EconoFact Chats: On American Debt, Inflation, and Industrial Policy

Binyamin Appelbaum (New York Times), Scott Horsley (National Public Radio), Greg Ip (Wall Street Journal) and Heather Long (Washington Post)

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Michael Klein
I'm Michael Klein, executive editor of EconoFact, a nonpartisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein
A panel conversation with distinguished economic journalists has become a regular feature of EconoFact Chats, and it's one that I particularly enjoy hosting. I'm very pleased to welcome back Binyamin Appelbaum of The New York Times, Scott Horsley of NPR, Greg Ip of the Wall Street Journal, and Heather Long of The Washington Post. We last spoke in March, and while some issues have changed over the last three months, many remain prominently in the news, and I'm very interested in hearing about these experts' views on how things have evolved. Binyamin, Scott, Greg, and Heather, welcome once more to EconoFact Chats.

Binyamin Appelbaum, Scott Horsley, Greg Ip, Heather Long
Thanks for having us. It’s great to be back, Michael.

Michael Klein
So the biggest economic news for the United States over the past month or two has been the fight over raising the debt limit. We came right up to the edge of default. Many people predicted catastrophic consequences if, in fact, the debt ceiling was not raised. But an agreement was forged, and the government will be able to pay for its bills that it already authorized. Is this any way to run a country, especially since, as you wrote in a recent article, Greg, the debt ceiling deal doesn't deal with debt?

Greg Ip
No, you're absolutely right, and I think that what we've seen over the last 30 years is that even as the fights over the budget have gotten nastier and more sort of brinksmanship-like, the stakes, you know, the things they're fighting over have gotten smaller and smaller. You've seen that, first of all, Democrats and then Republicans took the big entitlement programs, like Social Security and Medicare, off the table. They will not be negotiated with. Republicans, of course, refuse to

consider raising taxes, and as a result, these fights over the budget boil down to, really, what is just one-sixth of the budget, the so-called domestic spending that does not go towards defense. And that's one of the reasons why the deal in the end ended up being relatively small. It only trims a few hundred billion dollars over the next couple years, and it makes only the smallest dent in deficits and debt over the next 10 to 15 years.

Michael Klein
Yeah, we have a very nice recent EconoFact memo by Melissa Kearney and Luke Pardue that talk about how big is the discretionary spending that they can work on, and as you say, Greg, it's very small. Heather?

Heather Long
Yeah, I thought that was one of the most disappointing parts of this deal. There wasn't even an attempt to put together, usually, like, what you saw in 2011, is there'd be an attempt to have some sort of commission. Now, that doesn't mean it's a binding commission, but at least you'd sort of attempt to bring together Republicans and Democrats going forward to try to have some sort of grander budget deal or re-examination, and they didn't even attempt that in this potential, this latest deal. I think the other thing that really starts to feel different this time around is the global implications of what happened. You know, back in 2011, the United States economy was in many ways one of the strongest places still in the world, coming out of the Great Recession. A lot of investment was still flowing here because so much of the rest of the world looked very, very weak. It's a really different game now, and you can see other countries, China in particular, actively using this to undermine the United States, to undermine US leadership, and no, we're not going to lose the dollar as the reserve currency tomorrow, but you know, it's becoming a pattern, and it's far too easy for even our allies to question whether they want to continue with the United States as such a linchpin in the global financial space going forward when we are going to almost certainly continue to have these manufactured crises with the debt limit. And as Greg said, it's not even solving our actual fiscal challenges going forward.

Scott Horsley
Yeah, I mean, the Fitch bond rating agency left their negative credit watch warning on US debt. Even though we did manage to avoid a default this time, they said, look, it's become this pattern for 15 years. We've had steadily worsening governance, and Fitch is not the only one taking note of that. Our allies and our competitors around the world can pay attention as well.

Michael Klein
Binyamin?

Binyamin Appelbaum
I have a slightly different view of this. It seems to me that the 2011 crisis was a crisis because it was something new, and we didn't know what the rules were, and we didn't know how it was going to play out. It played out fairly badly, although it certainly could have been worse. But as Scott says, we've been doing this for, you know, the intervening decade, and there are rules now. And this process played out more or less exactly in the way that I would have predicted right down to the timing. Nothing special about my predictions. I think lots of people foresaw pretty much how this would play out. And so that sense of crisis, I think, has faded somewhat. The stakes are obviously enormously high. A bad ending would be a truly bad ending. But I'm not sure that the debt ceiling as such is the fearsome thing that it was back in 2011. It seems to me that markets have made their peace with it, while it certainly is a talking point in foreign Capitals, i'm not sure that anybody has particularly convinced that this is the reason to hold the United States in lower regard. My big concern about it is that it has become another distraction from the issues we actually need to deal with, not that it itself is such a terrible and intractable thing.

Heather Long
I'll just jump in a little bit there really quickly. While you're probably describing the base case scenario, what also was different this time is some fairly credible people, you know, particularly on the Democratic side, truly talked about seriously invoking the 14th Amendment. And on the extreme fringe of the right, you had a number of people seriously talking about default would be their preferable option here. And that seems a little bit different from what we saw play out for the past 10 years. And it does seem like the edge case, while still hard to foresee, is rising. And that to me does make this a little bit different going forward.

Michael Klein
Do you think that just reflects the greater polarization now, Heather?

Heather Long
Well, even if it does, it's still a risk, a greater risk factor going forward than what we saw before.

Michael Klein
One of the issues is how it was resolved and what was cut and what wasn't changed. And Binyamin, you had an article about taxing. And taxing was never really on the table. In fact, one thing that happened was that there was a cut in the funding to the IRS to try to avoid tax avoidance and tax evasion. So is this going to be a problem that taxes are off the table and even trying to have the IRS work more efficiently and more effectively? Is this something that's going to be plaguing our fiscal landscape going forward?

Binyamin Appelbaum
I think that, you know, it's pretty clear, at least from where I sit, that, you know, we have a level of debt that is imposing growing costs on our economy, especially just in the very simple form of a larger share of federal revenue going to interest payments. And there are some really good reasons to want to address that. And there's two ways to address that. One is by reducing spending. And the other is by increasing revenue. And the problem with the debt ceiling is that structurally, it's a negotiation between Republicans who are threatening to default, and Democrats who are trying to convince them not to. And the only language the Republicans are willing to speak is the language of spending cuts. And so we get deals that solely focus on spending cuts. And as Greg and others have noted, only spending cuts in a very small part of the federal budget. And we have lost any capacity to have sort of a comprehensive discussion about the totality of our fiscal policy, which would necessarily include the revenue side of the equation. And until we gain some capacity to have that broader discussion, we're not really going to be making any headway on the underlying issue of the national debt.

Michael Klein
Greg?

Greg Ip
Yeah. And I think that we've gotten a little bit complacent about the consequences of these things because we've allowed the debt to basically triple from 35 to 40% of GDP to around 100% of GDP, and nothing terrible has happened. But the reason nothing terrible has happened is because while debt was rising, interest rates were falling. They were zero or negative when you adjusted for inflation for a lot of the last decade. And that, in fact, reflected the unusual circumstances of the global financial crisis from a decade ago. We've seen inflation and interest rates go up a lot in the last year. And I don't think it would be a good bet to think that the low real rates of the last decade are going to be replicated. And if that's the case that builds real trouble for the United States. We're now entering the coming period with a structurally very high deficit on the order of five to six percent of GDP. That is the largest of all advanced economies, I think with only the exception of Belgium. And we can do it in some sense because we're the superpower. We have the largest economy. The Treasury debt is the world's most preferred safe asset. The dollar is the reserve currency. But in some sense, those good starting conditions have simply been used by American policymakers as an excuse to give ourselves more rope to hang ourselves with. I think it will be a real problem in coming years as the real cost of debt goes up, if the current configuration of interest rates persists. And that puts more and more pressure on the fiscal situation. And it collides with a budget making process that is utterly dysfunctional with like two parties completely dug in and with mutually exclusive priorities about how to fix this problem.

Scott Horlsey
Yeah, at some point, we are going to have to talk about tax revenues, and at some point, we are going to have to talk about entitlement changes. Left alone, Social Security's trust Fund is going to be exhausted in about a decade, and everyone who depends on those benefits is going to take a 23, 25% haircut. Medicare's trust fund is going to be exhausted sooner than that. And providers are going to see their payments cut by 10% or 11% unless we do something. So inaction here is not an option.

Heather Long
And I'll just note that this conversation may actually be forced upon us because of course, the Trump tax cuts on the individual side expire in 2025. So whether anyone really wants to talk about taxes or not, that conversation is coming quite quickly.

Michael Klein
But there's a tendency for these tax cuts to always be renewed. And, you know, that could happen again. In fact, sort of building on what Greg was saying, Moody's wrote earlier this year that the United States has one of the least affordable debt burdens among advanced economies due to the weak growth in tax receipts, and the rising interest burden on the debt. Binyamin?

Binyamin Appelbaum
I just want to emphasize, you know, what we're talking about here when we talk about a growing portion of federal revenue going to interest payments is that the government is basically, instead of collecting tax revenue from rich people, it is making interest payments to rich people. A growing share of federal revenue just goes straight out to the door into the pockets of the wealthy in order to sustain the borrowing necessary to cover everything else that the federal government does. And one of the fundamental problems I think in Washington is that you have Republicans who are convinced that we have a debt problem because we're spending too much money, and a Democratic Party that isn't even willing to concede that there is a debt problem, much of it. And so, you know, the people who would be advocating for tax revenue aren't even willing necessarily to concede the premise that we have a problem that needs to be solved. And that's why the train doesn't even get out of the station.

Michael Klein
Well, one of the sources of the government deficit over the last few years, as mentioned, has been the tax cuts. But then, of course, another one was the increase in government spending. And this was an effort to avoid a pandemic-induced recession, which was successful, but it also likely contributed to inflation. The inflation we're now experiencing. Greg, you recently wrote about a research paper by Ben Bernanke and Olivier Blanchard, two very prominent economists, that attempts to determine how much of our recent experience with inflation was due to supply

disruptions caused by the pandemic, and how much was due to government spending and very accommodating monetary policy. Can you discuss what Bernanke and Blanchard concluded?

Greg Ip

Sure, I'd be happy to. And I think it's an important paper partly because of the authorship. I think most listeners have heard of Ben Bernanke. He was the Federal Reserve Chairman for around eight years, including around the global financial crisis. But before and since then, he was really one of the world's most respected monetary policy experts. Olivier Blanchard, also one of the world's most, I think, quoted and cited macroeconomists out there. So when these two basically get together and come to an agreement, you really do want to sit up and pay attention. And what I think was intriguing about their study was, in some sense, they tackled the debate, which has been going on for three years, which is, did the pandemic cause inflation or was it too much government stimulus? And effectively, they said both. They start out in the year like 2021, where as the economy reopens, you have a lot of demand that collides with very constrained supply, disrupted supply chains. You have this big shift from services spending to good spending, and a boom in commodity prices driven by a variety of factors, including later on, Russia's invasion of Ukraine. And so in some sense, that initial burst of inflation was not primarily a story about stimulus. But after a year or two, as you start to see the labor market get very, very tight, what these authors find is that that stimulus with a bit of delayed reaction kept the inflation rate high. So the takeaway is that even if the high level of demand generated by all those trillions of dollars of COVID relief and zero interest rates wasn't the initial, in some sense, original sinner, and the reason why we have inflation ratio of 5%, getting the inflation rate back down does in some sense run right through government demand policy. And there's really only two ways available to the government to do that. One is a significant tightening of fiscal policy by raising taxes or cutting spending. And as we were just talking about, Congress and the President more or less whiffed on that. And the other is for the Federal Reserve to engineer high interest rates and keep them there for a while. And I kind of think that's what we're looking at.

Michael Klein

Greg, one of the interesting things about your article was that you talked about the pandemic affecting things in a slightly more subtle way than Blanchard and Bernanke.

Greg Ip

Yeah, I think that they, for example, look at the excess of demand for labor over the supply by looking at something called the ratio of vacancies to unemployed people. And this has become a very popular way of understanding just how tight the labor market is. But I think even that in some sense doesn't tell us how bad the pandemic was because the supply of people itself was deeply depressed by the pandemic. We know that millions of people left the labor force. A lot of them retired early. A lot of them got sick. A lot of them were concerned about getting sick or they had family obligations or they just decided they wanted to do something different with their lives. And although there are mixed signals on the labor supply situation, it doesn't look to me like it's all the way back to normal. So in many ways, I think that the pandemic continues to have these unusual echo effects on the structure of the economy that are in some sense making it hard to grow as quickly as we'd like without generating all these repetitive inflation pressures.

Michael Klein
Scott?

Scott Horsley
Yeah, I mean, it certainly looks as if the labor market is remaining very tight even with the five percentage point increase in interest rates over the last 15 months or so. Month after month, we keep thinking we're going to see a slowdown in hiring. We might see an uptick in the unemployment rate, maybe a come down in those job openings, and the market just continues to defy us. 339,000 new jobs added in May. The unemployment rate did tick up a little bit, but we continue to see growth in prime age workers. The resilient job market's been a real stunner.

Michael Klein
Binyamin?

Binyamin Appelbaum
One aspect of sort of this ongoing question of what is driving inflation that I find really interesting and I think hasn't entirely been resolved yet, is the question of whether on the supply side of the equation, companies are exercising pricing power in ways that are contributing to the persistence of inflation, either because they anticipate that they need to stay ahead of the curve, or because they're just profiteering. You hear more and more policymakers, most recently, Christine Lagarde, discussing this as a contributing factor and something that hasn't really been part of our conversation about inflation in past cycles, but is playing a more prominent role this time around.

Michael Klein
There is a very interesting paper from quite a while ago by John Taylor about overlapping contracts. And what he showed in that was that inflation could persist much longer than even the longest if these contracts are overlapping. And recently, Ivan Werning at MIT used that framework to think about how there might be a persistence in inflation if firms are just trying to keep up, and wages are just trying to keep up, because of this overlapping of contracts. But as you say, Binyamin, I think it's still unresolved. Another thing that's unresolved is what should the inflation target be? This week, the Federal Reserve is meeting. And there could be a pause in the raising of rates. There could be an increase. But people talk about coming back to the 2% target. There's nothing magical about 2%, but it's been something that we've focused on for a while.

Do you think the 2% target is something that we should reevaluate, or maybe even abandon at this point? Would the cost of getting back to it be too high?

Scott Horsley
Well, whatever I think, Jerome Powell doesn't think we should get rid of the 2% inflation target. They're not even talking about talking about changing the target, at least not while the game is underway. I think the Fed is very committed to keeping rates elevated until they get to that 2% target, or at least until they're well on the path to getting it back down to 2%. And I think they feel like their credibility is on the line here and they are not going to change that, at least during this cycle.

Binyamin Appelbaum
I'll just say about that. It's been interesting. Olivier Blanchard, who we touched on a moment ago, was very prominent before this period in arguing that the 2% target was too low, and did not make sense, and that ideally there would be a higher inflation target for monetary policy. In the current context, he has not had the courage of his convictions. He has argued that the cost of abandoning that current framework would be too high. It seems to me that if there is ever a moment when you might reach a different inflation target, it is surely right now. It makes me want to talk about before the crisis, if he doesn't think this is the moment to do it now, but it's symptomatic of the discourse in general, which is that in this context, people have suddenly gotten very nervous about the idea of aiming for anything other than that 2% target.

Michael Klein
Greg?

Greg Ip
I agree with Binya. There is no particularly good reason why the target should be 2%. 3% for a variety of reasons, is a much better target. And if changing the target to 3% now instead of 2% saves us a lot of unemployment [inaudible] that really has no purpose, why not do it? And the strongest argument you would make against it is that if the Fed were to move to a 3% target now, the world would see that as a floor rather than a ceiling of its new target. I guess that's possible, but that's really in the hands of the Fed. If they are serious about a target, they will then carry out the actions necessary to achieve it. But I'm kind of with Binya on this one. If everybody agrees a different target would be better, why not do it now and save ourselves a lot of pain?

Michael Klein
In fact, the 2% target was not met for almost all the quarters in which it was in place. Inflation was persistently below 2%. So it's not so clear necessarily what information the target conveys. And yet, it is something that, as mentioned, policymakers are very reticent to give up on, perhaps because of concerns about inflation expectations. So what are your views about what the

markets, what wage setters, what companies are thinking about inflation? From financial markets, we get one set of views. From surveys, we get another. What's the overall view that you think is relevant for thinking about what people are thinking about?

Greg Ip
Well, there's quite a few different ways of assessing people's expectations of inflation. The University of Michigan and the New York Fed both conduct surveys and they simply ask people, what inflation rate do you expect over the next year, the next three years, the next 10 years? And they come up with answers that are anywhere from say 4% over the next year, to say more like 2.5% over the coming decade. You can also go into the financial markets and look at the way they're pricing things like regular bonds versus inflation protected bonds. And there you'll come up with an answer that looks more like 2% to 2.5% in the coming year, and something similar over the next 10 years. So you could actually end up with quite a variety of answers. I would say, though – and I have to admit that this is almost as much of a gut feeling than an empirically observed [inaudible] at observation – it feels to me that people are starting to get more used to the idea of an inflation rate of 3% or 4%. You look at surveys and ask people, what do you think your earnings growth will be? They're definitely looking at a higher number than they did five or six years ago. We talk about whether corporations are exercising pricing power. Well, it's kind of a delicate dance exactly how a company goes around raising prices. In practice, what they often do is they look around and see what their competitors are doing. And it's a little bit like everybody standing up in the stadium at once. If you all stand up in the stadium at once, nobody ends up seeing any further. And if all the corporations are essentially looking at each other raising prices or saying, well, if they're raising their prices, I better raise mine. And if they're not raising their prices, I won't raise mine. So the sense I get from what's going on here is that it does feel like there's a psychological shift going on now towards a higher inflation rate.

Michael Klein
That metaphor that you use, Greg. I remember that from the 1970s when I was first studying economics, talking about the inflation of the ‘70s and people needing to stand up to see or the analogy is firms having to set prices just to keep up. And so it's interesting that that's now re-emerged some 50 years later.

Binyamin Appelbaum
There's one big difference from the 70s that I think should be emphasized, which is that at that time, a significant portion of private market labor contracts were negotiated collectively. And so you could, in essence, determine for a large group of workers that they wanted whatever that raised figure was for the next three, four, five years and write a contract that contained it and lock in those raises and drive inflation higher in that way. We now have a very small share of the market whose labor contracts are negotiated collectively. And so there's a lot more room for

employers to back out of a pattern of raises if inflation does [inaudible]. And I agree with Greg that inflation is culturally determined to some extent. I think that to me it's less clear that we've actually shifted our paradigm. And I wonder whether we might not just snap back to where we were before as these pressures abate.

Heather Long
Yeah, another key question is just how long the Fed will be comfortable with giving inflation time to come down to whatever target, whether it's 2 or 3 or whatever they ultimately decide to get to. I mean, it's pretty clear that we seem to be stuck at the moment or plateauing a bit in this 4 to 4.5 range, which isn't terrible, but really is pretty far from 2%. And wages do seem to be adjusting down a little bit and are a little bit below that level. But I don't know, it's a really hard call, how hard do you hit the hammer going forward to get it from 4 towards more like 3. And I think that's going to be one of the key calls for this Fed heading in to later this year. Certainly, we all hope there'll be some magical disinflation happening. But right now, we do seem pretty stuck.

Scott Horsley
I mean, thus far, the process of getting from peak inflation last summer up north of 9% down to where it is now has been relatively painless in terms of the labor market. Even construction, which is usually pretty sensitive to higher interest rates, was adding jobs last month. But getting from where we are now to 2% could be a lot more painful, and that could make that choice of the Fed a lot more challenging.

Michael Klein
Some of that reduction has been in headline, more than core inflation because of the prices of energy coming down. How important do you think the price of energy, the price of food, these sort of more volatile parts of inflation are, and will be for determining what happens over the next year or so? And I realize I'm asking you to make predictions, which is unfair, but I'm asking.

Scott Horsley
Well, certainly psychologically, people's attitudes about inflation are heavily determined by, historically gasoline prices almost in isolation, I mean, people's outsized views on gas prices is well known. And in this cycle, their reaction to food prices has been pronounced as well. I mean, I certainly notice it every week when I go to the grocery store. So if you can get a break on gas and groceries, I think that that does a lot to keep people's inflation expectations in check.

Heather Long
I think too, one of some of the hardest ones to read or what's going on with the rent prices, which is obviously such a big part of CPI measure. You know, a lot of these private sector indexes would indicate that we've kind of passed the peak of the rent, and yet it's still going up in CPI.

And so trying to understand, you're almost trying to game the statistic, more than where we actually are in the rent cycle. But to me, the more fascinating one and probably more significant one, is just, you know, one of the biggest booms has been vacation, this revenge spending, you know, people want to get out after the COVID years, and they're just willing to pay anything to get out of their homes. And I think when does that stop? You know, you sit here and you look and you see the excess savings has really come down, including for the middle class. You know, you see that the prices in a lot of these travel sectors are still pretty high, if not rising, and yet people continue to book, and there's sort of a mathematical reality where that doesn't seem like it can just keep escalating forever. And so I don't know, I keep wondering in my head, you know, do you get to the end of the summer and then people pull back? I mean, there just sort of has to be a point where this begins to subside.

Michael Klein
Oh, after Labor Day, there'll be a collapse in the price of airline tickets and hotels and things like that, which could, you know, be very helpful, I guess.

Greg Ip
Except for those of us who have already booked on travel and can't get a refund.

Binyamin Appelbaum
This is 'the winter's coming' theory of inflation. I would differentiate between the politics of inflation and the economics of inflation. I think, you know, when we talk about food and energy prices, you know, when the Fed looks at inflation, it strips out food and energy prices, not because it doesn't think they're important, but because it doesn't think they're predictive. And there's a lot of very good data about that. And so, you know, I don't think those prices matter very much for the trajectory of where inflation is headed. Where they do matter is politically. High food and energy prices make inflation really salient, and really problematic for the people who are in power. And, you know, when they go up, the politicians feel the pain.

Michael Klein
So, I'd like to close in by following up on that point, Benjamin, and with all of you. As Scott was saying, people's views of inflation often move one-for-one with gas prices. People's views of how well the administration is doing often move one-for-one with gas prices as well. President Biden has, you know, pretty low approval ratings, given how strong the labor market is, how inflation has been coming down, and so on. So you're all involved, not just in economics, but the politics of economics as well, when you're thinking about these things. What are your views of either how the administration is doing, or how people are perceiving how the administration is doing, and how that might be discordant with actually what's going on?

Scott Horsley
Well, there has been this real disconnect between the incredibly strong job market that we've enjoyed pretty much throughout the Biden administration and the relatively high inflation. I guess you have to chalk up the low grades that Biden gets on the economy to the high inflation. If the job market goes south sometime next year, as a lot of forecasters are projecting, that could be disastrous for the president's reelection chances.

Heather Long
I'll just chime in and be a little provocative. I think that maybe, I think that probably, you know, Biden probably deserves a grade somewhere in the B to B plus range. You know, we have had an incredibly strong recovery, and they learned, you have to give them credit, that they learned the mistakes from coming out of the great financial crisis and largely did not make those mistakes again. The other thing that doesn't get talked about enough is, you know, he did get a big bipartisan infrastructure bill pass, which was badly needed investment, and it's certainly helping to keep construction employment and others strong. They also, you know, obviously, they got through the debt limit deal, but they also are doing this massive industrial policy on a bipartisan basis, which probably doesn't get nearly enough press as it deserves, but almost every European head of state who's come to see the Washington Post editorial board in the last six months, this is the one issue they want to talk to us about. They want to talk about industrial policy. They want in on it. In hindsight, this could make or break a lot of the United States going forward and for decades to come. You know, are we going to be dominant in the battery space and the chip space? What does this mean? Are we just selling ourselves with higher costs? It was interesting, somebody from the White House was telling me the other day, you wouldn't believe the number of lawmakers, including Republican lawmakers, you know, who are constantly looking for cuts, who are calling the White House begging for one of these chip centers to be built in their home district right now, because, you know, this is a massive reshaping potentially of the U.S. economy and how the U.S., you know, of the global economy. And so, you know, I think to some extent we all get a little bit too caught up in when the Federal Reserve is going to sneeze at the next meeting, and there are some really big, you know, bigger factors and forces at play right now that, you know, that we're maybe not talking and thinking enough about. And I will just make one last note that if you are a Black worker in the United States, this is the first time that this labor market has actually felt like it operates in a normal capacity. This is the first time, not only is Black unemployment at all, you know, record lows, but you are seeing a situation where Black workers with college degrees, whether associate or bachelor's, are finally getting hired at equivalent rates to White workers with bachelor's degrees and college degrees, whereas if we were recording this podcast only a few years ago, we would be lamenting how educated Black workers aren't even getting hired as much as White workers with high school or lack of a high school education. And so, I think we also have to keep that stuff in mind. Not only is it a low unemployment rate, but we are finally seeing a more broad

base of opportunities for a lot of Americans who for too long have been undervalued in this country.

Michael Klein
That's actually a point that in 2020 the Fed was talking about keeping the economy running hot to help historically disadvantaged groups. And so maybe, you know, we're seeing some of that now. But going back to industrial policy, Greg, do you have any comments on that?

Greg Ip
I think the Biden administration has correctly said that, look, there are certain things that the private market simply does not take into account and there's a legitimate case for the federal government to put its thumb on the scale. One is climate change, right? That's an externality. And so subsidizing electric vehicles in some sense, you know, makes good logical economic sense. And so if that means that we build more electric vehicle factories, so much the better. Another is we should not be depending on China or Taiwan and South Korea, all of which are in geopolitically dangerous places for semiconductors, which are absolutely critical to a variety of military and civilian applications. So there again, I think a lot of folks, including people sort of more towards the center of the political spectrum would agree, this is a place for industrial policy. I suppose what troubles me a little bit about the Biden administration's approach is that they see market failures everywhere. And there's no limiting principle on where they think the government should intervene. The president in a state of the union address says he wants all American, he wants American infrastructure only built with American lumber and drywall. I'm not aware of the strategic case for having all drywall made in the United States. His aides try to persuade him to drop tariffs on some relatively anodyne Chinese products like underwear and bicycles. He vetoed that. Again, not aware of the national security case for making underwear in the United States. There are congressmen out there who want a chip for steel, chips for aluminum, chips for, you name it, chips for pharmaceuticals. And we're in a situation right now, as we're talking about earlier, where we're already having trouble finding the workers in the capacity to make the products that we want right now, never mind to remake all the products that we now import. So I do worry a little bit, this is an administration that has a little bit of trouble even learning the recent lessons of history. They came in in 2021. They thought we had a demand problem. They piled two trillions of dollars of stimulus into an economy that actually had a supply problem. And the result was inflation. I think that you can sort of cut them a break because nobody anticipated that supply disruptions would be as severe and as likely to amplify inflation pressures. But come on, folks, it's two years later now. I think they need to start understanding that the reason economics talks about maximizing returns on capital labor is because there's only so much capital and labor to go around. You can't just wave your wand and say, we're going to build all the stuff we want with unlimited money.

Michael Klein
The production possibility frontier is one of the first things you'll learn in a principles of economics course. Binyamin?

Binyamin Appelbaum
I think the question about how we grade Biden, there's a tendency, an understandable tendency, to grade presidents based on how the economy is doing right now. But the truth is that by far the more important question is what will be the long-term effects of the Biden administration's economic policies? Because, as my fellow panelists have noted, they've launched quite a paradigm shift in American economic policy. They are doing things very differently than prior administrations and in a big way, restricting trade, investing in industry, trying to push manufacturing here in the United States. This is a momentous shift. And I think the long-term consequences are extremely uncertain. I think that there are things they could be doing differently to increase their chances of success. If you don't have enough labor, you can encourage immigration. If you don't have enough capital, you can encourage companies, you can help them to gain access to it. They're doing some of that. But that frontier can shift, basically. And the Biden administration, I think, might benefit from thinking a little bit more holistically about how their policies fit against other aspects of our current situation. But the bottom line is, this is a gamble. It's a gamble that in the long run, sort of Henry Ford's old insight, that if your workers make more, they'll be able to afford Model T's, can be applied to the national economy, and lift up workers in a way that hasn't happened in recent generations. And we're not going to know for some time how well it works.

Michael Klein
Well, we're not going to know for some time, but I hope that well before that we have another chance to discuss these issues, because as I said at the outset, this is one of my favorite kind of podcasts that I host. And I always learn something, sometimes I learn quite a bit, and I always enjoy it very much. So thank you all for joining me today, and I really appreciate your taking the time and your insights.

Binyamin Appelbaum, Scott Horsley, Greg Ip, Heather Long
Thanks, Michael.

Michael Klein
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