

MACROCOSM

What is Trump's Mandate? On Day One, It's Not Tariffs

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In a firehose of Day One policy moves, Trump is handling tariffs with appropriate caution.

[The new White House website](#) is barely up and running. As of this writing, there is no published transcript there of Donald J. Trump's inaugural address. Some of the [slew of executive orders](#) (which mostly undid former President Joseph R Biden's slew of executive orders) is there.

In terms of economic policy, the priorities are just as we said they'd be (see ["Trump's TrendMacro Cabinet"](#) November 25, 2024). They align with [the number one and number two priorities of voters of both parties](#):

- *First, to address the crisis in affordability by deregulating the economy (especially energy) in order to lower prices, and to reduce taxes in order to bolster real disposable incomes* (see ["Oil Under Trump: War and Peace, but Mostly Deregulation"](#) November 20, 2024; and ["The Trump Effect"](#) December 11, 2024; and ["On Bessent and Tariffs"](#) January 17, 2025).
- *Second, to address the crisis in excessive admission of new immigrants, legal and illegal* (see, among many, ["Video: What you're not hearing about the effects of immigration on the post-pandemic boom"](#) April 9, 2024).
- *We think the accent on deregulation and low taxes – including extending the expiring provisions of the 2017 Tax Cuts and Jobs Act – is an unalloyed good for the economy and the markets, and is likely to have its most substantial effects in small-cap stocks and the energy and banking sectors.* But we fear that substantially slowing the flow-rate of immigration will put a ceiling on growth potential arising from the other initiatives (see ["Open Borders Produced the Biden Economic Boom"](#) May 24, 2024).

We note that, as we predicted (again, see ["On Bessent and Tariffs"](#)), there was nothing about tariffs in an otherwise very busy 24 hours of policy-making.

- The word doesn't appear on the White House website's [statement of the administration's priorities](#). Halfway down there is this single sentence: "President Trump will announce the America First Trade Policy."

Update to strategic view

US MACRO: Trump's slew of executive orders on Day One mostly undoes a slew of executive orders under Biden. But they, and his inaugural speech reveal his economic policy priorities as closely in line with the wishes of the electorate. Growth potential is augmented by his addressing the crisis in affordability with deregulation (especially energy) designed to lower prices, and cutting taxes to bolster disposable income. Closing the border cuts against that growth potential. Tariffs had no role in Day One. Trump is handling them with caution, probably recognizing that you can't cut taxes by raising taxes. But he argues that foreign nations pay those new taxes, and has floated creating an External Revenue Service to collect them. This raises the prospect of other trade-related taxes, potentially on foreign holdings of US securities, as advocated by CEA-nominee Miran.

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- Among the many executive orders, the only one concerning trade [calls for a study to develop that America First Trade Policy](#). Tariffs are mentioned five times as a potential tool. Calling for a study is a classic political trick for fulfilling a campaign promise without fulfilling a campaign promise: don't actually do anything, but say you will study it, and that itself is doing something. We're not by any means saying the matter ends here – but it's clearly not a top priority, at least not one on which Trump is willing the charge ahead immediately, expend precious political capital, and perhaps in all its complexity make a stupid error.
- *The risk of policy error is very real here, especially considering that Trump's number one economic priority is addressing the affordability crisis by lower taxes. Tariffs, after all, are taxes. If you lay on tariffs, you are raising taxes.*
- Trump mentioned tariffs only twice in his inaugural address. One passage began with the promise to “immediately begin the overhaul of our trade system to protect American workers and families.” This would seem to be a shout-out to economic policy appointees such as Stephen Miran, nominated for Chairman of the White House Council of Economic Advisors, [whose manifesto](#) – called “A User's Guide to Restructuring the Global Trading System” – advocates tariffs, taxes on foreign holdings of US securities, and currency devaluation (see [“Predictions for 2025: Tariffs”](#) January 3, 2025).
- In the entire remainder of the passage, he said:

“Instead of taxing our citizens to enrich other countries, we will tariff and tax foreign countries to enrich our citizens. For this purpose, we are establishing the External Revenue Service to collect all tariffs, duties, and revenues. It will be massive amounts of money pouring into our Treasury coming from foreign sources.”

- The executive order calls for studying the creation of ERS. Even if this is only an exercise in branding, it is revealing.
- First, it would seem to be a doubling down on Trump's often-stated belief that exporting foreign nations effectively bear the “incidence” of tariffs, even when the actual checks are written by US importers and arguably passed on the US consumers (as the Fed certainly believes is the case – see (see [“On the December Jobs Report, and How The Fed is Trumping Itself”](#) January 10, 2025).
- But second, this can be read just as easily as speaking to imposition of taxes on foreign holdings of US securities such as Treasury bonds, in order to make it more expensive for exporting nations to run trade surpluses.
- *In one sense this relegates tariffs to merely a revenue mechanism,* one which could enable reducing other taxes (again, see [“On Bessent and Tariffs”](#)), making these tax hikes subsidiary to the overarching goal of tax cuts.
- In another sense, coupled with taxes operating as capital controls, *this relegates tariffs to a recapture mechanism that exacts from*

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foreign exporters compensation to the US for bearing the “exorbitant burden” of supplying the world’s reserve currency, which Vice President JD Vance has argued has immiserated America’s industrial base.

- Importantly, this does not position tariffs as a “sin tax” designed to disincentivize US consumption of exports, and somehow consume instead similar domestic goods and services (which may not even exist anymore, and may never again).
- It may be that Trump simply wants the foreign-sourced revenue. He may well see it as free money, laying there to be picked up. In another passage in the speech, the only other mention of tariffs, he praised former president William McKinley for having “made our country very rich through tariffs.”
- Or – and – he may see the threat of the exaction of that revenue as a lever to get other nations to buy more US goods, pay a larger share of global defense costs, or some other diplomatic goals. The threat of tariffs against Canada and Mexico if they don’t cooperate in border control is still operative. Trump confirmed this in response to a question during his oval office press conference yesterday.

We aren’t saying tariffs won’t be a policy threat at some point. But just as likely they will be a policy opportunity, if they allow cutting other tax rates.

- As we have shown, the tariffs Trump imposed in 2018 and 2019 had little or no effect on anything – Treasury revenues, inflation, the dollar, or even the trade deficit (again, see “Predictions for 2025: Tariffs”).
- What’s clear now is that, for all the campaign bluster, Trump is taking his time and exercising care. We, you, and the Fed should wait and see.

Bottom line

Trump’s slew of executive orders on Day One mostly undoes a slew of executive orders under Biden. But they, and his inaugural speech, reveal his economic policy priorities as closely in line with the wishes of the electorate. Growth potential is augmented by his addressing the crisis in affordability with deregulation (especially energy) designed to lower prices, and cutting taxes to bolster disposable income. Closing the border cuts against that growth potential. Tariffs had no role in Day One. Trump is handling them with caution, probably recognizing that you can’t cut taxes by raising taxes. But he argues that foreign nations pay those new taxes, and has floated creating an External Revenue Service to collect them. This raises the prospect of other trade-related taxes, potentially on foreign holdings of US securities, as advocated by CEA-nominee Miran. ▶