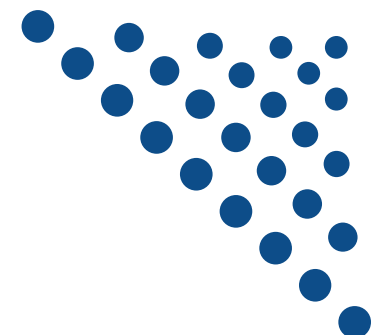


Osher Lifelong Learning Institute, Spring/Summer 2024

Contemporary Economic Policy

University of Minnesota

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**

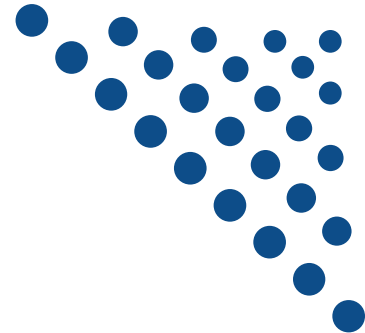
- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - Akerlof, Smith, Maskin

- **Delegates: 652+ members**

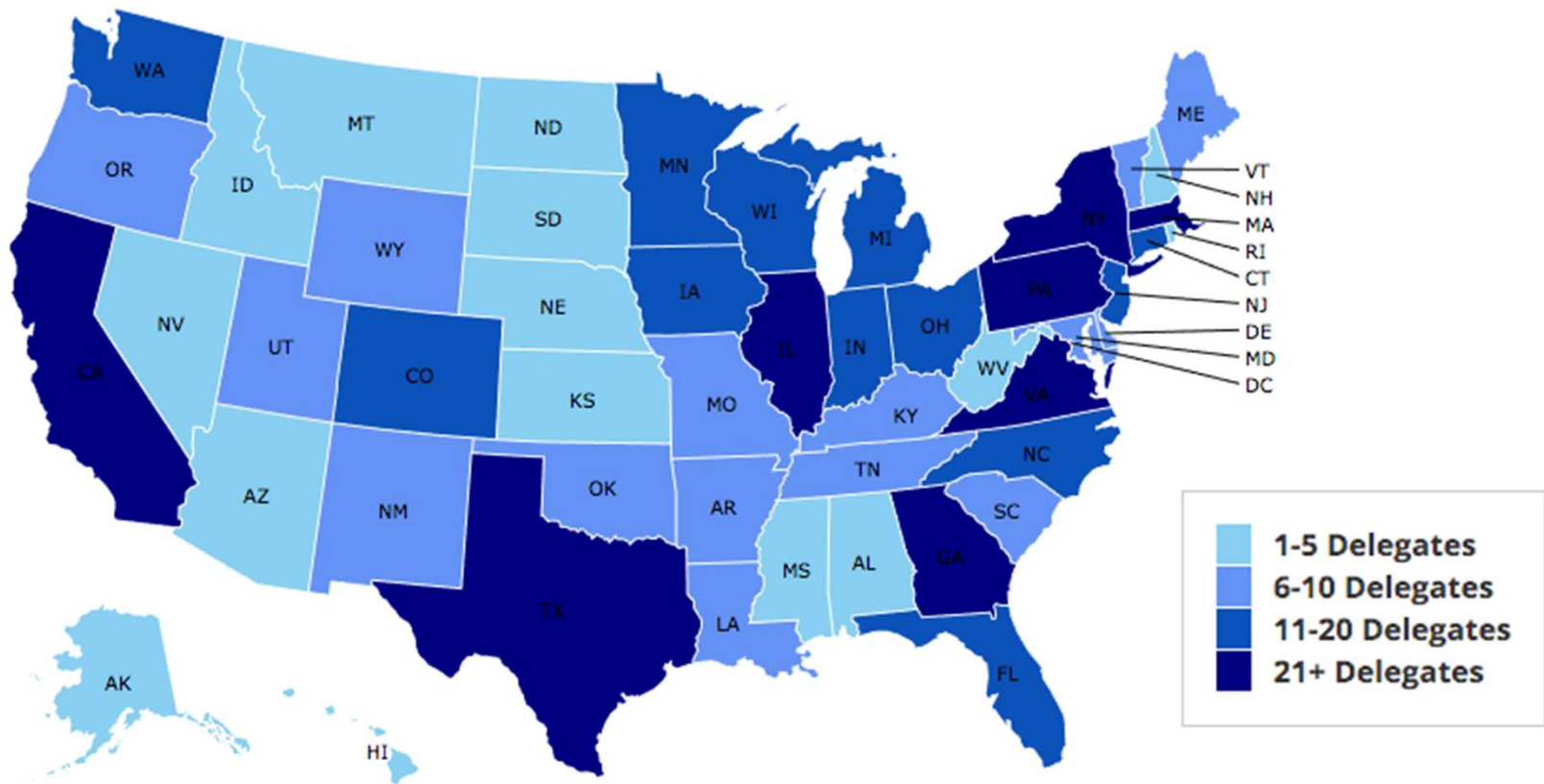
- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

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

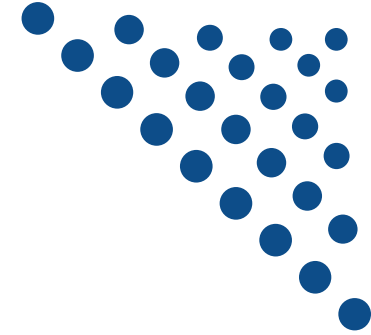
- Aid in slide deck development



Where Are We?

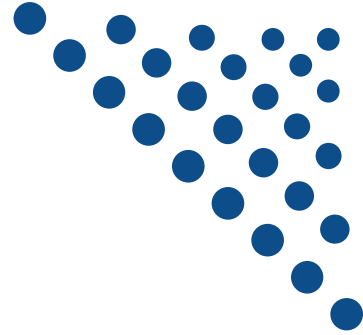


Available NEED Topics Include:



- 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**

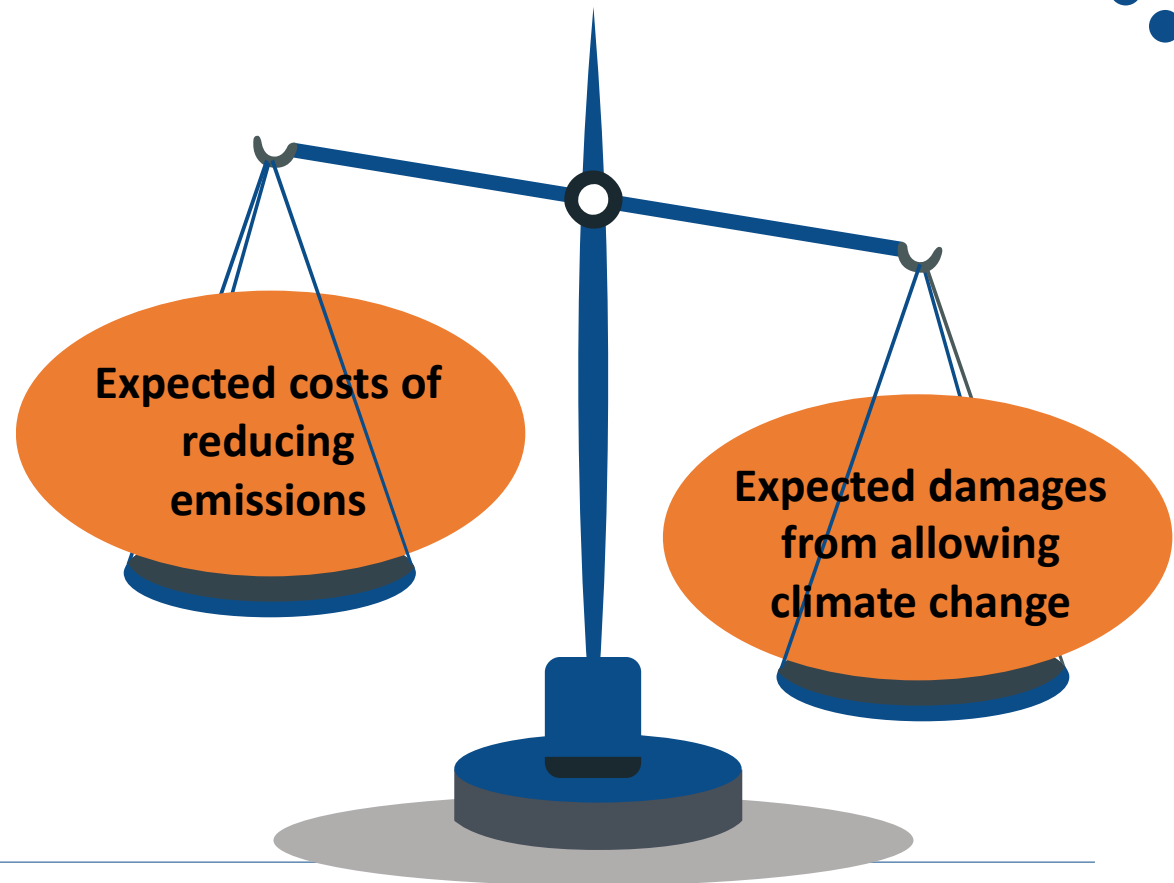
- **Week 1 (6/06): Economic Update (Geoffrey Woglom, Amherst College)**
- Week 2 (6/13): Climate Change Economics (Andrew Stevens, U of Wisconsin)
- Week 3 (6/20): Federal Debt and Deficits (Joseph Carolan, Oakland University)
- Week 4 (6/27): Economics of Immigration (Robert Gitter, Ohio Wesleyan)

How Economists Decide How Much to Fight Climate Change: Cost Benefit Analysis

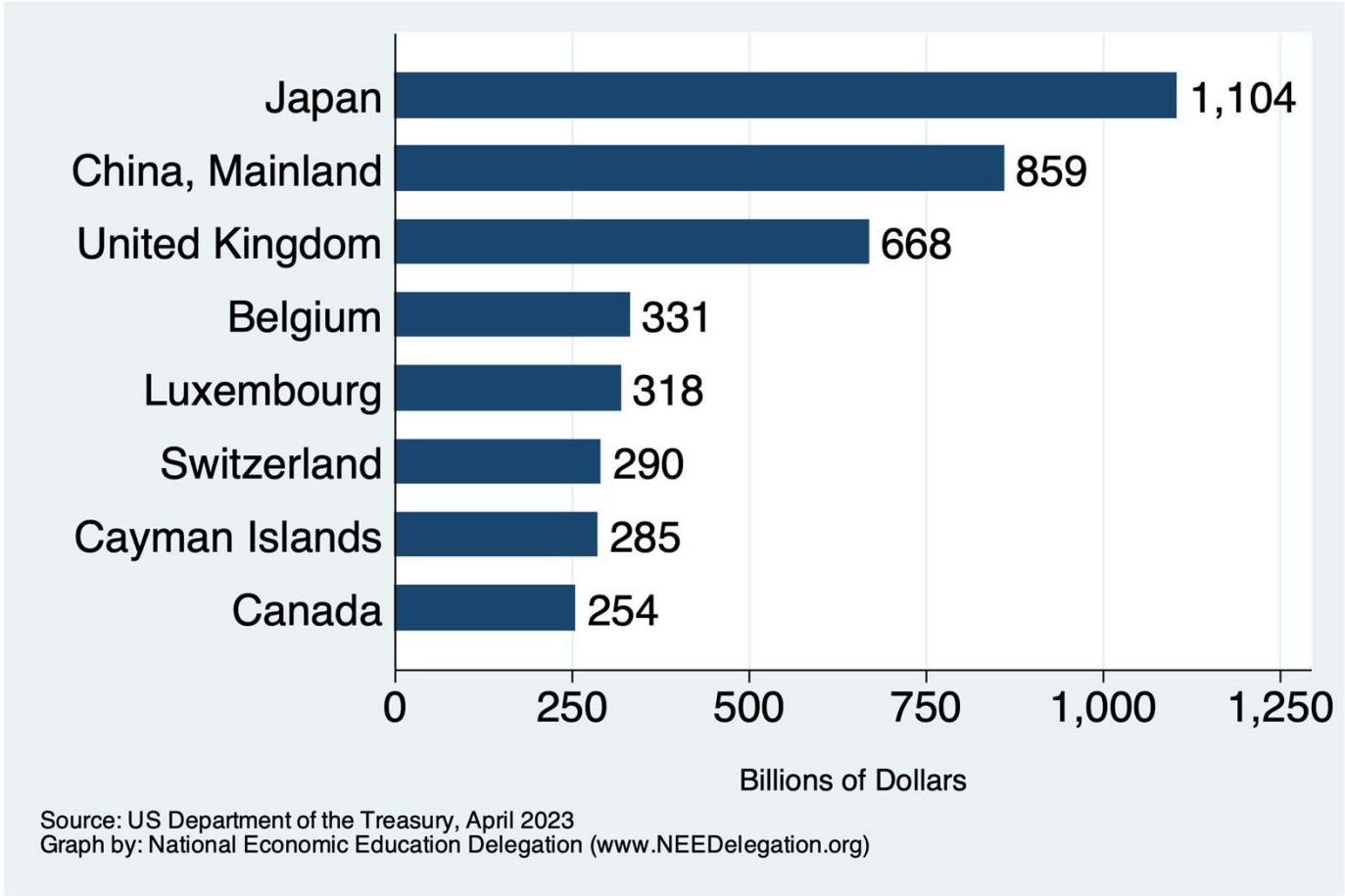
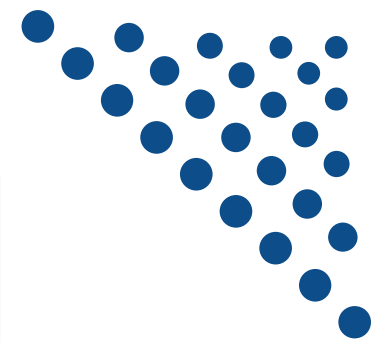
Abating greenhouse gas emissions is costly...

... but without action, climate change damages are even more costly.

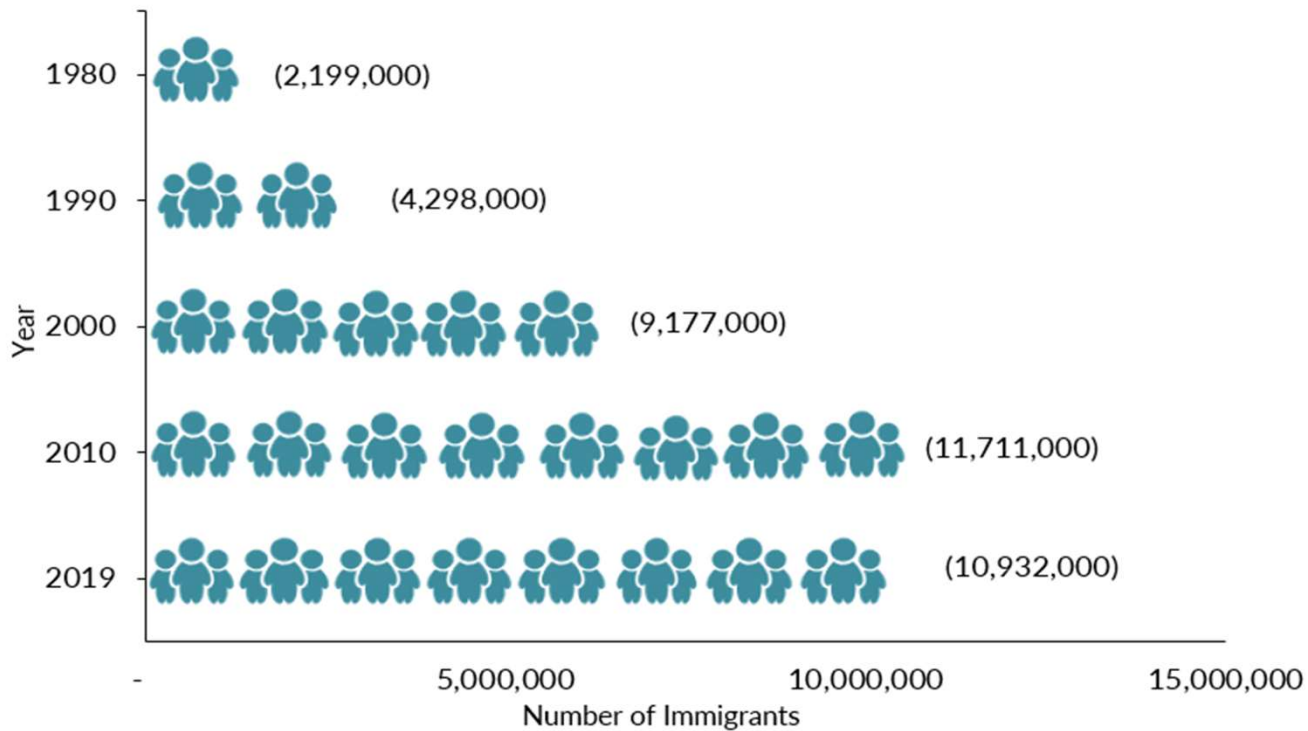
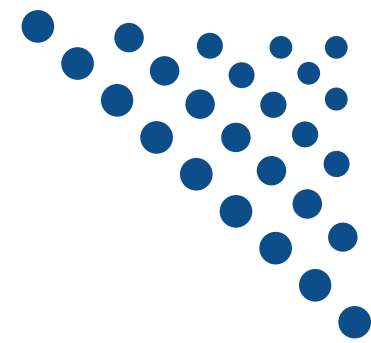
Goal is not zero emissions, but efficient level that achieves a balance.



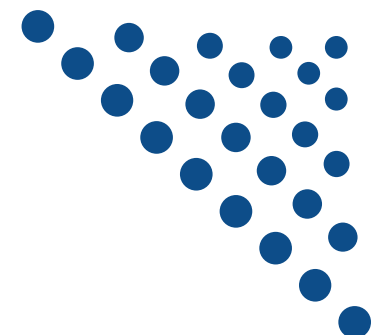
Who Holds US Debt?



Mexican-Born People in the US



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

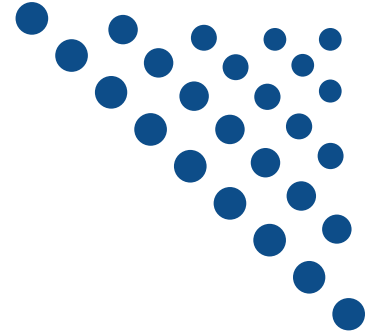


US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
June 6, 2024



Credits and Disclaimer



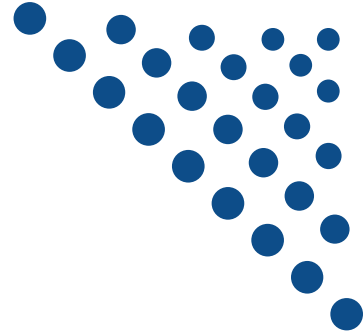
- **This slide deck was authored by:**

- 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).

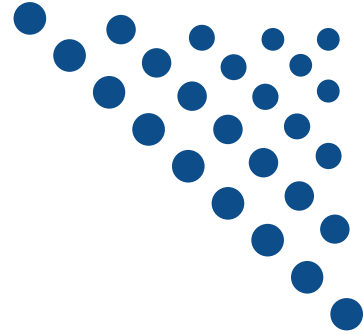
Submitting Questions



- **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>**



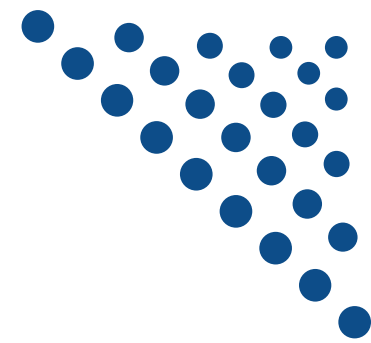
Outline for the Talk



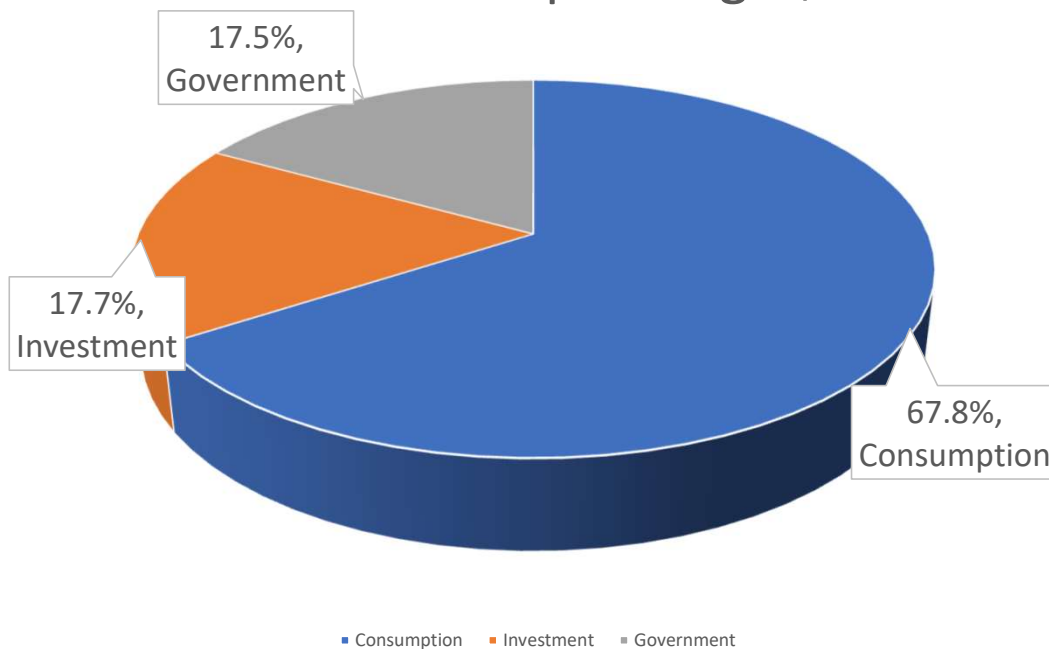
1. Summary of the state of the macroeconomy.
2. The Effect of M&F policies on the recovery.
3. Describe an unprecedented monetary policy achievement that may be unfolding.
4. Major challenges and uncertainties going forward



Gross Domestic Product: 2024Q1 = \$28.3 tr

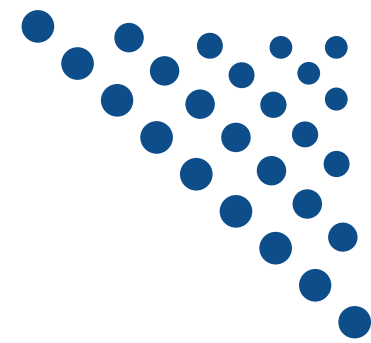


Total Domestic Spending = \$29.1



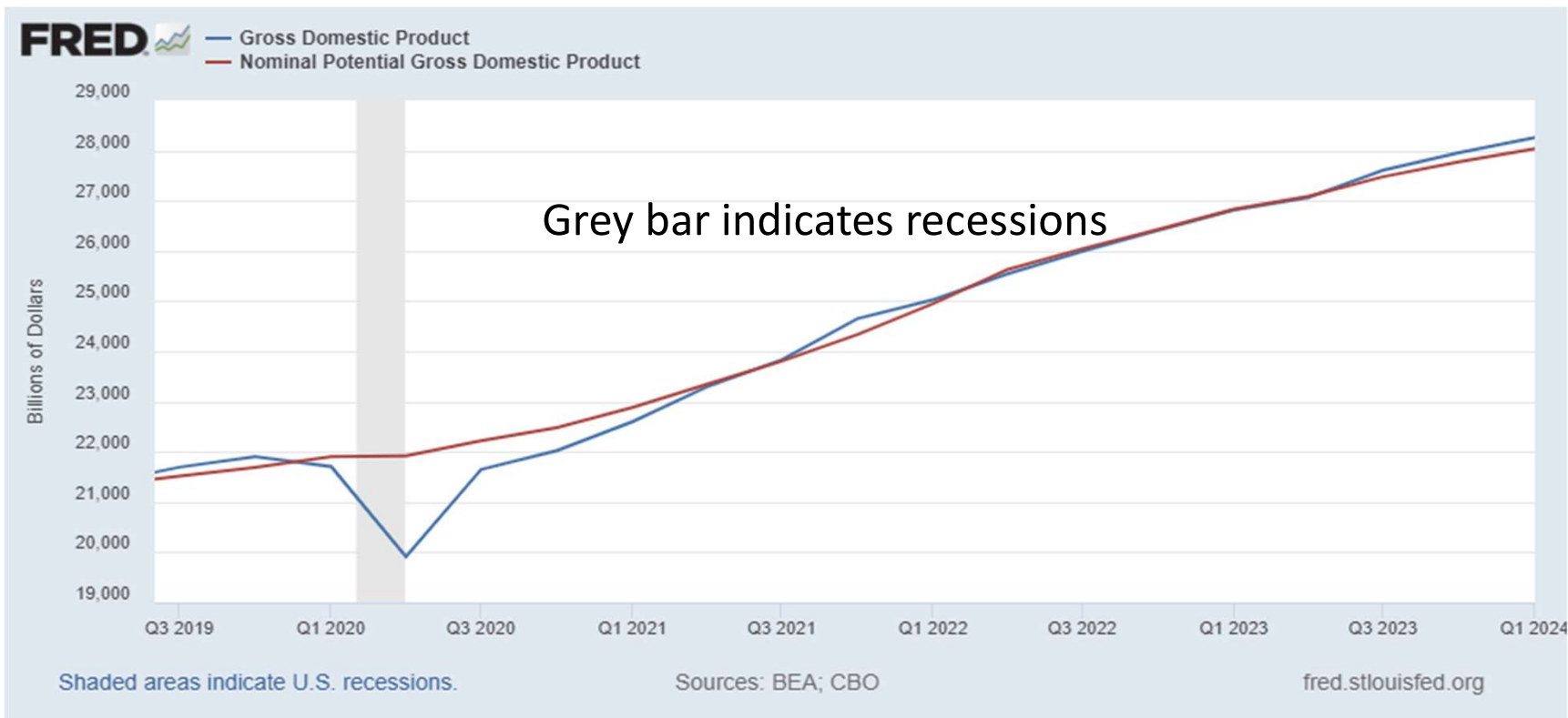
\$29.1
Less Imports
-\$3.9
Plus Exports
+\$3.1
Equals GDP
\$28.3

Different Breakdown

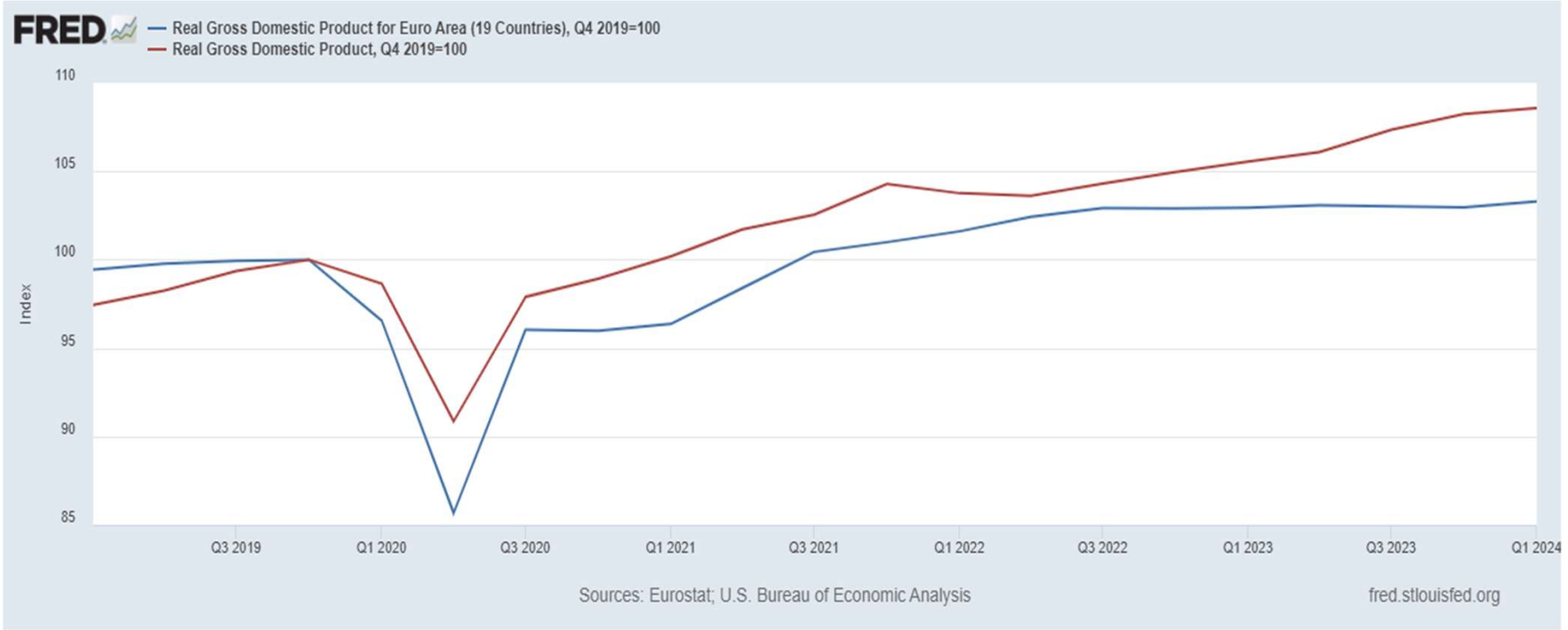


Note: State and Local Government comprises 10% of GDP!

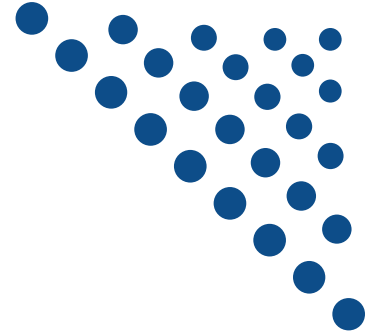
GDP and 'Potential' during the Recovery



US vs. Eurozone



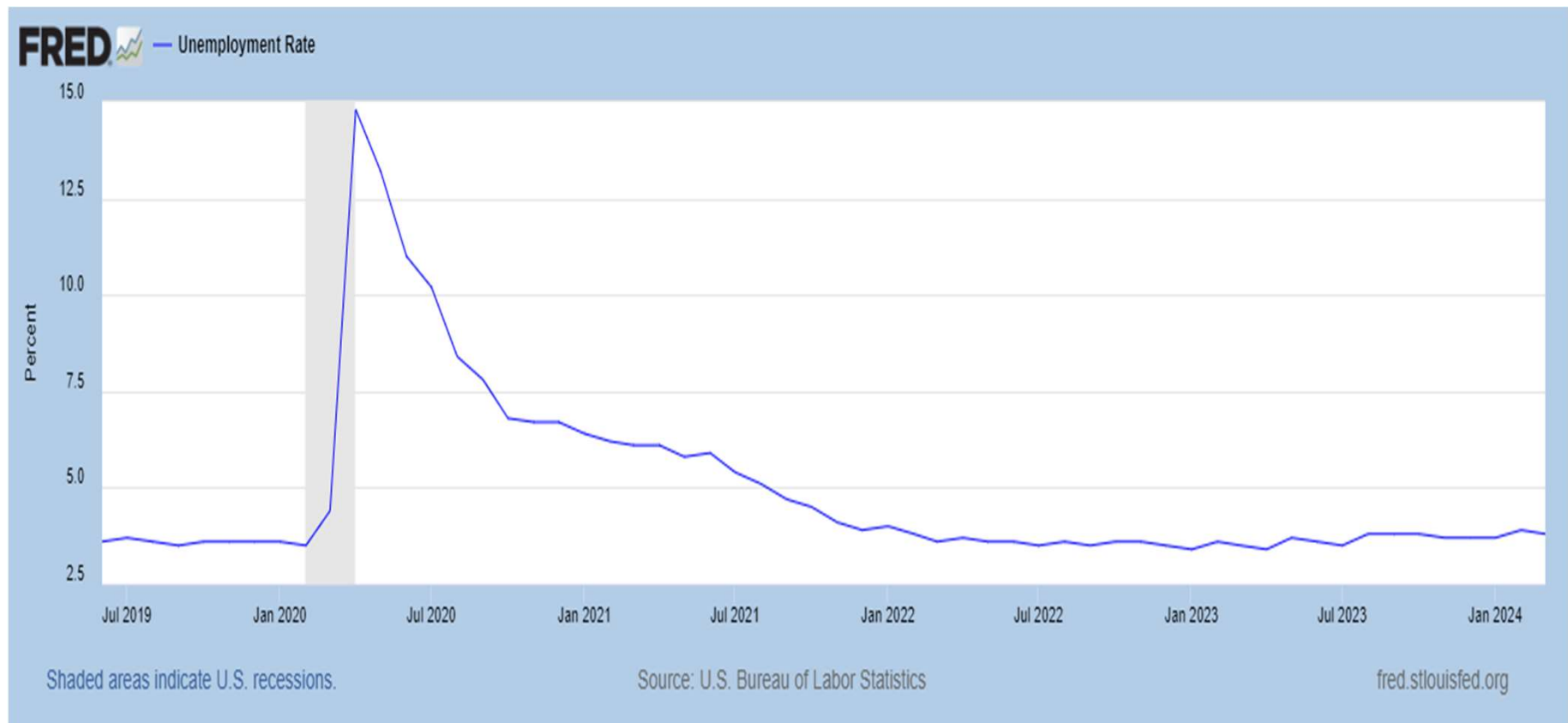
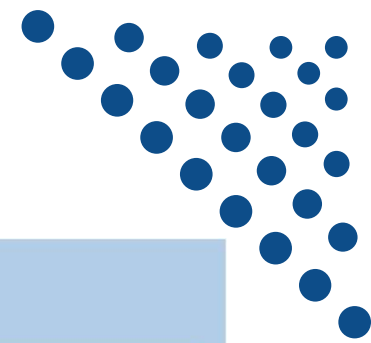
What is a Recession?



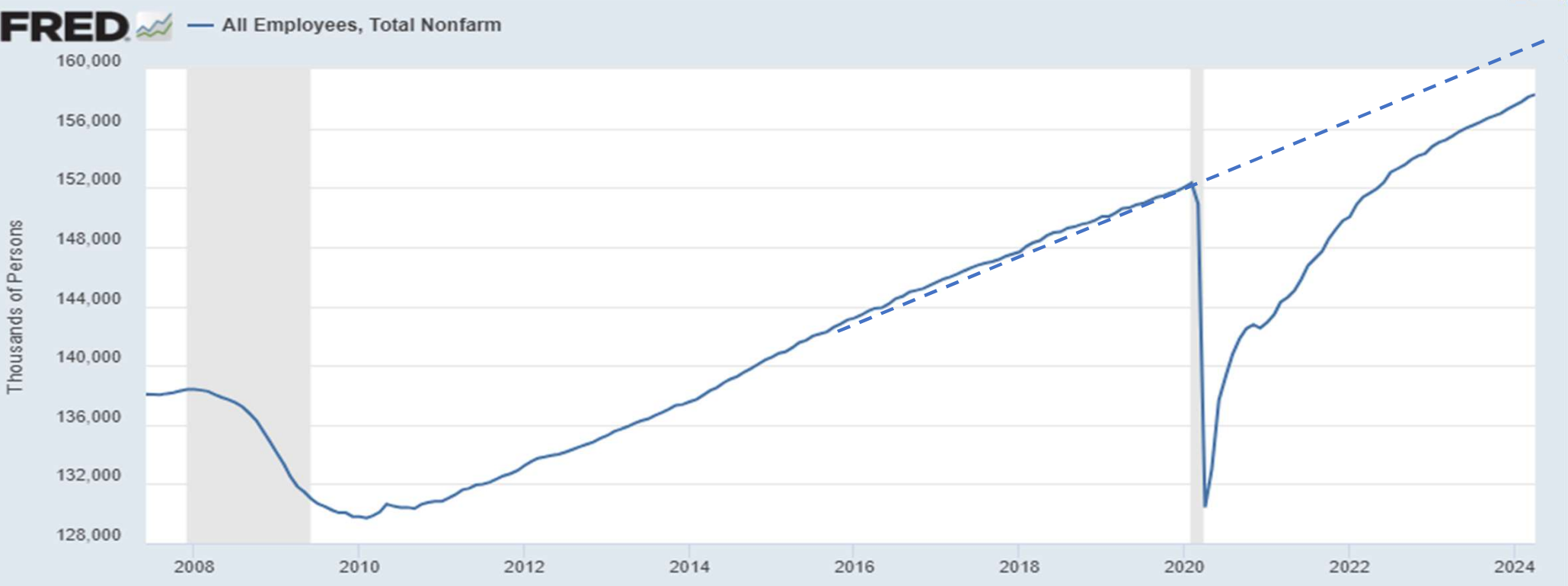
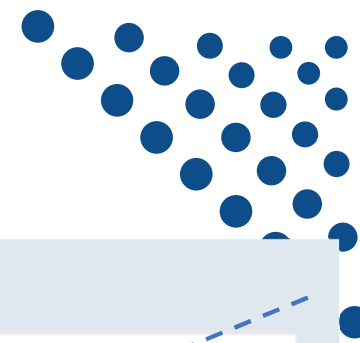
- **Defined by the National Bureau of Economic Research (NBER)**
- **“The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”**
- **Popular Rule of Thumb: Two or more, consecutive quarters 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?

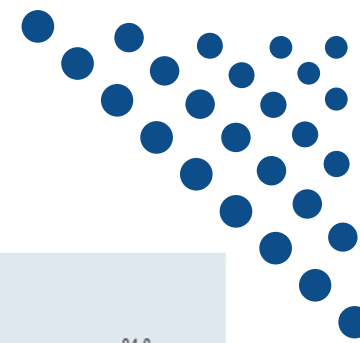


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

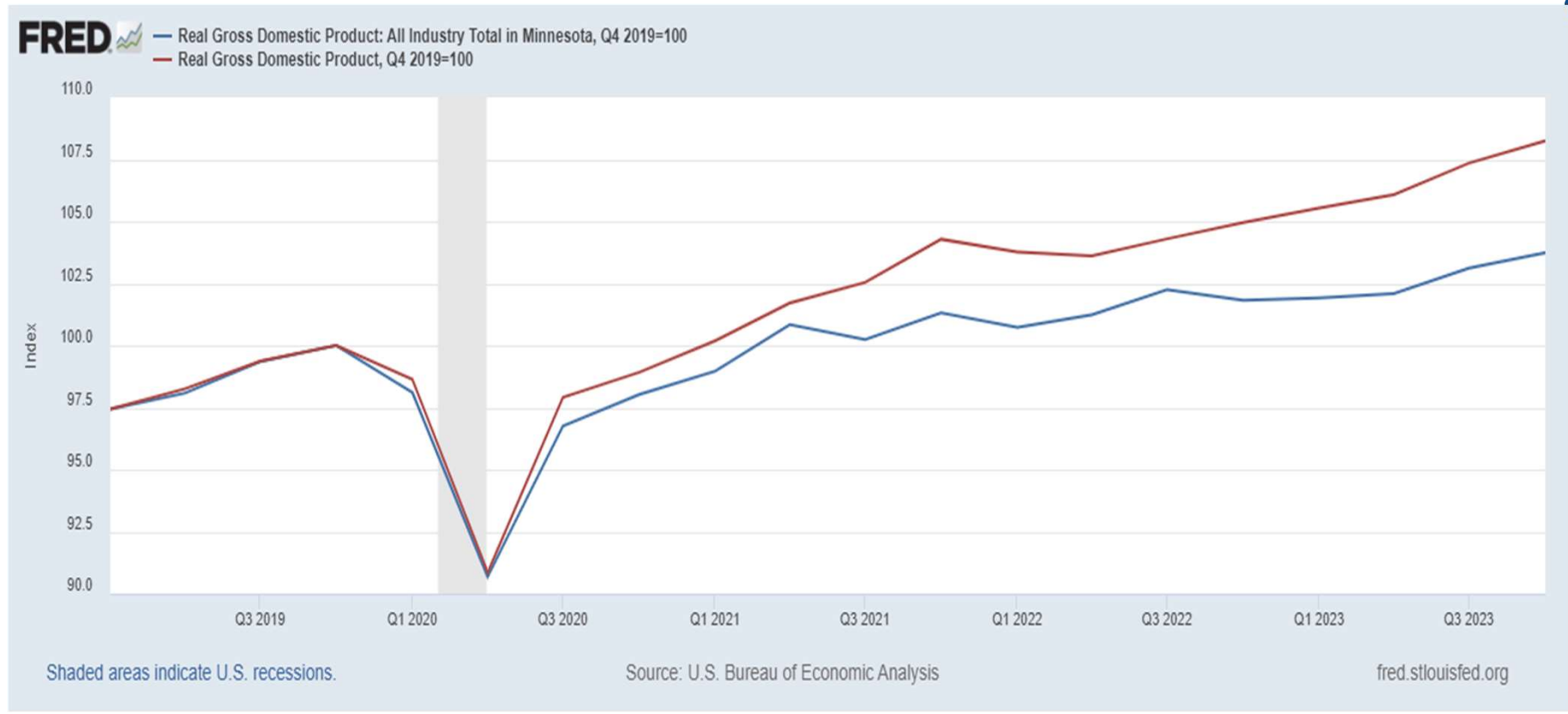
The Aging of the Labor Force



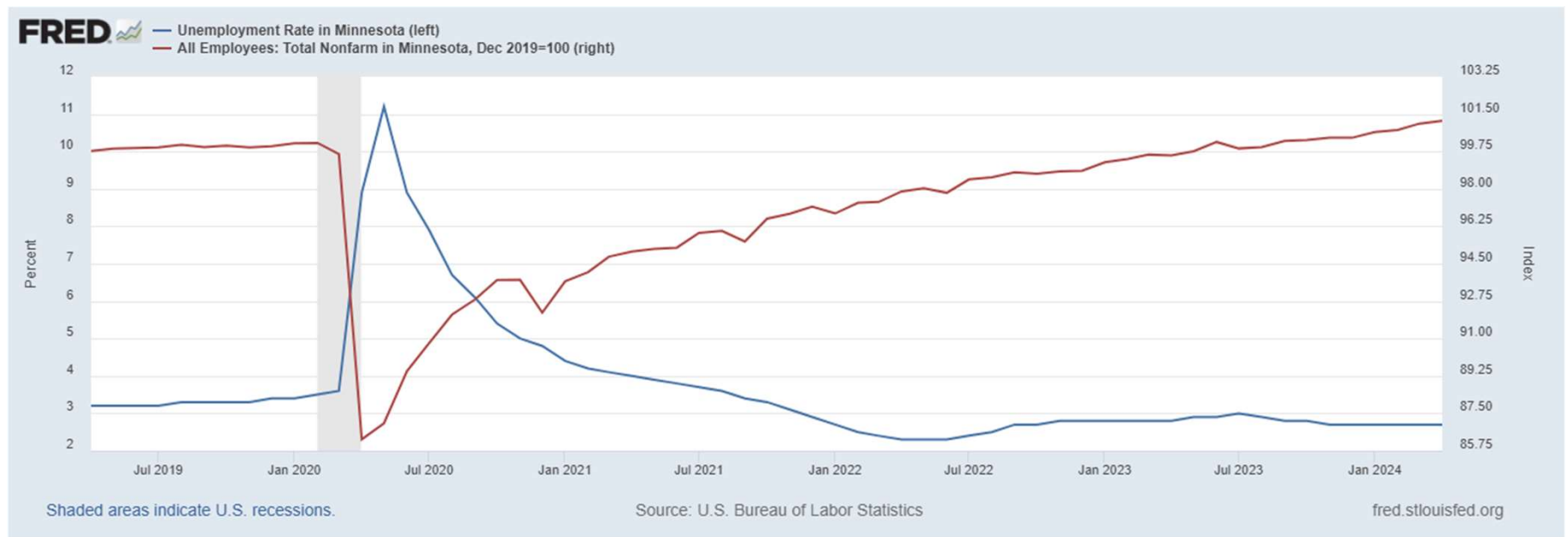
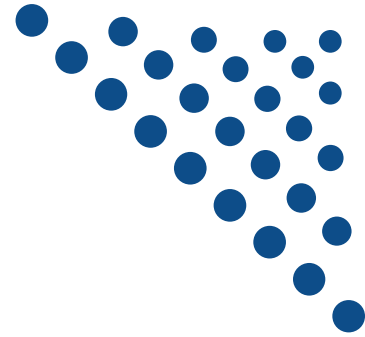
Supplemented by Foreign Workers



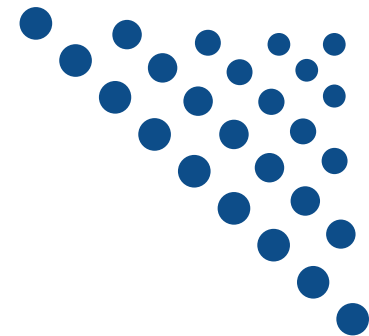
How is Minnesota Doing?



Labor Market in Minnesota



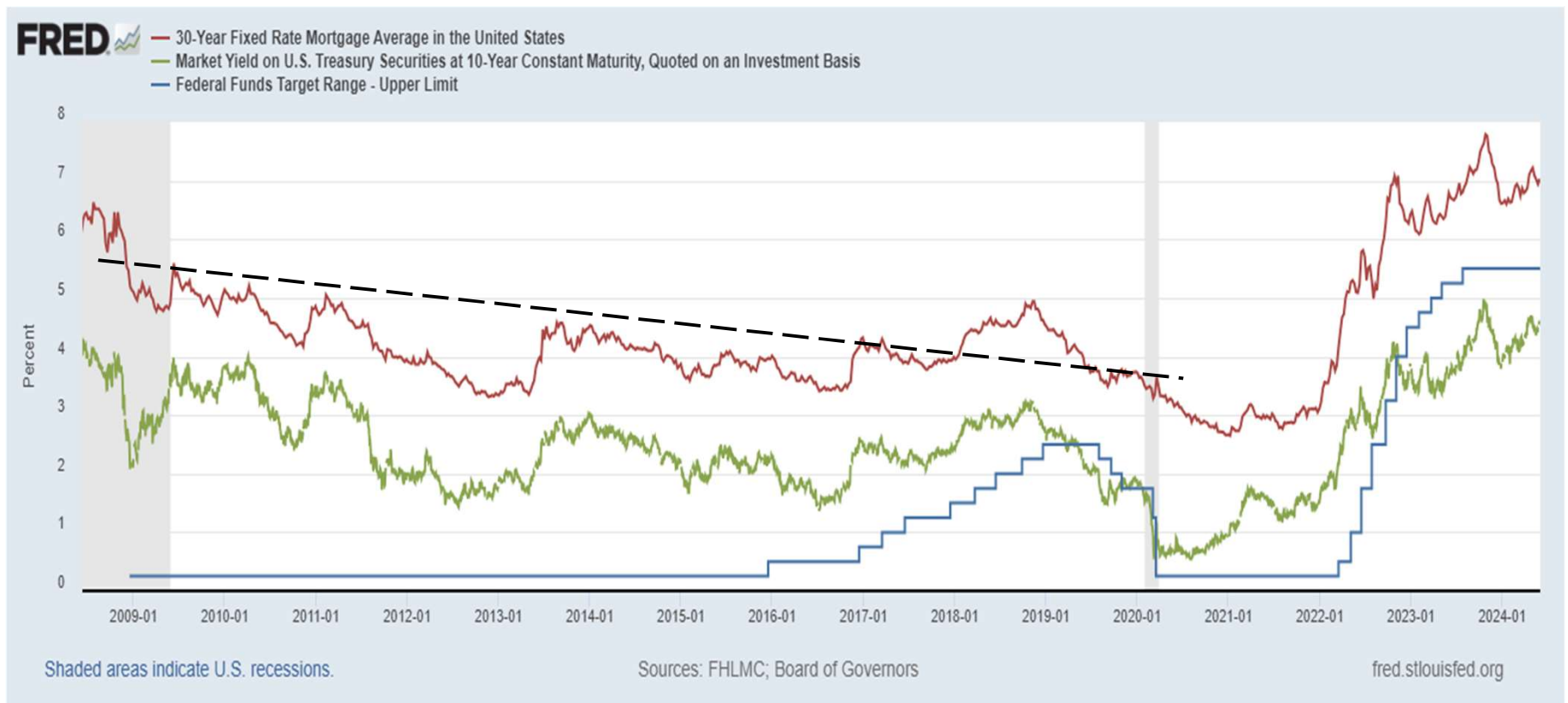
Overall Good News on the Real Side



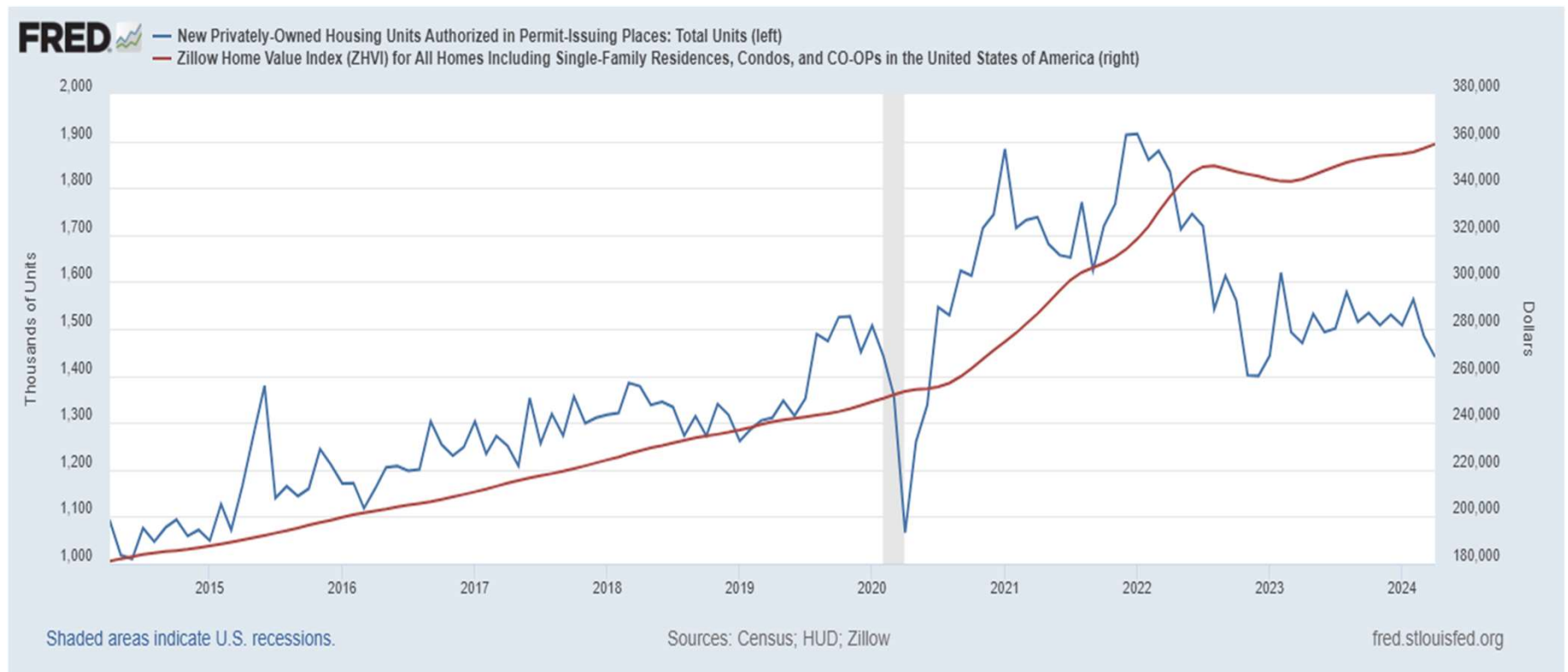
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- There was no apparent Great Resignation

- 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 ?

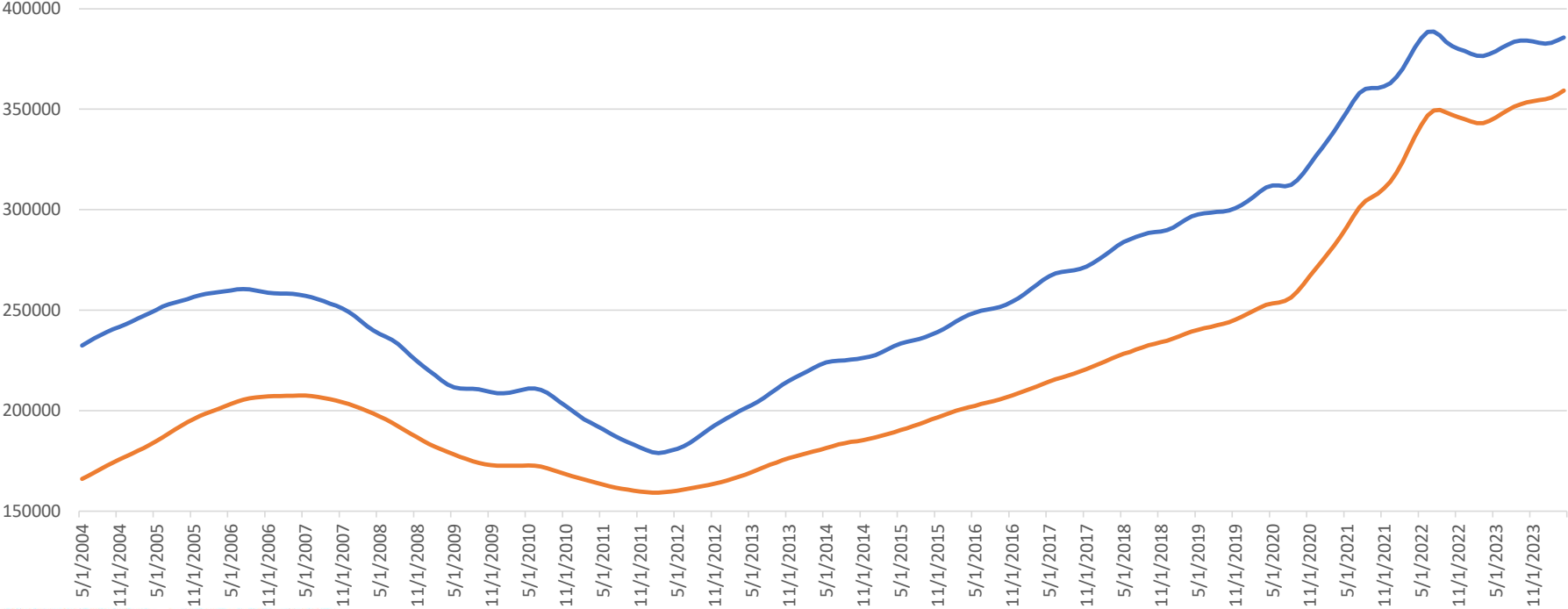


National Housing Market and Closer to Home

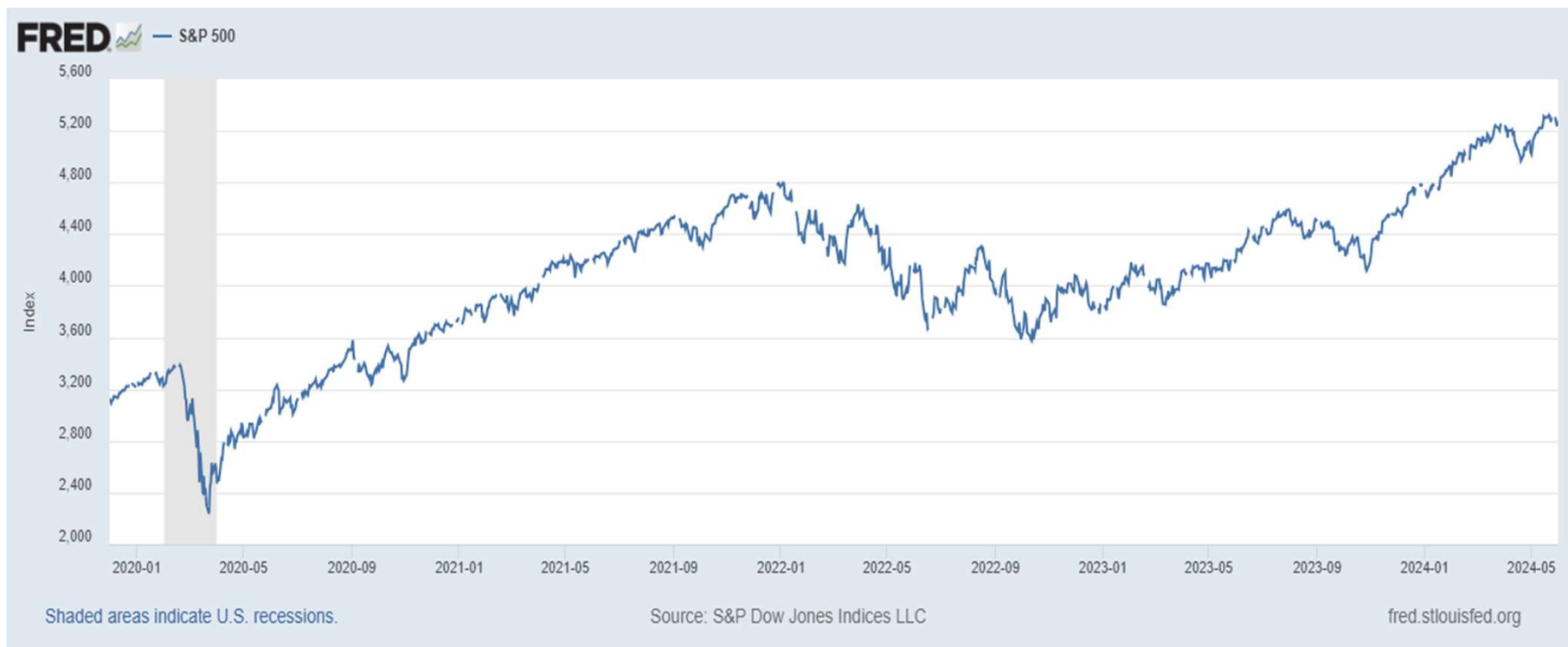


Single Family Home Prices

— Minneapolis — US

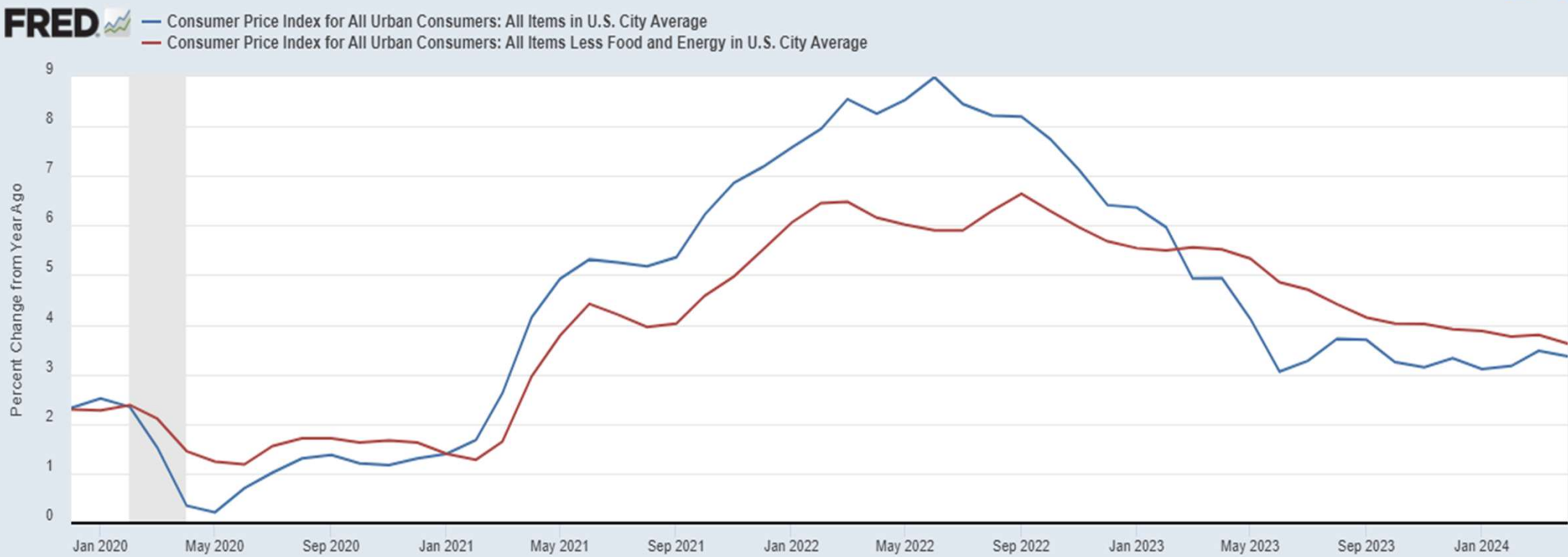


Stock Prices: Fear Giving Way to Greed?





Inflation during the Recovery (CPI)

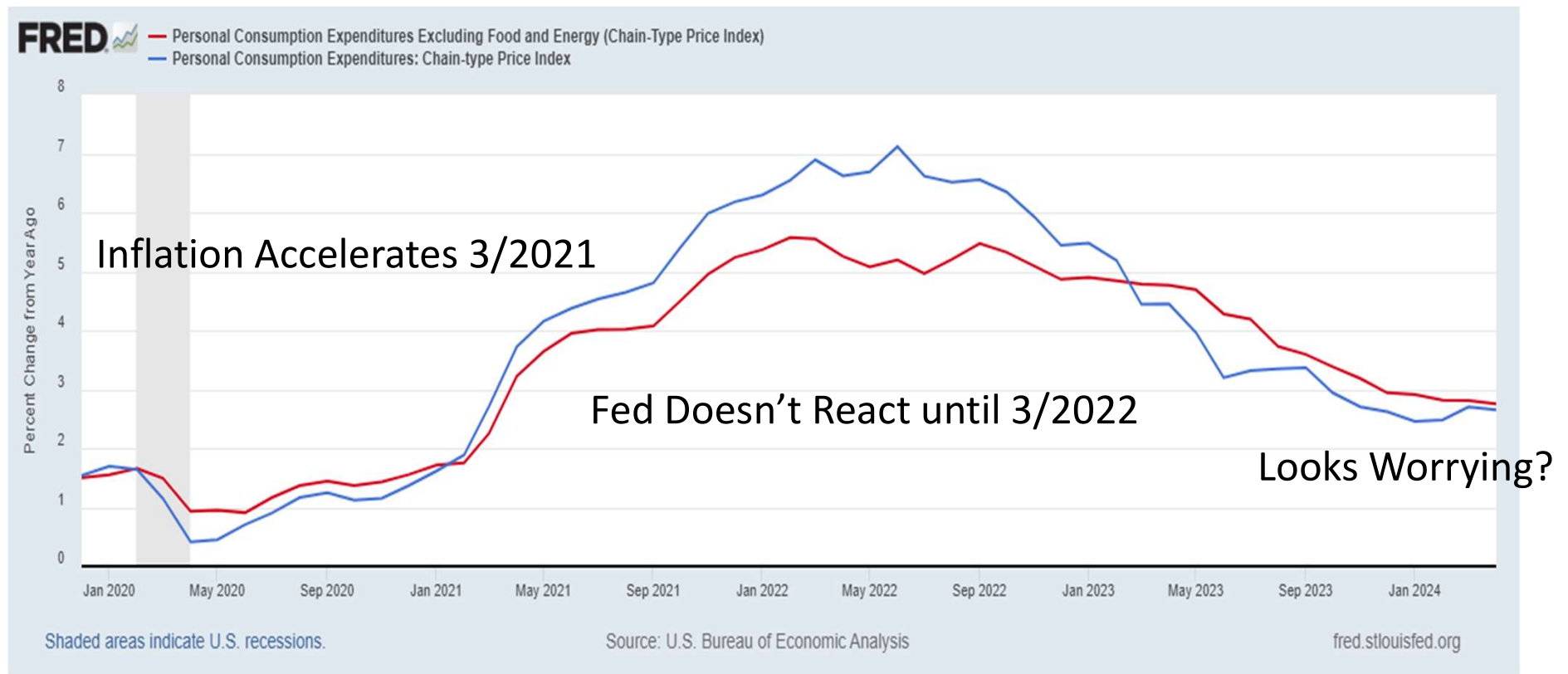


Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

fred.stlouisfed.org

Fed's Measure (PCE)



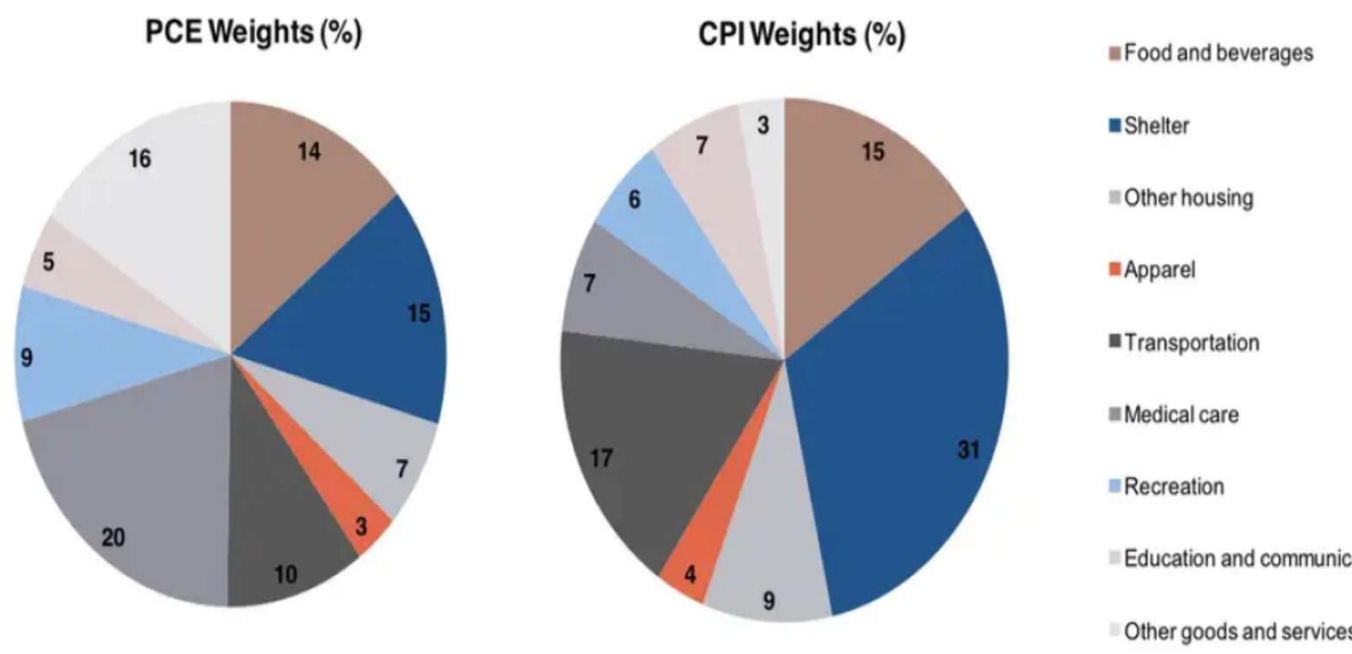


CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

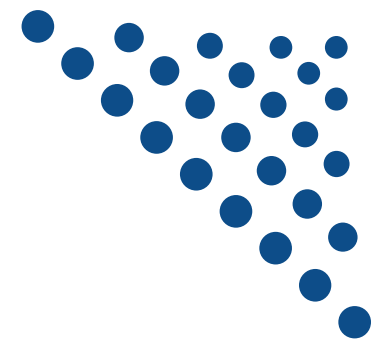
April:
CPI, 3.4% PCE, 2.7%
Core CPI, 3.6% Core PCE, 2.8%.

Chart 18: PCE vs CPI – weight comparisons



Source: Haver Analytics, SG Cross Asset Research/Economics

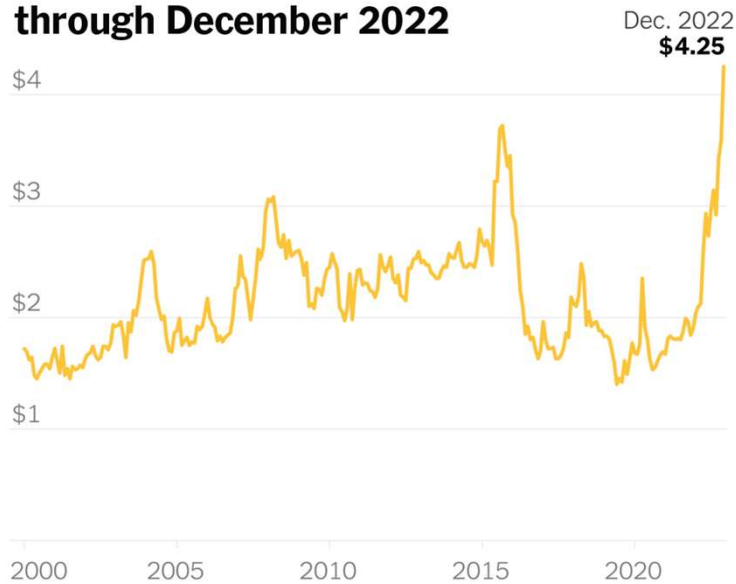
Uses of Inflation Measures



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

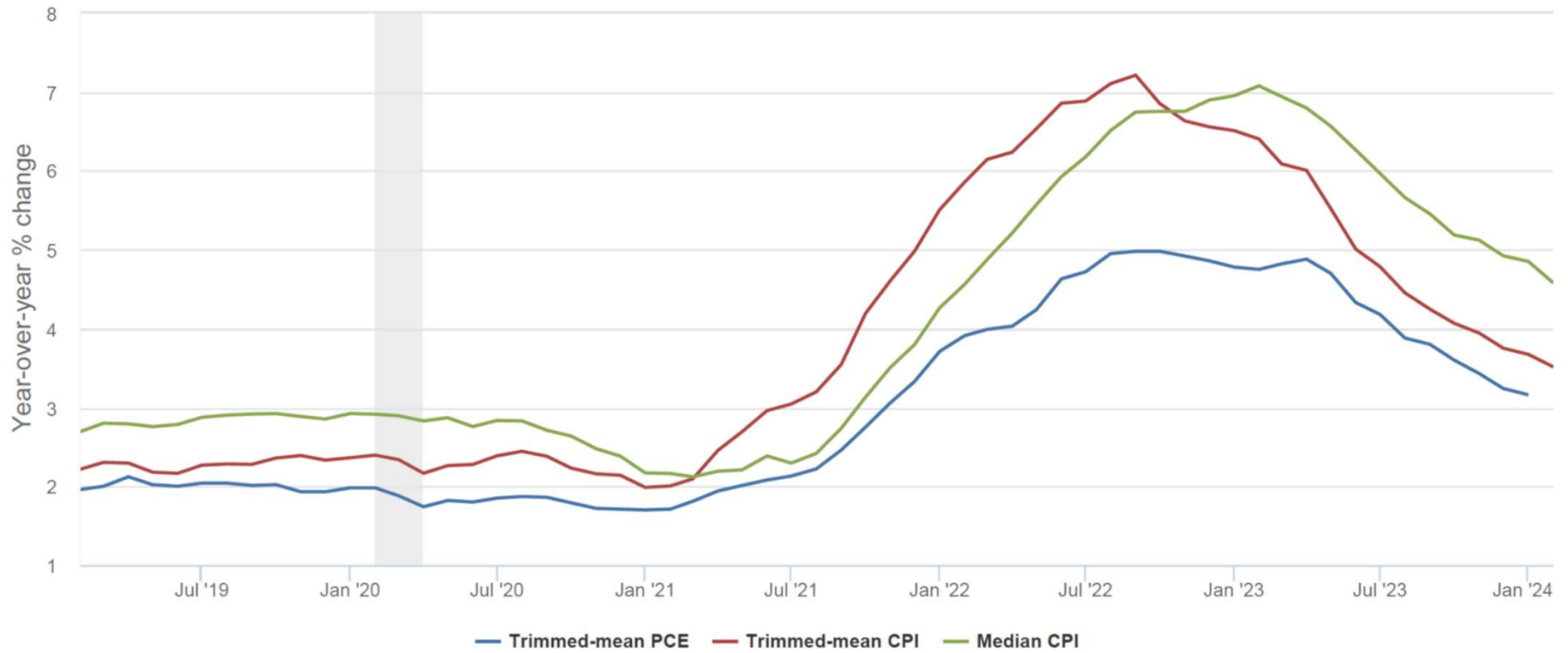


Prices are adjusted for inflation in Dec. 2022 dollars.
Source: Bureau of Labor Statistics

Measuring “Underlying” Inflation

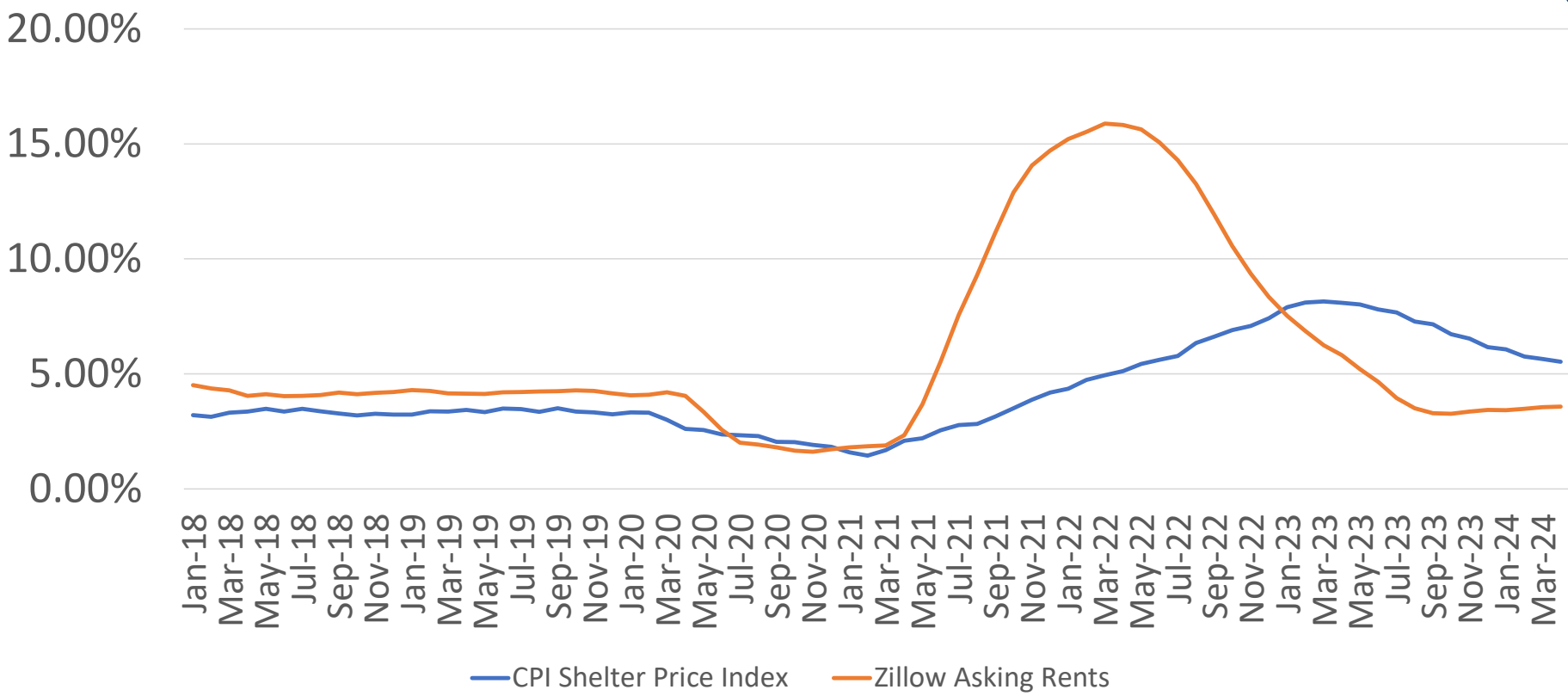


Alternative Core Inflation Measures

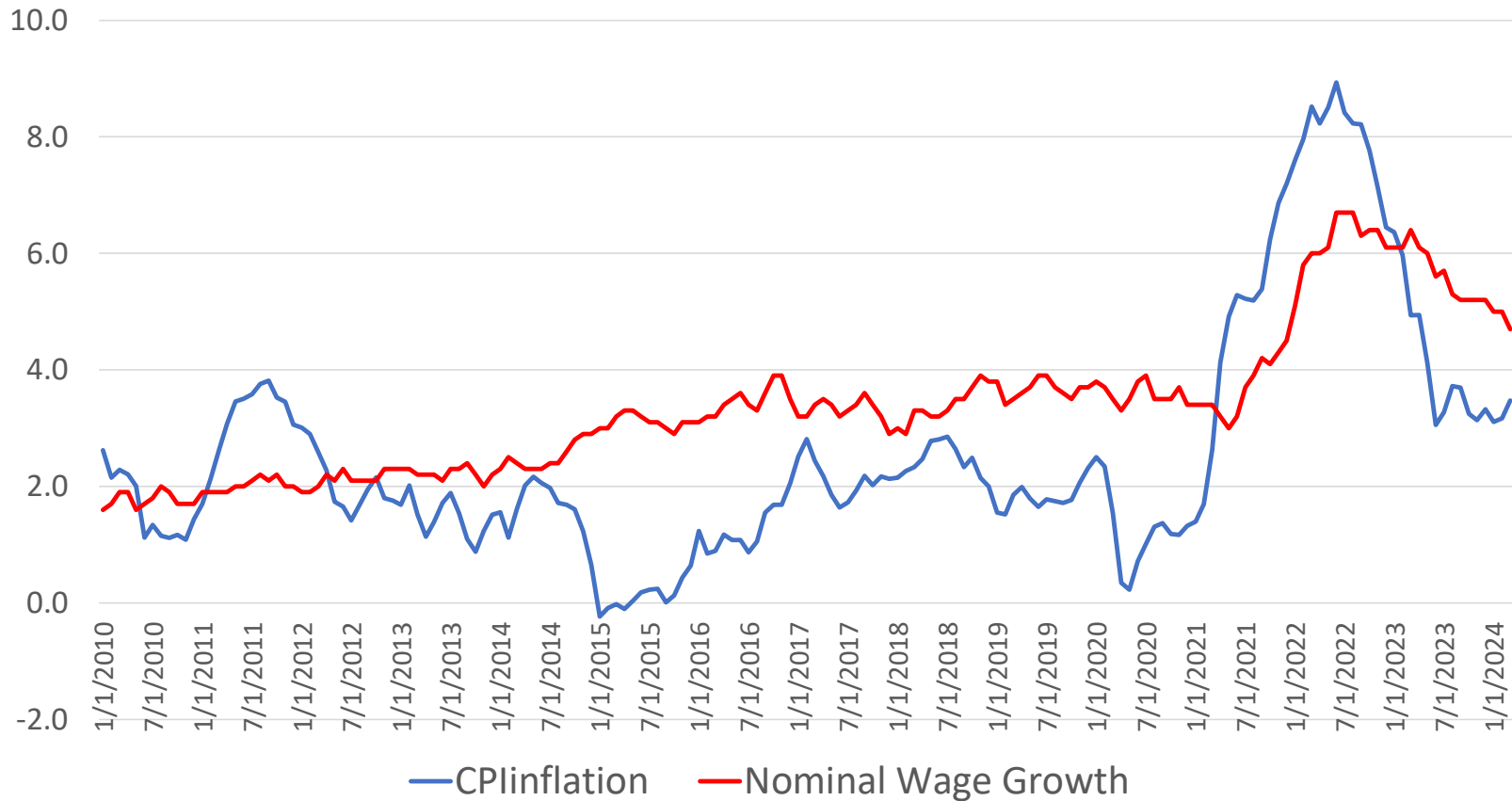


Seasonally adjusted. Recessions are shaded. Sources: Federal Reserve Banks of Dallas and Cleveland. Powered by FRED.

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

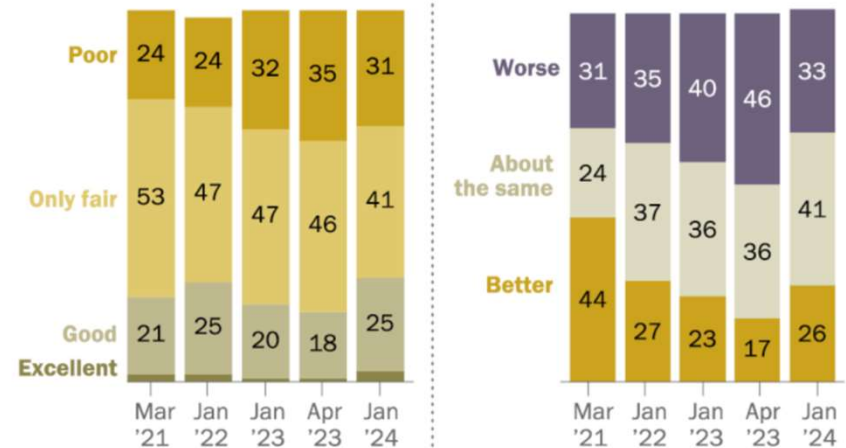


Views of the nation's economy | Pew Research Center

Modest improvement in national economic outlook

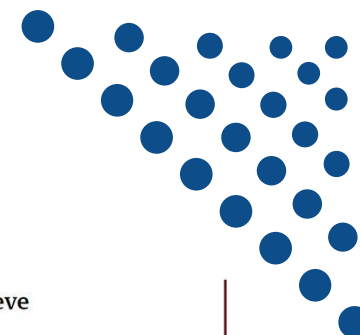
% who say that economic conditions in this country today are __

% who say they expect that economic conditions in the country will be __ a year from now

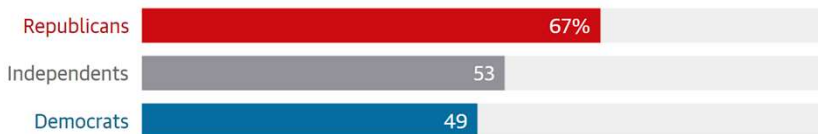


Note: No answer responses are not shown. Refer to the topline for full trend.
Source: Survey of U.S. adults conducted Jan. 16-21, 2024.

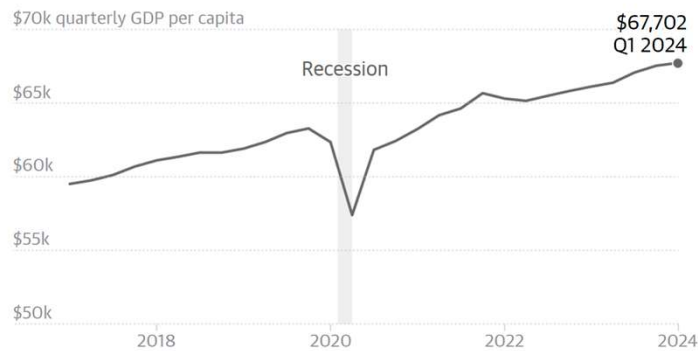
Why We Give These Lectures



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.

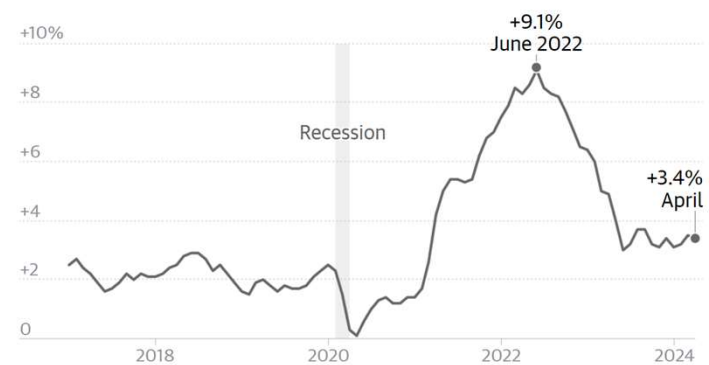


Guardian graphic. Sources: The Harris Poll, Bureau of Economic Analysis via FRED. Note: Survey of 2,119 US adults from 10 to 12 of May 2024.

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

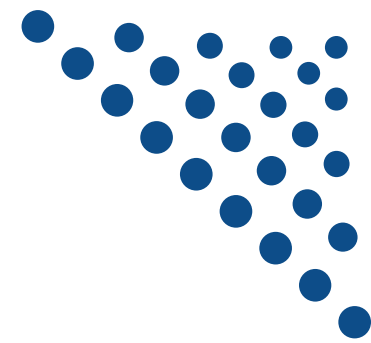


After peaking in spring 2022, inflation has settled between 3% and 4% in the past year.

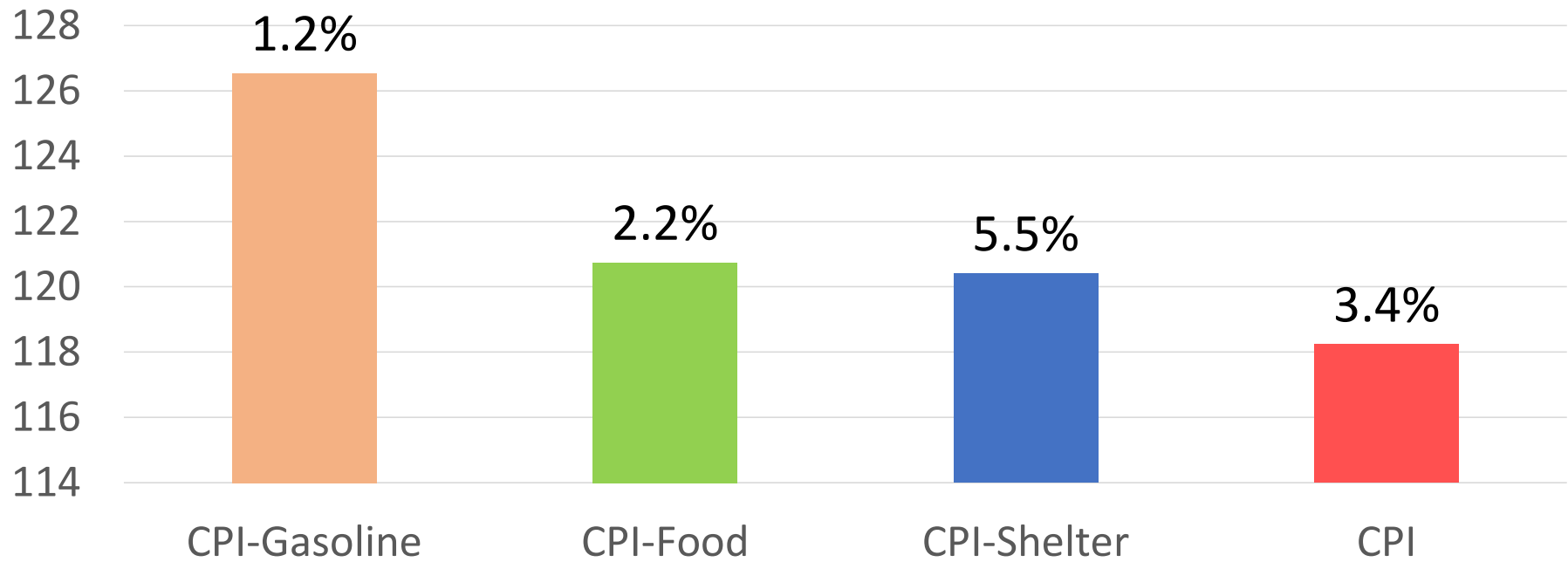


Guardian graphic. Sources: The Harris Poll, Bureau of Labor Statistics 12-month change in the Consumer Price Index. Note: Survey of 2,119 US adults from 10 to 12 of May 2024.

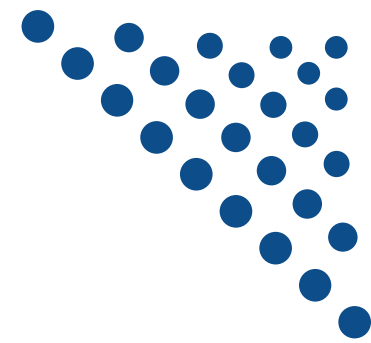
High Prices versus Inflation



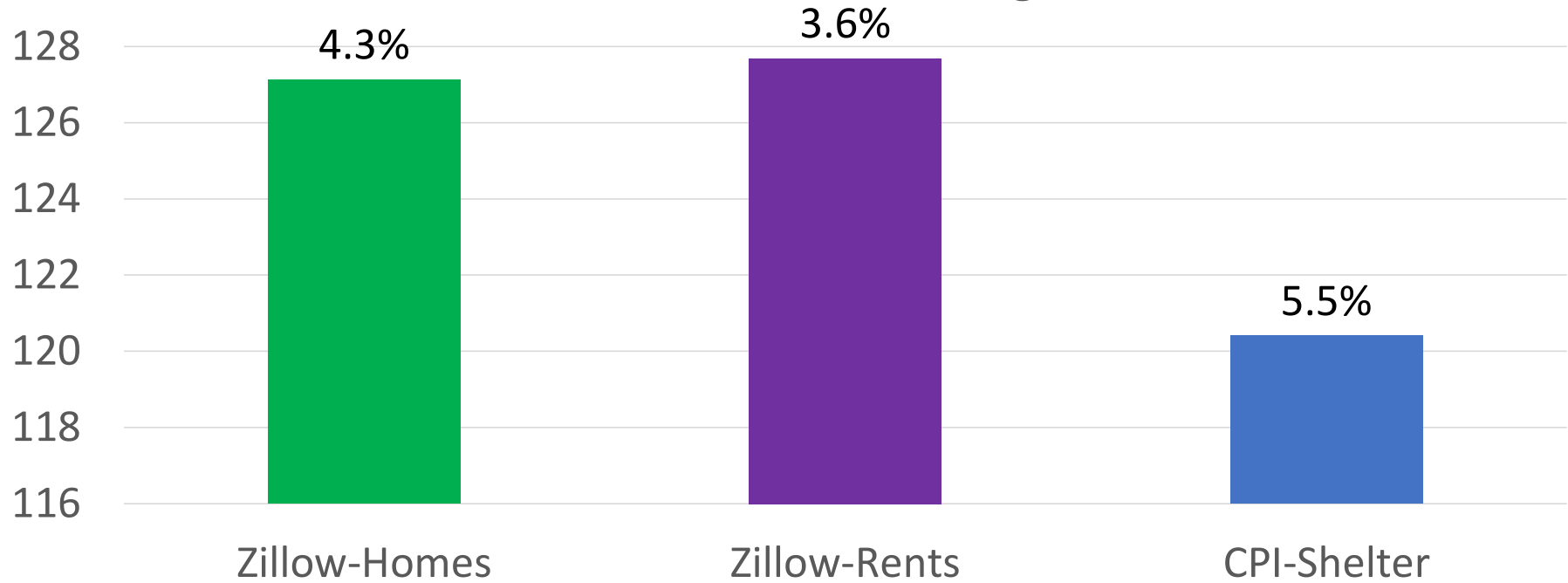
Bar: Price Level Relative to 3/21
Data Label: Last 12 month growth



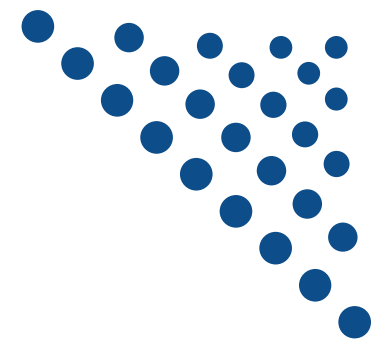
Housing Prices Vs Inflation



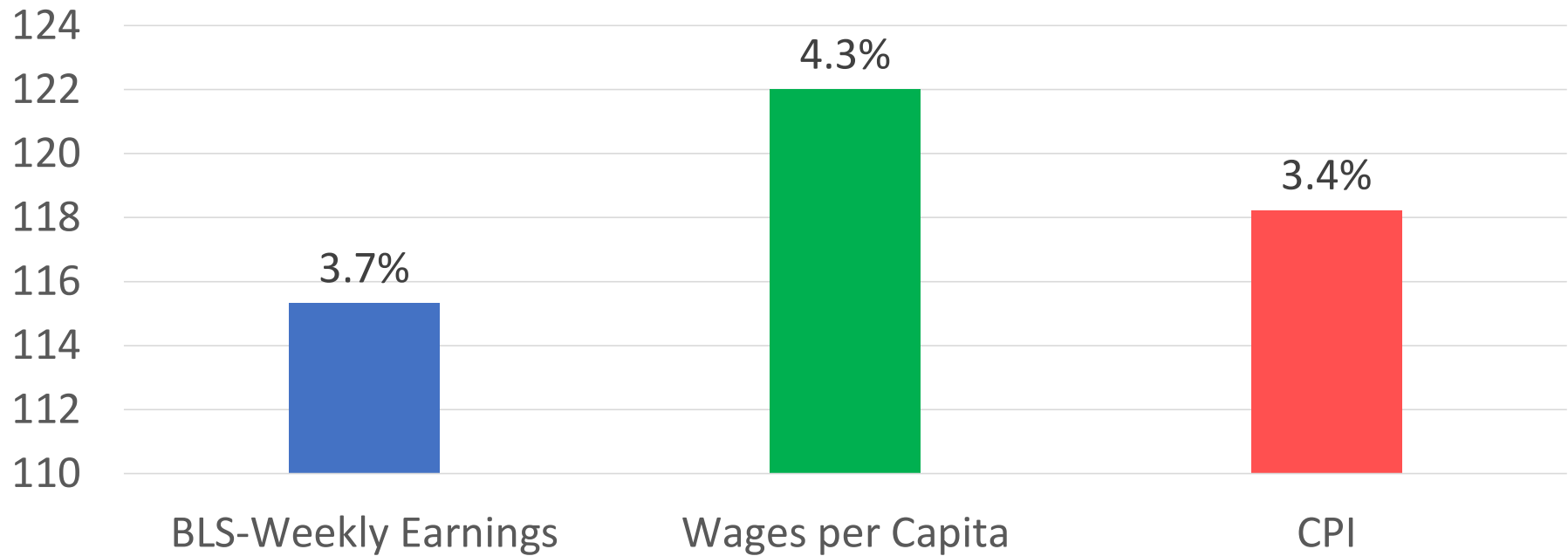
Bar: Price Level Relative to 3/21
Data Label: Last 12 month growth



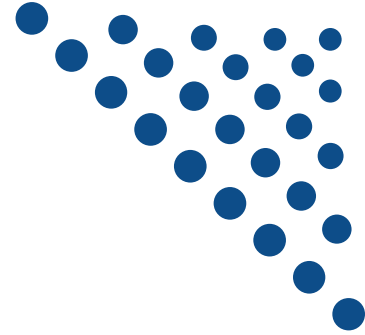
Wages vs Prices and Inflation



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



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)**

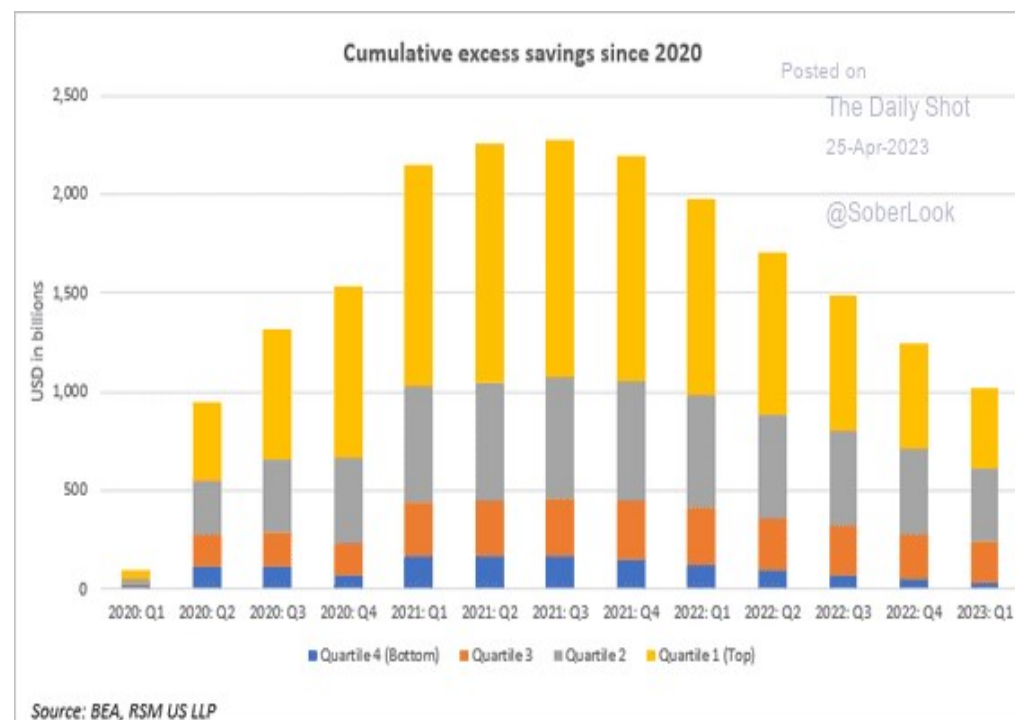
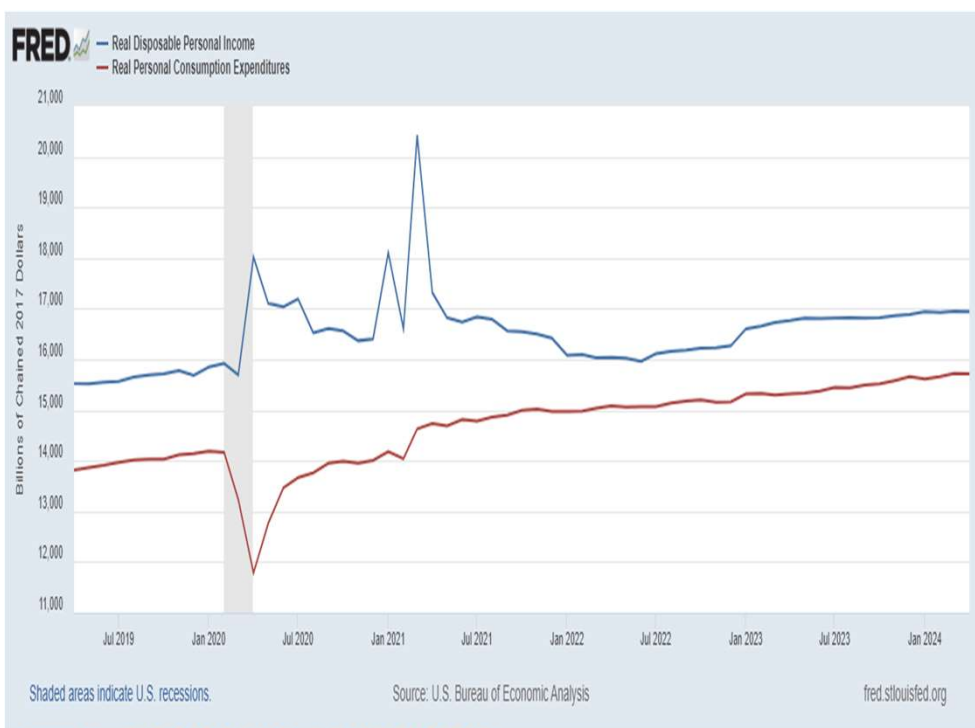
Except in deep recessions, the Fed has primary responsibility for stabilization policies.





Policy Effects: Fiscal

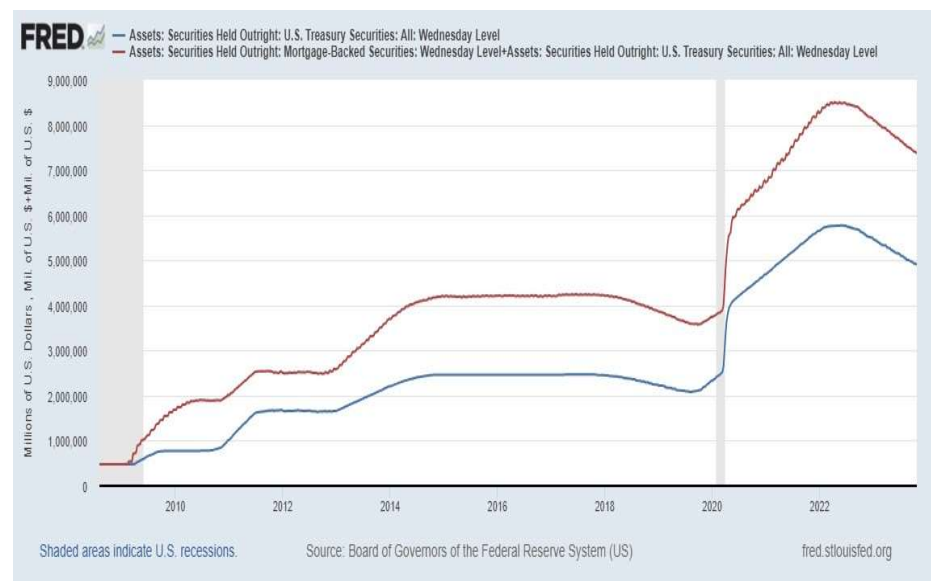
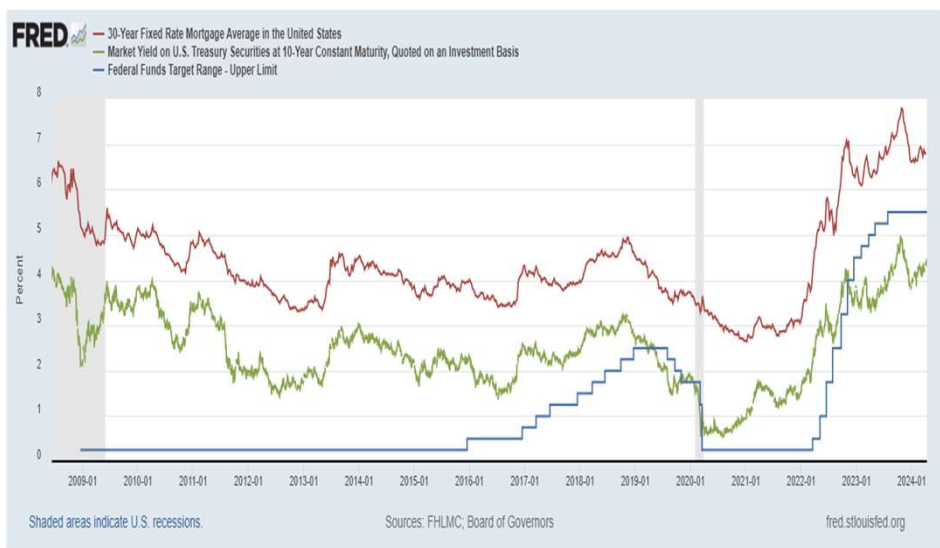
- **2020-2021: massive stimulus, \$4.6t: Cares Act, 3 rounds of stimulus checks, expanded unemployment benefits, Payroll Protection Loans.**





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



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.”

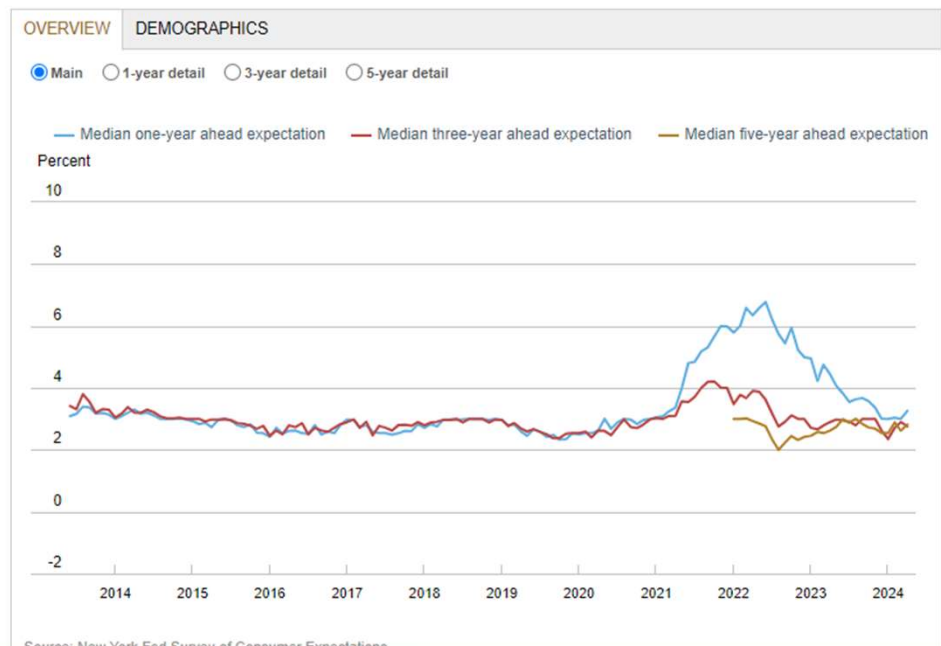
How did this happen?

Long-Term Inflation Expectations Remained “Well Anchored”

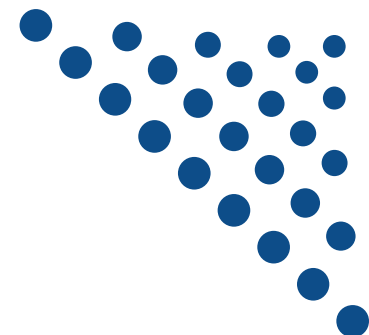


Inflation expectations

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

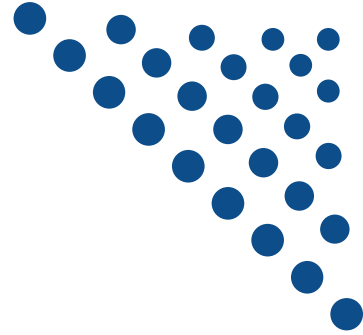


Assessing Credit and Blame (my views)



- **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?

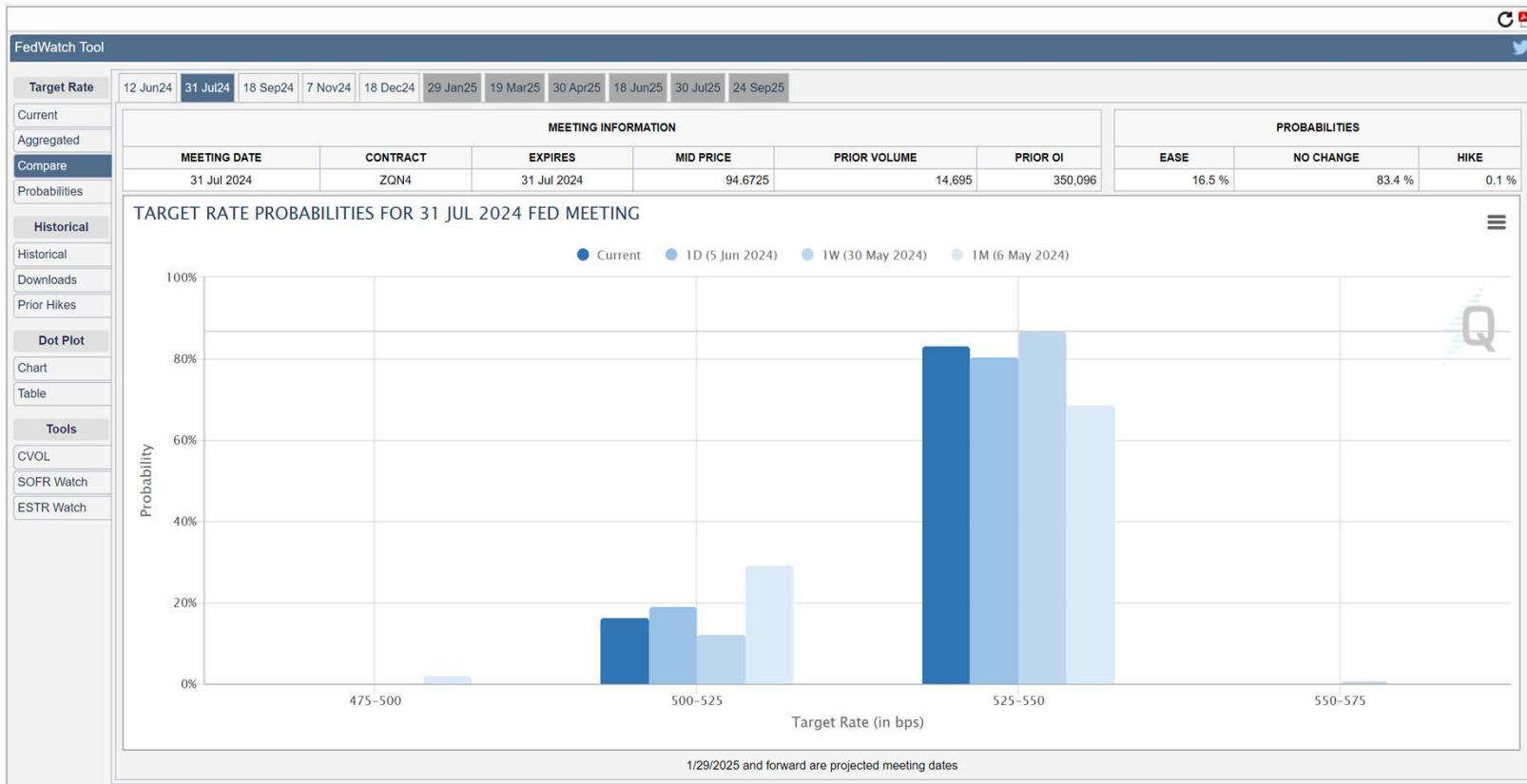
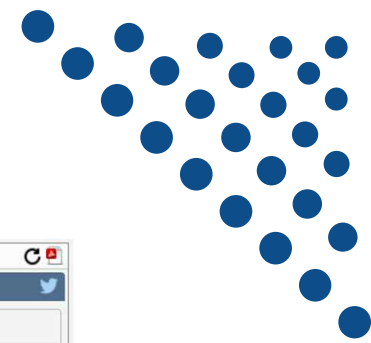


Pending Developments:

- **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!

Geoffrey Woglom grwoglom@amherst.edu

Contact NEED: Info@NEEDEcon.org

**Support NEED:
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