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*The economic consequences of Barack Obama and Donald Trump*

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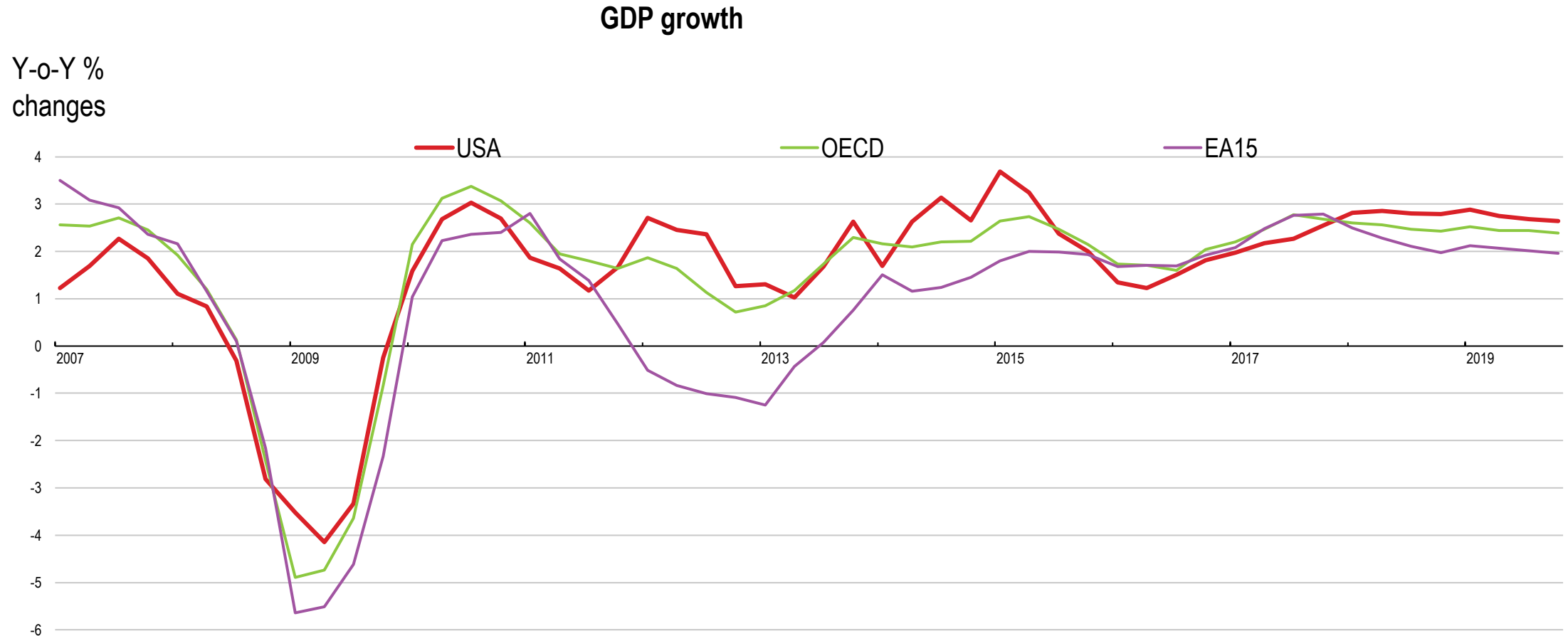
Palgrave Macmillan, 2018, forthcoming

# Long-run problems of the American economy

- Since the 1970s and before the great recession and Obama's and Trump's presidencies, four main structural problems have characterized the American economy. These trends were:
  - **A) *the progressive de-industrialization***, in part associated to the third wave of globalization and to the rise of new great competitors in the world market (Japan, South Korea, China, etc.).
  - **B) *the structural worsening in the balances of trade and of current accounts*** and the shift, since the late 1980s, from the status of creditor country to the one of the largest debtor country in the world.
  - **C) the growing *financialization*** of the economy and the creation of structural bubbles in the housing and stock exchange markets.
  - **D) *the progressive widening in wage, income and wealth inequalities*** and the relative reduction of *relatively stable and decently paid jobs* for medium and low skilled workers and, therefore, the marked decline of the middle class.

# The great recession: Chart 1: GDP growth

Source: OECD Analytical Database; and OECD EO 103 database.



# The great recession in the U.S. - 1

- **As we have seen in Chart 1, the great recession, though having been caused by bad mistakes in the US economic policy, has been longer and more severe in other countries, and in particular in several EU countries.**
- **This had been partly due to Obama's expansionary economic policy, while the European austerity policy has contributed to deepen and prolong the crisis and enlarge the gap between the strongest countries, such as Germany and Netherlands, and the more financially vulnerable countries, such as Greece and Italy.**
- **In the U.S., real GDP returned to the pre-crisis level after about 3-4 years, real investment and real full-time wages after about 6 years and the unemployment rate after almost 10 years.**

# The great recession in the U.S. - 2

- One crucial aspect of the *great recession* consisted in the relation between stocks (stock value of houses, shares, derivatives; public, corporate and household debt; not performing loans; external debt; human capital, etc.) and flows (income, investment, consumption, annual savings, etc.).
- In the 2002-6 years the U.S. economic and monetary policy allowed the creation of huge *structural bubbles* in housing, shares, derivatives, private debt, external debt, etc. So, in 2007, the explosion of these bubbles led to a great financial crisis.
- The values of the stocks (houses, shares, several derivatives, etc. ) collapsed. The banking system, in great difficulty, severely cut loans to enterprises, whose correlatives had lost value. Investment, employment, wages, GDP , consumption and other real flow variables briskly fell, tough TARP, the FED expansionary monetary policy and then Obama's fiscal stimulus tried to attenuate the fall.

# Obama's response to the great recession

- Obama's countercyclical response to the crisis was based on three pillars:
- A) the continuation of *TARP*, introduced by Bush Jr., to save the banking and financial system, and its extension to some industrial failing corporations, such as GM and Chrysler. This preserved a great part of the financial system and a number of manufacturing jobs.
- B) the pressure on the FED to continue and expand the ultra expansionary monetary policy (*quantitative easing*). This policy, reducing almost to zero interest rates, made possible to consolidate the liquidity of the banking system, re-launch investment and reduce the cost of the fiscal stimulus on public finance, although it greatly favoured speculative gains.
- C) the introduction of a huge *fiscal stimulus* in February 2009, which provided tax cuts; extension of unemployment benefits; measures in favour of people hit by the housing and mortgage crisis; assistance to poverty; grants and contracts for research, education, healthcare, anti-pollution measures, renewable energy, etc.
- All these measures sped up the economic recovery, though worsening public deficits and public debt. They contributed to diminish the length and depth of the crisis and so reduce the process of accumulation of negative stocks, such as the fall in corporate and household wealth, the rise in the stock of non-performing loans and the destruction of human capital generated by the crisis.

# Obama's half- baked response to structural problems

- **Obama was rather successful in promoting the recovery of the U.S. economy despite the fierce opposition of most republicans who had weakened his expansionary policy because of their worries on the rise of public deficit and public debt, worries which had been soon forgotten during Trump's presidency.**
- **However, also because of the impact of the great recession, Obama was much less successful in his policies against the long-run structural problems.**
- **De-industrialization continued despite Obama's great efforts made to save GM, Chrysler, etc. and his promotion of research and the green economy; the balance of current account deficit remained huge; the financialization trend recovered and expanded since 2010 despite the Dodd-Frank Act which introduced some new regulations in the financial system; income and wage inequalities continued to widen; a part of the former middle class went on suffering from unemployment, or poor wages, or the loss of their house; Obama's health care reform could finally pass, but in a much weaker version with respect to Obama's original project.**

## TRUMPISM = POPULISM + NATIONALISM + RIGHT WING IDEAS

- **Obama's and the democratic party semi- failure to solve U.S. structural problems and to regulate globalization and immigration was one of the keys used by Trump to gain the 2016 presidential elections defeating Hillary Clinton.**
- **Trump used his populist appeal to defeat the other republican candidates and then to marginally gain three crucial, traditionally democratic states, (Pennsylvania, Illinois, Michigan) in the presidential elections.**
- **According to Jan - Werner Muller (2017), populism is based on anti-elitism, exclusiveness and the rejection of pluralism.**
- **In his electoral campaign Trump trumpeted against elites and Wall Street, though later nominating several Goldman Sachs men and financiers in his government. Moreover he used nationalistic (America first) and anti-immigrant slogans to get the votes of many "white angry men" of the working class.**



# America first

- **The slogan, introduced by W. Wilson in the 1920s, and widely used by Donald Trump, implies, in Trump's version, an anti-globalization and anti-immigration policy.**
- **The anti-globalization policy tries to react to de-industrialization and to the wide deficit in the balance of current account by means of three simplistic measures: A) preferring bi-lateral trade agreements to multi-lateral ones; B) introducing, or menacing, trade tariffs on goods, such as the tariffs imposed on steel and aluminium, where the US are large net importers; C) pressuring US multinational to invest inland rather than abroad and giving incentives to attract foreign plants.**
- **Naturally, all this will lead to the retaliations of other countries and so to possible trade wars, which as the real wars, are easy to begin, but difficult to terminate. Moreover it can, for example, advantage domestic producers of steel, but damage domestic steel consumers, as the car-makers and the machinery industry, and all the sectors exporting goods or services hit by foreign retaliations. Finally, domestic inflation can rise.**

# The economic impact - 1

- In the first two years of his mandate, Trump could largely benefit from the effect of the US recovery and expansion, partly due to Obama's neo- Keynesian policies, and to the world's recovery after the great recession.
- He also exploited the dominance of the republican party in the House of Representatives and in Senate, which allowed Trump to increase public deficit and public debt, through his tax reform, while his party had strongly opposed and, since 2010-11 curtailed, Obama's expansionary policy.
- In his December 22, 2017 *Tax Cuts and Jobs Act*, Trump greatly cut corporate taxes from 35% to 21%. He maintained the seven income tax brackets, reducing up to 2026, all the tax rates but the lowest one (10%). The top rate was reduced from 39.6% to 37%. Standard deductions were doubled, but personal exemption and most itemized deductions were eliminated. Obamacare taxes on people without insurance policies in 2019, were eliminated. According to some estimates about 13 million people will choose to abandon insurance coverage. The government will spend less in subsidies, but health insurance costs and prices will rise, due to less preventive health care.

# The economic impact- 2

- **By his Tax act, Trump gave to the very rich much more advantages than to the poor and the middle class. Only a part of the corporate tax cuts led to investment and new job, much resulted in more dividends and buy- back operations and so to possible capital gains for the shareholders and the top managers who had received stock options. Moreover, income tax rates were substantially cut.**
- **Trump's anti-globalization and anti-immigration policy led to growing tensions with Mexico and Canada and so undermined the NAFTA agreement, which Trump wanted to deeply change and re-negotiate.**
- **Trade tensions rose also in the relations with the EU and in particular Germany, and with China, whose trade surplus with the U.S. was considered excessive. Moreover, the doubling of the US steel and aluminium tariff contributed to the deep financial crisis of the Turkish economy.**
- **The nuclear problem led to heavy tensions also with Iran and North Korea. With North Korea also the 2018 Kim-Trump meeting did not fully solve the problems.**

**Table 1: Some macro-economic indicators in the U.S: 2007-18**  
 (2018 = forecasts) (sources: OECD, 2018; White House, 2018)

<b>Years</b>	<b>Real GDP rate of growth</b>	<b>Harmonised unemployment rate (%)</b>	<b>Federal receipts % of GDP</b>	<b>Federal outlays % of GDP</b>	<b>Defence outlays % of GDP</b>	<b>Deficit % of GDP</b>	<b>Federal gross debt , % of GDP (end of year)</b>
<b>2007</b>	<b>1.8</b>	<b>4.6</b>	<b>17.9</b>	<b>19.1</b>	<b>3.8</b>	<b>-1.1</b>	<b>62.5</b>
<b>2008</b>	<b>-0.3</b>	<b>5.8</b>	<b>17.1</b>	<b>20.2</b>	<b>4.2</b>	<b>-3.1</b>	<b>67.7</b>
<b>2009</b>	<b>-2.8</b>	<b>9.3</b>	<b>14.5</b>	<b>24.4</b>	<b>4.6</b>	<b>-9.8</b>	<b>82.4</b>
<b>2010</b>	<b>2.5</b>	<b>9.6</b>	<b>14.6</b>	<b>23.4</b>	<b>4.7</b>	<b>-8.7</b>	<b>91.4</b>
<b>2011</b>	<b>1.6</b>	<b>9.0</b>	<b>15.0</b>	<b>23.4</b>	<b>4.6</b>	<b>-8.5</b>	<b>96.0</b>
<b>2012</b>	<b>2.2</b>	<b>8.1</b>	<b>15.3</b>	<b>22.1</b>	<b>4.2</b>	<b>-6.8</b>	<b>100.1</b>
<b>2013</b>	<b>1.7</b>	<b>7.4</b>	<b>16.8</b>	<b>20.9</b>	<b>3.8</b>	<b>-4.1</b>	<b>101.2</b>
<b>2014</b>	<b>2.6</b>	<b>6.2</b>	<b>17.5</b>	<b>20.3</b>	<b>3.5</b>	<b>-2.8</b>	<b>103.2</b>
<b>2015</b>	<b>2.9</b>	<b>5.3</b>	<b>18.1</b>	<b>20.5</b>	<b>3.3</b>	<b>-2.4</b>	<b>100.8</b>
<b>2016</b>	<b>1.5</b>	<b>4.9</b>	<b>17.7</b>	<b>20.9</b>	<b>3.2</b>	<b>-3.2</b>	<b>105.8</b>
<b>2017</b>	<b>2.3</b>	<b>4.4</b>	<b>17.3</b>	<b>20.8</b>	<b>3.1</b>	<b>-3.5</b>	<b>107.2</b>
<b>2018</b>	<b>2.9</b>	<b>4.0</b>	<b>16.7</b>	<b>20.8</b>	<b>3.2</b>	<b>-4.2</b>	<b>108.1</b>
16/08/18		<b>(1° semester)</b>					

More weapons, more debt, less healthcare, more pollution, more divisions....

- **Although for the moment, partly due to the favourable world conjuncture, U.S. macro-economic trends have been acceptable, Trump's policy has increased public deficit and public debt (table 1), has begun to increase the spending in weapons, has tried to demolish two key-points of Obama's policies (Obamacare and the green policy), has, above all increased divisions both internationally and internally (between super-rich and poor, between races and genders, between natives and immigrants).**
- **Internationally, his policy is based on strength. Bilateral trade agreements are preferred to multilateral ones, because of the great imbalance of power between the U.S. and the other countries, with the partial exception of China and Russia.**
- **This can cause trade wars, changes of alliances and the weakening of NATO, as it is possibly happening with Turkey.**
- **Domestically, some jobs saved in the traditional manufacturing activities, can be accompanied by less jobs in the green economy, less innovation, less welfare, more pollution and the nurturing of other great financial crises.**