

American Elections 2016



Donald J. Trump
*45th President of
The United States of America*

An overarching point to bear in mind is that Trump is an inexperienced politician, especially when it comes to the skill of managing the government's three branches (legislative, executive, judicial), and as he develops his leadership style, an impatient international community may decide to press ahead with its own agenda without the US being as influential as it usually is, in areas such as climate change, refugees, and violent conflicts.

Policy Challenges Facing Trump

Now that Donald Trump has been elected President of the USA, what are the likely economic consequences?

Delivering a definitive analysis of Trump's economic policies is hampered by several factors that render Trump's actual policies, as opposed to his intended policies, unpredictable.

First, Trump has altered his policy positions quite regularly, and analysts do not have the benefit of a Congressional voting record to reference, as Trump was not politically active prior to the 2016 Presidential Elections.

Second, Trump also has a tendency to support populist policies that experts are skeptical of. In the wake of his victory, after consulting with experienced advisers, he is likely to revise some of his more controversial plans, such as demanding that Mexico finance the construction of a more secure wall along the USA-Mexico border.

Third, Trump's proposals have attracted the opposition of numerous Republicans, in addition to the entire Democratic party. As such, a hostile Congress will force Trump to revise numerous policy proposals as they fail to secure the necessary support from Representatives and Senators from both sides of the political aisle.

Therefore, readers should maintain a more circumspect stance when predicting the likely consequences of Trump's Presidential term, and they should be prepared to revise their predictions on a regular basis.

Taxation and Spending

National debt is predicted to rise by 80% of GDP by 2036 under President Trump's policy template

The first major theme in Trump's economic policy proposals is a combination of higher spending and lower taxation, with the aim of improving the performance of the economy, as he thinks that the existing configuration damages incentives to produce and invest. He believes that the resulting boost to growth will allow him to implement these changes without an increase in the national debt.

On the spending side, Trump supports expanded budgets for defense and infrastructure, while assuring voters that he will not scale back entitlement programs, such as social security and Medicare, despite the budgetary pressure being caused by adverse demographic changes, including increasing life expectancy and rising medical costs. On the revenue side, he is seeking a repeal of estate tax (commonly known as inheritance tax), and lower income taxes for the highest earners.

If enacted, these policies would lead to a massive government budget deficit, as the supposed growth-enhancing properties are simply

implausible. The Tax Policy Center predicts that the national debt will rise by 80% of GDP by 2036 under his policy template. Trump's advisers would probably convince him to reconsider, and if not, then Congress would block them. Therefore, the most likely outcome is that he will simply renege on most of these promises, or look to implement largely inconsequential, watered-down versions.

One exception is increased infrastructure spending, as it has bipartisan support. However, if enacted, the effect on growth would be minimal, as the effectiveness of such programs is often undermined by lobbying by special interest groups, such as the banking bailouts and the fiscal stimulus in the wake of the global financial crisis. Any downward pressure on the unemployment level, which is currently quite low (below 5%), is likely to be counteracted by tightening monetary policy by the Federal Reserve, which is waiting for an opportunity to raise interest rates — in September 2016, Goldman Sachs estimated an approximately 50% probability of a rate hike.

Protectionist Policies

President Trump has threatened to withdraw from NAFTA, while research concludes its positive effect on US economy

The second major theme is economic isolationism, with an apparent commitment to decreasing immigration and possibly deporting large numbers of undocumented immigrants. Originally, this was presented more as an economic policy, with an emphasis on how immigration supposedly undermines job opportunities for US citizens. However, opposition from the private sector has likely clarified the highly positive contribution that immigration makes to the economy: leading immigration economist George Borjas estimates the labor market benefits to the US economy are 11% of GDP, or \$1.6 trillion. Accordingly, Trump has most recently emphasized security concerns as the grounds for scaling back immigration. The final policy will likely focus on deporting the small numbers of immigrants who have committed criminal acts, implying limited economic consequences.

More significant is Trump's anti-trade stance: he has threatened to withdraw from the North Atlantic Free Trade Agreement (NAFTA), and to impose tariffs on Chinese imports. However, despite advertising these

policies as being good for the economy, they are in fact bad for the economy: the US Congressional Research Service unambiguously concludes a positive effect of NAFTA on the US economy, with the controversy being over the size (they estimate 0.5% of GDP). The trade war that would result from protectionist policies would multiply the economic damage. Business lobby pressure will likely force Trump to renege.

Energy and the Environment

President Trump's policies would have a positive effect on the economy in the short-to medium-term, but adverse consequences on the global environment in the long run

If Republicans retain control of Congress, then Trump's anti-environmental energy policies may well proceed as planned. He wants to make the US energy-independent, and to dismiss the environmentally-motivated constraints on fossil fuel extraction, primarily as a way of boosting jobs in the energy sector, and assisting downstream sectors with lower energy costs. These policies would certainly have a positive effect on the US economy for the short- and medium-term, but there would also be potentially serious adverse consequences for the US and global environment in the long run.

In terms of the global economy, since most of Trump's economic policies are unlikely to be implemented, there will be little impact, especially if he successfully avoids causing a recession. However, if Trump suc-

ceeds in initiating a trade war, then the global economy is likely to suffer considerably from the resulting diminution in global trade. That would cause a deterioration in international diplomatic relations, and would elevate the risk of wars and refugee crises, both of which are considerable threats to the global economy.

The Gulf Economy

Energy-exporting economies, including GCC countries, are likely to be adversely affected by President Trump's economic policies

Aside from that, energy-exporting economies, including the countries of the Gulf Cooperation Council (GCC) are likely to be adversely affected by Trump's economic policies. Global energy prices are likely to fall as the US reenters international fossil fuel markets, decreasing its demand for energy imports, and increasing global supply. The emergence of US shale oil over the last 15 years, including the lifting of the self-imposed oil export ban that was introduced during the 1970s, have played a pivotal role in the 60% decline in oil prices that has occurred since June 2014.

These structural changes in US oil production have had adverse indirect effects on the GCC economy: the diminishing need for US oil imports from the Middle East has underlain a declining strategic focus on the region, which has necessitated substantial increases in security and defense spending by the GCC governments. Saudi Arabia spent \$87 billion on its military during 2015, almost double the 2006 figure. These trends will almost certainly continue under Trump, as his campaign featured several claims that he will demand a greater economic contribution to

security maintenance from the US' allies. Enhancing the US' energy independence is a central mechanism for realizing that goal.

However, one positive result for traditional energy exporters would be a significant slowdown in the drive to switch to renewable energy, as falling energy prices discourage investors, and Trump withdraws government support for such projects.



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