



## ROZLYN ENGEL

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I was going to pick up on one of the instincts that Michael just mentioned, or really just add to that, because it is an interesting framework. The President also has an instinct for business interests and for ways to stoke and spur economic growth. Let me talk a little about that. I would also say that the President has a talent for hyperbole, so I would also like to address that. Therefore, I will talk a little about noise and signal in relation to recent US economic performance, and a little about foreign economic policy as well.

Regarding the domestic economic policy front, the Trump administration does deserve some credit for spurring strong growth in the US through a number of policy steps that they have taken. Just yesterday we saw the third-quarter GDP report from the US; it was at 3.5%, and that is a relatively strong number that came on the back of a 4.2% second-quarter reading. Therefore, there is really no question that in the short term there has been a pretty strong growth spurt in the US. We could talk about the stimulus that went into that, but there is also something to be said for things like corporate tax reform, deregulation and a number of things the administration has done to be pro-business and pro-growth.

Regarding corporate tax reform, it is worth mentioning that it was passed in the first year of the administration and signed in December. It lowered the statutory rate from 35%, one of the world's highest, to 21%, repealed the corporate AMT, supported business investment through an immediate deduction of business investment phased out over five years – these were all things intended to push businesses into reinvesting in the US because that investment had been quite low for many years. That has largely succeeded, not as much as the administration likes to claim, but we have seen business investment growth of around 6%; the quarterly average over the last four quarters has been about 6%, which is pretty good, given that it was in the low 1% before that. I will say that the third-quarter number was much weaker. The story is whether any of this is sustainable. The third-quarter number did not look particularly good, so I suspect that people begin to doubt how much the business investment is likely to stay.

Regarding deregulation, there have been roll-backs to Dodd-Frank, changes to the ACA, US healthcare reform, changes to consumer finance, environmental standards being rolled back, housing rules being rolled back. A lot of people debate the merits of these, but it is pretty clear that many businesses really like them, which you can see in business confidence surveys and others. Thinking about the whole package, it is not surprising that after-tax corporate profits in the US were at about 9% in the second quarter after being up at about 37% in Q1 and 20% in Q4, so it is a really good time to be in American business, and the President is taking a lot of credit for that.

The World Economic Forum recently moved the US to the top spot on its global competitive index. I say that because you need to give the Trump administration credit where it is due; otherwise it just looks very partisan. I may talk about places where they have not been successful, places with a lot more smoke and a lot less fire. Regarding the spending cuts and the personal income tax deduction, those have been expansionary policies at a point in the cycle where it was not really necessary to spend that kind of money, and very likely there will be a significant amount of debt as a consequence and very little growth to show for it. The US just ran a USD 780 billion deficit in the last fiscal year at a time when it was growing at a very high rate. What happens when we hit a recession is a very concerning prospect, because in recessions that will just get worse.

The Trump administration has also taken aim at governance within the US, talking about right-sizing government, about hiring and pay freezes, attacking whole agencies within budgetary documents that are going up to the Hill. Therefore, there has been an attack on governance itself in the US, which is deeply concerning. Having just come out of the administration in August, it was a very difficult thing to watch. It is very difficult to work for an administration that had you tagged as deep-state and did not really care to hear your expertise.



Let me talk a little about some outright failures. They have not passed the Infrastructure Bill, one of the most bipartisan and pro-growth bills. They really do not deserve a lot of credit for any of the long-term growth they have promised. My view is that, on the supply side, there is no way that this will add up to 3%, and they have tried to balance the budget on 3%. The best the US will probably do is 2% to 2.5%, and that is due to productivity and labour force growth, both of which are not nearly what they were before. Promising 3% growth was very misleading in my view.

Finally, I will make one last point on the economy. The administration has so far failed to deliver on its core promises to its core constituents. The Trump phenomenon is really built around a struggling, white, lower middle-class American voter, who has been in a lot of pain over the last two decades. You have not seen their incomes rise, you have seen unbelievable amounts of social distress in their communities, including, in a report that just came out from the CDC, 71 000 drug overdose deaths in the US in the last 12 months, more than we lost in the Vietnam War just in the last 12 months.

Some of these communities have been absolutely devastated by the slow growth, loss of industry and other things. They are angry and are blaming everyone else, including foreign trading partners, which the President can conveniently use, but he is not yet delivering on wage earnings or wage growth for those populations, and the reason this will be hard to do is that he has not raised productivity yet. Therefore, unless these reforms can really spur productivity growth, I do not see how we will get the wage growth we need to improve the lives of those key voters.

#### **Steven ERLANGER**

I was very struck by that. I think the total in Vietnam was 58,000, so it is almost 10,000 more. Can I just ask you a quick question? We have talked a lot about the cumulative debt in Italy and Greece, but given what is going on with the deficit, how big a problem will this be down the road with this tax cut? People suggest that American debt-to-GDP is getting up to that magic 100%. What do you think?

#### **Rozlyn ENGEL**

Looking at the CBA, it entirely depends on the growth assumptions, which is why I went into that growth story. The administration is telling a story of a 3% growth, and if you look at those numbers, you can see debt-to-GDP stabilising come down, although there are a lot of spending cuts to do as well, which I do not think will happen as they are so politically unpopular. Without 3%, without spending cuts, we are getting closer to 100% of GDP. When the President has been critical of the Fed recently, calling it 'loco' and other things, my personal, somewhat cynical view is that he is trying to get ahead of the fact that there will be crowding-out in the bond markets as a consequence of considerably more debt. Therefore, you are seeing the yields rising, which is raising the cost of borrowing for the Government. Yields are now 3.4%, and pressure from the fiscal side is feeding into that, so to deflect that, let us just blame the Fed for raising rates.

#### **Steven ERLANGER**

That is really helpful.