

Osher Lifelong Learning Institute, Winter 2026

The Economics of Public Policy Issues

Berkshire Community College

Host: Geoffrey Woglom, Director
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: 48 Ph.D. Economists**

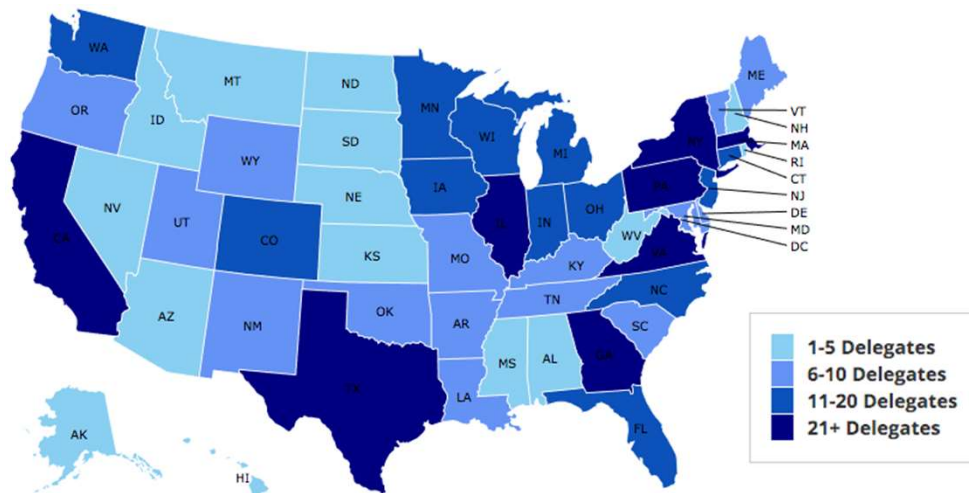
- Aid in slide deck development



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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



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Course Schedule

The Economics of Public Policy Issues

- **Week 1 (1/23): Economic Update & Central Bank Independence** Geoffrey Woglom, Amherst College
- Week 2 (1/30): Federal Debt and Deficits, Kathryn Wilson Kent State University
- Week 3 (2/6): Climate Change Economics Sarah Jacobson, Williams College
- Week 4 (2/13): An Introduction to Cryptocurrencies, Geoffrey Woglom, Amherst College
- Week 5 (2/20): Saving Social Security, Jon Haveman, Executive Director NEED
- Week 6 (2/27): AI and Inequality, Geoffrey Woglom, Amherst College



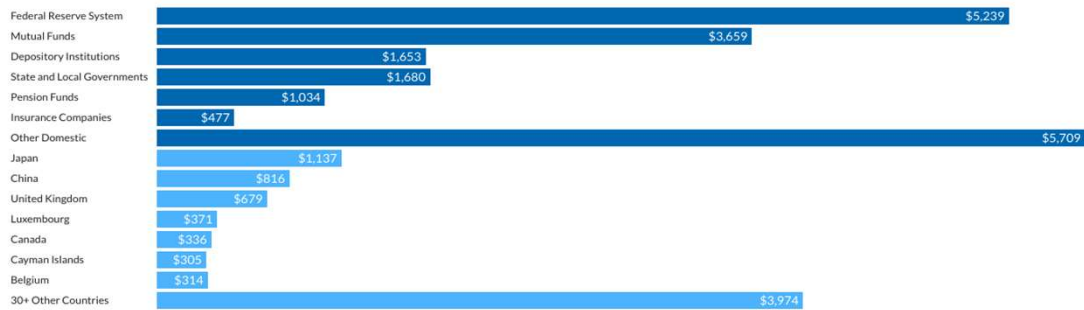
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Ownership of \$27 trillion Publicly Held Debt (12/23)

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

PETER G. PETERSON

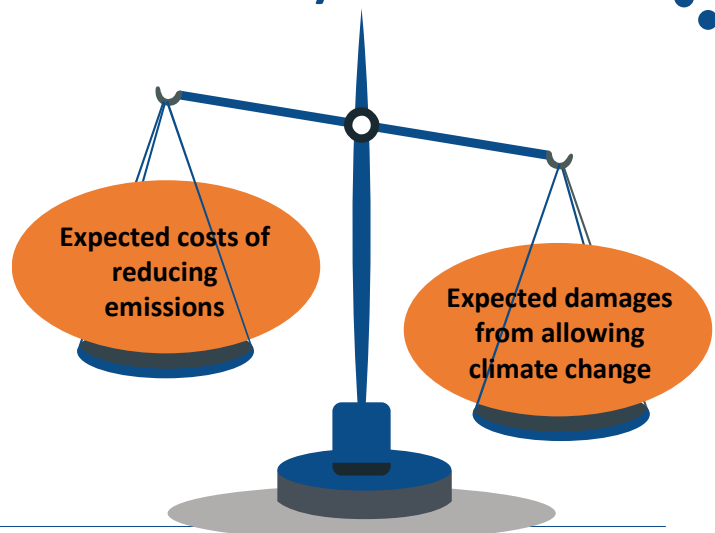
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How Economists Decide How Much to Fight Climate Change: Cost Benefit Analysis

Abating greenhouse gas emissions is costly...

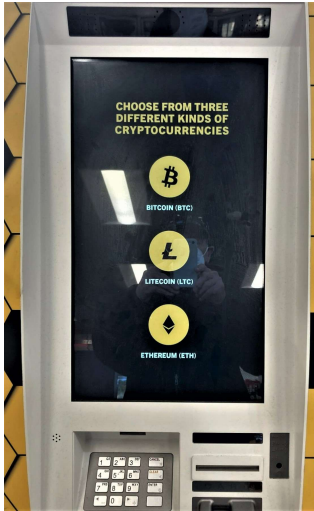
... but without action, climate change damages are even more costly.

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



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One of the Over 30,000 Bitcoin ATMs



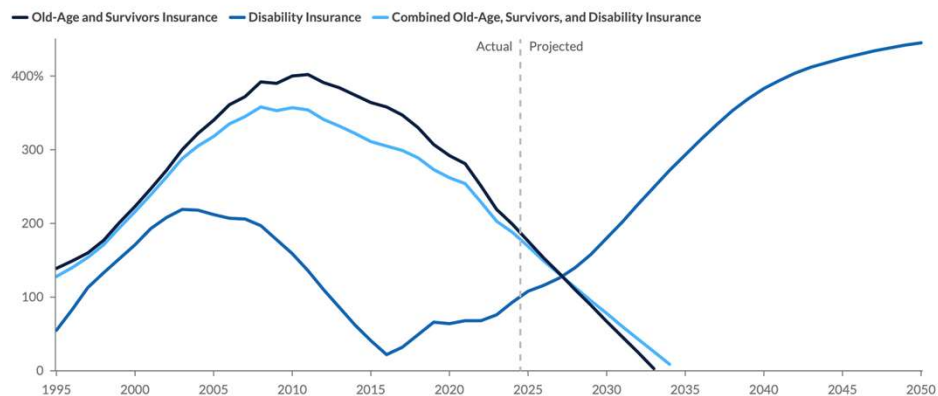
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Trajectory of Funds

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.

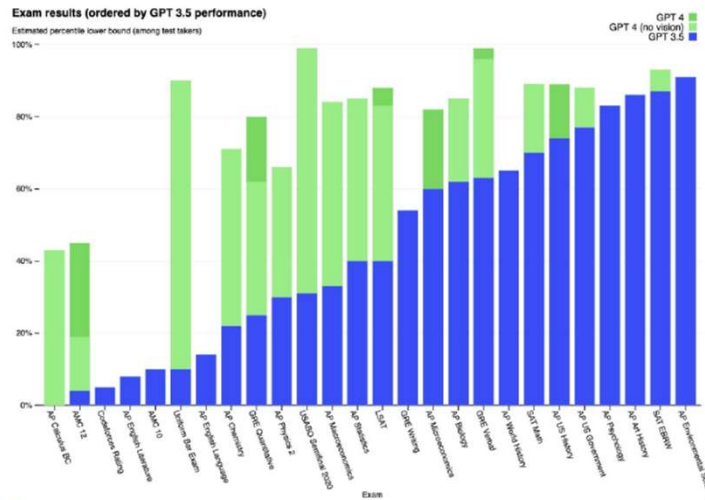


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AI Is Getting “Smarter”



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Eloundo, Manning, Mishkin, Rock (2023) <https://arxiv.org/abs/2303.10130>

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Submitting Questions

- I encourage questions. Raise your digital hand or put questions in the chat,
- 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.
- My macro site: <https://sites.google.com/view/macro-current-issues/economic-update>.
- <https://padlet.com/berkshireolli/contemporary-economic-policy-issues-icsjzm4t38pc5kr>



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INFLATION



US Economy: Update

Geoffrey Woglom,
 Professor of Economics
 Amherst College, emeritus
 January 23, 2026



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Outline for the Talk

- Overview of State of the Economy
- The Importance of Stable Inflationary Expectations in the Economy's Successful Recovery.
- The Fed's Current Policy Dilemma
- Central Bank Independence and Inflationary Expectations.



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The Goal of Macroeconomic Stabilization Policy

The Fed's Definition:

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

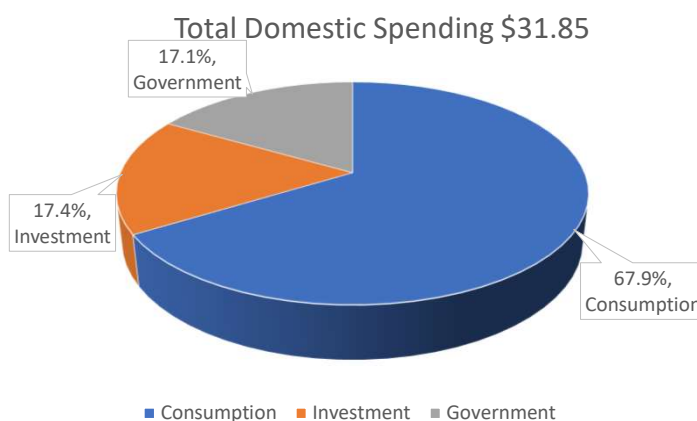
What about the climate change; poverty, health care?



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Gross Domestic Product: 2025Q3 = \$31.1 tr



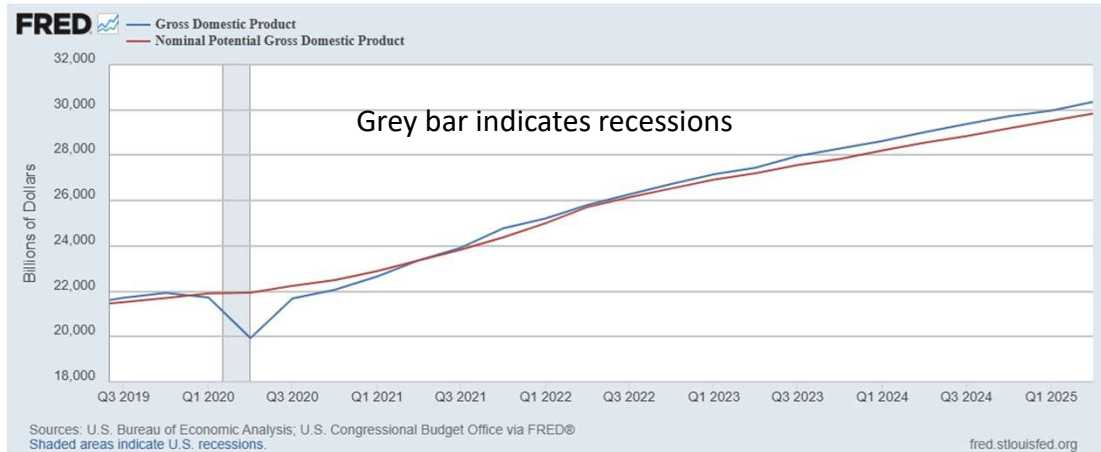
\$31.85
Less Imports
-\$4.12
Plus Exports
+\$3.37
Equals GDP
\$31.1



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GD^P and 'Potential' during the Recovery



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Source: Fred, St Louis Fed

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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!)**

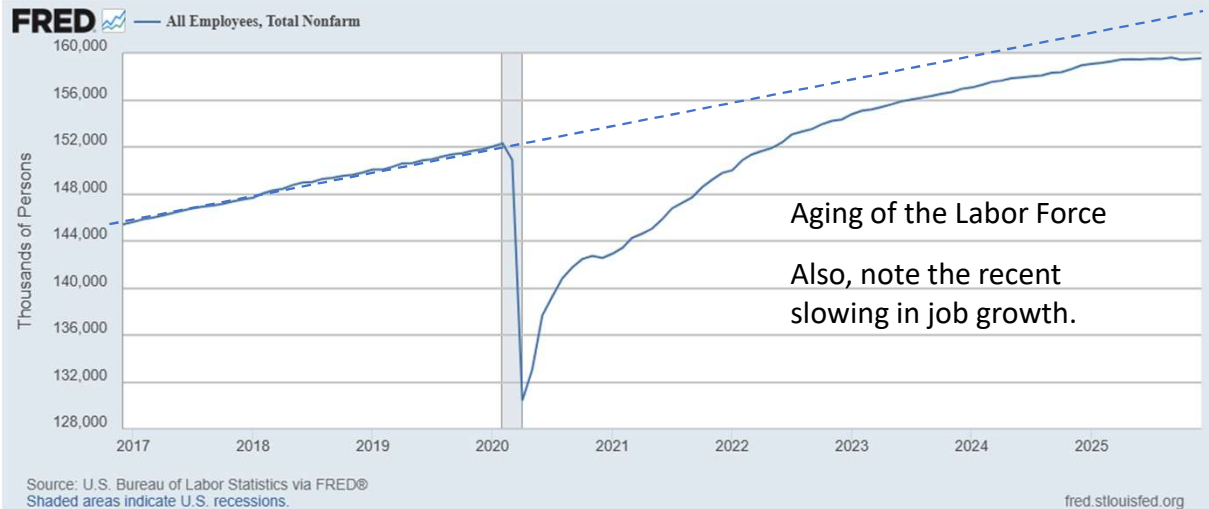
Recessions are caused by a drop in total spending (remember the consumer).



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Where Have All the Workers Gone?

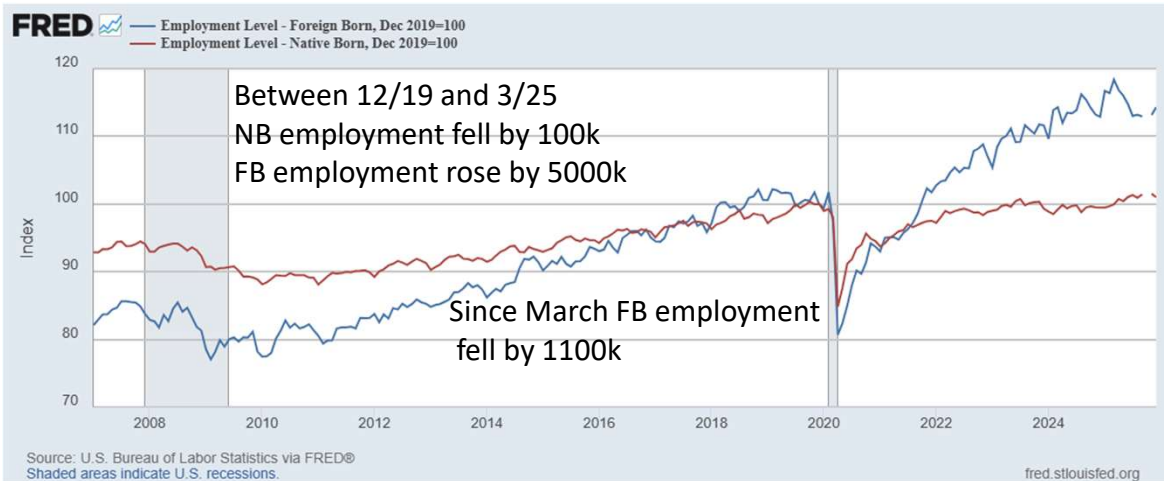


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Source: Fred, St Louis Fed

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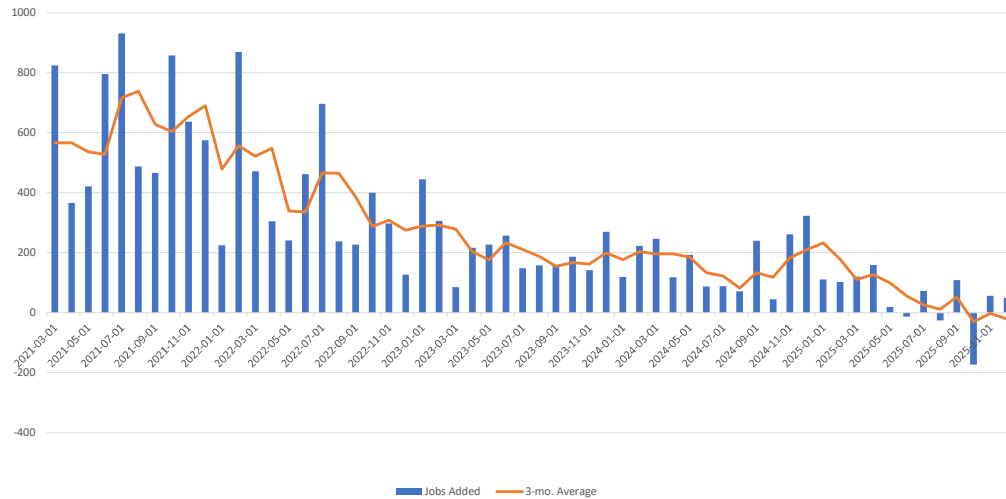
Could Have Been Worse , but for Foreign Born Workers



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New Jobs Added per Month



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The Kerfuffle Over the Jobs Reports

- **BLS conducts 2 surveys each month**
 - Household Survey: Unemployment Rate.
 - “Establishment” Survey (workplace survey): Number of new jobs created.
- **August 1 Report: 73,000 jobs added July, but May and June numbers were revised down by 280,000.**
- **Trump fires BLS director, the same day.**
- **What is behind those “revisions?”**

Want to learn more: “An Unresponsive Public is Undermining Government Economic Data,” *WSJ*, 9/15, at

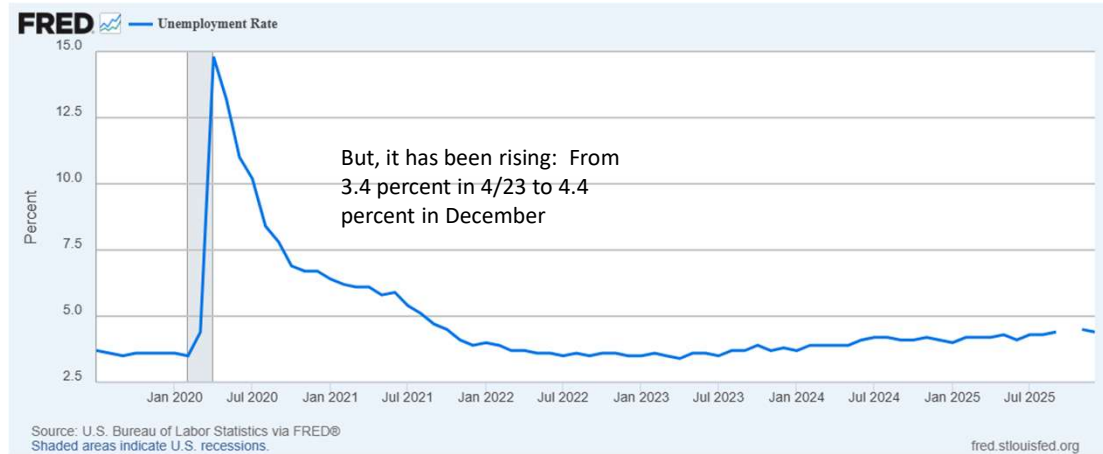
<https://sites.google.com/view/macro-current-issues/economic-update>



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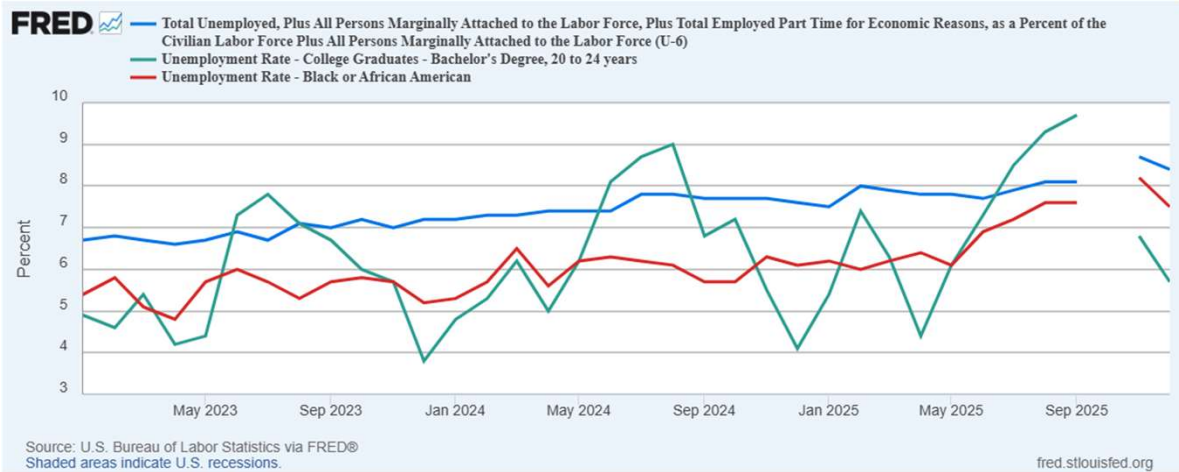
Unemployment is Near Record Lows



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More Detail on Unemployment



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The Real Side of the Economy is Still Good

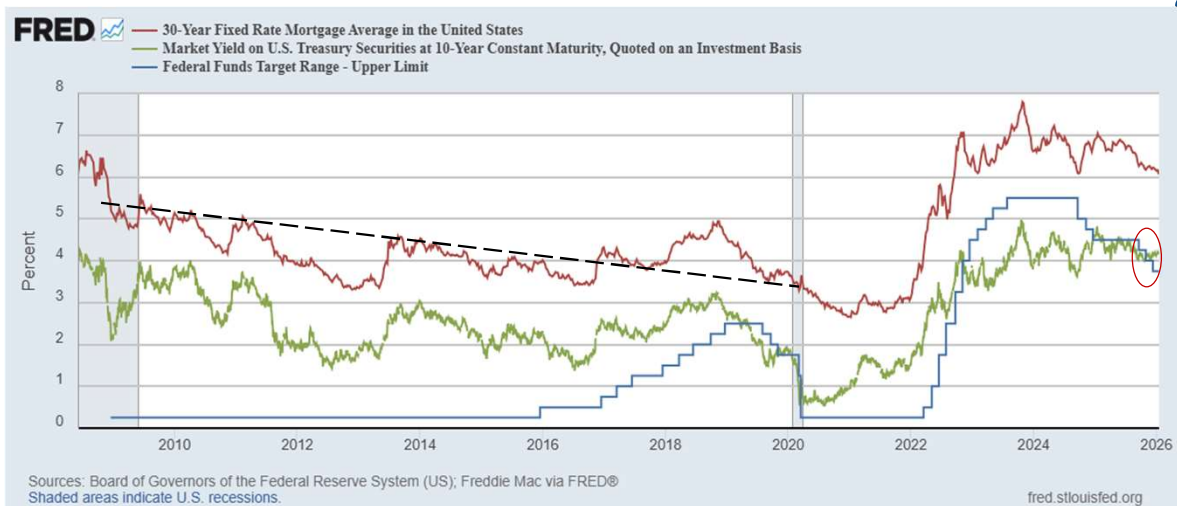
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Macro Goal number 1, check
- But what about goal number 2, the “nominal” side of the economy



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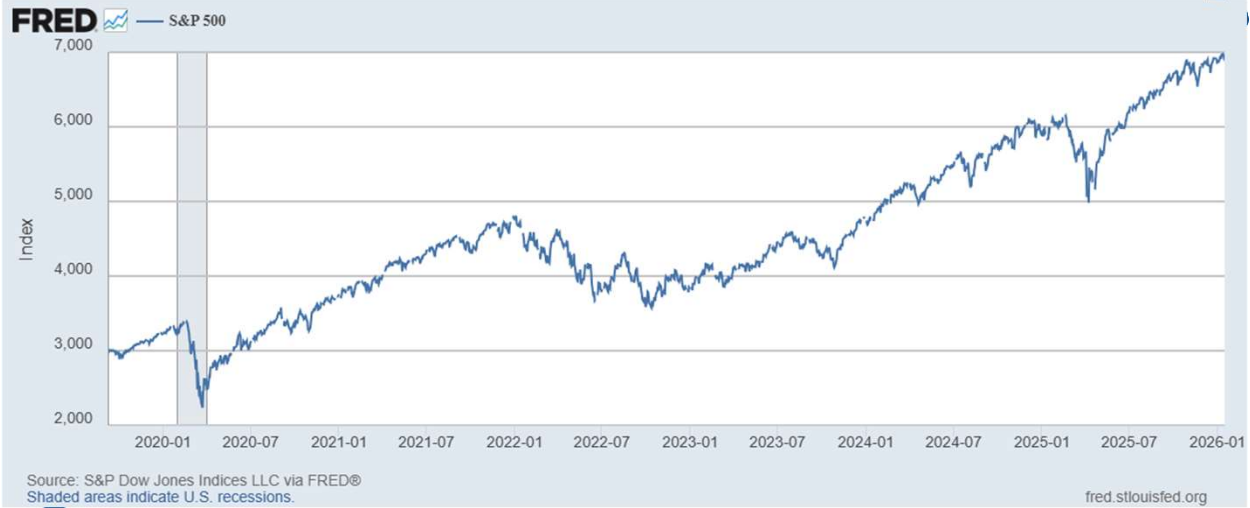
Interest Rates: Era of Falling Rates Over?



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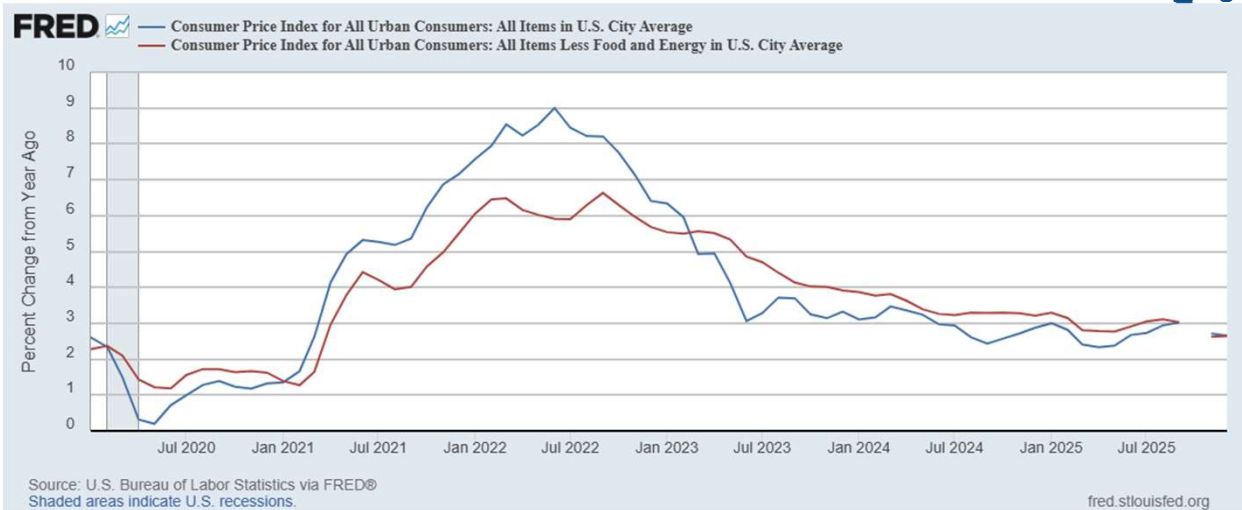
Stock Prices: Tariffs; What Tariffs?



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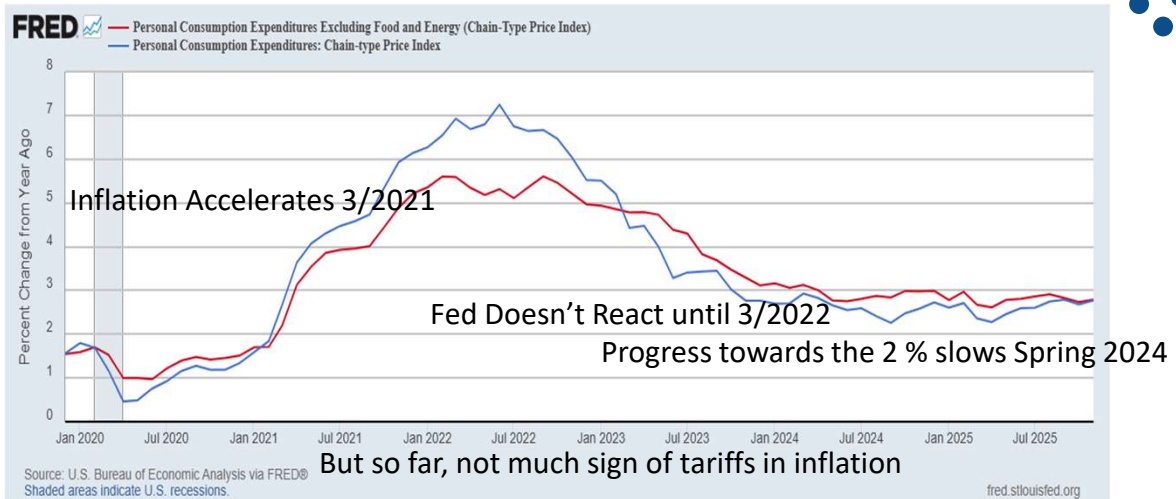
Inflation during the Recovery (CPI)



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Fed's Measure (PCE)



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CPI vs. PCE: Differences

CPI tends typically
to be 0.3 pct point
higher

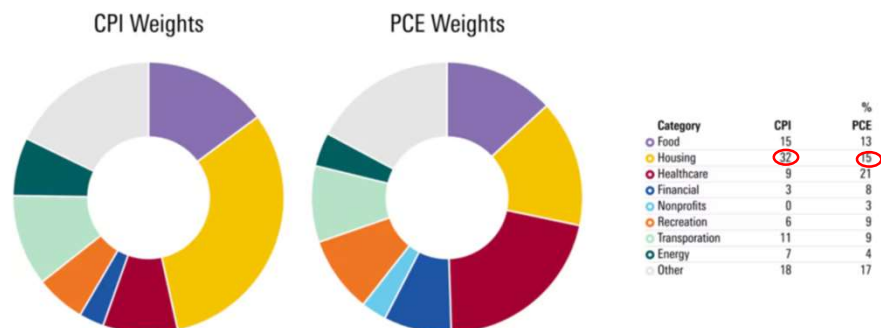
November:

CPI, 2.7%

PCE, 2.8%

Core CPI, 2.6%

Core PCE, 2.8%.



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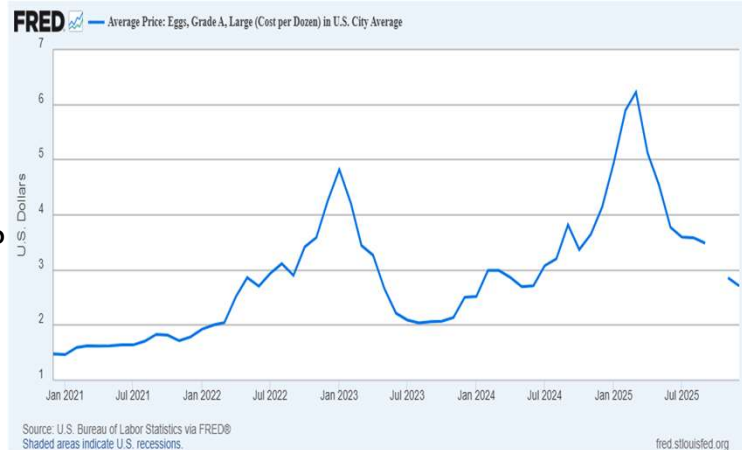
<https://www.morningstar.com/markets/whats-difference-between-cpi-pce>

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Uses of Inflation Measures

Two Reasons for Measuring Recent Inflation:

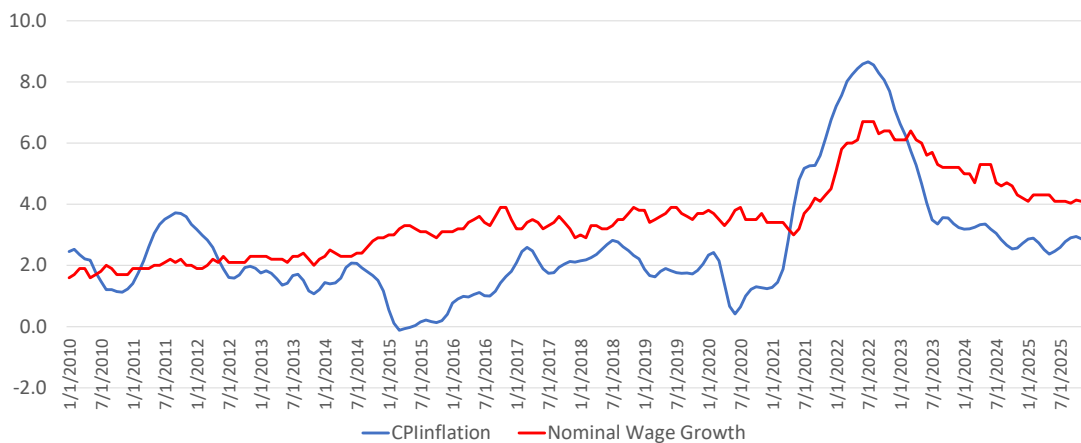
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?



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Wage Growth



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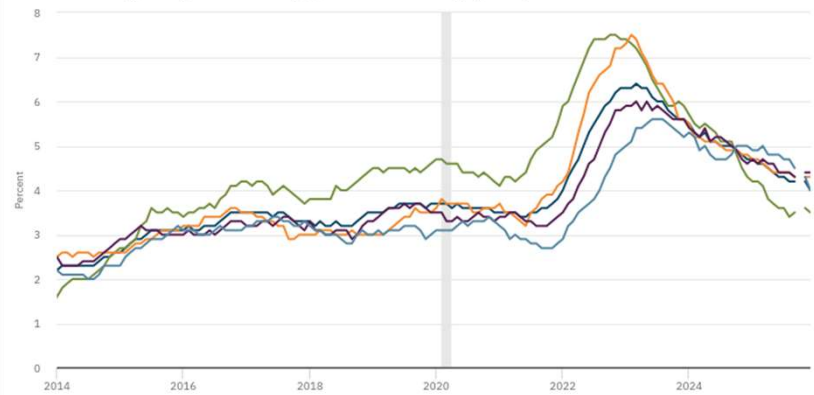
Sources: <https://www.atlantafed.org/chcs/wage-growth-tracker> & BLS via <https://fred.stlouisfed.org/>

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Low Wage Workers Experience

Wage Growth Tracker by Wage Level

12-month moving average of median wage growth for each category, hourly data



Sources: Current Population Survey, Bureau of Labor Statistics and author's calculations.
Note: October 2025 data not collected by the Bureau of Labor Statistics.



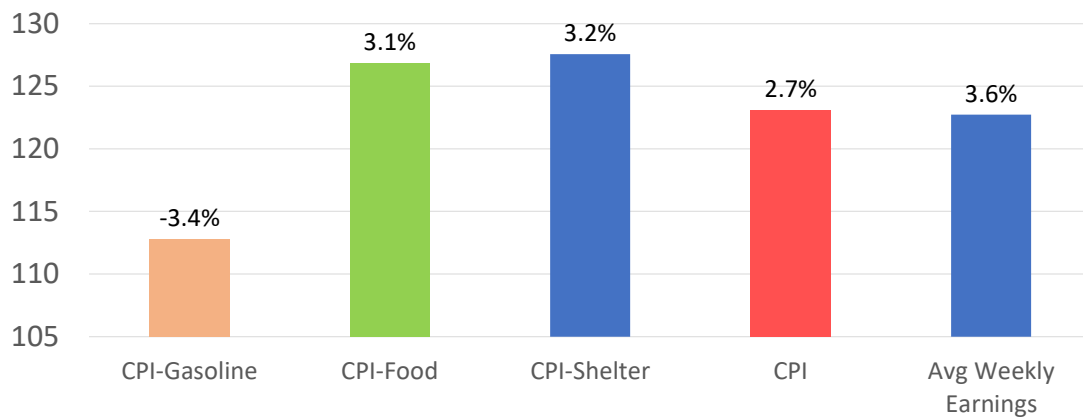
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Exported on: Thursday, January 22, 2026

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"Affordability"

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



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The State of the Economy & How We Got Here

- **The key indicators for judging the macro economy are all good**
 - Output and unemployment are close to their “full employment” levels
 - Inflation is still a bit elevated, but much improved over 2023.
- **21-22**
 - Too much demand due to easy monetary policy and a fiscal stimulus which was probably too big
 - COVID Supply disruptions exacerbated inflation.
- **23-present Monetary Policy Perfect**
 - Inflation has fallen substantially with small increase in unemployment, and we are close to the 2 percent target (unprecedented)



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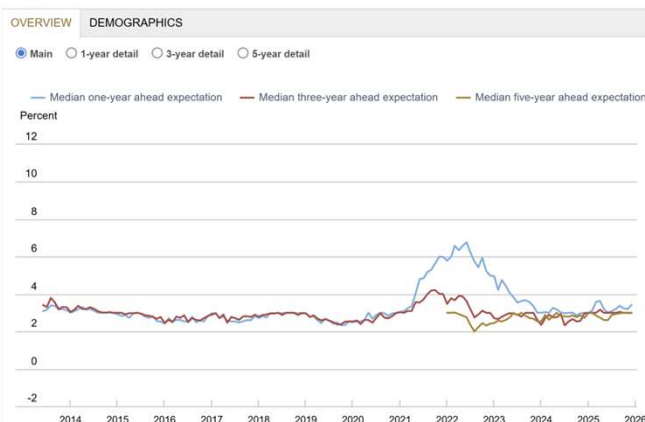
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How Did the Fed Do It?

The Key to Success:
Stable Inflationary Expectations

Inflation expectations

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



Source: New York Fed Survey of Consumer Expectations

Note: Collection of data for the five-year-ahead inflation expectation began in January 2022.



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The Outlook Is More Complicated

• Areas of Concern:

1. Consumer Spending.
2. Investment Spending due to AI.
3. Slowing of Employment Growth, particularly among young, blacks and BAs.
4. Fiscal Policy Effects.
5. Uncertainty.
6. Monetary Policy: Next 4 months and the New Chair.

Consumption

• Low-Income Consumers look vulnerable

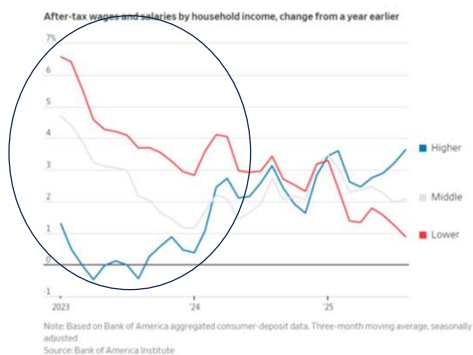
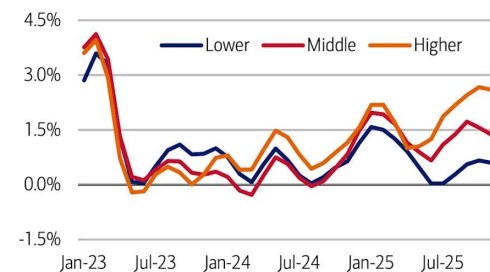


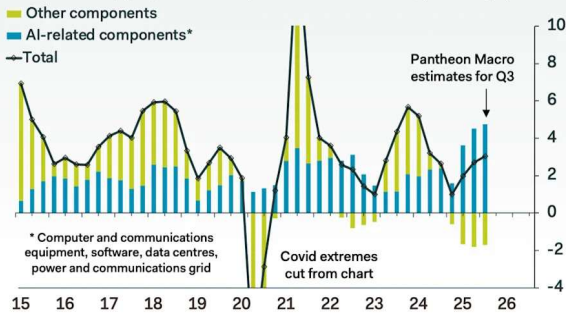
Exhibit 5: Around the spring of 2025, the gap between higher- and lower-income households' spending growth got progressively wider
Total credit and debit card spending per household, according to Bank of America card data, by household income terciles (3-month moving average, YoY%, SA)



AI and Investment

AI-RELATED CAPEX PROBABLY OFFSET WEAKNESS ELSEWHERE

Contributions to y/y% growth in real private fixed investment, percentage points



AI Investment & GDP Growth			
Period	GDP Growth	AI Contribution	Difference
25Q1	2.0 percent	1.3 percent	0.7 percent
25Q2	2.1	1.2	0.9
25Q3	2.3	0.5	1.8

Source: BEA & <https://www.stlouisfed.org/on-the-economy/2026/jan/tracking-ai-contribution-gdp-growth>

Source Parthenon: Macroeconomics



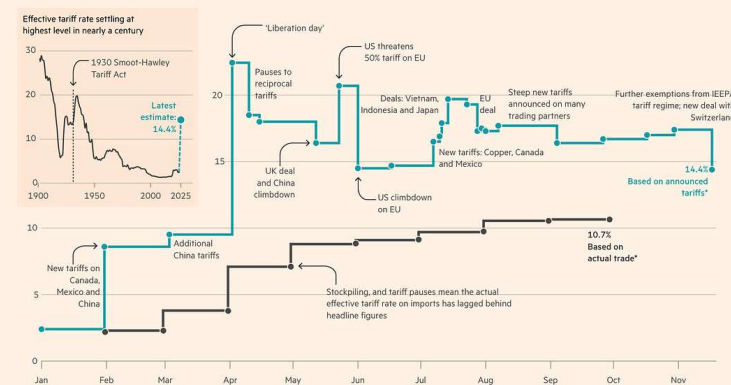
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Tariffs

The progression of Trump's tariffs

Effective US global tariff rate (%)



Sources: Yale Budget Lab; US Census Bureau. *Actual trade rate is customs duty revenue as a % of value of goods imported. Based on announced tariffs* is the estimate of the long-run effective tariff rate based on current announced policy, after accounting for consumption shifts. FT graphic: Alan Smith

This Chart is Very
Confusing!



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Fiscal Policy: Tariffs

Constant 2025\$ of average post-tax-and-transfer income per household

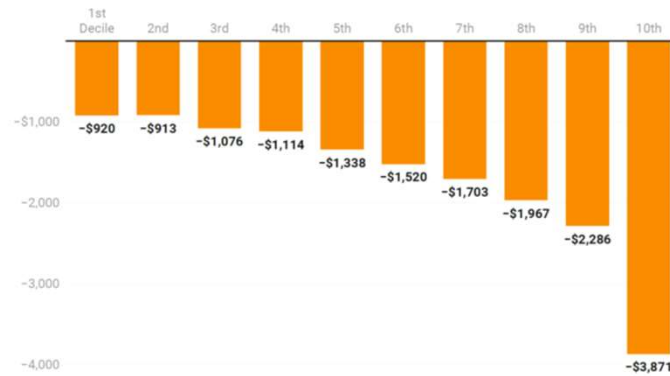


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper



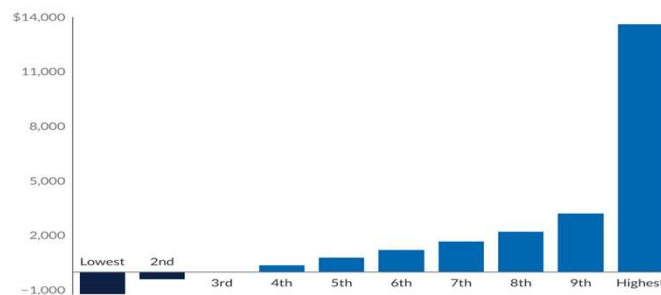
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Fiscal Policy: OBBBA

The OBBBA distributional effects favor higher income households

Annual change in household resources for each decile (2025 \$)



Source: Congressional Budget Office

Notes: The estimation period is 2026 to 2034. Analysis does not factor in the macroeconomic effects or debt-service costs of the OBBBA. A decile is one of ten equal parts of a population.



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Combined Effects: Distributional

- **Lowest:** **-\$2,134**
- **2nd:** **-1,305**
- **3rd:** **-1,076**
- **4th:** **-735**
- **5th:** **-541**
- **6th:** **-309**
- **7th:** **-30**
- **8th:** **246**
- **9th:** **922**
- **10th:** **9,751**

How will these changes affect the spending of the less affluent; more affluent?

Extraordinary Deficits Sustained and Worsened Under OBBBA and Tariffs

Federal Deficit(-)/Surplus(+) as a Share of GDP, Fiscal Years 1965 to 2034



Note: Tax Foundation projections include dynamic effects on revenue, GDP, and other variables. Source: Congressional Budget Office, "Historical Budget Data" and "The Budget and Economic Outlook: 2025 to 2035," January 2025; Tax Foundation General Equilibrium Model, November 2025.

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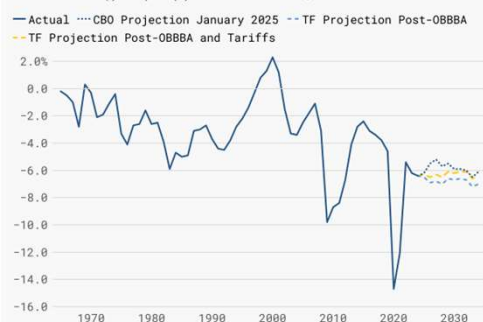
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Combined Effects on the Budget Deficit

During 2025, tariff revenues collected were \$264 billion.

Extraordinary Deficits Sustained and Worsened Under OBBBA and Tariffs

Federal Deficit(-)/Surplus(+) as a Share of GDP, Fiscal Years 1965 to 2034



Note: Tax Foundation projections include dynamic effects on revenue, GDP, and other variables. Source: Congressional Budget Office, "Historical Budget Data" and "The Budget and Economic Outlook: 2025 to 2035," January 2025; Tax Foundation General Equilibrium Model, November 2025.

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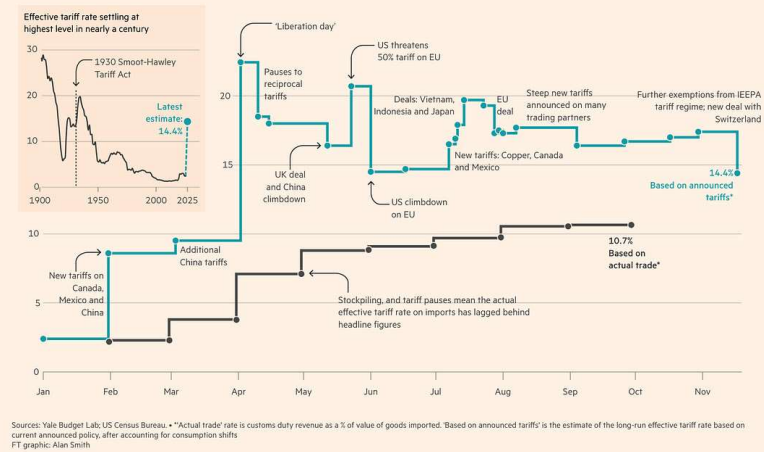
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Uncertainty

- Supreme Court Decision on Legality of Tariffs
- February 1st retaliatory tariffs related to Greenland and Nobel Peace Prize.
- Tariff Volatility

The progression of Trump's tariffs

Effective US global tariff rate (%)

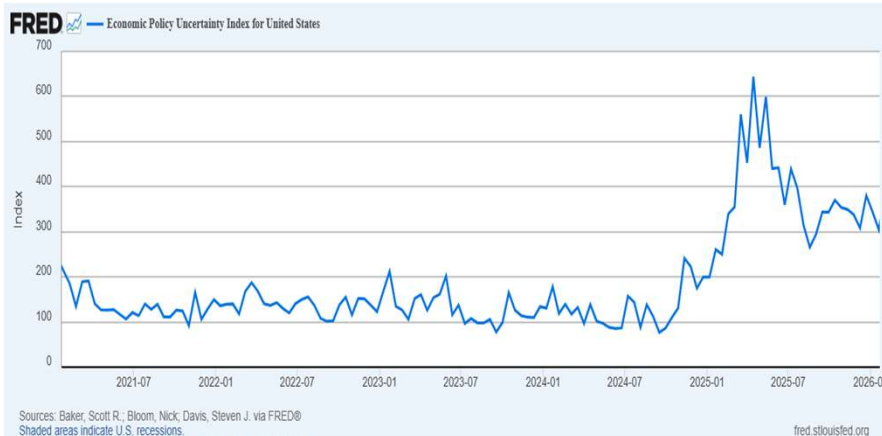


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But... (Continued)

- Uncertainty is Bad for the Economy's Health (and there is a lot of it!)



How will these numbers change if:
Greenland negotiations breakdown

The Supreme Court rules Current
Tariffs are illegal



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And, then there is Monetary Policy

The Fed's 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.
- Successfully navigating the path between the two problems is made worse because of attacks on the Fed's independence which have the potential to destabilize inflationary expectations



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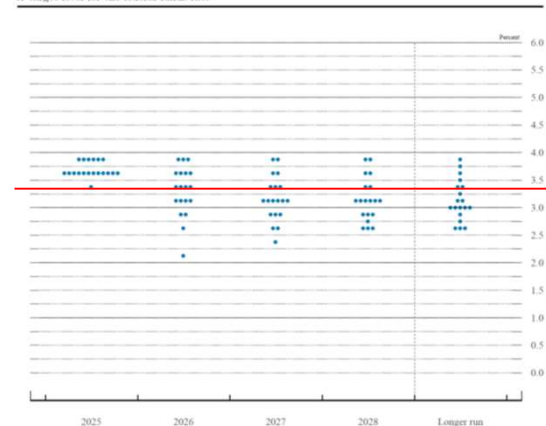
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What the Fed Did in December

Percent

Variable	Median ¹				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.7	2.3	2.0	1.9	1.8
September projection	1.6	1.8	1.9	1.8	1.8
Unemployment rate	4.5	4.4	4.2	4.2	4.2
September projection	4.5	4.4	4.3	4.2	4.2
PCE inflation	2.9	2.4	2.1	2.0	2.0
September projection	3.0	2.6	2.1	2.0	2.0
Core PCE inflation ⁴	3.0	2.5	2.1	2.0	
September projection	3.1	2.6	2.1	2.0	
Memo: Projected appropriate policy path					
Federal funds rate	3.6	3.4	3.1	3.1	3.0
September projection	3.6	3.4	3.1	3.1	3.0

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



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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 Chair (Jerome Powell)** serves a 4-year term (which will be up next spring).
- **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.



Theoretical Case for Independent and Conservative Central Banks

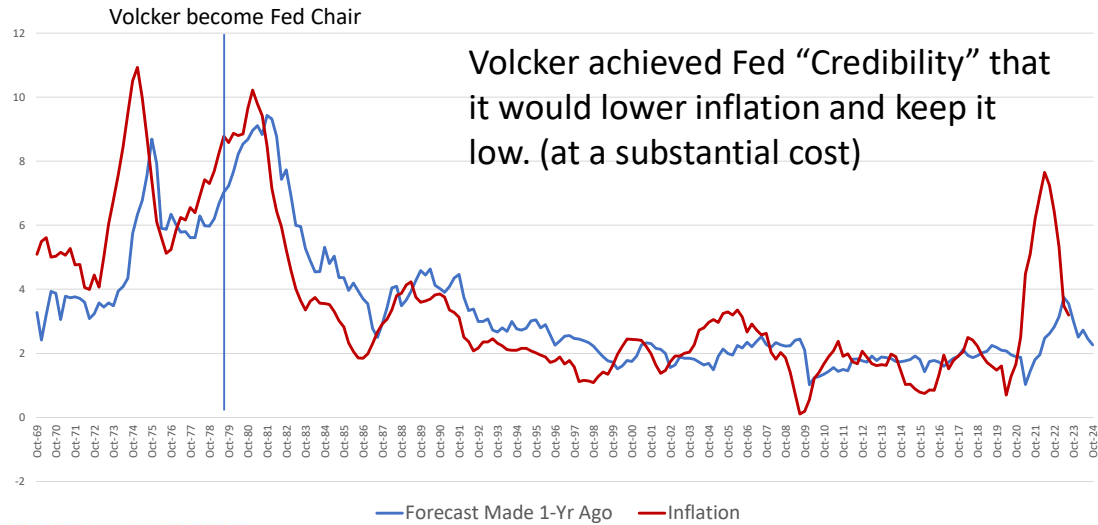
Keneth Rogoff's Conservative Central Banker paper (1985):

"Society can sometimes make itself better off by appointing a central banker who does not share the social objective function, but instead places "too large" a weight on inflation-rate stabilization relative to employment stabilization."

Independent "conservative" central bank leads to "well-anchored" and lower inflationary expectations.



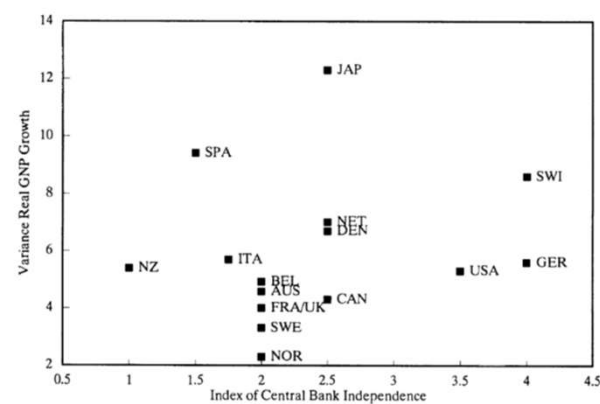
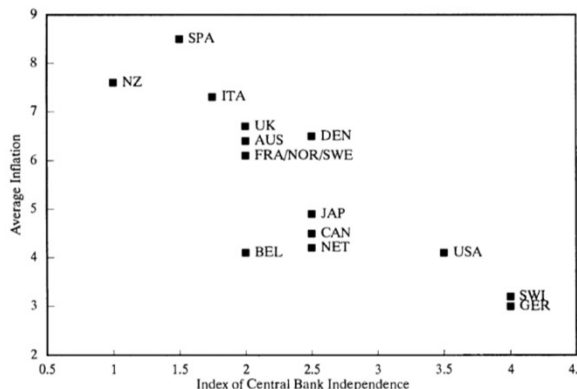
Paul Volcker: Rogoff's Muse (?)



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Evidence: The Low-Inflation Free Lunch



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Alesina, A., and L. Summers. “Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence.” *Journal of Money, Credit and Banking* 25, no. 2 (1993): 151–62. <https://doi.org/10.2307/2077833>.

Practical Effects of this Research

- Countries adopt strict inflation targeting: New Zealand (1989), Canada (1991), UK (1992), Australia and Sweden (1993)
- Tony Blair's first action as UK Prime Minister in 1997 is to remove Chancellor of the Exchequer from the Bank of England.
- Eurozone created 2002 which places monetary policy out of the hands of nations' central banks and into the hands of The European Central Bank (ECB).
- Where is the ECB located?
Frankfurt Germany!



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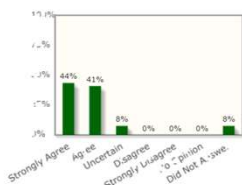
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Who Says Economist Always Disagree?

Question A:

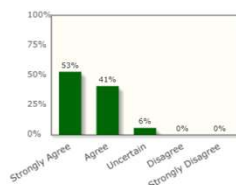
A substantial loss of Federal Reserve independence would substantially increase the overall nominal cost of U.S. government borrowing.

Responses



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Source: Clark Center Economic Experts Panel
Methodology

Responses weighted by each expert's confidence

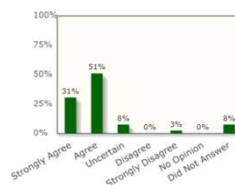


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Source: Clark Center Economic Experts Panel
Methodology

Question B:

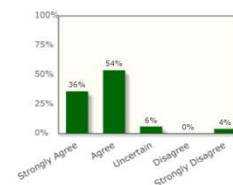
A substantial loss of Federal Reserve independence would substantially raise risk premia on long-term U.S. government debt.

Responses



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Methodology

Responses weighted by each expert's confidence



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<https://kentclarkcenter.org/surveys/fed-independence/>

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My Google Site

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



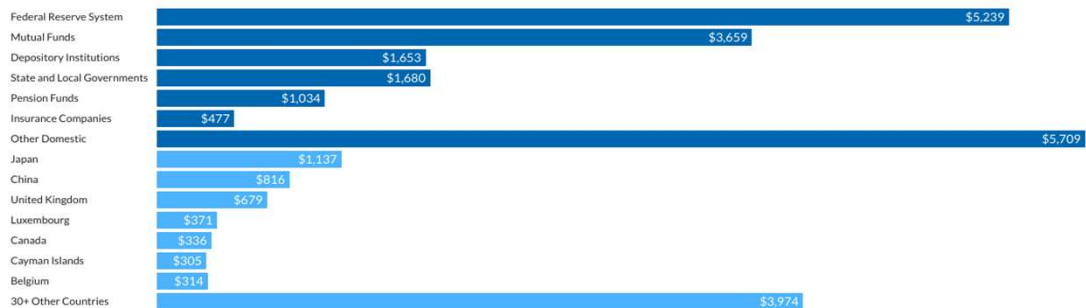
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Next Week: Ownership of \$27 trillion debt

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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