The Economy Is Rigged, and Other Presidential Campaign Myths

By N. GREGORY MANKIW

If you want to learn about the economy, there are good and bad places to go. Probably the worst source of reliable information is the current crop of presidential candidates. Dissembling and exaggeration are no strangers to politics, but this year’s campaigns have been particularly egregious.

Here are six economic myths that underlie much of the recent rhetoric.

American manufacturing has disappeared.

The presumptive Republican nominee, Donald J. Trump, says, “We don’t make things anymore.” Judging from the surprising success of Mr. Trump’s campaign, this theme apparently resonates with many voters. But it is just not true.

When do you think manufacturing output reached its peak in the United States? The answer: right now. Manufacturing output achieved a record high in the most recent quarter of data. The nation’s manufacturers are now producing 47 percent more than they did 20 years ago.

What has declined is manufacturing employment, which is 29 percent lower than it was 20 years ago. Producing more output with fewer workers is called higher productivity, which in turn is driven by technological innovation. This change is hard on displaced workers, but it is good for the economy over all. Rising living standards are possible only if productivity increases.

Bad trade deals are what ails the economy.

Mr. Trump says he would negotiate better trade deals. Bernie Sanders brags about voting against the trade deals of the past. Hillary Clinton has split with President Obama and withdrawn her support for the Trans-Pacific Partnership.

The experts have a different view. Among those who devote their lives to studying the economy, there is a broad consensus about the overall benefits of free trade and trade deals. Of course, trade hasn’t been a boon for people who have lost their jobs because of foreign competition. But in 2014, the University of Chicago’s IGM Panel surveyed prominent economists about whether “past major trade deals
have benefited most Americans.” A few respondents were uncertain, but most said yes. Not a single economist responded in the negative.

**The economy is rigged.**

To be sure, we live in challenging times. Meager growth and rising inequality have resulted in stagnant incomes for much of the working class and declining incomes for those with the lowest levels of education.

But to say that the economy is rigged, as Mr. Sanders and Mrs. Clinton have done, assumes that some small group of oligarchs planned this outcome. Clearly, the wealthy and powerful try to protect their interests, and they sometimes succeed. But the economy is a complex, decentralized system. Many outcomes are under no one’s control.

Technological change, for instance, is an emergent process reflecting the decisions of thousands of engineers and entrepreneurs. Growth slows when the pace of innovation falls below historical norms. Inequality rises when the innovations that do occur are used by skilled workers and replace unskilled workers. Such skill-biased technological change, as economists call it, is widely considered a leading cause of the increasing inequality the United States has experienced in recent decades.

**The rich don’t pay much in taxes.**

In an era of great inequality, it is natural for politicians to demonize the rich. And some top earners don’t pay enough in taxes, such as the hedge fund and private equity crowd that benefits from the tax treatment of carried interest.

But don’t confuse these exceptions, even if they are glaring ones, with the general rule. The Congressional Budget Office estimates that under the 2013 tax law, which is still in effect today, the top 1 percent pays 33 percent of its income in federal taxes. By contrast, the middle class (defined here as the middle three-fifths of the income distribution) pays only 13 percent of its income in federal taxes.

**Tax cuts will unleash stupendous growth.**

While Democratic candidates like to talk about making the rich pay their fair share, Republican candidates like to mimic Ronald Reagan’s call for lower taxes. Too often they act as if there were no problem that a tax cut couldn’t solve.
According to the Tax Policy Center, Mr. Trump’s tax plan would reduce federal tax revenue by 29 percent.

This number is most likely an overestimate, because some of the lost revenue may be recouped with the somewhat faster economic growth that tax cuts can actually help promote. But no serious economist believes that this growth by itself would be sufficient to prevent large budget deficits. Mr. Trump’s assertion that he can easily fill the hole in the budget by eliminating “waste, fraud and abuse” is one of the least credible claims of the election year.

**The next president can quickly fix all of our problems.**

All candidates like to offer themselves as panaceas. “Vote for me and the economy will skyrocket, the poor will see riches without bound and that annoying wart on your foot will finally disappear.” Yet the power of the president — or even the entire government — is more limited than is often acknowledged.

Yes, there are things that can be done. A better education system, for example, would both promote growth and ameliorate inequality. But there is no magic bullet to improve our schools, and even if we succeeded, the economic impact would be felt slowly over many years.

Just once, I would like to see a candidate with a platform of humility: “Vote for me. If elected president, I won’t make a nuisance of myself.”

That doesn’t offer the inspiring vision of greatness that we have come to expect from our presidents. But by expecting too much, we set ourselves up for the inevitable disappointment that follows.