

Serious Side Effects

By John Mauldin | February 8, 2025



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Today we'll talk about Trump, tariffs, cycles, and DOGE. Jumping right in...

It's not entirely clear what President Trump was trying to accomplish with the tariffs he imposed on Canada and Mexico, then postponed for a month. He's mentioned several different reasons. He said on January 20 he was going to do this, and then he did, so there's obviously some larger plan. He also ordered new tariffs on China, which he didn't delay (at least he hadn't, as of my deadline).

Without knowing exactly which problem (of many the country faces) Trump was trying to solve, it's hard to say if tariffs were the best answer. Longtime readers know I am not a fan of tariffs. If implemented, the ones on Canada and Mexico would have had serious negative side effects on the economy. And it could still happen once the current postponement ends.

The same is true more broadly. Every government policy choice has side effects. We elect a congress and president to make those choices. Now, that's not necessarily bad. It is just how democracy works. Election outcomes reflect the majority's will at a specific time, but not perfectly. Everyone has their own unique set of preferences. Even if your candidate(s) win, you still won't like everything they do. It's a messy process in the best of circumstances. Worse, even if you share the current government's goals, the side effects can still hurt you.

Both parties are composed of various and diverse interest groups. That goes especially for Republicans this year. It seems a new coalition is shaping up. Will it have legs? Was Trump elected merely to be a wrench and change things, or can this new coalition actually develop a somewhat common vision? I guess we will find out in 2028.

Today we'll talk about side effects, and whether the cure is worse than the disease.

Wrenching the Machine

The great guessing game is what Trump was thinking when he ordered the latest tariff round. He has, at various times, talked about their usefulness in raising revenue, in rebuilding US manufacturing capacity, and in getting more cooperation on immigration and drug enforcement.

My own opinion is that he sees tariffs mainly as leverage he can use to negotiate other things. The law gives the president broad power to impose them at his own discretion. In Trump's mind, it would be a shame not to use that power. It's a quick, easy way to force agreement on what he wants.

Frankly, it's better than threatening military action. It seems that some countries simply don't respond to polite requests. Would it were that easy.

But this tool is useful only if the other parties believe Trump will actually use it. That's just basic game theory. It stops working if they decide he's bluffing. This may be why he sometimes looks to be changing his mind or position. Some suggest it is an act designed to keep the other side uncertain.

It helps that Trump really did impose a bunch of tariffs in his first term, albeit much smaller than what he's talking about now. He got some criticism, including from me in my 2018 letter, [The Trump Trade War Recession](#). The economic damage turned out to be mild, then COVID came along and changed the subject.

What Trump is threatening now, if fully implemented, would be considerably more severe than what he did in his first term. No region on earth is more economically integrated than North America—thanks in part to Trump himself, who renegotiated the 1990s NAFTA agreement into the modernized USMCA.

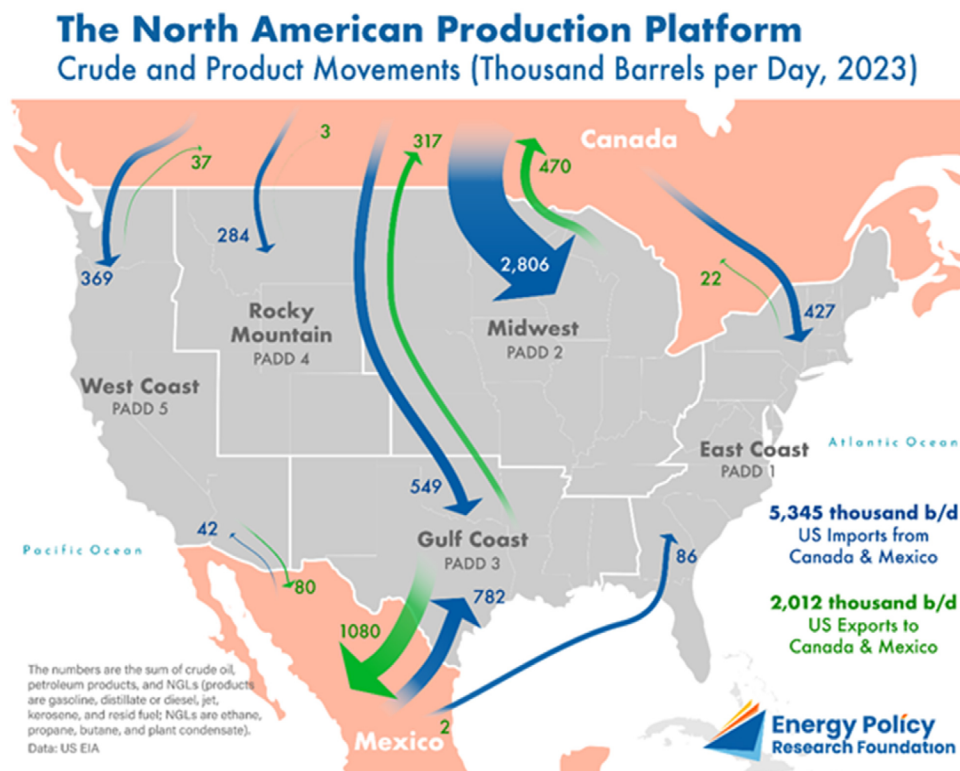
That agreement was, in part, intended to reduce US reliance on Chinese suppliers by making Mexico's lower-cost labor more accessible to American manufacturers. Automotive and other companies have built vast, intricate supply chains in which many components cross the borders multiple times.

High tariffs throw a wrench in this finely tuned machine. Here's Dave Rosenberg.

“The result of any new tariffs would be inflationary. Businesses across the continent would face higher input costs, but the impact would be amplified in manufacturing industries like autos and appliances, where parts constantly flow back and forth between borders during the production process. From the US perspective, one-directional trades (ex., Canadian softwood lumber exports to the US used for construction) would be less affected by tariffs, as the strengthening of the US dollar would act as a buffer against much of the inflationary pressures, especially so given the loonie's depreciation by over -8% against the dollar over the past year.

“However, intermediate inputs often make multiple journeys through the Canadian, American, and Mexican borders as manufacturers take advantage of the region's supply chain network, making them extra sensitive to tariffs. For instance, auto parts can cross borders five to six times before full assembly, and hence, a successive 25% tariff would quickly add up to have a detrimental effect on all the suppliers and producers across the value chain. That means tariffs will have an asymmetric effect on inflation, with industries more integrated into the supply chain far more likely to undergo abrupt price level increases.”

That's bad enough, but our energy markets are highly integrated, too. The US Midwest depends heavily on Canadian oil, and refineries there can't easily switch to lighter US grades, even if there were pipelines to bring it to them.



Source: EPRINC

This is the problem with trade wars. If you back someone into a corner, they can get creative and find other options. Limit chip access and some Chinese company creates DeepSeek. It's generally inefficient and unnecessary, raising prices for everyone.

If, as I think, Trump is using tariff threats as a way to get other concessions, this should all end quickly.

Facing the Fog

Amid all the unknowns, we know a few things with certainty. We know the president is intent on securing US borders from unlawful immigration and from dangerous drugs like fentanyl. Canada and Mexico already agreed to some new steps on both in order to get a 30-day tariff reprieve. So in one sense, the tariff threats may have “worked,” at least temporarily.

These are worthy goals. We do need to get control of the borders and stop the flow of illegal drugs on which 100,000 Americans are overdosing and dying. These were issues in the election that Trump won, so he would be remiss in ignoring them. I'm sure even most Democrats who voted differently want to see those problems solved. The question is *how* to solve them with minimal side effects.

We can't answer that question yet. We don't know for sure if those are the problems the tariffs are intended to address. A February 2 White House [press release](#) mentioned immigration and fentanyl, but only well down the list after talking mostly about economic benefits for US workers and manufacturers.

What we do know is that this president and administration don't mind using fog, chaos, and uncertainty in pursuit of their goals. That's not the strategy I would choose, but I didn't run for the office. Trump did, he won, and this is how he works. I don't expect it to change.

We are probably going to lose some time and waste some effort as this new era unfolds. But we can also hope these changes, however chaotic, will lead somewhere better. They may be the cure we need.

Now, here are some of my thoughts on the current media obsessions: Trump's “authoritarianism” and DOGE.

The Great Restart: The Coming Crisis

I have been writing for years about what I think will be a significant crisis at the end of this decade. I base that on five different views of history, all of which predict a crisis of some sort roughly around the end of the 2020s. I think the federal debt and deficit will be part of that, if not the trigger.

Most of these predictions also believe the crisis will give way to a period of healing, accompanied by an era of general prosperity. Pair that with massive technological advances in dozens of industries, especially biotech, robotics, and AI, and we have the potential for a really fabulous decade of the 2030s. But first, we have to go through the crisis.

A crisis simply doesn't develop overnight. It takes time (*One does not simply walk into Mordor...*) and the closer you get to the actual crisis, the more volatile the period is. You have to go through the foothills of crisis before reaching the true mountain peaks of the crisis. We are in the foothills.

In the last election, both parties promised significant change and often polar opposite outcomes. A plurality of voters picked Trump, who was actually quite specific about what he wanted to do.

And now that he is doing it there is a great deal of weeping and wailing and gnashing of teeth. By the way, if Harris had won, it would just be different parties weeping and wailing. I want to talk about some of the things that are happening and try to put them in context.

I want to preface this next section with the observation that we have been switching leadership in the White House and Congress every 4 to 8 years with regularity for the last 40 years. I see no reason for that to change in the future, at least until after the crisis. So those who are frustrated with what Trump is doing today should get their turn in a few years. That seems to be the way we do it. Especially in a sharply and narrowly divided country.

I think one of the reasons Trump won is that Democrats simply went too far in the pursuit of certain policies and ideology (call it woke or whatever) and government spending, plus pressing for more taxes. I would caution my conservative friends that the surest way to lose support in 2028 is to similarly go too far. That is not to say that the status quo, especially in the budget and deficits, doesn't need to be severely pushed back. Bipartisanship that violates first principles is not to be sought, but bipartisanship in many areas should be pursued. It will sometimes be a tough line to draw, but draw it we should.

Let's look at some basic principles. Trump is accused of being authoritarian (to put it nicely). And he is in the sense that he is setting certain rules and doing things that significant portions of the country don't agree with. But also things that he promised he would do.

It would not have been any different under Harris. Biden (or whatever unelected officials were executing policy for him, even if he appointed them) was also doing things that a significant portion of the country didn't agree with and they felt that Biden was being authoritarian.

None of us like to be told to do things that we don't want to do or that we feel are unfair—by authorities who are acting, well, authoritarian. It can be as small (in the grand scheme of things) as allowing transgender men to participate in women's sports (rare but annoying) to larger things like DEI to global trade policy and defense strategy and wars.

There are those who like many of the things that Trump is doing to reduce the budget and expose what they considered to be bad policies and corruption. And Trump did explicitly say he would do that and is now delivering on that promise.

With that said, I find the hysteria in the mainstream media to be so overblown as to be almost comical. Mainstream media is now more focused on clicks than actual journalism. "Doomscrolling" gets clicks.

Those in the "resistance" should be aware that everything that is being done has been vetted by squads of attorneys. The president has broad authority in certain specific areas. Is there going to be some overreach? Absolutely. And that is what the courts are for. And Congress. I and most Americans grew up thinking that if you were born in the US, that gives you citizenship. There seems to be a debate on that. I have no idea, but I will be curious as to what the Supreme Court says about it.

There will be lots of things that will be sorted out in courts. SCOTUS will likely be busy for the next few years. But let's look at just one recent casus belli.

USAID, et al.

The US Agency for International Development, which was supposed to be a tool of helping less fortunate nations and advancing US soft power, has now been exposed as a slush fund for many left-wing policies, an organization that had no serious adult supervision, Many reports suggest the agency has been doing things a large majority of the country would oppose.

Here are a few examples I've seen on social media (but have not independently verified).

- \$2 million for Moroccan pottery classes.
- \$11 million to tell Vietnam to stop burning trash.
- Payments for transgender programs all over the world.
- DEI programs all over the world
- \$8 million to Politico, large amounts to the BBC? And I can guarantee you that there was no similar aid to National Review or Newsmax, LOL. (And there shouldn't be ever!)
- Hundreds of millions of dollars to build schools and other theoretically good projects that Google maps shows either don't exist or, that onsite inspection shows are abandoned or shoddily built. Can someone say corruption? Payoffs? Money laundering? CIA cutouts (don't be naïve)?

Seriously, go to X and type in USAID and tell me how many of those programs you would support. Why does Black Lives Matter get foreign aid?

Yes, I get that USAID supports feeding the poor, helping refugees and all sorts of wonderful humanitarian programs that are truly needed. The vast majority of American citizens would support those.

Let me make a side bet. Come to me in 12 months and point out which one of those truly important programs didn't survive under the auspices of the State Department. I am fairly confident they will.

(The examples I used were all over X. Some might be inaccurate, but the general assertion is overwhelming. Go to X and type in USAID.) USAID spending is just the beginning. *The New York Times* did an "[expose](#)" on how Musk and DOGE are running roughshod through budgets and agencies. But buried in the 42nd paragraph was this gem:

"The federal deficit for 2024 was \$1.8 trillion. The Government Accountability Office estimated in a report that the government made \$236 billion in improper payments — three-quarters of which were overpayments — across 71 federal programs during the 2023 fiscal year."

I have been voting since 1972. I voted for McGovern and Carter, and then mostly Republicans except some years when I voted Libertarian because I couldn't vote for the Republican nominee. But all were against waste and fraud and corruption. And the waste and fraud and corruption has just gotten bigger.

We are using antiquated computer systems with COBOL software older than my kids (the oldest is 47). No private business could survive doing that. I hope Musk and crew can even find half of those improper payments, not to mention waste and fraud. And that's before they get to the military and defense budgets. I am all for robust defense, but I'm also for sane budgeting and controls and not open-ended black holes for what Eisenhower warned us about: the military-industrial complex. We continue to fight the last wars. In an era of drones why do we need \$200 million planes? There may be good reasons but politics, as in spreading procurement throughout every congressman's district, should not be one of them.

It won't be easy. Remember the 1990s efforts to close unneeded military bases? This will be 10 times more difficult but also 10 times more necessary. It is not going to happen magically and it's going to create a lot of noise.

I picked on two items, but this is going on all across the government. We need to get used to the volatile nature of the current administration. There are some things Trump does I just don't get. I have no idea why he thinks the US should control Gaza or Greenland.

But I do want a more efficient and smaller government. And I want transparency in our government agencies. I want less fraud and waste. I want a budget deficit that is smaller than nominal GDP growth, which is going to be extraordinarily hard to accomplish without serious cuts. And a lot of congressional help on future spending and getting entitlements under control.

Going back to the beginning, this type of volatility is precisely what we should expect as we come to the end of the cycle and a crisis begins to develop. If we get a different government in 2028, expect more of the same, just different issues. Until a true crisis develops and we are forced to cooperate.

The Future of Longevity Is Here

I've been writing about cycles for years—economic, geopolitical, demographic. But there's one cycle we don't talk about enough: the biological one.

Aging is something we all experience, yet it's one of the last great frontiers that science is only now beginning to unravel. I don't mean in a vague, theoretical sense—I mean that real anti-aging breakthroughs are happening now.

One of the pioneers at the forefront of this research is Dr. Michael West, a name you may not recognize but probably should. He's spent decades on the cutting edge of regenerative medicine and stem cell research, and his work has reshaped how we think about aging at the cellular level.

I'm bringing this up because my good friend Patrick Cox will be interviewing Dr. West for an exclusive conversation as part of *Transformative Age*—our research service dedicated to the biggest longevity and biotech breakthroughs. Their interview will be released on February 19, and trust me, if you care about longevity (or just making sure you're on the right side of these breakthroughs as they unfold), you'll want to hear what he has to say.

The reality is, longevity science is accelerating. We're moving past just treating disease and into extending healthspan—helping people not just live longer, but live better. As my friend Patrick Cox has pointed out many times, the biggest changes often come from the things no one is talking about yet.

That's why I wanted to make sure you had a chance to listen in on this discussion. You can get access to the interview and everything else happening inside *Transformative Age* [here](#).

Let's face it: We're all getting older. The real question is whether we'll be prepared to take advantage of what's coming.

Palm Beach, Dallas, DC, and Starlink

I will be in West Palm Beach March 12–13 and on the 13th will be at a client and prospect dinner for The Bahnsen Group. If you are a high-net-worth investor write me at business@2000wave.com and I will forward your name to them. Space is limited. I will be back in West Palm later this spring for a more general meeting.

We are making progress on opening our new longevity clinics under the name Lifespan Edge in Dallas, Columbia, Maryland, West Palm Beach, and hopefully dozens of other cities over the next year or so. Even here in Dorado. So I will likely be traveling to those cities.

I have been having trouble with my internet. Theoretically, I have three services that should be interlinked but the system and technology is broken. I finally got a real professional to come in and analyze it and we are close to getting back to operational. Turns out the dish from Starlink has a problem. I emailed them and said I would be willing to buy a new one, but I just needed to get up and going. Within less than an hour I got an email saying they would ship one, gave me a free month's fee, and a shipping code to send back the old system. Literally 24 hours later the new system showed up on my doorstep. I don't know if there was a human involved except in the actual delivery. I don't expect Musk to bring that kind of efficiency to government, but we can dream.

With that, I will hit the send button and wish you a great week. I will be joining many of my neighbors for a neighborhood Super Bowl party tomorrow night. I have many friends from Philadelphia so that is my team, at least for one night. But the more important thing will be to get to spend some time with friends here. And don't forget to [follow me on X](#).

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