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LET'S TALK TODAY ABOUT YOUR TOMORROWS

SPECIAL REPORT
"The Economy: Yesterday, Today and Tomorrow"
Noted economist Arthur Laffer is bullish



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Special Report

“The Economy: Yesterday, Today and Tomorrow”

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Arthur B. Laffer, Ph. D., internationally prominent economist and long-time adviser to Caldwell Trust Company, spoke to the company's board of directors and officers in Sarasota on February 22 about “The Economy: Yesterday, Today and Tomorrow.” He also met with local media representatives at a news conference preceding his presentation. This special report provides a summary of his comments at both appearances.

Dr. Laffer is known as “The Father of Supply-Side Economics,” as an adviser to President Ronald Reagan and others, and as the creator of the Laffer Curve. In introducing this speaker to his board, R. G. “Kelly” Caldwell Jr., CEO and president of Caldwell Trust Company, said Laffer was bringing “a tone of optimism.” He also referenced the company's blog of February 28 [blog.ctrust.com/investment-letter-commentary] by Chris McGee, CFA, CAIA, Caldwell's vice president of investments. In it, McGee compares today's economy with that of a year ago. “The only thing that matters is growth, and we're starting to have GDP growth,” Kelly Caldwell said. McGee concurred. “2017 is set to be a pretty good year for the equity market,” he said. “We are political agnostics. We are pro-growth.”



Dr. Arthur Laffer overall tone of optimism in his economic forecast on February 22.

Dr. Laffer then took the podium. He drew on his intellect, experience and an insider's knowledge of the world's political and economic systems to present his economic forecast, using the wit and easy manner of a seasoned raconteur. His wide-ranging talk focused on several topics.

OVERVIEW AND GROSS DOMESTIC PRODUCT. “What's happening in the U.S. is global,” Laffer said. “The gold standard for the economy is a free market, a perfectly competitive system. Otherwise we have monopolies.” He brought this observation down to the level of the 50 American states, which compete for jobs, businesses and other economic assets, as documented in his book *Rich States, Poor States*. “This competition has created much of the prosperity of the U.S.,” he said. “The E.U. has destroyed that competition among its members. That's why the United Kingdom and others want to leave.”

“States with no income tax kick the living bejabbers out of the other states every year,” Laffer said, citing other economic factors as well. However, he added, “When you're looking at the US economy, there's only one measure, Gross Domestic Product.” This is the sum total of production of all goods and services in the U.S. in one year, and Dr. Laffer takes it one step further. “We look at the real GDP per adult, and we de-trend—adjust the statistics for the time period being considered. The actual measure of the economy is the real GDP per adult, de-trended.”

OBAMACARE. Laffer supports the replacement of Obamacare [Affordable Care Act], which he considers a product of former presidents George W. Bush and Barack Obama. Speaking as both an economist and the former chair of a hospital in Tennessee, he compared the ACA to a Swedish buffet. “You pay a lump sum, like at a smorgasbord. You can eat all you want, and you go right for the caviar,” he said. “A repeal would have a dramatic impact on our economy.”





TRADE. “I’m very worried about trade policy. The 1992 protection act by Republicans caused a lot of damage and the Smoot-Hawley Tariff Act in 1930 led to the Great Depression.” A strong proponent of free trade, he likes NAFTA but not the Trans-Pacific Partnership. “Trade helps everyone,” Dr. Laffer said. “Putting a tax on trade is one of the dumbest things I’ve ever heard of. We need to cut taxes. Period.”

Nor does he favor embargoes. “They are the silliest thing. We embargoed North Korea and Cuba. They will hate us for generations. If we hadn’t embargoed Cuba, Castro would have been out in four years.” He continued, “I’m a lot less worried about Trump on trade than about Bernie or Hillary. I don’t think Trump is a protectionist. He understands trade. He imported two wives.”

TAXATION. “We can’t balance the budget without economic growth, and we can’t get growth by raising taxes or increasing entitlements. If we dropped the tax rate to 20 percent or 15 percent, revenue would increase dramatically. We need to cut taxes first, then cut spending. The U.S. has the highest corporate tax rate and the lowest revenue. A U.S. business in Ireland pays the Irish tax of 12.5 percent plus the U.S. global tax of 22.5 percent. We’re the only nation that charges a global tax. We need to end it. We also need to end the estate tax. It’s not a big economic factor for revenue. It’s largely symbolic. The estate tax is the single most immoral tax we have,” he said.

“From Jan 1, 1983 to June 30, 1984, the average annualized growth was 8.3 percent once Reagan’s tax policies were in place. Clinton did a great job too. The stock market under Reagan and Clinton grew substantially. We need to do it in the same way going forward,” he said.

POLITICAL SHIFT AND OUTLOOK. In May 2016, Laffer wrote “Donald Trump will be the next President of the United States after having won an easy victory over Hillary Clinton in November 2016.” That prediction and his reasons for making it are in his paper, “Game On.”* “The U.S. is in the single worst position in the last 70 years. Now something major is going on in this country,” he said, citing a major shift from Democrat to Republican, from down-ticket right up to the top. “We’ve done a 180. We have the largest Republican majority since 1920. The Republicans will soon have control of all seven key positions in our government: presidency, house, senate, state legislatures, governors, and soon the Supreme Court and the Fed. The situation has never been more amenable for passing legislation. At the same time, the bar has never been lower.” He said he once told Reagan that the president looked so good because “You had the uncanny ability to select your four predecessors.” For Trump, “following the twins Bush and Obama, the bar has never been lower.”

CONCLUSION. “The second law of thermodynamics is the ability to forecast the past. But looking ahead, I think you’re at the beginning stages of one of the most exciting periods in U.S. history,” Laffer said. “The path to the future is incredible today. There’s a group of people who take Trump seriously but not literally, and another group who take him literally but not seriously, but Trump is poised to give the Sarasota region’s economy the best ride since Ringling Brothers Barnum and Bailey came here. Sit back and enjoy the ride!”

*Please contact Sheryl Vieira for a copy of “Game On” by Dr. Arthur Laffer, 941.493.3600 or sheryl@ctrust.com





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