

Åslund, Anders

**Article**

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Anders Åslund

# What to Expect from US Economic Policy after the Presidential Election

The US presidential election stands between Vice President Kamala Harris and former President Donald Trump. Trump's policies are well known, while Harris is not all that well defined. She pushed a comparatively left-wing agenda in 2019 when she was a presidential candidate, but as Vice President she has been extremely cautious and loyal to President Biden. With a brief election campaign, she might not have to clarify her positions, but it is clear that she no longer opposes fracking or insists on Medicare for all, moving toward the political center.

## THE US ECONOMY IS MORE DOMINANT THAN EVER

Since the global financial crisis erupted in 2008, the US economy has taken off on a higher trajectory than the EU economy. It has grown steadily by about 2 percent a year while the EU economy has grown by 1 percent a year. Strangely, this is hardly mentioned in the US public debate, which is all about China. This leaves the impression that Americans are suffering badly. President Biden's idea to launch the concept of "Bidenomics" as a great success was factually accurate, but it backfired politically. The main public concern has been high inflation that peaked at 9.1 percent in June 2022 but has now fallen below 3 percent.

For the last couple of years, the US economy has recorded the lowest unemployment since the 1960s, plummeting to 3.5 percent. At present, the unemployment rate has risen to 4.3 percent and is increasing, but that is tiny by historical and international standards.

In 2008, the US and EU GDP were of approximately the same size, USD 15 trillion versus USD 16 trillion, respectively, but in 2023 the US GDP had grown to USD 27 trillion, while the EU GDP was only USD 18 trillion, or USD 20.6 trillion if we add the United Kingdom. During these 15 years the US economy had expanded by 82 percent in current dollars but the EU GDP only by 26 percent, that is, the EU growth was only one-third of the US growth. Much of this was exchange rate changes, but the point is that Europeans prefer to invest in the US. Most shocking is the market values of the biggest companies in the world. Of the 20 most valuable companies in the world, 15 are American and only two European.

Given that the US economic situation is so different from the European, the US economic thinking is correspondingly different. The main US global

economic concern is China. Both the Democrats and the Republicans are primarily focused on high-tech, most of all semiconductors, and the preferred tool is prohibitions of exports of top technology to China. This drives the US in the direction of protectionism and industrial policy.

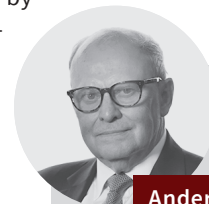
## JOINT PROTECTIONISM IN FOREIGN TRADE

From a European perspective, it is extraordinary how small US exports are. In 2022, US exports of both goods and services were only 12 percent of GDP. Therefore, Americans care much less about foreign trade than Europeans, and they are inclined to be much more protectionist.

US trade policy is driven by three concerns that are all protectionist. The first is the large and steady US trade and current account deficit, but it is largely financed by massive capital inflows, to which little attention is being paid. The second issue is the decline of manufacturing in the United States, which is similar to what has happened in other Western countries. US manufacturing produces more than ever, but it is so efficient that it requires few workers. The third

## KEY MESSAGES

- Both candidates, Kamala Harris and Donald Trump, favor protectionism, but Trump to an extreme degree
- The joint protectionism is mainly directed against Chinese technology
- Trump favors mass deportation of immigrants, while the Democrats want orderly immigration
- Nobody cares much about the unsustainable public finances, but the Republicans want to cut taxes, while the Democrats want to raise them for corporations and the wealthy
- The rhetorical differences over green energy are largely fictive



Anders Åslund

is a Senior Fellow at the Stockholm Free World Forum and teaches at Georgetown University. A specialist on the East European economies and author of 16 books, he has advised the Russian and Ukrainian governments.

issue is China. There is a general sense that China was admitted into the World Trade Organization too easily in 2001 and that it has stolen jobs from the US. Added concerns are Chinese state subsidies in high-tech, notably chips and the solar industry, and restrictions on or maltreatment of US investment in China. Both parties are focusing on the male white working class in the three swing states Michigan, Wisconsin, and Pennsylvania, who traditionally work in the car and steel industry.

Trump was the most protectionist president since the 1930s, and he is intent on doubling down on protectionism. His official proposal is to impose a 10 percent import tariff on all imports and 60 percent on Chinese imports. In his leisurely way, he has talked about increasing the tariff to 20 percent, and privately he has even discussed replacing federal taxation with import tariffs. In practice, that is impossible. Total US imports correspond to all US federal tax revenues, so this would imply an average import tariff of 100 percent, which would sharply reduce US imports.

Biden has traditionally been highly protectionist, focusing on the concerns of the Midwest working class. Many Europeans were disappointed that Biden did not eliminate the steel and aluminum tariffs that Trump introduced for purported national security reasons, but Biden avoids even talking about it. The three big Biden investment laws – the Chips Act, the Infrastructure Act, and the Inflation Reduction Act – all contain important requirements for “made in America.” This hits both Chinese solar exporters and European wind turbine producers. Nor has Biden done anything to reinforce the World Trade Organization and appoint judges to its appellate body, so it can no longer provide dispute settlements. Biden tends to say as little as possible about trade policy toward Europe, while offering no relief, and he competes with Trump when it comes to protectionism against China.

Given that China is the top global producer of electric vehicles and solar energy, the Biden protectionism against China appears to contradict his green energy ambitions. He has raised import tariffs on Chinese electrical vehicles from 25 percent to 100 percent in 2025 and he has boosted the tariff on semiconductors and solar cells from China from 25 percent to 50 percent in 2025. These tariffs are surprisingly uncontroversial. Trump argues that Biden is following his lead but does not go far enough, while Biden offers full support to the protectionist automotive and steel trade unions, unlike Trump.

Chips have become the new global competition, and there are only two competitors – the United States and China. Europe and other parts of the world do not even participate, with limited exceptions such as Dutch ASML and British ARM. The common US view, well captured in Chris Miller’s excellent book, *The Chip War*, is that China has stolen US intellectual property and must not be allowed to do so any longer. The US

is restricting the chips and chips technology that can be exported to China as well as the chips that can be imported to the United States. This is actually a consensus policy of the two parties.

Harris has distanced herself in substance from Biden on trade policy by attacking Trump’s protectionism. She has repeatedly called Trump’s increased import tariffs a “national sales tax,” correctly clarifying that such tariffs would mainly be paid by the poor and the middle class and that they would increase inflation. It remains to be seen if this traditional economic argument will catch on. While she supports the trade unions like Biden, she is not equally closely tied to them. The United States is likely to remain protectionist regardless of president.

### **SHARP DIFFERENCE OVER IMMIGRATION**

Immigration is a top issue and in substance it is quite confusing. The United States requires large-scale immigration for continued growth. The expansive high-tech industries suffer badly from labor shortages, calling for more immigration of qualified software engineers from India and China, but work visas are scarce and hard to come by. Vancouver, Canada, has become a major high-tech hub for US companies, populated with Indian citizens who have not received work permits in the United States.

Trump has declared that he wants to deport all illegal immigrants, who allegedly amount to 11 million. Considering that they account for a large share of the unqualified labor in farming, factories, construction, and household work, this would amount to a major disruption of the US economy. This policy is being driven by Trump’s long-time close aide Stephen Miller, who is likely to carry out major deportations of immigrants, if Trump wins the election, which would cause major damage to the US economy. Trump’s billionaire donors do not seem to pay much attention to this part of his policies, although the high-tech companies are highly dependent on highly qualified Indian and Chinese engineers.

The Democrats are happy to accept more immigration, but they dare not go far because of Trump’s vicious opposition. They want substantial, well-regulated legal immigration, while limiting illegal immigration, but offering a possibility for illegal immigrants to legalize their residence in the US.

### **IN THE LONG RUN, THE US FEDERAL FINANCES ARE UNSUSTAINABLE**

Economists and outside observers are worried about the US public finances. In 2023, the US budget deficit was almost 9 percent of GDP and the gross public debt amounted to no less than 122 percent of GDP. Americans tend to discuss net public debt, that is, deducting the social security trust funds, leaving the public debt at a still high 100 percent of GDP.

What is most surprising from a European perspective is that few seem concerned about the vast public debt and the large budget deficit, which seems likely to stay around 7 percent of GDP for the foreseeable future. Everything has gone so well for so long, so why would it not continue? One explanation is that at the end of June 2023, foreign investment in US securities amounted to no less than USD 27 trillion, according to the US Treasury, which corresponds to the US GDP. This explains why the exchange rate of the US dollars has stayed so high and the high market value of US companies: the whole world invests in the United States. But for how long will they continue doing so, if the US public debt continues to grow? As the late Rüdiger Dornbusch taught us, financial crises usually occur later than expected but then move faster than anybody had anticipated. The US's financial role in the global economy is very peculiar, making it difficult to know what will happen and when.

The difference between Trump's and Harris's fiscal policies are great. Trump's fiscal policy is pretty clear. As president, he legislated a major tax cut for corporations and the wealthy in 2017. He now wants to proceed, cutting the corporate profit tax from 21 percent to 20 percent and making the tax cut for the wealthy permanent. Otherwise, it would elapse in 2025. Trump has also promised to abolish taxes on tips, which are quite important in the US economy. Trump has not specified any expenditure cuts, and the US federal government does little but social benefits (social security, Medicare, and Medicaid), defense, and interest payments, neither of which Trump wants to or can reduce, while many Republican politicians call for trimming social benefits. In addition, Trump toys with the unrealistic idea of replacing all federal taxes with sky-high import tariffs. A new Trump presidency will lead to the conservation of the large budget deficits and ever greater public debt.

The Democrats opposed the Trump tax cuts of 2017 and they would be happy to let the tax cut for the very wealthy – for people earning more than USD 400,000 a year – lapse, while increasing the corporate profit tax from 21 percent to 28 percent. Harris has followed Trump's lead and also promised to abolish taxes on tips – which is particularly important in the swing state Nevada, with Las Vegas and a large hospitality industry. The Democratic tax proposals would strengthen the federal revenues substantially. On the other hand, Harris has proposed substantial new social expenditures, essentially child tax credits and subsidies for people buying their first home. As currently stated, these new expenditures would be less than the increased taxes, which means that the Democrats would be more fiscally responsible than the Republicans.

The presidents who increased the public debt the most in recent memory were Republican: Ronald Reagan, George W. Bush, and Donald Trump – but an important reason was their strong standing in Con-

gress. The best means of blocking federal spending is a Congress that opposes the president.

### **OVERTLY, GREAT DIFFERENCES OVER ENERGY POLICY, BUT THE REAL DIFFERENCES APPEAR SMALL**

The public positions on energy policy vary greatly between Republicans and Democrats, but the reality far less so. Green energy is highly contentious. Republican-led states, such as Texas and Florida, have adopted legislation against all kinds of green policies, but paradoxically Texas, the still dominant producer of fossil fuels, is the US leader in both solar and wind energy. It is far more difficult to receive permissions to build wind farms in the North-Eastern Democratic states.

Trump has taken a strong stand in favor of coal, which has given him big majorities in coal states, such as West Virginia and Kentucky, but coal is being out-competed by natural gas, which is much more environmentally friendly. In 2019, Harris opposed fracking, but Biden was not because then he would hardly have been able to win in Pennsylvania, the possibly most important swing state, and Harris has followed his lead.

Trump's energy slogan is "Drill, baby, drill!" but he has failed to notice that Biden has actually pursued that policy. At present, the US produces 13.4 million barrels of oil a day. No country in history has produced that much oil. Yet, Biden does not want to boast about it, because that would arouse the many environmentalists in the Democratic party. Therefore, he keeps quiet about it. It remains to be seen how Harris will handle energy policy. So far, she has been very cautious not to tread on this sensitive ground. Under Biden, the US has greatly expanded its exports of LNG and domestic gas prices are now lower than ever. In effect, Biden has preempted Trump's policy, which neither of them recognize. Biden has oddly restricted new US export projects for LNG. This restriction is likely to be eased with broad public support.

All the Biden investment laws – the Infrastructure Act, the Inflationary Reduction Act, and the Chips Act – contain plenty of "buy American" restrictions, which raise the price of green energy. The same is true of the high new tariffs on green energy from China, which both Trump and Biden have supported. Since Harris seems more interested in green energy than in protectionism, she might turn this around, but so far she has not spelt that out.

### **SHOULD ANYTHING BE DONE TO THE MAGNIFICENT SEVEN?**

The global economy is dominated by the "Magnificent Seven," the seven biggest US high-tech companies – Apple, Microsoft, Nvidia, Amazon, Meta, Alphabet, and Tesla. Each of the three first has a market capi-

talization that exceeds the value of the whole German stock exchange. US private investment in artificial intelligence is enormous – 50 times higher than in the European Union. The two most valuable European companies are typically research and development companies, but they are too few. The Danish pharmaceutical company Novo Nordisk is currently no. 13 and the Dutch chipmaker ASML no. 20.

The US multi-billionaire owners are becoming increasingly controversial both to Democrats and Republicans for many reasons. Traditionally, the billionaires on the coasts – Wall Street, Silicon Valley, and Hollywood – tended to lean towards the Democrats, while the billionaires in energy and manufacturing were usually Republicans. Now the thousand or so billionaires are swinging to the right. The most obvious reason is that they don't want to pay taxes, nor do their companies. A related reason is that they oppose regulation, which is true of most big companies. Specifically, the Democrats are critical of cryptocurrencies that Trump now embraces.

Yet, the economic and political dominance of the biggest companies is becoming oppressive in the US and many Republicans and Democrats oppose their dominance, which often extends to monopoly. Biden has driven antitrust surprisingly far, but this is really a bipartisan issue that is likely to become more important over time as the dominance of the biggest companies proceeds in all walks of life.

## POLICY CONCLUSION

From a European perspective, it is difficult to understand the limited American appreciation of the continued success of the US economy. This misperception of the US's economic strength has bred great protectionism in both the American parties, but Trump's protectionism is truly extreme. Presumably, Harris will be less protectionist than Biden has been. The US protectionism is mainly directed against Chinese technology, but Europe is a collateral victim rather than a partner. The two biggest differences between Trump and Harris are over immigration and taxation. Trump favors mass deportation of immigrants, while the Democrats want orderly immigration. On taxation, Trump supports the billionaires calling for minimal taxes on them and their corporation, while Harris wants higher taxes for corporations and the wealthy. The Democrats talk a lot about the need for green energy, which actually develops.