Snake-Oil Economics

The Bad Math Behind Trump's Policies

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Trumponomics: Inside the America First Plan to Revive Our Economy
BY STEPHEN MOORE AND ARTHUR B. LAFFER. All Points Books, 2018, 287 pp.

When economists write, they can decide among three possible voices to convey their message. The choice is crucial, because it affects how readers receive their work.

The first voice might be called the textbook authority. Here, economists act as ambassadors for their profession. They faithfully present the wide range of views professional economists hold, acknowledging the pros and cons of each. These authors do their best to hide their personal biases and admit that there is still plenty that economists do not know. According to this perspective, reasonable people can disagree; it is the author's job to explain the basis for that disagreement and help readers make an informed judgment.

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The second voice is that of the nuanced advocate. In this case, economists advance a point of view while recognizing the diversity of thought among reasonable people. They use state-of-the-art theory and evidence to try to persuade the undecided and shake the faith of those who disagree. They take a stand without pretending to be omniscient. They acknowledge that their intellectual opponents have some serious arguments and respond to them calmly and without vitriol.

The third voice is that of the rah-rah partisan. Rah-rah partisans do not build their analysis on the foundation of professional consensus or serious studies from peer-reviewed journals. They deny that people who disagree with them may have some logical points and that there may be weaknesses in their own arguments. In their view, the world is simple, and the opposition is just wrong, wrong, wrong. Rah-rah partisans do not aim to persuade the undecided. They aim to rally the faithful.

Unfortunately, this last voice is the one the economists Stephen Moore and Arthur Laffer chose in writing their new book, *Trumponomics.* The book's over-the-top enthusiasm for U.S. President Donald Trump's sketchy economic agenda is not likely to convince anyone not already sporting a "Make America Great Again" hat.

ECONOMIC TRIBALISM

Moore and Laffer served as economic advisers to Trump during his campaign and after he was elected president (along with Larry Kudlow, the current director of the National Economic Council, who wrote the book's foreword). From this experience, Moore and Laffer apparently

Seller in chief: Trump promoting his tax cut package in Hialeah, Florida, April 2018

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learned the importance of flattering the boss. In the first chapter alone, they tell us that Trump is a "gifted orator" who is always "dressed immaculately." He is "shrewd," "open-minded," "no-nonsense," and "bigger than life." He is a "common-sense conservative" who welcomes "honest and fair-minded policy debates." He is the "Mick Jagger of politics" with a contagious "enthusiasm and can-doism."

The authors' approach to policy is similarly bereft of nuance. In Chapter 3, they sum it up by proudly recounting what Moore told Trump about U.S. President Barack Obama during the campaign: "Donald, just look at all the things that Obama has done on the economy over the past eight years, and then do just the opposite."

It is hard to imagine more simplistic, misguided advice. To be sure, Moore and Laffer can reasonably hold policy positions and political values to the right of those of Obama. (As someone who chaired the White House Council of Economic Advisers during the George W. Bush administration, so do I.) But the Obama administration was filled with prominent economic advisers who were well within the bounds of mainstream economics: Jason Furman, Austan Goolsbee, Alan Krueger, Christina Romer, and Lawrence Summers, to name but a few. It is not tenable to suggest that with all this talent, the administration made only wrong decisions, and that they were wrong simply because those who made them were Democrats.

The tribalism of Moore and Laffer's approach stems primarily from their devotion to a single issue: the level of taxation. Obama pursued higher taxes, especially on higher-income households. His goal was to fund a federal government that was larger and more active than many Republicans would prefer and to use the tax system to "spread the wealth around," as he famously told Joe Wurzelbacher, known as Joe the Plumber, a man he encountered at a campaign stop in

Ohio in 2008. By contrast, Moore and Laffer want lower taxes, especially on businesses, which in their view would promote faster economic growth.

The debate over taxes reflects a classic, ongoing disagreement between the left and the right. In 1975, Arthur Okun, a Brookings economist and former adviser to President Lyndon Johnson, wrote a short book called *Equality and Efficiency: The Big Tradeoff*. Okun argued that by using taxes and transfers of wealth to equalize economic outcomes, the government distorts incentives—or that, to put it metaphorically, the harder the government tries to ensure that the economic pie is cut into slices of a similar size, the smaller the pie becomes. Based on this argument, the main priority of the Democratic Party is to equalize the slices, whereas the main priority of the Republican Party is to grow the pie.

Yet Moore and Laffer aren't willing to admit that making policy requires confronting such difficult tradeoffs. Laffer is famous for his eponymous curve, which shows that tax rates can reach levels high enough that cutting them would yield enough growth to actually increase tax revenue. In that scenario, the tradeoff between equality and efficiency vanishes. The government can cut taxes, increase growth, and use the greater tax revenue to help the less fortunate. Everyone is better off.

The Laffer curve is undeniable as a matter of economic theory. There is certainly some level of taxation at which cutting tax rates would be win-win. But few economists believe that tax rates in the United States have reached such heights in recent years; to the contrary, they are likely below the revenue-maximizing level. In practice, the big tradeoff between equality and efficiency just won't go away.

LESSONS FROM ECON 101

Trumponomics is full of exhortations about the importance of economic growth. Why, Moore and Laffer ask, should Americans settle for the two percent growth that many economists have been projecting? Wouldn't every problem be easier to solve with a more rapidly expanding economy? The book quotes Trump as claiming, when announcing his tax plan in December 2017, that it would not increase the budget deficit because it would raise growth rates to "three, or four, five, or even six percent."

The authors offer no credible evidence that the tax changes passed will lead to such high growth. Most studies yield far more modest projections. The Congressional Budget Office estimates that the Trump tax cuts will increase growth rates by 0.2 percentage points per year over the first five years. A study by Robert Barro (a conservative economist at Harvard) and Furman (a liberal economist at Harvard) published in 2018 estimates that the tax bill will increase annual growth by 0.13 percentage points over a decade. And that is if the changes are made permanent. Barro and Furman estimate that as the legislation is written, with many of the provisions set to expire in 2025, it will increase annual growth by a mere 0.04 percentage points over ten years.

It is conceivable that standard economic models underestimate the impact of tax cuts on growth. A research paper by the economists Christina Romer and David Romer published in 2010 examined historical tax changes and found that they had larger effects on economic activity than standard models suggest. (It is worth noting that these two authors' political leanings are left of center, so their findings are not the result of ideological taint.) One might reasonably argue that Trump's tax cuts will increase growth over the next decade by as much as half a percentage point per year. But that is a long way from the one- to four-percentage-point boost that the president and his associates have bragged of, and that Moore and Laffer quote without explanation, caveat, or apology.

The authors of *Trumponomics* do depart from the president on one piece of his agenda: his approach to international trade. Moore and Laffer are ardent free traders; as such, their views are well within the mainstream of modern economics. Ever since Adam Smith took on the mercantilists in *The Wealth of Nations* in 1776, most economists have come to believe that international trade is win-win. They reject the idea that a trade imbalance between two nations means that one of them must be the loser, and they applaud agreements, such as the North American Free Trade Agreement (NAFTA), and international organizations, such as the World Trade Organization, that reduce trade barriers around the world.

Moore and Laffer recognized early in the campaign that Trump rejects this consensus. To their credit, they do not back down from their views in *Trumponomics*. They acknowledge that the president is playing a "high-stakes game of poker" and that "if it doesn't work, the ramifications scare us to death." But they also give Trump the benefit of the doubt by expressing the hope that his belligerent approach toward U.S. trading partners will somehow lead to better deals and freer trade.

Hostility to globalization did not, of course, begin with Trump. It may be hard to remember now, but when Obama was a senator, he opposed many free-trade initiatives advanced by the administration of then U.S. President George W. Bush, such as the Dominican Republic–Central America Free Trade Agreement. When Obama ran for president in 2008, he spoke about the need to renegotiate NAFTA, although he quickly put that goal aside after moving into the White House. Similarly, during the 2016 U.S. presidential campaign, Senator Bernie Sanders of Vermont made hostility to free trade a central tenet of his platform. So popular did that position prove among Democrats that he managed to pressure the Democratic candidate Hillary Clinton into opposing the Trans-Pacific Partnership—the very trade deal she had backed as secretary of state during the Obama administration. The bottom line is that for a politician seeking election, opposing free trade is a lot easier than supporting it. Many voters are more likely to view foreign nations as threats to U.S. prosperity than as potential partners for mutually advantageous trade. Economists have a long way to go to persuade the body politic of some basic lessons from Econ 101.

To be fair to Trump and other antiglobalization zealots, amid all their misinformation and bluster is a kernel of truth. The United States produces a lot of intellectual property, including movies, software, and pharmaceuticals. The failure of countries, especially China, to enforce the copyrights and patents that protect intellectual property constitutes a loss to the United States similar to outright theft. The Commission on the Theft of American Intellectual Property puts the loss at up to $600 billion per year. If Trump were able to negotiate trade deals that solved this problem, the accomplishment would be significant. But in light of how much other nations benefit from not protecting U.S. intellectual property, a negotiated solution won't come easy.

GIVING THE PRESIDENT A PASS

Perhaps the most disappointing aspect of *Trumponomics* is the long list of crucial issues on which the authors are largely silent. They offer no cogent plans to deal with global climate change, the long-term fiscal imbalance from growing entitlement spending, or the increase in economic inequality that has occurred over the past half century. Many reasonable Republicans would support a tax on carbon emissions, for example. Such a policy would slow climate change by incentivizing the movement toward cleaner energy, as well as provide revenue that could be used to close the fiscal gap or to help those struggling at the bottom of the economic ladder.

Rather than suggesting coherent policies, Moore and Laffer seem to hope that a much more rapidly growing economy will provide the resources to address all these problems, and they seem to believe that this growth will follow ineluctably from the lower taxes and deregulation that lie at the heart of Trump's agenda. It would be wonderful if that were possible. Maybe rah-rah partisans really believe it is. But more likely, it is just wishful thinking. Trump appears eager to avoid most of the economic problems facing the nation. By banking on so much growth from cutting taxes, Moore and Laffer are, in effect, giving him a pass and kicking the can down the road to a future leader more interested in confronting hard policy choices.