The Trump Administration's Agenda and the Likely Economic and Financial Consequences

By Prof Rodrigue Tremblay
Global Research, January 12, 2025
Region: USA
Theme: Global Economy

***"When plunder becomes a way of life** for a group of men living together in society, they create for themselves, in the course of time, a legal system that authorizes it and a moral code that glorifies it.*" **—Frédéric Bastiat** (1801-1850)**,** French economist.

"The government, which was designed for the people, *has got into the hands of the bosses and their employees—the special interests. An invisible empire has been set up above the forms of democracy."* —**Woodrow Wilson** (1856-1924), American professor and the 28th President of the Unites States, (1913-1921).

***"When every country turned to protect its own private interest,** the world public interest went down the drain, and with it the private interests of all.*" **—Charles Kindleberger** (1910-2003), American economic historian.

"Near as I can tell, this president **[Donald Trump]** ***only has one reference point** and it is internal. That's very similar to a Cosa Nostra boss.*" **—James B. Comey** (1960-), former Director of the F.B.I. (2013-2017)

***

*In the conflictual context of American politics, the political pendulum seems to swing from one extreme chaos to another, from an interventionist, war-mongering and spendthrift government led by the outgoing Democratic **President Joe Biden** and his "neoconservative" advisers, to an isolationist, imperialist and protectionist government under the leadership of Republican **President-elect Donald Trump**, with his ultra-nationalist slogan of "America First".*

Indeed, Donald Trump's political agenda is radical, isolationist and protectionist, even mercantilist. In this, the latter professes to want to pursue a most cavalier foreign policy with a mix of provocation, insults, blackmail, coercive threats and hegemonic intimidation towards other countries and their leaders.

That is why the coming months and years risk being politically and economically tumultuous and possibly chaotic, not only in the United States but also around the world, as President Donald Trump and his administration proceed to forcefully implement the numerous promises he made during the 2024 U.S. presidential election campaign.

President-elect Donald Trump has pretty much completed the composition of his administration with loyal supporters and political allies, some of them being clones of himself and some being even more hawkish and militarist than himself. His political agenda and his numerous promises are partly inspired by the Heritage Foundation's far right Project

2025.

Therefore, it is now somewhat clearer in which direction the new administration intends to move the United States government in the coming months and years. It is also easier to analyze the economic and financial consequences this is likely to produce.

Indeed, a new era of ‘Plutocrat Bullies’ may be emerging in the United States that could parallel the “Robber Barons” era of 1861-1901.

In fact, this new political era really began on January 21, 2010, when the U.S. Supreme Court, under the principle that “*money is speech*“, allowed electoral groups to accept massive financial donations and to spend practically unlimited sums of money during elections, (so long as they do not directly coordinate their actions with candidates of political parties).

1. The Trump administration plans to reduce American imports through high tariffs, besides better controlling the borders

Among its first proposals, the Trump administration intends to raise tariffs on products from different countries, from a 10% tariff on imports from most countries to a 60% tariff on Chinese imports, besides encouraging domestic oil and gas production. [N.B.: President Trump has even dreamed about replacing the US income tax with tariffs, although the numbers do not add up for such a radical switch!]

It also plans to strengthen border security and to deport a large number of undocumented immigrants, besides severely cutting ‘wasteful’ public outlays, deregulating some business practices and adopting more lenient anti-trust regulation laws. Moreover, it can be expected to extend previous tax cuts for individuals and to drop corporate tax rates from 21% to 15% for businesses, financed by a drastic compression planned in federal bureaucracy.

Some measures will undoubtedly stimulate domestic capital spending, production and employment, at least in some sectors and for a while—the result of new tax cuts, import substitution and deregulation. However, other measures, such as severe government spending cuts and looming trade wars will have the contrary effect.

Indeed, the Trump administration’s fiscal policy will be a balancing act between lowering taxes and reducing public expenditures, within a global budget of $6.3 trillion in 2024.

In the short-run, however, the already high U.S. federal budget deficit ($2.1 trillion or 7.4% of GDP) and the enormous federal public debt ($36.2 trillion or 127% of GDP) are bound to rise even further.

This will be the case as the debt service alone (payments of loans at maturity and on-going interests on the outstanding public debt) is more than $1.0 trillion a year. Making past corporate and personal income tax cuts permanent is also likely to raise deficits and public debt.

This would mean more bonds issued by the U.S. Treasury and upward pressures on nominal and real (inflation-adjusted) long-term interest rates and on borrowing costs in the coming years. This could also mean more pressure on the Fed to purchase Treasury bonds at the risk of creating more inflation.

However, this would not be the end, since the expected rise in import taxes will likely also push import prices up, while large deportation of workers illegally in the U.S. would result in higher wages in some economic sectors. This could persuade the Fed to slow down for good its on-going program of lowering interest rates for fear of rekindling inflation.

2. In the short-run, some boost of domestic output and a rise of inflation can be expected in the United States

The overall initial impact of protectionist measures to be adopted during the first 100 days of the new administration is likely, on the whole, to be inflationary.

The prices of many imported goods and materials are bound to go up. Some estimates of the annual cost of Trump's new tariffs for an average American household could be between $1,700 and $2,350.

Also, wages in some sectors would rise when many foreign workers are subjected to deportation. A rush to replace imports would also require new investments, thus placing added demand pressure on prices and costs.

For a while, the US dollar would appreciate vis-à-vis other currencies, thus tempering somewhat the rise in import prices. Also, attempts to boost domestic oil and gas production would lower energy prices. Over time, as domestic production of import-substituting goods gears up, such an increased domestic supply would also tend to slowdown domestic inflation in the U.S.

3. In the medium term, higher import taxes are bound to reduce consumer spending, while trade retaliations from other countries would hurt American exports

Indeed, higher import taxes would lower real disposable income for American households and this would hurt consumer spending.

Similarly, trade wars are going to damage the world economy and this, in turn, will hurt American exports. —All countries lose in trade wars. —A worldwide economic slowdown is not in the interest of the American economy, nor of the world economy.

The experience of the Great Depression (1929-1939) is a serious reminder. The 1930 American Smoot-Hawley Act, which raised American import taxes by some 20%, provoked an international trade war. Many countries followed the United States in adopting "beggar-thy-neighbor" trade policies. World trade contracted and so also did the entire world economy.

Could a mercantilist trade policy succeed nowadays ? In other words, could the net result of suck one-sided stimulative policies be expansionary in the U.S., initially, and then be very contradictory later on for the world economy and for US exports?

4. The errors in Trump's economic reasoning

Donald Trump seems to have insufficient knowledge of international finance. He falsely maintains, for example, that a country is necessarily a 'loser' when its net external trade in goods and services with other countries is in deficit. This is a misconception of the real world, especially when there are movements of financial capital between countries.

Indeed, one country may have a net inflow of foreign financial capital. Such a net inflow of financial capital will appreciate its currency, and its imports will necessarily tend to exceed its exports. A country will then have a surplus on its capital account but a deficit in its current account (trade balance, transfer payments, etc.). This is how real capital is transferred (in the form of machinery, technology or other goods) to a recipient country.

The reverse is also true.

When a country has a net outflow of financial capital, its currency will tend to depreciate and such a country will tend to have a trade surplus, i.e. more exports than its imports of goods and services. Its trade balance becomes positive to transfer real capital abroad.

Each country's global balance of payments is constantly kept in equilibrium by the play of prices and exchange rates, and that is the way real capital is transferred from one country to the other. This is an elementary fact of balance of payments accounting.

5. The special role of the US dollar in the international monetary and financial system

But there is more in the case of the United States, whose currency is used in international transactions.

Indeed, the US dollar being the main international currency creates a structural international demand for that currency. Foreign holdings of US dollars and of US dollars assets (bonds, shares, etc.) translate into a capital inflow into the USA, making for a strong dollar in foreign exchange markets. This allows the United States to import and spend more abroad as it imports more than it exports. The net result is a deficit in its trade balance. (N. B.: For example, the U.S. government spends enormous amounts of money each year in maintaining some 800 military bases abroad, which is partly financed by foreigners holding US dollar assets.)

It is therefore somewhat ironic that Trump wants to impose 100% tariffs on the BRICKS countries if they try to replace the US$ as the world's reserve currency!

If the United States wanted to have a permanent trade surplus, it should prevent residents of other countries from investing in the United States. Specifically, the United States would have to discourage foreigners from holding US dollars and from investing in bonds and stocks of American companies.

Foreign central banks should not also hold large amounts of US dollars in their official reserves. Such a foreign investment in US dollars appears as s surplus in the capital account of the US balance of payments.

6. Trade protectionism and trade wars in a context of high public indebtedness

Public debts are currently at record levels in many countries. This is the consequence of years of fiscal and financial excesses—the result of a 'spend-borrow-print' approach to fiscal and monetary policies. Therefore, after a few months of expected economic and financial exuberance in the United States, a serious economic recession could take hold in several western economies, sometime in the coming years.

Indeed, a likely contraction in American exports resulting from the expected trade war and other countries' retaliatory tariffs, would exceed any expansion in the American import-substitution sector. This, plus a contraction in public expenditures, could also contribute to slowing down economic growth.

7. The on-going cryptocurrency speculative craze

It is also worth mentioning the current speculative cryptocurrency craze, a potentially inflationary phenomenon.

Cryptocurrencies are private digital currencies, which are based on an electronic encryption technology and a decentralized network of computers using a great amount of energy, which control and secure their production. [In 2008, an anonymous entity known under the pseudonym Satoshi Nakamoto invented a software program for the artificial creation of digital wealth. This was the first and best-known digital currency based on blockchain technology and secured by cryptography, the bitcoin.]

There are numerous so-called cryptocurrencies and they are not backed by any government, are not regulated by any central bank and are not based on any physical asset, such as gold. Their existence is essentially virtual and their intrinsic value is based on speculative appeal, due to the high volatility of prices, and the secrecy conferred on those who use them to make anonymous transactions. However, their market is on track to reach a total value close to $2 trillion!

Such artificially created and risky private digital 'assets' are currently supported by president-elect Donal Trump and by a few of his pro-crypto appointments. They are very lightly regulated. Former Securities and Exchange Commission Chairman Gary Gensler has testified to Congress that the entire crypto asset class is "*rife with fraud, scams, and abuse*."

8. Uncertain financial and economic outlook

All of the above factors could be a source of economic difficulties in the years to come. Indeed, all the elements are present for a perfect economic and financial storm, especially if we add the possible convergence of a monetary crisis, a fiscal crisis and a financial crisis. There are currently too many exuberant speculative bubbles for this not to be a cause for concern.

Their combined effect could lead to a period of stagflation, that is, a period of slow, zero or negative economic growth in the context of rising prices.

If such a situation were to arise, it is not impossible that it could morph into a severe cyclical economic recession, and even possibly into a longer term structural economic depression.

For its part, the Organisation for Economic Co-operation and Development (OECD) forecasts global economic growth to be 3.3% in 2025. However, there is a great risk of deterioration over the coming years if important trade wars and other crises were to occur.

Conclusions

The world is economically more multilateral and interdependent than ever. Attempting to go back to unilateral thinking and isolationism, as president-elect Donald Trump demagogically promised to receptive American voters, could be a dangerous experiment.

Internationally, a second presidential term by American business mogul Donald Trump risks being very disturbing, as it may severely destabilize and upend international economic and financial relations, particularly as far as international trade and capital movements are concerned.

Indeed, if president-elect Trump were to go ahead and rely on strong-armed tactics to obtain unilateral concessions in trade and other matters with other countries, this could unravel the intricate network of international commercial and financial relations between countries that has been built since WWII.

Domestically, if the Trump administration were to enforce its radical economic agenda, the U.S. economy could possibly benefit in the short term at the expense of other economies. However, this would carry heavy economic, financial and political costs in the medium and longer term for the world economy, but also for the U.S. economy.

It may look relatively easy to launch trade wars for domestic political reasons, but the net economic, financial, monetary and productivity consequences over time can be very disruptive. As the mercantilist experience of the 1930s indicates, such inward-looking trade policies could transform a standard economic recession into a full-fledged economic depression.

As we approach the 100th anniversary of the great financial crash of 1929, it may be prudent to learn from past mistakes and errors. For instance, it was only a quarter of a century later, in 1954, that the U.S. stock market returned to its pre-crisis level.

In between, the Great Depression of 1929-1939 paved the way for World War II (1939-1945) and its disasters.

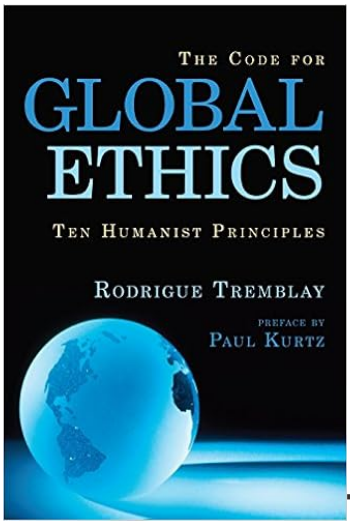
*

This article was originally published on the author's blogsite, Dr. Rodrigue Tremblay.

*International economist **Dr. Rodrigue Tremblay** is the author of the book about morals "The code for Global Ethics, Ten Humanist Principles" of the book about geopolitics "The New American Empire", and the recent book, in French, "La régression tranquille du Québec, 1980-2018". He was Minister of Trade and Industry (1976-79) in the Lévesque government. He holds a Ph.D. in international finance from Stanford University. Please visit Dr Tremblay's site or email to a friend here.*

***Prof. Rodrigue Tremblay** is a Research Associate of the Centre for Research on Globalization (CRG)*

Featured image [source]



The Code for Global Ethics: Ten Humanist Principles

by Rodrigue Tremblay, Preface by Paul Kurtz

Publisher: Prometheus (April 27, 2010)

Hardcover: 300 pages

ISBN-10: 1616141727

ISBN-13: 978-1616141721

Humanists have long contended that morality is a strictly human concern and should be independent of religious creeds and dogma. This principle was clearly articulated in the two Humanist Manifestos issued in the mid-twentieth century and in Humanist Manifesto 2000, which appeared at the beginning of the twenty-first century. Now this code for global ethics further elaborates ten humanist principles designed for a world community that is growing ever closer together. In the face of the obvious challenges to international stability-from nuclear proliferation, environmental degradation, economic turmoil, and reactionary and sometimes violent religious movements-a code based on the "natural dignity and inherent worth of all human beings" is needed more than ever. In separate chapters the author delves into the issues surrounding these ten humanist principles: preserving individual dignity and equality, respecting life and property, tolerance, sharing, preventing domination of others, eliminating superstition, conserving the natural environment, resolving differences cooperatively without resort to violence or war, political and economic democracy, and providing for universal education. This forward-looking, optimistic, and eminently reasonable discussion of humanist ideals makes an important contribution to laying the foundations for a just and peaceable global community.

Click here to purchase.

Global Research is a reader-funded media. We do not accept any funding from corporations or governments. Help us stay afloat. Click the image below to make a one-time or recurring donation.

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Prof Rodrigue Tremblay**