



# *Osher Lifelong Learning Institute, Summer 2024*

## **Contemporary Economic Policy**

OLLI – University of California  
June, 2024

Jon Haveman, Ph.D.  
National Economic Education Delegation

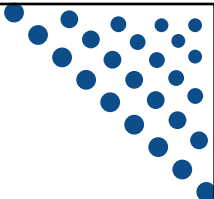


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1

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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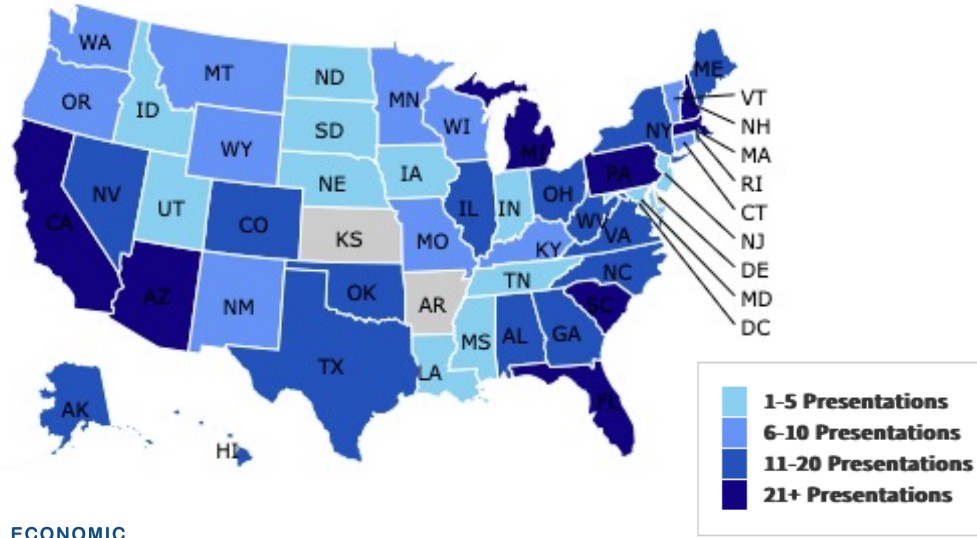
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2

2



## Where Have We Presented? (1,150 Talks)



5

## 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
- Healthcare Economics

6

# Course Outline

- **Contemporary Economic Policy**

- **Week 1 (6/4): US Economic Update (Jon Haveman, NEED)**
- Week 2 (6/11): Economics of Immigration
- Week 3 (6/18): Federal Debt
- Week 4 (6/25): Taxes: Rebellion, Rascals, and Revenue

7

# US Economic Update

## OLLI – University of California

June 4, 2024  
Jon Haveman, Ph.D.  
NEED

8



## Credits and Disclaimer

- **This slide deck was authored by:**

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- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

- **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).



9

## Outline

- **About the U.S. Economy**
- **Economic Indicators**
- **Inflation/Federal Reserve**



10

# The U.S. Economy

11

## Some Basic Statistics, April 2024

Statistic:	Value
Population	336.5 Million
Labor Force	168.0 Million
Employment	161.5 Million
Gross Domestic Product (GDP)	\$28.3 Trillion
Income per Capita	\$70,328
Ave. Hourly Earnings	\$34.75

12

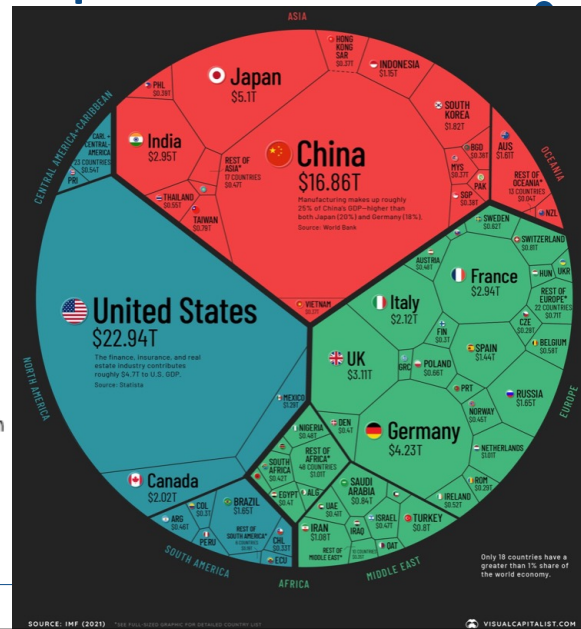
# U.S. Economy in Global Perspective

## U.S. Nominal GDP:

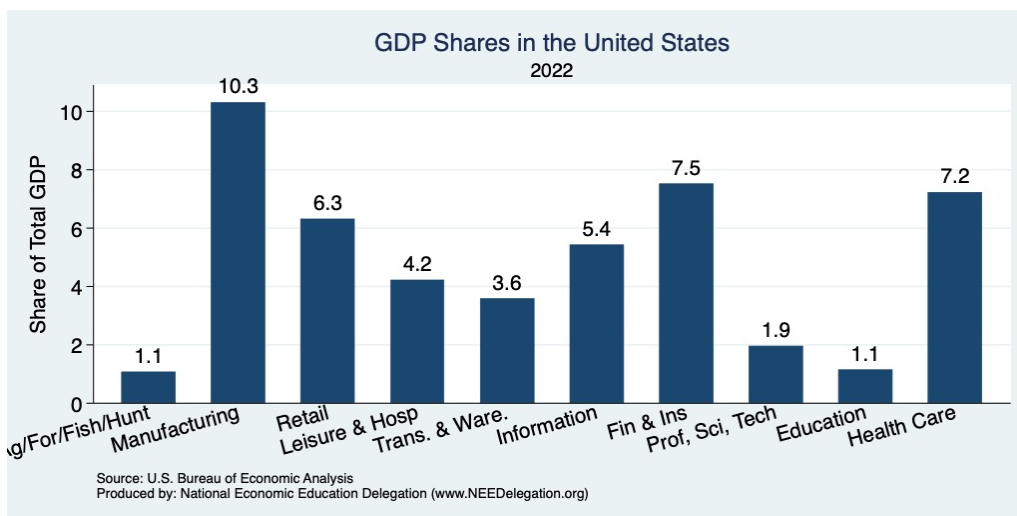
**\$21.5 trillion** in 2019-Q4  
**\$19.6 trillion** in 2020-Q2  
**\$28.3 trillion** in 2024-Q1

## % Share of the Global Economy

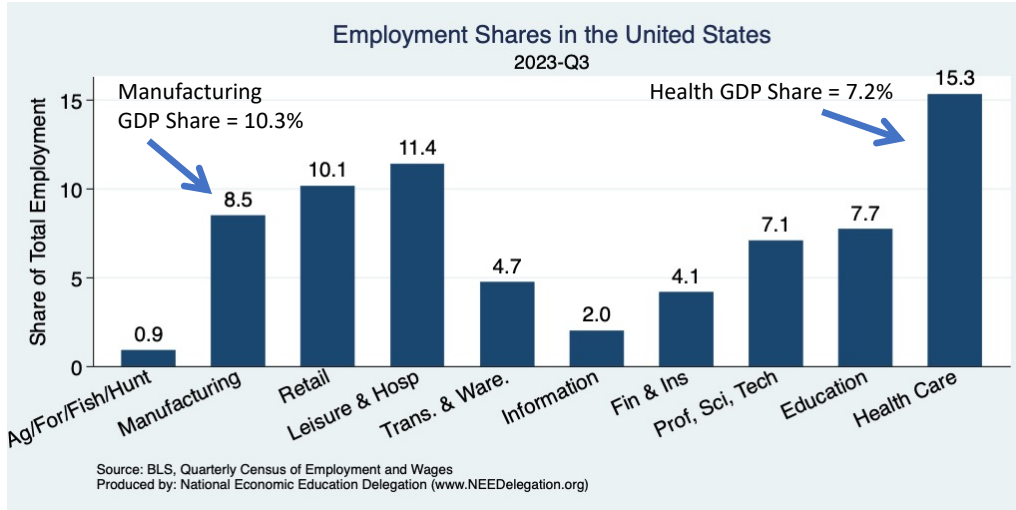
The 173 countries outside the top 20 make up less than a fourth of the total global economy.



# Composition of the U.S. Economy: GDP



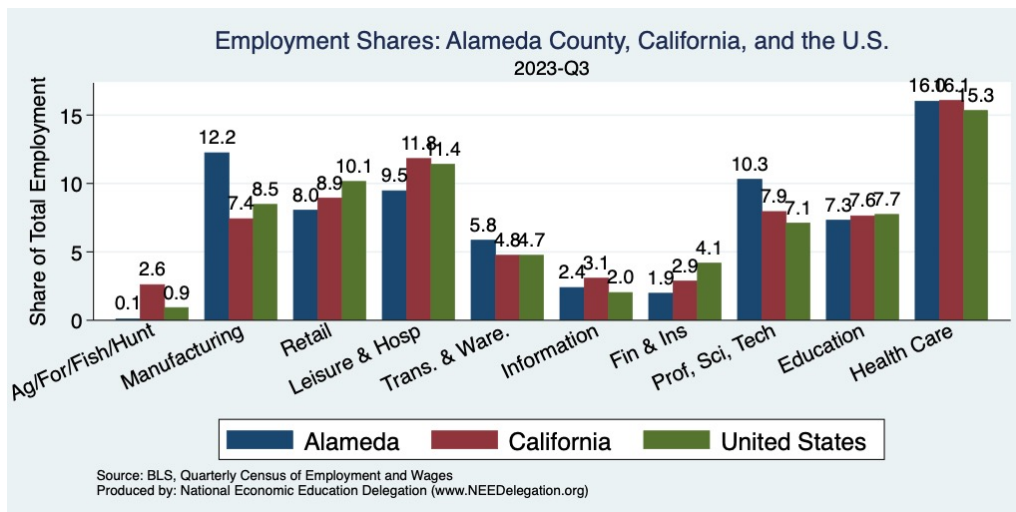
## Composition of the U.S. Economy: Employment



Note: Does not add to 100% because of omitted sectors.

15

## Alameda County Economy: Employment



Note: Does not add to 100% because of omitted sectors.

16



# More Local Charts

[www.NEEDecon.org/LocalGraphs](http://www.NEEDecon.org/LocalGraphs)

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17

17



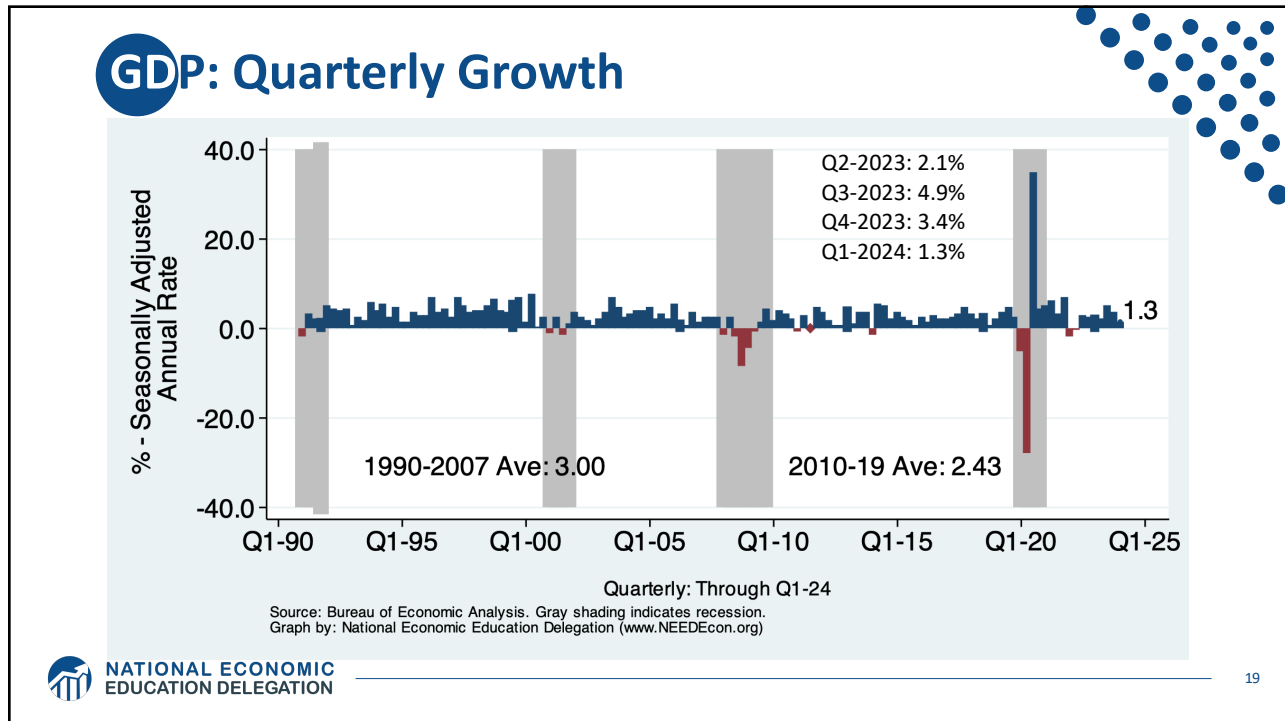
# Economic Indicators

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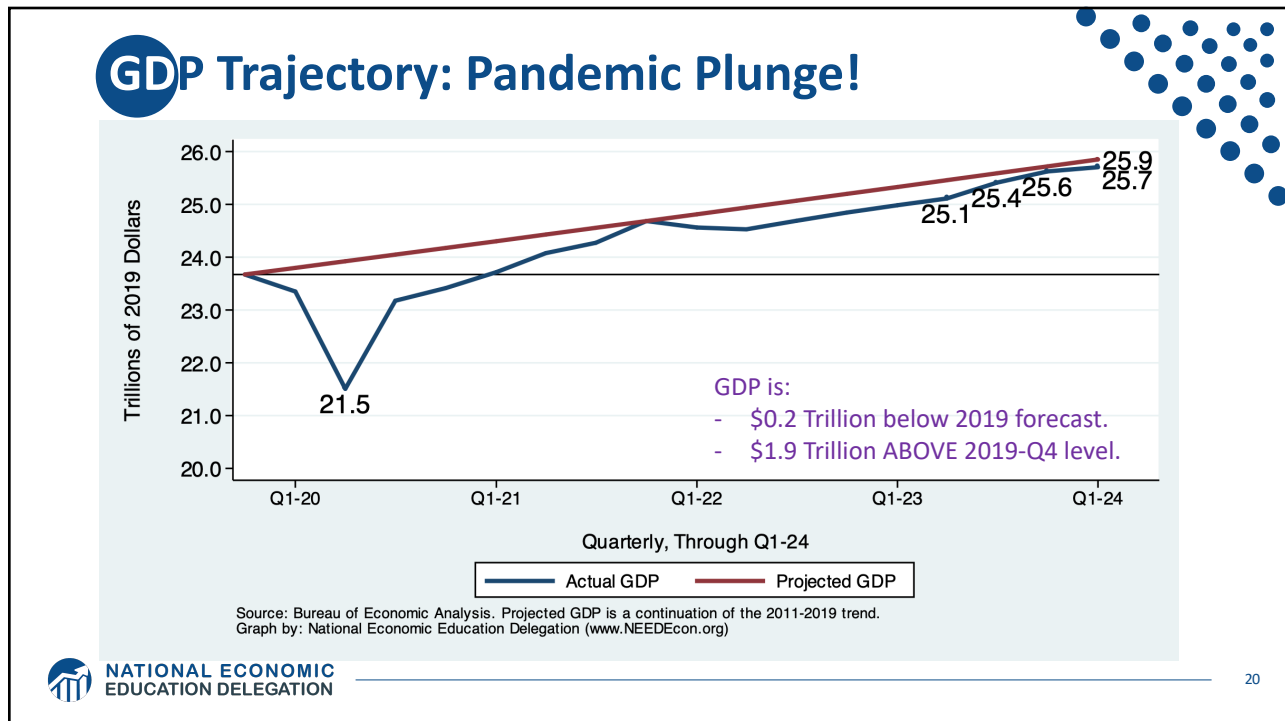
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18

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19



20

# “Accounting” for GDP

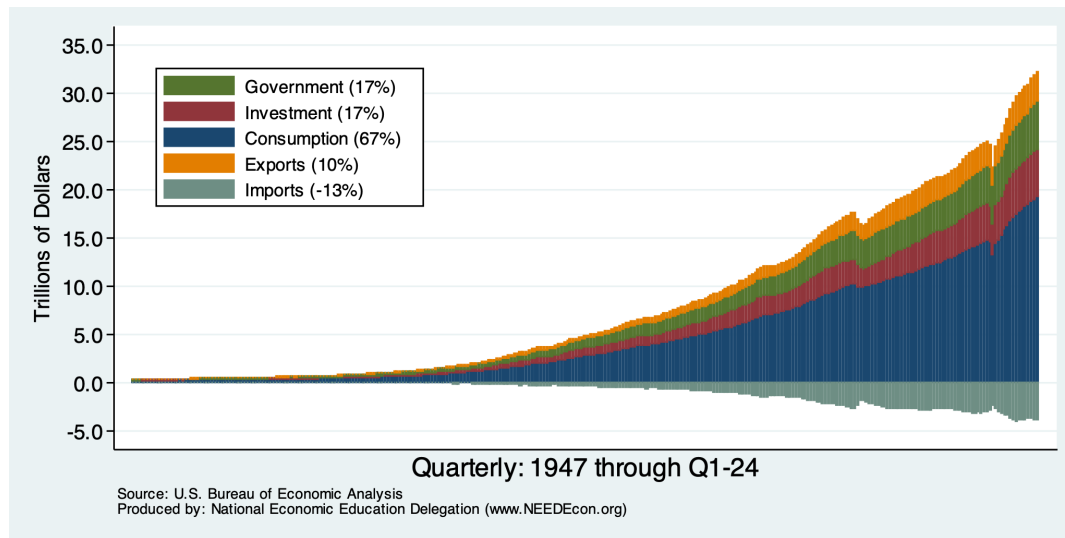
- Expenditures drive GDP growth.

- GDP is the sum of four categories of spending:
  - o Consumption
  - o Investment
    - Plant and equipment, software, residential real estate, and inventories.
  - o Government spending
  - o Net Exports: Exports – Imports
    - Imports are subtracted to make the accounting work.
    - It is not because imports are a bad thing.

- **GDP = Consumption + Investment + Government + Net Exports**

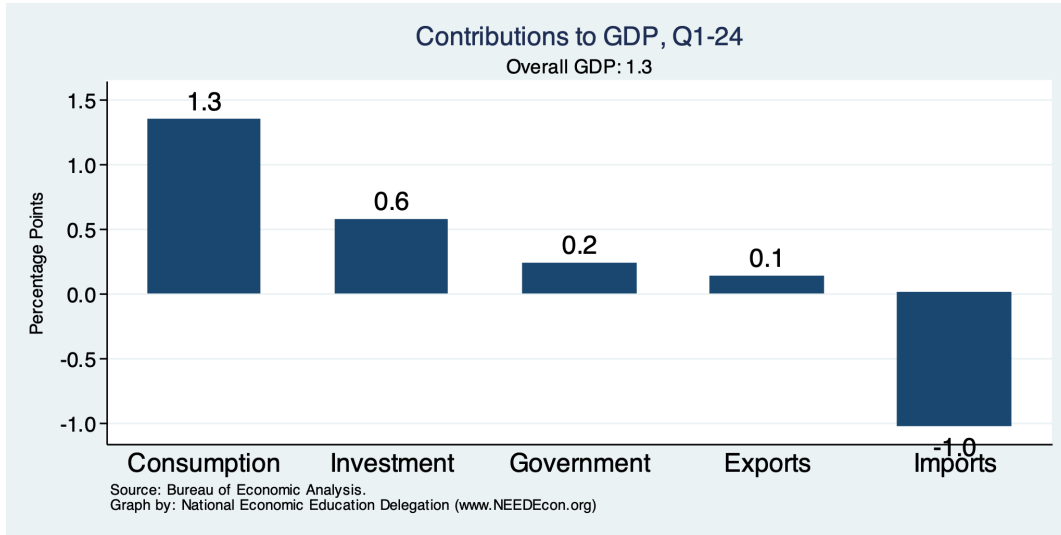
21

# Composition of GDP



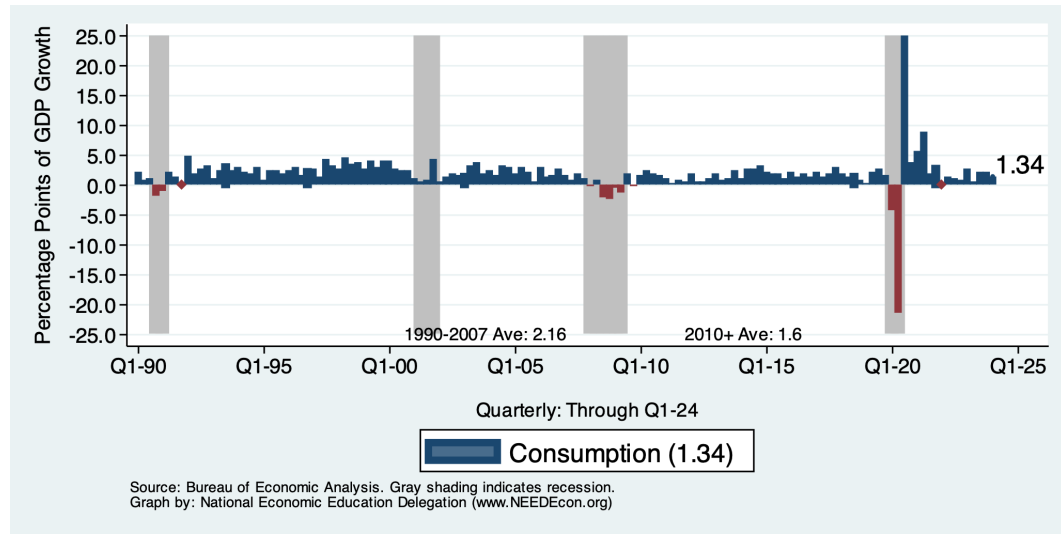
22

## What Have You Done For Me Lately?



23

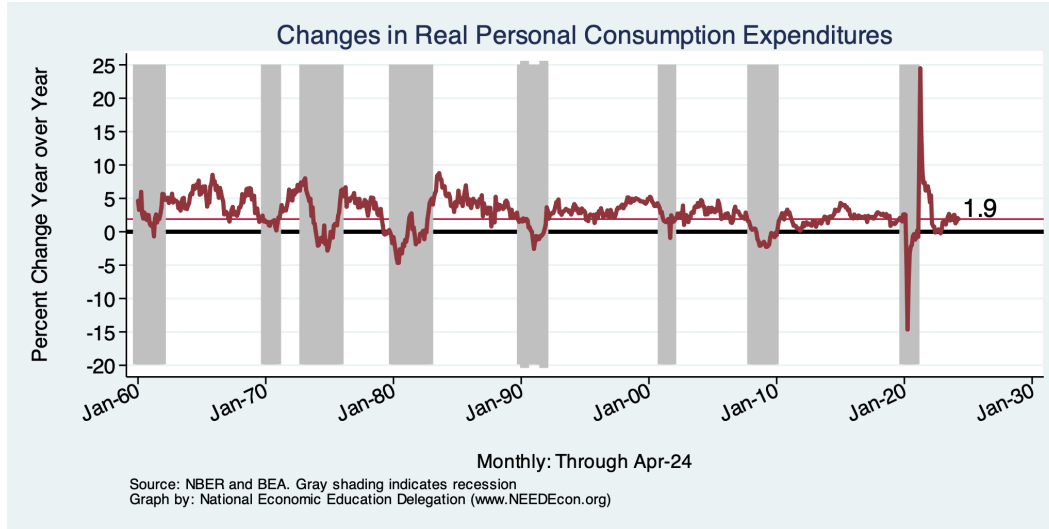
## Contribution to GDP Growth: Consumption



24

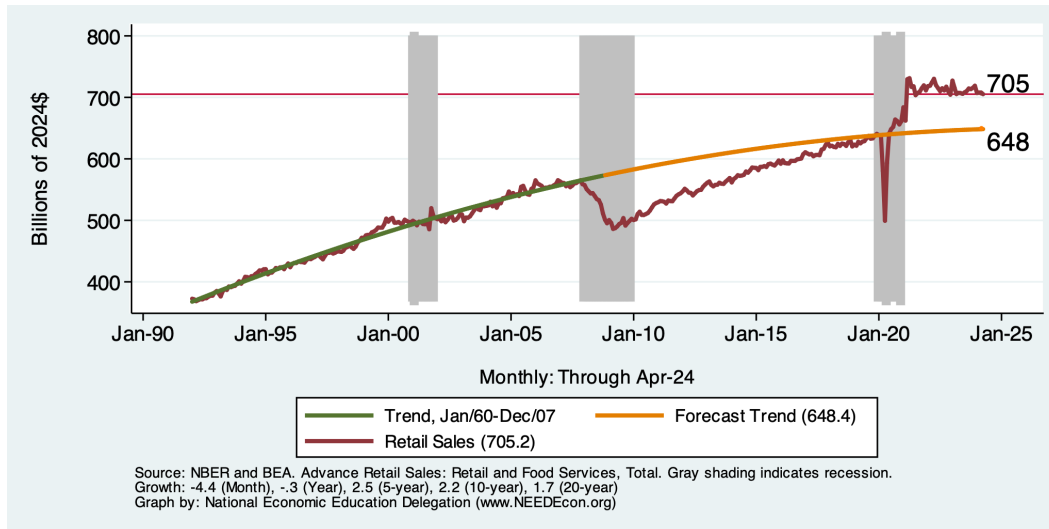


# Personal Consumption Expenditures



25

# Retail Sales Remain Elevated!

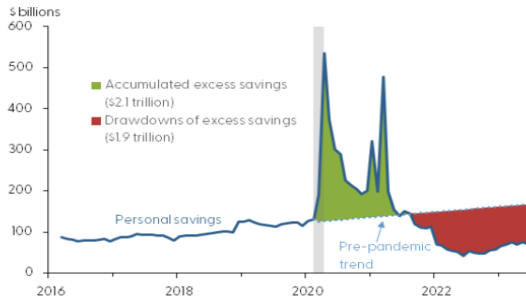


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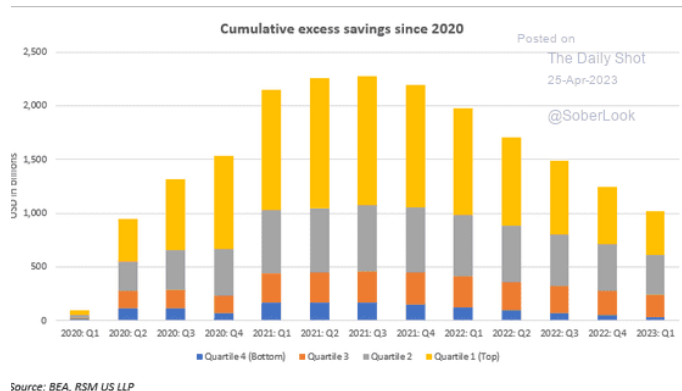
# Policy Effects: Fiscal

- 2020-2021: massive stimulus, \$4.6t: Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.

## Aggregate Personal Savings



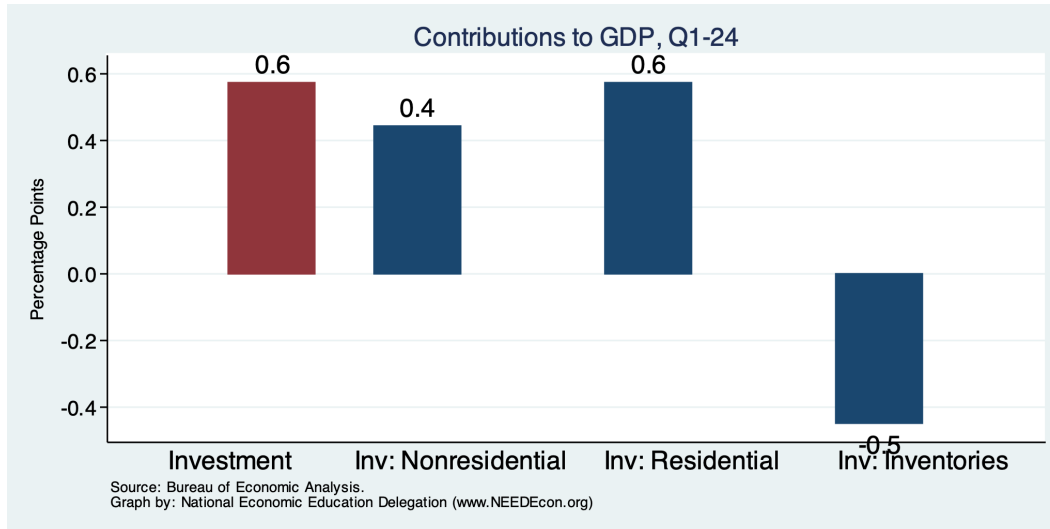
Source: Abdelrahman, Hamza et al., "Excess No More? Dwindling Pandemic Savings," Federal Reserve Bank of San Francisco, Aug. 2023. <https://www.frbsf.org/our-district/about/sf-fed-blog/excess-no-more-dwindling-pandemic-savings/>



Source: BEA, RSM US LLP

27

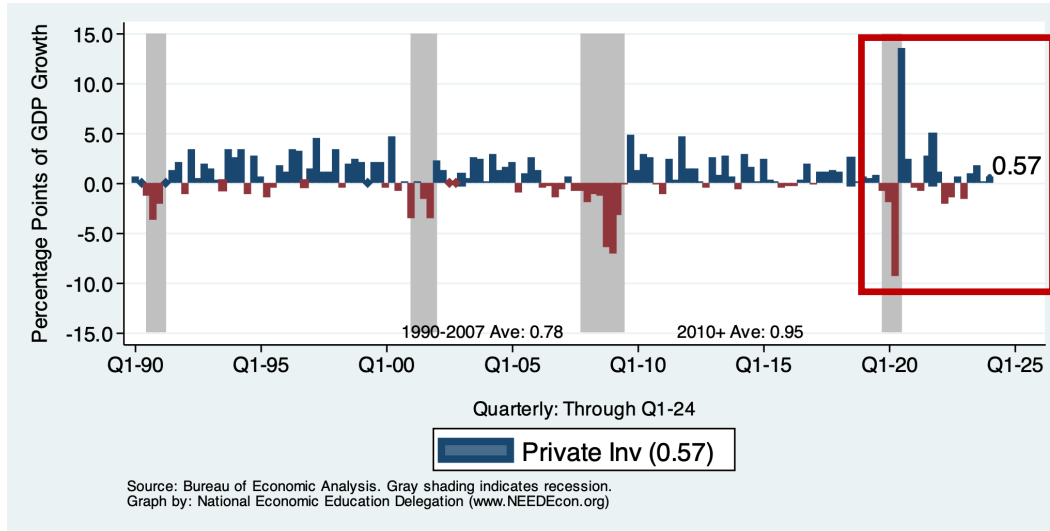
# Contributions to GDP: Investment Components



Source: Bureau of Economic Analysis.  
Graph by: National Economic Education Delegation (www.NEEDecon.org)

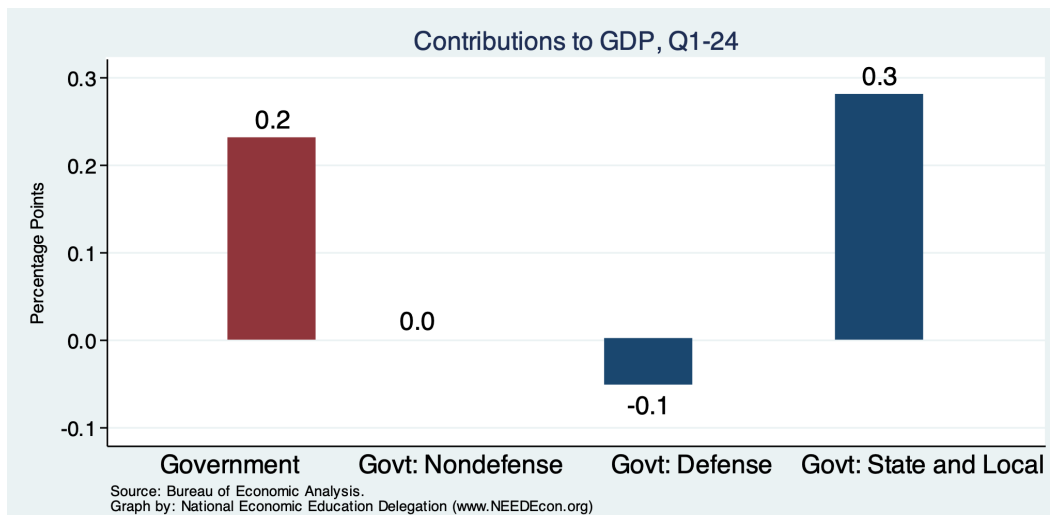
28

## Contribution to GDP Growth: Investment



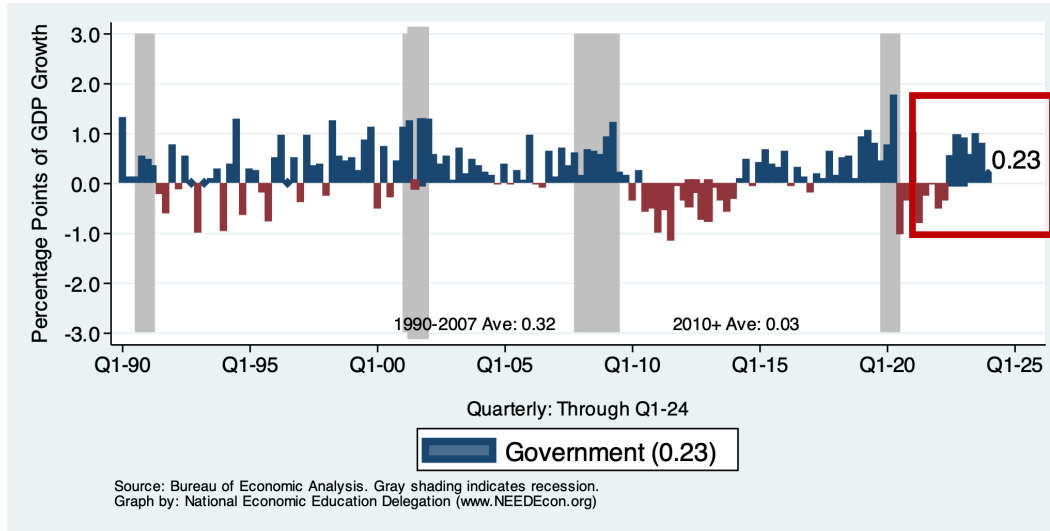
29

## Contributions to GDP: Government



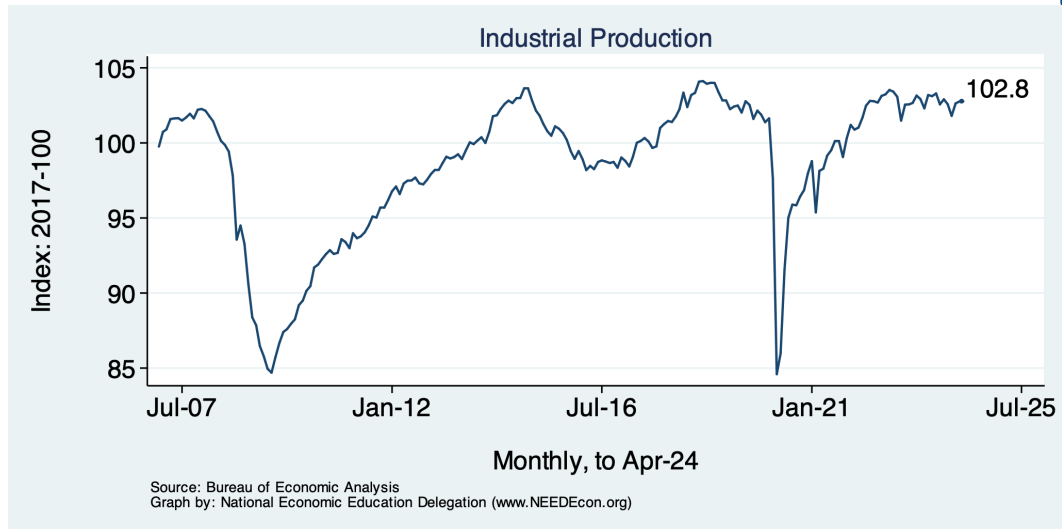
30

## Contributions to GDP: Government



31

## Industrial Production (Manuf, Util, Mining)



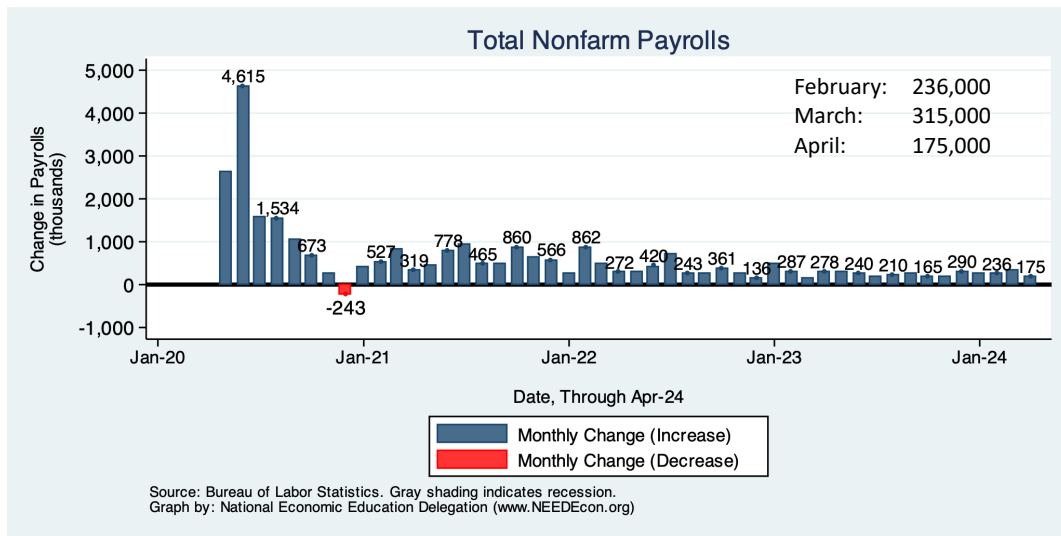
32

# Employment



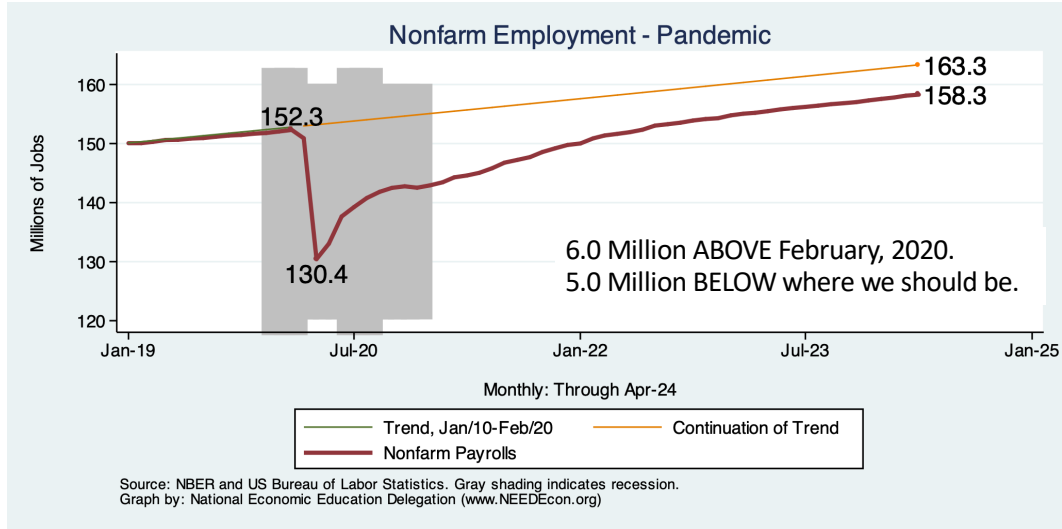
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## Monthly Changes in Nonfarm Employment



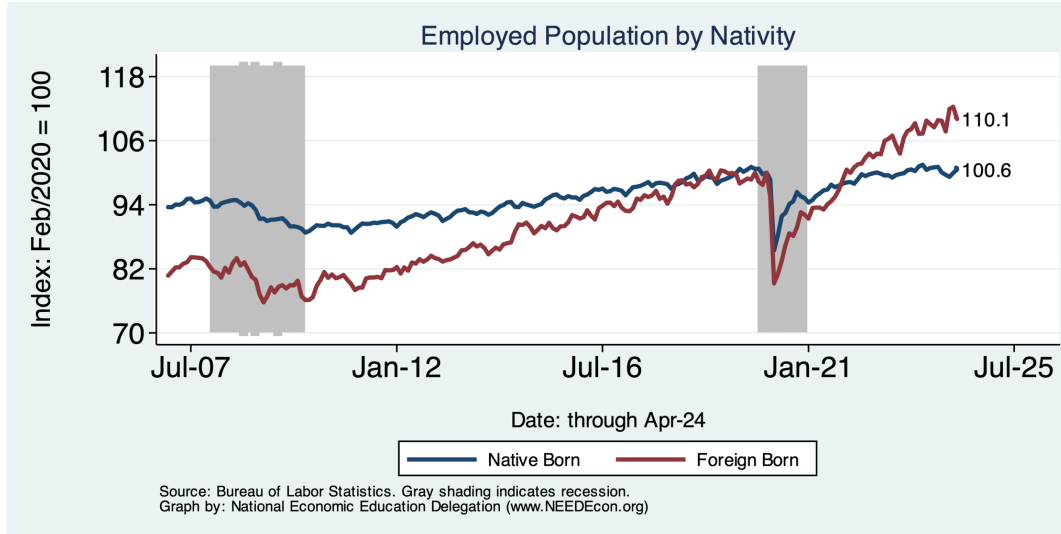
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# Employment Gap



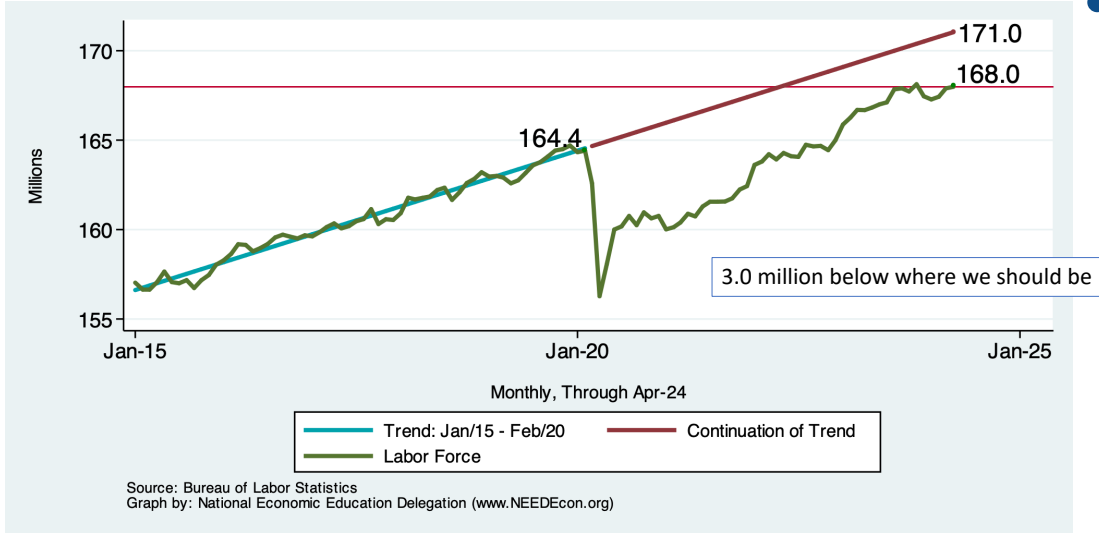
35

# Immigrants to the Rescue?



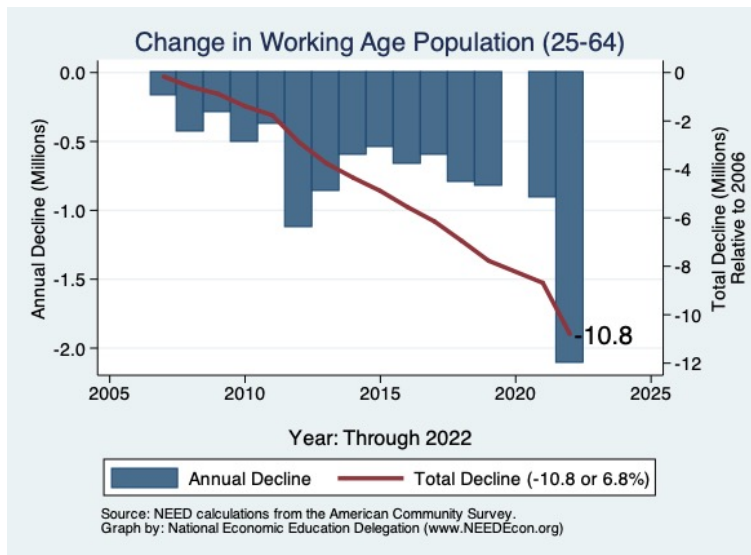
36

## Where Have All the Workers Gone?



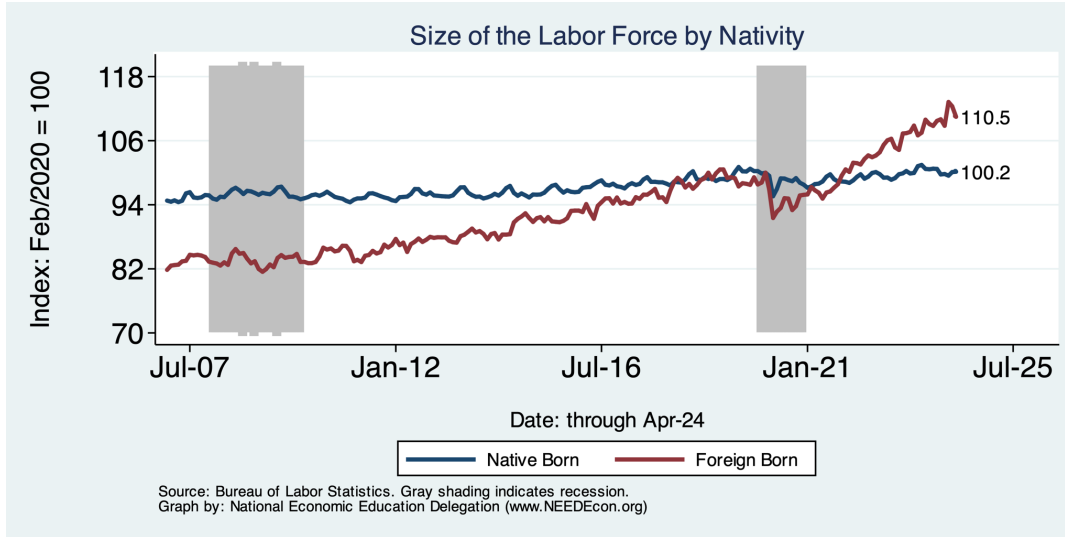
37

## Too Many People Are Retiring!



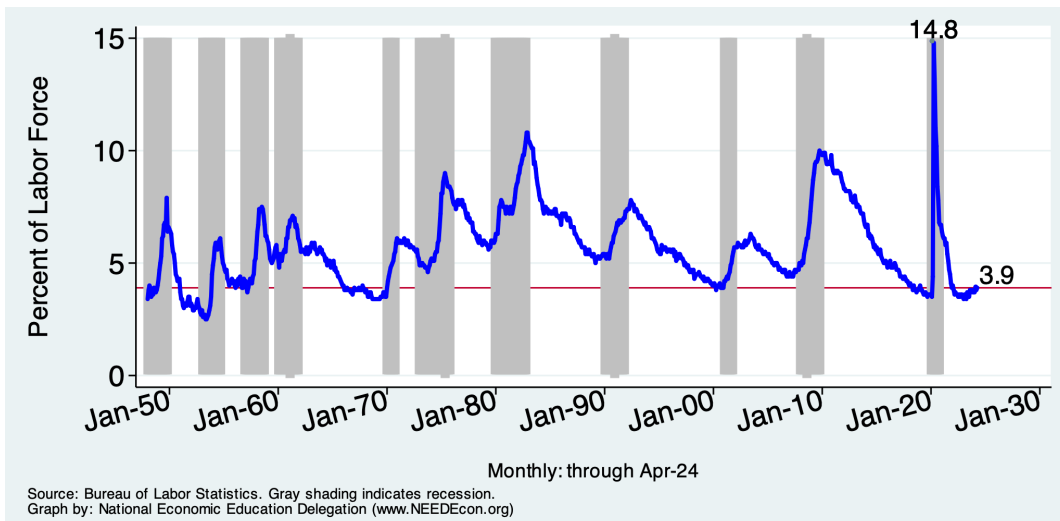
38

## Immigrants to the Rescue?



39

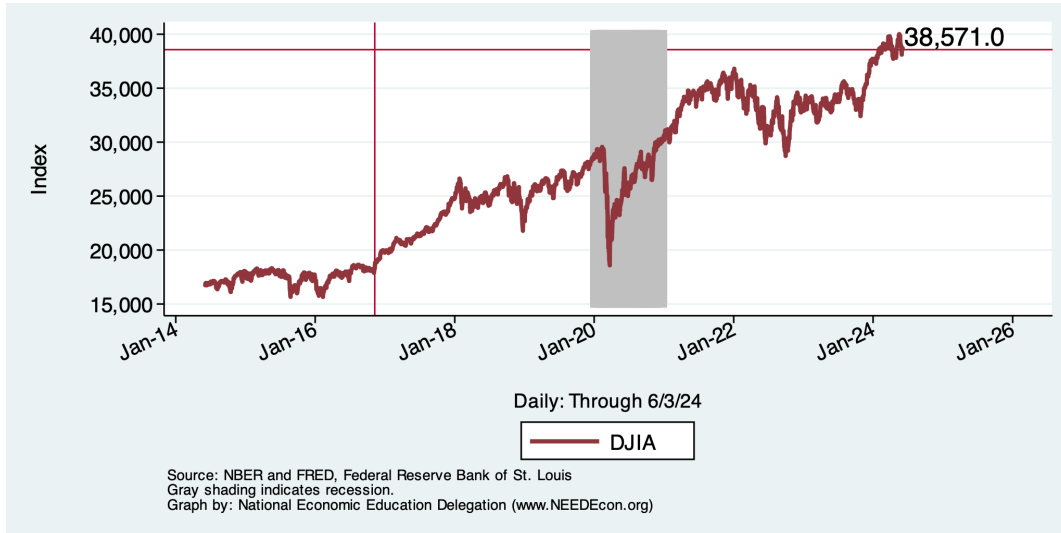
## What About Unemployment?



40

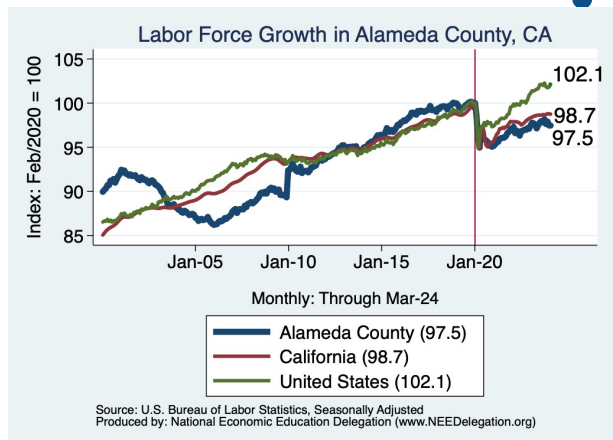
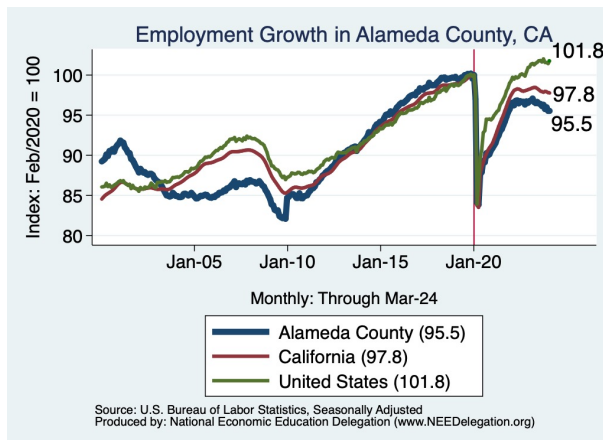


## And Stocks? Way up!



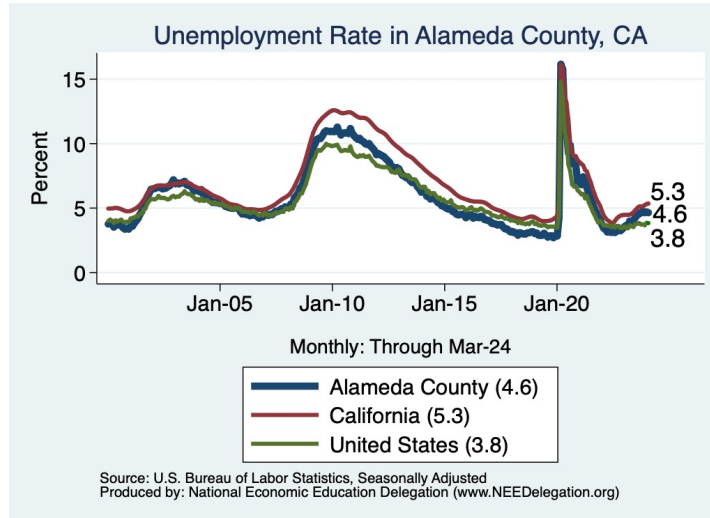
41

## How Are Things Where You Are?



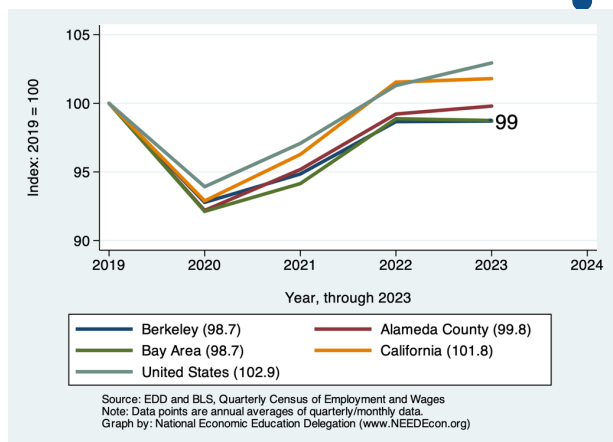
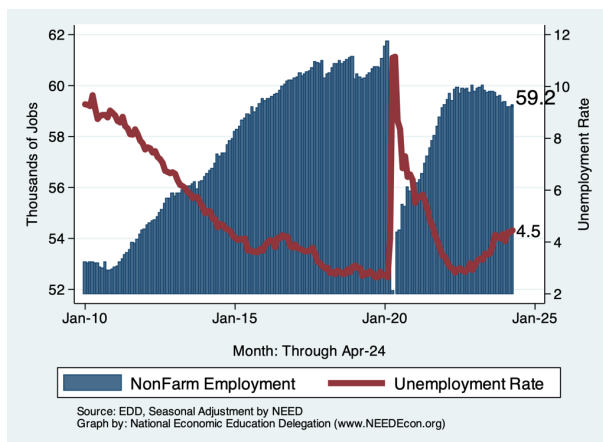
42

# How Are Things Where You Are?



43

# How Are Things Where You Are?



44

## Economy Overall

- **Continues to chug along**

- GDP growth has been consistent with the last decade.
- Employment continues to grow, but slowing.
  - o Hampered by lots of early retirements!
  - o Labor force is still too small.
  - o Thank goodness for immigrants!
- Inflation.....

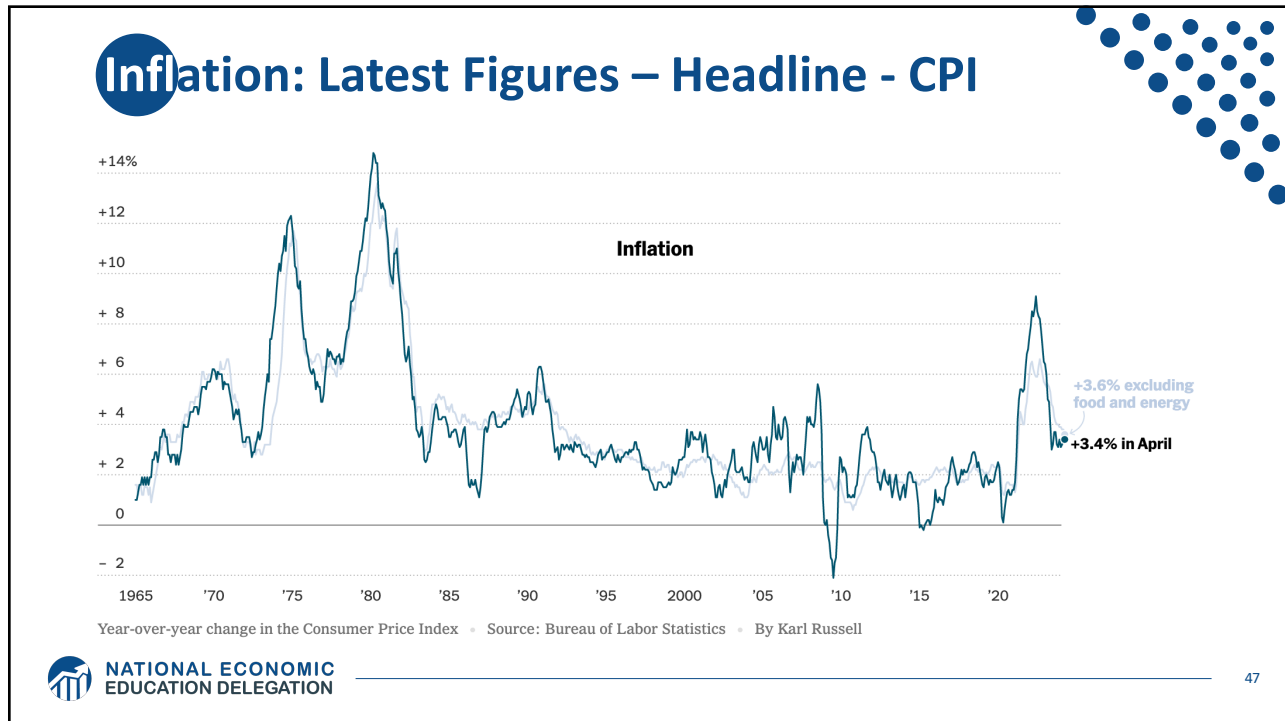


45

## Inflation



46



47

## How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

### Demand-Pull

**EXCLUSIVE SNEAKERS**  
~~\$100~~ \$150

When demand for goods/service exceeds production capacity.

### Cost-Push

**BALLOONS**  
~~\$5~~ \$10

**HELIUM**  
~~\$10~~ \$20


When production costs increase prices.

### Built-In

**PRICES**

**WAGES**

When prices rise, wages rise too, in order to maintain living costs.



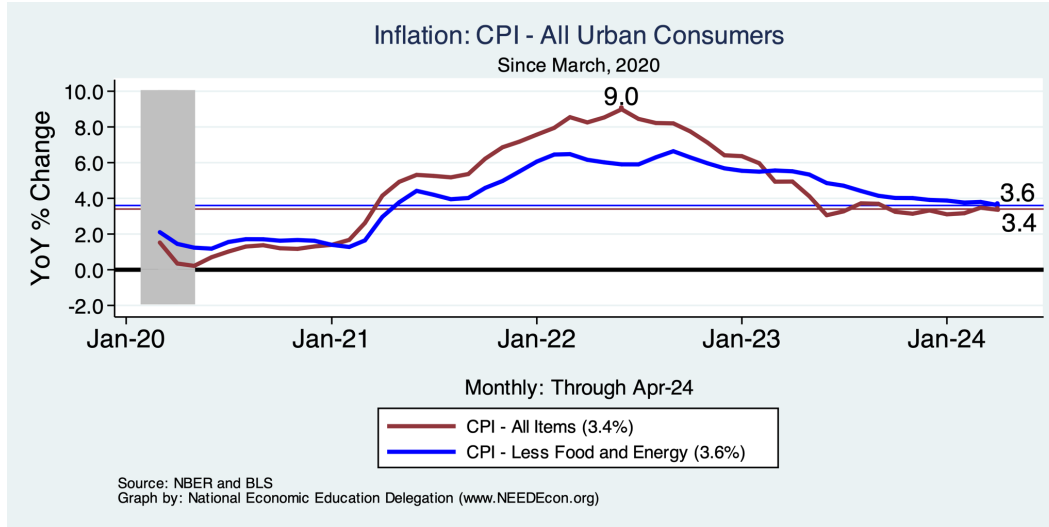
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Source: Investopedia

48

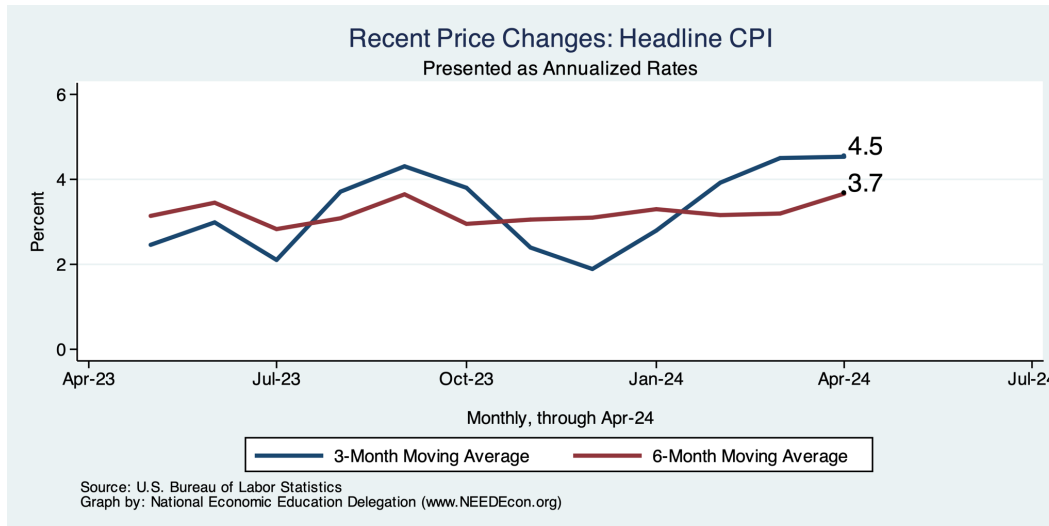
48

## That Brings us to the Pandemic

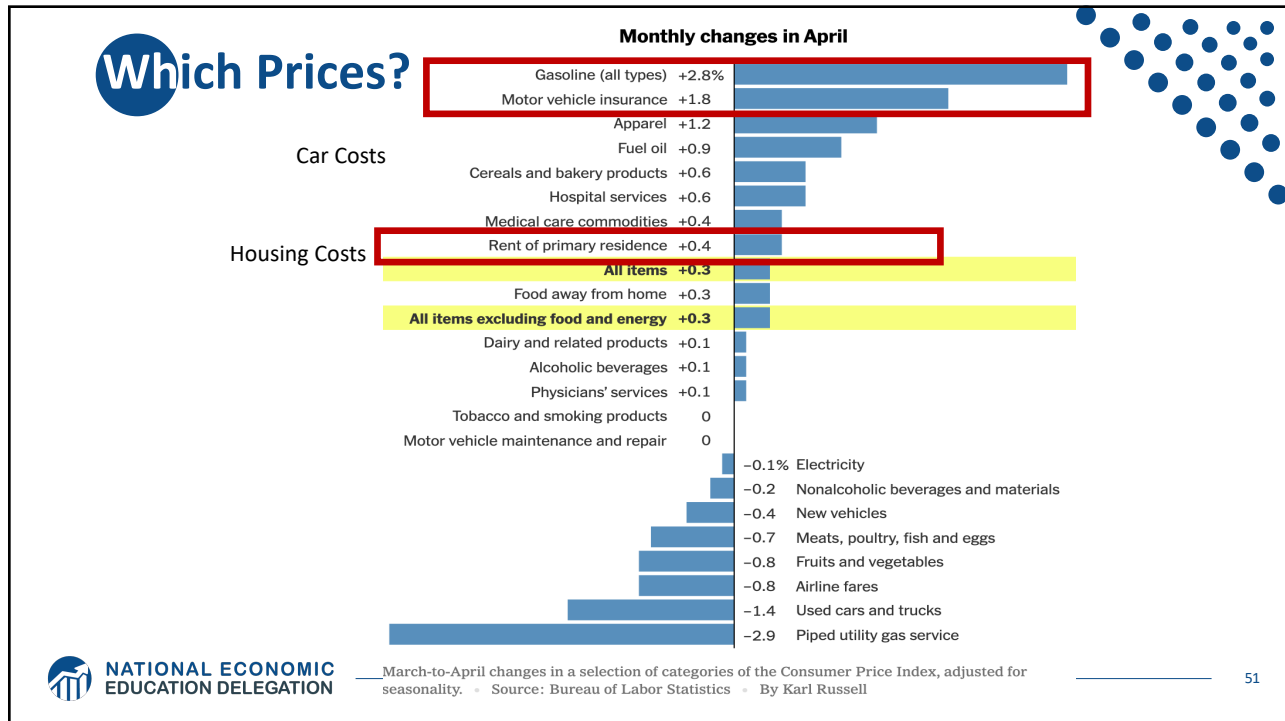


49

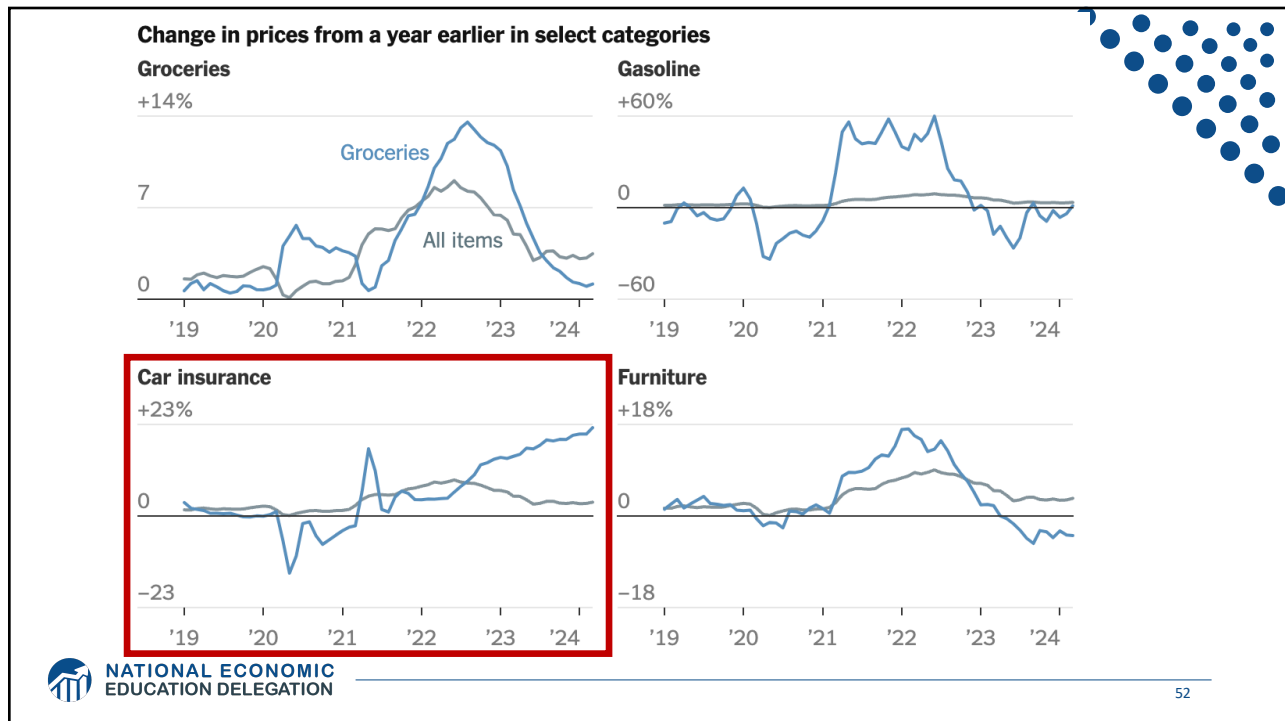
## Inflation in the Last 6 Months – Not Good.



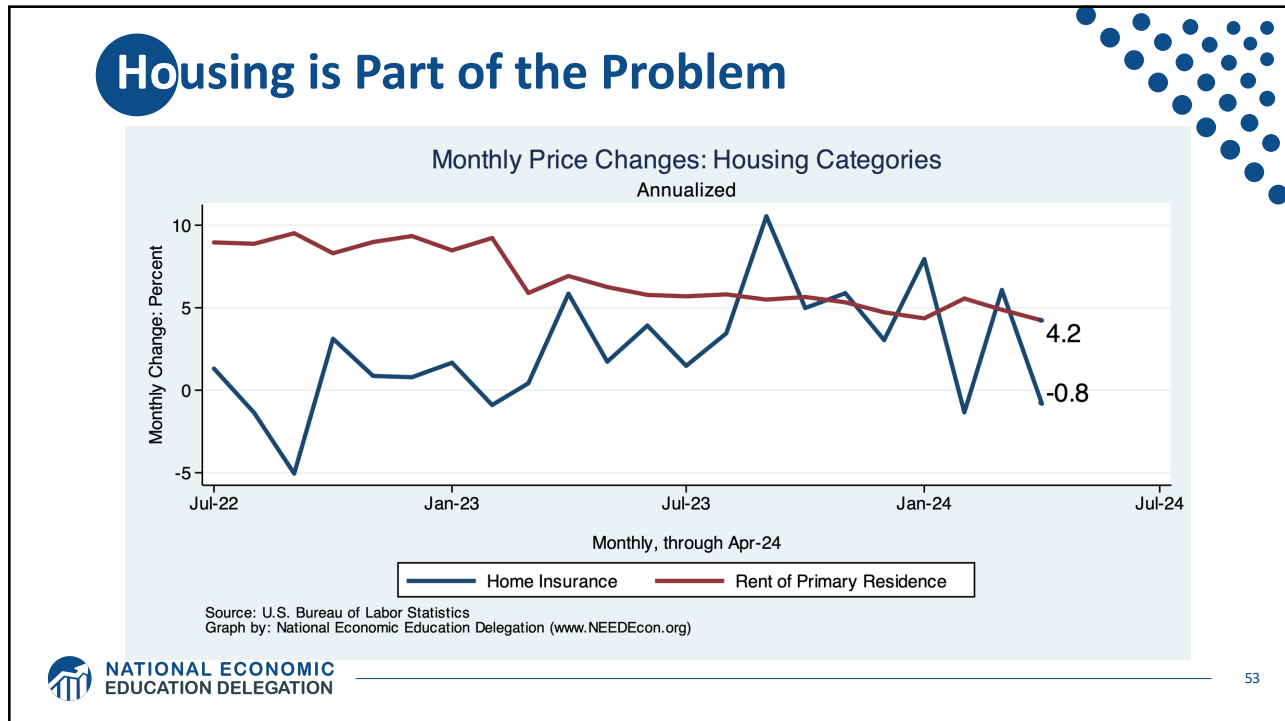
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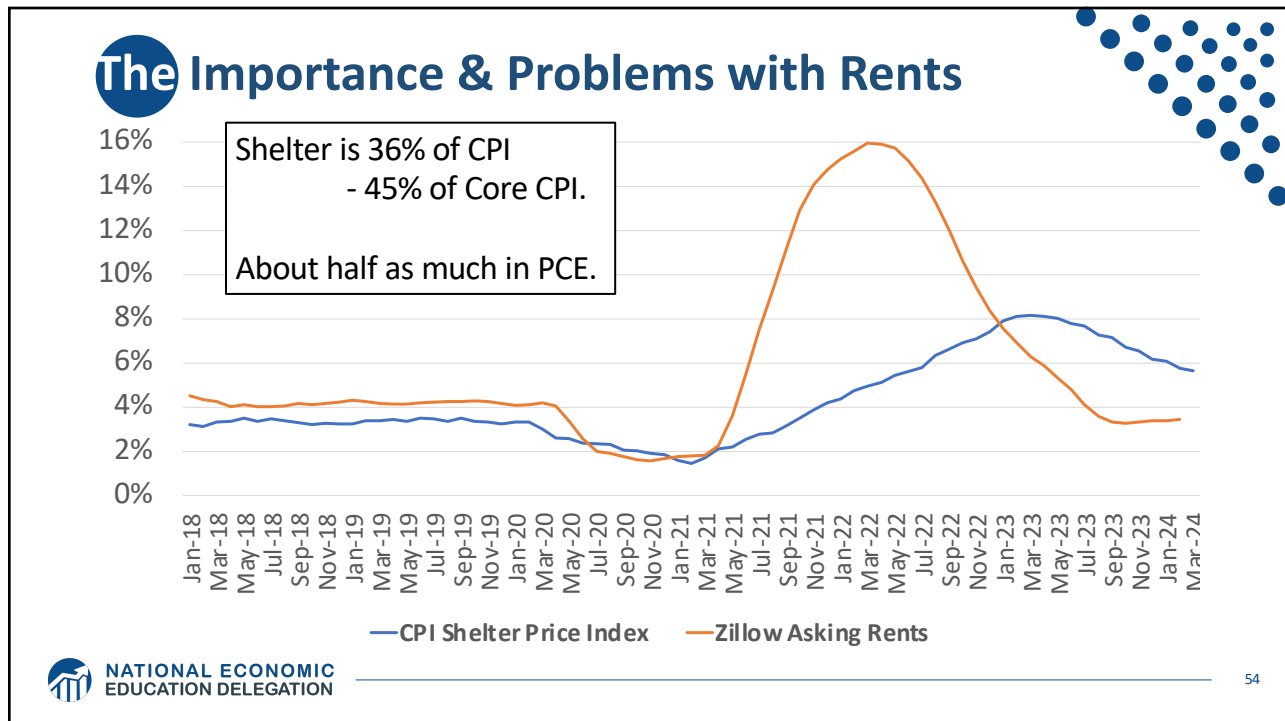
51



52

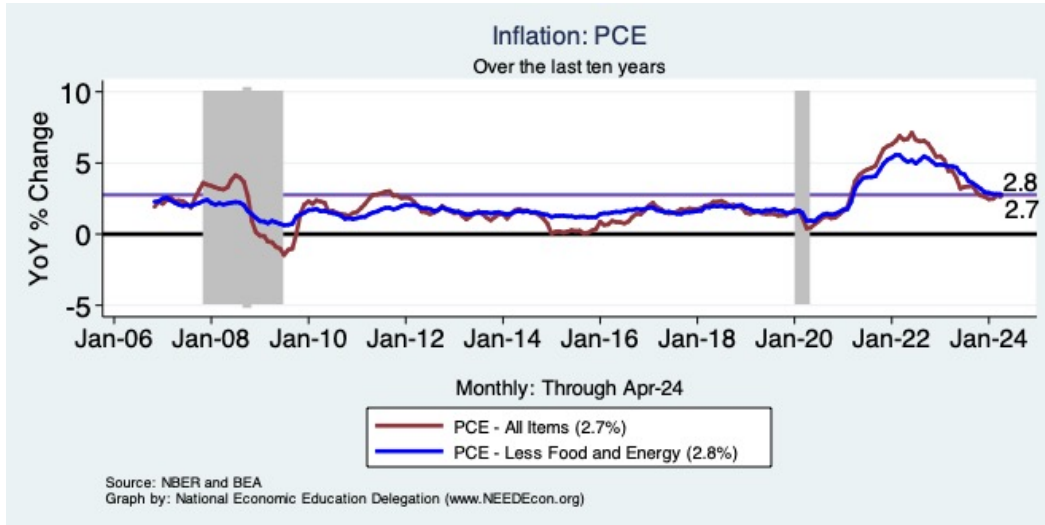


53



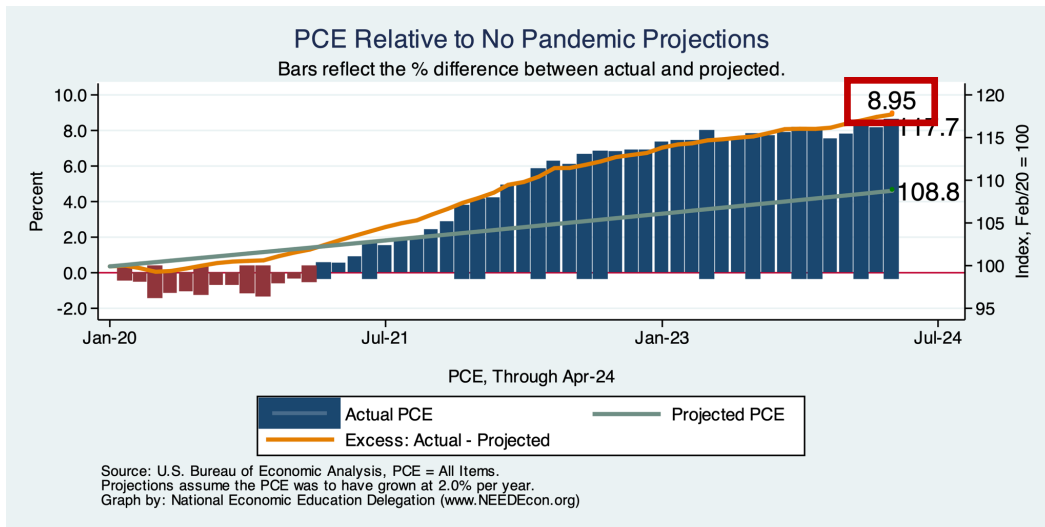
54

## Fed's Preferred Measure: PCE



55

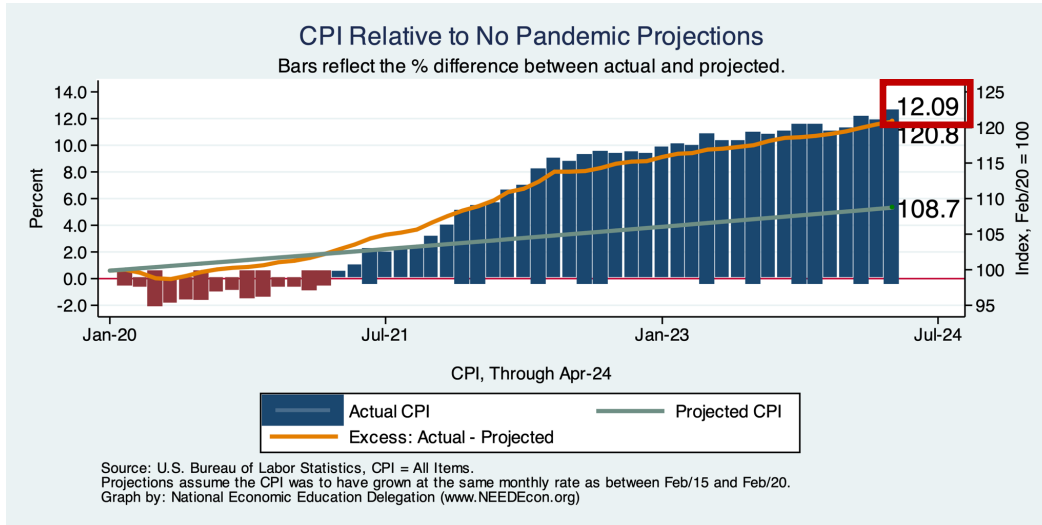
## PCE Deviation from Target



56



## CPI Deviation from Target



57

## PCE vs CPI – What’s the Difference?

- **Scope**
  - CPI – urban      PCE – more comprehensive
- **Formulas**
  - Many different formulas to choose from. BEA vs BLS.
  - Important: PCE updates purchasing patterns more frequently.
- **Weights**
  - E.g., housing
- **Other reasons**
  - Sometimes choose to measure prices differently.

58

## About that 2% Target

- **There is no specific basis for it.**
- **Head of the New Zealand central bank said: I'm targeting 2%.**
  - Everybody else said: ok, let's do that.
- **Will it be ok if inflation stays at around 3.5%?**
  - Probably.
  - Unless you're running for president.

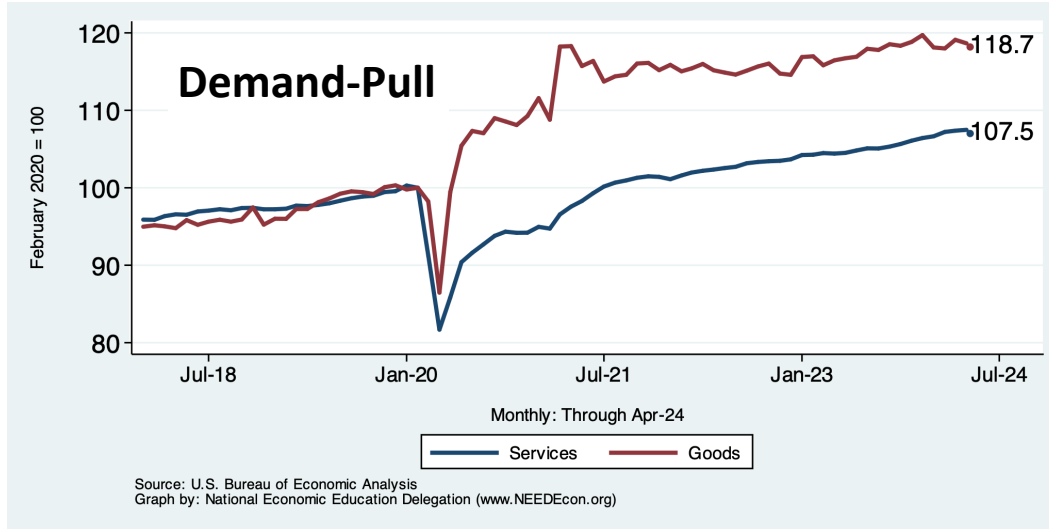


## Sources of Pandemic Inflation

- **Supply Chain issues were significant – less so now.**
- **Composition of spending changed significantly.**
  - Is now bouncing back, as are prices.
- **But there was too much total spending.**
  - Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- **Whose to Blame: ARP probably too big, but the Fed could have acted sooner.**
- **Bottom line: Recovery from a dramatic economic disruption is seldom painless.**

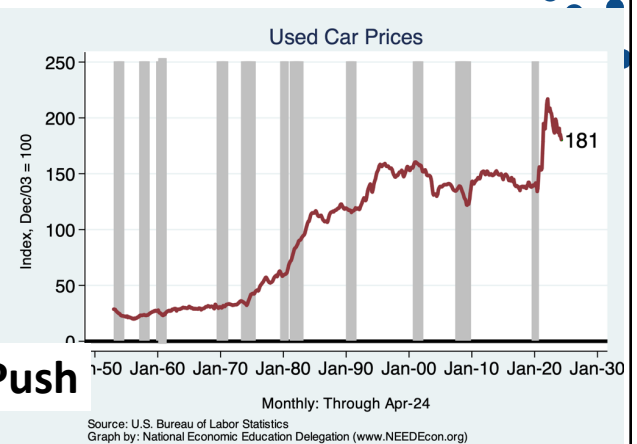


## Spending Patterns Changed - More Goods!



61

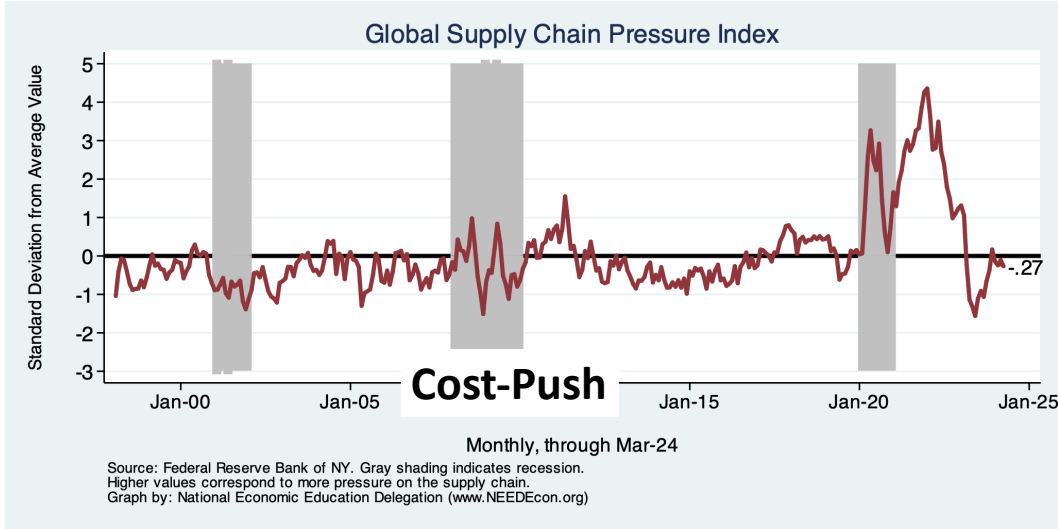
## Inflation: Concentrated



### Cost-Push

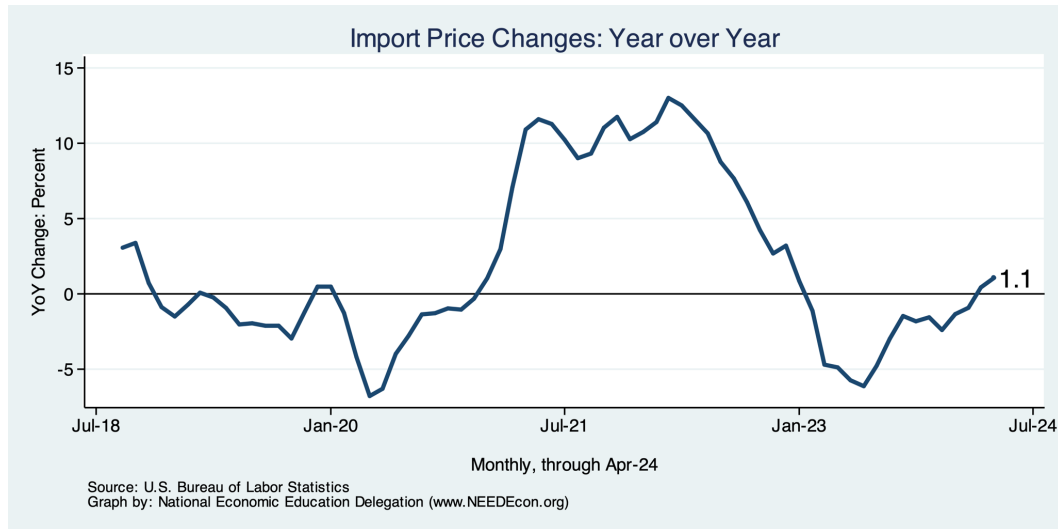
62

# Supply Chains



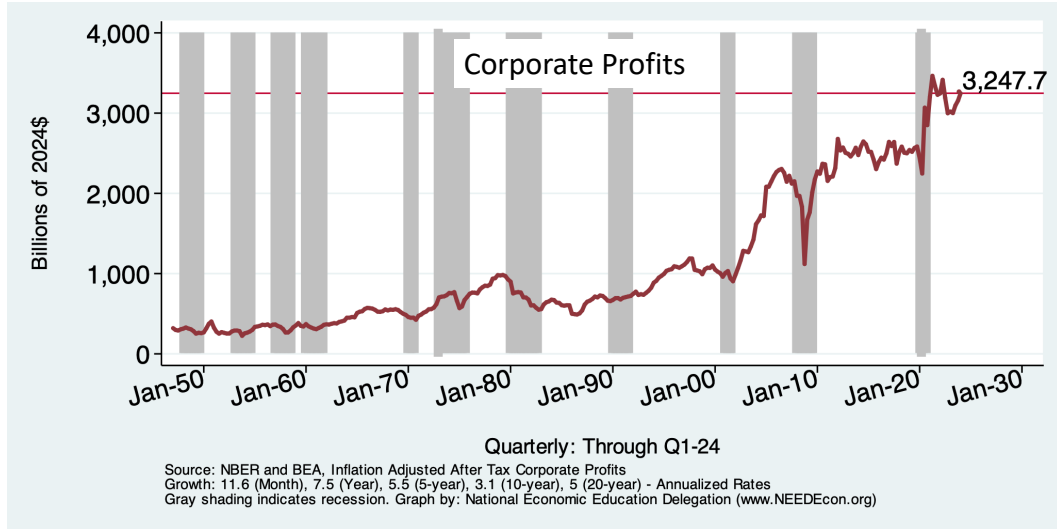
63

# Import Prices Are Elevated



64

## Corporations Have Pricing Power!



65

## Shrinkflation

Change in price from January 2019 to October 2023



Source: Bureau of Labor Statistics • By The New York Times

66

# Inflation is Not just a U.S. Problem

Year-over-year change in consumer prices in the eurozone



Source: Eurostat • By The New York Times



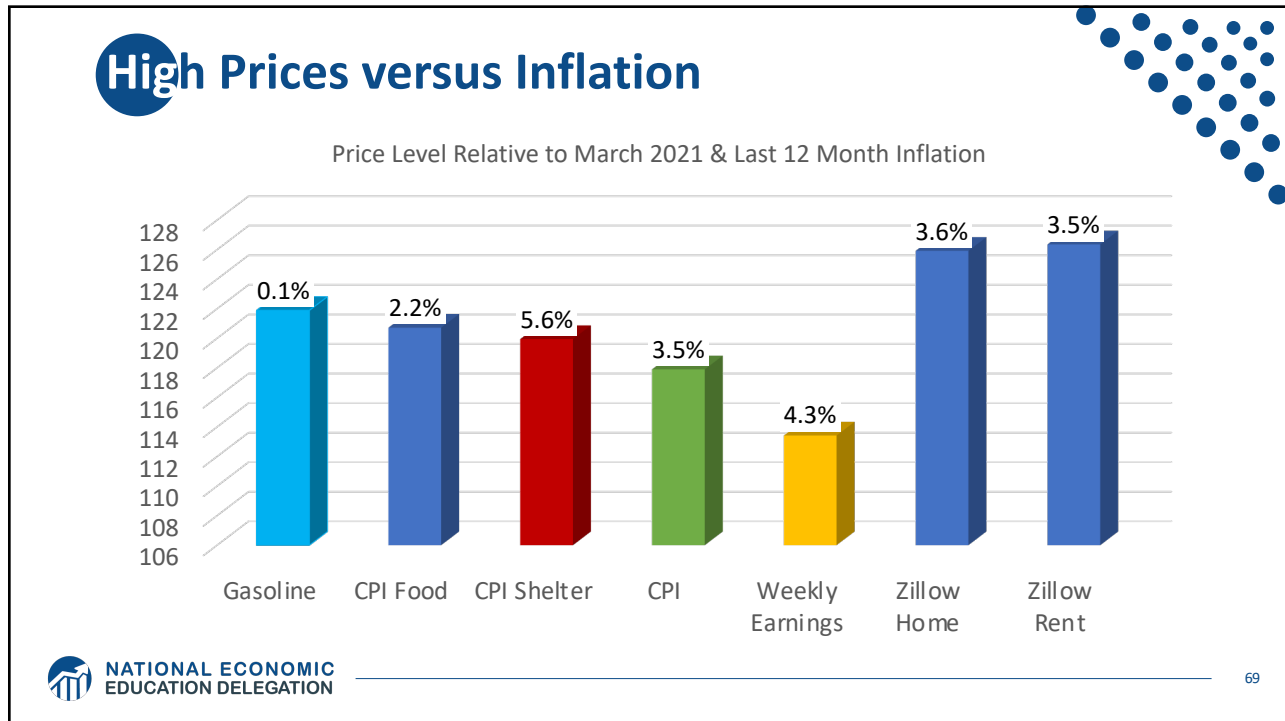
# Wage Growth – Exceeds Inflation

Real Non-Supervisory Wages (Inflation Adjusted)

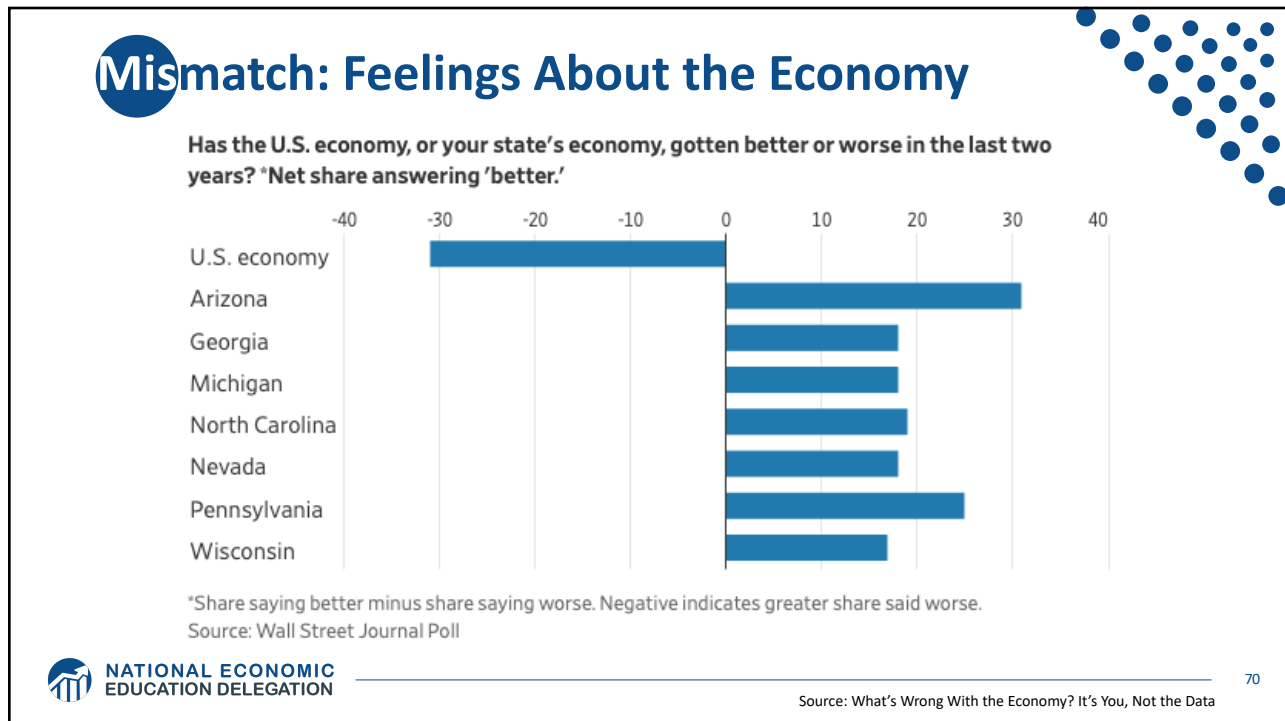


Source: NBER and BLS. Gray shading indicates recession. Graph by: National Economic Education Delegation (www.NEEDecon.org)





69



70

## **My** Thoughts on the Future of Inflation

- Most indicators suggests continued declines.
- Market expectations are worsening.
- Return to 2% might take a little longer.
- Federal Funds rate to stay high for some time.
- Popular expectations may take a little while to catch up.



71

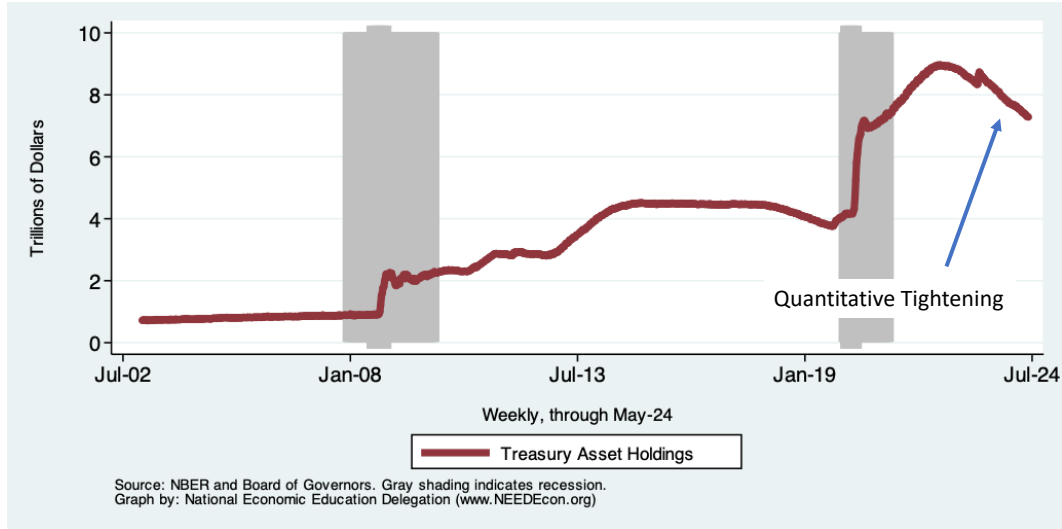
## **The Fed: Reining in Inflation!**



72

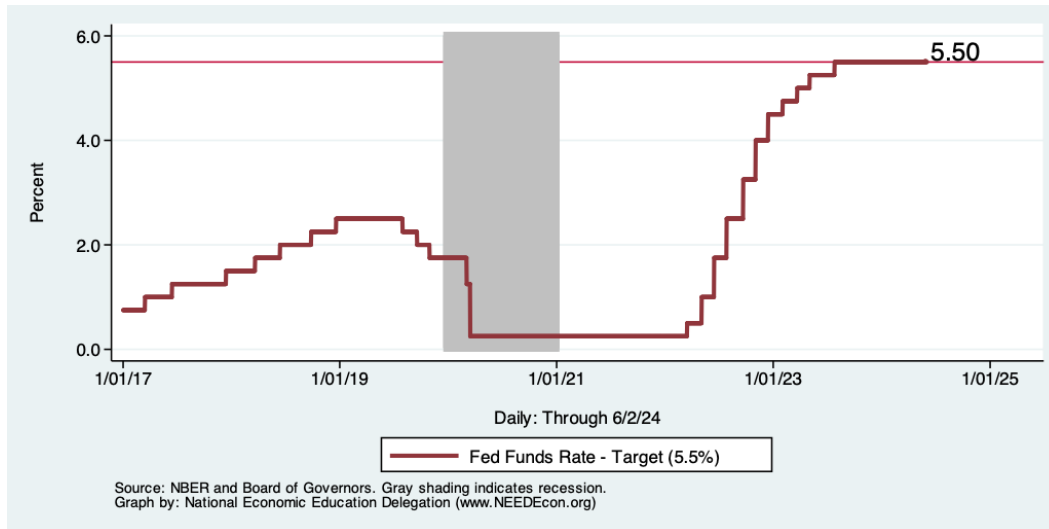


## Fed: Also Reducing its Asset Holdings



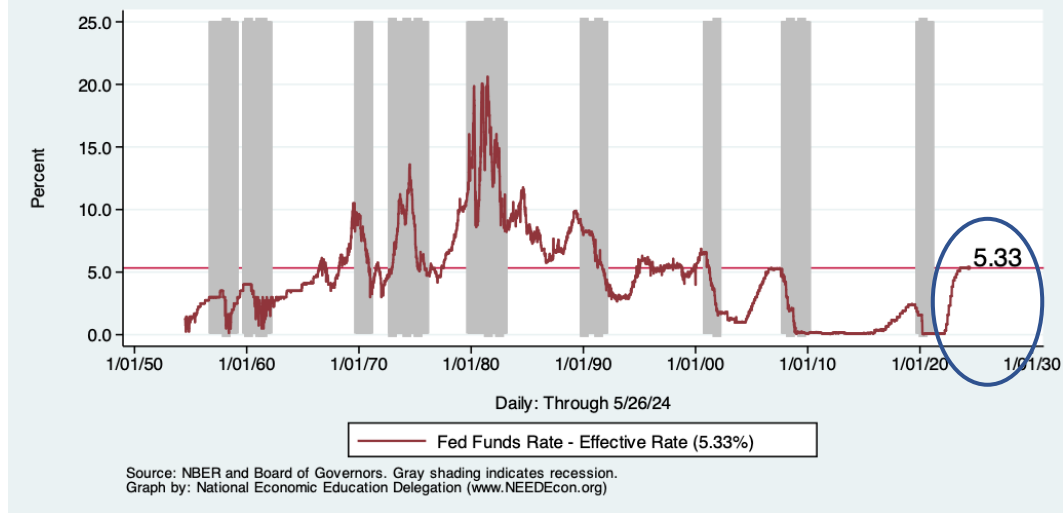
73

## Federal Funds Rate – Recent Activity



74

## History of the Federal Funds Rate



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75

75

## Implications for Demand

- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....
  
- All of which slows the economy.

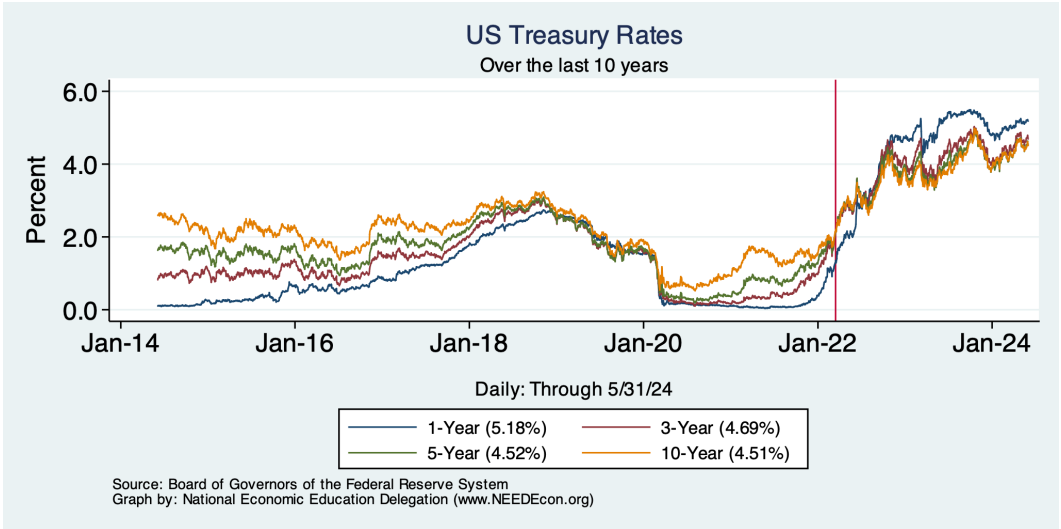


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76

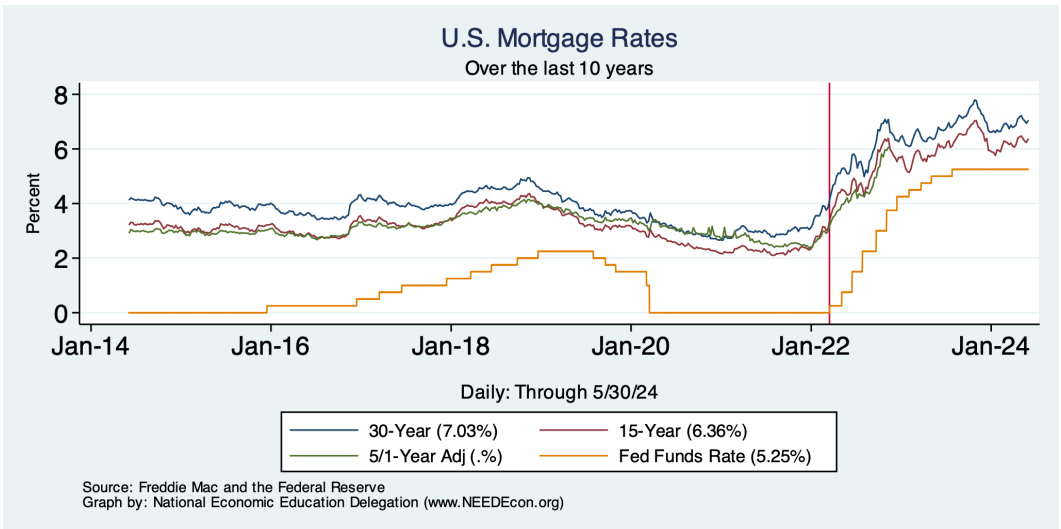
76

# Treasuries



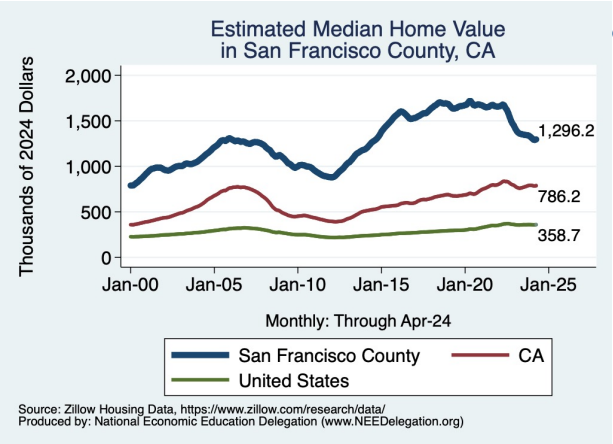
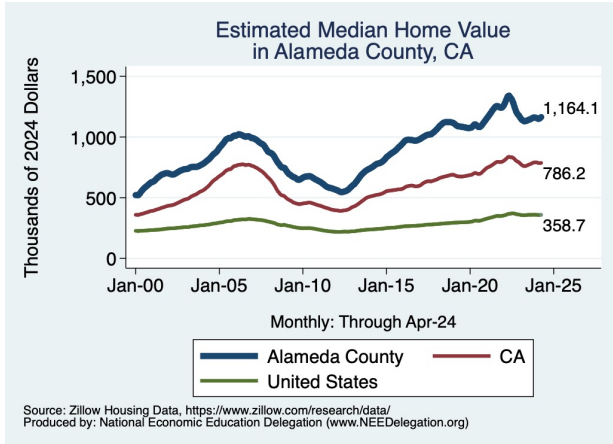
77

# Mortgage Rates



78

# Home Prices ... Returned to Normal (?)



# What will the Fed Do?

## Pending Developments:

- **May- June 12 full set of inflation and unemployment for April.**
- **Wednesday, June 12 Fed policy meeting with new economic projections.**

**Will likely hold rates fixed unless there is significant progress on PCE.**

## Takeaways

- **Is a recession on the horizon?**
  - No. Potentially a slowdown.
  - Many indicators are well in the black.
    - 2024-Q1 GDP growth was ok.
- **Inflation has been tamed.**
- **Fed is slowing its activity.**
- **Threats to continued growth:**



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81

## Uncertainties

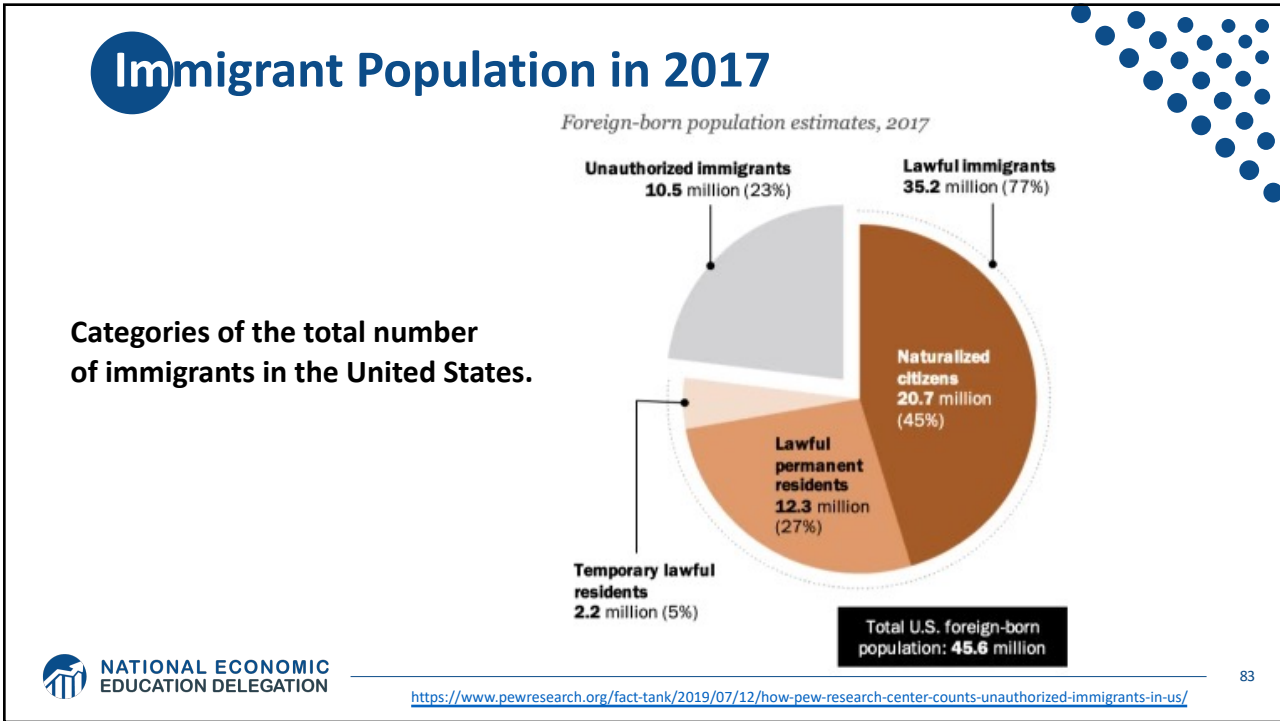
- **Resurgence of inflation (though...why?)**
- **Conflicts in Ukraine and Israel.**
  - Global Supply Chains?
  - Oil Prices?
  - Aid to Ukraine and Israel?
- **Asset prices (stocks)**
- **Household balance sheets**
- **Fed Actions in a Political Year.**



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82

82



83

# Thank you!

## Any Questions?

[www.NEEDecon.org](http://www.NEEDecon.org)  
 Jon Haveman, Ph.D.  
 Jon@NEEDecon.org

Contact NEED: [info@NEEDecon.org](mailto:info@NEEDecon.org)

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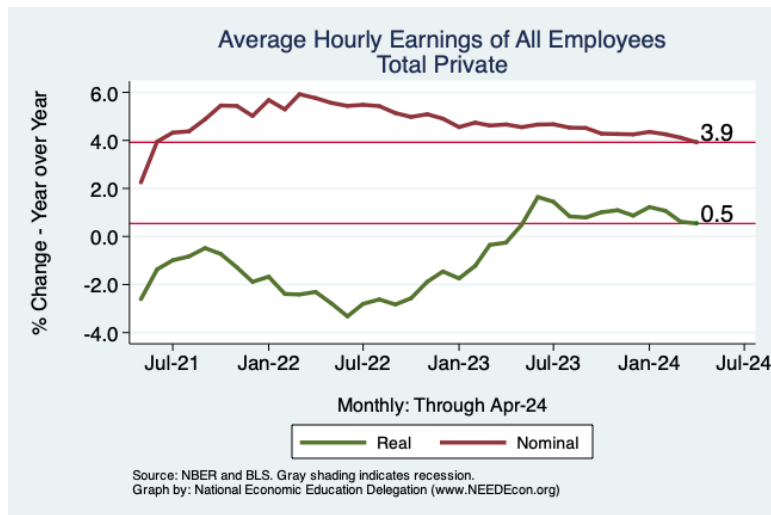
84

84

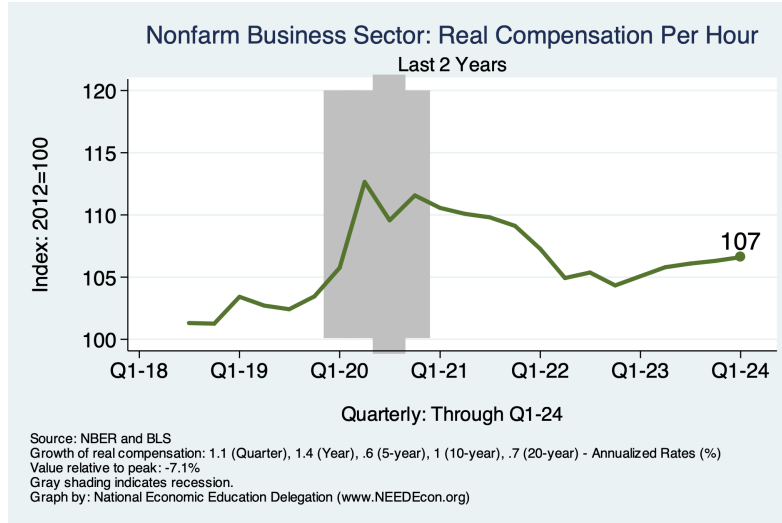
## Parting Thoughts on Inflation

- **Was Milton Friedman right?**
  - “Inflation is always and everywhere a monetary phenomenon.”
  - As a generalization, but not “always and everywhere”.
    - o See price changes from disruptions in the economy.
- **What did we see during the pandemic?**
  - Lots of causes that had nothing (?) to do with monetary policy.
- **Where is inflation going?**
  - I expect back down to close to 2% sometime next year.

## Wage Growth



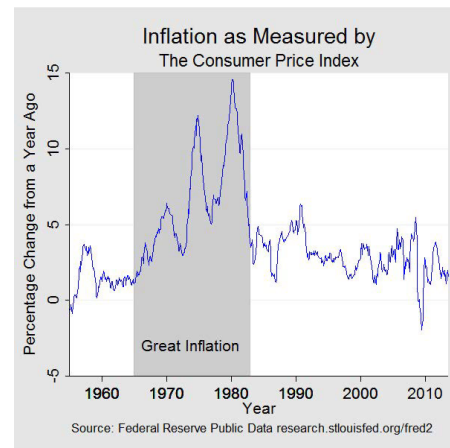
## Compensation Growth: Pretty good!



87

## The Great Inflation: 1965-1982

- **Proximate causes**
  - Collapse of the gold standard
  - Fiscal imbalances (Great Society)
  - Runaway monetary policy (for Nixon)
  - Price controls – after they were lifted
  - Energy shortages
- **Lots of “demand pull”**
  - Great society, easy money
- **Some “cost push”**
  - Energy shortages



88



## Low Inflation Period: 1980-2021

- **Volcker – stranglehold on inflation in 1980.**

- Causes a recession through high interest rates.
- Harnesses inflation.

- **Next 4 decades**

- Globalization – lower import prices.
- Deunionization (private sector)
  - 21% in 1980
  - 6% in 2019

