

Osher Lifelong Learning Institute, June 2026

The Economics of Public Policy Issues

University Of Minnesota

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**

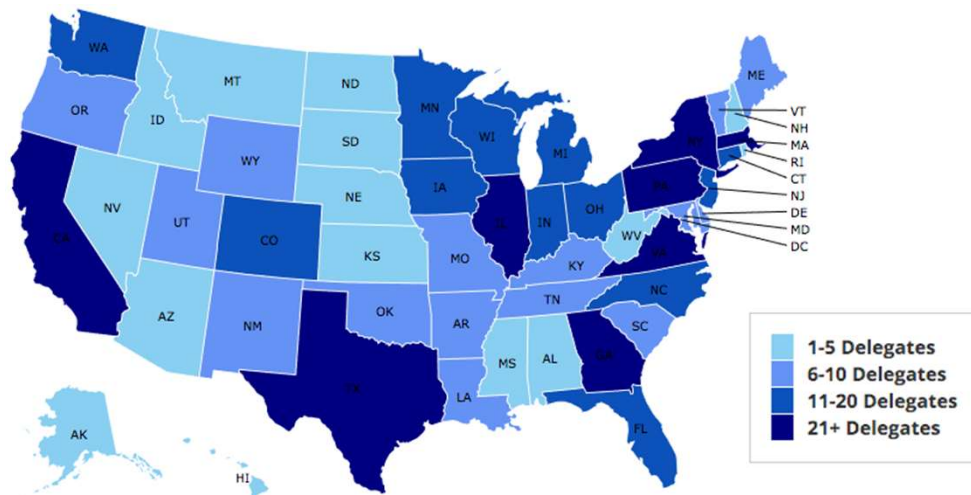
- Aid in slide deck development



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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

Contemporary Economic Policy

- Week 1 (10/8): Economic Update & Changes at the Fed, Geoffrey Woglom, Amherst College
- Week 2 (10/15): Climate Change Economics, Galina Hale, UC Santa Cruz
- Week 3 (10/22): The Future of Money, Geoffrey Woglom, Amherst College
- Week 4 (10/29): The Economics of Tariffs, Tibor Besedes, Georgia Institute of Technology
- Week 5 (11/5): Economics of Immigration, Roger White, Whittier College
- Week 6 (11/12): TBD



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Submitting Questions

- I encourage questions. Please put questions in the chat and I will answer them periodically during the talk,
- We will do a verbal Q&A once the material has been presented.
- Slides are available from the NEED website
https://needecon.org/delivered_presentations.php.

INFLATION



US Economy: Update & The Recent Rise in Interest Rates

Geoffrey Woglom,
Professor of Economics
Amherst College, emeritus
October 8, 2026



Outline for the Talk

Part 1

- **Overview of State of the Economy:** Remarkable resilience in the face of wars, oil prices & tariffs, but worrying signs.
- **Major uncertainties going forward.**

Part 2

- **The Runup in World Wide Interest Rates.**
- **Why This is Important.**
- **How to Read the Message in Rising Interest Rates**



Judging the State of the Macroeconomy

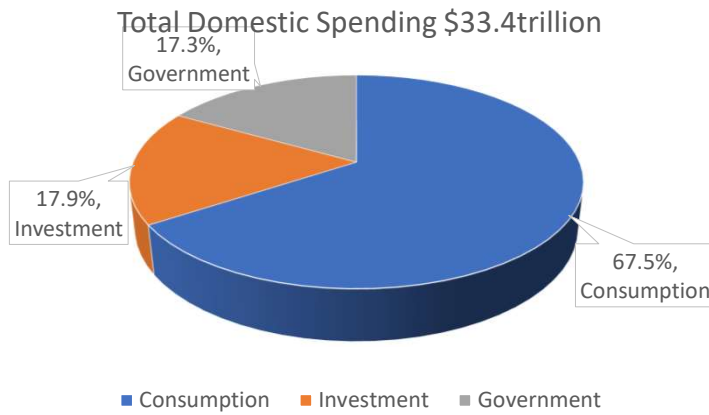
The Fed's Definition:

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

What about the climate change; poverty, health care?

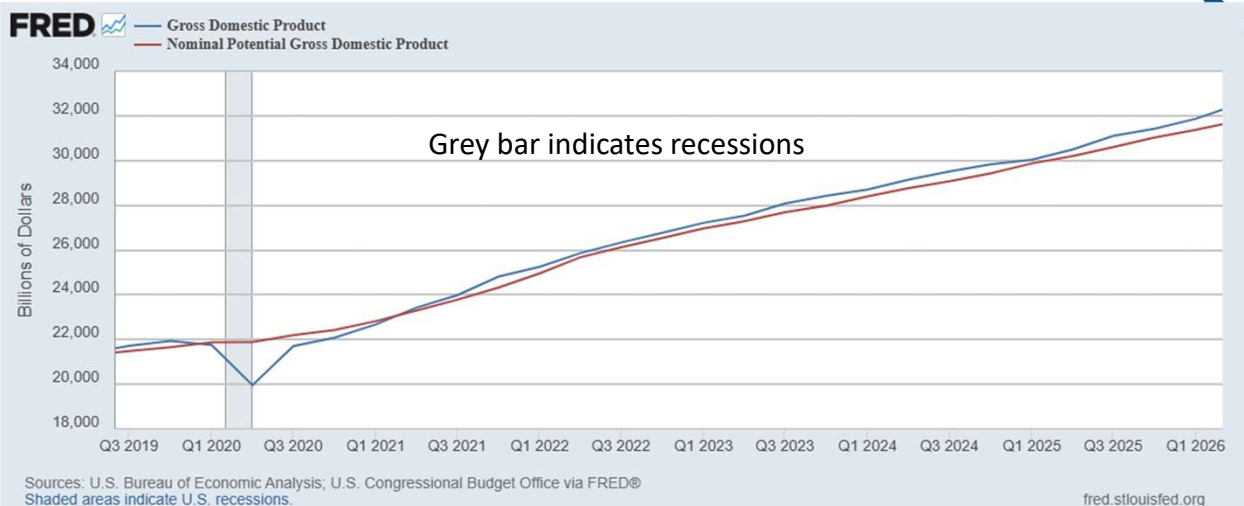


Gross Domestic Product: 2026Q2 = \$32.6 tr



\$33.4
Less Imports
-\$4.7
Plus Exports
+\$3.8
Equals GDP
\$32.6

GDP and 'Potential' during the Recovery



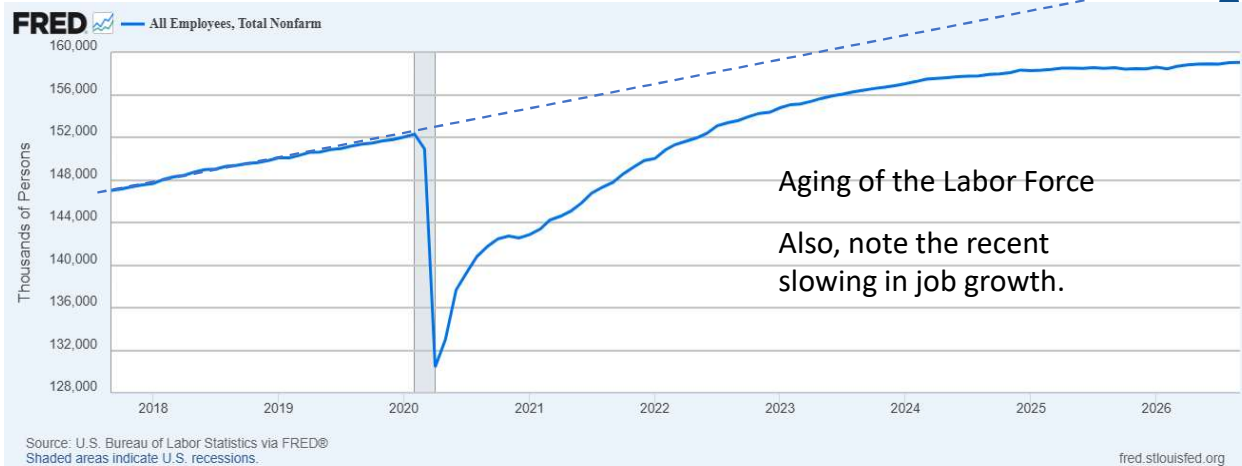
Unemployment is Near Record Lows



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Where Have All the Workers Gone?

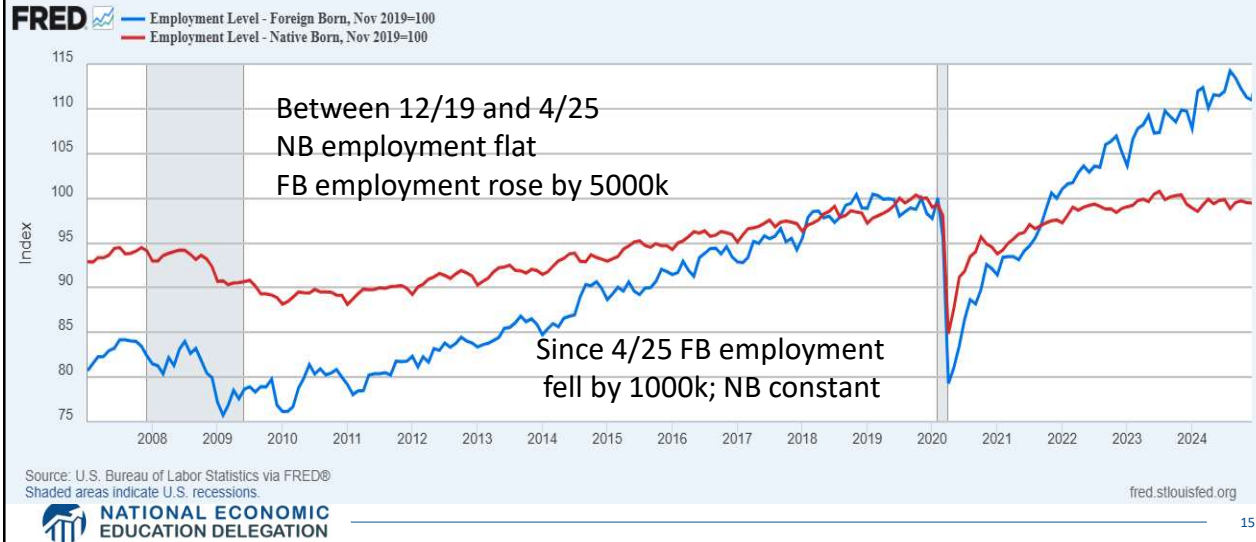


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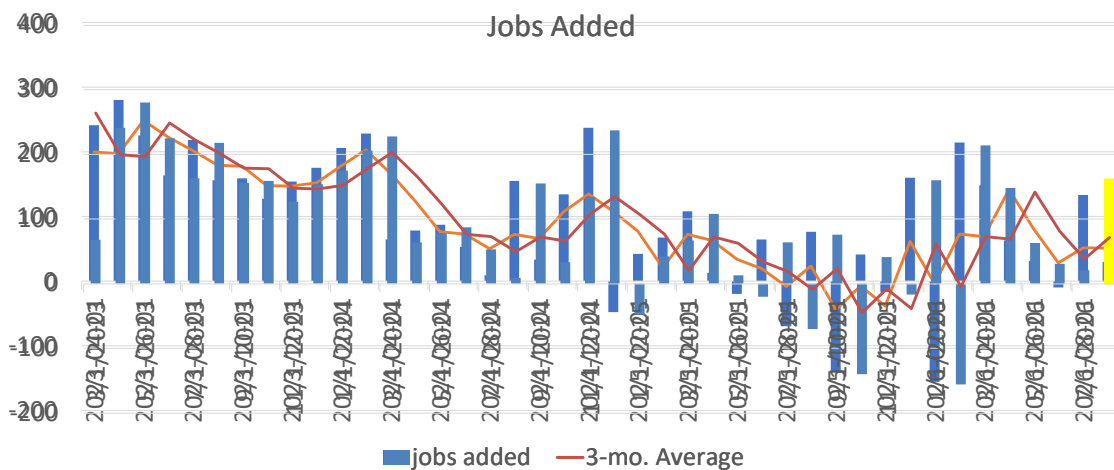
Source: Fred, St Louis Fed

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Could Have Been Worse , but for Foreign Born Workers



BLS September Jobs Surprise (?)



The Real Side of the Economy is Still Good

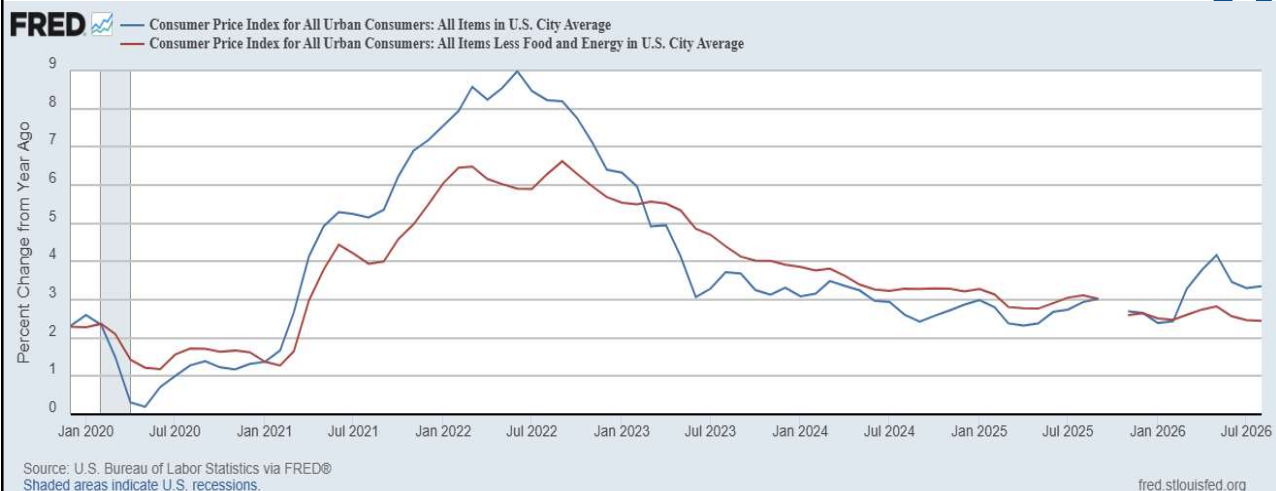
- GDP is very close to its potential.
- The labor market as measured by the unemployment rate is fully recovered.
- Macro Goal number 1, check
- But what about goal number 2, the “nominal” side of the economy



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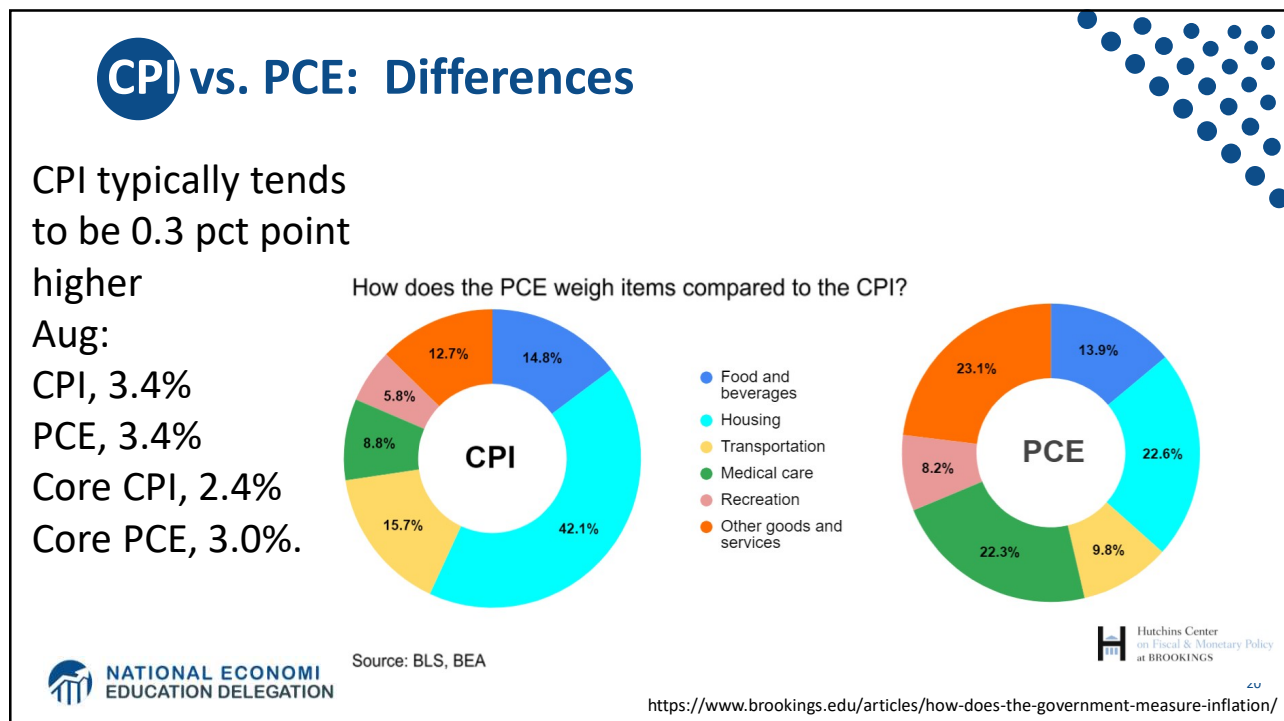
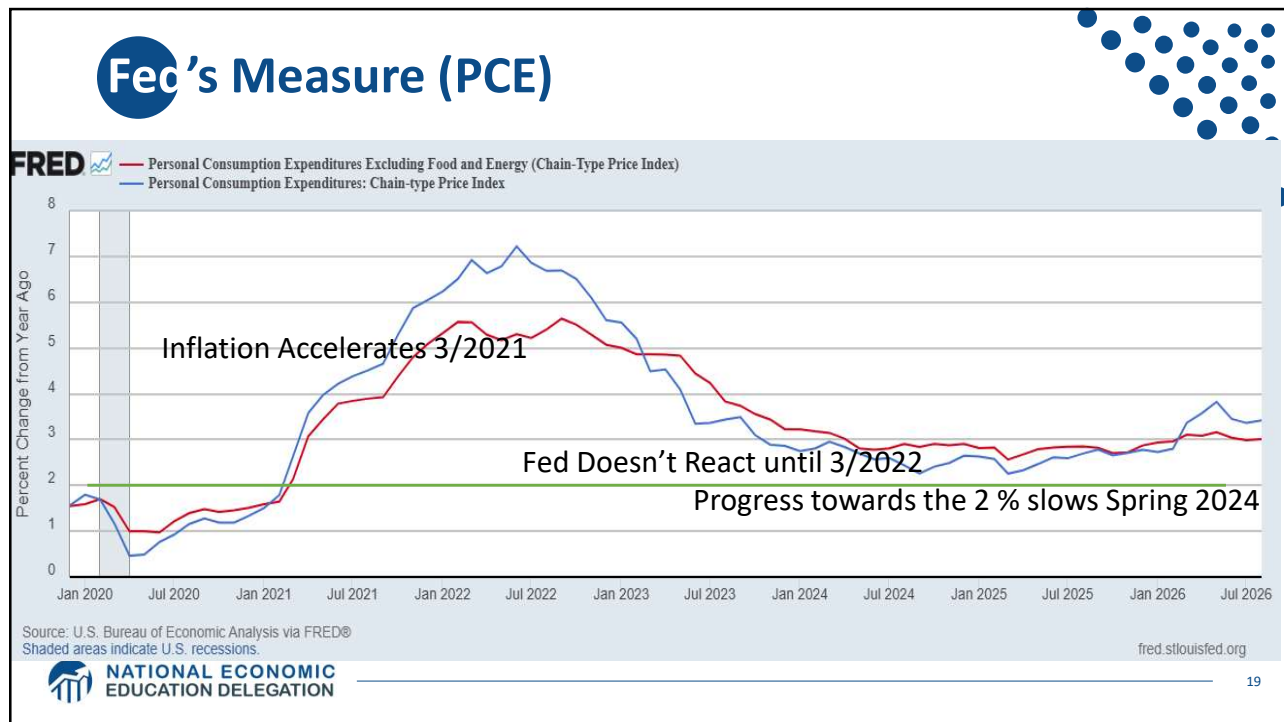
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Inflation during the Recovery (CPI)



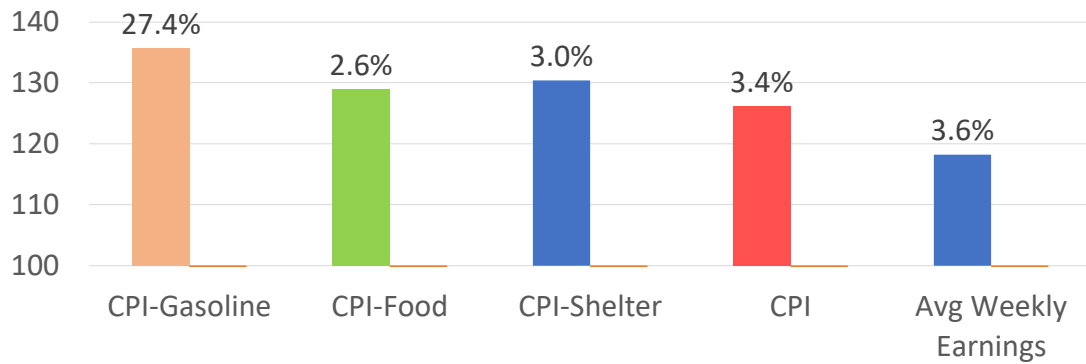
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"Affordability"

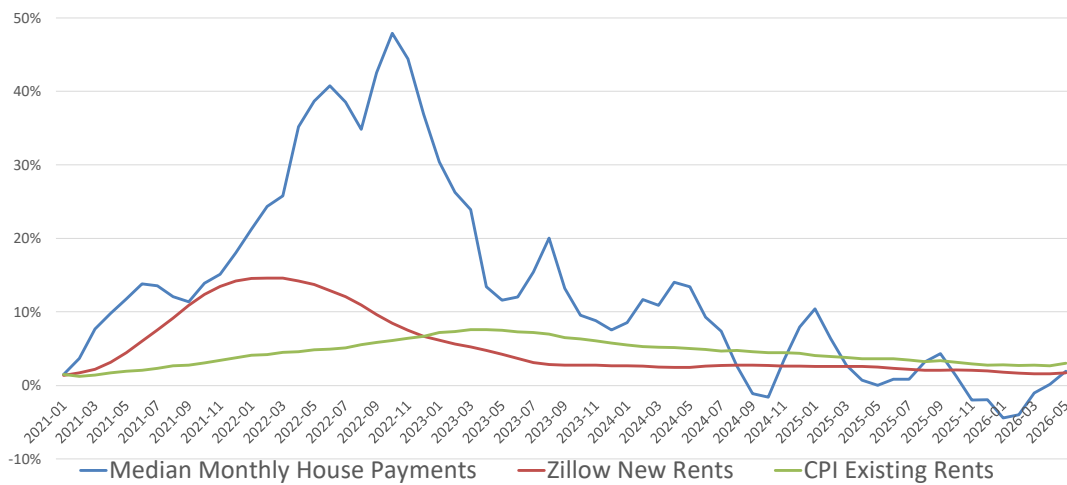
Bar: Aug, 2026 Price Levels Relative to 3/21
Data Label: Last 12 month growth



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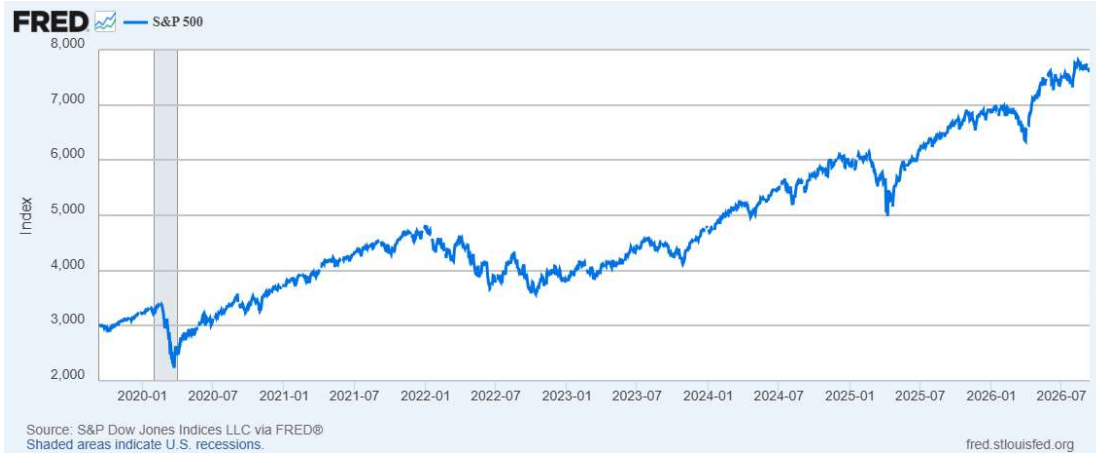
Three Measures of Cost of Housing Inflation



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Stock Prices: Tariffs, What Tariffs; War, What War?



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Interest Rates: Era of Falling Rates Over?



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The State of the Economy & the Future

- **The key indicators for judging the macro economy are still good**
 - Output and unemployment are close to their “full employment” levels,.
 - Inflation is still elevated, but some of this is due to “price shocks.”
- **Concerns**
 1. K-shaped growth.
 2. Is the AI boom sustainable?
 3. Price shocks may get worse due to war in Iran.



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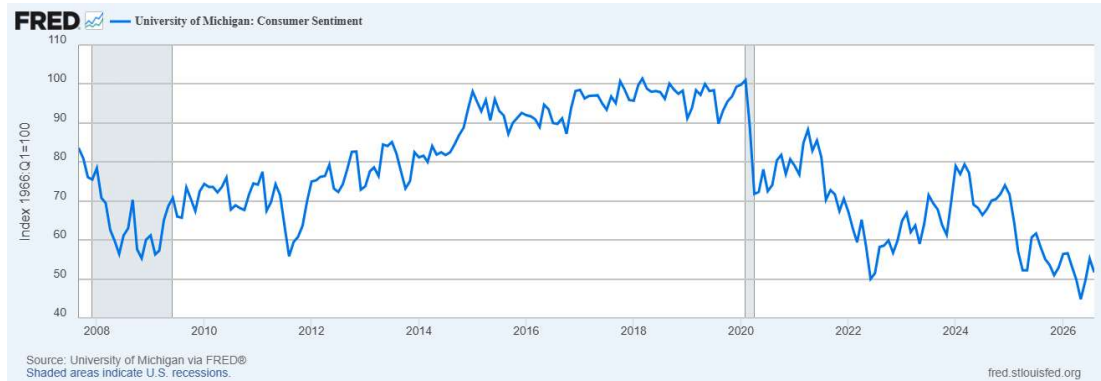
Labor's Share of Income is Falling



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Consumers Are Very Pessimistic



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The Stock Market is Being Driven by Tech

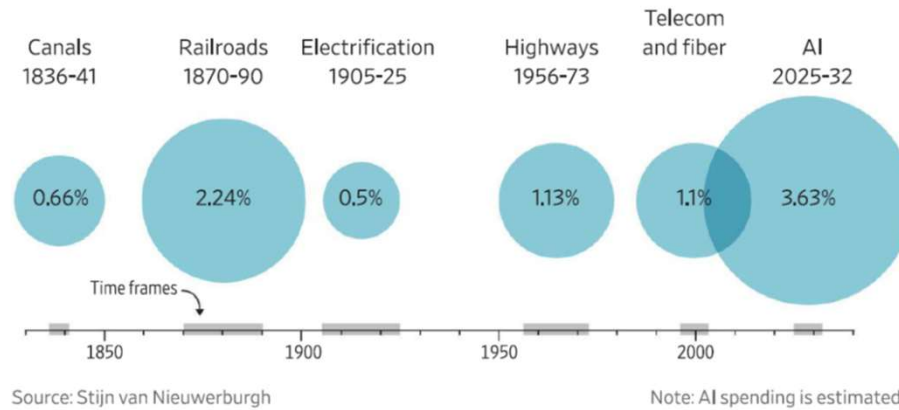


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AI Boom is Unprecedented

Average annual infrastructure spending as a percentage of GDP

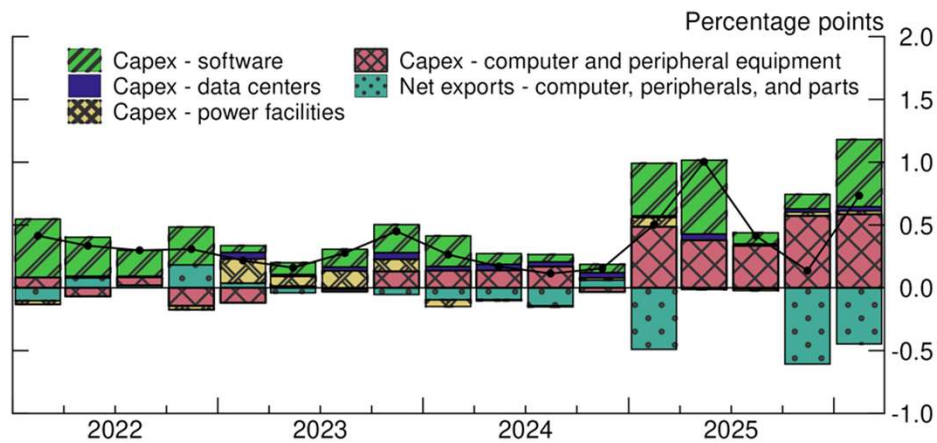


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https://www.brookings.edu/wp-content/uploads/2026/09/4c_Van-Nieuwerburgh.pdf

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AI's Contribution to Growth

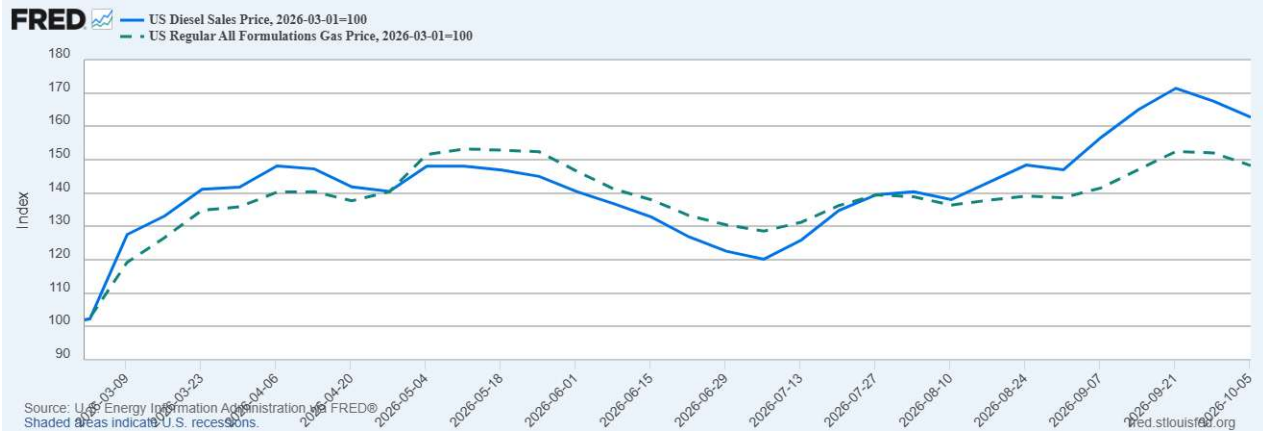


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<https://www.federalreserve.gov/econres/notes/feds-notes/the-ai-buildout-and-the-economy-publicly-available-data-to-assess-ais-impact-20260717.html>

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The Rise in Diesel is Bigger & More Inflationary



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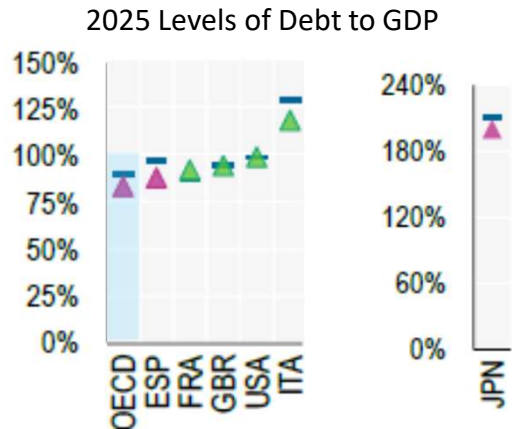
Part 2 Intro: The World Wide Rise in Rates



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Why Do High Interest Rates Matter?



Effects of 1 pcp increase in interest rates on CBO projections for 2056.

1. Debt-to-GDP ratio rises from 175% to 222%.
2. Deficit rises from 9.1% to 14% of GDP.
3. Interest on the debt rises from 6.9% to 11.4%, at which point it would comprise 60% of total federal revenue.



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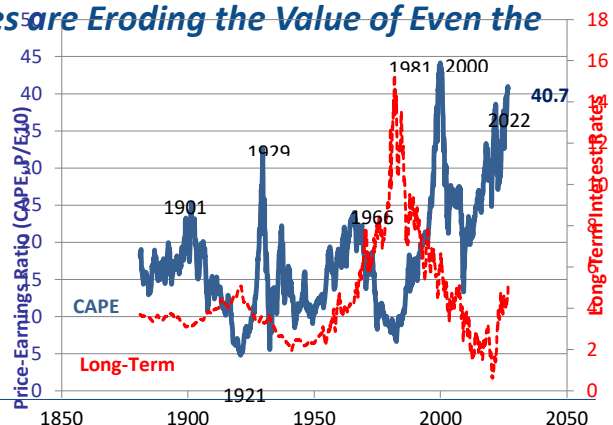
OECD (2026), *Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure*, OECD Publishing, Paris, <https://doi.org/10.1787/e9d80efd->

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Why Do High Interest Rates Matter2?

- Housing shortage and housing affordability.
- *WSJ, 10/5 headline: The Surge in Rates is Blowing Up Commercial Real-Estate Deals.*
- *WSJ, 10/8 headline: Rising Rates are Eroding the Value of Even the Most High-Flying Tech Stocks*

- The Stock Market



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<https://shillerdata.com/>

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Key Questions

1. What Caused the Increase?
2. Are High Rates Likely to Persist?

Reading the Tea Leaves from various Interest Rates will help us to answer these questions.



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Outline for Part 2

1. Explain the difference between nominal or stated interest rates and the real rate.
2. The Fed determines nominal short-term interest rates.
3. The relationship between short-term and long-term interest rates
4. Conclusion from the tea leaves.



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Results from Reading the Tea Leaves.

1. The vast majority of the increase in interest rates was due to increases in the real rate.
2. Some shorter-term bonds have risen in anticipation of the Fed raising the federal funds rate.
3. The rise in the rate on the longest-term bonds implies higher rates are expected to persist because of higher real rates, *not* higher inflation.



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Nominal and Real Interest Rates

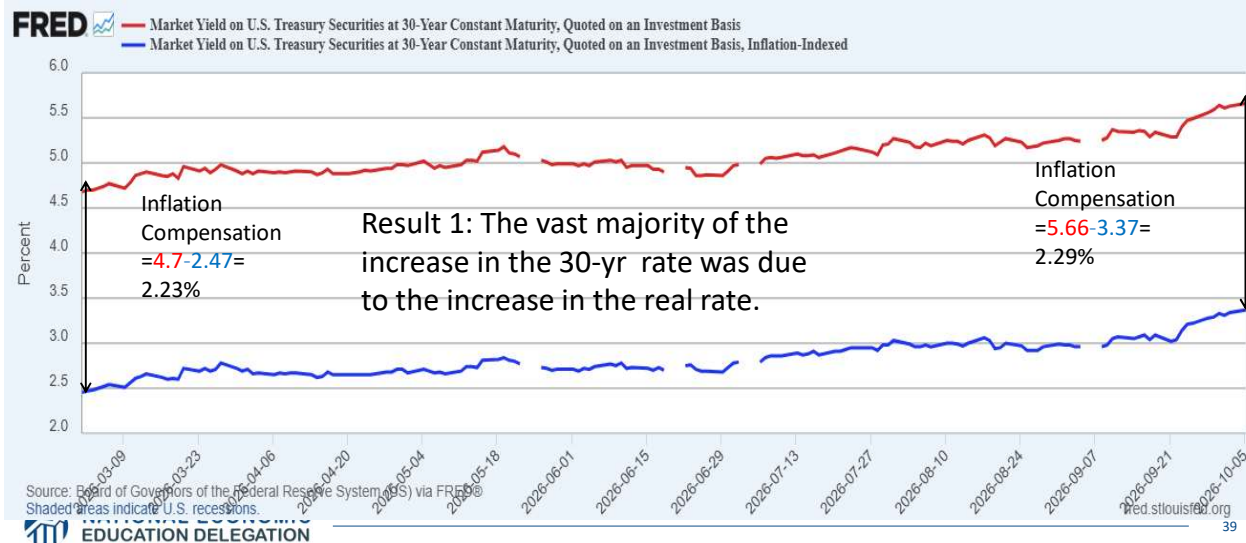
- The stated or nominal interest rate is the rate at which your dollars grow.
- The real interest rate is the rate at which your purchasing power grows. The real rate is the nominal rate minus expected inflation.
- Reading the Tea Leaves by comparing US Bonds to Inflation protected US Bonds (TIPs).



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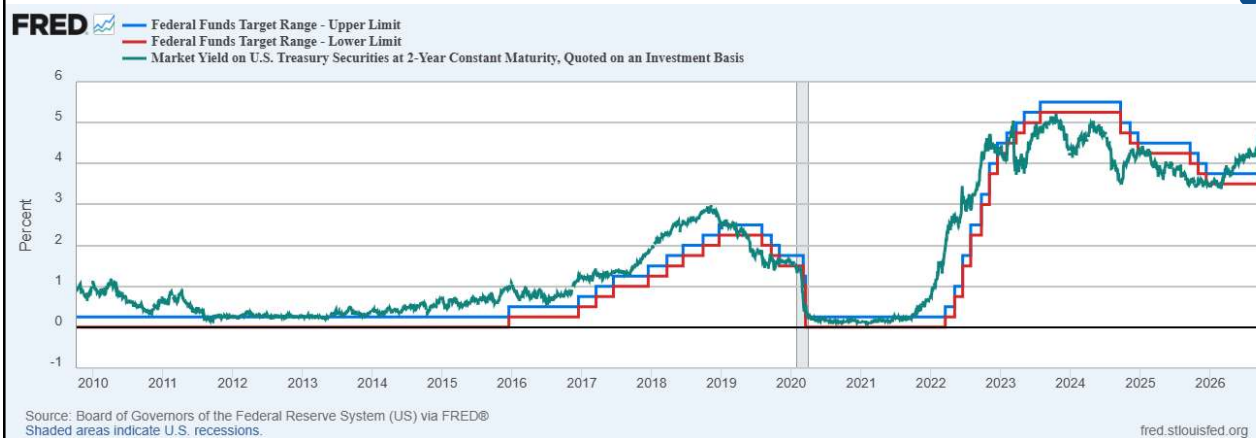
The Rise in Government Bond Interest Rates



The Federal Funds Rate, the Policy Instrument

- The *federal funds* rate is the interest rate charged on overnight loans of bank reserves between two banks.
- The Fed sets a target range for the federal funds rate; currently 3.75% to 4.00%.
- If the market federal funds rate rises above 4%, the Fed buys government securities which increases the supply of bank reserves.

The Fed Essentially Sets the 3-month rate



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Interest Rates on Long- and Short-term Bonds

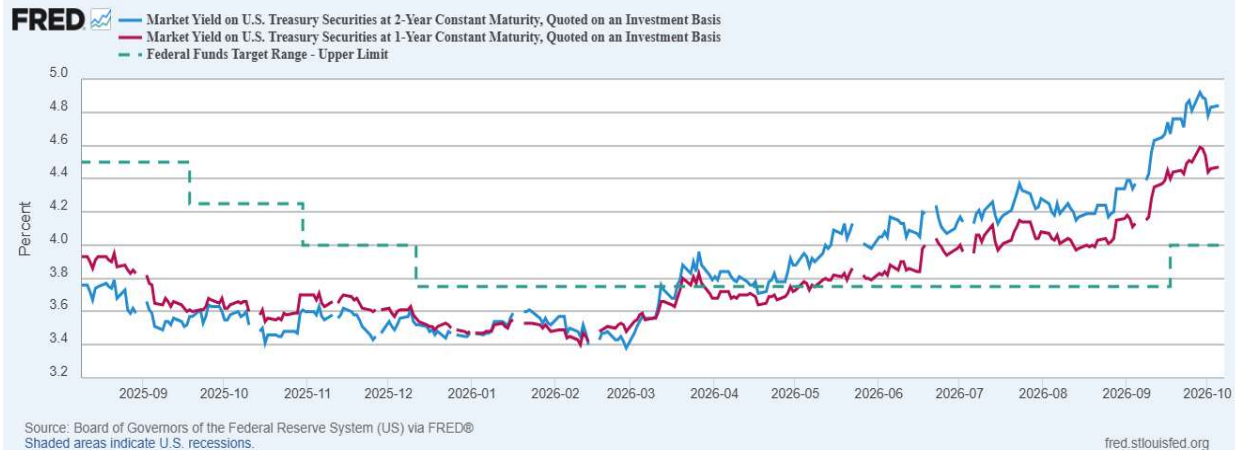
- **Long-term bond rates can also be decomposed into 2 different components:**
 1. The expected average of short-term rates over the life of the bond
 2. A term risk premium because the price of long-term bonds is more volatile. than short term.



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An Example: Interest Rates on 1 & 2-yr Bonds



Result2: 2-year rate rose more than the 1-year rate because markets expect the federal funds rate to rise and to be higher for at least 2 years



Story Implied by Changes in Different Maturities

Basic Data:

Maturity	3/2 nominal	10/7 nominal	3/2 real	10/7 real	3/2 exp infl	10/7 exp infl
5 yr	3.62%	5.03%	1.16%	2.66%	2.46%	2.37%
30 yr	4.70%	5.67%	2.47%	3.36%	2.23%	2.31%

Tea Leaves:

Maturity	Change in exp inflation	Change in real rate
5 yr	-0.09 p.c.p.	1.50 p.c.p.
30 yr	0.08 p.c.p.	0.89 p.c.p.

Result 3: The rise in the real rate on the 30-year bond means that most of the rise in real rates is expected to persist



Why

- **First the Good News:** The small change in expected inflation implies that the Fed has not lost credibility that it will achieve its long-run goal of 2 percent inflation.
- **The Bad:** Persistently, high real rates are unlikely to be due to the AI investment boom. More likely, credit markets are signaling that US (and many other developed countries) fiscal debt and deficits are not sustainable.
- **The Worst Case Scenario:** A run on the dollar.

A Cheerful (?) Final Note:



Rudy Dornbusch

The crisis takes a much longer time coming than you think,...

and then it happens much faster than you would have thought.

My Google Site

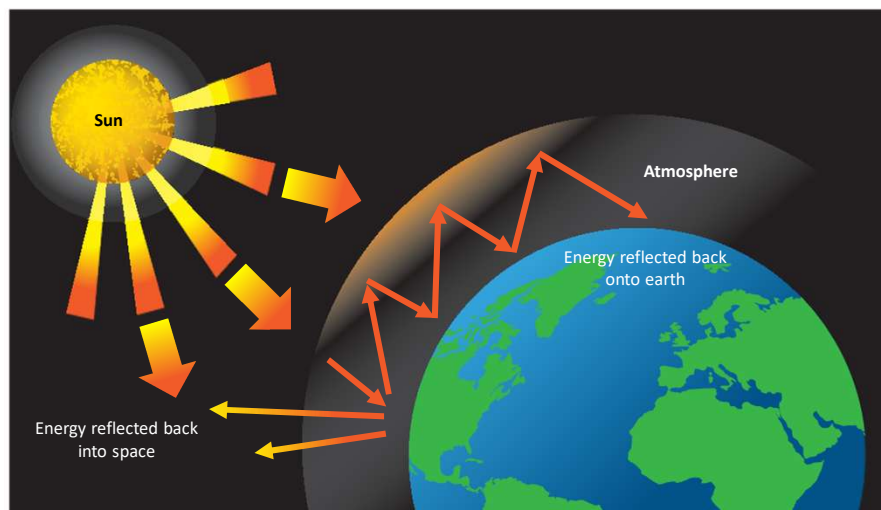
- <https://sites.google.com/view/macro-current-issues/economic-update>



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Next: The Atmospheric Greenhouse Effect



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Let's Hear from You!

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