>> Welcome to Uncommon Knowledge. I'm Peter Robinson. Joining me today, two colleagues of mine at the Hoover Institution, both economists, Ken Judd and John Taylor. John Taylor also served for two and a half, three years.

>> Four years.

>> Four years, essentially the entire first term.

>> Right.

>> As Undersecretary of the Treasury for International Affairs in the Administration of George W. Bush. How bad is it? Definition of a recession, the economy contracts for 2 successive quarters. In other words, 6 months of negative growth. The last recession took place in 2001 when the dot com bubble burst. This past January, Goldman Sachs, a serious institution, predicted another recession this year. Goldman sited a spike in the jobless rate, declines in home sales and manufacturing. To quote the research note Goldman issued, "The recession is likely to last 2 to 3 quarters with the accumulative decline in GDP of about half a percent." A recession this year, Ken?

>> Right now, it's hard to say. It's--the economy is stagnant. Now, the other point here is that the definition of recession seems to be evolving.
[Simultaneous Talking]

>> You give this to your students, what I just gave you, right?

>> Yes, yes.

>> Okay.

>> But the last time that the NBER had--
[Simultaneous Talking]

>> National Bureau of Economic Research.

>> When their panel on dating business cycles sat down and looked at the 2001 period, 2002. The data there was very murky. The classic definition of 2 quarters drop of GNP was not even -- I don't think it was even satisfying, wasn't even there.

>> It didn't have 2 quarters.

>> No. So—

>> Even in 2001, the last bump in the economy was not a classic recession.

>> It was so mild. I mean it was such a mild—

>> It's a mild downturn.

>> And I think what tripped them was -- in this, declining a recession is that there was a drop in jobs, unemployment.

>> Alright.

>> Now, so this whole definition -- No, this was one of the first times in history if I remember correctly that the numbers were mixed and murky.

>> Right.

>> And so then this whole definition of what a recession is is evolving and we could be in a similar kind of situation where job, number of jobs goes up or down and maybe output doesn't.

>>What's happened actually if we base it, the last 25 years since the early '80s, we just had 2 recessions and they've been very mild by historical standards and 2--now 3 long expansions in between. So, my feeling is if we are in downturn, it's quite likely to be mild like the last two. That's really the world we live in then.

>> This gets me to my next question. Listen the 2 periods in American history, 1890 to 1945. The economy suffers 3 contractions of 5 percent, 2 of 10, and 2 of almost 15 percent. You get an economy subject to convulsions during that period. From 1983 to the present, as huge as said, the economy has a long period of smooth robust expansion interrupted by 2 very mild recessions and now I've just heard that maybe one of those two recessions wasn't even a classic recession at all. So the question is 1890 to 1945 on the one hand, 1983 to the present on the other, does that tell us that we've gotten better at government interventions, that we understand how markets work better, that we -- or that we stand back and let them. Why, what—

>> You see, it's a good question. Economist when researching it all over the place, but I feel a lot has to do with monetary policy. Finally, getting it right to keep inflation low, keep that boom-bust cycle from coming back like it did, and you don't have to go even go back so far period. Just look at the '70s.

>> Right.

>> One recession after another. Big recessions have ended in November 1982, just little more than 25 years ago, and since then the policy of getting inflation down. And it's also not just the United States. If you look around the world, it's the same kind of thing.

>> So the critical -- I'm trying to remember my history of the '70s. Arthur Burns, chairman of the Fed, there's a big inflation run up to Richard Nixon's reelection in 1972. So it's such a—

>> No, there was money creation riding up to—

>> Excuse me, excuse me.

>> Well, prices and wages were under control.

>> We're capped, okay, excuse me. But Arthur Burns, he didn't inflate but he were to—

>> Printed money.

>> Printed money.

>> Printed money which eventually brought [inaudible].

>> And then later--
[Simultaneous Talking]

>> And he and Milton, that was such -- that has caused a serious breach between him and Milton Friedman.

>> Yes, yes [inaudible]

>> And then Volker as I recall, Milton Friedman, a blessed man where he pointed this out to me once that Volker only really started -- Volker who is now a kind of a saint in the monetary history, only really behaved well after Reagan took office. That in Carter you get a spike of money in the final year and then he steps on the brakes, and it's unclear which it's only by -- only in the early 80's that they've really adopted, measured monetary, right?

>> Reagan gave Volker tremendous support in getting this inflation rate down. And Carter didn't give that much support. Carter appointed Reagan, so he gotta get the
[Simultaneous Talking]

>> Volker, right.

>> Appointed the Volker course. We gotta get the facts right. But the point is Reagan supported that effort and that made all the difference, and it took a lot of courage.

>> Reagan was willing to take the recession in 1980.

>> He was willing to support Volker no matter what to get that inflation down.

>> Alright, so—

>> Interest rates in the summer of 1980 were quite high.

>> Yes, they were. And by January of 1981, as I recall, they were in double digits. They were the—

>> Anyway, you're talking to somebody that goes featured about this.

>> So Volker [inaudible] the brakes on—

>> Team memory, right.

>> before Reagan.

>> Right.

>> But no, in terms of the strong [simultaneous talking] support from Reagan, that was unusual particularly in--given the previous experiences with presidents.

>> Okay then, let's go from how bad is it and what have we learned about dealing with recessions to how are we dealing with the current circumstances. I'll ask you about 2 gentlemen, Ben Bernanke, the chairman of the Fed, and George W. Bush who needs no explanation. Let's begin by the way -- you can't turn on the car radio without hearing the phrase subprime crisis, and it's supposedly the subprime crisis that caused the stock market jitters in January. Give us a layman's explanation. What is the subprime crisis?

>> The banks made a lot of bad notes and these were -- starting a few years ago they started to issue loans with very low down payments, if not even a zero down payment.

>> For mortgages.

>> For mortgages. This is mortgages, yeah. And people didn't have to put down the tradition on down payment and also they got a mortgage even though they didn't have enough income to carry it for a long time, so they got in at low interest rates and then with a balloon or an adjustment later. And so now, those things are coming back and they gotta be adjusted, they gotta make the balloon payment, and people can't. And another problem -- so the problem was that a lot of these investment at financial institutions that own these things, by the way, Neighborhood Bank isn't in this business—

>> And Neighborhood Bank issues the mortgage, resells it to a bundler who resells it to a big operation in New York which then sells trenches of it.

>> Yeah.

>> And so you end up in immensely enormous and complicated--
[Simultaneous Talking]

>> And the guys, and the guys at the top who have these big packages—

>> Right.

>> They don't know how much bad stuff they had.

>> Right.

>> And so, they got nervous. Everybody got nervous, credit tightens.

>> Can I just add before -- I wanna get to Ben Bernanke, obviously, but could I just ask? This is -- isn't this an example of the kind of thing that a socialist would refer to as market failure. A mediocre analyst on Well Street gets paid half a million dollars a year. These people are paid enormous amounts to be able correctly to value these complicated instruments. And now we discover that there is not an institution in New York that understands the risk in its own portfolio because they were buying and selling these complicated instruments.

>> Big, big mistakes.

>> Isn't that an example of capitalism collapsing?

>> It makes big mistakes by individuals and they should be accountable for it. No question about it. That's where we want--capitalism is to make sure people are accountable for the mistakes they make and they learn from it. But I think from a policy perspective, we wanna prevent it from spilling over to the whole economy. You don't wanna bail out people who have taken risks incorrectly and should be responsible, should be accountable, the financial institutions, the individuals that undertook this, right? But at the same time you don't want it to spread and that's where the policy is coming to.

>> Okay, so here we come to Ben Bernanke. By mid January, stocks are tumbling around the world. On Tuesday, January 22nd, the Fed makes an emergency rate cut of 3 quarters of 1 percent, 75 basis points. Then in its regularly scheduled meeting in January 30th, the Fed cuts the rates another half a percent, 50 basis points. You go from four and a quarter percent down to 3 percent in just over a week. Now, listen to the response to these actions of the president of the European Central Bank and the Wall Street Journal. In public statements the journal noted Jean-Claude Trichet, I'm throwing a little French pronunciation to raise the tone here, "Came about as close as a member of the brotherhood ever will to calling out a fellow central banker, Fed Chairman Ben Bernanke. Mr. Trichet thinks the Fed is running dangerous inflation risks by cutting rates too soon in the phase of Wall Street pressure." Did Ben Bernanke get spooked?

>> I think the rates have come down too low from where we are right now in this cycle.

>> You do?

>> I do. I have a -- I like to think about this, some people call it the—

>> The Taylor rule.

>> Taylor rule, yeah. And it says rate shouldn't have come down all the way to 3 at this point, it should say maybe 3 and a half or so. And that rule basically says that interest rates should adjust according to what's happened to the economy. So if it's slowing, rates cut. But also depending on what's happening to inflation. So inflation is still there. In fact, it's picked up a little bit. So these rules, guidelines give a balance. And when you look at those together, it does look like it's a little bit more than we need right now. Now if there is recession and if there is a greater slow down, then there can be additional rate cuts. But right now, it's a little too much.

>> Look—

>> Go ahead.

>> If liquidity is a particularly important issue right now which the Taylor rule talked about long-term averages. But in this recession, if liquidity is a big problem, is this lower interest rate then possibly justified by that?

>> I think liquidity is always a problem in recession. The advantage of having a guideline is that it makes it clear how much you should adjust. And I think it's -- even a three and a half, you're taking in some of those liquidity effects already.

>> Can I ask, I've always understood the Taylor rule in the following way, however, I've understood it this way without checking with the author of the Taylor rule. Milton Friedman made the point over and over and over again that the Fed is constantly mistiming its actions, that a response too late and pumps too much money into the economy, then it'd be a market that responds too late to inflation and puts on the brakes and so on. So Milton famously said, "The Fed should be abolished and replaced with a computer that simply takes the growth rate and adds some small percentage and issues money at that rate." The Taylor rule I've always understood as essentially embracing Milton's insight that the subjective component in the way the Fed operates is much too large and you really should have a simple straightforward set of rules. The Taylor rule specifies specific variables and everybody at the markets would understand the rule.

>> Absolutely.

>> Then that's correct, right?

>> It's a big part of a period. More predictability, you don't have to surprise the markets, people understand what central banks are doing, and it's not just the Fed of course it's the—

>> Right.

>> European Central Bank and others.

>> Let's move from Ben Bernanke to George W. Bush. The President and Congress, as we sit here, appear to be close to a deal for a stimulus package of about 168 billion dollars as the figure in the front pages today, that is to say a one time program of tax relief and cash disbursements of about 1 percent of GDP. Two quotations, the first, President Bush. "Passing a new growth package is our most pressing economic priority." Nowhere in his statement to that find the word stimulus package. He uses the term "growth package". Quotation number two, the Wall Street Journal. "The stimulus won't do much for the economy but is driving a higher deficit. The price of Mr. Bush's final budget, which of course includes a stimulus package, may well be paid in far higher taxes under the new president next year." Who are you with, George W. Bush or the Wall Street Journal? Ken?

>> Wall Street Journal. I regard the last few weeks as politicians deciding we got to do something to get this off the table of the agenda to something that has a political demand for it. What they did, they could have done. Worst things, they could have done better things. For example I would have—

>> But this is just political kabuki. It is meaningless [inaudible]

>> And the magnitude is going to be small, the impact on the economy. For example, these checks [inaudible] get these checks until what? July I think is what the Treasury Department says that they're kinda busy with other things until then. And so, we're not talking about anything that [inaudible].

>> Processing our tax returns, unfortunately.

>> And it's a one time check. So, it's gonna have some impact in the third quarter, maybe leaking in the fourth quarter. I haven't looked up the details. I might not get a check. If I did, I just take in the check and go and say that we wouldn't spend it. And even all the economists agree that most people will just do that and not spend, but there is a--
[Simultaneous Talking]

>> So, you hear about the stimulus package and it neither encourages you nor outrages you. You just shrug and yawn and go on with your life.

>> I would like to see more permanent tax [inaudible] changes. In 2001, same situation, recession, what do we do? In that case, there was a multiyear tax cut. Marginal rates came down. The lowest bracket from 15 to 10, atop with 39.6 to 35. And I think that did some good. This one doesn't change marginal rates at all. It doesn't. It's just a one time—

>> This really is a one time part here.

>> One time thing and growth could increase in the third quarter a little bit, but that's [inaudible].

>> Will you agree with Ken that at least it does very little harm?

>> What I think it does quite frankly is reduces, and I hate to say this, the possibility of avoiding a tax increase is coming down the line and that is the sense of the Wall Street Journal. Right now on the books, as it stands out, we have 150 billion dollar tax increase coming in 2011.

>> Right.

>> And that's gonna get bigger and bigger unless someone passes a law to change that. I think this dynamic has unfortunately made the likelihood of these tax increases greater, got to work towards that.

>> Now, alright. What historically has been done sometimes in these situations is put in something. Well, Kenny Johnson [inaudible] investment tax credit that was put in. That was initially temporary, but then ended up lasting a long time. And that's where businesses who are buying new equipment get an extra tax break.

>> Right.

>> And of course, Bush passed something like this called the bonus depreciation. I believe it was 2002 and 3. And the logic behind that is that investment spending by firms goes down a lot within a recession—

>> Right.

>> Because they don't see them. So, it's growing and so they just don't expand their production capacities, and so they drew back to reduce their spending on equipment. And so the equipment sector shrinks. So there is excess capacity now, give people tax incentive to buy new equipment, and that helps to avoid backdrop in investment and helps to keep the economy.

>> You were saying that's one of the things that would have been better if they—

>> And making it permanent.

>> Right.

>> And that's a very good sort of bang for buck permanent tax.

>> So you both view this actually as a missed opportunity, at best really, right?

>> Yeah.

>> Yes.

>> That's the best that can be said for it? Alright. Now, I wanna know--We got a couple of topics here. I wanna know how economists think about topics that are very prominent in the presidential season. The first of these is free trade. Since 1970, real GDP has roughly tripled. During the same period, our trade and balance, that is the amount by which the goods and services that we purchase from other countries exceeds the goods and services that we sell other countries, has increased by 30,000 percent or so. And each year our trade and balance is now about 800 billion, 250 billion of that accounted by a trade and balance with China alone. What do you do with those data? You shrug them off as unimportant, they give you heartburn, they're meaningless, they're critical. What do you do with that?

>> The trade deficits coming down, you know, I think it goes up, it goes down, it's a measure of how much Americans are saving compared to the attractiveness as America as a place to invest, it's attracted to invest more than our savings. That's the trade deficit, and it's beginning to correct right now. I don't think that has anything to do with all the benefits you get from free trade that increase in productivity, the increase in income. Basically, the thriving of the United States as part of the global economy comes on free trade and the trade deficit is really not—

>> It's not enough. It is not an important number. It's not that critical.

>> Also, well exactly. It doesn't affect the -- you know, the unemployment rate has been lower during this period than in the '70s as we talked about a few minutes ago so--
[Simultaneous Talking]

>> Let me quote to you Pat Buchanan, Ken, alright? "The dollar is plunging, and the dollar is plunging perhaps maybe just around a little bit. That's been sinking for some months now because America has been living beyond her means borrowing 2 billion a day from foreign nations. The dollar has plummeted more in Bush's term than during any comparable period of US history. A sinking dollar means a poorer nation and a superpower with a sinking currency is a contradiction in terms." Unscramble that one.

>> Exchange rates go up and down. When the Euro force came out, it was a bit above a dollar then it fell to something like 70 cents I think down. Now, the Euro is up to a dollar 50 roughly. There's a lot of fluctuations in exchange rates over time. Why is a good question, it's not something that economists seem to understand very well. There's a lot of volatility in exchange rates. But now this dropping of the value of the dollar is one thing that's been helping to correct the trade deficit. The other thing about the trade deficit to keep in mind is that offsetting some of that deficit is the fact that our -- we have investments abroad and foreigners have investments here. What foreigners do is they put their money in nice safe banks and get low interest rates and then we use -- then we invest in risky projects elsewhere, and over time, the pattern has been that we're making more -- a higher rate of return on our investments over sea than what the foreigners are making here because they like safety. So we have this -- and also, a lot of the numbers

there is undercounting here because a lot of our assets are abroad are not accounted because they're still sitting abroad.

>> John, let me give you one more -- one other statistic. During the last 7 years, the Bush presidency household debt has almost tripled. You take total household debt and total federal debt and combine them, and you got a kind of national indebtedness that's about 168 percent of GDP. We were talking a moment ago about a stimulus package, 1 percent of GDP, alright. So that's a lot of indebtedness. Now, there are a couple of ways to think about indebtedness and I'd like you to tell me which one is correct as applied to the nation. One, I'm broke. I mean using my credit card, I run up a debt that I can't handle. It's gonna kill me. The other is I take a mortgage, I buy a house, I pay it off, I go into a heavy indebtedness but with a good rational reason and it all works out in the end. Which of those is closer to applying to the state of the country?

>> I think it's the latter quite frankly.

>> You do.

>> Because it represents foreigners investing in United States and that generates rates of return that effectively can generate that growth. And actually on terms of the dollar, I think you gotta be concerned about the dollar.

>> You do.

>> Dollar is our currency. You don't wanna have it depreciate all the time, and that goes back to the bad old days of inflation. So we wanna keep our inflation rate low which will generate a strong dollar or a dime. I think that's important.

>> You do. So, Pat Buchanan is on something there.

>> The dollar weakness is something to be concerned about. You just can't just cast it away. It says no big deal, but because it is a deal. You need to be concerned about our currency.

>> Alright. Let's turn to the next president who is gonna have a hard choice to make. Background, George W. Bush increased spending but cut taxes. Under the next president spending -- I don't know anybody who doesn't expect spending to increase because as the baby boomer's age, they'll claim more and more from government entitlement programs. These are programs that are already enacted, that are in law that would be virtually impossible to reverse. And as for taxes, the Bush tax cuts as John said, are set to expire very substantially by the end of 2010. So what should the next president do? Go ahead and let the Bush tax cut expire on the theory that the government needs extra revenues to cover the higher spending or should he try to make the Bush tax cuts permanent? Ken, John.

>> Whatever the proposal is on by anybody, Obama, Clinton, or McCain. I think it should be consistent. And so the question is that should you make the tax that's permanent. But if you're going to make them permanent, where are you gonna cut spending? Also, the other element in the room is AMT. McCain also as opposed—

>> Alternative minimum tax.

>> He has also proposed eliminating the AMT which is another big loss of revenue for the government. So, if Ryan Paul was elected President, then yes make the Bush tax cuts permanent and—

>> To see it would eliminate one third of the federal bureaucracy the next day or try to.

>> But McCain is not -- McCain wants to increase the monetary—

>> What you're saying effectively is the next President must raise taxes in a massive way because you're saying you can only cut taxes if you cut spending and nobody believes that we can cut that, right?

>> Somebody down the road has to pay the bills. Somebody down the road has to pay the bills either by cutting spending, cutting benefits, or raising taxes. What's the mix? And you can kick it down the road but somebody down the road, John.

>> First of all, I think it's very important that -- to make the tax cuts permanent to prevent the taxes from increasing. It would be really a large drag on the economy. The AMT is getting extended year by year anyway, so why not just deal with that one time and get it off the books. It's very confusing now. It just keeps getting extended. I don't think you need to cut in the sense of you're using. It's basically slowing down the growth of a lot of these programs. It seems to me it's quite doable and with their negative reactions so many people have had to the increasing spending really from '01 to '05, until this year it slowed down quite a bit, but I think that's what politicians are doing and I think—

>> Can I—

>> Someone like McCain is—

>> Let me -- Here is an absolutely fundamental question and it requires reflection on the experience of the last quarter century. And I begin by remembering, this is the way I begin most of my economic thoughts, a conversation that I had with Milton Friedman. And Milton started with the position, first of all, what he wanted to do was decrease government spending. That was always the end, and he started with the position that you ought to cut taxes but only where you can find offsetting cuts and government spending. And he ended with the position that the only way to place pressure on spending was by cutting taxes. I never heard him use the phrase, but he subscribed to the starve-the-beast thesis.

>> Yeah, yeah.

>> Correct. Now, that seem to me to fit what I saw of experience in the 1980's when Reagan cut taxes and then there was this -- they were worried about the climbing deficits so he cloud back some of the tax cuts in TEFRA, that huge tax. But TEFRA was coupled with a promise by Tip O'Neil and Bob Dole that for every dollar in tax increases government spending would be cut by 3 dollars. And the best studies that I've seen suggest that government spending was cut by at most 30 cents. It didn't work even with Reagan, even with a deal, it just didn't. The incentive in Washington is such that it's virtually impossible to cut spending unless you can go to the voters and say "We don't have the money."

>> But when you think about what works and what doesn't, remember we had revenues going very strongly. In fact, by the late '90s, they're just surplus.

>> Right. Better recession.

>> So it worked--
[Simultaneous Talking]

>> I think it worked, basically it worked, yeah.

>> So you start by cutting taxes. That's the pressure point. Is that right?

>> Is that what you can do politically? I think it's important to get the spending cut too, you know. It's very -- it's much more difficult to work on the spending in fact, but that's essential. I think it's kinda you do it to both but right now, tax increase in 2011, 2012, 2013, et cetera is what's on the books would be very bad for the economy. And we need not -- we just make sure we can't do that.

>> So—

>> Go ahead.

>> But we've got you on number--
[Simultaneous Talking]

>> The 1980's and 1990's, this deal seem to work.

>> By the way, by the way, we should say Reagan cut taxes and Clinton left them low. He raised taxes certain on the top brackets a little bit.

>> Yeah, yeah.

>> Fundamentally, he left them low. That is a bipartisan consensus effectively had been achieved.

>> Right.

>> Furthermore, Reagan reduced spending as a proportion of gross domestic product and Clinton reduced it even further. You have a bipartisan achievement which alas in the current circumstances it slips. Some spending has gone up a little bit as a proportion of GDP. But it worked, it did work. You cut the taxes—

>> But then it fell apart in 2001. We had a 3-trillion dollar increase in gross federal debt [inaudible].

>> Why? Because—

>> But those are -- remember, there was those recession [inaudible]

>> Which was very mild. I don't think the recession can—

>> It was mild but you always have--
[Simultaneous Talking]

>> --can justify a 3-trillion dollar increase in our national debt today.

>> It's good direction [inaudible] actually. But there was an increase in discretionary spending.

>> Yes.

>> And that's the problem. No question about that.

>> No.

>> The republican sidled up to the troff [phonetic] and it behaved like [inaudible]. Is that roughly what happened?

>> Yes.

>> Alright, gentleman our fast-answer round. Give me one word if you can. One word now, try hard. The number of illegal immigrants now in the country is about 12 million. Three years from now, that is after the next president has had time to enact this program and the program has had some time to begin taking effect, will the number of illegal immigrants in the United States be higher, lower, or about same? Ken Judd.

>> Same.

>> Lower.

>> Lower.

>> Our trade and balance is now about 800 billion a year, 3 years from now, higher, lower, about the same?

>> Maybe a little lower.

>> Lower.

>> Lower.

>> Largely because the dollar adjustment.

>> More than just a little, yeah.

>> More than just a little. Federal spending is now about 20 percent of GDP, 3 years from now, higher, lower, about the same?

>> Higher.

>> Really? John.

>> Hoping for lower.

>> Hoping for lower.
[Laughter]

>> Yes, but the hopes—

>> Wait a minute, hold on. Before we go any further, let's get this. Which President did the most to stimulate growth in the economy of the United States, Ronald Reagan, Bill Clinton, or George W. Bush?

>> John Kennedy's record was also very good.

>> I'm not going back that far.

>> Well, we could begin with George Washington. Alright, for your sake, we toss in John Kennedy who cut taxes.

>> The Kennedy tax cuts and the Reagan tax cuts were both major [inaudible] tax cuts.

>> Did you hear me ask him for a one-word answer? Did you hear me?

>> I did. That's okay.

>> Okay, so Kennedy, Reagan, Clinton, or George W., who?

>> Reagan.

>> Alright.

>> Yeah, Reagan.

>> That's easy for both of you.

>> Yeah, because he just changed the situation so dramatically over time.

>> Alright.

>> And you could say that Bush continued et cetera, but Reagan—

>> Which candidate would do the most to stimulate growth in the years to come, Barack Obama, Hillary Clinton, or John McCain?

>> I have no idea.

>> How can you say such a thing? Aren't you supporting Barack Obama? You were leaning his -- the beauties of the man to me the other day, I thought -- No?

>> On other grounds.

>> You, a professional economist, do not bring your expertise to bear on this man in evaluating him?

>> Yes, but predicting what he does versus what Clinton would do or Bush is a bit too much noise. Nobody would have predicted George Bush.

>> So Bill Clinton was right. Voting for Barack Obama would be a roll of the dice. Can Judd confirm this?

>> Voting anybody any time is a roll of a dice.

>> Which candidate, John.

>> McCain.

>> Alright. We should make clear that John is advising John McCain. So that answer is not a total surprise. Federal tax receipts now about 18.5 percent of GDP, 3 years from now, higher, lower, about the same?

>> That's gonna go up.

>> A lot.

>> Modestly.

>> John.

>> I think it will be higher.

>> You do.

>> Even with the tax cuts we're talking about.

>> Oh really?

>> Uhmm.

>> Oh, well I'm hoping you could find a way to lift the end of the show here so--
[Laughter]

>> Try to find a [inaudible]. Three months from now, will the United States be in a recession or not?

>> Minor if at all.

>> Minor if at all.

>> Alright. The Fed fund's rate is now at 3 percent, the Dow Jones Industrial Average at about 12,500. At the end of the year, give me a whole number for the Fed fund's rate in the nearest thousand for the Dow Jones. Ken?

>> A bit, 4 percent for Fed funds and 12,500 for Dow Jones.

>> John.

>> You know I'm not gonna forecast either of those right now.

>> You're not gonna—

>> I have the Taylor rule on the line with respect to the Federal fund's rate. You can look it up and see what it is. Remember, it's one and a half times inflation rate plus a half time the GDP utilization plus 1.

>> You know, you are the only person on this show who during the short answer segment has ever referred anyone to a program they can run on the internet. You can run the Taylor rule to get the answer.

>> Yeah.

>> John Taylor and Ken Judd, thank you very much.

>> Thank you.

>> This has been Uncommon Knowledge. I'm Peter Robinson with the Hoover Institution, thanks for joining us.