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ACTION

The Trump agenda would drive prices higher

A second Trump administration would push for the same policy goals as the first one: large tax cuts (mostly for the rich), a sharp reduction in immigration, autocratic control over key independent institutions like the Federal Reserve, and higher tariffs. Given the changed economic environment, carrying out these goals would reliably lead to a reversal of the huge progress made in bringing down inflation in recent years. Additionally, a second Trump administration would target a rollback of the Biden-Harris administration's Inflation Reduction Act (IRA), which would lead to significant price increases for key family budget items in both the short and long run.

We're not the only outlet arguing that a second Trump administration would cause prices to rise for working families, but we do have some special credibility here.

When Donald Trump was elected in 2016, a key criticism of his economic policy program was that it could "overheat" the economy and cause inflation and interest rates to spike. This criticism was mostly misguided—there was very little evidence that in 2017 the economy was anywhere near full employment and could be pushed into overheating. At EPI, we were firm that this line of attack on the Trump administration's policies was mistaken. For example, we argued that opponents of what became the Tax Cuts and Jobs Act (TCJA) should center its unfairness and inefficiency and should avoid overstating fears of deficits as a primary point of opposition. We also continued to call for expansionary monetary policy to drive unemployment lower, even as some former high-level officials explicitly called for factoring in the negative effect that slower economic growth would have on Trump's re-election prospects as among the reasons to raise interest rates. We, instead, applauded the Fed's interest rate *cuts* in 2019 even if it provided some boost to Trump's re-election prospects.

In short, solid analysis and advocacy to make the labor market deliver better for working families has always been the goal for us, not political expediency. Given this, what has changed to make us sure a second Trump administration's policy agenda would be bad for prices and inflation? A lot.

First, the economy actually saw serious inflation and sharp interest rate increases in the last four years, which it hadn't seen in decades. These were not mostly driven by "overheating" in the traditional macroeconomic sense, but instead by pandemic and war shocks to the global economy. In the U.S., however, one key ripple effect that kept inflation a bit higher was a genuinely tight labor market, with very low unemployment rates and rapid nominal wage growth—particularly for lower-wage workers. This tight labor market was very good news—it meant the economy delivered job opportunities to willing workers and that these workers could secure atypically large wage increases to buffer themselves against the inflationary shocks of pandemic and global conflict. But it also contributed a bit to inflation's persistence and means that we're likely a lot closer to a macroeconomic overheating point in 2024 than we have been in decades. In short, the first Trump tax cut in 2017 was bad policy because it was an unfair and unproductive squandering of fiscal resources. A second tax cut tilted toward the rich in the near future would replicate this but *also* bring some real risk of either significant inflation or sustained high interest rates that would drag on overall economic growth.

Second, there are rumblings that a second Trump administration would try much harder to micro-manage the Federal Reserve's decisions. Traditionally, presidential influence over the Fed has raised the concern that interest rates would be kept too low for too long, and this would buy the incumbent president lower unemployment but only at the expense of inflationary pressure. The first Trump administration already breached the traditional presidential norm of not trying to influence the Fed. One issue that could encourage a second Trump administration to meddle even more forcefully is a deeply incorrect perception that they were actually successful in intimidating the Fed into looser monetary policy. The risk of the Fed being captured or successfully bullied by a second Trump administration is remote, but the downsides are potentially huge should it happen. One potential reason why inflation reduced without damaging the strong labor market is that inflation expectations remained quite muted throughout recent years. Part of these "anchored" expectations represents confidence that the Federal Reserve would not ignore inflation in the name of political expediency. If this confidence is lost and inflation expectations become unanchored, then future inflationary shocks might prove far more persistent.

Third, a key Trump campaign goal is gutting the Inflation Reduction Act (IRA). Ironically, while the IRA did very little to reduce inflation when it passed in 2022, repealing it would put lots of upward pressure on key prices in both the short and long run. The most immediate upward price pressure would be felt in health care. The IRA contained provisions to lower pharmaceutical costs by introducing tougher bargaining in the Medicare prescription drug benefit, which has already led to price declines that would snap back if the IRA was gutted. The IRA also substantially boosted subsidies for the purchase of health insurance in the exchanges created by the Affordable Care Act (ACA). These increased subsidies radically boosted affordability of these plans, contributing to historic reductions in uninsurance rates (particularly in Black and Hispanic households). If these are rolled back, health insurance costs for millions would spike.

The IRA has also spurred a huge wave of investment to transition from fossil fuels to cleaner energy sources, and it has subsidized millions of businesses and households to replace fossil fuel-using goods and services with cleaner ones. If these subsidies are ripped away, this will cause huge uncertainty in energy sectors and lead to large price increases—all while stalling needed progress in transitioning to an economy that emits fewer greenhouse gases.

Finally, a spike in food prices has been a key source of stress in recent years for many working families. Some of this spike was due to the fallout from the Russian invasion of Ukraine (which is one of the world's leading producers of food commodities). But a good portion of this spike was due to extreme weather in the past two years—extreme weather linked directly to ongoing climate change. Maybe the most significant visible cost of climate change in coming decades will be higher and more volatile food prices. A recent research paper from the European Central Bank, for example, estimates that climate change will raise food prices by 10–30% over the next 10 years. Efforts to thwart climate change are hence crucial in keeping food more affordable going forward, and the IRA is by far the most effective U.S. effort in this regard.

Fourth, the Trump campaign has promised to reduce the number of immigrants in the United States. The means by which the Trump administration would effect this reduction in immigrants living in the U.S. are ethically horrifying and should be the primary reason for opposing this effort. But speaking strictly of the economics, a forced reduction in the number of immigrants in the U.S. economy would be inflationary. Immigrants add to both an economy's aggregate supply (by boosting the labor force) and to its aggregate demand (by buying goods and services). But because immigrants are younger and more likely to be working, for every dollar in aggregate demand they generate they boost aggregate supply by more than U.S.-born households. This makes immigration flows mildly deflationary, and reducing immigration would be inflationary.

Further, we saw in recent years how much bottlenecks in key sectoral supply chains could ripple out and sustain overall inflation, particularly when key workers were in short supply (think of truck driver shortages exacerbating the crisis in ports and helping to spike prices). The Trump campaign's promise to engage in mass deportations of workers already in the United States is tailor-made to re-introduce those kinds of bottlenecks and disruption into key supply chains (especially, again, the supply chain for food).

What about the Trump campaign promise on tariffs? Tariffs are often identified first as the inflationary threat of a future Trump administration. On our list, it's near the bottom. Tariffs are not inherently inflationary—they raise the price of imports and import-competing goods, but they put downward pressure on export prices. But, again, if the tariffs were done haphazardly and led to sharp disruptions in key supply chains, then they could boost inflationary pressure through these ripple effects.

In 2016, claims that the incoming Trump administration policy agenda would lead to economic overheating and raise inflation were wrong. But given the changed macroeconomic environment and the Trump campaign's goals, it is clear that the stated policy agenda would prove inflationary.