

Economic note

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1. A new world...

Trump's recent victory in the US presidential election marks the beginning of a new era. While this statement might seem exaggerated, time will probably prove its validity. The second Trump administration is shaping up to be an evolved version of the first, when his team, still inexperienced in public administration and in handling the codes of power in Washington, needed time to understand the intricacies of the capital. Now, with greater experience and clarity of purpose, Trump returns with an administration that claims to know what it wants and how to get it.

However, this comeback takes place in a country deeply fragmented and divided by factors such as age, income level, education, gender and origin. Nearly 55% of women voted Democratic, while 54% of men opted for Trump (60% for white men). This time around, Trump also increased his support among Latino men by 18 percentage points over 2020, with a notable uptick among young voters (under 24) and adults aged 40-64.

In terms of income, Harris won a majority among those earning less than \$30,000 per year), albeit by a modest margin (51% vs. 49%), while she outperformed Trump by a larger margin at income levels above \$100,000.

Although fragmented, the country has given Trump an undisputed victory: 74 million votes to Harris's 70 million, with control of 33 of the 50 states and a majority in the Senate, as well as solid support in Congress. This so-called 'red wave' - after the colour associated with the Party - reflects a profound transformation of the Republican Party, in which Trump's populism has displaced the traditional conservative values of the Grand Old Party.

Trump's triumph is multi-faceted, as historian Michael Ignatieff has recently ranked. After a first administration in which he broke promises and culminated in the storming of Capitol Hill, Trump has returned to power driven by those who feel hurt by technological change, inflation, the fentanyl crisis and deindustrialisation. These voters, Ignatieff explains, are Americans who have not enjoyed the benefits of revolutionary transformations in their society since 1960. The so-called "woke revolution" intensified their resentment, especially among non-college-educated white men, and the Democratic Party's identification with the *establishment* has left the door open to this new Republican triumph.

2. ... with major economic and geopolitical implications. In international trade, ...

Trump's re-election could have significant and lasting economic and geopolitical effects. In international trade, the US, historically an advocate of free trade and tariff reduction, faces a new direction.

Trump promotes a simple formula: protect domestic industry through tariffs, which, he claims, would boost employment and wages for *blue collar* workers: '*Make America Great Again*'. This vision contrasts with that of Europe, where the elimination of trade barriers not only promotes efficiency and citizen welfare, but also integration and peace between countries.

Numerous studies point to the benefits that increased trade in recent decades has had for Western societies as a whole by allowing a large group of citizens access to goods and services at much lower prices, which has a positive impact on their real income. There have certainly been losers who have been disadvantaged, and the lack of initiatives to effectively compensate and help them is behind the rise in inequality and social discontent. But it is more likely that Trump's moves to impose tariffs on everyone will especially hurt those who consume the most imported goods in the US, who will see their prices rise. This will make it more difficult for inflation to recede in the medium term and will have an impact on the Federal Reserve's monetary policy, which will find it more difficult to lower its interest rates.

On the other hand, in Trump's ideology, industry will make a strong comeback thanks to his measures, reaching percentages of GDP similar to those of yesteryear. Manufacturing industry accounted for 25% of GDP in 1960, whereas it is close to 12% today. This is proof, it is argued, of the decline of American industry. The problem with this view, which is also widespread in certain sectors of the European left, is that it fails to recognise the incredible impact that technological, organisational and other advances have had on the productivity of

industry in recent decades. Industry, because of its high technological component, is the sector of the economy that has seen its productivity increase the most, much faster than the service sector, for example. We produce the same in real terms, but with much less employment and at much lower prices. We do not "need" as much industry as in 1960, because we have a much more efficient industry.

This is not to say that some sectors may not benefit from this change in approach and the support received from the across-the-board tariffs, but it is unlikely that Trump will achieve the goals he claims to be pursuing with his proposed measures. In return, it is clear that the damage to international relations and the multilateral institutions that characterised the post-war era will be high, and will seriously affect his ability to at least attempt to resolve conflicts between countries, as does the World Trade Organisation (an organisation, moreover, that for decades was accused, surely with good reason, of defending mainly American interests). Trump's "transactional" vision of international relations will produce profound changes in international relations (starting, surely, with the World Health Organisation).

3. ... fiscal policy and the level of interest rates...

The second area of economics and geopolitics where Trump can have a major impact is on fiscal policy and the global level of interest rates. The Trump administration's lack of interest in tackling the necessary adjustment in the public deficit is well known. In fact, references in the campaign have been rather scarce.

The starting point left by the Biden administration is, admittedly, worrying: the International Monetary Fund estimates that the public deficit in the United States will end this year at around 7.8 % of GDP (compared to 3.5 % in the eurozone), and it is not expected to fall below 6.5 % in this decade. As far as public debt is concerned, it now stands at around 125 % of GDP.

The new Trump administration could return to policies similar to *Reaganomics* (during Ronald Reagan's administration, 1981-1988), hoping that a tax cut will generate enough economic growth to balance the deficit. However, this strategy could put upward pressure on global interest rates, creating uncertainty in financial markets. Recall that Reagan eventually increased the public debt from 25% to 40% of GDP... both figures far short of today's levels.

The volume of debt that the US administration will need to refinance, together with the new debt issued to finance persistent deficits, makes a sharp decline in long-term interest rates unlikely. In fact, ten-year rates on US government bonds have risen by 0.30% in the last month.

4. ... and security and defence in Europe

Trump's return promises changes to the pillars of security and defence, fundamental to international relations in the West since the 1940s. A transactional view on defence (based on a 'so much for you, so much for me') will require an increase in defence spending in Europe. The Trump administration's response to the war in Ukraine will also have a significant impact on European defence policy. If, predictably, Trump pushes for a solution in which Ukraine loses territory and Putin wins a 'symbolic' victory, the EU may be forced to rethink its (non-existent) common defence policy and assess the reliability of its historical ally.

The problem is that the only reasonable response from EU countries is further political integration, which would also ensure a common defence policy. But there does not seem to be much appetite for this. Think, for example, of the Eastern European countries that joined the EU in 2004 in enlargement: for them the EU was a package inseparable from NATO membership and the defence dimension of their particular 'new world'. It seems clear that their reading can only be that this has not worked out as they had hoped, with unexpected consequences.

In short, the odds are not small that a Trump administration will i) do away with, or at least substantially change, multilateral institutions as we know them today; ii) move dangerously close to a dynamic with its fiscal policy that opens questions about the world's leading economy and its currency; and iii) depending on the solution to the Ukraine conflict, greatly weaken European defence in a context in which the appetite for further steps in integration is inversely proportional to the rise of the far right in many European countries.

5. Spain's economy still ranks high in terms of dynamism... but will not be immune to the new era

Slightly higher rates than in the case of a Democratic victory, and growth that will continue to be driven by fiscal policy in the short term, would be the scenario envisaged for the US economy in 2025. In the eurozone, the prospects of a rate cut by the ECB (possibly to 2% by the end of 2025) reflect the uncertainty surrounding the trade war and its negative impact on open economies, especially in Europe.

Although the weight of Spanish exports to the United States is limited (less than 5% of the total), the indirect effects on our main trading partners (Germany and France) could be significant and would occur at a time of weak growth, a questionable fiscal position (in the specific case of France) and a complex political situation (in Germany and France).

The Spanish economy will close 2024 with growth close to 3%, but the international context predicts a slowdown in 2025, estimated at around one point less, although maintaining a positive differential with respect to the Eurozone. The response of the administrations to the devastating effects of the DANA in the Valencian Community, which will affect regional growth,

seems to be commensurate with the situation, and everything suggests that the investments and aid will compensate for the material losses. Nothing, however, can bring back those who have lost their lives. May they rest in peace.