

# The Greatest Economy?

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In a recent tweetstorm, Donald Trump returned to his favorite boast: “Today I have, as President, perhaps the greatest economy in history...and to the Mainstream Media, it means NOTHING. But it will!” This post demonstrates his explanation-point promise is best understood as a threat. A more accurate quote would be: Today I have created, as President, one of the most treacherous economies in U.S. history.

The evidence from his calamitous career as a ruthless bad-credit-risk real-estate developer to his vexatious foray into government indicates that he knows little about how the U.S. economy works; it is much more than inheriting a pile of money and abusing the bankruptcy code. In his innocence, he probably does believe that he has shaped a superlative economy. Two points about the President’s economic leadership are most significant. First, the last two years of continued economic growth and resulting low unemployment largely result from momentum built up in the seven years of recovery from the Great Recession. Macroeconomists have long understood that momentum is always an important force in cyclical behavior. Economic growth would look pretty much the same today if the vote-count winner had, instead of Trump, become President.

The exception is Trump’s signature tax bill, which largely cut corporate taxes that had moved badly out of line with the rest of the world. It provided a particular medium-sized boost to growth, profits, investment, and the stock market, which mostly occurred in 2017-18. Observers have forgotten that Obama attempted to cut out-of-line corporate taxes but was thwarted by the Republican Congress. But, before we accept Trump’s victory laps, the tax cut (and the underlying policy approach that produced it) requires closer inspection.

That inspection is my second point. It is really important, turning Trump’s “greatest” economy into one that is unmistakably hazardous. The problem is that he, unlike Obama, never cared about how to accommodate the lost revenue from the tax cut. We learned in the 1980s that additional economic growth won’t do it. As already noted, most of the stimulus has already occurred, and the federal deficit is going to be more than a trillion dollars during this fiscal year. Worse, the CBO projects that current fiscal policy translates into a continuation of annual trillion-dollar-plus deficits for the entirety of its ten-year projection period, the most reckless record ever in the United States.

With at least one notable exception, everybody knows that the difficult part of cutting taxes is coming up with offsetting reductions in public spending. Trump is innocent of that core principle of fiscal policy, making him the most clueless spender ever to occupy the White House. He continues to engineer big increases in military spending and has declared popular entitlement programs off-limits. Now that Republicans have become national-debt doves, few policymakers in D.C. worry about huge, chronic deficits and the rapidly growing national debt. Trump’s party symbol should be changed to an ostrich. Reportedly, when warned about the future crisis that persistent trillion-dollar deficits will certainly cause, Trump dismisses the naysaying by noting that such problems will occur after his Presidency. Make that a narcissistic ostrich.

Trump was hysterical over Obama’s trillion-dollar deficit during and immediately after the Great Recession, when economists understand that big deficits are appropriate to help counteract the economy’s huge amount of slack. In a crucial contrast, Trump’s trillion-dollar deficits are occurring and will persist in an the economy at *full employment*. The President, however inherently reckless, surely does not understand the devastating consequences of that difference.

Here’s what we know for sure about Trump’s “greatest” economy. Unless Trump’s direction of fiscal policy is reversed, constant-interest-rate annual debt-service costs – already the fastest growing part of the federal budget – will increase by hundreds of billions of dollars over the next decade, setting up an unprecedented, divisive conflict over national priorities, with health-care programs already on the chopping block.

The pressure on the deficit and debt-service costs will be greatly increased by the as programs like Social Security and Medicare absorb both retiring baby boomers and the apparently inexorable rise in health-care costs. Most economists thought that, before the “trust funds” financed by payroll taxes were depleted, policymakers would make the necessary hard decisions to avoid debilitating disruptions. Our imaginations never stretched to the extraordinary self-absorbed irresponsibility of Donald Trump. I’ll admit mine still doesn’t. Moreover, it is very unlikely that interest rates will remain constant. Rates are today are extraordinarily low, as a result of unsustainable global imbalances. A return to the rate structure of the 1990’s, the most recent period

with unemployment below 4%, would roughly double debt-service costs.

We must also consider how reckless fiscal policy must eventually blow things up. Unchecked substantial accumulation of national debt must ultimately be accommodated by rapid price inflation and/or a debt crisis motivated by increasing buyer reluctance to purchase ever more risky U.S. paper. Both choices have terrible consequences. The stagflation decade that began in the early 1970s demonstrated how welfare damaging high inflation is. More recently, Greece has demonstrated the devastation of national debt collapse. (For a balanced real-time elaboration on these issues, see <https://www.crfb.org/project/campaign-fix-debt>.)

My final point is one that even Trump may be able to understand. In order for his economy to be the greatest, it must be superior to Bill Clinton's 1990's economy that also experienced relatively rapid growth, unemployment below 4%, an unprecedented stock-market boom, and extensive deregulation. Given that real wages rose significantly faster in the 1990s than during the Trump experiment, the headline facts give the edge to Clinton over the Obama-Trump economy. But there is a largely forgotten clincher that makes Trump not a close second but a dangerous loser. Obama's economy had federal deficits on a substantial downward path; Clinton did better. His economic stewardship produced annual budget surpluses! At the end of his presidency, the U.S. was close to retiring the entire national debt. Clinton's carefully constructed fiscal policy provided a fundamentally sound economic future for the U.S., providing his successors in the White House great latitude. By contrast, Trump's sociopathic fiscal policy provides future leaders up-to-their-necks trouble.

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