

# Osher Lifelong Learning Institute, Winter 2023

## Contemporary Economic Policy Issues

University of Richmond  
Jan-Feb, 2023

Host: Jon Haveman, Ph.D.  
National Economic Education Delegation



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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: 652+ members

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

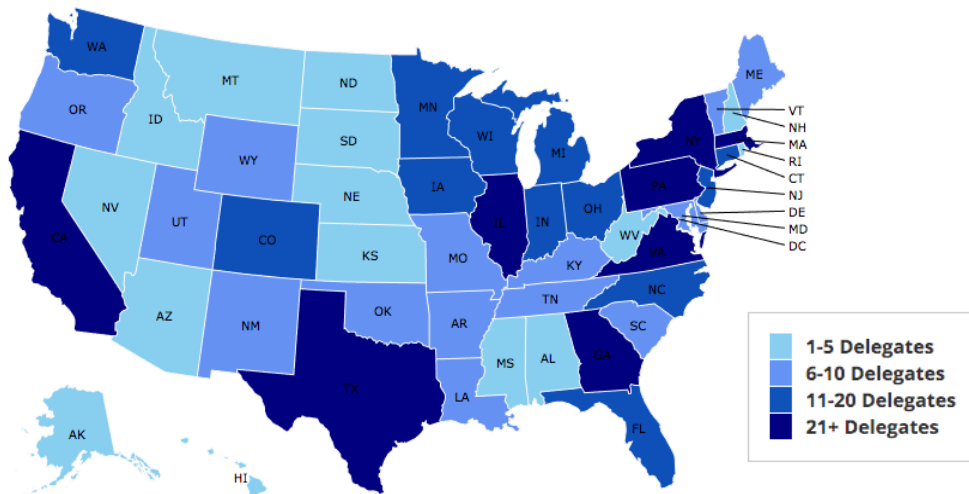
## • Global Partners: 49 Ph.D. Economists

- Aid in slide deck development



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# Where Are We?



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## 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



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## Course Outline: Johns Hopkins University

- **Contemporary Economic Policy**
  - Week 1 (1/23): U.S. Economic Update (Jon Haveman, NEED)
  - Week 2 (1/30): Federal Debt (Brian Peterson, Lagrange College)
  - Week 3 (2/6): Climate Change Economics (Sarah Jacobson, Williams College)
  - Week 4 (2/13): Autonomous Vehicles (Jon Haveman)
  - Week 5 (2/20): Healthcare Economics (Kelley Cullen, E. Washington Univ.)
  - Week 6 (2/27): The Black-White Wealth Gap (Jon Haveman)

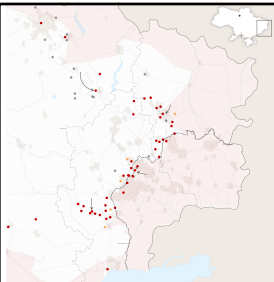


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# Submitting Questions

- **Please submit questions of clarification 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 soon.**  
 ([https://needelegation.org/delivered\\_presentations.php](https://needelegation.org/delivered_presentations.php))

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# US Economic Update

**Jon Haveman, Ph.D.**  
 NEED  
 January 23, 2023



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## Credits and Disclaimer

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

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- 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).



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## Outline

- **About the U.S. Economy**
- **Economic Indicators**
- **Global Comparisons**
- **Inflation/Federal Reserve**
- **Debt Ceiling**



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# Some Basic Statistics

Statistic:	Value
Population	333.5 Million
Labor Force	165.0 Million
Employment	153.7 Million
Gross Domestic Product (GDP)	\$25.7 Trillion
Income per Capita	\$65,602
Ave. Hourly Earnings	\$32.82

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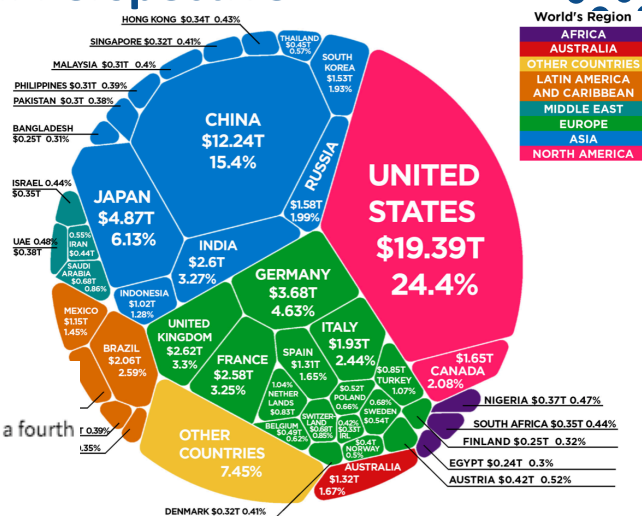
# U.S. Economy in Global Perspective

## U.S. Nominal GDP:

**\$21.538 trillion** in 2019-Q4  
**\$19.637 trillion** in 2020-Q2  
**\$25.699 trillion** in 2022-Q3

## % Share of the Global Economy

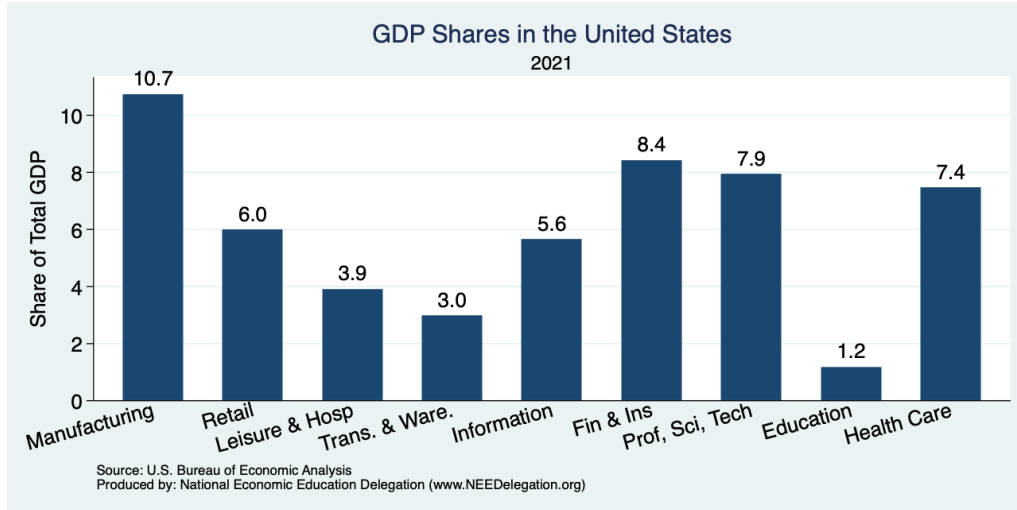
The 173 countries outside the top 20 make up less than a fourth of the total global economy.



Article and Sources:  
<https://howmuch.net/articles/the-world-economy-2017>  
<http://databank.worldbank.org/data/download/GDP.pdf>

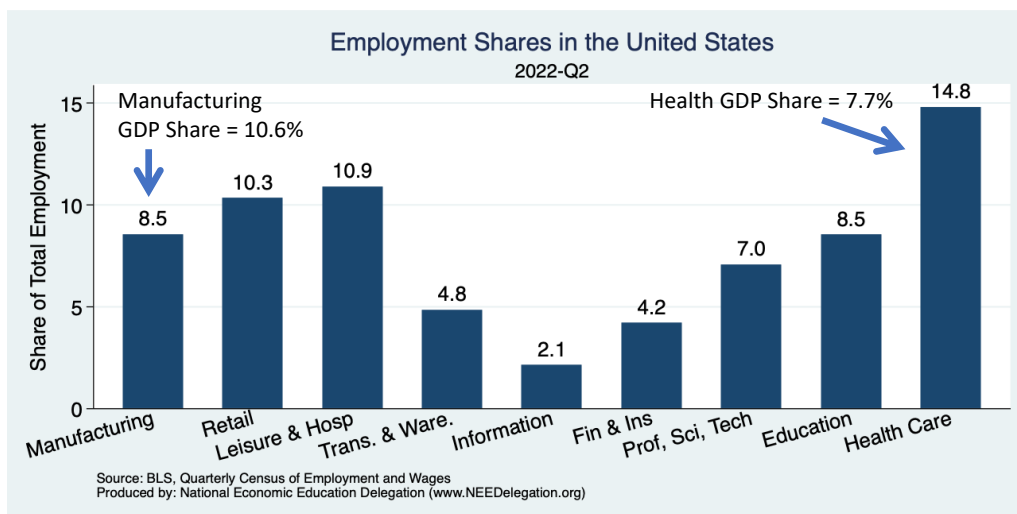
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## Composition of the U.S. Economy: 2021



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



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

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# Economic Indicators

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## Headline:

### G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

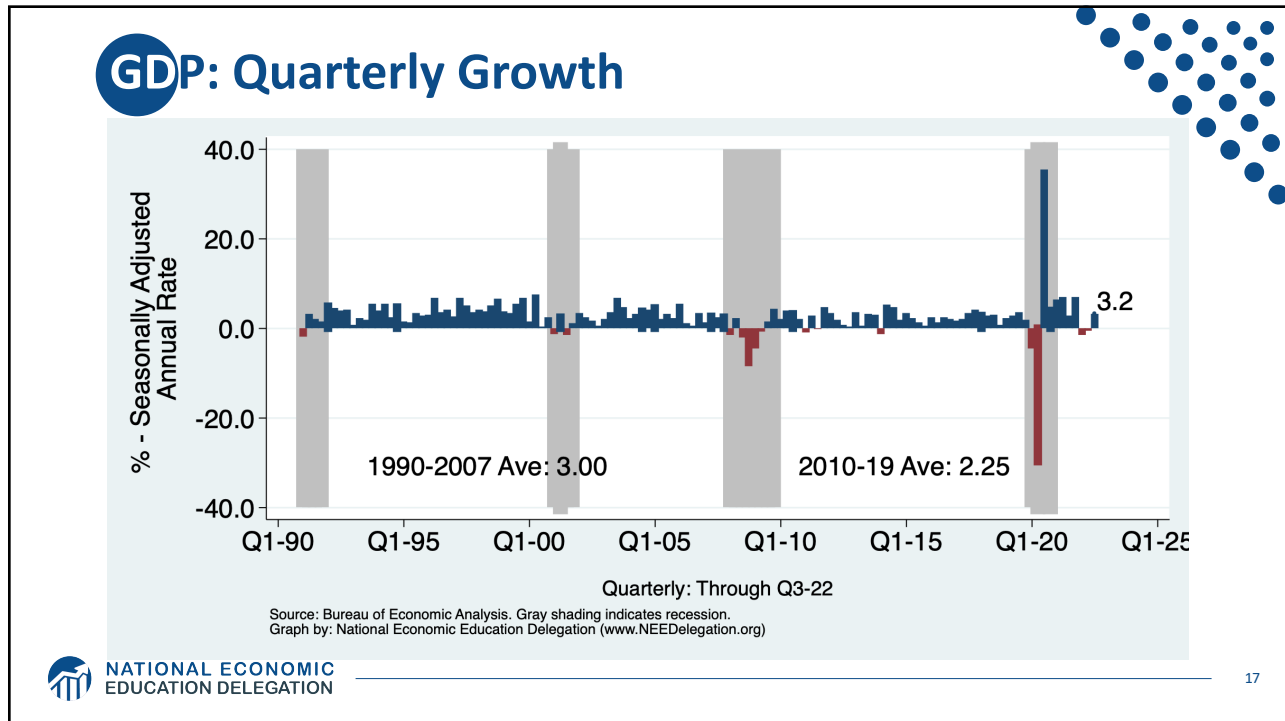
- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

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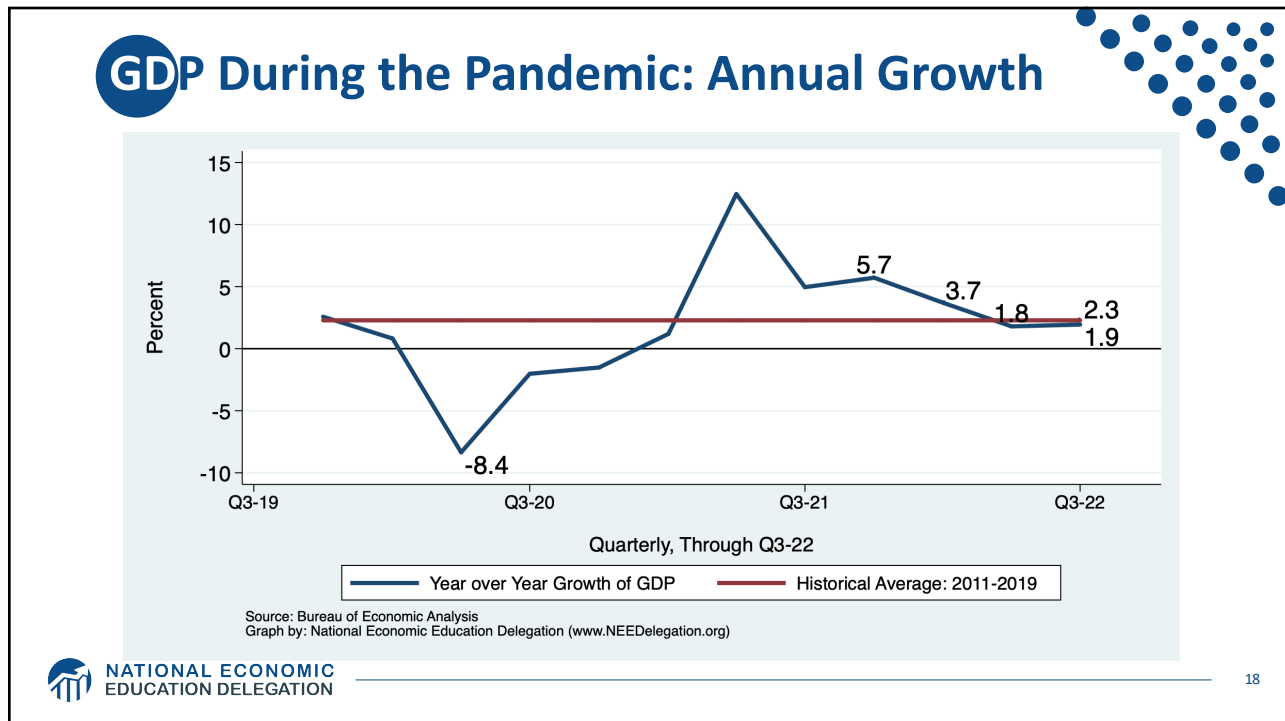
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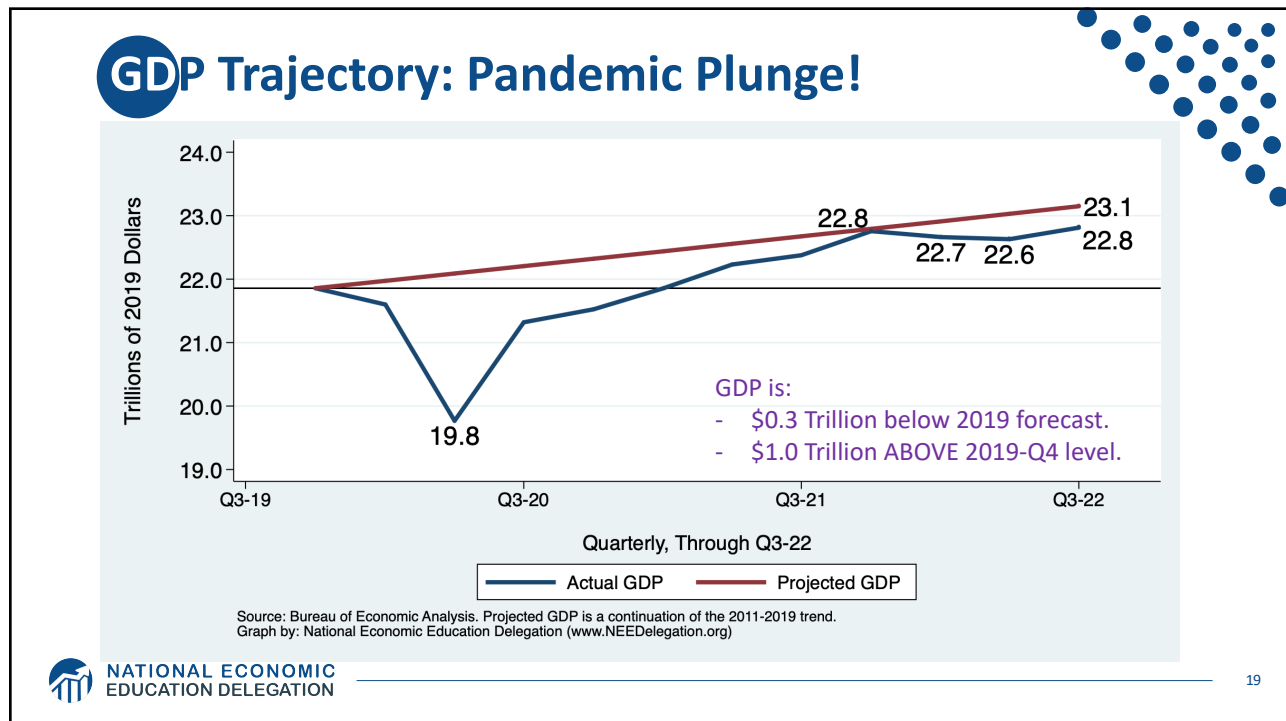




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## What “Accounted” for the Decline in Q1 & Q2?

- **Expenditures drive GDP growth.**
  - GDP is the sum of four categories of spending:
    - Consumption
    - Investment – housing/business/inventories
    - Government spending
    - Net Exports: Exports – Imports

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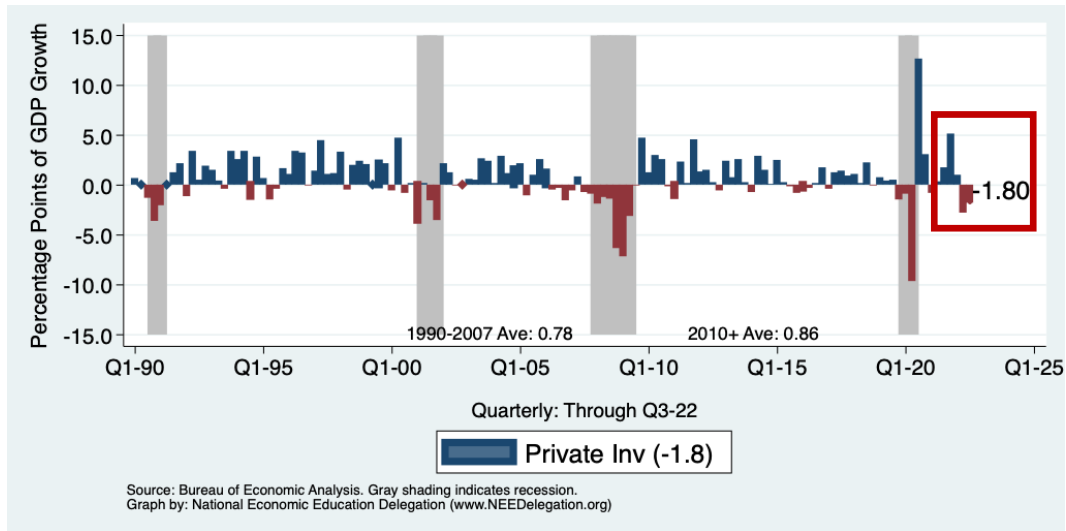
## Recession? Two Quarters....

- **Depends on what is driving the drop.**
  - Inventories
  - Housing
  - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**



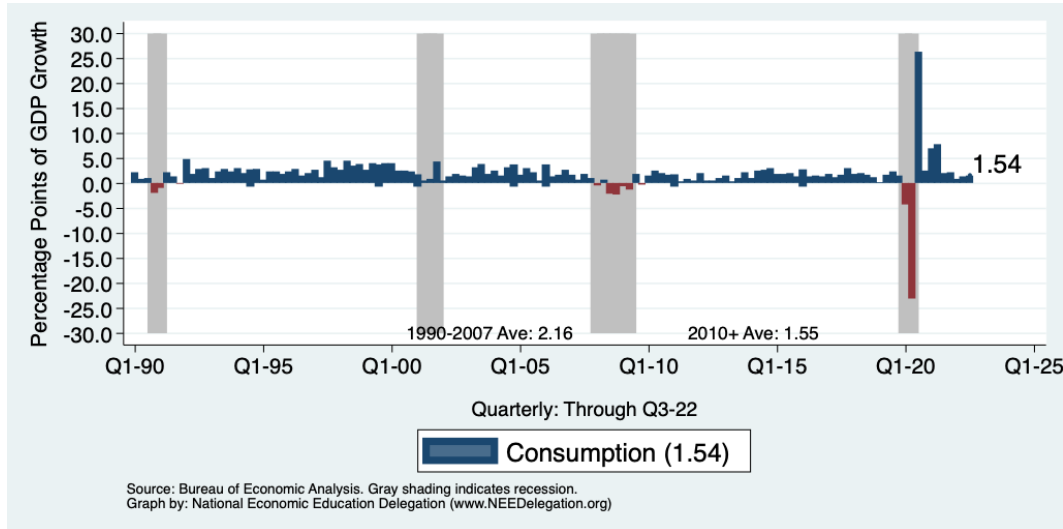
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## Contribution to GDP Growth: Inventories



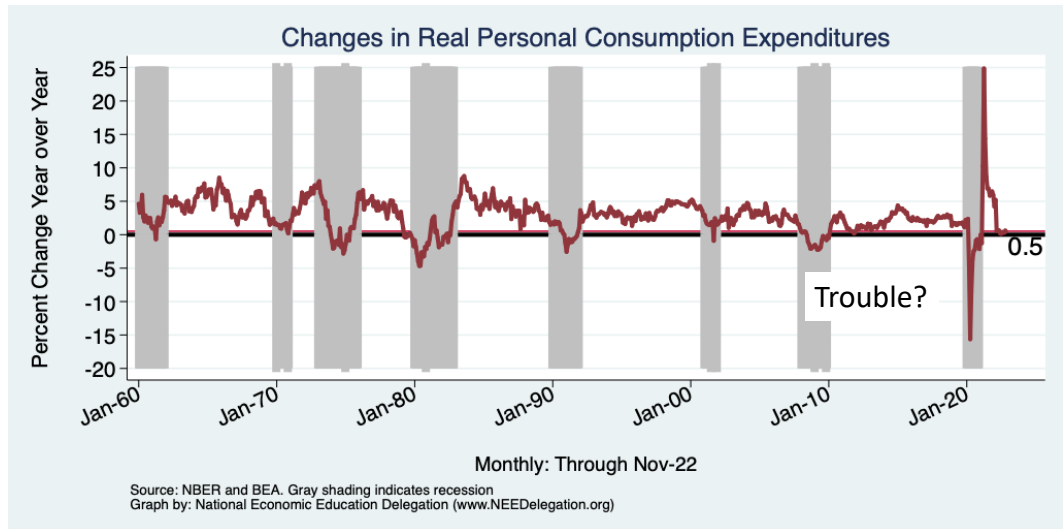
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## Contribution to GDP Growth: Consumption



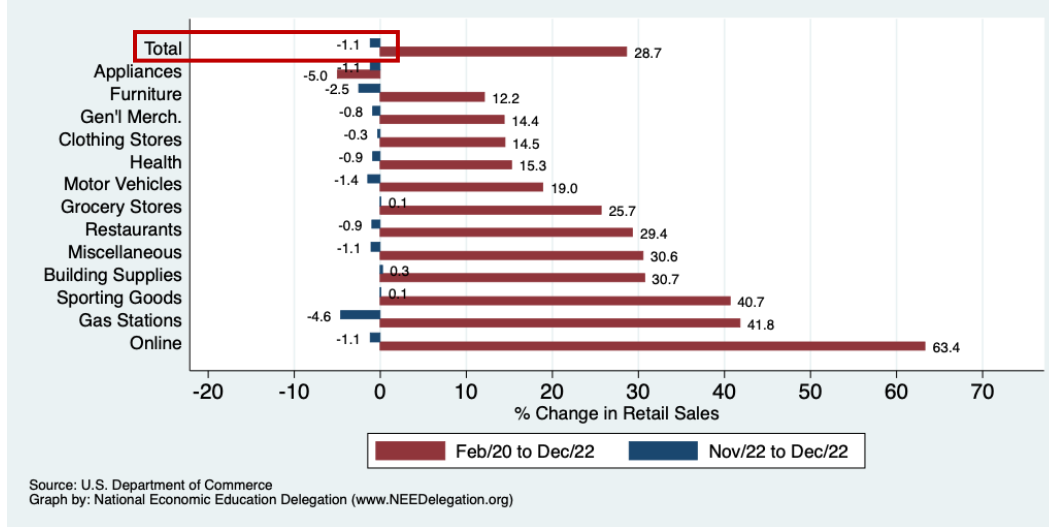
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## Personal Consumption Expenditures



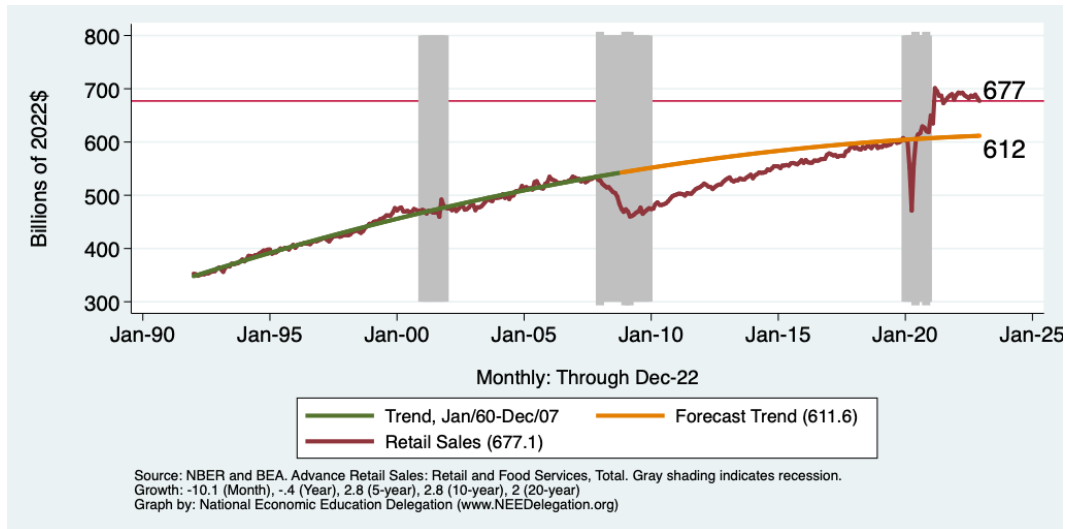
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## Retail Sales Fell in December



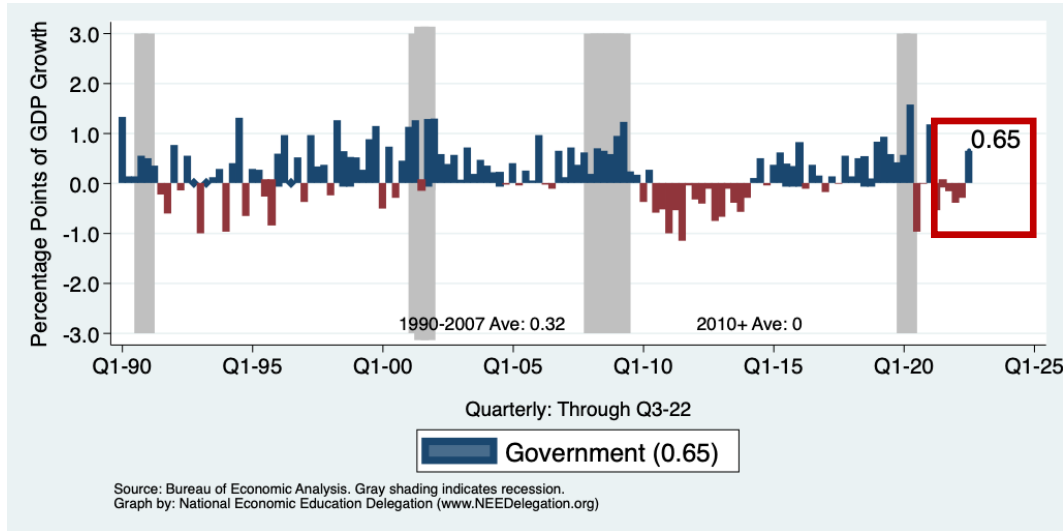
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## But SUPER High to Begin With!



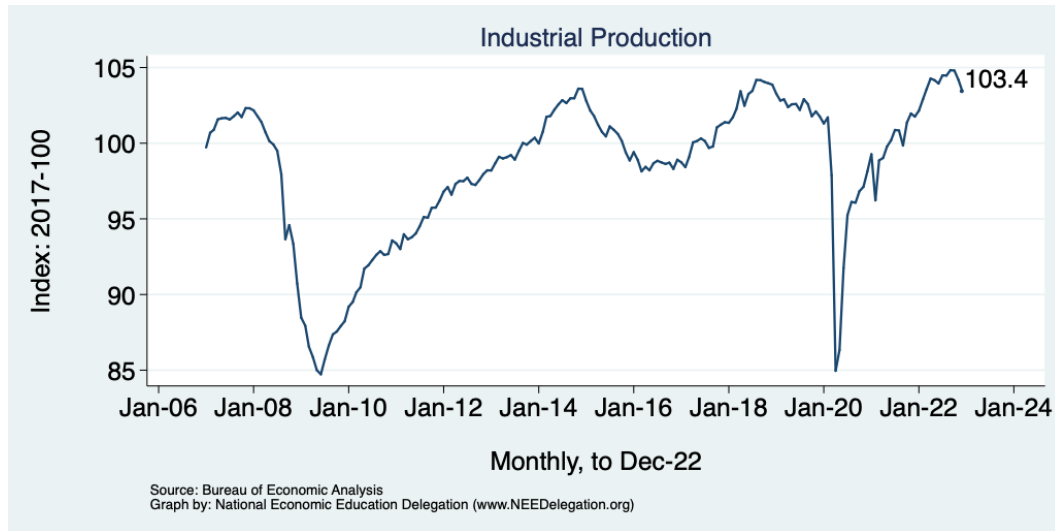
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## Contributions to GDP: Government



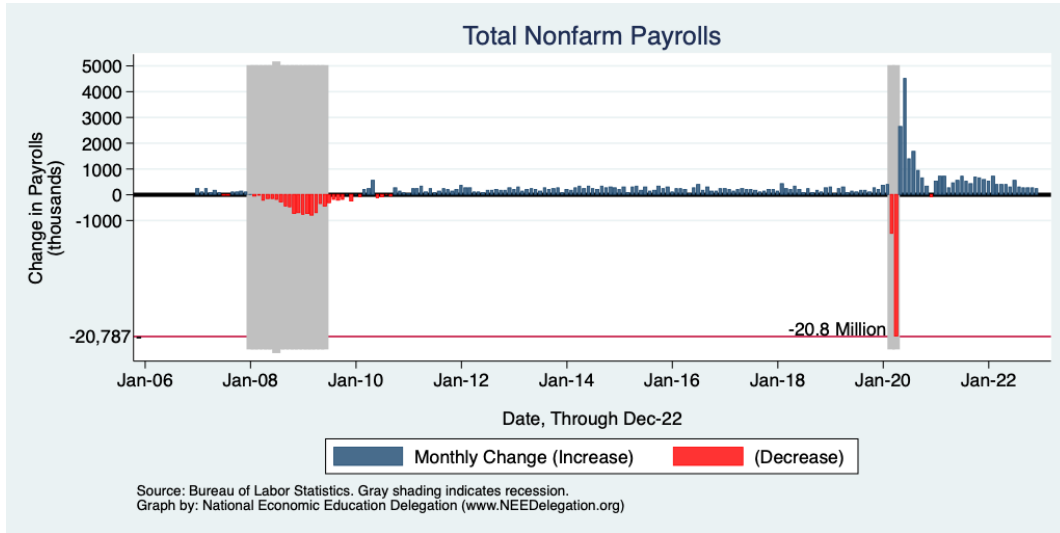
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## Industrial Production (Manuf, Util, Mining)



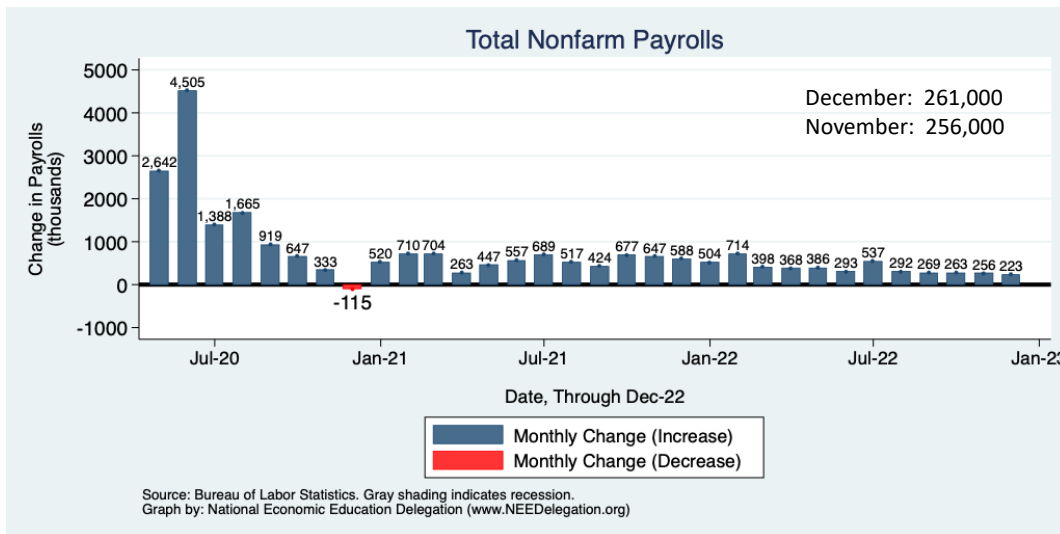
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# Monthly Changes in Nonfarm Employment

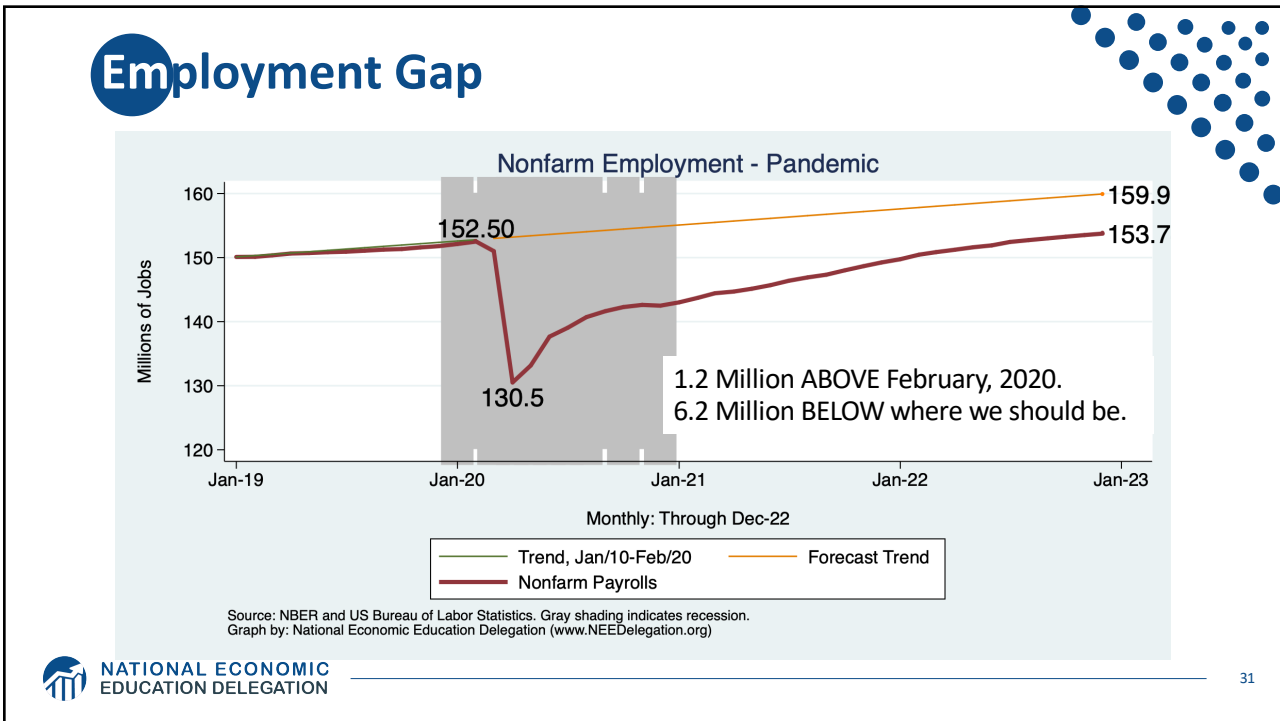


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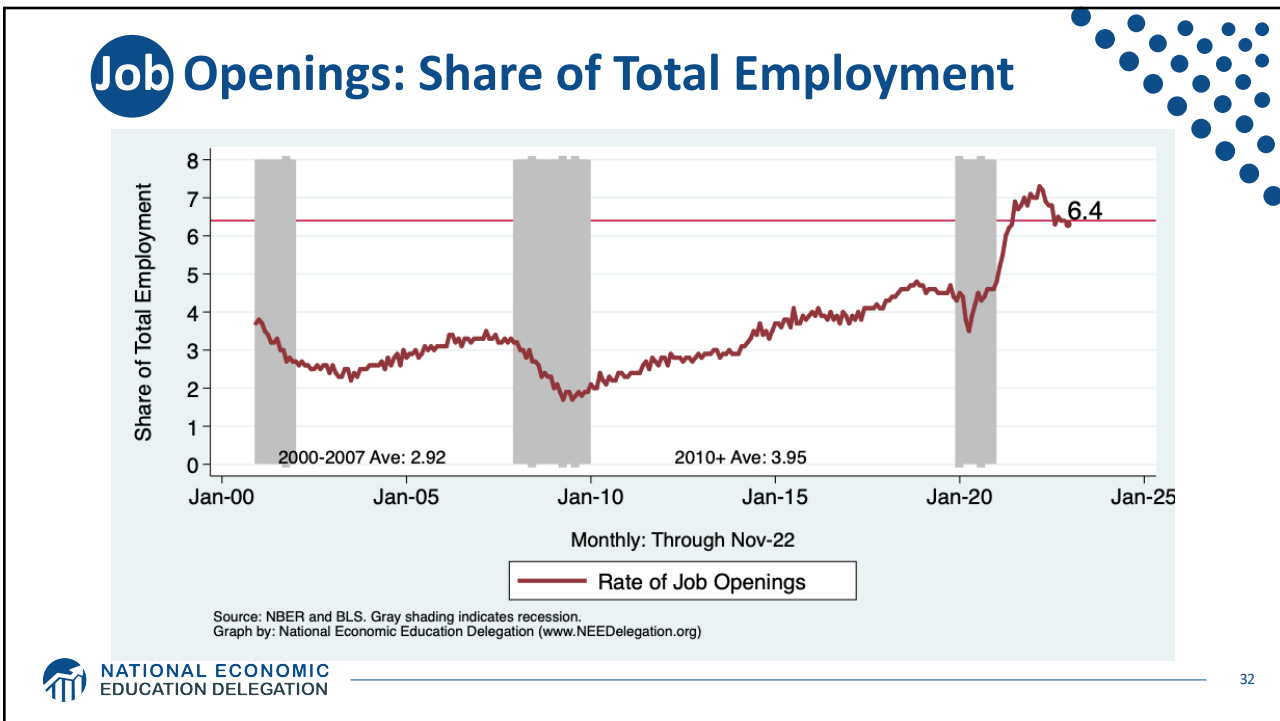
# Monthly Changes in Nonfarm Employment



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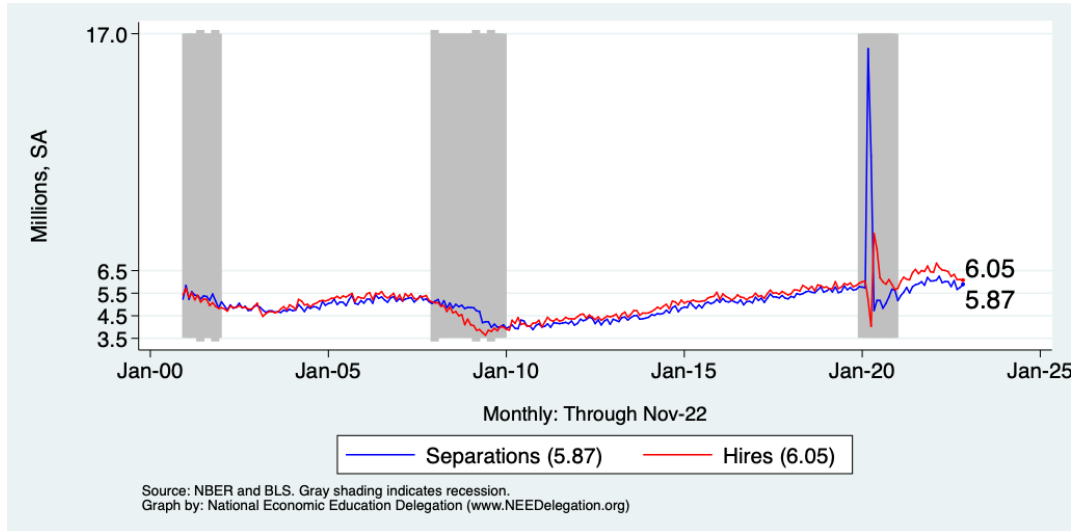
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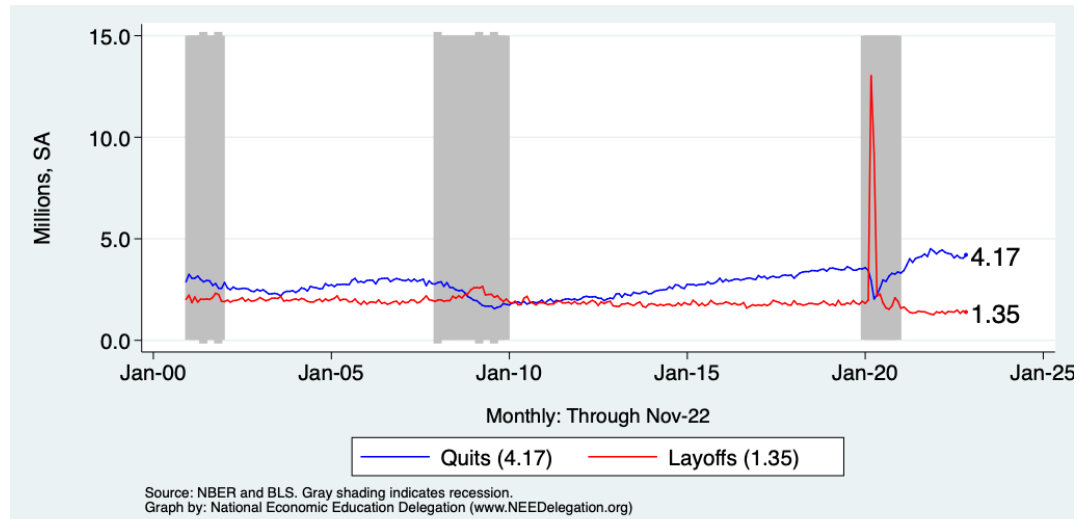


## Job Hires and Separations



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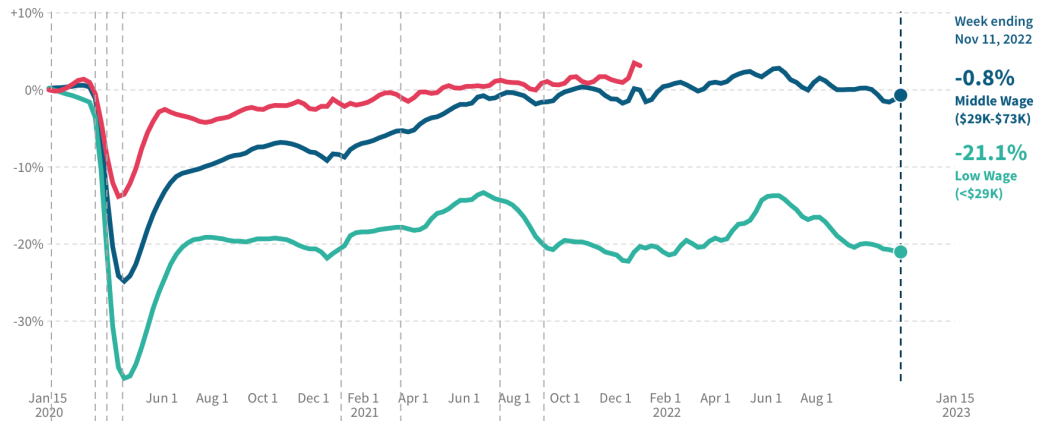
## Separations: Quits and Layoffs



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# Low Wage Employment is Lagging

In the United States, as of November 11 2022, employment rates among workers in the middle wage quartiles decreased by 0.8% compared to January 2020 (not seasonally adjusted).



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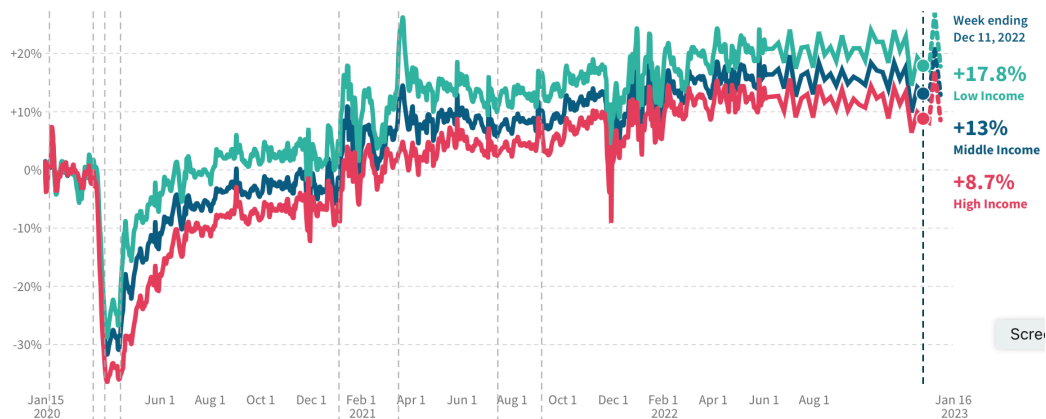
Source: <https://tracktherecovery.org>

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# Low Wage Spending is NOT!

In the United States, as of December 11 2022, total spending by middle-income consumers increased by 13% compared to January 2020.



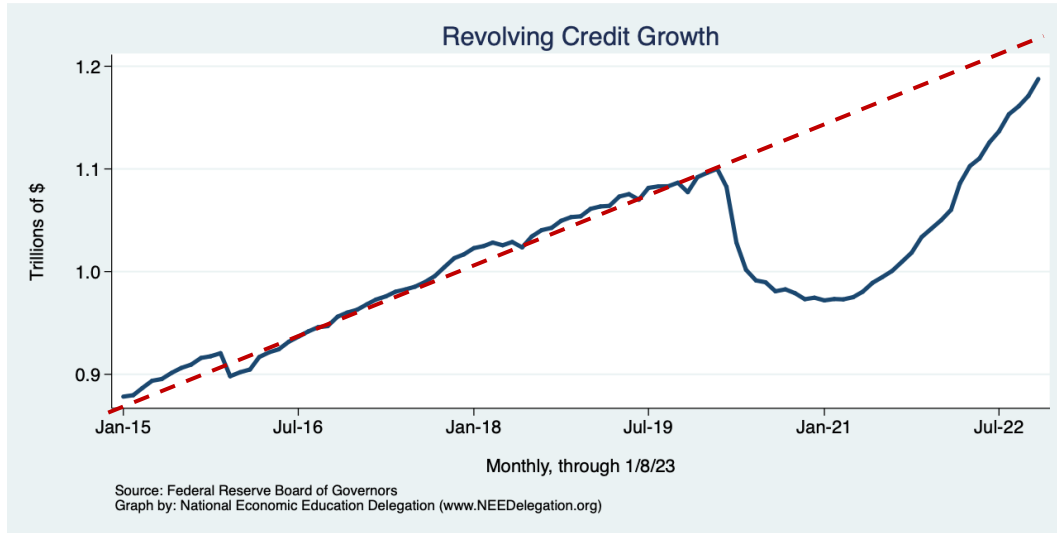
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Source: <https://tracktherecovery.org>

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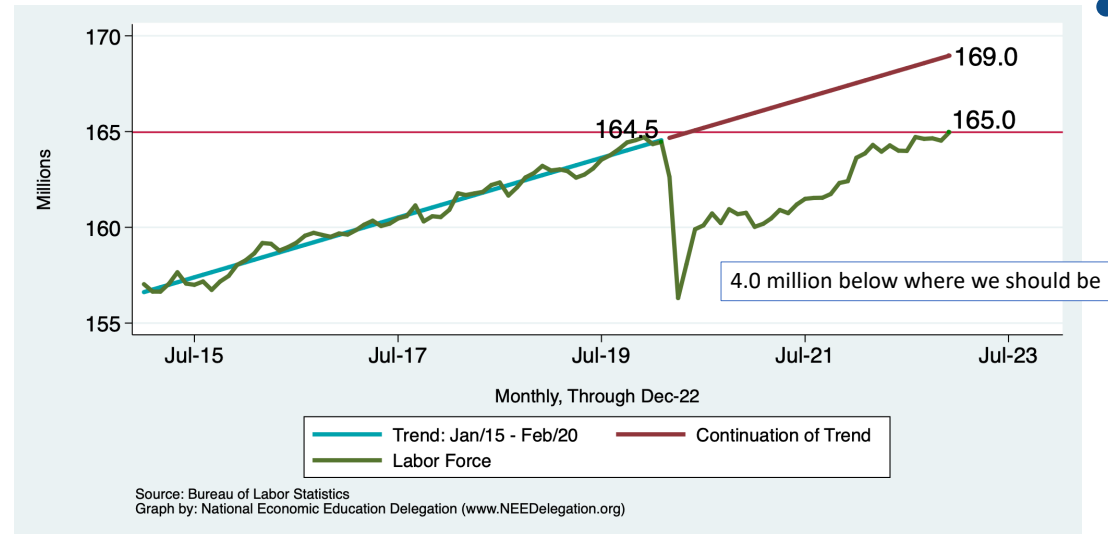
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# Now is Borrowing on Credit



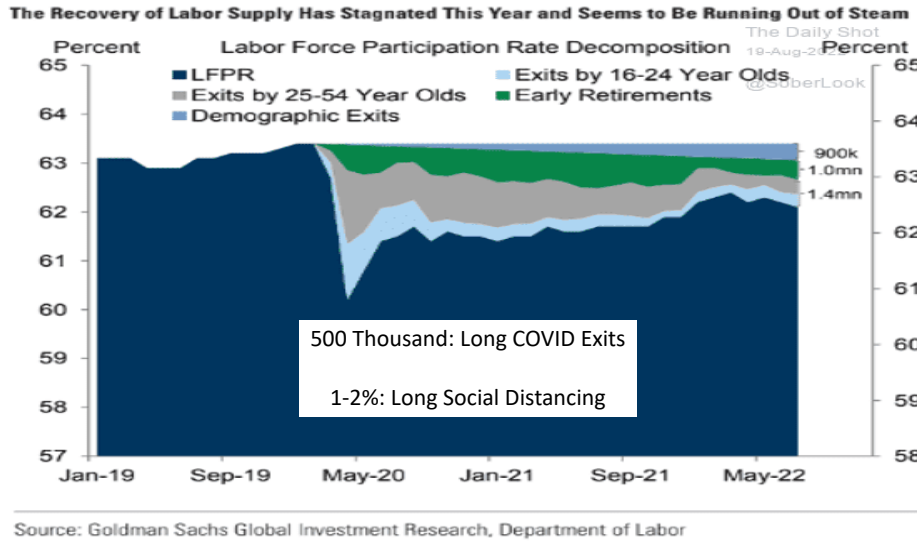
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# Where Have All the Workers Gone?



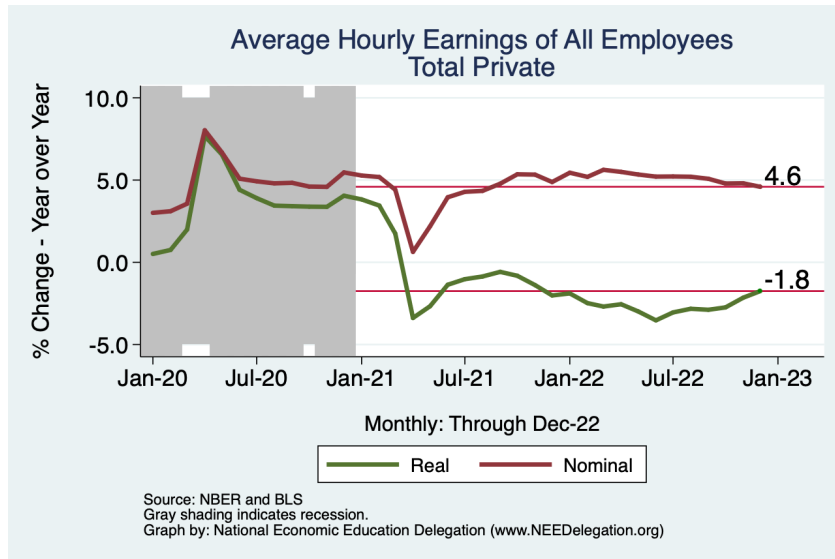
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## Some Explanations



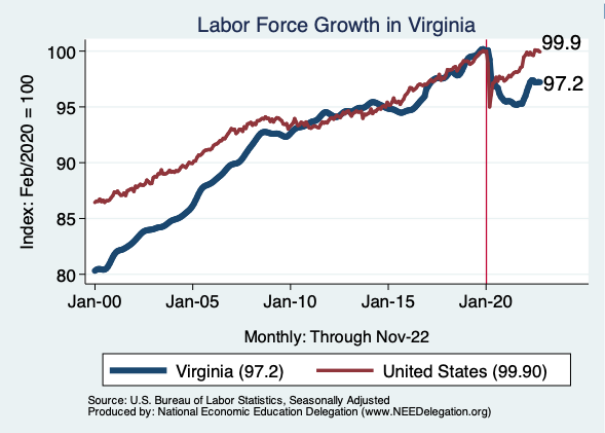
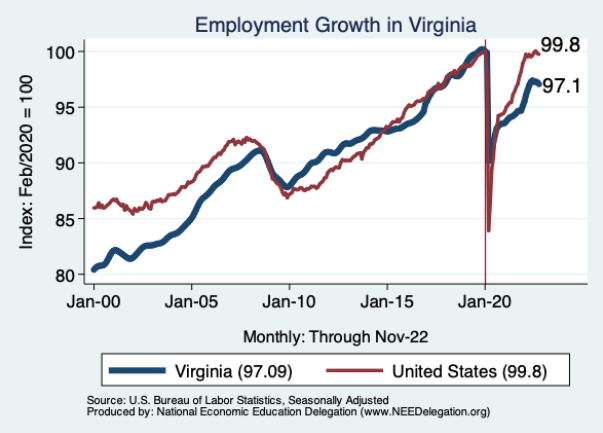
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## Wage Growth



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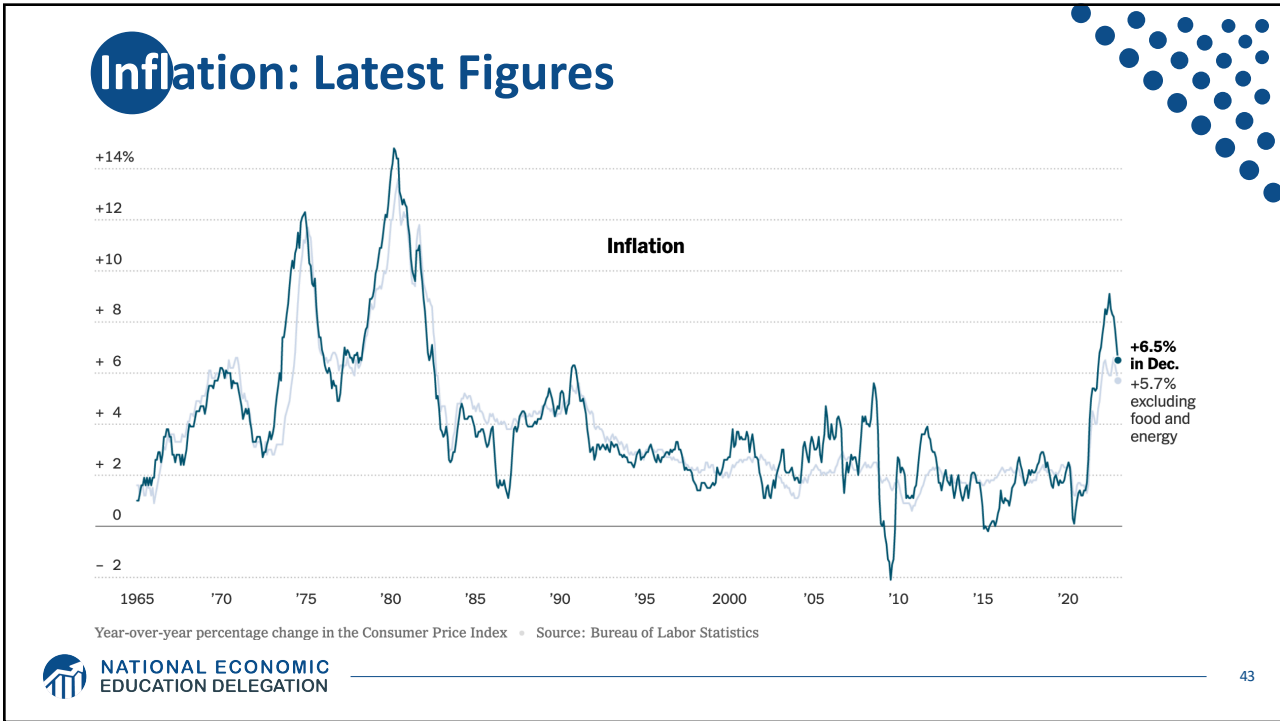
# How Are Things Where You Are?



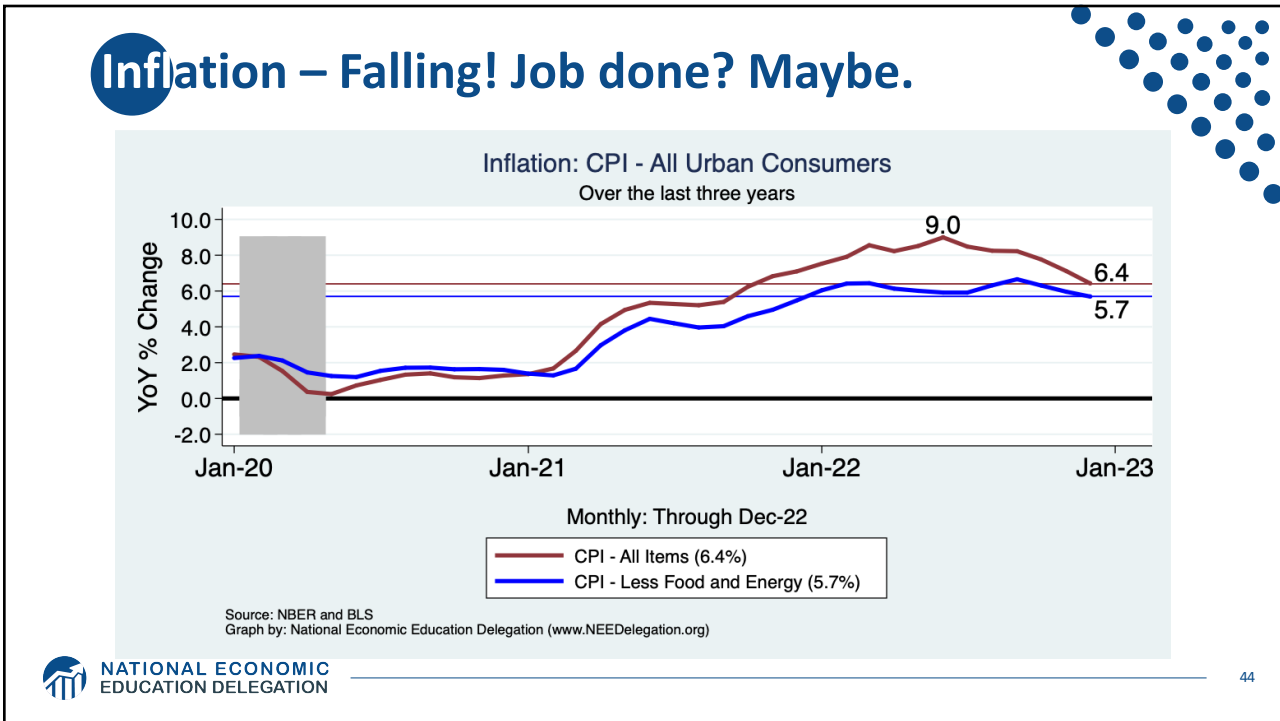
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# Inflation

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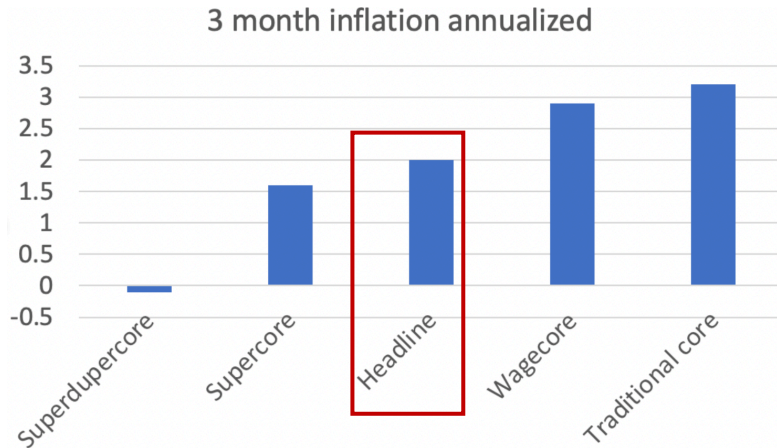


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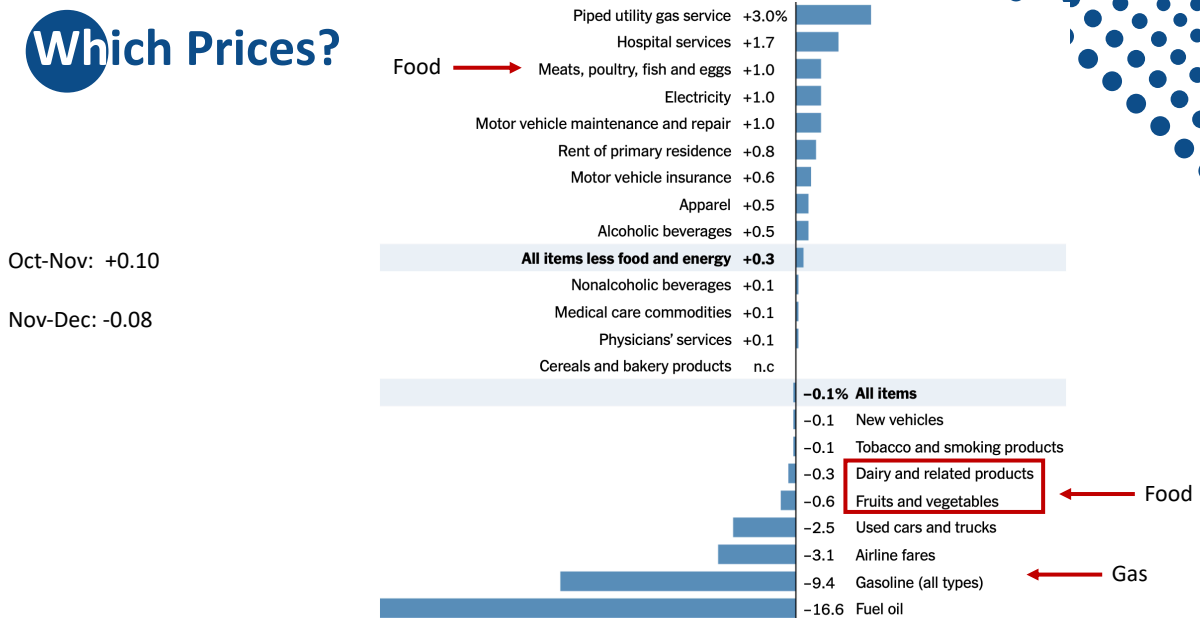
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# Inflation in the Last 3 Months – On Target!



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# Which Prices?

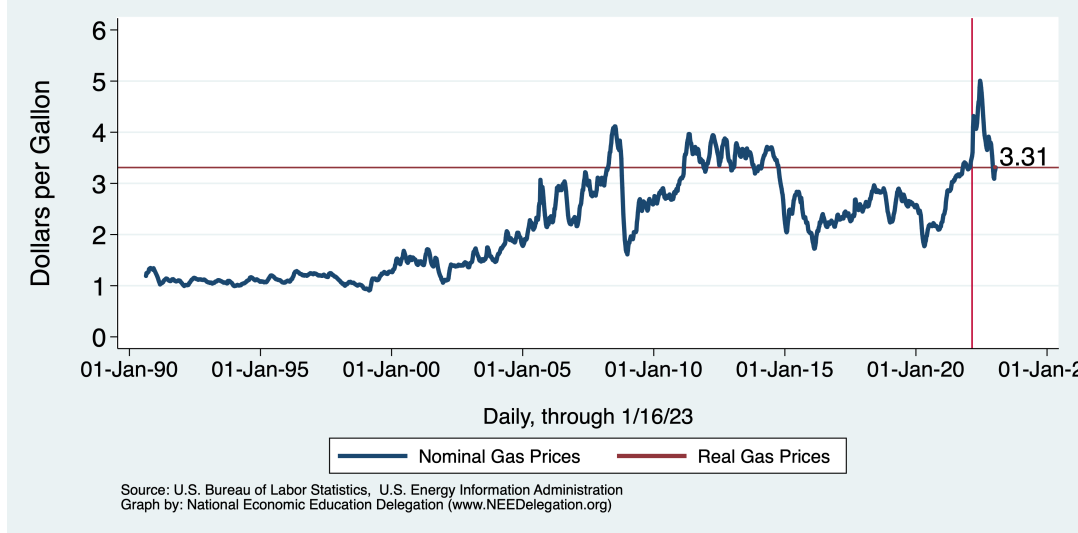


Oct-Nov: +0.10

Nov-Dec: -0.08

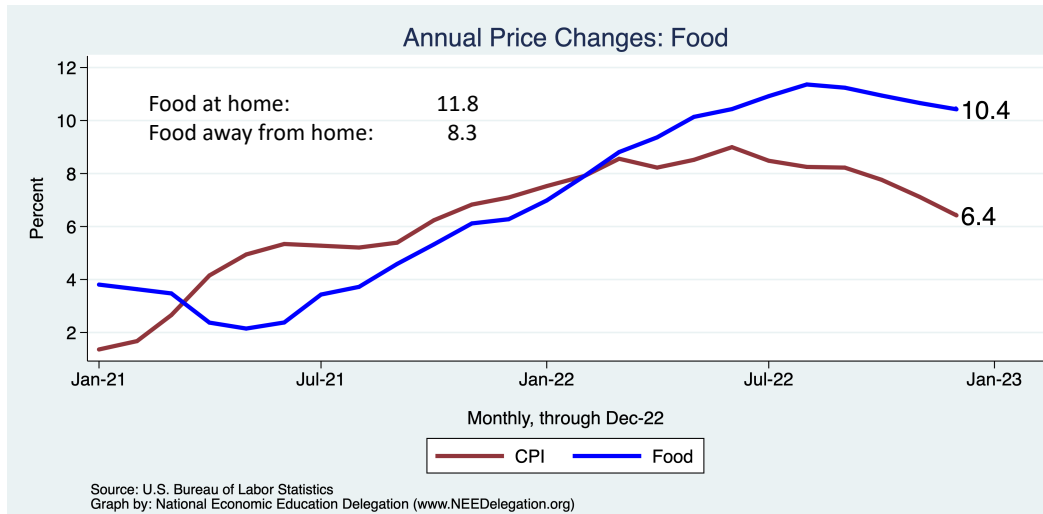
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## Gas Prices: National Average at the Pump



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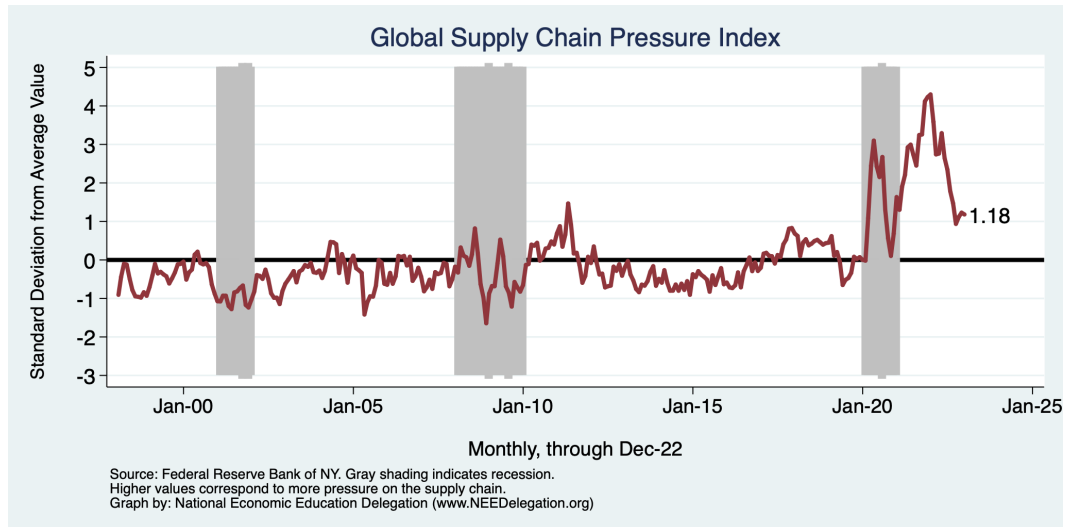
## Food Costs Continue to Rise



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## Supply Chains



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## My Thoughts on the Sources of 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.**



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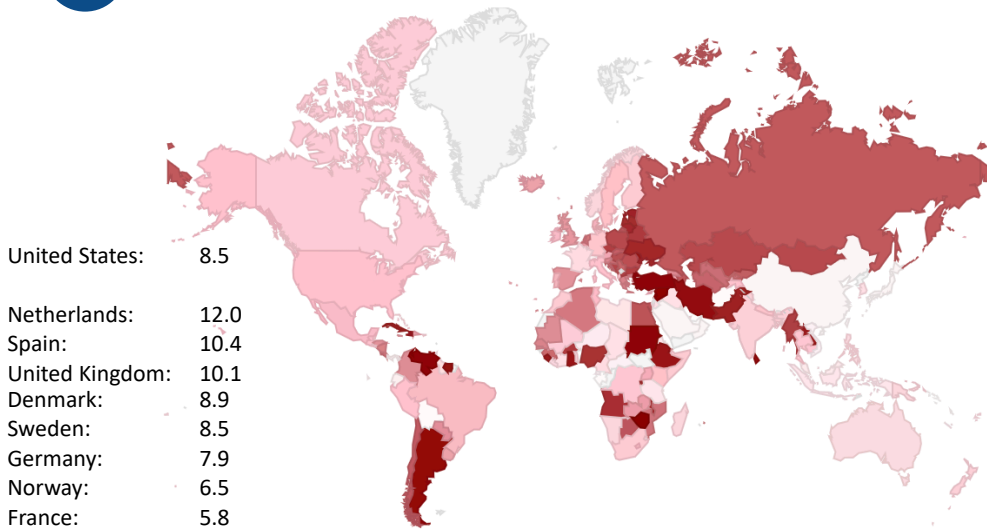
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# Global Evidence

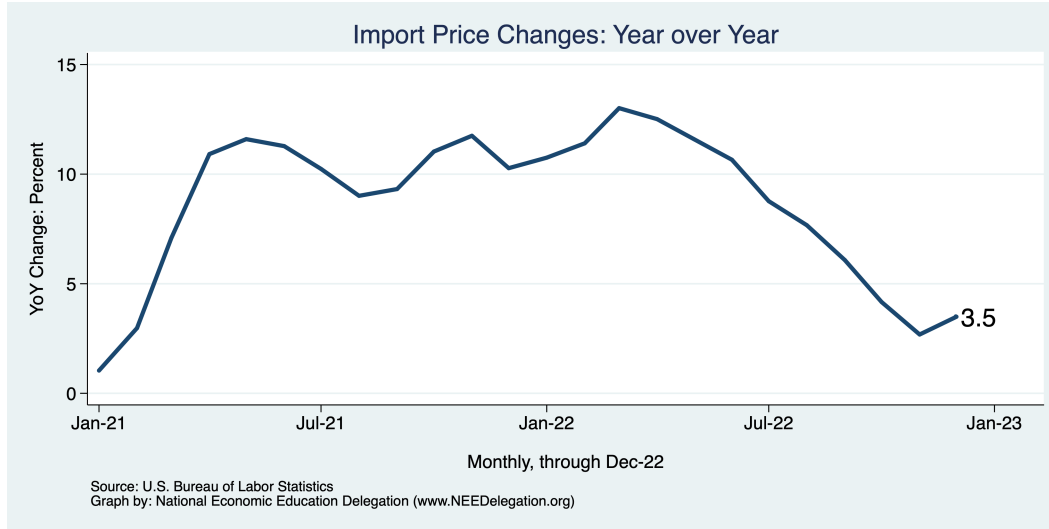
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## Inflation: Not just a US Problem



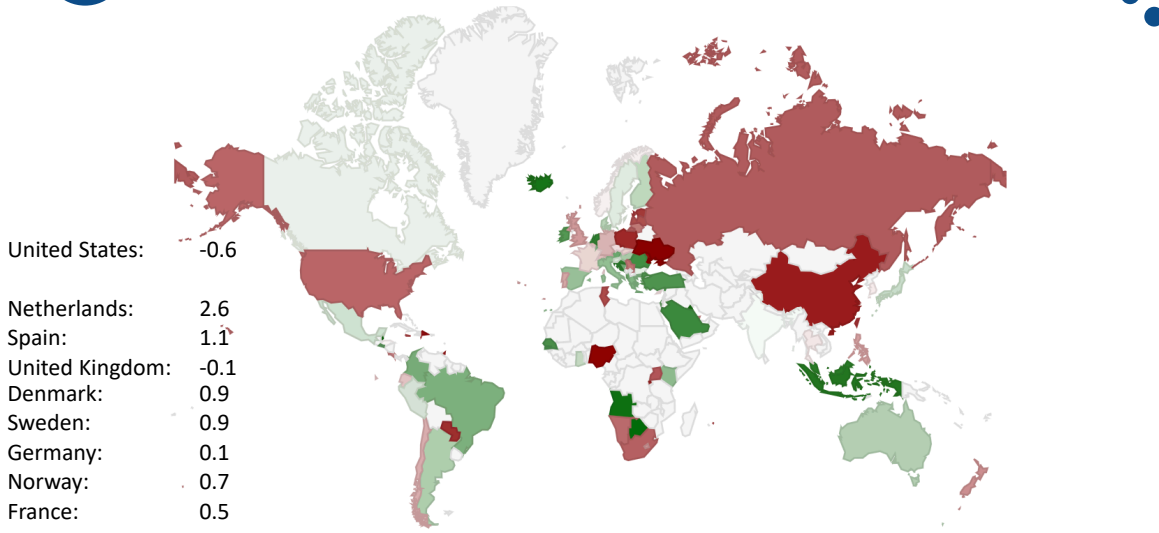
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# Import Prices Are Elevated



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# GDP: U.S. Stands Out, But Not Alone



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## Global Summary

- **Developed economies are uniformly down.**
  - Not entirely a surprise. Went through the same pandemic gyrations:
    - Supply chain issues.
    - Import prices are way up.
- **Somewhat surprising because the economic responses varied across countries.**
  - All used stimulus, but US used MUCH more.
- **Inflation – tale of two sources:**
  - United States – much more one of elevated demand.
  - Europe – much more one of food and energy prices (war).



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## Inflation: A Closer Look



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## How Does Inflation Work?

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

### Demand-Pull

When demand for goods/service exceeds production capacity.

### Cost-Push

When production costs increase prices.

### Built-In

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

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Source: Investopedia

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## Spending Patterns Changed - More Goods!

### Demand-Pull

Category	Change	Status
Goods	up 16.7%	And stable.
Services	up 3.1%	And going up.

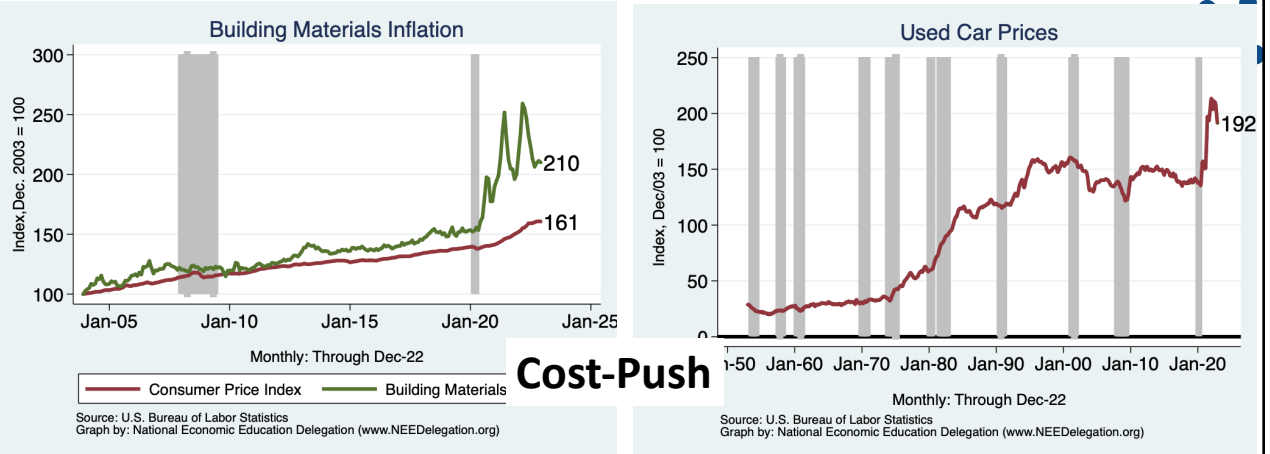
Source: U.S. Bureau of Economic Analysis  
Graph by: National Economic Education Delegation (www.NEEDelegation.org)

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# Inflation: Concentrated



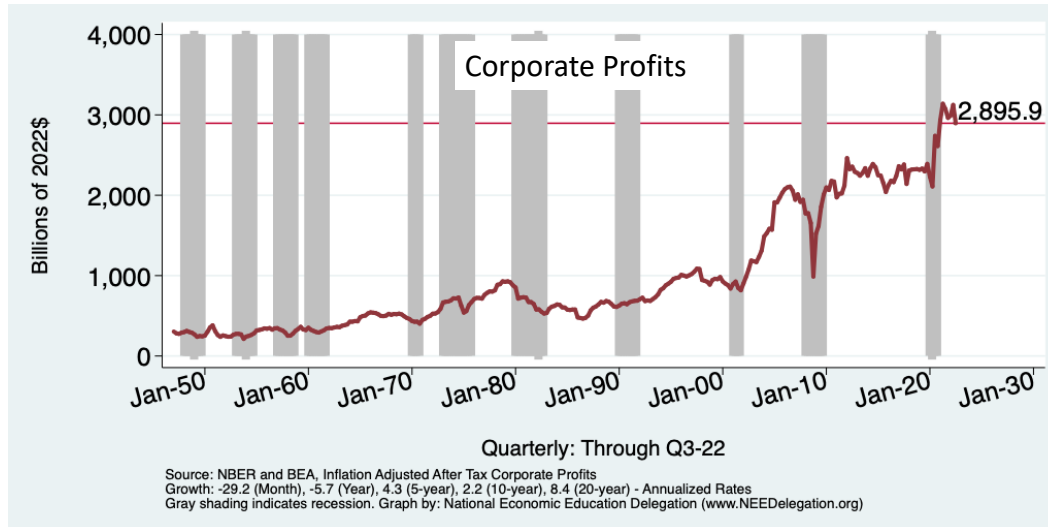
**Cost-Push**

# Supply Chains



**Cost-Push**

## Corporations Have Pricing Power!



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## My Diagnosis for the Uptick in Inflation

- Spending patterns have changed dramatically.
- **Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).**
- **Corporations have used the cover of inflation to raise prices more.**
- **But there was also 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.**
  - International forces.

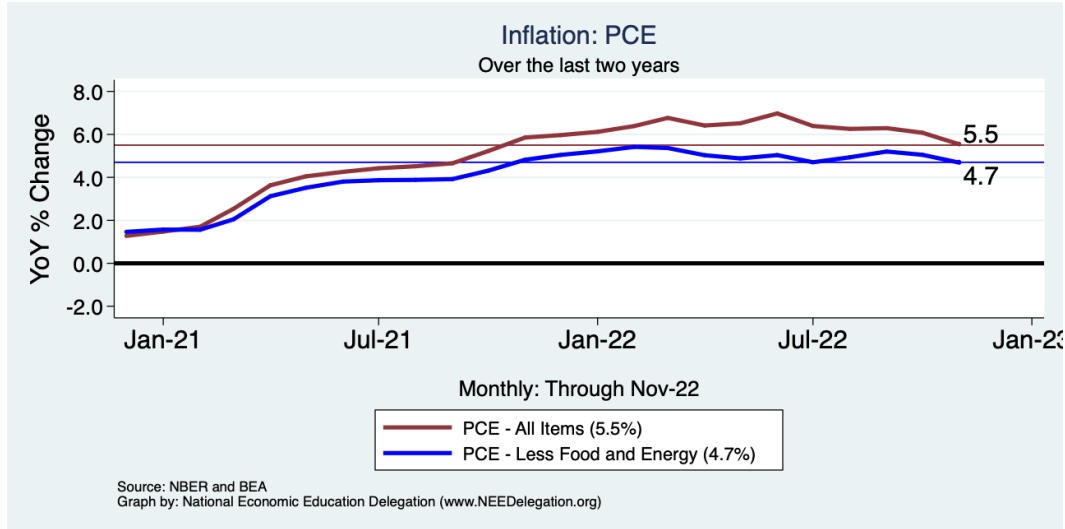


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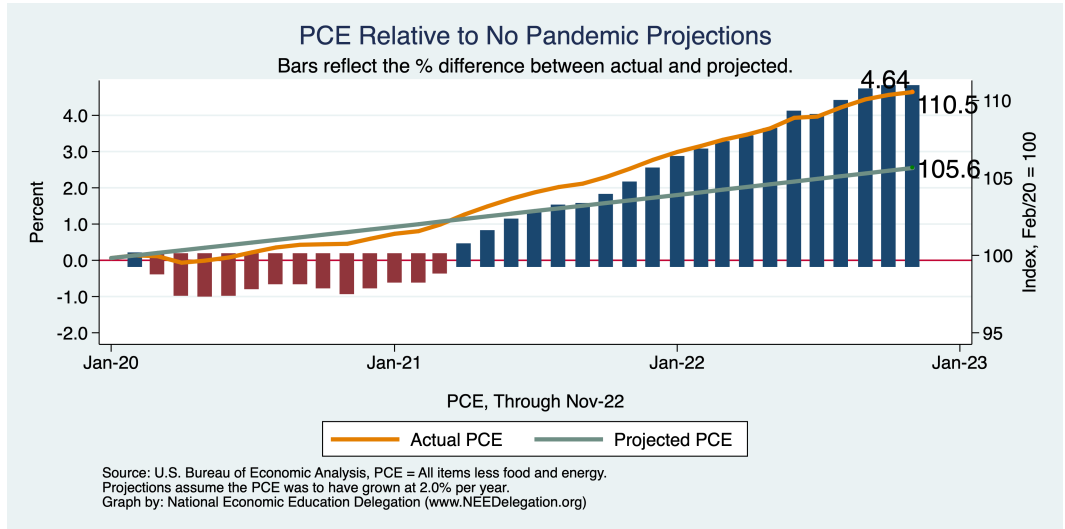
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## Inflation – The Fed’s Metric



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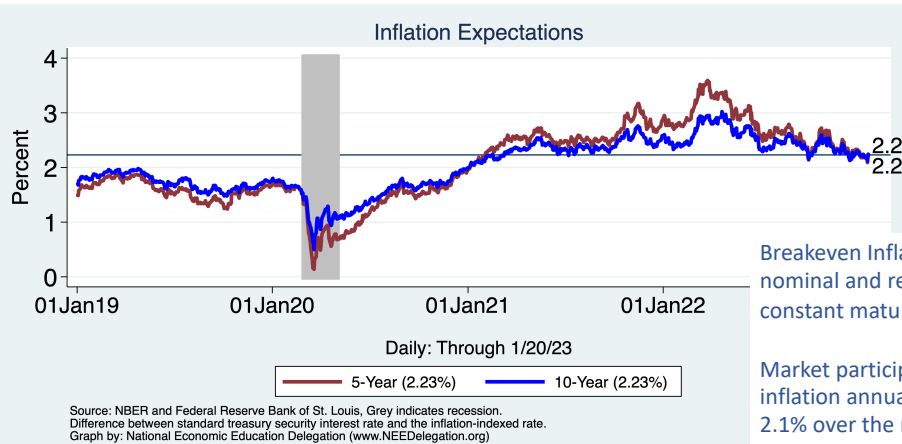
## Inflation – PCE and Fed Suggest: I don't know.



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# Measure of Inflation Expectations



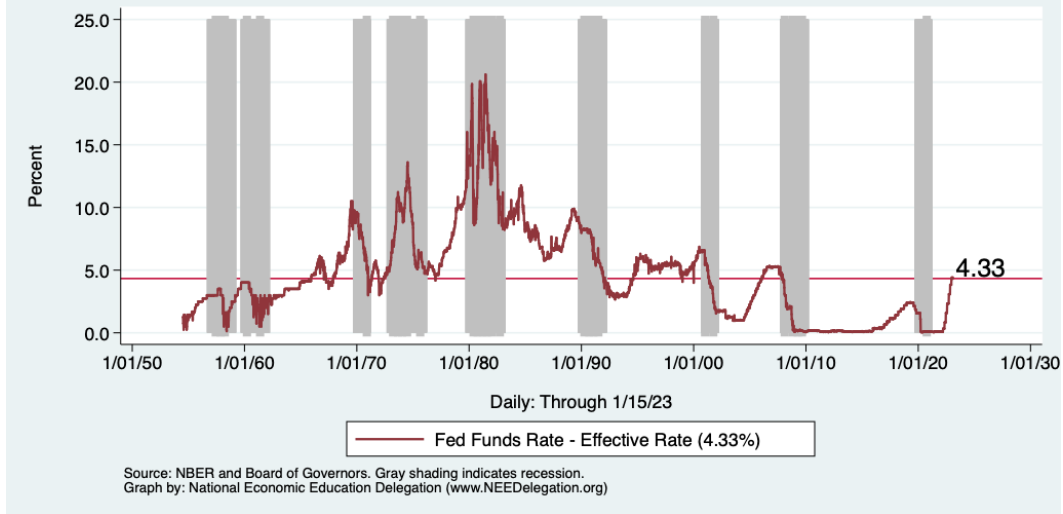
Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.1% inflation annually over the next 10 years and 2.1% over the next 5 years.

Inflation expectations are calming down.

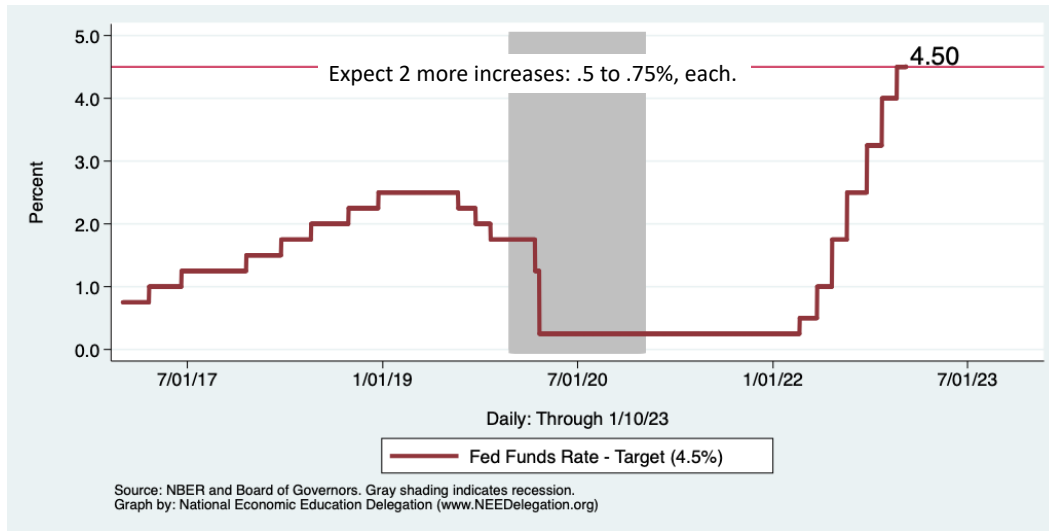
# What's the Fed Doing About It?

# Federal Funds Rate



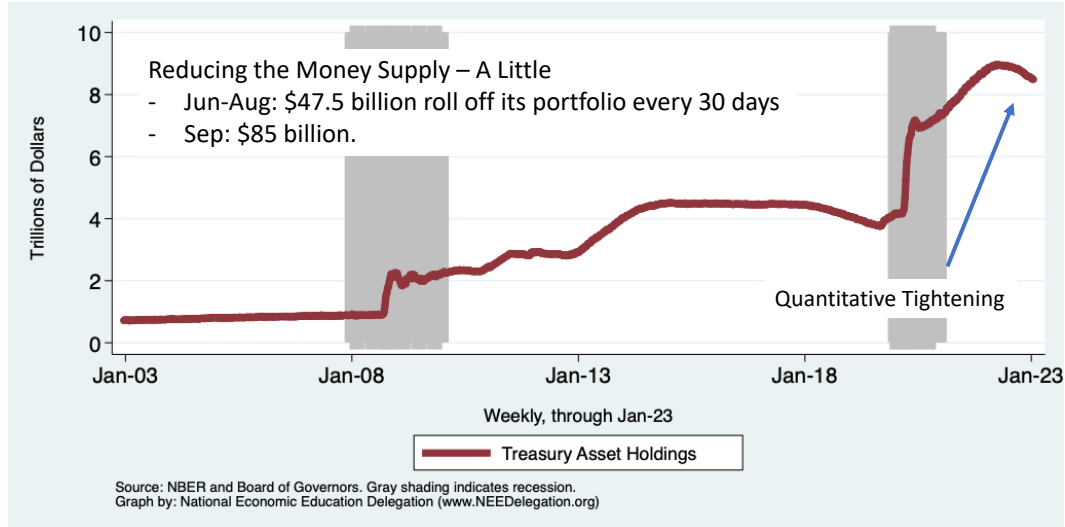
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# Federal Funds Rate – Recent Activity



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## Fed: Also Reducing its Asset Holdings



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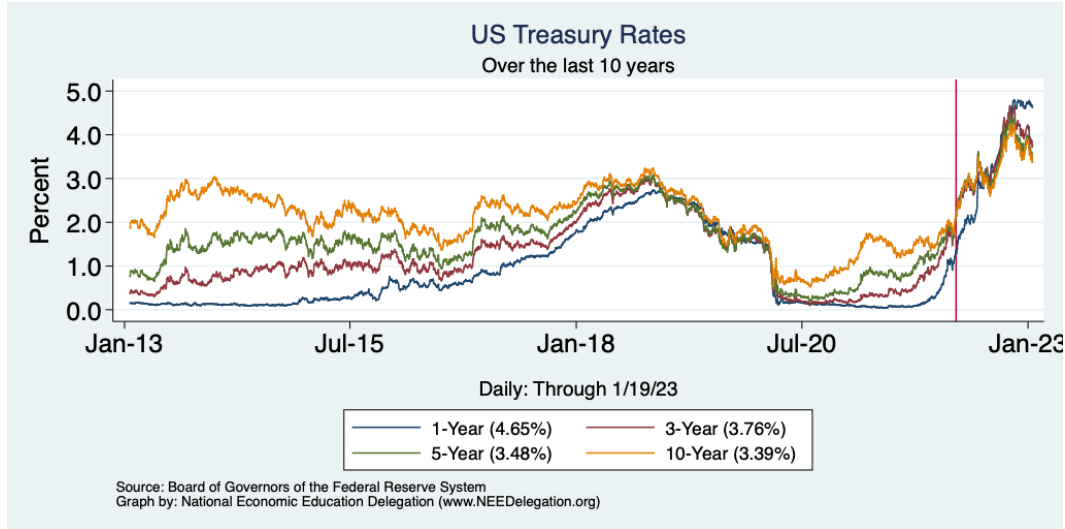
## Implications for Demand

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



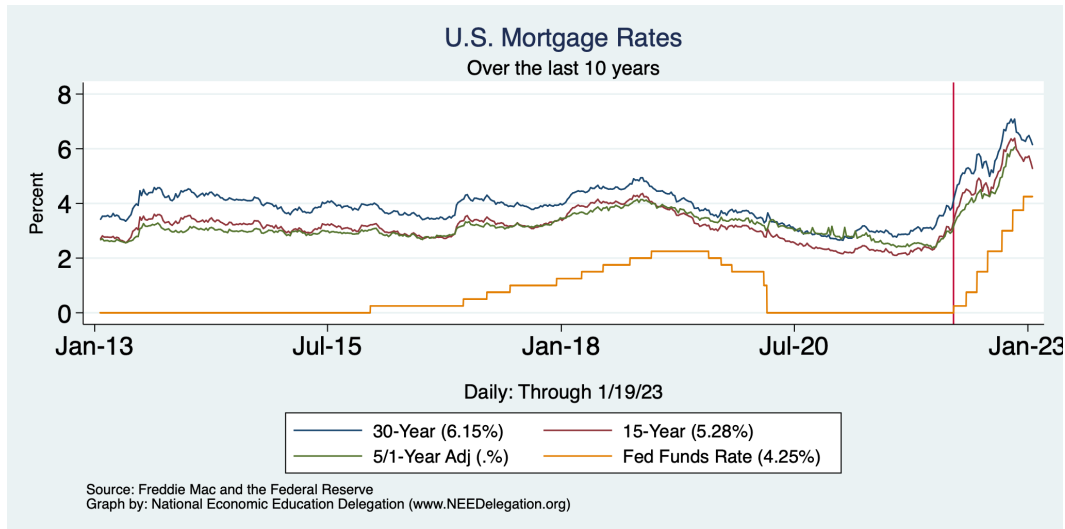
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# Treasuries



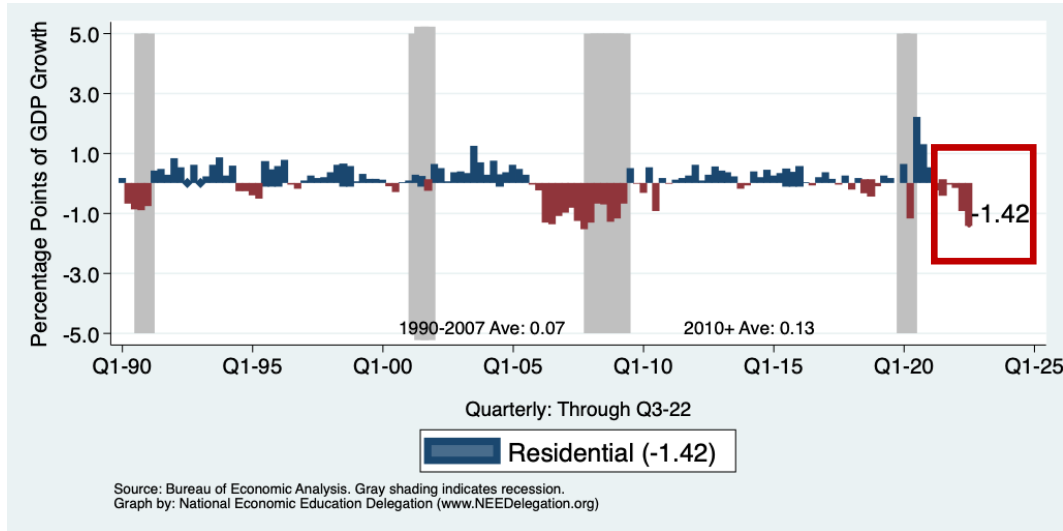
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# Mortgage Rates



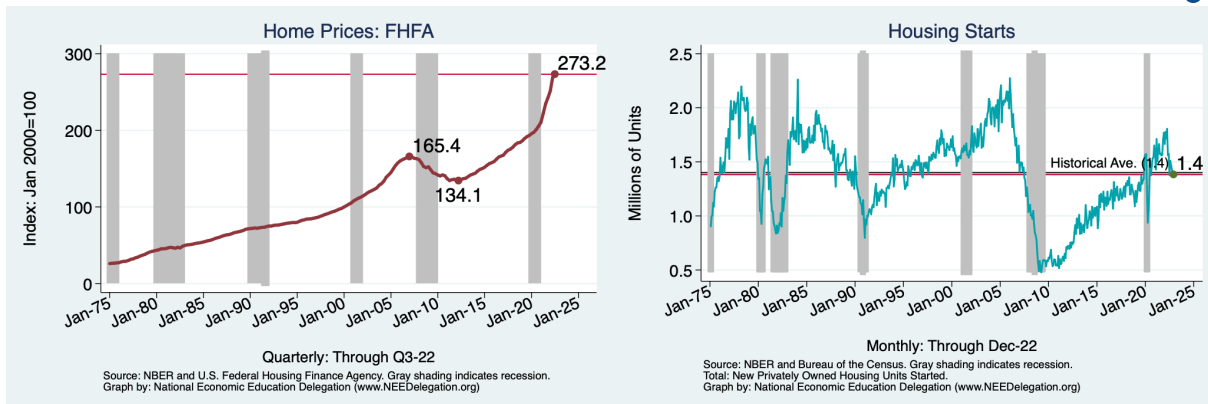
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# Contributions to GDP: Residential Investment



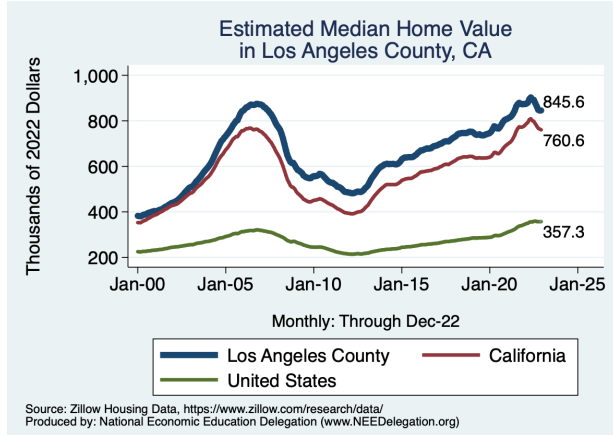
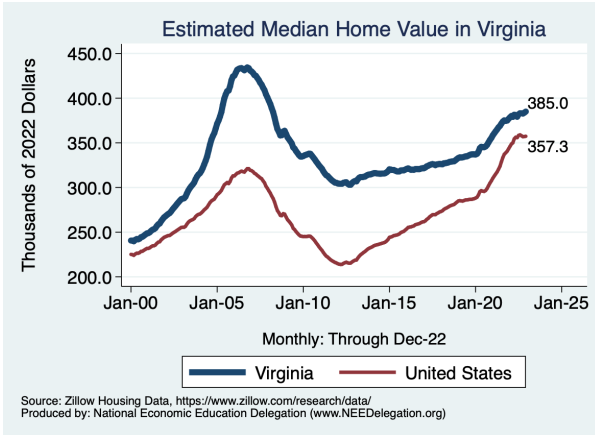
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# Home Prices and Housing Starts



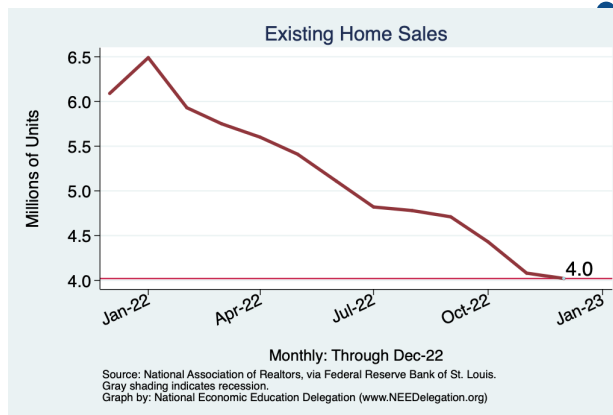
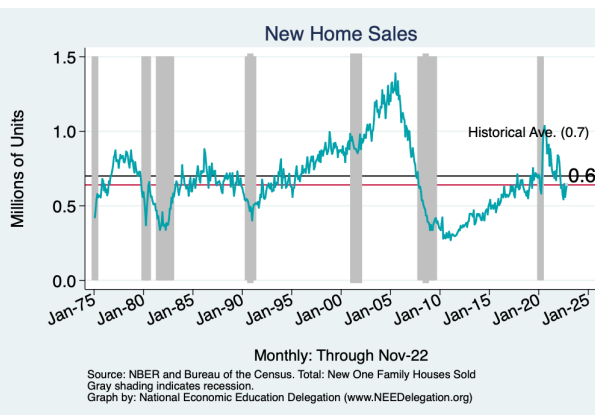
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# Home Prices ... Depends on Where You Are



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# Home Sales Falling



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## Existential Threat: Coming This June!



## 5 Things to Know about the Debt Ceiling

1. The debt limit has been raised continually for more than a century.
2. Raising the debt limit is not about new spending; it is about paying for previous choices policymakers legislated.
3. The uselessness of a debt limit is exhibited by the fact that only one other advanced country—Denmark—has a separate debt limit rule like ours.
4. If debt hits the ceiling, the Treasury Department uses several accounting gimmicks to postpone the day of reckoning, but these typically last only a few months.
5. The economic consequences of a large-scale, intentional default are unknown, but predictions range from bad to catastrophic.

## Will the Economy Be Held Hostage?



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## Lessons from 2011

- **Government shutdown was very costly:**
  - Stock markets plunged (17%).
  - Employment growth stuttered.
  - Treasuries – downgraded credit ratings.
  - Borrowing costs rose.
  
- **The Debt Ceiling may be a very effective bargaining tool, but...**
  - It is costly.
  - It is unnecessary.
  
- **Accidental partial default in 1979:**
  - increased borrowing costs by \$40 Billion!

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## Takeaways

- **Is a recession on the horizon?**

- Perhaps, but no reason to think that it will be anything more than shallow.
- Many indicators are still in the black.
  - o Look for 2022-Q4 GDP release in 10 days.

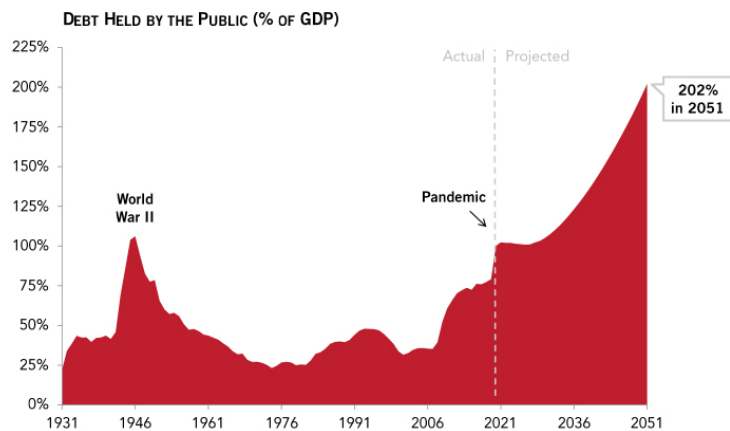
- **Threats to continued growth:**

- If inflation stays high, which seems unlikely.
- Debt ceiling negotiations
  - o Significant cuts to government budgets may well result.

## The Federal Debt: Brian Peterson



The national debt is on an unsustainable path



SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.  
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**Thank you!**

# Any Questions?

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Jon D. Haveman

Jon@NEEDelegation.org

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

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