The New Hope and Change

> This particular shift by the Trump administration could have a much bigger impact on the U.S. economy than one would calculate on the basis of changes in tax and spending policies alone because it could ignite animal spirits and attract productive capital.

As written by Ray Dalio, Chairman & Chief Executive Officer of Bridgewater Associates, LP (world's largest hedge fund), in a December 19, 2016 LinkedIn post.

> I think it's a reset moment for how businesses are going to be treated: 145 million people work in America; 125 million of them work for private enterprise; 20 million work for government—firemen, sanitation, police, teachers. We hold them in very high regard. But you know, if you didn't have the 125 you couldn't pay for the other 20. Business is a huge positive element in society. But for years it's been beaten down as if we're terrible people. So I think it's a good reset.

As said by Jamie Dimon, Chairman and Chief Executive Officer at JPMorgan Chase, December 22, 2016 in a BloombergBusinesweek interview.

(For those of you who are wondering about Dalio's and Dimon's political contributions, Dalio has played the fence, while Dimon has historically supported Democrats.)

Donald Trump's election was a giant surprise to a whole lot of people, even to many of his supporters. Most people assumed the calculating and experienced Clinton machine would steamroll the billionaire reality TV star who seemed incapable of acting presidential.

No matter the "obvious" odds against Trump, people voted for him because they believed Washington needed a significant reset. They voted for Trump because they felt the political class had lost touch with the common man. They voted for Trump because a political class actually exists. Disdain for these political elites (and the elites' disdain of the common man) ignited a voter call to arms to "drain the swamp."

Washington works for citizens, right? Those 20 million work for the 125 million, right? This isn't how it has seemed to a large chunk of the country over the last eight, if not sixteen years. So a whole lot of disgruntled voters pulled the lever for a new round of hope and change.

Of course "Hope and Change" was Barack Obama's rallying cry as he pursued the presidency eight years ago. But that slogan pretty much captures the country's mood during every election. Voters are always hoping for change that will make their world better.

Trump's "Make America Great Again" was an obvious hope and change derivative—another *let's make our world better* pitch. Meanwhile, Clinton's "I'm With Her" was a pitch for Hillary personally. How the highly strategic Democrat party made this huge campaign slogan error will be discussed in the political profession for some time. When running for president, it's not about you; it's about the country.

Now we get to start a new period of hope and change. And many people seem to think this change is going to be very positive. Dalio and Dimon are two highly successful private sector leaders.

Alongside these two heavy hitters, stock market investors drove the U.S. equity market up measurably after Trump's election. Although this suggests investor optimism about our economic future, readers should know that markets have risen 80% of the time between the election and the inauguration of non-incumbent president elects. There is almost always a large optimistic group ready to put their money where their votes were; their guy won the election, after all.

So how is the Trump administration going to meet all these optimistic expectations?

The most obvious way is to incent and accelerate economic growth. But with the unemployment rate already at a very low point, why don't we already have robust economic growth? Maybe the answer can be found by studying the employment numbers.

Data from the Bureau of Labor Statistics (BLS) show that in 1990 the U.S. had 4.35 service providing jobs for every goods producing job. In 2008 we had 5.43 service providing jobs for every goods producing job. And then as of October 2016, we had 6.74 service providing jobs for every goods producing job. Can you guess the problem with the U.S. economy?

All economy begins with production. At the end of the day, service only exists because there is enough economic value coming from production to afford those services. It sure looks like the U.S. economy today doesn't have enough production to support its service.

As I've written in the past, when there is not enough production to support service, then borrowing more and more money is the only way to keep an economy afloat.

Since 2008, the federal government has added over $9 trillion of debt, consumers have added over $1 trillion of debt and U.S. corporations have added over $3 trillion of debt. That's $13 trillion of new debt. Add the almost $4 trillion in growth of the Federal Reserve's balance sheet, and we've injected around $17 trillion of capital into the U.S. economy over the last eight years. What has that $17 trillion gotten us? $2.1 trillion in incremental GDP growth over 8 years!

If you don't have enough production, there isn't enough money to pay for services. Without enough money to pay for services, an economy has to borrow more and more money.

A little more data that helps understand the value of production…

According to the Manufacturing Institute's analysis of 2014 Bureau of Economic Analysis data, manufacturing activity has the highest overall economic multiplier effect of all industries. Every dollar in final sales of manufactured products supports $1.33 in output from other sectors. The report listed the economic multipliers of other major industries:

Agriculture – $1.11
Transportation and Warehousing – $1.00
Construction – $0.86
Arts & Entertainment – $0.81
Information – $0.80
Education, Health Care/Social Services – $0.72
Retail Trade – $0.66
Other Services Except Government – $0.63
Professional & Business Services – $0.61

From this data, it should be obvious that a service-dominated economy is not going to be a robust economy.

Adding to the multiplier effect is the reality of goods producing wages compared to service providing wages. Looking at numbers from the BLS shows that total compensation for goods producing jobs is about $39 an hour, while wages for service providing jobs are about $31 an hour. Why have overall wages stagnated for so long? Maybe it's because we've been creating way more service jobs than production jobs.

Increasing our goods production will not just provide us a greater overall economic multiplier; it will also provide greater overall wage growth.

Unfortunately, there is no perfect panacea here. Manufacturing output in the U.S. has more than doubled since 1990, while employment in manufacturing has dropped by one-third. You can blame technology for making manufacturing operations more and more productive. But still, any addition to our goods producing industries is going to be a boost to the domestic economy and to wages. Firmer economic footing can help us tackle our other challenges.

With the smallest number of cabinet members and advisors with private sector experience in modern presidential history, it should be no surprise economy has languished so much over the last eight years. Bureaucrats and college professors can't productively run economy. Theory has to be supported by true private sector knowledge and experience.

Surrounded by the largest team of private sector advisors in modern presidential history, the Trump administration has a real opportunity to improve America's economy. Time will tell if this administration can follow through with productive policy and then successfully carry that policy through the swamp.