

THE ECONOMIC CONSEQUENCES OF MR TRUMP

PRESENTATION TO INDEPENDENT ECONOMICS

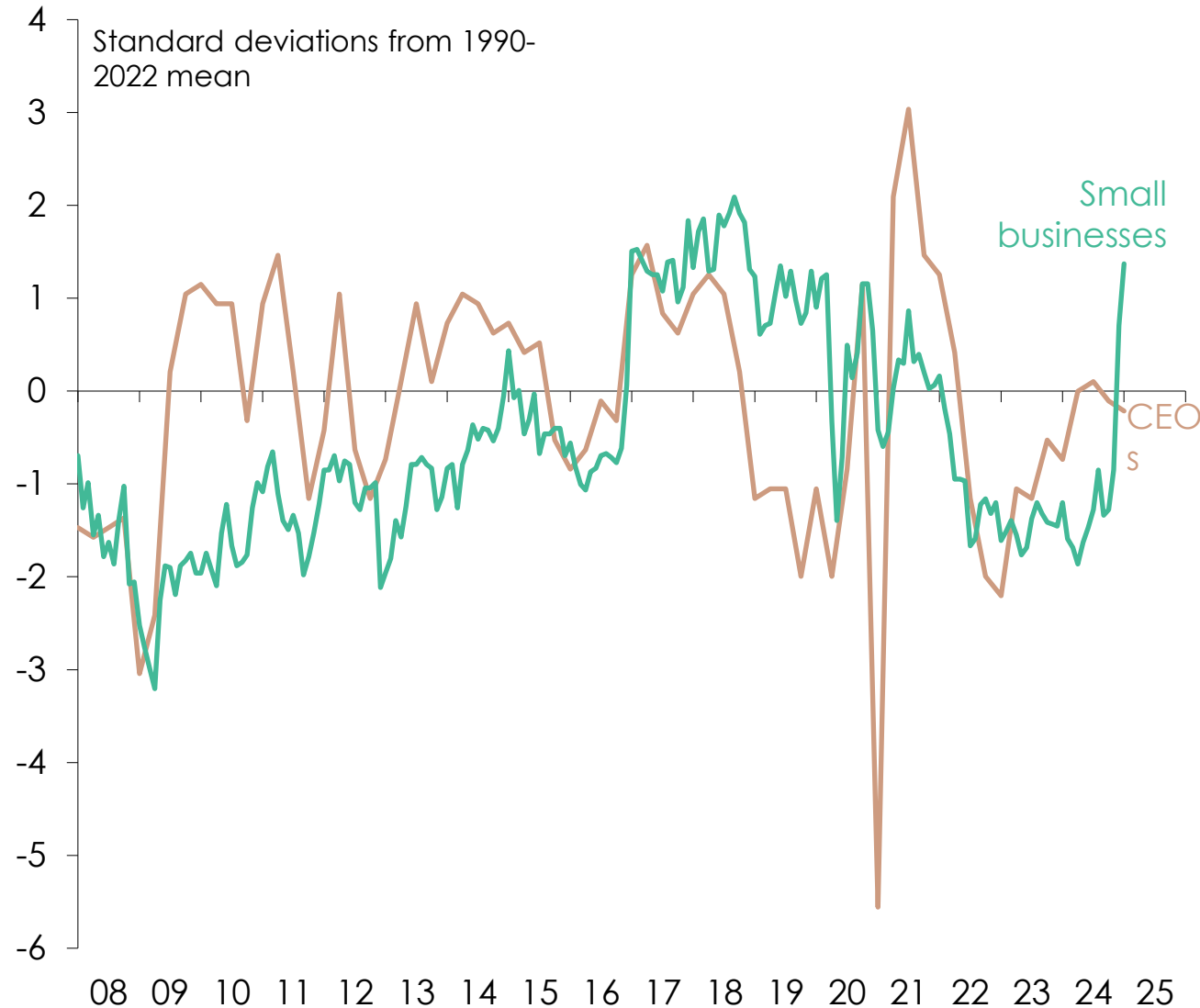
28TH JANUARY 2025

SAUL ESLAKE

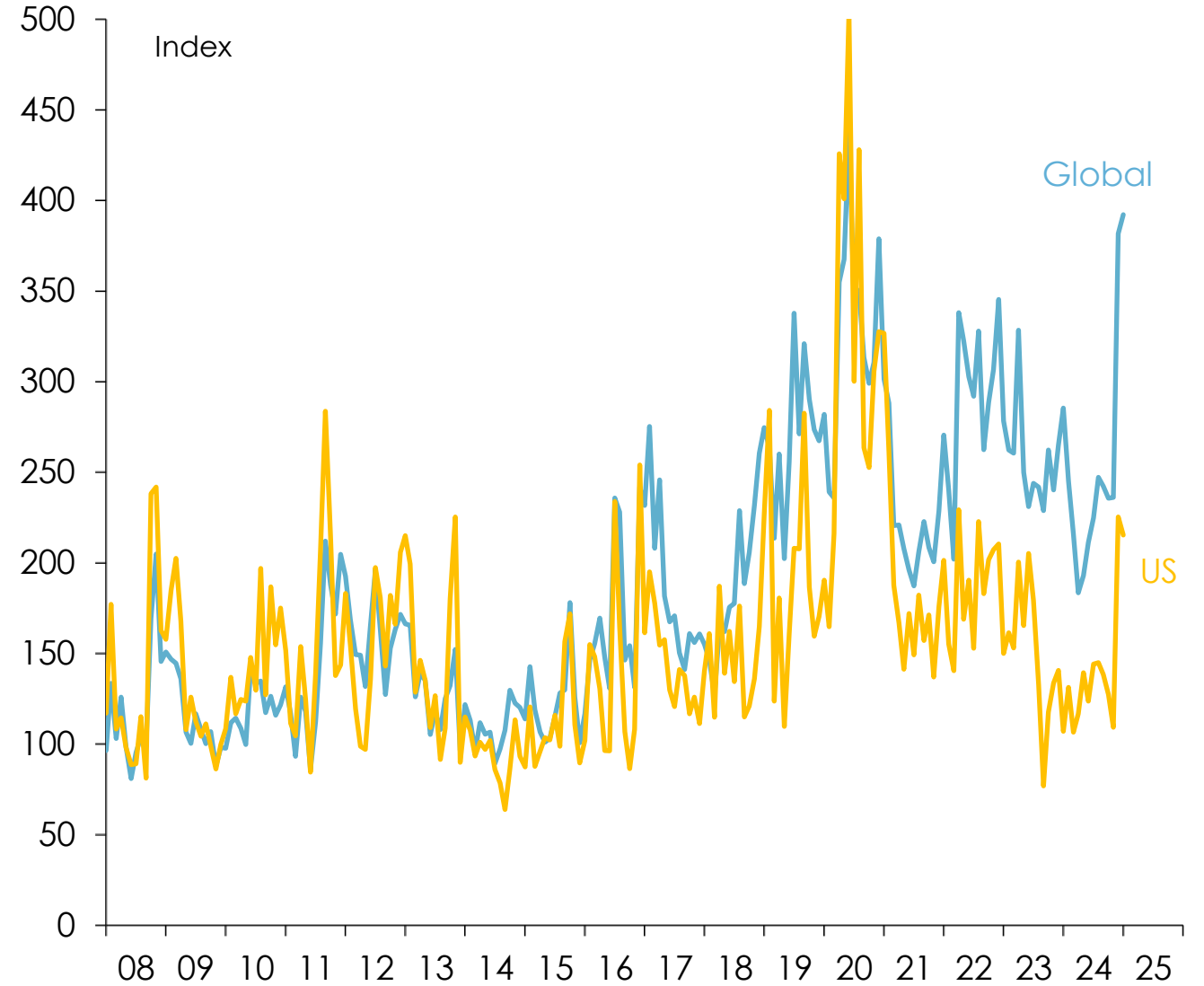
CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

Small businesses love Trump, even if CEOs don't – despite a substantial increase in uncertainty about economic policy (especially outside the US)

Measures of business confidence



Uncertainty about economic policy



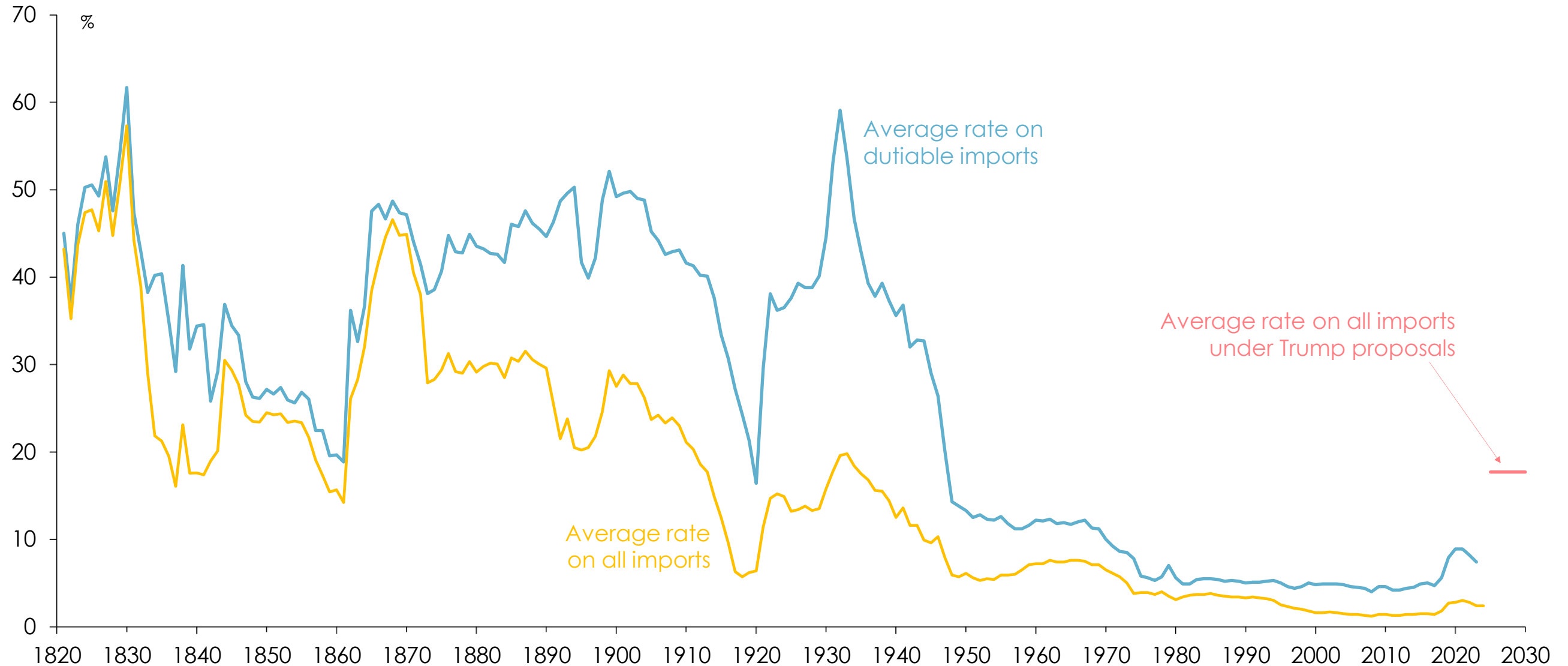
Note: The Economic Policy Uncertainty Index is a GDP-weighted average of indices for 21 countries derived from newspaper articles mentioning the economy, policy and uncertainty. Sources: National Federation of Independent Businesses, [Small Business Economic Trends Survey](#); The Conference Board, [US CEO Confidence](#); Dario Caldara and Matteo Iacoviello, [Global Economic Policy Uncertainty Index](#).

What will a second Trump presidency bring on the economic policy front?

- ❑ One of the key elements of Trump's appeal to his supporters is that he usually does what he says he is going to do
 - but the results of him doing what he has said he is going to do are often different from what he has said the results will be
 - it's not clear (at this stage) whether some of his stated intentions are 'negotiating tactics', or genuine intentions
 - and while a lot of what he has said he will do can be done by executive actions, it's not clear that he will get Congressional approval for all of those things that can't be done without Congressional approval
- ❑ Trump has proposes a 60% (or higher) tariff on all US imports from China, and a 10% tariff on everything the US imports from every other country
 - since the election he has threatened to impose 25% tariffs on imports from Canada and Mexico but only 10% on China
- ❑ He's proposed 'the largest deportation operation in American history', targeting what he says are 15-20 million unauthorized immigrants in the United States, of whom about 8¼ million are thought to be in the workforce
 - modelled on 'Operation Wetback' implemented by the Eisenhower Administration in 1956, which saw 1.3 million Mexicans deported from the United States
- ❑ Trump also proposes to extend the tax cuts implemented in 2017 (which are due to expire in 2025)
 - which the Congressional Budget Office estimates would boost budget deficits over the ten years to 2034 by over US\$4 trillion (he Committee for a Responsible Federal Budget says \$7¾ trillion)
 - inevitably resulting in higher US interest rates (and hence higher interest rates everywhere else)
 - unless Elon Musk & Vivek Ramaswamy's 'Department of Government Efficiency' really can reduce government spending by US\$2trn
- ❑ He has foreshadowed an erosion of the independence of the Federal Reserve
 - Speaking to the World Economic Forum on 24th January, Trump said he would "demand" lower interest rates, adding that "I think I know interest rates much better than they [the Fed] do...And I think I know it certainly much better than the one who's primarily in charge of making that decision [Fed Chair Jay Powell]"

Trump's tariff proposals – if implemented in full – would raise the average level of US tariffs to their highest since the end of World War II

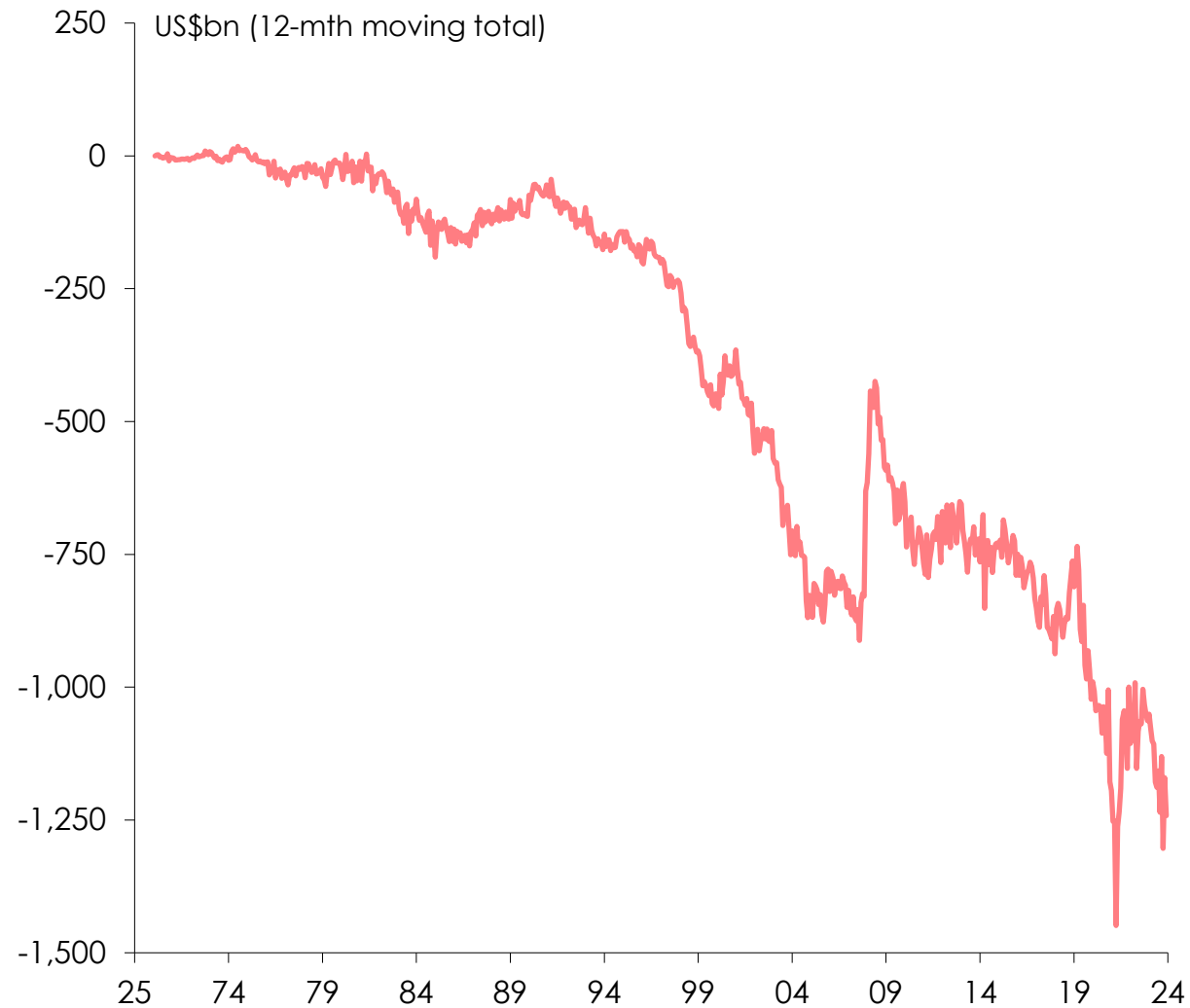
US tariffs



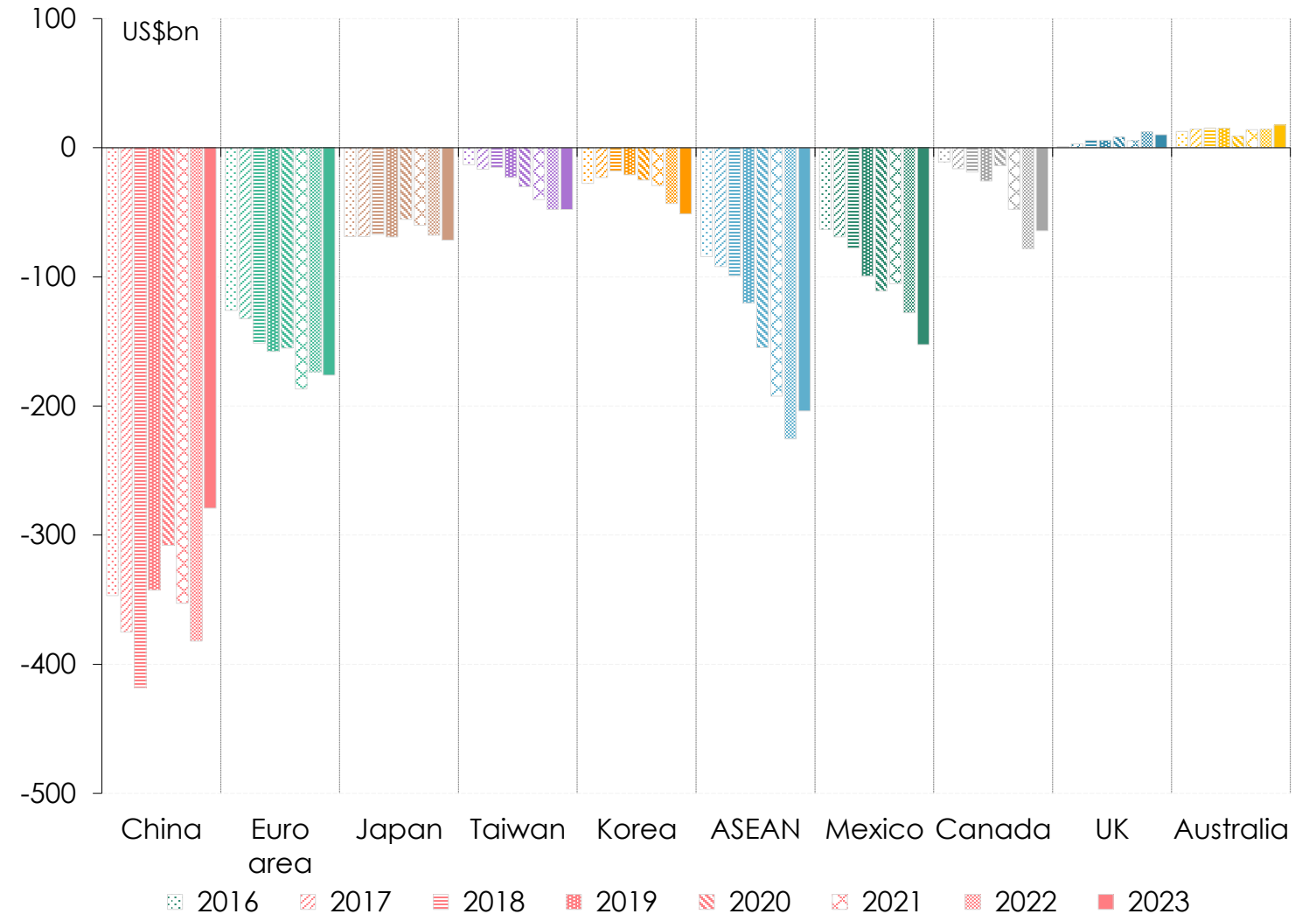
4 Source: Erica York, [Trump's Tariff Proposals Would Raise Tariff Rates to Great Depression-Era Levels](#), The Tax Foundation, 1st October 2024.

The Biden Administration kept, and in some cases increased, Trump's tariffs – they did nothing to reduce the US trade deficit, just redistributed it

US merchandise trade balance

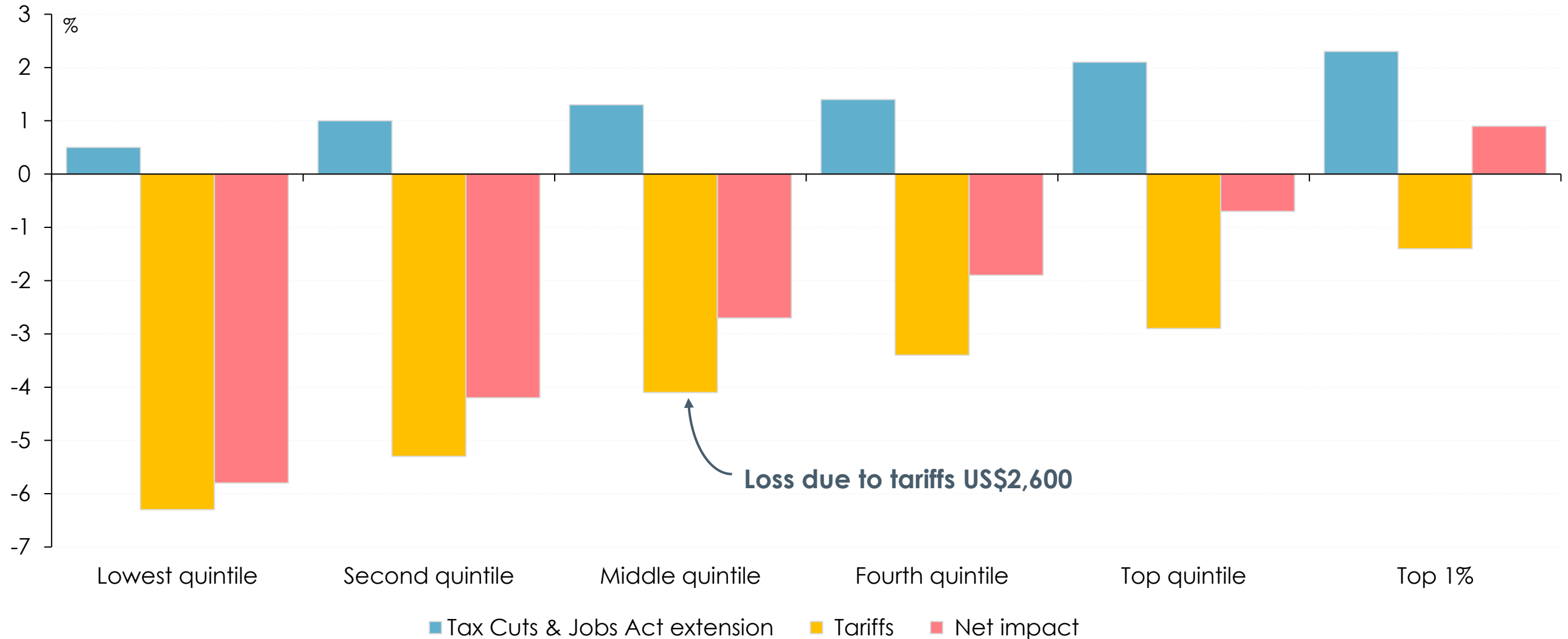


US bilateral merchandise trade balances



Donald Trump's proposed tax increases on imports (aka 'tariffs') would make the average American household US\$2,600 per annum worse off

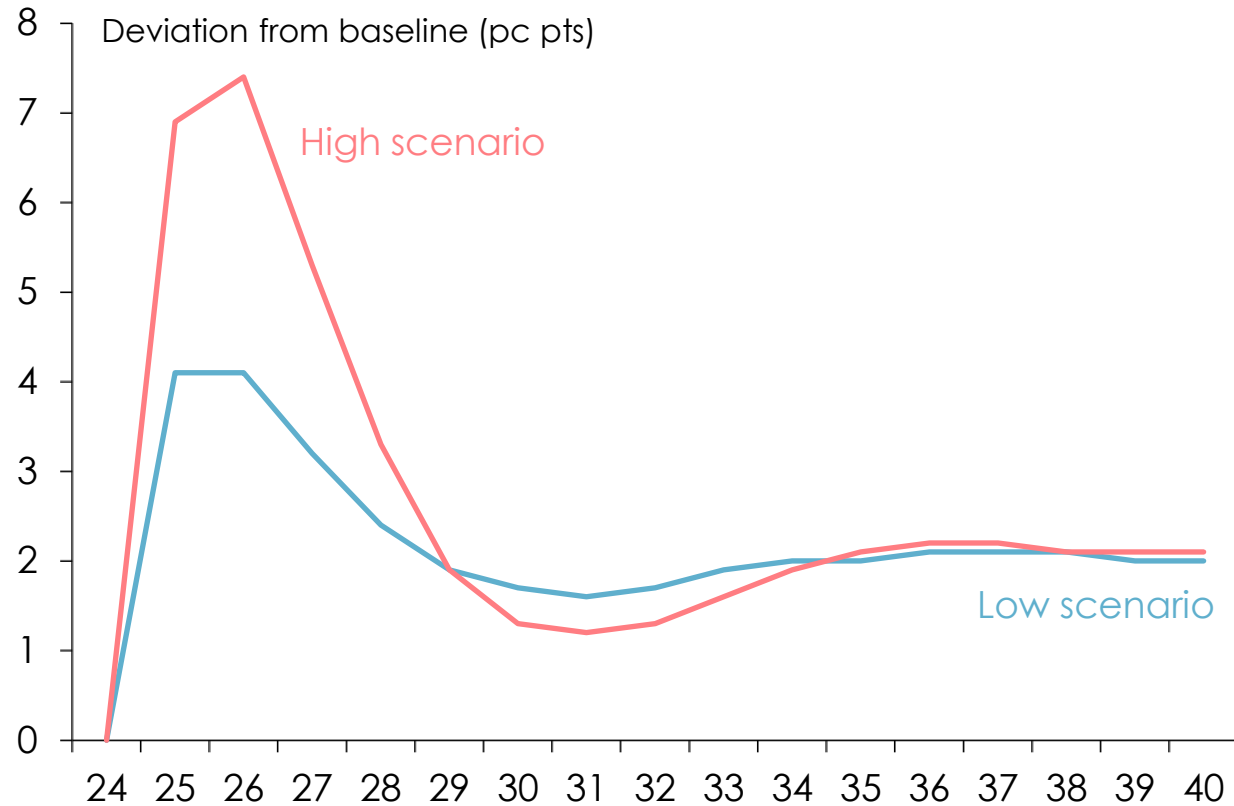
Distribution of tax increases and reductions under Trump proposals, percent change in after-tax income



Note: The 'Tax Cuts and Jobs Act' was enacted during the first Trump Administration: most of whose provisions expire on 1st July 2025. Source: Kimberley Clausing and Mary Lovely, [Why Trump's tariff proposals would harm working Americans](#), Petersen Institute for International Economics Policy Brief, 21st August 2024.

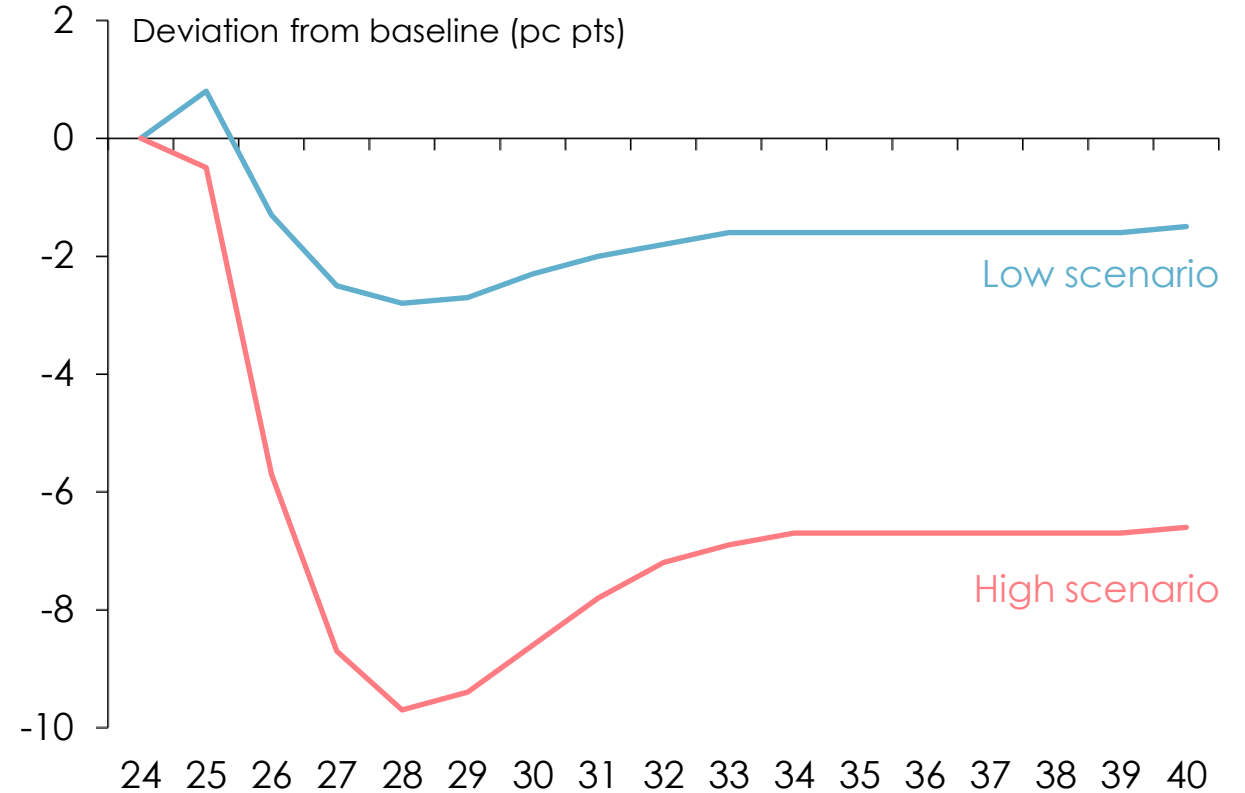
Trump's policies would result in higher inflation and lower real GDP

Impact of Trump policies on US inflation



- ❑ In 2026, inflation is 4.1-7.4 pc pts above baseline
- ❑ Inflation settles at 2 pc pts above baseline from 2034 through 2040

Impact of Trump policies on US real GDP

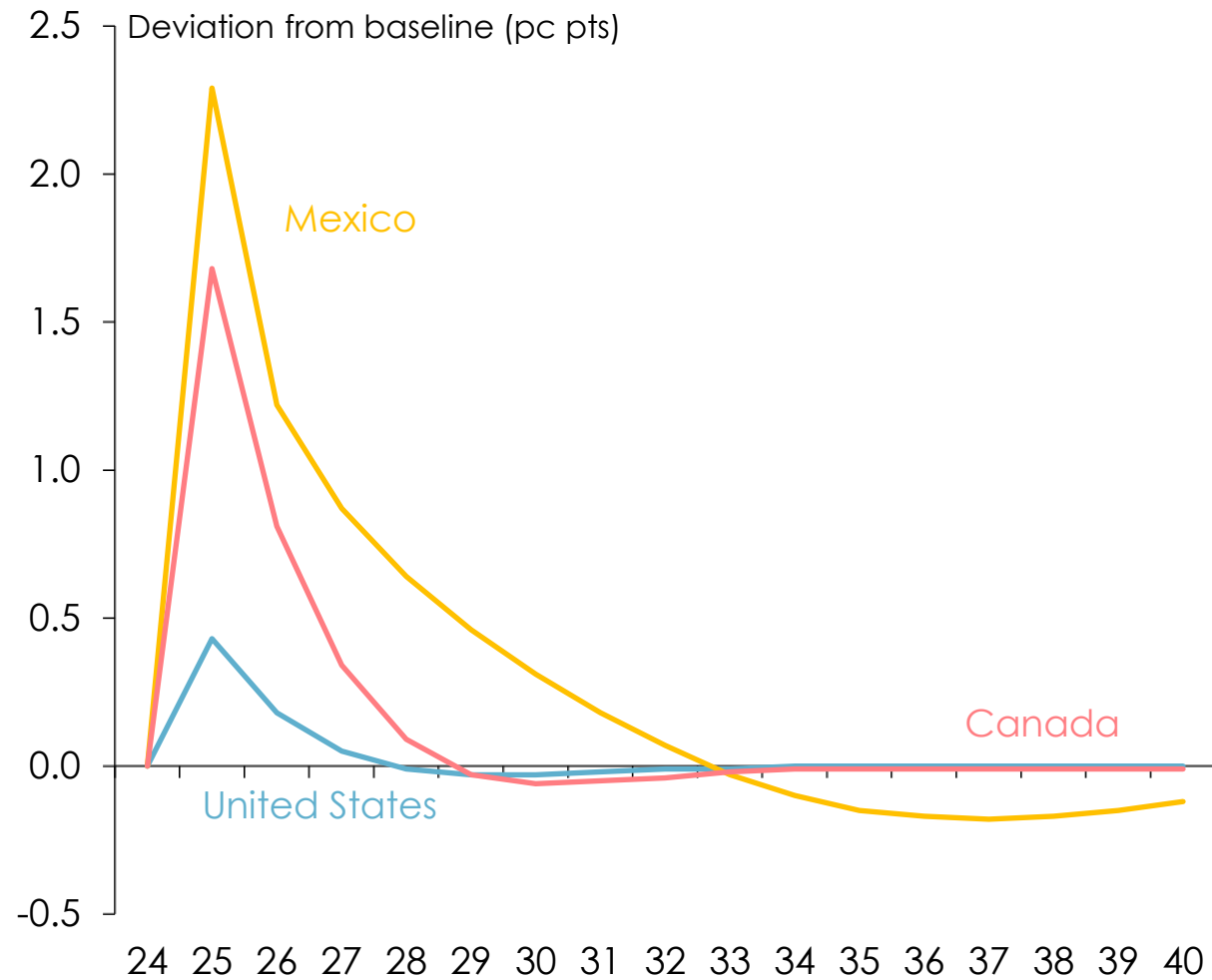


- ❑ In 2025, GDP is US\$198bn above to \$133bn below baseline
- ❑ By 2040 GDP is US\$0.75-\$2.57trn below baseline

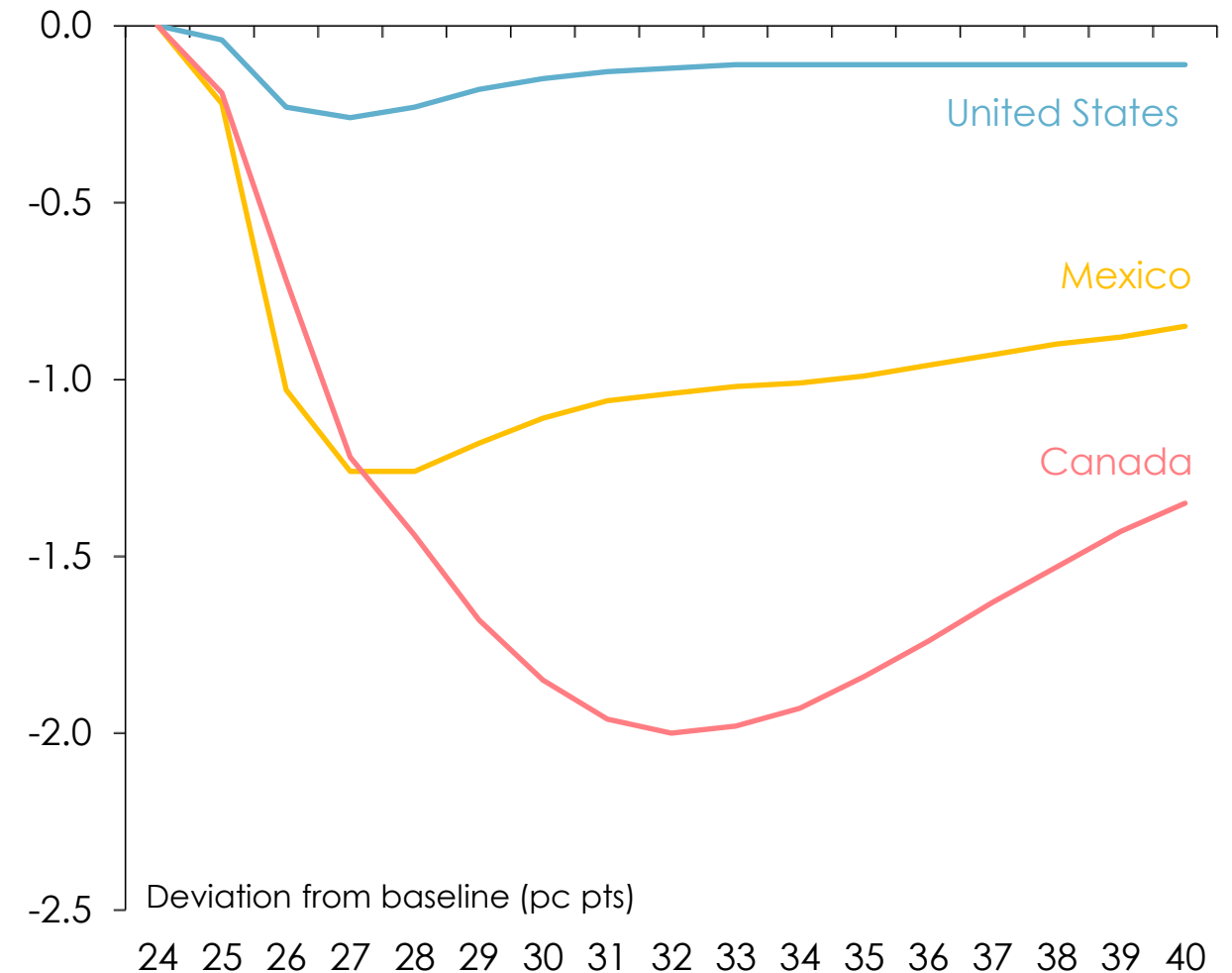
Note: High scenario is 8.3 million unauthorized workers deported; increases in tariffs on all US imports by an additional 10 percentage points and on US imports from China by an additional 60 percentage points, with retaliation by all trading partners, including China; and erosion of Fed independence. Low scenario includes the same tariff increases as high scenario but with no retaliation by other countries, 1.3 million unauthorized workers deported, and erosion of Fed independence. Source: Warwick McKibbin, Megan Hogan & Marcus Noland, [How much would Trump's plans for deportations, tariffs, and the Fed damage the US economy?](#), Petersen Institute for International Economics, September 2024.

25% tariffs on imports from Canada and Mexico would have severe effects on the Canadian and Mexican economies

Impact of 25% US tariffs on Canada & Mexico on inflation



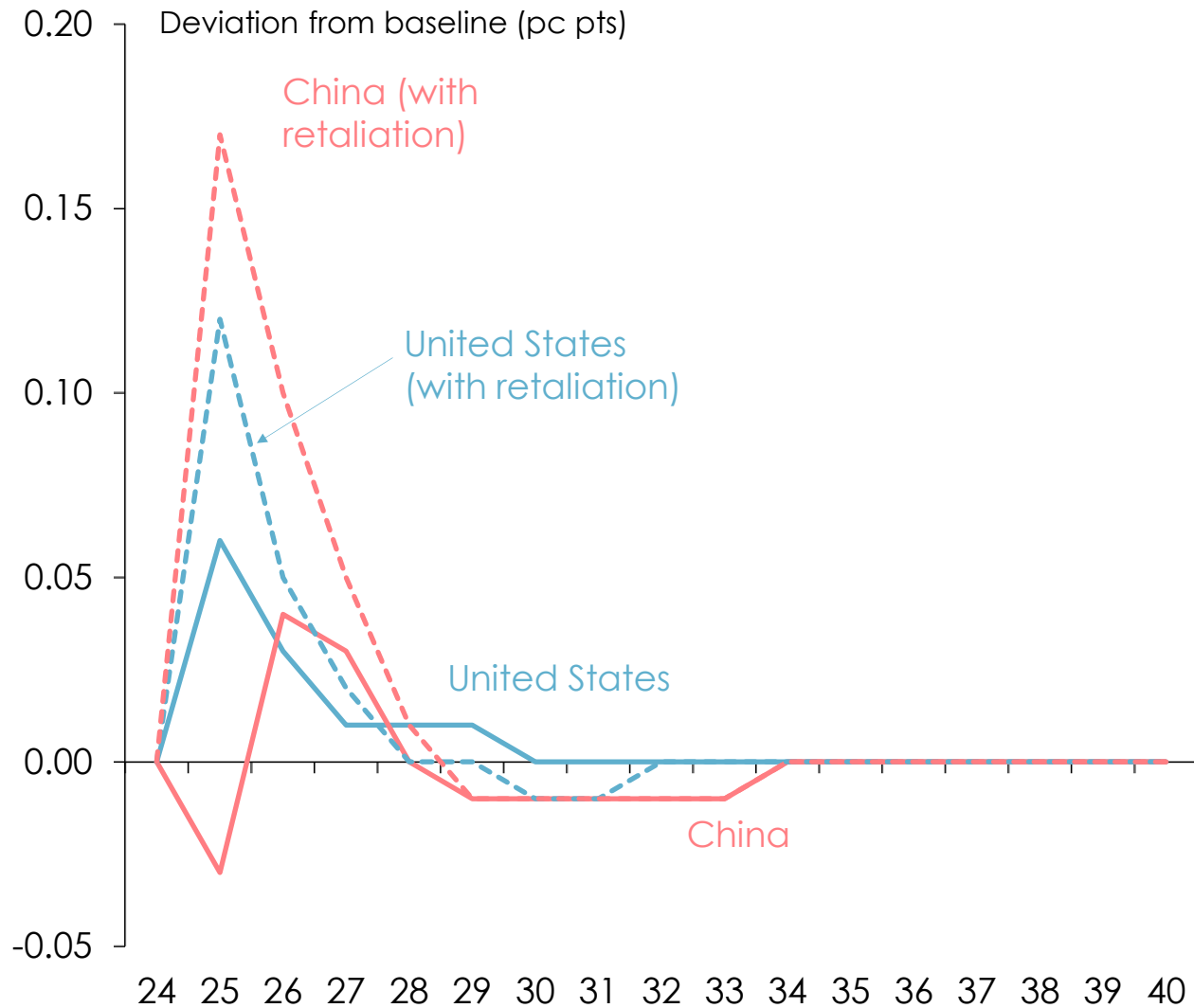
Impact of 25% US tariffs on Canada & Mexico on real GDP



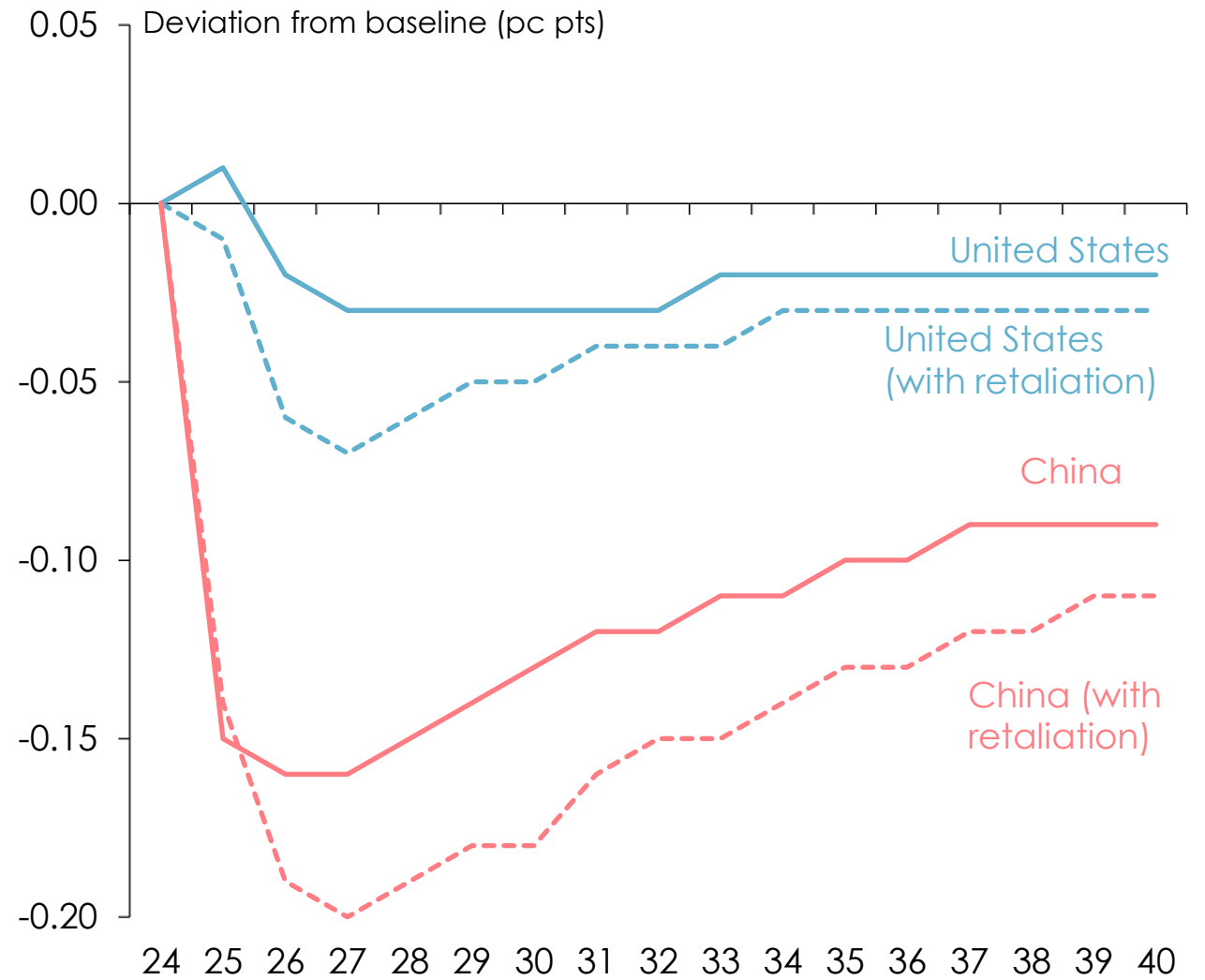
Note: Modelling assumes no 'retaliation' by Canada or Mexico. Source: Warwick McKibbin and Marcus Noland, [Trump's threatened tariffs projected to damage economies of US, Canada, Mexico, and China](#), Petersen Institute for International Economics, 17th January 2025.

10% (rather than 60%) tariffs on imports from China would have a smaller though still noticeable effect (especially if China 'retaliates')

Impact of 10% tariffs on China on inflation



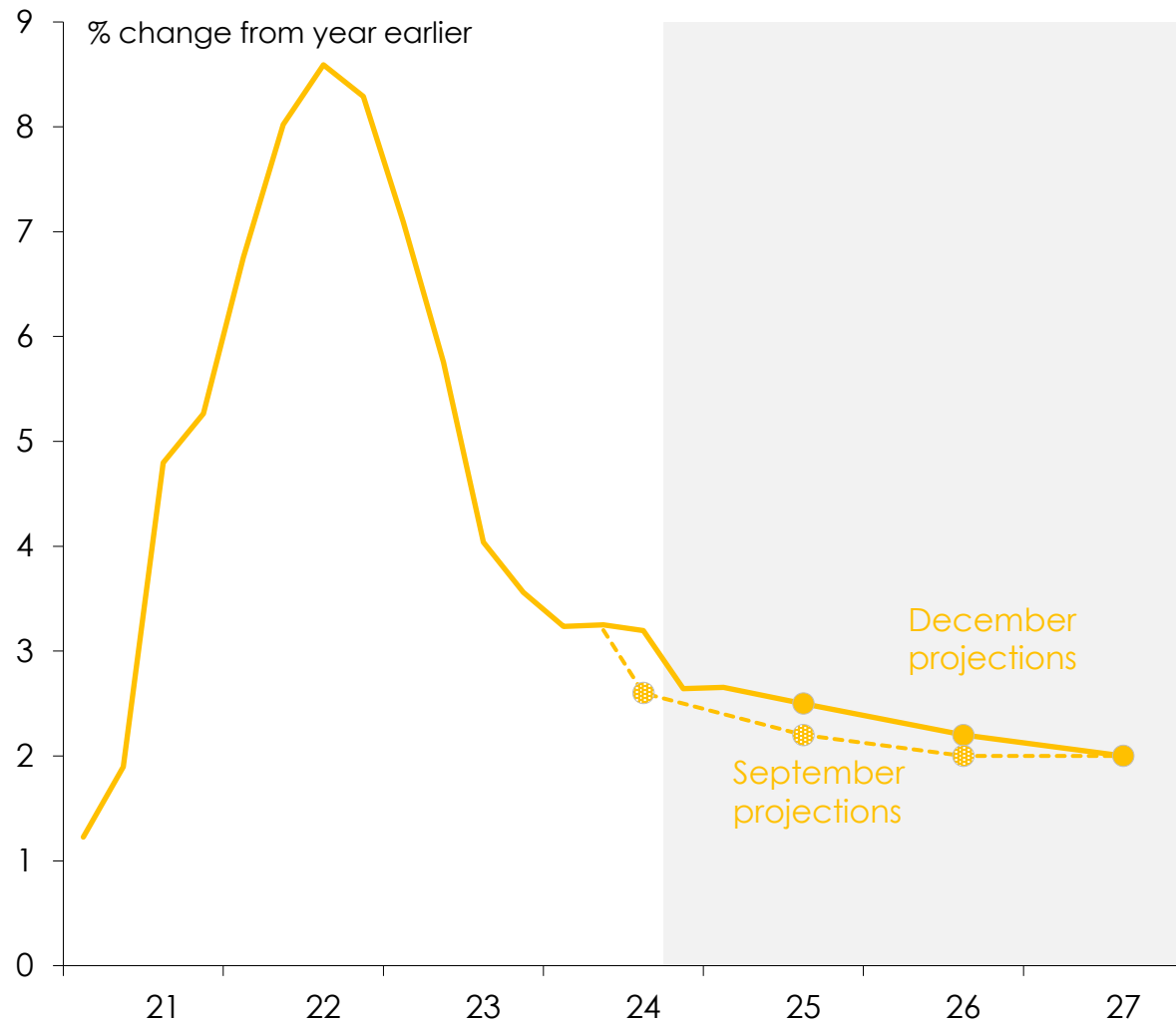
Impact of 10% tariffs on China on real GDP



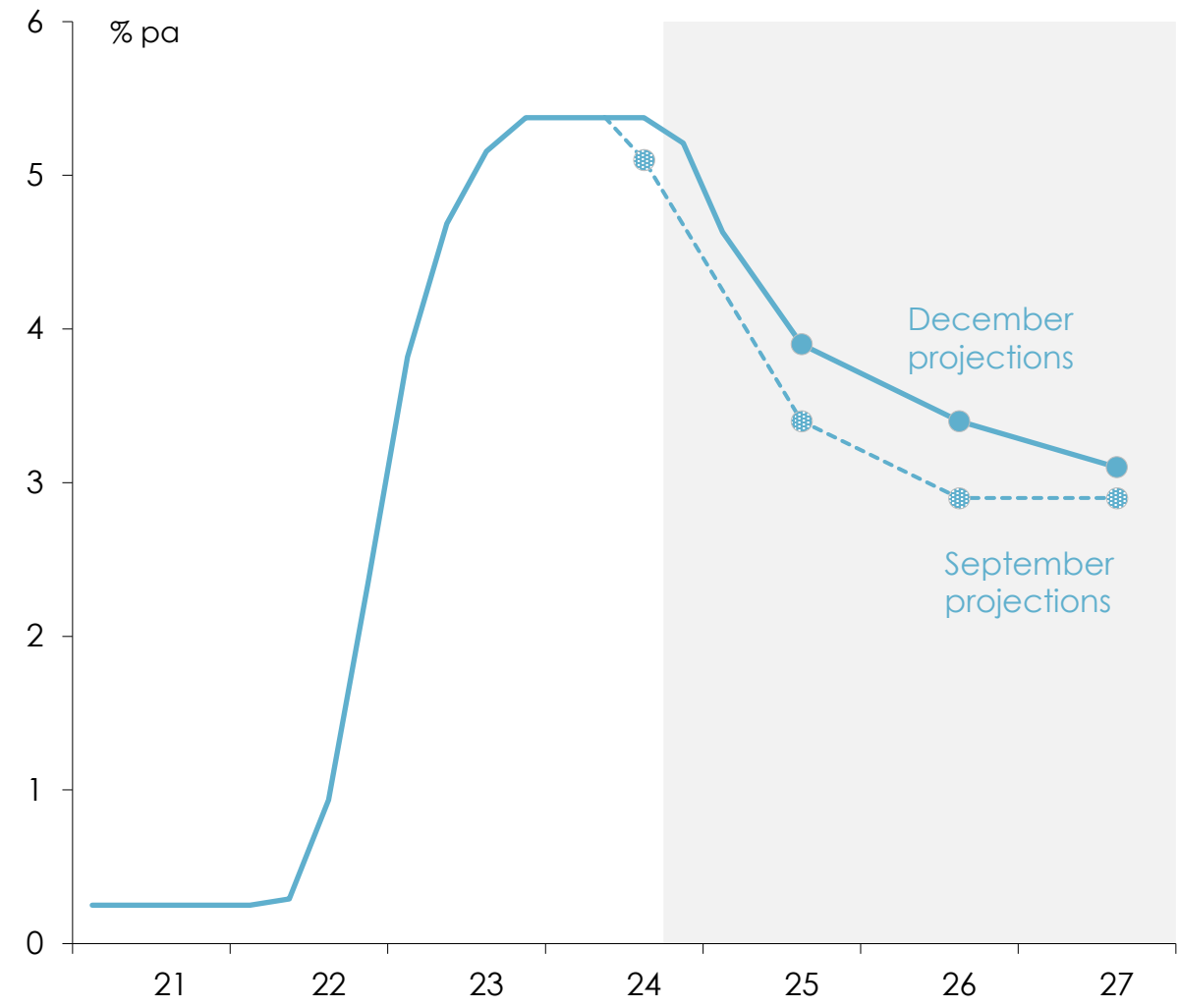
Source: Warwick McKibbin and Marcus Noland, [Trump's threatened tariffs projected to damage economies of US, Canada, Mexico, and China](#), Petersen Institute for International Economics, 17th January 2025.

The Federal Reserve 'dialled back' its predictions of interest rate cuts at its last meeting for 2024

US Federal Reserve 'core' inflation projections



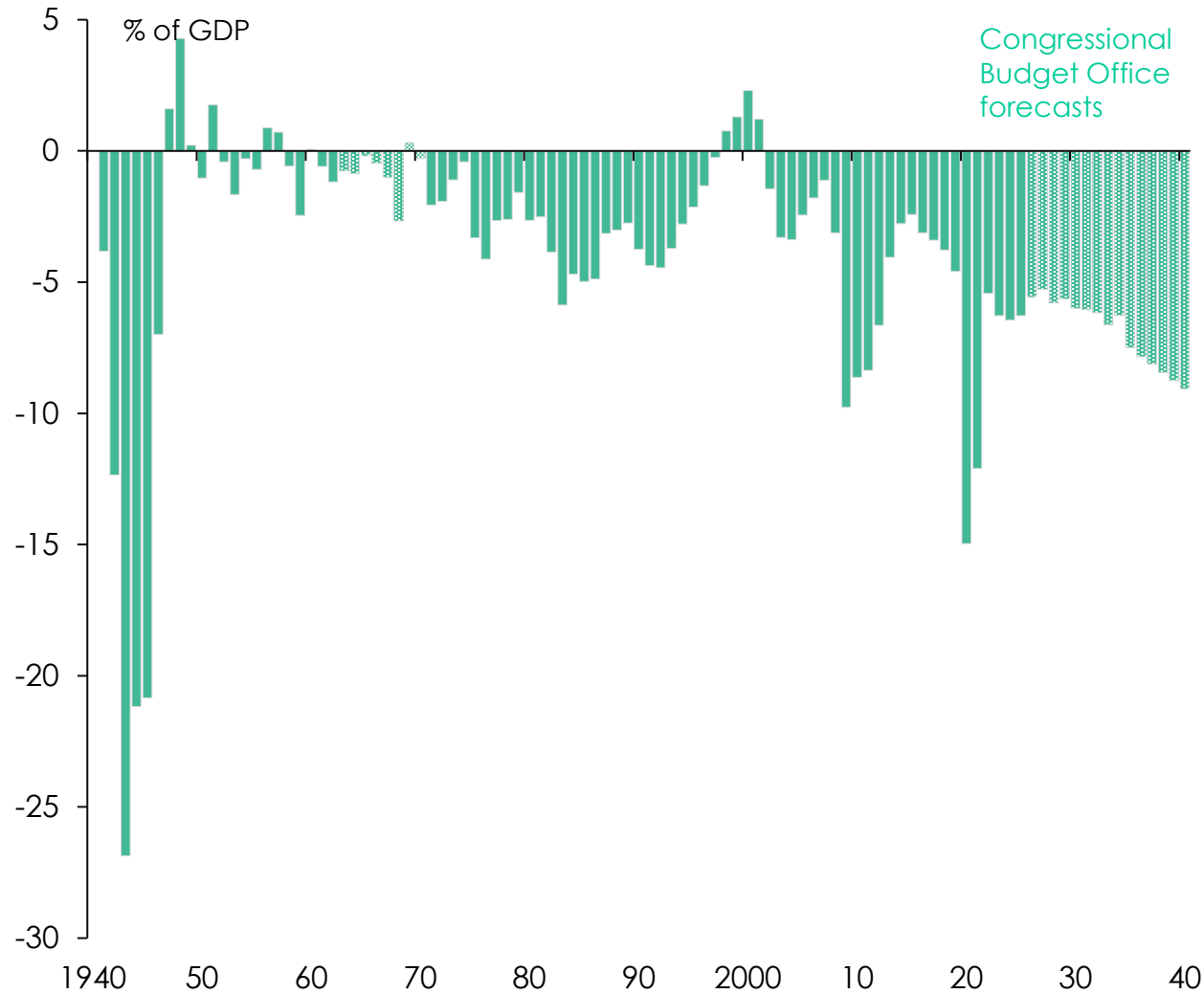
US Federal Reserve Fed funds rate projections



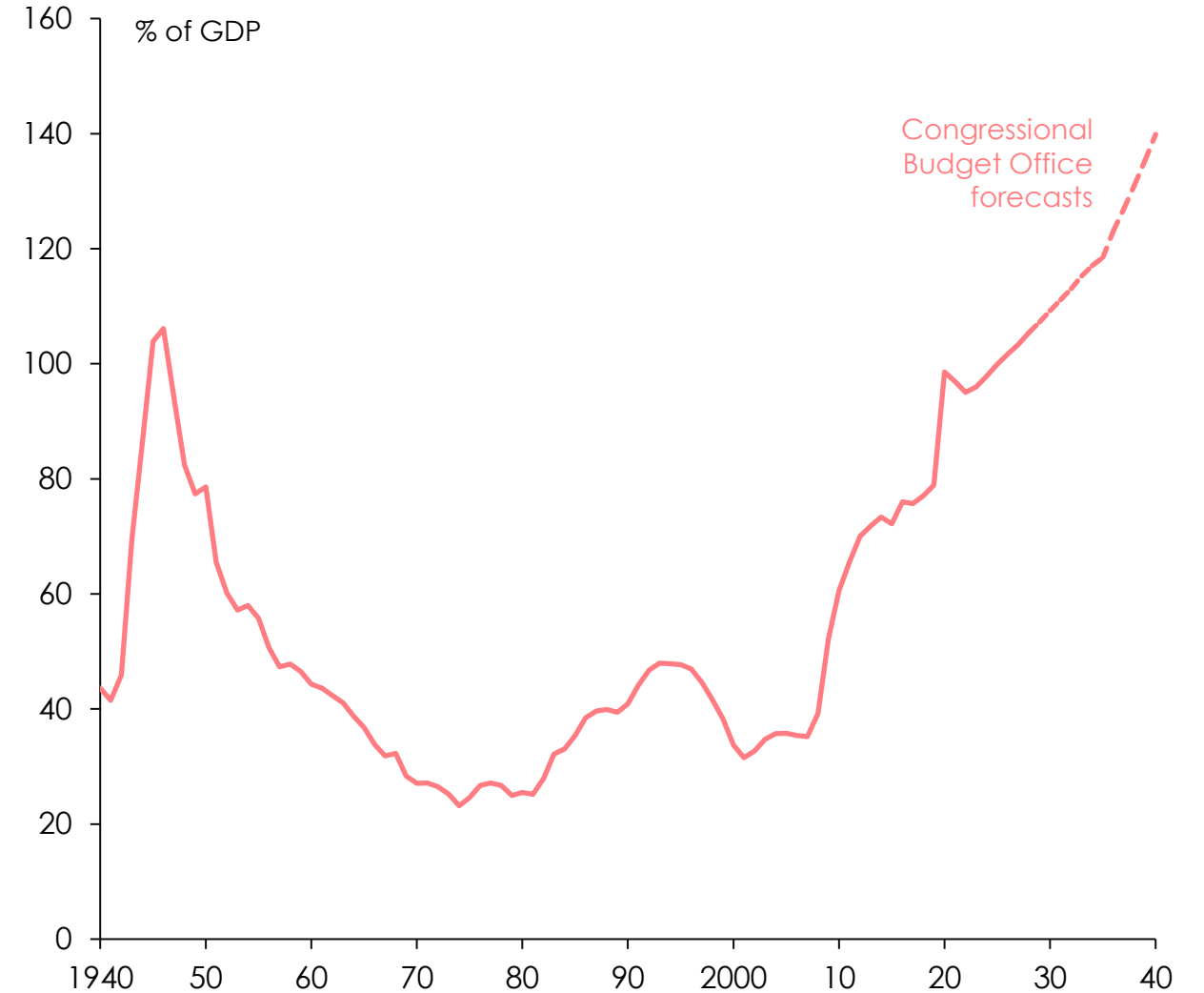
Note: 'projections' are the median projections of Federal Reserve Board members and Federal Reserve Bank presidents of the annual rate of 'core' inflation as measured by the personal consumption expenditure deflator excluding food and energy, and of the mid-point of the target range for the Fed funds rate which represents their individual assessments of 'appropriate monetary policy'. Source: US Federal Reserve, [Summary of Economic Projections](#), 18th December 2024.

The US Budget is already in a fairly dire condition ...

US Federal budget deficit



US Federal net debt



11 Source: Congressional Budget Office, [The Long-Term Budget Outlook: 2024 to 2054](#), 20th March 2024, and [The Budget and Economic Outlook: 2025 to 2035](#), Washington DC, 17th January 2025.

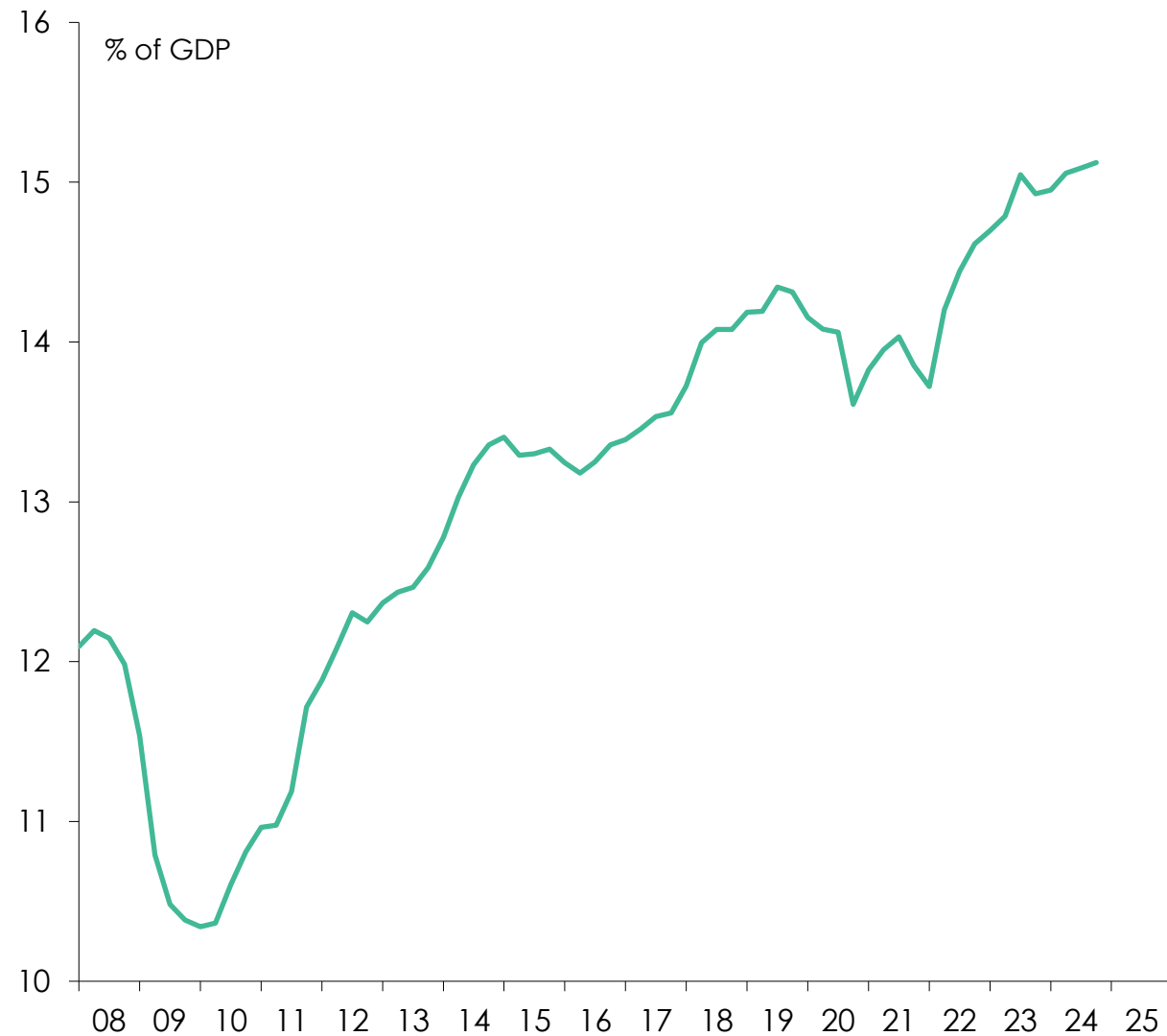
... and Donald Trump's campaign promises, if implemented, would make it even worse

The Trump Plan (billions, 2026-2035)

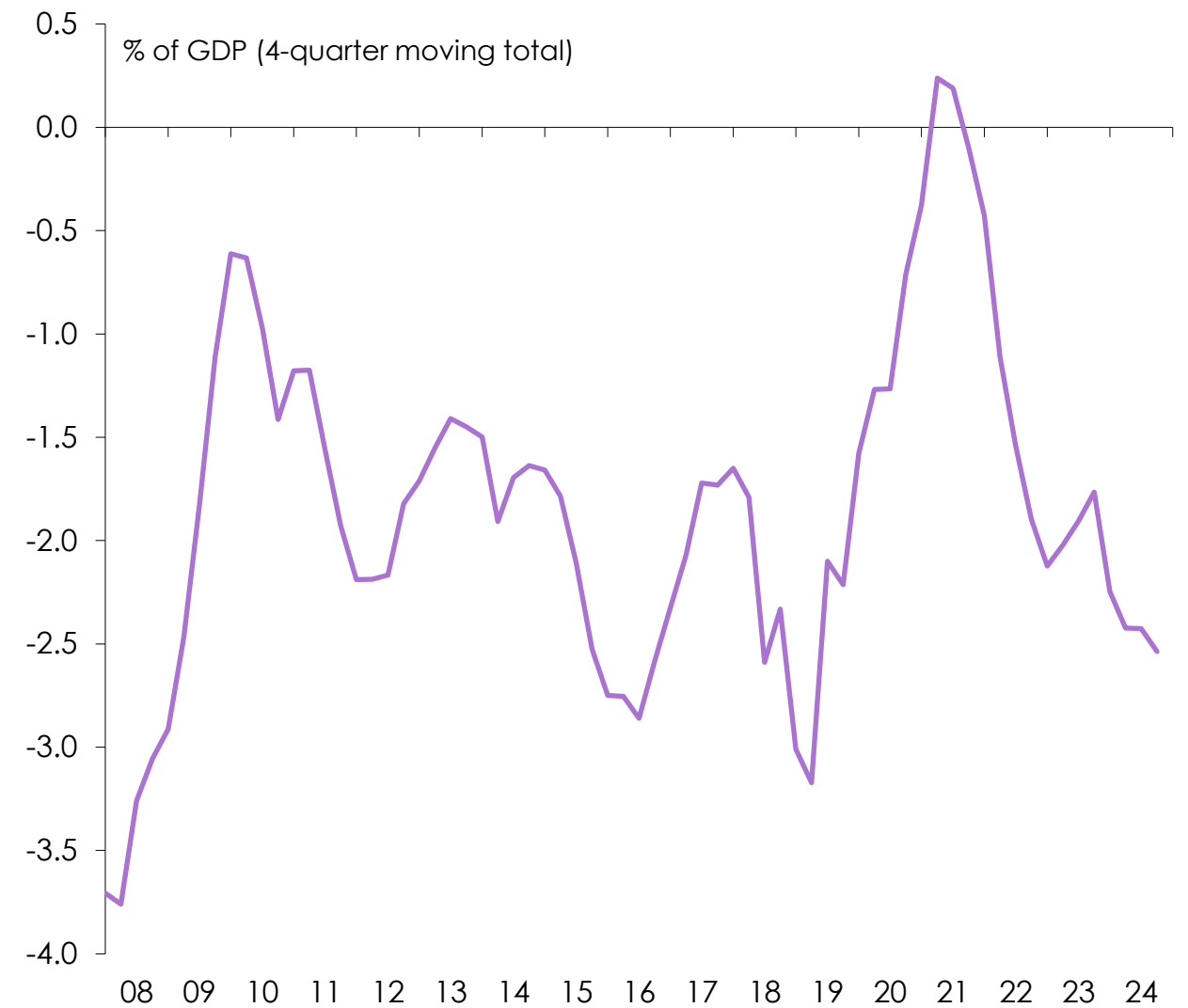
Policy Proposals	Low	Central	High
Extend and Modify the Tax Cuts & Jobs Act (TCJA)	-\$4,600	-\$5,350	-\$5,950
Exempt Overtime Income from Taxes	-\$500	-\$2,000	-\$3,000
End Taxation of Social Security Benefits	-\$1,200	-\$1,300	-\$1,450
Exempt Tip Income from Taxes	-\$100	-\$300	-\$550
Lower Corporate Tax Rate to 15% for Domestic Manufacturers	-\$150	-\$200	-\$600
Enact or Expand Other Individual and Small Business Tax Breaks	-\$150	-\$200	-\$350
Strengthen and Modernize the Military	-\$100	-\$400	-\$2,450
Secure the Border and Deport Unauthorized Immigrants	\$0	-\$350	-\$1,000
Enact Housing Reforms, Including Credits for First-Time Homebuyers	-\$100	-\$150	-\$350
Boost Support for Health Care, Long-Term Care, and Caregiving	-\$50	-\$150	-\$300
Subtotal, Tax Cuts and Spending Increases	-\$6,950	-\$10,400	-\$16,000
Establish a Universal Baseline Tariff and Additional Tariffs	\$4,300	\$2,700	\$2,000
Reverse Current Energy/Environment Policies and Expand Production	\$750	\$700	\$550
Reduce Waste, Fraud, and Abuse	\$250	\$100	\$0
End the Department of Education and Support School Choice	\$200	\$200	\$0
Subtotal, Revenue Increases and Spending Reductions	\$5,500	\$3,700	\$2,550
Net Interest	-\$200	-\$1,050	-\$2,100
Total, Net Deficit Impact	-\$1,650	-\$7,750	-\$15,550

Trump's 2017 corporate tax cuts didn't trigger a surge in business investment, but rather a surge in share buy-backs

US business investment



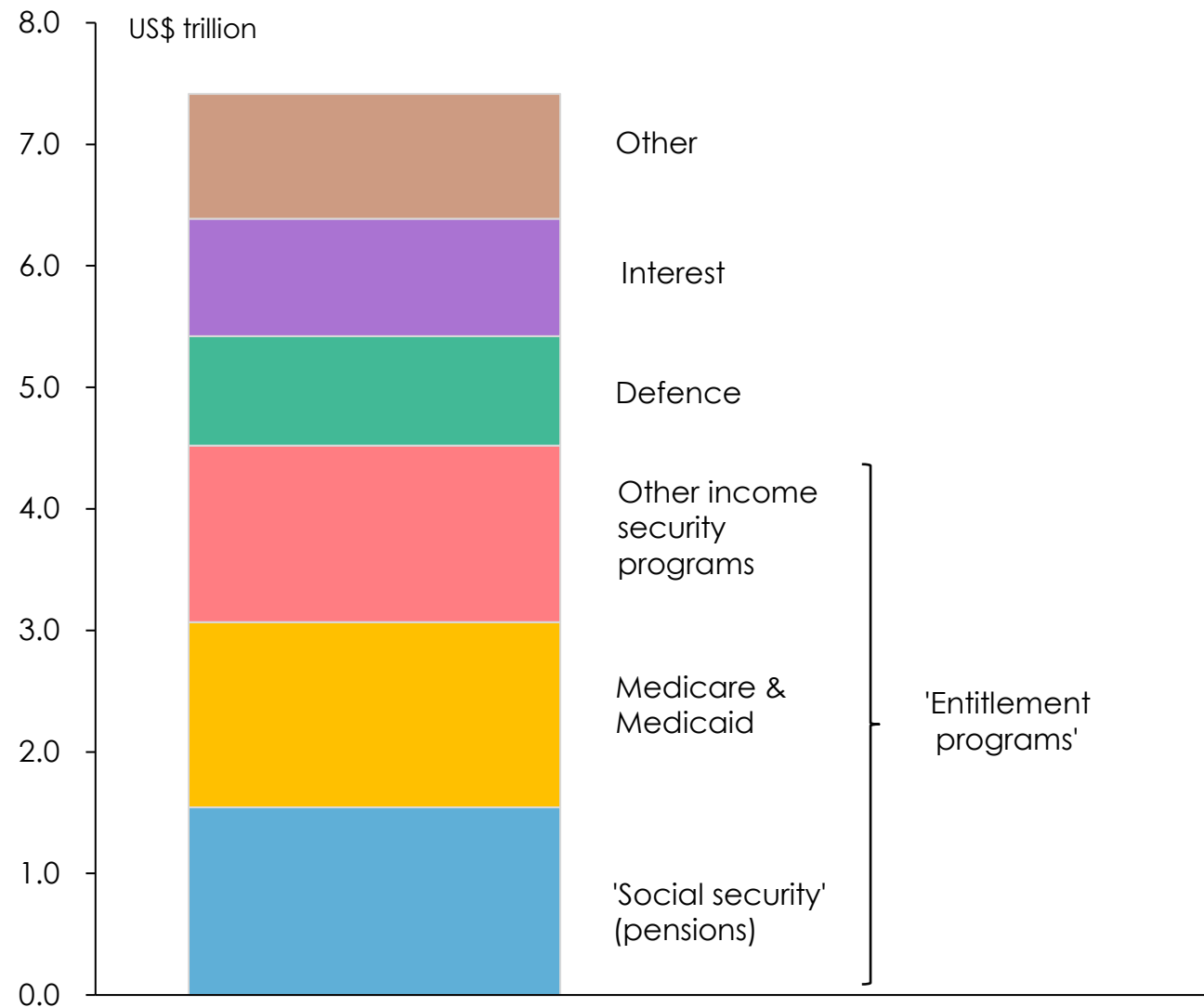
US net issue of non-financial corporate equity



Sources: US Bureau of Economic Analysis, [Gross Domestic Product](#), Third Quarter 2024; US Federal Reserve, [Financial Accounts of the United States - Z1](#), 2024: Q3.

Elon Musk and Vivek Ramaswamy are going to find it difficult to 'slash' US Federal Government spending by US\$2 trillion (unless it's "over 10 years")

US Federal Government spending, 2025



- ❑ Total US Federal Government spending is currently projected to be US\$7.26 trillion in Fiscal Year 2025 ...
- ❑ ... of which, US\$4.52 trillion is for 'entitlement programs' (including the age pension, health care programs for seniors and poor, disability pensions and unemployment insurance)
 - from which the [2024 Republican Platform](#) pledges President Trump "will not cut one penny"
- ❑ ... US\$0.9 trillion is for defence
 - on which the Republicans want to spend more in order to "build a Military bigger, better and stronger than ever before"
- ❑ ... US\$0.97 trillion is for interest on US\$37 trillion of Federal Government debt
 - which can't be avoided unless the Administration proposes to default on its obligations
- ❑ ... which leaves 'just' \$1.0 trillion in other spending

Trump may seek to reduce spending in some areas through a process called ‘impoundment’

- ❑ US Presidents have from time to time asserted that Article II s. 3 of the US Constitution, which enjoins the President to “take Care that the Laws be faithfully executed”, gives a President the power to delay spending, or refuse to spend, funds which have been appropriated and authorized by Congress – a procedure known as ‘impoundment’
 - in 1803, Thomas Jefferson refused to spend US\$50,000 which Congress had appropriate for the purchase of gun boats for the Mississippi River, arguing that the Louisiana Purchase made it unnecessary
 - Franklin D Roosevelt made extensive use of impoundments during World War II in order to redirect funds to ‘the war effort’
 - in 1966 Lyndon B Johnson withheld sums appropriated by Congress above the levels set out in his Administration’s Budget as “a means of controlling inflation”
 - Richard Nixon made greater use of impoundments (of the order of US\$18 bn) than any previous President
- ❑ In 1974, Congress passed the Impoundment Control Act, which established procedures to prevent the President and other government officials from unilaterally substituting their own funding decisions for those of Congress
 - it permits temporary deferrals of spending within a given fiscal year, or ‘rescissions’ which are formal requests to cancel spending authorities, which must be approved by Congress within 45 days
 - this Act also created the House and Senate Budget Committees and the Congressional Budget Office
- ❑ In 2019, Donald Trump withheld some US\$214mn of funds appropriated to the Defense Department for assistance to Ukraine – which is what led to his first impeachment
- ❑ Trump’s nominee for Director of the Office of Management & Budget, Russell Vought (who held that role in 2019 and 2020) has [argued](#) that the ICA is ‘unconstitutional’, and asserted that OMB “has the ability to turn off the spending that’s going on at the agencies”

Trump won't find it easy to 'stack' the Board of the Federal Reserve

Members of the Board of Governors of the Federal Reserve System

Board member	Term expires
Adriana Kugler	Term expires 31 st January 2026
Jerome Powell	Term as Chair expires 23 rd May 2026; as Board member 31 st January 2028
Michael Barr	Term as Vice-Chair expires 19 th July 2026; as Board member 31 st January 2032
Christopher Waller	Term expires 31 st January 2030
Michelle Bowman	Term expires 31 st January 2034
Phillip Jefferson	Term as Vice-Chair expires September 23 rd 2027; as a Board member 31 st January 2036
Lisa Cook	Term expires 31 st January 2038

- ❑ Only one Board member's term expires during Trump's second term
- ❑ Jerome Powell's term as Chair, and Michael Barr's term as Vice-Chair (Supervision) expire in May and July 2026 – although their terms as Board members don't expire until 2028 and 2032, respectively
 - although traditionally the occupants of those positions don't stay on for the balance of their terms as Board members
 - perhaps significantly on 6th January Mr Barr announced his resignation as Vice-Chair but signalled his intention to stay on as a member of the Board of Governors