

# The Vibe Shift and the Wealth Effect

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President-elect Donald Trump greets Jon Jones after he defeated Stipe Miocic at UFC 309 at Madison Square Garden in New York early on Nov. 17, 2024. Evan Vucci/AP Photo



By Jeffrey A. Tucker

11/18/2024 Updated: 11/18/2024

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*Commentary*

The second weekend following the election that rocked the world had football players in the end zone doing the now-famous Trump Dance. The UFC event that put together the fabulous five of the MAGA/MAHA/DOGE team culminated with the winning fighter giving his prize belt to Trump himself.

One might call it joy, with the victorious avengers leading the way.



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Soon after the team was photographed on Trump Force One eating McDonald's hamburgers, reprising the iconic moment when the candidate trolled his opponent by actually working as a fry cook and serving customers. This was just before Trump himself put on the vest of a sanitation worker and drove a truck.

You know all these stories because there has been a sudden and remarkable shift in American politics. The pronouns are disappearing from bios, major influencers are hiding, pollsters are resigning, and a different ethos is obvious in every town center in America, even in blue states. It's as if a curtain has been lifted or a big weight has been pulled off the chest of the body politic.

I observe this without intended partisanship; indeed my blue-voting friends all confirm the same, and confess to some relief that maybe times are changing to better ones, with a more coherent understanding of who we are as a people and our task as a nation.

Maybe.

Behind this new exuberance, however, is a grim economic reality. There is no sense in which the economy is healthy. No matter what data you examine, you see some very dark clouds. The debt addiction by government, Wall Street, institutions, and households is palpable and, once you examine the numbers, truly scary.

Adjusting retail sales for inflation, for example, yields no real increase at all in years. In fact, once adjusted for inflation, there has been a net decline in retail sales.

Business inventories reflect the same. They are not really increasing, despite all reports. What you hear on the news is merely higher prices, which is not the same thing as economic growth.

Industrial production is extremely weak, reflecting continued loss of manufacturing energy and entrepreneurial weakness.

There is a strong argument to make—and the incoming Trump administration needs to point this out immediately—that we are **already** in what used to be called a recession. More specifically, this is an inflationary recession, because inflation is not gone but, by some measures, actually accelerating. Fundamentals point to a likely resurgence starting as soon as the spring of 2025, just in time to challenge the Trump campaign's promise to banish it forever.

Real income is down and falling. The U.S. dollar buys likely 40 percent less of goods and services than it bought just four years ago. That pertains to dollar-based structures of production but imports are a different story. They have risen far less in price, which you can discover by going to any retail outlet and buying a product that used to be produced in the United States which is now nearly entirely made abroad.

The manufacturing leakage out of the borders is not improving but getting worse, with growing manufacturing losses and trade deficits as far as the eye can see. With the dollar continuing to provide liquidity to the world, the flood of imports never stops while exports are dominated almost entirely by oil and gas.

Even in this sector, Europe is not unaware that it is far better off importing from Russia than the United States, which makes trade negotiations with Europe extremely difficult. Energy and debt assets are the only bargaining chips the United States has, and those are being eaten away in real time.

What does an incoming administration do with an economy mired in an unannounced inflationary recession, a weak production sector, and

a debt overhang the likes of which the world has never seen? A good mood and Trump dances only get a nation so far.

The problem of U.S. wars abroad is another issue entirely, and the evidence of the moment suggests that the outgoing administration has no intention of receding to the background ahead of the changing of the guard.

What to do?

As I've argued constantly, there are dramatic steps that Trump can take to mitigate against these dark clouds but it will absolutely require dramatic changes in regulatory burdens, agency hegemony, and outright federal spending.

The Federal Reserve needs to be relieved of the burden of monetizing debt but that only happens if the Treasury stops issuing T-bills. That is going to require a massive U-turn on federal policy starting immediately.

The team called DOGE (Department of Government Efficiency) has the right idea. The budget needs an immediate slashing, starting with the preposterous increases in government spending over the last year that have added hundreds of thousands of new government employees at all levels and zoomed the federal debt to levels never seen before, all in hopes of forestalling a Trump victory. It did not work and now those efforts need to be reversed.

But the troubles are far deeper. The bloat in government payrolls has been unchecked for generations, to the point that only a reported 5 percent of government employees actually go into the office. While I'm not privy to the average day of a government worker lucky enough to have such a gig, it is reasonable to assume that such talent could be far better deployed in private sector employment.

Ideas being floated around now involve immediate abolition of more than 100 agencies at least and buyout packages that would provide 1-2 years of severance for voluntary career moves. That seems like a

viable and highly necessary plan. Along with that, the Trump administration is planning to invoke the Supreme Court decision of *Loper Bright* to say that decades of regulatory imposition is actually unconstitutional.

Beyond that, there is the possibility of extreme capital gains and income tax cuts, in addition to that which has been floated on the campaign trail: no tax on tips, no tax on Social Security, and no tax on overtime. The notion that we could abolish the income tax completely and replace it with tariffs is not implausible given the current political moment, which compares to 1989-90 Eastern Europe.

Of course that kind of shift will require huge spending reductions on the level of that which we saw in Argentina last year. Javier Milei managed to reduce inflation from thousands of percent to 2.6 percent in a month, which is too high but vastly improved. The answer was reducing government spending and debt and thus reducing pressure on the central bank with its money-printing habits.

The United States could follow a similar path but the Trump administration must act extremely quickly.

Forgive a slight foray into economic theory. There are two paths that a shift in economic trajectories can take. The first is an “income effect.” That happens when people have either more or less money and adjust spending and resource allocation on that basis alone. This is all about accounting in real time: more resources, more spending; fewer resources, less spending.

But there is another possibility called the “wealth effect.” This occurs when assets obtain great value and people and businesses conduct their economic lives based on the expectation of great riches down the line. This requires massive confidence in the future, which involves a belief in greater freedom, more secure property rights, longer lives, and a better life generally speaking.

The wealth effect cannot be modeled. It cannot be fully anticipated. It cannot be mapped and calculated according to normal accounting

standards. The wealth effect is a form of magic: it draws upon a genuine confidence that the future will be vastly better than the present. The wealth effect can mitigate every storm cloud. It can boost investment, increase innovation, reduce inflation, and even balance the budget.

The wealth effect is the great unknown. But it can be unleashed by a regime that truly trusts the people with freedom and has the courage and boldness to dismantle the machinery that is currently holding back the visions and aspirations of a people clamoring for genuine economic opportunity.

There are few times in history where we have seen this work: Britain in the 18th century, America in the late 19th century, Japan and Germany after the Second World War, Vietnam at the end of the Cold War, and so on. Firing up the wealth effect requires change in Washington, D.C., like none of us have seen in our lifetimes.

In other words, the vibe shift, as delightful as it is, is not enough. We need real evidence of change. Is the incoming Trump administration up to the task? If so, we are going to see far more dancing in the end zones.

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