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The Red President

Through the Looking Glass

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This column is part of our new *"Through the Looking Glass"* series, in which we discuss unconventional ideas that challenge mainstream thinking. By turning the world upside-down we hope to glean valuable insights into an increasingly complex world. These thought experiments do not necessarily match our house view.

"You may call it 'nonsense' if you like, but I've heard nonsense, compared with which that would be as sensible as a dictionary!" (The Red Queen in *Through the Looking-Glass*, Chapter 2, 'The Garden of Live Flowers')

What if... the United States moves to the Far Left?

In the last few years, political analysts, reporters and economists have spent a lot of time digesting the presidency of Donald Trump and the rise of the far right in the United States. However, if the political center is losing its appeal to voters, it is not unthinkable that in the near or distant future the United States moves to the far left. In fact, if we look at the political opinions of Americans below 35 it could be argued that it is only a matter of time before the left wing of the Democratic party will set the national agenda. What would economic policy look like if the far left came to power in the United States? We take a look at the campaign promises made by Bernie Sanders, at present the strongest candidate from the far left, and a self-described 'Democratic Socialist.' We compare his policies to those of President Trump and highlight the economic theory that would make them possible.

Through the Looking Glass: from Populist Right to Populist Left

A 'Red President' – supported by Democratic majorities in the Senate and the House of Representatives – would reverse Trump's tax cuts and deregulation efforts, and make a radical shift in the spending pattern of the federal government.

The Trump tax cuts have mostly benefited corporations and high income individuals. In contrast, Sanders wants to make corporations pay their fair share of taxes by reversing Trump's corporate tax breaks and closing tax loopholes to raise up to \$3 trillion over 10 years. Instead, Sanders has an income inequality tax plan that would see progressively

higher corporate tax rates for companies with large gaps between their CEO and median worker pay. He would also introduce a financial transactions tax. What's more, he wants tax increases for the rich and a specific tax on extreme wealth for the top 0.1% of households.

Sanders wants to shift the wealth of the economy back into the hands of workers by giving them an ownership stake in the companies they work for. He also wants to break up 'corrupt' corporate mergers and monopolies, review all mergers that have taken place during the Trump administration and institute new merger guidelines. Moreover, Sanders wants to break up the too-big-to-fail banks and end the 'too-big-to-jail doctrine.' He would also reinstate the Glass-Steagal Act, separating investment banking from commercial banking.

The deregulation efforts by President Trump have also had a major impact on federal environmental policies. Early in his presidency Trump issued presidential memoranda regarding the construction of the Keystone XL and Dakota Access pipelines and withdrew from the Paris Agreement. In contrast, the Green New Deal proposed by Sanders commits to reducing emissions throughout the world, rejoining the Paris Agreement, and reasserting the United States' leadership in the global fight against climate change. It would increase investment in conservation and public lands. In Sanders' words the Green New Deal would 'end the greed of the fossil fuel industry and hold them accountable.'

However, what would not change very much is international trade policy. In fact, Sanders summarizes his view on international trade as 'fair trade', a word that has been used

by President Trump as well. Sanders wants to fundamentally rewrite all trade deals to prevent the outsourcing of American jobs and raise wages. He intends to eliminate the incentives baked into current trade and tax agreements that make it easier for multinational corporations to ship jobs overseas. He wants to undo the harm that trade agreements have done to family farmers. Finally, he would ensure that strong and binding labor, environmental, and human rights standards are written into the core text of all trade agreements. Except for the labor, environmental and human rights clauses, this sounds very similar to the views and actions of President Trump.¹

If the left takes control of the White House and Congress, federal government spending will shift from defense to health care, education, social programs, and the environment. Sanders wants Medicare for all, eliminate medical debt, and the creation of millions of healthcare jobs to support seniors and people with disabilities in their homes and communities. He also wants college for all, investment in public education, and the creation of new jobs in early childhood education. Sanders would also expand Social Security. The Green New Deal would transform the energy system to 100% renewable energy and create 20 million jobs needed to solve the climate crisis. It would entail investment in weatherization, public transportation, modern infrastructure, and high-speed broadband. Finally, Sanders wants jobs for all and the enactment of a federal jobs guarantee to ensure that everyone is guaranteed a stable job that pays a living wage. It is clear that this wish list does not only mean a shift in federal government spending but very likely a substantial increase as well.

¹ In our first Through the Looking Glass column we asked "What if the protectionists are right and the free traders are wrong?"

The Magical Printing Press

The spending plans of the left are so ambitious that the increase in tax revenue is likely to be outstripped by the increase in federal government spending. It seems that the populist left is as disinterested in balancing the budget as the populist right. Obviously, with low US treasury yields the US federal government can benefit from cheap borrowing. In fact, this is what the current administration is already doing. However, a populist left wing president could take it even further. While President Trump does not seem to care very much about the public debt, the far left even has an academic theory backing up deficit monetization. In fact, one of its main proponents, Stephanie Kelton, was Sanders' economic advisor in 2016.

According to 'Modern Monetary Theory' (MMT) as long as the US federal government² has a monopoly on creating the US dollar, and does not incur debt denominated in a foreign currency, it can continue to print money without the risk of a government default. Consequently, the government can simply monetize its debt. This also means that fiscal policy³ can be used to reach full employment allowing the federal government to provide a 'job guarantee.'

So under 'the Red President' the corporations and the rich pay more taxes, while the banks are cut into pieces. Meanwhile, workers will get a bigger slice of the pie and there will be jobs for all, college for all, Medicare for all and a Green New Deal. While this will increase the public debt, the printing press can solve this problem without the government getting into default. Economic theory or fairy tale: who can tell the difference?

² For simplicity MMT assumes this includes the Fed.

³ According to MMT, the only limit to fiscal policy would be the possible accelerating of inflation.

Through the Looking Glass

This column is part of our *Through the Looking Glass* series. Read more unconventional ideas in earlier publications:

1. [Hooray for Protectionism\(?\)](#)

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