Flash Economics

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The United States is too dependent on the rest of the world to pursue an isolationist policy

The United States is dependent on the rest of the world in many ways:

- dependence on immigration, both skilled and unskilled, with a very low level of skills among the native population and a fertility rate now well below 2 ;
- dependence on savings from the rest of the world, which are needed to supplement the low level of American savings and to finance investment, particularly in new technologies;
- dependence on the production of goods in the rest of the world, with the de-industrialisation of the United States and the demand by American consumers for cheap products manufactured in emerging countries;
- dependence on foreign markets for technological and financial services; these markets are necessary for the development of US technology sectors.

These multiple dependencies make the policy pursued by the Trump administration difficult to understand, since the Trump administration wants to do without immigration, wants to make the United States and the dollar unattractive as financial investments for non-residents, wants to substitute domestic production for imported production, with the risk of a decline in Americans' purchasing power, and runs the risk of trade retaliation by other countries that would affect major American technology companies.

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First US dependence: on immigration

In reality, the United States cannot do without immigration, whether skilled or unskilled (Table 1).

Table 1: United States: Structure of population aged 25 and over by origin and level of education (as %, 2023)

Educational Attainment	Native-born population	Immigrant population*
Not a high school graduate	8.6	13.5
High school graduate	28.2	18.9
Some college/associate's degree	24.9	16.1
Bachelor's degree	23.5	25.6
Advanced degree	14.8	25.8

* Population having immigrated in 2023
Sources: US Census Bureau, calculations Patrick Artus Conseil

Unskilled immigrants are needed in agriculture, healthcare, personal services and catering.

Skilled immigrants compensate for the low skill levels of native-born Americans (Table 2).

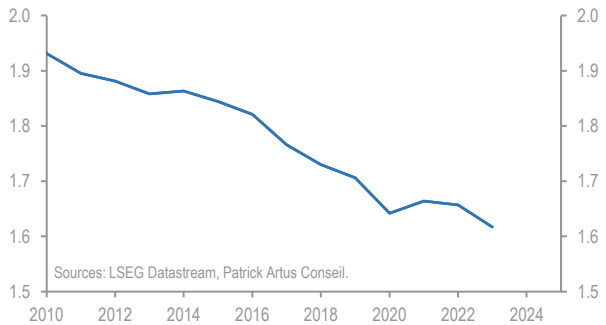
Table 2: Results of the OECD PIAAC survey (by decreasing score from the 2023 survey, overall score*)

Country	2016	2023
Finland	285	289
Japan	292	285
Sweden	279	281
Canada	269	267
Germany	271	267
France	258	253
United States	261	251

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

In addition, demographics are becoming unfavourable in the United States, with the fertility rate falling well below 2 (Chart 1).

Chart 1
United States: Fertility rate (births per woman)



Second US dependence: on savings from the rest of the world

The United States needs to borrow savings from the rest of the world because of its chronic current account deficit (**Chart 2**), which results in particular from the low household savings rate (**Chart 3**) and the high level of public deficits (**Chart 4**).

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

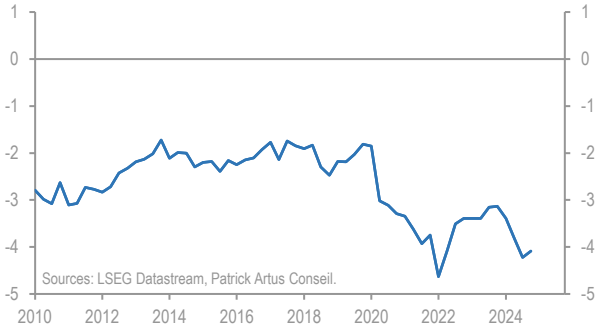


Chart 3
United States: Personal saving rate (as %)

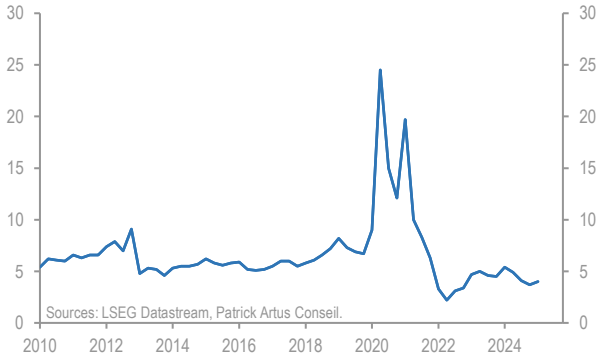
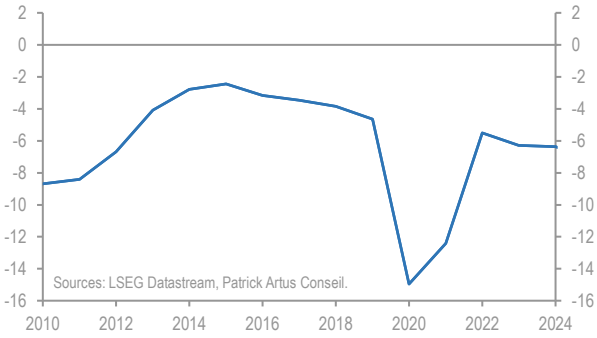
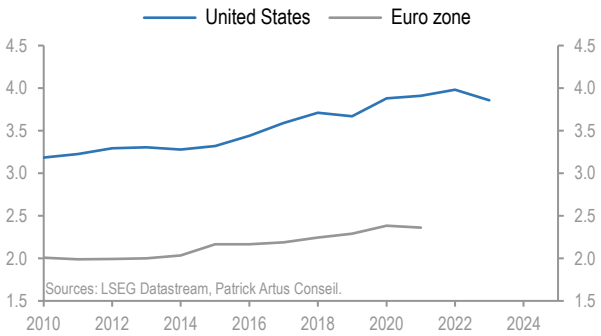


Chart 4
United States: Budget deficit (as % of nominal GDP)



Without this significant capacity to capture savings from other countries, the United States would have to eliminate its current account deficit and, in particular, would no longer be able to finance its high level of investment in new technologies (**Chart 5**).

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



Third US dependence: on the production of goods in the rest of the world

The decline in the manufacturing industry's weight in the United States (**Chart 6**) is due to the fact that the United States has no comparative advantage in the production of goods, and that it is more efficient and less costly for it to import most goods; its comparative advantage lies in the production of services (technological, financial), which is reflected in the structure of its trade balance (**Chart 7**).

Chart 6
United States: Real value added in manufacturing
(as % of real GDP)

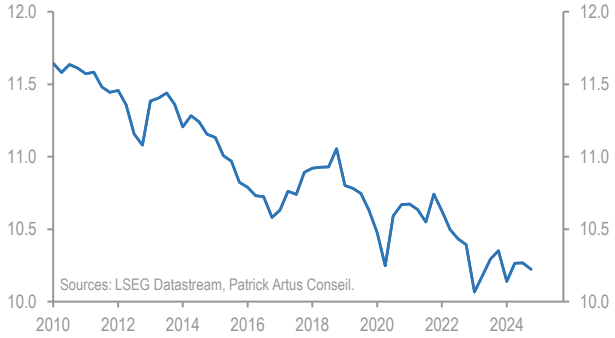
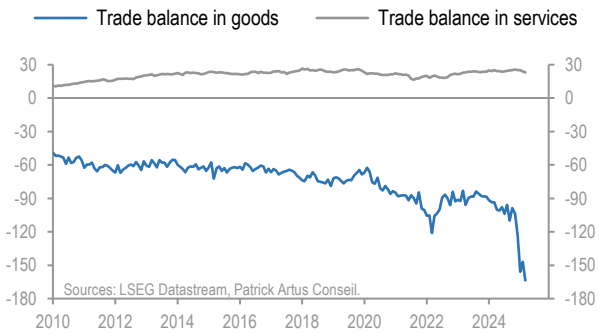


Chart 7
United States: Trade balance in goods and services
(monthly data, USD bn)



The organisation of production into global value chains and US consumer demand for cheap products imported from emerging countries make this situation irreversible.

Fourth US dependence: the need for US technology companies to find markets abroad

The major US technology companies (Meta, Alphabet, Apple, Microsoft, Amazon, Tesla, Nvidia) **generate 50% of their sales outside the United States**. These major companies are therefore highly dependent on demand for their services from abroad.

Summary: these four dependencies of the United States make Donald Trump's economic policy difficult to understand

The United States is therefore dependent on immigration (skilled and unskilled), on savings from the rest of the world, on goods produced in the rest of the world and on demand from the rest of the world for the services provided by major US technology companies.

This makes it difficult to understand Donald Trump's economic policy based on:

- Rejecting immigration;
- Tariffs, which will make imported goods more expensive without generating much relocation;
- The weakening of the dollar, whereas a strong dollar helps to attract capital from the rest of the world to the United States;
- Permanent conflict, while the retaliatory measures available to other countries include restrictions on access to their domestic markets for US technology companies.

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