What Will the Trump Presidency Look Like?

Professor Jeffrey Frankel, Harvard Kennedy School, November 20, 2016

We unexpectedly find ourselves in uncharted territory, in so many ways. The United States has never before had a president with no political or military experience. And Donald Trump is especially unpredictable: he has so often said things that conflict with other things he has said. So it is hard to know what he will do.

A possible precedent for what the Trump presidency may look like sits in plain sight: the George W. Bush presidency. To be fair, the Bush family clearly did not support Trump’s campaign. But a number of parallels suggest themselves:

- The candidate won the presidency while losing the popular vote.
- The new president nonetheless believes he has a mandate for sweeping change.
- The direction of the change and the results it produces will not necessarily be what those who “voted for change” will like.
- Some observers are assuming that Mr. Trump will oppose the Fed’s easy monetary policy, because he attacked it during the campaign. I predict that he will change positions -- still attacking Fed Chairman Janet Yellen -- but now opposing the coming interest rate increases rather than opposing easy money. He can start right away, with two vacancies to fill on the Federal Reserve Board.
- Of his economic policy proposals, the ones that are most likely to be put into law are in the area of fiscal policy, in part because his campaign proposals line up better with congressional Republicans, unlike other areas like trade. These policies will take the form of big tax cuts for the rich and increased spending, particularly on the military and infrastructure investment. We could have used the infrastructure spending more in 2010, when unemployment was almost double what it is today, but perhaps better late than never.
- The result of the tax cuts will probably be the same as when Bush enacted similar fiscal policies: a worsening of income inequality and huge budget deficits. Mr. Trump is unlikely to be able to deliver on his promised 4% GDP growth rate.
- The prospects of rapidly rising debt/GDP ratios explain the market view that has suddenly emerged since the election that the long bull market in bonds may finally be reversing. Interest rates have risen, both nominal and real. A likely consequence of higher real interest rates is further real appreciation of the dollar (inflation and/or nominal appreciation).

What about international trade?
• If Trump raises tariffs as he said he would, it might well reduce US imports. But his policies would also work to reduce US exports, via three channels: foreign incomes go down, foreigners retaliate with tariffs of their own (which was the effect of the Smoot Hawley tariff of 1930), and their currencies depreciate against the dollar (e.g., Mexico’s peso depreciated 10% on the night of the election).

• Indeed, there is some reason to expect the Trump plan to reduce US exports by more than imports, i.e., reason to expect the trade deficit to worsen: higher budget deficits lead to a fall in national saving which in turn would work to worsen the trade balance (especially if accompanied by real appreciation of the dollar). This is what happened during the Reagan Administration in the 1980s and the Bush Administration during 2001-08.

• Even if he somehow manages to improve the US trade balance, he certainly won’t be able to make good on his promise to bring back the manufacturing jobs that have disappeared since the 1950s. Productivity growth has eliminated those jobs forever.

Most worrisome of all are possible foreign policy disasters. We should fear miscalculations leading to tragedies (analogous to Bush mistakes regarding the 9/11/2001 terrorist attack, the failure to apprehend Osama bin Laden, and the subsequent invasion of Iraq). A loss of US global leadership is likely, especially loss of “soft power,” in the sense that those who live in other countries have in the past looked to the United States as a leader of the international order and as a model domestically of what they hope their own countries could be like. The pause in progress toward a liberal global trading order may prove long-lasting. Finally, Trump’s cluelessness on the international stage will likely embolden some traditional adversaries, such as Russia, Syria, and North Korea.

If I had to guess, we are not likely to see some of the more outrageous proposals from Mr. Trump’s campaign enacted.

• He will not build a “big beautiful new wall” along the length of the border. Maybe just a short segment that will serve as a stage set for photo-opportunities. In any case Mexico certainly won’t pay for it.

• We won’t see a ban on Muslim immigrants, which would be invalidated by the Supreme Court (even a conservative court) because it would violate longstanding bedrock American principles.

• We won’t see deportation of eleven million undocumented immigrants. But he will likely end Obama’s Deferred Action for Childhood Arrivals program, which granted temporary work permits to many "dreamers."

• My best guess is that he won’t in fact tear up NAFTA or raise tariffs as widely as he has said. I hope this is not just wishful thinking.

• Similarly, I don’t think he will tear up NATO or our other alliances, as he seemed at times during the campaign to suggest. Nor the Geneva Convention. Even Mr.
Trump has to confront at some point how drastic would be the consequences or this sort of destruction of the global order.

But it seems obvious that he and the Republican Congress will, as he promised, take some steps to roll back the biggest accomplishments of the first part of the Obama Administration. Number one is a rolling back of Obamacare (going beyond the damage that Republicans have done since the beginning by chipping away at the legislation). It will be interesting to see people’s political reaction if some of the 22 million newly-insured Americans start losing their health insurance. But after the election, Mr. Trump said that President Obama has now explained to him some of the details that apparently he had not been aware of (the importance of keeping young adults on their parents insurance and preventing insurance companies from penalizing those with pre-existing conditions). Maybe he will accommodate the rest of the logic as well, adjust a few knobs and re-name it TrumpCare.

Number two is a rolling back of Dodd-Frank financial regulation, which was enacted after the financial crisis of 2007-09. The Republicans will give banks and other financial institutions a freer hand.

They will also roll back competition policy and environmental regulation, especially regarding emissions of greenhouse gases.

We are about to see what life is like when the Republicans hold all branches of government. It will be interesting to see if American voters in the future hold them responsible for any setbacks that may come.

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