EconoFact Chats: The Challenges of Trump's Economic Plans
Binyamin Appelbaum (The New York Times), Scott Horsley (NPR), Greg Ip (The Wall Street Journal), and Heather Long (The Washington Post).
Published on December 15th, 2024

Michael Klein
I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of The Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein
During the presidential campaign, candidate Donald Trump promised to solve a host of economic problems with a range of policies, including tariffs, to bring manufacturing jobs back, mass deportation, to open up jobs for U.S. citizens, and giving the President a greater say in monetary policy in order to bring interest rates in line with his own goals. He also promised to solve the housing crisis, reduce the price of groceries and other goods and lower the federal deficit and debt. How likely is it that these and other policies would achieve their respective goals? To address this question, I'm very happy to welcome back our regular panel of distinguished economic journalists, Binyamin Appelbaum of The New York Times, Scott Horsley of NPR, Greg Ip of The Wall Street Journal, and Heather Long of The Washington Post. We last spoke in September, and a lot has changed since then. Binyamin, Scott, Greg and Heather, welcome once more back to EconoFact Chats.

Scott Horsley
Good to be with you.

Heather Long
Hey, thanks.

Greg Ip
Thanks for having us.

Binyamin Appelbaum
Thank you.

Michael Klein
Donald Trump has said that ‘tariff’ is the most beautiful word in the English language. Many poets would disagree, and economists also look askance at tariffs, especially the broad across the board tariffs that Trump is proposing. But before we get into the wider implications, since we're in the holiday season, let's start with a specific example of the effects of tariffs on toys. Scott, you had a recent piece on this. What did you find?

Scott Horsley
Yeah, we did look at toys, just because it seemed like a seasonal commodity that people would be interested in this time of year, and also because the vast majority of toys that are sold in the U.S. are manufactured in China, so they would potentially be subject to a tariff of maybe 60% if Trump followed through on that campaign promise, not for this Christmas, but, you know, perhaps in time for next Christmas. And what the toy vendors I talked to said is, you know, most that cost would likely be passed through to consumers. Now it's possible that vendors might try to avoid the steepest tariff by shifting production to another low-cost country like Vietnam or Mexico, but you know, there's uncertainty there. Late last month, Trump threatened to put a 25% tariff on imports from Mexico. So, I think businesspeople are reluctant to try to relocate without really knowing what the tariff playing field is going to be. And we also just have decades of investment in building up the manufacturing infrastructure in China. If you're talking about products that are sort of labor intensive, it's just very difficult to compete with that. So most likely the toys would still be manufactured in China. They just get hit with the tariff, and then that cost, or much of that cost, would likely be passed on to consumers. One of the vendors I talked to sells Tonka Trucks. He used the example of a Tonka Mighty Dump truck that now sells for about $30. It might be a $45 product next Christmas.

Michael Klein
So, it's like the Grinch who taxed Christmas.

Scott Horsley
That's right. And you know, we almost saw this back in 2019 there were tariffs in the pipeline, and in that case, Trump blinked, partly to avoid being the Grinch that stole Christmas. And so that's another reason why businesses are reluctant to quickly move production outside of China, because this all could just turn out to be a bluff. And then they moved and unnecessarily gone that expense.

Michael Klein
Heather?

Heather Long
Yeah, Scott did a great job laying out the scenario. I will say one interesting thing about toys is it's one of the few items in the consumer price index that has actually declined over the past four years. So, toy prices, on average, are down 3%. Now I'm not saying, as a mom of a young toddler, that I would relish paying $45 instead of $30 for some of these popular toys, but it's particularly notable that when we talk about that, to keep that in mind. That there is a lot of robust…it's one of the few industries that there's still very robust competition. And you know, most kids, you gave the example of a Tonka Truck, would also be happy to have some of these other types of cars or trucks. You know, in my kids' case, she likes the Disney products and the Bluey products. And so there is more ability in this particular industry to substitute than, say, like a semiconductor coming in from outside.

Michael Klein
Binyamin, you were interviewed back in September about the candidates' economic policies, and you made the point that many economists make, that tariffs are a tax paid by the American

consumers, so this policy certainly won't help bring down prices, but what about its effect in promoting American manufacturing?

Binyamin Appelbaum
So, I think that a tariff obviously increases the cost of importing a product from another country, and that creates room, theoretically, for American manufacturers to support higher costs and to become, at least potentially, to have larger market shares. And you can imagine that in some ways, supporting American manufacturing. But there's two big caveats. The first is that an enormous amount of the materials that end up in products that are made in America originate in other countries. And so, it's not as simple as just saying, okay, we're going to impose a tariff on goods from other countries and thereby support American manufacturers. American manufacturers are deeply dependent on imports from other countries. The U.S. car industry, for example, doesn't make a majority of almost any car with parts made in America. If you look at a list of the cars that have the highest percentage of parts from America…first off, they don't even bother doing that. The government statistic is America and Canada, because we're thoroughly integrated with the Canadian economy. Trump is proposing tariffs on Canada, along with a host of other nations. But even if you just look at the percentage of cars made in America and Canada, there's only, like, two models that are even half made in America and Canada. The vast majority of cars have majorities of parts from other countries. And so the idea that if you go ahead and impose tariffs, all of a sudden, the American auto industry, or any other American industry, is necessarily going to benefit directly, is really fraught, for that reason. The second problem is that when you shelter companies from competition, it's not always doing them a favor in the long run. And we'll go back to the American auto industry again, because it's the classic example of this. For years and years, American auto manufacturers dominated the domestic market. Faced almost no competition from abroad, and they came to make really bad cars, at least in part as a consequence. And it was only when they started facing competition, especially from Japanese car makers, that they started improving the quality of their products. So, I think the idea that just raising tariff barriers is going to be a boon for American manufacturers is far too simplistic.

Michael Klein
We have a lot of EconoFact memos about international supply chains and the effects of tariffs, and one of the most striking ones that's been reported a number of times in the media is that the ratio of jobs that use steel, to jobs that make steel is 80 to one. That's by Katie Russ and Lydia Cox. And so that memo got a lot of attention because it shows how putting tariffs on steel really hurts American manufacturing. Greg, you recently have written about how tariffs are at odds with other goals that Trump has championed. You wrote 'Trump can make stronger growth or a smaller trade deficit his priority, but not both.' Why is this the case?

Greg Ip
Well, step back for a second, and we can sort of summarize Trump's economic agenda as having two main arms. Arm number one is he wants to lower taxes, extend the 2017 tax cut, and generally promote economic growth. Arm number two is he wants to shrink the trade deficit. More exports, fewer imports, and that's one of the reasons he's talking about tariffs. But let's look at what happens if he succeeds in arm number one. If you successfully cut taxes and speed up economic growth, a few things will happen. First of all, stronger growth means strong demand, so that, by itself, tends to increase imports. Second of all, if those tax cuts are financed by

borrowing, as they likely will be, that means we'll probably end up with higher interest rates, which will draw in more foreign capital, and that tends to push up the dollar. A stronger dollar makes imports cheaper and makes exports more expensive, and that together tends to make the trade deficit larger. So, if you are pursuing this pro-growth policy via tax cuts, you're actually tending to push the trade deficit in the opposite direction of what you're trying to do with tariffs. Conversely, if you focus only on tariffs, well, tariffs are a tax and a tax increase will tend to reduce real income, and that will tend to hurt economic growth. So that's why I say, Michael, that you can either have stronger growth as your priority or a smaller trade deficit as your priority, but you can't really have both. There has to be a trade off in there somewhere. Now the question gets a little bit complicated. Now, if I could, could I just address a point that Binya made a second ago about tariffs?

Michael Klein
Sure, of course.

Greg Ip
Binyamin is quite correct that tariffs do tend to protect American producers from competition, and that is generally not beneficial to them in the long run. But I do want to point out that this is actually a rather nuanced situation, because it partly depends on what you do in response to competition. Binyamin is absolutely correct that American car makers got very bad at making small cars, for example, in the 1970s, and then they tended to wilt in the face of competition. But at the time, American car companies were not highly protected by tariffs, and indeed, it was in the face of that competition, mostly from Japan, that President Ronald Reagan imposed export restraints on those Japanese exporters. That was a form of protection, and it did tend to put upward pressure on the price of domestically made cars, for which consumers paid the price. Now, if that was the end of the story, we would have said there was no benefit to American consumers or producers, but it wasn't the end of the story. American producers didn't just sit still. They looked at what the Japanese and Korean transplants did when they came to America, and they said, We need to bring up our game as well, and they adopted things like just in time, inventory management, continuous improvement, and as a result, managed competition with a bit of an assist from some protectionism, actually left us with a healthier domestic auto making industry. I simply say by saying that you can draw some fairly straightforward but also simplified lessons about tariffs, but the real world can be complicated, and partly it depends on what is the overall policy goal you're trying to achieve with tariffs.

Michael Klein
Scott?

Scott Horsley
Another complication, of course, is that other countries aren't going to just take tariffs sitting down. If we slap tariffs on China or Mexico or Canada or the E.U. they're going to respond with tariffs on U.S. exports. And we saw this during the first Trump administration, where, for example, U.S. farm exports suffered when China stopped buying soybeans. The tariffs that we put on Chinese exports or imports to the U.S. from China were very, very good for soybean growers in Brazil who took market share from U.S. farmers. In fact the federal government wound up paying off farmers for the lost export market. So, another way that tariffs could cut

into the growth trajectory that Trump wants is by making it harder for U.S. businesses to export their goods overseas.

Michael Klein
And that last point also, so there was a federal budget drain for subsidizing farmers, and one of the points that has been made is that tariffs would raise a lot of revenue, and people who look carefully at that see that that just isn't possible. And moreover, as you're pointing out, Scott, in compensating people who are hurt by retaliatory tariffs, it actually costs the government. Heather, in one of your recent columns, you wrote that 'markets intimidate Trump and his choice of Scott Bessent to be the Secretary of the Treasury' was, as you put it, 'a peace offering to Wall Street.' What did you mean by that?

Heather Long
I guess I would say big picture, whenever people ask me, what's the number one thing to pay attention to in the Trump economy, I always say the bond market. And you know, we saw this just after the election. The bond market went briefly into panic mode. The yields went up. We saw mortgage rates go back to basically 7% and you know, that ricocheted even on mainstream America as a little bit of a warning sign. I think what's going to be the number one check on President Trump, whether it's on tariffs or on the immigration policies, or even on the tax policies, I think it's going to be if the bond market has another one of these Liz Truss moments where there's a pretty big swing, bigger than what we saw just after the election, but it was kind of a warning sign, if you will, that Trump's gone too far. And so anyway, I argued that the appointment, as many have, of Scott Bessent, was a bit of a peace offering to try to find someone who's clearly very loyal to Trump, who you know, has been supporting him since the 2016 campaign, but was someone who has a little bit calmed the bond markets. You know, their yields have gone down a little bit on the 10-year treasury yield. We're sort of sitting about where we were on election day again. You know, there's definitely, though, going forward, a real tension in this administration is between the Wall Street crowd with the Scott Bessents and the Howard Lutnicks, and, you know, even the head of NASA is a billionaire, and between the people who really believe in this very populist economics and JD Vance is kind of at the forefront of that, the Labor Department nominee, and even Marco Rubio has…you sort of have this tension of who's going to win out. And I think it's going to be especially telling when we get to the tax debate next year. Trump sort of promised a little bit for everyone. We can do the corporate tax cuts, you know, we can do the no tax on tips and no tax on Social Security. But I don't care how much tariff revenue you raise, there's not enough to pay for all this. And at some point, he's going to have to make a decision, am I pro worker, or am I pro billionaire? And those are pretty different swings.

Michael Klein
Didn't James Carville say he wanted to come back as a bond trader because they were the most powerful people when Clinton was first in office?

Heather Long
Well, they've proven it. You know, the last two years, they've certainly proven it.

Michael Klein
Another signature policy proposal that was made by candidate Trump is the mass deportation of undocumented immigrants. He talked about deporting 15 million people. Is this even feasible? And one motivation for this argument is that mass deportation would open up jobs for American citizens. The latest jobs report showed the economy adding 227,000 jobs, and revisions to the prior two months added another 56,000 jobs. That doesn't seem to indicate a situation where there's a shortage of employment, does it?

Scott Horsley
No, I mean job growth has slowed down a little bit, but we're still adding a fair number of jobs month after month. November's figure was probably bolstered a little bit by the sort of rebound from October, when we had a lot of weakness associated with the Boeing strike and those hurricanes down in the southeast. But, we still have a pretty healthy job market, although not as strong as it had been. And we also have a domestic workforce, a native-born workforce that has for the most part been shrinking as baby boomers retire. There's some fluctuation. We've seen an uptick in the labor force participation rate among people in their prime working years. In fact, that's at near record highs for women right now. It's at a two decade high or so for men, between 25 and 54. But it's tough to tough to swim against that demographic tide of the baby boomers retiring. And so, we've really relied on foreign born workers to keep the labor force growing month after month. Now, Heather mentioned JD Vance and his policies. He's someone who is very strongly advocated for deportation of immigrants as a way to open up jobs for native born workers. He seems to think there's this reserve army of native-born workers on the sidelines. I don't see it in the data, but that is the position that he's advocated.

Michael Klein
Our most recent EconoFact memo by Giovanni period at UC Davis talks directly to that point. It points out, as you were saying, Scott, that the population growth of the native born is essentially flat, and all the population increases from immigration. Binyamin?

Binyamin Appelbaum
I'd also note that undocumented immigrants overwhelmingly sit at the bottom of the employment pyramid, if you will. They hold the jobs that pay the least and are generally regarded as the least desirable. So even if you think there is going to be some type of substitution, some type of reserve army waiting for these jobs, and for the reasons Scott describes, that seems unlikely. You're talking about jobs that most Americans have frankly turned down and don't want and are not willing to do. I mean, if you go out across the country and talk to the people who tend to employ undocumented immigrants, many of them will tell you that they have tried and failed to find native workers for these positions, that they would prefer to have legal workers were that possible at the same wage rate, certainly, and that they can't find any Americans willing to do these jobs, and so they have turned to undocumented immigrants as a consequence. And so, it's not just a question of whether there is, you know, a body on the sidelines, but whether, even if the undocumented immigrant is forced to leave the country, an American will necessarily want to take that job.

Michael Klein
One of the key areas where that's true is in construction. And Trump has also said that another purported motivation for mass deportation, it was [to] ease the housing crunch as houses and apartments become vacant. So that's not really a reasonable claim either, is it?

Binyamin Appelbaum
No, and for a very interesting reason, and there's actually some interesting studies about this. You know, undocumented immigrants build a lot of our houses. They're a huge part of the construction workforce, and so even if you think that they are competing to purchase those houses, which you know is a little implausible for people who hold minimum wage jobs, given the price of housing in this country. But even if you think that you'll be in some way reducing the demand for housing by kicking people out of the country, you will also be reducing the supply of housing, because it will get, at a minimum, much more expensive to produce. And there have been studies looking at the impact of past immigration roundups and finding that if you sort of compare those two impacts, what you find is that housing actually gets more expensive because the effect on supply outweighs the effect on demand.

Michael Klein
Greg?

Greg Ip
This podcast is called EconoFact. Of course, we tend to look at all these policies through the lens of economics and so, many of the points that the panelists here have been making about the effect of deportation and restricted immigration are true. The only point I want to make here is that by and large, neither President Trump, nor the people who voted for him, were thinking about the border or immigration problem through an economic lens. Overwhelmingly, they thought that this was a problem of our borders not being respected, of the population in the United States being affected in an uncontrolled way, where the immigration was by and large illegal. People were who were waiting in line to do this legally were being essentially forced to wait longer. So it may be that President Trump's plans will have some of the economic costs that we're talking about here, but that may not necessarily be the right metric for deciding whether it's the appropriate policy. If this country has a housing shortage and needs more labor to work on housing, there's a case to be made that perhaps we should be creating a special class of visa to admit people with skills that can work in that field. I don't think there's a case to be made that simply not dealing with the problem of insecure borders is the response to a housing crisis.

Scott Horsley
No, I don't think any of us would argue that, you know, just an uncontrolled southern border is the right approach from a law and order perspective, or an economic perspective. But it's also worth remembering that during his first term in office, Donald Trump took steps to severely curtail legal immigration. I mean, he is not interested in having a lot of growth in the foreign born workforce in this country, and even if you could do it in an orderly fashion. And so many people…I talked to so many Trump voters whose number one concern was the price of groceries. Well, if you're worried about the price of groceries, deporting the workforce that picks and processes our food, a large share of it, is not a recipe for cheaper food at the supermarket.

Michael Klein
I think also there was a demonization of immigrants, for example, tying them to crime. And in fact, we have EconoFact memos that show that the incidence of crime among immigrants is lower than that of the native born. But you pick out, you know, a few instances, and you sensationalize that, and then it becomes an issue.

Binyamin Appelbaum
And I'd just note on the housing point that even if one wants to only make this evaluation on economic grounds, there's not much upside here in allowing more immigration with housing market, there's already a supply of workers available at minimum wages to do this work. That's not what's preventing housing prices from being lower than they are already. The damage that can be done is significant. The benefits of changes in immigration policy to housing are not obvious to me, even if one wanted to make the case for them.

Michael Klein
Heather on housing, you had a recent article about mortgage rates. Could you discuss what you wrote in that article?

Heather Long
Yeah, I've written a couple of pieces on housing. I know Binya and others have, too, and I really think that this could be Trump's Achilles heel for a lot of the reasons some people were just talking about. It's a very tangible price. Now with housing apps, I know, I look up my home value multiple times a month. And it's maybe not quite gas prices, but people sort of know more than they used to what the typical home prices and mortgage rate is in their area. And so, we were talking about the bond market issues earlier, in sort of a joking manner, but, this flows right into the mortgage rate. And even though the Federal Reserve has been cutting interest rates, obviously, the mortgage rates have continued to rise, not go down for most people. And so, a lot of Trump's policies, particularly the policies he's likely to enact in 2025 could spook the bond market, or could cause yields to go higher, which will keep mortgage rates higher. There's a lot of problems in housing. We clearly need more housing. We clearly need zoning reform and building code reform. We clearly could use more financing available to both people and developers, and on the mortgage side, people trying to buy homes. We've got some capacity problems that there's just fewer home builders out there since we really haven't recovered since the great recession. We still have a lot of worker shortages in this area, particularly in skilled areas. So, you put all that together, and I think it's just really complicated for Trump to address this issue that many people voted for him for. Maybe they didn't walk there and say, 'I'm voting for Trump because I want a cheaper house,' but they definitely were thinking, I want the cost of daily life to go down, and housing is such a key part of that. I will say I had a nice piece that got a lot of attention this past few days, where I interviewed a Trump supporter who's a Michigan roofer, who's been roofing in Michigan for the past quarter century. He was a Obama voter who's then swung to Trump, and he made a really good point to me, which is one of the things that we clearly need, and a lot of us in the 'elite circles' advocate for, is to have more high density housing, whether it's high rises, whether it's townhomes, you know, whatever your favorite high and medium density housing is in cities and suburbs across this nation, you know, but part of the problem is just getting people excited about that, excited enough to change the zoning laws, or excited enough to want to go live in one of these high rises when they've had this vision of a

house with a big yard for all their life. And so, he put out a pretty good idea, which is, maybe it's going to take calling these Trump Towers across America. And we can all laugh at that and kind of go, ooh, wrinkle your nose. But if that's what it takes to get people excited about potentially living in a low rise or a high rise, I'll take it. We desperately need more housing. Some of this is a marketing fix, like Greg was saying, some of this is just, how does it play across America, is as important as the policy details.

Michael Klein
Yeah, I read that article, Heather, and I was thinking of the Levittown in the wake of World War II, where returning veterans were given, you know, sort of standardized housing, as you pointed out in the article, which was relatively inexpensive, and it really helped accommodate the need for housing at that Time. Greg?

Greg Ip
Yeah, and I would point out that one of the positions of candidate Trump is he would oppose the construction of high density housing in neighborhoods that don't want it. And it's worth pointing this out, because one of the innovations of recent policy, and I believe this was a feature of [the] Infrastructure Act, was that subsidies for local transit would be based in part on localities loosening restrictions on multifamily housing near transit, because obviously that's an optimal place to put multifamily housing. People don't need to own a car. They can walk to transit. So, if President Trump, in the spirit of candidate Trump comes out against that, then, in some sense, he's actually leaning against one of the policies that that roofer told Heather would actually provide some real long-term relief here. I also wanted to make an additional point, which was about mortgage rates. I think candidate Trump, at some point said he was going to bring mortgage rates down to 2%, and my God, who wouldn't want to have 2% mortgage rates again? And I don't doubt that a lot of the unhappiness about the price of housing in general right now is among people who remember when mortgage rates…well, maybe there weren't 2 but there were 3%. But what you got to realize was that that was in the post financial crisis period, and that was very unusual. When interest rates around the world were low because economic growth and inflation were depressed. It wasn't normal. If you go back before the financial crisis, mortgage rates of 5%, 6%, even 7% were quite normal. And so almost irrespective of what President Trump does, I think people who are expecting to go back to the mortgage rates of a few years ago are going to be very disappointed.

Michael Klein
Yeah, mortgage rates were really low during the Great Depression, as I understand And Greg to that point earlier, you were talking about policy inconsistency, and with policy inconsistency, you would imagine that interest rates would spike. We've seen that in a lot of countries where they're running inconsistent, either exchange rate and fiscal policies, or monetary and fiscal policies, and so that would work against lowering mortgage rates as well, wouldn't it?

Greg Ip
Well, the number one factor driving interest rates everywhere, and certainly the United States, is inflation, and the Federal Reserve's response to inflation. So, inflation has fallen from a peak of around 9% in 2022 after Russia invaded Ukraine to around 3% now. It's still above the Federal Reserve's 2% target, but it seems to be heading in that direction. So, I think that if inflation

continues to grind its way lower into that [inaudible] of 2% the Fed can continue to cut interest rates. That will be the dominant factor for where interest rates end up in this country. If inflation starts to get stuck in and starts to move higher, and you see the Federal Reserve respond to that, then you will see interest rates move higher there as well. So, I think that's the main thing. If President Trump were to ask, he hasn't asked me, but what if he were to ask me, what is the number one thing I can do to get long term rates down, I would say, well, your Treasury nominee, Scott Bessent has suggested aiming for a deficit of 3% of GDP, which is about half of where it is now. That's a very ambitious target, but one that would be just terrific if we could achieve it…which would bring a lot of relief to those who are worried about the upper pressure on interest rates that are coming from the very large deficits that we are running now.

Michael Klein
Binyamin?

Binyamin Appelbaum
Yeah, I'd just note that over the last year, shelter is about half of inflation. That is the thing that you need to squeeze if you want inflation to go lower, and for the reasons we've been talking about, it's a little hard to imagine it softening, or at least very easy to imagine it persisting as a driver of inflation. So that is another reason why Trump is facing a difficult situation.

Michael Klein
Well, Greg brought up the point of the federal budget deficit, and that the federal budget deficit and the big federal debt are contributing factors to rising interest rates. And also high interest rates contribute to rising debt because of the government's need to pay interest on its debt. One thing that could add to the deficit and the debt is the extension of the provisions of the 2017 Tax Cut and Jobs Act, which would otherwise expire next year. So as Greg mentioned, Treasury Secretary designate Bessent has put forward that 333, plan that includes the budget deficit dropping to 3% of GDP by 2028, but how likely is that goal? Greg, you seem to indicate that you didn't think it was very likely. Or more broadly, how likely is a goal of bringing down the debt to GDP ratio, and what kind of problems would arise if this issue is not well addressed.

Greg Ip
Well, you're right, getting to 3% in four years' time is an extremely difficult task, especially if President Trump succeeds in extending his 2017 tax cut, as he wishes to do, never mind adding to further tax cuts. But I would cut the incoming administration a little bit of slack here. I wouldn't necessarily insist that they get to the 3%. I think if they make actual progress in that direction, lay down a set of policies and parameters in conjunction with Congress that puts the United States on a track to getting around that number, that would be a success. I don't think the Biden administration covered itself in glory when it came to this question. They were very enthusiastic about spending. They were not at all enthusiastic about deficit reduction. President Biden has been boasting about all the student debt he's been canceling, something for which his actual authority to act is extremely tenuous. So, he is handing Trump a difficult set of circumstances. This is where it would be interesting to see what Elon Musk and his so-called Department of Government Efficiency, or DOGE for short, comes up with. If they can actually present a series of credible spending reductions that put the deficit on a track towards something in the vicinity of 3%, that would be a good sign. But we really haven't seen anything from them

yet. And proposing is one thing, getting Congress to go along with it is another. And I think that's the giant elephant in the room when it comes to the fiscal situation, is that Republicans, like Democrats, are all in on tax cuts and higher spending, and have very limited commitment to acting on the deficit.

Scott Horsley
Yeah. I mean, Greg is right. We've had two administrations in a row now where the budget deficit has ballooned. It ballooned in the first Trump administration, even before the COVID pandemic struck. We were running nearly trillion-dollar annual deficits. The 2017 tax cut never came close to paying for itself, and extending that cut just makes it that much harder to get down to 3% of GDP for the deficit. And under President Biden, last fiscal year, we ran a deficit of nearly $2 trillion at a time of full employment and robust economic growth. I mean, it's just painfully irresponsible. And as a consequence of the very large federal debt now, $36 trillion and the rising interest rates, we had to spend a trillion dollars just paying interest last year. That's a trillion dollars that we couldn't spend on anything else we'd like the government to do. So, it's certainly important to get a handle on this. I'll be interested to see what the DOGE folks can come up with. But the President-elect has already taken the big-ticket items off the table in saying he's not going to touch Medicare. He's not going to touch Social Security. He's made the job harder by saying he's going to extend the individual portion of the 2017 tax cuts so I think it's very unlikely we're going to get the deficit anywhere close to 3% GDP.

Michael Klein
Yeah, one of our really interesting memos is by Dan Bergstresser at Brandeis, and he did a lot of background research on the interest burden of the debt, looking at the maturity of debt and so on. And it does promise to balloon as we move forward. Binyamin?

Binyamin Appelbaum
I just think we're being a little too gentle with the language here. There is nothing the DOGE committee can credibly propose once you've taken entitlements off the table, that would come remotely close to bringing us down to this 3% target if Trump also extends his tax cuts. This is just…these numbers don't…there's no way to make them work together. There is no plausible, or even possible scenario in which all of those competing priorities can be accommodated. And so that's the choice, and the moment that Trump and Congressional Republicans decide to extend the 2017 tax cuts they are committing to maintaining this scale of deficits, and the moment that they decide not to cut entitlements, they are committing to maintaining these scale of deficits. And the DOGE committee is a circus sideshow, given the constraints on its ability to make recommendations, which is essentially, at this point, limited to the discretionary spending portion of the budget. This is small change stuff, and there's nothing they can do that will make…even if their recommendations were implemented. The scope of authority is the wrong word, because it's not even an actual thing…but the scope of their recommending powers is limited to small change, and we should just be clear about that. There is no hope of addressing the budget deficit on these terms.

Michael Klein
Heather?

Heather Long
I'll just tie a bow on this discussion by saying, once again, keep an eye on the bond market, because that's where you're going to see a lot of nice reaction as some of these wacky proposals come through. Or some of these really fun…we're already seeing some Republican senators try to pretend that they can do some funny math so that the deficit actually isn't growing if you extend the tax cuts. But the bond market won't be fooled.

Michael Klein
All right. Well, hopefully our listeners won't be fooled either, and partly by looking at the bond market, but also by listening to this podcast and reading the very good work and listening to you Scott on NPR, to bring a dose of reality, as Binyamin is saying to the discussion that's coming up. So, I really enjoy these quarterly talks, and thank you all very much for joining me once more on EconoFact Chats.

Scott Horsley
Great to be with you.

Greg Ip
Thank you.

Heather Long
Thanks, Michael.

Binyamin Appelbaum
Thanks, Michael.

Michael Klein
This has been EconoFact chats to learn more about EconoFact and to see the work on our site, you can log into www.econofact.org. EconoFact is a publication of The Fletcher School at Tufts University. Thanks for listening.