

A Sea Change in Economic Policy

It's Now or Never!

Claudia Sahm

Senior Fellow at the Jain Family Institute

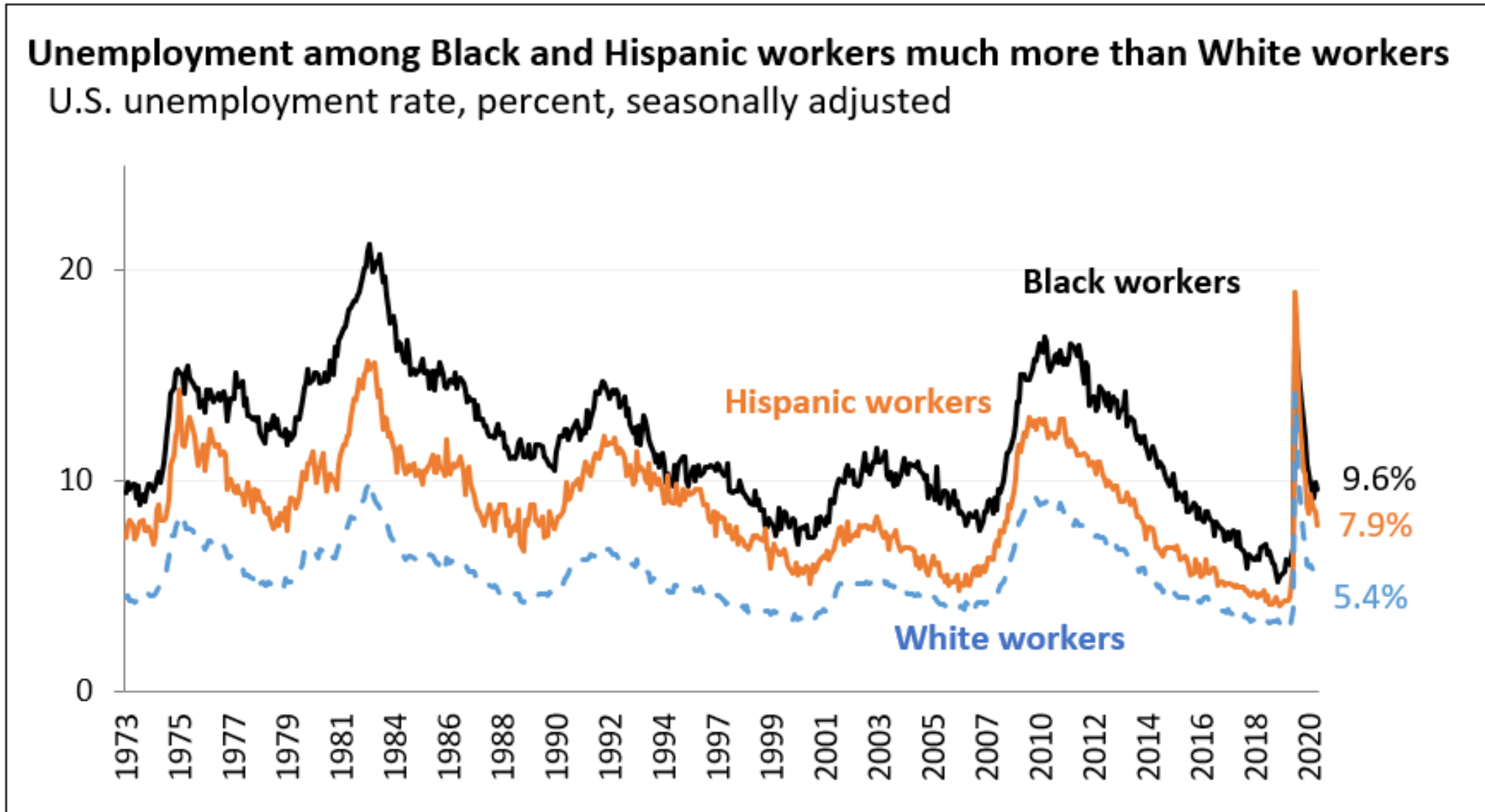
University of Southern California - Lusk Center

April 29, 2021

Key takeaways – Sea change is here

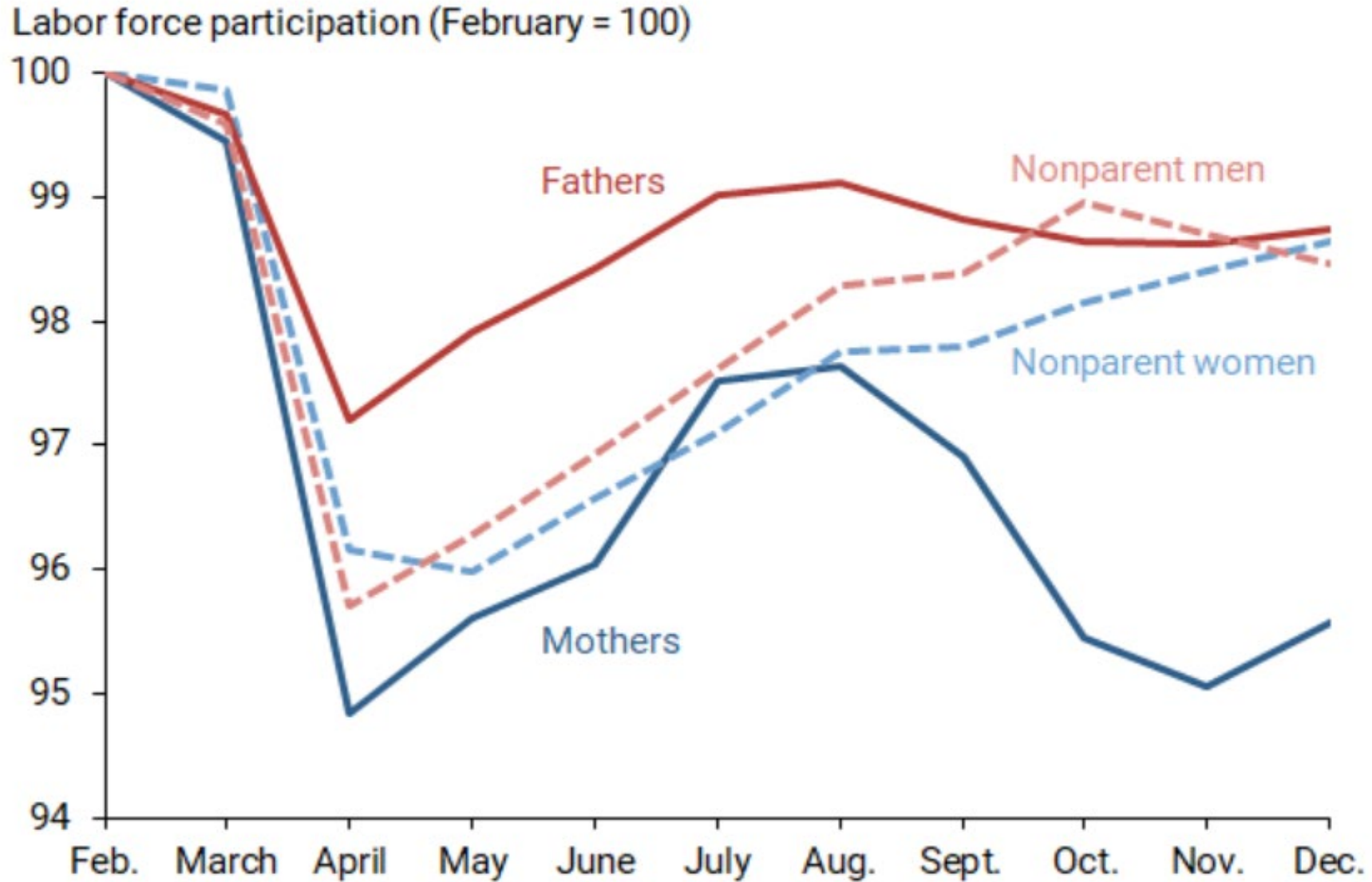
- **NEW** awareness and **NEW** goals for policy.
- **Experiments with NEW** tools and framework.
- **NEW** is hard. **NEW** is uncertain. **NEW** has enemies.

New Awareness – Systemic Racism



Source: Chart by Claudia Sahm, Data: Bureau of Labor Statistics.

New Awareness – Burdens on Parents

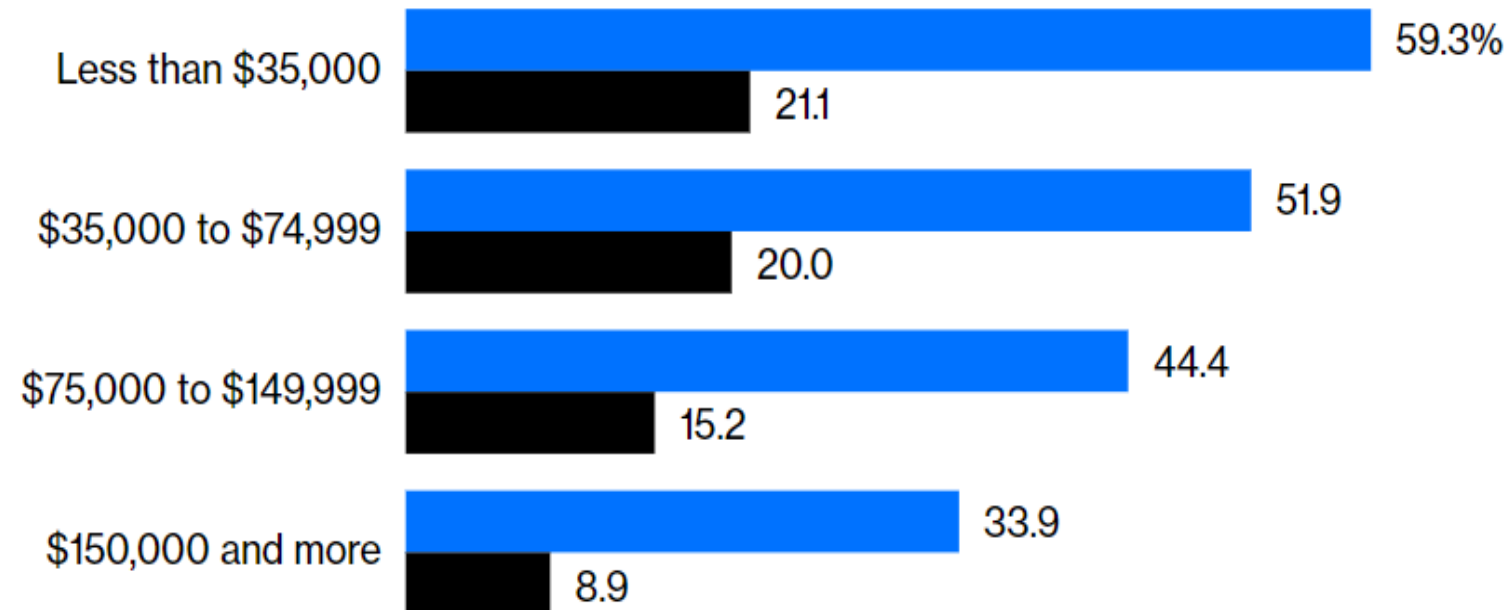


New Awareness – Broken Delivery Systems

Wide Gaps

Many families lost income from work, fewer got jobless benefits

■ Lost employment income since March ■ Received jobless benefits

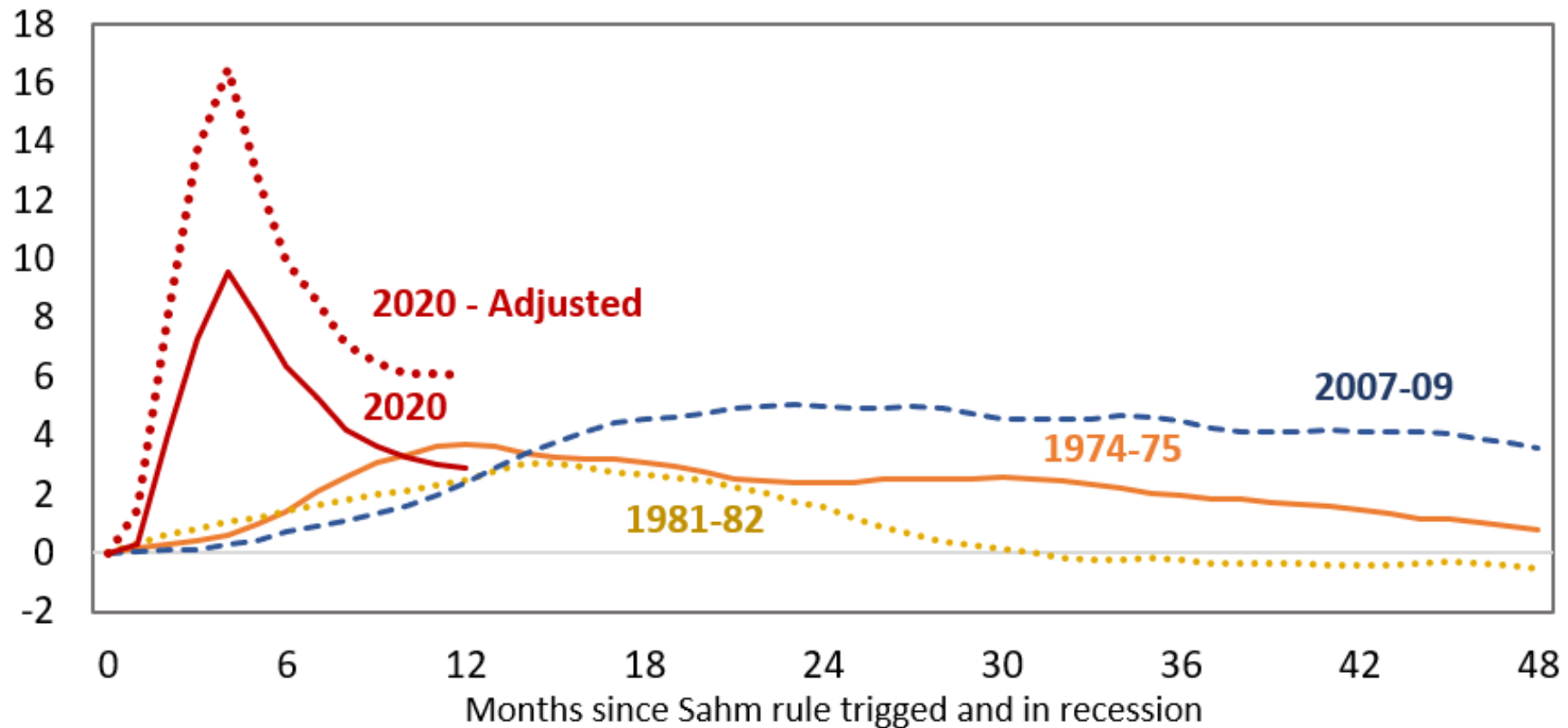


Source: U.S. Census Bureau, Householding Pulse Survey for Dec. 9 to Dec. 21, 2020

Note: Grouped by 2019 household income.

New Goals – Full Employment NOW

After severe recessions takes years for unemployment to return to its prior level
Change in 3-month average of unemployment relative to before Sahm rule triggered, percentage points



Source: Bureau of Labor Statistics. Note: Calculations by Claudia Sahm. After 2007-09 recession, unemployment rate did not return to pre-recession levels until mid-2016 (after 8 years).

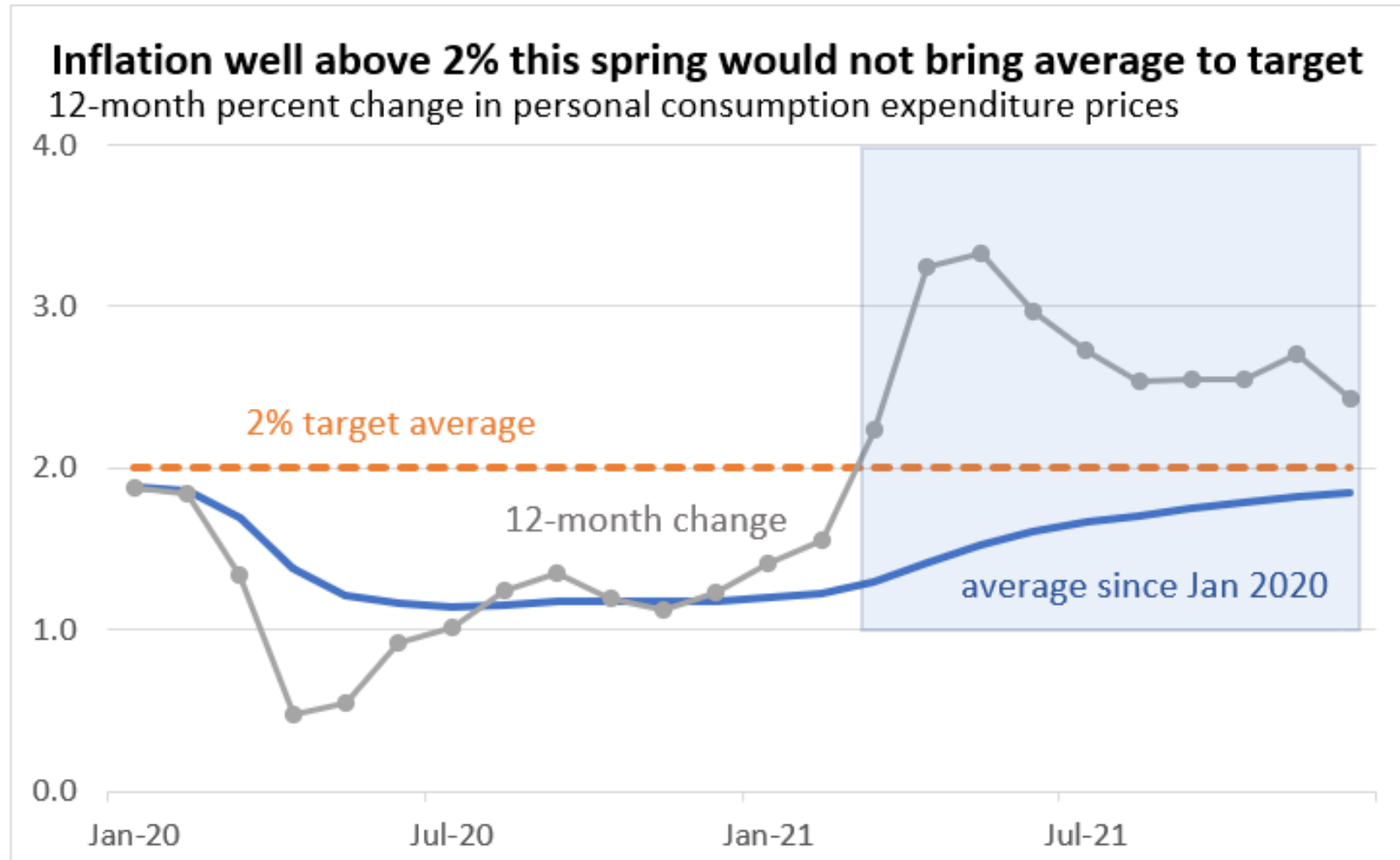
New Goals – Reduce inequality

Total pay to bottom 60% of families by income is less than to top 10%
Distribution of U.S. compensation of employees in 2018 trillion dollars.



Source: Bureau of Economic Analysis.

New goals – Don't overreact to inflation



Source: Bureau of Economic Analysis, through Feb 2021. Forecast by Claudia Sahm starting in Mar 2021. Note: shaded area is forecast. Chart by Claudia Sahm. The Mar 2021 is informed by the Bureau of Labor Statistics Mar 2021 data. Dec 2021 is the median forecast from Fed officials.

New Approaches – Fiscal policy

- **Cash transfers: stimulus payments, regular child benefits, universal basic income.**
- **Big deficit spending: Federal debt well above GDP. Modern Monetary Theory.**
- **More education: free post-secondary training and college; pre-K; and daycare. Student loan forgiveness.**

New Approaches – Monetary policy

- **Dual mandate: elevate maximum employment mandate to efforts on stable prices mandate.**
- **Inflation: shift from actual inflation not expected inflation in policy decisions. Target average inflation.**
- **Racial equity: grapple with how national policy affects marginalized groups. Diversify leadership at the Fed.**

Old is new again – Bring back the best

- **Activist fiscal policy: Big new programs and lofty goals like with New Deal, post WWII, Great Society.**
- **Automatic stabilizers: tie more safety net programs in recessions to economic conditions not politics.**
- **Safety net more cash transfers than tax incentives.
Money to families not tied to work.**

Change is hard - Don't hold your breath

- Old guard in economics is fighting to retain power—focus on inflation, targeting, small government, etc.
- Research and data to support new experiments not well developed, albeit growing. Policy moving faster.
- Current are not **NOT** going to end systemic racism, climate change, and deep poverty. Raise false hopes.

AND change is a moral imperative



An encampment of homeless people is situated blocks away from the Federal Reserve in Washington on April 14. (Matt McClain/The Washington Post)