

# The US Presidential Election and Implications for the World Economy

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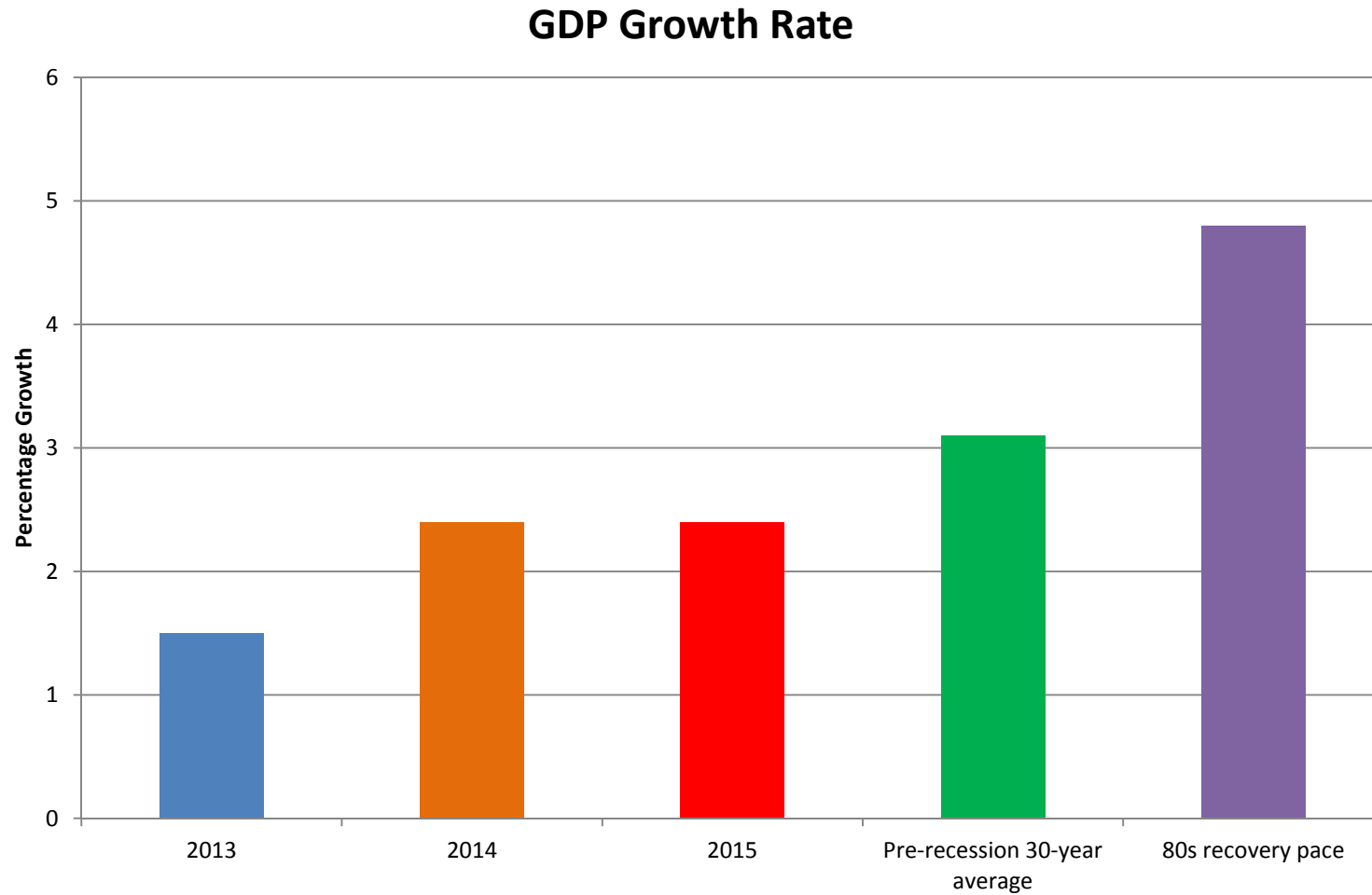
Graduate School of Business

Stanford University

# How is the Economy Doing?

- Unemployment rate down to 5%
- Jobs growing at 200,000 per month past 3 months
- GDP growth in 2015 at about the recovery average
- Housing starts back over 1 million per year

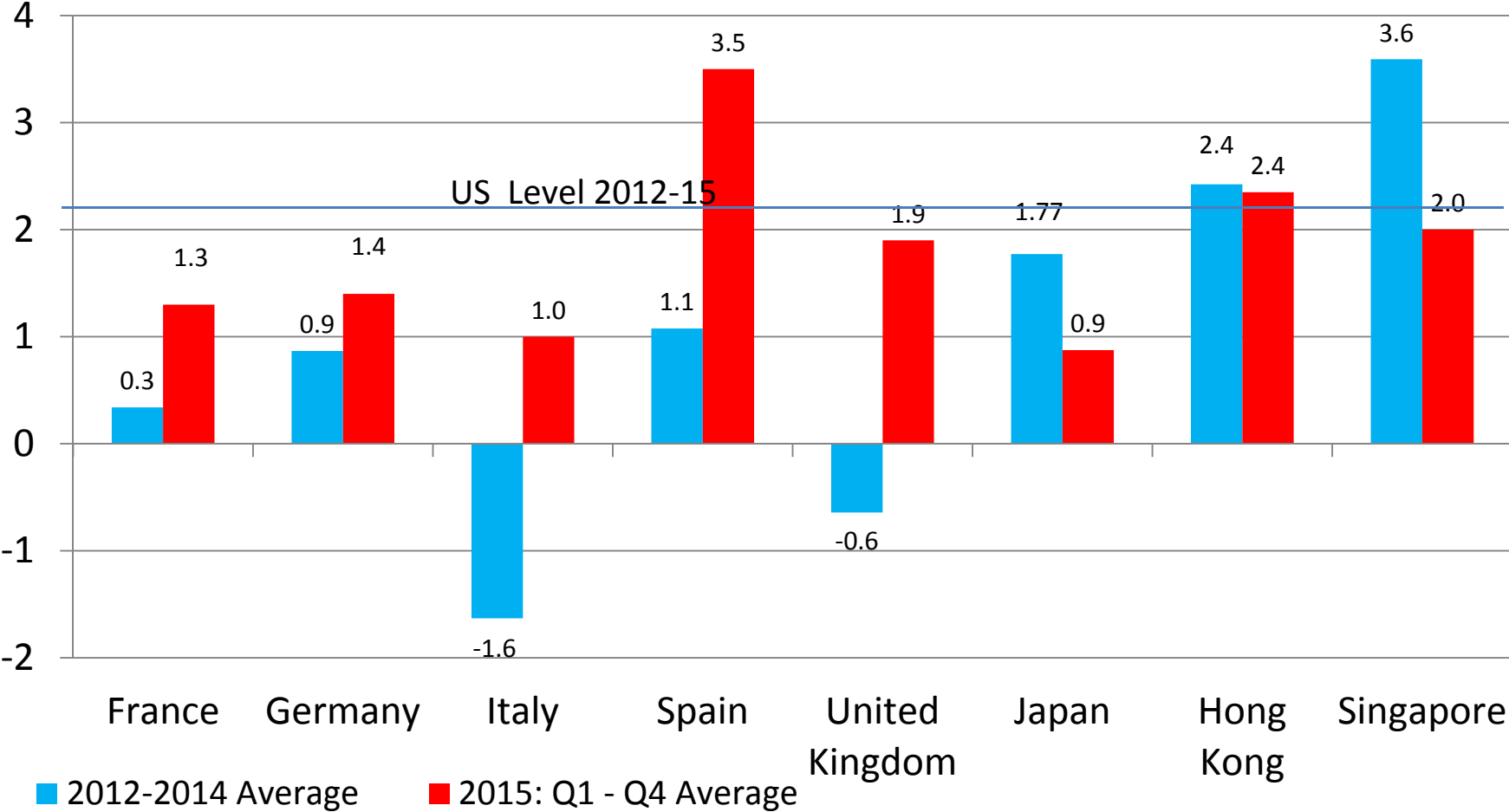
# A Weak Recovery



# Other Economies

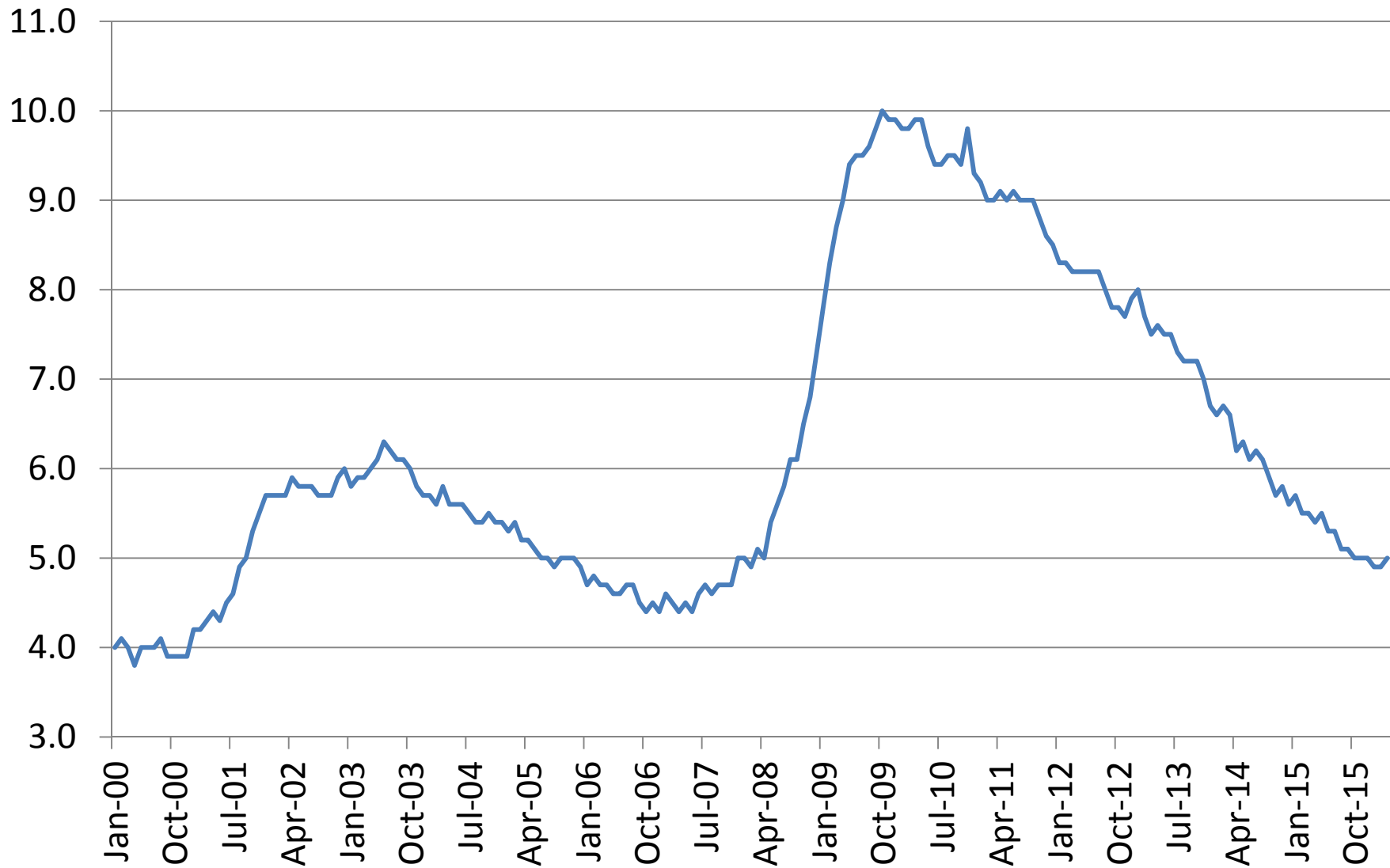
## Recent Real GDP Growth Rate in Selected Economies

(Annualized Percent, Compared with 3 year Average)



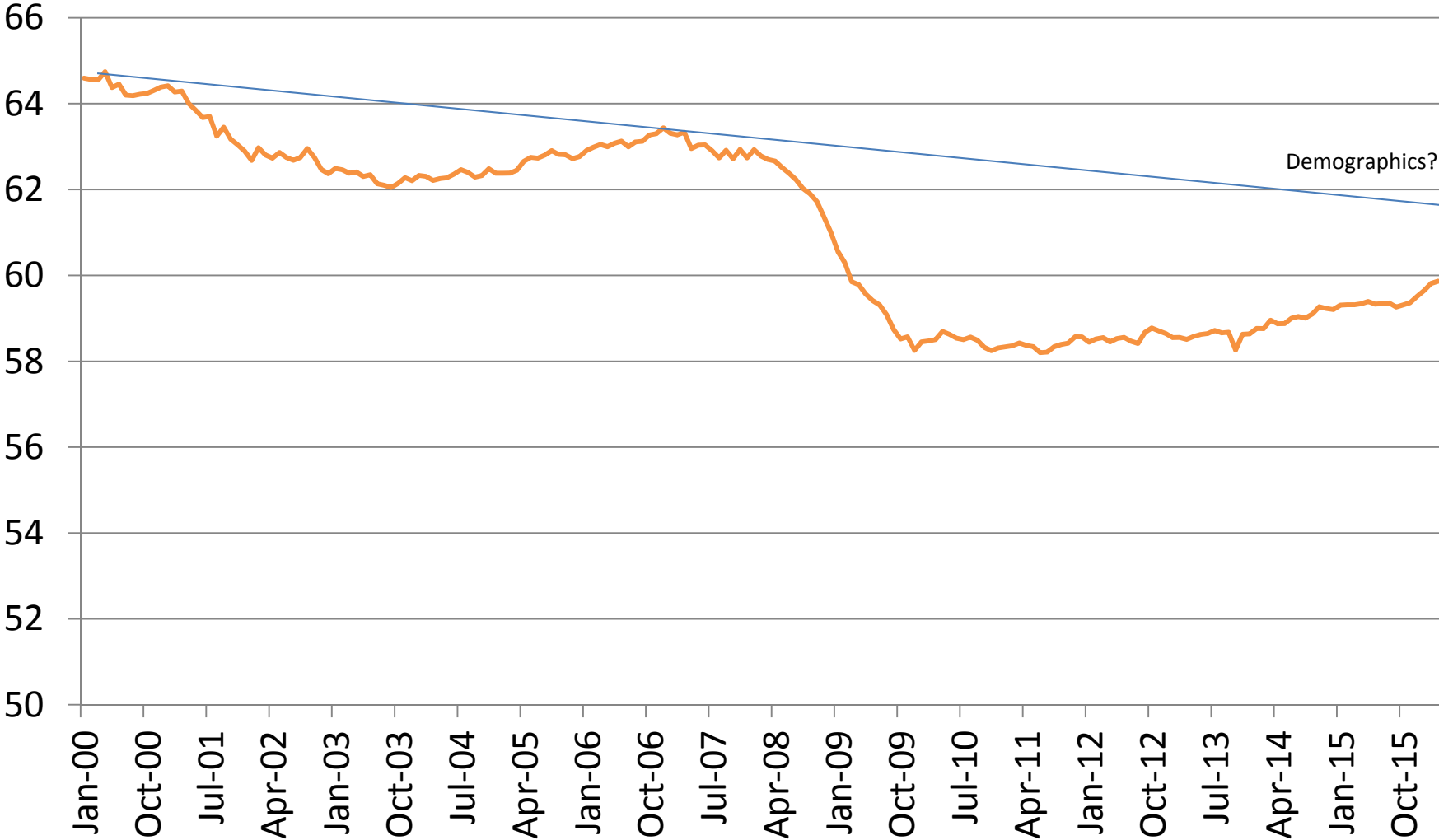
Source: Europa Eurostat (February 2016), IMF World Economic Outlook (April 2016), Trading Economies (May 2016)

# Unemployment Rate



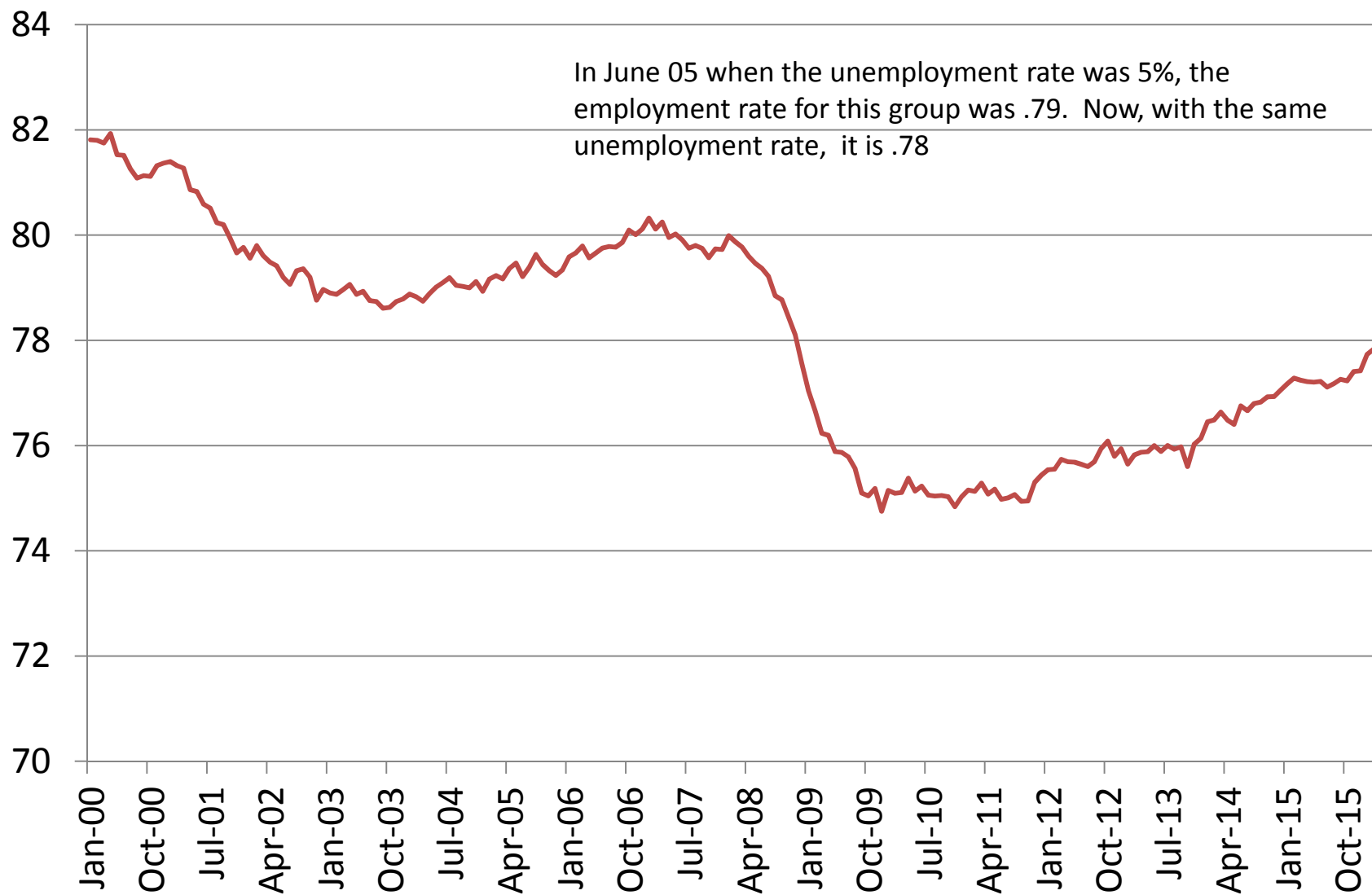
Source: Bureau of Labor Statistics, (April 2016).

# Employment Rate



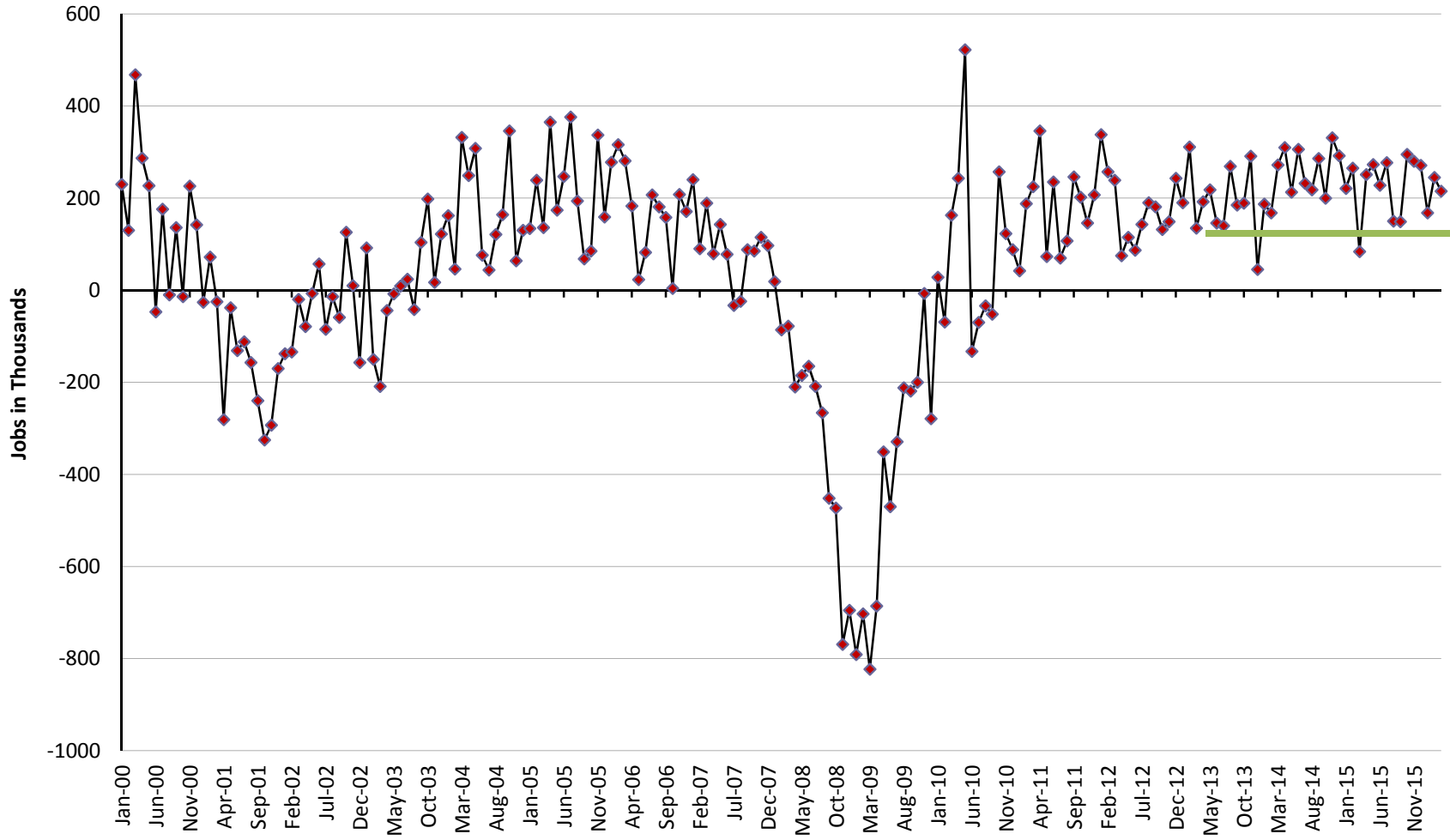
Source: Bureau of Labor Statistics, (April 2016).

## Employment Rate: Age 25 - 54



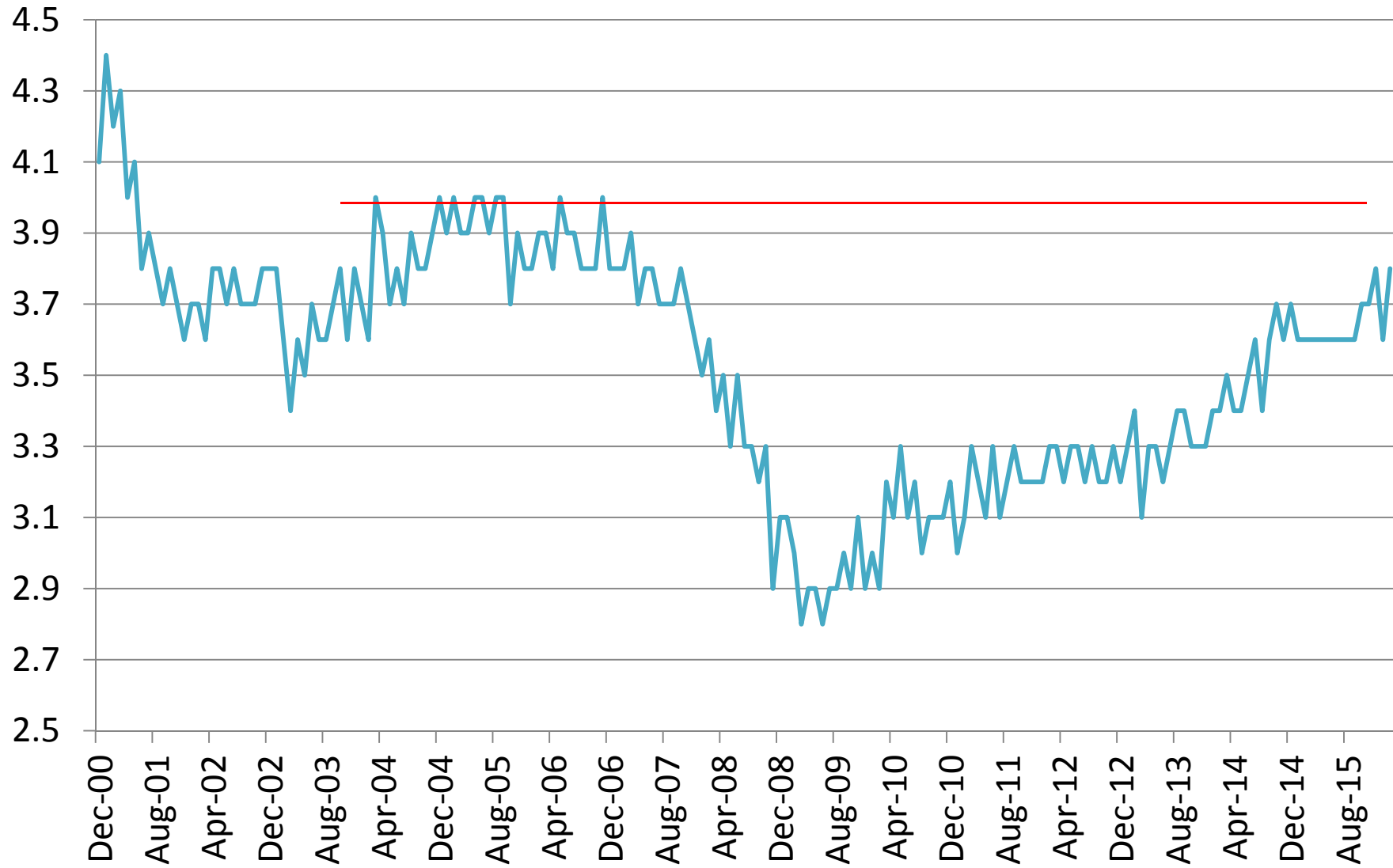
Source: Bureau of Labor Statistics, (April 2016).

# US Job Growth Jan 2000 to Present



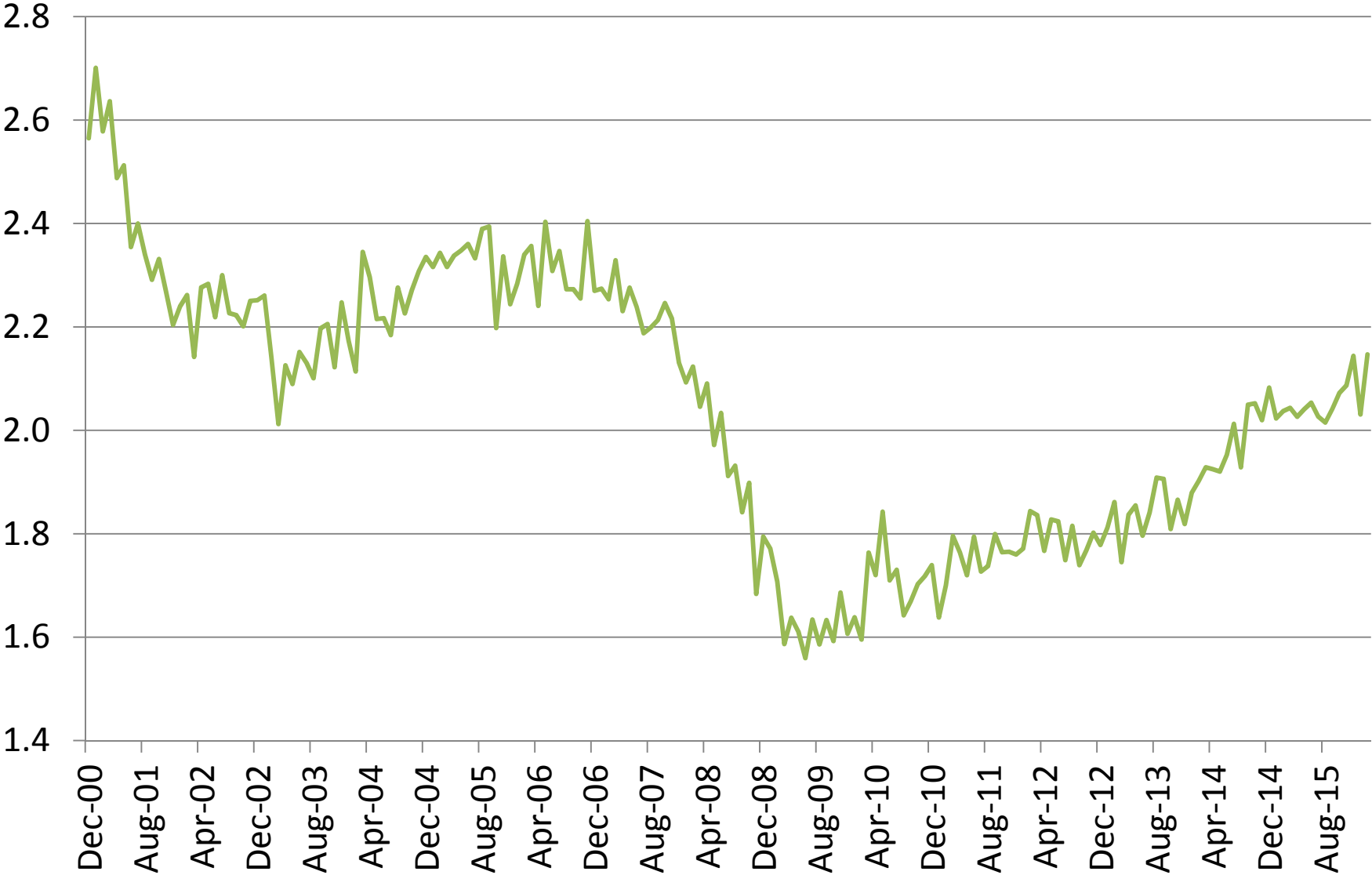


# Hires (Rate)



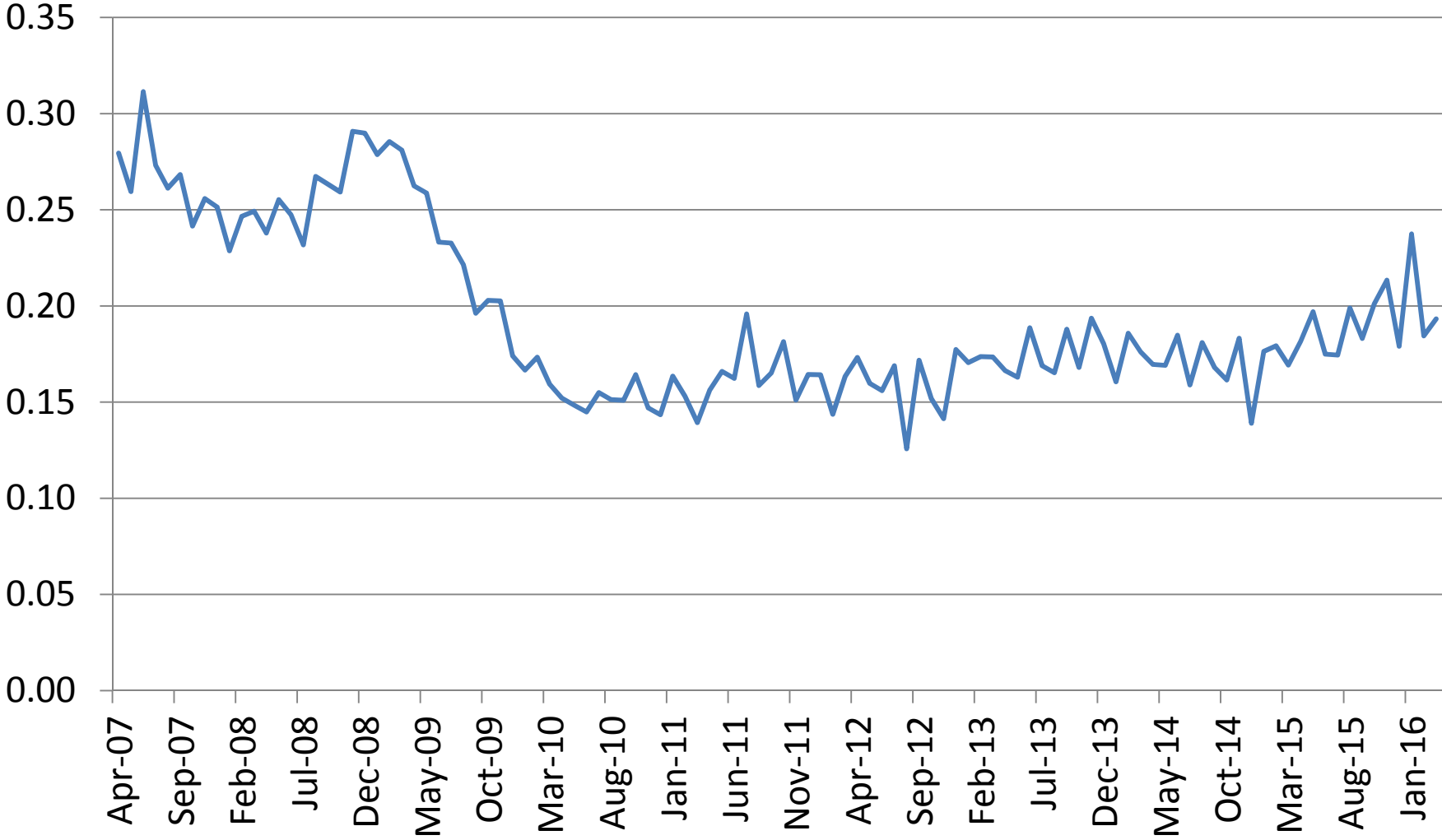
Source: Bureau of Labor Statistics, (April 2016).

### Ratio of Hires to Working Age Population



Source: Bureau of Labor Statistics, (April 2016).

# Average Hourly Earnings for All Employees: Total Private (Percent Change, 12-Month Moving Average, Nominal)

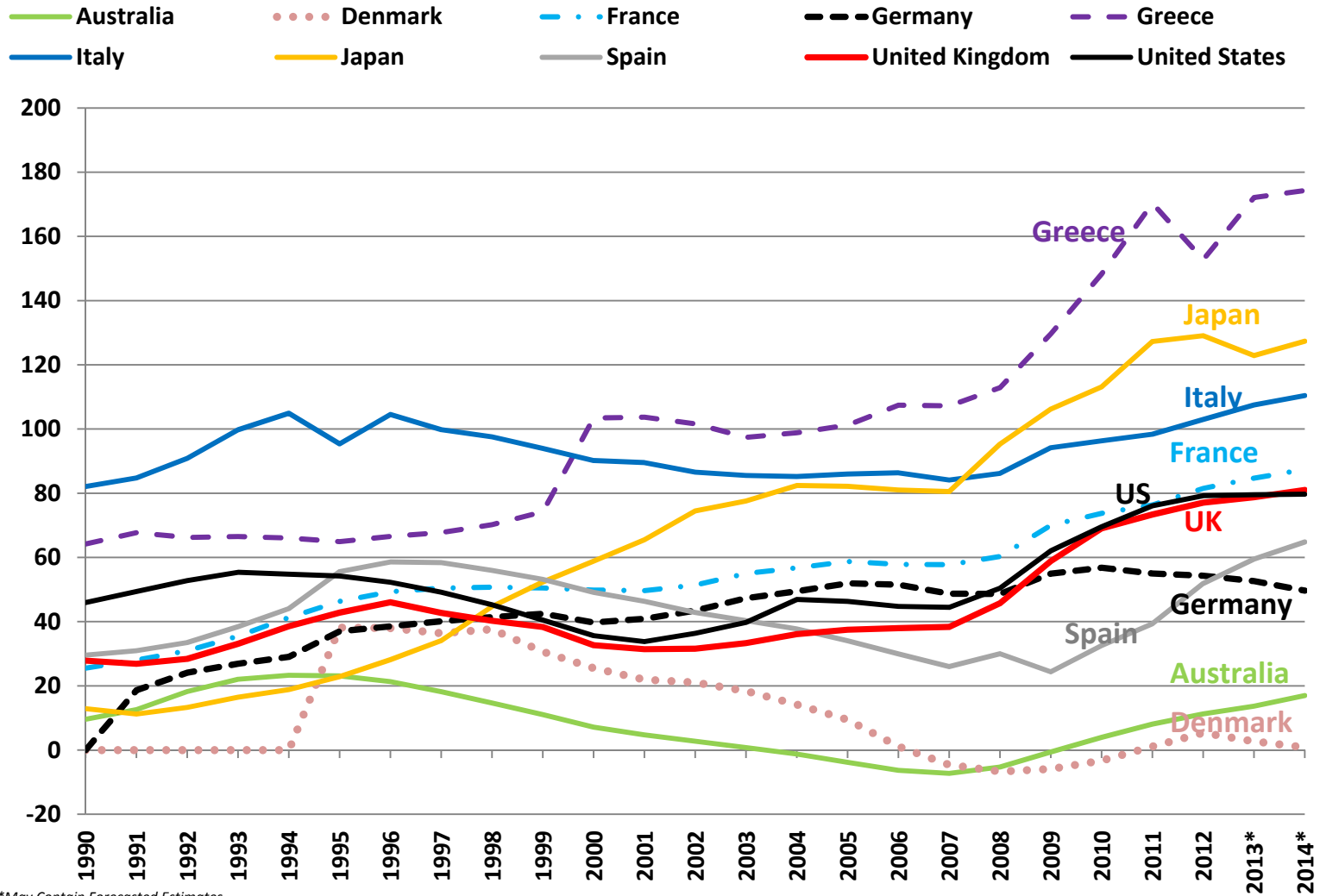


Source: Bureau of Labor Statistics, (April 2016).

# GROWING DEBT

## DEBT TO GDP

(General Gov't Net Debt, Percent GDP)



\*May Contain Forecasted Estimates.

Source: IMF World Economic Outlook, (April 2016).

# US Impact on World

Primary mechanism is through trade

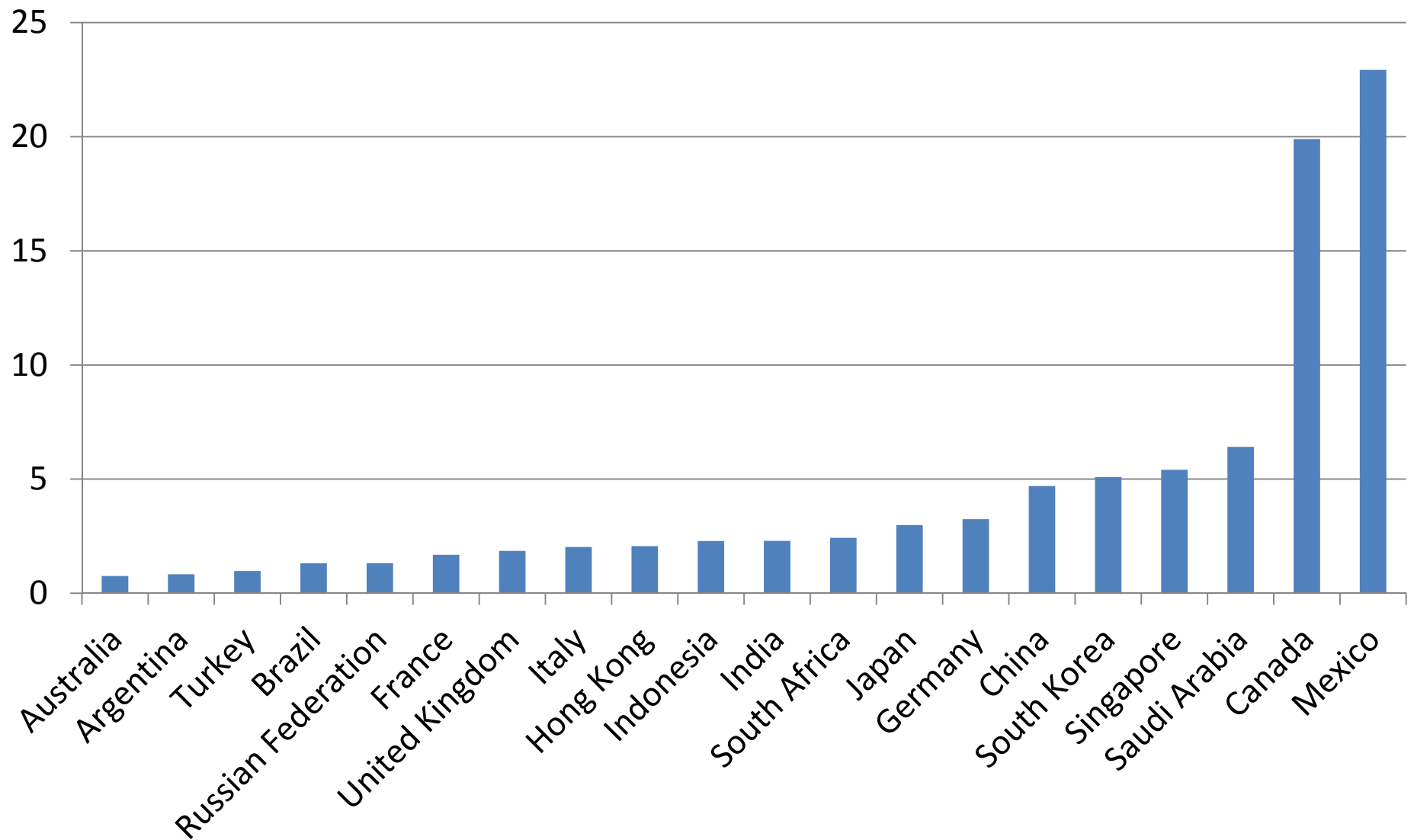
Proportionate Change in GDP from Change in Exports to US

= (Proportionate change in exports to US)(Share of US exports in GDP of exporting country)(multiplier)

$$\frac{\text{Change in } GDP_i}{GDP_i} = \left(\frac{\Delta X_{US_i}}{X_{US_i}}\right) \left(\frac{X_{US_i}}{GDP_i}\right) (\text{multiplier})$$

where  $GDP_i$  is GDP of country  $i$  and  $X_{US_i}$  is the amount of exports from country  $i$  to the US

## G20 Exports to US as % of GDP (2014)



# Government Actions that Affect the Economy

- Directly Economic
  - Tax reform
  - Trade agenda
  - Fed Policy
- Indirectly Economic
  - Immigration
  - Health care
  - Regulatory changes

# Tax Policies of the Candidates

- **Trump**
  - Lower personal rates
  - Lower corporate rates (to 15%)
  - \$10 trillion deficit over 10 years
  - Positive growth
- **Clinton**
  - 4% surcharge on high income earners
  - Higher capital gains taxes
  - Capped deductions
  - Negative growth
  - Close to revenue neutral
- **Sanders**
  - Raise highest marginal rate to 52%
  - Treat dividends and capital gains as ordinary income for high earners
  - Negative growth
  - Positive revenue



# Trade

- President Obama's achievements
  - Bush's treaties with Korea, Colombia and Panama modified and passed under Obama
- Proposed Trans-Pacific Partnership (TPP) and Fast Track
- Services, not agriculture or manufacturing, but agriculture and manufacturing are at the center of all talks

# The Candidates on Trans-Pacific Partnership

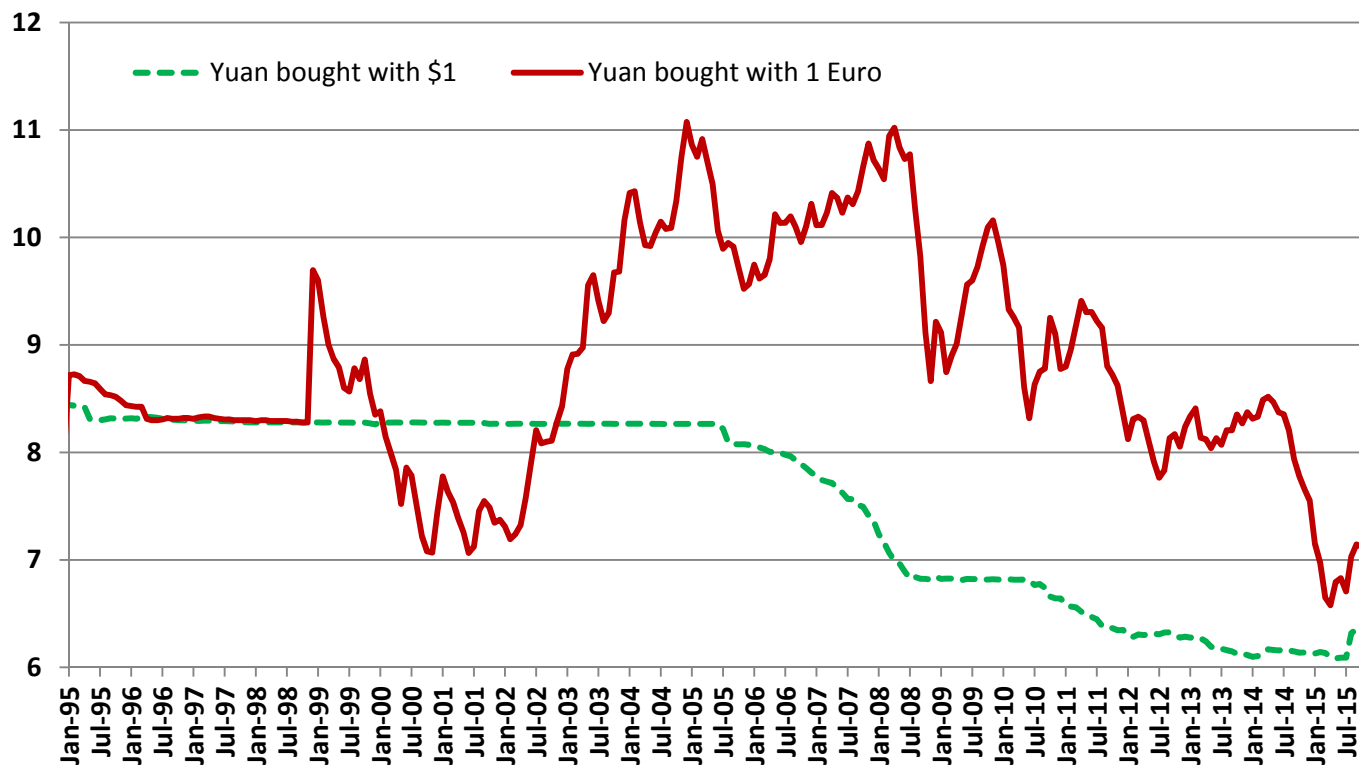
- **Clinton:** I did hope that the TPP, negotiated by this administration, I was holding out hope that it would be the kind of trade agreement that I was looking for. Once I saw the outcome, I opposed it. I have a very clear view. We have to trade with the rest of the world. We are 5 percent of the world's population. We have to trade with the other 95 percent. And trade has to be reciprocal. That's the way the global economy works. But we have failed to provide the basic safety net support that American workers need in order to be able to compete and win in the global economy. (MSNBC Debate; Feb 4, 2016)
- **Trump:** “The deal is insanity,” he said. “That deal should not be supported and it should not be allowed to happen.” (Interview, Breitbart News, Nov 9, 2015)

# Is China's Exchange Rate Policy Killing Us?

## Exchange Rates Do Not Move in Tandem

### HISTORICAL EXCHANGE RATES, 1993-PRESENT

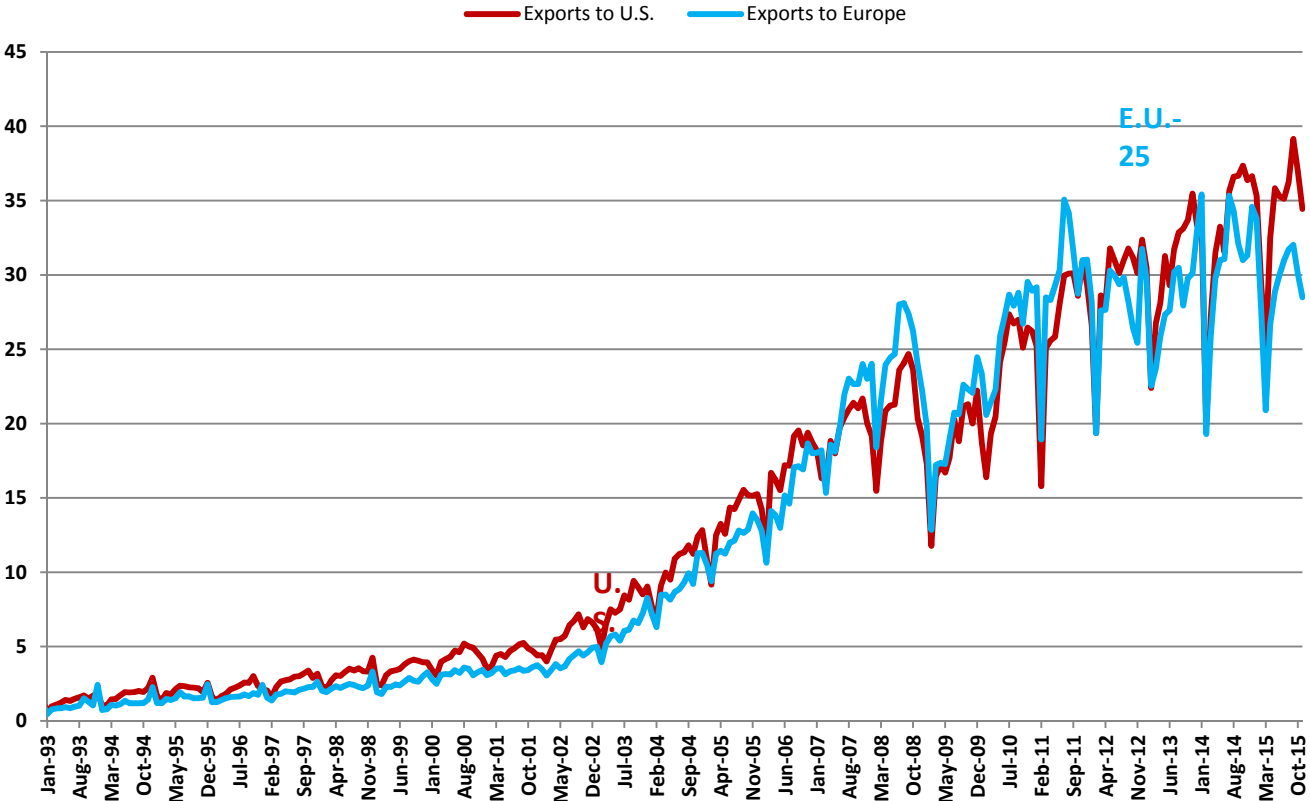
(Chinese Yuan Renminbi per USD and Euro)



Source: OANDA Currency Exchange (January 2015).

# China's Exports to US and Europe Move in Tandem

CHINA EXPORT LEVELS, 1993-PRESENT  
(Billions, U.S. Dollars)



Source: DataStream (December 2015).

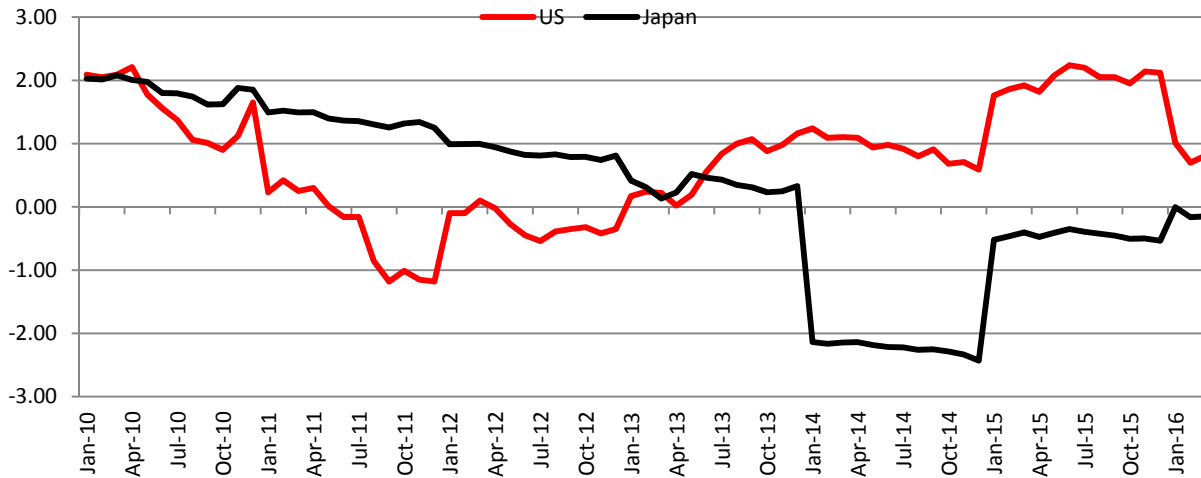
# Fed Policy

- Low rates? If
  - Economy still weak
  - Low rates are effective
- Higher rates and the dollar?
  - Dollar has leveled recently
  - Compare interest rates: US higher than Europe
  - Real versus nominal
    - US inflation 1 to 2% so real rate -1%
    - Switzerland negative 1% so real rate +  $\frac{3}{4}$  %
    - Dollar has weakened slightly relative to Swiss franc

# Exchange Rates: Beggar-thy-Neighbor?

Real Long-Term Government Bond Yields: 10-Year Main

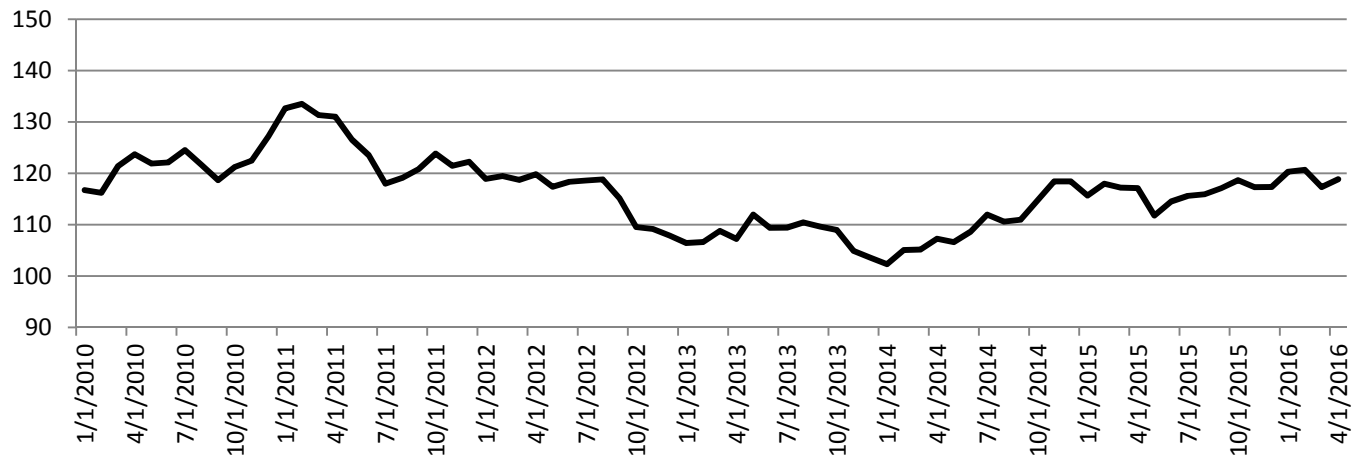
2010-Present



Japan rates fall in 2014 and yen depreciates

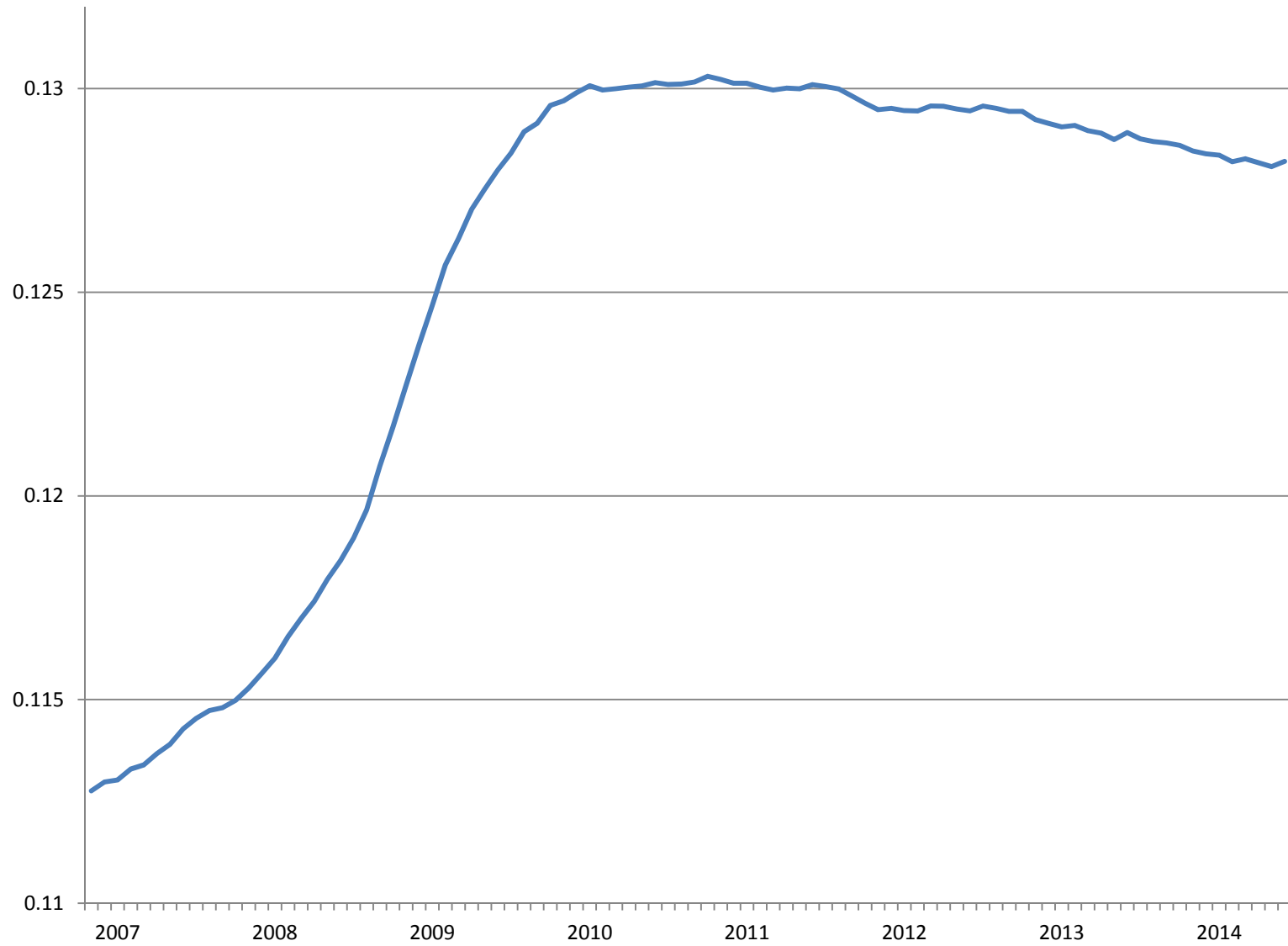
Japanese Yen bought with \$1

— Japanese Yen bought with \$1

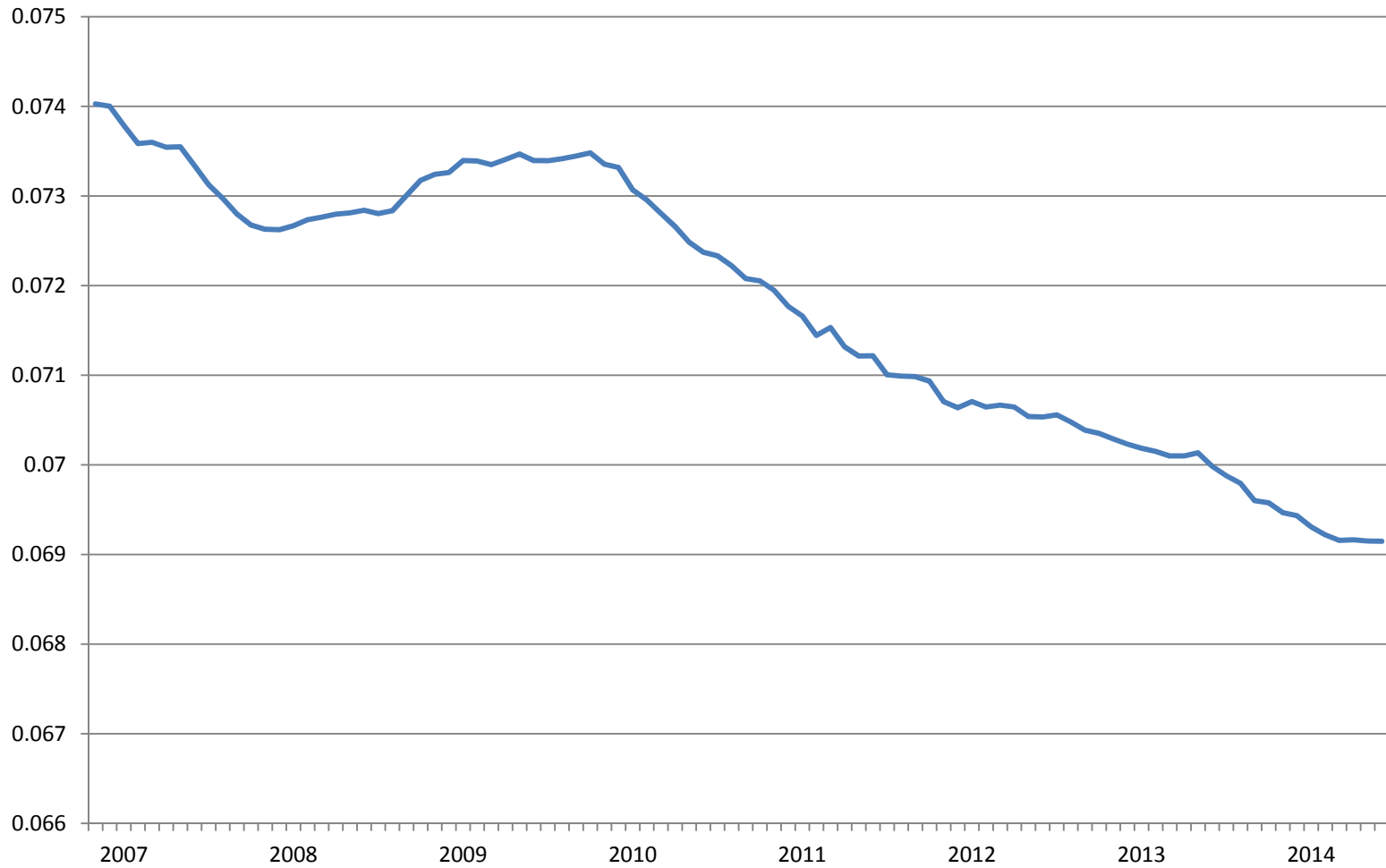


Source: US Foreign Exchange Services (April 2016).

## Share of Employment in Health Care

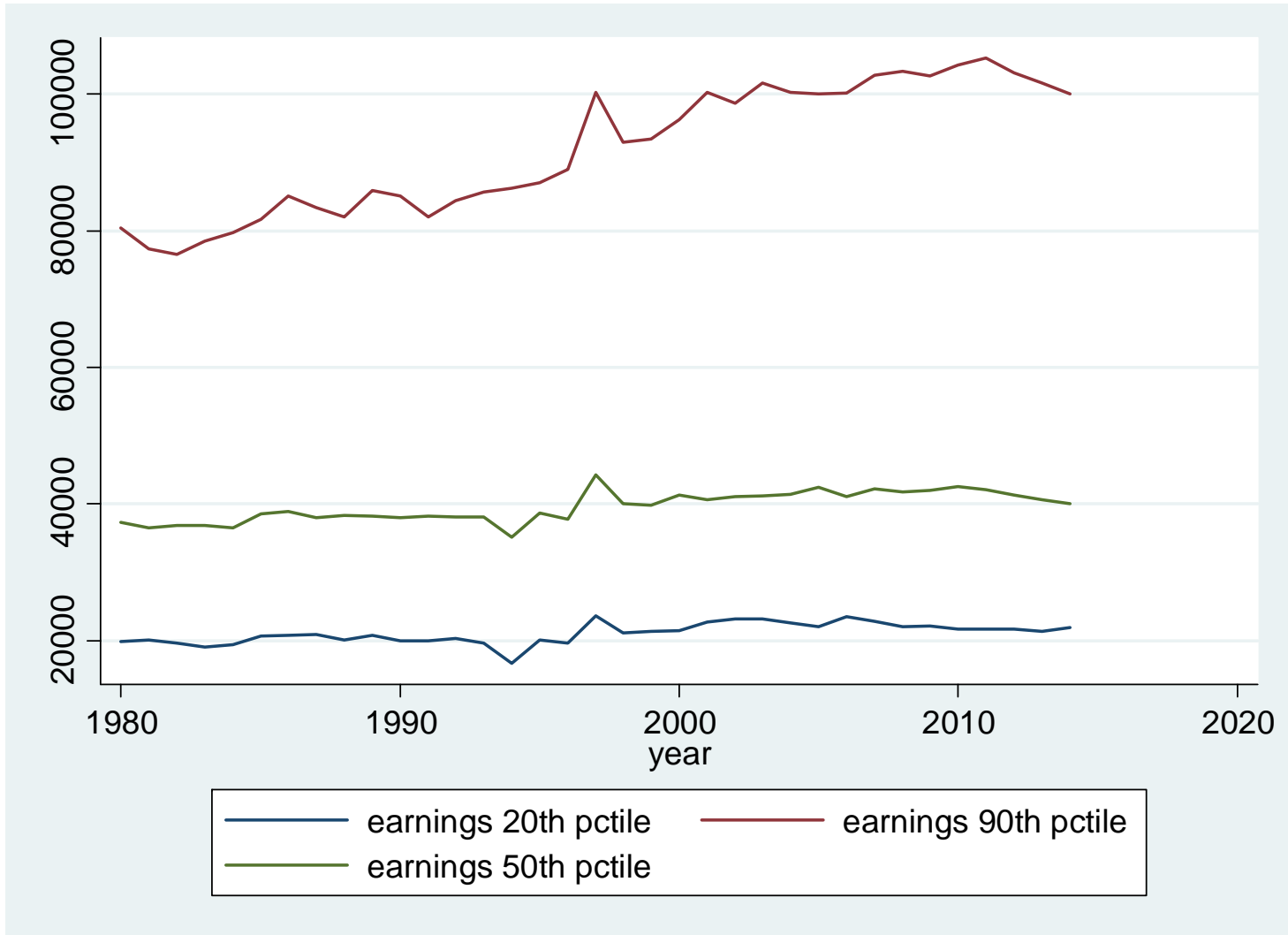


## Share of Employment in Financial Activities

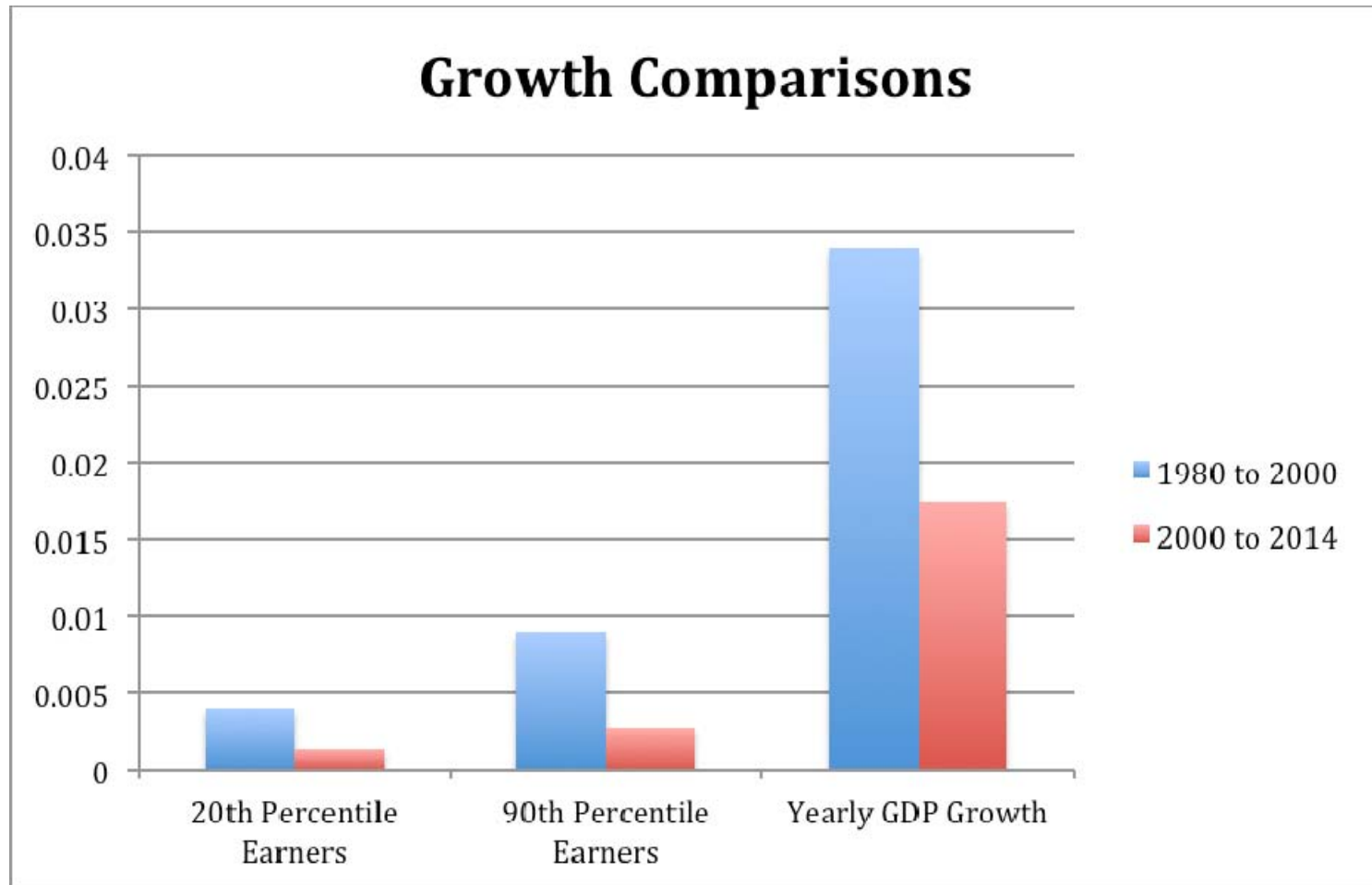




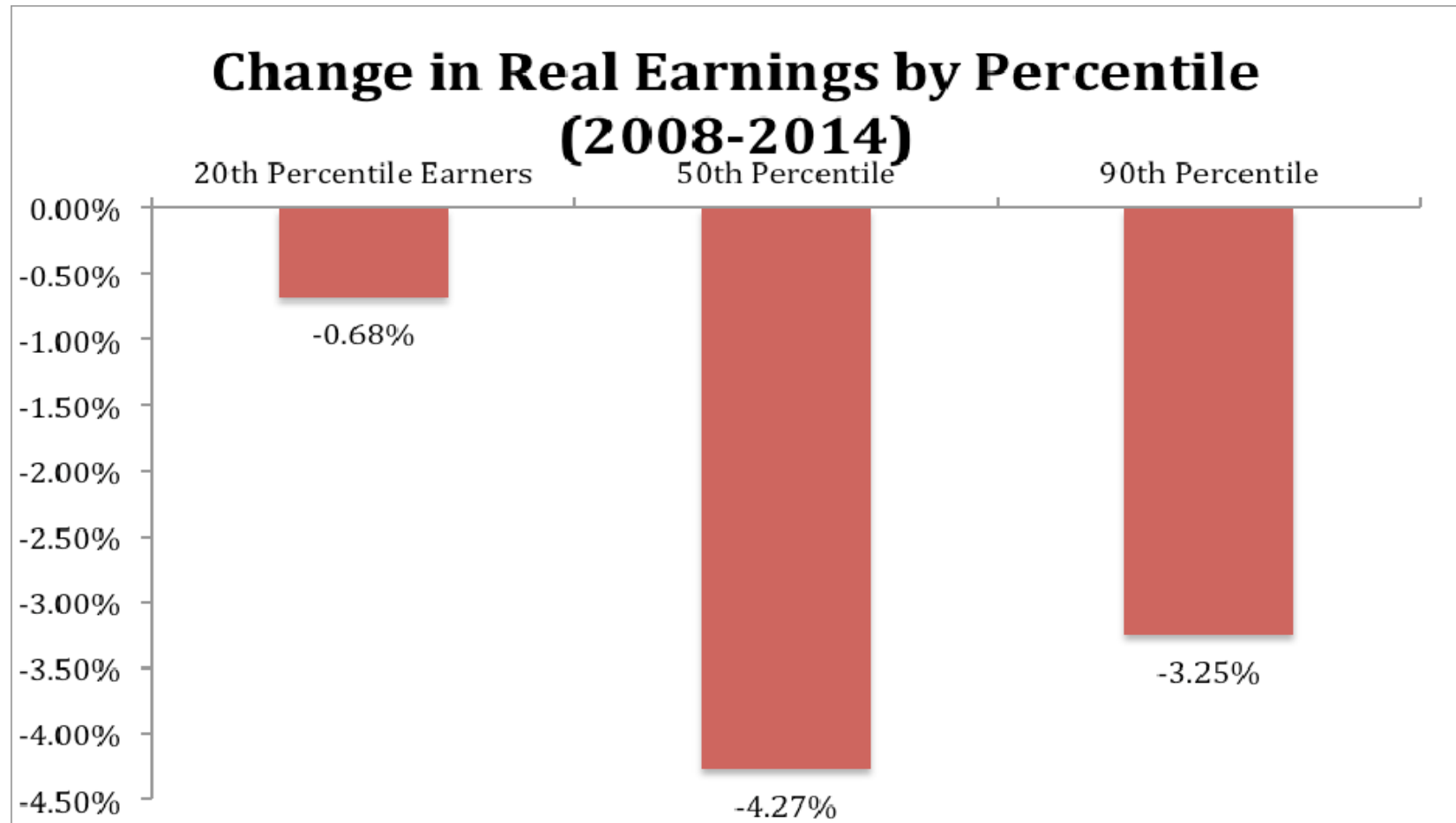
# Income Inequality Has Grown Earnings Over Time



# Poor and Rich Do Best In Rapidly Growing Economies

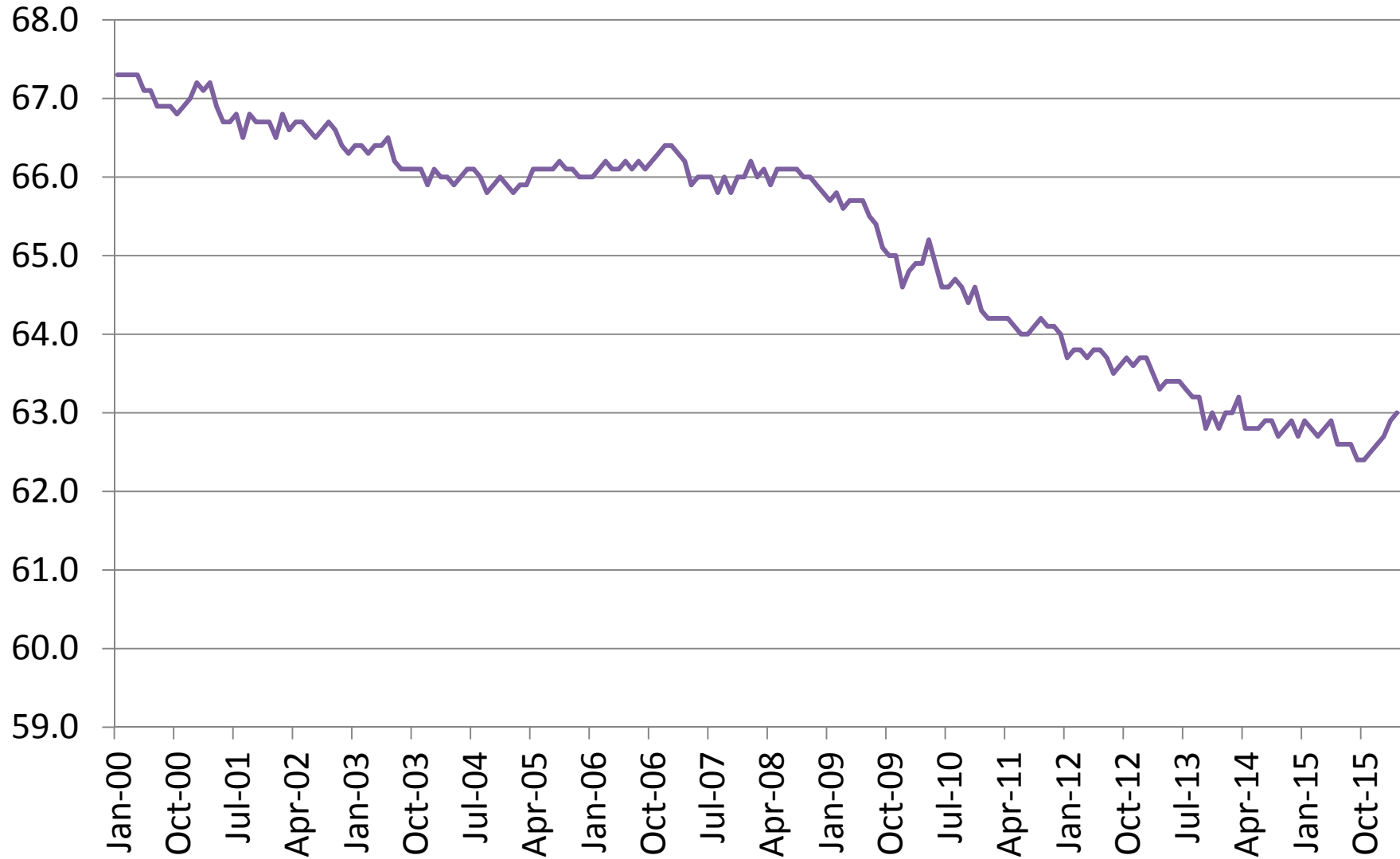


# True for Declining Periods Also



# Appendix

# Labor Force Participation Rate



Source: Bureau of Labor Statistics, (April 2016).



— 5-Year, 5-Year Forward Inflation Expectation Rate



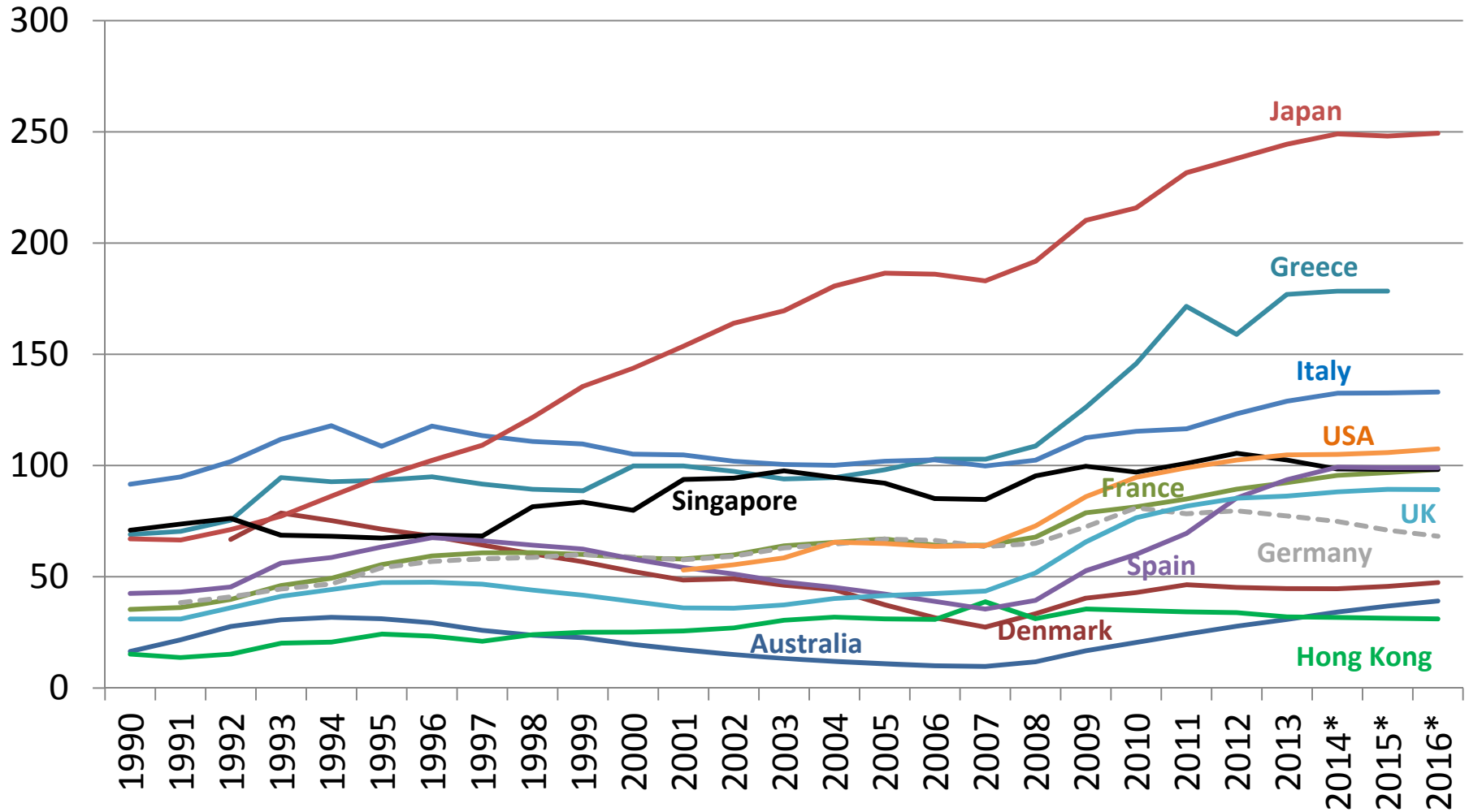
Source: Federal Reserve Bank of St. Louis  
[research.stlouisfed.org](http://research.stlouisfed.org)

[myf.fred/g/4mzV](https://myf.fred.stlouisfed.org/g/4mzV)

# GROWING DEBT

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