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# Economics and Policy in the Age of Trump

Edited by Chad P. Bown



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# 1 Introduction

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*The forgotten men and women of our country will be forgotten no longer. Mothers and children trapped in poverty in our inner cities; rusted-out factories scattered like tombstones across the landscape of our nation; an education system, flush with cash, but which leaves our young and beautiful students deprived of knowledge... This American carnage stops right here and stops right now... For many decades, we've enriched foreign industry at the expense of American industry... We've defended other nation's borders while refusing to defend our own... One by one, the factories shuttered and left our shores, with not even a thought about the millions upon millions of American workers left behind... Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. Protection will lead to great prosperity and strength... We will bring back our jobs. We will bring back our borders. We will bring back our wealth. And we will bring back our dreams.*

*Donald J. Trump, The Inaugural Address, January 20, 2017*

The election of Donald J. Trump to the US Presidency on November 8, 2016 was unexpected. Despite being the Republican Party's nominee, Trump campaigned as a political outsider on a platform of eclectic policy ideas. And yet as Trump and many members of his appointed cabinet do not have prior political or governing experience, there is little historical record from which to predict his administration's economic policymaking priorities.

With a background in real-estate and reputation as a businessman astute at cutting deals, what – if any – principles would he stick to when formulating policy? Early speculation was that he might adopt a transactional approach that could turn out less ideological and more akin to compromise. And yet for several reasons, including selection of key senior officials, it appears increasingly unlikely that the Trump administration will seek out economic evidence and research to help formulate policy.<sup>1</sup>

In important ways, Trump's Presidency has generated considerable uncertainty for a variety of important areas of US economic policy. The tenor of his Inaugural Address suggests a very apocalyptic view of the state of the US economy as well as America's place in the world.

Republican Congressional majorities in the House of Representatives and Senate imply a political opportunity for Trump to enact new legislation and introduce major overhauls to the existing laws and institutions that drive policy. Furthermore, a US President can take many actions unilaterally – through regulatory decisions, funding choices, enforcement prioritisation, and Executive Orders – to also effectuate economic policy change. Indeed, some of Trump's almost immediate actions on Executive Orders – and the resulting US court challenges – signal his administration's willingness to test historical limits that may have restrained US Presidential authority.

This collection of essays by leading economists highlights many of the most pressing US and international economic policy issues on the Trump docket. Indeed, the flurry of activity during the Trump administration's first '100 days' in office confirms a nontraditional approach to governing, a still largely unknown short- and long-term strategy, and unclear economic policy priorities. Some of the policies being subjected to potential reform – including health care, taxes, and financial sector regulation – may have been likely to arise, independent of the individual sitting in the Oval Office. Yet others – such as central bank independence, more radical steps on immigration, and reversing the US's decades-long approach to trade policy and commitment to international cooperation – are much more extreme, far-reaching, and potentially disruptive.

1 Josh Zumbrun "Donald Trump's Cabinet Won't Include Chairman of CEA", *The Wall Street Journal*, 9 February 2017.

## **Domestic Policy Reform I: Health, anti-poverty, labour, education, immigration and environment**

A first set of essays examines the US domestic economy and key areas of policy affecting health, individuals and families, education, labour markets, and the environment.

President Trump and the Republican leaders in the House of Representatives made reform to the US system of health care and health insurance a first legislative priority in 2017. Thomas Buchmueller and Helen Levy analyse the implications of different reform strategies to the 2010 Affordable Care Act (ACA), or ‘Obamacare.’ Introduction of the ACA had sharply reduced the share of Americans without health coverage; some of its elements attempted to control sharply increasing US health costs. Because health care remains highly politically contentious, the new US political environment means considerable change to economic incentives and outcomes is likely – either through legislation, if not regulatory action – thereby affecting tens of millions of Americans.

Melissa Kearney introduces the broader set of US social safety net programmes and growing need to address rising income inequality. The fabled ‘American Dream’ – in which children achieve higher levels of income than their parents – is increasingly under threat. Kearney reviews evidence regarding federal programmes on schooling, mentoring, and housing assistance that seek to improve the long-term trajectory of low-income youth. She also highlights other important anti-poverty programmes, such as Supplemental Nutritional Assistance Program (SNAP), Medicaid, and the Earned Income Tax Credit (EITC). Despite the needs of children and, indeed, many of Trump’s ‘forgotten men and women’, their challenges run the risk of not being addressed. President Trump’s draft 2018 budget called for major cuts to the US social safety net and this has the potential to adversely impact lifetime outcomes for at-risk youth.

The Presidential campaign of 2016 also brought into sharp political relief certain underperforming areas of the US labour market, including manufacturing job loss, declines in the labour force participation rate, and the geographic concentration of certain adversely-impacted communities. Mine Senses examines the evidence and rejects the political argument that increased international trade – especially imports from China and Mexico – was mostly to blame for the negative outcomes affecting workers at the low end of the wage and skill distribution over the 2000s.

While trade played a role, automation and other factors had a larger impact on factory workers. Nevertheless, Senses highlights the need for policy reform, addressing the tradeoffs associated with expanding certain elements of the US social safety net – e.g. extended unemployment insurance in the event of job loss – against other programmes to incentivise workers to retain active labour market participation and adjust into new jobs, despite individual, demographic, and geographic challenges.

Jordan Matsudaira introduces and analyses the increasingly important for-profit college sector, which is a particularly politically contentious area of the US ‘education system, flush with cash’. Matsudaira explores the motivations and implications of the 2014 gainful employment (GE) regulations, tackling questions of how to regulate a sector with reports of abuse of federal student aid and growing suspicion that many of the educational programmes were not successful at preparing students for the future needs of the labour market.

US immigration and President Trump’s proposal to build a wall along the US border with Mexico were also political flashpoints of the 2016 campaign. The first 100 days of his administration featured many attempts at action on these issues. Anna Maria Mayda and Giovanni Peri examine a slew of Trump’s executive orders, including banning travellers and immigrants from certain majority-Muslim countries, enhanced deportations and construction of the wall, and limiting access to H1-B visas for highly-skilled foreign workers. The authors highlight the negative and potentially severe impacts of Trump’s aggressively anti-immigrant policies for the US economy.

Arik Levinson explores the implications of the Trump administration’s proposed changes to the US Corporate Average Fuel Economy (CAFE) regulations. He documents how the existing fuel economy standards have a built-in bias – equivalent to an import tariff – ranging from \$80 to \$200 per vehicle. Thus, Trump’s potential loosening of the environmental standard would *lower* those implicit import tariffs; the irony is that this action would reduce a cost that disproportionately impacts non-US automakers. This, of course, runs counter to his explicit threats – perhaps most-famously made via Twitter – to raise trade barriers and impose additional taxes on US auto companies that move production offshore.

## **Domestic Policy Reform II: Tax, central banking, financial regulation, and the macroeconomy**

A second set of essays on US domestic policy includes the potential for tax reform and change to monetary policy, financial regulatory reform, and US macroeconomic performance.

US tax reform is another early item on the Trump administration's agenda; the last major overhaul of the US tax code took place in 1986. Complaints involve marginal tax rates as high as 39.6% on individuals and 35% on corporations, distortions arising from loopholes and carve outs, and the increasing difficulty that national authorities have in taxing multinational companies in a global environment, due to corporate inversions and the complexities of transfer pricing. Nirupama Rao examines the major features of the tax reform priorities highlighted by Trump in the presidential campaign and the border-adjusted cash flow tax (CFT) proposal made by House Republican leadership.

One component of the House Republicans' cash-flow tax proposal for corporate reform is inclusion of a border adjustment tax. Mary Amiti, Emmanuel Farhi, Gita Gopinath and Oleg Itskhoki assess this politically controversial and oft-misconstrued tax adjustment that makes export sales deductible from the corporate tax base, while expenditure on imported goods would not be deductible. While new to the United States, the broad concept is a common feature of value-added consumption taxes found worldwide. The authors explore what is likely to arise if the United States were to shift to this form of taxation if any of several 'neutrality conditions' breaks down in the real world. They describe the likely consequences if exchange rates, domestic prices or wages are sticky; or if monetary policymakers intervene, in order to show how the border adjustment tax could have strong and disruptive effects on activity such as US consumption and production, as well as trade flows.

Stephen Cecchetti and Kermit Schoenholtz examine concerns that President Trump and other politicians may threaten the independence of the Federal Reserve. Because central bank independence is a relatively recent innovation in policymaking, it remains somewhat politically controversial in the United States. The authors illustrate the institutional design benefits of the current system as one that credibly addresses time-consistency problems in macroeconomic policymaking.

This includes keeping inflation low and stable, as well as the need to prevent panics, as most recently arose during the financial crisis of 2007-2009.

The Trump Administration has announced its intent to pursue financial deregulation. The Dodd-Frank Act was introduced in 2010 as a response to the financial crisis and was billed as an effort to prevent such crises from taking place in the future. Important elements of Dodd-Frank involved identifying and potentially addressing issues related to ‘systemically important financial institutions’ (SIFIs) in the US economy and developing a complex set of regulations and fora for oversight. Thomas F. Cooley and Lawrence J. White motivate the regulatory concerns and examine the House Financial Services Committee’s ‘Financial CHOICE Act’ proposal, which could provide the Trump administration with a blueprint for financial regulatory reform.

Overall US macroeconomic performance is a final important area of domestic policymaking concern. President Trump has said at various times that US economic growth could be 4, 5, or even 6% per year. Jay Shambaugh examines the argument by focusing on key demographic constraints on US growth, such as labour force participation, as well as trends in US productivity. Realistic assessments of US growth matter because of how they affect other critical policymaking decisions. Examples include not only how the Fed establishes monetary policy, but also how the President and Congress set fiscal policy priorities; e.g., how much growth can reasonably be expected to ‘pay for’ a sizeable tax cut.

## **International Policy Reform: US trade policy and trade agreements**

The third set of essays features an assessment of President Trump’s potentially radical reshaping of US trade policy. One particularly striking line from his Inaugural Address – ‘Protection will lead to great prosperity and strength’ – indicates that an influential wing of his administration finds trade barriers appealing and perceives them as likely to benefit the US economy.<sup>2</sup>

2 Shawn Donnan and Demetri Sevastopulo, “White House civil war breaks out over trade”, *Financial Times*, 10 March 2017.

**Table 1** The Trump Administration's first '100 days of trade policy' in 2017

Date	Trade policy-related action
January 23	Presidential Memorandum Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement
March 1	Office of the U.S. Trade Representative releases The President's 2017 Trade Policy Agenda sharply criticizing the WTO and the failure of its dispute settlement body that it was not supposed to 'add to or diminish the rights or obligations' through its rulings
March 20	Under pressure from Trump administration, G20 Finance Ministers issue communiqué without traditional joint statement promising to 'resist all forms of protectionism'
March 29	Department of Commerce initiates inquiry into whether China should continue to be treated as a nonmarket economy (NME) country under US antidumping and countervailing duty laws
March 30	Acting USTR draft letter sent to US Congress on United States' NAFTA renegotiation priorities (leaked). Inter alia, seeks to 'level the playing field on tax treatment' and add 'a safeguard mechanism to allow a temporary revocation of tariff preferences'
March 31	Presidential Executive Order on Establishing Enhanced Collection and Enforcement of Antidumping and Countervailing Duties and Violations of Trade and Customs Laws
March 31	Presidential Executive Order Regarding the Omnibus Report on Significant Trade Deficits
April 7	President Trump and China's President Xi Mar-a-Lago summit concludes with announcement of 100-day study of the bilateral trading relationship
April 14	Department of the Treasury submits to Congress Report on Foreign Exchange Policies of Major Trading Partners of the United States; it does not name China a 'currency manipulator'
April 18	Presidential Executive Order on Buy American and Hire American
April 20	Presidential Memorandum for the Secretary of Commerce on Steel Imports and Threats to National Security (self-initiation of Section 232 investigation)
April 24	Secretary of Commerce announces Preliminary Determination of Countervailable Subsidies on Imports of Softwood Lumber from Canada
April 26	White House reportedly drafts Presidential Executive Order on Notice of Withdrawal from NAFTA, ultimately does not submit (leaked)
April 26	Suniva, Inc. files Section 201 petition with USITC regarding Crystalline Silicon Photovoltaic Cells and Modules initiating a global safeguard investigation
April 27	Presidential Memorandum for the Secretary of Commerce on Aluminum Imports and Threats to National Security (self-initiation of Section 232 investigation)
April 29	Presidential Executive Order on Establishment of Office of Trade and Manufacturing Policy
April 29	Presidential Executive Order Addressing Trade Agreement Violations and Abuses, questions WTO and its principles of MFN and reciprocity



Table 1 lists both significant trade policy-related actions that the Trump administration has taken in its first 100 days in office and the signals it has sent about potentially forthcoming changes to US policy.

Unlike some of the other areas of policy reform, the President has potentially more unilateral authority to implement significant reversals of prior trade-opening initiatives.<sup>3</sup> Nevertheless, the only definitive policy change, taken during the first 100 days, took place in the first week, when the administration withdrew from the Trans-Pacific Partnership (TPP).

The other items listed in Table 1 could, perhaps, be just the tough talk of a negotiator who has already commenced a public bargaining game. They may not result in Trump imposing policies that damage the US economy. Many of the Executive Orders, for example, are intentions to study the sources of a ‘problem’ that the Administration perceives the US economy to be facing. However, one concern is that because the issue being selected for study – e.g., bilateral trade deficits, trade agreement violations – may be itself a non-problem, efforts to identify its cause can only result in misguided policy. A second is whether this ‘100 day’ list is just the tip of the iceberg and that more sweeping changes to US policy are still to come. A third is that direct criticism of the World Trade Organization (WTO) undermines the United States’ historical commitment to the rules-based trading system, generates uncertainty, and opens the door for other countries to follow suit.<sup>4</sup>

Kyle Handley and Nuno Limão introduce many of the trade policy initiatives that President Trump has proposed or implemented through his first 100 days; these include unilateral policies, renegotiation or withdrawal from agreements, and threats of import protection.

3 A review of the President’s authority to make unilateral trade policy changes via activation of US trade laws or changing the terms of trade agreement engagement is found in Gary Clyde Hufbauer “Could a President Trump Shackle Imports?”, in Marcus Noland, Gary Clyde Hufbauer, Sherman Robinson, and Tyler Moran (Eds.) *Assessing Trade Agendas in the US Presidential Campaign*, Washington, DC: Peterson Institute for International Economics, 2016.

4 Chad P. Bown, “Is the WTO one of Trump’s ‘big quagmire deals’? Here’s what’s at stake”, *The Washington Post*, 28 February 2017.

They then rely on recent research insights to argue that his approach may generate a new trade ‘cold war’ that increases uncertainty and threatens the existing, rules-based system. The concern is that such policies reduce trade related investments and could result in export contraction and an increase in US consumer prices.

A repeated theme of the Trump administration is its disavowal of the WTO and multilateral system, and a stated preference for only negotiating one-on-one deals. Chad P. Bown, Robert W. Staiger, and Alan O. Sykes use Trump’s scepticism of the WTO to investigate some of the basic reasons why the United States has championed certain principles in trade negotiations, including nondiscriminatory treatment, through the ‘most-favored-nation’ (MFN) rule, and ‘reciprocity’.<sup>5</sup> Their explanations rely on both economic incentives and historical ‘lessons learned’ from the period prior to the US adoption of its current negotiating strategy, which began with the Reciprocal Trade Agreements Act of 1934.

The first practical trade policy action that President Trump took upon entry into office was to issue a Presidential Memorandum withdrawing the United States from the negotiations of a potential TPP agreement. Through the TPP, the Obama administration had sought to introduce several new rules and disciplines covering trade with 11 other countries in the Asia-Pacific region. Katheryn Russ introduces and examines a range of potential economic and social challenges posed by trading with the region; this includes specific concerns raised by the emergence of China and its incomplete transformation into a market economy.<sup>6</sup> Yet, she argues that the United States stands to lose considerably if it chooses to disengage from rules-based trade with one of the fast-growing regions in the world.

There are also increasingly concrete signs that the Trump administration intends to formally renegotiate the North American Free Trade Agreement (NAFTA), a deal between the United States, Canada and Mexico implemented in 1994.<sup>7</sup>

5 See, for example, “Press Briefing by Secretary of Commerce Wilbur Ross on an Executive Order on Trade Agreement Violations and Abuses”, *The White House*, 28 April 2017.

6 Chad P. Bown, “Trump says China is not a market economy. That’s a big deal”, *The Washington Post*, 12 December 2016.

7 Chad P. Bown, “What is NAFTA, and what would happen to U.S. trade without it?”, *The Washington Post*, 15 February 2017.

Emily Blanchard explains how the removal of border barriers and adoption of deeper trade and investment provisions led to a significant integration of economic activity across the NAFTA region through cross-border supply chains. Thus, an important asymmetry could arise: while implementing NAFTA had small effects on US economic wellbeing at the time, terminating or renegotiating NAFTA in a manner that disrupts these established supply chains could have a much more negative effect on the US economy.

Meredith Crowley examines the Trump administration's affinity for use of antidumping and other 'trade enforcement' as tools to implement trade barriers for selective industries. The significance of trade enforcement cases was made apparent after four remarkable actions arose in the eight days immediately preceding the '100<sup>th</sup> day' Presidential benchmark. The Trump administration self-initiated two separate investigations – one over steel and one over aluminium – claiming that imports of these products were a threat to US national security. These were triggered under one rarely-used law – Section 232 of the US Trade Expansion Act of 1962 – that has not been deployed since 2001.<sup>8</sup> Third, Commerce Secretary Wilbur Ross and President Trump politically escalated an otherwise routine, technical announcement that the United States would begin imposing preliminary countervailing duties on softwood lumber from Canada.<sup>9</sup> Fourth, the domestic solar cell industry requested an investigation under the US safeguard law – Section 201 of the Trade Act of 1974 – in another example of an historically rare type of enforcement case.

A final, forward-looking essay considers the future of United States trade relationship with Europe. Nikhil Datta and Swati Dhingra recall the status of the Trans-Atlantic Trade and Investment (TTIP) talks that the Obama administration had commenced with counterparts from the European Union in 2013. Even putting aside political developments in the United States, the United Kingdom's 'Brexit' referendum on June 23, 2016 and decision to leave the European Union has complicated European policymaking.

8 Chad P. Bown, "Trump's threat of steel tariffs heralds big changes in trade policy", *The Washington Post*, 21 April 2017.

9 Chad P. Bown, "Did Trump just take an ax to the U.S. trade policy relationship with Canada?", *The Washington Post*, 27 April 2017.

Despite President Trump's affinity for negotiating bilateral deals, trade agreements with either the European Union or with an independent UK are not on the immediate horizon. This is due to both the European priorities of unwinding and then re-establishing the UK-EU bilateral relationship, and the complexity of each then negotiating future deals with countries outside Europe, which will largely be affected by the terms of that new relationship.

Overall, the Trump administration has signalled a potentially sharp break in US trade policy. Nevertheless, not everything is new, as some elements have parallels with earlier eras. Consider, for example, the aggressive unilateralism, focus on bilateral trade deficits, and tendency toward outcome-based metrics. These suggest the possible reemergence of 'managed trade arrangements' – i.e., the voluntary export restraints or voluntary import expansions – that the United States put forth *vis-à-vis* Japan, especially in the 1980s. Second, the Trump administration's misperception of the benefits of bilateral over multilateral deals echoes earlier US debates and its pre-1934 approach to trade policy.

Nevertheless, the rest of the world and the rules-based world trading system could be in for a rude awakening, if the rhetoric of the new US administration translates into policy reality.

## About the editor

**Chad P. Bown** is Senior Fellow at the Peterson Institute for International Economics in Washington and a Research Fellow at CEPR in London. Bown has served as Senior Economist in the White House on the President's Council of Economic Advisers, and he is formerly a tenured Professor of Economics at Brandeis University. Bown spent a year in residence at the WTO Secretariat in Geneva, and he was most recently a Lead Economist at the World Bank. In 2004, Bown initiated a trade policy transparency project that resulted in the Global Antidumping Database, which he managed through 2016 as part of the World Bank's Temporary Trade Barriers Database. He currently co-directs an annual program of scholars providing legal-economic assessments of WTO case law published with Cambridge University Press.

His books include *The Great Recession and Import Protection* (CEPR and World Bank, 2011), *Self-Enforcing Trade: Developing Countries and WTO Dispute Settlement* (Brookings Institution Press, 2009) and *The Law, Economics and Politics of Retaliation in WTO Dispute Settlement* (co-edited with Joost Pauwelyn, Cambridge University Press, 2010). Follow him on Twitter @ChadBown.