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Darla Moore School of Business

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

Laurence Kotlikoff

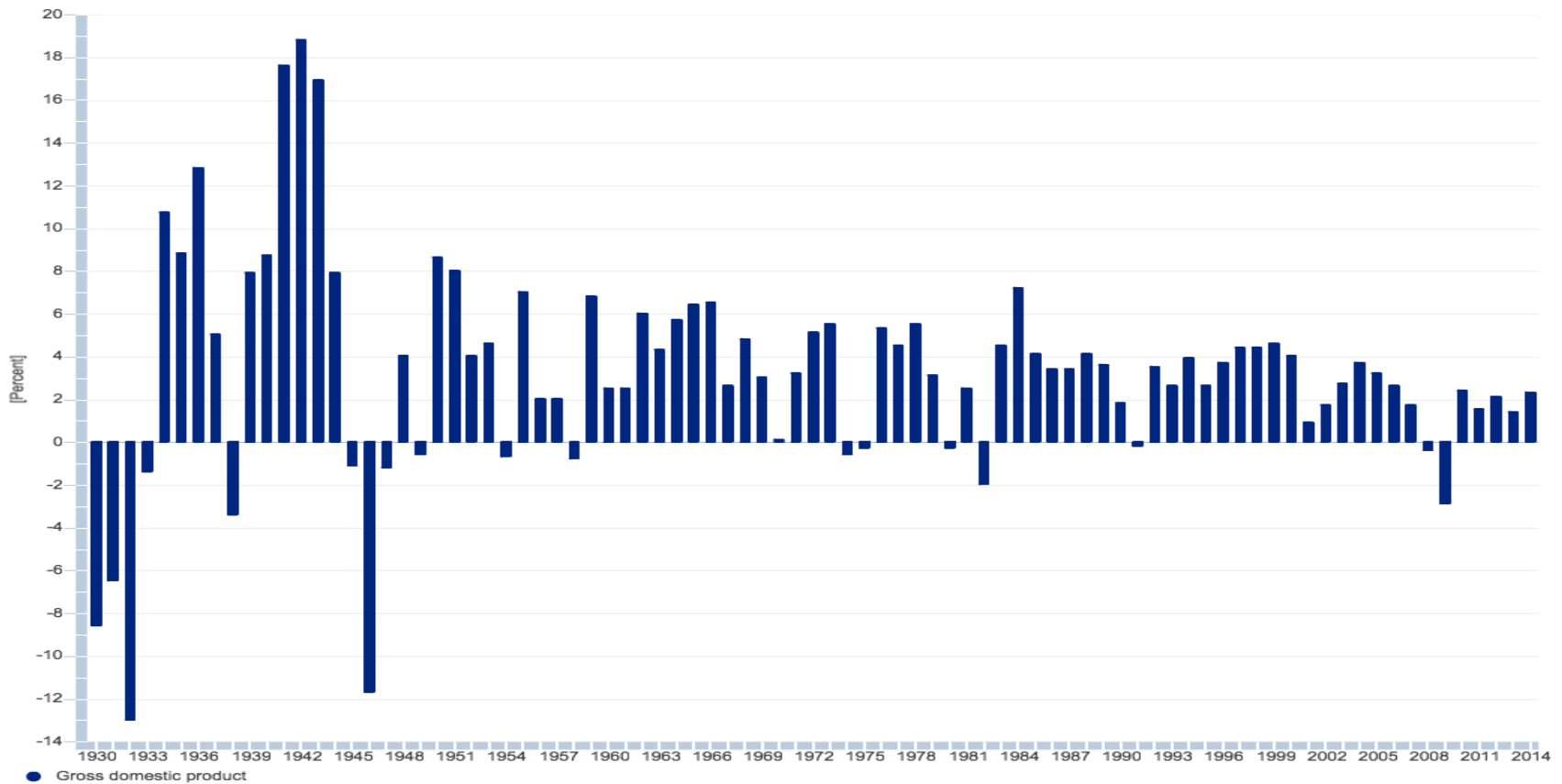
Professor of Economics, Boston University

# Economic & Fiscal Background

# U.S. GDP Growth, 1930-1914

Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product

Last Revised on: August 27, 2015 - Next Release Date September 25, 2015

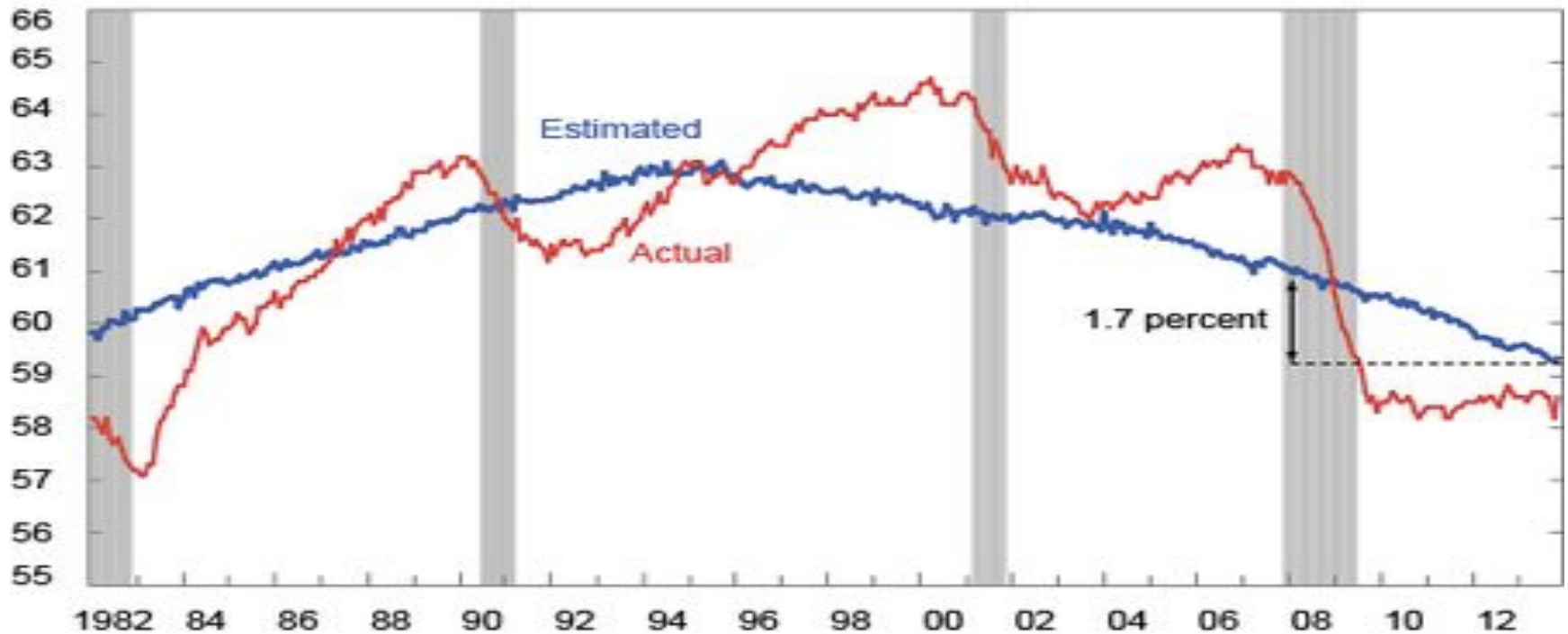


Source: U.S. Bureau of Economic Analysis

# Slow Job Recovery

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

Percent

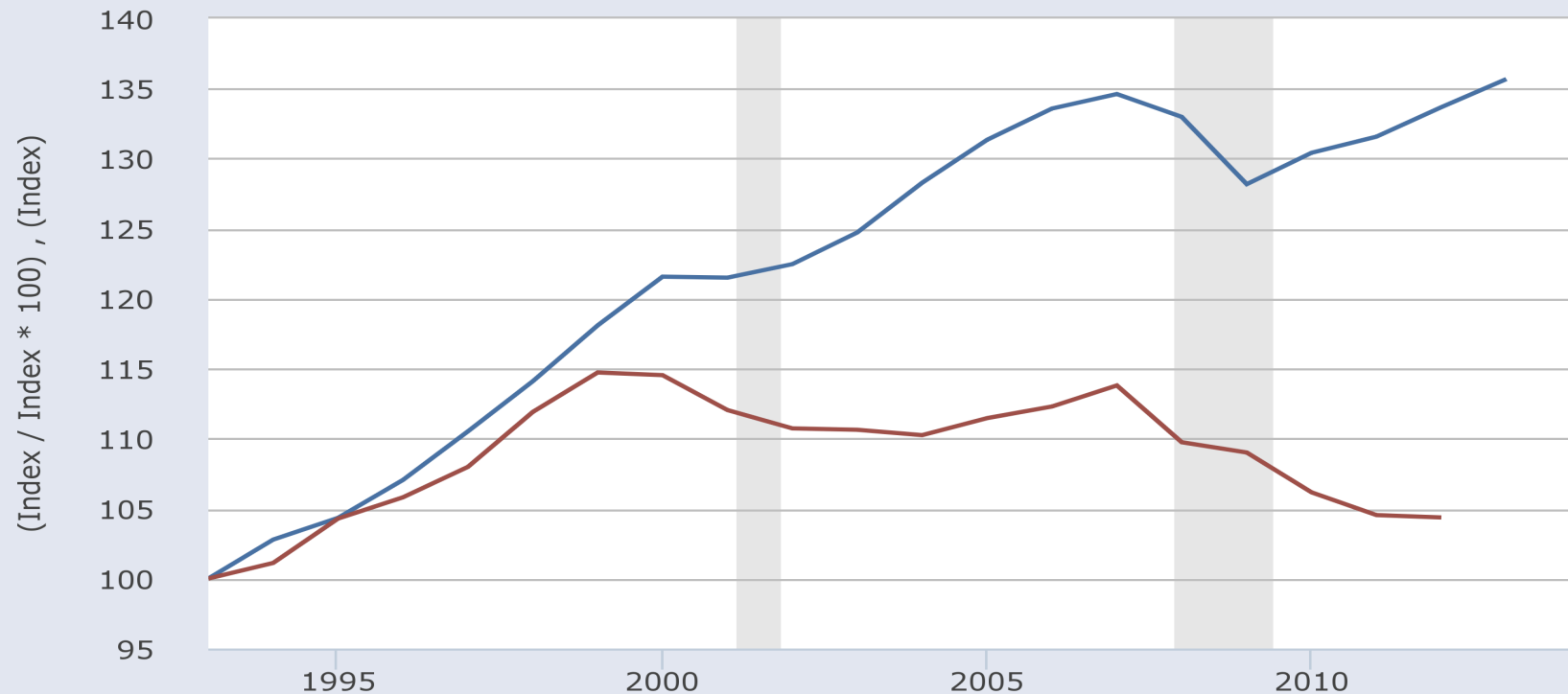


Source: Current Population Survey (CPS).

# Declining Median Household Income Despite Ongoing Labor Productivity Growth



- Real Gross Domestic Product, 1993=100 / Total Population: All Ages including Armed Forces Overseas, 1993=100 \* 100
- Real Median Household Income in the United States, 1993=100

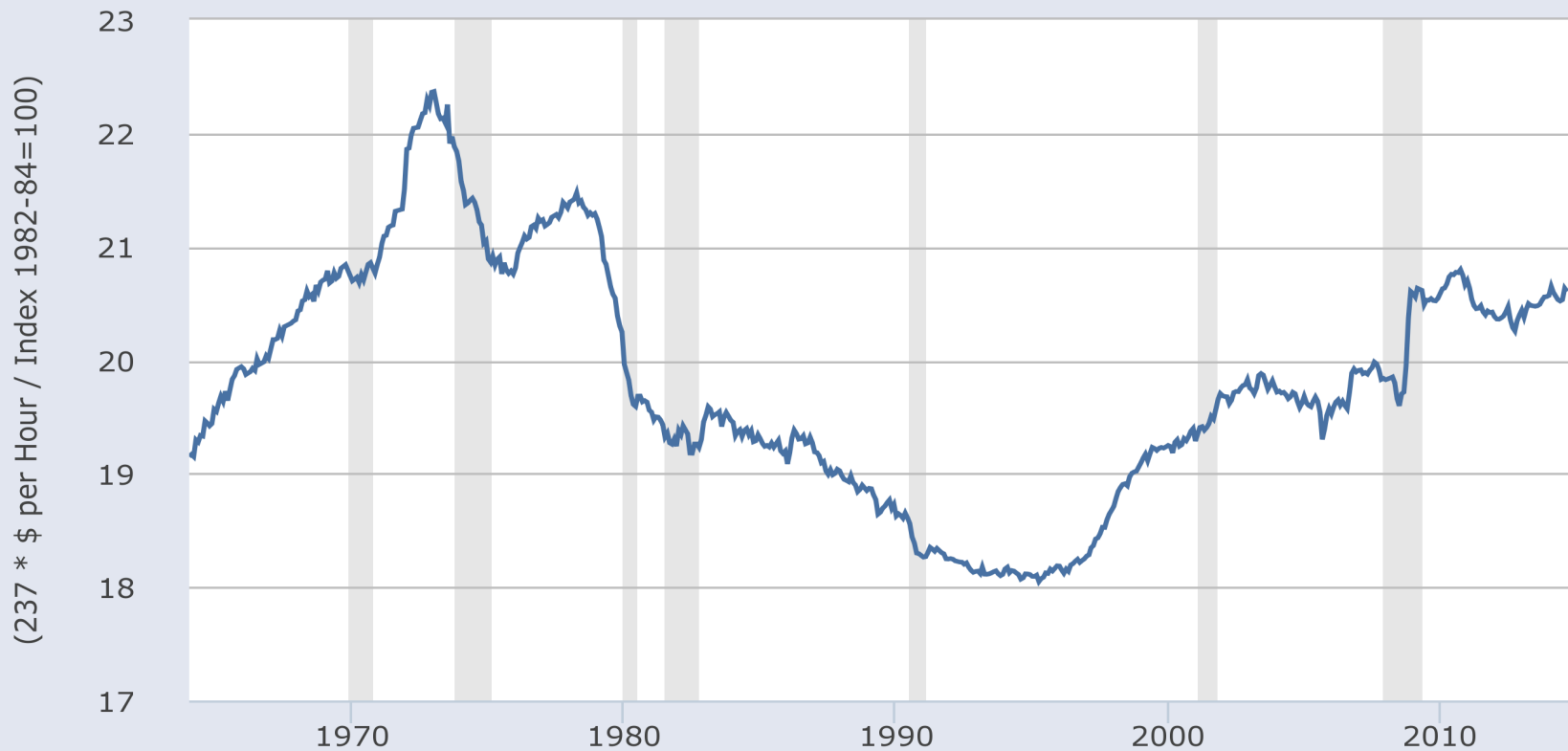


Shaded areas indicate US recessions - 2014 research.stlouisfed.org

# U.S. Real Wage Stagnation, 1965-2013

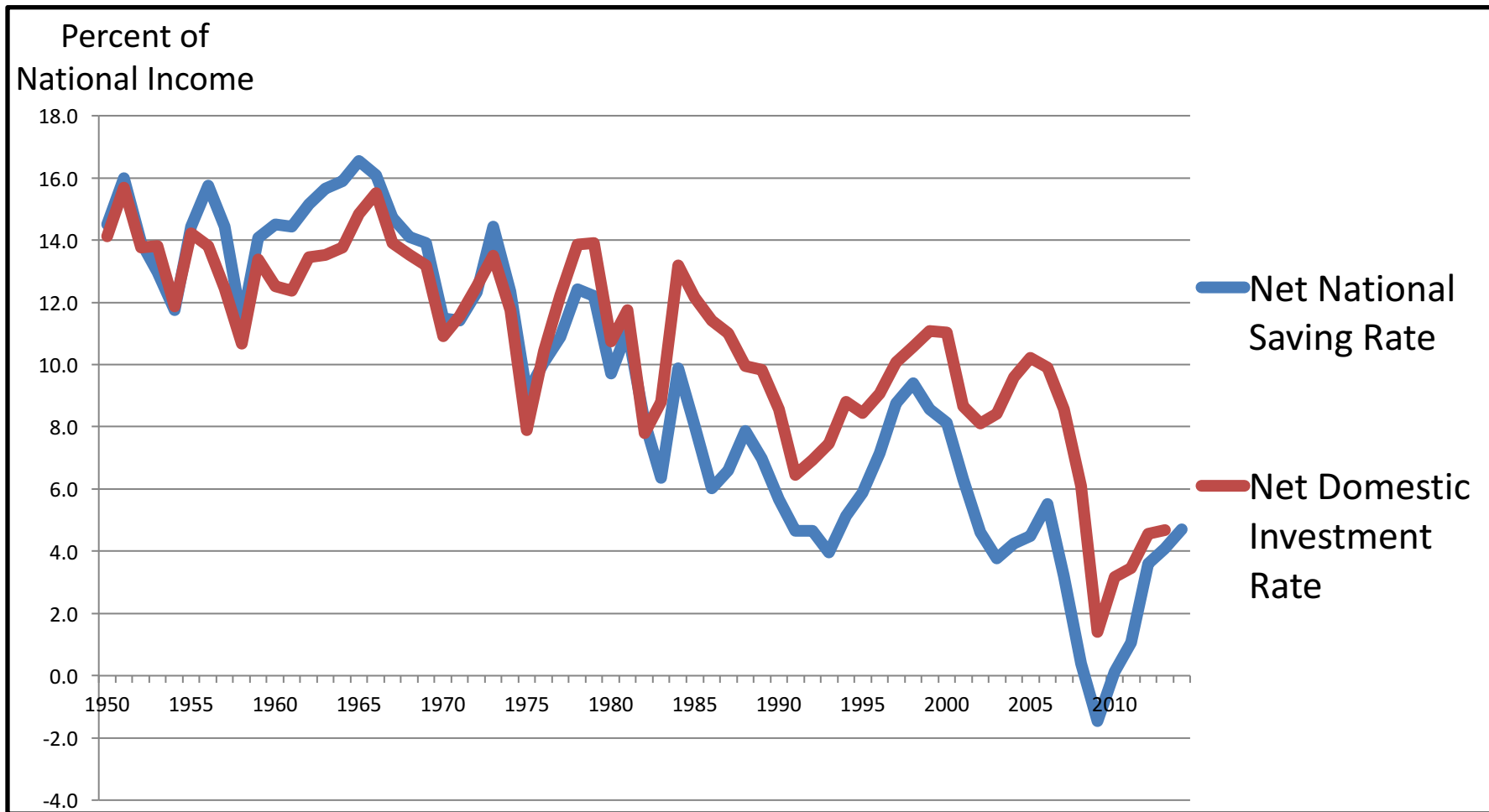


— 237 \* Average Hourly Earnings of Production and Nonsupervisory Employees: Total Private / Consumer Price Index for All Urban Consumers: All Items



Shaded areas indicate US recessions - 2014 [research.stlouisfed.org](http://research.stlouisfed.org)

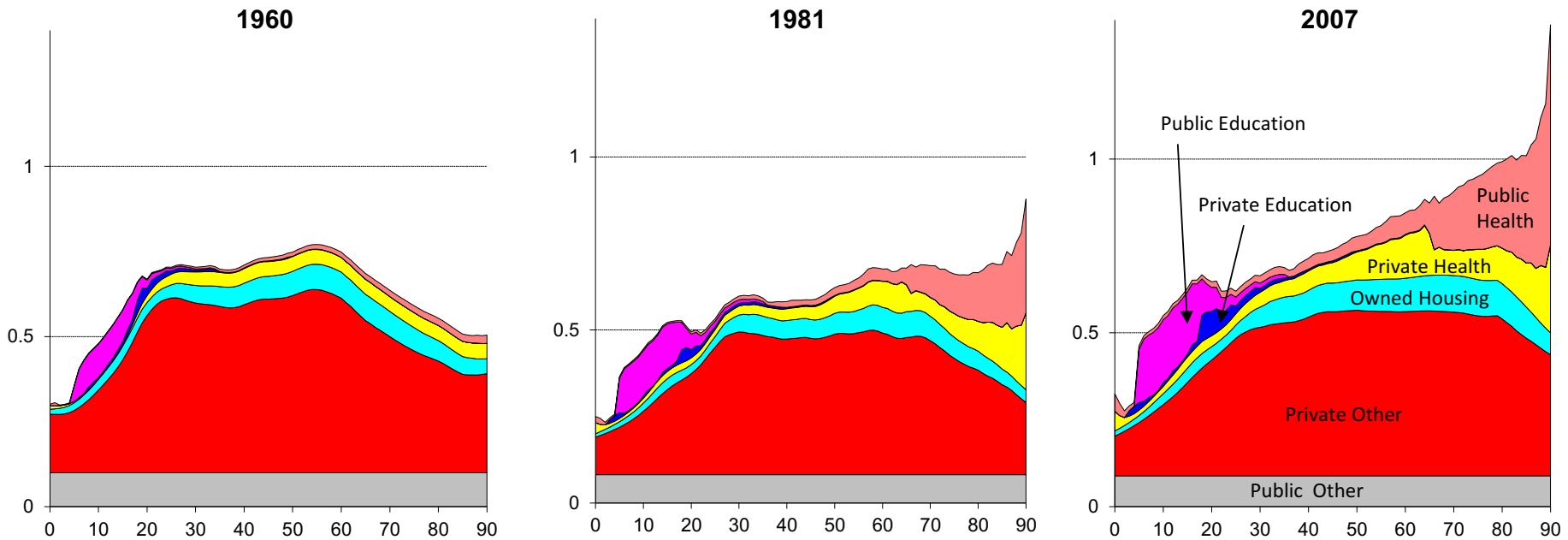
# Declining Net National Saving and Net Domestic Investment Rates, 1950-2014





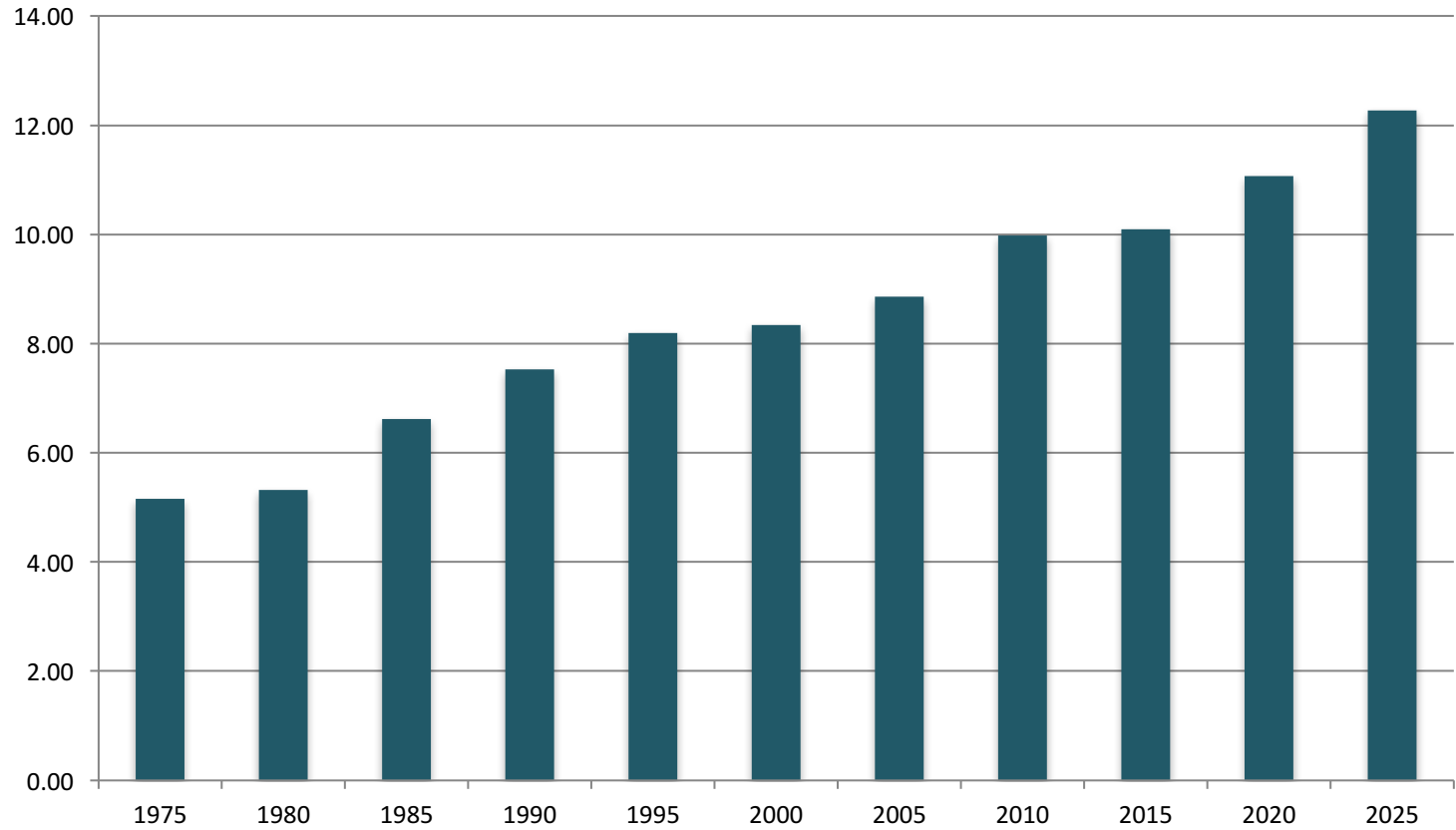
# Who is Doing All the Spending?

## 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



# 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**

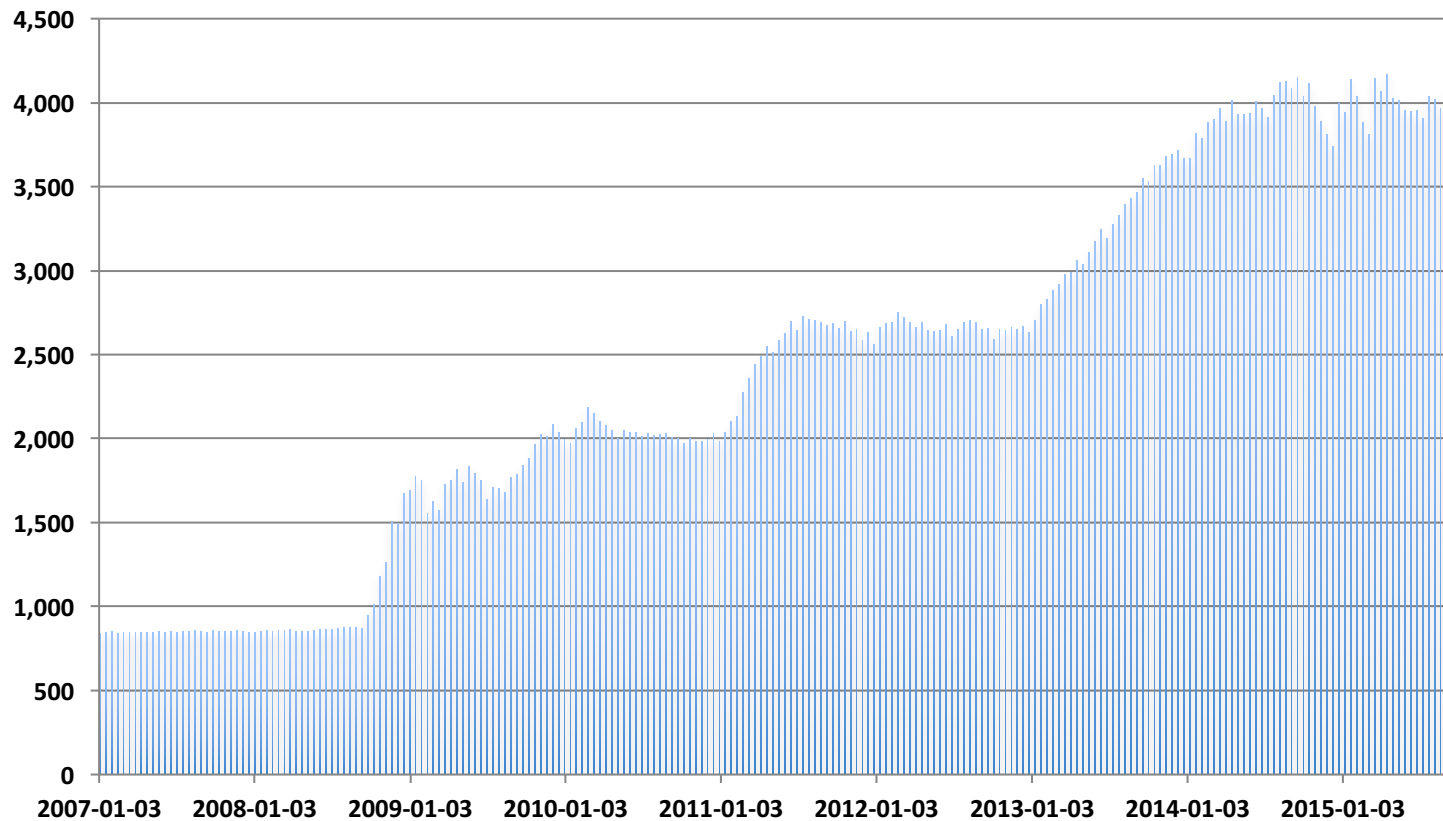
(Calculation by UC Berkeley Economist, Alan Auerbach)

# 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

Year	Percentage Tax Hike	Percentage Spending Cut
2015	52.9	35.3
2025	58.0	37.8
2035	63.3	40.4
2045	69.0	43.5

# 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 Ratio 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](http://www.kotlikoff.net)



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