Flash Economics

N° 36
April 4, 2025

Can the Trump administration's policies benefit the United States in the long term?

It seems clear that the economic policy pursued by the Trump administration will have negative short-term effects on the US economy. The increase in tariffs on imported goods and the deportation of illegal immigrants will push up inflation and reduce growth, while uncertainty is leading to a decline in consumer confidence and the fall in stock market indices implies a loss of household wealth and a weakening of domestic demand.

But can these unfavourable short-term effects be offset by favourable long-term effects? This is doubtful:

- Because it is very complicated to relocate industry in the United States (there is full employment, American skills are low, it is difficult to change the organisation of value chains, production costs are high in the United States, etc..);
- Because policies that drastically reduce funding for fundamental research will make the US less attractive.

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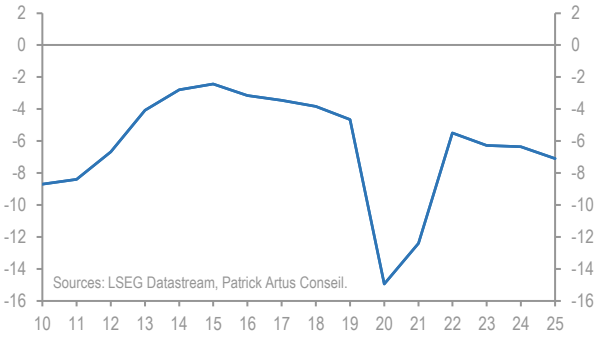
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Short-term negative effects of the Trump administration's policies on the United States

The Trump administration's economic policy consists essentially of:

- **Trying to reduce public spending**, for the moment without any effect on the public deficit (**Chart 1**), but by cutting the resources of numerous federal agencies and universities;

Chart 1
United States: Budget deficit (as % of nominal GDP)

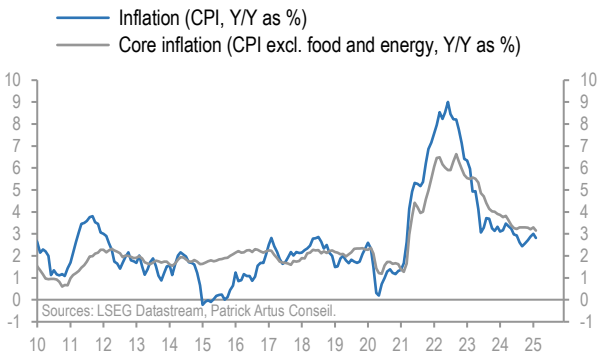


- **Deporting illegal immigrants**, which has the effect of reducing the working population since many undocumented immigrants no longer dare to go to work... (there are 11 million undocumented immigrants in the United States);
- **Imposing tariffs**. On April 2nd, very high tariffs were imposed on products imported from Canada, Mexico, the European Union, China and many other countries.

The short-term effect of this policy is quite clear:

- **Higher inflation** (**Chart 2**), with the reduction in the labour supply and the increase in tariffs;

Chart 2
United States: Headline inflation and core inflation (as %)



- **Slowing growth**, with leading indicators turning negative: a decline in consumer confidence and in the 'expectation index' in the Conference Board's consumer confidence survey (**Chart 3**), a decline in the manufacturing PMI and the services PMI (**Chart 4**);

Chart 3
United States: Consumer confidence index and consumer confidence index - Expectations index (Conference Board, 1985 = 100)

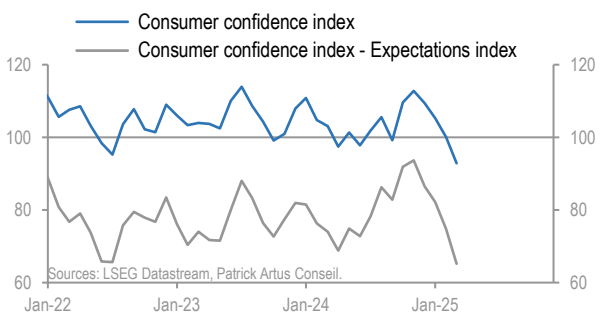
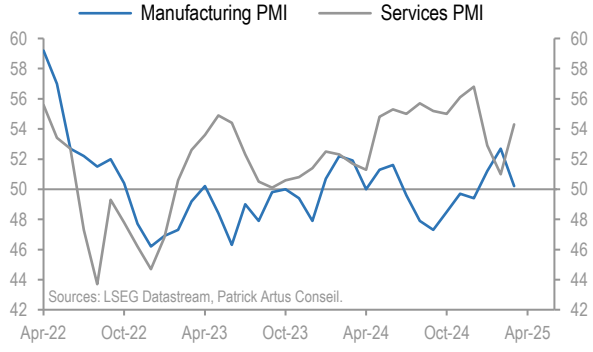


Chart 4
United States: Manufacturing and services PMI (indices)



- **Falling stock market indices** (**Chart 5**), which is depressing household wealth and company valuations, has a negative effect on both consumption and investment.

Chart 5
United States: Stock market indices (01.01.2022 = 100)



Can this economic policy have positive long-term effects?

Optimists believe that while this economic policy will have negative effects in the short term, it could have positive effects in the long term.

We doubt it. For the following reasons:

- **There will be few industrial relocations to the United States**. Firstly, **the unemployment rate is very low** (**Chart 6**), and the rather low employment rate (**Chart 7**) is linked to the high proportion of disabled people in the population (11% of Americans of working age have a disability, and there is a correlation between disability and opioid use).

Chart 6
United States: Unemployment rate (as %)

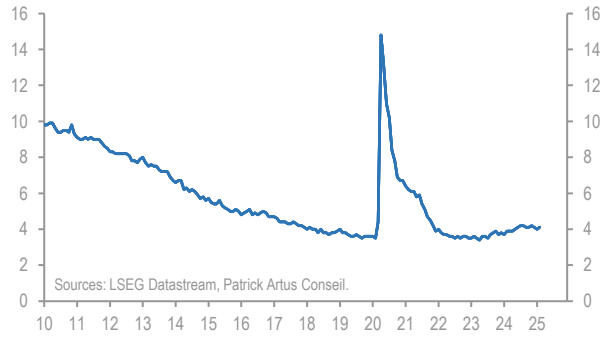
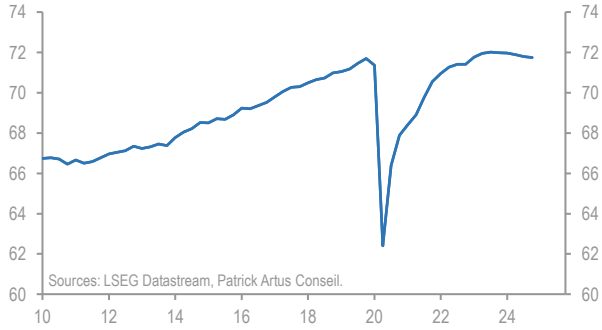


Chart 7
United States: Employment rate of population aged 15 to 64 (as %)



In addition, **the skill level of Americans is low**, as shown by the OECD's PIAAC survey (**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
Germany	271	267
England (UK)	267	266
France	258	253
United States	261	251
Korea	268	246

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

Changing the way a company organises its value chain is complicated. Finally, production costs in industry are high in the United States compared with China, Vietnam or Mexico (Table 2).

Table 2: Statutory nominal gross monthly minimum wage as of December 31, 2024 (USD)

Country	Monthly minimum wage (USD)
Vietnam	195
China	266
Mexico	354
United States	1257

Source: LSEG Datastream

- **attacks on institutions that carry out or fund basic research in the United States will reduce the attractiveness of the United States and its technological level**.

  These include *inter alia* cuts in federal funding for the Center for Disease Control (CDC), the Advanced Research Projects Agency - Energy (ARPA-E), the Agency for Healthcare Research and Quality (AHRQ), and various universities (Columbia, John Hopkins); the refusal to fund studies on climate change at the Environmental Protection Agency (EPA), and pressure on the Office of Research Integrity (ORI)...

Summary: a harmful policy in the short term and the long term

Tariffs, the expulsion of immigrants and the disorganisation of federal agencies will reduce growth and increase inflation in the short term in the United States. But this negative short-term effect will not be offset by a positive long-term effect, since relocations will be very limited (due to the weakness of skills, the employment situation, high production costs, the difficulty of changing the organisation of value chains) and since the attacks on science (in the fields of health, the environment, climate, etc..) are reducing the attractiveness of the United States for companies and researchers...

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