Flash Economics

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The Trump administration's desire to weaken the dollar makes no economic sense

We know that Donald Trump welcomes the depreciation of the dollar and would like the Federal Reserve to significantly lower its key interest rates to amplify this depreciation. We are familiar with Stephen Miran's theories, which aim to discourage foreign investors from holding US public debt in order to achieve a sharp depreciation of the dollar.

But in reality, the United States needs a strong dollar, not a weak one:

- It is low savings in the United States, not the overvaluation of the dollar, that is causing a chronic current account deficit and therefore the need to attract foreign capital; the prospect of a weaker dollar would discourage foreign investors.
- The United States mainly exports energy (oil, natural gas, refined petroleum products), electronic equipment, arms and digital services; the price elasticity of these exports is low, since the United States has a dominant position in these exports, so a depreciation would not greatly stimulate the volume of US exports.
- A depreciation of the dollar would increase the price of US imports, which would be unfavourable to consumers.

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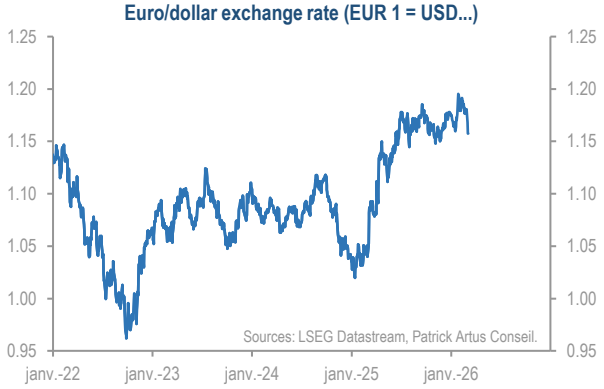
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Donald Trump's entourage wants the dollar to depreciate

Donald Trump welcomed the recent depreciation of the dollar, due both to US domestic policy (e.g. ICE interventions) and foreign policy (aggressive stance towards Canada, Greenland and the European Union), Chart 1. However, following the start of the war in Iran, the dollar has appreciated again.

Chart 1
Euro/dollar exchange rate (EUR 1 = USD...)



We are also familiar with Stephen Miran's theories: he wants to discourage foreign investors from holding public debt in dollars (in particular by forcibly converting part of the US public debt into very long-term debt, with a maturity of 100 years), since he attributes the deindustrialisation of the United States to the overvaluation of the dollar due to its role as a reserve currency.
We can therefore conclude that Donald Trump and his entourage want a weak dollar to improve the United States' price competitiveness.

The first problem with the dollar depreciation strategy is that the United States' external deficit is not caused by an overvaluation of the dollar

The United States has a chronic current account deficit (Chart 2), which occurs regardless of whether the dollar is weak or strong. The dollar was strong in the early 2000s, from 2015 to 2017, and from 2022 to 2025, and weak from 2008 to 2015, in 2018 and in 2021 (Chart 3).

Chart 2
United States: Current account balance
(as % of nominal GDP)

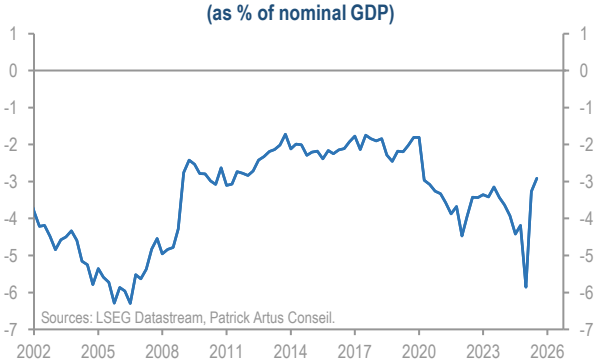
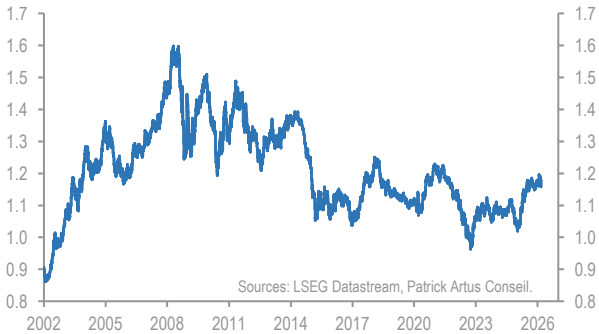


Chart 3
Euro/dollar exchange rate (EUR 1 = USD...)



The US external deficit is mainly due to low household savings rates and low national savings rates (Charts 4 and 5).

Chart 4
Household savings rate (as %)

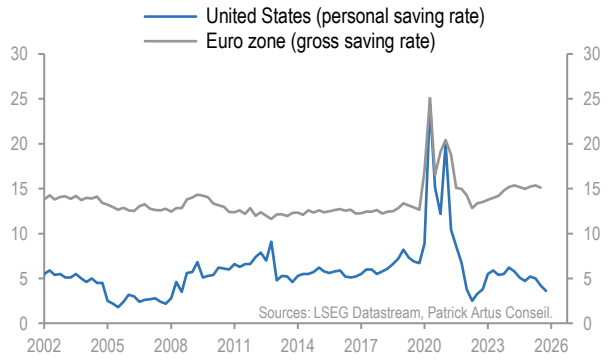
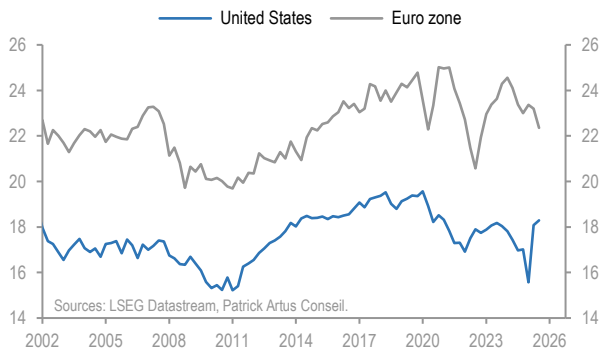


Chart 5
National savings rate (as % of nominal GDP)



The United States therefore needs to continuously attract foreign capital, which will become difficult if non-residents anticipate a depreciation of the dollar.

A policy of deliberate dollar depreciation therefore risks triggering **a balance of payments crisis in the United States**.

The second problem with the dollar depreciation strategy is that US exports are not particularly dependent on the exchange rate

US exports consist mainly of:

- Crude oil and refined petroleum products, liquefied natural gas (16% of goods exports);
- Nuclear equipment (12% of goods exports);
- Electronic equipment (10% of goods exports);
- Motor vehicles (7% of goods exports);
- Aircraft and aircraft parts (6.5% of goods exports).

Services exports mainly include professional services (legal services, engineering and teaching), financial services, digital services and royalties for the use of intellectual property.

It can be seen that US exports are not price-dependent, as **the price elasticity of US exports is low**. Indeed, the United States has a dominant position in energy, electronics and professional, financial and digital services.

Charts 6A/B compare **the dollar exchange rate and the volume of exports of goods and services from the United States**.

Chart 6A
United States: Euro-dollar exchange rate and exports of goods and services,

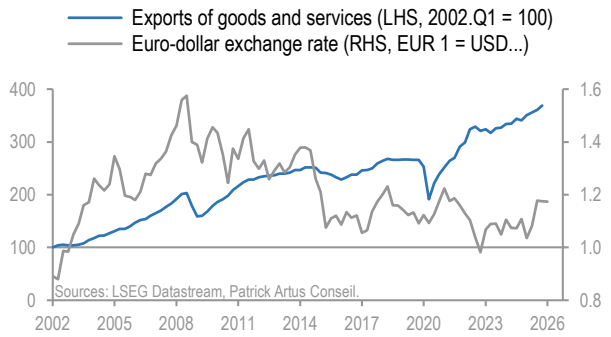
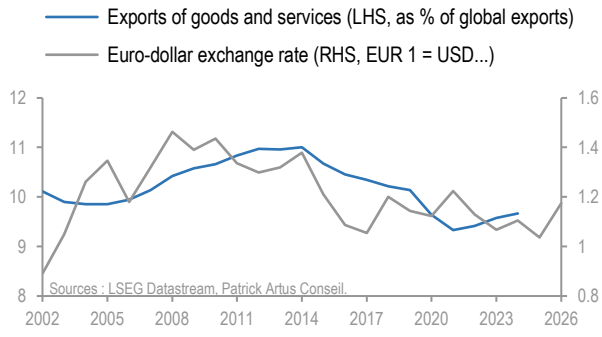


Chart 6B
United States: Euro-dollar exchange rate and exports of goods and services

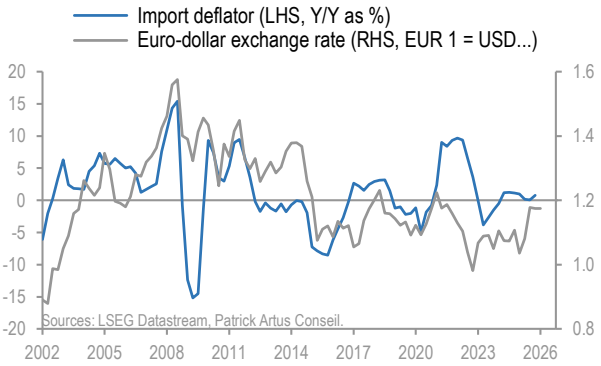


One can see how little US exports are affected by the dollar exchange rate. The appreciation of the dollar in the early 2000s and since 2014 has modestly reduced the weight of US exports of goods and services relative to global exports of goods and services (Charts 6B).

Third problem with the dollar depreciation strategy: rising import prices

A depreciation of the dollar leads to higher import prices and therefore to additional domestic inflation. Chart 7 compares the euro exchange rate and import price growth.

Chart 7
United States: import deflator and exchange rate



We can see that periods when the dollar depreciates (2002–2008, 2017-2018, 2021) are also periods when import prices rise significantly faster than in periods when the dollar appreciates (2015-2016, 2019-2020, 2023-2024).

Summary: a strong dollar is to the advantage of the United States

A strong dollar and expectations of a strong dollar make it possible to:

- Attract non-resident capital to the United States while having little adverse effect on export volumes, given the low price elasticity of US export volumes;
- Reduce import prices, thereby increasing Americans' purchasing power.

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