

NOBEL LAUREATE PHELPS

"Trump creates enormous uncertainty"

Interview by Julian Heißler in WirtschaftsWoche

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US President Donald Trump

Image: REUTERS

What is the risk of Trump's trade policy on the economy? Nobel laureate Edmund S. Phelps on the economic situation in the US and the aggressive behavior of the government in customs policy.

The [American economy is dazzling](#) . What is the contribution of US President Donald Trump's policy to the outstanding figures?

Edmund S. Phelps: That's hard to say. I think that the strong results of the past two quarters are mainly due to the reduction in corporate tax. I'm worried, though. The lower tax rates also have an enormous budget deficit. If this continues, we will have problems. At some point we have to pay for our sins. Then only tax increases and spending cuts remain to cushion the consequences of our budget hole.

The tax cuts were sold with the argument that the subsequent upturn would more than offset the revenue shortfalls. Is not enough the growth of the economy to fulfill this promise?

I'm afraid that the economy will even fall behind. One reason for this is the policy of the Fed. It will tend to raise interest rates further, making business investment more difficult. Incidentally, I consider that a sensible step. Although inflation is currently low, we will soon see a stronger increase given the low level of unemployment. Then it is the central bank's responsible step to raise interest rates - even if President Trump is not happy with responsible behavior. He is only concerned with his re-election. The rest of us, however, should be worried about rising inflation.

How likely do you think the upturn will not only accelerate, but completely reverse, and the [US](#) will slide into recession in the foreseeable future?

It is a realistic possibility. The corporate tax reduction is currently ensuring that companies invest more. But this high level of spending can not last forever. At the moment, companies prefer investments because the framework conditions are so good. You could say: you borrow from the future. But this also means that these expenses will not be made again at a later date. We are then threatened with an investment deficit in the private sector.

Given the huge budget deficit, which is still historically low interest rates and the already reduced corporate taxation: Would the US government still have funds available to stimulate the economy in the recession case?

In that case, it would be best to support the creation of new businesses. In this category, the US has been getting worse and worse since the end of the Internet boom at the turn of the millennium. Alone today through the jungle from patents to navigate and avoid lawsuits when building up is extremely difficult. As a result, the structure of the

US economy has deteriorated since 2000. The good quarterly figures do not change this year either because of this long-term trend.

What is the risk of US trade policy on the economy?

The aggressive behavior of the government in customs policy is, in my view, above all politically motivated. The White House wants to be the protector of workers who have had problems through global competition. However, this should not distract attention from the fact that some complaints by the government are justified - for example with regard to China or the low defense spending of most European partners. However, this does not justify the collapse of the entire global economy. I think government action will do more harm than help. Higher tariffs will destroy American jobs.

They warned against the inauguration of Donald Trump and compared his public interference in the concerns of private companies - they called it "bullying" - with the economic policies of European fascists in the 1930s. Do you consider your warning from that time today to be justified?

It's too early to judge that. Trump creates tremendous insecurity by trying to manipulate the economy and make it its puppet. This should make companies nervous - even if they are happy about their tax cut. The good investment figures of the past two quarters could also be a very temporary phenomenon. I therefore advise caution.