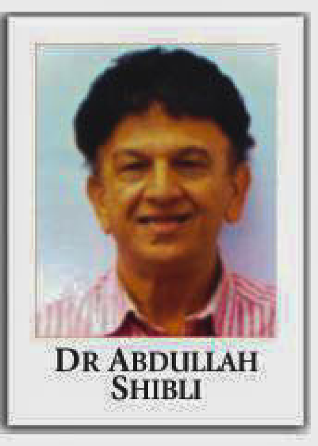
The Trump tax cut: A mockery of fiscal responsibility?



DR ABDULLAH SHIBLI

IT is well known that President Trump's much-ballyhooed recent tax cuts will have a major negative impact on the US federal budget, and according to some estimates, will lead to a USD 1.5 trillion increase in national debt. The cost of this policy will be borne by current taxpayers, but the major burden will rest on future generations. In a nutshell, the tax cuts that the Republicans passed in December will line the coffers of major corporations and bring some short-run tax relief for some American families, but the long-term legacy of this measure will be increased fiscal burden on the average taxpayer.

So, while the president is enjoying a boost in his popularity and the Republicans are hoping to gain in this year's mid-term elections in November, a majority of Americans will be paying for generations for this temporary largesse, in terms of increased debt payment and possible cuts in social safety nets, including welfare payments for the poor, Social Security for the retirees, and Medicare and Medicaid for the seniors. It needs to be seen whether President Trumps keeps his campaign promise to protect these programmes from any cuts.

Coming back to the economic impact, according to the Peterson Foundation, an independent think tank based in Washington, net interest costs for debt servicing will triple over the next 10 years, soaring from USD 269 billion in 2017 to USD 818 billion in 2027, and totalling USD 5.6 trillion over the period. By that time, Donald Trump will be out of the White House and the next presidents will have a major fiscal mess on their lap. To paraphrase Prof Alan Blinder of Princeton, the Republican tax bill demonstrates an utter lack of fiscal responsibility.

As I indicated in previous op-eds in this newspaper (December 16, 2017 and November 25, 2017), estimates of the impact of this tax cuts on the budget, GDP, and the debt burden diverge considerably depending on whether you are a Trump supporter or not. With the tax bill now in effect, we can clearly see that the tax cut is not "paid for," as claimed by the Republicans. The six- or seven-year tax break comes at the cost of an increase in national debt to the tune of 1.4 to 1.6 trillion over 10 years. A new analysis by economists at the University of Pennsylvania's Wharton School, taking into account the bill's effects on the economy and the interest burden from higher debt levels, estimates that "it would add roughly USD 3 trillion to the debt between 2028 and 2037, the next decade beyond the current ten-year budget window."

While tax cuts are popular and at times necessary to stimulate the economy, many well-known economists and even the Wall Street Journal, which speaks for the business community, have raised concerns about the timing of Trump's measures. The latest tax cuts have frequently been compared to the last major ones during Presidents Reagan and George W Bush's first years in office, in 1981 and 2001 respectively. However, there are two key differences between then and now. Federal revenues have dropped from 19.1 percent to 17.3 percent between 1981 and 2017, and the federal debt as a percentage of GDP has skyrocketed from 25.2 percent in 1981 to 76.7 percent in 2017, according to the non-partisan Congressional Budget Office. The annual deficit for fiscal 2017 was USD 666 billion, or 3.5 percent of the overall US economy, and will jump to over a USD 1 trillion by the end of 2020. Thus, the tax cuts are not revenue neutral as has been claimed, based on GDP growth projections.

When fully implemented, the tax cuts would increase the size of the economy above current projections by between 0.4 percent and 0.9 percent by 2027—meaning it would only add between 0.04 percent and 0.1 percent to economic growth each year, on average. Further, the Penn Wharton study concludes that "this initial boost fades over time as more debt accumulates." Even after taking GDP growth into account, the study finds the bill would add roughly USD 3 trillion to the debt in the next ten-year period (2028-2037).

A demonstrator holds a sign during a rally against the Republican tax bill on Capitol Hill in Washington, US.

PPHOTO: **REUTERS**

Many of Trump's detractors are correctly taking him to task for mortgaging the future for temporary gains in poll numbers. This is an election year. With 34 seats in the Senate, and all 435 in the House up for grabs, the Republicans will try to keep control of Congress. History tells us that mid-term elections have been harsh to the party of the president. In other words, voters may punish the party in power in the White House. Presidents Clinton, George W Bush and Obama faced the tune. Therefore, the Republicans are aware that they stand to lose the majority.

Until now, President Trump has not been able to achieve any of his major goals. True, the economy is in a boom, unemployment is low, and the stock market is roaring. However, President Trump can hardly take exclusive credit for the growth in GDP and employment. As for stock market, yes, since November 8, 2016, major stocks have been on an upward path, but it had been growing since Obama's times. Admittedly, President Trump can take credit for promising investment in infrastructure and easing some regulatory enforcement, and his "America First" talk. It is not far-fetched to call Trump's tax cuts an attempt to fool the public. Republicans can claim that with taxes reduced, take-home pay has increased, and some firms are even sharing their largesse, giving employees one-time bonuses "in a high-profile effort to show that the bounty for businesses is trickling down."

Ironically, in 2009, when Obama proposed a tax cut to stimulate the economy, Republicans opposed it arguing that the tax cut was not paid for and would increase the deficit. This line was in direct contradiction to their earlier assertion, known as "supply side theory," that tax cuts increase government revenue since economic growth stimulated from tax cuts leads to more income and more tax revenue.

On February 1, the Wall Street Journal, a Republican bastion, reported that the tax cuts have already led to a tightening credit market. The previous day, in an op-ed titled "Why Now is the Wrong Time to Increase the Deficit," Alan Blinder elucidates the theoretical reasoning for this market trend. It is estimated that the Treasury Department would need to borrow USD 955 billion in the fiscal year that ends in September 2018, an increase in USD 434 billion from last year. This would climb to USD 1.083 in 2019 and USD 1.128 trillion in 2020. While borrowing by the Treasury is not uncommon, the current acceleration is the first since the recession in 2007-09, when interest rates were low and global inflation was very modest. According to the Treasury Borrowing Advisory Committee or TBAC, a group of private banks that advise the US government, the tax-cut driven round of borrowing is certain to put upward pressure on interest rates and inflation tendencies, given that the US and global economy is on a path to sustained growth in 2016-2020. The signs are already there: "yields on 10-year Treasury notes rose 3.13 percentage points in January to 2.722 percent and are up 0.664 percentage point since September."

While US government borrowing is low by global standards, it cannot be gainsaid that budget deficit will go up and so will national debt. Unless growth in GDP leads to higher revenue in absolute terms, as predicted by the Supply Siders, the impact on taxpayers will be significant in the future. Unfortunately, we can only wait and see, but as Keynes once said, "in the long run, we are all dead."

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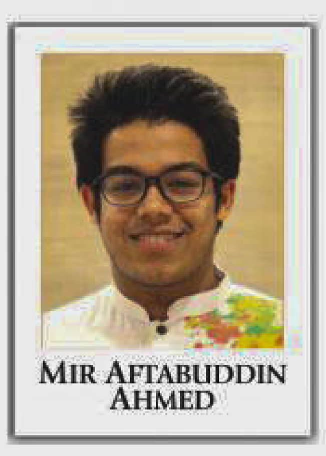
Entrepreneurship to the rescue!



MIR AFTABUDDIN AHMED

IN 2016, OXFAM released a report that categorically stated that the wealth of the richest 1 percent of individuals was equal to that of 99 percent of the global population. The report further portrayed how eight men owned the same wealth as half of the global population. Even though OXFAM's report was branded as misleading and inaccurate by some, it sheds light on the stark reality of global inequality in wealth and income. Debates surrounding inequality have often focused on creation of job opportunities and a human-capital based approach towards recruitment. Many scholars, however, are promoting a slightly different, and some may say, a more sustainable mechanism to bring about change.

That social business can be lucrative can be internalised through education and awareness. Social business is not an idea owned by any one man. Its prospects and benefits are for everyone.

In Bangladesh, despite there being commendable progress in eradicating extreme poverty, wealth inequality remains a major challenge, a condition sustained through a system fashioned to the advantage of the powerful elite. The solution, therefore, lies in refashioning, or restructuring, that system, not its total obliteration, as some Marxists may like to propose.

During a lecture at the University of Toronto in Canada on February 3, Nobel Prize-winning social entrepreneur Muhammad Yunus shared his thoughts on the current state of global political economy, the future of microfinance, and the prospects of sustainable development. Whatever maybe one's views about his role in empowering rural populations in Bangladesh, one cannot question the inspiring, almost common-man approach the economist has taken towards reducing inequality. Yunus emphasised the role of

entrepreneurship to reduce the stark differences in wealth inequality between rural and urban populations, as opposed to simply providing platforms for job creation.

Debunking the traditional economic thought that human beings are inherently selfish when it comes to making decisions, he vociferously called for the recognition of "selflessness" as a core component of human behaviour, and its prospects in entrepreneurship. Human actions, according to Yunus, is an amalgamation of self-interest and selflessness, and it can be turned into a positive force through avenues of social business.

To encourage sustainable entrepreneurship across societies, one needs to first recognise that it is rational for a human being to be both self-seeking and selfless. To imply that business in general will have profit maximisation ingrained in its nature, without consideration for people's empowerment and sustainability, is not necessarily true. Yunus suggested the introduction of social business as an alternative to traditional business degrees in academia across universities and schools. If social business is seen as a lucrative proposition for the graduates, it will, like most ideological movements, slowly get internalised within the society. Critical avenues in human history, such as the Industrial revolution, created the market for work across societies. But it is important to remember that we are job-makers, not simply job-seekers, as Yunus had suggested. Therefore, the role of academics to promote sustainable social business is fundamental to shaping entrepreneurship as a solution to reducing poverty.

Job creation is an integral part of public policy. But boosting rural entrepreneurship through tangible support, either in the form of finance, as is the case with the Grameen Bank model, or through state subsidisation of individual entrepreneurial initiatives, needs to take a front seat. The welfare schemes within our governance structure are expected to support healthcare and education, but in certain scenarios, it may result in inactive human resources. This does not mean that human beings are lazy—in fact, inequality does not exist because of human kind, but because the system entraps human innovation. So a welfare state giving handouts without encouraging innovation will lead to a more unequal society. For a country of 160 million people, it is impossible for Bangladesh to ensure full employment. Therefore, to encourage growth in wealth potential in rural Bangladesh, the state and the private sector have a responsibility of spurring innovation amongst the population, rather than simply making them dependent on the job market.

A classic example of entrepreneurship in rural Bangladesh is the jamdani sari business, a once-promising sector in the region. But jamdani producers and entrepreneurs are being increasingly side-lined in the national economy. People's changing fashion sense and taste may be a contributing factor here, but adequate support, planning and infrastructural structure may help boost the sector. From local food businesses to furniture production, the potential for rural entrepreneurship remains untapped and un-invested-upon.

That social business can be lucrative can be internalised through education and awareness. Social business is not an idea owned by any one man. Its prospects and benefits are for everyone. To make social business mainstream, we need to make sustainable businesses lucrative to the investors, job-seekers and job-makers, and further promote public-private partnership. Bangladesh is on a path to development like never before, but if international statistics on inequality are any indication, we are still following a dangerous, unsustainable model for economic emancipation. Recognising the potential of citizens to create, diversify and innovate must take a front seat in determining what kind of society we want to be in the long-run.

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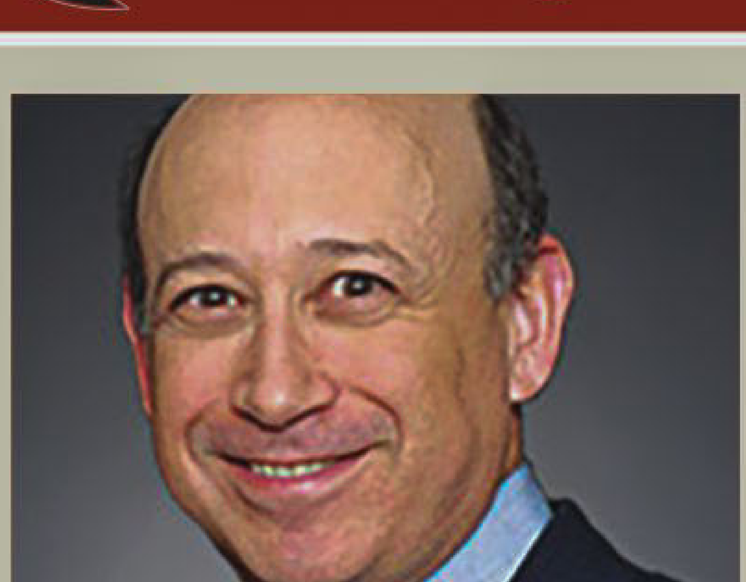

LLOYD BLANKFEIN

American business executive and CEO of Goldman Sachs

I need my bosses' goodwill, but I need the goodwill of my subordinates even more.

CROSSWORD BY THOMAS JOSEPH

ACROSS

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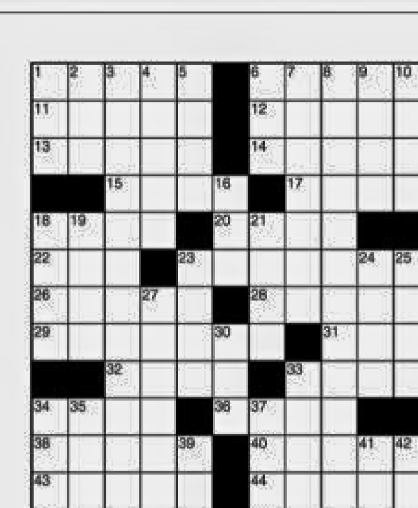
11 Texas landmark
12 Let up
13 Cheapskate
14 Chopper rider
15 Role for Harrison
17 Long ride
18 Doting
20 Reply from the pews
22 Faberge creation
23 Counter cleaners
26 Make joyous
28 Zigzag
29 Protractor units
31 Diner dessert
32 Targets
33 Gelatin shaper
34 Flex
36 "Pygmalion" writer
38 Town leader
40 Birch's cousin
43 Justice Kagan
44 Martin of movies
45 Bash
46 Female following

DOWN

1 Driving aid
2 Ivy League student
3 Checking things out
4 Correct
5 Manor head
6 Research site
7 Ike's boyhood home
8 Fleeing quickly
9 Gossip bit
10 Infamous emperor
16 Puppy sound
18 Flow into
19 Eyeball
21 Does a yard job
23 Appear
24 Satanic
25 Bird snack
27 Poseidon prop
30 Snaky letter
33 Valletta's island
34 Horn sound
35 First name in jazz
37 Diner dish
39 Bright beam
41 Garden name
42 "Stand" band



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YESTERDAY'S ANSWER

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BEETLE BAILEY BY MORT WALKER

BABY BLUES BY KIRKMAN & SCOTT