

Trump, in practice

From January, Donald Trump's economic stance will face the test of Washington's apparatus. What will be the outcome?

> The US is the largest and most systemically important economy in the world. Economic conditions in the US can shape global trends for the better or for the worse, as the boom until 2007 and the subsequent burst have shown. On 20 January 2017, Donald Trump will enter the White House. It remains to be seen just what impact his presidency will have on the US economy and the global economy. What parts of the mandate that got him elected will see the light of day? What parts will be watered down, decontaminated or even pronounced dead on arrival by the checks and balances of Washington?

The major economic risk for the global economy following the Trump victory is that a US shift towards isolationism and protectionism over the next four years might be mirrored by other countries. If Trump does what he said in the campaign, namely brand China as a currency manipulator and place a 45% punitive tariff on Chinese imports, he could trigger a trade war that could lead to other countries retaliating with their own tariffs on foreign imports. Such a turn of events could seriously suppress global trade flows and economic growth. Just look at how the anti-trade and isolationist policies of the 1930s worsened the damage of the Great Depression. While the checks and balances of Congress would block many of Trump's more extreme policy proposals, such a move would badly exacerbate a tilt in the Western world against globalisation.

Trump's promise to vastly expand infrastructure spending and reduce taxes is likely to get trimmed down significantly by the fiscal hawks among the Republicans in Congress, who will lean against any attempt to let deficits rise too much. The likelihood of a truly Reaganesque approach to



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economic policy looks slim. But a more expansionary fiscal stance plus some supply-side reforms to improve competition and slim down burdensome regulation, such as allowing interstate competition among healthcare insurers and legalising the imports of some Canadian pharmaceuticals, could support private investment and household consumption.

> As the most powerful and systemically important central bank in the world, the Federal Reserve is the conductor of the global orchestra on monetary policy. Still, it cannot change the laws of economics. While Trump may publicly criticise the Fed and threaten more oversight, it probably will not impact Fed policies much. The Fed will continue to set policy in relation to US economic conditions and the outlook for inflation. Whether appointed by a Democratic or a Republican president, Fed members tend to act independently once in office. They will always weigh the outlook for US growth and inflation upon setting

Fed policy, learning by experience and adjusting their stance if it turns out that they may have been too accommodative or too restrictive in past decisions. Trump may influence monetary policy only insofar as his fiscal and supply-side policies impact the outlook for US GDP growth and inflation.

Upon assuming the role of president, Trump will likely shift somewhat into the centre. Diplomatic constraints will serve to limit his erratic behaviour and refine his rhetoric. During his campaign, his flip-flopping and contradictory behaviour to suit his audience, particularly on non-economic issues, indicate that Trump is an opportunistic pragmatist rather than ideologue.

If this assessment is inaccurate and Trump continues along the anti-establishment hard-right rhetoric that he pursued on the campaign trail, uncertainties and risks will persist. But in the end, such an approach would likely hit the rocks. The complex nature of policymaking in Washington would likely overwhelm Trump's efforts to effect change.

Remember, Trump enters as the White House outsider. He lacks a deep understanding of the internal political calculus that makes up Washington. There are hundreds of thousands of civil servants in Washington that influence and implement laws. The Washington machine should be able to constrain Trump in order to help his more positive policies cross the line while mostly blocking his negative proposals. Let's hope this is indeed the case. ♥



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