cnsnews.com™ THE RIGHT NEWS. RIGHT NOW. Media Research Center 30 Years

Should Trump Receive Credit for Surging Stock Prices?

Dan Mitchell

August 10, 2017

I'm rather frustrated about the lack of real results from the Republicans in Washington.

- They haven't repealed some or all of Obamacare despite seven years of promises.
- They haven't lowered taxes or reformed the tax code.
- They did a business-as-usual budget deal earlier this year.

Yet Trump and some GOPers want to take credit for a rising stock market, as if that is some sort of positive reaction to their non-accomplishments.

As you can see from this interview, I don't completely reject this hypothesis. After all, stock values are a reflection of the market's expectations of future after-tax profits. So if investors think that good reforms – such as a lower corporate tax rate – are going to happen, then it makes sense that the value of financial assets will increase.

By the way, I can't resist commenting on the claim from the Economic Policy Institute that the stock market is a "meaningless indicator" that has nothing to do with the well-being of workers.

That's nonsense. Assuming we're looking at genuine and durable increases in stock values (rather than a bubble), that's a reflection of a growing economy, which translates into more income for workers.

In the language of economists, capital and labor are complimentary goods. More of one increases the value of the other. Which is why I told the folks at *Politifact* that it's good for workers in the long run when financial assets become more valuable since that presumably means more investment.

"Dan Mitchell, a scholar at the libertarian Cato Institute, agreed that 'capital and labor compete for shares of income in the short run.' Over the long term, however, 'there is no trade-off between corporate profits and labor income,' he said."

But let's focus on the bigger issue of whether Trump deserves any credit for the stock market's performance.

Ira Stoll, writing for the *New York Sun*, shares some very appropriate caveats.

"The stock market, in other words, is like a lot of things: politicians want to take credit for it when news is good, but absolve themselves of responsibility when news is bad. One might hope for a more consistent perspective from journalists or from independent research organizations. Imagine, say, an election-day to election-day presidential job-performance dashboard that included data on measures such as stock market performance, the value of the dollar, job creation, unemployment, labor force participation, and real GDP growth. It can indeed be hard to isolate a president's influence on all these things from other variables, such as, say, the composition of Congress. Should Mr. Obama or President Clinton get credit for the stock market booms in their terms? Or should the Republican Congresses under which they occurred? How does one accurately account for the period between the election and inauguration, when stock market gains may reflect anticipated improvements, but growth results measure existing budgets and policies?"

Having given lots of reasons to be cautious, Stoll nonetheless thinks investors are buoyed by the pro-growth parts of Trump's agenda.

"… steps Mr. Trump takes — reducing regulation or slowing the growth of it, reducing corporate income tax rates, allowing more energy exploration — will outweigh any negatives. In other words, there's a decent case that Mr. Trump does deserve at least some credit for the stock market gains."

I don't have any objection to this analysis.

Though allow me to add another caveat to the list. As I explained when discussing the same topic back in March (see final interview) and indirectly suggested in the above interview, Trump is playing a risky game.

What if the stock market is artificially inflated because of the Fed's easy-money policy? If that's the case, there almost certainly will be a correction and stock values will drop.

This won't be Trump's fault, but he'll then be very vulnerable when opponents argue that he should be blamed. As the old saying goes, live by the sword, die by the sword.

In my humble opinion, politicians (at least the ones who support good policy on net, and I still don't know whether Trump is in this category) should argue for good policy because that will lead to higher per-capita income over time.

And they also should say, in the interests of accuracy, that it generally takes time to see good results.

Consider the lesson of the Reagan years. The first couple of years were a bit bumpy, both because some of Reagan's good reforms – particularly the tax cuts– were slowly phased in and because some short-run pain was inevitable as inflation was brought under control (an overlooked and very beneficial achievement). But once his policies kicked in, the economic results were very positive.

Daniel J. Mitchell is a top expert on tax reform and supply-side tax policy at the Cato Institute. Mitchell is a strong advocate of a flat tax and international tax competition.