

What America's Economy Needs from Trump

by Joseph E. Stiglitz



NEW YORK – Donald Trump's astonishing victory in the United States presidential election has made one thing abundantly clear: too many Americans – particularly white male Americans – feel left behind. It is not just a feeling; many Americans really *have* been left behind. It can be seen in the data no less clearly than in their anger. And, as I have argued repeatedly, an economic system that doesn't "deliver" for large parts of the population is a failed economic system. So what should President-elect Trump do about it?

Over the last third of a century, the rules of America's economic system have been rewritten in ways that serve a few at the top, while harming the economy as a whole, and especially the bottom 80%. The irony of Trump's victory is that it was the Republican Party he now leads that pushed for extreme globalization and against the policy frameworks that would have mitigated the trauma associated it. But history matters: China and India are now integrated into the global economy. Besides, technology has been advancing so fast that the number of jobs globally in manufacturing is declining.

The implication is that there is no way Trump can bring a significant number of well-paying manufacturing jobs back to the US. He can bring manufacturing back, through advanced manufacturing, but there will be few jobs. And he can bring jobs back, but they will be low-wage jobs, not the high-paying jobs of the 1950's.

If Trump is serious about tackling inequality, he must rewrite the rules yet again, in a way that serves all of society, not just people like him.

The first order of business is to boost investment, thereby restoring robust long-term growth. Specifically, Trump should emphasize spending on infrastructure and research. Shockingly for a country whose economic success is based on technological innovation, the GDP share of investment in basic research is lower today than it was a half-century ago.

Improved infrastructure would enhance the returns from private investment, which has been lagging as well. Ensuring greater financial access for small and medium-size enterprises, including those headed by women, would also stimulate private investment. A carbon tax would provide a welfare trifecta: higher growth as firms retrofit to reflect the increased costs of carbon dioxide emissions; a cleaner environment; and revenue that could be used to finance infrastructure and direct efforts to narrow America's economic divide. But, given Trump's position as a climate change denier, he is unlikely to take advantage of this (which could also induce the world to start imposing tariffs against US products made in ways that violate global climate-change rules).

A comprehensive approach is also needed to improve America's income distribution, which is one of the worst among advanced economies. While Trump has promised to raise the minimum wage, he is unlikely to undertake other critical changes, like strengthening workers' collective-bargaining rights and negotiating power, and restraining CEO compensation and financialization.

Regulatory reform must move beyond limiting the damage that the financial sector can do and ensure that the sector genuinely serves society.

In April, President Barack Obama's Council of Economic Advisers released a [brief](#) showing increasing market concentration in many sectors. That means less competition and higher prices – as sure a way to lower real incomes as lowering wages directly. The US needs to tackle these concentrations of market power, including the newest manifestations in the so-called sharing economy.

America's regressive tax system – which fuels inequality by helping the rich (but no one else) get richer – must also be reformed. An obvious target should be to eliminate the special treatment of capital gains and dividends. Another is to ensure that companies pay taxes – perhaps by lowering the corporate-tax rate for companies that invest and create jobs in America, and raising it for those that do not. As a major beneficiary of this system, however, Trump's pledges to pursue reforms that benefit ordinary Americans are not

credible; as usual with Republicans, tax changes will largely benefit the rich.

Trump will probably also fall short on enhancing equality of opportunity. Ensuring preschool education for all and investing more in public schools is essential if the US is to avoid becoming a neo-feudal country where advantages and disadvantages are passed on from one generation to the next. But Trump has been virtually silent on this topic.

Restoring shared prosperity would require policies that expand access to affordable housing and medical care, secure retirement with a modicum of dignity, and allow every American, regardless of family wealth, to afford a post-secondary education commensurate with his or her abilities and interests. But while I could see Trump, a real-estate magnate, supporting a massive housing program (with most of the benefits going to developers like himself), his promised repeal of the Affordable Care Act (Obamacare) would leave millions of Americans without health insurance. (Soon after the election, he suggested he may move cautiously in this area.)

The problems posed by the disaffected Americans – resulting from decades of neglect – will not be solved quickly or by conventional tools. An effective strategy will need to consider more unconventional solutions, which Republican corporate interests are unlikely to favor. For example, individuals could be allowed to increase their retirement security by putting more money into their Social Security accounts, with commensurate increases in pension benefits. And comprehensive family and sick leave policies would help Americans achieve a less stressful work/life balance.

Likewise, a public option for housing finance could entitle anyone who has paid taxes regularly to a 20% down-payment mortgage, commensurate with their ability to service the debt, at an interest rate slightly higher than that at which the government can borrow and service its own debt. Payments would be channeled through the income-tax system.

Much has changed since President Ronald Reagan began hollowing out the middle class and skewing the benefits of growth to those at the top, and US policies and institutions have not kept pace. From the role of women in the workforce to the rise of the Internet to increasing cultural diversity, twenty-first century America is fundamentally different from the America of the 1980s.

If Trump actually wants to help those who have been left behind, he must go beyond the ideological battles of the past. The agenda I have just sketched is not only about the economy: it is about nurturing a dynamic, open, and just society that fulfills the promise of Americans' most cherished values. But while it is, in some ways, somewhat consistent with Trump's campaign promises, in many other ways, it is the antithesis of them.

My very cloudy crystal ball shows a rewriting of the rules, but not to correct the grave mistakes of the Reagan revolution, a milestone on the sordid journey that left so many behind. Rather, the new rules will make the situation worse, excluding even more people from the American dream.

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