Marginal analysis and Trump

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Economics students learn marginal analysis. It is the idea that many decisions should not be thought of as all or nothing choices, but rather they should be thought of as a series of decisions. So for example, in my daily life, I do not decide between drinking no coffee and drinking 16 cups a day (one per hour while I am awake). Instead, I decide if I should drink my first cup. The answer is a resounding yes because I will get a headache if I don't. Then I decide whether to drink a second and then a third cup. After I drink the third cup, I usually decide not to drink a fourth cup. My benefits from drinking a fourth cup were less than the costs from drinking it. The story was different for my first three cups of coffee. In each of those cases, my benefits exceeded my costs.

A key insight from marginal analysis is that just because the initial act of doing something is worthwhile does not mean that every additional act of doing that thing is worthwhile. The Trump administration would be wise to heed this lesson.

It was pretty clear that Trump's first steps in "fighting" illegal immigration were good moves. He closed the Mexican border and stopped the waves of people coming in. He also started deporting criminals. But just because those actions were worthwhile does not mean that all additional actions to "fight" illegal immigration are a good idea. For instance, when ICE agents round up illegal immigrants who have been law-abiding citizens for 15+ years, or when they detain Americans because those Americans look like immigrants, the government has clearly gone too far.

It is also clear that Trump's first steps in attempting to adjust America's relationship with Europe was a good idea. For years, Europe did not devote enough of their government budgets to military expenditures to effectively deter Russian aggression. Instead, the Europeans relied on the U.S. to cover that burden for them. Trump's threats and diplomacy have convinced the Europeans to increase their military spending. Kudos to Trump for that. However, his more recent steps appear to have gone too far. Threatening to take Greenland from Denmark could cause NATO to dissolve. And, by failing to support Ukraine with enough weapons to win its war against Russia, and by leaving it to Europe to pay for many of Ukraine's weapons, Trump may enable Russia to achieve success in Ukraine and move on to other targets. An expanding Russian empire is something that the U.S. should probably take steps to prevent.

For years, it seemed that the Democrats were the more able political party. The Republicans did not fight effectively to get their way. Trump is clearly willing to fight and his fights to enact tax cuts and to decrease regulation should help the economy. However, he is probably going too far. His practice of getting the Justice Department to indict his political enemies risks ripping apart the social fabric that allows our two-party system to operate.

It is my hope that the Trump administration starts implementing marginal analysis. It could declare victory on several fronts and instead of pressing forward on issues long after it is a good idea to do so, the administration should stop – just like I stopped drinking coffee after my third cup. It would be much more productive for Trump to concentrate on issues that have been neglected. His first few steps in these areas can do a lot more good than his continued focus on issues where his additional initiatives are causing more harm than good.

There are a lot of neglected issues that could use his attention. The government's entitlement spending is on track to cause a crisis. Trump could take a few steps to avoid this catastrophe. While Trump has taken some steps to reduce regulations, there is more work that can be done in this area that would make American businesses more competitive.

It is my hope that Trump and the Republicans in Congress start addressing issues that have long been neglected. Marginal analysis suggests that their first few steps on those issues can be very productive.

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