AAII Survey: The Biggest Impediments to Global Economic Growth & The Impact of Tax Reform

By all accounts, the global economy is humming along. This, in turn, is good for global stock markets. However, economies are cyclical and eventually they slide into recession.

In a recent **essay**, Robert S. Kaplan, president of the Federal Reserve Bank of Dallas, outlined several factors that he feels are impeding the U.S. and global economies.

These include:

- Aging-workforce demographics in the U.S. and across major economies
- Limits to the sustainability of the so-called global debt “super cycle”
- Globalization
- Technology-enabled disruption

I strongly suggest you take a moment to read Kaplan’s statement as it offers unique perspectives on topics that you don’t usually find in the financial press.

AAII Weekly Survey Question

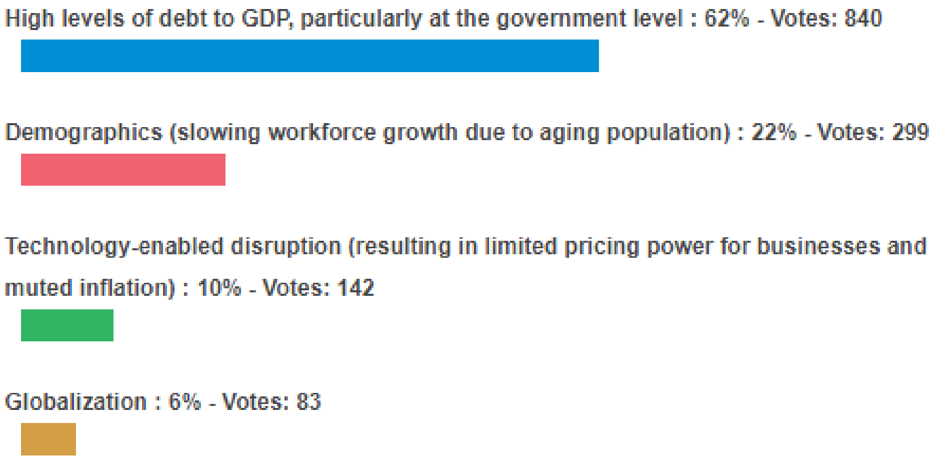
Having read Kaplan’s essay, I wanted to see which of these factors our readers think is the biggest headwind to the U.S. and global economies. So last week’s survey question asked:

> **Which of these four factors has the potential to be the biggest drag on the U.S. and global economies?**

Here are the results:

Member Question

Recently, Robert S. Kaplan, president and chief executive officer of the Dallas Federal Reserve Bank, outlined four factors impeding the U.S. and global economies. Which of these four has the potential to be the biggest drag on the U.S. and global economies?



Of the 1,374 readers who participated, the majority see rising public debt as the biggest headwind to economic growth. According to Kaplan, public debt stands at the highest levels since the World War II era—approximately 75% of GDP—and the present value of future unfunded entitlements is now estimated at $49 trillion. In Kaplan's view, these obligations will increasingly work their way into U.S. budget deficits over the next five to 10 years—raising questions regarding fiscal sustainability which, if not addressed, could negatively impact longer-run economic growth.

Twenty-two percent of readers feel that demographics will have the biggest negative impact on global economies. In his essay, Kaplan writes that aging-population trends reduce labor force participation rates and ultimately create headwinds for potential GDP growth. These demographic trends are also likely to impact the "dependency ratio," whereby an increasing share of the population is depending on those of working age to pay for future medical and retirement benefits. Kaplan feels that these trends are likely to create further strains on the ability of the U.S. government to manage its fiscal obligations.

Another 10% of readers feel that technology-enabled disruption poses the biggest threat to economic growth. As Kaplan points out, companies are investing in technology to boost their competitiveness, often to the detriment of the workforce. This is forcing many displaced workers to take less-productive jobs. In addition, Kaplan believes that, since many industries are also facing a disruptive technology-enabled competitor that is threatening their business model, it has also reduced the pricing power of many companies and caused them to intensify their focus on creating greater operational efficiencies. He also feels that the threat of technology-enabled disruption is preventing companies from making capacity-expansion decisions as well as investing in major capital projects.

Lastly, only 6% of readers see globalization as hurting economic growth. Over the years, economies have become more and more intertwined. For example, Kaplan states in excess of 40% of the content of U.S. imports from Mexico is of U.S. origin. He adds that, while trade and globalization have benefited the U.S. economy, they have also created severe local hardships that the U.S. and other advanced economies have struggled to address.

Weekly Special Question

While not fully related to last week's survey question, I wanted to continue the topic of tax reform that has spurred higher-than-usual participation over the last couple of weeks. So last week's special question asked our readers:

> ### In what ways do you think President Trump's tax plan, if passed, will impact you financially?

In all, 294 readers offered their thoughts on how the proposed tax reform legislation will impact them.

Roughly 40% of the responses stated that the proposed tax reforms will have a negative impact on them. This could take the form of:

- Higher taxes
- Loss of state deductions
- Loss of medical deductions
- Lowered or eliminated mortgage deduction

Nearly one-quarter (23%) believe the proposed tax reforms will have a positive impact on them financially. These benefits could take the form of:

- Reduced taxes
- Increased standard deduction
- Simplified filing of taxes
- Increased investment returns

A number of respondents, however, were unsure of the impact of the proposed tax legislation, making up one of the largest single response groups.

Only 15% of readers feel that the proposed tax reform will have little or no impact on them.

Here is a sampling of the responses:

- “I haven’t seen it yet, but I assume if it follows the usual trend, I will pay more now and will need to pay more to deal with the deficit later.”
- “Silly question since it will never pass, just like everything else.”
- “I hope that it will reduce the amount of my hard earned income the federal government taxes and then wastes!”
- “Lowering the corporate rate would help, and perhaps this part of the plan may pass to some extent.”
- “My taxes will go up while those of the richest people in the country will go down significantly.”
- “Sounds like the tax return will be very simple … that in and of itself may be the biggest bonus.”
- “No idea, as the plans being proposed by the House and Senate will never come to fruition as they are written today.”
- “With the loss of large medical deductions for myself at 74 and expenses to care for an even older parent will affect my taxes.”
- “Severely detrimental. Elimination of home mortgage deduction has just canceled my retirement plans. I have had no mortgage on my “primary” home since 1990. I was intending to build a new home to move into and sell my current home. Since they are intending to disallow a ‘2nd home’ deduction entirely, how can I build my retirement home while living in my ‘primary’ home?”
- “It will hurt because it eliminates my largest deduction, that for state and local taxes.”

Everybody has an opinion! Why not give us yours? Participate in our weekly member poll, updated every Monday, and see the results online at www.aaii.com/memberquestion.