The Implications of President-Elect Trump for the U.S. Economy

Laurence Kotlikoff

Professor of Economics, Boston University
Economic & Fiscal Background
Slow Job Recovery

Employment-Population (E/P) Ratio vs. Estimated E/P Ratio


http://libertystreeteconomics.newyorkfed.org/2014/02/a-mis-leading-labor-market-indicator.html#.VewmqtNViko
Declining Median Household Income Despite Ongoing Labor Productivity Growth
U.S. Real Wage Stagnation, 1965-2013

237 * Average Hourly Earnings of Production and Nonsupervisory Employees: Total Private / Consumer Price Index for All Urban Consumers: All Items

Shaded areas indicate US recessions - 2014 research.stlouisfed.org
Declining Net National Saving and Net Domestic Investment Rates, 1950-2014
Who is Doing All the Spending?

Relative Consumption Per Capita by Age, 1960, 1981 and 2007

Source: US National Transfer Accounts, Lee and Donehower, 2011
U.S. Social Security, Medicare, and Medicaid Benefits

 Payments to Elderly as Share of GDP

[Bar chart showing the increase in payments to elderly as a share of GDP from 1975 to 2025.]
The Fiscal Gap

Present Value of
Future Expenditures Net of Future Receipts
Fiscal Gap Accounting ...

Puts Everything On the Books
The 2016 U.S. Fiscal Gap is $206 Trillion

(Calculation by UC Berkeley Economist, Alan Auerbach)
## Eliminating the Fiscal Gap

Percentage Across-the-Board Federal Tax Hikes or Non Debt-Related Spending Cuts Needed to Eliminate Fiscal Gap Starting in Specified Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage Tax Hike</th>
<th>Percentage Spending Cut</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>52.9</td>
<td>35.3</td>
</tr>
<tr>
<td>2025</td>
<td>58.0</td>
<td>37.8</td>
</tr>
<tr>
<td>2035</td>
<td>63.3</td>
<td>40.4</td>
</tr>
<tr>
<td>2045</td>
<td>69.0</td>
<td>43.5</td>
</tr>
</tbody>
</table>
The U.S. Is Printing Vast Amounts of Money to Pay Its Bills
Could We Have Major Inflation?

\[ M \times V = P \times Y \]

Since 2007, M (measured by M1) has increased by 123 percent, P has risen 17 percent, Y has risen by 9 percent, and V has fallen by 57 percent.

\[ M = m \times MB \]

m is the money multiplier. In 2007 it was 1.40. Now it’s 0.76.
Global Financial System

• Remains Extremely Fragile

• It Was Built to Fail

• It Was Rebuilt to Fail – Arguably Faster

• Core Problems Remain – Opacity and Leverage
The President-Elect’s Tax Reform

• If Passed as Proposed, Top Bracket Will Be 15%
• Highly Regressive, If Passed as Proposed
• Corporate Tax Reduction Makes Good Sense
• Overall, Will Blow a Hole In Official Deficit
• Superrich Don’t Pay Now & Won’t Pay Under Trump
My Tax Reform

• Eliminate Corp and Personal Income Taxes
• Eliminate Estate and Gift Tax
• Eliminate Ceiling on FICA Tax
• Adopt a 20 Percent Value Added Tax
• Adopt a 20 Percent Tax on Inheritances Above $5 million
• Adopt a Progressive Personal Consumption Tax on Those Consuming More Than $100,000
• Adopt an $80 Per Cubic Ton of Co2 Emissions Carbon Tax
• Provide a $2000 Payment Per Person Independent of Income
Social Security

• Social Security’s Fiscal Gap is $32.1 Trillion
• Social Security is 32 Percent Underfunded
• Detroit’s Pensions Were 20 Percent Underfunded
• Social Security Needs an Immediate & Permanent 4 Cent Per Dollar Tax Hike
• Rest of Fiscal System is 53 Percent Underfunded, It Can’t Bail SS Out
• The Longer We Wait, the Bigger the Burden On Our Children
• Social Security’s Fiscal Gap Rose by $6,000 Between Last Year and This Year
• This Is More than 10 Times Official Deficit
The President-Elect’s Social Security Policy

“It's my intention to leave Social Security the way it is. Not increase the age and to leave it as is.”
My Social Security Policy

• The Personal Security Account System
• Freeze Existing Social Security System
• Pay Off All Accrued Benefits to Current Retirees and Current Workers When They Retire
• Require 10 Percent Contribution to Personal Security Accounts
• Government Makes Matching Contributions On Behalf of Poor, Disabled, and Unemployed
• Contributions Are Split 50-50 Between Spouses
• Account Balances Invested in Global Market-Weighted Index of Equity, Bonds, & Real Estate
• Between Ages 57 and 67 Each Cohort’s Balances Are Gradually Sold Off and Invested In TIPS
• TIPS Used to Pay Inflation-Indexed Annuities to PSA Holders in Proportion to their Balances
The President-Elect’s Banking Policy

• “The Financial Choice Act”

• Eliminate Financial Stability Oversight Commission

• Emasculate Consumer Financial Protection Bureau

• Let Banks With 10 Percent Capital Ratios Avoid Regulation

• Lehman Had 11 Percent Capital Ration 3 Days Before Going Bust

• No Enhanced Disclosure Requirements

• Prohibit Designation of Banks as Systemically Risky Institutions

• Permit Big Banks To Go Bankrupt
My Banking Policy

• Limited Purpose Banking
• All Banks Become Mutual Fund Holding Companies
• Mutual Funds Are 100 Percent Equity Financed
• A Government Agency Fully Discloses Fund Assets In Real Time
• Derivatives Are Run Through Closed-End Parimutuel Funds
• Cash Mutual Funds Used For the Payment System
• Banking System Has Zero Debt and Can Never Fail
• Banking System Is Fully Transparent
The President-Elect’s Healthcare Reform

• Kill Obamacare By Eliminating Employer and Individual Mandates
• Provide Tax Credits
• Let Insurance Companies Cherry Pick Based on Pre-Existing Conditions
• Establish State Insurance Pools for the Uninsurable
• Expand HSAs, i.e., Induce/Force People to Self Insure
My Healthcare Reform

• The Purple Healthcare Plan
• Eliminate Medicare, Medicaid, Obamacare & Employer-Based Healthcare
• Provide Each American With an Individual-Specific Voucher to Buy the Uniform Basic Policy
• Those With Pre-Existing Conditions Get Larger Vouchers
• Panel of Doctors Sets Coverages Under Basic Plan
• Cost of Vouchers Never Exceeds 7% of GDP
• Vouchers Are Paid For By Tax System
• No Insurer Can Turn Anyone Away, But None Will Wish To
• People Are Free to Purchase Supplemental Policies
Bottom Line On Trump Economics

• Massive Deficits
• High Inflation
• High Interest Rates
• U.S. Fiscal Gap Dramatically Worsens
• No Social Security Reform
• Healthcare “Reform” Dramatically Increases Number of Uninsured
• Banking “Reform” Leaves U.S. At Worse Risk of Another Financial Meltdown
• Tax “Reform” Is Fiscally Irresponsible and Highly Regressive
Economists Have Answers

You’re Hired!
A Trump Playbook for Fixing America’s Economy

www.kotlikoff.net