

CONVERSATIONS

WITH BILL KRISTOL

BILL KRISTOL:

Hi, I am Bill Kristol. Welcome back to *Conversations*. I'm very pleased to be joined again by Jason Furman, professor of economics at Harvard, teaches the key Introduction to Economics course there, EC10, head of the Council of Economic Advisors under President Obama, lots of experience in Washington, lots of experience in thinking about economic policy and explaining it clearly and cogently, as he has done on several conversations with me. So, Jason, thanks very much for joining me again.

JASON FURMAN:

Thanks for having me again.

BILL KRISTOL:

Our last conversation I think was in June and we discussed the soft landing, which seems to have happened softly and pretty successfully. But I think today, what would be helpful to people, it's Tuesday, October 8th, four weeks out from the election, is to talk about the contrasting economic plans and policies of the two candidates. So, we can talk about how much of them will actually go into effect. But there are, for all the talk that there hasn't been that much policy in this campaign, which may be true compared to some other earlier campaigns, they have laid out economic plans that are pretty distinct, haven't they, Jason?

JASON FURMAN:

Oh, yeah. They definitely have laid out plans. Hers is more specific than his. And broadly speaking, I characterize the Harris approach, as if she's president, you're going to get less of the same. It's going to be like Biden, but a bit less in a number of dimensions. A bit less in part because you don't have the context of the pandemic, which led to this huge response, a bit less because there was even some burn, being burned by some of the larger things. The Senate is two thirds chance of being Republican if she's elected president. And finally, I think her instincts are just a little bit more towards wanting to pal around with CEOs than labor leaders relative to Joe Biden. So, for her, the overall approach to me seems pretty clear.

For Trump, in many respects, it is less clear. He's enormously erratic. He changes his mind on lots and lots of things. And there's one Trump of responsible advisors who doesn't do anything he says on the campaign and things turn out basically fine. There's another Trump who does follow through on everything he said in the campaign, and that could be a pretty large downside for growth and a large downside in terms of higher inflation. And I think the worry is that two of the things that Trump is most attached to, immigration and trade are two of the ones where there's almost an unambiguous answer as to the macro impact.

BILL KRISTOL:

I mean, I have the sense in other spheres, like foreign policy, that unlike his first term, where he was at least for the first two or three years checked by fairly conventional establishment Republicans in key positions, certainly in foreign policy, to some degree in economics, I suppose, with Gary Cohn and others, and Powell, the Fed chair, that the second term will be more Trumpy. I mean, he learned some lessons. JD Vance is much more committed, I would say, to ensuring that we have an America First, Project 2025 type administration. Do you feel that that's the case in economics, that the mainstream side of the equation diminishes some and the Trump-specific priorities are more likely to be enacted or attempt to be enacted?

JASON FURMAN:

Yeah, I think that is the most likely scenario here. There are three things that have shifted from his first term that I see. One is just his own attitude of, "Let Trump be Trump. I'm not going to make the mistake of appointing people to constrain me." And the shift from Gary Cohn to Larry Kudlow was a very large one, and I actually like Larry Kudlow a lot, he's a terrific guy, but he was not a huge constraint on Trump. And you saw that in, for example, the people that Trump either nominated or said he was going to nominate to the Fed towards the end of his term, were very, very different and much, much worse than the people he had at the beginning of the term. So, that's the first change, is what type of White House and administration you'll have.

The second is the Congress. It is much more of a MAGA Congress than it was during the first time he was president. Would be more enthusiastic and less of a constraint on it.

And the third is at the level of ideas. I think the intellectual support for Trumpism is still quite weak, and I'm not sure you could make a strong, overly coherent version, but there's much more of an effort to do it now than there was eight years ago. I mean, I'm struck that I can go on CNBC and they will find people from The Heritage Foundation to argue that replacing the income tax with tariffs is a good idea. I mean, that is not something that there's any economist in the universe anywhere in the political spectrum that would think was a good idea, but Heritage is out there, Oren Cass is out there. I don't know how much it matters, but there are more of a set of people saying, "Actually, this is a good idea," than was the case eight years ago.

BILL KRISTOL:

Yeah, Heritage, would doubt it would have said it was a good idea eight years ago to be, that it's a big ... I think that's a very important point that I think some people underestimate because they still live in a world where there's the establishment of Brookings and AI and Harvard's economics department and so forth, and there's a big MAGA infrastructure, which includes a policy infrastructure. You and I might not think highly of those policies, or think that they're being somewhat disingenuously promoted or based on bad analysis, but they are there. The notion that he's not going to have anyone to staff his administration is not correct, I think.

JASON FURMAN:

Yeah, I think that's exactly right. And I think that is just, again, a change from when he walked in the door eight years ago.

BILL KRISTOL:

So, you mentioned tariffs—

JASON FURMAN:

He's running a campaign, by the way that is... He is not very disciplined, but the campaign itself is well-run and well-managed and well-disciplined, at least compared to 2016. And so, in some respects, I think his White House might actually be able to get more done than he did when he was president.

BILL KRISTOL:

I really think that's where they're—separate issue in a way—but where the selection advances, the vice presidential nominee really changes the dynamics. He will view his role, I am pretty confident, as enforcing a kind of discipline that wasn't enforced in the first term and a kind of, as I said, project 2025, America-first type of enforcing the agenda and the people who would carry out that agenda, and there's an infrastructure to help him do that. So, yeah, it would be more radical maybe is the right word. I don't know, more ideological administration, I suppose, than the first term would be.

Well, you mentioned tariffs. Why don't we begin with that? I wouldn't say trade is normally the lead issue of contrasting different economic policies, but in fact valuable [inaudible] ton of economics had a lot of bipartisan consensus on trade for decades and decades, but not with

Trump. And so, he's really talked a fair amount about his tariff proposal. I mean, what is the proposal? Could he get it done? How much effect would it have on the economy as a whole?

JASON FURMAN:

Yeah. No, I think this is a good one to start with because first of all, while Trump over the years has changed his mind on lots of things, this is one where he has been very, very consistent in his views.

And second, in the United States, the president has just an enormous amount of latitude to set tariffs, which is amazing, 'cause it's basically it's basically a tax, and the Constitution is actually explicit about a tax, not just Congress as a whole, but even who has to initiate the legislation, which is the House of Representatives. But with tariffs, just a lot of that authority has been delegated to the president.

He originally proposed a 10% across-the-board tariff, plus a 60% tariff on China. That met a lot of criticism. For example, raising costs for a middle class family by \$1,700, even more on a percentage basis for low and moderate income households, and hurting growth, raising inflation, etc.

In response to the criticism, Trump is now talking about it might be 20%. He's literally doubling down on the original proposal and has layered on additional ones, reciprocal tariffs, 100% tariffs if you don't use the dollar, and I can't remember if it was maybe even 200% tariffs for John Deere, something like that for companies he doesn't like.

Let's break the two parts apart, the China part and the rest of the world. The rest of the world I think is pretty straightforward. A lot of our trade is with countries we're closely allied to. You're talking about Australia, Canada, Germany, and some of these cases like Australia and Canada, we have free trade agreements that we would be violating. In others like Germany, we may not have an agreement, but they're a close ally of us.

Moreover, those tariffs would be on everything. It would be on consumer goods that we don't make here in the United States and don't have a plan to make and have nothing to do with national security, like ballpoint pens. It would also be on intermediate inputs to manufacturing that would make it much harder to be competitive because half of what we import is not a final good, it's going into the production process itself. And so, this across-the-board tariff has almost no justification. What exactly are we negotiating? What's our complaint? These are countries that on average have tariffs of something like 2%, 3% against the United States, and now we'd have 20% against them.

Now, let's take the China part. I think there is a—

BILL KRISTOL:

Just on the general tariff for a second. So, that would increase the cost of these goods. I mean, just by definition, right? That's what a tariff would do, unless I guess stores in the U.S. swallowed a 10% reduction in their margin, which just seems unlikely. But would that be the whole effect, or would it have a knockout effect on U.S., other prices on goods made here?

JASON FURMAN:

Yeah. No, it very much would have the direct effect, which is the obvious one that you just said, and then it would have a knock-on effect because for the half of it that's intermediate inputs, you're not going out and buying machinery or steel or whatever, but you're buying things that are made of that. And so, that part of the tariff will show up in higher costs.

Moreover, it'll make it inefficient to produce in the United States. The history of this isn't just that it shrinks imports, which, by the way, shrinking imports is a bad thing because we love imports. We, every day, go out and buy things that are made around the world because it's terrific. We'd be much, much poorer if we tried to make everything in the United States. But it doesn't just shrink imports, it also shrinks exports. And the way the economics of it works is you divert resources to make the imports that you're no longer importing, and those often come out of the exporting sector.

So, we're losing jobs in exports, we're losing consumer benefits in imports, GDP is going down, inflation is going up, and then the Fed is sitting there not really knowing what to do because GDP down, they want to cut rates, inflation up, they want to raise rates. Is it going to be permanent or temporary change in inflation? Well, it depends on how it gets embedded in expectations. I would expect all of that would shake out with higher interest rates as a result of the temporarily higher burst of inflation, and those higher interest rates would themselves have a knock-on effect on things like the housing sector.

BILL KRISTOL:

And this doesn't even include, just to take one more minute on the general tariffs, the fact that other countries might reciprocate. I think people sometimes say to me, not that I'm an economist, but I'm talking a little bit about the tariffs thing, it's serious, and people should focus on it, and, "Well, it may not happen. Trade's not a huge percentage of the economy." So, if some prices go up 10% on the ... 10%, 15% of goods that we buy that are imported, I guess it's hard to measure because there's intermediates, you say, intermediate stages and so forth. But I mean, we can live with it. But I mean, I think one reason people get a little freaked out about it is we have some history of raising tariffs and then the other country raising its tariffs, and that hasn't worked out very well. Is that right?

JASON FURMAN:

Yeah. As I said, the main thing economically is you get less exports, less imports. That's without any retaliation. When you get retaliation, you get that effect even more. And it's a profoundly naive view of the world to think the United States can just do whatever it wants without any expectation of retaliation. And we also don't, I don't think we fully understand, we're an incredibly important economy, but the majority of the world's countries, the majority of their trade is with China, not with the United States. China is a more important trade partner for most of the world, and that further reduces the amount of leverage we have, and we have to be realistic about that and understand that.

BILL KRISTOL:

From a geopolitical point of view, you're driving countries into a closer relationship with China and a less close relationship with the United States, which certainly isn't good.

JASON FURMAN:

Yeah. Look, I mean, India, they're an important ally for the United States in many, many respects, both economically and geopolitically. They are hoping, part of their strategy is to capitalize on the U.S.-China trade [inaudible] to have more production shifting to India. And now all of a sudden, we're going to shut that down. I don't think Modi is going to be quite as wonderful a friend to the United States in that world. And that's not something you can measure in GDP and inflation and model out and calculate, like the \$1,700 cost for middle class families, but it's just as certain.

BILL KRISTOL:

Yeah, that's really interesting. And on China, there's some case for ... Well, is there a case for some specific tariffs? I mean, Biden has kept some or imposed some, and there's, I guess, arguments for ... Well, I'll let you explain what this—

JASON FURMAN:

Yeah, look, I think China's is a different story. There are a set of issues and challenges that China poses to the United States and the world. Don't think you can say the only issue is, "Let's take advantage of gains from trade and ignore everything else that's going on." But I think this administration has actually gotten it right rhetorically, even though I don't always agree with the implementation of it, which is you need to have a small yard and a high fence.

What does that mean, a small yard? Things that are important for national security; microchips. We're going to be really tough on investment into Chinese microchip factories, giving them some of the crucial things they need to build their own microchip supply chain. I'm under no illusion that is not good for us economically, that is not helping our economic growth, but it is a cost that is worth paying. Just like sanctions on Russia are not helping American growth, they're not a very big cost, the sanctions on Russia, but they're a small cost that is worth paying.

Where I think the Trump approach goes awry is we have nothing to fear from toasters, or washing machines, or toys, or any of that made in China, and we do benefit from trade in those. I think geopolitically, if the US strategy looks like it's about China becoming poorer, that's not going to work out that well. By the way, if we make China poorer and make ourselves poorer, it's not even clear what we do to the relative power that the two have. And we can have a plausible shot at getting the world to work together with us on a legitimate set of issues around China. We've gotten the Netherlands, for example, to join in on microchips, Japan as well. We can't get the world to join in with us on an across-the-board punishment for China with the goal of getting China to buy more American products.

You're not going to get Japan going to China and say, "The thing you need to do is get more soybeans and airplanes from the United States." So we need to keep our China list principled, focused on national security, and do it together with our allies rather than be indiscriminately attacking both allies and every single sector in China.

BILL KRISTOL:

And I guess Trump could respond, "Well, this is bargaining, Jason. You don't understand this is how you ... You have to start off with this number, and then they'll open up their ..." What exactly is the thing Trump wants to get from China that would allow him to go from 60% down to 10%?

JASON FURMAN:

Look, in the first term, he got a wonderful agreement for them to buy more stuff with only two problems. One, they didn't buy the more stuff, and so the agreement didn't work. And two, even if they had, would've been probably just reshuffling the deck chairs. They'd buy something ... We used to sell soybeans to Europe and Brazil sold soybeans to China. Now, China buys our soybeans, Europe buys Brazil's soybeans, and the whole trade every which way nets out to the same thing. So that was what he tried to accomplish in the first term. I don't think it was a goal that made sense, and it was not a goal that succeeded.

And then you go back to the worldwide tariffs. What exactly are we trying to get from Australia, New Zealand through these tariffs? What are we negotiating? I have no idea. And by the way, they've said repeatedly that these tariffs are paid by foreigners, which is not true. They've said it repeatedly. If you believe that, why wouldn't you want to have them? And by the way, are we going to end up with exceptions? Is it going to be 20% on every single product in every single country? Probably not. But is half of that ... If it's only on half of our trade, that's pretty bad. And if I had to choose between a tariff on final goods, which hurts consumers, or tariff on intermediate inputs, which hurts producers, I'm not even sure which one I think is worse. They're both pretty bad.

BILL KRISTOL:

I do feel like ... I was in government in '89, White House '89 to '93, and Vice President Quayle, being a vice president, gets a lot of the less exciting foreign policy assignments. So we had many trips to Asia and to Japan to try to badger them to reduce trade barriers, tariffs, but also non-tariff barriers that they blocked, auto imports and auto parts. I remember hearing more talk about auto parts than I thought I'd ever. I managed, thank God, to have the US Chief of Staff, but had the US Trade Representative, Carla Hills, brief the vice president and let them recall, let them decide on their strategy, and I just made sure the meeting took place at the right time in the right place. But I guess I wonder in Trump's generation almost, it was like that was a problem.

And it was kind of a real problem, right? Australia didn't let in some of our, I think agricultural goods or something, and tariffs was kind of a way to bargain. But I feel like ... I haven't really followed it honestly, but that's not quite the world we live in now, right?

JASON FURMAN:

Yeah. Yeah. There's a few things. First of all, something like the Trans-Pacific partnership, which Obama negotiated, Trump killed, and Biden has zippo interest in reviving, under that, there were larger tariff reductions overseas than there were in the United States for the simple reason that countries that were in that agreement, like Vietnam, they had much higher tariffs than the United States had, so they were lowering them much more. And by the way, that actually helped Vietnam even more than it helped the United States. They actually suffer because of a bunch of those. For agricultural markets, TPP would've been a huge opening to Japan. So generally, the successful way to open these markets historically had been we offer something in exchange for them opening them.

BILL KRISTOL:

Right.

JASON FURMAN:

And by the way, because we're more open than they are, we are offering them, in some sense, less than they're offering. As I said, who benefits from the concessions isn't always obvious. The person making the concession often benefits from it. So that was more the historical model. The other thing is, and this is a tricky issue, it's not completely obvious, Europe has put tariffs on electric vehicles just like the United States has. With Europe, the end game looks like they want more Chinese factories making EVs in Europe. That does not look like the American end game. That, of course, was the end game for the Japanese car companies. A lot of where it ended up, and I don't know how much was planned in advance as a strategy or not, was we don't want to buy all your cars. Oh wait, but if you want to make them here in the United States, that's a different story. For EVs, there's a lot of nervousness about Chinese FDI in the United States, and I think there's good reason for that nervousness, but they know a lot of things we don't know.

This is not world of 20 years ago when the United States could spread its knowledge by investing all over the world. This is a world where they are much better than us at making electric vehicles. They are much smarter than us about solar panels. If they open factories in the United States, it's not just jobs for our workers. We're inevitably going to learn a certain amount from them as well. So I think an attitude that is more open to foreign direct investment is something that we need, especially in places where we're behind, and we're behind in those places.

BILL KRISTOL:

Yeah, that's interesting. And finally, on Harris, you'd mentioned briefly Biden had just ... Do you think Harris continues Biden's policies? And how would you describe those policies? Sort of free trade-ish but no further, no enthusiasm, you say, for reviving TPP, and he didn't remove some of the Trump tariffs, and so forth.

JASON FURMAN:

Yeah. No, I think the less of the same works here. It probably doesn't work in every area, but this is one of the ones where it does. They kept the Trump tariffs in place. I don't think anyone in the administration really liked them, but they didn't want the political accusations of, why did you get rid of them? Why were you soft on China? So I would expect ... And then they added some more as well, I think about 18 billion dollars of imports. So I would expect more of continued focus on China, continuing targeting certain sections and sectors of China, but nothing more broad or general that liberalizes trade and nothing more broad or general that restricts trade.

BILL KRISTOL:

When I was in Europe in 2023, trying to do some stuff directly to help Ukraine or help them help Ukraine really, coordinate a little bit informally, they complained about some of the tariffs that had been left in place that were against the EU, who were our allies and whose economies we wanted to flourish so they could do more to build up their defense industries and help Ukraine more. And I guess Biden left those in place. Some of them too, but—

JASON FURMAN:

He left some of them in place, which I haven't been thrilled with.

BILL KRISTOL:

But the total amount just—

JASON FURMAN:

But again, they're not waking up trying to figure out, what can we do to place more tariffs on the world?

BILL KRISTOL:

Right.

JASON FURMAN:

When they put new things on, it's been a careful, deliberative process. Whether they got the cost benefit right in every case, I'm not sure. But they were thinking about costs and benefits and thinking about what the size of the yard should be, how to build the fence.

BILL KRISTOL:

So all in all, if Harris continues the Biden policies and Trump goes ahead with a good chunk of what he says he wants to do, that's a pretty big contrast. That's really more of a contrast than we've seen, I guess in modern times in terms of trade policy, no?

JASON FURMAN:

Yeah. And I think the issue is there's both the probability that it happens times the consequence of it happening, and it's quite high in both domains, both the probability side and the consequence side.

BILL KRISTOL:

Yeah, I feel like people have an internal ... And maybe you talk to more business types than I do certainly in CNBC types. I feel like people haven't internalized that they just sort of assume, well, it's going to be like the last time, and there'll be a Gary Cohn to say, "Wait a second." And Trump will bluster, and then stuff ... As you said, there'll be some fake trade deal with China, which they won't really do much, but it sort of takes the air out of a lot of it. But I don't know. That seems like a pretty big ... Don't you think, in February of 2025, you can have a pretty big change in US economic policy, right?

JASON FURMAN:

Yeah. Oh yes. There's a chance. That's right. I would put the chance that that's right at well below 50%. If somebody wants to argue at 70%—

BILL KRISTOL:

Which chance is right, the—

JASON FURMAN:

Oh, sorry, sorry. There is a chance that he will end up with some much, much smaller thing than what he's proposing. First of all, there's no chance it ends up with nothing. It's going to be something. And I think almost anything in this space is harmful, but there's a chance, maybe 20%, that he was lying all along and walks away from all of this. But an 80% chance of a quite bad thing happening is pretty bad. If you think that I am overly negative about him and you want to make it a 30% chance of a very bad thing happening, well, I wouldn't take that either. There's not really a well-accepted definition of the word tail risk, but tail risks are usually things that are like 2%, or 0.2%, or 0.02%. This is not a tail risk. This is much, much bigger than anything that we would use the term "tail risk" for.

BILL KRISTOL:

And free trade members of Congress, including of his own party, don't really have a chance to stop much of this.

JASON FURMAN:

I mean, if Congress wanted to pass a law and override a veto, they could stop it, but I don't think you have—

BILL KRISTOL:

But under the current... there's no—

JASON FURMAN:

I can't imagine. No, no.

BILL KRISTOL:

Trump does not need—

JASON FURMAN:

They have little ability and little appetite. He does not need Congress to pass it, and it's inconceivable that Congress would muster a majority to stop him, especially when some of them, especially in his own party, will agree because that's what he's doing.

BILL KRISTOL:

Well, that's pretty striking. Okay, let's move a little more quickly to some of these other areas. How about the Fed, since you and I talked a bit about that off camera? I don't know. People complain about the Fed, then they don't do much about the Fed, or they do, or ... In the real world, would Fed policy, Fed governance be very different under Trump than under Harris, do you think?

JASON FURMAN:

I think for the Fed, you're talking more about a lower probability than tariffs, but it could be an even worse thing longer term if that low probability event materialized. He yelled at the Fed in just ridiculous ways, I mean tweeting that Powell ... Who's worse, President Xi or Jay Powell? It's just unbelievably appalling behavior. If I had to measure the consequence of that in terms of inflation or GDP, I can't really measure it for you. It probably isn't that huge. It's not something I would advise a president to do. I can't imagine the sign on this positive, but I don't know the magnitude. The bigger issue is, does he try to fire Powell? He considered that in his first term and rejected it. He has said if Powell does a good job, he'll keep them. He's had this sort of conditional statement about keeping him. It's not obvious what the Supreme Court would ultimately rule, and it certainly would be the one that ultimately decides whether or not this could happen.

But even without it, Powell's term ends in 2026. And if he had a compliant Senate, he could appoint someone that is completely out of the mainstream of Volcker, Greenspan, Bernanke,

Yellen, Powell that we've been, I think, very lucky to have for 25 years now. Now, I'm not positive what a completely non-mainstream chair could do. They still would have a lot of other governors that were sensible. They'd still have reserve bank presidents that were sensible. The Fed makes its decisions at a 12-person committee. So I think he actually couldn't really destroy the Fed in four years. But if he replaced two or three people on the Fed, and then his successor continued it up with three more, now, all of a sudden, you have a whole different animal. And in addition to his lack of respect for the Fed, if it's raising interest rates because his policies are inflationary and we have a big debt problem that's related to our interest payments, that'll give him a bunch of motive as well.

So it's a hard thing to pull off quickly. It's also possible that the stock market will stop him from doing it and give him some pretty immediate negative feedback. A lot of it does need to go through the Senate, unlike the tariffs. So all of that is why I think it is a smaller chance that the terrible things happen in the Fed space. But if they do, this institution is protected much more by norms than laws, and norms can change.

BILL KRISTOL:

Yeah, and I do think it's almost ... Isn't it less exactly what policies a different Fed chair or different Fed board would follow and more that the people he would put in would presumably be put in there to follow what policies he wanted, he Trump wanted, and not to resist him on things that are temporarily unpopular, and so forth? And so the kind of overall politicization of monetary policy would be pretty striking. I don't know. People say Powell ... You said it could go to the Supreme Court. I take that point, but I don't know. If the President United States says, "I have totally lost confidence in this Fed Chairman. I wanted to quit," I don't know, is Jerome Powell, as a matter of principle, is going to try to run the Fed with the president of the United States literally asking him to quit? It's also unclear if the courts would uphold the "independence" of the Fed right under administrative law stuff.

So I just feel like the degree of, yeah, the ... I think you're right that it's not ... The odds are somewhat lower, but the politicization could be a little more rapid than it would seem by just counting the numbers of seats, I would say, on the Fed board that Trump would control, so to speak.

JASON FURMAN:

Yeah. Yeah. No, I think those are all unknowns. Could Jay Powell decide he needs to be the hero that saves this institution and he's going to stand up for its independence? There's a very strong culture of that among central bankers. But who knows? It's not something we've dealt with before.

BILL KRISTOL:

And Congress, really then if the public were to control one house of Congress, I suppose you'd have real fights with the Fed in a way that has been muted in the past, I think it's fair to say.

JASON FURMAN:

Yeah, no I think all that's right. And we can talk about Harris and the Fed for a second, but a second is all that's needed here. Joe Biden, I've been a critic of various things he's done macroeconomically. On the Fed, not a shred of criticism. He's appointed great people, like including Jay Powell, reappointed as chair, and he stood back while they raised interest rates an enormous amount and did nothing at all to try to undermine or restrain them, and I have every reason to expect Harris would do the same. She certainly has reiterated her belief in the independence of the Fed. So the same type of Fed we've had from the end of Carter through the present day is the type of Fed we would have under her.

BILL KRISTOL:

Spending, taxing, budget, the debt, the deficit that would result from a combination of spending and taxing, walk us through the two fundamental policies.

JASON FURMAN:

So you look at both of them, I think it would be fair to say neither one of them is overly preoccupied with the deficit and the debt right now. It's not something that comes up a lot in their speeches. It's not something that comes up a lot in the debate. And so if you're a fiscal hawk, this is a terrible election for you, and I think a lot of that is that the voters don't seem to care. And maybe why they don't care is interest rates are on the low side. And I'm less worried about the deficit in some ways, but I think it's unsustainable. I think we do need to do something about it. I don't think we should make it worse, but I'm not panicked about it, so neither one of them is great on this.

But quantitatively there is a huge difference, a difference that you can measure in the trillions of dollars. And there have been a lot of different groups that have done comparisons of the full plan or parts of the plan. The most recent is the Committee for a Responsible Federal Budget. They said the Trump plan would cost about seven and a half trillion dollars and the Harris plan would cost about three and a half trillion dollars.

There's various arguments you could make about those numbers. I would note for Trump, they gave him credit for trillions of dollars of tariff revenue, which I think is completely fair. Given our previous conversation, I would also give him credit for that. He has proposed it, but does that materialize, does that not? They had some numbers for Harris. I'm not entirely sure whether they should be counted against her, but regardless, trillions of dollars difference.

You've seen similar differences in the Penn Wharton Budget Model, in an analysis by an economist at the Yale Budget Lab, Tax Foundation, which is a conservative group. And part of it is that Donald Trump wants to extend all the tax cuts, and then every other day it seems he has a new tax cut. Tax-free tips, which actually doesn't cost that much money. Tax-free Social Security, that's a lot. Tax-free overtime, that's an enormous amount. And I love reading *The Wall Street Journal* editorial page on these. Every one of them, they, they're pulling their hair out because they're not your conventional pro-growth ideas, nor are they your conventional progressive ideas. They're just, I don't know, improvised pander of some sort.

BILL KRISTOL:

Yeah, it's as if no one had ever studied the unintended consequences and written millions of articles in the last 50 years on if you do tax-free overtime, people, employees are going to shift their work to overtime. I mean, it is almost childish, some of it. I mean there's legitimate debates on corporate tax rates and child tax credit and all that. Those are policy issues, but some of that stuff Trump talks about is just ... I mean, Harris has followed in one of two instances too, to be fair, but it's not real policymaking, you know?

JASON FURMAN:

Oh, yeah. It's not like there was no one really in the policy community asking for any of these, and they're just really, really expensive. I think the overtime proposal could easily be one or two trillion dollars. And that is without even taking into account the full extent of the adjustments that you were just talking about, so it's enormous. And what you want to do in tax policy as a general rule is have as broad a base as possible and as low a rate as possible, and this is the opposite, at least on the base. It's narrowing the base, which inevitably at some point will mean you have higher rates than you otherwise needed to have.

BILL KRISTOL:

Of course, those are precisely the policy proposals that in a way people probably remember the most and that there will be some political momentum if Trump were to win, for example, maybe a couple of cases also with Harris, to pass. I mean, I don't know, it's going to be that easy for Trump to turn around and say, "Well, forget about that thing about no tax on tips." You say that's a rather small number by these standards of big and small. But I don't know, does he just turn around and say, "Forget about that thing I said about social security?" Plenty of people are going to say, "No, you campaigned on that." And plenty of Republicans are going to say, "Hey, we talked about it and let's pass it. We're going to pass a giant tax bill." I guess the tax

bill expires in '25, so some kind of tax bill's going to be on the agenda in '25. We're going to do it without this? It's not that easy politically, I feel like, for them to explain that they're walking away from these irresponsible proposals, you know?

JASON FURMAN:

Yeah, so there's a two-thirds chance that you have a Republican House and Senate if Donald Trump wins the presidency.

BILL KRISTOL:

I agree with that.

JASON FURMAN:

So let's just start right there that there's a decent chance, and we see what happens when you have Republican president, Republican Congress. They pass tax cuts. That's what they do. That's what Reagan did. That's what George W. Bush did. That's what Donald Trump did. Will they do every single one of the seven or so trillion dollars of tax cuts he proposed? Probably not. If they do five of the seven, that's quite a lot.

Now even in divided government though, as you just referenced, the tax cuts are expiring next year. Now, it doesn't mean you need to pass a law. That law could just go away and the tax rates go back up. I actually think that wouldn't be so terrible. It's not my favorite choice, but it's not a terrible choice.

BILL KRISTOL:

This is the 2017 tax package.

JASON FURMAN:

Yeah, the individual tax cuts. The individual tax cuts passed in 2017, almost all the individual ones expire in 2025. Almost all of the corporate ones that were passed are permanent, so they're not something that congress needs to legislate.

So anyway, Congress is legislating. You have Donald Trump is president. You have a Democratic Congress, and he goes to them and says, "Hey, here are the eight things I want." A lot of them, the Democrats in Congress want. They want the tax cuts below 400,000. Maybe they like the idea of tax-free tips. Maybe they even like the idea of tax-free overtime. And then there's a few things they don't like for the business side. So what does Trump do? I'll give you a child tax credit if you give me those things. And imagining a deal that is the union of the priorities of the Democrats and Republicans in the Trump presidency, I don't think that's a totally crazy fantasy to have. So even divided government I don't think we will save us from a quite high bill in this regard.

BILL KRISTOL:

And if it is divided, it probably would be divided in the Democrats winning control of the House by a rather small margin. Especially if Trump has won the presidency, they won't have been a very favorable wind at their backs, but they could win the House by five or eight seats or something.

The idea that, I don't know, Trump could also pick off eight Democrats on something like you want to be the person who stands in the way of no tax and social security? You going to go back and explain that in your district in Arizona or in Florida? I mean, I don't know. I feel like that was more like Reagan in '81 where he did get a lot of Democrats to support a tax package and giving them some stuff they wanted, but also politically bludgeoning them really. So anyway, I think, yes, people are probably underestimating in a way if Trump were to win at least the momentum for tax cuts.

JASON FURMAN:

And just to understand, I mean, it's also our macro position right now compared to 2017 and really, really different from 2001 when we had the Bush tax cuts. We have a much worse fiscal situation now than we had in 2001 and an even worse one than 2017. We have higher interest rates than we had in 2017. There's less scope for anything resembling fiscal stimulus. That wasn't really the rationale for them, but there was some fiscal stimulus provided by the 2017 tax cuts, but we're basically at full employment.

And then by the way, I should say on the corporate side, lowering the corporate rate from 35 was a good idea. Obama wanted to lower it to 28. I think 21 overshot the mark, but it needed to go in that direction. And it's good that it did, but that's just not where we are right now. None of these are tax cuts that need to happen and the fiscal situation and macro situation are much less forgiving.

BILL KRISTOL:

Of course, if Harris is president, let's just say there's a Republican Senate and a Democratic House, which is I think the most likely outcome of a Harris victory, you have some of the same dynamic there too, where Republicans have some bargaining power and the easiest bargain is to accept each other's tax cuts, not reject each other's tax cuts, you know?

JASON FURMAN:

Yeah, oh, I agree with that. I mean there's this view that divided government will be good because it's a stalemate. I don't think they quite understand the you-get-your-thing-and-I-get-my-thing-and-we-call-it-bipartisan dynamic that can be quite prevalent in Congress. So I think it is likely that either one of them will worsen our fiscal situation. But as I said at the beginning, if you look at the campaign plans, there's trillions of dollars of difference. If you look at probabilistically what's likely to happen conditional on them getting elected, I think there's also probably trillions of dollars of difference. But neither one of them I think is adequately focused on this. And just to be clear, as I said, I'm not super panicked about it, but I do think a Hippocratic oath of do no harm is the minimal thing to do when you're in a hole, like we are now.

BILL KRISTOL:

And any particular taxes, tax policy proposals that are interesting, notable, particularly good in terms of just actual policy as opposed to the macroeconomic numbers, I mean, child tax credit, that kind of thing?

JASON FURMAN:

Yeah, I like the child tax credit, but even there's two different parts of it. One is making it refundable so it's available to low-income households. I think that's very high bang for the buck in terms of poverty reduction. And then there's a raise the value for everyone, which is a wonderful thing to do, except for the fact that it costs a huge amount, and I don't think we can afford it. So even there, I think we unfortunately need to be targeted unless we want to raise some other tax on people. And then by the way, you're giving with one hand, taking back with the other so what's the point?

BILL KRISTOL:

And if finally, maybe on taxes, if Harris were to get something resembling her proposal, which is I think no tax increases for people or families under 40,000, but some increase in rates for the wealthy and Trump were to get his proposal, how different distributionally are they? I mean rhetorically, they can make them sound very different, but are we talking about a huge difference in tax policy or a standard Republican, Democratic kind of difference?

JASON FURMAN:

Yeah, I mean, within just the playing field of the extending the tax cuts, the difference is about a trillion, a trillion and a half dollars. That's probably a standard Democratic difference. Under

Trump, the top rate would be 37. Under Harris, the top rate would be 39.6. It's when you add in the other proposals that the difference widens because Trump wants to extend all the tax cuts plus do a lot of new tax cuts, and Harris wants to extend most of the tax cuts, but not all of them. But then she wants some tax increases on the wealthy and some tax cuts for moderate income families. So if you look at the top rate under the Harris proposals all-in, I believe it's 44.6%. And so now the difference between 37 and 45 is...it's a meaningful difference.

BILL KRISTOL:

And that's the real difference from a point of—

JASON FURMAN:

That's if they could get everything they wanted. Now for Harris to get something like that, she would need definitely a Democratic House and Senate, and even that might not be sufficient. A number of her tax proposals were ones that were in every Biden budget. And it's not like he got them done in his first two years. And sure, we don't have Manchin and Sinema now, but if she has 50 Senators—

BILL KRISTOL:

Some of those Senators—

JASON FURMAN:

...she'll be able to get some tax increases, but I don't think she'll be able to get the bulk of the ones she's proposed.

BILL KRISTOL:

Yeah, that's interesting. Some of those Democratic senators do come from New York and California and other states that have quite a lot of voters for them who maybe are okay with a bit of a tax increase if they're well off, but maybe not, as you say, the 7% hike from 37 to 44 or whatever. So yeah, I wonder. That's interesting. Anything else on spending taxes, deficit, debt?

JASON FURMAN:

I mean one thing they haven't discussed a lot—

BILL KRISTOL:

How much will we—

JASON FURMAN:

...I mean, that's the reality is our defense spending has been falling relative to our economy for 30 years now, and that's going to have to go in the other direction over the next decade. They both rhetorically say things about it. It's not a big campaign issue, but when you think out what's going to actually happen when a president sits down in the Oval Office next year, part of it is going to be figuring out how we can scale up our defense capabilities, and part of the answer to that is more money.

BILL KRISTOL:

I very much agree with that. And so how worried are you that either one gets in, they pass the deficit increases some, as you say, it's not panicking right now maybe, but that is it about I think close to a post-World War II high in terms of comparison with GDP? I mean, is it 26, 27? Do we begin to get a real debt crisis or debt scare or interest rate problems or cost of financing, the debt starts to really become an even bigger chunk of the federal deficit? I mean, how much is that a real concern and how much is that a 20-year thing or something?

JASON FURMAN:

I mean, there's no knowns you can model if the deficit goes up this much, how much is that draining capital, how much does that raise interest rates, how much does that slow investment? And all of that is concerning, but it's concerning in a very linear, grows over time, you wouldn't notice it in a huge way type of way. I think it's probably justification enough to do something about this, but it wouldn't induce panic in anyone.

But then there's the unknowns and it's just really hard. Argentina has had a huge fiscal crisis at a debt of 45% of GDP. Japan has had measured properly probably about 150% of GDP, 175% with no crisis at all. And so I think the United States is more like Japan than it is like Argentina, but you never know.

I mean, the UK had a mini crisis last summer under Prime Minister Truss in part because of fears about irresponsible fiscal policies, and it basically came from nowhere. Some of it was a weird set of interactions around the insurance market and the like in the UK, but some of it was just a generalized psychological... she's proposing this tax cut. What if she proposed for the [inaudible]? What if we're in a whole new paradigm? What if we've lost all responsibility? So these things can happen in weird types of ways and the question is do we want to run an experiment on ourselves?

BILL KRISTOL:

But it sounds like you think we're going to leave ourselves somewhat more vulnerable to that kind of shock 18 months from now than we are today just because—

JASON FURMAN:

If the next president asked me, I would say, don't put all your effort into a grand bargain. Don't try to get everyone to Andrews Air Force Base. Come out with a big plan like George H.W. Bush did in 1990 on a bipartisan basis, and Bill Clinton did on a single party basis in '93. I would say that we're not at the stage where you need to do that. We're though at the do no harm stage and the try to get small wins for the deficit. So everything you do should make the deficit a little bit better rather than making it worse. And for me, that's the right way to straddle the, "We're in an unsustainable place," "It's not incredibly pressing in terms of interest rates," and "we're going to learn more about our fiscal capacity, the outlooks for interest rates and growth, et cetera as we go forward." So it's a do no harm and do a little bit of good.

BILL KRISTOL:

But it sounds like they're—

JASON FURMAN:

That's not where they are.

BILL KRISTOL:

I say they're in they do a little bit of harm, but not too much harm kind of place. Is that right?

JASON FURMAN:

I would say Trump would be a medium amount of harm and Harris would be a smaller amount of harm.

BILL KRISTOL:

Okay, that's good. Housing has been talked about probably more than a lot of these issues on the campaign trail, especially by Vice President Harris. Say a word about... Can the federal government really affect this apart from interest rates, presumably? And should they? Is this a real policy or is this an attempt to cheer up people who are having trouble paying for their first house or whatever?

JASON FURMAN:

I'm a YIMBY enthusiast. I think supply is a big part of it and deregulation of all the rules that get in the way of supply is a big part of it. But you said is it a federal thing? Those rules are at the state and local level. Harris has been saying all the right things on that. I think the bully pulpit matters. I have worked with people on our city council here in Cambridge who are going to pass, I hope, a very big reform that makes it much easier to build housing in Cambridge, and they have been inspired by a lot of the national discussions around this. So I think her using the bully pulpit matters. She's also proposed \$40 billion in grants to create incentives for states and localities that want to take things like this up, and money can do a decent amount too. So that's what I'm most excited about in the Harris plan. She then has a lot of tax credits for first time home buyers, things like that.

For me, those are mostly expensive, complicated. Some of them will increase demand, so they'll drive up the price of housing. So I'm not such a fan of those. On the Trump side, to be honest, I've only heard one thing, which is if we can throw all the immigrants out, we'll lower house prices. And there's a tiny bit of truth to that, but it's tiny. The economic research does find that immigrants raise house prices, but only by a small amount. Most of what we've seen, most of what people don't like over the last five years has nothing to do with immigrants, and that's especially true for things like middle class house prices where the type of immigrants that people have been concerned about aren't buying those same types of houses. In fact, in many cases, they're actually working on building or repairing those types of houses. So I've only heard this immigration, which for Trump is... immigration and tariffs seem like the two panaceas to all of our problems, and I can assure you neither of them will do much of anything for the housing problem.

BILL KRISTOL:

I'll let you go in a minute, but let's just say a word about immigration, because that is so important. And as you say, it's the other thing Trump seems to really care about, and JD Vance went on about the immigrants driving up house prices. If they did in Springfield, Ohio, and certainly am I wrong to say this, that it's because they probably improved the economy of Springfield, Ohio and there were more people working. And if house prices going up was not an unambiguously bad thing, a lot of people who were preceded the recent Haitians to Springfield was living in houses whose value for the first time probably in 30, 40 years, given the economics of that area was starting to go up. So it's so demagogic, I think, to pretend that the housing price problem that people are concerned about is affected by Haitians coming to work in Springfield, Ohio.

JASON FURMAN:

Yeah, I agree with that. But on immigration more broadly, we're in a place in the United States right now where if all we had was our native born workforce, we would have shrinking employment. Every month, you would wake up and you would get the jobs number and it would be a negative number. And that wouldn't even be because you're in recession, that would just be because some people were getting older and retiring and the fertility rate is below two or below 2.2, in fact. So you're below the replacement rate that you need. So the only reason that we're not Japan, that we have a growing workforce is because of immigrants. Now, I don't think it's great that we've created an economic system that basically can't function without undocumented immigrants. I would much rather that we have a lawful system that expands legal immigration. As part of that expansion, you could weight it more heavily towards a points type system based on unskilled based immigration, but I think there's a lot of room for a lot of different types.

And then at the same time, you can tighten up the border. That was basically what George Bush was trying to do. That's what Barack Obama was trying to do. That's what Paul Ryan was trying to do, but it's not something Harris seems to want to go near. She talks more about the tightening up the border, and I totally get why. And then Donald Trump not only wants to tighten up the border, he wants to expel a lot of people in this country, which I think would be both inhumane and he's not going to have very good jobs numbers when he does that. He's not going to be happy about that. And finally, there's some Republicans who have this wishful

thinking that he wants to expand legal immigration. That's not the rhetoric that I'm hearing from him. Springfield, those are legal immigrants. When he was president, he supported legislation, I think it's called the RAISE Act, that would've cut legal immigration, I believe in half. So with Donald Trump, who knows, but boy would I place more chips on him reducing legal immigration than increasing it.

BILL KRISTOL:

And I guess there's a fair amount of presidential discretion there too, right? So he could do certain things that would reduce not just border crossings, but actual immigration.

JASON FURMAN:

Yeah, yeah. There's a decent amount, and part of it's the same reason as tariffs, which is the courts historically have given a lot of latitude to the president around issues that the president asserts are national security.

BILL KRISTOL:

Yeah. Maybe I'm curious, just closing thoughts on how we should think about these two policies going forward, but I am struck ... It's funny, immigration and tariffs seem like the two big ... They're not traditionally in the top ... I wouldn't say if you had the normal discussion about economic policy before for the next president, it would be so spending and taxes focus. But it sounds like these two, immigration and tariffs could be the biggest actual real world effect. I guess Harris on immigration. What do you think? That's also more of the same or less of more of the same?

JASON FURMAN:

I think it's less the same, less of the same.

BILL KRISTOL:

Less of the same as Biden?

JASON FURMAN:

Yep.

BILL KRISTOL:

And I wonder if she would have some ability to increase some non-border crossing types of legal immigration, if I could put it that way. Just make it be more generous in terms of—

JASON FURMAN:

I don't have a great feel for the legislative dynamic in that space, and it's possible there is some positive scenario there, but it's been such a traumatic issue for Democrats politically. And then there's way less Republican cooperation on it than there was when Obama was trying to do it. And there wasn't enough cooperation back then, even though the Speaker of the House would've loved to have done it. So I am pessimistic.

BILL KRISTOL:

Yeah, unfortunately that sounds right. Though it is kind of astonishing that ... I don't know, I suppose one could argue that I think Harris honestly had to go into a defensive posture on immigration which has probably helped her in the campaign, but no one making the case for the benefits of immigration, it's like the trade too when Hillary Clinton abandoned TPP. It does have an effect over ... It makes things more politically ... Something that's politically difficult, you make it politically impossible by no one holding up the other side of the argument for this period of years.

JASON FURMAN:

Look, every time she touts the jobs number or the growth number, she is talking about the benefits of immigration. We would not have those numbers without immigration. But obviously that's not a link that she makes explicitly.

BILL KRISTOL:

The deportation thing, just one word on that is so astonishing. But again, he's got pretty far in talking about it as has Vance. I don't think they can just become president and vice president on January 20th, 2025 and say, "Well, forget about all that deportation stuff." Now don't have to do 15 million or they don't have to do the true insanity and chaos and inhumanity that that would create. But I don't know. They can't do nothing, I think. So I think that's a little underestimated as a thing that would happen in the early months of a Trump presidency.

JASON FURMAN:

You may well be right.

BILL KRISTOL:

I don't know. Final thoughts? What should people ... Are you—

JASON FURMAN:

Look, I mean, haven't talked about the state of the macroeconomy. I actually don't think that's a big thing that voters should vote on. An awful lot has to do with the Fed. An awful lot has to do with luck. Presidents always get too much credit when it's good, too much blame when it's bad. But boy is it good right now. 3% growth. The unemployment rate's come down for the last two months and remains just a bit above its 50-year low. The rest of the world is incredibly envious of where the United States is macroeconomically, inflation has come down a lot. Again, I don't think a rational person should go out and vote for Harris because of that, but I think it'd be pretty irrational to decide you didn't want to vote for Harris because the United States was currently in recession.

BILL KRISTOL:

But 70% of people are unhappy with the economy and this is where the do no harm is a hard sell in a 70% wrong track environment. I think people want change and she's had to straddle that, being the candidate of change, and as you say, but basically really on most of these policy areas, the candidate of not too much change or not too much bad change.

JASON FURMAN:

Yep. That, I agree.

BILL KRISTOL:

It's a tricky thing to do politically actually. And Trump hasn't paid much price for rather proposing very risky changes in an environment, as you say where normally if you came down from Mars and they said, "Okay, inflation coming back down, 3%, 4% unemployment, what 2% real wage growth, something like that." Voters might want to just not risk this. But maybe that argument is kicking it a little bit here at the end for Harris, I can't tell, but it hasn't been prominent, I would say in the campaign. But the perceptions being this different from, "Reality," is pretty striking. Maybe we can close on that. Does that not strike you as a student of political economy?

JASON FURMAN:

Yeah, and we've discussed that before on your podcast and we could spend another hour on it—

BILL KRISTOL:

Yeah, we would.

JASON FURMAN:

... now. And that's what I was saying. As I was saying, I would not go say, "Go vote for Harris because GDP growth is 3%." But definitely don't not vote for Harris because you think GDP growth is minus 3% because, by the way, it's not minus 3%. And by the way, real wages are rising right now, et cetera, et cetera.

BILL KRISTOL:

That's a good hard-headed economic attitude to end with. So, Jason, thank you very much for joining me again. Really an interesting and thought-provoking conversation.

JASON FURMAN:

Great talking to you. And I guess I'll see you on the other side of the election.

BILL KRISTOL:

Yeah, we'll have to have a conversation then about whichever new president is doing whatever things we didn't expect or did discuss today. Thanks Jason and thank you all for joining us on *Conversations*.