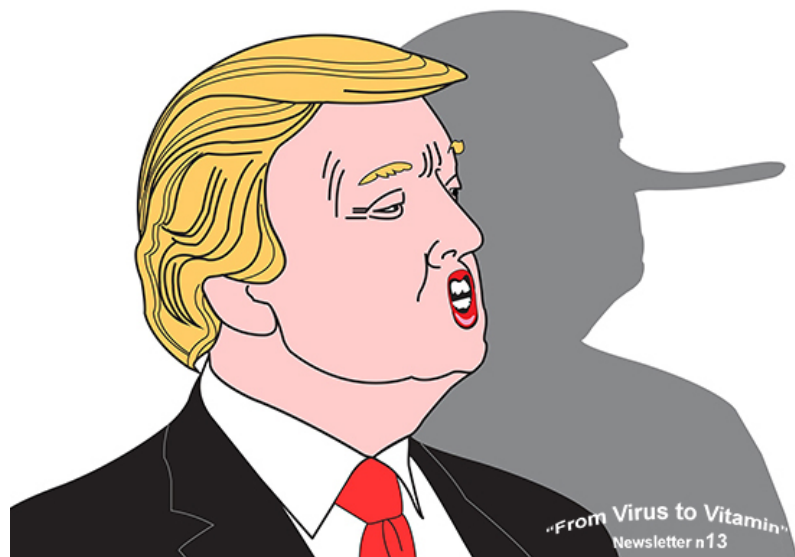


“From Virus to Vitamin” Newsletter

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**Trump’s economic heritage:
false promises setting the stage
for populist disruption**



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QUESTION UNDER DISCUSSION

"What are the economic lessons that we (or the world) has to retain from the Trump era?"

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EDITORIAL

Trump's economic heritage: false promises setting the stage for populist disruption

From trade wars to tax cuts, from low unemployment to booming stock market, ex-President Donald Trump took the American economy on a wild ride, often ignoring the lessons learned by economists during the last 50 years. While his disruptive economic strategy allowed him to reap short-term benefits and appealed to his populist base, it turns out to be politically unsustainable in the longer term.

One of the main policies of the Trump administration is a large tax cut aimed at corporations and higher income households, which was supposed to spur a new wave of investment. This policy, however, has not worked since “the tax cut led to a small temporary boost of growth but primarily resulted in companies buying back their shares. This is not surprising: corporate profits have been high in recent years, and higher income households can anyhow easily access credit. Fiscal policy works best if it provides resources to agents that are credit constrained, such as municipalities or lower income households, who will spend it.” Thus, although Trump campaigned on being the champion of the working man in 2016, his economic policies have led to increase inequalities.

Trade policy is another important area where Trump tried to fulfil his “America First” agenda by launching trade wars with allies and adversaries alike, engaging in tit-for-tat tariffs, reintroducing import quotas, and constraining the World Trade Organization's dispute-settlement body. The trade war with China has involved “more than 20 announcements during 2017- 2020 of

restrictions and truces by both parties.” Ultimately, the war was lost by the US according to many economists. In addition, “the tariffs have not reduced the trade deficit and their primary effect has been to increase the cost of imported goods, a pattern in line with the lessons from economic research.”

Two lessons may be drawn from this economic experience. First, “no nation is an island in our interdependent world. If “America first” is understood as “America alone”, the world economy is at risk of looking like a jungle after a thunderstorm.” Second, “even if the preferential tax cuts, the trickle-down illusion, the aggressive economic policy and the attack on the welfare provisions generates an enthusiastic climate of self-believed development (as it seemed at first for the privileged US citizens) it will eventually hurt the social cohesion. Polarization, violence, racism, riots are the results of thinking that puts aside the common good while “doing business”.”

[Virgile Perret](#) & [Paul H. Dembinski](#)

“... vulnerabilities of large economic areas like EU to US sanctions ...”

Twenty-three per cent of global exports at the end of Trump era are still invoiced in US dollars, not counting commodity markets mostly priced in US currency despite US having become in the 4 years of Trump net exporter of hydrocarbons. **In addition the Trump years highlighted vulnerabilities of large economic areas like EU to US sanctions policy. As a consequence new takeover policies and new systems for screening foreign direct investment, both meant to restrict exposure to US sanctions and diminish role of dollar, are about to be implemented.** An increased resilience of the international monetary system, also based on increased weight of non US investment banks to better focus in times of crisis on domestic markets other than United States, is possible to be observed in the post Trump era.



[Eutimio Tiliacos](#)

“... the triumph of American sovereignty ...”

These four years saw the triumph of American sovereignty based on the exorbitant weight of the dollar and the military power. The economic decline of the United States was accentuated in the face of Japan's aging population, European resistance, Russia's geostrategic recovery and China's meteoric rise. **The lesson: transforming multilateral organizations (including the IMF) by strengthening the role of SDRs while rebalancing power within the organization.** A politically stronger Europe could contribute to the global balance by transferring to the European Union the veto power held by France in the Security Council (UN).



[Étienne Perrot](#)

“...the need to place sustainability and social justice at centre of public policy ...”

The pandemic has underscored the need to place sustainability and social justice at centre of public policy. The covid-19 recession has put many developing countries and emerging markets in a precarious financial position. Recovery depends on protecting public health, on sustaining human capital, helping individuals to retain employment or acquire skills needed for new jobs. People who are economically vulnerable before a crisis are often most negatively affected by crises and face the toughest recovery. **The pressure on policy makers to focus on the short term is immense. However, “next normal” is going to play over.** Government leaders at state and local level, can consider futuristic interventions.



[Archana Sinha](#)

“... large tax cuts and the imposition of tariffs have not worked ...”

The two main economic policies undertaken by the Trump administration are a large tax cut aimed at corporations and higher income households, and the imposition of tariffs on selected imports. These policies have not worked. The tax cut led to a small temporary boost of growth but primarily resulted in companies buying back their shares. This is not surprising: corporate profits have been high in recent years, and higher income households can easily access credit. Fiscal policy works best if it provides resources to agents that are credit constrained, such as municipalities or lower income households, who will spend it. The tariffs have not reduced the trade deficit and their primary effect has been to increase the cost of imported goods, a pattern in line with the lessons from economic research.

[Cédric Tille](#)



“... US pre-Covid figures showed an enviable situation ...”

From a macroeconomic point of view – probably due to luck at least as much as to Government action – the US pre-Covid figures showed an enviable situation regarding employment and growth: a “hot” economy with high deficits didn’t cause runaway inflation. From Neil Irwin (NYT Jan 18, 2021): “One of the big plot twists of this era is that Mr. Biden’s plan to make the American economy great again seems to rest on applying the macroeconomic lessons of the Trump era”. Regarding pending structural reform, the end of the Trump era will be remembered as the time when US lawmakers for the first time took aim at big tech with major antitrust lawsuits! Presidential politics not always command economic events...

[Domingo Sugranyes](#)



“... no nation is an island in our interdependent world ...”

We could draw two negative perspectives and a positive path for the future: A. **No nation is an island in our interdependent world. If “America first” is understood as “America alone”, the world economy will look like a jungle after a thunderstorm.**

The lack of leadership was obvious when the pandemic effects were growing. We still have no probable alternatives to face the new economic crisis. B. **Even if the preferential tax cuts, the trickle-down illusion, the aggressive economic policy and the attack on the welfare provisions generates an enthusiastic climate of self-believed development (as it seemed at first for the privileged US citizens) it will eventually hurt the social cohesion.** Polarization, violence, racism, riots are the results of thinking that puts aside the common good while “doing business”. The positive path is to recognize through bitter experience that “We cannot solve our problems with the same level of thinking that created them” (Al. Einstein).

[Christos Tsironis](#)



“... an increase in terms of re-nationalization ...”

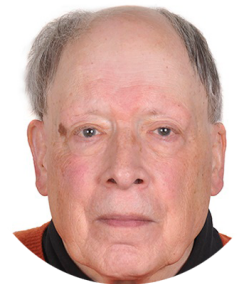
With the global financial crisis of 2007-2008 and then with the COVID-19, the world experienced a phase of globalization reduction. As highlighted by Andreas Nölke, **there has been an increase in terms of ‘re-nationalization’, for a variety of reasons, including rising costs of delocalization, increased competition within host countries and domestic political dynamics.** In particular, Trump docet, populist parties are playing a key role in this process: domestic calculus is a factor in the growing process of re-nationalizations of multinational corporations, as de-localization impact the socio-economic structure of societies. **However, if the re-nationalization of multinational corporations is often a “card” played by populist parties to produce mobilization, the results in terms of contrasting the socio-economic effects of globalization are mixed.**



[Valerio Bruno](#)

“... the legitimization of policy making based on gut reactions ...”

Of the many unfavourable lessons I shall single out just two. **Firstly the legitimization of policy making based on gut reactions rather than on proper consideration of consequences.** Here Trump himself endorsed the powerful movement in the US to delegitimize incorporation of scientific ideas and data in political discourse and policy design. The policies towards climate change and environmental issues more generally now require reversal if they are not to cause long-term damage. **Secondly the difficulty or futility of targeting goals regarding a country’s external trade position through measures limited to tariffs and other restrictions on mostly bilateral international trade.** This is evident in the trade war with China started by the Trump administration. This war has involved more than 20 announcements during 2017- 2020 of restrictions and truces by both parties – more by the US than by China.



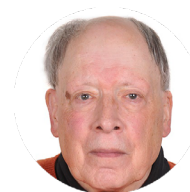
[Andrew Cornford](#)

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Paul H. Dembinski is the initiator and Director of the Foundation of the Observatoire de la Finance. In parallel, he is partner and co-founder of Eco'Diagnostic, an independent economic research institute working for both government and private clients in Switzerland and elsewhere. Paul H. Dembinski is also Professor at the University of Fribourg.



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Eutimio Tiliacos is Secretary General of the Vatican based Centesimus Annus pro Pontifice Foundation. Has previously been in executive positions in several companies operating in the fields of energy, electronics, mechanical industry, transportation, financial services Since 2009 has also acted as external expert for the European Commission in the satellite Galileo project.



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“FROM VIRUS TO VITAMIN” – JOIN THE DISCUSSION

The Observatoire de la Finance intends to seize this period of pandemic to step back and take a fresh look at our global economic system, dare to ask new questions which the current crisis brings to the fore and propose innovative ways to rebuild a more resilient and sustainable economy and society. In brief, we want to turn the virus into a vitamin for the future.

Our Discussion Board “From Virus to Vitamin” focuses on commenting issues relevant to finance and economy in relations to society, ethics and the environment from a variety of perspectives, of practical experiences and of academic disciplines. It has been designed to share and discuss information and opinions expressed in a short and concise manner.

Contributors ([Discover the list of contributors](#)) are invited to react on a question/issue that is submitted in parallel to a limited group of experts. This happens on a regular basis, through a dedicated mailing list. After the deadline for submission, the reactions are edited and published with signatures in one document on the website of the Observatoire de la finance and on its LinkedIn page. If you would like to join the discussion, you may send an email to the editor, Dr. Virgile Perret <perret@obsfin.ch>.

OF Discussion Board – Questions addressed so far

- Question 13 : [Trump's economic heritage: false promises setting the stage for populist disruption](#)
- Question 12 : [Will America drive the world again? A wish list for Biden's economic agenda](#)
- Question 11 : [Rush for Covid-19 vaccine: bottle-necks require public-private worldwide](#)
- Question 10 : [Does robotisation trigger redistribution?](#)
- Question 9 : [Scaling up industrial policy at regional level](#)
- Question 8 : [Stock markets and the real economy: dangerously skewed allocation](#)
- Question 7 : [Realigning international trade according to the full cost principle](#)
- Question 6 : [Indulgent creditors and industrial policy](#)
- Question 5 : [Caring for care](#)
- Question 4 : [The changing nature of GAFAs: global market players, national champions or public service providers?](#)
- Question 3 : [Squaring the circle between international good intentions and national \(weak\) institutions](#)