



PIIE PETERSON INSTITUTE FOR
INTERNATIONAL ECONOMICS

THE INTERNATIONAL ECONOMIC IMPLICATIONS OF THE TRUMP PROGRAM

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Presented at PIIE launch event, “The economic effects of Trump’s plans for tariffs, deportations, and the Fed”

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Project overview

- Previous PIIE Briefing, “Assessing Trade Agendas in the US Presidential Campaign” (2016)
- Vice President Kamala Harris
 - Has not articulated specific policies
 - Presumably similar to the Biden Administration
- Former President Donald J. Trump not the candidate of continuity
 - Mass deportations
 - Tariffs
 - Erosion of political independence of the Fed
- As in 2016, the basic strategy is to take Trump at his word and eschew political judgments which are not our strength

Mass Deportations

- Trump has repeatedly called for the largest mass deportation in history
 - Actually did not deport many people in first Administration
 - Now promising new approaches, including the construction of vast new detention facilities, using active duty military and mobilizing National Guard units, and utilizing expedited deportation procedures
- Two targets
 - Low goal: Largest previous deportation was “Operation Wetback;” 1.3 million people in 1950s
 - High goal: Estimated 8.3 million unauthorized workers in economy

“Tariffs are the greatest thing ever invented”

- The self-proclaimed “tariff man” is back
- 10 percent global tariff (more recently 20 percent), including on FTA partners;
- 60 percent tariff on China
- Trump has other many trade ideas that we will not model, including:
 - Reciprocal tariff
 - Product-specific decoupling from China
 - Tariff on countries that reduce use of the US dollar
 - New announcements every day!

Erode Fed independence

- “I feel that the president should have at least [a] say in there, yeah. I feel that strongly. I think that, in my case, I made a lot of money. I was very successful and I think I have a better instinct than, in many cases, people that would be on the Federal Reserve or the chairman.”
- Specific ideas:
 - Replace Chairman Jerome Powell with someone politically more pliable
 - Subject Fed regulations to White House review
 - Require President Trump to be consulted on interest rate decisions
 - Make the President an ex officio member of the Board of Governors
 - Get the Fed declared unconstitutional and let President Trump set monetary policy

This paper

- We explore the implications on the US and world economies of
 - Additional 10 percentage point tariff on all trading partners
 - With and without retaliation
 - Additional 60 percentage point tariff on China
 - With and without retaliation
 - Deportation of unauthorized workers
 - 1.3 million
 - 8.3 million
 - Erosion of the independence of the US Federal Reserve
 - Combined scenarios

What we find (cumulative change 2025-28)

Table 3: Cumulative Change 2025-2028 (\$US2018bil)

		Deportation		10pp US tariff on all countries		60pp US tariff on China		Fed	Combined	
		1.3 million	8.3 million	No retaliation	Retaliation	No retaliation	Retaliation	Independence	Low	High
GDP	United States	-\$812	-\$5,101	-\$283	-\$721	-\$129	-\$327	-\$304	-\$1,506	-\$6,399
US Production	Energy	-\$29	-\$182	-\$80	-\$156	-\$77	-\$72	\$102	-\$71	-\$297
	Mining	-\$7	-\$43	-\$14	-\$26	-\$16	-\$23	\$14	-\$20	-\$75
	Agriculture	-\$19	-\$119	-\$55	-\$102	-\$61	-\$124	\$77	-\$48	-\$246
	Durable manufacturing	-\$597	-\$3,750	-\$649	-\$1,402	-\$526	-\$862	-\$712	-\$2,397	-\$6,583
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	Services	-\$604	-\$3,802	-\$181	-\$492	-\$11	-\$146	\$89	-\$704	-\$4,326
CPI Price by 2028	United States	1.5	9.1	0.8	1.8	0.7	1.1	11.0	13.9	22.8

Source: Authors' calculations.

The G-Cubed Model

McKibbin W and Wilcoxon P (2013), "A Global Approach to Energy and the Environment: The G-cubed Model" Handbook of CGE Modeling, Chapter 15, North-Holland, pp 995-1068

www.gcubed.com

The G-Cubed Model

- Hybrid of a dynamic stochastic general equilibrium (DSGE) model (used by central banks) and a computable general equilibrium (CGE) model (sectoral detail).
- Models inter-industry linkages, international trade, capital flows, consumption, and investment.
- Annual macroeconomic and sectoral dynamics starting away from steady state.
- Captures frictions in labor market and capital accumulation.
 - Unemployment in the short run, full employment in the long run.
 - Physical capital is sector-specific and subject to adjustment costs.
- Labor mobile across sectors but not regions.

The G-Cubed G20 Model

Countries (20)		Regions (4)	Sectors (6)	Agents
Argentina	Italy	Rest of the OECD	Energy	Households
Australia	Japan	Rest of Asia	Mining	Firms
Brazil	Korea	Other oil producing countries	Agriculture	Government
Canada	Mexico	Rest of the world	Durable manufacturing	
China	Russia		Non-durable manufacturing	
Euro zone	Saudi Arabia		Services	
France	South Africa			
Germany	Turkey			
Indonesia	United Kingdom			
India	United States			

Deportation Scenarios

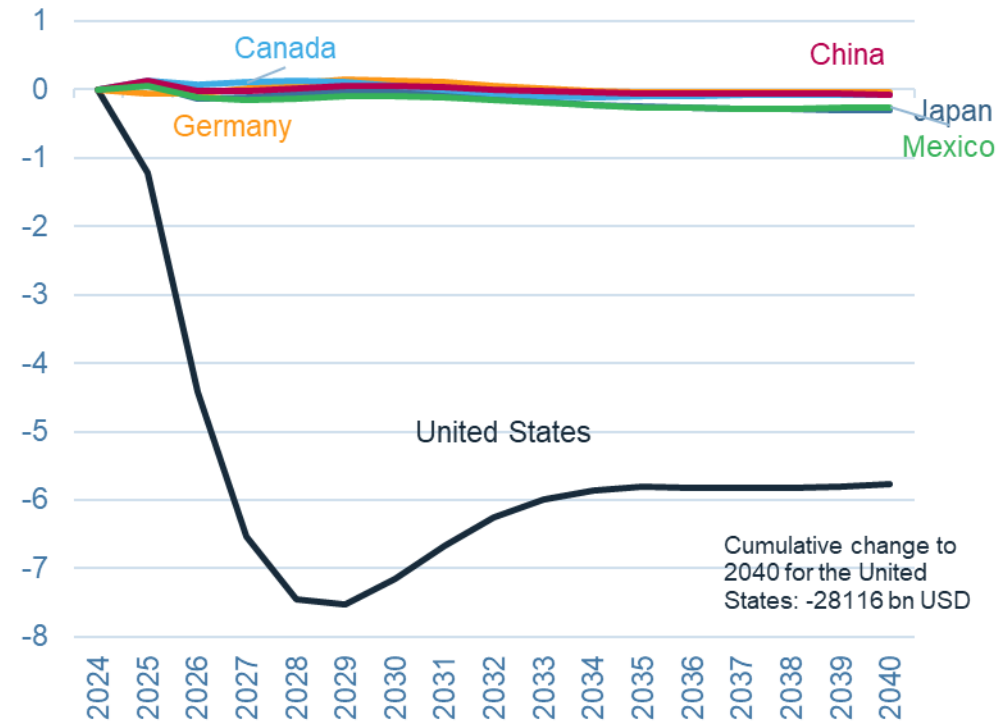
Unauthorized immigrants in the US

Table 2: Shocks to US Labor supply under 1.3 million versus 8.3 million deportations
Source: Pew Research Center

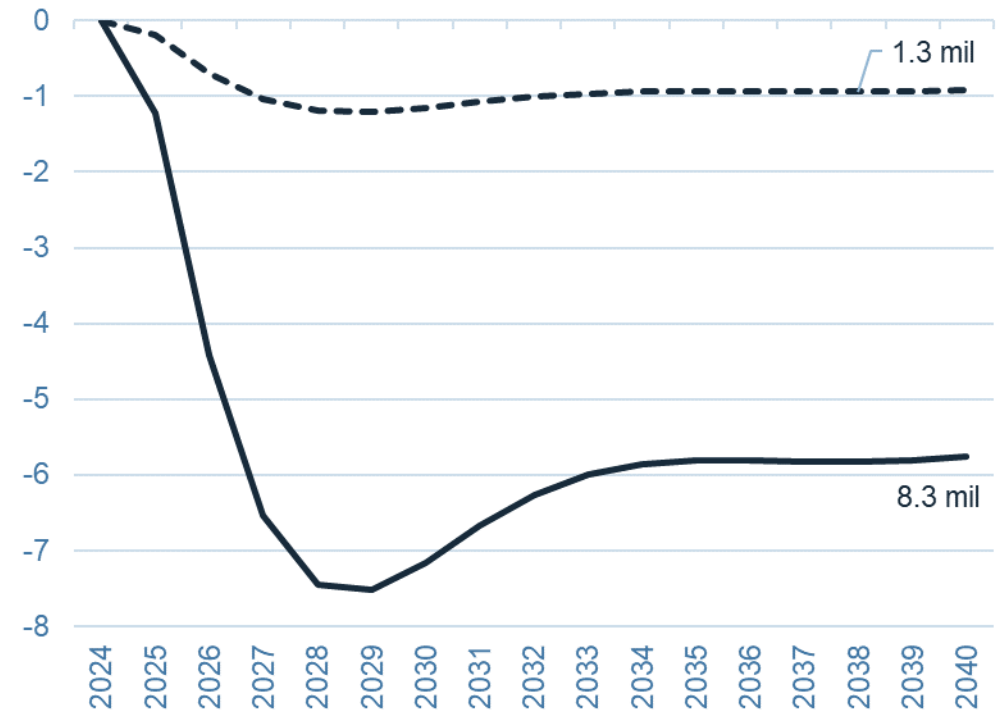
G-Cubed sector	Civilian labor force (in thousands)				Share unauthorized immigrants	% change in sector labor	
	Total	US born	Legal immigrants	Unauthorized immigrants		1.3 million	8.3 million
Mining	760	670	65	25	3.3%	-0.57%	-3.65%
Agriculture	2,060	1,470	300	300	14.6%	-2.53%	-16.14%
Manufacturing 1	8,180	6,605	1,100	463	5.7%	-0.98%	-6.27%
Manufacturing 2	8,180	6,605	1,100	463	5.7%	-0.98%	-6.27%
Services	143,520	118,930	18,425	6,240	4.3%	-0.75%	-4.82%
	162,700	134,280	20,990	7,490	4.6%	-0.80%	-5.10%

US deports 1.3 versus 8.3 million workers

Real GDP (8.3 million)
Percentage deviation for each year

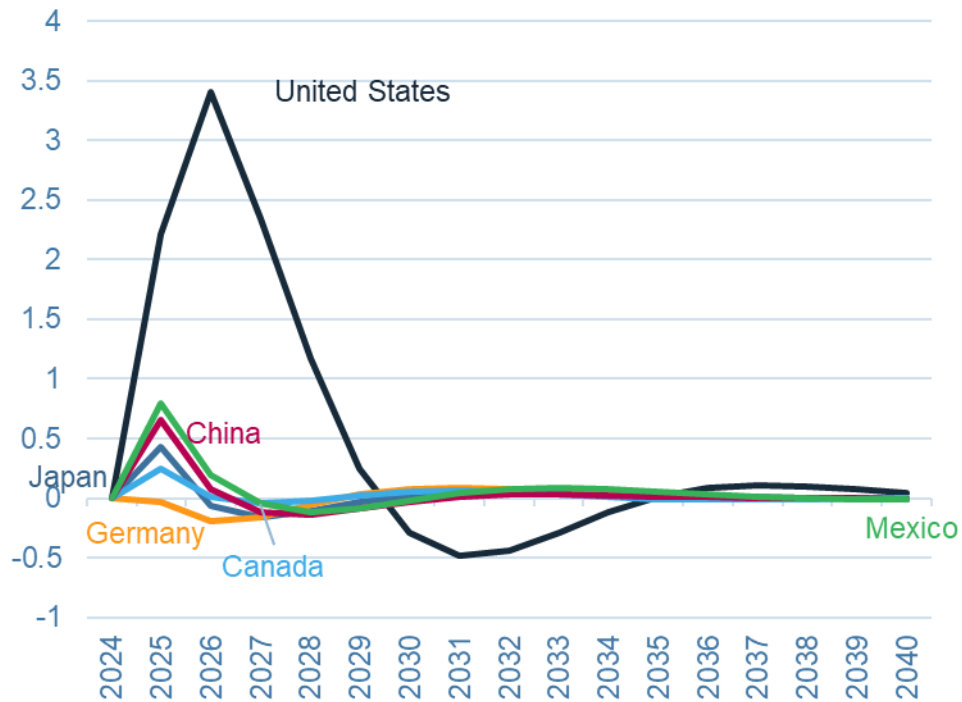


Real GDP (1.3 million vs 8.3 million)
Percentage deviation for each year

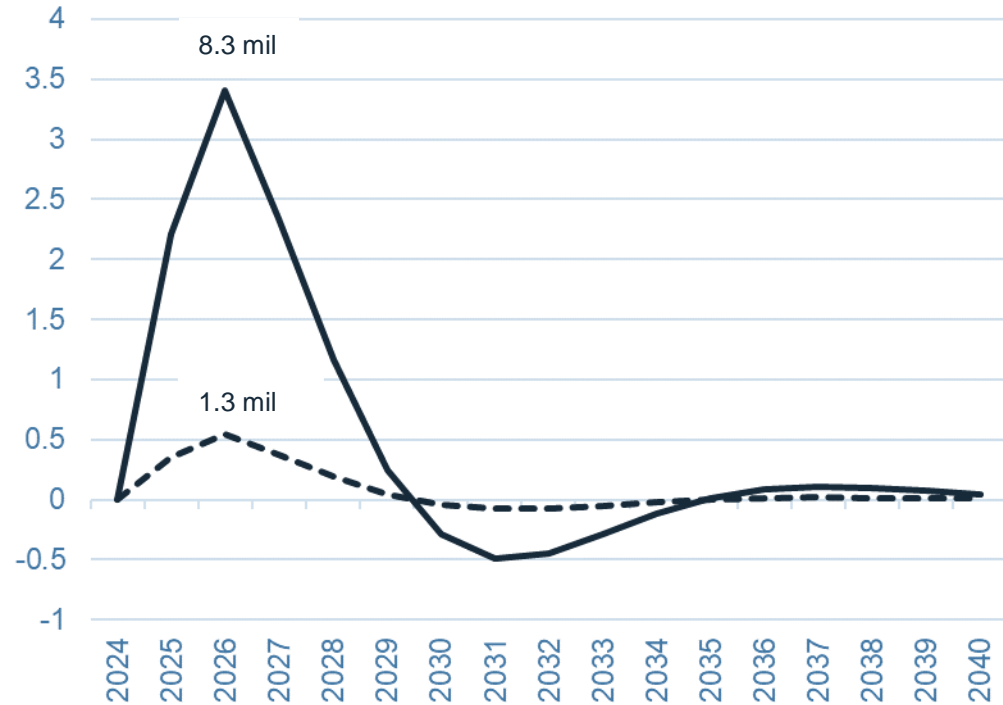


US deports 1.3 versus 8.3 million workers

Inflation (8.3 million)
Percentage point deviation

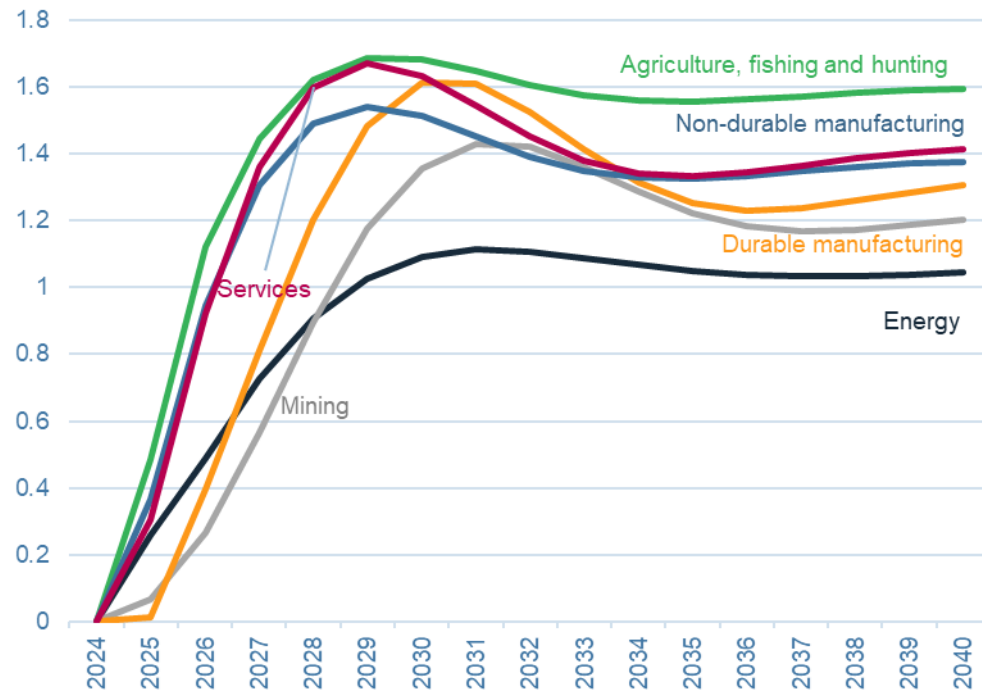


Inflation (1.3 million vs 8.3 million)
Percentage point deviation

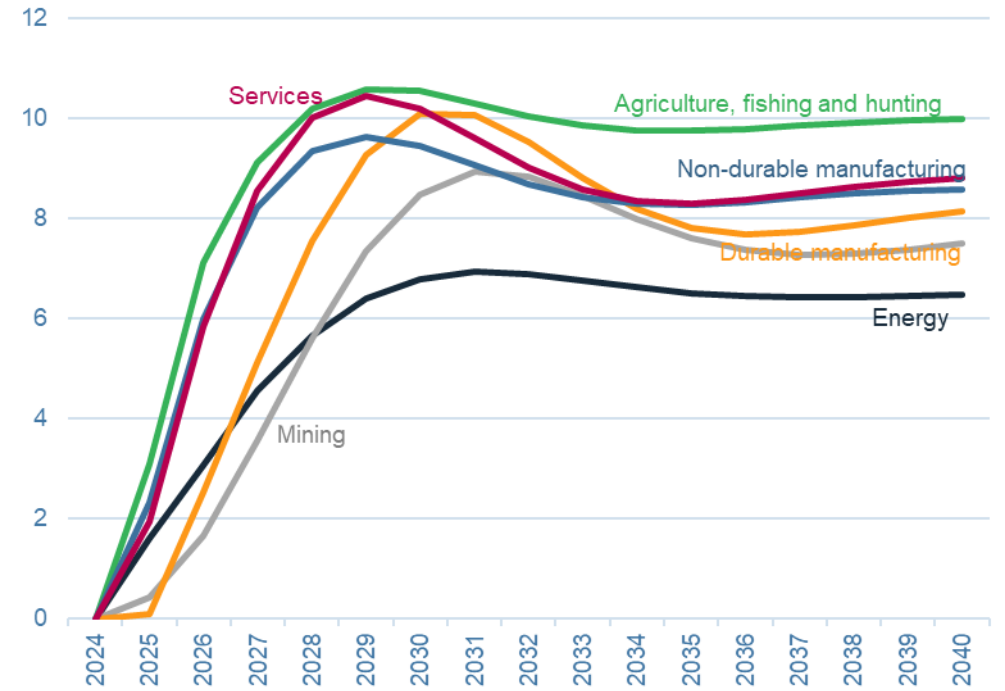


US deports 1.3 versus 8.3 million workers

Prices (1.3 million)
Percentage Deviation

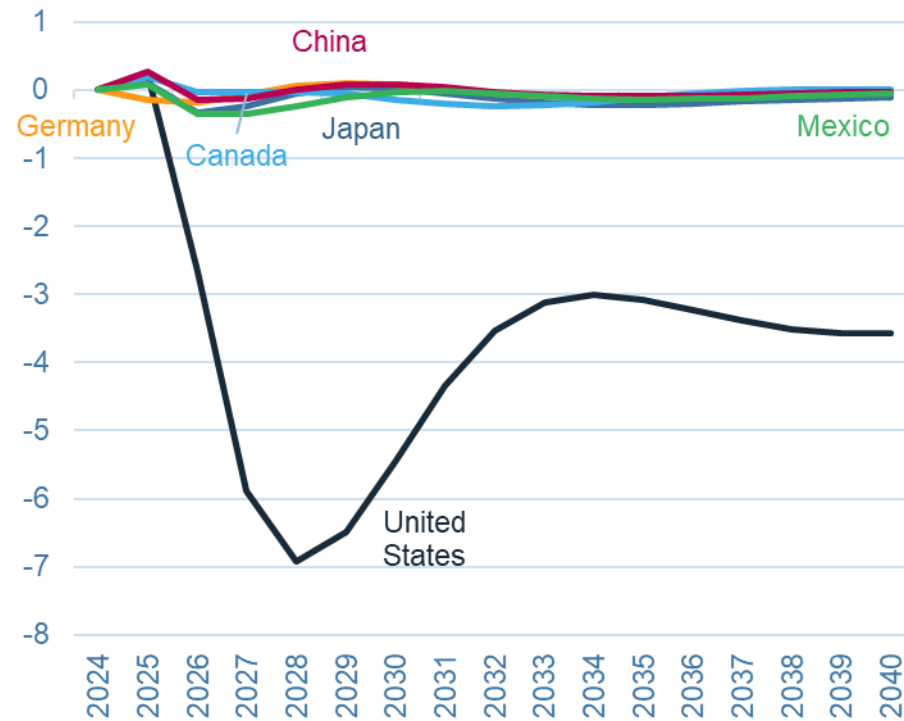


Prices (8.3 million)
Percentage Deviation

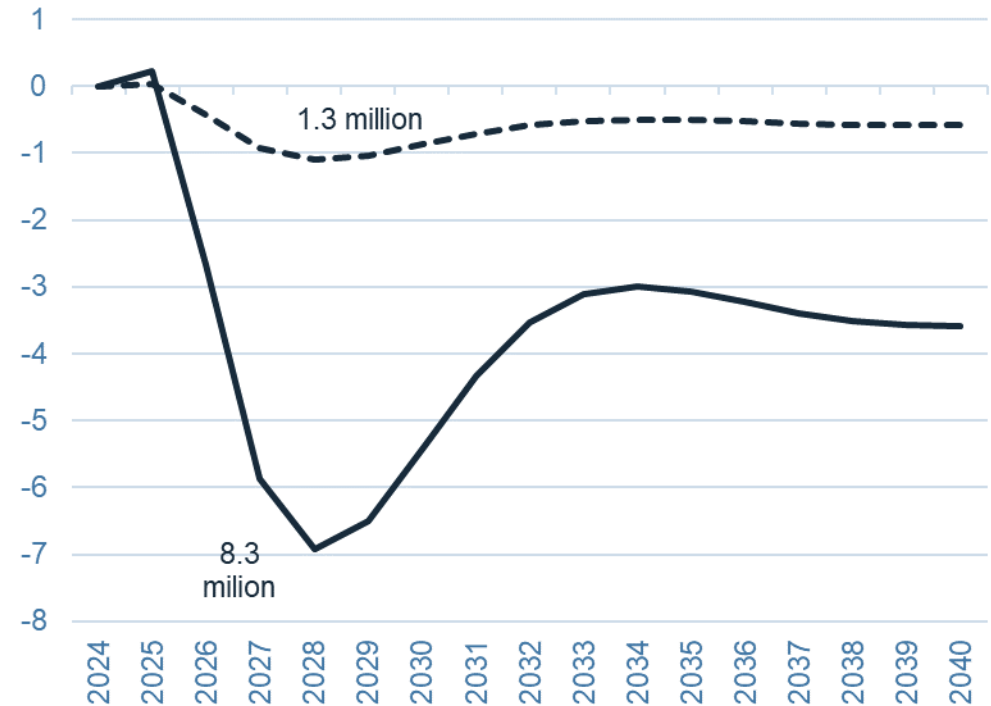


US deports 1.3 versus 8.3 million workers

Employment, hours worked (8.3 million)
Percentage deviation

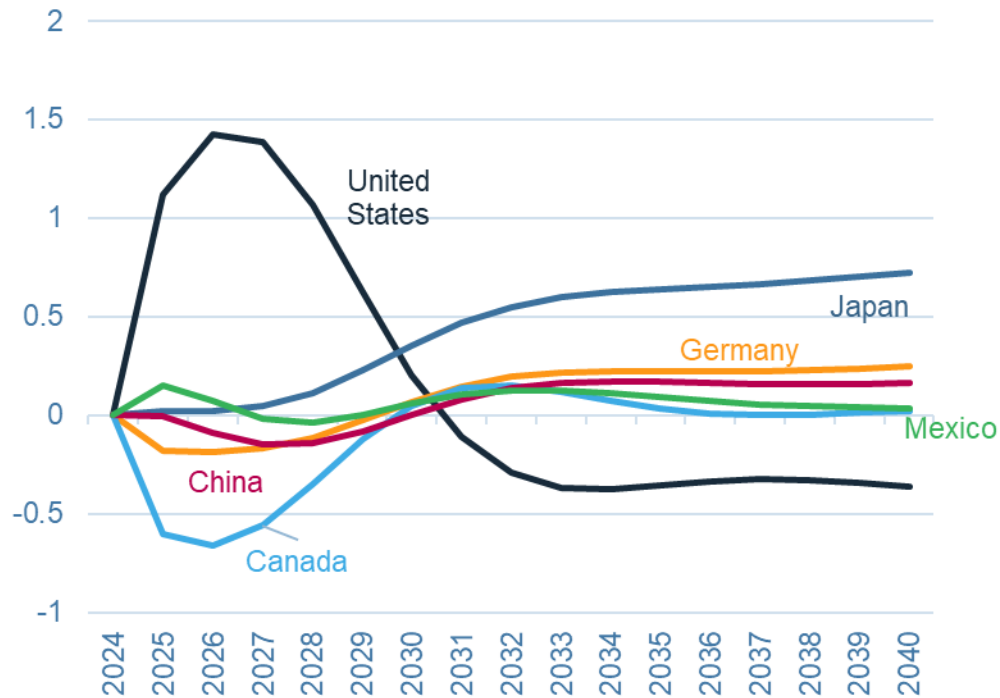


United States (1.3 million vs. 8.3 million)
Percentage deviation

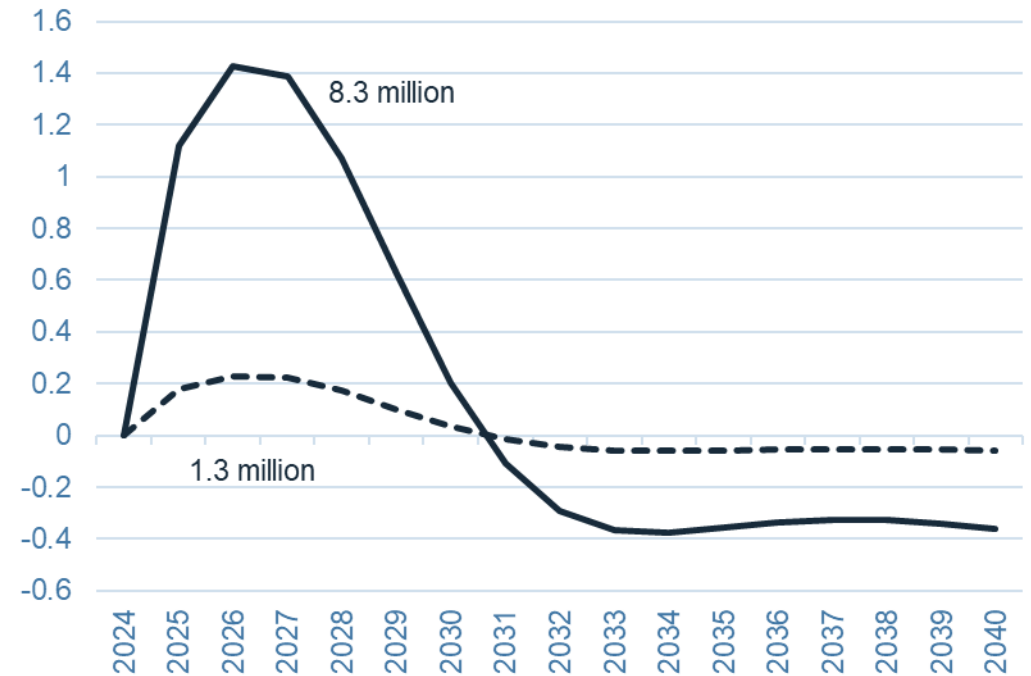


US deports 1.3 versus 8.3 million workers

Trade balance (8.3 million)
Percent of GDP deviation from baseline



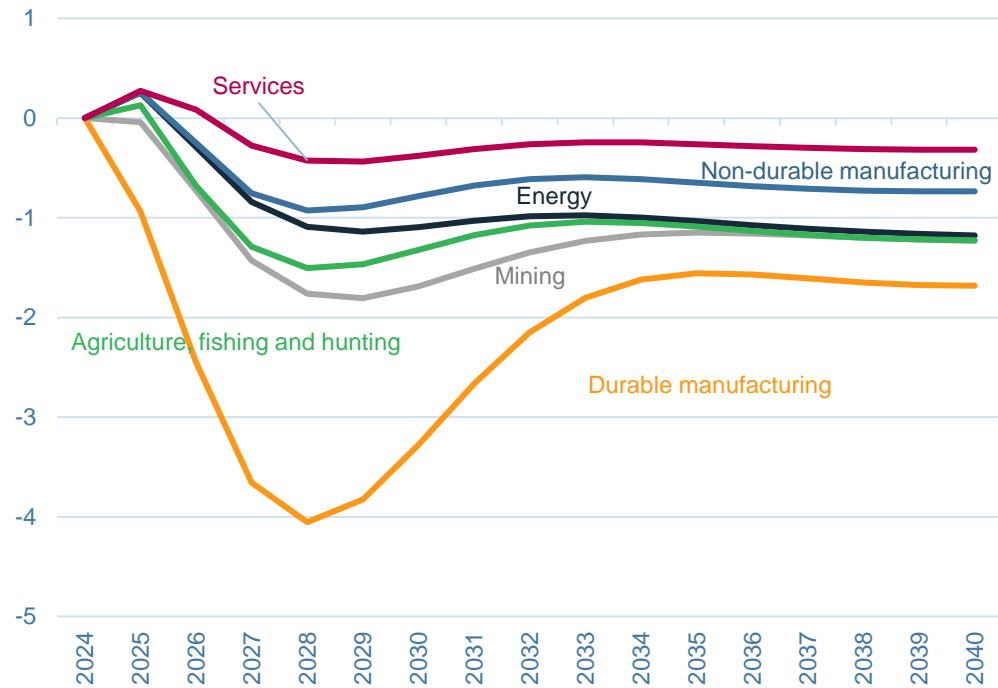
Trade balance (1.3 million vs 8.3 million)
Percent of GDP deviation from baseline



US deports 1.3 versus 8.3 million workers

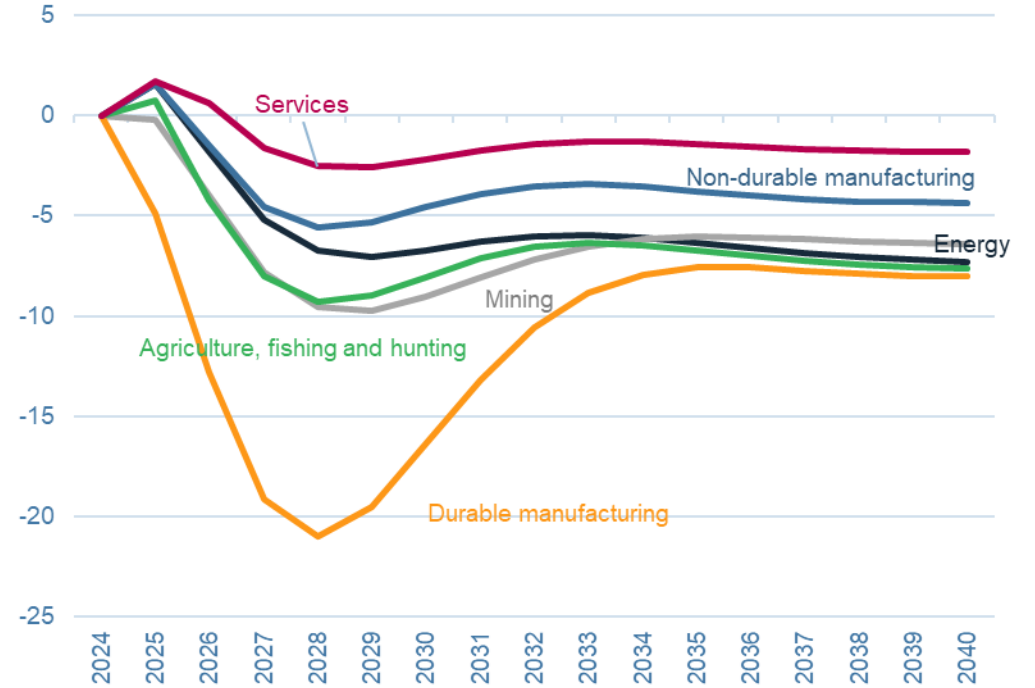
Employment (1.3 million)

Hours worked, percentage deviation for each year



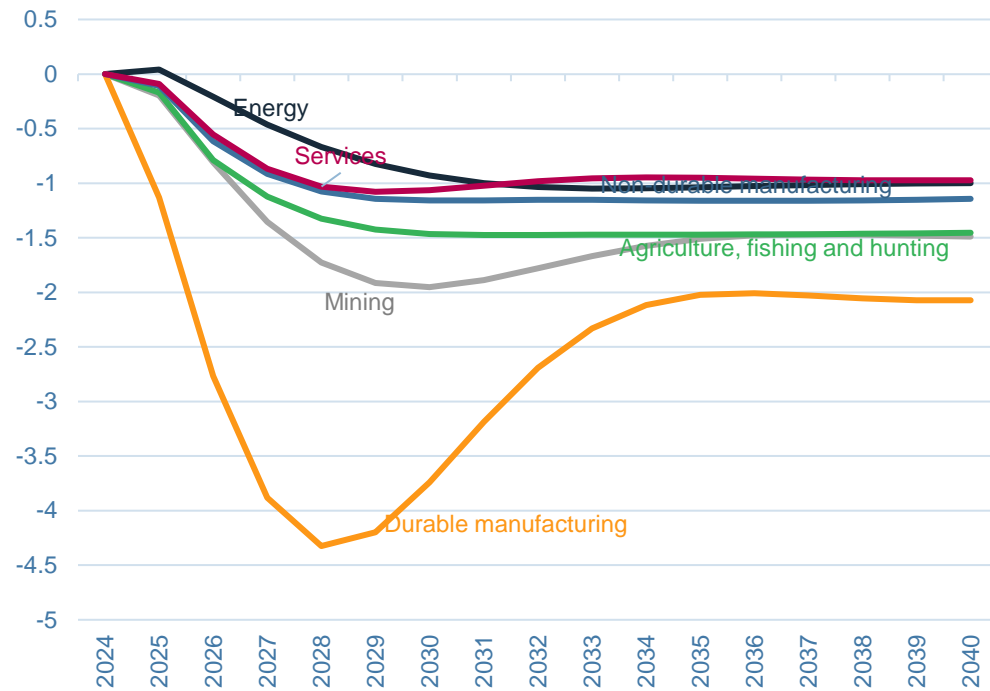
Employment (8.3 million)

Hours worked, percentage deviation for each year

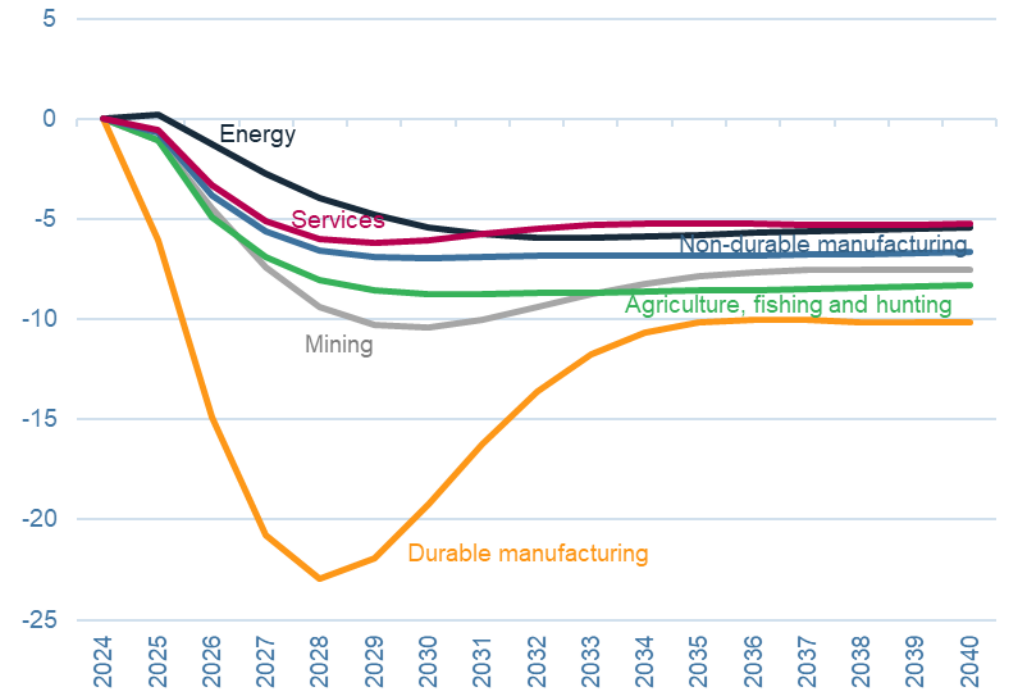


US deports 1.3 versus 8.3 million workers

Sector Output (1.3 million)
Percentage Deviation



Sector Output (8.3 million)
Percentage Deviation



Summary

Four-year cumulative point years change versus baseline

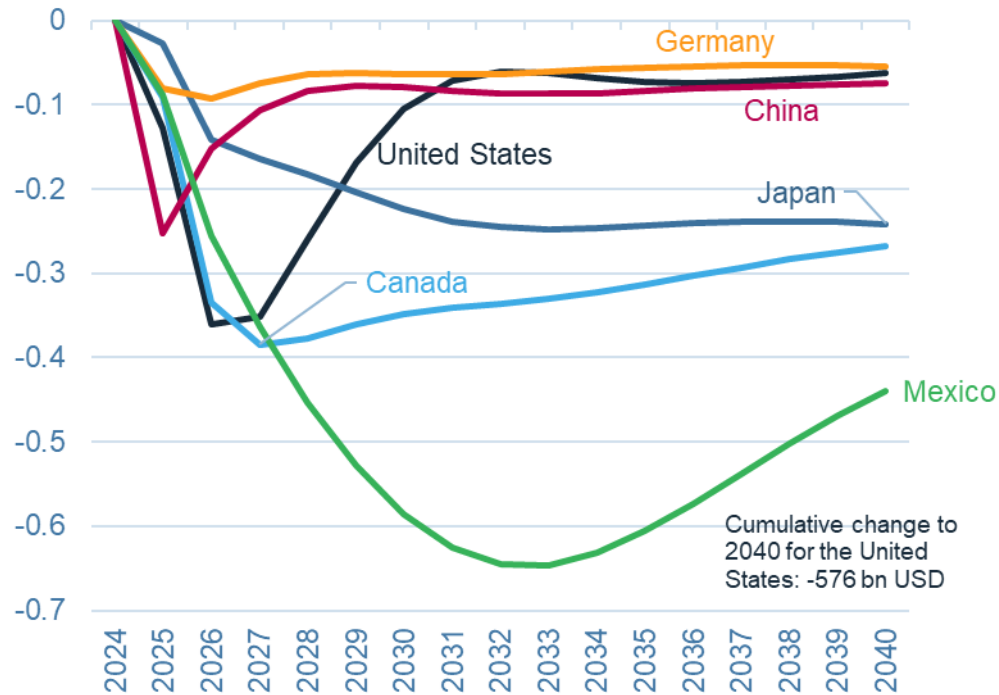
	8.3m worker deportation scenario	1.3m worker deportation scenario
Real GDP	-19.6	-2.9
Inflation	9.1	1.5
Employment (hours worked)	-15.2	-2.4
Trade Balance	5.0	0.8
Durable manufacturing employment	-57.9	-8.6

10 percentage point uniform tariff increase on all countries

10 percentage point increase in US tariffs

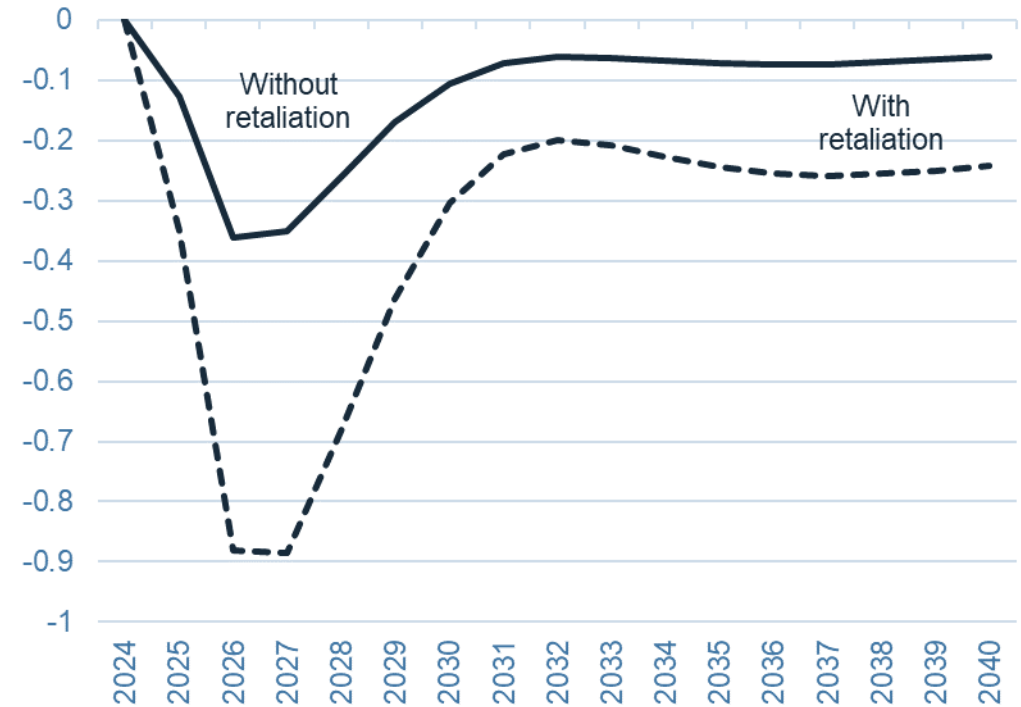
Real GDP

Percentage deviation for each year



United States, with and without retaliation

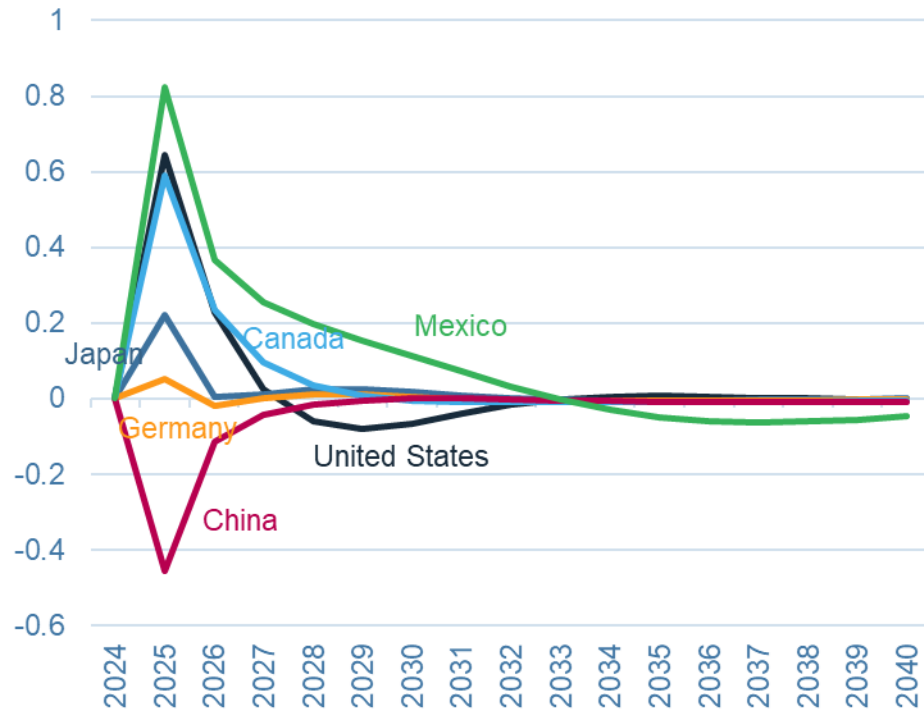
Percentage deviation for each year



10 percentage point increase in US tariffs

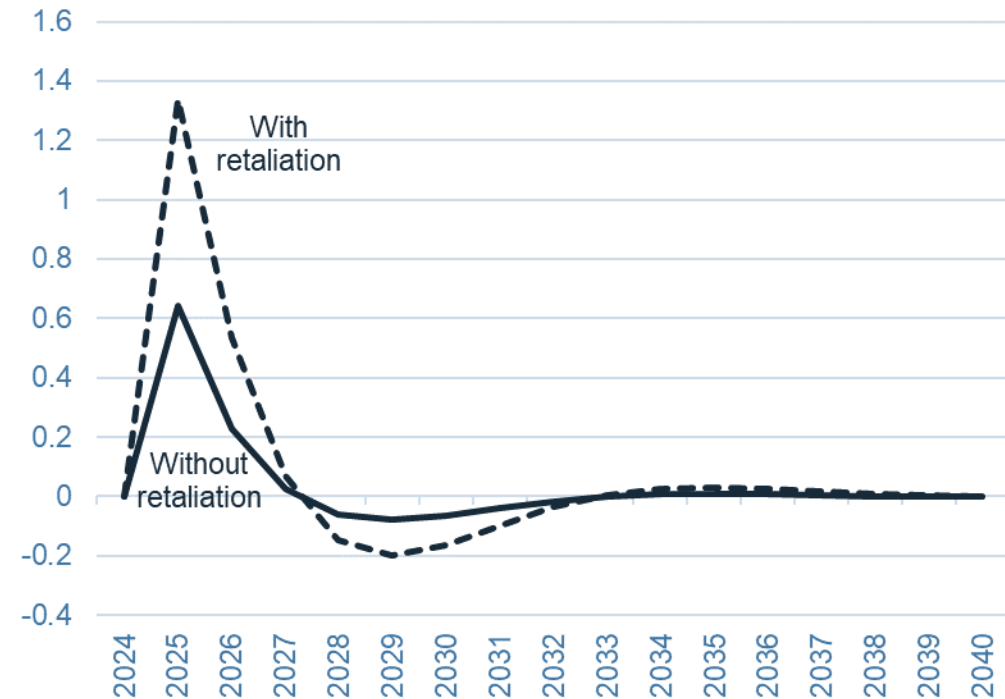
Inflation

Percentage point deviation for each year



United States, with and without retaliation

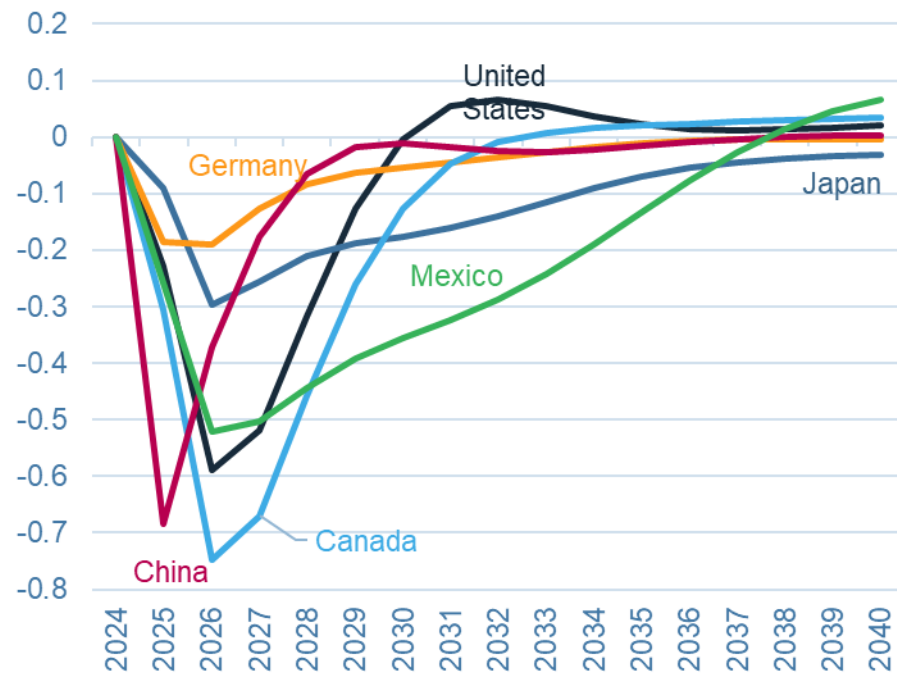
Percentage point deviation for each year



10 percentage point increase in US tariffs

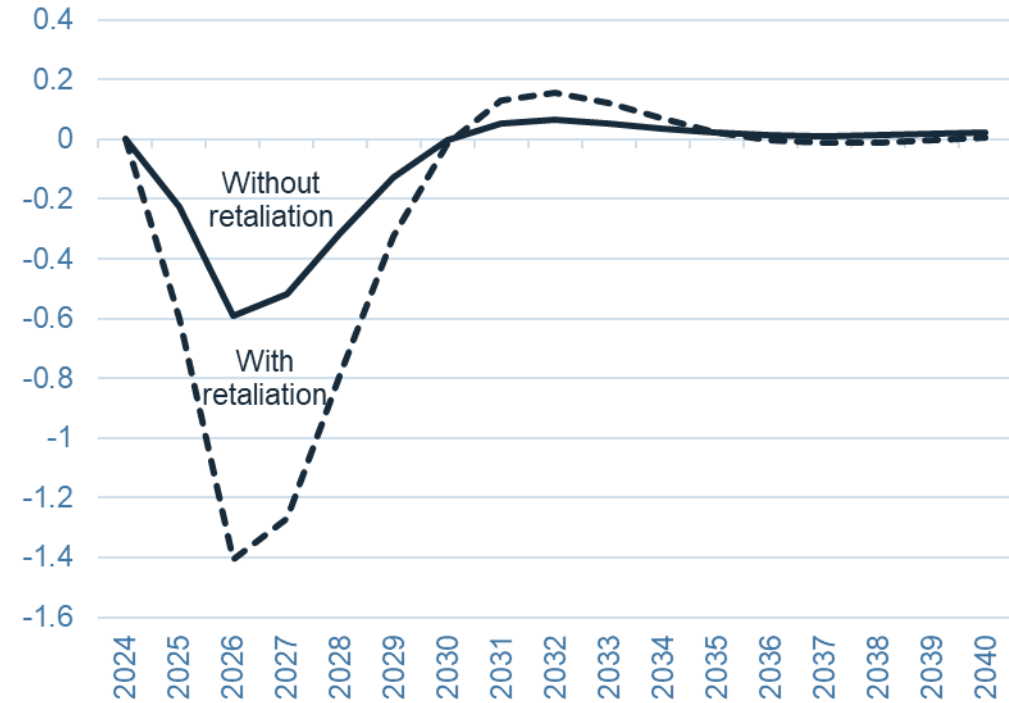
Employment

Percentage deviation for each year



United States, with and without retaliation

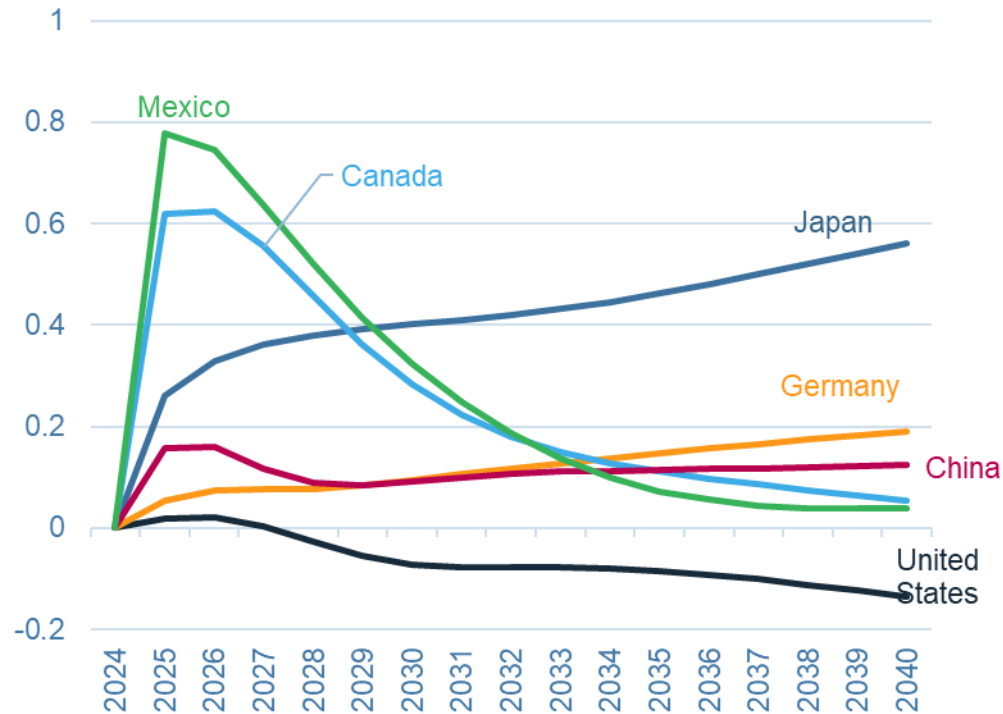
Percentage deviation for each year



10 percentage point increase in US tariffs

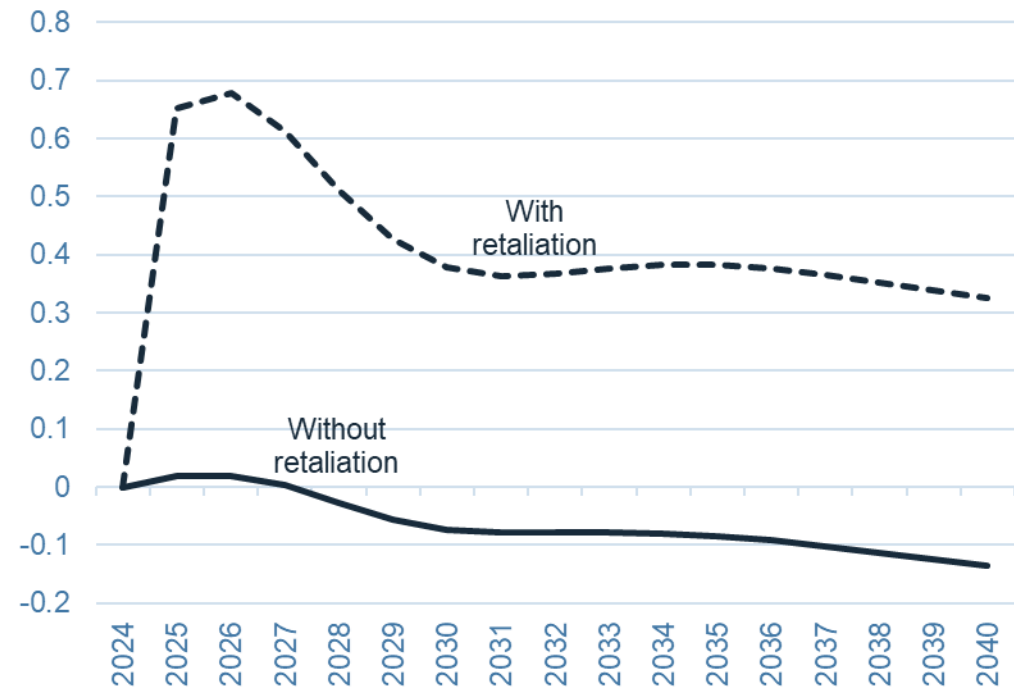
Trade Balance

Percent of GDP deviation for each year



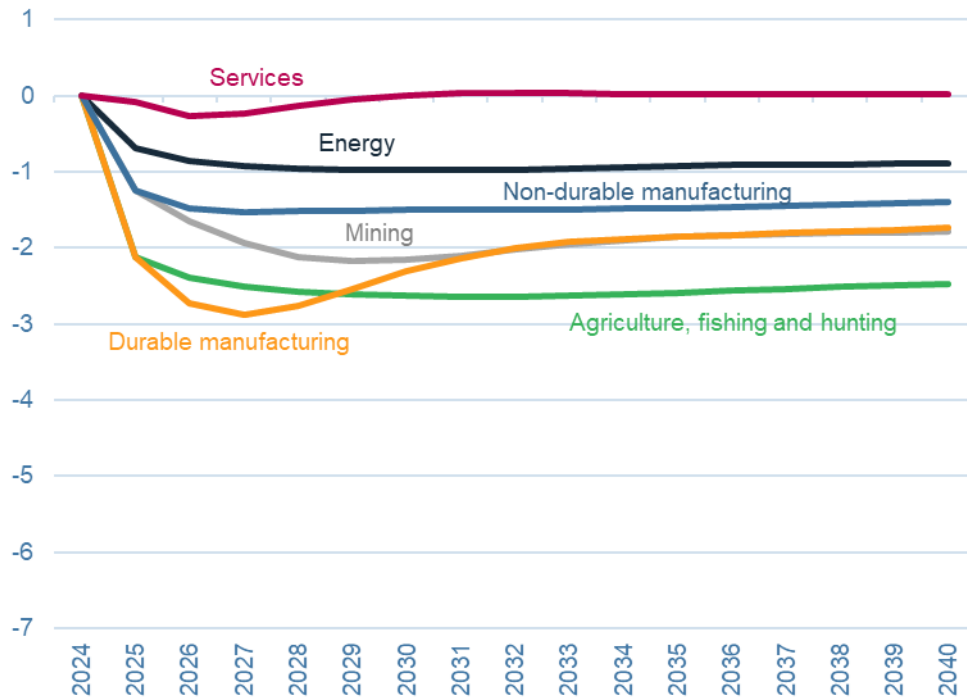
United States, with and without retaliation

Percent of GDP deviation for each year

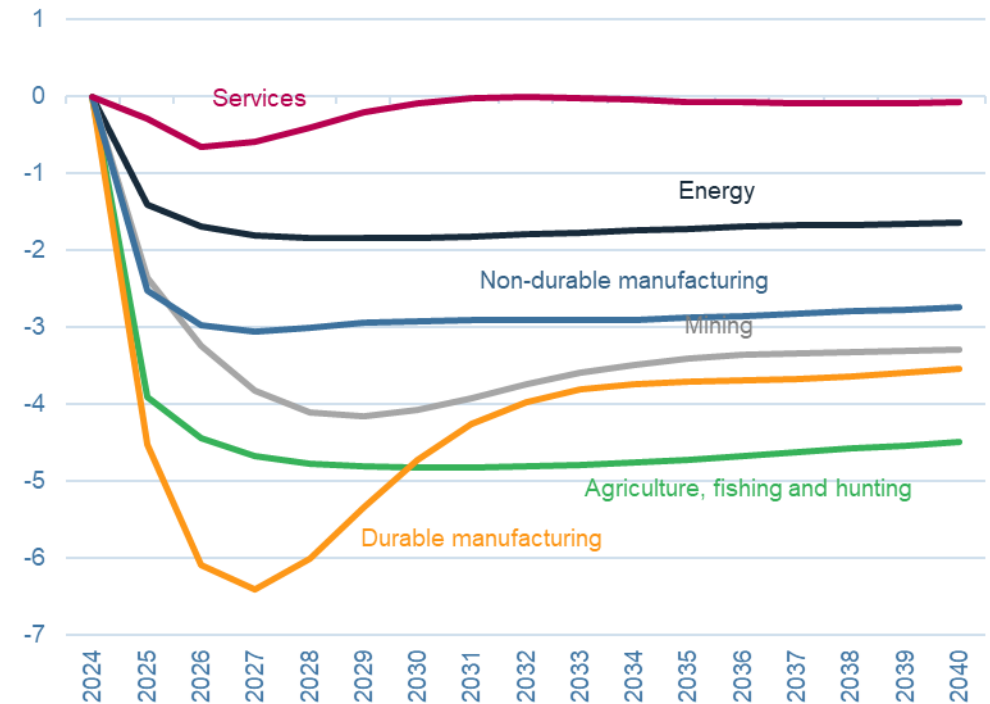


10 percentage point increase in US tariffs

Production by Sector without Retaliation
Percentage deviation for each year

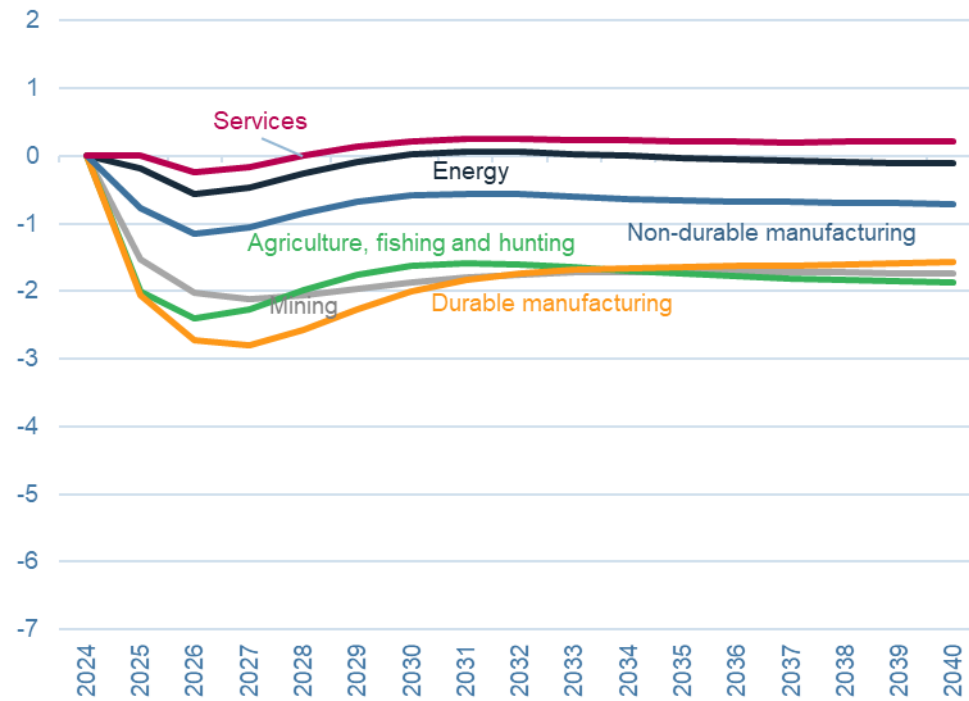


Production by Sector with Retaliation
Percentage deviation for each year

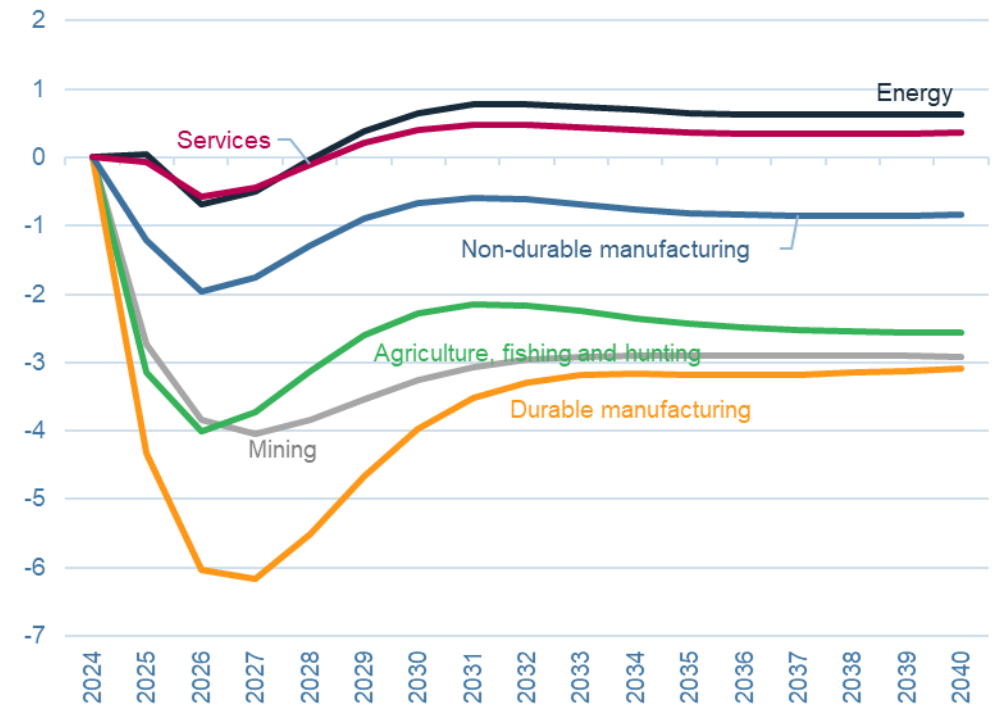


10 percentage point increase in US tariffs

Employment by Sector without Retaliation
Percentage deviation for each year



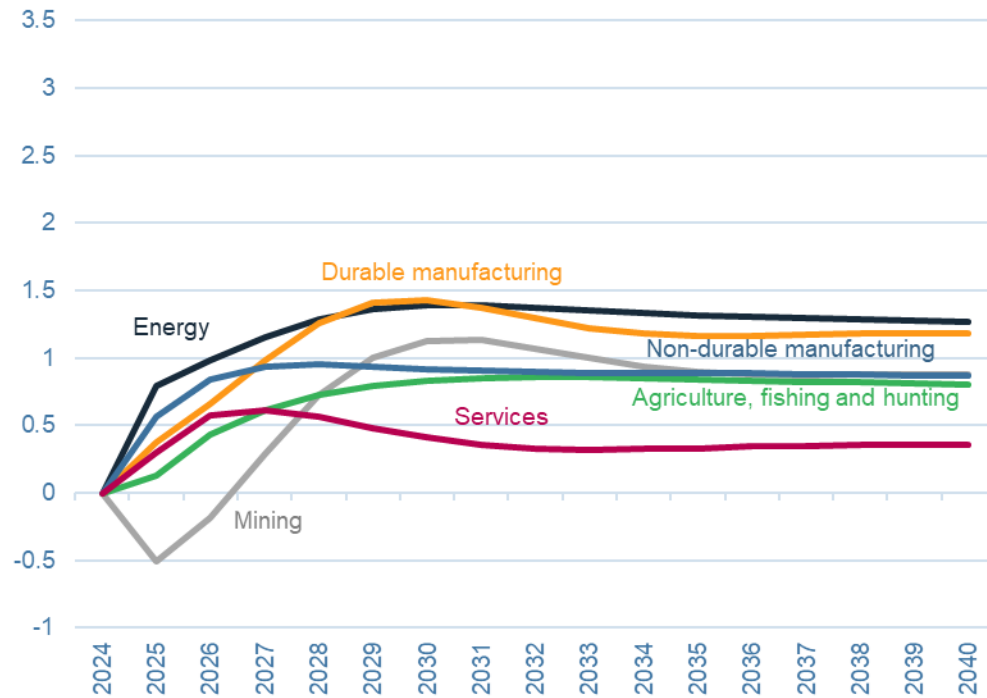
Employment by Sector with Retaliation
Percentage deviation for each year



10 percentage point increase in US tariffs

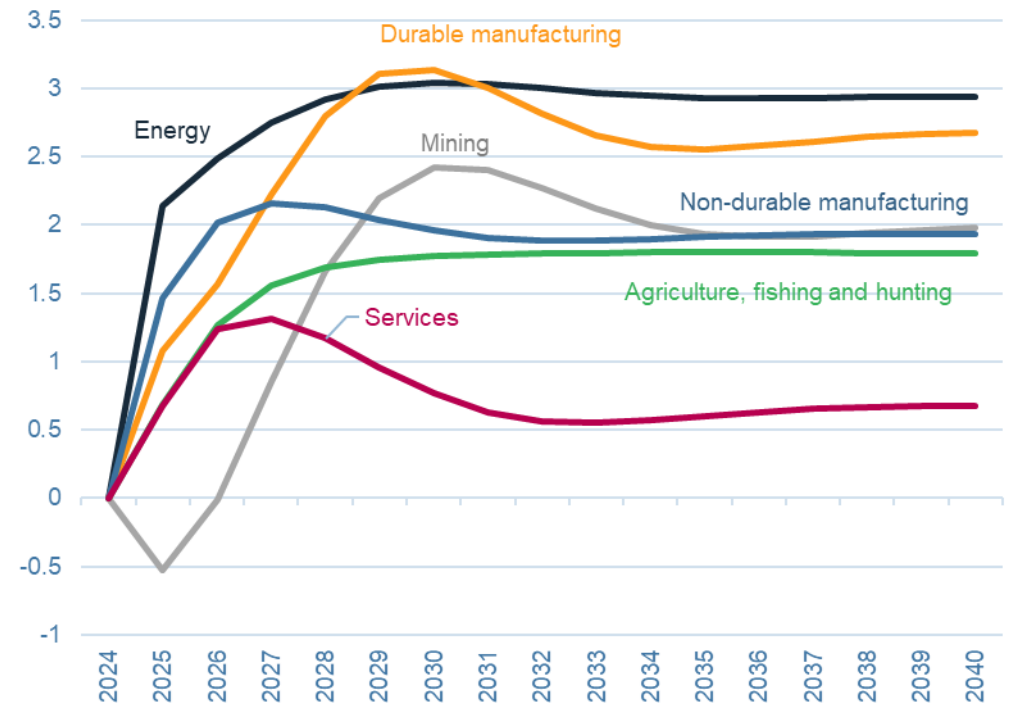
Prices by Sector without Retaliation

Percentage deviation for each year



Prices by Sector with Retaliation

Percentage deviation for each year

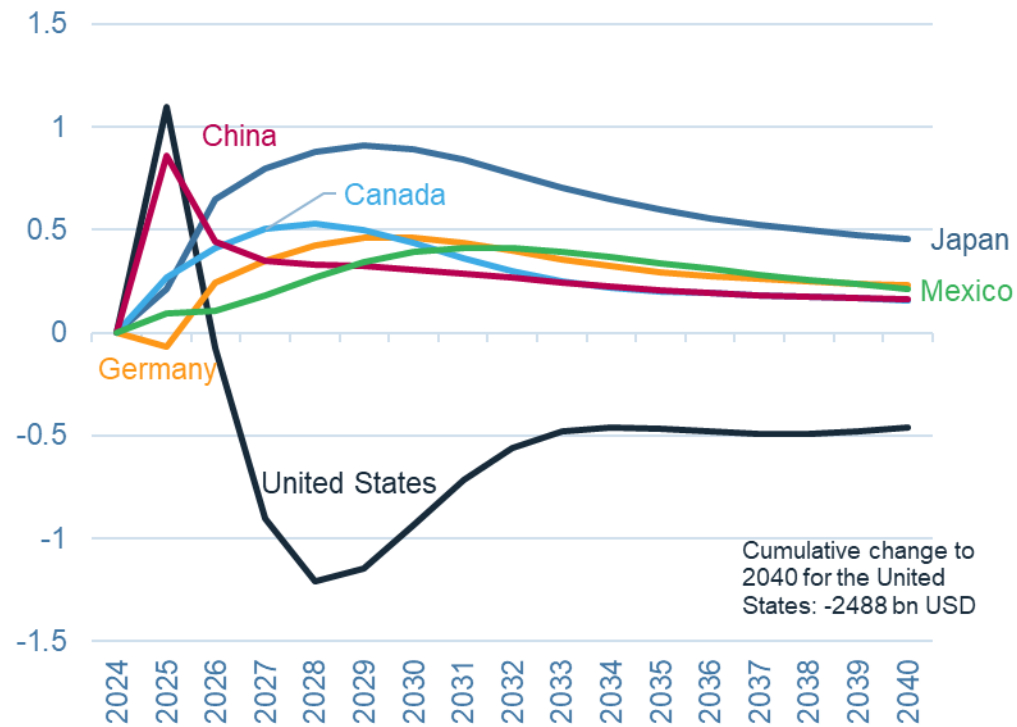


Fed Independence

Erosion of Fed Independence

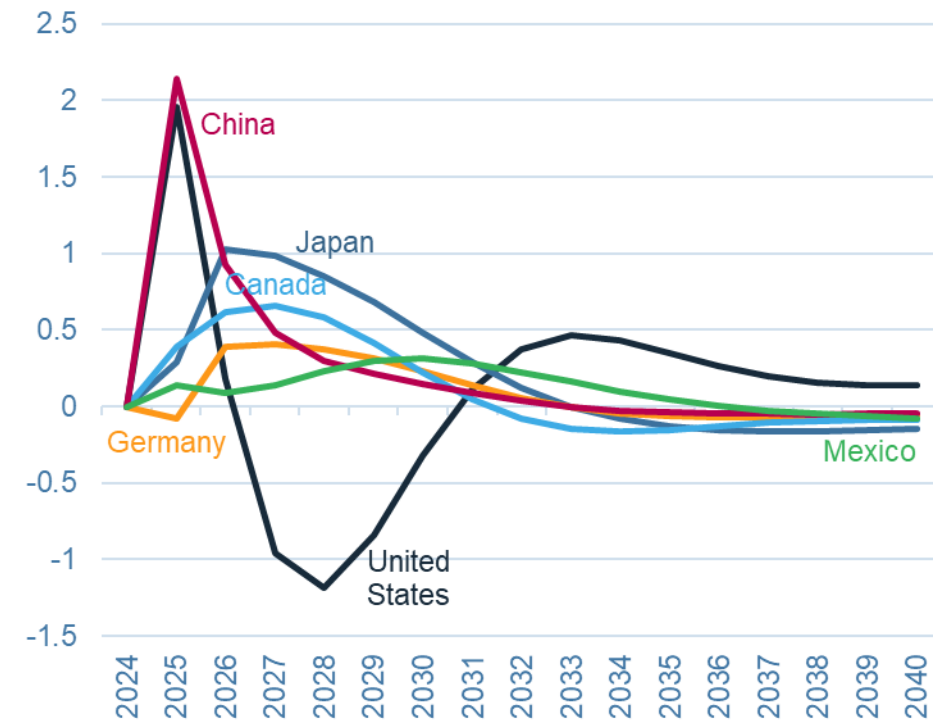
Real GDP

Percentage deviation for each year



Employment

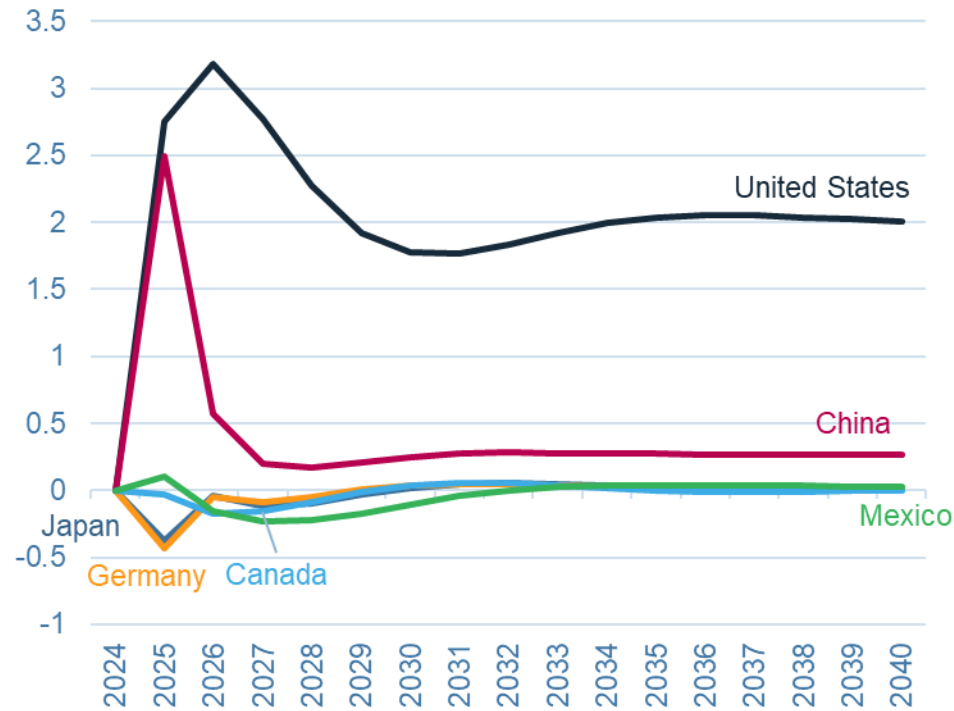
Percentage deviation for each year



Erosion of Fed Independence

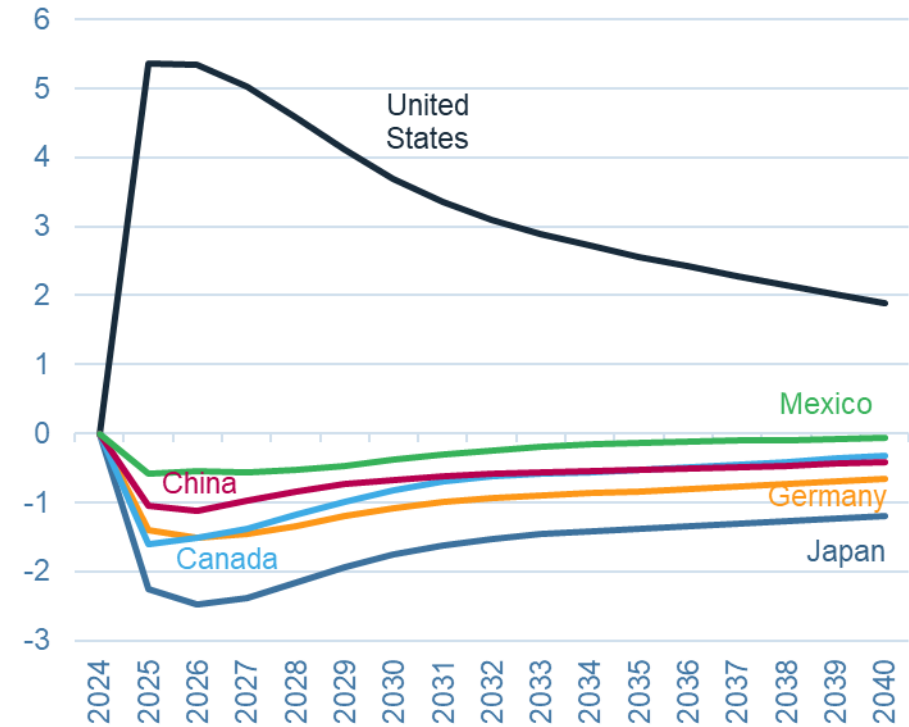
Inflation

Percentage points deviation



Trade Balance

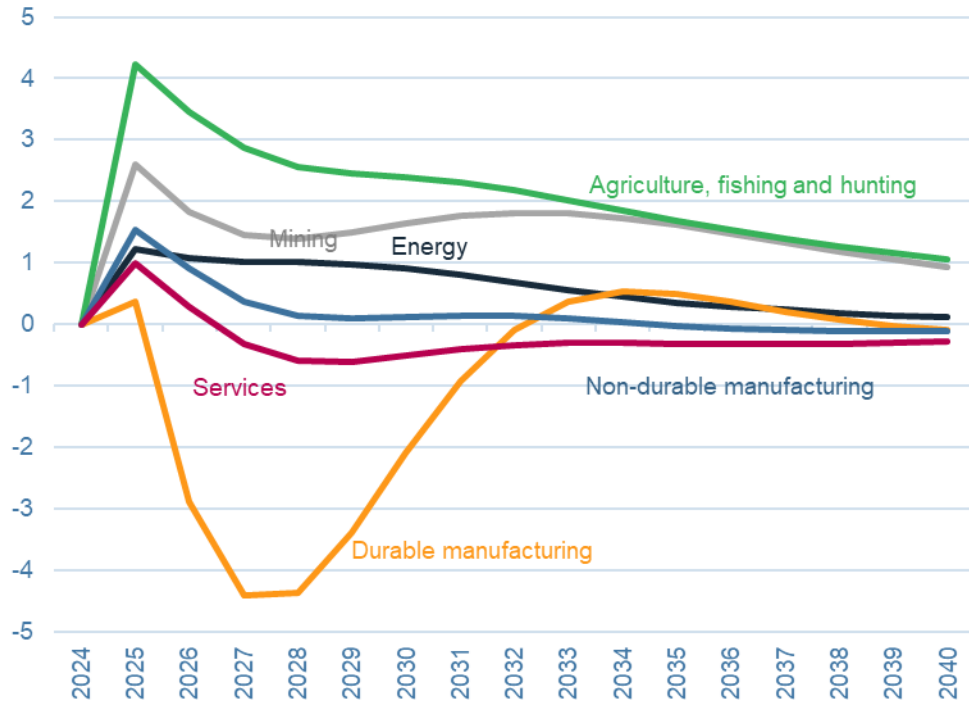
Percentage of GDP deviation



Erosion of Fed Independence

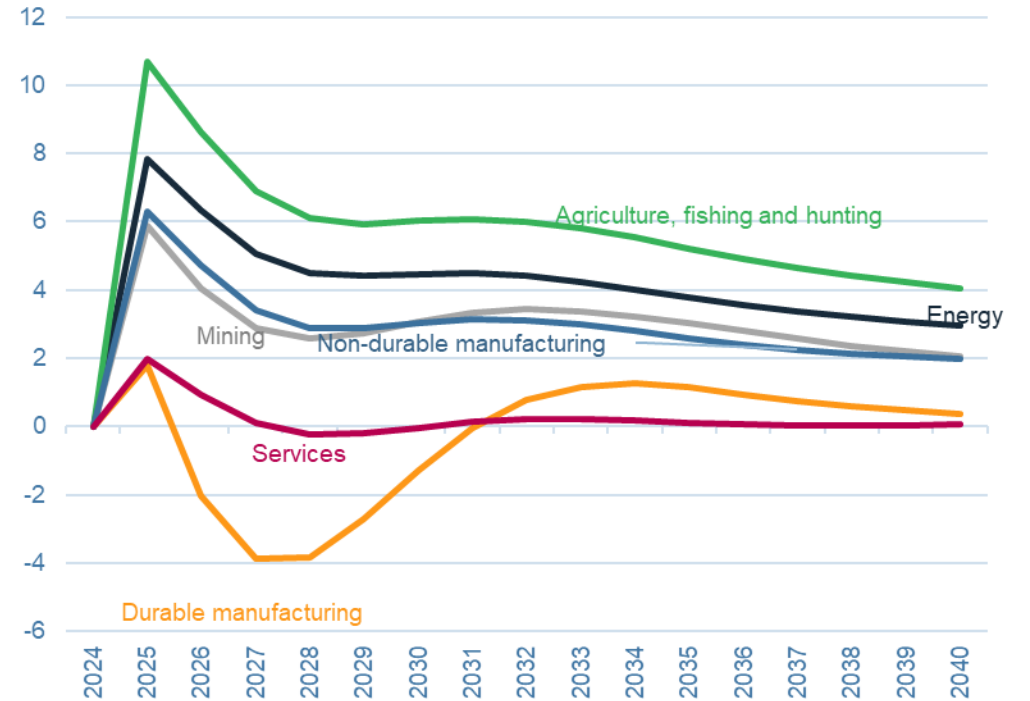
US Production by Sector

Percentage deviation



US Employment by Sector

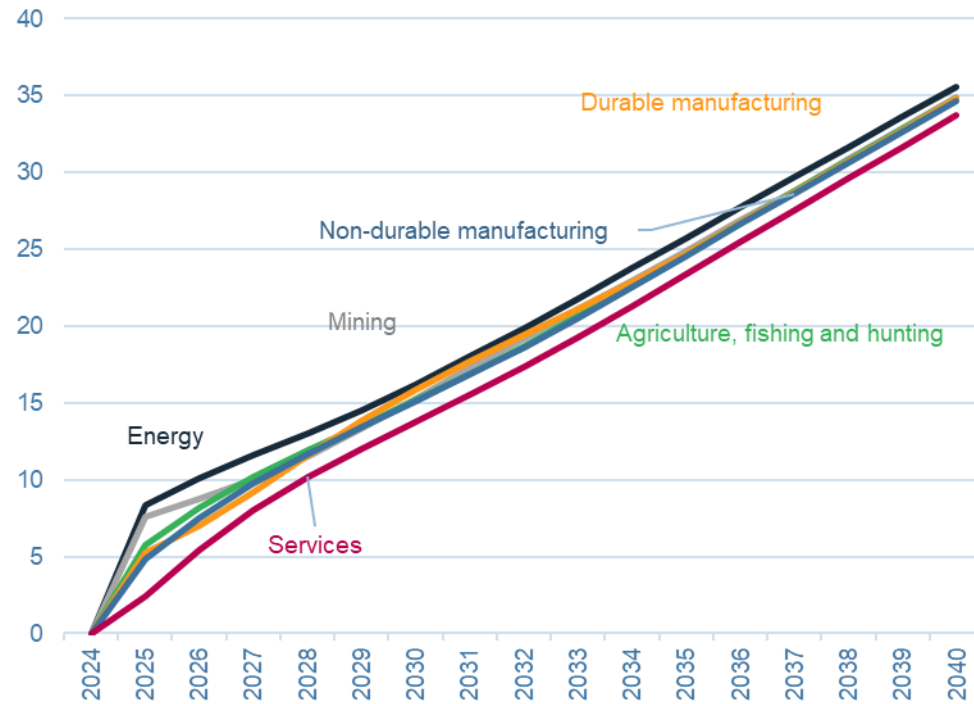
Percentage deviation



Erosion of Fed Independence

US Prices by Sector

Percentage deviation

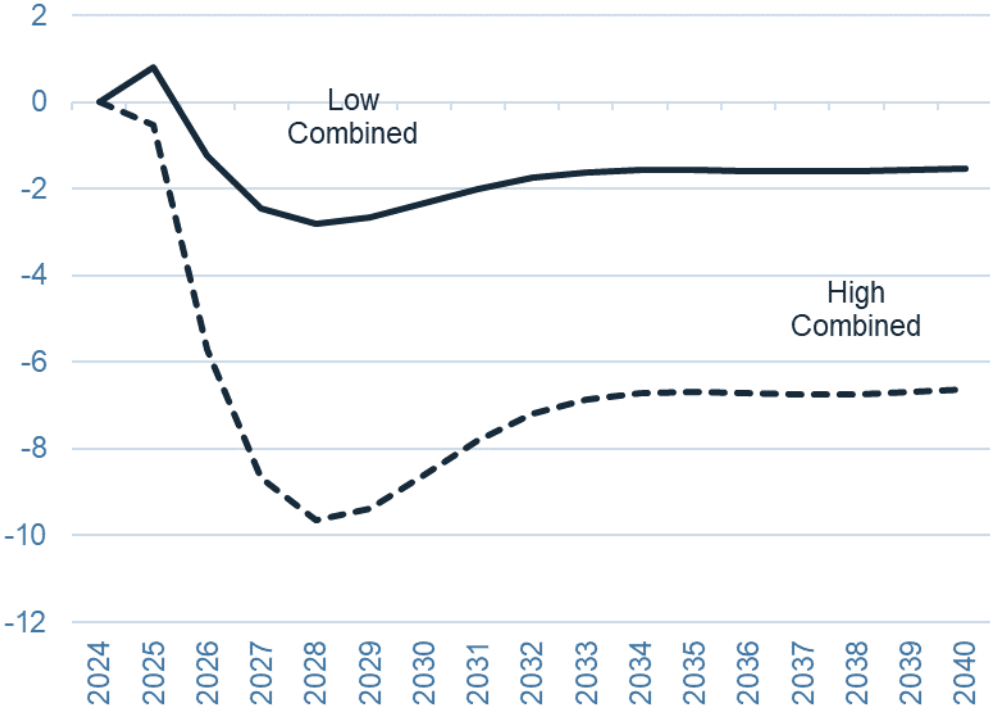


Combined scenarios

Combined Scenarios

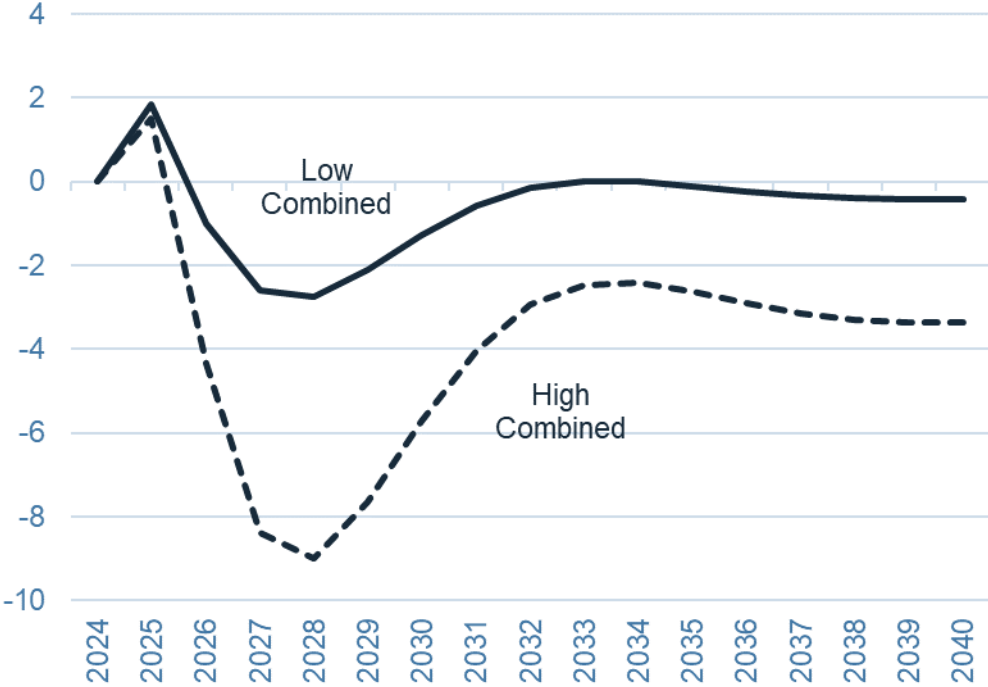
Real GDP

Percentage deviation for each year



Employment

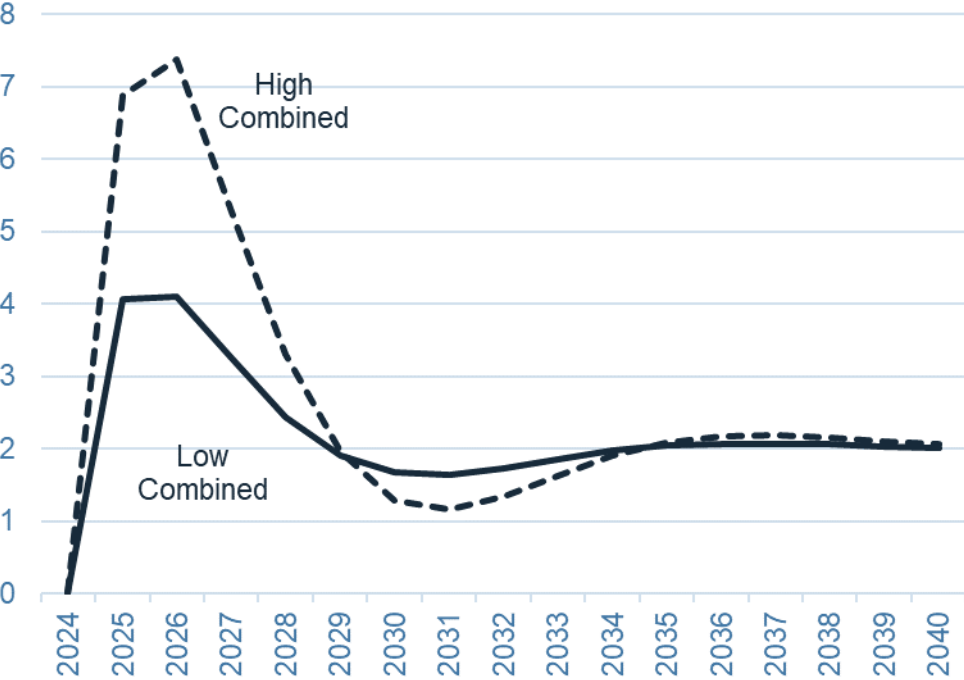
Percentage deviation for each year



Combined Scenarios

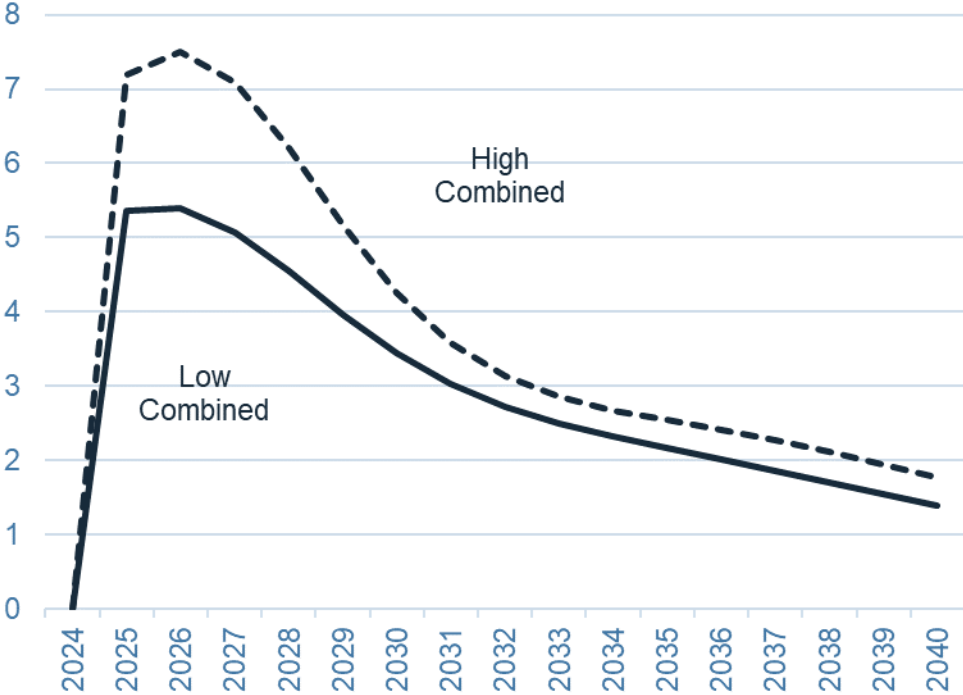
Inflation

Percentage points deviation



Trade Balance

Percentage of GDP deviation



Conclusion

- The policies have the opposite effects to the stated goal of the policies
- All policies cause a decline in production and employment in the United States, especially in trade-exposed sectors such as manufacturing and agriculture.
- The policies also worsen inflation in the US economy.
- The erosion of Fed independence causes a significant outflow of capital from the US to the rest of the world, a significant depreciation of the US dollar, and, therefore, a significant improvement in the US trade surplus. This occurs while reducing the living standards of Americans through higher unemployment towards the end of 2028 and higher inflation from 2026.
- Trump says “make the foreigners pay.” Under these policies, it is US consumers, workers, and firms that pay.

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