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ANALYSIS

Trump's unpredictability weighs on economy's direction

Muddled thinking and strident voices could endanger prospects for future growth

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The Trump economic team, led by the occupant of the Oval Office himself, seemingly is working hard to undermine any confidence one truly wants to have in them that they actually have an economic policy strategy. Perhaps that's too harsh: they do have a 'strategy' in the economic domain; it's just that it is incoherent and characterized by a fraught decision-making process leading to policy gyrations that are unprecedented in modern U.S. history.

Weekly, indeed, almost daily, economic policy threats, especially in the international sphere—whether echoing promises from the 2016 campaign or wholly new ones—are made. Then they are often retracted, re-packaged or, in the Administration's words, put on the 'back-burner'. Businesses, both in the U.S. and abroad, as well as foreign economic policy officials, don't do well in this type of environment.

If there is one central lesson from economic history that cuts across all geographies and all time periods it is that sound economic management must be keyed to maintaining confidence in the policy making apparatus. Regrettably, Washington's new regime, rather than strengthening such confidence is on track to undermining it. The threat to U.S. economic policy leadership—a staple of the world economy throughout the post-World War II and already in decline—if anything will be hastened.

There is, however, one overriding principle that, without question, is the team's preeminent guiding principle: go on the attack against any country with whom the U.S. has a trade deficit and/or any company—regardless of nationality--that is contributing to a U.S. trade deficit. To say the exclusive focus or even placing priority on such policy is myopic would be charitable. It is illogical—and not in a conceptual way, but in real life, based on actual experience.

One does not have to go very far back in time to find overwhelming empirical evidence that enacting policies blindly in pursuit of such a goal is akin to holding a gun to one's head and announcing: "stand back or I'll shoot". The Great Depression in the 1930s, which was fundamentally exacerbated through worldwide protectionist policies, is by far the most obvious example. But there many, many other cases, either at a country, regional or global level prior to that and in years since.

Of course, trade imbalances are important, and if they are very large (as proportion of a country's GDP), widespread across a larger number of an economy' sectors, and virtually permanent, remedial actions are almost always desirable. But to state the obvious, it matters *why* there are such trade deficits (or trade surpluses). After all, they are *symptoms* of underlying structural or policy issues. And, these issues may be rooted in problems at home, abroad, or both.

Contrary to what most politicians will tell you—in any country—unfortunately it is often not a simple matter to diagnose the causes of these symptoms; and they are almost always multifaceted. Thus the 'cure' is rarely, if ever, a single, one-size-fits-all solution. Herein lies the lack of depth of the Trump's team trigger-happy—to keep with the gun analogy—policy approach.

This simpleton economic compass contributes to a volatile concoction when mixed with a decision-making process that is marked by sudden directional shifts, U-turns or retreats into silence.

Why the disarray? In a nutshell, as I've written before in this space, it is because we have a "LIFO"--Last-In, First-Out--president that has little discernible in the way of an ideology or well-defined set of principles other than "to win"—at least in the economic realm. The fact is that whoever is last to get Mr. Trump's ear is the ultimate influencer.

You would think not only because he continues to assert he's running the government like the businessman he is, but also with all of the CEOs summoned to the White House by the President since he took office six and a half months ago, it should be abundantly clear to Mr. Trump that business abhors national economic policy uncertainty since it creates risks around decisions for investment in plant and equipment and the hiring and firing of employees. The same goes for consumers, who become more cautious about when to make large purchases of durable goods, like autos and appliances, or houses.

Many people may counter that the booming U.S. stock market, which continues to hit record highs, in fact illustrates the confidence that the Trump team instills in the investment community. If only one knew why the stock market—at any point in time—does what it does.

Yes, it is conceivable that some part of the stock market's performance has been hinging on the expectation of enactment of a Trump tax reform program and of a Trump initiative for large spending on infrastructure. But in the face of a truly stinging debacle of the failure to achieve the signature campaign promise of repealing and replacing the Affordable Care Act (aka 'Obamacare')—and at a time when the same political party controls the executive and legislative branch—a cold shower has just been turned on the chances of other sweeping actions being successful. In fact, there is an argument that actually the *failure* to overturn Obamacare—an action that would have been economically very disruptive—served to buoy the stock market.

Moreover, the economic fundamentals on Trump's watch currently are not looking as rosy as many might hope.

While the 'advance' estimate of GDP growth (an initial measure which is always revised over the subsequent few months) in the second quarter of 2017 was 2.6%, growth in the first quarter of 2017 was a paltry 1.2%, as compared to 1.8% during the last quarter of the Obama administration. At the same time, the average number of jobs created monthly during the last nine months *prior* to Trump's election is 20,000 larger than it has been over the nine months following his election. And, the IMF has just significantly decreased its GDP growth forecast for the U.S. economy: For 2017, the IMF has revised it down from 2.3% to 2.1%, and for 2018, from 2.5% to 2.1%. Not only is that a 'flat liner' but it also greatly undercuts the chances of Trump's forecast of 3% to 4% growth being realized in 2017 unless there is dramatic expansionary policy

This is the first of a two-part column.

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