



National Association of Corporate Directors Texas TriCities Chapter
“The State of the Economy in Light of the Political Landscape”
Houston, TX | February 20, 2017

PROGRAM EXECUTIVE SUMMARY

*Program description: Votes were counted, a new chief is in the White House and change is on the horizon. What will the impact of the new administration be on the national economy and specifically for corporate directors in Texas? NACD Texas TriCities Chapter was honored to host **Dr. Antonio Merlo**, George A. Peterkin Professor of Economics, Dean of the School of Social Sciences; Rice University Director, RISE, and **Marc Shapiro**, Retired Vice Chairman, JPMorgan Chase; Director, Kimberly-Clark Corporation, The Mexico Fund, Weingarten Realty, as they conduct a fireside chat around views on the state of the economy in light of the political landscape and the impact on board oversight.*

President Donald Trump has inherited a prosperous state of economy—eighty months of growth at a slow rate, which is one of the longest times of economic growth in the U.S. According to Shapiro, one theory behind this growth is that recovery from a financial crisis differs compared to recovery from a demand-led recession. The nature of a recession is the piercing of a bubble. Historically, once a financial bubble is pierced, it takes a long time to recover from it. There are several indicators that economic recovery has been accelerating in the past year. For the first time in several years, wages per hour have increased. Unemployment is below five percent. 2016 was the best year for automobile sales in the past decade. Thus, Trump is assuming the presidency at a period of significant economic strength. Continued business-regulated growth and other reforms can make a real difference in moving the economy forward.

Merlo states that, while the economy is strong, there is always a challenge when a new administration takes power and attempts to change everything. He questions to what extent the current political system will allow the economy to maintain its current trajectory. According to Merlo, the most important factor behind economic growth is infrastructure, and he does note that the U.S. has put in a tighter system of solid institutions to protect the economy from bad outcomes.

Shapiro agrees with Merlo’s point and acknowledges there exists several challenges for the economy. One issue is duration: The economy has been in growth mode for eighty months — twenty months longer than the average interval before the next recession. There are also demographical problems: This year’s birth rate in the U.S. was the lowest on record. The average age is 38, also the oldest on record. There are more old people working compared to young people—an unsustainable system. However, Shapiro views one positive aspect of the new administration that may help mediate these issues: the high number of business people willing to sign on for cabinet positions. Usually, fifty percent of the cabinet is filled by business people.



During Obama's presidency, there were hardly any. In the new administration, between eighty to ninety percent of the cabinet will be business people. This increase reflects the changing mindset of the new administration, which is positive for promoting serious economic growth.

Both Shapiro and Merlo believe that globalization of trade is positive for economic growth around the world. Unemployment is often blamed on globalization (e.g., jobs sent to Mexico) and automation (i.e., machines taking over blue-collar jobs). Twenty years ago, there were twenty million people working in U.S. manufacturing. Today, there are twelve million people working. Yet, this labor force produces twice as much. According to Shapiro, the global supply chain is what makes U.S. production possible. Without the free trade agreement with Mexico, the US, as a stand-alone manufacturing business, would be much less competitive on a global scale. Mexico and Canada compose a market of 500 million people, are rich in natural resources and labor, and have potential to be dominant powers in the world. Thus, harnessing the power of North America would produce more value for the US than the isolationist policy of putting everything within the border.

Merlo also acknowledges that it would be a significant step backwards to revert to a closed economy, a decision that could have devastating consequences. Blaming globalization and automation for unemployment is a superficial reaction. After all, "if someone creates a machine that can produce 100 percent of the U.S.' GDP, is that still a travesty?" According to Merlo, the issue is distribution. Although automation is generating a significant amount of revenue, the challenge is making sure the money is benefiting the country and not being channeled into a small group of people.

Shapiro agrees with Merlo's argument and adds that wealth disparity was the driving force behind the election results. In his perspective, the new administration needs to address and mediate the growing wealth disparity in the country.

Q&A

Question: How quickly do you anticipate the new administration rolling back eight years of overregulation?

Answer (Shapiro): Much of today's regulation is driven not by law, but by interpretation of law. JP Morgan has 43,000 people that work in compliance. Nine billion dollars is spent on compliance annually because the cost of one mistake is so high, you need a system that eliminates the chance for that one mistake. We have seen the penalties occur to banks that make one mistake. One banker says something, and that leads to devastating effects for that bank. We need a totally fail-safe organization and an administration that is more understanding of overregulation. It will not happen overnight or in the next few months. The bureaucracy is difficult to get control of, but there is going to be some significant change.



Question: What improvement to NAFTA do you consider likely?

Answer (Shapiro): It is still unclear to me how NAFTA will change. NAFTA changes do not require congressional approval. The president can end NAFTA by declaring that the U.S. wants out of the trade agreement, so Trump has enormous leverage in terms of renegotiating that. Corporations have set up very complicated supply chains—not just having a manufacturing plant overseas but an exchange of materials throughout that change— so my hope is we don't wind up with a kneejerk reaction and insert a tariff. It would destabilize Mexico and not benefit Texas or the U.S. However, there has to be some change because that was the platform Trump ran on. It's a clear challenge for the United States.

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