Introduction

As the world increasingly is warming up to the end Donald Trump’s reign as President of the United States, the future remains as unclear as ever. The COVID-19 Pandemic has led to what can only be described as a shock to the economic and political system; not only in the United States, but in the world as a whole. This is beyond a doubt a strange time for the United States and the greater economic fallout is very likely yet to come fully into perspective.

Several questions arise in relation to the election in the US. What did the Trump administration achieve economically from 2016-2020? What is the balance sheet of US epidemic policy? And what problems have arisen for the West as a whole since 2016 with the two “political shocks”, the Brexit majority in the British EU referendum and Trump as President in the USA? Finally, what were the reasons for the expansion of political populism? And this is beyond the widespread disappointment with the political elite in dealing with the US banking crisis of 2008 and 2009, which was also a transatlantic economic crisis. At that time there was often the impression that huge sums of money were made available from the state treasury to rescue large banks, while relatively few aid packages were offered to workers affected by the banking and economic crisis.

When Trump was surprisingly, from the point of view of most of the US media, elected 45th President of the USA in November 2016 and then took over the office from his predecessor Barack Obama in January 2017, he relied on five economic policy decisions:

• A tax reform, which in particular brought a reduction in corporate tax rates from 35 % to 21 %, but also incentives for US multinationals' profits parked abroad to be returned to the USA on favorable tax terms;

• an increased orientation of international US trade policy towards national goals; Trump promised in the 2016 election campaign that he would conclude new deals with more favorable terms in trade agreements, and that should then also reduce the deficit ratio of the US trade balance. The agreement on the USA-Canada-Mexico free trade area has been renegotiated and runs with slightly modified conditions, including a higher minimum value added quota in Mexico and Canada than before for free US market entry.

• A deregulation of the economy, especially in the energy and environmental sectors, as well as higher spending on infrastructure;

• an exit from the Paris UN climate agreement, which should protect the US economy from ecologically unnecessary burdens;

• a weakening of international organizations or multilateralism, such as the role of the World Trade Organization and the WHO (the latter with a need for reform).

Fiscal and National Debt Policy of the USA

Deregulation pressure and expansionary fiscal policy, combined with tax cuts, are part of US economic liberalism and have definitely been part of the policies of various US presidents, especially the Republican Party. Looking back to past actions points to the lessons of the US history of economic policy, according to which Republican presidents always begin with increasing military spending and tax reduction policies shortly after taking office and then have to cope with a high budget deficit ratio for some time. However, Trump did this more thoroughly than previous administrations and also recorded high deficit rates in the economic upturn in 2018-19 so that in the event of a recession, exceptionally high deficit ratios were to be expected, with the corona shock year 2020, all fears were clearly exceeded: the deficit ratio even exceeded the previously set 11 % from the banking crisis of 2008-09.

Unsurprisingly, there was also a considerable increase in the debt ratio, which, however, was actually still subdued in the IMF's forecast [1] because of the enormous purchase of US government bonds by the US central bank. For example, if the US Federal Reserve holds federal bonds amounting to 30 % of GDP, which is unusually high, at an interest rate of 3 % that means that the US state has an interest expense ratio (interest expense relative to GDP) of 1 % which he pays to himself: first to the Federal Reserve System, since the Fed has bought US Treasuries on a massive scale. The state interest payments to the Fed, however, go back to the state via increased central bank profits that are to be transferred to the US state. However, the interest rate on US government bonds fell in nominal and real terms over the long term, but rose again slightly in real terms under the Trump administration in 2018. The US Congressional Budget Office [2] had calculated even before the corona shock that a continuation of Trump's budget policy until 2050 would increase the US national debt ratio from almost 100 % (2019) to 180 %.

The rating for US government bonds, which was downgraded from AAA to AA by Standard & Poor's during the banking and economic crisis of 2008, would probably be in the B range by the end of the third decade of the 21st century, which would mean for the Economy and the US dollar would weaken significantly. The fact that the US dollar experienced a devaluation against the euro in the summer of 2020 is likely to be due to the perception of international investors that the USA under Trump, and especially in the corona shock year 2020, hardly shows any international leadership quality in economic policy, while at the same time the US national debt ratio is increasing enormously: faster than in the Eurozone. Accordingly, with the current US policy mix, a more pronounced quantitative easing of monetary policy in the USA (pressure from politics on the Fed in this direction), compared to the Eurozone, is to be expected in the medium term, which may explain the depreciation pressure on the US dollar in 2020.

If one compares the IMF forecast of 2019 and 2020 for the USA (Table 1 and Table 2), the IMF's forecast for 2020 shows significantly different figures for 2024 compared to the forecast for 2019 (Table 3).

For 2020, the unemployment rate in the 2020 forecast has almost tripled compared to the 2019 forecast; the expected debt stock relative to GDP for 2024 has increased by almost 25 percentage points, an increase of a good quarter compared to the forecast of 2019. In the current IMF forecast, the output gap will turn negative for several years from 2020 onwards. The corona economic shock is massive, as the IMF [1] also showed in the World Economic Outlook / Update in June 2020 for the global economy: Real incomes are expected to shrink by around 4.5 % worldwide in 2020.

Quantitative easing and national debt ratio

In 2009 and 2010 the USA, and subsequently Great Britain and the Eurozone, relied heavily on quantitative easing (QE) to overcome the transatlantic banking crisis; on a comprehensive expansionary open market policy (with an increase in the money supply via the purchase of government debt) in an environment with a central bank interest rate close to zero. Something similar is happening now, with the volume of government bonds in the central bank's portfolio being around 30 %, as can be seen from a comparison of the gross national debt ratio and the national debt of private investors relative to GDP. Government debt in the hands of private investors, relative to GDP, results from the gross government debt ratio after subtracting government bonds from the central bank's balance sheet; For 2019, Table 4 shows a government debt ratio of 109 % (2019) in the USA, While the government debt stock, relative to GDP, for private investors in Table 2 is only 99.6 %: In 2019, the central bank held 9.4 % government debt, with the forecast values for 2021 increasing the “central bank government debt ratio” to 24 , Show 5 %. That is a relatively high proportion of the national debt, which also brings the US state significant savings in interest. If the state actually saves 1 % in the interest expenditure ratio, the average tax rate can be one percentage point lower than usual. The forecast values for 2021 indicate an increase in the “central bank debt ratio” to 24.5 %. This is a relatively high proportion of the national debt, which also brings the US state significant savings in interest. If the state actually saves 1 % in the interest expenditure ratio, the average tax rate can be one percentage point lower than usual. The forecast values for 2021 indicate an increase in the “central bank debt ratio” to 24.5 %. That is a relatively high proportion of the national debt, which also brings the US state significant savings in interest. If the state actually saves 1 % in the interest expenditure ratio, the average tax rate can be one percentage point lower than usual.

It can be shown that quantitative easing leads to a nominal, and temporarily also real currency devaluation, as well as to a nominal and temporarily also real interest rate cut, so that this monetary policy stimulates the export balance and investment. However, in the context of quantitative easing, there should be little evidence of USD depreciation against the British pound and the euro in 2020, as the Bank of England and the ECB have also embarked on a QE monetary policy, i.e. the “European delay” in QE does not correspond to the transatlantic banking crisis.

According to the Fiscal Monitor, the US budget deficit ratio of 15.5 % expected by the IMF for 2020 is still significantly higher than that in the Eurozone, with the 2021 deficit ratio of almost 9 % in the US being relatively high, so that the US debt ratio is also expected to continue to rise in the medium term (see Table 4 and Table 5). Experience has shown that the deficit ratio cannot be reduced by more than 3 percentage points in one year, so that the US debt ratio should be around 34 percentage points higher in 2023 than in 2019, which tends to weaken the US dollar.

The long-term lowering of nominal interest rates since around 1995 has a positive effect on national debt in the USA, the Eurozone, the UK and Germany (see Figure 1). And because real interest rates have also fallen in the OECD countries, apart from the shock years 2009 and 2020, there was hardly any significant slowdown in growth in the USA and the EU in the period from 2005 to 2020.Without a second euro crisis, the economic upswing in the Eurozone is likely to be stronger than in the USA in 2021. The long-term lowering of nominal interest rates since around 1995 has a positive effect on national debt in the USA, the Eurozone, the UK and Germany (see Figure 1). And because real interest rates have also fallen in the OECD countries, apart from the shock years 2009 and 2020, there was hardly any significant slowdown in growth in the USA and the EU in the period from 2005 to 2020.Without a second euro crisis, the economic upturn in the Eurozone is likely to be stronger than in the USA in 2021. The long-term lowering of nominal interest rates since around 1995 has a positive effect on national debt in the USA, the Eurozone, the UK and Germany (see Figure 1). And because real interest rates have also fallen in the OECD countries, apart from the shock years 2009 and 2020, there was hardly any significant slowdown in growth in the USA and the EU in the period from 2005 to 2020.In the period from 2005 to 2020, apart from the shock years of 2009 and 2020, there was hardly any significant slowdown in growth in the USA and the EU. In the period from 2005 to 2020, apart from the shock years of 2009 and 2020, there was hardly any significant slowdown in growth in the USA and the EU.

Since the nominal interest rate results from the Fisher formula as the sum of the real interest rate plus the expected inflation rate, one can conclude an expected inflation rate of barely 1 % for the five years before the corona shock when considering the nominal and real interest rates in the USA (similar Considerations apply to Great Britain and the Eurozone), so that the actual inflation rates will hardly rise in the medium term. After the hard corona shock in the real economy in 2020, this applies even more to the USA, and the Eurozone.

For the USA, however, the massive increase in the US unemployment rate to more than 10 % in 2020 is a considerable shock, much more so than the rise in the unemployment rate in Great Britain or Italy and Spain in the corona shock year. This is because the health insurance of employees in the USA usually depends on the job. In the midst of a pandemic situation with increased health risks, the high unemployment figures mean that millions of unemployed in the US are without health insurance; The US Congress legislation has counteracted this in part with a view to COVID19 diseases and cost assumption commitments. It should be noted that the Trump administration only fought the corona epidemic weakly compared to many other European and East Asian countries. The corona crisis is weakening the economic position of many young people in the USA, for example in the 20 to 30 age group: for the first time since the 1930s with the global economic crisis, a majority of this group lived with their parents again in 2020 [3].

Structural populism pressures in the US

The new populism in the USA can be explained with different approaches, whereby a changed, digital, society and, in the course of the internet expansion, a politically relevant expansion of radical groups as well as a weakened basic US consensus can be observed. As for the turn of large parts of the US electorate towards populism in 2016, this development is apparently largely due to a combination of long-term, enormously rising inequality and political frustration among lower income groups: The share of the lower half of income earners in total income (market income) is in in the USA from 20 % (1981) to only 13 % (2015), much more than in Western Europe, for example [4].Trump's 2016 election campaign took off for the poorer electorate when he repeatedly spoke of the “forgotten men and women” in his speeches.

At the same time, survey data shows that the majority of the US citizens surveyed complain of increasing income inequality, although a relative majority does not see US politics as responsible for redistribution or social policy, but rather believes that that the big US companies should correct the growing income inequality. However, this idea is quite absurd and unrealistic, since in a shareholder economy it is not to be expected that the owners will cut board or manager salaries, as it were, out of considerations of justice, and that the lower wages of the unskilled will increase significantly. One possibility would be to increase the minimum wage. While there are also states that have raised the minimum wage, but it has been set at the federal level for many years to be in real decline. Trump's 2016 election victory relied largely on the lower half of income earners plus a relatively small group of very wealthy US citizens; the latter mainly expected tax cuts and deregulation.

Trump's tax policy has in no way resulted in an expansion of social or redistribution policy in favor of the poor; rather, Trump's tax reform policy has further increased the income shares of top earners in the USA; In addition, the proportion of US citizens without health insurance cover, even before Corona year 2020, rose from 11 % to 13 % compared to the Obama administration.

At the same time, for technological reasons and because of the global structural change that was triggered by the high Chinese exports of certain groups of goods, there is a tendency towards stagnation or lowering of the wages of the low-skilled [5]. In the USA, a relatively weak competition policy and, under the Trump administration, tax reform is also seen as drivers of growing inequality [6]. An IMF study [7] has shown that real economic globalization has led to lower per capita income differences between countries, but that financial market globalization has increased income differences between countries; These differences are reinforced by the expansion of information and communication technology (ICT).Globalization of the financial markets brought lower real interest rates worldwide and thus easier borrowing options for most individuals; those with relatively high incomes, usually skilled workers, and the wealthy, who can easily offer collateral for bank loans. The unskilled are therefore the losers of globalization, especially since the expansion of the ICT sector, due to technology, also brings with it an increased demand for qualified people. The real wages of the low-skilled, especially in the USA, have roughly stagnated since the 1980s, and there is also the fact that many US citizens have no or only very minimal health insurance and life expectancy in the USA is lower than in Western Europe.

The Corona Recession shock increases economic inequality

Economic Fallout resulting from the coronavirus pandemic has dealt a hefty blow to the U.S. Economy, one from which it will take years to recover from and even long to regain potential lost income (Figure 2). The massive corona recession in the USA brings impoverishment for the unemployed and bankrupt self-employed in many cases, but beyond the recession shock there are also other impulses for inequality. The trend towards increased inequality in the USA, and some other OECD countries, is exacerbated by the corona shocks, as the expansion of the ICT sector, which mainly employs skilled workers, has increased due to the epidemic threat. In the corona shock year 2020, many companies in many countries have are increasingly relying on home office value creation as a strategy to reduce infection risks and to continue production; a digital expansion trend that will probably continue after 2020. In economic terms, this also means for 2020 that the digital capital stock has increased significantly at marginal costs close to zero (e.g. software usage).

This quasi-exogenous digital supply shock means in an open economy according to the Rybczynski theorem that digital-intensive production increases while the other production areas decrease in absolute terms. Since digitally increased value creation goes hand in hand with an increased product innovation rate and more price differentiation, with actual average price increases, one can also use the Stolper-Samuelson theorem, which states: If there is an exogenous price increase for a product in an open economy, then the Rise in the wages of the production factor that is used relatively intensively in its production. So that again boils down to an increase in the wage premium for qualified employees and means for the USA as well as for Western Europe and Japan, that economic inequality is increasing due to Corona [8].

This can be countered in principle by increasing further training activities for unskilled workers, but in the 15 years after 2002, according to the OECD, the state only spent about 0.04 % (Great Britain 0.01 %) of GDP on further training; in Switzerland it was, with full employment, by 0.2 %, in Germany by 0.25 % and in the EU frontrunner Denmark even 0.6 %. A study from the Netherlands showed that the social return on further training for the qualified and the unskilled is roughly the same, although the motivation for further training is relatively low for the unskilled. There are serious challenges here.

Conclusion

Even though Donald Trump did not win the presidential election, the US has remained a more polarized society than ever since 2016, economically and politically. This polarization weakens the US ability to lead internationally in the medium and long term. The EU, however, weakened by Brexit, is required to provide more political leadership and to defend the role of international organizations and multilateralism more strongly than before, provided the global economic order is to remain stable in the 21st century. Almost all OECD countries should be interested in a continuation of the rule-based world economic order. With the Brexit decision, which is peculiar from an economic point of view and which can be seen as a form of British (or English) populism, in addition to the USA under Trump, the old global leading power, Great Britain, has left the Western consensus on international economic issues that emerged after 1945.

The fact that, of all things, the free-trade Great Britain, made strikingly visible by the government under the slogan “Global Britain” under the premiers May and Johnson, after the EU referendum in 2016 increasingly sided with the openly protectionist US President Trump is also a contradiction in terms British politics. Trump has come up with an aggressive trade policy not only towards China, but also towards the OECD partner countries and, by withdrawing from the UN climate protection agreement in Paris, sent a negative signal of cooperation on climate protection.

Due to the corona shock, the West is likely to have lost its economic influence on China and Asia, since the restart of the economy in China and the ASEAN countries, despite the ongoing trade conflicts with the USA in 2020, is apparently more successful than in the USA, EU and Great Britain. For the longer-term economic upturn in the West, in addition to the increased digital expansion, the sharp drop in real interest rates is a key impetus for the investment rate, but also for the innovation dynamic.

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