The American Economy during the Trump Administration: A Brief Evaluation

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Abstract: The election of Donald Trump as president of the United States in 2016 was a challenge both for the American economy and the world. His decisions generated numerous reactions and effects, even if these decisions have focused on the domestic economy or international relations. One of the most important decisions Trump made was to reform the tax system through Tax Cuts and Jobs Act. This paper aims to analyze the effects and consequences of this reform on the American economy, taking into consideration the period 2016-2019 and except the last year of Trump's mandate, when the American economy and the entire world economy were affected by the covid-19 pandemic. Such an analysis is necessary, especially in the context of the 2020 presidential election, to observe whether or not this law is beneficial to the American economy and whether it should be maintained or amended by the new administration.

Keywords: Tax Cuts and Jobs Act; economic growth; U.S. presidential election; Trumponomics

1. Introduction

The election of Donald Trump as president of the United States in 2016 was a challenge for the American economy, but also for the world economy. The controversies and reactions provoked by Donald Trump's decisions, both at the American level and on a global scale, denote their provocative character for the American economy, but also for the power structure of the world economy.

The challenges take into consideration the changes in the old American paradigm, especially since many of the decisions taken by Donald Trump proved to be counterbalances of some measures from previous presidential terms: amending certain laws (Obamacare, tax regulations), withdrawal from agreements and

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international organizations (Trans-Pacific Treaty, Trans-Atlantic Treaty, Nuclear Agreement with Iran, Climate Agreement, Interim Nuclear Forces Treaty- INF), amending agreements (NAFTA) and withdrawing from international conflicts considered disadvantageous and ineffective (Syria and reducing the number of military troops in Afghanistan).

All of these decisions have benefited or affected the American economy. This paper aims to analyse the effects and consequences of the decisions taken by the Trump administration on the American economy, the main aspects observed are the internal ones, given by the implementation of the Tax Cuts and Jobs Act. For the analysis of the effects generated by this law, the period 2016-2019 will be taken into consideration, except for the last year of Trump's mandate, i.e. 2020, when the American economy and the entire world economy were affected by the covid-19 pandemic.

2. Literature Review

Studies about the effects generated by Tax Cuts and Jobs Act show a high interest, both from specialists and international institutions.

On the one hand, Slemrod (2018) suggests that this fiscal law will generate a modest stimulation of economic growth and an increase in fiscal deficit by almost $2 trillion until 2028. Lieberknecht and Wieland (2019) find that the GDP will increase by about 2% in medium-run and by 2.5% in long term due to the tax reform, but also the federal debt-to-GDP ratio will rise by 15% until 2025. DeBacker and Evans (2018) show that the GDP growth will be between 1% and 2%, while the employment will improve by almost 1.5% until 2026. At the same time, Zeida (2018) considers that the GDP growth rate will reach, on average, 0.64% until 2028, while capital stock increases by 1.4%. But, the problems are regarding to the inequality among people and the government debt.

On the other hand, government and international institutions have studied the effects of Trump's tax legislation, especially on growth and revenue, by The Department of the Treasury (2017) and on output, employment, capital stock, consumption and fiscality, by The Joint Committee on Taxation (2017b). Congress of the United States (2018) presents a much more detailed analysis of these effects over a period of ten years, including several areas. At the same time, Tax Foundation (2017) offers a preliminary analysis about economic impact, while Gale *et al*. (2018) from Tax

Policy Center present the effects of the Tax Cuts and Jobs Act from different perspectives: economic, distributional, fiscal and for certain sectors.

3. The Tax Cuts and Jobs Act: A Short Presentation

The Tax Cuts and Jobs Act was signed in December 2017, introducing major changes to the tax code, in order to substantially reduce taxes. The package of fiscal reforms is advantageous for the American economy due to the expansion of the tax base. On the other hand, it is also advantageous for banks, corporations and the population due to the simplification of the tax code and the introduction of tax reductions applied to the tax rates of profit, income and investment.

Previous tax provisions have prompted the American companies to keep their reserve capital in tax havens. At the same time, the high rate of profit tax and the absence of deadlines for repatriation of earnings from abroad, led to the accumulation of increasing funds in friendly offshore jurisdictions, which offered favorable conditions from a fiscal point of view. Almost 63% of US offshore earnings were reported in the Netherlands, Bermuda, Luxembourg, Ireland, Switzerland and Singapore, and the main beneficiaries are technology companies, whose value lies in intangible assets, such as intellectual ownership (Flemming-Williams, 2018).

The new tax system implemented by Trump in December 2017 offers many benefits to the US economy and business, mainly due to substantial changes that are brought to the income tax, whose rate, previously between 15% and 35% depending on the business income, it is reduced to 21% starting with 2018, regardless of the income level (Congressional Budget Office, 2018, p. 107).

First, it gives the American business environment a higher level of competitiveness, leading many foreign companies to choose the United States as the base for their operations. The fiscal project significantly changes the level of foreign income taxation of domestic and foreign multinationals, the fiscal provisions aiming at reducing the retention of profits in more favorable jurisdictions.

Tax reform involves the transition of the United States from a global to a territorial tax system. The previous tax system was based on full or partial taxation of foreign income by the company's country of origin, but the new tax regulations allow US companies to receive dividends from foreign subsidiaries without incurring US income tax. Thus, only domestic income is subject to taxation, stimulating the

repatriation of profits from abroad and reducing reinvestment in foreign economies. At the same time, the aim is to impose a new minimum tax on certain transactions with related parties (The Joint Committee on Taxation, 2017b, p. 4).

In addition, measures are introduced for high-income companies from foreign sales, consisting in the application of a tax to combat abuses resulting from profit transfers. This practice is used by multinationals to reduce tax liabilities by transferring reported taxable profits from subsidiaries in one country with high tax rates to subsidiaries in another country, with low taxes or without them.

At the same time, a tax is imposed on companies with foreign profits not distributed and not taxed prior to the tax reform, by setting tax thresholds of 15.5% for cash and cash equivalents and 8% for illiquid assets. Companies must pay the tax only once, whether or not they repatriate income to the United States and have the option to split the payments over 8 years (Tax Foundation, 2017, p. 5).

Secondly, substantial changes are made to the way in which economic activities in the internal market are taxed. Tax regulations in this category, transposed to limit or eliminate certain tax preferences, aim to expand the tax base, provide incentives for investment by deducting costs faster and create favorable economic conditions for certain types of economic activities (individual businesses, specialized services, partnerships and limited liability companies). Usually, these economic activities are not taxed on profit directly, but only on the individual income of the owners.

The tax reform also provides for a series of measures to expand the tax base, starting with the limitation of deductions for net operating losses and ending with the restriction of interest payments. Thus, the deduction of net operating losses is restricted to 80% of taxable income, and deductions from future income are limited. At the same time, the deductibility of net interest expenses is limited to 30% of the assisted taxable income. This income excludes interest earnings and expenses, plus the exclusion of deductions for depreciation, amortization and similar costs, but only until 2022 (Gale *et al.*, 2018, p. 5). At the same time, the tax reform allows the full and immediate deduction of investments in tangible goods, but restricts the intangible ones in the field of research and development. Restricting interest deductibility helps reduce existing debt and avoid new debt, especially for companies with high debt levels. Thus, companies can deduct from 50% to 100% of the purchase price for investments in new body equipment, the depreciation bonus being reduced to 30% in 2019, and then completely eliminated. Instead, investments in research and development will be more difficult to deduct, in equal proportions

over a period of 5 years for costs incurred in 2022 or later. At the same time, a new deduction of 20% is established for the qualified income of certain types of economic activities (individual businesses, partnerships, specialized services and limited liability companies), depending on the income of the owner and the nature of the business. Exceptions to the deductions are made by specific services in the field of health, law and consulting firms (Congressional Budget Office, 2018, p. 111).

Third, tax reform offers a number of significant incentives to promote economic activity in certain areas, by offering tax preferences that consist of a reduction (to 15% for any investment held for seven years) postponement (until 2026 or until the investment is sold) or elimination (if the investment lasts at least 10 years) of taxes on the reinvested profit in preferred locations, called opportunity zones. Being considered disadvantaged, these territories are chosen by the US government as long as they have a poverty rate of at least 20% or an average family income below 80% of the state or metropolitan area average (Eastman & Kaeding, 2019, pp. 3-4).

These facilities are beneficial for low-income people in low-income areas by temporarily increasing labor demand. However, facilitated investments can destroy existing ones in low-income areas. This program can determine, on average, a budget cost of about $1.6 billion until 2027, even if investors will be unable to defer taxes on reinvested capital gains (The Joint Committee on Taxation, 2017a, p. 6).

All of these changes and the benefits to the business environment resulting from tax regulations involve a number of costs, especially in the structure of government revenue and expenditure, with an impact on the federal budget.

The impact of these tax changes in the business environment on tax revenues differs depending on the basis of analysis. Thus, from a static perspective, Table 1 shows that fiscal measures in business structures would lead to a reduction in federal revenue by US $373 billion, although the repatriation of foreign income, 30% deductions for interest expenses and other deductions and limitations have positive effects on the fiscal budget, with revenues of $339 billion and about $1 trillion.

Table 1. Impact on Tax Revenues Until 2027 (US$ billion)

Tax measure	Static base	Dynamic base
Corporate tax reduction	-1420	-668
20% deductions for special enterprises	-289	-213
30% deduction of interest expenses	1011	964
Repatriation of foreign income	339	339
Fiscal measures for income from foreign sources	-14	-14
Business environment	**-373**	**408**

Source: Tax Foundation, 2017, p. 9.

On the other hand, from a dynamic perspective, changes in the business environment would lead to an increase in tax revenues of $408 billion, stimulated by the same tax measures as in the previous case. But this time, the negative impact of the corporate tax cut would be reduced by almost $752 billion.

However, the tax reform does not stop at regulations on the American business environment, but also includes regulations on the income of the population, which expires at the end of 2025. The tax reform provides for several changes in the structure of individual income, the main measure being the reduction of its taxation level from 39.6% to 37%, correlated with the decrease of official tax rates for most tax categories (Tax Foundation, 2017, p. 3). This is considered the most important measure on individual income, having a direct impact on the population, especially as the number of taxpayers subject to lower tax rates increases due to the expansion of income categories. This trend continued in 2019, when new income categories are registered for each tax rate (El-Sibaie, 2018, p. 2). In the case of married people, these income categories are doubled, but the same tax rates are kept. Lower tax rates are designed to increase labor supply, as well as investments in certain types of economic activities (individual businesses, partnerships, specialized services and limited liability companies), as these activities are subject to taxation on owners' income.

In addition, the tax reform eliminates the personal exemption, increases the value for the alternative minimum tax and limits or removes a number of personal deductions. The maximum amount of child tax deductions for most taxpayers is doubled to $2000, in order to expand eligibility for more high-income people. At the same time, the deduction of state and local taxes (income or sales and property taxes) is limited to a total of $10000, while standard deductions increase for unmarried people, from $6500 to $12000, and for those married from $13000 to $24000. A new change to

the standard deductions takes place in 2019, increasing by $200 for single people and $400 for married people (Gale *et al.*, 2018, pp. 2-4).

All of these tax changes are temporary and expire at the end of 2025, except for the individual mandate regulations, an essential provision of the Affordable Care Act (Obamacare). The individual mandate involves penalizing people who are not covered by health insurance, but, from the beginning of 2019, the sanctions were canceled. By eliminating these penalties, it is estimated that the federal budget will improve by approximately $338 billion in 2018-2027, but with the risk of a lack of insurance at the end of the period for about 13 million people (Congressional Budget Office, 2017, pp. 2-3).

Another exception to the principle of the temporality of fiscal regulations after 2025 is the new method of calculating inflation. In the past, measuring inflation for tax indexation was done by using the consumer price index for urban consumers. The new method is more rigorous and involves the chain measurement of inflation, i.e. taking into consideration changes made by consumers in consumption habits in response to price fluctuations (The Joint Committee on Taxation, 2017b, p. 4).

Measures taken on the population's income also involve a change in the structure of government revenue and expenditure, with an impact on the federal budget, depending on the basis of analysis. From a static perspective, federal income tax and other tax changes on the population would be reduced by about US $ 1.1 trillion, as shown in Table 2.

Table 2. Changes in Tax Revenues Until 2027 (US$ Billion)

Fiscal measure	**Static base**	**Dynamic base**
Income tax reduction	-1873	-1589
Increase the standard deduction	-774	-708
Measures for people with children	-590	-562
Elimination of personal exemptions	1318	1227
Reduction of local and state tax deduction	593	575
Changing indexation thresholds and measuring inflation	151	151
Increase the value for the alternative minimum tax	-209	-266
Other personal deductions and credits	47	47
Doubling the estate tax exemption	-72	-46
Elimination of sanctions for non-health insurance	314	314
Social environment	**-1095**	**-857**

Source: Tax Foundation, 2017, p. 9.

The reduction in corporate income tax alone results in a $1.87 trillion tax loss, with the budget deficit ameliorated by the elimination of the personal exemption, the

change in indexation thresholds and the measurement of inflation, the elimination of sanctions for non-health insurance, reduced deductions for local and state taxes and other personal deductions and limitations. On the other hand, from a dynamic perspective, tax revenues would have a reduction of $857 billion, the deficit being lower than in the case of static determination. This improvement in the deficit is largely due to a $284 billion lower loss on income tax cuts.

4. The Effects on the American Economy

A comparative analysis of economic growth and Gross National Product (GNP) shows that Donald Trump's decisions have been beneficial, as it can be observed in Table 3. In 2016, the American economy has experienced an average growth of 2.1%, reaching up to 2.5% in the last quarter of the year, amid the presidential elections. At the time of Donald Trump's inauguration as president, the U.S. economic growth was 2.3%. The impact of Trump's decisions on the American economy is extremely visible, causing in the second half of 2017 and in the first half of 2018, GDP increases of over 2.5%, reaching almost 4% sometimes. As a result of the measures taken during Trump’s fiscal reform, the GDP growth has reached 3.8% at the beginning of 2018, followed by a downward trend. Although towards the end of 2018 the pace of economic growth was slower, it has recovered since 2019. Even if the pace of GDP growth has decreased in intensity twice (end of 2018 and mid-2019), growth rates have been over 2% by the end of 2019.

Table 3. GDP and GNP Evolution for the U.S. between 2016 and 2019

%	2016				2017				2018				2019			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	2.0	1.9	2.2	2.5	2.3	1.7	2.9	3.9	3.8	2.7	2.1	1.3	2.9	1.5	2.6	2.4
GNP	1.3	2.1	2.2	3.6	2.3	1.5	3.6	4.2	3.5	2.2	1.4	1.5	2.4	1.9	2.7	2.3
Export	-3.0	4.0	6.9	-1.4	8.3	1.0	2.6	11.5	2.7	1.9	-5.2	2.8	1.8	-4.5	0.8	3.4
Import	0.9	0.8	5.1	6.8	4.3	3.6	1.7	13.1	0.3	-0.1	8.0	4.1	-2.1	1.7	0.5	-7.5

Source: U.S. Bureau of Economic Analysis, 2020.

The same trends have been manifested in terms of GNP. At the time of the presidential election, its growth rate was 3.6%, following a downward trend in mid-2017. The positive effects of Trump's inauguration as president were felt later, in late 2017, with fiscal reform, when GNP doubled its growth. In the following period, GNP experienced significant increases, reaching 4.2% at the end of 2017. The reduction in GNP growth intensity in 2018 coincided with those of GDP; except for the end of 2018 and mid-2019, GNP increases were over 2%.

The effects of Donald Trump's election as president of the United States were also felt in trade, according to Table 3. After an upward trend in the first nine months of 2016, the American exports fell by 1.4% around the presidential election, while imports have continued their upward trend, increasing of over 6% in the latter part of 2016 As a result of Trump's election as president; imports have slowed down, while exports have seen significant growth rates.

The episode of spectacular growth of imports and exports in the latter part of 2017 has several causes. On the one hand, the tax reform was being prepared at that time. On the other hand, a conjunctural situation has been created given by the divergences of the United States with Iran and North Korea, but also by the announcement of Trump on the recognition of Jerusalem as the capital of Israel and the relocation of the American embassy in Tel Aviv, a fact that displeased the Arab countries. After this episode, the American foreign trade fluctuated every six months, leading to times when the growth rates of exports were higher than those of imports and vice versa. On the one hand, the increase of exports in the first period of 2018 has been recorded due to the American decision to impose a series of tariffs on aluminum and steel imports, the withdrawal from the nuclear agreement with Iran, and the U.S. negotiations with Mexico and Canada for a new version of the North American Free Trade Agreement. On the other hand, growth in imports was higher than that of exports in mid-2018 and mid-2019, when exports have experienced negative growth rates of over 5.2% and 4.5%, amid trade conflicts between the United States and China and the European Union.

Regarding the labor market, it was relatively stable in 2016, the unemployment rate being close to 4.9%, although about 1.2 million inhabitants were employed during the year, as shown in Table 4. Starting with the presidential election at the end of 2016, the unemployment rate drops slightly, things improving considerably during the term of Donald Trump. The downward trend in the unemployment rate has continued during 2017 and 2018, reaching 3.5% at the end of 2019. This progress translates into a decrease of approximately 1.8 million in the number of unemployed compared to 2016.

Table 4. The American Labor Market in the Period 2016-2019

Period		Civilian population	Employe d	Unemploye d	Persons who want a job	Unemploymen t rate	Employment -population ratio
		million persons				%	
2016	Q1	252.58	150.90	7.82	4.9	59.7	5.87
	Q2	253.18	151.05	7.78	4.9	59.7	5.82
	Q3	253.86	151.70	7.82	4.9	59.8	5.89
	Q4	254.53	152.13	7.60	4.8	59.8	5.81
2017	Q1	254.25	152.50	7.36	4.6	60.0	5.72
	Q2	254.77	153.18	7.03	4.4	60.1	5.51
	Q3	255.36	153.81	6.94	4.3	60.2	5.60
	Q4	255.94	153.86	6.62	4.1	60.1	5.24
2018	Q1	256.94	154.94	6.57	4.1	60.3	5.14
	Q2	257.46	155.58	6.38	3.9	60.4	5.22
	Q3	258.07	155.88	6.13	3.8	60.4	5.28
	Q4	258.70	156.65	6.15	3.8	60.6	5.36
2019	Q1	258.39	156.75	6.30	3.9	60.7	5.21
	Q2	258.86	156.90	5.92	3.6	60.6	5.15
	Q3	259.43	157.85	5.93	3.6	60.8	5.00
	Q4	260.02	158.63	5.81	3.5	61.0	4.81

Source: Bureau of Labor Statistics, 2020.

Also, during 2019 there are less than 6 million unemployed people. At the same time, the employment-population ratio exceeded 60% as a result of the increase by 6.5 million in the number of employed people, given that the number of civilian population also has increased by about 5.5 million. Thus, at the end of 2019, while the civilian population was about 260 million people, about 61% were employed, which means almost 159 million people.

Significant evolution has recorded in terms of disposable personal income per capita, the value of which has steadily increased over the period 2016-2019, as it can be observed in Table 5. From about $ 43600 per capita in early 2016, it exceeded $ 45000 in early 2017, with Donald Trump taking over the U.S. presidency. This year, the growth rates of disposable income exceeded 4%, which happened only once during 2016, respectively at the end of the year, around the presidential elections. After the election of Trump in 2016, the growth rates of disposable income did not fall below 3.5%, except for some periods of 2019. Moreover, at the beginning of 2018 there was an increase of 8%, a performance driven by the regulations of the tax reform, which meant a reduction in income tax. Under these conditions, the personal disposable income per capita exceeded $48000 during 2018, reaching over $50000 at the end of 2019.

Table 5. Disposable Personal Income in the U.S. During 2016-2019

	Personal disposable income per capita ($)				**Income growth rate (%)**			
	2016	2017	2018	2019	2016	2017	2018	2019
Q1	43573	45093	47385	49390	3.4	6.6	8	3.9
Q2	43734	45616	48013	49528	2.1	5.3	5.9	1.5
Q3	44038	46038	48526	49890	3.6	4.4	4.9	3.5
Q4	44438	46532	48966	50244	4.4	5	4.2	3.4

Source: U.S. Bureau of Economic Analysis, 2020.

Despite these performances, public debt has experienced an upward trend of about $580 billion from mid-2016 to February 2017, after which it has stabilized at about $19.85 trillion for six months. However, since September 2017, public debt has exceeded $20 trillion, entering an upward trend. Although there were still slight stops of the trend, in October 2019, the public debt has exceeded $23 trillion, reaching $ 23.3 trillion at the end of the year (Treasury Direct, 2020).

5. Fiscal Reform Forecasts

The effects on the U.S. economy resulting from the tax reform are difficult to predict due to the mix of temporary and permanent tax regulations, especially since the reduction of the individual income tax rate is valid only until 2025, and the profit tax rate is permanent. In general, tax reform is expected to have a positive effect on growth, investment and employment over the next decade

In terms of economic growth, real GDP is expected to grow at a faster pace in the first five years, then more moderately by 2027, as shown in Table 6. Although the forecasts for the effects of the tax reform differ, the fiscal changes will still generate higher levels of real GDP. Thus, the forecasts of international organizations and institutions show that tax reform is beneficial for the American economy, causing an average increase in real GDP between 0.3% and 1.3% by 2022, followed by another increase between 0.3% and 2.9% for the period 2023-2027.

Table 6. Forecasts about Effects on Real GDP (%)

Organization/institution	2020	2021	2022	2023-2027	until 2027
Congressional Budget Office	0.8	0.9	1.0	0.8	0.6
FMI	1.2	1.2	1.0	0.3	-0.1
Tax Foundation	1.3	1.8	2.2	2.9	2.9
Moody's Analytics	0.2	0.1	0.0	0.3	0.4
Goldman Sachs	0.7	0.7	0.7	0.7	0.7
Macroeconomic Advisers	0.5	0.6	0.6	0.5	0.2
Tax Policy Center	0.5	0.5	0.5	0.3	0.0

Source: Congressional Budget Office, 2018, p. 117.

Most forecasts show an upward trend in real GDP growth until 2022, with the exception of forecasts from the International Monetary Fund, Moody's Analytics and Tax Policy Center. At the same time, the Tax Foundation is most optimistic about the effects of the tax reform, showing a real GDP growth of 2.2% in 2022, while other organizations anticipate a growth less than or equal to 1%. The same can be seen in the case of forecasts for 2027, with an optimistic rate of about 2.9% for the Tax Foundation and less than 1% for other organizations, the International Monetary Fund even announces a negative economic growth.

The forecasts of the Tax Foundation are much more detailed. Long-term estimates show economic growth of 1.7%, translated by increasing wages by 1.5%, supplementing the labor market with 339,000 new jobs and increasing capital stocks by 4.8% by 2027. For the period 2019-2027, it is anticipated an average annual increase of more than 2% under the conditions of the tax reform, while without its implementation, GDP growth rates would not have exceeded 2%. The highest growth rates are expected in 2022 and 2023, of over 2.3%. In the first three years, a difference of 0.44% is estimated between the growth rates given by the tax reform compared to the projections of the old tax law, due to the low share of corporate tax and the advantage given to companies for full and immediate deduction of investments in tangible goods. But in 2026 and 2027, economic growth rates based on the old tax law will become higher, mainly due to the temporary nature of some tax regulations. Even so, the tax reform brings an economic surplus of about 2.9% over the forecasts based on the old tax law until 2027, which translates into a GDP growth of about $5 trillion, well above the losses projected by the implementation of the fiscal reform (Tax Foundation, 2017, pp. 5-6).

On the other hand, it is possible that the tax reform will bring a real economic growth rate of 2.9% by 2027. The average annual growth of the economy of 2.9% is 0.7% higher than the economic growth forecast under the conditions of the old tax law, this surplus being determined, on the one hand, by the reduction of the profit tax and the individual tax, and on the other hand, changes in the tax register of certain types of economic activities (individual businesses, partnerships, specialized services and limited liability companies). This 0.7% surplus translates into a $1.8 trillion increase in tax revenue by 2027, which compared to direct losses from tax regulations of $1.5 trillion, would lead to a budget surplus of $300 billion (The U.S. Department of the Treasury, 2017, p. 1). However, economic growth could be lower. On the one hand, fiscal reform can bring progressive rates of economic growth from 1.4% in 2020 to 3% in 2025 and 2026 (Li & Pomerleau, 2018, p. 6). On the other hand, the American economy can experience a growth rate of 2% in 2020, and in the long run only 1.9% (Federal Reserve, 2018, p. 1).

Regarding the relationship between real GDP and real GNP, it is anticipated that GDP growth rates will be higher by about between 0.2% and 0.4%. Gross National Product (GNP) is considered a more efficient way to measure the income of American residents, because it includes the income of American residents obtained abroad and excludes that of non-residents from American territory. Real GNP growth rates are lower than GDP growth rates, as tax reform reduces net foreign income earned by American residents. After in the years 2020 and 2021, the growth rates of real GNP reach 0.5%, and in the period 2022-2025 to 0.6%, the growth rate will decrease in intensity, reaching in 2028 increases of 0.1% (Congressional Budget Office, 2018, pp. 115).

Beyond these economic growth forecasts, the fiscal reform will reduce the cost of capital. This phenomenon is due to the reduction of corporate income tax and income tax for certain types of economic activities, as well as due to other tax regulations, such as the extension of the depreciation bonus and the change of official tax rates for most tax categories.

First of all, the reduction of capital costs will stimulate investments, the capital holders being impelled to invest also by the increase of the rates of return on investments after tax, as an effect of the decrease of the marginal tax rates on the capital income. These marginal tax rates will be reduced for all types of investments with a percentage between 1.4% and 3.4% by 2028, the largest decreases being in 2021, by 3.4% (Congressional Budget Office, 2018, p. 107).

The increase in profit, estimated to be 7.1% higher by 2028 than in the absence of tax reform (Congressional Budget Office, 2018, p. 126), gives companies the opportunity to use the additional funds accumulated in various ways, either to pay their old debts, either to provide dividends to shareholders or for transactions in the purchase of bonds and own or foreign shares. However, some companies would use the profits from tax cuts in more productive ways. Increasing profits gives them the opportunity to modernize their activities or develop the technologies needed to increase and improve production, especially as the workforce begins to show an aging trend.

Government or private sector savings, as well as massive inflows of capital from abroad, can stimulate investment, ultimately contributing to economic growth. In the case of the United States, forecasts of the contribution of investment to GDP formation as a result of tax reform show that non-residential private investment plays a higher role than residential and government investment. Until 2022, is expected a contribution of non-residential private investments to the GDP formation of 0.4%, and for the period 2023-2028 of 0.2%. In contrast, the contribution of government investment will be, on average, 0.1% by 2028, and private residential investment will affect GDP formation by 0.1%. (Congressional Budget Office, 2018, p. 115)

Secondly, the intensification of investment flows will lead to a gradual increase in production, also stimulated by the increased demand for goods and services in the internal market. To provide this demand, investors will increase their capital stocks. By 2025, the increase in capital available for production activity may be higher, on average, by almost 1% under the conditions of the tax reform compared to the initial forecasts. Gradual accumulations of capital and investments are also stimulated by the reduction of corporate income tax and tax deductions applied. At the same time, increases in the structure of capital stocks could register an upward trend until 2025. By 2023, their growth would be 5.5% higher than that recorded under the conditions of the old tax legislation, reaching a growth rate of 6.4% in 2025. These growth rates will lose their intensity in 2026 and 2027, but will remain close to 6% (The Joint Committee on Taxation, 2017b, p. 5).

Thirdly, a more intense economic activity implies more demand on the labor market, so an increase in wages. Wage growth rates would reach 0.8% higher in 2020 compared to those recorded under the old tax legislation. For the period 2020-2026 there is an upward trend of growth rates, reaching increases of 1.8% of wages in

2026, under the conditions of tax reform, and 1.7% for 2027 (Li & Pomerleau, 2018, p. 6).

The decrease in income tax, correlated with the increase of wages, causes people to find a job in the national economy, which implies an improvement in employment. On average, employment is estimated to improve by 0.6% over the tax reform period compared to initial fiscal law forecasts. For sectors other than agriculture, the average growth is 0.64% by 2028, although between 2021 and 2025, growth rates will be 0.7% (The Joint Committee on Taxation, 2017b, p. 6). Improvements are also seen in the case of the potential workforce, which, following the tax reform, will record higher increases than in the case of the old legislation. On average, the growth rates will be 0.37% by 2028, the highest being for the years 2022-2024, by 0.5%. Under these conditions, an increase in labor productivity is expected, on average, by 0.1% by 2028, with maximum growth rates of 0.3% for the period 2026-2028. On the other hand, the unemployment rate will improve, but not more than 0.1% each year until 2028 (Congressional Budget Office, 2018, p. 115).

Labor market performance is also generated by the reduction of marginal wage tax rates, by about 2% compared to the levels provided by the old tax legislation until 2025. If under the old legislation, the wage tax rate should have reached 30% starting with 2022, in the case of fiscal reform, this percentage will be reached in 2026 (Congressional Budget Office, 2018, p. 107).

Fourth, in addition to the effects on production, investment, capital stocks and the labor market, tax reform also has effects on consumption. The attracted capital and the increase of the salaries, correlated with the reduction of the fiscal debt can generate additional incomes for the population, stimulating consumption. The high level of production in the first years after the tax reform reflects an increase in consumption and business expenditure, on average, of 0.7% compared to the expected initial levels (The Joint Committee on Taxation, 2017b, p. 6). Consumption growth will occur at a faster pace in the private sector than in the public sector, attracting a greater contribution to GDP formation. By 2028, the contribution of private consumption to GDP formation will increase, on average, by 0.6%, while government consumption and investment will together contribute up to 0.1% to GDP formation. Higher growth rates will be recorded by 2023. However, as the economy approaches full employment and income tax regulations expire, consumption and benefits from increased demand will dissipate, its impact on production being smaller, halving by 2028 (Congressional Budget Office, 2018, p. 115).

Last but not least, the additional domestic demand for goods and services, as well as domestic demand for production equipment, will lead to increased imports needed by the population as well as investors, while the exports will decrease, affecting the trade balance. Imports will increase, on average, by 0.2% by 2021, correlated with the reduction, on average, by 0.1% of exports, because companies will be focused to respond first to domestic demand to the detriment of external. This phenomenon translates into a reduction in the trade balance of up to 0.3%. Instead, after 2022, the balance of the balance will start to improve. The increase in production and the decrease in the demand for capital goods of companies will be felt by the American economy, first, by the improvements in export structures from 2022-2024, then by the decrease in import growth rates, after 2024. Positive trade effects they will be recorded after 2026, when exports will increase, on average, by up to 0.05% and imports will decrease. Under these conditions, the balance of trade will begin to grow, up to 1% by 2028 (Congressional Budget Office, 2018, p. 115).

6. Conclusions

The domestic performance of the American economy in recent years is due, in many respects, to the decisions taken by Donald Trump, who made it a top priority. Through the Tax Cuts and Job Act, easing economic regulations for American entrepreneurs, and reforming the legal and medical system, Donald Trump has made significant economic improvements.

The tax reform has the merit of boosting revenue and investment and making the United States more competitive. Although there will be a temporary increase in the trade deficit, it should not be interpreted as detrimental to the economy or as a cause for the revocation of tax cuts. Rather, the temporary increase in the trade deficit will take place in the context of a faster and stronger economy, in which capital infusions will accelerate production and employment.

On the other hand, all the benefits of tax reform require paying a price, which often takes the form of deepening the federal deficit. But here also comes the ability of the American government to spend without imposing other taxes and to distinguish deficits caused by additional federal consumption from those caused by policies that promote growth, increase income and generate new investment and jobs.

We believe that the fiscal and economic measures adopted by the Trump administration will help strengthen the American economy and its external power.

The measures adopted by Donald Trump are largely beneficial to the American economy, facilitating its development at a much faster pace and increasing its influence. Economic revitalization and solving major domestic problems will allow the United States to focus much more on foreign affairs, increasing its influence on the world economy. In this way, the United States will increase its capacity to withstand the pressures exerted by other global actors such as China, Russia and the European Union.

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