The US Presidential Election and Implications for the World Economy

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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

GDP Growth Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.5</td>
</tr>
<tr>
<td>2014</td>
<td>2.5</td>
</tr>
<tr>
<td>2015</td>
<td>3.0</td>
</tr>
<tr>
<td>Pre-recession 30-year average</td>
<td>2.8</td>
</tr>
<tr>
<td>80s recovery pace</td>
<td>5.0</td>
</tr>
</tbody>
</table>
Recent Real GDP Growth Rate in Selected Economies
(Annualized Percent, Compared with 3 year Average)

<table>
<thead>
<tr>
<th>Economy</th>
<th>2012-2014 Average</th>
<th>2015: Q1 - Q4 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>0.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Germany</td>
<td>0.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.6</td>
<td></td>
</tr>
<tr>
<td>Spain</td>
<td>1.0</td>
<td>1.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.6</td>
<td>1.77</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>3.6</td>
<td>2.0</td>
</tr>
</tbody>
</table>

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

Employment Rate

In June 05 when the unemployment rate was 5%, the employment rate for this group was .79. Now, with the same unemployment rate, it is .78.
US Job Growth Jan 2000 to Present
Ratio of Hires to Working Age Population

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

GROWING DEBT

DEBT TO GDP

(General Gov’t Net Debt, Percent GDP)

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

*May Contain Forecasted Estimates.
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 \( \Delta X_{US_i} \) 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)

Yuan bought with $1
Yuan bought with 1 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)

Exports to U.S.  Exports to Europe

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 + ¾ %
    • Dollar has weakened slightly relative to Swiss franc
Exchange Rates: Beggar-thy-Neighbor?


Japan rates fall in 2014 and yen depreciates.
Share of Employment in Health Care
Share of Employment in Financial Activities
Income Inequality Has Grown Earnings Over Time

![Graph showing income inequality growth over time.](image-url)
Poor and Rich Do Best In Rapidly Growing Economies

Growth Comparisons

- 20th Percentile Earners
- 90th Percentile Earners
- Yearly GDP Growth

1980 to 2000
2000 to 2014
True for Declining Periods Also

Change in Real Earnings by Percentile (2008-2014)

- 20th Percentile Earners: -0.68%
- 50th Percentile: -4.27%
- 90th Percentile: -3.25%
Appendix
Source: IMF World Economic Outlook, Trading Economies (April 2016).
*May contain forecasted estimates.