PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

WORKING PAPER

24-20 The International Economic Implications of a Second Trump Presidency

Warwick McKibbin, Megan Hogan, and Marcus Noland

September 2024

ABSTRACT

The paper explores policies promoted by former president and now candidate Donald Trump that would potentially affect the global economy. We focus on immigration policy, trade, and erosion of the Federal Reserve Board's political independence. Each policy has differing macroeconomic and sectoral impacts on the United States and other countries. We find, however, that all the policies examined cause a decline in US production and employment, especially in trade-exposed sectors such as manufacturing and agriculture, as well as higher US inflation. The trade policies do little to improve the US trade balance; however, the erosion of Fed independence does so by causing capital outflows, a significant depreciation of the dollar, and higher unemployment toward the end of 2028, which worsen American living standards.

Scenarios combining individual policies show that the changes cause a large inflationary impulse and a significant loss of employment (particularly in manufacturing and agriculture) in the US economy. The negative impact of a contraction in global trade is significant for countries that trade with the United States the most. The adverse effect is offset for some economies by the positive effects of an inflow of foreign capital that would otherwise have gone into the US economy. An online dashboard contains a full set of macroeconomic and sectoral results for all countries.

JEL codes: F1, F13, F17, F22, F37, E58
Keywords: trade policy, migration, deportations, central bank independence, China, Trump

Authors' Note: We thank Maury Obstfeld, Adam Posen, Nell Henderson, Ayhan Kose, Andy Stoeckel, Egor Gornostay, David Wilcox, and participants at a PIIE seminar for helpful feedback and Roshen Fernando, Geoffrey Shuetrim, and Jing Yan for excellent technical support.

The Peterson Institute for International Economics has no partisan goal in publishing this research. Our concerns are about the policies, not the candidate. Our objective is to educate policymakers and the public about the effects these policies would have on Americans and other people around the world.

Warwick J. McKibbin, nonresident senior fellow at the Peterson Institute for International Economics, is Distinguished Professor of Economics and Public Policy and director of the Centre for Applied Macroeconomic Analysis in the Crawford School of Public Policy at the Australian National University.

Megan Hogan was a research fellow at the Peterson Institute for International Economics until August 2024. She joined the Institute as a research analyst in August 2021 and was the Eranda Rothschild Foundation Junior Fellow during 2022–23.

Marcus Noland, executive vice president and director of studies at the Peterson Institute for International Economics, has been associated with the Institute since 1985. From 2009 through 2012, he served as the Institute's deputy director. He is also a senior fellow at the East-West Center.

INTRODUCTION

With his election in 2016, Donald Trump shattered a political consensus that had held since the Great Depression, that a liberal, US-led, rules-based international trade regime was in the United States' national interest. Once in office, President Trump, by and large, made good on his nationalist and protectionist trade and immigration policy campaign promises, pulling the United States out of the Trans-Pacific Partnership negotiation during his first week in office; launching trade wars, particularly with China; renegotiating existing free trade agreements to make them more restrictive; increasing deportations and attempting to ban immigrants from predominately Muslim countries (Noland 2020). In short, Trump followed through on many (though not all) of his campaign promises.

Now, Trump is back as the 2024 Republican presidential nominee and is promoting the deportation of millions of people from the United States, steeper trade restrictions, and the erosion of the Federal Reserve's political independence. The tenor of these policies and Trump's track record of keeping his promises justify analyzing their potential impact. We find that ironically, despite his "make the foreigners pay" rhetoric, this package of policies does more damage to the US economy than to any other in the world. They result in lower US national income, lower employment, and higher inflation than otherwise. In some cases, foreign countries benefit from the inflow of capital leaving the United States.

At this juncture one might ask, why Trump? Why not also analyze the policy proposals of Vice President Kamala Harris, the Democratic Party nominee? Harris, perhaps for understandable reasons connected to the timing of her late emergence as a presidential candidate, has not proposed any major departures from the Biden administration's policies and none with as significant international economic implications as Trump's. To the extent that any new policies of the Democratic Party's candidate involve such changes in trade policy, immigration, or Fed independence, the analysis in this paper is relevant for the policies independently of which president implements them.

POLICIES TO BE EXAMINED

Restrictions on immigration, both legal and unauthorized, have played a central role in Trump's campaigns from 2016 through this year: He once again plans to "build the wall" along the US-Mexico border, restrict both legal and illegal immigration, and subject visa applicants to "extreme vetting." Trump also is proposing much more extreme immigration restrictions, including ending birthright citizenship for US-born children of unauthorized immigrants, sweeping Immigration and Customs Enforcement (ICE) raids of workplaces, and revoking humanitarian parole. For this paper, we focus on Trump's proposals for mass deportations of unauthorized immigrants, which he has promised to initiate on his first day in office.

Trump has repeatedly vowed to carry out the "largest domestic deportation operation in American history,"[1] targeting what he says are the 15 million to 20 million unauthorized

[1] See, for example, "Former President Trump Speaks at CPAC," March 4, 2023, https://www.c-span.org/video/?526456-1/president-trump-speaks-cpac and "Trump announces 'largest deportation in American history' if he is reelected," https://www.youtube.com/watch?app=desktop&v=2ks12ctSXwg.

immigrants in the United States, approximately 8.3 million of whom are thought to be in the workforce.[2] The goal is also endorsed in the Republican Party platform.[3] Trump plans to model this mass deportation after "Operation Wetback"—a 1956 campaign under the Eisenhower administration that deported 1.3 million people.[4] The campaign used "military-style tactics" to round up and remove Mexican immigrants from the United States.[5]

Trump has indicated that he envisions using local law enforcement, the National Guard, and the standing army to implement this plan, "moving thousands of troops currently stationed overseas" to the US-Mexico border and invoking the Insurrection Act of 1807 to permit the military to arrest unauthorized immigrants.[6] To speed up the pace of deportations, Trump plans to change ICE deportation procedures, permitting ICE agents to conduct workplace raids rather than exclusively arrest individual people. Similarly, Trump plans to deny due process to unauthorized immigrants and suspected members of drug cartels and criminal gangs.[7] To alleviate the burden placed on existing ICE detention facilities, Trump plans to build enormous detention facilities along the border to hold migrants while they await deportation.

[2] "Read the Full Transcripts of Donald Trump's Interviews With TIME," https://time.com/6972022/donald-trump-transcript-2024-election/. Approximately 8.3 million US workers in 2022 were unauthorized immigrants, according to new Pew Research Center estimates based on the American Community Survey. This number is up from 7.4 million in 2019. See Jeffrey S. Passel and Jens Manuel Krogstad, "What we know about unauthorized immigrants living in the U.S.," Short Reads, Pew Research Center, July 22, 2024, https://www.pewresearch.org/short-reads/2024/07/22/what-we-know-about-unauthorized-immigrants-living-in-the-us/.

[3] See 2024 Republican Party Platform, The American Presidency Project, https://www.presidency.ucsb.edu/documents/2024-republican-party-platform.

[4] Charlie Savage, Jonathan Swan, and Maggie Haberman, "A New Tax on Imports and a Split From China: Trump's 2025 Trade Agenda," *New York Times*, December 26, 2023, https://www.nytimes.com/2023/12/26/us/politics/trump-2025-trade-china.html; "Read the Full Transcripts of Donald Trump's Interviews With TIME," https://time.com/6972022/donald-trump-transcript-2024-election/.

[5] "Operation Wetback" followed a dramatic increase in legal opportunities for Mexicans to gain citizenship in the United States; millions of Mexicans had legally entered the United States through joint immigration programs from 1900 to 1950. "Operation Wetback" sought to reverse this trend, and indeed, among those deported were American citizens. See Erin Blakemore, "The Largest Mass Deportation in American History," HISTORY, https://www.history.com/news/operation-wetback-eisenhower-1954-deportation.

[6] Trump endorses using the military to deport unauthorized migrants in his interview with *TIME Magazine*: "Read the Full Transcripts of Donald Trump's Interviews With TIME," https://time.com/6972022/donald-trump-transcript-2024-election/. In an interview with the *New York Times,* Stephen Miller (Trump's immigration czar and former senior advisor to the president of the United States) explicitly endorses invoking the Insurrection Act of 1807 to override the Posse Comitatus Act and allow the military to deport migrants. See Charlie Savage, Maggie Haberman, and Jonathan Swan, "Sweeping Raids, Giant Camps and Mass Deportations: Inside Trump's 2025 Immigration Plans," *New York Times,* November 11, 2023, https://www.nytimes.com/2023/11/11/us/politics/trump-2025-immigration-agenda.html.

[7] Expedited removal" is a form of deportation that denies unauthorized immigrants hearings and the opportunity to file appeals. Trump plans to expand expedited removal, as the 1996 Illegal Immigration Reform and Immigrant Responsibility Act subjects immigrants to expedited removal for up to two years after arrival, in the meantime employing the obscure Alien Enemies Act of 1798 to deport suspected drug cartel and gang members without due process, as the law allows for deportation of those who have engaged in "predatory incursions." On the 1996 Act, see American Immigration Council, "A Primer on Expedited Removal," Fact Sheet, December 12, 2023, https://www.americanimmigrationcouncil.org/research/primer-expedited-removal. For a discussion of the 1798 law, see Savage, Swan, and Haberman, "A New Tax on Imports and a Split From China: Trump's 2025 Trade Agenda."

Some have questioned whether Trump could achieve these goals. It is worth noting that Trump similarly vowed to carry out mass deportations when running for office in 2016, but only managed several thousand deportations each year, less relative to the preceding Obama and succeeding Biden administrations.

This time, what appears to be different is much greater attention to the logistics of large-scale operations. With respect to the low-end goal of 1.3 million deportations, it is hard to imagine that the US government today could not achieve at least what was done under the Eisenhower administration seven decades earlier. The goal of expelling all unauthorized workers in the labor force is obviously ambitious, perhaps unrealistically so. It is possible that if the deportation operations were sufficiently brutal and publicized, it might induce voluntary departures. While this latter distinction might have political or diplomatic relevance, it would not matter from a modeling standpoint. Similarly, some countries such as Venezuela might refuse to accept the deportees, leaving them in limbo. Again, these actions might matter for diplomatic or humanitarian reasons, as long as the deportees are removed from the US labor force, it would not affect the modeling.

A second arena of Trump international economic policy is trade. The self-proclaimed "tariff man"[8] is running on what he has described as an "America first trade platform that takes [a] sledgehammer to globalism," vowing to end reliance on China, create millions of jobs, and grow GDP through higher tariffs and import restrictions.[9] Trump's proposed trade policies include imposing a universal baseline tariff of either 10 percentage points or 10 additional percentage points on all imports into the United States, possibly including imports from free trade agreement partners;[10] levying a 60 percentage points (or more) tariff on all imports from China;[11] and revoking China's permanent normal trade relations (PNTR) status, formerly known as most favored nation status (Hogan, McKibbin, and Noland 2024).

[8] See Trump's tweet on December 4, 2018, https://x.com/realDonaldTrump/status/1069970500535902208.

[9] See "Agenda47: President Trump's New Trade Plan to Protect American Workers," February 27, 2023, https://www.donaldjtrump.com/agenda47/agenda47-president-trumps-new-trade-plan-to-protect-american-workers.

[10] On the 10 percent global tariff, see "Read the Full Transcripts of Donald Trump's Interviews With TIME," https://time.com/6972022/donald-trump-transcript-2024-election/. Trump advisor and former US Trade Representative Robert Lighthizer indicated that the tariff would be treated as an add-on to existing tariffs rather than a new floor, meaning that (for example) an imported product currently subject to 3 percent tariffs would face a 13 percent rate following the imposition of the universal baseline tariff (see Savage, Swan and Haberman, "A New Tax on Imports and a Split From China: Trump's 2025 Trade Agenda"). Additionally, the Trump campaign website notes that the universal baseline tariff will "increase incrementally" if trading partners "manipulate their currency or otherwise engage in unfair trading practices," explicitly mentioning devaluing currency and subsidizing domestic industry as forms of "trade cheating and abuse" (see https://www.donaldjtrump.com/agenda47/agenda47-president-trumps-new-trade-plan-to-protect-american-workers). Subsequently in the campaign, Trump began invoking a 20 percent tariff (Kinsey Crowley, "Railing against inflation, Trump floats 20% tariff that could boost prices, experts say," *USA Today,* August 15, 2024, https://www.msn.com/en-us/money/markets/railing-against-inflation-trump-floats-20-tariff-that-could-boost-prices-experts-say/ar-AA1oRpFR?ocid=msedgntp&pc=DCTS&cvid=d9d1d6a5ae5f487f9a37539e86e5dc12&ei=28).

[11] On the 60 percent (or more) tariff on China, see Rebecca Picciotto, "Trump floats 'more than' 60% tariffs on Chinese imports," February 4, 2024, https://www.cnbc.com/2024/02/04/trump-floats-more-than-60percent-tariffs-on-chinese-imports.html. For confirmation, see also "Read the Full Transcripts of Donald Trump's Interviews With TIME," https://time.com/6972022/donald-trump-transcript-2024-election/.

In the case of the universal baseline tariff and the additional China tariff, Trump would likely invoke either the International Emergency Economic Powers Act (IEEPA) of 1977 or Section 338 of the Tariff Act of 1930, or even the Trading With the Enemy Act (TWEA) of 1917, as the legal basis for these actions. Such moves would likely be challenged in the courts, but the courts have historically deferred to the executive in such instances (Hufbauer 2008), though not all scholars agree that the Supreme Court would acquiesce in these particular cases (Wolff 2024). The free trade agreements were established through Congressional legislation and the imposition of tariffs on these parties through executive action would face a higher hurdle in the courts. Alternatively, with a sufficiently supportive Congress, these new tariffs could be established via legislation.[12]

Finally, it has been reported that former Trump administration officials and allies are drafting proposals to try to erode the Fed's political independence by giving the president more influence over monetary policy.[13] Trump himself mused at an August 2024 press conference that "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."[14]

While central bank independence is not an international economic policy per se, it could result in significant cross-border macroeconomic spillovers. Among the ideas circulating are replacing Fed Chair Jerome Powell with someone more politically pliable, subjecting Fed regulations to White House review, requiring that the president be formally or informally consulted on interest rate decisions, and perhaps most fancifully, making the president an ex-officio member of the Fed's board of governors. Wilcox (2024) argues that in the worst case, under the "unitary executive theory," independent agencies such as the Fed could be deemed unconstitutional, in effect, granting the president the power to set monetary policy. The concern is that the president would press the Fed to set interest rates lower than otherwise to spur stronger economic growth despite the likelihood of driving inflation higher.

In this paper, we ask the question, what if a second Trump administration implemented some of these policies? We focus on the following scenarios:

- Deportation of 1.3 million or 8.3 million unauthorized immigrant workers.
- A 10 percentage point additional tariff on all trading partners and a 60 percentage point additional tariff on China (with and without other countries retaliating in kind by imposing steeper tariffs on imports from the United States).
- Erosion of Fed independence.

[12] Similarly, the revocation of China's PNTR status would require Congressional legislation.

[13] Andrew Restuccia, Nick Timiraos, and Alex Leary, "Trump Allies Draw Up Plans to Blunt Fed's Independence," *Wall Street Journal,* April 26, 2024, https://www.wsj.com/economy/central-banking/trump-allies-federal-reserve-independence-54423c2f?mod=hp_lead_pos1; Gina Chon, "Imprisoned ex-Trump aide Peter Navarro predicts Fed Chair's ouster and 'mass deportations' in a second presidential term," *Semafor,* May 21, 2024, https://www.semafor.com/article/05/21/2024/imprisoned-ex-trump-aide-peter-navarro-predicts-ouster-of-fed-chair-jay-powell.

[14] Andrew Restuccia, "Trump Says President Should Have Influence on Fed's Decisions," *Wall Street Journal*, August 9, 2024, https://www.wsj.com/livecoverage/stock-market-today-dow-sp500-nasdaq-live-08-08-2024/card/trump-says-president-should-have-influence-on-fed-s-decisions-wYiEwqxjp9oG4iFWN4o7.

MODELING THE POLICIES

We explore each policy independently and then combine them to capture the overall implications of Trump's economic agenda. The analysis is based on the G-Cubed Multi-Country Model of McKibbin and Wilcoxen (1998, 2013), which is widely used in central banks, international institutions, government agencies, and corporations for scenario planning and policy evaluation.[15] The version of the G-Cubed model used in this paper is an updated version of the G20 version (McKibbin and Triggs 2018). The model has 19 sovereign economies from the G20 bloc plus four regions and the rest of the world. The model is summarized in table 1.

The G-Cubed model includes standard features of modern macro models, including several that are worth highlighting: intertemporal general equilibrium with optimization by households and firms subject to liquidity constraints; rigidities, such as limits on the pace of investment at the sector level, that prevent economies from moving quickly from one equilibrium to another; prices of goods and services in each sector that adjust to clear the domestic market in local currency terms; an economywide nominal wage that is sticky and adjusts according to an expectations-augmented Phillips curve depending on expected inflation (as measured by the US consumer price index, or CPI), current CPI inflation, and economywide labor market conditions. This determines the short-term supply of labor in each country. Firms in each sector operate on their labor demand schedule. Heterogeneous households and firms, where a fraction of households consume their current income and a fraction of firms make backward-looking investment decisions. The model also captures cross-border capital and trade flows and bilateral cross-border production networks.

Notably, the model incorporates a full-fledged external sector. Intertemporal decisions of households and firms determine both saving and investment in response to actual and anticipated government policy changes. The gap between aggregate savings and investment determines the current account. A key variable affecting national saving, investment, and current accounts is the real interest rate, which directly affects saving and investment decisions and human wealth through a discounting channel. The trade balance is the current account adjusted by foreign net factor income. Flexible exchange rates (except for China, which has a crawling peg) and open capital accounts are assumed for the 24 countries and regions.[16]

Monetary and fiscal policy rules apply in each region/country. It is important to note that the central banks in each economy follow rules for setting policy interest rates that reflect the standard Henderson-McKibbin-Taylor rules (Henderson and McKibbin 1993, Taylor 1993) with different weights on output gaps and inflation relative to targets in each country. For the Fed, we assume standard Taylor coefficients with equal weights on inflation relative to targets and the gap between output growth and targeted output growth. In some countries, such as China, there is also a weight on the change in the exchange rate to slow down the appreciation or depreciation of the renminbi. This assumption about monetary policy has the most impact on the economy in the initial years of the shock because of the nominal rigidities in the model.

[15] See the full model documentation at https://www.gcubed.com/ and particularly https://documentation.gcubed.com/.

[16] Even though many developing economies have various degrees of capital controls and exchange rate intervention policies, these countries are mostly in aggregate regions, and for simplicity we use flexibility assumptions for these countries. This doesn't have a material effect on the main results.

Monetary policy, in the long run, only affects the rate of inflation and not the rate of potential output growth.

The model is solved from 2018 to 2100, with 2018 as the base year. Each country's exogenous economic growth drivers are sectoral productivity growth and labor supply growth. The key inputs into the baseline are the initial dynamics from 2017 to 2018 and subsequent projections from 2018 onwards for potential labor supply growth in each country and sectoral productivity (or technological) growth rates by sector and country. It is assumed that each sector in each country catches up to the technology frontier sector based on a Barro (1991) productivity catchup model. As emerging-market economies have low initial technology levels relative to the frontier sectors, they enjoy fast technological progress and, hence, fast economic growth. This productivity catchup alone will significantly change the landscape of the world economy this century. The growth in the capital stock in each region's sector is determined endogenously within the model.

RESULTS

We use the model to produce baseline projections for all economies—that is, what would happen if Trump does not enact the policies examined here? We assume the 2017 tax cuts enacted in Trump's first term are extended or that some equivalent Democratic tax package is enacted: Otherwise, their scheduled expiration in 2025 would impose a strong fiscal drag that would make the overall US results more negative. Because we assume the tax cuts are extended in both the baseline and counterfactual policy scenarios, the decision has almost no effect on the results when expressed as deviations from baseline.

The US baseline shows that on average from 2025 to 2040 the country sees annual real GDP growth of 1.9 percent; annual employment growth (measured as hours worked) of 1.5 percent; an annual inflation rate of 1.9 percent; a 10-year nominal interest rate of 5.4 percent; and a 10-year real interest rate of 3.4 percent.

We then assume the enactment of each policy and analyze the results separately. In the final section, we examine two scenarios ("high" and "low") in which a combination of policies is enacted. It is important to note that most results are presented as a percent deviation from the baseline of the variables indicated in the figures. The exceptions are changes in inflation, which are expressed as percentage point deviations, and in the trade balance, expressed as percent of GDP deviations.

An online dashboard contains a full set of macroeconomic and sectoral results for all countries.

Deportation of Unauthorized Immigrants in the US Workforce

We examine two mass deportation scenarios and find both cause lower US GDP and employment through 2040 than otherwise—meaning relative to the baseline projections, or compared with what would have happened without the deportations. US inflation is higher through 2028, the four years of a second Trump presidency. The scenarios differ only by the degree of damage inflicted on people, households, firms, and the overall economy.

To calculate the shock to each US sector's potential labor supply, we apply the sector shares of employment to 1.3 million and 8.3 million unauthorized immigrants being deported. In the first scenario, in which the government deports 1.3 million unauthorized immigrant workers, the potential US labor supply is reduced by 0.8 percent below the baseline by 2028. In the second scenario, all unauthorized immigrant workers, an estimated 8.3 million in 2022, are deported. The total potential labor supply falls 5.1 percent below the baseline by 2028.

Table 2 contains Pew Center estimates of the number of unauthorized immigrants in the US economy in 2017, divided between the six sectors in the model. While most unauthorized immigrants are employed in the service sector, when measured as a share of a sector's labor force, their presence is largest in agriculture, followed by manufacturing. As we do not have the numbers disaggregated into types of manufacturing, we assume that the labor force in manufacturing is split equally between durable and nondurable manufacturing. The shocks imposed in the model are in the last two columns labeled "Percent change in sector's labor supply in 2028." We apply the proportion of workers initially removed from each sector based on the proportions in the table multiplied by the total number of deported.

We assume that the deportations are phased in between 2025 and 2026, with half occurring in 2025 and half in 2026. The total number of deportations to be enforced is assumed to be known at the start of 2025. Note also that we are shocking the potential labor supply in the economy and allocating this shock initially across sectors in proportion to the number of unauthorized workers in those sectors. The model determines the actual change in employment in each sector since labor can move across sectors to where the real wage offered by the firms in each sector is the highest. For example, a loss of workers in agriculture will cause wages in that sector to rise, and workers will move into agriculture to take advantage of the improved wages. The degree to which this labor mobility across sectors would not occur in practice implies that we are making a very conservative estimate of the deportation program's costs.

We present the results for both scenarios because the impact is significant. The deportation of 1.3 million unauthorized workers is a plausible minimum outcome under a second Trump administration.

Figure 1 shows the change in real GDP in selected economies relative to the baseline from the deportation of 1.3 million unauthorized workers. It shows that reducing the potential labor supply in the US economy by 0.8 percent reduces US real GDP by 0.2 percent below the baseline in 2025 but 1.2 percent by 2028. Losing workers from each sector lowers the marginal product of capital in each sector (notably agriculture), reducing investment in the most affected sectors and across the economy. Financial capital is reallocated across sectors due to the relative change in productivity. The total capital stock in the economy is now less than it would have been in the baseline. The economic contraction overshoots because of the Keynesian slowdown in income and demand, which causes consumption and investment to fall. The transmission to the rest of the world is relatively small.

The overall fall in demand causes employment (hours worked) to fall by initially less than the number deported in 2025. However, the second round of deportations in 2026 causes US employment to plummet to 1.1 percent below the baseline by 2028 (figure 2). Employment eventually recovers during the upturn in the business cycle to be permanently around 0.6 percent below the baseline. This is consistent with Michael Clemens' evidence that immigrants

create jobs for other workers.[17] Removing immigrants reduces jobs for those other workers. The distribution of employment, discussed shortly, varies across sectors.

Figure 3 shows that the deportation of 1.3 million unauthorized workers is inflationary. This policy induces a classic supply shock, where prices rise and output falls. The Fed will balance the slowing economy with the need to contain inflation. After the Fed's reaction, US inflation still rises by 0.35 percentage point above baseline in 2025 and by 0.54 percentage point in 2026. By 2030, inflation returns to the baseline. The shock would be mildly inflationary for the world economy in 2025 and 2026, but foreign central banks eventually return inflation to target.

The fall in the return to investment in all sectors of the US economy causes financial capital to flow overseas, where rates of return to capital are higher than in the United States due to the deportations. This capital outflow immediately causes the value of the dollar to depreciate, though it recovers quickly. This makes total exports cheaper in global markets and imports more expensive in the United States (although the sectoral effects differ because of the change in input costs, especially in agriculture and manufacturing). Figure 4 shows that the deportation of 1.3 million unauthorized workers narrows the US trade deficit. Much of the capital flows to Canada.

Figure 5 shows the projected changes in sectoral output across the US economy from deporting 1.3 million unauthorized immigrant workers. The most significant decline in output occurs in durable manufacturing. This is caused primarily because the investment slump across the US economy reduces demand for manufactured goods used for investment across the economy. Also, sectors exposed to international trade (agriculture and mining) have higher labor input costs and, therefore, are less competitive. This is offset slightly in world markets due to the depreciation of the US dollar.

Figure 6 shows that the effects on sectoral employment in the US economy are like the effects on output. Employment in durable manufacturing takes the biggest hit, with hours worked 3 percent below baseline by 2028 due to the slump in investment across the economy. Some workers leave manufacturing to work in the service and nondurable manufacturing sectors. Note that these employment effects fall on post-deportation, presumably American, workers.

As discussed above, the deportation scenario is inflationary, but the distribution of price changes across sectors varies. This is partly because the sectors are initially subject to different labor supply shocks and partly because of the production linkages across the US economy and globally and the exposure to international trade. Figure 7 shows a rise in agriculture prices, which is unsurprising since deporting 1.3 million unauthorized workers reduces the agricultural workforce by 2.5 percent (table 2). Figures 8 to 14 show the impact of deporting all 8.3 million unauthorized immigrant workers. The economic adjustment is similar to the 1.3 million deportation scenario, but the scale is over six times larger. It is a major shock to the US economy, with substantial disruption across all sectors, especially agriculture, mining, and manufacturing.

[17] Michael Clemens, Migration restrictions and damages to the US economy, presentation at PIIE conference, June 26, 2024, https://www.piie.com/sites/default/files/2024-07/2024-06-26migrationevent-transcript.pdf.

Figures 15 and 16 compare US GDP and US inflation outcomes, respectively, under the two scenarios. In the 8.3 million deportation scenario, US GDP is 7.4 percent below baseline by 2028 (figure 15). Given that the baseline GDP growth is approximately 1.9 percent per year, this implies that the level of US GDP in 2028 is almost unchanged from that in 2024 –i.e., no economic growth occurs over the second Trump administration because of the negative effects of the deportation policy alone. Inflation is higher than otherwise through 2028 in both scenarios (figure 16). In the extreme scenario, inflation rises 3.5 percentage points by 2026, and the CPI price level is 9.6 percent higher by 2028, but inflation falls over time to baseline as the Fed eventually succeeds in taming price pressures.

Universal 10 Percentage Point Increase in US Tariffs

Both of Trump's tariff plans—imposing 10 percentage point additional tariffs on US imports from all sources and 60 percentage point tariffs on imports from China—hurt US GDP and employment by 2028, with or without retaliation by trading partners. But the effects vary by sector, with durable manufacturing taking the biggest hits—the opposite of Trump's stated goals.

We assume the 10 percentage point increase is implemented in 2025 and remains in place through the forecast period. The tariff revenue is assumed to be used to reduce the US federal budget deficit. It could be used in a variety of other ways, such as returning the revenue through the public through tax cuts, which would change the quantitative results. We also consider a second scenario in which trading partners retaliate with equivalent tariff increases on goods they import from the United States.

Figures 17 to 25 contain results for the uniform additional 10 percentage point increase in the tariff on imports of goods and services from all trading partners. Figures 17 through 20 show the macroeconomic results. Figures 21 through 23 depict the results for individual sectors in the US economy. In figures 24 and 25, we compare the consequences of global retaliation.

Imposing tariffs on all imported goods and services directly increases the price of imports into the United States. How much more expensive depends on how foreign exporters respond to the fall in the price they receive versus how US importers respond to the rise in the price they pay. The difference in this price (tariff revenue) goes to the US government. While foreign producers absorb a decline in the price they receive after the tariff, this does not offset the rise in the price of imported goods in the United States. When tariffs are imposed, imported goods become more expensive, and demand for them falls. Lower demand for foreign goods means lower demand for foreign currency needed to buy those imports, which makes the US dollar stronger. As a result of the fall in demand for foreign currency, the dollar appreciates by 5.4 percent against all countries. Thus, the higher prices are partly offset by the stronger dollar. Importers of consumer goods and firms importing intermediate and final goods partially switch from imports to US-produced goods.

The 10 percentage point increase in tariffs leads to a fall in US real GDP by 0.36 percent by 2026 and a more pronounced decline in Mexican and Canadian real GDP by 2027 (figure 17). The dependence of Canada and Mexico on the US market is clearly shown in figure 17. China is affected directly by the tariff and also by partly pegging the exchange rate to the dollar, causing the Chinese central bank, the People's Bank of China, to raise interest rates to protect the

renminbi. This central bank response causes a monetary-induced slowdown that initially accelerates the negative trade shock in China. Chinese GDP falls by 0.25 percent below baseline in 2025. After the initial demand-induced slowdown, US GDP recovers as production shifts from foreign suppliers to US suppliers, leading to a slightly lower long-run GDP of 0.1 percent below baseline by 2030 in the United States. The outcomes for aggregate employment are similar to the GDP results (figure 18), though specific sectoral outcomes are very different (figure 22). Employment falls in the United States by 0.6 percent by 2026 but recovers due to a supply relocation towards US suppliers. US employment returns to baseline in the long run because real wages fall permanently to bring employment back to baseline by assumption.

The imposition of higher tariffs increases prices of consumer and intermediate goods, contributing to a rise in inflation of 0.6 percentage point above baseline in 2025 (figure 19). Despite the Fed eventually removing the inflationary impulse over time, the CPI price level remains 0.8 percent higher by 2028. At the same time, the appreciation of the US dollar reduces the price of imported goods and dampens some of the direct impacts of the tariff increase on inflation. The Fed balances the fall in economic growth with the rise in inflation and allows some of the inflationary impulse to pass through the economy. The Fed initially cuts the policy rate slightly within the 25 basis point band. Then the Fed keeps the interest rate below baseline because real interest rates fall permanently while inflation returns to baseline.

The tariff change is inflationary everywhere except in China due to the tightening of Chinese monetary policy to resist change in the exchange rate relative to the US dollar.

Figure 20 shows the change in the trade balance as a share of GDP. In theory, the trade balance can worsen or improve due to changes in exports and imports. Imports fall directly due to the increase in import prices from the tariff. The US dollar appreciation causes exports to fall and imports to rise. Whether the trade deficit rises or falls depends on the responsiveness of imports to the tariff change and the responsiveness of exports and imports to the exchange rate appreciation. The exchange rate effect tends to outweigh the tariff effects on trade flows. This is also consistent with the changes in savings and investment. Capital flows out of the most negatively affected economies (Mexico, Canada, and China) and into other less affected economies. From 2025 to 2028, the US trade deficit narrows slightly but then widens as capital flows into the US economy, appreciating the US real effective exchange rate. By 2030, the US trade deficit worsens by 0.1 percent of GDP due to capital moving from Mexico and Canada into the United States. Government savings rise due to additional tariff revenues. Households maintain consumption in the face of falling income, and private savings fall by more than government savings rise. Given this investment reallocation, especially from China, Canada, and Mexico, total savings fall by more than investment, and hence, the worsening of the trade balance from 2029 is consistent with the savings-investment adjustment.

US imports fall due to the rise in import prices, as intended by the policy. But US exports fall too due to the appreciation of the dollar and a slowdown in foreign demand, resulting in no improvement in the trade balance. While the macroeconomic story is conventional, the impact on different sectors is worth highlighting. Sectoral outcomes are different because of the different production structures in each sector (including capital/labor ratios and dependence on intermediate goods) and the relative importance of foreign versus US demand for the output of each sector.

Figure 21 shows the percentage change in sectoral production in the US economy. Agriculture experiences a large fall in output in the first two years (-2.4 percent) because it is the most trade exposed. The dollar's appreciation makes US agricultural exports more expensive, reducing foreign demand for them. Interestingly, US durable manufacturing output falls by even more than agriculture, initially falling by 2.7 percent relative to baseline. Durable goods production declines partly because of exposure to international markets and a strong US dollar reducing foreign demand and partly because, when private investment falls, businesses are less likely to buy durable goods (new machinery and equipment) for investment purposes, leading to a decline in the demand for durable goods. The durable goods sector is also affected by its dependence on China, Mexico, and Canada for intermediate inputs. Manufacturing, therefore, experiences a demand contraction and an input cost shock.

The decline in the demand for labor in each sector mirrors the fall in demand for output from each sector. Figure 22 shows that most employment is lost initially in agriculture, mining, and durable manufacturing. Over time, these unemployed workers are absorbed into the service sector through a fall in real wages across the US economy. However, the geographic remoteness of some agriculture and mining activities could impede this process in practice, generating more negative results than those depicted in figure 22. Ironically, manufacturing and agriculture are the sectors the new tariffs are primarily intended to support.

Figure 23 shows the differential effects on prices in each sector. These effects reflect the different responses of demand and supply in each sector. All prices eventually rise, although mining prices initially dip because the decline in foreign demand for US mining products initially drives down mining prices.

The outcomes shown so far consider only the unilateral imposition of additional US tariffs on all trading partners. In figures 24 and 25, we show the implications of retaliation by all the countries on which the United States imposes the additional tariffs. Global retaliatory tariffs on US goods accentuate the first-round effects of US tariffs. US GDP is 0.9 percent lower by 2026 (figure 24), and US inflation rises 1.3 percentage points above baseline in 2025 (figure 25).

Increase of 60 Percentage Points in US Tariffs on Goods Imported from China

In many ways, the adjustment story is like the previous (global) case except the change in tariffs on all other countries is zero but the change in tariffs on China is six times larger.[18] The critical difference is that the policy has a more significant targeted impact on China. In this case, demand moves in the short run and production moves in the medium-to-long run away from China and toward other countries that don't face tariff changes, rather than just to the United States. Figures 26 through 34 depict the results from our analysis.

Figure 26 shows that China experiences the most significant GDP losses (0.9 percent below baseline by 2026). Although US demand for Chinese goods falls, the real depreciation of the renminbi (10 percent in real effective terms) initially makes Chinese goods cheaper in other markets. This competitiveness gain partially offsets the decline in US demand for Chinese

[18] With most Chinese imports to the United States now under some form of special protection, this marginal change overstates the actual protective impact of the new Trump tariffs.

exports. Production moves from China to other countries to export into the US market, replacing US imports from China with imports from other countries that don't face the US tariff.

Figure 27 shows that the direct impact on Chinese employment is initially negative, but a gradual decline in Chinese real wages eventually restores employment to the baseline after a decade. US employment falls by 0.23 percent below baseline by 2027.

US inflation (figure 28) rises by 0.4 percentage point in 2025, with the higher cost of imports due to tariffs not offset by the stronger US dollar lowering prices of imports from other countries. The tariffs on US imports from China are mildly deflationary in other countries.

The slowdown in the Chinese economy causes capital to flow out of China and into other economies. This is initially a financial capital flow responding to a fall in financial rates of return in China and a rise in expected profits in countries like Canada and Mexico. That financial inflow becomes physical investment over time, which increases production capacity in these economies. Countries that receive the capital experience a trade deficit (see figure 29). This additional production enables the rise in exports to the US economy. Countries like Australia that rely on the Chinese economy through exports of final goods such as agriculture and via production networks (especially mining and energy inputs into Chinese production) also experience capital outflows to the US-centric countries. While the US trade deficit with China shrinks, the overall US trade deficit increases (figure 29) as the partial relocation of production back into the US economy causes the dollar to appreciate. The size of the capital inflows equals the deterioration in the current account (and trade balance adjusted by factor flows).

While US production overall rises in 2025, the sectoral impacts vary significantly. Figure 30 contains the deviation from the baseline for the six main production sectors. As in the case of the across the board tariff discussed earlier, the most negatively affected sectors are those that rely on international trade for export markets. The strengthening of the US dollar lowers global demand for US-produced agriculture, mining, and energy goods. The durable goods sector is also affected because it is the main source of goods that go into physical investment in the US economy, and the slowdown in investment reduces the demand for durable goods. Durable goods manufacturers also use a significant amount of Chinese imports in the production process and experience a cost squeeze, pushing up the prices of durable goods and reducing global demand for them. Production in the service sector (the primary source of US employment) expands as resources flow into sectors less exposed to international trade. This shift in sectoral composition over time dampens the economywide output loss.

Figure 31 shows that the employment shifts in the US economy largely reflect the change in output across sectors. Note that in the medium term, all workers who are displaced will eventually find employment in other sectors at lower real wages (by assumption).

Figure 28, which shows the projected change in the CPI inflation rate, masks the shift in relative prices within the US economy shown in figure 32. These prices are the output prices of the individual sectors. The sectors (agriculture, energy, and mining) that experience a fall in foreign demand initially experience a price decline in the US economy. Other sectors that use Chinese inputs in the production process (especially durable manufacturing) experience increased input costs due to the higher price of imports from China.

So far, we have focused on the unilateral levying of US tariffs on imports from China. In figure 33 we compare projected changes in US GDP from the unilateral action with a scenario where China retaliates by imposing a 60 percentage point tariff on imports of US goods and

services. By 2026, US GDP losses from Trump's policy more than double if China retaliates. The effects on individual sectors are also larger. The detailed results can be found in an online dashboard. A similar result is found for the impact on US inflation (figure 34) in 2025. With retaliation, US inflation rises 0.7 percentage point above baseline compared with 0.4 percentage point without.

Erosion of the US Federal Reserve Board's Independence

Trump hasn't specified how he might try to gain influence over the Fed's monetary policy, but we assume he does and successfully presses the central bank to rev up US economic growth. The results include lower US real GDP and significantly higher inflation than baseline through 2040, as shown in figures 35 and 37, respectively. Employment surges initially, falls sharply through 2028 and then recovers to slightly above baseline through 2040, as seen in figure 36. Meanwhile, from 2026, capital flows out of the United States and into other countries, causing GDP to grow faster than baseline in China, Canada, Germany, Japan, and Mexico (figure 35).

We implement the erosion of Fed independence through two stylized shocks. The first is an increase in the Fed's targeted GDP growth rate by 2 percentage points above the potential growth rate of the economy. This generates an inflation bias of roughly 2 percentage points above the US baseline.

We calibrate this by drawing on the empirical results of Garriga and Rodriquez (2020), who found that central bank independence lowers the inflation rate in developing economies by between 1 and 6 percentage points. The 2 percentage point adjustment is a conservative estimate.

The second stylized shock is that we also assume that the risk of investing in the US economy with the political Fed could cause the risk premium on holding US assets relative to assets of other countries to rise by 2 percentage points. The size of the change in the risk premium is arbitrary. This is at the lower end of the risk shocks that have occurred historically in non-US economies, for example, during the Asian and global financial crises. However, it provides a plausible benchmark to assess the implications of a significant institutional change in the US economy.

Once the market comprehends the policy, two significant events unfold. The first is the realization that the political Fed will strive to target a higher rate of potential growth in the US economy. The second is the increased risk associated with financial and real investments in the US economy, given the president's direct control of monetary policy. This heightened country risk likely prompts capital outflows from the US economy. On the other hand, the Fed adopts a more lenient monetary policy while endeavoring to boost the economy's potential growth rate. This initially elevates GDP relative to the baseline in 2025 (figure 35) due to the stickiness of nominal wages. However, rapid demand growth without productivity improvements leads to inflation, with a projected increase of 2.8 percentage points in 2025 and 3.2 percentage points in 2026. Figure 37 illustrates that inflation persistently exceeds the baseline by 2 percentage points per year because, in the end, using loose monetary policy to enhance potential economic growth does not augment the economy's supply side. The policy represents an unsustainable demand shock. Employment initially surges in the short run due to the inflation shock, reducing

real wages when nominal wages are sticky. However, as wages adjust, the excess demand for labor diminishes over time (figure 36).

The additional country risk premium implies that investments must earn a higher rate to compensate for the additional risk. This causes financial investments to leave the US economy, which eventually translates into a fall in physical investment sufficient to raise the return on capital by the amount required to cover the risk premium. The fall in investment and, therefore, the fall in the capital stock reduce potential GDP over time because of the lower capital stock in each sector. Real wages eventually fall below the baseline to ensure employment returns to baseline.

The extent of the capital outflow is illustrated in figure 38, which shows the change in the trade balance relative to the baseline. Capital flows out of the US economy, which depreciates the US nominal effective exchange rate by 17 percent in 2025, and by around 1.4 percent per year thereafter. The US trade deficit shrinks by over 5 percent of GDP in 2025 because of the large dollar depreciation and because of the fall in US imports due to the slowing US economy. The capital flowing out of the US economy flows into other economies, lowering long-term real interest rates in these countries and increasing investment. Production shifts from the US economy to the rest of the world, given the additional cost of investing in the United States. As a result, from 2026, GDP is higher than baseline in China, Canada, Germany, Japan, and Mexico (figure 35).

The impact on production in each sector in the US economy is shown in figure 39. The differing effects are caused by the differences in the relative capital intensity of each of the sectors, exposure to international trade given the significant movements in exchange rates, and exposure to domestic demand given the short-run demand stimulus from the Fed. The most significant negative impact is again on the durable manufacturing sector, where production falls 3 percent below the baseline in 2026 and 4 percent in 2027. This impact is primarily due to the increase in the real cost of capital in the United States caused by a change in risk pricing. A rise in the risk-adjusted required rate of return on capital across the economy means that the durable manufacturing sector, which provides most of the physical goods that feed into private investment, faces a decline in demand due to the expected investment slump. The sectors that benefit most from the changing policy are the agricultural and mining sectors because of the large fall in the dollar. These sectors experience a competitive improvement in the world economy, and global demand for these outputs rise. The sectoral employment effects (figure 40) are similar to the sectoral output effects, with agriculture and energy getting the biggest employment boost. However, the boost is offset at the economywide level primarily by deteriorating employment in the manufacturing and service sectors. Figure 41 shows that the permanently higher inflation leads to ever-increasing prices across the US economy with some relative price shifts, particularly for the energy and mining sectors relative to services in the early period of adjustments. By 2040, prices across the economy are roughly 41 percent higher than the baseline.

Package of Policies

We create two alternative “combined package” scenarios (labeled “high” and “low” in figures 42 to 45) to show what would happen if Trump implemented some of these policies together.

This could be considered a partial implementation versus a full implementation of the policies with different responses by foreign policymakers.

In the “high” policy scenario, we assume a 60 percentage point increase in US tariffs on Chinese goods with retaliation by China and a uniform 10 percentage point increase in US tariffs on all other trading partners with retaliation by all of them. We also assume the extreme deportation policy of 8.3 million unauthorized immigrant workers and the erosion of Fed independence.

In the “low” policy scenario, we assume that the same tariffs are imposed but trading partners do not retaliate, 1.3 million unauthorized workers are deported, and the Fed’s independence is eroded.

Figures 42 to 45 compare the two scenarios for key macroeconomic variables such as GDP, inflation, employment, and the trade balance.

Figure 42 shows that even with the Fed attempting to stimulate the economy in the early stages of losing its independence, US real GDP is between 2.8 and 9.7 percent below baseline by 2028. Suppose the US economy is expected to grow by 1.9 percent per year from 2025 to 2028 in the baseline: In the “high” scenario, the US economy would be more than 1 percent smaller in 2028—at the end of the four years of the second Trump administration—than in 2024.

Figure 43 shows that after an initial rise of between 1.5 and 1.8 percent in 2025, US employment falls below baseline by between 2.7 and 9 percent by 2028, and by 2040 it is between 0.4 and 3.4 percent below baseline. Note that these effects fall on post-deportation, presumably American, workers.

Figure 44 shows that inflation peaks between 4.1 and 7.4 percentage points above baseline by 2026. If baseline inflation is 1.9 percent, the peak will be between 6 and 9.3 percent. Inflation stays permanently above baseline by 2 percentage points because the Fed's loss of independence does not boost the economy's supply side.

The trade balance initially moves towards surplus by between 5.4 and 7.5 percent of GDP (figure 45) because the policies cause a depreciation of the US real exchange rate of between 4.4 and 12.2 percent and a nominal depreciation of between 8.6 and 17.7 percent against all other trading partners. This reflects the outflow of financial capital. While the real effective exchange rates begin to recover in subsequent years, the higher inflation in the United States relative to the rest of the world causes the US nominal exchange rate to continue to depreciate by around 1 percent per year.

Under the more extreme “high” scenario, by 2028 the US economy is in a similar state (apart from mortality rates) to the worst of the COVID-19 pandemic experience, but the rebound is much smaller. While some sectors benefit in the short run, the worst affected sectors in terms of production and employment by 2028 in the “high” scenario are durable manufacturing, mining, and agriculture. By 2028, most prices in the US economy under the “low” and “high” scenarios are between 20 and 28 percent higher than the baseline.

CONCLUSION

Donald Trump portrays the United States as the victim of perfidious foreigners. He proposes to right the scales through policies of mass deportations, trade protection, and influence over the

Fed. As demonstrated in table 3, these interventions reduce GDP and boost inflation in the United States, while in some cases conferring benefits on other economies.

The policies harm US firms and households, hurting economic sectors differently depending on the policy. The main sectors hit are agriculture and durable goods manufacturing because they rely on world trade and global investment. Unemployment in agriculture and manufacturing rises significantly under each policy. While candidate Trump's policies focus on reducing dependence on foreign production, they also reduce the ability of US firms to export into a growing world economy. With the US economy accounting for only 16 percent of global GDP in 2020-23 (in international units and in purchasing power parity [PPP] terms) and 25 to 26 percent in 2020-23 at current exchange rates, closing the US economy from access to global markets is particularly damaging. Some of the policies (erosion of Fed independence) significantly reduce the US current account deficit. The outflow of capital from the United States, which depreciates the dollar, improves the competitiveness of US exporters but raises the cost of imported inputs that US production networks rely on. The real exchange rate depreciation and GDP contraction significantly worsen the standard of living of Americans.

In sum, while Trump promises to "make the foreigners pay," our analysis shows his policies will end up making Americans pay the most.

REFERENCES

Barro, R. J. 1991. Economic Growth in a Cross Section of Countries. *Quarterly Journal of Economics* 106, no. 2: 407–443.

Garriga, Ana, and Cesar Rodriguez. 2020. More effective than we thought: Central bank independence and inflation in developing countries. *Economic Modelling* 85: 87-105.

Hogan, Megan, Warwick McKibbin, and Marcus Noland. 2024. *Economic Implications of Revoking China's Permanent Normal Trade Relations (PNTR) Status.* PIIE Policy Brief 24-9. Washington: Peterson Institute for International Economics.

Hufbauer, Gary Clyde. 2016. Could a President Trump Shackle Imports? In *Assessing Trade Agendas in the US Presidential Campaign.* PIIE Briefings 16-6. Washington: Peterson Institute for International Economics.

Henderson, Dale W., and Warwick J. McKibbin. 1993. A Comparison of Some Basic Monetary Policy Regimes for Open Economies: Implications of Different Degrees of Instrument Adjustment and Wage Persistence. *Carnegie-Rochester Conference Series on Public Policy* 39: 221-317.

McKibbin, Warwick J., and Adam Triggs. 2018. *Modelling the G20.* CAMA Working Paper 17/2018. Centre for Applied Macroeconomic Analysis, Crawford School of Public Policy, Australian National University.

McKibbin, Warwick J., and Peter J. Wilcoxen. 1999. The Theoretical and Empirical Structure of the G-Cubed Model. *Economic Modelling* 16, no. 1: 123–48.

McKibbin, Warwick J., and Peter J. Wilcoxen. 2013. A Global Approach to Energy and the Environment: The G-Cubed Model. In *Handbook of Computable General Equilibrium Modeling* 1.

Noland, Marcus. 2020. Protectionism under Trump: The China Shock, Deplorables, and the First White President. *Asian Economic Policy Review* 15, no. 1: 31-50.

Tax Foundation. 2023. Trump's $300 Billion Tax Hike Would Threaten U.S. Businesses and Consumers. Blog, August 25. Washington.

Taylor, J. B. 1993. Discretion versus Policy Rules in Practice. *Carnegie-Rochester Series on Public Policy* 39: 195–214.

Wilcox, David. 2024. Donald Trump could return to an outdated Federal Reserve model. PIIE RealTime Economics blog, August 26. Washington: Peterson Institute for International Economics.

Wolff, Alan Wm. 2024. Trump II Tariffs: Who said that he could do that? PIIE RealTime Economics blog, September 3. Washington: Peterson Institute for International Economics.

TABLES AND FIGURES

Table 1 The G-Cubed Model (GGG6G_v179)

Region code	Country/region	Structure
ARG	Argentina	**Sectors**
AUS	Australia	Energy
BRA	Brazil	Mining
CAN	Canada	Agriculture
CHN	China	Durable manufacturing
DEU	Germany	Nondurable manufacturing
EUZ	Rest of eurozone	Services
FRA	France	
GBR	United Kingdom	**Economic Actors**
IDN	Indonesia	Consumers
IND	India	Firms in each sector
ITA	Italy	Government (fiscal policy)
JPN	Japan	Central banks
KOR	Korea	
MEX	Mexico	**Market**s
OAS	Rest of Asia	Goods and services
OEC	Rest of the OECD countries	Primary factors and intermediate goods
OPC	Other oil-producing countries	Money, bonds, equities, foreign exchange
ROW	Rest of the world	
RUS	Russia	
SAU	Saudi Arabia	
TUR	Turkey	
USA	United States	
ZAF	South Africa	

OECD = Organization for Economic Cooperation and Development

Source: The G-Cubed Model (GGG6G_v179), https://documentation.gcubed.com/gcubed/version/6G/.

Table 2 Shocks to US labor supply under two scenarios: Deporting 1.3 million versus 8.3 million unauthorized immigrant workers

G-Cubed sector	US civilian labor force, 2017 (in thousands)				Share of unauthorized immigrants within each sector, 2017 (percent)	Percent change in sector's labor supply in 2028	
	Total	*US-born*	*Legal immigrants*	*Unauthorized immigrants*		*1.3 million deportation scenario*	*8.3 million deportation scenario*
Mining	760	670	65	25	3.3%	-0.57%	-3.65%
Agriculture	2,060	1,470	300	300	14.6%	-2.53%	-16.14%
Durable manufacturing	8,180	6,605	1,100	463	5.7%	-0.98%	-6.27%
Non-durable manufacturing	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%
Total	162,700	134,280	20,990	7,490	4.6%	-0.80%	-5.10%

Note: We assume that the labor force is split equally between durable and nondurable manufacturing.
Source: Authors' calculations based on Pew Research Center data. Totals may not add up due to rounding at the source.

Table 3 Estimated cumulative changes in GDP and consumer prices in selected economies and in production in US sectors from policies promoted by Trump, 2025-28

Item	Deportation of unauthorized immigrant workers		Additional 10 pp increase in US tariffs on all trading partners		Additional 60 pp increase in US tariffs on China		Revoking Fed independence	Combination of policies	
	1.3 million	*8.3 million*	*No retaliation*	*With retaliation*	*No retaliation*	*With retaliation*		*Low scenario*	*High scenario*
GDP (billions of 2018 US dollars)									
United States	-$812	-$5,101	-$283	-$721	-$129	-$327	-$304	-$1,506	-$6,399
Japan	-$3	-$16	-$37	$9	$5	$45	$183	$147	$212
Germany	$0	-$1	-$18	-$25	$17	$24	$55	$51	$49
Canada	$2	$12	-$32	-$60	$5	$9	$46	$20	$5
China	$2	$13	-$102	-$69	-$644	-$770	$341	-$296	-$356
Mexico	-$1	-$8	-$28	-$53	$12	$12	$16	-$4	-$36
US production (billions of 2018 US dollars)									
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
Nondurable manufacturing	-$106	-$668	-$233	-$462	-$145	-$255	$118	-$342	-$1,224
Services	-$604	-$3,802	-$181	-$492	-$11	-$146	$89	-$704	-$4,326
Change in consumer price index by 2028 (percent)									
United States	1.5	9.1	0.8	1.8	0.7	1.1	11.0	13.9	22.8
Japan	0.0	0.1	0.3	0.2	0.0	-0.2	-0.6	-0.4	-0.4
Germany	-0.1	-0.4	0.0	0.1	-0.3	-0.3	-0.6	-0.9	-1.3
Canada	0.0	0.2	1.0	1.9	-0.1	-0.1	-0.4	0.5	1.6
China	0.1	0.5	-0.6	0.6	0.2	1.9	3.4	3.1	6.1
Mexico	0.1	0.8	1.6	3.3	-0.5	-0.4	-0.5	0.8	3.2

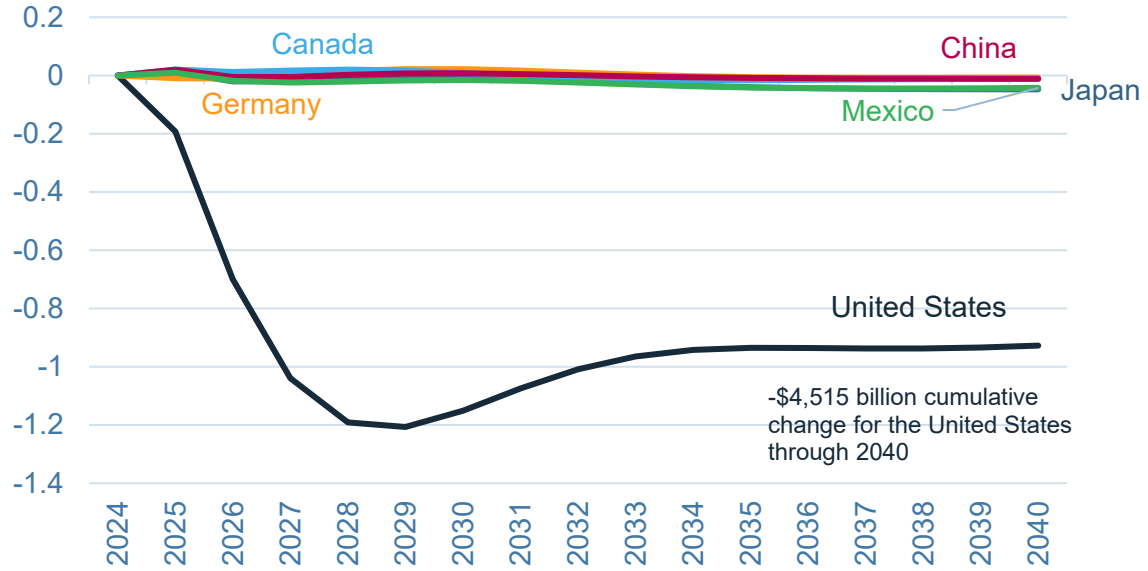
pp = percentage points

Source: Authors' calculations.

Deportation of 1.3 Million Unauthorized Immigrant Workers

Figure 1 Projected change in real GDP of selected economies from the deportation of 1.3 million unauthorized immigrant workers, 2025-40

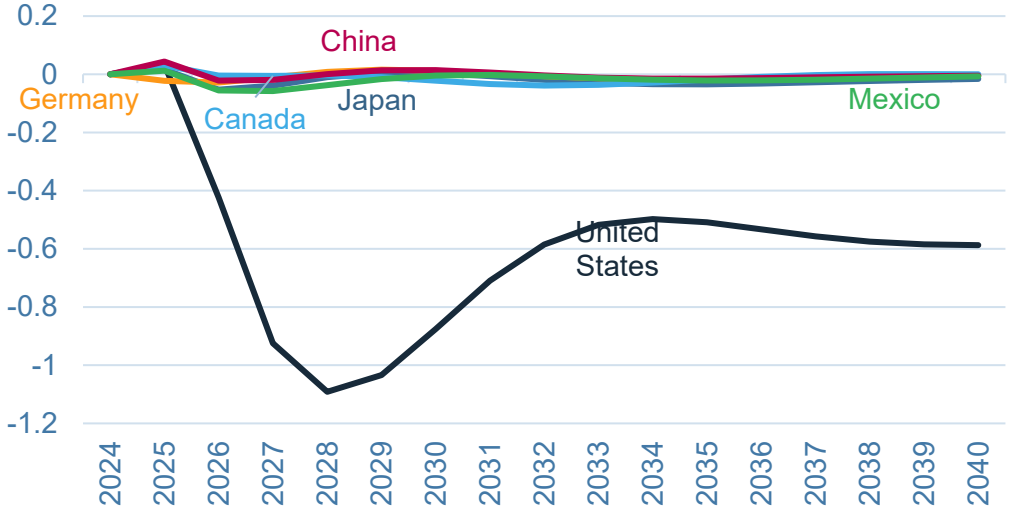
Percent deviation from baseline for each year



Note: Cumulative amount in 2018 US dollars.
Source: Authors' calculations.

Figure 2 Projected change in employment (hours worked) in selected economies from the deportation of 1.3 million unauthorized immigrant workers, 2025-40

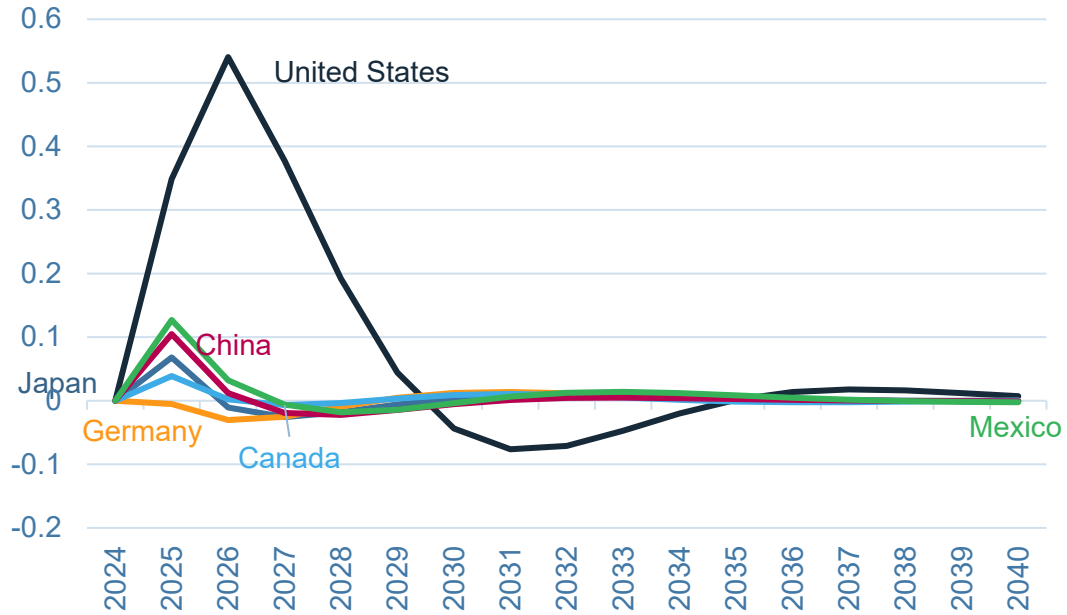
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 3 Projected change in inflation in selected economies from the deportation of 1.3 million unauthorized immigrant workers, 2025-40

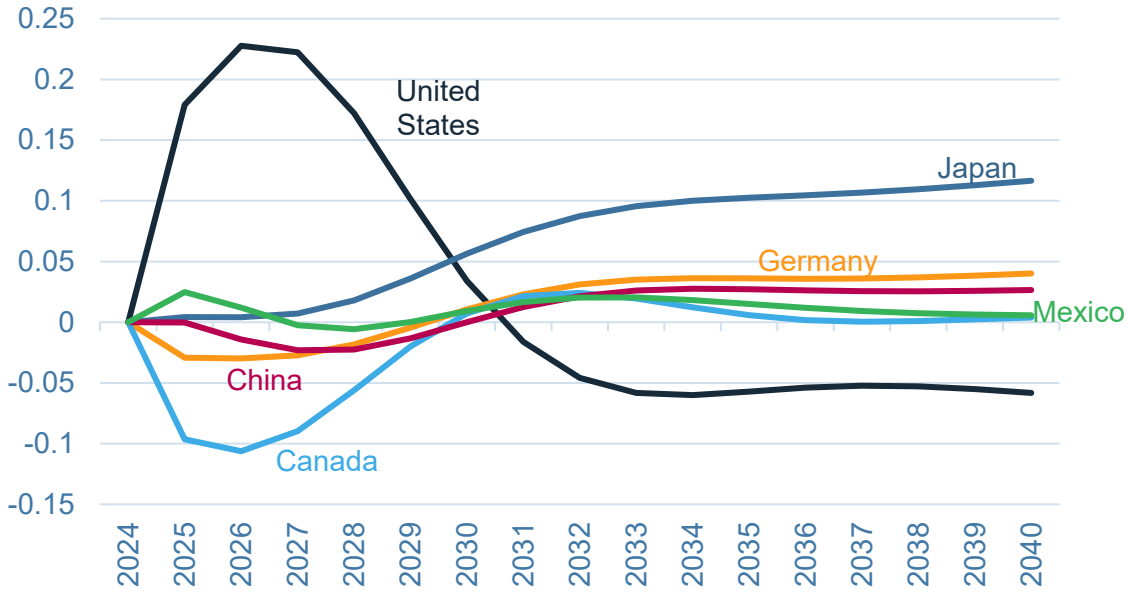
Percentage point deviation from baseline for each year



Source: Authors' calculations.

Figure 4 Projected change in the trade balance in selected economies from the deportation of 1.3 million unauthorized immigrant workers, 2025-40

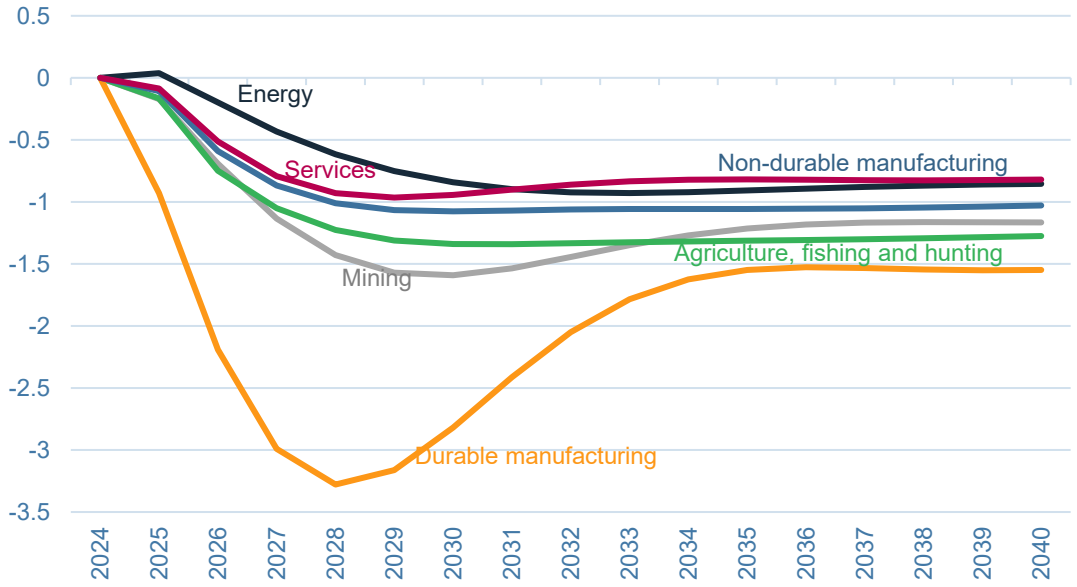
Percent of GDP deviation from baseline for each year



Source: Authors' calculations.

Figure 5 Projected change in sectoral production in the United States from the deportation of 1.3 million unauthorized immigrant workers, 2025-40

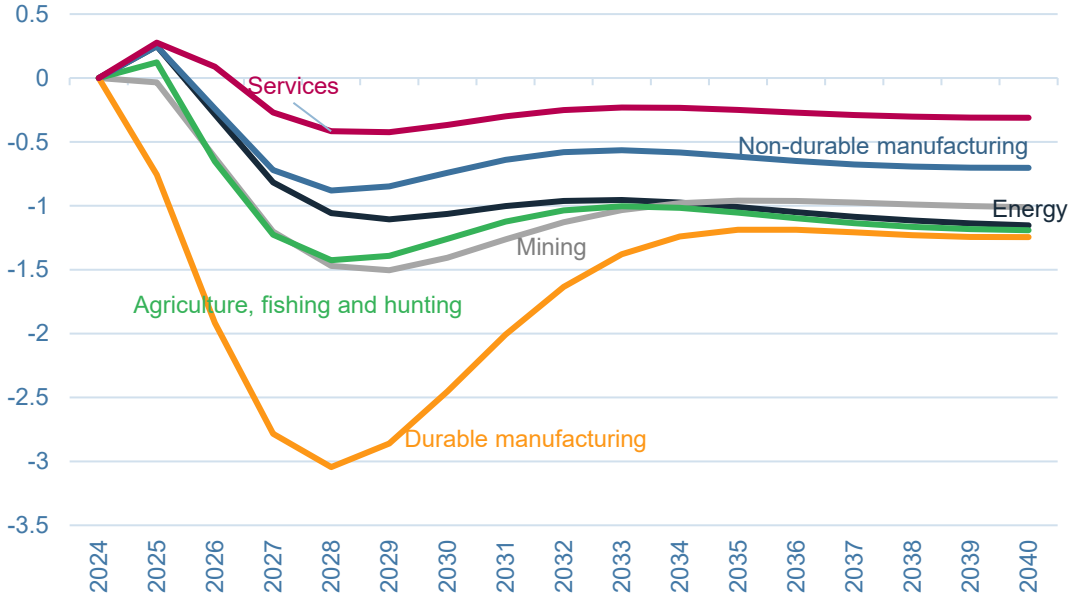
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 6 Projected change in sectoral employment (hours worked) in the United States from the deportation of 1.3 million unauthorized immigrant workers, 2025-40

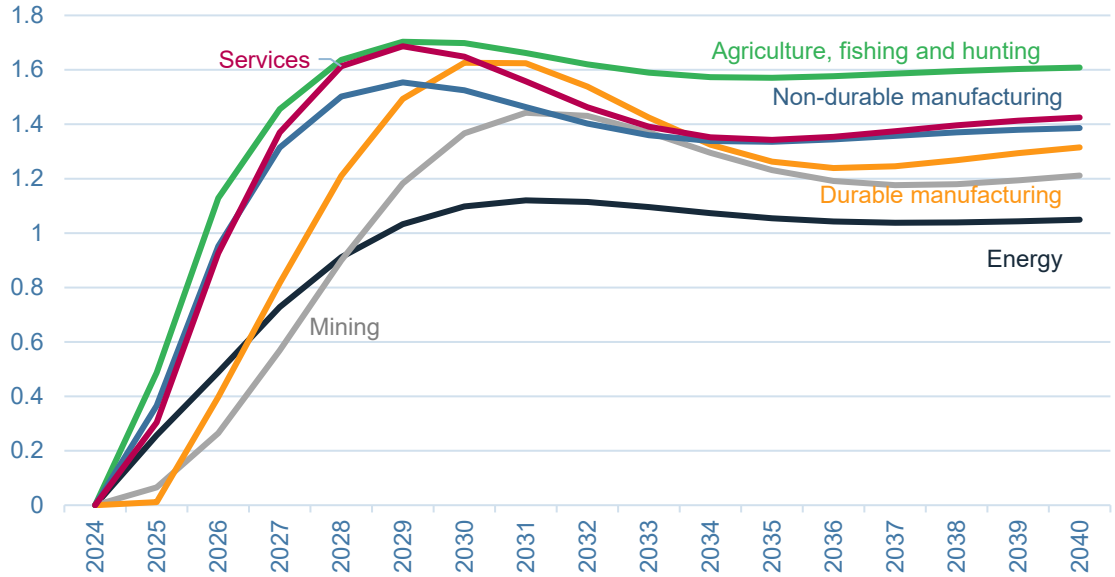
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 7 Projected change in sectoral prices in the United States from the deportation of 1.3 million unauthorized immigrant workers, 2025-40

Percent deviation from baseline for each year

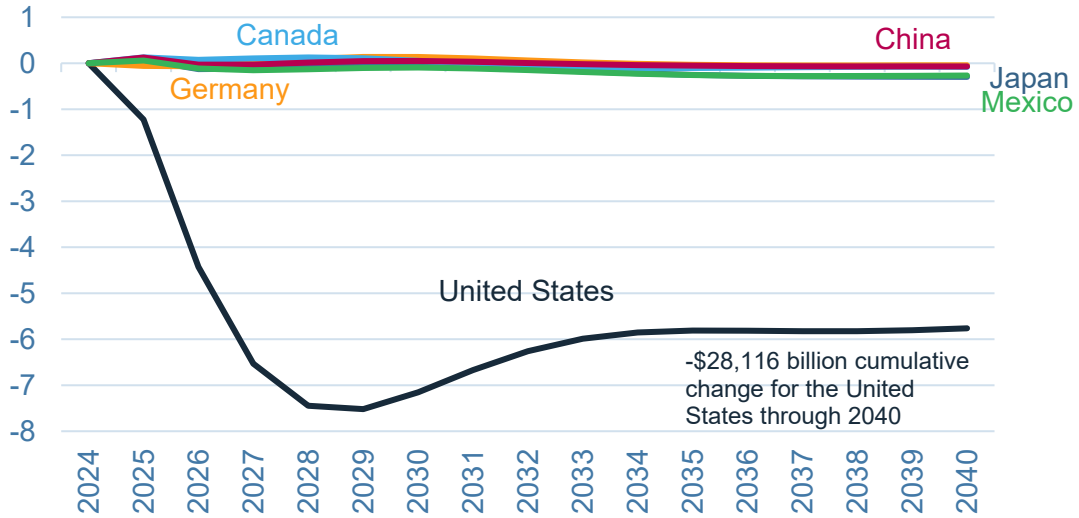


Source: Authors' calculations.

Deportation of 8.3 Million Unauthorized Immigrant Workers

Figure 8 Projected change in real GDP of selected economies from the deportation of 8.3 million unauthorized immigrant workers, 2025-40

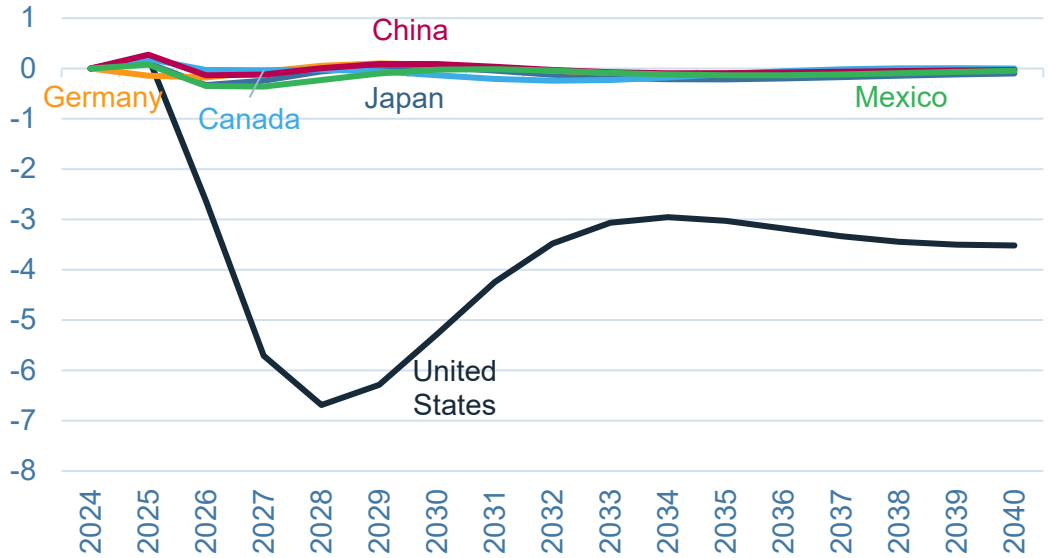
Percent deviation from baseline for each year



Note: Cumulative amount in 2018 US dollars.
Source: Authors' calculations.

Figure 9 Projected change in employment (hours worked) in selected economies from the deportation of 8.3 million unauthorized immigrant workers, 2025-40

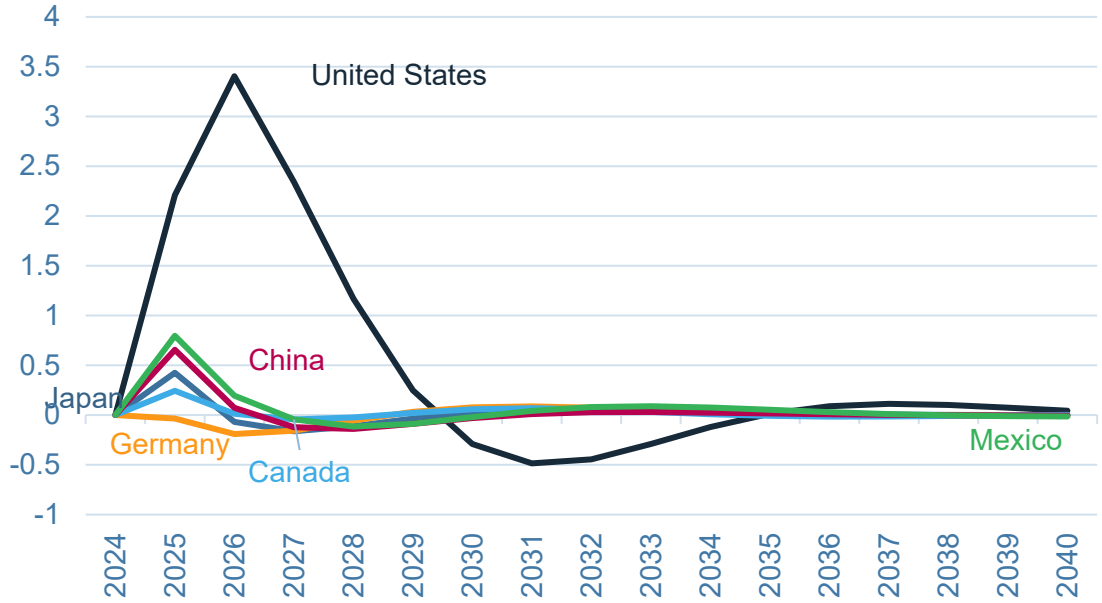
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 10 Projected change in inflation in selected economies from the deportation of 8.3 million unauthorized immigrant workers, 2025-40

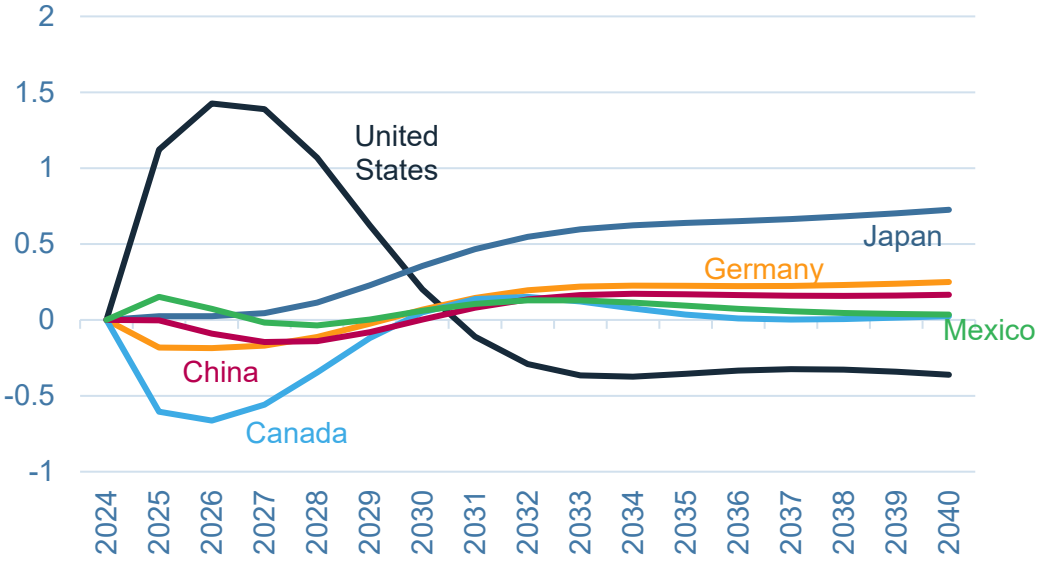
Percentage point deviation from baseline for each year



Source: Authors' calculations.

Figure 11 Projected change in the trade balance in selected economies from the deportation of 8.3 million unauthorized immigrant workers, 2025-40

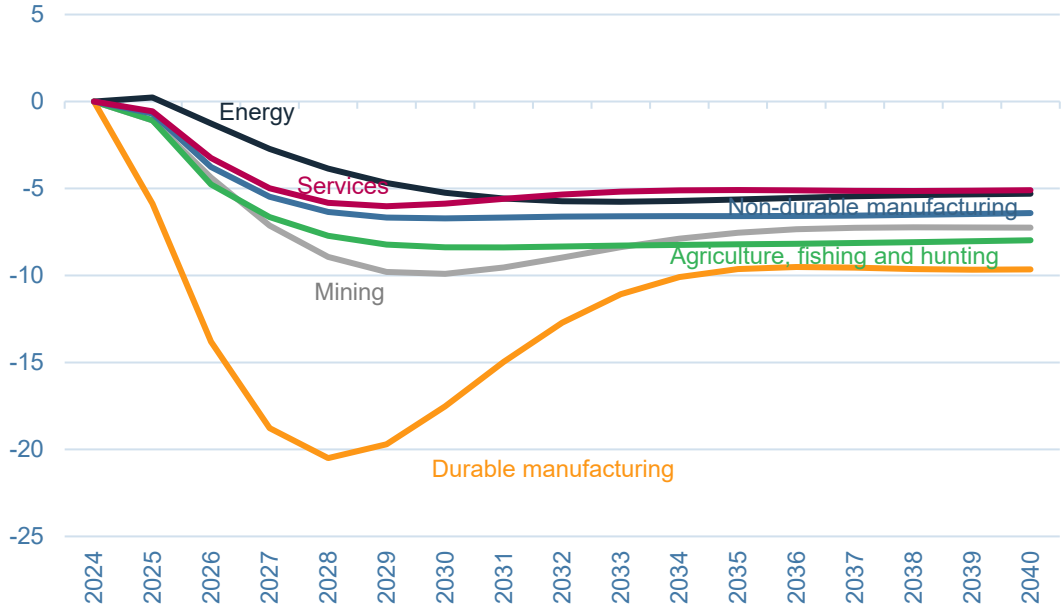
Percent of GDP deviation from baseline for each year



Source: Authors' calculations.

Figure 12 Projected change in sectoral production in the United States from the deportation of 8.3 million unauthorized immigrant workers, 2025-40

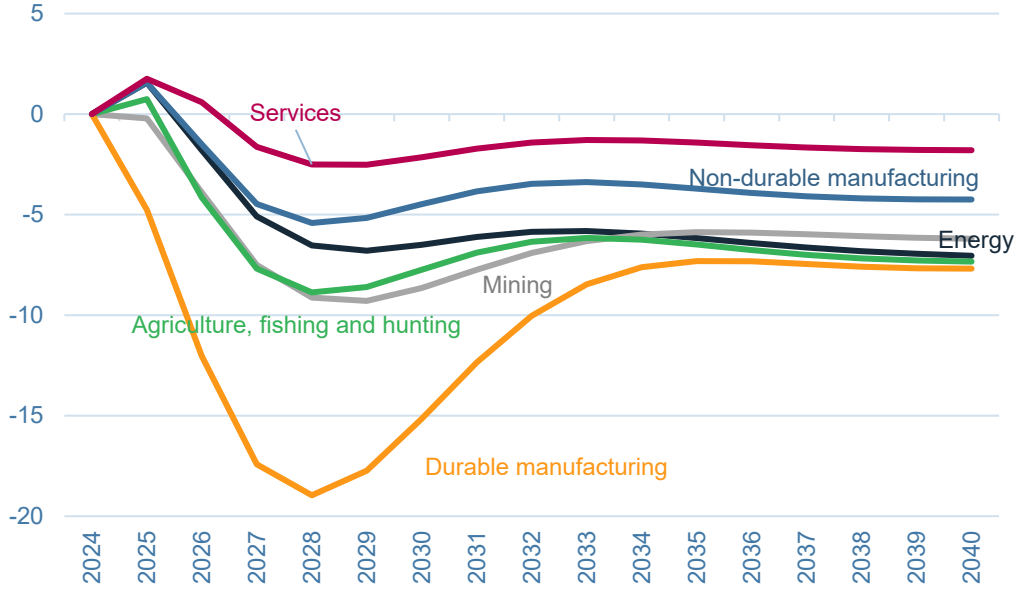
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 13 Projected change in sectoral employment (hours worked) in the United States from the deportation of 8.3 million unauthorized immigrant workers, 2025-40

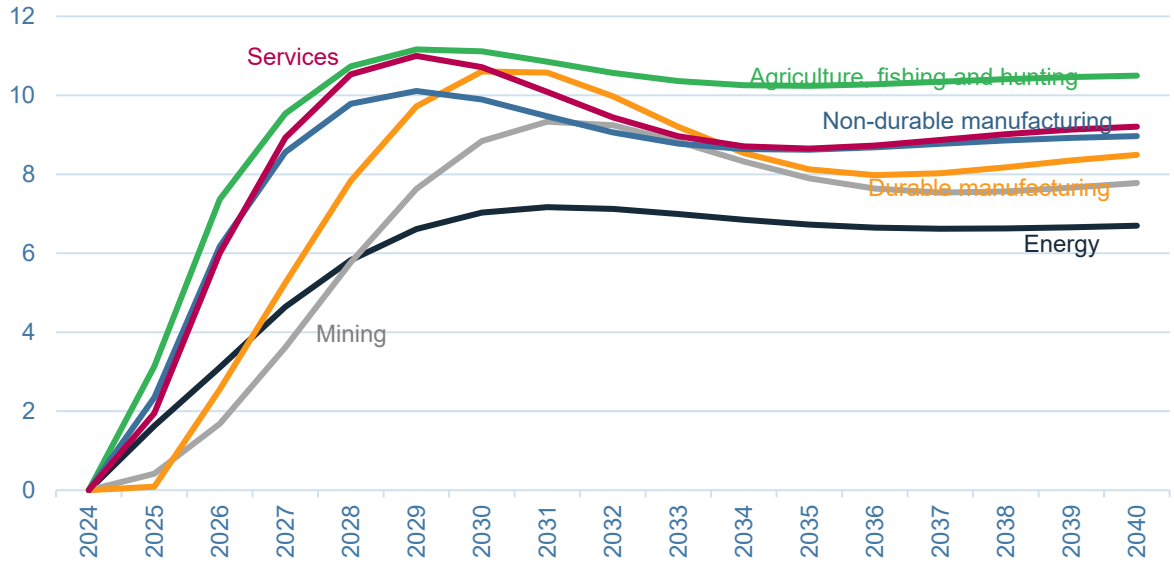
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 14 Projected change in sectoral prices in the United States from the deportation of 8.3 million unauthorized immigrant workers, 2025-40

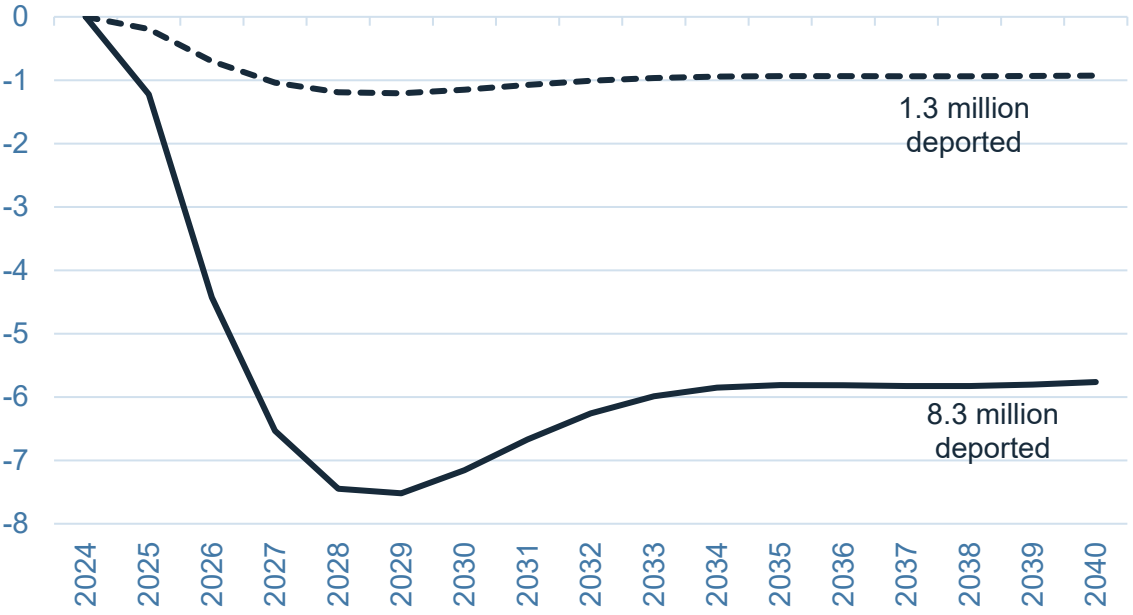
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 15 Projected change in US GDP from the deportation of 1.3 million versus 8.3 million unauthorized immigrant workers, 2025-40

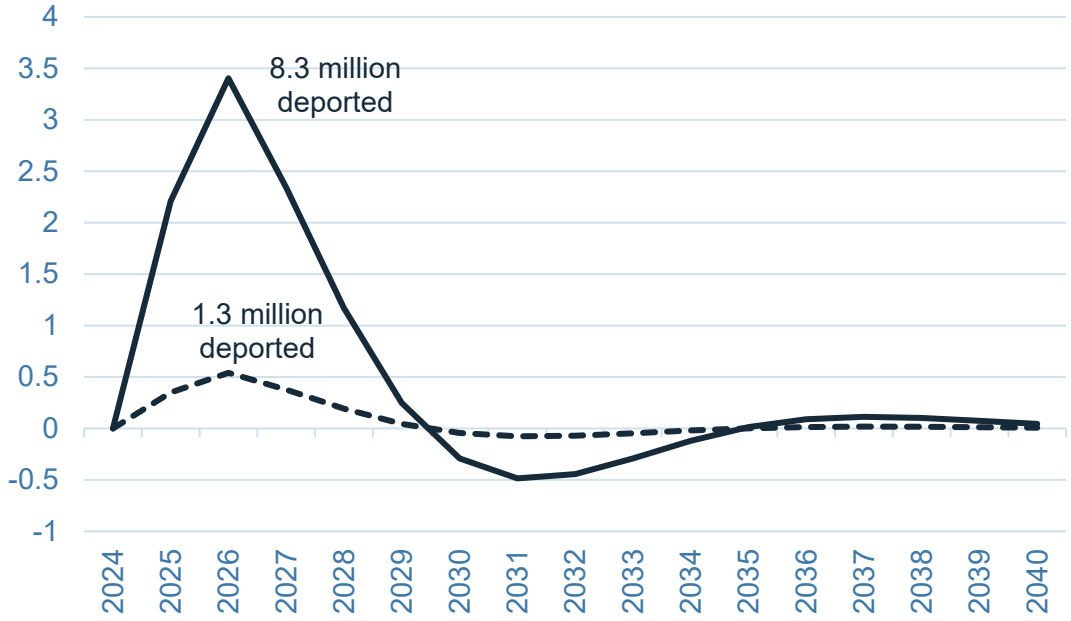
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 16 Projected change in US inflation from the deportation of 1.3 million versus 8.3 million unauthorized immigrant workers, 2025-40

Percentage point deviation from baseline for each year

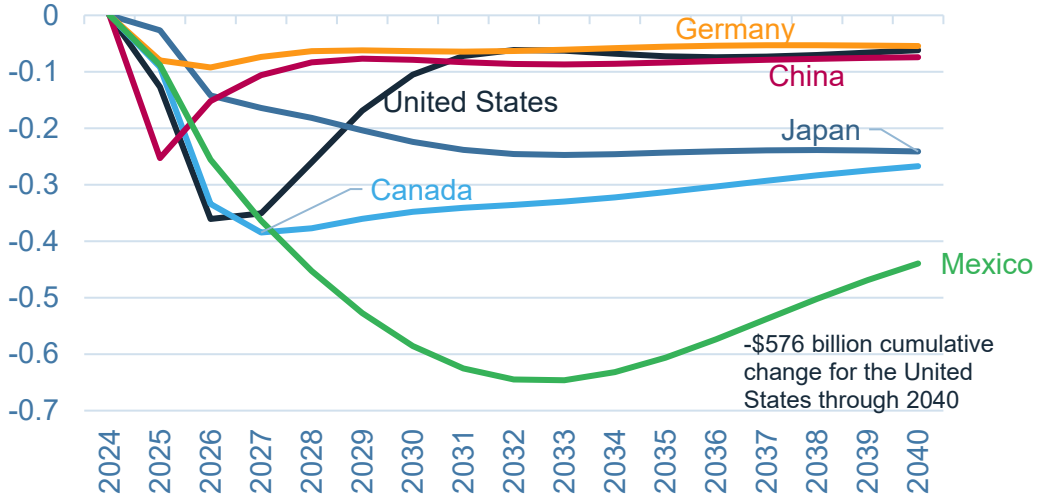


Source: Authors' calculations.

Additional 10 Percentage Point US Tariffs on All Trading Partners

Figure 17 Projected change in real GDP of selected economies from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

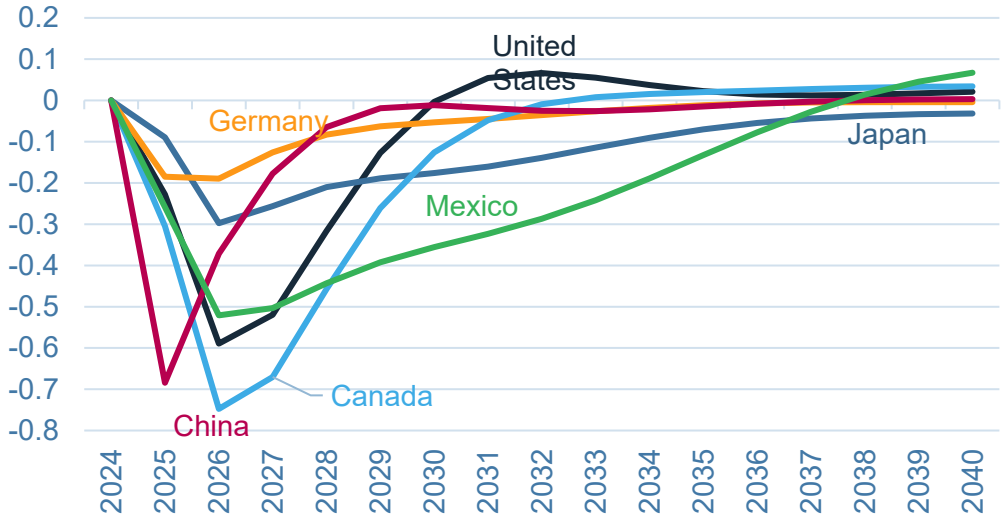
Percent deviation from baseline for each year



Note: Cumulative amount in 2018 US dollars.
Source: Authors' calculations.

Figure 18 Projected change in employment (hours worked) in selected economies from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

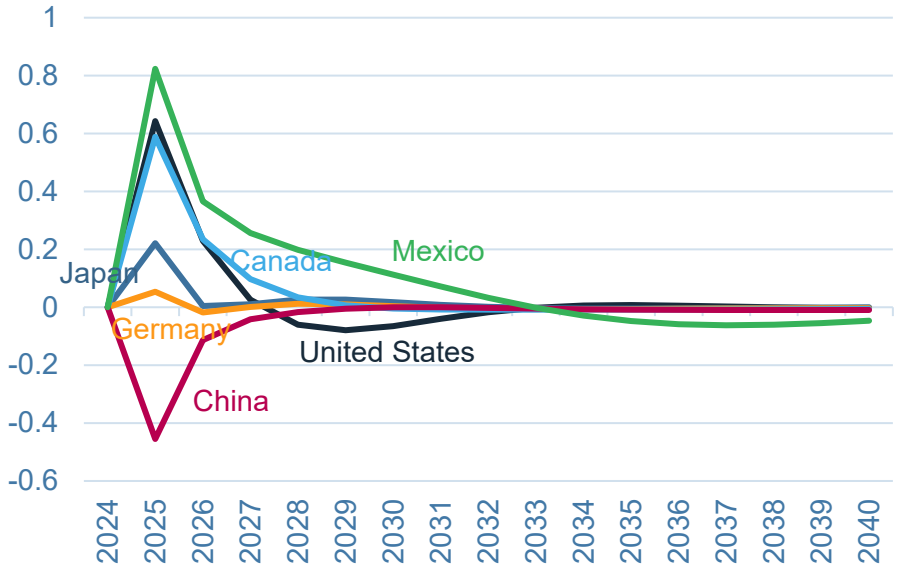
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 19 Projected change in inflation in selected economies from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

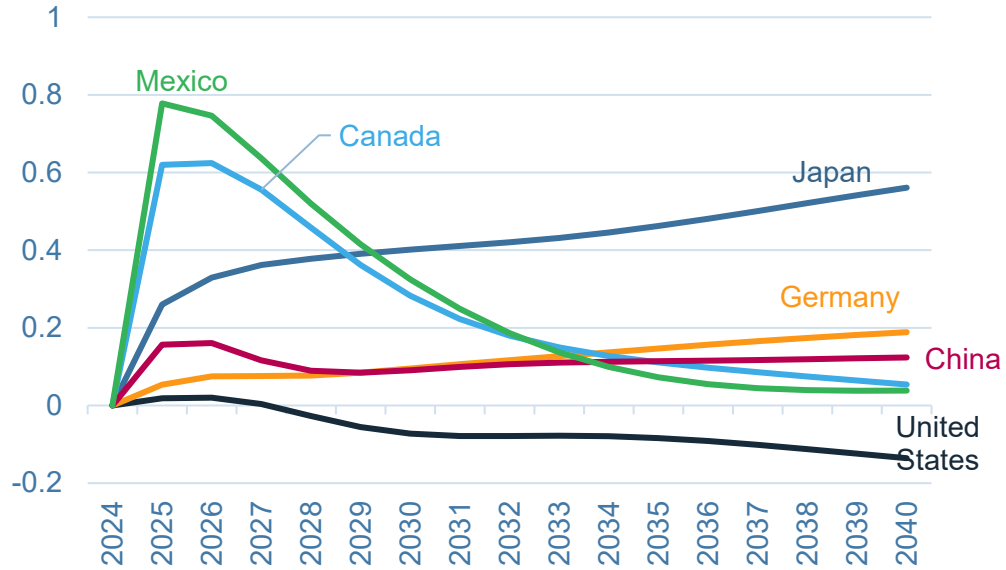
Percentage point deviation from baseline for each year



Source: Authors' calculations.

Figure 20 Projected change in the trade balance in selected economies from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

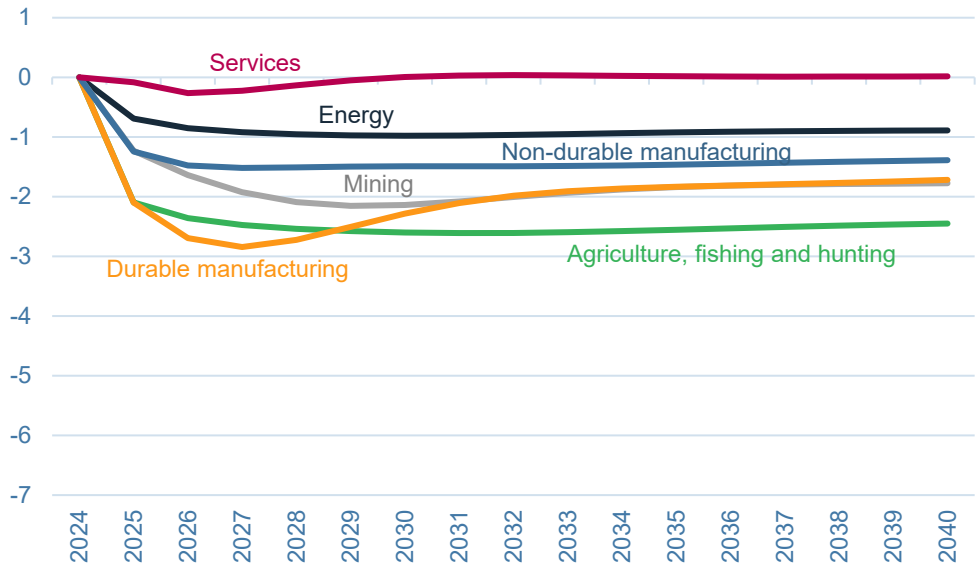
Percent of GDP deviation from baseline for each year



Source: Authors' calculations.

Figure 21 Projected change in sectoral production in the United States from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

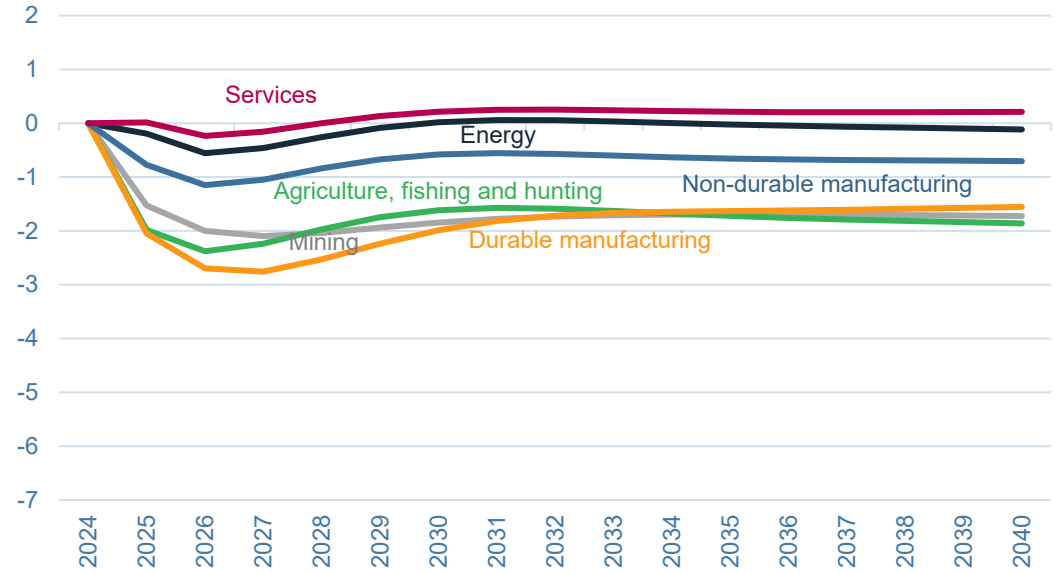
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 22 Projected change in sectoral employment (hours worked) in the United States from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

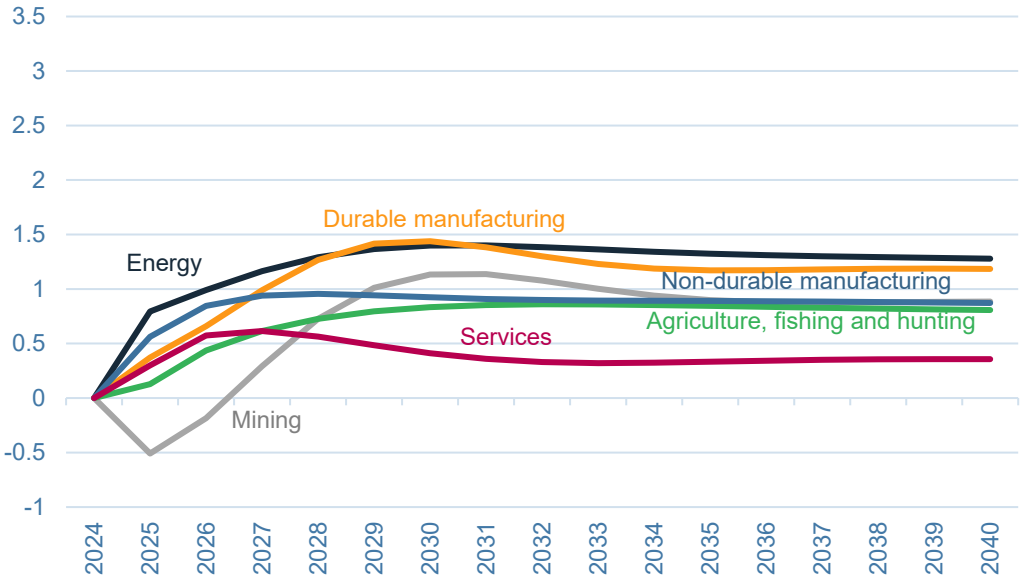
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 23 Projected change in sectoral prices in the United States from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

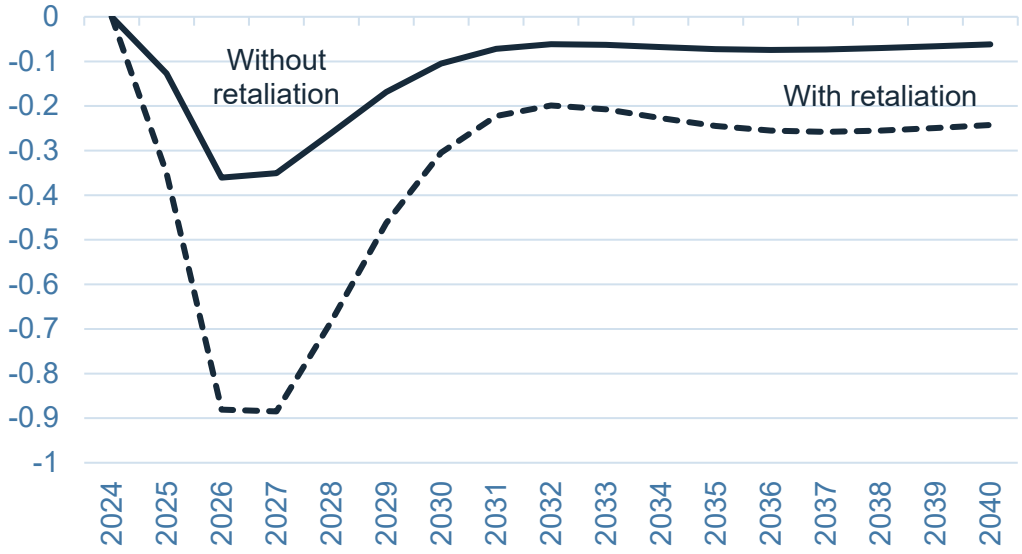
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 24 Projected change in US GDP from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, with and without retaliation from partners, 2025-40

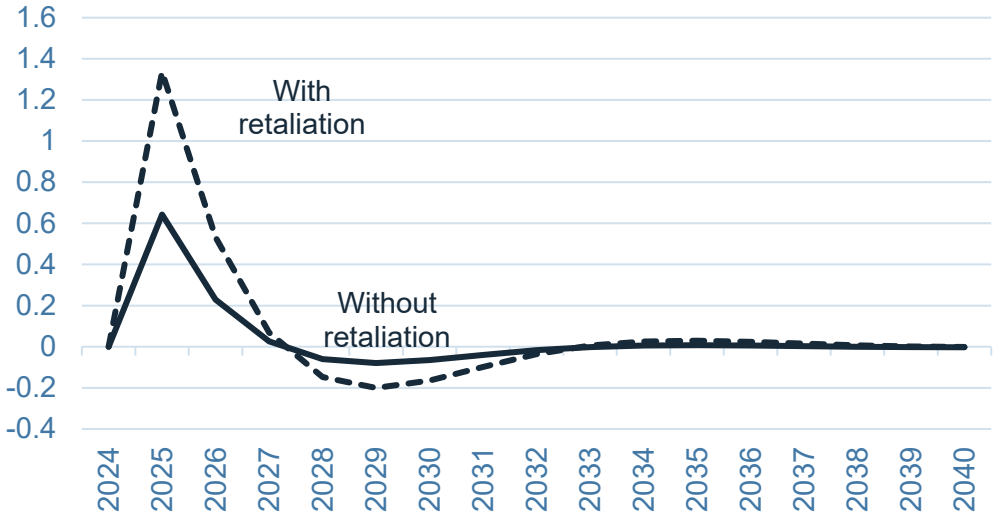
Percent deviation for each year



Source: Authors' calculations.

Figure 25 Projected change in US inflation from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, with and without retaliation from partners, 2025-40

Percentage point deviation from baseline for each year

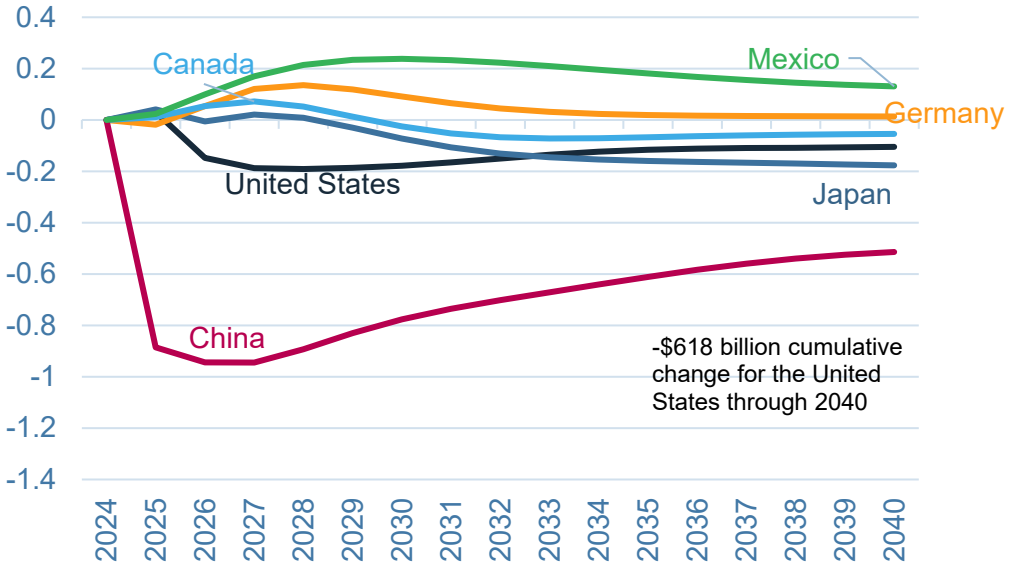


Source: Authors' calculations.

Additional 60 Percentage Point US Tariff on Goods Imported from China

Figure 26 Projected change in real GDP of selected economies from an additional 60 percentage point increase in US tariffs on imports of goods from China, 2025-40

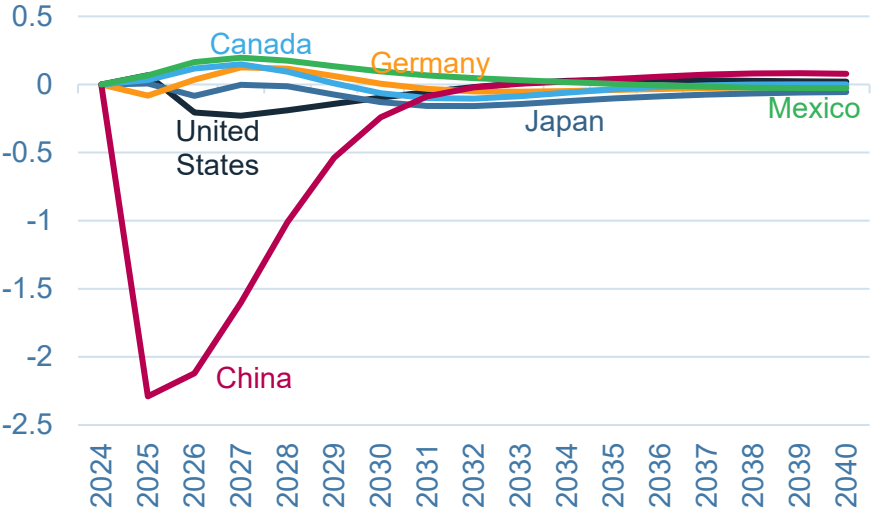
Percent deviation from baseline for each year



Note: Cumulative amount in 2018 US dollars.
Source: Authors' calculations.

Figure 27 Projected change in employment (hours worked) in selected economies from an additional 60 percentage point increase in US tariffs on imports of goods from China, 2025-40

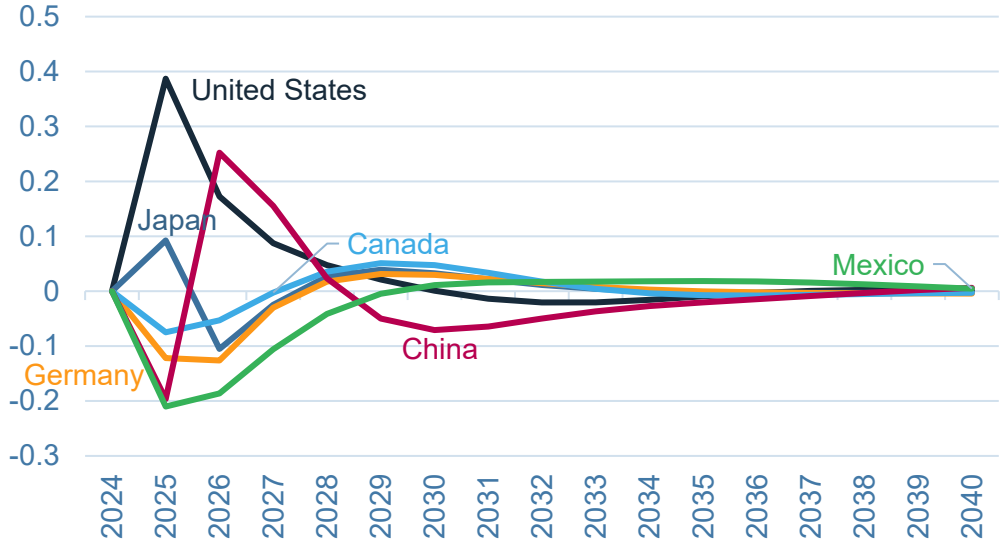
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 28 Projected change in inflation in selected economies from an additional 60 percentage point increase in US tariffs on imports of goods from China, 2025-40

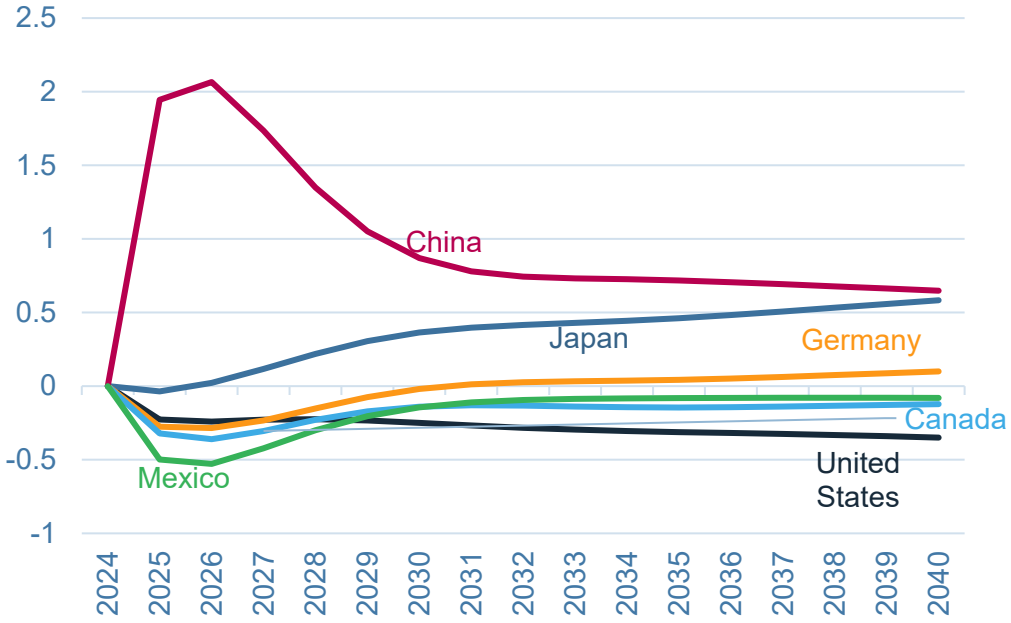
Percentage point deviation for each year



Source: Authors' calculations.

Figure 29 Projected change in the trade balance of selected economies from an additional 60 percentage point increase in US tariffs on imports of goods from China, 2025-40

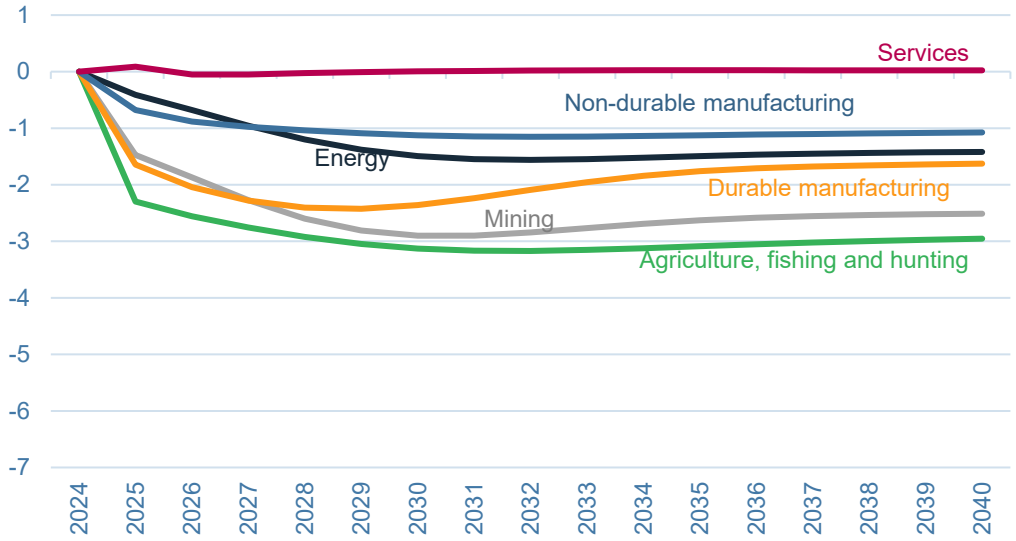
Percent of GDP deviation from baseline for each year



Source: Authors' calculations.

Figure 30 Projected change in sectoral production in the United States from an additional 60 percentage point increase in US tariffs on imports of goods from China, 2025-40

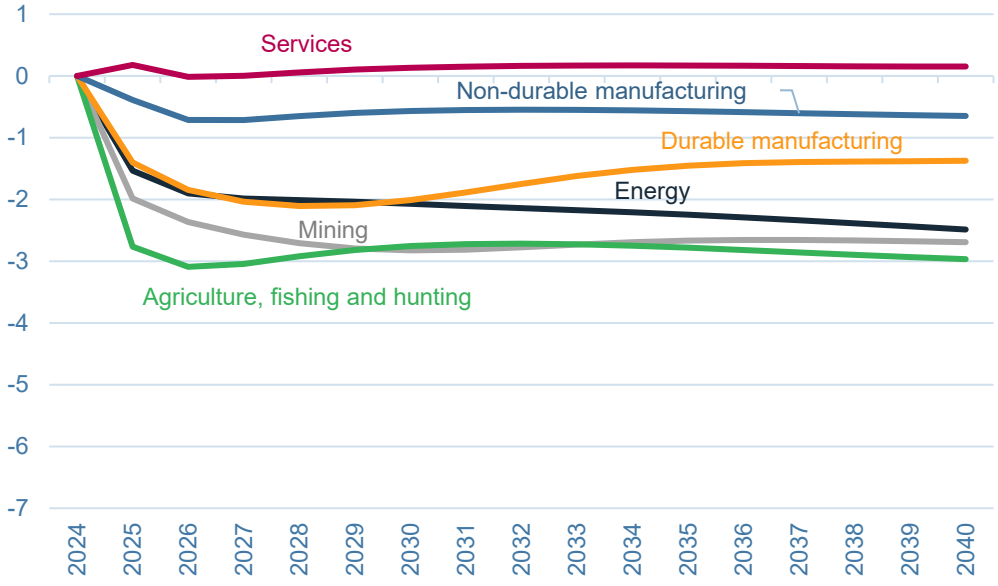
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 31 Projected change in sectoral employment (hours worked) in the United States from an additional 60 percentage point increase in US tariffs on imports of goods from China, 2025-40

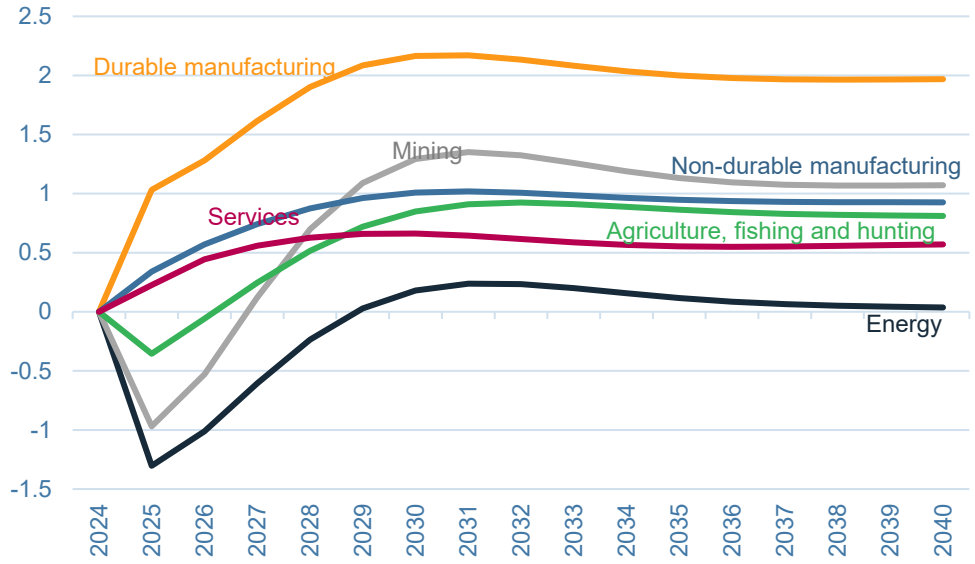
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 32 Projected change in sectoral prices in the United States from an additional 60 percentage point increase in US tariffs on imports of goods from China, 2025-40

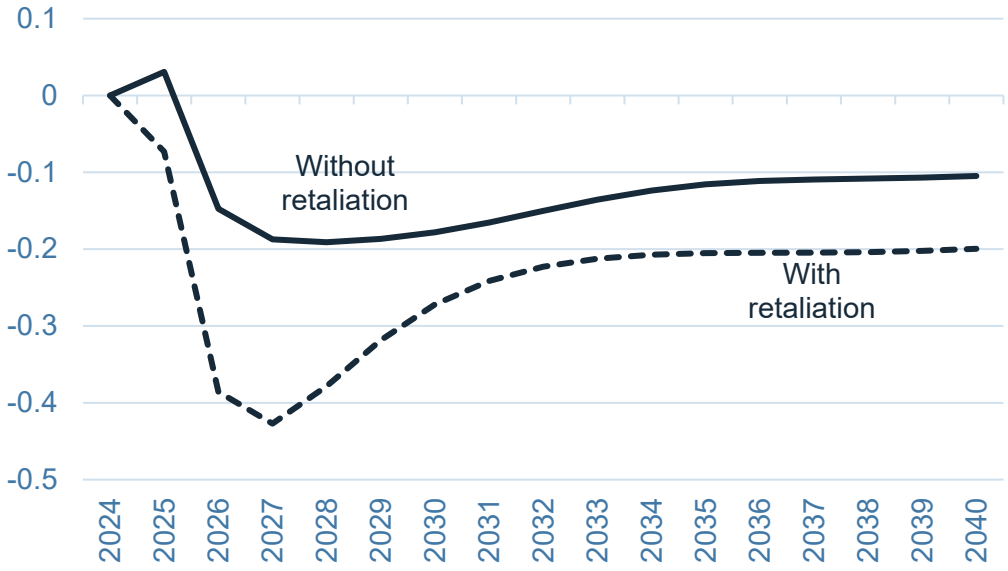
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 33 Projected change in US GDP from an additional 60 percentage point increase in US tariffs on imports of goods from China, with and without retaliation by China, 2025-40

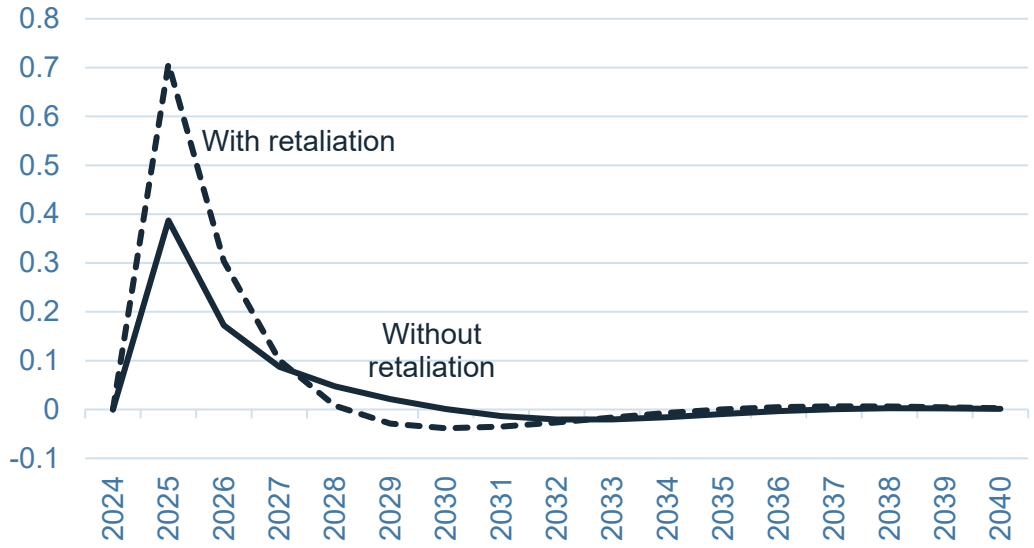
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 34 Projected change in US inflation from an additional 60 percentage point increase in US tariffs on imports of goods from China, with and without retaliation by China, 2025-40

Percentage point deviation from baseline for each year

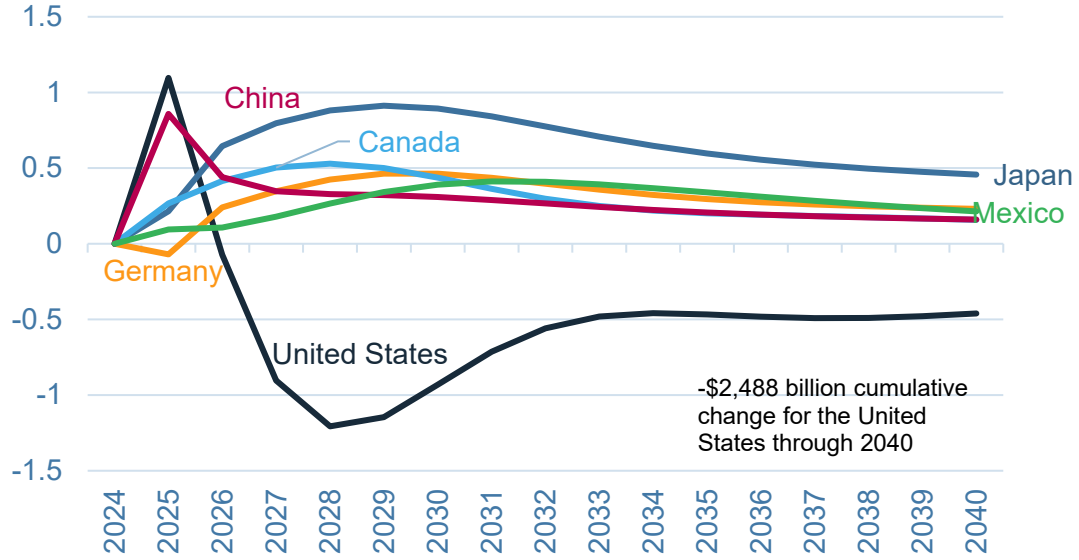


Source: Authors' calculations.

Erosion of Federal Reserve Board's Independence

Figure 35 Projected change in real GDP of selected economies from revocation of Fed independence, 2025-40

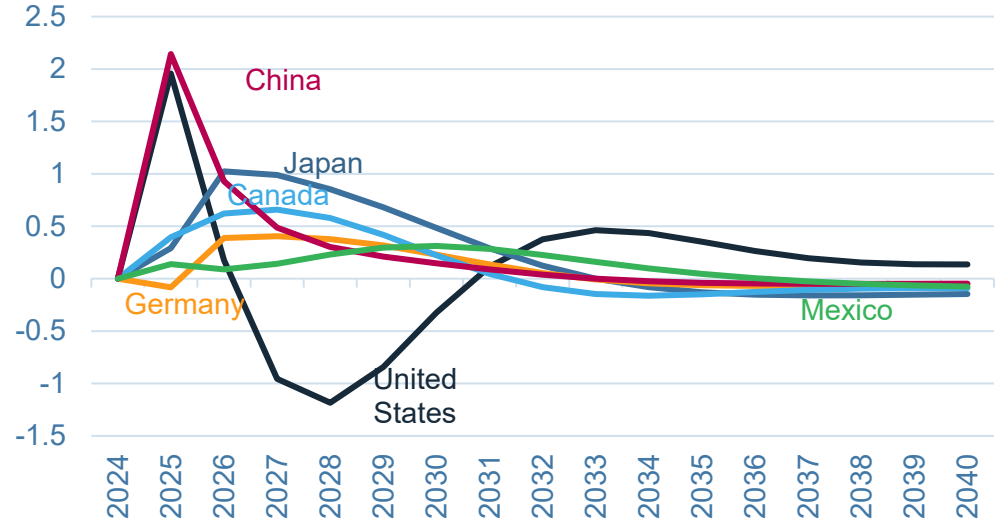
Percent deviation from baseline for each year



Note: Cumulative amount in 2018 US dollars.
Source: Authors' calculations.

Figure 36 Projected change in employment (hours worked) in selected economies from revocation of Fed independence, 2025-40

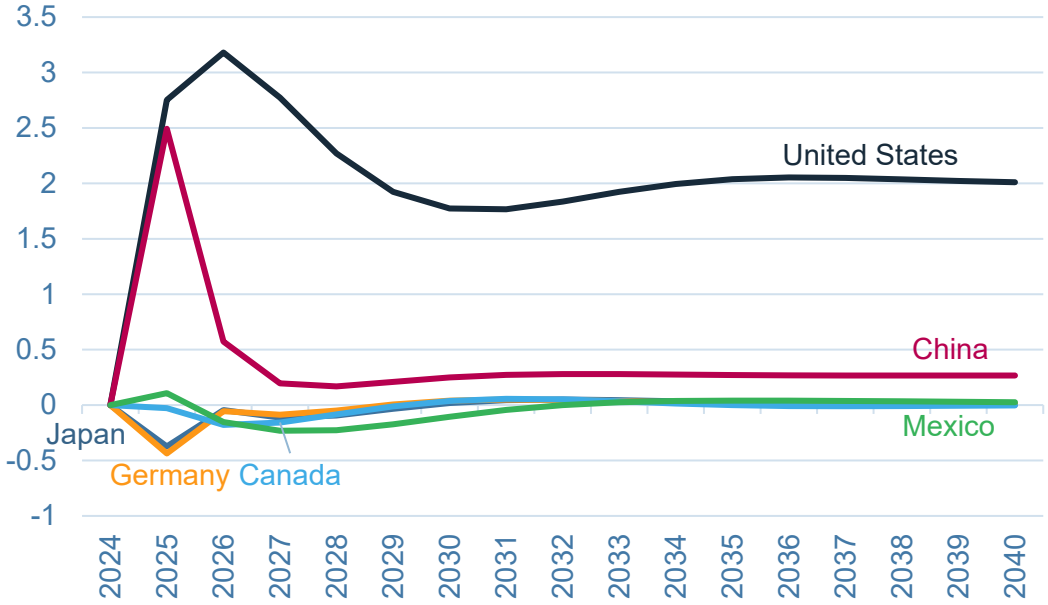
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 37 Projected change in inflation in selected economies from revocation of Fed independence, 2025-40

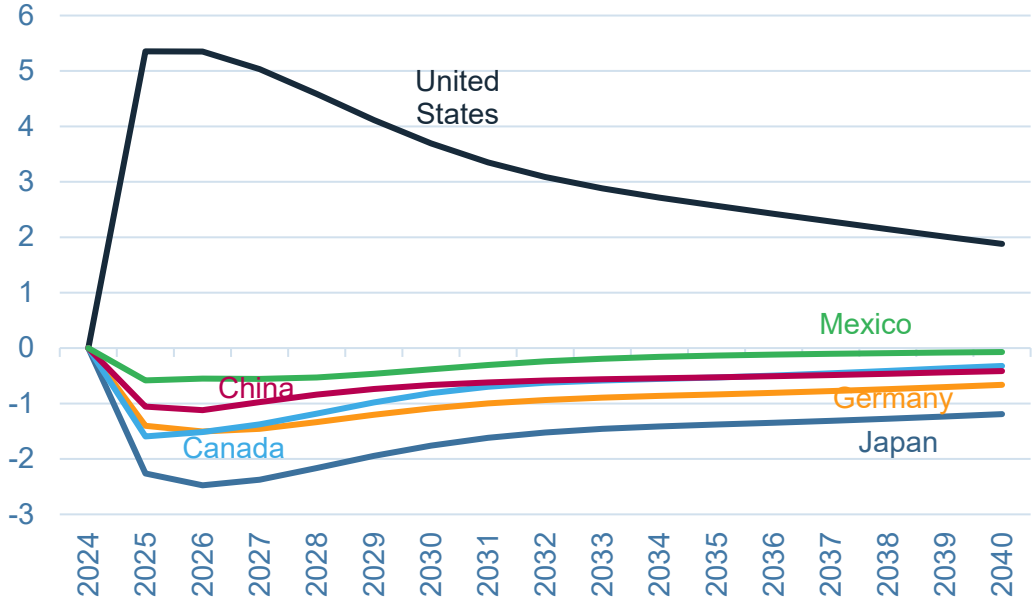
Percentage point deviation from baseline for each year



Source: Authors' calculations.

Figure 38 Projected change in the trade balance in selected economies from revocation of Fed independence, 2025-40

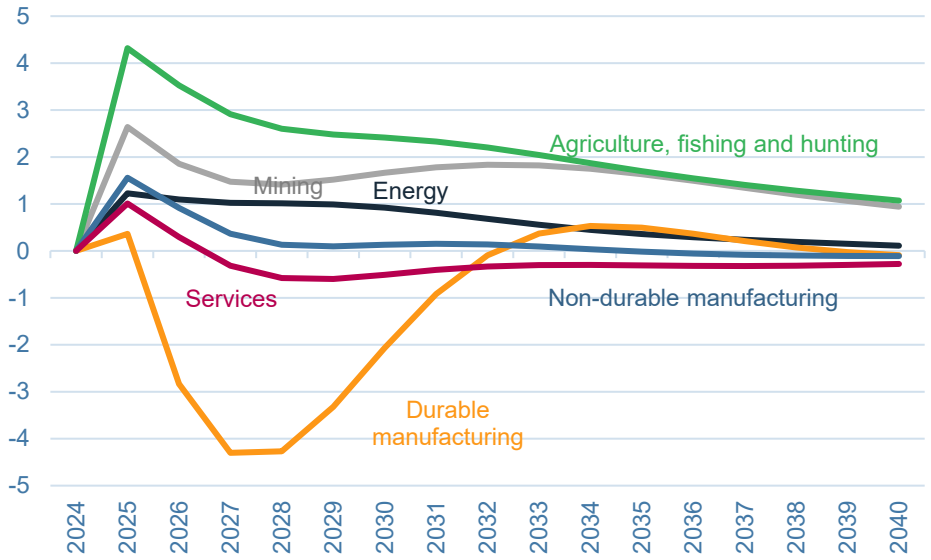
Percent of GDP deviation from baseline for each year



Source: Authors' calculations.

Figure 39 Projected change in sectoral production in the United States from revocation of Fed independence, 2025-40

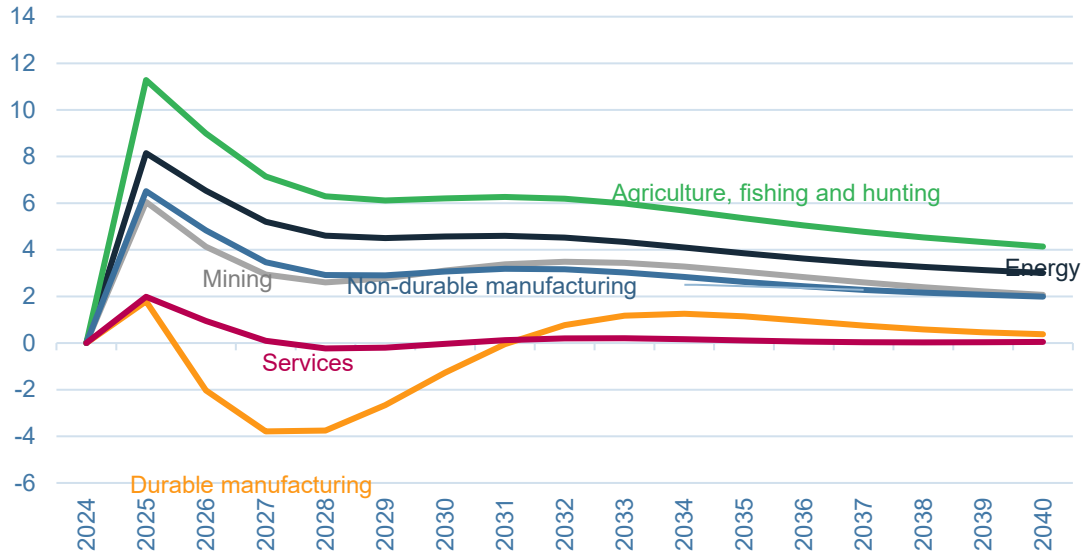
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 40 Projected change in sectoral employment (hours worked) in the United States from revocation of Fed independence, 2025-40

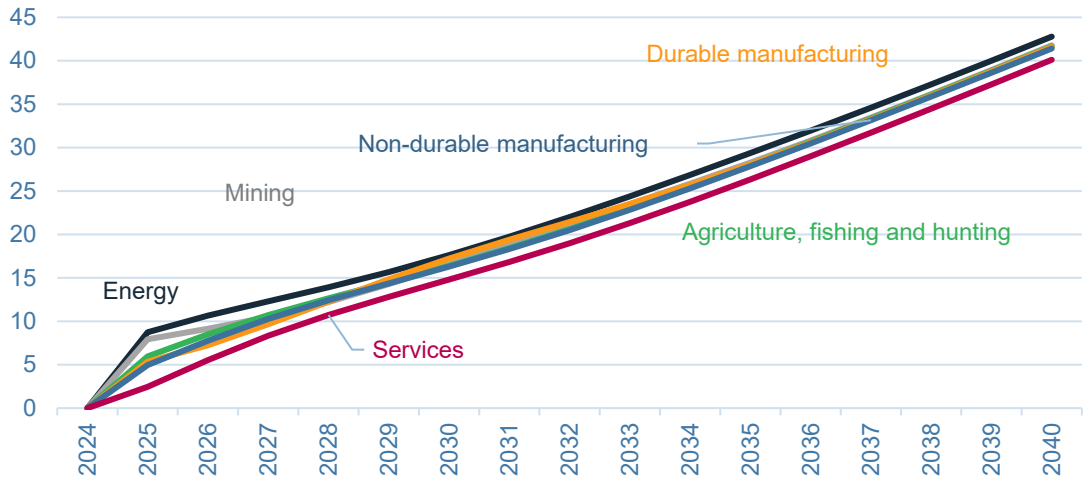
Percent deviation from baseline for each year



Source: Authors' calculations.

Figure 41 Projected change in sectoral prices in the United States from revocation of Fed independence, 2025-40

Percent deviation for each year

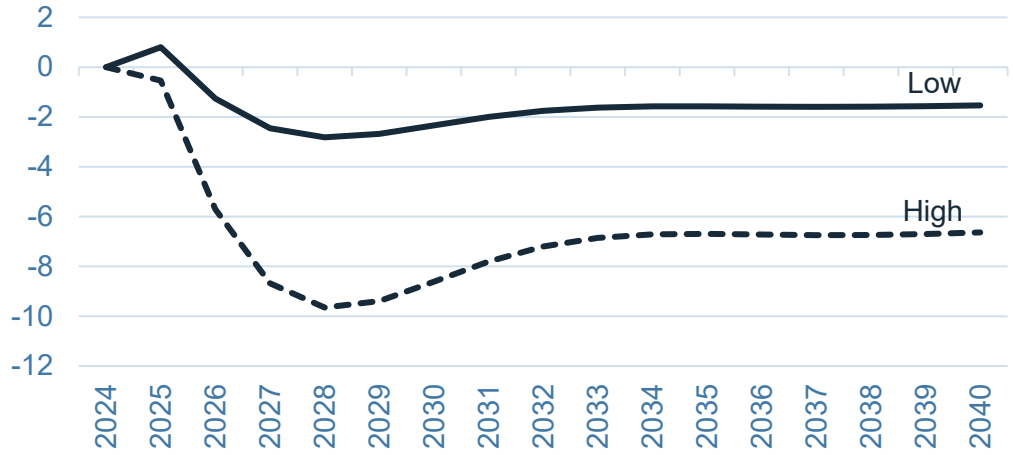


Source: Authors' calculations.

All Policies Combined

Figure 42 Projected change in US GDP in full (high)[19] and partial (low)[20] and implementation of policies promoted by Trump with different responses by foreign policymakers, 2025-40

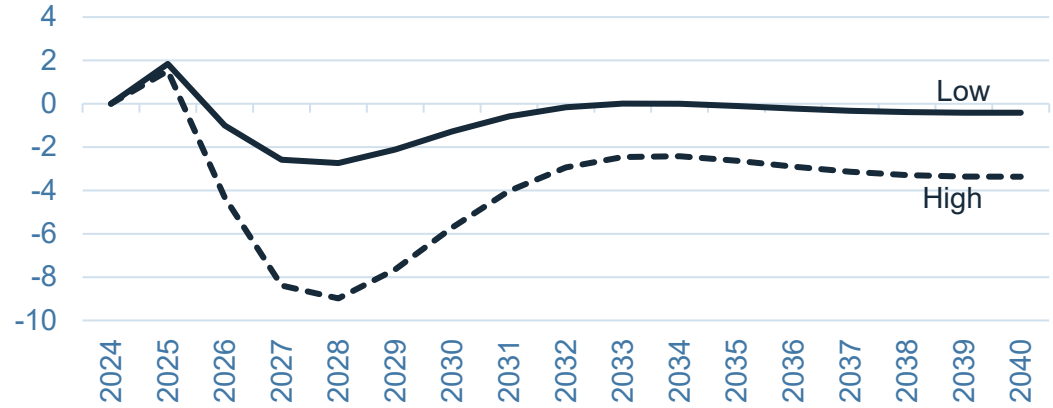
Percent deviation for each year



Source: Authors' calculations.

Figure 43 Projected change in US employment (hours worked) in full (high) and partial (low) implementation of policies promoted by Trump with different responses by foreign policymakers, 2025-40

Percent deviation from baseline for each year



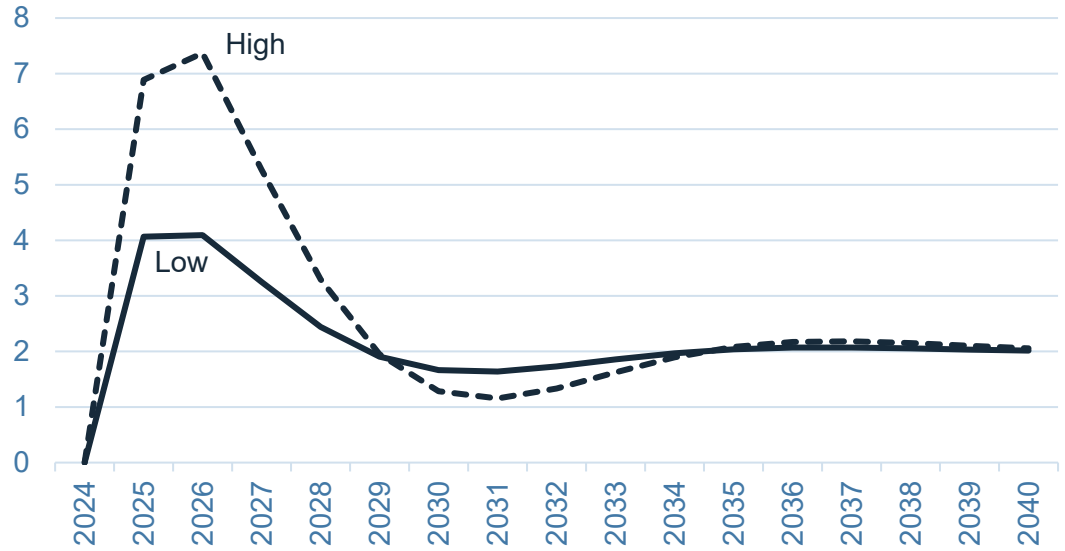
Source: Authors' calculations.

[19] **"High" scenario:** Deportation of 8.3 million unauthorized immigrant workers, additional 60 percentage point increase in US tariffs on Chinese goods with retaliation by China, additional 10 percentage point increase in US tariffs on imports from all other trading partners with retaliation by all of them, and erosion of Fed independence.

[20] **"Low" scenario:** Same tariffs imposed but trading partners do not retaliate, deportation of 1.3 million unauthorized workers, and erosion of Fed independence.

Figure 44 Projected change in US inflation in full (high) and partial (low) implementation of policies promoted by Trump with different responses by foreign policymakers, 2025-40

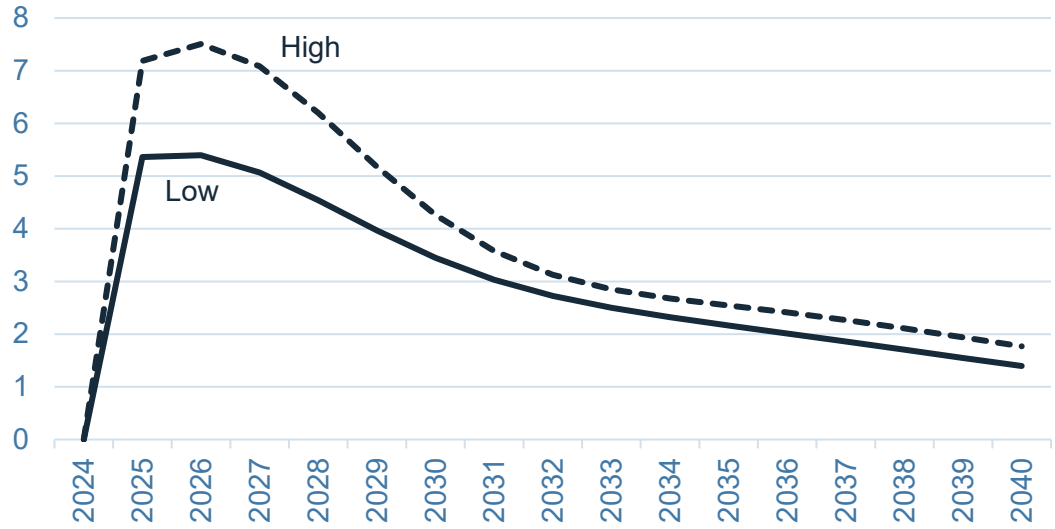
Percentage point deviation from baseline for each year



Source: Authors' calculations.

Figure 45 Projected change in US trade balance in full (high) and partial (low) implementation of policies promoted by Trump with different responses by foreign policymakers, 2025-40

Percent of GDP deviation from baseline for each year



Source: Authors' calculations.

PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

This publication has been subjected to a prepublication peer review intended to ensure analytical quality. The views expressed are those of the authors. This publication is part of the overall program of the Peterson Institute for International Economics, as endorsed by its Board of Directors, but it does not necessarily reflect the views of individual members of the Board or of the Institute's staff or management.

The Peterson Institute for International Economics is a private nonpartisan, nonprofit institution for rigorous, intellectually open, and in-depth study and discussion of international economic policy. Its purpose is to identify and analyze important issues to make globalization beneficial and sustainable for the people of the United States and the world, and then to develop and communicate practical new approaches for dealing with them. Its work is funded by a highly diverse group of philanthropic foundations, private corporations, and interested individuals, as well as income on its capital fund. About 12 percent of the Institute's resources in 2023 were provided by contributors from outside the United States.

A list of all financial supporters is posted at https://piie.com/sites/default/files/supporters.pdf.