

*Osher Lifelong Learning Institute, Summer 2025*

## The Economics of Public Policy Issues

Northwestern University

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.



## Available NEED Topics Include:

- US Economy
- Healthcare Economics
- Climate Change
- Economic Inequality
- Economic Mobility
- Trade and Globalization
- Minimum Wages
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- Black-White Wealth Gap
- Autonomous Vehicles
- US Social Policy

## Course Outline

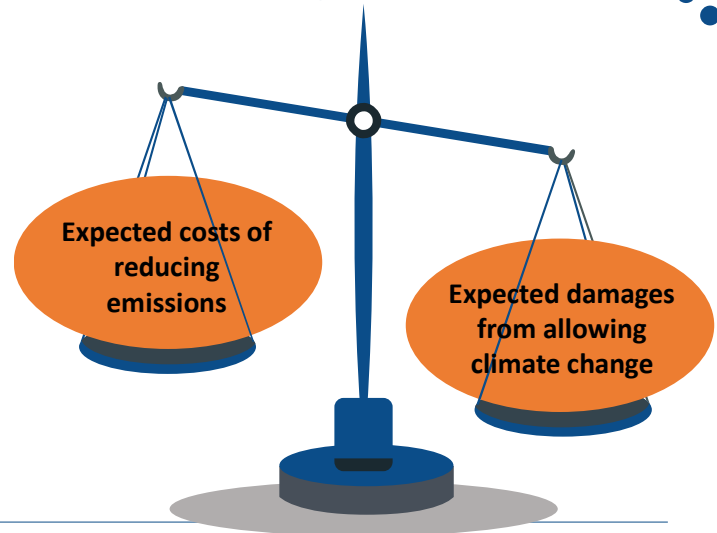
- **The Economics of Public Policy Issues**
  - **Week 1 (7/8): Economic Update (including tariffs) (Geoffrey Woglom, Amherst College)**
  - Week 2 (7/15): Climate Change Economics (Sarah Jacobson, Williams College)
  - Week 3 (7/22) The Economics of the Minimum Wage (Veronika Dolar Pace University)
  - Week 4 (7/29): Cryptocurrencies (Joan Nix Queens College (CUNY))
  - Week 5 (8/5): Saving Social Security (Jon Haveman, Exec Director, NEED)
  - Week 6 (8/12): Federal Debt and Deficits (Geoffrey Woglom, Amherst College)

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

Abating greenhouse gas emissions is costly...

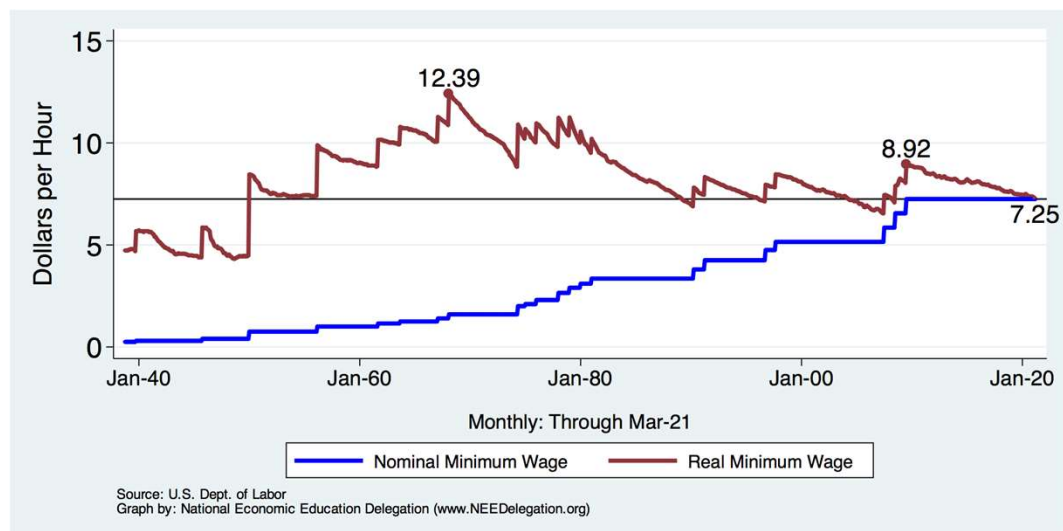
... but without action, climate change damages are even more costly.

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



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## History of the Minimum Wage



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## Bitcoin mine

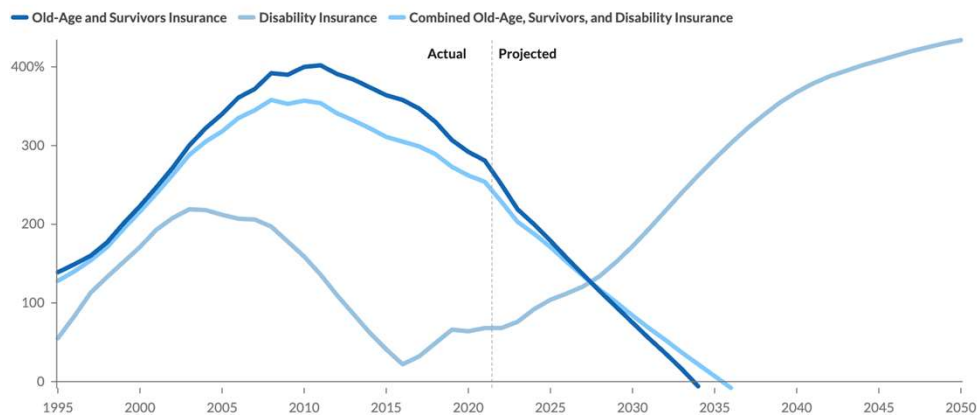


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## Trust Funds Are Running Out

Asset Reserves as a Percentage of Annual Cost



Source: Social Security Administration • [Get the data](#) • [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 2035.



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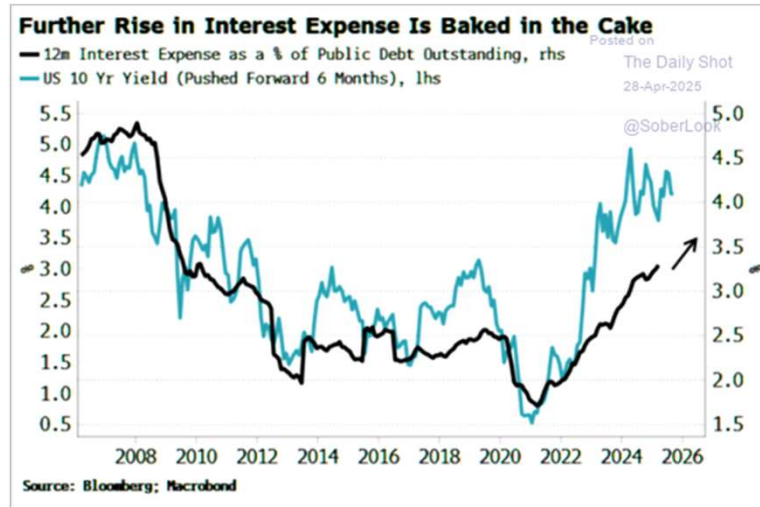


PETER G.  
PETERSON  
FOUNDATION

Source: <https://www.pgpf.org/article/social-security-faces-serious-financial-shortfalls-and-other-takeaways-from-the-trustees-report/>

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## The Future of Interest on the Debt?



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## Submitting Questions

- Submit questions in the chat. I will try to address questions as they come up.
- We will do a verbal Q&A once the material has been presented.
- Slides will be available from the NEED website tonight  
[https://needecon.org/delivered\\_presentations.php](https://needecon.org/delivered_presentations.php).
- My macro site: <https://sites.google.com/view/macro-current-issues/economic-update>



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INFLATION



# US Economy: Update

**Geoffrey Woglom,**  
 Professor of Economics  
 Amherst College, emeritus  
 July 8, 2025



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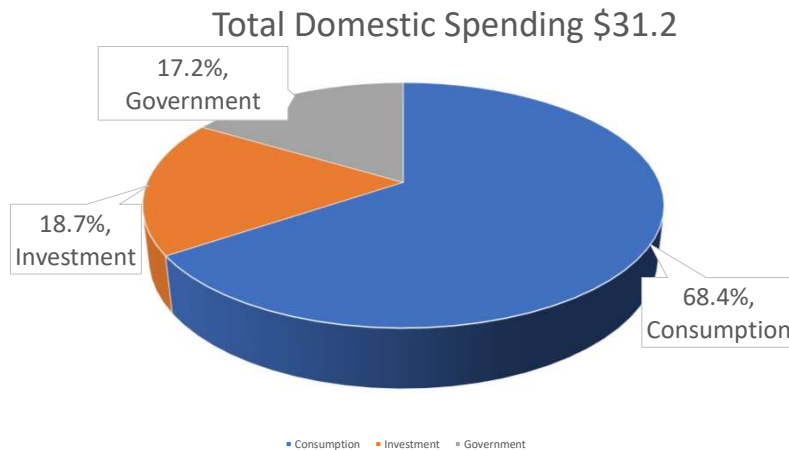
## Outline for the Talk

- **Quick Overview of State of the Economy**
- **Tariffs and Trade Balances:**
  - Definitions & Econ 101 analysis of tariffs
  - Latest Developments
  - Facts about US Trade Balances
  - Effects of Tariffs
  - Some Ominous Signs
- (The “Big Beautiful Bill” will be covered in the Debt and Deficit Talk)



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## Gross Domestic Product: 2025Q1 = \$30.0 tr



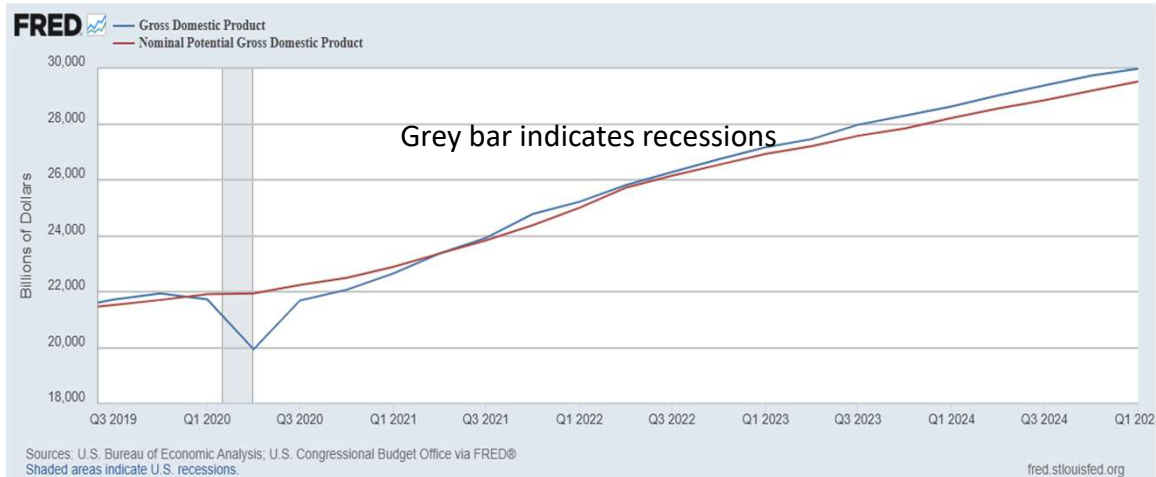
**\$31.2**  
**Less Imports**  
**-\$4.5**  
**Plus Exports**  
**+\$3.3**  
**Equals GDP**  
**\$30.0**

## Basic GDP Accounting

- Trade Deficit is when imports (IM) exceed exports (EX)
- Trade Deficits arise when we spend domestically more than we produce
- $Y - C - I - G = -IM + EX$ ,  $\$30.0 - \$31.2 = -\$1.2$
- Useful definition  $Y - C - G$  is "National Saving" the sum of private saving less the government deficit. Rearranging
- $(Y - C - G) - I = \text{National Saving less Investment} = -IM + EX = \text{Trade Deficit}$
- We spend more than we produce when national saving isn't sufficient to finance our investment, so we borrow from abroad.
- Trade Deficit = National Saving less Investment.
- Key Takeaway: Trade Deficits are Associated with an imbalance of national saving and investment



## GD<sup>P</sup> 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!)**

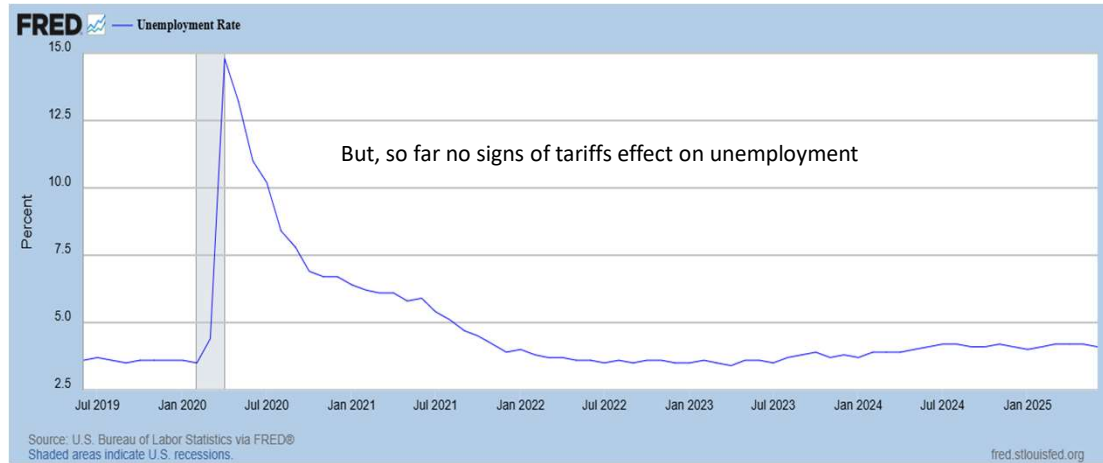
**Recessions are caused by a drop in total spending (remember the consumer).**



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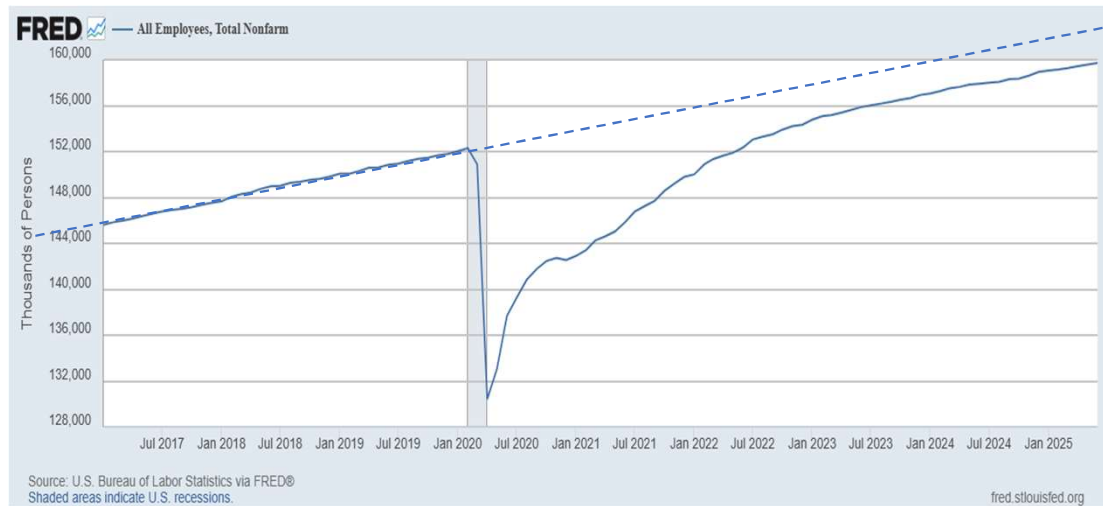
## Unemployment is Near Record Lows



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## Where Have All the Workers Gone?

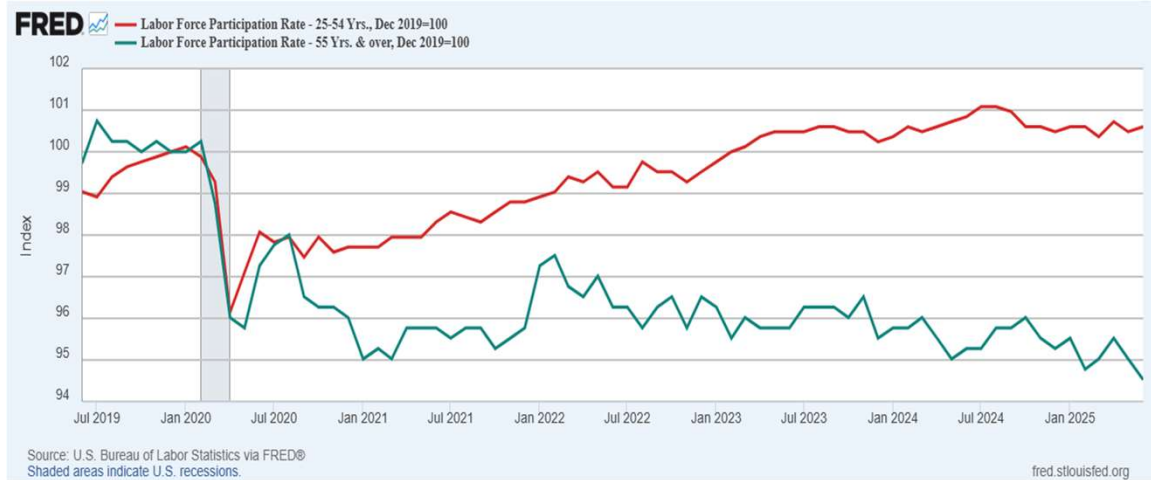


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Source: Fred, St Louis Fed

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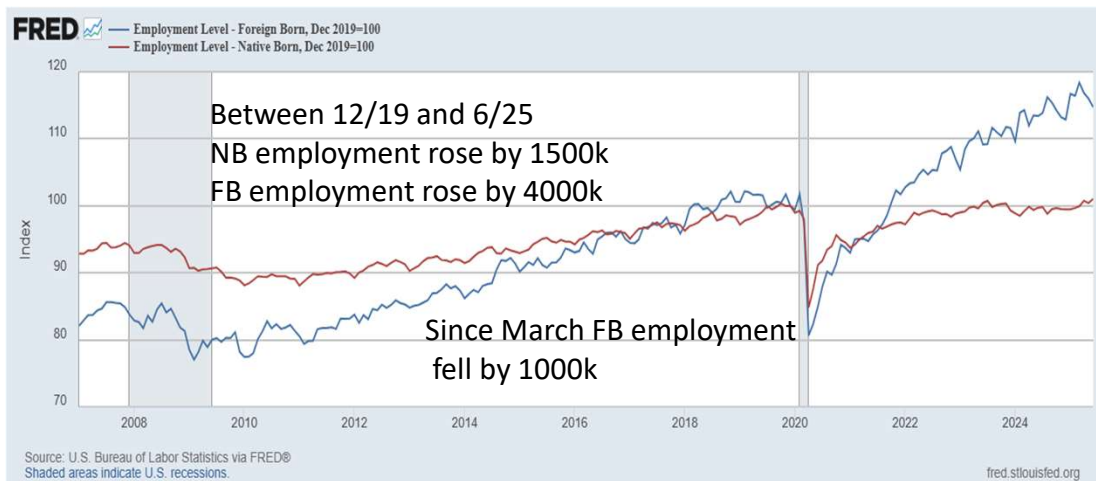
## The Aging of the Labor Force



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## Supplemented by Foreign Born Workers



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## Overall Good News on the Real Side

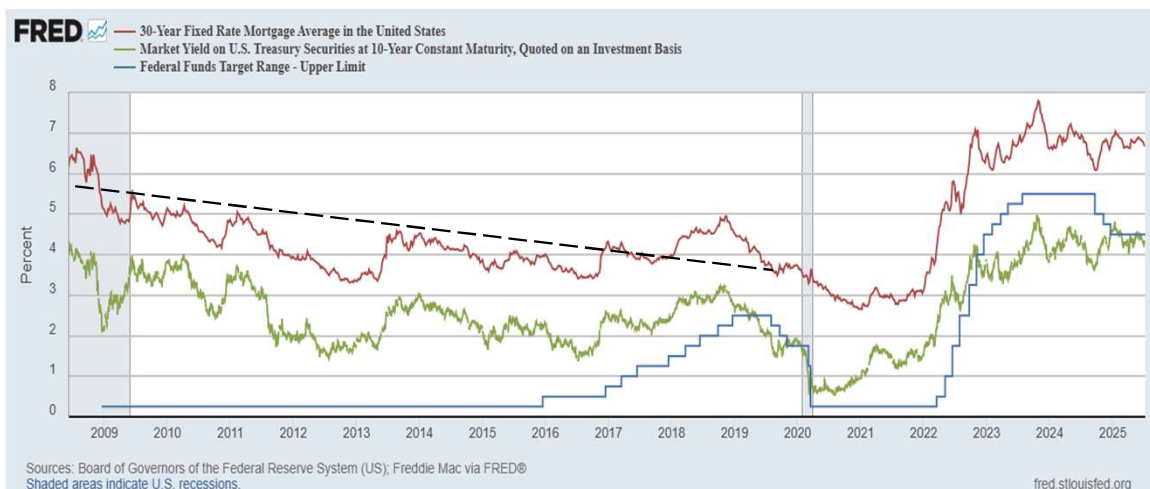
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- But there is also a *nominal* side: interest rates, asset prices, inflation and wages.
- News is pretty good, but progress on inflation seems to have stalled.



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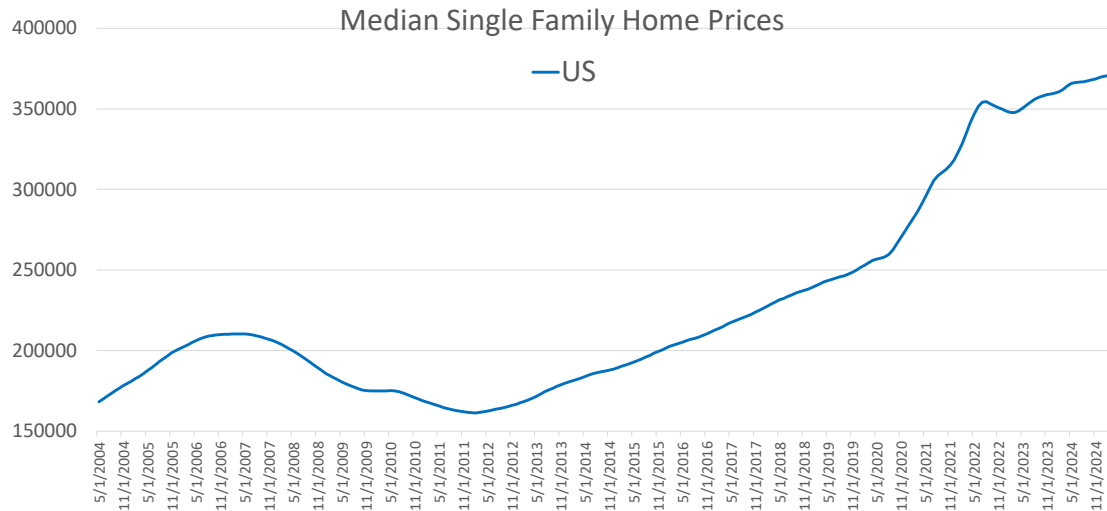
## Interest Rates: Era of Falling Rates Over?



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## National Housing Market

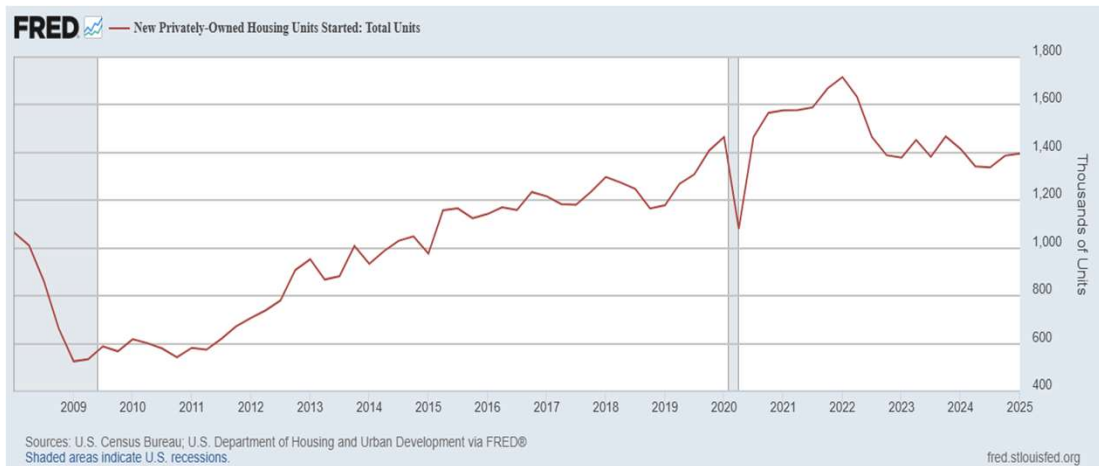


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<https://www.zillow.com/research/data/>

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## Housing Construction is Slowing?



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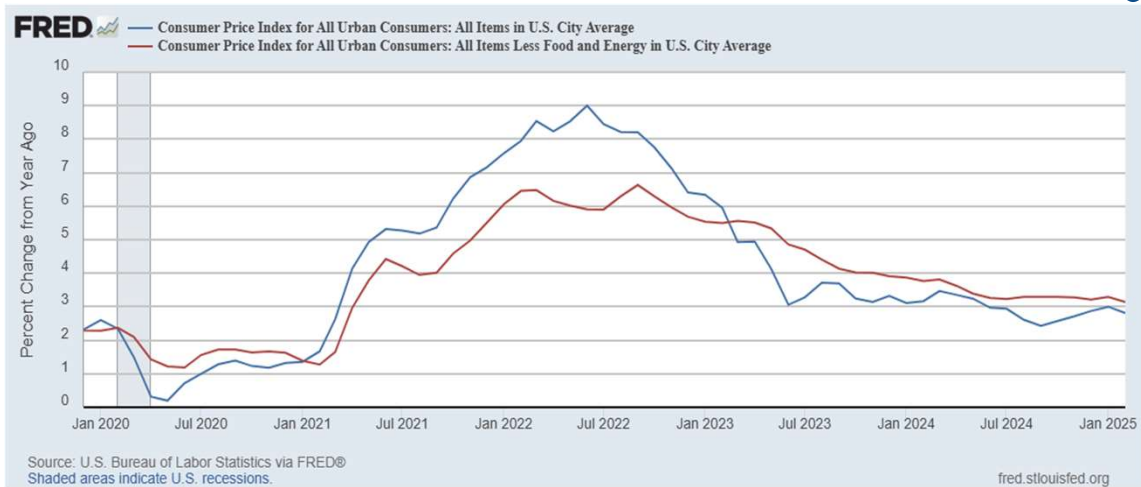
## Stock Prices: Tariffs; What Tariffs?



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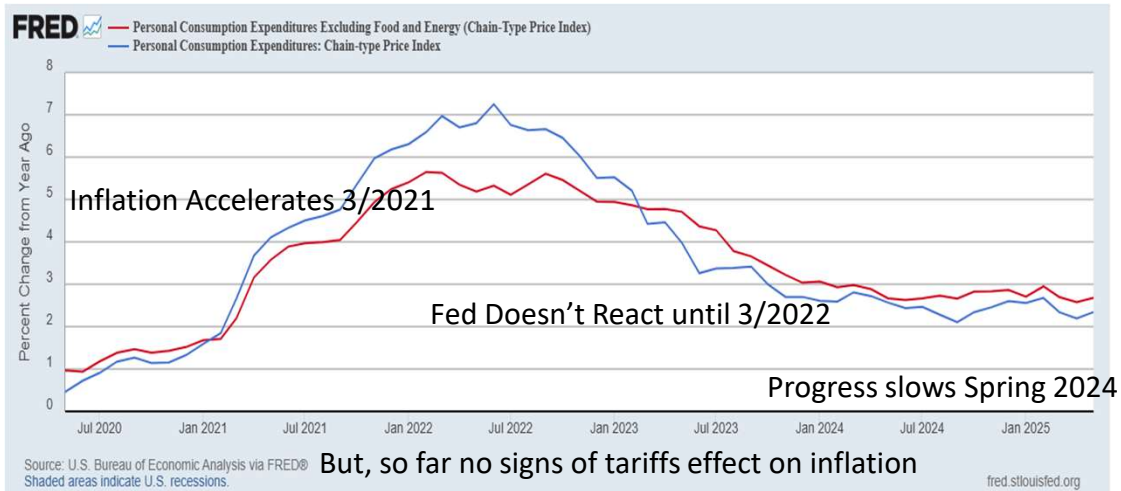
## Inflation during the Recovery (CPI)



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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

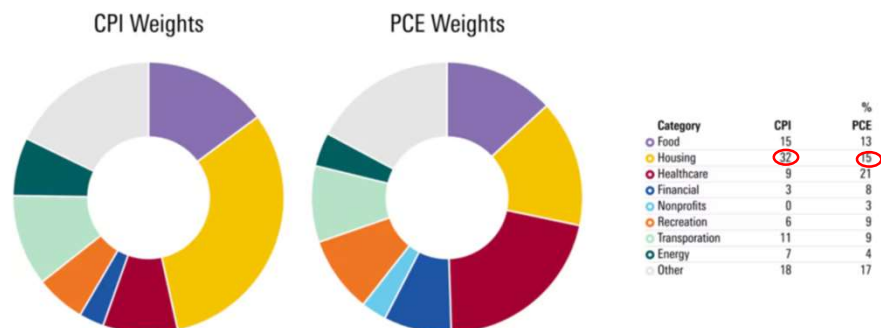
May:

CPI, 2.4%

PCE, 2.3%

Core CPI, 2.8%

Core PCE, 2.7%.



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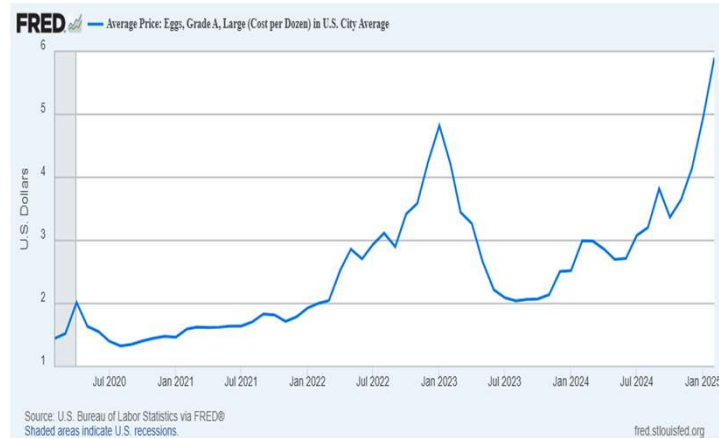
<https://www.morningstar.com/markets/whats-difference-between-cpi-pce>

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## Uses of Inflation Measures

Two Reasons for Measuring Recent Inflation:

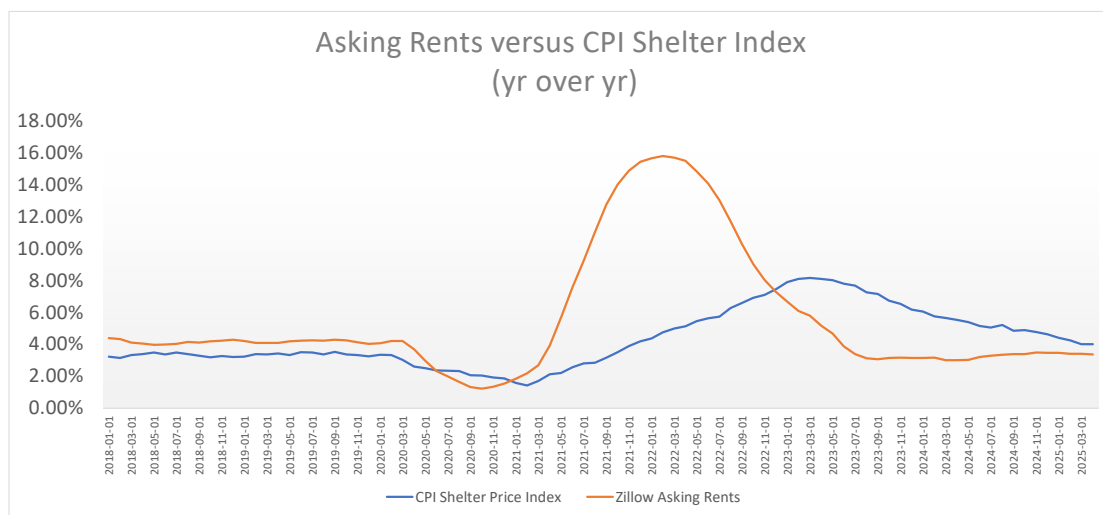
1. What has happened to the Cost of Living?
2. What is likely to happen to inflation over the next 12-18 months?



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## Two Measures of the Cost of Housing

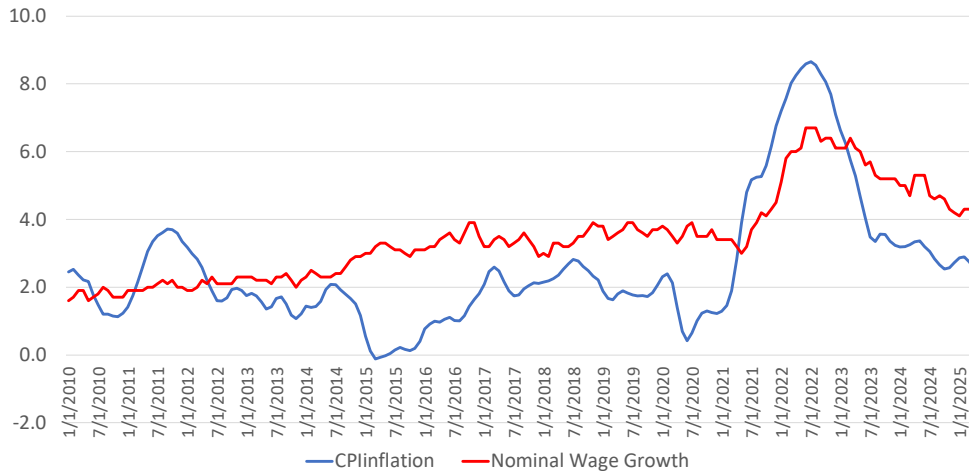


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## Wages Have Finally Caught Up to Inflation



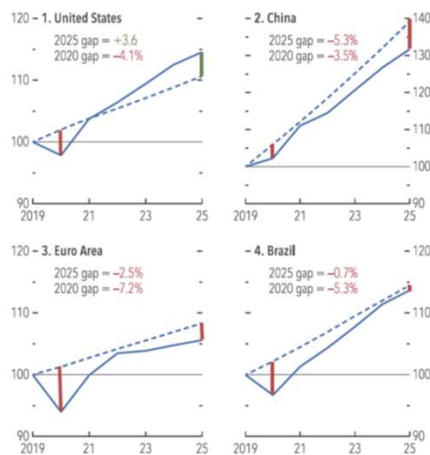
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Federal Reserve of Atlanta, "Wage Tracker" and BLS

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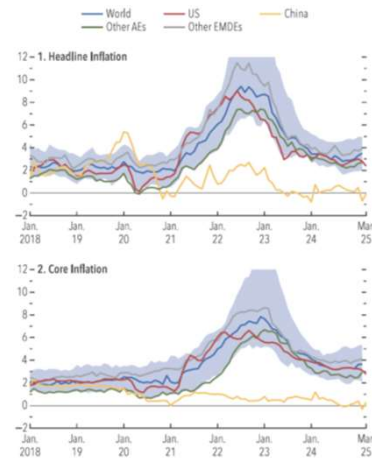
## International Comparisons

**Figure 1.8. Real GDP versus Prepandemic Trend**  
(Index, 2019 = 100)



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**Figure 1.1. Global Inflation Trends**  
(Percent, year over year)



Sources: Haver Analytics; and IMF staff calculations.

IMF, *World Economic Outlook*, 4/2025

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## The State of the Economy & Effects of Policy

- In terms of output and employment the economy is fully recovered
- Inflation is still a bit elevated, but close to Fed target.

### Policy Effects

- Biden Fiscal Stimulus led to a rapid recovery, but may have been too big.
- Fed reacted too little and too late and let inflation get out of control.
- But since Spring 2023, Fed has been close to perfect.

But Dark Clouds Are Looming on the Horizon,



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## Consumers Are Not Happy (2/3rds of GDP)

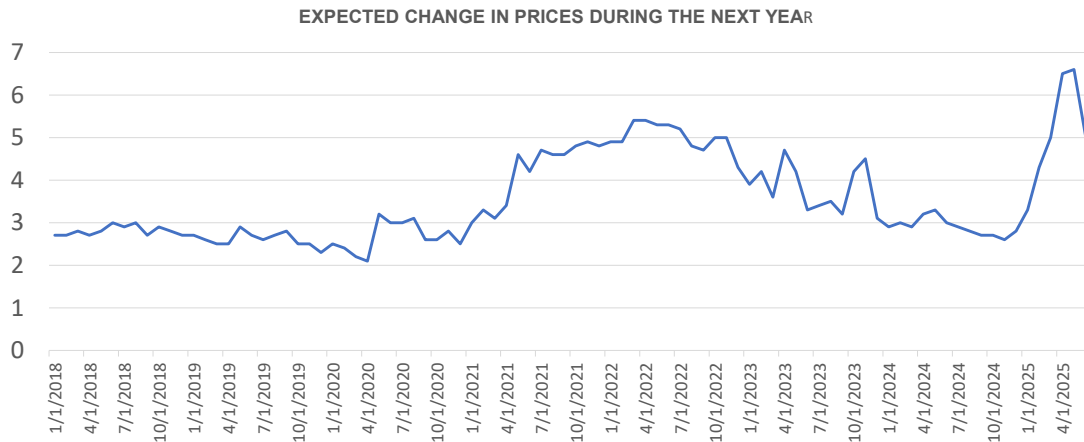
University of Michigan: Consumer Sentiment



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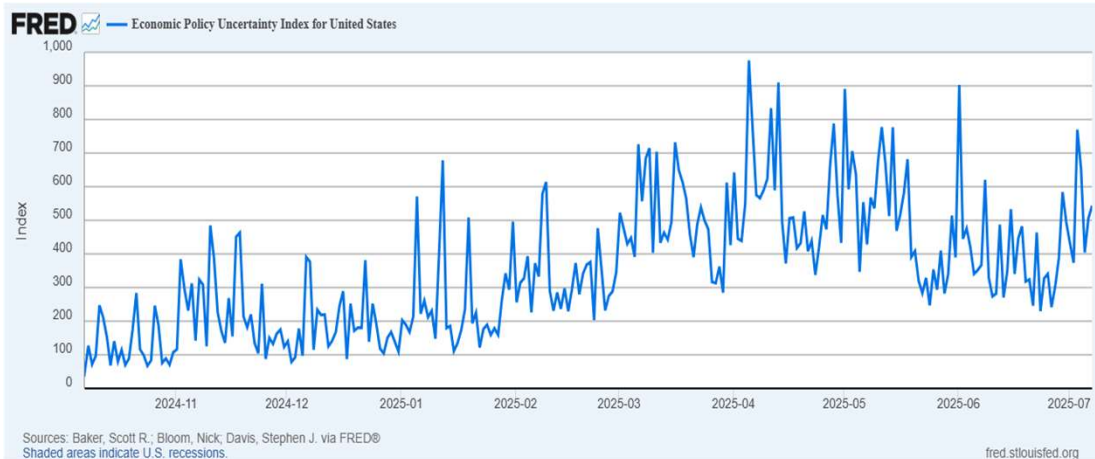
## They Are Worried about Inflation



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## And, Also Concerned about Policy Uncertainty

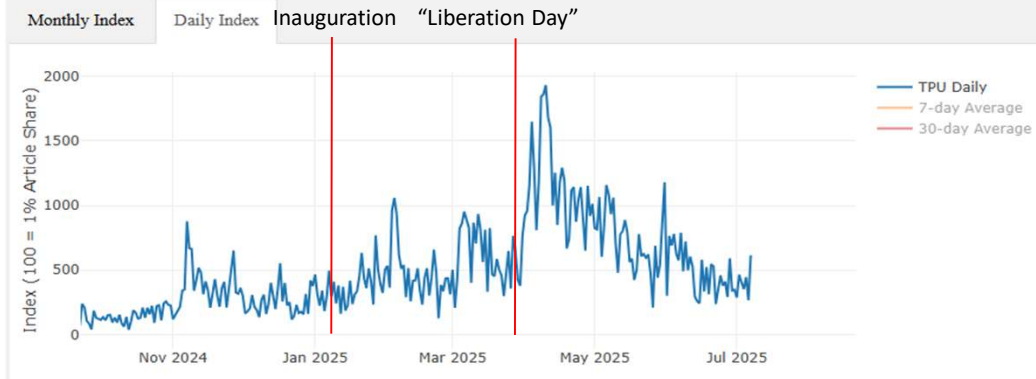


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## Where are Tariffs Going?

### Trade Policy Uncertainty: Charts



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"Data downloaded from <https://www.matteoiacoviello.com/tpu.htm> on May, 14, 2025).

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## Stagflation and the Fed's Dilemma

Table 1. Summary Economic & Fiscal Effects of 2025 Tariffs Through July 7

		Conventional Score****			Add'l Dynamic Effects			
2026-35		In Equilibrium						
Billions	% of GDP	% Change in PCE Price Level**	Decline in Average Real Disposable Income per Household (2025\$)*	Add'l Effective Tariff Rate (p.p.)***	Change in 2025 Q4-Q4 Real GDP Growth (p.p.)	Change in 2025 Q4 Unemployment Rate (p.p.)	Change in 2025 Q4 Payroll Employment (thous)	% Change in Medium-to-Long Run Real GDP Level
as to Date*	\$2575 0.7%	1.74%	-\$2306	14.1	-0.73	+0.39	-538	-0.38%

The Dilemma: To fight inflation the Fed needs to raise interest rates

To fight unemployment the Fed needs to lower interest rates

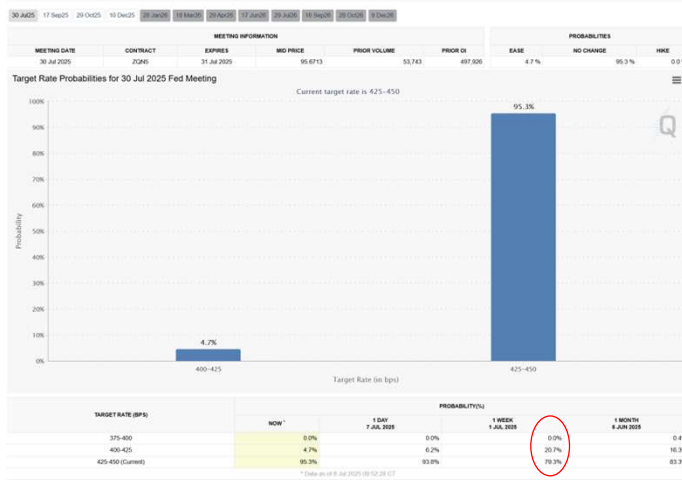


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<https://budgetlab.yale.edu/research/state-us-tariffs-may-23-2025>

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## What Will the Fed Do?



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<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

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## A Brief Primer on Tariffs

- **Tariffs** are a sales tax on imported goods, *collected* from importers
- The **burden** of the tariff in general falls on buyers of imports (consumers and firms) to the extent of higher prices and on the foreign country.
- Economists don't like tariffs in general because they "reduce the gains from trade."
  - More efficient utilization of global resources: "Why doesn't Patrick Mahomes mow his own lawn?"
  - Economies of scale for producing for large markets: Lesotho and blue jeans.
- **Gains to Trade Taken to a New Level with Global supply chains**



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## Possible Economic Arguments for Tariffs

### • Possible arguments for tariffs

- National Defense – strategic resource. Do we need the capacity to make our own computer chips, just in case?
- “Infant” Industry
- Temporary strategy to reduce foreign tariffs



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## As of July 7th

### U.S. Tariffs\*\*\*\*

20% broad tariff on all Chinese imports (effective February 4; increased March 4)

10% tariff on Canadian potash and energy (effective April 2)

25% tariff on all Mexican imports and other Canadian imports\* (effective March 4)

25% tariff on all automobiles, with an exemption for US content and a discount through April 2027 on parts tariffs for US-assembled autos\*\* (effective April 3), reduced to 10% on the first 100K UK imports (announced May 8)

50% tariff on all steel and aluminum imports (effective March 12, raised May 30), 0% on the UK (announced May 8), extended to steel derivative products (effective June 23)

Modified April 2 announcement: 10% minimum tariffs on all countries ex. China, Canada, & Mexico; 125% tariff on China lowered to 10% for 90 days on May 12 (effective April 9, modified April 9, 90-day duration)\*\*\*  
July 7 announcement: Japan, South Korea, Malaysia, Kazakhstan, Tunisia (25%), South Africa, Bosnia (30%), Indonesia (32%), Bangladesh, Serbia (35%), Cambodia, Thailand (36%), Laos, and Myanmar (40%) (effective August 1).

US-Vietnam July 2 framework: 20% broad tariff, 40% tariff on goods transshipped from China.



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## Getting Tough or Getting Taco?

### Tariff rates for select trade partners

Includes country-specific "reciprocal" tariffs

TRADING PARTNER	PREVIOUSLY THREATENED	NEWLY ANNOUNCED	SHARE OF U.S. IMPORTS
Japan	+24%	<b>+25%</b>	4.5%
South Korea	+25%	<b>+25%</b>	4.0%
Thailand	+36%	<b>+36%</b>	1.9%
Malaysia	+24%	<b>+25%</b>	1.6%
Indonesia	+32%	<b>+32%</b>	<1%
South Africa	+30%	<b>+30%</b>	<1%
Cambodia	+49%	<b>+36%</b>	<1%
Bangladesh	+37%	<b>+35%</b>	<1%
Kazakhstan	+27%	<b>+25%</b>	<1%
Tunisia	+28%	<b>+25%</b>	<1%

Show 4 more rows +

Sources: White House, Observatory of Economic Complexity - Notes: Rates are for most products imported from a country, though not all, including for those products that have received exceptions. Import share figures are based on 2024 trade data.



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<https://www.nytimes.com/2025/07/07/business/trump-tariffs-trade-deals-august-1.html>

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## History of US Average Effective Tariff Rates



\* Incorporates US-Vietnam framework and July 7 announcements.

Chart: The Budget Lab • Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis. • Created with Datawrapper

Smoot-Hawley



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<https://budgetlab.yale.edu/research/state-us-tariffs-april-15-2025>

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## Doesn't Congress Set Taxes, including Tariffs?

- **Yes, but Congress has delegated the authority to *raise* tariffs 4 times**

1. 1930: If a foreign country discriminates against US commerce, tariff rate up to 50%
2. 1962: If imports threaten national security following an investigation by the Secretary of Commerce
3. 1974: If the US International Trade Commission finds that a surge in imports is harming domestic industries up to 50%.
4. 1977: President declares a national emergency due to "an unusual and extraordinary threat" originating outside the US.

**President Trump has been claiming tariff authority from 2&4., but is being challenged in courts.**



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## US Trade Balance & Types of Imports

Partner Name	Trade Balance (\$)	Export (US\$)	Import (US\$)	Import Partner	Export Partner
① China	-421,851,068.76	153,837,022.41	575,688,091.17	17.07	7.46
① Mexico	-134,799,887.42	324,377,768.94	459,177,656.36	13.61	15.73
① Vietnam	-124,478,427.55	11,398,113.40	135,876,540.95	4.03	0.55
① Canada	-91,736,882.34	354,887,051.26	446,623,933.61	13.24	17.21
① Germany	-77,858,794.14	72,549,705.24	150,408,499.38	4.46	3.52
① Japan	-74,140,635.37	80,304,526.18	154,445,161.54	4.58	3.89
① Ireland	-66,550,002.92	15,955,712.86	82,505,715.78	2.45	0.77
① Other Asia, nes	-52,365,066.95	43,710,241.52	96,075,308.47	2.85	2.12
① Korea, Rep.	-49,389,767.73	71,469,488.66	120,859,256.40	3.58	3.47
① Thailand	-47,419,528.09	15,592,499.44	63,012,027.52	1.87	0.76
① Italy	-44,464,212.96	27,410,694.46	71,874,907.42	2.13	1.33
① India	-43,659,713.14	47,332,140.04	90,991,853.18	2.70	2.30

Product Group	Export (US\$ Thousand)	Import (US\$ Thousand)	Export Product Share (%)	Import Product Share (%)
① All Products	2,062,009,832.73	3,372,902,165.78	100.00	100.00
① Consumer goods	589,745,515.49	1,224,607,366.03	28.60	36.31
① Capital goods	575,941,336.99	1,129,509,300.37	27.93	33.49
① Intermediate goods	424,064,641.79	574,154,436.65	20.56	17.02
① Raw materials	315,195,683.44	326,768,548.92	15.29	9.69

**Imports are mostly production inputs, not consumer goods**



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<https://wits.worldbank.org/CountryProfile/en/Country/USA/Year/2022/TradeFlow/EXPIMP/Partner/by-region>

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## Countries for which US runs a Bilateral Trade Surplus

TABLE VIEW

Type Country Names eg: China, Mexico, Japan

By Country and Region | By Country | By Region

Partner Name	① Trade Balance (US\$ Thousand)	① Export (US\$ Thousand)	① Import (US\$ Thousand)	① Import Partner Share (%)	① Export Partner Share (%)
① Argentina	5,558,851.32	12,850,390.09	7,291,538.76	0.22	0.82
① Chile	6,526,583.18	23,327,985.47	16,801,402.28	0.50	1.13
① Dominican Republic	6,710,012.87	13,853,339.85	7,143,326.98	0.21	0.87
① Belgium	8,049,449.29	35,523,380.89	27,473,931.40	0.81	1.72
① Panama	11,481,043.45	12,030,212.44	549,168.99	0.02	0.58
① Brazil	12,207,187.03	53,577,707.16	41,370,520.13	1.23	2.80
① United Kingdom	12,515,482.34	77,261,013.87	64,745,551.33	1.92	3.75
① United Arab Emirates	13,537,484.12	20,851,481.26	7,314,017.14	0.22	1.01
① Australia	13,662,808.65	30,107,630.66	16,504,822.02	0.49	1.46
① Singapore	14,022,454.78	46,163,161.05	32,140,706.29	0.95	2.24
① Hong Kong, China	20,881,771.61	25,815,886.21	4,934,094.60	0.15	1.25
① Netherlands	37,274,136.43	72,876,622.27	35,602,485.84	1.06	3.53

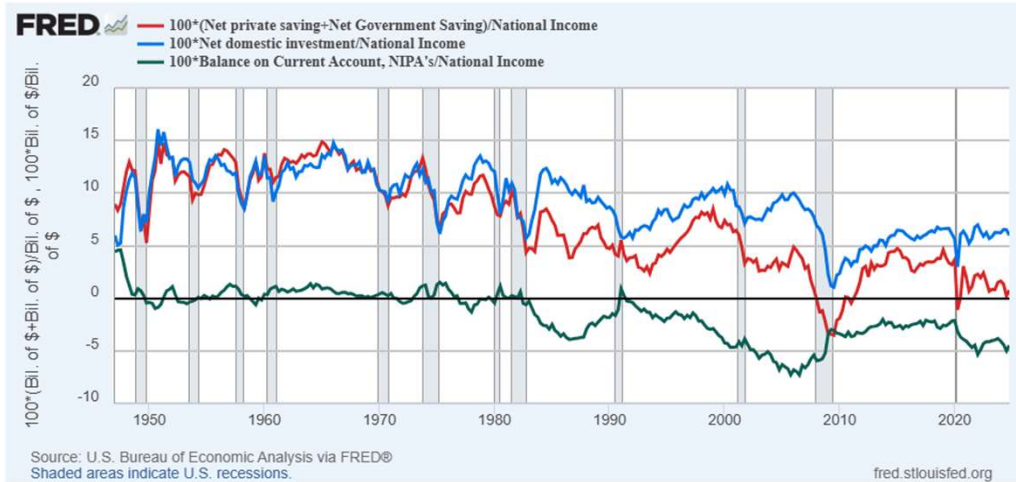
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## Economic Significance of Trade Deficits

- **Bilateral trade deficits are not necessarily a sign of a problem**
  - Patrick Mahomes and the teenager who mows his lawn.
  - Lesotho and the US,
- **Total Trade Deficits can be good or bad**
  - Is the foreign borrowing being used for productive investments.

## US: Since 2000s, Good or Bad?



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## What about the China Shock?

### • 2000 Economist View of the Effects of Increasing Trade

1. Free Trade leads to more gains than losses
2. Trade was not the major cause of the decline in manufacturing employment nor in the rise of inequality.
3. Increasing trade would affect low skilled wages generally and not by trade-exposed workers specifically.
4. Worker mobility was high.

### • Given 4, increasing trade should provide gains for most.



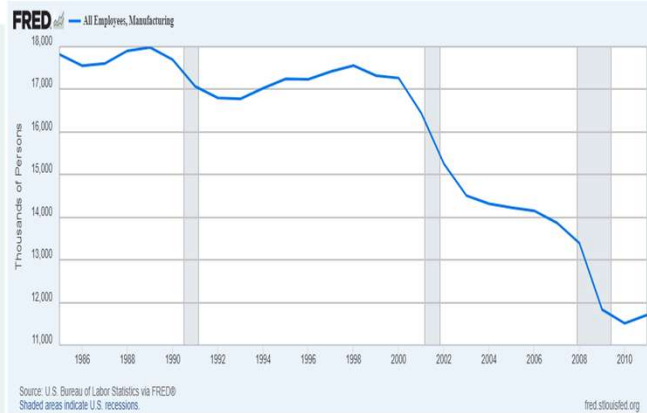
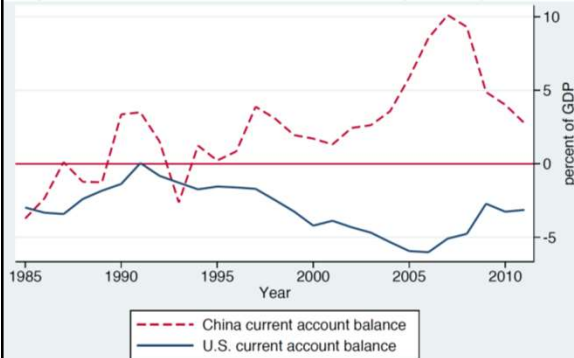
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[https://www.nber.org/system/files/working\\_papers/w21906/w21906.pdf](https://www.nber.org/system/files/working_papers/w21906/w21906.pdf)

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## The China Shock

Figure 5: U.S. and China Current Account Balances (% of GDP) 1985 - 2012



China Joins WTO in December of 2001



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## Author et. al.'s Conclusion

While these results do not at all suggest that international trade is in the aggregate harmful to nations-indeed, China's unprecedented rise from widespread poverty bears testimony to trade's transformative economic power-it makes clear that trade not only has benefits but also significant costs. These include distributional costs, which theory has long recognized, and adjustment costs, which the literature has tended to downplay.

**China shock showed that a rapid influx of imports can cause harm that is geographically concentrated and long lasting to communities with import competing industries.**



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## Tariffs and Trade Deficits

- Remember, Trade Deficits are the mirror image of investment greater than national saving.
- For the trade deficit to fall either national saving must rise and/or investment must fall (not what we want).
- For national saving to rise
  - Households and businesses must save more, or
  - The government deficit must fall.



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## So, What Do Tariffs Do?

- Tariffs do increase national saving by raising revenue, but also
- Decrease the demand for the goods subject to the tariff, which
- Increases the value of the dollar, thereby
  - Lowering our exports as domestic goods cost more to foreigners.
  - Offsets some but not all of the effect of the tariff on total imports, as non-tariffed imports are cheaper.
- Net Effect (first approximation)
  - Exports fall, Total Imports fall, and the change in the trade balance is solely due to tariff revenues reducing the government deficit.
  - Composition of imports changes while the relative share of non-tariffed imports rises.



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## Distributional Effects

**Figure 6. Short-Run Distributional Impact of 2025 Tariffs to Date**

Through July 7  
Percentage points of disposable income by household income decile

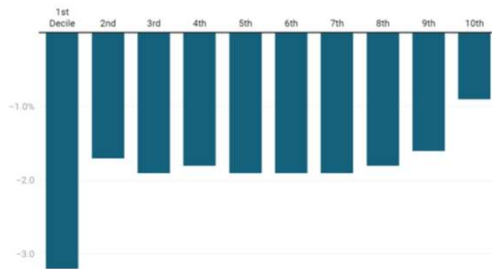


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis • Created with Datawrapper

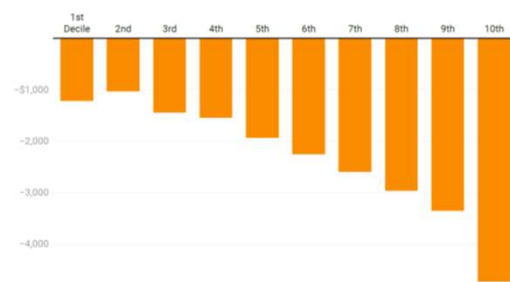


Chart: The Budget Lab • Source: GTAP v7, Census, BLS, BEA, The Budget Lab analysis • Created with Datawrapper

Poor hurt relatively the most, “regressive” tax



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<https://budgetlab.yale.edu/research/state-us-tariffs-july-7-2025>

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## Putting Tariff, Tax & Spending Policies Together

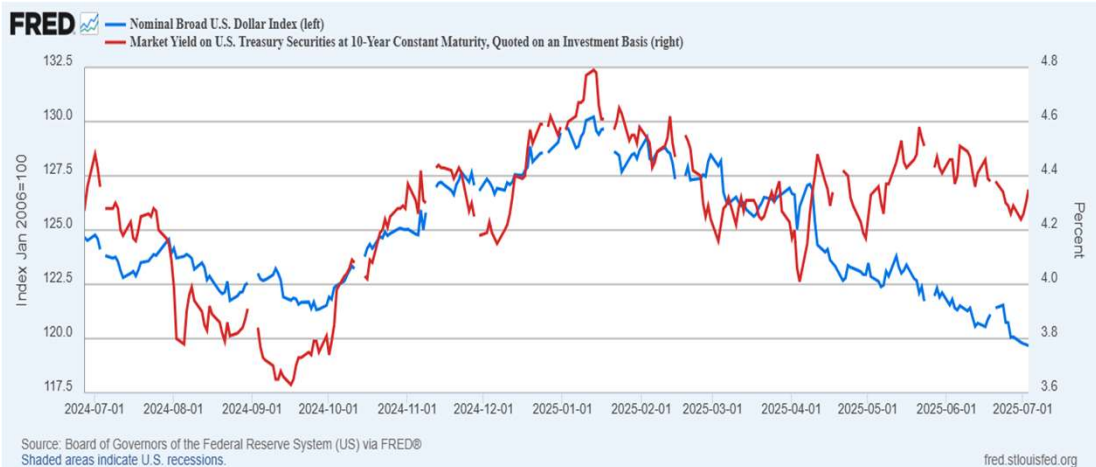
- **Yale Budget Lab estimates for 10 years:**
  - July 7<sup>th</sup> tariffs will raise \$2.6 trillion
  - One Big Beautiful Bill will raise deficits by \$3.0 trillion
- **Net effect**
  - Larger Deficits
  - Worsening Trade Deficit!



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## But, There is More!



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## Economists' Famous Quotes



Crises take longer to arrive  
than you can possibly imagine,

But when they do come, they  
happen faster than you can  
possibly imagine.

Rudiger Dornbusch in a happier moment



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## My Google Site

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



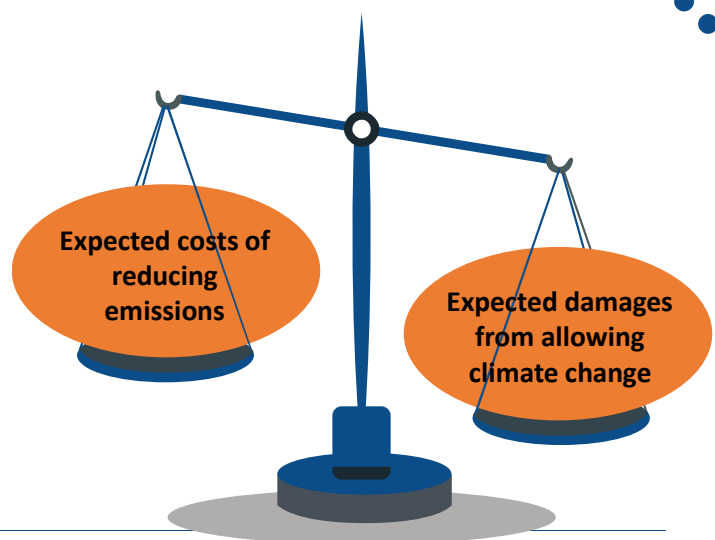
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## Next Week: Climate Change Economics

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.



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**Let's Hear from You!**

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