



THE OTHER SIDE OF THE ECONOMIC STORY

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Author's Note: Readers should be aware that, while we participated in the last Presidential election, we did not cast a vote for either major party candidate. We believe in the two-party system since liberals and conservatives need each other, as the right course of action can generally be found between the back and forth of their two positions. That said, to totally sign on with one or the other party gives away too much independence of thought in our opinion. As an independent, one need not to have to blindly support either the party view or all of their representatives. Only as an independent person, can one exercise contempt evenly and view success or failure dispassionately. But as an American, it is important in one's critique of any President to give him/her a chance; to observe them closely; applaud what is sound; criticize what isn't; and wish them well. With respect to our current President, our view is that, while he daily violates the norms of civility, decorum, and deportment, his policies haven't been *ideologically extreme*, but *temperamentally extreme*. Based on the data below, it would be difficult for an observer not to conclude that President Trump has generated some notable economic success.

In the June 17th edition of the New York Times, Nobel Laureate, Professor Paul Krugman, in his editorial column entitled "Why Isn't Trump a Real Populist?", wrote several things ...

... "why has Trump been unwilling to do anything, and I mean anything, to help the people who installed him in the White House?"

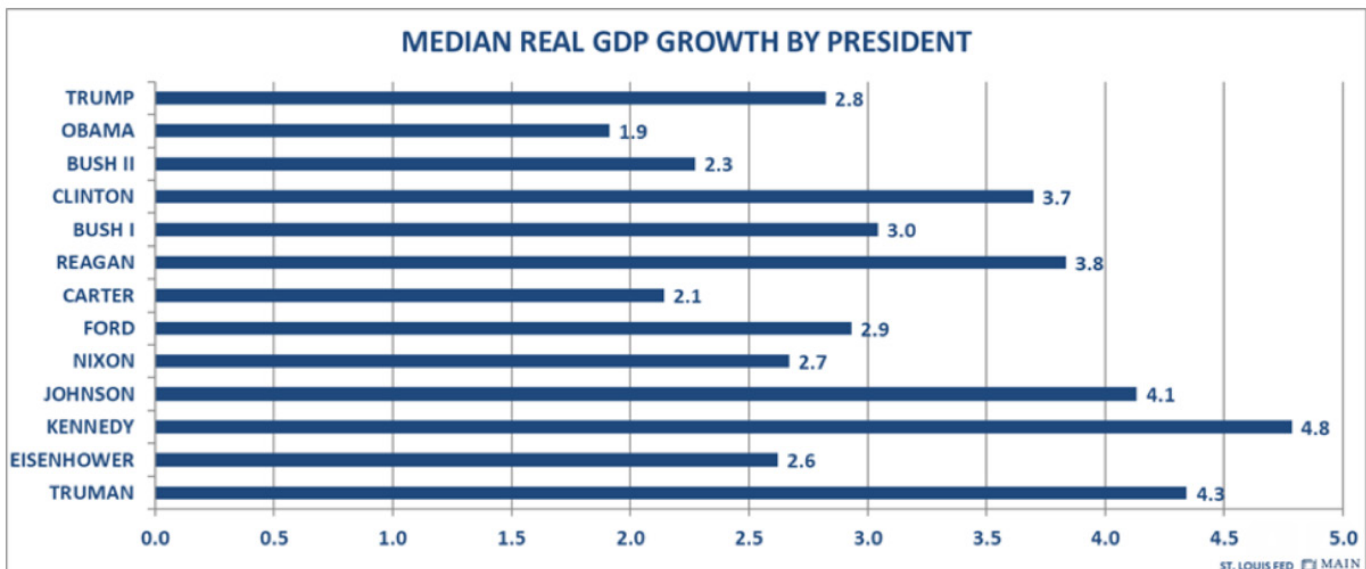
... "In 2016, on the campaign trail, Trump sounded as if he might be a European-style populist, blending racism with support for social programs that benefit white people. He even promised to raise taxes on the rich, himself included."

... "Since taking office, however, he has relentlessly favored the

wealthy over members of the working class, whatever their skin color. His only major legislative success was a huge break for corporations and business owners; the handful of crumbs thrown at ordinary families was so small that most people believe they got nothing at all."

Reflecting on the above, we believe there is an extensive amount of data that Professor Krugman has either not seen, or perhaps has chosen to ignore, but needs to be recognized and acknowledged. We feel the following is relevant to whether the Krugman quotes above have merit.

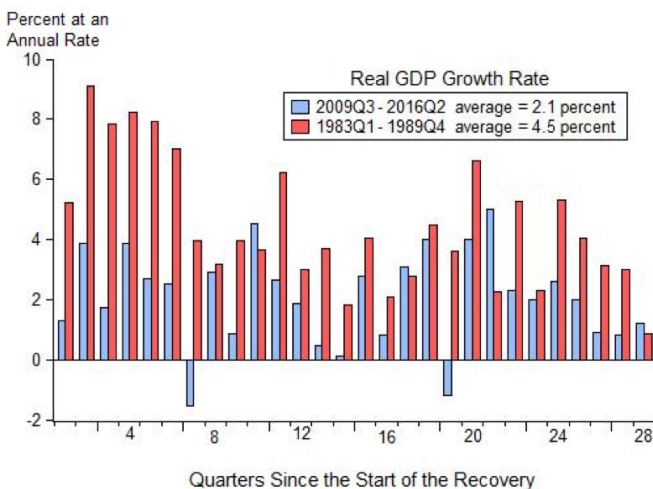
There has been a dramatic pickup in GDP so far under the Trump policies as can be seen in the table below sourced by the St.



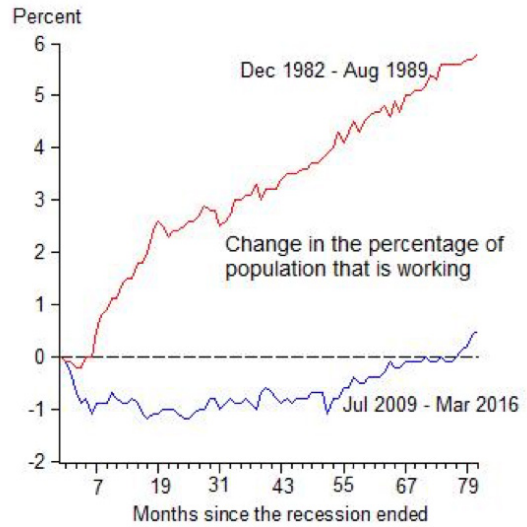
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Louis Federal Reserve. Many felt that a Trump Presidency would definitely not be characterized by any acceleration in GDP due to the belief that 2% or less growth was the “new normal” ... or worse, that we would move directly into a recession. President Obama famously said that “President Trump would need a magic wand to get to 4% GDP”. Notably, that level was achieved in the 2nd quarter of 2018 when GDP registered a growth rate of 4.16%. While that level of growth has not been sustained, the annualized quarterly growth rate for 2018 was impressive at 2.98% and for the past four quarters, the average has been even better at 3.19%. There is a major difference between a 2% GDP and a 3% GDP. Some, when queried, would say the difference is “1%” when, mathematically, it is really a 50% step-up. So, the GDP attained so far in the Trump administration far exceeds the GDP achievements of both President Obama and President Bush.

We would remind readers that one of the longest stretches of time without a year registering 3% growth in GDP was the four-year time frame from 1929 to 1933 that encompassed the Depression years. There was one other three-year period, from 1945 to 1947, that GDP failed to reach the 3% growth threshold. Regrettably, however, the Obama Presidency failed to achieve GDP growth in excess of 3% in any of his 8 years in office. Some would correctly note that President Obama inherited a difficult economy, but the recovery took hold just 9 months into his Presidency, leaving 39 months to enjoy a strong rebound from those depressed levels. That didn't happen. Typically, after a severe recession, there is a tendency for a significant snapback. John Taylor, the former Undersecretary of the Treasury and Stanford professor, published a chart in the latter stages of the Obama Presidency showing the anemic growth by quarter for those 7 years under observation as contrasted to the recovery in the 1980s, which also followed a severe recession. We include the chart posted in July 2016 from his blog below, as well as a second chart posted in April of that

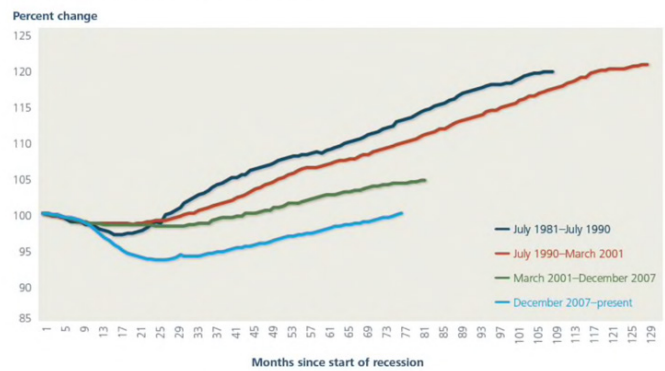


Source: [John Taylor Blog](#)



Source: [John Taylor Blog](#)

Figure 1. Employment from business cycle peak to peak



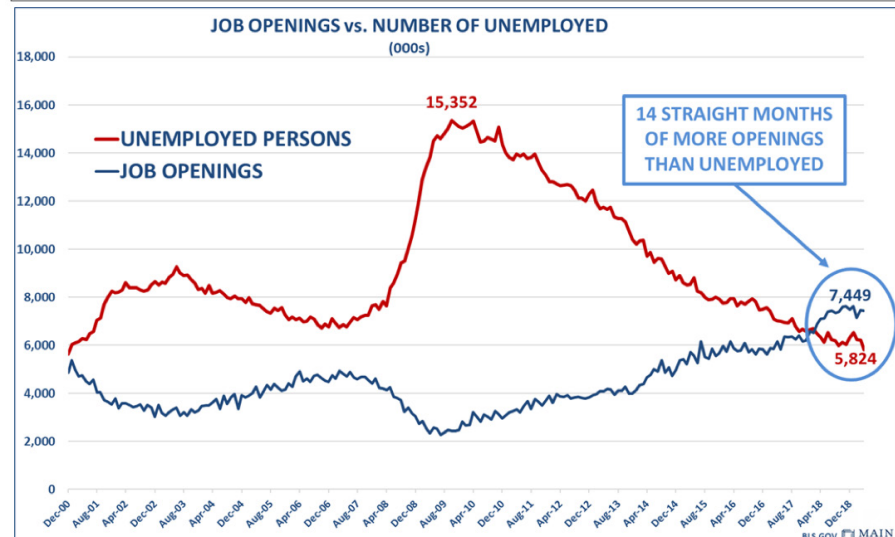
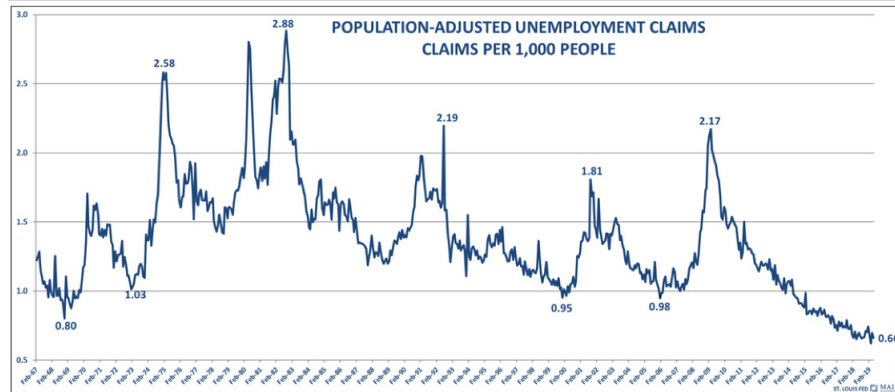
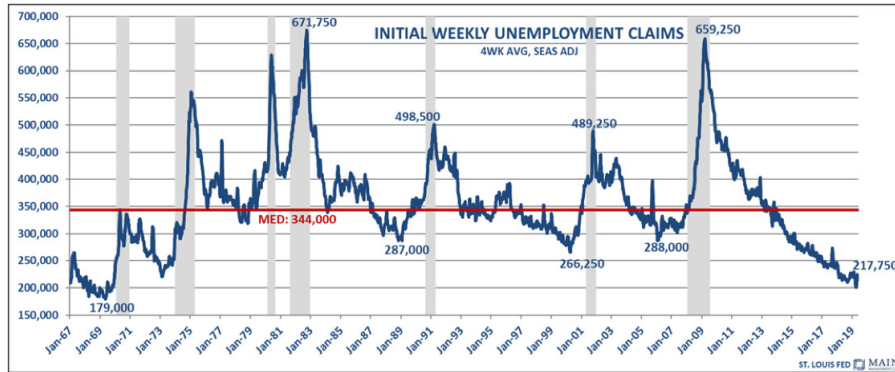
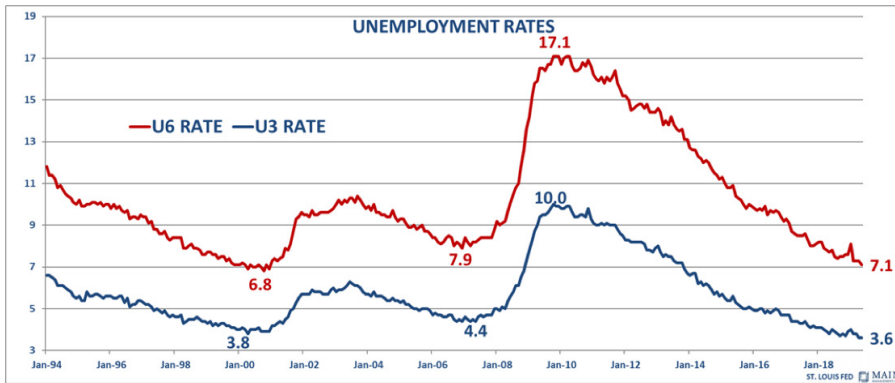
same year that indicates how sluggish the hiring pace was from the start of the recovery – again contrasted with the results of the ‘80s cycle which also followed a deep recession. The Obama recovery took 76 months for employment to surpass the old record highs, a time frame which was significantly longer than all the previous cycles going back to World War II.

Regarding the prospective Trump GDP outlook, we were humored by the quote of Paul Krugman at the time of the election when he said ...

“It really does now look like President Donald J. Trump and the markets are plunging. When might we expect them to recover? A first pass answer is never ... so we are probably looking at a global recession, with no end in sight”.

To be fair, he wasn't the only pessimist. Mitt Romney said that “Trump's domestic policies would lead to a recession”, while the former Clinton Secretary of the Treasury and Obama's Economic

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Advisor, Larry Summers said that “Under Trump, I would expect a protracted recession to begin within 18 months. The damage would be felt far beyond the United States.” We suspect all the individuals cited would wish that they could take back those quotes given the reality of the economic gains posted over the past two and a half years.

The growth in jobs since the election has been nothing short of astounding. There have been more than 6 million jobs created and more people are working today in absolute terms, and as a percent of the population, than ever before. That record is despite the fact that the economy is in its 10th year and quickly approaching the longest expansion on record. Historically, at this point in the cycle, job growth normally would be waning, but it isn't. Over the past year, under the Trump Administration, an average of 196,000 jobs have been created per month, slightly exceeding Obama's last year in office when an average of 193,000 jobs were created per month. Meanwhile, the overall unemployment rate is now down to 3.6%, which is the lowest level since Neil Armstrong first walked on the moon in 1969. Unemployment claims, which are a forward-looking indicator, are also at near 50-year lows in absolute terms and at record lows when they are population adjusted. The other 'first' in the overall jobs picture is that there are currently over 1.6 million more job openings than those who are unemployed, although, in this measurement, the historic JOLTS data only goes back to the year 2000.

Contrary to the views of Professor Krugman, the *job growth has favored minorities* as evidenced by two tables on the next page. One can observe that the data from the Bureau of Labor Statistics (BLS) belie the Krugman comments as *approximately 60% of the job growth has been in the minority categories reflecting much faster growth in those categories*. It is also important to note, African Americans, Hispanics, and Asians all enjoy record low unemployment rates. Additionally, the unemployment rate for women is the lowest that is has been in 67 years!

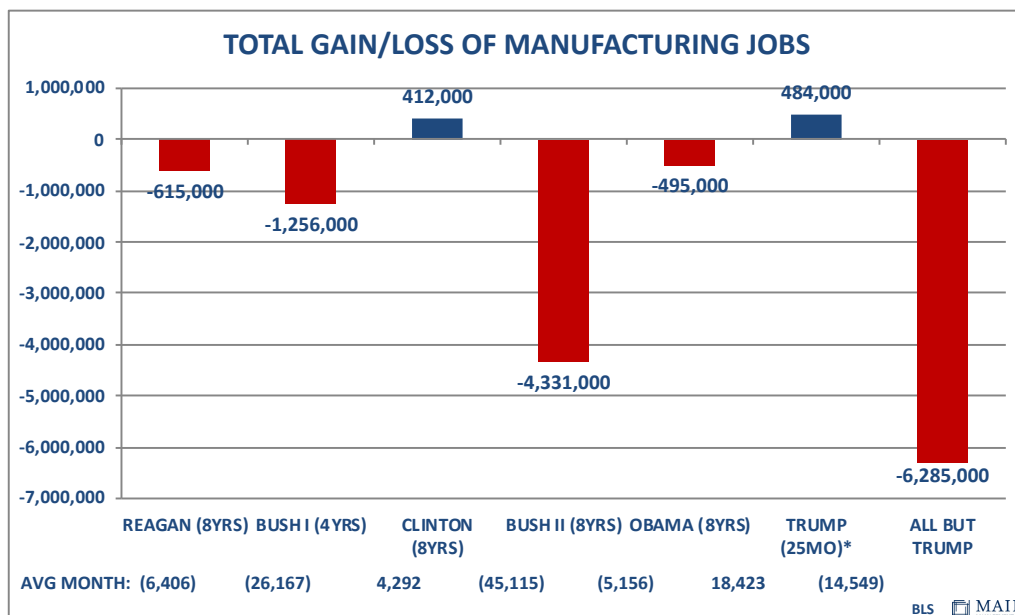
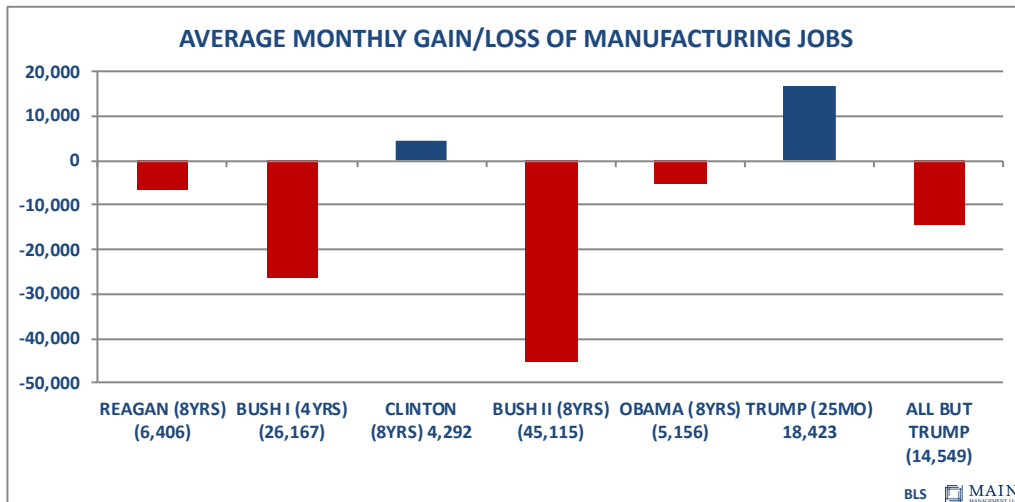
While the current Krugman article did

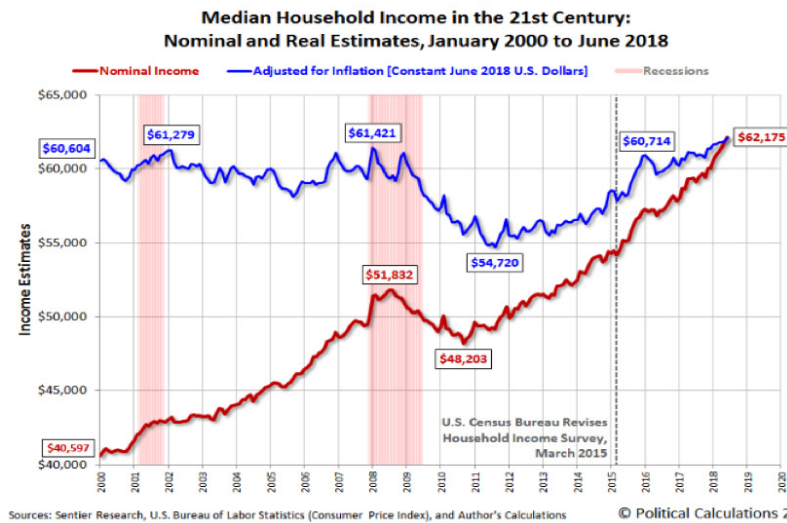
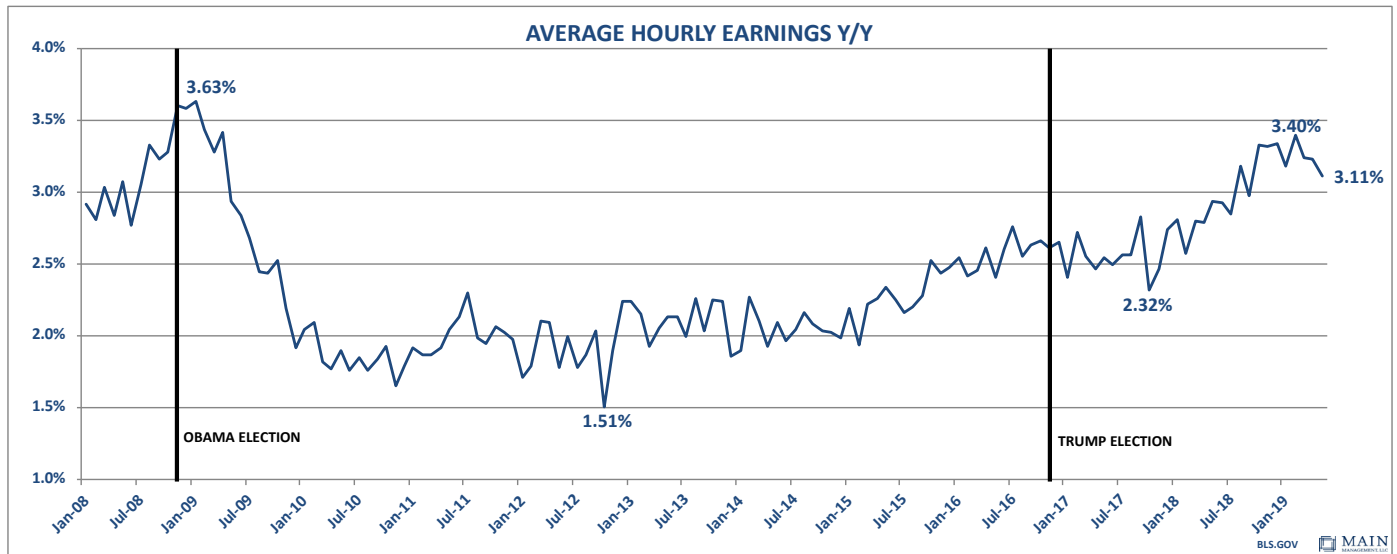
EMPLOYMENT GAINS BY RACE (000s)						
GROUP (16+)	CURRENT MAY '19	WEIGHT	ELECTION NOV '16	WEIGHT	Δ	% Δ
BLACK	19,280	10.8%	18,292	10.6%	988	5.4%
HISPANIC	27,493	15.4%	25,458	14.8%	2,035	8.0%
ASIAN	10,046	5.6%	9,343	5.4%	703	7.5%
SUBTOTAL	56,819	31.8%	53,093	30.8%	3,726	7.0%
WHITE	121,883	68.2%	119,458	69.2%	2,425	2.0%
GRAND TOTAL	178,702	100.0%	172,551	100.0%	6,151	3.6%

MIX OF THE LABOR GAINS (000s)		
WHITE	2,425	39.4%
BLACK	988	16.1%
HISPANIC	2,035	33.1%
ASIAN	703	11.4%
SUBTOTAL	6,151	100.0%

not specifically mention his skepticism about generating new manufacturing jobs, he has commented on that outlook in other past articles. The chart below shows that there have been more manufacturing jobs created under the current Administration

than the past five Administrations *combined* reversing the longstanding trend of job losses in that sector. The tables below look at those results in two ways - by measuring the monthly gains in manufacturing jobs and on a cumulative basis.





GROUP (16+)	CURRENT Q1 '19	ELECTION Q4 '16	Δ	% Δ
BLACK	\$737	\$675	\$62	9.2%
HISPANIC	\$696	\$646	\$50	7.7%
ASIAN	\$1,157	\$1,022	\$135	13.2%
SUBTOTAL	\$2,590	\$2,343	\$247	10.5%
WHITE	\$935	\$881	\$54	6.1%

generated by Sentier Research, estimates that the current Median Household Income has finally jumped to a new record high after being essentially stagnant since 2000. Much has been written about that flat pattern, but very little has been written about the fact that the median income today buys much more than in past years. For instance, in 1994, notebook computers pictured in the Best Buy advertisement on the next page would cost between \$2,598 and \$3,298. In today's dollars, that would amount to a range between \$4,489 and \$5,699. If one were to look up the prices of laptops at Best Buy today, you would find that there are 51 offerings of laptop computers priced below \$300 and all with much greater power and more features than what was available in 1994. That would represent a price decline of 95% over the past 25 years, which allows computer access on a nearly universal basis, not just to the 1%. That type of advance in technology has impacted nearly every product that is in use today.

From the standpoint of wages, we feel that Professor Krugman has missed the point as well. The most recent BLS data for average hourly earnings showed a gain of 3.1%, year over year, and if one looks at the table above, one can visually see the liftoff in average hourly earnings after the election to levels that are the best recorded in a decade. While the Trump Administration is about 60% through its first term, the average annual advance in average hourly earnings has been 2.8% versus an average annual gain of 2.2% for the Obama years. While that doesn't sound like much of a difference, the *percentage delta of 34% is significant* in our mind. Again, we are encouraged by the growth rate in earnings enjoyed by the various minorities, and that non-supervisory workers, which are typically lower paid, are now enjoying slightly faster growth than the norm. This positive outcome is not common wisdom as we believe it is information that has not been widely circulated.

We are pleased that there has been some relief in poverty as well. The overall poverty rate has been in a channel between 15% and 11% since the mid-1960s. Since the 2016 election, it has improved modestly from 12.7% to 12.3%. While it has not receded to the record levels of 11.3% achieved back in 1999, it is getting better because so many are coming back into the workforce and leaving the welfare rolls. Along those same lines, the recipients of SNAP (which is the acronym for food stamps)

Many pundits, Professor Krugman included, have lamented the lack of gains in the country's median income. The chart above



have experienced a dramatic decline of 6.9 million people, or 16%, just since the election. The recipients of SNAP are the “poorest of the poor” and the improvement was totally missed by the Krugman comments. The monthly change in SNAP recipients by Presidents is shown below.

Professor Krugman made a blanket statement noted above on taxes that President Trump’s tax legislation was ... “a huge break for corporations and business owners; the handful of crumbs thrown at ordinary families was so small that most people believe they got nothing at all.” Again, we respectfully disagree based on the following:

The left leaning Tax Policy Center recently published an update on the effect of the tax legislation (see [here](#)). They had numerous conclusions ...

- “The Tax Cut and Jobs Act (TCJA) will reduce income taxes on average for *all income groups and in all states*” (Emphasis is ours)
- “In 2018, just under 65% of taxpayers will receive a tax cut ... averaging about \$2,200 and about 6% will see a tax increase of about \$2,800.”
- “Only 27% of the households in the lowest income-quintile will receive a tax cut (or an increase in their tax refund), with most having no material change in their taxes”. (Note: the

bottom quintile of earners do not pay any tax, so a cut, by definition, is difficult.)

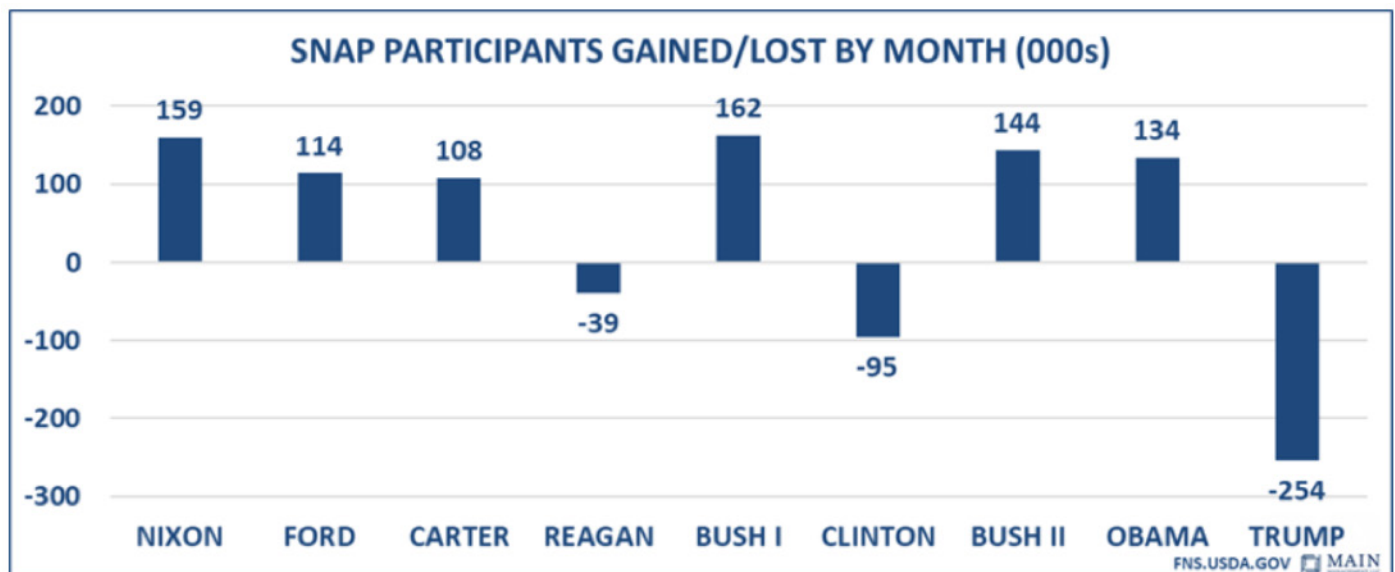
- “The individual income tax cuts as a percentage of after-tax income will be the largest for high-income households”. (Note: this should also not be a surprise as the high-income households pay the majority of all taxes)
- “Between 60% and 76% of taxpayers in every state will receive a tax cut.
- “In the bottom income-quintile, 27% will receive a tax cut and about 1% will have a tax increase, with the rest having no material change in their income tax. In the middle income-quintile, 82% will receive a tax cut and 9% will have a tax increase. In the top income quintile, 90% will receive a tax cut and 10% will have a tax increase

The Treasury Department reported ... that 90% of all workers experienced higher take-home pay in 2018.

H&R Block reported that ... 1) tax refunds were up 1.4% overall in 2018; 2) tax liability was down 24.9%; and 3) the reason for the differential was that 80% of filers didn’t change their withholding, thereby giving everyone higher paychecks during the year. As filers liability was down \$1,200 and refunds were up \$43, that translated into a net gain \$1,156 going into their accounts.

With respect to corporate income tax cuts, we believe the cut was justified on many counts, notably ...

For decades, the USA had the highest corporate tax rate amongst the 35 members of the OECD and the highest tax rate amongst the G-20 Countries. Indeed, at its former rate of 39%, the USA had the third highest corporate tax rate of the 188 countries in the world at the time, trailing only the United Arab Emirates (which levies a special tax on energy revenues) and Puerto Rico. The Trump tax reduction to 21% basically brought down the marginal corporate tax rate to a level that is now essentially



“in line” with the OECD, as the median for that group is 22%. The worldwide average has been trending down over the years and is now 23.03% according to the Tax Foundation (see [here](#)). Importantly from a competitive standpoint, The USA is now at a comparable level relative to the EU where the average top corporate rate is 21.68%. We applaud the move to allow US corporations to finally be able to compete on a ‘level playing field’ with regard to taxes. With a competitive tax rate, the impact will be job creation and an inducement to foreign companies to locate in the United States, the world’s largest marketplace, where they can make their products closer to their end clients who are located here.

The key to any tax program is the impact on collected taxes. There have been many great examples of countries reducing their marginal tax rate and enjoying higher amounts of collected taxes – notably England, Canada and Ireland.

1980 Tax Returns & Taxes Paid on Income Over \$200 Thousand

(\$ in millions)

	(A) Returns	(B) Taxable Income	(C) Collected Taxes	(C/B) Tax Rate
\$200k - \$500k	99,971	\$22,696,007	\$11,089,114	48.90%
\$500k - \$1 Million	12,397	\$6,512,424	\$3,613,195	55.50%
\$1 Million Plus	4,389	\$7,013,225	\$4,301,111	61.30%
Total	116,757	\$36,221,656	\$19,003,420	52.50%

1988 Tax Returns & Taxes Paid on Income Over \$200 Thousand

(\$ in millions)

	(A) Returns	(B) Taxable Income	(C) Collected Taxes	(C/B) Tax Rate
\$200k - \$500k	547,239	\$134,655,949	\$38,446,620	28.60%
\$500k - \$1 Million	114,562	\$67,552,225	\$19,040,602	28.20%
\$1 Million Plus	61,896	\$150,744,777	\$42,254,821	29.00%
Total	723,697	\$352,952,951	\$99,742,043	28.30%

1988 Results vs. 1980

(\$ in millions)

	(A) Returns	(B) Taxable Income	(C) Collected Taxes
\$200k - \$500k	5.5x	5.9x	3.5x
\$500k - \$1 Million	9.2x	10.4x	5.3x
\$1 Million Plus	14.1x	21.5x	9.8x
Total	6.2x	9.8x	5.3x

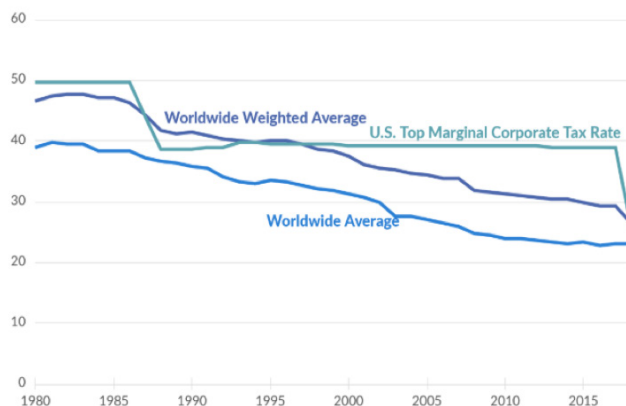
Source: Main Management, IRS "Statistics of Income", Cato Institute

Even the United States has witnessed a time when the marginal rate has been reduced and the collect taxes went up. When President Reagan took office, he lowered the top marginal bracket

from 70% to 28%. The Cato Institute developed some numbers based on the report, “Statistics of Income (SOI)” from the IRS. (The 2016 report can be found [here](#)). The Cato team looked at the income earners which the Obama Administration deemed as “rich”, i.e., those with incomes over \$200,000. As can be seen in the table above, the number of “rich” filers back in 1980 totaled 116,757. Those filers had an aggregate taxable income of \$36.2 Billion and paid taxes of \$19.0 Billion, which works out to a melded tax rate of 48.9%.

Fast forward to 1988, when the top marginal rate was 28%, the number of filers who earned over \$200,000 rose 6.7 times to 723,697. The 1988 “rich” filers reported taxable income of \$353 Billion of income, up 9.7 times from 1980 and paid taxes of \$99.7 Billion, up 5.3-fold from 1980. By dropping the top marginal rate to 28%, the taxes collected from those earning \$200,000 to 500,000, from \$500,000 to \$1 million, and above \$1 million were up 3.5 times, 5.3 times, 9.9 times, respectively. *So, with a much lower marginal tax rate, the overall collected taxes were up over 5-fold.*

Top Marginal Corporate Tax Rates Have Declined Since 1980



Source: Tax Foundation. Data compiled from numerous sources including: PwC, KPMG, Deloitte, and the U.S. Department of Agriculture.

Clearly, there was some benefit from a higher population base (plus 7% in total population from 227 million citizens in 1980 to 244 million in 1988); a better economy (GDP was in a recession in 1982 but jumped 32% overall from \$6.49 Trillion in 1982 to \$8.51 Trillion in 1988); and some inflation (up 13% over those years). Even if the impact from a higher population base with a better economy and some inflation were aggregated, those factors would only contribute a theoretical gain of around 50% --- not the realized experience of a *five fold increase in collected taxes*. Even if you were to cut that result in half, it would still suggest a very strong underlying result from lowering the marginal tax rate.

A recent release by the Congressional Budget Office (CBO) has essentially endorsed that notion that the tax cut has had a positive effect on the economy as it said it has had to sharply raise its revenue forecast for this year and next year due to the Trump tax cuts. The result of the CBO's updated forecast is that revenues are now expected to be more than \$1 Trillion higher than its earlier estimates. They also noted that through seven months, overall revenues are up 2% to record levels, driven by payroll tax receipts which are up 4.7% due to more jobs and higher wages.

Included in the Trump Tax Package was more favorable terms for expensing capital expenditures. Without a doubt, that factor, along with other reduced rules and regulations, cleared some of the uncertainty surrounding corporate investment decisions which unleashed spending on capital expenditures. That, in turn, has lifted productivity and extended the current economic cycle. As a matter of arithmetic, the growth in the economy is a function of the change in employment growth plus the change in productivity. After languishing below 1% for much of the past decade, the productivity rate has marched steadily higher since the election and reached a recovery high of 2.37%, year over year, in the last quarter, or an impressive annualized growth of 3.44%. The acceleration to 2%+ in productivity growth, plus the growth in labor of 1%+, has led to more sustainable GDP gains of around 3%.

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