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**Financial Times Column**



## **A bitter comedown from Trump's sugar high**

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An ironic contradiction is likely to define the global economic community's convocation in Davos this week as it awaits Donald Trump's inauguration. There has not been so much anxiety about US global leadership or about the sustainability of market-oriented democracy at any time in the past half-century. Yet with markets not only failing to swoon as predicted, but rallying strongly after the Brexit vote and after Mr. Trump's victory, the animal spirits of business are running hot.

Many chief executives are coming to believe that - whatever the president-elect's weaknesses - the pro-business attitude of his administration, combined with Republican control of Congress, will lead to a new era of support for business, along with much lower taxes and regulatory burdens. This in turn, it is argued, will drive a big rise in investment and hiring, setting off a virtuous circle of economic growth and rising confidence.

While it has to be admitted that such a scenario looks more plausible now than it did on election day, I believe that it is very much odds-off. More likely, the current run of happy markets and favourable sentiment will be seen, with the benefit of hindsight, as a sugar high. John Maynard Keynes was right to emphasise the great importance of animal spirits, but economists have also been right to emphasise that it is political and economic fundamentals that dominate in the medium and long term. History is replete with examples of populist authoritarian policies that produced short-run benefits but very poor long-run outcomes.

The new US president will be operating on a very weak political foundation, is very unlikely to be able to deliver the results he has promised to key constituencies, and seems likely to take dangerous gambles in the international arena. This makes it probable that a cycle of

growing disillusion, disappointment and disapproval will set in within a year.

Mr Trump will be the first new president in US history with more measured public disapproval than approval. No outsider can know the validity of allegations regarding his campaign's involvement with Russia, but the shadow of possible scandal is far more present in the pre-inaugural press than it was even before Richard Nixon's second term in the White House. And the continued operation of the president-elect's business interests by his family offers potential for at least the allegation of serious misconduct.

Nor is Mr Trump likely to be able to keep his promises to key middle-class constituencies. The consequence of the very weak Mexican peso, which is one of the results of his rhetoric is more Mexican immigration to the US and more businesses choosing Mexico over Ohio as a location for production.

Moreover, it is not possible to repeal Obamacare without taking health insurance away from millions of Americans and placing new burdens on those with pre-existing conditions. If Mr Trump goes through with proposed increases in tariffs the result will be lower real wages and incomes as prices rise faster than pay. All in Congress agree that tax reform will not happen in a few months and it is impossible to reconcile the president-elect's stated goals of big reductions in corporate and top rates, a fair distribution of the benefits of tax cuts and preventing a huge increase in federal debt.

Finally, Mr Trump will be taking some big risks. Seeking to use the One China policy as a lever for extracting trade concessions from Beijing risks serious confrontation and will complicate co-operation on critical issues such as North Korean nuclear proliferation. Questioning the value of the EU and Nato risks undermining our principal democratic allies at a time when they are already politically fragile. Unilateral imposition of tariffs or enactment of a tax system that subsidises exports and penalises imports risks both retaliatory protectionism and a spiking dollar, with potentially grave consequences for the global economy. And threatening businesses, as happened with the attack on the pharmaceutical industry during Mr Trump's last press conference, risks significant increases in uncertainty and even questions about the rule of law.

Animal spirits are as fickle as they are important. Right now they certainly are an impetus to economic growth. The speed with which they changed after the Brexit vote and after the US election should be

cautionary. They can easily change again. If ever there was a time to hope for the best but plan for the worst it is now.

The writer is Charles W Eliot university professor at Harvard and a former US Treasury secretary.



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