

Australia should assume Trump won't step back from his campaign commitments

Written by John Hewson, Professor and Chair, Tax and Transfer Policy Institute, Crawford School, Australian National University

World leaders have responded, variously, to the shock victory of Donald Trump in the US Presidential Election. Few took the opportunity as well as Germany's Angela Merkel to specify their "terms of engagement" with the new President elect.

Merkel said:

"Germany and America are bound by their values: democracy, freedom, respect for the law, and the dignity of human beings, independent of their origin, their colour, religion, gender, sexual orientation or political position."

She added:

"On the basis of these values I offer the future President of the US, Donald Trump, close cooperation."

I am sure that Australian Prime Minister Malcolm Turnbull, too, would claim to have made similar comments. He too would have gained "assurances" as to Trump's attitude to our alliance, and to our region. But probably not as succinctly, and with such clear intent as Merkel.

Understandably, there is considerable global confusion, and some concern, as to just how Trump will govern. And how well. There are significant checks and balances in the US political system when it comes to the exercise of power, especially relative to the Congress, in relation to domestic policies. But the President's role as Commander-in-Chief is much less constrained.

Just which of the myriad of "promises and commitments" will he stick with, and which will he jettison? Will he actually build "the wall," resort to tariff protection, tear up trade deals, ban Muslim and other immigrants, dramatically cut taxes, build all those roads, bridges and other infrastructure, step back from global defence, security and climate engagements, and a

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veritable host of others? Some believe now that he has won, he will step back from much of this. However, I think this view misses the very point of his victory.

He ran a consistent and focused “anti-establishment” campaign – broadly, anti-globalisation, anti-freer trade, anti-immigration, and anti-Washington. His voters see him as a “game changer”. They expect him to deliver. I believe he will do his utmost to do so.

It has been characteristic of successive, previous “Establishment Presidents” to step back from most of their campaign commitments. To meet the expectations of his constituency Trump can't, and won't, do this, to the maximum extent.

Not surprisingly, he would initially offer “soothing assurances” to the likes of Turnbull, just as he made “soothing and healing” utterances in his acceptance speech. These included “governing for all Americans,” “unifying America,” reiterating the promises of new infrastructure, new businesses and new jobs.

His big wins were in the mid-West, manufacturing, rust belt, states of Michigan, Wisconsin, Ohio, and Pennsylvania, and in small-town, regional and rural America. They want jobs, and market “protection,” and don't want migrants, or to have to live with the dictations of minorities, and the intrusions of Washington, dominated by powerful vested interests.

So, expect tariffs on China (probably after asserting currency manipulation) and on other “trade predators”, including Mexico. The Mexicans, and financial markets, obviously believe this given the almost immediate and historically significant collapse of the Peso. The real unknown is how such countries will respond, and in what form, and with what intensity, and just where such a process would end.

Similarly, he can be expected to renegotiate, if not tear up, some existing trade deals, especially NAFTA, and not to sign any new ones, including the TPP. He can also be expected to restrict immigration, and to chase those who have arrived illegally. He can be expected to backtrack on climate change, which he described as a “hoax”.

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He may well treat Congress with contempt, at least initially. He owes very few of them, very little. Indeed, he may be wise to hit the Congressional ground running, by challenging them, as an early priority, to pass a bundle of legislation consistent with his anti-establishment platform.

However, I doubt his fiscal economic agenda, as much as we can ascertain it, is deliverable. With a still significant budget deficit and debt overhang, he will have very limited capacity to fund his promised infrastructure programs, large tax cuts, and increased defence expenditure, even with significant cuts to large expenditure areas such as health.

However, to the extent Trump is able to implement his trade and economic strategies they will be disruptive to global trade, and probably global growth, and inflationary, in time. This would probably lead to higher interest rates and a higher US dollar. It will be an important question whether any boost to US growth is sustainable.

The essence of Trump's anti-establishment program is very nationalistic and isolationist. His constituency has a very clear idea of what they expect to make "America Great" again.

Much of this could be very bad news for Australia, with far reaching national and regional consequences. We will need a very clear sense, and electoral sign off, as to what is in our national interests. It will not be good enough to rest on our laurels, and to just keep citing the importance and strength of our US alliance, in the vain hope that somehow we will be treated differently, that we will be "special".

Indeed, we will need to earn the relationship moving forward. We will need to be proactive, and may need to be prepared to renegotiate a new "US alliance". We would be wise to begin this process against the background of rapidly developing our alliances with key Asian neighbours, especially Japan and South Korea.

Disclosure

John Hewson is chair of the Asset Owners Disclosure Project, and was federal leader of the Liberal Party from 1990 to 1994.

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