

*SOM Macro Strategies*  
**Trumpanomics Part I: Reaganomics**

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## Trumpanomics Part I: Reaganomics

### Trump's Economic Policies Are Very Similar to Those of Reagan's

#### Trump Potential Policies

- **Fiscal policy**
  - Cut personal and corporate taxes
  - Ramp up infrastructure and defense spending, while keeping spending under control
- **Regulatory policy**
  - Immigration policy of strict enforcements and no amnesty
  - Lift constraints on production of shale oil and clean coal
- **Monetary policy**
  - End QE and raise interest rate
- ***Impact of Trump Policies?***

#### Reagan Policies

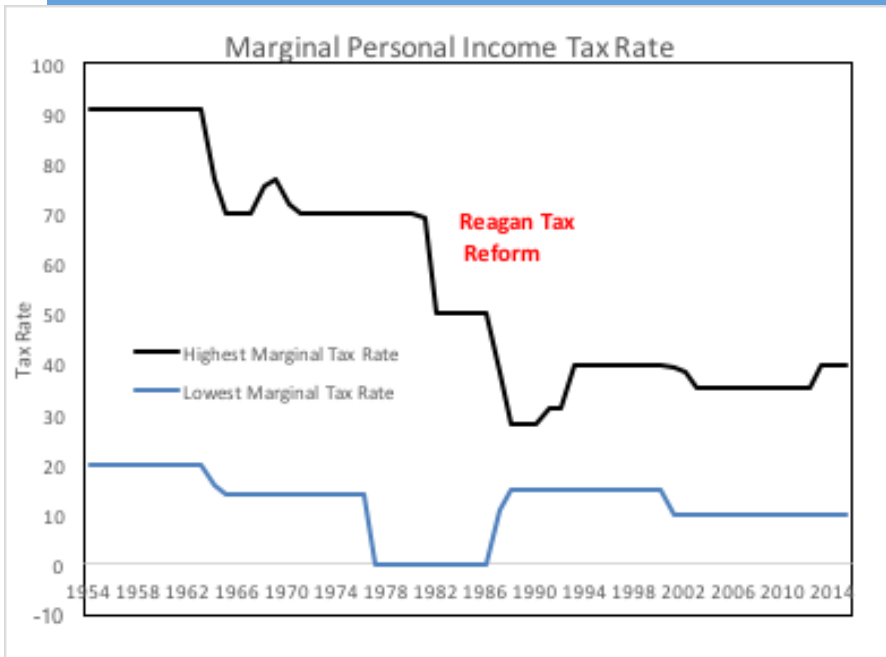
- **Fiscal policy**
  - Cut personal and corporate taxes
  - Ramped up defense spending, while reducing growth of total spending
- **Regulatory policy**
  - Immigration reform in 1986 created amnesty for almost 3,000,000 illegal immigrants
  - Lifted price controls on domestically produced oil prices
- **Monetary policy**
  - Volcker raised interested rates and brought inflation under control
- ***Impact of Reagan policies***
  - Tax cuts were dramatic but led to rising debt growth
  - Illegal immigrations is an even bigger problem today
  - Imports of oil fell initially along with oil prices
  - Inflation and rates came down but started the a series of financial crisis
  - Economy grew a bit faster than other periods, but with a slower pace of productivity growth

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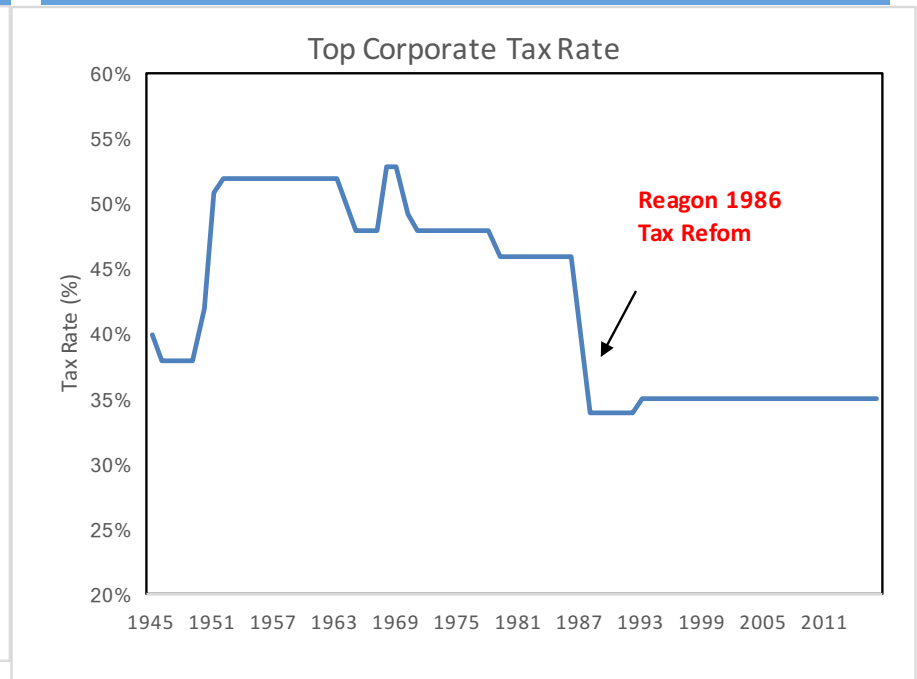
## Trumpanomics Part I: Reaganomics

### Reagans Fiscal Policy: Cutting Taxes <sup>1</sup>

#### Reagans Cut Rates and Came Close to a Flat Personal Income Tax



#### Reagan Cut Corporate Taxes Levels Not Seen Since WWII

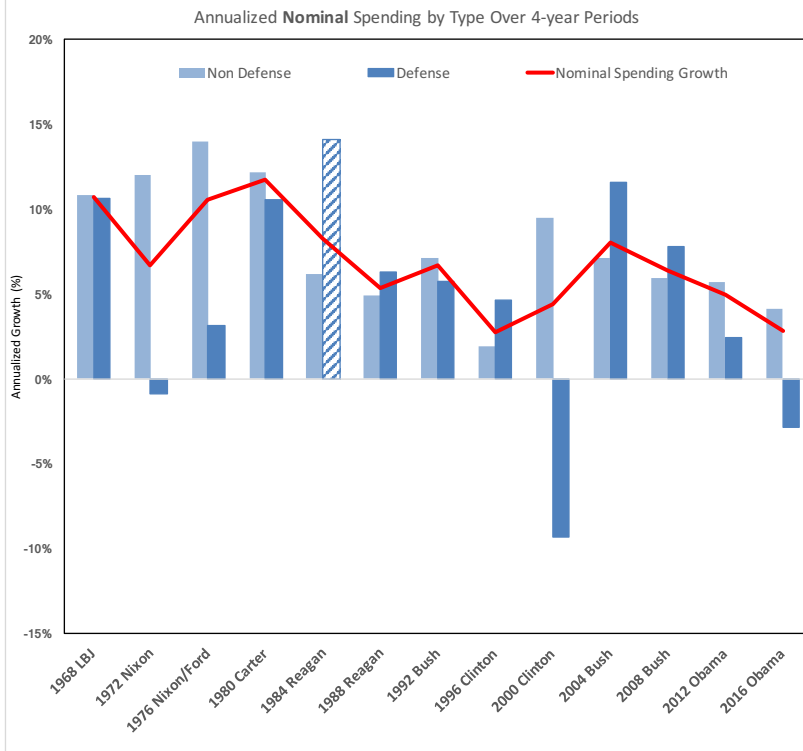


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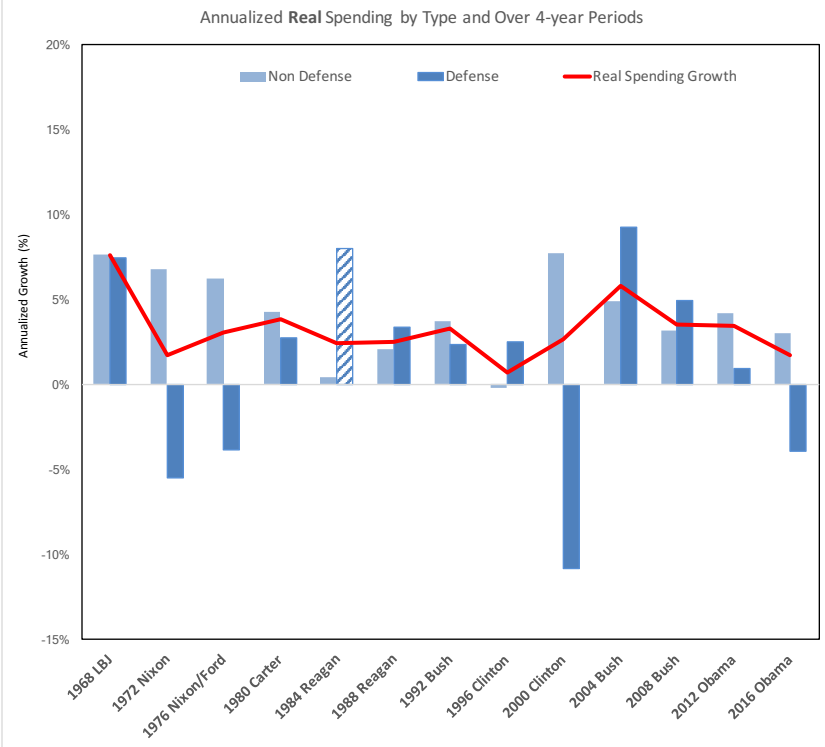
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### Reagan's Fiscal Policy : Increased Defense Spending While Bringing Down Total Spending <sup>1</sup>

#### Reagan Ramped Up Defense Spending While Bringing Down Total Spending Growth



#### Surge in Defense Spending Looks Even Bigger on a Real Basis But Total Spending Looks Similar to Earlier Periods

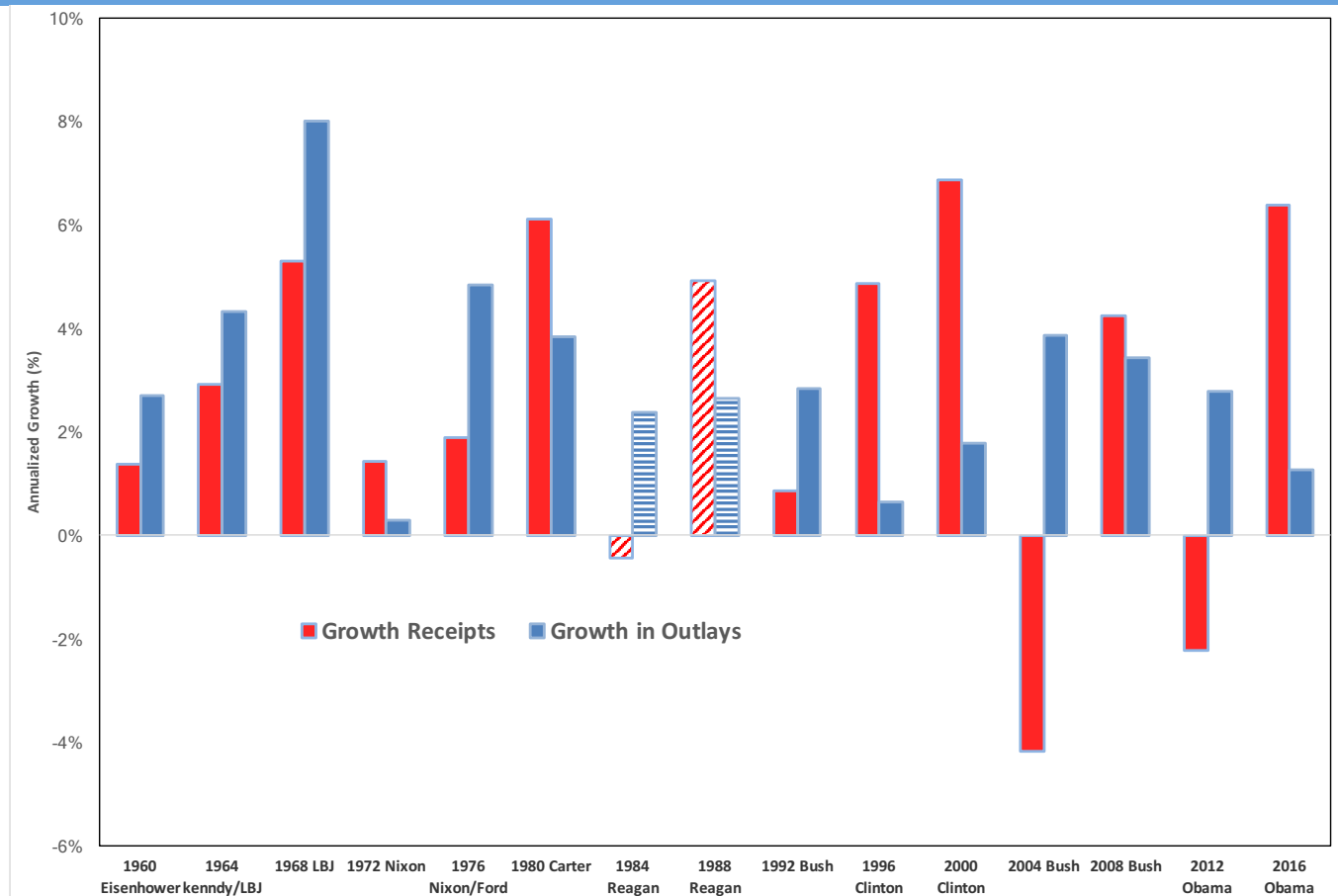


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## Trumpanomics Part I: Reaganomics

Reagan's Fiscal Policy: Revenue Fell Faster Than Spending in First Term, After That Very Similar to Other Periods

Annualized Growth of Real Federal Receipts and Outlays Over Four Year Periods <sup>1</sup>



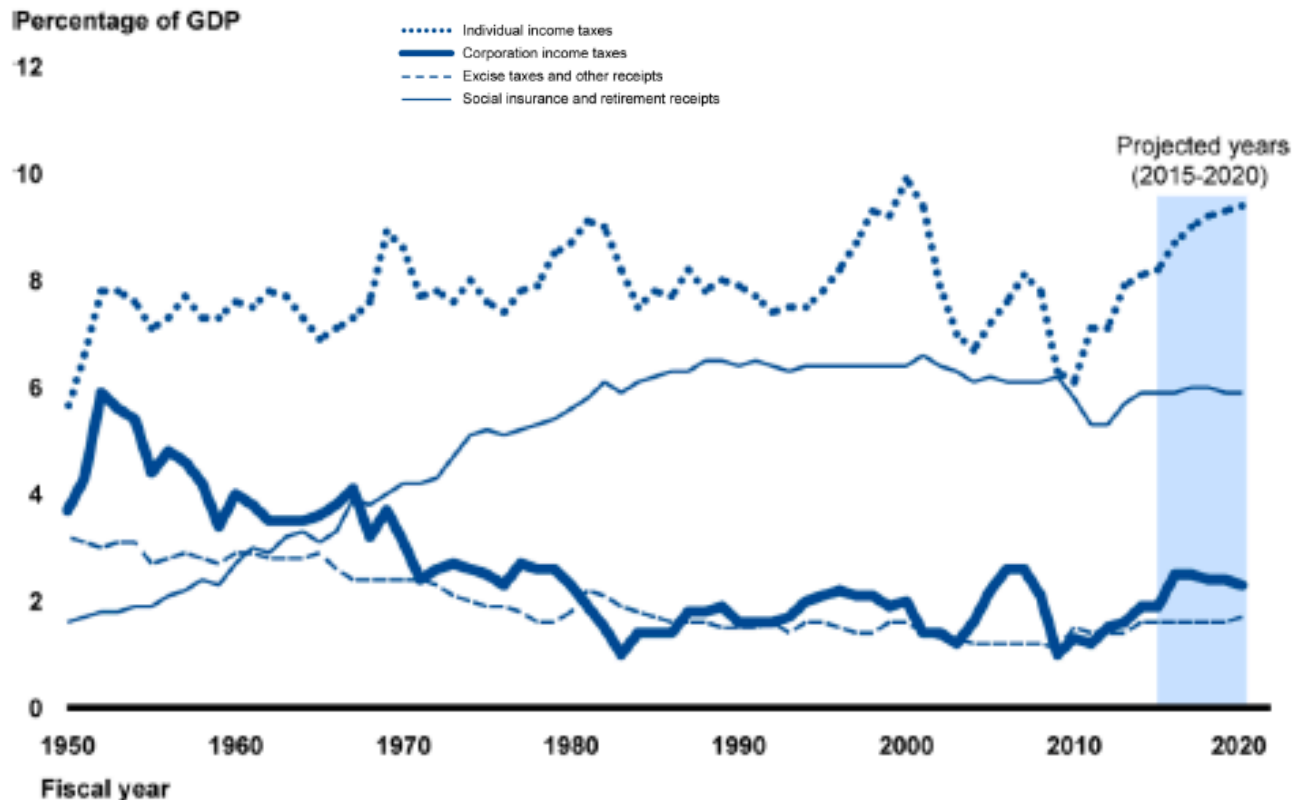
1. OMB

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Reagans Fiscal Policy: Biggest Impact on Federal Revenue Came From Corporate Tax Cuts

Tax Revenue As Percent of GDP By Sources <sup>1</sup>



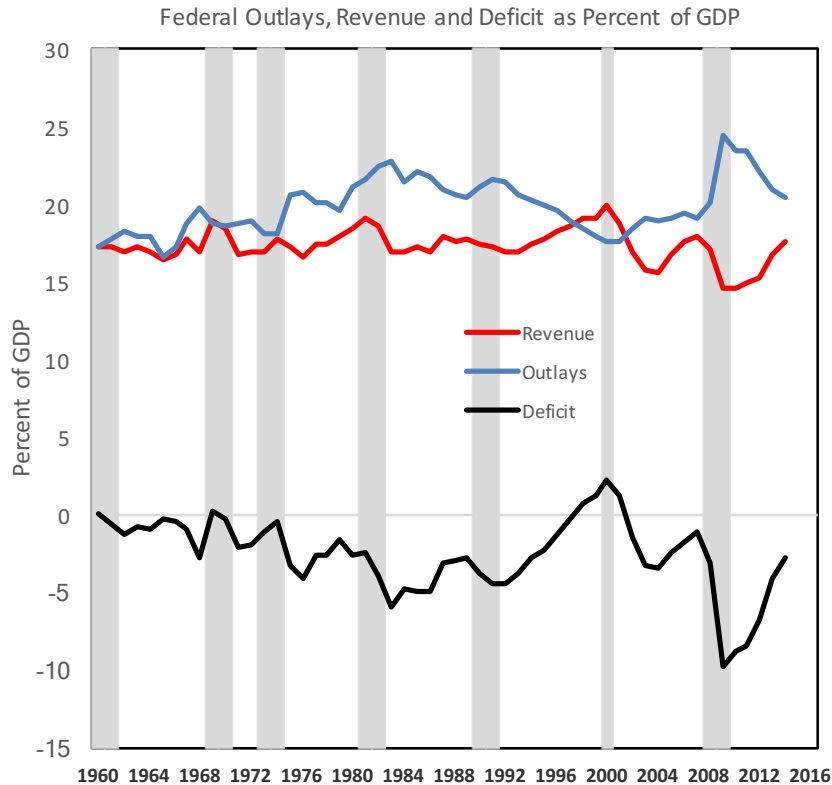
1. Corporate Income Tax: Effective Tax Rates Can Differ. GAO report 13-520

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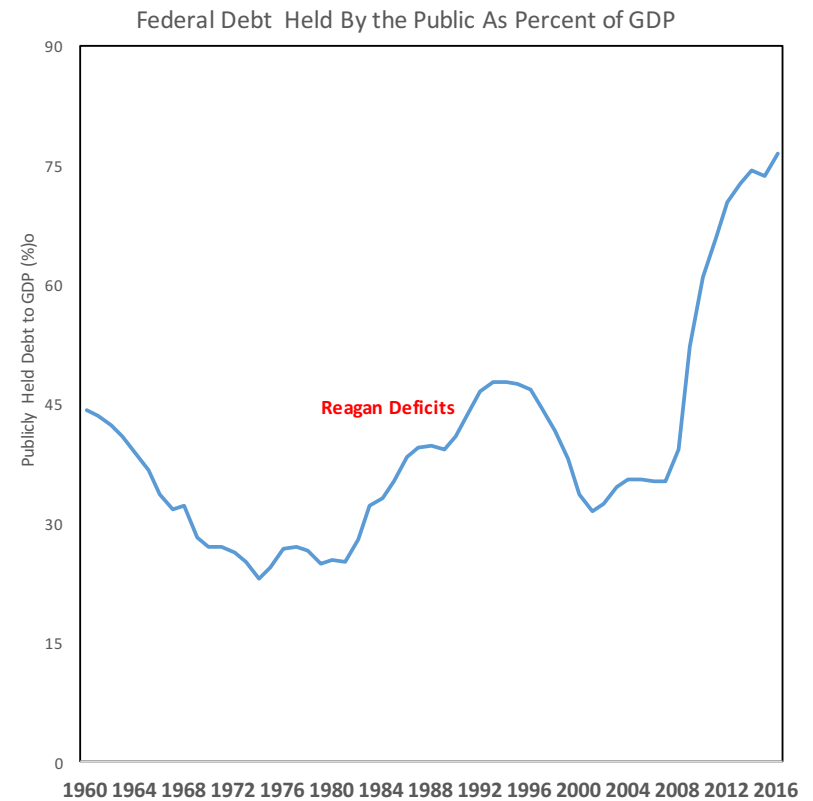
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### Reagan's Fiscal Policy: Impact on Deficits and Growth of Public Debt<sup>1</sup>

#### Deficits Grew As Revenue Fell Faster Than Spending



#### Higher Deficits Create A Surge in Federal Debt

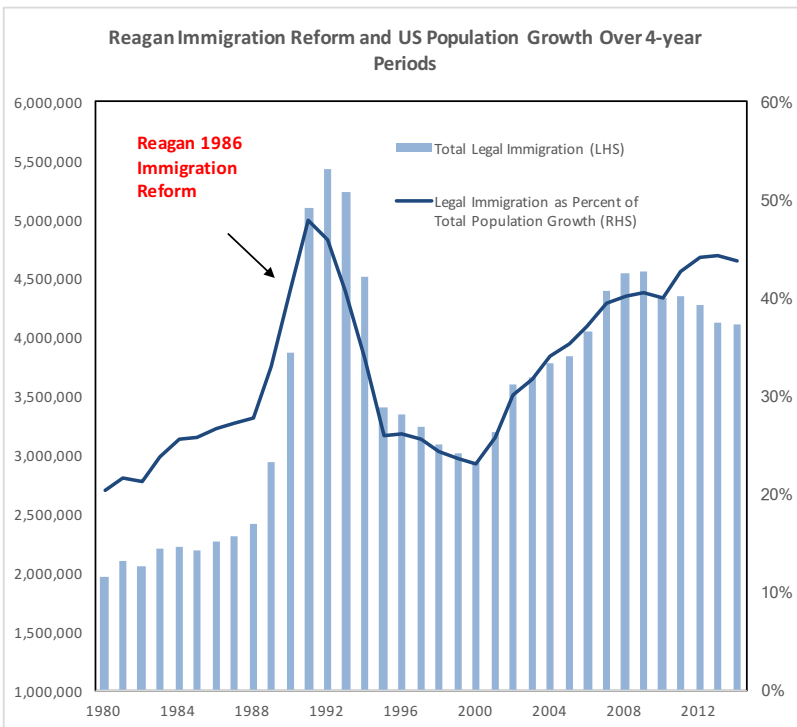


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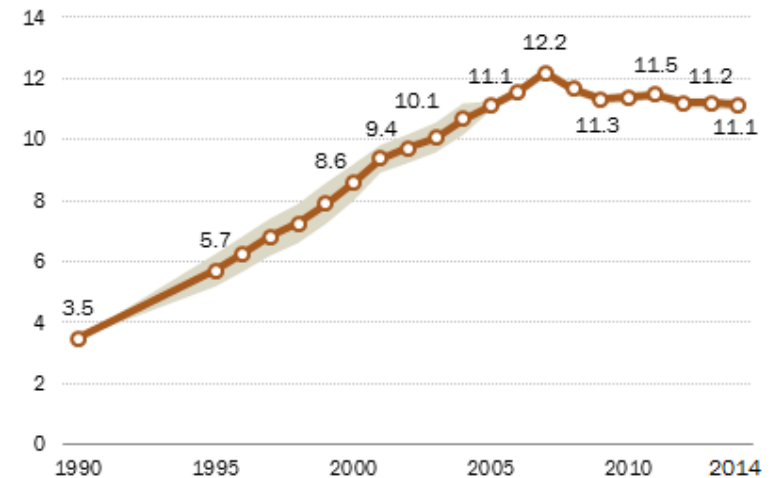
### Reagan's Regulatory Policy: Amnesty and Strict Enforcement Did Not Solve the Problem of Illegal Immigration

#### Legal Immigration Continues to Grow <sup>1</sup>



#### As Does Illegal Immigration <sup>2</sup>

*In millions*



Note: Shading surrounding line indicates low and high points of the estimated 90% confidence interval. The 2009-2014 change is not statistically significant at 90% confidence interval. Data labels are for 1990, 1995, 2000, 2001, 2003, 2005, 2007, 2009, 2011, 2013 and 2014.  
 Source: Pew Research Center estimates for 2005-2014 based on augmented American Community Survey data (IPUMS); for 1995-2004 based on March Supplements of the Current Population Survey. Estimates for 1990 from Warren and Warren (2013).

1. Federal Reserve Bank of St. Louis  
 2. Pew Research

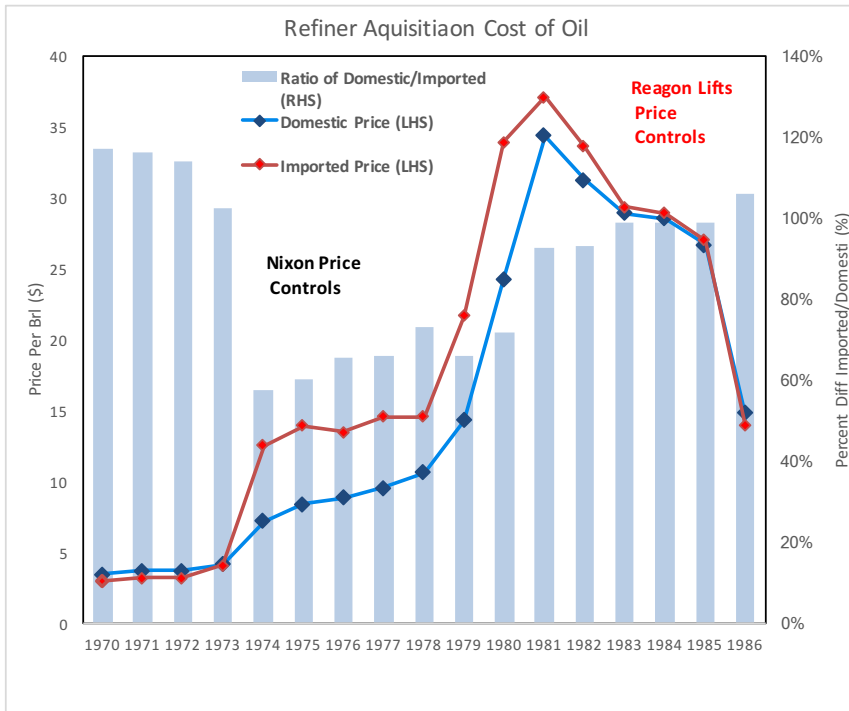


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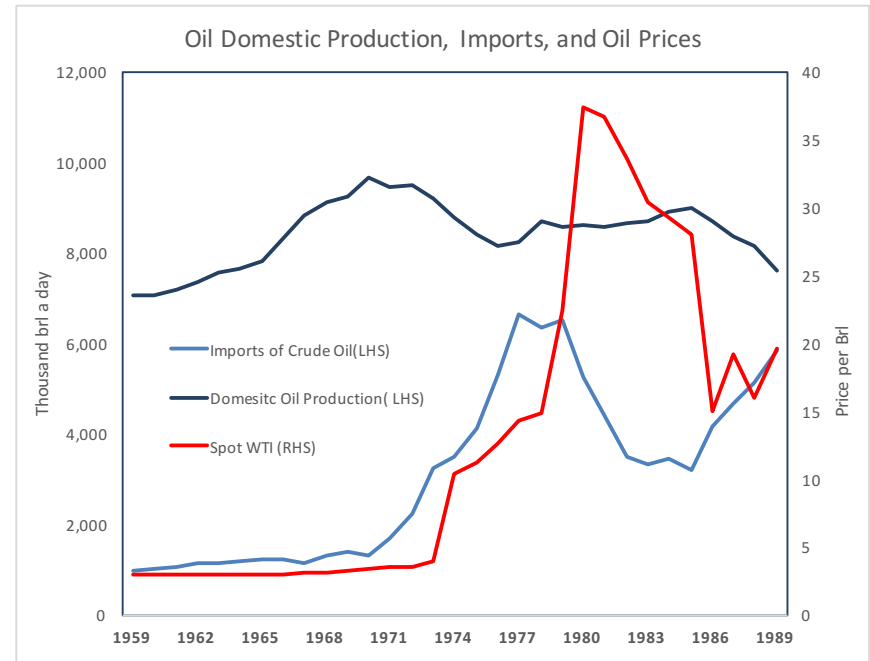
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### Reagans Regulatory Policy: Lifting the Cap on Prices of Domestically Produced Price<sup>1</sup>

Nixon Era Price Caps Pushed Domestic Oil Prices Below Fair Market



Lifting Caps Helped Push Down Oil Prices As Domestic Production Rose



1. EIA

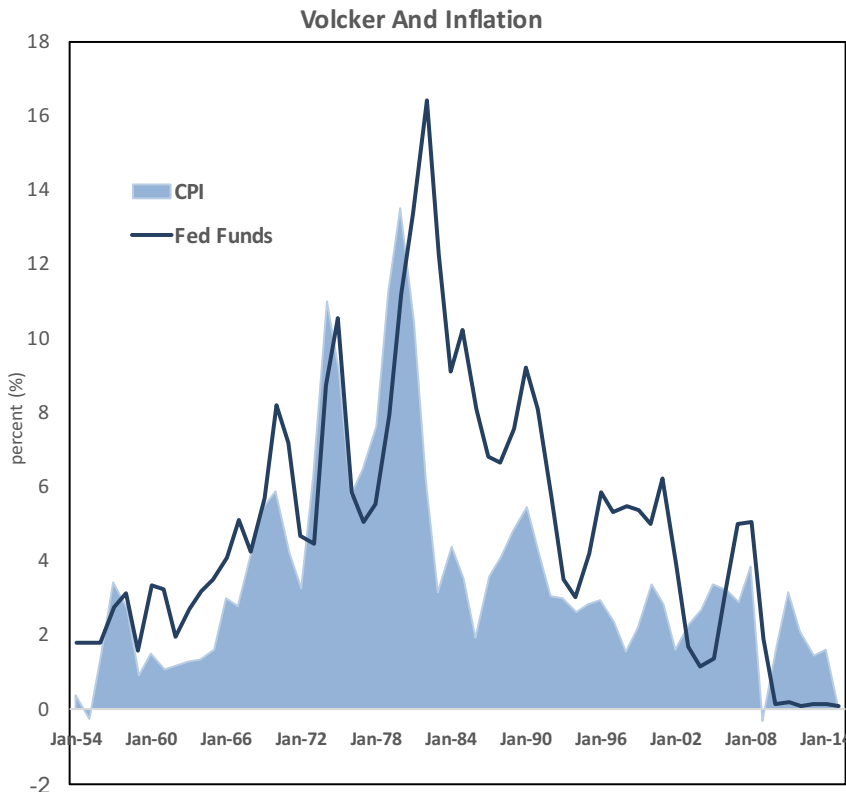
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### Reagan's Monetary Policy: Volcker Pushed Up Rates and Brought Down Inflation

Federal Reserve Pushed Up Rates And Finally Pushed Down Inflation <sup>1</sup>

However, Near Era of Mortgage Rates Created A Sequence of Financial Crisis



- 1980-89, Thrift Crisis
  - Thrift mortgage portfolio yields below funding yields, mortgages extended as rate rose after Fed hike
  - Insurance companies buy mortgages
- 1990-93, Insurance Companies Crisis
  - Insurance company mortgage portfolio yields fell below funding yields of GICs, mortgages shortened as rates fell after Fed cut rate cut
  - Banks buy mortgages
- 1994-1995, Bank Crisis
  - Bank mortgage yields below funding yields, mortgages extended as rates rose after Fed hike
  - GSEs buy mortgages
- 1996-2008, GSE Crisis
  - Problems with GSE hedging of mortgage convexity
  - GSE substitutes rates convexity with credit convexity as they buy alternative mortgages
- 2008 Subprime Mortgages Crisis

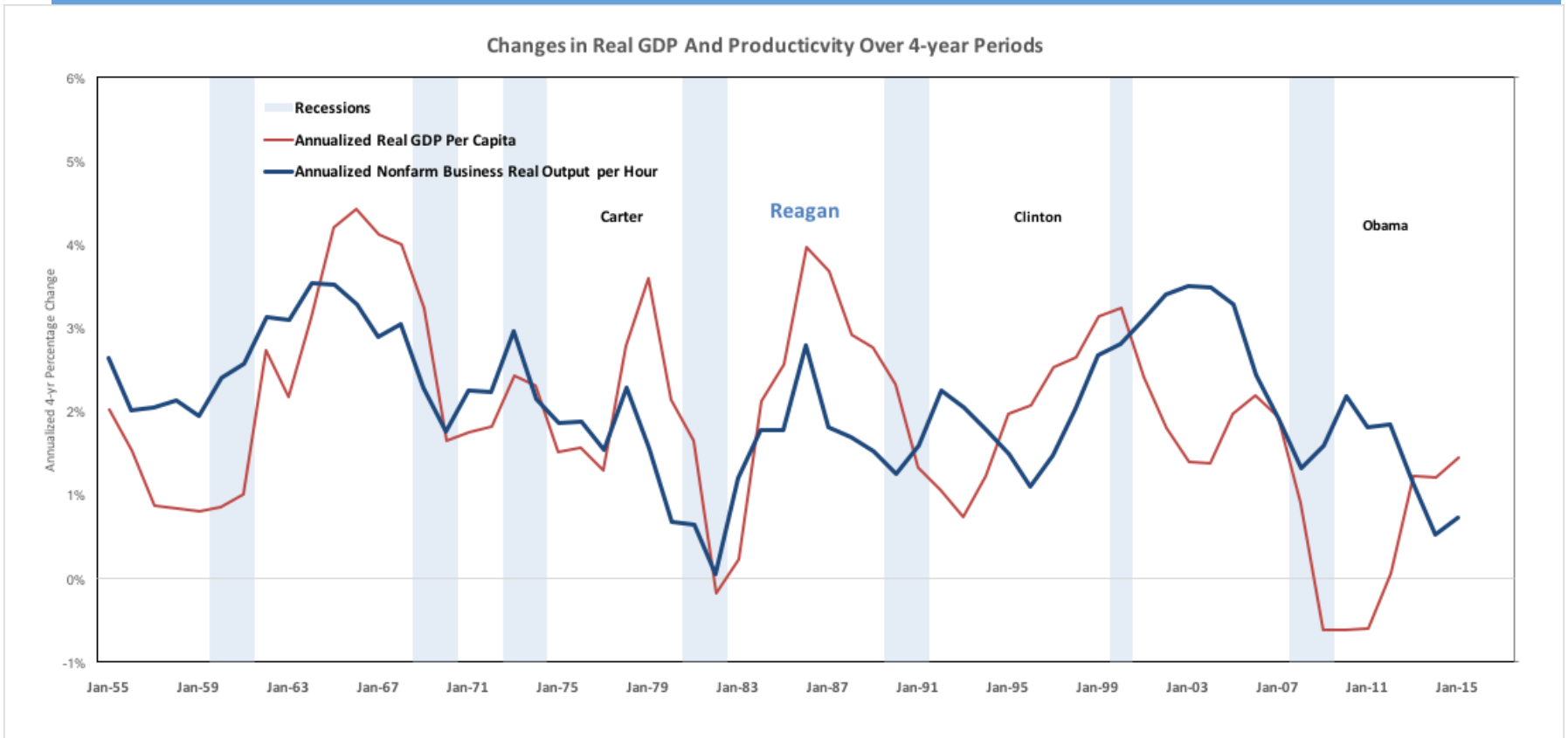
1. Federal Reserve Bank of St. Louis

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The Real Question is Did Reaganomics Create A Surge in Growth and Productivity?

Productivity And GDP Growth Looks Great From Current Levels But Not Atypical From a Longer Historical Perspective <sup>1</sup>



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