Flash Economics

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A major risk for the US economy if D. Trump is elected and implements his economic programme

D. Trump has three economic policy proposals that would have very negative effects on the US economy.

These include:

- the cancellation of Inflation Reduction Act, which would significantly reduce investment from foreign and American companies in decarbonization;
- the implementation of tariffs on all imports, which would be inflationary and decrease the purchasing power of Americans;
- the halt of immigration, which is a major source of dynamism in the US economy and has helped to reduce wage increases and inflation.

If these three economic proposals are implemented, the United States will move towards a stagflationary balance (inflation and weak growth).

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D. Trump's first proposal : the cancellation of the Inflation Reduction Act

The Inflation Reduction Act, enacted on August 16th, 2022, **provides for tax reductions** on electric cars, electric batteries, solar panels and wind turbines produced in the United States, Mexico and Canada, as well as on home improvements aiming at improving the isolation of houses.

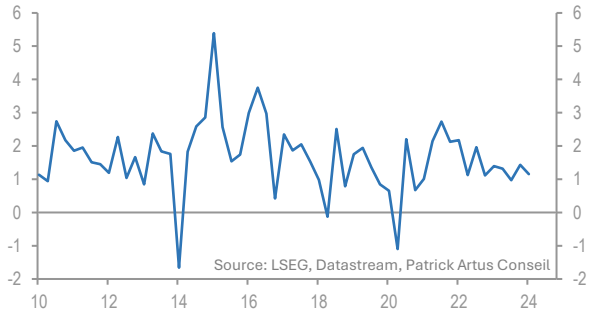
It is planned that 369 billion dollars will be spent over 10 years to finance these tax cuts.

However, it is likely that the tax incentives will be much higher: figures ranging from 800 to 1200 billion dollars over 10 years have been mentioned.

The Inflation Reduction Act:

- **attracts investment from foreign companies in the United States** (**Chart 1**);

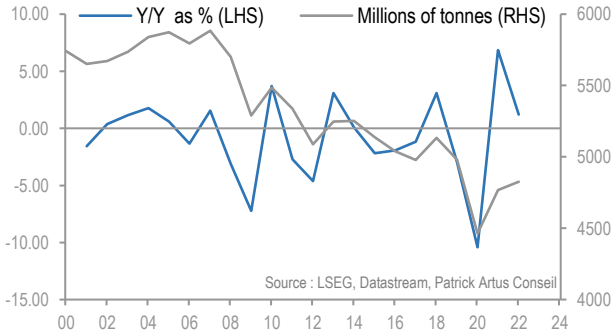
Chart 1
United States: direct investment*
(as % of nominal GDP)



(*) Direct investment inflows are capital inflows leading to an increase in liabilities (in this case from the United States) and are therefore given a positive sign.

- **reduces CO_2 emissions in the United States** (**Chart 2**);

Chart 2
United States: CO_2 emissions

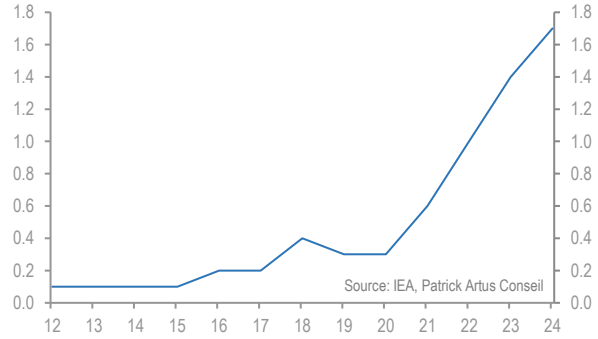


As a consequence of IRA, a 30% reduction in CO_2 emissions by 2050[1] has been estimated;

[1] M. Zandi, B. Yaros, C. Lafakis, *"Assessing the Macroeconomic Consequences of the Inflation Reduction Act of 2022",* Moody's Analytics, August 2022.

- **boosts electric car sales in the United States** (**Chart 3**).

Chart 3
United States: sales of electric cars (in millions*)



(*) 2024 forecasts.

The cancellation of the Inflation Reduction Act would therefore have very negative effects on the attractiveness of the US economy and on the climate.

D. Trump's second proposal: across-the-board tariffs

D. Trump has proposed tariffs of 60% on products imported from China, 200% on electric cars imported from China and 10% on products imported from the rest of the world.

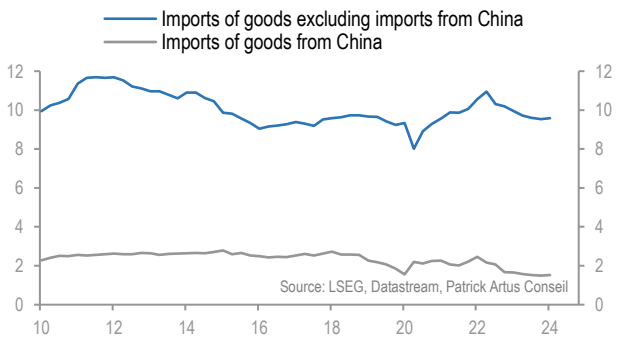
Today, the average tariffs applied to US imports is 3%[2]

Available studies show that **nearly 100% of the increase in tariffs in the United States is transferred to the domestic prices of imported goods**[3].

In addition, the countries hit by the US tariffs are likely to take retaliatory measures.

Given the weight of imports from China and other countries (**Chart 4**), **the tariffs proposed by D. Trump would increase the price of US imports by 2.2% and reduce the purchasing power of Americans by 2.2%.**

Chart 4
United States: imports of goods from China and the rest of the world excluding China (as % of nominal GDP)



[2] A. Wm. Wolff, *"Trump's proposed blanket tariffs would risk a global trade war"*, Peterson Institute for International Economics, May 29, 2024.
[3] E. York *"Separating Tariff Facts from Tariff Fictions"*, CATO Institute, April 16, 2024.

D. Trump's third proposal: the halt of immigration

Immigration has risen significantly in the United States in recent years.

In 2022, the number of immigrants was 912000 (65% of the total increase in the US population); in 2023, the number of immigrants is estimated at 3 million.

From 2021 to 2023, the immigrant population (number of foreign-born people) in the United States increased by 4.5 million (in net terms, the balance of entries and exits), including 2.5 million of illegal immigrants (**Chart 5**).

Over the same period, **gross immigration** (the number of foreign-born people entering the United States) was 6.3 million.

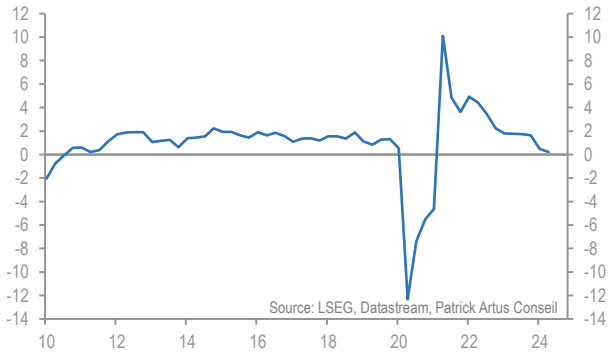
Chart 5
United States: foreign-born population
(in millions)



This high level of immigration :

- has contributed to a strong employment growth (**Chart 6**);

Chart 6
United States: employment (Y/Y as %)



- has contributed to reduce tension on the labour market (Chart 7) and to a rise in wages (Chart 8).

Chart 7
United States: ratio between the number of job vacancies and the number of unemployed people

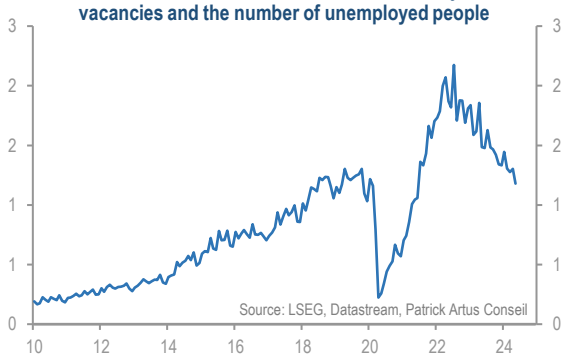


Chart 8
United States : weekly earnings (Y/Y as %)



D. Trump plans to halt immigration and even deport a significant number of immigrants back to the border.

This would have the **effect of reducing growth and employment and bringing back high wage inflation.**

Summary: the risk of a comeback to stagflation in the United States

If D. Trump is elected President of the United States and implements his program, we will certainly see:

- a decline in economic growth (the cancellation of the Inflation Reduction Act, tariffs reducing the purchasing power of Americans, the halt of immigration),
- a rise in US inflation (tariffs, the halt of immigration leading to increased tension on the labour market).

We would therefore see the emergence of a stagflationary equilibrium (inflation and weak growth) in the United States.

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