Climate: Trump blows hot and cold

By [Aurélien Saussay]

Donald Trump has thus once again respected one of his campaign promises. Nevertheless, the withdrawal of the United States from the Paris climate agreement is still not certain.

Some key figures in the US oil lobby, such as the Secretary of State, Rex Tillerson, who was former boss of Exxon-Mobil, along with its current CEO Darren Woods and the Governor of Texas, the leading oil producing state in the United States, are advising the President to keep the United States in the agreement – if only to influence the way it's applied.

This withdrawal is certainly not good news. But it does not constitute the catastrophe that some seem to fear.

At the international level, China immediately renewed its commitment by replacing the former Sino-US axis with a new Sino-European climate alliance.

Despite the importance of coal in China's energy mix, it has become the world's leading solar power producer, both in installed capacity as well as in the capacity to produce photovoltaic cells. China's leaders have no intention of turning their back on this technological shift, which places their country in an enviable position of technological and industrial leadership.

Moreover, beyond the global problem of climate change, for China the reduction of coal consumption is a critical issue in its local policy.

The fine particles emitted by the country's power stations are smothering its cities and significantly degrading the inhabitants’ quality of life. With environmental demands rising among the populace, it would be unthinkable to forego further efforts to reduce coal consumption.

The combined leadership of China and Europe should be enough to isolate Trump’s position on the international stage and not jeopardize the participation of the other major emitting countries in the agreement. But the United States alone does still account for 15% of global emissions (compared with 30% for China and 9% for the European Union).

A complete renunciation of any climate policy at the domestic level would have a significant impact on the future trajectory of emissions.

The announcement by the governors of the states of California, New York and Washington of the creation of an Alliance for the Climate in the aftermath of the US withdrawal is in this respect rich in lessons.

First of all, it confirms that a large part of American climate policy is decided at the local level (state, even municipality).
It also reveals the great divergence between the American states in the face of climate change: other coastal states that are heavily involved in the energy transition like Massachussetts and Oregon could join this Alliance, which already accounts for more than one-third of US GDP.

Finally, it highlights how sharply divided the country is on the subject: a recent Pew Research Center survey indicates that nearly 60% of Americans want their country to stay in the Paris Agreement. Trump is actually almost as isolated within the United States as he is internationally.

The withdrawal from the Paris Agreement in the main represents a domestic policy decision for Trump. His announcement, which focused on the coal industry, is aimed primarily at his voters in Appalachia’s mining country, who believe their survival is threatened by the energy transition.

In the short term, however, it is much more the competition from shale gas that is threatening the US coal industry.

The new competitiveness of renewable energies, even without subsidies, condemns coal over the longer term: the leading producer of wind power in the United States is for instance Texas, which does not exactly arouse suspicion for its environmental sympathies.

Donald Trump has thus taken a risk in breaking the international process centred on the Paris agreement in an effort to revive a dying industry – with little hope of success. Fortunately, his international and domestic isolation should limit the scope of his decision.

What Donald Trump's economic programme reveals

By Xavier Ragot

The US elections are proving to be very revealing. Three different perspectives on the current elections are yielding insights into three areas: first, on the state of the US economy, second, on the state of the thinking of economists, and finally, on the nature of the relationship between economists and politicians.

The US primaries were marked by both the "resistible rise" of Donald Trump and the emergence of Bernie Sanders, who has hit Hilary Clinton from the left but failed to win.

The success of Donald Trump, who circumvented the Republican Party, was based on policy mainsprings that draw on some paranoia about the loss of identity of the United States in the face of concessions made economically to China, politically to Iran, and militarily in Iraq. The country's loss of status is a very real topic in the United States. The success this theme has enjoyed also stems from the reality of the economic situation of the middle and working classes in the US. The social scars caused by inequality in the country, so elegantly studied by Thomas Piketty, are visible on the streets, reflecting the reality of unequal access to health care (so incomprehensible to a European). While this theme of inequality is the central focus of the Bernie Sanders campaign, popular anger is also being expressed in the Republican camp.

Donald Trump's economic programme has the poetic but disturbing charm of a ramshackle inventory. By European standards it is difficult to identify it as right, extreme right or left. Trump does have a formal fiscal programme, but it has been significantly "enriched" by media interventions. He is in favour of investment in infrastructure and military spending, the reduction of taxes, an increase in the minimum wage, an end to Obamacare and the total privatization of health care, the taxation of the rich, a reduction of immigration, especially from Mexico (building a wall between the US and Mexico), an aggressive trade policy toward China, which he accuses of dumping and, more recently, a partial default on US public debt. This last point has caused serious waves among Republicans. The United States is one of the world's few countries to have never defaulted on its public debt, so the Republican candidate publicly raising this possibility comes as a shock.

On this last point, I personally think that defaulting on public debt is a bad idea. This amounts to an uncontrolled tax, without assumption of responsibility, and it can also add to banking instability. Much better would be to impose a tax after a democratic debate. Furthermore, to ease the public debt burden, it is always possible to lower real interest rates on the public debt for a number of years using an accommodative monetary policy, without financial repression (see the article by Blanchard, Dell'Ariccia and Mauro).

Few economists defend Donald Trump's programme, even the part that sticks strictly to economics. A fairly positive interpretation of Trump's programme recently gained attention, as it came from a recognized and respected economist, Narayana Kocherlakota (here). Before getting into the reasons for Kocherlakota's (very relative) support for Trump, it is worth reviewing this economist's career to see how a crisis can change the way economists think. Narayana Kocherlakota trained as an economist at the University of Chicago, and he has made fundamental, highly technical contributions to financial theory, monetary theory and the dynamic theory of public finances, which are based on the application of tools from intertemporal contract theory. This is a very serious academic! Kocherlakota wrote a text on the state of macroeconomic thought post-crisis that is very interesting because it is based on the broad vision of a researcher who doesn't recognize his discipline when he looks at economics textbooks (not to mention popular texts). Kocherlakota became chair of the Federal Reserve of Minneapolis in 2009 (stepping down on 1 January 2016). The Minneapolis Fed is known as a hard-core, intellectually active outpost of "anti-Keynesian" thought, to put it in a nutshell. Kocherlakota went through a profound intellectual transformation while at the Fed and took a fairly radical Keynesian turn (here is one original theoretical contribution), which led to conflicts with his colleagues. What was missing in Kocherlakota's academic output? What economic facts destabilized him to such an extent?

It is obviously difficult to answer these questions. However, it could be argued that Kocherlakota’s own work did not make it possible to foresee the effectiveness of unconventional monetary policy or the impact of Obama’s fiscal stimulus plans. Indeed, the US government conducted a very Keynesian monetary and fiscal policy (tax cuts and massive monetary creation), which had positive effects that could not be encompassed by the models of the Minneapolis Fed. The major missing ingredients were the nominal rigidities that give aggregate demand a potentially important role. This issue of nominal rigidities is not a detail in macroeconomics. I have written a [text about the return of Keynesian thinking] on this issue.

Kocherlakota’s indulgence of the Trump programnme is not therefore that of a hard-core free marketer, but rather that of a converted Keynesian, whose faith seems a bit extreme. Kocherlakota is selling Trump’s Keynesian stimulus based on public spending and lowering taxes. His only concern is that he would like to be sure that Trump would accept higher inflation of around 4% rather than 2%.

Thus, the Trump programme is further blurring the lines between the economic policy of the left and the right. The theme of inequality and impoverishment is dominating debate in the middle and working classes. The global problem of lack of demand and underemployment is worrying economists under the rubric of secular stagnation. The emergence of Bernie Sanders, the hodge-podge of Trump’s economic programme (the violence of his remarks on immigration is not the subject of this text), and on another scale, Kocherlakota’s transformation, all reveal the difficulty facing the emergence of a coherent economic paradigm that has a broad social base. Policy (Republican and Democratic) is groping for a different articulation between the State and the market, a coherent and effective return of economic policy (fiscal and monetary) that is able to stabilize market economies and reduce inequality. This debate will be identical, but, due to the European issue, will take a different form in France’s presidential elections.