THE WALL STREET JOURNAL.
The Wall Street Journal, November 10, 2016

Which Trump Will Americans Get?

The economy depends on whether the protectionist or the tax-cutter shows up.

By Donald L. Luskin

The wild gyrations in global markets since late on election night can signal only one thing: rampant uncertainty. Voters saw many different Donald Trumps on the campaign trail, and nobody knows which one the country will actually get. Will it be the tax-cutter? The protectionist? The deregulator? Or the self-described “King of Debt”?

That will make all the difference. If Trump the tax-cutter moves into the White House, prepare for a great bull market. He proposes slashing the corporate income-tax rate from 35%, about the highest in the world, to only 15%, nearly the lowest. This would, at a stroke, turn a dollar of marginal corporate after-tax earnings into about $1.30. The extra can be reinvested in jobs, used to buy plant or equipment, or paid out in dividends that others can then spend or reinvest.

Mr. Trump has proposed the same 15% rate for small businesses—S corps and partnerships that are taxed through the personal income code—creating powerful incentives for the firms that drive job-creation. His plan to cut individual tax rates across the board will draw millions of discouraged workers back into the labor force.

On the other hand, what if the next president turns out to be Trump the protectionist? Effectively, he would be Trump the tax-hiker. Protective tariffs, after all, are simply taxes levied on imports, which artificially raise the prices that Americans pay for goods. That reduces the quantity of goods consumers can afford, shrinking the market for everyone. It doesn’t help make domestic producers more competitive.

Branding China a “currency manipulator,” as Trump has repeatedly promised to do on his first day in office, is simply imposing a tariff by another name. The move is intended to force China to strengthen its currency versus the U.S. dollar, which makes Chinese goods more expensive for Americans to buy. Maybe there was a case to go after the yuan a decade ago, but since then the Chinese currency has appreciated by as much as a third versus the dollar. Raising the issue now only threatens to destabilize China’s fragile economy, potentially causing systemic problems world-wide.

Mr. Trump is mistaken when he says that the U.S. “loses” money when it imports more than it exports. But even if he believes that, the fix should not be to limit what Americans buy from abroad. Mr. Trump should seek a solution from the other direction, by increasing sales of U.S. goods overseas.

That brings us to Trump the deregulator. If he reduces Washington’s incomprehensible layers of bureaucracy and regulation, American firms would become more globally competitive. One stellar example is Mr. Trump’s plan to open federal lands to fracking for oil and gas, and then to develop the pipeline infrastructure to efficiently transport the fuel to centers of demand. With America's vast endowment of shale, this would not only make the U.S. energy-independent—a worthy end in itself—but would also create an enormous export industry.

The balance-of-trade argument, though, is only the beginning for deregulation. Anyone who wants to see the terrible price of interfering with the free economic choices of businesses and consumers should look no further than ObamaCare. Americas' wallets are being sucked dry by rising premiums and mandates that they purchase unnecessary or unwanted coverage. Small businesses must avoid growing into large businesses if they want to steer clear of new ObamaCare costs. Mr. Trump has pledged to repeal the law.

Lastly, there is Trump the "King of Debt." As a real estate mogul he wasn't shy of borrowing. Presumably he would have the country do the same to fulfill his campaign promise to build "infrastructure"—public works such as airports, roads, bridges and maybe even a certain controversial wall. What could go wrong? Americans would get shiny new facilities to use for free. Lots of jobs would be created in building them. It sounds good when you say it fast.

But these projects wouldn't be free. The debt used to finance them would have to be repaid. In a private business such as Mr. Trump's real estate ventures, there's usually the option to walk away when a debt can't be repaid. The U.S. doesn't have that option. Treasury debt is a sacred trust, the financial platform on which the global economy sits.

Mr. Trump got in trouble during the campaign for hastily saying (though he later walked it back) that the country's debt could be restructured. Yesterday's dramatic rise in long-term U.S. Treasury yields—the biggest one-day increase since 2013—might well have been a reaction to the increased default risk of a Trump administration and a Republican Congress jointly embarking on a debt-fueled building boom.

As the president-elect decides which of his many selves to put forward, the markets will continue to gyrate. But investors are exquisite judges of proposed economic policies. If Mr. Trump is wise, he will listen to their judgments and let the markets guide him toward economic growth—truly, the one and only way to make America great again.

Mr. Luskin is chief investment officer at Trend Macrolytics LLC.