Trump's Tax Cuts, Budget, Deficits…Trump's Recession 2019?

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"Lies and misrepresentation of facts have become the hallmark of American politics in recent years more than ever before. Not just lies of commission by Trump and his crew, but lies of omission by the mainstream media as well.

In Trump's recent package of tax cuts for corporations, investors and millionaires, the lie is that the total cuts amount to $1.5 trillion—when the actual amount is more than $5 trillion and likely even higher. And in his most recent announcement of budget deficits the amounts admitted are barely half of the actual deficits—and consequent rise in US national debt—that will occur. Even his $1.5 trillion so-called infrastructure spending plan, that Trump promised during his 2016 election campaign, and then throughout 2017, amounts to only $200 billion. The lies and exaggerations are astounding.

The mainstream media, much of it aligned against Trump, has proven no accurate in revealing the Trump lies and misrepresentations: They echo Trumps $1.5 trillion total tax cut number and provide no real analysis of the true total of the cuts; they low-ball the true impact of Trump's budget on US annual budget deficits and the national debt; and they fail to expose the actual corporate subsidy nature of Trump's 'smoke and mirrors' infrastructure plan.

Trump's multi-trillion dollar tax cuts for business, investors and the wealthiest 1%, plus his annual trillion dollar deficits as far as the eye can see, plus his phony real estate industry handouts that parade as infrastructure spending together will lead the US economy into recession, most likely in early 2019. Here's the scenario:

The massive deficits will require the central bank, the Federal Reserve, to raise short term interest rates. What's called the benchmark federal funds interest rate will rise above 2% (currently 1.5%). The longer term 10 year US Treasury bond rate will rise to 3.5% or more. Those rates have already been rising—and their rise already provoking stock and bond market corrections in recent weeks which should be viewed as 'dress rehearsals' of more serious financial asset market retreats and contractions yet to come.

As this writer has argued repeatedly in recent publications, both the US real economy and financial markets (stocks, junk bonds, derivatives, etc.) are 'fragile' and increasingly susceptible to a significant downturn. In 2007-08 central bank interest rates rose to 5% and that precipitated a crash in subprime mortgage bonds and derivatives that set off the contraction in the economy. With the US economy not fundamentally having recovered from 2008-09 still to this day, and with household and corporate debt well above levels of 2008, it will take less of a rise in interest rates to provoke another similar reaction.

The US real economy is already weak. GDP numbers don't reflect this accurately. Important sectors like autos and housing are softening or even stalling already. Consumption will falter. Consumers have loaded up on household debt. At $13.8 trillion, levels are equal or greater than 2007. They have also been depleting their savings to finance consumption in 2017-18. And despite all the recent media hoopla, there's been no real wage gains occurring for 80% of the workforce in the US. Moreover, renewed inflation now occurring will reduce households' disposable income and buying power even more this year. Rising taxes for tens of millions of households in 2018-19 will also negatively impact consumption spending. Don't expect consumption to rise in 2018 as interest rates, taxes, and prices do. Just the opposite. Consumption makes up 70% of the US economy and it is now nearly exhausted. It will stagnate at best, and even retreat steadily beginning in the second half 2018.

Like the real economy, the US financial markets are fragile as well. They are in bubble territory and investors are getting increasingly edgy and looking for excuses to sell—i.e. take their super capital gains of recent years and run to the sidelines. A rise in rates much above the 2% and 3.5% noted will provoke a significant credit contraction (or even freeze). Money capital (liquidity) will dry up for non-bank companies, investment and production will be scaled back, layoffs will rise rapidly, and consumption will collapse—together bringing the economy down. It's a classic scenario the forces behind which have been steadily building. And it won't take too much more to provoke the next recession—likely in early 2019. The Federal Reserve's plans to hike rates four more times this year will almost certainly set the scenario in motion.

Trump's $5 Trillion Business-Investor Tax Cuts

Trump & Congress—with the mainstream media in train—say the Tax Cut Act just passed amounts to $1.5 trillion. But that's not the true total value of the business tax cuts. That's what they claim is the deficit impact of the tax cuts. (But even that deficit impact is grossly underestimated, as will be shown shortly).

Here's the true value of the business-investor tax cuts:

1. $1.5 trillion cut due solely to reducing the corporate nominal tax rate from 35% to 21%.

2. Another $.3 trillion for the new 20% tax deduction for non-corporate businesses (lowering their effective tax rate from 37% to 29.6%).

3. $.3 trillion more for ending the business mandate for the Affordable Care Act

4. Still another, at minimum, $.5 trillion for a combined accelerated business depreciation writeoffs (a form of tax cuts for writing off all equipment added by business in the year purchased instead of amortized over several years); plus repeal of the Alternative Minimum Tax for Corporations: and a roughly halving of the AMT for individuals. But that's not all.

5. The wealthiest 1% households, virtually all investor class, get their nominal individual income tax rate reduced from 39.6% to 37%. Moreover, the 39.6% did not kick in until an income level of $426,000 was reached. Now the threshold for the even lower 37% does not start until $600,000 income is reached. All that amounts to at least another $.5 trillion in tax cuts.

That's a total of $3 trillion so far in tax cuts in the Trump Plan. But the further, really big tax cuts come for US Multinational Corporations. Their 'take' will be another $2 trillion in tax reduction over the next decade.

The Multinationals have hoarded between $2-$2.7 trillion in cash offshore in order to avoid paying taxes on their earnings. But that $2 trillion is a gross underestimation. First of all, it's a figure for only the 500 largest US multinationals. What about the hundreds of thousands of other US corporations that also have foreign subsidiaries in which they park their cash to avoid taxes? And what about the unreported cash and assets they're hoarding in offshore tax havens in the Cayman Islands, Bermuda, Vanuatu and elsewhere? That too is not part of the $2.-$2.7 trillion. Another reason to doubt the $2 trillion is accurate is that they already had $2 trillion stuffed away offshore back in 2011-12. According to the business periodical, Financial Times, the largest US corporations by January 2012 "are collectively sitting on an estimated $2,000bn of cash". Does anyone believe they stopped diverting profits and cash offshore after 2011-12 for the past five years?

If one conservatively estimates there's $4 trillion in cash stuffed offshore to avoid taxes (accumulating since 1997 when Bill Clinton conveniently allowed them to begin doing so), the new Trump tax act allows them to pay a tax of only 10% on average if they 'repatriate' (bring back) that cash. If they paid the prior 35% tax rate, it would cost them $1.4 trillion in 2018-19, the first year of the Trump tax. But estimates of this provision in the Trump bill show they plan to pay only $339 billion. So they will be saving approximately $1.061 trillion in the first year alone. Thereafter for the next nine years they pay only 8% to 15.5%, instead of the 35%. That amounts to at minimum another $1 trillion in tax savings for multinational US corporations under the Trump tax.

6. In short, US multinational corporations will get a tax reduction of at least $2 trillion

The Trump tax cuts for businesses and investors thus total $5 trillion over the next decade!

So how do Trump, Congress, and the media get to only $1.5 trillion? Here's how they do it:

> They raise taxes on the middle class by $2 trillion in the Trump tax plan. That leaves the $5 trillion in business-investor cuts, minus the $2 trillion in middle class tax hikes, for a net $3 trillion in cuts. But they admit to only $1.5 trillion in net tax cuts. So where's the difference of the other $1.5 trillion? That difference is assumed to be 'made up' (offset) by the US economy growing at a GDP rate of 3-3.5% (or more) for the next ten years—i.e. more than 3% for every year for ten more years without exception!

That 3-4% annual overestimated economic (GDP) growth for the US economy is based on ridiculous assumptions: that slowing long term trends in US productivity and labor force growth will someone immediately reverse and accelerate; that the US will now grow at double the annual rate it did the previous decade; and that there'll be no recession for another decade when the historical record shows the typical growth period following recession is 7-9 years and the US economy is already in its 8th year since the last recession. (If there's a recession, then the annual GDP growth for nine years will have to average close to 5% a year—a figure never before ever attained!).

It's all Trump 'smoke and mirrors', lies and gross misrepresentations. But no matter, for its really all about accelerating the subsidization of corporations and capital incomes for the wealthiest 1% by means of fiscal policy now that the central bank's 9 years of subsidization of capital incomes by monetary policy (i.e. near zero rates, QE, etc.) is coming to an end.

Trillion $Dollar US Deficits for Years to Come

The US budget deficit consequences of the Trump tax cuts are therefore massive. Instead of averaging $150 billion a year on average (the $1.5 trillion) the effect will be three to four times that, or around $300 to $400 billion a year!

On top of that there's Trump's latest US budget, which projects another $300 billion for the next two years alone. With the majority of that total $150 billion a year caused by escalation of the Defense-War budget as the US builds up its tactical nuclear, naval and air forces in anticipation of more aggressive US moves in Asia. Last year's budget deficit was $660 billion. The Congressional Budget Office estimates deficits of $918 billion by 2019. Independent estimates by Chase bank put it at $1.2 trillion. And that's just the early years and assuming there's no recession, which will balloon deficits by hundreds of billions more in reduced tax revenues due to a contracting US economy.

Independent projections are for US deficits to add $7.1 trillion over the next decade. But that's an underestimate that assumes not only no recession, but also that defense-war spending will not rise beyond current projection increases, and that government costs for covering price gouging by the healthcare and prescription drug industries (for Medicaid, Medicare, CHIP, government employees) will somehow not also continue to accelerate. The likely true hit to US deficits—and therefore the US national debt—will well exceed $12 trillion! The US could easily see consecutive annual budget deficits of $1.5 trillion. That will mean a US debt total rising from current $20 trillion to $32 trillion (or more) over the coming decade.

From Tax Cuts, Deficits & Debt to the Next Recession

How does this potentially translate into recession? Here's a very likely scenario:

> The US central bank, the Fed, has already begun raising interest rates. That has already begun slowing key industries like auto and housing. It will soon impact consumers in general, who are near-maxed out with credit card, auto, student loan, and mortgage debt, and facing further accelerating inflation in rents, healthcare costs, transport, state and local taxation, and prices for imported goods.

The massive deficits will require the central bank to raise interest rates perhaps even faster and higher than before. Slowing foreigners' purchases of US government bonds to pay for the accelerating debt, may require the Fed to raise rates still further. It's 2007-08 all over again!

Rising Fed interest rates and inflation will also continue to depress bond prices. That has already begun, and to spill over to stock prices as the major contraction in stock prices in February 2018 has revealed. Both bond and stock prices are headed for further decline.

Should stock market prices correct a second time this year, this time by 20% or more, the contagion effects across markets will result in a general credit crunch for non-financial corporations and businesses. US corporate debt has risen even more than US household or government debt since 2009. The corporate junk bond markets will experience a crisis, as

US Zombie companies (i.e. those in deep debt, an estimated 12% to 37% of all US corporations, depending on the source) cannot get new financing and begin to go bankrupt.

These stock and bond market effects, and emerging Zombie company defaults, will result in a general investment pullback by non-financial corporations. That will mean production cuts that result in layoffs and further wage stagnation and slowing consumption spending. The next recession will have begun.

The Central Bank (FED) Will Precipitate the Next Recession—As It Did in 2007

This scenario is all the more likely if the general argument that the US economy is both financial and non-financially weak and fragile is accurate. The weakness in the real economy and fragility in the financial markets mean that Fed interest rate hikes cannot exceed 2.0%, and longer term rates (10 year Treasury bonds) cannot exceed 3.5%, before the system 'cracks' once again and descends into recession. With the Fed rates at 1.5% and approaching 2% and the Treasury at 3% and approaching 3.5%, the US economy today is well on its way to approaching its limits.

Just as it was interest rates peaking in 2007 that precipitated (not caused) the crash in (subprime) mortgage bonds, that then spilled over through financial derivatives to the rest of the credit system—today the bond markets may once again be signaling the 'beginning of the end' of the current cycle. The new contagious derivatives may not be mortgage based bonds and CDO and CDS financial derivatives, as in 2008; the new financial contagion will be driven by the new financial derivatives—i.e. Exchange Traded Funds(ETFs), and related ETNs and ETPs—with their effects amplified by Quant hedge funds' automated algorithm-based trading.

In summary, Trump tax cuts and Trump's budget will exacerbate US budget deficits and debt and cause the central bank to raise interest rates even faster and higher. Those rate hikes cannot be sustained. They will lead to another credit crisis—this time even sooner than they did in 2007 given the even weaker US economy and more fragile financial markets. The next recession may be sooner than many think.

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