



Osher Lifelong Learning Institute, Summer 2024

Contemporary Economic Policy

Dartmouth College

Host: Jon Haveman, Ph.D.
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

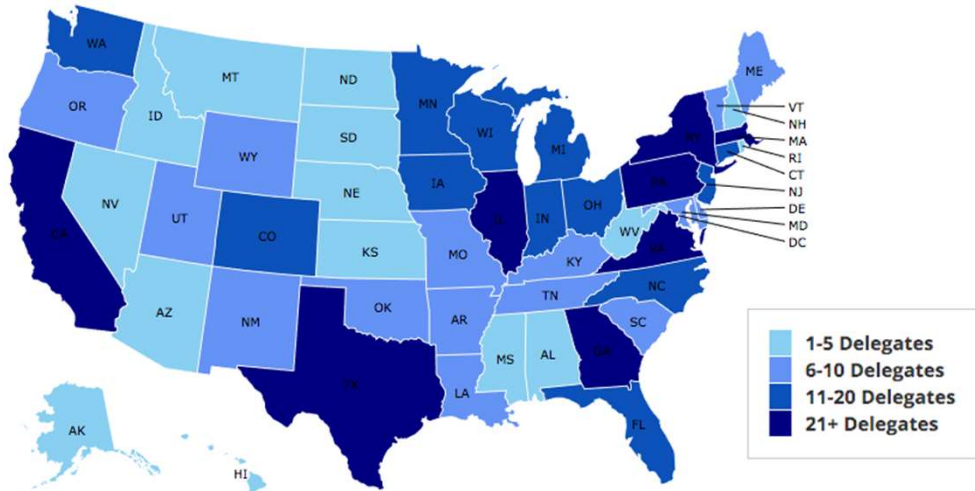
• Delegates: 652+ members

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

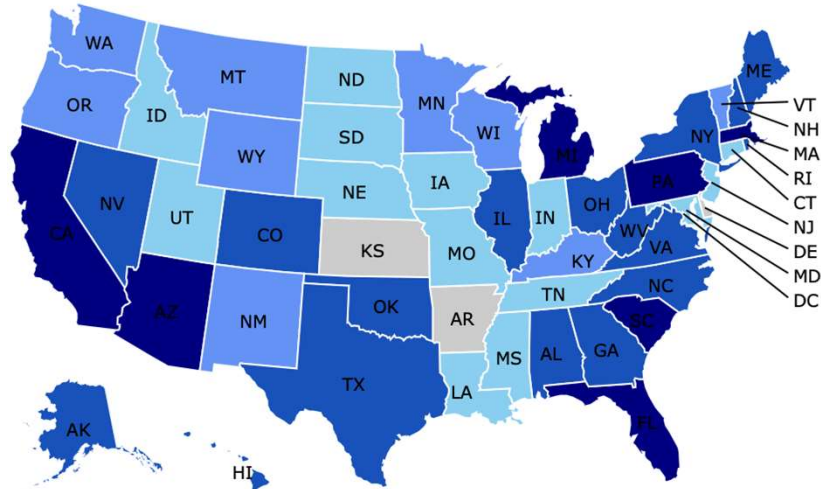
• Global Partners: 48 Ph.D. Economists

- Aid in slide deck development

Where Are We?



Where Have we Given Talks?



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 (6/24): Economic Update (Geoffrey Woglom, Amherst College)**
- Week 2 (7/01): International Institutions (Alan Deardorff, U of Michigan)
- Week 3 (7/08): (Emily Blanchard, Tuck School, Dartmouth)
- Week 4 (7/15): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 5 (7/22): Federal Debt and Deficits (Joseph Carolan, Oakland University)
- Week 6 (7/29): Autonomous Vehicles (Arkadiusz Mironko)



Main Economic Institutions



UNITED NATIONS



World Bank



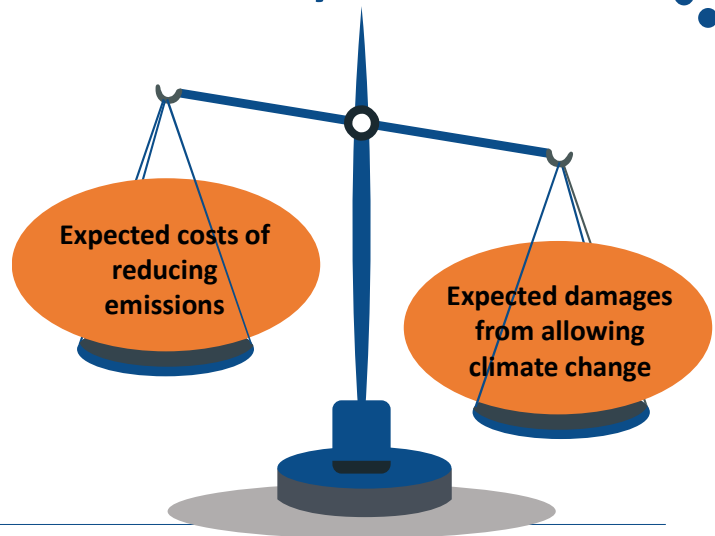
Globalization at a Crossroads

- New Talk!

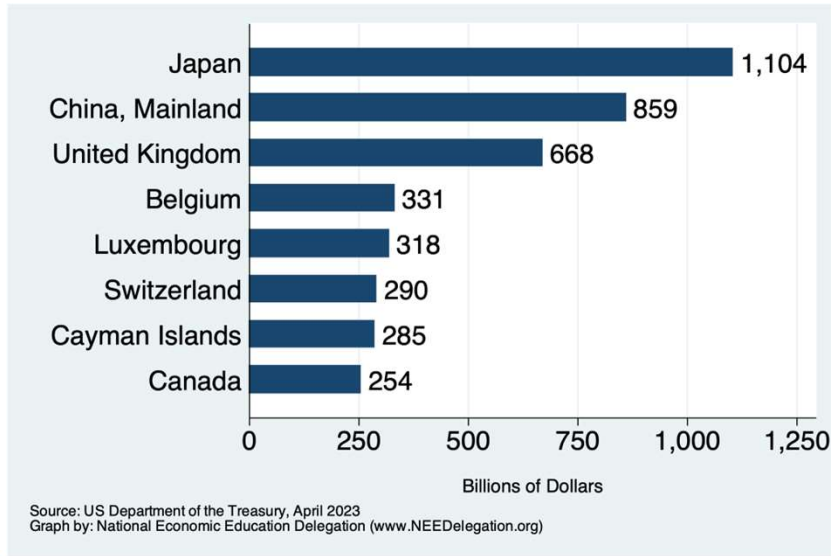
How Economists Decide How Much to Fight Climate Change: Cost Benefit Analysis

Abating greenhouse gas emissions is costly...
... but without action, climate change damages are even more costly.

Goal is not zero emissions, but efficient level that achieves a balance.



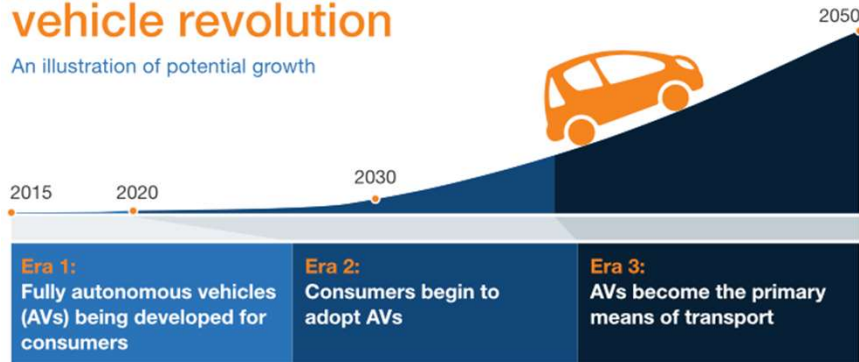
Who Holds US Debt?



Growth Path

The self-driving vehicle revolution

An illustration of potential growth



McKinsey & Company

INFLATION



US Economy: Update

Geoffrey Woglom,
 Professor of Economics
 Amherst College, emeritus
 June 24, 2024



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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 Dombek, 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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Submitting Questions

- **Submit questions in the chat or by raising your digital hand.**
 - I will try to handle them as they come up.
- **Five minute break towards the middle of the talk.**
- **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).**
- **My macro site: <https://sites.google.com/view/macro-current-issues/home>**



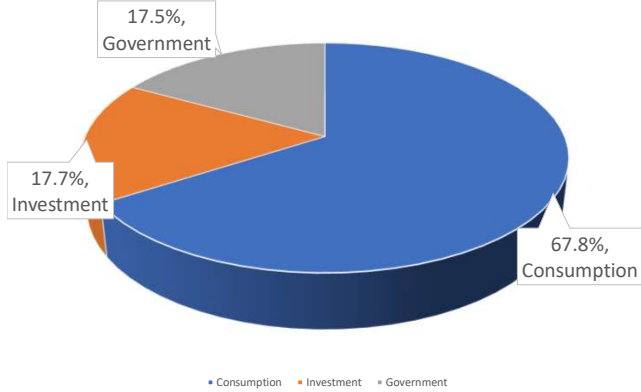
Outline for the Talk

1. **Summary of the state of the macroeconomy.**
2. **The Effect of M&F policies on the recovery.**
3. **Describe an unprecedented monetary policy achievement that may be unfolding.**
4. **Major challenges and uncertainties going forward**



Gross Domestic Product: 2024Q1 = \$28.3 tr

Total Domestic Spending = \$29.1



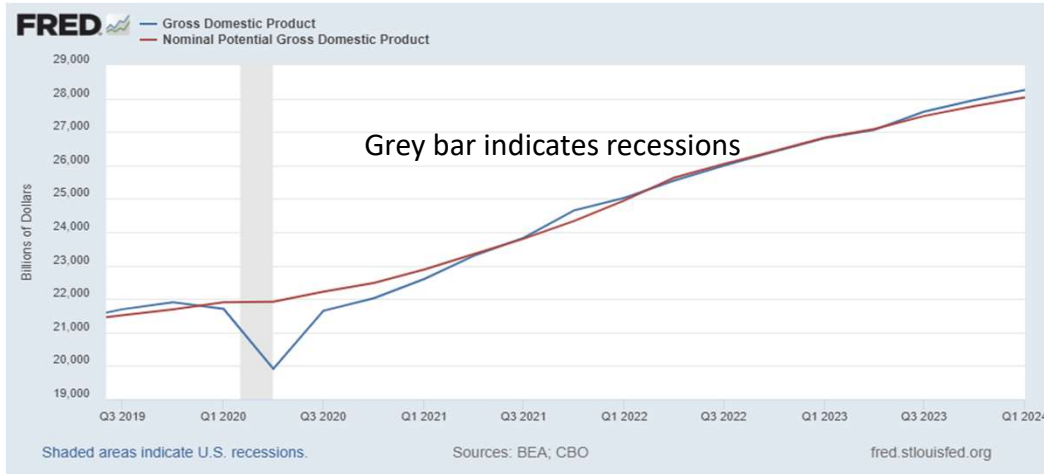
\$29.1
Less Imports
-\$3.9
Plus Exports
+\$3.1
Equals GDP
\$28.3

Different Breakdown



Note: State and Local Government comprises 10% of GDP!

GD^P 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!)**

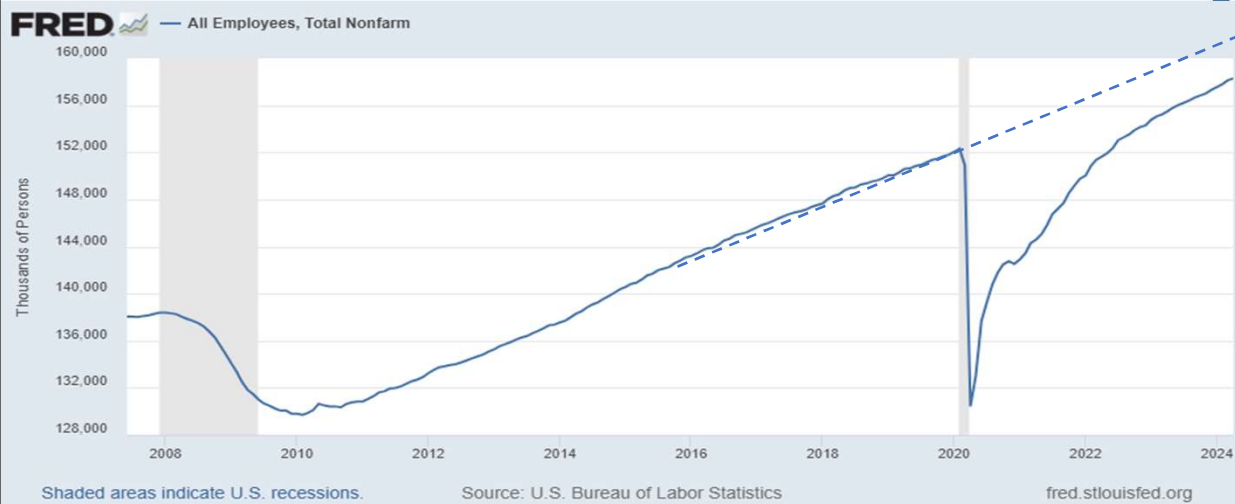
Recessions are caused by a drop in total spending.



Unemployment is Near Record Lows



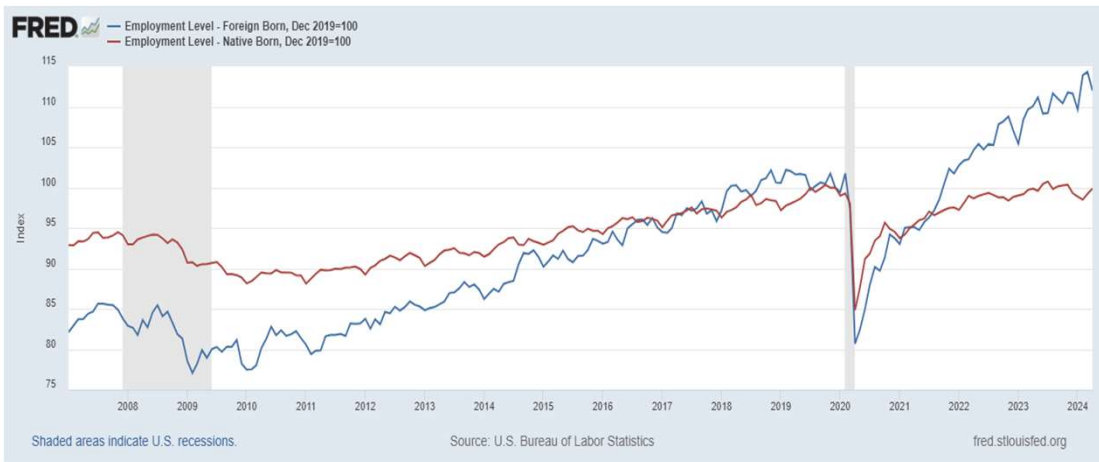
Where Have All the Workers Gone?



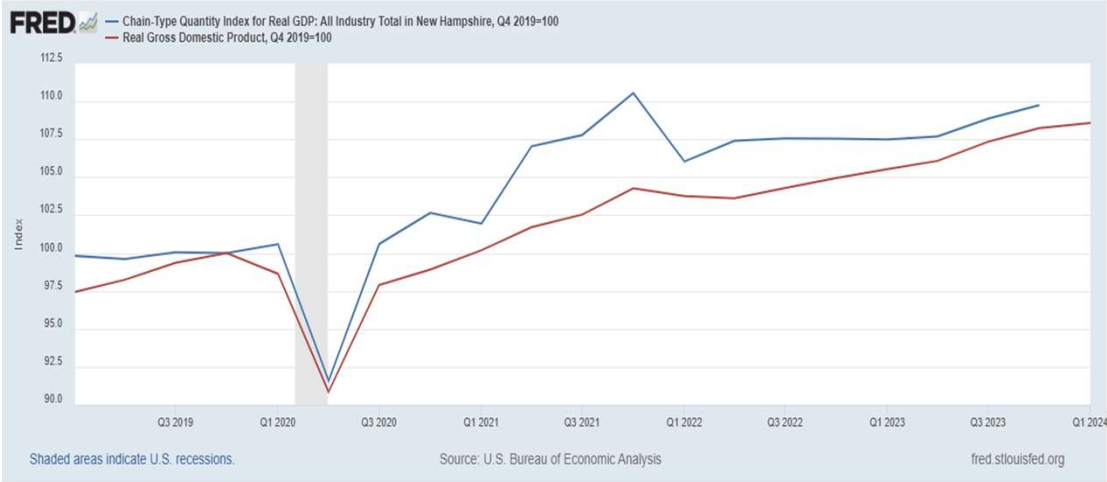
The Aging of the Labor Force



Supplemented by Foreign Workers



How is New Hampshire Doing?



Labor Market in New Hampshire



Overall Good News on the Real Side

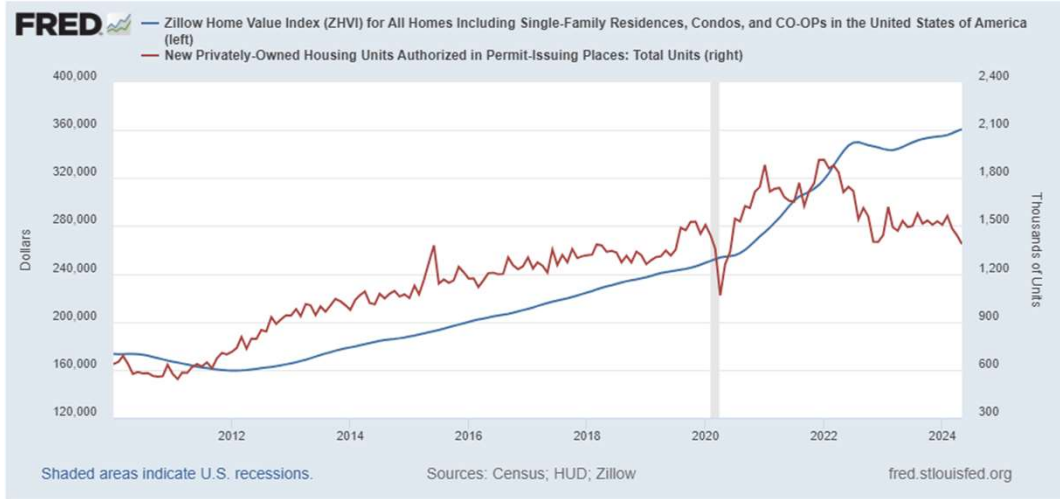
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good, but is getting better.



Interest Rates: Era of Falling Rates Over?

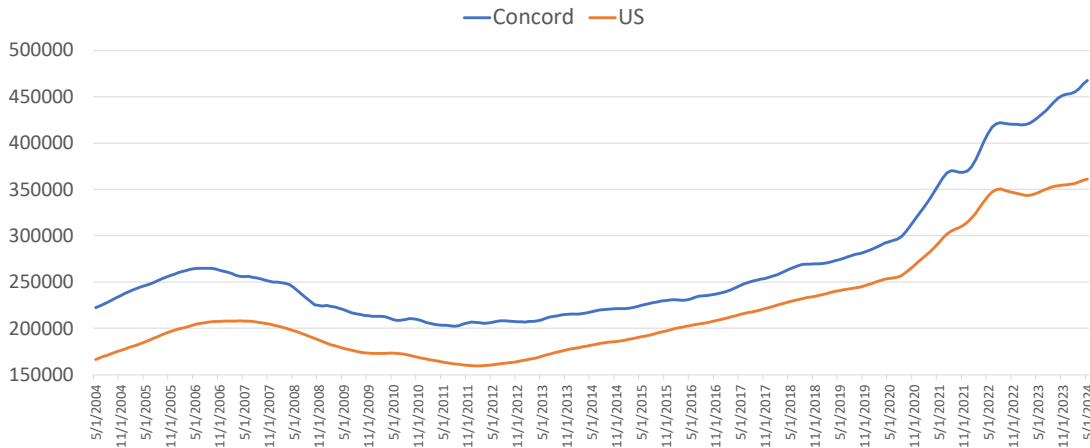


Mortgage Rates are Having an Effect ?



National Housing Market and Closer to Home

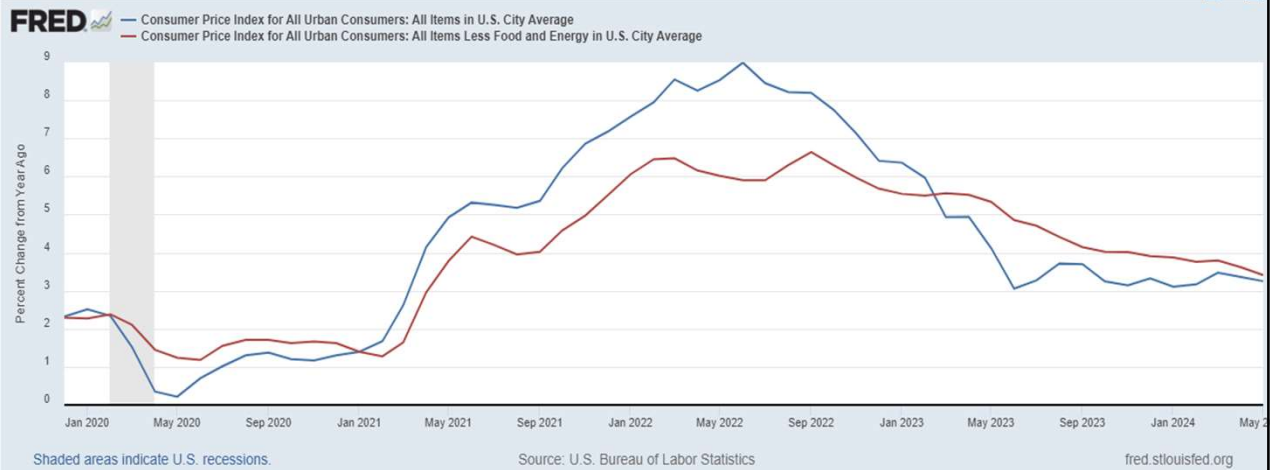
Median Single Family Home Prices



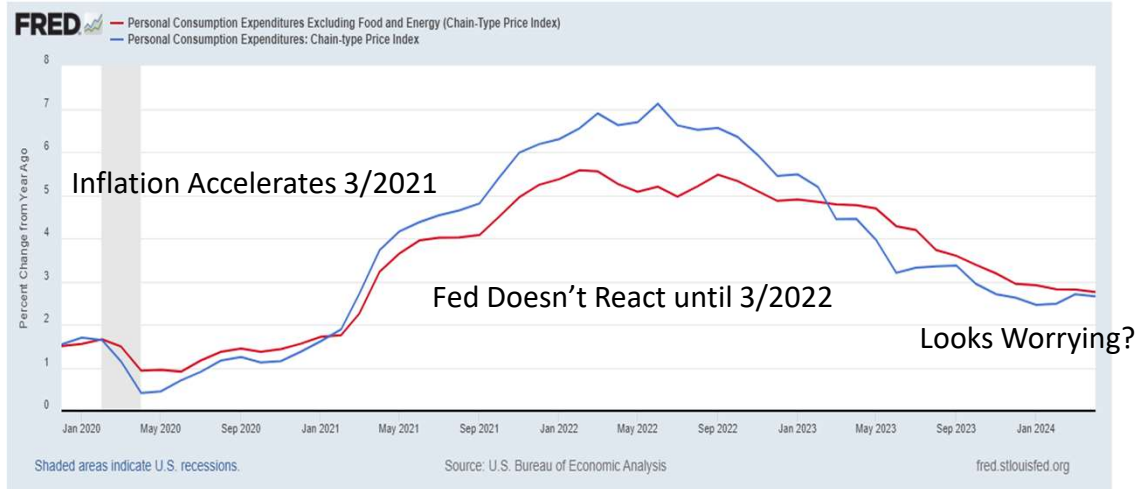
Stock Prices: Fear Giving Way to Greed?



Inflation during the Recovery (CPI)



Fed's Measure (PCE)

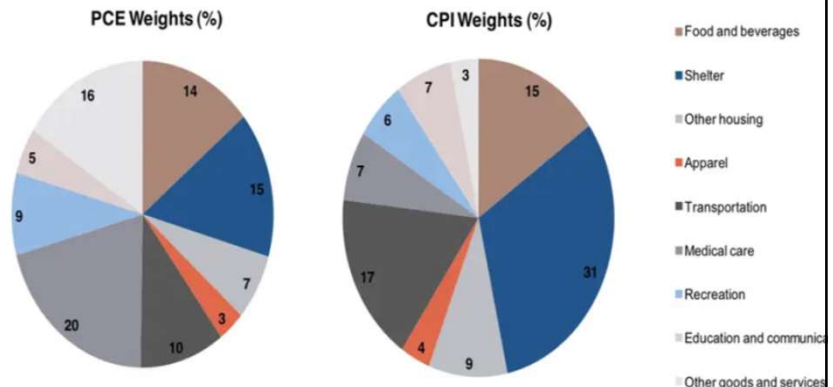


CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

April:
 CPI, 3.4% PCE, 2.7%
 Core CPI, 3.6% Core PCE, 2.8%.

Chart 18: PCE vs CPI – weight comparisons



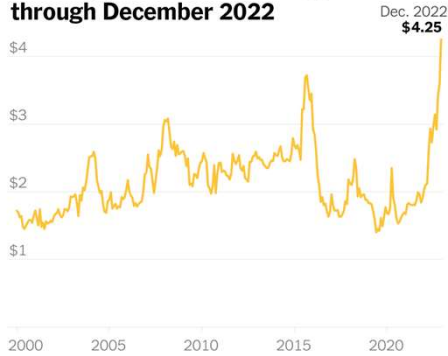
Source: Haver Analytics, SG Cross Asset Research/Economics

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?

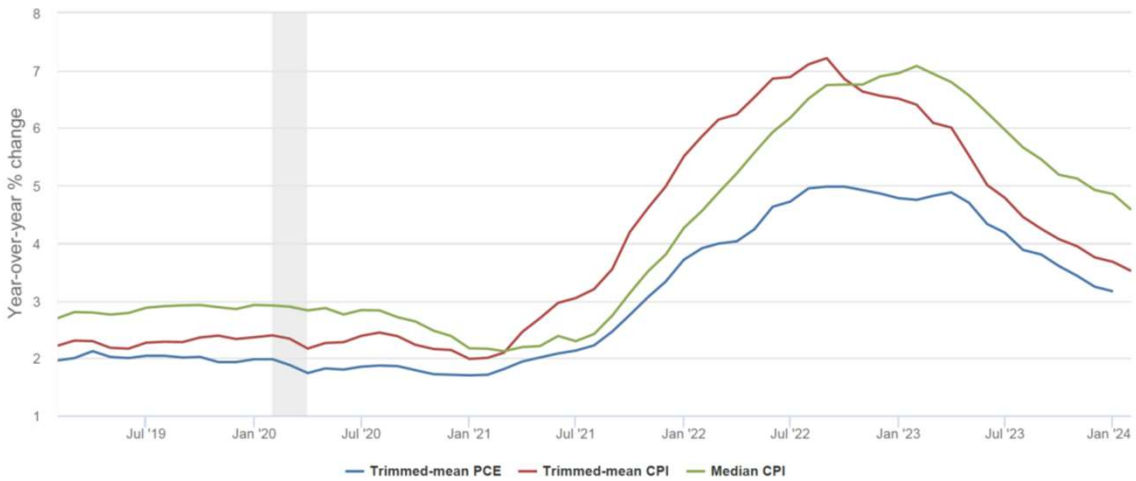
Monthly price for a dozen eggs through December 2022



Measuring "Underlying" Inflation

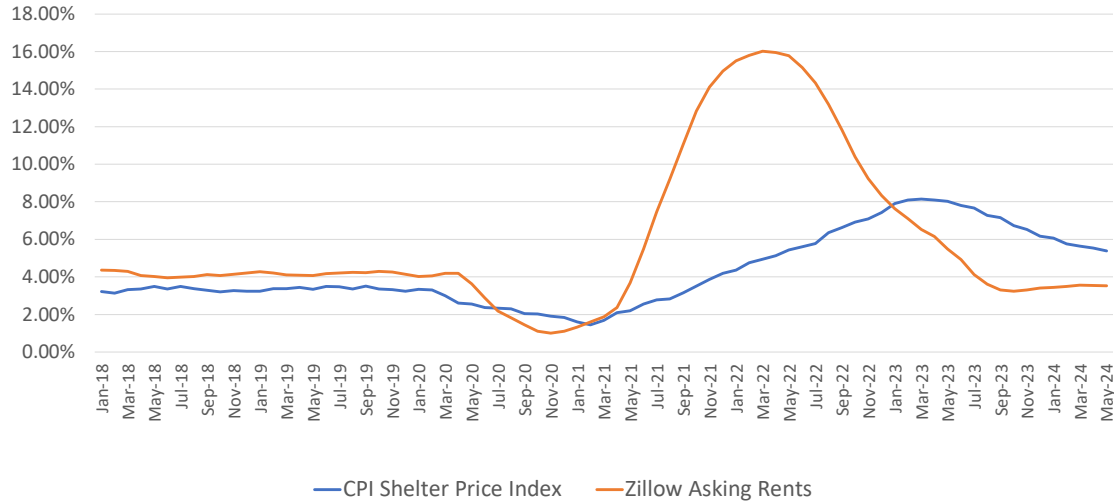
Alternative Core Inflation Measures

MACRO SNAPSHOT by the St. Louis Fed



Seasonally adjusted. Recessions are shaded. Sources: Federal Reserve Banks of Dallas and Cleveland. Powered by FRED.

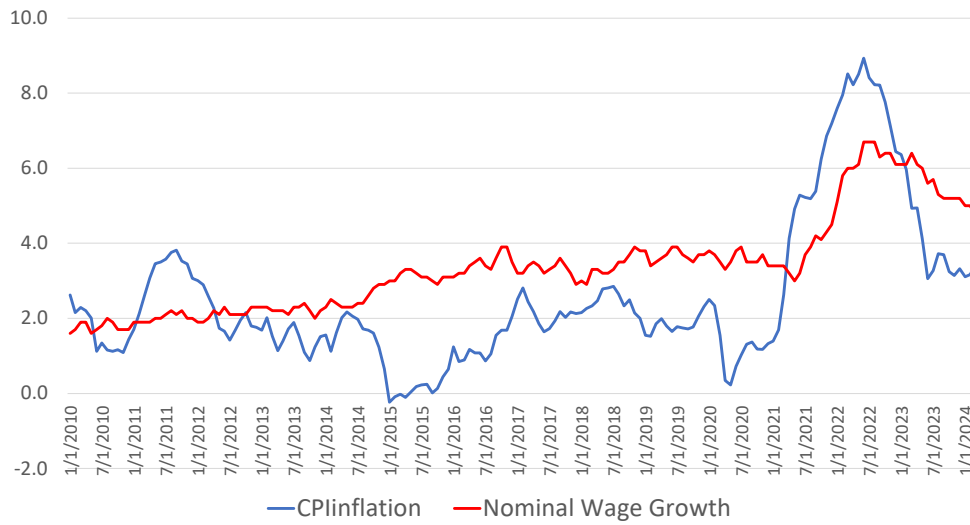
The Importance & Problems with Rents



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Wages Haven't Kept Pace with Inflation, Yet

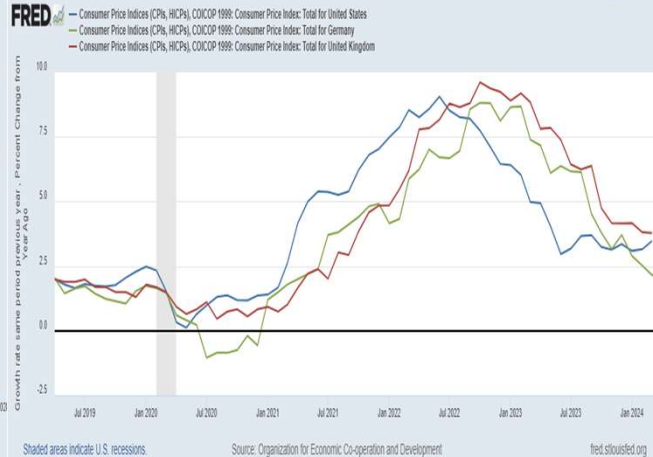
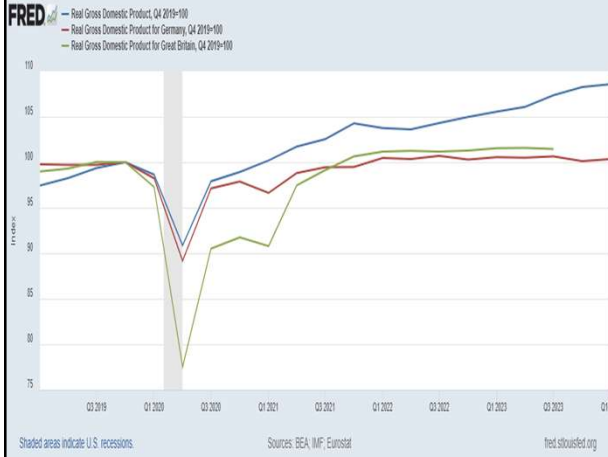


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Federal Reserve of Atlanta, "Wage Tracker" and BLS

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International Comparisons



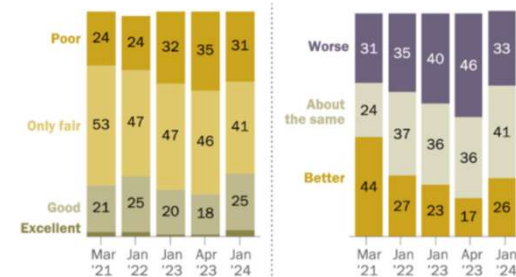
The “Nominal” Side

- **Inflation: A lot of progress on inflation, but the recent data are troubling.**
- **But, this is not the popular view**

Views of the nation's economy | Pew Research Center

Modest improvement in national economic outlook

% who say that economic conditions in this country today are ___ % who say they expect that economic conditions in the country will be ___ a year from now



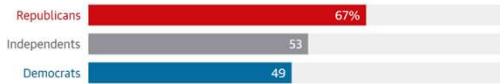
Note: No answer responses are not shown. Refer to the topline for full trend.
 Source: Survey of U.S. adults conducted Jan. 16-21, 2024.

Five Minute Break!

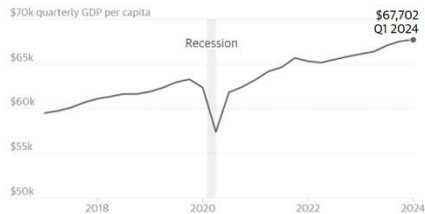
- Take 5!

Why We Give These Lectures

Republicans and independents are more likely to believe the US is currently experiencing a recession.



The last recession was in 2020, during the global pandemic.

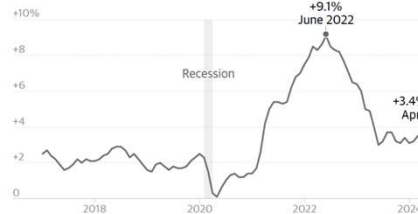


Guardian graphic. Sources: The Harris Poll, Bureau of Economic Analysis via FRED. Note: Survey of 2,119 US adults from 10 to 12 of May 2024.

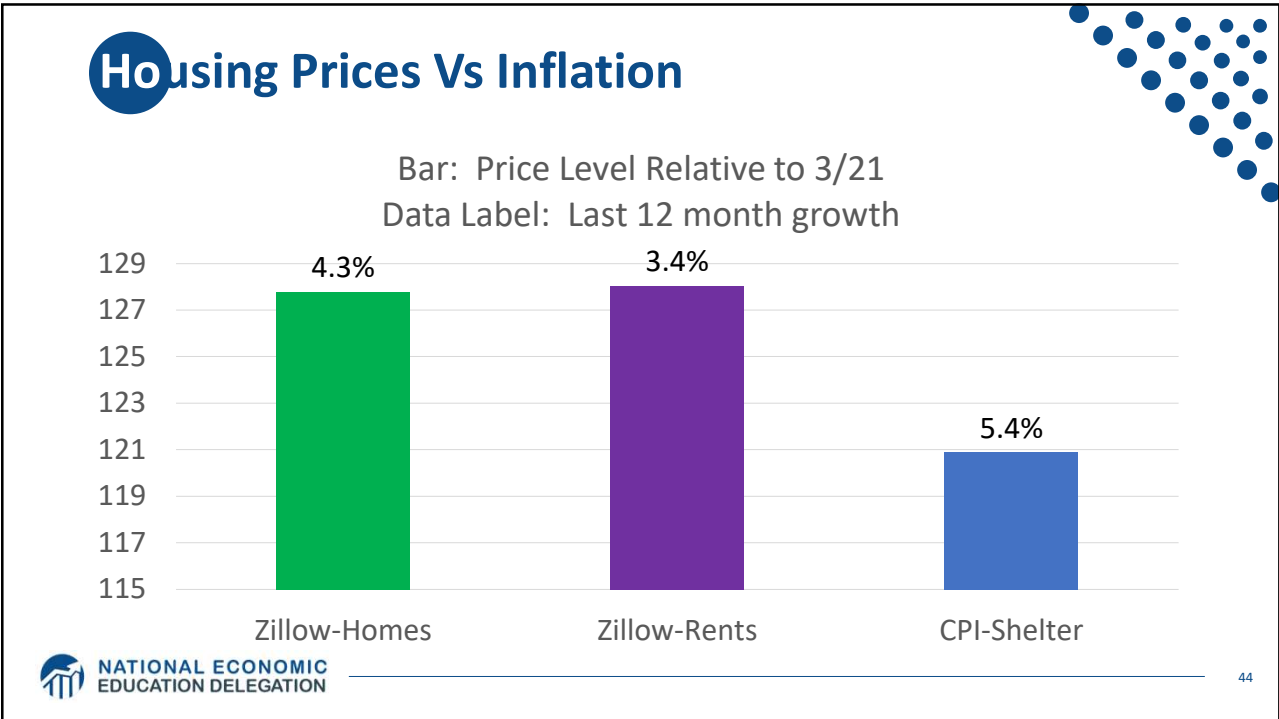
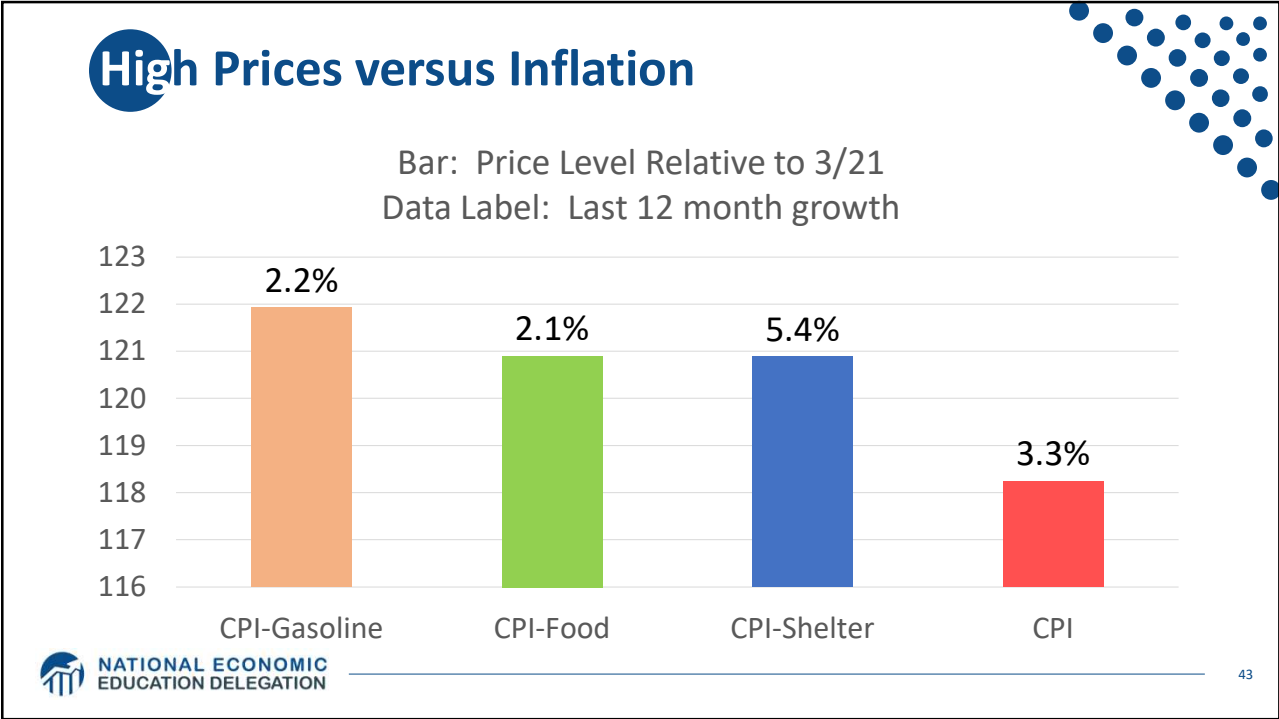
Across the political spectrum, most respondents believe inflation is increasing.



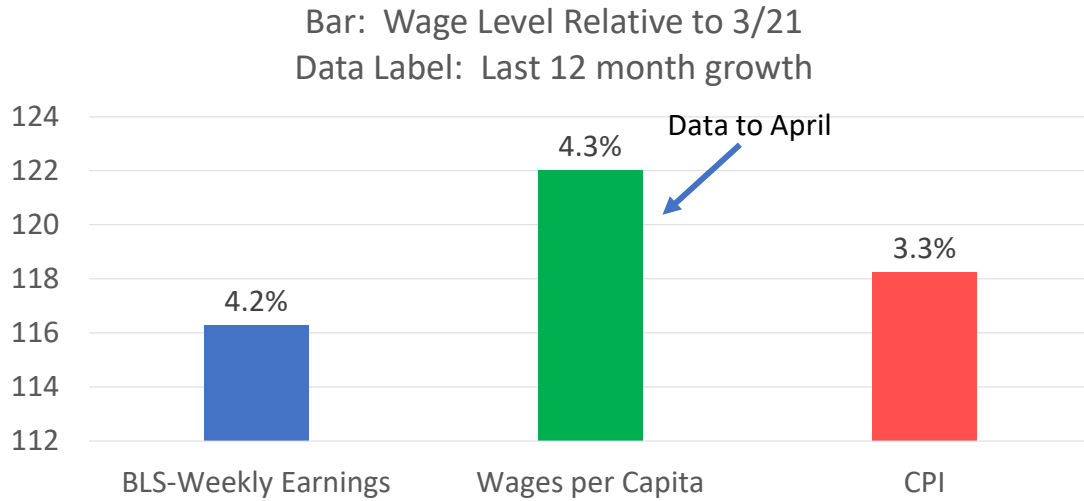
After peaking in spring 2022, inflation has settled between 3% and 4% in the past year.



Guardian graphic. Sources: The Harris Poll, Bureau of Labor Statistics 12-month change in the Consumer Price Index. Note: Survey of 2,119 US adults from 10 to 12 of May 2024.

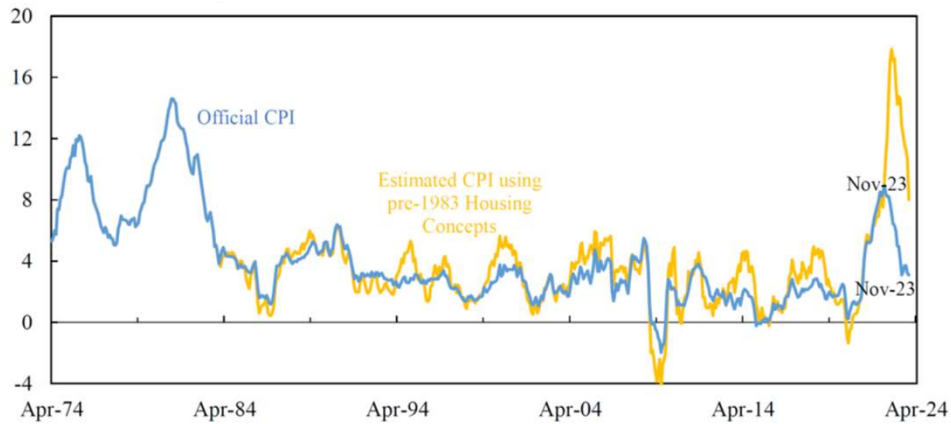


Wages vs Prices and Inflation



Housing Again!

Official and Estimated CPI using pre-1983 housing methods, 1974-2023
Year-over-Year Change in the Price Index

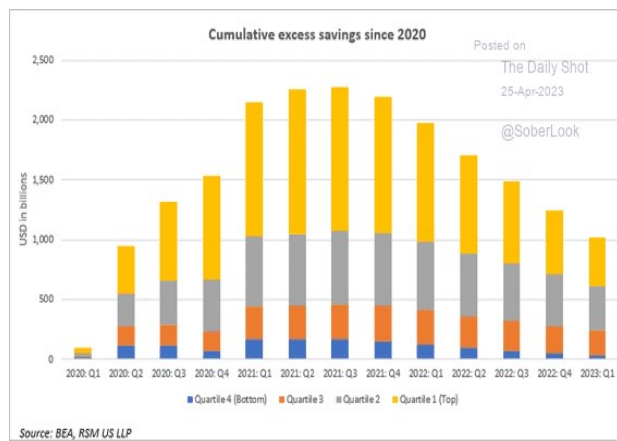
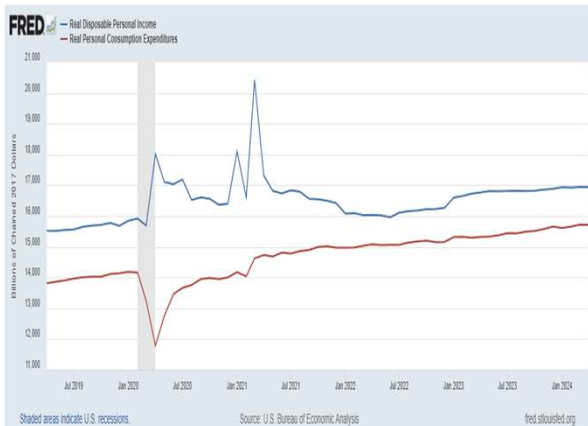


Policy Effects

- Stabilization policies aim to affect the level of total spending or “aggregate demand.”
 - Fiscal Policies of increasing spending and/or cutting taxes can raise total spending. (Congress and the President)
 - Monetary Policy affects total spending via interest rates: lower interest rates leads to more spending (the Fed)
- Except in deep recessions, the Fed has primary responsibility for stabilization policies.

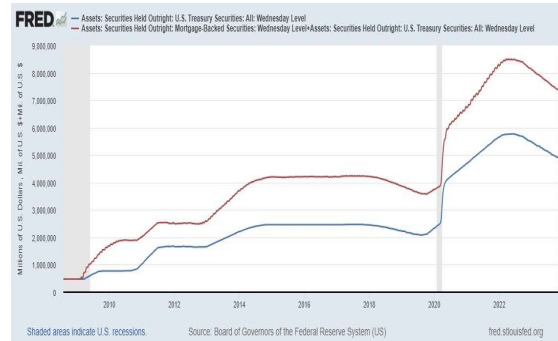
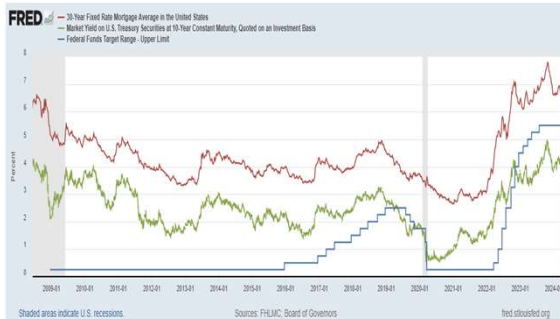
Policy Effects: Fiscal

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



Policy Effects: Monetary

- 2020-2/2022: short term policy interest rate at zero, new round of quantitative easing.
- 3/2022-present: most rapid increase in interest rates since Paul Volcker



About Face at the Fed in 2022

- **1/26:** Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. (inflation 7.6%)
- **3/16:** Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, and *broader price pressures* (emphasis added). (8.5%)
- **6/15:** The Committee is strongly committed to returning inflation to its *2 percent objective*. (9.0%)

Fed's View on the Economy

June 2024

Percent

Variable	Median ¹			
	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8
March projection	2.1	2.0	2.0	1.8
Unemployment rate	4.0	4.2	4.1	4.2
March projection	4.0	4.1	4.0	4.1
PCE inflation	2.6	2.3	2.0	2.0
March projection	2.4	2.2	2.0	2.0
Core PCE inflation ⁴	2.8	2.3	2.0	
March projection	2.6	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	5.1	4.1	3.1	2.8
March projection	4.6	3.9	3.1	2.6

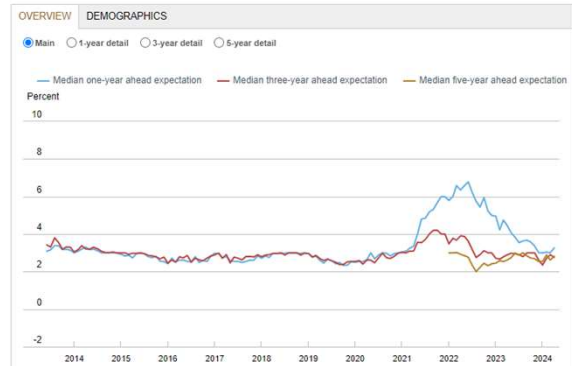
Austin Goolsbee, President of the Chicago Fed, The economy is on a “golden path” and will achieve the “mother of all soft landings.”

How did this happen?

Long-Term Inflation Expectations Remained “Well Anchored”

Inflation expectations

Median one-, three-, and five-year ahead expected inflation rate



Source: New York Fed Survey of Consumer Expectations

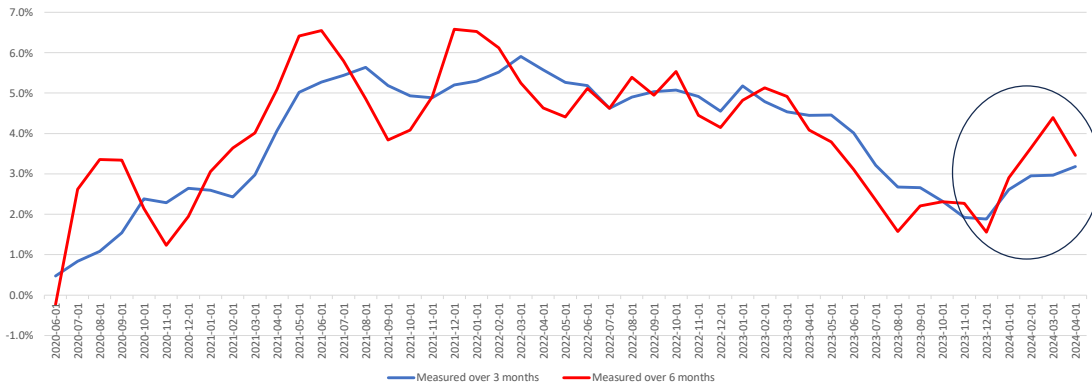


Assessing Credit and Blame (my views)

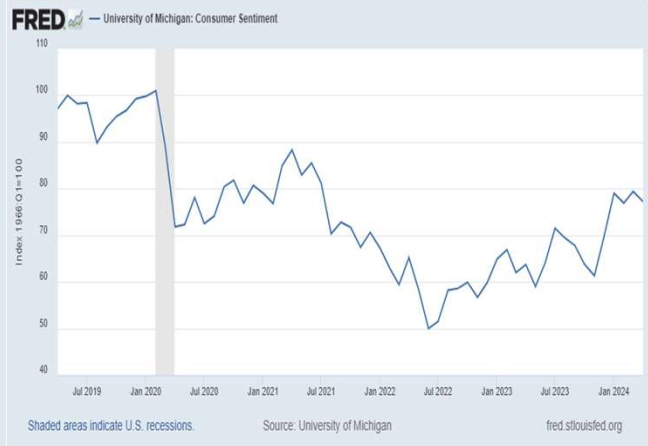
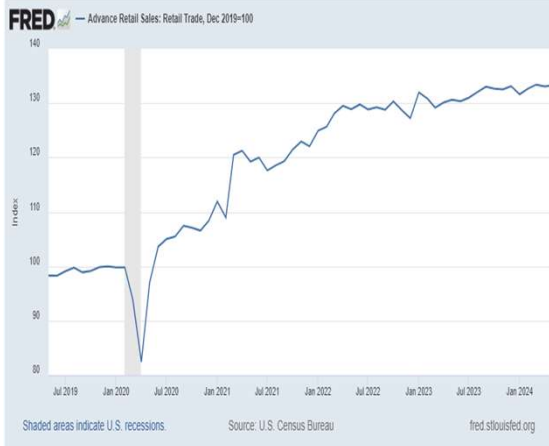
- Congress and the President: Fiscal Stimulus prevented deep world-wide recession. American Rescue Plan probably too big.
- The Fed. Major blame for being late in reacting to increase in inflation. Since 3/22, so far so good. Verdict is out: good policy or good luck?

Spring Inflation Jitters

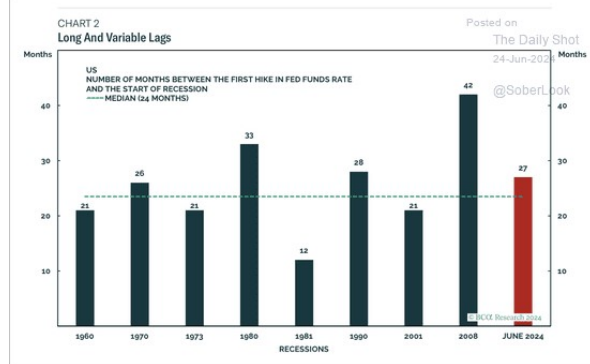
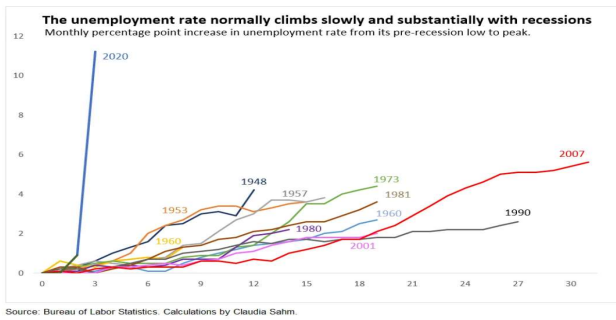
Core PCE Inflation at Different Horizons (at annual rates)



The Nervous Consumers?



Nervous Fed? (Given Past History)



<https://www.bcaresearch.com/macro-research-services>

What will the Fed Do?

Pending Developments:

- Consumption (2/3rds of GDP) appears to be slowing.
- Progress on inflation still is in some doubt.
- New Data: Unemployment first Friday of the month; PCE inflation, 6/28, 7/26.
- Two more FOMC meetings before the election: July 30-31 and September 17-18.

(followed by a meeting Nov. 6 -7!)

- Politically Charged Environment!

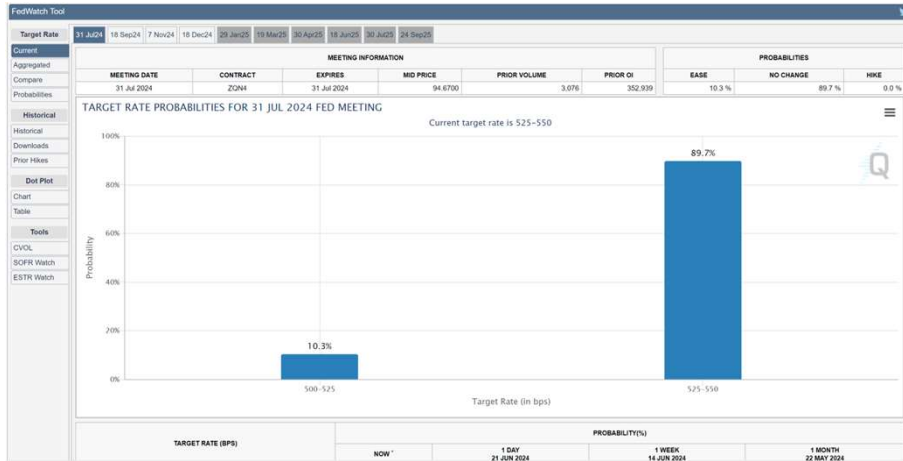


Interest Rate Cuts?

<https://sites.google.com/view/macro-current-issues/home>



Interest Rate Cuts?



The Action is in September



Main Economic Institutions



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Let's Hear from You!

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Contact NEED: Info@NEEDEcon.org

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