

MACROCOSM

On Bessent and Tariffs

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Extending TCJA is job one. Tariffs appear to be only a revenue-raiser.

In his [confirmation hearing yesterday before the Senate Finance Committee](#), Scott Bessent, president-elect Donald J. Trump's nominee for Treasury Secretary, presented himself with grace, dignity, knowledge and competence. That will be sufficient to assure his confirmation with no controversy. And in today's toxic environment of identity politics based on sorting people between oppressor and oppressed, Bessent has thick Teflon as an openly gay married man.

His highest-energy moments were in robust advocacy for renewing the expiring provisions of the 2017 Tax Cuts and Jobs Act. Of all the economic policy initiatives requiring legislation (as opposed to deregulation, which generally does not), we think this is the new administration's most important call to action. There are other policy domains that *could* be highly consequential – such as tariff and border policy. But this one *will* be consequential because the expirations at year-end are automatic under current law – unless there is an intervention.

- In [Bessent's prepared testimony](#), he said,

“As we begin 2025, Americans are barreling toward an economic crisis at year end. If Congress fails to act Americans will face the largest tax increase in history, a crushing \$4 trillion tax hike. We must make permanent the 2017 tax -- 2017 Tax Cuts and Jobs Act and implement new pro-growth policies to reduce the tax burden on American manufacturers, service workers and seniors”.

- In response to prompting from Committee Chair Michael D. Crapo (R-ID), Bessent said,

“...this is the single most important economic issue of the day. This is pass/fail, that if we do not fix these tax cuts, if we do not renew and extend, then we will be facing an economic calamity, and as always with financial instability, that falls on the middle and working class people. We will see a gigantic middle class tax increase. We will see the Child Tax Credit halved. We will see the deductions halved. So, it will be what we call in economics, it has a potential for a sudden stop. And as I said, traditionally, with these sudden stops, it falls on working Americans.”

Update to strategic view

US MACRO: Bessent conducted his confirmation hearing in the Senate yesterday with grace and competence and will be easily confirmed. He revealed his top priority to be the extension of the expiring provisions of the 2017 Tax Cuts and Jobs Act. He didn't mention tariffs until asked, and did not reveal his policy intentions. In reply to Wyden, he argued the consumers do not ultimately bear the “tax incidence” of tariffs. But if they do not, then what is to change their behavior toward favoring domestically produced goods, driving a US manufacturing renaissance envisioned by Trump, Vance and Miran? Bessent's arguments seem to leave little room for tariffs as anything but a revenue-raising stratagem at the expense of other nations. The issues here are complex, as are the political process for implementation – as is the total context in which any tariffs might be imposed. We urge a wait-and-see approach before guessing the impacts on the economy and the markets.

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Okay, a little melodramatic. But that's how this game is played. The point is that the incoming Treasury Secretary has put a marker down that this will be a top priority.

- We think the drama is little overdone. We wouldn't expect a "sudden stop" if the expiring provisions are not extended. However, we would expect to see slower growth than if they were, and that would feed forward into disappointing tax revenues

Bessent didn't mention immigration policy, though we believe it to be a potentially very important economic policy domain (see, earliest, ["Video: What you're not hearing about the effects of immigration on the post-pandemic boom"](#) April 9, 2024). It came up in the hearing once, *en passant*, in questioning by Senator Michael Bennet (D-CO) who repeatedly called Bessent "Mr. Mnuchin."

Bessent didn't mention tariffs in his prepared remarks. They are a signature Trump policy took, this would seem to relegate them to second-order importance in Bessent's mind.

- Or perhaps the topic of tariffs is seen by Senate Republicans as being a little radioactive. That could be why Chair Crapo didn't ask Bessent about them in his questioning that opened the hearing. But Democratic Ranking Member Ron Wyden (D-OR) went right for it when he went second in the hearing. Wyden said,

"... Donald Trump, with no plan and no strategy, says he's going to put across the board tariffs – blanket tariffs on all imported goods, which means that our workers and our small businesses are going to get clobbered with additional taxes on practically everything they buy from other countries. ...you can call it whatever you want in terms of trying to gussy it up, they're going to be paid for by our workers and small businesses. And all through the campaign we heard they weren't – that foreign countries were going to pay it, I think that's baloney."

- Significantly, Bessent did not take this opportunity to reveal anything about his intentions for tariffs. But his narrow response shows that he is well versed in the pro-tariff literature, such as the manifestos of [Michael Pettis](#) (see ["Video: TrendMacro conversation with Michael Pettis on the risk to the US dollar losing reserve currency status"](#) August 27, 2024) and [Stephen Miran](#) (Trump's nominee for Chair of the White House Council of Economic Advisors). Bessent replied,

"...I would respectfully disagree and the history of tariffs and tariff theory – optimal tariff theory does not support what you're saying. Traditionally, we see that the current – if we were to say use a number that has been thrown around in the press of 10 percent, then traditionally, the currency appreciates by 4 percent, so the 10% is not passed through. Then, we have various elasticities,

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consumer preferences may change. And finally, foreign manufacturers, especially China – especially China, which is trying to export their way out of their current economic malaise, they will continue cutting prices to maintain market share.”

- *This line of reasoning is laser-focused on the narrow issue, raised by Wyden, of who effectively pays the tariffs.* That is, on whom does the “tax incidence” fall? Consumers? Importing firms? Exporting firms? Exporting nations?
- *Bessent is arguing three ways that American consumers do not pay the tariffs.* We have presented such arguments ourselves, and we find them at least plausible enough to raise reasonable doubt and dictate a wait-and-see approach (see, among others, [“Predictions for 2025: Tariffs”](#) January 3, 2025).
- First, Bessent argues that American tariffs cause the dollar to appreciate. They didn’t in 2018 and 2019 (again, see [“Predictions for 2025: Tariffs”](#)). But the “theory” as Bessent calls it would be that, all else equal, tariffs would make it harder for countries to over-export to acquire dollars to hold as reserves, so they would have to pay up for dollars in the markets. *The idea is that if the dollar that American consumers use to buy foreign goods appreciates, that offsets the tariffs.*
- Second, when Bessent says that “consumer preferences may change,” he is arguing that *consumers will turn away from tariffed foreign goods and substitute non-tariffed domestic goods.* But if a stronger dollar makes tariffed goods no more expensive, why would they do that? And what if there is no domestic substitute? Even if there is, wouldn’t the domestic producer raise his prices toward the after-tariff price of the foreign competition? However it works, the evidence from the 2018 and 2019 tariffs is that they made no difference at all to overall US consumer prices (again, see [“Predictions for 2025: Tariffs”](#)).
- Third, Bessent argues that exporting nations could cut their prices, so that the after-tariff price experienced by Americans is no higher than before. Such price cuts could be at the level of exporting firms, or at the national level through subsidies or currency depreciation. This is a credible possibility – indeed, it is the bedrock mechanism through which export-driven nations create trade surpluses.
- *The biggest problem for all these arguments, taken together, is that they leave you wondering what the point of tariffs is to begin with.*
- Except for the nod to the possibility that “consumer preferences may change” – which is contradicted by the arguments that exchange rates and foreign price cuts will offset the price effects that would be the only mechanism through which “consumer preferences may change” – it seems that tariffs won’t affect the volume of foreign goods bought in America. *After all, the only way they could change those volumes would be if, as Wyden says, we “get clobbered with additional taxes.”*
- So that leaves a purpose for tariffs that Bessent doesn’t mention here – revenues for his Treasury. If he is right, consumers won’t be impacted – but those tariffs will nevertheless be paid (by someone else), and that will go straight to the Treasury.

- Vice President JD Vance (R-OH) [will be disappointed](#) by this paradigm, because it wouldn't seem to hold out much chance for a renaissance of manufacturing jobs in Ohio.
- And Stephen Miran will have to settle for US debt and deficit reduction as all he gets for using tariffs in an attempt at "restricting the global trading system."

These are the complexities entailed when we talk about tariffs. This is why we advocate a wait-and-see approach in terms of trying to forecast impacts on the economy and the market. We don't know what, if any, tariffs will really be imposed or proposed by Trump. Of those that require legislation, we don't know what can get through a closely divided Congress. Of those that get through, we don't know how they will be packaged with other changes to the tax code. Wait and see, everybody.

Bottom line

Bessent conducted his confirmation hearing in the Senate yesterday with grace and competence and will be easily confirmed. He revealed his top priority to be the extension of the expiring provisions of the 2017 Tax Cuts and Jobs Act. He didn't mention tariffs until asked, and did not reveal his policy intentions. In reply to Wyden, he argued the consumers do not ultimately bear the "tax incidence" of tariffs. But if they do not, then what is to change their behavior toward favoring domestically produced goods, driving a US manufacturing renaissance envisioned by Trump, Vance and Miran? Bessent's arguments seem to leave little room for tariffs as anything but a revenue-raising stratagem at the expense of other nations. The issues here are complex, as are the political process for implementation – as is the total context in which any tariffs might be imposed. We urge a wait-and-see approach before guessing the impacts on the economy and the markets. ▶