

# Dream or Delusion?

## The Promises and Pitfalls of Trumpenomics



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# Key Questions to Ponder

## The Promises

- What is the Trumpenomics dream?
- What is Trumpenomics?

## The Pitfalls

- What is the Trumpenomics delusion?
- What are consequences of Trumpenomics?
- What is the current state of the U.S. economy?
- What is the current state of U.S. politics?

## The Verdict

- What are the two mostly likely scenarios?
- Which Trump will prevail?

# What is the Trumpenomics Dream?

- Generate annual growth rate of 3.5% - 4.0%
- Create 25 million new jobs over 10 years
- Bring back lost manufacturing jobs
- Revive coal industry
- Generate trade surplus
- Make America Great Again....

# What is Trumponomics?

## Lower Taxes

- Reduce individual income tax from 7 to 3 tax brackets with tax rates of 12%, 25%, & 33%
- Reduce corporate tax rate from 35% to 15%
- Reduce corporate tax on repatriation to 10%
- Repeal estate and gift taxes

## Increase Expenditures

- National defense (e.g., 350-vessel navy fleet)
- Border security (e.g., “The Wall”)
- Domestic infrastructure (e.g., \$1 trillion PPP)

## Deregulate Business

- Complete regulatory overhaul
- Moratorium on new federal regulations

# What is Trumponomics? (2)

## America-First Trade Policy

- No Trans-Pacific Partnership
- Re-negotiate NAFTA
- China currency manipulator, subject of trade cases

## Unleash American Energy

- Attain energy independence
- Increase coal production and hydraulic fracturing
- Increase energy production on federal lands

## Penny Plan

- Reduce non-defense, non-safety net spending annually by 1% of the previous year's total
- Total reduction \$1 trillion over ten years

→ ***Reaganomics Redux....***

# What is the Trumpenomics Delusion?

- Likely Impact of Trumpenomics if Implemented
  - No strong association between tax rates and economic growth in the United States (Reagan, Bush, Clinton)
  - What is good for Wall Street is not necessarily good for Main Street (trickle-down economics vs. inclusive growth; time frame and distributional concerns)
  - Unintended consequences (current state of US economy; fiscal and monetary implications; Fed policy)
- Likelihood of Implementing Trumpenomics
  - Political economy of reform (current state of US politics)
  - Ambiguity of mandate (mixed election signals)
  - Schizophrenic leadership (savior vs. deal maker)

# What are the Consequences of Trumpenomics?

## Lower Taxes

- Tax cuts increase budget deficit by \$7.2 trillion and raise federal debt to GDP by 26.2% over 10 years
- Half the benefits in reduced tax liabilities to top 1%

## Increase Expenditures

- Defense and veterans up \$950 b over 10 years
- Higher education/childcare up \$600 b over 10 years
- Security/infrastructure costs unclear

## Deregulate Business

- Decreased competition and monopoly rents
- Social and environmental costs

# Consequences of Trumponomics?(2)

## America-First Trade Policy

- Retaliation, trade war
- WTO challenges
- Increased trade deficits

## Unleash American Energy

- Environmental damage
- Non-competitive renewables
- Higher long-term vulnerability

## Penny Plan

- Discretionary spending effectively 10% of budget
- Congressional gridlock



# What is the Current State of the U.S. Economy?

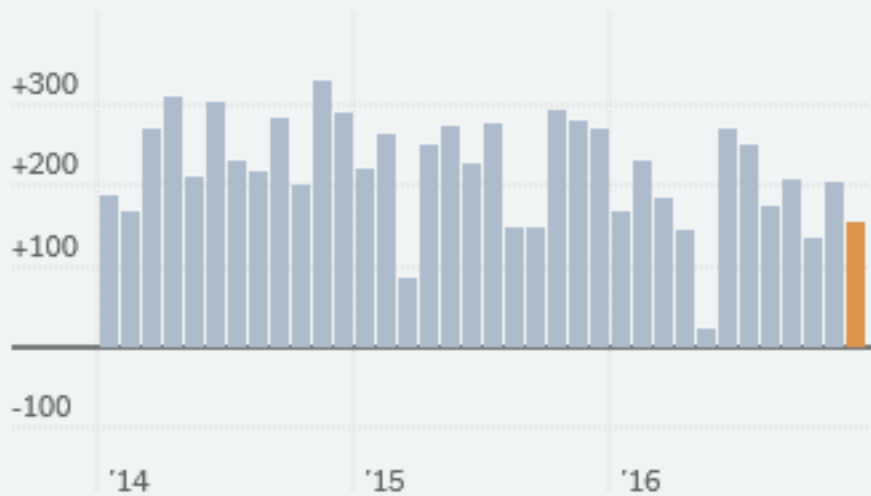
First, the good news: strong aggregate performance

- Budget deficit/GDP (2017 est.): 2.6% (9.8% in 2009)
- Fed. debt/GDP (2017 est.): 104.4% (105.2% in 2016)
- Unemployment Rate (12/16): 4.7% (9.9% in 2009)
- Net Jobs Created (2016): +2.2 m (180,000/month) (-5.1m, -423,000/month in 2009)
- Positive Net Jobs Created 75 consecutive months
- Hourly Pay (2016): +2.9% (best since 2009)
- 19 states increased minimum wage (eff. 1/17)
- Urban CPI thru 12/16: 2.1% (0.7% in 2015)

# Current State of the U.S. Economy? (2)

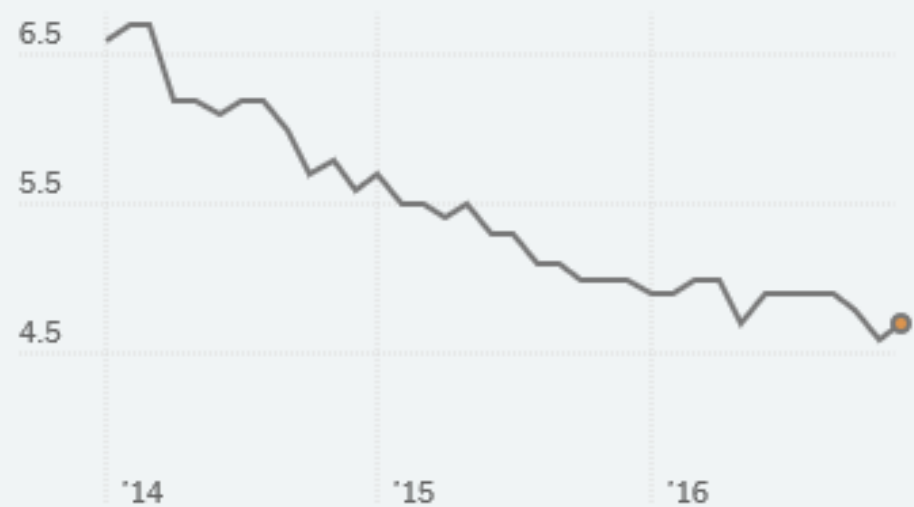
**Change in jobs**  
In thousands

December  
**+156,000**



**Unemployment rate**

December  
**4.7%**



# Current State of the U.S. Economy? (3)

## Now, the bad news: structural inequality (12/16)

- Standard aggregated unemployment: 4.7%, 7.5 m
- Long-term unemployment: 1.8 m, 24.2% of unemployed
- Unemployment by race
  - Whites: 4.3%
  - Hispanics: 5.9%
  - Asians: 2.6%
  - Blacks: 7.8%
- Unemployment by education
  - < High school: 7.9%
  - Some college: 3.8%
  - High school: 5.1%
  - ≥ Bachelor's: 2.5%
  - Continued decline in factory jobs: -63,000 (since January 2016)
- Unemployment more broadly defined
  - With involuntary part-time: -459,000 in 2016, 5.6m → 8.2%
  - With marginally attached: 1.7m → 9.3%

# Current State of the U.S. Economy? (4)

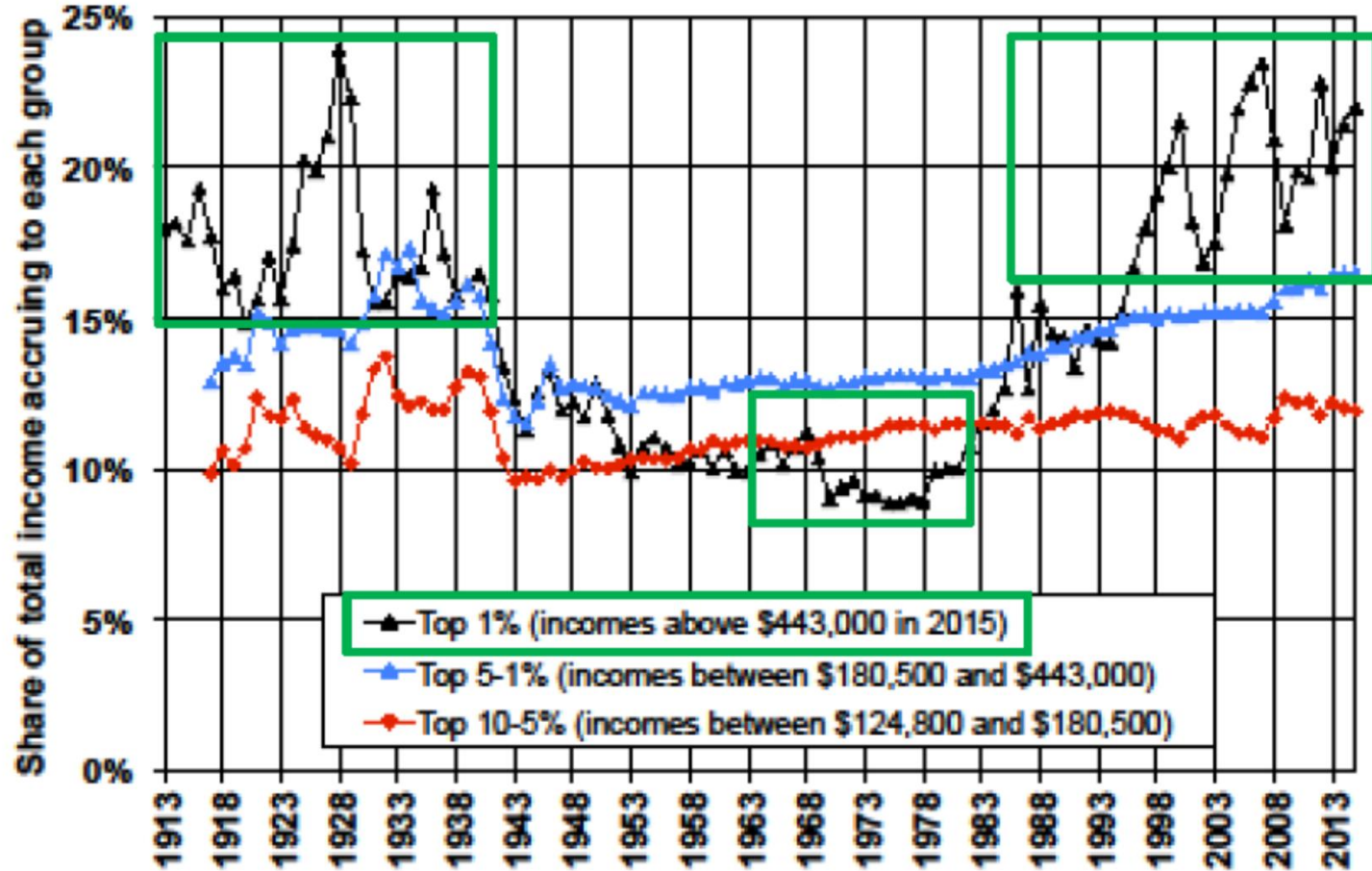


FIGURE 2

Decomposing the Top Decile US Income Share into 3 Groups, 1913-2015

# Current State of the U.S. Economy? (5)

Table 1. Real Income Growth by Groups

	Average Income Real Growth (1)	Top 1% Incomes Real Growth (2)	Bottom 99% Incomes Real Growth (3)	Fraction of total growth (or loss) captured by top 1% (4)
Full period 1993-2013	15.1%	62.4%	7.3%	59%
Clinton Expansion 1993-2000	31.5%	98.7%	20.3%	45%
2001 Recession 2000-2002	-11.7%	-30.8%	-6.5%	57%
Bush Expansion 2002-2007	16.1%	61.8%	6.8%	65%
Great Recession 2007-2009	-17.4%	-36.3%	-11.6%	49%
Recovery 2009-2012	6.9%	34.7%	0.8%	91%
Top tax increase 2012-2013	-3.2%	-14.9%	0.2%	106%

Source: Emmanuel Saez, *Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2013 preliminary estimates)*, January 25, 2015.

# Current State of the U.S. Economy? (6)

Table 1. Real Income Growth by Groups

	Average Income Real Growth (1)	Top 1% Incomes Real Growth (2)	Bottom 99% Incomes Real Growth (3)	Fraction of total growth (or loss) captured by top 1% (4)
Full period 1993-2015	25.7%	94.5%	14.3%	52%
Clinton Expansion 1993-2000	31.5%	98.7%	20.3%	45%
2001 Recession 2000-2002	-11.7%	-30.8%	-6.5%	57%
Bush Expansion 2002-2007	16.1%	61.8%	6.8%	65%
Great Recession 2007-2009	-17.4%	-36.3%	-11.6%	49%
Recovery 2009-2015	13.0%	37.4%	7.6%	52%

# Current State of the U.S. Economy? (7)

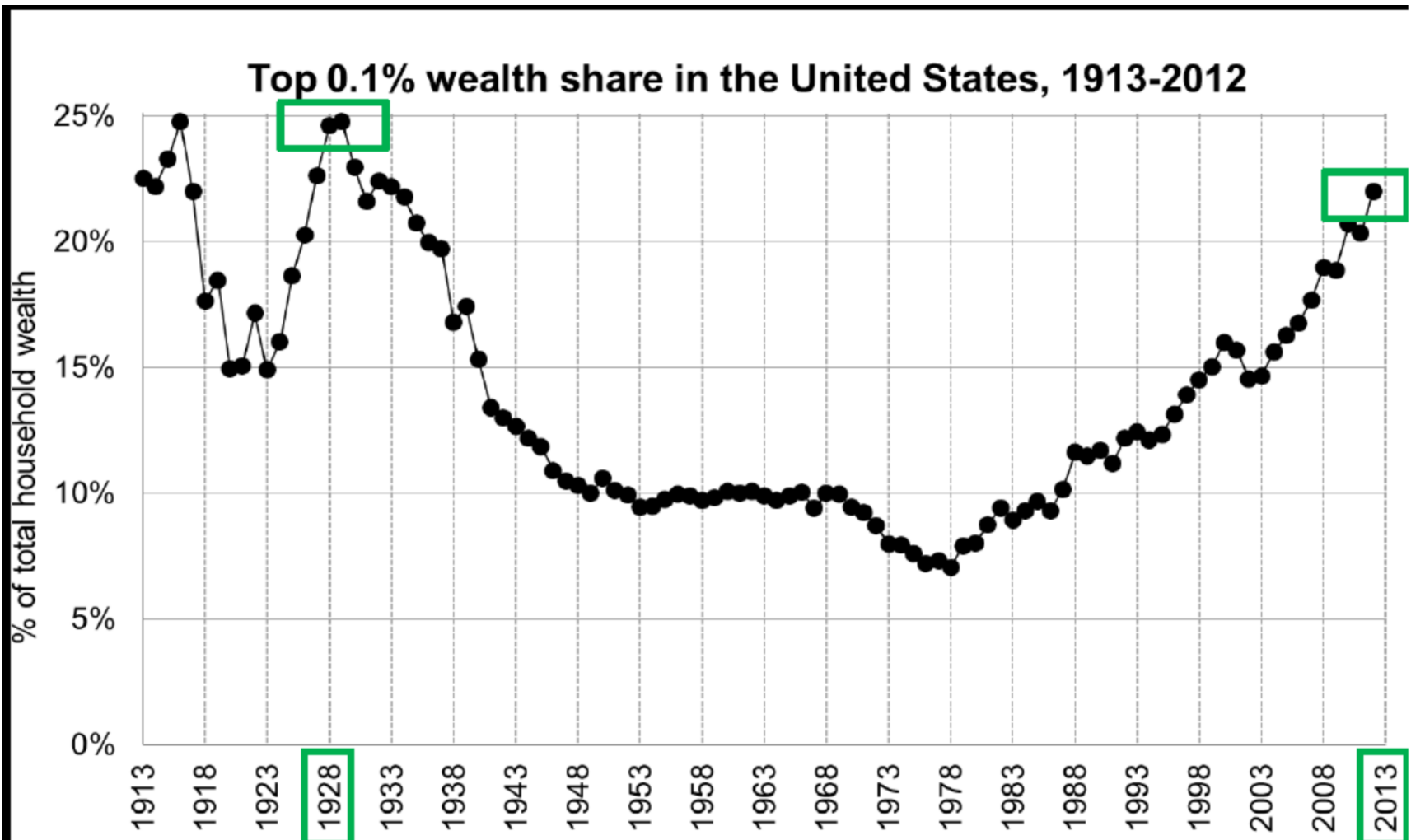
Table 1: Thresholds and average wealth in top wealth groups, 2012

Wealth group	Number of families	Wealth threshold	Average wealth	Wealth share
<b>A. Top Wealth Groups</b>				
Full Population	160,700,000		\$343,000	100%
Top 10%	16,070,000	\$660,000	\$2,560,000	77.2%
Top 1%	1,607,000	\$3,960,000	\$13,840,000	41.8%
Top 0.1%	160,700	\$20,600,000	\$72,800,000	22.0%
Top .01%	16,070	\$111,000,000	\$371,000,000	11.2%
<b>B. Intermediate Wealth Groups</b>				
Bottom 90%	144,600,000		\$84,000	22.8%
Top 10-1%	14,463,000	\$660,000	\$1,310,000	35.4%
Top 1-0.1%	1,446,300	\$3,960,000	\$7,290,000	19.8%
Top 0.1-0.01%	144,600	\$20,600,000	\$39,700,000	10.8%
Top .01%	16,070	\$111,000,000	\$371,000,000	11.2%

**Notes:** This table reports statistics on the wealth distribution in the United States in 2012 obtained by capitalizing income tax returns. The unit is the family (either a single person aged 20 or above or a married couple, in both cases with children dependents if any). Fractiles are defined relative to the total number of families in the population. **Source:** Appendix Table B1.



# Current State of the U.S. Economy? (8)



This figure depicts the share of total household wealth held by the 0.1% richest families, as estimated by capitalizing income tax returns. In 2012, the top 0.1% includes about 160,000 families with net wealth above \$20.6 million. Source: Appendix Table B1.

Source: Emmanuel Saez and Gabriel Zucman, *Wealth Inequality in the United States Since 1913: Evidence From Capitalized Income Tax Data*, October 2014.



# What is the Current State of the U.S. Politics?

- Executive Branch: Republicans (Trump)
- Legislative Branch: Republicans (both houses of Congress)
  - Senate: 52-48 (Democrats +2, need 3 more)
  - House of Reps: 241-194 (Democrats +6, need 24 more)
- Judicial Branch: Appointments by Republicans
  - 1 Supreme Court vacancy: swing vote
  - Maybe additional Supreme Court vacancies
- Election results
  - Popular vote (136.6 m total): Clinton 65.8 m (48.2%); Trump 63.0 m (46.1%) → Clinton +2.8 m (2.1%)
  - Electoral vote (270/538 to win): Clinton 232 (43.1%); Trump 306 (56.9%) → Trump +74 (13.8%)
  - Voter Turnout: VEP 60.0% → Trump 27.2% of VEP (1.5)
  - FBI investigations, Russia hacking/disinformation

# Current State of the U.S. Politics? (2)

- Trump transition
  - Historically low approval at 44% vs. Obama (83%), George W. Bush (61%), Clinton (68%)
  - Polarizing cabinet nominees
    - Steven Mnuchin/Treasury, Wilbur Ross/Commerce, Mick Mulvaney/OMB, Gary Cohn/NEC
    - Rex Tillerson/State, James Mattis/Defense, Jeff Sessions/Justice
    - Rick Perry/Energy, Andy Puzder/Labor, Betsy DeVos/Education, Tom Price/HHS, Ben Carson/HUD, Scott Pruitt/EPA)
  - Divisions within Republican Party

# Two Most Likely Scenarios

- Scenario I: Trumpenomics implemented
  - Economy gets short-term modest boost of inequitable and unsustainable growth
  - Primarily benefits the wealthy and big business while hurting the middle class and low income households, increasing inequality of income, wealth, and opportunity
  - Dollar appreciates, trade imbalance grows, inflation increases, Fed raises interest rates, economy slows down
- Scenario II: Trumpenomics not implemented
  - Blocked by Congress, courts, bureaucracy
  - Political gridlock until 2018 mid-term elections
  - Status quo or calamity

# Which Trump Will Prevail?

- Trump the businessman
  - Transactional focus on making deals with stakeholders
  - Pragmatism > ideology, evidence-based policies
  - Economic agenda > social and security agendas
- Trump the campaigner
  - Transformational focus on motivating political base
  - Ideology > pragmatism, faith-based policies
  - Social and security agendas > economic agenda
- Governing style
  - Spontaneity vs. Uncertainty
  - Passion vs. Impulse
  - Leadership vs. Narcissism

*I have*  *a dream...*

**OR A DELUSION?**

