CIGS Jay Rosengard Seminar

Is Trump Making America Great Again?
A One-Year Anniversary Scorecard of the Trump Presidency

(Summary of speech)

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Trump promised to supercharge the US economy via "Trumpenomics," with supply-side trickle-down economics. He also promised to bolster the nation's domestic security and international prestige via "Trumpolemics." He said he would make America strong with a nativist or anti-immigrant domestic policy and "American First" foreign policy. His model was "buy American, hire American." Since January 19, 2018, marks the 1-year anniversary of Donald Trump's inauguration as the 45th president of the United States, it is a good time to analyze his presidency with a 1-year scorecard.

The talk is divided into three parts.   Part 1 will talk about what has been delivered versus what have been Trump's campaign promises. Part 2 will talk about the current state of US economy and US politics, both domestic and international. Finally, part 3 will analyze two important questions; one is correlation versus causation and second is the short-term or long-term impact of Trump's policies.

The three key components of Trumpenomics were lower taxes, higher spending, and aggressive deregulation of business. In terms of lower taxes, the only significant legislative accomplishment of Trump. was passed in December 2017, was 'Tax Cuts and Jobs Act.'" He promised in his campaign to reduce highest marginal income tax rate to 33% and to reduce number of tax brackets from 7 to 3. The current law still has 7 brackets and is more complicated than before, but he did reduce the top tax rate from 39.6% to 37%.

In the US, people can either itemize own deductions such as list deductions to charities, home loan interest, student loan interest, and so on or take a standard deduction. Three-quarters of American filers do the standard deduction, but higher income filers would benefit by itemizing. Such filers doubled the standard deduction, which means fewer people will itemize.   This could lead to a drop in charitable contributions and affect the housing markets because of less benefit from the mortgage interests. He also eliminated "Personal Dependent Exemptions," and put limits on the amount one can deduct from state and local taxes. Politically, he has targeted the blue states, the states with high taxes and high government services, which have voted for him.   It does not affect the red states, the states with lower taxes and lower services. While this doesn't impact the national revenue significantly, it does increase tax burden of the democrats in the states that didn't vote for Trump.

He promised to reduce corporate tax rate from 35% to 15%. He reduced it from 35% to 21% and halved the rate for certain types of income for certain types of foreign subsidiaries. However, the effective tax rate is more important than the statutory tax rate. Before the new law, this tax rate was about 20%. The idea was trying to bring investment back to America, but people still benefit from investing overseas. There is also 20% deduction for income from pass-through businesses like partnerships. Interestingly, most of Trump's businesses are pass-through businesses.

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Next, Trump promised to reduce corporate tax one-time on repatriation of overseas earnings. He came close to his promise with one-time 8% tax on unrepatriated foreign earnings. The hope is that companies will invest this money leading to jobs creation and the tax law will pay for itself. However, there is historical data to support that. It is likely that the money will come back but is unlikely to result in new investments. He promised to repeal the estate and gift taxes but doubled the threshold of the previous estate tax. However, few families pay this in practice, and most of these families have good tax lawyers and planners to protect that money within trust, in offshore accounts, and in shell companies.

Trump also taxed the investment income from endowments of large universities. This means there is less money to invest in scholarships, faculty, and operations. There were two other components of the draft bill that were also taxes on education. He wanted to have students pay tax on the tuition waivers given to graduate students. Further, he wanted to eliminate interest deduction on student loans. Fortunately, those two did not survive in the final law.

Trump also promised to increase expenditures on national defense on "The Wall." However, the US still doesn't have a 2018 budget yet, although the budget years from October to September. So, the big fight presently is over immigration. The democrats want certain immigration law passed in exchange for the budget, but they don't want it to include payment for "The Wall." Trump says no immigration reform without the wall. They had a bipartisan compromise, but Trump's nasty comments on immigrants after the initial agreement destroyed the compromise. Trump has aggressively deregulated businesses, leading to the boom in the US stock market. The President cannot spend new money without congressional approval, and without a budget, there is no new spending on anything. But, he can take action through executive orders and regulatory discretion.

Some other aspects of Trumpenomics include trade, energy, healthcare, and targeted cuts in government waste. He withdrew from TPP and is trying to renegotiate NAFTA. He had made claims about China being a currency manipulator, subject to trade cases. Although he was quiet after his visit to China, the US has introduced punitive tariffs on solar panels from China, washing machines from South Korea, and airplanes from Canada. The Federal Review Board rejected the taxes on airplanes from Canada.

He has talked a lot about America First trade policy. In energy, he has given a lot of public land to the private sector for exploration and extraction, which has never happened before.

He tried to repeal the Obamacare, the Affordable Care Act, many times during the first year, but lost. Obamacare greatly expanded healthcare to lower income families and to small businesses and self-employed. Many Republican states have benefited from

Obamacare, and so he has lost a few Republican votes, enough to defeat repeal of Obamacare. However, he can still do many things to undermine it. For example, he cut enrollment period for health exchanges in half and eliminated Obamacare outreach budget. Surprisingly, the enrollment rates have not decreased.

The Affordable Care Act uses risk pooling. The idea is the young and the healthy must buy it to cross-subsidize for the old and the sick. If not, the numbers don't work and it becomes expensive. The constitutionality of the individual mandate went up to Supreme Court twice and was ruled constitutional. Previously, there was a penalty on not able to document health insurance when filing taxes. The new tax law repealed this penalty.

He said he is going to reduce non-defense, non-safety net spending annually by 1%, and over 10 years, he said he would reduce spending by $1 trillion. However, the new tax law is projected to actually increase deficit $1.5 trillion over 10 years. That's the projection of the nonpartisan Congressional Budget Office and Tax Policy Center run by the Brookings Institution and Urban Institute. All in all, Trumpenomics is basically Reaganomics with the only difference being that Reagan believed in trade.

With regard to the non-economic policies of Trump, he has done a lot considering he can't spend new money and many of his actions are being pro-arm contested in courts.

He said he would crack down on both legal and illegal immigration, and he has certainly done through ICE (Immigration and Customs Enforcement) under the Department of Homeland Security and he has been aggressive in raids and deportations. The US has sanctuary cities and states. In America, the police are under local government and are conservative. They have only helped in arresting and seizing of those immigrants guilty of serious crime as they fear backlash from the community. Hence, the raids have not been random but targeted at sanctuary cities.

There have also been several selective bans from certain countries, predominantly Muslim countries, although most bans have been rejected by the courts. There has been enhanced vetting and screening. The big argument is about "Dreamers" under the DACA (Deferred Action for Childhood Arrivals). These are immigrants who came to the US as children with their parents illegally. Through executive decrees, this group of about 800,000 "Dreamers" was allowed to stay under Obama. Last fall, Trump stopped DACA but said to congress to pass a law in 6 months to make them permanent. The time is up in March and there is no law to protect the "Dreamers." So, this explains the timing of why the budget fight and immigration are intersecting. Additionally, countries that are having civil war, natural disasters, immigrants are allowed asylum in US in TPS (Temporary Protected Status), and Trump is now eliminating TPS country by country.

It is also becoming difficult for businesses, especially IT and service industries which have staff shortages, to get temporary work visas. This is hitting Silicon Valley hard. There has been no funding for The Wall and no comprehensive immigration reform.

Regarding crackdown on criminals, he has taken a lot of discretion for judges. He has gone back to mandatory sentences. Several states have legalized recreational use of marijuana. This is a multibillion dollar industry. These states want to regulate it, provide health standards, and tax it, but under the Federal law, it is still illegal. The current attorney general wants to enforce Federal Marijuana Law, which is causing another conflict between the central and state governments.

Trump believes that global warming is fake science. He announced withdrawal from the Paris Accord, and he has ordered the Environmental Protection Agency (EPA) to relax regulations. However, due to the strict withdrawal rules of Paris Accord, the US would not be able to formally complete the withdrawal until the end of the Trump's first term. A lot of the EPA regulations that are not enforced are now in court, due to long public hearing review process for such regulations. This is being disputed in the courts as abuse of authority.

In terms of foreign policy, the US is currently having tension with its closest allies in Europe, Australia, and New Zealand. There are some global flashpoints such as North Korea, Iran, and Middle East which could lead to war by blunder. North Korea's President Kim is convinced that the US policy is to destroy his regime and the only way to stop the US is to have nuclear weapons. Regarding Iran, Trump has said their agreement is terrible with Iran, but he has continued to honor it. In the Middle East, announcing moving of the US embassy from Tel Aviv to Jerusalem was his biggest controversial move. Trump gave up one piece of leverage with Israel but got nothing in return.

Generally, Asia has been transactional and pragmatic with their dealings with Trump. Prime Minister Abe has figured out how to deal Trump. Shortly after Trump was elected, Toyota's proactive campaign announcing billions of dollars of new investment in the US made Trump look good. In China, President Xi gave special red carpet treatment to Trump.   Trump admires strong leaders, even dictators and former generals. Europe should study how Asia has dealt with Trump. In Europe, it has been more of moral standoff while Canada is in between.

Economic performance wise, the aggregate numbers look good for the US. Growth is at 2.3% for 2017. Unemployment as of December was 4.1%, a 17-year low, and for the first time, the unemployment rates are going down for minorities. About 2.1 million jobs were created, net positive jobs created for 87 consecutive months. Wages are going up 2.5%; 19 states increased minimum wage in 2017, inflation is about the same as last

year at 2.1%, and the stock markets have gone up about a third since Trump was elected.

However, behind the aggregate numbers are pockets of people that are suffering. If you start aggregating the unemployment rate by race or ethnicity, the numbers are different. If you define unemployment broadly and include involuntary part-time and marginally attached, the numbers almost double. Also, not everybody is enjoying the recovery and there is unequal distribution of income and wealth.

Roughly 1% of our population has about a quarter of the income, the same as it was before the Great Depression.

The top 0.1% has about one-fifth of total US wealth, the bottom 90% have the same share.   About half of Americans have zero net worth share.

Looking at wealth distribution over time, in 1928, the top 0.1% had about a quarter of the wealth. We are now approaching the same. The incidence of tax cuts makes it worse. However, we at the schools of government believe public policies matter. From 1928 to early 80's, the distribution of wealth and the distribution of income got much better, post war recovery up until Reagan. Programs like the GI bill, war on poverty, Medicare and Medicaid, and Headstart which is early education program tried to decrease inequality.

Unfortunately, tax policies and expenditure policies can also make it much worse.   In terms of impact, we ask three questions when analyzing tax reform. Number 1, what is the revenue impact. The general rule is at a minimum it should be revenue neutral. Number 2, who win and who lose? Number 3, how does it affect economic efficiency in decision making? The idea is we want to simplify the law, lower rates and increase the base, and at the minimum maintain same revenue.

There is likely increase in deficit to $1.5 trillion over 10 years. This annual deficit over 10 years is significant. As a result, the public sector borrows more, accumulated deficits are in debt, and GDP goes up. This increases interest rates to get people to buy debt. This crowds access of the private sector to debt financing and slows down economic growth because private sector becomes capital constrained. When the economy is at full employment like now, the last thing we need is a tax stimulus. Normally, this leads to inflation. We expect the Federal Reserve to counter this with rate increases and interest rates will go up. The prediction is that this year there will be at least four rate increases. So, the stimulus won't work. It will be inflationary and will be counteracted by monetary policy. In the end, we have to increase taxes or cut expenditure. The hope of the Republicans is this will be a good excuse to cut social expenditures which will make the inequality impact even worse. Most of the benefits are going to small number of

people.   If we cut social safety net and social insurance expenditures, we worsen the impact on the poor.

The administration claims there will be macroeconomic feedback resulting in increase in jobs so that the tax bill will pay for itself. The consensus is that the macroeconomic feedback is small even over a 10-year period. In the end, we have to increase taxes to get revenue back or spend less money. In 1986, Ronald Reagan had last comprehensive tax reform, which was revenue neutral at reduced rates and expanded the base. It eliminated several tax breaks. It didn't cause growth, but it was badly needed tax reform. The Tax Cuts and Jobs Act is not a tax reform; it is just tax cuts

In terms of distribution, this year, two-thirds of the benefits will go to the top 20% and one-fifth to the top 1% and 6% of all the benefits go to the bottom 40%. The tax cuts for the middle-lower classes are small and temporary; those affect the rich are big and permanent. Going 10 years forward when all tax cuts expire, the prediction is roughly 18% of the benefits will go to 1%. These tax cuts will increase income and wealth inequality. Hence, the Tax Cuts and Jobs Act do not improve efficiency, is not revenue neutral, and is highly regressive.

The Republicans still control the executive branch, and they still control both houses of congress.   But, they need two seats to take the senate. The tiebreaker is the vice president who is a Republican. It used to be three, but there the Democrat won the special election in Alabama to replace the senate seat vacated by Attorney General Jeff Sessions because the Republican candidate was a child molester. In the judicial branch, Trump has made one appointment that had a lot of support from both parties, but several more justices might retire while Trump is in the office. The Supreme Court is split 4-4 on many votes.

The focus right now is on mid-term elections in November. Normally the party in power loses seats at the mid-term election. Even though he has delivered a lot, Trump is still the most unpopular president after 1 year in office. Prediction is that even though in the senate they only need two seats, it will be difficult for the Democrats to take back the senate.   The senate is a 6-year term, with one-third seats up for election every 2 years. This time 33 seats are up but only 8 of these are held by Republicans and many of them are held by Democrats who could lose their seats. For the Democrats to get 2 seats, they would have to keep all of their current seats and get 2 Republican seats. That's difficult to do. In the House, all 435 seats are up every 2 years, and the Democrats are planning to target districts where Hillary Clinton won. The Democrats think they might be able to take the House back.

However, both parties are fighting inside. The turnout in mid-term elections tends to be low. Also, Trump fired the head of the FBI, and Congress reacted by appointing a

special prosecutor who is investigating Russian interference in the 2016 election and potential obstruction of justice by Trump in firing the FBI director.

In terms of score, we need to think about correlation or causation. First thing is Trump's achievement have been limited in some ways because he doesn't have a budget and a lot of his executive orders and other administrative decrees are being challenged in the courts.   Despite that, he has done a lot, and a lot of these things are difficult to change, especially in the justice department and immigration department. Trump is presiding over a strong economy and so far we don't have any new wars. Tax cuts for the corporations and the wealthy and aggressive deregulation have bolstered business confidence and equity markets. But these economic trends are continuation of Obama post-crisis policies and performance and the picking up of global economy. Conversely, Obama had inherited an economy that had crashed and a global economy that was not doing well.

Nonetheless, it is too soon to assess Trump's impact on the national and global economy. There are a lot of external factors and time lags. The most immediate short-term impact of Trump has been on domestic and foreign perceptions regarding confidence, trust, and certainty. He has been impulsive and inconsistent. The long-term impacts on peace and prosperity are unknowable given Trump's impulsiveness.

There are two important impacts of Trump that are most devastating in long term. First is the impact of his 'faith-based policy' rather than 'evidence-based policy.' Evidence-based policy is informed policy decisions. Trump has jumped directly to his values without any kind of evidence to support his conclusions. Also, there is a slow erosion taking place of American institutional quality. Many of our senior officials are resigning or they have been put into a non-job status without any authority. Furthermore, younger people don't want to join the government. This undermines long-term institutional capacity of the civil service.

In conclusion, Trump has only been 1 year in his presidency and the jury is still out. This is because many of his long-term economic impacts are still unknown. We know the short term impacts in terms of momentum from Obama and the rising global economy.   However, the most surprising result was how much he delivered considering the Congress has blocked most things and many others are stuck in the courts.