

Trump's Economy Is On A Path To A Bust



Whose interests are being promoted by macroeconomic policies in the United States? Is Donald Trump good for the economy? Is he responsible for the current economic indicators, which seem to be healthy? Are his tariff policies good for workers here and abroad? And how does his approach to economics differ from Obamas?

Howard Sherman is Emeritus Professor of Economics at the University of California at Riverside, a founding member of the [Union for Radical Political Economics](#) and author of [Inequality, Boom, and Bust: From Billionaire Capitalism to Equality and Full Employment](#) and [Principles of Macroeconomics: Activist vs Austerity Policies](#) (co-authored with Michael Meeropol, and now in its second edition). In an exclusive interview for Truthout, Sherman provides answers to these questions and exposes the myths associated with the “success story” of Trumps economy. In fact, Sherman contends that the US economy is on the verge of an economic recession and possibly a Great Depression.

C. J. Polychroniou: Howard, what are the goals and aims of macroeconomic policy in the US, and what interests are they designed to protect and promote?

Howard Sherman: There are two different views in the US over macroeconomic policy. One is the conservative view, which says that capitalism is the best possible economic system, so it needs no reforms, or just a few minor ones. Capitalism functions smoothly and there is a recession only when there is an incorrect government policy. Furthermore, there is never too much inequality because inequality merely reflects the productivity of an individual, so no reform is needed to change inequality.

The second view is the progressive economics view, held by a minority. In general, progressives believe that inequality represents extremely high profits made by corporations that exploit the labor of workers at low wages. Inequality increases with every capitalist expansion, meaning that there is an increase in the

ratio of all profits to all wages. Moreover, this increase in inequality means that the demand for goods and services by workers, based on their wages and salary, is limited. As such, the rising supply of goods to the market far outdistances the demand for these goods by the entire working population. The result is an economic recession or a depression that produces heavy unemployment in every downturn business cycle.

The conservative view that capitalism is near perfect helps to prevent reforms of the system, so it makes the wealthy owners very happy. On the other hand, the progressive policy that is necessary to raise wages and salary reflects the views of the great majority of the working population.

Since the onset of neoliberalism, macroeconomic policies and outcomes in the US seem to follow similar patterns, regardless of whether there is a Democratic or Republican administration in power, which are broadly in accordance with the needs of big capital. Is this a fair and accurate characterization of US macroeconomic policies in the age of neoliberal supremacy?

It is certainly true that the macroeconomic policies of all Republican presidents and neoliberal presidents have been fairly similar, although the Republicans have implemented policies that contribute somewhat more to inequality than those of the Democrats. The Republican Party is now more clearly represented by the wealthy than ever before. The Democrats, on the other hand, are rather split. There is a progressive wing to the Democrats in Congress who now represent to some degree the interest of labor, women and [people of color].

The conservative wing of the Democratic Party has been represented by former presidents Bill Clinton and Barack Obama and presidential candidate Hilary Clinton.

In addition to the usual Democratic platform, each one of them has proposed many other measures helping the large corporations and harming the working class. For example, such measures under Clinton and Obama included the abolition of a large part of the welfare system and drastic reduction of all regulations of financial corporations. All of them also struck certain agreements and made coalitions with large corporations and banks. All of them also attacked the representatives of the labor movement within the official machinery of the Democratic Party and also [attacked](#) those Democrats in Congress who were

labeled “progressives.”

One example of an individual representing the progressive wing is Sen. Bernie Sanders. He advocates a change from private medical care to free public medical care for all, a change from high paying tuition by students to a system of free higher education for all and an increase of the minimum wage to \$15. If implemented, these three policies alone would greatly increase income equality and would lead to higher economic growth.

Is Trump good for the economy?

Trump is terrible for the economy because his policies increase inequality, which reduces the demand from wages relative to the supply of goods on the market. A few statistics may help to clarify why the US economy is in trouble and why Trump is making it worse.

Today, [42 percent of all wealth in the US](#) is held by the richest 1 percent of citizens. The percentage of wealth held by a tiny portion of the population has been rising as a long trend ever since 1980. That top 1 percent of all wealth-holders have a majority of their income in the form of profits, rent and interest. For the rest of the population — that is the other 99 percent — the bulk of all income comes from wages and salaries. Thus, the inequality of income and wealth in the US reflects the struggle between capitalist owners and employees, or, in popular language, the 1 percent vs. the 99 percent.

Now, this extreme inequality harms not only the middle class and the poor, but also the overall state of the economy as it produces instability. The rising percentage of profits to wages with every capitalist expansion means that consumer income and consumer spending become more and more limited at the peak of expansion. The downward pressure of aggregate demand leads in turn to less production and the firing of workers. For example, the highest level of inequality in the 20th century was reached in 1929, followed by the Great Depression, which lasted 10 whole years. Between 1929 and 1933, employment fell dramatically, with 25 percent of all workers being fully unemployed while 50 percent of all workers had only part-time jobs and the rest of the workers experienced substantially reduced wages.

Altogether, there have been 37 economic recessions or depressions in the United States. The most recent was the great capital Recession of 2007-2009, in which

12 percent of workers were fully unemployed.

What are the continuities and differences in economic policies between Trump and Obama?

Obama put forward a very weak economic stimulus after the Great Recession which had the effect of very low rates of growth. In addition, he made agreements with Republicans on many issues, including tax revenues, spending and cuts on social programs, so inequality was allowed to increase in his administration. Trump is pursuing policies which heighten inequality more aggressively, with special emphasis on policies against women and marginalized communities. The combined increase in inequality, with a lack of demand for consumer goods, is leading toward a new recession.

You said "Trump is terrible for the economy." But how would you compare the "Trump economy" to the "Obama economy"?

The "Obama economy" was growing but very slowly. Trump's economic policies have led to rapid expansion of profits, which is supposed to lead to general economic growth. However, the increasing levels of inequality produced as a result of Trump's policies have pushed the economy to its peak, and we are on the verge of a new recession. Indeed, because Trump and the Republicans have removed a large number of financial regulations, the banking and financial sectors are going wild, so the next economic downturn may actually become a major depression, which will drag down with it the rest of the global economy.

What type of policies is Trump specifically pursuing that increase inequality and which, in your view, are preparing the path for the next recession?

The most important single quantitative move by Trump and the Republican Congress to increase inequality was the so-called Tax Bill of 2017. In that tax bill, lower-income and most middle-income taxpayers will receive tiny amounts of extra money through lower [tax] rates in the first few years. Then, in the rest of the 10-year period of the plan, everyone in the category of poor and middle class will actually lose money. At the same time, there are incredible tax reductions for all of the wealthy, who are defined to be in the top 1 percent of taxpayers. In fact, it is now clear that the country will [lose \\$2 trillion in the next 10 years](#), but \$2 trillion of that money will end up in the already overstuffed pockets of the richest 1 percent. This is a very clear example of the type of policies implemented by the

Trump administration and the GOP that will result in an astonishing jump in inequality of income and wealth in the United States.

Trump has restored tariffs and protectionism to a prominent place in his administration, undoubtedly due to the influence of his trade adviser, Peter Navarro. Are Trumps tariff policies sustainable? And how do they affect workers here and abroad?

Trump is causing a war fought by rising tariffs, which will hurt all economies, causing greater unemployment.

First, keep in mind that all trade treaties are written by expert advisers who specialize in each product to be traded. In the last treaty that was agreed under the Obama administration (the now defunct Trans-Pacific Partnership deal), an investigation by Elizabeth Warren revealed that over 90 percent of the trade advisers came from the world of big business, and none of them from labor. Therefore, the tariff system is designed to help the large corporations, but it hurts average Americans. For example, the treaty that prohibited all generic drugs from being imported into the United States means that consumers would have to pay for the much higher prices of the brand name drug. Trump stopped this treaty completely, but he is now negotiating worse ones. And lets not ignore the fact that the [trade deficit has just soared](#) and exploded to its highest level in two years!

Trumps tariffs are designed to bring maximum profits to American corporation trading in the world. These policies, like those of Obama, will continue the process of low-wage exploitation to produce exports in many other countries, but will also continue the process of low wages in the United States. There is a lengthy discussion of these issues in the recent publication of the second edition of *Principles of Macroeconomics: Activist vs Austerity Policies*.

OK, but on paper at least, with the exception of the trade deficit, the US economy is doing quite well. Real gross domestic product [increased at an annual rate of 4.1 percent](#) in the second quarter of 2018 and unemployment is as low as it has been in two decades (3.9 percent as of July). Yet, real average wages remain stagnant, with purchasing power being what it was 40 years ago, and nearly half of the nations families cannot afford to cover the basics. How do we explain these apparent anomalies in the functioning of the contemporary US economy?

It is normal for every capitalist economy after an economic recession to have toward the end of its expansion a large boom in profits and production, but also an increase in inequality, which will cause a lack of buying power, leading to a new bust. And this is precisely what we are seeing today. In other words, the US economy has all the typical signs of the typical expansion, leading in the end to a large bust.

About the author:

C.J. Polychroniou is a political economist/political scientist who has taught and worked in universities and research centers in Europe and the United States. His main research interests are in European economic integration, globalization, the political economy of the United States and the deconstruction of neoliberalism's politico-economic project. He is a regular contributor to Truthout as well as a member of Truthout's Public Intellectual Project. He has published several books and his articles have appeared in a variety of journals, magazines, newspapers and popular news websites. Many of his publications have been translated into several foreign languages, including Croatian, French, Greek, Italian, Portuguese, Spanish and Turkish. He is the author of [*Optimism Over Despair: Noam Chomsky On Capitalism, Empire, and Social Change*](#), an anthology of interviews with Chomsky originally published at Truthout and collected by Haymarket Books.