

Voting in the time of Corona:

The Economic Dimension of the 2020 US Presidential Elections

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(Atılgan Özdil - Anadolu Agency)

“Prior to the Covid-19 crisis, most analysts were confident that President Trump would win a second term in office. At the end of the longest-ever economic expansion in American history, the unemployment rate was at a historic low. With Covid-19, however, things have quickly and dramatically changed. Many blame President Trump for downplaying the pandemic and calling for the economy to reopen too early, a move that has been interpreted as a cynical ploy to minimise the economic toll in order to increase his chances of re-election. Now, he is the underdog in the lead up to the election and seems to be aggravating the trade war with China, in an attempt to boost his popularity. If the economic impact of Covid-19 remains short-lived and the American economy quickly returns to some sense of normalcy, President Trump may still be able to recover from his current predicament.”

Introduction

Experience suggests that electoral success of an incumbent president significantly depends on the economic record during his term in office. There is no reason to think otherwise about upcoming presidential elections in the US. Prior to the Covid-19 pandemic, President Donald Trump's most important capital for the coming elections was economic performance. However, in a dramatic turn of events, Covid-19 has called into question his record in economic management. According to recent [polls](#), the White House is Democratic rival Joe Biden's to lose and it is President Trump who now must pull out all the stops to turn the tide. This policy outlook examines how the economy has turned from being President Trump's biggest achievement to his biggest failure and argues that the most powerful predictor for President Trump's success will be his ability to stabilise the economy before the elections.

Prior to Covid-19, the US unemployment rate was at a historic low last seen in the 1960s. This was taken as the most significant achievement of the incumbent president Trump. Economists [contested](#) how much of this success was actually attributable to President Trump's policies and whether it was sustainable. Many believed that this impressive record was nothing but the culmination of a trend, which began after the 2008 global financial crisis under President Obama, and Trump did nothing but prolong the momentum beyond its natural life cycle through the deployment of unsustainable fiscal policies. Regardless, until March, President [Trump's approval ratings](#) were high as most voters agreed that he was doing a good job. Financial markets were even pricing a second-term for Trump.

However, Covid-19 changed everything. The sudden contraction in both supply and demand has led to a deep recession, leaving millions of people unemployed. In two months, the unemployment rate increased from a 50-year low to a historic high. The impact of the pandemic is, of course, not particular to the American economy. If anything, the US should be in a better position than other economies to limit the economic impact of the crisis as it has almost unlimited room to print new money (i.e. quantitative easing). However, unlike other developed countries, the US did not or could not get the first wave of the outbreak under control. After an arguably pre-mature re-opening of the economy, Covid-19 has continued to wreak havoc and the US became the global epicentre of the pandemic. Consequently, the economic toll has reached catastrophic levels through a second wave of work closures and other restrictions.

Any account of President Trump's economic record should discuss his trade wars. It seems to significantly appeal to President Trump's electoral base that he made it his crusade to close the American trade deficit with its trading partners, including Canada, the EU, and most importantly China, and to bring back manufacturing jobs back to the US. To that end, the Trump administration imposed high-

er tariffs on imports and confronted China over intellectual property rights and cybersecurity issues. Prior to the Covid-19 crisis, the two parties were negotiating a trade deal and were seemingly close to reaching an agreement. However, with Covid-19, negotiations fell apart and the dispute intensified.

This policy outlook briefly discusses three major dimensions of President Trump's economic policy. First, his macroeconomic policy, such as his tax reforms and increasing pressure on the Federal Reserve (the Fed) for monetary expansion. Second, the Trump administration's handling of the Covid-19 crisis on the economic front, and third, a trade war with China as part of an attempt to transform the American economic structure towards manufacturing production and a trade surplus. Arguably, the most critical question with regards to the upcoming elections is how much of the American economy's extraordinary deterioration due to Covid-19 will be blamed on President Trump. If American voters perceive the economic toll of the Covid-19 as an idiosyncratic occurrence, which affected all economies regardless of the policy positions of particular governments, Trump may still come out on top against Democratic candidate Joe Biden. Increasing tension with China over trade also seems to influence the American voter, so we may expect an escalation in this regard as well.

Figure 1: US Unemployment Rate - 2009-2020



Source: [U.S. Bureau of Labor Statistics](#)

Macroeconomic Policy under Trump

The period between the 2008 global financial crisis and Covid-19 crisis marked the longest-ever economic expansion in American history. At the end of this period, in February 2020, the unemployment rate in the US stood at 3.5%. This was a historic low, which was last reached more than 50 years ago in 1969. Furthermore, the S&P 500 stock index, President Trump's favourite metric for measuring the well-being of the economy, was also at a historic high. Needless to say, the current administration under President Trump [took credit](#) for this record. By early March, Trump's [approval ratings](#) were at their peak, and with eight

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months to go until elections, Trump was quite confident of his position. The pandemic, which has hit the US so hard, has thrown all previous calculations out the window.

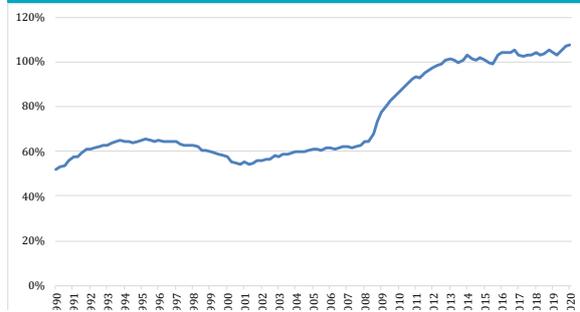
Even before Covid-19, there were [discussions](#) of how much of this success was truly due to President Trump's policies and whether it was sustainable. Surely, the trend which brought unemployment to historically low levels started long before the Trump presidency. In the aftermath of the 2008 global financial crisis, the Fed lowered interest rates and flooded the market with liquidity in order to prevent a total financial collapse. This is the standard policy response to any financial crisis. Namely, central banks create extra liquidity and cheapen borrowing so that people are incentivised to consume and invest. In response, economic activities are expected to pick up so central banks can start to raise the interest rates back to their normal levels again. However, unique to the 2008 recession, the Fed was unable to increase interest rates back to normal levels even after more than ten years since the crisis. Instead, excessive liquidity conditions continued.

In other words, the impressive economic performance under President Trump was achieved thanks to abnormally loose monetary conditions, which are usually deemed unsustainable in the long run. Of course, the question is how the American economy would perform under normal monetary conditions, for instance, if interest rates were raised to pre-crisis levels. In fact, in 2017, Fed started testing this question as it announced a plan to unload billions of dollars worth of securities and bonds from its balance sheet to collect excessive liquidity from the market and gradually raise interest rates from 0.5% to a range between 3-3.5% by 2019. The plan was supposed to put an end to this truly unique monetary experiment post-2008, however, it never fully materialised because as the rate came to 2.5%, markets started signalling a possible slide back into recession. The Fed reverted from its plan and suspended its recovery plan by July 2019. According to many, [President Trump's often explicit pressure](#) on the Fed for a 'big cut' was critical in this decision.

Another important element of Trump's economic performance was the 2017 [Tax Cuts and Jobs Act](#). In his first year in office, President Trump enacted tax reform, which lowered corporate taxes. According to many, this gave a boost to the economy and extended the economic expansion beyond its natural limits. The American economy, as with all economies, usually goes through boom-and-bust cycles where economic expansion is followed by a recession and then another boom cycle begins. Combined with higher government spending, Trump's tax cut led to a big government deficit as well as a prolonging of the economic expansion, which may rightly be called a bubble. [Most analysts claimed](#), even before Covid-19, that American economy would fall into a deep recession by late 2020 because such fiscal stimuli are usually unsustainable and eventually lead to even deeper recessions.

When the US economy entered the Covid-19 crisis, government debt was around \$23.2 trillion, amounting to 108% of GDP. Such levels of debt were last reached at the end of World War II. Comparatively, this figure was only 64% prior to the 2008 crisis. It sharply increased between the crisis and 2013. What has truly been worrying is that there has been no momentum to reverse this back to previous levels since. If anything, under President Trump, budget balance has deteriorated due to the fiscal policies mentioned above. Now, with Covid-19, there is no hope for bringing government debt back to its long-term average for a very long time. Similarly, the Fed's policy interest rates will most likely remain near-zero for some time to come. The Implications of such a situation are open to debate.

Figure 2: Government Debt - % of GDP – 1990-2020



Source: [Federal Reserve Bank of St. Louis](#) and [U.S. Office of Management and Budget](#)

Figure 3: Budget Deficit - % of GDP – 1990-2020



Source: [Federal Reserve Bank of St. Louis](#) and [U.S. Office of Management and Budget](#)

Covid-19 and the Rescue Plan

Covid-19 came at a critical turning point for the US economy and the Trump presidency. The US is not the only country that has been affected by Covid-19. However, even though the virus arrived in the US relatively late, it quickly became the epicentre of the pandemic. The US not only

has the highest numbers of confirmed cases and deaths globally but also one of the [highest death rates](#) compared to its population. This indicates a dramatic failure to prevent the spread of the virus as well as to provide effective health care for those who fell ill. It is fair to say that with Covid-19, the economy has gone from President Trump's greatest political asset to perhaps his biggest liability.

The unfolding of America's Covid-19 crisis has been controversial to say the least. When the outbreak first began in China, many did not imagine that it could become a global pandemic and devastate Western countries the way it has. President Trump was quick to impose travel restriction on China, however, this failed to prevent the virus from coming to the US. By late March, Covid-19 was spreading across the country. In response to the first wave, businesses across the country were closed and [state-level lockdowns](#) were imposed. Millions of people were forced to either to work from home or not at all. As expected, unemployment soared. Between February and April, the unemployment rate rose from 3.5% to 14.7%, marking a shift from a 50-year low to an unprecedented high. Furthermore, 6.6 million people have applied for unemployment assistance, marking another unpleasant record. Since April, the unemployment rate has steadily declined, however it was still standing at 10% by early August.

Immediately after restrictions were imposed, the Fed [dropped interest rates](#) to near-zero levels and increased liquidity. The Senate and the White House have also enacted a [massive spending programme](#) designed to help out businesses and households whether the economic storm. The spending programme included grants to small businesses and increased public resources for the health system. Most interestingly, the programme involved one-time cash payments of \$1,200 to all adult Americans and \$500 to all children. The programme also provided extra funding for an enhanced unemployment assistance programme to meet the tsunami of applications. The suffering of American households was thus at least partially alleviated through government action but the extent to which this will translate into positive feelings towards the Trump administration's handling of the crisis is an open question.

President Trump has been blamed for not taking the crisis seriously, particularly as he initially downplayed the threat posed by Covid-19, at one point he even suggesting that Covid-19 was a 'hoax'. In March, he [suggested](#) that full normalisation could be achieved by late April and repeatedly supported the position that masks were not necessary. Importantly, the Trump administration pushed for an [untimely reopening](#) to get the economy back on its feet prior to elections. However, this has led to another spike and ultimately even more human and economic damage. Currently, new daily cases in the US are the highest around the world and the pandemic continues to wreak across the US.

More recently, President Trump seems to have changed course in his approach to Covid-19. [He wore a mask](#) publicly for the first time in July and suggested that it is a "pa-

triotic duty" to wear masks. In spite of all the damage done, there may still is time to achieve a safe economic normalisation before the elections. Unemployment continues to decline and financial markets seem more optimistic than the real economy. Moreover, Senate leaders are negotiating a massive new spending package, which will likely be announced before September. However, how voters will evaluate President Trump's overall performance remains an open question. If the economic situation improves and if people base their choice for President on the most recent developments, Trump could stand to benefit and may be able to overcome the mismanaged response to the pandemic. Still, the fact that President Trump initially failed to initiate an effective strategy in the early stages and effectively communicate his plan with the public remains a hurdle that he will have to overcome.

Figure 4: Real GDP

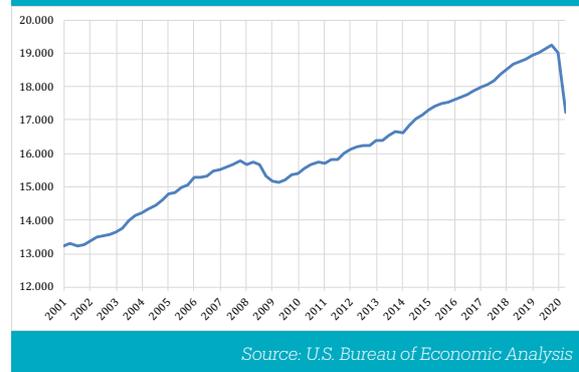
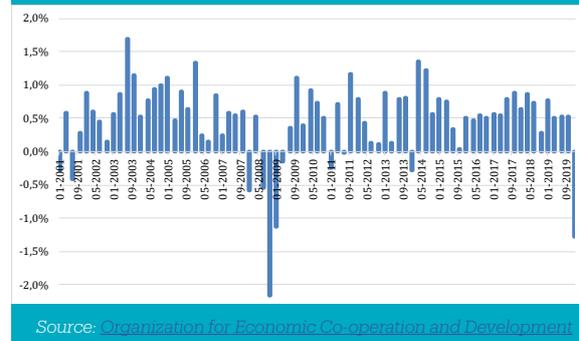


Figure 5: Quarterly Growth Rate



Trade War with China

A defining mark of President Trump's economic policy has been his ambitious plan to close the US' massive trade deficit with the rest of the world. He imposed high tariffs on products from the EU, Canada, and China in order to lower imports and boost domestic businesses. This led to a confrontation between the US and other major economies, particularly China. The effectiveness of such policies are debatable and many have argued that such an approach would be unlikely to produce the results the Trump administration hoped for, namely a smaller trade deficit or more manufacturing jobs in the US. Regardless, many American

voters seem to have favoured Trump's stance on trade and bought into the idea of beating China and bringing back manufacturing jobs to the US. This rhetoric was a big part of President Trump's first election campaign and arguably one of the reasons why he got elected.

[President Trump blames](#) US trading partners for tilting the international trade system through illegitimate interventions at the expense of the American economy and has criticised his political competitors for conceding too much in what he sees as unfair trade agreements. His administration claims that China is making it harder for American companies to enter the Chinese market while the US is wide open for Chinese companies. Furthermore, according to Trump administration officials, Beijing is forcing American companies to transfer technologies to Chinese companies in return for gaining access to the Chinese market while also failing to enforce intellectual property rights. Yet another claim is that the Chinese central bank undervalues its currency, which gives Chinese companies an unfair advantage in international trade. Consequently, American manufacturing jobs have gradually been migrating to China, leaving American factory workers jobless and an increasing American trade deficit with China.

Convinced that his country is being cheated by China, President Trump pledged to punish Beijing economically until they accept to play 'fairly'. This led to a tit-for-tat battle and a geopolitical power play between the two countries. Relevant to the upcoming elections, the [cost of production in the US has risen](#) because of tariffs on Chinese imports while technology exports to China have been directly restricted by Washington in an attempt to limit technology transfers. However, this has not translated into the economic slow-down that [some analysts foresaw](#). It may be too early to see the real effects of a full-fledged trade war but an economic cold war between the world's two largest economies would have seismic effects on international trade. Given the potential consequences of an all-out trade war, it is likely that Trump is pushing China for as many concessions as possible until a deal is struck.

Prior to the Covid-19 crisis, the two countries signed [phase one](#) of a trade deal and were still at the negotiation table as the pandemic broke out. After the [G20 meeting in 2019](#), many hoped that the US and China may finally be moving (at least gradually) towards a shared understanding regarding trade arrangements. However, with Covid-19, the phase one trade deal effectively became inapplicable as economic activities and international trade collapsed. More importantly, as elections approach and Trump's popularity is waning due to the Covid-19 situation in the US, the President is once again seeking to stir [anti-Chinese sentiments](#) among his base. In the current context, where backlash towards China is already on the rise due to its perceived mishandling of Covid-19 and failure to prevent it from becoming a global issue, it may become increasingly attractive for Trump to attack China in order to mobilise support in at the expense of burning bridges for future trade talks.

Conclusion

Prior to the Covid-19 crisis, the American economic outlook was generally positive. President Trump's expansionist fiscal policies combined with a loose monetary environment helped sustain the longest-ever economic expansion in American history, reducing the unemployment rate to a 50-year low. These policies were criticised for being unsustainable and were claimed by some to be short-lived. Strong economic performance caused by expansionary monetary and fiscal policies buttressed President Trump's position with regards to the 2020 Presidential Elections. At the beginning of the year, most analysts were confident that Trump would win a second term in office.

With Covid-19, things have quickly and dramatically changed. The US economy has fallen into one of the worst recessions in American history. Extraordinary measures to prevent the spread of Covid-19 (e.g. curfews, business closures, and travel restrictions) have led to millions of lost jobs. The government extended fiscal and monetary helplines to households and businesses, however, after an untimely reopening of the economy, Covid-19 began to devastate the country. Currently, the US has the highest number of daily new cases in the world along with the highest number of confirmed deaths from the virus. Many blame President Trump for downplaying the pandemic and calling for the economy to reopen too early, a move that has been interpreted as a cynical ploy to minimise the economic toll in order to increase his chances of re-election. However, the opposite seems to have happened. In run-up to the elections, the Covid-19 crisis has dealt a significant blow to Trump's re-election campaign and he has gone from being the favourite to being the underdog.

In response, President Trump seems to be playing the trade war card, which helped him win in 2016 and may help with the upcoming election. He continues to try to appeal to the electorate with promises to 'punish' China for 'cheating' the US in trade and bring old-fashioned manufacturing jobs back to the country. In the current environment, President Trump's anti-China approach may indeed be proven effective. Many in the international community blame China for what they perceive as its failure to contain Covid-19. Trump seems to be calculating that he might as well try to shift some of the blame for the Covid-19 catastrophe in the US onto China. This could lead to an escalation in the trade dispute between the world's two largest economies with potentially serious long-term consequences.

Overall, if economic damage due to Covid-19 remains short-lived and the American economy quickly returns to some sense of normalcy, President Trump may be able to recover from his current polling numbers in the lead up to the election. Ironically, his push to reopen the economy has prolonged the crisis and made the task ahead of him all the more difficult. His tactic to blame China for Covid-19 may also prove to be beneficial. To that end, he seems to be aggravating the trade war at the risk of serious long-term consequences.