

I. Inflation and Recession

NH Housing and Economy Conference, November 15 2022

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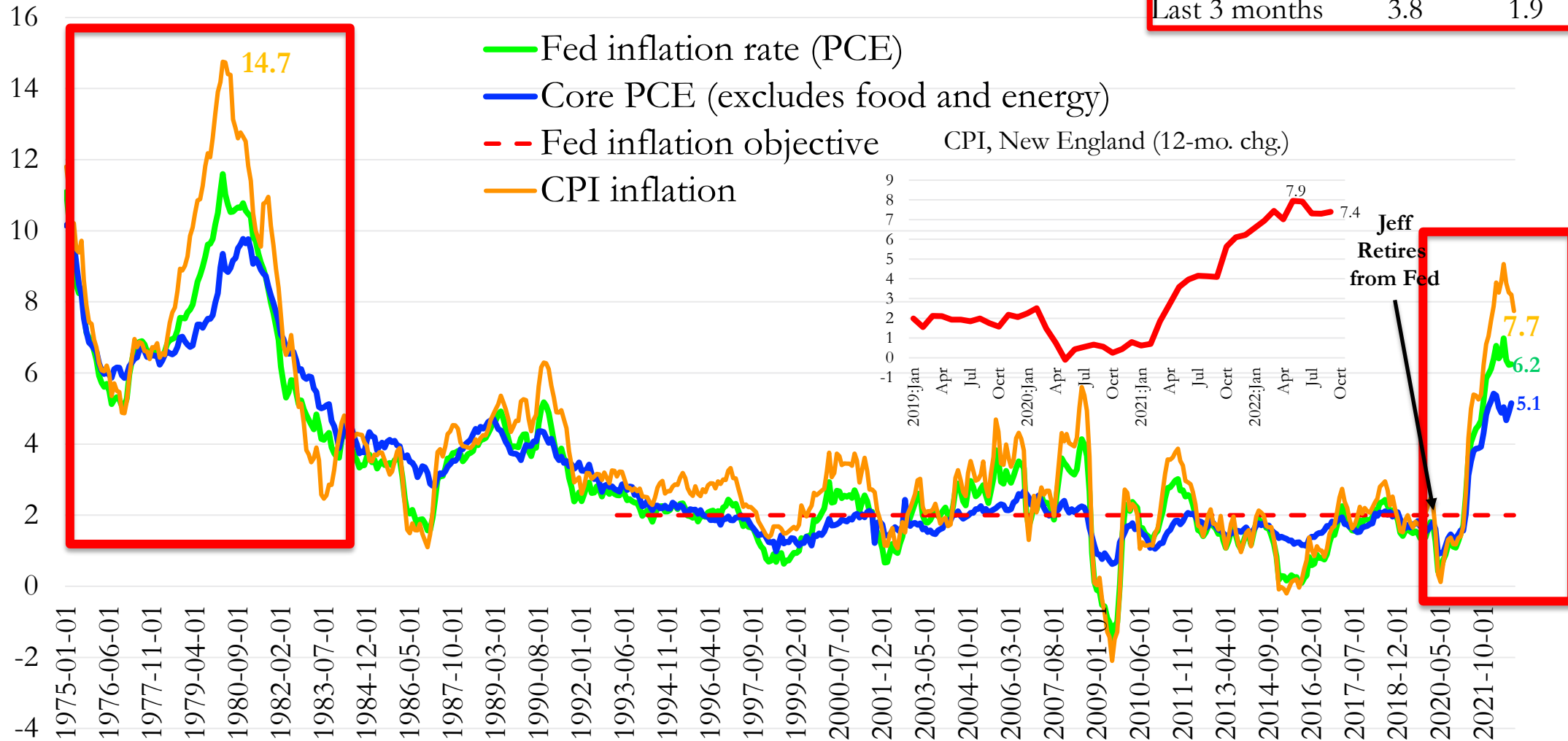
Eastern Bank Foundation

November 2022

Recent inflation trends !!

(Change over the past 12 months.)

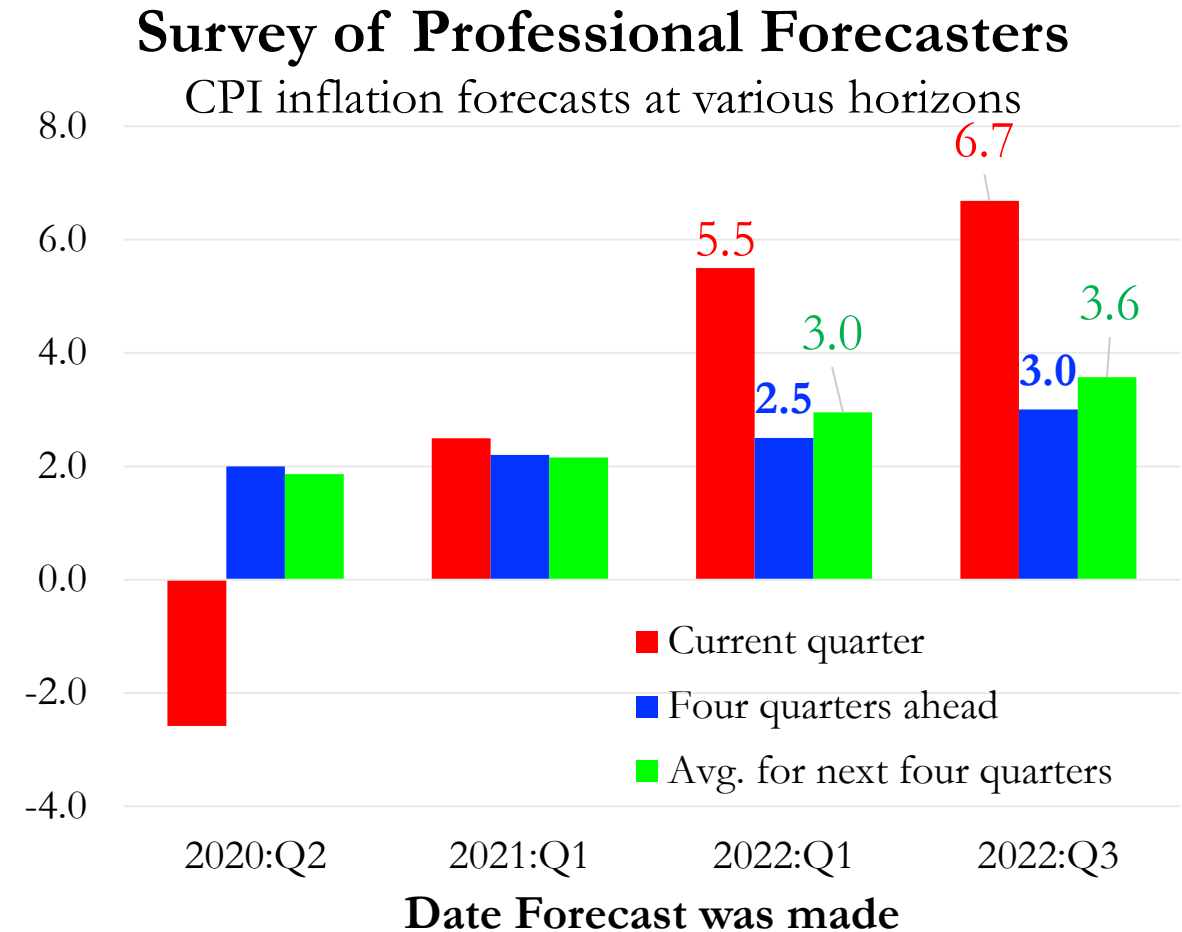
	Headline CPI (Oct)	Headline PCE (Sep)	Core PCE (Sep)	CPI Energy (Oct)
Last 12 months	7.7	6.2	5.1	17.7
Last 6 months	6.6	4.6	4.8	1.9
Last 3 months	3.8	1.9	4.2	-19.7



Source: Bureau of Economic Analysis (PCE), Bureau of Labor Statistics (CPI), FRED

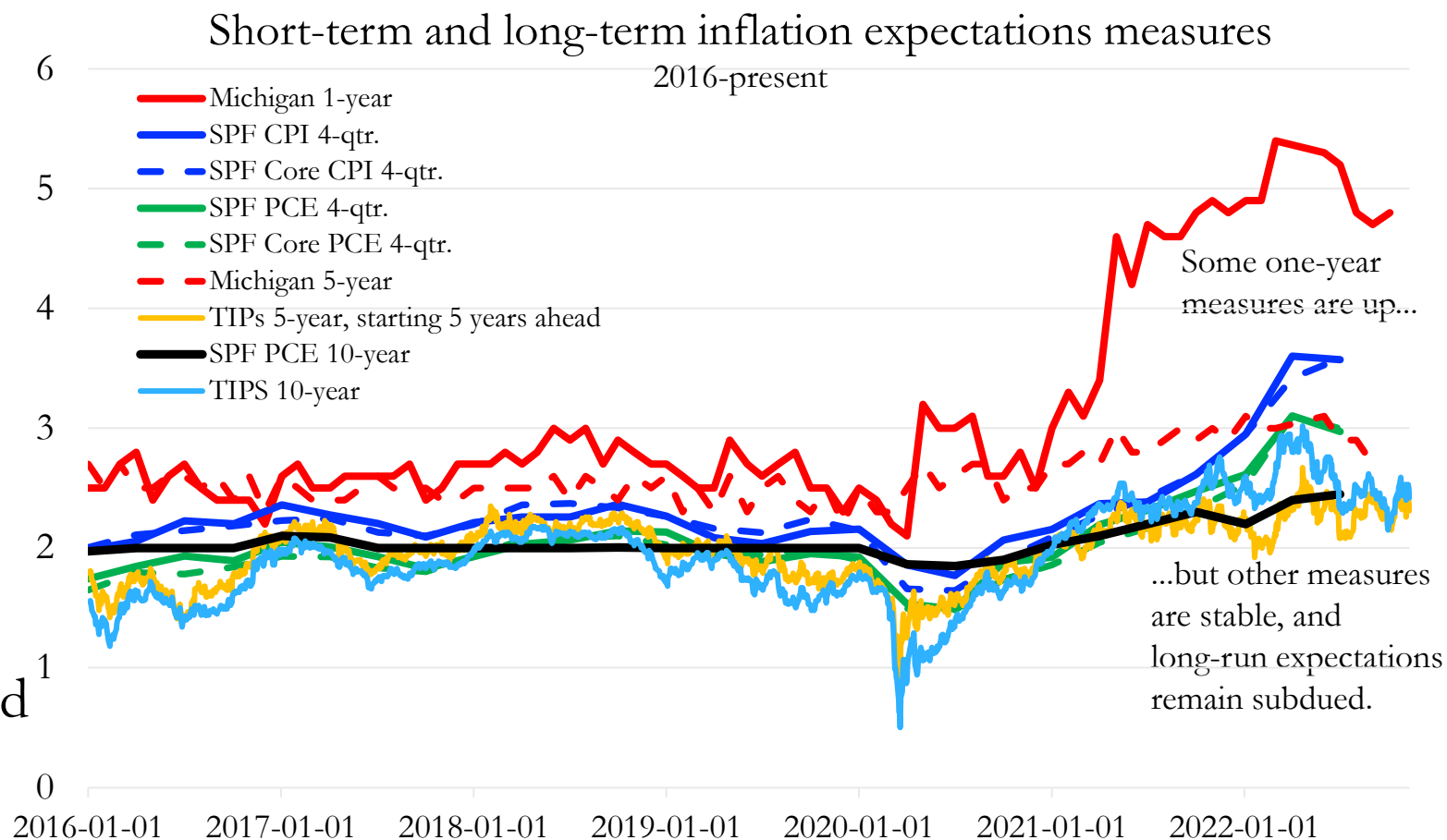
Inflation caught most of us by surprise

- ▶ **The pattern in forecasts:**
 - ▶ Recognizes that inflation is high today (red bars), but expect it will go away soon (blue and green)
- ▶ That was wrong (so was I!)
- ▶ A key point: We should admit to significant uncertainty about how inflation works, and thus about how it will proceed



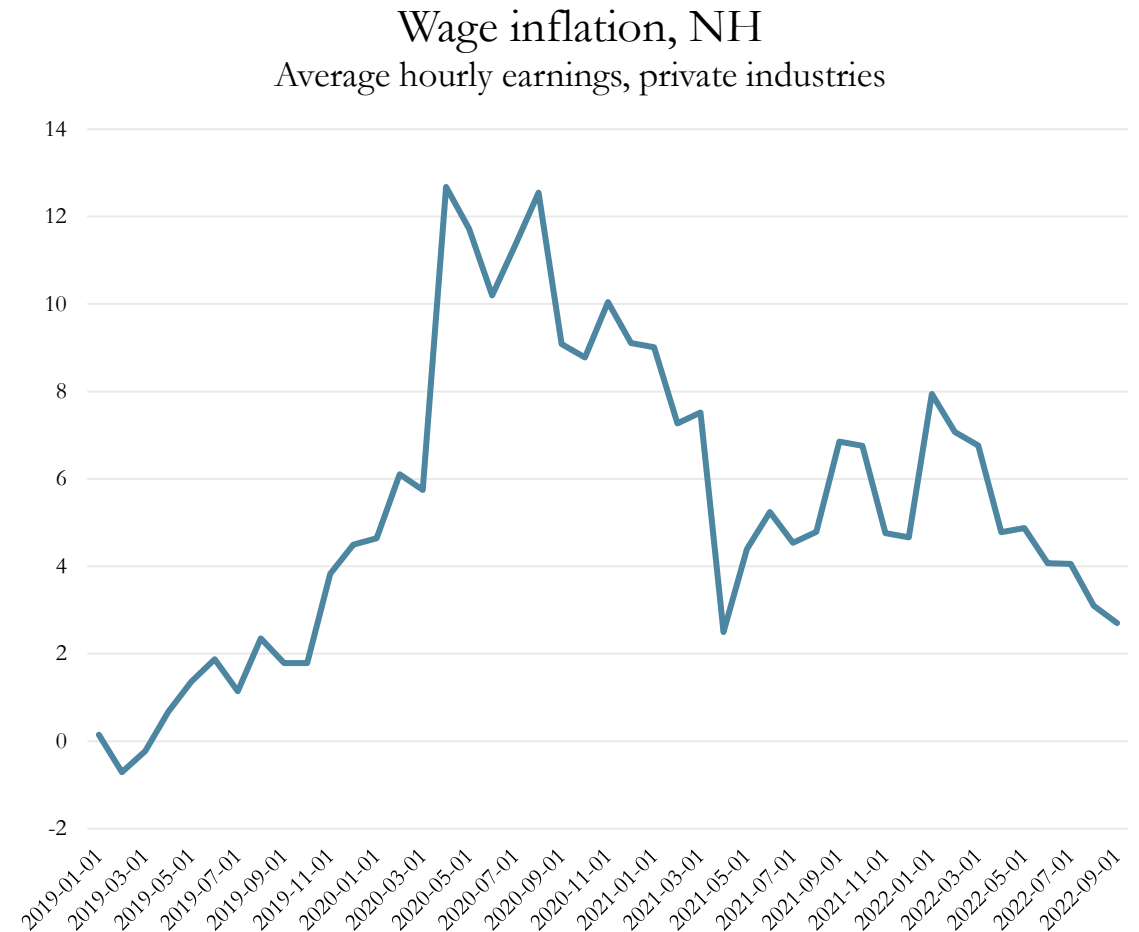
Are inflation expectations becoming “unanchored?”

- ▶ Shorter-run expectations (one year ahead)
 - ▶ Elevated
 - ▶ Reflective of current inflation
- ▶ Longer-run expectations (five to ten years ahead)
 - ▶ Stable, pretty much
 - ▶ Higher inflation not yet becoming deeply embedded in behavior—we hope!



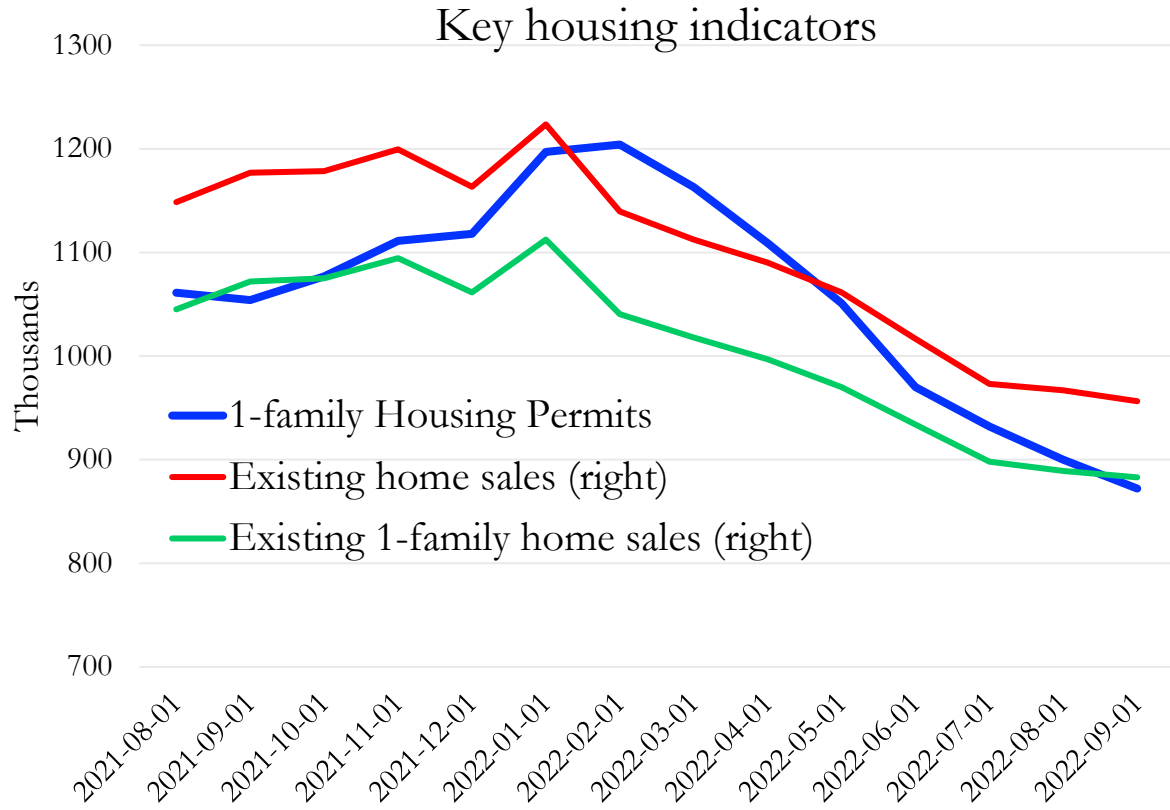
What if higher inflation became embedded in people's thinking?

- ▶ Would likely slow the decline in inflation
- ▶ How:
 - ▶ Wage increases could build in more compensation for inflation
 - ▶ Which will raise costs, and feed into inflation, and off we go
- ▶ So far
 - ▶ Wages increasing, but slower than inflation
 - ▶ A reflection of inflation, but not driving inflation up
 - ▶ And tailing off recently



Recession?

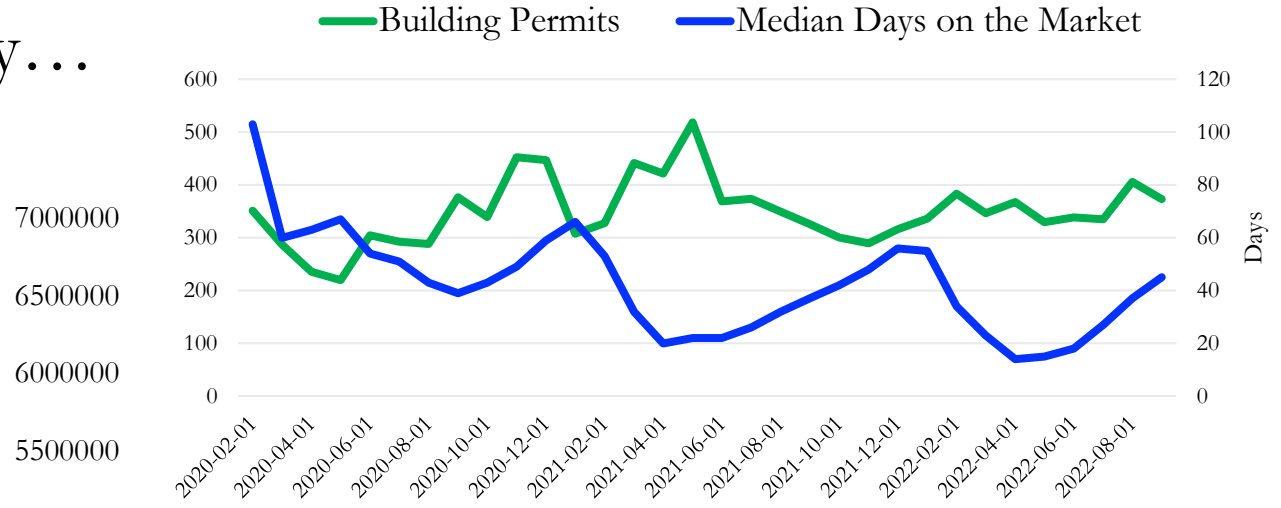
Housing activity is slowing nationally...



Sources: Census Bureau (permits), National Association of Realtors (existing home sales), Realtor.com (median days on market), Freddie Mac (mortgage rate), FRED

...somewhat less so in NH
(days on market: seasonal rise)

Housing Permits and Inventory, NH



30-year mortgage rate doubled

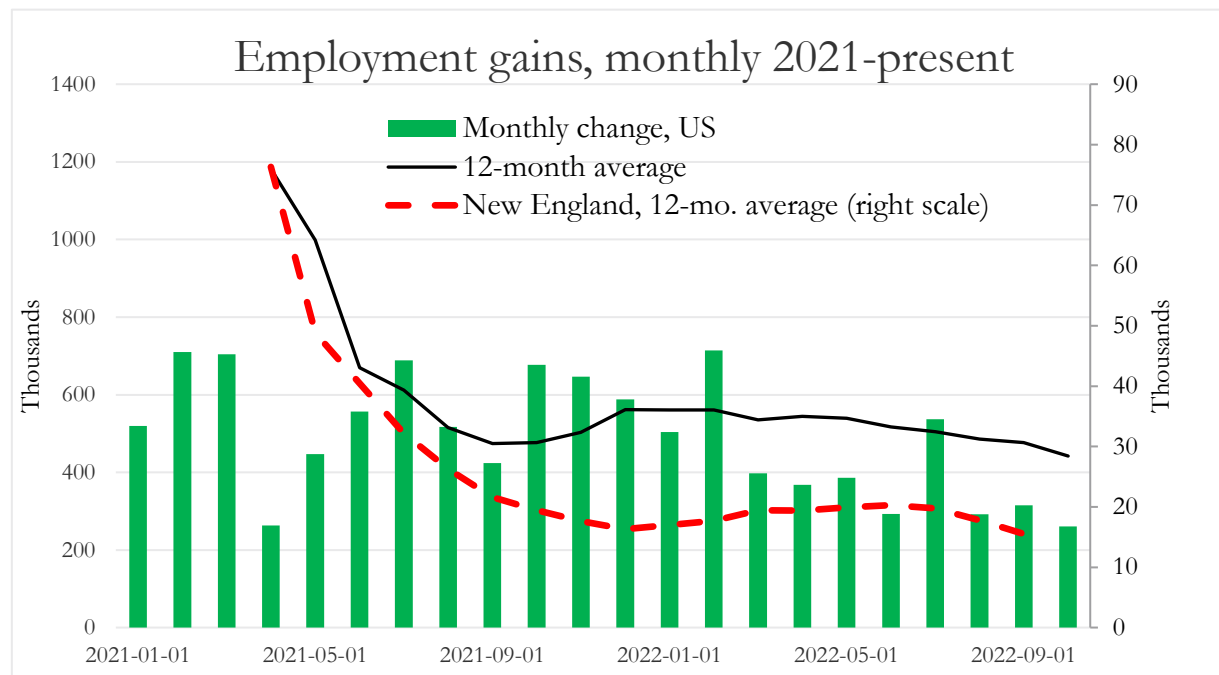


Recession? Not yet.

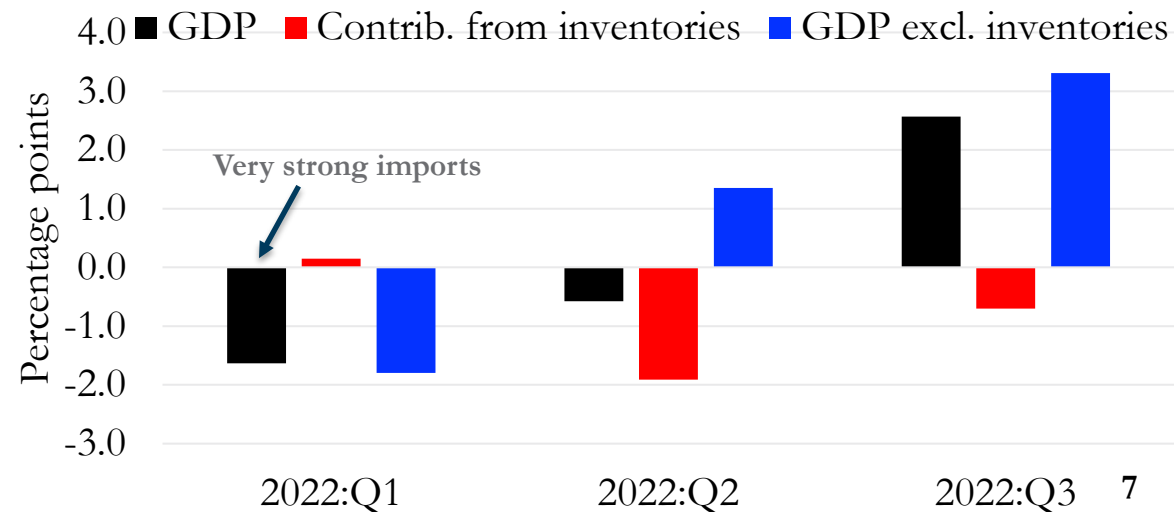
Employment remains strong

- ▶ Latest data on employment gains sure look OK
 - ▶ Caveat: This is a lagging or approximately contemporaneous, not a leading indicator
- ▶ But didn't GDP fall in the first half of the year?
 - ▶ Yes, and it rebounded in the most recently ended quarter
 - ▶ Wiggles in inventory accumulation
 - ▶ And strong demand → high imports (lowers GDP)

Sources: Bureau of Labor Statistics (payroll employment), Bureau of Economic Analysis (GDP), FRED



GDP is doing OK, with quarterly ups and downs



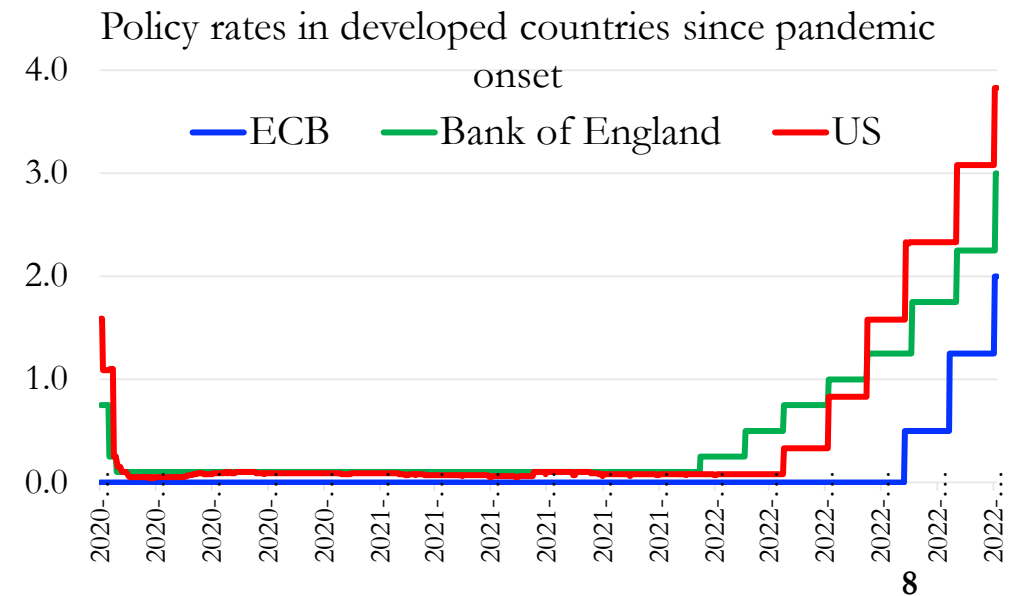
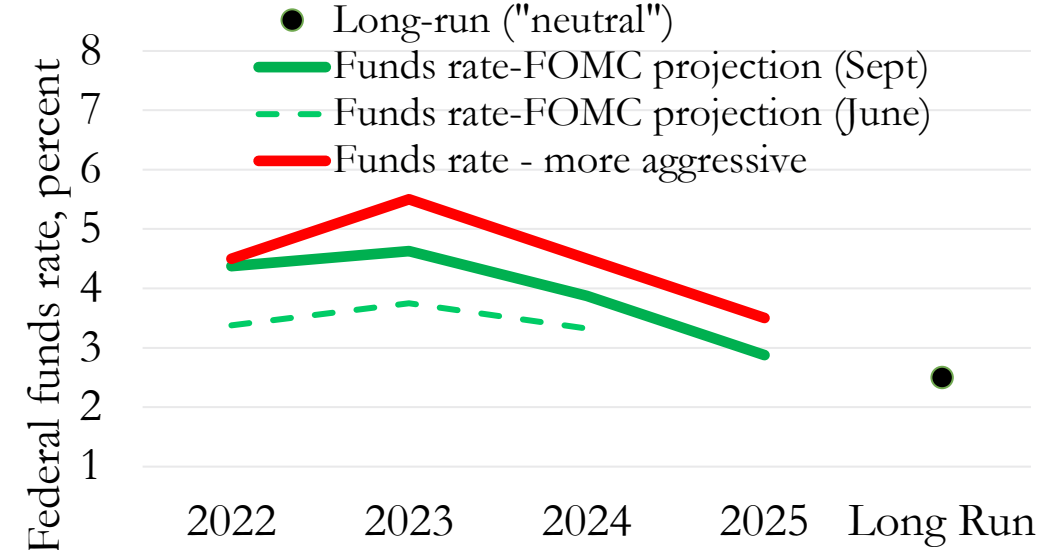
How to Balance Federal Reserve Policy?

(Reduce inflation without inducing recession)

- ▶ **Rates have gone up 3-3/4% so far this year**
- ▶ **How many more rate increases?**
 - ▶ Chair says talk of a pause is “premature” (11/2)
 - ▶ But much of inflation is due to transitory (albeit persistent) supply disruptions
 - ▶ Many of these are now fading
 - ▶ So inflation will revert in large part on its own
- ▶ **Key risk:** Interest rates going too high?
 - ▶ Policy takes time to have its full effects on economy
 - ▶ Other countries are raising rates too. Global recession?

Sources: Board of Governors of the Federal Reserve System (FOMC projection), European Central Bank, Bank of England, FRED, author's calculations

Fed policy under alternative scenarios



Bottom line on economy

- ▶ Inflation appears to be receding a bit
 - ▶ Good news, but too early to declare victory
 - ▶ If it continues, could imply somewhat less action needed by Fed—also good news!
- ▶ Employment remains strong
 - ▶ So no recession at this point
 - ▶ Housing is responding to higher rates (and higher prices)
 - ▶ Inflation has cut into spending power, especially for the lowest income households
 - ▶ Fed and global monetary policy will slow the economy—how much?
- ▶ Outlook for next quarter? Next year?
 - ▶ Slower growth for sure. Higher unemployment rate. How much slower/higher?

II. The Myth That Made Us

MIT Press, release scheduled 2023

New Book Project

- **The thesis:**
 - Key narratives have been used both to
 - Dismiss and/or explain away bad outcomes; and
 - Support and build a system that delivers bad outcomes to many
- I'll discuss (briefly)
 - The narratives
 - The outcomes
 - The history/evidence on their use to shape the economy
 - The losses inherent in the current system
 - The way forward, and the cost to getting there
 - Spoiler alert: It's definitely worth making some changes!

Narrative: (n): “a way of presenting or understanding a situation or series of events that reflects and promotes a particular point of view or set of values” [Merriam-Webster]

Just to be perfectly clear:

- Some hear about this book and think:
 - He hates America
 - He doesn't believe in capitalism
 - He thinks hard work and responsibility and determination don't matter
 - He's a bad man
- However
 - I love America
 - I do believe in capitalism, but there's no one form of capitalism. There are many. We've chosen one.
 - I do believe hard work, personal responsibility, persistence, etc. matter (and I try to practice those things—and raised my three children that way)
 - I am trying to follow in the great tradition of offering not just criticism, but ways of improving the country I am committed to

First—some interesting features of the book

- I interviewed a number of low-income residents, mostly people of color
 - Asked them to tell me about their lives, financial challenges, hopes
 - Those interviews augment the data presented in the book—adding their voices to the data to tell their stories of life in low-income communities
- My editor asked for more of “me” in the book
 - Not what I usually do. Two advantages to that:
 - Allows me to show my ignorance and learning about these topics—**we’re on this journey together**
 - Tells the story of a high-level executive inside an important policymaking institution, and the journey that institution is on to recognize the importance of brokenness, institutional racism and narratives
- Capitalism—I’m for it
 - But we need to change our “flavor” of capitalism

The False Narratives—components of “The Myth”

“The author hopes that, while the volumes in this series may prove interesting stories, they may also have the effect of enlisting the sympathies of his readers in behalf of the unfortunate children whose life is described, and of leading them to co-operate with the praiseworthy efforts now making by the Children’s Aid Society and other organizations to ameliorate their condition.” (Horatio Alger, foreword to “Ragged Dick”)

Public Belief in The Myth—Widespread in the U.S.

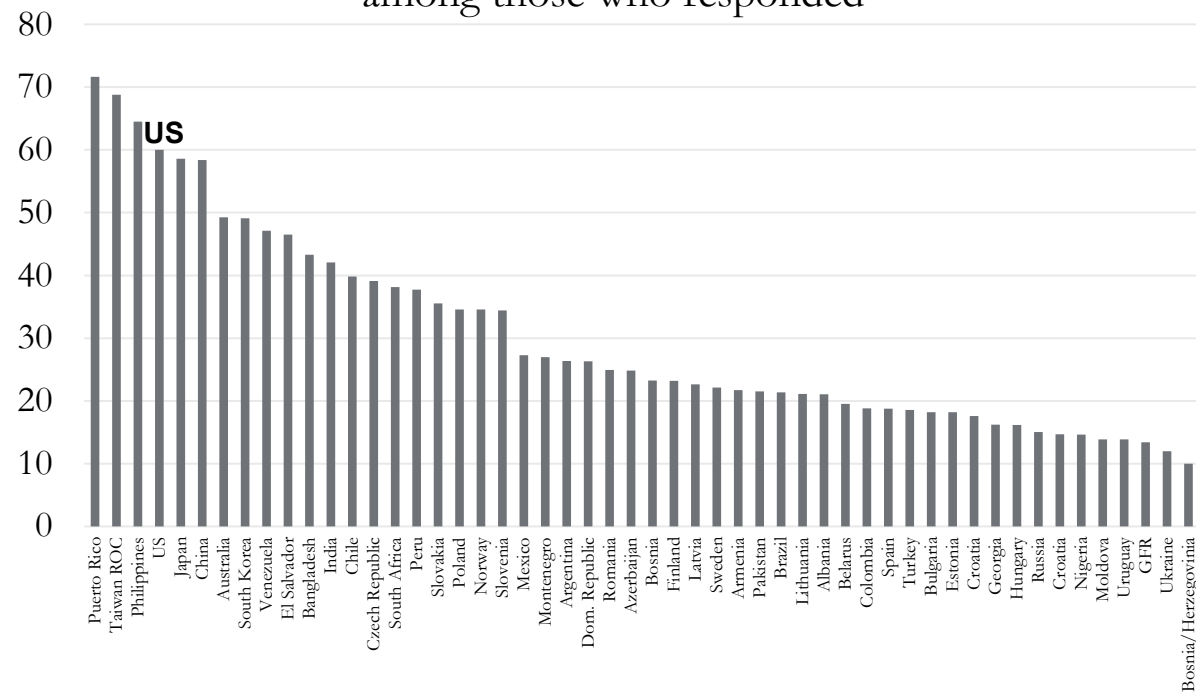
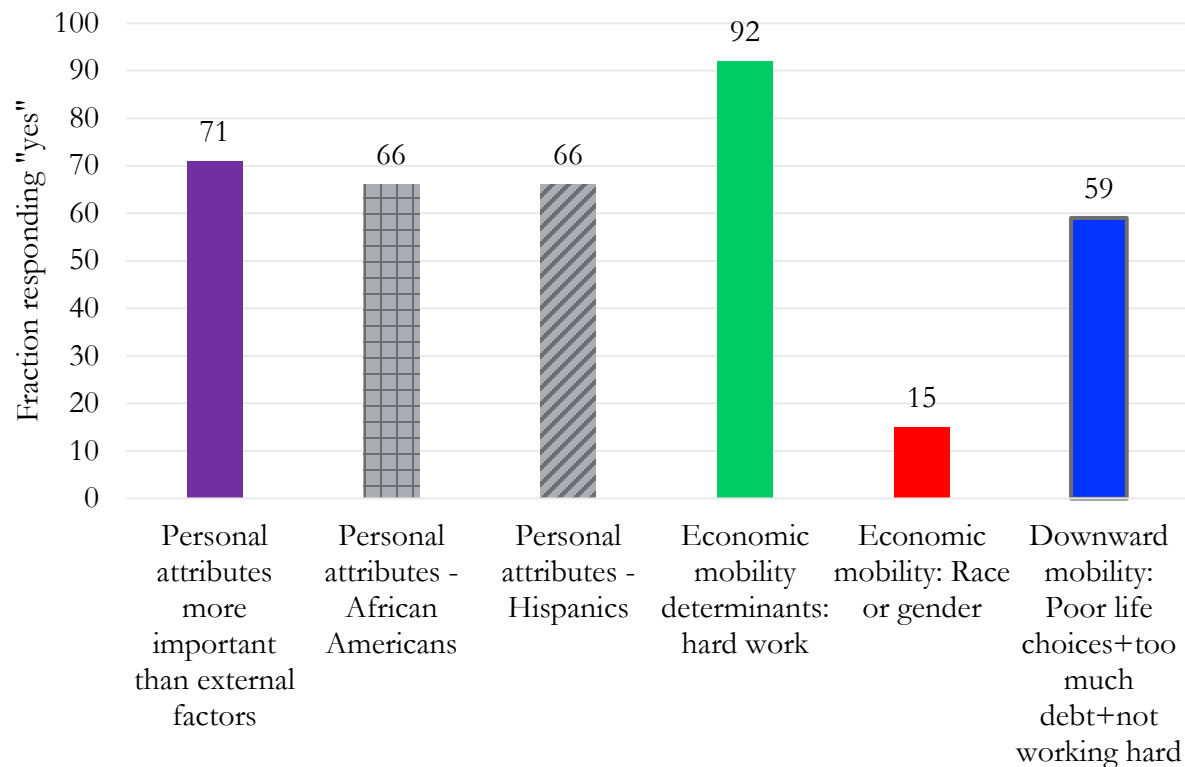
But not so much in the rest of the world...

Why are People in Need?

Percent responding "...laziness or lack of willpower" among those who responded

In the US (2009)...We Believe!

Poll Results on What Determines Economic Mobility



“You can’t just work harder to achieve your own goals. We live in a time of systemic racism, with many inequalities...We’re still struggling to this day, in the land of plenty.” (Mattie, Roxbury MA)

An Alternative Narrative

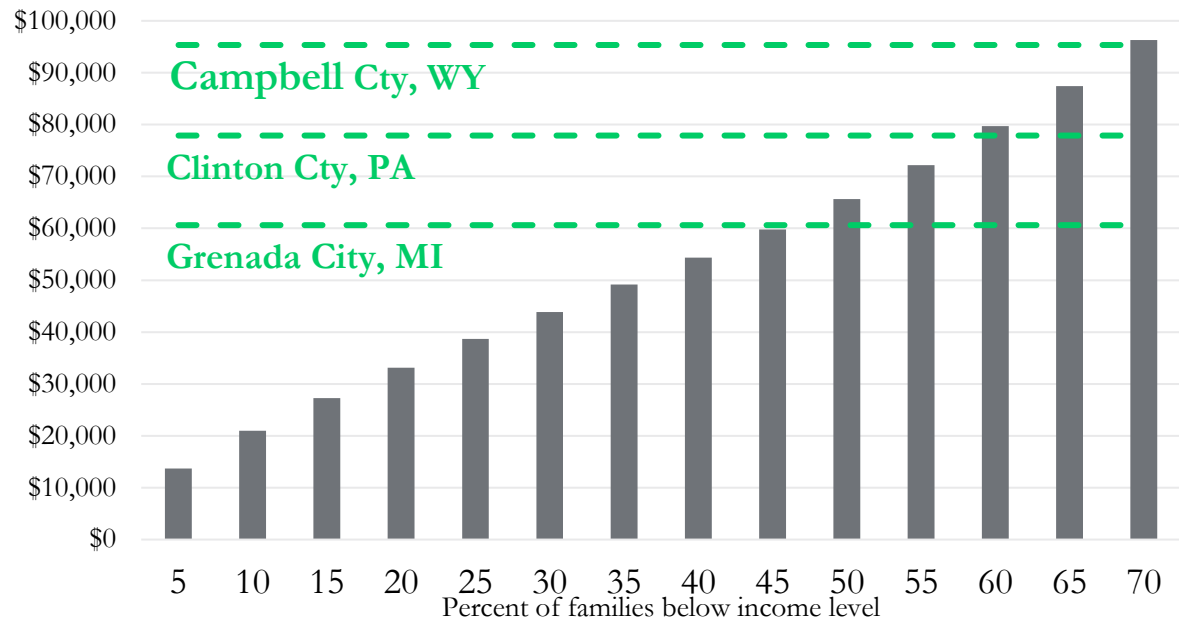
- Individual effort as sufficient—a great aspiration, a poor description of reality
- Post-racist? Not hardly. Profound effects remain today.
- Maximizing shareholder value only—has led to low wages, poor benefits, lack of control over schedules, poor “worker voice”—for the lowest-wage workers. And there are millions of them.
- Governments and free markets:
 - There are no “free” markets. All are created and supported by the government in a variety of ways.
 - Most markets require oversight, regulation, and support. Many large businesses get “corporate welfare”—tax cuts, subsidies, bailouts
- Critical insight: We **CHOSE** this structure.
 - Compare to other Western capitalist countries—equal “economic freedom,” but much better outcomes almost across the board.

Outcomes that signal brokenness:

Income, wealth disparities across class and race

Really low incomes

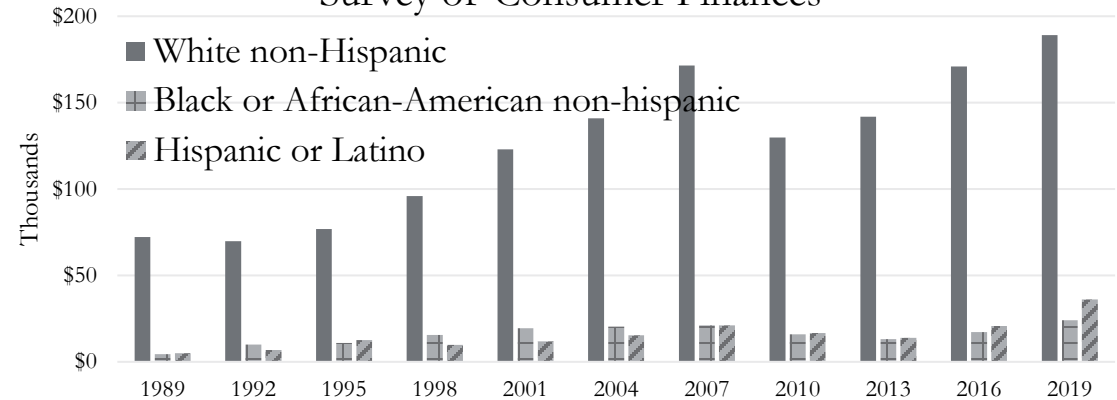
Fraction of families below indicated income levels
with **Family budget estimates**
SPM income measure, 2021



Really unequal Wealth Distribution

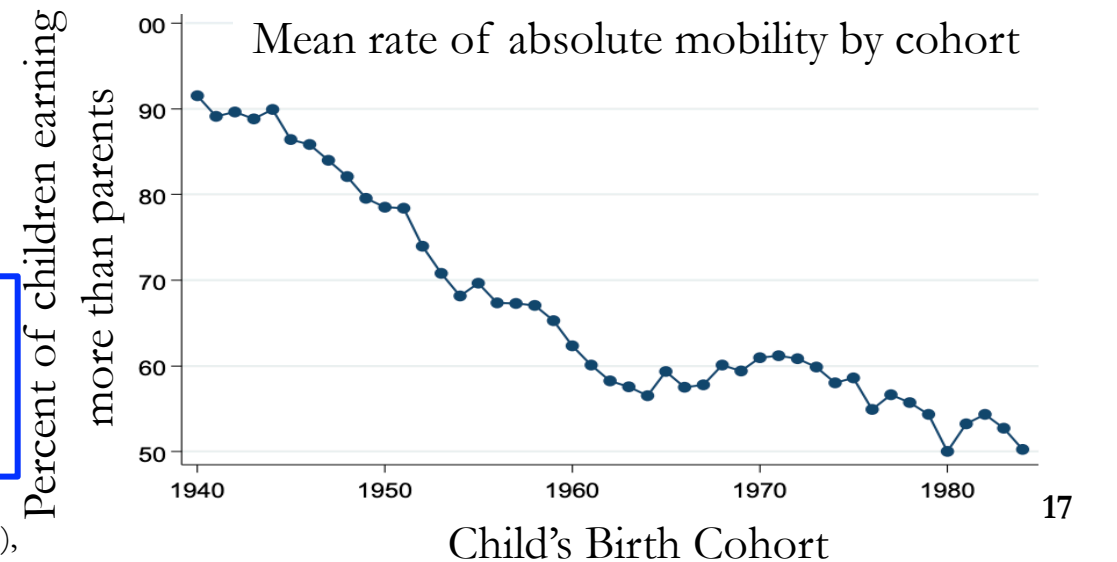
Median net worth

Survey of Consumer Finances



Diminished chance of escaping low income/wealth

Mean rate of absolute mobility by cohort



I didn't qualify for fuel assistance. I owe \$1,000. I don't know if my heat's gonna be shut off...I'm not making enough money to pay my electric. So I don't know when my electric is going to be shut off. I don't know if I can keep paying my student loans. I don't know if I'm going to be able to make car payments..." (Pam A., Lynn, MA)

Sources: Census Bureau (SPM income), Economic Policy Institute Budget Calculator (family budgets), Survey of Consumer Finances (wealth), Chetty *et al* "The Fading American Dream," (2016), Figure 1b

The History

government aid “...helps, but it doesn’t make the difference—it doesn’t get you out of the hole you’re in.” (Janet, Boston MA)

Federal Government Outlays (% of total)		
	2019	2021
Social Security	29.3	19.4
Medicare	18.2	11.8
Defense	15.6	15.6
Medicaid	11.6	8.9
COVID Payments and Tax Credits	0	10.0
SNAP*	2.5	2.8
EITC*	1.7	1.0
Child Credit*	0.8	1.4
TANF	0.7	0.4
Unemployment compensation	0.8	6.7

- History of The Myth
 - Deep in our nation’s history, and before
 - 19th century poor relief, The Second Great Awakening (strive to self-improve and succeed as a religious obligation), de Tocqueville’s observations on US self-made success stories, ...
- History of the Use of Narratives to Shape the Economy
 - Institutional Racism (Post-Civil War, Jim Crow, The New Deal, Housing/Redlining,...)
 - The Safety Net—Welfare Reform (1996), inaccessibility of TANF, very low spending on safety net programs, “the deserving poor” narrative
 - Macroeconomic Policy—responses to the Great Recession and Financial Crisis
 - Recent debates about unemployment benefits
 - And persistent anti-inflation bias (accepting high unemployment) since 1980
 - Of course, we do have a real inflation problem at the moment! But it’s been the opposite for most of the past 40 years

The Way Forward

- **Providing opportunity** to build human and financial capital
 - Effort does matter, it's just not sufficient in the current system
- Key areas of opportunity
 - Early childhood education—research proven
 - Better use of community colleges—pipeline from HS→community college→stable employment
 - Fixing “crappy” jobs (low wages, poor benefits, unpredictable schedules, no “voice”)
 - Housing – fix zoning, then fund construction and transportation access
 - Baby Bonds and Reparations—the first builds the future of today’s kids, the second provides wealth immediately for adults
 - Good precedents for reparations, in the US and Germany
 - Mentoring and Allies

“...people, you know, people think that we don’t try. I tried.” [Pam A., Lynn]

Comparing the benefit of regaining lost opportunity versus the cost to get there

Losses inherent in the current system (\$ trillions, annually)	
Childhood poverty	\$0.9-\$1.2
Below-subsistence wages (in addition to losses from childhood poverty)	\$1.3-\$1.9
The cost of poverty- and segregation-related deaths	\$10
Losses from discrimination in wealth accumulation	\$0.9-2.0
Land theft from Indigenous Peoples	\$1.2-2.0
TOTAL: \$14-17T per year	

Costs of proposed fixes (\$ billions per year)	
Early Childhood Education	212
Community Colleges	50
Workplace reforms (wages, PFML, health care)	143
Baby Bonds	55
Housing (zoning reform, construction of affordable units)	243
Mentorship/ Allies	20
Reparations	1,000 (per year)
TOTAL	1,723 (\$1.7T)

Sources: Author's calculations.

Conclusion

- The way things are cannot be right
- How do we fix this?
 - Change the narrative
 - Take bold steps to build human and financial capital
 - The benefit-cost ratio is HUGE

WE BROKE THIS. WE CAN FIX IT.

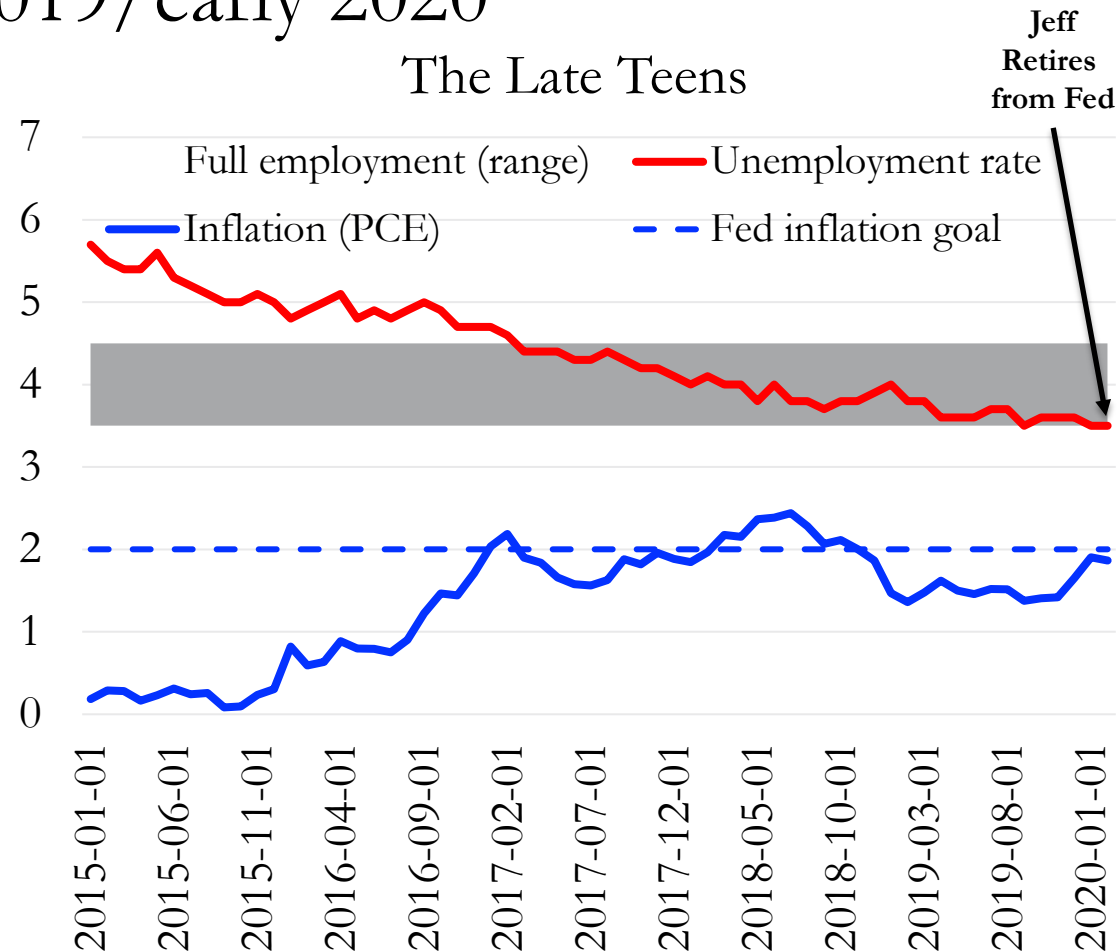
Thank You!

Questions?

Supplemental Slides

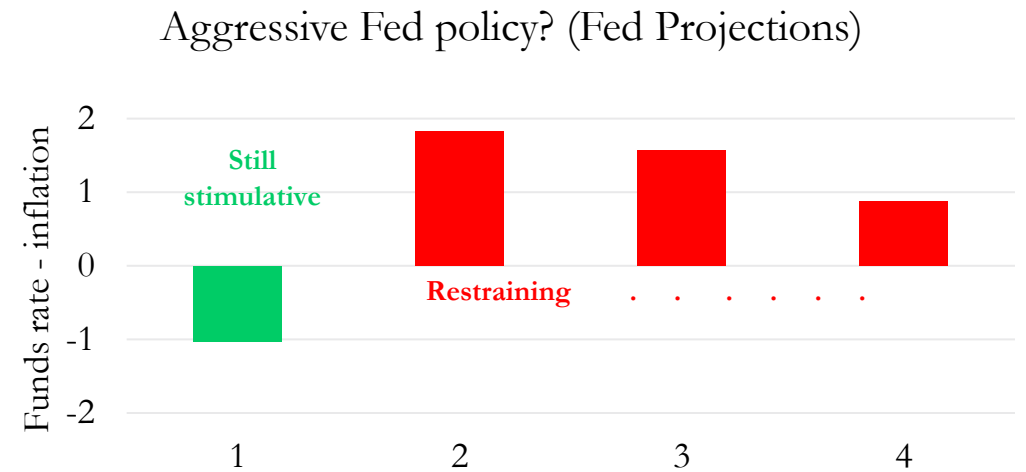
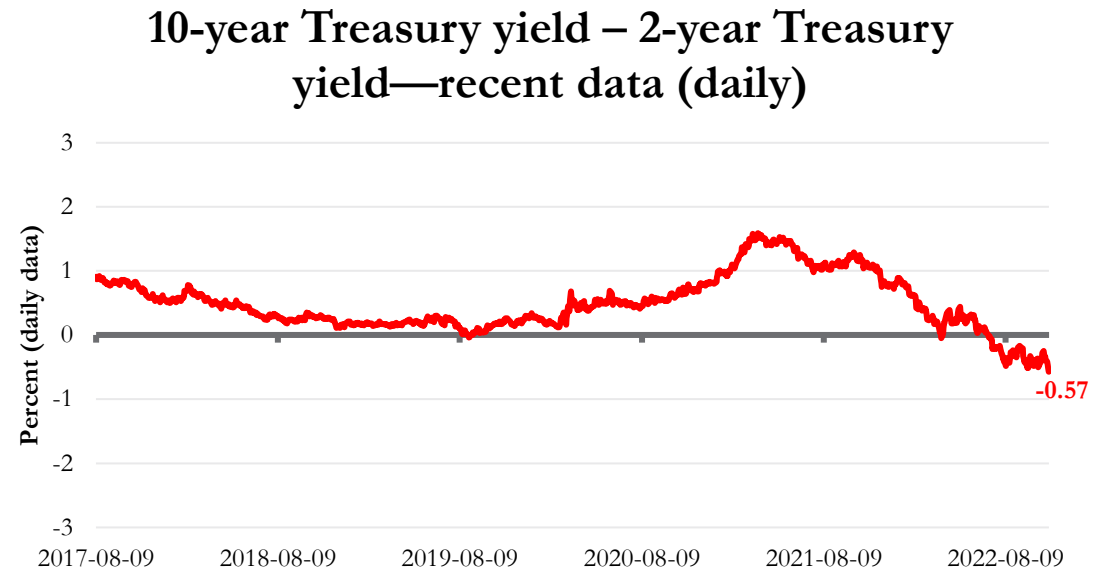
An important reference point: Late 2019/early 2020

- ▶ Demand was strong=unemployment was low (3.5 percent—about the same as today)
- ▶ The structure of the supply chain was fundamentally the same as today—tight
- ▶ Yet inflation remained persistently low—under 2%
- ▶ Implication: Overheating by a significant amount had small implications for inflation at best
- ▶ So there's more going on than that!



But it must be a recession! The Yield Curve is inverted!

- ▶ i.e. the 10-year interest rate is below the 2-year
- ▶ Inversion usually happens a few months before a recession
 - ▶ Why? Because the Fed has raised short-term interest rates, forcing them above long rates
 - ▶ Long rates expect Fed hikes to stop and reverse after a year or two, so they're lower than short rates
 - ▶ Does that mean recession's coming?
 - ▶ Maybe, or just that the Fed is expected to lower rates down the road
- ▶ How to gauge what's "aggressive" policy?
 - ▶ If the policy rate (now 3.875%) rises noticeably above the inflation rate (now 5-6%)—a restrictive "real" rate.
 - ▶ Not there yet, but may be soon →



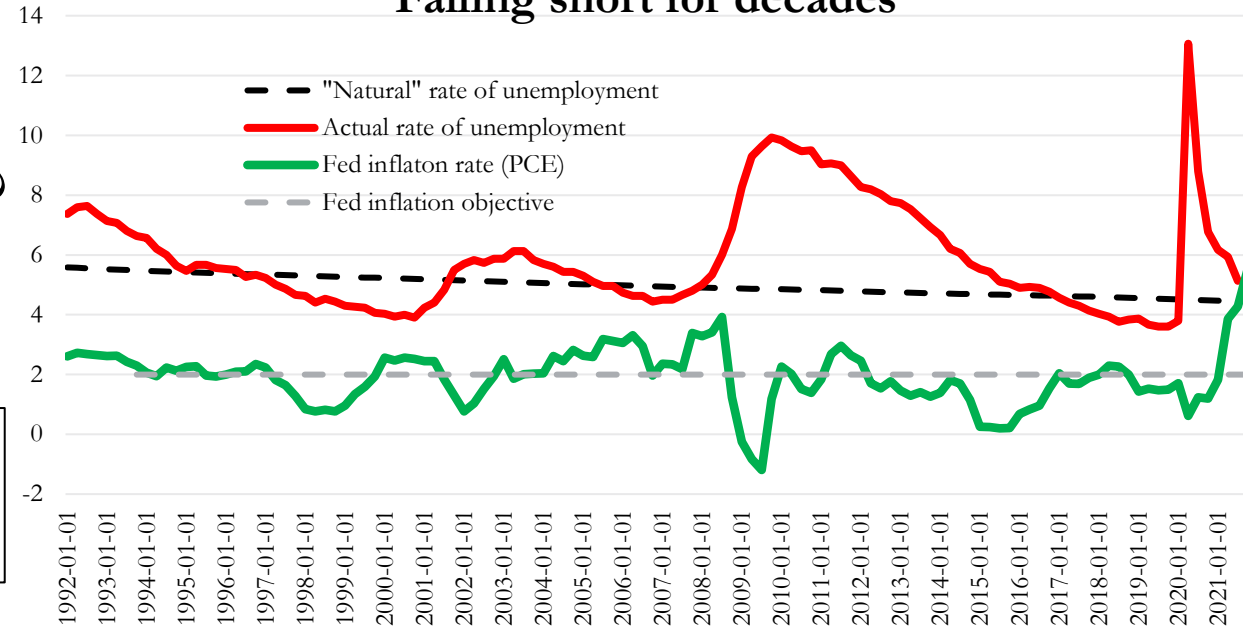
Macroeconomic policy—a slant?

- Chronically high unemployment
- Chronically low inflation
- Why?
 - Over-learning the lesson of the 1970s
- Who benefits? Who loses?
- Effects of unemployment by race and ethnicity
 - Recessions are bad for everyone
 - For Blacks and Hispanics, they're terrible

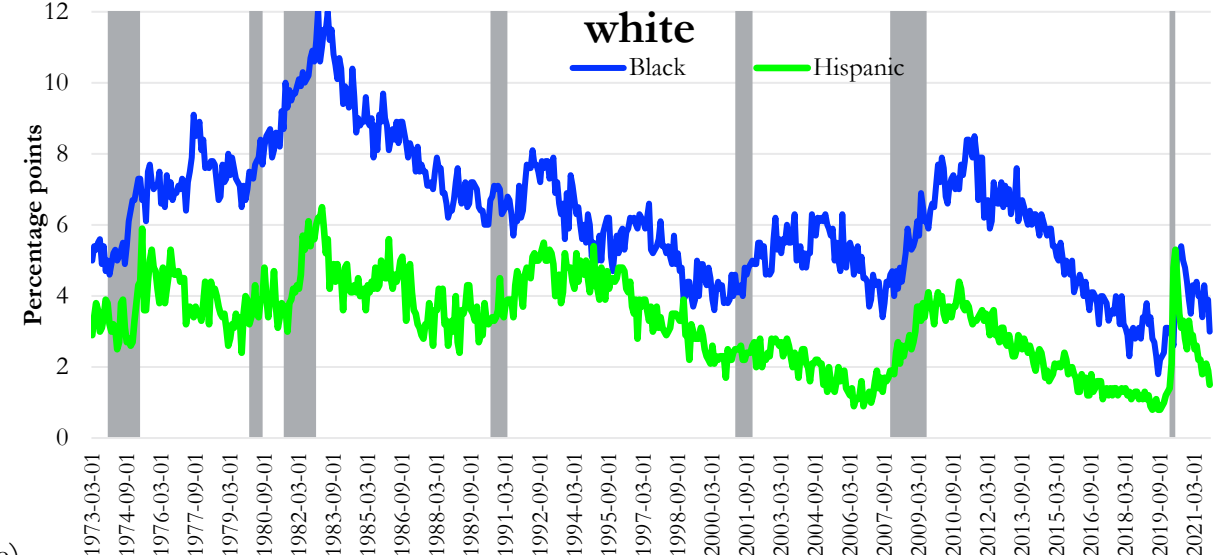
Avg. inflation, 1992-2020: 1.8% (pre-pandemic) 2000-2020: 1.8% 2010-2020: 1.5%
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Sources: Bureau of Labor Statistics (unemployment, unemployment by race and ethnicity), Bureau of Economic Analysis (PCE inflation), CBO (natural rate estimate)

Falling short for decades

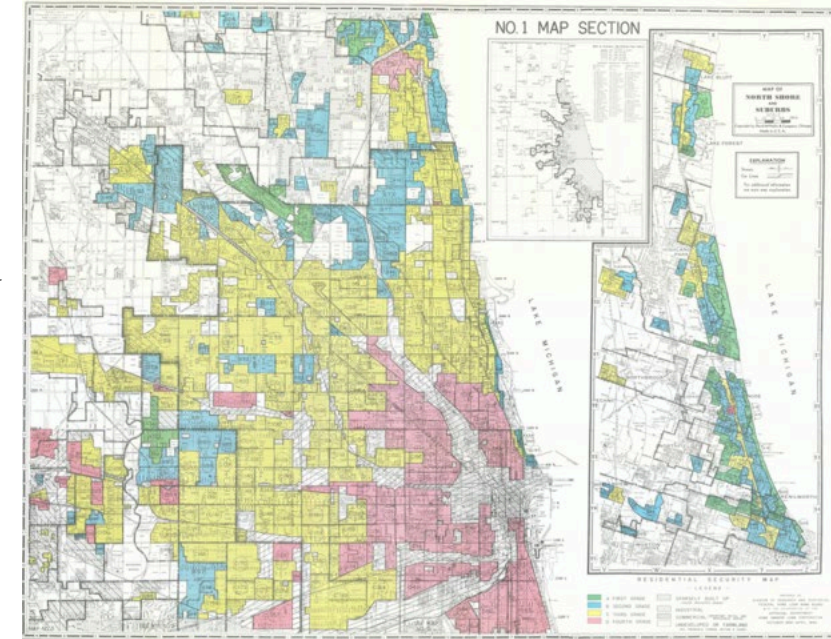


Black and Hispanic unemployment relative to white



A very brief history of racial and ethnic abuses that barred access to income and wealth accumulation

- Post-Civil War “reconstruction”—an embarrassing string of broken promises and abuse
- Social Security and unemployment insurance in the 1930s—excluded domestic and agricultural workers (65% of Black workforce excluded, versus 25% of white workforce)
- Housing assistance in the 1940s (e.g. Levittown—written clause excludes black homeowners)
- The GI bill post-WWII—a tiny fraction went to black soldiers
- Housing policy post-1950s—redlining, mortgage discrimination (**at right**)
- Welfare reforms of the 1980s (Reagan) and 1990s (Clinton)
- Current: Educational quality and spending disparities; criminal justice disparities (the “War on Drugs”); policing disparities; voter registration restrictions
- (see list of references below)



HOLC designation, 1930s

“Best”

“Still Desirable”

“Definitely Declining”

“Hazardous”

Sources: On reconstruction, housing assistance, GI bill and housing policy, see Anderson, Carol, *White Rage*; Rothstein, Richard, *The Color of Law*; On criminal justice disparities, see Alexander, Michelle, *The New Jim Crow*; On disparities in school quality and spending see Shores and Ejdeyr, “Do school districts spend less money on poor and minority students?”, Brookings Institution, 2017; [Here](#), and Rueben and Murray, “Racial Disparities in Education Finance: Going Beyond Unequal Revenues,” Urban-Brookings Tax Policy Center, Discussion paper No. 29, 2008. On disparate access to housing finance see Munnell, Tootell, Browne and McEneaney, “Mortgage Lending in Boston: Interpreting HMDA Data,” *American Economic Review*, March 1996. Redlining maps: University of Richmond “Mapping Inequality” project: [Link](#)

Implementation matters

- Six key principles for implementation that succeeds
 - **Community engagement**—from identification to design to implementation to evaluation
 - **Big Tent** policies (excluding Reparations)
 - **Means testing** (keeping an eye on administrative burden/accessibility)
 - **Learning Orientation**—what we're doing doesn't work well enough. Need to be flexible.
 - **Evaluation**—chronically under-funded, but essential
 - We don't know what works best yet. If we did, it might already be done!
 - **Data**—essential for large-scale evaluation to determine impact