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Trump's Wisdom for the International Political Economy: A Way to Collective Carnage?

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Abstract

This study intends to analyse the rise of Donald Trump to the presidency of the U.S. as a symptom of the economic aftershocks to the 2008 financial crisis at the global and domestic levels. In response to the financial crisis and structural shifts in the global economy, Trump is pursuing protectionist measures which are being legitimized domestically by applying exclusionary policies based on a logic of "us vs. them." By focusing on Trump's public speeches, U.S. National Security Strategy and budgetary documents, this study will explore how Trump's intention of "America First" resonates in the political economy and foreign policy plans of the U.S. It claims that the Trump administration, which faces a legitimacy crisis at home and abroad, will continue to be deeply affected by its policy decisions considering, first, protectionism versus openness in foreign affairs and second, equality versus efficiency in domestic politics. The Trump administration may also hasten the demise of the global system by its isolationist policies which encourage polarization.

Keywords

Trump, political economy, America First, international institutions, populism, legitimacy crisis.

Introduction

The 2008 financial crisis, also known as the "global financial crisis," is the most serious economic slowdown since the Great Depression of the 1930s.

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The contagion effect of the crisis started in the U.S., as the mortgage crisis spread quickly to the entire U.S. financial sector and then to the European markets. The pace of the recovery from the crisis has been unusually slow. Nevertheless, a decade after the Great Recession, the world economy is gathering speed considering world economic growth prospects and respective financial readjustment. Besides, the states have recently faced the same fundamental challenge: severe socio-political aftershocks of financial crises.

This study intends to analyse the rise of Donald Trump to the presidency of the U.S. as a symptom of these aftershocks in the form of a legitimacy crisis. In the global system, unfair trade, freeloading allies, and deep engagement; and in domestic politics, uneven distribution of gains have caused redistribution problems. In response to the financial crisis and structural shifts in the global economy, Trump is pursuing protectionist measures. For domestic politics, he proposes exclusionary policies based on a logic of "us vs. them." This study will explore how Trump's intention of "America First" resonates in his administration's political economy and foreign policy plans by focusing on the National Security Strategy, public speeches, and the budgetary documents of the Trump era. Trump could use his capacity to motivate millions to support him for revising the unfair system, or on the contrary, he could increase polarization despite the challenges and constraints by institutions and diverse operational costs. Unfortunately, amelioration of the existing global and domestic redistribution crises in the political economy seems unlikely.

America First

The election of Donald Trump to the U.S. Presidency in November 2016 was the precursor of a new stance on the governance and political economy of the U.S. as well as its foreign policy inclinations.

The election of Donald Trump to the U.S. Presidency in November 2016 was the precursor of a new stance on the governance and political economy of the U.S. as well as its foreign policy inclinations. Speculation about his potential grand strategy and change in policies arose even before the Republican primary elections. While Obama was maliciously being criticized for the absence of a grand strategy in his administration, recently even the possibility of a "Trump's grand strategy" is disquieting. Even if the notion that Donald Trump has a grand strategy were debatable, a review of the president's records

and claims points out the extent to which he intends to disrupt the principles of previous administrations especially on the U.S. political economy.[1]

Nowhere has this disruption been more apparent than in Trump's "America First" vision. In his speech as a Republican presidential frontrunner Trump stated: "Americans must know that we're putting the American people first again on trade. So true. On trade, on immigration, on foreign policy. The jobs, incomes and security of the American worker will always be my first priority."[2] The "America First" slogan inherently attempts to control the flow of goods and people into the U.S. Trump's most famous campaign pledge, constructing a "big, beautiful wall" along the southern border of the U.S. with Mexico, fits exactly to this strategy. In addition, his intention to increase tariffs on imports especially from China, Germany, and Mexico, to end the U.S. involvement with multilateral and regional agreements such as the Trans-Pacific Partnership (TPP), the Trans-Atlantic Trade and Investment Partnership (TTIP), the North American Free Trade Agreement (NAFTA), and to overcome the overburden of the U.S. in the North Atlantic Treaty Organization (NATO) and the World Trade Organization (WTO) are reverberations of the "America First" strategy. These radical policy ideas and proposals are confusing for U.S. citizens and people around the world alike, and it remains unclear how the political economy of the U.S. will be formulated, what the role of the U.S. in world politics will be, and whether the liberal international order will endure.

Since discussions of these ideas have risen inside and outside the U.S., epitomized by the threat of mercantilism, nationalism, and isolationism, the U.S. administration has tried to tone down its over-protectionist policies, at least in rhetoric. After Trump's meetings in Poland and at the Group 20 summit conference in Germany, National Security Adviser H. Raymond McMaster and the director of the National Economic Council Gary Cohn indicated in a *New York Times* op-ed that "America First is grounded in American values – values that not only strengthen America but also drive progress throughout the world. America champions the dignity of every person, affirms the equality of women, celebrates innovation, protects freedom of speech and of religion, and supports free and fair markets."[3] In a similar vein, Trump told global business leaders at the World Economic Forum in Davos in January 26, 2018, "America first when it comes to trade but it does not mean America alone."[4] These are the messages to calm down U.S. allies and to show them that the U.S. will not draw apart from liberal values that promote cooperation, competition, and respect for differences.

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Contradictory public releases and lack of details have produced vagueness and uncertainty about the "America First" strategy. However, despite the mixed messages, it is clear that this strategy is not intended to undermine the global leadership role of the U.S. to work for the benefit of the global community. Instead, it refers to the idea that all nations have their own interests and henceforth the U.S. will take a more audacious approach to defend its own interests.

What if all countries were to follow this approach and put their interests first by running the risk of conflict as in the Hobbesian international system? Herein, Trump resuscitates an old concept, "mercantilism," by challenging the existing political economic order and his predecessors, including Obama. Mercantilism, often called "economic nationalism," describes a set of policies that determined the political power and economic relations of the states in Europe from the fifteenth century to the late seventeenth century. It referred to the notion of the nation-state as the most important economic actor in a system where states increased their power by the transfer of wealth consisting of gold and silver from overseas colonies to mainland Europe. The goal of mercantilism was to achieve a favourable trade balance by increasing exports and keeping imports as low as possible. From the beginning, these policies tended to promote protectionism and conflicts among rival powers that led to wars. This aggressive form of mercantilism operating on the basis of expansionism and war, especially over colonies, encouraged "beggar-thy-neighbour policies."[5] It is unsurprising, therefore, that in a mercantile system all instruments of state power could be operated to directly benefit the home-country despite the deprivation of other states.

In the context of the "America First" vision, political and economic nationalism, a zero-sum conception of international trade, and protectionism are inherited from mercantilism.[6] Historically, mercantilist policies have tended to be revisited during times of cataclysm when states struggle to respond to an upheaval. In this case, the Trump administration needs to tackle the effects of the 2008 financial crises to increase employment, growth and investment rates, and to bring emerging global powers such as China into line. Such posturing is highly in parallel with Trump's rhetoric of "making America great again."[7] Trade protectionism under mercantilist policies, as proposed by

Trump, can be implemented until domestic infant industries become entirely viable. Nevertheless, the core idea behind mercantilism that one country can develop only at the expense of other is treacherous. The aim of mercantilism, namely diminishing the wealth of neighbours as well as rivals, actually cannot be sustainable in the long run. How can a nation continue to make advances in exports where neighbouring nations have no capacity to import? It is not surprising that mercantilist periods are characterized by the frequency and intensity of warfare and result in economic recession.

Be they political economy or value-based, Trump's policy decisions threaten the open trade system and an international order based on the alliances system. The "America First" strategy has already traumatized the political economic and security ties that have sustained the liberal international order for decades. According to liberal theory, inasmuch as exchange by individuals free from government intervention will realize individuals' self-interests and simultaneously benefit the entire society, free trade between nations will foster wealth among nations as well. Therefore, in *The Wealth of Nations*, Smith argues that the intention of statecraft should not be to injure competitors but to form a setting conducive to trade and interaction for collective well-being. Since the end of World War II, U.S. statecraft has served the international order on the basis of economic interdependence, multilateralism, and strategic alliance networks.[8] After the Cold War era, the globalization process ultimately hastened financial flows and trade worldwide under U.S. leadership. An international order reliant on U.S. leadership was constructed on three primary sources: theory of comparative advantage, theory of economic interdependence among countries, and the protection of the U.S. from foreign threats.[9] First, according to comparative advantage theory, when countries specialize in the production of particular goods and services considering their unique resources and conditions, exporting and importing countries will both benefit from trade. Each country can find buyers to deplete the surplus of its production and buy goods and services which are unavailable at home or found cheaper abroad (win-win situation). Second, it is believed that this specialization or division of labour among nations, where each nation depends on others for various economic variables such as goods, services, and financial flows in order to survive, promotes stable and peaceful international conditions. Trade relations tend to reduce the probability of war and conflict among states. Finally, far-reaching liberalization and open trading systems promote American power and interests and protect the U.S.

from foreign threats. In other words, the U.S. commitment to liberal values, international institutions, and regimes is a utilitarian tool it uses to pursue its own economic well-being and national security goals.

Few, if any, of these policies align with Trump's core views. His affinity for nationalist and protectionist approaches and a zero-sum logic of trade highly contradict the liberal policies of his predecessors regarding the U.S. involvement in alliances and multilateral agreements in order to guarantee financial, commercial, and security dominance globally. What if Trump's policies antagonize the values of allies and alliances? What does it mean for the political economy and foreign policy of the U.S.? After Trump's first year in office, the question that confronts his administration and the world is the same: can the policies offered by Trump sustain the U.S.-led international order while putting forward some revisions primarily about sharing the costs of building alliances – or could the U.S. dismantle the existing liberal system in the name of isolationist and protectionist policies at home? The following sections attempt to investigate the political economy strategies of the U.S. on the basis of official documents and public speeches regarding national security and trade.

National Security Strategy

In order to analyse how U.S. presidents see their country in the world and the missions they will undertake, it is necessary to scrutinize administrations' national security strategies. In the previous sixteen national security strategies, including Obama's, some common principles were exalted: the U.S. would not hesitate to wield its unrivalled power for the continuation of the liberal international order resting on strong alliances in Europe and the Asia-Pacific region, free and open markets, and democracy.[10] Trump's new security strategy diverges from its predecessors on some significant points: the global leadership role of the U.S., the promotion of liberal values for the integration of rival powers such as China and Russia into the system, free trade policies, and the functioning of international institutions and multilateral agreements.

Trump's new security strategy diverges from its predecessors on some significant points.

Trump launched his National Security Strategy on December 18th, 2017. This document has four pillars: protecting the homeland and the American

people, promoting American prosperity, preserving peace through strength, and encouraging American influence. First, to protect the homeland, the U.S. will increase control of the borders, revise immigration policies, and stop jihadist terrorists before they arrive and attack the U.S. Second, the Trump administration intends to stimulate the American economy and abstain from unfair trade practices that detriment America. Third, the U.S. will keep its image as a deterrent force by rejuvenating its military capabilities and demand its allies and partners to justly share the burden of collective security. Finally, the U.S. administration will promote American influence to protect American interests in any international organization.[11] In domestic policies, the Trump administration will focus on immigration and border control, increasing employment and promoting investment. Abroad, policies will be grounded on the challenges from "rogue regimes" in North Korea, Iran and the Middle East, and unfair trade practices and economic aggression in the world. At first glance, the Trump administration's National Strategy seems consistent with the Obama administration's 2015 Strategy. Both emphasize enhancing the security of the U.S. homeland against terrorism and weapons of mass destruction, increasing economic prosperity, and achieving well-functioning multilateral agreements and institutions.[12] The existing similarities mainly arise from institutional constraints, the content of Trump's strategy being less radical than his campaign speeches. Nevertheless, there are some nuances that will be investigated in following sections.

Trump's Strategy mentions that "we treat people equally and value and uphold the rule of law" under Pillar IV. Nevertheless, in practice this does not happen to be the case. Trump's own actions, such as his controversial statements against judges, the press and the media, ethnic and religious minorities, and gender equality violate these principles. Moreover, despite his emphasis on the role of diplomacy in the document, his statements not only about rivals but also allies overshadow the State Department and high-level diplomats in foreign policy. There are other areas such as education and research which are planned to be supported for innovation in the document but which have been disrupted directly or indirectly by budget cuts and travel bans. Continuing in this vein, the strategy document remains ambiguous in terms of both political economy and global engagement. Under the heading of 'tools of economic diplomacy,' it is stated that the U.S. will maintain its leading role in international financial forums to guarantee the security and prosperity of the U.S. by spreading free-market economy and by preventing threats, mainly

from state-led economies. Yet the policies of the U.S. political economy are seldom framed in ways that raise the U.S. leading role in global institutions. On the contrary, the new regime will be enhanced by Trumpian themes on the basis of protectionism and cost-benefit analysis in political economy and a new language of foreign policy.

New Motto: "The United States Seeks Strong Partners not Weak Ones."[13]

The evolution of the Trump administration's policies signals a new phase for the liberal system. There seems to be little room for the liberal institutionalism which used to be stimulated by international cooperation and the moral leadership of the U.S. on human rights and democracy in previous decades – at least in rhetoric. For instance, former president Clinton designed policies to contain U.S. rivals or competitors within the liberal system. The Clinton administration showed affinities for "maximizing chances that both Russia and China move toward greater internal openness, stability and prosperity, seizing on the desire of both countries to participate in the global economy and global institutions."[14] Nonetheless, Trump's ideas break with these policies in important ways, asserting the failure of previous administrations' beliefs that "policies based on the assumptions that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners." According to Trump, "…this premise turned out to be false" and rival states keep defending anti-Western values and creating division and virulence in the international system.[15]

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Trump's bellicose approach is also reflected in his grievances about the disastrous deal-making of previous administrations. He addresses the failures of his predecessors, including Obama, stating that "they neglected a nuclear menace in North Korea; made a disastrous, weak, and incomprehensibly bad deal with Iran; and allowed terrorists such as DAESH to gain control of vast parts of territory all across the Middle East."[16] That is, America has been too weakly governed for decades.

Not stepping back from his pessimism, it is worth noting that such an approach to foreign affairs – in principle – is not unexpected or inconsistent. Back in

1987, during the end of Cold War, Ronald Regan called on Gorbachev to tear down the Berlin Wall in order to bring peace, prosperity, and liberalization to Eastern Europe as a reverberation of rapprochement policies.[17] Following this call, in September 1987, Trump paid to publish an open letter to the American people in *The New York Times* to urge weak American politicians to show "backbone" in foreign policy. Similar to his bleak worldview of today, Trump wrote in 1987 that other nations are taking the advantages of U.S. world governance to grow rich, benefitting from all the security and trade policies without any cost. In his conclusion, Trump urged U.S. politicians to "end our huge deficits, reduce our taxes, and let America's economy grow unencumbered by the cost of defending those who can easily afford to pay us for the defence of their freedom. Let's not let our great country be laughed at anymore."[18] Reagan was blamed for being feckless and hesitating to put America's fist on the table. These comments were directed at Reagan in 1987; however Trump might say Obama also deserves this tone.

This strategic orientation is reflected with remarkable consistency in Trump's political economy policies that intend to regulate the role of the U.S. in international institutions and multilateral agreements. The format and content of these policies articulate a new role for the U.S. that puts American interests and American security always first. Rather than expanding global prosperity and security, the U.S. should enhance its own affluence. As soon as Trump took office, he lost no time in taking necessary steps. He abandoned the TPP, which he had called a "horrible deal"[19] during his campaign, is renegotiating NAFTA, the "worst trade deal in history,"[20] and is reviewing the conditions of the TTIP and even NATO. On this basis, his intention is to reconstruct America's political economy and foreign policy through one-to-one deals and cost-benefit bilateralism.[21]

The TPP agreement was signed in February 2016 by twelve countries that border the Pacific Ocean, including the U.S., after six years of negotiation.[22] This partnership aimed to encourage fair trade, deepen economic ties as in the EU, slash tariffs, and implement regulatory conditions. As Gilpin states, "every economic system rests on a particular political order, its nature cannot be understood apart from politics."[23] Therefore, the aim of the Obama administration in signing the TPP agreement was to strengthen the U.S. position in the Asia-Pacific region and to balance the global rise of China's economic and military sway. In spite of the fact that the Obama

administration promoted the TPP agreement as a geopolitical and economic strategy, opponents highly criticized the agreement for its possible detriments to U.S. investment and employment opportunities. In addition, the TPP was characterized as a deal for the interests of big companies and against national sovereignty. After his inauguration, Trump immediately pulled the U.S. out of the TPP agreement, believing that the U.S. would not engage in multilateral agreements in order to protect its allies at the cost of the vanishing domestic manufacture sector, declining investment rates, and increasing job losses.[24] Recently, when TPP members agreed to move forward without the U.S., Trump declared in Davos that the U.S. administration would re-evaluate the agreement if conditions could be "substantially better" for the U.S.[25]

Other international treaties have also been in the scope of Trump administration. NAFTA, which almost came to an end in April 2017 with the threat of Trump pulling the U.S. out of the agreement, has remained in the rounds of renegotiation due to the personal attempts of the Canadian Prime Minister and the Mexican President.[26] Trump's assault on NAFTA is apparent in his view of the disadvantageous position of the U.S., considering the effects on investment policies, unbalanced trade, and immigrant labour. Trump believes that in order to reduce the impacts of the unfair trade practices of the agreements and organizations such as NAFTA and WTO, the U.S. will need to increase unilateral tariffs on imports.

Even Obama, who maintained the conventional trade policy and global leadership role of the U.S. in the international order, had criticized NAFTA when he was running for the democratic presidential primary, especially against Hillary Clinton, describing the NAFTA agreement as "devastating" and "big mistake."[27] Although Obama said, "I voted against NAFTA, never supported NAFTA, and will not support NAFTA-style trade agreements in the future,"[28] when president, Obama was not interested in adjustments to NAFTA. However, according to his administration's strategic rebalancing strategy, the TPP and TTIP gained pre-eminence, considering China's growing economic clout and Germany's trade surplus. And despite the rising grievances of opponents, some members of the Republican Party supported Obama.[29] Trump has made no secret of his loathing for the TPP and TTIP, two cornerstones of Obama's policy, and, as expected, after Trump's inauguration Congress did not approve the TPP and the Trump administration abandoned negotiations with the EU on the TTIP.

Obama and Trump may hold very different opinions on collective action and multilateralism, but neither Obama nor Trump put forward a strategy to support the triumphalism of America to reshape the international order as in the Clinton and Bush administrations. Instead, the Obama approach sees the world as "it is" and deliberates on the advantages and liabilities of the international institutions and on reforms to make them more practical to bring about collective action.[30] In contrast to Trump, the Obama administration took responsibility "to uphold" the liberal internationalist order according to Obama's National Security Strategy.[31]

In his repudiation of collective action, Trump also upset traditional allies on the other side of the Atlantic. EU leaders were hoping to revive their economies that had been hit by the crisis with the TTIP deal. The TTIP intended to cut tariffs and regulatory barriers to trade between the U.S. and the EU for companies in order to reach each other's' markets.[32] The TTIP deal would include important sectors such as energy, pharmaceuticals, automotive, textile, finance, food, and the chemical industry. However, Trump took a determined step against the TTIP stating that the U.S. would not get involved in new deals which are discriminatory and raise new economic challenges for the U.S. Washington has already been worried about Germany's trade surplus, which was 57 billion euros in 2016, and warned about exporting less, and importing and consuming more.[33]

The 'America First' strategy promises to touch all areas from economic regimes to security alliances. Undoubtedly, Trump's rhetoric on NATO being obsolete and outdated, his inconsistent position about Article 5 (an armed attack against one NATO member shall be considered an attack against all members) at the NATO Summit and in Poland, and his rapprochement with Russia, all raise the concerns about the continuity of the U.S. administration's commitment to collective security and defence in Europe. Since the strategic Atlantic partnership is questionable, high level diplomats and security advisers have been shuttling between continents to reassure U.S. allies that NATO is the bedrock of transatlantic security.[34] Notably, Trump signalled his true intentions about NATO in his call for allies to meet their financial commitments to the alliance. Unofficially, European countries should contribute 2 percent GDP on defence. In July 2017, in his trip to Poland, Trump stated that "words are easy but it is actions that matter. And for its own protection, Europe, and you know this: Europe must do more. Europe must demonstrate it believes in its

future by investing in the defence of its future."[35] Surprisingly, NATO allies contributed $12 billion more for collective security after his tough warning.[36] In sum, Trump's intention is not to withdraw the U.S. from NATO but to force European members to pay their fair share of defence expenses in return for the guarantee of protection set in Article 5.

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At the core of Trump's political economy, concerns about other countries' disproportionate gains from multilateral agreements and cooperation are not confined to trade relations, but also extend to security relations. From Trump's viewpoint, it is fair to say that the U.S. will not be restrained by any agreements costly to the U.S. or transfer wealth from the U.S. to other countries. In other words, prioritizing self-regarding objectives, Trump will not authorize deals that bring constraints rather than opportunities. The U.S. will not take exceptional responsibilities to guarantee the endurance of multilateral agreements in which an unfair share of the burden leaves the U.S. fragile and open to threats.[37] In the scope of the Trump administration, there is little room for the U.S. traditional leadership role of the past decades in international trade and security alliances. Rather than taking on the financial burden of interdependency, Trump's vision for U.S. leadership involves forcing partners to take hard decisions, which they would not accept otherwise.

More broadly, according to the Trump administration's National Security Strategy, "cooperation means sharing responsibilities and burdens."[38] The strategy of cooperation with reciprocity will promote fair trade and sharing financial obligations. Such posturing inarguably prioritizes some partners as like-minded allies. The U.S. administration attempts to create enduring relationship with prosperous states, which "are stronger security partners who are able to share the burden of confronting common threats."[39] Moreover, prosperous and sovereign states "can become trading partners that buy more American-made goods and create a more predictable business environment that benefits American companies."[40] The Trump administration's attitudes mean that other states, including long-time allies, should be more self-sufficient and responsible for their own decisions. In sum, the evidence suggests that the alliances will be less reliant on U.S. leadership and U.S. foreign assistance.

According to the Trump administration's revised political will, U.S. assistance should support principally its own national interests.

The Domestic Economy

Retaining the Trump administration's "America First" approach, the core of the U.S. political economy has been its willingness to spend more time, resources, and attention at home and less abroad. National Security Strategy Pillar II, under the heading "Promote American Prosperity," offers an economic program which "rejuvenates the domestic economy, benefits the American worker, revitalizes the U.S. manufacturing base, creates middle class jobs, encourages innovation, preserves technological advantage, safeguards the environment, and achieves energy dominance."[41]

A hallmark of the Trump administration's economic policy, and a departure from past practices, is to impose high tariffs on imports, especially those made by U.S. companies abroad in order to prevent outsourcing.[42] Trump affirms that multilateral agreements on trade have encouraged U.S. companies to move their production to foreign countries with various incentives. According to Trump, outsourcing is responsible for the failure of business investment in the U.S. and vicariously increasing unemployment rates. Undoubtedly, stagnation since the financial global crisis in 2008 aggravated the political and economic problems. Stanford states that for a decade, real U.S. business investment has grown barely 1 percent per year, while the share of private investment in the GDP has declined by 2 percent since the rise of neoliberal policies in 1980. In contrast, the profit share of private business in the GDP has risen more than 6 percent for three decades. It means that private companies by and large reinvest into domestic projects less than their profits. Considering the increasing accumulation rate of financial assets in non-financial U.S. companies, they tend to increase their financial assets and holdings, rather than engage in direct investment.

In addition to Trump's intention to attract U.S. companies back into the country, the Trump administration will play with tariffs and other trade barriers in order to enhance domestic business. In a similar vein, imports from non-U.S. companies will also be restricted, as Trump hinted in his speech in Brussels, in May 2017, that "the Germans are bad, very bad... Look at the millions of cars they sell in the U.S. Terrible. We'll stop that."[43] Recently,

Trump's policies to alter the general course of imports were articulated in his proposal to impose a 25 percent tariff on steel imports and a 10 percent tariff on aluminium.[44] As expected, the announcement sent a shock to the EU and other trade allies, who immediately threatened the U.S. by retaliating with their own weapon, trade barriers. Although the president tweeted, "trade wars are good and easy to win," officials who are well aware of the upcoming dangers to the global political economy are working to alleviate the allies' fears and calm down the president.[45]

Despite the Trump administration's intention to revitalize business capital spending in the U.S., however, it is not clear whether Trump's presence will encourage or discourage investment in the U.S.

Another strategy is to make the U.S. more attractive to investment by offering high incentives for domestic and foreign capital. If you want to invest in the U.S., Trump stated in his Davos speech on January 26, 2018, "there has never been a better time to do business in America."[46]

Despite the Trump administration's intention to revitalize business capital spending in the U.S., however, it is not clear whether Trump's presence will encourage or discourage investment in the U.S.

Table 1: Trump Policies and their Possible Effects on Investment

Policy	Channel of Effect	Evaluation
Corporate tax cut or reform	Enhance after-tax profits	Unlikely to reduce rates as much as promised; impact on profits muted by loopholes; impact of higher profits on investment weak; may simply facilitate more corporate hoarding & dividend payouts
Trade policy; end or alter trade deals, penalize imports	Reduce offshore competition; motivate repatriation of investment	May slow outward migration of manufacturing investment; uncertainty posed by supply chain disruptions; unlikely to change fundamental pressures of globalization
Increase infrastructure investment	Stimulate aggregate demand; improve productivity & transportation	Major new spending (if approved) will accelerate aggregate demand; demand benefits partly offset by tax/user fee plans; focus of new projects may be narrow

Roll back energy and climate regulations	Open energy investment opportunities; reduce energy costs	Will allow major energy projects to proceed (e.g. pipelines, Alaska drilling); will reduce investments in renewables; energy prices not a major determinant of most investment
Financial deregulation	More freedom for financial innovation and speculation	Measures will enhance financial profits but not real investment; will fuel speculative and housing investments more than real capital
Monetary policy	Slower demand growth; higher interest costs	Trump's Fed appointments will reinforce emphasis on financial deregulation; impact on interest rates not clear but likely hawkish
Labour market and union policy	Reduce unit labour costs, enhance profitability	Measures will boost profit margins in production but suppress wages and hence aggregate demand; exacerbate household financial instability
Immigration restrictions	Reduce supply of skilled labour for innovation-intensive businesses	Technology sectors have been crucial to U.S. innovation and exports; their investments (and even presence) in U.S. will be hurt by restricted talent immigration
Expand military spending	More profit and investment opportunity for military contractors	New projects and larger margins will increase defence sector profits and investments
General aggregate demand	Increased sales, capacity utilization	New spending and larger deficits (if realized) may support stronger aggregate demand and employment conditions; offset by continued upward redistribution of income, user fees, and cuts in civilian program spending
General business confidence	Enhance willingness of firms to invest	Initial stock market rally seemed to indicate business confidence in Trump policy; may be undermined by erratic or unstable actions; enhancing business power may not translate into more business investment

Source: Jim Stanford, "U.S. Private Capital Accumulation and Trump's Economic Program," *Real World Economics Review*, No. 79 (2017), p. 83.

Some of the economic policies proposed by Trump during the election and after he took office are given in detail, along with an evaluation of their possible effects in Table 1. As is well known, the Republican tax plan is the centrepiece of Trump's economic program. It was unlikely to reduce the corporate tax from 35 percent to 15 percent as promised, but the tax bill does lower the corporate rate to 21 percent. The bill also regulates the tax

provisions of American companies abroad. These companies will no longer be excised for their earnings abroad; moreover, if they bring their income back to the U.S., their tax rate will be between 8 and 15.5 percent instead of 35 percent.[47] While wealthy investors like Trump will benefit more from the new law, among middle class taxpayers families will benefit from an expanded child tax credit. On the other hand, lower class families, especially single parents who barely gain enough to pay will be hit hardest.[48]

According to Table 1, a pessimistic strand also runs through renewable energy sources and environmental policies. The energy industry endorsed Trump in the election, owing to his policy proposals to dismantle environmental regulations and protections throughout his campaign. He signed orders to allow construction of major new energy projects such as the Keystone XL and Dakota Access oil pipelines by blocking the Obama administration's environmental policies; opening and selling public land, including protected acres in national monuments, wilderness areas, and pristine lands for oil and gas drilling, and dismissing the Obama administration's Clean Power Plan (2015). Rolling back environmental regulations, Trump put forward energy supply security, employment opportunities, low electricity prices, and a possible rise in manufacturing sectors. While much of American business is celebrating Trump's reduction of environmental restrictions and the expansion of energy transition with a mixture of conventional fossil fuels such as coal, oil, gas, hydraulic fracturing, nuclear energy, and renewable energy (which looks vulnerable under Trump); simultaneously a seismic shift occurred in the U.S. energy sector. [49] Shale oil and gas are emerging as top energy resources in the U.S. By 2020, shale gas will account for 60 percent of gas production in the U.S.[50] If the U.S. dependency on external oil and gas resources is weakened by the shale revolution supported by "America First" policies, Bilgin argues that a major shift in the global order may occur with worldwide spillover effects.[51]

Another area in which Trump's bellicose approach in the political economy is reflected involves defence spending policies. As shown in Table 1, Trump committed to expand military spending, which will back up future investments for defence projects. Trump's budget promises an increase of $54 billion in military spending with equivalent cuts in crucial areas such as social security, arts and sciences, environmental protection, and foreign aid.[52]

Trump's strategy directly links political economy to defence. Since trade and economy policies have always been one of the main pillars of national security strategies, the Trump administration similarly equates economic security with national security and a good economy to a powerful military, as stated in his National Security Strategy: "a growing and innovative economy allows the United States to maintain the world's most powerful military and protect our homeland."[53] In a similar vein, Trump criticized Obama for weakening the military by weakening the economy.[54] Therefore, new investment and research will be mobilized for a solid defence industrial base and a vibrant domestic manufacturing sector for national security on American shores. Moreover, nuclear weapons over 30 years old are projected to be renewed. The defence industry will profit mightily from these incentives and significant investments, as will the "military-industrial-intelligence complex," but all around economic recovery and dynamism are unlikely to be achieved.[55]

Why Does Trump Hate Globalization?

As explained in the previous sections, Trump's choice of the "America First" motto signals a new phase in the political economy of the U.S. In the post-war era, the U.S. aggrandized the organizing principle of the international order as the notion that the democratic states of the world can manage rule-based institutions and economic interdependency for global wealth, peace, and security. Nevertheless, Trump recently projected that the institutions will be reformed and the agreements will be renegotiated in order to better suit the benefits and interests of the U.S. Since the costs of collective action are not widely shared and unfair trade practices are on the rise, the U.S. will neither play the manager role of the global economy nor act as a global security provider. Instead of a multilateralism that is driven by principles of interdependency and global regimes on the basis of democracy and human rights, Trump embodies cost-benefit bilateralism and state-centric policies to pursue the political and economic interests of the U.S. His scepticism toward international institutions and any agreement that reduces the ability of the U.S. to control its own affairs are frequently shown in his speeches: "We will no longer surrender this country or its people to the false song of globalism. The nation state remains the true foundation for happiness and harmony."[56]

Herein, it does not mean that the global order was perfectly functioning under the values of democracy and equality before the election of Trump, nor that

his election will result in the collapse of the ongoing system. Rather, as will be elaborated below, the liberal international order (i.e. globalization) has been in crisis and Trump has availed himself of already existing problems. The liberal international order or Pax Americana is fraying but, as Layne notes, "Donald Trump is a symptom of this, not the cause."[57]

The global economy, based on neoliberal policies, has promoted free markets, privatization, and the diminishing role of the state, and has deregulated financial systems over the last three decades. As a founder of new world order, the U.S. took advantage of its financial, security, and commercial dominance in the system. The dollar has long been the global currency and the U.S. has been the issuer of the world's main monetary vehicle. Certainly, the U.S. does not need to worry about foreign exchange reserves or how to fund overseas military operations.[58] In addition, U.S. financial markets comprise a quarter of the global financial markets. Global foreign direct investment functions under the hegemony of the U.S. It is the largest recipient of foreign direct investment in the world. Last but not least, U.S. military capabilities far exceed those of its closest competitors such as Russia and China.[59] Nevertheless, gone are the claims that globalization benefits everyone: it is accepted now that globalization is making the rich richer and the poor poorer. Stokes, who elaborates on the liberal world order, criticizes the deepening income inequality under globalization and emphasizes that there are two main beneficiaries of the system: One is the rapidly industrializing economies of Asia, such as China, Vietnam, Thailand, and Indonesia; and the other is the richest global top 1 percent, one-half of which is American.[60]

The U.S. used its overwhelming economic and military capabilities to spread open trade and free markets (its ideologically-driven mission) globally until the U.S. itself became a target of the inequalities of globalization. First, the economic and geopolitical centres of the world have shifted from Euro-Atlantic to Asia with the rise of its emerging powers. Japan, in its existential struggle, emerged as a power centre in the secure environment of the liberal order in less than three decades in the post-war era. The relative decline of U.S. power and the rise of China is currently a well-known fact. Moreover, the National Intelligence Council's 2017 report, *Global Trends: Paradox of Progress*, provides a vivid illustration of how India will be the fastest-growing economy in the world during the next five years. Second, rising U.S. imports owing to open

trade agreements have resulted in declining employment and serial trade deficits in the U.S. Other challenges have also had paralyzing effects on the political and economic system of the U.S., such as the financial crisis of 2008, immigration, religious fundamentalism, wars in the Middle East that were directly or indirectly created by inequalities, competition, and exclusion originating from market-led globalization. Clearly, the global tension of exclusion and the lack of redistributive policies have not been problematized by the Trump administration. Rather, Trump is condemning the hegemonic role of the U.S. by asking why the U.S. exerts so much effort to sustain a global system that allows other centres of power to emerge and brings about higher security bills, greater monetary burdens, and lower economic benefits.

The anti-globalization backlash has been so ably exploited by Trump owing to the populist onslaught in the U.S.

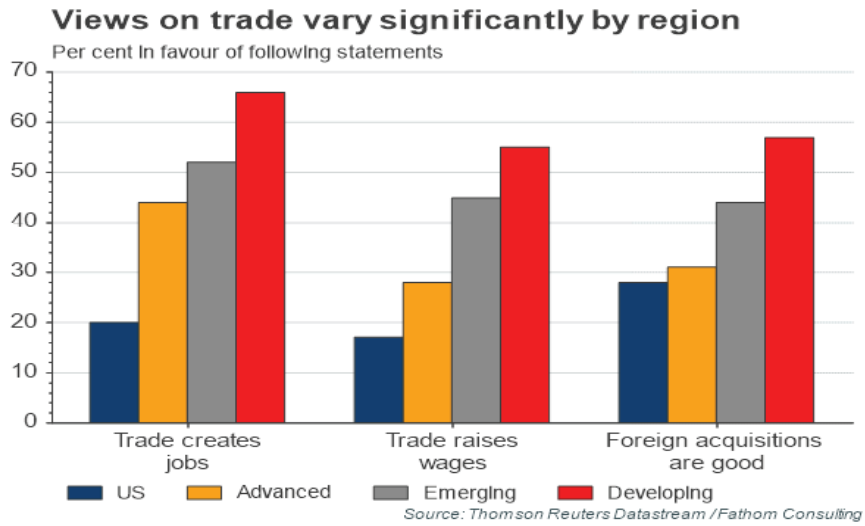
This critique of the financial burden undertaken by the U.S. in the international system was central and remarkably successful in Trump's election victory. The anti-globalization backlash has been so ably exploited by Trump owing to the populist onslaught in the U.S.[61] At the Conservative Political Action Conference on February 24, 2017, Trump conveyed his message to ordinary people:

> Global cooperation… is good. It's very important. But there is no such thing as a global anthem, a global currency, or a global flag. This is the United States of America that I'm representing. I'm not representing the globe. I'm representing your country.[62]

In other words, Trump appeals to the interests of the groups left behind by globalization. Among such groups, Trump had the highest ratio of the popular vote. As is well known, Trump received support mainly from two groups: non-college-educated white working class with low wages, and the manufacturing sector trapped by outsourcing and global competition. Figure I below shows public opinion about global trade. Among different regions of the world, the U.S. has the lowest ratio of people believing in the advantages of open-trade. In a similar vein to Figure I, Trump's discourse explicitly signifies the U.S. voters' sense of economic insecurity and their desire to be protected against the harms of globalization on the basis of competition.

Figure I: Views on Trade Vary Significantly by Region

Per cent in favour of following statements:



Source:https://blogs.thomsonreuters.com/financial-risk/emerging-markets/emerging-markets-help-silence-globalization-doubts/ (Accessed 17 March 2018)

The election of Donald Trump has also revitalized discussions on the rise of populism in the world. Actually, the interest of scholars and policymakers on the populist rise had already started, owing to the fact that populist parties and leaders had achieved considerable success from South Asia to Latin America. Just before Trump was elected, the referendum on Brexit had vouched for the immense impact of the populist UK Independence Party (UKIP) and its leader Nigel Farage in directing public opinion in the UK. The Trump case, however, is unique considering the victory of a right-wing populist leader in the hub of liberalism in a deep-rooted Western democracy.[63]

The election of Donald Trump has also revitalized discussions on the rise of populism in the world.

Trump highlights economic anxiety systematically, in line with Right-wing policies, increasing polarization and targeting in domestic society, and bullying in foreign policy. Hall aptly describes this as "authoritarian populism" steeped in neoliberal forms of capitalism. According to Hall, authoritarian populism is "a movement towards a dominative and authoritarian form of democratic class politics" which originates in populist displeasure "which at a certain

point in its trajectory, flips over or is recuperated into a statist-led political leadership."[64] Another term that fits Trump policies is 'pluto populism,' in which a group of ultra-wealthy individuals rules or directs politicians for specific ideas and policies.[65] Ironically, the lower middle class with lower wages (older, less educated, less urbanized, less unionized) is in a rush to believe that Trump, who is among the richest global top one percent, will supposedly reverse the decline of U.S. workers and manufacturers.

In order to create populist consent, Trump, like other populist leaders, propagates an ideological fantasy among voters that the country is bombarded with threats within and threats from outside. In foreign policy it is the 'U.S. versus others,' in domestic policies 'us versus non-white ethnic minorities.' Being a *terrible simplificateur*, Trump acts as a utopian social engineer who decides what is best for the masses, and warns "others" inside and outside to know their place.[66]

Another common characteristic that populist movements share is to separate ordinary innocent people from the corrupt elite. A specific mode of governance was established, fostering cultural and social anxiety among people, especially against the media and politicians. Little wonder that Trump plans to topple some media elites: "we have to look to new people. We have to look to new people because many of the old people, frankly, don't know what they are doing' even though they may look awfully good writing in '*The New York Times*' or being watched on television."[67] In addition, according to Trump, the political elites should be worrying because

> for too long, a small group in our nation's capital has reaped the rewards of government while the people have borne the cost. Washington flourished, but the people did not share in its wealth. Politicians prospered but the jobs left and the factories closed.[68]

According to Jacobsen and Alexander, what Trump owes to Obama and both Clintons is not less: drone warfare, bank and brokerage firm bailouts, corrupt politics, pampered market rhetoric, increasing military expenditures, mass surveillance and police state authority, and unemployment.[69] Such a policy crash instigated a state legitimacy crisis, a vacuum which has ensured a genuine opportunity for the Trump administration. Can Trump's populist policies bring the change that his supporters are hoping for? Will his policies alienate the lower middle class from the economic recovery or encourage corporate elites to resuscitate the system? Thus, Krugman questions how a populist leader can implement healthcare and social assistance cuts for state budgets

and still keep the support of the masses.[70] Moreover, authoritarian populism in the U.S. literally undermines the concept of democracy. A Freedom House 2018 Report emphasizes that under such governance democratic norms erode in domestic politics and foreign policy as well. The report points out that Trump's trips abroad rarely highlight any mention of the word "democracy;" rather, autocratic figures are praised.[71] Ultimately, the propensity of the current administration in the U.S. to solve the problem of redistribution and democracy seems increasingly unlikely.

Conclusion

This article has outlined the Trump administration's nascent political economy strategy of combining isolationism, cost-benefit analysis, and bilateral agreements with a deep suspicion toward the liberal-institutionalist world order, which has been supported by the U.S. for decades. The Trump position rests on the assumption (not borne by facts) that the costs of sustaining the liberal world order far exceed the benefits to the U.S.; hence the intention is to ameliorate the perceived political and economic ills of the existing system by protectionist policies with a more realistic assessment. Actually, the "America First" approach is deconstructed in two parts: international and domestic. The reverberation of the international component into the domestic political economy remains relevant through populist policies indulging a motif of lost greatness and the need for redistribution. It is obvious that the voting masses that propelled Trump into the presidency feel the painful disparities of unfair trade practices and the hostile effects of competing emerging powers. In other words, Trump's anti-globalization rhetoric and populist policies have captured lower middle class Americans with a desire for a "white America first."

With the anchor points in trade, security, and foreign policy observed in this study, it is argued that the main problem is more than the resilience and adaptability of international institutions and the change in U.S. global leadership. The U.S. and other states in the global system face two grave dilemmas in terms of political economy strategies. The current leadership, facing a legitimacy crisis, will continue to be deeply affected by their policy decisions considering first protectionism versus openness in foreign affairs and second, equality versus efficiency in domestic politics. Among U.S. citizens, tension will rise between those who demand primacist American policies, and those who support more open, egalitarian, and diversity-promoting policies. Nevertheless, the Trump administration does not augur well for cooperation for the common good. Furthermore, the Trump administration may hasten the demise of the global system with its isolationist policies encouraging polarization.

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