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Will the Economy Re-elect Trump? Should It?

By N. Gregory Mankiw

Last year, I was having lunch with a fellow economist who confessed a secret desire. “I hope the next recession begins soon,” he said.

“Why?” I asked, startled.

“Because otherwise we’ll get another four years of Donald Trump.”

He had a point. Many people give credit — or blame — to the president for the state of the economy. A member of my own family, for example, explained privately why she continues to favor President Trump.

I asked her, “What has Donald Trump done that you like?”

“The economy is doing great,” she said.

“Yes, it is, but what has Donald Trump done that you like?”

She gave me a quizzical look. “He’s given us a strong economy.”

I let the matter drop then. The role of lecturing professor is not well suited for family gatherings. But there are three lessons that politicians and voters should keep in mind during this election season.

Lesson 1: The economy really is in good shape.

My relative was right. Despite the stock market decline over the last two weeks, the American economy is doing great. The current expansion is now 128 months old, the longest on record.

Employment is strong: 80.6 percent of prime-age adults — those 25 to 54 years old — are working, the highest level since June 2001.

And the jobs pay well. A good measure of real wages is average hourly earnings of production and nonsupervisory workers (that is, excluding the bosses), adjusted for inflation using the personal consumption expenditure index. By this gauge, real wages are up 4 percent over the past three years, putting them at their highest level ever.

To be sure, income inequality is still high, a phenomenon that has been unfolding for several decades. This fact animates some of Mr. Trump's challengers, most notably Senator Bernie Sanders, who often rails against millionaires and billionaires.

But many people are moved more by the state of their own finances than by comparisons with the rich. Take the Great Depression, for example. The income share of the top 1 percent, including realized capital gains, fell to 16 percent in 1932 from 24 percent in 1928. This large move toward greater equality might have made some people feel better, but it did little to assuage the hardship from soaring unemployment.

Conversely, while the stock market gains of the past few years have mainly accrued to the wealthy, they do not undermine the recent improvement in the wage and job picture for working-class Americans.

Lesson 2: The economy exerts a strong influence on electoral outcomes.

My economist friend was also right. The state of the economy profoundly affects voters.

One person who studies this issue is the Yale economist Ray Fair. He finds that a small number of economic variables, such as growth and inflation, and a small number of political variables, such as incumbency, are good predictors of election results.

According to Mr. Fair's most recent forecast, made at the end of January, Mr. Trump will receive 54.4 percent of the two-party vote in November, which is likely enough for a victory in the Electoral College. Consistent with this forecast, in an average of recent polls, 55.7 percent of voters approved of Mr. Trump's handling of the economy.

But a Trump victory is not inevitable. For one thing, the economy could still turn down, changing the prediction from Mr. Fair's equation. That outcome is possible but unlikely.

Or Mr. Fair's equation may miss this one. After all, it does not predict perfectly. Mr. Trump may be an outlier for election forecasting models, as he is in so many other ways.

Lesson 3: Assigning proper credit for economic conditions is hard.

Perhaps the greatest disagreement between my family member and my lunch companion is over why the economy is booming. Mr. Fair's equation seems to suggest that most voters ascribe the economy's ups and downs to the incumbent president. Most economists, however, are skeptical that a president can be judged so simply.

Are we now experiencing a Trump boom, or a continuation of the recovery that began under President Barack Obama? The right answer is a bit of both and a bit of neither.

Many economic developments are outside any policymaker's control. Some economists stress technological change as a force driving the business cycle. Others look to irrational waves of optimism and pessimism. The impact of the coronavirus on economies around the world is a vivid reminder that shocks can be hard for policymakers to anticipate and address.

Most economists I know judge presidents by their actions rather than by the results that happen to occur under their watch. From this perspective, Mr. Trump's record is mixed at best.

I give him credit for cutting the corporate tax rate to 21 percent, from 35 percent, putting it in line with the average rate in Europe. But his regular fights with the Federal Reserve and America's trading partners are hard to justify, as is his lack of interest in climate change and the exploding government debt.

If voters can be persuaded to focus on the long-term implications of Mr. Trump's actions, rather than the current state of the economy, the eventual Democratic nominee will have a shot at victory. Otherwise, unless the economy truly falters, the race is Mr. Trump's to lose.