Trump 2.0 – the program

Donald Trump continues to increase his lead in the polls. His program promises the "greatest economy in history" and a fight against inflation. However, some of the measures announced are likely to prove counterproductive, particularly in the fight against inflation, and the budget deficit is likely to remain high to say the least.

Bernd Weidensteiner

Presidential election: Trump is now the clear front-runner

For the betting markets, the situation is clear: Donald Trump is given a 65% chance of winning the election in November, while Joe Biden has fallen to below 20%. As recently as April, the two were tied (title chart). Trump is also extending his lead in the polls, although Biden's weak performance in the first TV duel and the assassination attempt on Trump have probably not yet been fully taken into account. This means that Trump's election victory should now be the baseline scenario for US analyses.
According to the latest polls, the Republicans also have a good chance of winning a majority in both the House of Representatives and the Senate [1]. This would enable a second Trump administration to implement many of its projects.

Election platform for Trump 2.0

What can we expect from Trump 2.0? The Republican Party's election platform ("GOP Platform 2024 – Make America Great Again") published on the occasion of this week's party convention provides clues to this.[2] As with some of Trump's public statements, the effort to move to the center on important issues can be seen here. The Republicans adjusted their position on Social Security and Medicare, the public health insurance for senior citizens. The platform makes it "absolutely clear" that there will be no cuts here. Previous Republican administrations had repeatedly brought privatization of Social Security into play, which did not pay off at the ballot box.

"Build the greatest economy in history", ...

In the following, we will focus on the economically relevant points of the election platform. Like every election platform, the Republicans promise to strengthen the economy. To this end, the income tax cuts introduced by Trump in 2018 are not to expire next year as currently planned, but are to be extended without limit. In addition, regulations are to be abolished and industries with a promising future are to receive special support, which the party strategists understand to include crypto currencies. The right of Americans to "mine" bitcoins is explicitly mentioned; strict regulation of this area is clearly rejected. However, crypto should primarily be a private business; the election program rejects plans for digital central bank money (the Federal Reserve is not very enthusiastic here anyway).

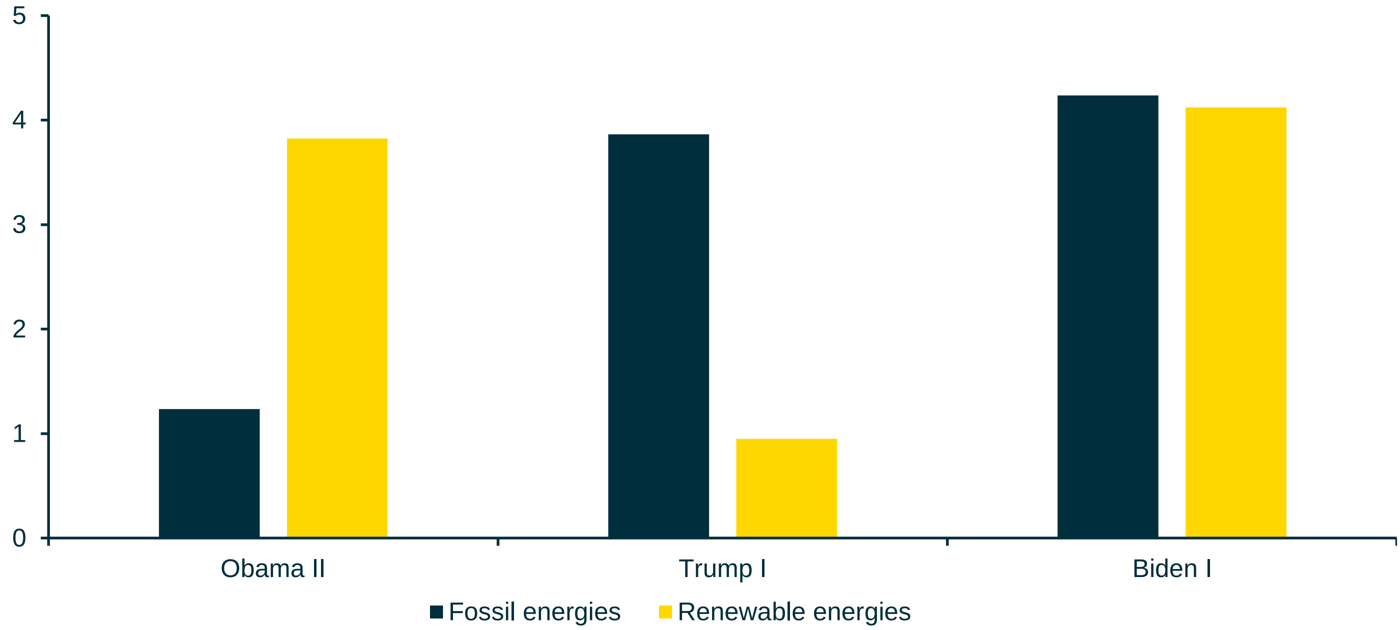
Artificial intelligence and the space industry also appear to be worthy of support. However, the question is why AI, for example, should be promoted in particular. Even without government intervention, more and more data centers geared towards AI are currently being created, and the American IT sector is already a leader in this field. The same applies to the space industry (which currently employs around 300 thousand people and has a value added of 130 billion dollars, corresponding to 0.5% of the US economy).

... also by boosting oil and gas production ...

In addition, American energy production is to be supported, particularly in the case of fossil fuels. However, this is already underway; under President Biden, the production of oil, gas and coal has increased even more than during Trump's first term in office (Chart 1). Obviously, technical and economic circumstances are more important here than political decisions. Although Biden strongly promoted renewable energies, he also pursued a rather pragmatic policy overall. It remains to be seen whether Trump will radically cut back support for renewables, even if the program promises to end the "socialist Green Deal". After all, Republican-governed states such as Texas are major beneficiaries of this policy.

Chart 1 - Fossil energy production was also significantly expanded under Biden

Primary energy production, changes during the term of office compared to the year before taking office, annualized in %. Biden: 2023 compared to 2020.



Source: EIA, Commerzbank Research

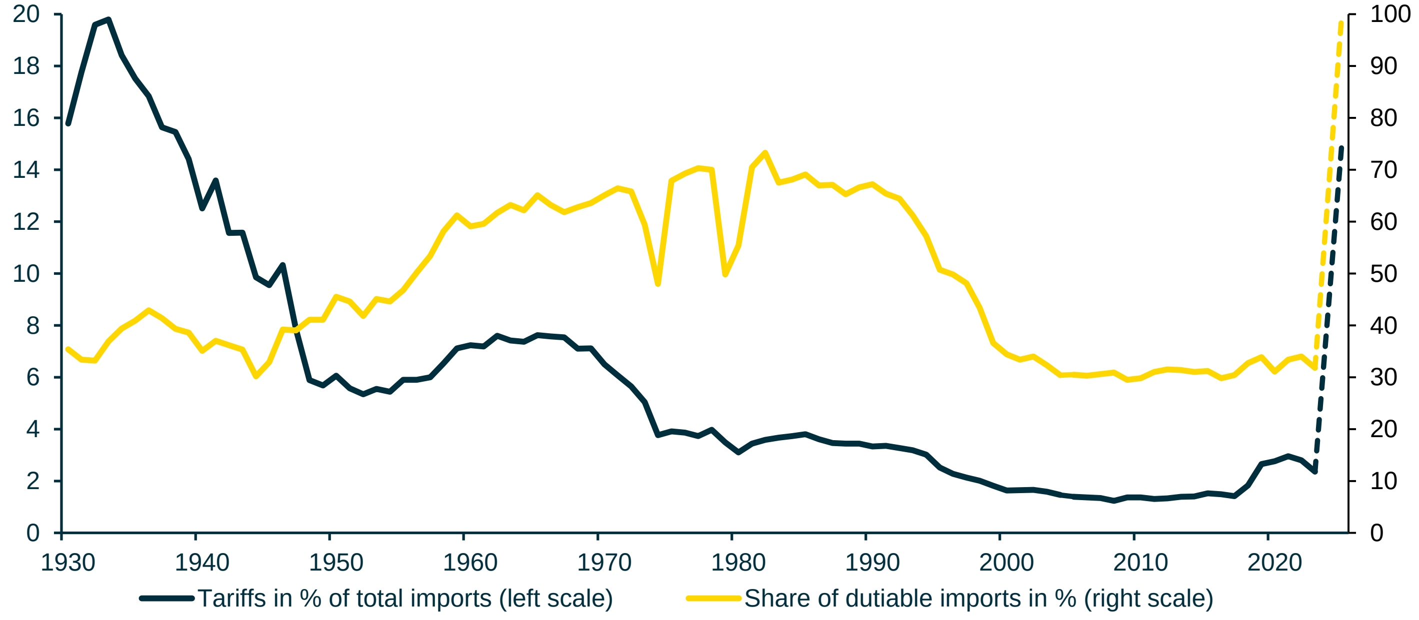
… and higher tariffs

In order to promote the renaissance of industry and strategic independence from China, Trump is planning further tariff increases. This is the only way to offset the unjustified competitive advantages of the competition, the tariff boosters claim. Trump has therefore proposed a general tariff of 10% and an increased tariff of 60% on imports from China.

Even in the second half of the 1930s, a very protectionist period, around 60% of imports were duty-free. A tariff of 60% on Chinese goods and a general tariff of 10% on all other imports would be unprecedented in the recent past (Chart 2).

Chart 2 - Mr. Trump's extraordinary tariff plans

Customs revenue as % of total imports and share of dutiable imports. Dashed line: Trump's proposal of a 60% tariff on imports from China and a 10% tariff on all other imports

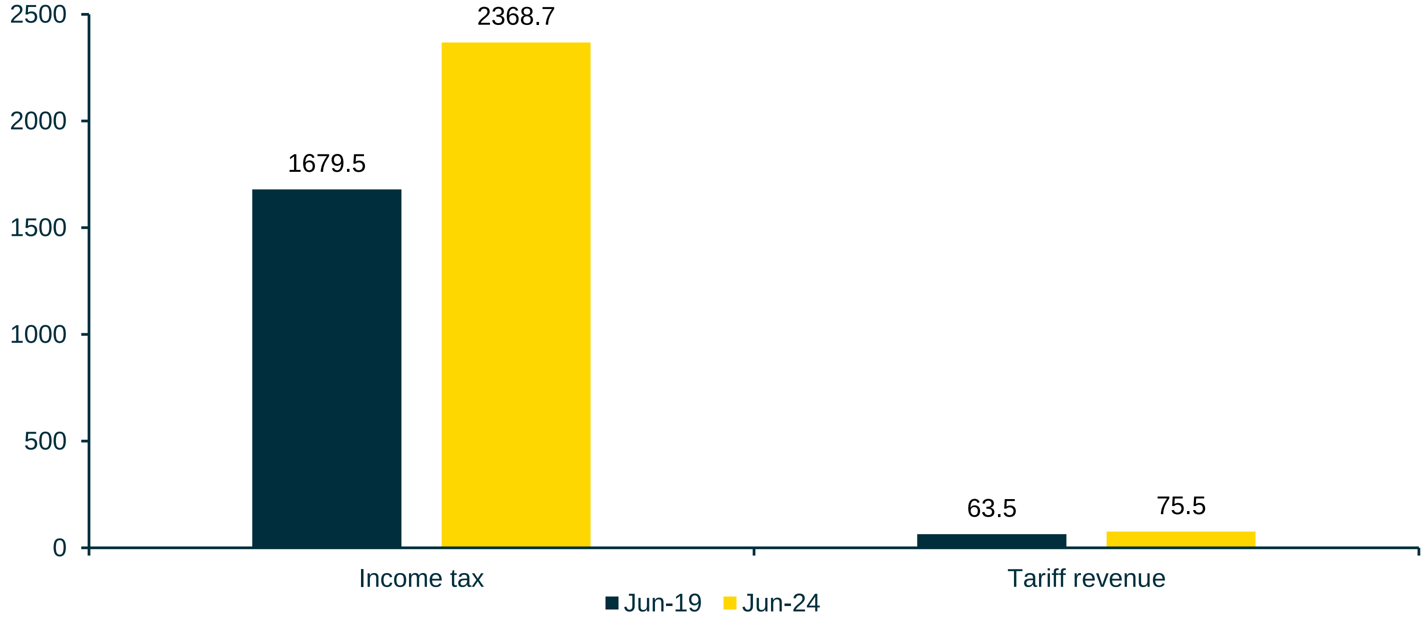


Source: USTR, Commerzbank Research

Tariffs seem to be a panacea for Donald Trump. He has even suggested increasing tariffs to such an extent that the income tax could be abolished. A quick look at the figures is enough to evaluate this idea: in the 12 months to June 2019, Uncle Sam collected almost 2.4 trillion dollars in income tax, but only 75 billion dollars in tariffs (Chart 3). In purely arithmetical terms, a tariff rate of 67% (instead of the average 2.5% currently charged) on goods imports **[3]** of currently just under 3.2 trillion dollars would be necessary to generate the same revenue as from income tax. In reality, however, such tariff rates are likely to lead to a significant decline in imports; in a **study**, the Peterson Institute concludes that a revenue-maximizing tariff rate of 50% would result in less than 800 billion dollars in customs duties.

Chart 3 - Illusory plan: replace income tax with customs duties

US federal government revenue from income tax and customs duties, 12 months to June in billion dollars



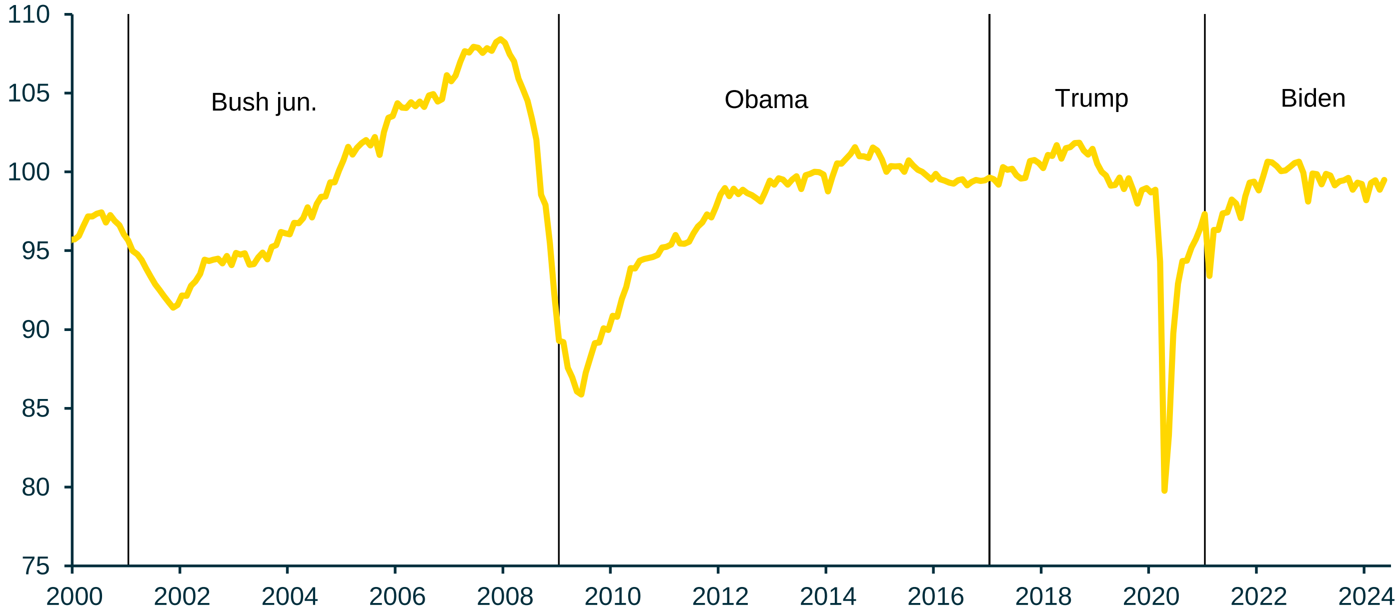
Source: S&P Global, Commerzbank Research

Planned measures have limited chance of success …

It is questionable whether these measures will succeed in making the US an industrial superpower again (this title was lost to China some time ago). Both Trump-1 and the Biden administration have taken up the cause of “Made in America” and backed this up with numerous and expensive measures (from tariffs to subsidies). Success has so far failed to materialize. Manufacturing output has been stagnating for a long time and is still below the high reached almost 20 years ago (Chart 4).

Chart 4 - "Manufacturing Superpower": there is still some work to do

Production in the manufacturing sector, 2017 = 100, monthly data. Vertical lines mark the inauguration of the respective president



Source: Fed, S&P Global, Commerzbank Research

… but put price stability at risk …

In addition, higher tariffs jeopardize the goal of beating inflation and "bringing prices down quickly" as stated in the election manifesto. Ultimately, this would be a consumption tax on imports, and according to various studies, the tariff increases passed by the first Trump administration were almost entirely passed on to end prices. This means that US consumers (and not, as hoped, foreign exporters) have borne the tariffs. Should production actually be relocated to the US as a result of the tariffs, this would actually increase the upward pressure on inflation. In view of the already very busy labor market, the labor shortage and thus wage pressure would increase further.

… as do the planned deportations of illegal immigrants

The same applies to the "largest deportation program in American history" announced in the election manifesto. There are currently around 11 to 12 million illegal immigrants living in the USA. Of these, around 8 million are probably working, which corresponds to a good $4^1/_2$% of the US labor force. According to estimates of **Pew Research Center**, a renowned institute for opinion research and data analysis, they make up a considerable proportion of the workforce in key states, particularly in areas such as construction, agriculture and the hospitality industry. For example, over 8% of the labor force in Texas is likely to be illegal immigrants, and in Nevada even more than 9%. Mass deportations of these workers would noticeably reduce the labor supply. On the one hand, this would slow down economic growth and, on the other, drive up wages in a number of sectors, thereby boosting rather than dampening inflation. This effect would certainly be stronger than that of lower demand for housing on rents.

Budget deficit will rise further

An end to "wasteful" government spending is also intended to help combat inflation. However, this is probably more of a declamatory nature. After all, frugal budgeting has not exactly been the hallmark of American governments of all persuasions in the 21st century. On the contrary, large shortfalls in the federal budget are to be expected. According to estimates by the Congressional Budget Office (CBO), the extension of the income tax cuts will increase the deficit by around 1% of gross domestic product (GDP). Even on the basis of the current law – which assumes that the tax cuts will expire as scheduled – the CBO puts the deficits over the next ten years at a good 6% of GDP. Added to this are further expensive projects such as the increase in the defense budget (which is likely under any future government) and the planned subsidies for industry.

This will put further pressure on the government budget – and on the Fed to cut interest rates to make refinancing cheaper. You don't have to be an outspoken fan of the fiscal theory of inflation to find this worrying. The only way to reconcile the expensive plans, the long-term stability of public finances and low inflation rates would be a strong acceleration in productivity and economic growth.

More on Mr. Trump:

Week in Focus 24 May 2024: **"Will Trump put the Fed on a leash?"**

Week in Focus 9 February 2024: **"Trump – what if…"**

Week in Focus 3 November 2023: **"Contours of a Trump II Administration"**

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[1] In the Senate, 34 of the 100 seats are up for election. The Democrats and the independents allied with them have to defend 23 of them, so they have the more difficult task. Polls suggest that the Democrats will lose their majority. The Republicans are also slightly favored in the House of Representatives. (back to text)

[2] In Europe in particular, the program published by "Project 2025" has been used as a basis for this. This 922-page work, largely written by the Heritage Foundation think tank, is a work program for a conservative government and in many respects a wish list for the right wing of the Republican Party. Interestingly, Donald Trump has shown himself to be rather reserved with regard to the proposals made there; he apparently sees his election chances as being impaired by a too one-sided approach. (back to text)

[3] Imports of services (currently just under 0.75 trillion dollars) are not subject to customs duties. (back to text)

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