

# **Making Trump Great Again: The U.S. Political Economy After the Mid-Term Elections**



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# The Good, The Bad, and The Ugly

## Part I: The Good (Campaign Promises Kept)

- Trumponomics
- Trumpoleemics

## Part II: The Bad (Results of Fulfilled Pledges)

- U.S. economic performance
- Other impacts

## Part III: The Ugly (Current Conflicts & Contradictions)

- Fiscal, monetary, and trade policies
- Immigration, environment, defense, and governance

# Part I: The Good (Campaign Promises Kept)



# Trumponomics

## Lower Taxes: Tax Cuts and Jobs Act (December 2017)

- Reduce individual income tax from 7 to 3 tax brackets with tax rates of 12%, 25%, & 33%:
  - Still 7 brackets, still very complex (or now more complex)
  - Tax rates 10%, 12%, 22%, 24%, 32%, 35%, 37% (vs. 10-39.6%)
  - Doubled standard deduction, repealed personal/dependent exemptions, placed limits on state and local tax deductions
- Reduce corporate tax rate from 35% to 15%
  - Reduced to 21%, 10.5% for income of U.S. foreign subsidiaries
  - 20% deduction for income from pass-through businesses
- Reduce corporate tax on repatriation to 10%
  - One-time 8% tax on unrepatriated foreign earnings
- Repeal estate and gift taxes
  - Top rate of 40% on estates > \$11.2m/\$22.4m (double previous)
  - Tax on endowment investment income of large universities

## Increase Expenditures:

- National defense (e.g., 350-vessel navy fleet)
  - Border security (e.g., “The Wall”)
  - Domestic infrastructure (e.g., \$1 trillion PPP)
- ↑ Defense \$165b, ↑ Non-Def. \$131b FY18-FY19

# Comparing 2017 Law and "Tax Cuts and Jobs Act," 2018



	2017 Law					Tax Cuts and Jobs Act (Conference Committee)				
	Taxable Income (\$)				Tax rate (%)	Taxable Income (\$)				Tax rate (%)
	Single Filers		Married Couples Filing Jointly			Single Filers		Married Couples Filing Jointly		
	Over	But not over	Over	But not over		Over	But not over	Over	But not over	
Individual tax rates	0	9,525	0	19,050	10	0	9,525	0	19,050	10
	9,525	38,700	19,050	77,400	15	9,525	38,700	19,050	77,400	12
	38,700	93,700	77,400	156,150	25	38,700	82,500	77,400	165,000	22
	93,700	195,450	156,150	237,950	28	82,500	157,500	165,000	315,000	24
	195,450	424,950	237,950	424,950	33	157,500	200,000	315,000	400,000	32
	424,950	426,700	424,950	480,050	35	200,000	500,000	400,000	600,000	35
	426,700	and over	480,050	and over	39.6	500,000	and over	600,000	and over	37
Individual alternative minimum tax	AMT exemption equal to \$55,400 (single), \$86,200 (joint); Phases out above \$123,100 (single), \$164,100 (joint);					AMT exemption equal to \$70,300 (single), \$109,400 (joint); Phases out above \$500,000 (single), \$1,000,000 (joint); Individual AMT changes sunset after 2025 <sup>a</sup>				
Standard deduction	\$6,500 (single), \$13,000 (joint), \$9,550 (head of household); Indexed for inflation					\$12,000 (single), \$24,000 (joint), \$18,000 (head of household); Indexed for inflation; Sunsets after 2025 <sup>a</sup>				
Personal and dependent exemptions	\$4,150; Indexed for inflation					Repealed; Sunsets after 2025 <sup>a</sup>				
Child tax credit	Credit equal to \$1,000 per qualifying child under 17; Phases out above \$75,000 (single), \$110,000 (joint); Refundable portion equals 15% of earnings in excess of \$3,000					Credit equal to \$2,000 per qualifying child under 17, \$500 for other dependents; Phases out beginning at \$400,000 for joint filers; Refundable portion equals 15% of earnings in excess of \$2,500 up to \$1,400 per qualifying child; Maximum refundable portion indexed for inflation; Requires Social Security number to claim nonrefundable and refundable portions of \$2,000 child credit; Sunsets after 2025 <sup>a</sup>				
Higher education <sup>b</sup>	American Opportunity Tax Credit; Lifetime Learning Credit; Tuition and Fees Deduction (expired after 2016); Student Loan Interest Deduction					Unchanged				
State and local tax itemized deduction	Real estate, personal property, and either income or sales taxes are deductible					Real estate, personal property, and either income or sales taxes up to \$10,000 (single and joint filers) are deductible; Sunsets after 2025 <sup>a</sup>				
Mortgage interest itemized deduction	Interest payments on up to \$1.1 million of debt (including \$100,000 of home equity debt) are deductible; Applicable to principal and one other residence					Interest payments on up to \$750,000 of new acquisition debt are deductible; Applicable to principal and one other residence; Sunsets after 2025 <sup>a</sup>				
Medical expense itemized deduction	Out-of-pocket medical expenses in excess of 10% of AGI are deductible					Out-of-pocket medical expenses in excess of 7.5% of AGI are deductible in 2017 and 2018; Reverts to current law in 2019				
Overall limit on itemized deductions	Itemized deduction phases out starting at AGI of \$266,700 (single), \$320,000 (joint); Amounts indexed for inflation					Repealed; Sunsets after 2025 <sup>a</sup>				
Top capital gains tax rate	23.8% (20% plus 3.8% Net Investment Income Tax)					Unchanged				

# Comparing 2017 Law and 2018 Tax Cuts and Jobs Act (continued)

Top capital gains tax rate	23.8% (20% plus 3.8% Net Investment Income Tax)	Unchanged
Inflation index	Consumer price index (CPI)	Chain-weighted consumer price index (C-CPI)
Income from pass-through businesses	Taxed at ordinary income rates (maximum rate of 39.6%)	Provides 20% deduction (maximum rate of 29.6%); Deduction limited above \$157,500 (single), \$315,000 (joint) for personal service income and based on compensation paid or investment property; Sunsets after 2025 <sup>a</sup>
Top corporate income tax rate	35%	21%
Corporate alternative minimum tax	Yes	Repealed
New investment purchases	2018: 40% "bonus" depreciation for qualified property; 2019: 30% "bonus" depreciation for qualified property; 2020: 20% "bonus" depreciation for qualified property Small business (Section 179) expensing up to \$500,000	100% "bonus" depreciation for qualified property; Phases down from 100% by 20% per year starting in 2023; Small business (Section 179) expensing up to \$1,000,000
Business interest deduction	Fully deductible (generally)	Disallowed for net interest in excess of 30% of business income (excluding depreciation after 2022); Exemption for businesses with gross receipts of \$25 million or less
Taxation of US multinational companies	Worldwide system with deferral and foreign tax credit	Modified territorial system with base erosion provisions; "Anti-abuse" tax on certain payments to foreign corporations; One-time tax on unrepatriated foreign earnings at 8% (15.5% for liquid assets)
Estate tax	Top rate of 40% on estates above \$5.6 million; \$11.2 million (couples); Amounts indexed for inflation	Top rate of 40% on estates above \$11.2 million; \$22.4 million (couples); Amounts indexed for inflation; Sunsets after 2025 <sup>a</sup>
ACA individual mandate penalty <sup>c</sup>	Individuals without adequate health insurance coverage must pay a tax penalty or claim a coverage exemption.	Repealed

Source: Conference report to accompany H.R. 1, the "Tax Cuts and Jobs Act," December 15, 2017. <http://docs.house.gov/billsthisweek/20171218/CRPT-115HRPT-%20466.pdf>

(a) Provisions revert to current law in 2026. Inflation indexed tax parameters are computed using the chain-weighted consumer price index.

(b) For more information, see <http://www.taxpolicycenter.org/briefing-book/what-tax-incentives-exist-help-families-pay-college>

(c) For more information, see <https://www.irs.gov/affordable-care-act/individuals-and-families/aca-individual-shared-responsibility-provision-calculating-the-payment>

# Trumpenomics (2)

## America-First Trade Policy

- No Trans-Pacific Partnership: **Withdrew**
- Re-negotiate NAFTA: **USMCA**
- China currency manipulator, subject of trade cases: **Trade War**

## Unleash American Energy

- Attain energy independence: **In process**
- Increase coal production and hydraulic fracturing: **No**
- Increase energy production on federal lands: **Permitted**

## Repeal Affordable Care Act

- **Cut enrollment period in half, gutted outreach budget**
- **Repealed ACA individual mandate penalty (in tax bill)**
- **Abandoned protections for pre-existing conditions**
- **Cut subsidies to insurance companies**

## Penny Plan

- Reduce non-defense, non-safety net spending annually by 1% of the previous year's total: **No approved complete budget**
- Total reduction \$1 trillion over ten years: **Tax Cuts and Jobs Act estimated to increase deficit \$1.5 trillion**

→ ***Reaganomics Redux....***

# Trumpoleemics (1)

- Crackdown on immigration (legal and illegal)
  - Increased raids, deportations + sanctuary city retaliation
  - Imposition of selective bans + enhanced vetting
  - Cancellation of DACA (“Dreamers”), temporary protective status (TPS)
  - Restriction of temporary/special work visas (H-1B)
  - Addition of citizenship question to national census
  - No funding for “The Wall”, no comprehensive reform
- Crackdown on criminals
  - Enforcement of federal marijuana laws
  - New law on criminal justice reform (First Step Act)
- Reshaping of judiciary
  - Appointment of two Supreme court justices
  - Many federal court appointments, including 21 appeals court judges
- Rejection of global warming prevention/mitigation
  - Withdrawal from Paris Accord
  - Shrinkage of national monuments
  - Deregulation of greenhouse gases, rescinding of automobile efficiency standards, expansion of offshore drilling, approval of XL pipeline



# Trumpolemics (2)

- Deregulation of financial industry and internet services
  - More lenient Dodd-Frank bank supervision
  - Blocked fiduciary rule for brokers
  - Weakened Consumer Financial Protection Bureau
  - Repeal of net neutrality rules
- Promotion of social conservatism
  - Planned Parenthood targeting domestically, reinstatement and expansion of global “gag rule”
  - Denial of insurance coverage for birth control
  - Banning of transgender people from military, revocation of transgender bathroom guidance in schools
  - Imposition of work requirements for Medicaid, other federal programs
- Protection of predatory for-profit colleges
  - Freezing of student debt relief
  - Weakening of oversight
- America First foreign policy
  - Withdrawal from Iran nuclear weapons pact
  - Opening of Jerusalem embassy, withdrawal from Syria
  - Restrictions in relations with Cuba
  - Engagement with North Korea
  - Tension with allies

# Part II: The Bad (Results of Fulfilled Pledges)

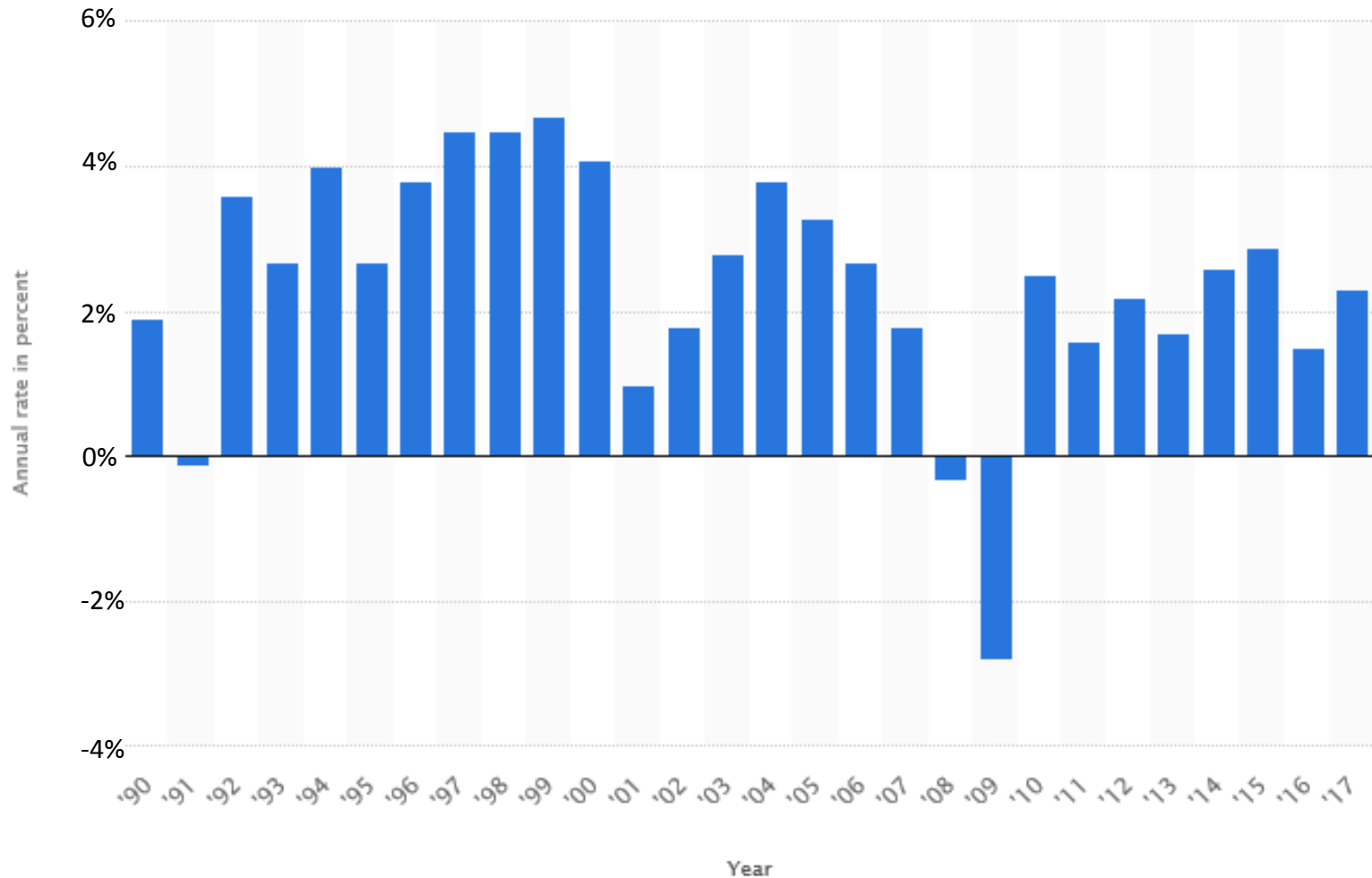


# U.S. Economic Performance (1)

- GDP growth (2018 est.): 3.0% (2.2% in 2017)
  - Trade balance (thru 10/18): -\$503b (-\$552b in 2017)
  - Unemployment Rate (12/18): 3.9% (4.1% in 2017), 18-year low, rate for blacks fell to 6.7% (lowest level since records kept beginning in 1972)
  - Net Nonfarm Payroll Jobs Created (2018): +2.6 m (+2.2 m in 2017), 8<sup>th</sup> straight year of increases > 2 m
  - Positive Net Jobs Created 99 consecutive months, longest expansion on record
  - Real Average Hourly Earnings (Nov. 2018): +0.8% (yoy)
  - Below poverty line (2017): 12.3%, lowest since 2006
  - Urban CPI thru 11/18: 2.2% (2.1% in 2017)
  - Stock markets volatile
- Fear of overheating, inflation with fiscal stimulus

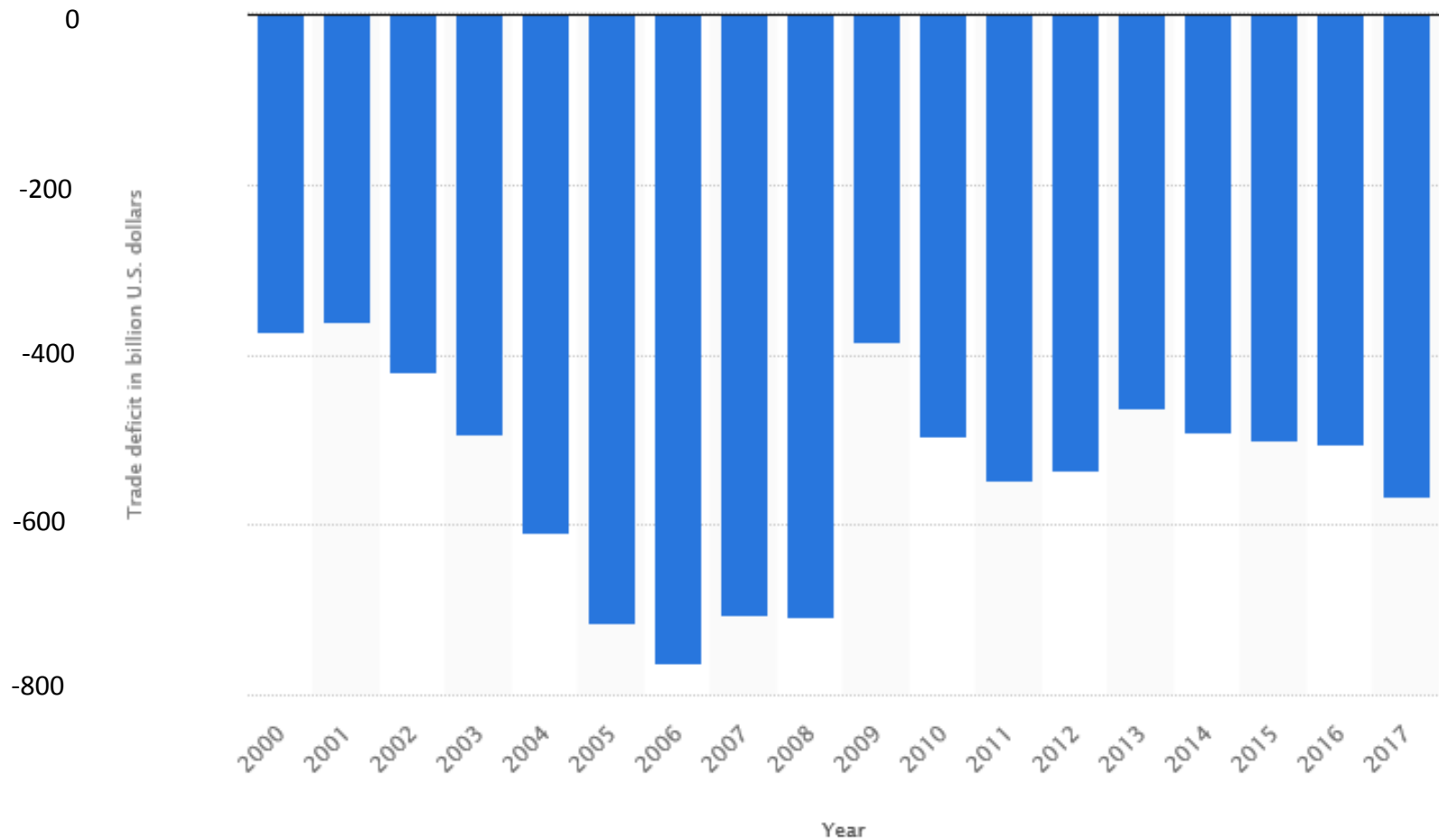
# U.S. Economic Performance (2)

## Real GDP Growth from 1990 to 2017



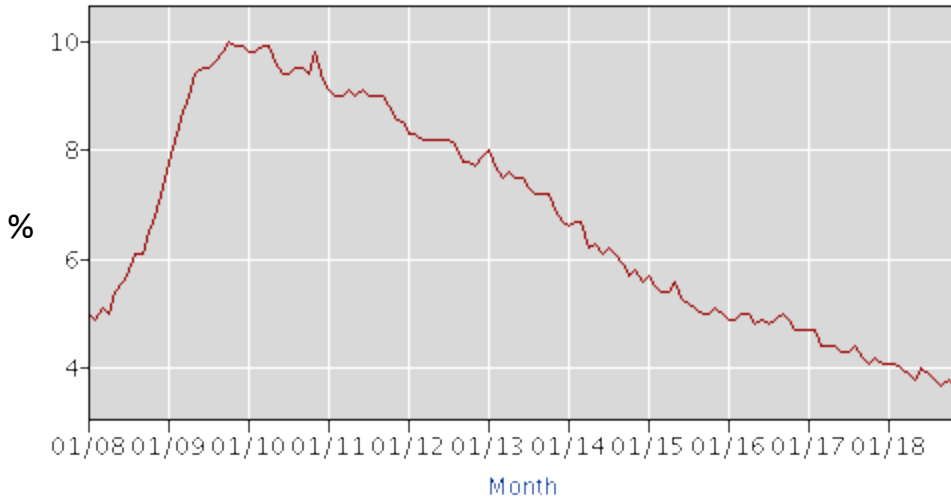
# U.S. Economic Performance (3)

## U.S. Trade Balance from 2000 to 2017

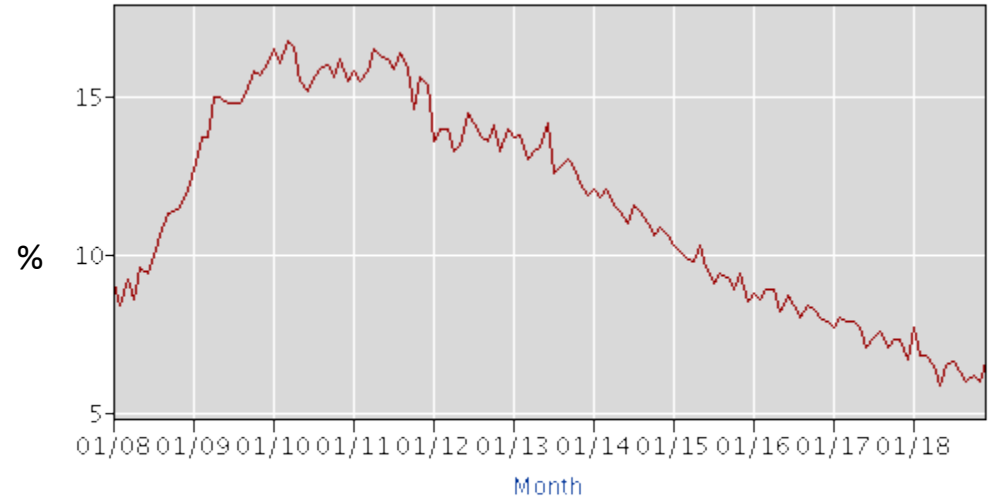


# U.S. Economic Performance (4)

## Unemployment Rate (Total)

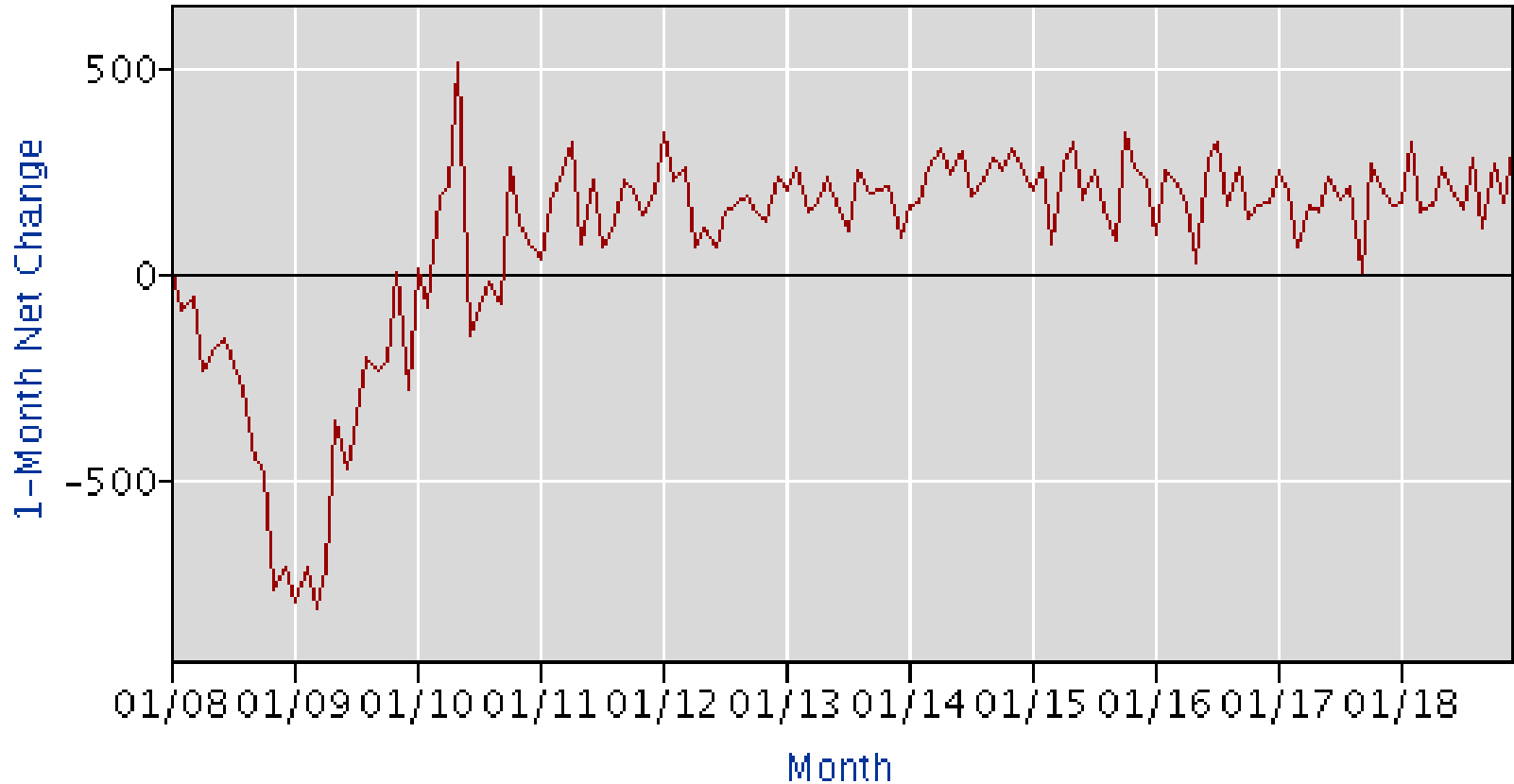


## Unemployment Rate (Blacks)



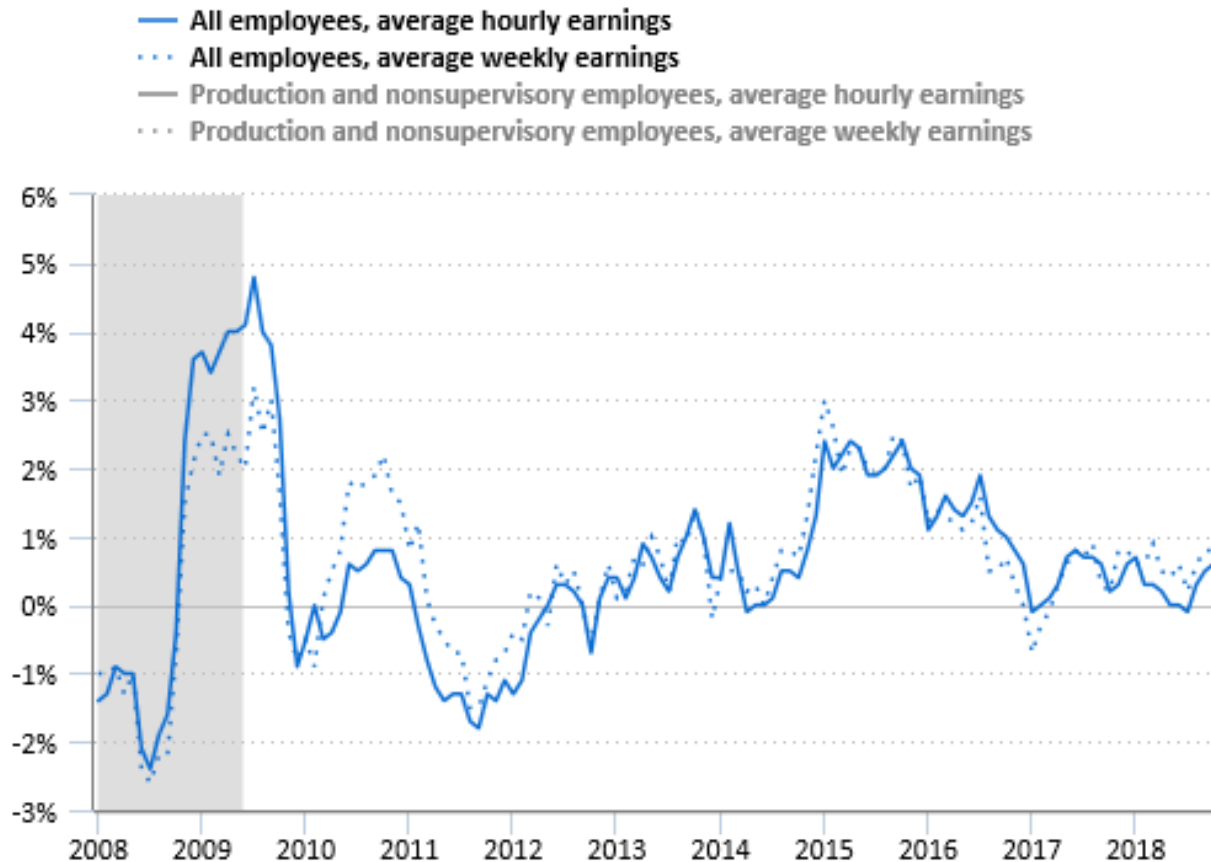
# U.S. Economic Performance (5)

Net Nonfarm Payroll Jobs Created (thousands)



# U.S. Economic Performance (6)

12-month percent change in real average hourly and weekly earnings, private sector employees, seasonally adjusted



Shaded area represents a recession as determined by the National Bureau of Economic Research.  
Click legend items to change data display. Hover over chart to view data.  
Source: U.S. Bureau of Labor Statistics.





# Revenue and Distributional Effects of the Tax Cuts and Jobs Act

- Revenue
  - Increase deficit \$1.5 trillion over 10 years
  - Increase public borrowing, debt/GDP, interest rates
  - Crowd out private borrowing, slow economic growth (stimulus counterproductive at full employment)
  - Require tax increases or expenditure cuts
  - Positive impact on macroeconomic feedback very small
- Distributional
  - Two-thirds of benefits will go to top quintile and one-fifth will go to top 1%
  - 6% of the benefits will go to bottom two quintiles
  - Tax cuts on earned income expire in 10 years

# TCJA Revenue Impact



**TABLE 2**  
**Deficit Effects of Tax Proposals in the Tax Cuts and Jobs Act**  
 Billions of dollars, fiscal years 2018–37

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2018–27	2028–37
<b>Increase in deficit without macroeconomic feedback or interest costs</b>	136	280	259	221	178	138	120	115	41	-33	1,454	-415
<b>Impact of macroeconomic feedback on the deficit without interest costs</b>	-28	-25	-20	-19	-21	-22	-23	-25	-5	1	-186	-3
<b>Increase in deficit with macroeconomic feedback and without interest costs</b>	108	255	239	201	158	116	97	90	36	-32	1,268	-418

**Sources:** Joint Committee on Taxation (JCT) and Urban-Brookings Tax Policy Center (TPC) macroeconomic models.

**Notes:** Estimates without economic feedback for fiscal years 2018–27 are from JCT, *Estimated Budget Effects of the Conference Agreement for H.R. 1, the “Tax Cuts and Jobs Act” (JCX-67-17)*; estimates for fiscal years 2028–37 are TPC calculations based on extensions of JCT estimates. Estimates of impact on the deficit caused by macroeconomic feedback are calculations using TPC’s macroeconomic models.

# TCJA Distributional Impact (1)

Table T17-0311  
 Conference Agreement for H.R. 1, The Tax Cuts and Jobs Act  
 Baseline: Current Law  
 Distribution of Federal Tax Change by Expanded Cash Income Level, 2018 <sup>1</sup>  
 Summary Table

Expanded Cash Income Level (thousands of 2017 dollars) <sup>2</sup>	Tax Units		Percent Change in After-Tax Income <sup>3</sup>	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate <sup>4</sup>	
	Number (thousands)	Percent of Total				Change (%)	Under the Proposal
Less than 10	13,260	7.5	0.1	0.0	-10	-0.1	7.0
10-20	23,850	13.5	0.3	0.4	-50	-0.3	3.2
20-30	22,240	12.6	0.7	1.4	-180	-0.7	4.5
30-40	16,640	9.5	1.1	2.1	-360	-1.0	7.2
40-50	13,220	7.5	1.4	2.6	-570	-1.2	9.5
50-75	24,450	13.9	1.6	7.5	-870	-1.4	12.0
75-100	16,650	9.5	1.8	7.7	-1,310	-1.5	14.2
100-200	30,860	17.5	2.0	24.5	-2,260	-1.6	17.0
200-500	11,640	6.6	2.9	26.9	-6,560	-2.3	20.6
500-1,000	1,530	0.9	4.3	11.4	-21,240	-3.1	24.9
More than 1,000	670	0.4	3.3	16.5	-69,660	-2.2	31.0
All	176,100	100.0	2.2	100.0	-1,610	-1.8	18.1

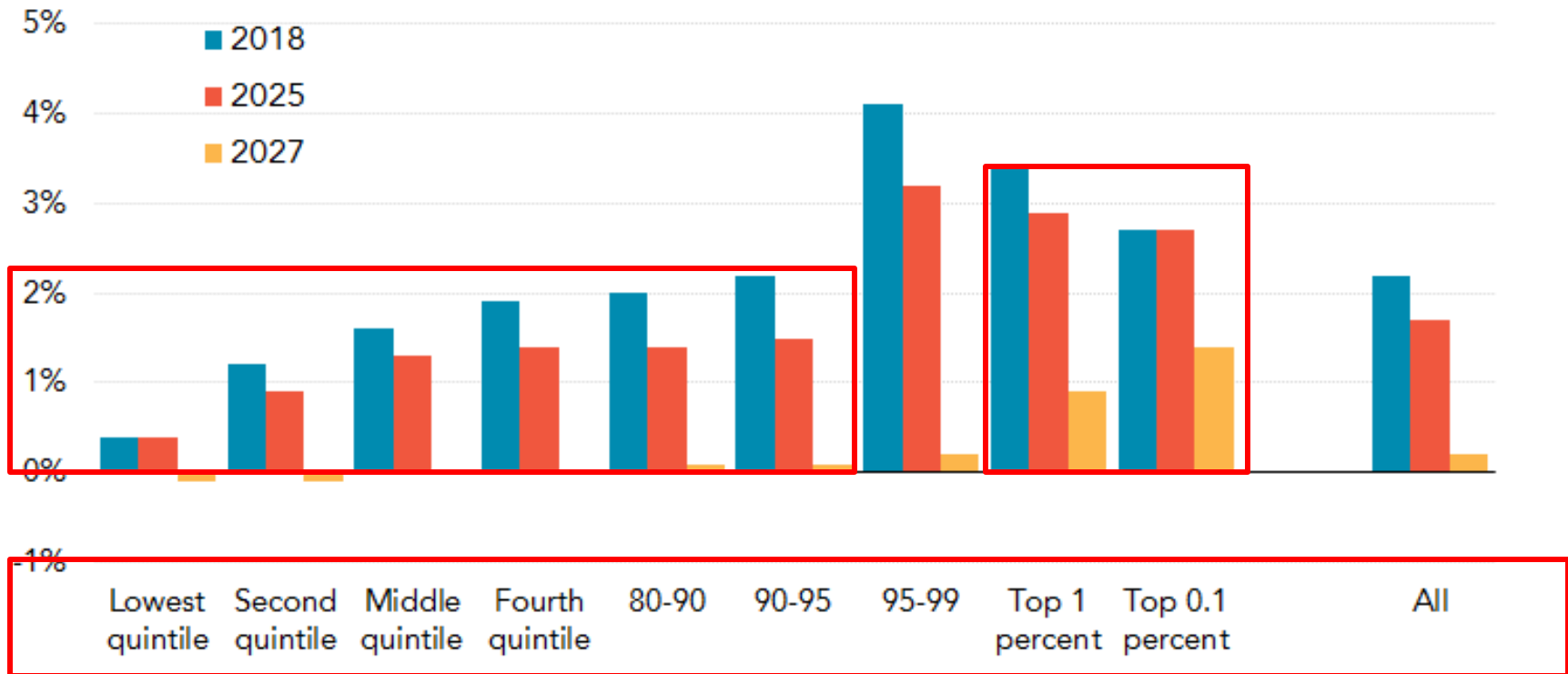
Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1). \* non-zero value rounded to zero; \*\* insufficient data

# TCJA Distributional Impact (2)



FIGURE 1

Percent Change in After-tax Income of the Conference Agreement for the Tax Cuts and Jobs Act  
By expanded cash income percentile, 2018, 2025, and 2027



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0217-1).

# State of U.S. Politics After Mid-Term Elections

- Executive Branch: Still controlled by Republicans (Trump)
  - Legislative Branch: **Split** (Senate Republicans, House Democrats)
    - Senate: 53-47 [**Republicans Gained 2 Seats**]
    - House of Reps: 235-199 [**Democrats Gained 40 Seats, 1 Seat Undecided**]
  - Judicial Branch: Appointments by Republicans
    - **2 Supreme Court appointees [Justices Neil Gorsuch & Brett Kavanaugh]**
    - Maybe additional Supreme Court vacancy (Justice Ruth Bader Ginsberg)
  - Robert Mueller investigation re Russian interference in 2016 election, Trump obstruction of justice
- **Leadership crisis creating gridlock and uncertainty**

# Longer Term Results

- It is too soon to assess Trump's impact on the national and global economy given external factors and time lags
- The most immediate impact of the Trump presidency has been on domestic and foreign perceptions regarding confidence, trust, and certainty
- Long-term impacts on peace and prosperity still unknown, and probably unknowable given Trump's impulsiveness
- A potentially devastating but largely invisible long-term impact of the Trump presidency is a result of the Administration's preference for "faith-based policy" rather than "evidence-based policy"
- This is causing a slow erosion of the quality of American institutions, given the exodus of senior civil servants and lack of enthusiasm of young professionals to enter the civil service

# Part III: The Ugly

## (Current Conflicts & Contradictions)



# Fiscal, Monetary, and Trade Policies

- Fiscal stimulus (tax cuts and expenditure increases) with full employment and rise in real wages has led to fear of overheating and inflation, so Fed has steadily raised interest rate in response, resulting in contradictory fiscal and monetary policies
- Increased interest rates and appreciating USD make exports less competitive and ***increase trade deficit***
- Trade war tariffs on imports, especially manufacturing components, make US businesses less competitive and force relocation overseas
- ***Domestic jobs are being lost***, not gained, in this trade war



# Immigration, Environment, and Defense

- Self-created humanitarian crisis at southern border with Mexico (automatic detention, family separation, catch-and-release)
- No national security emergency requiring The Wall
- ***Government shutdown greater threat to security***
- Negative health and welfare effects of Trump environmental policies ***contravene Administration's own professed regulatory cost-benefit principles***
- Both allies and enemies confused about U.S. foreign policies and strategic objectives
- ***Confusion breeds uncertainty and instability***

# Governance (1)

- Checks and Balances
  - Executive vs. Judicial, independence of judiciary: Trump criticism of Supreme Court, specific federal judges
  - Executive vs. Fed, independence of central bank: Trump criticism of Fed Chairman, Fed monetary policy
  - Executive vs. Legislative, roles and responsibilities for oversight and appropriations: Trump potential obstruction of justice, declaration of national emergency
- Federalism and Subsidiarity
  - 10<sup>th</sup> Amendment to the Constitution: Upward devolution
  - Federal vs. S&L authority: ICE and sanctuary cities, Affordable Care Act and Medicaid

# Governance (2)

- General Election in November 2020
  - Democrats likely to retain control of House of Representatives and take control of Senate
  - Although economic growth is projected to slow down, it is nevertheless expected to be positive
  - Thus Trump could still get reelected if:
    - He remains healthy
    - He does not get impeached and convicted
    - Democrats cannot unite behind strong candidate

