"How are things with you?"

Macroeconomics in 2023 and Just Beyond

As I type these words in April, having just finished two academic quarters of teaching large lecture sections of Principles of Macroeconomics to UChicago undergraduates trying to make sense of the day's news, latest data releases from the government, Treasury and Federal Reserve officials' pronouncements, and TV talking-heads' warnings. On the one hand, the inflation news continues to frustrate us, and most of the economic news isn't comforting; on the other, we are not in a recession (yet), and the US economy continues to enjoy almost unprecedented low unemployment.

Where does all this alleged intel come from?

BY ALLEN R. SANDERSON

Although there are no shortages of numbers or sources, some of the most important emanate from inside the federal government itself. The Bureau of Labor Statistics (BLS) within the Department of Labor is the creator of and depository for what we know about inflation in the US and labor market experiences of our population. The CPI, Consumer Price Index, reports monthly on changes in the cost of living for various categories and locations of our population, and since covid settled down a while back, the CPI is arguably the figure most paid attention to as we continue to battle inflation.

Over a long horizon, inflation in this country, as measured by the CPI, has increased by 2-3 percent a year. In this decade it has averaged more than twice that. At its current 6 percent annual increase, the overall price level would double every 10-12 years. We'd have to go back 50 years to find comparable dissatisfactions on the inflation front in the country.

Our central bank, the Federal Reserve System or Fed, has as its policy target a goal of keeping inflation at 2 percent. In part that is because the CPI, for a variety of reasons, probably overstates the rate of inflation modestly, so 2 percent measured inflation is in reality close to zero. (The European Central Bank, ECB, the European Union counterpart of our Fed, also sets its goal of price stability among EU members at 2 percent for similar reasons.) And as some economists will also blurt out, inflation is bad but deflation—a declining price level—is worse.

The second major monthly BLS data dump and analysis is on the labor market side of the economy, principally the unemployment rate. "Full employment" for the US has been considered as being about 4-5 percent, and over the last 50 years we've averaged a point or two above that. But pre-covid and mid-Trump, in 2018 and '19 we sank to monthly figures of mid 3 percent, almost impossible to explain satisfactorily.

After short spikes attributable to covid in early 2020 that reached mid-double-digit levels, we retreated in 2022 back into the 3 percent range. Simply unheard of in our country's economic experience. So we are either breaking new and exciting economic ground, or with our labor-market adjustments, including hybrid and remote working and other allowances, we are fust not capturing fully the longer term impact of the pandemic and are doing far less well than we think, and aren't back to our equilibrium yet. Probably my vote.

The Fed has a dual mandate of pursing economic goals of price stability and maximum employment. The ECB has only a singular mandate—no inflation—as a goal, arguing it will ensure member nations that their economies will have no inflation but that full employment is each individual country's problem, not that of the ECB. I'd rather see us on that side of the Pond.

Most of the macroeconomics news coverage for the last couple of years has centered on inflation, the Fed, interest rates, and monetary policy. A very important complement should have been on the fiscal side of Washington DC—government spending, taxation, the budget deficit, and the national debt. While, in part because of recessions and wars, the government has run periodic deficits, sometimes large ones, the last time the federal government ran a budget surplus was in the last century.

Neither side of the aisle has any plans to abide by a balanced budget in the near (or even distant) future. Voters will punish elected officials for raising their taxes but far less if they just borrow the money. Annual deficits are now being measured in $trillions not $billions, and the national debt is above $31 trillion. Not prudent in general, but more critical given unavoidable demographic changes in this country that will produce a grayer population and one spending far more time and Social Security benefits checks at the beach and in doctors' offices, and in hospitals making use of their Medicare benefits. The long-term prospects and challenges are daunting. For the US, China, Japan, and in Europe.

And in the next few months? A 2023 recession? Yes. Inflation tamed? No. November 5, 2024? Good luck with that! Cheer for the Sox and Cubs. ❏