

Hard labour

The real cost of retaining jobs in the US

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This may well be a foretaste of things to come. Even as their team gets ready to take office, the US President and Vice-President elect have convinced Carrier Corp., the heating and air-conditioning company, to reverse course. Carrier was intending to move a manufacturing plant to Mexico for saving costs resulting in a loss of about 1,000 jobs when the President-elect's team convinced them to remain in the US, saving all those jobs. Hurrah, Superman can go back into the phone booth and change!

The residents of Indiana should be happy that they did the right thing by voting for the Republican ticket. Mike Pence, the Vice-President-elect who is currently governor of Indiana, must be proud that he has delivered.

The papers tell us that the details of the incentives given to the company will be revealed very soon. We shall wait for it with bated breath. But we need to keep the economists away for that grouchy lot have always complained about the distorting effects of such incentives. Surveys of executives have shown that they give a lower priority to such incentives as compared to labour force, transportation and business climate factors. Other studies show that tax incentives may be okay to rectify market failures, and at best help in recovering investment costs. Otherwise, the effect of incentives to attract or retain investment is generally inconclusive.

Perhaps the Trump administration can be given the WTO help line number to call and find out if these incentives would be considered subsidies, making a challenge likely in case of exports by Carrier. Or we could refer the ad-

ministration to the on-going Apple Corp. dispute with the EU on the attractive tax advantages it inveigled out of Ireland. The EU wants the money back.

Non-economic distortions also abound due to such policies. Ad hoc and individualised deals may make other large employers wonder if they have to first announce a move out of the country, and then wait for a call from the White House dangling carrots for them to remain.

Recall the game China would play with the US before it joined the WTO to ensure renewal of the Most Favoured Nation status? It would arrest a prominent human rights activist before the renewal date, the US would be upset and call on China to release said person, negotiations would begin, and the US would successfully obtain the release of the activist in return for renewal of the MFN status!

The Pew Global Attitudes Project in a survey in 2003 across 44 countries found that generally most people like globalisation, including its manifestations of trade, finance, travel, communication, and culture. Support for free markets was higher at that time in the high income countries.

I'm sure a similar survey done now will show less support for trade in the developed world. But people are conflicted when it comes to such choices. For instance, in 2003, although people supported free markets, they did not want large inefficient enterprises to shut down due to loss of jobs.

This is why we elect leaders who have a vision for the future, and expect them to tell us the bad news and guide us down a difficult path to a better future. The variety we seem to have elected in the US would prefer to give us fish today than teach us how to fish.

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'Trump can't bring back lost jobs'

Author Eswar Prasad, however, says if Trump translates promises into policy actions, the US economy can benefit

B BASKAR / VINAY KAMATH

US President-elect Donald Trump seems to view India favourably and the fact that he has business interests in India will strengthen bilateral ties. But the hostility of his electoral base to immigration and free trade could muddy the waters, says Eswar Prasad, Tolani Senior Professor of Trade Policy and professor of economics, Cornell University, US. Prasad's latest book, *Gaining Currency: The Rise of the Renminbi* was published last month. In an e-interview, Prasad spoke on Trump's economic agenda and demonetisation in India. Excerpts:



How has the academic community in the US reacted to Trump's shock victory?

This was certainly unexpected in most quarters. Many inside and outside the academic community are still mentally adjusting to the new reality — and only very slowly coming to terms with it! There are widespread concerns about some of the divisive rhetoric espoused by Trump during the election campaign as well as his hostility to immigration and traditional approaches to US global leadership. However, when it comes to many specific policy issues, Trump has often been on both sides of the debate. So there is an apprehensive wait-and-see approach that has taken hold in academic and financial circles.

Trump has promised to revive US manufacturing; how does he propose to go about it?

Trump has promised to spend more money on infrastructure, reform the tax system, and reduce business regulation. If such goals get translated into sensible policy actions, they could have a positive impact on US competitiveness. This would certainly help US job growth, which has already been

quite robust in the last couple of years. But the notion of bringing back jobs that have been lost in the manufacturing sector and in other industries such as mining is unrealistic. Weakening environmental regulations, labour protection, and overall business regulation may be good for businesses in the short run but may ultimately not be good for job growth, the US economy, or for the standards of living of much of its population.

Will he tone down his extreme rhetoric once he's in office?

That is certainly the hope. That he is a pragmatic businessman is seen by some people as a positive attribute. However, Trump's political base may demand some actions, such as protectionism or sweeping away financial regulatory reforms introduced in the aftermath of the global financial crisis, that could hurt growth and stability. Another notion, that may reflect the triumph of hope over realism, is that Trump does not owe anyone — including in his own party — any favours and can therefore push forward reforms more aggressively. Policymaking is inherently messy and requires careful attention to details, and Trump's apparent disinclination to gather information and evidence before making decisions is cause for worry.

How are Indo-US relations especially on the economic front likely to pan out under Trump?

Trump seems to view India favourably, and the fact that he has business interests in India will strengthen the ties. However, the

hostility of his electoral base towards immigration and free trade could make it difficult to generate substantive progress on building stronger trade and financial linkages. A US economy that no longer provides leadership to the world on issues such as freer movement of goods, capital, and labour could affect India and indeed the rest of the world adversely.

Who in your view is likely to be the next US Treasury Secretary?

The more important question is what sort of policies the next Treasury Secretary will espouse. Now that the Republican party controls the White House as well as both houses of Congress, there may be a strong push to transform the party platform into concrete policies. Unfortunately, the platform is full of measures such as cutting taxes (especially on the wealthy), slashing social expenditures while increasing defence spending, gutting environmental regulation, and rolling back financial regulation. All of these measures could have harmful long-term consequences for the US economy and affect its economic, financial, and even social stability, as the benefits of growth could become even more concentrated while the social safety net frays further.

Will Trump dismantle the healthcare system Obama tried to build?

Trump made a campaign promise

to eliminate Obamacare. While it has had many beneficial effects, Obamacare was in the end a messy compromise that has not "bent the healthcare cost curve" as much as had been hoped for. Still, Obamacare has given over 20 million formerly uninsured people access to formal health insurance. Since the election, Trump has moderated his attacks on Obamacare, even going so far as to say that some of its elements might be worth preserving in some form. The notion of dismantling Obamacare without a good alternative in place would amount to putting politics ahead of sensible policymaking, especially in terms of protecting the economically vulnerable segments of US society.

Now, how will this affect the dollar?

Trump's election victory has certainly generated considerable uncertainty in global financial markets. That works to the advantage of the dollar, which remains the ultimate safe haven currency. No doubt Trump will not easily

forego the traditional "strong dollar" mantra but at the same time his emphasis on levelling the playing field for trade would suggest that he wants a weaker dollar. But of course it is ultimately government policies rather than rhetoric that determine currency values and exchange rates. On that front, it is likely that the imminent interest rate tightening by the Federal Reserve will keep the dollar strong, especially if the Bank of Japan and European Central Bank loosen their monetary policy stances even more aggressively. However, the prospect of increasing public deficits under a Trump presidency could hurt the dollar.

In any case, there is no serious rival to the dollar, especially in its role as the dominant global reserve currency. Hence, it is unlikely that there will be any major currency realignments in global financial markets as a consequence of Trump's election.

Do you think the demonetisation exercise in India will meet its avowed objectives?

Modi's move is certainly a bold strike against corruption and the shadow economy. To be effective, however, this measure will need a lot of follow-through, particularly in terms of reducing the pervasive role of the Government in the economy.

If the immediate disruption is managed more effectively than has been the case so far, and if there is the right sort of follow-through, then any short-term adverse effects would be more than offset by greater confidence in India's long-term economic prospects that could spur investment. There could also be positive effects on the government budget and on enhancing the role of the formal financial system, although here again the full benefits would be realised only if the Government pushes forward with tax and expenditure reforms and clean-up of the banking system.



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