

# UNITED STATES IN 2017

**D**onald Trump's campaign promises give us some idea of what to expect from his economic policies. The domestic measures he has focused on during the campaign, and which he has emphasized since winning the election, include:

1. Substantial cuts to personal and corporate taxes;
2. A freeze or cuts to Federal spending, except on the military and the elderly (Social Security and Medicare);
3. A substantial program of infrastructure development, totaling between half a trillion and one trillion dollars.

These policies will dramatically increase the Federal budget deficit, and provide a potentially substantial fiscal stimulus. Both the deficit increase and the stimulus are paradoxical. Republicans in Congress roundly criticized the Obama Administration for budget deficits that they regarded as excessive, and vigorously opposed attempts at a fiscal stimulus. However, Republicans in the legislature are likely to be more favorable to Republican deficits and a Republican stimulus. In addition, the electoral success of President-elect Trump seems to have convinced other Republican policymakers to fall into line behind his proposals.

Candidate Trump was also highly critical of Federal Reserve policy he regarded as too expansionary, railing against low interest rates that harmed savers. This, along with the fiscal expansion and the generally positive state of the economy, will undoubtedly lead

the Fed to move in a more contractionary direction. The domestic economic-policy prospect, then, is for an expansionary fiscal policy and a more contractionary monetary policy. This is reminiscent of the first Reagan Administration.

With respect to international economic policy, candidate Trump was open about his disdain for globalization, which he said “has made the financial elite who donate to politicians very, very wealthy...but it has left millions of our workers with nothing but poverty and heartache.” He has threatened to impose an across-the-board 20% tariff on imports and a 15% tax on overseas investment by American corporations. To be sure, these are only threats at this point. Nonetheless, the threats alone may be enough to accomplish at least some of President-elect Trump’s goals. Trading partners could be induced to exercise “voluntary” restraints on their exports; American CEOs may be much more reluctant to relocate production abroad.

There is a contradiction between the domestic and international components of President-elect Trump’s economic policies. The fiscal stimulus and increased budget deficit – especially if combined with tighter monetary policy – will lead to a substantial strengthening of the US dollar. A stronger dollar will put serious pressure on American firms competing with foreign companies at home and abroad. This may heighten existing protectionist pressures. The contradictory effects of the Trump Administration’s proposed economic policies are likely to present the administration with substantial challenges – challenges that will also affect the rest of the world.

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