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 Trumpenomics?

**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 Trumpenomics? (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 Trumpenomics?(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)
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?

### Table 1. Real Income Growth by Groups

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

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

#### Table 1. Real Income Growth by Groups

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Full period 1993-2015</strong></td>
<td>25.7%</td>
<td>94.5%</td>
<td>14.3%</td>
<td>52%</td>
</tr>
<tr>
<td><strong>Clinton Expansion 1993-2000</strong></td>
<td>31.5%</td>
<td>98.7%</td>
<td>20.3%</td>
<td>45%</td>
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</tr>
<tr>
<td><strong>Recovery 2009-2015</strong></td>
<td>13.0%</td>
<td>37.4%</td>
<td>7.6%</td>
<td>52%</td>
</tr>
</tbody>
</table>

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

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

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

**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)

Top 0.1% wealth share in the United States, 1913-2012

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.

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%) \(\rightarrow\) Clinton +2.8 m (2.1%)
  - Electoral vote (270/538 to win): Clinton 232 (43.1%); Trump 306 (56.9%) \(\rightarrow\) Trump +74 (13.8%)
  - Voter Turnout: VEP 60.0% \(\rightarrow\) 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?