Trumponomics 2.0

Image source: Flickr/Gage Skidmore

With the American presidential elections just a few weeks away, we take a closer look at the economic and social program of the Republican candidate for the White House.

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Now 78 years old, Donald Trump launches his third bid for the White House. His economic and social agenda, commonly referred to as "Trumponomics", is an extension of the policies he introduced during his first term. At a campaign rally in Tucson, Arizona, in early September, Trump vowed to "deliver low taxes, low regulations, low energy costs, low interest rates and low inflation". This article looks at the fundamentals of Trumponomics.

Lower taxes

Donald Trump's tax agenda during his first administration reflected his pro-business approach, through the 2017 Tax Cuts and Jobs Act (TCJA). This legislation introduced the most significant tax code changes in 30 years, including reducing the corporate tax rate from 35% to 21%, cutting income tax rates across all brackets, increasing the standard deduction, and expanding the child tax credit. Many of these tax cuts are set to expire in 2025.

With the clock ticking, Trump made it clear that if re-elected, he intends to extend the 2017 TCJA, starting by reducing the corporate tax rate even further, to target 15%. This stands in sharp contrast to his Democratic opponent, Kamala Harris, who has proposed increasing the corporate tax rate to 28%. Beyond businesses, Trump is reaching out to seniors and blue-collar workers. For seniors, a reliable voting group, he proposed eliminating all taxes on Social Security. For blue-collar workers, Trump pledged to abolish taxes on overtime wages and tips.

According to the Tax Policy Center, Trump's proposed tax cuts would lower taxes on U.S. households by an average of $550. However, the amount would vary greatly depending on income level. The benefits would largely favour middle and upper-middle-income households. Lower-income individuals, particularly seniors, would see minimal changes since they already don't pay taxes on their Social Security benefits.

Trump's economic vision includes more than tax reductions. At a New York rally, he addressed the rising tide of consumer debt and promised to temporarily cap credit card interest rates at 10%. The average interest rate on credit cards is just below 21%, while retail store cards have reached a record high of 30.45%. Credit card debt has surpassed $1 trillion, and an increasing number of people are struggling to keep up with their payments.

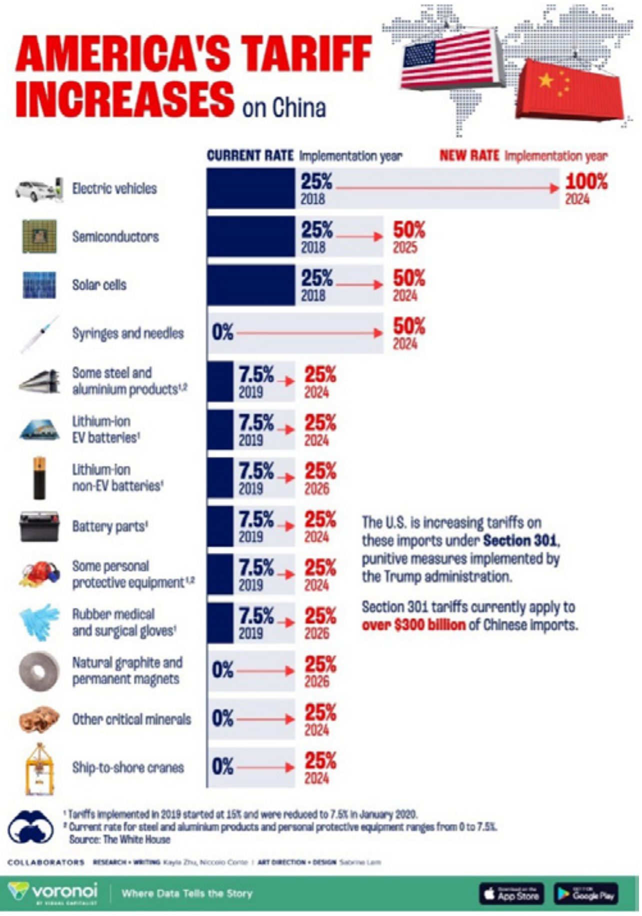
"America First"

One of Donald Trump's most well-known and controversial policies is his plan to implement sweeping tariff hikes. The former president claims it would protect American jobs and domestic manufacturers. His proposal features a universal baseline tariff of 10%-20% on all imported goods, targeting $3 trillion in annual trade, along with a massive average 60% tariff specifically on Chinese imports, affecting $5 trillion of goods and potentially generating $2 trillion in revenue. Additionally, Trump has promised a "punitive 100% tariff" on countries that move away from the U.S. dollar.

A highly debated element of his plan is the 100% tariff on vehicles produced in China and Mexico, despite a previous trade agreement from 2018. This policy would heavily impact automakers like General Motors and Ford, which have set up operations in Mexico to benefit from lower labour costs. Trump insists that these tariffs will bring jobs and wealth back to the U.S., stating, "We're going to take other countries' jobs… We're going to bring thousands and thousands of businesses and trillions of dollars in wealth back to the good old USA." Interestingly, while his proposal targets foreign automakers, companies like BMW, Mercedes, and Volkswagen already have substantial manufacturing operations in the U.S., with BMW's Spartanburg plant leading as the largest automotive exporter in 2023, shipping $10.1 billion worth of vehicles and employing 11,000 people. Trump has also extended an invitation to Chinese automakers to enter the U.S. market, but only if they commit to building their vehicles locally and hiring American workers.

Through these trade barriers, Trump aims not only to raise revenues and offset the shortfall from his tax cuts but also to address the loss of U.S. manufacturing jobs, which have declined since China joined the World Trade Organization in 2001. Treasury Secretary Janet Yellen estimates that 2 million U.S. manufacturing jobs have disappeared during this period, and Trump believes his aggressive tariff policy is the key to restoring America's industrial strength.

Economists warn that Trump's tariff policies could provoke retaliation from China, including the possibility of increased tariffs on U.S. goods. Arthur Laffer, an economist, and advisor to Trump, argues that the tariff strategy is intended to bring countries to the negotiating table and push them to reduce their own trade barriers.



Source: Visual Capitalist

"Drill, baby, drill"

Trump prioritises energy security over climate concerns. He claims that renewable energy is unreliable and expensive. One of his key promises is to roll back Biden's Inflation Reduction Act, particularly by eliminating subsidies for electric vehicles, arguing that such policies threaten traditional car manufacturing. Additionally, he pledged to halt offshore wind development "on day one" of his term as US president, and repeal energy efficiency standards for appliances, stating that such regulations compromise product quality.

Trump aligns with the Biden administration on nuclear power, and supports maintaining existing nuclear reactors and advancing new small modular reactors. His primary focus, however, is on expanding fossil fuel production by increasing domestic drilling, easing regulations, accelerating pipeline approvals, and refilling the Strategic Petroleum Reserve. Trump sees government regulations and international agreements as obstacles to energy production and inflation drivers. He believes that aggressive drilling policies could cut energy costs by 50%. "Inflation is destroying our country, it's destroying our families," Trump said. "Under my administration, we will be slashing energy and electricity prices by at least half within 12 months, 18 months max", he added.

Revival of the housing market

Trump's approach to fixing the housing market centers on reducing regulations and increasing housing supply. During a speech to the Economic Club of New York, he highlighted how regulations add 30% to the cost of a new home and pledged to slash these costs by creating zones with ultra-low taxes and minimal regulations, designed to stimulate both housing development and small business job creation. Additionally, Trump plans to expand the housing supply by utilising federal land for large-scale housing developments. His proposals also include tax incentives for first-time homebuyers. He further links housing affordability to immigration by pledging to ban mortgages for undocumented immigrants as part of his broader immigration policies.

Immigration under Trump

Trump's signature immigration policy centers on restoring his previous border policies and completing the construction of the border wall. If elected, Trump plans mass deportations of undocumented migrants, and pledges to invoke the Alien Enemies Act of 1798 which allows to deport "known or suspected gang members, drug dealers, and cartel members".

Additionally, Trump aims to revoke programs like Temporary Protected Status (TPS) and Deferred Action for Childhood Arrivals (DACA), potentially resulting in the deportation of 1.4 million people currently protected under these humanitarian initiatives. Further tightening the immigration system, he intends to restrict legal immigration by reducing the number of available visas and limiting the entry of foreign workers.

Healthcare under Trump

Despite being unable to repeal and replace the Affordable Care Act (ACA) during his first term, Trump remains committed to dismantling key aspects of the law and cutting federal Medicaid spending. Building on efforts from his first term, Trump aims to lower drug prices through the implementation of price transparency regulations. During his presidency, he introduced a voluntary program that capped insulin prices at $35 per month for certain Medicare patients.

On abortion, Trump's biggest impact was indirect; he appointed three Supreme Court justices who were crucial in overturning Roe v. Wade. This decision removed the federal protection of abortion rights, returning the authority to regulate abortion to individual states. While Trump dodges questions regarding a national abortion ban, he supports allowing each state to decide its own abortion laws.

Elon Musk as Head of Federal Audit?

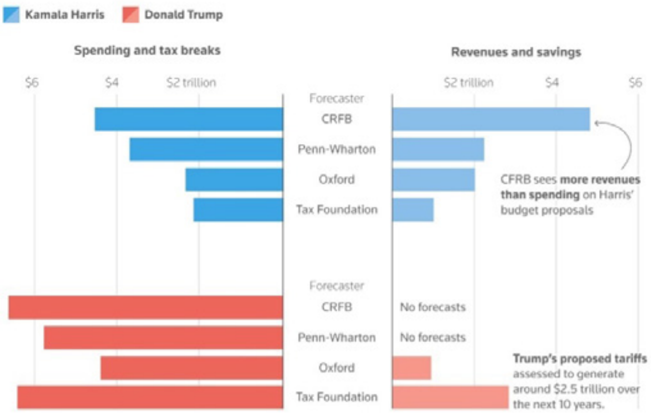
Trump proposed creating a government efficiency commission tasked with conducting a comprehensive audit of federal finances and performance, with the goal of recommending ways to save "trillions of dollars." Trump said he would appoint the tech mogul and billionaire Elon Musk to lead the commission, "is he has the time". However, this proposal raises concerns about potential conflicts of interest, given that Musk's company, SpaceX, is a major government contractor.

Conclusion

The Penn Wharton Budget Model projects that Trump's policies could raise deficits by $5.8 trillion over the next decade. Trump's tax cuts would substantially lower federal revenue, and the additional income from tariffs and green energy clawbacks would not be enough to offset the shortfall. However, deficits are not a burning issue if nominal economic growth is sufficient. Republicans argue that tax reductions, increased energy production, and better trade deals, would all contribute to stronger economic growth, which in turn could help tackle the U.S. government's rising debt burden.

Comparing the budget impact of Trump's and Harris' tax and spending plans

Projected 10-year costs and revenues from proposed spending, tax cuts and increases and import tariffs compared to Congressional Budget Office baseline forecasts



Note: Committee for a Responsible Federal Budget (CRFB) and Penn-Wharton Budget Model project no revenues from Trump's policy proposals due to lack of specifics. Forecasts are based on static budget scoring and do not include estimates of debt service costs nor economic growth impacts.

Sources: CRFB, University of Pennsylvania, Oxford, Tax Foundation

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Source: Reuters

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