

## Inflation and DOGE

We have called inflation “political kryptonite” because it is so damaging to politicians. Clearly, inflation played a role in the 2024 election. So now that President Trump sits in the Oval Office, his opponents have been trying hard to link anything and everything in his agenda to inflation.

The first two theories involved (1) higher tariffs and (2) deportations of illegal immigrants. As we’ve said before there is plenty of room to debate the merits of these policies on other grounds, but general price inflation is not one of them. Back in his first term, President Trump raised tariffs and reduced immigration, and CPI inflation averaged 1.9% annualized.

Yes, tariffs put upward pressure on prices for the items that are tariffed. But, unless the Federal Reserve starts increasing the money supply faster, that will mean countervailing downward pressure on prices for other goods and services. And what was true in 2018 remains true in 2025.

So, what about low (or even negative) immigration? Advocates for high immigration have always argued that newcomers don’t take jobs away from natives or reduce their wages because while immigrants may increase the supply of labor, they also increase the demand for goods and services. With both supply and demand rising, the impact of immigration is neutral on inflation. So, if that’s true, deportations would just reverse that, reducing both supply and demand.

Immigration surged in 2021-24 and yet inflation averaged almost 5% per year, the most in decades. If we can have high immigration and high inflation, we think the Fed can get to low inflation with low immigration, as well.

So, now, with President Trump floating the idea that a portion of any savings created by DOGE could be used to pay a dividend to taxpayers...guess what...that’s inflationary, too!

Once again, we don’t think this makes sense. Inflation is still always and everywhere a monetary phenomenon, as Milton Friedman taught many decades ago. DOGE budget cuts and DOGE dividends would not affect monetary policy.

But even if we force ourselves to think within the walls of Keynesian theory, it still doesn’t make sense. If DOGE reduces government spending by \$1 and policymakers then send out checks to the American public worth, say twenty cents, the deficit would still fall by eighty cents. So even if you think deficits cause inflation, DOGE would still be putting downward pressure on inflation, just not quite as much as it would if all the DOGE-related spending cuts went to deficit reduction only.

The bottom line is that regardless of whether the budget deficit is large or small, inflation still depends on the Fed. We can have a large budget deficit with low inflation, like after the 2008-09 Financial Panic and Great Depression, or a large deficit and high inflation, like during and after COVID. We can also have modest deficits and high inflation like in the 1970s or modest deficits and low inflation like in the 1950s.

It is true that a bigger government makes inflation more likely. Why? Because every dime the government spends is taken from the private sector – through borrowing or taxation. The bigger the government gets, the smaller the private sector becomes. This reduces potential economic growth. If the Fed reacts by printing more money to counteract this slower growth, or if the Fed prints money to buy government debt and finance government spending, then inflation will rise. So, DOGE, to the extent it shrinks government will actually help boost growth and lessen long term inflation problems.

So far, the economic impact of the Trump administration policies is more likely to bring inflation down in the future. And DOGE, by eliminating wasteful spending will actually help that cause. However, the inflationary pressures unleashed by the Fed during COVID are still not defeated. The consumer price index was up 3.0% in January from where it was a year ago. This is still above its average during the past few decades. But just because you think inflation is still a problem doesn’t mean you have to buy whatever theory partisan political advocates are selling.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-26 / 9:00 am	New Home Sales – Jan	0.680 Mil	<b>0.689 Mil</b>		0.698 Mil
2-27 / 7:30 am	Initial Claims – Feb 22	221K	<b>217K</b>		219K
7:30 am	Q4 GDP Second Report	+2.3%	<b>+2.3%</b>		+2.3%
7:30 am	Q4 GDP Chain Price Index	+2.2%	<b>+2.2%</b>		+2.2%
7:30 am	Durable Goods – Jan	+2.0%	<b>+2.6%</b>		-2.2%
7:30 am	Durable Goods (Ex-Trans) – Jan	+0.3%	<b>+0.1%</b>		+0.3%
2-28 / 7:30 am	Personal Income – Jan	+0.4%	<b>+0.3%</b>		+0.4%
7:30 am	Personal Spending – Jan	+0.2%	<b>+0.3%</b>		+0.7%
8:45 am	Chicago PMI – Feb	40.8	<b>40.6</b>		39.5