NEWSMAX
INDEPENDENT. AMERICAN.

Trumponomics Differs From Reaganomics

Dr. Edward Yardeni

January 17, 2017

Given that this is Inauguration Week, I asked Melissa to take a close look at comparing Trump to Reagan. There are lots of similarities on the economics front. On the foreign policy front, Reagan was much tougher on the Soviets than Trump has been so far on the Russians.

Melissa focused on the similarities between Reaganomics and Trumponomics:

(1) *Band of brothers*. In a 12/7 interview with the *FT*, Art Laffer, the father of supply-side economics, predicted economic nirvana will result from Trump's tax cuts. By no coincidence, it's Laffer and his close friends that are behind the connection of Reaganomics to Trumponomics. "Reaganomics Band Gets Back Together to Advise Trump on Plan," was the title of a 5/26 Bloomberg article. "Dr. Arthur B. Laffer, Larry Kudlow, Steve Forbes, and Steve Moore, launched CommitteeToUnleashProsperity.com," a 9/30/15 PR Newswire release stated. It's founded on similar principals to Reaganomics, and its executive members are decidedly pro-Trump.

(2) *Tax cuts*. Reagan's Economic Recovery Tax Act of 1981 (a.k.a. the "Kemp-Roth Tax Cut") was an across-the-board 25% reduction in marginal income tax rates over three years. Everyone got tax relief. The top rate fell from 70% to 50%. The Tax Equity and Fiscal Responsibility Act of 1982 (a.k.a. "TEFRA") rescinded some of the effects of the Kemp-Roth Act passed the year before to stem the rapid rise in the federal deficit. The Tax Reform Act of 1986 closed tax loopholes and reduced the number of tax brackets to two--15% for the middle class and 28% for the wealthy. It was one of the biggest rate reductions in American history.

Trump's plan would reduce the number of tax brackets from seven to three, according to his website. Reagan's cuts seemed significantly more dramatic than Trump's are expected to be. Pre-Reagan, the highest marginal tax rate for top earners was 70%, which Reagan slashed to 50% initially and to 28% by 1988. Currently, the top rate stands at practically 40% (i.e., 39.6%), which Trump intends to cut to 33%.

However, Reagan's policies did not significantly reduce the tax burden on higher-income individuals. Nor should Trump's policies. In an article for the 12/4 *Washington Post*, Larry Summers explains that with the rate cuts, Reagan "raised capital-gains rates, scaled back investment incentives, increased corporate tax collections, curtailed shelters, and left estate and gift taxes alone." Trump won't follow exactly the same formula, particularly as it pertains to capital gains (which he plans to retain), corporate taxes (which he plans to lower), and death taxes (which he plans to repeal, with exceptions). But he does plan to eliminate personal exemptions and cap itemized deductions. Trump's Treasury pick Steve Mnuchin told CNBC in an 11/30 interview: "Any reductions we have in upper-income taxes will be offset by less deductions so that there will be no absolute tax cut for the upper class."

(3) *Deregulation.* Pages within the *Federal Register*, the official daily record of government regulations, skyrocketed during the 1970s and peaked at 73,258 during 1980. The page count declined during the Reagan administration to a low of 44,812 in 1986. It began to rise again during the Bush administration. It rose further during the Clinton administration. Now, the count is the highest in history, reaching 80,260 pages in 2015 under Obama.

These data were obtained from the Competitive Enterprise Institute's helpful 7/14 analysis of the use of executive order powers titled "Channeling Reagan by Executive Order: How the Next President Can Begin Rolling Back the Obama Regulation Rampage." It concluded: "The next administration will need to set the momentum for regulatory reform. An executive order like Reagan's Executive Order 12291 is a start." Reagan's EO 12291 imposed a cost-benefit analysis upon agencies setting regulatory priorities.

Its bare bones remain essentially in place today, though Presidents Clinton and Obama modified it with executive orders of their own. A 1/22/11 article in *New Republic* explained: The modifications provided "plenty of wiggle room" to be "exploited by pro-regulatory forces." Unlike Reagan's original order, which simply asked agencies to perform cost-benefit analysis, Clinton's allowed agencies also to take account of "equity." Obama's added that agencies should take account of "human dignity" and "fairness," values that are "difficult or impossible to quantify."

Based on the deregulation themes that Trump carried throughout his campaign, he is likely to leave less room for subjectivity when the benefits of regulation don't quantifiably outweigh the costs. During a town hall in New Hampshire, Trump stated that "70 percent of [federal agency] regulations can go," according to a 10/7 Reuters article. During an online discussion with Reuters earlier in the day, a Trump campaign adviser said: "We need regulation but immediately every agency will be asked to rate the importance of their regulations and we will push to remove 10% of the least important."

(4) *Trade.* The Cato Institute published an eye-opening policy analysis on Reagan and trade back in 1988. It noted: "Calling oneself a free trader is not the same thing as being a free trader. … Instead, a president deserves the title of free trader only if his efforts demonstrate an attempt to remove trade barriers at home and prevent the imposition of new ones. By this standard, the Reagan administration has failed to promote free trade. Ronald Reagan by his actions has become the most protectionist president since Herbert Hoover, the heavyweight champion of protectionists." Now that's very strong language, maybe even too strong. However, the analysis does include several interesting examples where Reagan diverged from his pro-trade mantra.

As a 12/6 article in *Forbes* discussed, Trump might be backing off of several of his extreme antitrade positions taken during his campaign. In other words, calling oneself a fair trader is not the same thing as being a protectionist. But we shall see.