Re: How to Fix the Wealth Disparity Gap caused by Trump Administration Tax Plan

To: Gene Sperling, Assistant to the President for Economic Policy, Director of National Economic Council

From: George T. Johnson, Undergraduate B.S Economics & Public Policy, University of Houston

THE PROBLEM

Trumps proposed plan to eliminate federal income tax would have significant effects on the U.S. economy and due to the overwhelming republican support in all three branches of government there must be preparation for the consequences.

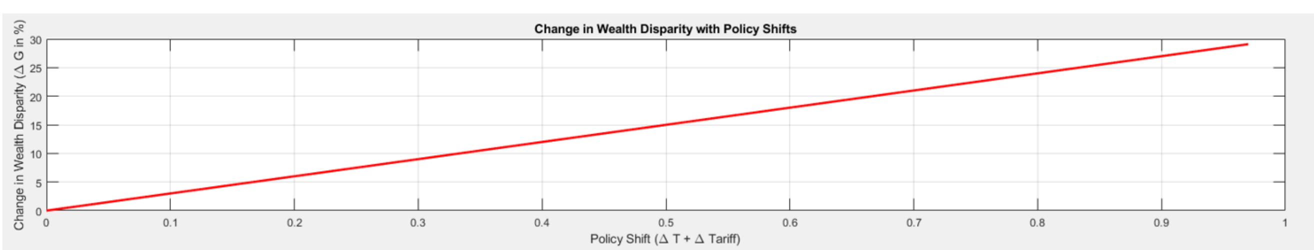
I conducted a study using information from previous studies from many other economists such as Hellman (2022), Steindel (2001), Cornforth (2024), Goss and Chang (2018), and lastly Kogan (2023). Their past research indicates that income significantly affects individuals. To represent the fact that the wealth disparity will vastly increase I will utilize visual data and the wealth disparity equation to represent my findings that the poor will become poorer under these new tax policies. **I will recommend that policymakers use what remaining programs there are that support the impoverished to begin shifting their funding off income tax and into new areas to ensure a more stable transition into this new economy. This will allow support for those most affected by these policies and allow for programs such as social security, Medicare, and national defense to obtain new revenue streams.**

Changes in Wealth Disparity

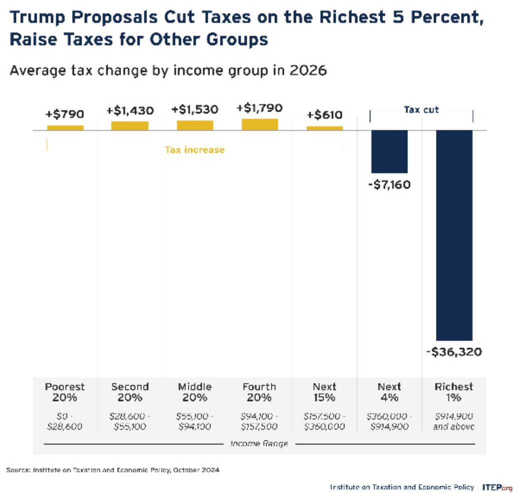
To measure the real change in wealth disparity under the Trump administration new policies the new **Tariff plans are considered in the equation**. **Change in Wealth Disparity $\Delta G = (\alpha_y + \alpha_R R) * (\Delta T + \Delta Tariff) * G_{Current}$. To factor in New Wealth Disparity the equation will be (G_{new}) $G_{new} = G_{Current} + \Delta G$.**

To find the elasticity of wealth disparity with respect to taxes and tariffs → $(\alpha_y + \alpha_R R) = 0.4 + 0.1 = 0.5$

The parameters I used to get my measurements for my equation's solutions are as follows and come **from the U.S. treasury, IRS, and the Tax Foundation. This equation assumes Trumps planned 75% tariff on imported goods is in place. $\Delta G = (0.4 + 0.1) * (0.22 + 0.75) * 60$ →$\Delta G = 0.5 + 0.97 * 60 = 29.1\%$ →$G_{new} = 60 + 29.1 = 89.1$.**



Using MATLAB to model findings shows indications that wealth disparity increases. The percentage of wealth that would be held by the top 10% of earners is currently 60%; this would later grow to 89%. This outcome does assume that higher taxes and tariffs disproportionately impact as represented by ITEP (This shows that wealthier groups will benefit much more from the economic gains associated with no income tax).



Other Effects

Loss of Government Revenue – Income tax provides major funding for public services such as education, healthcare, and infrastructure. This removal or significant cut of income tax would lead to large budget deficits. In Gross and Chang (2018) they discuss how Income tax is the most stable tax, while corporate and sales tax would be much more volatile. This study also states that revenue should not come from strictly corporate and sales tax otherwise there will be an unsteady tax base and revenue stream.

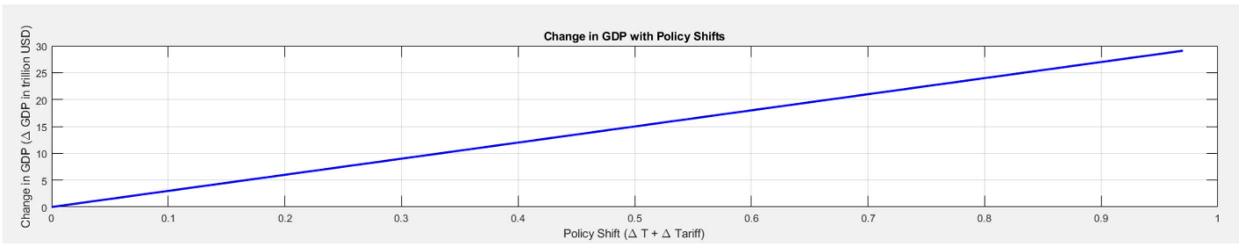
Raised Taxes that Affect Lower Income Citizens – State government or federal government may raise sales, property, or corporate taxes, which have the potential to disproportionately affect low-income individuals. Hellman (2022) shows that when income tax is removed, reliance falls on other taxes that the burden falls on lower- and middle-income families. To represent this the researcher shows the differences between Oregon which has progressive income tax and Washington which has no income tax. Washington has one of the largest homeless populations in the United States and showed that the middle- and lower-class people paid a total of 18% of their income to the state while high income brackets only paid about 3%.

Effects on GDP – Vermer (2022) goes into detail on the impact of individual income tax and its effect on Economic growth. Their findings showed that there were changes to GDP, upward job mobility, and private investment. They found that higher income taxes cause lower GDP and private investment since they have a negative relationship. Higher rates also made it more difficult for employed people to find higher paying jobs within a 1-year time span. This shows that there could be a possible benefit but one must weigh the wealth disparity versus the GDP and what is more impactful. I was able to model this effect.

The change in GDP is found by using $\Delta GDP = (\beta_C + \beta_I + \beta_G) * (\Delta T + \Delta Tariff) * GDP_{current}$. New GDP is then found by $GDP_{new} = GDP_{current} + \Delta GDP$. This equation uses

2023 data since at the time of completion it was the most updated fiscal year. Using MATLAB to model this function and data from the BEA, CEIC, and U.S. Treasury to find data involving fiscal year 2023 GDP. The elasticity parameter was found by taking GDP with respect to taxes and tariffs $(\boldsymbol{\beta_C} + \boldsymbol{\beta_I} + \boldsymbol{\beta_G}) = \mathbf{0.6817 + 0.207 + 0.207 = 1.0957}$.

Modeling this effect in MATLAB this equation **assumes Trumps planned 75% tariff** on imported goods is in place→ $\boldsymbol{\Delta GDP} = (\mathbf{0.6817 + 0.207 + 0.207}) * (\mathbf{0.22 + 0.75}) * \mathbf{27.36}$ → $\boldsymbol{\Delta GDP} = \mathbf{1.0957 * 0.97 * 27.36} = \$\mathbf{29.12}\ \boldsymbol{Trillion\ USD}$



As tax and tariff rates increase, the total GDP grows substantially. This is modeled by the elasticity of the GDP with respect to the tax and tariff policy. The increase in GDP suggests that the higher tariffs and tax revenues could possibly boost economic activity or government spending in this model.

POLICY ALTERNATIVES TO CONSIDER

The total impact the policy will have at this point is uncertain, however there are ways to mitigate potential risk. In this closing analysis I will make four policy recommendations based on mitigating wealth disparity or those most affected by the removal of income tax. These policies will focus on the wealth movement and other progressive ideas. These ideas also assist with ensuring that the increased GDP also comes with a more equal opportunity for all people.

1. Shift to Progressive Consumption Tax. Instead of focusing on Sales tax, which would highly affect lower and middle class, implementing a VAT or luxury tax on higher end goods would ensure that wealthy will also contribute more based on their expenditures.

2. Strengthening / Creating Wealth and Asset tax. This would expand property tax on high value homes as well as implement a new wealth tax which would be on a net worth of 1.5 million dollars or more.

3. Expansion of Social Safety nets and Public Services. Use alternative tax revenues to strengthen healthcare, education, and affordable housing programs. Also, expansion on child support, jo training, and unemployment benefits to assist lower income individuals.

4. Reduce government spending. Streamline government services and get rid of wasteful programs. Shift some responsibilities to the private sector to reduce costs. Reform entitlement programs to ensure long-term financial sustainability.