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Dace Blaskovitz: Welcome back to Money and Politics in Delaware, Robert Fry Economics LLC. Ooh, he's on a run today. Let him go. So Robert, you wanted to finish your revisions answer. I had to cut you off. We had a hard close, but I believe it's wages. Start there.

Robert Fry: Yeah, I have some more revisions to the national income and product accounts. The big revision was in wage and salary income, labor compensation. It shows that it's grown much faster in 2017, 2018, especially 2018, and early 2019 than what the previous data showed. In the most recent months, up 5.5% year over year. Even if you take out inflation, it's around 4%. Just extraordinarily strong growth in real wages and salaries.

Robert Fry: Now the flip side of that was that those wages and salaries had to come from somewhere, while they came out of corporate profits and you've had a big revision down in corporate profits, the profit share of GDP, which is sort of the macro economic analog of a profit margin has come down considerably since 2014. The old data did not show that, so we've had a big switch from the corporate sector towards the workers, which is what you would expect in a very tight labor market, which is what we have now. So wages and salaries are going up.

Robert Fry: I would say that's a good thing. I would say that corporate profit margins were unsustainably high, were probably too high, and so this is a good thing. It kind of takes the wind out of the sails of some of the democratic talking points that you would hear in the debate because apparently the workers are doing better than we thought and those big bad old corporations are not doing nearly as well as we thought. But that's what the new data show.

Dace Blaskovitz: All right, transition time. Take your professor hat on, put your Johnny Carson hat on, we're going to do a lightning round. Everything has to be 60, 90 seconds. So when you look at the world as an economist, as an economist, give me some numbers that jump out at you.

Robert Fry: Ah, let's see. Well if you look at the US as representative world GDP, it's 24%. We're doing that with less than 5% of world population. We used to consume 24% of the world's energy back a decade or so ago. Since then, we've gotten a bit more energy efficient and some of the rest of the world has gotten maybe less energy efficient. So now we consume 17% of the world's energy. China is now the biggest consumer of energy in the world. They're now 24% of world energy consumption. If you're concerned about climate change and the need to bring down carbon emissions, those two countries are 41% of energy usage.

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Dace Blaskovitz: Absolutely. Go to China. Let them chop off your head. Next subject. Next subject. All right, you've got 60, 90 seconds again. The financial papers have been preoccupied with the term dual mandate at the Fed. What does that mean and why are they preoccupied with it?

Robert Fry: Well, there was a law passed, so I think back in the '70s, the Humphrey Hawkins bill, and it basically told the Fed what they're supposed to do. Their objectives are price stability and maximum employment. They have defined price stability as 2% inflation, which was not really. Price stability, it's inflation stability, price stability would be zero inflation. They look at measures of employment and try to get full employment. They're actually very close to their mandate right now. There are some more purest economists, I have sympathy, for them who would prefer just the same old mandate, have them focus only on price stability, but I think you should look at unemployment as a key or an indicator of how fast you should get towards price stability. You don't want to cause a recession and put a lot of people out of work to get to price stability too quickly.

Dace Blaskovitz: In your newsletter, you thought a deal with China, US-China trade deal may have been done, that Trump may be waiting to the fall, maximum publicity after the summer season, and he would need a minimum of three quarters to get the economy humming again, says Robert Fry, prior to the election. Then we tape on Friday and in the last 24, arguably 48 hours, low and behold Trump increases the tariffs, which might suggest he's pulling a desperation move cause the deal ain't moving along. That is suspected. Robert Fry, at the same time, China's a mess. Troops amass reportedly at the border. They're getting ready to attack Hong Kong. I meant you have what, the US's biggest trading partner is now Mexico and Canada, people, companies rather, leaving China and going to Vietnam and Malaysia and the Philippines. China is a mess. You as an economist, what do you say?

Robert Fry: Well, that's a lot to digest, but remember the old Chinese curse, may you live in interesting times. It's an interesting time. I was putting a couple of things together. First of all, someone that we both know is greatly familiar with China was suggesting that they had made more progress on this trade deal than letting on. Basically they've got a deal in English and they're working on the Chinese translation.

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Robert Fry: I put that together with some research by Ray Fair, who's a Yale economist who for years has been predicting election results based on economic indicators. The key to the election is growth in the first three quarters of the election year, which is next year. So I'm thinking, all right, if President Trump wants to get reelected, he has to get this trade deal done in time that the economy picks up and it gives him a strong first three quarters of 2020, because right now what's holding back GDP growth is business investment. Businesses are having investment on hold right now. They're so upset with the trade uncertainty that they put their investments on hold, and growth is going to be slow until that trade uncertainty is resolved and they start investing again. So he's got to do that I think by the end of the year or growth is going to be a lot slower next year than he needs to get reelected.

Dace Blaskovitz: Tick-tock on that clock. We've got roughly two minutes. Another mess question, Europe. Europe, gosh, where are we at, negative yields 44 basis points in Germany, if I remember that correctly. I mean, it's a mess. Italy arguably bankrupt, Greece, I mean, it's a mess. What was the barren stat? Let's see, five or six of the largest European banks have lost so much of their value collectively, they're worth less than the US's Wells Fargo, number three troubled bank. What do you say about Europe, smart guy?

Robert Fry: I think there's a couple of things going on. Number one, one of the purposes for the US doing tax reform was to cause businesses to relocate activity in the US rather than somewhere else. I don't think we should be surprised that the US is doing much better than most of the rest of the world because we're producing a larger share here. Now the total manufacturing in the world is going down, so we're just not going down as much as Europe and Japan. The other thing is I think they've got interest rates too low. There's a really interesting paper by Markus Brunnermeier and Yann Koby, a professor and a grad student at Princeton.

Dace Blaskovitz: One minute, one minute, one minute.

Robert Fry: And they argue that if interest rates get too low, cutting interest rates actually slows growth. I think that's what's happened in Europe.

Dace Blaskovitz: Well, finish it though. How do you connect it to, you can push it too low? Is that the theme?

Robert Fry: Yeah. Well, they're looking at it from the standpoint I believe of the incentive of banks to make loans, and if rates get too low, they don't want to make loans. I think there's another thing going on.

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Dace Blaskovitz: Quickly, do it.

Robert Fry: Central banks don't realize people get a lot of interest income, especially old risk averse people, and when you cut interest rates too low, they've got to stop spending instead of living off their interest income. They draw down principal until it's gone and then they're stuck living off of social security.

Dace Blaskovitz: All right. Robert Fry, Robert Fry, Jr., Robert Fry Economics, LLC. We're going to take a short break. We will be right back.