

# Bloomberg

## Trump Touts Old-School Tax Cuts to Return Economy to Glory Days

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Donald Trump has cast himself as the establishment's worst nightmare, but his new economic plan borrows heavily from the traditional Republican playbook in seeking to return the U.S. economy to the pre-crisis days of headier growth.

Many of the measures proposed by Trump in a speech on Monday resemble those backed by House Speaker Paul Ryan and Mitt Romney, the Republican presidential nominee defeated in 2012. Trump is promising the biggest overhaul to the personal income-tax code since Ronald Reagan, as well as a deep cut in the corporate tax rate. He's also pledging to end excessive regulation and lift restrictions on the nation's energy producers.

The question is whether such a plan -- coupled with Trump's anti-trade stance -- can deliver a sustained jolt to an economy mired in the weakest recovery since World War II.

"Initially, the tax cuts would boost growth," said Kathy Bostjancic, head of U.S. macro investor services at Oxford Economics in New York. Yet to pay for the tax reductions, "you're going to have spending cuts, which would hurt the economy. And even though interest rates are quite low right now, if you increase the deficit significantly, that would also put some upward pressure on interest rates."

Trump's proposals in his speech in Detroit included reducing the number of income-tax brackets from seven to three, mirroring a plan by House Republicans; eliminating the carried-interest deduction; limiting business income taxes to 15 percent; repatriating corporate cash from overseas, at a 10 percent tax; and eliminating the estate tax.

He pledged to repeal Obamacare, ease restrictions on energy producers and cut regulations "massively." Trump also said he would let parents fully deduct childcare costs from taxes -- a move that might encourage more people to work.

Unleashing Growth

Former President Ronald Reagan's tax reforms "unleashed years of continued economic growth and job creation," Trump said to the Detroit Economic Club. "We will make America grow again."

The backdrop to Trump's speech, and to the presidential election in general, is a U.S. economy that is struggling to return to pre-recession rates of growth. Increasingly, economists have argued the U.S. and other developed nations are slowed by longer-term forces that smother potential expansion.

Chief among those are the aging of America's population, which decreases the size of the workforce because retirees are outnumbering career starters, and a marked decline in productivity growth that also pre-dates the financial crisis.

Fixes to those problems may take a lot longer to execute than the tax or spending changes that might give short-term bursts to growth by spurring demand. Addressing demographics would require policies that lead to a higher birth rate, or allow for more immigration, the latter of which Trump opposes.

"Outside of trade and infrastructure spending, Trump has been moving in the direction of embracing more elements of GOP economic thinking," said Mark Calabria, director of financial regulation studies at the Cato Institute and a former Republican staffer on Capitol Hill. "This is partly driven by his need to consolidate GOP support."

#### Trade Deals

Trump says he'll withdraw the U.S. from the Trans-Pacific Partnership and renegotiate NAFTA, and he has vowed to slap higher tariffs on goods from China and Mexico. But Trump's policies may hurt U.S. exports, since those countries would probably retaliate with tariff hikes of their own, according to Moody's Analytics.

Trump didn't mention technology or innovation in his vision of how to revive the U.S. economy. America's advanced industries produce \$2.7 trillion in value added annually, equivalent to 17 percent of GDP, according to the Brookings Institution.

Moody's Analytics has previously estimated that Trump's tax cuts would boost business investment. But the benefits would be "overwhelmed" by a sharp increase in the federal deficit, and the higher interest rates that would likely bring, according to a Moody's report released in June. The paper's lead author, Mark Zandi, advised Republican John McCain during the 2008 presidential campaign, but is a registered Democrat and has donated to Clinton's campaign.

The Tax Policy Center estimated in December that an earlier version of Trump's tax plan would lower federal tax revenues by \$9.5 trillion over the next decade. Last week, one of the real-estate developer's economic advisers said the cost has been whittled down to about \$3 trillion.

Then there's Trump's plan to unshackle the energy industry, a move that the nominee said could boost output by \$100 billion a year -- about 0.5 percent of GDP -- and tax revenue by \$6 trillion over four decades. But U.S. suppliers have been cutting production in recent months because of the lingering effects of a steep decline in oil prices, and any increase in supply would make it even tougher for energy companies to profit.

Taken at face value, Trump's policies would cause the economy to slip into a recession in 2018 that wouldn't end until two years later and cost 3.5 million jobs, Moody's said in June.

The conservative Tax Foundation, in contrast, argued last year that the Trump tax plan "would improve incentives to work and invest, which could increase gross domestic product by 11 percent over the long term. This increase in GDP would translate into 6.5 percent higher wages and 5.3 million new full-time equivalent jobs."