

CONVERSATIONS

WITH BILL KRISTOL

Filmed April 8, 2025

BILL KRISTOL:

Hi, I am Bill Kristol, welcome back to *Conversations*. I'm very pleased to be joined today—I guess, for the fifth time, it's hard to believe—by Jason Furman, Professor of Economics at Harvard in the economics department and the Kennedy School. Jason teaches the EC10, Economics 10, course. I guess the largest undergraduate course at Harvard, right?

And a very good course, if I could say. And you're well known to be a very good teacher. So we look forward to learning some economics for you today. Also, and this is relevant to today's discussion, you served eight years in the Obama White House, if I'm not mistaken. That's pretty long. You were there the whole time—that's pretty rare in government, actually, I've got to say—on the National Economic Council as Deputy Director and then Chairman of the Council of Economic Advisors.

And I want you to... I'll ask you at times to draw on your experience in actual government as well as your knowledge of economics and evaluating the current moment. The current moment is it's, what is it? April 8th. We had a conversation six months ago, October 9th during the campaign, and I asked you about Trump's promises and proposals on tariffs, and you were negative and thought it could lead to a bad combination of inflation, but maybe also a recession putting the Fed in a very difficult position on interest rates.

It would cost jobs for both importers and exporters. You were negative, and I guess the markets share your judgment now that Trump has announced his tariffs here a week ago. But what strikes you about it? So where are we? Where are we with these tariffs and what's the top line judgment to make of them?

JASON FURMAN:

Yeah. It's just enormous, huge shock to the system. And to be clear, I thought there'd be a large shock to the system and a large shock would be bad, but enormous is even bigger than that. And just to put numbers on all of that, the average tariff rate in the United States was 2.5% last year. I thought maybe it would go to something like 8, 10%, something like that. That would be a really big increase in tariffs. It has now gone all the way to 24%.

So that is just... No other country in the world has anything resembling that. In fact, the Overton window has shifted so far so fast that right now the hopeful moderate case that investors like Bill Ackman and Stan Druckenmiller are pushing for, would be for the United States to cut its tariffs back to something like 12 or 15%. 12 or 15% tariffs are what you have in Iran, Venezuela, and a set of other countries that are not nearly as successful as Iran and Venezuela are. So the whole tariff debate has just shifted massively upward.

BILL KRISTOL:

Maybe it will shift back when people see the consequences on the other hand of this. I guess I hadn't really appreciated just how big that number is. Was that intended by Trump? Is the theory that you just need the massive shock to the system, or was it based on some different talk about they just calculated some things wrong and so forth?

JASON FURMAN:

Yeah. This clearly was an answer they came up with and then they came up with a formula to justify that answer. And in fact, a lot of the different senior officials have said they had nothing to do with the formula. So right now no one's really taking credit for the formula.

So I don't think this was a math error that drove a policy change. It was a conceptual error. And the conceptual error is that every time the United States has a trade deficit with a country that is evidence that the other country is doing something wrong and hurting us and taking advantage of us.

And that is the core idea here and the core thing the president is trying to solve, I don't think he'll solve it, by the way. And just to give an example of this, take Madagascar, we run a trade deficit with Madagascar right now. They sell us vanilla beans. They don't buy very much from us, mostly because they're really poor. We're not going to make America great again by selling more to Madagascar. We've now put a huge tariff on Madagascar. What will that mean?

Well, probably won't mean that they buy more of our stuff and make America rich. It means we're going to buy less vanilla beans and have less of that in our country. And so a lot of these trade patterns just have to do with what country has what, what country's able to do what, what country has comparative advantage resource endowments. And instead Donald Trump thinks it's unfair and we can make ourselves rich by doing something about it.

BILL KRISTOL:

And just to be clear, I think there's not really any school of mainstream or even not so mainstream economics that thinks a zero trade balance with every country is desirable or possible, is there? Is that a thing even?

JASON FURMAN:

Oh, it's ludicrous. It's ludicrous. Everyone makes different things, everyone buys and sells different things. It's just, yes, no one could possibly think that makes sense. Now there's the aggregate trade deficit. You could argue that that's too high, but that's too high, mostly because we're borrowing too much from the rest of the world. And the main thing driving that borrowing is our budget deficit. So if you wanted to worry about the overall trade deficit, you actually want to look to the underlying macroeconomic drivers. But that, of course is the opposite of what they're doing.

BILL KRISTOL:

Yikes. Okay. So talk me through now what you think the consequences of new current policy would be in terms of inflation, that's gotten a lot of attention, but also jobs and GDP and exports, imports. Ultimately interest rates, we can get to that. And then maybe after that we'll go to, "Well, what if he does tool it back to something that some of his friends and supporters are urging." How big an effect do we still face? But what about current policy? Let's just stipulate current policy for the next three months, where's the economy then?

JASON FURMAN:

So most of the forecasters have increased their forecast for inflation by about a percentage point and a half. So that would take the inflation rate to maybe three and a half percent, possibly four. And most forecasters have lowered their growth rate forecasts by say a point and a half, thinking that we would have a growth rate of maybe half a point this year, eke something forward that's positive.

There's a huge amount of uncertainty around both of those, because you can estimate if the cost of an import goes up 20%, how much less of it do you buy. You can't estimate if you're totally terrified and you're really uncertain and you pull back on activity and you delay making decisions, et cetera, what the consequences of all of that will be.

When something is unprecedented, that means you can't study it. And a lot of the macro effects could really be nonlinear, and you can't extrapolate from a smaller thing, fully extrapolate, to what happens to a bigger thing. So the sign, positive inflation, negative ungrowth, we're 100% confident of the magnitude. There is real uncertainty around.

Longer term though what this means is the tariffs mean less imports, obviously it raises the cost of them. It also means less exports. That happens because other countries retaliate because

other countries are poorer, because we hurt their growth too. It also happens because the exchange rate will move. The dollar, I think over time, it doesn't necessarily follow every day, will probably strengthen. That makes it more costly for others to buy our exports, so they buy them less. So what that means is the volume of trade shrinks.

Longer term what are the consequences of that? Well, for consumers, you can't get as many things that are imported. That might be a cheap T-shirt, that might be an expensive bottle of champagne. That might be some part that one of our factories really needs to put together the whole thing, they need some part from abroad.

Less exports, what does that mean? Well, it means Americans shift away from higher paid higher productivity jobs and towards lower paid, lower productivity jobs that are basically making up for things. And there have been a lot of terrific memes often accompanied to Chinese music of Americans working in factories, sewing shirts, sewing shoes as Chairman Trump looks on in the background. And I think those memes have a lot of truth.

Finally, you did mention interest rates. Who knows? A lot of this depends on perceptions about risk of investing in the United States, and if that perception goes up, interest rates could go up. On the other hand, if you crater the economy and the Fed cuts rates, interest rates could go down. So that one is more of a question mark.

BILL KRISTOL:

One point you made in October that I thought other people hadn't focused on as much is doesn't it put the... if we go in the directions you just said, and even in the magnitudes you just said, in the short term, the more direct effects—and I want to come back to the indirect, longer term, as you say, non-linear effects—but even on the linear short-term effects, doesn't the Fed get put in a bind? The economy slows, they don't want to raise rates, but inflation goes up, so they feel they have to raise rates. And is that the seventies? Is that stagflation?

JASON FURMAN:

This really puts the Fed in a bind. It gives them a worse set of choices than they had before. They can accept higher inflation in order to combat unemployment, or they can accept higher unemployment in order to combat inflation. Most likely they're actually going to do a combination of somewhat higher inflation and somewhat higher unemployment.

And all of this is a bigger problem now because we went into this with an inflation rate of about 2.8%. And so inflation was already... hadn't come all the way back down to the landing we had wanted. That means the fear that this gets built into expectations built into the economy going forward is much more real than it might otherwise have been.

BILL KRISTOL:

And how quickly, just assume, again, oh, this policy sticks now for a couple of months at least, how quickly do we see the effects, do you think, on inflation and on unemployment or the inflationary side effects and the recessionary side effects, so to speak?

JASON FURMAN:

Once again, unfortunately don't have enough historical experience to trace out what an economist would call the impulse response function— how the economy responds at every moment in time. My gut instinct is that you see the price increases first before you see the larger increase in the unemployment rate.

I think that's going to put the Fed more towards the, "We don't cut interest rates," because you're seeing all the inflation before you're really sure about what the real economy effects are. And in terms of inflation, some prices are going up in April, which means when you get the CPI print in May, that'll show you the April numbers. I think you'll see some sort of pop there.

And by the way, just as an aside, it does puzzle me that people in the Trump administration, their economic officials are saying it's not going to show up in prices because we're going to know the answer to this question. This is not like an academic study a decade from now is

going to try to tease out the effects of this. It'll be clear and they will either be right or they'll be wrong. And I think they're pretty likely to be wrong.

BILL KRISTOL:

And how soon, I guess, will we really see, will there be just a consent? Well, if they're wrong, how soon will we know that in a sense, more certainly that we do just from the theories and the models and I guess the opposite also. Are we talking three months, six months? When does it really, when do you get clarity?

JASON FURMAN:

On inflation, I would expect the April, May, and June prints for CPI will make it reasonably clear. So over the next couple months, you're just going to see high CPI prints. And by the way, then people in Trump's camp are going to actually want to argue this was caused by the tariffs, but don't worry, it's transitory so you should still cut interest rates. If you see inflation rate go up and it wasn't the tariffs, in some ways that's even more worrying. Then, the fed should definitely raise rates. If Inflation goes up because of the tariffs, you can at least make an argument that it's transitory and don't raise rates, don't panic.

BILL KRISTOL:

And then, in terms of the real economy, inflation is part of the real economy, but all in on GDP and stuff, do you think, I mean, could we be in a recession in six months? Is it that too fast?

JASON FURMAN:

We could, again, anything is really possible here. I think you're going to see weaker growth already in the second quarter numbers that, and you're already seeing some layoffs here and there, some pauses in investment projects. All of that has a ripple through the economy. A big question mark in all of this, as it always is in the US economy, is what happens to our consumers. Our consumers are what kept us out of recession when the Fed raised rates so much in 2022 and 2023. They just kept spending like crazy even though they were super pessimistic when they answered surveys. Right now, they're also quite pessimistic. Interestingly, unlike a couple of years ago, they're pessimistic, not just about the present, but also about the future. And does that lead the American consumer to cut back on their spending? That's a big question mark. And with 70% of the economy, it'll be important to see what happens there.

BILL KRISTOL:

I want to get to the uncertainty factor, which is somewhat different from the more direct effects, I suppose. But what about people who say, "Come on, imports are not that, and exports are not that high percentage of America's GDP. We're not a particularly export or import-heavy nation compared to many others." Big domestic economy, maybe one time hidden prices, that's what tariffs by definition do, but it's maybe a one-off thing. The economy can swallow that up the way we swallowed up all kinds of other shocks in the past and people said, "This is going to be the end of days." And it turns out it's kind of a zig, and it may at a bit of a slowdown as opposed to a big moment. What's the right answer to that? Is that correct possibly?

JASON FURMAN:

I think that's completely plausible that I don't think this is the end of days or Armageddon or something like that. Imports and exports are 13% or so of the US economy. And that's partly why we've done this. It's not like Finland would've done this to themselves because Finland understands they can't make everything that they need in Finland. They can't make cars and computers and phones and clothing and food. We can basically make all of that stuff. The United States, if we wanted to be an autarky—a country that doesn't trade with any other country—we wouldn't starve to death. In fact, eventually, we could even figure out how to make cars. But that's not to say that autarky is a good idea. Not starving to death is a pretty low

bar. Not having Armageddon is a pretty low bar. So what we're talking about here is some meaningful short-run pain.

If you're in the markets, that might be tens of thousands or hundreds of thousands of dollars lost. If it's just your income and purchasing power, you're talking about a couple thousand dollars lost. That's a lot of money. Then, it's not just short-term pain, long-term there's also more pain. And so, this might be just a couple tenths off of our economic growth rate per year because we have less globalization. Well, a couple tenths really accumulates over time. I mean, the way I think about it is the United States and Argentina were quite similar in the year 1900. They're very different now. Why? Because the United States grew 0.7 percentage point per year faster than Argentina year in and year out. And so, if this moves us one-third of the way to Argentina, that wouldn't be a good thing.

BILL KRISTOL:

That's for sure. What about the uncertainty effect, I guess, which seems to me, could magnify things. That is to say, one could do the math and say, "We're going to have half percent GDP growth for a quarter, two quarters maybe. Three quarters, we're going to have 4.5, 5% inflation. It's bad. It's not as good as having better numbers, but we survive that." But I guess I'm just struck talking to people, including business types. I mean, could you have a real freezing up of investment decisions and of purchasing decisions both by consumers but also by businesses, obviously, in a way that really could make those numbers bigger and make the events more dramatic?

JASON FURMAN:

Yes, absolutely. I mean, it's something every businessperson knows, and economists have studied it as well, that when there's uncertainty, it's worth waiting to make a decision because you can figure out more information rather than doing it now. And one really important thing about uncertainty is uncertainty isn't just the chance something bad happens, it's the chance that something different happens. And so, if we're at a tariff rate of 24% where we are now, or maybe the president cuts it back and we're at a tariff rate of 12% and you're uncertain, "Hey, is this tariff rate going to go back down to two where it used to be?" Either because Donald Trump changes it or maybe three years from now, that's also a reason to hold off and wait.

Jaguar, for example, has stopped exporting cars to the United States. Why? Because they think maybe that 10% tariff will go back down to 0. And so, that's really important is I don't see how the president can get rid of what is now a massive, massive amount of uncertainty that tariffs go up, but also that tariffs might go down. To me, the only way to put that genie back in the bottle would be for Congress to pass a law that takes tariff-setting power back to itself. And when you think Congress is the rational, predictable, reasonable party, you know you're in a bit of trouble.

BILL KRISTOL:

Yeah, that's for sure. But I want to get to that though as I am struck that everyone's just decided Congress can't do anything when in fact, this is literally a case where Congress has delegated the authority under various statutes to the president. They may be abusing the meaning of those statutes now, but there's no question Congress could take the power back. It's not like some, I don't know, national security issues where there's an issue of whether the president has unilateral power to use force or something in some areas. This is pretty straightforward, I think, in that respect. But so far, Congress has been happy to not educate people that they do have some responsibility here, but maybe that'll change [inaudible].

The uncertainty thing I think is so important, just as you say, is it really means that even if Trump says, "Oop, I was wrong, we went way too far. I watched this conversation with Jason Furman and he was some Obama guy, but he's reasonable, and I got to go back down to 10, 12% average duties, average tariffs. And so, I'm going to cut things back in half." But as you say, some of the argument for the high tariffs depends on people believing they're just going to stay there and that's why they're going to have to move manufacturing here to the US. And if they think it's going to go back down, maybe they don't have to move manufacturing here to the

US and they think it's going to go back down and then back up. Maybe they're just going to stay out of making any investment decisions.

And that seems a little hard, I mean, that's hard for Trump to fix now, isn't it? I mean, just you've been in the White House, you've been through some of these things. This seems like an unusually... he's got himself in a position which is, you can't... one thing you do want to do in public policy is correct your mistakes. And in a funny way, it's hard for him to do that, isn't it?

JASON FURMAN:

Yeah. I mean, I was picturing what would've been going on in a normal White House over the weekend after the "Liberation Day" announcement. And when you saw what happened in markets on Thursday and Friday, what we would've done in the Obama administration, not what would've done, what we did do during the financial crisis—I'm pretty sure it's what the Bush administration did during the financial crisis—is the whole economic team is there in the White House, they're meeting together, chaired by the NEC director. The president would probably come in for some of those meetings, but he wouldn't be there obviously for all of it. And the goal of that entire weekend's of work would be to have an announcement to reassure markets, create a predictable path forward, and the time you would have for that announcement is before the Asian markets opened. You are always aiming to just create certainty and predictability before the first market in Asia opens, I think around 8:00 PM on Sunday Eastern time. And it doesn't seem like that's what happened over the weekend after "Liberation Day" in this administration, although obviously I'm not privy to everything they do.

BILL KRISTOL:

Well, the one thing we did see was almost everyone on some different Sunday TV show, I guess, secretary of the treasury, secretary of commerce, the... What's Hasset head of CEA, I guess?

JASON FURMAN:

NEC.

BILL KRISTOL:

NEC, sorry...All on different TV shows saying somewhat different things, actually. So I think if you were sitting abroad thinking, "Are they going to go down some now? Is this a permanent commitment? So I should move a plant, start investing in the US?" You got to, I don't know, I think you'd just be kind of confused, right?

JASON FURMAN:

Yeah. Oh, somewhat is a understatement because there's two very, very different philosophies at play here. One is that these tariffs are a threat and the goal is to get everyone's tariffs down. That is a vision of a world with much more trade, much more specialization and the like. Another vision is we don't want trade, we don't want specialization, we want to make more of the stuff we use here in the United States. And so, these aren't in negotiation.

And Peter Navarro and Lutnick were arguing for that second vision, whereas Bessent and Hasset were arguing for that first vision. Now, the irony of that first vision, the president, for example, bragged that Vietnam had offered zero tariffs. Guess who else got an agreement from Vietnam to have zero tariffs? President Obama did. It was part of something called the Trans-Pacific Partnership. It would've had essentially zero tariffs for Vietnam, zero tariffs for Japan, zero tariffs for Malaysia in exchange, by the way, for zero tariffs for the United States, which we were pretty close to anyway, it wasn't a big change for us. And of course, President Trump in his first term pulled us out of the Trans-Pacific Partnership. So this vision of everyone cutting their tariffs, I don't think, is what President Trump wants. If he wants it, he could have had it before. I think he's in the Lutnick-Navarro school. That being said, of all the uncertain predictions I've had, this one is far and away the most uncertain because who knows what he'll do.

BILL KRISTOL:

I mean, you mentioned other countries in Asia in particular. Of course, they all get a vote too. And it feels like the markets for now are assuming... I don't know what it feels like... The people I hear, read, seem to be thinking, "Well, they're going to be reasonable and they're not going to... We're going to avoid the true nightmare." Which, I guess, would be an all-out trade war, right? But I don't know. How confident are we about this? I mean, and what does reasonable even mean if they're looking at this level of uncertainty?

JASON FURMAN:

Yeah. No, I mean, tariffs could go either direction. The promise right now is that they're going up. There are a set of sectoral investigations for pharmaceutical, semiconductors, copper, and lumber. Those, by law, have to take a couple months to work their way through the investigation process before they can announce the tariffs. There's tariffs on Canada and Mexico that are scheduled. I don't think they'll take effect, but they are scheduled. And then there's also the president's executive order was clear that if countries retaliate, we may—use the word may—retaliate against them. And he's threatened a 50% tariff on China against its retaliation. So the announcements are all about more tariffs. And by the way, there's other ones he's talked about, like if you buy oil from Russia we'll put a tariff on you, or buy oil from Venezuela. So everything he's talked about is higher tariffs. That being said, maybe he'll do lower tariffs. And that's the whole point is who knows.

BILL KRISTOL:

And do you think this is a big shock, that is to say there are other parts of economic policy, obviously monetary, fiscal, et cetera, tax policy, but does this dwarf whatever's likely to happen in those areas for the next few months or year? Or some of what will happen in those areas is reactive to this obviously, as we've been discussing with the Fed. But you think this is the big news, so to speak, of 2025.

JASON FURMAN:

There is one piece of news that could be bigger. I still think it's an outside chance, but I've raised the odds that I attach to it, and that would be ending the independence of the Federal Reserve. What would that require? It would require not just replacing the chair, the chair is only one vote out of 12 on the FOMC, a very influential vote. But if you put a crazy person in his chair, they're not going to get 11 other votes for their vision. So what you would need to actually do is fire most of the governors at the Fed and replace them. Right now, the law says you can't do that. But he fired the FTC commissioners. He's challenging that. The Supreme Court in *Humphrey's Executor*, depending on how they rule, the ruling for the FTC could also apply to the Fed.

Now to be clear, I don't think this is the most likely thing to happen. One, because I think Donald Trump cares less about markets than I appreciated, but he probably cares about them some. And the market meltdown, if he fired most or all of the governors at the Fed, would be really, really large. Second of all, I think the Supreme Court would probably like to give the president more unitary authority over everything in the government except the Fed. And so they would try to figure out how to rule in a way that lets the president decide all executive branch things except monetary policy. That being said, the Supreme Court's a wild card. Donald Trump is a wild card. And I think this episode we've just gone through is a good reminder to care and pay more attention to some of the tail risks. It's not just Trump derangement syndrome to think he might do some of the things that he said he would do.

BILL KRISTOL:

I suppose the Fed would get into the crosshairs—and Trump's crosshairs—in a big way, if the economy slows. And he's always been a low-interest rate guy and he wants the Fed to cut, and he did in the first term, and he'll urge them to do it again. And Powell will say, "I'm sorry,

inflation is now at 3.7% or something, I can't cut." And that would be the scenario, right? I suppose.

JASON FURMAN:

Exactly.

BILL KRISTOL:

I think the most likely scenario where he goes after the Fed and—

JASON FURMAN:

Exactly. We're heading into something where he wants them to do something they're not doing, and he doesn't really care as much about market constraints anymore, and there's been some permissiveness from the courts. So all of those are what could come together. And again, this is just something that is well within the realm of possibility. This is not like an asteroid that destroys the earth this year, which I'm not an expert in that topic, but my understanding is that's not going to happen this year.

BILL KRISTOL:

We could be bullish. We're bullish on non-asteroid destroying the earth. That's good. Say a word you talked at one—

JASON FURMAN:

This year. This year, Bill.

BILL KRISTOL:

This year. Okay, yeah, that's good. Say a word, you talk to people all over the world, both in government and in business and citizens, opinion leaders. What do you think is going on in some of the big... I mean, anything strikes you as surprising or interesting in the reactions of, I guess, China, the European allies, Japan, to take another big ally?

JASON FURMAN:

Yeah. I actually happened to be talking to some senior Chinese economic people over the weekend, not in the government. And they are, in some sense, happy in two respects. One, they think that China was not doing enough fiscal stimulus and domestic consumption to support their own growth. And so they think, and I think they're right about this, that this will push China in a direction of having better domestic macroeconomic policies, and that it will be a negative shock to China's growth, but not a huge one, because they really do have a lot of scope to use fiscal stimulus, expand demand, and help their consumers.

But second, they're just doing a message of, "China, do business with us. We're stable. We are predictable. We follow rules. We don't try to take advantage of you. We are a great partner." Now that is overstated in the case of China, to say the least. But all of these decisions are comparisons. And if you compare on stability, predictability, and the like, China versus the United States right now, that comparison is unfortunately less clear and less stark than I wish it was. So they really appreciate that in China. And you've seen that message publicly from some of their officials as well.

BILL KRISTOL:

I was struck, I talked to a European businessman, very pro-American and has business here in America, has never invested in China because he doesn't like the Chinese regime very much, and he also had IP issues that he just thought it was stupid to invest there. He said, people in the US—he's traveling around here—don't appreciate how much the Chinese are talking privately to the Europeans, and say, "Well, look, you don't like Putin. No one likes Putin and the invasion. That's terrible. But you can't trust the US. Here we are a reasonably stable, reliable

partner for whatever trade and investment you want to have." And he said, the degree to which Europe, which had been turning more anti-China, I'd say, in the last, what, five, six years, I think, partly with our prodding is thinking, "Yeah, maybe that's right."

And this is where I get to the bigger picture. I mean, how much this really is a moment beyond trade economics or really even it was beyond economics and into political economy and geopolitics, where could this be the moment that Europe rethinks its future? Obviously adding this on to what Vance and Hegseth said in Munich in February and our Ukraine policy and so forth. And other allies, Japan, South Korea, I don't know, you studied political economy as well as narrow economics. You're at the Kennedy School, you were in government. I mean, how big a moment could this end up being?

JASON FURMAN:

I think this is a real moment. I don't think we look back on this as the moment that there was a new alliance in the world and the European Union teamed up with China against the United States. I do think that as a liberal democracy and has certain view of the world, that really does give us a commonality with Europe, with Japan, with Australia, et cetera. But first of all, I worry about some of the other middle powers that we don't have quite that same commonality with. For all of them, like India, China's a more important economic relationship than the United States is. And so this drives us in that direction. So some of those countries I worry about. And I think these things aren't dichotomous. It's not, you either are an ally or you're not an ally, and there's no question this moves us away some.

Some of the consequences of all of this will be good. I do think Europe was not doing enough in its own defense, and not because of the tariffs, but because of the general changes in the last few months. They're going to step that up and do more. There's going to be more fiscal stimulus in Germany, something that they had been overly reluctant to do for a very long period of time. So some of this will cause other countries to actually get their act together, both geopolitically and economically. But yeah, this is not a way to create a world in which the United States is the dominant system that everyone wants to be a part of that we might've hoped 30 years ago was possible. Maybe that's long since been impossible. But this is just another huge stake in the heart of that dream.

BILL KRISTOL:

Yeah, I don't know, it wasn't simply a dream though. I don't think it was just a hope. It was the system we had for about 80 years, you could argue. We weren't dominant simply, of course. But the degree to which people wanted—at least democracies certainly wanted—to be on our side and even others didn't want to be entirely at odds with us was pretty striking. And I'm just struck talking to the Europeans, and maybe I'm just talking to a few of them obviously, the degree to which they think we just... I mean, this is being done with no regard to our interests. The defense spending, people I'm talking to are for doing that. But they're doing it in reaction to threats of the US not holding to its defense obligations with Europe and so forth.

And then the trade thing seems so... Again, there's no distinction between allies and adversaries in this trade, that chart that Trump held up. It's not like having been a long-time ally of the US, having fought with the US in Iraq or Afghanistan, having been cooperative with the US in dealing with Ukraine, having spent a lot of money helping in Ukraine, which at our urging, it's not like any of that paid off for them. I think we underestimate how much they think this is really a betrayal of a kind. They've had a lot of moments to be very exasperated with the US over since 1945, obviously, and Nixon with getting out of Bretton Woods with no notice to them and a million other things, I'm sure. But I don't know, I feel like that could have real effects domestically in Europe and also elsewhere. Didn't Japan and South Korea, at least allegedly, meet with China to talk about how they could all cooperate in this moment and so forth?

JASON FURMAN:

Yeah, I mean, I wasn't sure exactly what happened there.

BILL KRISTOL:

I know it was a little [inaudible].

JASON FURMAN:

But yeah, but look, yeah, just one moment, the Secretary of Defense, Hegseth, is in Japan talking about the incredible importance of our security relationship with them. And then within days we've put a 24% tariff on Japan.

Taiwan gets a 32% tariff placed on it. I mean, this is not about containing China. This is not about building an alliance against China. This is definitely not some grand geopolitical master plan to rally countries around the United States. And look, if you think the competition with China is so serious, and I think it does have a very serious aspect to it, although I think there's also a very serious and important aspect of cooperation with China... it's complicated. I don't think there's an easy answer there. With Japan and Taiwan, it's actually not complicated. There is an easy answer. We want to have good relations with both of those countries and high tariffs are certainly not the way to do it.

BILL KRISTOL:

Let's close with Congress. I mean, it's a Republican Congress for one thing, and Congress is Congress for another thing. So hopes of them, I don't know that they've ever really acted successfully to take back a trade authority they've given away or delegated to the President or to overturn a presidential decision in this way. But I don't know, is it... How much, especially when Republicans and the business class, if I could put it that way, the *Wall Street Journal* editorial page readers, I don't know, as they say as a student of politics, not just of economics, how much pressure do you think could be built up there? Do you think this is not the usual just griping, but maybe a real sense of we've got to do something here?

JASON FURMAN:

I think that's going to grow. If the president sticks with the full plan he has in effect, every single member of Congress is going to be hearing from a small business that closed, a customer that had to pay much higher prices, somebody that lost money on something else. They're not going to hear a lot of positive stories. By the way, there are winners and losers from this. There are many more losers than winners, first of all. And second, a lot of the winners won't quite realize the ways in which they won, and there aren't a whole lot of them. The UAW leadership right now is in favor of this. I don't even know that their rank and file are. So they're going to be hearing a lot of complaints. Now, normally Congress doesn't act, in part because the president anticipates that congressional action and moves and compromises in order to avoid it. If he's incredibly stubborn, we really are driving closer and closer to a cliff.

The idea that you get 20 Republican senators to join with the Democrats, I don't think that's totally impossible. That gets you enough votes both to bring legislation to the floor of the Senate regardless of what the majority leader thinks and lets you pass it with a veto-proof majority. Then you're sitting there with all sorts of things going wrong in the economy. And what does Speaker Johnson, or again, the possibility of a discharge position, from Republicans joining Democrats... How do they say it? Do I think this is the likely scenario? No, but if the president completely sticks to his guns and the uncertainty is at the bad end of the spectrum in terms of its consequences, we may see things in our politics that we haven't seen very much before. Everyone in the House is running for reelection in less than two years time. I can't imagine they think this is going to help them.

BILL KRISTOL:

And politics is dynamic, as is economics actually. And if Trump's numbers get knocked down a little bit because the stock market continues to drop some and the economy turns south in certain ways and it's connected to his stubbornness on tariffs and Republican members start to think, "Oof, I don't want to..." Before this, I think the degree of stickiness to Trump, of loyalty, to say the least, to Trump on other issues, could start to be corroded a little. I wonder about the

reconciliation package and the tax bill. Those things are not unproblematic and there are members who have other reasons for being unhappy with parts of it.

So I think these things... I guess I do feel like we've introduced a big wild card into the system to, I guess mix metaphors here... Trump likes the cards metaphors, right? It's some joker lurking out there in someone's hand and we don't really know how or when it's going to be played or if it's going to be played. But I don't know, one thing affects another, it's not just... when the war in Iraq went bad, it affected Bush's presidency overall, not just Middle East policy. And there's I think a little bit of that here.

JASON FURMAN:

Yes, that is true. Although one thing you listed in your list is the reconciliation bill. I might differ with you there. Senator Cassidy just voted for the budget resolution and he said, "I'm worried about how much this raises the deficit, but given all the problems that are happening in the economy because of the tariffs, we need to do this." So I do think, you cause more problems in the economy, we're going to end up with a larger tax cut as a result of that, which in my view would be unfortunate.

BILL KRISTOL:

And I guess the question is, are there enough budget hawks in the House? Maybe there really aren't, but there are people that say they're budget hawks who will be unhappy if the deficit is going up after all the talk about constraining the deficit.

JASON FURMAN:

Yeah, and I think the deficit is probably going up.

BILL KRISTOL:

Yikes, final thoughts— Since you were in the White House, further thoughts just on seeing this and how... Also, what does that imply about our confidence in general in their decision-making? I guess I'm struck by, again, it's not just their economic policy is a little crazy, but honestly the national security policy being carried is being devised on a Signal chain on their personal iPhones. And I don't know, they're throwing decades of relationships overboard very quickly. And Trump's talking about taking over Gaza. I don't know, is there a spillover effect there too as a sort of matter of... I mean, how much does this... Again, I come back to Iraq, one decision that's difficult affect their credibility in other areas, do you think? Or is this kind of a unique thing?

JASON FURMAN:

Oh, I mean, we're in a White House where the decisions are being made by the president.

BILL KRISTOL:

Yeah, I guess that's—

JASON FURMAN:

And there's no one man who's incredibly smart and incredibly wise who could figure out how to make all of the decisions. And I'm not sure “incredibly smart” and “incredibly wise” are the words that I personally would use to describe the current occupant of the Oval Office. But even if he were, this trade policy did not come from his, at least his main, economic advisors. And so this is where we are. And a worry I have is I just watch people I know who age and they just become more of themselves. They don't get normal, normaler and normaler as you get older, you get more emboldened and more yourself, and there's three and three-quarter more years left. And so, allowing oneself to sort of accept and wallow in a little bit more Trump derangement syndrome might let you see more clearly than thinking there's some brilliant grand master plan behind the tariffs on the penguins.

BILL KRISTOL:

The three and three-quarters years, that's the part that gets me the most alarmed, honestly. Maybe Musk will stop doing his damage to civil servants and to the infrastructure of government and maybe Robert F. Kennedy Jr. will be thwarted in destroying our public health system at all. Those guys might leave, but Trump's not going anywhere for quite a long time. I suppose he might learn a lesson from his exercising all this arbitrary power, but as you say, this is not...

JASON FURMAN:

I mean, if you want to do the end on the positive note, yes, I don't think anyone has done more to help demonstrate the benefits of freer trade than what Donald Trump has done in the last week. It's much more effective than a thousand points I could make on the benefits of trade. And so maybe people will come through this a little bit more accepting of a certain amount of normalcy, a certain amount of small C conservatism, only wanting to make smaller changes. And a certain appreciation that the system as we had it before was not perfect, but it delivered an awful lot for an awful lot of people. And it might be easier to make it dramatically worse than to make it dramatically better.

BILL KRISTOL:

Yeah, that is a good note to end on and I think an intellectually correct note in my opinion, but it'll be interesting to see whether it has political salience with this administration. But Jason Furman, thank you very much for taking time. You've been swamped, I'm sure, I know in the last week, for joining me today. This has been very enlightening and helpful I think to me, and I trust to our audience.

JASON FURMAN:

Thanks for having me.

BILL KRISTOL:

And thank you all for joining us on *Conversations*.