

THE EVERYTHING BUBBLE: POLITICAL-ECONOMIC OUTLOOK 2020*

***AND BEYOND**



- Current economy is driven by easy money, that is, liquidity (and fiscal stimulus)
- Longer-term economic growth needs to be supported by increase in productivity
- Policy analysis in the Age of Populism
- Federal, state, and local policies are fundamental to productivity
- Case study policy analysis

What is "The Everything Bubble"



- Asset prices are high across every category (real estate, bonds, equities, some commodities)
- Examples: U.S. 30-year near zero real bond yield (high bond price); stock market capitalization to GDP is 153%, an all-time high; S&P/Case-Shiller U.S. National Home Price Index well-exceeds "housing bubble" highs.
- Hedge fund billionaire David Tepper: "I love riding a horse that's running."

Emerging Bubble?





Source: Board of Governors of the Federal Reserve System (US)

Fed Balance vs S&P 500





What's the Potential Problem?



- Asset Values Increase without Productivity Gain
 - For example, Manhattan or San Francisco home value increases, but level of production (1 unit) stays constant over 10-50-100 years
 - Monopoly power, rather than innovation. Taxicab medallion. Is big tech innovator or monopoly?
- "Minsky moment:" Assets valued for appreciation rather than fundamentals: in the long run greater fool or Ponzi game can end in tears.



- Fundamentals drive long-term economic growth
- Growth = Labor Force Growth * Productivity (GDP/Worker) Growth
- Labor force growth is about 0.5% annually, productivity needs to grow at 1.5% to increase GDP by 2%.
- Labor productivity growth comes from 3 sources:
 - Capital deepening (the amount of capital per worker)
 - Labor composition (the education and experience of the workforce)
 - Total factor productivity (overall efficiency of using labor and capital inputs)





% Change in Baseline National Labor Force



2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
0.56%	0.58%	0.54%	0.54%	0.54%	0.51%	0.54%	0.35%	0.37%	0.37%	0.34%
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2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
0.34%	0.37%	0.36%	0.37%	0.36%	0.33%	0.37%	0.39%	0.41%	0.41%	0.37%
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2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050
0.37%	0.39%	0.38%	0.40%	0.39%	0.34%	0.37%	0.35%	0.35%	0.35%	0.29%
								///		
2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060
0.29%	0.29%	0.28%	0.27%	0.26%	0.22%	0.23%	0.23%	0.23%	0.22%	0.19%

REMI

10-Year Change

Years	% Change
2020-2030	4.8%
2030-2040	3.8%
2040-2050	3.7%
2050-2060	2.5%

Government Investment and GDP



REMI



Private Nonresidential Fixed Investment as a Percentage of GDP







Capital Deepening (capital per worker)

Labor Composition (education and experience)

Total Factor Productivity (efficient use of inputs)

What can be done for capital deepening? (the amount of capital per worker)



- Tax structure to encourage business investment (e.g. research and development tax credit, low corporate tax rates); generate revenue from tax on consumption (e.g. housing, carbon tax, VAT)
- Economic development policy to encourage business investment (business-friendly regulations, incentives for economic base industries)
- Public investment in transportation and infrastructure

What can be done for labor composition? (education and experience of the workforce)



Investment in education and training at all ages

 Encouraging business investment in labor force development

Immigration based on employment and skills (now less than 10%)

What can be done for total factor productivity?



- Government investment in basic research and development
- Regulations that allow for highly productive use of resources—Air BnB, Ridesharing
- Reducing economic distortions: for example, land use controls.
- More efficient system of health care, public safety, higher education: lots of resources, with mixed results as best (for example, health care about 3.5 trillion/year)

Policy Analysis in the Age of Populism



Growth the Pie vs. Split the Pie
 Positive Sum Game vs. Zero Sum Game

 Loss of consensus on immigration reform (2 failed efforts in the 2000's), trade (TPP is out), infrastructure spending (traditionally bipartisan)

Why: economic gains not realized broadly

Economic Gains Uneven





what does **REMI** say? sm

Source: FRED

Deaths of Despair (Suicide, Alcohol-Related, and Drugs)





Deaths of Despair by State





Source: Life Expectancy and Mortality Rates in the United States, 1959-2017 (JAMA, Nov. 26, 2019)

Pragmatist vs. Populist



Pragmatist:

- Analyzes the demographics of likely voters, crafts message to appeal to these voters.
- Rational arguments on electability, feasibility of plans.
 Positive-Sum Game: we can all be better off
- □ Populist:
 - Appeals to the gut, and the "unlikely" voter
 - Emotional arguments
 - Zero-Sum Game: competition for limited resources

State and City Policies



Rational Solutions Still Work

- Most Governors and Mayors have Common Sense
- *need to balance a budget
- *represent many diverse interests
- *need to compete against other cities and states





- Denver, Colorado: Ongoing investment in Mile-high stadium, airport, rail system, Lower Downtown redevelopment
- Dallas, Texas: pro-business policies, Dallas-Ft. Worth Airport, 4 Major League sports, pro-development policy provides relatively affordable housing for a city of this size
- California: long-standing support of higher education
- Research Triangle, North Carolina: Federal, state, private investment that transformed this region



- Policies to encourage economic/productivity growth could result in increasing inequality
- Need policies to grow the economy, all share in the growth
- □ Examples:
 - Earned income tax credit is more effective way to support lower income households than minimum income
 - Public investment in infrastructure, if done right, can yield broad benefits and new tax revenues that pay for the investment. (For example, tunnel between New York and New Jersey)



Policies to encourage economic/productivity growth could result in increasing inequality

HOWEVER, well-structured policies can provide growth with wide economic benefits

 Requires careful analysis, quantification, and communication of benefits across stakeholders

Case Study: Amazon HQ 2.0

- Queens, New York City one of 2 locations selected
- Tax Incentives Part of the Deal
- Populist Backlash, Amazon pulls out
- Yet...
- HQ 2.0 Tax Expenditures and Infrastructure Investment in Productivity (and economic base)
- Additional Tax Revenues Provide for Support of Basic Public Services





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		Acti View Category		Detail	Region		Units	2017	2018	2019	2020	2021	2022	2023
	Þ	🔽 🔍 Wage Bill		Management of companies and enterprises - 55	New York		2016 Fixed National \$ (000s)	0	0	9275.7	38427.9	78180.9	104682.9	157686.
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	►	🖂 🖸 Detailed Industry Sales (Exogenous Produ	uction)	Commercial structures, including farm structures - 23324	A0 New York		2016 Fixed National \$ (Units)	0	0	39312000	123552000	168480000	112320000	2246400
		Detailed Industry Sales (Exogenous Produ	uction)	Commercial structures, including farm structures - 23324	A0 New York		2016 Fixed National \$ (Units)	0	0	20160000	63360000	86400000	57600000	1152000
		Industry Sales (Exogenous Production)		Computer and electronic product manufacturing - 334	New York		2016 Fixed National \$ (Units)	0	0	4829831.59	15179470.7	20699278.2	13799518.8	2759903
		Industry Sales (Exogenous Production)		Electrical equipment, appliance, and component manufact	cturin: New York		2016 Fixed National \$ (Units)	0	0	129334.402	406479.550	554290.296	369526.864	739053.
		Industry Sales (Exogenous Production)		Furniture and related product manufacturing - 337	New York		2016 Fixed National \$ (Units)	0	0	80834.0016	254049.719	346431.435	230954.290	461908.
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7 policy variables active. Unsaved Changes

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New York (Tax-NY) - Single Region 70 Sector Model 🖳

Direct and Dynamic Employment Impacts





Employment by Occupation



Personal Income





GDP Impact









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С	ategory Comparison Type Fore	Comparison F	orecast									
R	evenues 🕑 Differences 🔍 NY H	Headquarters Sim 🖂	NY Baseline with Detailed Revenues 🔽									
	Revenues	Units	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	1		
Þ	General Sales and Gross Receipts Taxes	Thousands of Fixed (2016) Dollars	0.000	0.000	+1689.454	+6770.543	+13274.865	+17098.371	+26663.408	+3		
Þ	Alcoholic Beverages Sales Tax	Thousands of Fixed (2016) Dollars	0.000	0.000	+26.400	+106.529	+213.421	+287.214	+453.128			
Þ	Amusements Sales Tax	Thousands of Fixed (2016) Dollars	0.000	0.000	+0.239	+0.992	+2.017	+2.688	+4.146			
Þ	Insurance Premiums Sales Tax	Thousands of Fixed (2016) Dollars	0.000	0.000	+224.367	+889.208	+1707.221	+2119.950	+3267.137	+		
Þ	Motor Fuels Sales Tax	Thousands of Fixed (2016) Dollars	0.000	0.000	+122.386	+494.241	+991.906	+1336.693	+2069.506	+		
Þ	Pari-mutuels Sales Tax	Thousands of Fixed (2016) Dollars	0.000	0.000	+3.836	+15.938	+32.402	+43.185	+66.612			
Þ	Public Utilities Sales Tax	Thousands of Fixed (2016) Dollars	0.000	0.000	+70.293	+272.619	+521.382	+664.896	+1051.832	+		
Þ	Tobacco Products Sales Tax	Thousands of Fixed (2016) Dollars	0.000	0.000	+92.220	+360.855	+701.024	+914.435	+1397.660	+		
Þ	Other Selective Sales and Gross Receipts	Thousands of Fixed (2016) Dollars	0.000	0.000	+701.746	+2812.273	+5513.966	+7102.131	+11075.150	+1		
Þ	Alcoholic Beverages License	Thousands of Fixed (2016) Dollars	0.000	0.000	+5.431	+21.917	+43.908	+59.090	+93.224			
Þ	Corporations in General License	Thousands of Fixed (2016) Dollars	0.000	0.000	+3.002	+12.030	+23.586	+30.380	+47.375			
Þ	Hunting and Fishing License	Thousands of Fixed (2016) Dollars	0.000	0.000	+9.270	+38.676	+78.551	+103.975	+161.578			
Þ	Motor Vehicle License	Thousands of Fixed (2016) Dollars	0.000	0.000	+240.661	+973.411	+1929.809	+2514.938	+3798.315	+		
Þ	Motor Vehicle Operators License	Thousands of Fixed (2016) Dollars	0.000	0.000	+28.109	+113.694	+225.402	+293.745	+443.643			
Þ	Public Utilities License	Thousands of Fixed (2016) Dollars	0.000	0.000	+3.614	+15.592	+32.982	+45.775	+68.829			
Þ	Occupation and Business License, NEC	Thousands of Fixed (2016) Dollars	0.000	0.000	+9.767	+37.881	+72.448	+92.389	+146.155			
Þ	Other License Taxes	Thousands of Fixed (2016) Dollars	0.000	0.000	+0.272	+1.175	+2.485	+3.448	+5.185			
Þ	Individual Income Taxes	Thousands of Fixed (2016) Dollars	0.000	0.000	+6379.615	+26935.428	+55833.890	+76421.815	+117960.74	+1		
Þ	Corporations Net Income Taxes	Thousands of Fixed (2016) Dollars	0.000	0.000	+746.102	+3211.165	+6776.716	+9383.758	+14111.070	+1		
Þ	Death and Gift Taxes	Thousands of Fixed (2016) Dollars	0.000	0.000	+44.323	+189.821	+430.426	+697.093	+1168.562	+		
Þ	Documentarty and Stock Transfer Taxes	Thousands of Fixed (2016) Dollars	0.000	0.000	+42.230	+180.858	+410.101	+664.176	+1113.383	+		
Þ	Taxes, NEC	Thousands of Fixed (2016) Dollars	0.000	0.000	+45.953	+196.799	+446.249	+722.719	+1211.521	+		

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Revenues

Change in Tax Revenue





Conclusion



- Policy-makers need to deliver productivity gains that have wide benefits to the general public
- While loose monetary policy may sustain economic growth in the near term, longer-term economic growth occurs with fundamental gains in labor force productivity
- Policies can accomplish the goal of increasing productivity with widespread gains
- These policies need rigorous, quantitative analysis

November 2019 State Coincident Indexes: Three Month Change





- Coincident Indexes combine 4 indicators:
 - Nonfarm payroll employment
 - Average hours worked in manufacturing by production workers
 - The unemployment rate
 - Wage and salary disbursements deflated by the consumer price index (US city average)

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Percentage of Labor Force with Bachelor's Degree and Older than 25 Years







Deaths of Despair (Suicide, Alcohol-Related, and Drugs)







Disconnect between productivity and a typical worker's compensation, 1948–2014



Note: Data are for average hourly compensation of production/nonsupervisory workers in the private sector and net productivity of the total economy. "Net productivity" is the growth of output of goods and services minus depreciation per hour worked.

Source: EPI analysis of data from the BEA and BLS (see technical appendix for more detailed information)

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Economic Policy Institute

"The Everything Bubble" drives the economy



Consumption keeps the economy growing

Cheap and available loans drive consumption; wealth effect drives consumption

□ All groups: wage earners, salaried professionals, ownership class see gains over the last 2 years; Trump with 55% approve/39.7% disapprove on economy (RCP)

"The Everything Bubble" drives the economy



- Consumption keeps the economy growing (in Q2019, Personal Consumption Expenditures up by 3.2%; Gross private domestic investment down by 1% [nonresidential down by 2.3%, residential up by 4.5%]; Government consumption and investment up by 1.7%].
- Cheap and available loans drives consumption; wealth effect drives consumption
- (For example, U.S. stock market valuation increased by about 25% or 7.5 trillion, source: Wiltshire 500 Total Market Full Cap Index and World Federate of Exchanges Database)