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Trump on the Economy: Smoke, Mirrors and Half-Truths

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Euphoric over the Commerce Department's announcement of second quarter GDP numbers, President Trump asserted at a July 27 South Lawn news conference: "We are on track to reach the highest annualized growth rate in 13 years". He stated this was the best showing since the third quarter of 2014 and boasted that unemployment is near an 18-year low and exports are surging.

A closer, more detailed look based on an explanation of the numbers rather than a mere posting of statistics, paints a more accurate picture.

The number that Trump and his acolytes continue to bandy about is the 4.1% growth rate. But this overall growth rate of goods and services is a flawed measure. A big chunk of GDP is government spending--not just private economic activity. Most importantly, the 4.1% is a snapshot in time (the second quarter) of 2018. It is useless as a predictor of future economic performance (the next three quarters).

How valid is the president's claim that the growth rate during his presidency is much higher than his predecessors?

Actually, Obama presided over 8 quarters of growth over 3% including four over 4%. The second quarter of 2000 under Bill Clinton hit 7.5% and attained 7.1% in the second quarter of 2004 under George W. Bush. As Neil Irwin of *The New York Times* observes, US growth performance under Trump is "a simple and straightforward continuation of President Obama's second term" with the current achievements the result of an expansion that began in 2009.

Any debate over GDP should focus on the metric that really counts--the *structural real GDP growth rate* which is the sum of employment growth plus productivity growth (the number of employed plus output per worker). By that measure, U.S. GDP is running at just 1.4% annually--a troublesome number when one considers that productivity growth has slowed to just 0.6% annually.

What about that great 3.8% unemployment number? That's a solid number, and the administration certainly deserves to boast about this achievement. However, context is important; and one should note that the *rate of growth* in U.S. jobs has slowed since January 2017.

While businesses did add 213,000 jobs to their payrolls in June, *the economy has added jobs every month for the past 8 years.* Nevertheless, the unemployment rate actually rose in agriculture, non-durable goods, and leisure and hospitality--the last serving as entry employment for many young people, women and lesser-skilled populations.

As for wages, the administration has been silent on this economic indicator. And no wonder. Wage growth is barely keeping up with inflation. Tax reform has not yet resulted in higher wages for American workers. However, what the tax cuts have achieved (and there are many good things in it, especially the tax incentives to repatriate foreign-domiciled capital) is to wreak havoc with public finances, producing a deficit (courtesy of unbridled government spending) that will exceed $1 trillion in 2019.

While sweeping tax cuts and far-ranging deregulation are surely economic stimulants of a high order and should be lauded by conservatives, the fiscal and trade policies of the Trump administration--more in the mold of Bernie Sanders and than Ronald Reagan--cancel out such market-friendly initiatives.

The rising budget deficits have triggered an increase in borrowing by the Treasury, 63% higher than last year. Home prices have fallen four of the past five months; paychecks have remained stagnant; and consumers (accounting for 2/3 of economic output) have taken on more and more debt. Given this scenario any downturn will be widespread and felt severely.

Another threat to GDP growth is the nationalist-protectionist trade policies of the Trump administration. Rooted in the ludicrous belief that any trade deficit is due to our trading partners' unfair trade practices, the Trump administration has slapped on a 25% tariff on imported steel and 10% on aluminum. Additionally, the government imposed a 25% tariff on Chinese imports valued at $200 billion following $34 billion already in force. Chinese retaliation, aimed principally at soybeans and other commodities, prompted the president to provide $12 billion in financial assistance to farmers. (This is like my burning down your home but providing the financing for you to build a new one.)

Finally, all the trade hostilities with China, the EU, Canada and Mexico, is spooking foreign investors. Foreign direct investment in the U.S. continues to drop. It registered $146 billion in the first quarter of 2016 but fell to $51.3 billion in the same quarter in 2018. Making matters worse, Congress is slated to pass the Foreign Investment Review Risk Modernization Act which will toughen inward investment rules.

The president has often claimed "this is the greatest economy in the history of America". A widening budget deficit in a booming economy is bizarre and frightening for the long-term, and economists are predicting slower growth in second half of 2018 as the effects of the tax cut wane and Federal Reserve's continual raising of interest rates dampens consumer spending.

While growth rates, employment numbers, and trade balances tend to immediately grab our attention, these are merely statistical representations not explanations. Any honest assessment requires a deep dive into the underlying economic realities in play.

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