



By: Desmond Lachman

Trump's departure from the Republican Party's economic playbook will end in tears



US President Donald Trump has suspended trade talks with Canada, and announced an additional 10% tariff on Canadian goods, over an Ontario-funded television ad that used audio of former President Ronald Reagan denouncing tariffs.

The episode is telling. Yet again, Trump is pretending to defend the Republican Party's longstanding economic principles, while pursuing **policies** that constitute a wholesale rejection of them.

Many of Trump's supporters welcome this departure, but they should be careful what they wish for.

History is littered with examples of Trump-style populism leading to high inflation and economic failure, and Trump's voters – from soybean farmers in the Midwest to working-class voters in Florida who are about to lose their health insurance – are now beginning to pay the price.

If the Grand Old Party, from Calvin Coolidge to George H.W. Bush, stood for anything, at least in principle, it was the need to balance the budget and keep the national debt under control, rather than burdening future generations with the consequences of today's profligacy.

As former US President Herbert Hoover reportedly quipped, "Blessed are the young, for they will inherit the national debt."

But this is not just a matter of generational fairness. The economic historian **Niall Ferguson** contends that debt has "always been the ruin of great powers."

Zero-sum understanding of international trade

But rather than putting a brake on America's accumulation of public debt, Trump blew up the unsustainable budget he inherited, pushing through sweeping tax and spending legislation that the **Congressional Budget Office**

estimates will add around \$3.4 trillion to the budget deficit over the next decade.

That will keep the deficit in excess of 6% of GDP for the foreseeable future, with the public-debt-to-GDP ratio reaching 128% – similar to the level seen in Greece at the beginning of its 2010 **sovereign-debt crisis** – within a decade.

Another traditional Republican priority that Trump has spurned is free trade.

Trump's chaotic approach is generating uncertainty for businesses and investors alike

Since his inauguration, the self-proclaimed "Tariff Man" has raised the average effective **tariff rate** from less than 3% to about 17.5% – its highest level in nearly a century.

Reflecting his simplistic, zero-sum understanding of international trade, Trump claims that this will shrink America's trade deficits.

But Trump has also used tariffs to extract political concessions from US trade partners.

Before he punished Canada over a television ad, Trump imposed 50% tariffs on all US imports from Brazil as punishment for the country's prosecution of its former president, Jair Bolsonaro, over his attempt to overturn his 2022 election defeat.

The economic consequences are profound. Trump's chaotic approach – characterized by threats and reversals, hikes and rollbacks – is generating uncertainty for businesses and investors alike.

The Yale Budget Lab expects Trump's tariffs to shave half a percentage point off US GDP growth in 2025-26, leading to an economy that is persistently 0.4% smaller than it would have been otherwise.

The tariffs could also raise the price level by 1.7 percentage points.

Assault on the US Federal Reserve's independence

This brings us to another Trumpian departure from the GOP orthodoxy: far from recognizing the vital importance of price stability to a well-functioning economy,

Trump appears to be doing everything in his power to stoke inflation. Beyond his capricious tariff policy and fiscal profligacy, this has included an all-out assault on the US Federal Reserve's independence.

Trump wants the central bank to cut interest rates by three percentage points, even though inflation is running above the Fed's 2% target

Trump wants the central bank to cut interest rates by three percentage points, even though inflation is running above the Fed's 2% target.

To this end, he has publicly berated Fed Chair Jerome Powell, whose successor – to be appointed by Trump next May – will undoubtedly adopt the dovish stance Trump craves.

Trump has also attempted (unsuccessfully, so far) to fire Fed Governor **Lisa Cook** in order to advance his goal of ensuring that his appointees comprise a majority on the Fed's Board of Governors.

And such a majority would all but guarantee an era of higher inflation.

Economic populism always ends in tears

But perhaps Trump's most shocking departure from the Republican Party's economic playbook is his flagrant intervention in markets.

The Trump administration's acquisition of a

10% equity stake in Intel and its shakedown of Nvidia and AMD for a 15% cut of their sales in China look more like socialism than free-market capitalism.



The Trump administration's acquisition of a 10% equity stake in Intel and its shakedown of Nvidia and AMD for a 15% cut of their sales in China look more like socialism than free-market capitalism

Moreover, his introduction of a \$100,000 application fee for H-1B visas hampers the tech sector's access to skilled foreign workers, while his draconian immigration crackdown creates labor shortages in sectors like agriculture and construction.

This is not the business-friendly approach the GOP has long championed.

From Latin America to Turkey, we have seen that this kind of economic populism always ends in tears.

The question is how long it will take for America's reckoning to arrive. Recent market signals – including a 10% decline in the **dollar's value**, a 50% surge in gold prices, and persistently elevated bond yields – suggest that we may not have to wait long.

Foreign investors, it seems, are losing faith in American economic exceptionalism, and becoming increasingly concerned that the US might try to inflate its debts away.

If there is a silver lining to this mushrooming Trump-induced economic disaster, it is that it will vindicate, yet again, an economic-policy orthodoxy that today's GOP has rejected.

Desmond Lachman, a senior fellow at the American Enterprise Institute, is a former deputy director of the International Monetary Fund's Policy Development and Review Department and a former chief emerging-market economic strategist at Salomon Smith Barney.