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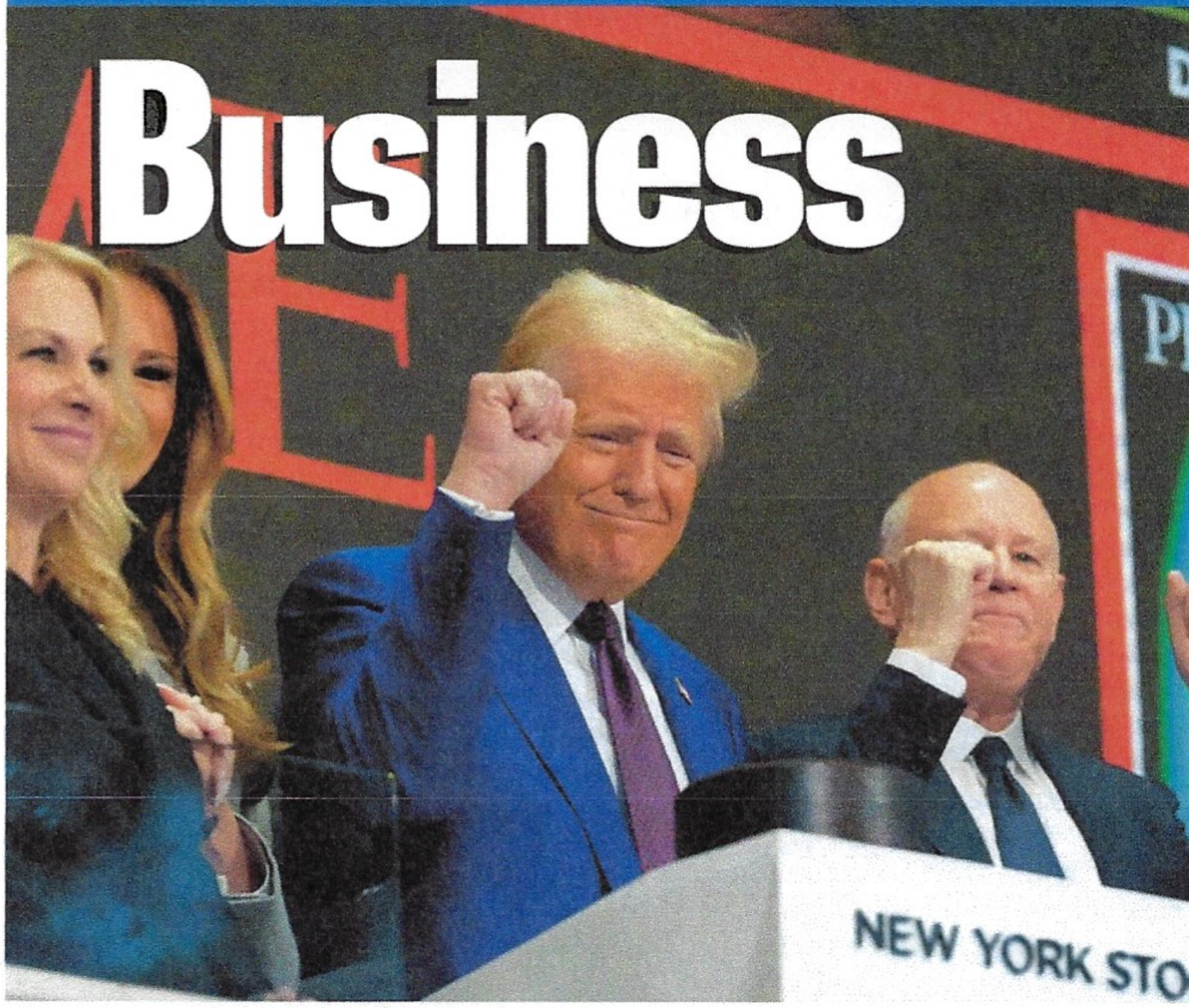

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FINANCE & ECONOMY

Tariffs, crypto, and interest rates set to dominate 2025 economic agenda

The second Trump administration, taking office Jan. 20, will be a marked shift from the Biden years

By Zach Halaschak

This new year will be a big one in the world of economic policy. Here is what to expect as the calendar turns to 2025 — and likely supercharged once President-elect Donald Trump takes office on Jan. 20, 2025, for a second, nonconsecutive term.

Inflation will top the list, considering it played an outsize role in Trump's 2024 defeat of Vice President Kamala Harris, once she became the Democratic nominee due to President Joe Biden's White House departure after one term. Too-high inflation continued its gradual descent. The Federal Reserve, after months of raising and holding interest rates high, finally conducted its rate cut since the start of the COVID-19 pandemic. Still, the Fed will have to contend with sticky inflation in some sectors, such as groceries and much more.

As for the incoming Trump administration, expect big changes in a bunch of economic realms. Trump is pushing for major tax legislation. He's also calling for sweeping tariffs. While the cryptocurrency industry is gearing up for major changes.

TAXES

The biggest legislative story of the new year is slated to be the Republican effort to extend expiring provisions of the 2017 Tax Cuts and Jobs Act, better known as the Trump tax cuts. Many key portions of Trump's signature domestic legislation are set to expire at the start of 2026, so Republicans have made the matter a major priority.

Republicans are expected to pass tax legislation with TCJA extenders — and likely add new ones — through a budgetary process called reconciliation, which only requires a bare majority of support or 51 votes, avoiding the 60-vote filibuster rule.

There are some major limitations to using reconciliation because of something known as the Byrd Rule. For instance, the provisions in the legislation must be budget-related and cannot include nonbudgetary items. So, moving tax rates up or down can be done, but adding in other policy changes would be outside the remit and could be shot down by the Senate parliamentarian.

The big question on Capitol Hill now, though, is whether Republicans try to push through one huge reconciliation bill that includes things such as border provisions and tax policy or if they break their priorities down into two bills.

Incoming Sen. Majority Leader John Thune (R-SD) has signaled he wants one initial bill focused on the border that would be pushed through during the first month of Trump's presidency. Though across the Capitol, Ways and Means Chairman Jason Smith (R-MO) — the House's top tax writer — would prefer one big reconciliation package.

Bill Hoagland, senior vice president at the Bipartisan Policy Center, said the big question with the tax policy legislation is how it will be paid for, considering the country's growing deficits and national debt, which recently surpassed $36 trillion.

If the reconciliation process is split in two, Hoagland predicts the first package will likely include some tax provisions that would generate revenue, for instance, repealing some of the energy tax credits that were in the Democrat-backed Inflation Reduction Act. Those could be used to pay for things such as increasing spending on the border wall or detention centers, for example.

Republicans want to extend existing provisions in the TCJA, but on the campaign trail, Trump pitched further tax cuts such as exempting taxes on Social Security and tipped wages. He also advocated lowering the corporate tax rate to 15% and lifting the cap on state and local tax deductions — all things that would add to the deficit.

Full faith & Credit clause

In addition to all of the tax matters, the debt limit has been raised enough to last until January 2025. After that, the Treasury Department will begin to take "extraordinary measures" once again. Those could only be used so long until the "X-date," which is when the Treasury would no longer be able to guarantee that it can pay its incoming obligations.

The confluence of all of these factors and agenda items will mean Congress will be very busy with tax and fiscal policy this coming year.

"I don't know what to say other than, 'Boy, there is going to be a lot going on in the budget and fiscal area next year,'" Hoagland, a Senate Republican budget staffer for more than two decades, told the *Washington Examiner*.

TARIFFS

Another big economic story heading into 2025 will be tariffs. Trump has promised 10% to 20% across-the-board tariffs, something that would be a major increase from his first term in office.

Trump has already announced some new tariffs. On social media, the president-elect said he would put tariffs against Mexico and Canada right after he entered office. He said the 25% tariffs are designed to coerce the two countries into stopping the flow of narcotics and illegal immigrants into the United States.

Additionally, Trump wants Congress to pass the Reciprocal Trade Act, a change that would give him the power to unilaterally impose tariffs of equal size placed by other countries on the U.S. The idea is that U.S. tariffs should be aligned with those of its trading partners.

Dan North, a senior economist with Allianz Trade Americas, told the *Washington Examiner* that a big determinant in how U.S. tariff policy will affect the economy comes down to the extent these tariffs actually happen versus how many are more of a threat.

"He imposed the 25% tariffs on Canada and Mexico, that was kind of a shock to everybody, but it sure worked in terms of suddenly [Canadian Prime Minister] Justin Trudeau is showing up at Mar-a-Lago and [Mexican President] Claudia Sheinbaum is talking," North said.

However, North said tariffs, in general, are "economic losers."

Several groups have attempted to quantify what Trump's tariffs — if imposed as they were discussed on the campaign trail — would cost consumers.

The left-of-center think tank Center for American Progress found that Trump's 10% tariffs would squeeze consumers because companies would pass the costs on to them, costing them $1,500 more annually. The Peterson Institute for International Economics found that 20% tariffs would cost a typical U.S. household more than $2,600 a year.

"So we put a tariff on goods from any other country, it becomes more expensive here, so consumers suffer, and then the other country has a counter tariff so consumers there suffer, and we lose jobs because there's less demand for whatever products would be produced," North said. "And it goes back and forth."

However, tariff proponents such as Trump and some of his allies argue that tariffs are necessary to reverse trade imbalances and reshore manufacturing in the U.S.

INTEREST RATES AND THE FED

The Federal Reserve has finally begun cutting interest rates, with the most recent rate revision coming in November. However, recent inflation reports have shown that inflation is still a bit sticky, so there is an open question about the pace of interest rate changes in 2025.

If inflation stays stubbornly above the Fed's preferred 2% goal or starts to trend back up, it could force the Fed to hold rates higher for longer or, in a worst-case scenario of growing inflation, even raise rates again.

The big question is what effect Trump's policies might have on inflation, particularly on the tariff front. North said Fed economists are likely working behind the scenes to game out different scenarios for what might happen, something that every bank and brokerage is also doing.

North's firm is predicting the Fed will cut rates again in December but is only predicting perhaps two downward rate revisions in 2025, far fewer than economists were expecting just a few months ago.

"Trump 2.0 tariffs are likely to disrupt, not upend, the U.S. economy," Wells Fargo economists said in a recent report. "Economic expansion is still likely, albeit at a slower pace, while inflation could remain above the Fed's target as consumers at least partly bear the cost of tariffs."

CRYPTO

The cryptocurrency industry is likely to get a shot in the arm next year as Trump, who has presented himself as a champion of the industry, enters office.

Trump, who once called bitcoin a "scam," has done an about-face on Bitcoin and crypto this election cycle. For instance, Trump selected venture capitalist David Sacks as the first-ever "crypto czar."

Crypto advocates anticipate a much more friendly environment for Bitcoin under Trump and for the cryptocurrency to become even more institutionally accepted. That would be a big departure from Biden, whose administration was seen as hostile to the industry.

In response to the Trump win and subsequent developments, the price of Bitcoin even crossed the historically symbolic mark of $100,000 for the first time. Bitcoin has vaulted up 124% in value since the start of the year and 165% from this time last year.

Proponents of digital assets hope that the industry will keep expanding in 2025. ★

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