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TRENDMACRO LIVE!

On Trump's Executive Action Stimulus

Sunday, August 9, 2020
Donald Luskin

Trump wins the stimulus bidding war. Meanwhile, a possible "Dukakis moment" for Biden.

You knew for sure that President Donald J. Trump's executive orders yesterday to replace expiring stimulus measures were an economic and political masterstroke when Bloomberg pushed an "alert" to your cellphone declaring "Struggling Economy Gets Only Limited Help From Trump Actions." The two words "Only Limited" are inserted so you will think this is bad news, but it's not. *Even a moment's closer examination reveals the good news for the economy (it "Gets Help") and for Trump's reelection prospects (the help is "From Trump Actions").*

We said at the very beginning that there would be a "bidding war" for "can you top this" relief and stimulus measures (see "Powell Not to the Rescue" March 4, 2020). *There has been, and Trump just won it – and he'll be sure to take the credit for it.*

- The sharp increase in personal income reported with Q2-2020's sharply declining GDP was sufficient to flip the forecast of our quantitative presidential election prediction model to a Trump victory (please see the charts below and on the following page, and

Update to strategic view

US MACRO, US ELECTION MODEL, US STOCKS: Trump's Saturday executive orders declaring a payroll tax deferral and extending enhanced unemployment benefits are an economic and political masterstroke. These steps will maintain personal income through the third quarter, sustaining the second quarter boost to Trump's reelection chances reflected in the sharp reversal in our…

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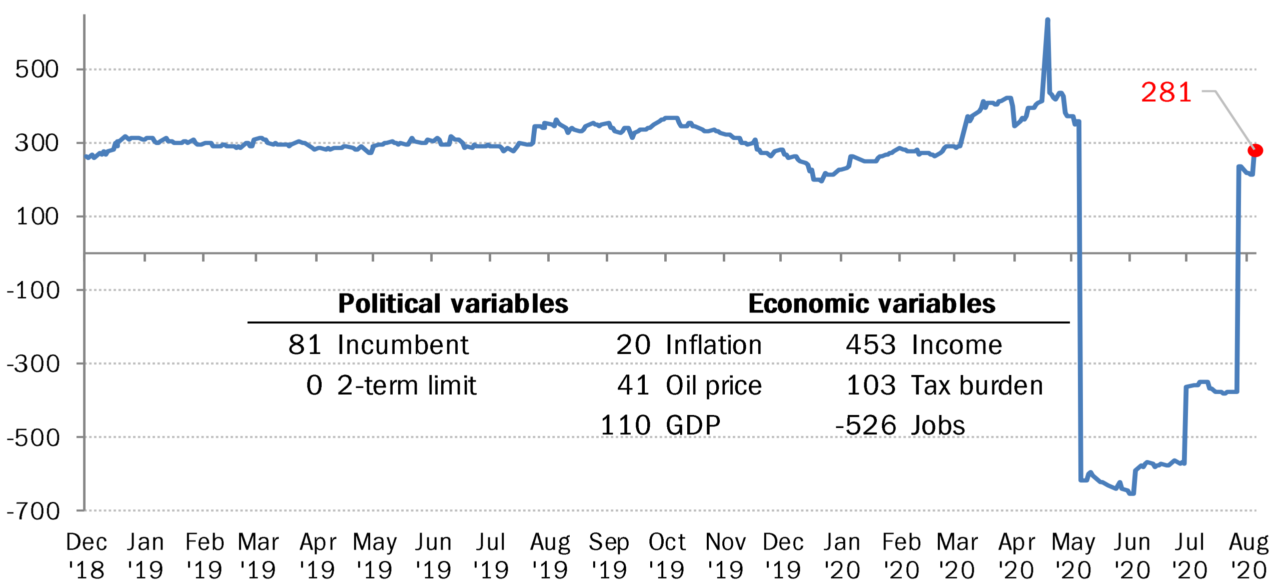
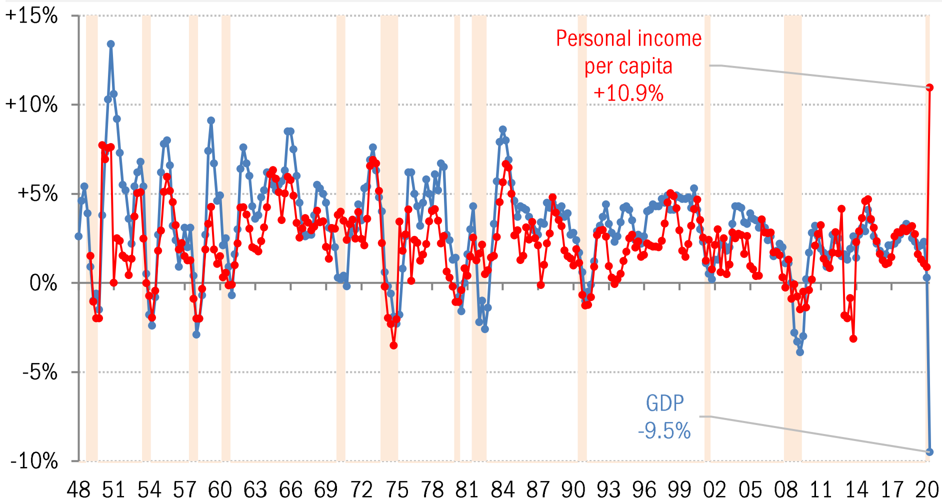
TrendMacro 2020 presidential election prediction model: margin in electoral college votes for incumbent party



Source: BLS, BEA, Bloomberg, TrendMacro calculations

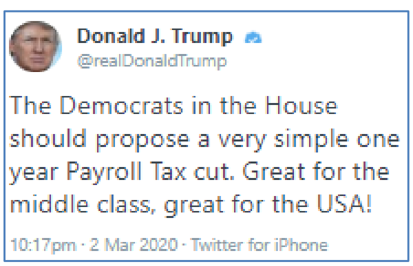
[“Video: What you’re not hearing about the economy and the 2020 presidential election”](#) August 3, 2020. *<u>But a significant source of that income increase expired on July 31, with the lapse of the $600 federal top-up of unemployment benefits and other measures. Trump’s executive orders are designed to extend, in part, and to replace, in part, those expiring measures in order to prop up personal income heading into the election and maintain the advantage reflected in our model.</u>*

Real gross domestic product, and personal income, year-over year



Source: BEA, TrendMacro calculations

- We are not worried that Trump’s measures are “limited.” What *isn’t* “limited”? *<u>The important thing for the economy is the directional change in incentives, and these are very pro-growth. Indeed, when it comes to incentives, the very fact that they are “limited” can help by creating a “strike while the iron is hot” demand effect.</u>*



- That is very much the case with the [new payroll tax “holiday” for workers through year-end](#), effective September 1 for workers earning under $104,000. *<u>This effectively increases marginal after-tax compensation for labor.</u>* This had been [an ambition for Trump](#) from the earliest moves in the stimulus bidding war, but the CARES Act had only put in place such a holiday for the employer-paid portion.
- It is not a true “holiday,” but rather only a deferral. In that sense, it is a “limited” incentive because workers may well believe they will some day have to pay it back. But Trump’s specific intention reflected in the executive order is to pass legislation to forgive the tax obligation. *<u>It’s a safe bet that no future President or Congress is ever going to fail to forgive that obligation. And in the meantime, Trump will campaign on the promise to do so, and the fear-mongering that Joseph R. Biden would not. Biden would have to promise to forgive the deferral too, cementing public reliance that it becomes a true holiday, and improving the incentive effects.</u>*

Update to strategic view

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… quantitative forecasting model. The payroll tax deferral is an incentive to marginal labor contribution, and Trump will campaign on forgiving it and making payroll tax reduction permanent. Enhanced unemployment reduced from $600 to $400 per week will sustain the income of the jobless, but reduce incentive barriers to get back to work. Trump wins the stimulus bidding war and will take credit. Meanwhile, Biden had a horrible week of gaffes and embarrassments, very possibly a “Dukakis moment.” He will likely announce his vice presidential pick this week, who we expect will be a divisive figure who will drive Trump turnout. We are becoming increasingly confident that markets are now discounting both a V-shaped economic recovery and a Trump win in November

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- Indeed, this will be another pro-growth bidding war, and one that Trump has already won – by making an over-the-top promise to not only forgive the deferred tax obligations but make the holiday permanent. There's nothing in the executive order about this, but in Saturday's press conference announcing it he said:

  "If I'm victorious on November 3rd, I plan to forgive these taxes and make permanent cuts to the payroll tax. So I'm going to make them all permanent.

  "Now, Joe Biden and the Democrats may not want that. They don't want that because they're adding $3 trillion in taxes. So they'll have the option of raising everybody's taxes and taking this away.

  "…I'll extend it beyond the end of the year and terminate the tax. And so, we'll see what happens. Biden probably won't be doing that; you'll have to ask him. I don't think he knows what he's doing."

- The executive order extending the federal top-up of unemployment benefits is "limited" in two senses.
- First, the amount of the benefit will be $400 per week, down from $600 under the original program that expired July 31. As a first-order effect, this is a one-third reduction in cash payments that were aiding recovery as they were spent or saved. But as a second-order effect, which may be more important, *the benefit reduction lowers the disincentive to go back to work*. This is real – it's not just a Republican anti-welfare trope that it is counterproductive to pay people more not to work than to work. At $600, about two thirds of unemployed workers – most of whom are in low-paying service jobs – get more from enhanced jobless benefits than from working, with a mean wage-replacement ratio of 134%.
- Second, without more funding from Congress, Trump's fiscal resource here is limited to unspent disaster relief funds – a pool from which Trump is willing to draw $44 billion. By our rough and ready calculations, depending on the willingness of states to follow through on cost-sharing mandates, *at current levels of unemployment the new benefit should last from seven to nine weeks – yes, right up to the election*.
- *Altogether, it's not a stretch to think that the $400 benefit about hits the sweet-spot in terms of putting money in voters' pockets, on the one hand, and helping the economy head back toward full employment (which puts money in voters' pockets, too).*
- Other executive orders yesterday extended relief to renters and mortgage-payers, and those with student debt.
- The executive orders capped a good week for Trump, and a bad week for Biden. For the presumptive Democratic nominee, it was a week of racially tinged gaffes and on-camera embarrassments about his cognitive abilities.

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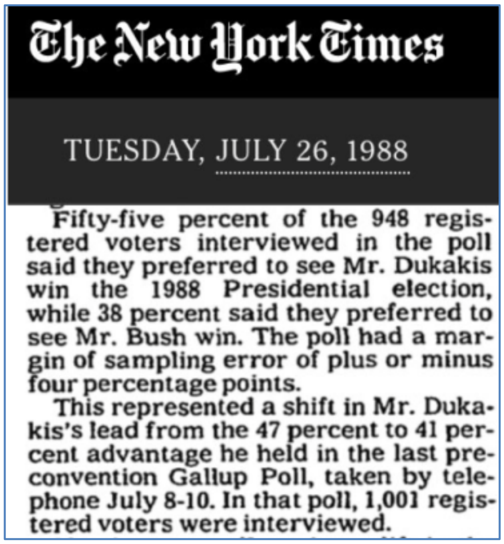
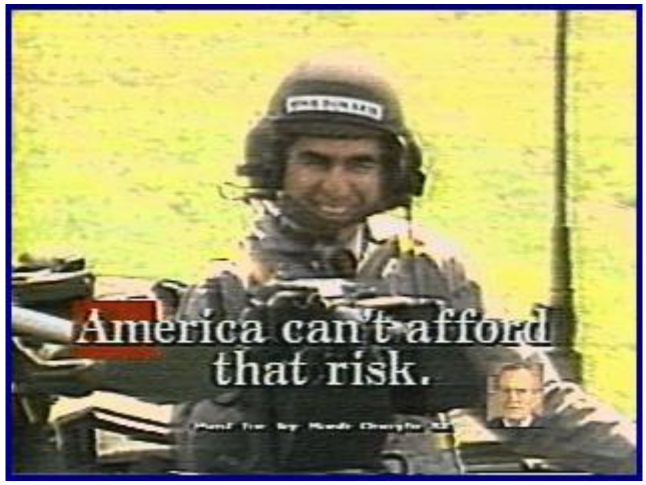

The New York Times

TUESDAY, JULY 26, 1988

Fifty-five percent of the 948 registered voters interviewed in the poll said they preferred to see Mr. Dukakis win the 1988 Presidential election, while 38 percent said they preferred to see Mr. Bush win. The poll had a margin of sampling error of plus or minus four percentage points.

This represented a shift in Mr. Dukakis's lead from the 47 percent to 41 percent advantage he held in the last preconvention Gallup Poll, taken by telephone July 8-10. In that poll, 1,001 registered voters were interviewed.

- At the same time as the purported second wave of Covid-19 subsides in the US, and the US economy can now continue its re-opening (see "On the July Jobs Report, and Our 2020 Election Model" August 7, 2020), *we can't help but draw a comparison to the 1988 contest between George H. W. Bush and Michael Dukakis*.
- Bush was facing the near-impossible challenge of extending GOP control of the White House to three terms, and was far behind Dukakis in the polls, even more than Trump trails Biden today.



- Then came Dukakis's photo-op with the tank, which Bush turned into a highly effective attack-ad that forever branded Dukakis as silly and unpresidential.
- *You can already imagine Trump's attack-ads, can't you?* All he has to do is run last week's interview in which Biden found himself at a loss for words while responding to softball questions from friendly reporters about his cognitive abilities. *Was that Biden's "Dukakis moment"?*

- *Surely this week Biden will try to get some positive momentum by naming his vice-presidential pick*. That will command the news cycle, to be sure, especially considering the high likelihood that Biden's Veep might be president sooner rather than later, given Biden's age. But we think he is being forced to pick a running mate who will likely be highly divisive, driving turn-out for Trump (see "On the June Jobs Report, and Our 2020 Election Model" July 2, 2020).
- All year we have highlighted the risk for markets that pro-growth Trumponomics would be lost if Trump were not re-elected. The global depression triggered by the over-reaction to Covid-19 heightened *that* risk, at the same time as it presented markets with its own risks. Now, increasingly, it seems that *both* risks are resolving at the same time, which explains how equities can be so close to all-time highs while, by the numbers, we're still in a depression.

Bottom line

Trump's Saturday executive orders declaring a payroll tax deferral and extending enhanced unemployment benefits are an economic and political masterstroke. These steps will maintain personal income through the third quarter, sustaining the second quarter boost to Trump's reelection chances reflected in the sharp reversal in our quantitative forecasting model. The payroll tax deferral is an incentive to marginal labor contribution, and Trump will campaign on forgiving it and making payroll tax reduction permanent. Enhanced unemployment reduced from $600 to $400 per week will sustain the income of the jobless, but reduce incentive barriers to get back to work. Trump wins the stimulus bidding war and will take credit. Meanwhile, Biden had a horrible week of gaffes and embarrassments, very possibly a "Dukakis moment." He will likely announce his vice presidential pick this week, who we expect will be a divisive figure who will drive Trump turnout. We are becoming increasingly confident that markets are now discounting both a V-shaped economic recovery and a Trump win in November.