

Conférence du Belgian Finance Club

The U.S. Presidential elections: the debt trap

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Brussels, March 2, 2020



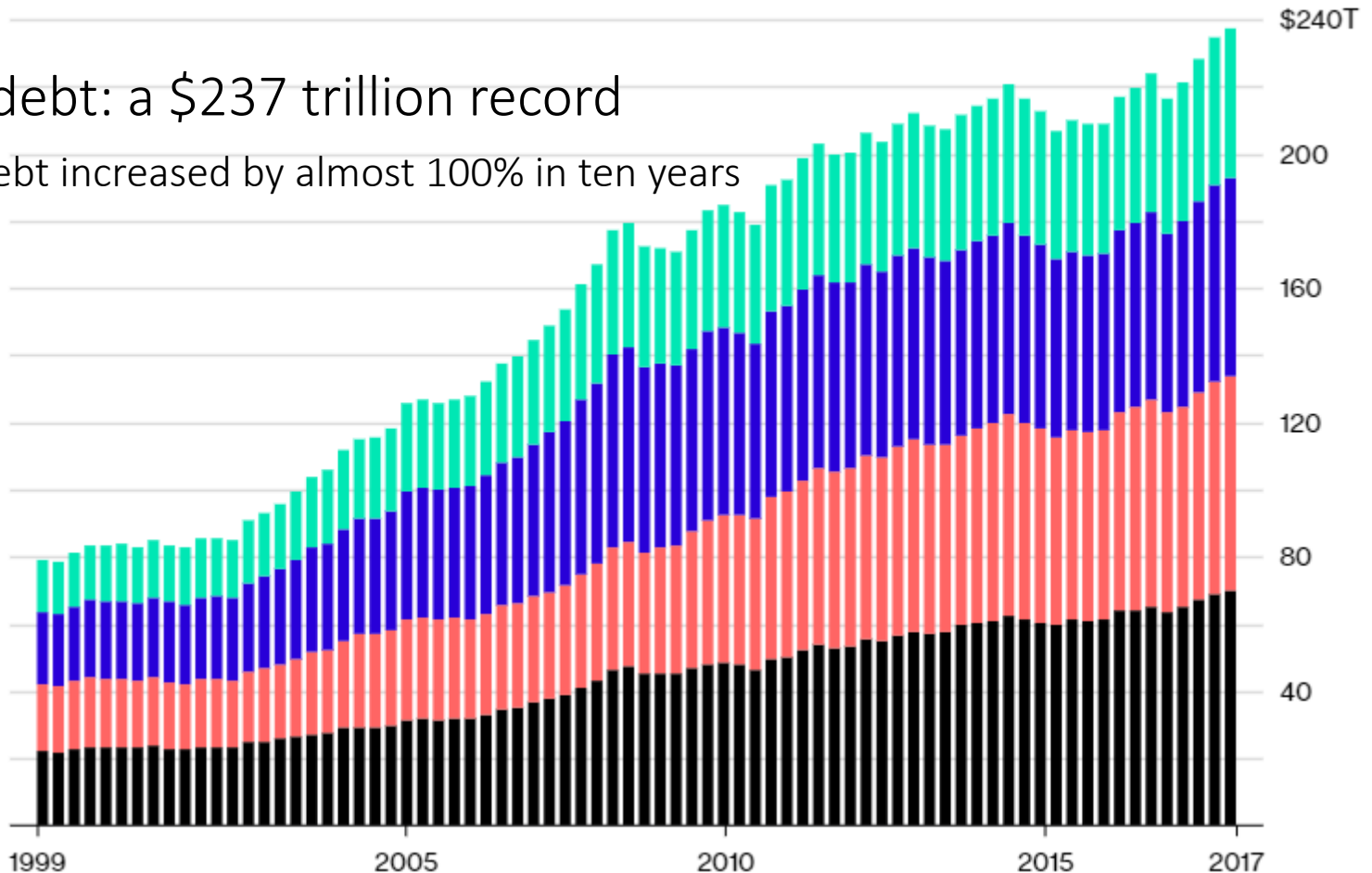
Recap of the previous episodes

A world of debt

■ Non-financial corporates ■ Government ■ Financial corporates ■ Households

World debt: a \$237 trillion record

Global debt increased by almost 100% in ten years

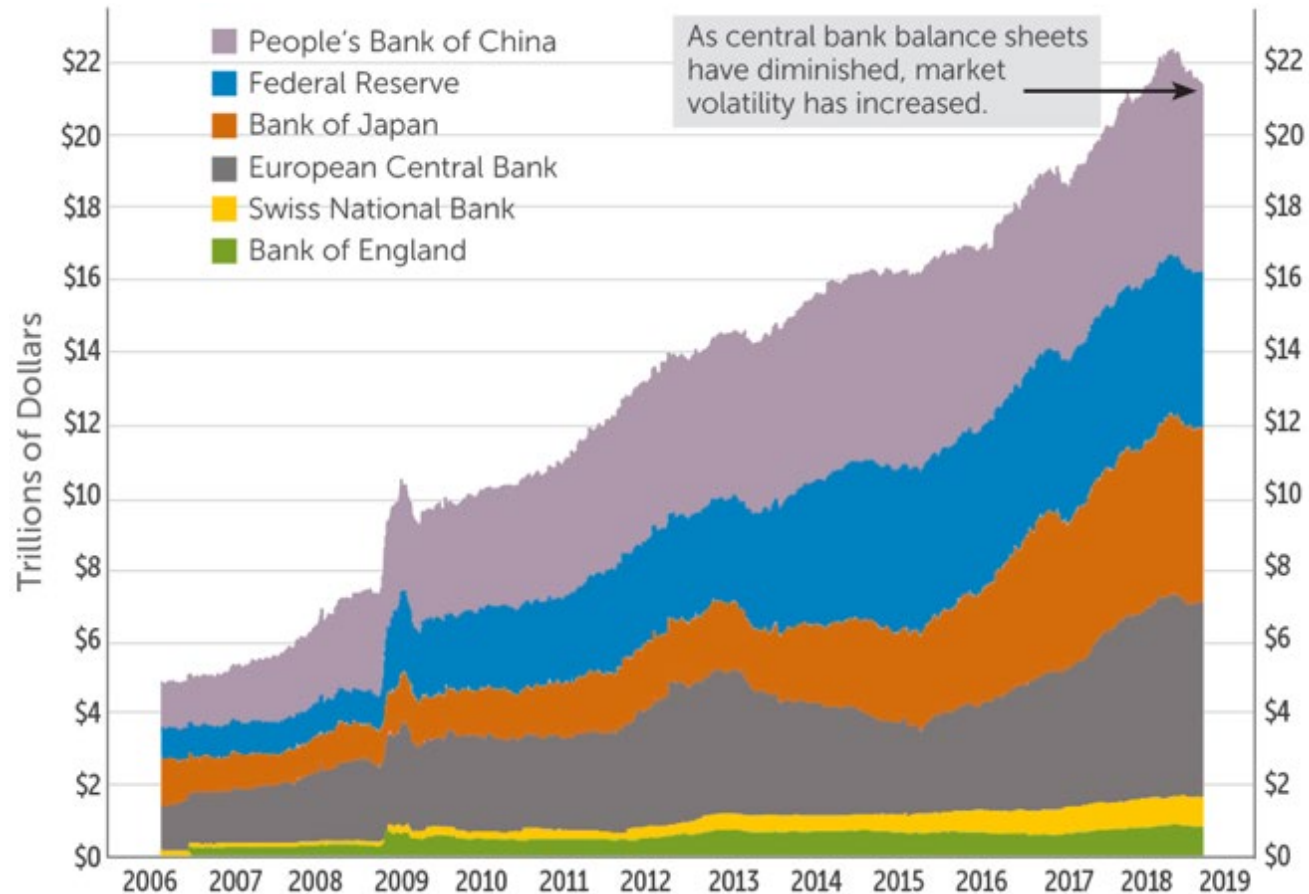


Sources: Bank of China, ECB, Swiss National Bank, Bloomberg, US Fed

Recap of the previous episodes

Largest Central Banks

Balance sheet now \$21 trillion, increased by 300% in ten years

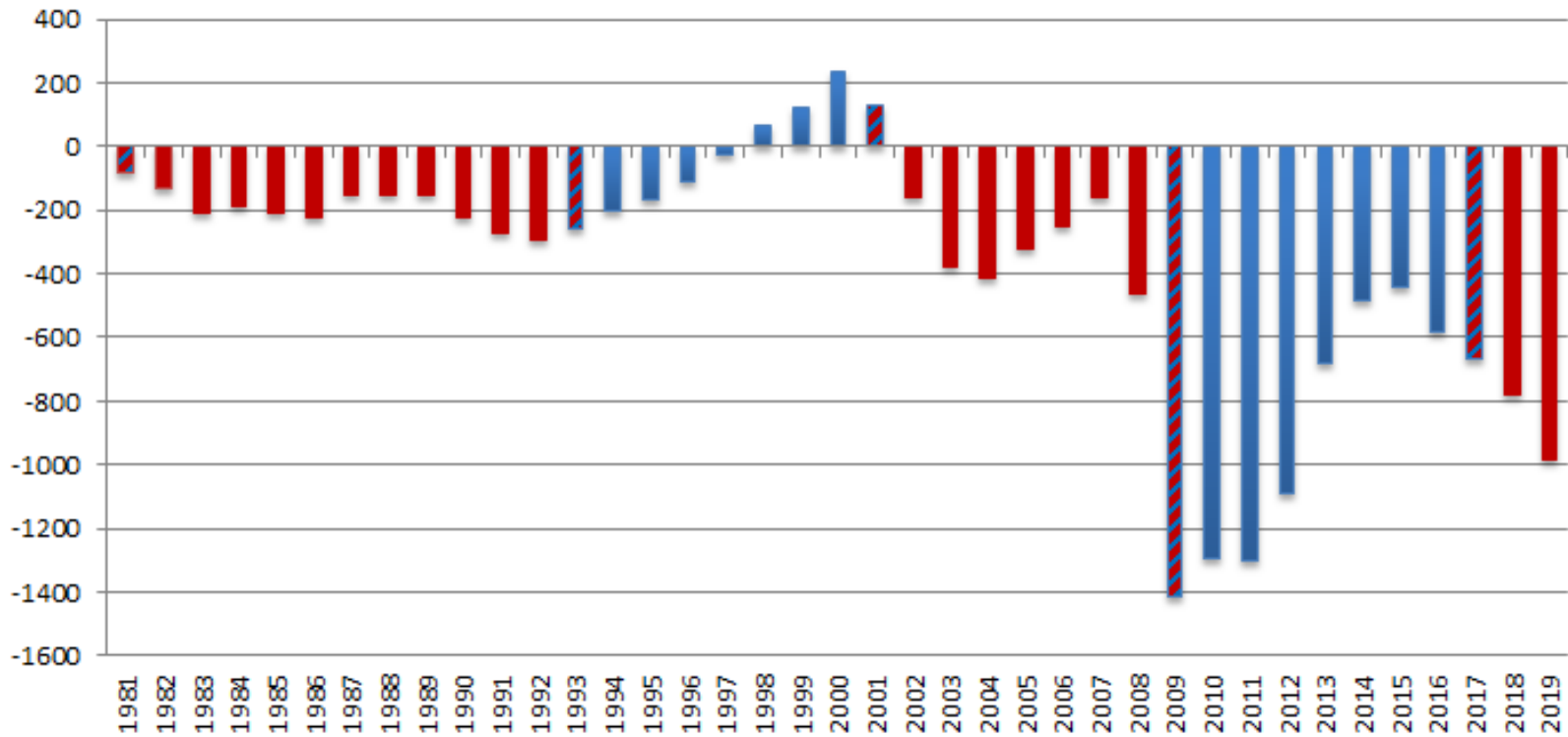


Sources: Bank of China, ECB, Swiss National Bank, Bloomberg, US Fed

Recap of the previous episodes

The U.S. budget deficit

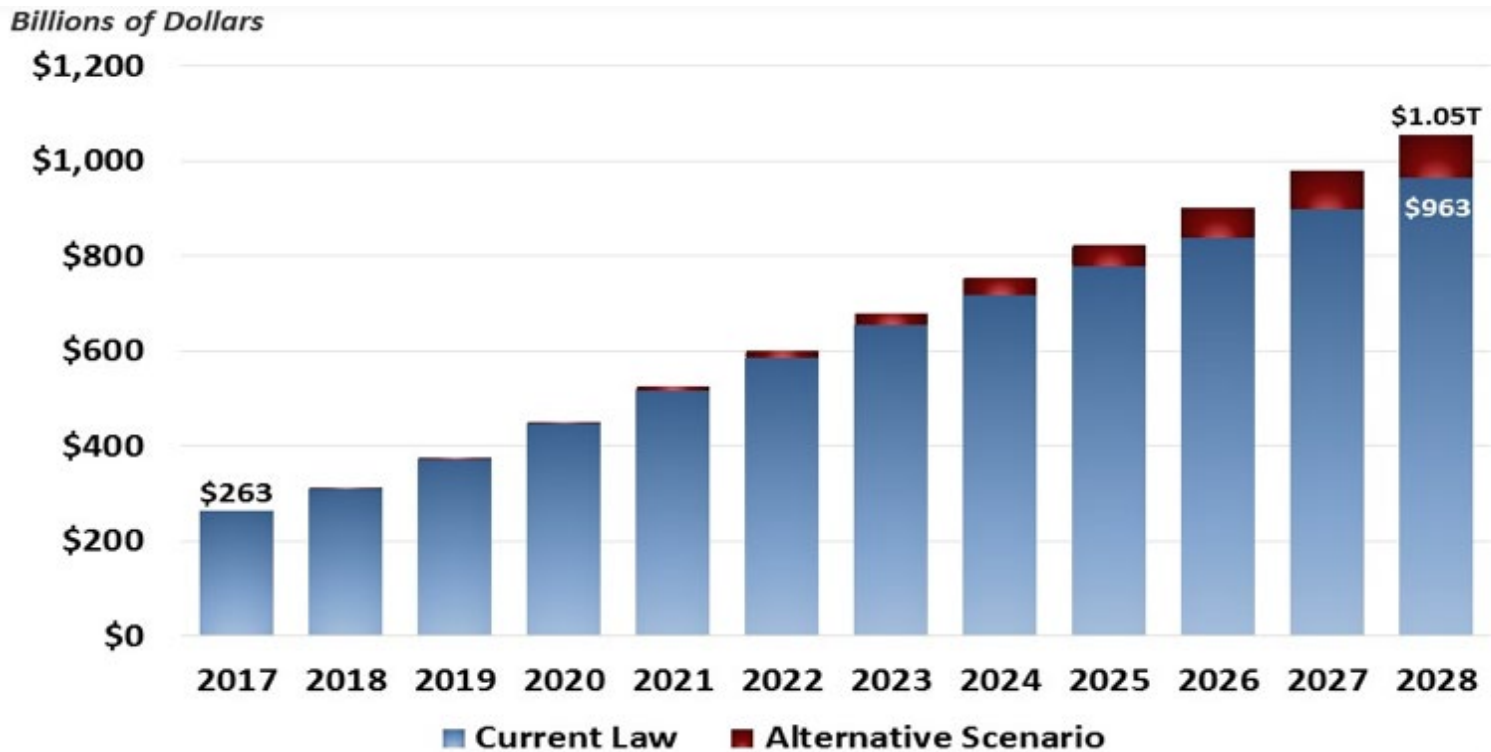
Over \$ 1 trillion a year



Recap of the previous episodes

The U.S. budget deficit

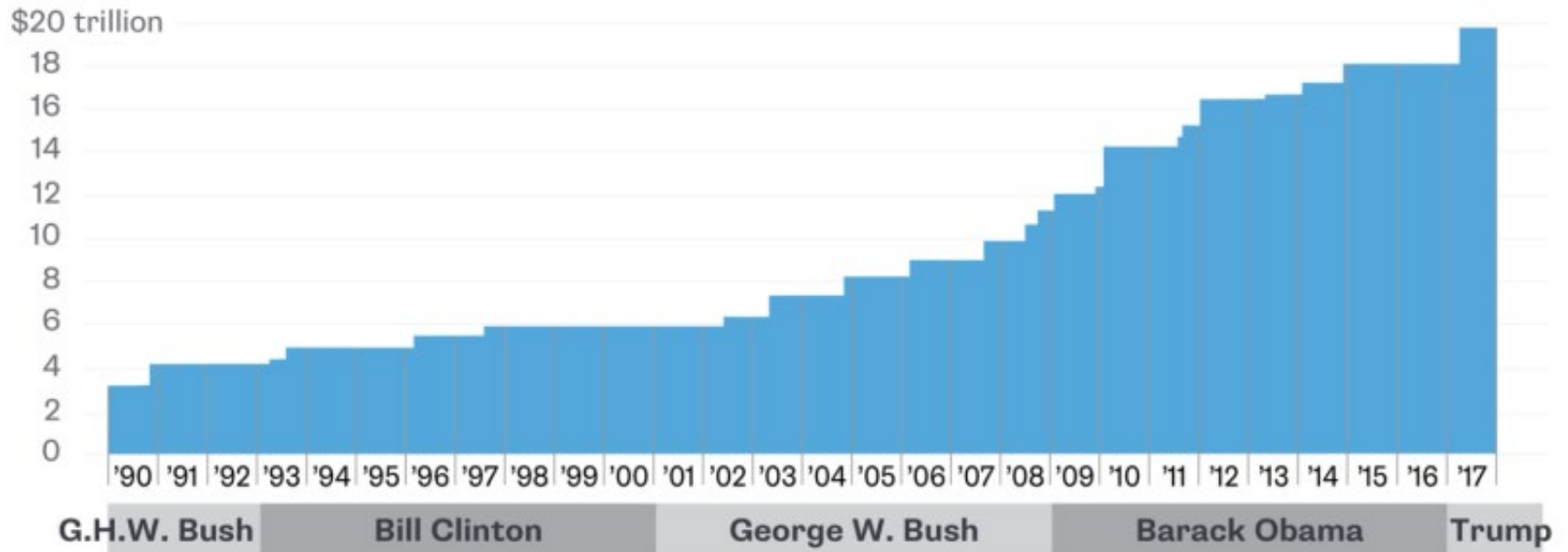
The unbearable charge of interest rates



Source: CRFB

Recap of the previous episodes

U.S. debt “ceiling”



Recap of the previous episodes

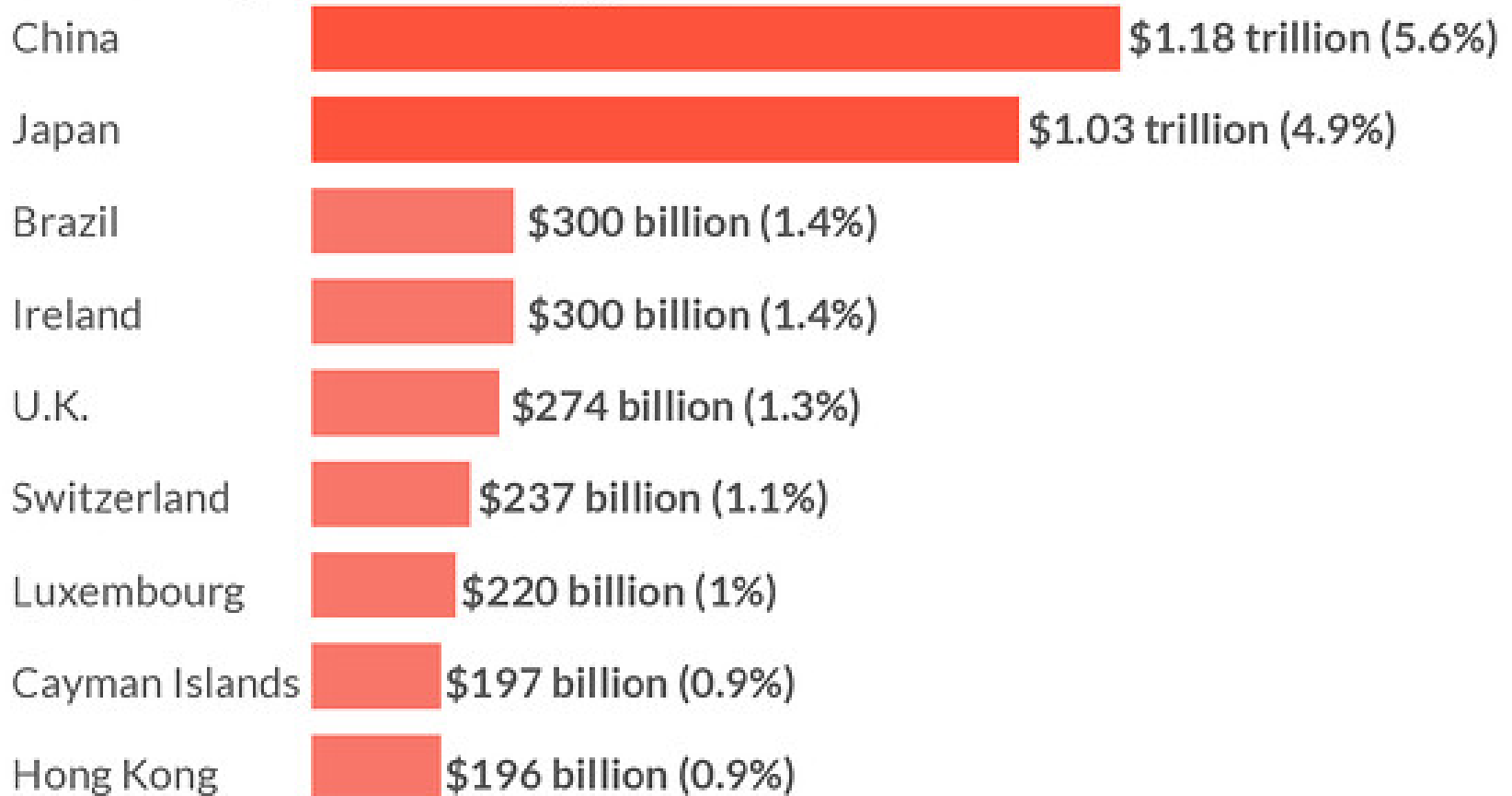
U.S. public debt exceeds \$23 trillion

Above 100% of GDP since 2016



Recap of the previous episodes

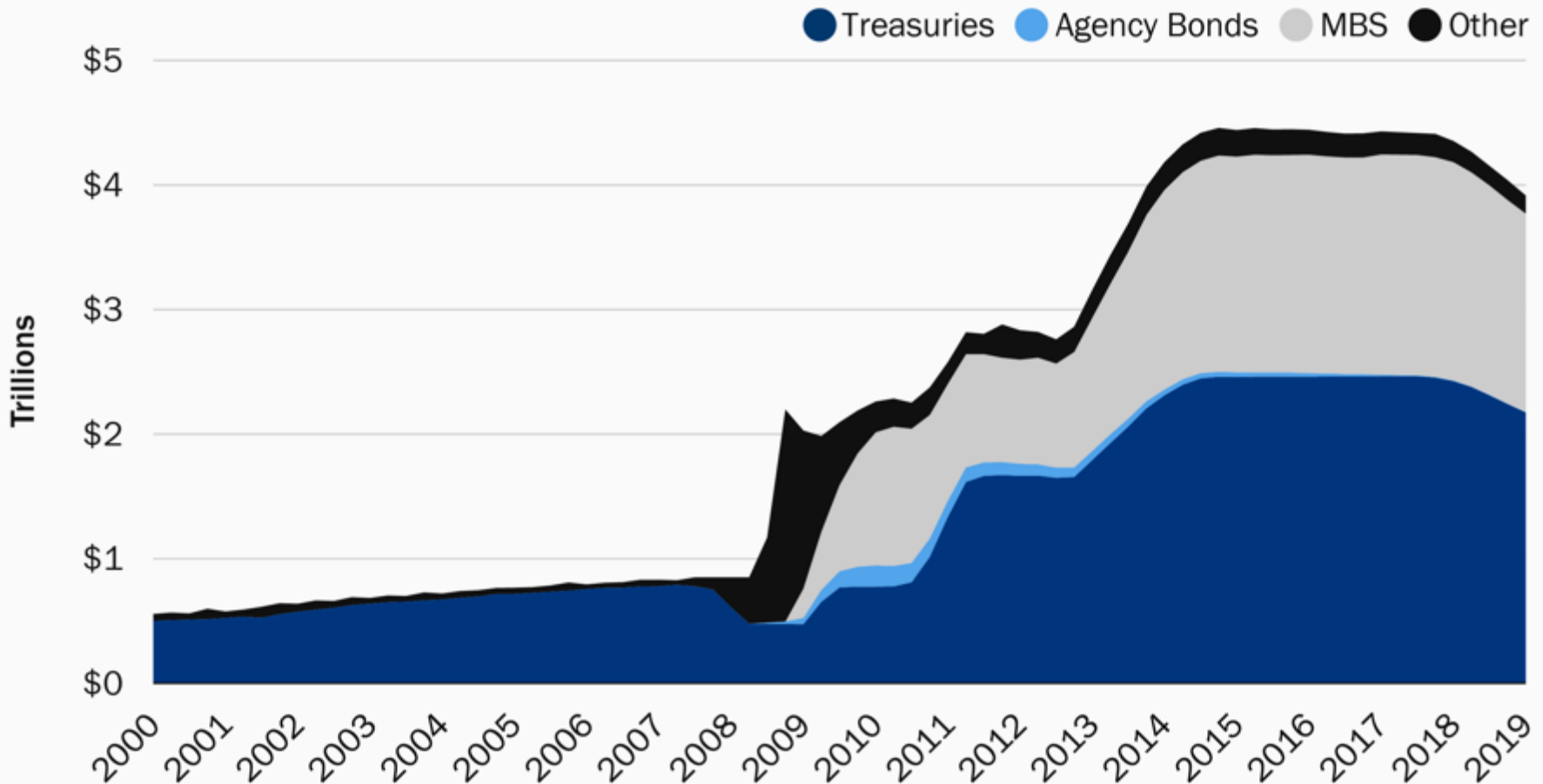
Top foreign owners of US Debt national debt



Recap of the previous episodes

The U.S. Fed's bloated balance sheet

Still recovering from three waves of Quantitative Easing

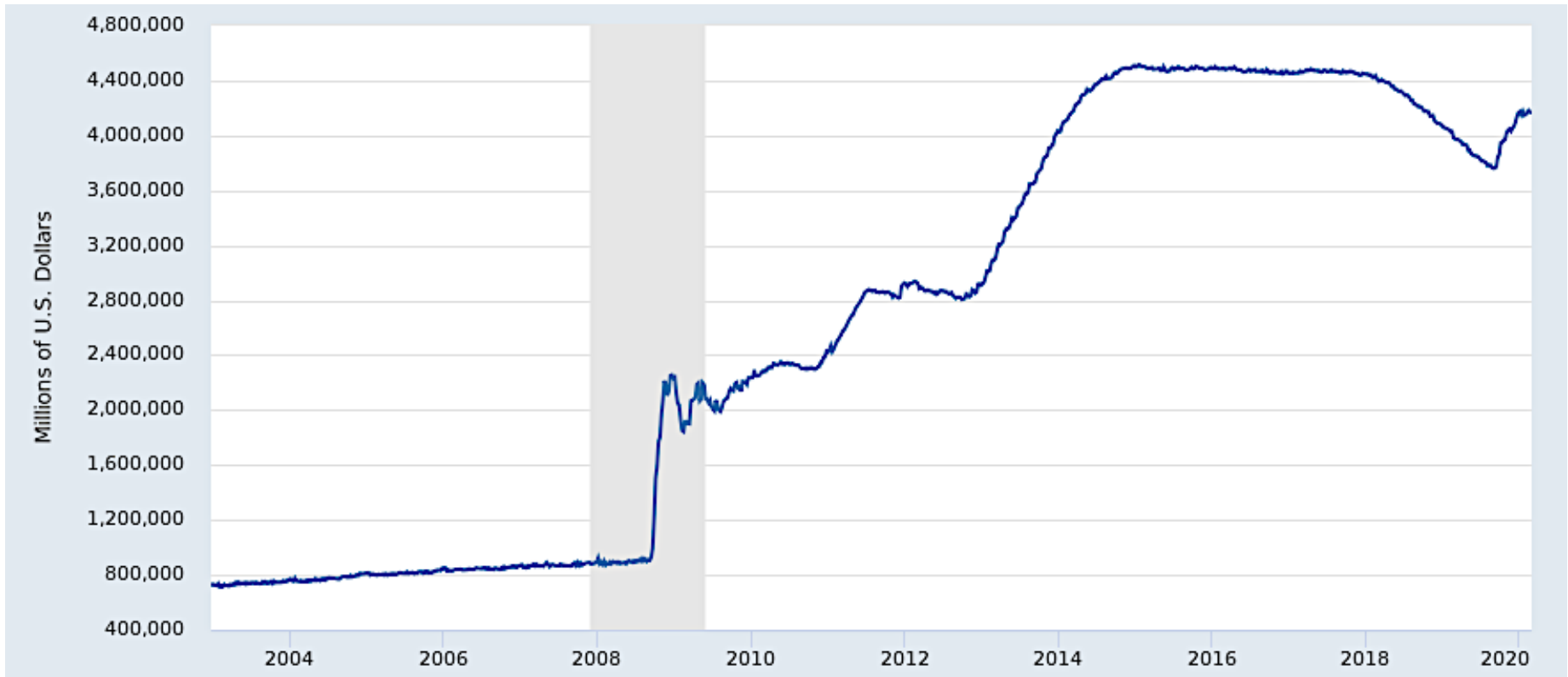


Sources: Brookings

Recap of the previous episodes

The U.S. Fed's bloated balance sheet

Still recovering from three waves of Quantitative Easing



This season

A triangular election



The incumbent



The liberal left



The moderates

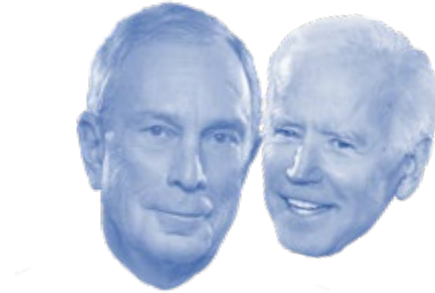
This season

Revenues



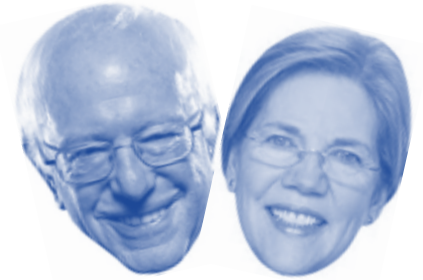
Lower taxation for the top 1%

Lower corporate taxes: 21%.



Higher Taxation for the top 1% at 39.6% + surtax above \$5 million

Higher corporate tax: 28%



Higher Taxation for the top 1%

Higher corporate tax based on the gap between the remuneration of the CEO and staff up to 35%

\$ 10 trillion of tax on fossil fuel companies

This season

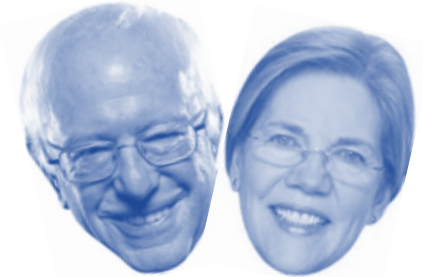
Expenses



- Defense
- “The Wall”
- Increased interest rate charges



- Climate change
- Clean cities
- Education
- Gradual spreading of healthcare



- College debt reimbursement
\$ 10 trillion
- Health Care for All
\$ 20 trillion

This season

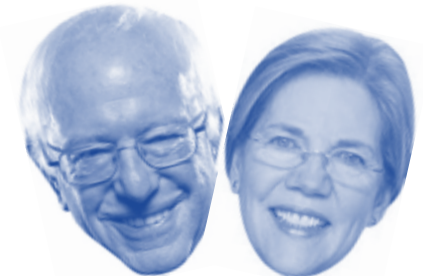
The Health Care debate



- Precious condition
- Abortion
- Restricted to citizens
- Kill Obamacare



- Gradual spreading of healthcare
- Adding a public option

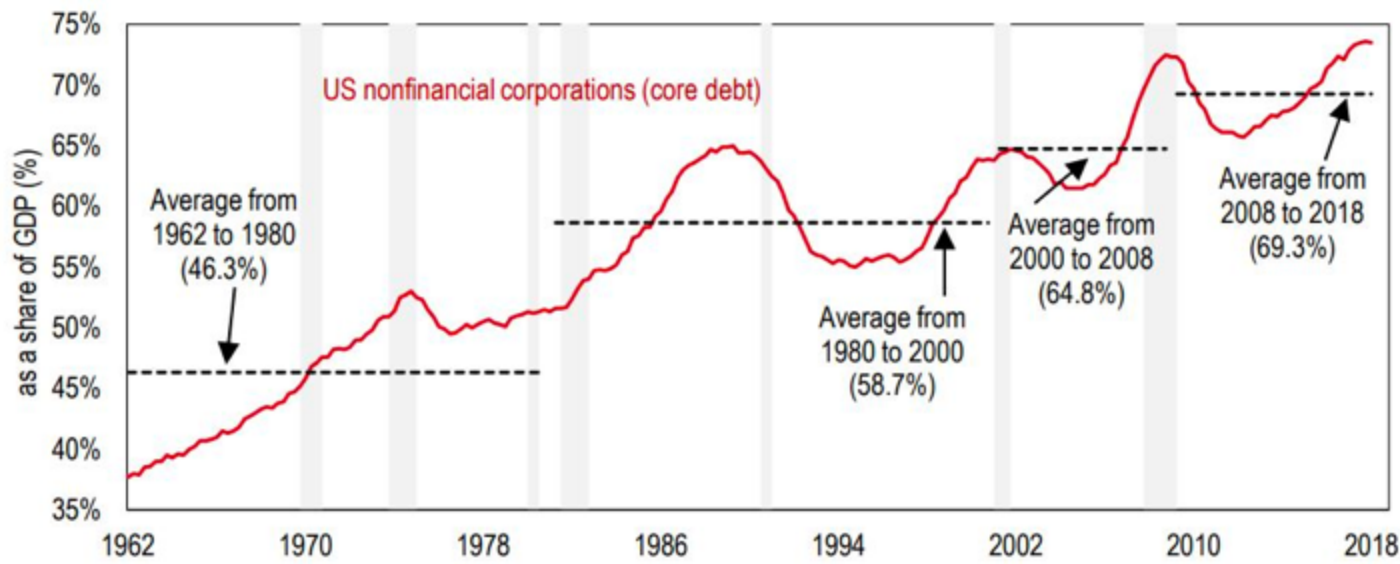


- Health Care for All
- Reduction of drug prices
- Sanders: Replace private healthcare insurance with public system

This season

Corporate U.S. debt

- Share buy-backs and the stock market
- M&A
- Corporate income tax reduction

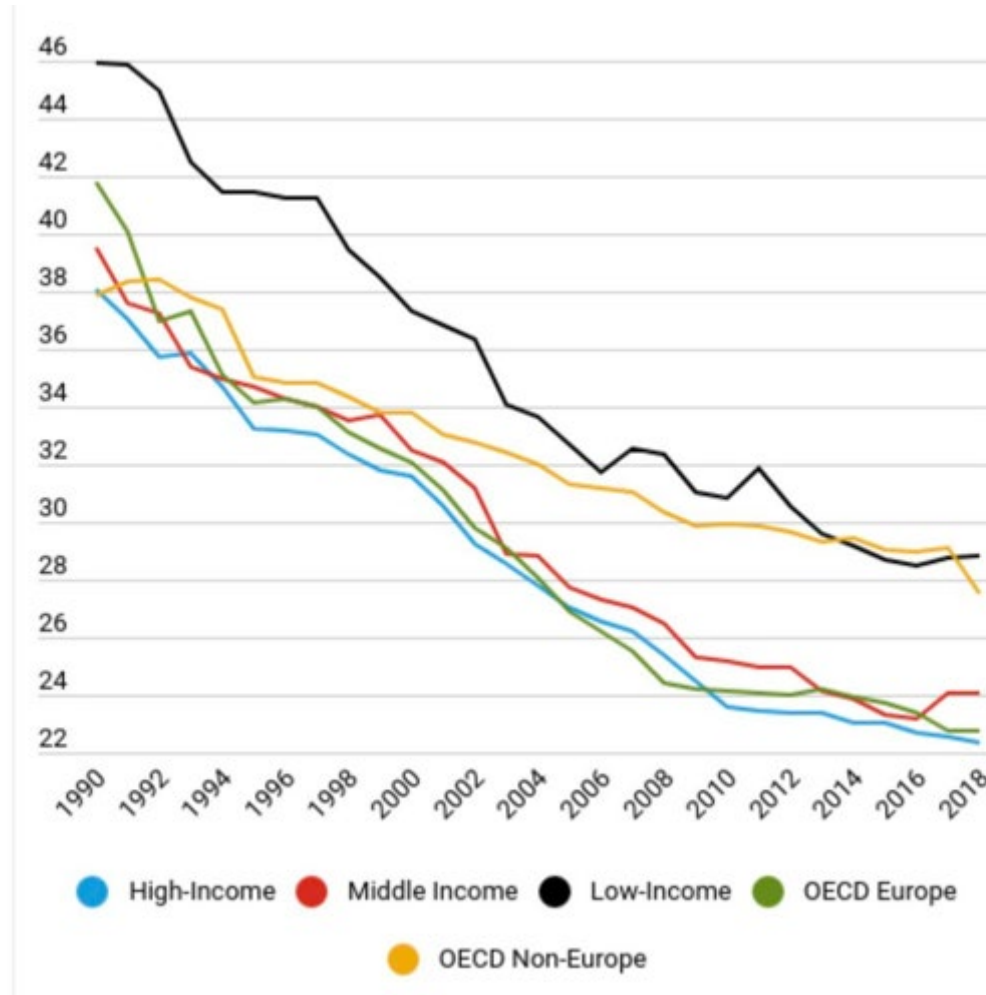


Source: HSBC

This season

Corporate income tax reduction

Corporate income tax rates have fallen significantly over the past three decades



Source: Adam Tooze

This season

Corporate income tax reduction

	Income	Federal Tax	Effective tax
Amazon.com	\$10,835	-129	-1%
Delta Air Lines	\$5,073	-187	-4%
Chevron	\$4,547	-181	-4%
General Motors	\$4,320	-104	-2%
EOG Resources	\$4,067	-304	-7%
Occidental Petroleum	\$3,379	-23	-1%
Honeywell International	\$2,830	-21	-1%
Deere	\$2,152	-268	-12%
American Electric Power	\$1,943	-32	-2%
Principal Financial	\$1,641	-49	-3%
FirstEnergy	\$1,495	-16	-1%
Prudential Financial	\$1,440	-346	-24%

Source: Center for Public Integrity

This season

American household debt

- Debt and housing
- Tax on the middle class
- Inequality of revenues
- Healthcare costs

Responsible households

Household Debt Service Payments as a % of Disposable Personal Income



Source: St. Louis Fed

The prospect for the next five years

No fiscal discipline and ballooning debt could bankrupt the United States

- No candidate has addressed the budget deficit and the public debt: the ballooning federal debt and deficit threaten federal safety net programs, could drive down incomes and hinder the federal government's ability to respond in a crisis.
- All Democratic candidates want to increase tax revenues from corporates and the wealthy: they differ on the method and the taxpayers.
- Public debt will approach \$30 trillion by 2025, growing at 10 % while the GDP will probably grow at 2-3%.
- Healthcare costs will explode (unless Trump is re-elected) over and above this amount.
- Interest rate costs are at \$500 billion and, at current interest rates, exceed \$1 trillion in 5 years.
- The rating of the U.S. cannot be maintained at AAA.

US Treasuries are no longer a safe harbor for investors

The prospect for the next five years

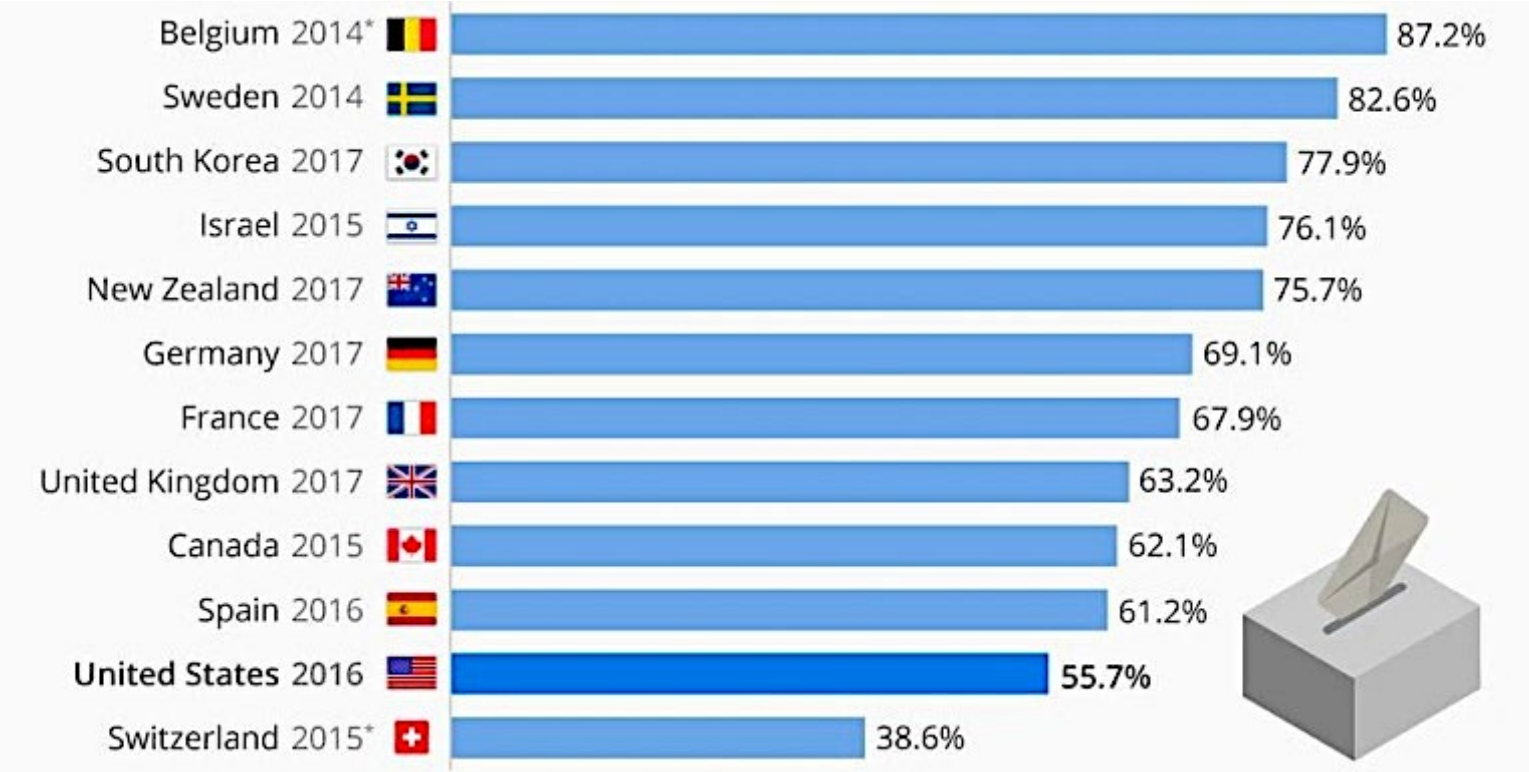
Will the American people revolt?

- Health care has become a luxury: only Democrats will fight to restore it by adding a public option.
- The middle class will shrink, limiting the potential of entrepreneurship
- Corporate governance has been replaced by meritocracy
- Another term of Trump would destroy the rule of law
- Families are being separated as immigration exposed the cruelty of the Republicans
- Every single war has been lost by the U.S. despite outgrowing the defense expenses of other countries by a factor of three
- Drinking water is no longer safe
- Climate change is ignored at federal level

There is a significant risk of social unrest that only the Democrats are facing and trying to manage

Voter turnout

Share of voting age population that voted in the most recent national election



Source: Statista



PRESIDENTIAL ELECTION

