TRUMP’S POLICIES: campaign promises and the realities of governance

The surprising electoral victory by Donald Trump (and his loss in the popular vote) has the media intensely speculating on the likely domestic and international polices of the incoming Administration. The pre-campaign rhetoric is being searched for relevant inferences on the new Administration’s likely policy agenda of economics and international policies. That is likely to be misleading precisely because Trump’s election campaign was so different from traditional Presidential campaigns. What it took to win might be quite different than what it will take to govern. Even the early appointments do not yet give us a definitive picture to the actual governance menu that Trump presents.

The gap between campaign promises and likely policies should serve as a warning that predicting the actual policy menu of this President is likely to be fraught with more than the usual uncertainties. Without sufficiently definitive statements from the President elect, since his victory, preconceived hopes and inherited prejudices rule, particularly in the media. After Henry Kissinger’s meeting with Trump, his comments to the press referred to the difference between election promises and substantive policy. He was puzzled as well.

Still, markets are forward looking and responses have been seemingly positive at least regarding economic policies thought to be likely. Yet, market reactions often fasten on previously noted criticisms of people and industries without any definitive explication of what actual Presidential preferences will be. Trump’s criticism of some major Silicon Valley giants has been cited as a reason in the decline in their shares, but at this point no one really knows how policy will be shaped by his relatively weak connections to the Hi-Tech industry. The transition between the old and new Administration is likely to contain unexpected surprises.¹

¹ Amazon, whose founder, Jeff Bezos, owns the Washington Post was criticized by Trump. AMZN trade above 844 on October 5 but fell to 719 on November 14 (the week following the election). It has since risen to 785 on November 22.
Presidential transitions have traditions and both the President and the President Elect at their first meeting seemed to recognize that both can gain from a smooth transition that excludes painful pre-election charges and focuses instead on what will be good for Americans of every stripe. The "progressive and/or liberal" media has been less forgiving of the transition process, as have some of the badly bruised Democratic politicians. Democrats are still in disbelief that voters turned against what they thought were their needed "progressive" ideas, particularly since major polls predicted victory. Rather than looking at their own their own agenda and bias, the "kept" media and the progressive zealots are trying to assign blame to external events, such as the querulous behavior of the FBI, to explain the Democratic Party defeat. The claim that FBI Chief Comey caused Clinton’s loss seems like "sour grapes," but it will provide impedance to a smooth transition and opposition to the Trump policy agenda in its first “100 Days.” Perhaps even more importantly, that continuing disbelief and heavy criticism of the President Elect will serve to prevent the Democrats from a useful inward meditation over what American voters want as opposed to what Democrats told them they ought to want.

We had long thought that it was the Republican Party that would need a thoroughgoing internal revolution beginning with what they believed their Party stood for, but as it has turned out, their victory closed off that review. Instead, it is the Democratic Party that has been badly split open. The split between the parties, however, surely to widen once the actual Trump agenda becomes public accompanied along with the appointments in the new Administration. As the new Administration formalizes its policies, it is quite likely that bitter factional disputes will still emerge from under the Republican tent.

At this stage, then, appraising the likely Trump legislative and administrative agenda is chancy and predictions may fail when the rubber finally meets the road. Nonetheless, we try below to put together what we think the top policy advisors and the President Elect will choose as their main lines of policy. We divide our analysis between International Economics and Politics and Domestic Affairs, even though they are clearly interdependent.
Geopolitics and Geo-economics

As Commander-in-Chief, the President will be faced with immediate decisions because while our troop involvement is in the anti-ISIS campaign is small, significant military and economic resources are deployed and there is no immediate "discharge of the war." Trump is on record saying, "I will destroy ISIS" but the practical content of that intended destruction has not been made clear.

**Trump's foreign policy pronouncements** have also included objecting to the Iran "deal," supporting Israel, demanding NATO members increase their support, a possible change in our stance toward Russia, immigration reform (including the Wall), protecting the homeland, China (both currency "manipulations" and Chinese exports) and ending the traditional "free trade" orientation of American international economic policy. That forms a very big agenda and clashes with traditional Republican preferences in many areas.

The list requires attention to both foreign and domestic affairs and would tax even the most well prepared President Elect. Unfortunately, after such a strenuous political campaign, the new Administration has to have policies for these areas immediately without perhaps sufficient internal deliberation as to the form such policy changes are to take. It doesn’t seem that Trump undertook major policy reviews during the campaign and with less than two months before inauguration, the new Administration is going to be extremely busy developing the details of its policy agenda. Moreover, because the Trump utterances during the campaign challenge traditional Republican ideas, Trump will have to spend a major effort to argue his policy case to the American and foreign publics. At the same time, we should expect significant interruptions to policy formulation from events outside the US that operate on their own time clock.

**Iran and Russia:** Trump repeatedly denounced the Iran deal. He claimed US negotiators got snookered. A simplistic approach that worked in the campaign requires significant articulation when it comes to implementing changes. Still, it seems that Trump will be unlikely to leave this running wound alone. He will need to do something not on-
ly to be consistent with his campaign statements, but also because Iran is so heavily involved with the various American allies in the Mid-
east. The news will still carry reports of deaths and casualties to our
troops abroad, so the wars there can scarcely be avoided. In addition,
European allies of the United States endorsed the agreement and al-
ready are promoting business deals in Iran. Can Trump construct a
strategy that is at least consistent with his pre-election critiques while
maintains the support of European allies that previously supported the
ending the Iran embargo? Possibly, by linking a change in the Iranian
agreement with a ‘new look’ at Russia.

If he chooses to deal with both Iran and Russia (Putin) at the same
time and he may find he has some leverage. This would be a bi-
modal policy menu. Let’s begin with Russia. Clearly, the embargo
has hurt the Russian economy. Without access to international capital
markets, much investment to improve the economy in Russia has
been neglected. This surely affects Putin directly, but in a larger
sense, reviving economic growth in Russia benefits not only Putin, by
solidifying his position with his own people, but also such investment
could improve Russian life while creating better tax resources for the
Russian government.

Suppose Trump offered Putin an end to the embargo and entry into
western capital markets in exchange for Russia ending its Iranian love
affair? Would Putin be willing to substantially cut back support for Iran
and perhaps withdraw Russian military support for Assad? How much
benefit does Russia gain from shipping military hardware to Iran and
spending precious resources keeping the Russian military occupied in
Syria? The devil will be in the details of any Russian pull back in Iran.
Trump could offer US relief on Crimea and the Ukraine if Putin agreed
to move out of Syria and stop supplying weaponry to Iran. Trump
would also have to find a way to separate US interests in the Baltic
States from his apparent disinterest in the Ukraine and Crimea. Sepa-
rating Iran and Russia could offer additional benefits for Trump. A
weakening of the military supply pipeline to Iran might make it easier
for the US to exert tighter control on Iranian support for terrorism
around the world (particularly for Hezbollah) and tamp down terrorist
threats to Israel. That might create further openings for peace nego-
tiation between Israel and the Palestinian Authority. In addition, negotiating an accommodation with Putin would bring German domestic politics into play because a substantial portion of inbound Russian investment has traditionally come from Germany. With the possible exit of the UK from the EU, German business might well be supportive of a Putin-Trump negotiated end of the Russian embargo. The political left in the EU that wanted expansion to the East is not a Merkel ally anyway, and she will need to button down her center and right wing support for the upcoming elections this spring. Merkel undoubtedly was not pleased by the Trump rhetoric on Muslims, but her own political survival will be her immediate focus. If Trump can move the Russians out of Syria, the enormous pressure of potential Muslim immigration into Europe could be relieved, making Germany's neighbors in the EU much happier with their prospects.

The Obama administration was addicted to a kind of naive idealism that sacrificed the domestic interests of many of its allies. That came back to haunt Democrats in American voting booths, even when not well revealed by faulty polling. One could not expect Clinton to have gone back on the Iranian deal that she so heavily endorsed, but Trump’s victory has left him with an opening to satisfy both foreign and domestic critics of his election rhetoric. A successful deal with Putin would mark “finished” to the Democratic Party contention that Trump was "unqualified" to be President.

China: Trump's focus on "exported American jobs," and his complaints about Chinese currency manipulation have also seemed simplistic. The progressive media denounced his views on China because they claimed a trade war would ensue, but one can also read this situation quite differently. Given the collapsing bubble in China, does it make sense for the Chinese to take a hard line against Trump if he tries to tamp down Chinese exports to the US, particularly steel and aluminum? China has an immense capital flight problem that exacerbates its currency depreciation. Suppose China is induced by Trump negotiators to put on its own export quotas (a feat that the Clinton administration accomplished when faced with rapid Japanese auto exports in the 1990's)? Trump could claim some victories for his "Art of the Deal," technique. How many jobs such export controls
would produce is perhaps less meaningful than the demonstration of loyalty to the blue-collar Democrats that crossed over and sustained his election. Similar export quotas applied to a few other "visible" industries would give Trump some credibility with his new domestic allies. Would China be willing to do that?

An export quota also offers the Chinese Communist Party some leverage on its own cronies. China has an extensive crony reward system, so it could help Xi Jinping to discipline some members of the industrial elite and their allies in the CCP. After all, it is the rich who have the money that seeks exit from China. Export controls offer a new stick with which to beat the Chinese moneyed classes. China is not a "Free Trader," so they would have no ideological reservations of exerting more controls at their own border. They can ration the implied rents that come from enforcing such export controls. Export controls reward the "old" versus the "new," and it is the old industrialists that they need to keep in tow. If China would put non-cooperation with North Korea on the negotiating table, they might get some additional leverage in future negotiations with the new US Administration. By now, even the Chinese realize that controlling North Korean nuclear and ballistic missile ambitions is becoming more dangerous for China itself.

Critics will assert historic Chinese pride that resists "bowing down" to an American President and would likely doom such an outcome from the beginning. Perhaps, but Great Powers can still negotiate without appearing to be subservient. It is always a balancing of interests. There is leverage here for both political leaders. Giving kudos to Trump, the Chinese could also earn some credit at the table on other issues important to China in the geopolitical arena. Trump is not an ideologist. He will look for short-term gains wherever he can find them. The "Art" in such a "Deal" will appeal to Trump.

**Trump on Brexit:** The new administration can hardly object to the UK's wish to regain its domestic sovereignty and thereby control its own borders. Trump is preaching from the same pulpit to a similar American choir. He wants to be less tied down by foreign entanglements, and be less responsive to European demands on climate and
immigration. The UK will still be the US's closest ally and supporting the UK will put pressure on NATO members in the EU to carry more of the defense burden that Trump has criticized. It may also make EU members more willing to be supportive of a program to crush ISIS. Trump inherits a lot of possibilities that his predecessor has left him, and he can continue to draw the line more solidly between his new administration and the policies of his defeated opponents.

**Immigration, the Wall and North American economic relations:**

Now elected, Trump can gain domestic political support by showing he is going to carry out his "Wall" proposal even if in a less drastic way than implied during the campaign. The Wall doesn't have to be a huge infrastructure project that will be difficult to finance and to engineer. He can build a bit of brick and mortar and use chain-linked fence and then move to a much more sophisticated monitoring program, carrying a "Big Stick to get some help from Mexico. What he really needs is improved joint-enforcement. Mexico can reduce extensive brick and mortar by actually helping to police trips to the border by Mexican and other Latino migrants. Once it becomes known that Mexico itself is policing the new "Wall," we might expect a much smaller volume of immigration. More adequate surveillance can come from better technology on both sides of the border instead of brick and mortar. If Trump builds a little (probably essential to calm his supporters to build a "Great Wall" structure) while massively engaging in digital deterrence, it will slow down illegal crossings and win support of US technologists. He can even make hay politically by showing he is "rounding up some of "the usual suspects" without appearing to be a "racist." Furthermore, capturing and deporting those immigrants who have committed crimes or those who don't have the proper documents, need not trigger huge outcries from civil libertarians, if done thoughtfully and humanely. He will, however, have to face the "family breakup" issue. Legal support for such a program doesn't need new Congressional agreement. The law is already there, but it does need thoughtful and sensitive enforcement. His ideological critics will shriek, but this could be managed with conscience and constant monitoring of the program. It will need support of the bureaucrats, as will other domestic programs (see below). With the right
kind of leadership, it is definitely possible. His first requirement is to show he is stopping the flow.

**International Climate Policies:** The politically motivated assertion by the Obama Administration that climate issues were already scientifically determined and only right wing ideological objections remained to be quashed was both misleading and actually counter-productive. Trump has a chance to lead with a fresh stance. There are many thoughtful scientists who don't think the climate issue is merely politics. The inability of long-term climate models to predict shorter-term climate behavior has led to some serious questioning of whether or not we already have the proper model. Nonetheless, Trump can steer around the current impasse by coming to a nuanced position that says in the absence of certainty, policies should go part of the way. Then, the argument shifts to how much, at what cost, and which nations will jointly underwrite the cost of less carbon in the atmosphere. Broached this way, some of the political toxicity is taken out of the argument while a focus on the efficacy and the cost of such measures comes to the fore. That can be welcomed by both climate change “doomsayers” and climate skeptics. It also points the way to deal with the international aspects of large-scale coal burning in developing countries such as India and China. Shifting the debate from the extremes has to be a plus for all participants, although we should recognize it will not still the voices of those who have made "saving the planet" a religious undertaking. The Art of the Deal cannot please everyone. The lesson is not to try to please everyone, but move ahead on a defensible basis. A similar approach can be implemented with regard to issues such as overfishing and forest burning.

The extreme climate crowd shouts doom and gloom. A thoughtful approach that moves coherently and economically might never quell the alarm of the "doomsayers," but it does not have to face the criticism that "nothing is being done." A simple program of carbon taxation will take out much of the bite from the climate crowd.

**Domestic Economics**
Trump is in a good position to move ahead on tax policies as long as he is caring of traditional Republican budgetary concerns. Again the Art of the Deal means essential focus on the details of cutting taxes but not throwing the US onto a sharply growing budge deficit path.

The economy has grown far too slowly over the period since 2009. While the deficit has shrunk as a percentage of GDP, that percentage could fall even faster with faster growth GDP growth. The Democratic taunt of "trickle down economics" can be defanged. Tutoring Trump’s enlarged voting public on the importance of increasing economic growth can weaken those fears. Even Larry Summers spoke to this issue during the campaign, chiding his Democratic colleagues that they needed to be growth-oriented. Getting to 3 or 3.5% growth will take a lot of strain out of the tough decisions over Medicare and Social Security. Growth of business investment spending has been poor during the past eight years and if a higher growth rate is to be achieved, business spending must grow sharply. Cutting corporate taxes should help, but quelling erratic and inconsistent Government regulatory interference will create a more certain environment for CEO's and CFO's to invest. A multi-year tax plan will give business the chance to properly isolate better from poorer projects and give business confidence that increased earnings will turn out to be increased earnings net of tax. Proper incentives are the first step in winning this game. In addition, the Trump Administration can hold the carrot of a much reduced "repatriation" tax (say cut to 7 or 10%) that will quell much of the concern of domestic business over higher interest rates in the future and generate needed tax revenues. Again, it is a question of details, not direction. The progressives will cry "trickle down," but if the Administration moves strongly in the first year, some results might well appear before the next bi-election in 2018 and perhaps cement Republican control in the Senate even further.

Trump appointees will have to concern themselves with two potential pitfalls: thousands of bureaucrats who are in charge of implementation and the inertial momentum bureaucrats supply and second, the "balanced budget" Republicans that are rightfully (no pun intended) con-
cerned with allowing the deficit to grow after a major tax reform is put in place.

The corporate and personal income tax rules must be drastically changed. Simplicity, lower rates, and less cumbersome collection procedures would improve growth and incentivize expanded business investment and personal savings. This is supply side economics coming to the fore. It couldn't happen at a better time. If US imports are restricted by either foreign-operated export controls or higher tariffs, US exports will not grow as fast or may actually decline. That means the economy will need more stimulus from domestic consumption and investment. A more predictable tax environment will enhance both. Trump rightfully criticized the lack of transparency and the crony capitalism of the prior administration. He has a chance to show he can that he can lead but also demonstrate credible results through a simplified tax code that leaves less to crony manipulation and more to predictable tax receipts. Provided that budget savings can be found, a simplified tax code that doesn't lead to excessive deficits will provide great economic thrust in the coming years.

Most economists would prefer a simple consumption tax that rewards savers, but that might be one bridge too far in the initial year of the Trump administration. Progress on tax code simplification will open that door to even a more simplified tax system if ensuing growth causes Trump to be re-elected. The charge that growth leads to very unequal income and wealth outcomes can be answered by stripping special provisions such as incentives to convert income gains to capital gains due to large differences between tax rates on income and capital gains. An income tax rate of say 20% and a capital gains tax rate of 20% have much to recommend it. It avoids the shifting issue and the distortions that ensue from that differential. The new Trump tax techies should be running the numbers now on what might occur from a huge simplification of tax rates on income and capital plus eliminating much or all of the penalties on repatriating overseas business income.

Finally, we come to perhaps the most political parts of the tax code, estate taxation. From his earlier statements, one might predict that
Trump will seek a substantial reduction in the estate tax rate, if not eliminate it entirely. The estate tax doesn't raise sufficient revenues to create concerns for the deficit monitors, but it is a highly charged from the standpoint of growing wealth disparities. (Estate and Corporate taxes at the Federal level represents some 9% and 11% of Federal Tax Revenues). In addition, wealthy taxpayers are the source of significant charitable contributions, often motivated, at least partially, by the fact that the donor has a partner---The US Internal Revenue Service---in making gifts. A top marginal federal tax rate of nearly 40% implies that the cost to the giver is only 60 cents for every dollar gifted. Will the wealthy be less giving if marginal income tax rates drop sharply along with substantial reductions in estate taxes?

Economic forecasting, much as we might think it is scientific, is likely to stumble when predicting in an environment of rapidly changing economic growth and complex changes of both income and wealth taxation changes at the same time. One can hazard a guess that rising wealth that can be passed to heirs at relatively low or zero tax rates might well create even more charitable giving on the grounds that a larger relatively untaxed estate would provide even more reasons for the wealthy to increase their charitable activities.

While this is an interesting theoretical problem for tax experts, the real debate will not be about efficiency and growth. It will be about perceived wealth and income inequality politicized by incorrectly characterized by the “inequality” issue. What we saw in the Sanders and Clinton campaigns was a huge display of rhetoric, not much based on solid economics. For example, the 99%-1% juxtaposition turns out to be quite faulty. Where inequality has really shown up is not in the 1%, but in the .001 (a tenth of one percent) segment of the income distribution. The progressive argument against the wealthy is more noise than substance. That debate, however, will pale against the claims and cries of the Progressives who have long built their case on massive wealth redistribution. What is needed is a factual debunking of the argument, but the data are there to do just that. Trump will have to tread artfully through this political economy jungle to hew a thoughtful program of tax reform.
Health Care: If it was not clear during the campaign that the simple statements about abolishing Obamacare were at best wishful thinking, it has since been made quite obvious, even admitted by the President Elect in his "60 Minutes" interview with Leslie Stahl on November 13th. The new administration can’t just abolish the Affordable Health Care Act. Too many people would be left without any healthcare program. That means that the obvious dictum will be change, not abolition.

Here, the terrain gets tricky as the new Administration must navigate between the extent of coverage and the coverage costs. The new Administration will start from the fact that rising costs to those now covered are making potential converts on both sides of the aisle. The existing structure of coverage and the shattered private insurance market that has been created by the rise in costs has created a sharp break in expectations. Even those arguing for a more extensive health care system now realize that rather than "bending the cost curve downward,' (the mantra of those policy wonks that supported the AHC act), has been an illusion. Moving 20 million people onto the health care rolls plus the rising costs of an aging population simply overwhelmed any cost saving that might have arisen by covering everyone. Much sooner rather than later, health care costs have risen so sharply that even the most progressive of the health care advocates realize the present plan is unsustainable. This means that the debate must shift and that will test the political acumen of the New Boys in Town. A Trump health care plan will come, but the tug of war between budget sanity and the political necessity that government provided health care is here to stay. That will define the playing field. Some tough choices will have to be made between how much expense the changed health care system will allow for the aged. Extending massive health care to those in their last few years of life is not a pleasant theme even for dedicated Progressives. At the end of the day, there is neither a free lunch nor free health care. If cost controls are not put on the expense of the 'last years of life,' there can be no permanent cost control. Conservatives rejected the “death panel" approach to governing the extent of care that should be paid by Government, but some answer to this vexing question will have to emerge if health care costs are to be controlled. This issue remains in the
background, but since 60% or more of the health care budget comes from those in the last two to three years of life, it is an issue that cannot be avoided. For the country, it may be better that the past opposition to AHC must re-frame the issue and its solution.

The last hurdles will be pre-existing conditions and coverage of young adult family members living at home. The President Elect has already conceded on these two points so the struggle will be over the precise content of the reformed features, not the essential element of Government coverage. The Progressives on the Democratic Party side will attempt to skew the argument to show that the new Trump administration is "taking benefits away." That is politics within the Beltway. At the end of the day, the Republican majorities in both Houses confirm the fact that changes that satisfy the budget watchers will be the only ones that pass both houses of Congress.

A similar kind of argument will take place over changes in Social Security, even though the time line of Social Security Insolvency is longer. It is possible that with so much to do on other domestic issues a well as a considerable agenda on the foreign policy side, that the new Administration might not get anything done substantively in its first two years. The domestic priorities will be tax reform and health care. Reforming Social Security may slip even if it too is a ticking time bomb.

**Financial institutions Reform:** Despite the throaty moral outrage of Senators Sanders and Warren, the 24,000 odd pages of the Dodd Frank (DF) bill need real scrutiny. It is questionable whether DF has really solved the “To Big To Fail” problem. It is has clearly made large banks less willing to take risk and the Volcker rule has cut earnings of these denizens of the finance world. It has done so however through an enormous posse of regulators now housed in the banks themselves while moving much lending to the shadow banking market that is not heavily regulated. This confirms the well-known effect that regulation changes where the problem is pushed without solving the issue. **Dodd Frank** directed attention away from the GSE’s who were considerable contributors to the collapse of 2008/2009. Worse, the Obama Administration restructured property rights of the owners of GSE debt which was raised by the GSE’s before they were “conserva-
torized.” That issue is still in the courts, but the current Administration has adroitly hidden the causal role played by the GSE’s in the mortgage market collapse of 2007-2008. Almost surely, had Fannie and Freddie not underwritten the subprime market, the housing bubble could never have grown to the size it did in 2007. Neither of these entities were paragons of accounting virtue prior to the collapse, but they were intimately involved with the Congress and were difficult to stifle. Neither Sanders nor Warren discuss the cronyism and corruption of the GSE’s despite prior criminal cases successfully prosecuted against them. This is only one of the main areas that need to be cleaned up for the US to have a viable and sensibly regulated financial sector.

During the current Administration, the largest financial institutions paid literally billions of dollars in fines that nearly always were set by agreement rather than definitive court proceedings. That is an unhealthy process for Government and it is part and parcel of the cartelization of the finance business that has taken place during the Obama administration. Similarly, competition in other areas of the economy, such as media and communications, airlines and internet sales, to name just a few industries, is now characterized by a few large firms with plenty of clout within the Beltway. Whether the Trump administration is willing to take on the anti-competitive pressures that have built over the last eight years is questionable despite Trump’s express concerns over AT&T’s proposed acquisition of Time Warner and his concerns about Amazon’s principal shareholder, Jeff Bezos. While nothing explicit has been said about these areas of the economy, they clearly need attention. Cartelized capitalism is neither good for growth nor for freedom.

The Judiciary and the Fed

It is easy to see that Republicans dodged a generational bullet in the Supreme Court by holding the Senate and winning the Presidency. A much more liberal (statist) Supreme Court would have certainly arisen with a Clinton victory. While the Democrats may now play the old Republican filibuster card on Supreme Court nominees, the new Republican Senate majority can, if it so chooses, change the voting rules
by using its majority. Despite Senate Majority Leader’s reluctance to end the filibuster, it might be the only alternative in order to fill the vacancy on the Supreme Court. The famous line in the movie *Independence Day*, says it all: “payback is a bitch!” That said, this is not a major strategic issue. It is simply tactical maneuvering.

**The Federal Reserve:** Another area for “payback” stems from the eight-year period of low interest rates engineered by the Fed. Oversight is coming, notwithstanding the attempts by the Fed to escape a legislative lasso. Among many economists, former Chairman Bernanke’s immediate efforts in 2008/2009 to resurrect our credit markets, are applauded, but that support does not extend to the long period of QE and a near decade of low, often zero interest rates. Savers have been punished and the reach for yield suggests significant distortions in the allocation of savings and credit.

The fact that the Fed has been able to do this largely without significant Congressional oversight doesn’t mean it will be able to do this again in the future. The Congress will in fact pass legislation to interrupt the Fed’s total independence. Chairman Yellen’s reign extends only until February 2018, and she will not be reappointed. While there is no current suggestion she will resign before her term expires that could occur if the Congress gets extremely testy with the present Chair. The new administration will be appointing two new members of the Fed's Board of Governors and it is likely that the new appointees will pair with some of the current members who oppose Yellen’s policies. This will create an unusual situation in an institution that thrives on consensus decision-making. It could create momentum for Yellen to end her Chairmanship prior to the end of her designated term, because a badly split FOMC would create great incredulity in financial markets. How the Fed is finally treated by the new administration will also be related to how this administration deals with the much-hated Dodd Frank bill. Dodd Frank reform will become a circus dominated by cronies and lobbyists. There is considerable support to end the autonomous and separately funded, Consumer Protection Bureau. It is hard to see that agency not getting its wings severely clipped. The Congress wants to and will assert its powers of governance over the
Bureau, if it does not kill it entirely. Surely, Congress will end its unlimited funding via the Fed.

The Clinton-Trump contest offered voters a juxtaposition of two rather distinct economic policy formulations. Clinton’s focused on further regulation of economic agents. Her menu would have replaced market choices with regulatory expansion and increasing taxes to pay for more Government programs notorious for their inefficiency. Inevitably, that would have meant even more cronyism and corruption. Whether it would have produced more equality of outcome is doubtful because the wealthy have more access to modifying offensive regulation than the poor.

The Political Revolution—What did voters choose?

The ideology behind the Clinton policy menu implied that Democratic policy mandarins would have been happier if the economic pie were more equitably distributed perhaps even if that resulted in a smaller pie. Aside from the morality of such a choice, it is a highly questionable political theory because the wealthy invariably have more escape remedies than the poor. The proof may lie in the simultaneity of massive regulatory expansion and the evident decline in the US economic growth rate over the past decade. Is the alleged reduction in equality of income and wealth that we now observe merely an accident or a principal outcome of increased regulation and interference over many decades? One suspects that there is a latent connection here.

The Trump menu also has two prongs: one is to diminish our integration with the rest of the world economy. One implication of such policies is rising prices of imports and import substitutes and a reduction of labor supplies formerly produced by immigrants without proper “papers.” That has to raise costs to consumers which is welfare reducing. Reducing the international specialization of labor could produce more domestic “jobs,” although that is not clear. Current exports could be reduced or grow more slowly either through higher costs or retaliatory measures from overseas customers. In that case, domestic jobs growth could slow or even decline. Indirect effects are often not properly foreseen when a major policy orientation takes place.
The second prong encompasses proposed tax rate reductions on personal income, corporate income and inherited wealth. Taken in isolation tax cuts should stimulate economic growth. Unfortunately, while growth could improve, tax reduction is likely to have negative consequences for the US budget deficit. That means that the outcome is not likely to be predictable until one specifies the rest of the economic policy menu. One needs to know what will be cut from the budget as a consequence of decreased tax revenues. Put another way, there are supply side effects and likely aggregate demand effects at work at the same time. Without specifying the mix, it is difficult to be confident when predicting the impact on growth from each of the two parts of the Trump menu.

In many ways, neither the Clinton nor the Trump campaign promises represented optimal strategies for the US from a strictly economic point of view. That was not their intent. Both candidates focused intensely on bringing different slices of the voting population to their cause, and neither spoke to the larger dimensions of stimulating economic growth sufficiently. By way of contrast, forgetting which classes of voters benefit most, what would a more ideal policy menu look like?

The dominant economic problem in America is the evident decline in our growth rate. Choice expands when economic growth improves; both at the household and firm level but also at the policy level as well. When the economy moves from a 2% to a 4% growth trajectory, the traditional “guns” versus “butter” division gets much less constraining. However costly our current health care policy is, a bigger economic pie and larger government revenues make the collapse of the health care system much less imminent. Similarly, fixing Social Security gets a longer time horizon. Moreover, financing substantial infrastructure improvement becomes more plausible.

What about jobs, even for those whose skill content has not kept pace with modern technology? It is inevitable with higher growth that the demand for labor—all kinds of labor---will improve. Higher growth does not mean that the wages of the less skilled will become relatively more attractive, although tightening labor markets undoubtedly will push up wages across the board. Will tax reduction move the economy toward a higher growth path? Nearly all economists would agree this is the most likely outcome although the distribution of income and wealth might not become more equal.
The only negative aspect of more growth comes from the old “Starve the Beast” argument: namely, there will be much less pressure to reduce the scope of Government activity when the Government coffers are fatter.

The second part of the story relates to the increased constriction of our possible economic growth possibilities due to increased regulation. It is not just a question of reducing taxes. It is surely a question of simplifying our tax codes and reducing the punishment on the supply side of the economy from the existing, overly complicated and activity-reducing tax mix at the margin. Corporate taxes are shifting American industries abroad. High personal tax rates create huge incentives for tax avoidance through complex tax schemes. High corporate tax rates lead to more tax competition between countries. If we wish to increase growth, we have to reduce the disincentives to growing.

The same incentive theme appears throughout any sensible economic policy agenda. Our regulatory state offers disincentives for both investment and saving at the corporate and personal level. We can see this most clearly by the sharp drop over the past two decades in new business formation as well as the reduced levels of business investment in current GDP measures. It has simply become too complicated and too expensive for many entrepreneurs to create new firms. New firms are the source of job growth. Older firms buy expansion through external acquisition, often reducing jobs as a consequence. This is where the growth story is most telling and where the job story is so depressing. Less new firm growth means fewer new jobs. It also means that large corporate enterprise finds more opportunities from external acquisition rather than internal growth. That leads to more cartelization of the economy and expands the crony capitalism that has become such a political hot button.

Going forward, the Trump administration will be constrained by the promises made during the campaign. That is an unfortunate consequence of a democratic republic. It is simpler on the campaign podium then it will be when policy choices have to be made within the new Administration. Simplicity of campaign slogans disappear when real governance must begin.

**Elections have consequences: let the games begin**
As Obama famously said at the beginning of his first term: "elections have consequences. I won." This one will be no different, and the ire of individual Congressmen, now empowered by Trump's unexpectedly long coat tails, will play out, as they become judge and jury on pet Osamu-inspired programs. The ancient Chinese proverb, “May you live in interesting times,” should be remembered for how it was first uttered: it was the curse of a defrocked Chinese Mandarin, exiled after being fired from his Government post in the capital.

The games formally begin on January 20, 2017 but the jockeying for priorities and for the people who will lead the new Administration has begun in earnest. Political leaders in countries outside of the US don't quite know what to expect from this new Administration. This is true in the U.S. as well. We really don’t know the “who” and the “what” of the Trump program at this stage. The power of the Presidency is unlike almost any other democratic Republic, and this President has gotten his win by articulating complaints more than by making many promises to his rather widened constituency. Some of these promises worked to attract voters, but are largely unfillable as stated.

Some astute historians and political writers have likened Trump's win to Andrew Jackson's win in 1828. Jackson was also angry and outspoken, but was a hero to many. He was a very active President, known for inviting in the "Folk" to the White House, mud on their boots notwithstanding. He offended the powers of then Washington political denizens and he flouted his authority by tossing insults their way at every occasion. He saw his victory as one of the "people over the political elites." Sounds like Trump, doesn't it with the Tweet replacing the Shout? Jackson was very 'down home' and when he didn't like something, he said so. Trump has insulted many and was particularly scathing to his opponent. American Presidents wind up with cronies no matter how they vituperate against the existing Beltway crowd. Jackson had his, and we can be sure, this President will have his own as well. Trump liked to claim he would drain the Swamp within the Beltway. It is doubtful he has a big enough pump. American history has rhymed, once again, even if it has not repeated.
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