



# FOLLOW THE MONEY

How will Donald Trump's economic outlook affect Israel and the world?

**SHORTLY AFTER** the November 8 presidential election, US President-elect Donald Trump was interviewed on the widely viewed CBS TV program "60 Minutes" by Lesley Stahl.

"On election night," Stahl asked, "I heard you went completely silent. Was it a sort of realization of the enormity of this thing for you?"

"I think so," Trump responded. "It's enormous. I've done a lotta big things, I've never done anything like this. It is so big, it is so – it's so enormous, it's so amazing."

"It kind of just took your breath away? Couldn't talk?" Stahl asked.

"A li... a little bit, a little bit. And I think – I realized that this is a whole different life for me now," Trump answered.

If the enormity of becoming president of the world's only superpower is just now

sinking in for Trump, a person who is rarely at a loss for words, it is equally beginning to sink in for the leaders and citizens of the world, including Israel. For many outside, and inside, the US, the Trump victory brought shock and disbelief.

The person chosen as the American president is in many ways as important for Israelis as our own prime minister. The US is by far Israel's biggest export market, buying 28% of all Israeli exports, or some 17 billion dollars, during the first nine months of this year. The US supplies Israel with massive defense aid and weapons; confronts Israel's foe Iran; and supports Israel in international forums. So, the question of what the Trump administration will do after he is inaugurated on January 20 is of vital interest to Israel and the world.

Whither Trump's America? Answering

that is really difficult because Trump supplied relatively few detailed policy papers during the election campaign. The task is made even harder by the fact that most of the pundits and pollsters have been discredited after misreading the groundswell of support for Trump – so, why believe them now?

Here is my best effort to summarize, objectively, what Trump and his administration may do. Three months ago, I claimed that "there is a reasonably consistent [economic] worldview known as Trumponomics and it is not at all stupid" ("Talking Trump," The Report, August 22, 2016). Now, it is time to ponder how and whether Trump's ideas will be implemented, and what the impact will be on Israel and the world.

Prime Minister Netanyahu told his cabinet ministers, shortly after the US election, not to blab to the media about predicting



TORU HANAI / REUTERS

Trump’s policies toward Israel. Blessedly, I am not a minister.

**Guiding Principles:** My friend Einar Tangen, a Wisconsin lawyer now running a business in Beijing spoke insightfully about Trump to China Central Television (CCTV).

“Trump will be ‘transactional,’ not ideology driven,” he predicted. “He is a negotiator, a deal-maker. His principle is ‘follow the money.’ He is throwing out the old presidential playbook.”

Trump wrote in his book, “The Art of the Deal”: “My style of deal-making is quite simple and straightforward. I aim very high, and then I just keep pushing and pushing and pushing to get what I’m after.” For Israel, this means dealing with a tough president who will bargain hard for American interests, as he sees them, and not neces-

sarily Israeli interests, unless there is clear overlap.

**Economy:** Huge uncertainty shrouds the post-Trump world. Fortunately, this comes at a time when Israel’s economy seems relatively robust. Gross domestic product (GDP) grew 4.9 % (annual rate) in April-June and 3.2% in July-September. But the high second-quarter figure is misleading because it is largely due to massive capital spending by global giant Intel in building a new six billion dollar production line at its Kiryat Gat factory. It shows how small Israel’s economy is when investment in a single factory tilts GDP figures drastically.

The third-quarter figure, too, is misleading, because it reflects a consumer spending boom that offset the continued decline in exports – exports in October were 25% lower than the same month last year. There

A broker at a Japanese trading company works under monitors showing US President-elect Donald Trump speaking on TV news in Tokyo, November 9; markets initially reacted nervously to Trump’s election win on fears he will pull out of trade agreements

are signs the spending boom is ending. Will a revived US economy help restore Israel’s exports?

History doesn’t repeat itself, but sometimes it provides clues to the future. In 1980, California Governor Ronald Reagan ran for president on two promises: lower taxes and boost defense spending. He kept both. Two major tax cuts, in 1981 and 1987, led to a spending boom and a decade of strong growth. Defense spending led to an arms race with the USSR, one the USSR

could ill afford, which some believe led to that nation's demise in 1991.

Trump's promises are similar to Reagan's. And the result may be the same.

President Reagan's mantra, through two terms, was "peace through strength." This fits Trump's worldview as well. Current and past members of the US armed forces voted strongly for Trump.

Of course, higher government spending and lower taxes mean only one thing: big budget deficits and higher public debt. Federal debt tripled under Reagan. The budget deficit peaked at 6% of GDP in 1983.

Financial Times columnist Martin Wolf analyzes Trump's plan to slash individual income taxes from a top marginal rate of 39.6% at present to 33%, and corporate taxes from 35% to 15%. Wealthy taxpayers would benefit the most. Coupled with a massive planned \$1 trillion in infrastructure spending, these tax cuts will generate huge fiscal budget deficits, reaching 5.5% of GDP in 2020 and a 25% jump in federal debt.

Wolf thinks the higher deficits will be expansionary, at least for a couple of years. For Israel, this is good news. But longer term?

Trump wants higher interest rates. Trump's economic advisers think the Federal Reserve, through its near-zero interest rates, has created a "false economy." So, Trump may appoint a compliant Federal Reserve head who will raise rates more aggressively, when Janet Yellen's term expires in 2018.

Higher interest rates mean a stronger dollar. This, in turn, means lower US exports, which, as a result, become more expensive. As the US trade deficit rises, it implies more US borrowing abroad. It also means higher interest rates in Israel, which are strongly influenced by rates set in the US.

"The dollar is back in fashion," the Wall Street Journal gloated on November 13. "Donald Trump's unexpected win in the US

presidential election sent the dollar up 2.4% against a basket of 16 major peers to its biggest weekly gain since May 2015, and analysts say the rally likely has further to go. Investors expect Mr. Trump's proposals to boost fiscal spending, cut taxes and loosen regulation will bolster economic growth and ultimately prompt the Federal Reserve to step up the pace of short-term interest-rate increases." Bank stocks rose strongly on the news in expectation of higher profits.

Trump was elected by blue-collar workers in the US heartland, buoyed by his promise to restore their jobs. But it is highly unlikely the US will regain its jobs in coal mining and manufacturing, especially if the dollar rises and if Trump initiates a trade war with Mexico and China. In that case, the US's short-term boom may turn into long-term decline.

Israel was a huge winner from globalization because it gave easy access for start-ups seeking global markets and capital. If Trump kills globalization through tariffs and trade wars, Israel will lose

"What will Trump's angry, but fooled, supporters do then?" Wolf asks. "Next time, they might be even angrier. Where that might lead is terrifying."

There is huge irony in the fact that forgotten, neglected blue-collar workers have

chosen a billionaire as their champion. But the Democrats can blame only themselves.

Trump's vice president-elect is Mike Pence, who was elected governor of Indiana in late 2012. In his campaign, Trump made heavy use of the fact that, in February this year, Carrier announced it was moving its air-conditioner factory from Indianapolis, Indiana, to Monterrey, Mexico, costing 1,400 jobs.

**TRUMP PROMISES** to bring those jobs back home. And Pence claims Indiana, a rust-belt state, is a poster boy for job creation. Indiana's unemployment rate has declined more than half since late 2009, to 4.5% – lower than the US average – as 300,000 private-sector jobs were added.

What Pence fails to mention, however, is that the lost factory jobs at Carrier paid \$23.83 an hour and the service-sector jobs that replaced them pay \$13 to \$15 an hour or less. For the author of "The Art of the Deal" and those who voted for him, that's not a good deal at all.

*China:* "I've read hundreds of books about China over the decades," Trump wrote in "The Art of the Deal." "I know the Chinese. I've made a lot of money with the Chinese. I understand the Chinese mind." Hundreds? Well, perhaps one or two – Trump is, by all reports, not a great reader.

Trump promised to impose high 45% tariffs on imports from China and 35% tariffs on imports from Mexico. This, supposedly, will generate most of the revenue to pay for his planned tax cuts. But this is unlikely. Count on China and Mexico to retaliate, slashing US exports as well as imports. Meanwhile, Asian nations such as Malaysia and Philippines, often hostile to China, already have begun seeking rapprochement with China.

Trump promised to quash the Trans Pacific Partnership trade deal with Asia. And

he will. China has already moved to offer a replacement, which excludes the US.

China and America are both allies and fierce rivals. The US imports inexpensive Chinese goods, and China recycles the dollars it earns by lending them to support the US lifestyle, a system known as “Chimerica.” But, in the South China Sea, the US opposes China’s intentions to gain sovereignty, in part by building artificial islands. Chinese President Xi Jinping was among the last of the major world leaders to call Trump and congratulate him, reflecting China’s uncertainty about him.

**‘We’re in a transition phase. The US is no longer going to act as Mideast superpower. It will be “America First.” This will create a huge vacuum.’**

Under President Obama, the US initiated its “pivot” toward Asia. How will this evolve under President Trump? Can Israel perform a similar “pivot” toward China and Asia as the US withdraws from foreign involvement?

Look for increasing US isolation as it turns inward to focus on its internal problems. Bayit Yehudi leader Naftali Bennett thinks this is great for Israel since Trump’s election seems to deal a death blow to the “two-state” solution. But Bennett may yet be deeply disappointed.

**Globalization:** With the fall of the Berlin Wall on November 9, 1989, the era of globalization – free global movement of goods, labor, capital and information – began. As the two Germanys united, the Euro-

pean Single Market accelerated, and world trade boomed as Russia and China joined the World Trade Organization (WTO) with the blessing of the US.

The beginning of the end of globalization may have come exactly 27 years later, on Election Day 2016. Israel was a huge winner from globalization because it gave easy access for start-ups seeking global markets and capital. If Trump kills globalization through tariffs and trade wars, Israel will lose.

**Infrastructure:** Every visitor to the US at once encounters its shabby infrastructure – ancient airports, potholed roads, crumbling bridges, nonexistent bus and train systems. According to Trump’s economic advisers Prof. Peter Navarro (University of California-Irvine) and Wilbur Ross, a private equity investor, more than 60,000 bridges are “structurally deficient,” 2,000 water systems show excessive lead contamination, and traffic jams cost the economy more than \$50b. a year.

Trump proposes a \$1 trillion infrastructure plan – \$100b. annually for a decade – funded by the private sector, largely through tax credits (i.e., a change in the tax law that enables contractors to deduct the cost of projects from their tax bills). Navarro and Ross claim that the lost tax money would be fully offset by taxes from added wage incomes plus taxes from added contractor profits.

**Mideast:** How will the Trump Administration change US policy for the Mideast? I listened carefully to Prof. Uzi Rabi, director of the Dayan Center for Mideast and African Studies, Tel Aviv University. In a webinar, Rabi made these observations:

“We are in a transition phase. The US is no longer going to act as a Mideast superpower. It will be ‘America First.’ This will create a huge vacuum. Who will fill it? Trump is unpredictable; it is not clear he himself fully knows his Mideast agenda. But, at this moment, US isolationism is likely. Human

rights will clearly not be his focus.

“Who will gain from Trump’s victory? First, Egypt’s President Abdel Fatah al-Sisi. He feels President Obama harassed him for deposing democratically elected President Mohamed Morsi in July 2013. Trump may be far more comfortable for him. Second, Syrian President Bashar Assad. Assad has called on Trump to align with him to fight terrorism and said he sees Trump as a ‘natural ally.’

“Regarding Iran – Iran seeks a continuous Shi’ite ‘crescent’ stretching from Iran across Iraq and through Syria and Lebanon. If the US secedes from Mideast involvement, that aspiration will become far easier to achieve. Regarding the nuclear agreement with Iran – Trump could claim Iran is not keeping the bargain and give Iran a hard time. Congress would support him.

“Once states could count on the US in times of crisis. But in no Mideast country is this now credible. The politics of survival in the eastern Mediterranean will be harsher than ever, with radicalized failed states broken into pieces. Some 16 million refugees have been displaced and 700,000 people slaughtered by their own leaders. A perfect storm.

“In the 20th century the Israel-Palestinian conflict was key. No one can argue this is true in the 21st century. The Israeli Right thinks the two-state solution is null and void, under Trump.

“The US will no longer be a peace broker. If Trump is anti-Palestinian, the Palestinians may rebel, perhaps start an intifada. Radical Islam will find it easier to recruit followers under Trump.

“We are moving to a new chapter in the Mideast – unprecedented. Israel will need to think differently, in the face of rapid change.” ■

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