BILL KRISTOL:

Hi, I'm Bill Kristol. Welcome back to Conversations. I'm very pleased to be joined again today by Jason Furman, with whom we had an excellent conversation about seven months ago on the economy that stands up well. Jason was chair of the Council of Economic Advisors under for President Obama's I think almost entire second term. I think you were there for all eight years with the Obama Administration. Got us out of the 2008 crisis, laid the groundwork for a strong economy which then benefited President Trump, so thanks a lot for that. That was really— no good deed goes unpunished. Anyway, and more importantly than all this is now the now teaches Ec 10, the famous introductory economic course at Harvard. So Jason, thanks for joining me again.

JASON FURMAN:

Thanks for having me. I had a lot of fun last time, so I was happy to come back.

BILL KRISTOL:

Great. Okay. Well, we'll have fun or at least be enlightening and instructive. So we really focused last time on inflation. I think you were worried that it wouldn't come down fast enough to let the Fed ease further and that it might just stay higher than we would like. So where have we been and where are we just on the true inflation, so to speak, the true rate of inflation. Then we can talk a little bit about the political psychology of inflation.

JASON FURMAN:

Yeah. So inflation has come down much more than I expected. There's still some reasons to be nervous, but before I get to the reasons to be nervous, let's talk about the reasons to feel good about it. In terms of, first of all, underlying inflation, the best prediction about what's going to happen in the future: Over the last 12 months, it's been 3.9%, but 12 months is a long time. Most of the inflation in that actually happened a long time ago. Over the last three months at an annual rate, it's been 3%. Over the last one month, it's been 1.8% at an annual rate.

So the shorter your time window, the slower inflation is when you take out food and energy. And that to an economist says inflation is in the process of slowing and that's a really nice thing. Now you look at what families are actually paying and there has been an uptick lately. We are seeing gasoline prices rise, but for a while there gasoline prices were falling, which were really salient and headline inflation was actually doing a bit better than underlying core inflation. And all of this has happened with the unemployment rate staying low.

BILL KRISTOL:

Yeah, that is pretty remarkable. I don't think anyone expected that unemployment wouldn't have to tick up some to get inflation down to three or below three. I mean, I think you put some stress on 3% as kind of the number which below which the Fed would be comfortable not raising rates again. Am I right about that or that it would sort of—

JASON FURMAN:

Yeah, yeah, the Fed Chair is very clear that he does not want to change the inflation target. My view is if we get to—

BILL KRISTOL:

Which is?

JASON FURMAN:

Which is 2%. My guess, they're not clear about this and for good reason they're not clear about this. My guess is if inflation settled in at say 2.8, 2.9, they'd say we'd like it to be two, but we're willing to be patient and wait, and by the way, they also have a dual mandate. They're supposed to focus on inflation and they're supposed to focus on unemployment. When inflation is 5, 6%, the dual mandate really is about inflation. It's just about getting inflation down. Once inflation is in the twos, I think they can say, you know what? We'd like to be at two, but we're not going to cause a recession to get there. I think it's still a bit of an open question as to whether we are sort of trending towards a bit above three or a bit below three, and part of that depends on a year ago inflation looked bad in part because there was underlying inflation and in part there was a bunch of bad luck.

The Russian invasion of Ukraine had nothing to do with American economic policy. It really did add a big bunch of inflation on top of what we already would've had. Over the last six months, we've gotten some good luck in terms of various things breaking in the right way for inflation. And so I'm not sure that that good luck all continues, if it goes away, if you end up in a world where inflation is a bit above three and the Fed needs to come back and fight it, I think that's a real possibility. But the soft landing is much, much more possible than it's been for this whole episode.

BILL KRISTOL:

And to just look forward for a minute before we get to the psychology question, which you and I are both I think quite interested in. So all things considered, with all the caveats about how difficult it is to prognosticate, and there could be more unanticipated events like, God forbid, invasions of Ukraine, but whatever, things that we don't expect. You're sort of thinking three-ish inflation for the next X months and current interest rates are slightly declining, interest rates in terms of what would affect consumers, car loans, mortgages, and so forth?

JASON FURMAN:

Right. So the Fed funds rate is easy. Maybe they raise one more time, maybe they don't raise. It's not going to be that different from where it is now. The harder thing is that the long-term interest rate, the 10-year treasury, and that's what's most closely linked to mortgages, car loans, the thing that matters for families. That's risen a lot just in the last month for reasons that no one can quite get to the bottom of. Sometimes rates go up when people think there's going to be a lot of inflation in the future, but that isn't happening now.

Inflation forecasts have not risen. There's just more of a general nervousness that's showing up in interest rates. Some of it may be related to the government budget deficit and budget deficits are quite high and they drive up interest rates. And so I don't think the Fed is going to be trying to create the same problems it's tried to create in the past to slow the economy, but financial markets have taken on a bit of a life of their own and I'm not quite sure why. So I'm not quite sure whether that'll continue or not.

BILL KRISTOL:

Looking at, so it's October 3rd, I think we're speaking 2023. If we were October 3rd, 2024, people will be voting. So just to be a little more political, you think most likely not radically different situation in terms of inflation interest rates or unemployment from today. Was that the average prediction so to speak, or the median or whatever?

JASON FURMAN:

Right. I mean, there's a long track record of if in economics you predict that whatever happened last year will happen next year, that's not a great forecast, but it's better than all the other forecasts. And that's roughly where I'd be right now. Sometimes you can try to see some special factor that's going to push things one way or another, but yeah, I don't see... Recessions, the best model for them is you roll a dye and if it's a one you get a recession, if it's a two through six, you don't. People have always come up with different models to predict recessions and there've been some fantastic models of predicting recessions in the past, but when you try to use them for the future, they tend to break down. And so yeah, I look around and there's things to be nervous about in commercial real estate and stuff like that, but there's a lot to be positive about too. Real earnings have actually been rising a lot lately. People's wages have been growing faster than inflation. That does give a certain momentum to consumer spending in the economy.

BILL KRISTOL:

And consumers are both very unhappy and spending a lot. Right?

JASON FURMAN:

Exactly. There's a real difference between when you survey people about their mood about the economy, especially if they get an inkling that you're thinking of it politically and not just economically and then how they vote with their wallets. Why didn't we have a recession last year when the Fed was doing this historic incredibly rapid rate increase? It was the American consumer. The Fed did do what it was trying to do and it creamed the housing sector. Home building declined by more than it had declined since the financial crisis. Normally that would lead to a recession, but American consumers were just spending like crazy. In the first half of this year, American consumers were spending quite a lot. The tracking so far for the third quarter of this year, which just ended, suggest that consumers spent a lot in that quarter too, and it's just hard to have a recession when people are just so optimistic with their wallets.

BILL KRISTOL:

Are they optimistic or could they be, I've read this a couple of places, internalizing some inflation expectations and spending now to beat price hikes later? I read some card, whatever, this is worth one anecdote, an auto dealer saying that I think it was she, was talking with her customers and some of them wanted to get their car now because they thought the price would be considerably higher next year.

JASON FURMAN:

Consumer expectations for inflation over the next year, they survey them on that question and that's come down a decent amount. It's still a bit higher than normal, but it's not much higher than normal. So people don't seem to be expecting, predicting that there will be a lot of inflation. They're complaining a lot about the inflation that already happened and we're going to get to that. But I don't know. I mean, for a while I thought it was you gave people so much money in 2020 and 2021, you lock people at home for a year where they weren't spending as much as normal and that gave people the sort of extra war chest that when the economy reopened they were spending. That theory implied that it would stop at some point and people sometimes call that the excess savings that household has and it's different ways to measure it.

Maybe households still have some, but at this point it's a little bit more self-sustaining. It's a little bit more gas prices came down. Even with the recent increases, they're still down over the last year and so that gives you a little bit more room to spend on other things.

BILL KRISTOL:

So you think we're mostly through the kind of extraordinary COVID cash payments, accumulating household balance sheets looking better and better I guess, than spending that down once we get liberated post COVID. Is that sort of mostly done so to speak?

JASON FURMAN:

Yeah. I think at this point I almost try not to think about COVID just personally for a lot of reasons, but we're sort of not that different from where we would be if we had never gone through COVID and never gone through the policy response. If you gave someone data for 2019 and then data for 2023, they wouldn't necessarily infer something big had happened between, except that the price level is much higher than it was and consumers are... If you want to get yourself nervous, they actually are borrowing more, interest rates are going up, delinquencies are going up. Those are all sort of roughly where they were pre COVID, but the trend line is in the wrong direction on those things. So maybe people are stretching themselves, not to a point that makes me nervous right now, but I extrapolate forward and ask where they are a year from now. Maybe at some point consumers will have fewer resources.

BILL KRISTOL:

You had a very important caveat in there that except for the price level… So maybe let's just turn to that because if you asked, certainly the polling shows people sort of... As you say, it's 2019 in terms of unemployment and in terms of perhaps we'll get to real income, but people think, they sort of internalized the notion that of course it was always going to be as good as it was in 2019 after eight years of— without a recession, but really nine years I guess pretty much. But the one thing they will notice is the price level is considerably higher and there's no deflation even if it's not going up as fast. So I mean, that's a big difference, right? And it certainly has real political impacts. So talk a little bit about that. You've also looked at some of the both consumer surveys, but also public opinion surveys on that, and why does inflation seem to have such a... Not just inflation, but the actual rise in the price level, just to say, seems to just be very much on people's minds.

JASON FURMAN:

Yeah, so in 1997, the Nobel Prize winning economist, Robert Schiller, did a survey and he surveyed normal people and he surveyed economists. And the question that they had the biggest difference on was, if prices, he asked them, go up 20% because the government messed up, should the government make the prices go back down again? Or should we just accept that and have them be 20% higher forever? 92% of economists said, you know what, if that happens, they should be higher forever. 10% of the public agreed and 90% of the public wanted them basically to lower those prices right back down to where they were.

Now, if you frame the question as would you like everything in the supermarket to be where it is now or would you like it all to be 20% cheaper? It's not a surprise that people would answer that way. The reason that economists I think correctly had the reason they said is that's not how it works. If you want to get prices down by 20%, you also need to lower wages by 20% and you're probably not going to be able to do either of those things without having a massive recession. And so if the poll question was do you want a massive recession that lowers prices and wages by 20%, I think that 92% of the people would be with the economists.

BILL KRISTOL:

Managing deflation is not the easiest thing probably to do, so you don't want to run that experiment.

JASON FURMAN:

Right. But if you don't have that mental model, most people got larger raises than average over the last couple of years, but they may think they deserve those raises: they worked harder, they switched jobs and not realized that no, we're in an environment where everyone was getting a larger raise and it never, ever would've happened that way if it wasn't for prices going up. Businesses just couldn't afford to pay as much more as they have.

So, I really do think this price level, and I see it myself: if milk goes from $3 to $3.06, I'm not going to notice. If it goes from $3 to $4, I'm going to notice. If then it goes from $4 to $4.08, the Fed's going to say, "Hey, we're at 2% inflation. Isn't it great?", and I'm going to be like, "What the hell? $4 was expensive and now it's even more." And so I think this combination of price level plus money illusion where you think prices are something that was done to you by Joe Biden, by Jay Powell, by Mitch McConnell, whoever it is, some evil corporate CEOs, there's some villain that did the price thing to you, and then you think the wage thing you deserved, and you don't see any link between those two, then it's not surprising people would feel this way.

BILL KRISTOL:

What is the true truth about... There is one or several, maybe there are a range of true truths about how much the wage level has gone up compared to how much prices have gone up because you see different things: some places it's lagged, purchasing power isn't quite at 100. If 100 were 2019: no, it's actually now resumed its upward path that I think it did have, didn't it? For much of the last half of the 2010s where wages were increasing faster than prices.

JASON FURMAN:

So what is definitely true is that from around April, 2021 through the beginning of 2023, wages were rising less than inflation, so people were falling behind. This year, wages have been outpacing inflation, so people are getting ahead. If you look at the whole thing, people are now ahead of where they were prior to COVID, so wages have increased more than prices prior to COVID. Where it gets tricky is, is the pace of increase what people were used to? Less of an increase in real wages than they were used to, or more than it? And depending on which data source and how you measure it, you could argue that real wages are ahead of trend, at trend. I think probably they're a bit below trend, which is to say, yes, people's wages have outpaced inflation, but they were outpacing it by even more in the couple of years before COVID, and so there's a reason to be a little bit disappointed about where we are. But this is one where it depends a lot on what data do you pick. But unambiguously, wages have risen more than prices.

BILL KRISTOL:

Wow, and that's true across income classes, so to speak? Upper-middle, middle, working class?

JASON FURMAN:

For the very highest income, the top 10%, that's actually probably not true: they've probably seen larger price increases than wage increases. For most other income groups, they've seen faster wage growth than price growth.

BILL KRISTOL:

So, when you see one of these polls, I just saw one, 75% of the public believe their incomes are falling behind cost of living: they're not wrong to worry about cost of living, but they're wrong actually that their incomes... Not all of them are wrong because if the average is the average, 40% of them are falling behind, or 30% or something, right? But not all that 75% are correct that they're falling behind, probably?

JASON FURMAN:

Yeah, and what's interesting is normally when people do, political scientists mostly and some economists, do these election forecasting models based on the economy, those models never have, "Are you better off than you were four years ago?", they don't do the Reagan question. The thing that predicts elections is, what's happened to you over the last year? And over the last year, the trend in wages and prices is an unambiguously good: wages have definitely increased more than prices over the last year. And so normally, that's what matters politically. But even as things have gotten either better or great or less bad, but whatever it is, at the very least, things are less bad now than they were a year ago. People in answering surveys don't seem to feel or express that sentiment. And yeah, that's either puzzling or it's this money illusion plus price level.

BILL KRISTOL:

Or what about this? If you have a steady state, whether you have very low interest rates as we did for over a decade or medium interest rates as we did maybe prior to that, and you're gradually outperforming those rates of cost of which translates to inflation... So the inflation rates I should, say not interest rates, and you're slightly outperforming inflation year over year, you adjust to it, you internalize that: I wonder how much of it is people who've lived in a non-inflationary environment, 0% interest rate environment basically for the decade suddenly seeing, what is it all at? About a 20%, 18% hike and price level I think compared to 2019 or maybe compared to January 1st, 2021, I think? And that's a different thing to... It's presumably true that you may have gotten 21% of wage increases and the price level's up 19%, but that's a different thing psychologically than inflation trending at 2% and wage increases trending at 2.5%, don't you think? I think the suddenness of it is sort of a psychological shock.

JASON FURMAN:

Yeah. And look, when Volcker tackled inflation, he only brought it down to something like 3.5%, but it had been building up for 15 or 20 years. And so, I think people rightly understood, "Wow, we've just gotten through this thing." Here, it just came from nowhere: people under the age of 50 basically had no experience with anything like this. And so, I think it was much more shocking.

And conversely, I think getting rid of it is at a bare minimum, "Of course you get rid of inflation." This thing came from nowhere. We haven't had it in our whole lives. So I think it's less of an impressive feat than tackling such a long-term, entrenched inflation. And the other thing is you brought up mortgage rates: there's a lot of people, whether they're working in financial markets or they just borrow money to buy a house who just have never experienced high interest rates. I talk to people older than me, and they tell you with nostalgia about how thrilled they were when they got that 12% mortgage decades ago. That's just not what people have been used to for a while now, and it's certainly not back anywhere close to 12%, but it's a lot higher than it was a couple years ago.

BILL KRISTOL:

Right. I think your point about people and you said people under 50, that's really a large number of people never really having experienced this and sort of freaking out a little. Therefore, if they see price levels up 20% from not 20 years ago, one knows that we're not going back to the price levels of whatever 50 years ago, but just 2021 or 2020, or certainly 2019. So I think the degree of that people, that's not quite captured by the pure numbers I think.

And it's not crazy for people to then think, "Gee, if this happened when no one was looking as it were over the last two, three, four years, and people were pursuing presumably reasonable economic policies, how do we know it won't happen again?" I think in that respect, Biden said it's lower now than it was a year ago by quite a lot, but it's not, as you say, in a way people would sort of almost aren't fully reassured that it will continue to trend lower.

JASON FURMAN:

Yeah, and one is tempted to dismiss public opinion as it's all partisan and they've all been ginned up by Fox, and there's no question that American public opinion is much more polarized than it used to be. If you do surveys, "is the economy good?" The people that think it's good completely reversed between October, 2020 and December, 2020: the Democrats all of a sudden thought it was good, the Republicans thought it was bad. That does have a ceiling: there's a hardcore, I don't know, if it's 35% of Americans who we could have nirvana, and if Biden was president, it would still be awful. And if Trump was president, a different 35% would think it was awful.

So, I think there's some of that, but I think you do want to try to listen sympathetically to the fact that it's not all bad faith: if people go to the supermarket and they're surprised by prices, I don't think that's just ginned up by Fox News. I think a lot of people do feel that sincerely. And so, I think especially if you're in the political system, you just can't afford to just dismiss people's concerns as irrational and politically motivated: you have to try to listen to the people who have those concerns in good faith, and figure out how to connect with them.

BILL KRISTOL:

One friend of mine made a point to me the other day, which I'm curious to get your reaction to, which is, okay, the supermarket, that's one thing that's particularly presumably middle to lower-middle class, working class people who really are careful. I don't mean to overgeneralize, you and I see what the prices are too, but people who really are, as they say, paycheck to paycheck and really are cutting back on one thing because the supermarket prices are higher than they would otherwise be. But I think you add to that the interest rate-driven phenomenon, which is I guess mostly what autos and houses for housing for people in middle, upper-middle class world. And those rates, the Fed, I assume did the right thing basically by raising interest rates as much as they did, as you say, it's been a soft landing.

But on the other hand, in the real world, if you are thinking of your family is growing and you're thinking of moving, and you're going to buy a house today when you bought one on a fixed mortgage five years ago, say you don't get a nicer house at the same cost, the actual payments are double, I think, right? By definition, if interest rates have more than doubled, probably the payments are close to double, and that could be a pretty, $1,000 extra on your mortgage a month, the car, a few hundred bucks extra on your car payment: suddenly, that plus the annoyance of the supermarket experience, that could be unnerving, I guess I would say. To be sympathetic to the people and assuming they're not just snowflakes who are complaining too much or were brainwashed by Fox News.

JASON FURMAN:

Yeah. And that's why I think, again, I'm not an expert in how exactly to communicate with people, but if I were in the White House, I'd be saying, "There are still real difficulties and real challenges that people are facing. Yes, a lot of things have gotten better. Yes, there's a lot we can brag about, but here are the legitimate concerns people have or here are some of the concerns that might be understandable."

Look, on the mortgages, a reporter called me to interview me for a story on just this topic, why are people upset with the economy? And then, the reporters started talking about their own experience. They just had another child, I think, they wanted to move to a larger house, but they had a low mortgage rate locked in on their current house and they didn't want to move, and so they're stuck in a choice between having the wrong house for their family, or paying a lot more for their monthly mortgage. That person was sort of 0unhappy about it. Moreover, if you looked at the data, you wouldn't see the source of their unhappiness because their mortgage payments haven't gone up. The data doesn't record that they wanted to move and didn't. It just records how much they're paying for their mortgage, which is a fixed rate and pretty low. So, there's a lot of stories out there.

BILL KRISTOL:

That's such an interesting point though about the data not capturing, I guess if you want to keep talking economists talk in a way it's a certain kind of opportunity cost, you might say, of foregone chance to improve your living situation because of interest rates being so much higher, and that isn't captured that you didn't make that move and you're still living at an nice enough house. Well, it's not the Great Depression, but I think that is striking. And James Carville, I think it was, some political person, I think it was James, made this point to me a similar point about the groceries: it's not just and going out to a restaurant and paying a lot more, it's not just the price. Yes, you're paying $82 for your meal for three or four or something at Olive Garden, not $62 or $72, but it's then it's when your kid says, "Hey, can we go out and get pizza tonight?", you say, "Well yeah let’s, that's good," but then you think to yourself, "Does that mean we probably can't go to something else this weekend we were hoping to do?", or you don't, "Will we have enough to do the vacation that we were hoping to do with the family in the summer?"

I think the psychological cost of the price increases in terms of people having to think about it are a lot... Whatever the merits and demerits of not having inflation basically, and a 0% interest rate regime, which we assume was unsustainable, but it took a lot off your mind. With the slight exception of gas prices, which seem to go up and down a lot, people— you were able to live your life without a lot of psychological burden in this respect.

JASON FURMAN:

Yeah, I think that's true. But again, these families are getting paid. It varies a lot. It varies a lot. Some people, I'm just telling you the averages, there's all sorts of variation, but there weren't a lot of people getting 6%, 7%, 8% raises at work before, and there's been a lot more of that in the last couple of years. I think you still need some thinking differently about wages and prices. Yeah, I think there's a combination of reasons to be concerned, reasons not to be concerned. Most everything's getting better, but that doesn't mean it's great.

BILL KRISTOL:

Yeah. People used to be very sensitive to their salaries and to their wages. It feels like, yeah, maybe they'll get more sensitive again if they look back a year from now on two or three years of rising wages and say, "Well, hey, look at this. This is where we were," and to take a political date, "January 20th, 2021, and here's what my paycheck says today." Even including taxes and other whatever, it's kind of quite a lot higher. Right? You don't hear that a lot these days, but maybe that's just people. People do get a sort of negative mood, honestly, and it's a little hard to disentangle that from what's happening.

JASON FURMAN:

Yep.

BILL KRISTOL:

What else should we be looking for in terms of the situation out there? Labor shortage? I think we talked about that some six, seven months ago, and we agreed that it would be be nice to have more immigration, and we agreed that wasn't likely to happen politically. I think it sort of happened a little beneath the radar, but where are we on that? Of course labor shortage is good for wages, but people also get annoyed if they go to a restaurant and the service isn't great and so forth.

JASON FURMAN:

Yeah, there's less of a labor shortage. We actually are roughly on track with where you would've expected immigrants to be. The labor market fits into the category of, if you didn't know about Covid, just had 2019 data, just had 2023 data, nothing about the number of people working, who's working, number of open jobs looks super surprising. We're still tilted a bit towards a higher number of job openings than unemployed. That does put some upward pressure on wages. If it's just wages, that's great. If it's wages and prices, then it's less good. Broadly, the labor market looks a bit on the hot, tight side, but pretty good. Economic growth, GDP growth, we just finished the third quarter at the end of October, we're going to find out what that growth rate was. The Atlanta Fed, which is one of the main trackers people look at to know this answer is betting on 4.9% growth, which is just really high.

BILL KRISTOL:

Real growth.

JASON FURMAN:

Real growth, real growth. Now, I would take the under, that just seems ridiculously high to me, but that it'll be above three seems pretty likely. That's amazing in an economy where we had what many thought was a banking crisis back in March to two quarters later be posting these just extraordinarily high growth rates.

BILL KRISTOL:

Yeah. Speaking of the banking crisis, you never get credit for the disasters you avert. Right? In government, that's one of the things that I served in the first George HW Bush White House. We kind of won the Cold War without a shot almost being fired. We kind of resolved the S&L crisis, which was a pretty big crisis. In comparison to 2008, it looks like peanuts, but it seemed at the time like a big deal that got pretty well resolved and did the budget deal of 1990. And of course Bush's vote from 1988 to 1992 dropped from 54% to 38%. No good deed goes unpunished, especially if the good deed is stopping something bad from happening that isn't so visible. But what about the banking crisis? Was it obvious that it was going to be able ... Well, has it been truly resolved or was it obvious that it would be resolved so well, apparently?

JASON FURMAN:

Yeah, I think we're out of it. The banks that went under were really quite extreme in terms of things like a concentrated uninsured depositor base or having a set of assets on their balance sheet that were really, really sort of very safe in terms of default risk, but really risky in terms of interest rate risk, holding long-term government bonds that went down in value. So I think we are out of the woods, and one way to see that is for a while I was checking every week, now I tune in sort of every couple of weeks to what happened to bank deposits. You saw them going down, bank deposits are going back up again. As long as people keep their money in the banks, the banks are fine. The issue is if there's an old-fashioned bank run where everyone takes their deposits out and forces a problem in the bank, and we're just not seeing those bank runs. We're seeing the stock prices of the regional banks have rebounded quite a lot from where they were before the crisis.

And I do think the government played a big role in this. They guaranteed the depositors at these banks. That's distasteful and unpleasant and I would've loved to see all sorts of these people that stuff tons of money in Silicon Valley Bank lose their money, but you know what? As good as it would've felt to watch them lose their money for their bad choices, watching the bank run on 50 other banks and the financial crisis that it would cause, and the amount of people that would lose their jobs and pain and suffering, you just can't afford to give in to that type of Old Testament notions of justice at a time like this.

I think the administration rightly guaranteed those banks. They didn't extend a blanket guarantee, but they basically made everyone feel comfortable that they'd be guaranteed elsewhere. That stopped the bank run and the system as a whole then ended up not needing that help. That's the beautiful thing is if you promise to do something to help out in the banking situation, it might be really cheap because you might never have to do it as long as people believe you. I think that's largely what happened here.

BILL KRISTOL:

Should they change the FDIC rule somehow to not have this $250,000 capital, that sort of thing?

JASON FURMAN:

Yeah, I think they should change it and raise the cap. And then also, by the way, make the banks pay for the higher cap. You can't do that in the midst of a thing. You can't have the bank that just had a problem, but it's insurance. You make everyone pay a higher premium, you have a higher cap. If I talk to conservative economists, they sort of don't like high taxes and liberal economists like high taxes. There's certain things in economics where your view differs. I went around to every conservative economist I knew and asked them this whole thing about if you insure depositors, will they stop paying attention and you'll get moral hazard and have problems in the banking system? I would say of the 10 conservative economists I went to, 9 of them rolled their eyes at the idea that depositors would ever pay attention to what was going on in a bank or be a useful warning sign. I know one of them did believe that theory, and you read that theory on the Wall Street Journal editorial page.

But I think for the most part, yes, if your system is to expect people to get on the airplane, they're going to get on and inspect it for safety, that system is almost as ludicrous as the idea that you would be able to inspect your bank for safety. I think we're better off with the government doing that and giving people insurance.

BILL KRISTOL:

I do feel like Janet Yellen has gotten zero credit for that, and maybe she'll be the best treasury secretary who will get the least credit for being a good treasury secretary ever. I don't know.

JASON FURMAN:

And one thing, and I think it's partly to her credit and partly to administration's credit, the banking stuff didn't get super politicized. There's a little bit of a retrospective debate. Some Republicans were like, "Oh, it was the woke regulator's fault." And some Democrats were like, "It was the greedy banker's fault." Whatever. But the actual guaranteeing the depositors, I thought it might cause a firestorm of, “here's the bailouts, the rich are just getting richer, blah, blah, blah.” There was a bit of complaining here and there, but not a lot. I thought actually at both sides of the chamber, people who tend to be a little bit more populous, like Sherrod Brown, I can't remember the head of the house banking committee. I think he was reasonably responsible in his approach as well, the Republican head of it. I think our system didn't handle it perfectly, but it handled it with more maturity than we handle a lot of things.

BILL KRISTOL:

Yeah. Let me ask a couple of things. You've mentioned in passing as possible problems or commercial real estate. I mean, some people I know go to New York and look at some of the buildings that are half empty and start thinking, oh my God, that thing's going to be a big drag on the economy for the years and really a big problem. Other people I know say, yeah, it's a limited number of places and the banks can work it out. It's the normal adjustment you would have when you change from an “everyone goes to the office economy” to a “go to the office three or four days a week economy”. What's the truth in between those two if there is one?

JASON FURMAN:

I'm closer to the sort of sanguine view. Commercial real estate is a large space. Some things retail, a lot of the country is actually doing quite well. People like to go to stores for certain types of things. Developing things like urgent care medical facilities are doing super well and will continue, likely, to do super well. Student housing is like a whole sector in this space too, for example. The office buildings I think are the big problem. You read a scary story in the Wall Street Journal, this is on the news page, not the editorial page. Then you look at the numbers and the numbers are sort of $400 billion over the next five years. This is in a banking system that has maybe $2.2 trillion cushion right now. I think it's hard to get super worried about it. I think it will be a problem for certain companies.

I do think over the next five years, there are some banks that are going to come under stress because their deposit business model isn't going to work forever. Their lending business model in this world of interest rates we have now won't work forever. And so there will be more consolidation in the banking sector. Banks will need to get creative about their business models, but there's a big difference between a problem that unfolds over six months in a crisis like fashion and something that you have five years to restructure your way around. It feels much more like that second scenario to me.

BILL KRISTOL:

And deficit and debt, that's something we've all gotten pretty complacent about over the last long, long time honestly. God, when I think the political price George HW Bush paid to get the deficit down from, I can't even remember, $300 billion to 250 and then 200, those are such tiny numbers now, rounding errors kind of in the actual debt and deficit. That I suppose is one of the things that Covid would be necessary to know about, to explain that we're running a $2 trillion deficit, would it be or not? How worried should one be. Those numbers, I myself, like everyone else, hadn't been following it much. Suddenly I read that article that we all, I think saw was in the post, I can't remember. It was a pretty good explanation. It's like the actual government is taking in, I'm going to get this wrong somewhat, but you'll know four and a half trillion dollars a year in revenues and is spending six and a half trillion a year in 2023, which is a good economy and not in the middle of a depression and with a little bit of Ukraine expenditures, but not much in the big scheme of things. We're not fighting the Iraq war, let alone World War II or something. So why are we running such a massive deficit? What about the accumulated debt?

JASON FURMAN:

Yeah, I'm getting much more scared by the day, and I don't think Covid is an excuse anymore. Most of those Covid expenditures have dropped away. The deficit was $1 trillion last fiscal year, or actually now two fiscal years ago. Then the fiscal year that just ended a couple of days ago, it looks like it's going to be $2 trillion. And that's in an economy, as you said, with roughly three and a half percent unemployment, a stock market rising, all sorts of things. That's just an extraordinary increase.

Now, there are some volatile things. Inflation actually plays havoc, and it moved revenue from one year to another, given the way they do the indexing. That happened with social security, that happened with capital gains. You probably want to think of it as an economy with a run rate of one and a half trillion deficit both of those years, not a skyrocketing deficit. One and a half trillion, that's 6% of GDP. When you say this is larger than it was under George Bush, it's not just that every number is larger. I don't remember exactly what the deficit was, but I'd be surprised if it was about 3% of GDP at any point in time under George Bush and 6% of GDP now. The debts—

BILL KRISTOL:

What's 3% the number, sorry to interrupt. It was used by one of the international organizations to say—

JASON FURMAN:

The IMF generally uses that.

BILL KRISTOL:

Yeah, that that's like trouble sign. Right? The 3% of GDP.

JASON FURMAN:

Yeah, that's what the IMF's generic rule is.

BILL KRISTOL:

We're at six.

JASON FURMAN:

Yeah. And we actually used that under Obama as sort our internal guideline. And we're at six right now, by the way. We're at eight this past year. But as I said, I think some of that was volatile. I think the sort of underlying thing is six. Our debt's 100% of GDP. Then, the last thing is you look at interest rates and the 10-year interest rate is in the neighborhood or above 4.5% right now. It's two and a half percent just a few years ago. And so I think there's a lot to be worried about.

BILL KRISTOL:

So just the Treasury is going to have to refinance that debt, that could double the interest rate basically?

JASON FURMAN:

Exactly, exactly. And by the way, the treasury did not borrow very much long-term. If it had locked in lots of 30 year debt, we wouldn't be worried. But we borrow shorter term in the United States than most other countries do. So a lot of our debts come in due in the next year or two. Now I think I've lost patience with fiscal crisis forecast because if you ask the deficit warriors 10 years ago, 20 years ago, what would happen if we ever got to a hundred percent debt to GDP at 6% deficit? They'd say everything would've collapsed. And I look outside, it's a beautiful sunny day. Everything seems roughly intact. So it's not the fiscal crisis I'm worried about, but this is playing a role in those higher interest rates, those mortgage payments that are difficult for people. It will over time impede private investment. And so I think this is more about unnecessarily chipping away at the economy. And then the old hackneyed saying is true, the longer you wait, the harder it will be economically at least to solve this problem.

BILL KRISTOL:

And it's impeding if you're a fan of government spending, whether it's for defense or for a domestic policy, it's impeding that a lot. That plus entitlements, I mean, it is an awful... Which are difficult to cut and maybe should be difficult to cut. That's a pretty big chunk of the federal budget right now.

JASON FURMAN:

Yeah. And it's just so impossible to imagine how anyone's going to solve this, that someone would come forward like President Bush did, and do a bipartisan thing as he did in 1990 or a party line thing as Democrats did in 1993. It's just so hard to understand where the pressure will come from. Now one possibility is part of why there was pressure on Bush and Clinton back then was that interest rates were quite high and certainly under Clinton. My guess is it was the same under Bush. We were telling President Clinton, "Hey, if you do this thing, mortgage rates will go down."

And mortgage rates did go down. And he went around bragging about how... I remember I used to help produce some of these numbers. Typical families saving $200 a month because of lower mortgage rates. And Clinton economic plan helped make this happen. And that was all true. What fraction of the help one could debate, but it helped, I think was true. So maybe we'll get to that point where some politician asks their economic advisor, how do I help people get lower mortgage rates? They tell them this is the only way to do it, and they decide that's a politically salient and attractive thing to do.

BILL KRISTOL:

But to do it, you have to either raise taxes or cut spending. Not to be too simple-minded about this. I mean, if you actually want to reduce the delta between the two, so where's the market... I mean, spending seems to be curbed. I mean these budget deals with Biden and McCarthy are, kind of anticipate flat spending going forward, basically.

JASON FURMAN:

I mean we were trying to reach a grand bargain with Republicans in 2011 around the debt limit, Obama and Boehner. There were some people on our economic team that were very worried about the deficit. I think probably too worried about it. That was part of why we were doing it. But part of why we were doing it was our political advisors actually really liked that. And they liked it for two reasons. One, they thought that if Obama did something with the Republicans that would be much more popular than the things he had done party line on his own in his first two years, like the Affordable Care Act. To be clear, we were very proud of the Affordable Care Act, but no one did the Affordable Care Act as a political strategy to get reelected.

They did it because they thought rightly or wrongly, it was good for the world, but they thought it would be good to do something bipartisan for him politically. And they thought if it helped the economy, that ultimately that would just matter more than anything else for his reelect. And so we thought doing something that included putting Medicare and Social Security on the table with Speaker Boehner, some things you'd think are pretty politically untouchable, we thought that was in our political interest. I don't think anyone quite sees it that way now. Maybe we made a mistake back then. Maybe they're making a mistake now. Maybe the politics have changed, but something could work out here.

BILL KRISTOL:

Remind me, you were there. You'll know this. I mean between let's just say now and 2011, late 2011 and late 2012, you'd gone through whatever you'd gone through with Obamacare and the bailouts and the dropping in the November 2010 election and so forth. And the deal sort of 2011, I guess it was a deal really. It wasn't quite the big deal, the grand deal that people wanted. Where were we? I mean things were better, if I'm not mistaken, in terms of unemployment and maybe also interest rates and stuff by late 2012 than they had been in 2011. It wasn't rising. It wasn't recovering... Republicans, this is a slow recovery, but it was a genuine economic recovery, right?

JASON FURMAN:

Oh, things were moving very strongly in the right direction and things were still way worse than what you could reasonably expect them to be. When President Obama ran for reelection, the unemployment rate was still 8%. So it had come down... I mean, it was falling every single month, so every month was better, but it was in a bad place. Now interestingly, real wages were good. We hadn't had much inflation and people were getting okay raises. If you had a job, you were actually doing fine and you had no problem affording groceries. But there were a lot of people that wanted jobs and didn't have them when he ran for reelection.

BILL KRISTOL:

And of course he won by a slightly narrower margin than he had won originally in 2008. And so I think the general view of the political people I knew was that the economy was good enough to drag him. I don't mean to put this in an unpleasant way, but I mean to pull him across the finish line. And that was fine for him, but it wasn't like, it wasn't Reagan '84 obviously, or it didn't feel like Reagan '84.

JASON FURMAN:

Yeah. Well, first of all, I don't think we'll ever have that because of the partisanship in our country. But I agree it wasn't. But that also gets back to these political economy forecasting models we were talking about before. They're much more about what's happened in the last... Are you better off than you were a year ago than are you better off than you were four years ago? That seems to be the way people were voting. And definitely in November 2012, people were a lot better off than they were in November 2011. They just weren't obviously better off than they were in 2007.

BILL KRISTOL:

But that crash happened on Bush's watch, which was good.

JASON FURMAN:

That probably helped politically too.

BILL KRISTOL:

Yes.

JASON FURMAN:

And that's one difference from the UK where the Labour Party was there for the crash and there for the slow recovery. And so they didn't have quite the same get out of jail free card that the Democrats had in the United States.

BILL KRISTOL:

We used to console ourselves, I'll let you go in a second, in the George H.W. Bush White House that some political scientists at the time at least suggested that the recovery... People had made their judgements though in the of the election year. We had, I think, if I'm not mistaken, and there's a recession in '91 sort of SNL, I think, and regional mostly, but real, a little housing, a little SNL. But I think '92 ended up having three and a half percent real growth, something like that. Pretty good, actually, above trend. And of course, but we told ourselves, well, we got no credit for it because it was mostly the last two quarters. And that people don't really factor that into their voting. I don't know if that's true. Still true, or where the political scientists now think that's true.

JASON FURMAN:

Yeah. I think the thing that fits is almost like the 12 months through April. We can't remember. It's not the 12 months through the election, but it's 12 months [inaudible] the election. And by the way, the GDP number, you would remember this much better than I would. That came out right before the election in 1992 was relatively weak and disappointing. Because it just was subsequently revised up quite a lot. If the economy was doing quite well, you just wouldn't have known it from the data that came out right before the election. And this is, by the way, not by statisticians. They do the best job they can and numbers get revised.

BILL KRISTOL:

It is a little unnerving how much they get revised, I've got to say, as a layman and people are hanging on this GDP number, and then incidentally we just revised it and it sounds like not that much if it's revised from 1.2 to 2.4 or something. It's like only a point of course. It's also a doubling.

JASON FURMAN:

Yep, exactly.

BILL KRISTOL:

Final— internationally, anything that you sort of look around the world and think what if... Is China really going to go into bad shape, Europe slow, or is it all kind of not decisive one way or the other, kind of?

JASON FURMAN:

I think everyone else is facing roughly speaking bigger challenges than we are here in the United States. Europe has both slower growth and higher inflation, which is a really bad combination because there's no obvious remedy. China's growth really does face these challenges. They have low inflation, so I think they have a lot of remedies. They're just not choosing to use them. If you put me in charge of China's economy, I think it would do better than the current leadership, but— And I wouldn't say that about Europe where I have no idea. I have no idea what to do. In terms of what all that means for the United States, I don't think, frankly, it means a whole lot. First of all, we still do have some inflationary pressures, so weakness in the rest of the world does cause lower commodity prices. That helps at the pump that helps elsewhere with our inflationary pressures. So I think the short run weakness might be as much positive as negative for the US economy. I don't think that's where our peril is. But yeah, I think there’s policy makers around the world that wish they had the problems we had here in the United States.

BILL KRISTOL:

And it is empirically true, is it if you step back and go back to the beginning of '21 if you want, or late '19 pre-pandemic, you were better off having been in the US than in most of the developed countries. I mean as a wage earner or as an investor, I think.

JASON FURMAN:

Yeah. And some of that is things like the oil price shock. The United States oil prices went up just as much as they went elsewhere in the world. But we have an oil industry here and that does create jobs and benefit. And then things like natural gas prices never went up here nearly as much as they did elsewhere. So Europe in some sense is what economists call the terms of trade shock. They're actually genuinely poorer because of what's happened to global commodity prices. The United States is a consumer of those commodities, but also a producer of them. So we're not as a country poorer in the same way that Europe is because of these commodity price increases.

BILL KRISTOL:

Interesting. Americans don't look around and think, "Hey, we're doing a little better than Europe, or we're even considerably better and let's be happy about it." Right?

JASON FURMAN:

Yeah. I don't blame people for not doing that. But yes, I think if you're trying to understand the US economy, looking at the rest of the world does make you feel a little bit better about how we've responded to everything.

BILL KRISTOL:

Yeah. Well, that's encouraging though as a matter of— you can have pretty dysfunctional politics and still have a pretty decent economy. Maybe that's a good thing. It's not quite the Kennedy School message, I don't think. But that's okay. Which is where you're sitting, if I'm not mistaken in your office there. But that's okay. Anything we haven't discussed, Jason, that we should cover or that you should let people know about or they should think about?

JASON FURMAN:

I'm sure we'll think of something.

BILL KRISTOL:

Until we talk again at six or seven months.

JASON FURMAN:

I was about to say. I'm sure we'll think of something so we can cover it the next time.

BILL KRISTOL:

Yeah, it's very interesting and this is really a thank you for taking the time, and it's just so interesting to think about the connection between "the real economy" and people's perceptions. And I think unlike some of your colleagues in economics, a friend of mine used this term the other day. Maybe this term is out there. I had never heard of before, like mansplaining, “econsplaining”. That economists get on TV and explain to those foolish citizens that you may think you're paying more. You may think it's a real problem and you may think this and that, but let me explain to you as an economist, you shouldn't be concerned. And I give you a lot of credit for not doing that.

JASON FURMAN:

Thank you.

BILL KRISTOL:

Is that a term actually, “econsplaining”, or did someone, my friend invent it?

JASON FURMAN:

I feel like I've heard that, but I'm not now sure whether I'm imagining that I heard that or that I didn't.

BILL KRISTOL:

I have to look around for that. Jason Furman, thanks a lot for taking the time to be with us on conversations.

JASON FURMAN:

Thanks for having me.

BILL KRISTOL:

And thank you all for listening.