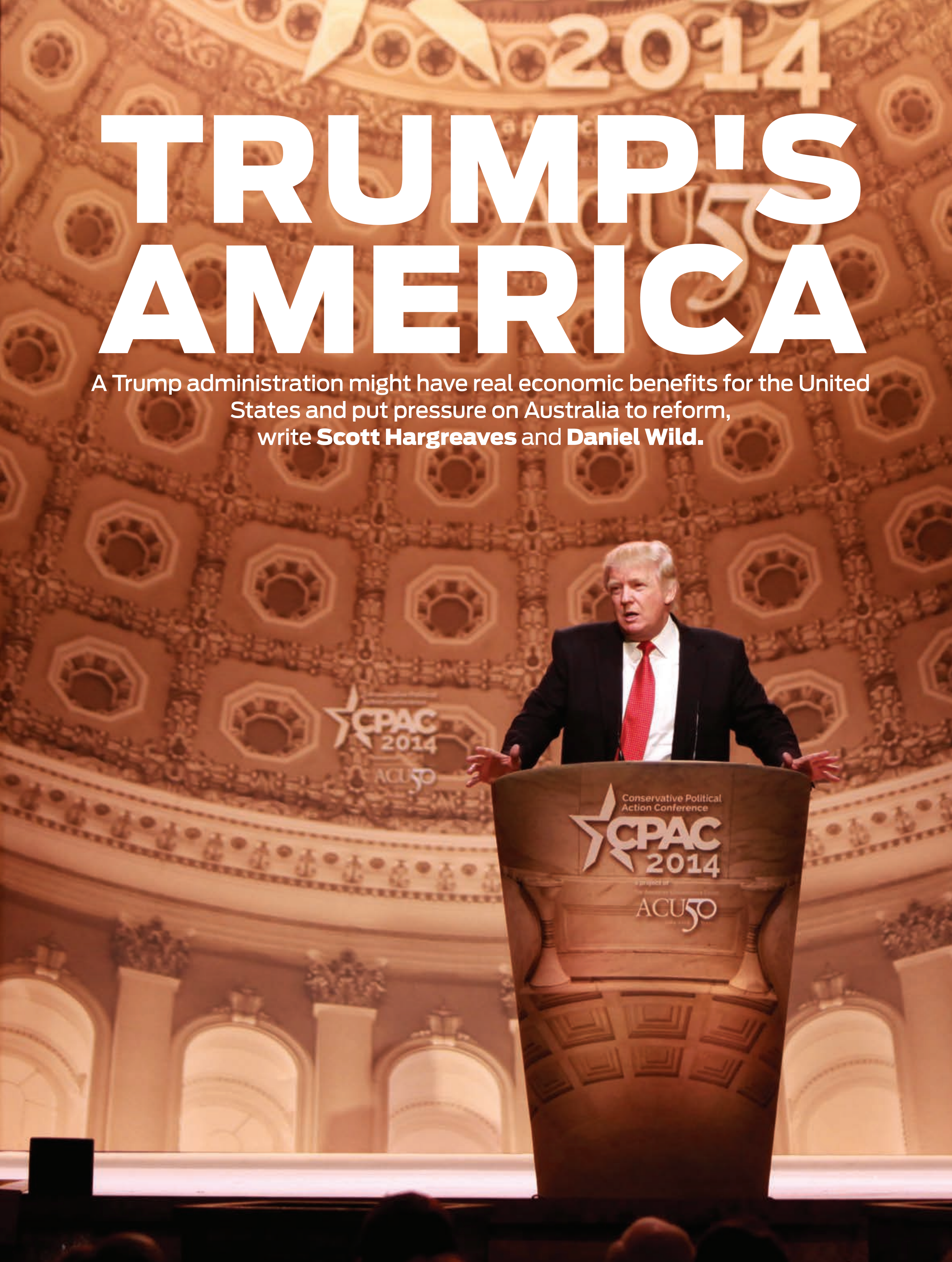
# TRUMP'S AMERICA

A Trump administration might have real economic benefits for the United States and put pressure on Australia to reform, write **Scott Hargreaves** and **Daniel Wild.**



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A Trump administration will be a net positive for the United States' economy. Yes, restricting international trade will harm growth. But the ambitious agenda to cut corporate and income taxes, open up fossil-fuel production, deregulate financial markets, terminate Obama's Executive Orders and rescind climate change agreements and renewable energy subsidies will unambiguously improve the US economy by making it more efficient and competitive.

For those with eyes to see the early signs are good. One of Trump's first moves was to appoint Myron Ebell to head the transition team for reforming the United States' Environmental Protection Agency (EPA). This means that in all likelihood Ebell will become head of the EPA once Trump takes office.

The move is significant. Ebell currently serves as director of the Centre for Energy and Environment at the Competitive Enterprise Institute, a prominent US-based free-market think-tank. Mr Ebell is also chair of the Cooler Heads Coalition which comprises over two dozen non-profit groups 'focused on dispelling the myths of global warming by exposing flawed economic, scientific, and risk analysis.'

The environmental bureaucracy grew strongly over the past eight years in the US. According to Americans for Tax Reform, under Obama's watch the EPA published over 3,900 rules and added 33,000 new pages of regulations. Annual compliance costs grew by more than US$50 billion since Obama took office. Sending a free-marketier to the head of an agency which epitomises the anti-democratic administrative state is an encouraging start.

As well as setting a new direction for the EPA, Trump has committed to taking on a range of other climate change policies, including: rescinding Obama's Climate Action Plan which included a series of programs to subsidise renewable energy production; abolish the Clean Power Plan which would have required states to reduce power plant emissions 32 per cent from 2005 levels by 2030; cancel the United States' commitment to the international Paris climate agreement; and end funding for United Nations global warming programs.

**AN UNDERREPORTED FACT IS THAT TRUMP HAS BEEN ELECTED ON A PLATFORM OF SUPPLY-SIDE LIBERALISATION MORE SUBSTANTIAL THAN REAGAN.**

Yet another underreported fact is that Trump has been elected on a platform of supply-side liberalisation more substantial than Reagan. Trump has said he would cut the federal statuary corporate tax rate from 30 per cent to 15 per cent. Federal labour income taxes are also set to be reduced and simplified with a three-tier system of 12 per cent, 25 per cent and 33 per cent, to replace the current seven tier system which features a top rate of 39.6 per cent.

Then there is a bold deregulation agenda which includes implementing a temporary moratorium on new regulations and cancelling harmful

Myron Ebell, the Trump administration's transition head for reform of the US Environmental Protection Agency and Director of Global Warming and International Environmental Policy at the free market think tank the Competitive Enterprise Institute.

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executive orders implemented by Obama. This would go some of the way to reducing the huge economic cost of regulation and red tape, which economists Mark and Nicole Crain estimated to total US$2 trillion annually.

Fossil fuel energy producers stand to be one of the biggest beneficiaries. Trump is poised to take a more technologically neutral stance on energy production. In addition to winding back renewable subsides, Trump proposed the coal mining lease moratorium be rescinded, onshore and offshore leasing of federal land and waters for producers be opened up and approvals processes streamlined.

The market response demonstrates the seriousness of potential policy change. Immediately following Trump's election shares in a number of renewable producers dropped whilst they rose for fossil fuel producers. For example, shares in Vestas, the world's largest wind turbine maker based in Denmark, dropped by 12 per cent while shares for Glencore Plc, the world's top coal trader, surged more than 7 percent.

Trump is also committed to 'dismantling the Dodd-Frank

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Act', which is Obama's landmark financial market regulation, notionally imposed in response to the Global Financial Crisis. Dodd-Frank added 14,000 pages of legislation and regulation which simply aided large banks at the expense of small ones, stunted competition and raised borrowing costs.

Put together this supply-side liberalisation package will spur growth. Lowering business taxes will attract investment, increase job creation and increase competition; lowering and simplifying income taxes will encourage work, reduce red tape and encourage consumer spending; opening up energy production will improve energy efficiency and lower energy prices; financial market deregulation will improve the efficiency of financial intermediation, improve competition, lower borrowing costs and increase allocative efficiency across the economy; and rescinding commitment to climate programs will end corporate welfare to renewables and reduce distortions in energy production.

## NOT ALL UPSIDES

But on the down side is Trump's commitment to reduce international trade. Trump committed to renegotiating (read: watering down) the North American Free Trade Agreement (NAFTA), withdrawing from the Trans-Pacific Partnership—a free-trade agreement involving twelve countries including Australia—and potentially imposing taxes on businesses seeking to outsource production overseas.

These policies will reduce the efficiency of the US economy, lower productivity, reduce competition, raise prices and ultimately harm his blue-collar working base more than free trade ever did.

Further, any move away from international trade will have a contractionary effect on global growth. This will lower demand for Australian exports such as commodities, education and tourism and dampen national income. Then there is the possibility of retaliation, with some fearing a re-do of the disastrous Smoot-Hawley tariffs which beggared the world economy in the 1930's.

Another key risk for the US economy will be the potential expansion of government debt. In addition to lowering taxes, Trump committed to a large infrastructure spending program, potentially up to $1 trillion. Government spending and entitlement reform were also noticeably absent from the campaign trail. This will result in some tension between supply-sider economists, who have typically been in favour of cutting taxes now and worrying about debt later, and fiscal conservatives, who prioritise getting debt under control. The historical analogy is Howard who cut spending first to get the Budget under control (with help from higher commodity prices) and then lowered taxes, and Reagan who cut taxes while at the same time increasing military spending and not reforming entitlement spending. Trump looks like he will be more Reagan than Howard.

Still, in the past Trump has said he would pay down the debt. His economic program will reduce direct revenue takings but increase indirect revenue through higher economic growth. Higher growth will also mean more people in work which will lower welfare costs. And Trump has talked of devolving education responsibility back to the states, which would reduce federal government outlays.

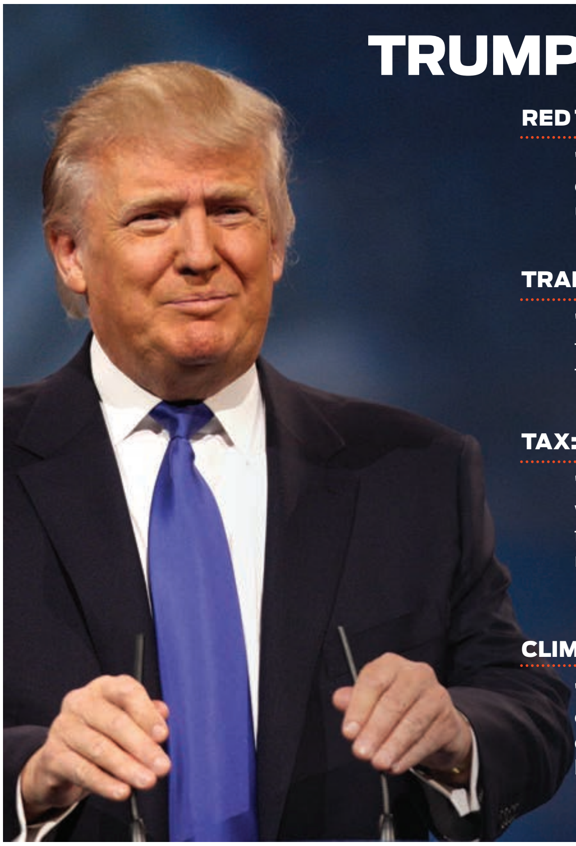
## THE TRUMP CHALLENGE FOR AUSTRALIA

A Trump Presidency is clearly not without substantial downside risks which need to be taken seriously. But Australia cannot become complacent and get locked into the common media narrative that Trump will recklessly damage the economy. This was the conventional wisdom about Reagan, Thatcher and Howard's economic programs. And each time the doubters were proved wrong. They will probably also be wrong about Trump.

Instead, Australia needs to prepare for the possibility that within a very short space of time the US could once again be a very attractive place to invest, not just for the service and IT sectors, but in the manufacturing and heavy industries so many had been content to see as no longer part of the US economy. It is also worth noting that the one area Trump has not been protectionist is with international capital—which Australia must compete for.

This means Australia will need to run harder and faster on economic reform to become more competitive. The best place to start is with our corporate tax rate, which is wildly out of step with competing nations. Prime Minister Malcolm Turnbull went to an election promising to reduce company taxes from 30 per cent to 25 per cent over a ten year period. This is far too little and too slow, but the opposition to even this modest reform we saw during the campaign shows how much harder reform needs to be pushed.

Still, much of the focus on tax remains on so called 'integrity' measures, 'revenue protection' and 'Google taxes'. Targeting companies like Google and Amazon which provide billions of dollars in economic value is the exact opposite of what the government should be



## TRUMP'S ECONOMIC AGENDA

**RED TAPE:**

'[A] temporary moratorium on all new regulation, canceling overarching executive orders and a thorough review to identify and eliminate unnecessary regulations that kill jobs and bloat government.'

https://www.greatagain.gov/policy/regulatory-reform.html

**TRADE:**

'First, I will announce my intention to renegotiate NAFTA or withdraw from the deal under Article 2205. Second, I will announce our withdrawal from the Trans-Pacific Partnership.'

*Donald Trump's Contract with the American Voter*

**TAX:**

'The largest tax reductions are for the middle class. A middle-class family with 2 children will get a 35% tax cut … The business rate will be lowered from 35 to 15 percent, and the trillions of dollars of American corporate money overseas can now be brought back at a 10 percent rate.'

https://www.donaldjtrump.com/policies/tax-plan

**CLIMATE AND ENERGY:**

'Open onshore and offshore leasing on federal lands, eliminate moratorium on coal leasing, and open shale energy deposits … Rescind all job-destroying Obama executive actions. Mr. Trump will reduce and eliminate all barriers to responsible energy production'.

https://www.greatagain.gov/policy/energy-independence.html

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doing. Instead, Australia should aspire to be the most attractive destination for businesses to invest in. This means lowering our corporate tax rate to match our competitors in Singapore (17 per cent), Hong Kong (16.5 per cent) and the US (soon to be 15 per cent).

Similarly, income taxes should be simplified and lowered. We have a very punitive income tax system which discourages aspiration and success and encourages talented managers to move overseas. The Productivity Commission noted that one cause of our lower productivity growth is the quality of Australia's managers relative to the United States. Higher taxes will not solve this problem. Australia should aim for a flat income tax, or at least a simple two-tier system.

The other key area for competition is coal production and exports. With the United States set to pull away from international climate agreements and liberalise energy production, Australia must follow. This means the Australian government should adopt a technologically neutral approach to energy production, rather than distorting the market to favour renewables.

To achieve this the Renewable Energy Target should be repealed, corporate welfare to renewable companies should be ended, green law fare must be stopped, approvals requirements should be significantly reduced and red tape must be slashed.

One way the left has tried to explain away Trump is by saying his election was fuelled by rising inequality. This is despite the fact that Trump did not mentioned this at his rallies. Rather, his theme was to 'drain the swamp' and end the corrupt rent-seeking culture of Washington D.C., which untimely serves the interests of the well-connected. This is a revolt against crony capitalism, not free-enterprise.

Australia's policy makers must prepare for the scenario where the US becomes more competitive. Australia is a small open economy which competes for international capital, business investment, talented managers and workers and coal exports. The conventional media narrative that Trump will recklessly endanger the US and global economies is likely to be as wrong as predictions about his certain election loss.

A bold vision based on tax cuts and deregulation is needed to expand growth and opportunity. Without urgent action Australia will quickly be rendered uncompetitive and face the potential of years of economic decline and stagnation. This will in turn add fuel to a populist uprising we just witnessed in the election of Trump.