

Osher Lifelong Learning Institute, Winter 2025

Contemporary Economic Policy

University of Southern Maine

Host: Geoffrey Woglom, Ph.D.
Director, 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

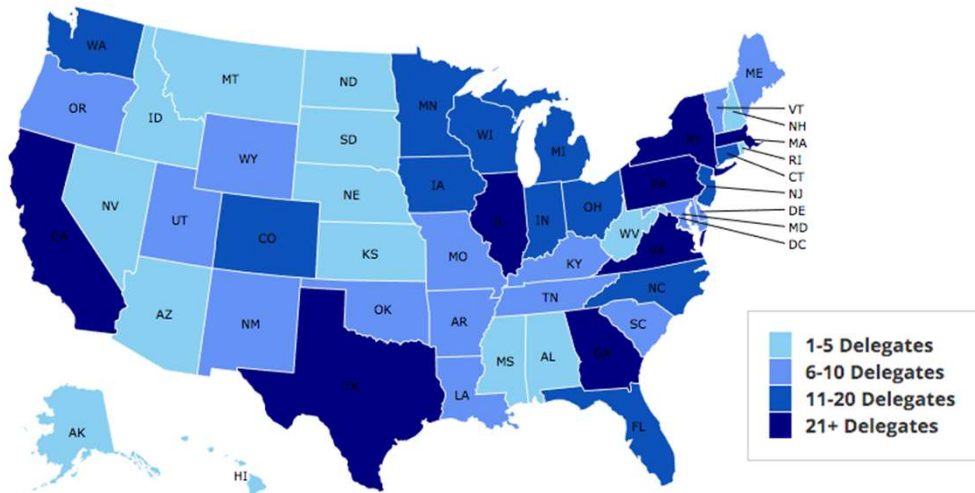
• Delegates: 652+ members

- 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?



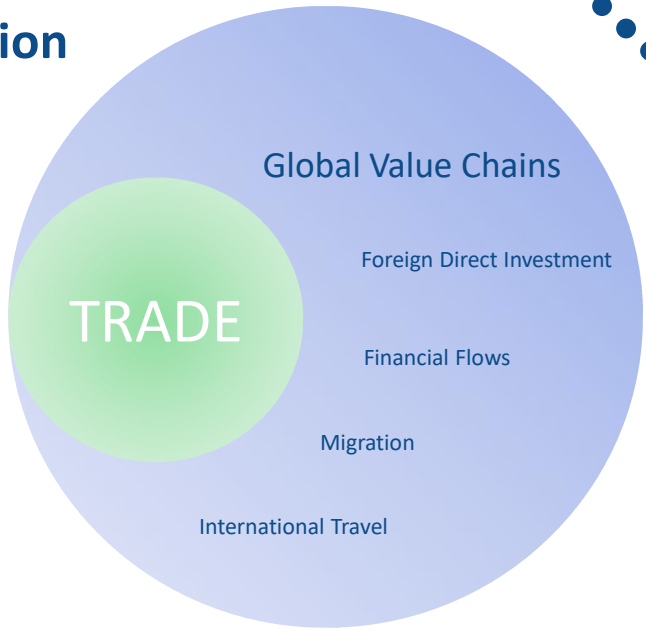
Available NEED Topics Include:

- 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

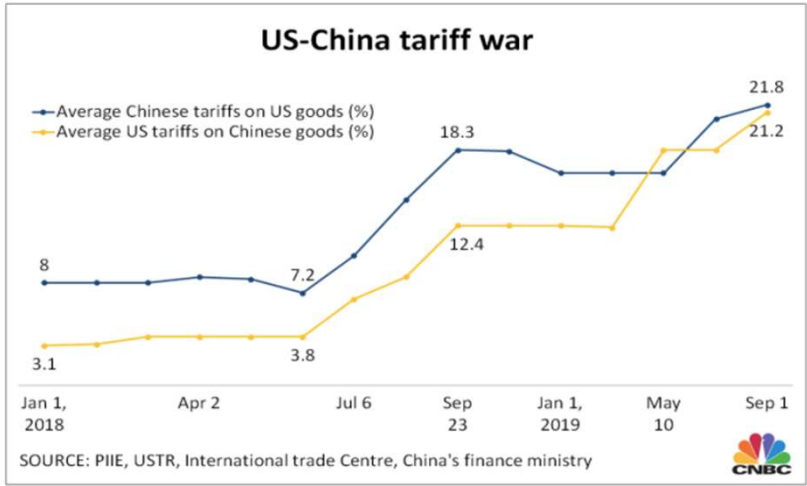
- **Contemporary Economic Policy**
 - Week 1 (1/16): Economic Update (Geoffrey Woglom, Amherst College)
 - Week 2 (1/23): Trade and Globalization (Avik Chakrabarti, UWisconsin Milwaukee)
 - Week 3 (1/30): Tariffs and Their Effects (Alan Deardorff UMichigan)
 - Week 4 (2/6): Federal Debt and Deficits (Dmitriy Stolyarov, UMichigan)
 - Week 5 (2/13): The New Inequality (Geoffrey Woglom, Amherst College)
 - Week 6 (2/20): Economics of Immigration (Robert Gitter, Ohio Wesleyan)

What is Globalization



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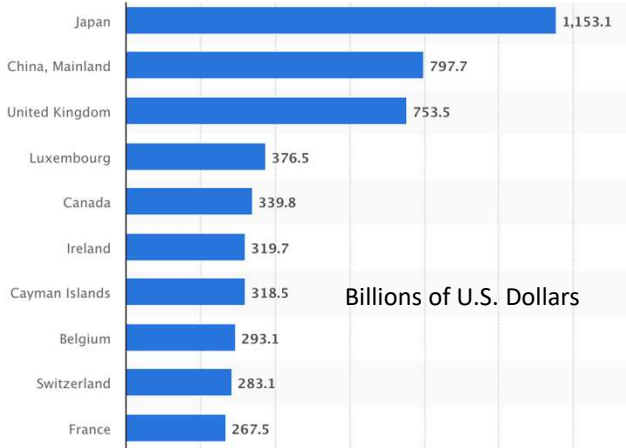
US-China Tariff War – Tariff Rates



Source: CNBC.com The first trade salvo was fired by the U.S. in early 2018, but the bilateral trade war between the U.S. and China really kicked into a higher gear in July 2018.

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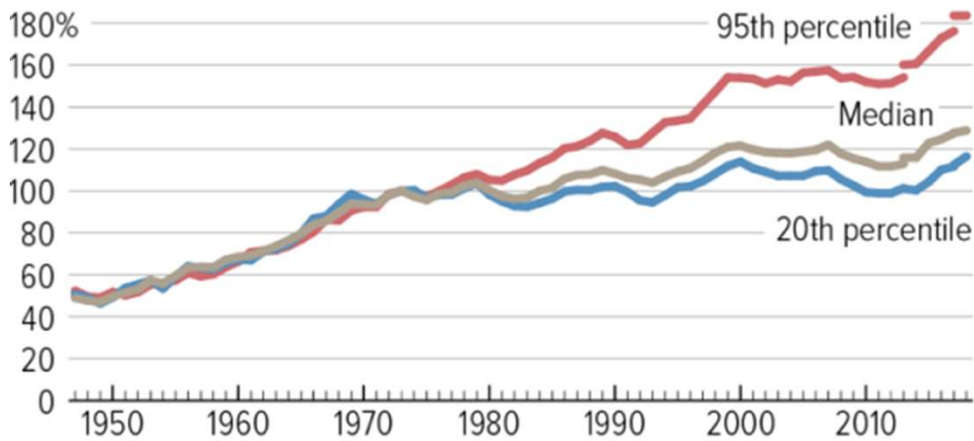
Who Holds Debt to Foreigners,



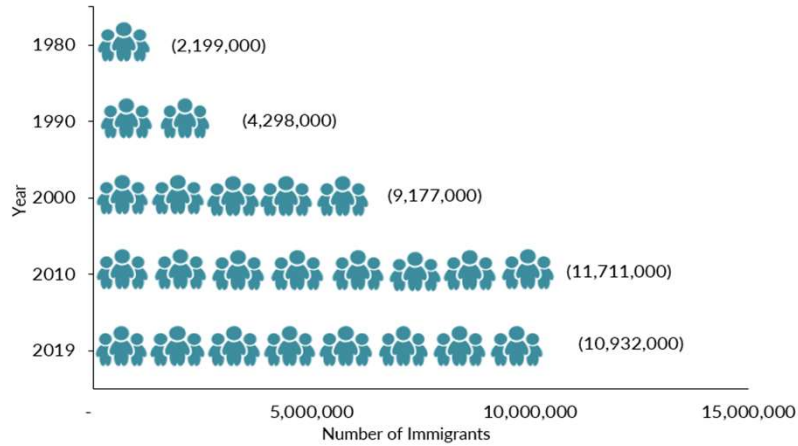
Foreign ownership is relatively recent
 – in 1990 foreign ownership was less than 20%
 – peaked at 40+%
 – now is 29.4%

The Abrupt Increase in Inequality

Real family income between 1947 and 2018, as a percentage of 1973 level



Mexican-Born People in the US



About 10.6 million in 2022 (Latest data)

1 in 14 people born in Mexico currently lives in the US



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/economic-update>**



INFLATION



US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
January 16 2025

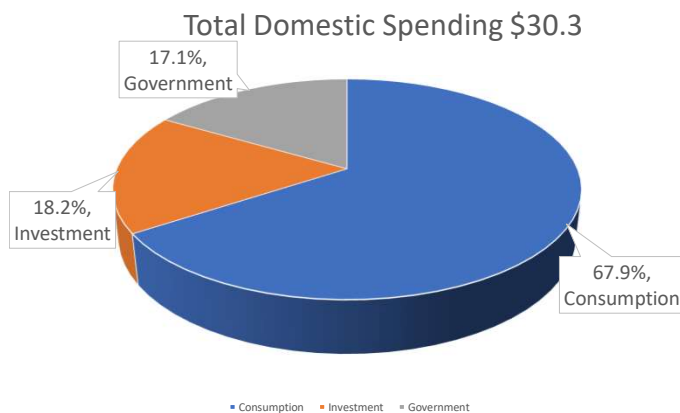


Our line for the Talk

1. Summary of the state of the macroeconomy.
2. The Effect of M&F policies on the recovery.
3. Major Uncertainties going forward
 1. Has the inflation dragon been slain?
 2. Can we achieve 3% real GDP growth?
 3. What is going on in the long-term bond market?



Gross Domestic Product: 2024Q3 = \$29.4 tr



\$30.3
Less Imports
-\$4.2
Plus Exports
+\$3.2
Equals GDP
\$29.3 (close
 enough)

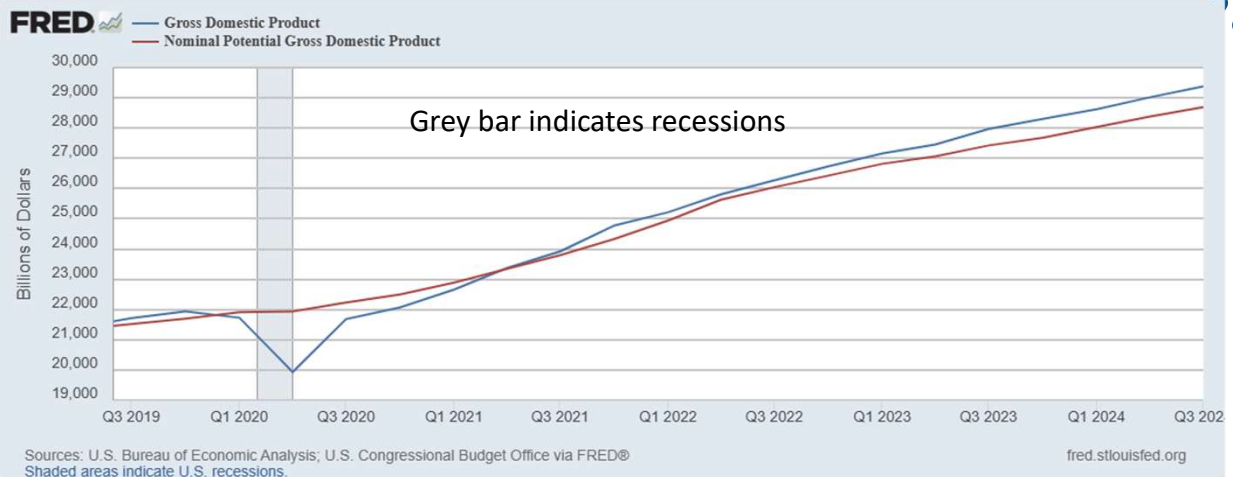


Different Breakdown



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

GDP and 'Potential' during the Recovery



Sources: U.S. Bureau of Economic Analysis; U.S. Congressional Budget Office via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

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!)

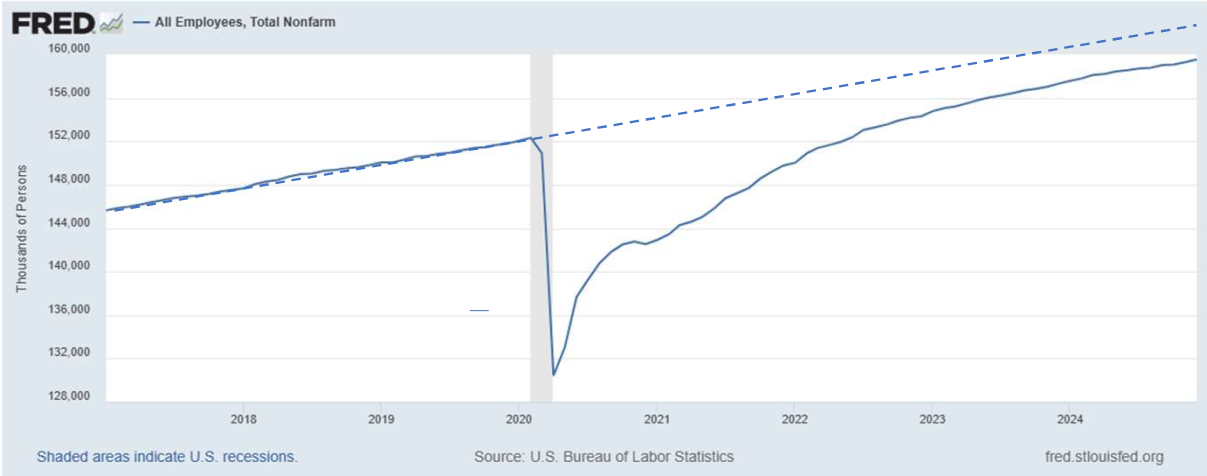
Recessions are caused by a drop in total spending.



Unemployment is Near Record Lows



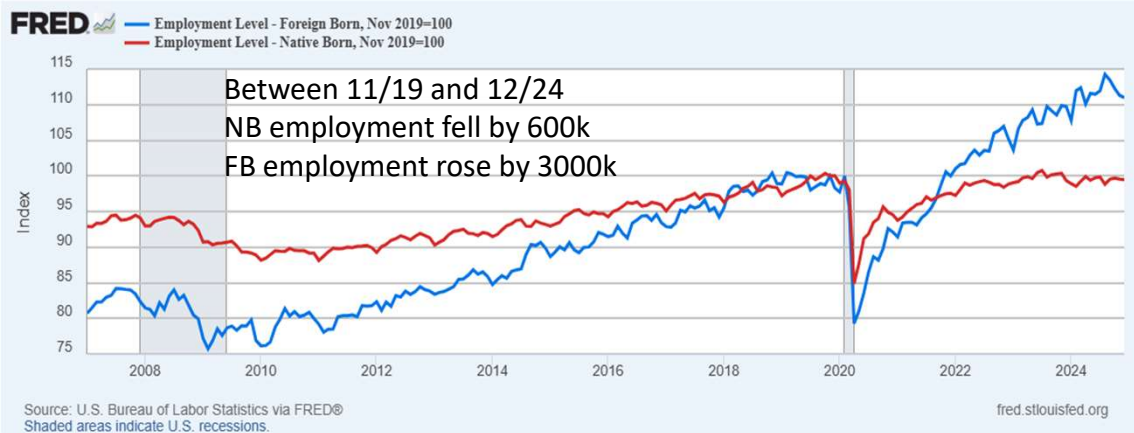
Where Have All the Workers Gone?



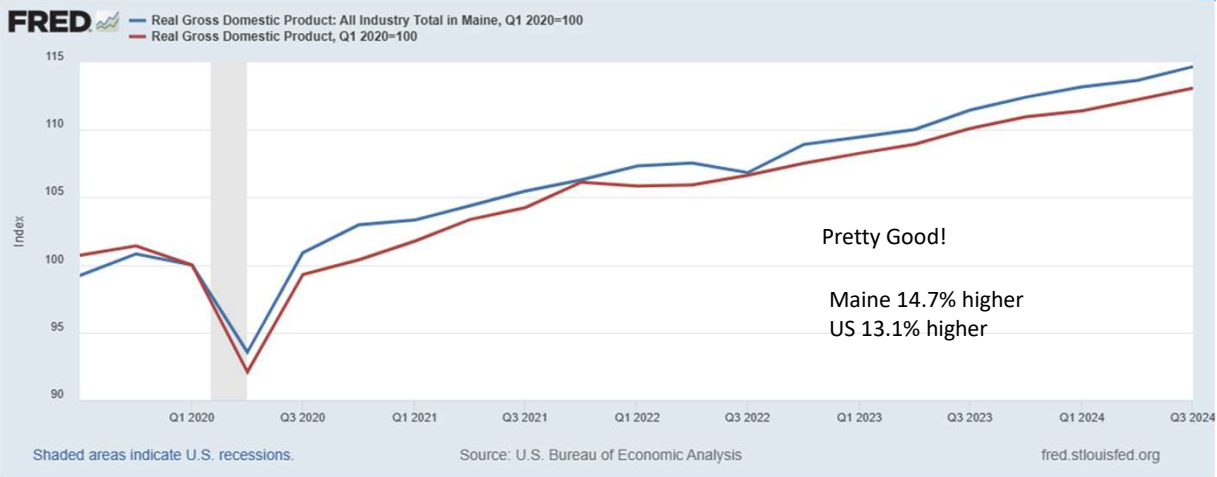
The Aging of the Labor Force



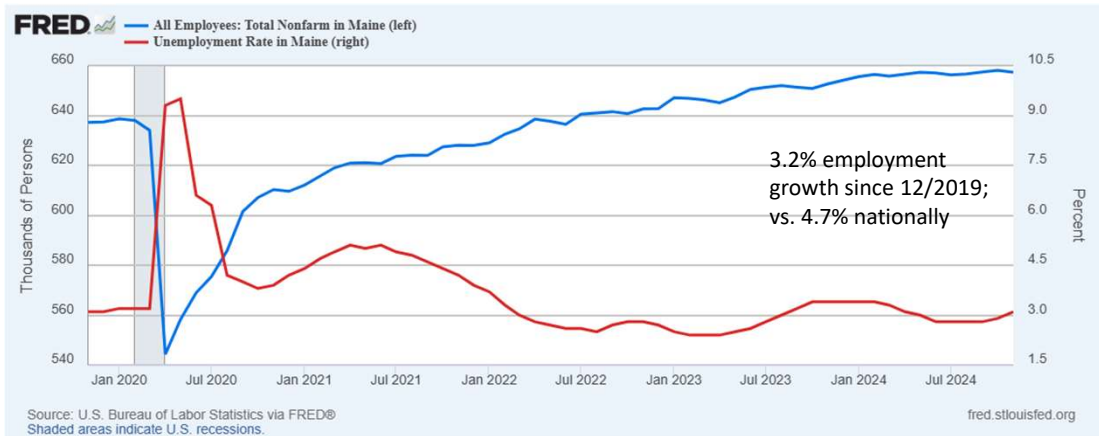
Supplemented by Foreign Workers



How is Maine Doing?



Labor Market in Maine

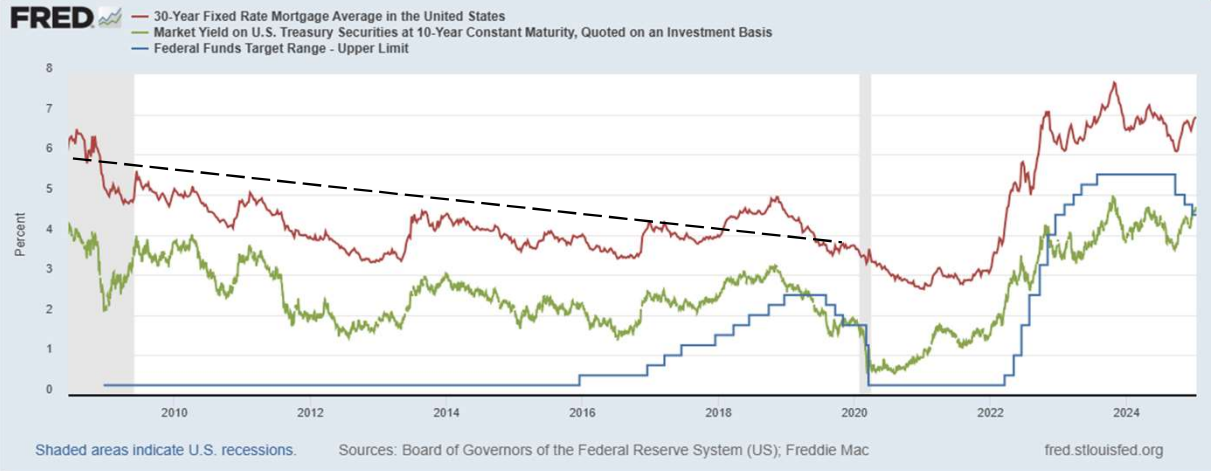


Overall Good News on the Real Side

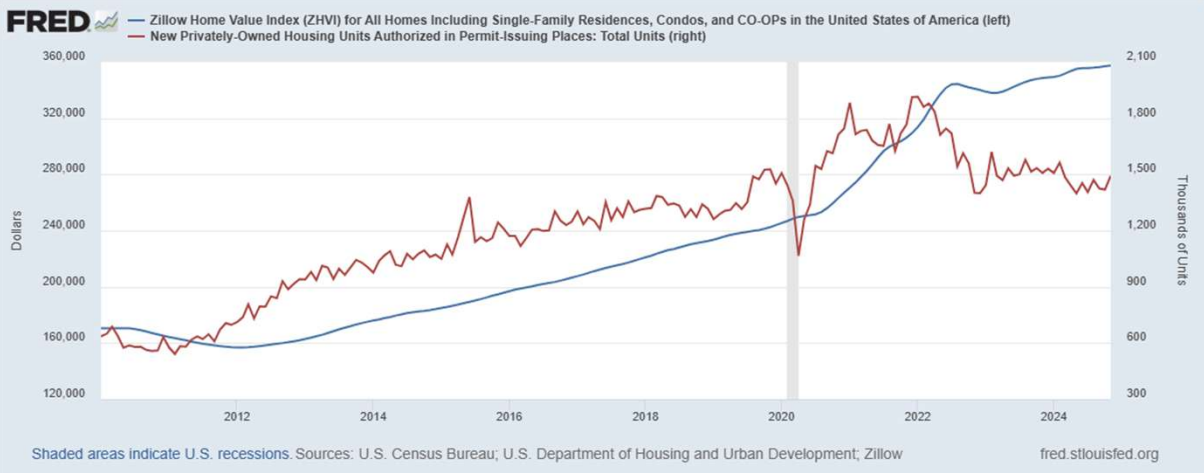
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News isn't so good, but is getting better.



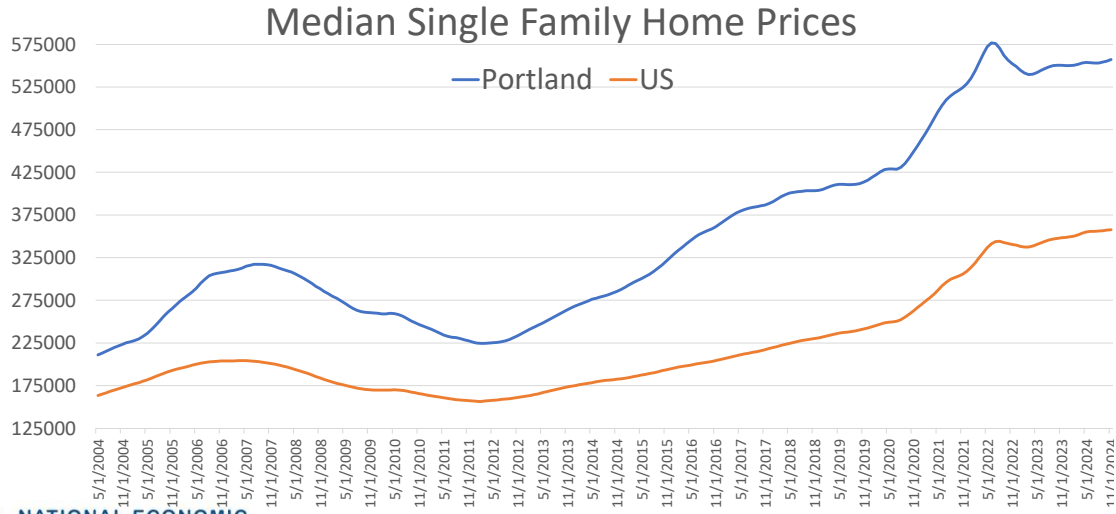
Interest Rates: Era of Falling Rates Over?



Mortgage Rates are Having an Effect ?



National Housing Market and Closer to Home



<https://www.zillow.com/research/data/>

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Stock Prices: Fear Giving Way to Greed (to Fear)



Shaded areas indicate U.S. recessions.

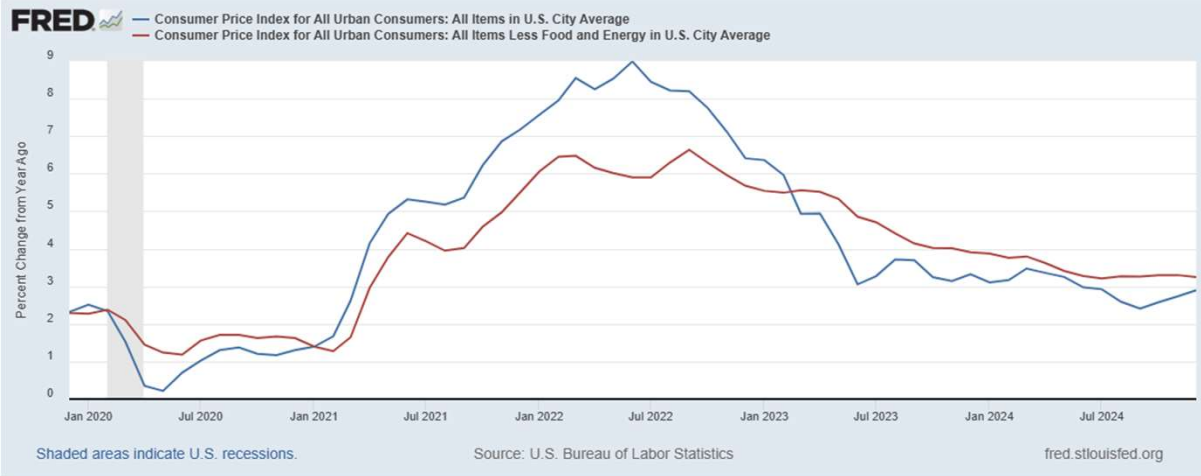
Source: S&P Dow Jones Indices LLC

fred.stlouisfed.org

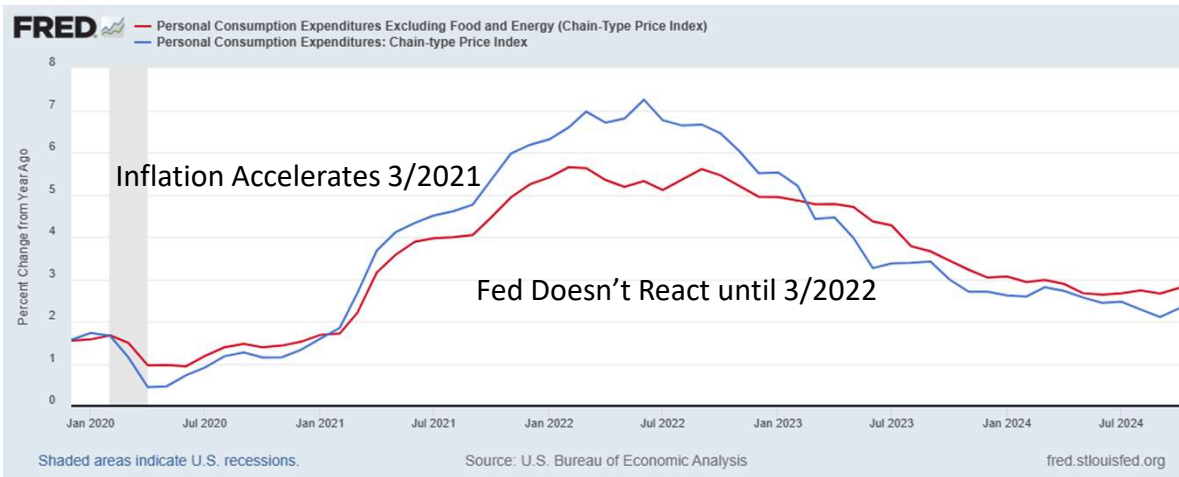


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Inflation during the Recovery (CPI)



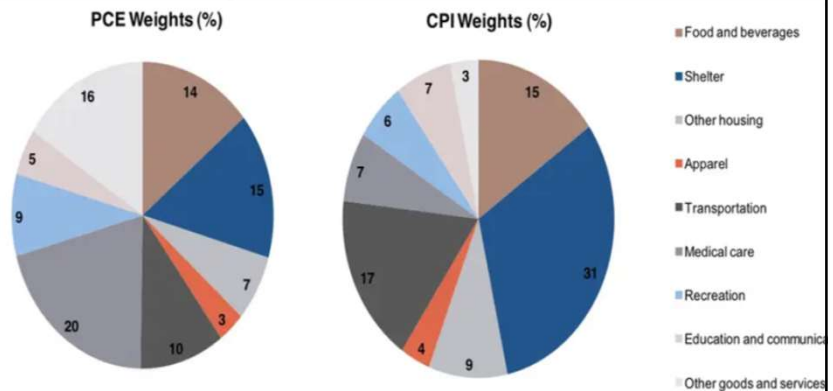
Fed's Measure (PCE)



CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher
 NOV:
 CPI, 2.7%
 PCE, 2.4%
 Core CPI, 3.3%
 Core PCE, 2.8%.

Chart 18: PCE vs CPI – weight comparisons



Source: Haver Analytics, SG Cross Asset Research/Economics

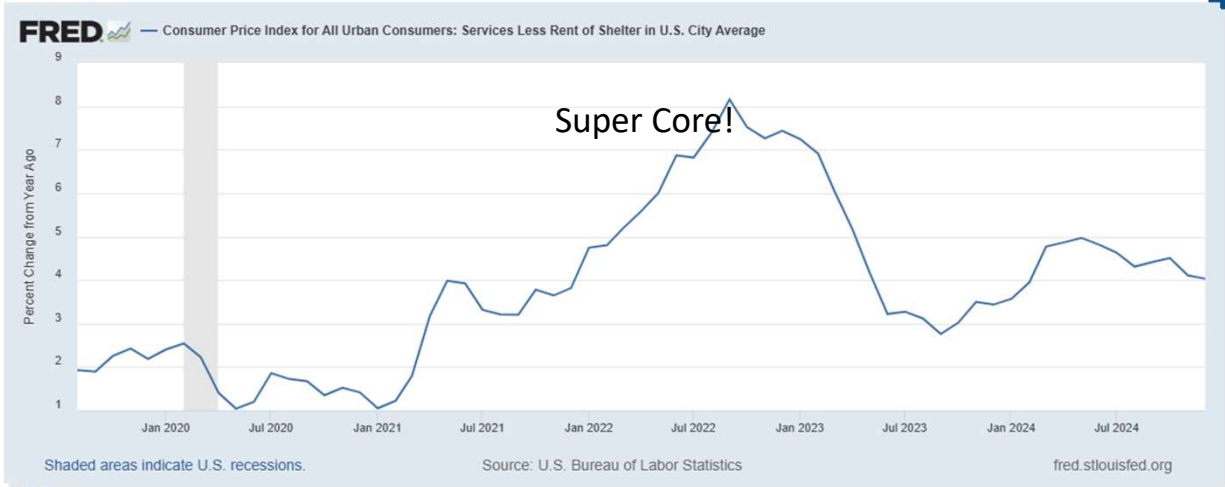
Uses of Inflation Measures

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?

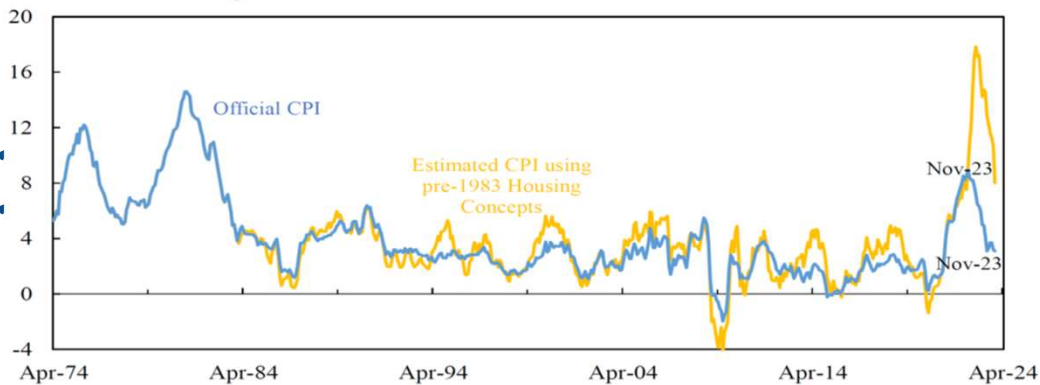


Measuring “Underlying” Inflation



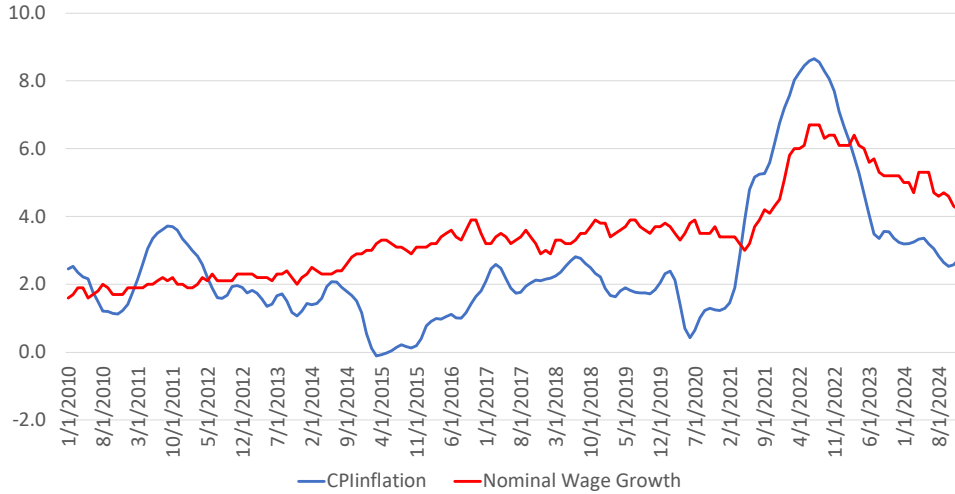
The Problem with Housing Costs

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

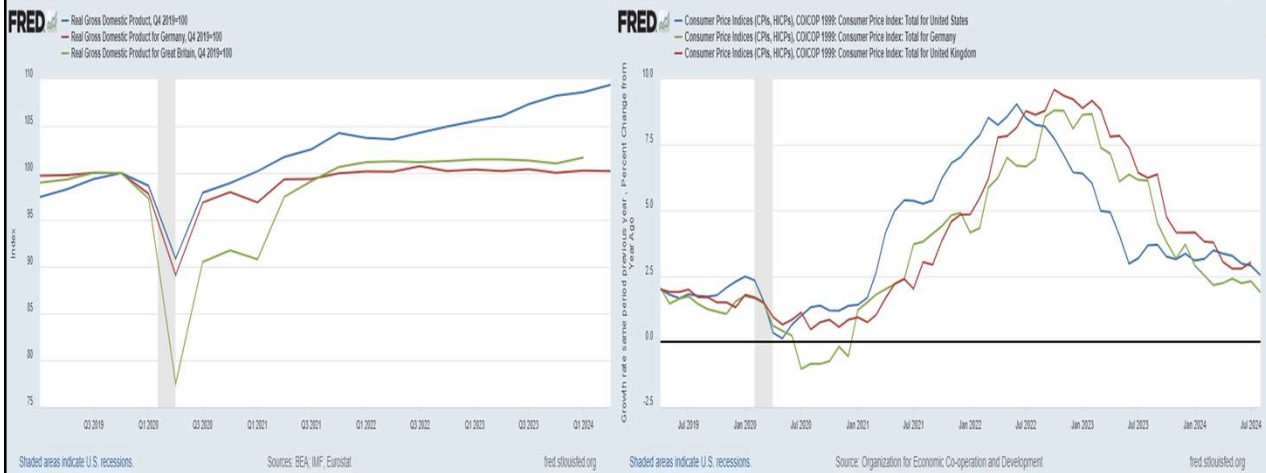


Note: 1983 is excluded during the transition, see text for imputation procedure.
Source: Bureau of Labor Statistics; Authors' Calculations.

Wages Haven't Kept Pace with Inflation, Yet



International Comparisons

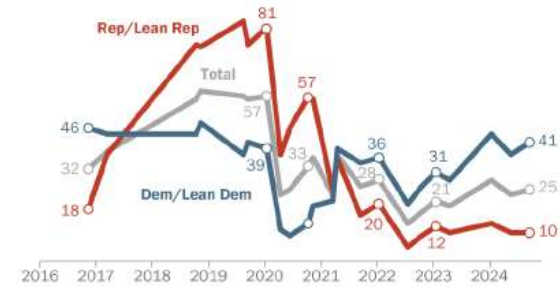


The “Nominal” Side

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

A quarter of Americans rate economic conditions positively, little changed over the past year

% who say economic conditions in the country today are excellent/good



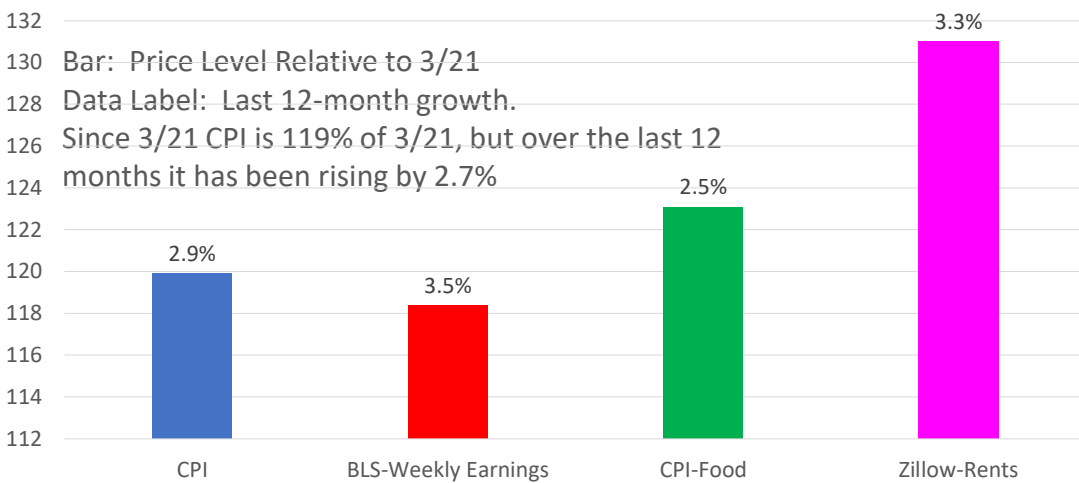
Source: Survey of U.S. adults conducted Aug. 26-Sept. 2, 2024.

PEW RESEARCH CENTER



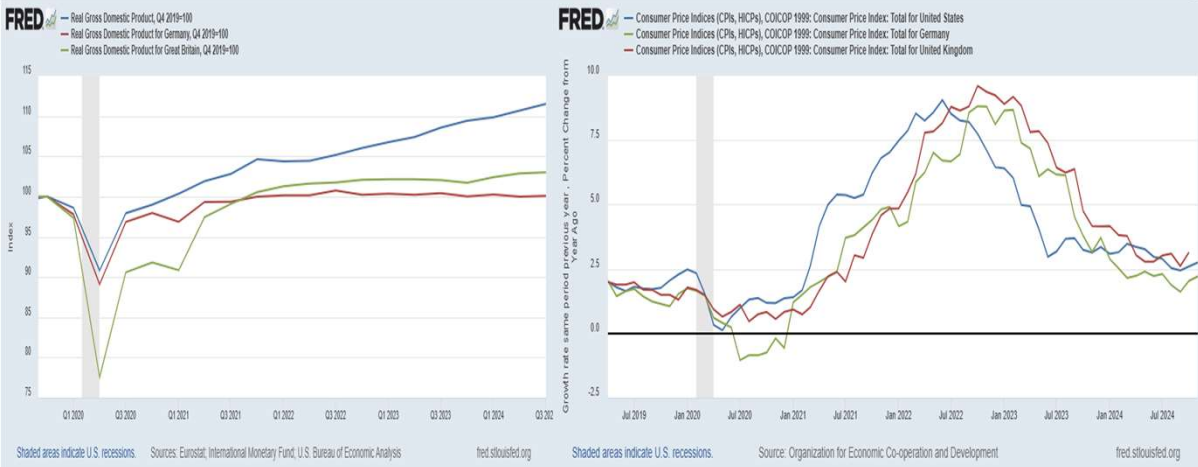
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High Prices vs Inflation



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International Comparisons



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Policy Effects on the Economy

- **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 by setting short-term interest rates (the federal funds rate): lower interest rate leads to more spending (the Fed)**

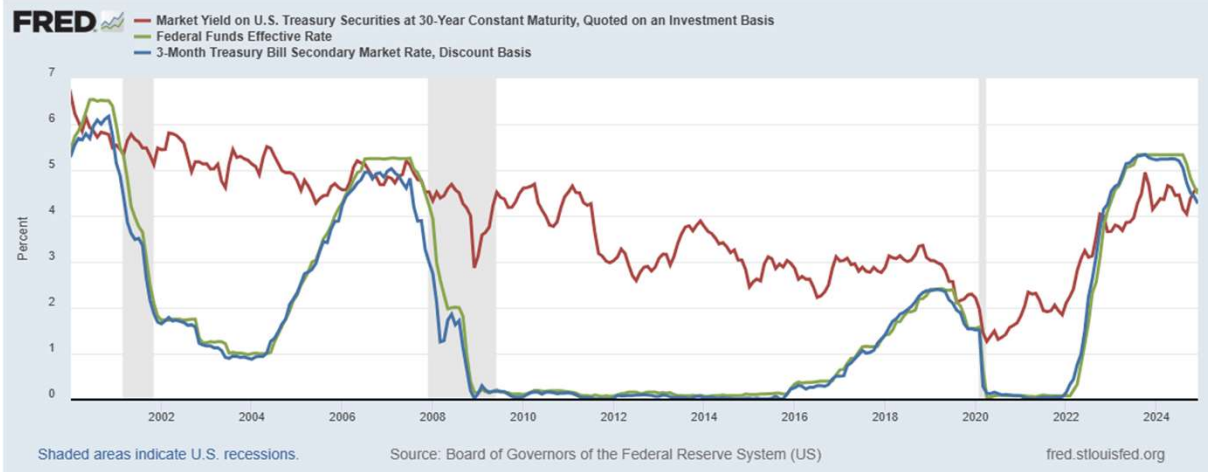
Except in deep recessions, the Fed has primary responsibility for stabilization policies.



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The Fed and Short-Term Rates



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Policy Effects:

Fiscal: 3 massive stimulus packages, including “stimulus checks,” starting in March 2020 and the last in March of 2021.

Monetary (the FED)

- 2020-2/2022: short-term policy interest rate, “the federal funds rate” at zero, accommodated fiscal stimulus.
- 3/2022-8/2024: most rapid increase in interest rates since Paul Volcker.
- 9/2024-present: 3 rate cuts for a total of 1 ppt.

My personal assessment:

1. Fiscal stimulus saved the economy, but probably too big.
2. Fed did not react soon enough to the rise in inflation, but since then A+



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Government Views on the Current State

Percent **Fed, December 2024**

Variable	Median ¹				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.5	2.1	2.0	1.9	1.8
September projection	2.0	2.0	2.0	2.0	1.8
Unemployment rate	4.2	4.3	4.3	4.3	4.2
September projection	4.4	4.4	4.3	4.2	4.2
PCE inflation	2.4	2.5	2.1	2.0	2.0
September projection	2.3	2.1	2.0	2.0	2.0
Core PCE inflation ⁴	2.8	2.5	2.2	2.0	
September projection	2.6	2.2	2.0	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.9	3.4	3.1	3.0
September projection	4.4	3.4	2.9	2.9	2.9

Variable (in percent)	CBO December 2024 Projections			
	2024	2025	2026	2027
RGDP growth	2.3	1.9	1.8	1.8
Unemployment	4.2	4.3	4.4	4.4
Inflation (PCE)	2.5	2.2	2.1	2.0
Core Inflation	3.2	2.4	2.3	2.3
Federal Funds	4.6	3.7	3.4	3.4

<https://www.cbo.gov/system/files/2024-12/60890-Economy.pdf>

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

Long-Term Inflation Expectations Remained “Well Anchored”



Source: New York Fed Survey of Consumer Expectations
 Note: Collection of data for the five-year-ahead inflation expectation began in January 2022.

Major Uncertainties

Short Run:

- Tariff Effects on inflation and on total demand?
- TCJA and future income taxes?

1. Has the reduction in inflation stalled; is the labor market too strong?
2. Immigration and labor force growth?
3. What is going on in the bond market?

1. What is Good Economic News These Days?

grvwglo published on TradingView.com, Jan 15, 2025 15:46 UTC-5



TradingView

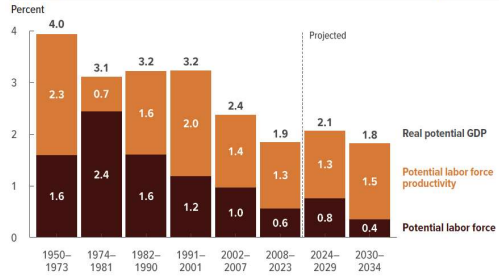
2. Scott Bessent and the First 3 of 3-3-3 Goals

1. 3 percent real GDP growth
2. 3 percent budget deficit as a percentage of GDP
3. 3 millions barrels of oil.

Fact: So far in the Biden administration, real GDP growth has averaged 2.85%

But, when Biden took office the unemployment rate was 6.4%

Average Annual Growth of Real Potential GDP and Its Components



The amount of output the economy can produce if labor and capital are employed at their maximum sustainable rates is projected to grow by an average of 2.1 percent a year through 2029, faster than it has since the recession that began in late 2007. That faster growth of potential GDP stems mainly from CBO's projection of a surge in net immigration through 2026, which increases the projected growth of the labor force.

Data source: Congressional Budget Office. See www.cbo.gov/publication/60039#data.

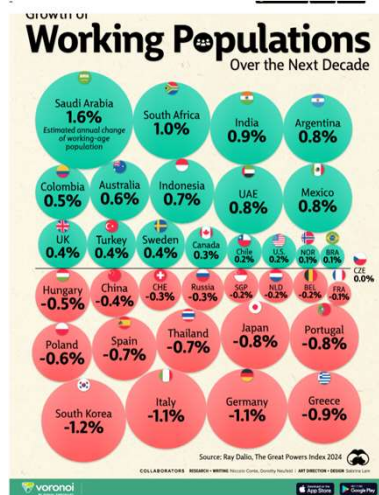
Real values are nominal values that have been adjusted to remove the effects of changes in prices.

Real potential GDP is CBO's estimate of the amount of real GDP that can be produced if labor and capital are employed at their maximum sustainable rates. Its growth is the sum of the growth of the potential labor force and of potential labor force productivity. The potential labor force is CBO's estimate of how big the labor force would be if economic output and other key variables were at their maximum sustainable amounts. Potential labor force productivity is the ratio of real potential GDP to the potential labor force.

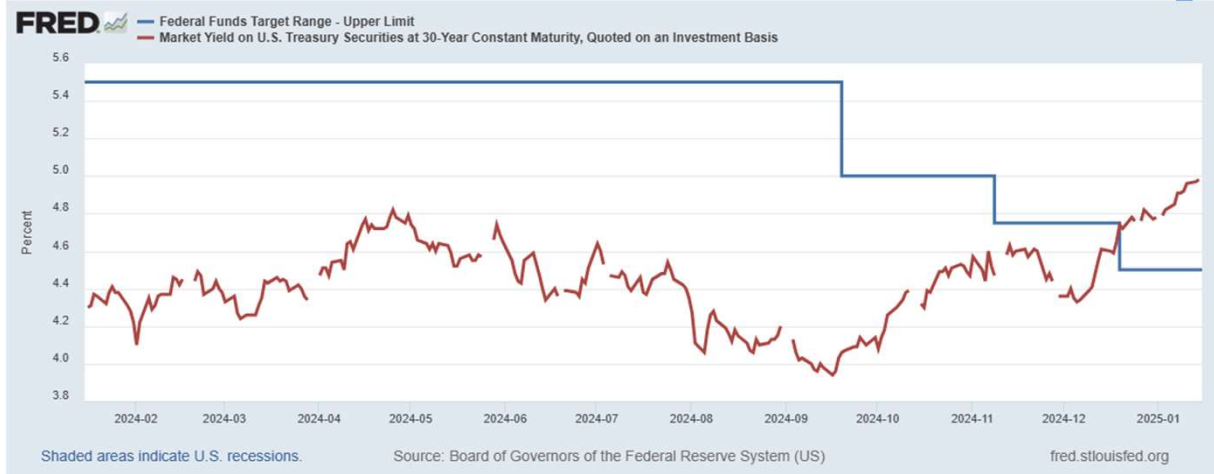
The bars show average annual growth rates over the specified periods. Those rates are calculated using calendar year data.

GDP = gross domestic product.

Random: Food for Thought



Bond Vigilantes?



Interest Rates on Different Maturities

- **Paradox?**

- Yesterday, you could buy a 1-month Treasury paying 4.4% annual interest or a 1-year interest rate paying 4.2%.

- **Resolution:**

- If you expect that 1-month interest rates will fall over the next year, the 1 year could be equally attractive.

- **Bottom Line: long-term interest rates depend on the expected average short-term rates over the life of the bond.**

Market Expectations of Fed Policy



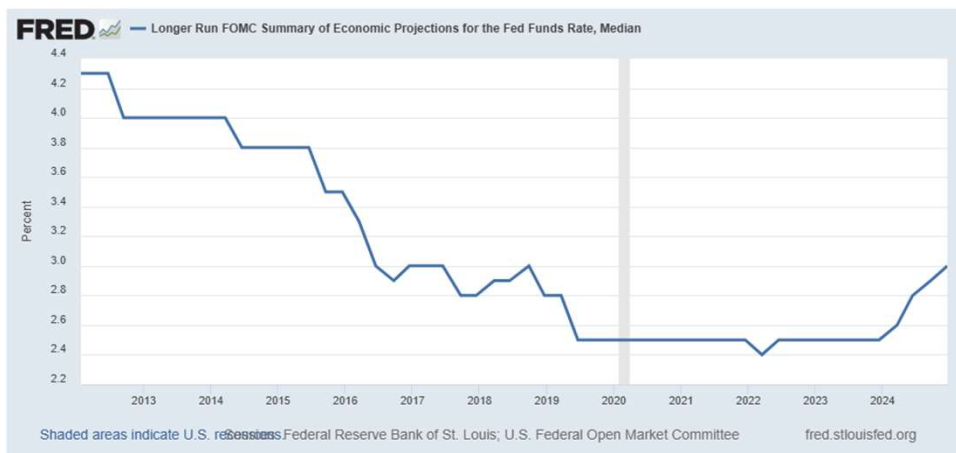
But: What About Long-term Bonds?

- Basic Idea is still true: 30-yr bond interest rate depend on average of Fed funds rate over the next 30 years.
- Key Question: at horizons from 5 to 30 years from now what will the Federal Funds rate be?
- On average, business cycle effects offset each other, so Fed policy, on average, will neither be expansionary nor contractionary.
- So, over the 5 to 30 year horizon the fed funds rate should be the “neutral rate”
- If the Fed is “credible,” markets will believe they will achieve their inflation objective on average.

The Neutral Interest Rate

- The short-term interest rate that is consistent with GDP equal to potential and stable inflation. It is neither expansionary or contractionary monetary policy.
- It is not a constant over time, but depends primarily on investment and national saving (where deficits lower national saving) and long-run inflation.

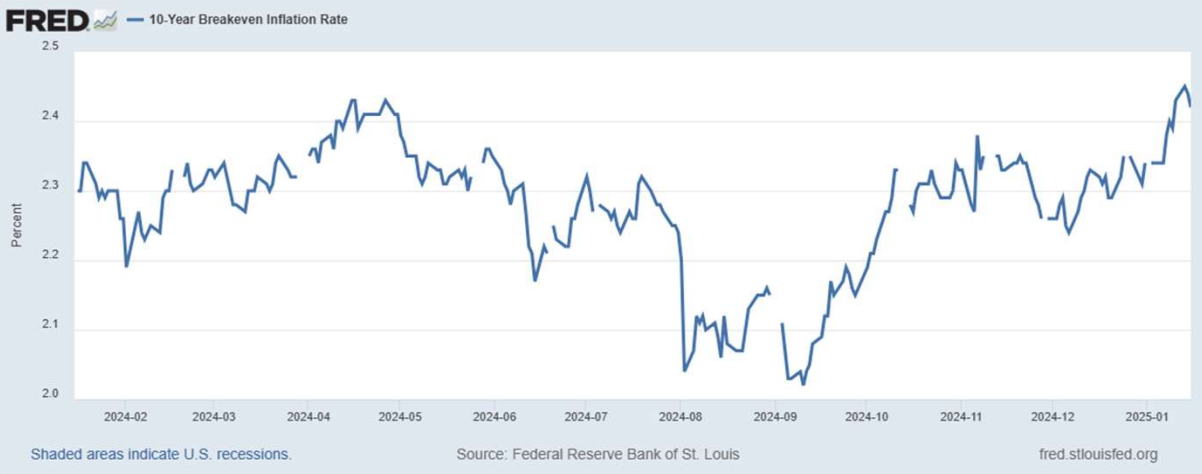
Fed's Estimate of the Neutral Rate over Time



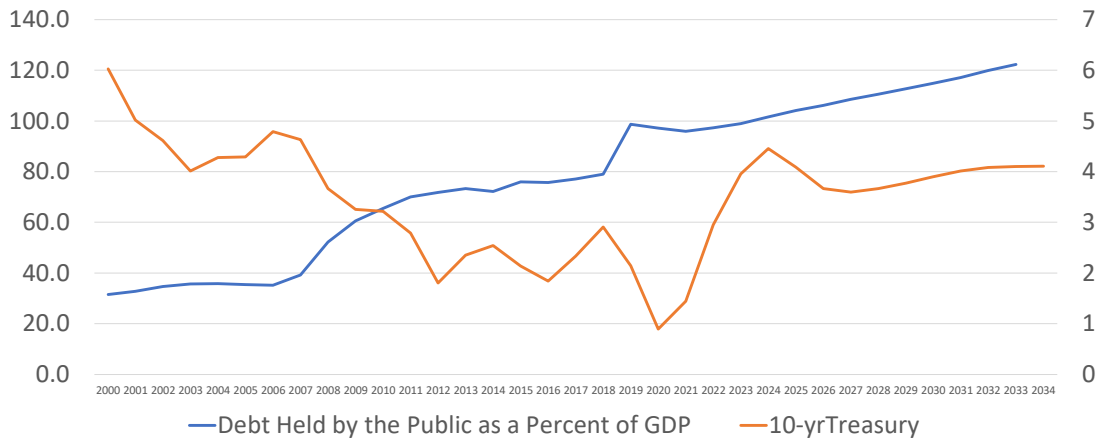
Interpreting the Bond Market

- Will the Fed be able to achieve target of 2% inflation?
- Will rising debt and deficits finally raise the neutral interest rate

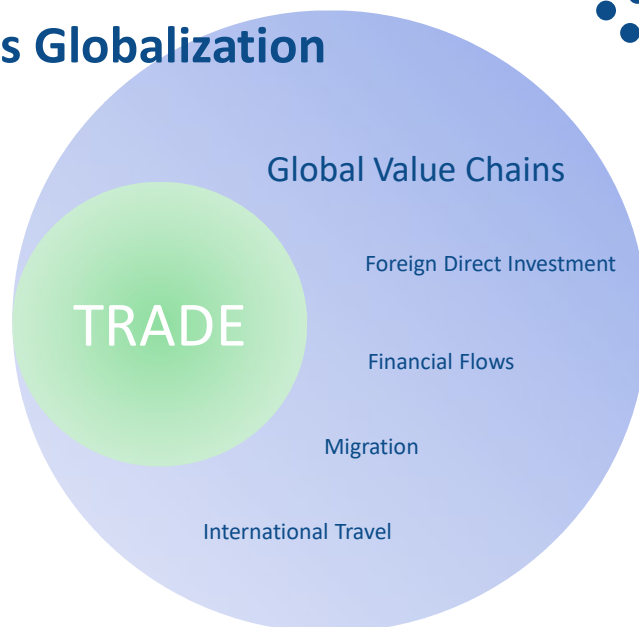
Is Fed Credibility Eroding?



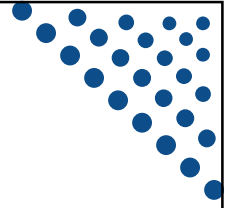
2. Is the Fiscal “Free Lunch” Over?



Next Week What is Globalization



Let's Hear from You!



Geoffrey Woglom
grwoglom@amherst.edu

Contact NEED: Info@NEEDEcon.org

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