



Economists said a Trump presidency would be a disaster. So why isn't Wall Street worried?

Timothy Lee

November 10, 2016

Before the election, a lot of people — including me — assumed that a Donald Trump win would send stocks plunging. A group of 20 Nobel Prize-winning economists warned last week that a Trump presidency could “jeopardize the foundations of American prosperity and the global economy.”

But on Wednesday morning, the markets didn't seem very alarmed. Stocks opened the day up, and then they kept rising, ending the day up by 1.1 percent. Evidently, Wall Street doesn't view a Trump presidency as all that alarming, at least for shareholders.

So what's going on here? I think it's possible for both those Nobel laureates last week and the markets this week to be right. Depending on which campaign promises Trump chooses to pursue, a Trump administration could wind up doing a lot of damage to the US economy. But this damage wouldn't necessarily take forms that would be reflected by stock market values.

For example, Trump's plan for bank deregulation could eventually lead to another 2008-style financial crisis. And his deregulation of the greenhouse gas emissions could eventually lead to catastrophic climate change. But those disasters may take a long time — years, even decades — to materialize. And in the meantime, less regulation could mean more economic activity and more profits for US companies.

Some of Trump's economic policies could also be disastrous for particular groups of people — like poor people and immigrants — without harming the stock market or conventional economic metrics like gross domestic product or the unemployment rate. So the economic stakes of Trump's economic agenda are high. They just won't necessarily be reflected in the Dow Jones Industrial Average.

Trump wants to cut taxes and boost infrastructure spending

Donald Trump was not a conventional candidate, and he didn't have the detailed policy blueprints that presidential candidates normally publish. But the broad outlines of his economic agenda are fairly clear.

First, a massive tax cut. Trump's plan would reduce government revenue by \$7.2 trillion over a decade, making it more than twice as large as the significant tax cuts enacted under President George W. Bush. Almost half the benefits would flow to the top 1 percent of income earners.

Trump would pair his tax cut with a package of infrastructure investments that could cost more than \$500 billion.

“We have bridges that are falling down,” he said in August. “We’ll get a fund, we’ll make a phenomenal deal with the low interest rates and rebuild our infrastructure.”

Trump has also signaled that he’d like to see about \$500 billion in additional military spending over the next decade. “We want to deter, avoid, and prevent conflict through our unquestioned military dominance,” Trump said in September, lamenting recent cuts to defense spending.

He vowed to make these changes “revenue neutral” using “commonsense reforms that eliminate government waste and budget gimmicks.” But that promise may go out the window once it becomes clear that there isn’t anywhere close to \$500 billion in “government waste” to cut and Republicans still want to spend more on the Pentagon.

Ironically, the package of tax cuts and spending hikes could amount to the kind of Keynesian fiscal stimulus that liberals advocated during the 2009 recession. If deficit spending boosts the economy, it could force the Federal Reserve to raise interest rates to keep inflation under control.

And sure enough, the yield on 10-year Treasury bonds soared on Wednesday, rising above 2 percent for the first time since early 2016. That’s a sign that markets are expecting less fiscal discipline from the new regime than it would have gotten under President Hillary Clinton.

Deregulation could make disasters more likely

Another part of Trump’s agenda is deregulation. In particular, Trump has vowed to repeal Obama’s regulations designed to combat global warming by curtailing greenhouse gas emissions. He also wants to roll back Dodd-Frank, the package of financial regulations Congress passed in the wake of the 2008 financial crisis.

In the short term, repealing environmental regulations could cause economic activity to go up, not down, as businesses face lower costs. It will only be after a generation or two that the full consequences — rising temperatures, rising sea levels, more severe weather — will be felt. And these effects will occur globally, not just in the United States, so the costs will be very widely distributed.

The story is similar for financial deregulation. The Dodd-Frank reforms tried to discourage big banks from making the kind of highly risky leveraged bets that brought the banking system to the brink of collapse in 2008. It’s too early to say whether this framework has been effective at preventing financial crises, since it’s only been about six years since it passed. But there’s reason to worry that financial crises could become more likely if the law is repealed.

Those consequences, too, might take many years to materialize. Indeed, as with climate regulations, the initial effect might appear to be positive — as newly deregulated banks lend more and boost economic activity.

So Trump's regulatory policies will have big impacts, but they may not be obvious until long after he leaves the White House.

Trump may not be able to deliver his grandiose promises on trade

Trump could try to negotiate a revised NAFTA deal with Canada's Justin Trudeau, shown here, as well as Mexican President Enrique Peña Nieto. *Photo by Spencer Platt/Getty Images*

On the campaign trail, Trump repeatedly railed against China and Mexico, vowing to slap higher tariffs on Chinese imports and renegotiate the NAFTA trade deal. But Simon Lester, a trade expert at the Cato Institute, argues that it's far from clear how far Trump would actually go toward cutting the US off from foreign trade.

One of Trump's big challenges on the trade front is the fact that the world is bound together in a complex patchwork of agreements that limits the ability of any one country to change trade policies unilaterally. For example, the US imposes something called anti-dumping duties on certain Chinese goods, and the president has some discretion to decide how these duties are set. In principle, Trump's trade team could tweak these formulas to effectively charge China more to sell products to us.

The problem is that China would likely challenge these higher charges at the WTO, and if Trump didn't have a good justification for them, then US goods would be hit by countervailing duties in China. That would start a trade war that would be in no one's interest.

Trump's second problem is Congress. For example, Simon says that Trump does have the authority to unilaterally withdraw the US from the NAFTA agreement. The problem is that Congress made key NAFTA commitments — like zero-tariff treatment for most goods — part of US law. So unilaterally withdrawing from NAFTA wouldn't actually accomplish very much; Mexican companies could still sell goods in the US without paying tariffs.

To change that, Trump would have to get Congress to repeal the law that implemented NAFTA's requirements back in the 1990s. The problem is that many members of Congress — especially in Trump's own party — are enthusiastic free traders. They have close ties to business groups like the US Chamber of Commerce that have long favored free trade. So they won't necessarily go along with a plan to withdraw from NAFTA — especially if Trump doesn't have something to replace it.

Simon argues that a more likely scenario is that Trump will go to countries like Mexico and seek more modest changes to their trade relationships. If Mexicans make some concessions, then Trump can declare victory and seek congressional approval — without upending the global trading system.

Still, it's hard to be sure. While Trump has talked a lot about trade, the statements have tended to be very general: He thinks NAFTA is bad and China is ripping us off. Trade law is a complex subject, so whoever Trump chooses to help him on trade policy could have a lot of influence.

A Trump administration could be a disaster for poor people and immigrants

From a humanitarian perspective, the most significant aspect of Trump's administration may be his treatment of immigrants. Trump has vowed to deport millions of people who are in the United States illegally. That will have untold personal costs for the people targeted. It will also be bad for businesses that employ those workers and their customers.

Also, if Trump adopts the economic agenda of House Speaker Paul Ryan (R-WI), it could lead to dramatic cuts in social programs, including Medicaid and food stamps. Vox's Dylan Matthews argues that the Ryan budget amounts to "the most vicious cuts to programs for poor and medium-income people of any president since Reagan."

Finally, Trump and the Republican Congress are widely expected to repeal Obamacare. No one knows what, if anything, they'll put in its place. But Vox's Sarah Kliff reports that as many as 22 million people could lose health insurance as a result.