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The New President may open up a New Era for the United States like Ronald Reagan did

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A Good Launching Pad for the Next President

Contrary to the pessimism with which many people view the US economy, it is extremely blessed in a number of ways. (1) Corporate earnings are at unprecedented levels, thanks to the information/Internet revolution; (2) innovation-based industrial competitiveness is at world-leading levels; (3) interest rates are low and the leeway to invest is high (=high levels of savings); (4) government debt has improved substantially; and (5) inflation is being suppressed. The next US president is in a position to freely make use of these favorable conditions to provide rich economic benefits to the people. We believed that whether the next U.S. president was Donald Trump or Hillary Clinton, the possibilities are good that he or she would be able to achieve an accelerated rate of economic growth, higher stock prices and dollar appreciation.

The idea that the rate of economic growth in the United States will not rise, the theory of long-term economic stagnation, growing income gaps, dissatisfaction among poor whites and the increasing difficulty of taking risks due to excessive financial regulation are not essential difficulties. Rather, they are matters that can be resolved by taking advantage of the favorable conditions outlined above. Also, President Obama's statements that the United States cannot be the world's policeman, his frank pullback from displays of hegemony, and challenges to the U.S.-led international order are being taken as evidence of the country's waning influence. America's military might is not decreasing; the issue is with its execution of power, and this can be fixed.

Now that Mr. Trump has been decided on as the next president, it is time to assume a new political and economic awakening. Mr. Trump's decisive victory led to major selloffs in Asian markets of dollars, Japanese shares and U.S. stock futures stemming from concerns about his protectionist stance. The fact that these were completely covered in New York time suggests the possibilities are good that his expected policies will be market-friendly.

Similar to the Reagan Presidency in Financial Policies, Deregulation, Buildup of Military Strength

There are reasons for uncertainty and concerns about the future government administration, such as Mr. Trump's offensive remarks, his contradictory and fragmented policies that are unlikely to be realized, his lack of political experience and inability to find advisors. But surely now that the election is over he will do away with the rhetoric he used to attract voters and move to formulate a consistent and realizable system of policies. What might these be?

Some see Mr. Trump's rise as evidence of the collapse of the traditional Republican Party, but in terms of the circumstances and policies that led to his election, we see some similarities between Mr. Trump and former president Reagan. Elected president in 1980, Reagan criticized the prevailing Washington-led mood of cooperation at the ending of the Cold War, naming the Soviet Union an "evil empire" and sharply ramping up national defense spending that led to an arms race (up to the point where the Soviet Union's regime lost the arms race and collapsed). Military expansion, along with major tax cuts and deregulation to bring the domestic economy back onto a sound footing caused the budget deficit to expand. The mix of policies that included monetary tightening to bring down inflation and led to dollar appreciation was dubbed Reaganomics. This pursuit of a neoliberal small government orientation with supply side reforms but mixed with a Keynesian demand policy was criticized as "voodoo economics" for its inconsistency with the economic theory of the time.

Even so, the policies led to substantial successes, both economically and geopolitically.

Strengthening US Hegemony

A sketch of Mr. Trump's policy platform indicates a startling number of similarities to Reagan's policies: (1) strengthen US hegemony, resurrect the country's prestige and build up military strength, (2) stimulate the economy through fiscal policy, (3) pursue thorough deregulation and a cutback in financial regulation, energy regulation and eliminate price controls such as pharmaceuticals. Differences include his protectionist leanings, such as opposing the TPP, and isolationist tendencies such as asking overseas allies to pay costs, which might be easily changed as part of a course correction.

(1) Improve the economy and employment ➞ Financial leverage, big government, tax cuts, infrastructure investment, defense spending. Critical of monetary easing, but opposed to legislation that reins in risk-taking on Wall Street (the Dodd–Frank Act).

(2) Reviving internal investment is the key to addressing the growing income gap and resolving employment difficulties among the poor. Three areas of domestic investment would bolster the United States' potential growth rate: (1) updating aging infrastructure and investing in new infrastructure; (2) halting the past few years' downward trend in energy investment; and (3) increasing housing investment by boosting the home ownership ratio. One Trump policy difference lies in creating employment for the poor rather than using policies to alleviate poverty and income redistribution. This could lead to higher interest rates and dollar appreciation. In addition, while being critical of monetary easing policies, he is also opposed to the Dodd–Frank Act, which looks like a rational policy. Reasons for financial market stagnation and sluggish investment include financial overregulation and stricter capital standards following the global financial crisis, which have prevented financial institutions and investors from taking risks. Abolishing these regulations should promote a sharp increase in risk taking and reinvigorate the market.

(3) Rebuild US hegemony ➞ Mr. Trump supports removing the ceiling on defense spending and strengthening the military. But he would scrutinize the costs and roles of such services as an international public good and ask allied countries to help pay for them. Rather than isolation, this approach is clearly meant to increase the US presence and strengthen its hegemony. Mr. Trump's message of "Make America Great Again" clearly speaks of reviving the United States, which is suffering from falling confidence and a waning presence, to the position of strongest superpower.

(4) These moves would mean he would be unable to keep his pledges on isolationism and protectionism. These assertions appear highly likely to be electioneering rhetoric.

A New Era of Dollar Appreciation, Higher Stock Prices and Rising Interest Rates Certain to Be a Boon for Japanese Stocks

Immediately after the Trump presidential inauguration, eyes will turn to the 2018 mid-term elections and next presidential elections in 2020, with a likely increase in domestic reflationary policies. Majorities in both houses will mean more flexibility in policy making. We expect the US economic growth rate to pick up in 2017. Encouraging US multinationals that have been holding profits overseas to repatriate their earnings is likely to serve as a source of tax cuts and infrastructure investment. The realization of infrastructure investment, along with a US economic rebound and a rate increase by the FRB (probably one in December and one in mid-2017), has the potential to push up US interest rates and prompt dollar appreciation. In Japan, as well, the total mobilization of fiscal and monetary policy through full-scale reflationary policy as the new round of Abenomics would improve balances in labor and real estate supply and demand. That would lead to higher wages, rent and real estate prices and a rise in commodity prices once yen depreciation and falling crude oil prices have run their course. A fall in real interest rates would serve as a major stimulus for Japanese investment in risk assets. Nikkei may move up to 20,000 to 30,000 in the coming years as the second round of Abenomics bull market.