



## Why Trump's economic policy would be disastrous

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August 8, 2016

The economic plan that Donald Trump presented on Monday in Detroit, while light on details, provides a good glimpse into what the nation can expect from a Trump presidency. Though the plan had a few noteworthy ideas, it misfired on issues ranging from tax reduction and reform to regulatory reform and trade policy.

The plan promises across-the-board tax reduction, aimed mainly at middle-class Americans. Reductions in marginal tax rates can spur economic activity, but unless the tax cuts improve the incentives to work and save, they are at best mildly beneficial in the short run and detrimental in the long run.

In particular, Trump proposes allowing parents to deduct the average cost of child care from their annual taxes. This incentivizes more children and spending -- the opposite of good reform. Policy distorts incentives when it takes a stand on the number of children or the kind of spending; it should remain neutral about these decisions.

Trump also called for tax simplification, such as reducing the number of existing tax brackets. This is fine as far as it goes, but in an era of H&R Block and TurboTax, it's a trivial simplification. True improvement means elimination of the code's myriad exemptions, deductions, credits and other features that favor particular types of income or activity. Trump's plan so far provides no such examples.

At the same time, Trump promises a lower tax rate on business income and full expensing of investment. This is all for the better. Lower taxation encourages businesses to locate domestically, and full expensing allows a simpler corporate tax code. The lower rate does mean a higher deficit, but by a modest amount, given the additional business activity that will occur in the United States.

Concern that lower business taxation helps the rich is misplaced. By keeping jobs in the country, a lower rate mainly benefits the working class because they are less likely to see their jobs shipped overseas.

Another welcome Trump proposal is the repeal of the estate tax. The estate tax punishes saving by imposing more taxes on frugal families that accumulate large estates rather than spend most of their income. Once again, that is the opposite of what would happen in a well-designed system.

On regulatory reform, Trump's proposals are headed in the right direction but unlikely to have much impact. A moratorium on new regulations will simply generate a bump in regulations once the moratorium ends. A directive to regulatory agencies to identify misguided regulations will mainly generate feel good suggestions that never materialize. Trump's claims about regulatory overkill are also likely exaggerated.

Regardless, Trump would have to target specific agencies and regulations if he wants to make a real difference.

One specific area Trump mentioned for regulatory reform is energy. The energy sector has an insane number of mandates, taxes, subsidies and other policies that pick winners and losers in the fossil fuel and green energy industries. Removing that interference would tremendously boost the efficiency of our energy sector by letting market forces determine which energy products succeed in the marketplace. However, Trump's plan falls short, addressing regulations that target coal, rather than also criticizing policies that subsidize fossil fuels.

Worse yet, Trump's plans for trade policy are hopelessly misguided. He believes that trade kills jobs, an idea not supported by the evidence. Free trade means that all of a country's citizens are employed in their most productive jobs and sectors, maximizing the size of the economic pie for everyone.

And Trump's proposals on trade are particularly dangerous because some sound "reasonable" at first glance. He suggests, for example, that we impose tariffs on countries that "cheat" by subsidizing exports. Yet every country cheats in this way, including the United States. So this "sensible" departure from free trade is an excuse to impose tariffs widely, often at the urging of crony capitalists who stand to benefit.

Beyond all this, one glaring absence in Trump's plan is any mention of entitlement spending. Every serious analysis of the U.S. fiscal situation finds that without substantial reductions in Medicare, Medicaid, Obamacare and Social Security, the United States is on a path to becoming Greece. Any plan that does not address this issue ignores the elephant in the room.

Taken as a whole, Trump's economic plan is disastrous. Large tax cuts without even larger spending reductions mean explosive deficits and debt. Massive interference with free trade means a far less productive economy. The few sensible elements -- tax reform and regulatory reform -- cannot plausibly undo the damage of the other proposals.

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