

***Osher Lifelong Learning Institute, Winter 2026***

## **The Economics of Public Policy Issues**

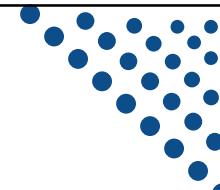
Berkshire Community College

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

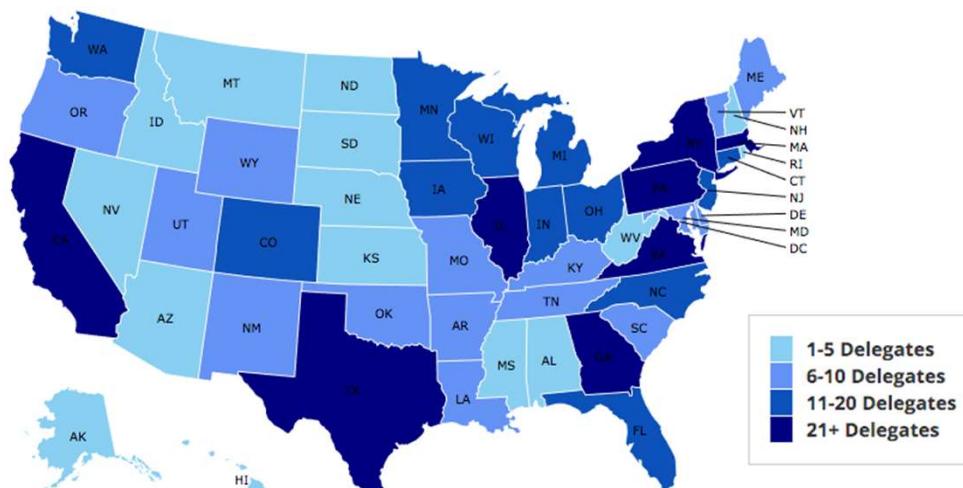
- Aid in slide deck development



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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



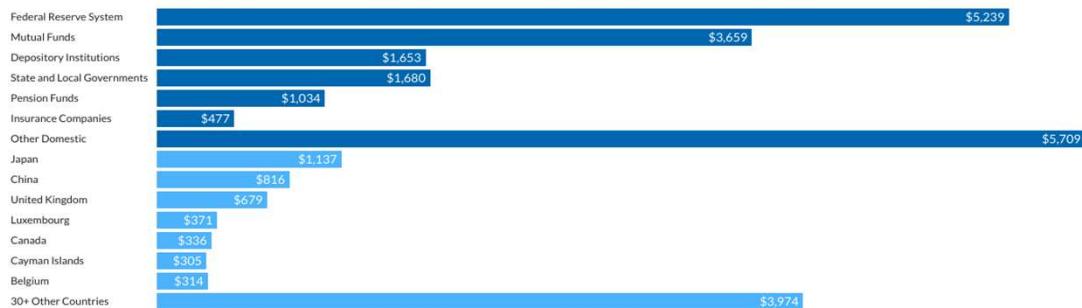
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# Ownership of \$27 trillion Publicly Held Debt (12/23)

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

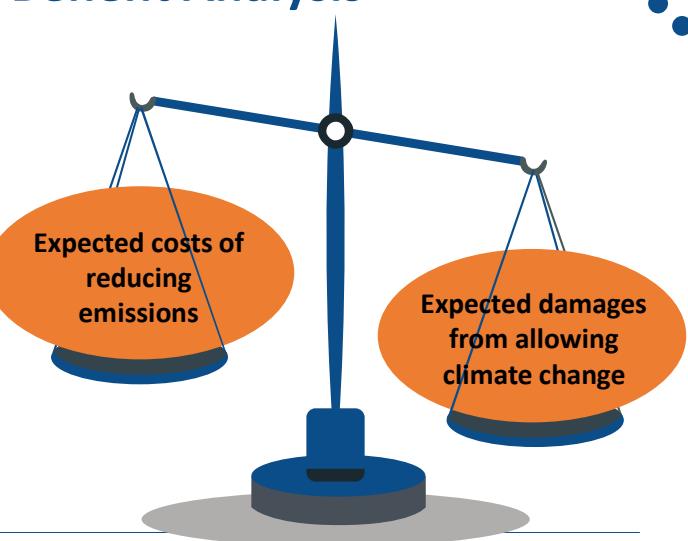
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## How Economists Decide How Much to Fight Climate Change: Cost Benefit Analysis

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



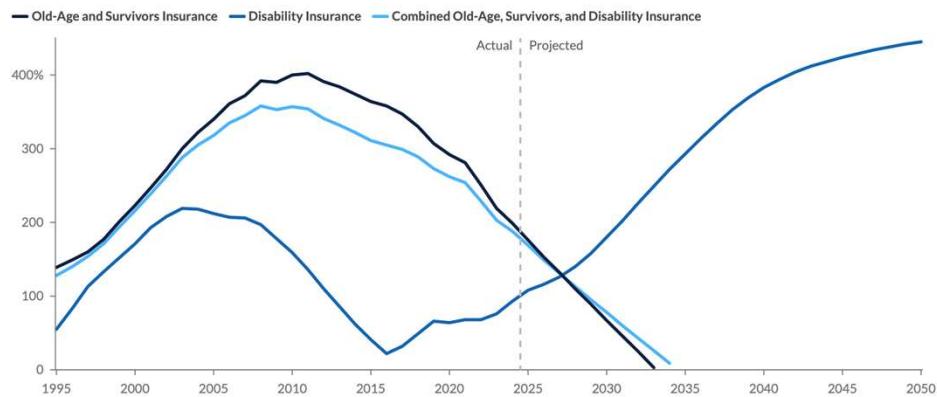
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## Trajectory of Funds

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.

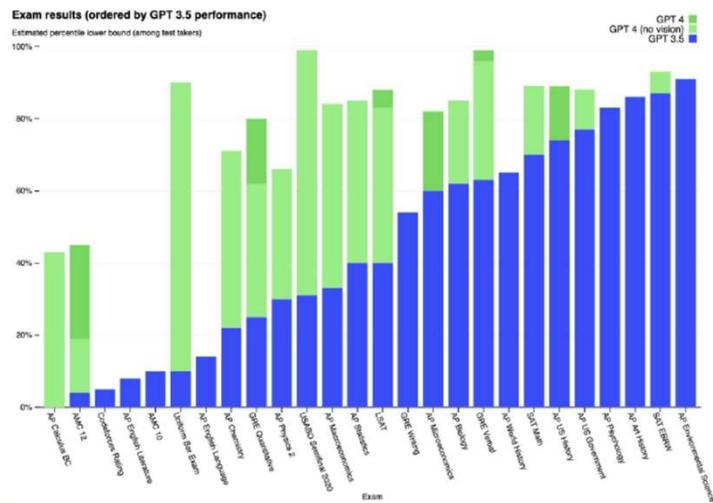


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PETERSON  
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## AI Is Getting “Smarter”

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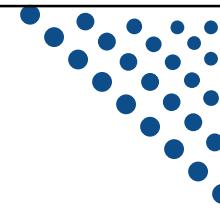
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## Submitting Questions

- 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](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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## US Economy: Update

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

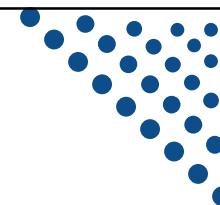


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### Outline for the Talk



- 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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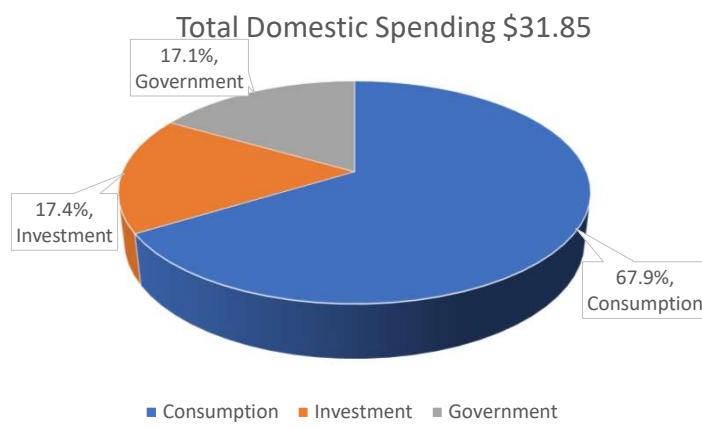
## The Goal of Macroeconomic Stabilization Policy

### 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%

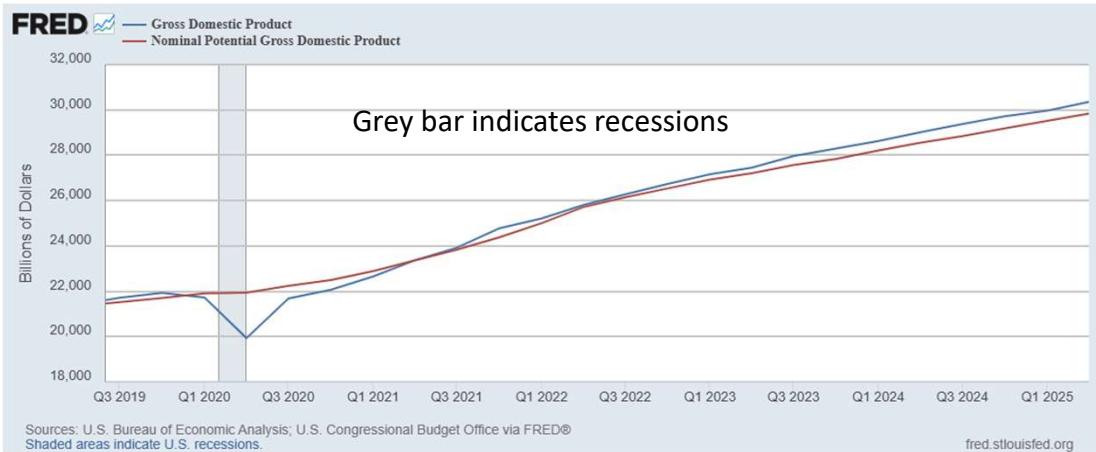
What about the climate change; poverty, health care?

## Gross Domestic Product: 2025Q3 = \$31.1 tr



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

## GDP and 'Potential' during the Recovery



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Source: Fred, St Louis Fed

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## What is a Recession?

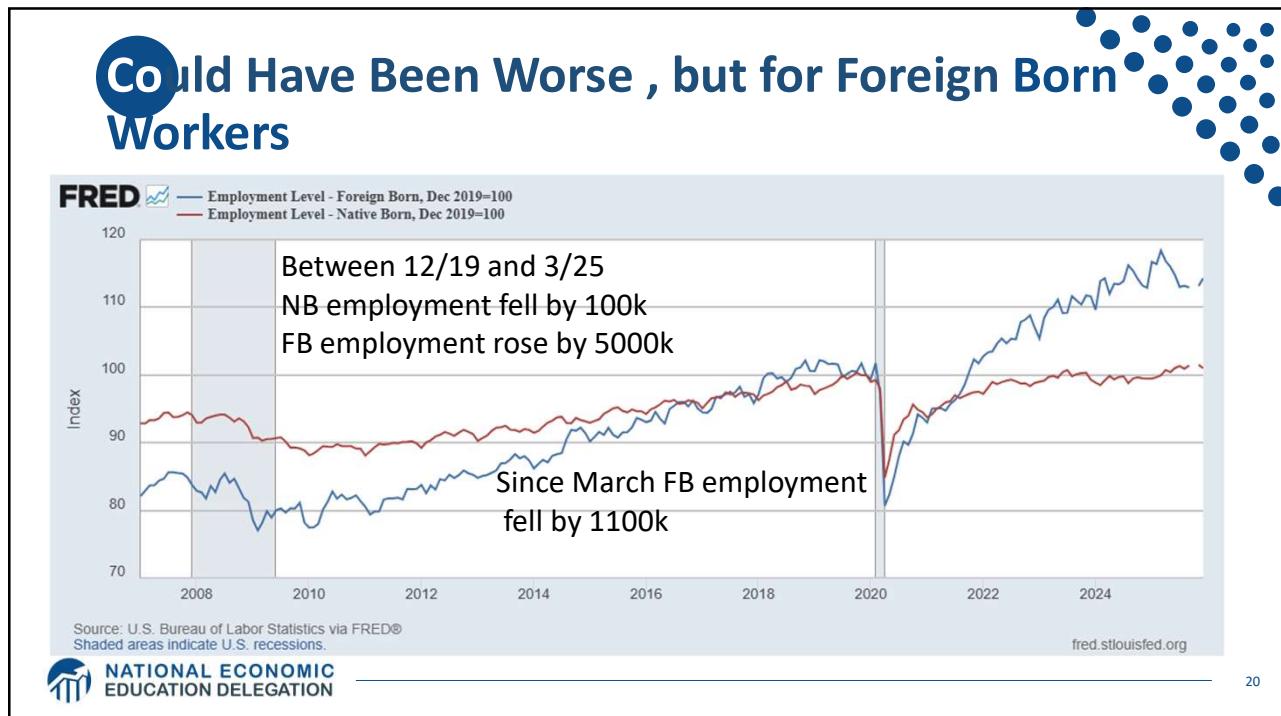
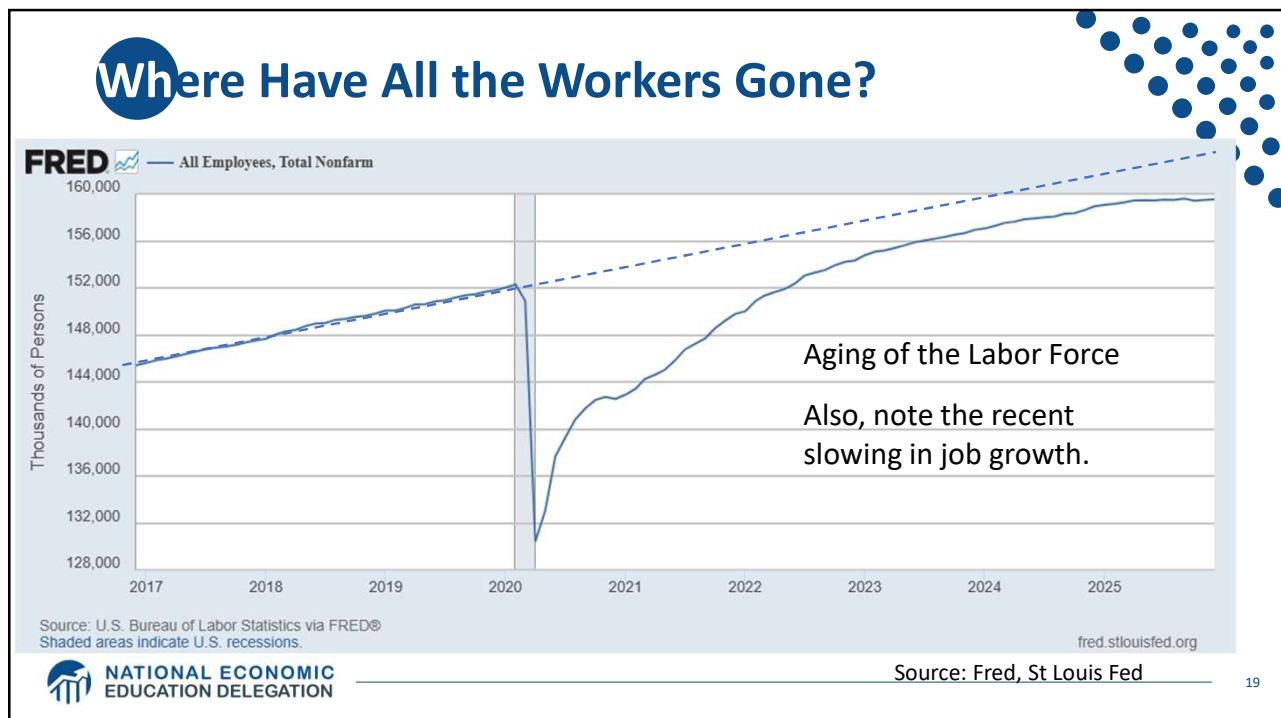
- **Defined by the National Bureau of Economic Research (NBER)**
- **“The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”**
- **Popular Rule of Thumb: Two or more, consecutive quarters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

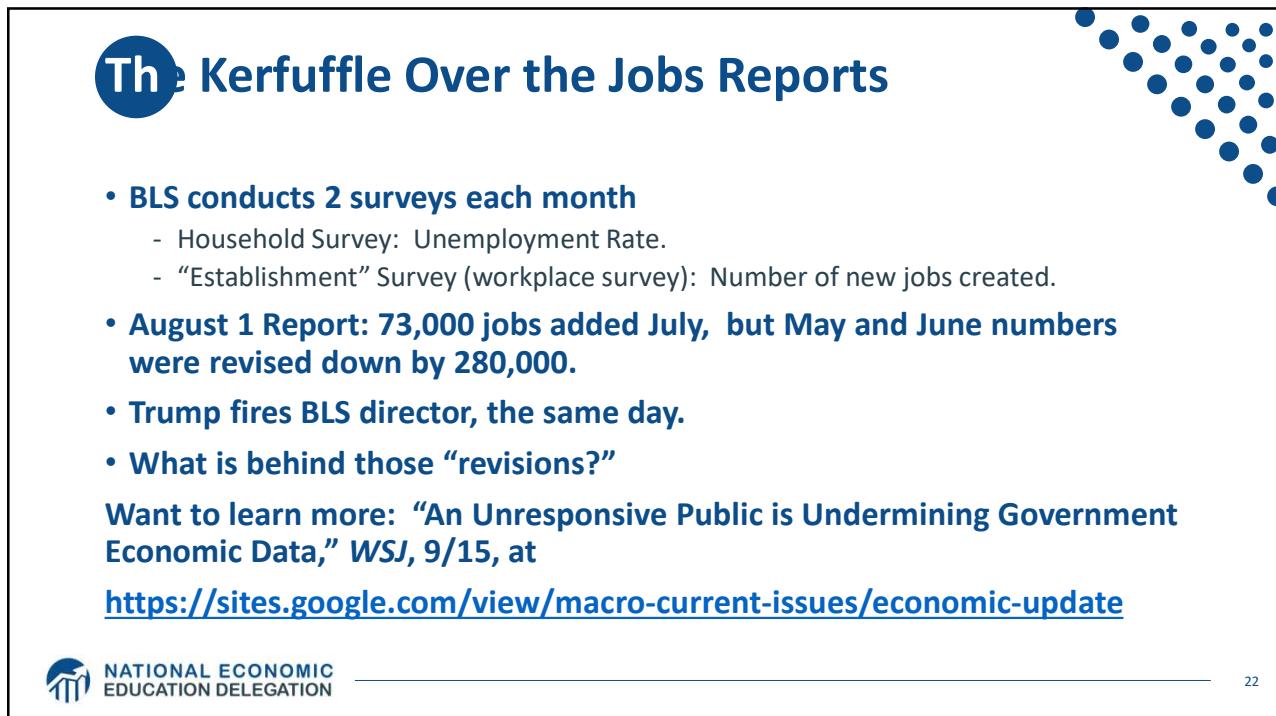
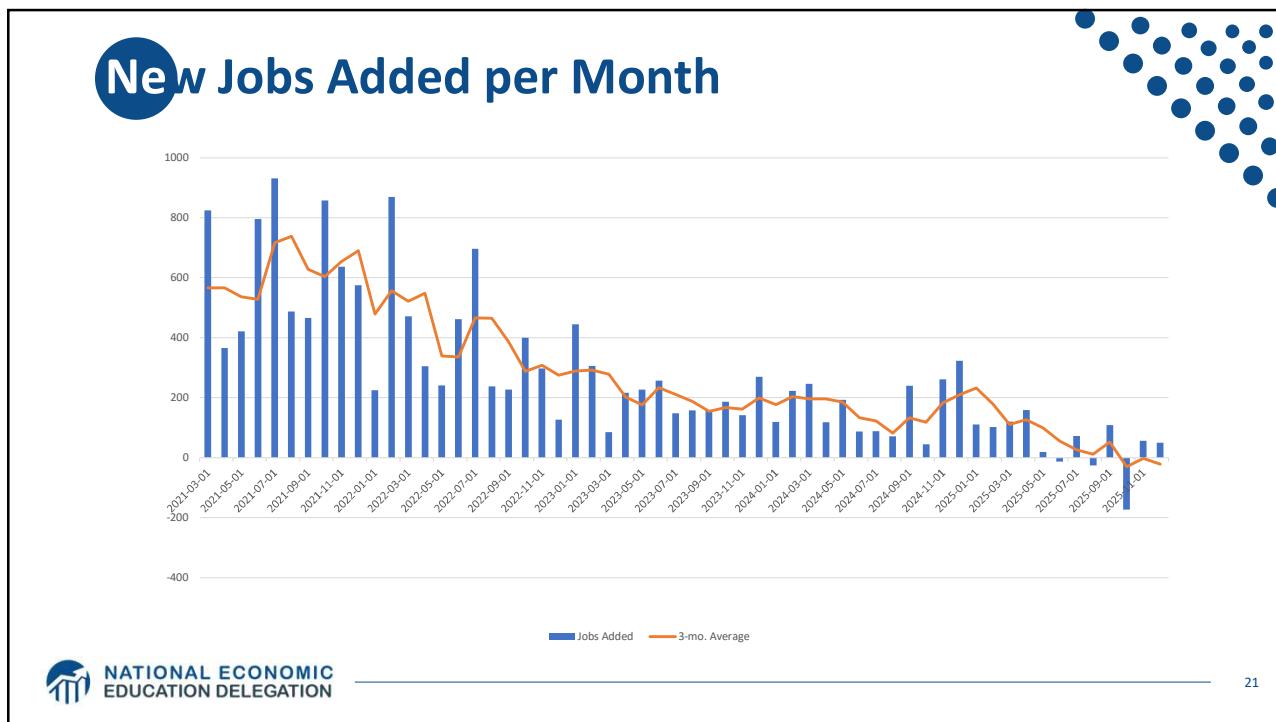
**Recessions are caused by a drop in total spending (remember the consumer).**



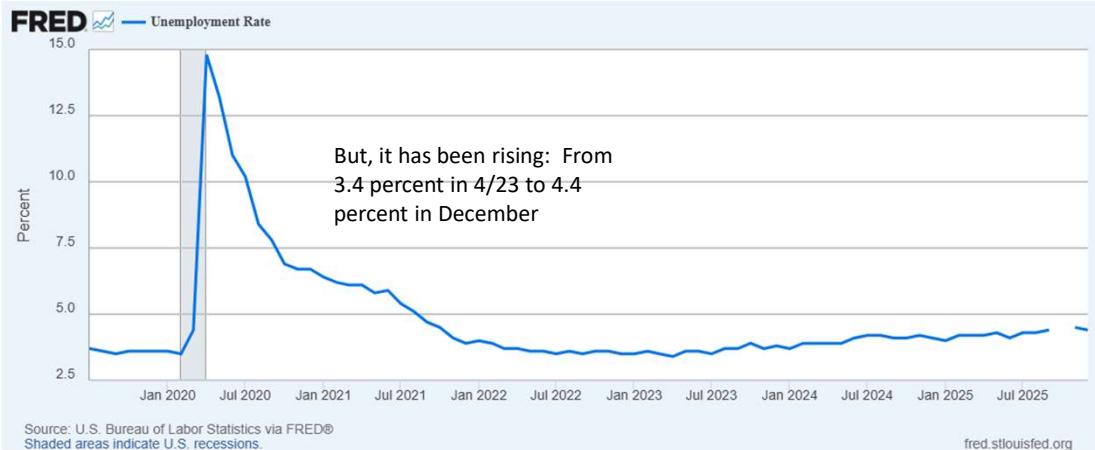
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## Unemployment is Near Record Lows



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## More Detail on Unemployment



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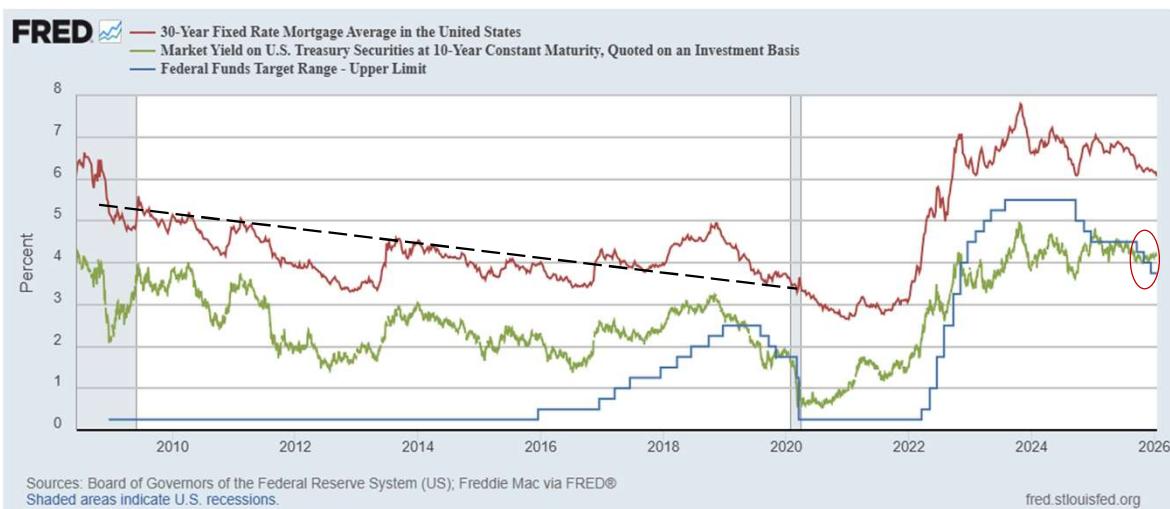
## The Real Side of the Economy is Still Good

- 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

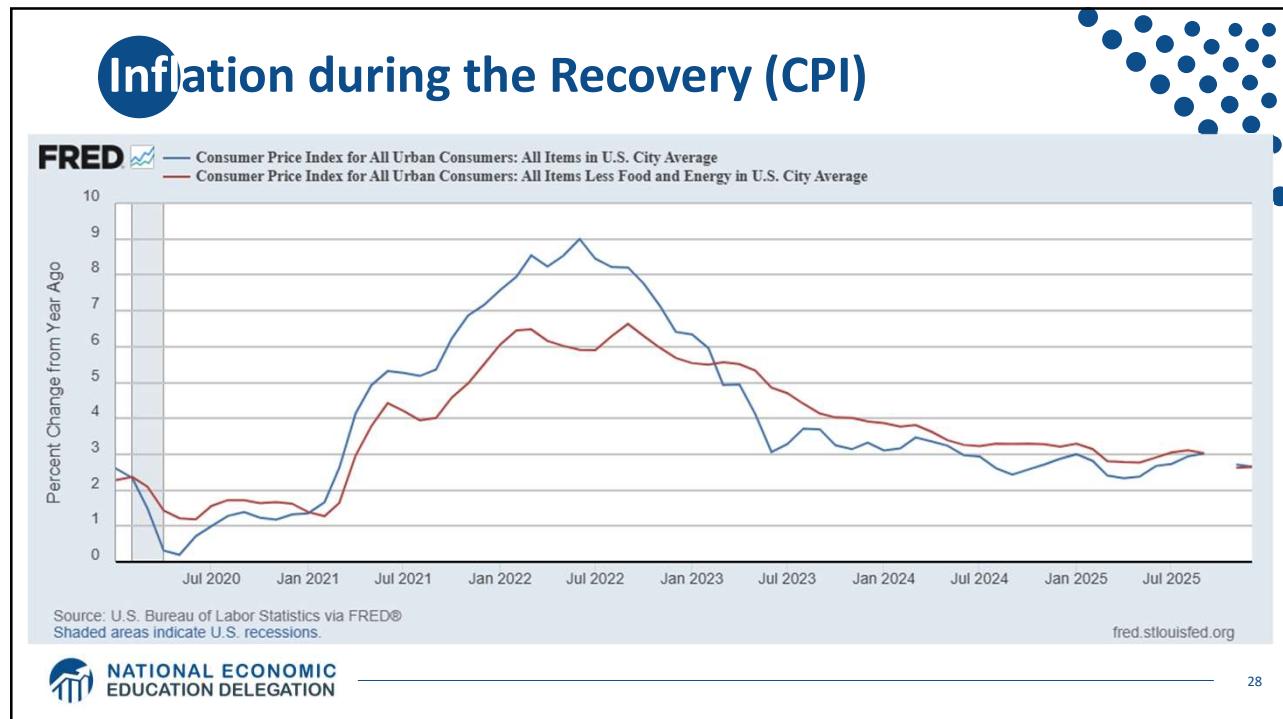
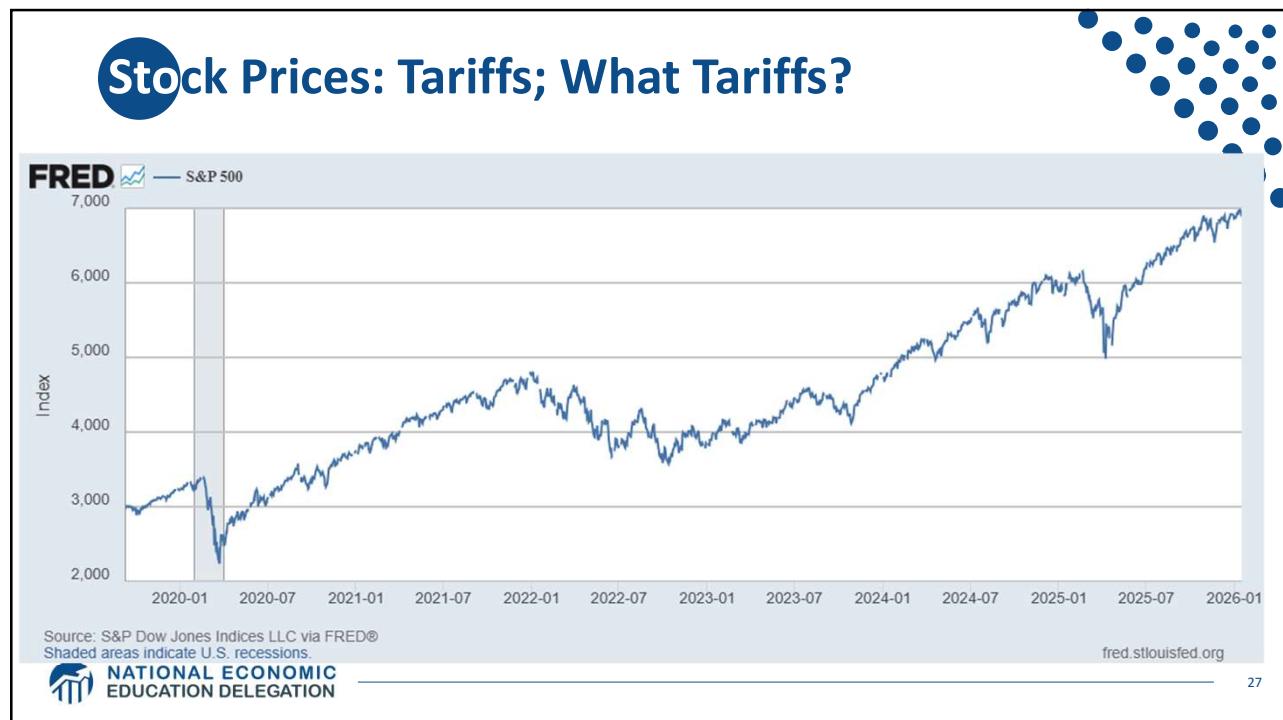


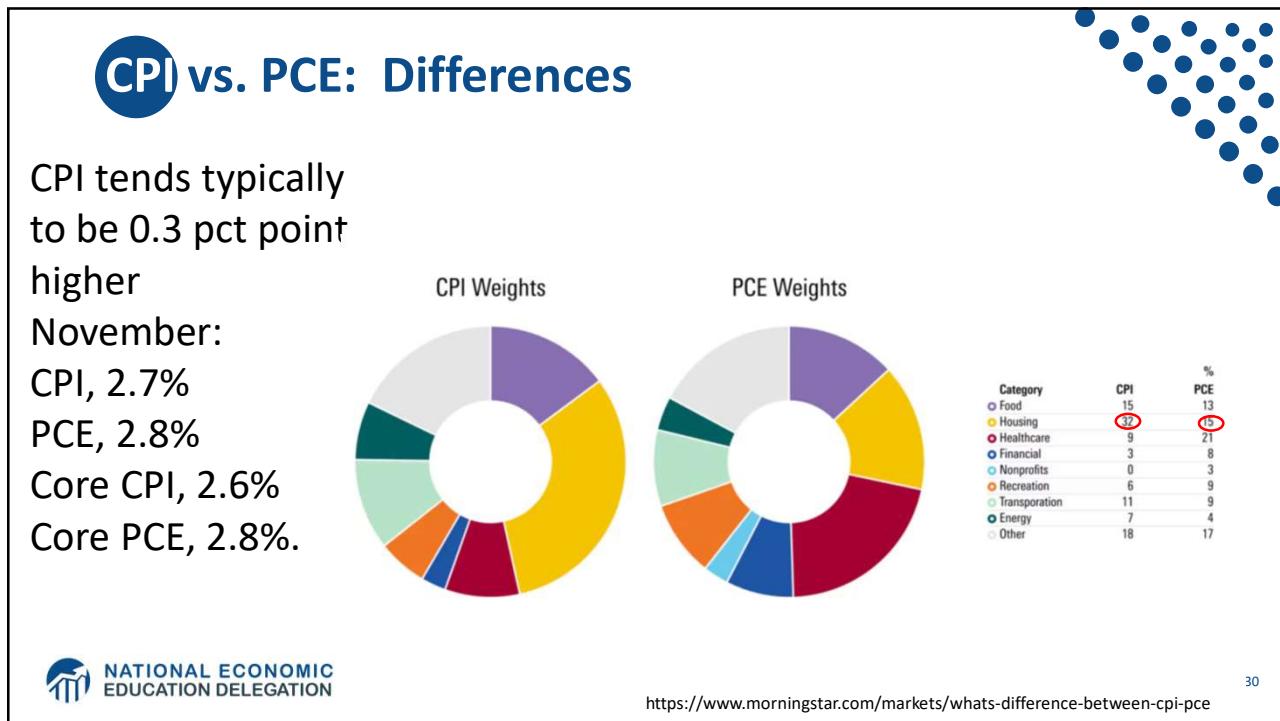
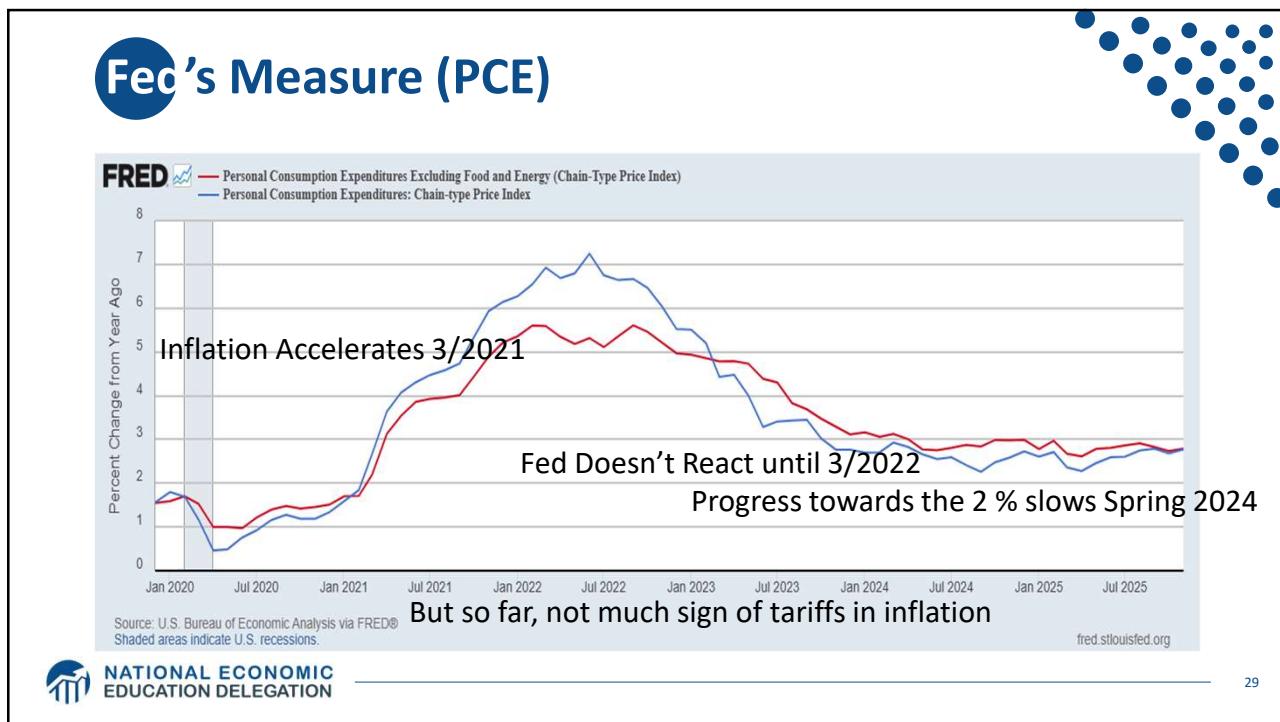
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## Interest Rates: Era of Falling Rates Over?



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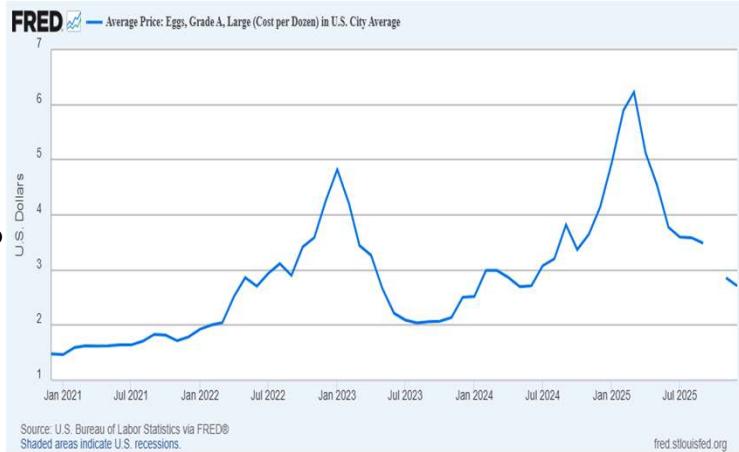




## Uses of Inflation Measures

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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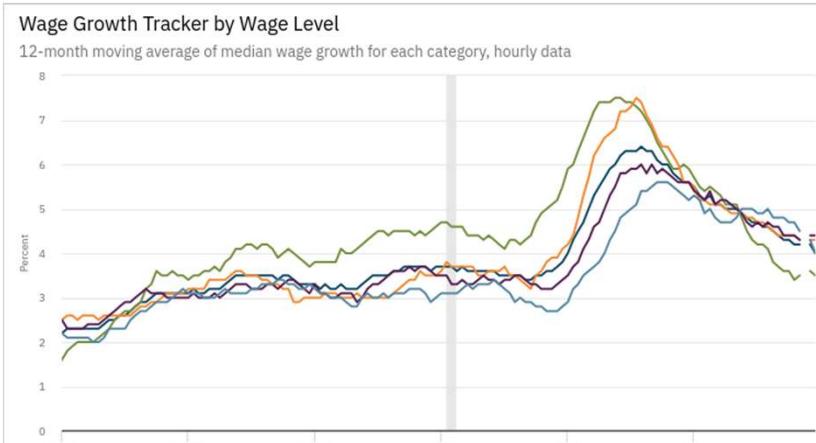
## Wage Growth



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

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## Lov Wage Workers Experience



**Wage Growth Tracker by Wage Level**  
12-month moving average of median wage growth for each category, hourly data

Percent

2014 2016 2018 2020 2022 2024

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

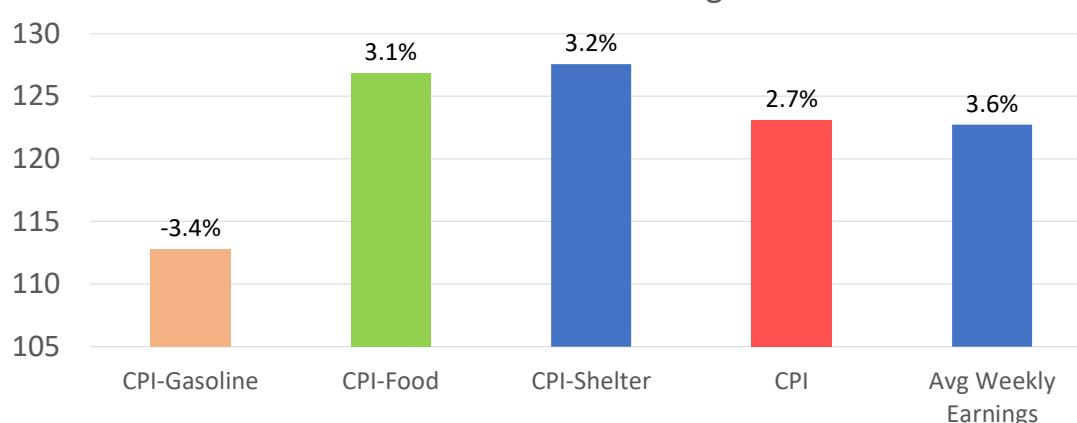
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## Affordability

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



Category	Price Level Relative to 3/21	Last 12 month growth
CPI-Gasoline	112	-3.4%
CPI-Food	127	3.1%
CPI-Shelter	128	3.2%
CPI	123	2.7%
Avg Weekly Earnings	123	3.6%

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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)



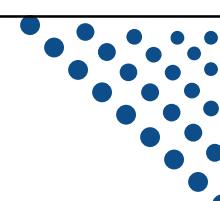
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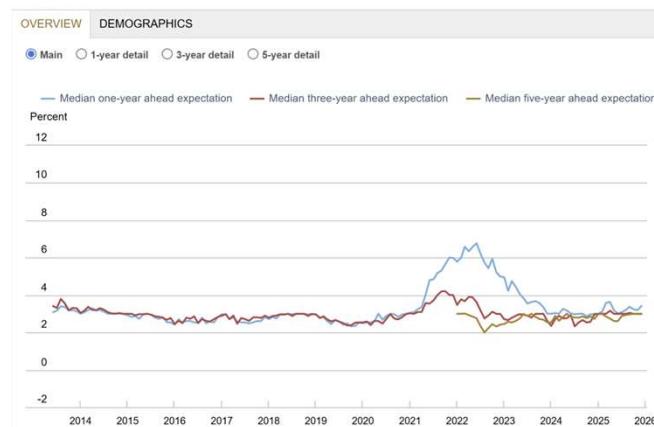
## How Did the Fed Do It?

### The Key to Success: Stable Inflationary Expectations



#### Inflation expectations

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



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## The Outlook Is More Complicated

- **Areas of Concern:**

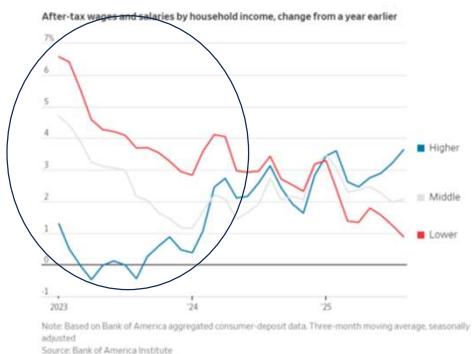
1. Consumer Spending.
2. Investment Spending due to AI.
3. Slowing of Employment Growth, particularly among young, blacks and BAs.
4. Fiscal Policy Effects.
5. Uncertainty.
6. Monetary Policy: Next 4 months and the New Chair.



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## Consumption

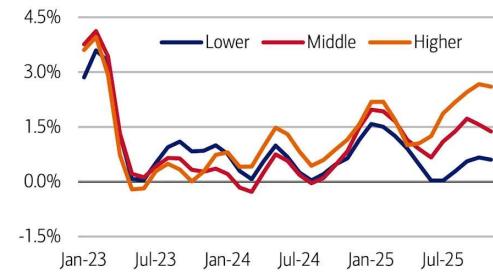
- **Low-Income Consumers look vulnerable**



Moody's Top 20% account for 63% of Consumption

### Exhibit 5: Around the spring of 2025, the gap between higher- and lower-income households' spending growth got progressively wider

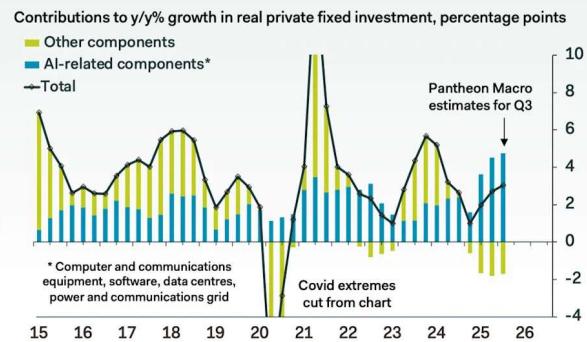
Total credit and debit card spending per household, according to Bank of America card data, by household income terciles (3-month moving average, YoY%, SA)



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## AI and Investment

## AI-RELATED CAPEX PROBABLY OFFSET WEAKNESS ELSEWHERE



Source Parthenon: Macroeconomics

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

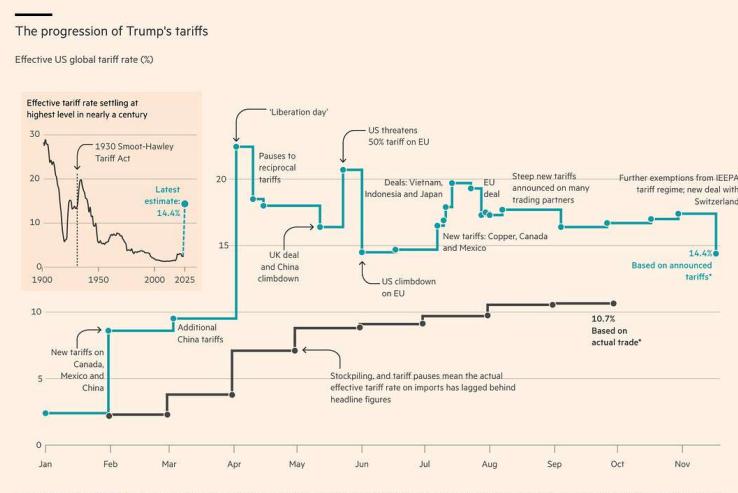
Source: BEA & <https://www.stlouisfed.org/on-the-economy/2026/jan/tracking-ai-contribution-gdp-growth>

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## Tariffs



## This Chart is Very Confusing!

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## Fiscal Policy: Tariffs

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

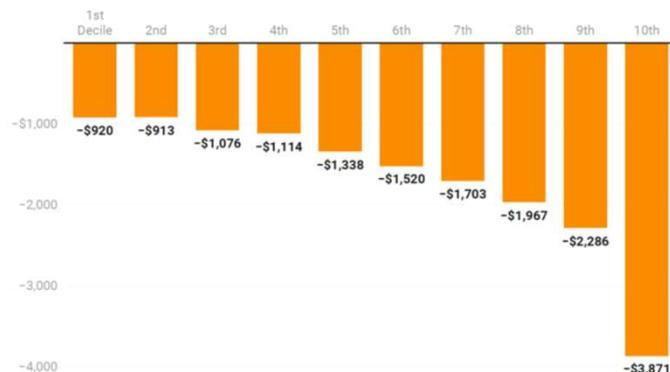


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis. • Created with Datawrapper

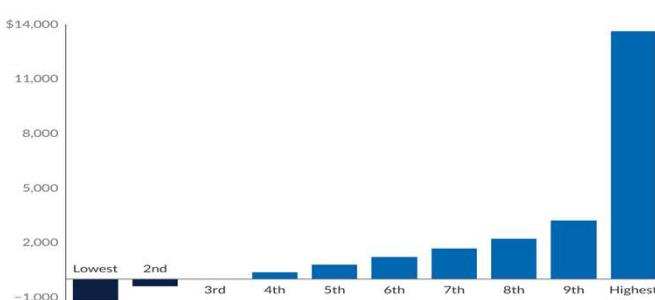


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## Fiscal Policy: OBBBA

**The OBBBA distributional effects favor higher income households**

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



Lowest: -\$1,214

2nd: -\$392

3rd: 0

4th: 379

5th: 797

6th: 1,211

7th: 1,673

8th: 2,213

9th: 3,208

10th: 13,622

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**
- 2<sup>nd</sup>: **-1,305**
- 3<sup>rd</sup>: **-1,076**
- 4<sup>th</sup>: **-735**
- 5<sup>th</sup>: **-541**
- 6<sup>th</sup>: **-309**
- 7<sup>th</sup>: **-30**
- 8<sup>th</sup>: **246**
- 9<sup>th</sup>: **922**
- 10<sup>th</sup>: **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

— Actual … CBO Projection January 2025 -- TF Projection Post-OBBA

— TF Projection Post-OBBA and Tariffs



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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## Combined Effects on the Budget Deficit

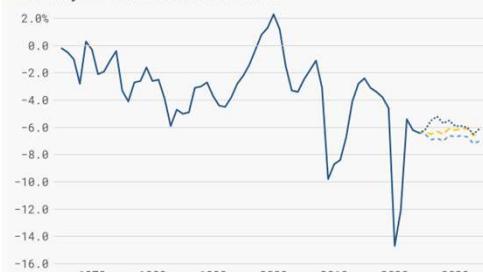
During 2025, tariff revenues collected were \$264 billion.

### Extraordinary Deficits Sustained and Worsened Under OBBBA and Tariffs

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

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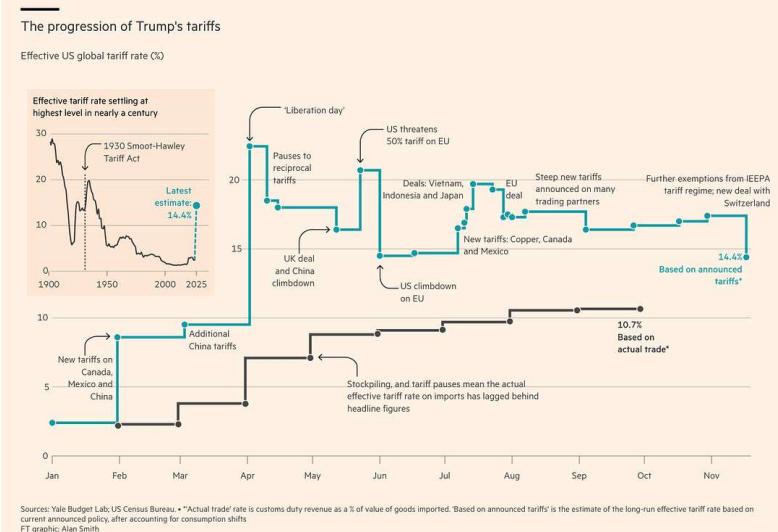
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# Uncertainty

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

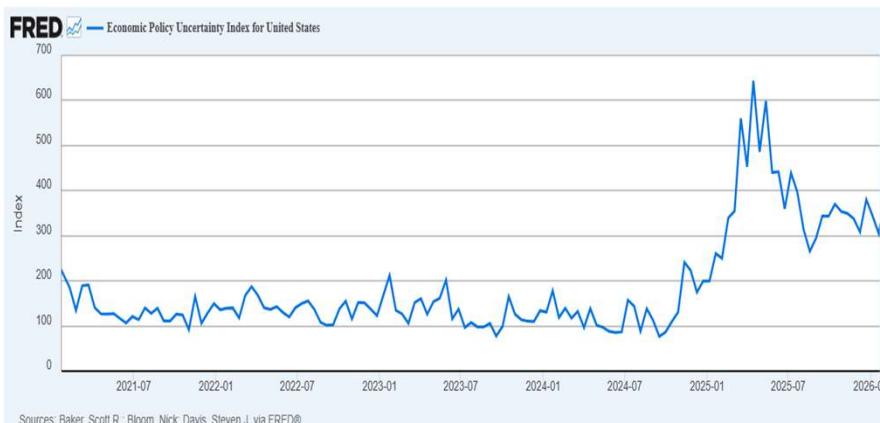


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# But... (Continued)

- 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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## Anc, 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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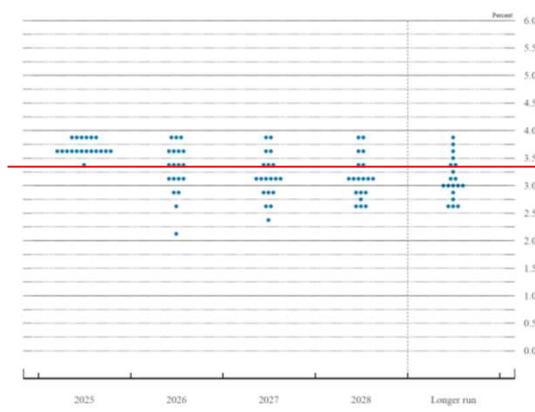
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## What the Fed Did in December

Percent

Variable	Median <sup>1</sup>				
	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 <sup>4</sup>	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.

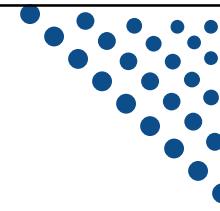


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## Theoretical Case for Independent and Conservative Central Banks



**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."**

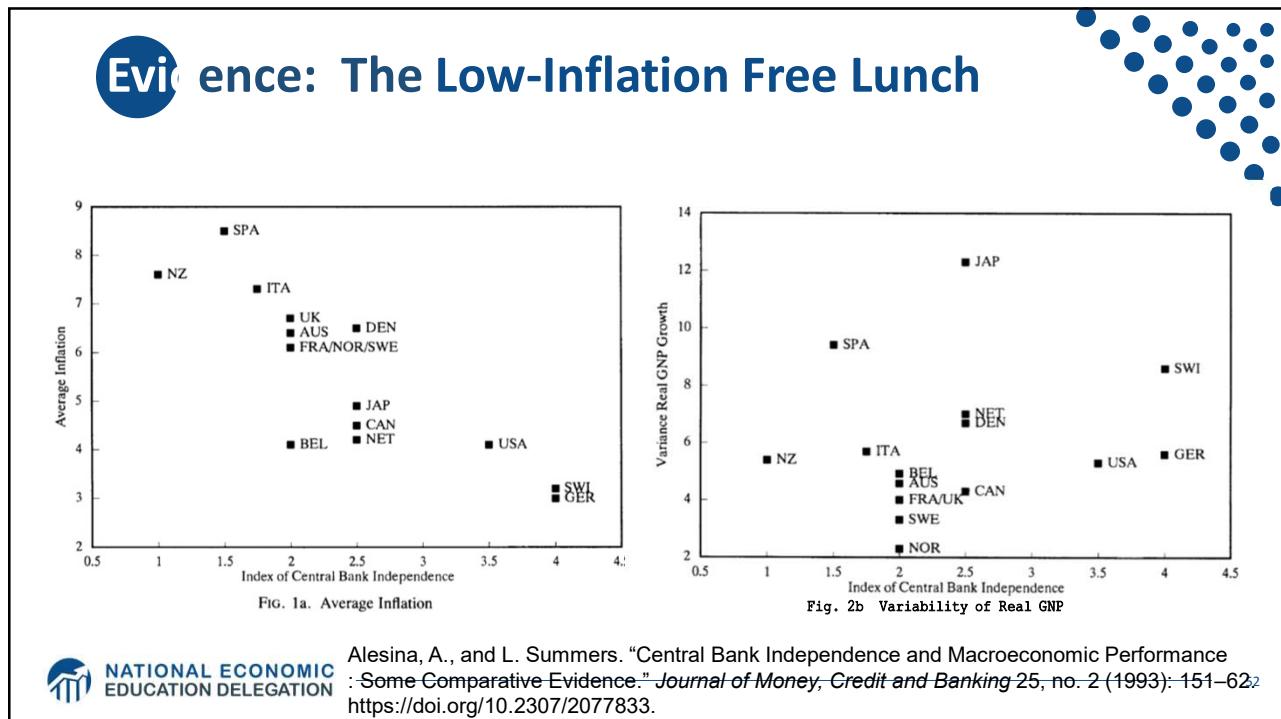
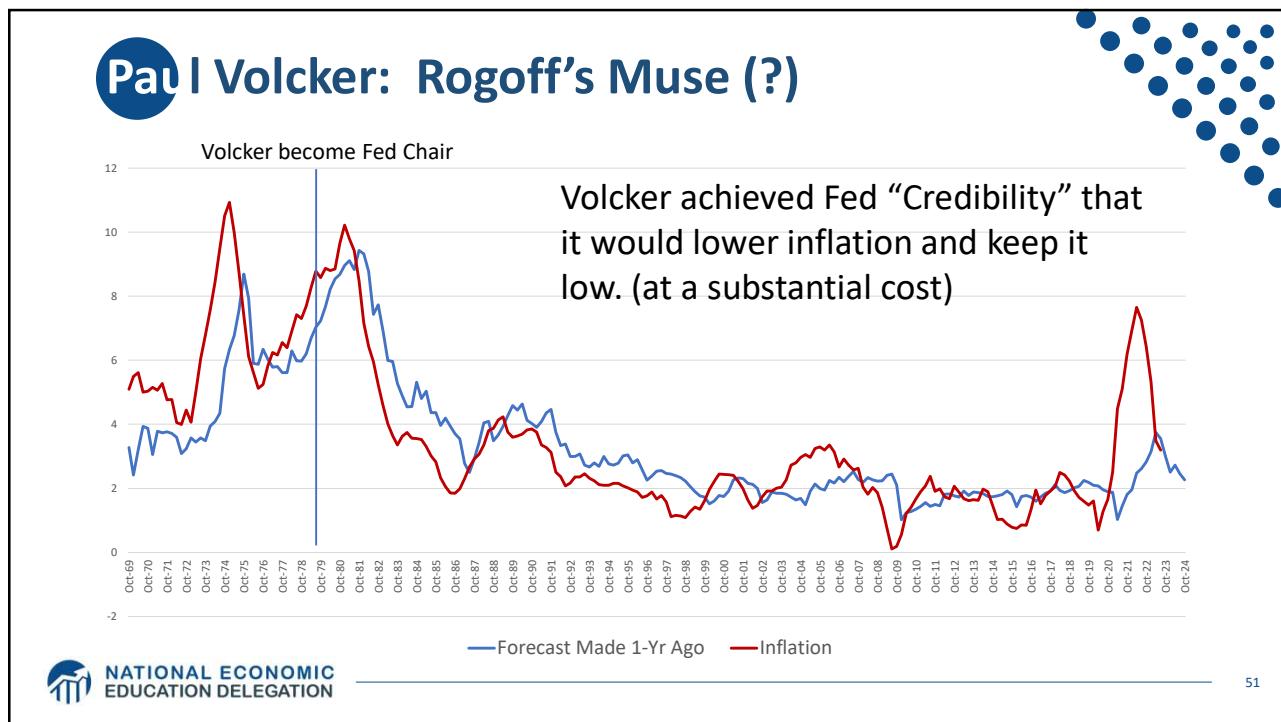
**Independent "conservative" central bank leads to "well-anchored" and lower inflationary expectations.**



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## 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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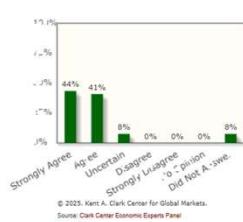
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## Who Says Economist Always Disagree?

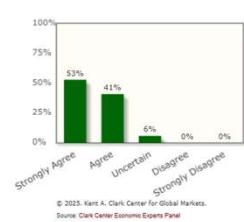
### Question A:

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

#### Responses



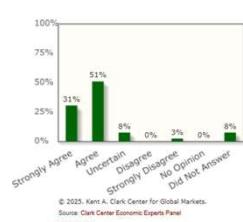
#### Responses weighted by each expert's confidence



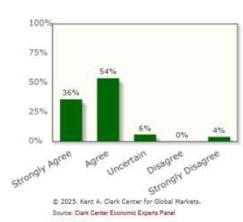
### Question B:

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

#### Responses



#### Responses weighted by each expert's confidence



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

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## This Doesn't Help



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- The irony is that the Fed would be able to lower interest rates more aggressively with no attacks.
- If it appears the Fed is caving to political pressure, it will lose credibility and increase inflationary expectations.

## An Unresolved Issue

- Is Central Bank Independence Consistent with Democracy?
- Things to think about: The Fed through monetary policy has the most influence on the short-run behavior of the economy. These governmental decisions are made “technocratically” and not democratically.
- In the current situation should the democratic process have input in how the Fed deals with the dilemma of stagflation?



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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 \$)



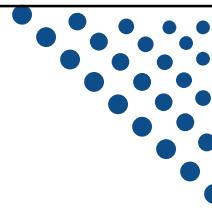
Holder	Debt (Billions of \$)
Federal Reserve System	\$5,239
Mutual Funds	\$3,659
Depository Institutions	\$1,653
State and Local Governments	\$1,680
Pension Funds	\$1,034
Insurance Companies	\$477
Other Domestic	\$5,709
Japan	\$1,137
China	\$816
United Kingdom	\$679
Luxembourg	\$371
Canada	\$336
Cayman Islands	\$305
Belgium	\$314
30+ Other Countries	\$3,974

US Savings Bonds, \$120 billion


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Let's Hear from You!

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