

Trump, Trade, Taxation & Canada

Ian Lee, PhD
Sprott School of Business
Carleton University

Disclosures

- ◆ I do not consult to anyone anywhere
- ◆ I do not belong to or donate to any pol party
- ◆ sabbaticals in DC & Monterey, CA
- ◆ Road trips to 43 of 50 US states
- ◆ Visited 8 of 14 US Presidential libraries

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- ◆ Crossed into US + 400 X since birth
- ◆ Taught over 100X in Europe & Asia
- ◆ Warsaw since 1991, China since 1997
- ◆ Iran 10x; Ukraine 20X; Romania 25X
- ◆ Moscow, Havana, Prague, Riga, Zagreb

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Overview

- ◆ narrative post Nov. 8 by pols & pundits
- ◆ Trump is irrational, unpredictable, confused
- ◆ No logic – policies plucked from thin air
- ◆ Possibly comforting but inaccurate
- ◆ Repudiated by analysis of speeches & data

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Andrew Coyne

- ◆ Trump cannot be assumed to conform with anything: not established fact, not expert consensus, not custom or precedent, not domestic or international law, not his own past statements, not even, in many cases, the previous sentence. He is a rogue missile, guided variously by impulse, ego, pique, who talked to him last, what he saw on Fox News, or which of the various factions within the White House is temporarily ascendant.

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Peter Navarro, Trump Trade Advisor

- ◆ *“Consider that roughly half of our trade deficit is with just six countries: **Canada**, China, Germany, Japan, Mexico and South Korea”*
- ◆ *“improvement in our trade balance is clearly achievable through some combination of increased exports and reduced imports, albeit after some tough, smart negotiations”*

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Cdn Press, April 19, 2017,

- ◆ *"The Trump White House is indistinguishable from the Obama White House on dairy," said one Canadian official.*
- ◆ *It so happens the top lawmakers from each party come from a dairy-producing state: New York's Chuck Schumer, the Democrats' leader in the Senate, and Wisconsin's Paul Ryan, the Republican House Speaker.*

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Jimmy Carter: Trump is right - Canada's lumber trade is unfair

- ◆ *our neighbor to the north must still play by the rules and stop engaging in its unfair trade practices. We must either enforce U.S. trade laws with tariffs or insist on an effective and lasting bilateral softwood trade agreement that allows our industry to survive, provide jobs for workers and sustain vibrant forestry communities across our country",* Wash Post Op-Ed, May 10

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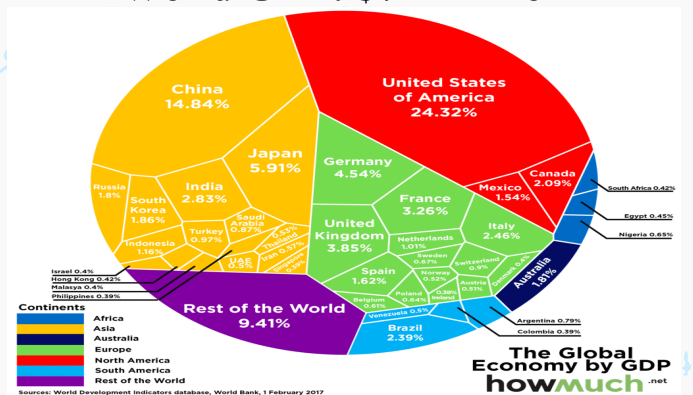
Background Empirical Data

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World GDP: \$74 Trillion

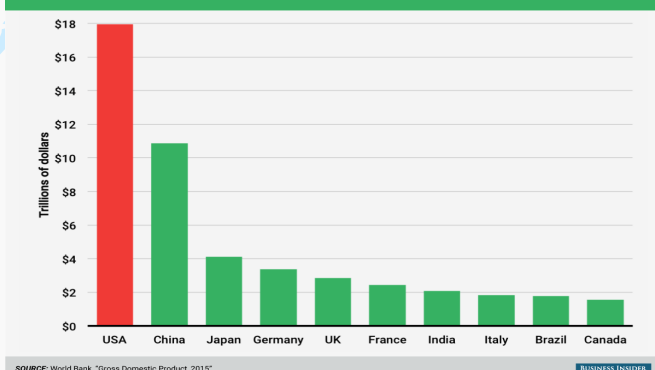


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GROSS DOMESTIC PRODUCT

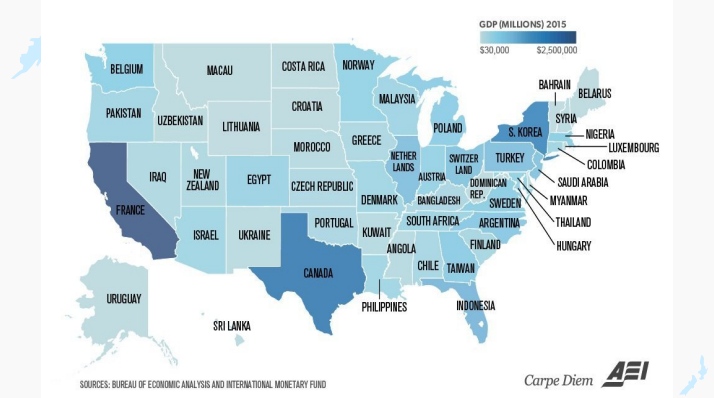


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US States Renamed for Countries with Similar GDPs, 2015



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Background Context for 2016 US Presidential Election

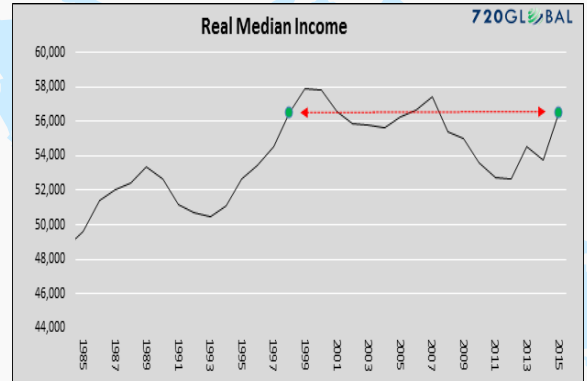
Income Stats for USA in 2016

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US Real Median Income, 1985-2015

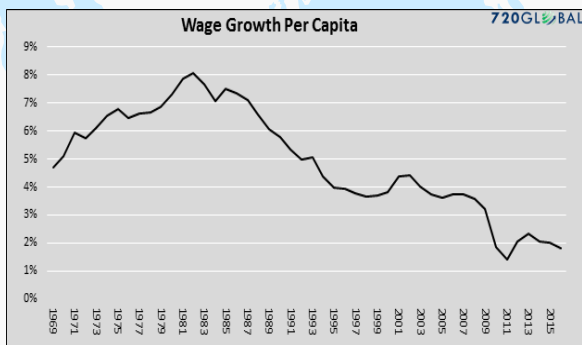


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US, Average Wage Growth per Person, 1969-2015

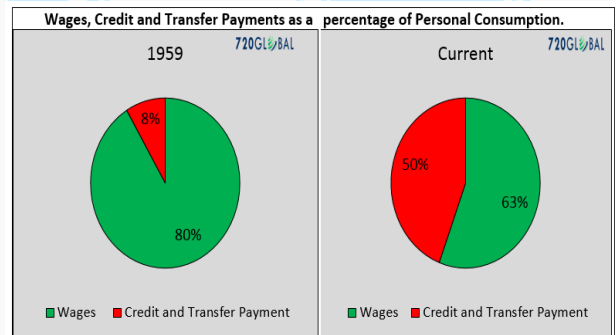


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US, Wages, Credit & Govt Transfers as % of Consumption, 1959-2015

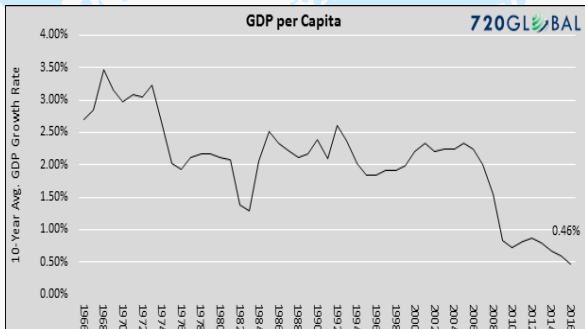


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US GDP per Cap Growth Rate, 1966-2015

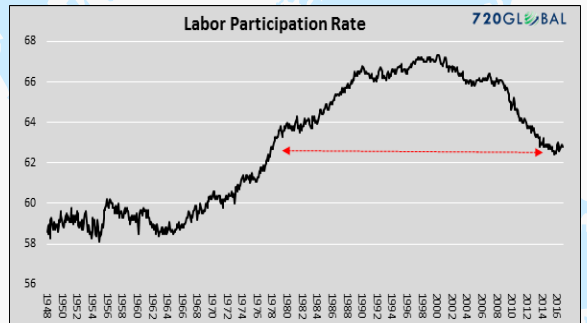


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US Labour Participation Rate (as % of adult pop), 1948-2016

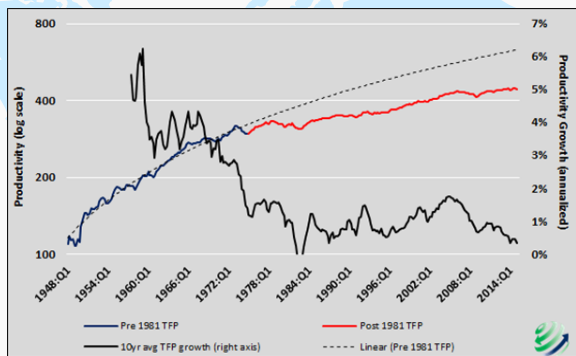


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US Productivity Rate, 1948-2014

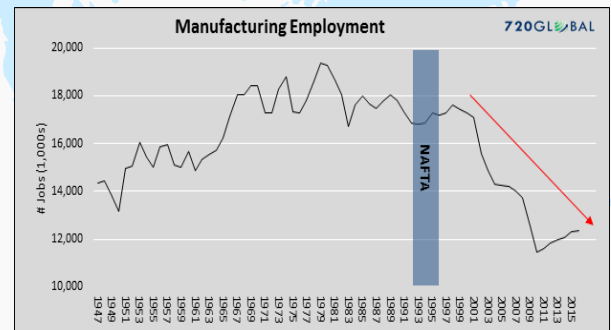


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US Manufacturing Employment, 1947-2015

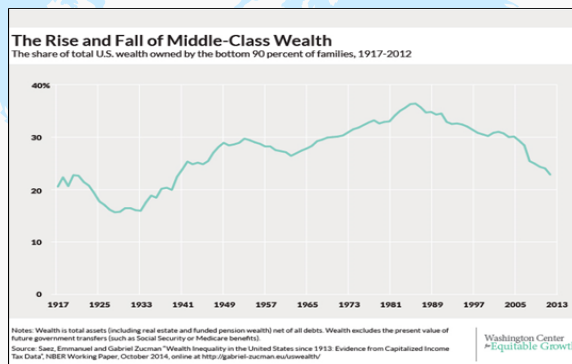


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US, Rise & Fall of Middle Class Wealth, 1917-2013



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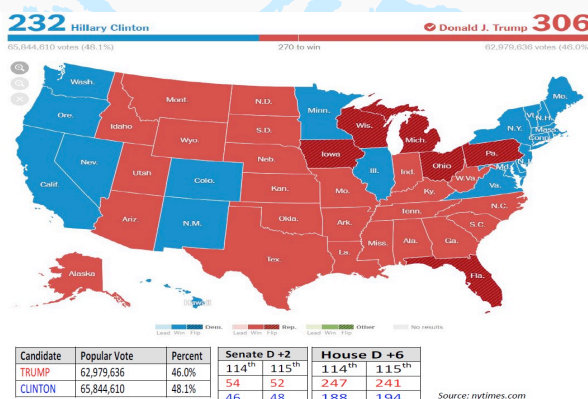
Urban Legends & Surprises of 2016 Election

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2016 US Presidential Election



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Cdn Embassy in DC Report

- ◆ “Clinton fell behind Obama’s showing among African-Americans by 5 points, among Hispanics by 6 points, and among Asians by 12 points”.
- ◆ Her under-performance with these communities rendered Mr. Trump’s over-performance with whites that much more significant”

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2016 Election: 77,000 votes in 3 states

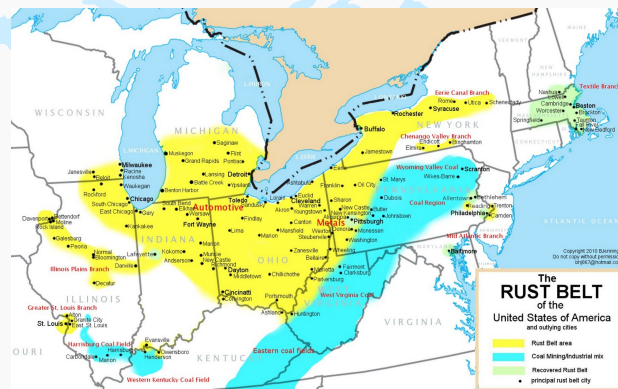
- ◆ 2016 Presidential election was decided by about 77,000 votes out of 136 million votes
- ◆ According to the final tallies, Trump won Pennsylvania by 0.7 percentage points (44,292 votes), Wisconsin by 0.7 points (22,748 votes), Michigan by 0.2 points (10,704 votes)
- ◆ If Clinton had won all three states, she would have won the Electoral College 278 to 260

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US Rust Belt

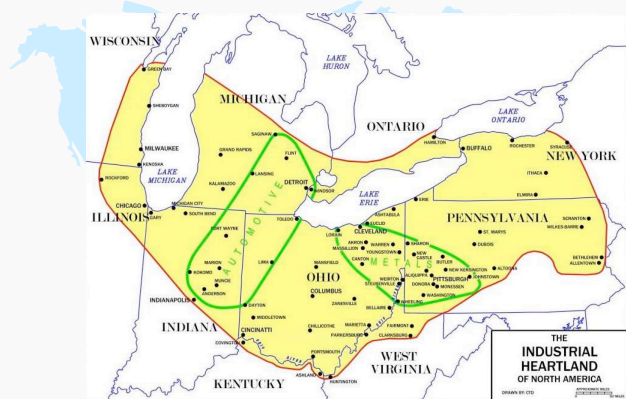


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Another Look



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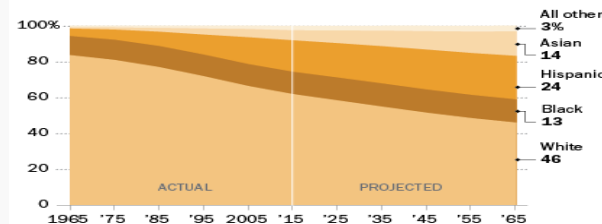
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PEW, Changing Face of US, 1965-2065

The changing face of America, 1965-2065

% of the total population



Note: Whites, blacks and Asians include only single-race non-Hispanics; Asians include Pacific Islanders. Hispanics can be of any race.
Source: Pew Research Center 2015 report, "Modern Immigration Wave Brings 59 Million to US, Driving Population Growth and Change Through 2065"

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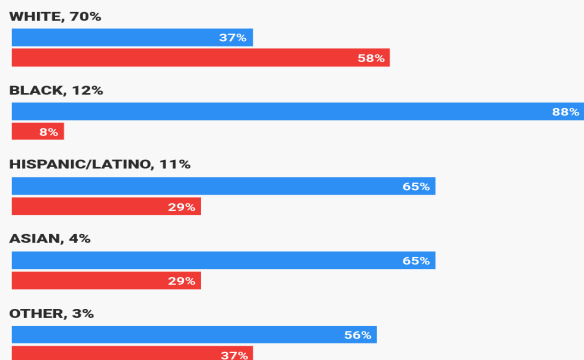
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BUSINESS INSIDER ELECTION 2016 VOTER TURNOUT, BY RACE

■ HILLARY CLINTON ■ DONALD TRUMP



SOURCE: Edison Research for the National Election Pool. NOTE: 24,193 respondents

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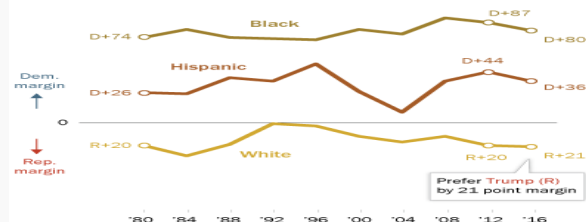
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PEW, Party Voting Margin by Race, 1980-2016

In victory, Trump won whites by virtually same margin as Romney in 2012

Presidential candidate preference, by race or ethnicity



Source: Based on exit polls conducted by Edison Research for the National Election Pool, as reported by CNN. Data from prior years from national exit polls. Data for 1972-1976 not shown due to differences in question wording and administration. In 1980, race was coded by the interviewer instead of being asked of the respondent.

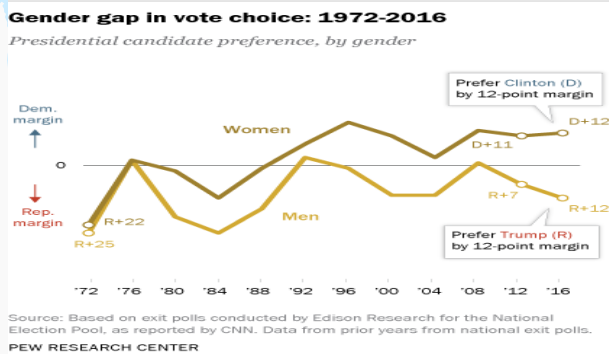
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Gender gap in US Presidential Elections, 1972-2016

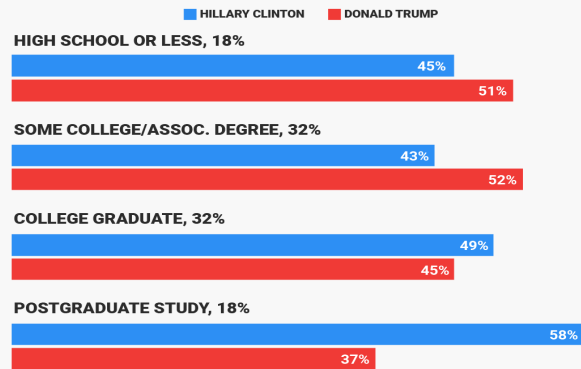


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BUSINESS INSIDER ELECTION 2016 VOTER TURNOUT, BY EDUCATION



SOURCE: Edison Research for the National Election Pool NOTE: 23,451 respondents

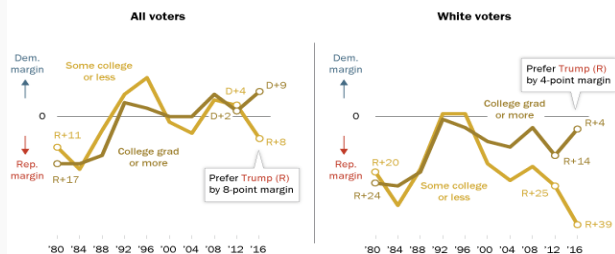
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PEW, Education Differences in Voting, 1980-2016

Wide education gaps in 2016 preferences, among all voters and among whites
Presidential candidate preference, by educational attainment

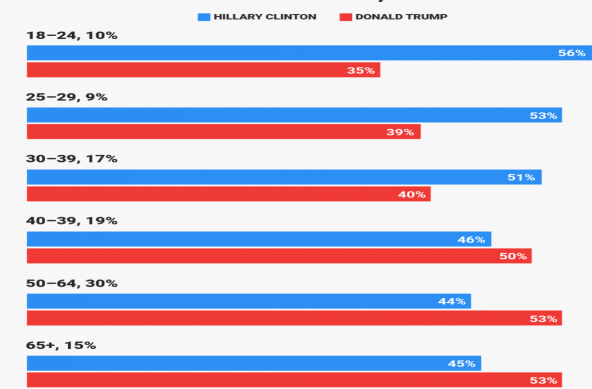


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BUSINESS INSIDER ELECTION 2016 VOTER TURNOUT, BY AGE



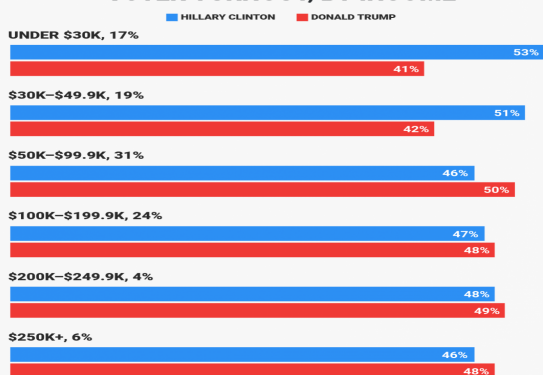
SOURCE: Edison Research for the National Election Pool NOTE: 24,365 respondents

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BUSINESS INSIDER ELECTION 2016 VOTER TURNOUT, BY INCOME



SOURCE: Edison Research for the National Election Pool NOTE: 9,077 respondents

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Poorest States by state income per capita –Trump won EC

50. Mississippi – Median household income: \$39,680 Poverty rate: 21.5%
49. West Virginia – Median household income: \$41,059 Poverty rate: 18.3%
48. Arkansas – Median household income: \$41,262 Poverty rate: 18.9%
47. Alabama – Median household income: \$42,830 Poverty rate: 19.3%
46. Kentucky – Median household income: \$42,958 Poverty rate: 19.1%
45. Tennessee – Median household income: \$44,361 Poverty rate: 18.3%
44. Louisiana – Median household income: \$44,555 Poverty rate: 19.8%
43. New Mexico – Median household income: \$44,803 Poverty rate: 21.3%
42. South Carolina – Median household income: \$45,238 Poverty rate: 18.0%
41. Montana – Median household income: \$46,328 Poverty rate: 15.4%
40. North Carolina – Median household income: \$46,556 Poverty rate: 17.2%
39. Florida – Median household income: \$47,463 Poverty rate: 16.5%
38. Oklahoma – Median household income: \$47,529 Poverty rate: 16.6%
37. Idaho – Median household income: \$47,861 Poverty rate: 14.8%
36. Missouri – Median household income: \$48,363 Poverty rate: 15.5%
35. Ohio – Median household income: \$49,308 Poverty rate: 15.8%

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Middle third states by income per cap: Trump won in all but 3

- 34. Georgia – Median household income: \$49,321 Poverty rate: 18.3%
- 33. Indiana – Median household income: \$49,446 Poverty rate: 15.2%
- 32. Maine – Median household income: \$49,462 Poverty rate: 14.1%
- 31. Michigan – Median household income: \$49,847 Poverty rate: 16.2%
- 30. Arizona – Median household income: \$50,068 Poverty rate: 18.2%
- 29. South Dakota – Median household income: \$50,979 Poverty rate: 14.2%
- 28. Oregon – Median household income: \$51,075 Poverty rate: 16.6%
- 27. Nevada – Median household income: \$51,450 Poverty rate: 15.2%
- 26. Kansas – Median household income: \$52,504 Poverty rate: 13.6%
- 25. Wisconsin – Median household income: \$52,622 Poverty rate: 13.2%
- 24. Nebraska – Median household income: \$52,686 Poverty rate: 12.4%
- 23. Texas – Median household income: \$53,035 Poverty rate: 17.2%
- 22. Pennsylvania – Median household income: \$53,234 Poverty rate: 13.6%
- 21. Iowa – Median household income: \$53,712 Poverty rate: 12.2%

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Wealthiest US states by avg income: All but 3 voted for Dem Party

- 20. Vermont – Median household income: \$54,166 Poverty rate: 12.2%
- 19. Rhode Island – Median household income: \$54,891 Poverty rate: 14.3%
- 18. Wyoming – Median household income: \$57,055 Poverty rate: 11.2%
- 17. Illinois – Median household income: \$57,444 Poverty rate: 14.4%
- 16. New York – Median household income: \$58,878 Poverty rate: 15.9%
- 15. North Dakota – Median household income: \$59,029 Poverty rate: 11.5%
- 14. Delaware – Median household income: \$59,716 Poverty rate: 12.5%
- 13. Utah – Median household income: \$60,922 Poverty rate: 11.7%
- 12. Colorado – Median household income: \$61,303 Poverty rate: 12.0%
- 11. Washington – Median household income: \$61,366 Poverty rate: 13.2%
- 10. Minnesota – Median household income: \$61,481 Poverty rate: 11.5%
- 9. California – Median household income: \$61,933 Poverty rate: 16.4%
- 8. Virginia – Median household income: \$64,902 Poverty rate: 11.8%
- 7. New Hampshire – Median household income: \$66,532 Poverty rate: 9.2%
- 6. Massachusetts – Median household income: \$69,160 Poverty rate: 11.6%
- 5. Hawaii – Median household income: \$69,592 Poverty rate: 11.4%
- 4. Connecticut – Median household income: \$70,048 Poverty rate: 10.8%
- 3. Alaska – Median household income: \$71,583 Poverty rate: 10.1%
- 2. New Jersey – Median household income: \$71,919 Poverty rate: 11.1%
- 1. Maryland – Median household income: \$73,971 Poverty rate: 10.1%

Source: US Census Bureau and Michael Moore

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Who voted for whom?

- ◆ Trump won white voters (58%) almost identical to that of Mitt Romney (59%)
- ◆ College graduates backed Clinton by a 9-point margin (52%-43%)
- ◆ those without a college degree backed Trump 52%-44%

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Who voted for whom?

- ◆ Trump got slightly higher % of blacks & Latinos than Romney in 2012
- ◆ But Trump won larger % of males than recent Presidential elections
- ◆ Trump won 29% of Latino vote

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Who elected Trump?

- ◆ Older people +40: majority voted Trump
- ◆ Males and
- ◆ Blue collar workers w/out college
- ◆ in Rustbelt states
- ◆ & Bernie Sanders voters who did not vote

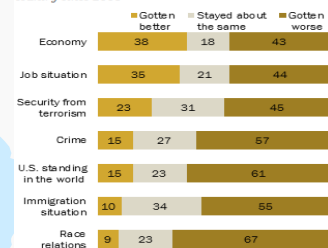
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PEW, Sharp Policy Differences

Little progress seen in jobs, security, immigration, crime since 2008
% of registered voters who say each has _____ in this country since 2008



Notes: Based on registered voters who voted before Election Day or planned to vote. Don't know/No answer not shown.
Source: Survey conducted Oct. 25-Nov. 8, 2016.

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Clinton, Trump voters sharply diverged on seriousness of an array of problems
 % of voters who said each is a 'very big problem' in the country today ...



Note: Based on registered voters who voted before Election Day or planned to vote.
 Source: Survey conducted Oct. 25-Nov. 8, 2016.
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Selection of Trump's Promises for First 100 Days, Gettysburg, Oct. 22, 2016

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Select Promises - Trump's First 100 Days Speech at Gettysburg, Oct 22, 2016

- ◆ Trump discussed trade issues thro campaign
- ◆ *FIRST, I will announce my intention to renegotiate NAFTA or withdraw from it under Article 2205*
- ◆ *SECOND, I will announce our withdrawal from the Trans-Pacific Partnership*

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Trump's First 100 Days Speech, Gettysburg

- ◆ *Fourth, I will direct Secty of Commerce to ID all foreign trading abuses that unfairly impact American workers & direct them to use every tool under American & intl law to end those abuses immediately*
- ◆ *FIFTH, I will lift the restrictions on the production of \$50 trillion dollars' worth of American energy reserves, including shale, oil, natural gas and clean coal*

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Trump's First 100 Days Speech, Gettysburg

- ◆ *SIXTH, lift the Obama-Clinton roadblocks and allow vital energy infrastructure projects, like the Keystone Pipeline, to move forward*
- ◆ *SEVENTH, cancel billions in payments to U.N. climate change programs and use the money to fix America's water and environmental infrastructure*

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Middle Class Tax Relief Act

- ◆ *An economic plan designed to grow the economy 4%/yr & create at least 25 million new jobs*
- ◆ *largest tax reductions are for middle class. A middle-class family with 2 children will get a 35% tax cut. The current number of brackets will be reduced from 7 to 3*
- ◆ *business rate will be lowered from 35% to 15%, & \$3 Trillion in US corporate money overseas may be brought back at 10%*

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Interpretation of Trump's Promises

- ◆ Mostly trade, taxation & deregulation issues
- ◆ No mention of most social issues
- ◆ Mexico & China are target – not Canada
- ◆ But Canada will be affected due to tight integration of two economies

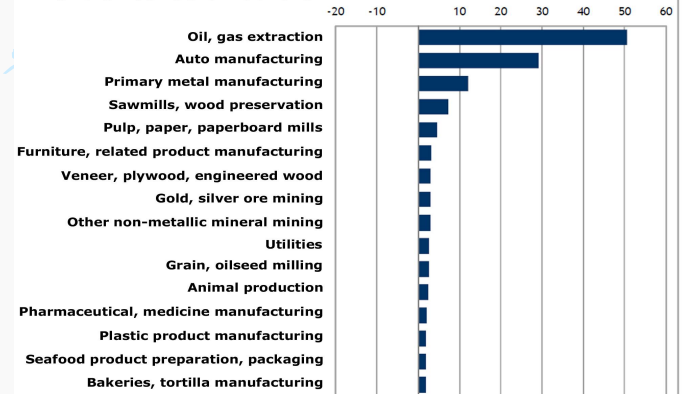
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Canadian trade balances with U.S. by industry

Billions of Canadian dollars



Source: Royal Bank of Canada

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USTR, Canada's Trade Barriers

- ◆ Agriculture supply mgmt.
- ◆ Restrictions on US grain exports
- ◆ Wine, beer spirits higher prov taxes for US
- ◆ Aerospace support
- ◆ Govt procurement

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USTR Canada's Trade Barriers

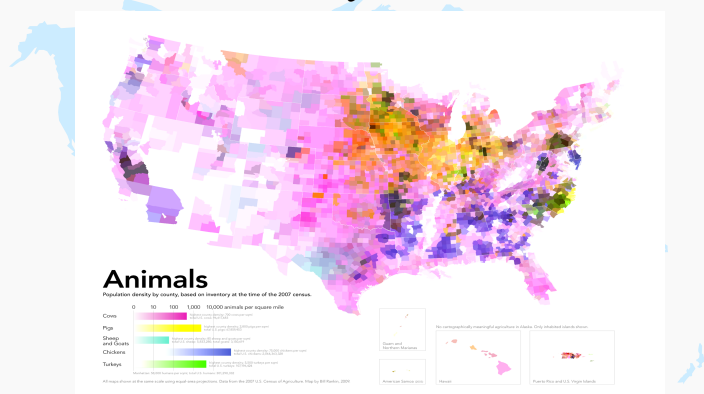
- ◆ IP property rights protection
- ◆ Telecom restrictions
- ◆ Cdn content in broadcasting
- ◆ Investment barriers

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Cows are everywhere in USA



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Wisconsin Dairy Facts

- ◆ <file:///C:/Users/ian/Documents/US%20Dairyland,%20Milk%20Production%20Snapshot%202015.pdf>

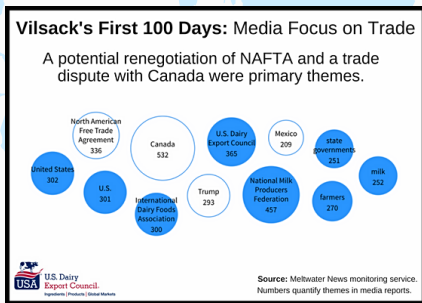
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Tom Vilsack, CEO, USDEC

Tom Vilsack on Canada supply management
"That's obviously a deep concern & should be aggressively addressed"



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Greatest Risk to Canada

- ◆ Reducing US Corp Tax from 35% to 15%
- ◆ Allow \$3 T brot home from abroad @ 10%
- ◆ Massive deregulation of energy, banking, pharma, healthcare, environment
- ◆ Reduction in Personal Tax rate

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Greatest Risk to Canada

- ◆ All these tax & regulatory reforms
- ◆ will REDUCE costs of doing biz in US
- ◆ by contrast – in Canada
- ◆ Dramatic increase in minimum wage, CPP, electricity, carbon taxes & regulations

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Mintz, Effective tax rates, 2017

EFFECTIVE TAX RATES ON NEW INVESTMENTS IN 2017

SECTOR TAX RATES BY COUNTRY, IN PERCENTAGES

	Canada	China	Germany	Japan	Mexico	U.K.	U.S. current	U.S. Ryan plan
MANUFACTURING	13.5	28.7	28.5	40.3	21.0	24.0	32.1	10.8
SERVICES	24.0	24.0	26.2	41.1	19.4	25.1	36.0	17.7
TOTAL	21.0	26.0	26.7	40.9	19.7	25.0	34.6	15.5

SOURCE: SCHOOL OF PUBLIC POLICY, UNIVERSITY OF CALGARY

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Mintz, Tax Rates on New Investment by Industry

AND CANADA WILL PAY FOR IT

EFFECTIVE TAX RATES ON NEW INVESTMENT* BY INDUSTRY, IN PERCENT

	U.S., current	U.S., Trump plan	Canada
Forestry	29.8	17.1	9
Manufacturing	32.1	19.6	12.4
Construction	34.4	24.3	25
Utilities	27.8	16.2	19.6
Transportation	27.8	18.5	20.1
Communications	39.3	29.7	24.2
Wholesale trade	37	24.5	23.4
Retail trade	36.8	23.5	23.8
Other services	40.4	28.8	25.2
All industries	34.6	23.1	20.1

*The effective tax rate on new investment takes into account corporate income taxes, sales taxes on capital purchases and other capital-related taxes.

SOURCE: P. BAZEL AND J. MINTZ CALCULATIONS AND 2015 TAX COMPETITIVENESS REPORT, SCHOOL OF PUBLIC POLICY, UNIVERSITY OF CALGARY

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Net effect

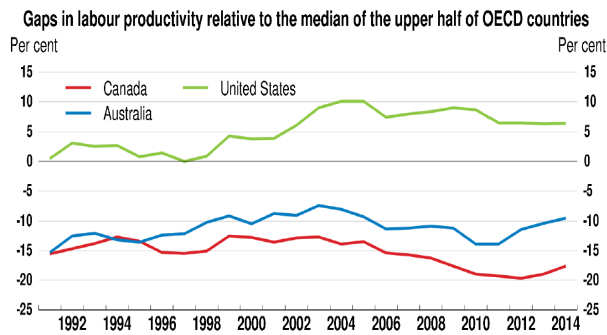
- ◆ Canada's "tax advantage" nullified
- ◆ Enormous incentives for Cdn firms
- ◆ & foreign firms to MOVE to USA
- ◆ capital drain, corporate drain
- ◆ & brain drain due to easing prof visas

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Cdn Productivity growth is weak



Source: OECD (2016), *Economic Policy Reforms: Going for Growth 2016*.

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What does Trump Want?

1. “safeguard mechanism” that allows temporary tariffs if a flood of Canadian and Mexican exports
2. tougher rules of origin meant to protect “production and jobs in the United States
3. more Cdn market access for American goods – agriculture, govt procurement, telecom

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What does Trump Want?

4. terminate anti-dumping & countervailing duty dispute panels
5. level playing field on tax treatment eg duty free goods

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Key Takeaways

- ◆ Canada on precipice of choices
- ◆ Protection of 12,000 dairy farmers?
- ◆ Protecting telecom from Verizon?
- ◆ Restrictions on US Foreign investment?
- ◆ How bad do we want access to US mkt?

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Key Takeaways

- ◆ Cdn trade barriers are bipartisan concern
- ◆ Trump’s core narrative is unfair trade
- ◆ strongly supported by Rust Belt voters
- ◆ our most important goal is access to US mkt
- ◆ Must bargain away protectionism for access

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