



**PIIE** PETERSON INSTITUTE FOR  
INTERNATIONAL ECONOMICS

# It can happen here: Inflation either way for US

**Adam S. Posen**

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**1750 Massachusetts Avenue, NW** | Washington, DC 20036 | [www.piie.com](http://www.piie.com)

# It can happen here.

## Self-inflicted policy wounds create negative feedback loops

Failed policies to close off the US economy and to weaponize uncertainty are both **negative supply shocks reducing real income**

- In theory—could lead to real reallocation without inflation, only temporary slump
- In practice—relationships get reversed when US has an unstable regime
  - **Shortages feed exemptions feed barriers feed shortages**
  - **Allies insure against, not with, US, when alliances fray**
  - **Stabilization attempts feed inflation**

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### The True Dangers of Trump's Economic Plans

*His Radical Agenda Would Wreak Havoc on  
American Businesses, Workers, and Consumers*

ADAM S. POSEN

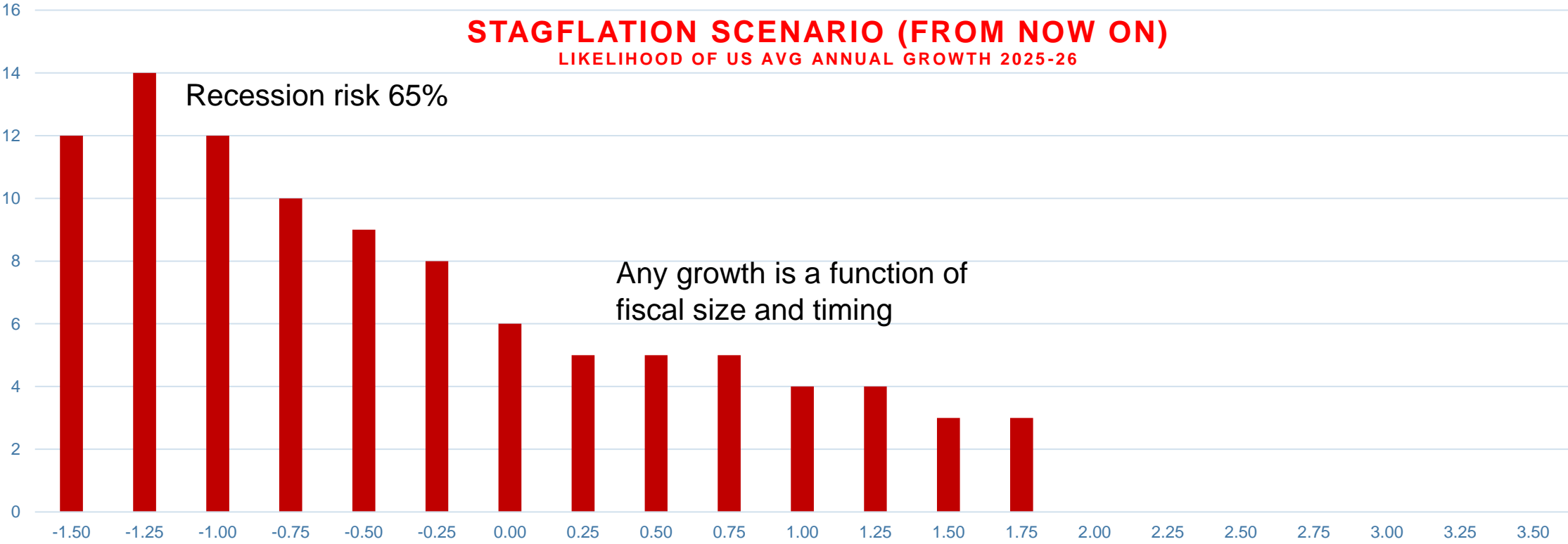
October 18, 2024

Almost all of Trump's economic proposals would reduce supplies of labor, industrial inputs, consumer goods, and federal tax revenues. His strategy would impose uncertainty throughout the U.S. economy, as businesses and consumers would fear that prices could go up or that access to resources might be restricted at any time the government chooses. This is the exact opposite of the policies aimed at macroeconomic stability that have a proven track record worldwide of bringing sustained growth and low inflation.

Faced with economic insecurity and a shrinking supply side, as well as rising deficits and prices, investors would charge the U.S. government higher interest rates.

# STAGFLATION SCENARIO (FROM NOW ON)

LIKELIHOOD OF US AVG ANNUAL GROWTH 2025-26



Recession risk 65%

Any growth is a function of fiscal size and timing

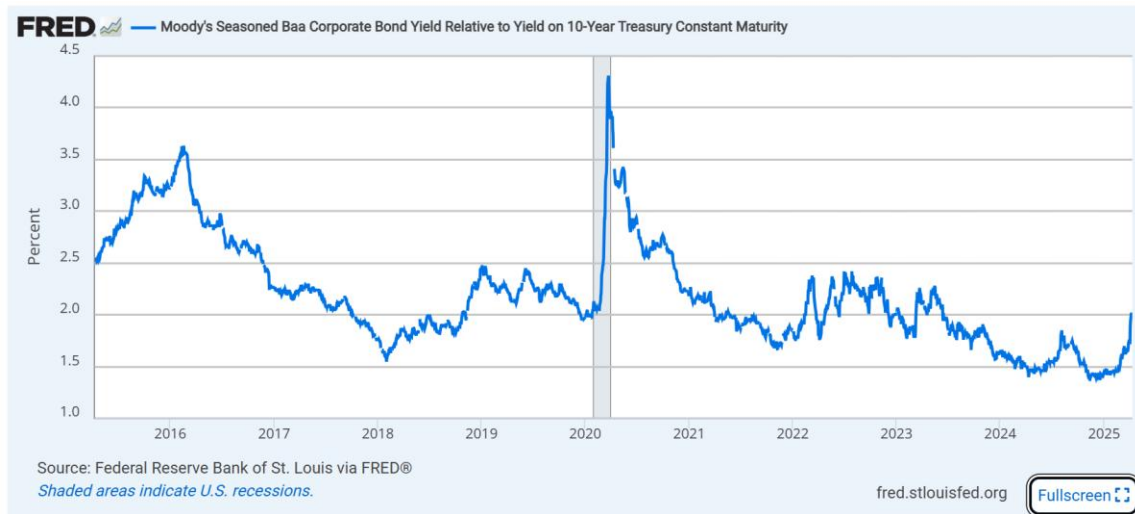
# **Inflation is coming, whatever the growth rate**

## **Unanchored inflation expectations will be pushed**

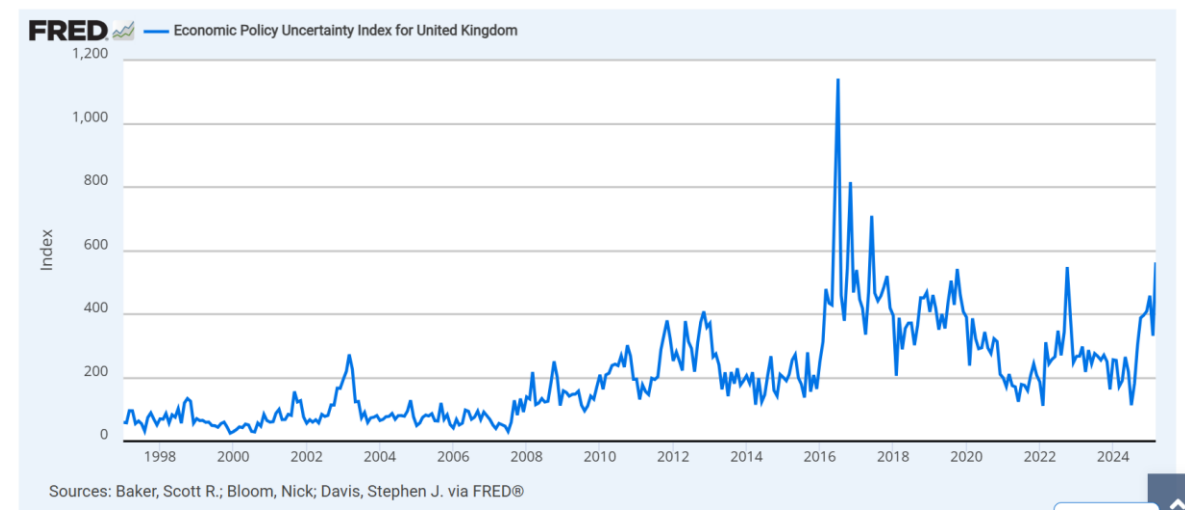
- Fed policy is already too loose, and inflation is too high, to start
- Fed will be behind the curve – especially if there is a recession
- Fiscal excess will worsen – especially if there is a recession
- Deregulation, M&A, and exemptions will increase pricing power and therefore pass-through of tariff pricing increases
- Reversal of usual capital inflows response for USD
- This isn't transitional until deals are made - it is a regime of sustained higher uncertainty

# Inflation is coming, whatever the growth rate

- Fed policy already too loose and inflation too high to start



- This isn't transitional - it is a regime of higher uncertainty  
*(a la Brexit)*



# Inflation is coming, whatever the growth rate

## Macroeconomically relevant shortages are emerging

- Housing supply elasticity declines further due to pricier inputs
  - Canadian lumber and other materials; Asian sourced appliances/equipment
  - Migrant (mostly Latin) construction labor
  - Reduced mortgage issuance from Agencies due to policy changes
- DOGE approach to public spending creates uncertainty over the entire Federal workforce and contractors
  - Some specialized public services are very difficult to replace
  - Erodes dependability of infrastructure, which is a cost increase

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As a result, any short-term benefits gained by driving a hard bargain in bilateral negotiations or in a given industry would be vastly outweighed by the macroeconomic costs of generating uncertainty. This is the fundamental flaw that shapes Trump's agenda, which is radically different from any economic program pursued by either major U.S. political party during the past half century. If Trump wins, he will at least try to weaponize uncertainty through threats, and the damage to the United States will be difficult to reverse. 🌐



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