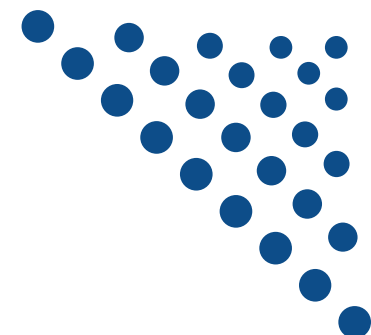




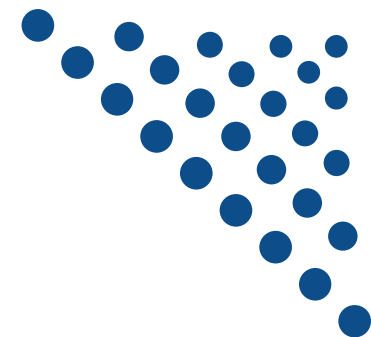
Osher Lifelong Learning Institute, Fall 2025

The Economics of Public Policy Issues

University of Minnesota

**Host: Geoffrey Woglom, Director
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

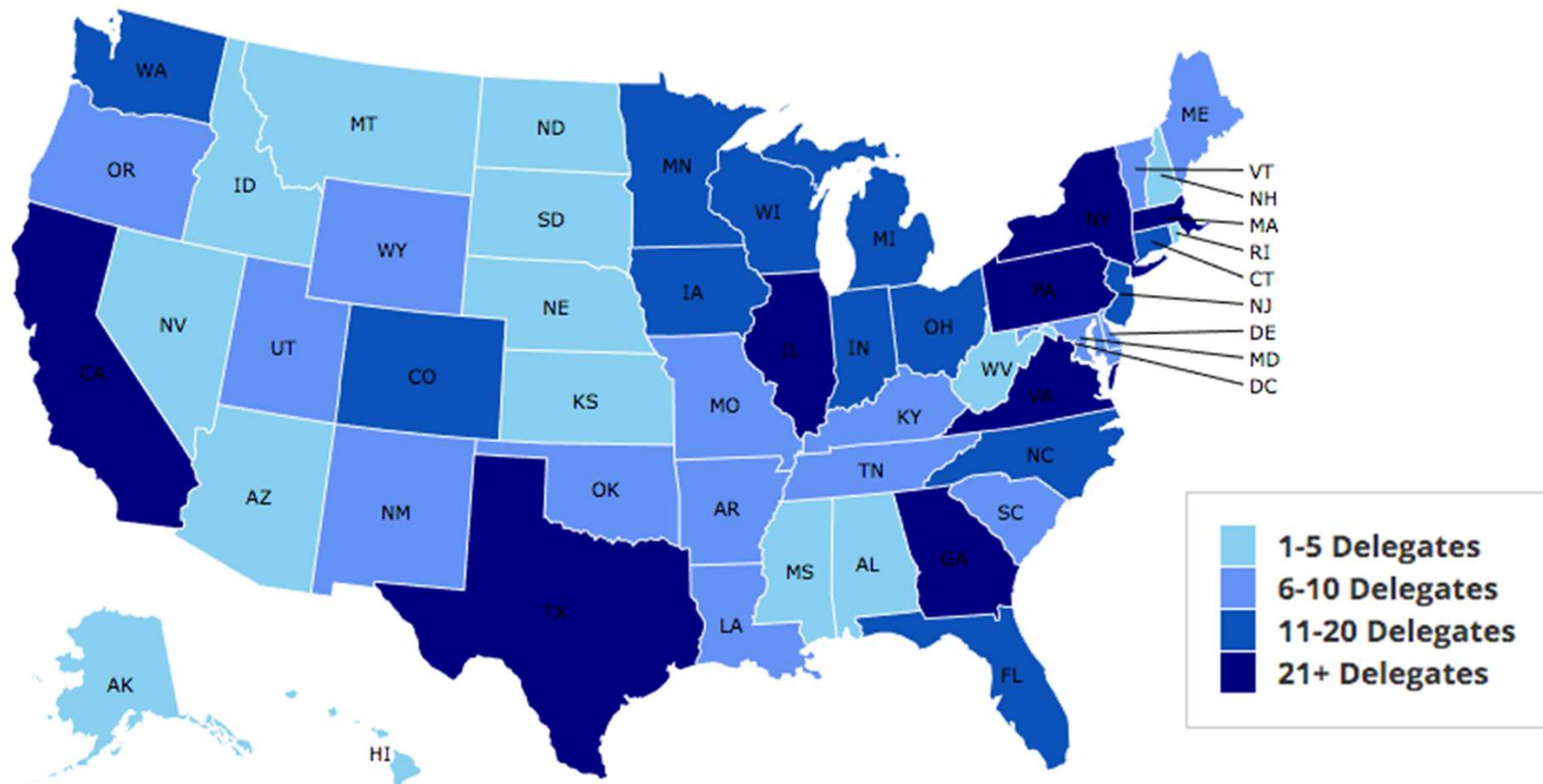
- **Delegates: 652+ members**

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

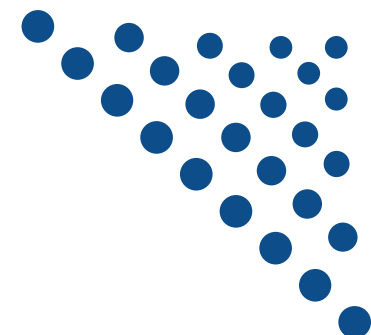
- **Global Partners: 48 Ph.D. Economists**

- Aid in slide deck development

Where Are We?

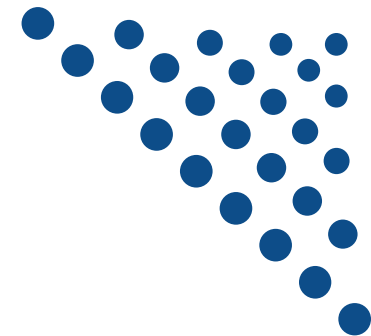


Available NEED Topics Include:



- 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 Schedule



The Economics of Public Policy Issues

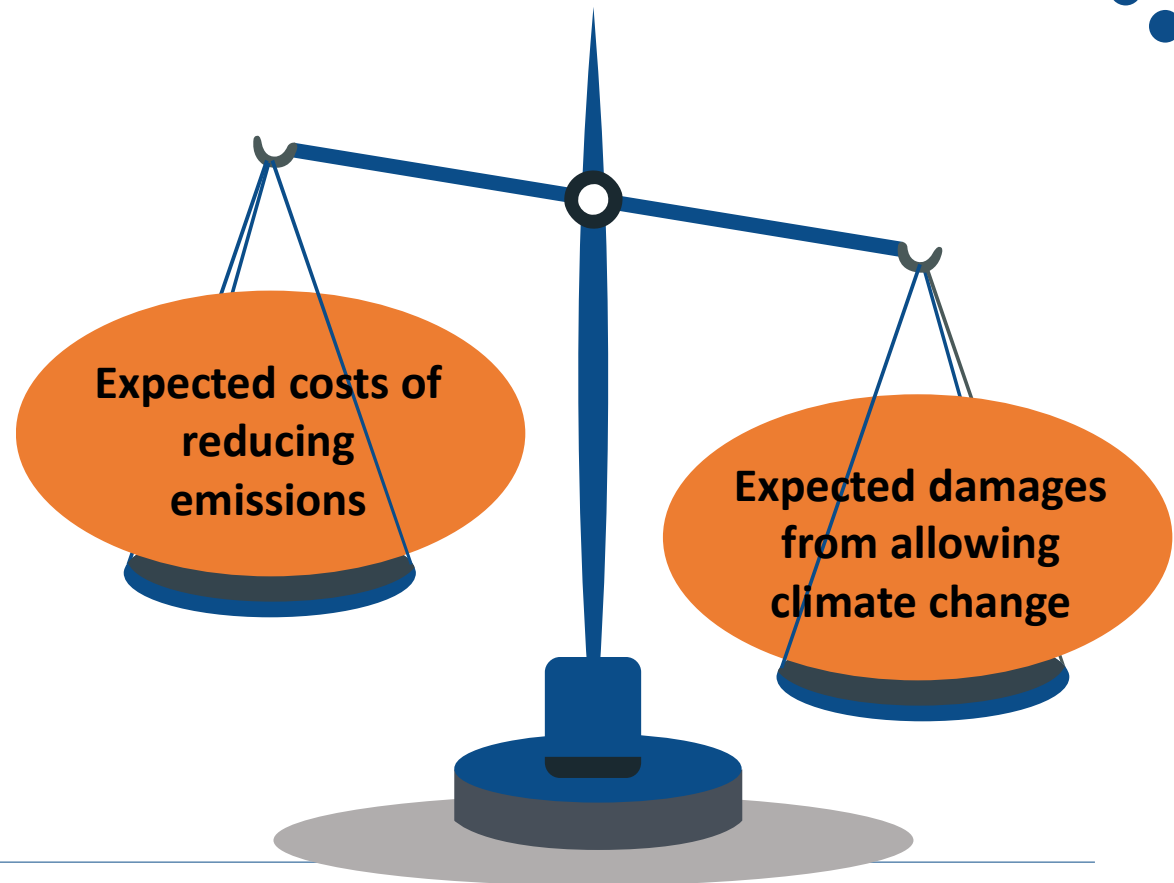
- **Week 1 (10/20): Economic Update & Central Bank Independence** Geoffrey Woglom, Amherst College
- Week 2 (10/27): Climate Change Economics Sarah Jacobson, Williams College
- Week 3 (11/3) AI and Inequality Geoffrey Woglom, Amherst College
- Week 4 (11/10): Health Care Economics, Robert Rebelein, Vassar College
- Week 5 (11/17): Trade and Globalization, Adina Ardelan, Santa Clara University

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

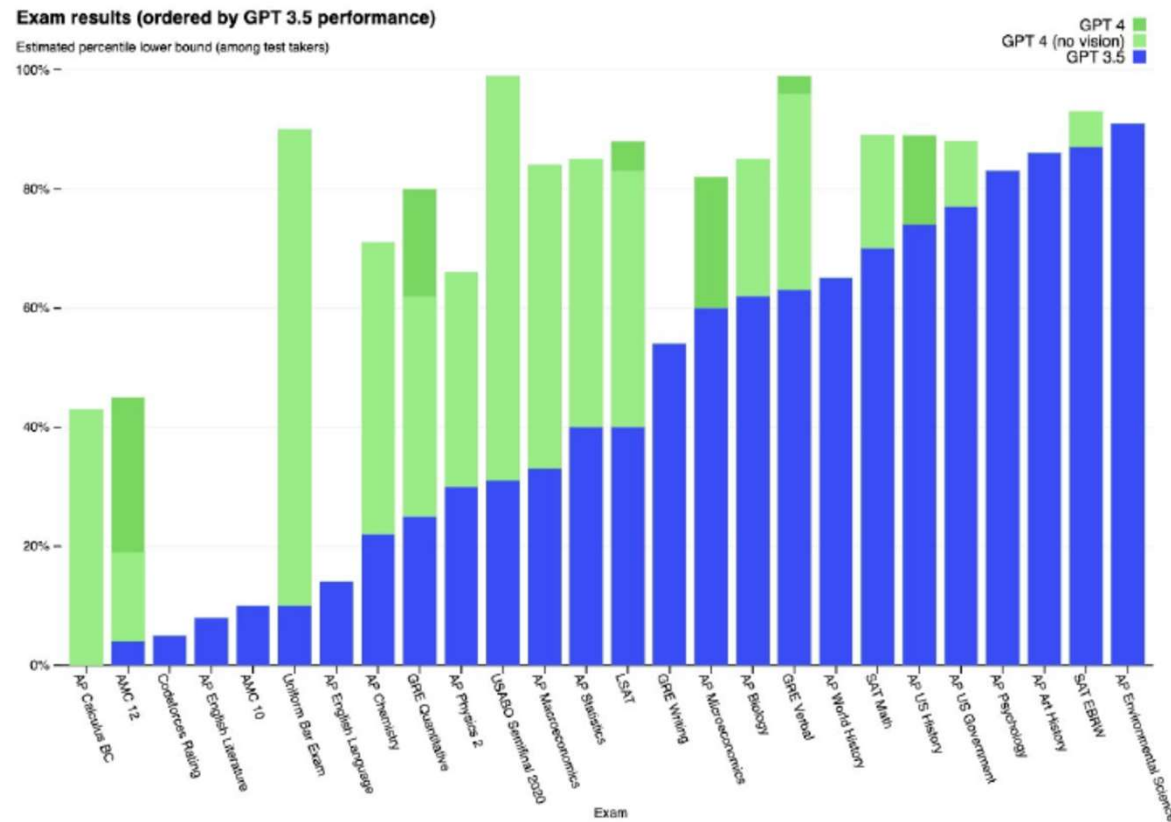
Abating greenhouse gas emissions is costly...

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

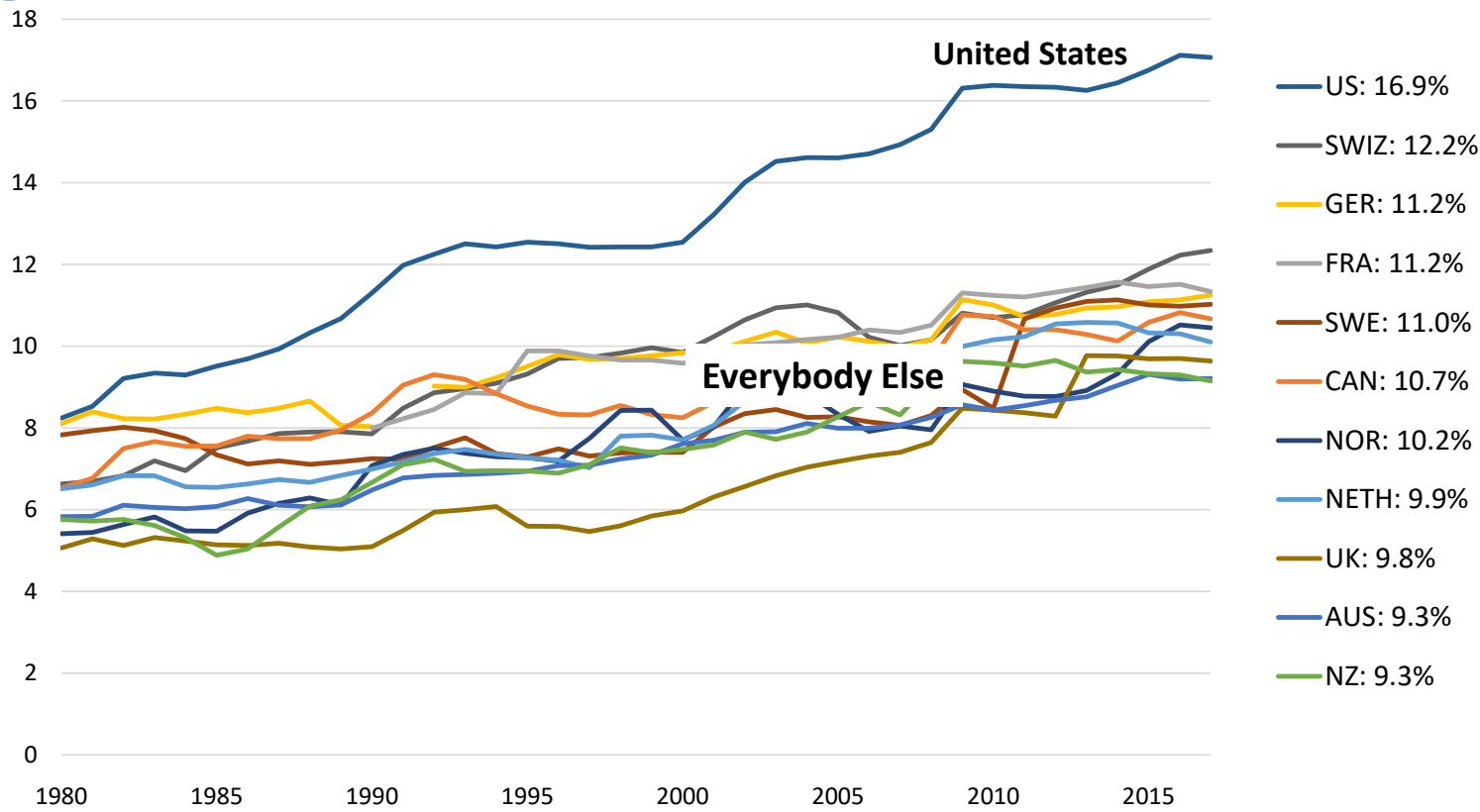
Goal is not zero emissions, but efficient level that achieves a balance.



AI Is Getting “Smarter”

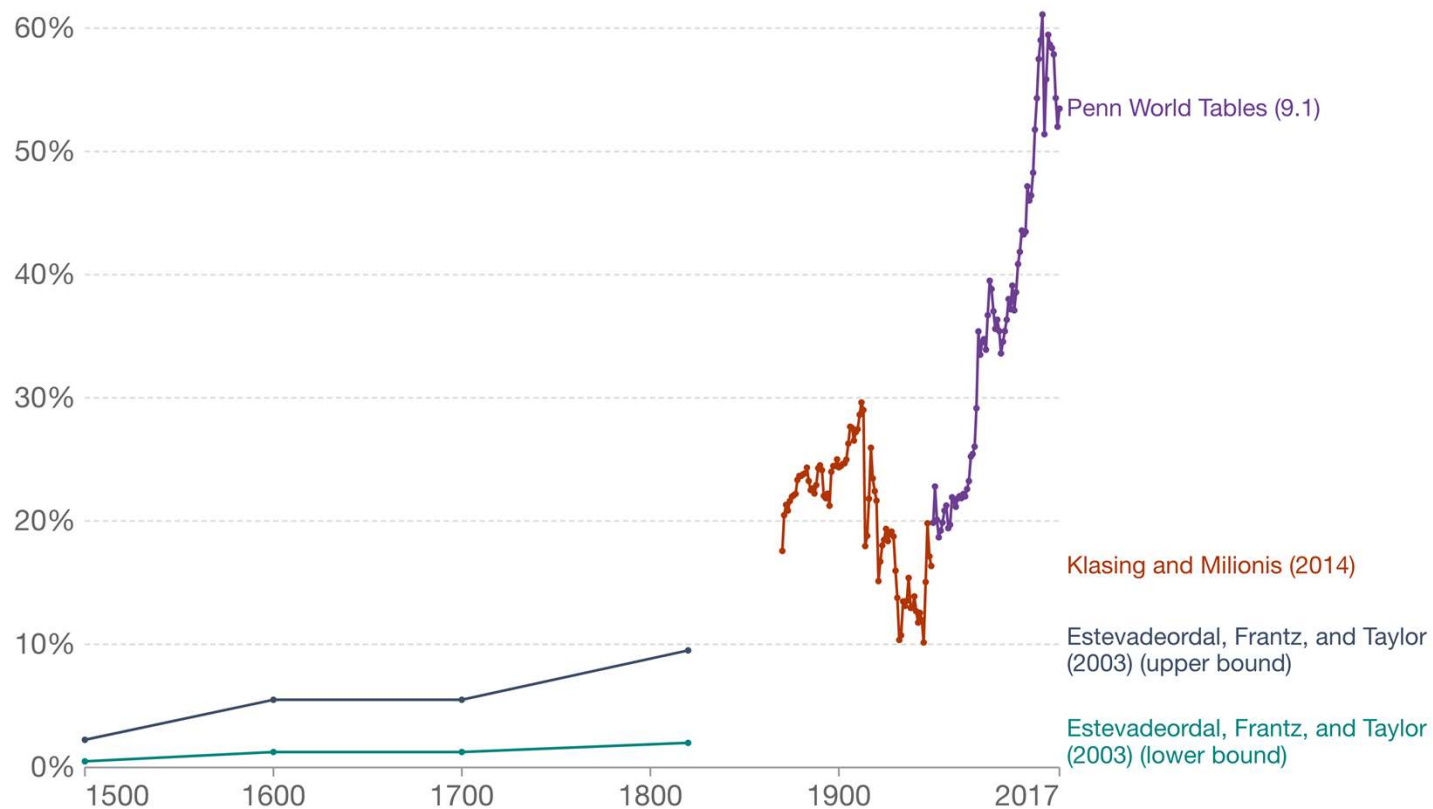


Health Care Spending as % of GDP, 1980–2018



Globalization over 5 centuries

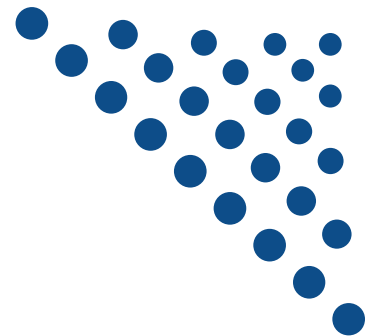
Shown is the "trade openness index". This index is defined as the sum of world exports and imports, divided by world GDP. Each series corresponds to a different source.



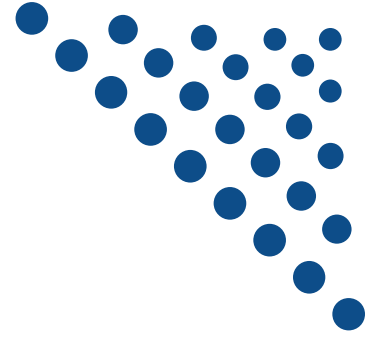
Source: Estevadeordal, Frantz, and Taylor (2003), Klasing and Milionis (2014), Feenstra et al. (2015) Penn World Tables 9.1
OurWorldInData.org/trade-and-globalization • CC BY



Submitting Questions



- Submit questions in the chat. I will try to address questions after 10-minute intervals..
- 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>

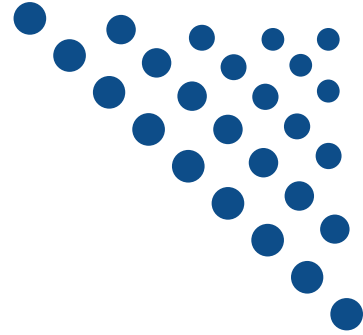


US Economy: Update

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
October 20, 2025



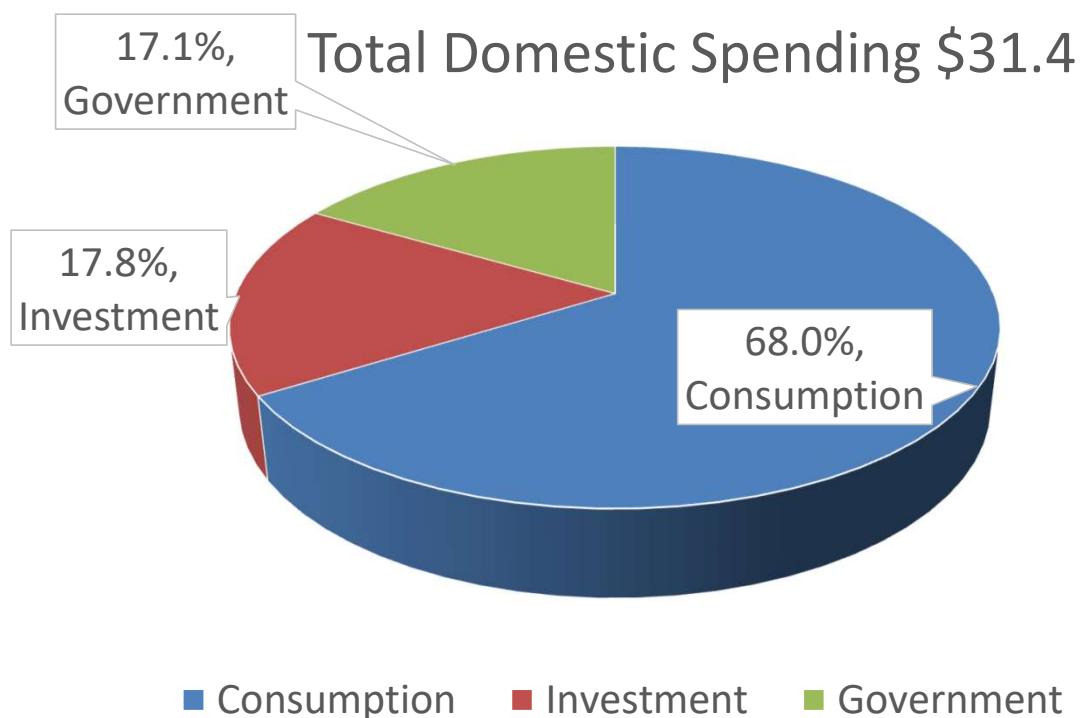
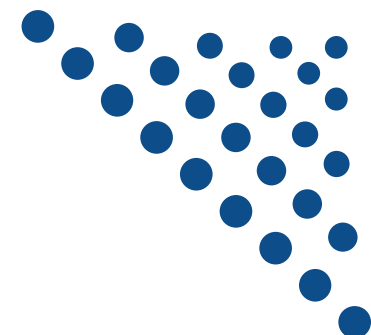
Outline for the Talk



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

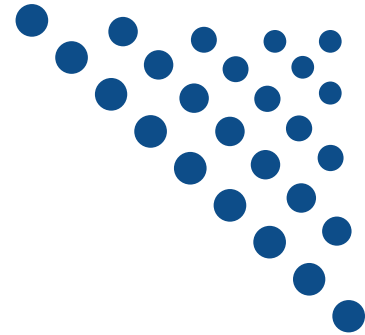


Gross Domestic Product: 2025Q2 = \$30.5 tr



\$31.4
Less Imports
-\$4.2
Plus Exports
+\$3.3
Equals GDP
\$30.5

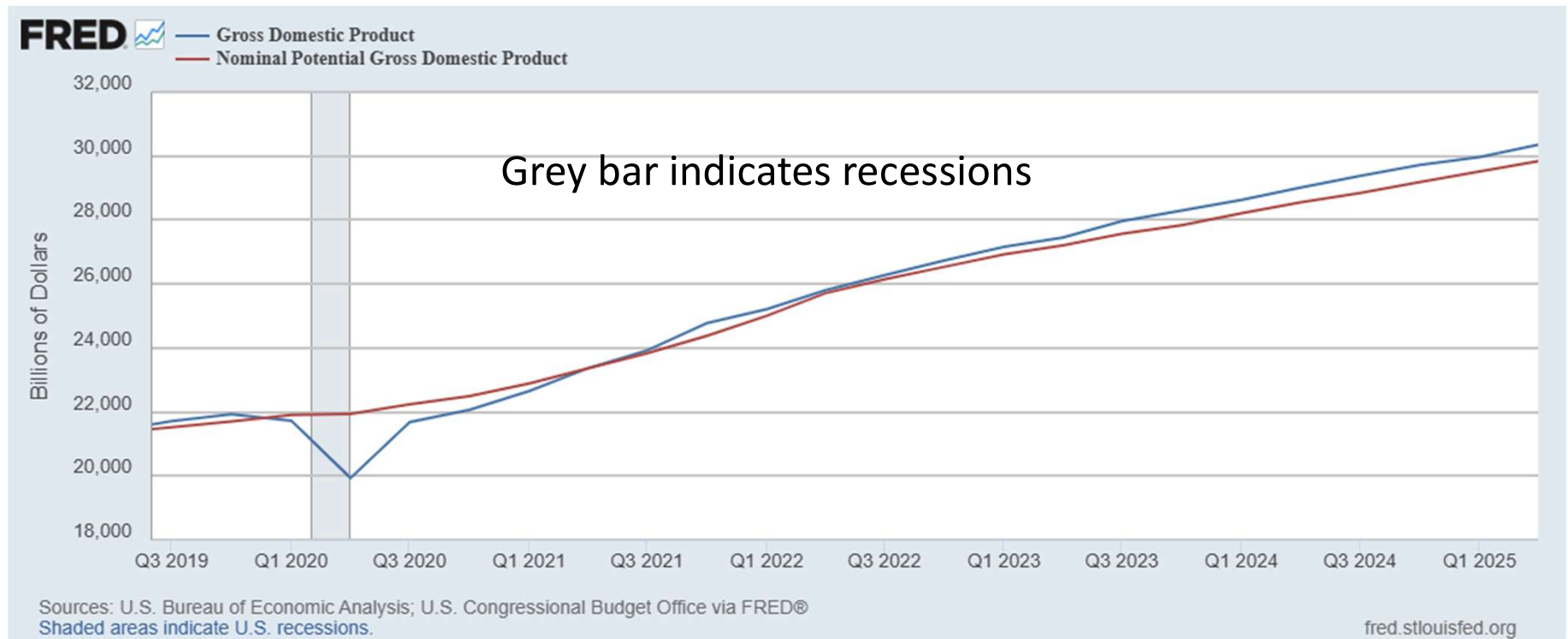
Data Issues and the Government Shutdown



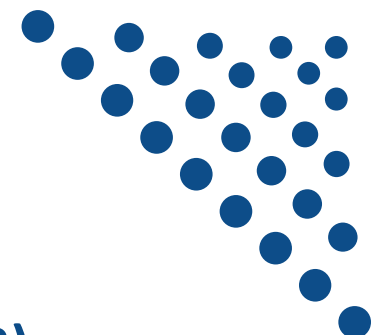
- Shutdown started on 10/1.
- Two major macrodata sources, BLS and BEA, stopped publishing data.
- BLS – unemployment and CPI inflation data.
- BEA – GDP and the Fed’s preferred inflation measure.
- One exception. BLS will publish the on 10/24.



GDP and 'Potential' during the Recovery



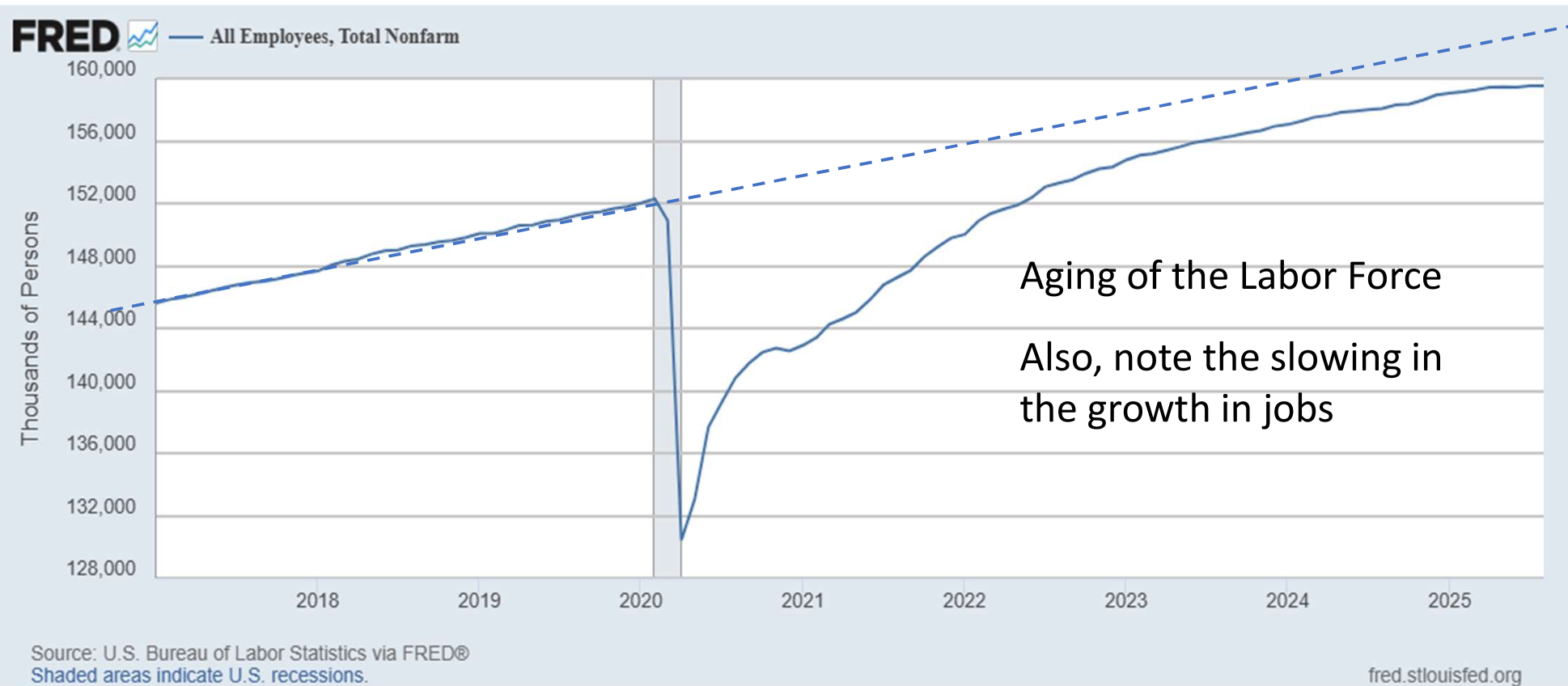
What is a Recession?



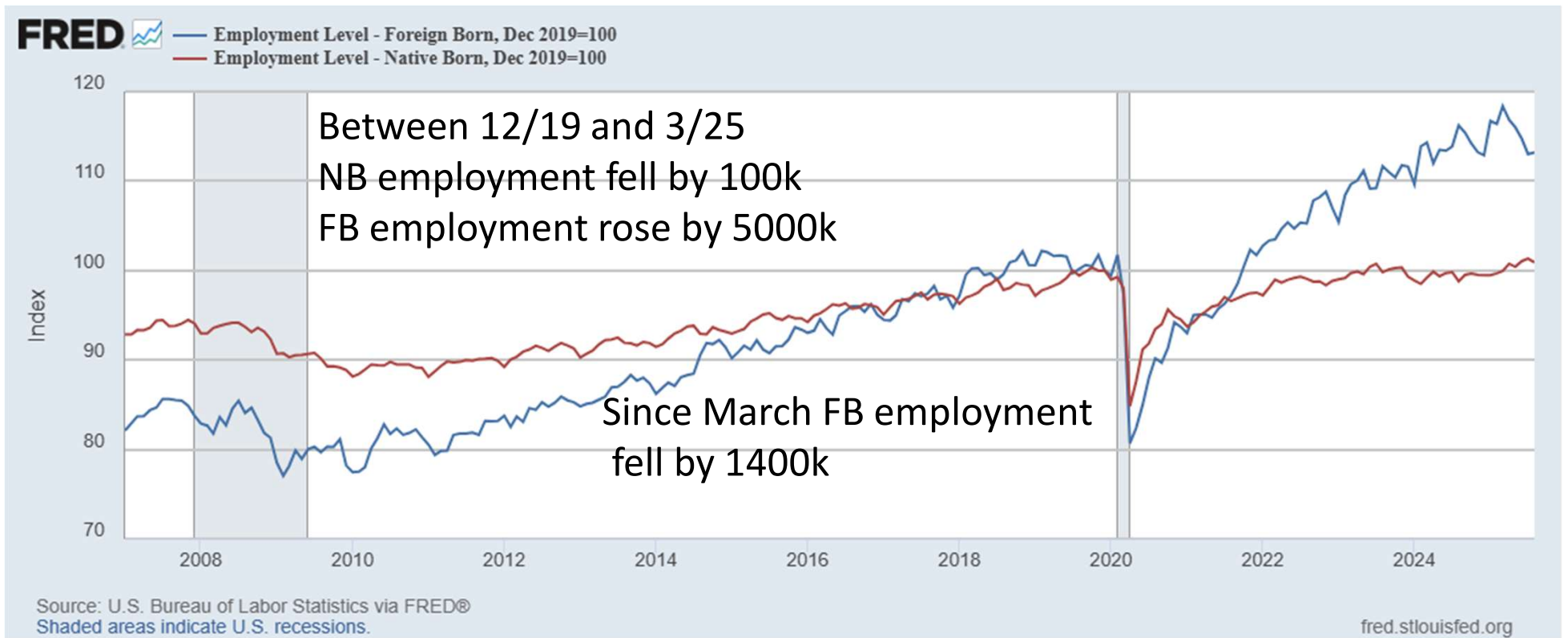
- Defined by the National Bureau of Economic Research (NBER)
- “The NBER's definition emphasizes that a recession involves a significant decline in economic activity that is spread across the economy and lasts more than a few months.”
- Popular Rule of Thumb: Two or more, consecutive quarters where Real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

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

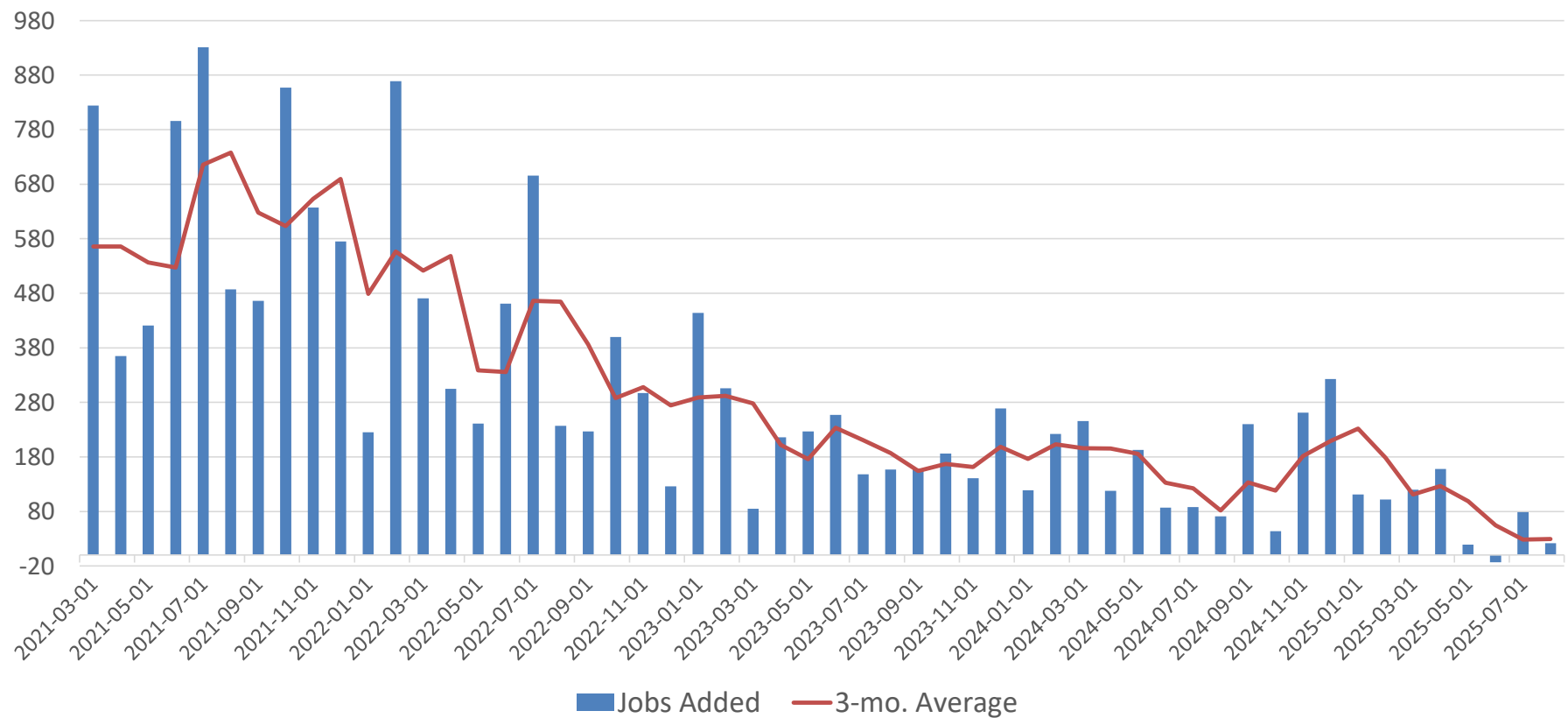
Where Have All the Workers Gone?



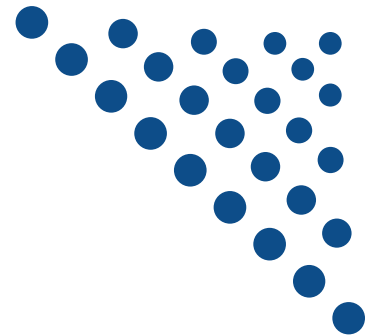
Could Have Been Worse , but for Foreign Born Workers



New Jobs Added per Month



The Kerfuffle Over the Jobs Reports



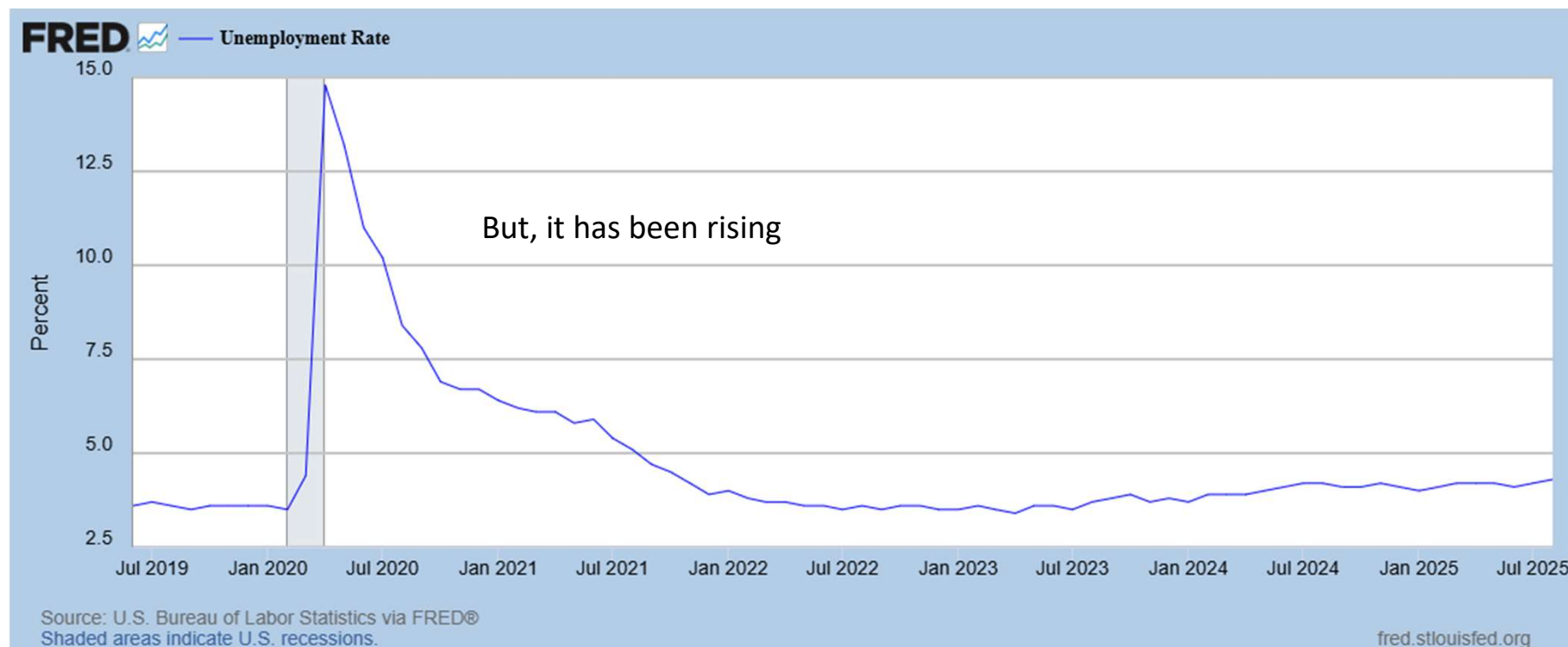
- **BLS conducts 2 surveys each month**
 - Household Survey: Unemployment Rate.
 - “Establishment” Survey (workplace survey): Number of new jobs created.
- **August 1 Report: 73,000 jobs added July, but May and June numbers were revised down by 280,000.**
- **Trump fires BLS director, the same day.**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

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

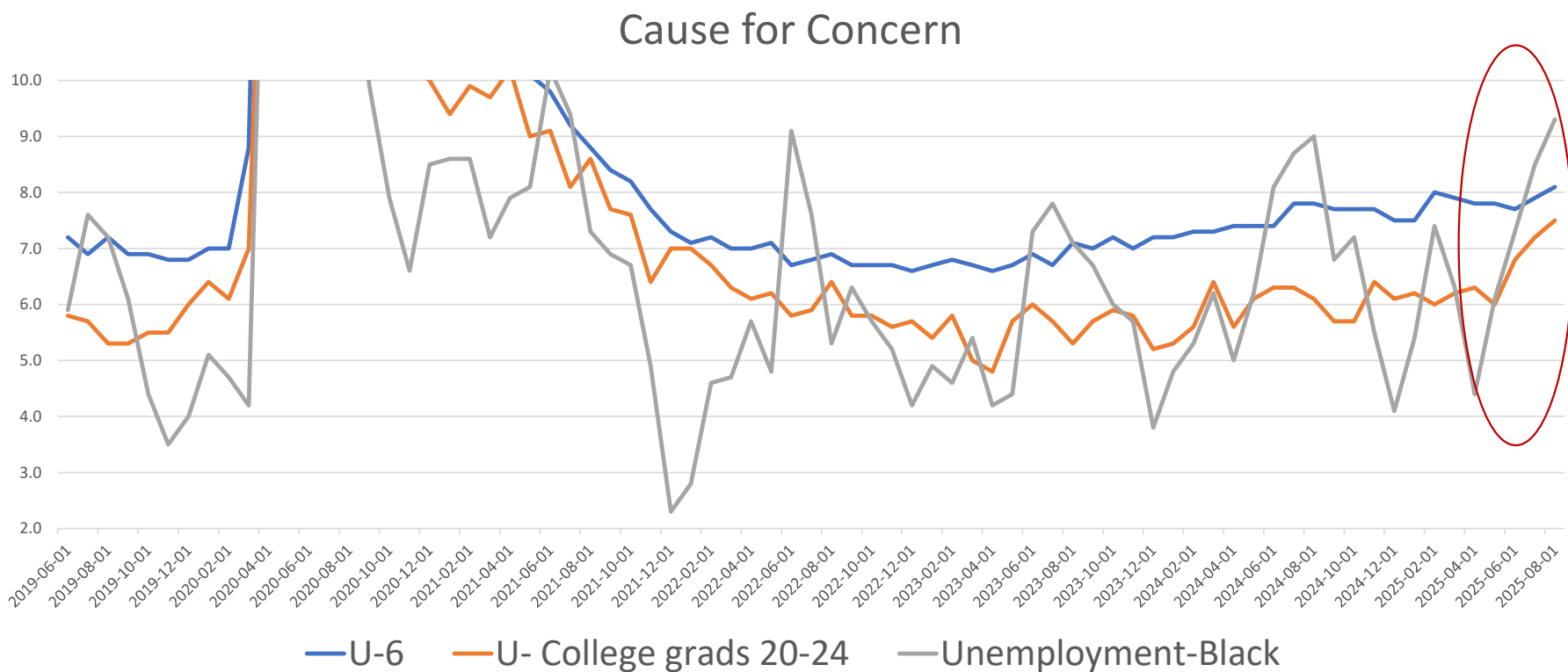
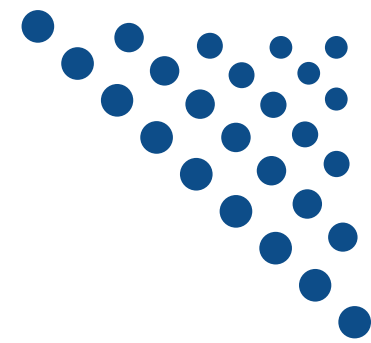
<https://sites.google.com/view/macro-current-issues/economic-update>



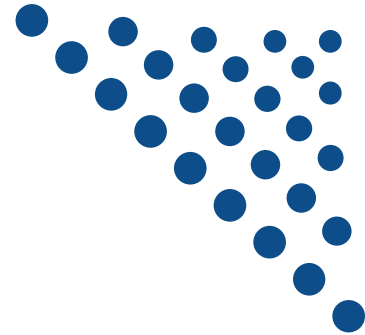
Unemployment is Near Record Lows



More Detail on Unemployment



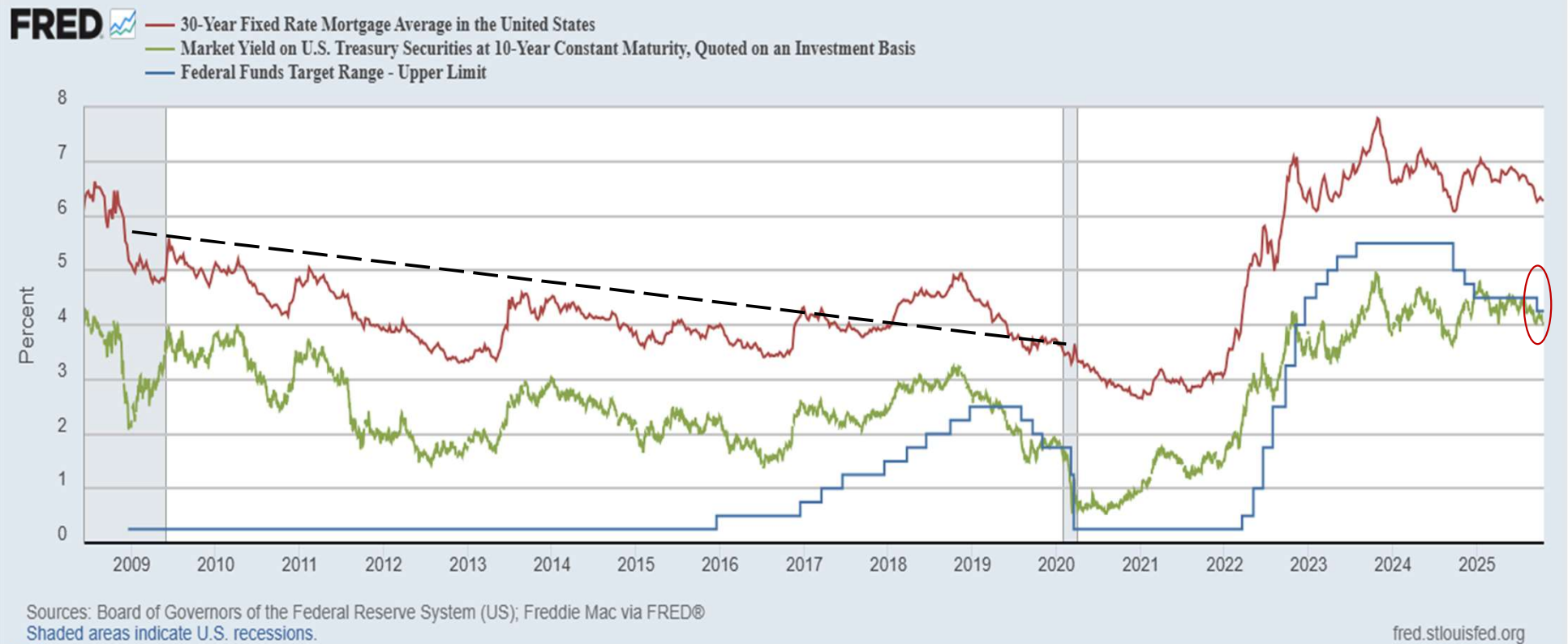
The Real Side of the Economy is Still Good



- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- But there are growing signs that the labor market is weakening.
- And there are also troubling signs on the nominal side



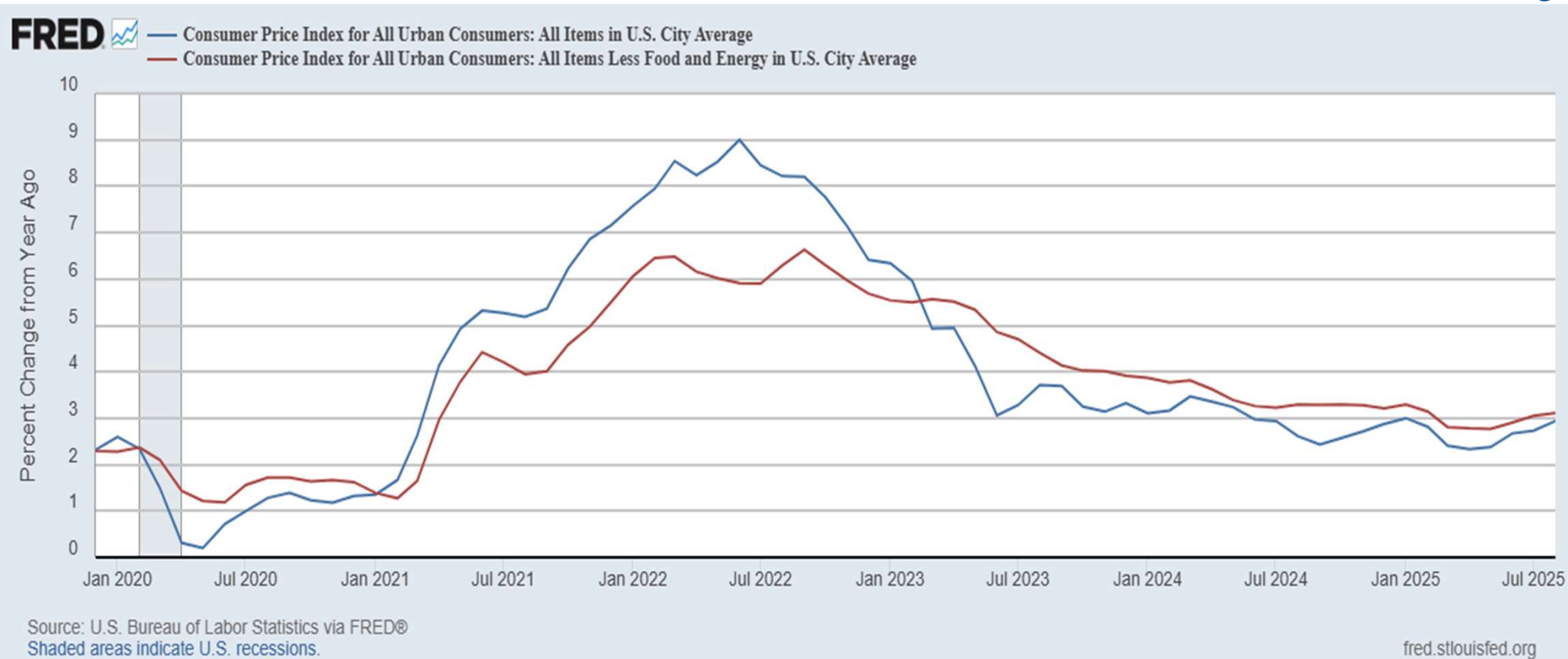
Interest Rates: Era of Falling Rates Over?



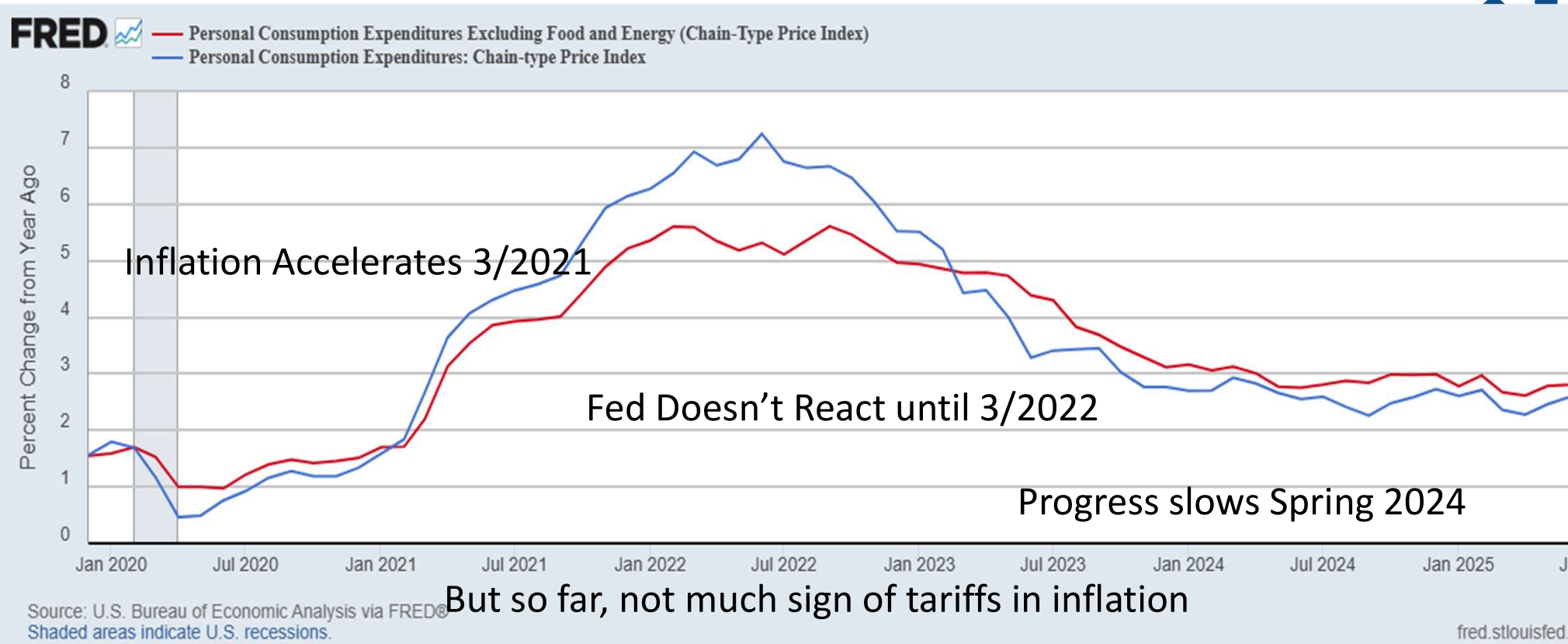
Stock Prices: Tariffs; What Tariffs?



Inflation during the Recovery (CPI)



Fed's Measure (PCE)



CPI vs. PCE: Differences

CPI tends typically to be 0.3 pct point higher

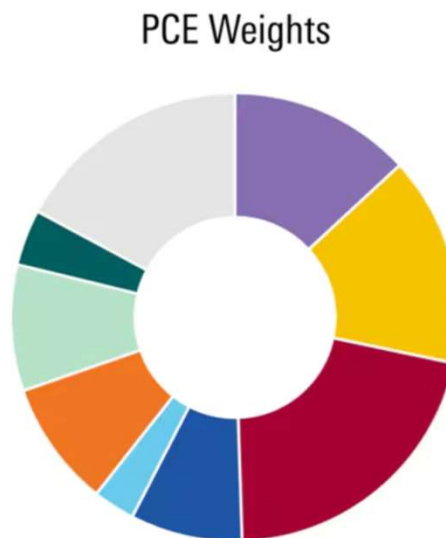
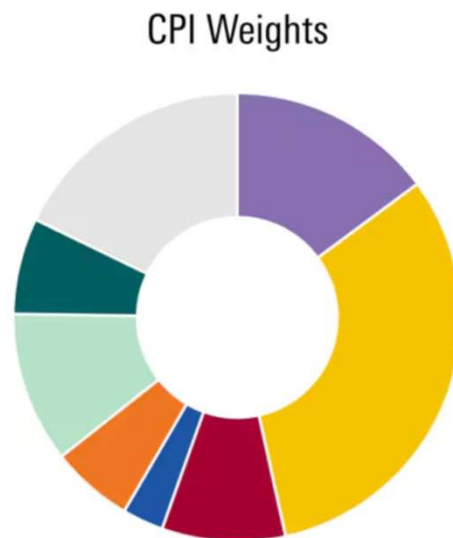
August:

CPI, 2.9%

PCE, 2.7%

Core CPI, 3.1%

Core PCE, 2.9%.

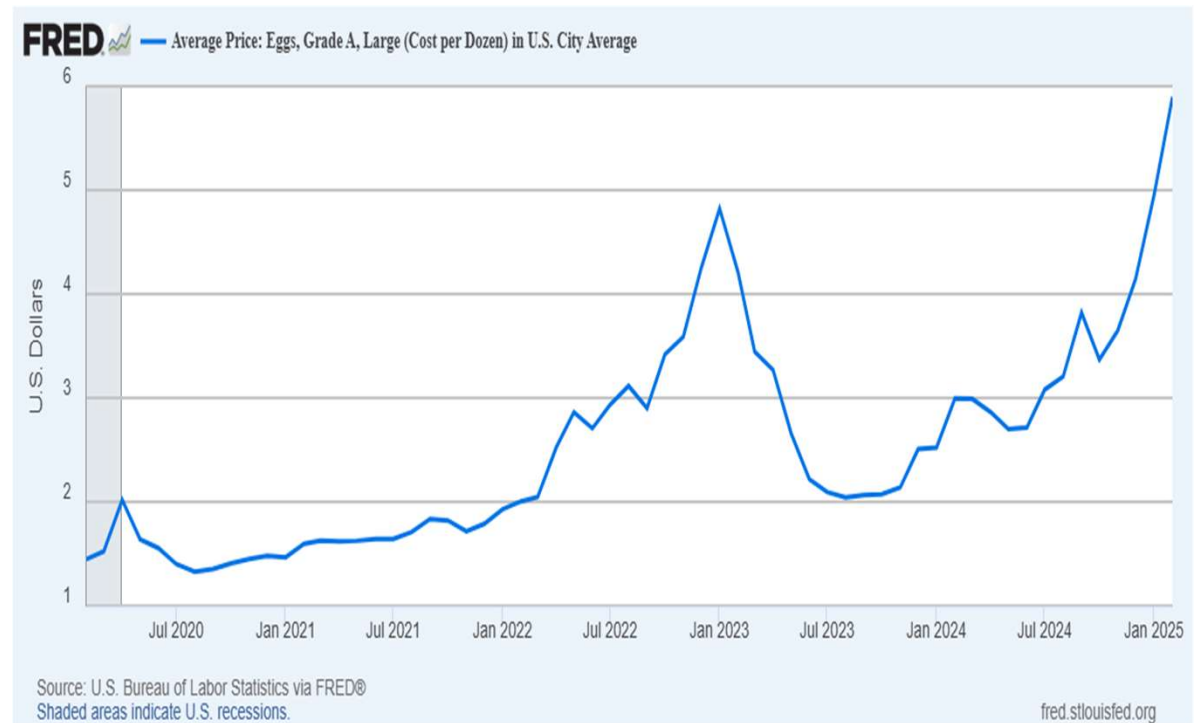


Category	CPI	PCE
Food	15	13
Housing	32	15
Healthcare	9	21
Financial	3	8
Nonprofits	0	3
Recreation	6	9
Transportation	11	9
Energy	7	4
Other	18	17

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?



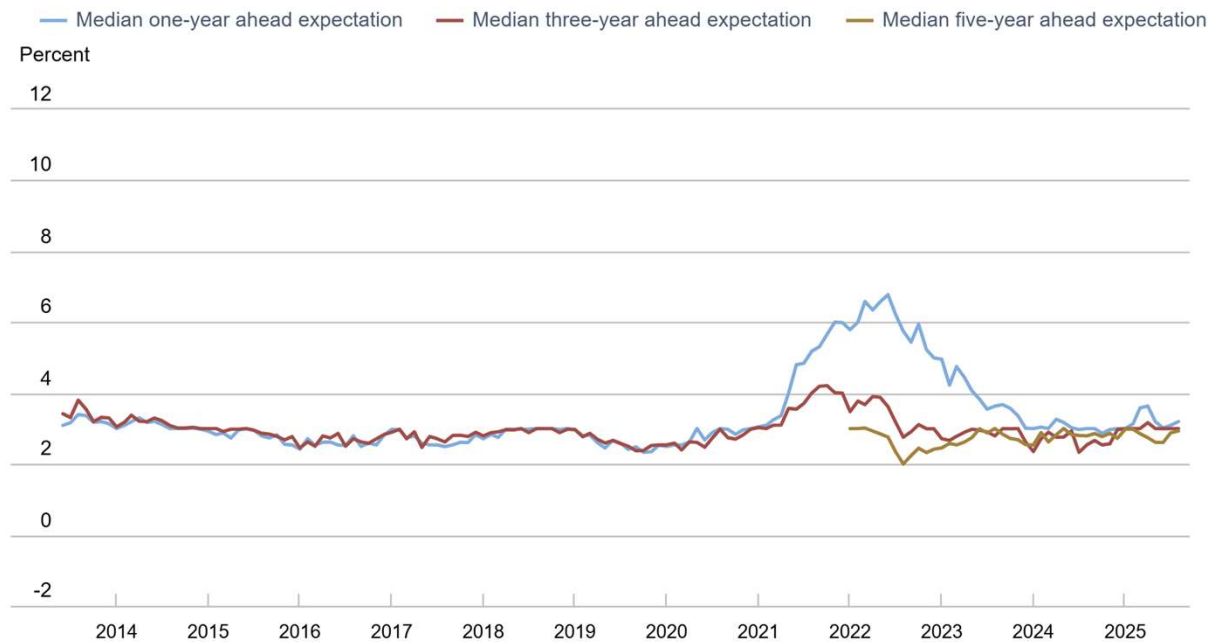
The State of the Economy & How We Got Here



- **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 little increase in unemployment (unprecedented)
- **But, recent trends are worrying: both inflation and unemployment ticking up**

How Did the Fed Do It?

The Key to Success: Stable Inflationary Expectations

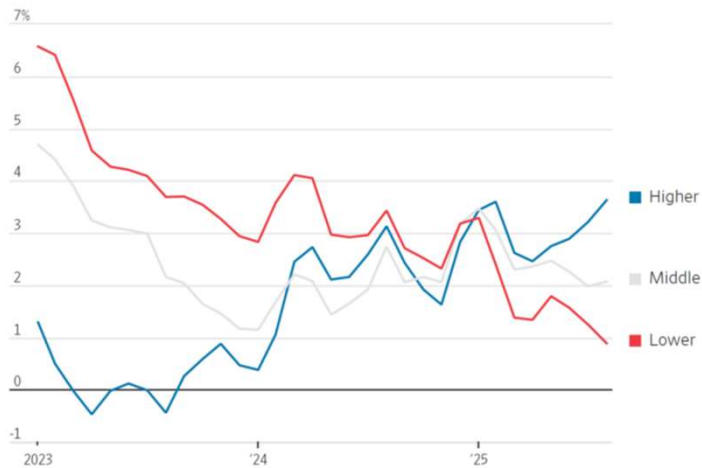


Source: New York Fed Survey of Consumer Expectations

But...

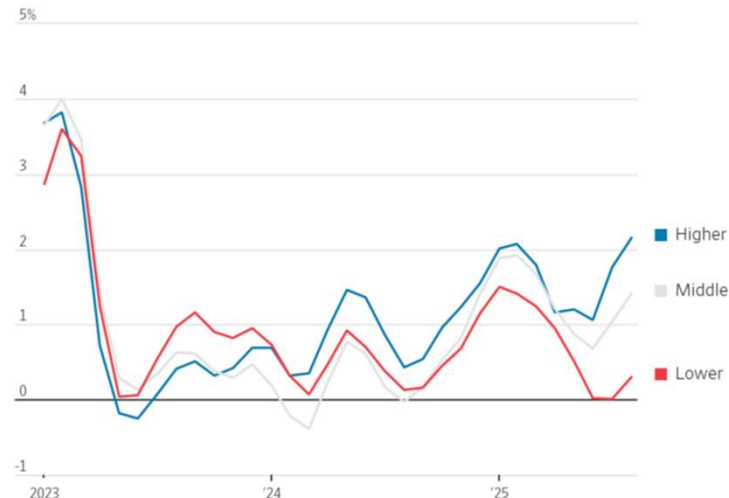
- **Low-Income Consumers look vulnerable (Tariffs are a regressive tax that hits low-income workers disproportionately)**

After-tax wages and salaries by household income, change from a year earlier



Note: Based on Bank of America aggregated consumer-deposit data. Three-month moving average, seasonally adjusted
Source: Bank of America Institute

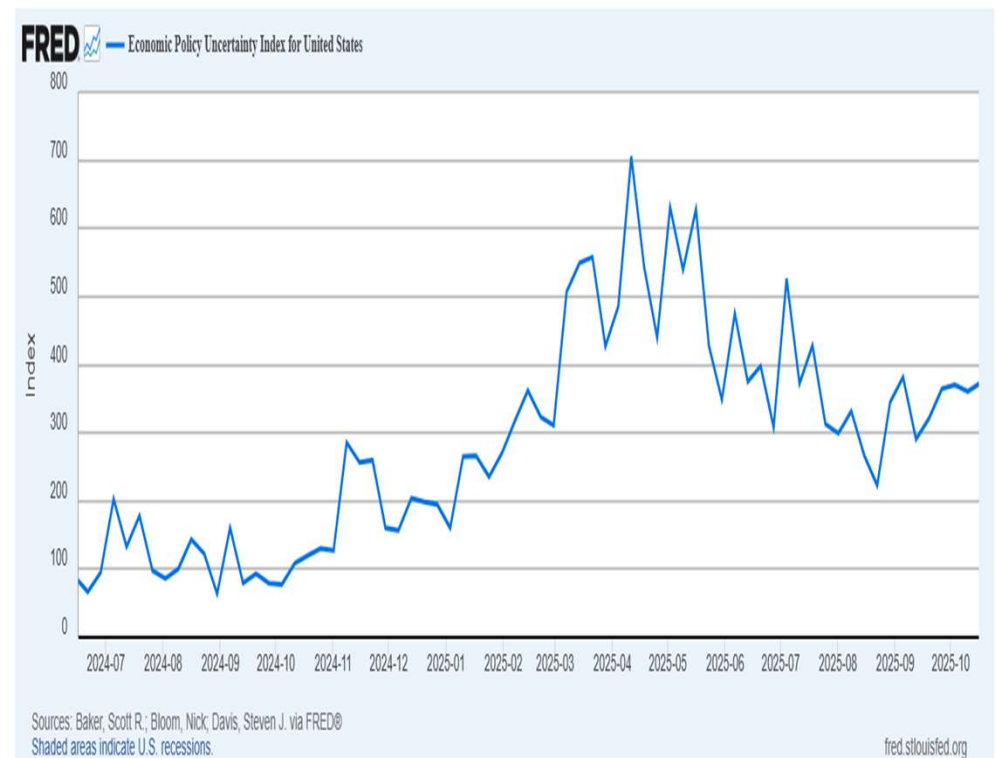
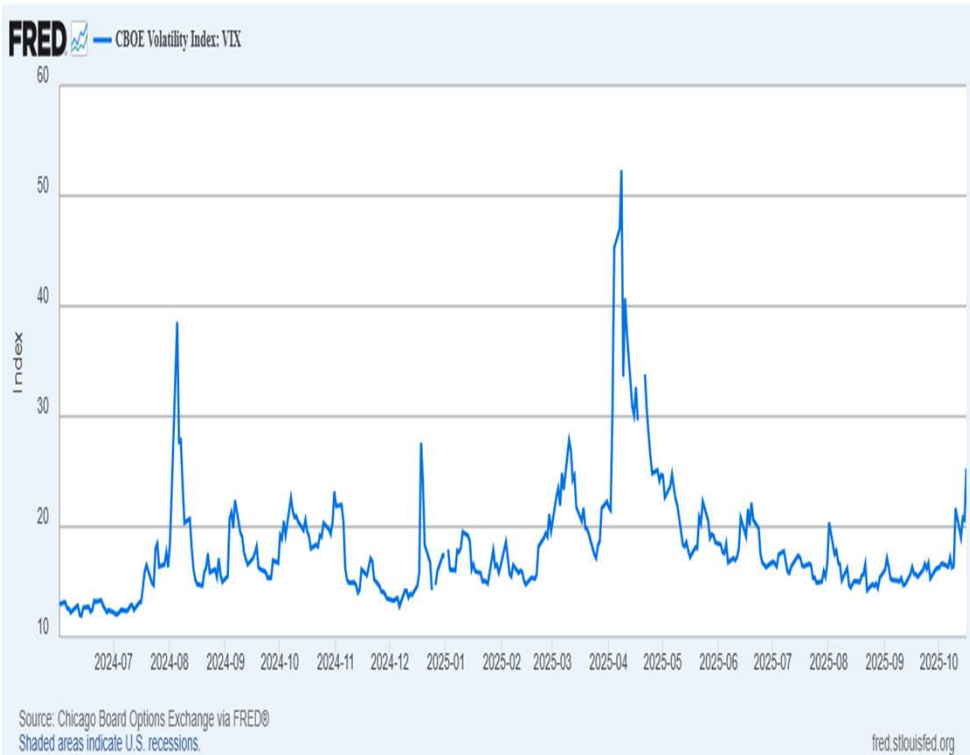
Total credit- and debit-card spending by household income, change from a year earlier



Note: Based on Bank of America card data. Three-month moving average, seasonally adjusted
Source: Bank of America Institute

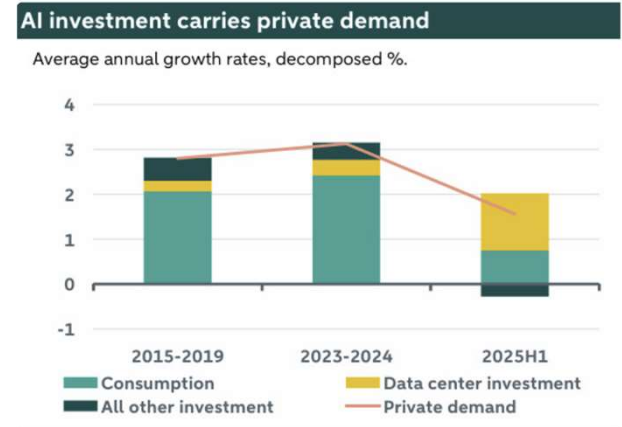
But... (Continued)

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



But... (Continued²)

- Can AI investment maintain growth?
- Government Shutdown?
- Labor market look as if it is weakening, particularly for young grads and, blacks.
- Inflation above target and appears to be rising; full effect of tariffs has yet to be felt.
- The Fed faces a dilemma: stagflation, viz., rising unemployment and inflation



Source: LSEG, ABN AMRO Group Economics

The Fed's Dilemma



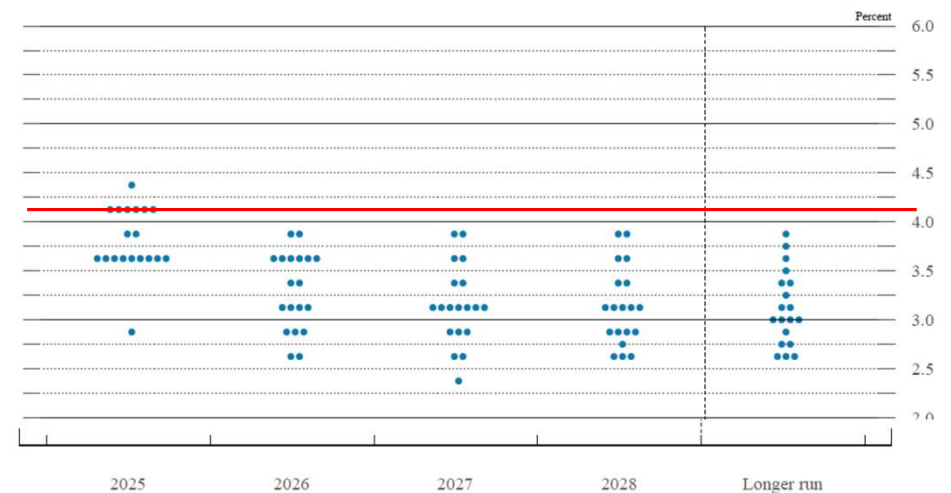
- To combat rising unemployment the Fed needs to lower interest rates to increase demand and spending.
- To combat rising inflation the Fed needs to raise interest rates to lower demand and spending.
- Successfully navigating the path between the two problems is made worse because of attacks on the Fed's independence which have the potential to destabilize inflationary expectations

What the Fed Did at Its Last Meeting

Percent

Variable	Median ¹				
	2025	2026	2027	2028	Longer run
Change in real GDP	1.6	1.8	1.9	1.8	1.8
June projection	1.4	1.6	1.8		1.8
Unemployment rate	4.5	4.4	4.3	4.2	4.2
June projection	4.5	4.5	4.4		4.2
PCE inflation	3.0	2.6	2.1	2.0	2.0
June projection	3.0	2.4	2.1		2.0
Core PCE inflation ⁴	3.1	2.6	2.1	2.0	
June projection	3.1	2.4	2.1		
Memo: Projected appropriate policy path					
Federal funds rate	3.6	3.4	3.1	3.1	3.0
June projection	3.9	3.6	3.4		3.0

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



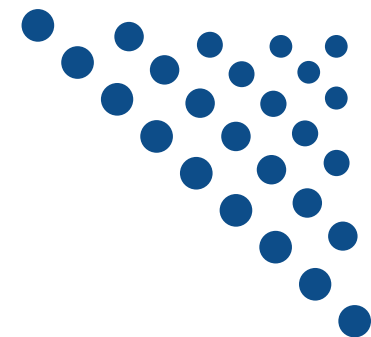
Central Bank Independence



- **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



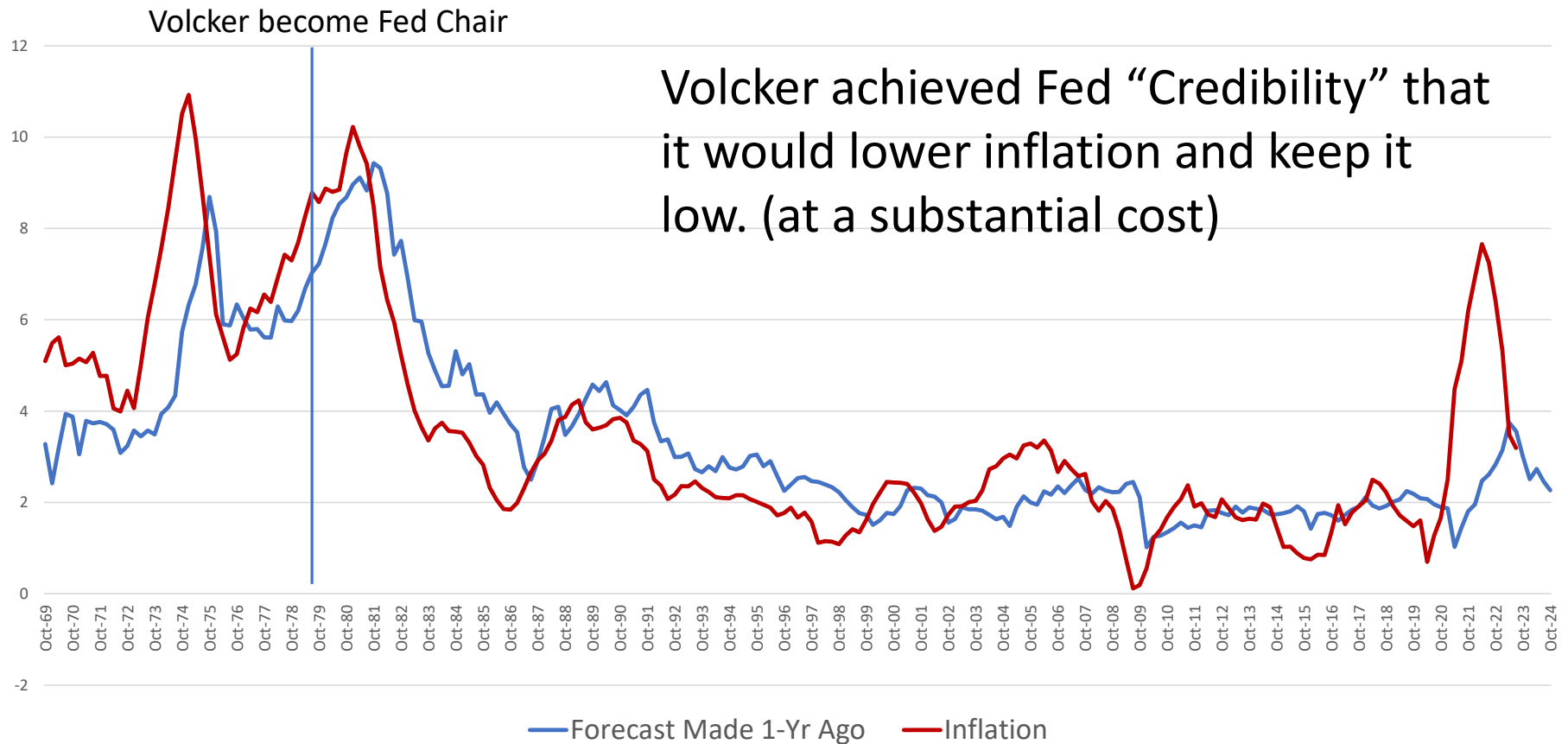
Keneth Rogoff's Conservative Central Banker paper (1985):

“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



Evidence: The Low-Inflation Free Lunch

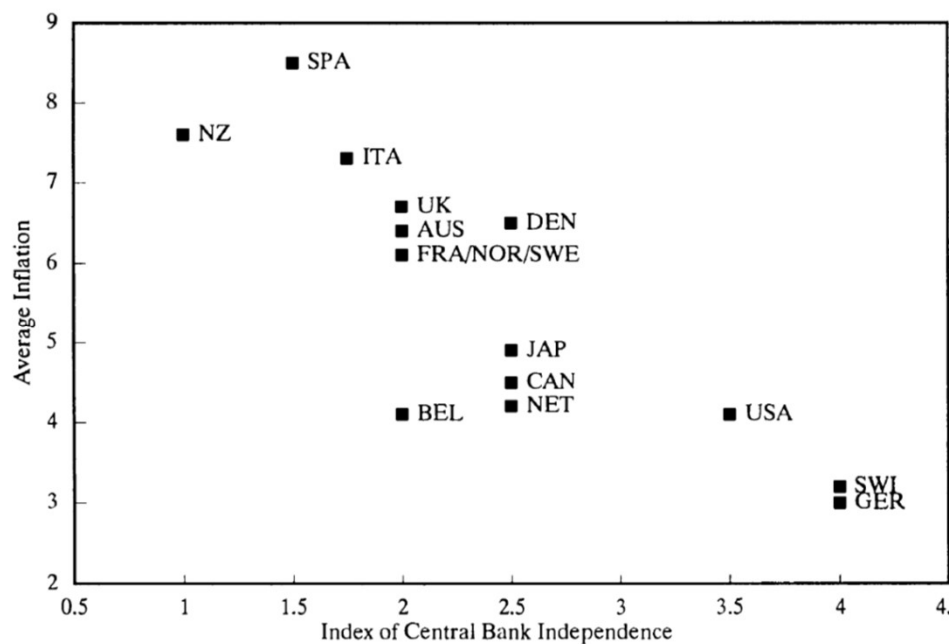


FIG. 1a. Average Inflation

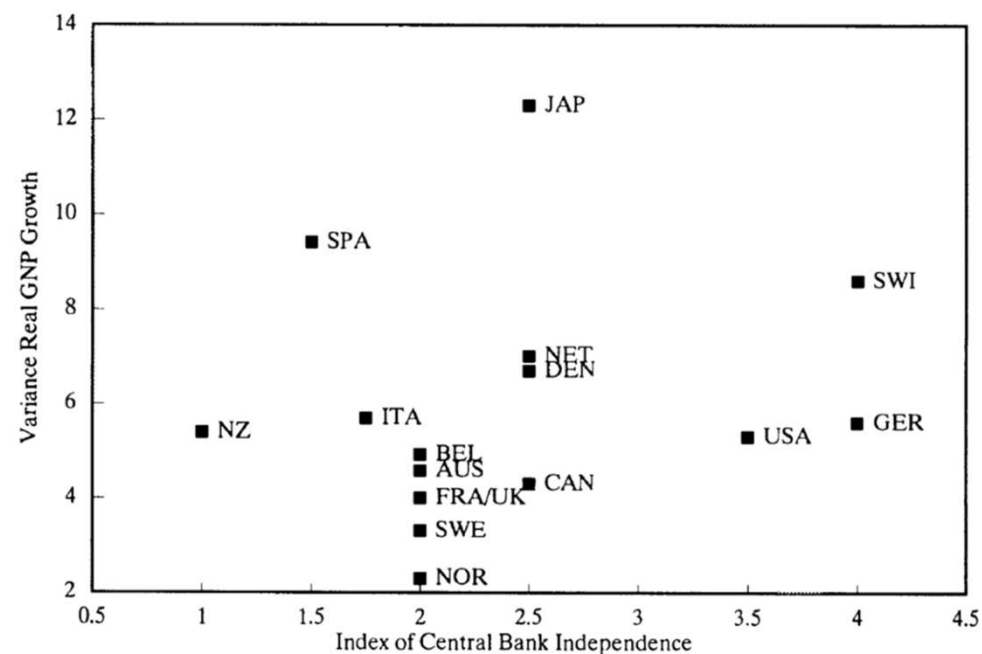


Fig. 2b Variability of Real GNP

Practical Effects of this Research

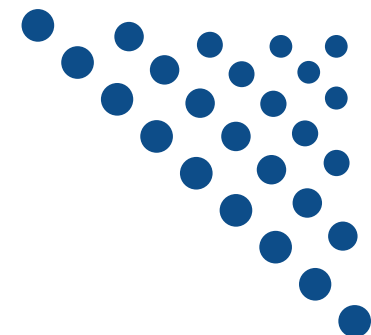


- Countries adopt strict inflation targeting: New Zealand (1989), Canada (1991), UK (1992), Australia and Sweden (1993)
- Tony Blair's first action as UK Prime Minister in 1997 is to remove Chancellor of the Exchequer from the Bank of England.
- Eurozone created 2002 which places monetary policy out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

Frankfurt Germany!



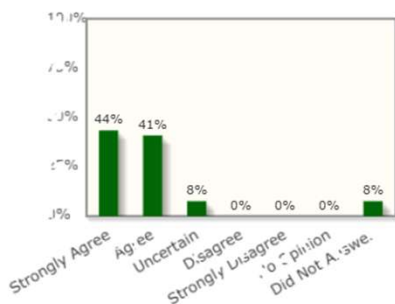
Who Says Economist Always Disagree?



Question A:

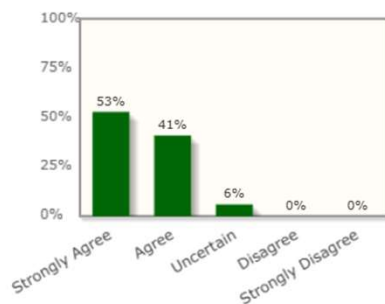
A substantial loss of Federal Reserve independence would substantially increase the overall nominal cost of U.S. government borrowing.

Responses



© 2025, Kent A. Clark Center for Global Markets.
Source: Clark Center Economic Experts Panel
Methodology

Responses weighted by each expert's confidence

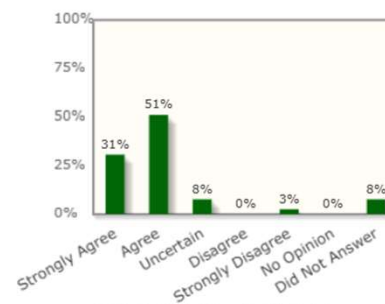


© 2025, Kent A. Clark Center for Global Markets.
Source: Clark Center Economic Experts Panel
Methodology

Question B:

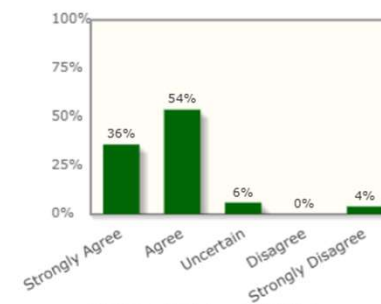
A substantial loss of Federal Reserve independence would substantially raise risk premia on long-term U.S. government debt.

Responses



© 2025, Kent A. Clark Center for Global Markets.
Source: Clark Center Economic Experts Panel
Methodology

Responses weighted by each expert's confidence



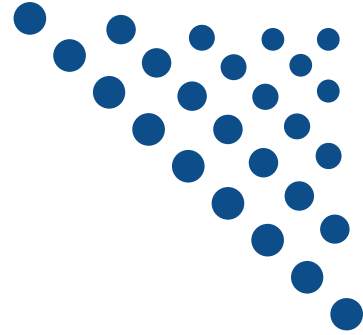
© 2025, Kent A. Clark Center for Global Markets.
Source: Clark Center Economic Experts Panel
Methodology

This Doesn't Help



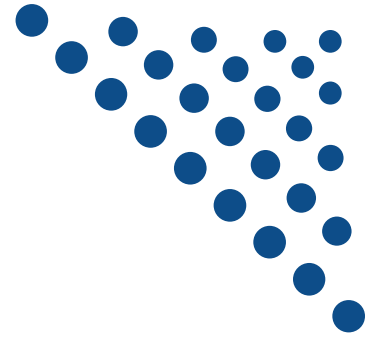
- The irony is that the Fed would be able to lower interest rates more aggressively with no attacks.
- If it appears the Fed is caving to political pressure, it will lose credibility and increase inflationary expectations.

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?





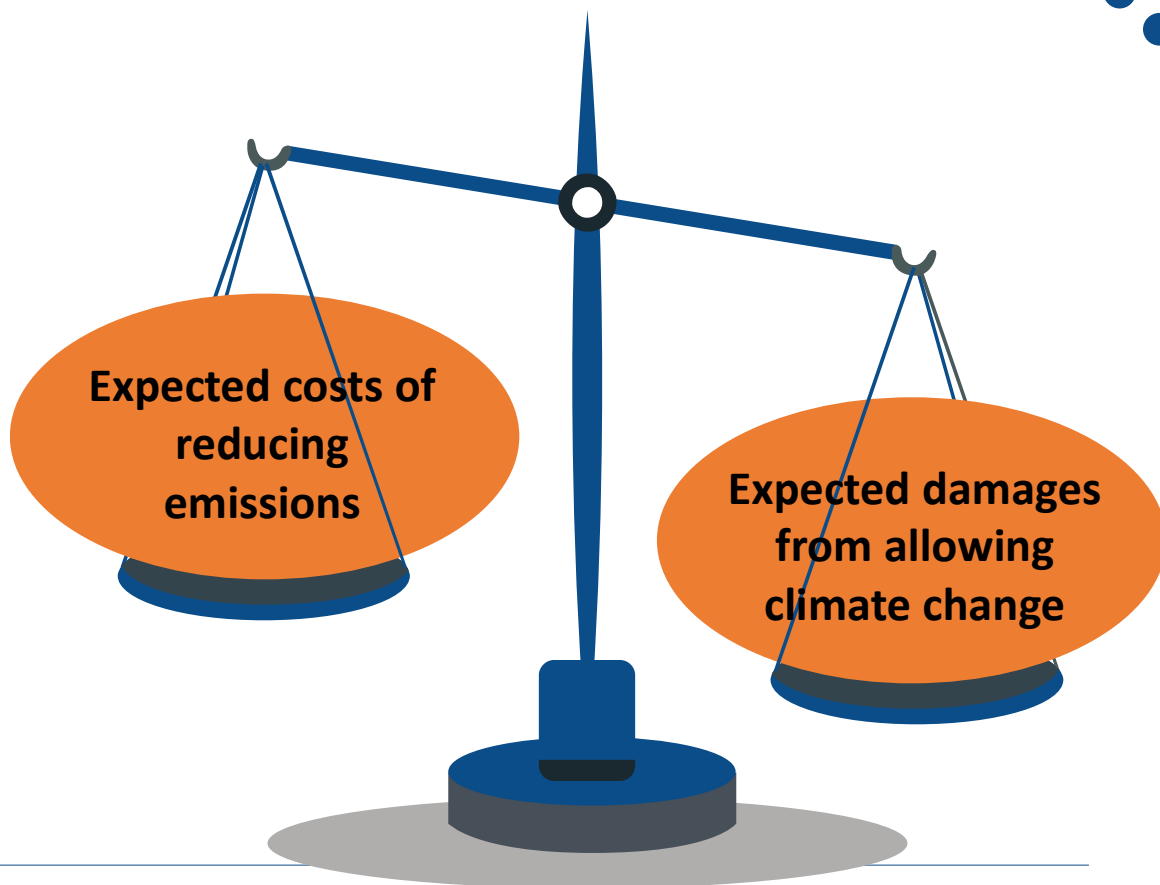
- <https://sites.google.com/view/macro-current-issues/economic-update>

Next Week: Climate Change Economics

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.



Let's Hear from You!

Geoffrey Woglom
grwoglom@amherst.edu

Contact NEED: Info@NEEDEcon.org

Support NEED: www.NEEDecon.org/donate.php