



Osher Lifelong Learning Institute, Summer 2024

Contemporary Economic Policy

University of Hawaii

Host: Geoffrey Woglom, 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.

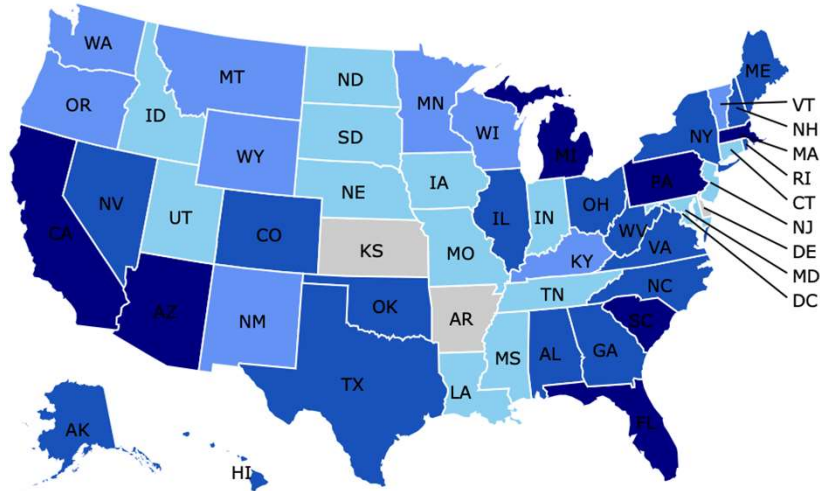
- **Mission**

- 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.

Where Have we Given Talks?



Available NEED Topics Include:

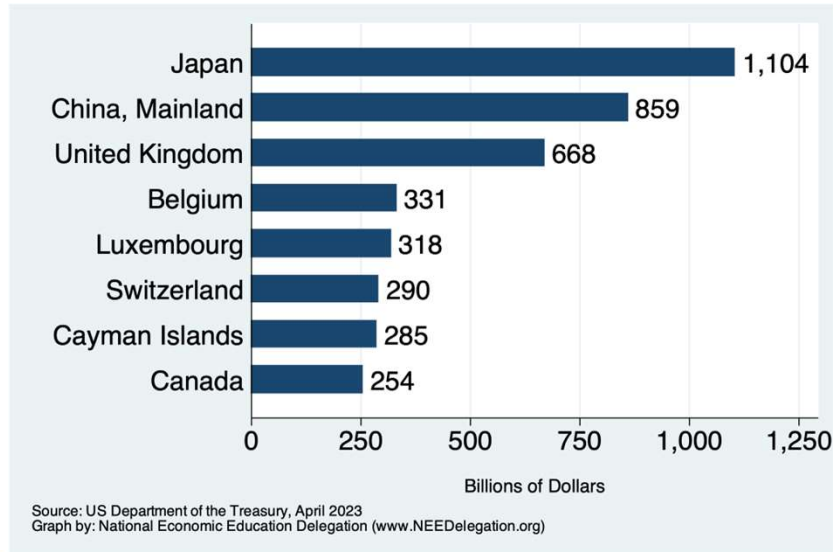
- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

Course Outline

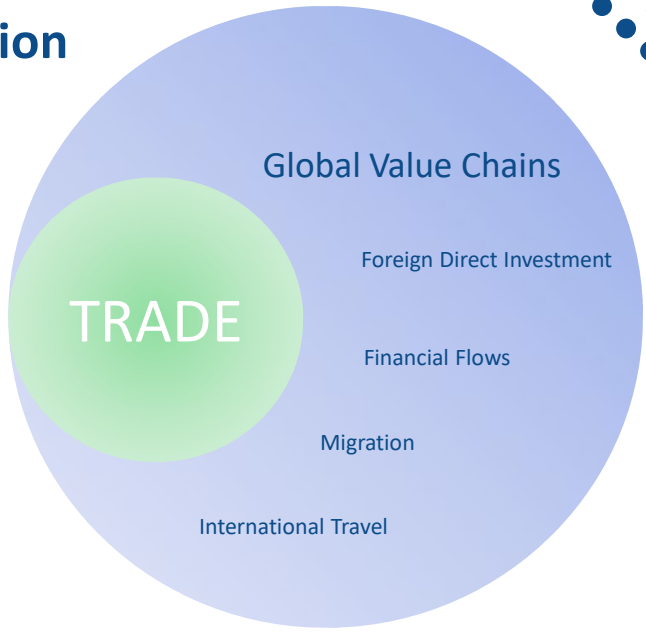
- **Contemporary Economic Policy**

- **Week 1 (7/10): Economic Update (Joseph Carolan, Oakland University)**
- Week 2 (7/17): Federal Debt and Deficits (Brian Peterson, LaGrange College)
- Week 3 (7/24): Trade and Globalization (Avik Chakrabarti, UWisconsin Milwaukee)
- Week 4 (7/31): Trade Deficits and Exchange Rates (Alan Deardorff UMichigan)

Who Holds US Debt?



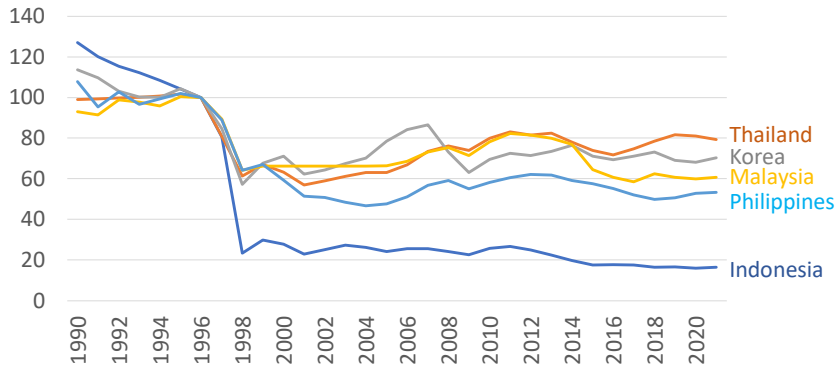
What is Globalization



The Asian Crisis of 1997

Asian Crisis 1997 Countries

Indonesia, Korea, Malaysia, Philippines, Thailand
US dollar values, scaled to 100 in 1996



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).



Submitting Questions

- **Submit questions in the chat or by raising your digital hand.**

- 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).

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



INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
July 10 2024

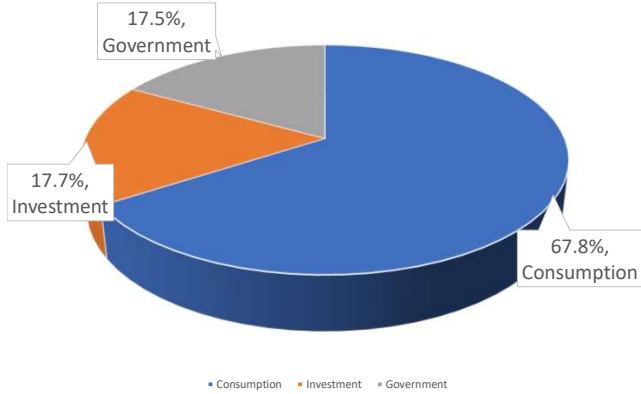


Outline for the Talk

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



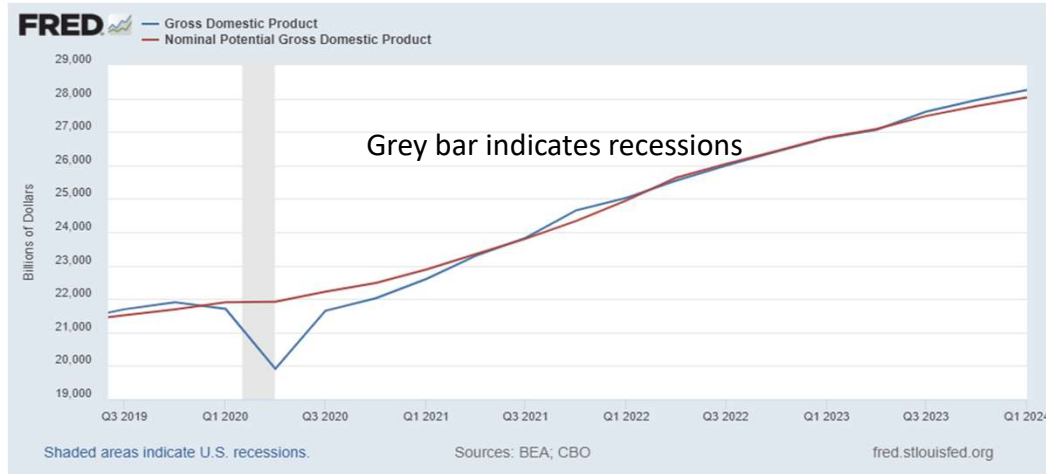
\$29.1
Less Imports
-\$3.9
Plus Exports
+\$3.1
Equals GDP
\$28.3

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!)**

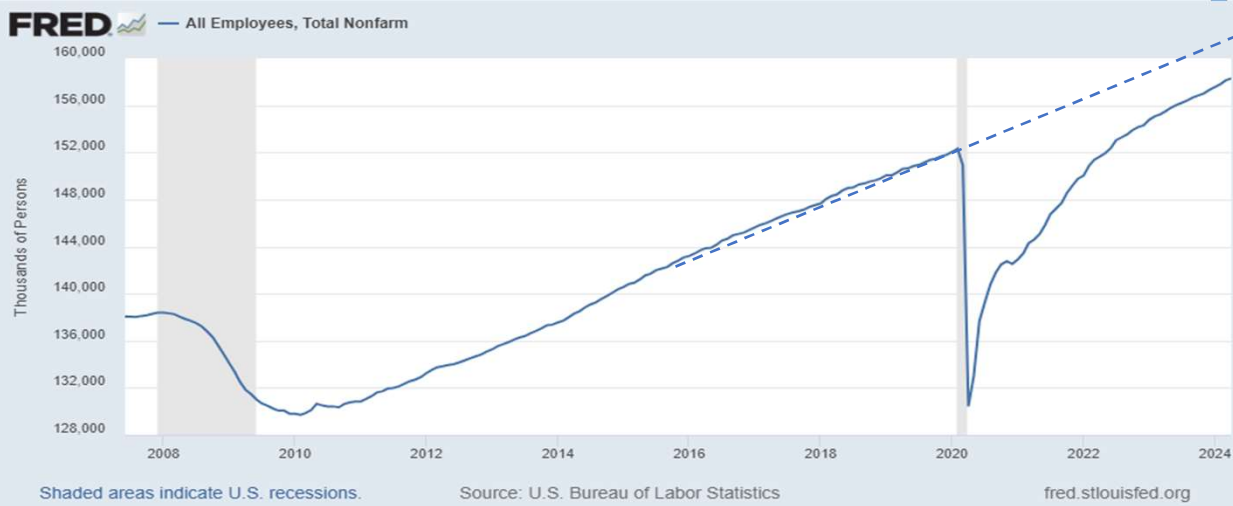
Recessions are caused by a drop in total spending.



Unemployment is Near Record Lows



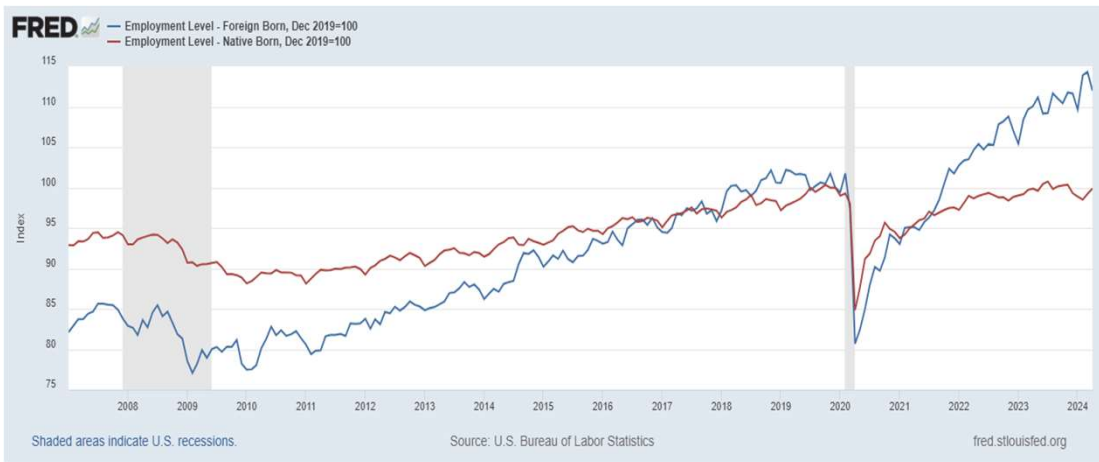
Where Have All the Workers Gone?



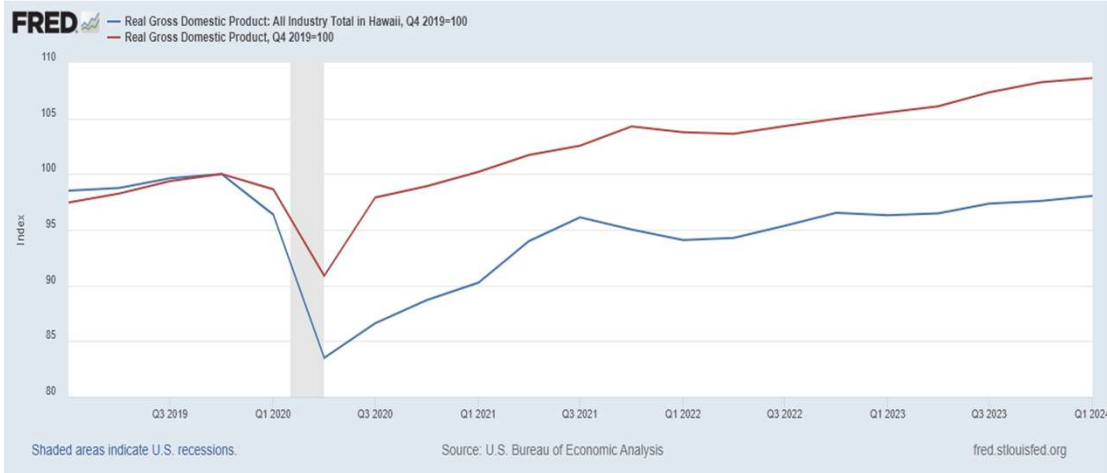
The Aging of the Labor Force



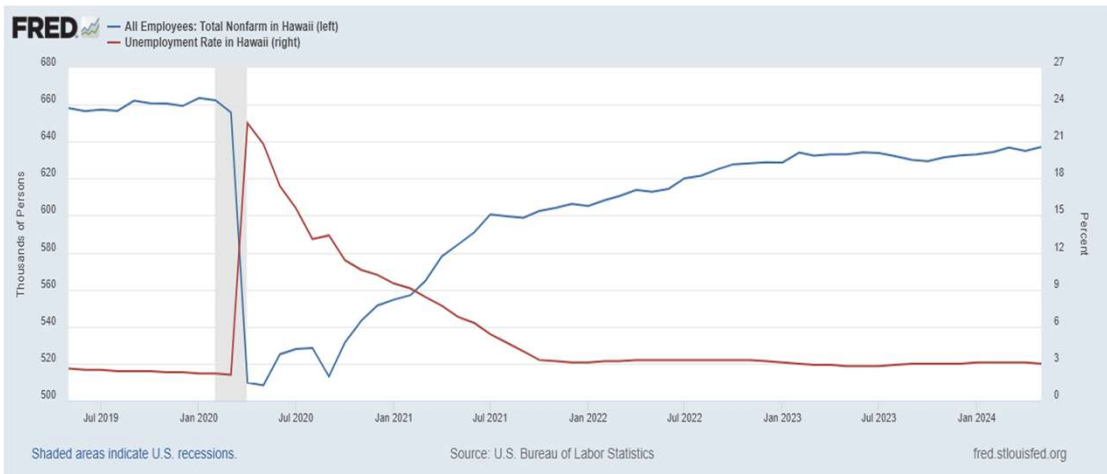
Supplemented by Foreign Workers



How is Hawaii Doing?



Labor Market in Hawaii



Overall Good News on the Real Side

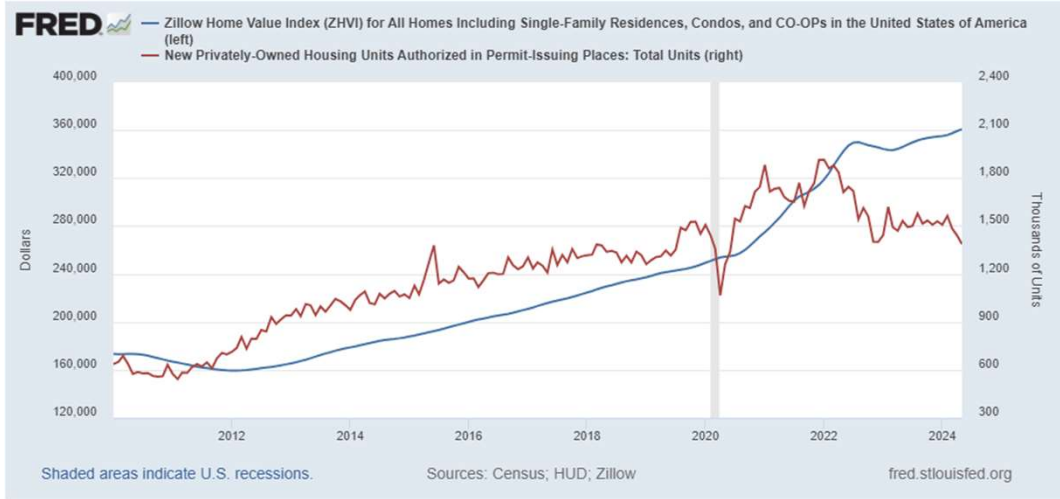
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good, but is getting better.



Interest Rates: Era of Falling Rates Over?



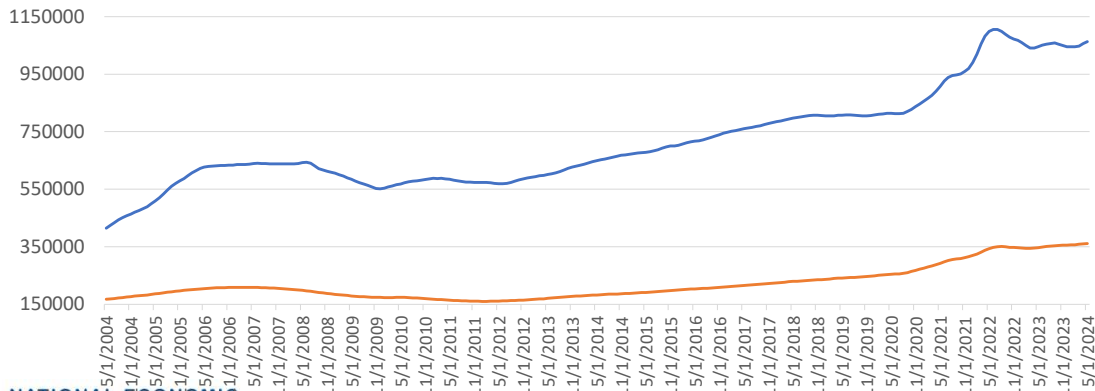
Mortgage Rates are Having an Effect ?



National Housing Market and Closer to Home

Median Single Family Home Prices

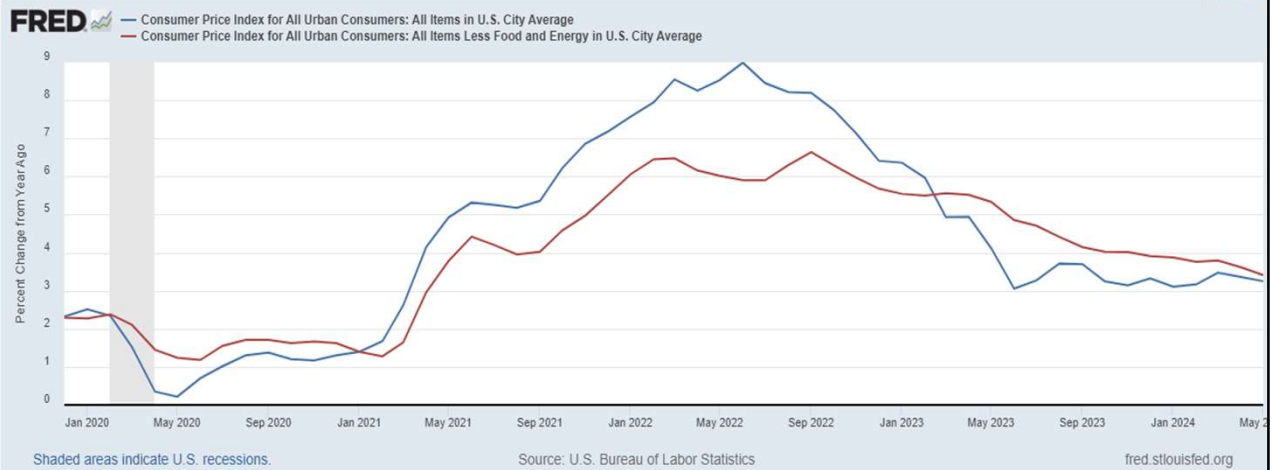
— Honolulu — US

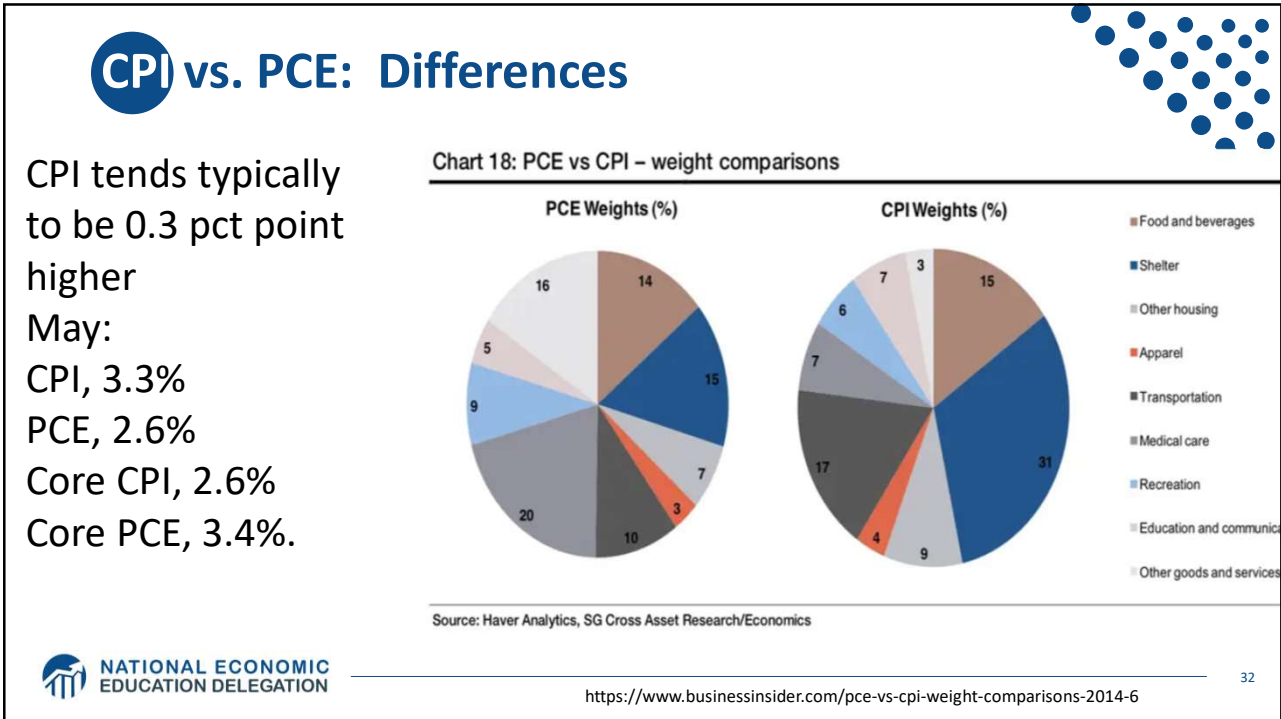
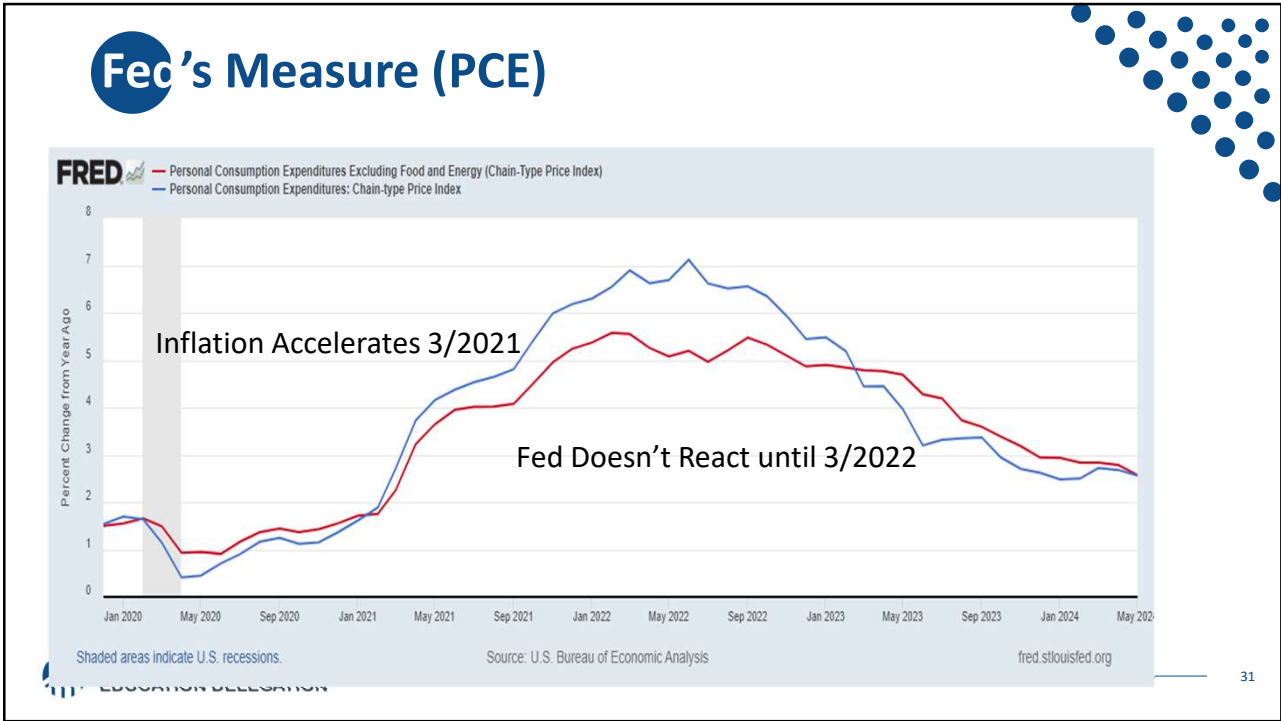


Stock Prices: Fear Giving Way to Greed?



Inflation during the Recovery (CPI)



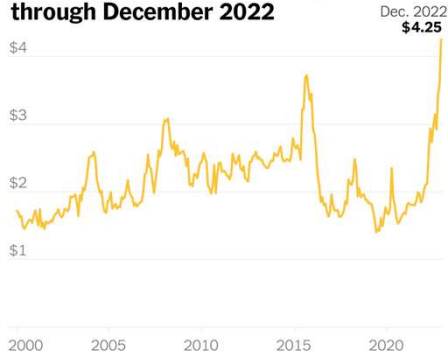


Uses of Inflation Measures

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?

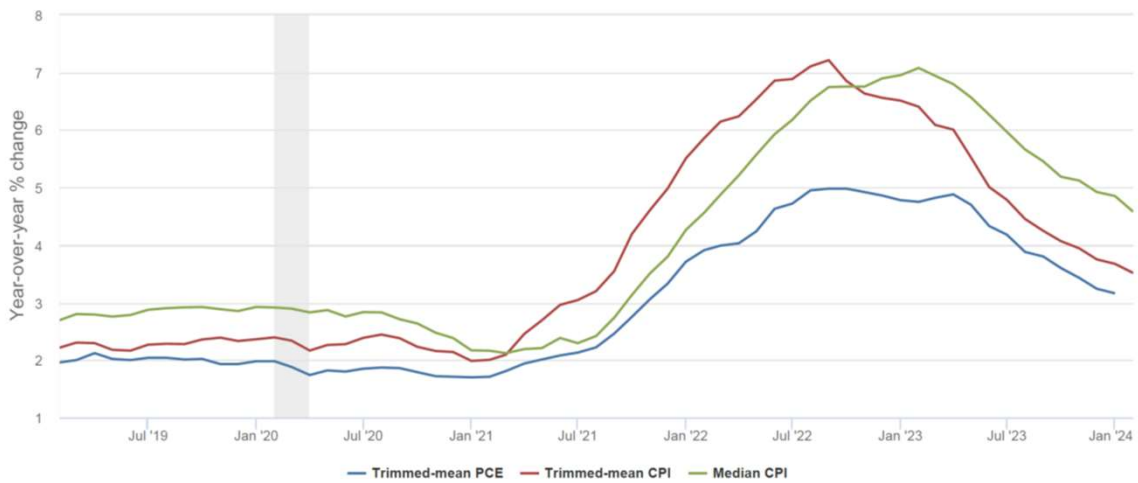
Monthly price for a dozen eggs through December 2022



Measuring “Underlying” Inflation

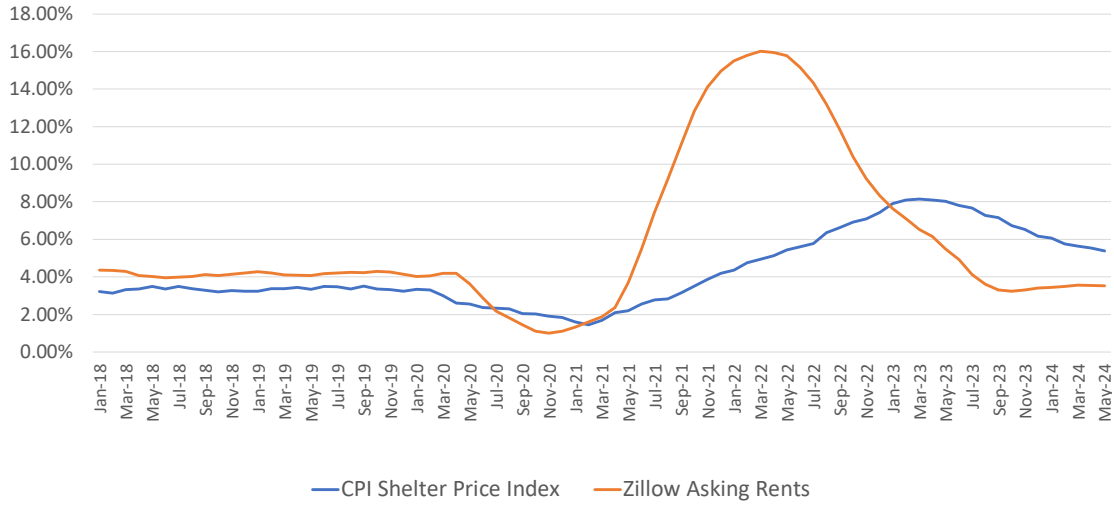
Alternative Core Inflation Measures

MACRO SNAPSHOT by the St. Louis Fed

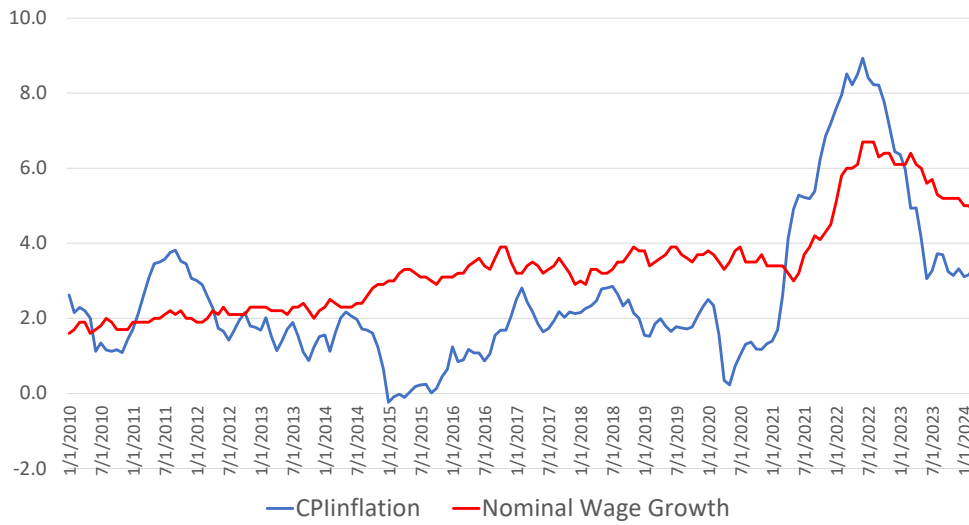


Seasonally adjusted. Recessions are shaded. Sources: Federal Reserve Banks of Dallas and Cleveland. Powered by FRED.

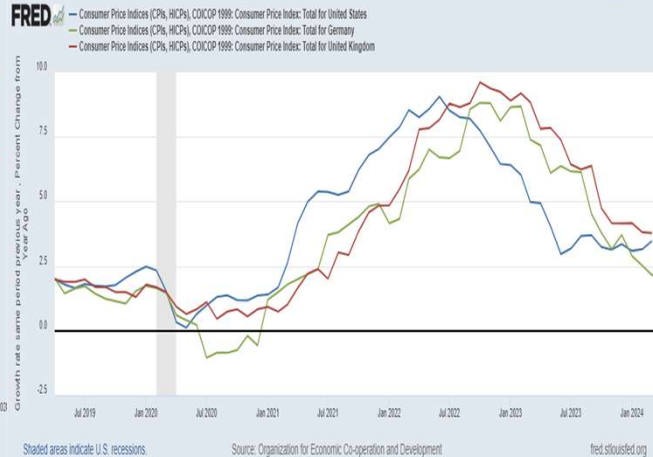
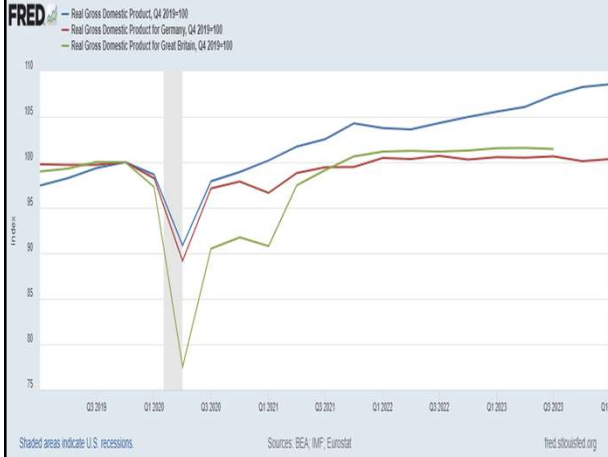
The Importance & Problems with Rents



Wages Haven't Kept Pace with Inflation, Yet



International Comparisons



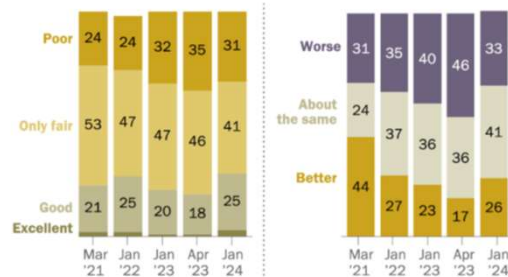
The “Nominal” Side

- Inflation: A lot of progress on inflation, but we are not at the target yet.
- But, this is not the popular view

Views of the nation's economy | Pew Research Center

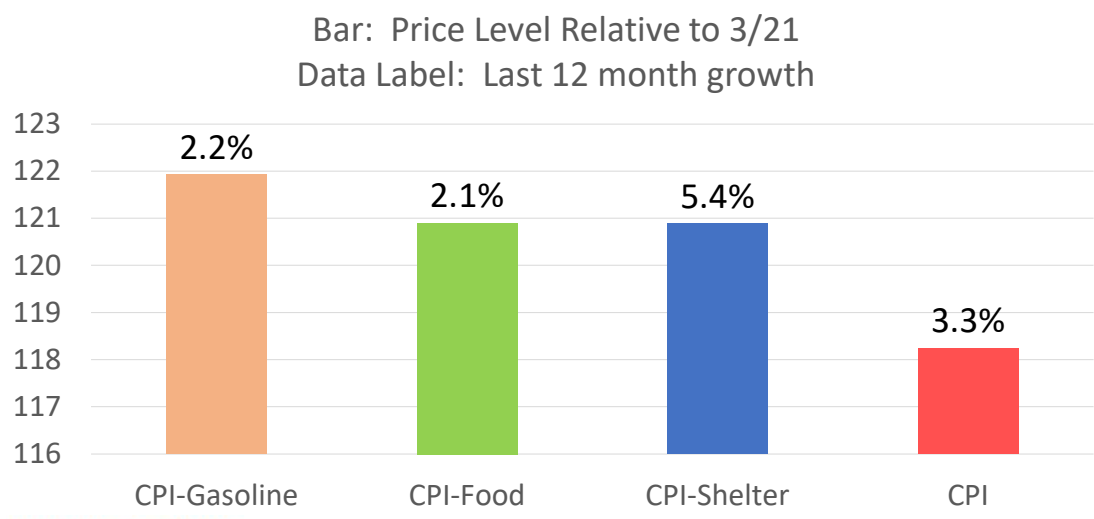
Modest improvement in national economic outlook

% 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

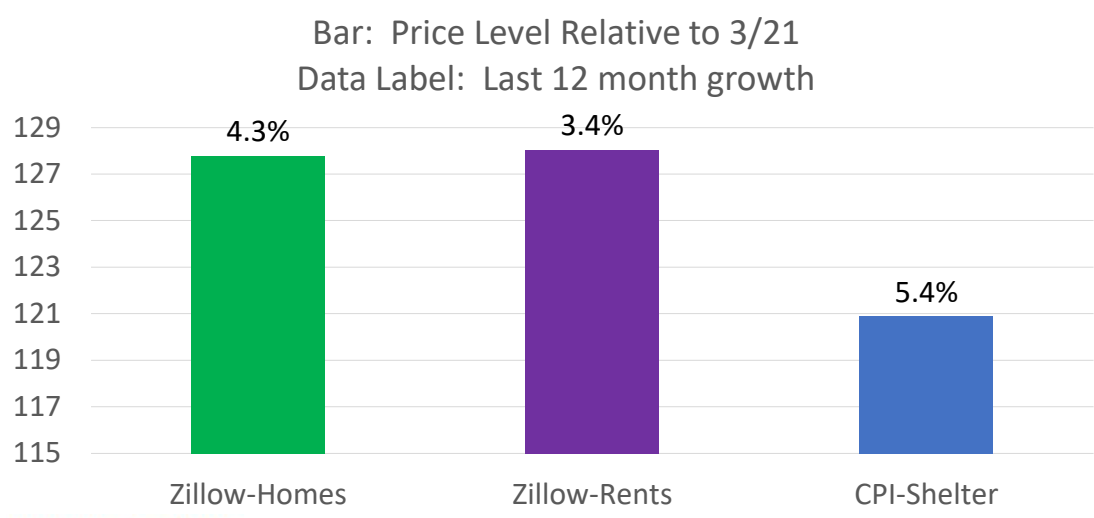


Note: No answer responses are not shown. Refer to the topline for full trend.
 Source: Survey of U.S. adults conducted Jan. 16-21, 2024.

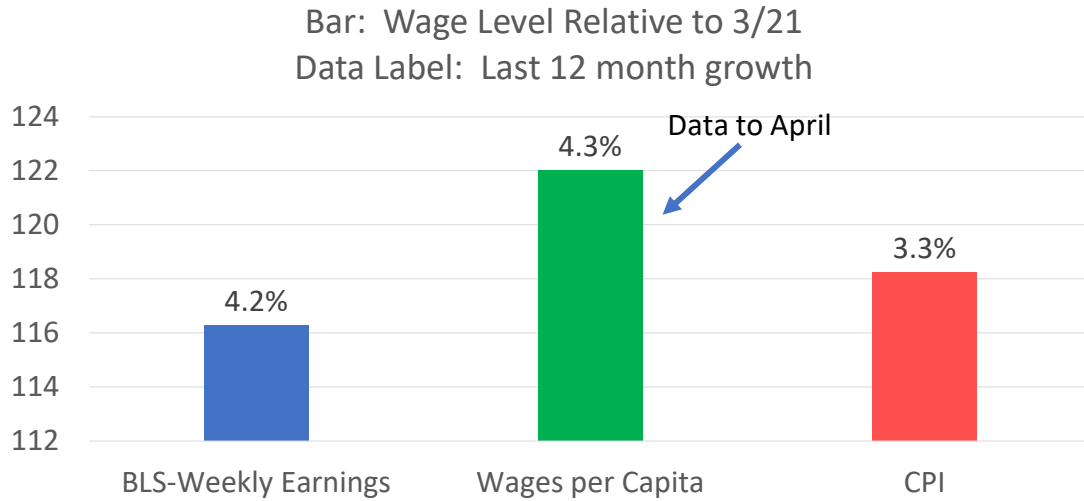
High Prices versus Inflation



Housing Prices Vs Inflation

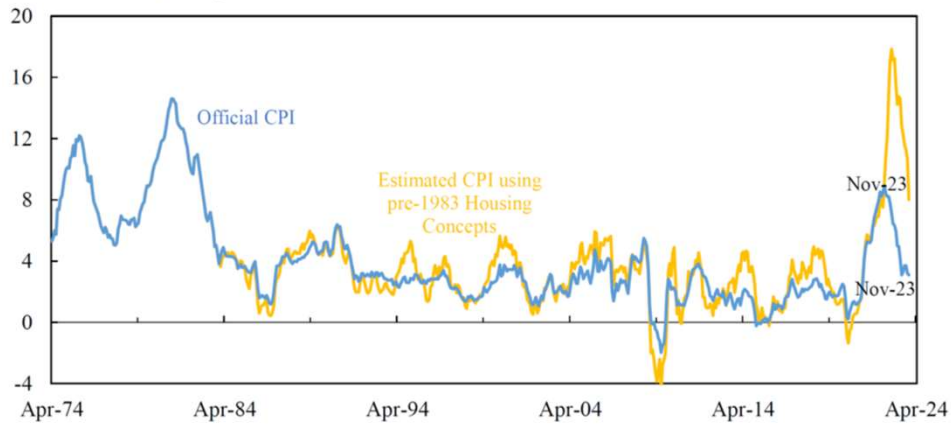


Wages vs Prices and Inflation



Housing Again!

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

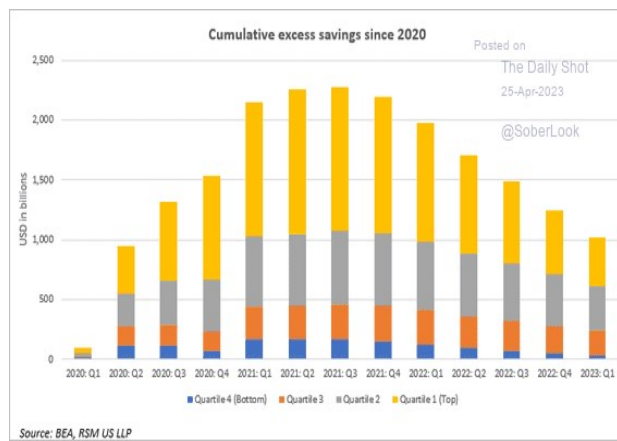
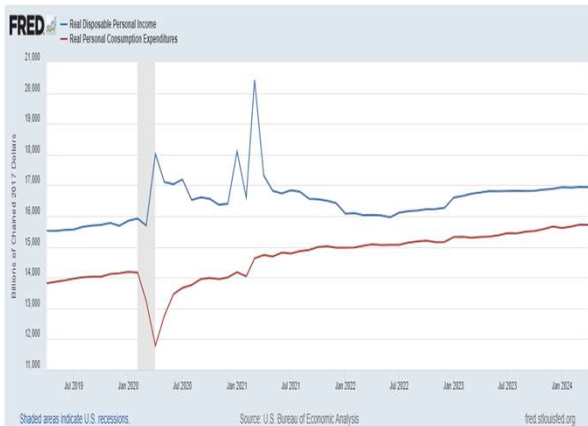


Policy Effects

- 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.

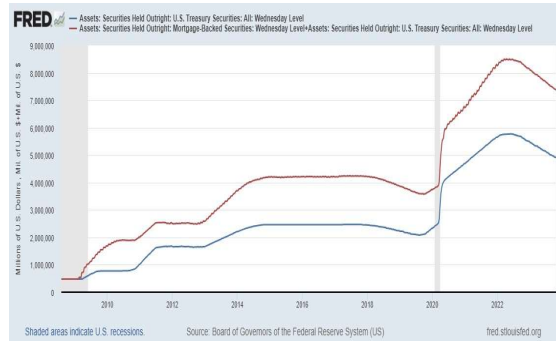
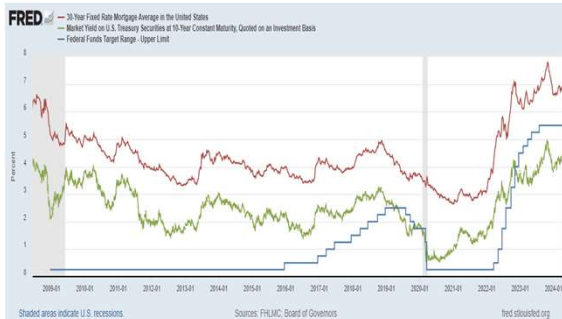
Policy Effects: Fiscal

- 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



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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%)**



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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.”

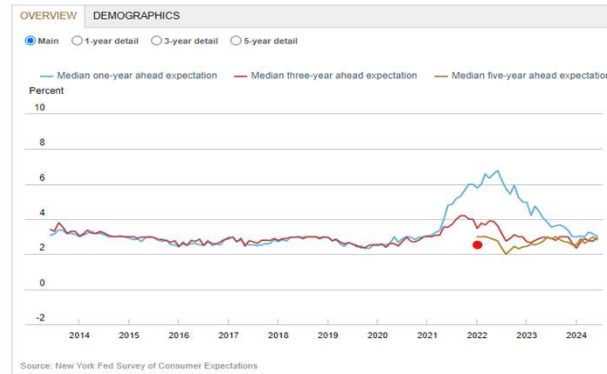
How did this happen?



Long-Term Inflation Expectations Remained “Well Anchored”

Inflation expectations

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



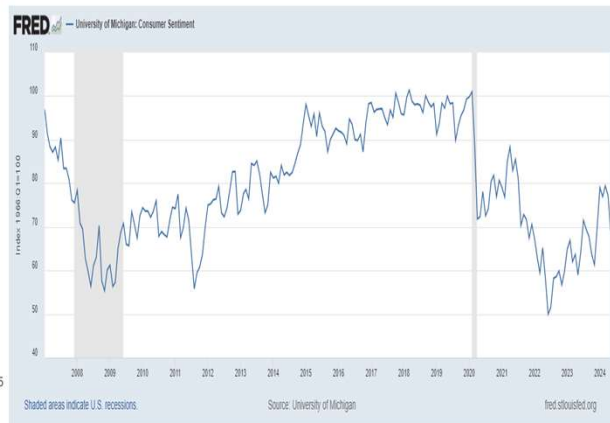
Assessing Credit and Blame (my views)

- **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?**

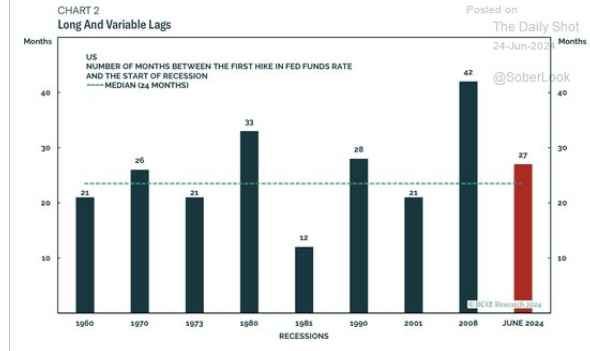
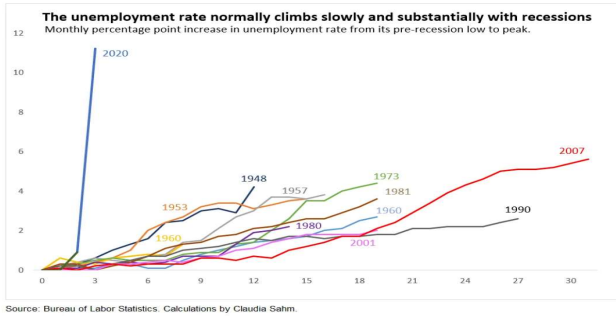
The Nervous Consumers?



*Shaded areas represent periods of recession.
Sources: The Conference Board, NBER
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Nervous Fed? (Given Past History)



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



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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; CPI inflation Thursday; PCE inflation, 6/28.
- Two more FOMC meetings before the election: July 30-31 and September 17-18.

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

- Politically Charged Environment!



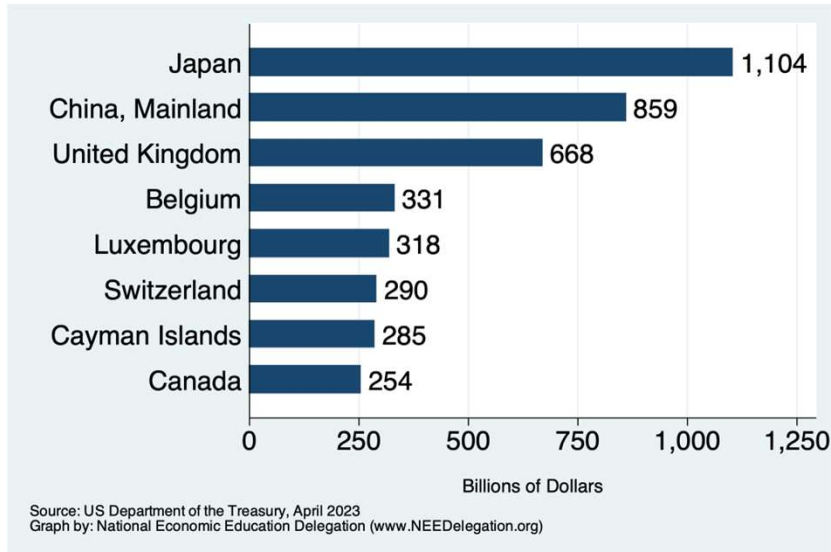
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Interest Rate Cuts?

<https://sites.google.com/view/macro-current-issues/monetary-policy?authuser=0>

Next Week: Who Holds US Debt?



Let's Hear from You!

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Contact NEED: Info@NEEDEcon.org

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