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Trump Inherits a Deeply Damaged Economy

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President-elect Donald Trump speaks to members of the media during a press conference at the Mar-a-Lago Club in Palm Beach, Fla., on Jan. 7, 2025. Scott Olson/Getty Images

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1/8/2025 Updated: 1/8/2025

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Commentary

There is finally some optimism in the land. Unfortunately, good vibes are not enough to fix the deep structural problems that now afflict the U.S. economy, from inflation to a weak job market to a small-business sector that is barely hanging on, in addition to a tapped-out consumer and egregious financial problems in government itself.

To be sure, the U.S. economy still shines on the world stage. But that is simply because most everywhere else is in worse shape. The structural problems are global, owing to the explosion of public-sector debt, bureaucratic overhang, and regulatory impositions over these last five years. The United States might be the least bad but that observation alone doesn’t cause the problems to disappear.

In that context, a leading and brilliant economist in China, Dr. Gao Shanwen, admitted in a Washington, D.C forum that the growth rate of 5 percent is likely not real and actual growth in China is closer to 2 percent. He was promptly disciplined by the Chinese Communist Party on his return and no longer allowed to speak publicly.

This has become a pattern worldwide: the silencing of economists who dare to dispute obviously fake numbers. In the United States, however, there is at least the freedom to speak. Where are the problems and what is the reality?

For starters, U.S. inflation has been accelerating since September 2021. It is now running 3 percent in real time, or 50 percent above the target. This continued pain follows four years of the worst inflation in at least 40 years and probably much longer. By some measures, what we’ve been through equals or exceeds the pain of the 1970s. The only difference this time is that the bean counters in government have gotten better at hiding it.

How much purchasing power of the dollar has been lost? By official measures, the total in this inflationary wave is 22 cents, but industry numbers in food, cars, housing, and services such as insurance and transportation generate numbers nearly double that. No one knows for sure, and calculating large indices depend on the methodology of weighting and calculation of mitigating factors. Add in new fees and shrinkflation and you can generate even worse numbers.

Even if inflation ended today, the damage of the last four years will be with us for many years. Sadly, that is not happening. You know it just from being out shopping or looking carefully at the bills you are paying through autopay. Everything is still rising.

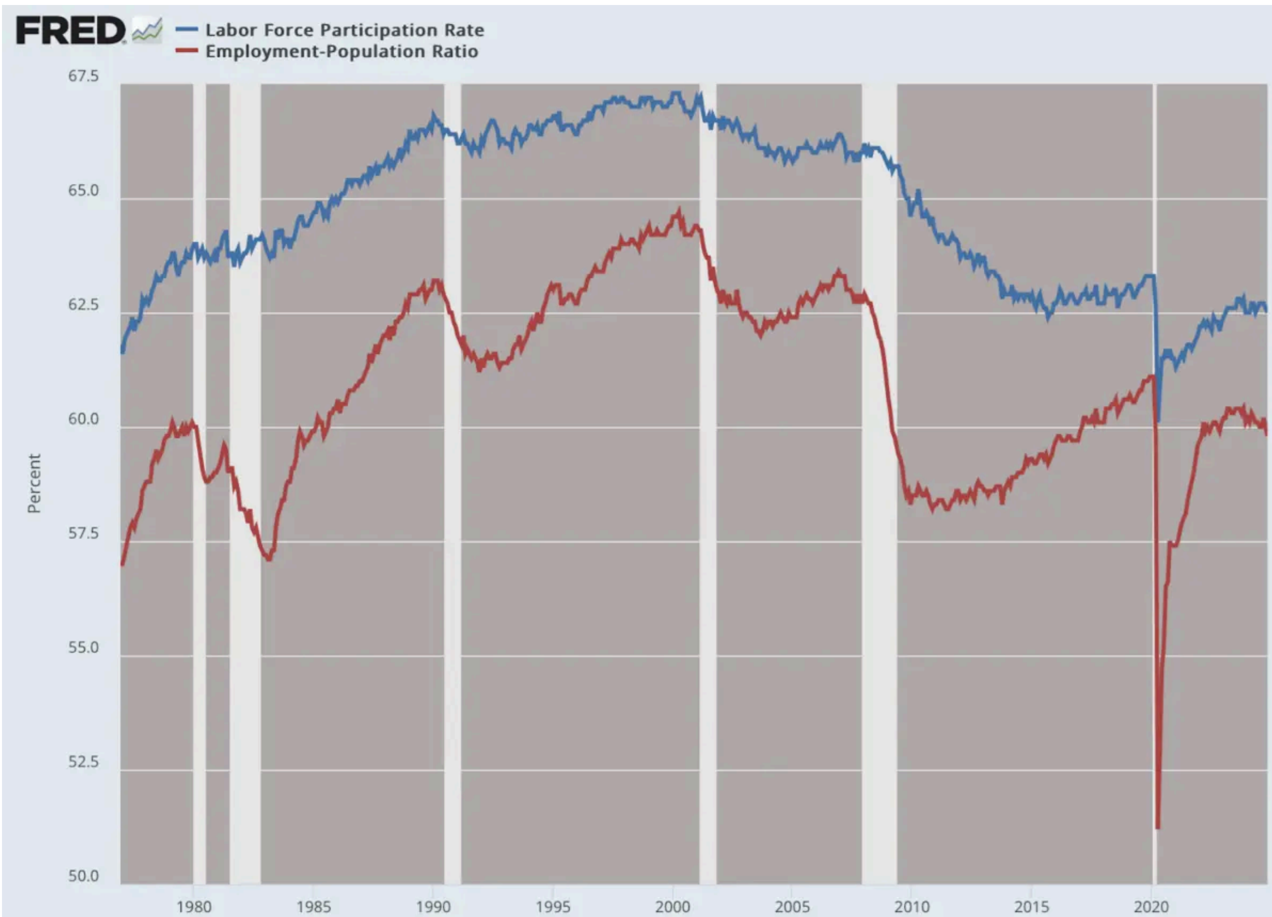
Why is this? Did the Fed and Congress not embark on an anti-inflation drive starting two or three years ago? Yes, but Congress did what it always does: spent more money, which creates more debt, which the Fed then monetizes and thus creates more money. The Fed initially worked to sponge up the excess with higher interest rates but reverse coursed last year with a new quantitative easing campaign.

The low point in the money stock came in November 2023. That reversed toward easing. As of today, there is more than $1 trillion in new U.S. dollars sloshing around the country and the world than existed 14 months ago. This combined with rising velocity (pace of spending) pushes inflation in the opposite direction.

In other words, our continued problems are a direct consequence of political pressure put on Congress and the Fed as we moved toward the 2024 election. As usual, the party in power chose money printing and spending as a method of election manipulation through the creation of the illusion of prosperity. The incoming administration is now holding this bag. There is absolutely nothing that the incoming president or Congress can do to reverse the damage. It can only hope to generate wealth effects from dramatic deregulation and tax cuts as a means of mitigating inflation. Even under the best of conditions, the problem will be with us for another year at least.

Another headline issue concerns the job market, which is more broken than is being reported. Both the employment-population ratio and the job participation rate have been falling for six months. This is after failing to fully recover from March 2020 lockdowns. They now stand at levels more commonly seen in the early 1980s before it became more common than not for women with young and school-age children to be in the workforce.

Something dramatic has changed. There are undoubtedly many factors at play but among them is that many people had their lives so fundamentally disrupted and never adapted to the gradual reopening of 2022 and beyond. Many more disabled people are out of work and living off government welfare while many older people simply gave up.



(Data: Federal Reserve Economic Data (FRED), St. Louis Fed; Chart: Jeffrey A. Tucker)

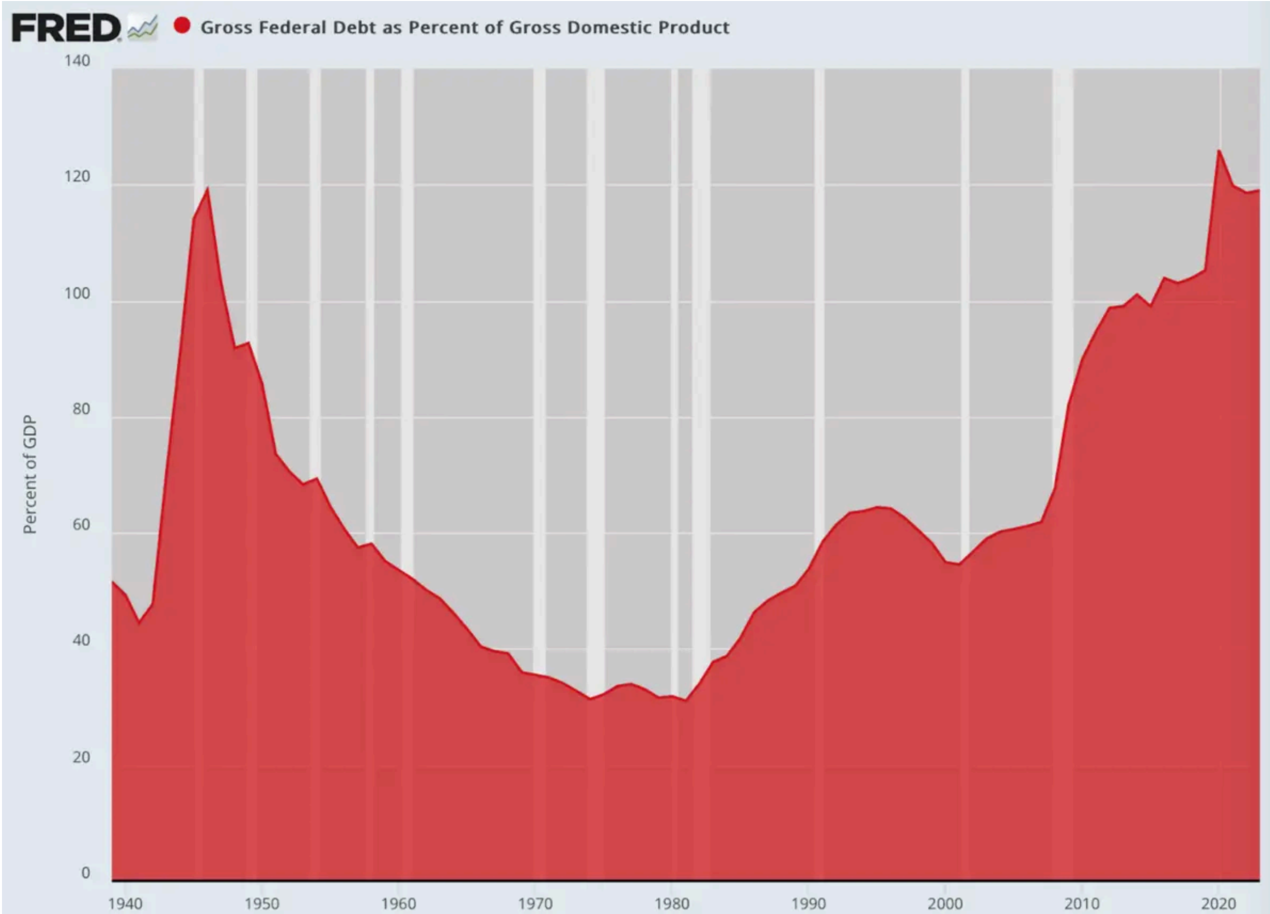
It's hard to say whether such structural changes are permanent. Some of them seem to be owing to the unavailability of childcare for women of childbearing age. There is a cultural shift at work too, with two-income households turning back to become one-income households homeschooling the kids. No question that the U.S. educational system is deeply stressed and parents and teachers are bailing out at rates never before seen. This undoubtedly affects the job market.

The actual data on job creation over four years seems in a constant state of flux as revisions keep coming in, always in the direction of downgrading and correcting exaggerations over the last four years. The nativity of the demographics also raises questions, as nearly all job creation has benefited not native born but foreign-born workers. Whether and to what extent mass deportations of undocumented workers will affect all these numbers is an open question.

Regardless, the hiring market in white collar professions has grown extremely tight. The Wall Street Journal reports: “There are still plenty of jobs for people looking for hands-on services work, including in the healthcare and hospitality sectors. It’s a much tougher slog for office jobs, where bosses are aiming to be leaner and in some cases replacing workers with AI. … To date, the labor market has been weakening primarily due to less hiring—not widespread layoffs. But once companies decide to reduce payrolls, job cuts often snowball quickly, which could spark a much faster jump in the unemployment rate.”

As for other data points such as retail sales and factory orders, those have been overreported for many years simply because it is not routine for them to be adjusted for inflation. Once you perform those calculations with official or more realistic estimates of prices, we observe economic activity as flat or falling during the whole of the Biden years. This might have worked to keep spirits high but reality is going to dawn in the coming months as national media and agency data collectors are more forthcoming about what is really going on.

Then you have the problem of government finance. Gross federal debt as a percentage of gross domestic product remains at levels not seen since the Second World War. This is an intolerably dangerous situation that puts everything at risk, crowds out private investment, and forever tempts the central bank into dealing with this problem with more money printing.



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This cannot last. Elon Musk formed, with Trump's blessing, the Department of Government Efficiency (DOGE) to deal with it, offering up the possibility of cutting $2 trillion from federal spending immediately, without touching entitlements. There is reason to doubt that this is possible but I've noticed that in the weeks before the inauguration, talk of such draconian cuts seems to have died down a bit. That is seriously worrying.

There is simply no chance for a major restart of American productivity without dealing with the budgetary crisis. Business as usual cannot work. And yet everything about Washington is designed to forestall such dramatic actions. It is far easier for anyone taking power to look the other way, even inventing new ways to spend money, than to deal with the crisis the way any household would.

The regulatory problem is screamingly obvious. The Biden administration has tangled up multiple sectors in a plethora of mandates and impositions to the point that many have been nonfunctioning by design. This is something that the Trump administration can actually do, and one hopes the de-tangling efforts will be immediate and drastic.

These are all very serious issues that confront the Trump administration. Another factor too: national media is going to be far more willing to call a spade a spade than it was under Biden. Maybe this is good but it does not bode well. Six months in, the Trump administration could find itself dealing with a backdated recession that could foil many of its attempts to entrench tax cuts.

It's a difficult problem inherited by an administration for whom public expectations could not be higher.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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