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Economic Consensus Masks Uncertainties

Economists largely agree that the U.S. economy will continue the moderate growth path it has traveled the last several years. But the consensus among prognosticators obscures a dilemma: The economy is behaving in ways it hasn't in the past and nobody is entirely sure as to why. Among the issues vexing economists include why—when employment gains are so healthy—workforce participation remains low, while GDP growth and inflation remain subdued.

The uncertainty about these issues is more than academic. A better understanding would help the Federal Reserve set a course for interest rates and could serve as a springboard to policy solutions on issues such as tax reform, health care and immigration. No such consensus exists, of course, which produces wildly varying policy proposals.

In a much-scrutinized keynote speech last week at the National Association of Business Economics' 2017 Annual Meeting in Cleveland, Federal Reserve Chair Janet Yellen used the word "uncertain" or "uncertainties," or phrases that suggest uncertainty, more than a dozen times. Yellen was outlining a vaguely hawkish policy agenda, in which policy rates will continue to increase slowly, while leaving wiggle room to quickly change directions if the situation warrants.

Inflation Stubbornly Low

Yellen focused on issues pertaining to inflation and labor in her address. Although it's been nearly 100 months since the last recession (the average period between recessions since World War II is 58 months), with strong job growth that has brought unemployment to 4.4 percent, the inflation rate has been persistently below the Fed's 2 percent target. In the years following the Great Recession, this wasn't seen as unusual since it took years for the economy to recover. But the persistence of low inflation eight years into the recovery is a puzzle.

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