Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Trump's victory may be a blessing for a global economy

Trump's landslide victory in the United States elections may have significant repercussions on the world economy. You may have read many scary omens, but Trump's victory may be a blessing for a global economy hooked on public debt, high taxes, and government spending.

For the United States, Trump's victory is essential.

The Biden-Harris administration has baked in a recession. Public spending has bloated the latest GDP and employment figures.

In the past nine quarters, government spending has been one of the main driving forces of GDP growth, and public sector jobs have dominated each month's job figures. Between 2021 and October 2024, there were 1.8 million public sector jobs, despite a slowdown in public sector investment, low consumer confidence compared to 2019 and 2021, and lower employment-to-population and labor participation rates compared to 2019.

The Biden Administration has increased the federal deficit by $11.6 trillion over the last three years and six months, leaving a structural deficit of $2 trillion in a period of record tax receipts.

This is evident because the increase in debt in the 2021-2024 period exceeds the real GDP increase by more than $1 trillion.

When a government increases taxes, spending, and debt during a period of economic growth, it essentially triggers a recession as the debt's placebo effect disappears.

Trump will have to deal with the risk of a recession by spurring growth through tax cuts and deregulation and containing the public sector hemorrhage.

Tariffs - the most polemic part of Trump's plan

For the world, the most polemic part of Trump's plan is tariffs.

The media always identifies Trump with protectionism, but we tend to forget that Obama implemented the greatest number of protectionist measures, and that Biden and Harris maintained and increased all of Trump's tariffs.

According to Global Trade Alert, the United States implemented over 600 protectionist measures between 2008 and 2016, more than any other G20 country.

Interestingly, Karl-Friederich Israel at GIS predicts a strengthening of trade between the United States and the EU even if tariffs are announced.

> The best way to avoid tariffs is to negotiate, and Trump is a negotiator

We know, from the 2016-2024 period, that tariffs had a minimal impact on exporting companies. The export activity of the European Union and China to the U.S. rose, even though Biden's protectionist measures consolidated those imposed by Obama and Trump.

Biden and Harris doubled the monthly trade deficit from an average of $40 billion to more than $80 billion.

The best way to avoid tariffs is to negotiate, and Trump is a negotiator. Portugal, Greece, and Italy negotiated and had many of their tariffs removed.

We know from the period 2016–2021 and from history that tariffs do not cause inflation. Tariffs may increase the unit price of a product with highly inelastic demand and full external production, but these products are rare and do not significantly increase aggregate prices.

Many companies internalize tariffs in a competitive market. The empirical evidence is that inflation, which is the reduction in the purchasing power of the currency reflected in the rise of aggregate prices, only comes from increasing public spending by printing money and increasing the velocity of money.

Moreover, tariffs imply more purchases of dollars from abroad, which may strengthen the purchasing power of the US currency and reduce inflation.

A response to the EU and China

Tariffs are not a policy I champion, as I defend full free trade. However, tariffs as a tool to negotiate more attractive trade agreements may work, as we saw with the first Trump administration.

The administration must monitor the balance of negatives and positives. Furthermore, we must remember that these tariffs announced by Trump are a response to the EU and China's constant application of trade barriers and protectionist measures, which they justify through legal limitations, straight prohibition, excessive regulation, and the environmental excuse.

The European Commission's proposal to control investments in the EU is a clear example of economic protectionism. The same applies to the burdensome regulatory and purported environmental requirements.

> The European Union may suffer an impact of 180 billion euros due to the U.S. increased tariffs

We have read in the media that the European Union may suffer an impact of 180 billion euros due to the U.S. increased tariffs.

It seems like an exaggeration, considering past evidence, but if we look at it from the American perspective, the United States Trade Office estimates that it loses $200 billion annually in export opportunities due to the EU's protectionist restrictions and over $600 billion annually due to legal insecurity, intellectual property disputes, and investment limitations in China.

For China, tariffs are a more challenging proposition. The limitations imposed on U.S. technology giants and investors will make eliminating these tariffs difficult.

An opportunity for global companies

Could Trump tariffs be an opportunity for global companies? We have the evidence of how many European companies have grown and multiplied their profits by investing in the U.S. since the first Trump administration. If companies invest in the United States and create jobs, tariffs do not apply.

European companies and business associations should force the EU to negotiate and eliminate its barriers to American automobiles, livestock, and agriculture.

The United States will also adopt an environmental policy that encourages investment, lower taxes, and deregulation. This is crucial to halt the current deceit, which transforms the environmental justification into a tool to increase taxes without any effect on emissions other than destroying economic growth, as the EU has shown.

Global companies have a significant opportunity as the United States prepares to invest and facilitate the exploration and mining of oil, gas, rare earths, and minerals like never before.

> For years, other countries have used the U.S.'s fiscal and monetary irresponsibility as excuses to follow the same path

It will create the greatest opportunity in history for all technologies and subsectors: renewables, infrastructure, and technology, eliminating excessive regulations, taxes, and bureaucracy.

The tax and budget cuts that Trump is going to implement are another opportunity. The biggest threat to companies and the global economy was the presence of a government engaged in fiscal plunder in the United States.

The world appeared doomed when the EU launched confiscatory tax proposals only to read that Janet Yellen and the Biden-Harris administration approved them.

Now, an administration that lowers taxes will provide a brake on the EU's expropriatory whims. Furthermore, a significant budget cut will be crucial to maintaining the US dollar as a world reserve currency.

For years, other countries have used the U.S.'s fiscal and monetary irresponsibility as excuses to follow the same path. The U.S. may be an example again, as it was in the 1980s, and the world will benefit.

Bringing back fiscal and monetary sanity

What is the biggest benefit for the rest of the world?

If the United States abandons upside-down economics focused on increasing government spending, taxes, and unproductive public debt and decides to put the private sector at the front, driving productive private investment and innovation as the pillars of economic policy, the world will follow, and everyone will benefit.

Bringing back fiscal and monetary sanity and giving taxpayers more of their own money means lower inflation, more productivity, better investments, and stronger global growth.

If Trump brings the U.S. dollar back to its glory, dismantling any BRICS currency project will be easy and effortless - Daniel Lacalle

The most important issue for markets over the next four years will be whether the U.S. dollar will remain the world's reserve currency. To achieve it, Trump must slash spending, pump growth, and increase global demand for U.S. dollars.

This would show the weakness of other fiat currencies and require a Federal Reserve that focuses on sound money and not on bailing out the Treasury and rescuing the ECB.

A stronger dollar is beneficial for everyone. Americans and world citizens will suffer less inflation, and the rest of the world’s economies will not have the temptation to follow the Fed’s wrong policies, which only perpetuate government debt and spending.

A strong dollar is a limit to global fiscal imprudence. Of course, a sound monetary policy means cheaper imports and a lower trade deficit.

Sound money will not only provide the U.S. with the necessary disinflation but also an undeniable monetary advantage. Simultaneously, other central banks will recognize Treasury bonds as the asset of choice for those seeking low volatility and solid returns.

If Trump brings the U.S. dollar back to its glory, dismantling any BRICS currency project will be easy and effortless.

You may have read about the terrible consequences of a Trump administration, originating from sources that justify any imbalance in the public sector.

I hope that this article helps you see an alternative perspective, which emphasizes the private and productive sector. The world can go back to sound money and economic logic driven by a thriving private sector and avoid continuing down the destruction path of unproductive government fiscal dominance.