



Osher Lifelong Learning Institute, Spring/Summer 2024

Contemporary Economic Policy

University of Kentucky

Geoffrey Woglom, Ph.D. (grwoglom@gmail.com)
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**

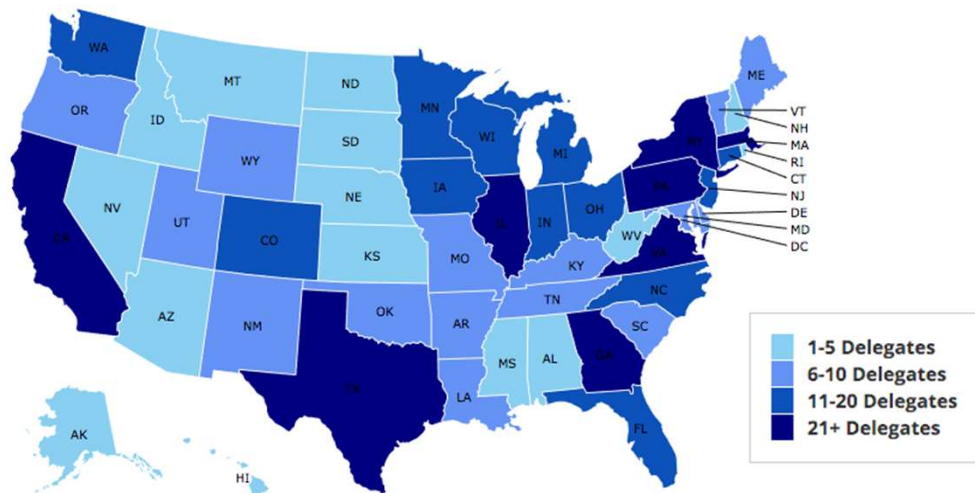
- Aid in slide deck development



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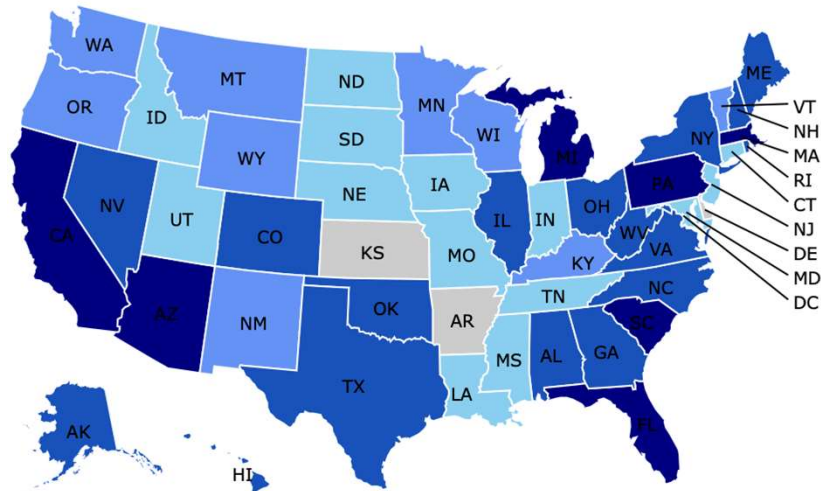
Where Are We?



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Where Have we Given Talks?



Available NEED Topics Include:

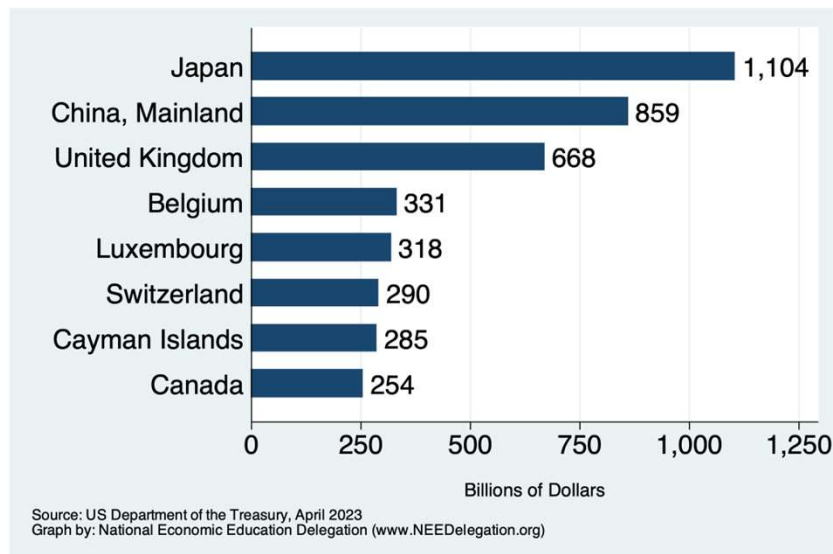
- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

Course Outline

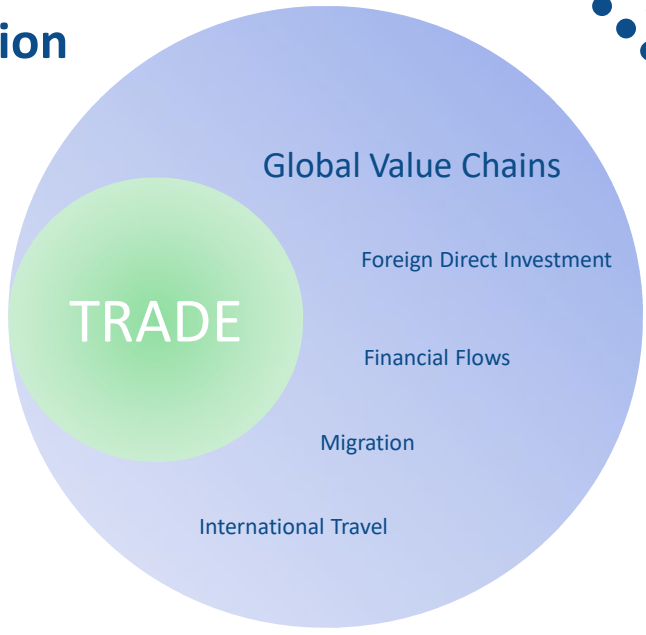
• Contemporary Economic Policy

- Week 1 (6/03): Economic Update (Geoffrey Woglom, Amherst College)
- Week 2 (6/10): Federal Debt and Deficits (Brian Peterson, Lagrange College)
- Week 3 (6/17): Trade and Globalization (Avik Chakrabarti, Univ. Wisconsin- Milwaukee)
- Week 4 (6/24): International Institutions (Alan Deardorff, University of Michigan)
- Week 5 (7/1): Climate Change Economics (Sarah Jacobson, Williams College)
- Week 6 (7/8): Is College Worth It (Geoffrey Woglom, Amherst College)

Who Holds US Debt?



What is Globalization

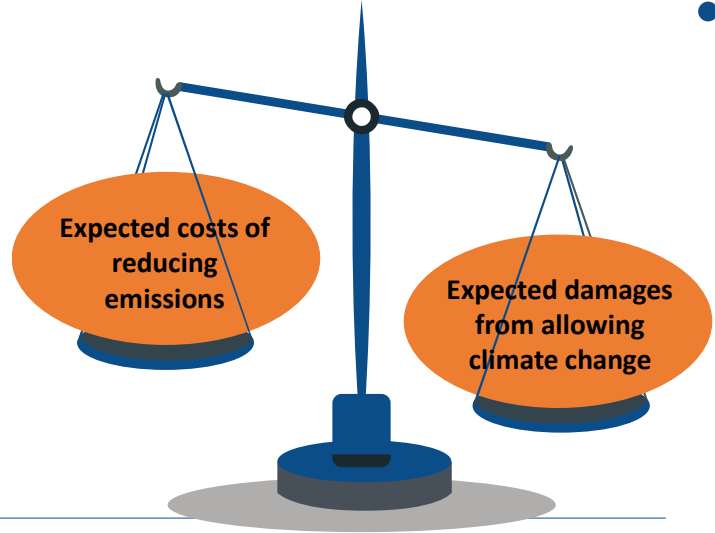


Main Economic Institutions



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.



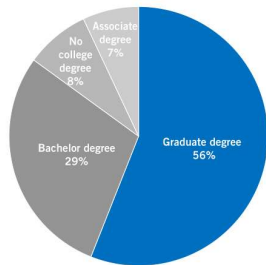
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3. Student Debt Facts (Cont.)



Those with a graduate degree account for over one-half of student debt

SHARE OF STUDENT DEBT OUTSTANDING, BY EDUCATIONAL ATTAINMENT



Income and Debt by Degree Status

Degree	Median Annual Income**	Average Borrowed†
Some College, No Degree	\$48,100	\$15,236
Associate's Degree	\$52,260	\$21,123
Bachelor's Degree	\$74,464	\$59,730
Master's Degree	\$86,372	\$55,540
Research Doctorate	\$108,316	\$112,080
Professional Doctorate	\$108,161	\$189,590

SOURCE: Brookings Institution, Who owes the most in student loans: New data from the Fed, October 2020.
 NOTES: The data above are for households led by someone age 25 or older. Graduate degree refers to masters, professional, and doctorate degrees.
 The Brookings Institution based their analysis off of the 2019 Survey of Consumer Finances from the Federal Reserve.
 © 2021 Peter G. Peterson Foundation

PGPF.ORG



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<https://educationdata.org/student-loan-debt-statistics>

INFLATION



US Economy: Update

Geoffrey Woglom,
 Professor of Economics
 Amherst College, emeritus
 June 3, 2024



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).

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>**



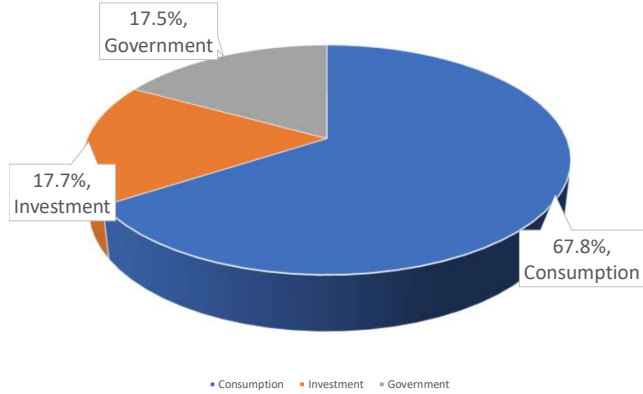
Outline for the Talk

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: 2023Q4 = \$28.3 tr

Total Domestic Spending = \$29.1



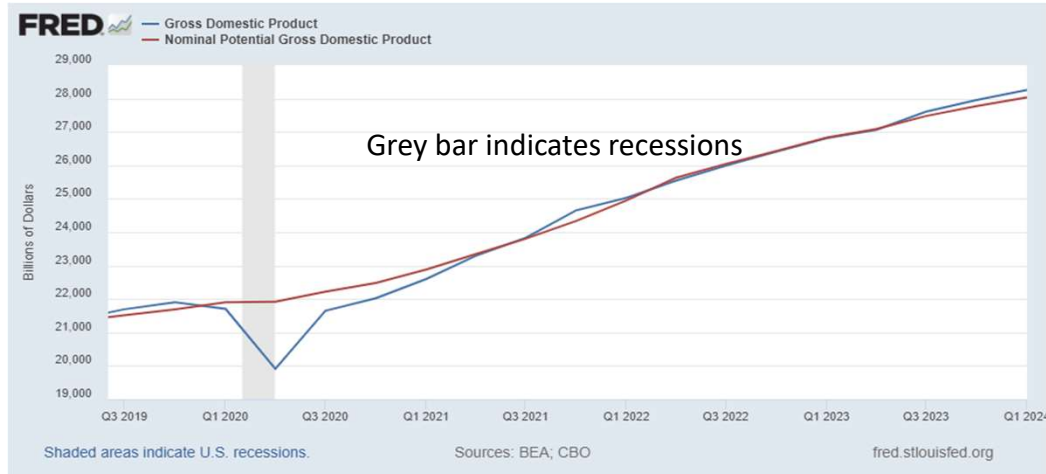
\$29.1
Less Imports
-\$3.9
Plus Exports
+\$3.1
Equals GDP
\$28.3

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.

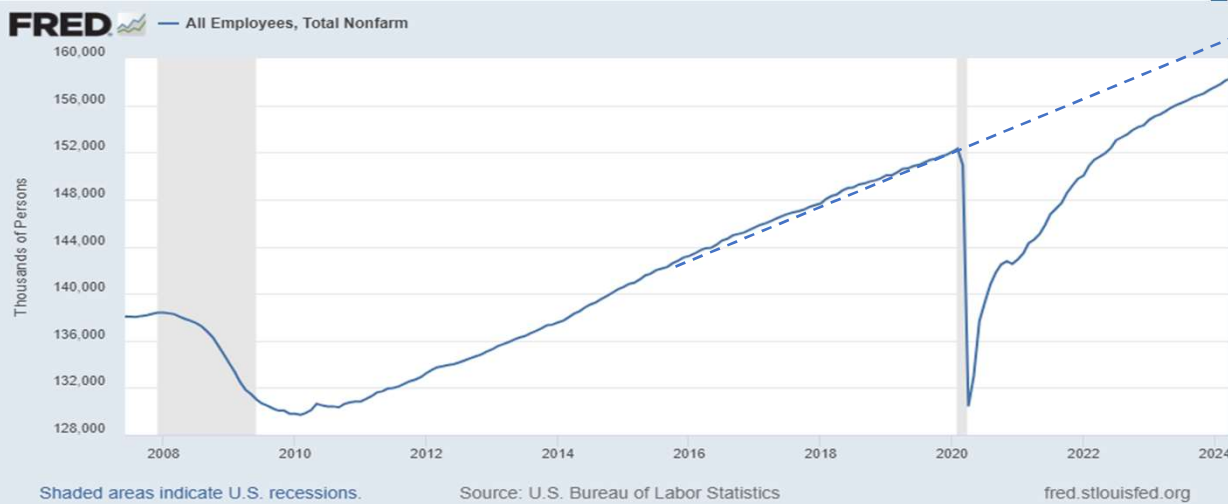


Unemployment is Near Record Lows



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Where Have All the Workers Gone?

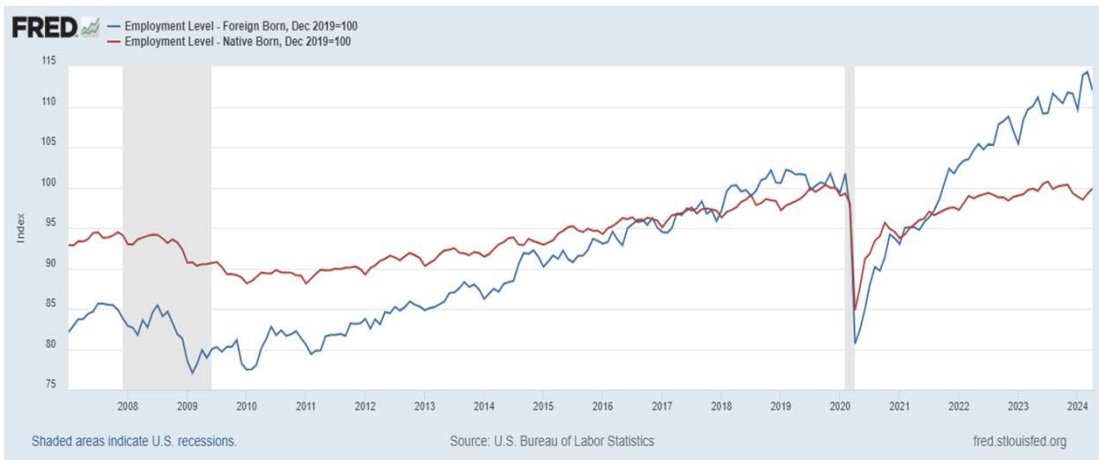


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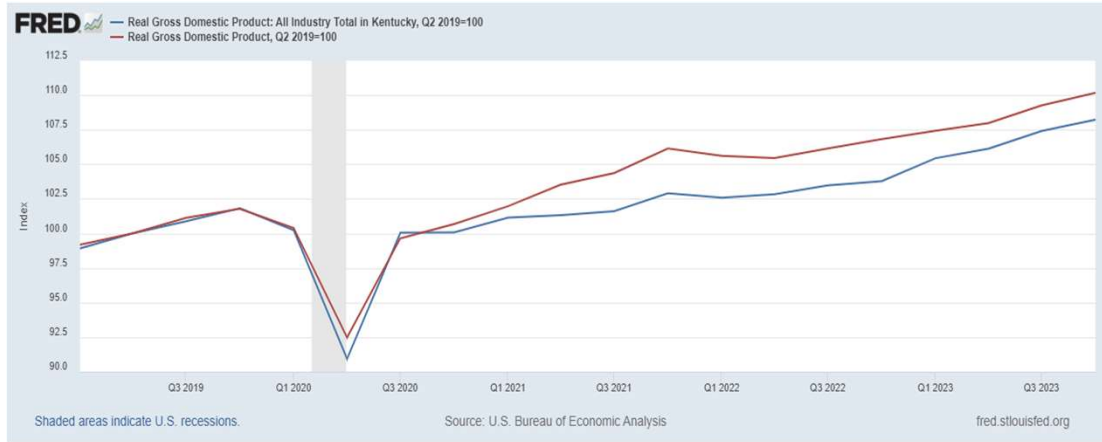
The Aging of the Labor Force



Supplemented by Foreign Workers



How is Kentucky Doing?



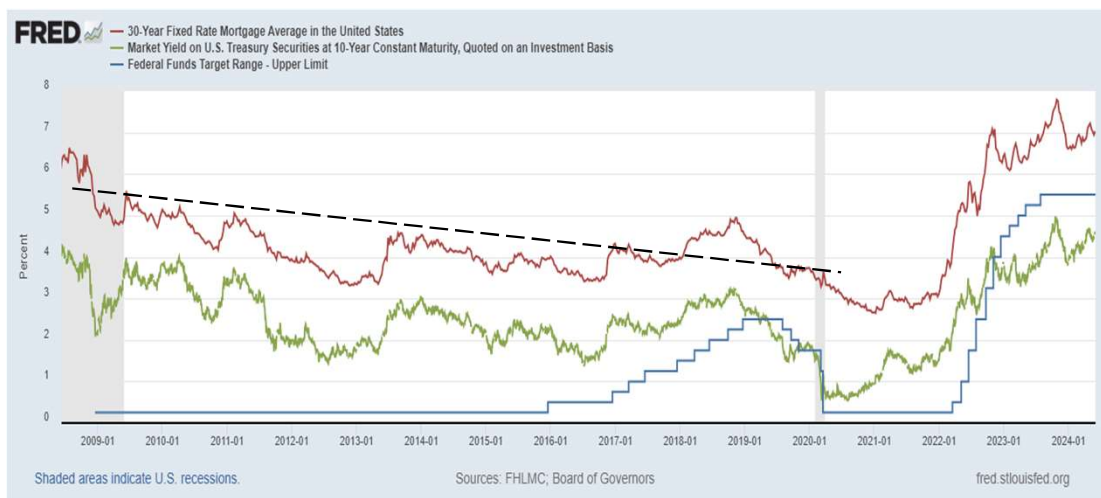
Labor Market in Kentucky



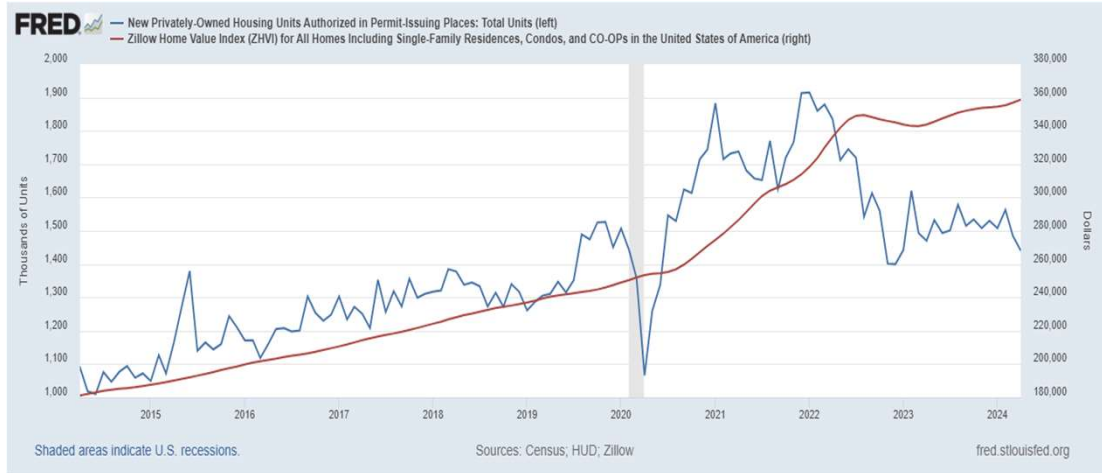
Overall Good News on the Real Side

- 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?



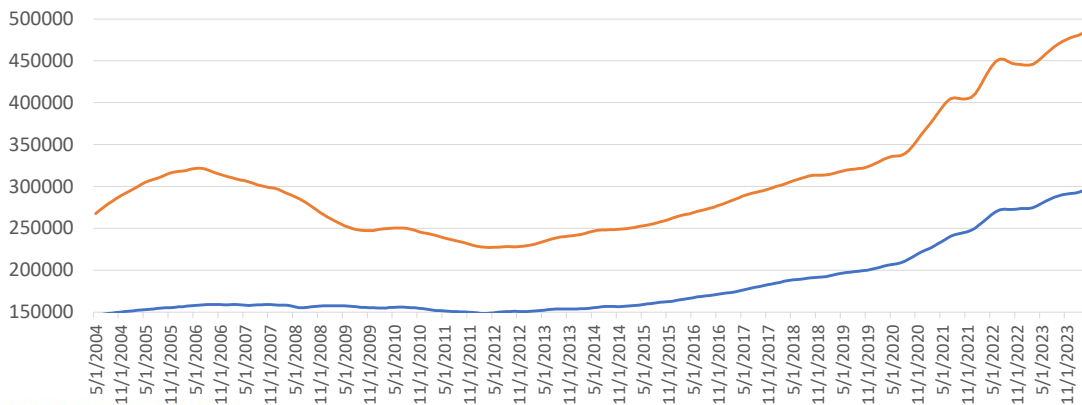
Mortgage Rates are Having an Effect ?



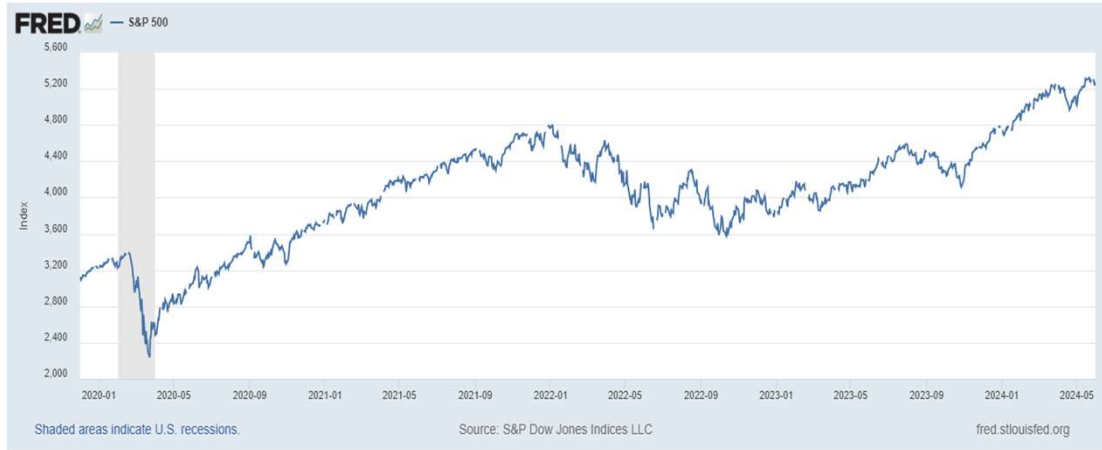
National Housing Market and Closer to Home

Single Family Home Prices

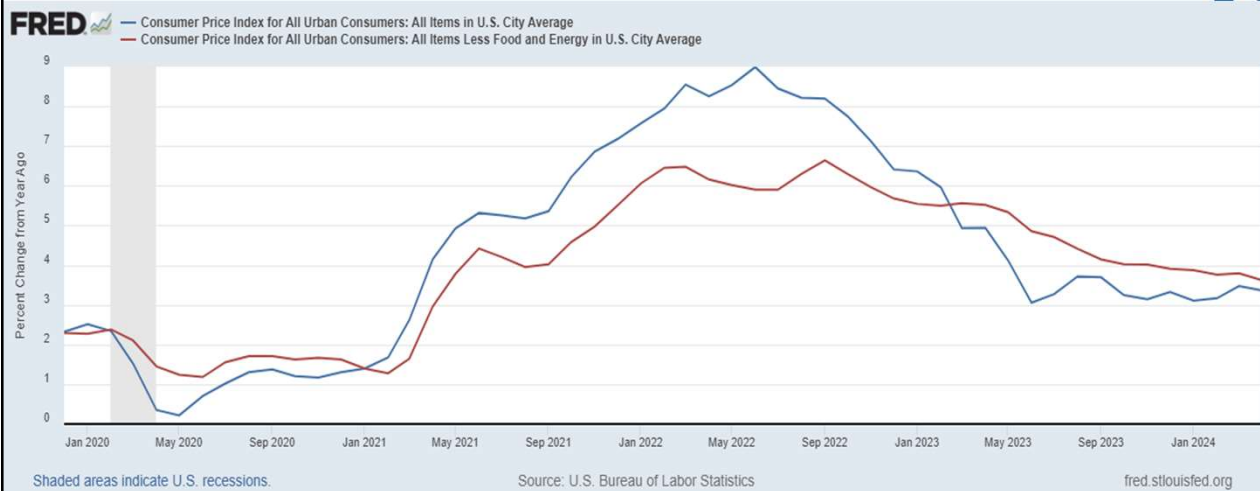
— US — Lexington



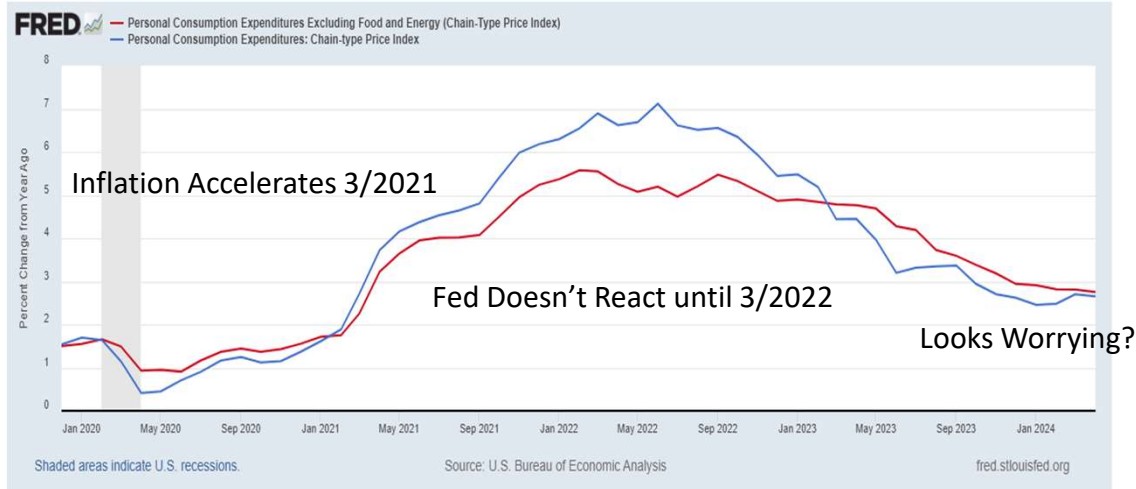
Stock Prices: Fear Giving Way to Greed?



Inflation during the Recovery (CPI)



Fed's Measure (PCE)

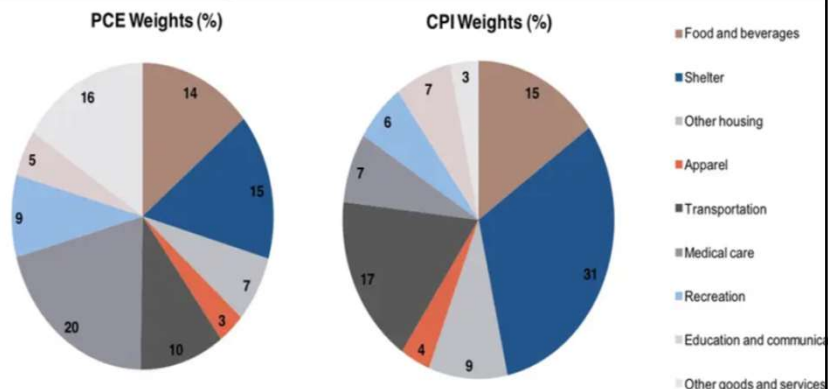


CPI vs. PCE: Differences

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



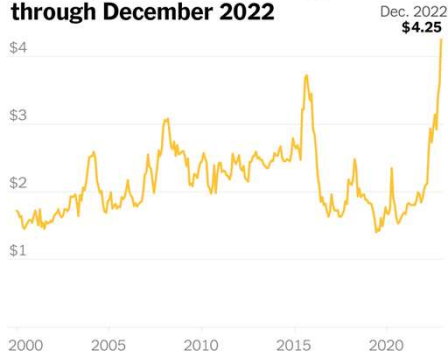
Source: Haver Analytics, SG Cross Asset Research/Economics

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?

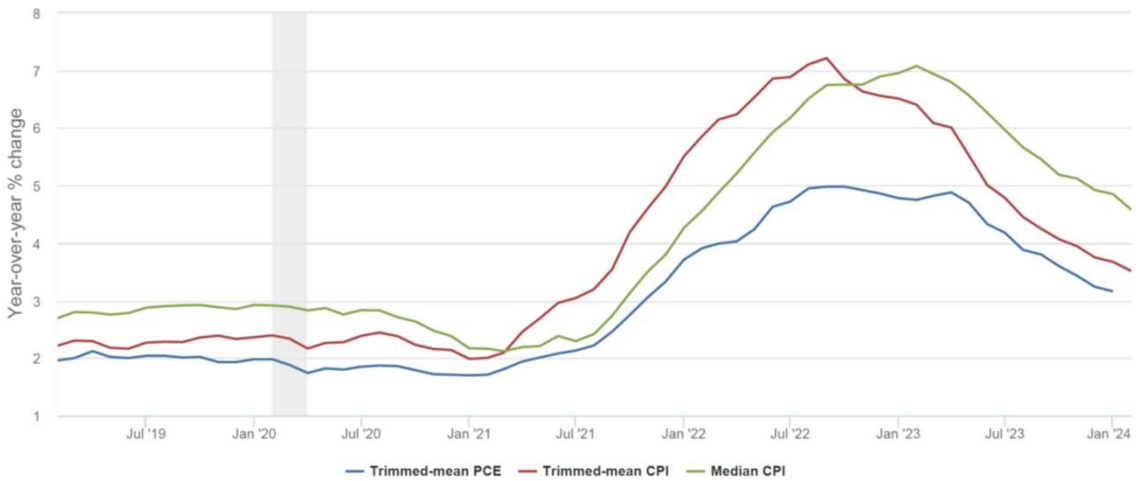
Monthly price for a dozen eggs through December 2022



Measuring “Underlying” Inflation

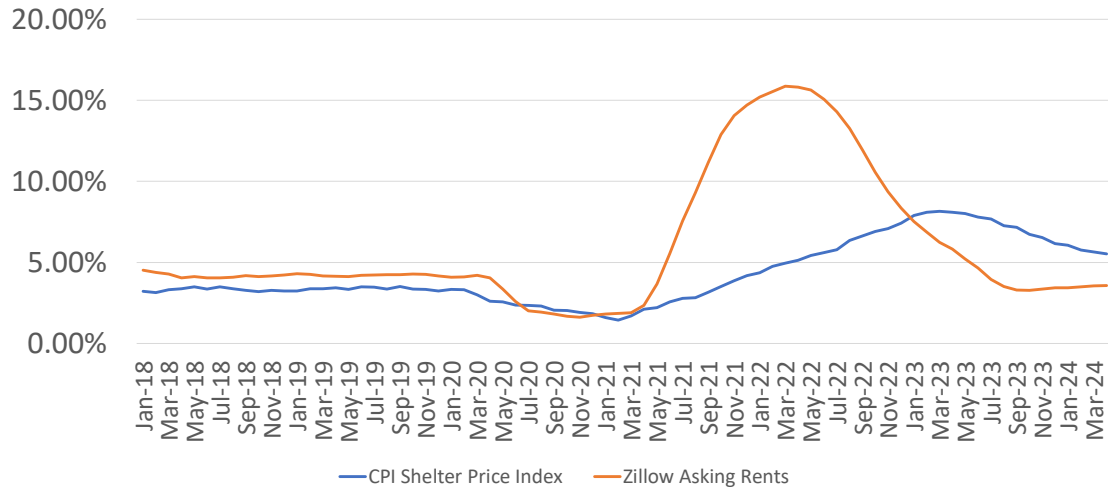
Alternative Core Inflation Measures

MACRO SNAPSHOT by the St. Louis Fed

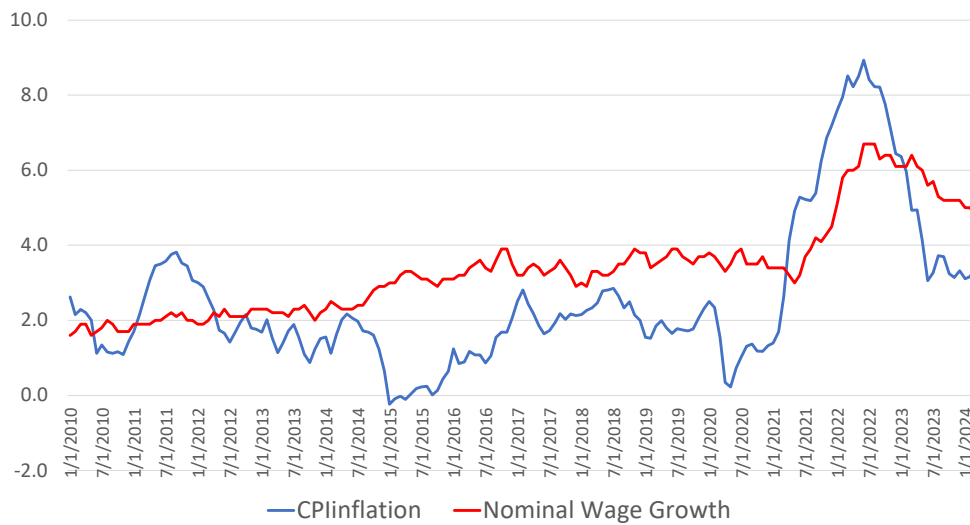


Seasonally adjusted. Recessions are shaded. Sources: Federal Reserve Banks of Dallas and Cleveland. Powered by FRED.

The Importance & Problems with Rents



Wages Haven't Kept Pace with Inflation, Yet



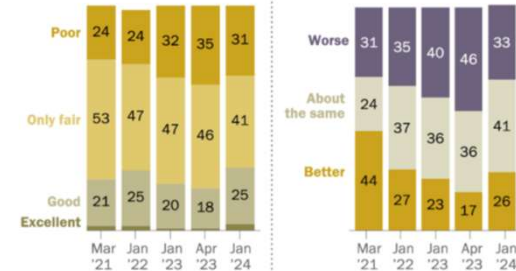
The "Nominal" Side

- 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

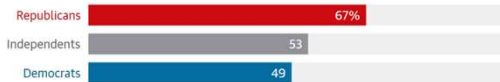


Note: No answer responses are not shown. Refer to the topline for full trend. Source: Survey of U.S. adults conducted Jan. 16-21, 2024.

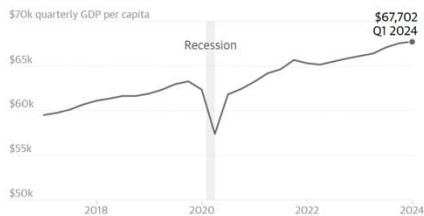
PEW RESEARCH CENTER

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.

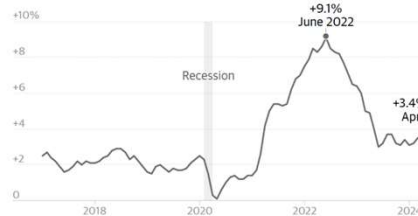


Guardian graphic. Sources: The Harris Poll, Bureau of Economic Analysis via FRED. Note: Survey of 2,119 US adults from 10 to 12 of May 2024.

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

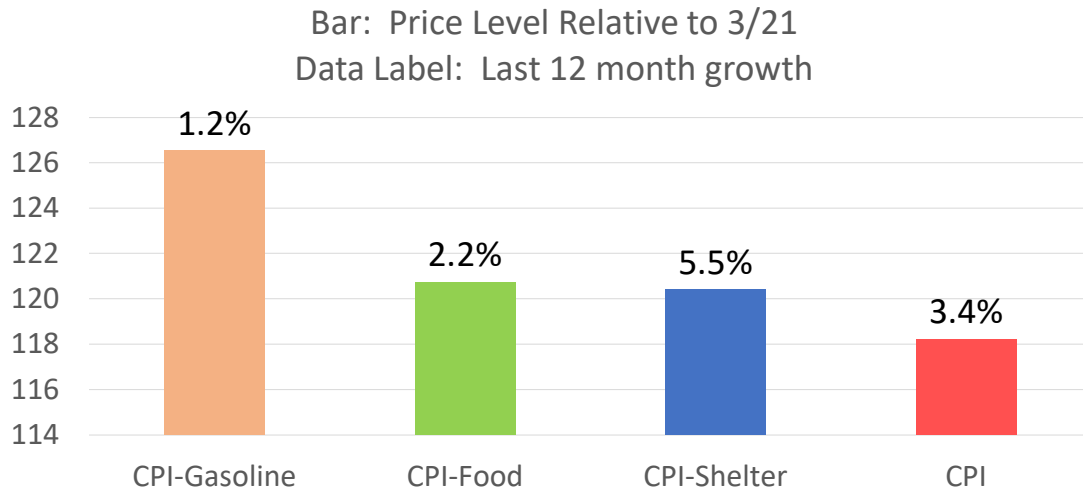


After peaking in spring 2022, inflation has settled between 3% and 4% in the past year.

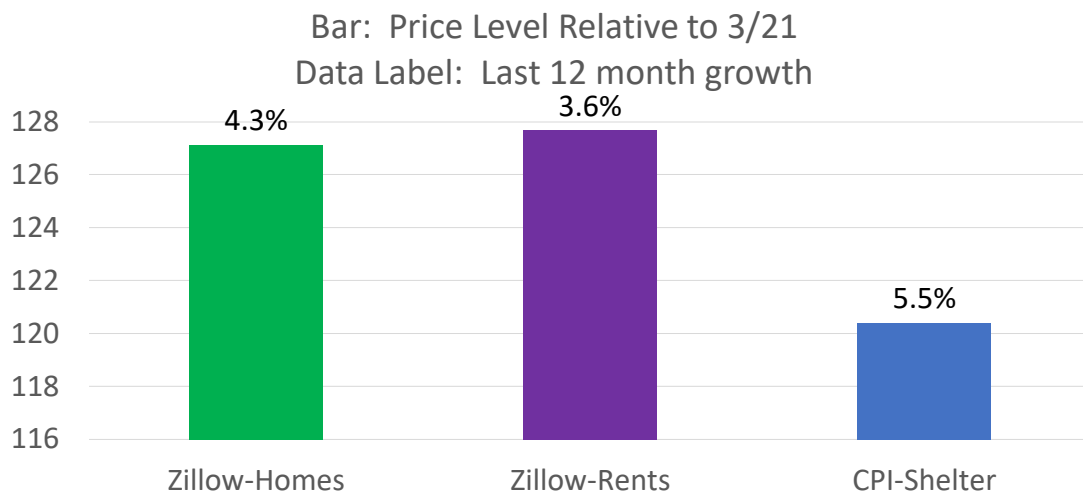


Guardian graphic. Sources: The Harris Poll, Bureau of Labor Statistics 12-month change in the Consumer Price Index. Note: Survey of 2,119 US adults from 10 to 12 of May 2024.

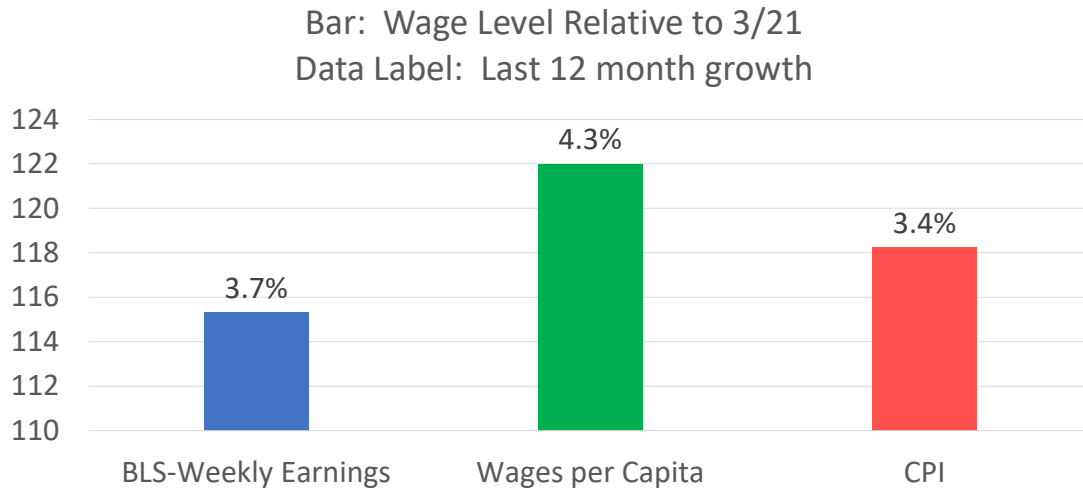
High Prices versus Inflation



Housing Prices Vs Inflation



Wages vs Prices and Inflation



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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.

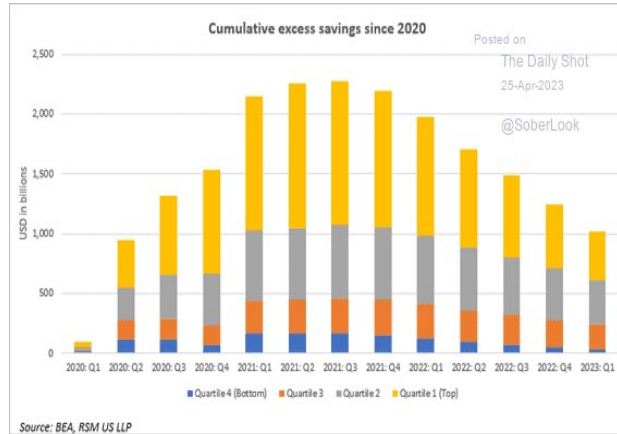
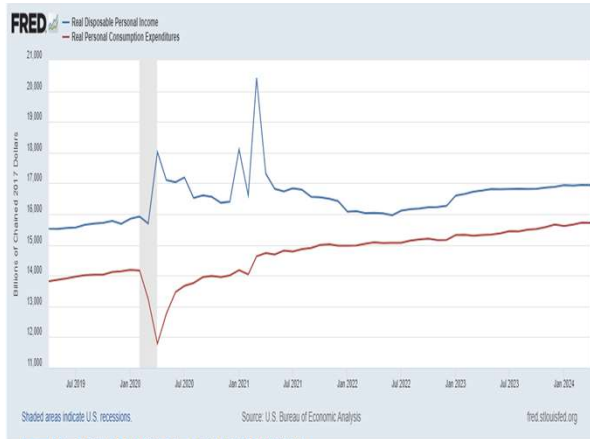


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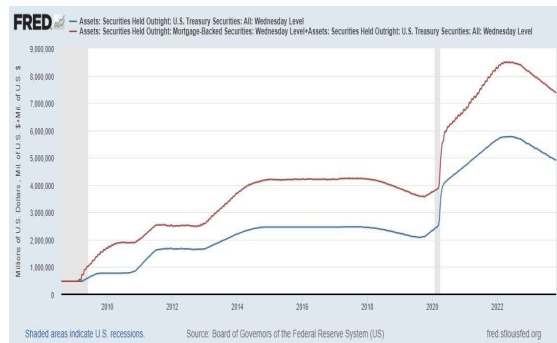
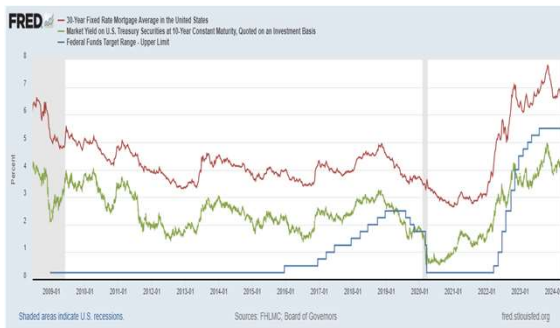
Policy Effects: Fiscal

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



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**



Fed's Evolving Views on the Economy

Percent March 2024

Variable	Median ¹			
	2024	2025	2026	Longer run
Change in real GDP	2.1	2.0	2.0	1.8
December projection	1.4	1.8	1.9	1.8
Unemployment rate	4.0	4.1	4.0	4.1
December projection	4.1	4.1	4.1	4.1
PCE inflation	2.4	2.2	2.0	2.0
December projection	2.4	2.1	2.0	2.0
Core PCE inflation ⁴	2.6	2.2	2.0	
December projection	2.4	2.2	2.0	
Memo: Projected appropriate policy path				
Federal funds rate	4.6	3.9	3.1	2.6
December projection	4.6	3.6	2.9	2.5

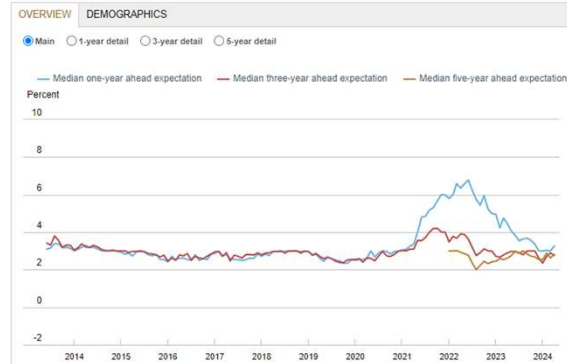
Austin Goolsbee, President of the Chicago Fed, The economy is on a “golden path” and will achieve the “mother of all soft landings.”

How did this happen?

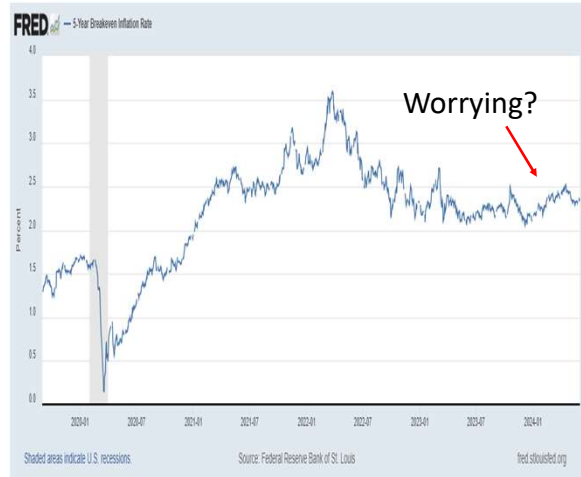
Long-Term Inflation Expectations Remained “Well Anchored”

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?**



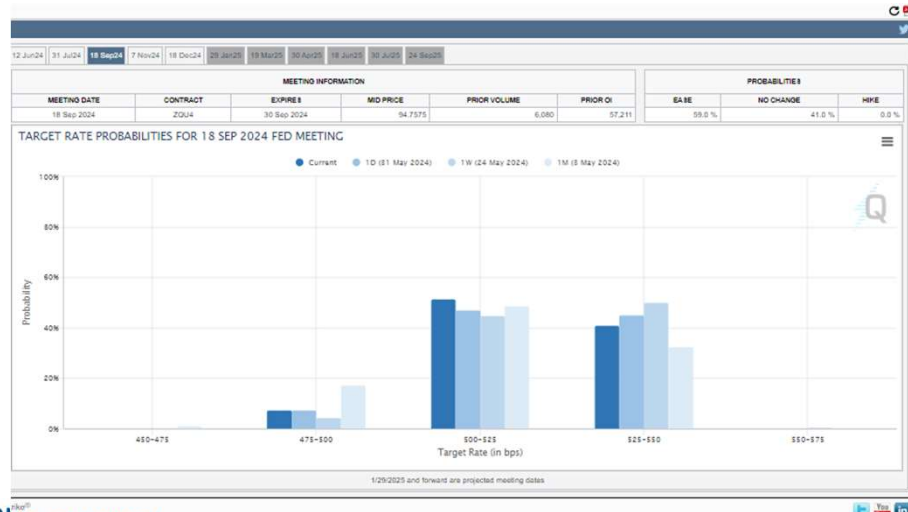
What will the Fed Do?

Pending Developments:

- **Consumption (2/3rds of GDP) appears to be slowing.**
- **Progress on inflation in some doubt.**
- **Wednesday, June 12 Fed policy meeting with new economic projections.**
- **Politically Charged Environment!**



Interest Rate Cuts?



Let's Hear from You!

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Contact NEED: Info@NEEDEcon.org

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