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OPINION | COMMENTARY

Trump's Pro-Growth Path to Victory

After 16 years of malaise, voters are responding to his call to make America competitive again.



The presumptive Republican nominee in Phoenix, June 18. PHOTO: GETTY IMAGES

By **DONALD L. LUSKIN**

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Can Donald Trump make America grow again? His record-breaking number of GOP primary voters—more than 13 million—seem to think so. And Americans overall strongly prefer Mr. Trump over Hillary Clinton on the economy, and on employment and jobs, according to Gallup's latest polling.

But according to the orthodoxy of the economically sophisticated on both the left and the right, Mr. Trump's signature agenda—his hostility to global trade, especially with China and Mexico—is antigrowth know-nothing protectionism. More trade is axiomatically better than less, say the sophisticates, and Mr. Trump is tempting the angry masses into a suicidal trade war.

Yet consider the potentially axiom-breaking speed and magnitude of the rise of U.S. trade with China after China's entry into the World Trade Organization in 2001. By 2015, compared with 2000, American

trade with China (adjusted for inflation) almost tripled to a \$577 billion annual rate, and now represents 3.2% of U.S. gross domestic product.

The advantages of such trade are well known, and need no recounting here. But as Mr. Trump's fellow reality-TV star Dr. Phil might ask: "How's that been working for you?" Not so well, actually.

Since 2000—the last year before the great expansion of U.S. trade with China began—real per capita U.S. annual GDP growth has fallen, on average, to less than 1%. In the five years before 2000, growth averaged more than 3%. We can't blame the Great Recession for this dismal "new normal"—it began right after 2000 when trade with China took off, not in 2008 when Lehman Brothers failed.

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The year 2000 was also the peak for the U.S. labor market. Labor-force participation hit an all-time high then, with 67% of adult Americans either working or in the market for a job, according to the Bureau of Labor Statistics. By year-end 2015, labor-force participation had fallen to 62.6%, the lowest in two generations. So today's seemingly low unemployment rate is nearly meaningless, because so many Americans have given up even trying to get a job. We can't blame demographics—the "graying" of America isn't at fault when labor-force participation has fallen sharply among Americans still in their prime working years.

But can we blame trade with China? Mr. Trump and his masses do. And now new research by MIT's David Autor and colleagues might begin to move elite opinion in the same direction. In a series of landmark papers, Mr. Autor has shown that the adjustment by U.S. workers to the post-2000 China trade shock has been far slower than predictions by the standard models used by labor and trade economists, and that new jobs in new industries have not materialized as expected. He also demonstrates that regions most affected by trade with China have contributed to today's political polarization by sending far-right conservatives and far-left liberals to Congress.

Mr. Trump's solution? If he carries out his threat to build a massive tariff wall against Chinese exports, it is Americans who would pay for it, with another shock to our economy. But Mr. Trump has been clear that the purpose of such threats is to "bring China to the bargaining table." Mr. Trump is right that America could get a more artful deal with China for granting access to the massive U.S. consumer and

business market. We should insist that China open its markets to us symmetrically, and protect U.S. intellectual property. Even the staunchest advocates of trade ought to support that.

But the core of Mr. Trump's growth agenda isn't just about China, or Mexico, or any other trade partner. It's about America—making us more competitive and dynamic in an increasingly globalized world, and more able to profitably adapt to trade shocks.

For example, the U.S. 35% corporate-tax rate is the highest in the developed world. Since taxes are simply a cost of doing business, our high tax rate means U.S. companies face higher costs than foreign competitors. Mr. Trump has proposed to abolish this competitive disadvantage by slashing the top U.S. business tax rate to 15%.

Mr. Trump's sharply lower business-tax rate would be an immediate boost to after-tax earnings, and thus a boost to equity values. It would remove the barrier that prevents U.S. firms from repatriating foreign profits and putting them to work at home. It will give firms an incentive to expand, and enable new ones to be born—both of which will drive more jobs. With Mr. Trump's proposal to sharply lower personal tax rates, workers will also have a big incentive to return to the labor force, and will be able to spend or invest more of what they earn.

For the presumptive GOP nominee a key target for deregulation is the U.S. energy industry. Oil prices have fallen over the past two years thanks to the U.S. shale revolution, but they are still well above historical norms, with frackers held back by what Mr. Trump calls "massive new bureaucratic barriers." Hillary Clinton vows to add new regulations until there won't "be many places in America where fracking will continue." Mr. Trump, it seems, remembers that the oil crisis of the 1970s was solved by the deregulation of the 1980s.

Call Mr. Trump a know-nothing if you must. But after 16 years in the new U.S. millennium of malaise, voters are responding to his diagnosis that something has gone unexpectedly wrong with trade, and his proposals to make America more dynamic in order to adapt. Don't forget the last know-nothing who came along and showed America how to pull out of a malaise, with an agenda quite similar to Mr. Trump's, to cut taxes and slash regulations on businesses and energy. His name was Ronald Reagan.

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