ECONOMIC VIEWPOINT

The November 3 Election and the U.S. Economy

Part One: Economic Overview of Donald Trump's First Term

Donald Trump's first term as President of the United States was eventful. Once settled into the White House and aided by a Republican majority in both houses of Congress, President Donald Trump delivered on the key promises made during the 2016 election campaign, including the introduction of a more protectionist trade policy, significant tax cuts and a sustained deregulation effort. Overall, however, these measures have not had the positive effects on economic growth that had been promised. Of course, the COVID-19 crisis recently tarnished the Trump Administration's economic record dramatically. The second part of our analysis of the 2020 presidential election will focus on the issues of the current campaign and on the candidates' platforms.

The Economic Situation When Donald Trump Took Office

In January 2017, the United States was enjoying the 91st month of the growth cycle that began in the summer of 2009. This was already the fourth longest economic cycle according to National Bureau of Economic Research (NBER) data. The jobless rate dropped from a cyclical maximum of 10.0% in 2009 to 7.9% by the end of Barack Obama's first term in 2012 and then to 4.7% by the end of 2016. Over 3,000,000 jobs were created in 2014, the strongest annual gain since 1999. This growth slowed slightly in 2015 (+2,720,000 jobs) and in 2016 (+2,345,000 jobs).

That said, sluggish growth was nevertheless noted towards the end of President Barack Obama's second term. For one year, from mid-2015 to mid-2016, real GDP growth was more modest, with annualized quarterly growth of around 1.5% rather than the gains of more than 2.5% generally observed in previous years. The slowdown did not come from consumption, which remained fairly robust, but rather from business investment, where annual growth fell from 7.2% in 2014 to 2.3% in 2015 and then to just 0.5% in 2016. This was mainly due to falling oil prices, which undermined investment in this sector. The manufacturing sector lost its momentum as a result, with job creation coming to a halt between mid-2015 and the end of 2016. The ISM manufacturing index briefly dipped below the 50 mark between October 2015 and February 2016 as well.

The end of the Obama era was also marked by a reversal of the accommodative policies from the 2008–2009 crisis. The Federal Reserve (Fed) completed its quantitative purchase monetary policy in 2014. The cycle's first key rate hike came in late 2015, followed by just one other at the end of 2016 after Donald Trump was elected. The political paralysis between the White House under Barack Obama and the Republican majority in Congress brought a certain degree of austerity in the federal government during the first half of the 2010s.

Donald Trump's Promises

It is in this context that Donald Trump was elected. Although economic growth was well entrenched in the United States, the manufacturing sector was trailing behind. As a candidate, Donald Trump portrayed this situation as if though the U.S. economy had never actually emerged from the recession.[1]

Both while campaigning and during his presidency, Donald Trump promised to return the United States to faster economic growth. He repeated multiple times that the country's real GDP could grow 4%. At the beginning of the term, the White House website stated the following: "To get the economy back on track, President Donald Trump has outlined a bold plan to create 25 million new American jobs in the next decade and return to 4 percent annual economic growth."[2]

[1] Tessa BERENSON, Read Donald Trump's Speech on Jobs and the Economy, *Times*, September 15, 2016 at 12:38 p.m. (Accessed on October 19, 2020).

[2] Can the U.S. economy accelerate sustainably?, Desjardins, Economic Studies, *Economic Viewpoint*, March 9, 2017, 3 p.

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This ambition for much stronger growth than the 2016 trend was to be achieved through various policies that formed the backbone of Donald Trump's economic plan: tax cuts for households and businesses, renegotiation of trade agreements and deregulation.

Tax Cuts

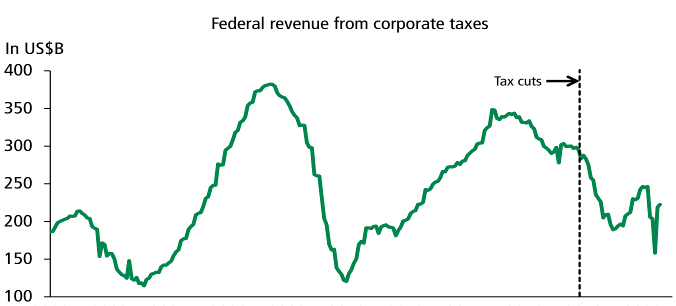
The Trump Administration's key fiscal policy measure was the tax cuts, passed by Congress and signed by the President in December 2017. This legislation, entitled the *Tax Cuts and Jobs Act* (TCJA), introduced steep cuts to a number of personal income tax rates, particularly in the highest tax brackets. It doubled inheritance tax exemptions and raised the standard deduction, but eliminated or capped certain deductions, exemptions and tax credits. For businesses, the TCJA introduced a significant tax rate reduction, from 35% to 21%, among other things.

A few months after this act was passed, the Congressional Budget Office (CBO) estimated that, excluding the positive macroeconomic effects of the implemented measures, the TCJA was expected to inflate the deficit by a total of US$2,314B between 2018 and 2028.

Did this policy have any actual effect on economic growth in the United States? Government officials, including Secretary of the Treasury Steven Mnuchin, claimed that the tax cuts would pay for themselves by stimulating growth in economic activity. The CBO, meanwhile, estimated that real GDP growth would increase 0.3% in 2018 and 2019 and that the annual marginal effect would wane thereafter. That is far from enough to reverse the estimated fiscal cost. The positive effects on growth were supposed to lead to a reversal of just US$461B over ten years.

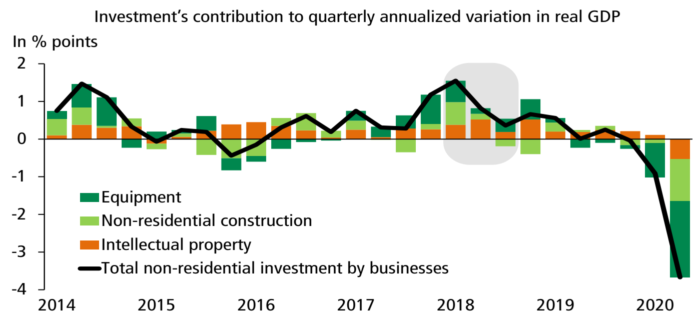
In hindsight, the tax cuts had a major negative effect on government revenue, particularly corporate income tax receipts (graph 1). Unfortunately, there really are no lasting positive consequences on non-residential investment growth. The first quarter of 2018 saw investment accelerate (following an already noticeable momentum in 2017), but then quickly run out of steam in the quarters that followed (graph 2). A frequent criticism is that the money saved through a reduction in the tax burden was instead used by businesses to buy back their shares on the stock market rather than implementing productive projects (graph 3).

GRAPH 1
The tax cuts worsened the federal fiscal position



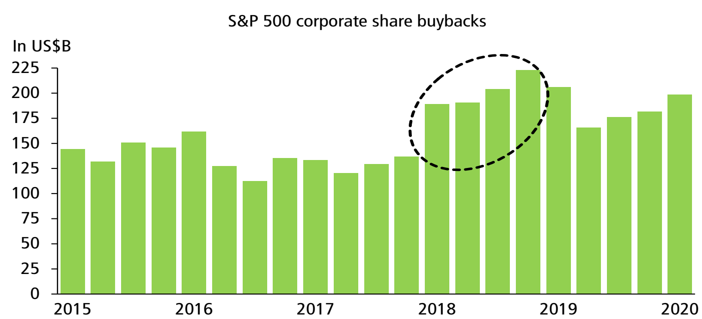
Sources: U.S. Treasury and Desjardins, Economic Studies

GRAPH 2
The boom in investment in early 2018 quickly fizzled



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 3
Share buybacks jumped in 2018



Sources: Standard & Poor's and Desjardins, Economic Studies

"Tariff Man"

The second pillar of Donald Trump's economic plan was to introduce a much more protectionist trade policy than that of his predecessors. Three days after his inauguration, the United States withdrew from the Trans-Pacific Partnership (TPP).

The opening shot was fired in January 2018 with the imposition of tariffs on washing machine and solar panel imports. A bigger bombshell was dropped in March 2018 with the announcement of tariffs on steel and aluminum imports, including against trade partners such as Canada. This forced a number of countries to place retaliatory tariffs on U.S. products. After some time, U.S. tariff exemptions were given to some countries, Canada among them. Threats of further tariffs were made, but not carried out (in the auto sector, against Mexico in connection with illegal immigration into the United States and, more recently, on Canadian aluminum in September 2020).

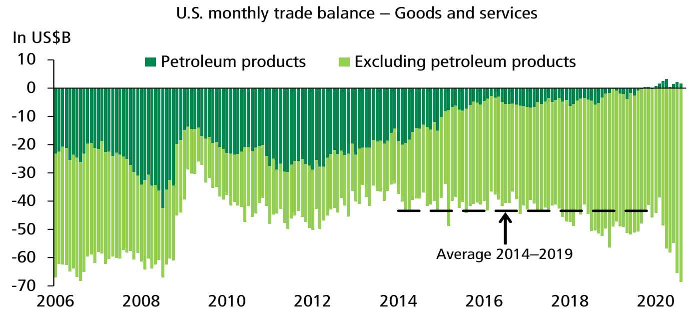
In addition to abandoning the TPP, Donald Trump promised to renegotiate the 1993 North American Free Trade Agreement (NAFTA) or unilaterally withdraw from it. At the beginning, the pressure was mostly on Mexico and its auto sector, but Donald Trump's attention eventually turned towards Canada's agricultural sector. The process of overhauling NAFTA began in spring 2017 and ended with the signing of a new agreement on November 30, 2018. The new agreement has been in effect since July 1, 2020. Donald Trump also broke off negotiations on a potential free trade agreement between the European Union and the United States.

However, it was the trade relationship between China and the United States that was the thorniest. The tariff escalation between the two countries was an all out trade war that began with the imposition of specific tariffs on Chinese imports in July 2018. Initially, the first tariffs applied to US$34B of imports of Chinese goods, but in the fall of 2019, more than US$250B in imported goods were affected by new tariffs, or 64.5% of U.S. imports from China.[3] China obviously also raised its tariffs on U.S. imports throughout this escalation. A truce was nevertheless called very late in 2019, preventing new tariffs from being imposed on all Chinese goods, especially those more directly intended for consumers. However, conditions were attached to the "phase one" deal, including a significant increase in Chinese imports of U.S. goods, something that seems difficult to achieve during this pandemic.

If Donald Trump believes that this trade war was good for the U.S. economy, then evidence of that is hard to see. The opposite is actually true; the uncertainty created by these trade conflicts, not only in the United States, but around the world, instead undermined business and investor confidence. During the peak of the conflict between China and the United States at the end of the summer of 2019, worries were rising about a possible recession, including a fall in stock market indexes and an inversion of the yield-curve.

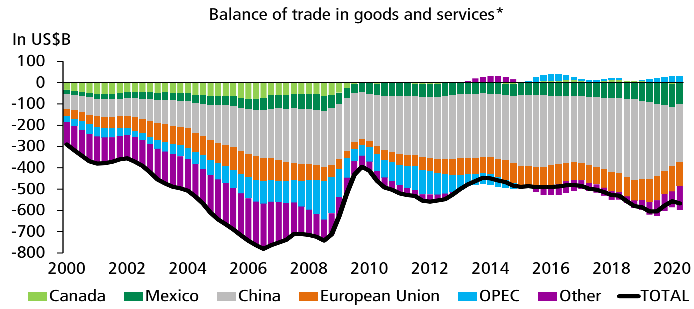
One of the President's goals was to reduce the U.S. trade deficit. This deficit had already decreased significantly during the 2008–2009 recession and remained fairly stable between 2010 and 2016. This stability stemmed from an improvement in net oil exports and a virtually equivalent deterioration in the balance of other goods (graph 4). It is plain to see that the situation has improved very little since the introduction of protectionist policies in 2018. At best, the deficit with China decreased in 2019 (graph 5). That said, the COVID-19 crisis made the situation so

GRAPH 4
The total trade balance did not really improve despite the disappearance of the oil deficit



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

GRAPH 5
The trade balance with China improved slightly, but was offset by other countries



OPEC: Organization of the Petroleum Exporting Countries; * Sum over four quarters.
Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

much worse that the trade deficit recorded in August 2020 was the worst since 2006.

Regulation

Another major component of Donald Trump's economic policy, but which made fewer headlines, were efforts to reduce federal regulation. The number of new regulations was high under the Obama Administration and even accelerated in 2016. As soon as Donald Trump set foot in the White House, the annual number of new federal regulations fell drastically (graph 6 on page 4).

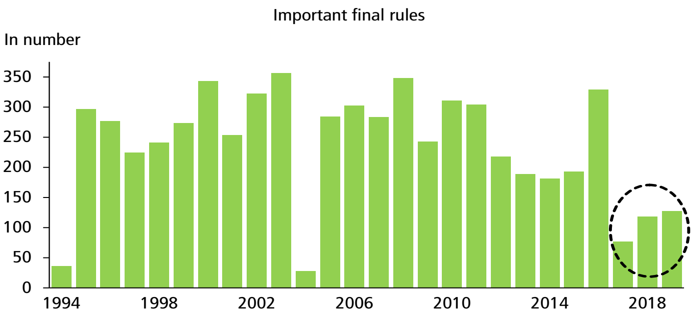
Did this deregulation have a major impact on the economy? Hard to say. Small business confidence improved considerably following Donald Trump's election. The National Federation of Independent Business (NFIB) small business confidence survey also shows that regulation became less of a problem as of 2017 (and taxation, as of 2018) (graph 7 on page 4).

Other Policies

These three pillars of President Donald Trump's economic policy were coupled with other measures and policies that may also have affected the economy in recent years. The crackdown on immigration, limiting labour supply and therefore the

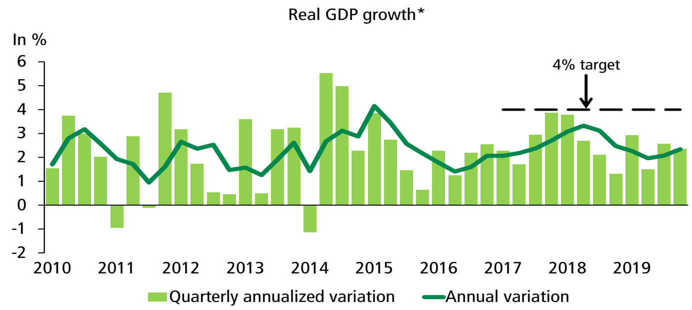
[3] Chad P. BOWN, *Phase One China Deal: Steep Tariffs Are the New Normal*, Peterson Institute for International Economics, *Trade and Investment Policy Watch*, December 19, 2019.

GRAPH 6
A notable drop in new regulations



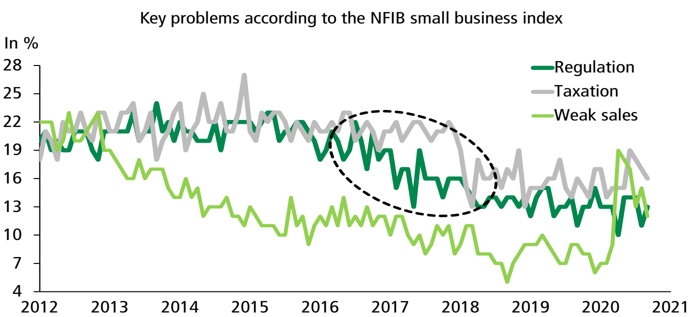
Sources: George Washington University Regulatory Studies Center and Desjardins, Economic Studies

GRAPH 8
U.S. real GDP growth did not reach 4%



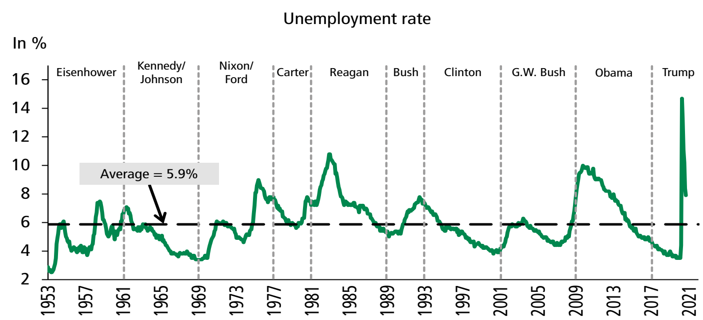
* This graph does not include 2020 data.
Sources: Datastream and Desjardins, Economic Studies

GRAPH 7
Regulation has become less of an issue since 2017



NFIB: National Federation of Independent Business
Sources: NFIB and Desjardins, Economic Studies

GRAPH 9
Before COVID-19, the jobless rate was well below the historical average



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

U.S. economy's potential, is one example. Support for the energy sector, especially in oil, solidified domestic energy production, and the United States is now a net exporter of petroleum products. In a more indirect way, President Donald Trump's relentless pressure on the Fed may have influenced its leaders to adopt a more accommodative monetary policy in 2019.

The U.S. Economy's Performance from 2017 until the Pandemic

Did the policies implemented by the Trump Administration lead to the growth promised during the 2016 election and early on in his term? In terms of annualized quarterly variation, real GDP got close to 4% growth in late 2017 and early 2018, but did not reach it (graph 8). The annual variation in real GDP, meanwhile, reached a maximum of 3.3% in the second quarter of 2018.

The same applies to the job market, where it is quite clear that Donald Trump's policies did not really improve the prevailing situation. In the final three years of the Obama Administration, 8,069,000 jobs were created, whereas the gain during the first three years under Donald Trump stands at 6,556,000 jobs. What must be considered, however, is that the job market was beginning to tighten before Donald Trump took the White House and, consequently, the excess capacity in the labour market was becoming scarce and, thus, was limiting additional gains. Nevertheless, the jobless rate dropped to just 3.5% at the end of 2019, the lowest it had been in more than 50 years (graph 9).

"The Chinese Virus"

The outbreak of COVID-19 obviously changed the landscape for the global economy and the United States. In early 2020, a certain degree of optimism about growth had been reborn owing to the "phase one" deal between China and the United States. The Fed's rate cuts in 2019 also kept financial market jitters at bay.

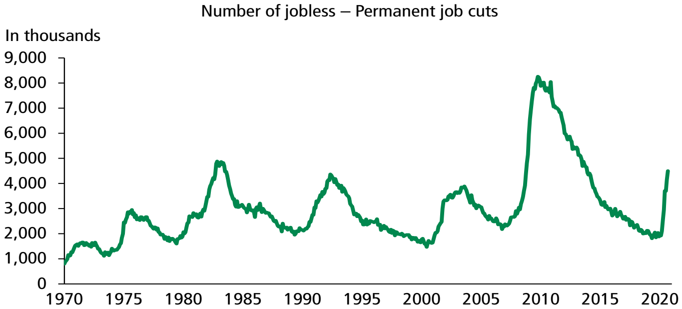
The effects that the pandemic and the measures to combat it have had on the economy can only be described with superlatives. A total of 22,160,000 jobs were lost in two months alone, and the jobless rate plummeted from 3.5% in February to 14.7% in April. The job market had never known such a steep plunge. Real consumption contracted a total of 17.9% in March and April. That is in contrast with the mere 2.6% lost at the worst of the 2008–2009 recession. Real GDP sank 30.4% (annualized) between the first and second quarter of 2020, by far the worst drop since U.S. national accounts were first compiled. The NBER declared that a cyclical peak had been reached in February 2020 and that a recession had begun in March. The cycle that began in July 2009 lasted 128 months. The pandemic therefore put an end to the longest economic growth cycle in the history of the United States.

Congress, divided between a mostly Democratic House of Representatives and a mostly Republican Senate since the 2018 election, and the President adopted multiple aid measures. The main one was the *CARES Act*, which increased unemployment benefits and transferred US$1,200 to each adult and US$500 per child. The CBO estimates that the fiscal cost of the *CARES Act* for 2020 is US$1,606B. These measures have helped sustain income and the economy. A recovery is now underway, and many indicators have bounced back. As of September, the U.S. job market had recouped a little over half of the jobs lost in March and April.

Although the country is well into the recovery, the atypical nature of the current situation makes it difficult to tell whether the recession is already over. Some indicators continue to deteriorate, such as the number of unemployed workers who lost their jobs permanently (graph 10). Talks to provide new federal aid to households, businesses and local governments are being held (after having been briefly suspended by Donald Trump), but are not going smoothly.

GRAPH 10
The lasting effects of the crisis are mounting

Number of jobless – Permanent job cuts

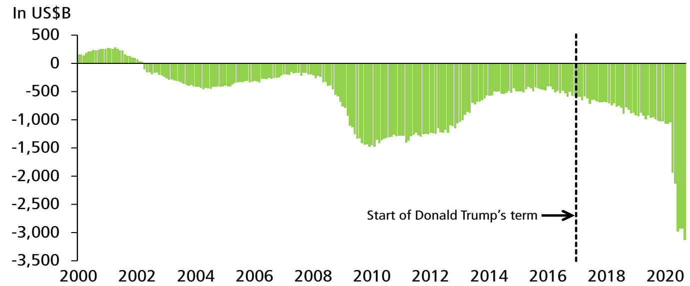


Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

The economic downturn as a result of the pandemic and the fiscal measures taken to combat it or limit its effects on the economy have clearly decimated the federal government's public finances. As stated earlier, they were already stretched thin following the tax cuts in 2018. The government deficit was US$587.4B in 2016 and climbed to US$984.4B in 2019. Such deterioration is rather rare in times of economic growth. The *CARES Act* and other measures as well as the decline in activity brought the deficit to US$3,132B in September (graph 11). Federal government debt held by the public therefore rose from US$14,167.6B (76.4% of GDP) in 2016 to US$16,802.8B (79.2% of GDP) in 2019. The deterioration of public finances in recent

GRAPH 11
The deficit widened significantly with COVID-19, but the trend was negative throughout Donald Trump's time in office

Federal government budget balance



Sources: U.S. Treasury and Desjardins, Economic Studies

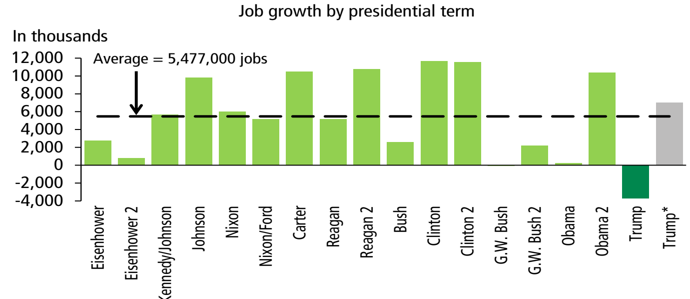
months drove debt up to US$21,019B (approximately 100% of GDP).

Relative Performance Tarnished by the Pandemic

The economic collapse caused by COVID-19 obviously affects the main balance sheet comparison measures for Donald Trump's first term. Job creation during the President's first four years is currently negative, a rather rare situation for the entire length of a presidential term (graph 12). However, taking into account only data prior to March 2020, the job situation under Donald Trump is quite enviable compared to past presidents.

GRAPH 12
Excluding COVID-19, job creation was relatively good under Donald Trump

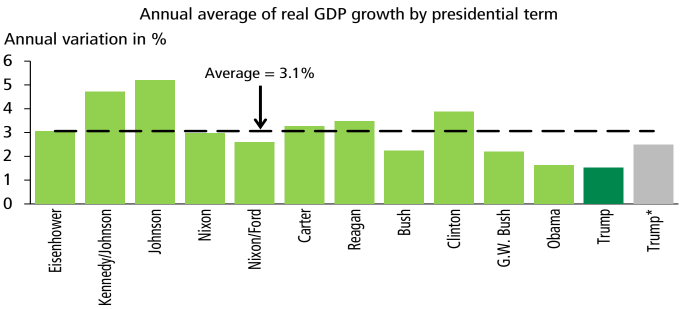
Job growth by presidential term



* Excluding the COVID-19 crisis, until February 2020.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

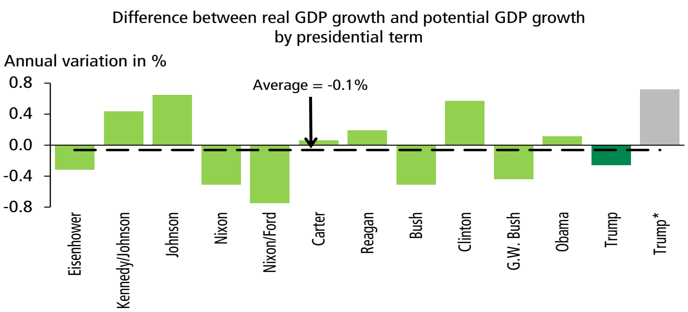
The same can be said of real GDP growth. The decreases in real GDP in the first and second quarter of 2020 clearly tarnished the Trump Administration's track record. In this case, growth remains positive even if the 2020 declines are taken into account, but is still the worst in 70 years (graph 13 on page 6). Taking the negative effect of COVID-19 out of the equation, the picture improves and is the best since Bill Clinton (who did not have a recession throughout his entire time in office). The U.S. economy's long-term trend with slower potential growth hurts the most recent presidents, however. Looking instead at

GRAPH 13
Real GDP growth was below the average of previous presidents



* Excluding the COVID-19 crisis, until the fourth quarter of 2019.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

GRAPH 14
Taking into account the poor growth in potential, the growth recorded under Donald Trump looks better



* Excluding the COVID-19 crisis, until the fourth quarter of 2019.
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

the relative performance of the economy versus potential, the economy under Donald Trump (excluding the pandemic) seems better (graph 14).

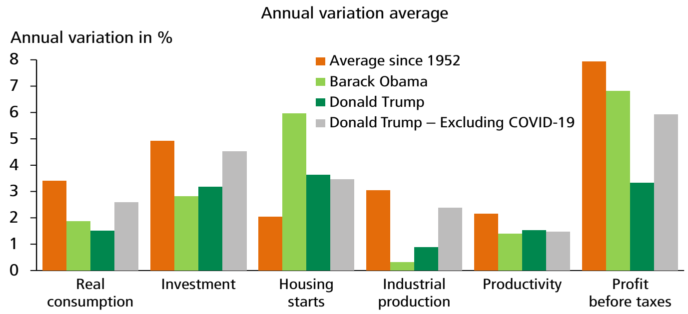
Looking at other economic indicators, we see that the average growth of a number of indicators under Donald Trump is below the average recorded during previous presidential terms, even if 2020 is excluded (graph 15). Only the variation in housing starts is above average, but is still below the gains made during the Obama Administration.

A Blurry Economic Record

Most U.S. presidents must face political or economic crises sooner or later. In the past 50 years, only two presidents were fortunate enough not to have a recession during their term: Lyndon B. Johnson and Bill Clinton. Donald Trump was close to becoming the third, until COVID-19 began to spread.

The pandemic aside, President Donald Trump instigated the main economic problems during his term. First, the trade war he waged clearly caused economic damage and heightened uncertainty. The U.S. tariff increases and the reprisals from other countries, particularly China, slowed growth, which could not take full advantage of the potential positive effects

GRAPH 15
The growth of other indicators was below the historical average overall



Sources: Bureau of Economic Analysis, U.S. Census Bureau, Federal Reserve Board, Bureau of Labor Statistics and Desjardins, Economic Studies

of lower taxes. Other countries also expressed distrust of the U.S. Administration, which has not been a good partner on the international stage, especially given the country's withdrawal from the World Health Organization (WHO) and from the Paris Agreement on climate change as well as its tireless attacks on the World Trade Organization (WTO).

The President's attention has also often been steered away from economic issues by political or ideological matters, notably his relationship with the media or members of Congress, immigration or the infamous wall on the border with Mexico. This may have affected talks with Democrats on topics where common ground could have easily been found, such as infrastructure.

Second, Donald Trump cannot be described as a reassuring figure that inspires stability. His term has been peppered with economic policy reversals. Threats, whether in his negotiations with Congress or towards other governments, have often made headlines. This is also the case for attacks on social media or in his public speeches. Never has a U.S. president repeatedly berated Fed leaders so aggressively in the public arena. This leadership style clearly feeds uncertainty and could have harmed the economy.

Donald Trump's pre-pandemic economic record is far from bad, but one wonders whether it would not have been much better without this negative side of the current U.S. president.

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