2. Trickle-up Economics. Trump, Growth, and Inequality*

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I was out at Mar-a-Lago in Palm Beach[and] the president was there...
He said, "Hey, Stephen, isn't this tax cut the most unbelievable thing?"
He's a very cheerful guy. I just said,
"Mr. President, this stuff is working even better we thought it would".
I just said to him, I knew it was going to help growth,
but I didn't think we'd get to 4% so quickly.
He just turned to me with a big smile, he said,
"Stephen, you ain't seen nothing yet".

Stephen Moore, Economic Advisor to Donald Trump, 3 August 2018

Continuity and Rupture between Obama and Trump

On 4 February 2020, Donald Trump opened his State of the Union Address with a description of what he called "the great American comeback". As he told the audience, "Jobs are booming, incomes are soaring, poverty is plummeting, crime is falling, confidence is surging, and our country is thriving and highly respected again. (Applause)". Then Covid-19 hit America. In just one month, the unemployment rate more than tripled, from 4.4% in March to 14.7% in April, while the GDP fell by 5 percentage points.[1]

* I am grateful to Raffaella Baritono, Mario Del Pero, Nando Fasce, Ilene Grabel and Robert Wade for comments on a previous version of this article.

[1] Unemployment rate series, seasonally adjusted, Series Id: LNS14000000, U.S.

Obviously, the pandemic affected international trade and national economies all over the world. But to consider it simply an act of God or an exogenous shock in the face of which governments of every stripe have struggled and capitulated in the same way would be grossly misleading. In fact, the massive public health and economic emergency that swept the United States after China and Europe shone a spotlight on several deeply problematic characteristics of American economy and society. In this sense, the pandemic functioned as a stress test not only for the country as an interconnected system – something that evolves alongside the successions of administrations, though obviously it is also influenced by them – but for specific policies that the Trump administration has enforced in the past three years. The results are at odds with the bombastic propaganda of Trump and his constituency.

During the first three years of the Trump administration, the US economy grew steadily, and the unemployment rate fell to levels unseen since 1969. In the fall of 2019 and the early winter of 2020, it remained between 3.5 and 3.6%, a level that most economists consider to be virtually full employment.[2] Donald Trump was swift in crediting the boon to his deregulatory policies, tax cuts, industrial protectionism and trade wars.[3] It should be noted, however, that the complementary trends of rising production and decreasing unemployment had begun much earlier than 2017. The economic results of the Trump

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Bureau of Labor Statistics, https://data.bls.gov/pdq/SurveyOutputServlet; National Income and Product Accounts, Table 1.1.1. - Percent Change from Preceding Period in Real Gross Domestic Product, seasonally adjusted at annual rates, U.S. Bureau of Economic Analysis, https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey

[2] Unemployment rate series, seasonally adjusted, Series Id: LNS14000000, U.S. Bureau of Labor Statistics…, cit.

[3] Likewise, Trump has heralded the positive performance of the US stock market as proof of his success, though the causal link remains obscure. A more convincing explanation can be found in the overrepresentation of tech-heavy firms (which have benefited from the Covid crisis) in the stock market, as well as in the concentrated nature of stock ownership in the US.

administration, in fact, continued in the footsteps of the Obama administration. Moreover, as we will show below, there are serious reasons to consider the new policies of the Trump administration to be harmful for the US economy and the wellbeing of American citizens.

What's more, the continuity between the Obama and Trump administrations is visible in another, deeply negative aspect of the current US economy – and more generally of the social landscape – that has been widely debated in recent years, namely increasing inequality. While it's true that inequality in the age of Trump is the last chapter, for now, of a story that began much earlier, it must be noted that the Trump administration took initiatives that have worsened an already dire situation. The introduction of the Tax Cuts and Job Act in November 2017 and the several attempts at repealing and hindering the functioning of the Affordable Care Act, commonly known as Obamacare, contributed to increasingly skewed income, health, and racial disparities. Trump prided himself on these initiatives in the 2020 State of the Union, but two outcomes are crystal clear to all: fewer people will have access to health insurance than before, and the federal and state governments will have still fewer resources for basic welfare services. What's more, since the pandemic hit, lack of health insurance has arguably meant the difference between life and death for many.

It's well known that inequality is a complex and multifaceted phenomenon. Income and wealth inequality go hand in hand with inequalities in other dimensions such as health, as we have seen, but also education, gender rights, knowledge and information, access to services, participation in the public discourse, and race. These inequalities are growing and will continue to worsen because of the Trump policies. The Covid pandemic works as a magnifier of many of these inequalities, especially the racial divide that still haunts the United States.

Not Three but Ten Years of Economic Growth

The first three years of Donald Trump's presidency have witnessed constant economic growth and the fall of the unemployment rate, taking by surprise those observers who expected the unpredictable and wavering character of the decision-making process of the new administration to be a dubious basis for reassuring markets, investors and economic interests at large. The erratic character of the head of the administration, his costant Twitter outbursts, and his international trade war escalations made many projections decidedly bleak. And yet, in 2017, 2018, and 2019 real GDP grew by 2.4, 2.9, and 2.3% respectively. Particularly impressive, for many commentators, seemed to be the comparison between Trump's 2017 GDP growth of 2.4% and Obama's 1.6% the previous year.[4] CNBC commentator Jeff Fox, for example, wrote that Trump set "economic growth on fire ... a tremendous achievement ... an economic boom uniquely his".[5] A more balanced comparison, however, shows not a break between the two presidencies, but, with important qualifications that we will discuss below, the continuation of trends that began under Obama and were maintained under Trump.

First, it should be remembered that when Obama took office in January 2009, the US economy, according to his opponent, Republican Senator John McCain, was "about to crater".[6] For

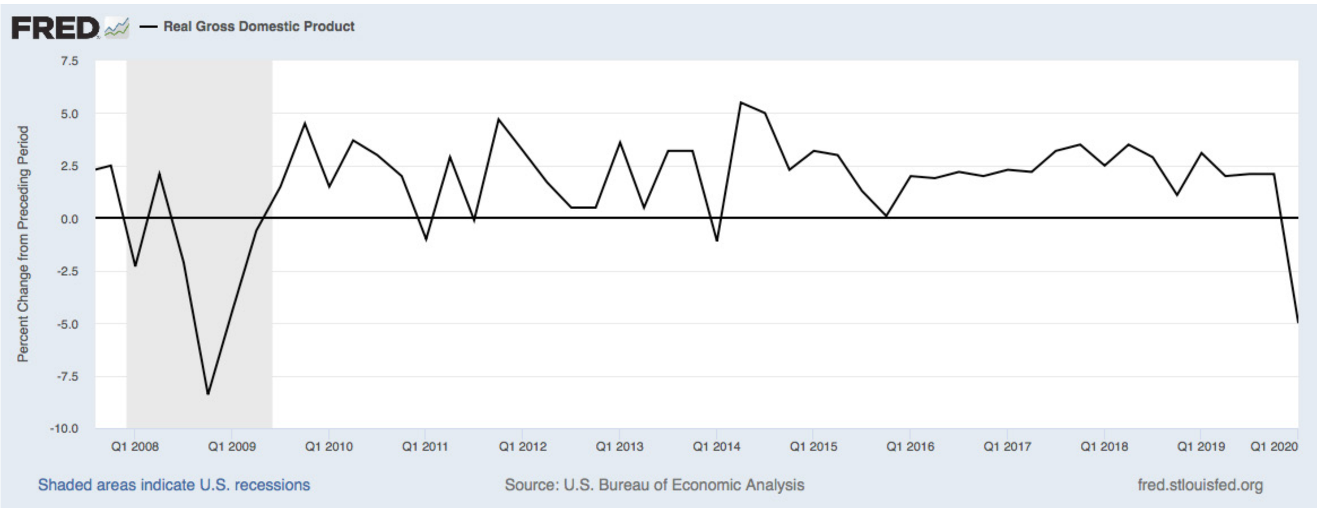
[4] National Income and Product Accounts, Table 1.1.1 - Percent Change from Preceding Period in Real Gross Domestic Product, Annual data from 1930 to 2019, published 28 May 2020, U.S. Bureau of Economic Analysis, https://apps.bea.gov/histdata/fileStructDisplay.cfm?HMI=7&DY=2020&DQ=Q1&DV=SSecon&dNRD=May-29-2020. See also https://www.bea.gov/data/gdp/gross-domestic-product, Supplemental Information & Additional Data, Percent Change from Preceding Period, published 28 May 2020.

[5] J. Cox, "Trump has set economic growth on fire. Here is how he did it", *CNBC.com*, 7 September 2018.

[6] K. Phillips, "Last Words: Debating the Debate", *The Caucus. The Politics and Government Blog of the Times*, 24 September 2008.

the last quarter of 2008 the U.S. Bureau of Economic Analysis reported a fall of real GDP of 8.4 percentage points, which followed a fall of 2.1 points the previous quarter (Figure 2.1). The recovery in 2009 was spectacular, and by the fall of that year, real GDP was back to positive figures. Much more than McCain, Obama had a crucial role in moving the bailout package, unpopular with Republicans and Democrats of all stripes, through Congress, persuading colleagues from both sides of the aisle to vote for it after an initial rejection.

Fig. 2.1 - US Real Gross Domestic Product, Percent Change from Preceding Period (quarters, in 2012 dollars), December 2008-March 2020 (the shaded area indicates the US 2007-2009 recession)



Source: U.S. Bureau of Economic Analysis, *Real Gross Domestic Product [A191RL1Q225SBEA]*, retrieved from FRED, Federal Reserve Bank of St. Louis, 12 June 2020. Original data are available here: https://www.bea.gov/data/gdp/gross-domestic-product, Supplemental Information & Additional Data, Percent change from preceding period, published on 28 May 2020

Despite the US$700 billion Emergency Economic Stabilization Act that was passed in the last few months of the Bush administration, the more faithful (if not necessarily enthusiastic) supporters of the Act were the Democrats. The GOP was *de facto* split, and the radical wing of the party (later the Tea Party), represented on the presidential ticket by Sarah

Palin, was adamantly opposed. As one historian has written, "With the GOP divided between establishmentarians willing to pay that check lest disaster ensue, and outsiders content to let the system collapse, ownership of the policy devolved on the Democratic Party, and specifically Barack Obama".[7]

To this, one should add the additional difficulties of passing a subsequent stimulus package of almost US$800 billion, strongly opposed by the entire Republican Party despite the fact that the figure was a far cry from the almost US$2 trillion that the chair of Obama's Council of Economic Advisers, Christina Romer, had calculated. And not only was the stimulus much smaller than needed, but in order to deflate political partisanship and opposition, Obama consistently tried to downplay it in the public perception. In this respect, Julian Zelizer commented, "Whereas most Americans could never miss a bridge or road built by FDR's Public Works Administration, they traveled past projects from Obama's stimulus program without noticing a thing".[8] Obama's "pragmatic cautiousness", as Mario Del Pero described it, did not pay, and all attempts at enhancing cooperation were frustrated, as shown by the federal government's shutdowns of 2011 and 2013 and the personal attacks against Barack Obama – most notably, the conspiracy theory, fueled by Donald Trump, according to which Obama was not born in the US and was thus an illegitimate President.[9]

Yet, with all its limitations, due largely to an inability to cross political divides and build a more cohesive and larger package, Obama's economic record was reasonably successful. At the end of 2009, GDP increased 4.5% over the previous quarter, and subsequent annual values ranged between highs of 2.6% growth in 2010 and 2.9 in 2016, and lows of 1.6 in 2011 and

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[7] E. Rauchway, "Neither a Depression nor a New Deal: Bailout, Stimulus, and the Economy", in J.E. Zelizer (ed.), *The Presidency of Barack Obama. A First Historical Assessment*, Princeton, Princeton University Press, 2018.

[8] J.E. Zelizer, "Policy Revolution without a Political Transformation", in Ibid.

[9] M. Del Pero, *Era Obama*, Milan, Feltrinelli, 2017, p. 13.

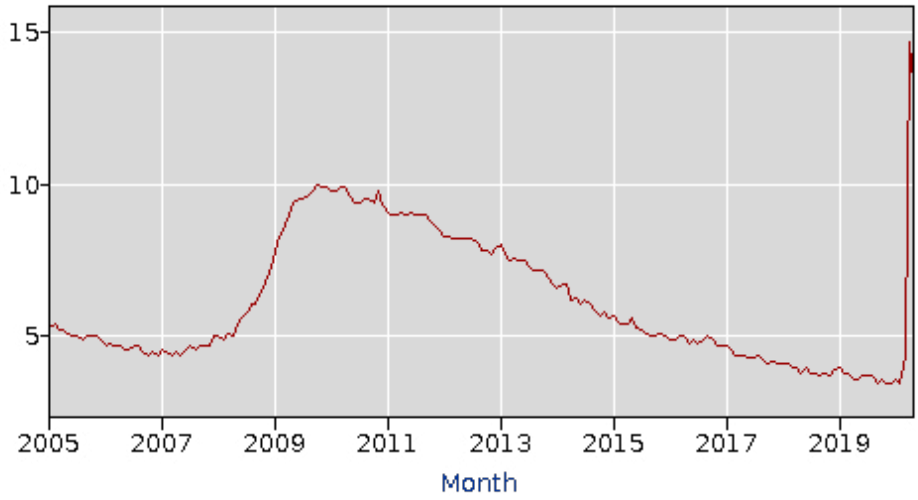
2016.[10] Consequently, US real GDP growth under Trump, though undoubtedly positive, is not a new result.

As for unemployment, when Obama took office, the unemployment rate was at 7.8%, and grew in the following months to a plateau of 10.0% or slightly less between the fall 2009 and the spring 2010, after which the rate decreased almost constantly to 4.7% when Obama left office.[11] This trend continued under Trump, as mentioned, but it cannot be said that it was Trump who set it in motion. If one puts the values of the last three years in perspective, it becomes easily apparent that they are the final segment of a massive redirection from a negative to a positive trend in employment rates that took place in the years of the Obama administration (Figure 2.2). In fact, on a three-year basis, Trump's record on unemployment reduction has been worse than Obama's: a 1.2% unemployment decrement in 2017-19 (Trump) versus a 1.9% decrement in 2014-16 and a 2.4% decrement in 2011-13 (Obama). Reducing unemployment when the starting point is already low may be relatively more difficult, but claiming to have done better than the previous incumbent is undoubtedly an unfounded statement.

[10] U.S. Bureau of Economic Analysis, Gross Domestic Product, https://www.bea.gov/data/gdp/gross-domestic-product..., cit.

[11] Unemployment rate series, seasonally adjusted, Series Id: LNS14000000, U.S. Bureau of Labor Statistics, https://data.bls.gov/pdq/SurveyOutputServlet..., cit.

Fig. 2.2 - US: Unemployment Rate, Seasonally adjusted, 2005-2020



Source: U.S. Bureau of Labor Statistics, data extracted on 13 June 2020

Government Spending, Unemployment, and Wages

In short, Trump's claim of the "great American comeback" from the Obama administration is demonstrably false. But how did Trump manage to keep the positive trend going?[12] More impressive than the growth of GDP is the continuing decrease in the unemployment rate from 4.7% in January 2017 to 3.5 in December 2019.[13] If only for frictions and temporary misalignments in the job market, a situation of full employment in which all workers are actually employed is a possibility that exists only in theory. Economists have thus long debated what rate of unemployment is low enough to be

[12] For another testimony of Trump's narrative, see the White House briefing of 20 January 2020, "The Historic Results Of President Donald J. Trump's Economic Agenda".

[13] Unemployment rate series, seasonally adjusted, Series Id: LNS14000000, U.S. Bureau of Labor Statistics, https://data.bls.gov/pdq/SurveyOutputServlet..., cit.

considered “natural” or virtually inevitable. As one can imagine, the figures and explanations offered are many, but it is safe to say that economists of different schools would agree that an unemployment rate of less than 4.0% is definitely low. How did Trump reach it?

The eclectic policies of the Trump administration make it difficult to disentangle the real causes. “America First” industrial policies and trade protectionism do not seem to be relevant candidates. A very rough estimate of gross output by industry shows that, on average, production increased in the last three years, in particular in the mining and oil and gas extraction sector (an increase of approximately US$27 billion per year under Trump and a decrease of approximately US$17 billion per year under Obama), and in the manufacture of durable goods such as machinery, motor vehicles, and computers (an increase of approximately 66 billion per year under Trump and of 48 under Obama). But these are small figures if compared with annual increases of the gross domestic product that average about one trillion per year (i.e. 1,000 billion per year). In other typically domestic sectors like wholesale and retail trade, the record of the Obama administration is better than subsequent years, though again for relatively small amounts.

Remarkably, despite the rhetoric against big government, it is the Trump administration that has been spending an average of two and a half times more than the Obama administration (US$112.7 billion per year *versus* 46.4). These figures include also state and local governments, but if we limit our analysis to the federal government, the picture is even more interesting given the discrepancy between political rhetoric and actual policy. Whereas Obama saved an average of US$4.2 billion per year, Trump spent on average US$40.8 billion for the federal machine.[14] In general, according to the U.S. Bureau of Economic Analysis, economic growth was mainly due to growth in the

[14] Gross Output by Industry, Release Date: 6 April 2020, U.S. Bureau of Economic Analysis, https://apps.bea.gov/iTable/iTable.cfm?ReqID=51&step=1

service-producing and government sectors which offset a steady decline in the goods-producing sector.[15] The trade balance has remained in deficit overall, in particular for the deficit in goods trade with China, India, Japan, South Korea, Mexico, and the European Union, among others.[16]

What is left to explain the continuing decline in unemployment are monetary and fiscal policies. While the Fed has returned to a very low interest rate of 0.25%, after increasing it slowly in 2015 and 2016 and more quickly in 2017 and 2018 (up to 2.25 in December 2018), disposable income has increased for at least two reasons which, in the medium run, are mutually incompatible.[17] First, minimum wages have been rising at least since 2014. As Ernie Tedeschi wrote on *The New York Times* in January 2020, "wages in the United States are doing something extraordinary: they're growing faster at the bottom than at the top".[18] As Tedeschi showed, this was due not to an increase of the federal minimum wage, stuck at US$7.25 since 2009, but to increases of the minimum wage at the state and city level that increased it to approximately US$12 per hour.[19] The second reason must be found in the corporate and income tax cuts introduced by Trump in December 2017. As we will see, these tax cuts are highly regressive (hence they are at odds with increases in the minimum wage), and trade

[15] U.S. Bureau of Economic Analysis, News Release, 6 April 2020, https://www.bea.gov/system/files/2020-04/gdpind419.pdf

[16] International Trade in Goods and Services, Current Release, Tables only, US Bureau of Economic Analysis, https://www.bea.gov/data/intl-trade-investment/international-trade-goods-and-services

[17] J. Pisani-Ferry, "Explaining the Triumph of Trump's Economic Recklessness", *Project Syndicate*, 28 January 2020; for historical series of the Fed interest rate, see https://www.federalreserve.gov/monetarypolicy/openmarket.htm

[18] E. Tedeschi, "Wages Rise at Low End", *The New York Times*, 6 January 2020, Section B, p. 1.

[19] E. Tedeschi, "Minimum Wage at Record High (Without Federal Help)", *The New York Times*, 29 April 2019, Section A, p. 12; for historical series of the minimum wage, see *History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938-2009*, US Department of Labor.

long-term prosperity for the population at large for a short-sighted fiscal stimulus and major fiscal advantages for the rich. The real novelty under Trump was not economic growth, but, as an observer wrote, "economic recklessness".[20]

The Undoing Project: Tax Cuts and the Trickle-up Effect

In 1992, Bill Clinton's strategists built the presidential victory on the famous quip: "The economy, stupid". That slogan summarized a basic tenet of political struggle: elections are lost or won depending on the state of the national economy (another crucial element are wars, or – lacking wars – enemies, true or imagined). But a robust literature, as well as common sense, tell us that GDP is not a sufficient ingredient for the wellbeing of individuals; access to healthcare is equally important, as well as living in a society that is not excessively unequal (another catch-phrase at the Clinton headquarters in 1992 was "don't forget health care").[21]

Trump's first political battle as President was to repeal the Patient Protection and Affordable Care Act, also known as Obamacare. Though the Affordable Care Act, or ACA, maintained the structure of US health insurance based on the

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[20] J. Pisani-Ferry (2020).

[21] M. Kelly, "THE 1992 CAMPAIGN: The Democrats - Clinton and Bush Compete to Be Champion of Change; Democrat Fights Perceptions of Bush Gain", *The New York Times*, 31 October 1992, Section 1, p. 1. To name only a few analyses of the need to move beyond GDP to gauge the well-being of individuals, see R.G. Wilkinson and K. Pickett, *The Spirit Level: Why More Equal Societies Almost Always Do Better*, London, Allen Lane, 2009; R.G. Wilkinson and K. Pickett, *The Inner Level: How More Equal Societies Reduce Stress, Restore Sanity and Improve Everyone's Well-Being*, London, Allen Lane, 2019; A. Deaton, *The Great Escape: Health, Wealth, and the Origins of Inequality*, Princeton, Princeton University Press, 2013; A. Case and A. Deaton, *Deaths of Despair and the Future of Capitalism*, Princeton, Princeton University Press, 2020; and J.E. Stiglitz, J.-P. Fitoussi, and M. Durand, *Measuring What Counts. The Global Movement for Well-Being*, New York, The New Press, 2019.

three pillars of Medicare (covering those over 65), Medicaid (covering those earning low incomes), and the private sector, it introduced changes that de facto made it the most important health reform in the US since the introduction of Medicare and Medicaid under Lyndon Johnson in 1965. By limiting premiums and discriminatory practices in the individual insurance market, cutting providers' rates in the Medicare program, and increasing eligibility for Medicaid, the Affordable Care Act (ACA) managed to reduce overall health costs for individuals and the government, as well as to increase coverage for an additional 20 to 24 million individuals.[22]

Passed in 2010 and effective in 2014, Obamacare enacted a huge income redistribution from higher incomes, and especially the top 1%, to the lowest quintiles. In particular, data by the Congressional Budget Office (CBO) show that of the US$3 billion from the federal budget committed to lower individual insurance costs, 40% went to households in the lowest quintile, another 33% to households in the second quintile, and only 3% to households in the top quintile. Premium tax credits on federal taxes totaled almost US$15 billion and went for almost 30% to households in the lowest quintile, 33% to households in the second quintile, 22% to households in the middle quintile, 10% to households in the fourth quintile, and 5% to the top quintile. On average, households in the lowest quintile received an additional income of US$690, and families in the second quintile of US$560, almost entirely covered by the average increase of US$1,100 paid by households in the highest quintile.[23] Moreover, households in the highest quintile were mostly unaffected by this redistributive reform. As the CBO remarked "most of the burden of the ACA fell on households in the top 1% of the income distribution, and relatively little fell

[22] Congressional Budget Office, "Federal Subsidies for Health Insurance Coverage for People Under Age 65: 2016 to 2026", March 2016.

[23] Congressional Budget Office, "The Distribution of Household Income, 2014", March 2018, p. 9, Table 1.

on the remainder of households in that quintile".[24] The burden of Obamacare, in other words, fell not on the top quintile, but only on the 1%, who on average paid an additional US$21,000 for the benefit of the remaining 80% of the US population, and especially the poorest households.

No wonder that Obama was accused of being a socialist. It is worth reiterating that the Affordable Care Act reduced the federal deficit and the costs of the least efficient and costliest health system of the Western world, at the same time increasing the number of people covered (in all other OECD countries the coverage is universal) and the resources devoted to care provision instead of overhead costs.

Despite the fact that the Joint Committee on Taxation and the CBO released a study claiming that the repeal of the Affordable Care Act would increase the federal budget deficits by US$137 billion in ten years, it was on this hill that Trump decided to wage battle in the first months of his administration.[25] But he arrived too late. Public opinion had been initially cool towards the ACA – though not necessarily hostile – and the disastrous start of the HealthCare.gov website, which crashed on the first day of operations and had serious problems for several months, did not help. With time, however, the share of those in favor of repealing Obamacare decreased against those in favor of maintaining and possibly expanding it; in January 2017 even *Fox News* had to admit that "the number of voters who want Obamacare completely repealed is at a new low ... And for the first time, more favor expanding the law than killing it entirely".[26] Only a mere 19% was in favor of going back to 2009. Despite many attempts at repealing the act, the Democrat majority in the Senate stopped Trump's agenda.

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[24] Ibid., p. 10.

[25] Congressional Budget Office, "Budgetary and Economic Effects of Repealing the Affordable Care Act", June 2015.

[26] D. Blanton, "Fox News Poll: Views on ObamaCare shift", *Fox News*, 19 January 2017.

Unable to repeal Obamacare and short of any major legislative achievement, Trump and the Republicans redirected their energies toward a tax bill that deeply changed the fiscal landscape of the United States. The bill that Trump signed on 22 December 2017 was the largest tax reform since 1986 – in the words of two commentators, "a catchall legislative creation that could reshape major areas of American life, from education to health care".[27] The 1986 bill, too, was the product of a Republican administration, but it took years of discussion, hearings, and compromises across party lines to take shape. The 2017 bill, instead, was presented and voted in a mere four weeks, and no member of the opposition supported it – a first in tax reform history in the US, as many commentators noticed.

The bill reduced the corporate tax rate to 21%, produced a major revision of individual income taxes (reducing the upper limits of most brackets and their tax rates), limited itemized deductions (primarily at the state and local level), added a 20% deduction for pass-through businesses (businesses taxed under the individual tax rather than the corporate tax, e.g., partnerships), and, finally, introduced deductions for equipment investment and an increase in the exemption for estate taxes. Considering the increasingly plutocratic nature of Congress membership and the specific history of the President that signed the bill, this last element is not mere political gossip. After the bill was approved, the *New York Times* estimated that Trump himself would save approximately US$11 million on his taxes, or 30% of his federal tax return.[28] One month earlier, he had claimed at a rally in Missouri that it would cost him "a fortune".[29]

[27] P.S. Goodman and P. Cohen, "G.O.P. Tax Plan Could Reshape Life in the US", *The New York Times*, 30 November 2017, Section A, p. 1.

[28] J. Drucker and A. Carlsen, "Trump Could Save More Than $11 Million Under the New Tax Plan", *The New York Times*, 22 December 2017. Based on information from Trump's 2005 federal tax return (notoriously, Trump refused to disclose his tax returns).

[29] White House, "Remarks by President Trump on Tax Reform", St. Charles

The Joint Committee on Taxation (JCT) estimated that by 2027 tax revenue would fall by US$1.5 trillion, but the Trump administration retorted that the bill would pay for itself by an increase in output and investments (including increasing flows of investments from abroad), increasing wages and demand, the repatriation of US corporate income, and a reduction in production outsourcing.[30] The Congressional Research Service, however, indicated in 2019 that "not enough growth occurred in the first year to cause the tax cut to pay for itself", and that in fact growth had been "even smaller than projected by most analysts".[31] The supply-side effects, moreover, appeared debatable, to say the least: since the tax cuts mostly benefited corporations and higher-income individuals, wages did not increase as expected; dividends previously held abroad were repatriated, but the reinvestment of additional earnings witnessed a sharp decline, and by the end of 2018 both repatriations and reinvested earnings had returned to pre-tax cuts levels.[32]

More than two years after the bill was passed, four things are clear. First, the emphasis on corporate tax cuts and higher income cuts marks a full-fledged return to trickle-down economics – the idea that if one taxes the rich and corporate interests less, they will spend and reinvest more, and national income will grow like a rising tide that lifts all boats, rich and poor, together. The problem is that trickle-down economics is an act of faith (at best) or cynicism (at worst), as the additional income available to the rich and corporate interests does not increase consumption significantly (as economist Branko Milanovic quipped, "there is a limit to the number of Dom

Convention Center, St. Charles, Missouri, 29 November 2017.

[30] See for example Council of Economic Advisers, "Corporate Tax Reform and Wages: Theory and Evidence", October 2017.

[31] J.G. Gravelle and D.J. Marples, "The Economic Effects of the 2017 Tax Revision: Preliminary Observations", Congressional Research Service, R45736, 7 June 2019, pp. 4, 3, and 6.

[32] Ibid. See also M.F. Sherlock and D.J. Marples, "The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law", Congressional Research Service, R45092, 6 February 2018.

Pérignons and Armani suits one can drink or wear"); is often distributed as dividends instead of reinvested; and contributes to financial speculations and instability. Former Chief Economist and Director of Research at the International Monetary Fund, Raghuram Rajan, demonstrated the direct relationship between increasing inequality and the speculative bubble that exploded in 2007-08.[33]

Second, the bill is immensely regressive. According to the Tax Policy Center, while the poorest 60% of taxpayers will receive small percentage tax cuts in 2018 to 2025 and actual percentage tax *increases* starting in 2027 (the lowest quintile, for example, will receive a tax cut of 1% in 2018, 1.3 in 2025, and a tax increase of 4.6 in 2027), the top quintile of taxpayers would receive a more than 65% tax cut between 2018 and 2025 and a stellar 107.3% tax cut in 2027. The share of tax cuts that would benefit the 0.1% of taxpayers will increase from 8% in 2018 to 10% in 2025 and an outrageous 60% in 2027 (Table 2.1).

Tab. 2.1 - Share of total federal tax change (%), 2018, 2025, and 2027

	2018	2025	2027
Lowest quintile	1.0	1.3	-4.6
Second quintile	5.2	5.6	-5.4
Middle quintile	11.2	11.4	-2.1
Fourth quintile	18.4	17.4	2.9
Top quintile	65.3	65.8	107.3
Top 0.1 percent	7.9	10.5	59.8

Source: Tax Policy Center, Urban Institute & Brookings Institute, Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act, 18 December 2020

[33] Milanovic's quote is from B. Milanovic, *The Haves and the Have-Nots. A Brief and Idiosyncratic History of Global Inequality*, New York, Basic Books, 2010, pp. 193-94. R.G. Rajan, *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton, Princeton University Press, 2010. For another important study on this by the IMF, see M. Kumhof and R. Rancière, "Inequality, Leverage and Crises", IMF Working Paper WP/10/268, 2010.

Perhaps the most egregious proof of the regressive nature of the bill lies in the limited temporary horizon of some of its provisions. While corporate tax cuts are permanent, personal income cuts are only temporary and destined to expire in 2025. One might consider this end date a sign of lucidity about the dire conditions of the federal budget, were it not for the fact that it hides one of the most massive transfers of wealth from low-income workers to corporations and affluent individuals since the fall of the Soviet Union and the rise of oligarchs' fortunes. According to the Joint Committee on Taxation and the Congressional Budget Office, by 2027 the distributional effect of the bill will mean an additional tax burden of 60 billion dollars for people making from less than US$10,000 to US$75,000 per year and a cut of US$20 billion for individuals with an income higher than US$75,000 per year. Particularly interesting is the almost direct transfer of approximately US$5.5 billion from individuals whose income is between US$40-50,000 to individuals whose income is more than US$1 million.[34] By 2025, the personal income tax reform will be repealed, but at that point it will have completed its transfer of resources from the poor to the rich. This is indeed trickle-up economics on a bold scale, at the cost of a staggering debt for the next generations.

The third clear point, not unexpectedly, is that the bill is not going to pay for itself. The CBO has recently stated that it expects an increasing gap between spending and revenues. If between 1970 and 2019 the gap averaged 3%, the CBO expects the gap to increase at 5% in the next ten years: assuming, that is, that the temporary tax cuts will actually expire in 2025. As the director of CBO puts it, "much of the growth of revenues in our

[34] To be precise, the income category of US$40,000-US$50,000 will witness a tax increase of US$5.27 billion, while the income category of US$1,000,000 or more will see cuts for US$5.78 billion, Congressional Budget Office, "Reconciliation Recommendations of the Senate Committee on Finance", 26 November 2017, p. 10.

projections stems from the expiration of the tax provisions".[35] But by then it will be too late. In 2050, the US debt is projected to equal 180% of GDP, "far higher than it has ever been".[36] As the *New York Times* summarized, "Republican leaders aren't just trying to transfer money from current middle-class and poor Americans to corporations and the very wealthy. They are also trying to transfer money from *future* middle-class and poor Americans to corporations and the very wealthy".[37]

Fourth, the tax bill is much more than just a tax reform. Because of the constraints that it imposes on the ability of states and local governments to levy their own taxes, it limits health care, education, public transportation and social services, whose bills are largely paid at the sub-federal level. "In their longstanding battle to shrink government", two commentators wrote, "Republicans have found in the tax bill a vehicle to broaden the fight beyond Washington ... especially in high-tax states like California and New York, which, not coincidentally, tend to vote Democratic".[38]

Moreover, the bill repealed the penalties for those who do not comply with the requirement to indicate on their tax return their health insurance coverage (also known as the individual mandate). These penalties were an important barrier against dropping out from health coverage, and commentators have argued that this small clause will have disruptive consequences, for as many as 13 million individuals would lose health insurance.[39] The combined effect of reduced resources for

[35] P.L. Swagel, "The 2020 Budget and Economic Outlook. A Presentation to the Forecasters Club of New York", Congressional Budget Office, 20 February 2020.

[36] Ibid.

[37] "The Republican Tax on the Future", *The New York Times*, 26 November 2017, Section SR, p. 8, emphasis added. See also W.G. Gale, *Did the 2017 tax cut – the Tax Cuts and Jobs Act – pay for itself?*, Brookings, 14 February 2020.

[38] P.S. Goodman and P. Cohen (2017).

[39] Congressional Budget Office, "Repealing the Individual Health Insurance Mandate: An Updated Estimate", November 2017. See also A. Chandra, J. Gruber, and R.McKnight, "The Importance of the Individual Mandate

health care and the sabotage of individual mandate, in other words, turned the tax bill in a stealth health care bill. As several commentators noticed, across-the-board spending cuts also directly affected Medicare. "The last time Medicare was hit with cuts like this", one noticed, "patients lost access to critical services like chemotherapy treatment".[40]

Income, Health, and Racial Inequality

The problem of inequality in the US, as in most of the world, is not new. More than ten years of debates have made the notion that inequality in advanced economies started to rise in the 1970s part of public discourse, and in 2011 Warren Buffett made a sensation with some back-of-the-envelope calculations about the distortions in the fiscal system. As he wrote, in 2010 his federal tax bill was US$6,938,744. A notable sum, but only 17.4% of his taxable income. That was lower than the percentage paid by anyone else working in his office – a point abbreviated to the oft- repeated claim that Buffett pays fewer taxes than his secretary.[41] As commentators have noticed, whereas that was not the norm in 2011, it *is* today.[42]

If we look at data from the U.S. Census Bureau, in 2010 the Gini index was 0.4690; it had grown at 0.4824 in 2016 and was at 0.4845 in 2018. An increasing Gini index means worsening inequality, but the problem does not lie at the level of the third

– Evidence from Massachusetts", *The New England Journal of Medicine*, 27 January 2011, vol. 364, no. 4, p. 293.

[40] S. Kliff, "The Senate's tax bill is a sweeping change to every part of federal health care", *Vox.com*, 29 November 2017.

[41] W.E. Buffett, "Stop Coddling the Super-Rich", *The New York Times*, 15 August 2011, Section A, p. 21.

[42] D. Leonhardt, "The Rich Really Do Pay Lower Taxes Than You", *The New York Times*, 6 October 2019, online, last accessed on 21 June 2020. See in particular E. Saez and G. Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, New York, Norton, 2019, and their very informative website, taxjusticenow.org.

decimal.[43] The actual problem is that inequality is consistently on the rise, and compared to other advanced economies, the United States shows very high levels of inequality. Among OECD countries, only Turkey, Mexico and Chile do worse.[44] These high levels of income inequality have direct repercussions on other dimensions of inequality, through what economist and international civil servant Gunnar Myrdal called "principle of cumulation", or vicious circle.[45]

The reference to Myrdal is not accidental, for he studied the dynamics of the principle of cumulation with specific reference to Black Americans between 1937 and 1944. Segregation and income inequality reinforced each other, and produced, and were in turn affected by, inequality in access to justice, political representation, housing, education, well remunerated jobs, and so on. Trump tax and health policies will not only increase income and health inequality, as discussed above, but will have – and in fact are already having – a disproportionate impact on Black Americans. The Covid pandemic is a sad demonstration of this. Chicago, for example, is 30% Black, but African Americans account for 70% of all coronavirus cases and more than half of the deaths in the state of Illinois. As the director of the Illinois department of public health summarized the point, "we know all too well that there are general disparities in health outcomes that play along racial lines and the same may be true for this virus".[46] The African American population lives

[43] U.S. Census Bureau, Table B19083, "Gini Index of Income Inequality", Survey/Program: American Community Survey, Years: 2010-2018. But it should be noted that J. Semega, M. Kollar, J. Creamer, and A. Mohanty in "Income and Poverty in the United States: 2018", U.S. Census Bureau, Current Population Reports, 10 September 2019, p. 34, Table A-3 show a very small *decrease* in the money income Gini index between 2017 (0.489) and 2018 (0.486). The equivalence-adjusted income shows a stronger decrease from 0.471 in 2017 to 0.464 in 2018.

[44] OECD, Income inequality (indicator), 2020, doi: 10.1787/459aa7f1-en.

[45] G. Myrdal, *An American Dilemma. The Negro Problem and Modern Democracy*, New York and London, Harper, 1944, p. 75.

[46] Ngozi Esike as quoted by K. Evelyn, "'It's a racial justice issue': Black Americans

in more crowded areas, has a lower average income per capita, less access to health care, and in several cases is employed in jobs that do not allow social distancing, telecommuting, paid leave and health benefits. They are more likely to work essential jobs in the public and the private sectors alike, risking coronavirus exposure.

Trump could easily consider the effects of this cumulative discrimination and increasing inequality that he has been actively promoting, if he only observed what happens outside of his windows: African Americans are almost half of the population of the District of Columbia, but they count for almost two thirds of the deaths. Observers in the federal capital say as much. Three policy analysts at Brookings Institution recently wrote, "The coronavirus does not discriminate, but our housing, economic, and health care policies do".[47] And *Washington Post* journalist Jennifer Rubin has summarized the situation as follows: "In short, if you are poor, a woman, nonwhite or live paycheck to paycheck in a blue-collar job, you have a greater chance of being unemployed or, if still employed, of getting sick and dying".[48]

are dying in greater numbers from Covid-19", *The Guardian*, 8 April 2020.

[47] A.M. Perry, D. Harshbarger, and C. Romer, *Mapping racial inequity amid COVID-19 underscores policy discriminations against Black Americans*, Brookings, 16 April 2020.

[48] J. Rubin, "Inequality is now an issue of life and death", *The Washington Post*, 15 May 2020.

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© 2020 Ledizioni LediPublishing
Via Alamanni, 11 – 20141 Milano – Italy
www.ledizioni.it
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Four Years of Trump. The US and the World
Edited by Mario Del Pero and Paolo Magri
First edition: September 2020

The opinions expressed herein are strictly personal and do not necessarily reflect the position of ISPI.

Print ISBN 9788855263160
ePub ISBN 9788855263177
Pdf ISBN 9788855263184
DOI 10.14672/55263160

ISPI. Via Clerici, 5
20121, Milan
www.ispionline.it

Catalogue and reprints information: www.ledizioni.it