

REST OF THE WEST

USA IN 2018

Uncertainty has reigned in Washington since the election of Donald Trump, and it is likely to continue to reign in 2018. The uncertainty has several dimensions, all of which feed on each other. Nonetheless, the implications are unlikely to be positive for the United States or for the world.

Politically, both major parties are in turmoil. The Trump wing of the Republican Party, which has staked out economic nationalist, populist, and anti-globalization positions, seems to be in the ascendant within the party. Its policies continue to face opposition from more moderate Republicans, especially in the Senate, and from traditionally Republican members of the business community. All of these players can agree on some characteristically Republican policies – tax cuts, more military spending, deregulation – but they quickly divide on other issues, especially on international economic policy. The battle for control of the Republican Party has meant that despite controlling the presidency and both houses of Congress, the party has been ineffective on the legislative front, with most of its policy initiatives coming from executive action.

For their part, the Democrats continue to argue over how best to mount a serious, politically attractive opposition. More mainstream Democrats want the party to make a play for more moderate voters, including those alienated by the Trump Administration. Those in the left, more populist, wing of the party would like it to adopt a policy stance more firmly hostile to aspects of globalization, and more firmly committed to redistributive policies.

Both parties will carry on battles among themselves, even as they

prepare for a hard-fought mid-term election in 2018 – and look toward an even more hard-fought presidential election in 2020.

Economically, the country continues to grow at a slow but reasonable pace, with little or no inflation. There are, nonetheless, causes for concern. Productivity growth remains slow, and real wages – along with real household incomes and wealth – are stagnant. This is a problem in itself, and even more so to the extent that it feeds into broad discontent with existing political institutions and politicians.

There are two other sources of economic concern. The first is the great uncertainty about American foreign economic policy. Substantial changes in policy toward international trade and investment could be disruptive to major American industries – with unpredictable consequences.

The second source of concern is the possibility that asset prices may be substantially overvalued. This, in conjunction with growing levels of household debt, could create the preconditions for another round of financial distress. While fears of a bubble are limited, and the financial system is probably better prepared today than it was ten years ago, each new financial crisis presents novel features and potentially difficult challenges to the economic authorities.

These political and economic uncertainties compound the broader uncertainties about the course of American domestic and international economic policy. Many of the Trump Administration's political actions have, so far, been more extreme in rhetoric than in reality. Nonetheless, there seems to be little doubt that the President and many of those around him aim to alter substantially the form and the substance of American foreign policy in both the economic and non-economic realm. Were the stated strategies to be implemented, the United States would follow a mercantilist trade policy to reduce imports and expand exports; would tend to disadvantage foreign investment by American companies; and would restructure both its alliances and its participation in international institutions.

Whether or not the Administration is willing and able to follow these principles to their policy conclusions, they will have – and are already having – a profound effect on the world and America's

place in it. Policy-makers around the world have, quite reasonably, come to see that they can no longer rely on a continuation of traditional American positions in international economic, military, and diplomatic affairs. They have already begun to make preparations for a world in which the United States is conspicuous in its indifference or hostility to many of the traditional structures of the post-war world – structures it largely put in place itself. This suggests that major powers in Europe and Asia will work to build zones of economic, military, and diplomatic security with like-minded countries in their regions. The result could, ironically, be costly to the United States – and, potentially, to the world.

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