



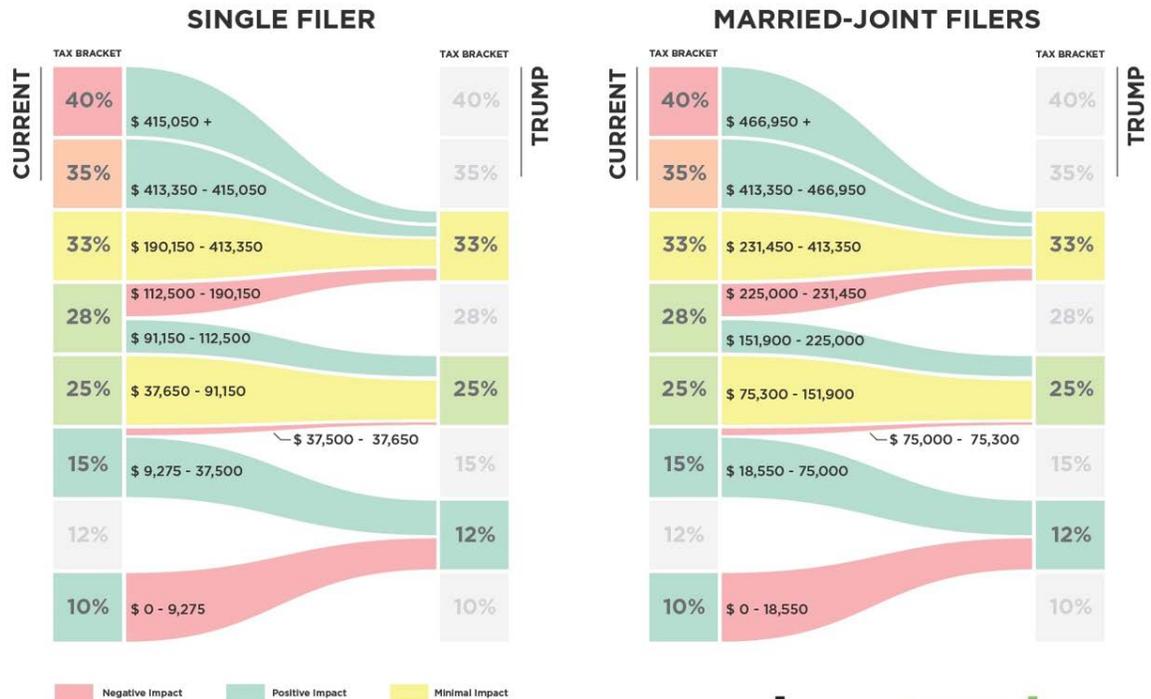
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The “Trump” Card Reality Check Between Politics and Economics

President Trump experienced his first political “reality check” within the first 60 days of taking office. His proposed health care reform bill never made it to a floor vote in the Congress. Rather than addressing possible areas of flexibility and consensus building with the Republican “Freedom Caucus” and the Democratic leadership, Trump tried to twist the arms of politicians from both parties. His autocratic approach was a dismal failure. Lobbyists immediately put the full-court press on all factions of Congress.

Another political challenge for President Trump will be tax reform. If he wants more success this time around, he will have to change his approach to Congress by becoming much more of a consensus builder. Initially, Trump promised a reduction in taxes starting at 12% for individuals and 15% for corporations.¹ Check out the following graph for a visual illustration of Trump’s proposed personal tax changes.



howmuch.net

How Trump’s tax plan could impact you.
Source: howmuch.net

¹ <https://taxfoundation.org/how-do-clinton-and-trumps-tax-plans-compare>

On the corporate tax front, it is expected that President Trump would have to compromise and settle for a 20% or 25% tax rate.

Regardless, the revenue-neutral mandate means that his proposals cannot cause an increase in the federal budget deficit. Among the possible solutions are the limitation of itemized deductions, the elimination of mortgage interest deductibility, and the introduction of border-adjustment tax (BAT). Each of these would meet stern political opposition from negatively impacted industries, particularly from retail and real estate.

Other options include significant spending reductions. Major cuts to the Environmental Protection Agency, the Department of Agriculture and the State Department are now underway, with additional reductions being considered in other governmental agencies.

Economic growth is another campaign promise that may be difficult to keep. Some economists believe tax policy should be changed to allow U.S. companies to repatriate their overseas cash holdings, estimated at \$2.5 trillion.² Mr. Trump has also vigorously promoted the needs and benefits of a massive national infrastructure spending, which, he argues, would make the U.S. achieve a 4% GDP growth. This growth is dependent on several factors, and it is far too early to determine the overall impact.³

Low GDP growth over the course of the past decade has limited per capita income increases. Ned Davis Research’s study has shown that both real disposable income and savings rates have declined significantly since 1970.⁴ Why is this? 1. The continued competition from foreign outsourcing and the increases of technology productivity has limited domestic wage and labor growth. 2. Demographic factors place high demands on entitlement costs. 3. Domestic purchasing power is limited and will not provide all of the desired GDP growth.

Although President Trump has articulated an aggressive economic agenda, his success is constrained by economic reality and perhaps the most politically bifurcated Congress since the Civil War. Political posturing is conflicting with economic needs. President Trump may face the political reality: Congress is really the one who holds the “Trump” card!

“Economic growth is another campaign promise that may be difficult to keep.”

² <http://bit.ly/2otXK7T>

³ <http://brook.gs/2o7NIWi>

⁴ <http://bit.ly/2p7vZTv>