

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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Trumpism and the Future of the Economy

The Presidency of Donald Trump will shortly end much the way it began, as a grotesque anomaly from start to finish.

Historians are already in full debate mode whether in the pantheon of American presidents, the 45th will be among the most vilified. I can't imagine that discussion lasting past afternoon tea.

The question that looms large now is the survivability of *Trumpism* itself; will it linger on in our body politic like a stubborn boil?

Even before Trump entered the White House, he vividly displayed his dark vision of the US. Without the guardrails of a script, he gave in to his instincts and managed to stoke deep division and intolerance in this country, and did so with joy. Inexplicably his crowds often roared in approval.

But let me first make a distinction here. It's no secret that this nation has always been divided, from the Constitutional Convention in 1787 all the way through the 21st century. And that is to be expected in a vibrant, multi-cultural, multi-ethnic democracy. All too often people complain about how elected officials constantly practice the "politics of division" in this country. What is generally missed is the tautology in that complaint. Politics is inherently about division. If there were no divisions, no disagreements, there would be no politics. Indeed, just one country enjoys no politics, no domestic disagreement, no internal division and that is North Korea.

Trump, though, took his divisive rhetoric one dangerous step further. Using bullpen of the Presidency, he lobbed his unfiltered and destructive babble into the public square much like rioter gleefully tosses a Molotov cocktail. He went full throttle to demonize different groups of people and their ideas because, in his mind, they were antithetical to what made America great. Instead of celebrating the virtues of

diversity in this country, he incited a paranoid conspiracy that the diversity of people, their assorted “radical” beliefs and even science itself threatens to undermine America.

Frankly, I thought few people genuinely shared that ugly vision. But then came the November election and it was startling to see how Trump’s dystopia, his fetish for nationalism and yearning for American purity (whatever that means...) appealed to nearly half the population. More shocking was witnessing how many Republicans in Congress latched on to Trump’s *weltanschauung*. Even those few who didn’t entirely embrace it were nevertheless pusillanimous in their criticism.

So here we are. Trump is destined to be out of the White House by January 20th. The remaining question is whether there is an afterlife to Trumpism, which I view as a cult that is willing to utilize all means, legal and otherwise, to resurrect an America that, in fact, never was.

I ask this from the perspective of an economist. Never in modern US history have businesses and households faced so many immense challenges at one time. This morning the government reported that consumer spending, the very bedrock of the economy, was fading fast again as the number of new coronavirus cases reached another record high. Retail sales rose just 0.3% in October, its slowest pace in six months and far below what analysts expected. If Trumpism takes on a life of its own in the months and years ahead, it will only impair our efforts to vanquish this pathogen, delay the economic recovery, cause more structural unemployment and further scar the business landscape.

If there is any chance for the US to quash this pandemic and improve the lives of Americans, then we have to prevent the embers of Trumpism from flaming up again. But that will require a change in the mindset of voters, which hopefully will come once we get past the pandemic and reboot the economy and employment.

So what’s next?

The Federal Reserve with its zero bound interest rate policy and more relaxed view of inflation targeting provides the right backdrop. The emergency lending facilities that are set to expire at the end of this year, must be extended. Richard Clarida, the Fed’s vice-chair, has hinted of ramping up the central bank’s bond-buying program, which would bring them quietly closer to yield curve control.

But other than those measures, the Fed has effectively pushed all their major buttons. I suppose they could go the full Monty and start buying individual equities. But that would risk causing an asset bubble and only make matters worse. Frankly, the central bank has done about all it could. They never had the tools to deal with an exogenous shock like a pandemic.

To finally end the threat to public health and jump start the economy, we need to focus on executing two broad policies: (1) Produce one or more effective vaccines and then efficiently distribute them across the country; (2) Pass a fiscal stimulus that goes well beyond the anemic plan put forth by in Senate’s \$650 billion proposal. Yes, we can all be concerned about how that will add to the ballooning budget deficit and deepen the national debt. And there may well be a day of reckoning for all that borrowing in the long run. But there is no long run if we can’t successfully get past the short run. Simply put, this is an emergency. Spending too little at this moment will do more harm to the economy than spending too much.

By the way, if you want to make the stimulus package even more potent, we need to jettison another vestige of Trump's policies. The President has always eschewed multilateralism and sought to disengage the country from the international community. A Biden Administration should do a 180-degree turn and work closely with other countries so they can simultaneously unleash a major global fiscal response. That would result in a bigger stimulus bang for the world economy and improve its chance of success. I suspect foreign leaders would be willing to work with a new American president, especially one known for his internationalism, and support a coordinated fiscal front to combat this economic slump.

There is another major tenet of Trumpism the faithful hold dear that needs to be scrapped. They favor turning our economy fully inward so that domestic demand for goods can be satisfied by companies with plants operating exclusively in the US. Bring the supply chain back home is the howl often heard by Administration officials. Some of these same individuals have actually pushed for the US to achieve autarky, a policy that descends to slapstick economics. Aside from goods legitimately tied to national security, total economic self-sufficiency is crazily inefficient.

There are two more remnants of Trumpism that must be dealt with. The current Administration has favored decoupling our economy from China, which is also nonsensical. How long would the US remain an economic super power if it were left out of the largest consumer market in the world?

Lastly, one of the first policy decision Trump made as President on trade and geopolitics has now --- some four years later --- boomeranged back with an ironic twist. Before Trump took office, President Obama sought to counter China's push to expand its economic and political influence in the Asia-Pacific region. The former president placed a high priority to establish a trade agreement with 11 countries that border the Pacific Ocean. The Trans Pacific Partner (TPP), which excluded China, had a combined population of 800 million and was intended to foster more trade and deepen political ties. China would not be allowed to join --- unless it agreed to stop its illegal activity, such as IP theft and the dumping of goods into foreign markets.

However, once Trump entered the Oval Office he wasted little time and pulled the US out of the TPP, claiming (again) Obama made a "terrible deal."

And now the epilogue to that story: As Trump starts to pack up, a different trade deal just emerged in that part of the world. Known as the Regional Comprehensive Economic Partnership, it was signed this past weekend and brought together 15 countries from Asia and the Pacific rim area with 2.2 billion consumers. But this time the trade pact included China --- and left the US out in the cold! It's another botched policy that is left for Biden to repair. Yet one more reminder why both Trump and Trumpism should be remain a mere aberration in history.

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United States

	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022
Real Gross Domestic Product (GDP):																
%	2.9	1.5	2.6	2.4	-5.0	-31.4	33.1	2.2	2.6	3.8	4.0	3.3	3.5	5.2	4.9	3.7
Personal Consumption Expenditures:																
PCE %	1.8	3.7	2.7	1.6	-6.9	-33.2	40.7	3.0	2.3	3.3	4.8	3.3	2.4	5.1	4.8	3.7
Inflation, end of period, year-over-year:																
CPI %	1.9	1.6	1.7	2.3	1.5	0.6	1.4	2.1	1.6	1.4	1.8	2.0	2.1	2.5	2.3	2.2
Unemployment Rate (end of period):																
%	3.8	3.7	3.5	3.5	4.4	11.1	7.9	8.3	8.0	7.4	7.3	7.3	7.0	7.0	6.8	6.6
Non-farm Payrolls, monthly avg. thousand:																
	174	152	188	210	-303	-4,427	1,304	690	785	710	375	320	300	320	375	360
Treasury 10-yr Note Yield % (end of period):																
	2.42	2.00	1.65	1.88	0.63	0.65	0.68	1.05	0.90	0.85	1.10	1.20	1.25	1.40	1.85	2.05
Federal funds rate % (end of period):																
	2.38	2.38	1.88	1.63	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
US	2.6	1.6	2.2	1.8	2.5	3.1	1.7	2.3	3.0	2.2	-2.8	3.4	3.9
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-8.8	3.5	2.5
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-10.3	4.6	3.9
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	2.2	0.3	0.7	-5.2	2.4	3.2
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.8	5.4	3.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-8.8	9.9	6.4
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.1	7.4	6.2
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-6.0	2.9	2.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-9.6	3.3	2.8
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-3.9	3.5	3.8
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-4.9	2.9	3.3
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.9	-3.8	4.7	4.2