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Trump's Bait and Switch: Job Creation in the Midst of Welfare State Sabotage

by

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ABSTRACT

President Trump's faux populism may deliver some immediate short-term benefits to the economy, masking the devastating long-term effects from his overall policy strategy. The latter can be termed "welfare state sabotage" and is a wholesale assault on essential public sector institutions and macroeconomic stabilization features that were built during the New Deal era and ushered in the "golden age" of the American economy. Starting in the late '70s, many of these institutions were significantly eroded by Republicans and Democrats alike, paving the way for the rise of Trump but paling in comparison with what is to come.

Keywords: Manufacturing; Service Sector; Infrastructure; Full Employment; Inequality; Social Wages; Welfare State; Trickle-down Economics

JEL Classifications: H, J21, J38, L8, N12, N60, Z18

When President Trump announced his cabinet members, the chair of the Council of Economic Advisers was conspicuously missing. Two months later, Kevin Hassett (conservative economist and author of the 1999 book, *Dow 36,000)* was tapped for the post, which notably is no longer a cabinet-level position.

Economists, it seems, have been demoted. And it was only a matter of time. The malaise over the last half century that produced long-term unemployment, acute inequality, and low economic growth is largely the result of trickle-down mainstream economic theory and policy, and the assault on the welfare state and key government macroeconomic functions.

The rise of Trump was the result. Policy improvisation and experimentation is now the order of the day. In the words of Trump's Chief Strategist, Steve Bannon, we should expect a new type of economic populism:

> …we're going to build an entirely new political movement… *It's everything related to jobs*. The conservatives are going to go crazy. I'm the guy pushing a trillion-dollar infrastructure plan. With negative interest rates throughout the world, it's the greatest opportunity to rebuild everything. Shipyards, ironworks, get them all jacked up. *We're just going to throw it up against the wall and see if it sticks*. It will be as exciting as the 1930s, greater than the Reagan revolution—conservatives, plus populists, in an economic nationalist movement. (Lovelace 2016; emphasis added)

If "it's everything related to jobs," the task herein is to unpack the job creation promise.

TRUMP'S JOB CREATION PROMISE

In the fifty days since Trump's inauguration, we have yet to see a specific economic plan,[1] but two figures have been repeated over and again: 25 million new jobs and $1 trillion in infrastructure investment.[2]

[1] As this working paper went into publication, President Trump unveiled his first proposed budget, which did not include funding for infrastructure investment.
[2] Compare that to president Obama's promise of creating or saving 3–4 million jobs in the midst of the worst postwar recession.

The White House issues page, "Bringing Back Jobs and Growth," shows that the plan is to create those 25 million jobs over 10 years. Assuming for a moment that there will be no recession during that time (an unlikely scenario), this plan essentially promises an average of 208,333 jobs per month. This is a tepid goal by historical standards and almost identical to the monthly job growth we saw during President Obama's recovery, which was the most anemic in postwar history. Note that 145,000 jobs per month is the minimum necessary to keep up with population growth. In other words, to tackle unemployment, President Trump is promising only 63,333 additional jobs/month (i.e., 208,333-145,000) for 10 years for a total of 7,720,000 jobs.

According to the narrow official BLS definition of unemployment, there are 7,635,000 unemployed people today who want to work but are unable to find employment. That is, we need those 7.7 million jobs now, not in 10 years. And if we look at the broader and more accurate definition of the total number of people who are seeking but unable to find stable, well-paid, full-time work, we see a deficit of 19 million full-time jobs today.[3]

Table 1: Trump's Job Creation Promise in Context

Jobs needed **today** (full count/NJFAC measure)	19,000,000
Jobs needed **today** (narrow BLS U-3 measure)	7,635,000
Jobs promised by Trump in **10 years** (adjusted for population growth)	7,720,000

The promise of 7.7 million jobs over the next decade is of little consolation to the unemployed. To paraphrase FDR's advisor Harry Hopkins, the unemployed do not eat in the long run, they eat every day.

The above estimates are based on a big assumption—that the economy will not enter a recession, nor will it experience net job losses at any point during the next 10 years. If that were to happen (including the past six years of post–Great Recession recovery), we would have lived through the longest expansion in postwar history—a total of 17 years. The average expansion in the US is six years, and the longest was 11.5 years, which means that we are due for another recession in the not-too-distant future. Note that key indicators such as commercial lending

[3] See the National Jobs for All Coalition's website for monthly reports on unemployment data; available at: http://njfac.org/index.php/category/jobs-picture/unemployment/current-rate/

activity, median household income, and durable goods orders, among others, are already decelerating.

The Upside Potential

Whereas Trump's job creation promise may be tepid, there is considerable upside potential for actually creating robust employment growth, depending on the specific policies put in place. That unemployment has fallen to prerecession levels (in the context of an anemic recovery) is largely due to the mass exodus of workers from the labor market, and the increase in the number of people who are discouraged, marginally attached, or trapped in long-term unemployment. If a Trump policy manages to tighten labor markets sufficiently to bring those invisible unemployed workers back into paid work, GDP growth could easily reach and even exceed his 4 percent target. And in his first address to Congress, he emphasized the depressed labor force participation as a key problem in need of a solution.

What is the solution that Trump offers? Apart from the general refrain "everything that relates to jobs," the specifics thus far center almost exclusively on: 1) restoring manufacturing; 2) increasing investment in infrastructure; 3) tax cuts and subsidies; and 4) reactionary public policy.

The next sections will argue that the first of these measures (a focus on manufacturing) will be largely ineffective, the second and third (infrastructure investment and tax cuts) have significant upside potential, and the last (reactionary public policy) is of greatest concern, with severe long-term consequences for the health of the economy. Trump's reactionary public policy largely centers on: a) the intent to dismantle the existing administrative state; b) the continued assault on the safety net; c) neo-nationalist protectionist policies; and d) an aggressive anti-immigrant and anti-civil-liberties approach.

MANUFACTURING FOLLY

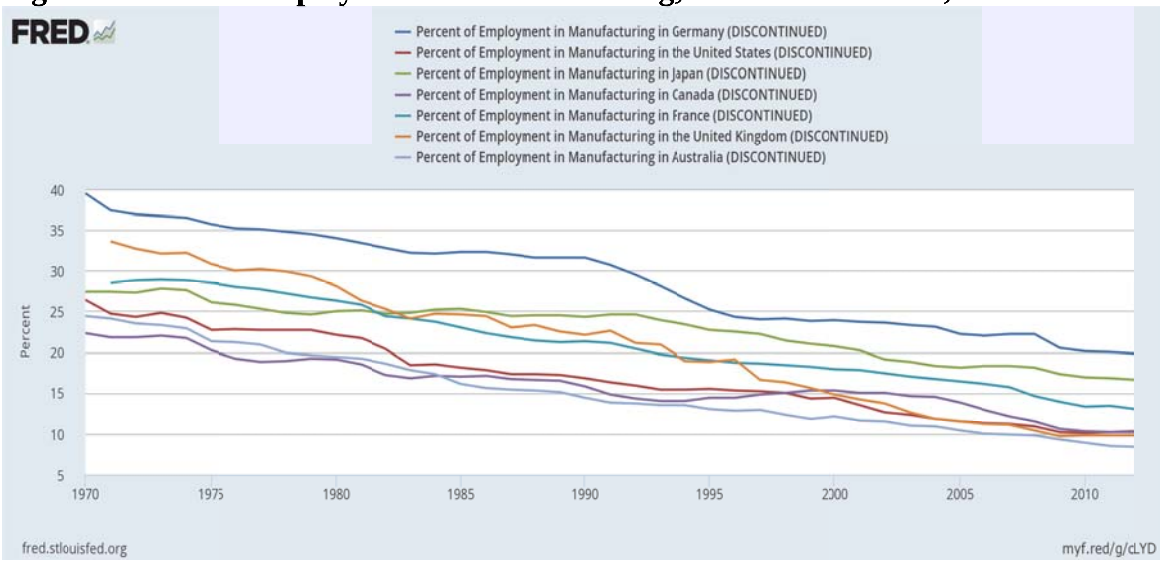
To claim that unemployment can be significantly reduced by "bringing manufacturing jobs back" is akin to saying that it can be done by "bringing agricultural jobs back." In the early 20th century, the idea that agriculture would no longer be a source of job growth was an anathema, much like it is with manufacturing today. Still, it is technically impossible to address the looming unemployment problem outlined above by focusing on the manufacturing sector.

The transformation of developed nations into service-based economies has led to the precipitous decline in the employment content in manufacturing. In the US, only 8 percent of total employment was in manufacturing in 2014 (www.bls.gov). Similar trends can be found in many former manufacturing powerhouses, like the UK and Japan, as well as for current manufacturing leaders, like Germany, Korea, and China.

Manufacturing jobs are disappearing globally in part because of automation, but largely because the sector cannot support itself with internal demand in any country. It seems that there is a limit to the amount of manufactured goods households and firms in the developed world can or want to consume, much like there was a limit to their demand for agricultural production (Greenwald 2016). Thus, countries that are considered manufacturing "success stories" have largely relied on external demand (exports) for their products. In a world of global export-led competition in manufacturing, the United States has traditionally been the net importer. This trade position will be very difficult to reverse, precisely because other countries are supporting their dying manufacturing sectors via an aggressive net-exporting strategy.

Even if the US were able to bring some manufacturing production "back" to its shores via high tariffs and aggressive protectionist trade policies, it will not be able to bring back manufacturing *jobs* due to the falling share of employment in manufacturing across the globe (figure 1). The share of employment in manufacturing in most developed countries has collapsed by anywhere between 40 percent (e.g., Japan) to 70 percent (e.g., US and UK) since the 1970s, when manufacturing employment was around its peak.

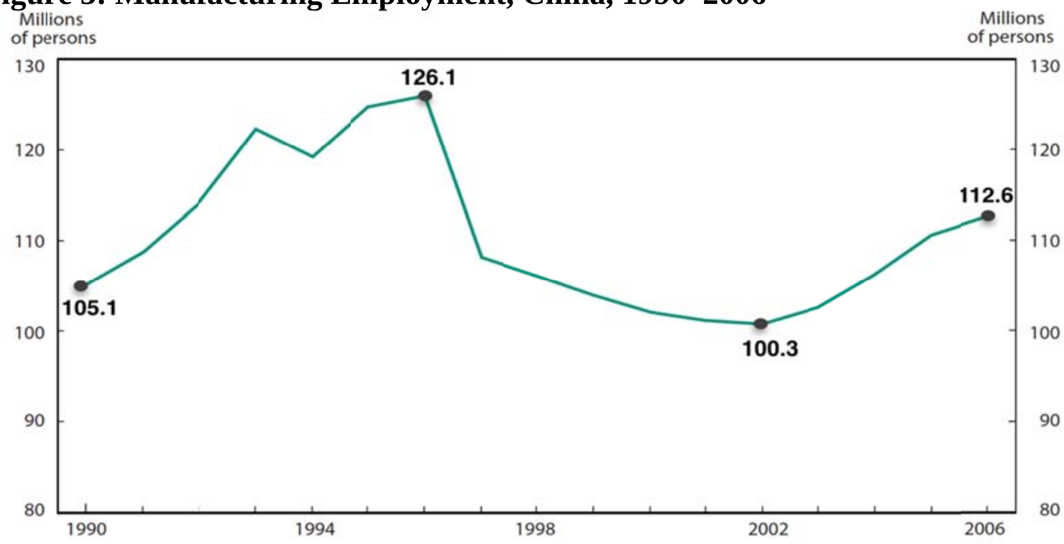
Figure 1: Percent Employment in Manufacturing, Various Countries, 1970–2012



Even in countries like Korea and China, the manufacturing sector is no longer a source of employment growth (figures 2 and 3). Manufacturing employment in China collapsed by approximately 20 percent (or 26 million jobs) after its 1996 peak. It managed to recover about half of those job losses by 2006, but the trend is flatlining. The sector is no longer a reliable source of job growth for the increasing population in these countries.

Figure 2: Manufacturing Employment, Korea, 1990–2014

Figure 3: Manufacturing Employment, China, 1990–2006[4]



This manufacturing-centric vision of job growth is not exclusively Trump's folly. Many economists, both on the right and left, seem to share it.

An Unstable Manufacturing-to-Services Economic Transition

When the US transitioned from an agricultural to an industrial economy, it was with the help of a long-lasting and robust industrial policy that began with Alexander Hamilton's 1791 *Report on the Subject of Manufacturers* and culminated in Roosevelt's National Industrial Recovery Act.

By contrast, as the economy steadily became service based in the postwar era, there has been no equivalent strategy to support the service sector as a source of stable and strong employment growth.

What we need today is a policy that makes service-sector work less precarious, much like we did with manufacturing early in the 20th century. Before manufacturing was able to offer a safe working environment and decent family wages, employment in that sector was insecure and hazardous. Child labor, 10–16 hour working days, and dangerous working conditions were common. It took a series of laws to transform jobs in the industry into the good jobs for which the Rust Belt population now longs. For example, the standard of an eight-hour workday was

[4] Year-end manufacturing employment in urban units and in village enterprises, China, 1990–2006

globally accepted only in 1919.[5] The first federal minimum wage law in the US was introduced much later (in 1938), though some states had such laws on the books earlier. Other labor laws helped improve the physical working conditions of manufacturing work and make it relatively safe. And while today's nostalgia is in part for the lost factory jobs, it is essentially nostalgia for the stable life and prosperous communities they engendered. There is no technical reason why service-sector work cannot deliver a good standard of living.

The vast majority of jobs in the US today are directed to the reproduction of labor, i.e., to the care, education, health, feeding, entertaining, etc. of people. Today, 80 percent of all jobs in the US are in the service sector, compared to only 12 percent in goods-producing industries (e.g.., agriculture). It is these service-sector jobs that continue to be poorly paid and unstable. The task today is to design a comprehensive policy strategy to remedy the precarious nature of service-sector work. To do so, a two-prong strategy is needed that includes securing tight full employment over the long run and strengthening the social wage.

INFRASTRUCTURE INVESTMENT, TAX CUTS, AND THE SOCIAL WAGE

If Congress passes a $1 trillion infrastructure investment program, which Republicans have opposed in the past, there will be a significant upside potential for growth and job creation. Any impact on improving the pay and working conditions of service-sector jobs, however, will be indirect.

Can we expect robust job growth from a bold infrastructure plan, despite the tepid goals and focus on manufacturing discussed above? Maybe. Much will depend on the execution and financing of these projects.

If the $1 trillion is spent in a manner that directly employs the unemployed, the program could create 20 million living-wage jobs over the very short run (Tcherneva 2009), though it is doubtful that the construction industry alone can absorb all 20 million people. Considering that

[5] ILO's "Hours of Work Convention" calling for eight-hour working days was ratified by 52 countries in 1919.

CEA chair Hassett (2013) is on record strongly advocating for direct job creation, perhaps this is the intention of the administration:

> It is clear that something terrible happens to individuals as they stay unemployed longer, but that this negative effect is not responsive to normal policy interventions. Accordingly, it is imperative that we think outside the box and explore policies that reconnect individuals to the workforce. As our knowledge of what works is so spotty, this is an area that is crying out for policy experiments that can be rigorously evaluated.

Hassett here echoes Bannon's call for experimentation. At the same time, Trump has talked about financing such infrastructure projects by providing tax incentives and subsidies to private equity firms. In that case, it is reasonable to expect that the employment-creation effect will be considerably smaller. And the administration will likely subsidize only those projects that can quickly generate a cash flow for the private equity firms. In other words, we could see a lot more toll roads and bridges. This would also mean that investments without an obvious steady cash flow stream may not be prioritized, e.g., levees, dams, inland waterways, hazardous waste disposal, drinking water, and schools (all of which are judged to be in "poor" or "near failing" condition by the American Society of Civil Engineers).[6]

While aggressive infrastructure upgrades and investment are long overdue, they are not the best strategy for ensuring tight labor markets and full employment over the long run. Fluctuating infrastructure investment with the business cycle is not always possible, especially since unemployment in the US accelerates quite rapidly in recessions and decelerates much more slowly during recoveries. To tackle joblessness over all phases of the business cycle, something akin to an employer of last resort will be necessary, i.e., a program that directly employs the unemployed in good times and bad, in projects that can quickly absorb them on an as-needed basis. That means projects in the service sector as well, not just in construction. Nevertheless, a bold infrastructure plan has the potential for delivering significant immediate benefits to the labor market.

[6] The current executive action to rollback President Obama's provisions to the Clean Water Act (aiming to protect inland waterways and streams from pollution) means that some of these fundamental infrastructure problems may not ever be addressed under the current administration.

In addition to tightening the labor market, a second strategy for making modern work less precarious is to strengthen the social wage. This can be accomplished by expanding existing programs that socialize basic living expenses, such as those for retirement, healthcare, education, etc.

Strengthening the social wage, however, is not what informs this administration's jobs and benefits policies (quite the opposite, see below). So far, only paid family leave has the potential to make a material impact on working families, but the current conversation in the administration has turned away from paid *family* leave to paid *maternity* leave, which is an improvement over the current situation, but leaves out fathers and other caregivers.

The likelihood that infrastructure and paid leave can deliver some boost to the economy and working families hinges on sufficient Congressional support from Republicans, who have traditionally vocally opposed both.

The rest of Trump's policy agenda (by all indications, the vast majority) is outright reactionary, focusing on dismantling an already-weak New Deal institutional architecture, an onslaught on civil liberties, and the advocacy of an American brand of neo-nationalism.

REACTIONARY PUBLIC POLICY AND THE SABOTAGE OF THE WELFARE STATE

At the 2017 Conservative Political Action Conference, chief Trump strategist Steve Bannon succinctly summarized the philosophy behind this administration's public policy. It rests on three pillars: national security, economic nationalism, and the deconstruction of the administrative state (Wolf 2017). By far the most aggressive changes have begun on the latter. The first budget proposed by the President indicates a wholesale attack on essential public institutions. While the actual budgeting process is decided by Congress, it speaks to the policy priorities of the President. Additionally, the recent government agency appointments point to an internal sabotage strategy for the public sector.

Consider this partial list:

1. Scott Pruitt, a long-time foe of the Environmental Protection Agency (EPA), now leads it. Apart from calling climate change a "hoax" and "fraud," he has a long track record of bringing up lawsuits against various EPA programs and provisions (Meyer 2016).
2. Businesswoman Betsy DeVos will lead the Department of Education after a very contentious confirmation process. DeVos is well known for her ties to the privatization movement and her funding for and advocacy of charter schools and voucher programs. In her own words, "my family is the largest single contributor of soft money to the Republican party… and we expect results" (Mayer 2016). When asked about candidate Trump's support for eliminating the Department of Education, she said: "It would be fine with me to have myself worked out of a job," though she didn't think that there was a "champion movement in Congress to do that" (Strauss 2017).
3. Incoming Office of Management and Budget director Mick Mulvaney has called Social Security a "Ponzi scheme" and reaffirmed his commitment to cutting the program (along with Medicare) during his confirmation hearing (Berman 2017).
4. Tom Price, the new Secretary of Health and Human Services, has supported strictly capping Medicare block grants to states and converting them into voucher programs (Alcindor 2017).

While enemies of the public sector have comfortably walked the halls of Congress at least since Reagan famously said "government is not the solution to our problems, government is the problem," the current appointments represent a deliberate strategy of rupturing the very agencies and programs these directors are supposed to manage. The traditional Republican approach to governing can be summarized as "devolve, defund, and destroy." Devolve essential federal functions to the states, provide increasingly smaller or strictly capped grants-in-aid, and eventually shrink, privatize, or eliminate programs altogether.

Trump's administration offers a radical extension of this approach—a *welfare sabotage strategy*—that aims to subvert core institutions from within. While Trump himself has promised to preserve Social Security and Medicare, his appointments indicate that the assault on these programs is not over. The fate of the Affordable Care Act is also uncertain. One path to "repealing and replacing" Obamacare, while preserving (what Trump called) the "good features" of the program (i.e., preexisting condition and dependent care coverage), is to extend Medicare to all citizens. Given Republicans' hostility to all public assurance programs, the likely reform will include some mix of private sector subsidies, rebates, and vouchers, which are fundamentally at odds with the goal of guaranteeing access to all.

Trump has also announced a federal hiring freeze. Despite the uproar over this executive order, it is nothing new. Federal government employment has been declining since the late 1980s, but has been essentially flat since the 1970s. State government employment experienced a significant increase in the postwar era, but stopped growing over the last 15 years (figure 4) and is outside the purview of the presidency.

Notably, during the last recovery, public sector employment was a drag on total employment growth. Precisely when the private sector was finally beginning to rehire the unemployed, the public sectors (federal and state) either decelerated hiring or slashed jobs altogether (figure 5).

Figure 4: Federal and State Government Employment, 1940–2016

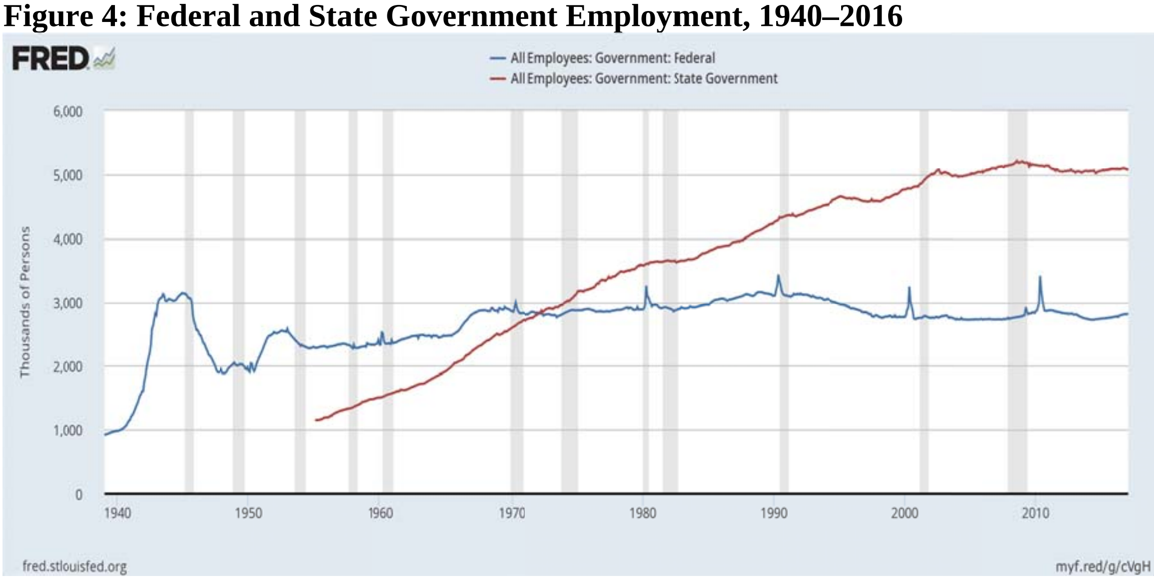
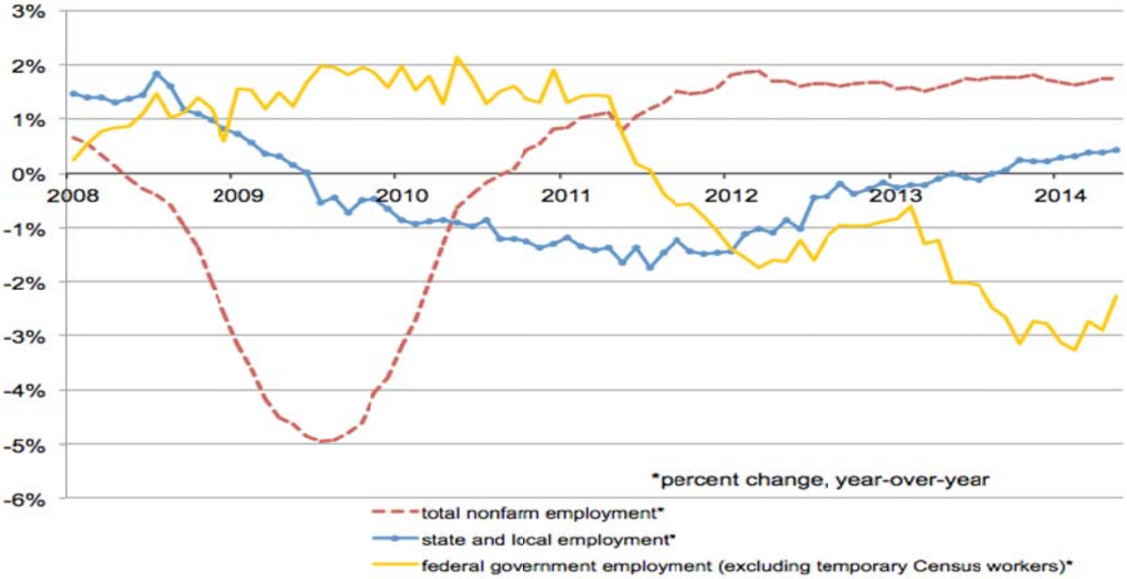


Figure 5: Government and Private Sector Employment, Percent Change, 2008–15, Year-over-Year



While there will be no visible change in the overall federal government labor force from the hiring freeze, it will likely cause additional disruptions in the daily operations of various government agencies, heightening the administrative sabotage strategy.

BAIT AND SWITCH: JOBS TODAY, INSECURITY TOMORROW?

If the administration hopes to deliver the jobs it had promised over a decade by focusing on manufacturing, it will fail. The way to think about the actual employment effect of Trump's policies is to consider three key factors: 1) the expected net deficit position of the government; 2) the manner in which spending will be targeted; and 3) the success of the welfare state sabotage strategy.

Significant Deficit Spending Ahead

Much like it was under Reagan's administration, a Trump presidency will likely generate large government deficits. At the macroeconomic level, they will be a net positive for the economy, considering that the deficit had been shrinking rapidly since 2012. Since the economy is already weakening (as above, orders, incomes, and credit conditions are worsening), federal government receipts will continue to decelerate, widening the deficit further. If Trump's policy manages to shrink net imports further, the real terms of trade may deteriorate but government deficit spending will have a positive impact on private sector surpluses. The question is, whose coffers will fill up—those of financial firms, nonfinancial firms, or households—and, if the latter, will they be at the bottom or top of the income distribution?

How Will Government Spending Be Targeted?

Not all deficits are created equal. If the manner of spending (even if it is more aggressive) produces little shift from the policies of the past five decades, then it may not reverse the critical levels of inequality. It is likely that incomes at the top of the distribution will continue to grow. Trump has proposed deregulating financial markets, cutting income taxes, and changing the income brackets to make taxation less progressive. He has also proposed $54 billion in additional military spending next year (a 10 percent increase). The federal hiring freeze notwithstanding, Trump has also called for employing 10,000 Immigration and Customs Enforcement and 5,000 border patrol agents. While the impact on employment will negligible, the policy priority indicates a likely boost in spending for national security and criminal justice. Any additional subsidies that may be directed to private equity or other firms will be a welcome windfall for them, boosting profits and the capital share of income. In other words, this could be Reaganomics on steroids—a mix of military and penal Keynesianism, with aggressive trickle-down policies centered on firm incentives, tax cuts, and subsidies.

By design, these policies improve incomes of those at the top of the income distribution and the owners of capital. Furthermore, the current labor market structure improves job prospects and incomes of high-wage, high-skill workers who are already employed. The question is whether these policies will manage to create enough jobs for people who are at the bottom and in the middle of the income distribution. Since manufacturing will not return an adequate number of jobs back to our shores, it is unlikely that the hollowed-out middle class will find stable well-paying jobs in that sector. A bold and targeted infrastructure policy that directly hires the unemployed has the potential to help in that respect. Finally, let us consider those workers who are at the very bottom of the income distribution, who are the first fired and last hired, and who have the greatest trouble finding stable, full-time employment at above-poverty wages. It is unclear that any of Trump's proposed policies are aimed to directly raise the floor and help those workers.

Sabotage of the Welfare State

Finally, while deficit spending and infrastructure investment have the potential of tightening labor markets over the short run (even as they continue to disproportionately favor incomes at the top through subsidies and tax cuts), the greatest downside risk to the economy is the strategic assault on the welfare state as we know it. Trump will be a big deficit spender, but conservatives will use the myth of sound finance and revenue neutrality to defund key public programs. For example, the proposed increase in military spending was "offset" by proposed cuts of the same amount in other nondefense programs and agencies (e.g., 25 percent reduction in the EPA's budget).

More importantly, however, the possible systematic destruction of the already-weak safety net and New Deal institutions means that, structurally, the economy will be more fragile as we reach the next recession. If the attack on the EPA, education, Medicare, and Social Security is successful, it will also mean that the quality of life for many will deteriorate one poisonous drop of water, one deteriorating public school, and one medical-related bankruptcy at a time.

In sum, the negative effect of the long-term assault on the administrative and welfare state may be temporarily masked by short-term improvements from economic growth, which could prove sufficient to give Trump another term and more time to institutionalize the destruction of the welfare state.

The social reformers of the 20th century put in place an important (albeit incomplete) safety net that made economic depressions a thing of the past. That included guaranteed and directly provided housing, education, health insurance (for the elderly and children), retirement income, and many other programs and policies. Instead of strengthening the safety net, the current philosophy is aimed at a radical deconstruction of the administrative state. All of the above indicates intent to devolve these functions not simply to states, but to corporations (e.g., the privatization movement of public education, healthcare, and social security). If the Trump/ Bannon vision is to convert the welfare state into a corporate welfare state, and if it comes to fruition, it will represent an entirely new world order, one that ushers in a new Dickensian world of modern robber barons, precarious labor, and social and economic insecurity and injustice.

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