EconoFactChats Re-broadcast: Real Finds Podcast – Why Everything You Believe About Trade Deficits Is Wrong

With Godron Lamphere (Real Finds), and Michael Klein (EconoFact)

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Gordon Lamphere:

On today's podcast, we have on Professor Michael Klein. Michael is a former Treasury Chief Economist, the William L. Clayton Professor of International Economic Affairs at Tufts' Fletcher School, and founder of EconoFact, the nonpartisan site translating economic research into plain English memos. On today's podcast, we have a plain English conversation about the state of the U.S. economy, global economic factors that are influencing commercial real estate markets, and a plain, straightforward discussion on some of the major economic terms and factors at play that are shifting the global economy. If you're interested in economics or the state of the U.S. real estate market, today's podcast is well worth a listen. Michael, thank you so very much for hopping on the podcast today.

Michael Klein:

Thanks. Thanks for asking me to join you.

Gordon Lamphere:

So, what got you into the world of economics?

Michael Klein:

Well, that goes back 50 years or so. I guess I was always interested in it. I remember as a kid, my father worked in a tannery, and I remember him coming home, this was in upstate New York, and saying, "Brazil is starting to export leather. We're going to be in trouble." And that just really stuck with me. And I also remember asking him, "Why did the stock market crash cause a Great Depression?" And he gave me an answer, and I remember thinking to myself, "Well, I don't really understand how that fits." So, when I went to college, I started out as an English major. And then after a Principles of Economics course, and a course in Shakespeare, I learned about comparative advantage, and I switched over.

Gordon Lamphere:

Well, let's try to get a little bit of an advantage today. And one of the things that I think is interesting is your experience at Tufts and in academics kind of changed how you perceived economists interact with the world, and you worked on a program and created EconoFact Chats, and have really worked on developing that to educate laymen about the world of economics. So, I'm curious, how do you think the world of economics and the public interface, and how can we improve that?

Michael Klein:

Well, that was really the goal of EconoFact, which I started... I had the initial idea in 2016. And then I was working very closely with a former student of mine who became a friend and herself was an economic journalist, Miriam Wasserman. And really it grew out of my time serving in the government. I was the Chief Economist in the Office of International Affairs at the U.S. Treasury for 18 months, from 2010 through 2011. And when I went there, I asked my boss, what should I be doing? Because there had not been another Chief Economist in International Affairs at that point for several years. And he said, "Well, you're smart, you'll figure it out." And at that point, I kind of doubted both of those parts of the statement. But what I decided was that my biggest contribution could be doing research. So, what I did in my 18 months there was, almost every week, I would write a short research paper that would go to the Undersecretary of International Affairs, who was then Lael Brainard. Sometimes they would go up to Tim Geithner, the Treasury Secretary. Apparently, sometimes they also went up to President Obama. I'm not quite sure. But the goal of those was to explain timely and important economic policy issues to an audience where people might not necessarily have a background in economics. So when I came back to teach in the master's program at the Fletcher School at Tufts, I decided that would be a really useful skill for students to have – how do you translate what you learn in economics and statistics and econometrics into a form that works in a professional setting, where people don't have the same background in statistics or economics as you do? And so, this was a very successful course. And then in 2016, I decided I wanted to expand that idea into a website…into an initiative where I could get economists from across the country to write on issues in which they were an expert, but typically did not approach the general public with these things. Because you're sort of not rewarded for that that much. As an academic, you're rewarded for journal articles that are talking to other economists, where you use a lot of jargon because it's very useful shorthand, where you're presenting analyses that depend upon pretty sophisticated statistical techniques. But I thought you could explain most all of this stuff anyway to just a lay audience. And so, that was the real goal of that. And it directly came out of my experience in government.

Gordon Lamphere:

So, outside of how government uses websites like yours, one of the things that I found interesting is you talk about a lot of principles of everyday life that are essential for not just the market, bu how the market's being shaped. And one of the things that I think you've talked the most about, or at least a significant portion about shaping the market, is the idea of exchange rates and how they're important. And I'm curious, why do exchange rates matter?

Michael Klein:

So, the economist Milton Friedman said the exchange rate is the single most important price in an economy. And the reason is, that single price translates goods that you're selling abroad from your domestic currency into a foreign currency, and goods that you're purchasing from abroad from a foreign currency into a domestic currency. So it has a very pervasive effect in an economy. In an economy like the United States, it matters somewhat less, because of the amount of trade that we have, than in an economy like France or Japan or Great Britain. But it's still a very important price in the economy. And so, a lot of my research, when I was publishing in academic journals, a lot of my research was about the determination of exchange rates, policies to try to affect exchange rates, how exchange rate movements affect, for example, labor markets. So, that was a real focus of what I was doing as a researcher. Of course, with EconoFact, we post about a very, very wide range of things. And what's really been enjoyable and nice for me about that is that I've learned a lot about a lot. As a researcher, you tend to become very narrow, and you become a very deep expert in your field. But for EconoFact, I've had to learn a lot about immigration, about mortgage markets, about housing markets, about fiscal policy, about the social safety net, child welfare…a whole slew of things. So, that's really been a very nice part of my experience with EconoFact over these last 10 years.

Gordon Lamphere:

So, let's dive into that. We don't have to talk about necessarily full specifics in terms of housing policy and social safety net, but when we're talking about exchange rates, what should a business owner or investor be looking at on a day-to-day or a month-to-month or a year-to-year basis? How does that play out in their everyday lives?

Michael Klein:

Well, it depends on what industry you're in. So, for example, in housing, exchange rates matter because a lot of things to build housing, residential and commercial, come in from abroad – steel, wood, things like that. And when the exchange rate changes, you can see differences in prices of wood or steel. So that's one way in that industry that it matters. Another way that it matters is that as a consumer, the exchange rate will change the price of imported goods. And what's interesting is it's not just the price of imported goods that will change, but the price of domestically produced goods that compete with those imported goods can change as well. We have a great example of that with the imposition of tariffs. So, tariffs are distinct from exchange rates, but both of them are affecting the prices of goods that you buy from abroad. And in one of our podcasts…in one of our memos, Alberto Cavallo, who's a professor at Harvard Business School, has done very careful work looking at online prices. And what he found is that when tariffs were imposed — I guess it's pretty well known now, it's actually the Americans who are paying for the tariffs. But one of the really interesting parts of that is that it's not just the imported goods whose prices have risen, but domestically produced goods that compete with the imported goods, those prices have risen as well. And so, this has important implications, because one of the motivations for tariffs is to raise revenue. It's a tax on imported goods. So it's sort of like a sales tax, but it's not, because when domestically produced goods' prices rise, there's no tax collected on that. The prices are rising just to compete with the foreign goods. So a sales tax would raise tax revenue from all the goods sold. A tariff raises revenue from the foreign goods that are purchased in the country, but not from the domestic goods whose prices have risen in consort with the increase in the price of imported goods.

Gordon Lamphere:

So, when we're talking about imported goods and exported goods, one of the biggest conversations I have with many of my clients, particularly those that are in the industrial world, be it manufacturing or import-export…is there's often a conversation about the price of the dollar, right?

Michael Klein:

Yeah, the exchange rate, yes.

Gordon Lamphere:

Yeah. So, when we're talking about that, often I hear a conversation from a variety of parties, some individuals wanting a strong dollar, some wanting a weak dollar. Is there a merit to that? Is there a certain dollar, a strong dollar, a weak dollar, that's better for the U.S. economy? What does an ideal economic situation look like for the strength of the dollar?

Michael Klein:

So, different people, like you were suggesting, would be advantaged by a strong dollar or a weak dollar. Exporters would be helped by a weaker dollar, because it makes American goods cheaper abroad. Importers would be advantaged by a stronger dollar, because it makes foreign goods cheaper in the United States. So, there's not a universal view of this. It's competing. I wrote a case study many years ago where I had a quote on the same day, one from the New York Times, and one from the Wall Street Journal, and it said at that point, "the dollar is weakening." And the Wall Street Journal was saying, "this is terrible." And the New York Times was saying, "this is great," because they're talking about different constituencies.

Gordon Lamphere:

So, when we talk about different constituencies, whenever the dollar strengthens or weakens, or exchange rates shift, or we see tariffs, there's churning in the economy. Is churning a good thing, or is it something that we should be completely afraid of?

Michael Klein:

It's not that it's a good thing. It's kind of like the sun rising. It's like, it's always with us. So, I did some research years ago about churning in the labor market, which means simultaneous hiring and firing. And what was really striking about that was, and this is something I learned through doing this research…in terms of the labor market, there are definitions of different industries. So you can have steel, right? But then you can have a more narrow definition – steel bars, and a more narrow definition, steel bars of a certain length, and you can go up to, like, 440 different categories. And so, what I imagined was, when the dollar moved, you would see subcategories all hiring or subcategories all shedding workers. And the really striking thing was that within even very narrow categories, you would have simultaneous hiring and letting go of workers. And that's just because in a very dynamic economy, a lot of stuff is going on. So churning is evidence that the economy is growing and changing and evolving. And it's just a deep fact of an economy like the United States, where market forces affect not just industries, but firms within an industry, perhaps in different ways.

Gordon Lamphere:

So, one of the things that's affecting the economy in different ways is some of the bilateral trade deficits that we've been having. And I remember in 2016... I grew up in a family with a mother who worked for a number of prominent University of Chicago economics professors, and economics was definitely in my household. But it was the first time that I heard vehement fights over the Thanksgiving dinner table about trade deficits. And so I'm curious, how should we perceive trade deficits as a worker, as an employer, as just a citizen of the United States?

Michael Klein:

So, I think that's one of the biggest misconceptions, because people often use a metaphor of, "well, if my company has a deficit, that's bad for my company." But a trade deficit is very different from that. At one level, bilateral trade deficits are somewhat meaningless, and the reason is because of international supply chains. So I have an EconoFact memo with a friend, Marc Melitz, and we drew on some other research that shows when the United States imported an iPhone 7 from China, it counted as something like a $300 import. The actual amount of what's called value added from China was $5. All the other components coming from South Korea or Vietnam or even the United States itself…those were just assembled in China. But the cost to the United States was $300, and that was recorded as the trade deficit with China. So, the trade deficit with China grossly overstated the actual value added at that time. And then subsequent, it must also be the case that other trade deficits were understating it, because overall, you're trading with somebody in the world. So, bilateral trade deficits in many ways are both statistically problematic...but also, I have a bilateral trade deficit with my grocery store, and my students have a bilateral trade deficit with me, and we don't get upset about that. That's just comparative advantage. We do what we do. So, in many ways, a bilateral trade deficit is not a really meaningful macroeconomic statistic. And then, for the aggregate trade deficit, there's a basic result in economics that an aggregate trade deficit represents a situation where a country is spending more than it's earning. And that's just arithmetic. So it's like I tell my students, "you're running big trade deficits because you are spending a lot more than you're earning." Hopefully they're not starving, because they're borrowing money. But it makes sense for them to do that, because in doing so, they're getting training, they're building up what economists call their human capital, and they become more productive in the future. So, the question with a trade deficit is really not whether or not you have a trade deficit, but you're borrowing money if you have a trade deficit, what are you using the borrowing for? So, I use the other example with my students that 'if you're borrowing money, you use your student loan, you come to my class, especially, you're going to get these great skills, you'll be more productive, you'll earn more in the future, and your lifetime earnings, even net of the borrowing, will be higher than they would have been otherwise.' However, had they taken their loan check, bought a Ferrari, driven around the country, eventually crashed the Ferrari, then they're going to be on the hook for the loan and they don't have extra productive capacity. So it's really what you do with the money. So, in the 1990s, the so-called Asian Tigers were borrowing a lot of money, but it wasn't clear that it was going to useful purposes. They said that the national bird of Thailand was the crane, not a bird, but actually the crane, they're building all this housing and office space that never got used. So just as if you drive a Ferrari and crash it, you have to impoverish yourself later to pay back the money. The people of countries where trade deficits are not used to finance productive investment, they're going to have to impoverish themselves to pay back what they've borrowed.

Gordon Lamphere:

Yeah. How should we perceive that then in terms of national security? I know that there's a lot of individuals that we work with that are national security contractors, and there's this idea that the trade deficit on certain things like shipping or chips is a necessity to maybe keep at least onshore within our ally networks. Is that something that economists dive into, or is that more of a public policy realm that touches on economics?

Michael Klein:

I think it's more of a public policy realm, but I think it's worth thinking about some of this. For example, aluminum is very important for a range of military and non-military uses. To produce aluminum, it's very, very energy intensive. Canada is a big exporter of aluminum because of hydropower. So the question is, are we threatened by the fact that Canada is an important source of aluminum for the United States? Well, a few years ago, nobody would have said anything. Now, who knows? But I think a bigger issue has to do with semiconductors, right? The places that the most advanced semiconductors are built are Taiwan, and also, to a certain extent, South Korea, and there are obvious geopolitical tensions involved with these places. So I think that is something where it does, in fact, merit some concern, some ideas about maybe you want to onshore to the extent that you can. But having said that, this is an incredibly complicated, sophisticated production process, and you can't easily just start up advanced semiconductor factories in the United States. For other things, it depends upon, like, rare earths. You hear a lot about rare earths now. We have a really nice EconoFact memo about that. The problem with rare earths is that they come from only a few places, and to mine them is tremendously environmentally degrading. And then to process them, it's even worse. So, a lot of it is coming from China, because the government doesn't have to answer in the same way to its people when it undertakes these incredibly environmentally degrading processes. Also, a lot comes from Indonesia. It's not clear that it'd be so easy to mine and process rare earths in the United States. And according to the memo that we published, even if you tried to do that, there's a very long lead time. So, there are concerns about things like that. There are legitimate concerns, and it is a thorny problem.

Gordon Lamphere:

Is there a way to navigate around the thorny problem of reducing our trade deficits? Or is it just kind of a reality of the world that there are some geopolitical, or geological or just human capital reasons why certain countries are going to produce different things, and we just have to deal with that as reality? I know one of the facts that blew my mind with some of the recent economic data that's come out is, between 2025 and 2026, the tariffs didn't significantly move the needle on bringing the trade deficit down. It did, from some of the data that I saw, but not significantly, right?

Michael Klein:

Not really, no. Right.

Gordon Lamphere:

So, how should we perceive just economic policy in general? Are humans just going to be humans, and we have to just let things flow? Or are there things we can do as a nation to adjust international trade and the exchange of goods?

Michael Klein:

Well, I think humans are going to be humans by definition. I think what you're mentioning is sort of like there are quite distinct issues, right? So there's the issue of the aggregate trade deficit, which I've argued is a macroeconomic issue. There is the issue of bilateral trade deficits, where, because of comparative advantage, to the extent that they're real and not just statistical…because of the way statistics are gathered, they might not even be there – but they're a comparative advantage. But then there's, I think, a distinct, much more narrow issue that you're bringing up about particular goods that have an aspect of overall national security. And I would argue that you really want to keep these other things, the aggregate trade, even bilateral trade, and these much smaller set of goods where there is an important effect on national security, you want to keep those as separate arguments. And then also, before going on with that, to your point, yes, tariffs did not affect the trade deficit in the United States, because the trade deficit's a macroeconomic thing. And even where it was trying to benefit things, what's really interesting is that the same tariff, sort of as we talked about with exchange rates, the same tariff could help some manufacturing industries but hurt others. So, we have one of our most influential memos is about how many jobs in the United States make steel versus jobs that use steel. And so, Kadee Russ, who's at UC Davis, and Lydia Cox, who's now at the University of Wisconsin, they did this original research, and it took them a long time, but it became really important. They found that when you look at all the interactions, for every job that makes steel, there are 80 jobs that use steel. So if you try to put a tariff on steel, you might help a steel-producing plant in Pennsylvania, but you're going to hurt places that make washing machines, that make cars, that make dishwashers, a very wide range of things. And then one of the journalists that we had on our quarterly journalist podcast, on EconoFact Chats, Heather Long, was talking to people from Pennsylvania, her home state, who work in a furniture factory. And she thought going into the factory, they'd be really glad about the tariffs, but they were saying, "no, no, it's really hurting us, because we import a lot of wood from Canada." So, all of these things sort of point to there's not an easy answer for these kinds of things. And then again, returning to your point about critical things, there are ways in which you might want to think about stockpiling, or looking for alternative sources, or ideally finding substitutes in production, although that's very hard for things like rare earths.

Gordon Lamphere:

So, when we talk about things that are very hard, one of the things that's been so challenging is the whole idea of tariffs has been so politicized. I mean, I hate to turn on the media on either side sometimes, and there's very few voices that are just really trying to stick to the facts. I think you guys do a pretty good job of that. And I'm curious, when we're speaking about tariffs in general, are they useful at all? Is there anything that's good about tariffs? And how should workers and citizens and businesses see tariffs?

Michael Klein:

Well, there's an interesting study that's done by the Booth School at the University of Chicago, where they do questionnaires of very top leading economists. And they'll ask about all sorts of different public policy questions. The one question where there is tremendous unanimity, more than anything else, was a question of, ‘do broad-based tariffs benefit a country?’ And the answer was no, across right-leaning, left-leaning…this is just a basic result of economics. And I think we're seeing that borne out. So, when you hear people talking about the advantages of tariffs, it's kind of like, ‘where are you coming from? why are you speaking about this?" If you're well-informed, you would think that, sure, some companies could benefit, but others are going to be hurt. We're not just producers, we're consumers as well. On net, things are made worse off. So, tariffs are a policy that almost universally economists say is not a good idea. But it's like a lot of people will find some economic reason that may or may not be valid to argue a point that they want to argue anyway. So, a little bit of cynicism goes a long way in this world.

Gordon Lamphere:

So, one of the cynical things that I see quite often play out across the political spectrum and across the economic spectrum is whenever there's a point of fear, I always hear talk about that we're going to lose the dollar status as the petrodollar, or lose dollar dominance in the global economy. And I certainly have my fears about that as somebody who's involved in business, but overwhelmingly, I think there's still a pretty significant moat. Can you talk a little bit about how you see the dollar in terms of its position of power? And are we on the verge of losing dollar dominance? Or is that more of a things-go-bump-in-the-night economic fear?

Michael Klein:

That's a really good and subtle question. When people talk about dollar dominance, it can mean two very different things. After World War II, there was a so-called Bretton Woods system set up, where there were fixed exchange rates, the dollar was fixed to gold, all other currencies were fixed to dollars. In that case, there was a real advantage to having the dollar at the center of the international monetary system. And the advantage was that the United States could more or less set monetary policy as it wanted, and other countries had to follow. That system broke apart in 1973. And since then, there's been what's called generalized floating exchange rates, what, in a book, my co-author Jay Shambaugh and I call the modern era, the post-Bretton Woods era. The dollar still has a special role in the world, though. Part of it is that a huge amount of trade is denominated in dollars, both imports coming into the United States, exports going out of the United States, but even trade between two countries that doesn't involve the United States…like, Brazil selling to Italy, the transaction will first go from reals to dollars, then dollars to euros. So, the dollar has this, what's called a vehicle currency status. But perhaps the biggest advantage for the United States is not so much the dollar, as the Treasury bill market. The 10-year Treasury bill market is one of the most deep, or perhaps the deepest and most liquid market in the world. And it has been seen as very safe. So what that means is that interest rates on 10-year Treasury bonds will be lower than interest rates on comparable bonds from other countries, because the market's so liquid, it's considered so safe, it's a benchmark. And the 10-year Treasury bond rate is the basis for mortgage rates, for car loan rates, things like that. So there is an advantage in terms of having somewhat lower interest rates through having this. But it's not the dollar per se, it's the Treasury bill market. Now, concerns have arisen that with the current administration, that might be threatened. And I did an EconoFact memo with my colleague, Charles Collyns, and we looked at when uncertainty spikes in the world, typically what would happen is the dollar would strengthen, because people would want to come and buy U.S. Treasury bills, they were seen as a safe haven. So we looked at separate four-month periods. And the two times when this measure of uncertainty spiked and the dollar, in fact, weakened rather than strengthened, were the first four months of Trump's first term, and the first four months of Trump's second term. So, you're playing with fire when you're saying things like, 'well, maybe we'll charge central banks to hold U.S. Treasury bills,' or, 'i'm not sure that we really need to repay everything in a timely fashion,' because you're really kind of screwing up the international financial system to your own detriment as well.

Gordon Lamphere:

Yeah. Anytime someone who's lent money hears that they might not get paid back, it always causes a little worry.

Michael Klein:

Yeah.

Gordon Lamphere:

In terms of things that should worry us, I think for many of my friends that work on Wall Street and work in finance, I think the period, funny enough, that got the most worry was some of the interactions that happened with the current administration, both in the 2016 term, but also the 2024 term, with Federal and Fed Reserve independence. And I'm curious, how do you see that playing out? I know Fed independence has been kind of a term for the last 200 years that sometimes people have varying opinions on it. I know the Jackson administration and many people thought there was never Fed independence. And recently, though, it seemed at least somewhat independent. And so, how do you see Federal Reserve independence playing out, and why is it important for your average U.S. citizen?

Michael Klein:

So, when people talk about the independence of the Federal Reserve, one of the trick questions I ask in class is, 'there are three branches of government: executive, judicial, and legislative. Which is the Fed in?' And the trick question is, none. And the reason is, when the Federal Reserve Act was passed in 1913 and the Fed started in 1914, we had come through periods…quite a few financial crises, that were handled by private bankers at that time. And the problem is that just as you would want the judicial system not to be swayed by politics, and you would want the expert financial system, scientific system, I should say, not to be swayed by politics, there are decisions that should be made based on facts and analyses. For the same reason, you want monetary policy not to be swayed by politics. Otherwise, you have this start-and-stop monetary policy, which can be very destabilizing to the economy. The best example of that is with Nixon. In the run-up to the 1972 election, there is evidence that he was leaning on the Fed chairman, Arthur Burns, to spur up the economy in advance of the election, to help his re-election chances, partly because Nixon felt that Eisenhower didn't do enough in 1960 to spur the economy to help him when he ran against Kennedy. We have a really interesting piece by Tom Drechsel, who's a professor at University of Maryland. He did this careful analysis, and he said, 'if you look at the number of times that administration officials meet with Fed officials, that, along with other things that determine inflation, that by itself can show you that inflation would be higher than it would otherwise be.' So, pressure from the administration can have a big effect on destabilizing the economy. So, the way that it's constructed in the United States, and increasingly across the world, both because of empirical research and theoretical research, which was awarded the Nobel Prize for this work, is that you want a firewall between the Treasury and the Federal Reserve, or the central bank. Otherwise, there's an incentive for the central bank to monetize the debt, to buy off government debt, and that leads to be very inflationary. You also want a firewall between the Federal Reserve and the executive branch, or the legislative branch, because otherwise, there's this incentive to have what are called political business cycles – that you juice up the economy before an election, and then that helps the incumbents, because they've been leaning on the central bank. But then afterwards, there's a crash. So, this has been really important, and it's something that's been recognized. For example, President Reagan, people were saying, 'well, you have to say something to Volcker because of this recession.' He said, 'no, that's not right, that's not what we should be doing.' The current administration has made no secret of the fact that they want to control Federal Reserve policy. They want lower interest rates. And the question is whether or not Kevin Warsh, now that he's the Chair of the Federal Reserve, will act in a way that is in line with what President Trump wants, or if he'll show independence. So just last week was the first Open Market Committee meeting under Warsh, and they chose to hold interest rates steady, which, I guess, gives some people some relief about that. But it really remains to be seen, because it's a very fraught time, and inflation rose each of the last three months. And in May, it was the highest it's been since 2023. So this would not call for cutting interest rates. But the administration is still pressuring the Fed, and it had done through its attacks on Jay Powell, on Lisa Cook. And it remains to be seen, now that they have their person, Kevin Warsh, and are they going to continue to attack the Fed if Warsh does not accede to the demands of the President?

Gordon Lamphere:

So, demands of both the President and Congress and basically anybody I know who's elected runs on a platform these days of affordability. And often inflation is key to that. And conversely, many of the people who listen to this podcast are on the upper end of the income bell curve, and many of them tend to own a lot of assets, and inflation has been relatively good for a lot of these listeners. I think it's not good long-term, personally, just because it's creating a lot of inequality and a lot of stress. How should we see affordability and inflation over the next couple years? And is that a key issue for the economy in general, just for long-term economic health?

Michael Klein:

Well, as you're suggesting, it's certainly a key issue for people who are lower income, who find it very expensive when they go to the supermarket, or when they fill up their car, or when they're trying to heat their houses in the winter. These are sort of own goals, as you would say in soccer, because of tariffs, because of the war in Iran. It should have been very clear that the Strait of Hormuz would be closed, and it would lead to skyrocketing oil prices. There are a lot of issues about affordability, and you have to look almost sector by sector. In housing, one of the main issues has to do with the supply of housing. The supply of housing is very low compared to the needs, and it had been sort of an issue more in just coastal cities, and now it's spreading through cities throughout the country. Some of that is regulation and zoning. And the source of some of that is NIMBY, not in my backyard. So I think that's kind of this longer-term thing where we have to have a change and allow for more multifamily housing, greater concentration of housing, a range of things like that. Another obvious issue is medical care, where it's very, very expensive for people. And there's a lot to discuss with respect to that. And then, if you just think about food prices, so tariffs are hurting food prices. In the last EconoFact Chats that we did with journalists from the New York Times, Financial Times, NPR, and the Boston Globe, the journalist from the New York Times, Binyamin Appelbaum, pointed out that in the West, there are really bad drought conditions. And so this is going to start to show up in food prices, and it's going to be a big drain on people's wallets. So, there are a lot of affordability things. The other side of affordability, of course, is not how much you pay, but how much you make, and what kinds of things could help people earn more money. And there are issues where... I'm not necessarily thinking that the minimum wage would help a lot. We have evidence that…who really benefits from the minimum wage. But for example, greater labor rights, greater unionization. There's evidence that that tends to help raise wages, not just in the sectors that are unionized but, because of the spillover effects, elsewhere as well. So, it's a multifaceted challenge, and it's really one that's a strain on the economy, and a strain on the body politic because of the rising inequality, as you mentioned.

Gordon Lamphere:

Yeah. I'm a firm believer that both sides can learn a lot from each other. And there's a lot of issues on trade policy, and a lot of issues on making things easier to build, particularly on our housing side. And I think you touched on a lot of those issues there. In terms of touching on issues, one of the ways that we love to dive into your knowledge a little bit more, and also the knowledge that just we can learn in general about the world, is our Real Finds Final Four. It's a nice little wrap-up to learn a little bit more about you, and learn a little bit more about where you see the world going. So, I'm curious, if there's one thing that we're not talking enough about, what should we be talking about today on the podcast?

Michael Klein:

Well, on the podcast, because you're really focused on real estate, I'm the only one of my three other siblings who's not involved in real estate. So my two brothers are both in appraisal and sales, and my sister worked in management of commercial property. So before the interview today, I called up my sister, asked her, ‘what should I be thinking about?’ And for real estate, I think with commercial real estate, there are a lot of really interesting things going on. One is that working from home has become so important. So you see a lot of extra real estate space, commercial real estate space. You have, I guess, what's called hoteling, where you don't have a permanent office, but you go and use it. So that's going to have a real big effect on the commercial real estate market, as will the falloff in retail through online purchases and so on. So, I think there are these issues. And there's the question of, well, if we have all this extra commercial real estate, can't we convert it to housing? I think the answer is basically no. I think they're very different kinds of things, unless you have a teardown. One thing we saw in the area where I live around Boston is we seem to have had an overbuilding of biotech office space. And this is very common in real estate that you have a boom, an overbuilding, and then kind of a crash. So, I think there are going to be some real concerns about that. And then one of the questions more broadly is, if that comes to pass, what are the implications for the wider economy? So, we saw in 2008 when the mortgage markets collapsed, what that did to the economy because of the opacity of mortgages and things like that. We don't know how opaque some of these new financial instruments, like private credit, are, and how exposed they are, and the amount of leverage. So, I think that's something that we don't know, but we should be concerned about and try to find out more information about.

Gordon Lamphere:

Yeah, private credit is certainly a known unknown. I know with us, we've seen a number of private credit asset classes come in front of our desk and looked underneath the hood for a variety of reasons. And some of them look great, and some of them look really, really bad. So, I think that there's a lot of worry there, but I don't know whether or not it's founded. One of the things that we do worry about is the future. And I know one of my favorite questions to ask is, what do you see the world like 10 years from now, based on everything you know about economics?

Michael Klein:

To be fair, if somebody asked me 10 years ago what would I see the world to be like, I would have been so wrong. So, Yogi Berra said, ‘predictions are hard, especially about the future.’ When people say economists aren't good at forecasting, I would answer that yeah, because there's a lot of non-economic things that impinge upon economics, right? So, what happens in the midterm election could have a big impact. What happens in the next presidential election could have a big impact. What happens with the war in Ukraine, what happens with the Strait of Hormuz. So all of these things impact the economy. And I have no special expertise in politics or geopolitics or military strategy. So, with all due respect, I tend to avoid answering questions like that. I just think it's too hard. I think a rejoinder to that is that we should be in a situation where we have options open. So right now, we don't have as many options open, partly because the federal debt is as big as GDP. So there's not what economists call fiscal space to deal with a crisis if one arises. So I think that's one concern. And then there are other sorts of policy concerns as well. The holes in the social safety net. Are we going to be leaving more and more people behind? Something that has gotten worse over the last year or two, as we've had cuts in safety nets. And then you can even think globally, the cuts in aid programs to countries. Well, we saw an Ebola outbreak now that maybe is worse than it would have been if we didn't cut aid. And the world is an interconnected place. And if we try to draw up the drawbridge around us, that's not going to work in today's world. So, I think those kinds of views of how interconnected we are, how we need to be prepared for crises, that should be driving the way we're thinking about how do we move forward, fully humble about, we don't really know what's going to happen, but we know ways in which we could address these things, and some of them are better than others.

Gordon Lamphere:

So, beyond being humble in international relations or economics, I always try to focus on humility in my own life. And that's probably the biggest thing that I've learned as I've aged. One of the questions that we love to ask about, taking that step back and learning something and providing that to the younger generation, is, what advice would you give to yourself at the start of your career, if you could have one minute of advice?

Michael Klein:

I guess I would have told myself, ‘things will work out better than you can imagine,’ because they did. But the fact that I didn't give myself that advice might have meant that I worked harder than I would have otherwise, so things turned out better than I would have imagined.

Gordon Lamphere:

Yeah, that's probably true. Those late nights are always a lot easier when you have a fear of the unknown on the other side.

Michael Klein:

Right, right.

Gordon Lamphere:

In terms of the unknown, we don't always know who the next person is that should come on the podcast. And we find that the men and women in the arena tend to know better than anybody else who that next person should be. So, who should be our next guest on the podcast?

Michael Klein:

Well, your focus is much more on housing and real estate. So I think one issue that's really important is home insurance, and something that..we saw this very dramatic effect with the floods in North Carolina, for example. So I had a wonderful podcast interview with a guy at Boone State University, in North Carolina [Appalachian State University] named Dave Marlett, who is both an expert in home insurance, but also, at the time of the floods, was actually in the high school gym helping people figure out how to make claims. And I think that's a really important issue, something that maybe doesn't get enough attention until it becomes a disaster. I think he'd be a great person to talk to.

Gordon Lamphere:

I would love a contact for Dave. That's definitely in our alley, and I know that's an issue that we consistently hear from both our subscribers, our clients, and it's a crucial part of the commercial real estate industry. One of the big crucial parts of anything, though, is to be able to reach out and get in contact with our guests. And so I'm curious, if somebody wants to reach out to you, what's the best way to get in contact?

Michael Klein:

Well, I would encourage people to visit our site, read our memos, and listen to our podcasts. The site is EconoFact, E-C-O-N-O-F-A-C-T, .org. We're sponsored by the Fletcher School at Tufts University, where I teach. And you can reach me at contact@econofact.org as an email, and I receive all those emails.

Gordon Lamphere:

Michael, thank you so very much. We really appreciate having you on, and we have to have you on in the future.

Michael Klein:

Great. It was really nice to speak with you today. Thank you for inviting me.

Gordon Lamphere:

Thanks again to Michael. We appreciate his insights. And if you enjoyed the podcast, please give us a like, a five-star rating, and a review. Your comments, interactions, and subscriptions truly matter to help us continue to get quality guests. You can find us on YouTube, Spotify, or wherever you get your podcasts. I'm Gordon Lamphere with the Real Finds Podcast, and thank you for listening.