UIC Economics Club

Speaker Information

Jan. 24th, 2024 Speaker: **Jacob A. Robbins** Website: [Jacob Robbins]

Jacob A. Robbins is an assistant professor of Economics at the University of Illinois Chicago, where he teaches Macroeconomics and Monetary Theory. Research areas are focused on Macroeconomic conditions such as, but not limited to: inequality, interest rates, capital gains, and monopolies. Mr. Robbins received his PhD from Brown University in 2019. That same year, prior to joining UIC, he was a postdoctoral fellow with the Columbia University Business School. The majority of Professor Robbins' time was spent presenting his current working papers. The following is a synopsis of his presentation.

- **Interest Rates (IR)** – A subset of his current work is involved in assessing the causes of the long-term downtrend of interest rates
  - Professor Robbins summarized the microeconomic narrative of the pandemic, with a particular focus on the fiscal stimulus and strong labour market during that period, and those factors' responsibility for heightened nominal interest rates.
  - He noted, however, that real interest rates (IRs accounting for inflation) actually declined over the pandemic, in line with a long-term trend spanning four decades now.
  - Furthermore, he informed the club that the United States is not the only nation facing this trend, acknowledging that other developed countries such as Italy, Germany, and Japan have also reared the same trend.
  - Such a trend is concerning because central banks stimulate or cool down their economies typically by manipulating interest rates. If rates are perpetually at or near 0% (the zero-lower-bound) then that makes it difficult for central banks such as the Federal Reserve to combat hyper-extended economies.
- **Demographics** – An analysis of the role demographics plays in the determination of interest rates.
  - Next, Alvin Hansen's Secular Stagnation was introduced to the Club as a segway into the discussion pertaining to demographics. Secular Stagnation was a prescription of the U.S. economy, developed during the Great Depression, predicting a chaotic 70 years due to a miscalculation of macroeconomic factors.
  - Two of those factors were productivity, which spurred during the Second World War, and the ensuing Baby Boom.

    - J. Robbins and fellow researchers are currently researching whether there is a causal relationship between Baby Boomers' asset accumulation and the decline in interest rates, because of excess funds in the loanable funds market.
    - They are conducting their research by modeling the effects of variables on the money market. Variables included are:
        - Mortality rate, Total fertility rate, Productivity growth, Gov. debt % of GDP, Labour share, Relative price of investment goods, and the change in debt limit
- **Market Structures and Labour Share**
    - Over the same time period as IRs have been funneling towards 0%, U.S. industries have become increasingly concentrated. It can be anticipated that one result of this would be greater profits.
    - Professor Robbins proceeded to present the club with pie charts depicting the income composition of the country in the 1980s and in the present day. In other words, the charts depicted national income and the end economic actors it flows to (households, landlords, residual, etc.).
    - Since the 1980s, the labor share has declined from 65% to 57% (workers on aggregate have a lesser share of national income).
    - Of significance, since the '80s residual income (profits) has grown, performing in tandem with expectations.
- **Capital Gains**
    - Prior to the 1980s, most gains from assets came in the form of dividends, which is no longer the case. Contrastingly, capital gains (measured as residual income) has increasingly come to the fore as an income source.
    - This is most likely due to a combination of concentrated market structures, intangible asset valuations, and low interest rates.
    - Market structures allow greater price setting powers. Intangible assets have the potential to inflate company book values. Low interest rates make credit facilities easier to obtain and financially manage.
- Mr. Robbins ended his presentation by touching on the potential effects of all the above-mentioned long-term trends have had and will have on inequality.

Key Terms:

Nominal Interest Rates – The interest rate set by the central bank or money market, not taking inflation into account.

Real Interest Rates – The interest rate accounting for inflation. Real IR = Nominal IR – Inflation rate

Credit Facilities - Loans

Loanable Funds Market – The matchup of excess money between savers (suppliers) and borrowers (demanders). The Money market.

Alvin Hansen (1887 – 1975) – American Keynesian Economist born in Viborg, SD. Harvard professor of Economics. Known for his contribution of the IS-LM model. – per Britannica

Labour Share – The portion of national income that goes to labourers (workers).

Intangible Assets – Nonmaterial assets of a company. Examples include brands, goodwill, and intellectual property. – per Investopedia

Capital Gains – The difference in the price of an asset when sold versus the price of an asset when bought. When negative, a *loss* is incurred.