**Exante Data Letter on Trump’s Socialism**

**September 4th, 2018**

Dear Friends and Colleagues,

Socialism means something different in different countries and at different times.

In the Soviet Union, various forms of economic socialism meant that the government directed (and largely owned) all production infrastructure; and that price mechanisms had been disabled in many important respects (at least officially).

In the Scandinavian countries, there is a so-called social-democratic model, which is mostly characterized by economic redistribution through high taxes that enable universal health care, free education, as well as comprehensive social security protections.

In the US, socialism is mostly a word used by the right of the political spectrum to raise suspicion that something is really wrong about left-wing politics. For example, President Obama’s policies were often called socialist by right wing commentators. But it is less clear what is really meant by socialism in the US debate, although it clearly describes something nefarious.

The irony is that President Trump’s policies on trade contain elements of economic socialism. Some of the mechanisms involved hark back to an era of “managed trade” (instead of “free trade”) and are at times more akin to the system that was used in Eastern Europe when it was part of the Soviet sphere of influence in the 1960-1990 period.

For example, the new trade deal with Mexico has stipulations on minimum wages in the rules of origin provision (as a requirement on the automotive sector to be eligible for free trade). The rules of origin further include demands on increased sourcing of steel and aluminum from within the block to avoid tariffs, and these products are themselves currently the subject to “national security” tariffs.

Meanwhile, President Trump is threatening additional car tariffs to influence the allocation of resources on a global scale, and he has rejected the “zero tariff” offer from the European Union, based on what he views as unwelcome consumer preferences of households in the European Union. These are all signs of a deliberate attempt at “managing” trade and forcing economic outcomes onto the system, rather than relying on market mechanisms to determine those outcomes.

It is a new world, where the division between Left and Right on the political spectrum is clear. We can see that in the United States, Italy and in France. On trade issues, the traditional right can sometimes seem more “socialist” than the left.

For investors, this entails additional layers of uncertainty. There is the usual uncertainty around elections (who is going to be elected with what mandate). But then there is the additional uncertainty relating to whether existing parties will stick to past ideology in the policies they support, or adopt a fresh populist face. Investors will have to take both layers of political uncertainty into account when making investment decisions.