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Introduction

As 2017 begins, the U.S. and world economies find themselves in varying states of turmoil. The U.S. has just inaugurated President Donald J. Trump as the 45th President of the United States with the Democrats in Congress making it difficult for him to finalize his cabinet and move forward with his agenda. It is important to note that President Trump's rhetoric often has not helped his cause. The Middle-East is turbulent, Russia, Crimea and the Ukraine are at odds and China is flexing its military muscle in the South China Sea all while the global economy is expected to grow little in 2017.

Key December/January Data

Positive and Negative Signs

The U.S. economy has the potential to make great strides in 2017. President Trump has removed more than $200 billion in regulations since taking office with U.S. banks at near record high levels of capitalization. Yet bank lending rates trail historic norms and new business start-ups are at a 20-year low. Unemployment increased from 4.7 percent to 4.8 percent in January, but the labor force participation rate increased by .3 percent in January. New job growth is expected to be above 225,000 for January and President Trump hit a homerun in naming Judge Gorsuch to fill the seat on the U.S. Supreme Court vacated by the death of Antonin Scalia. The Dow Jones Industrial Average broke 20,000 for the first time ever in January while U.S. consumer confidence dropped two points according to the Conference Board. We are most encouraged by President Trump's call for major U.S. tax reform in 2017, but are discouraged by the lack of bi-partisan support as we believe tax reform is key to U.S. growth and competitiveness now and in the future.

Current Issues

Republicans and Democrats would be well served today to remember two of their party icons as the debate to reform the U.S. tax system begins shortly. Ronald Reagan's ideas were popular with many and controversial and polarizing to others both in America and around the world. Reagan came to office during the worst economic downturn since The Great Depression with U.S. foreign policy at a post-World War II low and the U.S. Embassy in Iran under siege. When he left office eight years later, U.S. standing in the world was at or near its pinnacle and the U.S. economy was once again the envy of the world.

As president, Reagan's policies were guided by the simple belief that free people can and do accomplish great things. He believed that free economies were more productive than less-free economies and the role of government should be narrow in scope and promote growth and prosperity. He was suspicious of big government and firmly believed in the American competitive free enterprise system. Reagan would be the first to say that he was a flawed, imperfect human being who made mistakes as president. Yet, history tells us he had every right to be proud of what his administration accomplished during his eight years in office.

The Economy

Reagan was a democrat for much of his life and admired President Kennedy. In fact, President Trump and policy makers on both sides of the aisle today should look to the tax and fiscal policies of John F. Kennedy and Ronald W. Reagan, and relearn the stimulative effect of tax cuts during difficult times.

In 1962 President Kennedy argued: "In short, to increase demand and lift the economy, the federal government's most useful role is not to rush into a program of excessive increases in public expenditures, but to expand the incentives and opportunities for private expenditures." President Kennedy's tax cut was implemented by President Johnson in 1964. Personal income tax rates declined 23.1 percent for the top earners and 30 percent for the lowest.

Corporate income tax rates were reduced by 9.6 percent. The economy responded with an average annual real growth rate of 4.65 percent from 1963-1968, and unemployment dropped from 6.6 percent in 1961 to 3.7 percent in 1968.

Inspired by Kennedy, Reagan's across the board tax cut of 25 percent was phased in from 1981-1983 and helped bring the U.S. economy out of the severe recession of 1981-82, which saw the prime interest rate peak at 21.5 percent in 1981 (the highest since the Civil War), real GDP decline by 2.2 percent and unemployment reach 10.8 percent in 1982. The economy responded with average annual real GDP growth of 3.87 percent from 1982-1988, unemployment declined to 5.4 percent by 1988, and real tax revenue grew by 25.5 percent from 1983-1988. One of Reagan's few regrets was that he did not use the veto more often to reign in government spending and control the growth of government during his presidency.

The economy, spurred by tax cuts and a renewed belief in American enterprise rebounded from the depth of recession with unprecedented strength and conviction by 1989. Real growth in GDP increased 31 percent, manufacturing output increased 48 percent, American labor productivity increased 10.6 percent per hour, U.S. exports increased 92.6 percent, gross private investment increased 32 percent, real disposable income per capita increased 18 percent, and U.S. standards of living were about 40 percent higher than the average for Europe and Japan when Reagan left office. Perhaps most impressive was the fact that charitable giving under Reagan grew at 5.1 percent per year compared to an average rate of 3.5 percent annual growth for the previous 25 years.

Conclusion

It is also important to note that Ronald Reagan's policies were largely bi-partisan in nature. He often debated and disagreed with Democratic Speaker of the House, Tip O'Neill in public, yet much of the Reagan Revolution can be attributed to their shared vision of America's greatness and their friendship and admiration for each other. President Trump needs to find his Tip O'Neill, and the sooner the better…hopefully his inner Reagan as a communicator as well!

Contact Us

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