

## **EconoFact Chats: "Vibes" Meet Reality? Consumer Sentiment, Wage Stagnation, Tariffs, and Inflation**

**Binyamin Appelbaum (The New York Times), Larry Edelman (Boston Globe), Scott Horsley (NPR), and Claire Jones (The Financial Times)**

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### **Michael Klein**

I'm Michael Klein, executive editor of EconoFact, a non-partisan 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](http://www.econofact.org).

### **Michael Klein**

Our last EconoFact Chats podcast with our panel of journalists was in September. Since then, we've had the longest government shutdown on record, an election in which the Democrats exceeded expectations, a supreme court hearing on the legality of the administration's tariffs, and waning confidence in the President's stewardship of the economy. So there's a lot to talk about, and I'm very happy to be able to discuss these issues, and others with our panel of leading economic journalists, Binyamin Applebaum of The New York Times, Larry Edelman of The Boston Globe, Scott Horsley of NPR, and Claire Jones of The Financial Times. Welcome to each of you, and thanks for joining me once again on EconoFact Chats.

### **All**

Thank you.

### **Michael Klein**

Let's start out with the big picture, or maybe it's better to say what the big picture actually is, as compared to how people are viewing it. The term vibecession was coined a year or two ago during the Biden Presidency to describe a situation where people had soured on the economy, even though the aggregate data didn't look too bad. Are we going through another vibecession now? Are things better than what's reflected in consumer sentiment? Are things really heading south? Larry, you wrote a recent Trend Lines column on this. What did you find in your reporting?

### **Larry Edelman**

Michael, I found that this vibecession is actually just the same as the vibecession that we had during Biden. People's views really haven't changed. There might have been some optimism when Trump won the election among his supporters, that things would get better. But that hasn't happened, and the sentiment is as low as it's been in a long time. I think that the Michigan sentiment, the long running consumer sentiment survey done by the University of Michigan, is lower than it was in the immediate aftermath of the financial crisis in 2008, so people definitely are very unhappy with the way they feel things are going. And what I found was that there were several factors at work. There's the level of prices, which are still 25% or more higher than they were prior to the pandemic – post pandemic inflation spike. Prices might be rising more slowly than they were then, but they're still really high. The cost of

everything is really high, including things that are out of reach of most Americans, or many Americans, like the cost of housing, rent, and mortgage rates, are just slipping away from people who are looking to buy or rent a place affordably. And health care also is another one of those things. So it's really an affordability crisis that spans more than just the price of eggs and coffee, but so many things that people do. Another one would be child care, just makes it incredibly tough for families to get by. The one thing that I would point...the difference that I would point to now versus then, was Biden basically said, yes, prices are up, but so are your wages. That was especially true during the last year of his administration, but people didn't want to hear it because people tend to think that higher wages they've earned, they put in a lot of hard work to get it, and they deserved it, and they resent those increases being eaten away by inflation, even if there's a little bit left over after inflation is taken into account. Trump, on the other hand, is just lying. There's an expression that the noted economist, Judge Judy, likes to use, and that is, 'don't pee on my leg and tell me it's raining.' Trump is out and out telling people that prices are coming down, and they're just not. There are a few examples they might be able to point to, but overall, prices just aren't coming down, and people don't buy it. They're not stupid.

**Michael Klein**

Binyamin?

**Binyamin Appelbaum**

Yeah, so, I mean, I agree that on some very basic level, vibes come down to inflation. When prices are increasing, people are unhappy. That's something we've really learned, or maybe re-learned in recent years, is that to some extent, consumer sentiment really just boils down to inflation. Inflation is still rising at about 3% a year. It dipped a little bit in the early months of Trump's tenure, and then rebounded as his policies started to take effect. So the overall effect is that people are still enormously unhappy, because every time they go to the grocery store, they see that things cost more, and that makes them extremely unhappy. But there's something really interesting happening, sort of at the next level down from there, which is that during the Biden years, if you compared wages and prices, what you saw, as Larry just suggested, is that most Americans, particularly toward the end of Biden's term, were seeing their wages rise faster than prices. So in real terms, they were experiencing modest but real increases in the purchasing power of their households. That has now flipped. We published some really interesting data from Bank of America this weekend. Bank of America has access to the financial records of tens of millions of Americans, and they find that what we have seen so far this year is that the lower two thirds of households ranked by income are experiencing declines in their real wages. The pace of wage growth is now falling behind the pace of inflation. And so I think for those households, we've moved out of just a vibecession phenomenon where it doesn't feel great, but you're still able to buy more hamburgers at the end of the day, into a situation where the vibes are actually increasingly on the same page as the reality, which is that for most American households, they are now not making enough money to keep up with inflation, they are actually having to reduce the number of hamburgers that they buy. That's a new thing, and it's a big political problem for the President.

**Michael Klein**

Claire?

**Claire Jones**

I mean, just two things I might add on this. I mean, like Binyamin, we've been looking into this issue about what's happening to wage levels too. And the Atlanta Fed pulls together some very nice charts on its website, which show that this issue was, over really the last 10 years, during not just Biden, but Trump's first four years in office, you really saw wage growth for the lowest earners in the US have far outpaced that for the highest earners. That trend, basically from around the turn of this year, has gone into reverse. Another thing that I think is worth mentioning is there was a blog post, I think it was published yesterday, which seems to have gained a lot of traction, saying that, based on updating these 1963 calculations done by a Social Security Administration economist...someone basically calculated what they thought was the poverty line now was \$140k a year, which sounds astoundingly high to me, and I think a lot of people are equivalent with his numbers, but that takes into account a lot of the things that Larry's really mentioned with healthcare and childcare, and just raises the sense in which the costs of these things that are regarded as essential for everyday US life are really quite expensive now.

**Michael Klein**

Scott, you had a podcast...not a podcast, a broadcast piece on this. What did you find?

**Scott Horsley**

Well, Benjamin mentioned how many hamburgers you can buy. And of course, hamburger is really a particular sore point right now, because beef prices on average, are up nearly 15% for the year, which is substantially more than groceries overall. One of those items that the President can point to where real prices have come down is gasoline. And you know that used to have a really outsized impact on people's emotions. We used to say that the President's approval rating rose and fell inversely with the price of gasoline. It's the most visible price in America, and right now, the average price of gas around the country is hovering around \$3 a gallon. It's well below that in about half the states. But that does not seem to be doing anything to boost the President's approval rating, and certainly not on the economy. So either gasoline has outlived its usefulness as an economic nudge, or it's just being swamped by the higher price of all these other things, including hamburgers.

**Michael Klein**

There was a New York Times editorial recently about the price of milk rising, and I'm guessing that that was penned by you, Binyamin. So you've been talking about hamburgers. Now we're talking about milk. I don't like to mix milk and meat, but I'll do it in this question. Is Trump suffering the same kind of backlash that faced Biden, but as you were sort of alluding to, he promised to bring prices down on day one. So is this catching up with him now?

**Binyamin Appelbaum**

You know, there's a very interesting phenomenon that we've seen increasingly in consumer sentiment data, which is that it tracks political affiliation to a much greater extent than it did historically. So actually, the group of people who are mad at Trump is basically the opposite of the group of people who are mad at Biden, irrespective of their actual economic circumstances. It's now the case that Americans view economic data increasingly through a partisan lens. So that's a significant difference. It's now Democrats who say that they are acutely feeling these economic phenomena in a negative sense, and Republicans who insist that things are better than they seem. That said the dynamics are also at a very basic level, very

similar. What you have is a very similar set of economic problems still besetting households across the country. And the evidence of...we had a small sample of recent elections in just a few states, but in those states, what we saw consistently is the Democratic candidates who ran on a message of affordability, not only won, but won convincingly. That message really resonated with the electorate; the idea that prices are the problem and that the government needs to do something about it. We had a New Jersey, gubernatorial candidate promising to freeze electricity price increases. The incoming mayor of New York talking about free buses and city grocery stores and rent freezes. This idea that the government needs to intervene has really resonated with a lot of voters, and the flip side of that is that all of the polling data suggests that Trump, and increasingly the Republican Party, are in a lot of trouble next year. It's a long time until the midterm elections. A lot of things could change. But at this point, at a very basic level, Americans are upset about the economy, and historically, when people are mad about the economy, it's really bad news for the party that's in power.

### **Michael Klein**

So one of the issues, having to do with higher prices, is linked to tariffs. Claire, you recently spoke with the head of the Yale Budget Lab, and they've been tracking the effects of tariffs. What did you learn from her?

### **Claire Jones**

Well, I mean, I'd say I'm a massive fan of the Yale Budget Lab's work for starters, just because I think it does a very very good job producing very timely data in a very straightforward way, and one of the things they've really excelled at is measuring the impact of tariffs. Now, one of the things they break it down by is income distribution, and what it shows is that, from a consumer perspective, it's people who are at the lower end of the income scale that are going to end up paying the most for tariffs. So that's a big implication for me, I think, is that with the trends we've already discussed on wage growth, and then some of the changes that are going to come in next year, with the big tax and spend bill in 2026 from Trump, it really seems that it's those at the lower end of the income distribution that are going to be hard hit from some of these big economic changes we've seen, and my talk with Martha Gimbel really kind of solidified that in my mind.

### **Michael Klein**

Scott?

### **Scott Horsley**

Well, and the Trump administration sort of tacitly conceded that tariffs are part of the affordability problem. They've maintained for months that, oh no, it's China that pays the tariffs, or Brazil that pays the tariffs. But in the wake of those electoral losses, they did give some ground, and offer some tariff relief on certain products, especially things that we don't produce in this country, and have no hope of producing in this country, like coffee and bananas. In doing so, even though they didn't actually say so, it was a tacit admission that taxing imports makes goods less affordable, not more affordable.

### **Claire Jones**

And for me, that kind of underlined just how sensitive to inflation people still are. I think we've been looking at the inflation data, and it's been edging up. But I don't think any of us following the economic

news have thought this is having a bigger impact on inflation than what we thought. But clearly, the election results we've seen over the past few weeks suggest that it really is having an impact on how people are thinking about the economy, or is at least one element of how people think about the economy.

**Michael Klein**

Binyamin?

**Binyamin Appelbaum**

I think one thing that's really interesting about tariffs is that...so this tariff, it's an import tax, and it's paid by the company that brings the goods into the country. And then the question is, who ends up really bearing the cost of that? To what extent do consumers end up paying the tariff in the form of higher prices on the goods that are brought into the country? There's this really interesting work by Goldman Sachs finding that in the spring when the tariffs first took effect, the companies bringing the goods into the country swallowed roughly three quarters of the cost of the tariffs. They didn't attempt to pass most of it on to their customers. Some of them said at the time that they thought it might be a temporary phenomenon. They didn't want to lose market share, they didn't want to break faith with their customers. But what we've seen as months have gone on is that the estimate...Goldman Sachs' estimate is now that more than half of the cost of the tariffs is being passed through to consumers, and they anticipate that will continue to rise toward three quarters next year, basically flipping that initial allocation of the costs. What that means is that even as Trump is starting to pull back a little bit on the severity of some of these tariffs, the effect of the ones that are in place is going to continue to increase for consumers. And so one shouldn't assume that actually, that the net effect right now is a diminution in the impact on inflation. It's quite possible that the overall effect will continue to be inflationary, even as the administration begins to pull back a little bit.

**Michael Klein**

Yeah, that's consistent with the work of Alberto Cavallo at Harvard Business School and his PriceStats project. I interviewed Alberto in September, and more recently, the 3% inflation rate, 0.7 percentage points of that are attributed to the rise in prices, both because of tariffs on imported goods, but also domestic goods that compete with them, those prices have gone up as well.

**Binyamin Appelbaum**

Can I just say one thing about that, Michael, because that number sounds small to people, but it's really important to realize that for the last 30 years, goods have actually been negative in inflation. Goods prices have been coming down. Essentially all of the inflation we've experienced in the last quarter century has come from the inflation and services prices, and so for goods prices to now be going up at all, it feels wrong to people. It contradicts what they had come to think of as the normal situation. People were used to health care prices increasing. They were used to education prices increasing. What they were not used to is going to the supermarket. And so even when you've got that 0.7% increase doesn't sound like much, but the fact that it's positive and not negative, I think, is a huge issue.

**Michael Klein**

Yeah, that's what economists call the Baumol effect, the increase in the price of services. But you know, the way I would put it is, if it wasn't for that, inflation would be 2.3% instead of 3. So it's a lot closer to

the Fed's target. Or alternatively, almost a quarter of the inflation rate is due to the tariffs. So, you know, 0.7 might sound small, but in context, it probably doesn't. But to make up for all of this, the President has said he'd like to send everyone a \$2,000 tariff rebate check. Larry, you've reported on this. Is this a good idea?

**Larry Edelman**

Well, you know, it might be a good idea if indeed, China and the European Union and Japan and Korea and Brazil and all the other countries in the world were paying the tariffs, but they're not. If they were paying the tariffs, then yeah, we would be taking it out of their pockets and giving it to American consumers, which would seem like a good idea, at least to people getting the checks, I would say. But the fact is, as Binyamin noted, it's businesses and consumers who pay the tariffs in the form of higher prices, and in that case, it's like the government setting your porch on fire and then giving you a fire extinguisher to help you put it out. It just doesn't make any sense when the underlying problem is the tariffs, and by giving people a partial rebate on what they've been paying doesn't really solve the underlying cost that the tariffs themselves and all the distortions that they put on supply chain and, as you noted, competitors in the United States raising their own prices...the simplest thing to do would be to get rid of the tariffs. So it's really a public relations ploy, and I would sincerely doubt that we see it in real life.

**Michael Klein**

Well, we might get rid of the tariffs. This is a podcast about economics, not the law, but I do want to bring up the case, Learning Resources Incorporated v. Trump. The Supreme Court heard oral arguments in this case, which is on the legality of the administration's tariffs in early November. There seem to be a few key issues. One is the so-called 'major questions doctrine' that Congress needs to explicitly authorize executive branch actions that have so called major effects on the economy. Scott, you reported on this on these oral arguments, what were your impressions of that day?

**Scott Horsley**

Well, of course, it's always risky to try to make judgments on where the justices are going to come down on the basis of their questions they raise in oral arguments. But there certainly seemed to be a lot of skepticism directed at the administration's lawyer as he tried to make the case that these tariffs on which the President's relying on...this 1970s emergency statute are somehow justified. Not all of Trump's tariffs are at issue here in the Supreme Court. It's just the ones that were authorized on this emergency statute, and that statute never uses the word tariff. And so the question is, would Congress have ceded one of its signature constitutional powers, the power to tax, to the administration without actually spelling out in clear language, that that's what they were doing, as they've done with some of the other tariff authorization laws. And the justices seem very skeptical of that. So I think if I had to put money on it, I would say there's a good chance that the tariffs will be struck down. Now another question is, what are they going to do with the money that's already been collected. The administration's been taking in about \$30 billion a month...total in tariffs, and somewhere around half, or a little more than half of that is the tariffs that are at question in this case. And there were questions from Justice Amy Coney Barrett about what it would look like if the administration had to give that money back. And she said it would be a real mess, which to be clear, it would be a messy process. But lots of Supreme Court decisions result in messy processes after the fact. I don't know that that's going to be a big factor, but at least Amy Coney Barrett did seem to be wrestling with the practical consequences of what a decision against the administration

would look like. And maybe they would just say, well you can't collect any more, but you get to keep the money that you have in hand now, or something like that.

**Michael Klein**

Another issue, but one that didn't seem to get as much attention in the arguments, is the invocation of the International Emergency Economic Powers Act known by its acronym IEEPA. President Trump had invoked this earlier this year, and it was the first time IEEPA was used to impose tariffs. So I'm an economist, not a lawyer, but it seems to me that we're not in an international economic emergency. And I guess this ties into our earlier discussion, are we in an international economic emergency? Am I just missing something here?

**Claire Jones**

I mean, I think that, as you say, I'm not a lawyer either, but the people I speak to on this seem to side with Scott as well. That it's not backed up by the law for Trump to have behaved in this way.

**Scott Horsley**

I will say even if the challengers to these tariffs prevail in court, it's not a guarantee that we won't see the administration come back and replace these emergency tariffs with some other kind of tariff under some of the other statutes that they have at their disposal. I'm not sure that it would be as flexible, or quite as open ended as what the President's ordered under the emergency statute, but I have spoken to a number of tariff experts who are lawyers, who do say that the administration has other tariff tools that they could use to rebuild this import tax wall if they lose this case at the High Court.

**Michael Klein**

Binyamin?

**Binyamin Appelbaum**

Yeah, I think you know not to turn this into a law podcast, but the question you're raising about, is this in emergency really goes to the heart of a recurring issue in the Trump administration, which is that we don't have excellent legal definitions of the word emergency. There are all sorts of powers that are invested in the presidency in the case of an emergency. Trump has no hesitation about breaking the glass and using them, and under existing law, it's really difficult at times to constrain him. If he asserts that there is an emergency, it doesn't always matter what the rest of us think. It doesn't always matter whether, definitionally, there's an emergency, sometimes the emergency is in the eye of the President, and that under current law is enough. So we're sort of learning about some flaws in the way that these laws were written as much as anything else. And I think, as Scott just said, one thing that every expert I talk to basically agrees about is that the President has been given so many different ways to impose tariffs under existing law that even if this case goes against him, there's no real reason to believe that the general tenor of his economic foreign policy will necessarily change. He has adequate legal authority in other respects, to do much of what he wants to do. There may be some specific countries that don't end up subject to tariffs in quite the same way, but much of what he's doing, in particular with regard to China, is already being done under other laws, and much of what's being done under this law could be done under other laws.

**Michael Klein**

I was on a webinar with a constitutional law professor, and he made the point that the Supreme Court is very reticent to rule against a president's declaration of an emergency, which is along lines of what you're saying, Binyamin, and you know, as you're saying, maybe that's just a problem with the law. Larry?

**Larry Edelman**

What I was going to add, Michael, is that, yes, the President has a wide latitude to declare an emergency, but if this is an emergency, it's been the longest one in the making. I mean, certainly immigration and the drug problems have been going on for decades. And the same with the flood of imports into the US. I think there will be some questioning of whether he is stretching that definition of emergency. And at the same time, using IEEPA allows him to temporarily, for short periods of time, to take action such as freezing assets or regulating imports. But it was never envisioned, nor does it state that this is a vehicle by which the President can put in place what he says are long term tariffs, which they're going to have to be if they're going to result in his goal of bringing more manufacturing back to the United States. I think that...my concerns about the Supreme Court notwithstanding, that they're going to go against him on this one. If there is a one that they're going to rule against him on, it's going to be this.

**Michael Klein**

Well, in terms of, you know, executive power, I'd like to switch to another topic right now. The President continues to denigrate Federal Reserve Chairman Jerome Powell, and it seems trying to get the Fed to lower interest rates. The next meeting of the Open Market Committee is in December, and we're getting mixed messages from the governors and the regional Fed Presidents about whether the Fed will, in fact, hold rates steady or lower them once again this year. Claire, you've recently written about this. What do you see as the tensions here between holding rates steady or lowering them?

**Claire Jones**

Well, there are a lot out there. I think clearly the Fed's got this dual mandate. On the one hand, it's supposed to create the conditions that are ripe for maximum employment. On the other hand, you know it's supposed to keep inflation slow and steady. There's big tensions between those two aspects of the mandate at the moment. So it's been a long while, I think, since the Fed's been as divided as it is, we've got a lot of the regional Fed Presidents and at least one of the governors, saying they're pretty concerned about inflation, and they think the labor market's cooling, but not yet by enough to warrant more interest rate cuts. And then we've got another element of the committee, which I think is probably going to win out, saying that the labor market is cooling, we're above what they refer to as the neutral rate, we've still got a bit of room to cut, and I think they're likely to back a quarter point cut come December. I really didn't know what way the decision was going to go, but I think we had some very interesting remarks from John Williams, the President of the New York Fed, who said late last week that he'd support more action in the near term. Williams is kind of Jay Powell's number two on the Federal Open Market Committee. So the fact that he's saying that makes me think that that's how Powell is thinking too. And I think Powell probably thinks now he's got the numbers to make a quarter point interest rate cut in December. But I'd be keen to know if others are reading it like that too, because I do think it's a very finely balanced decision.

**Michael Klein**

It's interesting that regional Fed Presidents, on a rotating basis, are voting members, except the New York Fed President always gets to vote. So he'll always have the opportunity to vote. Scott?

**Scott Horsley**

Yeah, it's been interesting to see how the financial markets have moved one way or another in the last six weeks or so. The last Fed meeting, Jerome Powell came out and they said, you know, we're cutting rates by a quarter point this time, but it's in no way a done deal that a rate cut is going to happen in December. And before that, the financial markets had pretty much been betting that a rate cut in December was a done deal, and even those kind of hawkish comments from the chairman didn't move the needle a whole lot. But then, after a couple of weeks as some more Fed governors came out and talked about the risks of inflation and so forth, markets really began to wonder if there was going to be a December rate cut, and the sort of market odds went from a slam dunk to more of a coin toss. And that had real repercussions in the stock market, where stock values suffered when people thought that a December rate cut might be in jeopardy. John Williams' comments have turned the needle back the other way again, and now it's looking...it's not a slam dunk, but investors are betting that it's more likely than not that there will be a December rate cut. Hasn't done a whole lot for the stock market yet, but maybe, maybe it will. But there's just a lot of uncertainty in the financial markets about which way the Fed is going to go. And I think that speaks to the real tensions, as Claire says, between the two sides the dual mandate. None of this is helped, by the way, by a six week blackout of official government data that might have told us to lean one way or the other. And in the absence of that government data, people have kind of been able to pick and choose from private sources and tell whatever story they want.

**Claire Jones**

I think that's exactly right. And the divisions are not just on the kind of trade off between inflation and unemployment, but you've got some members saying, oh, it's too foggy. We don't have enough data to make a decision. And others say, no, we've got enough. It's that there's multiple levels of division here, in a way that I certainly haven't seen during my stint as a Fed reporter.

**Binyamin Appelbaum**

And I would just add to that we are all in the habit of talking about the Fed as a technocratic institution that makes decisions on the merits. I think that era is over. I don't think you can speak about Fed decisions in those terms anymore. The fact of the matter is that there is now a member of the Federal Reserve Board of Governors who is openly and explicitly committed to the business of doing what President Trump wants, which is to cut rates. And he sure sounds like a man who's willing to say, pretty much anything in order to justify that. More of them are coming. Powell is a short timer at this point. President Trump will have an opportunity to appoint someone in the spring. I think the Fed is really grappling with how to preserve its credibility and its way of doing business in an era of some unprecedented pressure, both in terms of the broader dynamics of fiscal policy – you've got mounting pressure on the Fed to finance the national debt, and in an era in which the President is sending explicitly partisan, and explicitly purposeful people to the board to do his will. So this is an institution that I think needs to be talked about differently than it was, and understood differently than it has been, and when I hear someone like the President of the New York Fed, who is a longtime central banker and a man of unquestioned integrity in these matters, but standing up there to defend the need to cut rates at a time when inflation is running at 3%, I think it's a

really interesting thing to watch. And it raises some really interesting questions about what the Central Bank is doing right now, and perhaps more importantly, why it's doing it.

**Michael Klein**

I'd like to finish up by bringing up immigration. The administration has conducted raids to round up immigrants claiming they're arresting criminals, although the statistics don't bear that out. And beyond the legal aspects, there are important implications for the labor force and therefore for the economy. Claire, you wrote about this in early November. What did you report on?

**Claire Jones**

I mean I think we're in a very unique situation to what the US economy has been in for several decades when it comes to immigration. A lot of serious people, including the Bureau of Labor Statistics, now think, if you kind of look at the net immigration flows, that number is possibly going to be negative this year for the first time in decades, basically. So that's one big factor that I think has been very different. And what I think we're seeing too is that's making it very difficult to have a read on what exactly is happening with the labour market, and where we are in terms of the economic cycle. And the reason I say that is because there's so much of a shift in the migration figures, we don't know what the Goldilocks rate of the non-farm payrolls number is. Now, economists refer to that as the breakeven rate. And the breakeven rate, I think people estimated it, but others might know a more exact number, but I think between kind of like 100 and 150,000 a month, was seen as the sweet spot where the US economy was adding the perfect number of jobs. We're now in a position where people think the break-even rate is between 0 and 50,000. So this sharp drop-off that we've seen in the non-farm payrolls number, we don't really know to what degree that reflects a weaker labor market and a weaker economy that the Central Bank needs to respond to, and what reflects this very dramatic drop in immigration. So we're seeing this big trend that's really shaped the US economy over the past decades in terms of immigration, that played a very, very big role in creating the conditions for the soft landing that we've seen over the past few years, now dissipate. And it's making it not only difficult to work out what's going on in the US labour market, but what's going on in the economy as a whole.

**Michael Klein**

Yeah, this is at a time when the native-born workforce is basically flat or even negative. Larry?

**Larry Edelman**

That is exactly right, Michael. But at the same time, the labor force is increasing. At least it did in the latest round that we got off the delayed numbers from BLS on unemployment. And so you wouldn't expect that, would you? That if people were leaving the country or laying low, that the labor pool wouldn't be expanding, and yet it is. And I think that just underscores what a complicated and unusual situation we're in right now. I was at a Federal Reserve Bank of Boston conference on Friday and Saturday, and we got an opportunity to sit down with Susan Collins, who's the Boston Fed President. She really stressed that it was enormously hard for her to arrive at a decision about whether the risks to inflation picking up were greater than the risks of unemployment ticking up. So she's even now trying to sort through that. And although she's leaning toward keeping rates steady, it's very possible she changes her mind between now and the next Fed meeting in December. So I think, Binyamin made an excellent point about this being a different Fed and that we have to look at it differently. I think we also have to

acknowledge that even the hundreds of economists at the Fed, and all the people with the expertise that they can tap, it's not an easy problem to solve right now, whether it's right to raise or not. In some sense it's a coin toss.

**Michael Klein**

Scott?

**Scott Horsley**

Yeah, well, when Claire talks about the breakeven rate dropping from maybe 100,000 to zero or 150,000 to 50,000, something like that, you know that means that we can add a lot fewer jobs, and we won't see a big jump in the unemployment rate, which is good. But it also just means the economy is going to grow more slowly. I mean, if you're adding fewer workers, the economy is not going to have the productive capacity that it would and when you're adding a lot of workers. Now, there's some thought that maybe we'll make up for that with increased productivity. Maybe artificial intelligence is going to make that smaller workforce able to do more, and perhaps that'll be the case over time, but we're not really seeing that just yet. It's kind of a gamble. Now, to the average worker, does it matter if GDP grows more slowly as long as their well-being doesn't suffer? Maybe not. But if this is the choice we're making as a country, that we're gonna just close the door to immigration, which has been the real source of our population growth lately, and unless we're gonna have some sort of turnaround in the birth rate or seniors are gonna keep working until they're 90, then we're just gonna have a slower growing economy.

**Binya Appelbaum**

Yeah, and I'd just note that we had some new data out of the United Kingdom recently looking at the effects of Brexit, which is sort of their politically similar project of self-isolation from Europe in particular, but to some extent from the rest of the world. And it's been an economic disaster for the United Kingdom. It has sharply reduced economic growth. It has just taken a whole bunch of money that would otherwise be in the hands of people there and made it disappear. And so it's not just speculation about what projects like this do to the economy. We've seen it happen there. There's no reason to believe that we're not putting ourselves on the same trajectory.

**Michael Klein**

Claire of the Financial Times from London, you have the last word then.

**Claire Jones**

Yeah, no, I mean, it has struck me that there are a lot of similarities between what's going on here now and Brexit. Sometimes with Brexit, it feels a little bit like a kind of death by a thousand cuts where I think economists thought there'd be some mega blow straight after the result. And there's not been really, just as there's not been the mega blow to the US economy after Liberation Day. But it's just that sense in which you're slowly getting a little bit worse and worse off as time goes by. I think the danger of that, that it is a more kind of like slow burn thing, is that the people who are the architects of the policies or the Brexit vote don't always bear the brunt of that politically. I mean, you see Farage, Nigel Farage in the UK was really pushing for the decision who kind of hung his political career on it is now going from strength to strength on the polls in the UK. It looks as though Trump is bearing some of the responsibility for his

decisions on the economy in the polls here. So let's see if it's different here in that respect than the UK and Brexit.

**Michael Klein**

Well, I'm going to close then, with a quote from a really wonderful economist from the latter part of the 20th century, Rudi Dornbusch, who was at MIT. Rudi said that economic crises take longer than you would think, and then once they start, they happen faster than you can imagine. So it hasn't happened yet, but it very well could. And if it does, or even if it doesn't, I'll have a chance to ask all of you about it again in a few months. So thank you once more for this wonderful and very interesting conversation and for joining me on EconoFact Chats.

**Binya Appelbaum**

Thank you.

**Scott Horsley**

Good to be here.

**Claire Jones**

Thank you.

**Larry Edelman**

Good to be here, Michael. Thank you.

**Claire Jones**

Cheers.

**Michael Klein**

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