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INTERNATIONAL ECONOMICS

The Economic Implications of
Key Trump Proposals

Based mainly on the work of Warwick McKibbin, Megan Hogan and Marcus Noland

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Bloomberg Economics and the Peterson Institute
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Proposals modeled by MHN

- Mass deportations

- Tariffs

- Erosion of political independence of the Fed

- Goal: Take Candidate Trump at his word; avoid political judgments

- Many other policy steps not modeled

Mass Deportations

- Trump has repeatedly called for the largest mass deportation in history
  - Over the four years of his first Administration, about 1.2 million people were removed (about 0.4% of the population)
  - Now promising new approaches, including the construction of vast new detention facilities, using active-duty military and mobilizing National Guard units, and using expedited deportation procedures

- Two targets
  - Low goal: 1.3 million
    - ❖ Only slightly more than during Trump's first term
    - ❖ During Eisenhower's presidency (two terms), ~0.7% of the pop. was removed
  - High goal: Estimated 8.3 million unauthorized workers in economy

Tariffs

- "To me the most beautiful word in the dictionary is 'tariff.'"
- 10 percent global tariff (sometimes 20 percent), including on FTA partners;
- 60 percent tariff on China
- Trump has other many trade ideas that are not modeled:
  - Reciprocal tariff
  - Product-specific decoupling from China
  - Tariff on countries that reduce use of the US dollar

Fed independence

- "I feel that the president should have at least [a] say in there, yeah. I feel that strongly. I think that, in my case, I made a lot of money. I was very successful and I think I have a better instinct than, in many cases, people that would be on the Federal Reserve or the chairman."

- Specific ideas, in increasing degree of severity:
  - Replace Chairman Jerome Powell with someone more pliable politically
  - Require President Trump to be consulted on interest rate decisions
  - Make the President an *ex officio* member of the Board of Governors
  - Abolish the idea of "independent" agencies; let President set monetary policy
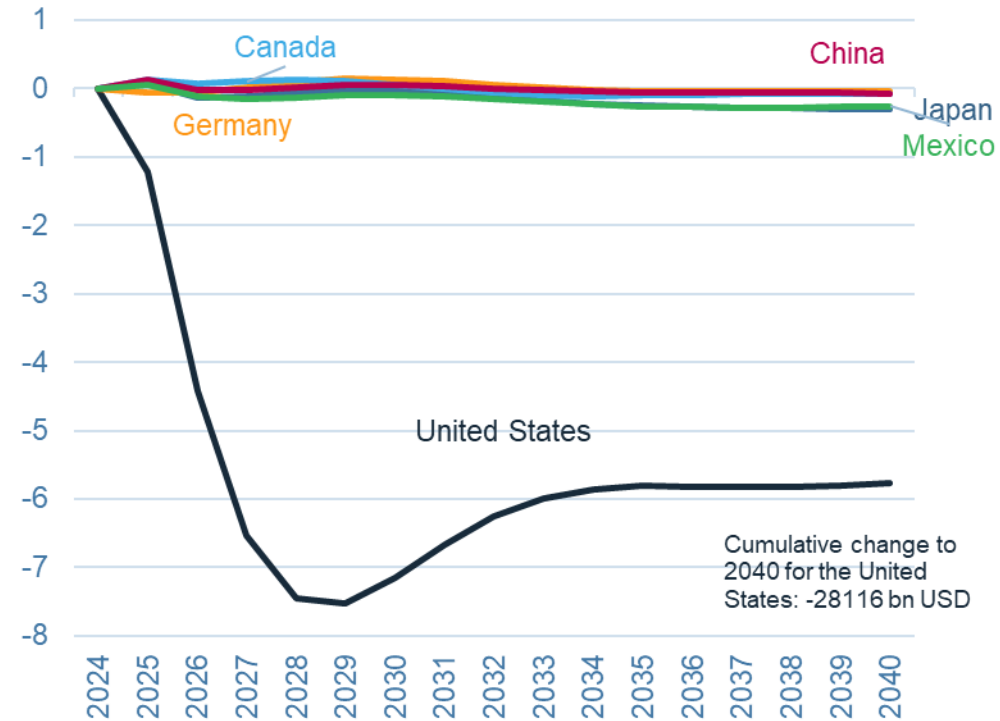
Modeling strategy

- Use the G-Cubed and G-Cubed G20 models to explore the implications for the US and world economies of:

  - Additional 10 percentage point tariff on all trading partners
    - With and without retaliation

  - Additional 60 percentage point tariff on China
    - With and without retaliation

  - Deportation of unauthorized workers
    - 1.3 million and 8.3 million

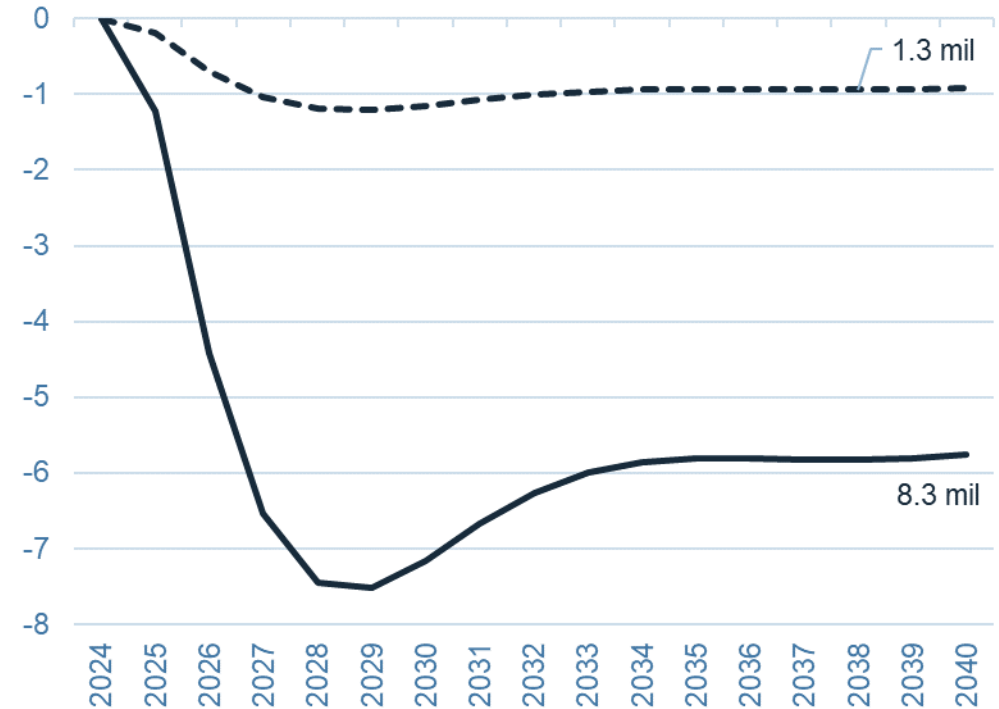 - Erosion of the independence of the US Federal Reserve

  - Combined scenarios

Deportation Scenarios

GDP effects

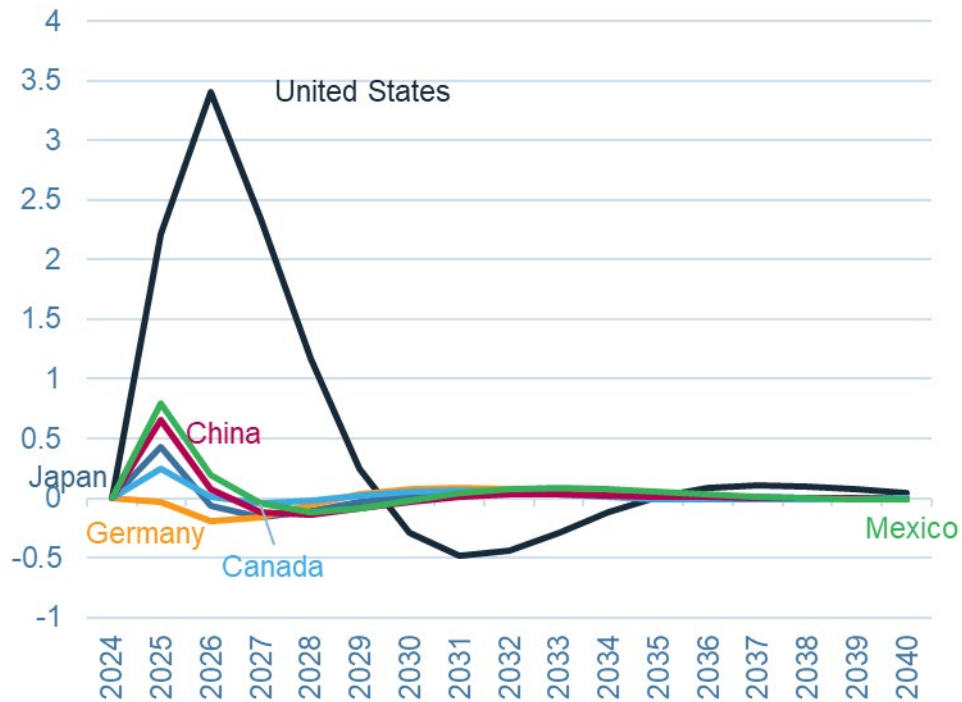### Real GDP (high target) cross-country
Percentage deviation for each year

Canada

China

Germany

Japan

Mexico

United States

Cumulative change to 2040 for the United States: -28116 bn USD

Real GDP (low vs high) US only
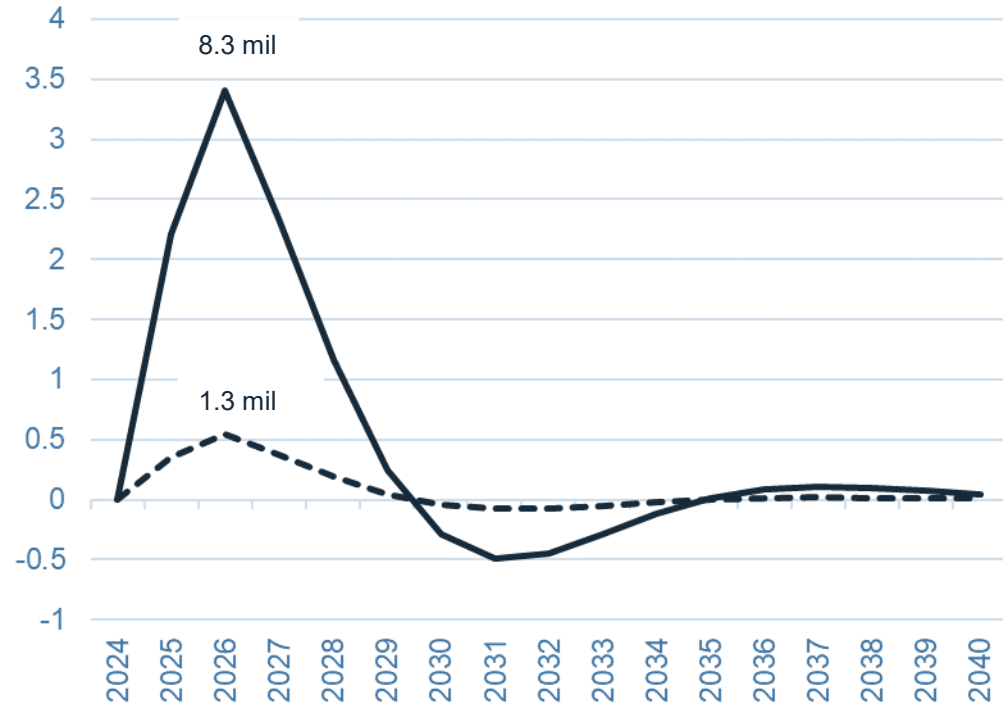Percentage deviation for each year

1.3 mil

8.3 mil

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Inflation effects

Inflation (high target) cross-country
Percentage point deviation

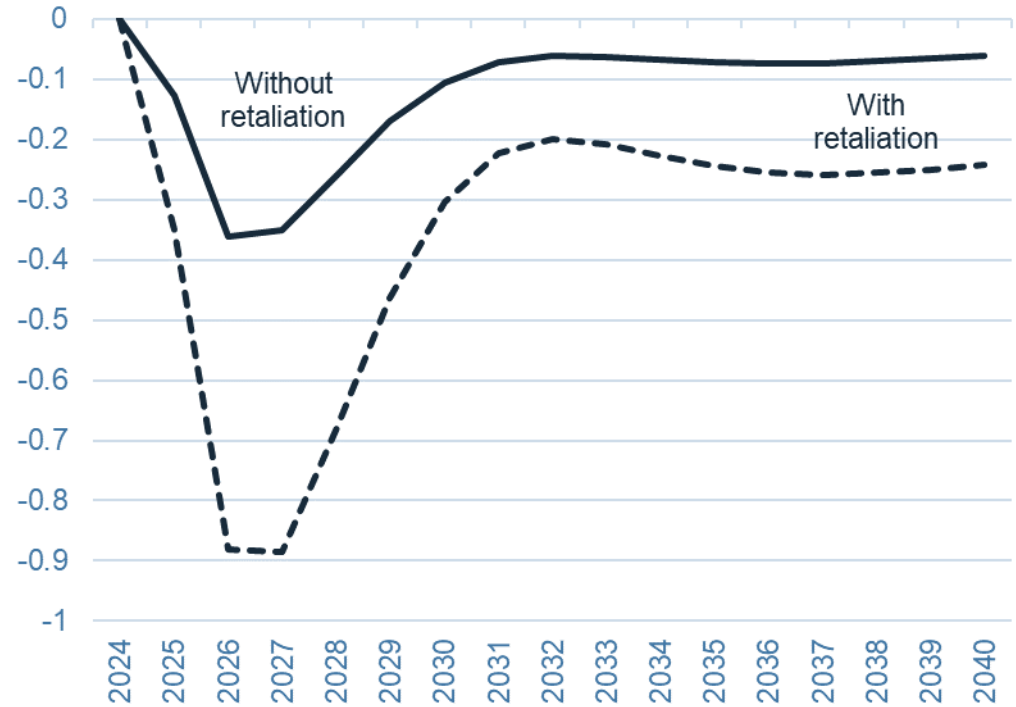Inflation (low vs high) US only
Percentage point deviation

10 percentage point uniform tariff increase on all countries

GDP effects

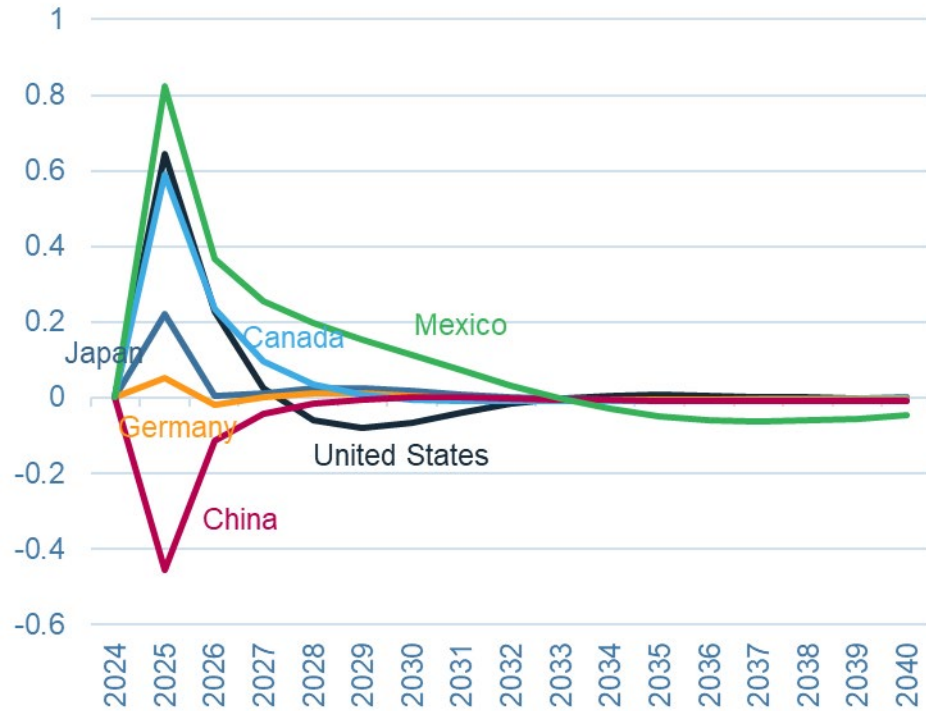Real GDP w/o retaliation cross-country
Percentage deviation for each year
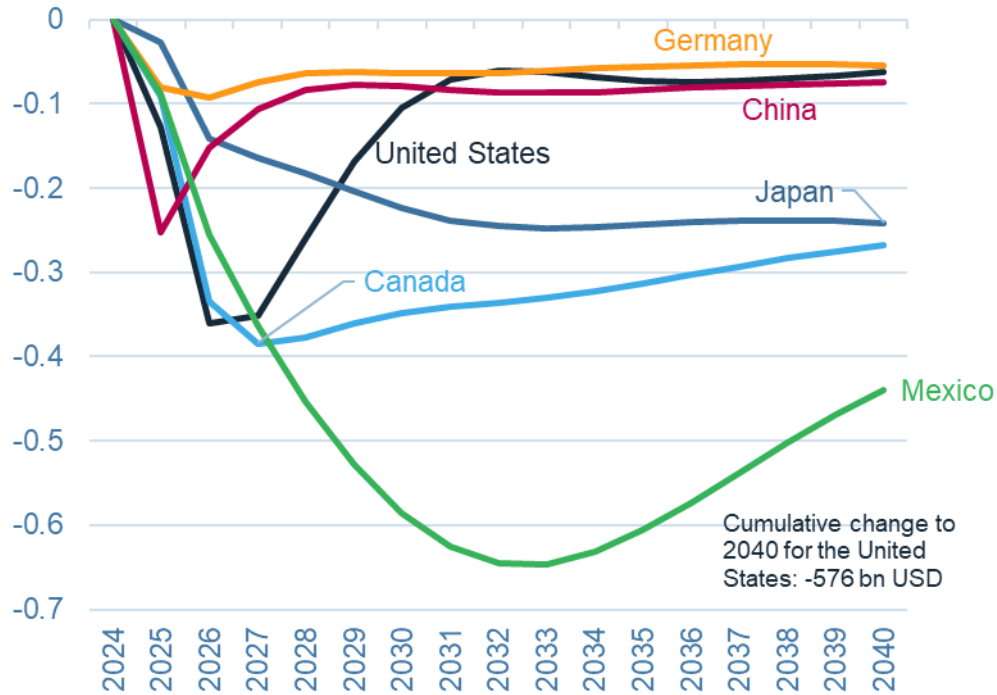
Real GDP (w/ and w/o retal.) US only
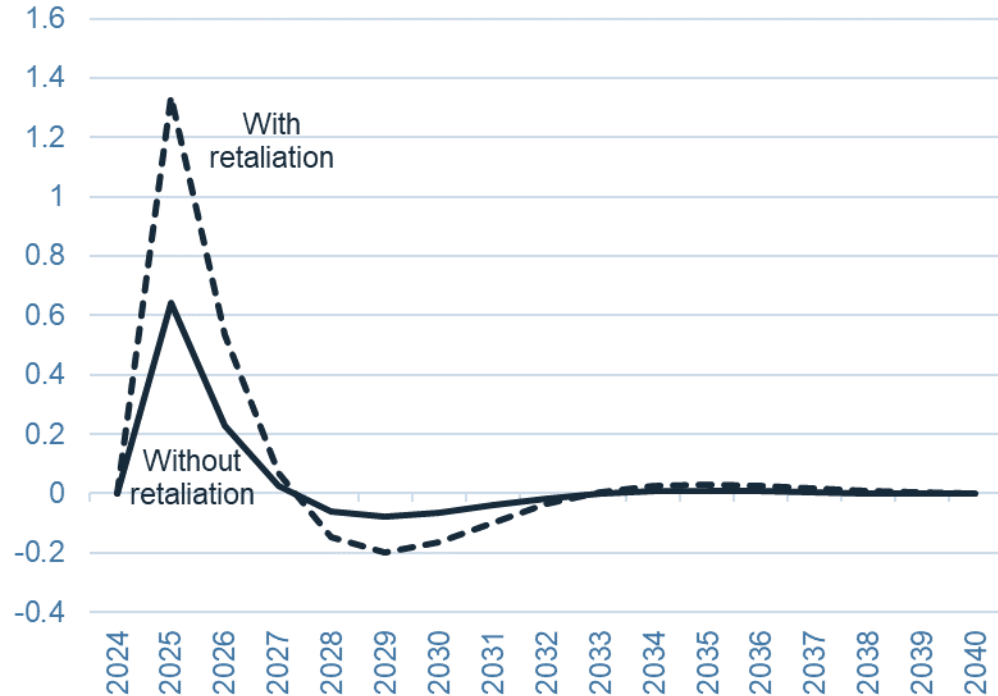Percentage deviation for each year

Inflation effects

Inflation w/o retaliation cross country
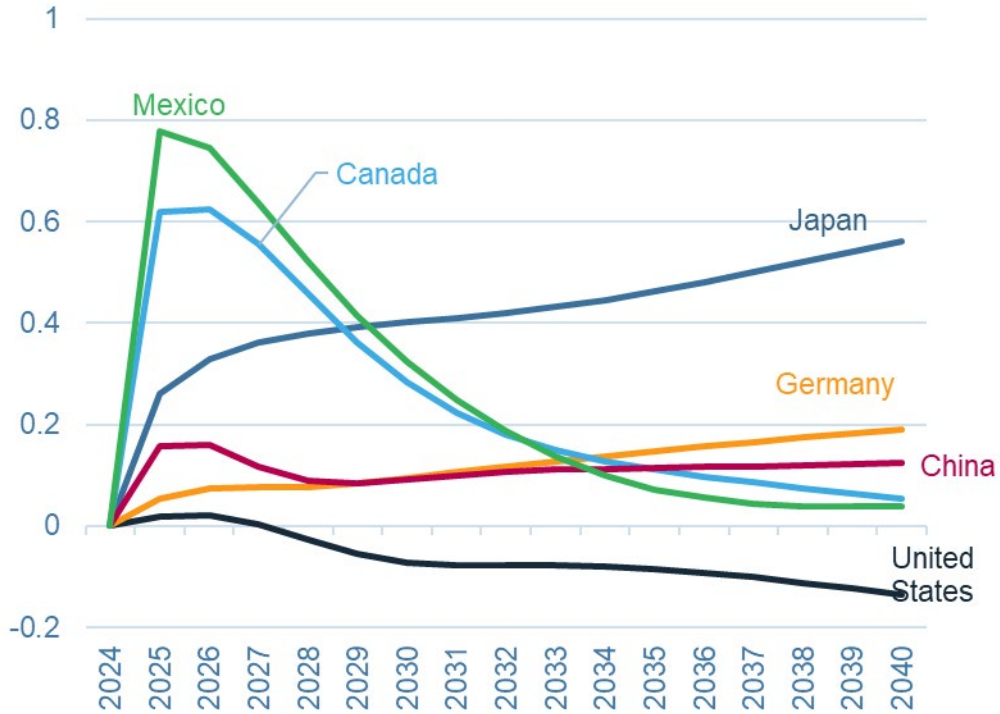
Percentage point deviation for each year

Inflation (w/ and w/o retal.) US only
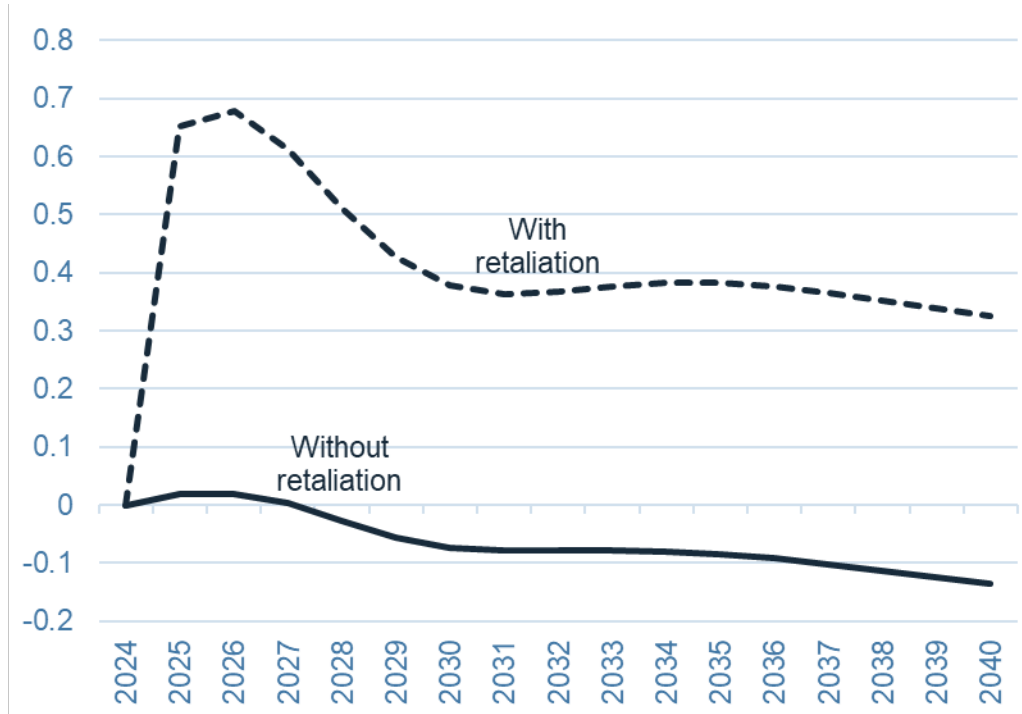
Percentage point deviation for each year

Trade effects

Trade balance w/o retal. cross-country
Percent of GDP deviation for each year

United States, with and without retaliation
Percent of GDP deviation for each year

What tariff rate will actually be put in force?

- Maybe 10/60 is too extreme?

- Enormous uncertainty

- Blanchard is skeptical Trump will back down "if only because of his apparent love for tariff revenues."

- Bloomberg Economics thinks (with "low conviction") a more likely baseline is:
  - Rate on China moves from 12% to 36%, phased in
  - Rate on others moves from 1% to 3%, phased in
  - Raises a substantial fraction of the cost of extending TCJA

- Note: Consumers will experience TCJA extension + tariffs as a tax increase

Combined scenarios

Combined Scenarios

Low:

- Deportation at 1.3 million

- 10% tariffs on all, plus 60% on China, no retaliation

- Fed independence curtailed
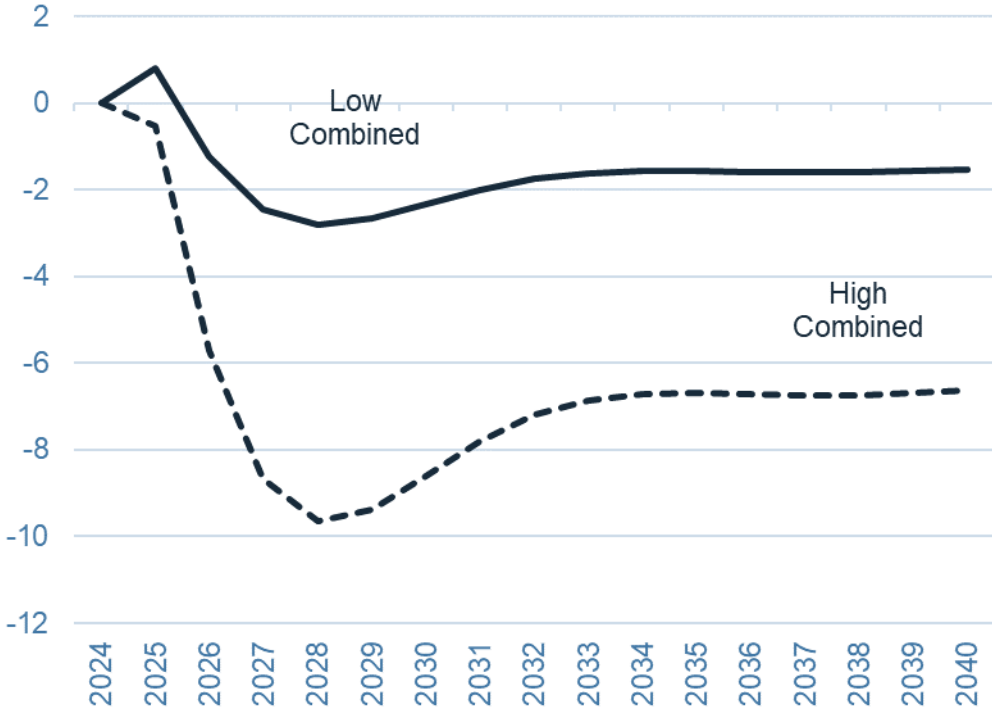 - FOMC aims for $y>y^*$
  - Risk premium imposed

High:

- Deportation at 8.3 million

- 10% tariffs on all, plus 60% on China, with retaliation

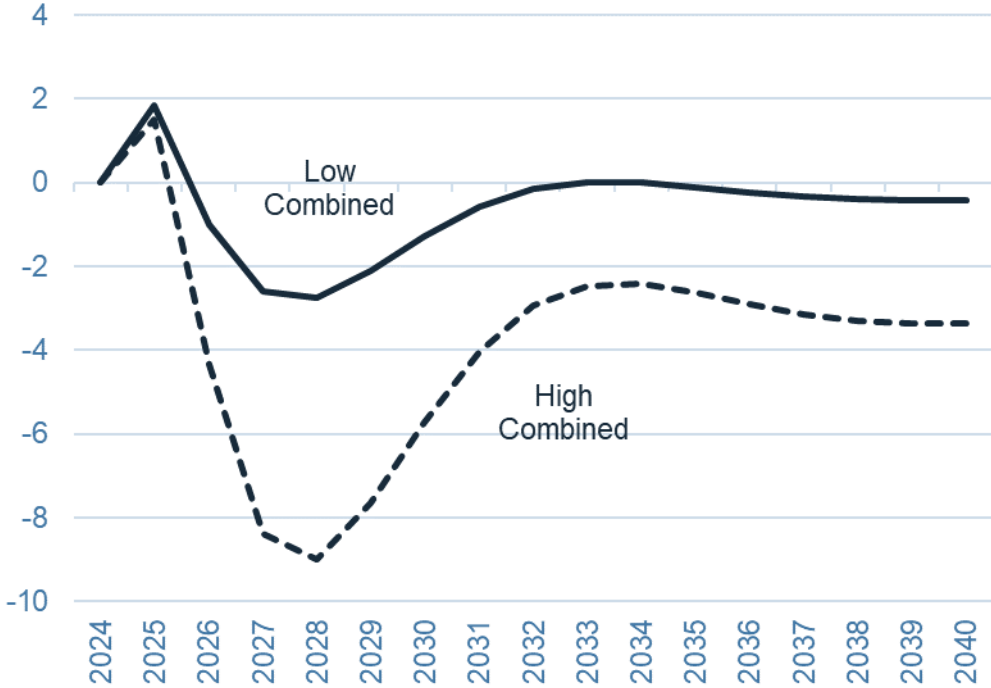- Fed independence curtailed
  - same as "low"

Combined Scenarios
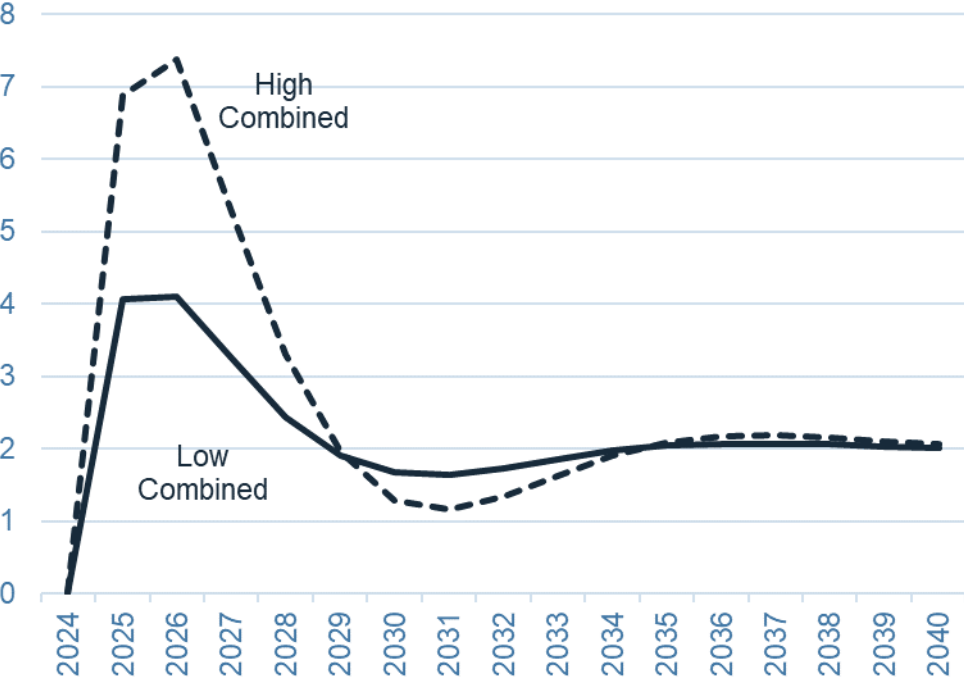
Real GDP
Percentage deviation for each year

Employment
Percentage deviation for each year
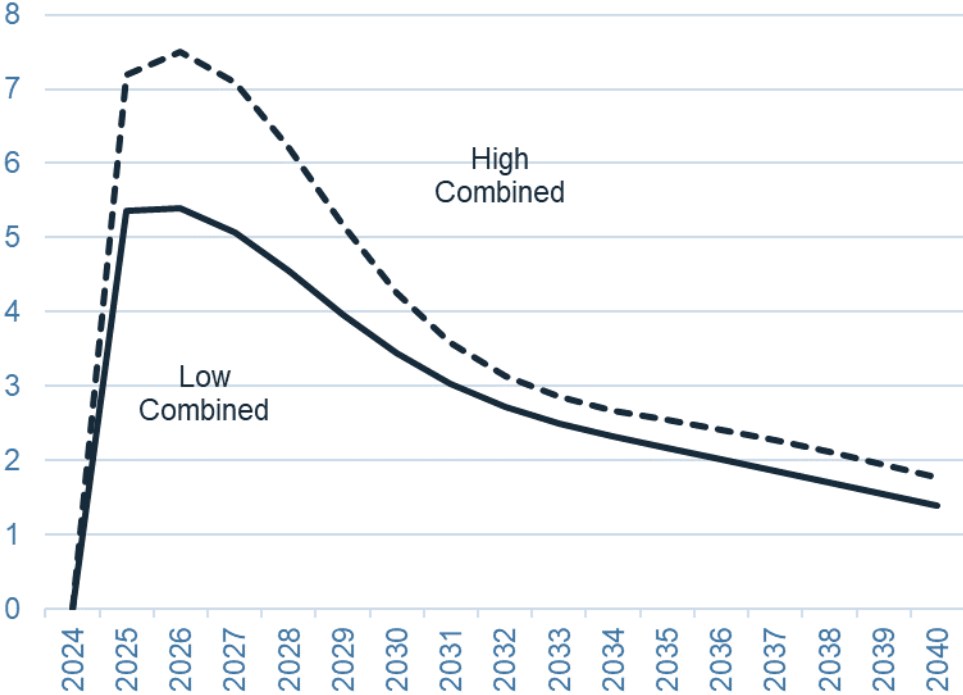
Combined Scenarios

Inflation
Percentage points deviation

Trade Balance
Percentage of GDP deviation

Conclusion

- The policies have the opposite effects to the stated goal of the policies

- All policies cause a decline in production and employment in the United States, especially in trade-exposed sectors such as manufacturing and agriculture.

- The policies also worsen inflation in the US economy.

- Under these policies, it is US consumers, workers, and firms that pay.

Bibliography

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