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Election 2024: Immigration, Tariffs, and the Battle for the US Economy

The outcome of November's election could materially alter the current trajectory of the economy.

The US presidential election in November 2024 will carry monumental implications from economic, fiscal, institutional, and societal perspectives. While too early to have a significant degree of confidence in the outcome, a potential Republican sweep (Presidency, House, Senate) would represent a seismic event for the bond market given the combination of increased probability of higher cost-push inflation through an acceleration in protectionist policies (higher tariffs and immigration restrictions) and a large fiscal easing relative to current Congressional Budget Office forecasts.

Stark Contrast in Policy Proposals From a Supply-Side Economics Point Of View

At a high level, any improvement in the supply side of the economy is a more positive outcome for the growth and inflation tradeoff, while a negative supply shock worsens that relationship. From 2020–2022, we saw deteriorating supply conditions, while the last year has been categorized by an improving supply side (through higher immigration and a pickup in productivity growth). Part of my structural inflation research—which shows a higher average inflation rate and more volatility around that trend over time—is based on a deteriorating medium-term labor-supply backdrop. This, in turn, makes wages more volatile, and further supply constraints in tradable goods leads to prices being more sensitive to demand.

While my bias is that these conditions are sustained over the medium term regardless of the election outcome, the trend could accelerate depending on the result. Former President Donald Trump's policy proposals would represent a material negative supply shock—tariffs have the potential to reduce the global supply of tradable goods and restrictive immigration limits available workers—which could result in more sustained medium-term inflation. Immigration policy differences will be increasingly important for the relative supply-side and growth-inflation tradeoff.

Notable Labor Policy Differences Between the Candidates

Details of Trump's various policy proposals are somewhat light at this stage and subject to implementation risks. That said, there are clear signals that tariffs and more significant immigration restrictions and deportations are likely under another Trump term. Importantly, some of these policies don't require Congressional approval. There are three sources for Trump policy proposals: his campaign, the America First Institute, and the Heritage Foundation Project 2025. These three topics are consistent across all three:

- A move to a merit-based immigration system
- Increased border security for illegal immigration (including finishing a wall on the southern border with Mexico), possibly utilizing the US Army; and
- Deportation of undocumented workers. Various estimates suggest 10–15 million undocumented people currently reside in the US, 95% of whom are working age.

Insight from sub-adviser Wellington Management

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Key Points

- The market will likely face bouts of volatility as the US election cycle heats up between now and November.
- Former President Trump's proposed second-term policies, including additional tariffs and more restrictive immigration policy, could potentially lead to increasing labor shortages and raise inflation.
- President Biden's proposed second-term policies aim to increase labor-force participation, childcare subsidies, and paid parental leave; all these initiatives would require the Democrats to regain control of the Congress.

While President Joe Biden's campaign has been slow to release specific policy proposals for a prospective second term, we do have a few hints based on recent rhetoric and his earlier policies. These include policies designed to increase labor-force participation: free preschool for children ages three and four, more significant childcare subsides, and paid parental leave. However, this would likely require Democratic control of Congress, and the Republicans are increasingly expected to control the Senate after the election, although the candidates chosen in various states will matter. In theory, these policies would increase the probability of more sustained increases in prime-age labor-force participation, therefore reducing the supply-driven medium-term inflation risks.

Structural Demographic Backdrop Likely to Prove Inflationary

Current estimates show moderating growth in the population and labor force over the next several decades. However, more than 70% of growth in both the population and the labor force will be due to immigration given current domestic demographic headwinds. While it's hard to put firm numbers around the implications of potential labor-force policies, Trump's combined policies would increase the probability of a smaller contribution from immigration in 2025 through 2028. Much of the structural decline in immigration relative to trend occurred following policy changes and rhetoric in 2017—and didn't recover until last year. Trump's policies would represent a negative labor-supply shock, increasing the probability of more significant labor shortages over the next five years and, therefore, stickier cost-push inflation pressure.

> Immigration policy matters because more than 70% of growth in both the population and the labor force will be due to immigration.

Clear Contrast in Trade Policy Approaches; Tariffs Not Going Away

Biden hasn't campaigned on or discussed increasing tariff rates or trade policy more broadly beyond further tightening technology exports to China. Trump, on the other hand, has signaled a renewed willingness to further increase tariffs. Specifically, he has proposed the following:

- An across-the-board 10% tariff on imports plus increasing tariffs "where appropriate," up to 60%–100% for some select goods;
- An increase in industrial and agricultural assistance; and
- Better alignment of World Trade Organization (WTO) trade practices or the creation of a WTO successor that excludes China.

I find it highly unlikely that Trump would abort the USMCA[1] and enact tariffs on Canada and Mexico. Assuming the stated policy of 10% tariffs, I calculate a direct cost of around $300 billion, or 1.1% of US GDP, and an increase in total inflation by 0.5%–1.0%. However, this is just in isolation and second-round impacts combined with supply-chain disruptions could add more. Trade volumes have already been trending lower over the last decade, partly due to a rise in protectionist policies.

An acceleration in this type of policy could increase further cost-push inflation pressure, and reduce the sustainability of productivity increases—a prospect that otherwise looks increasingly strong over the medium term.

A financial professional can help you build a portfolio that's right for you regardless of what's happening in Washington, D.C.

[1] United States-Mexico-Canada Agreement proposed by Trump to replace NAFTA that became effective July 1, 2020.