Clinton and Trump's Economic Proposals: An Assessment

How do the economic proposals of the top two presidential candidates stack up? What policies are Hillary Clinton (Democrat) and Donald Trump (Republican) proposing, and how do they differ from one another? Reviewing their proposals provides insight into the kind of economic policies they are likely to favor, even though the specifics of their plans will likely change upon taking office. Nevertheless, such an exercise provides us with a better understanding of how they see the economy, the role they believe government should play in the economy, the relative weight they attach to business and labor, and the kind of policies they believe are most likely to move the economy closer to an equitable, full-employment, growth path.

The first thing to note about their economic proposals is that they follow the vision that's common to their corresponding political parties. Both political parties embrace capitalism as an organizing principle, are generally suspicious of socialism, and accept the notion that the United States has an obligation to govern world affairs. But they differ on how they see the free market and, consequently, the economic role they assign to government and labor. Democrats are more likely to accept the claim that markets can fail and, as a result, need public oversight and stimulative policies, while Republicans tend to view government as a parasitical institution that prevents markets from achieving their full potential. And while the Democratic Party is more accommodating to labor than is the Republican Party, it would be a mistake to view it as the party of labor. Business interests dominate both parties, but labor has traditionally been better received by Democrats than Republicans.

Since the mid-1970s both political parties have shifted toward the right and embraced policies that are now referred to as neoliberal. The Democrats began to move in that direction in the late 1970s when the Carter Administration deregulated the transportation, oil, and gas industries. But it wasn't until 1985 that their pivot toward the right took hold with the founding of the Democratic Leadership Council (DLC). This organization, which eventually disbanded in 2011, pushed the Democratic Party to distance itself from the kind of activist government programs, such as the New Deal and the Great Society, which had defined it since the 1930s. Instead, the DLC began to push for policies that favored free trade, market solutions to public problems, privatization of public assets, market deregulation, welfare reform, and labor market flexibility (On the role of the DLC in moving the Democratic Party to the right, see https://goo.gl/c0kCH0). While government was still seen as an institution that should be used to rectify the vagaries of the free market, these "New Democrats" placed more emphasis on market solutions and privatization than the "old Democrats" of the New Deal and the Great Society. The 42nd President of the United States, William (Bill) Clinton, was the first New Democrat to push for this vision of public policy.

The Republican shift toward the right began in 1980 with the election of Ronald Reagan. To be sure, they have always been to the right of the Democrats, at least since the early 20th century, but by 1971 they had reluctantly accommodated themselves to a Keynesian view of things as witnessed by President Nixon's use of wage and price controls. But, by 1980 they doubled down on their belief that government stifles free markets and began to push, once again, for greater deregulation, privatization of public services, heightened vigilance over possible bureaucratic waste, and attacking social welfare and collective bargaining. President Reagan's famous quip "government is not the solution to our problem; government is the problem", succinctly captures this position (see "Reagan's First Inaugural" in https://goo.gl/v8fRro). But it was buttressed by a new policy that came to be called Supply Side Economics. The basic idea was that economic growth had been stifled by government regulation and taxation, so the best way to regenerate economic growth was to encourage greater deregulation while simultaneously reducing marginal tax rates - particularly on corporations and the wealthy. The belief was that such tax reductions would motivate corporations and capitalists to invest in new productive capacity, which in turn would generate more output and employment.

While the economic proposals of both candidates fall within the tradition of their corresponding parties, Clinton's plan tilts a bit more toward the old Democratic Party, while Trump's plan stays within the current supply side tradition of Republican Party. For example, Clinton, presents her plan in terms of economic fairness, claiming that her administration will seek an equitable distribution of the burdens (taxes) and benefits (public services) of government. She proposes a tax system that ensures the wealthy not pay a lower tax rate than their employees (the Buffett Rule), intends to close corporate and Wall Street loopholes, simplify and cut small business taxes, and provide tax relief for working families. In addition, she plans to invest in transportation and energy infrastructure, encourage U.S. manufacturing, make housing affordable to working families, keep the Affordable Care Act (ACT), boost social security benefits, invest in public education and push for debt-free college education. She claims to fight for the labor movement by supporting collective bargaining and the Employee Free Choice Act, raise the minimum wage to $15, protect workers from exploitation, encourage companies to invest in their workers, introduce greater oversight of the financial sector, and reject trade agreements, like the Trans-Pacific Partnership (TPP), that threaten jobs and national security. What's more, she plans to create a defense budget that encourages efficiency while investing in cyber defense and attack capabilities, which she calls "net-centric warfare" (see Hillary Clinton's website https://goo.gl/9GbE9T and "10 Ways Hillary Clinton Plans to Grow the Economy" https://goo.gl/l02cwt).

Trumps proposals stay within the Republican Party's emphasis on supply side policies and efforts to reduce social welfare expenditures. The centerpiece of his economic plan involves simplifying the federal income tax code by reducing it from the current seven tax brackets to three. Instead of the current structure that starts at a tax rate of 10% and tops at 39.6%, he intends to compress it into three rates, 12%, 25%, and 33%. The statutory corporate tax rate will be reduced from the current 35% to 15% and he'll encourage U.S. corporations that keep foreign earnings abroad to repatriate them through a special 10% tax incentive. He'll push to eliminate special interest loopholes, repeal the inheritance tax, and allow families with an income of $500,000 or less (married filing jointly) to deduct the average cost of childcare from their taxes. He'll introduce a "penny plan" that reduces, on a yearly basis, non-defense and non-safety net spending by one percent of the previous year's spending, and will encourage bureau chiefs to identify and remove job-killing regulations. Additionally, he's proposed a moratorium on new regulations, intends to eliminate the Waters of the U.S. Rule, the Clean Power Plan, and repeal the Affordable Care Act by replacing it with Health Savings Accounts. He's silent on unions, collective bargaining, and the minimum wage. But, he's against the TPP and plans to revisit trade policies, such as NAFTA, by renegotiating or reneging on agreements that do not increase GDP, reduce the trade deficit, or strengthen the nation's manufacturing base. What's more, China will be labeled a currency manipulator and legal claims will be brought against China in the U.S. and the WTO. At the same time, he intends to increase military spending, increase investment in the nation's missile defense system and build a stronger system of cyber defense and offense. The combined effect of these policies, he claims, will unleash a 3.5% to 4% rate of economic growth over the next ten years (see Donald Trump's website https://goo.gl/gCfFhj and "10 Ways Donald Trump Plans to Grow the Economy" https://goo.gl/vX6CL7).

Clinton's plan emphasizes spending on social infrastructure, or more broadly the social wage, while raising taxes on the wealthy to fund this increased spending, but also to encourage a more equitable distribution of income and the net benefits of government. At the same time, military spending will increase by an amount determined by the cost of her "net-centric warfare" proposal. Both of these forms of government spending will increase, though it's unclear whether the social wage component will rise by the same proportion as (or greater or smaller than), the military component. In the meantime, the tax increase will dampen to some extent the stimulative impact of the increased government spending, though the extent of this effect will be modest since it's focused on the wealthy (who's relatively low propensity to consume implies a modest decrease in aggregate consumption). Thus, it's reasonable to assume that the negative impact of the tax increase will be outweighed by the positive impact of increased government spending, bringing about a net increase in aggregate demand and thus national output. The growth that would be expected from this combination of proposals will be modest. This is consistent with the prognosis of the Committee for a Responsible Federal Budget, which claims that Clinton's plan will be "debt neutral", meaning that the deficit, and thus the stimulus, will be modest (see Joel L. Naroff, "Clinton's economic plan", Philly.com https://goo.gl/5H4y4D).

In contrast, Trump is proposing significant tax reductions, and cuts to the social wage component of government spending while increasing the military component. Given the troop and hardware increase he's proposing, it's reasonable to imagine that military spending will rise by a greater proportion than whatever decrease will occur to social wage component of the budget. This means that Trump will actually be increasing government spending (though mostly on the military) while, at the same time, cutting taxes. Both policies, i.e. increased government spending and reduced taxes, will have a stimulative impact on aggregate demand and thus national output. Indeed, the Committee for a Responsible Federal Budget claims that Trump's plan will increase both the federal deficit and the nation's debt by a far greater proportion than Clinton's impact on the deficit and debt (see Joel L. Naroff, "Why Trump's economic plans are unrealistic and costly", Philly.com https://goo.gl/nCkQgB). In other words, Trump's plan will be more stimulative than Clinton's

But, while his plan may very well bring about a faster rate of growth than Clinton's, it's very doubtful that it will be close to the 4% rate he's proclaiming. The last time the U.S. economy experienced such rates of growth was in the 1950s and 1960s. And even during the 1980s, when the miracle of supply side economics was supposed to occur, the average annual rate of growth was 3.2%; a good rate, to be sure, but short of the 4% he's promising (see Real Gross Domestic Product (A191RL1Q225SBEA), FRED Economic Data, https://goo.gl/Suycen). What's more, the kind of stimulus he's proposing will heighten wealth and income inequality; not simply because the tax cuts are aimed at the wealthy, but because he's also minimizing, indeed attacking, the social wage, reducing or eliminating regulations, and ignoring - or working against – collective bargaining and increases to the minimum wage. At the same time, because his plan minimizes the social wage while highlighting military expenditures, the quality of public life will deteriorate as militarism is encouraged at the expense of the social wage.

On the international front, Clinton's proposals are more in line with long-standing U.S. trade relations whereas Trump's proposals have the potential for destabilizing world trade as a result of his threats to renege or renegotiate existing trade agreements, not to mention the economic war he's planning to conduct against China. This could lead to economic retaliation by other nations and, as a result, have the effect of reducing global trade and consequently economic growth in the U.S. In short, his trade proposals could very well cut into the stimulus his fiscal policies might bring about.

When combined with his proposal to increase military expenditures, Trump's trade policies could lead to more imperial wars; that is, over and above the wars that are already being carried out. Indeed, it's quite possible that his administration would use trade disputes as an opportunity to encourage more war. This would have the effect of further stimulating the economy, but increasingly upon a war footing. In addition, it would rally the masses behind his nativistic rhetoric, embolding them to defend the fatherland by cheering on pre-emptive attacks against others.

While Clinton's trade policies are nowhere as extreme as those of Trump, she now claims to be against the TPP, in direct contradiction to her earlier support. And while it's unlikely that she'll entangle the USA in a trade war, she does have a track record of supporting pre-emptive attacks (Libya) and overthrowing regimes that are not to her liking (Honduras). But, unlike Trump, her saber rattling seems to be confined to nations that pose no real military threat. Nevertheless, she's likely to continue in the imperial traditions of Obama and Bush and, to that extent, continue alienating large portions of the globe. It's doubtful, though not improbable, that she'll intentionally confront China or Russia – the two nations that are quickly becoming the dangerous "other" in the political imagination of the USA. A more likely scenario is that she'll pursue proxy wars that continue to engage the USA in military adventures. The extent to which such wars will stimulate the economy will depend on the extent of the engagement. And while it will not escalate the militarization of the USA, as Trump's policies will likely do, it will continue the incremental militarization that has been taking place since World War II.

Lastly, there's the crazy proposal to build an impenetrable wall on the southern border of the United States, which Trump claims, will be paid by Mexico. How Mexico will be made to pay for it, and not expect some kind of economic retaliation while renegotiation NAFTA, is a mystery. There's nothing as extreme on the Clinton side. Instead, her website claims that she'll introduce immigration reform in ways that are more humane than is currently the case with the Obama administration. Both of these policies will have an impact on the labor market but their magnitude is likely to be very small. In the case of Trump, his wall proposal may lead to a modest stimulative effect while simultaneously tightening the unskilled labor market. But, given the slack that still exists in the labor market this effect is likely to be non-existent or very modest. In the case of Clinton, her immigration proposals will have little impact on the broader economy other than to keep the unskilled labor market in a state of oversupply. This will reinforce the downward pressure on wages that's normal to the unskilled labor market.