



*Osher Lifelong Learning Institute, June 2026*

## Contemporary Economic Policy

University Of Minesotta

Host: Geoffrey Woglom, 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**

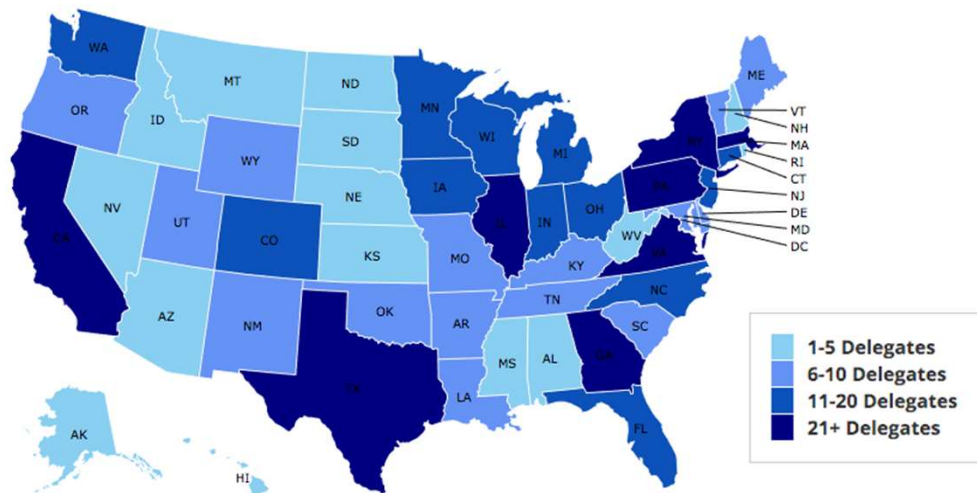
- Aid in slide deck development



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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
- US Social Policy

## Course Schedule

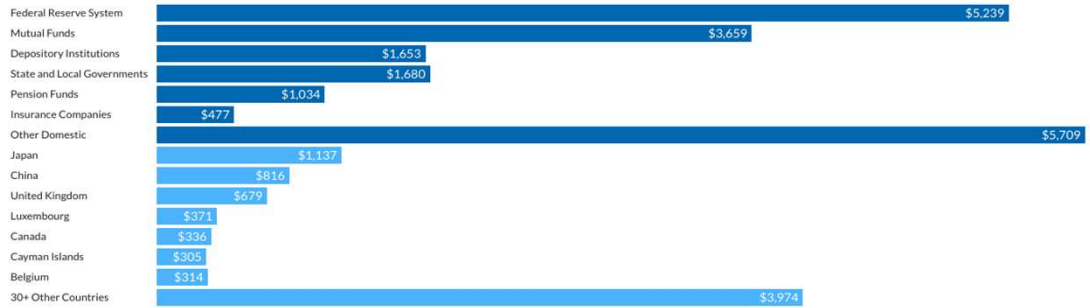
### Contemporary Economic Policy

- **Week 1 (6/3): Economic Update & Changes at the Fed, Geoffrey Woglom, Amherst College**
- Week 2 (6/10): Federal Debt and Deficits, Kathryn Wilson Kent State University
- Week 3 (6/17): Banking Crises, Gerard Caprio, Williams College
- Week 4 (6/24): Saving Social Security, Geoffrey Woglom, Amherst College

# Ownership of \$27 trillion Publicly Held Debt (12/23)

Two-thirds of public debt is held by domestic holders

Composition of Debt Held by the Public (Billions of \$)



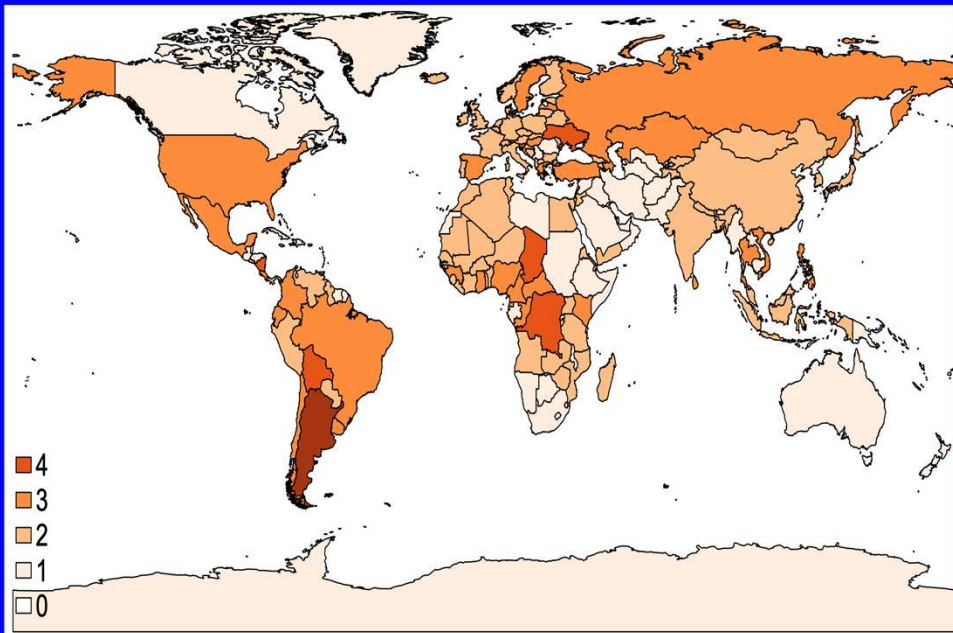
US Savings Bonds, \$120 billion



Source: U.S. Department of the Treasury  
Note: Other Domestic includes owners of savings bonds. Data is through December 2023.



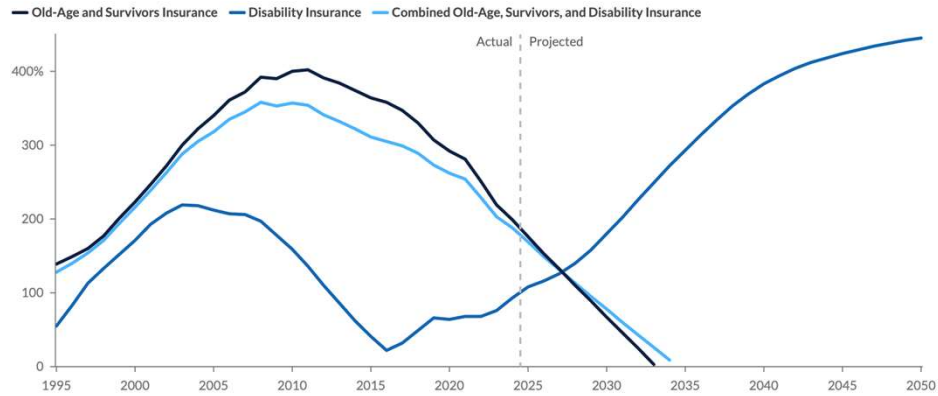
## Frequency of Systemic Crises, 1970-2024



## Trajectory of Funds

### Social Security's retirement fund will be depleted in eight years

Asset Reserves at the Beginning of Calendar Year (% of Annual Cost)



Source: Social Security Administration • Embed • Download image

Note: Under law, a trust fund cannot incur a negative balance. The OASI Trust Fund will be depleted in 2033 while the DI Trust Fund will not be depleted within the 75-year long-range projection period. Combined, the trust funds would be depleted in 2034.



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## Submitting Questions

- I encourage questions. Please put questions in the chat and I will answer them periodically during 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://needecon.org/delivered\\_presentations.php](https://needecon.org/delivered_presentations.php).
- Recording will be available: <https://padlet.com/berkshireolli/contemporary-economic-policy-issues-icsjzm4t38pc5kr>



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INFLATION



# US Economy: Update & Changes at the Fed

Geoffrey Woglom,  
Professor of Economics  
Amherst College, emeritus  
June 3, 2026



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## Outline for the Talk

- **Overview of State of the Economy:** Remarkable resilience in the face of wars & oil prices, but worrying signs.
- **Overview of Fed structure, objectives and policy tools.**
- **The Fed's Current Policy Dilemma**
- **Kevin Warsh's (the new Fed Chair) criticisms of the Fed and the main stream response**



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## Judging the State of the Macroeconomy

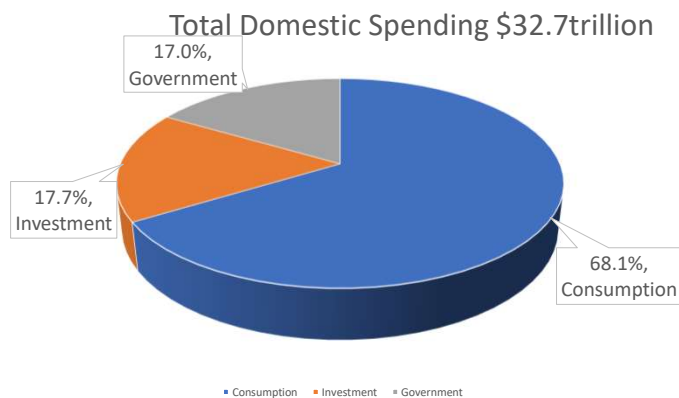
### The Fed's Definition:

1. Get the economy to the highest levels of output (GDP) and employment while,
2. Keeping inflation low and stable, or at 2%

What about the climate change; poverty, health care?



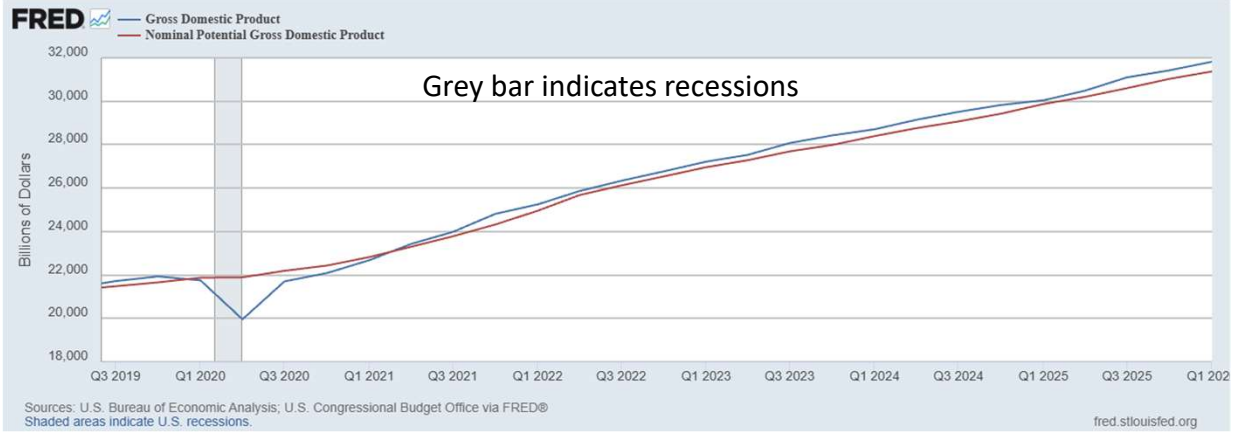
## Gross Domestic Product: 2026Q1 = \$31.8 tr



**\$32.7**  
*Less* Imports  
**-\$4.4**  
*Plus* Exports  
**+\$3.5**  
*Equals* GDP  
**\$31.8**



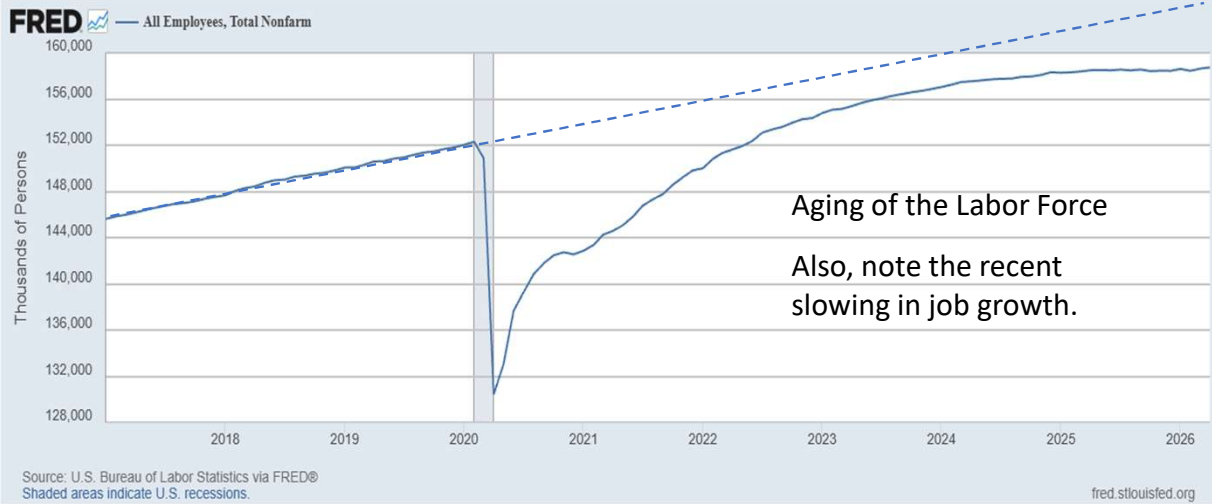
# GD<sup>P</sup> and 'Potential' during the Recovery



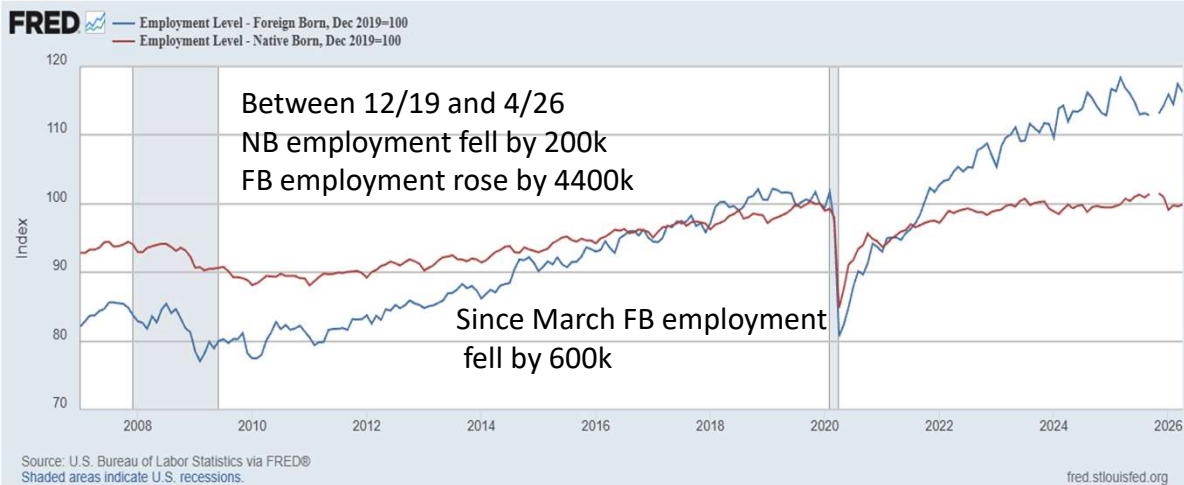
# Unemployment is Near Record Lows



# Where Have All the Workers Gone?



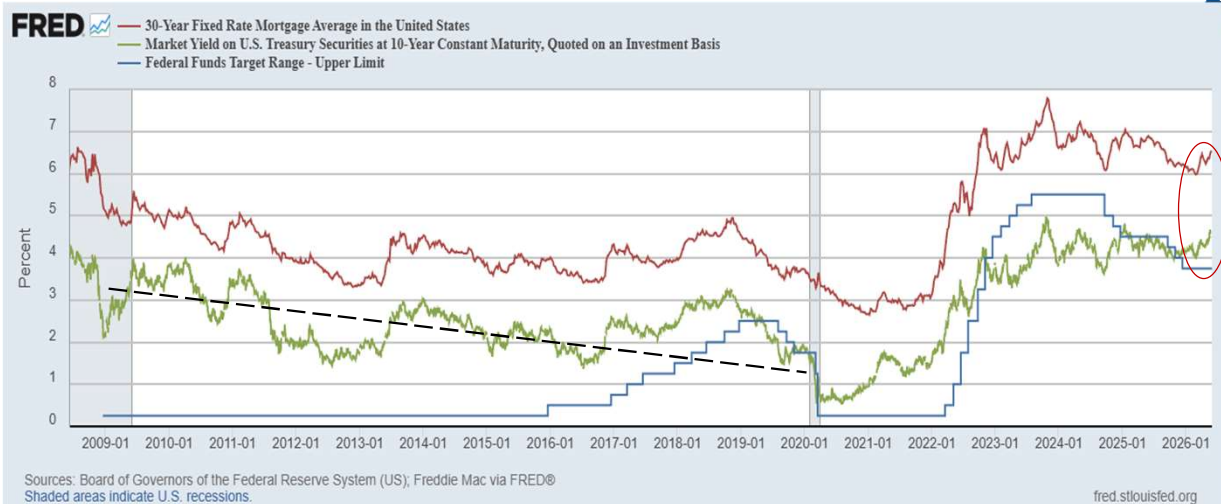
# Could Have Been Worse , but for Foreign Born Workers



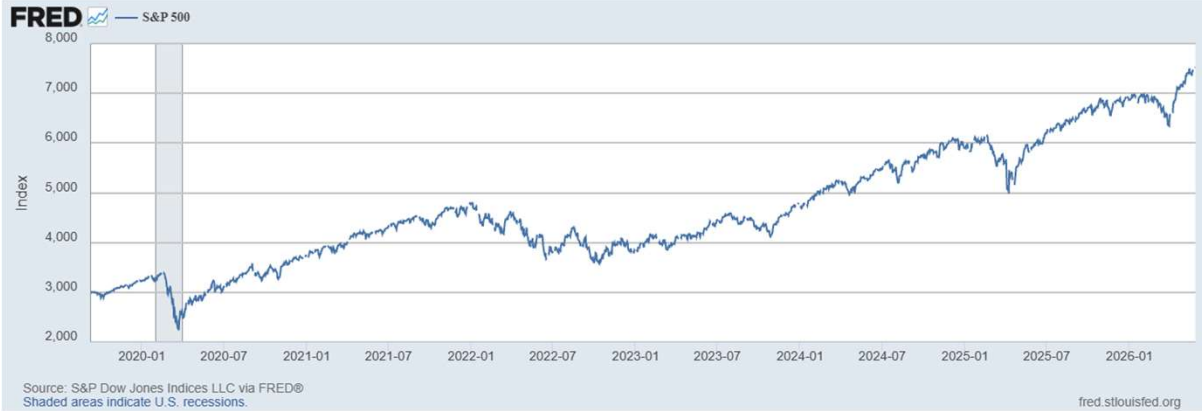
## The Real Side of the Economy is Still Good

- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Macro Goal number 1, check
- But what about goal number 2, the “nominal” side of the economy

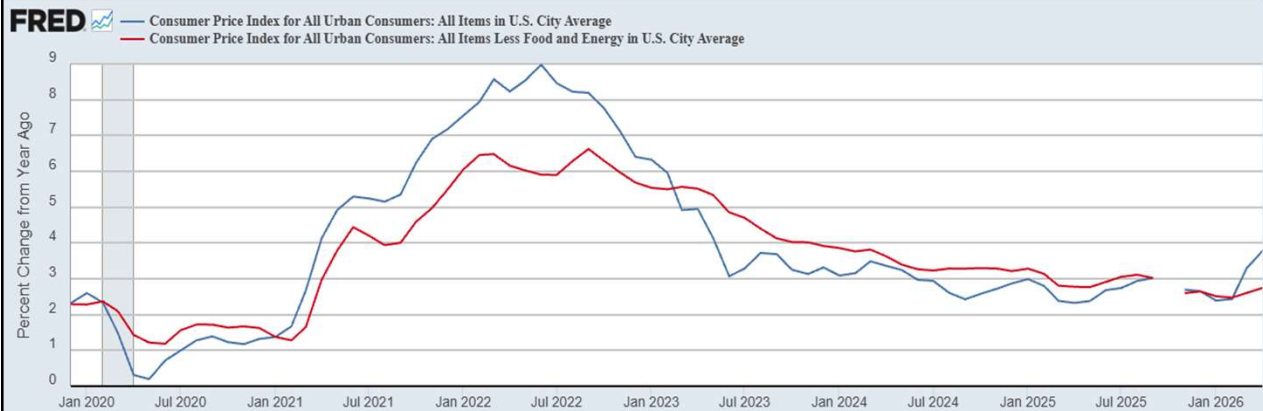
## Interest Rates: Era of Falling Rates Over?



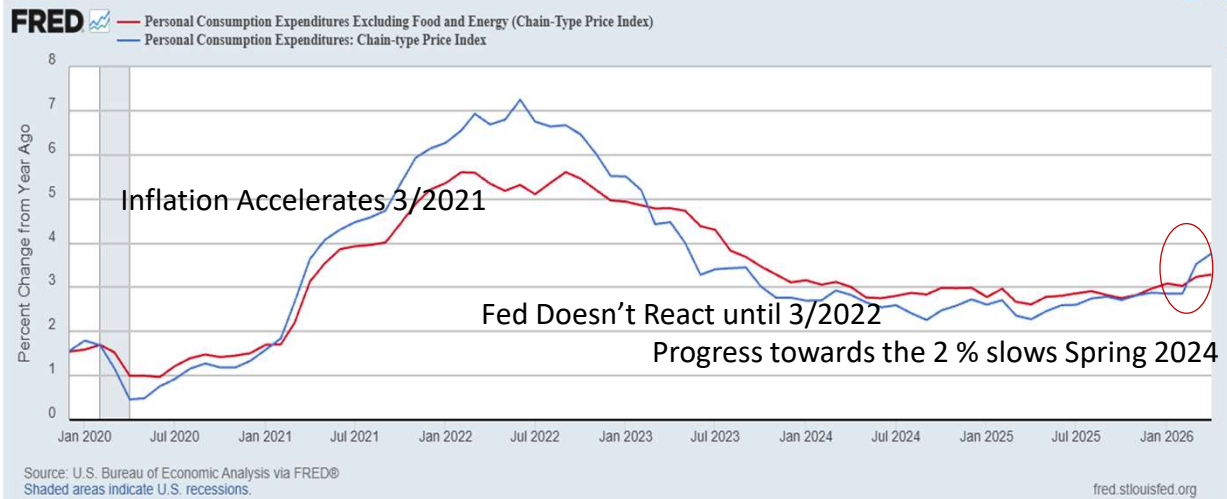
# Stock Prices: Tariffs, What Tariffs; War, What War?



# Inflation during the Recovery (CPI)



## Fed's Measure (PCE)



## CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

April:

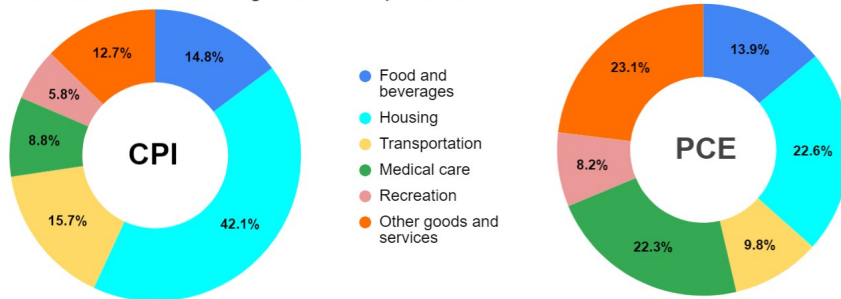
CPI, 3.8%

PCE, 3.8%

Core CPI, 2.7%

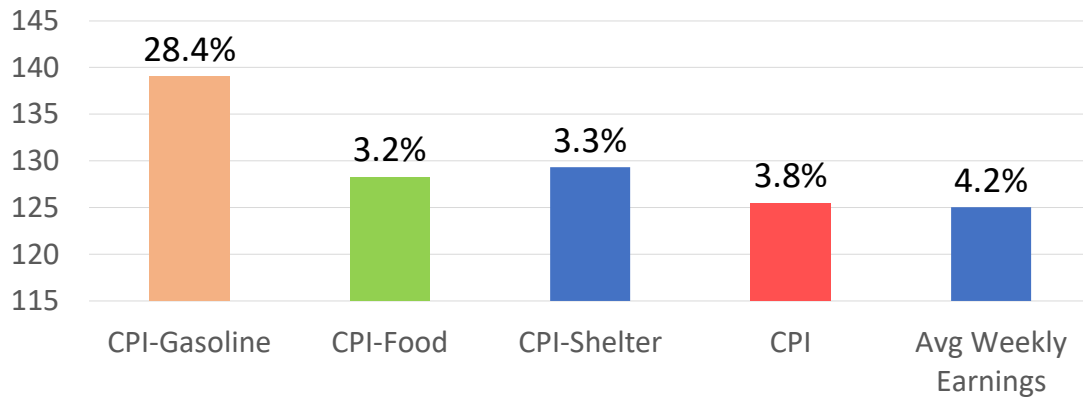
Core PCE, 3.3%.

How does the PCE weigh items compared to the CPI?



## “Affordability”

Bar: April Price *Levels* Relative to 3/21  
Data Label: Last 12 month’s growth

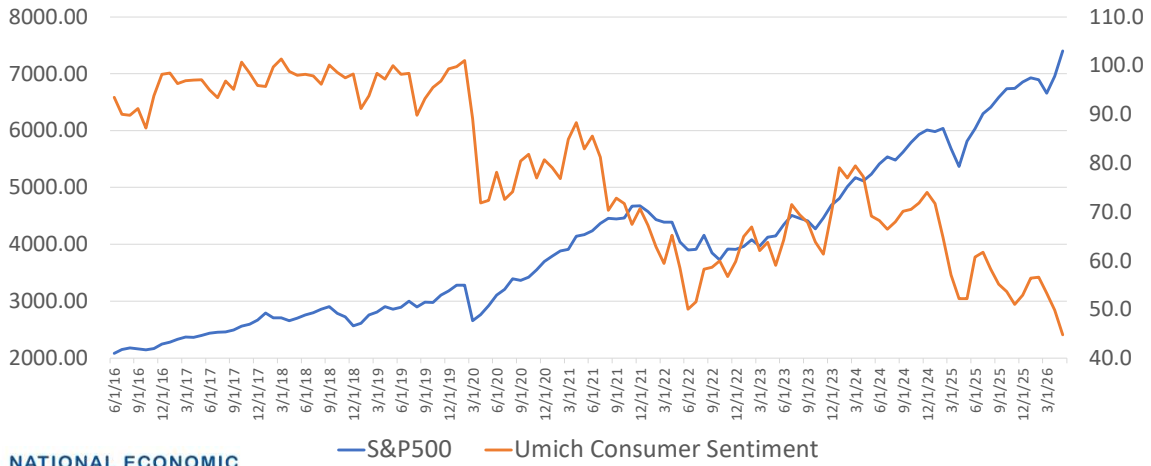


## The State of the Economy & the Future

- **The key indicators for judging the macro economy are still good**
  - Output and unemployment are close to their “full employment” levels, although the labor market data may be getting worse
  - Inflation is still a bit elevated, but some of this is due to “price shock.”
- **Concerns**
  1. Growth in demand could be weakening.
  2. Price shocks may get worse.
- **Biggest Uncertainty: the Future of the Fed & Monetary Policy**

# 1. K-Shaped Economy

Stock Prices and Consumer Sentiment



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# 1. More Detail on the K-Shaped Economy

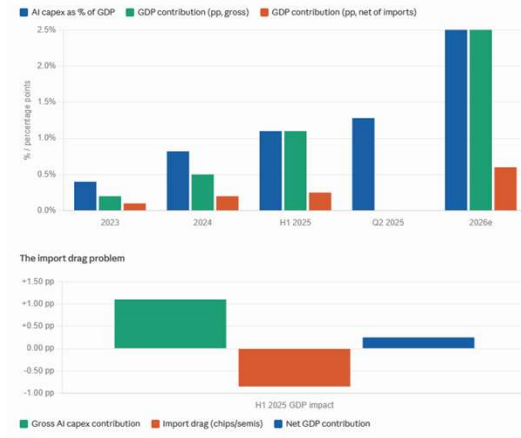
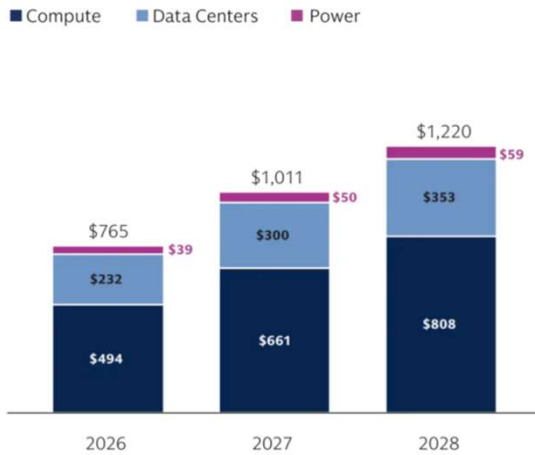


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Source: @SteveRattner

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# 1. What About AI Investment?



# 2. It is Not Just High Oil Prices

home > economic research >

## Global Supply Chain Pressure Index (GSCPI)

OVERVIEW GSCPI FAQs

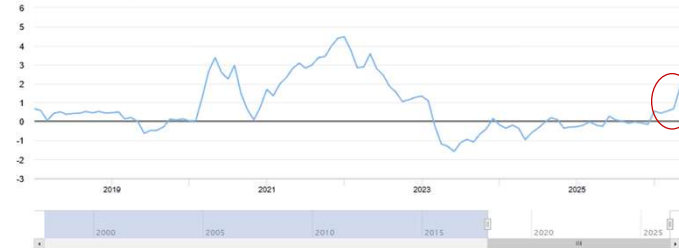
Estimates for April 2026

- The GSCPI rose to +1.82 in April, up from 0.68 in March (unrevised from an initial reading of 0.68). GSCPI readings measure standard deviations from the index's historical average.

Latest Update April 2026

Enter a date range to see monthly estimates or use the slider below to view a specific date range.

Standard deviations from average value



Sources: Bureau of Labor Statistics; Harper Peterson Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv; authors' calculations.

## Stabilizer in Chief: the Fed



Kevin Warsh  
May 2026

on Price Index

- **The Fed's Dual Mandate:**
  1. "Stable prices" which means 2% rate of inflation in the long run (which corresponds to about 2.5% inflation in the medium run)
  2. "Maximum employment" which means the highest level of employment (lowest unemployment rate) **consistent** with mandate 1.
- **Monetary policy is made by the Federal Open Market Committee (FOMC), comprised of the 7 Fed Governors and 5 of the 12 Presidents of the Regional Federal Reserve Banks on a rotating basis.**
- **The FOMC has scheduled meetings 8 times a year, but can hold unscheduled meetings at a moments notice (e.g., March of 2020)**



## The Transition

- **Governors are appointed for 14-terms.**
- **One governor is nominated by the President to serve a 4-year term as Chair.**
- **Jerome Powell's term as Chair has expired, but his term as a governor extends to January 31, 2028.**
- **To make room for Warsh as a governor, Stephen Miran, recently appointed by Trump, will resign.**
- **Historical precedent, Marriner Eccles 1948-1951 at Harry Truman's request.**
- **Fun Fact: neither Eccles (high school dropout/banker), Powell (lawyer/banker) nor Walsh (lawyer/banker) were PhD economists.**



## The Rest of the Team: Federal Reserve Banks



1. Manage the payments system (check clearing)
2. Day-to-day supervision and monitoring of member banks.
3. Consumer and community affairs.
4. All Bank Presidents participate at FOMC meetings.

1. Reserve Banks have a Board of Directors: 3 appointed by the Board; 6 appointed by member banks (3 to represent banks; 3 to represent the public).
2. Public and Board Directors appoint president subject to Board approval for a 5-year term.

## The Fed's (and consensus) View of Inflation

### Three Determinants:

1. **Inertia caused by expectations of inflation that get built into normal wage and price increases.**
2. **The balance of aggregate demand for total goods and services (AD) and aggregate supply (AS)**
  1.  $AD > AS$  inflation rises above expected inflation.
  2.  $AD < AS$  inflation falls below expected inflation.
3. **Price Shocks unrelated to 1) & 2) temporarily affect inflation**
  1. Negative shocks, e.g., tariffs, Mideast war, supply chain disruptions.
  2. Positive, e.g., unusual productivity increases that lower prices; AI (?)

## Fed Policy Tools

1. **Interest Rates: Higher interest rates lowers AD, and vice versa.**
  - a. Sets short-term interest rates: primarily, the federal fund rates, overnight loans between banks.
  - b. Influences long-term interest rates via “Quantitative Easing” direct purchase of long-term government bonds and mortgage backed securities (MBS).
2. **“Credibility:” public confidence that the Fed will achieve its objectives leading to “well anchored inflationary expectations”.**
  - a. Communication & Transparency
  - b. Central Bank Political Independence.

**Note that the Fed *cannot directly* affect AS, or price shocks**

## Primary Monetary Policy Tool

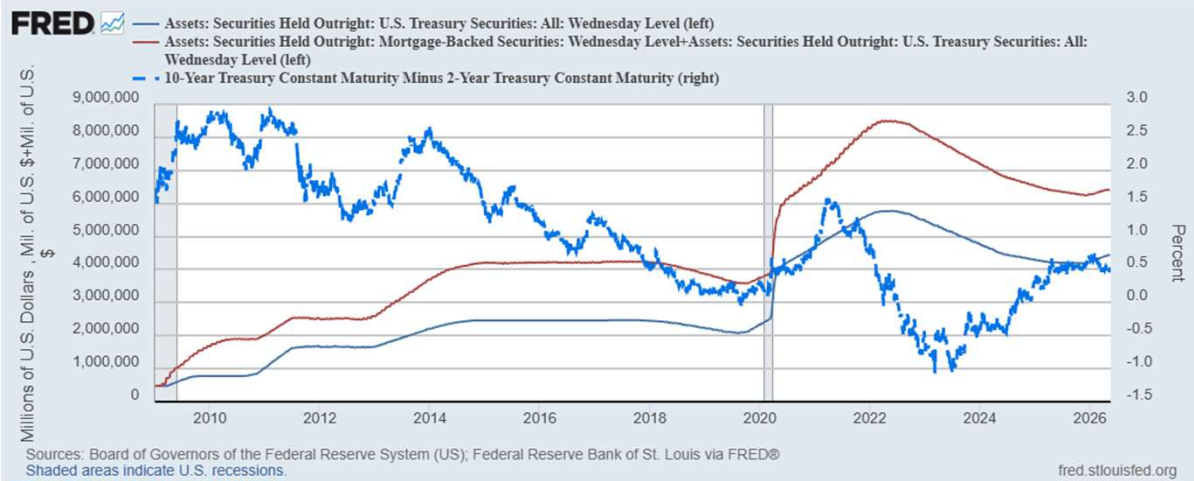
**FRED**  — Federal Funds Target Range - Upper Limit  
— Market Yield on U.S. Treasury Securities at 3-Month Constant Maturity, Quoted on an Investment Basis  
— Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis  
— Federal Funds Target Range - Lower Limit



Source: Board of Governors of the Federal Reserve System (US) via FRED®  
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

## Quantitative Easing (QE) Is a Big Deal



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## Central Bank Independence

- **Monetary Policy interest rate decisions are made by the Fed (FOMC) and cannot be reversed by other branches of government.**
- **Federal Reserve Governors have 14-year terms.**
- **The Fed's expenses are financed from operations; it doesn't have to go to Congress for appropriation**
- **The Fed is accountable to Congress and the public by:**
  - Congress Sets the "Dual Mandate" (but not numerical targets).
  - Chair testifies to Congress.
  - Policy Statement issued and Chair Press Conference after Policy meeting
  - Current Policy deliberations are made available with a 6-week lag.
  - All policy discussions are released with a 5-year lag.



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## Central Bank Independence at Democracy

- **The argument for independence is based on the view (supported by evidence) that monetary policy driven by democratic politics delivers higher average inflation with no effect on average unemployment.**
- **Squaring the circle:**
  1. Political accountability.
  2. The Fed should “stay” in its lane. Ignore all issues other than monetary policy and financial stability.



## Powell's Record

- **Big Mistake: Allowed to Accelerate from March 2021 to 9 percent by July 2022. Why?**  
He (and others) felt Covid supply disruptions were temporary, price shock.
- **Smaller Mistake: Covid QE was probably too big.**
- **Big Achievement: Starting in March of 22 Monetary Policy has been nearly perfect**
  - Inflation has fallen dramatically with small rise unemployment and no recession.
- **What about the recent increase in inflation**  
**Tariffs and Oil Prices are classic Price Shocks**

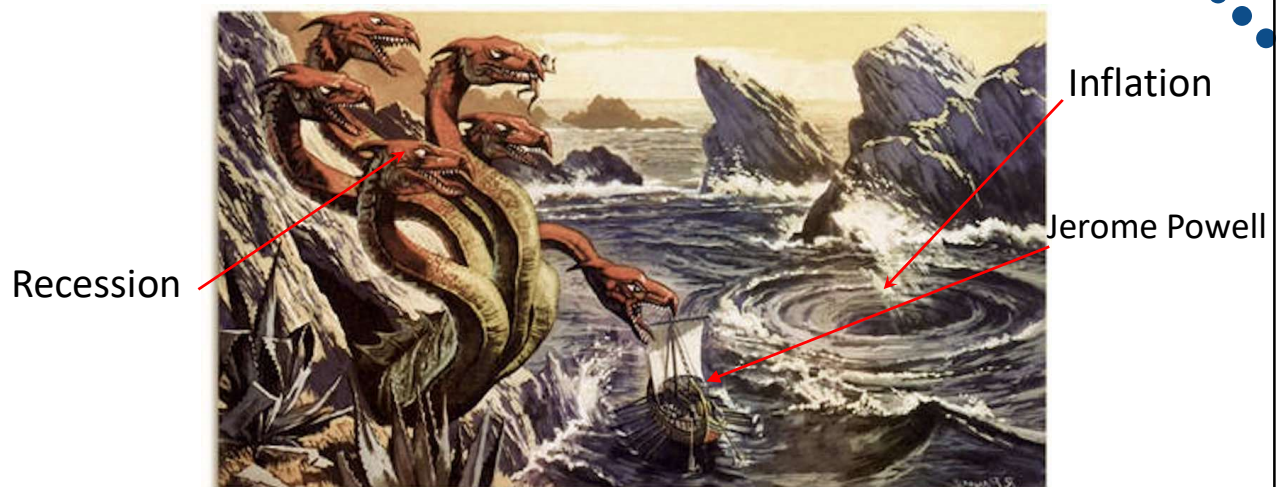


## Price Shocks pose a dilemma

- To combat rising unemployment the Fed needs to lower interest rates to increase demand and spending.
- To combat rising inflation the Fed needs to raise interest rates to lower demand and spending.
- In navigating the path between the two problems it is crucial not to:
  1. Allow temporary inflation to feed into inflationary expectations (Note credibility makes this easier to accomplish).
  2. Cause a recession by raising interest rates too far, too fast.

**Powell's Post 2023 success was "steering" correctly: reduction in inflation with no recession.**

## Scylla and Charybdis: "A Rock and a Hard Place"



## Kevin Warsh's Criticisms

1. **2021-2022: "...greatest mistake in macroeconomic policy in 45 years,"**
2. **QE should not have become a permanent feature of the economy.**
3. **"Mission Creep" threatens political independence.**
4. **Too much "forward guidance," particularly the dot plot.**
5. **Fed is ignoring the disinflationary effects of AI.**



## 1. 2021-2022 Policy Mistake

- **The Fed ignored the role of Covid fiscal expansion and focused only on price shocks.**
- **"Flexible inflation targeting" allowed the steep run up in inflation.**

### **Flexible Inflation targeting (Fed on Longer Run Goals, 8/27/2020):**

**...to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.**



## That was a mistake, but...

### Statement on Longer-Run Goals (1/27/2026):

The Committee is prepared to act forcefully to ensure that longer term inflation expectations remain well anchored.

The Committee recognizes that employment may at times run above real-time assessments of maximum employment without necessarily creating risks to price stability.

## 2. Permanent QE has harmed the economy.

- “[When] QE2 was announced [in the fall of 2010,] I disagreed and resigned from the Fed. Members of Congress found it easier appropriating money knowing the government’s financing costs would be subsidized by the central bank.” (WSJ, 4/27/2025)

From 9/30/2010 Fed holdings of US Treasury Bonds increased from just under \$800 billion to just under \$5.8 trillion by 3/30/2022. During the same period the Federal debt in the hands of the public increased from \$9 trillion to \$24 trillion

## 3. Mission Creep

- QE is a type of fiscal policy
- Foray's into social issues such as "climate change" and "inclusion"

**12/2020: Fed joins Network of Central Banks and Supervisors for Greening the Financial System; exits 1/17/2025**

**Powell, 10/24/2023:**

The Federal Reserve has narrow, but important, responsibilities regarding climate-related financial risks, which are tightly linked to our responsibilities for bank supervision.

It is also important to continue to be clear on what we are not doing. The Federal Reserve is not and will not be a "climate policymaker." Decisions about policies to address climate change must be made by the elected branches of government.

## "Inclusion"

**Fed's Longer Run Goals, 8/27/2020**

"The maximum level of employment is a broad-based and inclusive goal."

**Warsh (WSJ, 4/27/2025):**

As part of the new regime, the Fed redefined its legislative remit of "maximum employment" as a "broad-based and inclusive goal." The new nomenclature of "inclusive employment" was understood to underscore the Fed's willingness to accept higher inflation so that certain groups would achieve higher rates of employment.

More recently, Fed leadership has sounded considerably more ambiguous whether the Fed's new definition of full employment was different from the old. If it's no different in practice, then was the new language simply a political nod? If the new definition is different, then shouldn't Congress have some say?

## 4. Forward Guidance

**Kevin Warsh:**

The Fed tells the whole world...what their forecasts are going to be...  
Well, the Fed's human, and then they hold on to those forecasts  
longer than they should (*WSJ*, 4/21/2026)

## Infamous Dot Plot of March 17, 2022

The actual Dec 2022  
funds rate was 4.25-4.5

The “market implied”  
expected federal funds  
rate was 1.75 percent.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

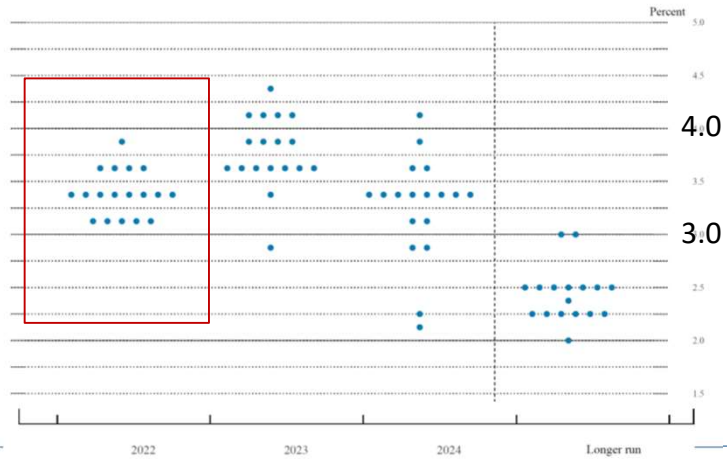


# Next Dot Plot, 6/15/2022

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

Was the market misled in March?

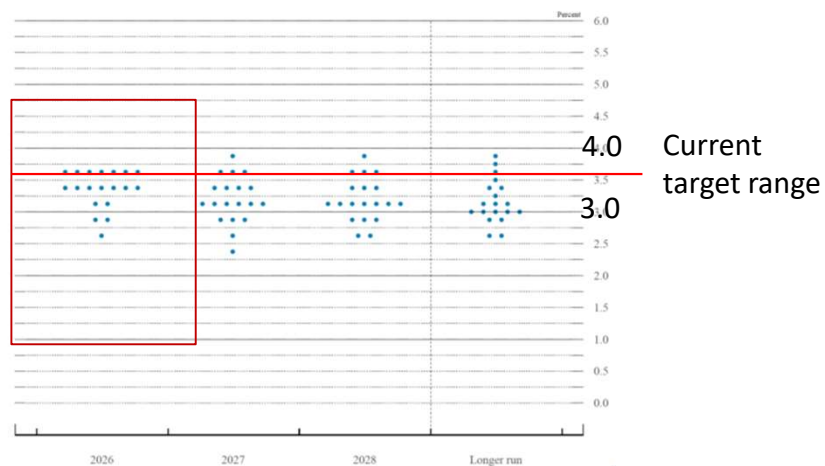
Did the Fed "hold on to those forecasts" too long?



# The Latest Dot Plot, March 18 2026

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

The implied market probability of the federal funds rate on 3/23/2026 for the end of 2026 was 3.9 with a 25% probability of 3.6 or 4.4



## What is the purpose of this information?

1. Transparency helps to increase credibility thereby stabilizing inflationary expectations.
2. This “forward guidance” on future federal fund rates can influence longer-term rates, which have a bigger influence on aggregate demand.

**Ben Bernanke** (<https://www.brookings.edu/articles/inaugurating-a-new-blog/>):

When I was at the Federal Reserve, I occasionally observed that monetary policy is 98 percent talk and only two percent action.



## Car There be Too Much Talk?

- During any given month Federal Reserve Bank Presidents and Governors give about 3 speeches and interviews on average.
- In these speeches they will typically opine on inflation and unemployment.
- Should the Fed be speaking so frequently with so many different voices?



## 5. AI and Inflation

### Kevin Warsh:

First, the Fed should discard its forecast of stagflation in the next couple of years, as if subpar growth and inflation 40% above target is the best that can be done. AI will be a significant disinflationary force, increasing productivity and bolstering American competitiveness.

**Main stream model would predict the same thing if the productivity growth is significant.**

1. **Greater competitiveness is like a beneficial price shock.**
2. **Productivity growth translates into more rapidly growing aggregate supply.**



## Estimates of AI's Effect on Productivity Growth

### Increase over 10 years:

- **Darren Acemoglu (2024) 0.1 p.p.**
- **Penn Wharton Budget Model (9/2025): 0.2 p.p.**
- **Goldman Sachs (2023) 1.5 p.p.**
- **Anthropic (11/2025): 1.8 p.p.**



# So, Will Monetary Policy Be Different

Maybe, remember there are 12 voting members of the FOMC and President Trump only appointed 3 Governors.

Kevin Warsh,

“We should have a big, robust deliberation inside the FOMC,” Warsh said during questioning from Sen. Cynthia Lummis. “I tend to favor messier meetings than some, where people don’t show up with rehearsed scripts, but we can have a good family fight.” “If the central bank has that good family fight, I think they’re going to make better decisions,” Warsh added. “And if they happen to make mistakes, they’ll correct them sooner.”

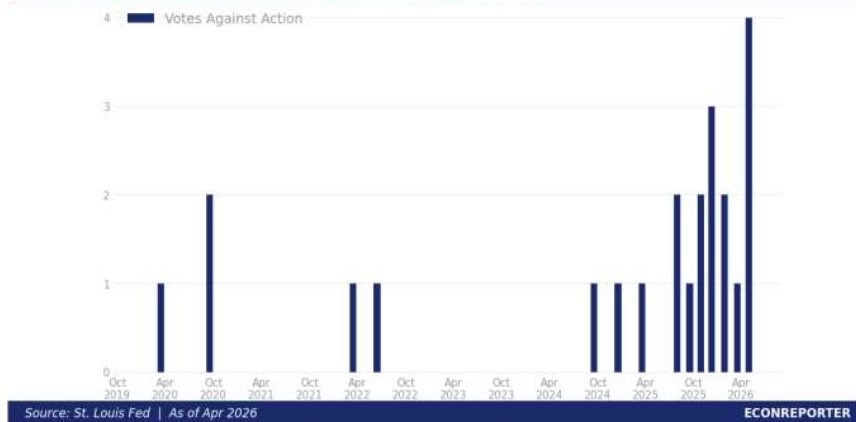


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<https://finance.yahoo.com/economy/policy/article/kevin-warsh-testifies-he-never-made-a-deal-with-trump-to-lower-interest-rates-as-fed-chair-183701077.html>

# Careful What You Wish For

## FOMC Dissent Votes



I don't know if this is a good sign or bad. What do you think? But I am confident in the prediction that future FOMC Policy Statements and Meeting Minutes will make for more interesting reading, starting June 17<sup>th</sup>



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## My Google Site

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



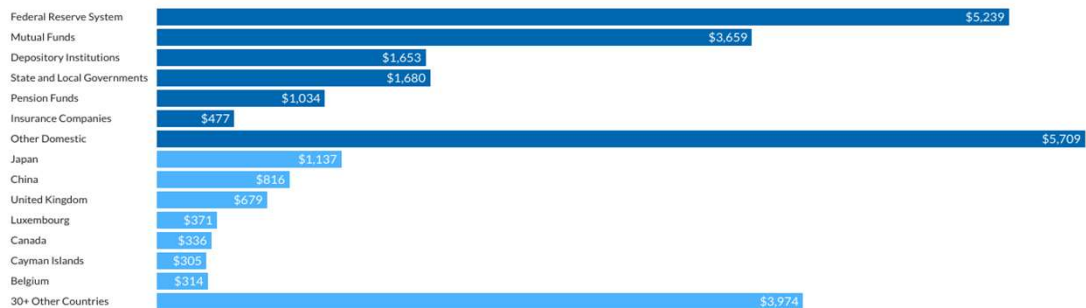
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## Next Week: Ownership of \$27 trillion debt

### Two-thirds of public debt is held by domestic holders

Composition of Debt Held by the Public (Billions of \$)



US Savings Bonds, \$120 billion



Source: U.S. Department of the Treasury

PETER G.  
PETERSON

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**Let's Hear from You!**

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**grwoglom@amherst.edu**

**Contact NEED: [Info@NEEDEcon.org](mailto:Info@NEEDEcon.org)**

**Support NEED: [www.NEEDecon.org/donate.php](http://www.NEEDecon.org/donate.php)**



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