

What Does Trump Want? Economically

What is Trumponomics?

- * A balanced current account, to be treated fairly by trading partners.
- * High growth through low and declining taxes.
- * Low interest rates, low borrowing costs.

The wish list of the US President is actually quite simple. What confuses or confounds his critics is that conventional economics make his objectives mutually incompatible.

Trump wants a **high economic growth** rate, which US President doesn't. But Trump is not constrained by conventional economics. He has cut taxes just as the economy is at full employment, economic slack is thin, and inflation is picking up. The Fed is at the same time normalizing policy away from QE and raising interest rates. Mr Trump's **tax cuts** are therefore highly cyclical and is not just raising the growth rate but prolonging the cycle and delaying the next slowdown.

Trump feels that the **US has been treated unfairly by its trading partners**, as evidenced by a chronic and stubborn trade deficit, most notably with China. He seeks to restore an even playing field by imposing tariffs and cajoling his trading partners into reducing their trade surpluses with the US. Such policy, if thought to be durable and effective will encourage foreign enterprise to produce in the US for their US customers. This would imply increased foreign and possibly some domestic investment and capital expenditure. The duplication of resources and reduction in trade will reduce efficiency and raise inflation. Also, if successful, the trade war will reduce the balance of trade deficit to be invested in

US assets such as treasuries. The process of reducing the deficit and the potential investment in fixed assets would be supportive of the US dollar.

After almost a decade of low interest rates, the Fed is now normalizing its balance sheet and raising interest rates. This goes against Trump's natural instincts as a real estate owner and businessman. Trump has been vocal and critical about the Fed's rate hiking plans. If he had his way, the Fed would **keep interest rates permanently low**. However, the Fed needs to raise interest rates not only to address rising inflation but so that it has the capacity to lower them in the next recessionary cycle. Add to this the tendency for Trump's trade policy and tax policy to be inflationary and further conflict with the Fed is probable.

Are Mr Trump's policies and objectives internally consistent, or feasible? In the short to medium term, they are. It is possible to cut taxes to boost growth even at the expense of a bigger fiscal deficit. It is possible to reduce the trade balance even at the cost of inefficiency and higher inflation. It may even be possible to cow the Fed to his objective of lower rates. This last one is improbable but not impossible. However, these policies are inflationary and incompatible with a dovish Fed. Also, they borrow from future output potential. If Mr Trump gets all that he wants he will have faster growth today, but at the risk of lower future growth and higher inflation.