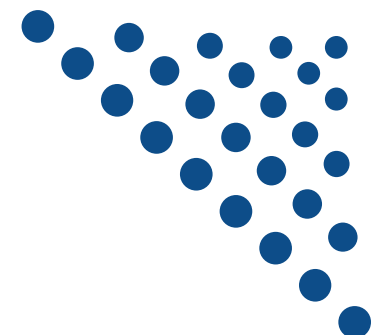


Osher Lifelong Learning Institute, Fall 2024

Contemporary Economic Policy

University of Wisconsin Milwaukee

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.

Who Are We?

- **Honorary Board: 54 members**

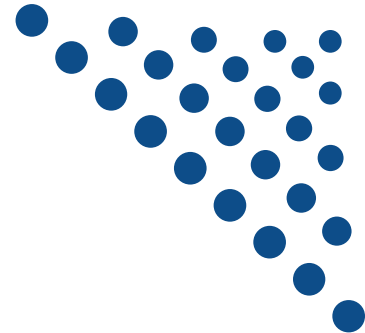
- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - Akerlof, Smith, Maskin

- **Delegates: 652+ members**

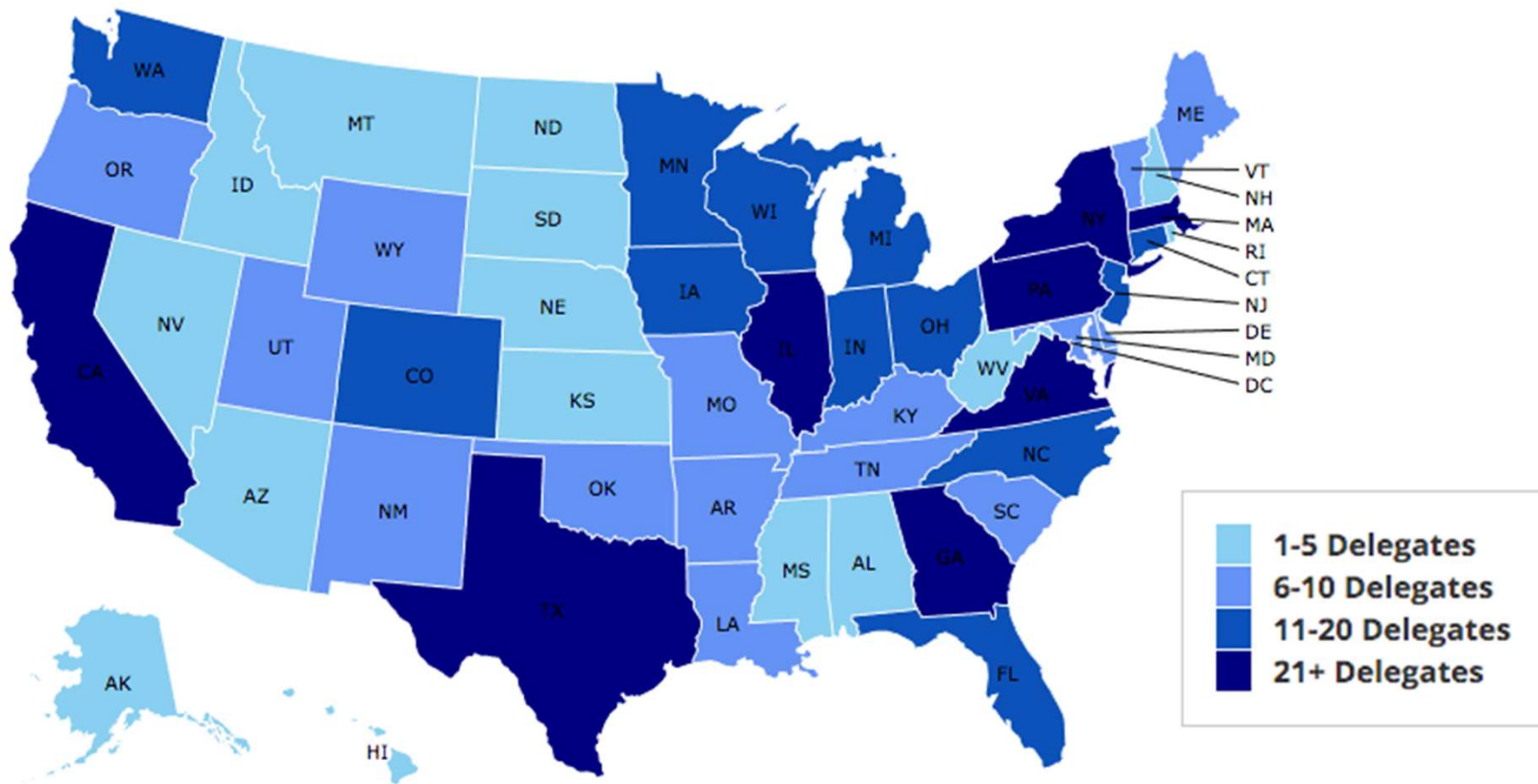
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 48 Ph.D. Economists**

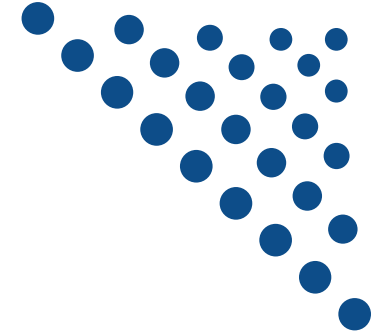
- Aid in slide deck development



Where Are We?

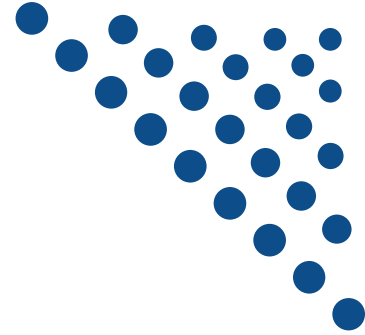


Available NEED Topics Include:



- 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 (9/19): Economic Update (Geoffrey Woglom, Amherst College)**
- Week 2 (9/26): Economic Mobility (Kathryn Wilson, Kent State University)
- Week 3 (10/10): Trade and Globalization (Avik Chakrabarti, UWisconsin Milwaukee)
- Week 4 (10/17): Trade Deficits and Exchange Rates (Alan Deardorff UMichigan)

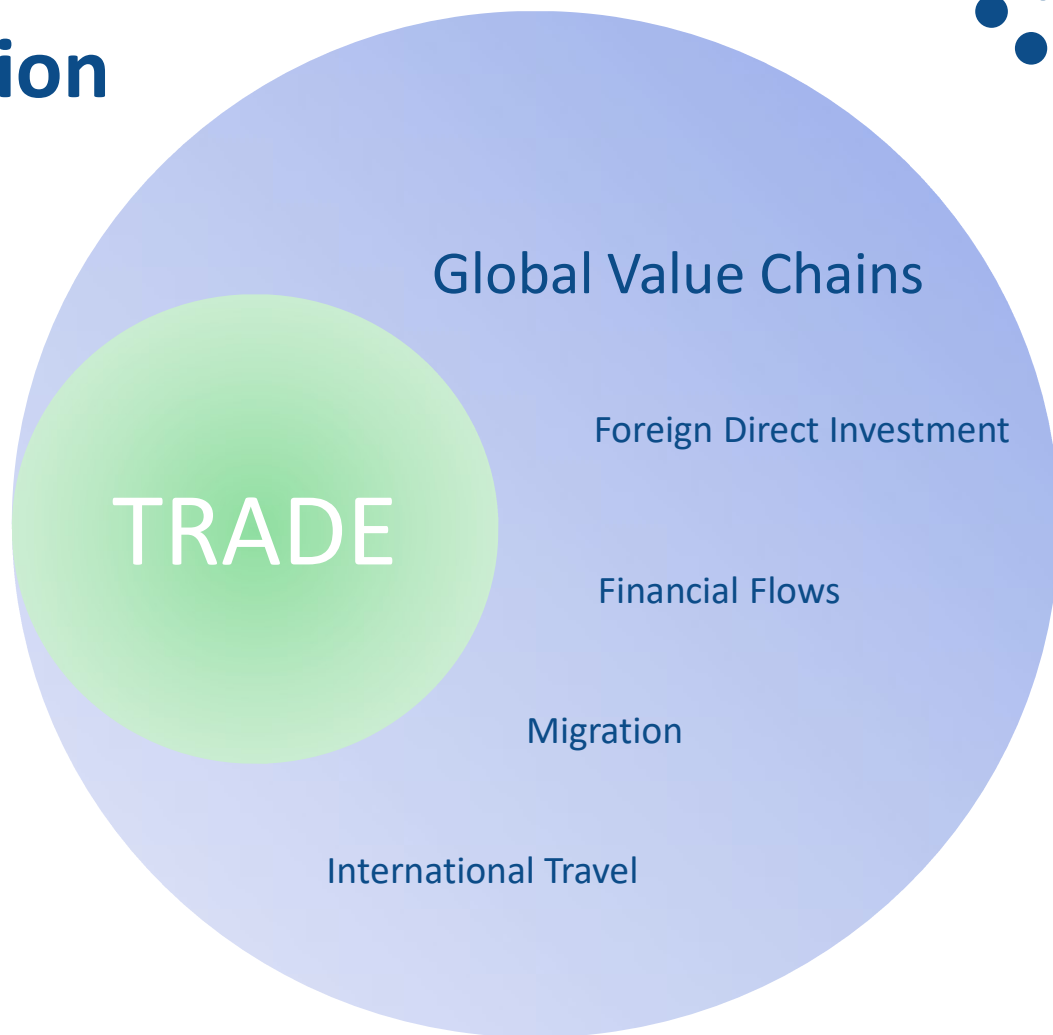
I. What do we mean by economic mobility?

Absolute and Relative Mobility

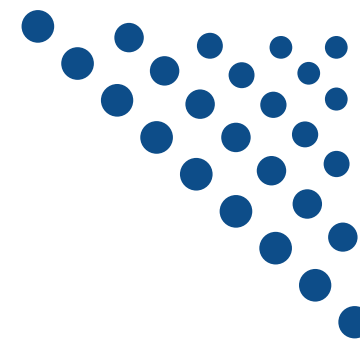
- **Absolute mobility:** the difference in income from one's parent.
 - You're higher on the escalator than your parents were at that same age.
 - It is possible for *everyone* to experience upward absolute mobility, especially if the escalator is going up.
- **Relative mobility:** the change in income rank from one's parent.
 - You have fewer people above you on the escalator than your parents did.
 - Increased relative mobility requires both upward and downward movement.



What is Globalization

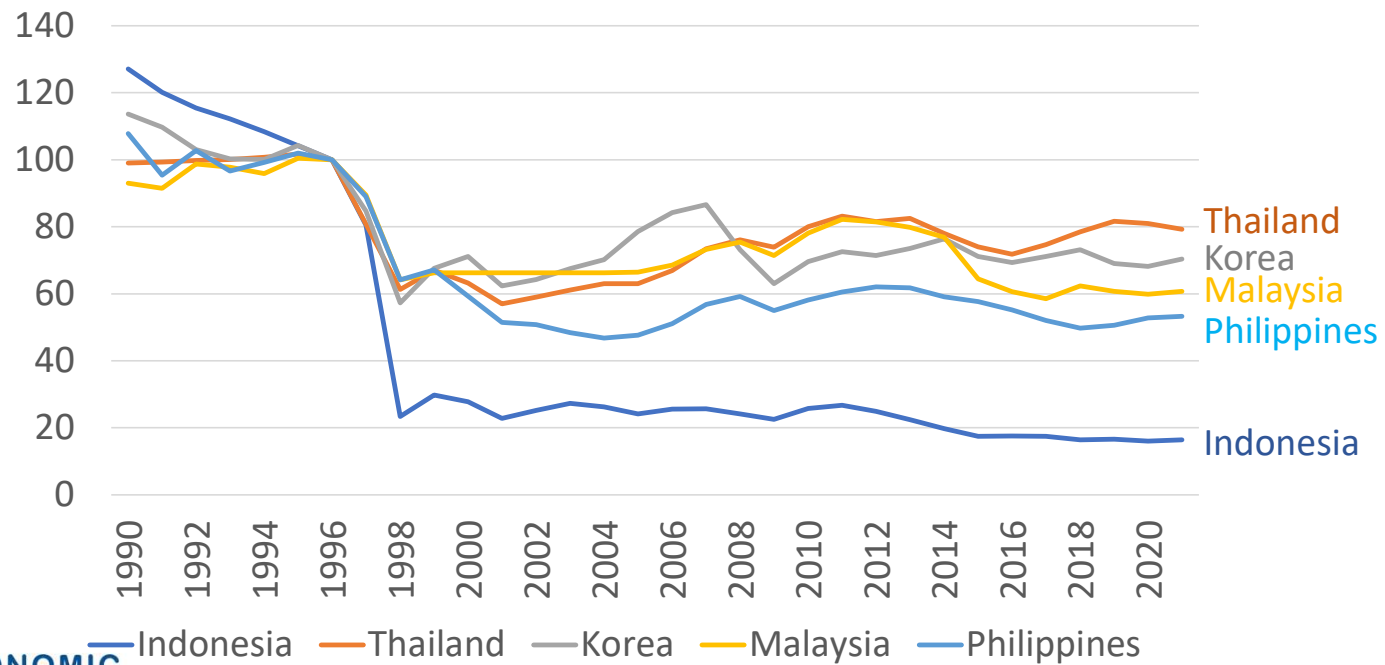


The Asian Crisis of 1997

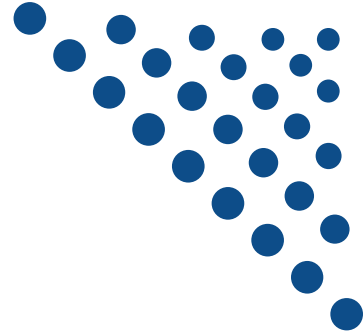


Asian Crisis 1997 Countries

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



Credits and Disclaimer



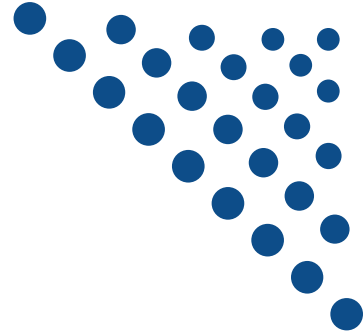
- **This slide deck was authored by:**

- Jon D. Haveman, NEED
- Scott Baier, Clemson University
- Geoffrey Woglom, Amherst College (Emeritus)
- Brian Dombeck, Lewis & Clark College
- Doris Geide-Stevenson, Weber State

- **Disclaimer**

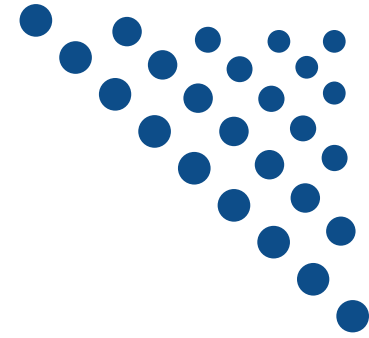
- NEED presentations are designed to be nonpartisan.
- It is, however, inevitable that the presenter will be asked for and will provide their own views.
- Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).

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>**



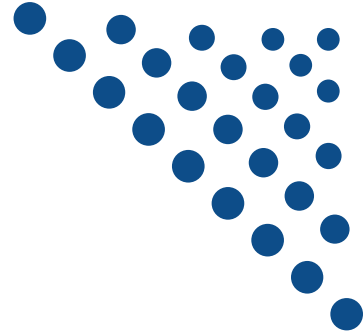


US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
September 19
2024



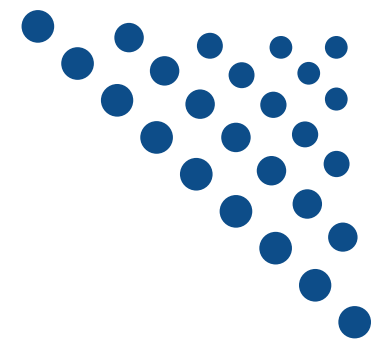
Outline for the Talk



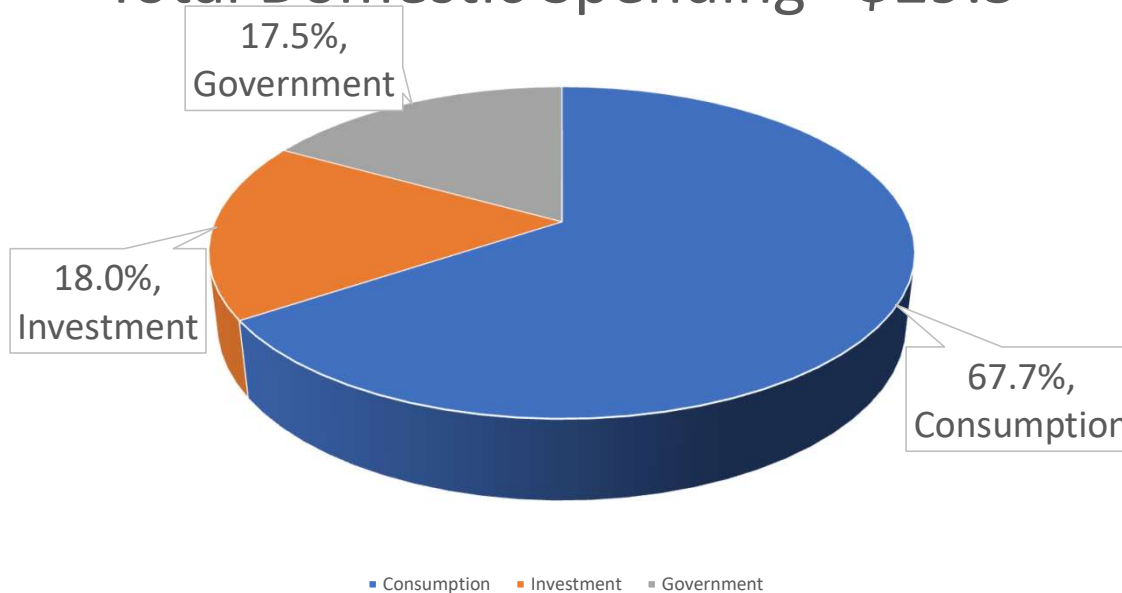
1. Summary of the state of the macroeconomy.
2. The Effect of M&F policies on the recovery.
3. Describe an unprecedented monetary policy achievement that may be unfolding.
4. Major challenges and uncertainties going forward



Gross Domestic Product: 2024Q2 = \$28.7 tr

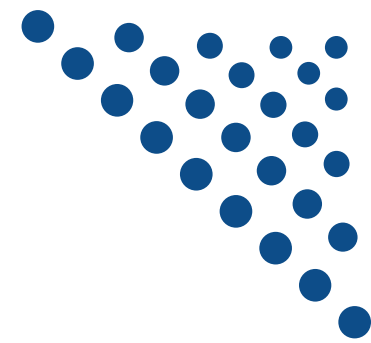


Total Domestic Spending = \$29.5



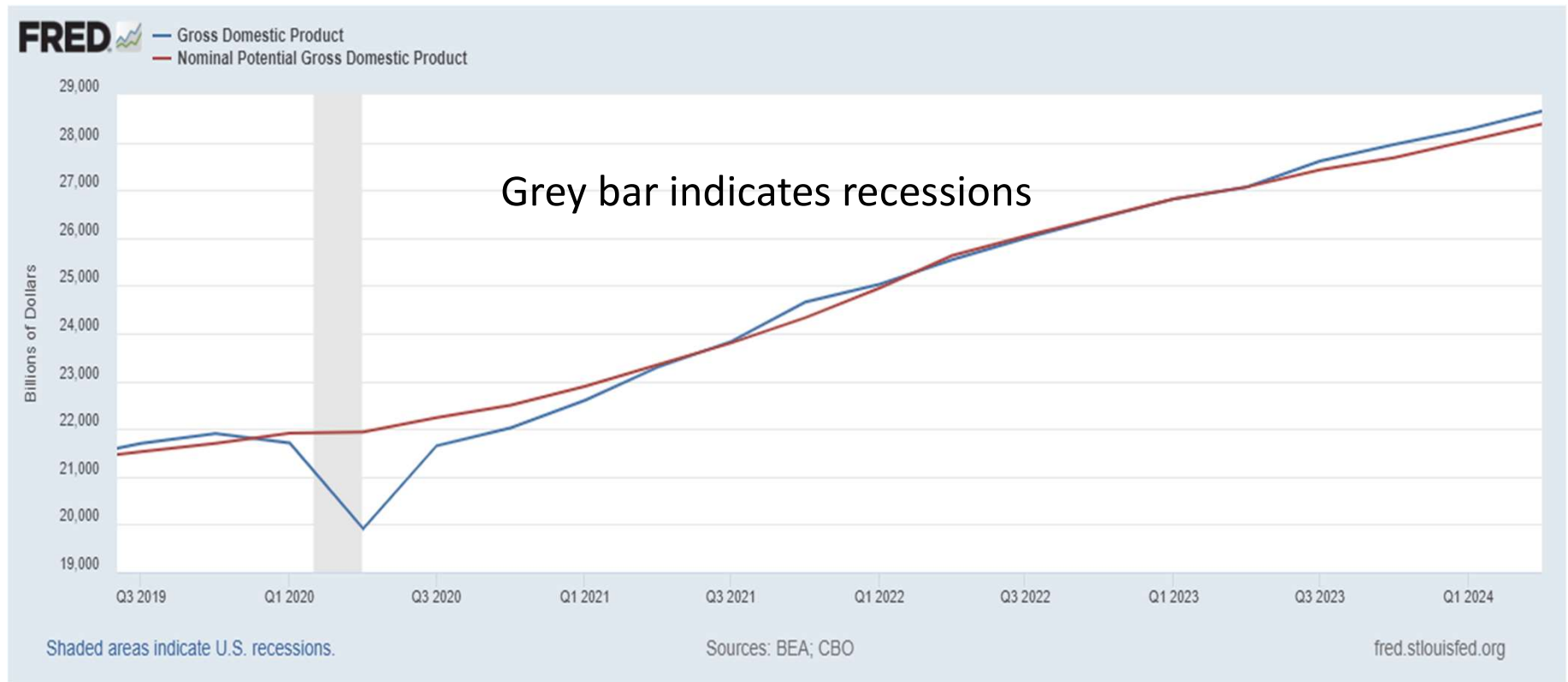
\$29.5
Less Imports
-\$4.0
Plus Exports
+\$3.1
Equals GDP
\$28.6 (close enough)

Different Breakdown

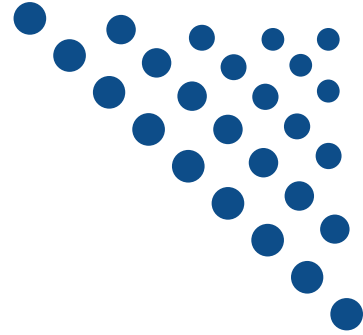


Note: State and Local Government comprises 10% of GDP!

GDP and 'Potential' during the Recovery



What is a Recession?

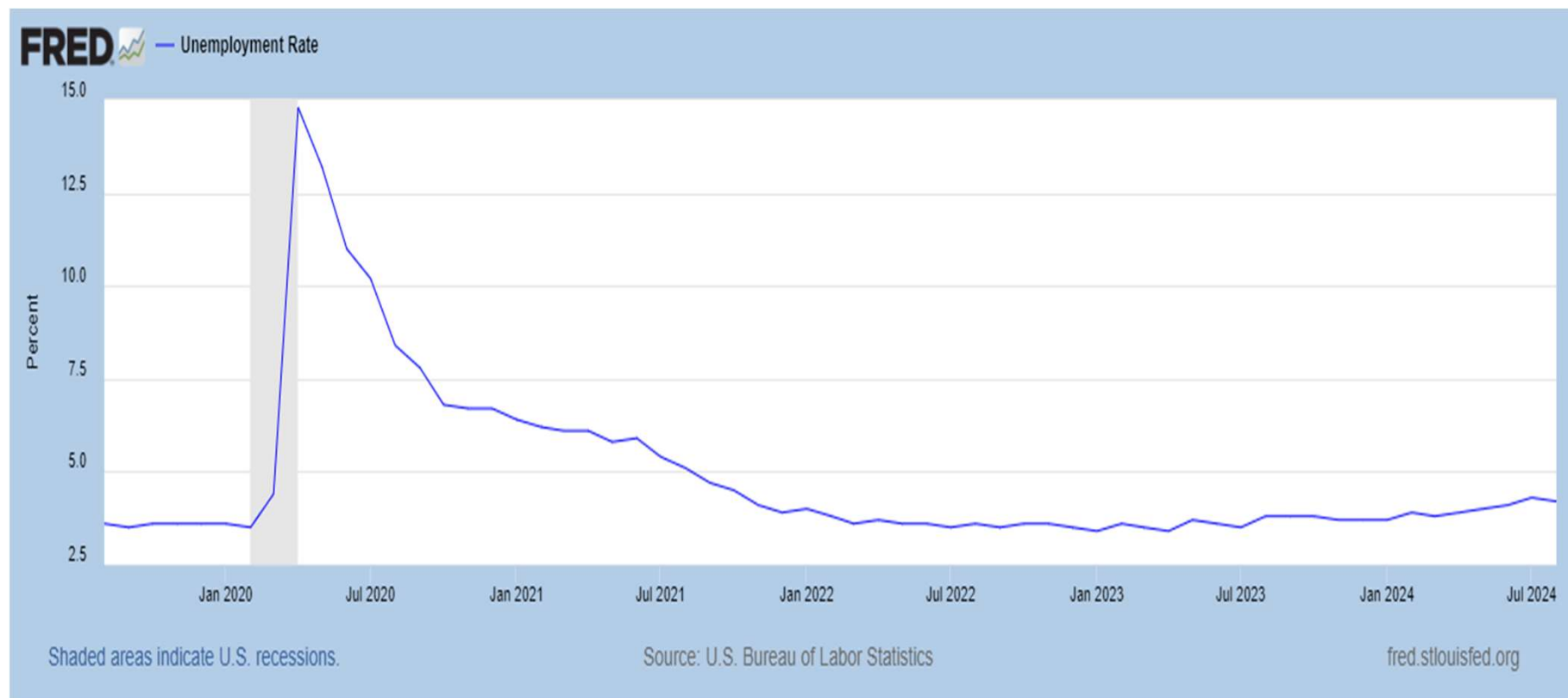


- **Defined by the National Bureau of Economic Research (NBER)**
- **“The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”**
- **Popular Rule of Thumb: Two or more, consecutive quarters where Real GDP falls. (Doesn't always work!)**

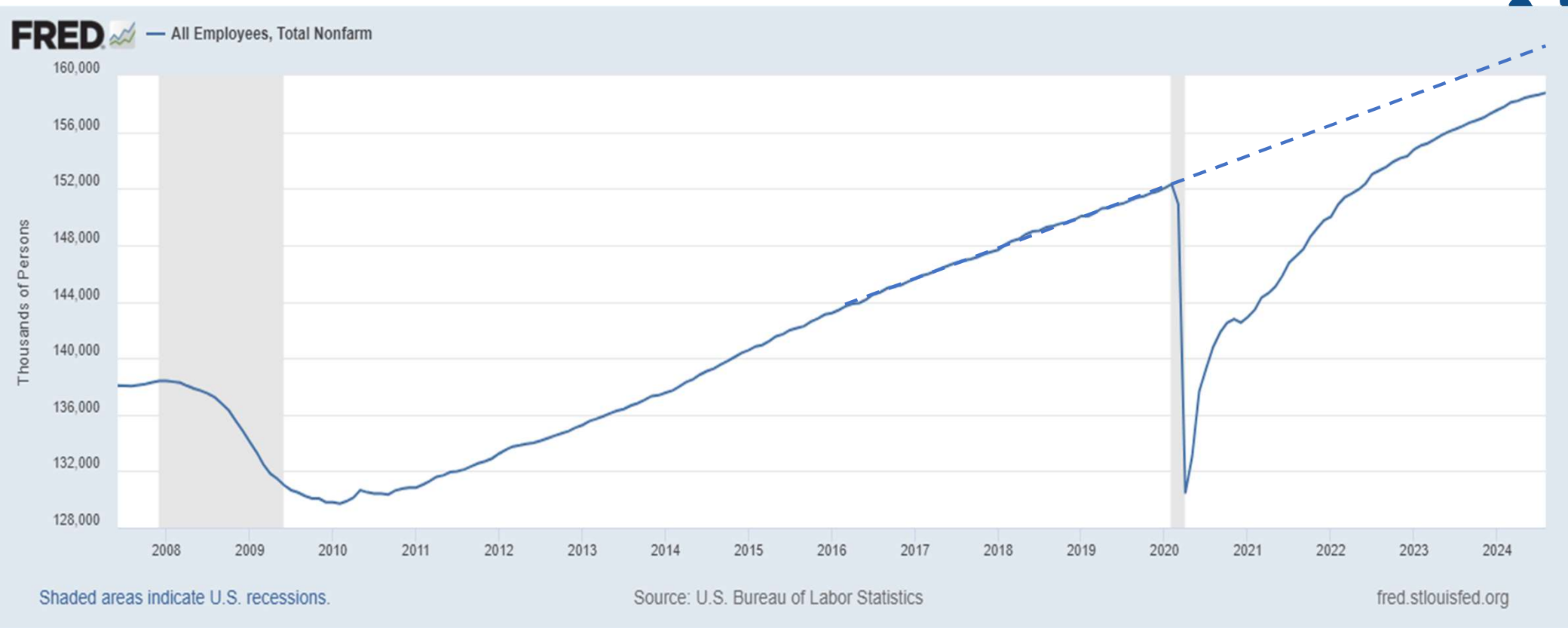
Recessions are caused by a drop in total spending.



Unemployment is Near Record Lows



Where Have All the Workers Gone?



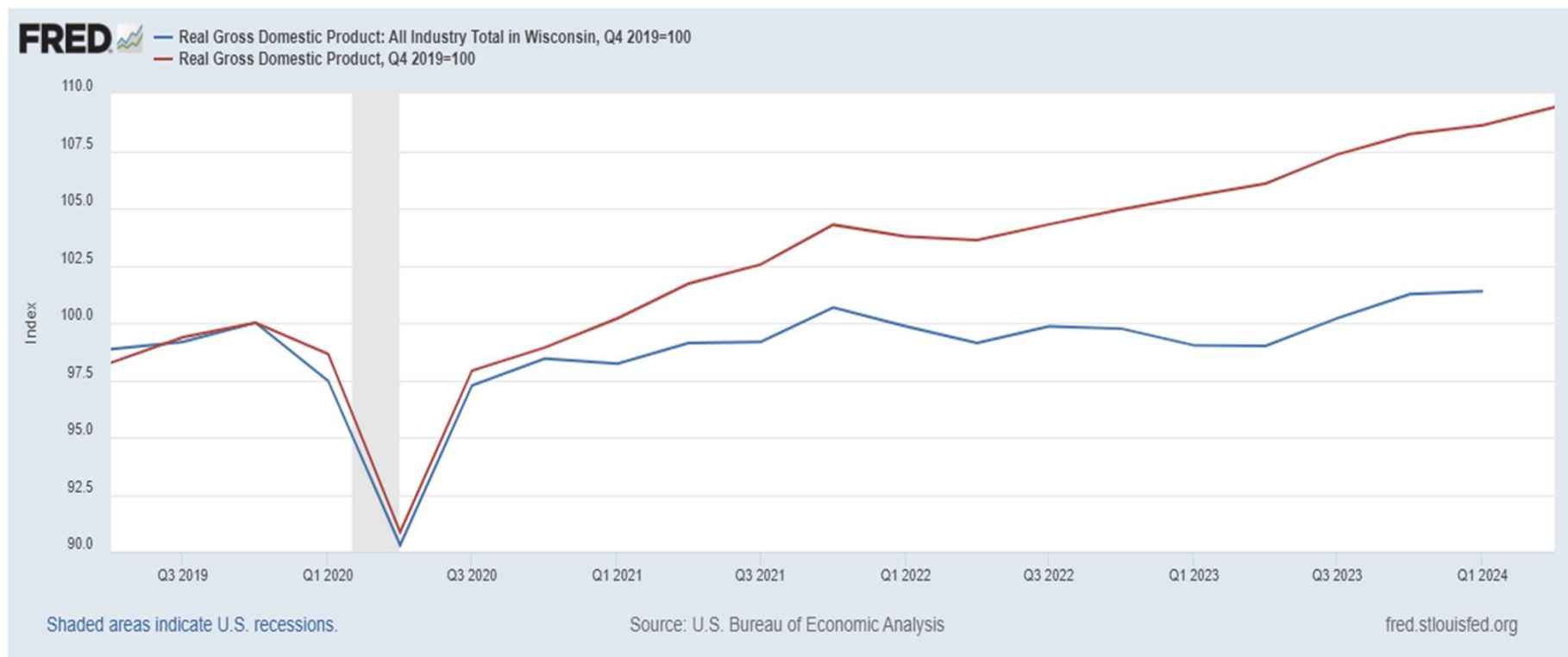
The Aging of the Labor Force



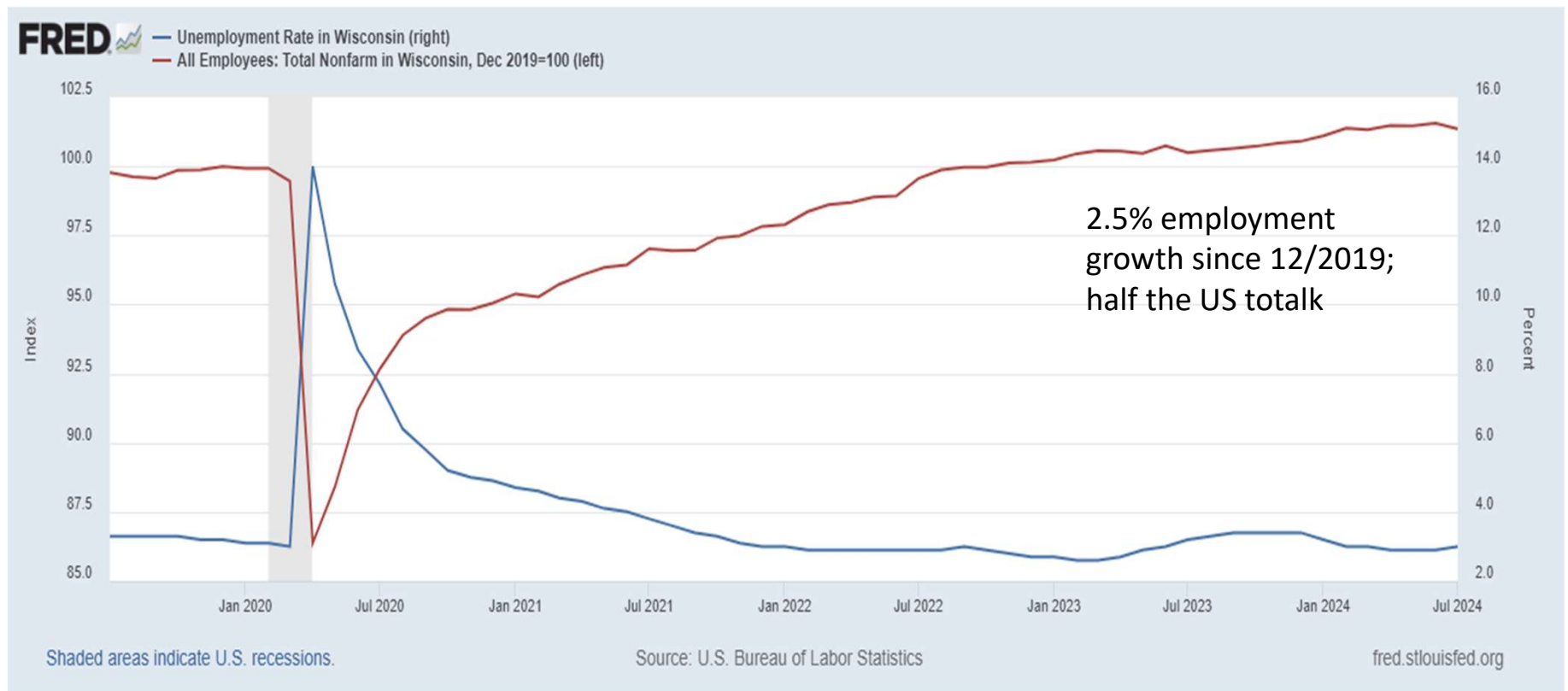
Supplemented by Foreign Workers



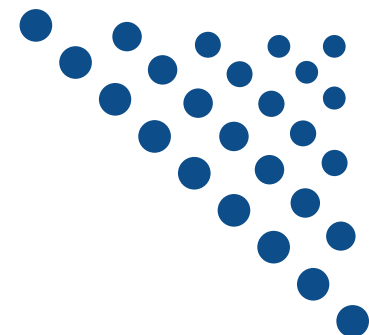
How is Wisconsin Doing?



Labor Market in Wisconsin



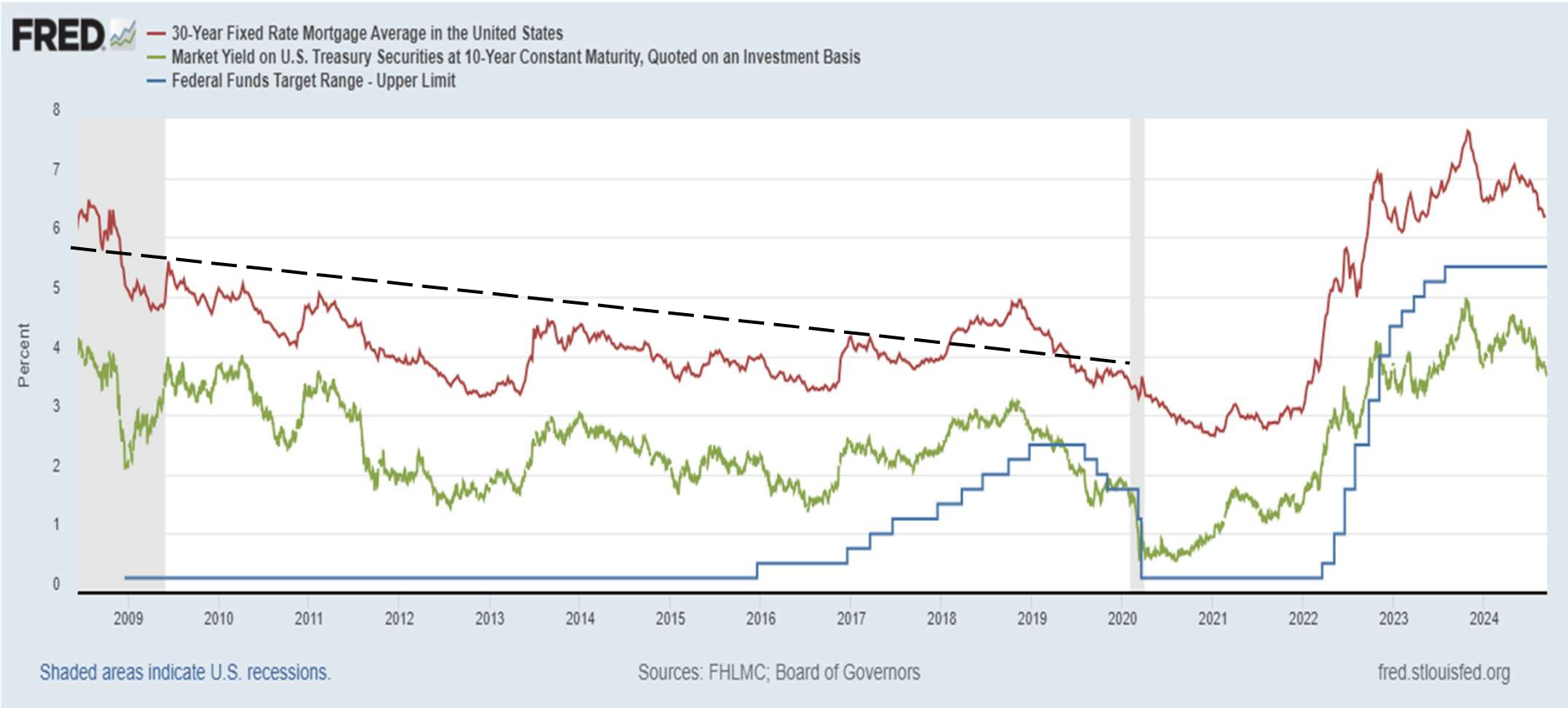
Overall Good News on the Real Side



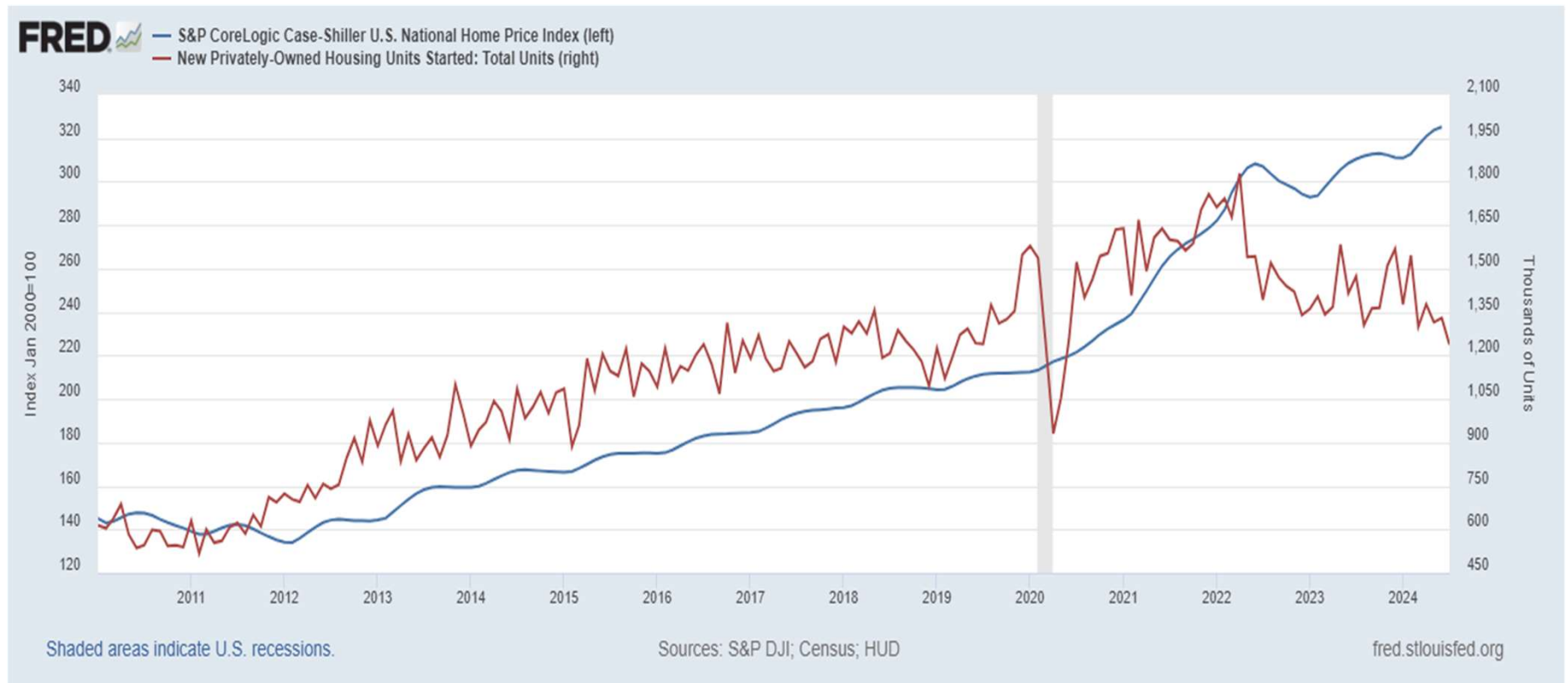
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation

- 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?



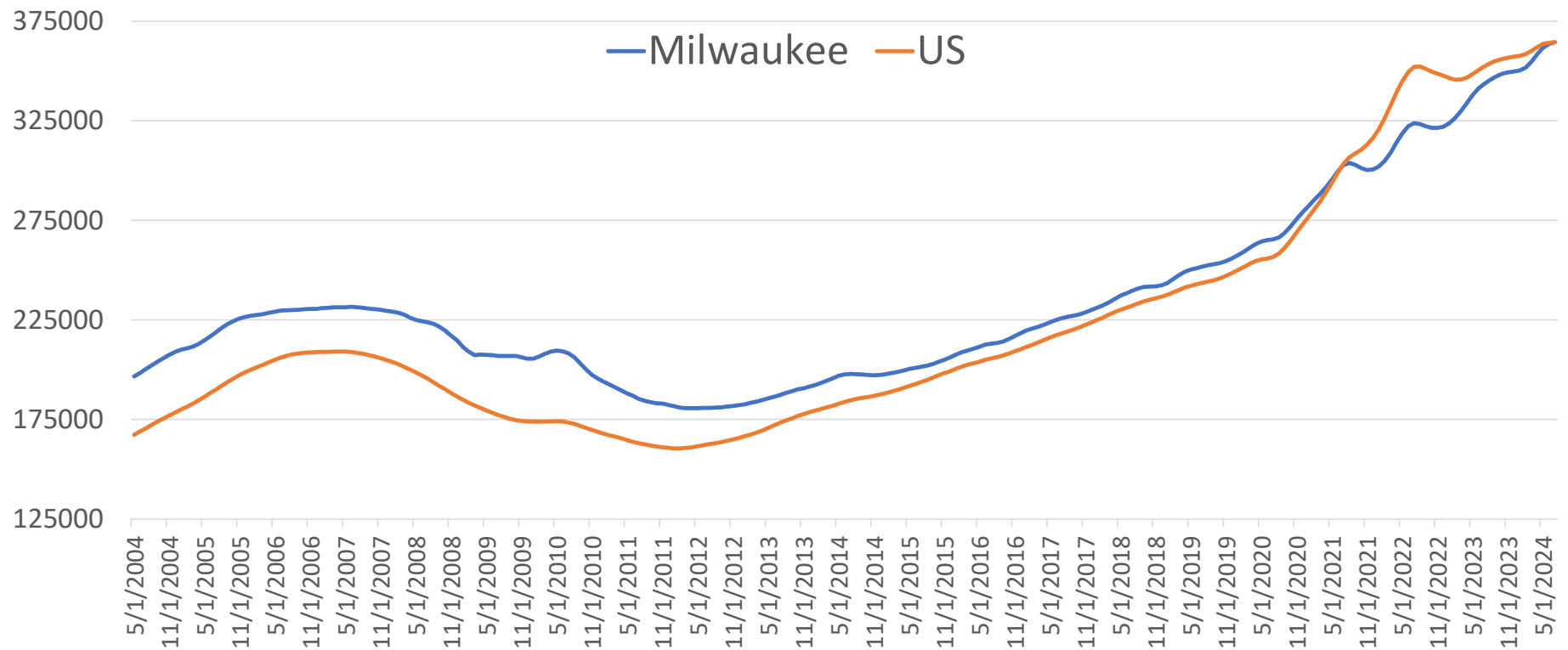
Mortgage Rates are Having an Effect ?



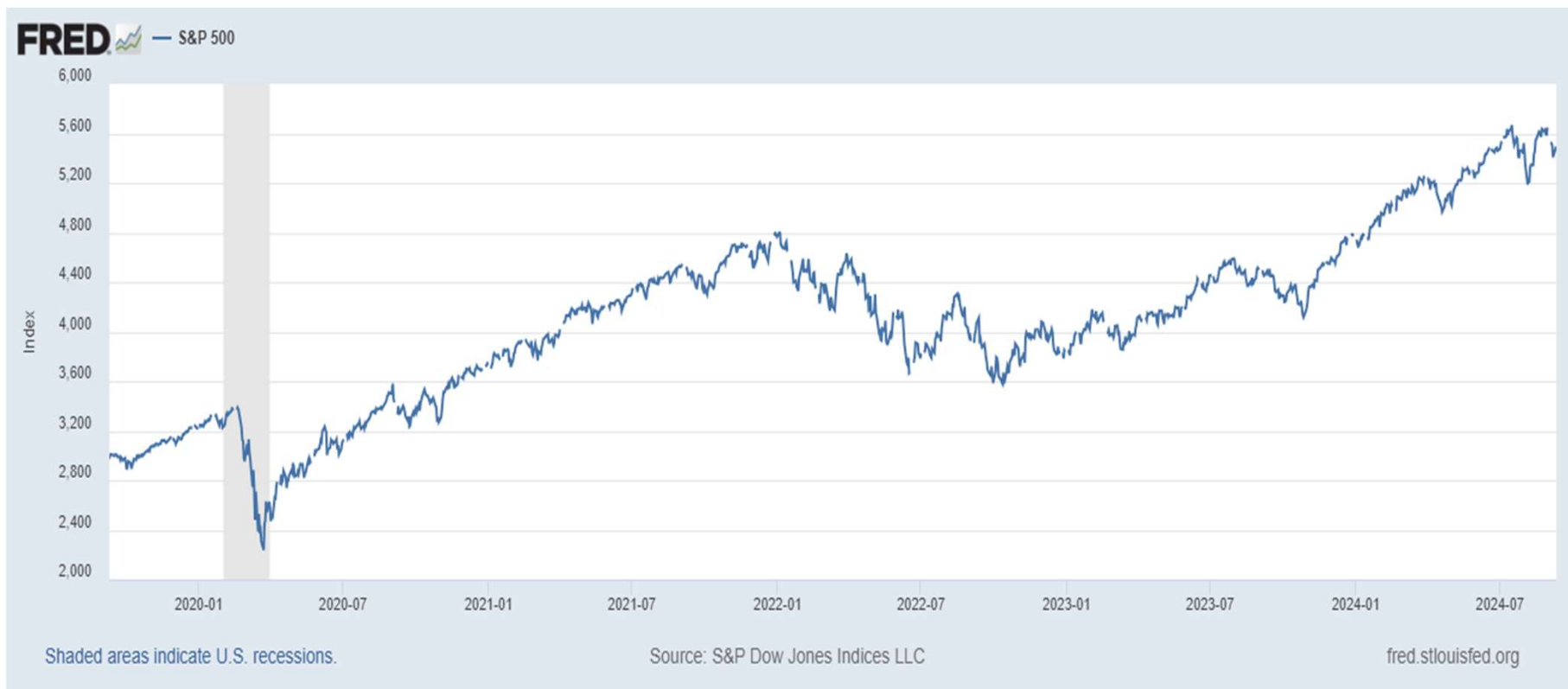
National Housing Market and Closer to Home



Median Single Family Home Prices

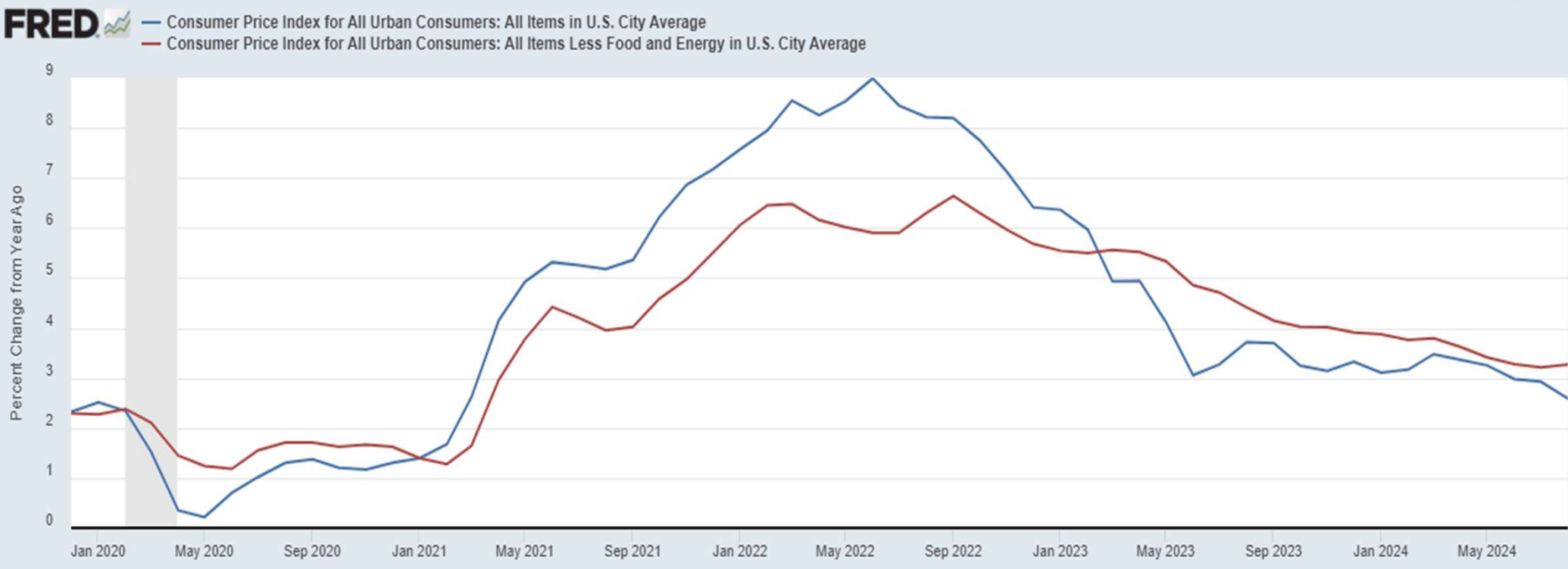


Stock Prices: Fear Giving Way to Greed?





Inflation during the Recovery (CPI)

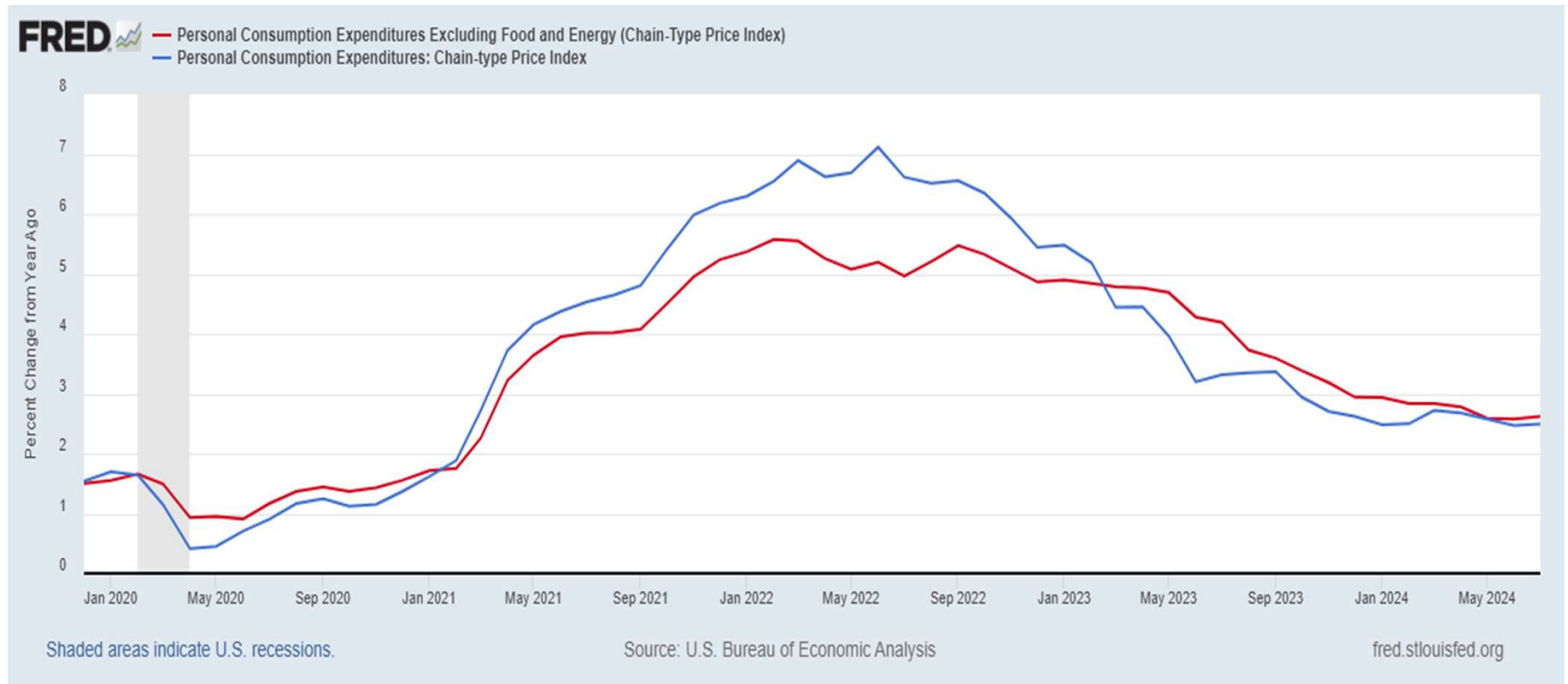


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

Fec's Measure (PCE)



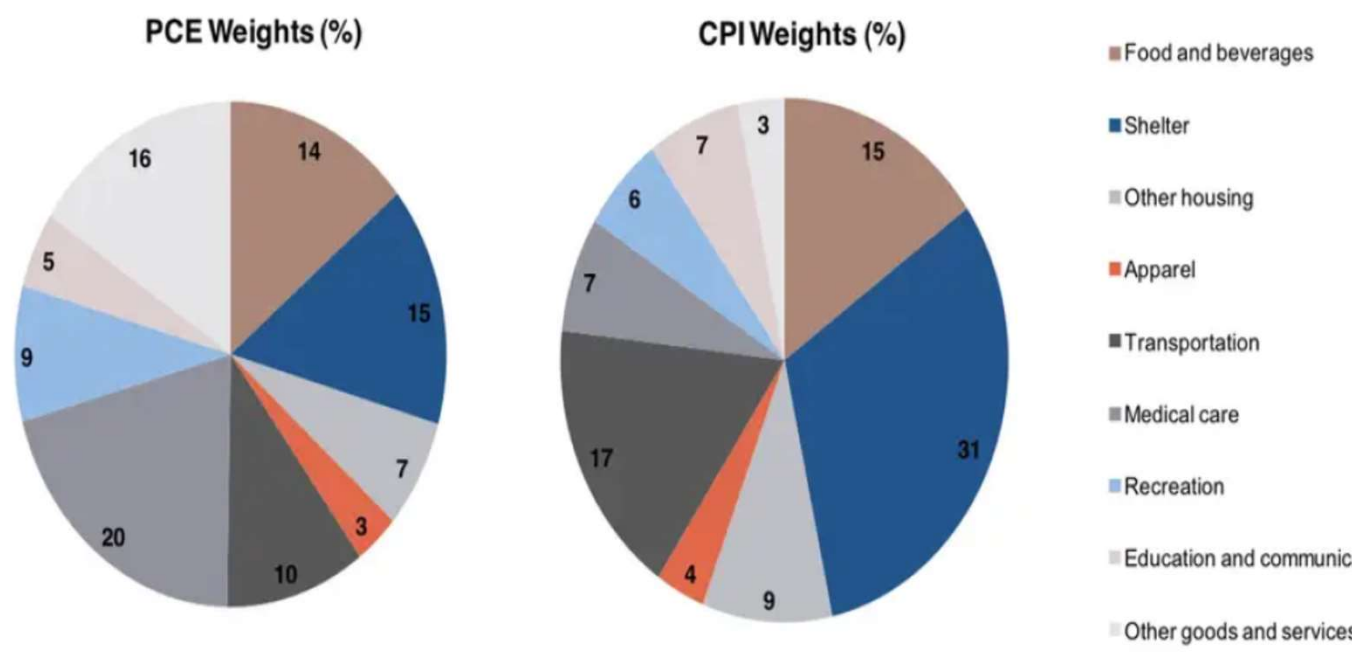


CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

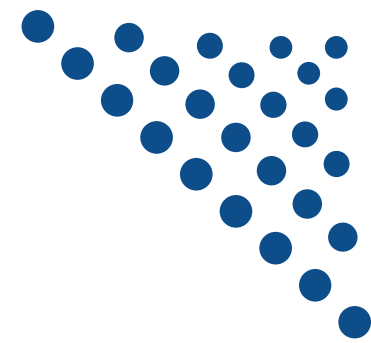
Jul:
CPI, 2.9%
PCE, 2.5%
Core CPI, 3.3%
Core PCE, 2.6%.

Chart 18: PCE vs CPI – weight comparisons



Source: Haver Analytics, SG Cross Asset Research/Economics

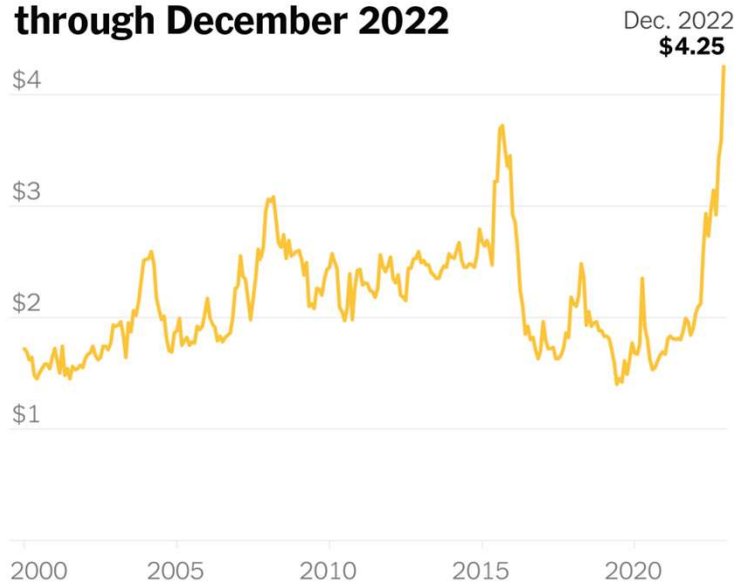
Uses of Inflation Measures



Two Reasons for Measuring Recent Inflation:

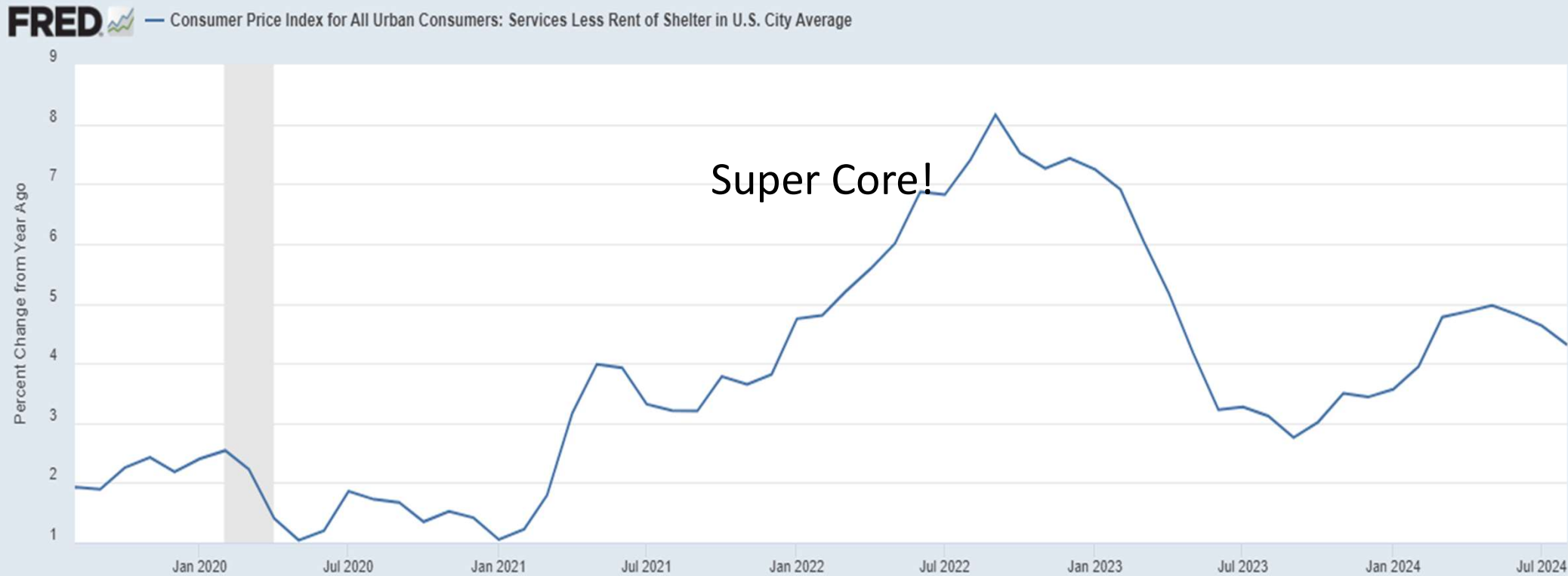
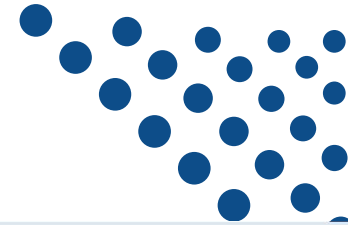
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?

Monthly price for a dozen eggs through December 2022



Prices are adjusted for inflation in Dec. 2022 dollars.
Source: Bureau of Labor Statistics

Measuring “Underlying” Inflation

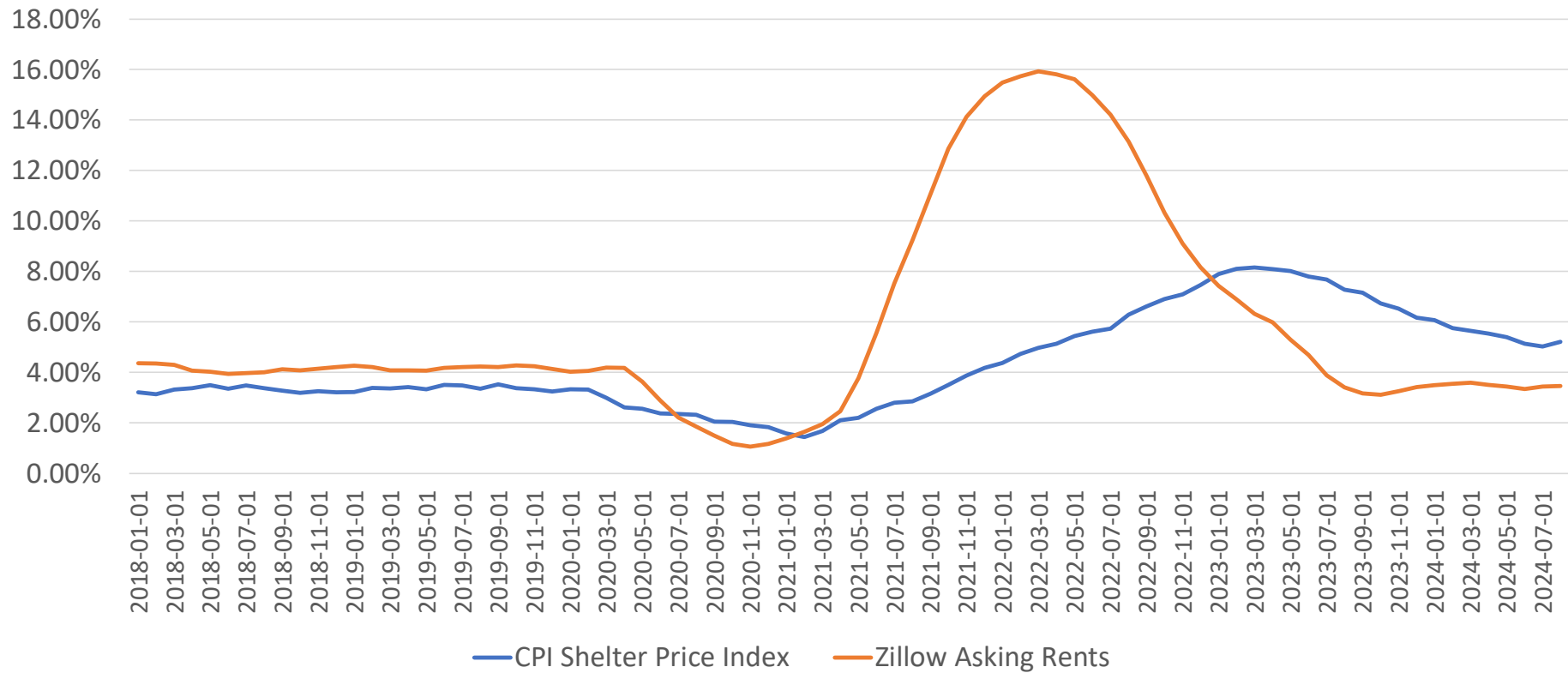
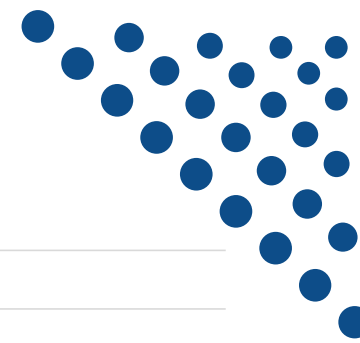


Shaded areas indicate U.S. recessions.

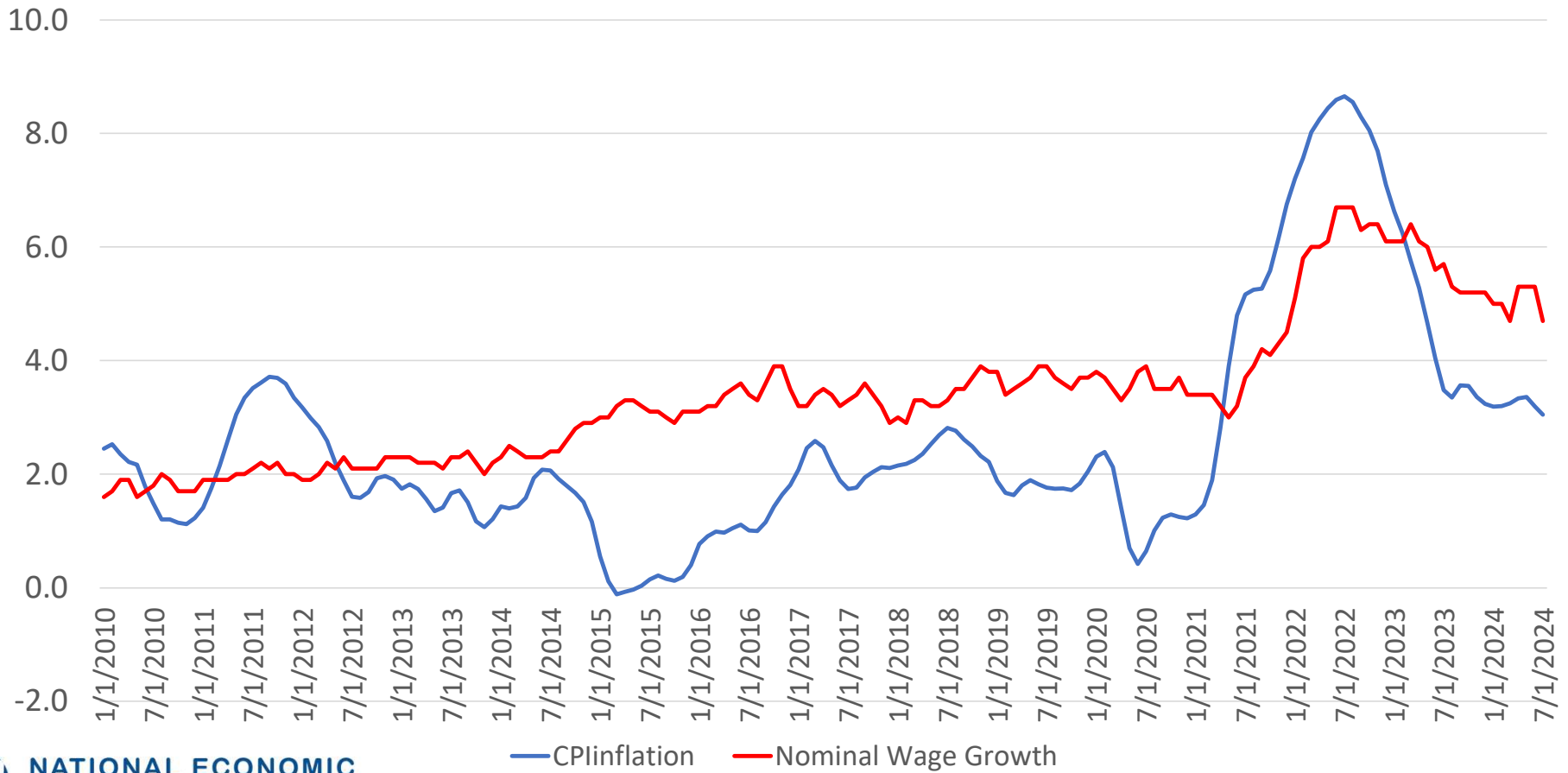
Source: U.S. Bureau of Labor Statistics

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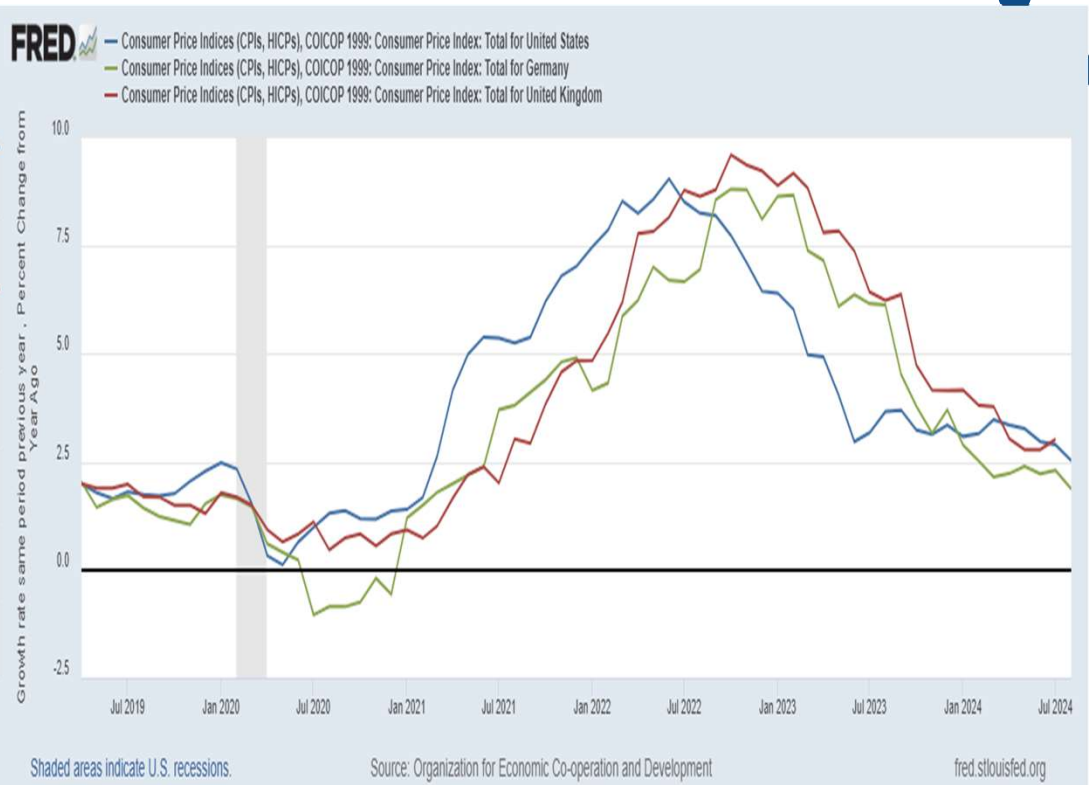
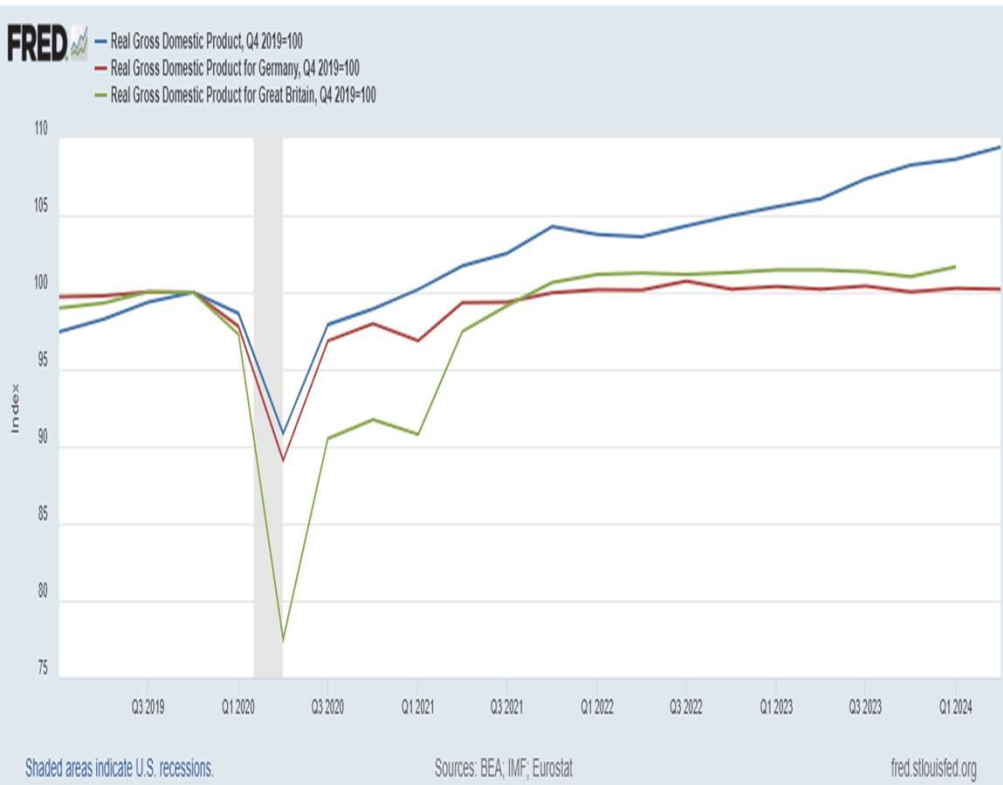
The Importance & Problems with Rents



Wages Haven't Kept Pace with Inflation, Yet



International Comparisons

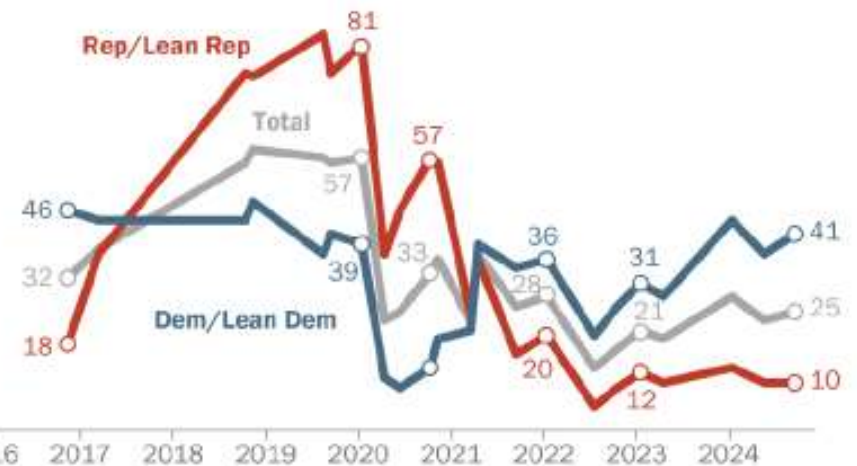


The “Nominal” Side

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

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

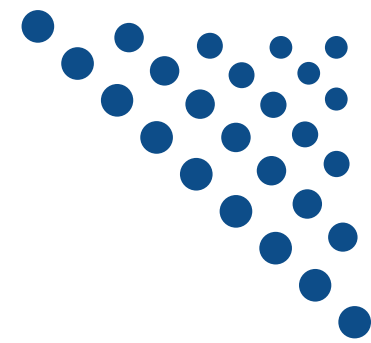


Source: Survey of U.S. adults conducted Aug. 26-Sept. 2, 2024.

PEW RESEARCH CENTER



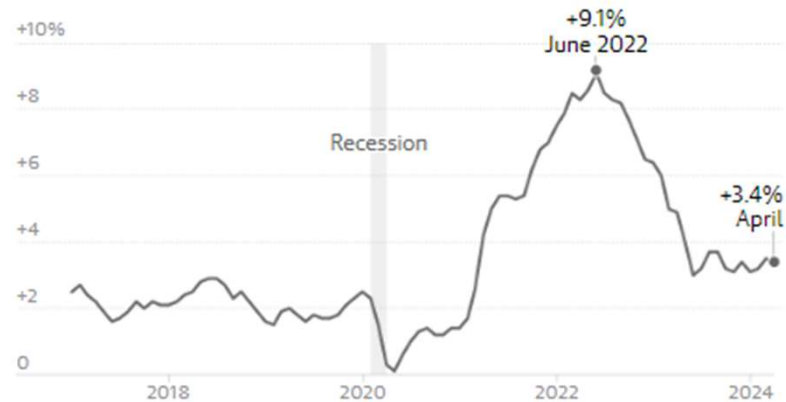
Why I Give These Talks



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

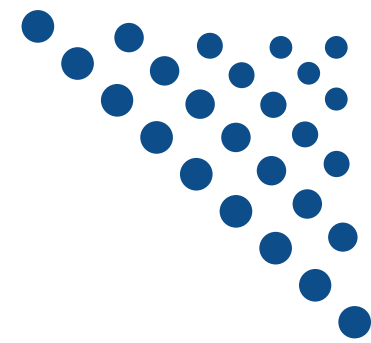


After peaking in spring 2022, inflation has settled between 3% and 4% in the past year.

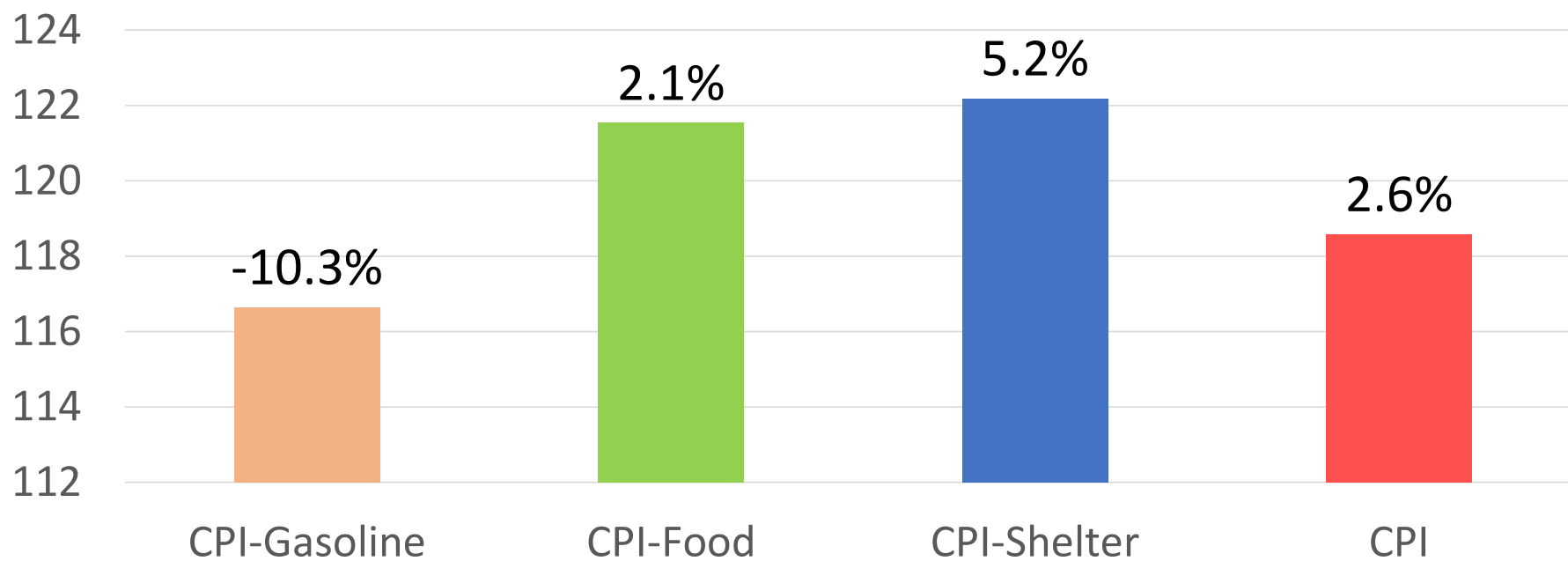


Guardian graphic. Sources: The Harris Poll, Bureau of Labor Statistics 12-month change in the Consumer Price Index. Note: Survey of 2,119 US adults from 10 to 12 of May 2024.

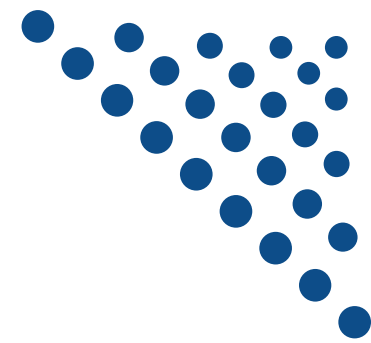
High Prices versus Inflation



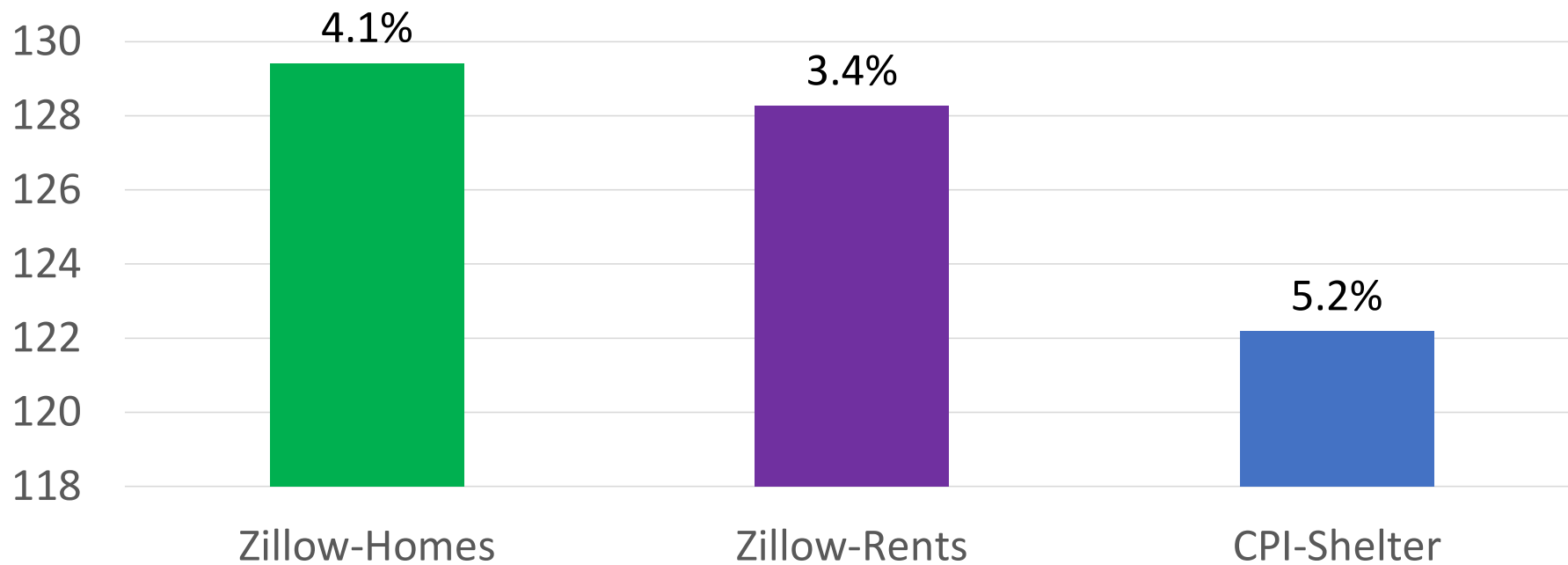
Bar: Price Level Relative to 3/21
Data Label: Last 12 month growth



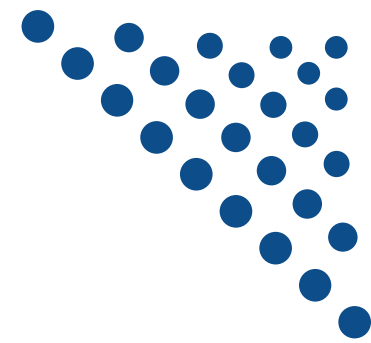
Housing Prices Vs Inflation



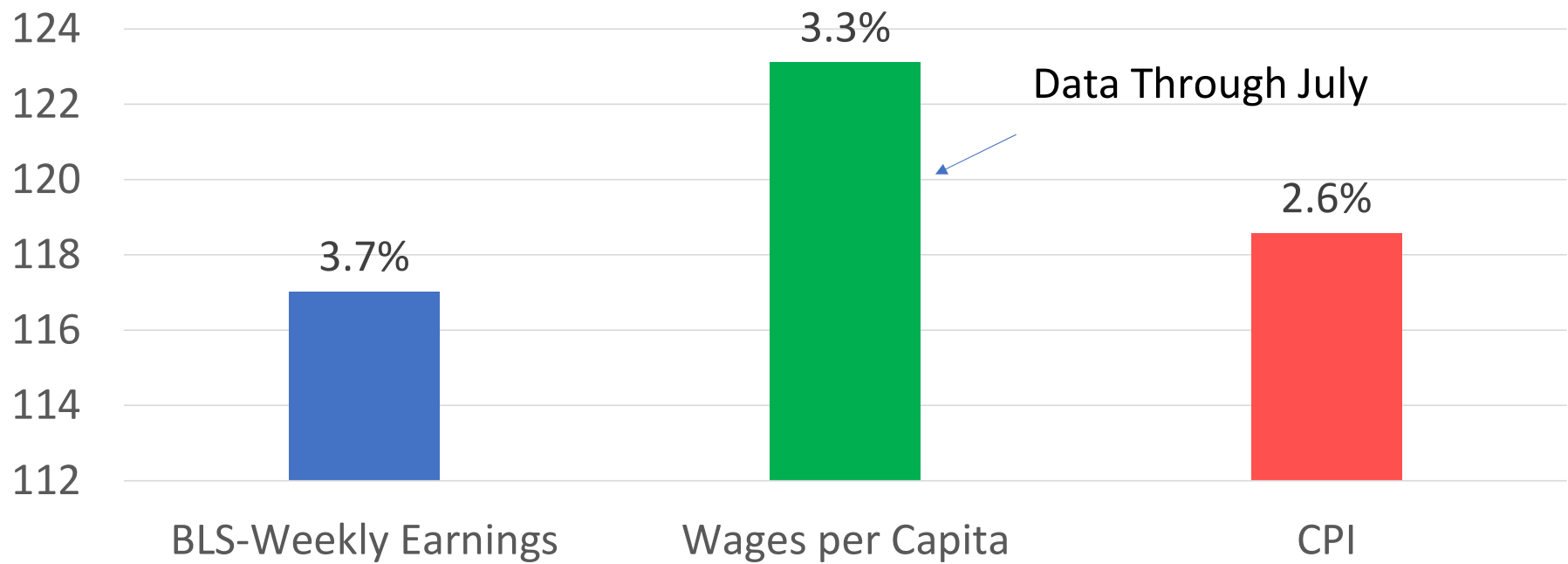
Bar: Price Level Relative to 3/21
Data Label: Last 12 month growth



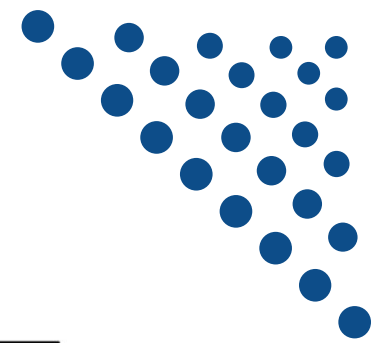
Wages vs Prices and Inflation



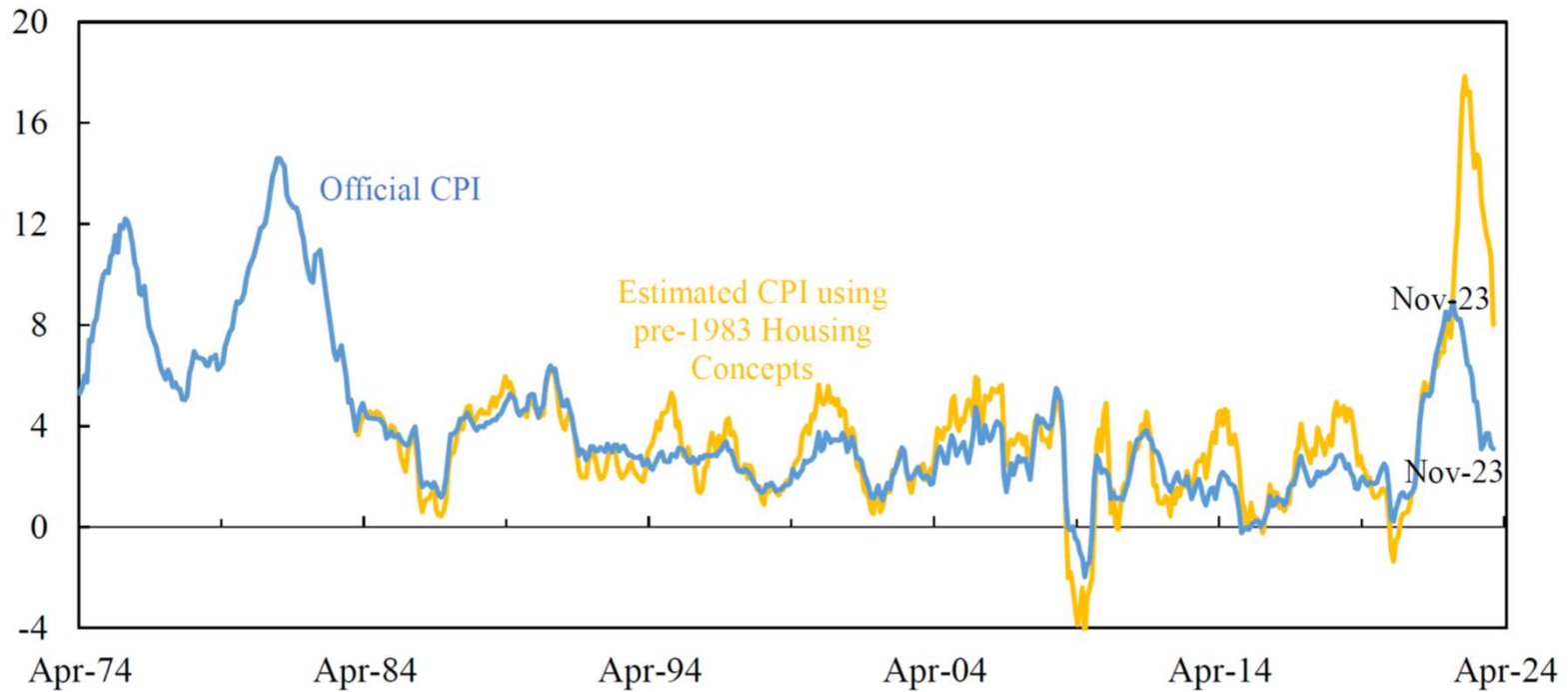
Bar: Wage Level Relative to 3/21
Data Label: Last 12 month growth



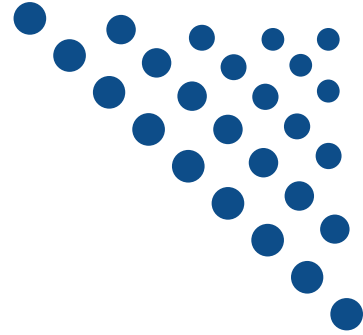
Housing Again!



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)**

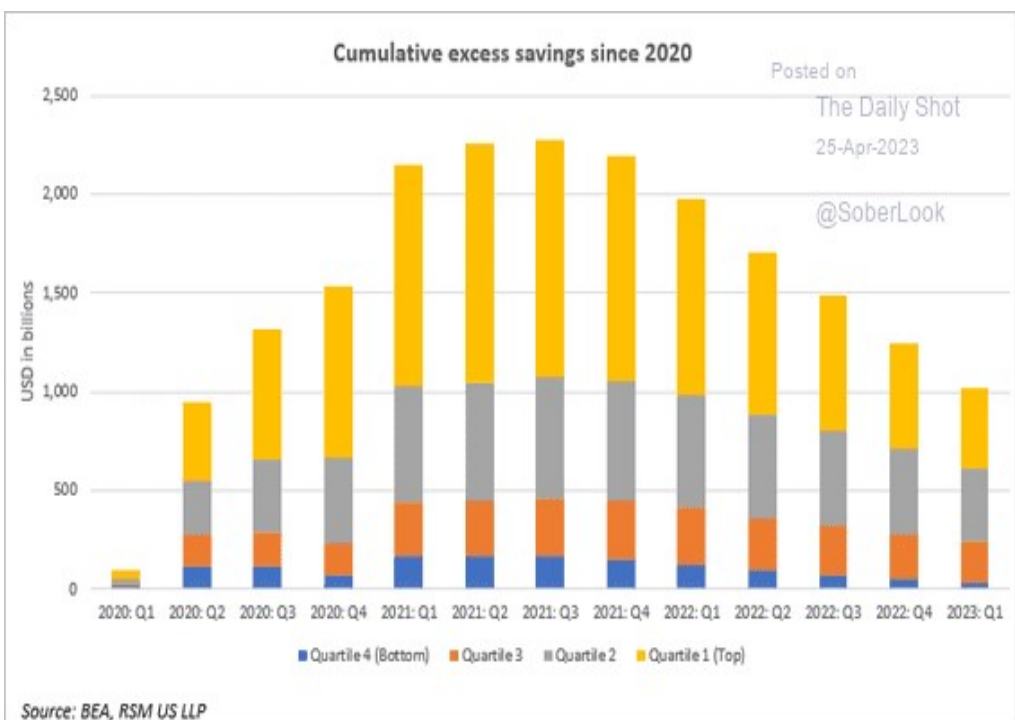
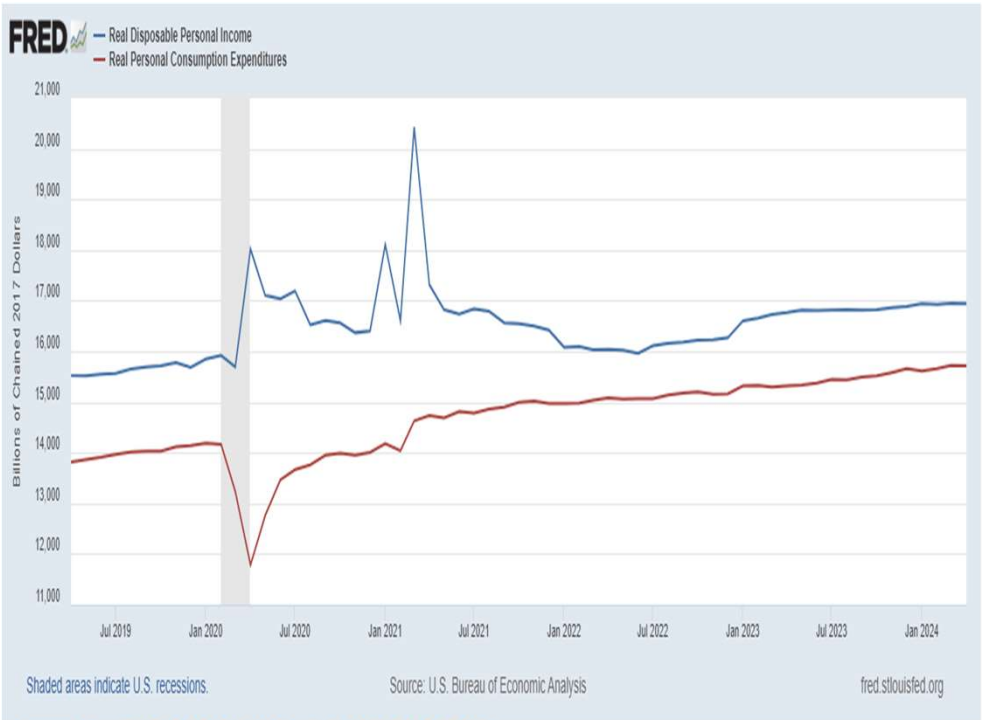
Except in deep recessions, the Fed has primary responsibility for stabilization policies.

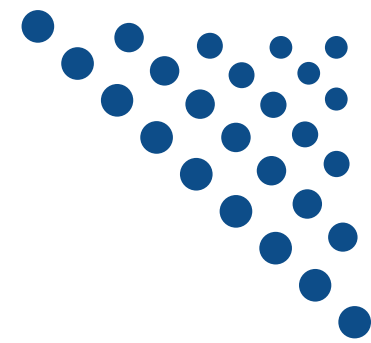




Policy Effects: Fiscal

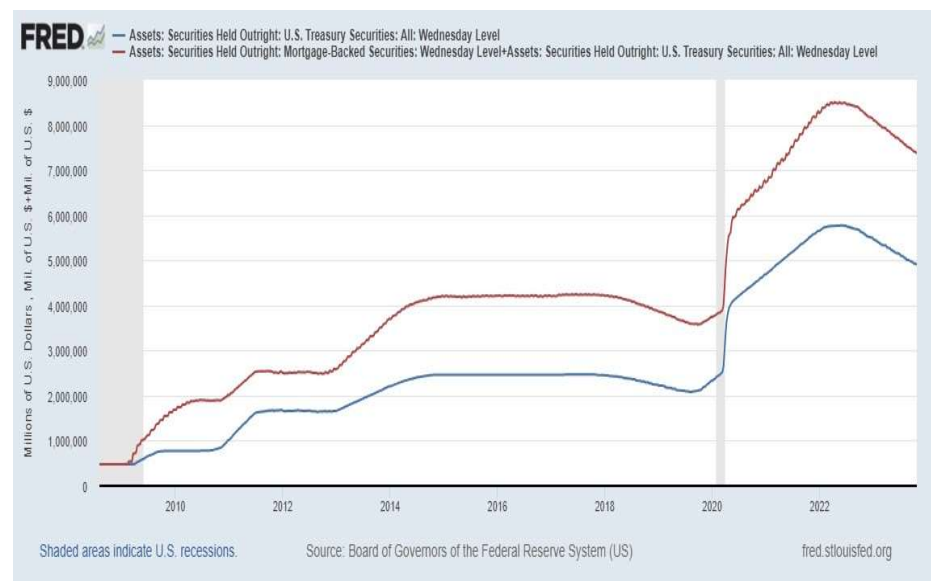
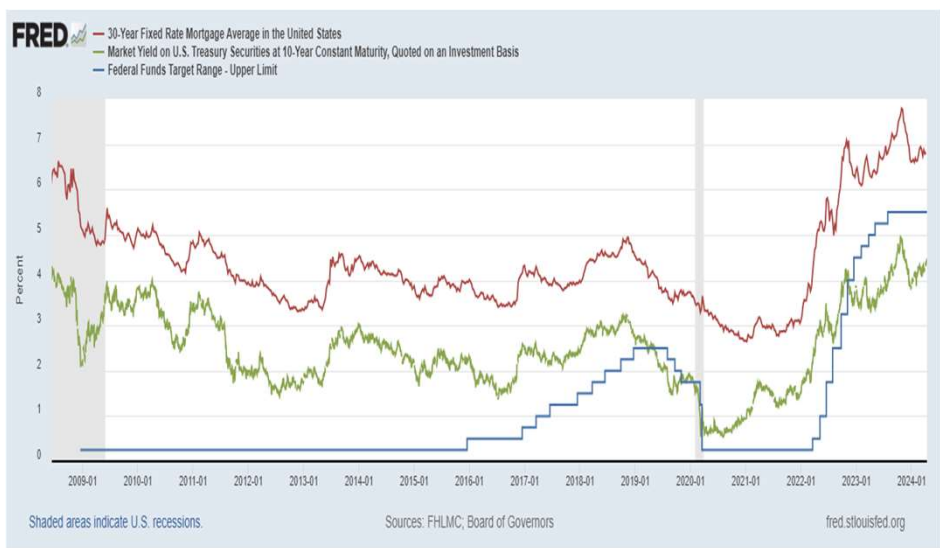
- **2020-2021: massive stimulus, \$4.6t: Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.**



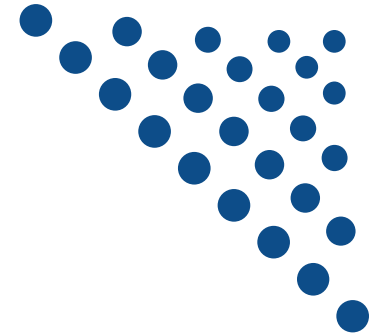


Policy Effects: Monetary

- 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

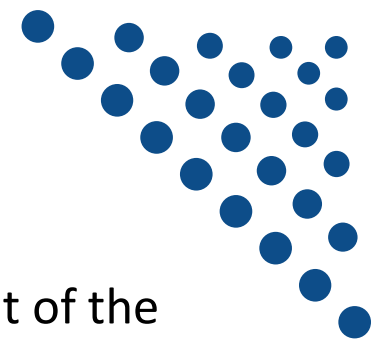


- **1/26:** Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. (inflation 7.6%)
- **3/16:** Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices, 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

September 2024



Percent

Variable	Median ¹				
	2024	2025	2026	2027	Longer run
Change in real GDP	2.0	2.0	2.0	2.0	1.8
June projection	2.1	2.0	2.0		1.8
Unemployment rate	4.4	4.4	4.3	4.2	4.2
June projection	4.0	4.2	4.1		4.2
PCE inflation	2.3	2.1	2.0	2.0	2.0
June projection	2.6	2.3	2.0		2.0
Core PCE inflation ⁴	2.6	2.2	2.0	2.0	
June projection	2.8	2.3	2.0		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	3.4	2.9	2.9	2.9
June projection	5.1	4.1	3.1		2.8

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

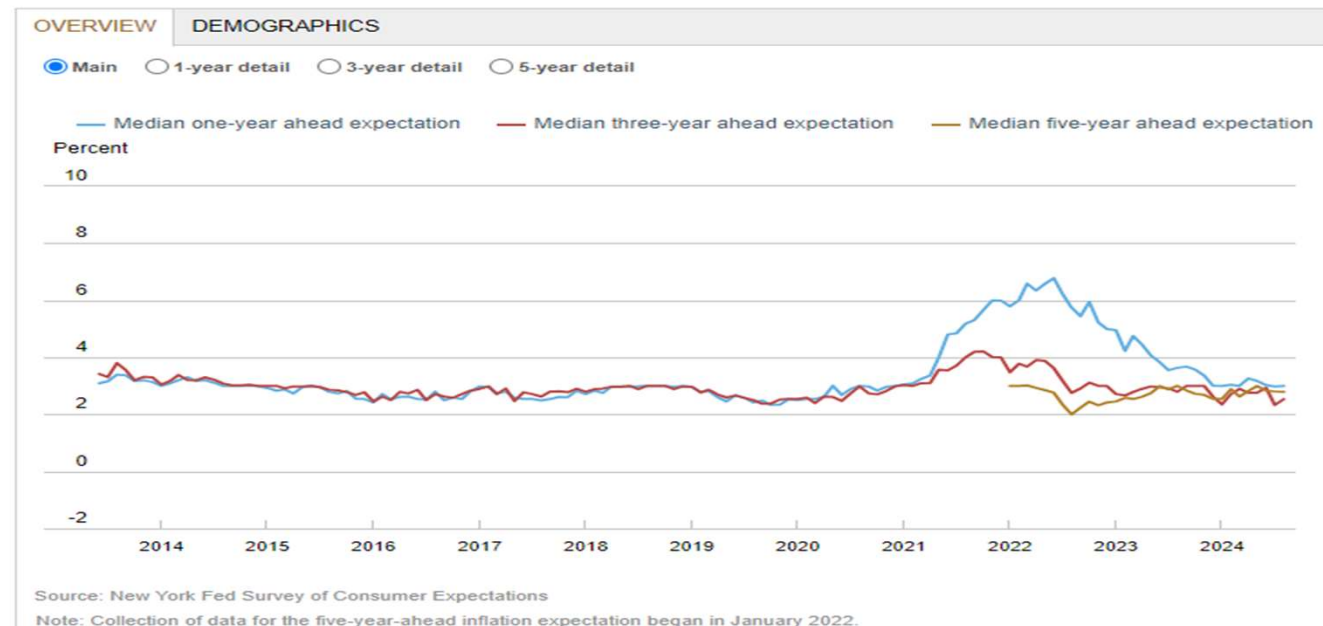
How did this happen?

Long-Term Inflation Expectations Remained “Well Anchored”

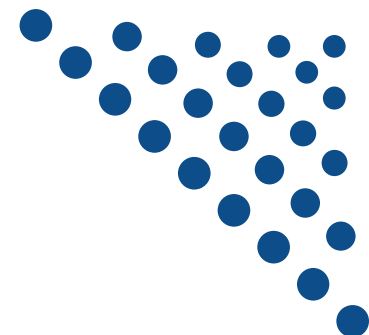


Inflation expectations

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

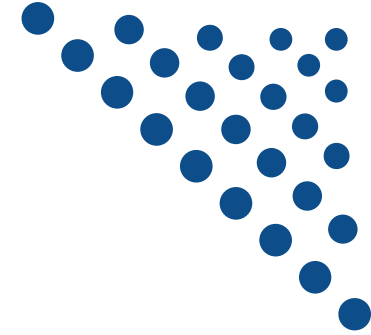


Assessing Credit and Blame (my views)

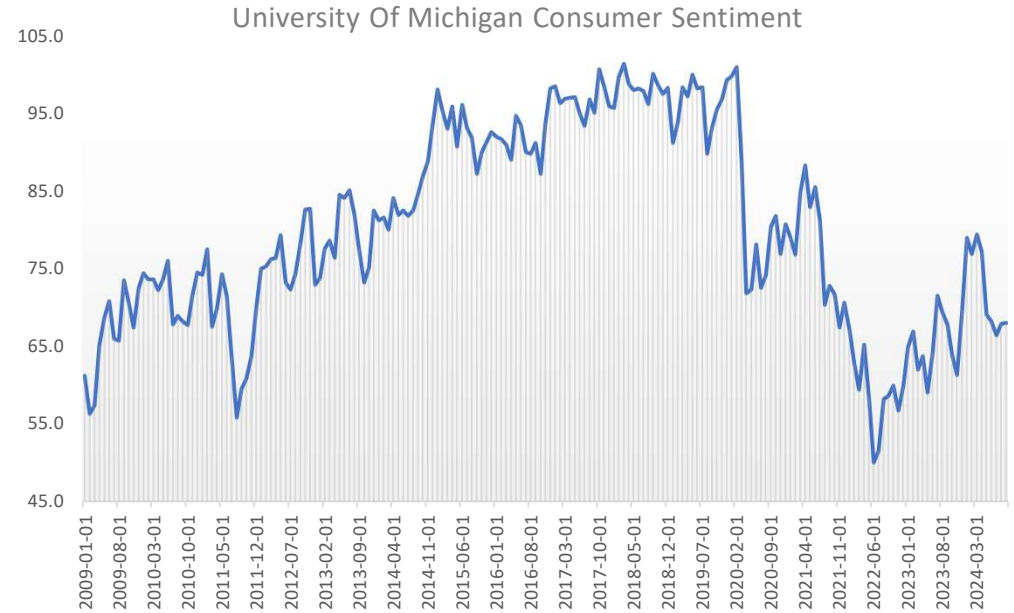
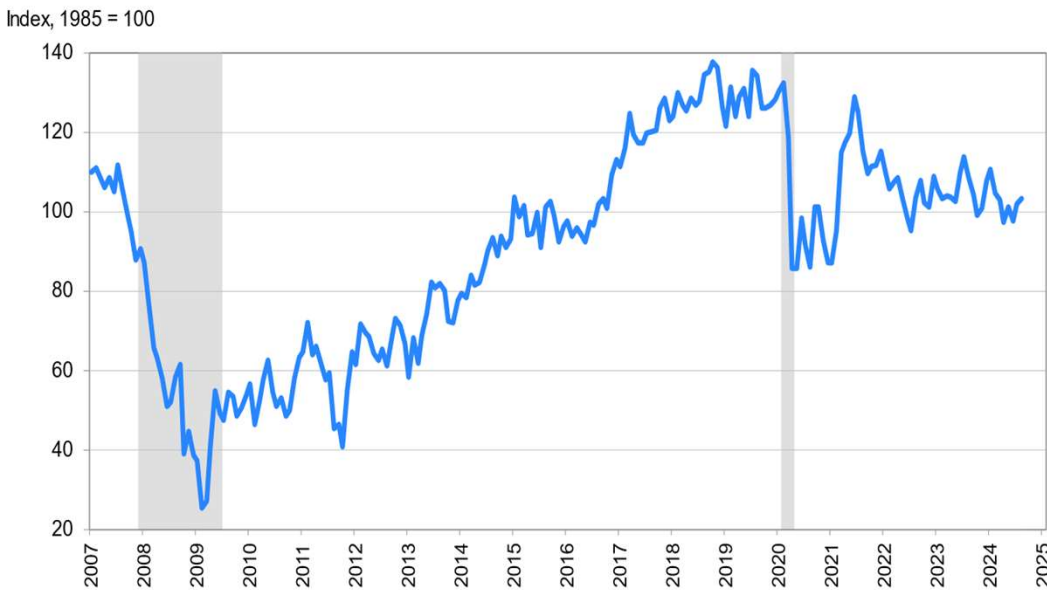


- **Congress and the President: Fiscal Stimulus prevented deep world-wide recession. American Rescue Plan probably too big.**
- **The Fed. Major blame for being late in reacting to increase in inflation. Since 3/22, so far so good. Verdict is out: good policy or good luck?**

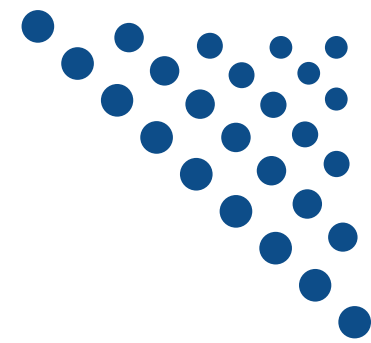
The Nervous Consumers?



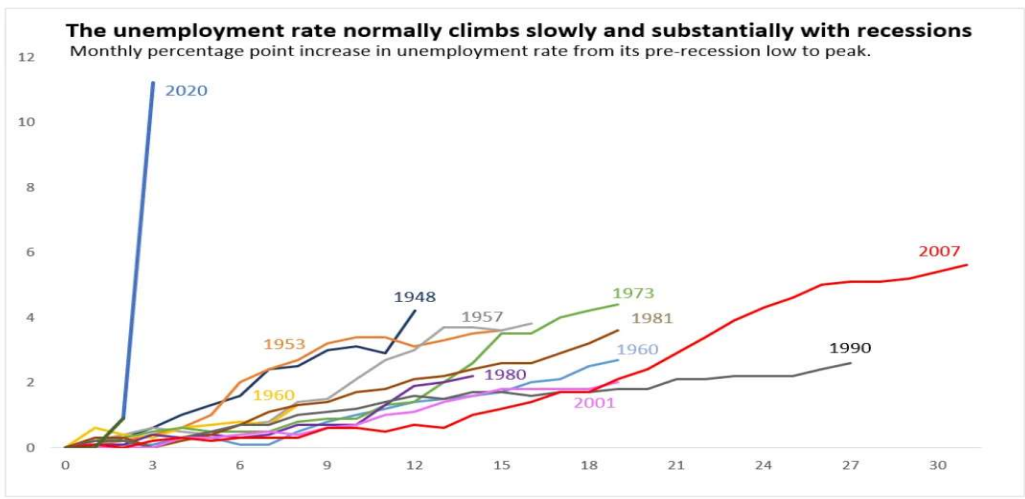
Consumer Confidence Index®



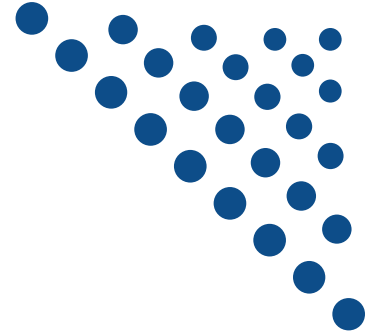
*Shaded areas represent periods of recession.
Sources: The Conference Board; NBER
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Nervous Fed? (Given Past History)

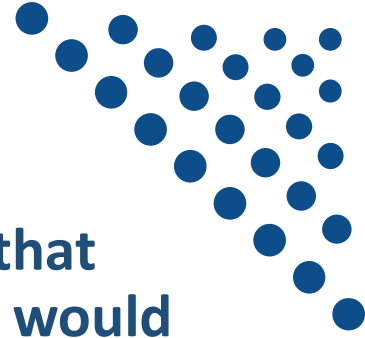


What Did the Fed Do?



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

Political Fallout



Trump: “I guess it shows the economy is very bad, to cut it by that much, assuming they're not just playing politics. The economy would be very bad, or they're playing politics. But it was a big cut.”

Harris: “While this announcement is welcome news for Americans who have borne the brunt of high prices, my focus is on the work ahead to keep bringing prices down.”

Is Federal reserve Independence under threat?

Next Week

I. What do we mean by economic mobility?

- ***Absolute mobility***: the difference in income from one's parent.
 - You're higher on the escalator than your parents were at that same age.
 - It is possible for *everyone* to experience upward absolute mobility, especially if the escalator is going up.
- ***Relative mobility***: the change in income rank from one's parent.
 - You have fewer people above you on the escalator than your parents did.
 - Increased relative mobility requires both upward and downward movement.



Let's Hear from You!

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