

THE ECONOMIC CONSEQUENCES OF MR TRUMP

PRESENTATION TO AN 'ISLAND OF IDEAS' FORUM
HOSTED BY THE UNIVERSITY OF TASMANIA

18TH JUNE 2025

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Tariffs



Trump's 'reciprocal tariff' proposals – if implemented in full – would raise the average level of US tariffs to their highest since 1909

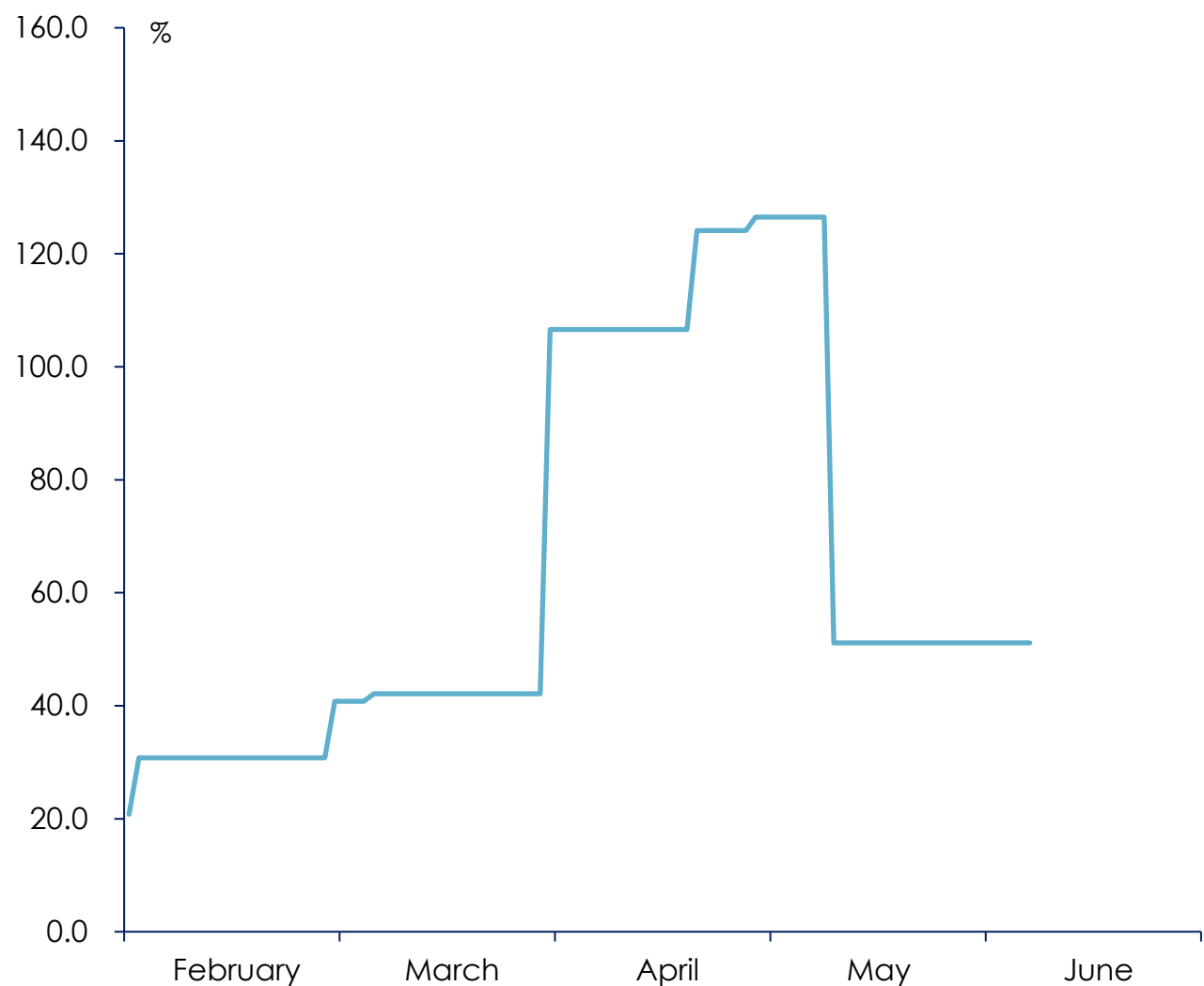
US tariffs



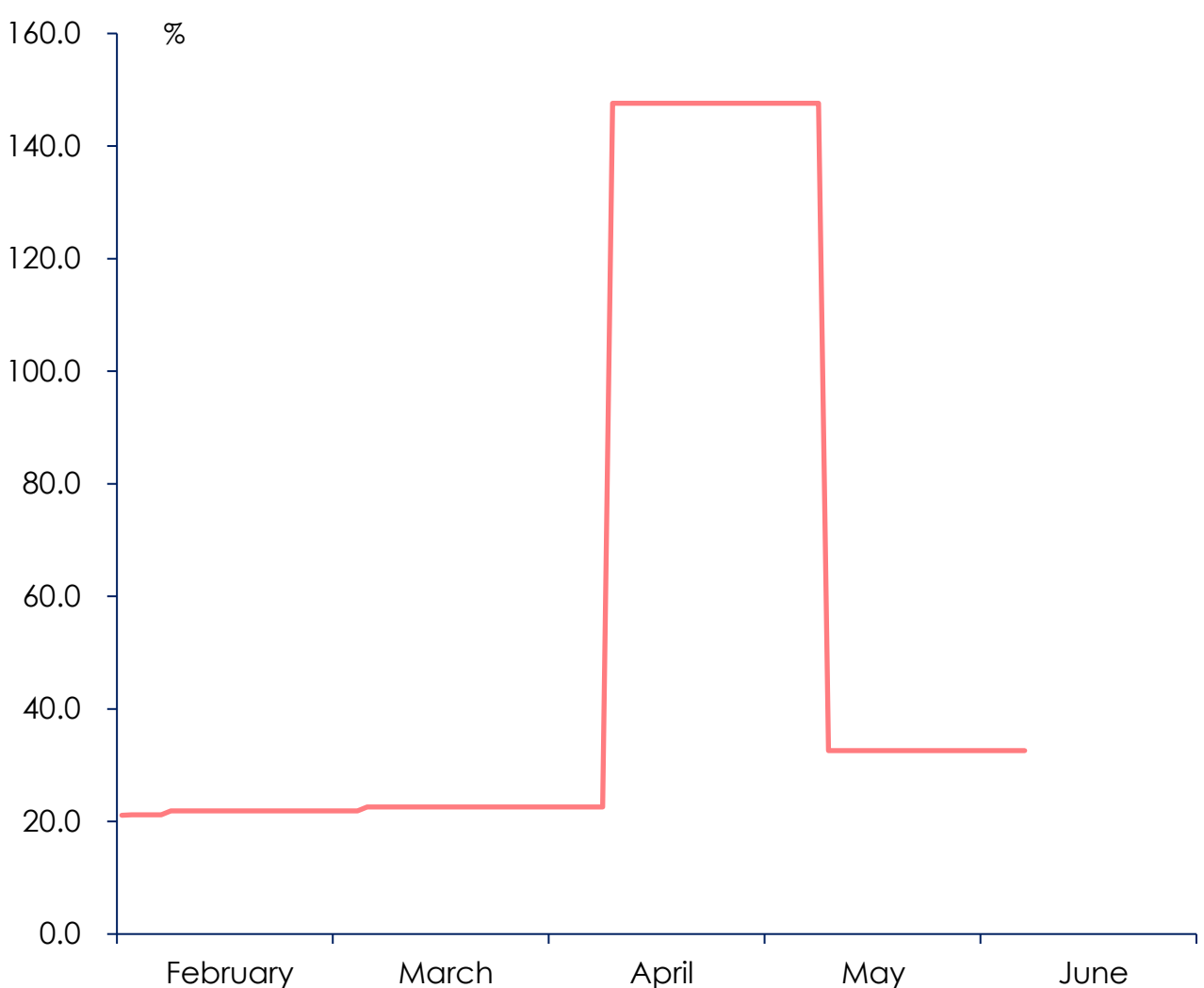
Sources: US Census Bureau, [Historical Statistics of the United States](#); Yale Budget Lab, [Where We Stand: The Fiscal, Economic, and Distributional Effects of All U.S. Tariffs Enacted in 2025 Through April 2](#), April 2025.

US and Chinese bilateral tariffs have been on a roller-coaster ride over the past four months – who knows where they will end up or for how long?

US tariffs on imports from China



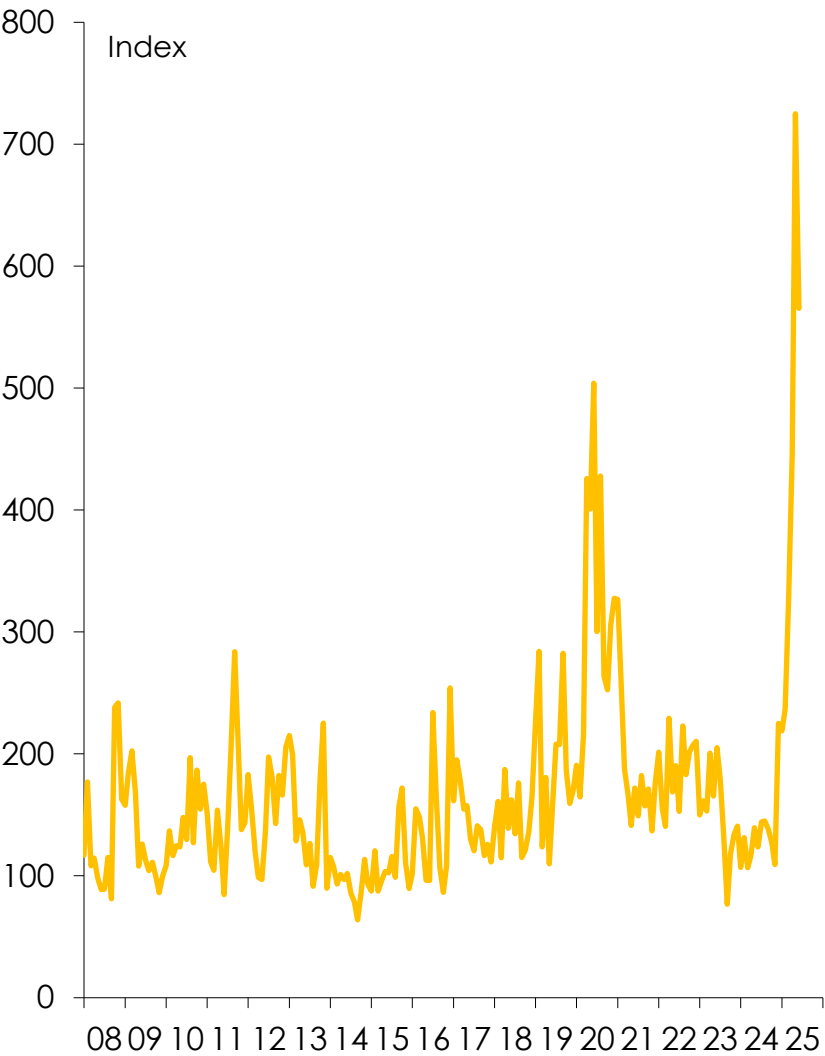
Chinese tariffs on imports from the US



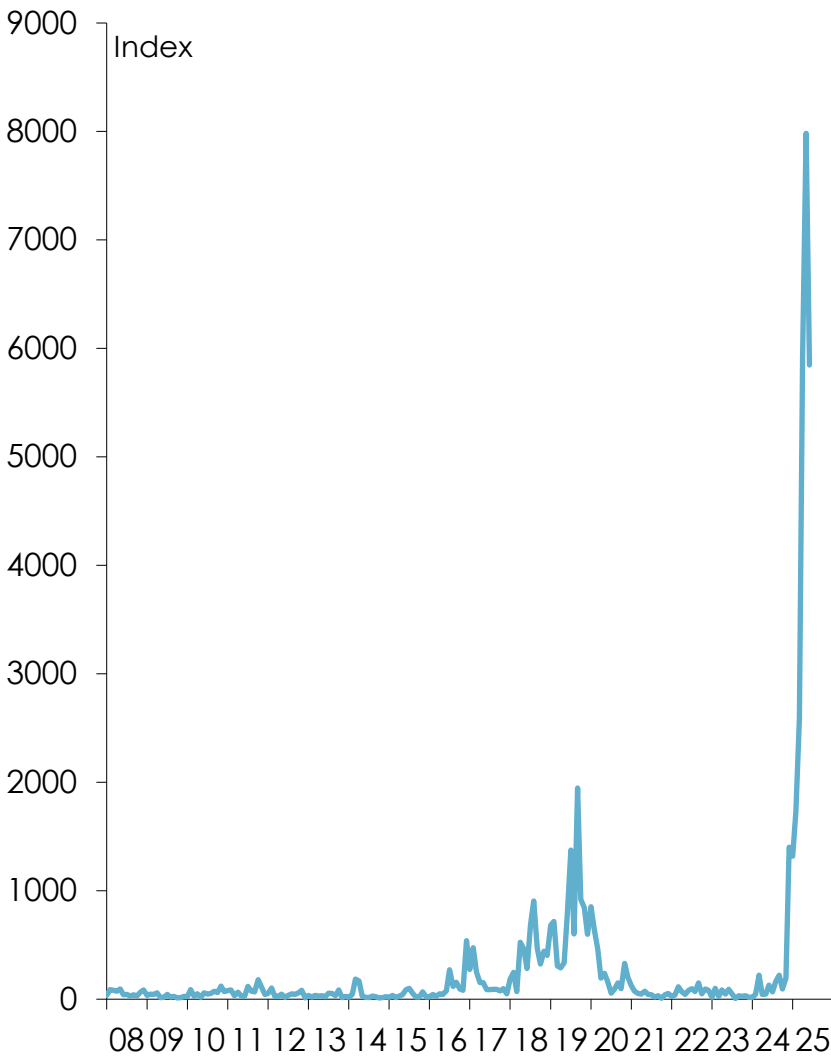
Source: Chad P. Brown, [US-China Trade War Tariffs: An Up-to-Date Chart](#), Petersen Institute for International Economics, 14th May 2025.

Uncertainty about US economy policy is pervasive – and while a lot of that is about trade, it's not *all* about trade

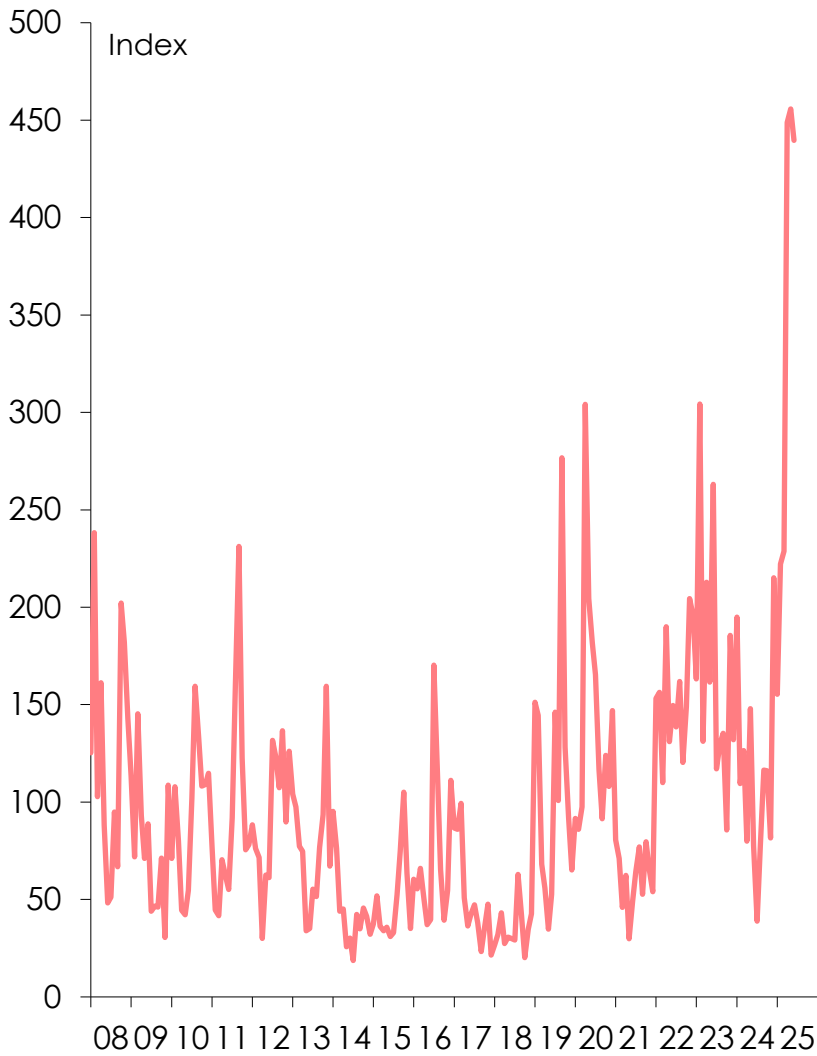
US economic policy uncertainty



US trade policy uncertainty



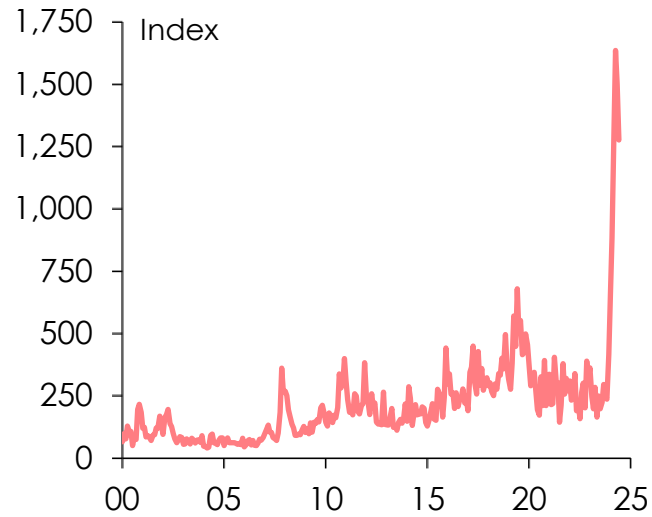
US monetary policy uncertainty



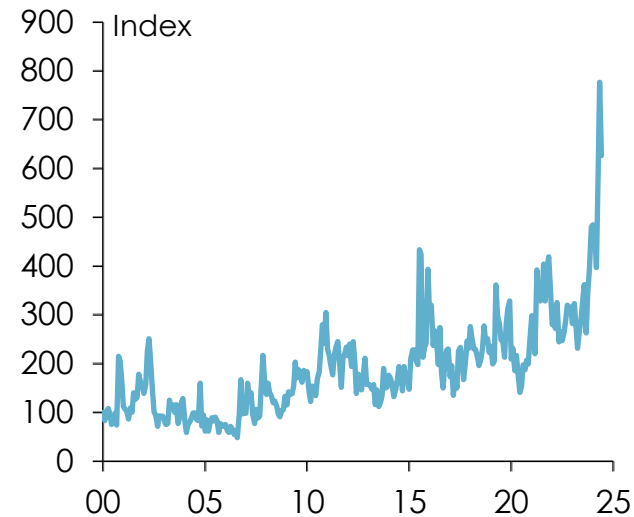
Note: The Economic Policy Uncertainty Index is an index of search results from 10 US large newspapers for articles search for articles containing the term 'uncertainty' or 'uncertain', the terms 'economic' or 'economy' and one or more of the following terms: 'congress', 'legislation', 'white house', 'regulation', 'federal reserve', or 'deficit'.
Sources: Dario Caldara and Matteo Iacoviello, [US Monthly Economic Policy Uncertainty Index](#).

Uncertainty about US economic and trade policies – and reactions by other countries – is pervasive around the world

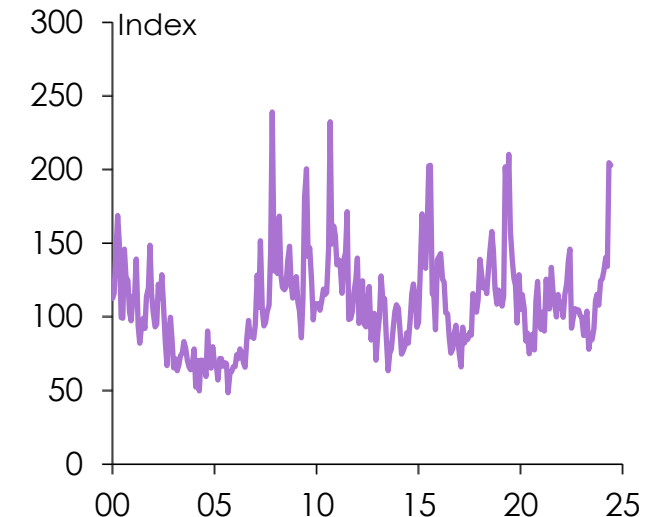
Canada



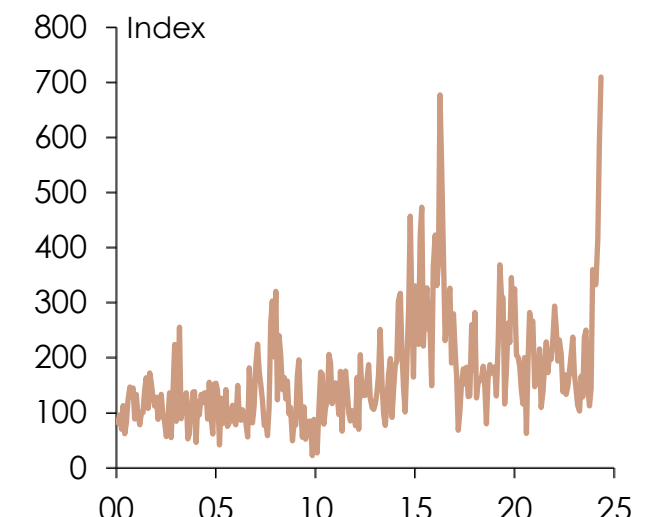
Europe



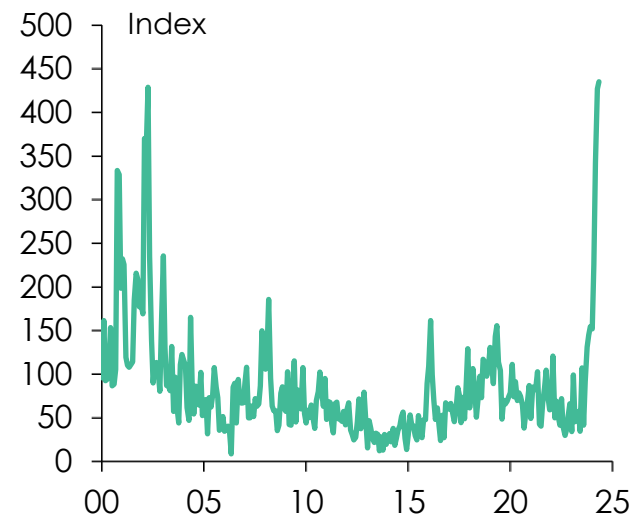
Japan



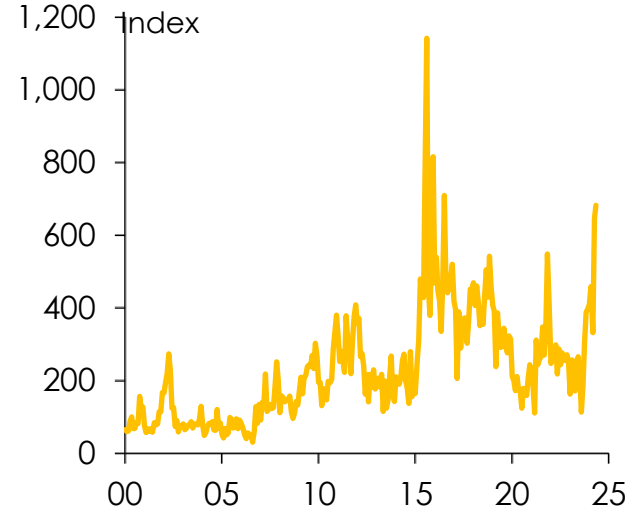
Brazil



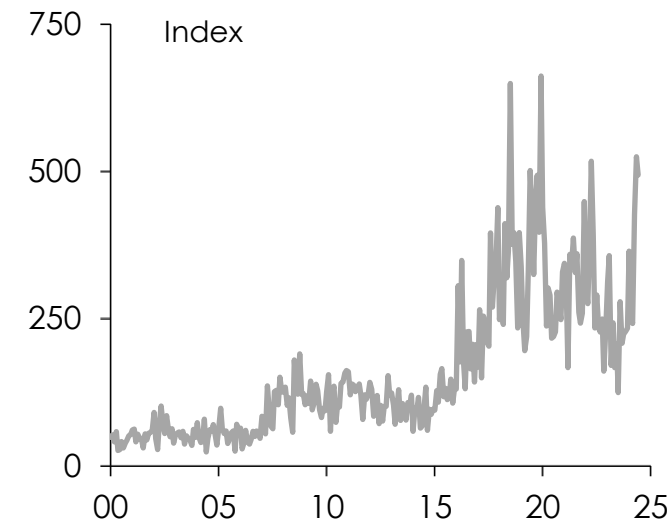
Mexico



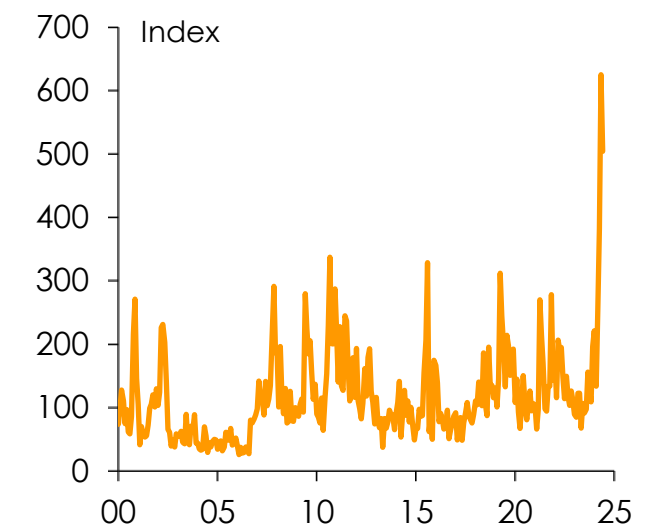
United Kingdom



China

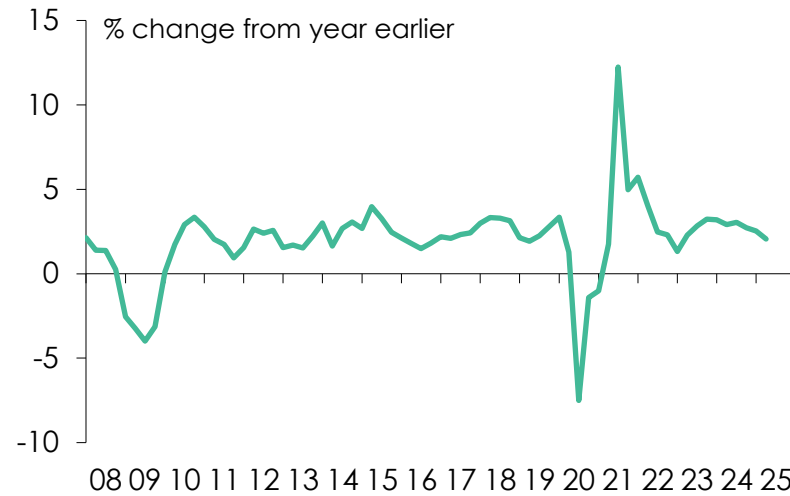


Australia

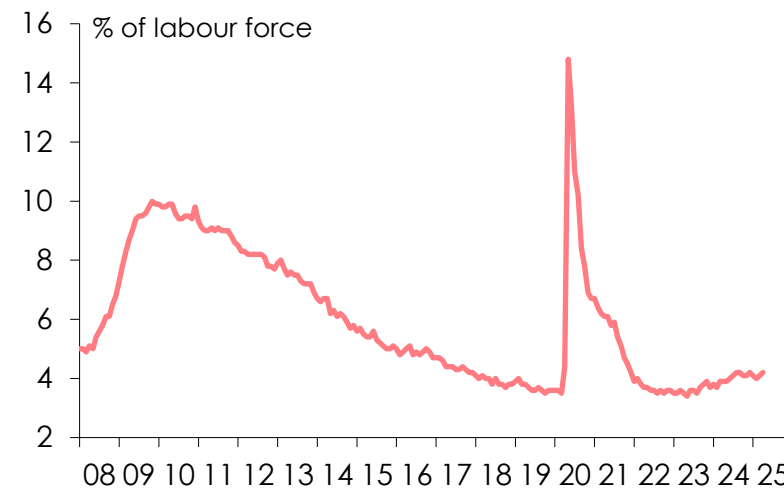


Donald Trump inherited an economy that in most respects was doing very well

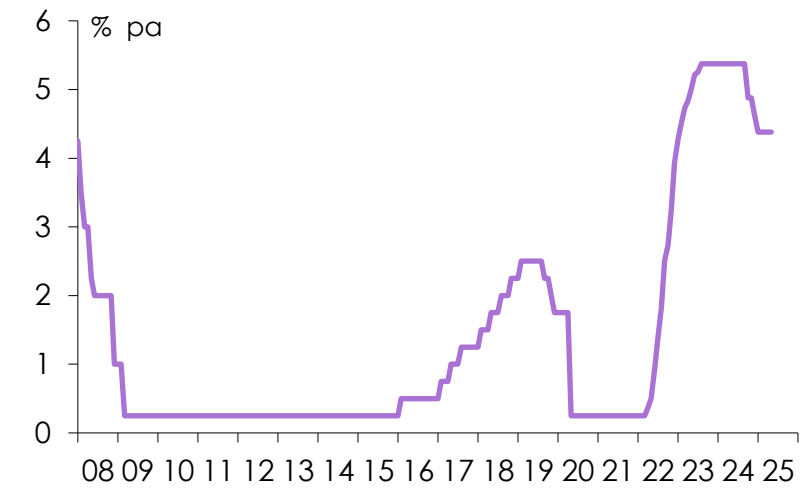
Real GDP growth



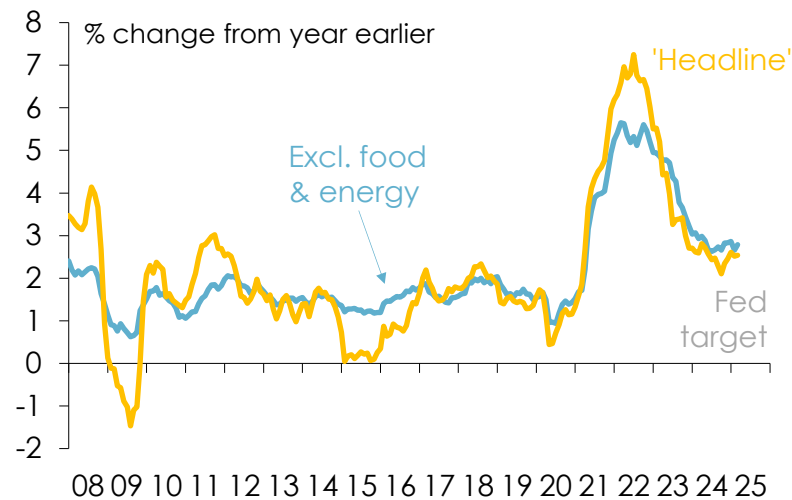
Unemployment rate



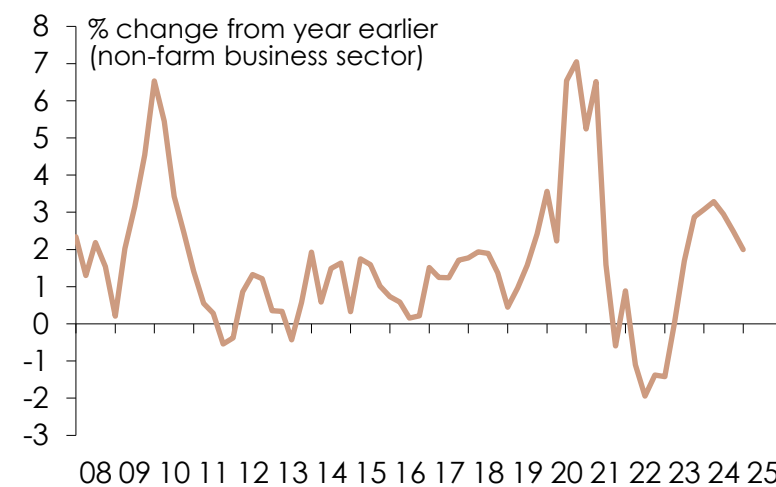
Fed funds rate



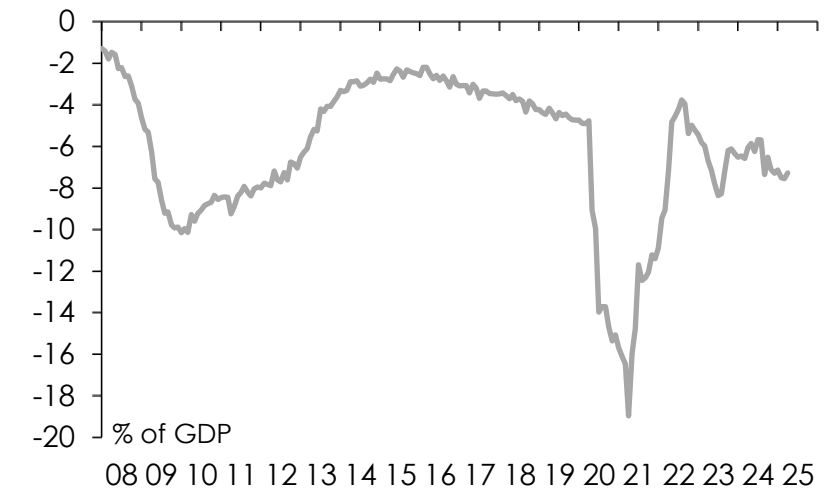
Inflation



Labour productivity growth



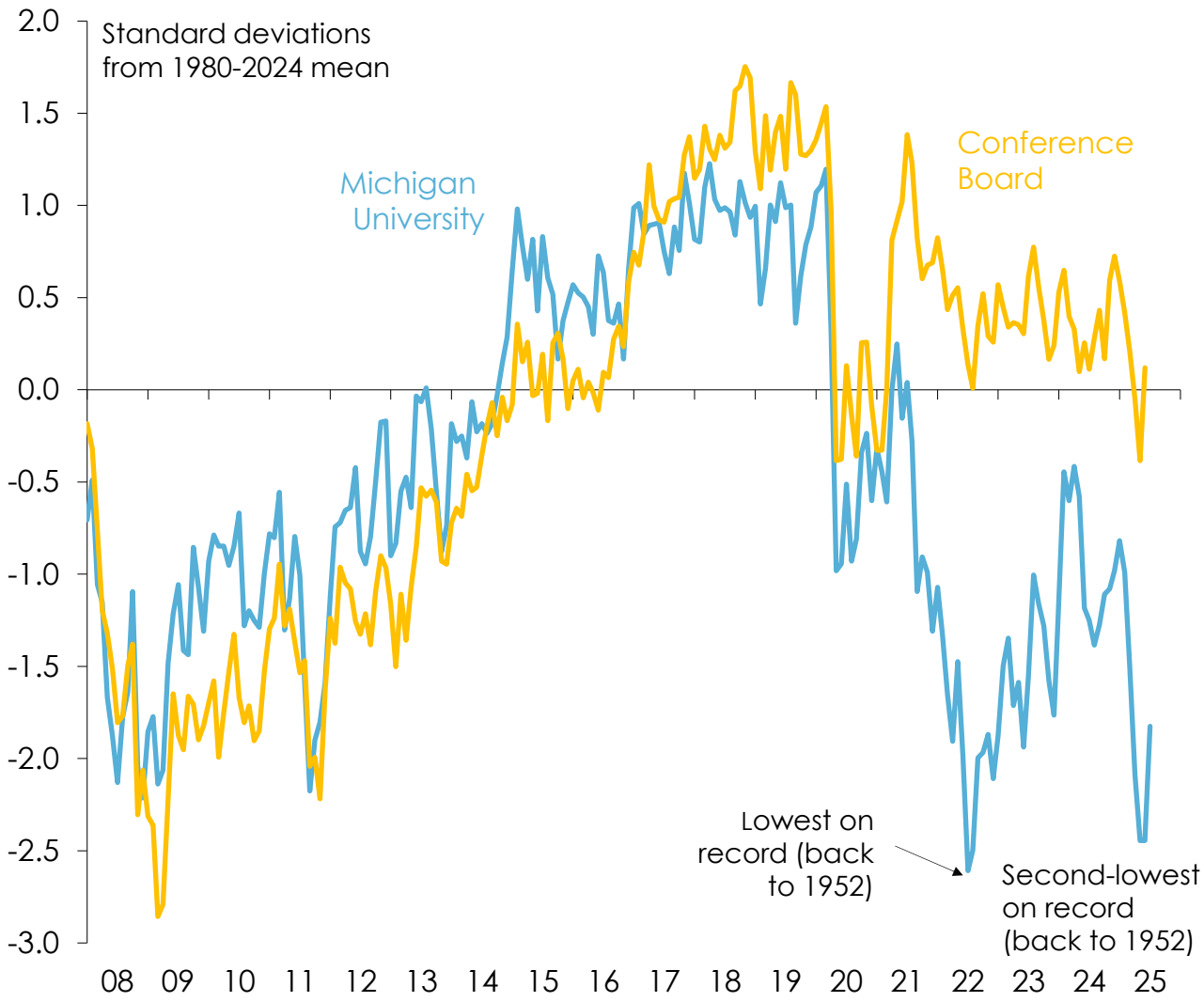
Federal budget deficit



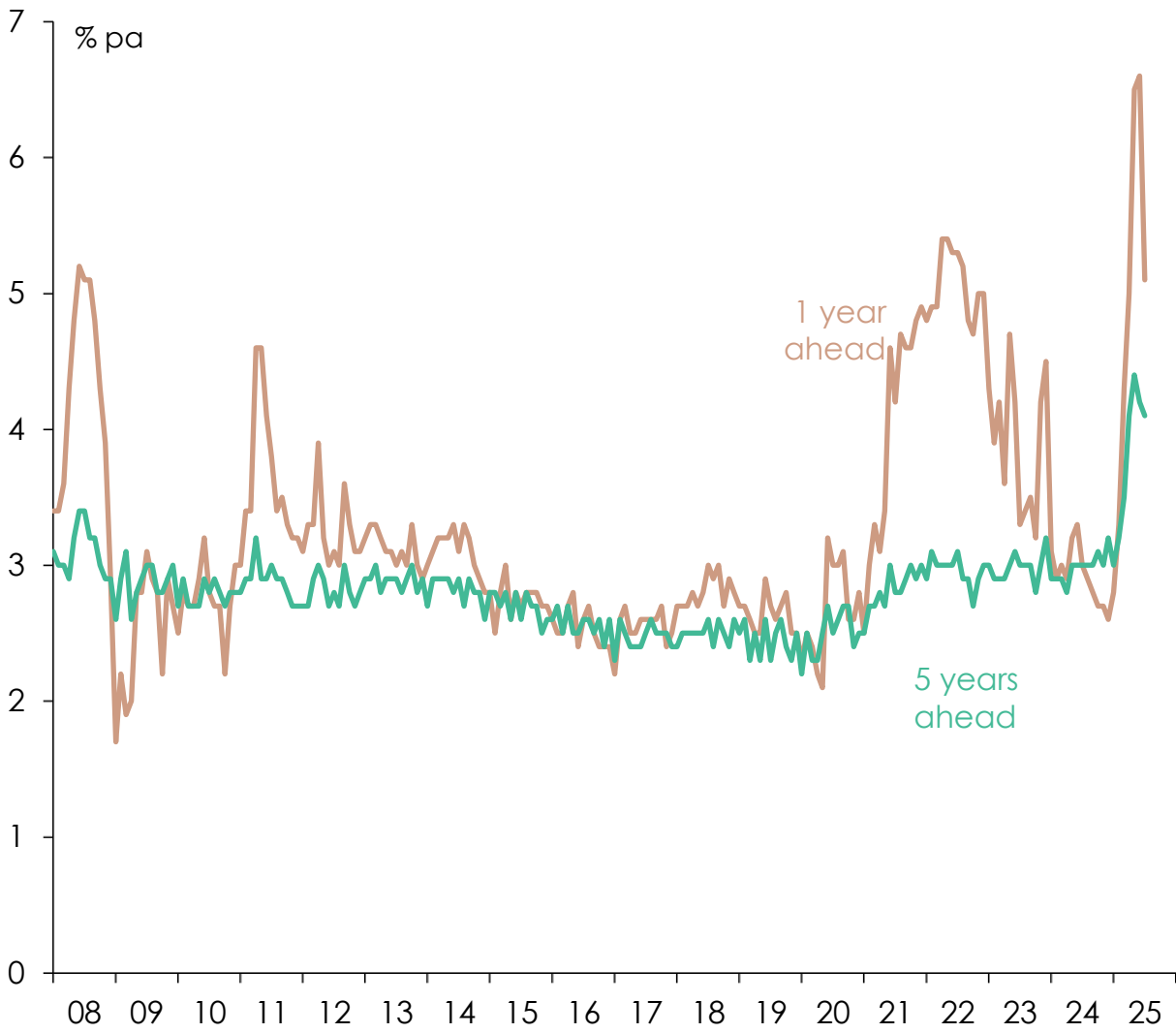
Note: Inflation measure is the implicit price deflator of personal consumption expenditure. Sources: [US Bureau of Economic Analysis](#); [US Bureau of Labor Statistics](#); [US Federal Reserve](#); and [US Treasury](#).

But ordinary Americans sense that this isn't going to last – in particular, they know that they'll be paying Trump's tariffs

Measures of US consumer sentiment

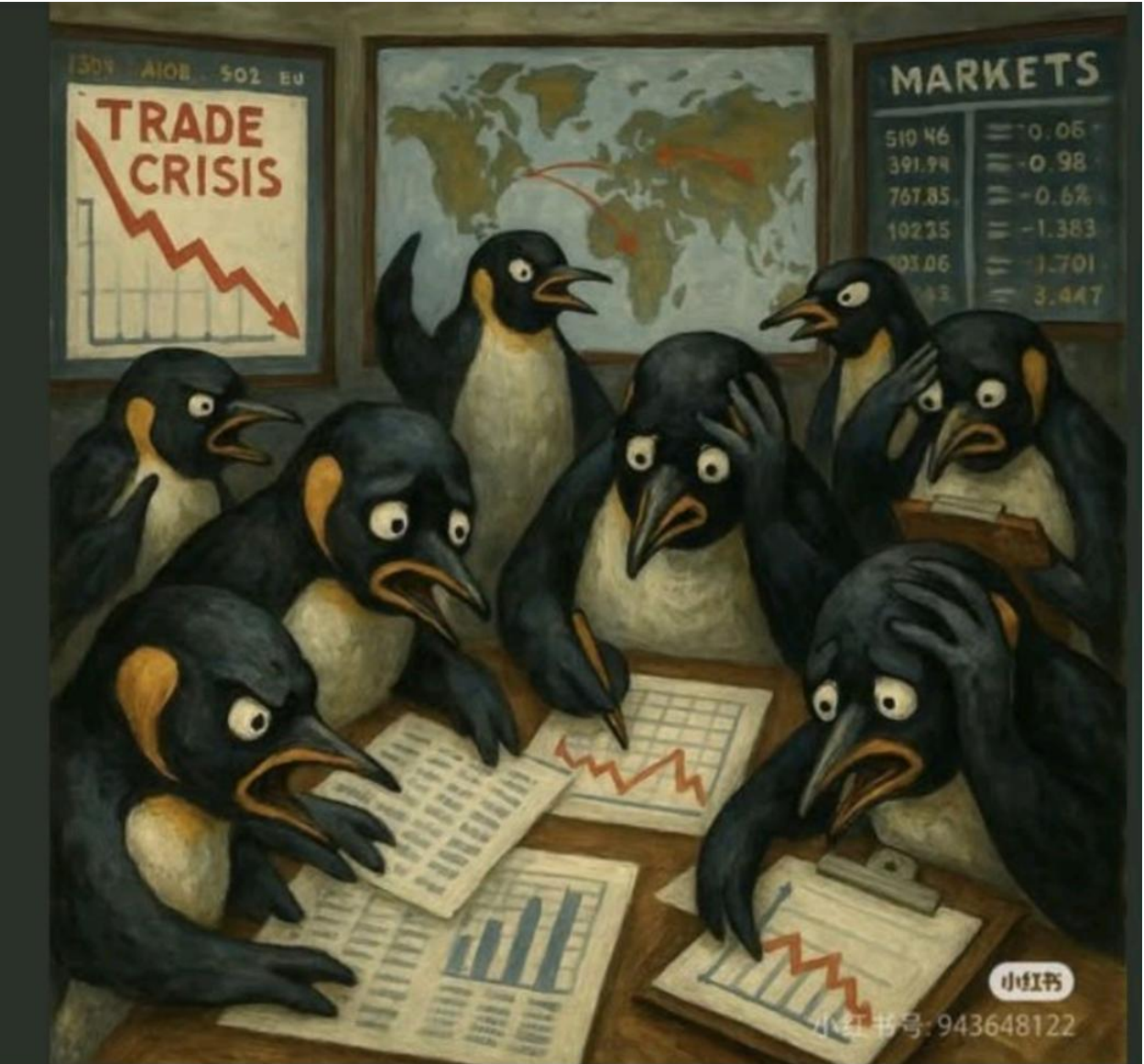


Household inflation expectations



⁸ Note: The Conference Board measure gives much greater weight to consumer perceptions of labour market conditions, while the Michigan University measure gives greater weight to perceptions of inflation. Sources: The Conference Board, [US Consumer Confidence](#); University of Michigan, [Surveys of consumers](#).

... not the Canadians, not the Mexicans, not the Chinese – and not the penguins and seals on Heard & McDonald Islands

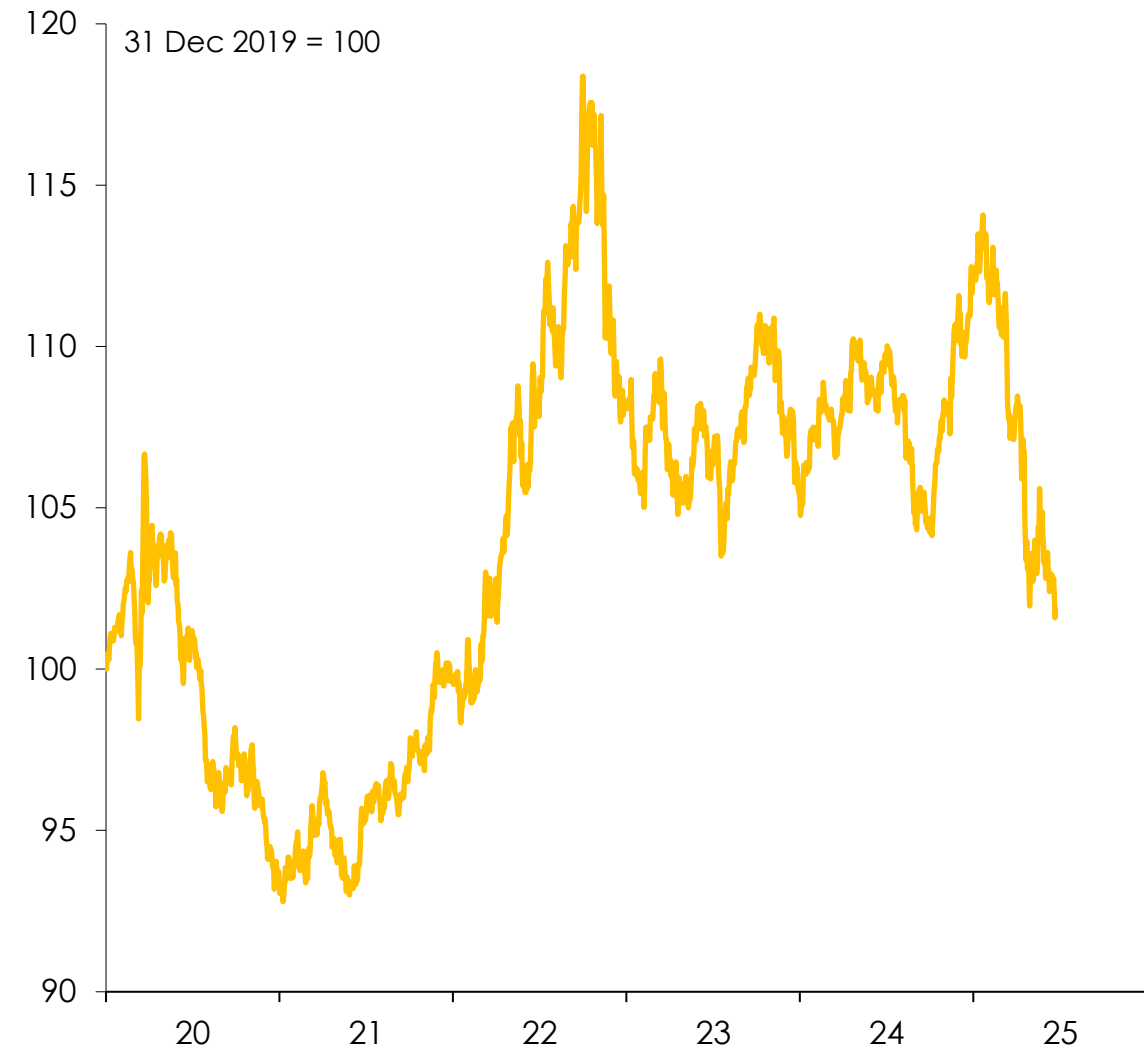


The Trump Administration is trashing America's 'brand' – in the financial markets no less than anywhere else

US Treasury bond yields



US dollar vs other major currencies



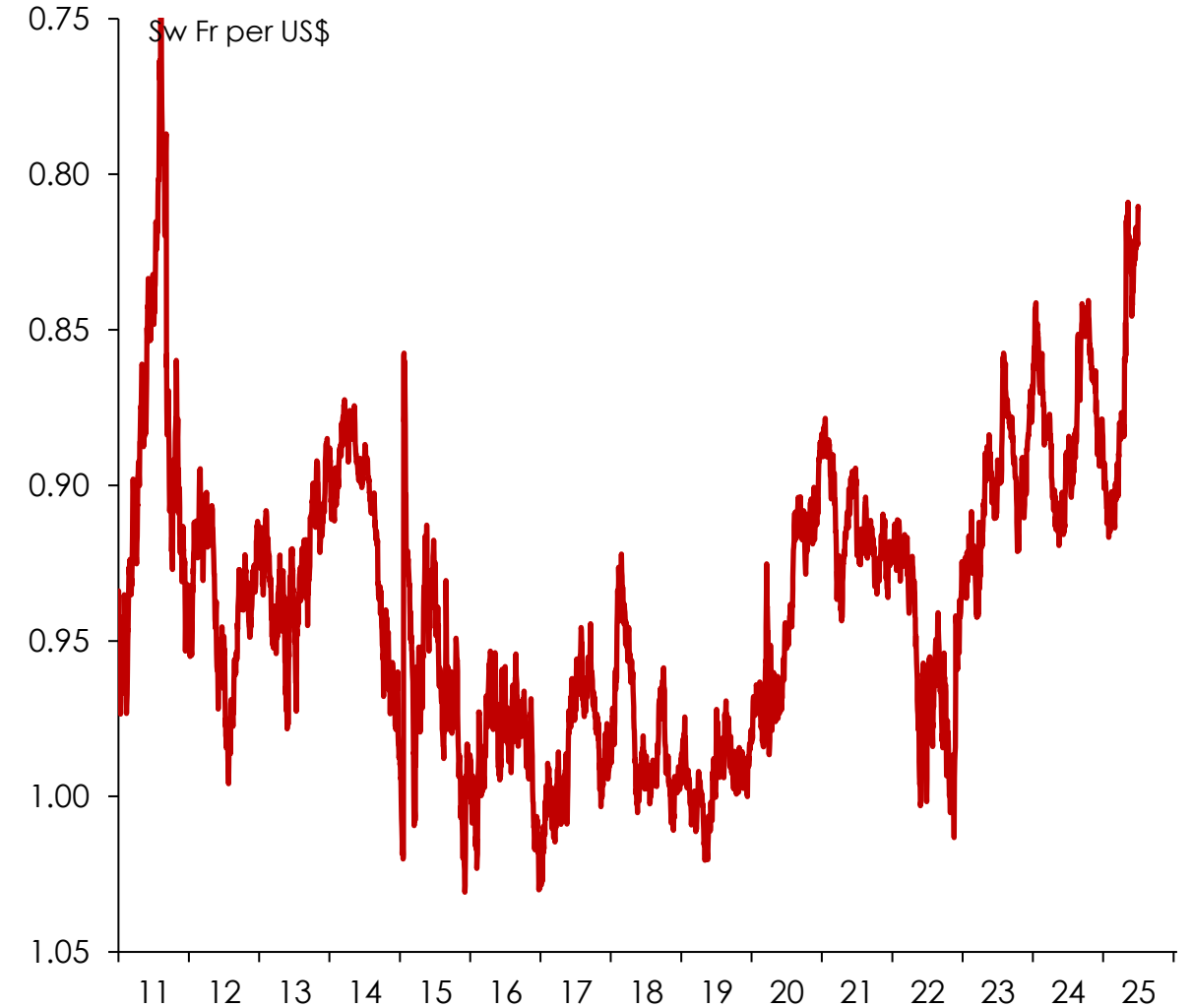
Source: LSEG Datastream. Data up to 13th June.

With the US dollar and US Treasury bonds losing some of their 'safe haven' status, gold and the Swiss franc have gained from pervasive uncertainty

Gold price



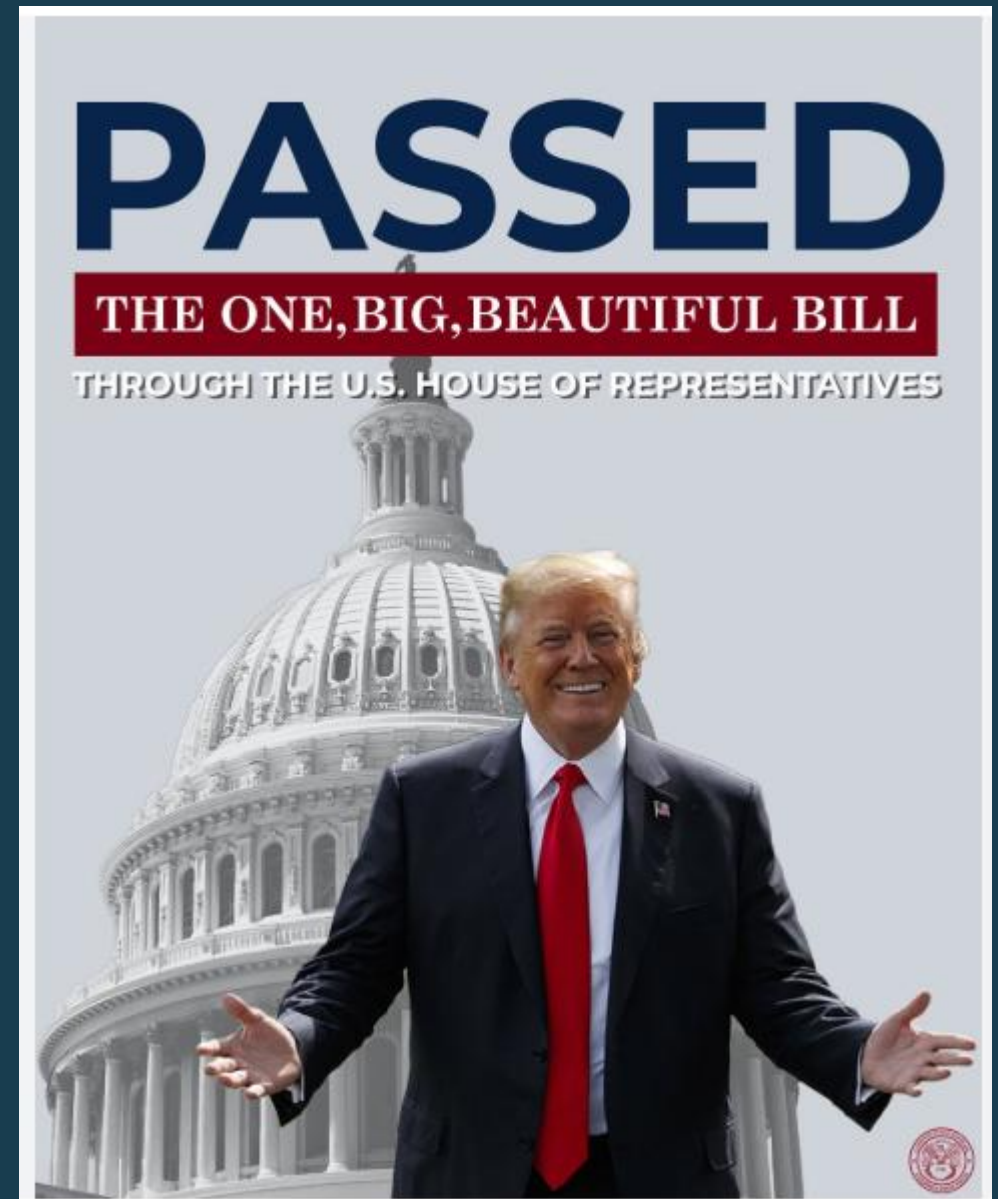
Swiss franc



‘One Big Beautiful Bill’

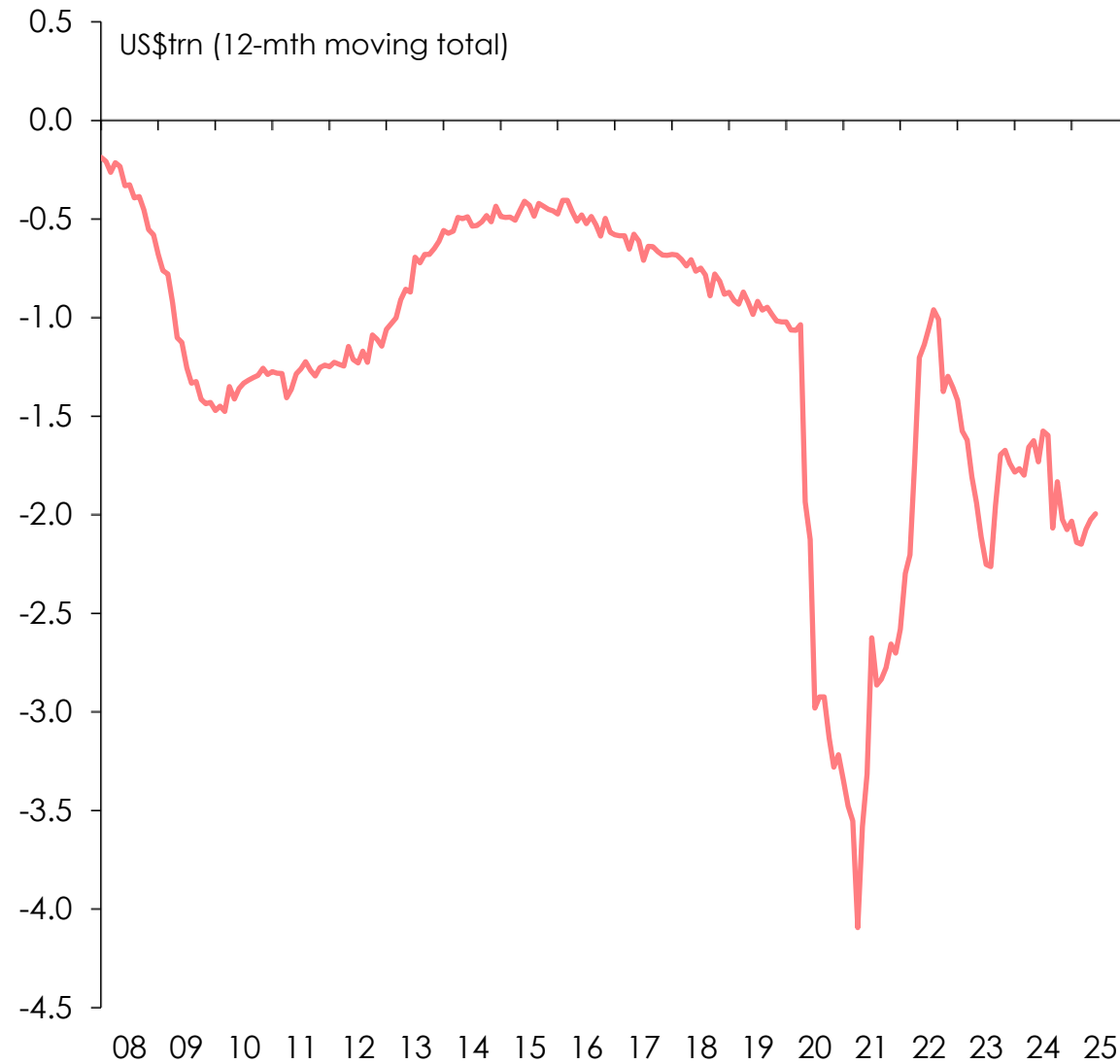
SECTION 1. SHORT TITLE.

This Act may be cited as the “One Big Beautiful Bill Act”.

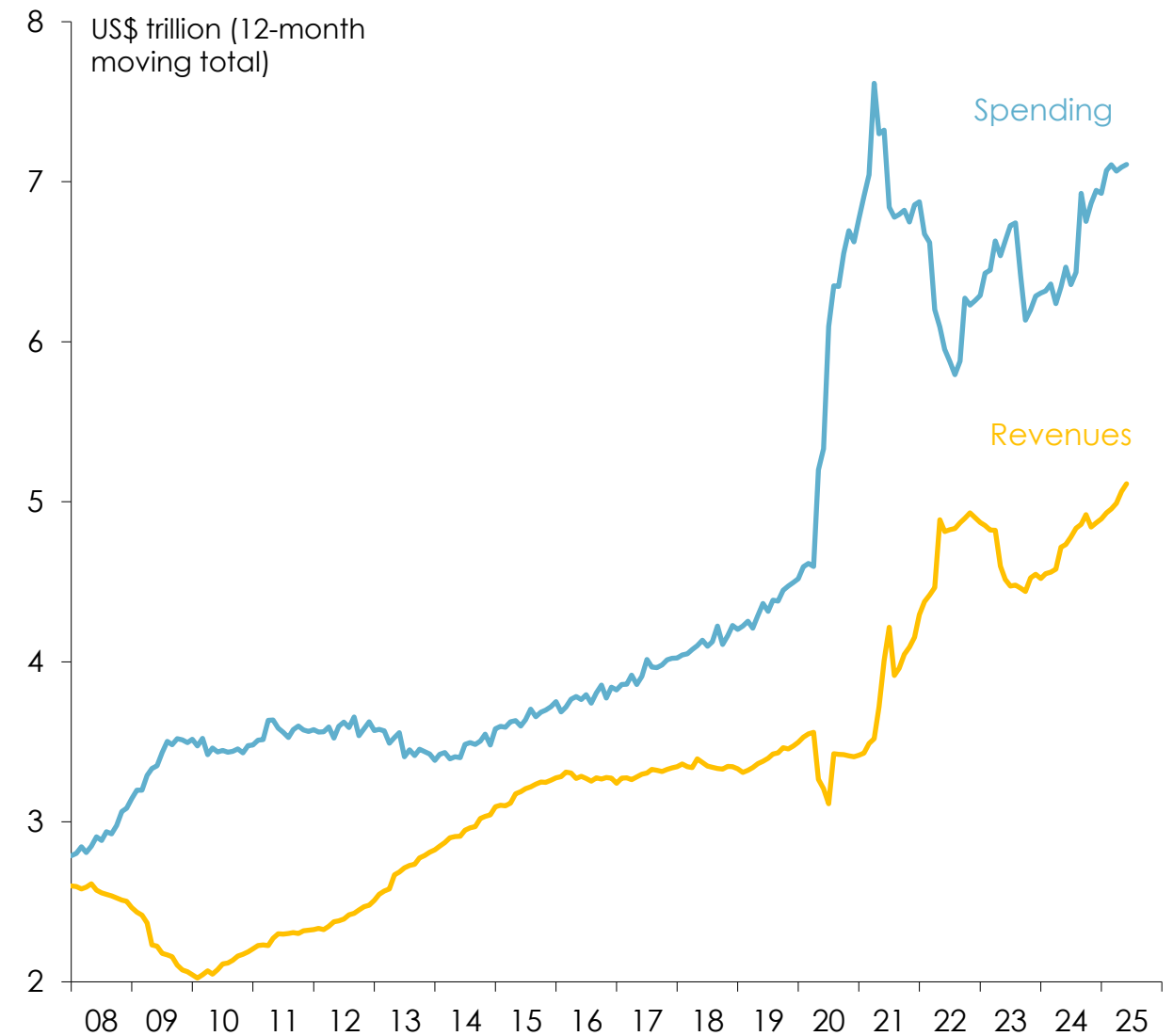


The US Federal budget deficit has declined slightly during the first three months of the Trump regime – but no thanks to Elon Musk

US Federal Budget deficit



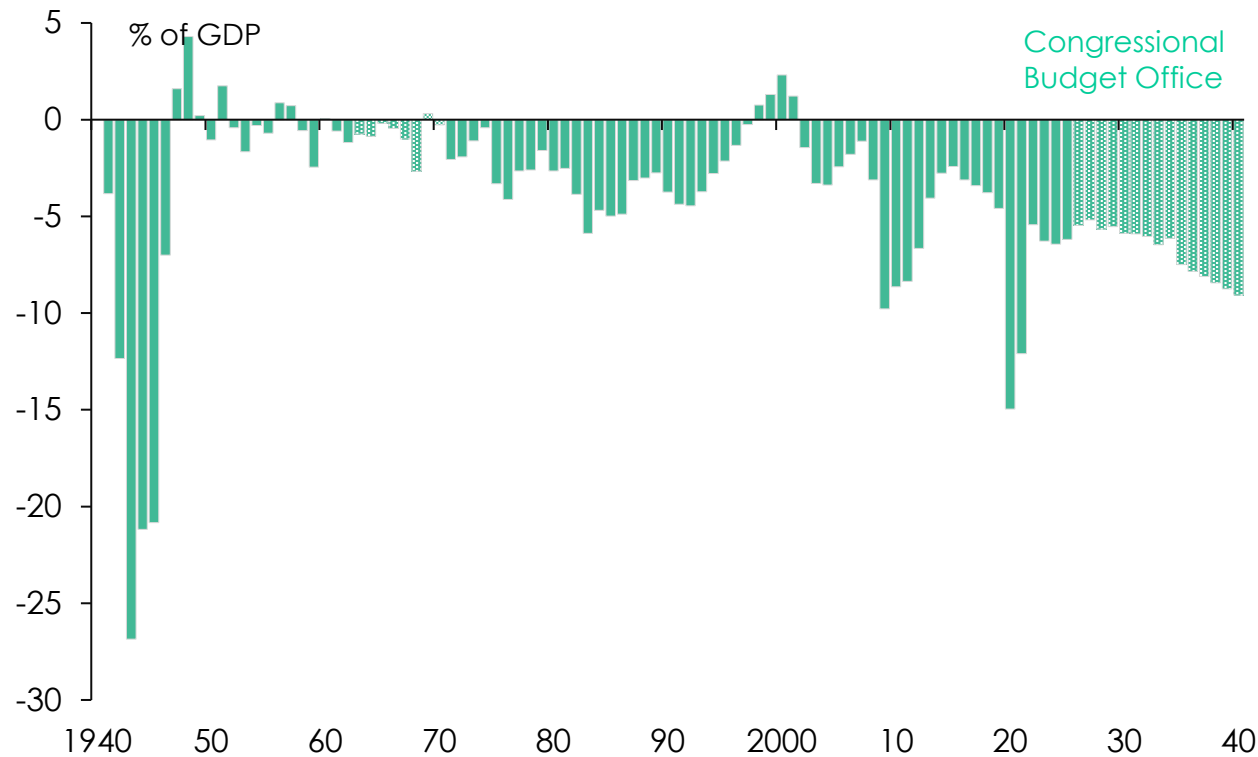
US Federal Government spending and revenue



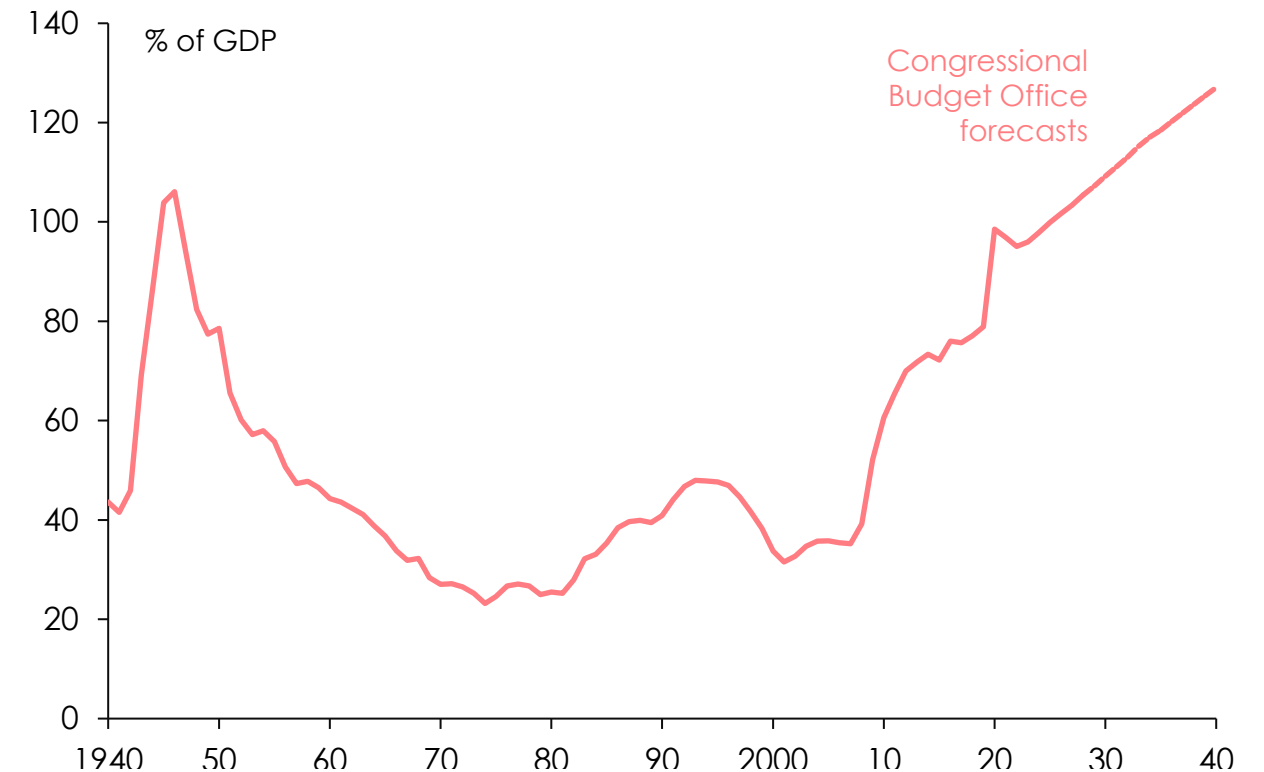
Source: US Treasury Bureau of the Fiscal Service, [Monthly Treasury Statement](#).

The US Budget is already in a fairly dire condition – and Trump’s “One Big Beautiful Bill” will make it even worse

US Federal budget deficit



US Federal net debt

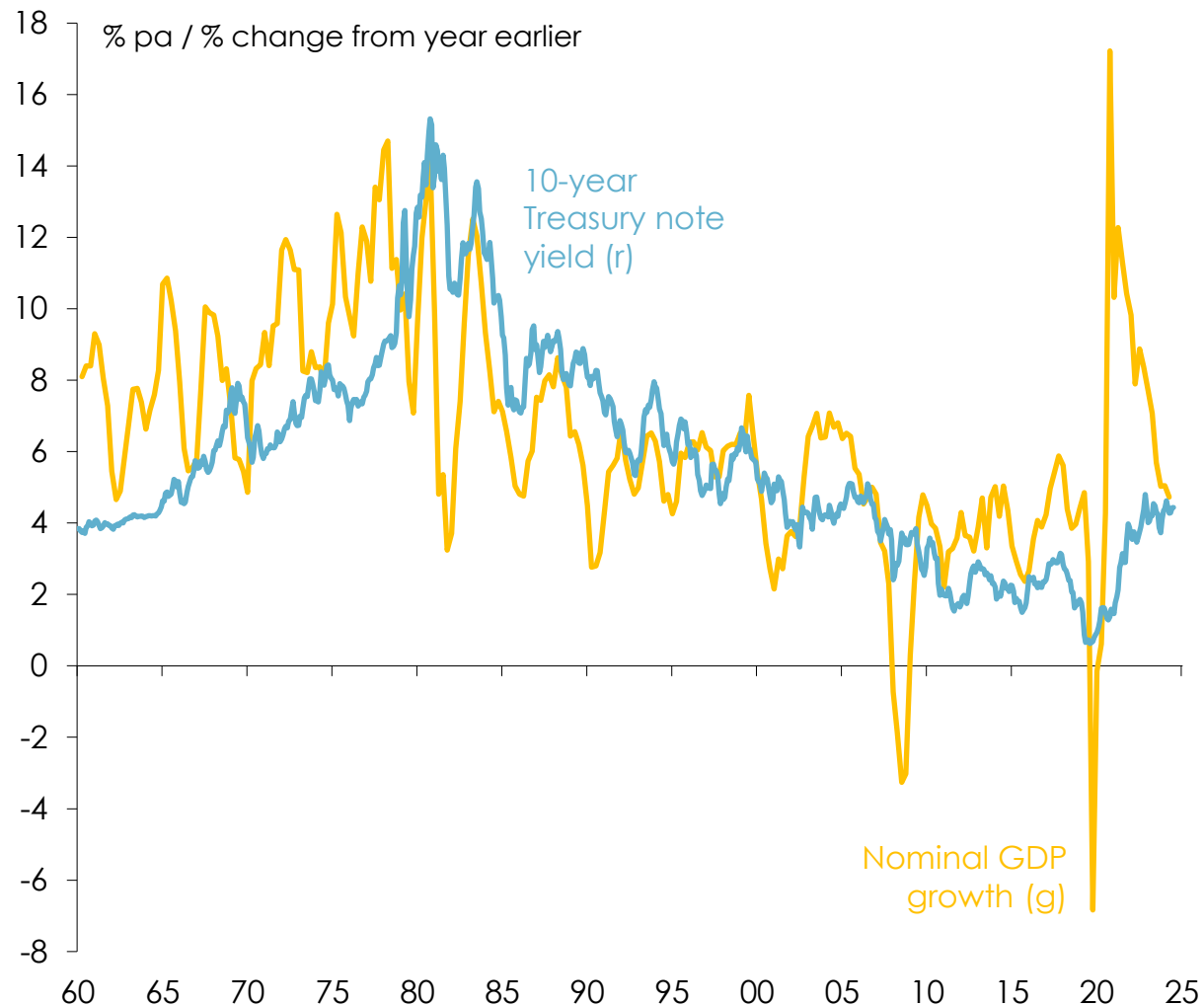


- ❑ The Congressional Budget Office estimates that the ‘One Big Beautiful Bill Act’ will add US\$3.8 trillion to deficits over the fiscal years 2025-34 (on top of the US\$21.1 trillion already forecast on unchanged policies)
- ❑ The Committee for a Responsible Federal Budget estimates that it will add US\$3.1 trillion to deficits over the next decade (or as much as US\$ 5.1 trillion if ‘temporary provisions’ are extended without offsets)

Sources: Congressional Budget Office, [The Budget and Economic Outlook: 2025 to 2035](#), 17th January 2025; [The Long-Term Budget Outlook: 2025 to 2055](#), 27th March 2025; and [Estimated Budgetary Effects of a Bill to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, the One Big Beautiful Bill Act](#), 20th May 2025; Committee for a Responsible Federal Budget, [Breaking Down the One Big Beautiful Bill](#), 21st May 2025.

The US is on the cusp of having higher interest rates on government debt than nominal GDP growth – which could lead to exponential growth in debt

Interest rates and nominal GDP growth



- ❑ In the aftermath of the global financial crisis of 2007-09, and particularly during the Covid-19 pandemic, the ‘conventional economic wisdom’ began to emphasize that, in an environment of historically low interest rates, larger deficits and higher public debt could be sustained
- ❑ In particular, former IMF Chief Economist Olivier Blanchard, in his [February 2019 Presidential Address to the American Economic Association](#), asserted that when interest rates are lower than [nominal] economic growth rates (which he said was “historically the rule rather than the exception”) “the fiscal costs of debt are zero and the welfare costs of debt are small” – a view which came to be widely accepted
- ❑ Now, however, interest rates on US government debt (which have been rising) are almost equal to the growth rate of US nominal GDP (which has been falling)
- ❑ If bond yields were to remain higher than GDP growth for an extended period, deficits and debt would grow exponentially

The assault on the independence of the US Federal Reserve



Trump has launched a barrage of personal attacks on the Chair of the Federal Reserve, Jay Powell – threatening its independence

Trump calls Jerome Powell 'numbskull,' says he may 'force something' on Fed

Alex Gangitano and The Hill

US stock markets fall again as Trump calls Fed chair 'a major loser'

Donald Trump blasts 'not good at his job' Jerome Powell again, claims to know more about interest rates — What he said

Trump blasts Fed Chair Powell, saying his 'termination cannot come fast enough'

By Bryan Mena, CNN

US stocks and dollar plunge as Trump attacks Fed chair Powell



Trump Calls Fed Chair Powell A 'Numbskull' In Latest Attack Over Interest Rate Cuts

Trump bashes Jerome Powell on interest rates: 'Like talking to a wall'

"Well the Bank of England cut, China cut, everybody's cutting but him," Trump said, referring to Powell bucking calls from him to lower borrowing costs. "We'll see what happens. It's a shame. I call him 'Too Late.'"

Trump blasts Fed Chair Powell, saying his 'termination cannot come fast enough'

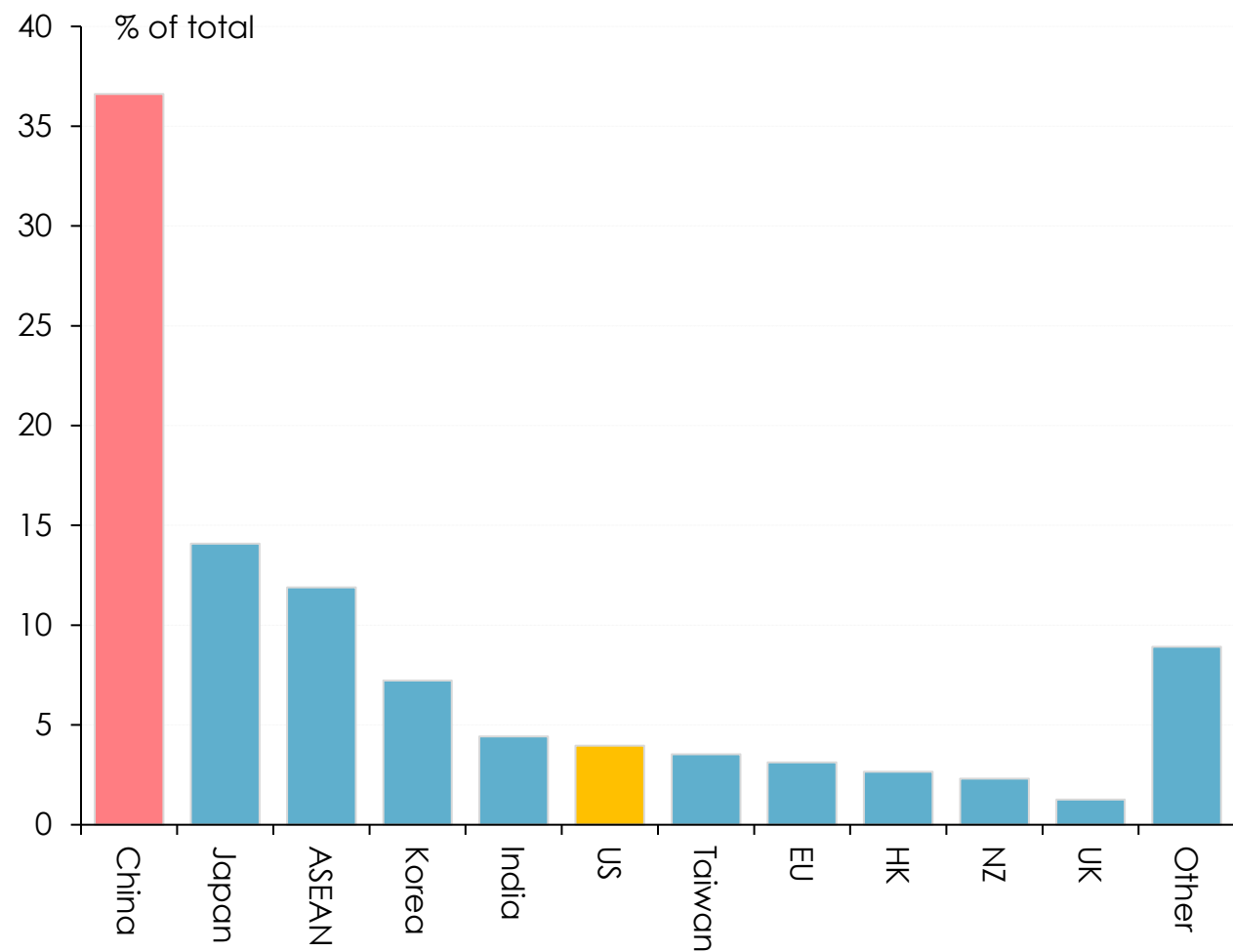
By Bryan Mena, CNN

Trump Bashes 'Slow' Fed Chair Jerome Powell and Threatens His Job: 'If I Want Him Out, He'll Be Out of There Real Fast'

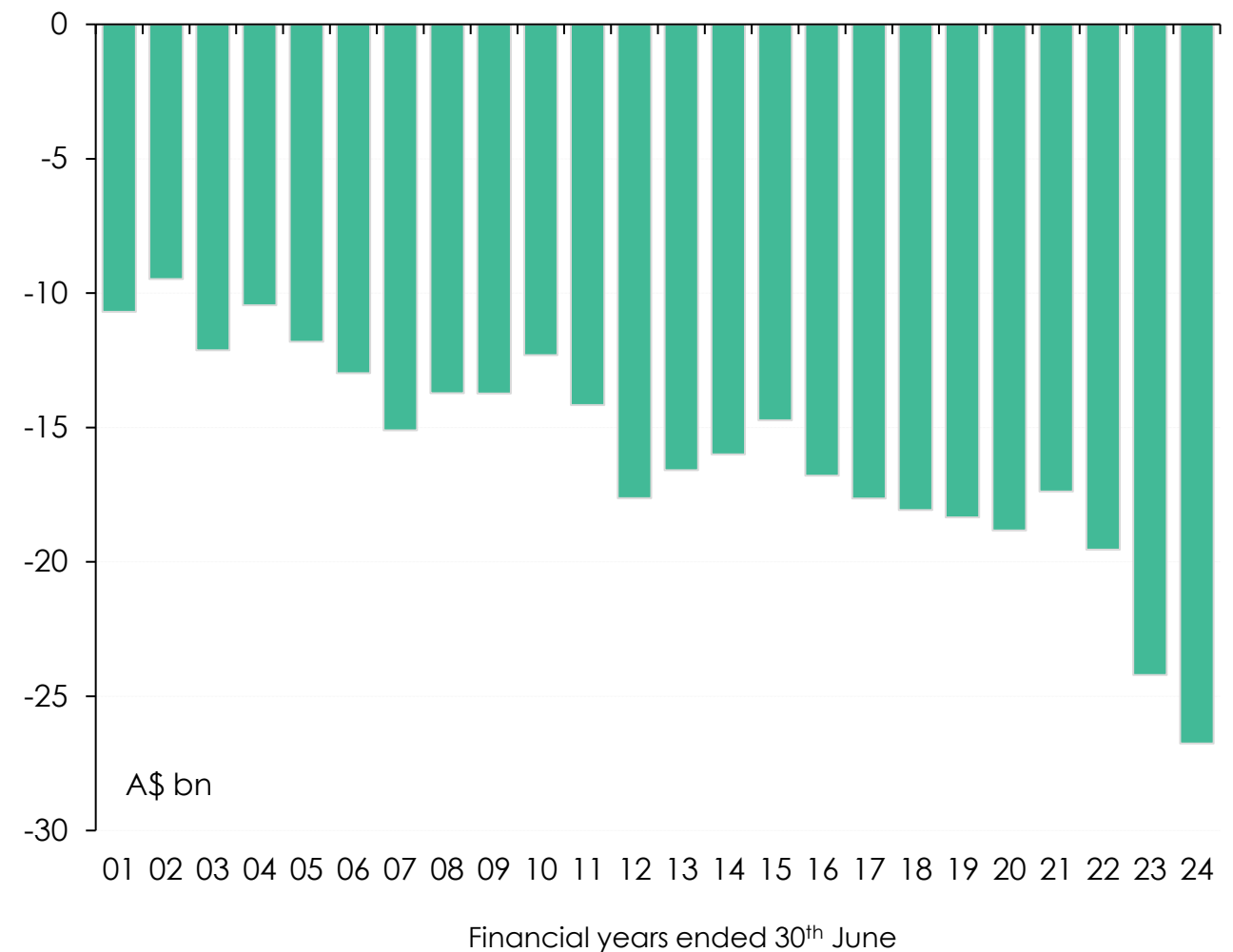
Some implications for Australia

Only 4% of Australia's goods exports are to the US – and Australia is one of very few countries that runs a trade deficit with the US

Direction of Australia's merchandise exports, 2023-24

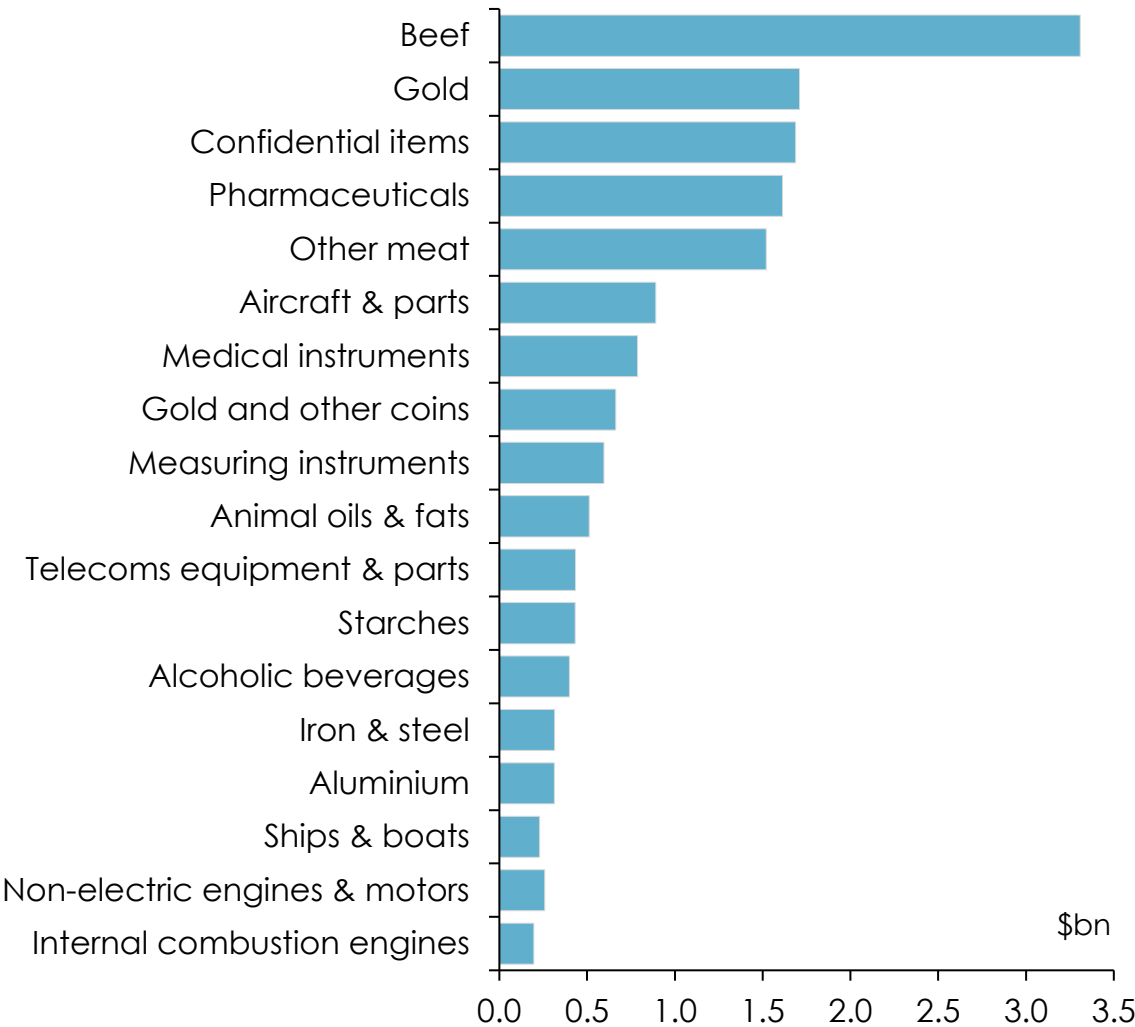


Australia's merchandise trade balance with the United States

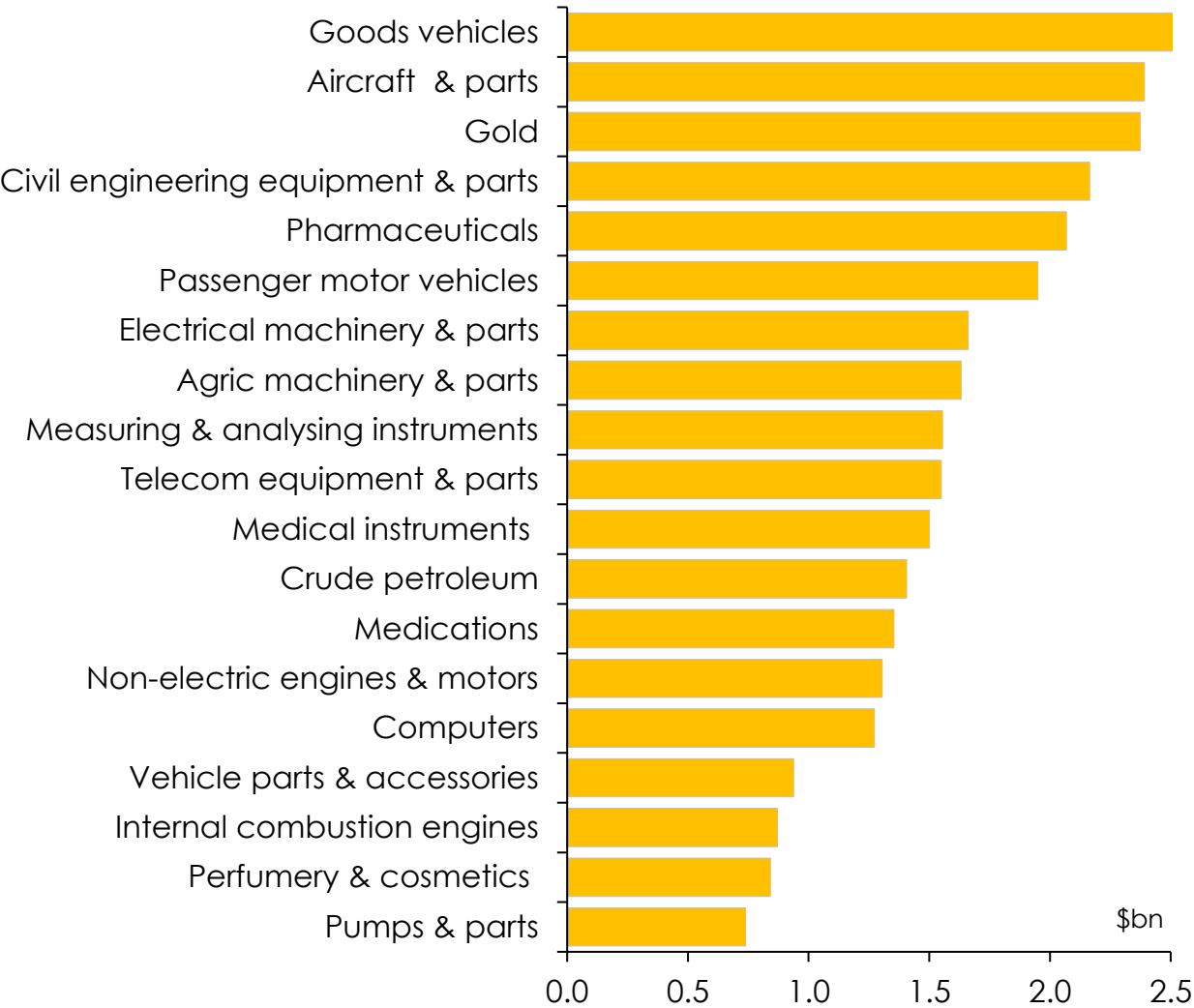


US tariffs on Australian exports would primarily hit meat and manufactures – if Australia ‘retaliated’ we’d be hurting our own industries and consumers

Australia’s top exports to the United States, 2023-24



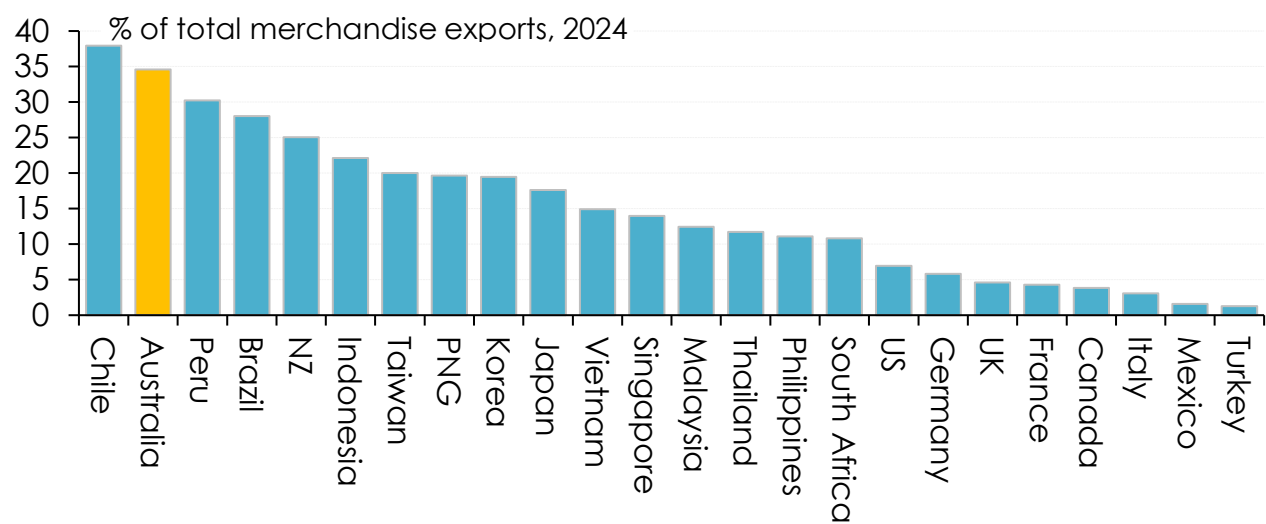
Australia’s top imports from the United States, 2023-24



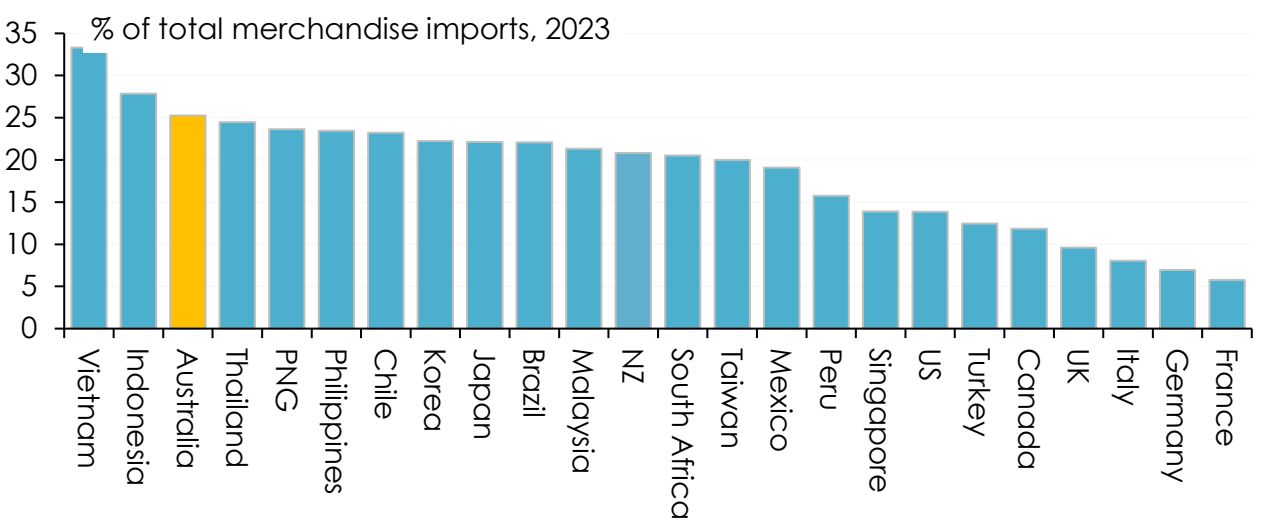
Source: Department of Foreign Affairs & Trade, [Trade statistical pivot tables](#).

Australia is more exposed to a protracted slowdown in China's economy – or to trade sanctions against China – than any other 'advanced' economy

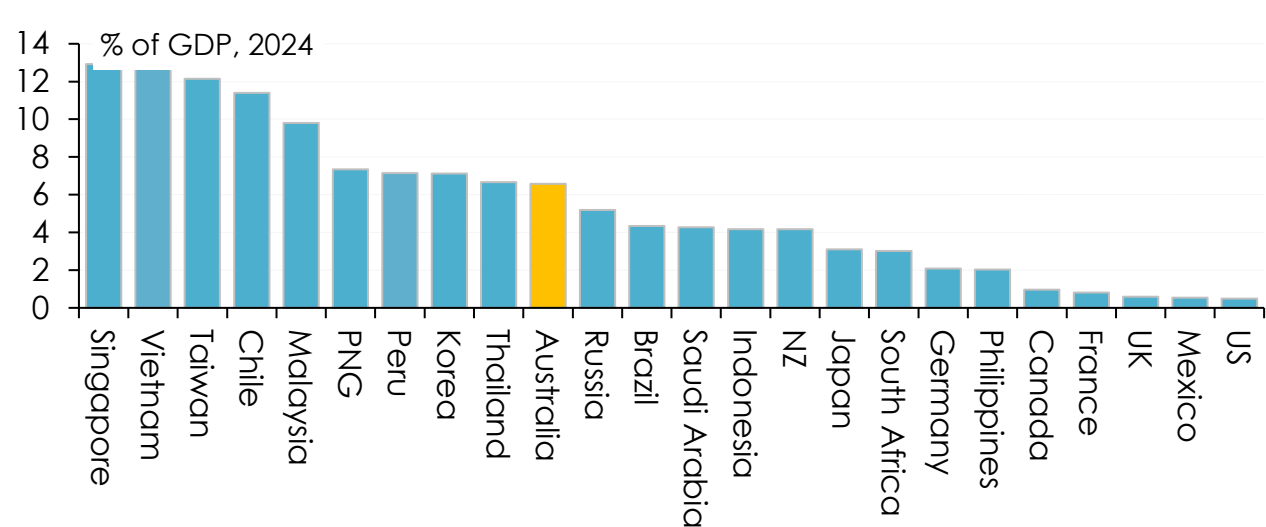
Exports to China as a pc of total exports



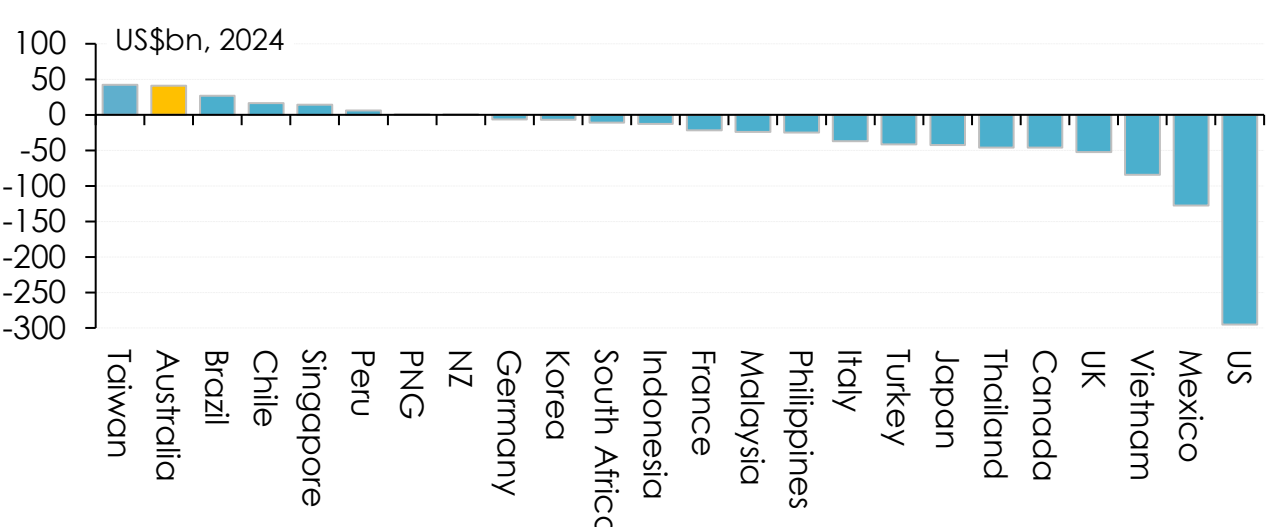
Imports from China as a pc of total imports



Exports to China as a pc of GDP

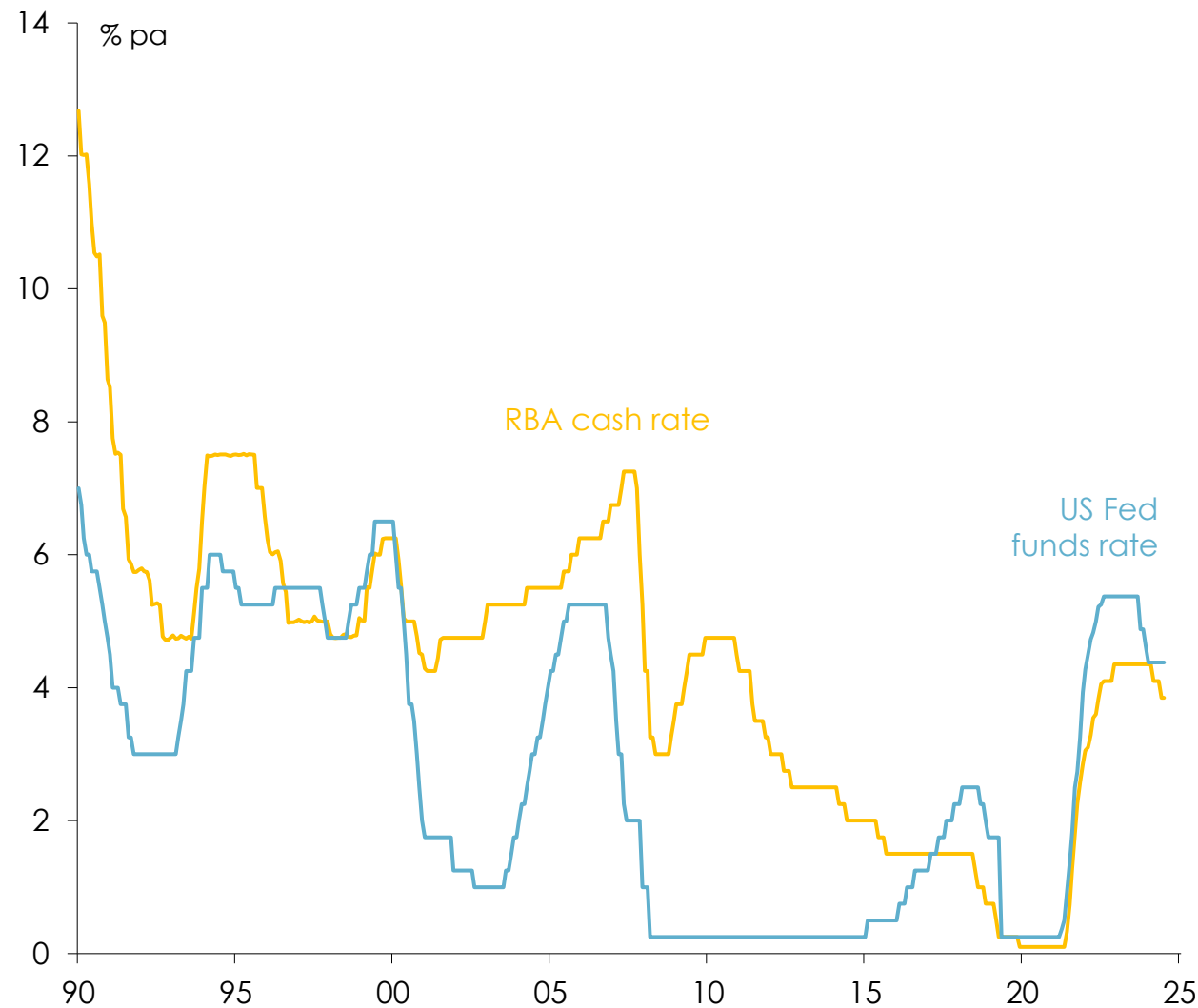


Bilateral merchandise trade balances with China

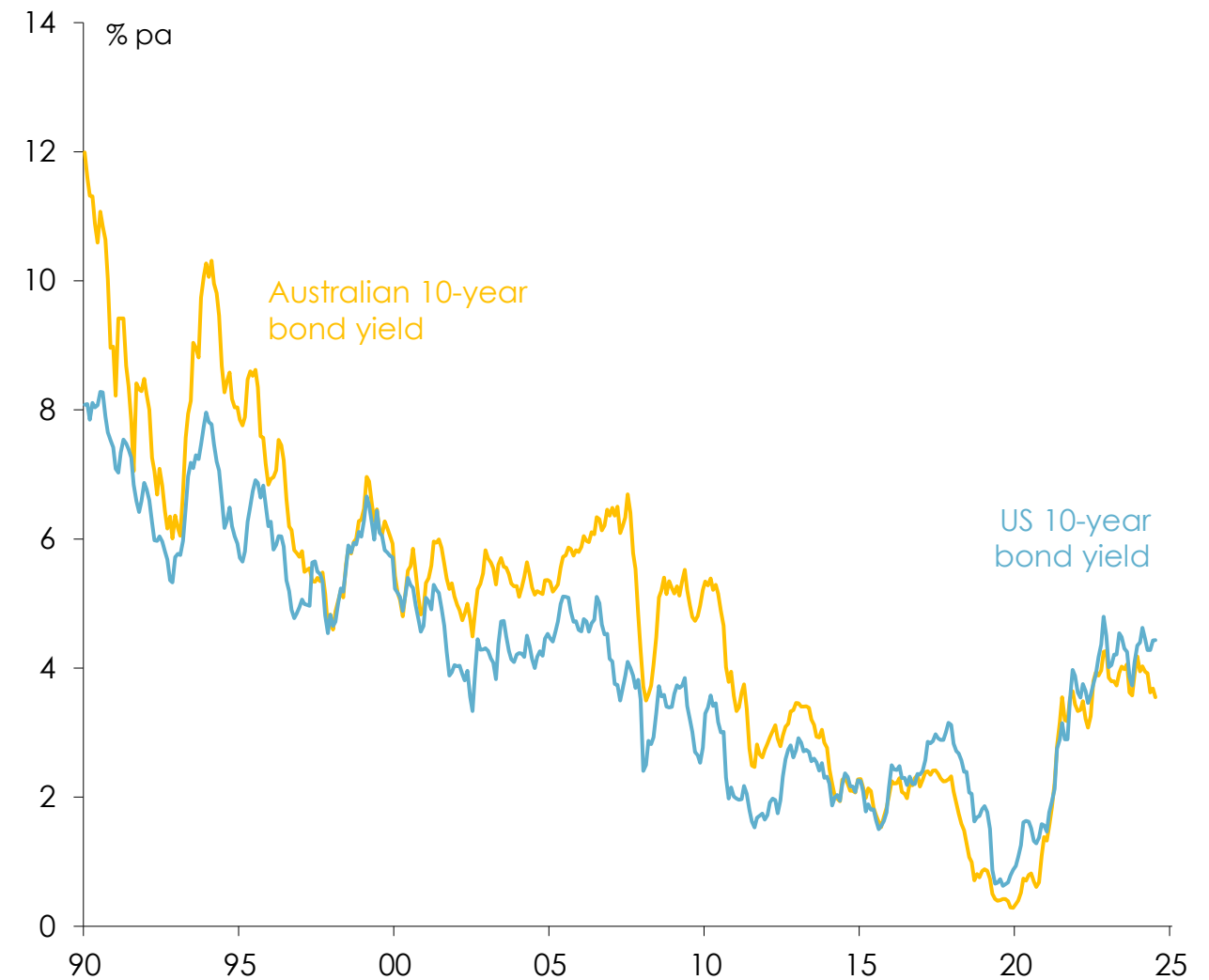


Higher US interest rates don't necessarily mean a higher RBA cash rate or variable mortgage rates – but they do mean higher long-term interest rates

US and Australian 'official' cash rates



US and Australian 10-year government bond yields



Sources: [US Federal Reserve](#); [Reserve Bank of Australia](#); LSEG Datastream.

The 'One Big Beautiful Bill' Act provides for a tax of up to 20% on the US income of residents of countries levying taxes which the US doesn't like

"SEC. 899. ENFORCEMENT OF REMEDIES AGAINST UNFAIR FOREIGN TAXES.

"(a) INCREASED RATES OF TAX ON FOREIGN PERSONS OF DISCRIMINATORY FOREIGN COUNTRIES.—

"(1) TAXES OTHER THAN WITHHOLDING TAXES.—

"(A) IN GENERAL.—In the case of any applicable person, each specified rate of tax (or any rate of tax applicable in lieu of such statutory rate) shall be increased by the applicable number of percentage points.

"(A) IN GENERAL.—The term 'applicable number of percentage points' means, with respect to any discriminatory foreign country—

"(i) with respect to the 1-year period beginning on the applicable date with respect to such foreign country, 5 percentage points, and

"(ii) with respect to any period after the 1-year period to which clause (i) applies, the sum of —

"(I) 5 percentage points, plus

"(II) an additional 5 percentage points for each annual anniversary of such applicable date which has occurred before the beginning of such period.

"(B) CAP ON INCREASE.—Notwithstanding subparagraph (A), the increase in any rate under paragraph (1) or (3) shall not result in such rate exceeding the amount of the statutory rate (determined without regard to any rate applicable in lieu of such statutory rate) increased by 20 percentage points.

"(1) IN GENERAL.—The term 'unfair foreign tax' means an undertaxed profits rule (UTPR), digital services tax, diverted profits tax, and, to the extent provided by the Secretary, an extraterritorial tax, discriminatory tax, or any other tax enacted with a public or stated purpose indicating the tax will be economically borne, directly or indirectly, disproportionately by United States persons.

"(1) DISCRIMINATORY FOREIGN COUNTRY.—The term 'discriminatory foreign country' means any foreign country which has one or more unfair foreign taxes.

"(2) FOREIGN COUNTRY.—The term 'foreign country' means a foreign country (or political subdivision thereof) or a dependent territory or possession of a foreign country. Such term does not include any possession of the United States.

"(3) TAX.—The term 'tax' includes any increase in tax whether effectuated by an increase in the rate or base of a tax, by a denial of deductions or credits, or otherwise.

- ❑ Section 899 of 'OBBA' gives the US Treasury Secretary the power to determine that a foreign country is imposing an 'unfair tax' ...
- ❑ ... which will then impose an additional tax of 5%, rising by 5pc pts each year to a maximum of 20%, on income earned in the US by residents of that country
- ❑ this includes Australia

The most important message for Australia is not so much Trump, as it is about the American people – they are *not* our friends

The American people of today are not the same as the ones to whom John Curtin looked, 84 years ago



“Without any inhibitions of any kind, I make it quite clear that Australia looks to America, free of any pangs as to our traditional links or kinship with the United Kingdom”.

— ‘The Task Ahead’,
27th December 1941

The American people of today are not the same as the ones on behalf of whom John F. Kennedy spoke, 64 years ago



“Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe to assure the survival and the success of liberty”.

— Inaugural address,
20th January 1961

The American people of today are not the same as the ones on behalf of whom Ronald Reagan spoke, 38 years ago



“Mr Gorbachev, open this gate.
Mr Gorbachev, tear down this wall”.

— Address at the Brandenburg Gate, Berlin,
12th June 1987

We in Australia – and people in other traditional US allies – need to think very hard about what that means

Important information

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