

The Closing of the American Economy: Impact and Durability

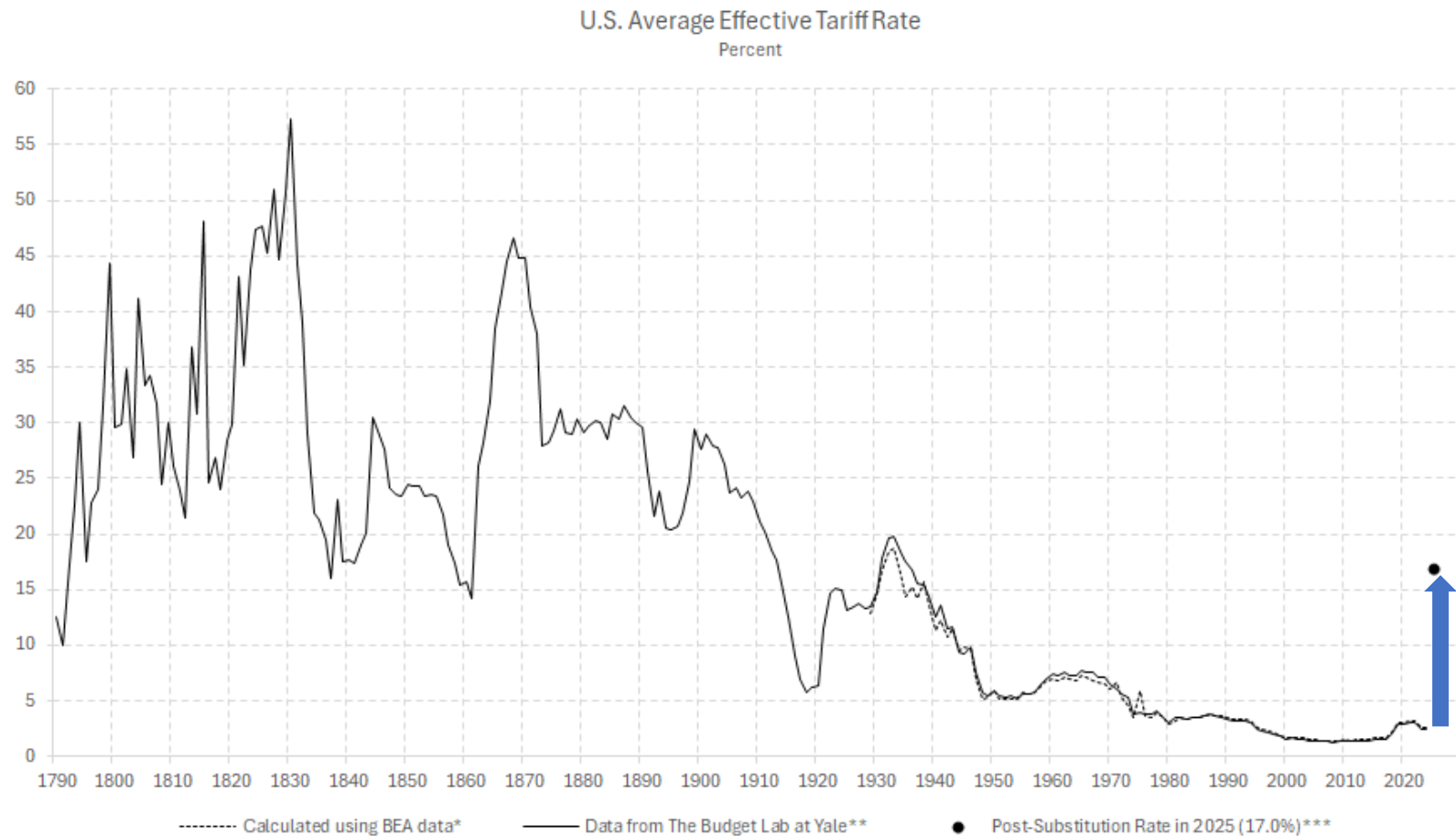
Menzie Chinn

University of Wisconsin and NBER

MEA 2025 Annual Conference

October 24, 2025

A Historical Change

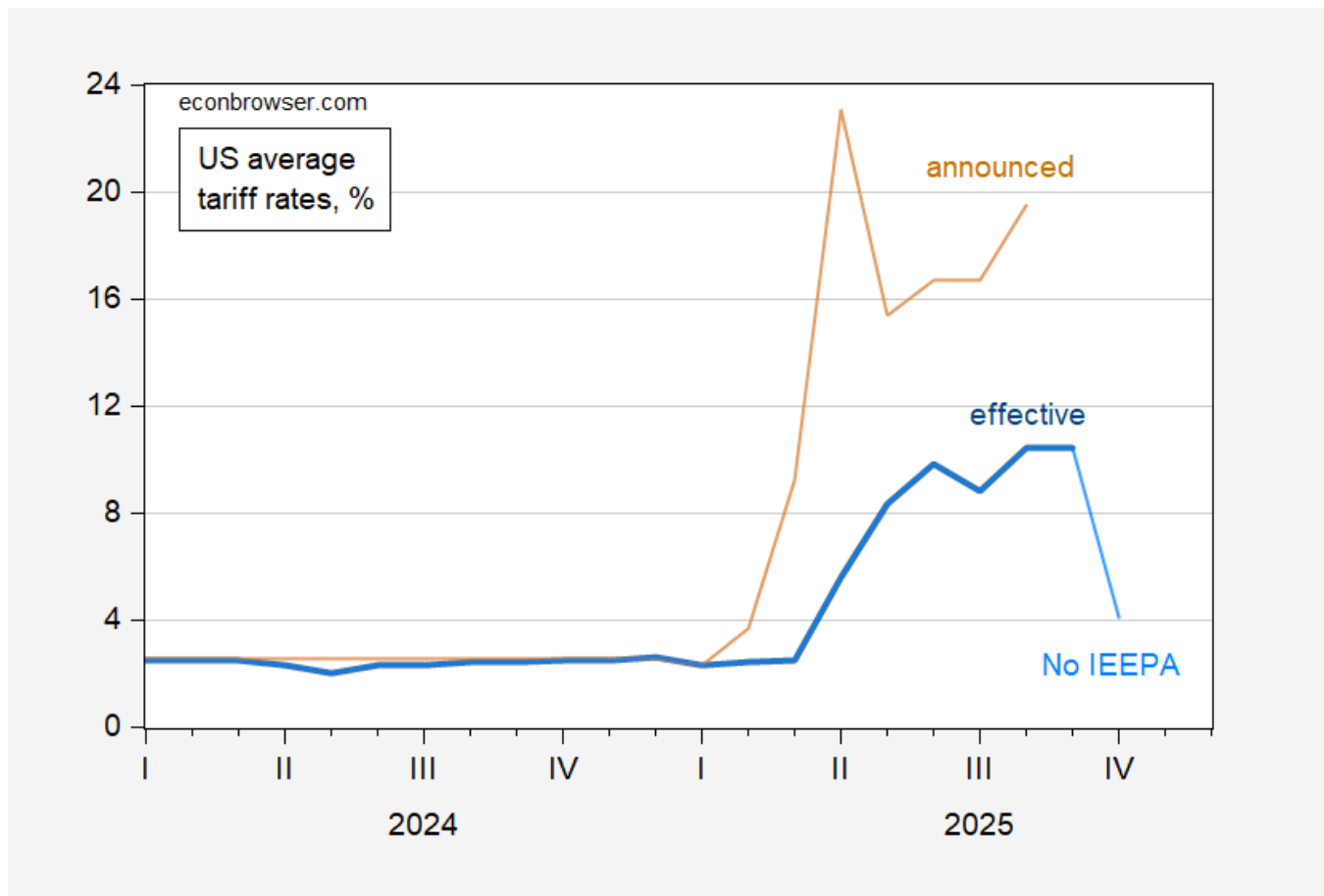


* Federal government customs duty revenue (<https://fred.stlouisfed.org/series/B235RC1A027NBEA>) as a percent of goods imports (<https://fred.stlouisfed.org/series/A255RC1A027NBEA>).

** Source: Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis, The Budget Lab analysis.

*** Estimated by The Budget Lab at Yale - October 17, 2025 release (<https://budgetlab.yale.edu/research/state-us-tariffs-october-17-2025>). Corresponding pre-substitution rate is 18.0%.

Declared vs. Effective (v. No IEEPA)

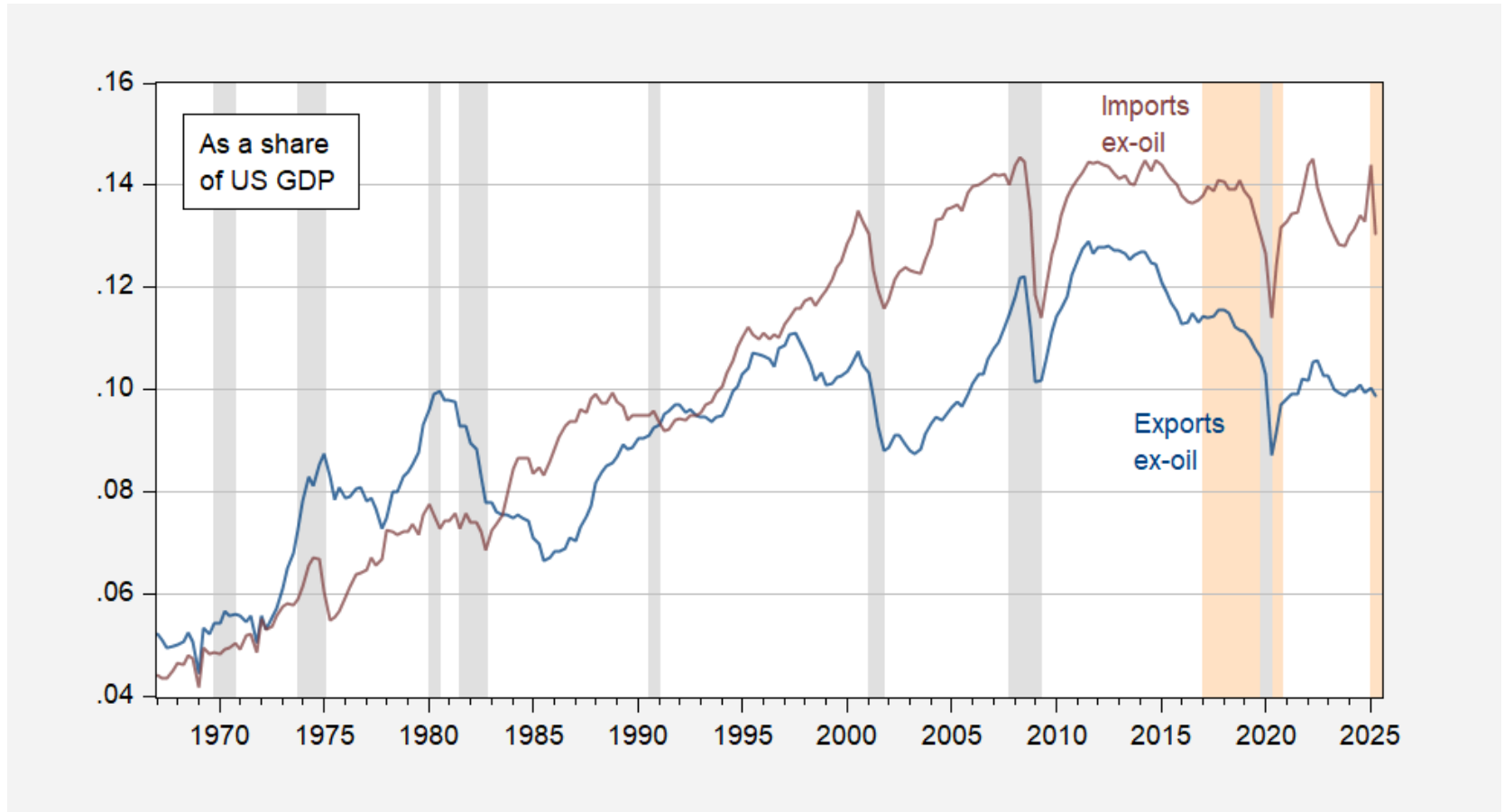


Outline

- Trade
- Finance
- Factor Movements: Labor and Capital
- The Dollar's Reign Imperiled?

Trade Policies

Declining Import and Export Shares



Extensive Global Supply Chains Now

Figure 6

A simple capacitor's journey through North America illustrates the complexity of the regional automotive supply chain



Source: Adapted from Thomas Black, Jeremy Scott Diamond and Dave Merrill, "One Tiny Widget's Dizzying Journey Through the US, Mexico and Canada," Bloomberg, updated May 31, 2019.

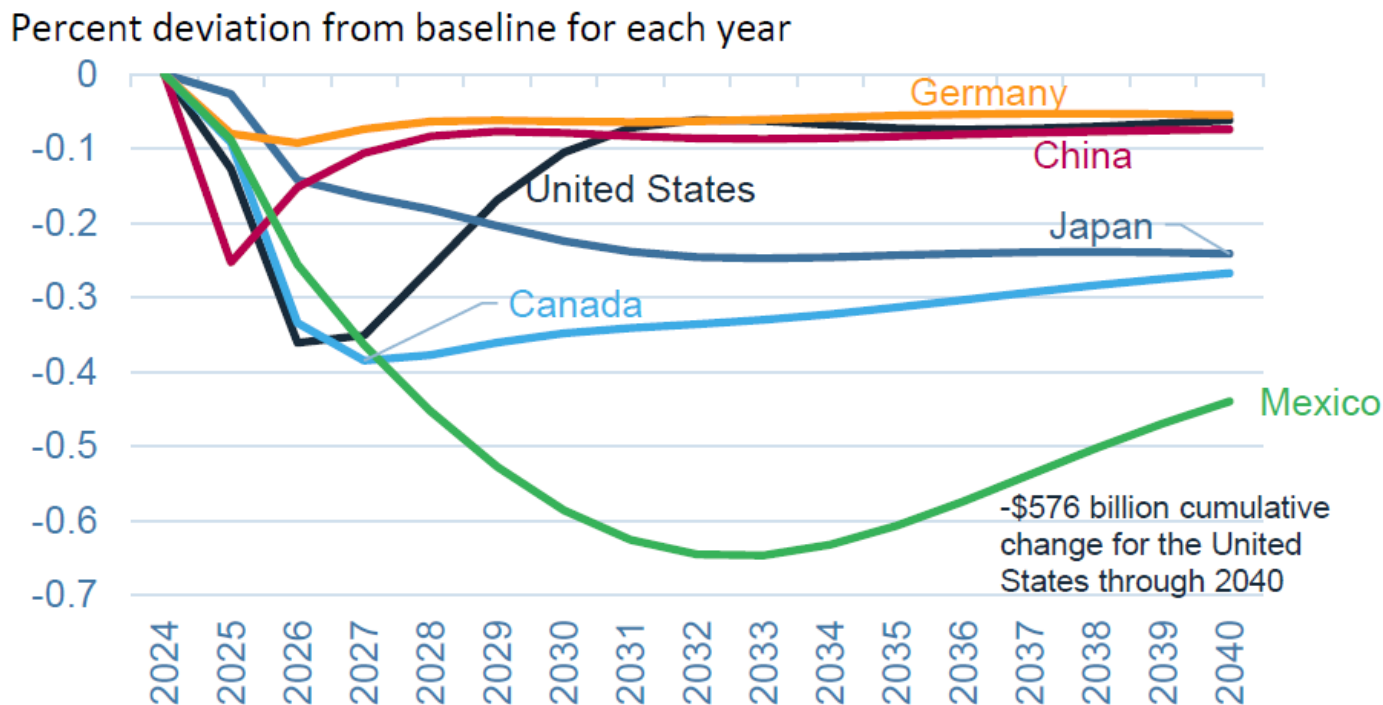
So Vertical Specialization Now

Fig. 7: The US trade deficit with China has stabilized in recent years



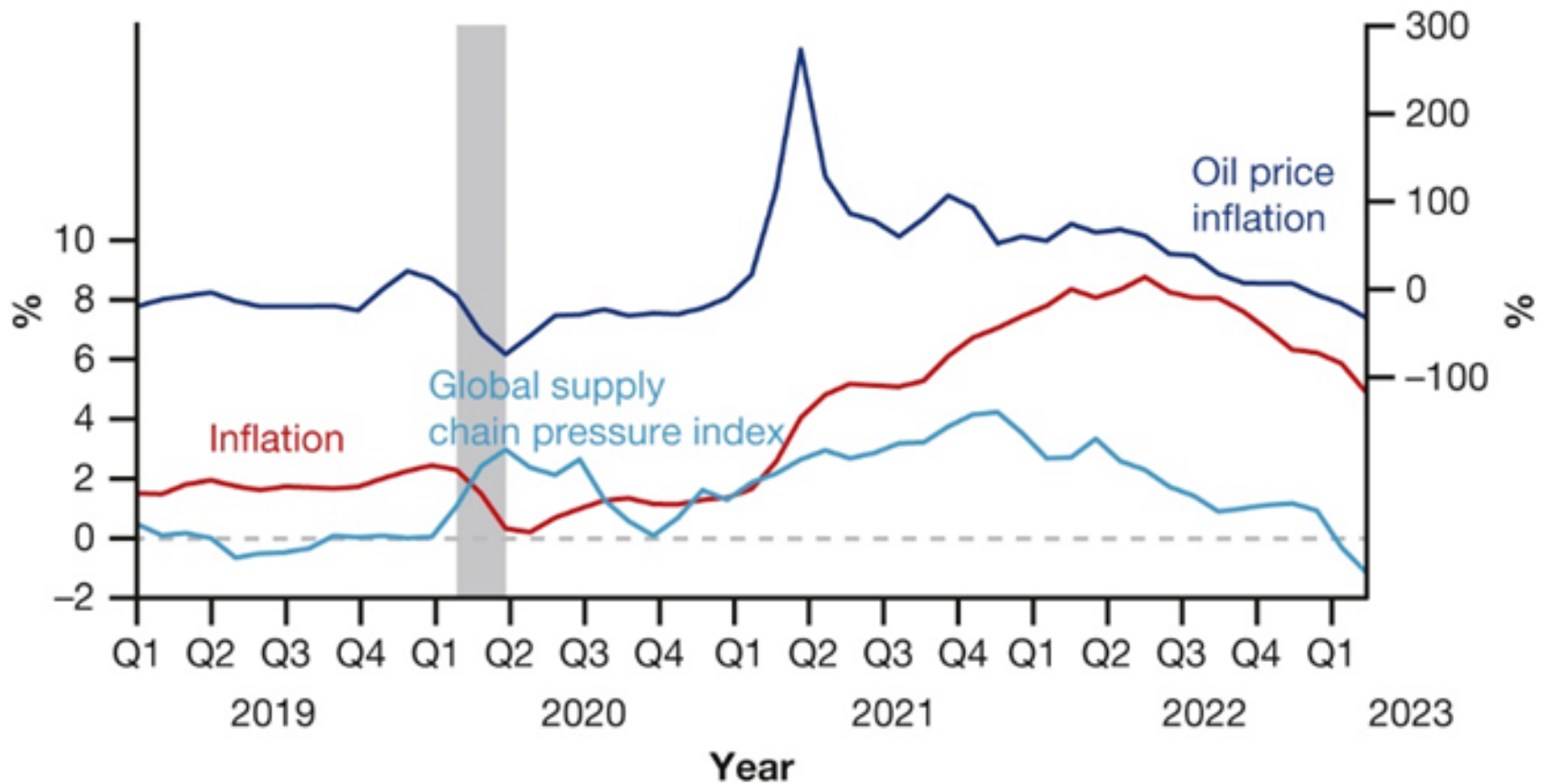
10% Universal Tariffs

Figure 17 Projected change in real GDP of selected economies from an additional 10 percentage point increase in US tariffs on imports of goods and services from all trading partners, 2025-40

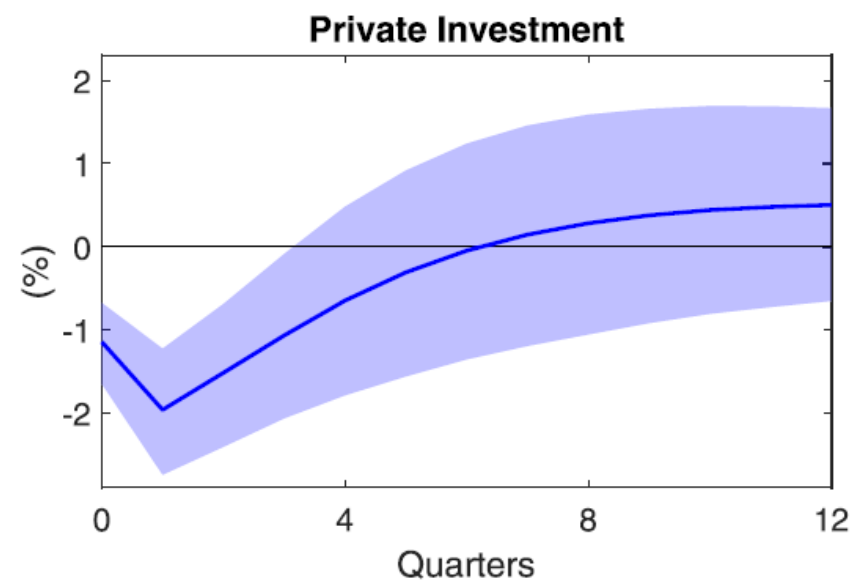
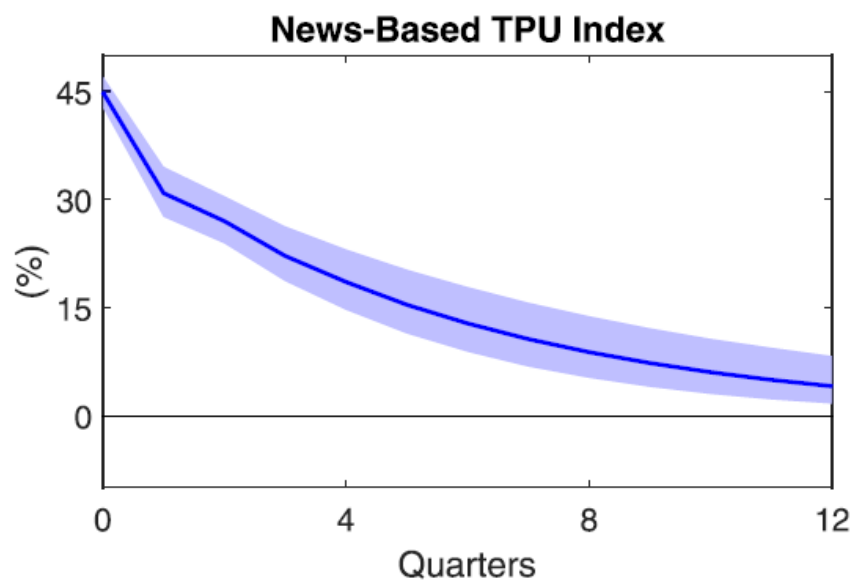


Note: Cumulative amount in 2018 US dollars.

Supply Costs Now Have Larger Inflation Impacts



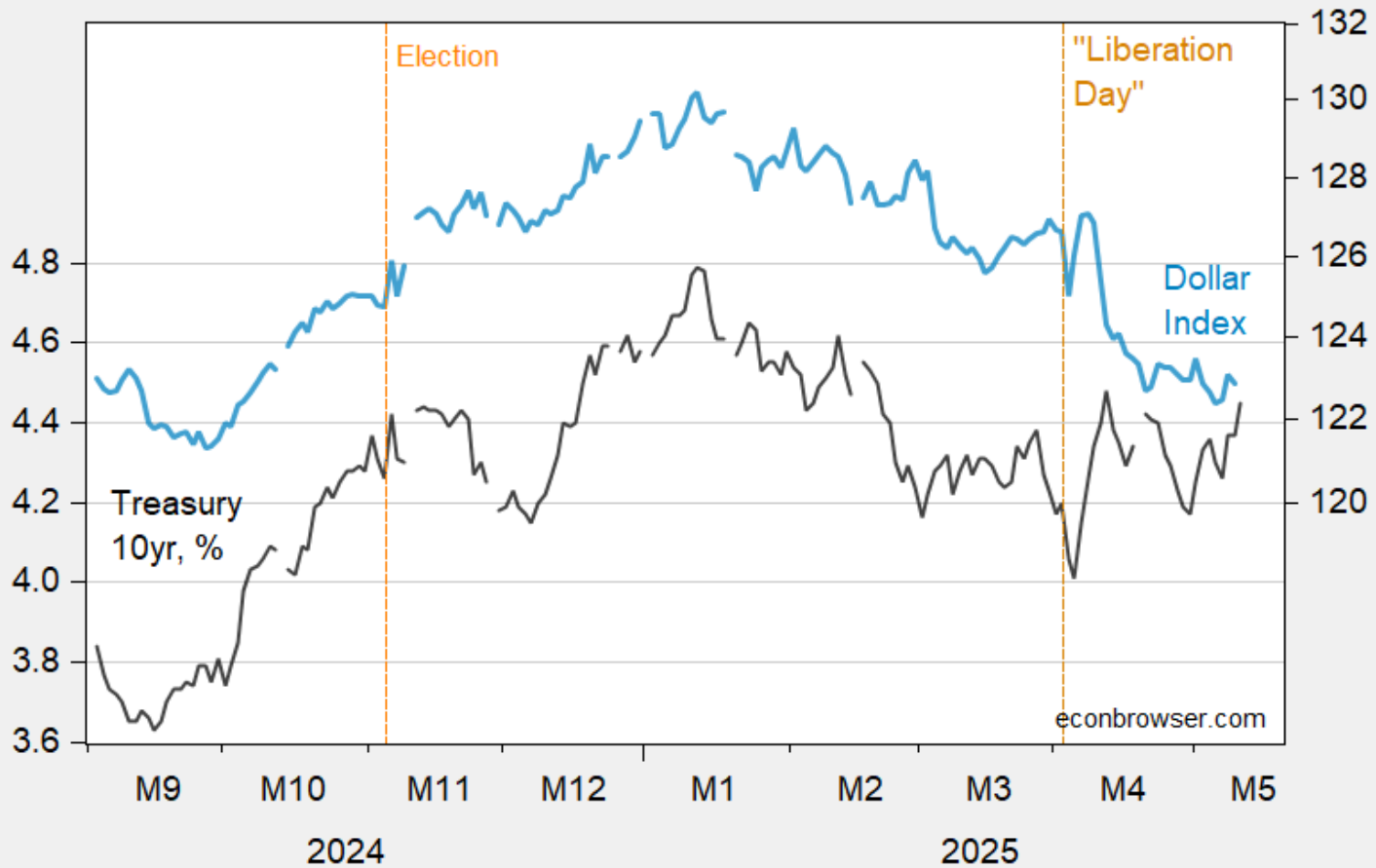
Effects of Trade Policy Uncertainty



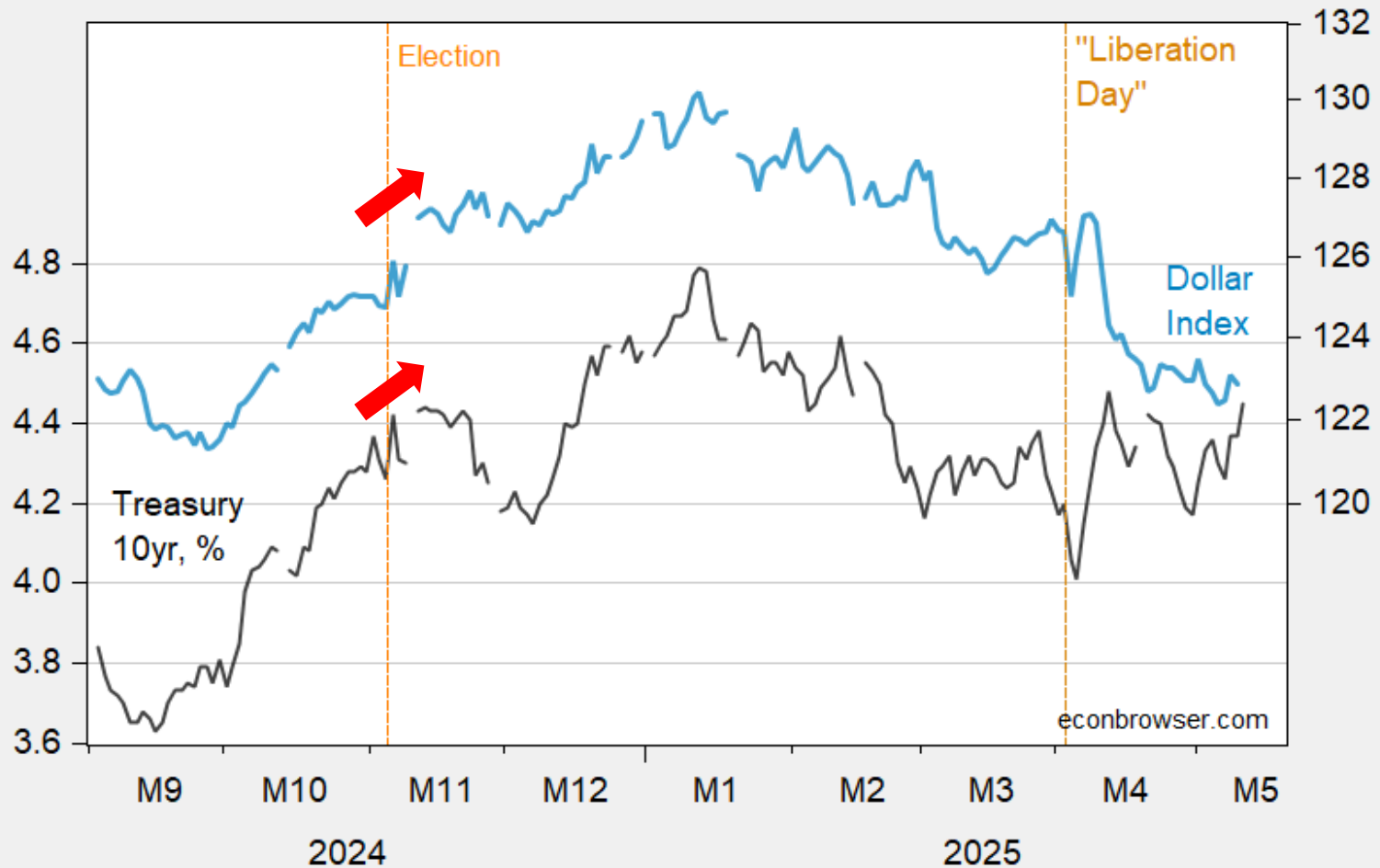
(a) BIVARIATE VAR WITH NEWS-BASED TPU

Finance

Dollar Safe Haven No More?

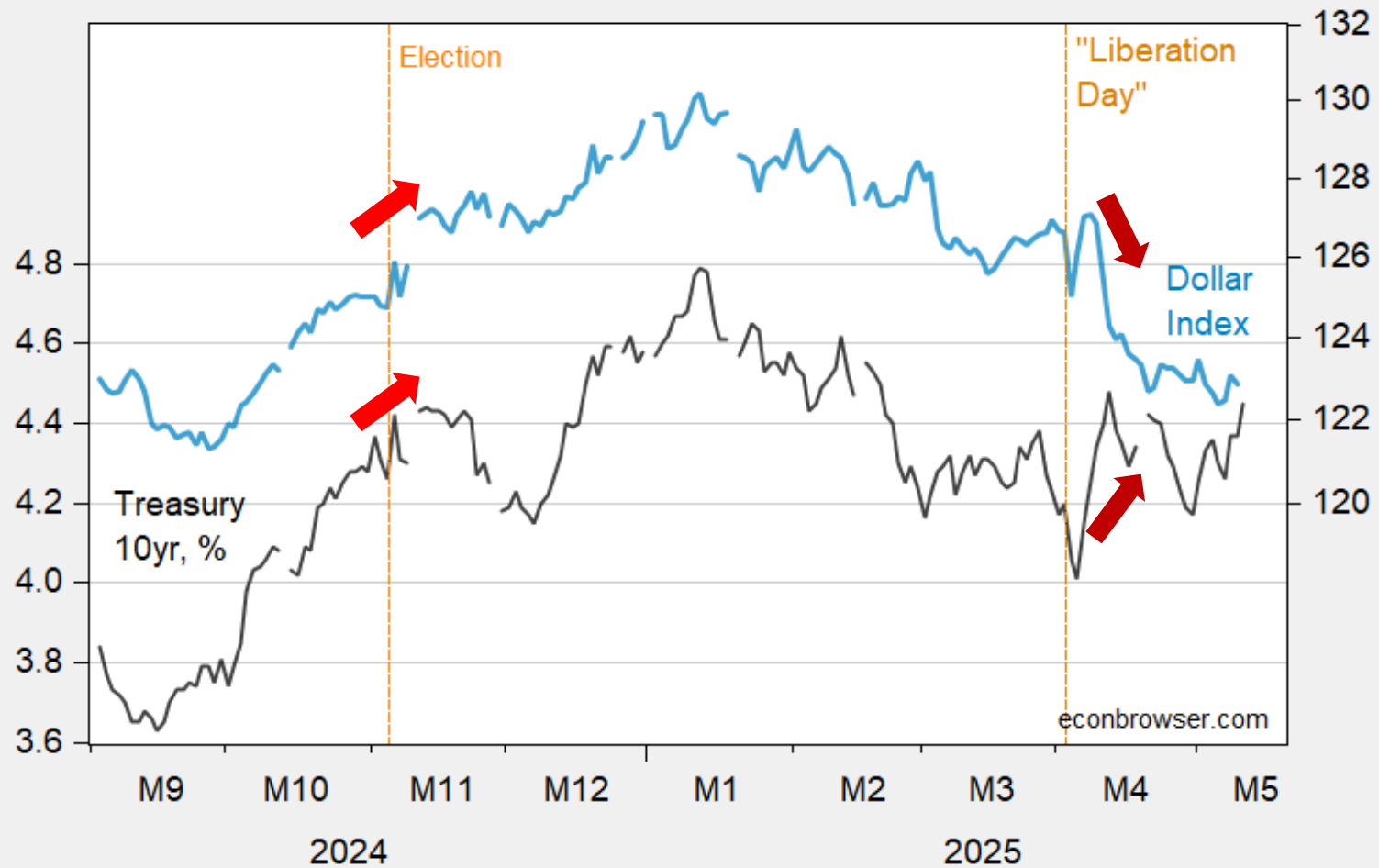


Dollar Safe Haven No More?



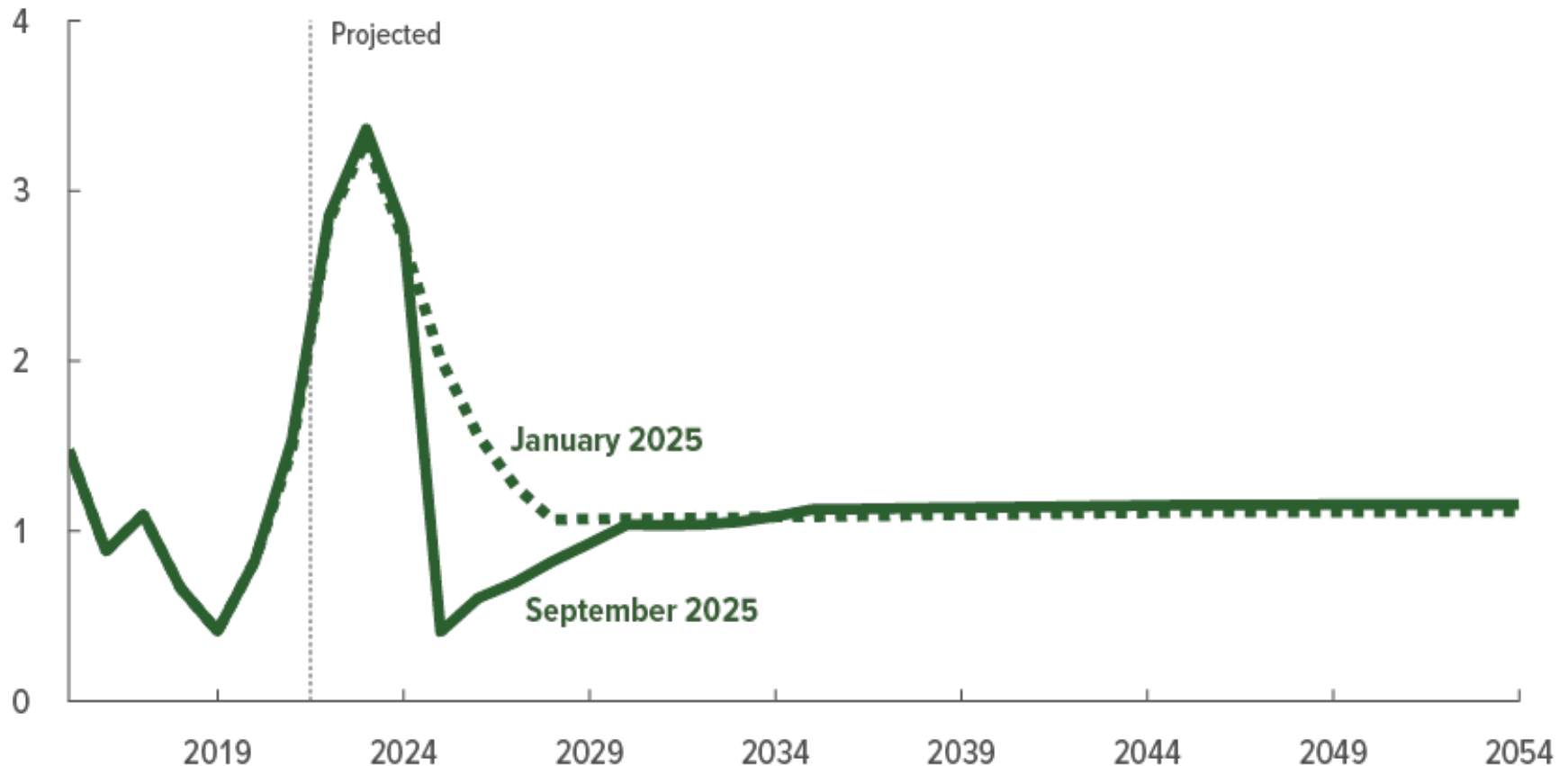
econbrowser.com

Dollar Safe Haven No More?



Factor Movements

Population Growth: CBO Revision

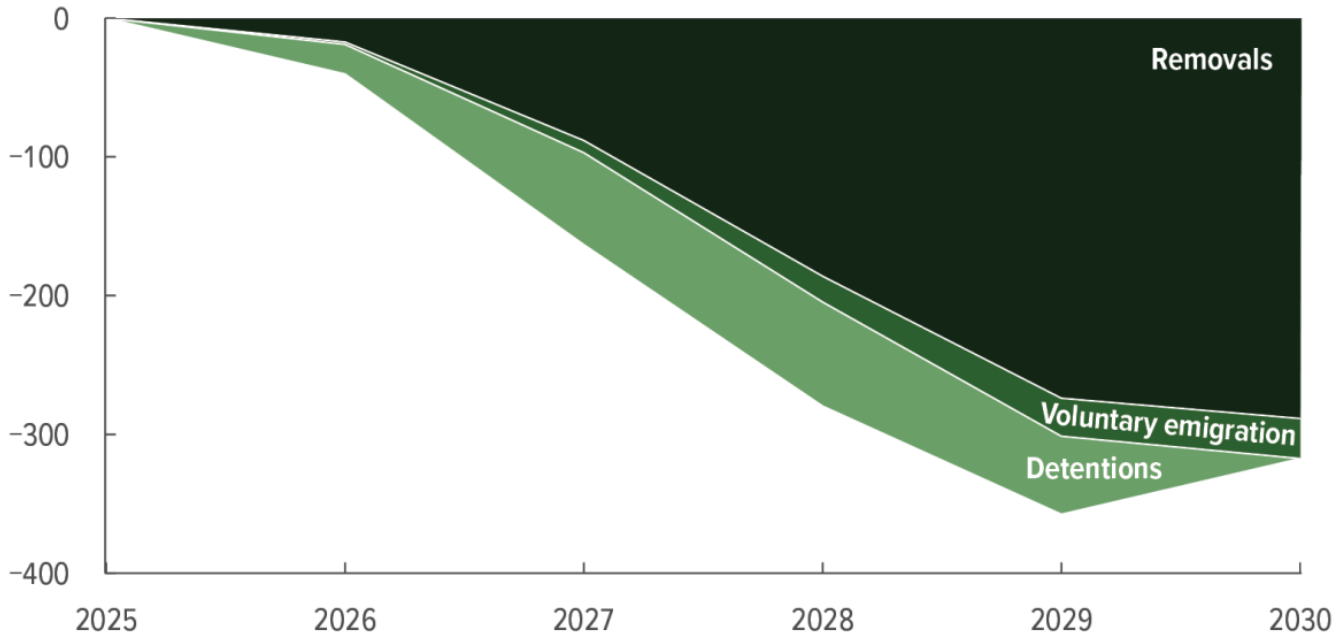


CBO, An Update to the Demographic Outlook, 2025 to 2055

Effect of Trump Admin. Policies

Estimated Effects of the 2025 Reconciliation Act on the Population

Thousands of people

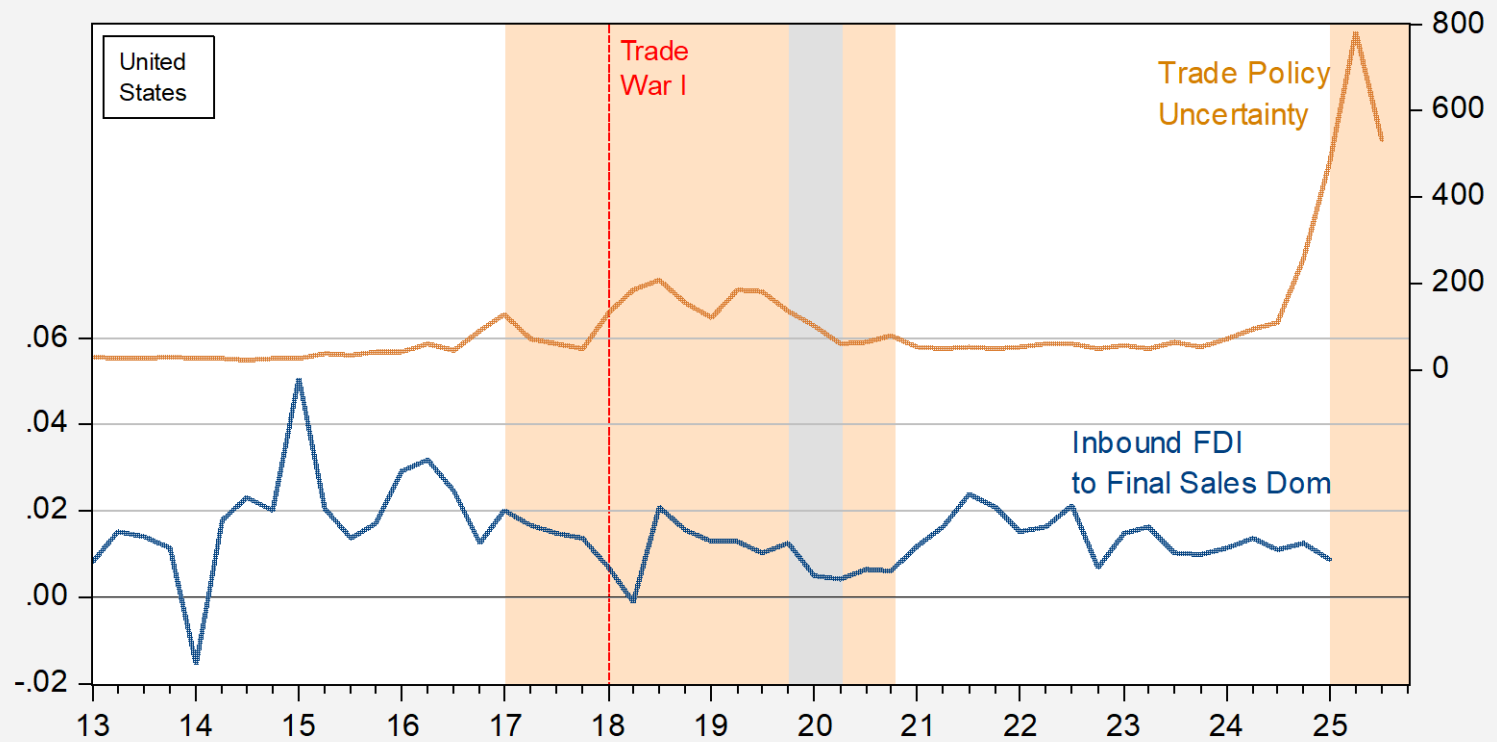


CBO estimates that the 2025 reconciliation act will result in the removal of 290,000 immigrants and the voluntary emigration of 30,000 people from 2026 to 2030. In addition, 50,000 immigrants will be detained per day, on average, over the 2026–2029 period as a result of the law.

Data source: Congressional Budget Office. See www.cbo.gov/publication/61390#data.

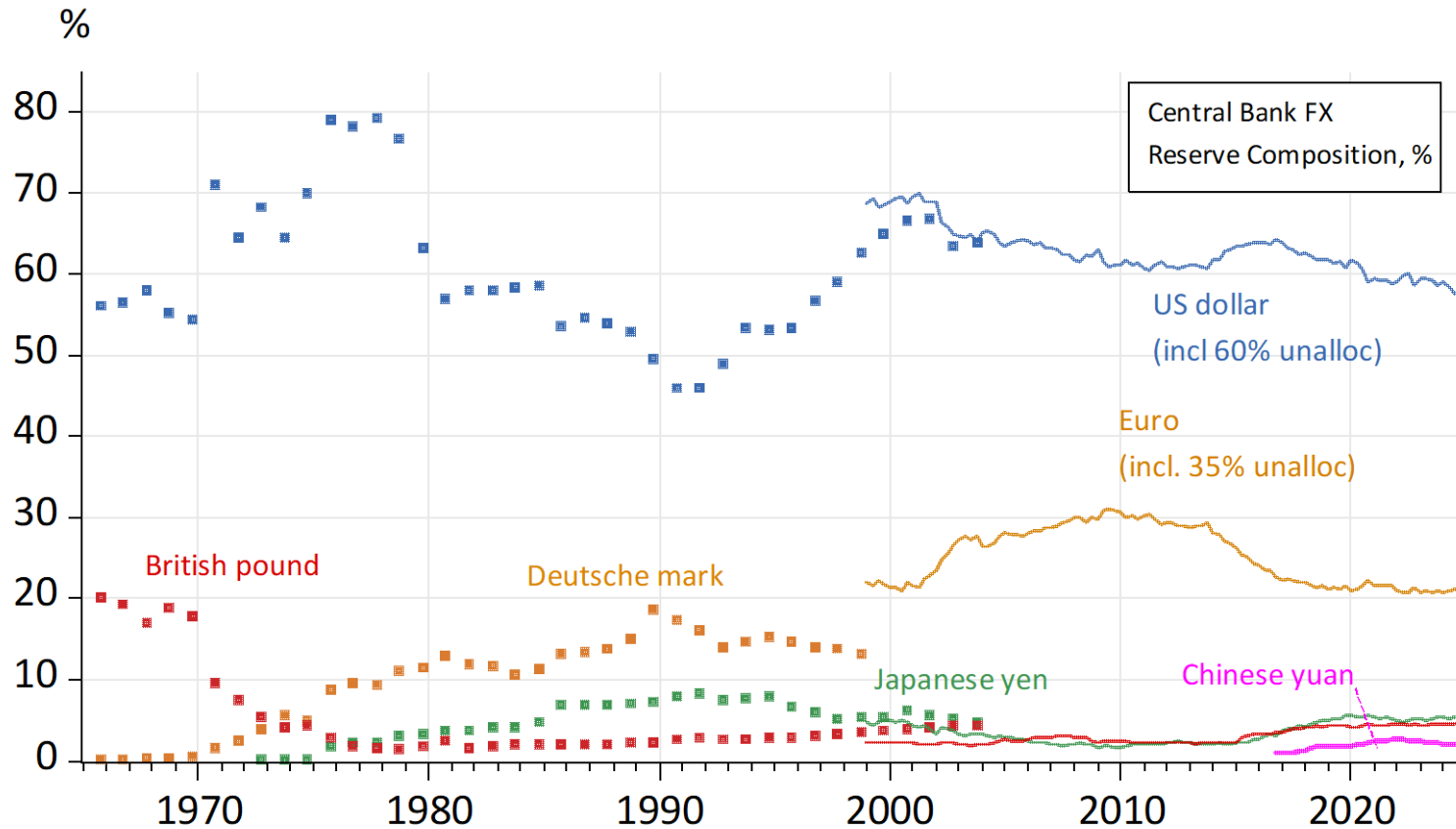
Removals and voluntary emigration represent cumulative effects on the population. Detentions represent the number of people detained, on average, on a given day during that year.

US *Inbound* FDI

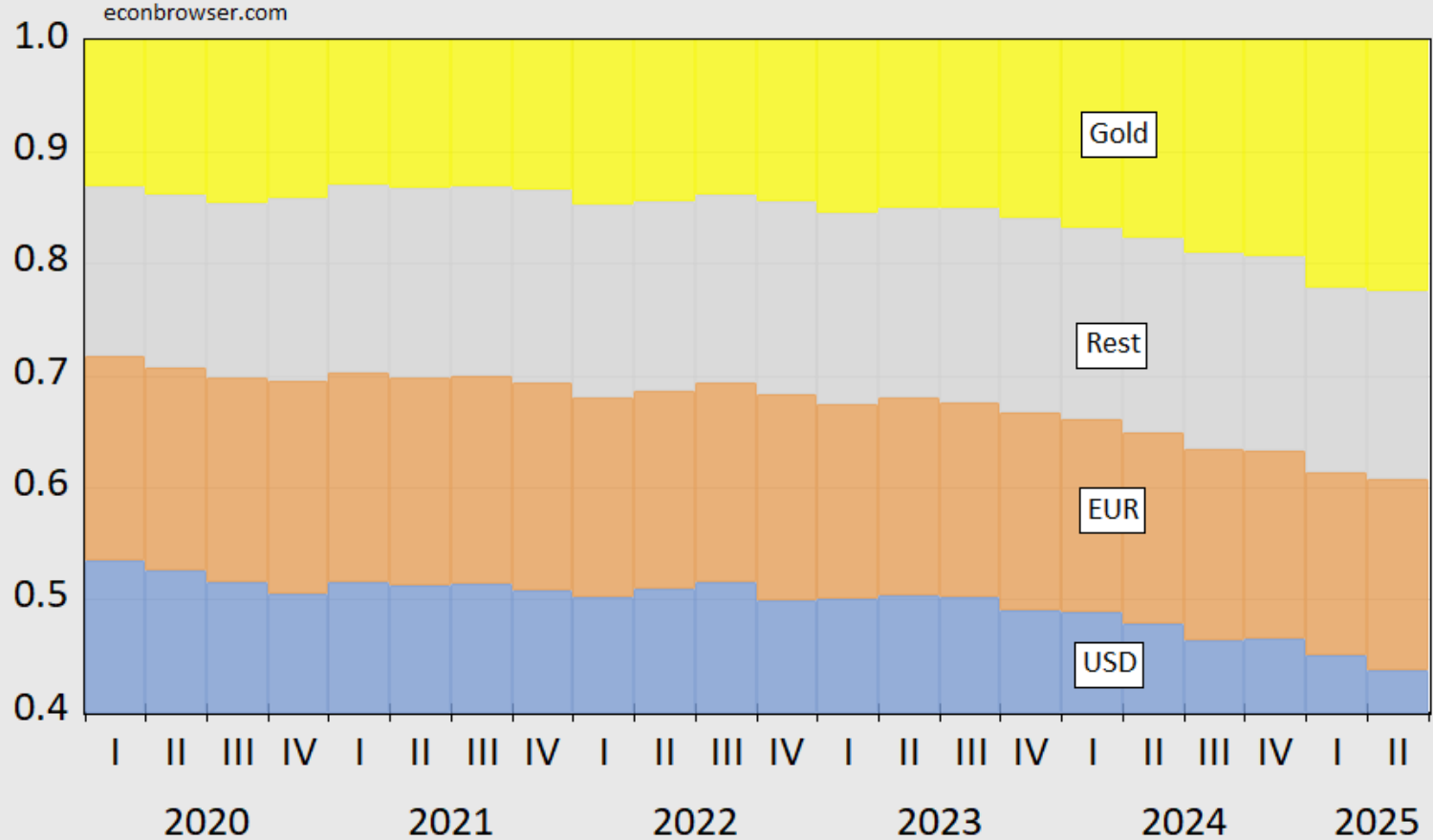


The End of the Dollar's Reign?

World's Reserve Currency No More?



Gold vs. Dollar?



Conclusions

- US becoming more closed to trade
- Unclear whether US finance will continue to dominate
- US labor force growth depends on immigration
- FDI inflows will likely slow, slowing technology transfer
- The dollar as *the* world's currency is at risk
- Regaining growth requires re-opening