

US elections in a new phase

This eventful election year, with over half of the world's population being called to the polls, will soon culminate with the US presidential elections on 5 November, which will also see one third of the Senate and the entire House of Representatives being up for re-election. The various possible combinations of results which will emerge from the nation's checks and balances between the legislative and executive branches of the world's leading economic power are particularly significant on this occasion. This is the case both due to the economic and geopolitical challenges that lie ahead and because of the antagonistic nature of the candidates' profiles and programmes, as this increases the uncertainty surrounding what path economic and foreign policy will take over the next four years. Moreover, the contest is likely to be decided in just a handful of swing-state counties, with the consequent risk of challenges, vote recounts and delays in the final result that this entails.

The starting point is an American economy which, having overcome the post-COVID inflationary phase and the period dominated by the decisive monetary policy response that followed, is losing steam now that the pent-up savings from the pandemic have evaporated and the effects of the monetary tightening are beginning to be felt in the labour market. In particular, there are still significant macroeconomic imbalances, both on the monetary side (inflation) despite the progress of the last 12 months and, above all, on the fiscal side, with a structural budget deficit of around 6% of GDP and public debt set to exceed 130% of GDP by the end of the decade. This is a reflection of the public spending and investment programmes approved since the pandemic, as well as the ongoing poor performance of tax revenues for a developed country (30% of GDP). The need for a medium-term budget consolidation programme clashes with both candidates' intentions, given that neither of them appear willing to break the current fiscal inertia, preferring instead to focus on either social spending and the energy and infrastructure transition (Kamala Harris) or tax cuts (Donald Trump). Therefore, the first conclusion we can draw is that fiscal policy will continue to show a clearly expansionary tone, regardless of who wins. This will increase the Treasury's already high funding needs, which in turn could drive up global interest rates and hinder the monetary policy normalisation process.

On the supply side, the differences are more substantial. The tightening of immigration controls in the event of a Republican victory could lead to a halt of the sharp rise in the labour force which we have seen in the last two years (+2.4% or 4 million people), 40% of which corresponds to foreign workers, and which has helped to narrow the huge gap between the supply and demand for labour seen in March 2022 (when there were two vacancies for every job seeker). In the sphere of trade, meanwhile, Trump will increase trade barriers regardless of whether the affected countries are allies (10% universal tariff) or not (60% minimum for products manufactured in China), and there are doubts over whether this could impact the USMCA, especially in the case of cars produced in Mexico with Chinese capital. In the case of Harris, the supply policies will entail a continuation of those seen in recent years: no noticeable changes in tariffs, a commitment to clean energy, bolstering competition policies and seeking a controlled de-risking process. All of this is normal during a campaign, but if we put all the promises on the table, the movement of the supply and demand curves would lead us to an equilibrium point with higher inflation, but not much more growth. The reality will no doubt be different and bond vigilantes can also do their job, but at the very least we should expect more instability in the financial markets in the short term. A risk scenario with a Republican sweep (Trump victory and Republican control of both houses) could lead us down a path towards a more closed economy with greater imbalances and lower potential growth, awaiting the productivity effects of AI.

In the geopolitical sphere, the multiple ongoing wars, structural changes in the globalisation process, the widespread search for strategic autonomy and even defence policy itself could be affected by the outcome of the election. Considering that in relations with China there will be no significant differences between the candidates (and probably not many in the country's stance on the Middle East conflict either), it is in the relationship with Europe, both in the management of the conflict between Russia and Ukraine and in the future role that the US will play in NATO, where the outcome of the elections will not be indifferent. In short, as Adam Tooze recently reminded us, at a time when the old US economic policy is dying, the next four years will determine the shape of the new one, which makes the outcome of this election all the more important.

José Ramón Díez
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