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How will the election affect the economy?

Stanford economists John Taylor and John Cochrane offer their thoughts on the state of the U.S. economy and job growth and how it may look under President-Elect Donald Trump.

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What is your general sense of how the U.S. economy and job growth will look during the presidency of Donald Trump, given everything you know so far?

John Taylor: Economic growth and job growth will increase if there is tax reform, regulatory reform and monetary reform. There is a great deal of agreement by President-Elect Trump and by Congress about these issues, so there is an opportunity to increase economic growth. For example, the Trump tax reform proposal and the Ways and Means tax reform proposal are very close in reducing rates and expanding the base. Similarities also exist in the areas of regulation and monetary reforms.

John Cochrane: This depends on what Trump and congressional Republicans do with their golden opportunity. I hope they stick to the script: Pass the Paul Ryan “better way” regulatory reform plan, pass straightforward fixes to the tax code, entitlements, the Affordable Care Act, financial regulation and so forth. Bipartisan reform plans are on the shelf for all of these. Immigration reform and trade are a stretch, given campaign rhetoric, but given widespread consensus, there is hope here, too. There is a need to rein in the out-of-control and politicized regulatory agencies. If they just did this simple mind-the-store sort of thing, restoring some rule of law and certainty to the lives of businesses and reducing the flow of favors out of Washington, D.C., the economy ought to take off.

What do you expect to change?

Taylor: This depends on policy. My research [for example, in [First Principles](#)] and that of others shows that the slow growth of the economy during the past dozen years is mainly due to economic policy deviating from the principles that have worked in the 1980s and 1990s. A change in policy will improve the current trajectory of the economy.

Cochrane: If the president and Congress stick to the simple script of commonsense reform, economic growth should take off. If they start fighting among themselves, waste effort on social issues, immigration and trade barriers and start misusing regulatory and legal power for their own political purposes, then stagnation will continue until the next crisis or recession.

What are the factors that could affect the economy in the future regardless of which president is leading the country?

Taylor: The growth of the global economy is important. Here the United States needs to show leadership in making sure that the openness of the U.S. economy is matched by similar openness in the rest of the world. This could be a principle of our international agreements in the trade and monetary areas.

Cochrane: We pay far too much attention to presidents and their agendas. This isn't an elected dictatorship. People should pay attention to Congress, where much policy leadership resides now, and the courts. Wickard v. Filburn should be the litmus test now – economic freedom – not Roe v. Wade. People should pay attention to state and local affairs. The federal government doesn't run the Palo Alto zoning board.

The big picture is enormously hopeful: self-driving everything, the gene and microbiome revolutionize medicine. We see this here in Silicon Valley. But those great ideas need to be embodied into new disruptive companies, which makes existing companies very unhappy and sends them to Washington for protection. On the other hand, there are earthquake faults with a lot of built-up stress, lots of debts that people can't pay and promises that can't be kept. If not managed adroitly, the next crisis will be upon us sooner than we think.

What are some positive aspects about the state of the economy that this country could hope to preserve?

Taylor: The most positive aspects are the U.S. tradition of the rule of law, the reliance on markets and a cost-benefit approach to government at the federal, state and local level. U.S. colleges and university are at the top, but not K-12 education. The U.S. needs to build on the success at the college level and improve the K-12 levels.

Cochrane: The United States is still the most innovative country in the world. Our legal and regulatory system, with all its warts, has a lot more checks and balances than other countries.

What are some of the potential challenges that could surface under Trump?

Taylor: The country is now quite divided about what to do, but everyone wants a stronger economy and improved security. The challenge is to bring greater unity on policy so we get the needed economic reforms.

Cochrane: Trump will face internal political challenges. He has to unite the Republicans and peel off the centrist Democrats. The split in the Democratic party and Trump's relative lack of ideology can be strong assets to forge a free market, socially liberal consensus. He will face international challenges – Russian and Chinese adventurism, chaos in the Middle East – all tempting quick and thoughtless reactions. He needs, first of all, to go quietly reassure our friends and allies that we stand with them – no spin, no big public statements, we have your back. We will speak softly, carry a big stick and mean what we say.

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