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Trump has wrecked the US economy

Less than six months into his second term, a good economy that Donald Trump turned bad is about to get much worse

Less than six months into his second term, President Donald Trump and his team have managed to inflict substantial damage on the US and global economy. From deploying often-violent, hooded ICE agents against immigrants – both legal and undocumented, many of whom are employed in key industries – to imposing or threatening large tariffs and indiscriminately firing government staff, the administration has introduced profound uncertainty and volatility, undermining business and consumer confidence.

It is worth remembering that Trump inherited a strong economy with robust GDP and job growth and declining inflation. In its year-end 2024 forecast, the US Federal Reserve anticipated continued growth at 2.1 per cent and inflation declining to 2.5 per cent in 2025. Three months later, these projections had dropped to 1.7 per cent growth and 2.7 per cent inflation. Most forecasters – from the Conference Board to the International Monetary Fund – agree that the US economy will slow significantly, with growth landing somewhere between 1.4 per cent and 2 per cent, and global growth falling from 3.3 per cent in 2024 to 2.3 per cent in 2025.

Immigration restrictions and economic costs

While Trump's daily policy pronouncements (often issued through social media) and legally dubious executive orders are hard to miss, a less visible but even more consequential development is the damage done to global trust and confidence in the US — as demonstrated by the dollar's 10 per cent decline against the euro and the Swiss franc. Despite US stock markets having recovered following pauses on the most punitive 'Liberation Day' tariffs announced in April, the dollar remains weak, and Treasury yields elevated.

Worse, if Trump and his fellow Republicans' One Big Beautiful Bill Act (OBBBA) makes it through Congress – as seems likely – the federal government's debt will increase by at least $3 trillion by 2034. Bond vigilantes are already bristling at this prospect, as evidenced by higher interest rates on ten-year and 30-year federal debt.

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At a time when most voters see the economy is their top concern, Trump's performatively cruel deportations and harassment of immigrants will bring additional economic costs. Tourism to the US is already declining, with visits by Canadians down nearly 40 per cent from last year. Immigrants account for about one-third of the leisure and hospitality workforce, and for nearly 75 per cent of the agricultural workforce — where most are undocumented. Owing to business concerns about labour shortages, Trump recently announced an easing of immigration restrictions in these industries, but then quickly reversed his position in response to opposition within his team.

But the writing is on the wall. The administration's draconian approach to immigration will curtail the growth of the labour force, and thus of the economy; it will reduce the availability of skilled labour and undercut innovation; and it will increase costs and decrease business profitability in all affected industries.

At the macro level, the economy's long-run potential growth depends on the labour supply and labour productivity — both of which depend on net-positive immigration. Thus, by undercutting potential growth through immigration restrictions, the administration has ensured that the already high debt-to-GDP ratio embedded in the OBBBA will rise even faster to unsustainable levels.

The future of US innovation

Moreover, the massive cuts to federal support for basic science will slow the economy's total factor productivity growth. The US has long been the world leader in innovation, largely because of its public investments in research and development. The return on these investments has been enormous — ranging from 30 per cent to 100 per cent or more. According to research from the Federal Reserve Bank of Dallas, government-funded R&D accounts for roughly one-quarter of all business-sector productivity growth since World War II.

The administration has already fired thousands of scientists, cancelled millions of dollars of outstanding scientific grants and suspended funding for major universities. But now, the OBBBA will take a sledgehammer to the research infrastructure that has sustained US technological leadership, with funding for grants from the National Science Foundation, the National Institutes of Health, the Environmental Protection Agency and the Centers for Disease Control and Prevention each falling by 44 per cent to 55 per cent.

These cuts will have dramatic negative consequences for research universities, which depend on federal support to hire professors, train graduate students and cover the overhead costs of running labs and projects. Just when AI and quantum computing promise to drive innovations with far-reaching national-security and economic implications – and as global warming threatens to make more of the planet uninhabitable – the administration is destroying the foundation of US frontier research.

The self-destruction of the past six months has been unprecedented.

Until recently, the US was the go-to destination for foreign-born scholars, many of whom come as students and then stay to teach the next generation of researchers or to start companies. These immigrants' contributions to US (and global) productivity have been enormous, with one recent study calculating that they are responsible for around 36 per cent of US innovation. But with the Trump administration smearing all immigrants as 'invaders' and discouraging foreign scientists and students from coming through tighter visa requirements, including vetting their social-media posts, the future of US innovation and economic growth is in peril.

The self-destruction of the past six months has been unprecedented. Trump's second-term agenda – which was outlined in detail in the Heritage Foundation's Project 2025 – is not only causing substantial near-term damage to the US economy, but also fundamentally threatening America's standing and competitiveness in the world. By cracking down on dissent and deploying the US military domestically, Trump is following the autocrat's playbook. He must be stopped before the damage becomes irreversible.

The good news is that the American public appears to have woken up to

the danger. Trump is underwater in national polls, both in terms of overall performance and on all major issues except immigration, where the poll results are mixed. The bad news is that the OBBBA will probably pass, despite opposition from the vast majority of Americans.

This horrendous legislation will shift incomes from the poorest to the richest, leave up to 17 million people without health insurance, as well as 3.2 million adults and one million children without food assistance, and add trillions to the federal debt. The risk premia and interest rates on US government securities will rise significantly, as will interest rates for American businesses and consumers. A good economy that Trump turned bad is about to get a lot worse.

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