

Reducing Inflation Is Job One for Trump

di Justin Muzinich

President-elect Trump has a historic chance to create a soaring economy. American innovation is booming, and he has a strong economic team. He and his advisers understand that broadly shared economic growth improves people's lives, shrinks debt relative to gross domestic product, allows increased military spending and improves our capacity to compete with China. Like a business, if a country is growing, everything is easier.

But unleashing economic growth will require Mr. Trump to do what [Joe Biden](#) couldn't: control inflation. The pace of inflation has been slowing, but the Bureau of Labor Statistics released data in November indicating that inflation is sticky. According to an Oct. 25 survey from the University of Michigan, long-run inflation expectations remain around 3%, above the Federal Reserve's 2% target. This isn't surprising, as inflation has been all over the news for three years. You don't forget the dog that just bit you.

But inflation expectations have consequences. If businesses think the future will be inflationary, they will raise prices in anticipation. Some businesses worry that Mr. Trump's policies—including tariffs and tax cuts—will increase inflation. But tariffs won't necessarily cause much inflation, depending on their final form. A Nov. 14 [Goldman Sachs](#) analysis suggests the effect of a 10% across-the-board tariff could be as low as a one-time price adjustment of 0.6%. Similarly, if tax cuts are largely an extension of expiring provisions of the Tax Cuts and Jobs Act of 2017, they needn't be inflationary. But businesses can't predict how Mr. Trump will balance inflation with his other policy goals until he reveals his intentions. Mr. Trump can address their uncertainty by making clear that controlling inflation is a priority.

This would be good policy for three reasons. First, if inflation expectations stay anchored, the Fed can be more accommodative, stimulating economic growth. Second, low-income Americans suffer the most from price increases. Inflation would make Mr. Trump's "blue-collar boom" hard to achieve regardless of other policy successes. Finally, Mr. Trump's approach to inflation could define his economic legacy. The most proximate cause of the recent inflation was Mr. Biden's \$1.9 trillion stimulus bill, which he signed in March 2021 even though unemployment had fallen to 6.1% from 14.8% in April 2020. But if inflation reignites, it will jeopardize the GOP's success in the midterm elections as well as JD Vance's prospects for the presidency in 2028. Better to kill inflation expectations early.

A good historical model is Ronald Reagan's first year as president. When Reagan won in 1980, inflation expectations were much higher than they are today. Reagan had promised expansionary policies like tax cuts during his campaign, but in several speeches in 1981, including his address to Congress less than a month after inauguration, he made clear his commitment to containing inflation. The precipitously high inflation of the time meant that controlling it required a recession. But once it was tamed in late 1982, the economy boomed.

No recession is needed today, but the principle remains. Ensuring price stability early on will provide the necessary foundation to sustain a blue-collar boom for American workers and families. Mr. Trump must ensure that he controls inflation before inflation controls his agenda.

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