlantic*, 10/7/21).
- **But, also an increase in demand for goods relative to services.**

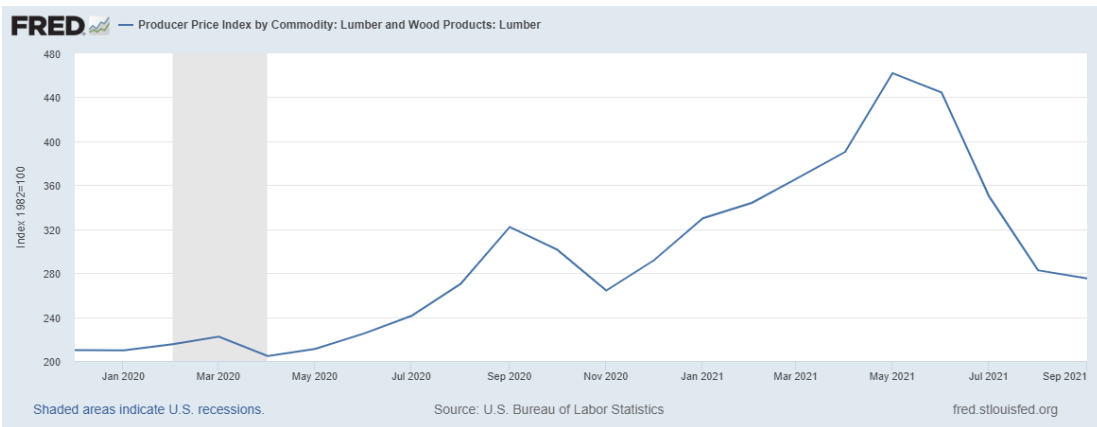
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Bottlenecks Are Not Just Supply Issues



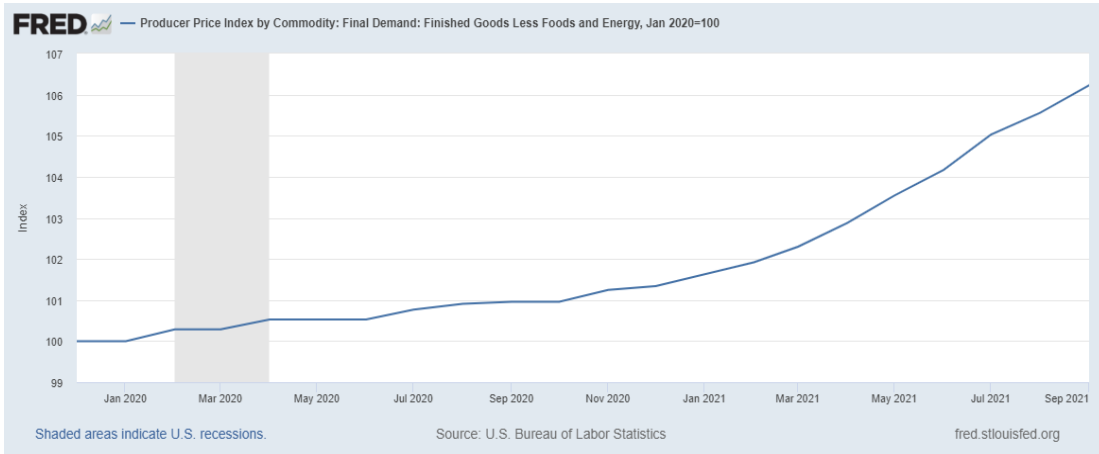
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Econ 101: Market Response to a Temporary Shortage



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Overall, Producer Prices are Still Rising



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2. Crazy Labor Market



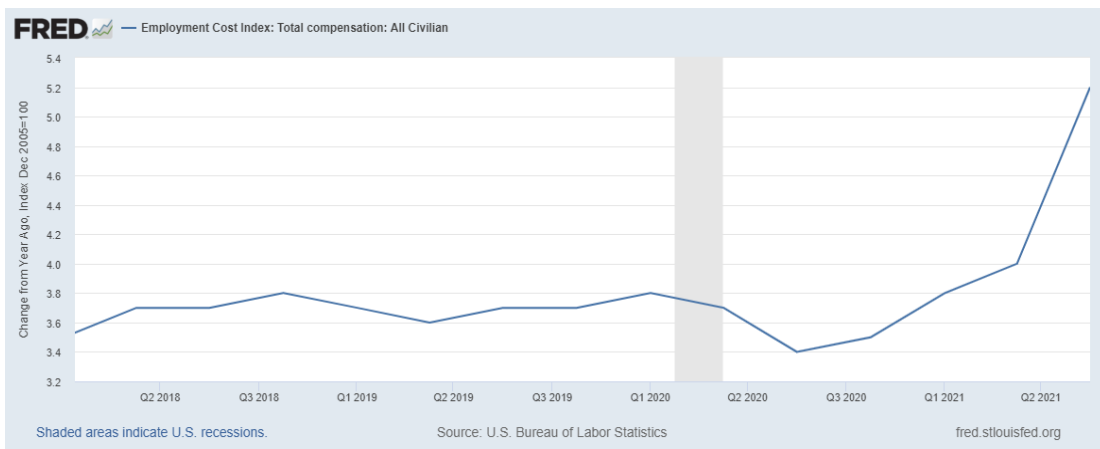
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Explanations of Labor Shortage

- 1. Too generous unemployment benefits.
- 2. Covid Fears and Family responsibilities.
- 3. Mismatch of available workers and jobs.

This Friday we get a reading on employment and unemployment from the BLS

Whatever the Reason: Labor Costs Are Rising



3. Democratic Economists Disagree

Former Treasury Secretary Larry Summers, 10/13/2021:

“We’re in more danger than we’ve been during my career of losing control of inflation in the U.S.,” the 66-year-old Summers,..., said.

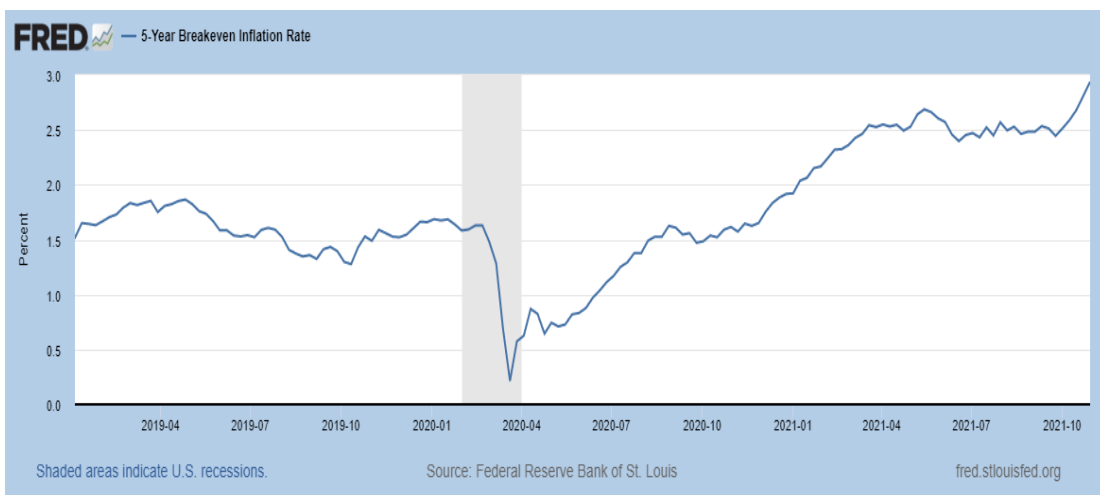
Current Treasury Secretary Janet Yellen, 10/24/2021:

“I don’t think we’re about to lose control of inflation,” Yellen said, “Americans haven’t seen inflation like we have experienced recently in a long time. But as we get back to normal, expect that to end.”

Yellen in the Spring, 3/14

“We have had very well anchored inflationary expectations, and a Federal Reserve that’s learned how to manage inflation.”

Have We Lost Our Anchor?



So, What's the Problem?

If the Fed sees persistent inflation, can't they just raise interest rates?

- **Economic Problems**

1. Total Spending has tremendous inertia, it could take months for a rise in interest rates to slow spending;
2. Significant danger of "overshooting." What would a substantial rise in interest rates do to stock prices, financial stability, Federal deficit?

- **Political Economic Problem**

1. Would the Fed raise rates with the 2022 elections pending?
2. A substantial rise in rates would make our deficit and debt problems much, much worse.



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Thank you!

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