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Four Questions for the Year Ahead

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What's in store for the year ahead? Like all economists, I really don't know. But I can suggest some critical things to look out for.

Uncertainty abounds, especially about a few big policy questions. Here are four questions we may learn the answers to in the months to come.

When will the Fed stop?

Over the past year, the Federal Reserve has been raising its target for the federal funds rate, slowly and steadily. Its goal is to return interest rates to more normal levels, after a long period of roughly zero percent rates following the financial crisis and recession of 2008-9.

At some point, Fed policymakers will say they've done enough. But when? The data is offering conflicting signals.

On one hand, the labor market is tight, suggesting that inflation could be around the corner. According to the most recent reading of the employment cost index, wages and salaries for private industry are up 3 percent from a year earlier, marking the fastest growth since early 2008. Accelerating labor costs can be a precursor to rising inflation, which would call for more Fed tightening.

On the other hand, the yield curve is now relatively flat, meaning that long-term interest rates are close to short-term interest rates. If the Fed keeps tightening, short-term rates could rise above long-term rates, inverting the yield curve. An inverted yield curve is a leading indicator of a coming recession, which the Fed would like to avoid.

How will Jerome H. Powell, the Fed chairman, balance these risks? Stay tuned.

How will the trade shenanigans end?

President Trump's belligerent approach to our trading partners worries most economists, including his former economic advisers Stephen Moore and Arthur Laffer. Their recent book, "Trumponomics," is mostly a hagiography of Mr. Trump and his economic policies. But even Mr. Moore and Mr. Laffer part ways with the president on international trade. They write that he is playing a "high-stakes game of poker" and "if it doesn't work, the ramifications scare us to death."

I can imagine three possible endgames in Mr. Trump's trade skirmishes.

The best outcome is for the president to get some serious concessions from bad actors. For example, fearing worse outcomes like punitive tariffs, China might agree to start respecting American intellectual property.

A second, more likely outcome is that our trading partners accept some minor concessions, and Mr. Trump promotes the new agreements as magnificent deals and giant steps forward. This is what happened with the slightly updated Nafta, now rebranded as the United States-Mexico-Canada Agreement.

The third and most worrisome possible outcome is an escalation of global tensions and a retreat from the principles of open trade that have promoted growth in the United States and abroad over the past half-century.

In other words, the open question about trade policy is whether Mr. Trump is crazy like a fox or just plain crazy.

Will someone pay attention to festering problems?

Some economic problems are like learning your house is infested with termites. You can delay dealing with the issue for a little while. But if you put it off indefinitely, the problem will only grow larger and more costly to solve.

Two such problems are global climate change from human carbon emissions and the looming fiscal imbalance as more baby boomers retire and start collecting Social Security and Medicare. These problems are hardly a secret, but few in Washington want to talk about them.

One approach is easy to envision. A tax on carbon emissions would encourage the movement toward cleaner energies and raise revenue for the public purse, helping address both problems.

This measure would be palatable to members of the American Economic Association. But the general public may be harder to convince. After all, the rioting in France last month was partly motivated by a modest increase in the tax on fuel.

For elected officials, the easiest approach is to let the next homeowner deal with the termites. But next year, the 2020 presidential campaign will start heating up. Maybe some candidate will try to stand out from the crowd by taking the politically risky strategy of acting like a responsible adult.

Which economic advisers will have the president's ear?

I am no fan of President Trump. But I must admit that he has some solid economic advisers. That is reassuring news if, as some fear, the economy hits the skids over the next couple of years.

Kevin Hassett, who heads the Council of Economic Advisers, is a fine economist. Larry Kudlow, who leads the National Economic Council, has spent more of his career as a TV personality than as a professional economist, but his instincts are good. Mr. Hassett and Mr. Kudlow are natural allies in White House policy debates.

But it is unclear how much the president listens to them. The problem is due in part to Mr. Trump's excessive confidence in his own judgments. Making matters worse is the role of Peter Navarro, a relatively unknown economist who became a presidential adviser because his idiosyncratic views on trade are consistent with Mr. Trump's isolationist leanings.

If there is one thing that characterizes this White House, however, it is fluidity in staffing and influence. I am rooting for the coming ascendancy of Mr. Hassett and Mr. Kudlow. This is more a hope than a forecast. But I try to start every year on an optimistic note.