For decades, the Vietnam War has been a Hollywood obsession.
Apocalypse Now, Platoon, Full Metal Jacket, First Blood.
These were blockbuster films, embraced by audiences and critics alike.
And for decades, they've helped us understand a painful war,
and understand each other.
From Spotify and the Ringer Podcast Network, I'm Brian Rafter,
and this is Do We Get to Win This Time?
How Hollywood Made the Vietnam War.
Listen on The Big Picture Feed.
Today's show is about what I consider the biggest mystery of the U.S. economy today.
Last year, economic experts predicted a recession in 2023
with more confidence than they've predicted a recession in decades.
And we've ended up with the opposite of a recession.
We've ended up with what some people are calling immaculate disinflation.
That is an economy where inflation is falling,
but unemployment is still historically low,
real wages are rising, inequality is narrowing.
It's not a perfect economy right now, but it's a pretty good economy,
and it is nothing like the recession that we were essentially promised by experts.
And you go back a bit, go back to last fall, the fall of 2022.
You do not have to look far and wide to find economic experts
who are practically guaranteeing a recession this year.
Last October, a Bloomberg economic model said
that the odds of a U.S. recession this year were 100%.
Not 90%, not 99.99%, 100% guaranteed.
In a survey by the Federal Reserve of Philadelphia,
it's been conducted since the 1960s,
a survey of economists who project economic growth
and then they basically take an average of those projections and they model them out.
The average forecast of an imminent recession
hit an all-time high, a 60-year high.
These economic experts were more confident that we'd have a recession this year.
Then they were confident about the stagflation crisis, the 1970s,
the Volcker crisis, the early 1980s,
the great recession of 2007 and 2008.
And you look at the news today, we are not in a recession.
The official unemployment rate is hovering around a 60-year low.
The growth rate is strong, GDP growth is strong,
the jobless rate for black Americans recently hit an all-time low.
The U.S. has the fastest growth rate
and the lowest annual inflation rate of any G7 country.
Before we go rah, rah, rah, American triumphalism,
it's important to be clear that problems do exist.

Housing, education, healthcare, the price of these essentials is still way too expensive.
Wages could, of course, be growing faster.
And this is important to say, last year's inflation is baked into today's prices.
So when people say something like, oh, it's so wonderful that inflation has fallen by 70% in the last 12 months,
it is really good that inflation has fallen by 70% in the last 12 months.
But that statistic, that frame belies the fact that last year's inflation happened
and it's baked into prices.
So like if banana prices doubled in 2022 and now they're only growing by like 1%,
well, yes, the inflation rate of bananas has come down a lot,
but it also means the price of bananas is more than double what it was two years ago.
And that's going to be painful for anyone who really, really likes bananas.
So no, the economy is not perfect.
Yes, the inflation crisis of 2021 and 2022 and to a certain extent, the first half of 2023 is still with us.
It's still living inside of the prices that we pay.
But it is important, I think, to take the 30,000 foot view here and say things are surprisingly good,
surprisingly good compared to the nightmare, the disaster that we were promised last year.
And what I want to know is why were economic experts so catastrophically wrong
about the state of and the future of the U.S. economy?
What does the wrongness tell us about what we don't understand yet about economics,
what we don't understand yet about how economies grow and avoid recessions?
And what can we learn from the last 24 months?
Helping me in this journey of learning is one of our old guests of this show,
Harvard economist Jason Furman.
And we talk about the immaculate disinflation, why experts got it wrong,
how the U.S. survived supply shock after supply shock, and what happens now.
I'm Derek Thompson. This is Plain English.
Jason Furman, welcome back to the show.
Great to be back.
Jason, economists are never really sure about anything.
It's always on the one hand this and the other hand that.
But to the extent that they're ever sure about anything,
they seemed very, very certain that we would have a recession this year.
We are not in a recession.
We do not at the moment seem to be even close to a recession.
What happened? Why did all of the experts get 2023 so wrong?
Yeah, I mean, and just for context,
forecasters basically never forecast a recession and then sometimes they happen.
This time they forecasted a recession and one didn't happen.
In terms of my own views,
my recession probabilities were lower than a lot of other forecasters,
but way higher than they would normally be.
So I too am surprised by the economy.

Part of it is that there are just these massive movements.
The fiscal policy we did was huge,
and it has long and variable lags helping the economy.
And then we did some more helpings of it with things like infrastructure,
IRA and ships.
The monetary policy move was also huge.
But interestingly, and I think this might be in part of the story,
rates rose really, really fast,
but they didn't actually rise that high.
If you look at long-term interest rates,
they've spent most of the last year and a half, around 3.5%.
They've gotten a bit higher lately.
That just isn't a high interest rate by historical standards.
And then there was just the unsnarling of supply chains.
Then you throw in the Russia shock.
That was a huge shock to energy prices,
but it actually went away relatively quickly.
So another part of the forecast error was people thought,
oil might go to $150, $175 a barrel.
Instead, it went all the way back to, or even below,
where it was prior to COVID or anything like this.
So I think there's a number of different things,
but for me, the most important are fiscal policy continued to prop the economy up.
Monetary policy just wasn't that tight,
even if it got a lot tighter.
And third, the oil shock went away.
So we've got the fiscal policy, the monetary policy,
the unsnarling of the supply chains,
and then the energy shock from the Russia invasion.
It reminds me that Michael Sembalist at JP Morgan,
he called what's happening in the U.S. economy in 2023
the Rasputin effect, Rasputin, the Russian mystic,
who was shocked, poisoned, attempted to be drowned
and somehow survived just an astonishing number of threats to his life
before he was eventually murdered.
That's the U.S. right now, just pre-Rasputin murder.
It's surviving the proverbial shot and poisoning and attempted drowning.
I want to go back to the first question, though,
because there were really, really smart economists,
like Larry Summers and all these macroeconomists,
who accurately predicted that the Biden stimulus would lead to inflation,
who then went on to predict rather confidently
that the only way to cure that inflation

would be for the U.S. economy to have a recession.
Again, we're not anywhere close to a recession.
What does it mean for the macroeconomic field
that a lot of people seem to have got it wrong?
Like, how are you not surprised here?
I'm a little bit surprised, but not shocked.
First of all, I've at various points put out my sense of what underlying inflation is.
The highest number I've ever had at any part in the whole inflationary cycle was 4.5%.
Even when actual inflation was way above that,
my view was a bunch of that was transitory,
things like energy prices going up, but the energy prices were going down.
In some sense, all of the people who thought inflation was going to be quite stubborn
agreed that some of it was transitory,
the debate was over how much was transitory.
Right now, my reading of the inflation data is that underlying inflation is about 3.5%.
It's drifted down by 1% as opposed to headline inflation,
which is drifted down depending on which way you measure it,
more like 4% or 5%.
In that sense, the surprise is a little bit smaller.
The second is, I think the evidence, and this is a view,
Paul Krugman has the same view, is that what you'd call the Phillips curve,
the relationship between labor market tightness and inflation is non-linear.
Small changes in unemployment or other measures of labor market tightness,
and it's going to be important, I'm going to get into those other measures,
can lead to big changes in inflation,
but then as the labor market gets looser, it starts having a smaller change on inflation.
That's part of what explains inflation on the way up,
and part of what explains it on the way down.
In fact, in September of last year, I put out an analysis based on someone else's model,
but my using their model, and I listed a set of unemployment rates and inflation rates,
and I think I said unemployment needed to be about four to get inflation to 3.5%.
We're touched below that, but not in any dramatically shockingly way.
Now, what we have seen, and this I fully expected and not all surprised by,
is some immaculate cooling of the labor market,
and the form that immaculate cooling has taken is not the unemployment rate rising,
but job openings falling.
For me, if I had just one variable to assess the tightness of the labor market,
it would be the number of job openings for every unemployed worker.
That peaked at 2.0 last year.
It's fallen down to 1.6,
and the entire fall has been with openings declining rather than the unemployment rate rising.
A year ago, I said I thought we'd get 2.3 of the way back to our normal relationship
for job openings to unemployed.

I think in summary, the labor market has cooled.
Job growth has slowed.
Hours have fallen.
Job openings have fallen.
The number of workers, job openings per unemployed has fallen.
A lot of different measures of the labor market have cooled,
and inflation has also cooled,
probably a little bit more than I would have thought it would cool,
but not dramatically more.
Now, if inflation falls to 2.5% with the unemployment rate at 3.5%,
then I would be very surprised,
and it would cause me to revise my views.
But I just don't think we're there yet.
So we've talked about the first mystery,
which is how did all these economists predict a recession in 23
while the reality is that this year could not be further from a recession?
There's another mystery.
There's another gap,
and that is the gap between Americans' perception of this economy
and the reality of this economy.
So one poll in April found that at the same time
that the unemployment rate hit a 60-year low,
the share of the American public
that expressed negative views of this economy hit a record high.
That is so interesting to me.
And there's this old Jeff Bezos quote
that when there's a gap between the anecdotes and the data,
you should believe the anecdotes.
And I do think that it is worth taking seriously the fact
that lots of Americans think this is a bad economy.
But when you look at the fact that GDP is growing,
unemployment is low,
inflation is falling, and inequality is narrowing,
it's really not a terrible economy at all.
So how do you explain this gap
between perception and reality?
Yeah, I don't have a great explanation.
There's certainly different echo chambers
where people get all sorts of information.
I went on Fox News recently,
and the host began with inflation is high
and the unemployment rate is soaring.
They had another guest who was a Republican,

and he corrected the host that, you know,
the unemployment rate is near a 50-year low.
But it's not just that.
I mean, you see this with independence.
You even see, you know, Democrats with less favorable view
than they had at various times in the past.
I compared the economy today to where it was three years in
under Obama, and I'd much rather have this economy
than the economy we had then.
We had an unemployment rate that was, I think, around 9%.
We had low inflation.
People had actually seen real wage gains if they had a job,
but lots of people didn't have a job.
I'd much, much rather have this economy.
But people, you know, the level of consumer confidence,
the level of views about the economy were better than now.
I'm not like an expert on this question.
You know, one speculation is that people did go
into a very big hole in terms of their incomes
being eroded by inflation up until about a year ago,
and they've been digging out of the hole,
but they're still in it.
Wages are about 3% to 5% below the trend they were on
just before the pandemic.
And, you know, I don't think people compute that exact statistic,
but after you've gone through a huge amount,
you know, maybe one year of gains isn't enough for you
and you're waiting to see more evidence that they're durable.
A second hypothesis is that the people are less excited
about the job gains than they normally would be.
In 2011, if you got a job, you were thrilled
because you were terrified that maybe
you could never get another job.
There have been plentiful job openings
from relatively early 2021 to the present.
I'm not saying anyone who wanted a job could get one,
but that statement is closer to true
than it's ever been in the U.S. economy.
And, you know, the recession that people went through
wasn't that bad economically.
In fact, incomes actually went up in 2020 and 2021,
and poverty went down, and all that special support is gone.
So some of the credit you'd get for getting out of a recession

when, you know, your income actually goes down
when you come out of the recession this time
rather than going up isn't there.
So I think that may be another part of the explanation.
So I now want to suggest that what I've actually presented
as two mysteries are, in fact, the same phenomenon.
And if you think that this upcoming theory
is a little bit over my skis and too cheeky,
please feel free to say so.
What if the reason why we avoided a recession
is precisely that Americans have been so depressed
about the economy?
That is, the Federal Reserve is not just this,
a reserve with a joystick that controls interest rates.
The Federal Reserve talks and its talking shapes expectations.
Is it conceivable that the Federal Reserve
essentially got us all to think that a recession was coming
and that our fears of a forthcoming recession
got everyone to pull back on spending just a bit,
pull back on hiring just a bit,
pull back on that next luxury purchase just enough
that it immaculately reduced inflation
without actually causing a recession?
Yeah, I think that's certainly possible.
The Fed rate hikes, lots and lots of people noticed them.
They noticed them in their mortgages.
You were hearing about them on the news.
People who didn't like them were warning
that they caused a recession.
People who thought you needed a recession
to bring down inflation said they'd bring one.
So it was lots of different angles
and lots of different ways.
And I have no doubt that expectations play a big role.
I mean, you call it vibes.
John Maynard Keynes 100 years ago called it animal spirits
and placed a lot of emphasis on it as well.
So do I think there's like very good proof
that what you just said is correct?
No.
Do I think it's above average speculation?
Yes, absolutely.
During the 2010s, the Federal Reserve

was the only government agency
that was trying to help the economy grow.
We couldn't do anything on the fiscal side.
You guys tried to pass tax cuts.
You tried to pass some spending programs.
But the Republicans simply weren't having it.
So monetary policy was the only game in town.
And growth in the 2010s was pathetic.
So the Federal Reserve, you could say,
kind of didn't succeed in really pulling the economy
out of this slowflation period.
Now you fast forward to the 2020s.
And it turns out that the Federal Reserve,
while it has maybe engineered this soft landing,
hasn't really had this strong effect of interest rates go up
and then the economy goes into the ground.
Is it possible that if you put these two stories together
and realize the Federal Reserve both failed to stimulate
an underinflated economy in the 2010s
and failed to depress an overstimulated economy in the 2020s,
that maybe the Federal Reserve and monetary policy
isn't as strong as we thought it was?
Yeah, I think there's really something to that.
And there's actually economic research that finds
that the economy is less sensitive to interest rates
than it used to be.
When interest rates go up, it, for example,
affects the manufacturing sector,
which relies more on borrowing money to buy equipment
than it does the service sector,
which has a little bit more just an ongoing flow of costs
that it doesn't borrow money to cover
as the manufacturing sector has shrunk in the economy.
That's one channel by which interest rates
just aren't going to matter as much as they used to.
And there's sort of a number of other things like that.
So I think that's a thing that you're starting to hear
a little bit of debate within some of the Federal Reserves
of maybe we have less power.
Now, what does that mean?
One version is if fiscal policy doesn't get its act together,
that means we're going to be in a world where you go into
recession and they cut rates to zero,

and they do a whole lot of quantitative easing,
which is way below what they used to do in recessions.
And then you get into an inflationary period
and they have to raise rates really fast and really high,
maybe even higher than they have so far.
And that's a world of sort of a lot of financial market
volatility as well.
To the degree that thesis is true,
the good thing to happen would be if fiscal policy
were lending a hand.
And fiscal policy has proved itself pretty good
at stimulating an economy when it's in a downturn.
I agree with you, it did not do enough.
In the wake of the financial crisis,
I think it did too much this time,
but both times it was directionally correct.
What fiscal policy has shown no ability to do
is to help cool down a heating economy.
In fact, we've seen the deficit right now
is actually rising again over the last year.
You've seen ways in which fiscal policy has been expansionary,
and the politics say people are being hurt by inflation.
You're going to go pass a tax increase on them
to slow that inflation, of course not.
So there's an asymmetry that I worry about
where fiscal policy sort of can help solve
half this problem of less effective interest rates,
can't solve the other half.
It is conceivable, I suppose, putting my two theories together,
the vibes theory and the interest rate sensitivity theory,
as you summarized my second point.
It's possible putting them together that we need a new paradigm
for thinking about how exactly the Federal Reserve
mostly impacts the economy.
And it is at least conceivable,
and this is a question for economic research.
This is a question for some PhD student out there
or some economic professor out there.
It's possible that the way the Fed mostly in the 2020s, 2030s,
this new paradigm, changes the economy
is more through the vector of expectations
than through sheer rising interest rates,
the actual jacking up of interest rates,

while of course important, certainly,
especially to some sections of the economy,
can actually matter less than the vibes,
than the general sort of optimism to pessimism gauge
that the Federal Reserve has some power over changing.
I think that's like, it's an interesting idea
that we typically think of the Federal Reserve
as like this joystick of interest rates,
but in fact, it's the way the Federal Reserve
makes people feel that might be
the more significant driver of economic activity.
Yeah, I think that's exactly right.
And just to sort of think about academic economics,
you know, originally expectations were just this random thing
that you didn't understand.
They came from somewhere and they moved around.
Then they were adaptive.
People looked back and just thought
whatever happened over the last year
was gonna happen over the next year.
That wasn't really right
because people are more forward-looking.
You know, they're looking at the Fed raising rates
and thinking how is that gonna affect the economy.
So then they shifted to rational expectations.
They're forward-looking and calculating everything perfectly
knowing exactly what's gonna happen,
at least on average, correctly.
That's also not right.
And so where do you go?
If people aren't just naive, backward-looking extrapolators,
they're not genius forward-looking forecasters.
They probably have all sorts of biases,
but they do process, you know, some of the news
and some of the information.
And yeah, I think cracking that nut
would be really helpful in understanding all of this.
So moving into the present, then the future.
We were told by a lot of economic experts last year
that 2023 would be a recession.
It so far has not been a recession,
but of course it could be.
So what do you think are the biggest risks to growth

in the next few quarters?
So first of all, you know, normally,
if people ask me is there gonna be a recession,
I say my model is that every year
there is a one in six chance of a recession.
So you are rolling a die.
If it comes up one, you have a recession.
If it comes up two through six, you don't.
Then you can look at economic conditions
and you can make it, you know,
just a little bit higher probability
or a little bit lower probability.
We just can't extrapolate on that well.
So here's an example of that.
We have now had 17 months in a row
where the unemployment rate has been
in a 0.3 percentage point band.
It's ranged from 3.4 to 3.7.
The last time we had unemployment rate
for 17 months in a row
that was low and within such a narrow band
was November 2007.
The economy hit peak in December 2007
and went into recession right after that.
The point of that anecdote,
and it's just an anecdote because it's one piece of data,
is not that every time you have 17 months
in a row of low unemployment,
you go into a recession on the next month.
I don't think this is a good recession measure
or a good recession predictor,
but it's just to say that you really, really never know.
So all the retrospectives people are writing
about the economy is if the soft landing
has already happened when, first of all,
the inflation rate isn't actually down to where it should be.
Now, maybe it will get there
and there's some signs that it'll fall further.
But more importantly, just a recession
can just come out of nowhere.
And by the way, that recession,
it wasn't financial crisis recession when it started.
The financial Bear Stearns,

which was the first ratchet in a real way
in the financial crisis in the United States,
wasn't until February 2008.
We were ready two months into the recession by then.
So the first thing to say about recessions
is they're a little bit unforecastable
and a little bit come from nowhere.
I had been pretty disciplined
in articulating that view for a very long time.
I abandoned that view to some degree last year
and I regret it in retrospect
and sort of want to go back to that view.
But you did ask what the risks are
and you should always be looking out for what the risks are.
One is there is a possibility
that the lagged effects of monetary policy
will catch up with us.
I happen to think most of the effects of monetary policy
we've seen, but one channel is
as businesses need to refinance their loans,
they're refinancing at much higher interest rates
and in some cases won't even be able to refinance
and so there'll be sort of a cash hit
over and over and over again on a lot of businesses,
especially in things like commercial real estate.
A second related one is that lending terms are quite high.
Third is we have recently seen another round
of effectively financial condition tightening
as mortgage rates have risen again
which could depress home building.
The 10-year treasury has risen,
the interest rate has risen about 70 basis points,
seven tenths of a percentage point
in the last couple months
and so there's been some financial tightening.
I think those are the things that worry me the most.
I guess the last thing that worries me
is that part of the non-recession last year
was the extraordinary American consumer.
They're still spending more than I would have expected
given their incomes
and so I think at some point that consumption growth
needs to slow.

Your best guess is that it's sort of a gradual easing
but there could be a sharper reduction
in consumer spending growth.
I would add to all of that that as you said,
part of the non-recession last year
was the extraordinary growth of the American consumer.
It was also the decline in oil and gas prices,
energy disinflated and that really helped the U.S. economy
because there's just nothing worse than the cost of energy,
the input into everything going up and up and up
every single month.
That's to a certain extent an international story
over which the United States has only a little bit of control
and I was just thinking as you were talking
that one negative aspect of the Rasputin explanation
for the U.S. economy is that the U.S. is extraordinarily sensitive
if not to necessarily the Federal Reserve's interest rates
to the shooting and poisoning of geopolitics and world events
and we can't predict when the next domino is going to fall
when it comes to oil supply or global wars.
Maybe there'll be a positive shock where China,
I've recently seen, is trying to negotiate
potentially a peace between Russia and Ukraine.
That could be very positive.
We could also see some kind of negative shock somewhere
that's a climate change refugee crisis
or some other invasion of an energy sensitive country.
That's the other thing that I guess I worry about
is that if the parsimonious explanation
of what's happened in the last 18 months
is that the U.S. suffered one supply shock after another,
inflation went up and then over time
the supply shocks resolved themselves
and so inflation came down as the American consumer
continued to spend its way through the bad times.
Maybe we're just in an interregnum of a low shock period
and in the next few years we're just going to see
a lot more shocks again in which case the U.S.
is going to have to survive a lot more proverbial killings
and drowning.
That's one of the things that I'm looking at
but the hard thing there is it's just as hard as it is
to predict general macroeconomic growth in the next few years.

It's very, very hard to predict where the next geopolitical crisis
is going to come from.
Sometimes geopolitics should always be on your list.
Could there be some military thing
between Israel and Iran that drives oil prices up?
I'm not predicting that. I'm not an expert on that.
I'm just saying there's always stuff that happens.
I do think for the, I think part of,
I think some of the celebrations of inflation are premature.
Energy prices have fallen about 15% in the last year.
We're in a favorable supply shock.
Inflation looks temporarily better than it is
and some of that probably shows up in core inflation
even when you strip out the energy just because of its indirect effects.
For recession and GDP, you're right to worry about oil prices
but we should be much, much less worried about them
than we used to be for two reasons.
One is the economy just uses less oil per unit of GDP
than it used to or more energy efficient
and more importantly, we produce a lot of oil.
So when oil prices go up, it helps one part of the economy
which is oil producers.
It hurts another part of the economy which is consumers.
The net effect of that is probably a negative
but there's some hedging.
And by the way, we've been talking about the U.S. economy
and the recession that didn't happen in Europe
which does not have that hedging with respect to oil
and which also had much more severe natural gas price problem
as a result of the Russian invasion.
The euro areas had two quarters in a row of negative growth
and Germany which is very dependent on exports and energy inputs
and was very dependent on Russian energy,
its growth rate has been sort of minus 2% or minus 3%
for two quarters in a row.
So the people predicting recession in the euro area,
they got that right.
Part of why we avoided it was the energy shock
wasn't as bad here and in some cases like natural gas
basically barely happened here.
Yeah, that's maybe the last thing that I'm just thinking about
in terms of global trade.
If Europe enters a recession, China's economy doesn't seem

like it's going maybe at all, maybe in the low single digits.
If you do have some kind of gradual deterioration
in global trade at the same time that the American consumer
just begins to run out of saved funds,
it's possible that some combination there
could sort of pull overall real growth down
and make us more sensitive to supply shocks.
But look, economic prediction, as I said at the top of the show,
as I said in the open, is basically something close to astrology.
So I won't try to make any hard predictions here.
Jason Furman, thank you very much. I really appreciate it.
Great being here.
Playing English was hosted and reported by me, Derek Thompson,
and produced by Devon Manzi.
We'll see you back here every Tuesday for a brand new episode.
Have a great week.
you