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Josh Barro (00:00):

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I want to start this episode with a brief history of the pandemic inflation discourse. So we started to have this real inflation spike in the middle of 2021, and at that time, there was a lot of focus on temporary, pandemic-related factors, supply chain disruptions, weird consumer trends. These were the so-called transitory stories. The idea was that life would eventually go back to normal, and so would prices.

And that's part of the reason that a lot of policymakers, most notably including the Federal Reserve, were pretty laid back through 2021 about the spike in inflation.

But as we got into 2022, it was becoming increasingly clear that this story was wrong, that inflation was persistent, and that a lot of it was coming from the demand side, that people had gotten lots of pandemic aid, really, probably, too much pandemic aid. The money was burning holes in pockets. It had to go somewhere. It had to drive prices up. And that was what was happening.

And that's when we started to see the Federal Reserve respond in earnest with rate hikes. The situation also got complicated with the Ukraine War, which started in early 2022 and caused a supply shock, especially for energy prices, that worsened the inflation situation.

Toward the end of 2022, the sense was starting to be that inflation was cooling, that maybe inflation really had been transitory, and it just took a little bit longer than we thought to get back, or maybe that the Fed's policy response was working really quickly, and we were starting to see pretty swift effects reducing inflation.

But as we've moved into the first quarter of 2023, the story's changed again. The inflation numbers don't look like they're cooling off that much at all. And instead of a hard landing or a soft landing, you get people talking about no landing, about this idea that we have a scenario where the economy keeps growing, and inflation remains excessively elevated for an extended period.

So how is it that we've ended up in this position, and what is it that federal policymakers need to do so that we can get inflation under control with as little economic pain as possible?

To talk about that, I'm joined today by Jason Furman. Jason is the Aetna Professor of the Practice of Economic Policy jointly, at Harvard Kennedy School and the Department of Economics at Harvard University. He co-teaches principles of economics, which is the introductory undergraduate economics course at Harvard, and he is a nonresident senior fellow at the Peterson Institute for International Economics.

So Jason, thank you very much for being here with me.

Jason Furman:

Thanks for having me.

Josh Barro:

So, first of all, do you think that's an accurate characterization of where we've been for the last couple of years on inflation? Is there anything you'd add?

Jason Furman:

No. I mean, the only thing I'd add is inflation does fluctuate a bit. Sometimes it looks a little bit better during those times you don't have me on your show. Sometimes it looks a little bit worse, and then you desperately call me and want me back on your show.

Josh Barro:

So that's another... There's been this huge influx in inflation indicators over the last couple of years, where people are like, "Well, you know, maybe we count housing wrong, and we need a new measure that excludes housing or uses a different way to measure housing costs." This is another one that you're proposing here. It's the Jason Furman Very Serious Index, that if you are here on the show, that is an indicator of high inflation.

Jason Furman:

Yeah. And the big open question is, is that a lagging indicator of past inflation, or does that help us predict future inflation?

Josh Barro:

Yes, yes. So many areas for new research. Can you talk a little bit about... We've always talked about inflation, and then you talk about core inflation, which is inflation that excludes food and energy. The idea is food and energy prices move around a lot. You might get a better sense of where inflation is going if you look at inflation without food and energy.

There's been a lot of additional indicators that people are looking at over the last couple of years. What do you look at when you reach the conclusion that you are more worried this quarter than you were in the fourth quarter? Which I think is an accurate description, that your view has gotten somewhat less sanguine in the last few months.

Jason Furman:

Yes. And to be clear, I always was worried, but variation of worry. That variation has gone up a decent amount. So, first of all, let me say, I often look at a table that has seven different ways of measuring inflation, and they're all different ways to try to extract the signal from the noise. And I look at those indicators, what has been happening the last three months, what's been happening the last six months, what's been happening the last 12 months. So that gives us 21 different measures that I look at.

When I looked at my latest chart, most of those measures were 4.7, and they were an equal number above 4.7 as below 4.7. So the idea that the inflation rate underlying true is somewhere around 4.7% isn't that crazy. That happens to be what the most traditional conventional measure, which just excludes food and energy... It has the advantage that it's widely reported every month. We've been using it forever. It's not a cherry-pick concept. That's also growing at 4.7%.

But sometimes you worry maybe weird, funky things are going on, especially with housing, used cars, and there are indicators that either take those out or trim all the different extreme things out. But broadly, I think it's pretty hard to argue that the number is lower than four or much above five.

Josh Barro:

And so, in terms of 4.7... I was just trying to pull up here. Did core CPI ever get up to eight? I mean, that's a significant improvement from where we were a year ago, something like that. We're trying to get that number down to two. Does that indicate that we've gone a pretty long way in terms of taming inflation?

Jason Furman:

Right. So, first of all, small technical thing. I was just talking about different measures of the Personal Consumption Expenditures Price Index, which is the one that the Fed is focused on. It's come down sort of... That particular measure, if you look at core, has come down about a half a point from its peak. It briefly was around 5.5%. So it's improved a little, but that improvement also happened about a year ago. And over the last year, it's roughly been moving sideways.

Josh Barro:

So then that would suggest that we have not seen, really, much effect yet from the Fed interest rate hikes then, right? If in the whole last year, that number hasn't moved at all, that would suggest that we have a great deal of distance to go.

Jason Furman:

Well, in terms of the Fed, there's three different hypotheses. One is that it's going to matter, but it's a lag, and it just hasn't hit us yet. And there's some basis for that. For example, housing starts and permits have slowed down, but people are still finishing all the old houses they were building. And so construction employment hasn't really started to fall, but maybe all of that will fall once it catches up with us.

The second hypothesis is that monetary policy just doesn't matter as much anymore. In an economy with less manufacturing, for example, that used to be a very interest rate-sensitive sector of the economy. It just doesn't matter as much anymore. And a lot of companies, if they need to borrow money, have enough cash on hand. They don't need to go to the capital market.

A third hypothesis, though, that people haven't talked as much about that I think, is part of the story is maybe things would've been even hotter without what the Fed did. Maybe we would've had even faster growth and even higher inflation this past year.

And I just think, what would've happened if the Fed didn't raise rates? Probably the stock market would be 20% higher. People would probably be spending a decent amount more, would've had even more pressure on inflation. So maybe they prevented an even bigger deterioration.

Josh Barro:

When we were talking about a year ago about inflation, we spent a fair amount of time talking about interventions other than monetary policy to try to affect the inflation rate. Now, an obvious one there is fiscal policy, and I'll get to that in a second in terms of whether there are things that should be done with the federal budget that might affect inflation.

But there is this hope that there are things that you could do on the supply side to improve the productive capacity of the economy so that when people are going out there chasing goods with their dollars, that there would actually be more goods available for them to buy with them so that wouldn't just push prices up.

That was things like if you deregulate certain things related to housing construction, you might get more efficient spending, that you could have changes to immigration policy that might affect the labor market, that if there are supply chain problems that were causing very specific pandemic-related effects on inflation, that if you improve the supply chains, then you might get less upward pressure on prices. Was there any success with any of that sort of thing?

Jason Furman:

I mean, in one sense, supply chains did get a lot better. There aren't lines at ports anymore. There are trucks to carry things around. How much was that President Biden focusing on it and sending people to the ports versus these things just unsnarled themselves over time, I don't know. I don't think anyone knows or that we'll ever know.

On some of the others, like immigration, there's been very little progress on that, and it's such a politically-charged issue and a difficult thing to shift around. And then antitrust. Antitrust. The FTC and the DOJ are being much more vigorous than they were being a year ago, not because of inflation, just because of the new leadership there. But the idea that that has a measurable impact on inflation that would rise even to a 10th of a percent, I think, is deeply implausible.

Josh Barro:

Well, I mean, that could work in two ways, right? You could make an industry actually more competitive. Presumably, that takes a long time to happen. The other way antitrust enforcement could work could be that it could sort of scare companies out of raising prices, that they want to avoid an enforcement action.

Jason Furman:

Yes, that's certainly possible. But a lot of the price increases we've seen are in very dispersed industries. I mean, shelter and rent. There are, I don't know, millions of landlords in this country. They're not all getting together. You can't bring an antitrust action against them.

Josh Barro:

Let's talk about fiscal policy. What you said a year ago was that tighter fiscal policy, which is to say deficit reduction – tax increases or spending cuts – that that would tend to push inflation down. It would not be *your* choice about a way to push inflation down. What do you think about that a year on? Is it time for a deficit reduction deal for reasons including that it would tend to push inflation downward?

Jason Furman:

Yeah. So a year ago, I actually said, "It's not time yet, but if this continues, it might become time." And that I would rethink it over time. In an ideal world, absolutely, I'd be using fiscal policy. I'd partly be using it because we just don't know how effective monetary policy is, so let's bring another tool into the fight.

I'd partly be using it because you get nervous that it's not very nimble and reversible, but I'm more convinced than ever that at least a substantial portion of this inflation is very durable, and we're going to still need to be disinflating a year from now.

And it also takes some of the pressure off interest rate hikes. You'd rather not have to raise interest rates to 10% to bring this inflation down. And by the way, I'm not saying we need to and that I'm recommending that, but if you can do some fiscal contraction, then whatever amount of interest rate hikes you were going to do, you can now do less. So, in theory, it's a great idea. Given the political constellation, it almost seems like a waste of time to talk about it. I should be talking about economics, not making my predictions about what is politically doable.

Josh Barro:

Well, I don't know, actually. I think what's politically doable is very important for figuring out the right economic prescription here. And so I don't know that you can avoid speculating on that.

I just think it's interesting to look back at the history of fiscal actions that were aimed at exactly this sort of problem. Because we haven't had to do this for almost 30 years, but it used to be a really regular feature of American politics.

You had a budget deal in 1990 where George Bush Sr. reneged on his no-new-taxes pledge. You had a number of fiscal agreements during the Reagan administration that were bipartisan, that were aimed at bringing the budget into balance over the long run and in part in order to tame inflation and interest rates. And then, in 1993, you had an all-Democratic deficit reduction package that was done at the beginning of the Clinton administration.

Basically, since that 1990 thing, where Republicans took the lesson that the very worst thing you could ever do politically or substantively was sign a tax increase deal... It's not clear to me that you can ever, or at least you'd have to have a really big change in the underlying economic circumstances before you had the political change for the Republican Party where you could have Republican agreement on a deal that had a balanced mix of tax increases and spending cuts.

And I assume that... Well, actually, sorry, there was one more recent deficit reduction package. I didn't include it because it was not economically indicated, but we had this in 2011 and sort of in 2013 in the Obama administration.

And we saw that you couldn't get Republicans to agree to raise taxes compared to current law. In that environment, I guess that's why there's no political discussion to be had about a deficit reduction deal because Democrats are not going to do one right now that's all spending cuts. Republicans are not going to do one that includes tax increases.

Jason Furman:

Yeah, that's exactly right. And by the way, part of what made the bipartisan agreement in 2011 work... And I don't think it was a terrific agreement. I was a part of it, but I hardly feel it's one of the wonderful things I've been a part of. But that was a mixture of non-defense discretionary cuts and defense cuts. And so the win that Democrats got in that negotiation was that they got to cut defense spending. The defense spending

politics are all scrambled right now, and the defense spending needs are probably higher, given the world today and how we understand it, than they were 12 years ago.

Josh Barro:

So given that environment where we're not going to get a fiscal deal here that is useful for the current economic environment and that we don't see a lot of mileage to be had out of those non-traditional policy avenues for addressing inflation, we are going to be, for better or for worse, leaning on the Fed to fix this problem pretty much solo.

Jason Furman:

Yeah. And that's... We've been there before. Mohamed El-Erian, the economist, wrote a whole book called *The Only Game in Town* about the Fed responding to the financial crisis, where many people thought fiscal policy should have done more, it should have done more to stimulate the economy and grow the economy, but it didn't do enough. And so, the Fed had to just take it all on.

And we're basically seeing the mirror image of that now. Fiscal policy probably should be helping us at this stage bring inflation down, but it's not. And so monetary policy is taking it on all on its own. And that's what the Fed has to do. They take everyone else's given, and given what everyone else is doing or, more to the point, what they're not doing, they need to then act accordingly.

Josh Barro:

So then one of the hypotheses you listed about why the Fed hikes, so far, have not seemed to bring core inflation down much at all is that maybe the Fed is not very effective anymore. Does that then worry you? If the Fed is *The Only Game in Town*, and one of the theories of what's happened here is maybe the Fed doesn't matter very much anymore, then how does inflation ever fall?

Jason Furman:

Yeah. And to be clear, it wouldn't be that the Fed matters zero, just that it matters less. But you may end up in a world where every time there's a recession, you need interest rates of zero, and every time there's a boom, you need interest rates of 10 or 20, and you have this huge changes in interest rates to make up for the fact that that tool isn't

as powerful as opposed to the world we used to be where maybe interest rates oscillated between three and eight or something like that.

So the worry about a less powerful Fed and an AWOL fiscal authority would be that interest rates become more volatile, which means the stock market becomes more volatile, the financial system becomes more volatile, it's harder for banks to plan. And that would be tricky to navigate.

Josh Barro:

That also makes it harder for businesses to invest, right? If they don't have a sense of what their cost of capital is going to be over the long run, that makes it a lot harder to figure out whether a business investment is likely to be profitable. It seems like that would have significant negative effects on growth over the long run.

Jason Furman:

Yeah, absolutely. Uncertainty really does reduce investment both in theory and in practice. But, again, I don't... Definitely, it's not zero. We did see a big reduction in housing in the second half of the year. I think the Fed really did that. But for the Fed, we would've had faster housing growth in the second half of the year. So I think we are arguing are they more or less effective or really arguing are they the same effective or less effective than they were before, not are they totally ineffective.

Josh Barro:

I've been interested watching this occasionally somewhat heated discussion between you and Paul Krugman about inflation interest rates. And I think it's interesting that it's been occasionally somewhat heated because it seems like when the two of you get down to brass tacks and talk about what your views mean in terms of what monetary policy should be, you don't end up being that far apart.

Like, he thinks the Fed should hike by a quarter point at the next meeting. You're talking about the idea that the Fed should probably hike by half a point at the next meeting, depending on exactly what data we get between now and then.

Is there less disagreement in the economic community than it looks like in terms of how the Fed should be operating even in this very difficult and uncertain environment?

Jason Furman:

Yeah. I mean, Paul Krugman is obviously extraordinary and a brilliant economist. He's also relatively conventional in the macro models he uses. They're similar to the models I use. They're similar to the models that Jay Powell is using. He tends to put somewhat different parameters into them, so, "This shock will be more favorable. That change will make a bigger difference," or something like that. But it's sort of arguing over the parameters of the model, not the model.

And in that sense, yeah, I see... I think he updates with the data. I certainly try to update with the data. And I find this... Usually, I'm on one side of him, but that it's not very far.

Where it gets quite different is there's a whole group of people with an alternative paradigm of, "Inflation is determined by greed." Or, "When you raise interest rates, that raises inflation instead of lowers inflation." Or, "Everything is supply shocks. Nothing is demand." So there's a whole set of people, who I won't put a name on, that are in a very different paradigm. But yeah, the same paradigm but different parameters than Paul.

Josh Barro:

Well, I mean, I think Elizabeth Warren has been more or less speaking up for that paradigm. We saw it this week at the interview with Jay Powell, with her attacking the Fed for its "extremely rapid pace of interest rate increases" and, "It's so out of step with what has been done for a very long time."

And all of that is true as a factual matter. They have raised interest rates a lot. Higher interest rates will tend to cause less employment and less growth, and that obviously has impacts on families.

What I'm not seeing there from her or from the set of economists that are aligned with that view... Elizabeth Warren is not necessarily a modern monetary theorist, but you have seen this version of left-wing economics that has questioned whether interest rates affect inflation at all. I don't see any alternative theory there of what you're supposed to do about the fact that inflation remains way above the target.

Jason Furman:

Yeah. In those alternative approaches, you've seen two things. One is, "Oh, I have a theory that says inflation is about to go away." And that's not a value difference. That's

just either going to be correct as a prediction or wrong. And so far, that prediction has been wrong. Now, there's still time. Maybe it'll turn out, but so far, it's been wrong.

On the other, I have seen more people in that community, the alternative community, saying, "Is it so bad to have 4%, 5%, or 6% inflation indefinitely?" And that is, I think, a reasonable debate to have. I think, in some ways, we should just agree what the menu looks like and then argue over which item we want to order. And the menu does not include, "Keep the unemployment rate forever at 3.4% and have 2% inflation." I just don't think that's something that we can order. But if we wanted 5% inflation forever, maybe we could keep the unemployment rate around where it is now.

Josh Barro:

Well, so what is victory here? The Fed has a 2% inflation target. Does inflation need to get all the way down to two in order to have achieved goals in terms of low and stable inflation? Before we talk about would it be okay to have 5% inflation indefinitely, would it be okay to have 3% inflation indefinitely? Can the Fed just stop once we've gotten to three?

Jason Furman:

I think the answer to that is probably yes, but I'm not positive. First of all, if I were picking the inflation target from scratch, knowing everything we know today, having nothing to do with where the economy is right now, arguably, three is better than two. It just gives you more wiggle room in the economy, more room to respond to events, to cut interest rates in a recession, and the like.

Josh Barro:

To explain to people what that means in terms of wiggle room, it's basically that the real interest rate is the nominal interest rate minus inflation. And so, if you have a higher inflation target, that means that, typically, you can get to a lower, a more negative real interest rate without having interest rates that are actually nominally negative, which they've done in some places in Europe. And it's weird that you have bonds that pay negative interest.

But so, basically, if you have a 3% inflation target, that just means the Fed has one more point it can go down in rate-cutting cycles when the economy is weak compared to if you have a 2% inflation target. Is that what you mean by the wiggle room?

Jason Furman:

That's exactly right. I was trying to avoid imposing an equation on your listeners, but you did one.

Josh Barro:

They're a smart crew. They can handle an equation.

Jason Furman:

Excellent. So yeah. So I think three would be blue-sky ideal. Here's the problem. They've said two over and over and over again for a decade now. Keeping people believing it's going to be two makes it easier to bring inflation down. There's some self-fulfilling aspect to inflation expectations. So how do you simultaneously land the plane but also sort of move the runway over to a different place? I think that's doable. I think that's certainly worth trying to do, but I'm not positive.

Josh Barro:

I mean, haven't we already moved part of the runway? Inflation expectations have come up a bit over this period. If we get to a point where 10-year inflation expectations in the bond market are 3%, and then we announce a new inflation target at 3%, haven't we already done the adjustment?

Jason Furman:

Yeah. But, in the long term, inflation expectations have moved up basically from below 2% to 2% when you measure them in the same way the Fed targets the inflation rate using the measure that they target. So I don't think they've risen much above that. And I don't know if you wanted to talk about whether 5% inflation forever is a problem.

Josh Barro:

Yeah. So, I mean, I guess, when you say, "Blue-sky three is better than two," is there any first-principles matter here? Why not set the inflation target at 5%, and then you have even more headroom when you go into recession to cut interest rates?

Jason Furman:

Right. There have been a lot of economists who have done cost-benefit analyses, and basically, the higher inflation goes, the more of a pain it is for people to keep track of everything, the more you get a set of unintended behaviors around avoiding the inflation, so the cost goes up with inflation. And then there's this benefit of the extra wiggle room, the fact that you can lower the real interest rate even more. And that benefit also goes up when inflation goes up.

It happens that that benefit diminishes rather rapidly as your inflation rate rises. Going from 10 to 20, that's totally irrelevant for any of the benefit side, but that is relevant for the cost side. So when people do that cost-benefit, they come up with numbers like three. Sometimes they come up with numbers like four. I haven't seen a paper that comes up with an optimal inflation rate higher than four. A lot of papers out there, so I'm sure someone's written it, but generally, the numbers are like three or four that people come up with.

Josh Barro:

Can we talk about the outlook for economic growth given this persistent inflation? A lot of people have been expecting an imminent recession. You hear a lot less talk about that than you did about six months ago. Is that just because the failure to bring inflation down quickly is prolonging all of these effects, that we're stretching out the cycle, it's going to take longer to get inflation down, and then a potential recession isn't averted, it's just delayed?

Jason Furman:

I don't know exactly. I am more puzzled about the overall strength of the economy than I am about inflation. So you can do conditional forecasts in economics, where if you tell me the unemployment rate, I will tell you what the inflation rate is. It's hard to do those forecasts incredibly precisely, but it sort of roughly matches up, given how strong the economy is, where inflation is.

In terms of the overall strength of the economy, it's in a stronger place right now than I thought six months ago. I was not one of, "The sky is falling. We're definitely in a recession." In fact, I think I generally had lower recession odds than others, but I was still decently worried, and I am decently surprised.

So not understanding, in retrospect, what's happened over the last year with the economy's overall strength makes it hard for me to be very confident about what's going to happen over the next year.

My best guess is that we basically had a fight between fiscal and monetary policy over the last year, that monetary policy was contractionary, and you saw that in the decline in residential housing. But fiscal policy with lags continued to be expansionary as people spent their excess saving, and you saw that in consumer spending being very strong.

So as I look forward this year, can consumers continue to spend at the same rate they did last year? Probably not, because they're running out of savings. Can they continue to spend at an okay rate? Probably yes, because they got a big social security COLA increase, and jobs are still growing strongly.

Josh Barro:

Shouldn't we be seeing a lot more consumer effects from the much higher interest rates? I mean, I've been sort of astounded. I realize we have had cooling of used car prices, but overall, it seems like there's really remarkable strength in consumers' willingness to go out and buy expensive durable goods, even though their cost to finance those goods is much higher than it was a couple of years ago. And we're not seeing nearly as much cooling as I would've expected in those markets.

There was an interesting note from the New York Fed about rising delinquencies on credit card debt, especially among younger people. But then, when you look at these charts, it just kind of looks like we're back around where we were before the pandemic, even though interest rates are much higher than they were before the pandemic. I'm surprised that we're not seeing more of that strain flowing through into consumers.

Jason Furman:

Yeah. I agree with that. And so, yes, everything is getting worse for consumers. Debt is going up. Interest payments are going up. Delinquencies are going up. And almost none of that is worse than it was in February 2020. And that might again be a way of

seeing this fight that's playing out between the lagged effects of fiscal policy and monetary policy.

Monetary policy's raising interest rates. They're going up on car loans. They're going up on credit cards. But at the same time, people still have some money left over from 2020 and 2021. Eventually, of course, that money's going to run out, and a lot of it has run out already. And then maybe you'd see more of the pure interest rate negative effects rather than the fighting to a draw that we've seen so far.

Josh Barro:

Well, I assume it's two things. One is that consumers have savings. The other is that consumers have jobs and are confident that they will continue to have jobs. And I think there's been an interesting disconnect there between the headlines – You've seen some high-profile layoffs in the information sector, which is to say, tech companies and media companies, and that gets a lot of news coverage. But overall, the labor market continues to look very strong, you would say?

Jason Furman:

Oh, absolutely. I mean, last month, we had 517,000 jobs. I don't think anyone believes that that was the actual pace. But even before last month, we were at a pace of about 275,000 jobs a month. And that's in an economy where you probably only need about 75,000 jobs a month just to keep the unemployment rate stable, given our demography. So we've just had this extraordinary job growth.

And you're right. I mean, when I teach my students what matters for consumer spending, the headline is, "Do you have a job? Are you being paid at your job?" And then the caveat is you can add a plus or minus to that based on the interest rate and what it costs you to borrow for your consumer durables. But the big variable in consumption is, "Do you have a job? Are you getting paid?" And it's good that a lot of people are.

Josh Barro:

So when I add all of this together, that the job market continues to look really good, the economy continues to look good, there is a lot of momentum in terms of willingness by people to spend... And even on the business investment side, it's not as cool as you would expect, right? Businesses continue to invest?

Jason Furman:

Yeah. It's really housing that's been creamed. I mean, that's the one sector where you're seeing the big negative.

Josh Barro:

So you have all that heat, and then we've had all of these Fed interest rate hikes, and maybe there's a lag, but the effect has been fairly muted, and that's the only policy lever we really have to address this. How high are interest rates going to have to go before we've actually cooled inflation, at least down to three?

Jason Furman:

I don't know. And this is where everyone, including myself, has had, in some ways, a failure of imagination. A year and a half ago, the idea that you might raise rates from zero to one just seemed, "Wow, that's crazy. Going all the way to one." And they went all the way to two, and now we're at four and a half.

I've said that they should probably be setting a target for the end of the year of around 6%. I think that's not a crazy thing to do, but you look at some of the standard rules for how you should conduct monetary policy, something called the Taylor Rule. It gives you a formula that says, "If this is your inflation rate, and this is your unemployment rate, where should your interest rates be?" Those rules right now are generally telling us interest rates should be six to 8%.

So I'm fine with more slowly exploring our way up to that territory, continuing to hope that something better turns out. But we might just look back on this and say, "Wow, while we were arguing over 25 versus 50 basis points, the truth was that we were supposed to be 200 basis points above where we were." I'm very open to that, but I'd still like to hope a little bit before we get there.

Josh Barro:

Isn't the point of macroeconomics that you people are supposed to be able to tell us with more specificity what's happening here and what's going to happen here? I mean, this is all super interesting, and this has to be a very interesting time to be a macroeconomist, but it feels a little bit like, as a field of scientific inquiry, that we ought

to be able to get more definite answers about what's happening and what to do about it than are actually available right now.

Jason Furman:

You have to do the best with what you have. And look, I wish we had a thousand economies, and we could have 500 of them do one monetary policy, and 500 do the other, and come back a couple of years later to see which one worked out, and then we'd know it.

And in some sense, every one of these illnesses that we have is unique. It has some things in common with previous ones, but some new features to it. So I don't think there's any choice but to acknowledge your uncertainty and adjust to it as you learn more.

I think the Fed was incredibly obviously behind the curve a year and a half ago. I think they caught up with the curve, but then the curve moved in a way that they didn't see coming, moved even worse than I saw coming. And so they're going to have to adjust again. And just letting people know, "We actually don't know everything. We can't control everything" is... I don't think there's an alternative to that.

Josh Barro:

Well, let's leave it there for this week, Jason. We will try to have you back soon, but not so soon as to indicate a wild increase in the inflation rate. But thank you so much for being with me.

Jason Furman:

Thanks for having me.

Very Serious is created by me, Josh Barro, and by Sara Fay.

Jennifer Swiatek mixed this episode. Our music is by Joshua Moshier. I'm Josh Barro. This is Very Serious and I'll be back next week.