

An Analysis of Moody's Analytics  
"The Macroeconomic Consequences of Mr. Trump's  
Economic Policies"

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## Executive Summary

Moody's Analytics released a [report](#) on June 20, 2016 predicting recession, significant job losses, stagnant income, and a massive increase in government debt should Donald Trump be elected president. The findings are based on flawed assumptions and gross misrepresentations of the Trump policies on the economy, tax reform, trade, and immigration.

On its face, the Moody's report lacks credibility. Its lead author Mark Zandi is a registered Democrat and a major campaign contributor to Democratic presidential candidate Hillary Clinton. Over the last eight years, Mr. Zandi has also been an instigator of, and chief apologist for, the failed Keynesian fiscal and monetary stimulus policies of the Obama presidency – a presidency marked by slow growth, stagnant wages, a near doubling of government debt, and a likely recession as Obama leaves office.

The partisan conclusions of the Moody's report that are driven by its erroneous assumptions constitute a classic case of “garbage in, garbage out” and operate through three spurious recessionary vectors.

### Vector #1: Tax Reform

As a key part of its fiction, the Moody's report assumes the Trump tax plan will result in a “static cost” of \$9.5 trillion in foregone tax revenues and an additional dynamic cost associated primarily with the contractionary effects of reduced government expenditures, the “crowding out” of private sector investment due to higher interest rates, and a fall in exports due to a strengthening dollar.

In fact, the cornerstone of the Trump tax plan is *revenue neutrality*, that is, the plan is expressly designed to have no “static effect” on overall tax revenues. It follows that under revenue neutrality, *none* of the downstream negative effects predicted by the Moody's report occur.

Moody's Keynesian and partisan analysis also deeply discounts the supply side stimulus effects associated with the tax cuts themselves. In reality, Trump's tax package will significantly stimulate GDP growth, the rate of job creation, and the tax revenues raised much as the Reagan supply side tax reforms did in the 1980s.

### Vector #2: Trade Reform

The Moody's report does not properly account for the fact that roughly half of the US trade deficit in goods is with a mercantilist and predatory China. Reducing America's Chinese import dependence by getting a fair deal from China as Trump's trade policy is intended to do would significantly boost US growth and create millions of jobs.

Instead, the Moody's report simply slaps a 45% tariff on Chinese exports and then assumes that China retaliates with its own tariffs, causing consumer prices to rise. The far more likely Trump presidency scenario is that Chinese leaders realize they no longer have a weak leader in the White House, China ceases its unfair trade practices, American's massive trade deficit with China comes peacefully and

prosperously back into balance, and both the US and Chinese economies benefit from trade.

### **Vector #3: Immigration Reform**

The Moody's report erroneously assumes unemployed American citizens won't be willing to do the vast majority of the jobs that illegal immigrants are now doing, and most of the jobs taken by illegal immigrants are in agriculture. From these counterfactual assumptions, the Moody's report simulates a stagflationary world of labor shortages and rising wages.

These assumptions are out of touch with the diffusion of the illegal immigration population into America's urban areas across the country. As the Public Policy Institute of California [notes](#): "[M]ost illegal immigrants are not farm workers. They are also concentrated in construction, manufacturing (especially textiles and animal processing), retail trade (especially restaurants), and services (especially private household services)." These are jobs that many American citizens would gladly take if they weren't being pushed out by illegal immigrants, a displacement problem that has hit the African American community particularly hard.

The Moody's report also fails to properly account for the significant reduction in fiscal, social, and law enforcement costs associated with Trump's immigration reform, e.g., a Heritage Foundation [study](#) finds that "the average unlawful immigrant household" generates "an average annual fiscal deficit (benefits received minus taxes paid) of around \$14,387 per household."

**The bottom line:** The Moody's report is a partisan document that fundamentally lacks credibility. It is based on flawed assumptions that the authors admit "are our own," and these assumptions grossly misrepresent the Trump campaign's policy statements on the economy, trade, tax reform, and immigration.

The simulations and conclusions that follow from these flawed assumptions and gross misrepresentations have nothing to do with the reality of a Trump presidency. Instead, this is a classic case of a "garbage in, garbage out" partisan analysis designed to produce damaging sound bites for Trump's main opponent.

**A MORE DETAILED ANALYSIS FOLLOWS STARTING ON THE NEXT PAGE**

## Introduction

On June 20, 2016, Moody's Analytics released a "[paper](#)" purporting to simulate the "macroeconomic consequences" of the implementation of the "economic policies" of a Donald Trump presidency. This "paper" – a term used to give the analysis a misleading academic veneer – begins with false assumptions about the Trump economic, tax, trade, and immigration policy platforms. It then weaves an equally false Keynesian narrative based on an improbable set of macroeconomic assertions about the direction of interest rates, the value of the US dollar, the alleged benefits of "globalization," how the labor market would adjust to a tougher immigration policy, and the improbable responses of mercantilist trade partners like China to countervailing tariffs.

I was asked by the Trump campaign to independently review the paper's methodology and findings with the broader goal of determining how such a flawed report could emanate from a well-established firm such as Moody's. The short answer to that question is that the lead author is a [Democrat and a major contributor to Hillary Clinton](#) who appears to be pursuing a political agenda on behalf of the Democratic Party.

The longer answer to the question of credibility is explored in the analysis below. What this analysis reveals is a partisan set of scenarios that have little basis in the facts of Trump's actual policies or in the way macroeconomic adjustments are likely to take place in the event of a Trump presidency.

## A Question of Credibility

*It's an open question whether the stimulus bill can lift the nation's ailing economy. But this much is certain: It's a bonanza for the career of Mark Zandi. The 49-year-old economist is a Democratic dream ... who advocates spending over tax cuts as the best way to deliver a quick jolt.*

*-- Shailagh Murray, Washington Post February 3, 2009*

Mark Zandi is the lead author of the Moody's report and chief economist at Moody's Analytics. As a matter of full disclosure, I've known Mr. Zandi for years, I have used his website [economy.com](#) likewise for years in teaching macroeconomic forecasting to my MBA students at UC-Irvine, and I have admired Mr. Zandi's entrepreneurial skills in first building up the [economy.com](#) website and then effectively "hitting the lottery" when he sold it to Moody's in 2005.

It is precisely because [economy.com](#) typically provides such sober analysis in its reportage of the latest news about various leading economic indicators that I was surprised at the tenor, tone, and poor macroeconomic analysis of the "paper" in question. Accordingly, I thought it best to explore the first question that popped into my mind: Might this report be politically motivated?

Here, I immediately discovered was that Mr. Zandi is a major contributor to both the Democratic Party and Hillary Clinton. In this regard, I share the same sentiments conveyed by [MRC NewsBusters](#) in this quote:

*Zandi's contribution to Mrs. Clinton is hard to square with the idea that he is genuinely independent and objective. Even if he can somehow convince himself that he is, one has to wonder if his employer, his Economy.com subscribers ... and the venues where he comments and grants interviews would still believe that his analyses are authentic and represent his best efforts if they knew about his maximum 2015 contribution to Mrs. Clinton.*

There is an additional, and arguably bigger, problem with the Zandi brand on any report pertaining to the 2016 Trump campaign. As the *Washington Post* quote leading off this section notes, Zandi has earned much of his reputation and high public profile by defending the failed Keynesian stimulus policies of the Obama Administration. This is no small matter.

Zandi's reports on the Moody's Analytics website in the early days of the 2008 financial crisis predicted doomsday if massive Keynesian stimuli were not applied. These doomsday reports [played a key role](#) in guiding the policy debate right down the Keynesian sinkhole of a massive fiscal stimulus that has racked up trillions in debt during the Obama Administration and led merely to more slow growth and stagnant wages – while bloating the balance sheet of the Federal Reserve.

Mr. Zandi makes no apologies for this disaster. Just the opposite. As chief apologist for the Obama White House, Mr. Zandi wrote [a book](#) in 2012 that spins this far too rosy picture of an America that remains vastly under-employed and may well enter a recession as Obama is leaving office:

*The economy is growing and steadily creating jobs; house prices are stable and stock prices are up; debt burdens have eased for most households and the financial system has shored up its foundations to an impressive degree. American companies are as competitive globally as they have been in a half century. This dramatic turn in the economy's fortunes occurred because of what government did to stem the financial panic and combat the effects of Great Recession. Policymakers' unprecedented actions – from Congress' auto and bank bailouts and fiscal stimulus, to the Federal Reserve's zero interest rates and quantitative easing – remain intensely controversial, but ultimately they will be judged a success.*

The last credibility point to make about Mr. Zandi is the frequent description of him by both the White House and Hillary Clinton as a “former McCain advisor.” The spin room game afoot here is to somehow convey that Mr. Zandi is a Republican and therefore must be objective in praising Obama or Clinton or in criticizing Trump.

Here is a CBS news clip from 2010 and correspondent Chip Reig that reveals that this “Zandi-McCain” misrepresentation is the standard modus operandi of both the White House and Hillary Clinton – and Zandi is complicit in this subterfuge because he could have put a stop to it long ago:

*Whenever Zandi says something nice about the President's economic policies, the White House seizes on it: "See?! Even John McCain's chief*

*economic adviser agrees with us!" They act as if that settles the matter. ... I covered the McCain campaign and was briefed by McCain's economic team many times. Zandi was never involved.*

Even if Zandi did do any substantive work on the McCain campaign, this hardly qualifies him as an impartial source, particularly given his cheerleading for Obama over the last eight years and his funding of Hillary Clinton.

## **Flawed Policy Assumptions Lead to False Conclusions**

In concocting its set of flawed and false assumptions about Donald Trump's policies, the Moody's report acknowledges right on page one that it made up its own assumptions to conduct its analysis. As noted:

*Quantifying Mr. Trump's economic policies is complicated by their lack of specificity. The publicly available information is not sufficient to fully quantify all of his proposals. Thus, a number of assumptions are laid out in the paper. The assumptions are our own..." (emphasis added)*

This is the poster child of a "garbage in, garbage out" simulation. As for the conclusions themselves, they are driven by three spurious recessionary vectors.

### **Spurious Vector #1: Tax Reform Misrepresentations**

*Mr. Trump's economic policies hurt the economy due in part to the large budget deficits and heavy debt load that result from his tax and spending policies.*

*-- Moody's report (p.5)*

One of the worst mistakes of the Moody's report is to ignore the cornerstone of Donald Trump's tax reform plan, *revenue neutrality*. This principle is clearly stated on the [Trump website](#) referenced in the Moody's report.

Revenue neutrality means that Trump's "complete overhaul of the tax code" referred to in the Moody's report will occur under the condition that total tax revenues in a static sense will remain the same (while in a dynamic setting, tax revenues rise because of favorable supply side effects from the tax cuts).

In ignoring Trump's revenue neutrality principle, the Moody's report assumes a "static cost" of "\$9.5 trillion over the next decade." (p.2) From that erroneous assumption, the analysis further assumes a higher budget deficit that will, in turn, drive up interest rates as the government competes for capital with the private sector.

In the Moody's report simulations, higher interest rates "crowd out" private sector investment and slow growth. These higher interest rates also strengthen the US dollar as foreign investment is attracted to US shores and the stronger dollar, in turn, slows exports and thereby further slows growth while any positive supply side effects are "overwhelmed by the mounting deficits and debt." (p. 6)

Of course, this is all a house of simulated partisan cards that collapses as soon as Trump's principle of revenue neutrality is restored.

To further stack the macroeconomic deck against Trump, the Moody's report makes this erroneous assumption: "To help defray the costs of the tax cuts and other spending, we assume that more than \$1.5 trillion will be cut from other discretionary nondefense outlays over the next decade." (p. 4) Of course, this alleged reduction in government spending is than used in the simulations to further depress growth through standard Keynesian assumptions of a contractionary shock due to reduced government spending.

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As a final element in the tax dimension, the Moody's report ignores key elements of the Trump tax reform that specifically target the wealthy and corporations. As the Trump website [clearly notes](#):

*The Trump tax cuts are fully paid for by... reducing or eliminating most deductions and loopholes available to the very rich... [and] reducing or eliminating corporate loopholes that cater to special interests.*

Little attempt was made by the Moody's report to fully simulate the impacts of the removal of such deductions and loopholes, and Mr. Trump was the only Republican candidate that embraced such a comprehensive tax package. This is a major partisan omission in the Moody's report, one that can only contribute to the "class warfare" rhetoric of the Clinton campaign.

Finally, the Moody's report ignores the substantial benefits to lower income households of the Trump tax package. As the Trump website explains:

*If you are single and earn less than \$25,000, or married and jointly earn less than \$50,000, you will not owe any income tax. That removes nearly 75 million households – over 50% – from the income tax rolls. They get a new one page form to send the IRS saying, "I win," those who would otherwise owe income taxes will save an average of nearly \$1,000 each.*

## **Spurious Vector #2: Trade Reform Misrepresentations**

*U.S. trade with the rest of the world will shrink as a result of Mr. Trump's tariffs, and could decline further if the candidate's seeming skepticism of past U.S. trade deals translates into no future deals.*

*-- Moody's report (p. 7)*

The biggest flaw in the Moody's report is its misrepresentation of Donald Trump's trade policies. Philosophically and pragmatically, Trump is a free trader. His only objection is when mercantilist trading partners like China use unfair trade practices like currency manipulation, intellectual property theft, and illegal export subsidies to put American companies out of business and American workers on the unemployment line.

In fact, the US runs a massive trade deficit of well over \$700 billion, and a mercantilist and predatory China accounts for nearly half of that. Such "Chinese import dependence" acts as a major brake on America's GDP growth rate while the offshoring of business

investment to China further depresses US GDP growth along with wages and tax revenues. [The result](#), as fully documented in my book and film [Death By China](#), has been the loss of millions of jobs, the shuttering of more than 50,00 factories, stagnant wages, reduced tax revenues, and massive budget deficits.

Here's the irony: Moody analysts of all people should clearly understand the pernicious effects of China's mercantilist attack on the American economy. Consider this typical assessment of the latest GDP numbers on Moody's economy.com website:

*U.S. economic growth, as measured by GDP, has slowed dramatically. Growth was under 1.5% for the last two quarters, the worst six-month performance in nearly three years....growth is weak. The two primary drags are inventories and trade. (emphasis added)*

To stop the hemorrhaging of jobs and factories and to rebalance our trade deficit with China, Trump has proposed 45% tariffs on China IF China refuses to end its use of unfair trade practices. It is not just currency manipulation that Trump is concerned about – although the Moody's report discussion is limited to that.

Trump is also deeply concerned about China's use of illegal export subsidies, the theft of American intellectual property, its illegal policy of forced technology transfer, and the widespread Chinese use of sweatshops and pollution havens. In fact, these unfair trade practices all contribute significantly to China's mercantilist advantage at great cost to American workers, domestic manufacturers, and our government's ability to generate the tax revenues it needs.

None of these grossly unfair mercantilist practices or the massive downstream effects of America's Chinese Import Dependence appear to be fully understood or even acknowledged by the Moody's report. Instead, the Moody model simply slaps a 45% tariff on Chinese exports and then assumes that China retaliates with its own tariffs while consumer prices rise.

The far more likely and appropriate Trump presidency base case scenario is this: Under the threat of Trump's countervailing tariffs, Chinese leaders realize they no longer have a weak leader in the White House, and China ceases its unfair trade practices. In this scenario, American's massive trade deficit with China comes peacefully and prosperously back into balance over time. Both the US and Chinese economies benefit while workers' rights improve along with the global environment.

As a final point, there is this revelatory paragraph about the Trans-Pacific Partnership (TPP) in the Moody's report:

*If the TPP fails to become U.S. law, which seems likely in a Trump presidency, then the ongoing globalization of the U.S. economy may falter. This will not show up in the economic statistics in a given year, but it will mean a smaller U.S. economy as the years go by.*



This paragraph is, indeed, the final undoing of the credibility of the Moody's report as it is simply not credible to paint the TPP as a positive force in international trade. This is an unfair trade deal that Trump vigorously opposes because it would spell the death knell of much of the remaining manufacturing base in the United States, including the vital auto and auto parts industries in key manufacturing states.

### **Spurious Vector #3: Immigration Reform Misrepresentations**

The Moody's report leans heavily on the assumption that "immigrants are imperfect substitutes for native U.S. workers due to different occupation choices and skills." (p.6) The one-dimensional idea here is that American citizens won't be willing to do the jobs that immigrants to this country are now doing. This elitist idea also implicitly assumes that most of the illegal immigrants stealing American jobs (particularly in the black community) are bound for American farms (e.g, the Moody's report prominently uses the agricultural sector as its example).

These assumptions are counterfactual. As the Public Policy Institute of California [notes](#): "[M]ost illegal immigrants are not farm workers. They are also concentrated in construction, manufacturing (especially textiles and animal processing), retail trade (especially restaurants), and services (especially private household services)." Most of these are good jobs American citizens would gladly take if they weren't being pushed out by illegal immigrants.

Nonetheless, from its "imperfect substitutes," "illegal immigrants are clustered in agriculture" assumptions, the Moody's report simulates a world of a tightening labor market and rising wages "as employers struggle to fill the open positions." Here is the implausible death spiral the Moody's report asserts and assumes; and it's symptomatic of a general equilibrium analysis run amuck from flawed assumptions:

*Mr. Trump's immigration policies will thus result in fewer jobs, potentially severe labor shortages, and higher labor costs. This will ultimately cause businesses to more aggressively raise prices for their products. The tight job market and higher inflation prompts the Federal Reserve to normalize interest rates quickly, and then to push rates above their long-run equilibrium. This monetary tightening contributes to the recession that hits about a year after Mr. Trump takes office.*

To see how implausible this all is, consider the idea that businesses would "more aggressively raise prices." If the deep recession that the Moody's report forecasts actually hits (or looks to be on the horizon), that's the last thing businesses would do. The same may be said about the idea of the Fed hiking interest rates.

In fact, Trump's immigration policies would be a tremendous boost to Americans particularly in the black community, who have been pushed out of the labor market by a flood of illegal immigrants. As *National Review's* A.J. Delgado [notes](#):

*The black unemployment rate is almost 11 percent, far higher than that of any other group profiled by labor statistics. African Americans are*

*disproportionately employed in lower-skilled jobs – the very same jobs immigrants take.*

The hard Trump truth here is that no segment of America -- from Southeast San Diego to the slums of Miami's Liberty City – has suffered more from a flood of illegal immigrants taking their jobs and depressing their wages than lower income African-Americans.

[Notes](#) US Civil Rights Commissioner Peter Kirsanow:

*Immigration accounts for 40 percent of the 18-point percentage decline in black employment levels in the last several years [and] an 18-point decline is hundreds of thousands of blacks without jobs...In addition to depressing black employment levels, illegal immigration – frankly any low-skilled immigration – tends to drive down the wages of jobs that are available for black Americans.*

As PJ Media's [Roger Simon](#) warns:

*The African-American community is in a miserable condition that has been getting worse for decades and has reached its nadir under Obama -- two-parent families disappearing, unemployment rates skyrocketing, incarceration rates catastrophic, drug addiction epidemic. We all look on in despair as gang members shoot children in the streets of Chicago and murders -- almost all black-on-black -- proliferate in Baltimore after years of decline.*

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The final flaw in the treatment of Trump's immigration reform policies by the Moody's report lies in its abysmal failure to properly account for the massive reduction in the fiscal, social, and law enforcement costs that will result from a more secure border and the deportation of illegal immigrants.

On the fiscal costs associated with illegal immigration – [over 11 million](#) reside in the US – it is worth quoting at length from a Heritage Foundation study on the subject:

*Children in unlawful immigrant households receive heavily subsidized public education. Many unlawful immigrants have U.S.-born children; these children are currently eligible for the full range of government welfare and medical benefits. And, of course, when unlawful immigrants live in a community, they use roads, parks, sewers, police, and fire protection; these services must expand to cover the added population or there will be “congestion” effects that lead to a decline in service quality.*

*In 2010, the average unlawful immigrant household received around \$24,721 in government benefits and services while paying some \$10,334 in taxes. This generated an average annual fiscal deficit (benefits received minus taxes paid) of around \$14,387 per household. This cost had to be borne by U.S. taxpayers. Amnesty would provide unlawful households with access to over 80 means-tested welfare programs, Obamacare, Social Security, and Medicare. The fiscal deficit for each household would soar.*

On the social costs, there is considerable debate about whether illegal immigrants tend to commit more or less crime than legal citizens. [These statistics](#), however, speak to a major issue related to violent crimes perpetrated by illegal aliens:

*Between 2008 and 2014, 40% of all murder convictions in Florida were criminal aliens. In New York it was 34% and Arizona 17.8%.*

*During those years, criminal aliens accounted for 38% of all murder convictions in the five states of California, Texas, Arizona, Florida and New York, while illegal aliens constitute only 5.6% of the total population in those states.*

*That 38% represents 7,085 murders out of the total of 18,643. ...*

*The Texas Department of Public Safety reports that between 2008 and 2014, 35% of the all murder convictions were illegal aliens—averaging 472 murders each year from 2004 to 2008.*

## Conclusions

The Moody's report is based on flawed and contrived assumptions that the authors admit "are our own." (p.1) These assumptions grossly misrepresent the Trump campaign's policy statements on the economy, trade, tax reform, and immigration.

The conclusions that follow from these flawed assumptions and gross misrepresentations have nothing to do with the reality of a Trump presidency. Instead, this is a classic case of "garbage in, garbage out" designed to provide more partisan heat than academic light on critical campaign issues.

At the end of the day, the Moody's report may be fairly judged as a "hit piece" masquerading as scholarship. It is lead-authored by a major donor to the Democratic Party and chief apologist for the failed Keynesian policies of the Obama White House over the last eight years of slow growth, stagnant wages, and the accumulation of massive government debt, and therefore, on its face, lacks credibility.