

Making Sense of Trumponomics and Implications for Japan

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Analyzing President Donald Trump is a big challenge

- Highly unconventional figure and circumstances of rise to power
- Highly controversial figure, who elicits strong reactions
- Try to filter out noise and focus on underlying drivers and facts

“Fake economy”? What the economic data say about performance of US economy under President Trump versus President Obama

- Real GDP growth (average of 6 quarters): 2.5% q-o-q saar (seasonally adjusted annualized rate) versus 1.6% under Obama
 - Growth driven by business investment: contribution of 1.0 percentage points vs 0.1pp and net exports contribution of 0.0pp vs -0.4pp
 - Start counting Q2 2017: 2.9% vs 1.6% (0.9pp vs 0.4pp; 0.1pp vs -0.3pp)
- Non-farm payrolls growth (average of 19 months): 188,579 per month vs 208,421
- Manufacturing payrolls growth (19mth ave): 16,760 per month vs 1,830
- Services payrolls growth (19mth ave): 150,696 per month vs 173,878
- Labor force participation rate (3 month average): unchanged at 62.8%
- Unemployment rate (3mth ave): 3.9% vs 4.7%
- Unemployment and underemployment rate (3mth ave): 7.6% vs 9.3%
- Average hourly earnings growth (3mth ave): 2.8% y-o-y vs 2.6%
- PCE (consumer) core inflation (3mth ave): 2.1% y-o-y vs 1.9%
- Goods & services trade deficit (18mth ave): \$46.8bn vs \$42.2bn
- S&P500 up by about 34% vs 5% (same time period before election)
- Federal Funds target rate: 1.75-2.0% vs 0.50-0.75% (125bps higher)
- 10-year Treasury yields: close to 3% vs sub-2%

Comparison of real GDP growth and contribution to growth of its components, Trump vs Obama (6 quarters)

	Trump	Obama	Difference
Contribution to growth (pp)			
Consumption	1.7	1.8	-0.1
Residential investment	0.0	0.1	-0.1
Non-residential investment	1.0	0.1	0.9
Government expenditure	0.1	0.2	-0.1
Inventories	-0.2	-0.4	0.2
Net exports	0.0	-0.4	0.4
Real GDP growth (% q-o-q, saar)	2.5	1.6	0.9

Contributions do not necessarily sum to the total due to rounding error.

pp: percentage point; saar: seasonally adjusted annualized rate.

Source: Kansas Fed FRED data base.

Making Sense of “Trumponomics”

- “America First”: Turning point for “Pax Americana”
 - China now bigger than US on Purchasing Power Parity basis: 18.3% of global GDP vs 15.3% (15.0% vs 24.3% in nominal terms)
 - For Japan, numbers are 4.3% (PPP), 6.1% (nominal)
 - China growing faster than US: 7.0% y-o-y vs 2.3% (5-yr average)
- “Make America Great Again”: need to rebuild creaking infrastructure
 - American Society of Civil Engineers 2017 Infrastructure Report Card (covers 18 categories) of D+: D indicates “Poor, At Risk: The infrastructure is in poor to fair condition and mostly below standard, with many elements approaching the end of their service life. A large portion of the system exhibits significant deterioration. Condition and capacity are of serious concern with strong risk of failure.”
 - Economics101: “guns and butter” – society can have more “butter” (consumption goods) only if spends less on the military

- Wales NATO Summit Declaration (Sept 2014): “Allies whose current proportion of GDP spent on defence is below this level will ... aim to move towards the 2% guideline with a decade ...”
- 2% commitment dates back to 2006 Riga NATO Summit, but only 5 of 28 members met it in 2017 (US, Greece, UK, Estonia, Poland)
- President Trump seems to want to “have his cake and eat it too”: “Make American Military Great Again”, while infrastructure plans seem to be on the back-burner
- Rhetorical focus on those left behind by globalization (and the information technology revolution)
 - Median real incomes stagnating since 1970s
 - Thomas Piketty (2014) and inequality debate
 - “Coastal elites” vs those in “fly-over country”
 - Trump won electoral college “overwhelmingly” by 306 to 232 votes (needing 270); but if just 0.3% of voters who turned out in MI, PA and WI had switched votes Clinton would be in White House today
 - But relies on “trickle down” economics: tax cuts for “the rich”
- Trade: “free but fair = reciprocal”; sees US as having bargaining upper hand rather than supplying global “public goods”; sees trade as zero sum game and deficits as national losses – puts more weight on “workers” than “consumers”
 - National accounting identity: $(S - I) + (T - G) = X - M$,
ie, net national (private sector and public sector) savings equals the current account balance
 - Cannot be used to argue for *causality*
- Pro-business deregulatory stance seems to have stirred animal spirits
- “The Art of the Deal”: it’s all about game theory, ie, credible threats: convincing the other party that you will take actions that appear to harm you if they do not agree to your demands
- A key question is: How much slack is there in the labor market? What has happened to the “Phillips Curve”?
 - Fed judges economy to be at (or beyond) full employment: sees “natural unemployment rate” at 4.5% (actual: 3.9%)
 - Trump rhetoric: should “run economy hot” and see what happens

- But has taken a very conventional and “hands-off” approach to the Fed
 - Four appointments so far, notably the Fed chair, have all been “mainstream”
 - Not taking opportunity to push for more coordination of monetary and fiscal policy
 - Not unleashing his twitter feed on Fed, just yet. But note 19 July 2018 interview: “I am not very happy about [the Fed raising rates] but at the same time I am letting them do what they think is best”

Outlook and Implications for Japan

- Real GDP growth under Abe has averaged 0.4% q-o-q (sa, non-annualized)
- Prior 2-year average was 0.1%, prior 3-year average was 0.3%
- Nominal GDP growth under Abe has averaged 0.5% q-o-q
- Prior 2-year average was -0.2%, prior 3-year average was 0.0%
- Tightest labor market in decades: unemployment rate at 2.5%, lowest since early 1990s; job-offers-to-applicants ratio at 1.63x highest since early 1970s
- CPI inflation, excluding fresh food and energy (3mth ave): 0.3% y-o-y vs -0.4% (before Abe)
- To achieve 2% inflation, Japan needs fiscal and monetary policy acting in tandem: timing of next consumption tax hike should be tied to BOJ’s commitment to keep expanding its balance sheet until target (over-)achieved
- Only two ways to raise potential growth rate: technological innovation and increasing the workforce
- Japan needs virtuous combination of immigration (the number of foreign workers in Japan reached 1.28 mn in 2017, up 18% y-o-y), increase in labor force participation rate (the female labor force participation rate took off in early 2013 and has risen 7.3pp under Abe), and an increase in fertility rate (1.42 in 2017 vs low of 1.26 in 2005)
- Japan needs to respond to historic shift in Pax Americana regime, but how?
- On trade, it is a case of “been there, done that”:1990s Structural Impediments Initiatives debate – how applicable are the lessons learned?
- Japan’s current account surplus is 4%; Germany’s is 8%, China’s 1.4%
- Externally, Japan needs to be much more visible, proactive and engaged