In partnership with Foreign Affairs magazine, Wilmington Trust and M&T Bank hosted a special evening on June 1 in Washington, D.C.—our second in an invitation-only series of Foreign Affairs LIVE briefings. The series seeks to provide the best evidence and arguments from a range of perspectives in an effort to encourage intelligent debate, and this evening featured an engaging commentary moderated by CNN’s Jim Sciutto with panelists:

- **Stephen Moore**, Senior Fellow, Heritage Foundation, former Senior Economic Advisor to Donald Trump for President
Against a backdrop of heightened uncertainty and unprecedented geopolitical turmoil, the spirited conversation shed light on complex issues facing market participants and global citizens today. Our panelists took a look back at the first few months of Donald Trump’s presidency and then shared their perspectives on what lies ahead.

Doris Meister, Head of Wealth Management for Wilmington Trust and M&T Bank, welcomed attendees and affirmed that, “One of the most important roles we play is to try to bring a perspective around world events that affect our clients, their families, their investments, and their livelihoods.” That set the stage for the bipartisan look at the Trump administration and effort to determine both what’s going on and what the impact might be on international relations and the economy.

**U.S. withdrawal from the Paris Agreement**

The news of the day was President Trump’s decision to withdraw the U.S. from the Paris Agreement on climate change and the mitigation of greenhouse gas emissions. “This is a very strong decision by the president,” noted Stephen Moore, recalling that Trump received applause when he mentioned the intent to withdraw on the campaign trail. A few years ago, he recalled, people were saying we were running out of oil and gas; over the last seven or so years, though, fracking (injecting liquid at high pressure into rock to extract oil or gas) and horizontal drilling has led to the shale oil and gas revolution. “Well ladies and gentlemen, the world isn’t running out of oil and gas,” said Moore. “We’re running into it—bigtime—and the U.S. now has the opportunity to become the world energy superpower.”

Moore recommended that, while we should still develop solar, wind, and nuclear power where it makes sense, for at least the next 20 or 30 years, he predicts that the world is going to be heavily reliant on oil and gas and coal, and that the U.S. ought to leverage its advantage.

He also pointed out that while the U.S. was going through an amazing transformation in energy with shale oil and gas, the Europeans went all in with green energy. As oil and gas are much cheaper ways to generate electricity compared to the solar and wind sources that Europe mainly relies on, prices in the U.S. are far lower. “I’m not against solar and wind power. What I’m for is the market. Let’s have the market decide, not government or global bureaucrats.”

Michael Froman expressed his view that it was a terrible mistake to pull out of the Paris Agreement. He pointed to the broad economic effects of carbon dioxide emissions and related extreme weather events. “All one needs to see is the impact of the extreme weather costs that we’ve seen over the last eight years—Hurricanes Sandy and Katrina—and say those are costs. I don’t think most scientists would disagree that those costs are related to the changing nature of the climate.”

©2017 Wilmington Trust Corporation and its affiliates. All rights reserved.
“I think it’s a terrible mistake from an American leadership point of view, from an environmental point of view, and from a domestic economic point of view.”

He also believes that U.S. withdrawal has made it more difficult for its companies and innovators to play a leading role in clean energy which has the potential to be significant. Without the incentives through regulation or the Paris Agreement’s direction, he argued, there won’t be the eagerness to develop new ways of using our energy resources more efficiently.

In Froman’s view, the decision conveyed the message that coal job creation will be greater than clean energy job creation—and he volunteered that he knows people in the administration who don’t believe that will happen in the numbers people would like to see. He added: “I think it’s a terrible mistake from an American leadership point of view, from an environmental point of view, and from a domestic economic point of view.”

Heidi Crebo-Rediker also took issue with Moore’s characterization of the U.S. withdrawal as a positive step and its place as a future superpower. “The U.S. is an energy superpower. It’s not ahead of us. We’re there.” She pointed out that many energy companies were supportive of staying within the Paris Agreement because they understand the dynamics of what’s happening in the energy industry.

So what does this mean for future jobs in the coal industry? Jim Sciutto asked if Trump misled voters in suggesting the withdrawal would bring back coal jobs.

Energy jobs in the future, Crebo-Rediker asserted, will be found in low-emission fuels like natural gas, especially due to fracking, unlike coal which has been in structural decline since about 1950, and is a change that didn’t have anything to do with climate policy. “It’s just that technology changed,” she explained, “and the market is sending signals that renewables and natural gas are actually proving competitive.”

Moore harkened back to green energy cost, noting that the per kilowatt-hour cost of wind is about five times higher than it is for natural gas. Its survival, he reasoned, would require substantial subsidies. He favors removing the government from this equation and stressed the uncertain future of energy: “People say we know the
It’s just that technology changed and the market is sending signals that renewables and natural gas are actually proving competitive.”

Heidi Crebo-Rediker

“We had facts and the anti-globalization folks had emotion. Emotion wins. Fear beats hope.”

Michael Froman

future is wind and solar, well, how do we know that? Energy markets are changing all the time.”

And what about the other countries still in the Paris Agreement? Froman addressed the question of whether the other countries will still try to curb their carbon emissions or step back and abandon those targets. He voiced concerns about the potential ramifications of the U.S. withdrawal, not just environmentally but economically, explaining that extreme weather could impose a real cost on Americans and poorer countries that are not well positioned to deal with them.

**Does “America First” mean America alone?**

The discussion transitioned to multilateral agreements—whether about climate change or trade—and the matter of sovereignty was front and center. For Moore, the conservative philosophy when it comes to multilateral agreements is, “think globally, govern locally,” and not have “foreigners telling us how to live our lives.”

For Froman, “getting other countries to follow our lead does not undermine our sovereignty. In fact, that is the ultimate exercise of sovereignty, to take our values and our interests and get other countries to adhere to them.” With the Trans-Pacific Partnership (TPP), he explains, we had 40% of the global economy—developed and developing countries—taking our interests and adopting them. For example, getting Canada to open up markets that had been closed to us for decades is a positive. Bilevel deals divert trade; they don’t increase economic activity, whereas, multiparty deals not only allow us to spread our influence, interests, and values; they increase U.S. economic wealth and promote labor and development in other countries as well. “We had facts and the anti-globalization folks had emotion,” said Froman. “Emotion wins. Fear beats hope. We have to do a better job of making the case for trade.”

Crebo-Rediker added that Trump’s expressed disdain for multilateral trade agreements at the G20 meeting in Baden-Baden in March has left the world confused and thinking, “but the U.S. wrote the rules,” and in particular helped create many post-World War II organizations that were geared toward both global betterment and our own national interest. “To now walk away from it,” she argued, “is puzzling to a lot of other countries and to me as well.”

Perhaps surprisingly, the Trump campaign’s economic advisor differed with the president on globalization, and shared his opinion that NAFTA has been very positive for the U.S., Canada, and especially Mexico. Overall, though, Moore feels Trump’s pro-growth agenda will be a big step forward, particularly in light of the business-unfriendly environment that began in the last few years of George W. Bush’s presidency. “If we get it right in the U.S., the rest of the world gets it right. But in the last 10 years, we’ve gotten it all wrong.”

CONTINUED
Populism and jobs

At the core of the Brexit vote, the Marine Le Pen support in France, and Trump's voter base, noted Jim Sciutto, is the view that a large portion of the population in these countries feels left behind by globalization. He asked the panelists: “What is the best way to solve that problem?”

The fear that spurs populist sentiment was directly tied to the broader issue of jobs. Froman pointed out that, when faced with change and a rapidly changing economy—whether from globalization, automation, or immigration—people need skills to succeed or else they’ll look for a scapegoat to blame. The general consensus of the panel was that fulfilling the demand that will be generated by the oncoming tidal wave of technology and automation lies, not just in federal programs, but in community colleges, corporations, and unions. Lifetime employment requires lifetime learning. Noted Froman: “If you look around the world, other countries do this better than we do and there are some best practices we can learn from. If we don’t get our hands around this,” he cautioned, “the kind of anger and resentment we saw in this last election is going to be child’s play compared to what we see in the future.”

Questions from audience members

Q: As I travel around the world, the overriding concern is that the U.S. is being overtaken by China as the world’s largest economy. Trump’s administration doesn’t seem to be able to articulate a foreign policy strategy. Do we have a plan?

A: “In order to stay number one,” Moore responded, “the U.S. must get serious about being competitive, but our regulatory and corporate tax structure puts us at a huge disadvantage.” Froman added: “You can’t compete if you don’t take the field.”

He went on to list a few coherent regional strategies where regions and countries are, in fact, taking the field toward increased global economic engagement: China’s Belt and Road initiative emphasizes cooperation across Eurasia; the Regional Comprehensive Economic Partnership (a proposed free trade agreement like TPP), between ten Southeast Asian nations and six states with which they have free trade agreements; and, the multilateral Asian Infrastructure Investment Bank. At this summer’s G20 economic summit, he noted, these nations will be in the majority and “the U.S. will be isolated when it comes to fighting against protectionism.” Withdrawal from the TPP was “a giant shooting in the foot in terms of our leadership and credibility.” He added his hope that the administration will lay out an alternative vision for engagement, adding that there is a great deal of uncertainty right now about whether the U.S. is a reliable partner.

In Crebo-Rediker’s view, we needn’t choose between being competitive and reinvesting here in the U.S. “There’s a program at the Council for Foreign Relations called Renewing America that’s based on the concept that strength at home gives you the ability to project strength abroad. The two are intertwined … and are actually mutually reinforcing.”
Q: What do you think is the most important issue that would need to be addressed to secure the economic future of the U.S.?

A: “Infrastructure,” Crebo-Rediker firmly responded. It was an oft-mentioned issue on the campaign trail and one she apparently feels has been put on the back burner. “I think it’s a missed opportunity for bipartisan cooperation. It’s a missed opportunity to close the gaping deficit we have in our infrastructure investment. With so many contentious issues on the table, infrastructure would have been a good place to go first.”

“Does America First mean we (now) come last in the international community? And what’s our vision for how we want to lead... or influence the rest of the world?”

Michael Froman

Froman said the top priority should be improving the process of policy making as far as bringing forward the best ideas, fully vetting them, and having disciplined decision making to avoid the “extreme whipsawing” we’ve seen:

“The world is deeply confused about the U.S. Does America First mean we (now) come last in the international community? That the rest of the world is going to move on without us? And what’s our vision for how we want to lead the rest of the world, or how we want to influence the rest of the world? Whether it’s on the economy, terrorism, climate, or disease ... the world would benefit from hearing a coherent strategy and having it executed on.”

Q: There are a lot of hot spots around the world and it seems like the Trump administration is bullish on all of them. How do all these conflicts fit in with the future economic picture?

A: “I think people are overly optimistic on the upside about tax reform and deregulation, and are undervaluing anything that could go wrong, any of the risks,” Froman responded. “Any one of these [hot spots] could be destabilizing in terms of the global economy ... and there isn’t a lot of attention paid to the downside risk right now. Economically, there are some very positive signs around the world right now and reasons to be optimistic but ... I’m surprised and a little confused as to why those risks don’t seem to be baked into the people’s forecast or market expectations.”

Crebo-Rediker agreed with Froman on this point, noting that, while different types of political risk have been quantified and managed for decades, “I think what we are looking at right now is much more profound in the level of uncertainty and I don’t know if you can hedge against uncertainty because if we’re having significant social, economic, and political change ... it’s very hard to price and think about. In the foreign policy community, people are perplexed by why there is market euphoria and not more concern.”

To an extent, the U.S. pulling back its leadership has acted as a wake-up call to the rest of the world, Froman noted. “It may actually get them to step up and do what’s necessary to balance China. I think there is some hope that there is a silver lining to what we’re seeing which is that people won’t take the U.S. for granted and be free riders but will step up their game as well. It comes at a cost from our perspective but I think there is some positive element that might come from it as well.”

CONTINUED
Bringing it home

After the panel discussion concluded, Chief Investment Officer Tony Roth added to the commentary by pulling together many of the disparate threads that had been articulated and looking at the themes through an economic-focused investment lens.

The most important subject that was explored was that of U.S. economic growth; in particular, the size and productivity of the labor force. As far as the size of the labor force, explained Roth, “President Trump is wrong in focusing on job creation. Our challenge is not to create jobs but to create qualified laborers to fill the jobs that are going to be created as the economy grows.”

Productivity growth has been at about 0.6% a year for the past five years—the lowest it’s been in any non-recessionary period since World War II. Roth attributes it to the fact that there’s been no incentive on the part of companies to put money back into capital investment, or research and development because there’s no wage pressure.

But that is going to change, he says. “We think inflation is going to peak out closer to 3% in the next couple of years, so we’re not seeing inflation now but we’re about to see it in a big way. The cost of labor is by far the biggest input to the cost of goods and services. As the tide of inflation turns, it will be good for the economy because that’s going to induce companies to increase their productivity.”

Roth went on to express his view that the president has been right to go after regulatory relief, deregulation, and tax policy, as they are important ingredients in getting the economy to a healthy 3% growth rate. Even an improving economy can leave some people behind, fostering the economic—and by association, political—polarization we see today, which is a big economic risk. Consider that in 2007, the share of after-tax income going to the top 1% hit its highest level (17.1%) since 1979, while the share going to the middle one-fifth of Americans shrank to its lowest level during the same period (14.1%). Or put another way: the rich got richer and the poor got poorer. “The political pendulum tends to swing in fairly extreme degrees,” says Roth. “These policies may revert—and then some. Until then, we keep a watchful eye on developments along those lines.”

He brought the evening to a close in saying that, for now and on balance, his team foresees a pretty healthy economic period for the next year or so—even without expectations of Trump’s growth agenda items being put in place. “We think the economy is going to grow at 2.5%, which will be the second-best year since the Great Recession, and expect U.S. corporate earnings to grow around 12%–13% year over year. The labor market is doing well and we anticipate significant inflation, which should lead to greater productivity and growth.”
The information in this summary of remarks has been obtained from sources believed to be reliable. The opinions, estimates, and projections constitute the judgment of the panelists.

Wilmington Trust is a registered service mark. Wilmington Trust Corporation is a wholly owned subsidiary of M&T Bank Corporation. Wilmington Trust Company, operating in Delaware only, Wilmington Trust, N.A., M&T Bank, and certain other affiliates, provide various fiduciary and non-fiduciary services, including trustee, custodial, agency, investment management, and other services. International corporate and institutional services are offered through Wilmington Trust Corporation’s international affiliates. Loans, credit cards, retail and business deposits, and other business and personal banking services and products are offered by M&T Bank, member FDIC.