Flash Economics

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Which economic policies could be reversed by Donald Trump in the United States?

Since taking office, Donald Trump has decided to:

- Significantly increase tariffs;
- Sharply reduce immigration;
- Advocate for a policy of dollar depreciation;
- Cut federal funding for public research agencies and universities.

It is likely that, given their highly negative effects on the U.S. economy (inflation, labor shortages, discouragement of capital inflows), the first three policies (tariffs, opposition to immigration, dollar depreciation) will be significantly toned down or even eliminated. Already, tariffs have been substantially reduced compared to the initial announcements.

There is concern, however, that the anti-science policy may continue, given its negative impact on long-term growth—especially since its effects will only become noticeable in the medium term.

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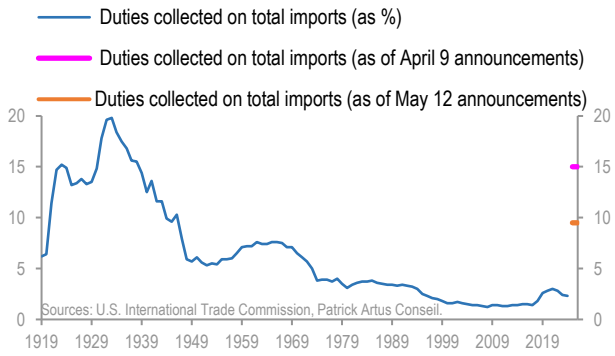
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The Economic Policies Implemented by Donald Trump

Since taking office, Donald Trump has decided to implement:

- **A sharp increase in tariffs**, initially averaging 12.5 percentage points. The initial increase of 145 points on U.S. imports from China (**Chart 1**) has since been revised down to 30 points. On May 23rd, a 50-point tariff increase on imports of European products was announced, but this increase has been postponed until July 9th;

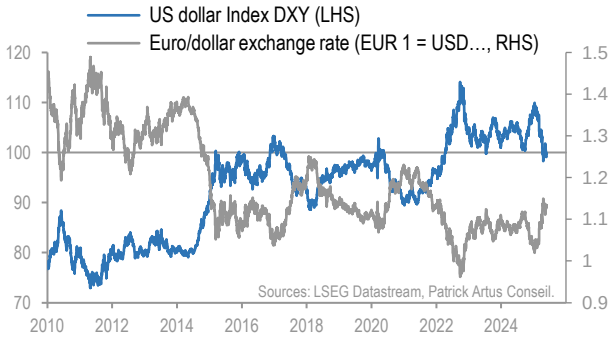
Chart 1
United States: Duties collected on total imports (as %)



- **A sharp reduction in immigration**, including the deportation of undocumented immigrants (there are 11 million in the United States), while the number of U.S. residents born abroad stands at 48 million;

- **Advocacy for a weaker dollar** (**Chart 2**), based on the idea that dollar depreciation will reinforce the effect of tariffs, boost industrial production in the United States, and encourage the reshoring of industry back to the U.S.;

Chart 2
United States : US dollar Index DXY and Euro/dollar exchange rate



- **A significant reduction in federal funding for public and university research**. The National Institutes of Health (NIH) saw its budget cut by 40%; the Environmental Protection Agency (EPA) experienced a two-thirds reduction in its workforce; the National Science Foundation (NSF) had 430 federal research grants canceled; USAID, which ran programs related to climate action, health, and diseases affecting emerging countries, was completely shut down; elite universities lost $6 billion in research aid and federal contracts.

Donald Trump will likely reverse course on policies that have a strongly negative short-term impact on the U.S. economy.

The sharp increase in tariffs, the rejection of immigration, and the depreciation of the dollar **will have negative effects on the U.S. economy in the short term**.

These include:

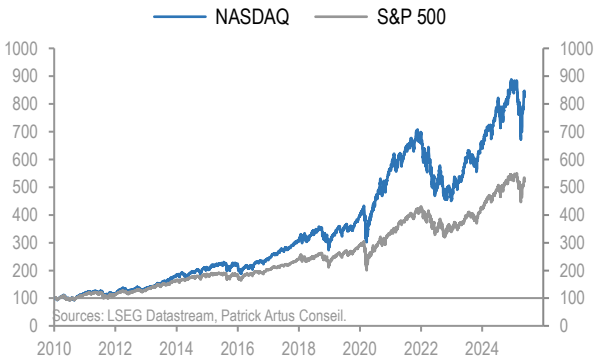
- **A sharp rise in inflation**, which is already being anticipated (**Chart 3**), driven by tariffs and labor shortages resulting from the crackdown on immigration;

Chart 3
United States: Consumer's inflation expectations for the year ahead (as %,)



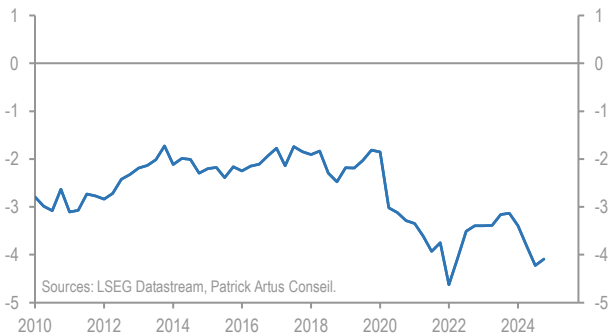
- **A discouragement of capital inflows**, linked to the weakening of the dollar and the decline in stock market indices (**Chart 4**). This decline, which was particularly steep in April 2025 (Chart 2), was reversed following the signature of the trade agreement between the United States and China.

Chart 4
United States: Stock market indices (01.01.2010 = 100



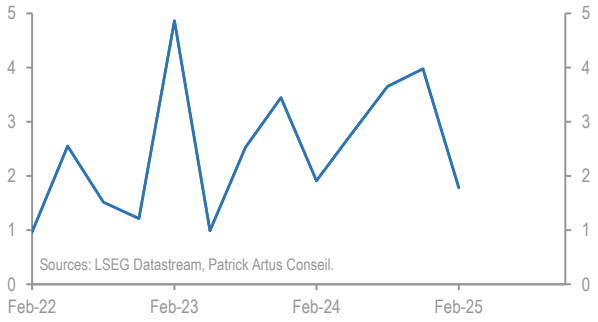
In the absence of capital inflows, the United States would have to eliminate its current account deficit (**Chart 5**), which would be achieved through a recession and an increase in long-term interest rates.

Chart 5
United States: Current account balance (as % of nominal GDP)



We can already observe (starting in the first quarter of 2025) a very negative effect of inflation on household consumption (due to the weak indexation of wages to prices in the United States), as shown in **Chart 6**, as well as a very negative impact of declining capital inflows on the dollar exchange rate (see Chart 2 above).

Chart 6
United States : Household consumption
(in volume terms, Q/Q as % annualised)



However it is most likely that the anti-science policies and the reduction of funding for fundamental research will be maintained.

If Donald Trump is pragmatic enough, he will observe that U.S. growth is suffering from the tariff hikes, the rejection of immigrants, and the depreciation of the dollar, and **he will ease these policies**. He has already exempted electronics and automobile parts imports from tariffs due to the impossibility of substituting American production for these types of imported goods. He has announced that tariffs on Chinese products will be reduced.

However, we believe that the hostile policies toward science and public research will continue, as this is an ideological stance (libertarians do not see the value of a state or public research) and because these policies will not have negative effects on the U.S. economy in the short term.

Summary: The main concern should be about long-term growth in the United States

If tariffs are reduced, immigration is again accepted, and the argument in favor of a weak dollar disappears, g**rowth in the U.S. can be maintained at a decent level in the short term** (inflation will not erode household purchasing power, and capital inflows will resume).

But if the anti-science stance and hostility toward public research institutions persist, one should expect a gradual decline in the U.S.'s innovation capacity and the pace of fundamental discoveries, **leading to a continual slowdown in productivity gains and long-term growth** (**Charts 7a/b**).

Chart 7A
United States: Productivity per head (2010.Q1 = 100)

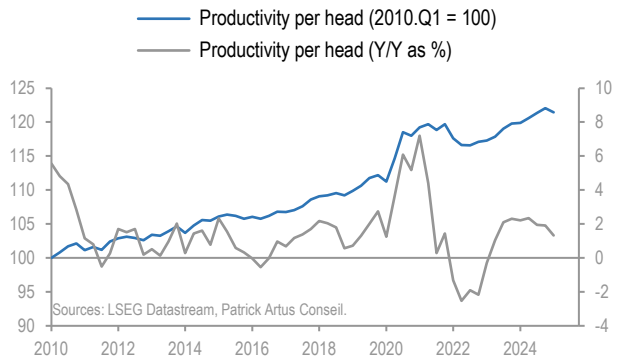


Chart 7B
United States: Real GDP (Y/Y as %)



Indeed, it is well documented that fundamental research efforts are an important determinant of the number of breakthrough innovations, and that it is only at a later stage that these innovations are transferred to the private sector, which develops practical applications from these discoveries[1]. This is evident, for example, in the growing share of patents filed by research institutions supported by the federal government.

[1] For example, see: Fleming, L., Greene, H., Li, G., Marx, M., & Yao, D. (2019). Government-funded research increasingly fuels innovation. Science, 364(6446), 1139-1141.

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