Forbes

# Trump's Trade And Immigration Policies Could Wipe Out Tax Cut Benefits

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June 1, 2018

President Trump and his allies in Congress promised that the Tax Cuts and Jobs Act (TCJA) would supercharge the US economy, leading to permanent annual real economic growth of 3 percent—well above last year's growth rate of 2.3 percent or the projections of independent analysts such as the Congressional Budget Office or the Federal Reserve. But the negative economic effects of Trump's highly restrictive trade and immigration policies threaten to overwhelm any benefit of the tax cuts.

In the latest round of his on-again, off-again trade war, Trump on Thursday announced a 25 percent tariff on steel and a 10 percent tariff on aluminum imported from the European Union, Mexico, and Canada. Earlier this week, he once again threatened new tariffs on Chinese products. The EU, Mexico and Canada, among our largest trading partners, immediately retaliated by imposing their own import taxes on a wide range of US products ranging from grapes to Harley Davidson motorcycles.

**The effects of a trade war**

While the president never has proposed specific immigration legislation, he has pursued a series of initiatives aimed at discouraging both illegal and legal immigration. In the short run, that means worker shortages. In the long run, it likely will sharply reduce the number of new workers in a rapidly-aging US labor force.

In an April economic letter, the Federal Reserve Bank of Dallas estimated the economic costs of steel and aluminum tariffs. While it assumed the taxes would hit the European Union and China, the analysis exempted  Canada and Mexico. Still, the design it modeled closely tracks the Trump initiative.

The result: The direct effects of the sanctions would reduce the level of US Gross Domestic Product by about 0.25 percent over the long term. It would boost US production of the metals by more than 15 percent, but cut exports by 5 percent and raise overall steel and aluminum prices by more than 20 percent. Of course, including sanctions against Mexico and Canada--the largest exporter of aluminum and a major source of steel to the US—would strengthen those effects.

**Pain from retaliation**

US-produced metals would become more costly in part because higher prices would encourage producers to mine more expensive ore. Overall productivity in the metals industry would decline by more than 3 percent.

But these direct economic effects are relatively modest. The real pain comes from foreign retaliation. The Dallas Fed estimates that a trade war with the EU and China would reduce US economic growth by nearly 3.5 percent in the long-run. Trump might get his wish: The trade deficit between the US and China could disappear. But US productivity would fall 1.65 percent. Including Mexico and Canada worsens these effects as well.

**Where will workers come from?**

It is the same story with immigration. In March, Joel Prakken, senior managing director of the economic modeling firm Macroeconomic Advisers, told CNBC that he estimates the US economy will grow by about 2 percent annually, due to a mix of labor force growth and rising productivity. In Prakken's model, nearly half of current population growth is due to immigration, and by 2045, 80 percent of labor force growth will come from foreign-born workers.

Prakken estimated that the Senate's now-failed 2017 immigration bill would cut immigration in half in the short run, reducing US GDP growth rate by 0.25 percent. Over time, it would cut even more deeply into growth.

**Unlikely to make America great again**

The Senate bill died in part because it was not aggressive enough for the president's tastes. A tougher bill would likely have even more negative effects. For example, the CATO Institute estimated that an immigration framework proposed by the White House last January would have reduced legal immigration by 500,000-a-year—or about 50 percent-- for the next half-century.

Compare those effects with the Tax Policy Center estimates of growth generated by the TCJA. TPC projected the new law would boost growth by about 0.8 percent in 2018, largely by raising short-term demand. The economic benefits would decrease over time, and in 10 years, the tax cuts would have no effect on growth.

Now factor in the negative effects of the president's trade and immigration policies. Even in the short run, much of the benefit of the TCJA would be washed out. In the long term, the net effect of these major White House initiatives on the US economy would be significantly negative and seem unlikely to make America great again.