

***Osher Lifelong Learning Institute, Fall 2022***  
**Contemporary Economic Policy Issues**

California State University, Dominguez Hills  
Fall, 2022

Jon Haveman, Ph.D.  
National Economic Education Delegation

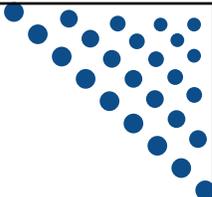


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**National Economic Education Delegation**

- **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.



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# 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: 49 Ph.D. Economists

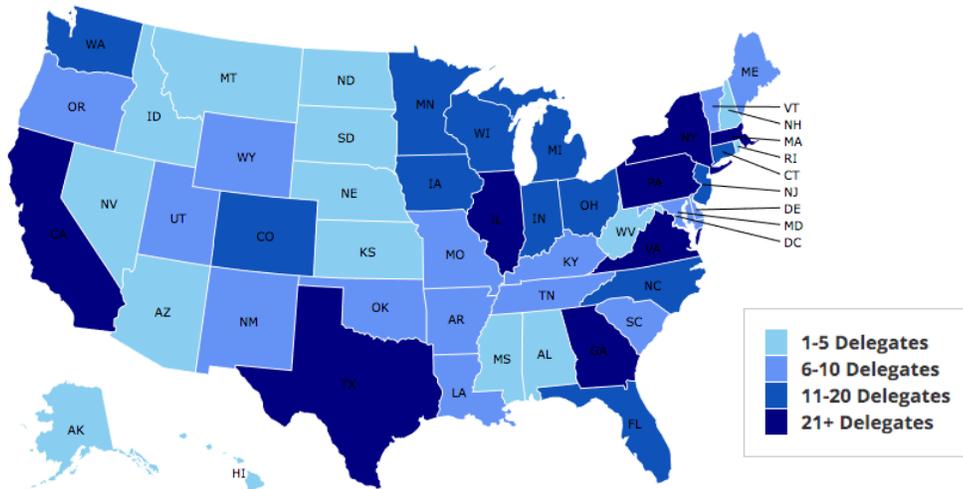
- Aid in slide deck development



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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
- Healthcare Economics



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## Course Outline

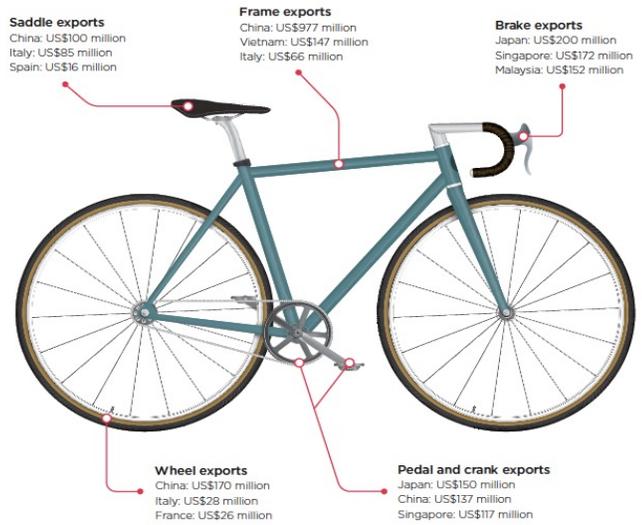
- **Contemporary Economic Policy**
  - **Week 1 (9/23): Economic Update (Jon Haveman, NEED)**
  - Week 2 (9/30): Trade and Globalization (Alan Deardorff, University of Michigan)
  - Week 3 (10/7): Autonomous Vehicles (Jon Haveman, NEED)
  - Week 4 (10/14): Climate Change Economics (Sarah Jacobson, Williams College)
  - Week 5 (10/21): The Federal Debt (Joseph Carolan, Oakland University)
  - Week 6 (10/28): Trade Deficit and Exchange Rates (Alan Deardorff, Univ. of Michigan)



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# Trade: Bicycle Supply Chain

Figure 1.1 Where do bicycles come from?



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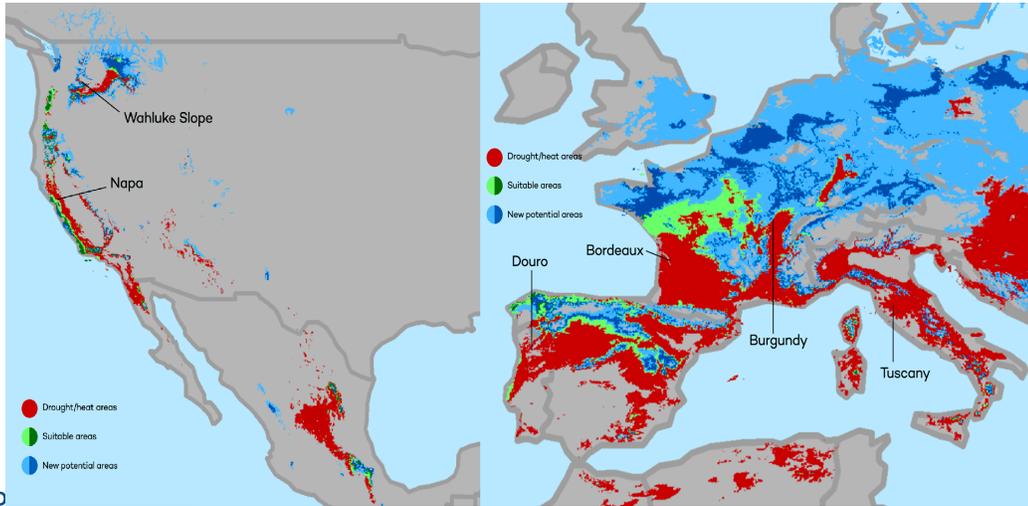
# Autonomous Vehicles



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# Climate Change Economics

The changing map of the world's wine-growing regions.



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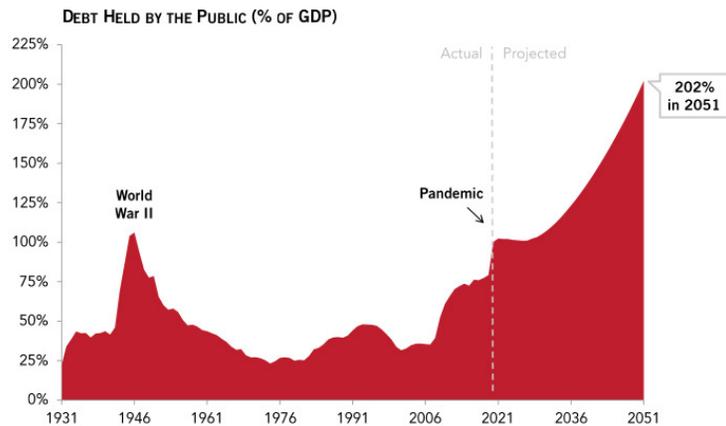
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# The Federal Debt is Becoming A Problem



The national debt is on an unsustainable path



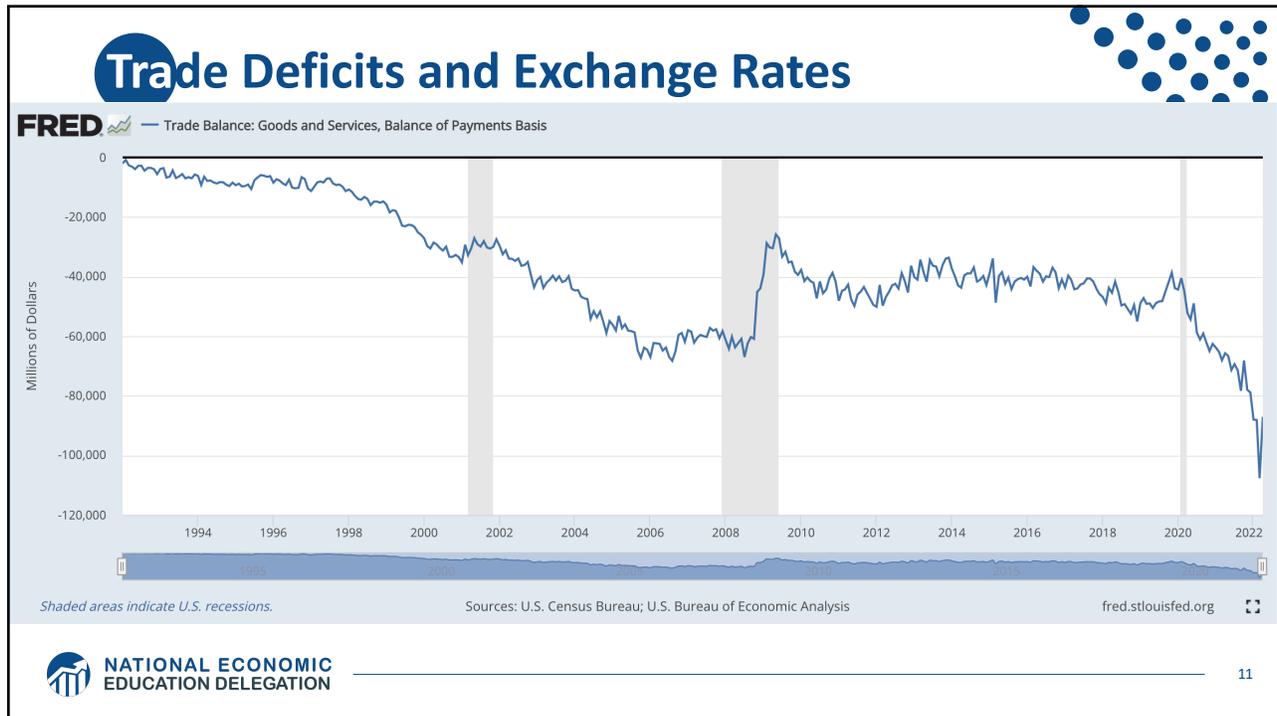
SOURCE: Congressional Budget Office, The 2021 Long-Term Budget Outlook, March 2021.  
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## US Economy: Update

**Jon Haveman, Ph.D.**  
 NEED  
 September 23, 2022

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## 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.
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## Outline

- **About the U.S. Economy**
- **Recession – The State of the US Economy**
- **Global Comparisons**
- **Inflation**
- **On the policy response:**
  - To the pandemic
  - To inflation



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## Some Basic Statistics

Statistic:	Value
Population	333.1 Million
Labor Force	164.7 Million
Employment	152.7 Million
Gross Domestic Product (GDP)	\$24.9 Trillion
Income per Capita	\$64,908
Ave. Hourly Earnings	\$32.36

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## U.S. Economy in Global Perspective

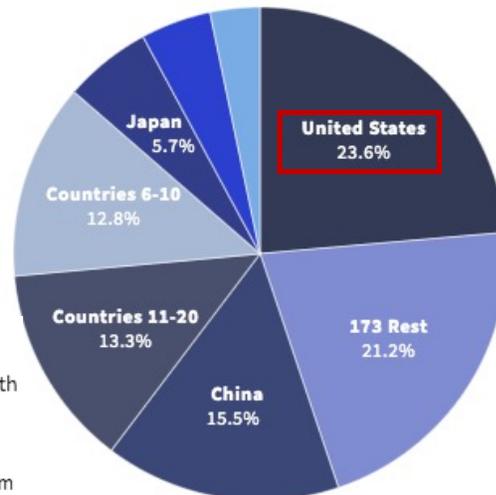
### U.S. Nominal GDP:

**\$21.747 trillion** in 2019-Q4  
**\$19.487 trillion** in 2020-Q2  
**\$24.852 trillion** in 2022-Q2

### % Share of the Global Economy

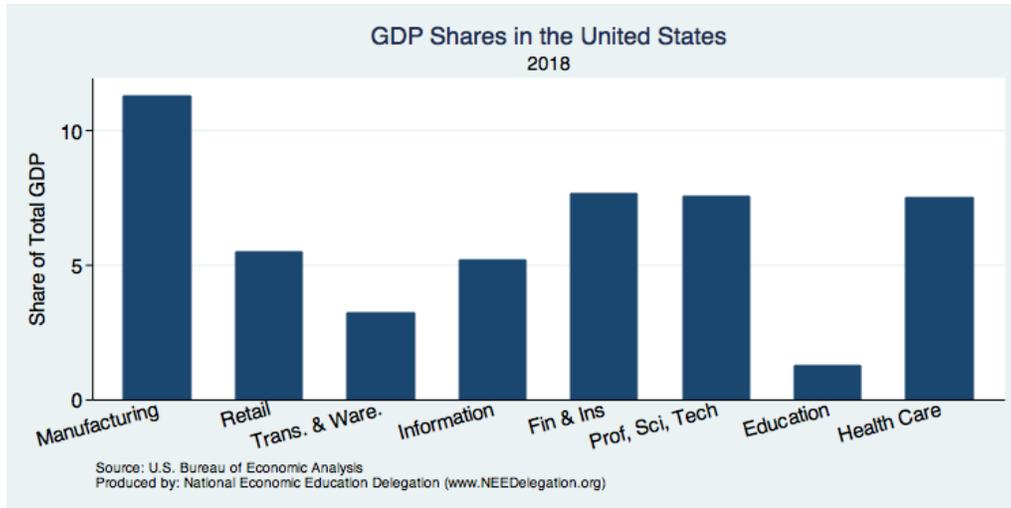
The 173 countries outside the top 20 make up less than a fourth of the total global economy.

United States
  173 Rest
  China
  Countries 11-20
  Countries 6-10
  Japan
  Germany
  United Kingdom



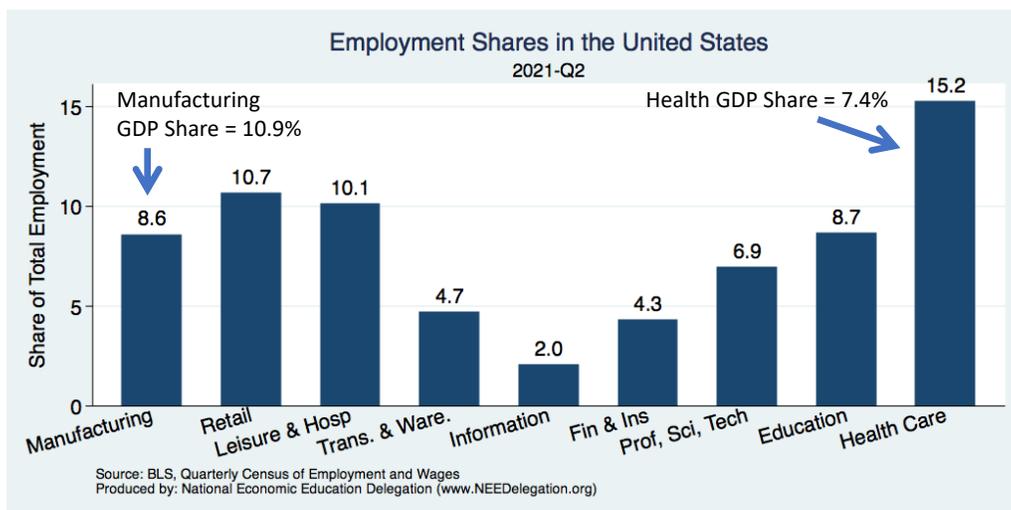
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# Composition of the U.S. Economy: 2020



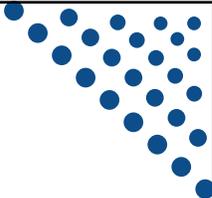
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# Composition of the U.S. Economy: Employment



Note: Does not add to 100% because of omitted sectors.

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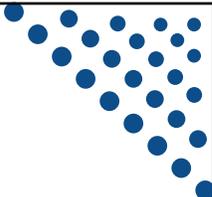


# Recession(?)

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## Headline:

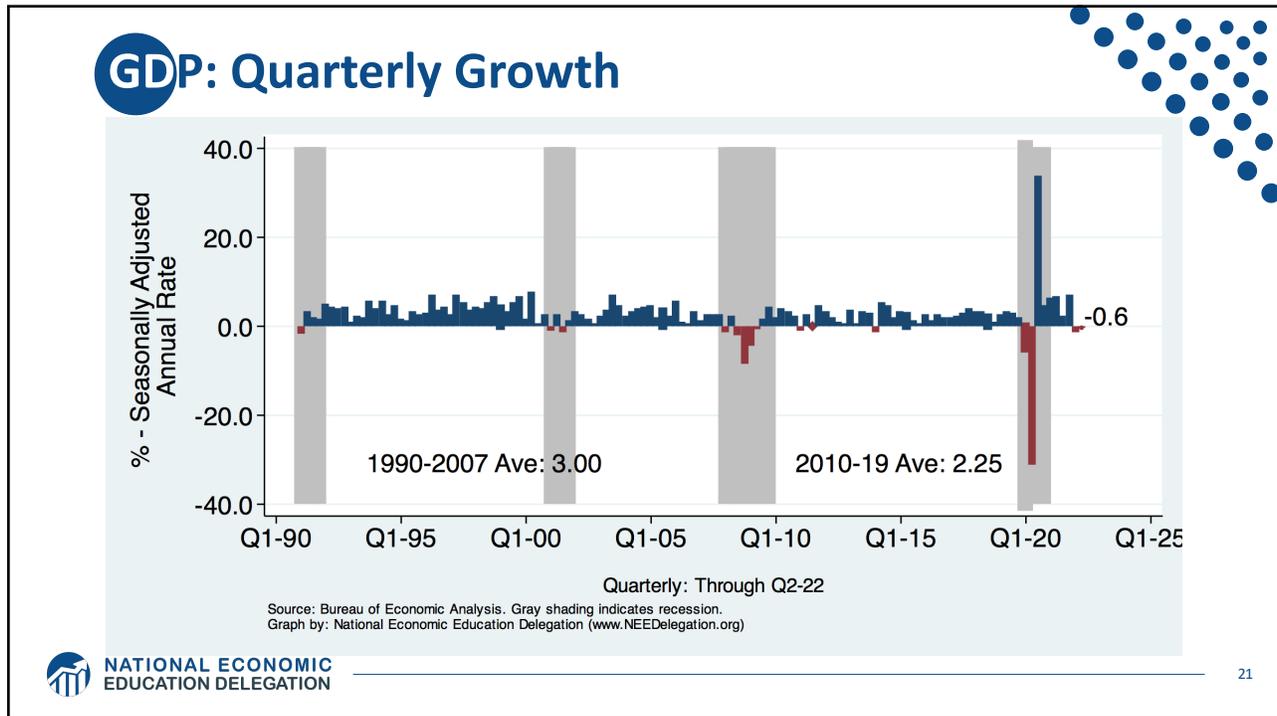
### G.D.P. Report Shows a Drop, Fanning Fears of a U.S. Recession

- A key measure of economic output fell for the second straight quarter, raising fears that the United States could be entering a recession.
- Gross domestic product, adjusted for inflation, fell 0.2 percent in the second quarter, the equivalent of a 0.9 percent annual rate of decline. Follow updates.

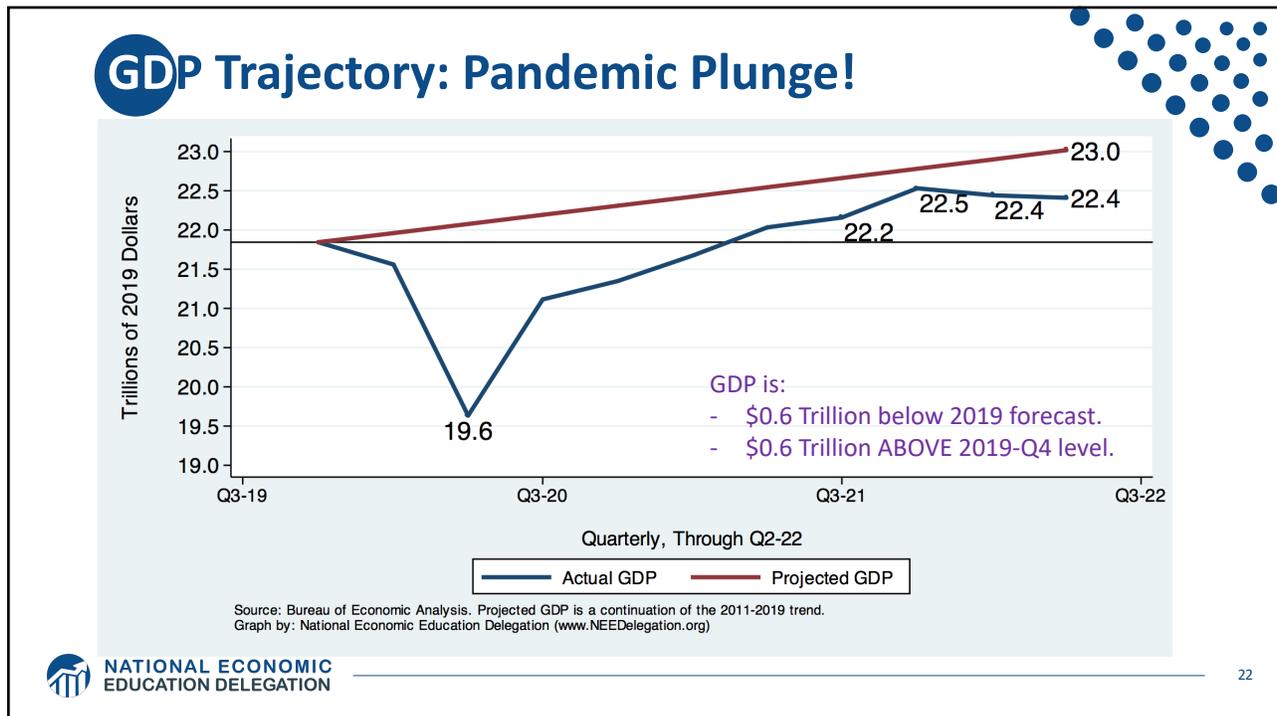
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## What Is “Accounting” for the Decline?

- **Expenditures drive GDP growth.**
  - GDP is the sum of four categories of spending:
    - Consumption
    - Investment – **housing/business/inventories**
    - **Government spending**
    - Net Exports: Exports – Imports



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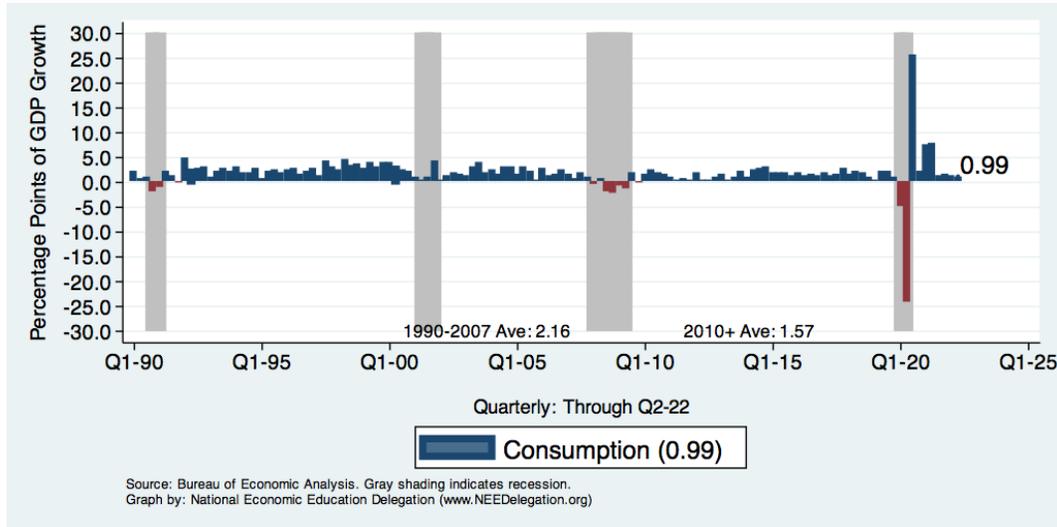
## Recession? Two Quarters....

- **Depends on what is driving the drop.**
  - Inventories
  - Housing
  - Government spending
- **Consumer spending is still ok.**
- **Employment growth is solid.**
- **Other indicators are still ok.**



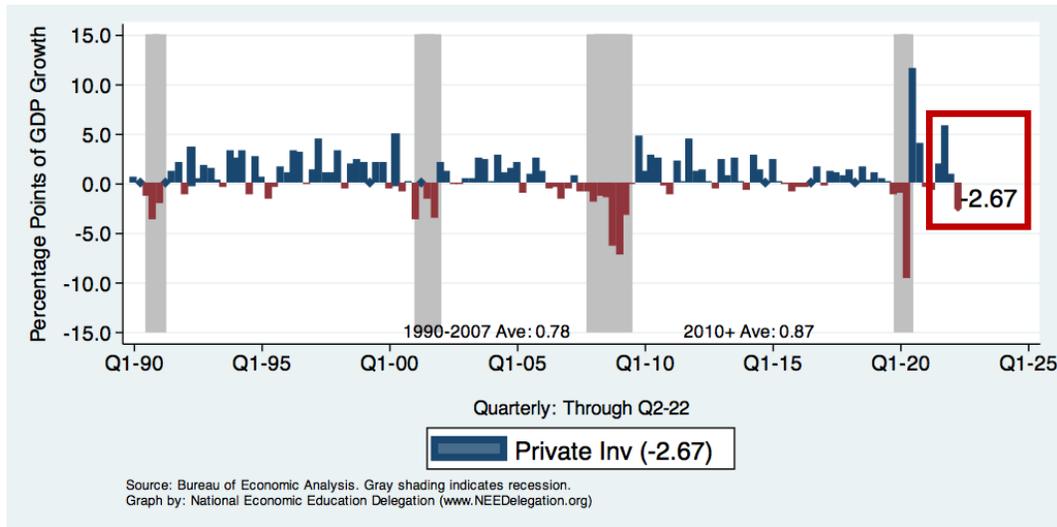
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## Contribution to GDP Growth: Consumption



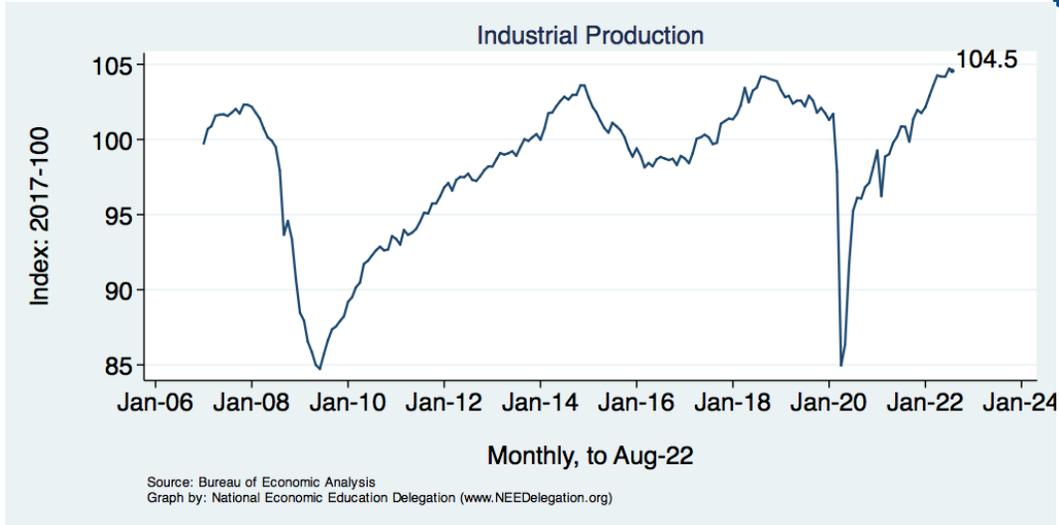
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## Contribution to GDP Growth: Inventories



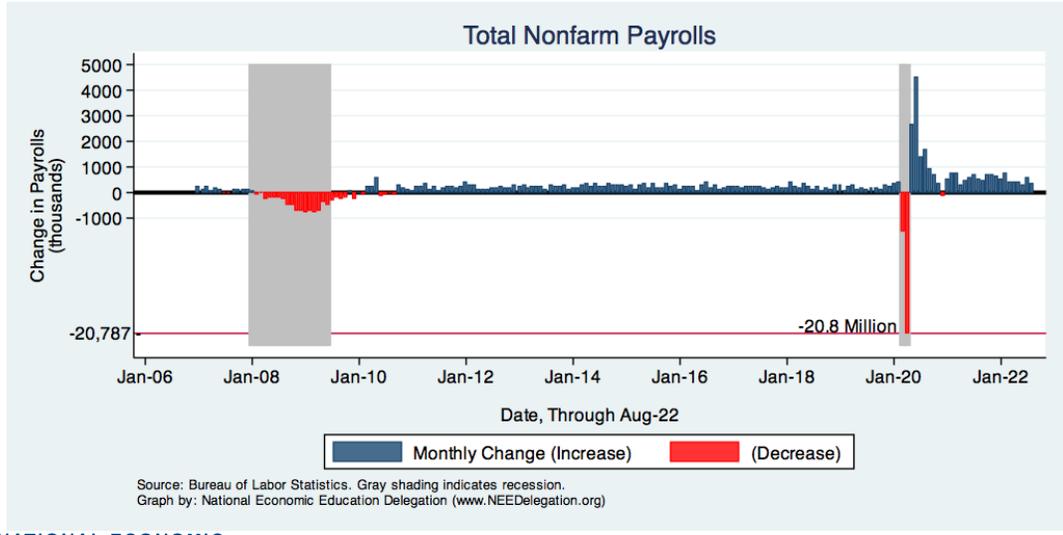
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# Industrial Production (Manuf, Util, Mining)



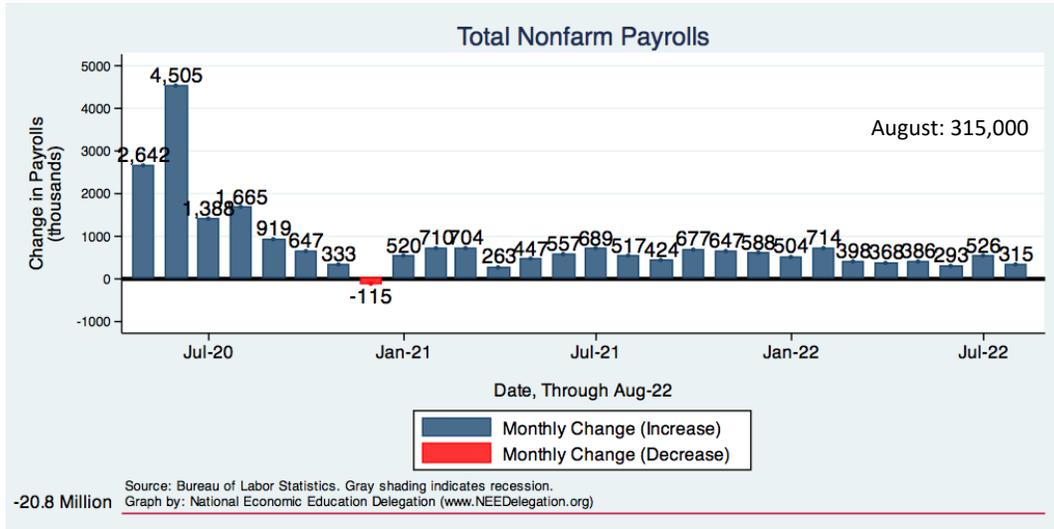
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# Monthly Changes in Nonfarm Employment



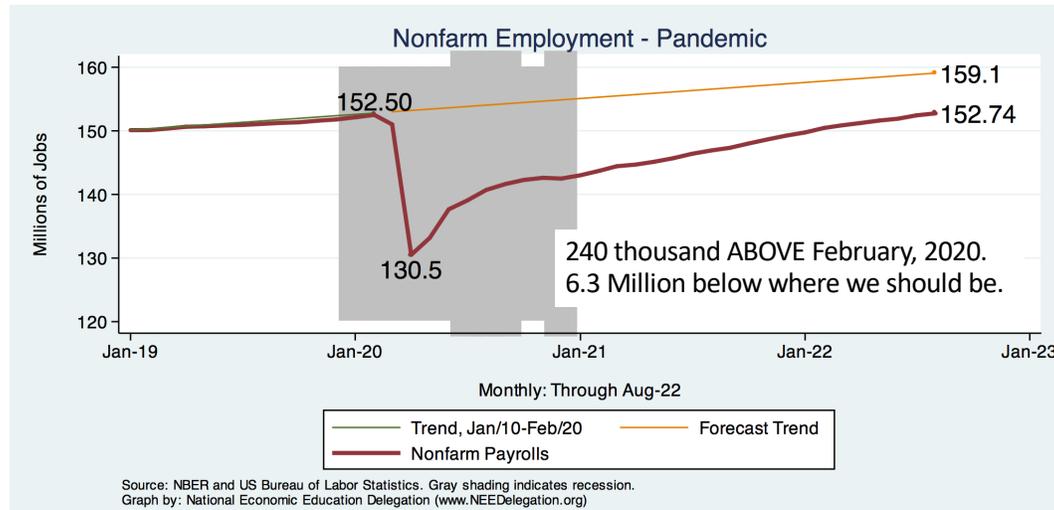
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# Monthly Changes in Nonfarm Employment

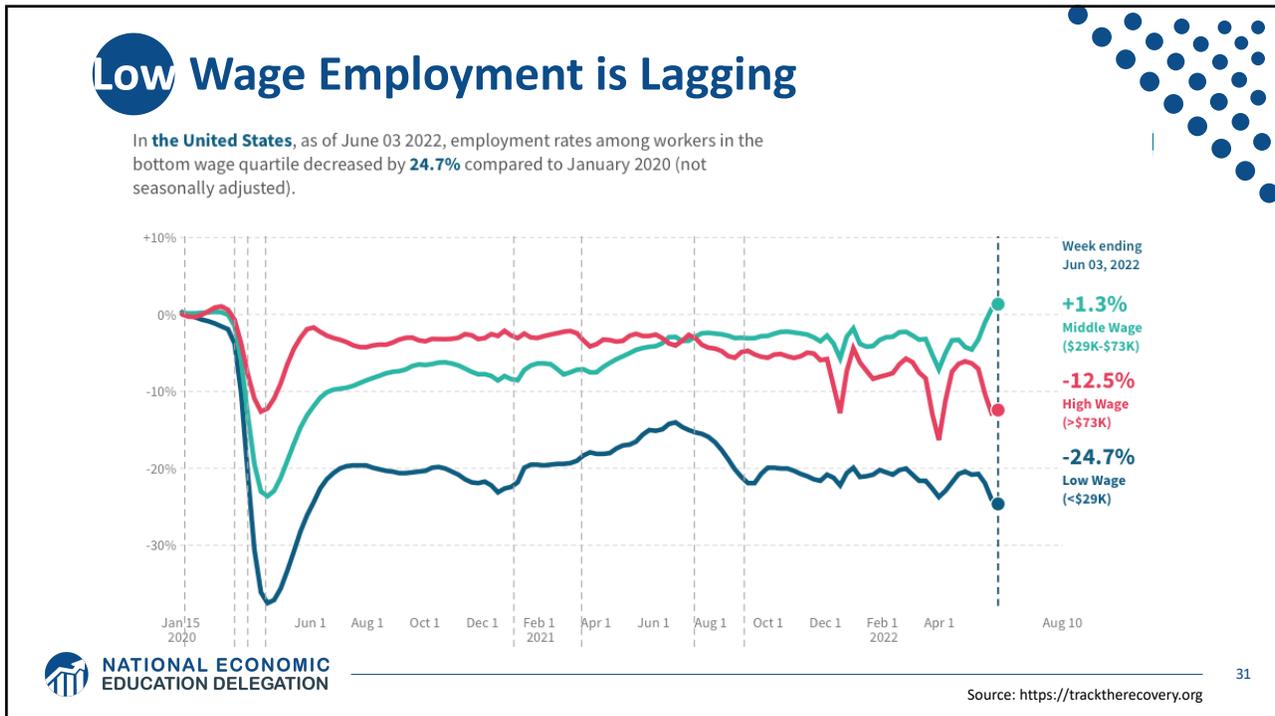


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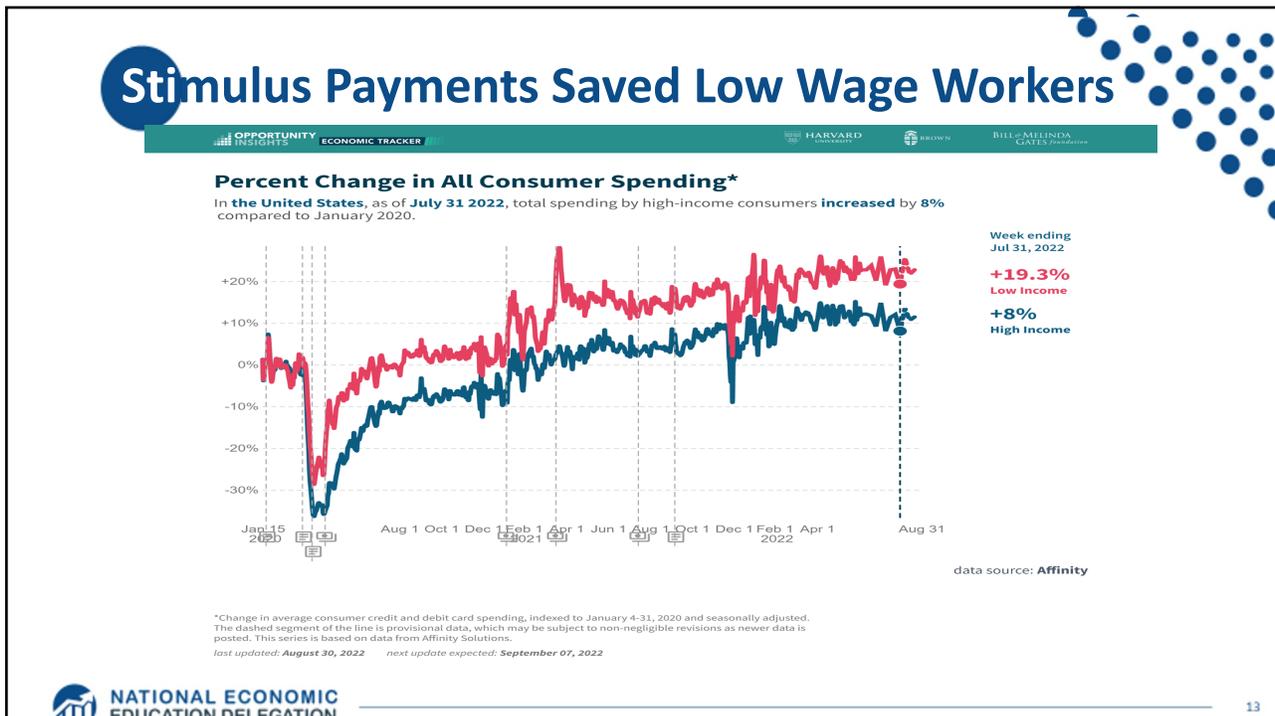
# Employment Gap



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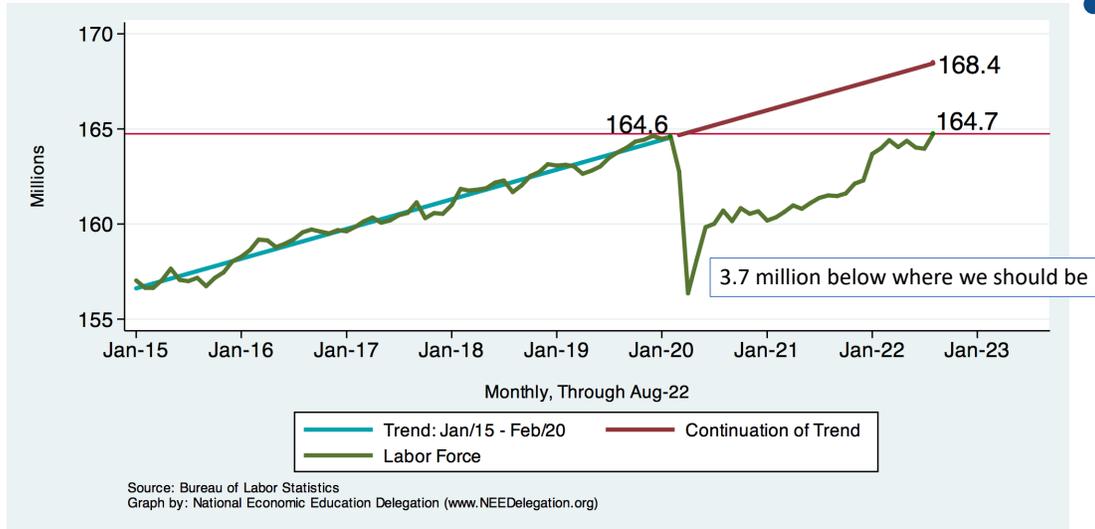


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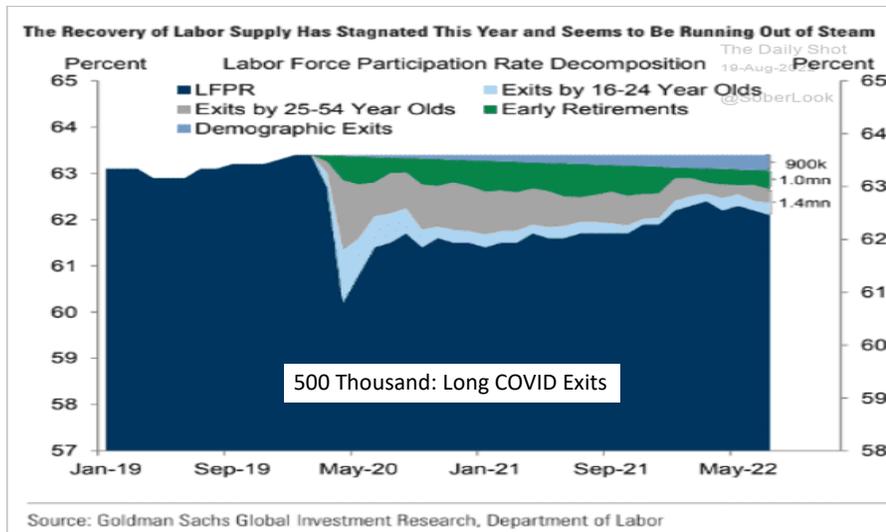
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## Where Have All the Workers Gone?

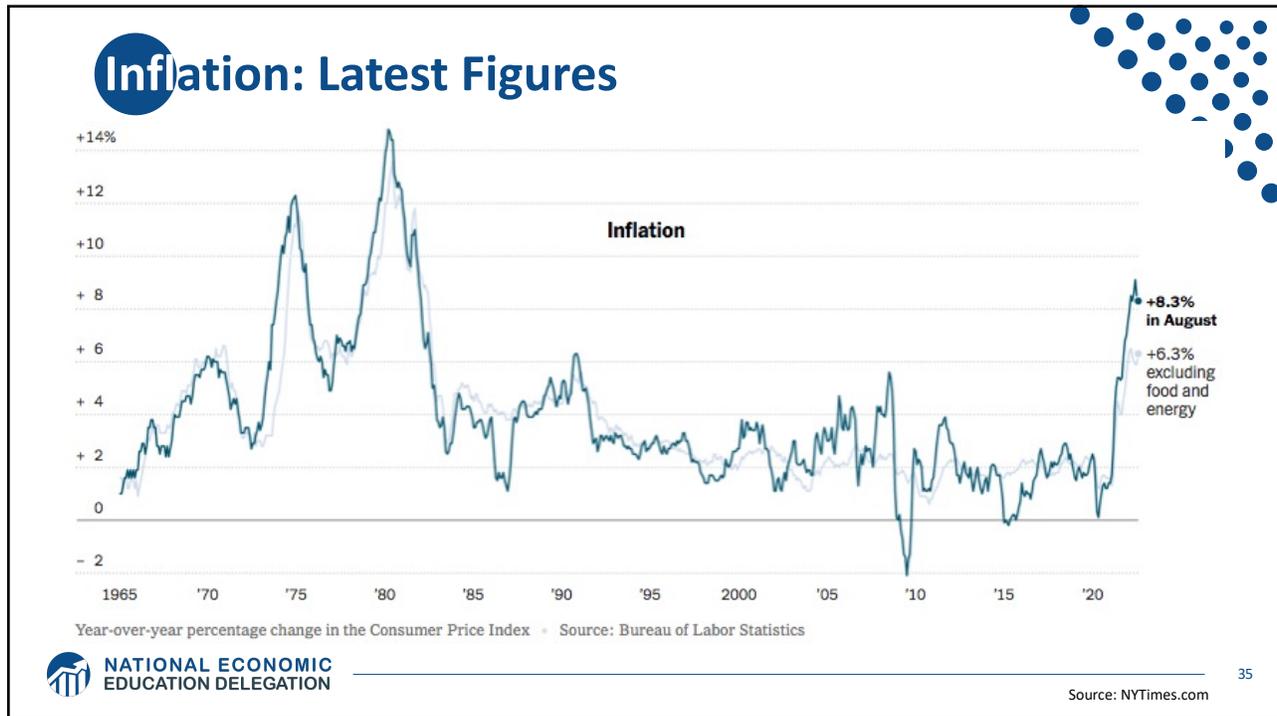


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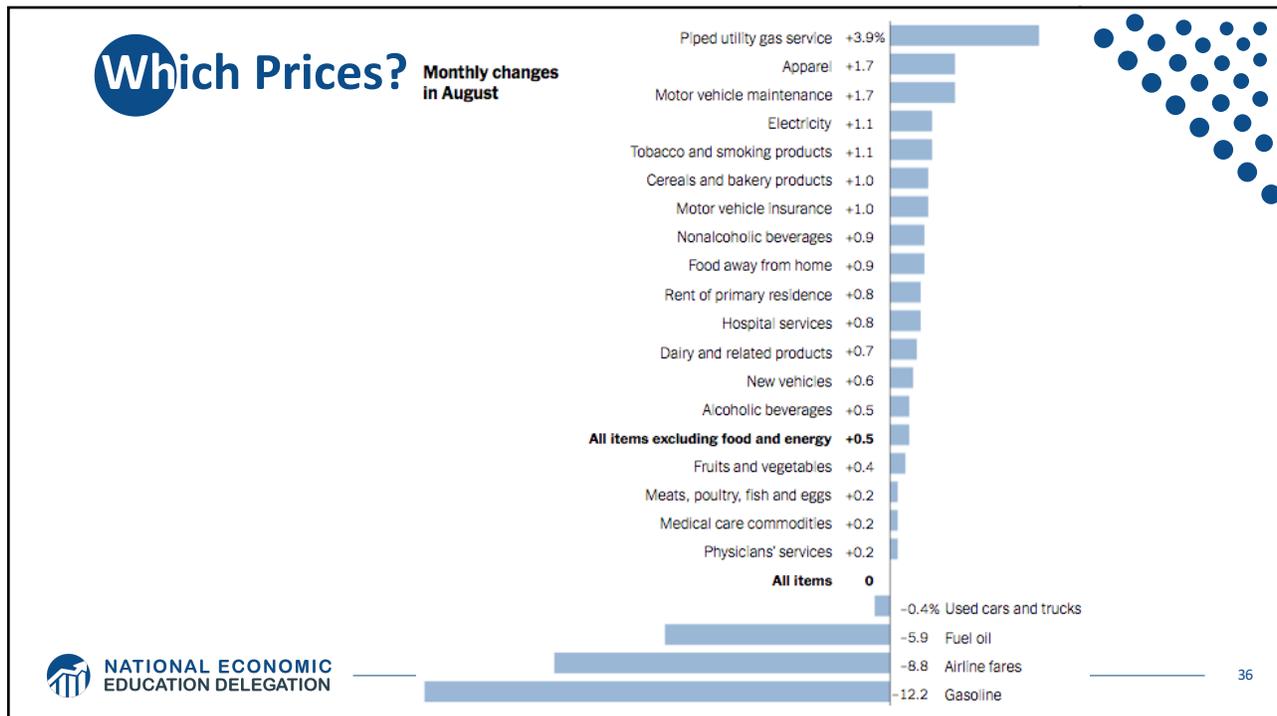
## Some Explanations



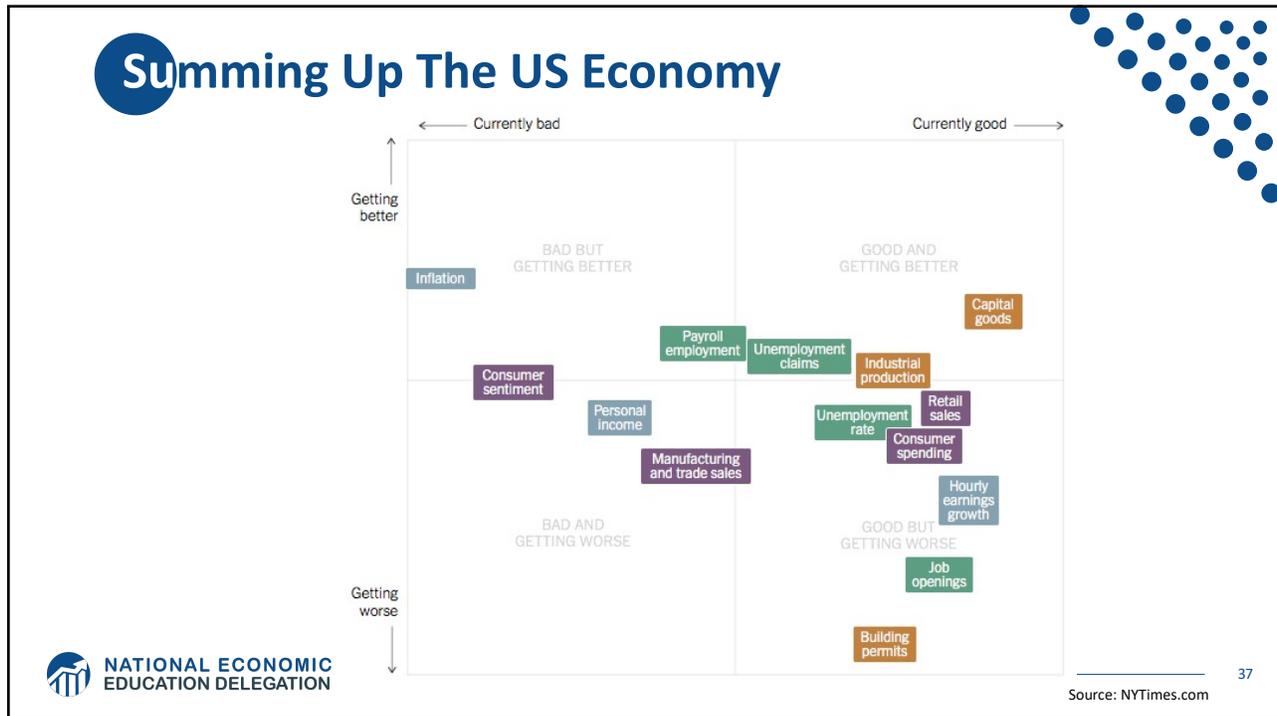
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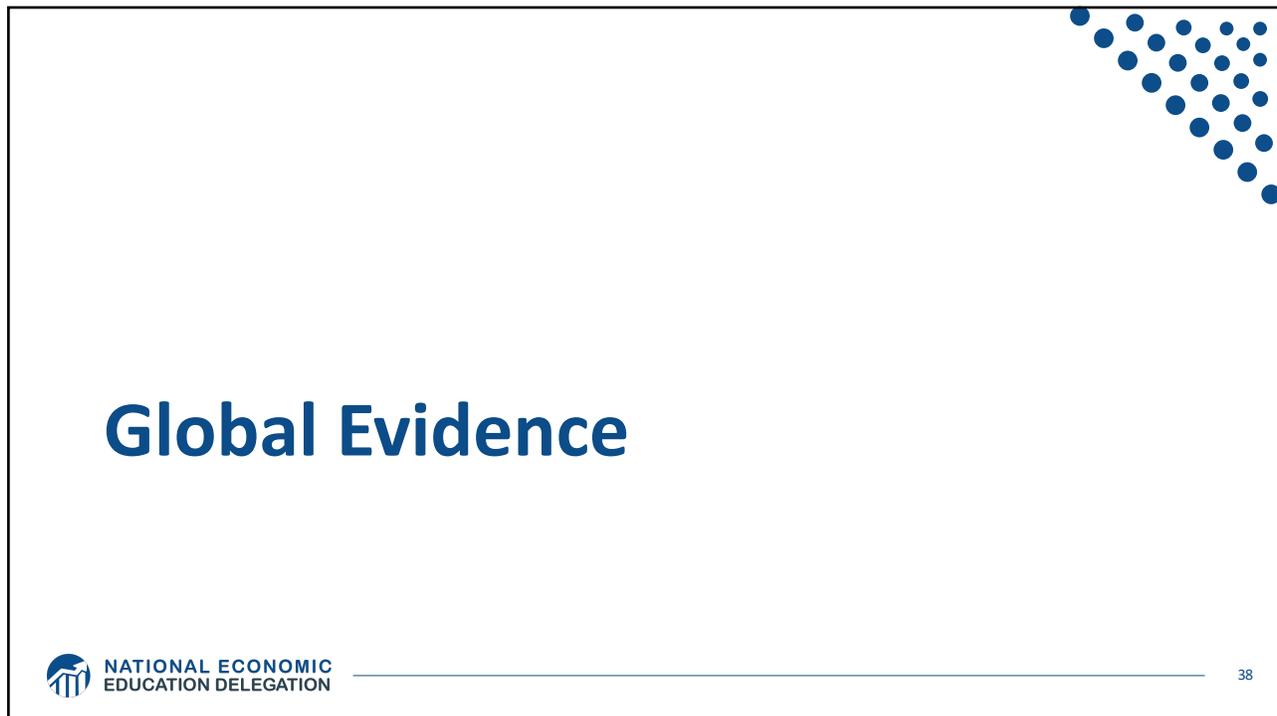
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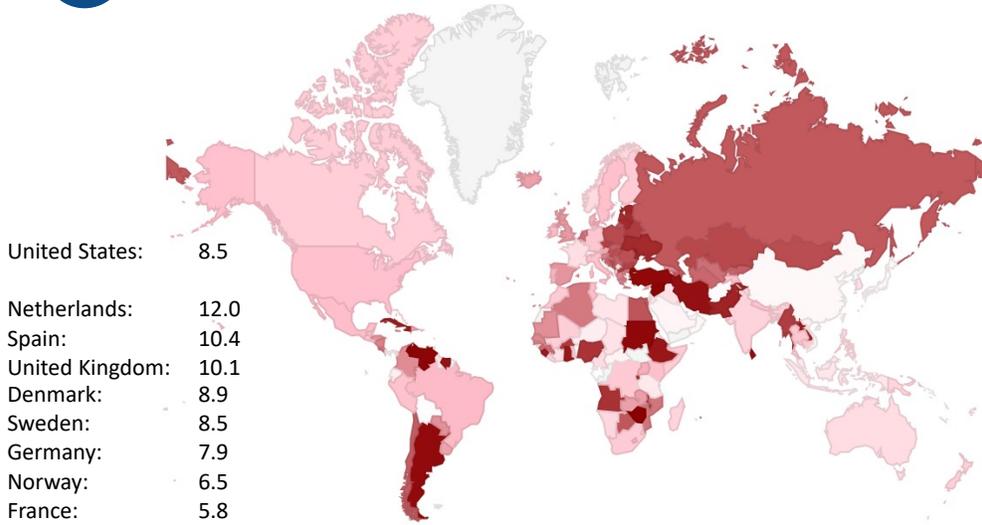


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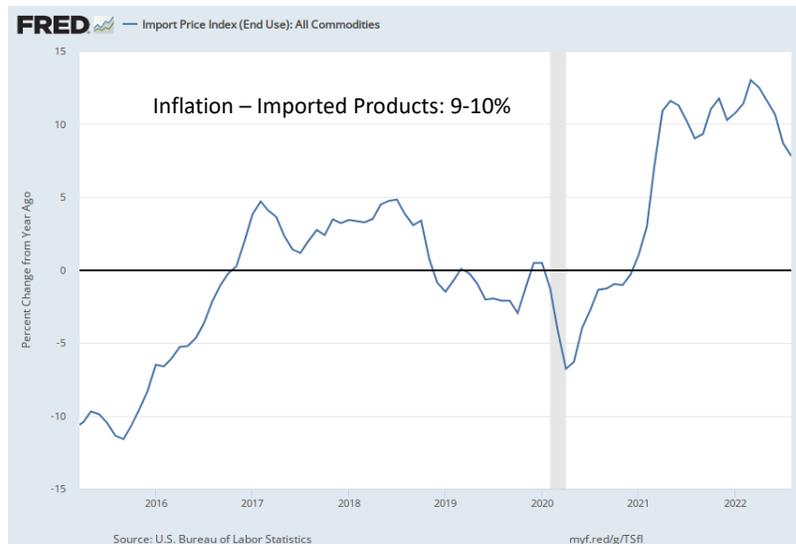
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# Inflation: Not just a US Problem

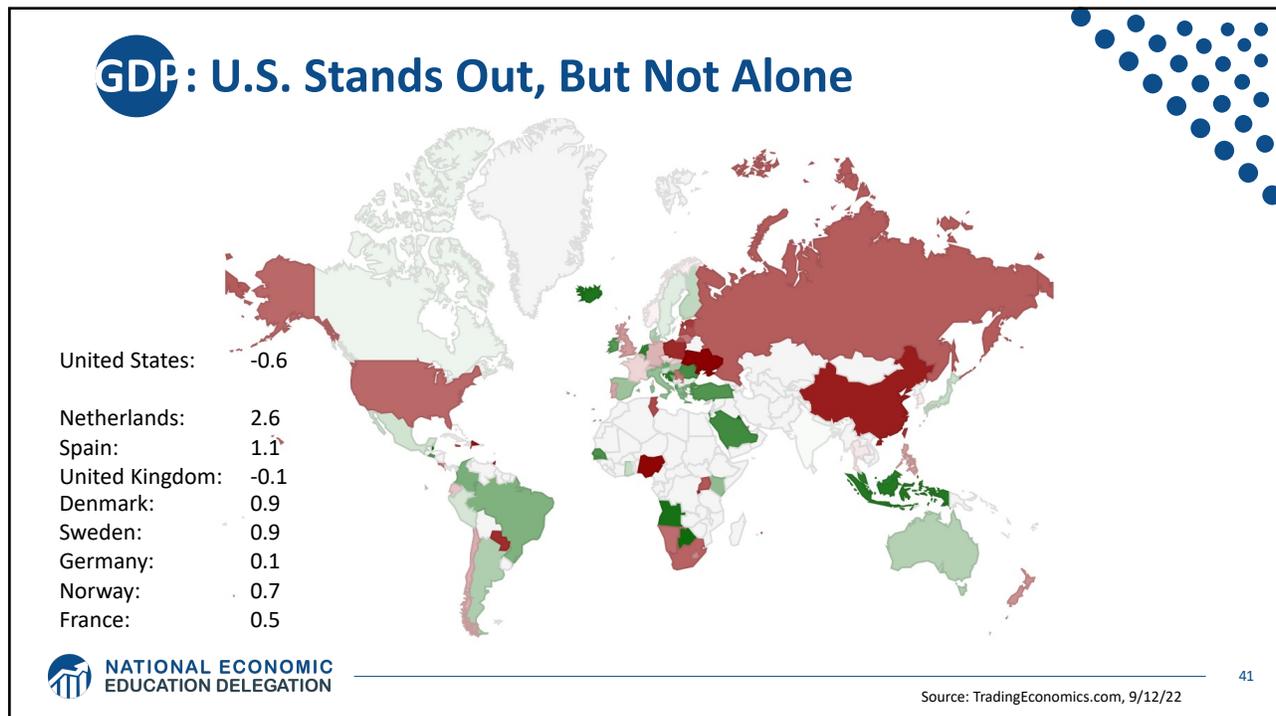


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# Import Prices Are Elevated



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## Global Summary

- **Developed economies are uniformly down.**
  - Not entirely a surprise. The bounce back from the early closures was rapid.
- **We have very little experience with this type of a global shock.**
  - Entirely possible that interconnected economies will be on a similar cycle.
- **Somewhat surprising because the economic responses varied across countries. However:**
  - Significant stimulus was a common theme.
  - Supply chain issues are a common theme.
  - Shifts from purchases of services to goods was a common theme.
    - And now the shift back.

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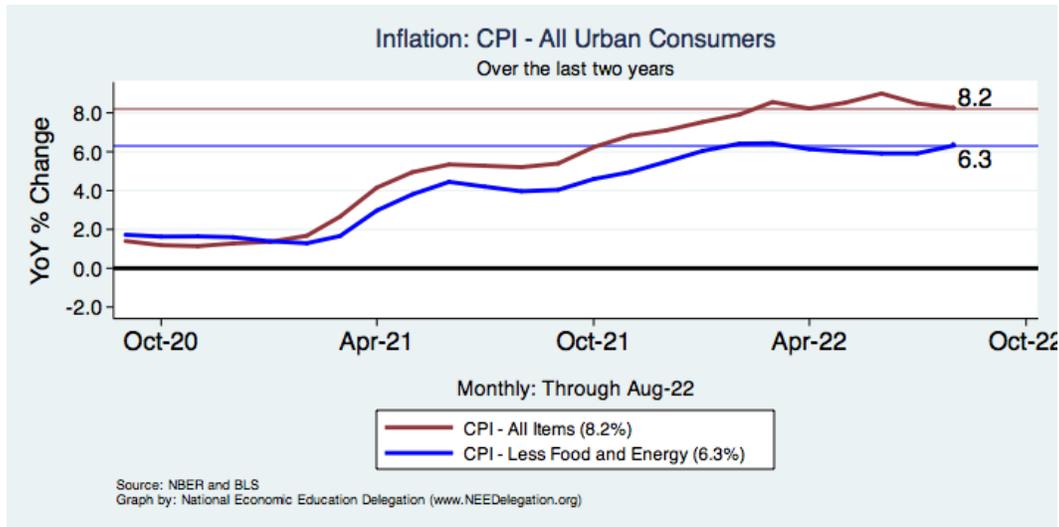
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# Inflation



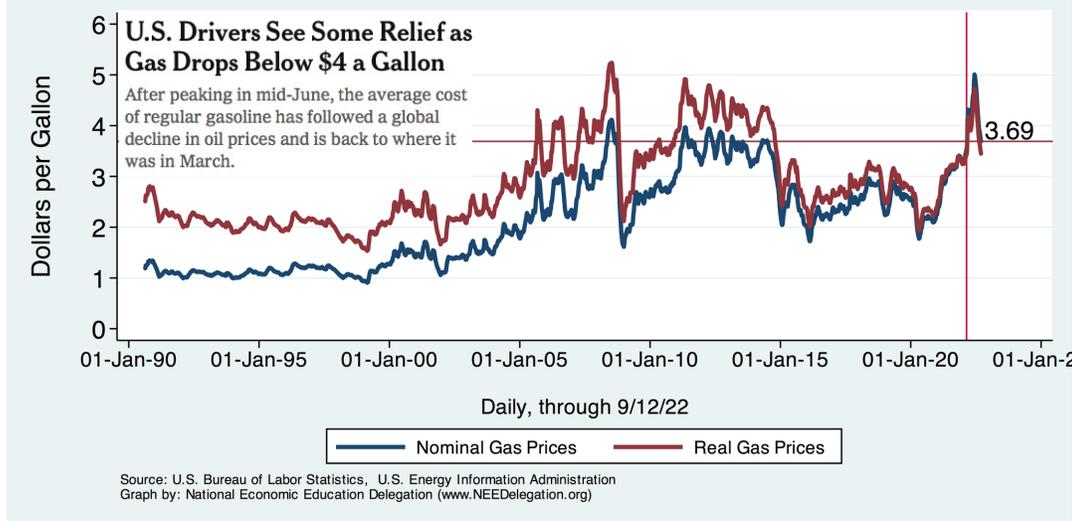
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## Inflation – Climbing! Or Turning Around?

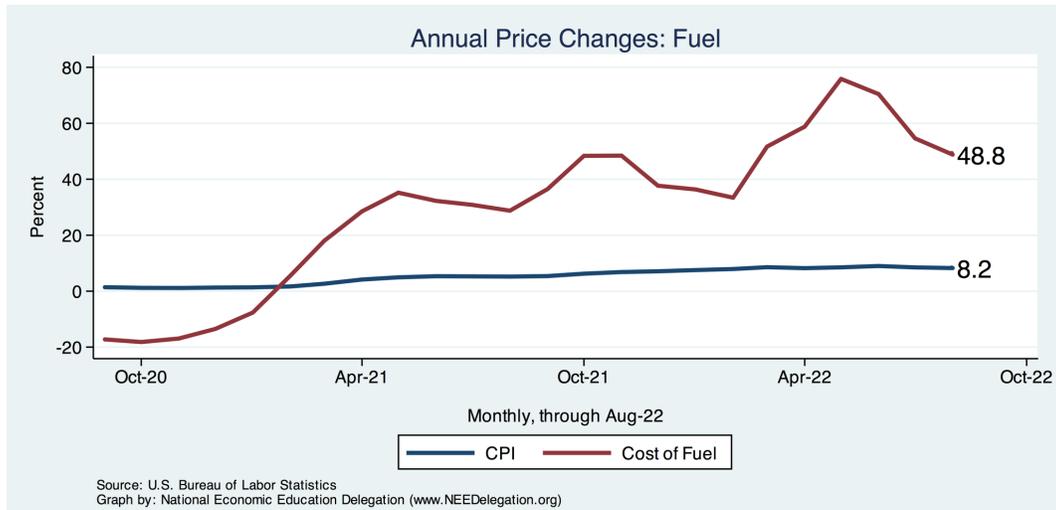


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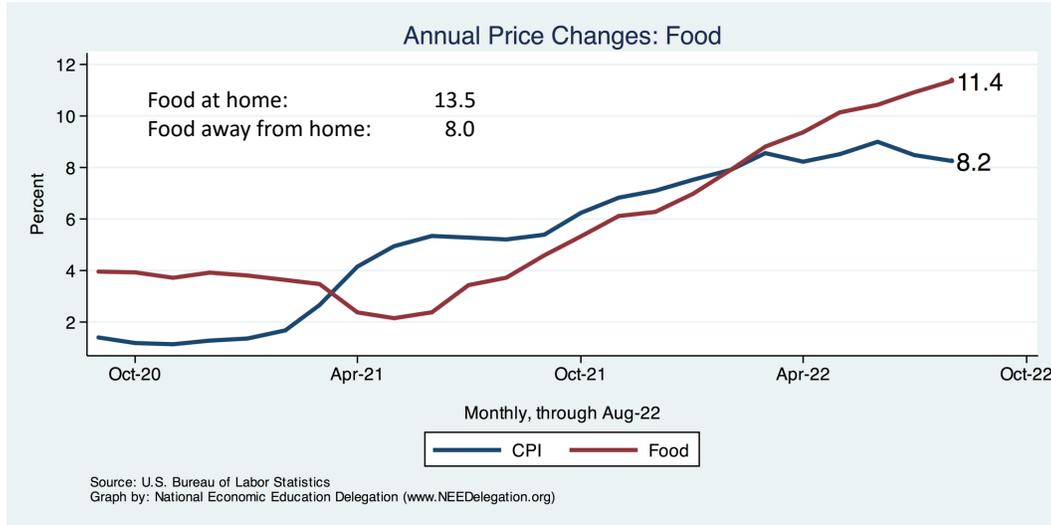
## Gas Prices: National Average at the Pump



## Fuel Costs Are Still Elevated



# Food Costs Continue to Rise



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# How Does Inflation Work?

Inflation represents the rate at which the cost of goods and services increase over a period of time.

## Demand-Pull



When demand for goods/service exceeds production capacity.

## Cost-Push



When production costs increase prices.

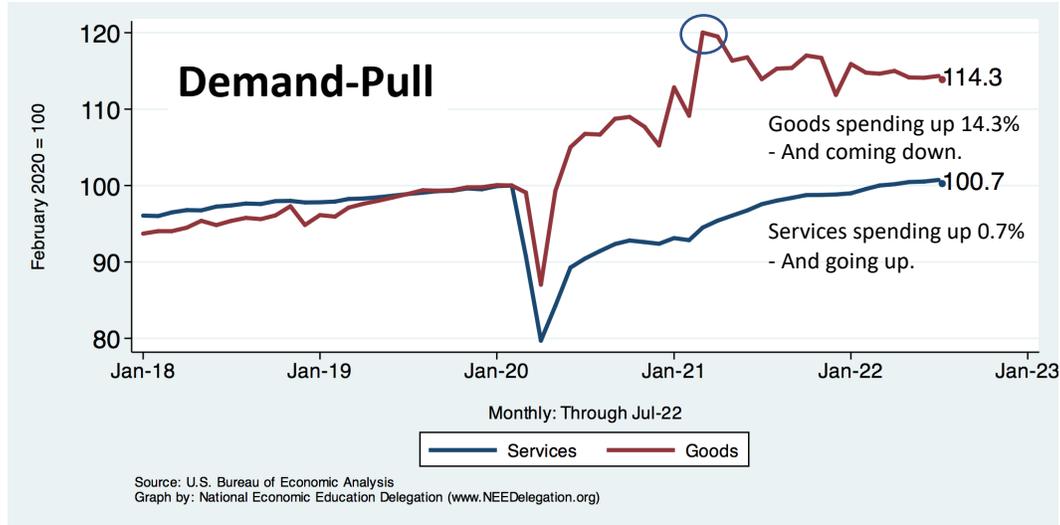
## Built-In



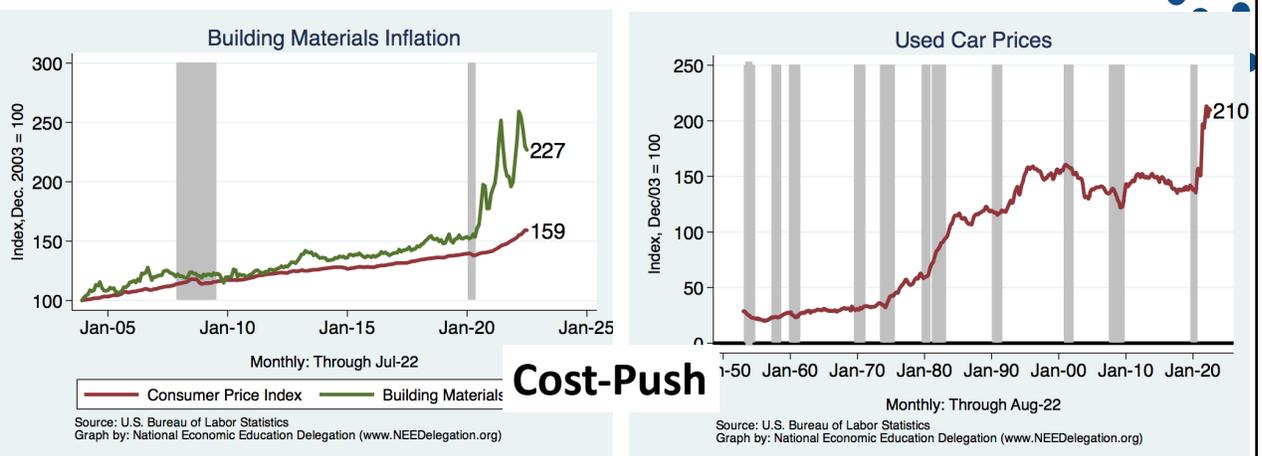
When prices rise, wages rise too, in order to maintain living costs.

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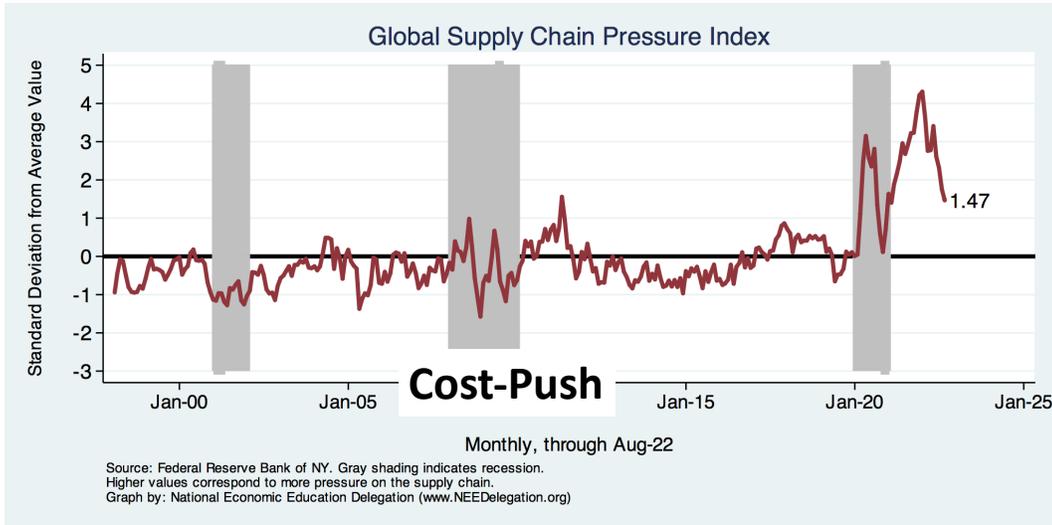
## Spending Patterns Changed - More Goods!



## Inflation: Concentrated

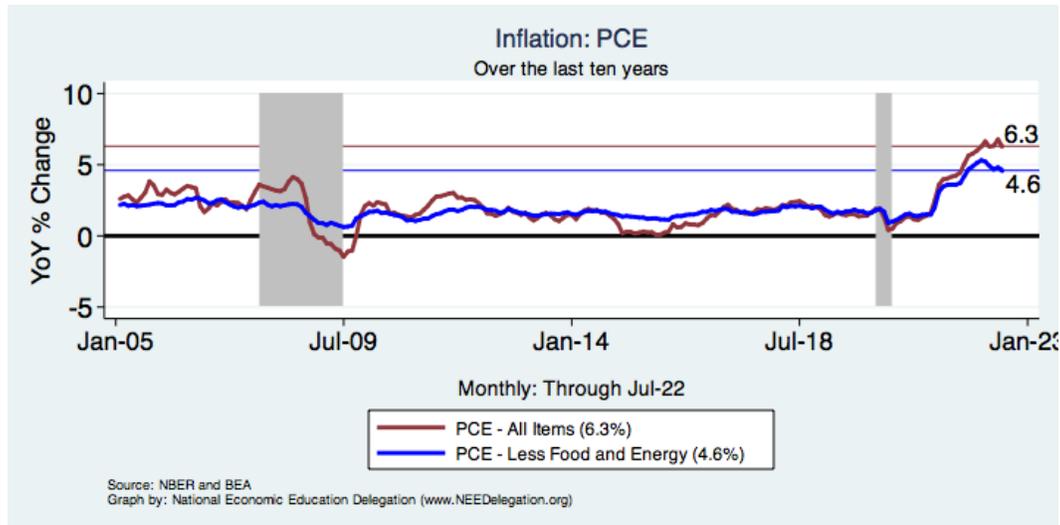


# Supply Chains



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# Fed's Preferred Measure of Inflation



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## My Diagnosis for the Uptick in Inflation

- Spending patterns have changed dramatically.
- Yes, there were supply chain issues that affected some areas in particular (e.g., computer chips).
- But there was also too much total spending.
- Fiscal stimulus led households to increase saving over 2021 by more than \$2 trillion. Strong retail sales numbers suggest they are prepared to spend it.
- Whose to Blame: ARP probably too big, but the Fed could have acted sooner.



## Measure of Inflation Expectations



Breakeven Inflation Rate = Difference between nominal and real 5-year and 10-year Treasury constant maturity securities.

Market participants expect around 2.4% inflation annually over the next 10 years and 2.6% over the next 5 years.

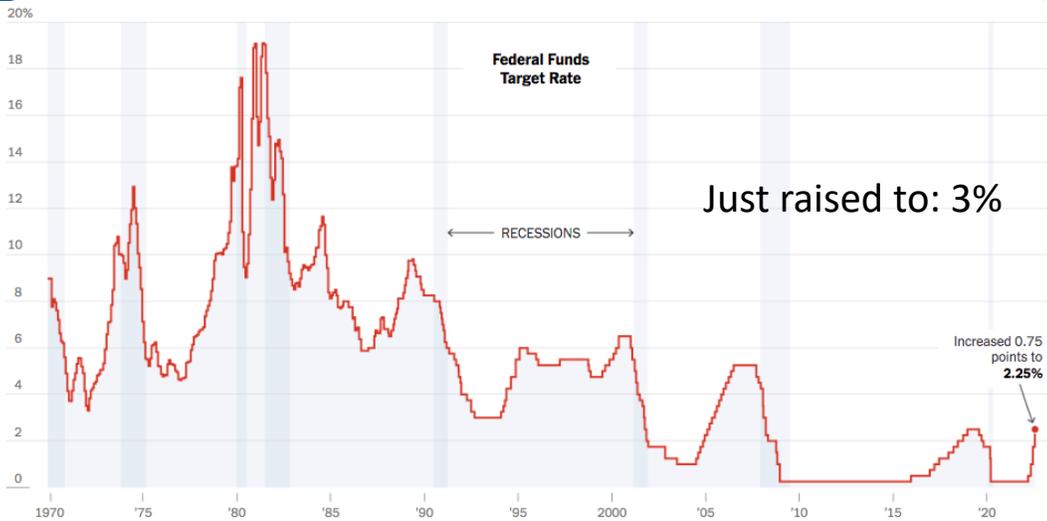
Inflation expectations are calming down.



# What's the Fed Doing About It?

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## Federal Funds Rate



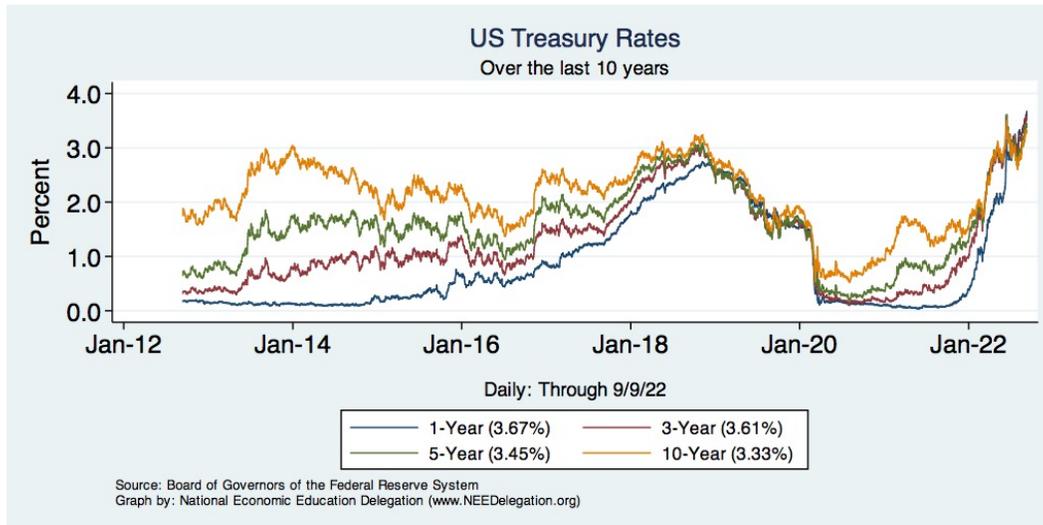
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# Implications for Demand

- Investment borrowing
- Home loans – tied to 10-year Treasury
- Car loans
- Credit cards
- Savings accounts – positive
- And more....

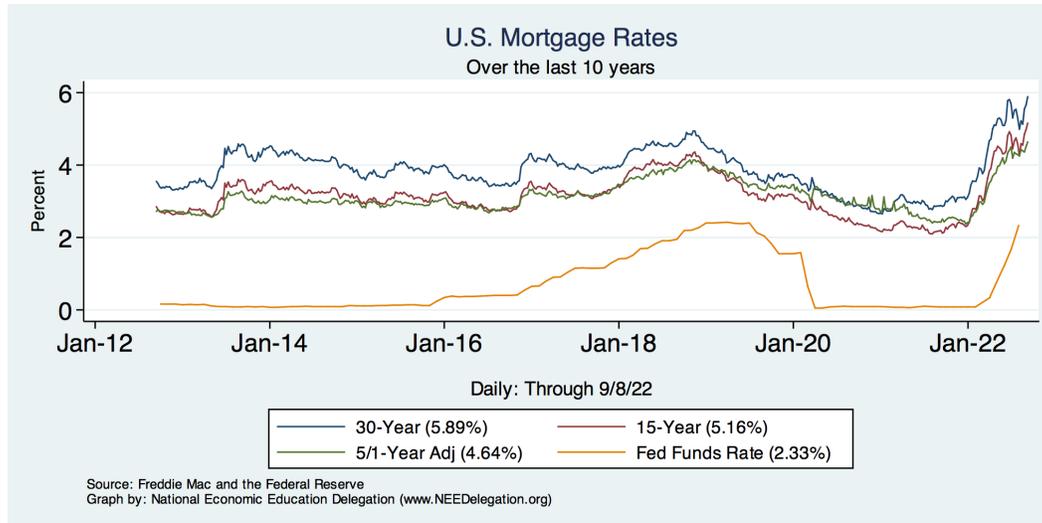
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# Treasuries



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## Mortgage Rates



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## Takeaways

### • Is a recession on the horizon?

- Larry Summers, Jamie Dimon, and Elon Musk are worried about a recession.
- While the chances of slipping into a recession have increased, I think on many dimensions the economy is doing quite well.
  - o Consumer's have been driving the recovery, and consumer's account for two-thirds of GDP.
  - o Job creation remains robust – 315k in August.

### • What about GDP?

- 2022:Q1 was -1.6%, 2022:Q2 was -0.6.
- Much of this lower growth was driven by lower inventory.
  - o Inventories led GDP growth in 2021:Q4, didn't sell, so production in Q1&Q2 fell.
- Housing markets – very tightly linked to interest rates – softened ... A LOT.
- Government spending is falling.

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# The Role of Policy

- Did it get us into this mess?
- Can it get us out?



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## Policy-Induced Inflation/Downturn?

- **The big questions is: What is responsible for the cycles related to the pandemic?**
  - **Policies**
    - The United States spent \$5 trillion in pandemic related programs.
      - There remains \$2 trillion in excess savings.
    - What role did local shutdowns play?
    - What role did the nature of business support play?
      - In particular, the lack of support for small businesses.
  - **Natural fear and self preservation?**
    - More goods and less services.
    - Leaving the labor force.
    - Bouncing back to aggressively and optimistically (inventories)?
  - **Natural struggles of an economy to respond to changes?**



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## Did Politicians Get Us Into This Mess?

- **Clear that policy played a significant role.**
  - Too much untargeted spending.
- **How should we think about that?**
  - Washington sausage making comes with tradeoffs:
    - Quality comes from moving slowly, but perhaps misses the window of opportunity.
    - Haste makes waste. Pandemic spending has clearly not been as thoughtful as it might have been.
- **But there is lots of blame to throw around.**
  - Economies just don't respond very well to significant shocks.

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## Can Politicians/ Policymakers Get Us Out?

- **Well, no.**
- **President Biden: Really has very little control over aggregate demand or prices.**
  - Could put price controls in place. But nobody wants that.
- **Congress: similarly hamstrung.**
- **Federal Reserve: Acting aggressively, which seems to be paying off.**

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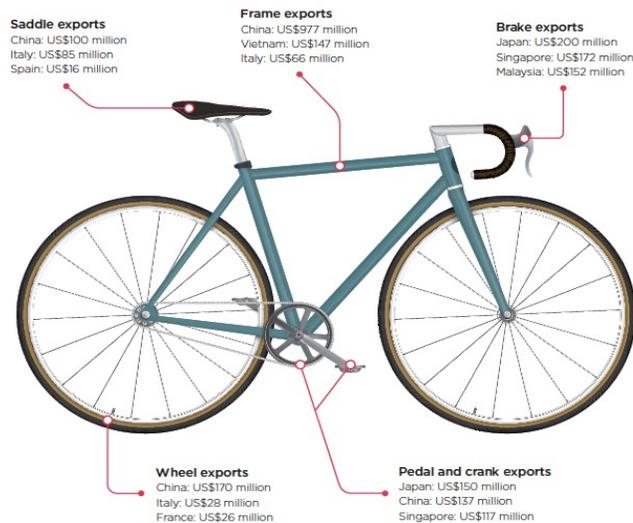
## Bottom Line:

- **Politicians did what they felt was necessary.**
  - They also did the best they could.
- **The pandemic threw spanners in the works that neither politicians nor economists had/have the answers to**
- **Blaming anybody for actions or inactions, for economic woes (inflation) is not reasonable.**
  - Though a case could be made that the Fed should have acted sooner.
    - o But we don't really know if that would have made a difference.
- **Really left with the Fed doing the best that it can...and being patient.**

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## Trade: Alan Deardorff

Figure 1.1 Where do bicycles come from?



Source: World Development Report 2020

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**Thank you!**

# Any Questions?

[www.NEEDelegation.org](http://www.NEEDelegation.org)

Jon D. Haveman

[Jon@NEEDelegation.org](mailto:Jon@NEEDelegation.org)

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