1) The US stock market has reacted very positively to the election of US President Donald Trump: up ~5% from the inauguration and ~10% from the election. Of the 4 central pieces of his economic policy (tax reform, trade policy re-shape, infrastructure, healthcare reform):

a) Which do you see as being most critical to the economy and markets?

Tax reform is the most critical to the stock market because it affects corporate earnings, which have a direct impact on stock valuations. Trade policy will have a more powerful effect on the overall economy because tariffs will be a drag on growth through higher costs, and possibly a stronger dollar. Infrastructure spending has important long-term benefits but will have little economic impact in 2017 because of long lead times, and long payback periods. Healthcare is important to individuals, but is the least important from a macroeconomic perspective.

b) What do you see as the path forward for the President's economic agenda; what should be taken up first?

Trade policy will be taken up first. The Troika of Robert Lighthizer, Wilbur Ross, and Peter Navarro have worked closely together to formulate trade policy without the acrimony that has affected healthcare and tax reform. Also, trade policy is firmly within executive branch authority and requires little cooperation from Congress, unlike taxes and healthcare. Tax policy should be taken up first, but the word "should" is irrelevant. Policy consists of doing what you can, not what you want. Trade policy changes are doable and we will see significant changes in the next 90 days.

c) Do you see the trade policy and tax reform being linked or being part of a comprehensive bill?

No. Trade policy can be implemented by the executive while tax policy requires involvement by Congress. It makes no sense to delay trade policy announcements while a consensus is developed on taxes. If a BAT or VAT is needed, that will require Congressional approval, but the White House can move ahead with tariffs, trade assistance, and trade-related litigation in the meantime.

d) Will the GOP push for the removal of the interest tax deduction?

Yes. It's a good revenue raiser, and corporate finance theory long ago decided there's not much difference between debt and equity except for tax benefits. Eliminating the interest tax deduction removes a distortion and raises revenue so it has a lot to offer the White House. Consumer interest expense was tax deductible until the 1980s. It was eliminated with no major disruption. Consumer lending is bigger than ever even without the tax deduction.

e) What are the prospects for a BAT or VAT? Which do you prefer?

I prefer neither because taxes are too high to begin with. However, my preference is irrelevant; what matters is policy. The BAT will be sidelined because its effects will be offset by a stronger dollar or lower investment, both of which are drags on nominal growth. Investors should expect the VAT. Both political parties and the U.S. Treasury have wanted a VAT for decades. The plans were drawn up long ago and have gathered dust on Treasury shelves waiting for the right political moment. That moment is now. Gary Cohn is in sync with a global elite that favors VAT because once it is in place, it can be raised continually in small increments to generate revenue for the state without much protest. The payroll tax has performed that role for decades, but the costs are unevenly distributed. Now VAT may substitute for the payroll tax with a broader base that does not exclude those currently exempt from payroll taxes. No one can hide from VAT, so it is the ideal wealth extraction policy.

f) Do you think the stock market is too optimistic about the policies' implementation/impact?

Yes. It's one thing to discuss and analyze policy, it's another actually to get things done. Trade policy will get done, but it's bad for growth on net. Tax policy may not get done until late 2017 or early 2018 and will not be retroactive for 2017 so we have already missed a full year of tax benefits the markets were pricing in. Corporate borrowing and investment are on hold until the rules on interest deductions and expensing for equipment are clarified. So there are major headwinds to growth from the delay of these policies. These headwinds are showing up in hard data, and in the Atlanta Fed GDPNow time series, but markets are ignoring the message. A major correction should arrive by this summer.

2) How do you view automation's expanding role in the US economy?

The growth of automation in manufacturing and transportation is unstoppable. The transition from mechanization to computerization is as revolutionary as the transition from manual labor to mechanization.

a) Do you believe it becomes a threat to labor as some are suggesting?

Yes. In the industrial revolution and in the process of mechanization in agriculture in the eighteenth and nineteenth centuries, more jobs were created in industry than were lost in artisanal and agricultural pursuits. Today automation is destroying jobs, but is not creating as many jobs to replace them. Returns to capital are increasing and returns to labor are stagnant. This has the potential to produce a breakdown in social order.

b) Do you believe there is any merit to a "robot tax" as Bill Gates recently suggested as a means to fund job training and filling the revenue hole left by fewer wage-related taxes?

Improvements in our educational system including job training are the only way out of economic stagnation for labor and a breakdown of the social order. Improved educational outcomes have more to do with school choice, weakening teachers' unions, and not wasting class time on political propaganda than with money. To the extent funding is required for improved outcomes, there are many policy choices. The "robot tax" is a gimmick. There are more efficient ways to fund education and training.

3) In the "Death of Money" you cite "rapid adoption" of Bitcoin as evidence of demand for USD alternative, "but its long-term viability as a virtual currency is yet to be seen" (pg254).
a) How do you grade Bitcoin's and other virtual currencies' progression since writing "Death of Money"?

Bitcoin and other virtual currencies meet the basic three-part test of "money" as a medium of exchange, unit of account, and store of value. But the most important characteristic of any form of money is confidence. If users have confidence in a form of money, then it can function well as money. But confidence is fragile, easily lost, and difficult to regain. Bitcoin was invented in 2009. We have not had a recession or financial panic since then. Therefore we have no idea how Bitcoin will perform in that environment unlike stocks, bonds, gold and other assets that have weathered many business cycles. One reason to be wary of Bitcoin is that it has not been tested in an economic downturn.

b) Many financial institutions have made sizable investments into Blockchain-based technology. Do you see a major role for this technology in the financial system?

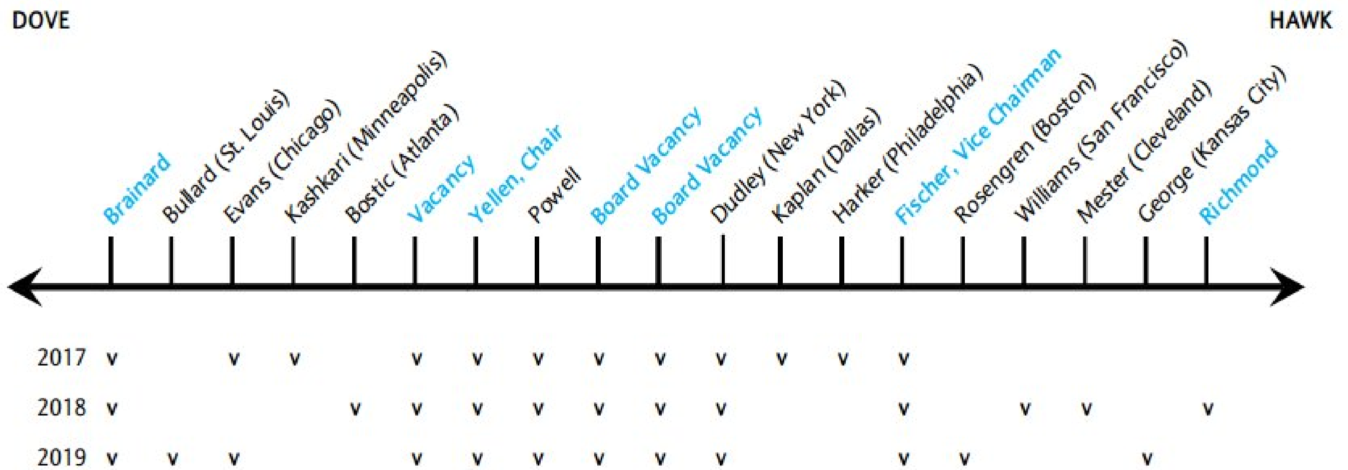
Yes. The block chain technology is extremely useful for property transfers and payments of all kinds. It can be used to support a new currency, but it can also be used for stocks, bonds, real estate and almost any other transfer of value. Block chain technology is here to say. We cannot be so sure about Bitcoin.

4) The recent early resignation of Jeffrey Lacker from the Richmond Fed brought added attention to the increasing number of vacancies at the FOMC.
a) What do you think this means for the Fed's policy going forward?

Donald Trump owns the Fed. He has three immediate appointments and two more in the next 14 months. One Republican, Jay Powell, is already in place. By the spring of 2018, Lael Brainard will be like the Maytag repairman with no other Democrats to talk to.

FIGURE 3

The FOMC is set to change significantly in the coming months



Note: Blue indicates FOMC participants who have announced their intention to resign or those we believe will resign by mid-2018. "v" signifies voting member. Richmond Fed President Lacker resigned effective immediately. The Federal Reserve Board of Governors also has three existing vacancies. Atlanta Fed President Bostic is due to starts on June 5, 2017. Source: Barclays Research

Source: Barclays Research

Trump will get what he wants. The question is, “What does he want?” The best information is that he will go with a hard money, Taylor Rule group led by Kevin Warsh. In effect, Trump will fight the trade deficit with trade wars, not currency wars, and will support higher rates and a stronger dollar.

(b) Will we see a reshaping of how the Fed policy is conducted?

The Fed is on track to raise rates in June. Any new appointees will be hard money people, so I do not expect any change in the monetary tightening path of the Fed. The problem is that the Fed is tightening for the wrong reasons. They are tightening because Bernanke skipped a rate hike cycle in 2010-2012 with his ZIRP and QE experiments. Now the Fed is playing catch-up. The Fed has to raise rates to 3.25% so they can cut them in the next recession. The challenge is whether they can raise them without causing the recession they are preparing to cure. The Fed is likely to fail because their forecasting ability is highly deficient. The Fed can’t see recessions. They will continue tightening into weakness until the recession arrives, possibly by this summer.