



CIGS Jay Rosengard Seminar

Is Trump Making America Great Again?
A One-Year Anniversary Scorecard of the Trump Presidency

(Summary of Q&A)

Date: 30 January, 2018

Venue: CIGS Meeting Room, Tokyo, Japan

Questioner 1: How do you see the difference between Obama administration and Trump administration, specifically with regard to fiscal policy? Also, Chinese who are against current Xi Jinping leadership have high hopes that Trump administration's China policy may lead to political reform in China. Is this hope justifiable?

Jay Rosengard: In the early part of Obama's administration, there was large deficit, starting at about 9% GDP, but over time, it went down. When Obama took over, the economy was weak. What Obama was doing was classic Keynesian economics, and the idea was to have a deficit to kick start the economy. By the end of his administration, deficit had gone down dramatically. However, the problem now is we are talking about a huge deficit when the economy is doing well. During Obama's administration, the Republicans blocked every appeal to stimulate the economy. As a result, the stimulus was smaller than a lot of economists had hoped, and this made the recovery slower, longer, and difficult. Trump seems to be operating in pro-cyclical way, and the impact would be inflation and countermeasures by Fed. In US history, there is no correlation between marginal tax rates and economic growth. The other big difference is in terms of quality of people. Obama had a good economics team and his national economic advisor was Professor Larry Summers, the former chief economist of the World Bank. His treasury secretaries were respected people from either financial sector or economists. The people around Trump right now are not respected economists and that affects the quality of his policies.

Trump doesn't believe in democracy or human rights. If somebody like Obama goes around, he has the moral authority to talk about it and raise the issues. Donald Trump cannot talk about democracy. For those in China who think that this will help to improve reform, Trump's pressure on President Xi will have the exactly opposite effect. It will force him to clamp down even more, to appear even stronger in resisting American imperialism. Hence, it is a misinterpretation of Trump's policies and the possible impact on China.

Questioner 2: There are two core groups of Trump supporters: first are the white, blue-collar workers with low level of education and second is evangelist Christians. Can you think of any circumstances where this core supporting groups' support may waver?

Rosengard: I would define his supporters into two parts – his core supporters and others. For core supporters, nothing will change their mind. There is a mixture, some male and some female, predominantly white, predominantly rural or small town, not necessarily blue colored. The evangelists are more complicated because Trump has done a lot of things that offended the sensibilities of the Christian right. Whatever the core group is, nothing will change. But a lot of people voted for Trump because they were angry at the economy, at being left out, and at not being heard. These were the demographics that felt globalization has left them behind and were looking for something to blame for the problems.

In a textbook I co-authored, we have The Great Gatsby Curve, which looks at the intergenerational transmission of poverty. Americans don't want to be equal, but they would like equal opportunities. People who feel they don't have equal opportunity can turn against Trump, because it is clear his policies are not helping them. The problem is not trade, it is technology and automation. The answer is investing in workers to re-train them to improve their skills. With Trump, a lot of people who are not the core constituency voted for him because they were voting against Hillary Clinton or were angry, and there can be a backlash when their expectations aren't being met. It's a lot of the democratic base that voted for Trump. We don't know how far he will get by in November.

Trump has the votes of 24% of the voter eligible population. The poll results would depend on who votes. Many Obama supporters were angry with both candidates and they didn't vote, and Trump's base was energized and they voted. The question is, will Obama's base come back. There is evidence of probable good turnout in the mid-term elections, and there is a good chance that a lot of the blue-color workers will turn their anger on Trump.

Questioner 3: Is the erosion of public sector in the US only a matter of Mr. Trump or is it a bigger problem?

Rosengard: Nobody believes that bureaucracy is perfect. Many reputable think tanks on both sides – conservative and liberal - believe that you can improve efficiency and effectiveness of the public sector, and there are many initiatives to improve quality of procurement, e-government, and to improve transparency, service, accountability, and so on.

The Kennedy School of government is often called the government in exile. We have people coming back to the Kennedy School such as Obama's secretary of defense, his chief science advisor, his chief economist and deputy head of the office of management and budget. The Democrats have come back, but the Republicans have not gone to Washington because they have reputational risk. We want our students to go into the public service. We have a loan forgiveness program to make that affordable. Many of these students do make a positive contribution in all levels of government: local, state, and federal. We also work closely with Bloomberg Philanthropies on trying to improve the quality of local government. Part of the solution is having the strong public sector, but Trump is having a tremendous impact on perceptions of the public sector. We are losing good people and are not replacing them with enough good people.

Questioner 4: Trump's crude instinct that the current international system is not good for the United States may have some truth in it. However, if international institutions and systems continue to be as it is, the US will continue to lose its hegemony and allow China to catch up. In the next administration, the think-tank should think how the US

should construct new international system to meet its current need to recover its strong hegemonic status. What is your opinion on this point?

Rosengard: Characterization of Trump's foreign policy as crude and counterproductive is correct. He understands little about the current global economic and value chains. His cabinet also has not been able to have much influence over him so far. Surprisingly, he understands little about global business. In terms of the military, the best people around him are the retired generals whom we can trust. There are three of them – his chief of staff, his defense secretary, and his national security advisor. These generals know the cost and the risks of war.

Hegemony is over, and it is a multi-polar world. China will soon have the world's largest economy. China has benefited tremendously from the current world order, the WTO, and other agreements, and they have been a good global citizen. Lack of reform of the international organizations has led to creation of new organizations. Not having broader share at the World Bank, has led China to the creation of a new infrastructure bank which looks like the World Bank. There is a lot of room for Asian countries to grow without diminishing the US. However, the initiatives under Trump on trade, TPP, NAFTA are looking for easy scapegoats and as a distraction from his own shortcomings. Presently, Trump is undermining the credibility of the US. The US is still the world's largest economy and world's largest military, but many of its allies don't have confidence in the US. Hopefully, this is a short-term phenomenon and Trump will be for one term or less. It is too soon to see the long-term impact of his policies.

Questioner 5: If Democrats win both house and senate, will they support infrastructure investment, which they supported last year? How about renegotiation of NAFTA?

Rosengard: There has been good analysis about the need for investment in infrastructure from both sides. The problem was when interest rates were zero, that's time to borrow and invest in the infrastructure, and the Republicans did not allow that to happen. Now, interest rate is still low and there is a consensus that infrastructure is old, and there are opportunities. The question is how we pay for it. Trump says that private sector is going to pay for it. But, with \$1.5 trillion increase in the deficit, it is going to be hard to make the case to spend more for infrastructure. The Republicans will want to cut social programs to pay for infrastructure and that tradeoff will be difficult for the Democrats. This is an area where there could be an agreement, but within the tax law, they have lost a lot of their bargaining space. One of the first things that Democrats would do if they can take control of one of the houses is to revise the tax law. That then allows the negotiating space to talk about higher priorities for both parties like infrastructure.

Questioner 6: Recently, many women in the United States started speaking openly about sexual harassment and Cleveland Indians have decided to give up their logo and

many sections of Confederate army generals approved them. How do you appreciate such phenomenon?

Rosengard: There are mixed feelings. There is a line between not offending certain parts of the population and forgetting history. There is an argument about how do you respect people's rights, but not erase history. It is not so much that the Confederate statues were offensive; it was how people were using them as symbols like in Charlottesville leading to violence. The fear is that people start to reinterpret history and use this to justify hateful things today. That's the main reason a lot of the confederate symbols are being pulled or relocated. Cleveland Indians finally removing their Indian logo is a long story.

The "Me Too" movement of sexual harassment has been a problem for a long time, but women were afraid to speak out because of power relations, careers, and so on. This movement is healthy and liberating for the workplace, but it is quite disruptive right now. In Harvard and Kennedy School, faculties have received restatement of sexual harassment policies.

Questioner 7: From Trump administration's viewpoint, the election takes place in November which can result in two scenarios, one is split congress where senate continues to be controlled by the Republicans and the house by Democrats. Second scenario is after election both senate and house continue to be controlled by Republicans. What will happen to the tax program and infrastructure investment under such scenarios in the near term?

Rosengard: The most likely scenario presently is to have a split congress and gridlock making it difficult to have any legislation because both parties are divided and most legislation needs 60%. When Democrats take over one house, it is possible that nothing gets passed unless the Republicans decide to abandon Trump and work with the Democrats. Right now, the Republicans have been supporting Trump on the tax bill and on immigration. Many Republicans are worried about the upcoming mid-term elections as they are vulnerable. If the Republicans stay behind Trump and the Democrats stay united, we will probably have continued gridlock in Congress and a lot of work will be done through executive orders that will be overturned.

There was also a consensus on tax reform. They have been working for years in a bipartisan nature to simplify the tax codes essentially and reduce the rates. What came out was something completely different where the process was almost as offensive as the content. There were some basic agreements, but the problem again is how to pay for it. Getting back, this 2018 November election and the lead up to it is important. The most likely scenario unless there is a significant break with Trump is gridlock. A lot of what Obama did in his later part of administration was also through executive orders because he couldn't get anything through congress. That's not encouraging, but the dynamics are somewhat similar.