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OPINION | COMMENTARY

The Trump Boom Is Real

The post-2009 recovery may look continuous, but Trump beat expectations while Obama fell short.

By Lawrence B. Lindsey
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An Amazon Fresh store in Irvine, Calif., Oct. 22.
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There's often more to the macroeconomy than what meets the eye. My friend Alan Blinder published an op-ed recently declaring that the employment surge during Donald Trump's presidency is a "convenient myth." He noted that unemployment had declined steadily since 2010 and that there was no acceleration in job growth after the 2017 tax reform. But there's little reason to think the expansion held for a record-long 10 years merely on its own steam; Mr. Trump's policies gave it new life.

After any recession, employment grows quickly because there is a surplus of job seekers. Late in a recovery, when the unemployment rate has already fallen sharply, growth becomes much harder to come by. Common sense suggests that further progress is more difficult at a 4% unemployment rate than at 8%.

It's easy to look at steadily declining unemployment and conclude that no later variables had much effect. But a better question is how much unemployment declined relative to what experts predicted. Take the Federal Reserve, the body on which Mr. Blinder and I served together.

In December 2016, the Fed predicted that 2017 would close at a 4.5% unemployment rate. In fact, it ended at 4.1%. The Fed in 2016 also projected that 2018 would end with 4.5% unemployment, believing further improvement was virtually impossible. But unemployment reached 3.9% in 2018. Ditto for 2019: The Fed predicted 4.5%, but unemployment fell to 3.5% that year, a multidecade low. Under Mr. Trump, the unemployment rate fell to a level the Fed hadn't even considered. The Fed's 2016 predictions for GDP were 0.7 percentage points too low for 2017, 0.5 points too low for 2018 and 0.4 points too low for 2019.

How do those results compare with the economy's performance after President Obama's stimulus package was enacted in 2009? In December 2010 the Fed had to revise up the unemployment estimates it made in 2009 by 0.6% for 2011 and 0.8% for 2012. Growth was

even more disappointing. The 2009 forecast overestimated 2011 GDP by 2.6 percentage points. The 2010 prediction for 2011 overshot by 1.7 points, and the prediction for 2012 was 2.5 points too high.

In sum, the Obama recovery, which was subpar in virtually all respects, ultimately underperformed the Fed's expectations in terms of GDP growth and the unemployment rate, while the Trump portion of the recovery consistently outperformed expectations. The Fed's models overestimated the potency of fiscal and monetary stimulus, but largely ignored the supply-side benefits from Mr. Trump's reduction of the cost of capital, as well as deregulation.

Mr. Blinder also is mistaken in calling the 2017 tax cut "highly regressive." Congress's Joint Committee on Taxation scored it as proportional to after-tax income, which makes it progressive in terms of total income. That is true even when one imputes the corporate tax cuts to individuals, meaning that the income-tax changes were progressive by any measure.

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