

Trump's magical economic thinking

By Simon Johnson

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Donald Trump has finally put out a detailed economic plan. Authored by Peter Navarro (an economist at the University of California-Irvine) and Wilbur Ross (an investor), the plan claims that a President Trump would boost growth and reduce the national debt. But its projections are based on assumptions so unrealistic that they seem to have come from a different planet. If the United States really did adopt Trump's plan, the result would be an immediate and unmitigated disaster.

At the heart of the plan is a very large tax cut. The authors claim this would boost economic growth, despite the fact that similar cuts in the past (for example, under President George W. Bush) had no such effect. There is a lot of sensible evidence available on precisely this point, all of which is completely ignored.

The Trump plan concedes that the tax cut *per se* would reduce revenue by at least \$2.6 trillion over ten years – and its authors are willing to cite the non-partisan Tax Foundation on this point. But the Trump team claims this would be offset by a growth miracle spurred by deregulation.

In fact, their estimates of the benefits of deregulation are completely exaggerated. Serious independent analysis, for example by the World Bank or the Organization for Economic Cooperation and Development, finds that the US does not have a high regulatory burden on the non-financial sector. In the World Bank's widely used Doing Business indicators, for example, the US ranks seventh in the world – and there is not a lot of realistic room for improvement.

Sure, some companies always like to complain about regulation, and exaggerated numbers regarding the impact of various rules abound. But do you really want to base a country's

macroeconomic strategy on such meaningless claims?

At the same time, financial deregulation is exactly what led to the 2008 crisis – and to much lower growth, higher unemployment, and bigger deficits. Trump seems determined to repeat all the big mistakes of the George W. Bush era. My assessment is that Trump would run up much more than \$2.6 trillion in new debt.

With regard to trade, the Trump economic plan makes no sense at all. The supposed increases in government revenue are based on an analysis that reads like word salad – I don't recall ever seeing a document from a major party candidate that was so completely incoherent. As far as I can figure out, the argument is that Trump will magically make the trade deficit go away, and this, in turn, will miraculously boost jobs. This kind of thinking should be confined to fairy tales; if it were actually tried in the real world, nobody would live happily ever after.

A few years ago, James Kwak and I wrote a history of US fiscal policy and the national debt – and called it *White House Burning*. The historical reference was to the moment in 1814 when underinvestment in the federal government's military capability allowed the British to seize Washington, DC, where they burned most official buildings, including the White House (and the Treasury and Congress).

But the broader point we were making is that, since the 1980s, the Republican Party's approach to federal government finances changed. Instead of limiting deficits and debt, their top priority became cutting taxes – regardless of the consequences.

Former Vice President Dick Cheney famously remarked, “deficits don't matter” – meaning

that there were no immediate political consequences of running a budget deficit and pushing up the national debt. Under George W. Bush, US budget deficits and debt ballooned, and extreme financial deregulation created the conditions for the largest financial crisis since the 1930s, which further increased debt.

Trump cannot tell the truth about the implications of his plan for the national debt. Instead, his team has constructed an elaborate and rather bizarre fantasy – building upon but also going far beyond several decades of Republican fiscal irresponsibility.

What would really happen is this: The big tax cut would help relatively few people, while also cutting federal government revenue sharply. Higher trade tariffs would raise the cost of imports, which would have a direct negative impact on ordinary Americans. With

trade wars breaking out, growth would decline, not increase – and the federal government deficits would be huge. At the same time, financial deregulation would allow risks to build up throughout the banking system and more broadly.

According to the Wall Street Journal, no prominent economists have endorsed Donald Trump or lined up behind his economic plan. That is not a surprise: those economists have reputations to protect. If they signed on to Trump's absurd plan, they would expose themselves to the ridicule of their colleagues. More important, they would risk doing real long-term damage to their country.

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