Economic experts discuss Trump policies, impact during annual summit

BY GREG OLIVER
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CLEMSON — Local economists Bruce Yandle and Rob Carey, speaking at the annual economic summit recently at the Madren Center and sponsored by the Clemson Area Chamber of Commerce, gave the audience their annual report on how the economy is faring in the state and local area.

However, this year the pair also provided input on the economy since President Donald Trump took office Jan. 20.

Yandle, dean emeritus for Clemson University's College of Business and Behavioral Science, said positives among Trump's goals are cutting the capital gains tax and corporate income taxes, revising the Affordable Care Act, revising Dodd-Frank and reversing some environmental regulation, while negatives include the renegotiation of the North American Free Trade Agreement, getting tough with China and imposing border taxes.

"The pluses and minuses relate to my assessment of the proposed policy actions on (gross domestic product) growth," Yandle said. "Proposed reductions in capital gains tax, personal income tax and corporate income tax will nudge the economy forward along with regulatory reform for the financial sector and health sector. Smarter environmental regulation — moving from command and control, for example, to the use of performance standards of the same identical outcome, would reduce the cost of improving air and water quality."

But Yandle added the negatives relate to changes in trade policy, which he says "reduce the flow of goods to the U.S."

"Border taxes and tighter regulation of imports to the U.S. will reduce GDP growth and be especially challenging to the South Carolina economy," he said.

For example, Yandle said China is the top destination of goods produced in South Carolina.

"A trade war with China would have strong negative effects on the U.S., and especially the South Carolina economy," Yandle said.

Yandle also pointed out that major clouds of uncertainty involve the federal interest rate policy and revising the debt limits, which he said must be done by the end of this month.

"An aggressive Fed could disturb an already weak economy (current estimates of GDP growth show 0.6 percent growth for the first quarter of 2017) and a bitter congressional debt-limit battle could lead to a government shutdown and a hard hit to the economy," he said.

Yandle said the picture he sees for the U.S. economically in 2017-18 is that GDP growth will be in the 2.2 to 2.5 percent range, that inflation will "rise a bit" and to look for 2.5 to 2.7 percent, that interest rates will nudge up from 2.60 to 3.10 percent on a 10-year bond, that the mortgage rate will be between 4.30 to 4.60 percent, housing will be strong, automobiles down and that the pace of manufacturing activity "will accelerate from hardly moving to slow, led by machinery."

"What happens beyond 2017 is in the hands of the new Washington team," Yandle said. "With acceptance of positive agenda elements and a gentle Fed, look for GDP growth approaching three percent in late 2018 and 2019. But keep your seatbelts fastened."

Carey, director of the regional dynamics and economic modeling laboratory at Clemson University Strom Thurmond Institute, said a repeal of the Affordable Care Act may leave South Carolina better off for not having accepted federal money in the first place to expand Medicare under the law.

"While South Carolina may have forgone some short-term positive economic impacts, we won't have to cut back or make up a funding shortfall unlike states that took the money and expanded Medicare," Carey said. "South Carolina only had (Blue Cross Blue Shield) left on our exchange, so a lot of folks will be up the creek if they pull out and the ACA isn't repealed or replaced."

When it comes to infrastructure, Carey said South Carolina Gov. Henry McMaster has already requested more than $5 billion in funding from the president for repairs.

"That would be a boon to the state if we were to get it and assuming an infrastructure bill is, in fact, passed by Congress," he said. "Although highway construction will generate short-term economic impacts through jobs created by the construction itself, the main benefit there is the long-term benefit of keeping the state conducive to attracting industry, since transportation is vitally important to drawing industry."

In the area of tax reform, Carey said a proposed "destination-based" taxation would eliminate income tax on goods produced for export. The idea, the Clemson economist said, is actually from the GOP plan, although some feel Trump may adopt it.

"The thought is that it would tax manufacturing capital output according to whether it was to be sold domestically or exported," Carey said. "If exported, it would not be subject to income tax while imported goods would still be taxed. The net effect would be to make domestic goods relatively cheaper and, theoretically, to encourage more exports."

But Carey cautioned that the "flipside" is that trading partners of the U.S. may view the tax reform measure "as a tariff."

"They may retaliate, which would hurt our exports," he said, adding that its impact on the trade balance "is kind of an open question."

When it comes to NAFTA, Carey said any revamping of that trade agreement could cause Mexico or Canada to raise tariffs on U.S. goods.

"Given how much South Carolina's economy is boosted by our export industries, which is a good thing in and of itself, if countries that we trade with impose a tariff on U.S. goods, that could hurt the South Carolina economy," Carey said.

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