

# 1. Editorial

The economic outlook for 2017 and beyond rests on two key factors: whether the new administration's ambitious pro-business agenda aimed at boosting investment and employment spurs consumption and investment and whether the administration can uphold the institutions that have given the U.S. economy a comparative advantage.

However, broader macroeconomic conditions could put a wet blanket on the policy agenda. For instance, estimates on the impact of fiscal stimulus, specifically tax cuts, when the Fed is in, or is expected to enter a tightening cycle, are substantially lower. In fact, some estimates point to an impact that is 20% lower in the first year and a half and 60% thereafter. An economy near full employment, a business cycle that is in the home stretch and the unavoidable overhang from the federal debt will produce headwinds to any fiscal stimulus.

In addition, while deregulation and a business-friendly environment are conducive to better economic performance, trade protectionism and other policy actions that limit the functioning of a market economy will negatively impact growth and could produce permanent damage to the foundations of the U.S. market-based economy.

Therefore, we believe that where the administration has the greatest potential is on supply-side reforms that boost productivity and labor force participation. These have the potential to lift the economy out of its low-growth cycle, by making the business sector more dynamic and workers more skilled and engaged. More importantly, without consistent gains in productivity, the U.S. will not be able to increase well-being and opportunities for future generations, which could lead to a more polarized political climate and economy. A less dynamic society and labor market could also promote a widening inequality gap.

The ebbs and flows of the U.S. political cycle have been the paragon of democracy for two centuries. The peaceful transition of power has engendered stability and certainty, allowed citizens and residents to make decisions without fear of reprisal and enabled companies to invest with a high degree of certainty. A strong legal system and rule-of-law, along with low uncertainty, form the foundation of a successful pro-market, rules-based economy. These pillars, to varying degrees, have endured past presidents.

With this in mind, we advise against a rush to judgment, a daily exegesis of the president's Twitter account and an overreaction to daily market returns. Time is needed to determine if the administration's agenda will be implemented at the scale, speed and efficiency that are being promoted by the White House and Congress and if the private sector will buy into these reforms. Ultimately, the new administration should be judged on whether it created the conditions for the U.S. economy to remain prosperous for all future generations.

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