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"The 6th of November"

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Abstract

In the USA, the tribune of the people Donald Trump will once again come to power. In Germany, the Ampel-government collapsed. These events mark a turning point for both continents and their relationship.

Zusammenfassung

In den USA wird der Volkstribun Donald Trump erneut an die Macht kommen. In Deutschland zerbrach die Ampelregierung. Für beide Kontinente und für ihr Verhältnis bringen diese Ereignisse eine Zäsur



November 6th 2024 has the potential to go down as a historic day for the Federal Republic of Germany. Early in the morning on November 6th, Germans learned that the popular tribune Donald Trump would once again come to power in the USA. In the evening, the “Ampel”-government in Germany collapsed. The events of November 6th marked a turning point for both continents and their relationship with each other: MAGA (Make America Great Again) meets MESS (Make Europe Still Smaller).

Trump is back

Will he really make America great again?

On November 5th 2024, the USA elected a new president, the entire House of Representatives and a third of the Senate. In the presidential election, Donald Trump received both the most votes in the popular vote and the decisive majority of electors in the Electoral College. Trump will be back in power from January 20th 2025. The Republican Party is likely to have won a majority in the Senate and also in the House of Representatives (as of November 7th 2024 at 6.00 a.m. CET). As Donald Trump has had more control over the Republican Party in the last three years than during his first term of office from 2017 to 2021 and it is very unlikely that he could lose this control now, Trump is unlikely to face any politically relevant resistance from his own party for the time being. As there are now many offices and posts up for grabs, he will even extend his control over the Republican Party even further. It is likely that only the courts will be able to impose limits on him - including some of those supreme judges who Trump appointed himself in his first term of office but who feel primarily bound by law and order.

The financial markets and above all Wall Street, which had already made its peace with Donald Trump months ago, have reacted accordingly to the election results. An extension of the income tax reduction that expires at the end of 2025 is likely. In addition, a reduction of the corporate e tax rate from 21 per cent to 15 to 16 percentage points is likely to be pushed through Congress, as are far-reaching deregulations in environmental and climate policy. As with the 2017 tax reform, Trump does not want to finance the planned tax cuts. If this is indeed the case, the US national debt, which is already at record levels, is likely to rise further. The extent to which proposals to reduce government spending, which Elon Musk and other Trump-supporting billionaires, among others, are yet to work out, can be implemented in a timely manner and whether these spending cuts will be sufficient to finance them is completely open. It remains to be seen whether illegal migration can be effectively limited in the long term through mass deportations. Trump had already announced in his 2016 election campaign that he would deport 11 million illegal immigrants, which has not even come close to being achieved. Trump's customs policy is intended to protect domestic companies and encourage foreign



entrepreneurs to set up production facilities in the US and perhaps even relocate their company headquarters to the US.

But will Donald Trump really make America great again with all these and other plans? Or is Trump igniting a huge flash in the pan that may well keep things warm for a while? Serving the special interests of his prominent favourites, who should not be confused with the US economy as a whole, has nothing to do with prosperity for all in the Ludwig Erhard sense.

Trump's protectionism and his tariff policy from his first term in office did not increase prosperity in the USA. As the originator of this tariff policy self-critically stated in an empirical evaluation study, Trump's trade policy did not lead to economic improvements in the affected US regions.¹

The Fed will not be able to ignore such a development in its interest rate decisions in the long term. Steady or even higher inflation tends to mean higher interest rates. And as government debt in the USA has risen to record levels and is likely to continue to rise according to IMF forecasts, higher interest rates mean a higher interest burden on the government budget, which limits the government's spending options. And in general, a further increase in national debt will not only put further pressure on the US fiscal system, but also on the monetary policy system. If Trump follows through on his election campaign statements that the president should have the final say on monetary policy and damages the Fed's independence, the pressure on the monetary system is likely to increase further.

A genuine and sustainable turnaround in economic policy worthy of the name would have to solve the two main problems of the US economy, which are also the main problems of the European economies:

"The United States is not far behind Europe on its fiscal trajectory to default... We have two bad systems: the fiscal and the monetary. They are intertwined now as they were in the 18th and 19th centuries. They must be reformed, or together they will destroy the economic system that sustains them."²

¹ See DAVID AUTOR, ANNE BECK, DAVID DORN and GORDAN H. HANSON: *Help for the Heartland? The Employment and Electoral Effects of the Trump Tariffs in the United States*, Working Paper 32082, National Bureau of Economic Research, January 2024, online: <https://www.nber.org/papers/w32082>

² GERALD P. O'DRISCOLL: *Central Banks: Reform or Abolish?* Cato Working Paper, October 15, 2012, p. 29 - 30.



Donald Trump and today's Republican Party - unlike some Tea Party activists such as Ron and Rand Paul over 10 years ago - are ignoring the need for reform of the US fiscal and monetary policy system, even though it is precisely in these systems in need of reform that the main causes of delayed structural adjustments on the one hand and rising inequality in the US on the other can be found.

Trump wants to replace at least 100,000 people in the executive and judiciary and everyone who has stood in his way so far. The Deep State must be destroyed because it stole his election victory in 2020 and had already thwarted the success of his first term in office. No one knows how far Donald Trump will go here. In any case, there is a danger that the checks and balances could be violated, especially the independence of the judiciary.

However, such political structural and power-sharing issues always have economic consequences in the medium to long term. Trump's protectionism and his preference for controlling complex systems through orders and directives already suggest that a pronounced favouritism economy is likely to be established under Trump. The beginnings were already recognisable during his first term in office. In recent years, we have seen how this happens in Hungary. If Trump's announcement to destroy the Deep State leads to damage to the checks and balances and to an undermining of the independence of the courts, then the door will be open to the expansion of a pronounced favouritism.

But how prosperity for all is to be created and America made great again with a pronounced favouritism remains the secret of Donald Trump and his humbly devoted Grand Old Party. Ronald Reagan will be turning in his grave...

The Ampel Coalition is finally over

Federal Chancellor Olaf Scholz has sacked Federal Finance Minister Christian Lindner and in a public statement blamed Christian Lindner for the failure of the Ampel coalition. Olaf Scholz will not get away with this. The mistakes of Olaf Scholz and Robert Habeck are plain to see. The German economy continues to collapse and Olaf Scholz and Economics Minister Robert Habeck are not prepared to make the necessary prioritisation in the federal budget and effective changes to economic and climate policy. Christian Lindner's mistake is not to have presented a paper of demands for clear prioritisation in the federal budget and for an economic turnaround, which Germany urgently needs.³ Christian Lindner's mistake is not to have presented this paper in the summer of 2023. But better late than never.

³ <https://www.fdp.de/sites/default/files/2024-11/wirtschaftswende-deutschland.pdf>



What happens now? Olaf Scholz will try to persuade the CDU/CSU parliamentary group to adopt a federal budget for next year or at least to agree to far-reaching temporary measures. The next few days will show whether and under what conditions opposition leader Friedrich Merz will agree to this. Olaf Scholz's offer is poisoned. After all, Friedrich Merz has assessed Christian Lindner's demands as correct and necessary. If he now agrees to the federal budget of a minority government of Scholz and Habeck, which has become a minority government because it vehemently rejects the demands of Christian Lindner and the FDP, he will have a credibility problem in the next federal election.

Olaf Scholz has announced that he will not call a vote of confidence in the Bundestag until the beginning of January, with the vote to be held on 15 January 2025. Why doesn't he ask the vote of confidence now, so that a new Bundestag can be elected at the beginning of January, which will then decide on a federal budget for 2025? Olaf Scholz claims to be acting out of national political responsibility, but probably wants to create facts. He will probably try to persuade Friedrich Merz to suspend the debt brake. And if the CDU/CSU loses credibility and therefore votes as a result of such a deal with Scholz and Habeck, the SPD could be in a much better position after an election at the end of March than it is now. This behaviour by Olaf Scholz and presumably also by Robert Habeck shows what really caused the Ampel coalition to fail.

The citizens of the Federal Republic of Germany will have a choice at the next general election as to whether they want to save Germany as a business location or not. For this reason alone, it is to be hoped that Friedrich Merz and the CDU/CSU parliamentary group will not fall for Olaf Scholz. Clear political programmes are now necessary. If voters still vote for BSW and AfD, Germany as a business location will continue to collapse.

As the AfD is still unable to form a coalition because of Höcke and co, a government programme to the left of centre is likely again anyway. However, the question is how far left of centre it will be this time. As Christian Lindner has waited too long to make the right demands, it is also questionable whether the FDP will return to the Bundestag. In view of the economic problems and political challenges, however, it would not be justifiable for the current coalition to continue governing.

There is now a chance that new elections will enable an economic turnaround. To achieve this, the CDU/CSU must not waver and must not allow itself to be soaped up. But the most important thing is that the citizens themselves want an economic turnaround and vote accordingly. If not, Germany will continue to go to the dogs.



MAGA and MESS

While a stable government is likely to emerge in the USA, the core of the EU continues to soften. After France, Germany now also has a minority government on call. In the short term, this will certainly reduce Europe's geopolitical weight. Whether the loss of weight will continue in the long term depends above all on whether a new government can be elected in Germany that is capable of implementing long overdue comprehensive reforms.



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