Flash Economics

N° 63
June 5, 2025

United States: better expand the scope of redistributive policies rather than resort to protectionism

One of the motivations behind the decisions taken by the Trump administration was the hope of reversing the deindustrialisation of the United States, which has led to a decline in job quality and health issues for many Americans. This explains the increase in tariffs and the appeal of a weak dollar.

However, protectionism and dollar depreciation come with serious drawbacks: higher inflation and a decrease in purchasing power; reduced attractiveness of US financial markets, leading to a drop in capital inflows and fewer opportunities for non-residents to finance investment in new technologies.

Rather than pursuing this policy (tariffs and dollar depreciation), the United States should consider establishing a decent social protection system; 8% of Americans (11% of those aged 19 to 64) have no health coverage at all, while 54% of the population is covered by employer-provided insurance—implying the loss of health coverage in the event of job loss. Unemployment benefits are relatively low and generally paid for a maximum of 26 weeks in most states (this period is extended during times of high unemployment). Moreover, 54% of Americans have no retirement savings of any kind (according to the Survey of Consumer Finances).

To fight poverty in the United States, expanding the social safety net would be more effective than protectionism or a weak dollar policy.

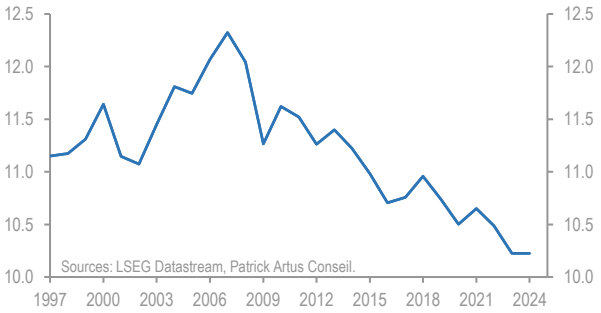
Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

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An economic policy of the Trump administration aimed at reindustrialising the United States

The deindustrialisation of the United States (Chart 1) has indeed had negative consequences:

Chart 1
United States: Real value added in manufacturing
(as % of real GDP)



- A decline in job quality and in the skill level of adults (Table 1);

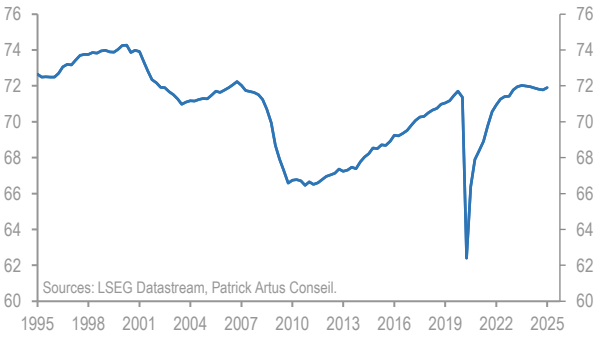
Table 1: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Canada	269	267
England (UK)	267	266
France	258	253
United States	**261**	**251**

*In 2016, average score in numeracy and literacy
Source: OECD

- Health problems (13% of Americans have a disability, including 5% with cognitive difficulties), which is reflected in the decline in the employment rate (Chart 2).

Chart 2
Employment rate of population aged 15 to 64 (as %)



It is well known that the Trump administration **intends to use two main tools to reindustrialise the United States: protectionism** (hence the imposition of tariffs on imports) and **the depreciation of the dollar** (**Chart 3**).

Chart 3
United States : Real effective exchange rate
(1995.M1 = 100)



But tariffs and dollar depreciation come with serious drawbacks

Tariffs are inflationary, because the pass-through effect (the impact of tariffs on import prices) is very high in the United States—close to 1. Since wages are only partially indexed to prices, inflation results in a loss of purchasing power and a decline in consumption.

Moreover**, a weaker dollar would reduce the attractiveness of US financial markets** (both public debt and equity markets), **leading to lower capital inflows** and fewer instances of non-residents financing the sizeable investment in new technologies.

The greater the drop in capital inflows, the more **the United States will need to reduce its current account deficit** (**Chart 4**), which would mean a decrease in investment—particularly in new technologies (**Chart 5**)—and an increase in long-term interest rates (**Chart 6**).

Chart 4
United States: Current account balance
(as % of nominal GDP)

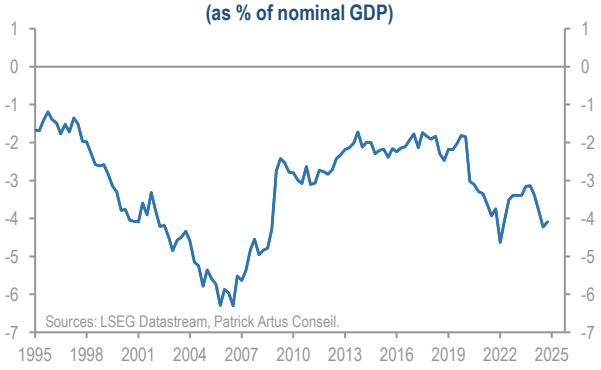


Chart 5
ICT investment including software
(in value terms, as % of nominal GDP)

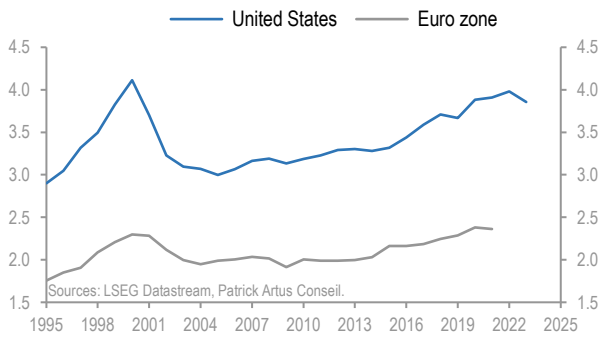


Chart 6
United States: Interest rate on 10-year government bonds
(as %)



This development **would jeopardise the extension of the US growth model**, which relies on capital inflows to finance technological investment and on the expansion of the external surplus in services (technological and financial services, **Chart 7**).

Chart 7
United States: Trade balance in services
(monthly data, USD bn)



Summary: Supporting free trade and a strong dollar, while improving social programmes in the United States, would be more effective

To address the negative effects of deindustrialisation while preserving the United States' attractiveness to foreign capital—and therefore its ability to continue investing heavily in new technologies—it would have been more effective to:

- Uphold free trade and support a strong dollar, which allows for low-cost imports of goods produced elsewhere in the world, particularly in emerging economies where production has been offshored;
- Improve social programmes, to avoid 11% of American adults not having health coverage, 54% of Americans losing their health insurance when they lose their job, and 54% having no retirement savings at all.

Enhancing the generosity of the US social safety net (Chart 8) would help mitigate the negative effects of deindustrialisation on Americans' health and income inequality (Chart 9), without abandoning the US economic model—one based on the rapid development of new technologies and a strong appeal to foreign capital.

Chart 8
Public expenditure on social protection
(as % of nominal GDP)

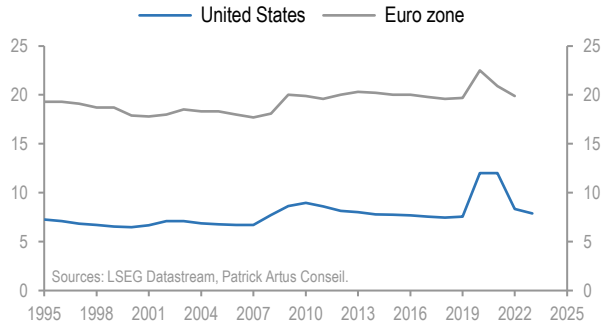
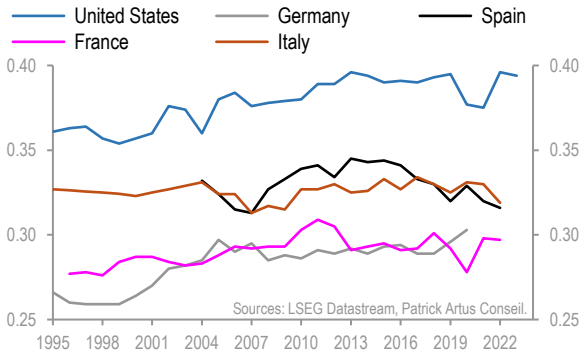


Chart 9
Gini index of income inequality (after redistribution)



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