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Could the American economy tank in 2016?

23 economic forecasts for the new year. Cc: 2016 candidates.

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After all the talk about a “foreign policy election” in 2016, what about the economy? The Federal Reserve might have finally raised interest rates thanks to lower unemployment, but there’s no doubt much of the American public—including not a few supporters of a man called Trump—still feels the effects of the recession. Not to mention global economic risks, ranging from China’s slowing growth to terrorism threats in the Middle East and beyond. Could the economy really tank in 2016? We asked the country’s leading economic thinkers to peer into the (near) future and tell us what to expect in U.S. and global markets this year. What are the biggest opportunities for growth—and the biggest risks? What, if any, is the chance of another recession? And what should the 2016 presidential candidates do about it all? Here’s what the experts had to say.

‘What could be the beginnings of a major global recession’

Tyler Cowen, professor of economics at George Mason University

I believe China is currently in the range of 3 to 5 percent growth, and headed rapidly to zero. Some people take this to be a radical position, but is it? Is it so uncommon for countries to have recessions every now and then? It’s now China’s turn, due to debt buildup, excess capacity and problems in reforming their state-owned enterprises. Longer run, I think they can expect growth at 4 percent. At most. The big losers here are Brazil, Peru, Singapore and other parts of Asia, as well as Africa. The United States will chug along at 2 percent growth, and mostly ignore what could be the beginnings of a major global recession. We are about the most insulated from this of just about anybody.

‘Slower productivity growth’

Douglas Holtz-Eakin, president of the American Action Forum and former director of the Congressional Budget Office

The greatest challenge facing the U.S. is the pace of trend economic growth. During the postwar era, growth in per capita income permitted the standard of living to double in just more than 30 years—one person’s working career. Under the burden of a regulatory explosion, ballooning federal debt, poor business investment in the recovery, higher taxes and other sources of slower productivity growth, doubling the

standard of living is now projected to take roughly 70 years.

The biggest threat in 2016 is not a recession—which can't be ruled out, but is not likely; it is further damage to the American dream. The president will continue "executive action"; we just can't be sure how much burdensome red tape will result. And there is the real damage that short-termism will rear its ugly head among the 2016 presidential candidates and produce promises of more spending (the Clinton campaign is already over $1 trillion), new entitlements and expensive mandates. That's not the path to fixing the U.S. growth problem.

'There's a real possibility that 2016 will be difficult for most major economies outside the United States.'

Robert Rubin, co-chairman of the Council on Foreign Relations and secretary of the Treasury under Bill Clinton

Key to economic performance looking forward, both in the United States and globally, continues to be what I call secular policy stagnation. The economies of the major industrial democracies—the United States, the eurozone and Japan—all have political systems that are seriously dysfunctional, with varying issues when it comes to fiscal policy, structural reform and public investment. And monetary policy has done pretty much all it can; in fact, I think it may have tried to do too much.

There's a real possibility that 2016 will be difficult for most major economies outside the United States, including significant uncertainties about China and important emerging market countries. Globally, there is a shortfall of economic demand relative to capacity, whatever the causes. There are eurozone estimates that project somewhat improved growth, but unemployment remains high, debt-to-GDP ratios remain unsound and growth predictions are still low, except for in Spain, where growth remains inadequate given its other problems.

For the United States, these conditions could feed a strong dollar and lessen external demand for American goods and services, dampening growth. Moreover, wage stagnation and income inequality are not only antithetical to our social values but continue to adversely affect growth. These conditions constrain domestic demand; deprive workers of the resources they need to access education, health care and other keys to productivity; and reduce support for growth-promoting policy. (Conversely,

growth is essential—though not sufficient—to achieve widespread income increases on an ongoing basis.)

The fundamental question for the economic future of the United States and the other industrial democracies is political: Will elected leaders, primarily legislators, overcome secular policy stagnation and finally move forward on fiscal issues, public investment and structural reform, such as immigration reform and K-12 education in the United States and rigidities in the eurozone and Japan? Such action could make a real contribution in the short term—through the effects of policies themselves and through increased confidence—and is absolutely critical for the longer term.

'I do not believe most families feel better off.'

Cecilia Rouse, Katzman-Ernst professor of the economics of education and dean of the Woodrow Wilson School of Public and International Affairs

It appears that the U.S. economy will continue its slow but steady climb following the great recession. Unemployment is relatively low, and economic growth outside the United States also improved this past year, which helped the U.S. economy as well. We're entering the next phase of U.S. monetary policy with the Federal Reserve slowly starting to increase interest rates. This move was so heavily anticipated since the economy has continued to show signs of improvement that it will probably not make a big difference to overall economic growth, but it could generate a bit of headwind.

That does not mean we can lower our guard. Because of modest wage growth, I do not believe most families feel better off. Further, the strikingly low labor-force participation rate, particularly in some demographic groups, persists. Combined, these forces contribute to growing income inequality, which continues to be a serious threat to economic growth in both the short and longer terms. U.S. policymakers, including the presidential candidates, will need to take seriously the fact that while a very small percentage of the population is benefiting tremendously from the recovery, most are not, and that addressing inequality will take creativity and a willingness to make hard decisions.

On the international front, the U.S. economy may be affected by the political instability in the Middle East, including the migration crisis facing Europe and the

world. This mass movement of people is affecting some key global markets that could in turn affect the U.S. economy in unexpected ways. And while I would not venture to guess the likelihood of another recession, there are certainly risks in the system, such as slowing economic growth in China and the high levels of debt in some emerging economies.

'The next president will inherit an economy teetering on the edge of recession.'

Robert Reich, Chancellor's professor of public policy at the University of California at Berkeley and former U.S. secretary of labor

Economic forecasters exist to make astrologers look good, but I'll hazard a guess: I expect the U.S. economy to sputter in 2016. That's because the economy faces a deep structural problem: not enough demand for all the goods and services it's capable of producing.

American consumers account for almost 70 percent of economic activity, but they won't have enough purchasing power in 2016 to keep the economy going on more than two cylinders. Consider: The median wage is 4 percent below what it was in 2000, adjusted for inflation. The median wage of young people, even those with college degrees, is also dropping, adjusted for inflation. That means a continued slowdown in the rate of family formation—more young people living at home and deferring marriage and children.

At the same time, the labor participation rate—the percentage of Americans of working age who have jobs—remains near a 40-year low. The giant boomer generation won't take up the slack. Boomers haven't saved nearly enough for retirement, so they're being forced to cut back expenditures. Exports won't make up for this deficiency in demand. To the contrary, Europe remains in or close to recession, China's growth is slowing dramatically, Japan is still on its back, and most developing countries are in the doldrums. Business investment won't save the day, either. Without enough customers, businesses are not going to step up investment. Add in uncertainties about the future—including who will become president, the makeup of the next Congress and even the possibilities of domestic terrorism—and I wouldn't be surprised if business investment declined in 2016.

I'd feel more optimistic if I thought government was ready to spring into action to

stimulate demand, but the opposite is true. The Federal Reserve has started to raise interest rates—spooked by an inflationary ghost that shows no sign of appearing. And Congress, notwithstanding its end-of-year tax-cutting binge, is still in the thralls of austerity economics.

Chances are, therefore, the next president will inherit an economy teetering on the edge of recession.

‘The big economic risk? It’s the politics, stupid.’

Diane Coyle, professor of economics at the University of Manchester

The conventional way to talk about prospects for the global economy in 2016 would be to say that there are two risks: America and China. The moderate U.S. recovery could be derailed if it turns out the Federal Reserve rate rise or political uncertainty harms investment and employment. Similarly, China’s economic growth will continue to slow, and it is not clear whether this will be a gentle slowdown or some more dramatic recession caused by the bursting of its asset price bubbles. In either case, it would be complacent to rule out the risk of another global financial crisis, as the overleveraged, undercapitalized, too-big-to-fail, globally interlinked finance sector has simply not been fixed.

But there is a more fundamental way to think about what might be in store, which is the risk that politicians—in the United States and almost every other country—will not be able to find a way to ensure that economic growth benefits many more people than has been the case since the 1980s. The populism on the rise, in some flavor, in every country taps into deep anger that, economically, things have been getting worse, not better, for most people. Nor is there much hope for better for their children. The only improvements in their lives that a lot of people have seen has come from new technologies, like smartphones and online services. Otherwise, real incomes have been stagnant, decent housing is unaffordable in many cities, commuting is a bigger struggle as the public infrastructure crumbles and government services are declining in quality. No wonder there are so many Americans angry enough to support Donald Trump—who is running a highly successful campaign to diminish America’s standing in the world, and thereby its geopolitical power.

What would it take to restore market capitalism to its function as a means of creating prosperity for all? A tough approach to antitrust, to enable new businesses to grow, rather than being taken over by incumbents. Also tougher regulation of the finance sector, which uses its lobbying power to tilt the rules ever further in favor of itself. Meaningful taxation of the ultra-wealthy, who need to have a stake in their society. A crackdown internationally on multinational tax avoidance. Modest minimum wage increases and an acceptance of the need for some improvements in the terms of work. Infrastructure investment, as this is an important asset for everyone but especially people on low incomes. It seems pretty unlikely this broad an agenda will gain political traction, in any country.

Maybe this is too pessimistic and 2016 will turn out to be a steady and unexciting year in terms of economic growth. But the big economic risk? It's the politics, stupid.

'The U.S. economy will remain strong.'

Deborah Lucas, Sloan distinguished professor of finance and director of the MIT Center for Finance and Policy

I expect the U.S. economy will remain strong in 2016, buoyed by continued low energy prices and interest rates and a normalized labor market. However, risks to the global economy abound, which could spill over to curtail domestic growth. To name a few, the unresolved structural and financial instabilities in Europe could trigger events that destabilize financial markets, and a major growth slowdown in China would have global repercussions. As if affects the 2016 presidential race, my greatest concern is that the economy is strong enough to mask the threat to future prosperity from the looming imbalances in Social Security and Medicare, an issue most politicians from both parties have avoided.

'Emerging market economies are likely to experience considerable turmoil.'

Menzie D. Chinn, professor of public affairs and economics at the University of Wisconsin and co-author (with Jeffry Frieden) of Lost Decades: The Making of America's Debt Crisis and the Long Recovery

Emerging market economies in 2016 will experience marked financial stress. This will be a shock after many years of buoyant growth propelled by a global commodity

boom and expansionary monetary policies in the United States, the euro area and Japan. In fact, we may be in for a replay of the crisis-ridden 1990s in the emerging world. Back then, after the Federal Reserve began to tighten in early 1994, capital flows to emerging markets reversed. By December of that year, this had caused a balance-of-payments crisis in Mexico, with the peso devaluing by 50 percent. Argentina came under pressure in the next year, as the Fed funds peaked some 3 percentage points higher than when the tightening began. A flurry of currency crises erupted in East Asia and Latin America in 1997-98, culminating with the Russian default in 1998. Now, the Fed funds rate is again on the rise, perhaps with a slower gradient than in 1994. However, even if the rate rise is only 1 percentage point over the next year, taking into account the "shadow" Fed funds rate was as low as negative-3 percent in May 2014, this suggests an increase of nearly 4 percentage points over the course of a year and a half. Perhaps equally important, the resulting elevated value of the dollar will put stress on countries with large amounts of dollar-denominated debt. Just as in the mid-1990s cycle of tightening, some emerging market economies are likely to experience considerable turmoil in the coming years.

'There will continue to be frustration and anger at the nature of the recovery.'

Jeffry Frieden, professor of government at Harvard University and author of Currency Politics: The Political Economy of Exchange Rate Policy

The American recovery is relatively robust. Job growth is strong, and inflation remains virtually nonexistent. Yet the benefits of the recovery have not gone much beyond the richest third of the country's families. Median household income is still well below where it was before the Great Recession of 2007-08. So long as the average American family struggles just to return to pre-crisis conditions, there will continue to be frustration and anger at the nature of the recovery. The political ramifications of this frustration and anger could affect economic policy and economic developments.

Recovery in the United States might also be threatened by trends overseas. Europe remains mired in stagnation, largely due to the inability of European governments to come to a fair and sustainable resolution of the eurozone debt crisis. In many emerging markets, the end of a borrowing and commodity boom has caused substantial economic distress. Economic troubles in Europe and the emerging

markets could spread enough to slow America's recovery. Nonetheless, the principal obstacle to sustained economic expansion in the United States remains unsettled political and social conditions, born largely of the very unequal distribution of the benefits of current economic growth.

'Best upside risk: Greater consumer spending. Biggest downside risk: Even slower growth in the rest of the world.'

Rebecca Blank, chancellor of the University of Wisconsin

Best bet is that current conditions continue. Slow growth (or at least slower than we'd like to see) seems most likely, though ongoing lower gas prices through the first part of the year could kick up consumer spending, which in turn would be offset by declines in gas and oil investment. With almost zero inflation and slow growth, the risk of a recession in the coming year seems low. In the long term, population aging and reduced immigration will continue to keep growth below 3 percent on average, as the labor force shows little growth. The older population also means the combination of lower labor-force participation rates and lower unemployment rates will continue.

So, best upside risk: greater consumer spending, kicked off by lower gas prices.

Biggest downside risk: even slower growth in the rest of the world. China could actually experience recession. Or one or two additional terrorism incidents in Europe or the United States could depress international travel and create widespread caution about the political and economic future, thus lowering spending and limiting global investment.

It's striking how little current economic news has been discussed in the campaign to date. The focus has been on inequality and sluggish income growth, both long-run trends rather than current news. If there are no surprises—i.e., we continue with slow growth and modest inflation—I don't see this changing. The difficulty candidates face is presenting one or two clear and simple policies to address inequality or sluggish income growth. It's hard to make political promises that are implementable and that could produce very noticeable changes in these trends in the next four years.

'Climate change continues to be the biggest single issue we face.'

Robert H. Frank, professor of management and economics at Cornell University

Climate change continues to be the biggest single issue we face. Scientists agree that continuing accumulations of greenhouse gases pose a nontrivial long-term threat to the viability of our planet. But there are immediate threats as well, primarily in the form of increasingly frequent and more severe storms and droughts.

Falling prices of power generated from renewable sources made it possible for 195 nations to reach a historic climate agreement in Paris last month, pledging massive emissions reductions between now and 2030. But those cutbacks are just a first step. To stabilize the climate going forward, we'll need to achieve far greater reductions.

One simple policy change would enable us to meet that goal without demanding painful sacrifices from anyone. Firms and consumers currently emit too much carbon into the atmosphere because doing so is free. By imposing a charge for carbon emissions—in the form, say, of a revenue-neutral carbon tax—we could dramatically change our incentives. Phased in gradually, such a tax (whose proceeds would be used to offset other taxes) might eventually cause gasoline prices at the pump to double. But that prospect would induce automakers to develop new technologies that would more than double the fuel economy of today's vehicles. Total spending on fuel, including the carbon tax, would be lower than it is today.

Some portray climate change as an intractable problem. But it's actually just a matter of faulty economic incentives. The good news is that those incentives would be really easy to change.

'Gluts in goods, energy and commodities'

Michael Lind, policy director of the economic growth program at New America and a Politico Magazine *contributing editor*

In 2016, the struggles for global market share among major industrial and energy-producing nations will result in slow growth in flooded markets and gradual adjustments. China is reaching the limit of its mercantilist strategy in manufacturing and faces lower but more sustainable growth. In Europe, populist political rebellions will doom German hopes that the European Union as a whole can repay German

creditors by a combination of austerity and trade surpluses with the rest of the world. Saudi Arabia's attempt to drive out higher-cost rivals will reach its limits as well. The United States overall has benefited from cheap imports and cheap energy but at the expense of American manufacturers and energy producers. Expect gluts in goods, energy and commodities to force painful adjustments, constrain global growth and exacerbate geopolitical tensions in the coming year.

'I'm more worried about the political risks.'

Jared Bernstein, senior fellow at the Center on Budget and Policy Priorities, former chief economist and economic adviser to Vice President Joe Biden and author of The Reconnection Agenda

The economy is broadly on track, with low unemployment, decent job growth and steady, if plodding, GDP growth. No question that with high levels of income inequality upon the land, the recovery from the recession still hasn't reached many American households. But given that 2015 was another in a series of years characterized by dysfunctional federal governance, the fact that we're doing as well as we are is a testament to the underlying resilience and flexibility of the American economy.

My biggest concern in this presidential election year is that we as an electorate continue to allow the erosion of the federal government. Yes, partisans cobbled together a year-end budget deal, and it had some very useful parts, for sure. But the tax cuts in the deal were not paid for; in a period when we need more, not less, revenue, Congress added $780 billion to the 10-year deficit. Our transportation infrastructure needs serious attention, but Congress and the White House both refuse to consider increasing a federal gas tax that's been stuck at about 18 cents per gallon since 1993 (and that's with gas costing less now than it did 10 years ago, in nominal terms!). If we want to grow into the future that awaits us, we need a public sector that's functional and amply funded enough to deal with climate change, aging boomers, poverty, inequality and immobility, geopolitical threats and who knows what else?

The risk this year is that we elect someone who has no idea and no intention to build back this functionality. I've been around the block enough times to know that you get a lot more points smacking government around than working to repair it, but the

economic resiliency we've been coasting on can only carry us so far. Advanced economies need functional federal governments. This November is a plebiscite on whether the American electorate understands that.

'Big trouble'

Laurence J. Kotlikoff, a William Fairfield Warren professor and professor of economics at Boston University

The country's greatest economic risk resides in the financial markets as well as the general public A) learning precisely how broke the U.S. government is, B) realizing how much money the Federal Reserve has printed since 2007 to pay the government's bills, and C) putting A and B together and realizing that the combination of ongoing political stalemate, Enron-type fiscal accounting, fiscal insolvency and a vast ocean of money, sitting in bank reserves and ready to be released into the economy's blood stream at any moment, spells big trouble—including high inflation (if not hyperinflation) and sky-high interest rates.

This is not hyperbole. The nation's fiscal gap (the present value difference between Congressional Budget Office-projected future spending and taxes) stands at $200 trillion. This is our nation's true fiscal debt, not the mere $13.5 trillion in the hands of the public that successive presidential administrations and Congresses have deemed to put on the books. And were we to see a return to the normal monetary conditions of 2007 (for econ geeks, this means the same money multiplier and the same velocity of money), prices would be 300 percent higher than is now the case.

The country's second greatest risk is from smart machines putting so many people out of jobs or out of good jobs that too few people can afford to buy what those machines make or save enough to maintain, let alone grow, our nation's capital stock. When the heads of Amazon and Google salivate over drone delivery vehicles and driverless vehicles, they might think about how many of their customers they will be firing.

The third big problem is our nation's net domestic investment rate. We are saving next to nothing and, as a result, investing next to nothing. The postwar has witnessed a massive increase in household consumption relative to national income, primarily by older generations whose consumption has been financed by a massive off-the-

books generational Ponzi scheme. Our low rate of investment helps explain the fact that real weekly earnings, apart from fringe benefits, are no higher today than they were 50 years ago.

The last problem is that we've had and can expect to have no real reform of our tax, banking, Social Security, welfare or health care systems, all of which can be quickly fixed. All of these institutions have devolved into making work programs for fatuous bureaucrats.

Economists are called dismal scientists for a reason, and the above is about as dismal a picture as one could paint. Unfortunately, it's all true. But on the plus side, we are a nation full of hard-working, creative and entrepreneurial people. We have overcome problems far larger than we now face, but we've done so by recognizing them and acting together. Whether that can happen when the leading Democratic candidate calls the opposition her enemy and the leading Republican candidate is straight out of kindergarten remains to be seen.

'India … overtakes China.'

Ann Harrison, William H. Wurster professor of multinational management and professor of business economics and public policy at the Wharton School at the University of Pennsylvania

My prediction is that 2016 will be the year that India consolidates its gains and overtakes China in GDP growth (but not levels!) for a second year in a row. China's stumbles will also provide growth opportunities for other emerging markets like Vietnam and the Philippines. I also predict that India will replace China as the leading destination for foreign investment. The new government of Narendra Modi will continue to draw global investors who are worried about China's political and economic challenges and want to tap into a huge market.

The United States will continue in 2016 to be an attractive location for foreign and domestic businesses, given continuing weakness in Europe, unresolved and escalating conflict in the Middle East, and slowdown in China. This is despite the fact that the United States faces continuing challenges in education, where uneven quality—due to the heavy reliance on local property taxes for funding K-12—contributes to rising inequality. Other big challenges facing the United States include

our crumbling infrastructure and a government that is often paralyzed by the vast political differences in Washington, D.C., despite an electorate that is much more moderate.

Short-term priorities in 2016 will include ongoing threats from devastating terrorism in the United States and Europe, conflict in Syria and the rising tensions between America and China, as well as Russia. In the longer term, one critical challenge is climate change. It carries with it enormous and possibly irreversible problems that will prove daunting in 2016 and beyond, including drought, health problems, flooding and rising sea levels that threaten the existence of low-lying states. Despite the cheerful messages that came out of the climate conference in Paris in early December, herculean political efforts will be needed to implement the promises made by the 195 participating governments.

'A downturn is no more likely in 2016 than in a typical year, nor less likely.'

Jeffrey Frankel, James W. Harpel professor of capital formation and growth at the Harvard Kennedy School

Recessions are not forecastable. A downturn is no more likely in 2016 than in a typical year, nor less likely.

The next president will, like his or her predecessors, have to shift gears from the campaign and adjust to a very different set of developments and realities upon taking office. But this is because of politics, not mainly because of uncertainty regarding what lies ahead. The adjustment process will not begin before the election, even if major new developments in the domestic or global economy take place during 2016. The polite way to phrase it is to observe that "politicians campaign in poetry and govern in prose."

Republican nominees, for example, always promise to cut taxes, increase military spending and protect seniors—yet also to run a strong budget balance, even though that combination is arithmetically impossible. Democratic nominees, too, make unrealistic claims about how they will be able to combine spending increases with budget discipline. Unforeseen disasters—financial, economic, national security—do not cause candidates to rethink their plans, but only to double down. It is only after they take office that they are forced to confront the arithmetic, and sometimes they

can postpone facing up to it for several years.

Some presidents adjust to fiscal realities immediately, during the presidential transition (Bill Clinton), some after a year or two of fiscal failure (Ronald Reagan and George H.W. Bush), and some later still (George W. Bush). But none do it before the election.

'Fiscal policy may finally give a boost to the economy.'

Daniel Altman, adjunct associate professor of economics at New York University's Stern School of Business

With some of the Republican Party's obstructionism in Congress subsiding, fiscal policy may finally give a boost to the economy in 2016. It's coming too late for the people who suffered in the aftermath of the most recent recession, of course, but it may help to prolong the current boom. Until now, several signs had been pointing to a deeper downturn in the next year or so, and the United States remains vulnerable to crises abroad, particularly as the shadow banking Ponzi scheme unwinds in China. But with the politicians giving some juice to the economy in an election year, the nation may yet avoid the worst.

'Look to political drivers of market moves.'

Ian Bremmer, president of the Eurasia Group and global research professor at New York University

Some economists are looking around the corner for the coming bear market, since it feels like we're due. But this hasn't been the most robust recovery, and the misplaced euphoria that's thought to predict a downturn is nowhere in sight. And I'm a political scientist; I look to political drivers of market moves. China has become a crucial engine of global growth, and though its economy will continue to cool in 2016, China's leaders have the motive and the means to avoid a sharp slowdown. They will do what they have to keep the ball rolling, and that matters increasingly for the rest of us. Reliance on China to fuel global growth will one day pose a big problem—but not in 2016. For now, we'll benefit a bit longer from their risk aversion. Not everyone will be happy. Energy supply revolutions and slower growth in China will continue to weigh on global commodity prices, with a negative impact on economic and political

trajectories in dollar-indebted commodity-exporting countries in South America, sub-Saharan Africa and the Middle East. Russia won't be happy either.

'Two-speed economic growth'

Chrystia Freeland, Canada's minister of international trade and a member of parliament

The two big unknowns in the global economy in 2016 are emerging markets and renewable energy. Emerging markets enter 2016 facing significant risks at home that could spill over into the rest of the world. China is in the midst of a difficult pivot from export-led growth to an economy more driven by domestic consumption. That is a tricky transition to manage—witness the stock market volatility of 2015—and a slowing Chinese economy is a drag worldwide. Brazil, Russia and South Africa, three of the other BRICS that were once such engines for the global economy, all face a tough combination of deep structural economic challenges and depressed prices of the commodities that fueled their turbo-charged growth earlier in this millennium.

The second global economic unknown is on the upside—the possibility that the international climate change agreement reached in Paris in December will be the tipping point for renewable energy. The public and private commitments of billions of dollars of investment in research and development of renewable energy made at COP21 are a reason to be hopeful: We may be on the verge of breakthrough technological innovation. But the economics of the renewable-energy sector will be complicated by the same downturn in commodity prices that is creating headwinds for some of the major emerging-market economies.

So much for the wild cards. The most important issue in the world economy in 2016, and the one that will have the most immediate political impact, is very familiar: the winner-take-all 21st-century economy. Two-speed economic growth—where those at the top are doing very well, while those in the middle and at the bottom face stagnant incomes, or worse—is a challenge both in the developed economies and in the emerging markets. It is a problem both for countries that are managing to grow, like the United States and Britain, and in the European countries where growth is slower. This is the fourth decade of the hollowing out of the middle class, and we are seeing the political consequences in the rise of charismatic populists on the right and left. That's why economic policies designed to deliver inclusive prosperity—like investing in infrastructure—will and should be a central theme in the year ahead.

‘We are likely to see the economy slow further.’

Dean Baker, co-director of the Center for Economic and Policy Research

The optimism about the U.S. economy that was implicit in the Federal Reserve’s decision to raise rates last month is not warranted by the data. The economy is likely to grow at roughly a 2 percent rate in 2015, the same as its growth rate for the prior four years. This is a weak growth rate for an economy that still has far to go before it has made up the ground lost due to the downturn. Furthermore, there is considerable reason to fear growth will be slower over the next year.

The three items that should concern people are first, the economy got a major boost in 2015 from the sharp drop in the price of oil. While making predictions about oil prices in 2016 would be foolhardy, it is a safe bet that prices will not fall by another $60 a barrel. In other words, we will not get the same boost to growth from lower oil prices in 2016 that we saw in 2015. The second cause for concern is the bubble in the commercial real estate market. There has been a surge in construction of office and retail space, leading to large and growing vacancy rates. The sector is not large enough for a collapse of this bubble to sink the economy, but it could be a serious drag on growth. The third drag on growth is likely to be a growing trade deficit due to the higher dollar. The U.S. trade situation deteriorated substantially in 2015 due to the run-up in the dollar, but the drag will continue in 2016, as the overvalued dollar makes U.S. goods and services less competitive internationally.

The basic story is that we are likely to see the economy slow further from the already weak growth rate of 2015. The labor market is not likely to tighten enough for workersto see substantial wage gains. Of course, the situation will be worse if the Fed compounds its December mistakes with further rate hikes over the course of the year. We are not looking at a disaster story, but people may well be feeling worse about the economy at this point in 2016.

‘More of the same’

Scott Sumner, Ralph G. Hawtrey chair of monetary policy at the Mercatus Center at George Mason University

In my view, the economy will experience more of the same in 2016. I’d expect to see

about 1.5 percent real GDP growth and an unemployment rate falling to about 4.7 percent. Inflation will stay below 2 percent, and the Fed will raise interest rates by less than the 100 basis points it currently expects to raise rates. The risk of recession is only about 10 percent to 20 percent, and if it occurs, the most likely cause would be that the Fed tightens monetary policy too aggressively. I'm not sure what the big economic issues will be, but problems with student debt and public pensions will rise to the fore at some point.

'We will think about improving the fundamentals but will probably not do much.'

Caroline M. Hoxby, Scott and Donya Bommer professor of economics at Stanford University

The biggest risk we face is being so consistently distracted by transitory economic and other events that we neglect to improve the fundamentals that matter most for growth. This risk is only growing over time as the Internet shortens the news cycle and makes it more volatile.

For example, programs such as Social Security, Medicare and disability have needed reform for many years because they are not fiscally sound. They will predictably impose an increasing burden on the economy. Today's young Americans will have to be heavily taxed when they are adults to pay for benefits mainly enjoyed by previous generations. This will discourage them from working and upgrading their skills, causing future growth to slow. Most economists have agreed year after year that these programs need attention, yet reforming them always takes a back seat to agonizing about the latest crisis—even when we know that such agonizing cannot help much and that we must let the economy re-equilibriate.

Another example is human capital development. The biggest drag on any economy are people who are insufficiently productive to be employable. Not only do they need to be supported by taxes paid by others, they often feel excluded from those growing parts of the economy that offer the promise of a better future. Sadly, our K-12 system is such that many people do not acquire enough skill to be productive, especially in this era in which technology displaces humans from many routine tasks. We are in a "race" between education and technology, and education appears to be losing the race. Again, economists have realized for years that American education, which is very costly per student by world or historical standards, needs to be more productive

if the economy is grow faster. Yet, education reform is never the emergency that we need to tackle now. Like other fundamentals, it is always on the back burner.

Some people think that improving fundamentals now would not raise growth for many years, so why bother? That is wrong. Those who are currently deciding where and whether to invest are looking forward. Their decisions to invest and employ people today depend on what they expect about future human capital, the tax burden and so on. As 2015 ends and 2016 begins, I expect more of the same. In other words, we will think about improving the fundamentals but will probably not do much. And growth will suffer in consequence.

'The next president will still face an economy in the doldrums.'

Justin Fox, columnist at Bloomberg View

The United States has been stuck in an economic funk for a decade and a half now. There were a couple of years of solid economic growth in the mid-2000s, and the past two years haven't been terrible either. Since 2000, though, GDP growth has averaged less than 2 percent a year—down from more than 4 percent in the 1950s and 1960s and more than 3 percent in the 1970s through 1990s. Also, labor force participation is down, entrepreneurship is down, median incomes are down and productivity growth has slowed. This economic malaise is by now a thoroughly bipartisan phenomenon, and while choices in Washington may have made it worse, there seem to be broader economic, demographic and technological forces at work. So here's a bold prediction for 2016: GDP will probably keep growing and the labor market will keep modestly improving, but the next president will still face an economy in the doldrums.