

ECONOMICS

JOE BIDEN IS DROPPING OUT OF THE PRESIDENTIAL RACE

Dr. Jörn Quitzau, 22 July 2024

- **US President Joe Biden is withdrawing from the race for the 2024 presidential candidacy.**
- **The prediction markets are currently pricing in an 80% probability that Vice President Harris will be nominated as the Democrat's presidential candidate.**
- **Both the race for the presidency and the majority in the two chambers of Congress remain open.**

It has already become apparent in recent weeks, but now it is certain. US President Joe Biden will not be standing for re-election on November 5, 2024. Instead, the Democrats will probably send Vice President Kamala Harris into the race. She has a doctorate in law and grew up in California. Harris was a senator for California from 2017 to 2021. In 2019, she entered the race for the Democratic presidential nomination. After her chances of winning looked slim, she dropped out of the presidential race and supported Joe Biden as a challenger to the then incumbent President Donald Trump. At the time, Kamala Harris was seen as the Democrats' ray of hope and was considered a potential successor to Joe Biden. Due to Joe Biden's advanced age, there were even voices that thought an orderly handover of office from Biden to Harris was likely halfway through the term. However, Kamala Harris remained very pale during Joe Biden's term of office, meaning that her chances of a future presidency continued to dwindle. She also failed to accomplish the ungrateful task of limiting the growing inflow of migrants across the Mexican border. In this respect, Harris' candidacy is no longer a logical ideal appointment, but can be described as an emergency solution. The fact that the choice within the Democratic Party may fall on her and not on one of her internal party rivals may also have to do with some legal and administrative matters that make it considerably easier for the incumbent Vice President to continue the election campaign that is already underway.

The candidate exchange is once again shaking up the election campaign. Joe Biden seemed to have virtually no chance after his health problems and multiple failures in the first TV debate with Donald Trump and on other occasions. The assassination attempt on Donald Trump had made him even more of a favorite. However, looking at the prediction markets, the race is not over yet. This applies both to the office of President and to the majority in both chambers of Congress. The probability of victory for Donald Trump is currently around 60% and for Kamala Harris around 30%. The probability of a Republican majority in the Senate is around 75%; in the House of Representatives, the Democrats are currently slightly ahead again.

The outcome of the elections in November is primarily of foreign policy significance. The Democrats stand for a continuation of transatlantic relations along the usual lines, a firm commitment to NATO and support for Ukraine in the war against Russia. Donald Trump and his newly elected Vice President J.D. Vance stand for a tougher stance towards NATO partners, from whom they are demanding a significantly higher financial commitment within the defense alliance. The strong support for Ukraine and its defense goals is on shaky ground, as Donald Trump has announced his intention to bring the two war parties to the negotiating table. It is difficult to say which of this is campaign rhetoric and which is serious. For Europe and the European Union, a Trump government would once again be a major challenge.

In terms of economic policy, there would probably be fewer disruptive elements in Donald Trump's new term of office compared to 2016. His rejection of free trade ("America first") and his tough stance against China were perceived as taboo-breaking at the time. This anti-trade stance has not only been adopted by the Biden administration, but turning away from free trade is also considered socially acceptable internationally. The comeback of a strategic industrial policy to protect its own economy, which was once despised, is now often seen as a matter of course in Europe. Regardless of the outcome of the election, the USA is likely to continue its lax fiscal policy and drive up national debt further. However, there are major differences beneath the surface. The Democrats would tend to drive up deficits through higher government spending, while the Republicans would rather burden the national budget with unfinanced tax cuts. The Democrats, on the other hand, are relying on higher taxes, which are unlikely to generate the desired additional revenue due to their discouraging performance and investment incentives.

Overall, the different objectives of the two parties can largely be categorized according to their economic policy traditions. The Democrats would focus more on redistribution and accept a greater burden on the economy in return. The Republicans focus on pro-business measures. The Republicans' program is "pro-business", but not necessarily "pro-market", as shown by their rejection of free trade.

In addition, a new U-turn in environmental policy could be expected under Donald Trump. This would have implications for the energy sector in particular, as Donald Trump is open to fossil fuels. This issue is also likely to lead to further tensions in transatlantic relations.





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