

Now that Donald Trump has won the US Presidential election, his single most important economic tool will be fiscal policy.

Some [central bankers](#) have been calling for governments to step in and stimulate growth as monetary policy reaches the limits of its effectiveness.

President Trump's economic policies are now a matter of global interest. The policies encompass the whole of public expenditures, taxes and other revenues, and the resulting budget balances and debt.

The question is then: what is he going to do with this economic tool?

Trump-economics in action

At this stage, Trump's fiscal strategy seems to centre on two pillars. One is a massive reduction in income and corporate tax rates. The other is a plan for large investments in infrastructure.

The underlying view is that lower taxes will stimulate demand and business activity (what's usually referred to as ["trickle-down economics"](#)) while infrastructure investments will foster productivity and create jobs. The two combined will eventually lead to sustained economic growth and increased welfare for the population at large.

Faster growth should also take care of the debt problem; that is, as the economy booms, the tax base will expand and revenue will then increase in spite of the reduction in tax rates.

This is essentially [Reaganomics](#) millennial-style and should not be confused with the ["Keynesian"](#) predicaments of Nobel Prize [Paul Krugman](#) and even former presidential candidate

[Bernie Sanders](#)

The problem with Trump-economics is that several things could go wrong.

What lies beneath growth

To start with, growth might turn out to be a more complex and elusive process than what Trump-economics seem to assume.

In fact, growth is ultimately driven by technological progress and innovation. Do lower taxes and more infrastructures generate technological progress and innovation? Maybe, at best.

It will depend on the extent to which infrastructures are conducive to and supportive of the structural transformation of the economy. It will also depend on how this infrastructure plan is financed, for example whether or not public money will crowd out private investment.

Things might get even more complicated if Trump gives in to anti-globalization sentiments and tries to protect the US' [declining manufacturing industry](#) .

Economic growth cannot happen without pain. Innovation eventually causes some sectors to decline, while others emerge. Jobs are lost in the declining sectors, but new jobs are gained in the emerging sectors.

This process of creative destruction ought to be supported with adequate fiscal policies, especially to help workers move across sectors.

Instead, Trump seems more inclined to try and keep the declining industries artificially alive by [restricting international trade](#)

. Protectionism, or any other attempt at halting economic change, will ultimately weaken

America's growth prospects.

Inequality matters

Things could also go wrong in terms of income distribution. The tax cuts proposed by Trump are at risk of being regressive; that is, they would disproportionately benefit those who are already richer, thus leading to higher inequality.

This would be a problem for two reasons.

First, while historically the American society has been tolerant of inequality, the support received by Sanders in the Democratic primaries suggest that a growing number of Americans (particularly the new generation) value equality as a socio-economic goal.

Second, and perhaps even more importantly for Trump, higher inequality dampens growth. In highly unequal societies, where relatively few enjoy rents and many more struggle to stay above the poverty line, innovation and technological progress are less likely to happen.

This is because those at the top of income distribution have no incentive to innovate, while those at the bottom of the distribution have no opportunity to do so. Tax cuts are a double edged sword and the final outcome of Trump-economics could well be a slow growing, highly unequal society.

Unpleasant debt arithmetic

Things could go wrong for Trump in terms of budget arithmetic.

The problem here is not the deficit and debt generated by Trump's economic policy. The problem instead is that Trump might not be prepared to accept this deficit and higher debt.

In Trump's view, tax cuts and investment in infrastructure will spur growth and generate

additional tax revenues to balance the budget. But what if this does not happen? What if, as is likely, the net result is a fiscal deficit and growing debt?

Expenditure would have to be cut. If the [campaign rhetoric is any indication](#), cuts would not be directed at defence expenditure, but possibly at “social expenditure,” including health, with further perverse effects on inequality and growth.

Global concerns

There are two major implications of these Trump economics at a global level.

For one thing, if things go wrong in the US, then they are likely to go wrong almost anywhere else. The global economy will therefore be exposed to the risks implicit in the design of Trump-economics.

For another, Trump-economics could be imitated by other countries. This could happen as a result of economic and diplomatic ties or through global economic fora, like the G20, in which the US plays a pivotal role.

Both scenarios are concerning. After several years of turbulence, the global economy needs some form of normalization. But Trump-economics is clearly not designed for that purpose.

Fabrizio Carmignani receives funding from the Australian Research Council for a project on the estimation of the continuous piecewise linear model and its applications in macroeconomics.

Authors: Fabrizio Carmignani, Professor, Griffith Business School, Griffith University

Read more <http://theconversation.com/trickle-down-trump-economics-is-not-the-fiscal-policy-the-world-needs-68572>