BILL KRISTOL:

Hi, I'm Bill Kristol. Welcome back to *Conversations*. I'm very pleased to be joined again for I guess the third time in a little over a year, a year and a half by Jason Furman, professor of economics at Harvard, chairman of the Council of Economic Advisors for President Obama's second term, but a senior Obama aide for the entire eight years of that presidency. And most importantly for those of us who were undergraduates at Harvard, the lead professor in Act 10, the famous Harvard course, which now has 10 zillion students, right? Am I right about that? Is it getting bigger and bigger?

JASON FURMAN:

10 zillion is a very precise number, exactly.

BILL KRISTOL:

It's my training at economics. I like precision in those numbers. It was a big course when I was there, but it's gotten bigger and bigger. I think that's correct. Right?

JASON FURMAN:

Well, some people actually skip straight to the second-year classes now because high school economics is much more widespread than it was, so it's probably about the same size as when you took it.

BILL KRISTOL:

Good. Anyway, thanks so much for joining me again. I think your first two conversations, which I look back at the transcript of stand-up well actually. I mean, you were pretty much on the mark in what you thought was happening a year and a half ago and then about seven, eight months ago. So now we can bring it home here and you can tell us where we are, where the economy is and where it's likely to be on election day, which is not an economic fact, but a kind of important political moment I think, which the economy has some impact on. So where are we? What's the basic situation with inflation, jobs, et cetera?

JASON FURMAN:

We're where we were with a strong economy and overly high inflation, but a little bit less so on both counts than we were before. There are some cracks emerging in the economy with the unemployment rate, which had been as low as 3.4% is now at 4.0%. And as indicators come in, the most recent one is the consumer spending has been slowing, but then on the other side, inflation, which really resurged in the first couple months of this year has come back down a bit. Again, it's too soon to declare anything like victory on inflation, but it's getting a bit closer there as well.

BILL KRISTOL:

Yeah, you were more worried, a little more worried, I'd say, than the conventional wisdom about inflation staying up or not super high, but being resistant to the final...

Finally coming down below three, which might allow the fed to cut rates and so forth. So what is it now? It's a little above 3% year over year, right?

JASON FURMAN:

Yeah. I mean, there's lots of different ways to measure inflation and you look at the totality of them, they're generally showing inflation is about 3%. We're also seeing wage growth that is consistent with what you would expect to see in an economy with about 3% inflation. So everything's pointing there, but there are some places where you're seeing slowing. And so in my head, underlying inflation is something like 2.5 to 3%. The big question is this question of whether the last mile is going to be much harder. We've gotten this far relatively painlessly. The labor market actually has eased, but it's eased by the number of job openings going down much more than it has by the amount of unemployment going up. But the question is can you get inflation from where it is now all the way to 2% without much higher unemployment? And by the way, do you really want to get inflation all the way back to 2% is an important question policymakers will have to ask themselves.

BILL KRISTOL:

Do you think at current inflation is a kind of political economy question as opposed to a pure economic question? I mean, does it feel and if it stays here or just add a little bit more over the next four months, four or five months to the election, how much will it feel like, okay, inflation was a very unfortunate thing in 2022 or whatever, but we're sort of over it and how much is it still like, gee, prices are high and they're still creeping up? I mean, where is the balance on that do you think, from your both experience, obviously in Washington, but also studying history on this?

JASON FURMAN:

Yeah, look, on election day, will prices be up 21.5% or 22% relative to pre-election? Politically, there is no difference at all between those. For the Fed, there's an enormous difference. If they're only up 21.5%, it means they've gotten the run rate, the more recent inflation down and under control and they're cutting rates. If it's 22, they're worried, but politically I don't think there's a lot of difference except maybe it's an open question as to whether the Fed cuts rates at its September meeting. If it does do that, you might see some quick relief in mortgage markets and the stock market, although frankly I don't think you'd see that much because mostly mortgages priced in some amount of Fed rate cuts in the future.

BILL KRISTOL:

I do feel having older than you and having lived through the seventies, so there is a way in which when price levels reset, it's very shocking for the first year or two obviously, and it is shocking because it's real inflation and your rates haven't caught up and other things are distorted, then at some point you get over, unless you're really a crotchety old person about, gee, I remember when the candy bar was a nickel and fine. It's now 15 cents or 25 cents or now a dollar whatever and a half. But everything else is adjusted. And I guess the question politically for the incumbent president is how much of that adjustment has happened psychologically with people and how much is there still like, gee, this is an awfully expensive meal I'm having here at a convenient restaurant nearby or something.

JASON FURMAN:

Yeah. And it's not like there's an answer to that question. And look, people say price level, I think that's a shorthand. I think what they really mean is inflation over some period of time, like 2, 3, 4 years, and the newspaper reports inflation over 12 months and over one month. But psychologically, there's no reason why those should have primacy over 27 months or 39 months or 41 months or just some other period of time. And unfortunately we don't know what that period of time is. I guess I would say yes, I think people will eventually get over this, but the fact that they're not over it today here in the middle of 2024, so I don't think they're going to be over it by the end of 2024. And by the way, they're going to get an awful lot of reminding about it in the next couple of months.

BILL KRISTOL:

Yeah, that's I think key, when you're in an election year, the opposition party has such an incentive to make it a... When you've had 21% or whatever it is, it's the other party has a big incentive to keep hammering it home that that's the number you should be thinking about, not 2.5 or 2.8% or whatever the current inflation rate is. So how much do you think it is also the case that with your people under what? 40, I guess, they've just never experienced this, and so the shock is greater than if people have gone through a couple of these cycles and if you're on the back end of the cycle now you sort of think, well, it's actually working out. It was bad, it was bad year, it could have been worse. We've had worse, and it seems like wages are now ahead of inflation for a year, et cetera, instead of talking yourself into sort of a reasonable happiness with the situation.

But I guess if you'd never even seen this... the 9% inflation was more of a shock than I realized at the time, actually, because I'm older I guess partly, and also I wasn't so susceptible to it in terms of just economic status and age and so forth. But I guess how much is that? Do you think that's a phenomenon with if younger people, maybe not even so young, half the electorate maybe just has never seen this before, right?

JASON FURMAN:

Yeah. Look, I am in my fifties and I remember it, but I was in middle school when we last had inflation, and I was probably even back then more attentive to economics than your average person. So yeah, half the electorate just hasn't seen this before, and by the way, hasn't seen mortgage rates the likes of which we have now either. So it's not that surprising, and it came very quickly. The last time we had inflation, it took a while and mounted and it sort of, was it Johnson's fault? Was it Nixon's fault? Was it Carter's fault? It sort of blurred across a lot of presidents and a lot of things. Here, it came all of a sudden. It may or may not be Biden's fault, but it all happened while he was there.

BILL KRISTOL:

Right. In the past it kind of would go up some and then maybe subside a bit and then go up again. Yes, people were kind of, okay, I guess we're living in a world of inflation risk and yeah, the suddenness is a good point. I hadn't really thought about that. It was kind of sudden. How did that happen actually? I mean, is it supposed to happen that suddenly?

JASON FURMAN:

Look, I think it was… beyond surprise to know that I think it was a combination of demand and supply. On the demand side, people got an enormous amount of cash and on the supply side, products just couldn't be made at the pace that people wanted to buy them. And we'll endlessly debate the ratios. I think it's sort of two thirds demand, one third supply. People I respect might reverse those ratios, but really those are the two ingredients here.

BILL KRISTOL:

But yeah, you get that big shock and that it isn't coming down quite as fast as you hope. Well, how much psychological... What about the Fed? What are they likely to do? Are they likely to do anything? And how much does it matter in the real world and psychologically?

JASON FURMAN:

Yeah, I mean, the big question on market's mind is no one thinks the Fed's going to cut rates over the summer. They've just been burned too many times before where they think inflation's coming down, they start to celebrate and then it starts to come back again. So they're going to want to see more data than they've seen. The question is could they cut in September or will they wait till the end of the year for December? I tend to lean towards December. I think if they end up going sooner, it'll actually not be 'cause of good news and they're really excited about inflation coming down. It'll be because of bad news in terms of the labor market has deteriorated.

So I like to think of it as there's all these people out there wishing for the Fed to cut rates. It's a little bit like the wish in the story, the monkey's paw where your wish comes true, but it comes true in a horrible way. And so we start to slip into recession. The fed cuts rates. Well, sorry, actually I wish I hadn't made that wish in the first place because I really don't want this recession or the right cuts that come with it.

BILL KRISTOL:

If I could push back a little, is it true that so often the Fed is cut too early and we've had a big resurgence from inflation? I don't know. I understand that happened in 1972 and I suppose in the seventies, but I don't know. Is that really... Are we overdoing that risk or that sort of historical memory?

JASON FURMAN:

I don't know. I mean, look, you're right, that last happened in the 1970s. It was 50 years ago. This is not a very frequent thing, but it's not like we've tested it a lot because rarely does the Fed actually start cutting rates when the stock market is soaring, which it is by the way, when we're still adding quite a lot of jobs, even if the unemployment rate has drifted up. So you don't really see rate cuts in that type of environment normally. But look, it's a difficult thing. Monetary policy operates with a lag and it's really hard to predict the future. In fact, even the recent past of the economy is hard to measure. There's different jobs numbers, for example, sending different signals. One way of measuring jobs—by asking employers—going up quite a lot. Another way of measuring jobs—by asking workers—isn't going up by as much. Which of those is telling the truth? Well, we don't know for sure what's happened in the recent past of the labor market and here they are trying to predict the future.

BILL KRISTOL:

What about interest rates? How much do you think that's... I do feel like that's been sort of under-reported as part of the new world we're living in, that people have lived in that low interest rate environment, which obviously goes along with the low inflation environment for such a long time that it's, again, not for me. I think we bought our first house in near Cambridge in 1984 and was, I don't know, it was a variable mortgage and God knows, started off at 11% or something like that, or 12%. And I think, if I'm not mistaken, in 84 with Reagan Morning in America, interest rates were still were coming down, but it was still, I don't know, the Fed rate was, I know 7.5% or something. It was still high, but directionally one felt like it was getting better. That's my main memory, and that one felt like we were through the worst of it.

I think there's a little bit of that now, but much less. But how much does interest rates contribute to both psychology but also obviously business investment and home purchasing and so forth, in terms of being feeling negative for people? They don't think as much about the fact that they can get 5% risk-free from their bank account on their savings accounts. They think that they're annoyed because they have to refinance something if they're a business or they want to buy a new house or whatever.

JASON FURMAN:

I mean, politically higher interest rates have winners and losers. The winners are the people saving money, the losers are the people borrowing money. But it's a little bit like when wages and prices both go up and you have winners and losers. The losers somehow notice all the problems that have been caused for them, and the winners don't end up thanking you. Economically, the big question is the Fed will cut the short-term interest rate, but it doesn't really fully control long-term interest rates. And those are what matter for mortgages. Those depend a lot on perceptions of something that's called the neutral rate or R-star. And the big question right now is are we going to get back to the type of world we were in 2019 with low interest rates, or is there something structural in the underlying economy that's going to keep interest rates higher?

And there's a lot of candidates for that. One of them is the enormous amount of investment going into artificial intelligence and the green transition. Another is higher levels of government debt, and all of that drives underlying interest rates up. So my fear right now is that the Fed will cut rates, but it won't cut them anywhere close to back to the twos, which is where it started with. And the people who are setting mortgage rates and betting on long-term interest rates understand that. And that's why those rates, which are ultimately what matters much more, just aren't going to come down nearly as much.

BILL KRISTOL:

And what are those rates? What does the quote market think 10-year rates are... What are they and what does this market, in a sense, expect them to be, if I could put it that way?

JASON FURMAN:

Right. They've been bouncing around in the fours, so roughly four and a half. And that is basically where the market expects them to be a decade from now. And before COVID, they were more like two and a half, and they were expected to rise a bit back then, but not much higher than three. And so we're talking about coming at the back end of all of this with interest rates maybe a point and a half higher than we went into it, again with the caveat of a huge amount of uncertainty around that. But most of the factors that we understand that affect interest rates are saying they should be higher, not lower than they were prior to COVID.

BILL KRISTOL:

And does that also imply, if that's the right term, that inflation stays in the two and a half range, we don't go back to the really low inflation that we had over much of the last two decades?

JASON FURMAN:

I think we probably don't. That really low inflation was unhealthy. It was too low. It indicated that you had more room to move. It created less flexibility for monetary policymakers in managing the economy. So I think we'll have inflation above 2% for the foreseeable future, and I think that's perfectly fine. The one question mark on that though is we go into a deep recession, that does cut inflation and does it come back up? How do we respond to that recession? I think we overdid fiscal policy in response to COVID. I'm worried that we're going to overlearn the lesson, and the next time we have a recession, we'll end up doing too little and suffering more than we need to because we seem cursed to just make the opposite mistake every time. But we'll see.

BILL KRISTOL:

So basically now, and for the next few— you don't expect big change in the next few months. And we are where we are and we're pretty good, right? You and I discussed in the first conversation we had, so I think that was a year and a half ago, would there be a soft landing? As a historian of economic policy and the economy, it's been a pretty soft landing, right?

JASON FURMAN:

Oh, it's much closer to a soft landing than we've literally ever had in at least post-war US economy, and maybe arguably before that. Yeah, and it's been better than I would've thought, but it's still not all the way there. And in terms of where we are on election day, yes, assuming more of the same is always the best forecast in economics. I don't have some reason to predict a recession. The thing is they do sometimes come quickly. So could you have two months in a row where terrible jobs numbers before the election, that would get people's attention? Absolutely. Again, I don't have some reason to predict that, but I'm always nervous about that, and I'm not going to make an exception for this period.

BILL KRISTOL:

And it really could come quickly. Someone like me who's not an economist, you'd look at this giant economy and I sort of think something this giant should change gradually. That's sort of how life is sometimes in giant things, right? Organizations and so forth and trends. And there should be a lot of indications or some indications. But I am struck, as you said, with inflation a couple of years ago and conceivably with recessions, there's something about they happen more suddenly than a layman like me would expect.

JASON FURMAN:

Yeah, that's right. And part of it also is you miss some of the warning signs because the government data is based in part on measurement, but in part on the government statisticians doing their best job of guessing and extrapolating. And they tend to think, if they see the numbers turning really strongly, they're like, "Huh, this is probably noise and mis-measurement." And they basically undo some of that, and three out of four times they do that, that's the right move. But one out of four times you end up missing a recession signal because they de facto smooth some of the numbers.

BILL KRISTOL:

So you think a non-zero possibility of recession talk or indications or worries in the next three or four months?

JASON FURMAN:

Right. It's just asymmetric, right? We've been adding about 250,000 jobs a month. We could add 350,000 jobs a month. I don't think anyone would notice or care that much. That'd be a better economy. But 250, 350, it's a lot. If we went from 250 to 50, all of a sudden you're in a world where the unemployment rate is really sharply rising, then people notice. So I don't think there's any news people are going to get in the next couple months that they're like, "Wow, this is an amazing economy." But there is this risk that they get news that tells them the opposite. So I worry that there's a bit of a guaranteed baked in answer on inflation, which is they're going to be unhappy on election day. And then some sort of downside uncertainty on the real economy jobs picture.

BILL KRISTOL:

And any other surprises that... Anything could happen at any time, one stipulates, but that are visible enough, possible surprises that one might mention? I don't know, bank failures, commercial real estate, I don't know, international crises. Obviously any of these can happen anytime, but any of them strike you as a little more likely than just that they were always likely?

JASON FURMAN:

The commercial real estate has been so anticipated, and you look at things like the debt repayment schedules for the major commercial real estate borrowing and it's really quite spread out. And banking, I think same thing. People have kept their deposits in banks. There has not been anything resembling a bank run. The government has de facto guaranteed those deposits, and that's partly why they've kept them there, even though they haven't formally done it. I think everyone expects that they do that if push comes to shove, just like they did for Silicon Valley Bank. And so again, there's a slow burning issue there around the business model of the regional banks.

Can it survive? There's no reason for that to play out. And then in terms of international crises, look, there could be war in Lebanon. That will be a dramatic event for the world. I don't think it'll be a dramatic event for oil prices. And even if it was a dramatic event for oil prices, the United States is very hedged. Higher prices might even help the US economy, not hurt it unlike the past, but regardless doesn't have a big impact. So one day I'm terrified that China's going to invade Taiwan and the consequences for that for the global economy could be horrific. But I'm certainly not going to go on the record with any expectation that that's happening in the next six months

BILL KRISTOL:

In China itself, you read a fair amount about the economy there. How risky and destabilizing is that, or is it just slower than it was?

JASON FURMAN:

1% of our GDP is exports to China, and they're growing a little bit more slowly. Imports from China, we're getting less of them now in part by choice with things like tariffs, part other reasons, but we're correspondingly getting more imports from places like Vietnam and Indonesia. So you're just seeing a lot of that trade just rework where it's coming from. I don't think any of that is very material to the US economy or its outlook.

BILL KRISTOL:

But a real meltdown there wouldn't be the equivalent of systemic risks for the whole world economy regardless of the... I understand on the trade issue, it's a limited amount, but... or not so much you think really?

JASON FURMAN:

Right. They have somewhat slower growth right now, not a meltdown. I think they have excellent economic officials and enormous amount of resources and a lot of dials to pull, for example, all the state-owned banks. So I think there's not a lot they can do to control structural slowdown in their growth rate, especially given their terrible demographics, but there's a lot they can do to stop a meltdown and I don't think they'll have one.

BILL KRISTOL:

Okay, that's good. You mentioned debt or deficit just in passing, but let's take a minute on that. We've managed to ignore it here for quite a while, years. You haven't, but the system has, so to speak. But I don't know, I almost feel embarrassed to even say it now. Someone's been saying it for so long, but isn't it at some point become a little problematic and unsustainable to be running the level of deficits we're running, not when we want to be fiscally stimulative, but in a good economy when revenue should be pouring into the Treasury?

JASON FURMAN:

Yeah, so two things are true. One is we have much more debt than we used to. It's now up to 100% of GDP. It's expected to rise to about 120% of GDP over the next decade. And I think that forecast is probably too optimistic for a number of different reasons, including Congress will add more to the deficit, and I think it assumes interest rates come down much more than they're likely to, per our previous conversation. So on the one hand, it is true that the debt is higher and it's rising. On the other hand, to your point about people warning about this forever, it turns out we had more space than we realized. If you had asked me in the year 2000 when I was working in the Clinton administration, what a world looks like with 100% debt to GDP and a deficit of 8% of GDP, I would've said, "It's melting down. Interest rates are sky-high. It's awful."

If you had asked me even a decade ago, I would've been very, very worried about it. So it turns out we had more space than we ever realized, but we've also used up more space than we ever expected to. What's the net of those two? I don't know for sure, but literally it can't keep going like this forever. And there's an argument for taking out insurance when you're not sure about something. And right now, I would at the very, very least make sure we're not doing any harm and continuing to add to this problem. But ideally, at every opportunity we can do a little nip here, a little tuck there to put things on a better course. I wouldn't drop everything to have a big fiscal deal tomorrow. I don't think that's imminently necessary. But yeah, we have to every opportunity, make things a bit better rather than what we've been doing, which is every opportunity, making things a bit worse.

BILL KRISTOL:

I do feel like the—this is a political rhetoric thing—when payment on the debt, or interest on the debt passes defense spending, I think it just has or is happening this year as a part of the federal budget. It feels like it has a vague end-of-empire feel to it. Obviously it could be a little bit higher, a little bit lower, but I don't know. I wonder how much... But there hasn't been much political evidence of a Perot type, let's have a real focus on the deficit or the debt type political movement, that's for sure.

JASON FURMAN:

Yeah, no. If you look, Gallup polls every couple of years, " How worried are you about the debt?" And the concerns today are actually lower than they were a decade ago, and in the period before that. It hasn't been a major issue in the political campaign. You had 30 years ago, Ross Perot as a third party candidate centering his candidacy around the debt. Well, we have a prominent third party candidate now, but he's centering his on problems with vaccines. He doesn't seem to be talking about the debt as far as I can tell. So yeah, it hasn't become a politically salient issue. It hasn't become a huge issue for the market. I think it is putting upward pressure on interest rates. The Fed and the Treasury have done what they can to combat some of that through some of the ways that they've been managing the debt.

So I think it actually is in the markets, but it's not in the markets in a very big and scary way. So what could change the trajectory we're on? The electorate could change its mind. Interest rates could go up, or there are these forcing events. Social Security and Medicare trust funds are exhausted a decade from now. That doesn't require Congress to act. They could just transfer money from one part of the budget to another and keep those programs afloat indefinitely. But historically, at least that has forced action, and I'd like to see it force action this time.

BILL KRISTOL:

I feel like a few years ago, smart people were saying that it seemed plausible and reasonable that we can survive at pretty high deficits with very low interest rates, but when interest rates begin to go up some we're going to have to really pay more to service this debt, and they have gone up quite a lot. But yeah, it doesn't feel like it's having an effect on either politics or the rest of the economy much. Is it more a matter of as we refinance more and more at higher interest rates and it has more and more... I guess I don't understand enough how the refinancing works, but where are we on the curve of the higher interest rates are really beginning to hurt or not?

JASON FURMAN:

Right. One of the problems for the United States is we borrow a much greater portion of our debt short-term than any of the other advanced economies. And then it gets technical, but the way the Fed has been buying and then more recently selling Treasury securities de facto makes us even more short-term in our borrowing. So we are very, very vulnerable to short-term interest rates. If those don't fall or even go up, we're in a much worse place than what we're currently counting on. I wish we had borrowed more long-term back when it was 2.5%, even at 4%, four and a half percent. I personally would be doing more to lock in borrowing at that rate, taking away that tail risk of short-term rates going up. So we're quite vulnerable in terms of the amount of debt we need to roll over each year and to what happens if we're wrong in our short-term interest rate forecasts.

BILL KRISTOL:

So maybe the next term might be maybe it comes up as more of an issue, but in the next four years, or maybe it's even a little further out, it sounds like in terms of just one ... I guess we just don't know, right?

JASON FURMAN:

Well, there's one place where it's going to be a big issue policy-wise, which is the tax cuts that were passed in 2017. The corporate tax cuts were basically permanent. The individual tax cuts basically all expire in 2025, and Congress could extend all of them or extend none of them or do something in between. Extending all of them would cost about one and a half percent of GDP. Just to put context on it, our underlying fiscal problem is probably about 2.5% of GDP. So we take it from 2.5% to 4%, so it would roughly add 60% to the size of our fiscal problem. Another way to think about it is the cost of those tax cuts is equal to the shortfall in both Social Security and Medicare combined. So people say we have an entitlement problem, we would effectively be doubling that entitlement problem if we extend those tax cuts unpaid for. So, it seems like maybe it's a technical issue or something, but it's a $5 trillion issue, and a huge issue relative to the magnitude of our fiscal problems.

BILL KRISTOL:

When I see these numbers about what the deficit will be or the total debt will be five years from now or 10 years from now, they're assuming because it's what the legislation says that the tax cuts expire or that they get continued?

JASON FURMAN:

They assume that the tax cuts expire.

BILL KRISTOL:

CBO and OMB and all that, yeah.

JASON FURMAN:

So that's another reason why there's more risk of—

BILL KRISTOL:

Yeah, so that's from a deficit point of view, if one assumes in the real world of politics, some of those tax cuts get continued or replaced by other tax cuts or something like that, and there's not a big net tax increase or increase in tax revenues, things could be worse on the debt deficit side than just the numbers. If you Google what is the CBO prediction that it looks—

JASON FURMAN:

Exactly, exactly. Now, there's a bit of good news here, which is in order to avoid that problem, you just need Congress not to act or the President to veto it. So it's a little bit easier to stop something from passing than to de novo pass something, but only a little bit because there'll be obviously a lot of political pressure. But I'm hoping people can say, "You know what? When you're in a hole, don't dig it deeper. We don't need to pass any law here." If Congress just does nothing next year we'll be in much better shape than if they do something to extend that.

BILL KRISTOL:

It is amazing. It shows so much about the character of our politics today and how it's about God knows what, but not about reality in some ways. In a normal world, if you had this expiring tax cuts the next year, and you had a real question about the debt and the deficit, which would play into the question of whether they should be allowed to expire or partly expire or not, and you had pretty radically different views about what the right tax policy is by the two Presidential candidates in their parties, really radical is too strong, but pretty different views, you could explain how different. This would be a big issue.

It's like it's a Reagan/Mondale thing. It's two different visions of how big the public sector should be, and how much should go to the wealthy in business, or to the poor, or to deficit reduction. And I don't know, do we even, I guess I assume they'll get asked about it Thursday night in the debate. We're talking here, what is it, Monday, the 24th of June. But it has been almost absent, and tax policy used to be kind of a thing that people debated in Presidential elections.

JASON FURMAN:

Yeah. No, the tax policy debate has been such a small part of this election. Trump hasn't been very clear about what he's going to do. Biden actually hasn't been crystal clear either. The President puts out a budget, it has hundreds of lines, hundreds of pages of detail about tax policy. Clearly he's going to raise taxes on the wealthy, but he never explained what he's doing about the expiring tax cuts. Sometimes he says they'll go away, sometimes he says they'll go away for people above $400,000, so he hasn't been totally clear on that part of it. But definitely, even without lack of clarity, one of these people is very interested in, for example, cutting the corporate tax rate, the other is interested in raising the corporate tax rate, and that's a big difference.

BILL KRISTOL:

Well, so let's talk about that, and it's just economic—not just—from an economic point of view that we don't know exactly what Biden would do, we don't know exactly what Trump would do. We don't know if they'll control one or both Houses of Congress if they win and so forth. But assuming Trump policies sort of resemble what he's talking about and mostly get enacted, and then the same on the Biden side, what are the headlines and what are the differences? So much so often in American politics, there are these fervent debates, and then 10 years later, A, you could look back and can't quite remember what they were about. And B, when you look at the charts and the graphs, it's a very tiny difference in actual economic outcomes or distributional outcomes even. But I don't know. Tell me about a little bit about... Trump's the more dramatic alternative, I suppose. Begin with whichever you want, Biden or Trump.

JASON FURMAN:

Oh, yeah. The one place that President Trump or former President Trump has been completely explicit is on tariffs. He spelled out exactly what he'd do, which is 10% tariffs on every single country in the world and every single thing that we buy from them. And then at least 60%, and he's also entertained higher on everything coming from China. Moreover, in private, he speculated about doing even more than that. He reportedly told the Business Roundtable that he would consider getting rid of income taxes and replacing it with tariffs, something that is basically mathematically impossible, I wouldn't take that as a literal policy, but I would take that as an expression of the enthusiasm that he has now and has always had for lots and lots of tariffs.

So what would this do? It would raise consumer prices, which would obviously show up as inflation. It would lead to reactions, it's not like other countries are going to sit there standing still and just let us put tariffs on. They're going to put tariffs on us. The net effect on things like American manufacturing are completely ambiguous and could easily be negative for a number of different reasons. One is, half of what we import is intermediate inputs. So you raise the price of steel, and it makes it harder to make cars in the United States. So in that sense it'll hurt manufacturing. The tariffs that we get on our exports will hurt American manufacturing. And overall, you look at the totality of his policies, and for a variety of reasons they would probably strengthen the dollar, which will make it harder for exports and for manufacturing.

I don't think it would do anything, by the way, about the trade deficit, which is one of his stated motivations, because again, you get some offset in terms of the exchange rate, and you get other countries putting tariffs on us. So, it'll shrink exports, and it will shrink imports. That'll make us worse off as consumers, worse off as producers, and won't even solve the thing that he thinks, I think mostly inaccurately is a problem, which is the US trade deficit. So I'm not such a fan of that policy.

BILL KRISTOL:

Yeah, and it's surprising that he talks about it. As you say, he is pretty explicit about that one, and I think there's even some documentation to back it up in various, I don't know, somewhere. But, it seems like it could be more of an issue than has been made by the current administration or by Democrats.

JASON FURMAN:

Yeah. Look, you could send someone walking into a Walmart and just pick up each item, "Hey, here's the increase in price on this one. Here's the increase in price on this one. Here's the increase in price on this one," and by the way, an awful lot of those items are not things that we make in America. We don't make toys here, mass-produced toys, and we're not going to start mass-producing toys just because of a 10% tariff, we're just going to raise the price on that whole aisle in Walmart. And yeah, it's amazing that someone went out and proposed that. Really quite amazing to me,

BILL KRISTOL:

And they were also not a, it's not a progressive tax, so it's a flat tax, as it were. So it probably would hit an awful lot of middle and lower, middle and working class people pretty hard.

JASON FURMAN:

And it's actually regressive. It's the same rate for everyone, but lower income households tend to spend a higher fraction of their income on goods and imported goods. As your income goes up, you're spending more money on restaurants, on travel, on all sorts of services that don't end up getting hit by this tariff. So to be clear, everyone's going to be hit by it, but percentage-wise, take away more of the income or purchasing power of a low or middle income family.

BILL KRISTOL:

I get the basics.

JASON FURMAN:

And by the way, we're talking a lot. We're talking about $1,800 for a middle class family. This is a very, very large amount that this would change for them.

BILL KRISTOL:

Do you think, this is partly politics, not economics, but you're very involved in senior-level political discussions when you were in government and today, too. Is this partly, Biden is himself slightly pro a milder version of tariff and made in America and all that, and he doesn't want to be the classic free trade guy as you were just articulating, basically? Or is it because... I just feel like, again, back in my day, if I could put it this way. When someone had an economic policy that even in a distorted way, honestly, could be said to increase everyone's costs or taxes by $1,800 in the average household, that would be a big, there would be ads on television about that every day.

JASON FURMAN:

Yeah, look. I think that might be part of the complication. President Biden just put tariffs on some Chinese goods, like EVs. His tariffs applied to about $30 billion a year of imports. The Trump proposals would apply to about $3 trillion, so literally 100 times more stuff is subject to it. I thought the Biden ones went too far, I didn't love all of them, but there was a theory behind them. We're targeting one specific country, which is China, and we're targeting a specific subset of things from there because we have this theory that we have a shot at making them, and if we miss out on that shot now, we'll never get it. And I think there's some truth to that and some not-truth to that.

A 10% tariff on stuff coming from Canada or the United Kingdom, that by the way, we can't make in America no matter what, there's just no theory to the Trump ones, there is to the Biden ones. But yes, it complicates it. What do you say? "He's doing a huge increase on the middle class, and I'm just doing a small increase on the middle class." That's a slightly tricky message.

BILL KRISTOL:

But the scale is so different. And it's one thing to say there's certain industries that are either strategically important, or I don't know, huge growth industries in the future where China's going to dump the stuff so much that we'll never have a domestic EV industry or whatever. And it's another thing to just say, "The heart of my economic plan and my revenue raising plan for the government is tariffs." I feel like that wouldn't be that hard to explain.

JASON FURMAN:

Oh, yeah. Oh, no, no. Yeah, I don't think it's that hard to explain. And look, a lot of outside allies of President Biden have been out there explaining it. A lot of economists, some op eds, etc., so it's still early. We'll see how big this is, including in the first Presidential debate.

BILL KRISTOL:

But yeah, that would be interesting on Thursday, how much President Biden makes an issue of it. I guess the business community is not quite, I don't know, you think they might be a little more worried about a world of tariff barriers and competitive tariff hikes, as opposed to the mostly free trade-ish world that they've gotten accustomed to over the last decades. But I don't know.

JASON FURMAN:

Yeah, I'm not sure exactly what the business community thinks of President Trump. You have a few high-profile billionaires, mostly in the finance industry, hedge funds, that are supporting him. Jeff Sonnenfeld at Yale School of Management and is more in touch with CEOs than basically anyone in academia in this entire country. His view is you look at the top hundred Fortune 500 CEOs of public companies, and none of them are donating to Trump, none of them are supporting Trump. And he says that something like that is unprecedented.

So, I think he has less business support than you'd think from the few high-profile names that you know, although it is totally fair to point out, it's not like the business community's out there warning in very strong terms and panicking about him. They've largely made their peace with it, but I don't think they're enthusiastic.

BILL KRISTOL:

Yeah, I agree with that. The corporate world as opposed to some hedge funds and so forth. Yeah, they're not enthusiastic about Trump or maybe of giving much money, but they're not actually opposing much either right now for their own reasons, either out of conviction or fear of what might happen and so forth, so they're just kind of passive.

JASON FURMAN:

Right. Look, what I think is, there is some percent chance, and I'll speculate the numbers in a moment, that he's not going to do anything he says. That he's going to obsess over the stock market and that'll force him to appoint responsible people to the Fed and not do tariffs, and they'll do some deregulation, which will be nice for business and maybe harmful to our long-run broader wellbeing in terms of climate change or may be fine, who knows? But then there's some other percent chance that this time he's not going to have some of the responsible restraining forces that he had the first time around. That he's not going to care about reelection or some motivation like that. And he will follow through and do exactly what he's told us he's going to do. And, that first chance might even be 90% for the good case and 10% for the bad case, but that bad case is really bad. And it's not the type of risk that I would recommend that we take.

BILL KRISTOL:

Yeah, and it's not 90/10, if I can give you my opinion, which is because one thing that Paul Ryan—

JASON FURMAN:

Even if it's 90/10.

BILL KRISTOL:

I know, I'm not saying, but I'm just—

JASON FURMAN:

Yes, I'm happy to be argued down.

BILL KRISTOL:

A Paul Ryan, Mitch McConnell-dominated Republican party who passed his tax cut, but they were going to do some things that Trump wanted in 2017, '18, they were not going to do certain other things. I think that's pretty different from the much Trumpier, but also America First protectionist, etc. Republican Party we now have, and people have been elected and people have run on it, and some of the more prominent Republican Senators are now really onboard with this, and Mike Johnson is and Paul Ryan. So I think that yeah, the degree to which the risk is partly higher because of who would be in his own Administration, I think that's a huge risk because of the way this is all shaping up as opposed to the last time when it was Gary Cohen and Jim Mattis and all these characters.

But also I think the party itself and the conservative infrastructure underneath also isn't what it was. Heritage in 2017 wasn't heritage of 2025, right? So I think people are, from my point of view, they're used to discounting foolish things Trump says, but they aren't looking enough at the movement of which he's now obviously the leader, getting a nomination for a third straight time, which is different from what in the situation of 2017. But—

JASON FURMAN:

Yeah, by the way, let's get specific on that with one example that I think illustrates that broader point, which is Fed nominees. In the beginning of his first term or his term, president Trump nominated totally responsible, respectful, respectable, excellent people to the Fed and they got confirmed by the Senate. The end of his term, he started appointing people that were really far outside the mainstream like Judy Shelton and Steve Moore and Senator Pat Toomey said, "No, I do not want these people on the Fed. They don't know what they're doing. We'd risk all sorts of problems if they were there." And he stopped them from getting on the Fed.

Well, Senator Pat Toomey is not in the Senate anymore. He's wherever Paul Ryan is right now looking in on it from the outside. And so I don't see who the Republican senators are that would stop a Judy Shelton or Steve Moore from being not just appointed to the Fed but even appointed to chair of the Fed at this point in time.

BILL KRISTOL:

No, that's really a striking... that's a very good way of making my general point, the general point so much more specific and real. And it's a very important one too. Then you really, you're in a different world with that type of Fed chairman, right? I mean that's a pretty big difference and a different type of treasury secretary and suddenly you're... Yeah, that's interesting.

I mean how much, generally speaking, I don't know, do you find, just looking at the public debate, all the premises of the free trade on the whole is better than the alternatives, doesn't mean you don't curb it in certain ways or modify it in certain ways. Immigration, I'd say is another area where economists are pretty united, I think in being pretty liberal, let's just say on immigration policy.

They can quarrel about high skilled, low skilled, and obviously the border is a question. But I am struck that there's how little... I don't know, president Biden's had to move pretty far in immigration away from what he wanted. I think. On trade he's mixed obviously. How worried are you that assuming the economic consensus is right, that basically in terms of our general national welfare, little more immigration will be better, not less and freer trade will be better, not less. How worried are you that that consensus is... How badly [inaudible] do you think that consensus is I guess is what I'm saying?

JASON FURMAN:

Yeah. So first of all, I'm in favor of openness. Openness to trade, to people, to ideas, to capital across the board. I think we're better off because of it and the world is better off because of it. And just more tangibly, you look at the last couple of years, how have we been adding jobs at the rapid clip we have? That's immigrants.

How has our growth rate been 3% in real terms, that's because of immigrants. Fast-forward the next decade, we don't have immigrants. We have a shrinking labor force and just both economically we are impoverished. Our fiscal problems are that much bigger because who's going to pay for the retirees? And something like great power competition with China, we'll be in worse shape too.

So it's really, really important. In terms of people's perception, I get why we have seen a large change in the immigrant share of the population. It is higher than it's been at any point for something like the last 125 years, there are cultural dislocations associated with it and there's a certain appearance of lawlessness to the way people are coming over the border and the like.

So I think people have a set of concerns that it's important to understand and relate to and do what you can to address them while not missing out on the bigger picture gains. By the way, this is every country. It's not just the United States. I mean every country—

BILL KRISTOL:

Well that's right.

JASON FURMAN:

...is dealing with this. But by the way, we're sort of luckier. I mean our immigrants work at much higher rates. They contribute much more to the economy. In Europe, I'd probably be pro-immigration there too. But you look at recent arrivals in Europe, most of them are unemployed. You get maybe larger and more disruptive cultural changes associated with immigrants in Europe than anything you see in the United States.

And so mostly people come here because they want more money and they want more safety and security and they want jobs and they want to contribute. And we're incredibly lucky to be a magnet for that and we should do everything we can to take advantage of it.

BILL KRISTOL:

And I think, I mean flip side of that in a way is that if we give up though on those, let's call them liberal policies, it's because in a way they're easier for us to perhaps implement because of various geographical accidents and so forth. We're just a big powerful rich country. No one else… There's not going to be a liberal world order if the US is not a liberal, in my opinion, if the US isn't kind of at the heart of that.

It's a little much to ask the Greece and Italy or even Germany and France, you guys should stay on the liberal path on trade and immigration and so forth. We're giving it up. I don't think it... yeah, so.

JASON FURMAN:

Yep, absolutely.

BILL KRISTOL:

A lot is at stake. One thing that surprised... that kind of freaked me out a little is the, so there are these statistics came out fairly recently, I think it was fairly recently that most of the growth of jobs in the last year, I can't remember the last couple of years, is not nnative-bornworkers. And indeed the number of native born workers has gone down because a couple of hundred thousand or something like that.

I think maybe just over the last year. And then this was just taken not just by irresponsible, right-wing cranks, but by conservative think tanks or right wing think tanks. But US senators including some fairly prominent ones and some fairly intelligent ones, this shows, this is Biden's world, right? All the jobs go to the immigrants, mostly presumably the illegal immigrants flooding across the border or something and he doesn't want to give jobs to... the "native" Americans are suffering.

And then it took a week, I don't know a week, it took a couple of days for enough people to say, wait a second, I mean the number of actual native-born Americans seeking jobs is going down each year because of the demographics of native-born Americans and people like me are not seeking much in the way of new jobs. And so A, there's no discrimination against them, there's no harm done to them. They're not losing jobs to anyone, they're just not as many of them competing. And it's these immigrants, as you said earlier, who are actually driving the growth in the labor force and in the economy in some respects actually. But I was really struck just in... I don't know how much you... You were following this some, quite a lot actually. Like, you were one of the ones who corrected the alarmism, but I was struck how much it caught on. It shows what the... such a receptivity to the notion that these immigrants are taking our jobs as opposed to as a matter of an actual just demographic fact, the number of jobs held by native born Americans is decreasing.

JASON FURMAN:

Yeah, look, I mean I get it a tiny bit. If you look at some of the charts and some of the way they're presenting, it's incredibly striking. Jobs for immigrants, way up. Jobs for people born in the United States, down a little bit, but then you look at it in a better way.

So for example, you look at the employment rate for people aged 25 to 54, sometimes called prime age workers who are born in the United States and that employment rate has gone up. So how did jobs go down and the employment rate went up? Well, it's just what you said, fewer people are looking for jobs. Why is it fewer people are looking for jobs? 'Cause they're retiring!

The native-born population is getting older, and this is precisely the point that we've understood for some time now, which is without immigrants, we are going to have a shrinking number of jobs in this country and with immigrants it'll rise. So that fact about the immigrants that makes it look like the immigrants are getting all the jobs, that is going to be for the next 20 years, a fact.

And the only way to make that not a fact would be to stop immigration, in which case you'll still have for native born workers, their employment will go down, but you won't have anyone's employment going up. So it's just native employment is going to shrink no matter what we do. The question is do we want the economy to shrink with it or do we want to still have economic growth, still create resources for competition with China to pay our seniors, et cetera. That's really the issue.

BILL KRISTOL:

Yeah, no, that's well said. And I hope people kind of come to their sense about that. Maybe I'll just close by asking you, I mean, do you agree with the argument though that with sensible, not even excellent, but just like normal semi sensible economic policies, the US is in pretty good shape actually, that, I mean, it is striking how much of the tech is here and how much of the innovation and that we still seem to have an awful lot of advantages?

And in fact, we have, I think this is true, we've had a better recovery than almost everyone else in the world. And that must be due to, maybe due to some good policies, but also just underlying strength. How true is that? How much is that just happy talk and we have real problems ahead? I mean, where are you on that spectrum?

JASON FURMAN:

Yeah, I just came back from a meeting with economic policymakers and economists in Europe and they are just to a person incredibly jealous of the United States. They would love to have our short-term economic recovery. They'd love to have our longer-term productivity. They'd love to have our stock market.

They would love to have our technology companies. We really, really are right now economically the envy of the world. So I think it makes a lot of sense that we worry about our problems and figure out what we can do to make it even better. I don't think when voters go to the ballot box telling them you're in better shape than Germany means a whole lot. But we should be able to at least step back and say, while we talk about all these problems and all these worries, the big picture is a really quite extraordinary American economy.

BILL KRISTOL:

Okay, that's good. That cheers me up. Anything else we haven't covered that you should alert people to here over the next four or five months?

JASON FURMAN:

Well, having said that, I don't think I want to say anything else.

BILL KRISTOL:

Yeah, that was good. Okay. It's a good thing to end on. I agree. Jason Furman, thank you for joining me today and thank you all for joining us on *Conversations*.