A tax bill moves forward, more on productivity, a new forecast, and China.

Two weeks ago we wrote that productivity and China deserve papers devoted to them alone. They do. Last week was productivity and next week, hopefully, will be China. We want to spend a little more time on productivity and make a quick statement about China. During the campaign, Mr. Trump spoke of an economic plan which made an abundant amount of sense. Mr. Trump spoke of a government/private industry cooperative program to encourage a nationwide apprenticeship program. Much has been written about the number of good jobs not being filled because employers can't find qualified candidates. Also, Mr. Trump and some in Congress have spoken harshly about immigrants taking jobs from native born Americans. Bringing an apprenticeship program would be a wonderful way to help. The United States has all the tools at its disposal, large numbers of independent companies, a good system of high schools and an abundant number of community and junior colleges to use. This would cost tax payers and corporations some money in the beginning, but is one of those happy programs that would produce, over time, a more productive workforce, strong wage growth, higher GDP and a more globally competitive business community. Both industry and the government would wind up earning a strong return on their investment, not to mention the tremendous contribution to welfare.

We have argued long and hard that the U.S. response to China and the trade deficit was misplaced. It is not that we believe China is doing the right thing. It is that the U.S. arguments are misplaced. The Administration has leveled a document with the WTO (World Trade Organization) opposing the granting of China market economy status. This complaint is entirely justified. We plan to spend a fair amount of time on this next week but think it is important to recognize when a step in the right direction is taken.

The Republican tax bill is moving along faster than we anticipated. It still has a way to go and it will be interesting to follow the bill when it comes to consolidation. We believe that corporate tax reform is needed. Certainly, we will see some special interest additions over the course of the debate, but that is to be expected and we just hope they are held to a minimum. The tax plan for individuals is a far different story. We are highly skeptical that the bill, as written, will be a boon to the middle class as advertised. Most economic research groups who have studied the bill argue that over the decade, it will substantially raise the deficit. This leads to problems, most of which affect the middle class. The other point not brought up is budget deficits lead to current account deficits, which is precisely what the Administration is fighting against.

The National Association for Business Economics[1] released its quarterly survey this morning. It did not change much from last quarter: moderate GDP growth and continued Fed tightening, steady but not dramatic. Two interesting points: just a small boost to growth from tax reform and few anticipate an infrastructure plan to pass in 2018. This last point is a disappointment because an infrastructure plan, coupled with an apprenticeship program, has the opportunity to raise U.S. growth to a new, higher level.

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[1] I am a member.

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The Week Ahead:

- **MONDAY:** US Factor Orders expected at -0.40%; US Durable Goods Orders expected at -1.00%; EC PPI m/m expected at 0.30%
- **TUESDAY:** EC Markit Eurozone Services PMI expected at 56.2; EC Markit Eurozone Composite PMI expected at 57.5; EC Retail Sales m/m expected at -0.70%
- **WEDNESDAY:** Canada Bank of Canada Rate Decision expected at 1.00%; Germany Factory Orders m/m expected at -0.20%; Russia CPI m/m expected at 0.20%
- **THURSDAY:** EC GDP SA q/q expected at 0.60%; Japan GDP SA q/q expected at 0.40%; Germany Industrial Production SA m/m expected at 1.00%
- **FRIDAY:** US Unemployment Rate expected at 4.10%; UK Industrial Production m/m expected at 0.00%; US Wholesale Inventories expected at 0.10%