

NATIONAL POLITICS | By Charlie Cook, March 7, 2017

Reality Intrudes on Trump's Dream Palace



This story was originally published on nationaljournal.com on March 3, 2017

New York Fed President William Dudley told CNN on Tuesday that “there’s no question that animal spirits have been unleashed a bit post the election,” a reference to a term that economist John Maynard Keynes coined to describe people exhibiting optimism—often about the markets—that is not necessarily grounded in facts. Dudley’s use of the term is reminiscent of then-Federal Reserve Chairman Alan Greenspan using “irrational exuberance” two decades ago to describe stock-market behavior at the time, now remembered as the tech bubble.

The stock market has been on fire since Donald Trump’s election. President Trump’s well-received address to Congress on Tuesday night sent the Dow soaring above 21,000 for the first time, and pushed the S&P 500 index to a record level, over 2,300 and within sight of 2,500. The Conference Board’s Consumer Confidence Index is at a 15-year high while the University of Michigan’s Consumer Sentiment Index is just barely below the decade peak hit in January. The latest National Federation of Independent Business survey, which came out in the middle of February, shows small-business owners more optimistic than they’ve been since December 2004.

Investors and small-business owners are focused on their own version of hope and change—promises by Trump of the biggest tax cuts in history as part of a major reform package, a 10 percent increase in defense spending, a trillion-dollar infrastructure program, and relief from the regulatory burdens on business. Then there is the feeling that now that Republicans are in charge, they will wave a magic wand and bad parts of the Affordable Care Act will go away, leaving only the good parts behind.

But is such undiluted optimism justified? The truth is that there are plenty of reasons to doubt that any of these hopes will become reality anytime soon. Moreover, there are other threats in Washington and around the world that should give Americans cause for serious concern. It would seem that there is a considerable amount of selective perception taking place, with people focusing exclusively on the potential for positive developments while studiously ignoring the risks that are equally significant.

Treasury Secretary Steve Mnuchin has predicted that tax reform will be done by August, but it’s highly unlikely that anything approaching Trump’s prediction of “historic” tax reform will be done by then or even this year. First keep in mind that the last major tax-reform bill enacted into law was in 1986, during Ronald Reagan’s presidency, and in the four post-Reagan administrations, there have been numerous predictions of another big reform package, but none have come to pass.

Here’s a sobering fact, according to the Tax Foundation: The U.S. tax code has gone from fewer than 30,000 pages in 1986 to over 70,000 pages today. Tax reform is really hard under the best of circumstances, and these are not the best of circumstances. The Republican majority in the Senate is just 52-48, the GOP majority in the House is not

much bigger, and the president and Treasury secretary have no government experience. A cornerstone of the package that Speaker Paul Ryan is pushing is a Border Adjustment Tax, which would impose a 20 percent charge on imports and has even divided Republicans. A new “OxiClean”-style infomercial aired this week by the National Retail Federation is just a preview of coming attractions.

Then there is the broader question: How do you substantially cut taxes while increasing defense spending by about 10 percent to \$54 billion, build a border wall, spend \$1 trillion on infrastructure, and leave Social Security or Medicare untouched? Does anyone think the State Department budget is really going to be cut by 27 percent? Infrastructure upgrades are badly needed, but it’s pretty clear they will be pushed back behind health care and tax reform. Trump’s dreams have broad appeal, but his math doesn’t add up.

While it is true that the regulatory burden is choking our economy and only got worse over the past eight years, pruning regulations will require hand-to-hand combat in the courts with proponents of the rules. America-first trade policies are apt to cause disputes of a magnitude we have not seen for decades, and could well raise the prices that people pay for goods. Toss in repealing and replacing Obamacare and the need to raise the debt ceiling by August or September, and it’s easy to see how Trump’s agenda could be stymied by legislative gridlock.

Then look around the world. To our west we see troubles with North Korea (think Sea of Japan) and China (think man-made islands with military installations in disputed areas of the South China Sea). If we look east, we see an adventuresome Russia, particularly in the Ukraine. Then there is Iran and the Middle East, and the potential for problems in Afghanistan, Iraq, India, and Pakistan. And don’t forget Turkey.

Meanwhile, experts say the Dayton Peace Accord is slowly coming apart with the potential for problems in Bosnia, Serbia, Macedonia, and Kosovo. On the African continent there are problems in Somalia, Yemen, and Sudan. Up coming elections in Europe are causing concern, not just about the rise of ultra-nationalism and extreme populism but also about Russian interference. In less than two weeks we have elections in the Netherlands; the French vote in late April; Iran and Kenya go to the polls in May, and Italy may do the same this summer. Of great importance is the German election in September with Chancellor Angela Merkel, the most important leader in Europe, in danger of being unseated. Then there is the threat of terrorism. Do you think Trump properties around the world are beefing up security?

So between the Washington policy front, where things are not nearly as rosy as they may appear to Main Street or Wall Street, and a plethora of trouble spots around the world that are keeping foreign policy experts awake at nights, it would be risky to bet that the animal spirits will be frolicking for long.