Economic Policy Institute

The Trump administration's macroeconomic agenda harms affordability and raises inequality

Report • By Josh Bivens • February 23, 2026

Key takeaways

The Trump administration's unwise policy agenda has the potential to do great damage to U.S. families— and this is true even if it does not lead to recession or spiking inflation in the near term. While this agenda has heightened the risk of recession in coming years, the greatest future damage will come from slowing growth in the economy's supply side and raising inequality. Trump's economic policies will cause incomes and wages for typical families to grow more slowly, and this will lead to a less affordable life for many.

How will Trump administration policies harm income growth for typical families?

- The Trump administration inherited a fundamentally strong economy from the Biden administration. Yet the Trump administration's policy agenda has raised the risk of a near-term recession by slowing growth in spending by households, businesses, and governments (aggregate demand).
    - Federal workforce cuts, deportations and a slowdown in immigration, and chaos in trade policy and the administration's approach to the Federal Reserve have all weighed on demand growth.
    - The deportation agenda and cutbacks to the federal workforce will deeply damage the economy's supply side as well. Further, deficit-financed tax cuts will also put headwinds in front of growth in the economy's supply side in coming years. These growth reductions will be small in any given year but will accumulate quickly and lead to future incomes being significantly lower than they would have been under a different policy regime.
- Finally, the 2025 Republican-led tax cuts favor the rich, while the spending cuts included in the same Republican megabill will sharply lower incomes for the bottom half of U.S. households (ranked by income) in coming years. This combination will lead to a very large spike in inequality.

SECTIONS

- The Trump administration’s assaults on typical workers’ bargaining power and leverage, and its support for corporations with significant market power, will increase pre-tax inequality.

Policy choices that fostered excess unemployment, slow growth of the economy’s supply side, and rising inequality have all contributed to making recent decades extremely difficult for typical families. The policies of the Trump administration double down on the worst policy decisions of this period and will make typical families reliably poorer in the future, even if an outright recession or spiking inflation does not happen.

In the first months of the second Trump administration, the question that popped up frequently about its economic policy agenda was, “Will it cause a recession?” After a year and no clear signs of a recession (at least not yet), many looking to formulate an organized critique of the Trump agenda argue that it is making affordability for American families worse.

Both the concerns of heightened recession risks and deteriorating affordability are valid. Trump policies really are making a recession more likely and even if a recession does not occur, these policies will harm typical families’ ability to afford what they need. This affordability crunch will happen for two reasons: Trump policies will hamstring the economy’s ability to supply goods and services, and these policies aim to increase inequality by transferring income from the bottom and middle toward the top. Sometimes this affordability crunch will manifest as higher prices or faster inflation, but it is more likely to appear as slower wage growth and the rollback of public supports for households. But its root is always and everywhere poor economic choices, including prioritizing the interests of the rich and corporations over the concerns of typical American families.

This report provides an explanation and overview of how Trump policies will impact overall U.S. economic performance and the living standards and economic security of typical families.

- In the short run, Trump policies raise the risk of recession.
  - The U.S. economy might avoid a recession over the next year, but the Trump agenda has made a recession far more likely than it would have been without these policy choices.
    - The short-run danger from Trump policies stems from the chaotic implementation of tariff policies, the administration’s cuts to social spending in the 2025 Republican budget megabill, their rapid and random downsizing of the federal workforce, and the chilling effects their mass deportation aspirations have on spending.
- In the long run, the Trump policy agenda will significantly reduce the U.S. economy’s ability to supply goods and services without high and rising inflation.
  - The administration’s deportation agenda is slowing the size of the future U.S. labor force and has maybe even shrunk it.
  - Trump has backed mostly deficit-financed tax cuts for the rich, which will slow the size of the future U.S. capital stock.
  - His administration is attacking key federal agencies and has shown a lack of strategy in tariff policies, which are slowing the size of the future U.S. technology stock.
- In both the short and the long run, the Trump policy agenda is guaranteed to cause greater inequality.
  - In the short run, the huge tax cuts tilted mostly toward the rich and the spending cuts falling mostly on the bottom 40% will lead to an enormous rise in inequality.

    - A possible recession will damage the labor market and likely lead to rising inequality over any subsequent recovery as unemployment remains elevated.
    - Further, the Trump administration's attacks on the leverage and bargaining power of typical workers and the administration's toleration of monopolization and abusive financial practices will see income in the business sector reliably funneled away from typical workers and toward the already-rich owners and managers of large companies.
    - The Trump administration has hamstrung or downsized the key functions of the federal civilian workforce that work to level playing fields between the rich and corporations on one hand and typical workers and consumers on the other.
- Finally, many of the Trump administration's policy choices will inflict significant damage on U.S. families that is not reflected in contemporaneous measures of GDP or income. Just because this damage is not reflected in real-time GDP or income data does not mean it is unimportant or cannot be measured well.
    - For example, regulations enforced by the federal government lead to greater air and water quality, and voluminous research indicates these save lives and many Americans highly value them. If the attack on the federal workforce and the Trump administration's generally anti-regulatory stance lead to rollbacks in air and water quality, people will suffer, even as most of this suffering is not well captured in GDP.

In what follows, we provide the economic basis for these conclusions, focusing on Trump policy effects on *aggregate demand*, *potential output (supply)*, and *income distribution* and how these drive real-world outcomes for typical families. Families will feel the bad outcomes from all three dimensions of macroeconomic performance as a deterioration in affordability.

Three key dimensions of macroeconomic performance: Demand, supply, and distribution

A quick overview of some important macroeconomic concepts can help organize thoughts about how the Trump policy agenda will tangibly affect U.S. families. The most important tasks policymakers must get right to offer typical families' economic security are as follows: managing *aggregate demand*, fostering *potential output (supply)* growth, and ensuring *equitable distribution of income*.

Managing *aggregate demand* just means making sure unemployment and inflation stay low most of the time and are quickly returned to low levels when shocks push them higher for some stretch of time. The key to successful aggregate demand management is ensuring that spending by households, governments, and businesses is high enough to fully employ all resources in the economy—especially labor, but not so high as to generate ongoing inflation. This means ensuring that aggregate demand matches potential output.

Fostering growth in *potential output (supply)* involves making sure the economy's productive capacity grows rapidly over the long run. Key elements include fostering growth in the labor force and productivity (a measure of how much output and income is generated in an average hour of work in the economy). Growth in productivity depends on the educational attainment and quality of the labor force, the size of the capital stock that workers can use to aid production, and the state of technology in the economy.

Ensuring an *equitable distribution* of growth means making sure the overall income growth generated in the economy is shared *at least proportionally* throughout the income distribution. Even better would be growth biased more toward households in the bottom half of the income distribution. This would help reverse some of the large increases in inequality that occurred over the past few generations of economic life in the U.S. Fostering an equitable distribution of growth matters for typical families for an obvious reason: If *average* living standards rise rapidly, but living standards for the large majority lag far behind as households at the very top see extreme above-average gains, it is hard to declare this an economic success for broad-based economic security. Without an equitable distribution of growth, too many people would be unable to afford daily life.

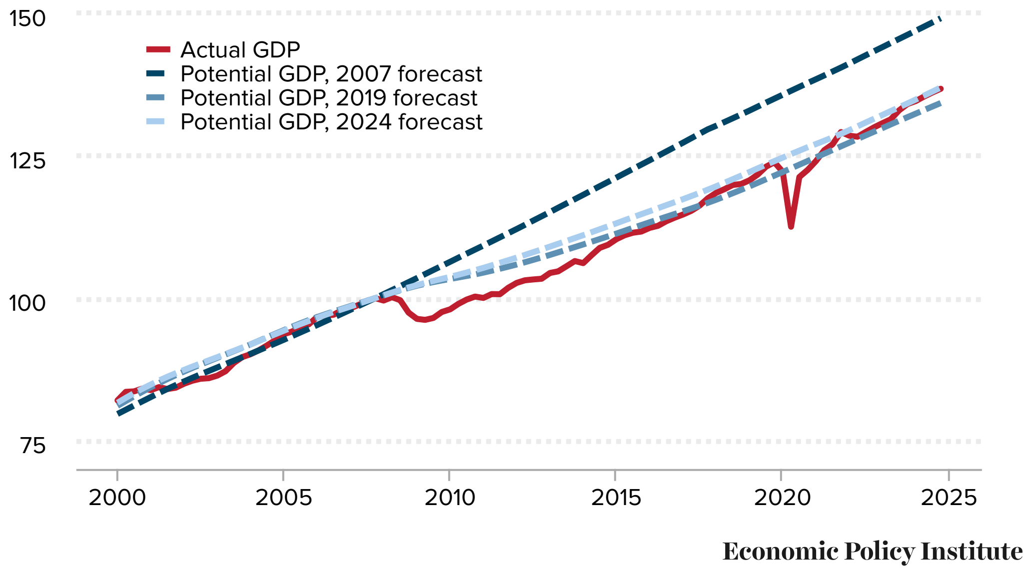
Trump policies will drag on aggregate demand and raise recession risks

Recessions happen and unemployment rises when spending by households, businesses, and governments (demand) lags behind potential output (supply). Because supply tends to change slowly and predictably, it is sharp cutbacks in demand that lead to recessions and

Figure A

Recessions and rising unemployment happen when GDP is demand-constrained

Actual real GDP and potential real GDP over time and forecasts



Sources: GDP data from Table 1.1.6 of the National Income and Product Accounts (NIPA) data from the Bureau of Economic Analysis (BEA). Forecasts of Potential GDP from CBO (2025b).

rising unemployment.[1]

When demand falls short of supply, this means that there is more capacity in the economy to produce goods and services than demand to buy them. To illustrate, let's take the example of a restaurant. It will not hire staff to cover every table and cook meals for a full house, unless there are paying customers at each table. If demand (or the number of customers) falls, then the restaurant will cut back staff and food purchases by roughly the same amount.

Figure A shows estimates of potential output and actual gross domestic product (GDP) over time. When actual GDP falls short of potential output, it can be inferred that GDP is demand-constrained (more could be produced if economic actors simply spent more). The shortfalls of actual GDP relative to potential may look small on the graph, but they correspond to significant economic distress. The growing gap between 2007 to 2009 was associated with the unemployment rate rising from 4.4% to just under 10%—meaning that roughly 9 million people lost their jobs during this time period. Others dropped out of the labor force, and wage growth even for those workers who kept their jobs was significantly damaged as well, as their main source of leverage to gain wage increases (the threat of—or ability to—leave their current job to find a higher-paying one) lost power in a labor market with huge pools of unemployed workers. Over the 2007–2017 period, excess unemployment translated into roughly 47 million years of avoidable unemployment for U.S. workers, and this period of soft labor markets kept wage growth firmly suppressed.[2]

Throughout 2025, many have raised concerns that Trump administration policies could lead to a recession. It should be noted how surprising this development would be, considering the context. The economy handed over by the outgoing Biden administration in January 2025 was extremely strong, and there were no obvious macroeconomic threats moving forward that would have led one to forecast a recession in the next few years.[3]

For a recession to happen in the next year or two, there would need to be some short-run shock or drag on aggregate demand that forces it below the economy's potential output. Despite the strength of the economy the Trump administration inherited, their subsequent policy agenda since his inauguration in 2025 contains plenty of reasons to worry about such drags.

For one, the Trump administration's assault on the federal workforce directly destroys employment and incomes. Between January and December 2025, 290,000 federal workers have lost their jobs. While this is not enough by itself to drag an otherwise healthy national economy into recession (as it constitutes less than 0.2% of total employment), it certainly puts downward pressure on aggregate demand.

On top of this, the spending cuts in the 2025 Republican budget megabill (which the White House has referred to as the OBBB) will reduce aggregate demand in coming years. [4] For example, the Republican megabill will cut SNAP and Medicaid benefits by a combined $100 billion per year on average over the next decade. Households receiving Medicaid and SNAP benefits will cut back spending sharply when these benefits are reduced. Further, the megabill rolled back a set of Biden administration policies that sharply reduced student loan payments. In coming years, households will have to pay substantially higher student loan payments to the federal government.

Finally, another fiscal change that was not an explicit part of the megabill but was notable in its absence is the expiration of enhanced subsidies to buy health insurance in the marketplace exchanges established by the Affordable Care Act (ACA). The rollback of these enhanced subsidies—also passed during the Biden administration—will *double* out-of-pocket payments for the premiums of the 20 million Americans enrolled in these exchanges, increasing costs by more than $30 billion annually in coming years.[5]

The tax cuts in the Republican megabill are unlikely to do much to spur demand for two reasons. First, they are tilted toward high-income households whose spending is not constrained by their current incomes. Second, the tax cuts are small relative to a "current policy" baseline, meaning that they leave tax burdens unchanged, not appreciably lower, relative to 2025.[6]

The mass deportation agenda of the Trump administration will have its most predictably negative effects on the economy's supply side, as millions of immigrant workers are forced out of the country.[7] But immigrants are not just workers; they are consumers as well. Further, immigrant workers are key complements to U.S.-born workers in many industries. Deporting these consumers and complementary workers and making it harder and more dangerous for those who remain to conduct the normal business of their lives will clearly have depressing effects on aggregate demand as well.

Most importantly, the radical uncertainty and chaotic implementation of Trump policies—particularly the trade policies—seem almost designed to freeze new business investment. Who would set up a new manufacturing facility if they had no idea what the competitive landscape of the sector was going to look like in coming years? Will tariffs protect domestic production? Will tariffs make imported inputs into the factory more expensive? Will protective tariffs vanish overnight when a foreign government meets the president's demands of the day? Will future profits be reduced because the Trump administration arbitrarily demands ownership stakes in companies? Business investment is by far the most volatile component of aggregate demand, and it is the one that generally leads to recessions. It seems highly plausible that the Trump administration's policies could cause business investment to seize up and slow growth.

Early in Trump's second term, the administration's "Liberation Day" tariffs led to most forecasters sharply raising the risk of a recession happening over the next year.[8] The sharp reversal of these historically high and broad tariffs to levels "only" half as high on average led to this risk receding a bit, yet still remaining sharply higher than it was in January 2025. So far, most of the "hard" economic data (that measure actual economic transactions like wages, employment, incomes, or gross domestic product) have yet to signal that a recession is coming.

Part of the relative robustness of macroeconomic measures likely owes to the fortuitous timing of a boom in AI-related spending, which largely began in mid-2023.[9] The valuation of stock markets has reached the second-highest levels in history—trailing only the stock market bubble of 2000–2001 (also driven by a boom in tech stocks). Much of these stock market gains have been driven by AI-related firms. A significant amount of consumption spending out of these wealth gains has likely contributed nontrivially to growth over the past year.

Further, capital expenditures related to the AI-boom have also been contributing to growth. Starting in 2023, year-over-year real growth (adjusted for inflation) in data centers, for example, has consistently exceeded 35%, peaking at just under 77% in late 2024 and remaining above 30% throughout most of 2025. While this AI-related spending has helped keep the U.S. economy well clear from recession through the third quarter of 2025, it is the kind of spending that would likely evaporate relatively quickly if business sentiment about the future use and profitability of AI investments dims.

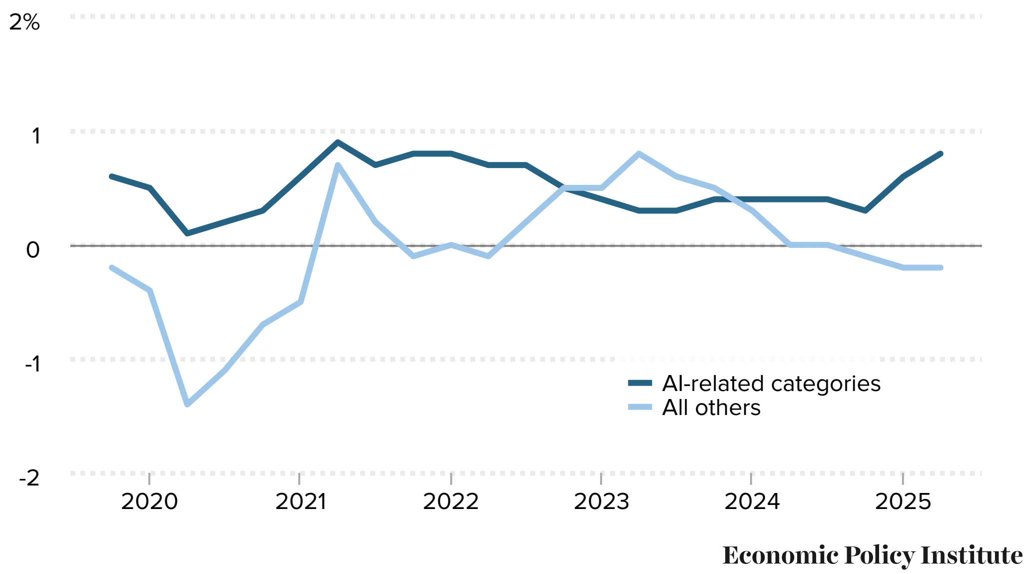
If this happened, the depressing effect on wider business investment stemming from the uncertainty mentioned above might well dominate and lead to quick decelerations in growth. Evidence of this depressing effect seems already clear, as investment in components not related to the AI boom looks notably weak over the past year.

The danger of a slowdown in aggregate demand highlights how much discussions about affordability need to go beyond prices.[10] Much of the discourse about affordability recently was driven by the outbreak of very high inflation in the early 2020s, following the COVID-19 pandemic. But absent very rare and sharp increases in inflation like that (and which tend to be driven by external events like pandemics and wars, not policy missteps), the main damage to affordability over time does not stem from fast inflation, but from slow

Figure B

Investments outside of AI-Related sectors look weak over past year

Contribution of AI-Related investments and all others to GDP growth, 2019–2025



Notes: Contributions to growth by investment type were calculated by multiplying growth rate of real investment over past year by the average share of investment type in nominal GDP at the beginning and the end of the period. For AI-related investments, we used data centers, information processing equipment, research and development, and software.

Sources: BEA NIPA Tables 1.1.5, 5.3.5, and 5.3.4.

growth in wages and incomes. A recession would return inflation in the U.S. to very low levels. The recession of 2008–2009, for example, led to inflation averaging below 2% for the following decade. And yet this low inflation provided next to no relief for affordability because the high unemployment of that period—which was the source of disinflation—sapped workers' leverage and bargaining power in labor markets and led to slow wage growth.[11]

A recession in the next year would solve the price side of affordability in that it would lead to a sharp slowdown in inflation, but it would force wage growth down even faster, and hence, would exacerbate, not help, the ongoing problem of affordability properly defined.

All in all, it seems safe to say that the Trump administration's policies have significantly elevated the risk of a recession over the next year. Their trade policy retreat has been sharp enough that a recession might well be avoided. But this hinges largely on the administration's being able to resist whipsawing trade policy chaotically again—and this seems far from certain. But we may well navigate the next year *without* a recession—largely stemming from the momentum of the strong economy the current administration inherited and the lucky timing of much AI-related spending remaining strong through 2025.

Trump polices will quickly erode the economy’s ability to supply goods and services without inflation—this damages affordability for typical families

However, the avoidance of a recession would not mean the economic policy decisions of this administration were wise. If the only question on the table regarding the impact of Trump policies was “Will there be a recession?” the future of the U.S. economy would be much less bleak. Instead, the more predictable and larger amount of damage that the Trump administration’s policies will inflict will not come through downward pressure on aggregate demand but through the rapid erosion of the economy’s potential output and the upward redistribution of income instead. These influences will be experienced by typical families as wages, incomes, and public supports failing to outpace prices by sufficient margins over time, thereby damaging affordability.

In the previous section, we noted the sharp economic damage done by the aggregate demand shortfall of the early 2010s. The most obvious and acute damage stemming from this shortfall was the elevated unemployment rate of that time, along with the attendant damage to wage growth.

However, the worst *lingering* damage from that long period of deficient aggregate demand likely came from its spillover effect in destroying potential output. When employers see that customers are scarce and workers are cheap and plentiful, their imperative to invest in worker training or newer capital or innovative technological processes to economize on labor costs and boost productivity is blunted. And when jobless workers see elevated unemployment rates and the low probability of being hired, job seekers can get discouraged, and labor force participation can falter.[12]

Over time these dynamics lead to a lower-quality workforce and smaller capital stock, which reduce productivity growth and potential output. Figure A showed actual GDP and successive estimates of potential output over time. Between 2007 and 2019, these potential output estimates continually fall as the demand shortfall bends down potential output, as productive investment is blunted. By 2019, potential output was $2.2 trillion below where its 2007 trend would have left it in that year. This translates into $6,500 less income for every adult and child in the United States in 2019 (or $26,000 less income for a family of four). In short, over a 5–10-year period, even small bends in the growth of potential output have huge real-world consequences.

Supply destruction leads directly to unaffordability

This discussion of potential output growth likely sounds abstract to noneconomists. But it has profound effects on typical families' economic security, and the way this slowing down of potential output translates into observable real-world effects is by making affordability worse for these families. For example, in the paragraph above, we said that the slowdown of potential output growth after 2007 translated by 2019 to $6,500 less in inflation-adjusted income for every person in the United States (or $26,000 less income for a family of four). The way this happens is by wages and incomes failing to outpace growth prices by satisfactory amounts—even during times (like the 2010s) when inflation was extremely low.

And, of course, the gap in the race between wages and prices differs depending on the specific goods and services examined. In the 2010s, the output that was produced less and less, relative to historic norms, was housing.[13] This reduced output of housing translated directly into higher relative prices for rents.

While there is a lot about this collapse in housing production and rise in rental prices that is housing-specific, the root of all of this pressure on affordability stems from macroeconomic choices. If potential output growth slows for the overall economy, then the production of *something* will lag, and its price is likely to rise. If we had somehow kept housing construction constant in the face of a fall in overall potential output, the biggest affordability problem would have shown up someplace else, but one surely would have emerged.

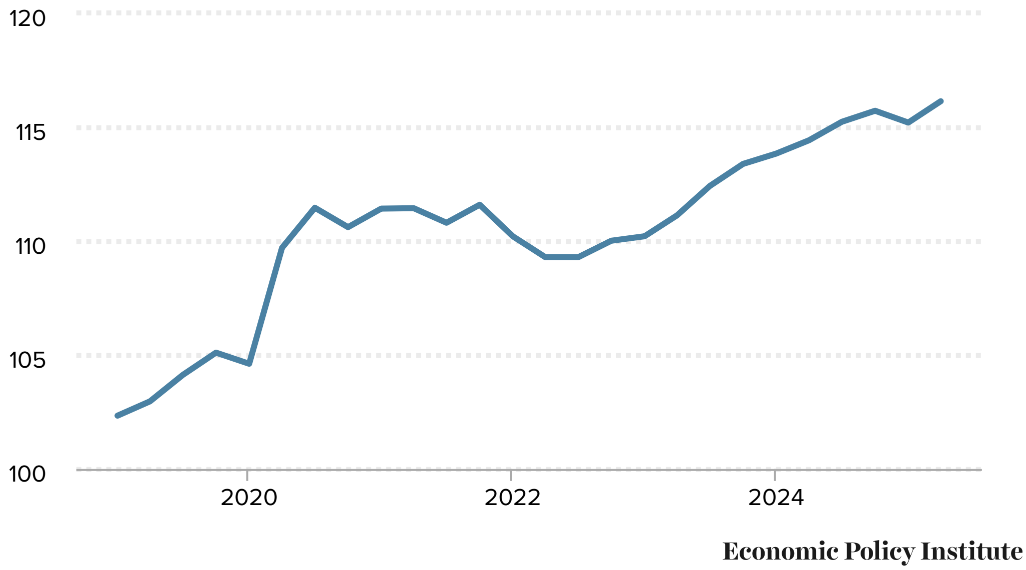
How Trump policies will slow potential output and exacerbate affordability concerns

In the current moment with unemployment that is still relatively low by historical standards and so-far adequate aggregate demand, the imminent threat to the economy's supply side today is not an extended recession, but simply the direct effect of many Trump policies. When (not if, but when) potential output growth falters in coming years, it will again represent a sharp break from the economy the Trump administration inherited, an economy that saw rapid productivity growth in the years following the pandemic.

Figure C

Productivity began accelerating in mid-2022—as soon as full recovery from pandemic was made

Index (level) of real output per hour in nonfarm business sector, 2019–2025



Source: Bureau of Labor Statistics (BLS), Nonfarm Business Sector Productivity and Costs Program, series code: PRS85006093.

The potential supply destruction stemming from Trump administration policies comes along many margins.

Loosening immigration restrictions and unleashing mass deportations

The most obvious blow to the economy's potential output would be Trump's mass deportation policy. If the U.S. relied solely on growth in U.S.-born workers, labor force growth would shrink rapidly over the next decade (see Bivens 2025c). Successful mass deportations—besides causing great and unnecessary human misery—would actually push labor force growth in the U.S. economy into negative territory in coming years.

Further, immigrant and U.S.-born labor supply are often complementary (Zipperer 2025). One obvious example is that child care centers are disproportionately staffed with foreign-born workers. If mass deportations cause significant closures of these centers, U.S.-born parents will often be forced into stopping work in order to care for children.

Cutting back federal spending and the workforce

We noted the cutbacks to federal workforce and spending previously as short-run threats to aggregate demand. But the federal government is not just a source of short-run demand; it also provides absolutely crucial *inputs* needed for robust private-sector growth.[14] Recent decades have seen sharp cuts in the size of the federal workforce and the investments in the functions it provides. By January 2025, the size of the federal workforce and the spending to support it were at historically low levels relative to the broader economy. In short, it seems clear that this workforce and the state capacity of the federal government were already significantly degraded even before the Trump administration took power. Since then, the administration has unleashed an unrelenting attack on this state capacity.

Perhaps the clearest way reduced federal spending will translate into slower potential output growth in coming years comes from cutbacks to science and research. Fieldhouse and Mertens (2025), for example, have estimated that nearly a third of total factor productivity (TFP) growth stems from federally financed research and development spending.

Further, the Trump administration has significantly cut back federal spending on universities. A key driver of productivity growth over time is a more educated and skilled workforce. Today's higher education cuts are guaranteed to slow the growth of labor quality in the U.S. workforce in coming decades.

Other federal agencies collect, analyze, clean, and provide access to free, publicly available, high-quality data on the nation's economy and demographics. These services provide enormous monetary value to private-sector actors (see Hughes-Cromwick and Coronado 2019).

Other agencies provide crucial monitoring services that help the nation avoid financial, epidemiological, or weather disasters. These investments provide a huge rate of return relative to the (likely too small) federal spending done on them. Even monitoring and surveillance that directly aim to constrain and manage private-sector decision-making can often actually lead to better private-sector outcomes. Hirtle, Kovner, and Plosser (2019), for example, examine the outcome of banks when they receive more or less regulatory scrutiny from federal banking supervisors. The authors find that "…banks that receive more supervisory attention hold less risky loan portfolios, are less volatile, and are less sensitive to industry downturns, but do not have slower growth or profitability."

By far the biggest long-run threat to the U.S. and global economies' ability to produce goods and services without inflation is the effect of climate change. Climate change can be thought of as an ongoing erosion of the economy's productive capacity. For example, key swathes of land will become less valuable as flooding and disaster exposure rise, buildings and factories will be threatened by extreme weather, and the productivity of work that must be performed outside will suffer due to either extreme weather or needed spending to mitigate the effects of it on workers. Investments that mitigate greenhouse gas emissions (GHG) and reduce the effects of climate change are incredibly valuable in the long run for maintaining the economy's supply side. By far the biggest and most effective investments in this type of mitigation ever made by the United States were the subsidies for clean energy and its adoption in the Inflation Reduction Act (IRA) of 2022. The Republican budget megabill, however, rolled back the majority of these IRA subsidies and will hence lead to far fewer reductions in GHG emissions in coming years. Essentially these rollbacks will accelerate the destruction to the economy's supply side that is ongoing due to climate change.

Many federal agencies are responsible for providing and enforcing transparent rules for markets that channel economic competition into productivity improvements, instead of zero-sum opportunism. For example, the Securities and Exchange Commission and the Consumer Financial Protection Bureau provide protection to investors by enforcing rules against fraud or misappropriation of their funds from companies they invest in. This promotes trust and allows more liquid capital markets that are able to provide finance for more prospective and ongoing businesses. The Federal Trade Commission and the Antitrust Division at the Department of Justice aim to keep firms' monopoly power from distorting markets. The Occupational Health and Safety Administration and the Wage and Hour Division at the Department of Labor protect employees from abusive workplaces, allowing them to choose among prospective employers without having to factor in whether there will be unsafe or exploitative working conditions with these employers.

Another key federal agency priority that has had profoundly beneficial effects on the U.S. economy's supply side in recent decades is enforcement of anti-discrimination laws. The Equal Employment Opportunity Commission, for example, was established in 1965. Hsieh et al. (2019) have noted that since then, there has been an enormous increase in the share of high-wage, high-skill occupational employment that is accounted for by women and Black men. In turn, the authors estimate that this more efficient allocation of workers to occupations based on talent and merit accounted for up to 40% of all growth in the U.S. economy since 1960. Much of this better allocation of talent has stemmed directly from enforcement of anti-discrimination laws. Going forward from today, there is ample scope for ongoing and/or improved enforcement of anti-discrimination laws to support future growth. If instead, the enforcement of these laws withers, and there is a reduction in the efficient allocation of talent to occupation, this could be an outright headwind to growth going forward.

Haphazardly implementing poorly designed and chaotic tariff policy

The chaotic implementation of the administration's tariff policy is surely a short-run drag on aggregate demand. But, if the end result of the policy is to leave the United States with historically high and broad tariff rates (which is where the tariff policy has landed as of December 2025, even with the sharp reversal of many of the highest tariffs), without any obvious corresponding benefit from well-designed industrial policy considerations, then this will also slow potential output growth.[15]

Tariffs are essentially a way to block the lowest-cost method of delivering goods to U.S. households and businesses, if this lowest-cost method involves imports. Sometimes this kind of blockage is fully justified by other policy concerns *besides* what is the cheapest production at the moment. For example, if foreign governments subsidize their producers in a specific sector, and if the U.S. deems it imperative to have productive capacity in that sector, then tariffs can help keep domestic producers from being forced out of business by the decisions of foreign governments.

Further, if the sectors that domestic producers are being forced out of looked poised to drive productivity gains in coming decades, there might be a strategic benefit to using tariffs to protect domestic production. The case of electric vehicles (EVs) is one potential example. There is clearly going to be a large global shift toward EVs in the coming decades. EV manufacturing will scale rapidly, and often this kind of scale produces huge leaps in productivity. If today's constellation of EV production facilities and foreign countries' subsidies of their own EV makers threaten to shove U.S. producers entirely out of the race for EV market share, it seems like industrial policy efforts to support domestic production of EVs would make a lot of sense—and this was indeed a priority of the Biden administration.

Similarly, if some or all of the cost advantage of imports in a sector stems from objectionable practices of producers in other countries—say, blatant disregard of fundamental labor rights—tariffs can protect U.S. producers from being forced out of business by these objectionable practices.

But the historically broad and high tariffs of the Trump administration are not being calibrated in any kind of strategic or careful way. Instead, they are blocking the lowest-cost means of delivering goods to U.S. households and businesses *randomly*. This essentially is the equivalent of a negative technology shock. Businesses (both foreign and domestic in the U.S.) that supply goods have been forced out of the most efficient way to produce goods, and without any countervailing benefit from smartly designed industrial policy considerations.

Finally, the chaotic implementation does not only affect aggregate demand. If ever-shifting tariff levels change the patterns of production that lead to the lowest-cost ways of producing goods in random ways, this makes it impossible to set up efficient supply chains, hence stunting potential output growth.

Financing tax cuts for the rich and corporations with higher debt

In 2000, the ratio of U.S. public debt to gross domestic product (GDP) stood at less than 35%. In 2024, the debt ratio nearly tripled, rising to almost 96%.[16] A large part of this increase was due to the two historically large economic crises experienced in those years: the financial crisis and Great Recession of 2008–2009, and the COVID-19 recession.

More worryingly, even in 2024—a year in which the unemployment rate averaged 4%, the Fed's short-term interest rates stood at over 5%, and inflation was above the Federal Reserve's target—the federal budget deficit was 6.2% of GDP. This is too large a deficit for an economy that is at roughly full employment and not in need of fiscal support.[17]

The 2024 deficit can essentially be entirely explained by the successive rounds of tax cuts engineered by Republican administrations since 2000. In 2009, the Congressional Budget Office (CBO) projected what federal revenue as a share of GDP would be if the tax cuts signed into law by George W. Bush in 2001 and 2003 were allowed to lapse (see CBO 2009). They projected that revenue would be 20.2% of GDP by 2019. However, in 2019—after the vast majority of the Bush-era tax cuts were maintained and President Trump signed the 2017 Tax Cuts and Jobs Act (TCJA)—federal revenue came in at just 16.1% of GDP. If revenue had remained at 2000 levels going forward, even with the extra debt incurred by economic crises, budget deficits by 2024 would've been effectively zero.

In the decade after the onset of the Great Recession in 2008 and during the early stages of the 2020–2021 pandemic, large deficits were not harming the economy. In fact, they were usefully propping up aggregate demand even as private sources of demand were plummeting. This chronic shortfall of aggregate demand (sometimes labelled "secular stagnation") kept spending weak and interest rates and inflation historically low (short-term interest rates stood at essentially zero in all these years).[18] And so long as interest rates were low, no damage was being done by higher deficits.

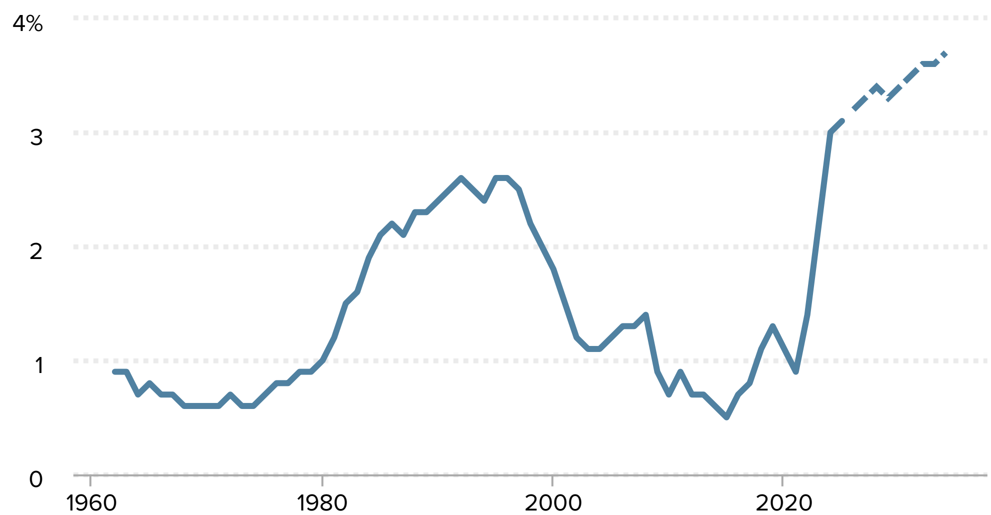
But in the post-pandemic recovery, aggregate demand (aided by a robust fiscal response to the crisis) has been stronger, and interest rates and inflation have moved decisively off their historic lows. In this environment—when the economy is no longer demand-constrained—further increases in federal debt now compete with private-sector borrowers to find available savings. This, in turn, pushes up interest rates and threatens to crowd out private sector investments in new factories, plants, and equipment. This slowdown in the growth of the nation's capital stock, in turn, leaves U.S. workers with less capital to aid them in doing their jobs and hence slows the pace of productivity growth.

This potted history of fiscal policy debates in recent decades tells us that after a decade and a half of warnings about the crowding-out effect of higher deficits on investment not

Figure D

After two decades of falling, real burden of federal debt has begun rising sharply

Real debt service as % of GDP, 1962–2034



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Note: Real debt service ratio defined as nominal interest payments adjusted by the 5-year average of inflation rates divided by nominal GDP. This debt measure includes only debt held by public, and the debt service measure subtracts out remittances from the Federal Reserve to the U.S. Treasury.

Sources: Data on debt and interest rates from CBO (2025a). Data on assets held by the federal government from the Financial Accounts of the United States, from Federal Reserve Board (2025). Data on Federal Reserve remittances to the U.S. Treasury from BEA NIPA Table 3.2. All projections of economic variables past 2025 from CBO (2025a).

ever coming to pass, there is now strong evidence to suggest this might be an important influence on growth going forward. **Figure D** shows the “real debt service ratio,” a measure of how sharply the government’s borrowing costs are rising. After a long stretch of being under 1%, this measure has recently surpassed its historic high.

This historic high was surpassed even before the passage of the 2025 Republican budget megabill—a bill that will add nearly $4 trillion to the federal debt over the next 10 years. Borrowing costs are guaranteed to spike further going forward from now in any time period when the economy sits near full employment.

If the worried-about recession comes to pass in the next year or so, the collapse in private spending will reduce competition for available savings and interest rates will fall and the supply destruction effect of higher interest rates will be muted. But so long as the underlying fiscal structure of the U.S. sees large budget deficits even when the economy is at full employment, this means that interest rates will be high during these full employment periods and investment will be suppressed, leading to slower future productivity growth.

A key aggravating factor of the supply-destroying effects of higher deficits in coming years is what they were used for: simply to give much higher disposable incomes to rich households in the United States.

One could imagine a counterfactual in which instead of using debt to finance higher disposable incomes for the rich, the federal government used this debt to make significant investments to mitigate emissions of greenhouse gases. This would leave the country with a higher stock of "green" capital (capital used to mitigate greenhouse gas emissions) and a smaller stock of conventional capital. This would be an affirmatively good thing. It would effectively be leaving future generations with slightly lower productivity in producing conventional goods and services, but a more livable and viable climate. Consistent economic growth essentially guarantees that future generations will be significantly richer than the current one in their ability to buy conventional goods and services. Trading off a bit of this advantage for a livable planet would be welcomed by this future generation—and it's a trade-off they won't be able to make. Only their ancestors can make it for them.

Alternatively, one could imagine a world in which the federal government took on additional deficits of the size generated by the 2025 Republican megabill to radically increase investments in children: providing federal financing of universal, high-quality pre-kindergarten; boosting aid to K–12 public school systems; and providing a universal Child Allowance to end child poverty. This would not only raise human welfare much more than tax cuts to rich people would; it would also see some of the deficit costs defrayed in coming decades as today's children grew up healthier and better educated and worked more and earned higher wages in the decades to come. Some of these offsets could be considerable.[19]

There are no such happy offsets that stem from running larger deficits simply to give tax cuts that are radically tilted toward households that don't need them—the ones at the very top of the income distribution. These deficits are supply destruction for the sake of intentionally increasing inequality.

Threatening a political takeover of Federal Reserve policy decisions

The Trump administration has been far more forceful than previous ones in pressuring the Federal Reserve to fall in line with the administration's economic goals. They have demanded that the Federal Reserve set interest rate policy to meet the administration's short-term economic goals and have constantly demanded lower interest rates, even as conditions do not warrant cuts in interest rates (inflation remains above the Fed's long-run target, and unemployment remains generally low).

If decision-makers throughout the economy—households, businesses, and state and local governments—begin to think that the Federal Reserve's interest rate decisions will be managed entirely by the executive branch, they might well raise their expectations of inflation in the future. This, in turn, would likely require any future Federal Reserve that committed to reducing inflation (and inflation expectations) to raise interest rates higher than they would otherwise have to be. These higher long-run interest rates would, in turn, reduce investment and slow productivity growth (much like too-large deficits run during times of full employment).

How much will supply destruction slow growth in coming years?

It is very hard to provide any convincingly *precise* estimates as to how much supply destruction will result from this portfolio of Trump administration policies. What determines the ebb and flow of productivity growth in advanced economies is one of the most debated topics in economics, and one in which no consensus exists. Yet we can give some very rough bounds for how important each element of this potential supply destruction might be over the next decade. The sum of these negative effects would be highly significant for future living standards growth—or affordability.

We start with the Congressional Budget Office's (2025b) forecasts of potential output growth for the next decade. Currently they forecast that annual growth will average 2.0% between 2025 and 2034.

About 30% of the 2.0% that CBO forecasts (or 0.6% of this growth) stems from their estimate of how much the labor force will grow in those years. However, if one accounts for the Trump administration's meeting their mass deportation goal of removing 1 million immigrants each year from the United States, this would imply that the labor force will barely grow at all in those years, translating into a 0.4% slowdown of growth in potential output.[20]

More than half of the projected growth in potential output comes from CBO's forecast of growth in total factor productivity—a measure of how much extra output can be obtained holding inputs constant. TFP growth is often interpreted as a measure of pure technological advance—using new processes and production techniques to get more output out of a given stock of inputs. However, as we noted before, Fieldhouse and Mertens (2025) have estimated that fully one-third of TFP growth in recent decades can be accounted for by direct federal spending on research and development. The Fieldhouse and Mertens (2025) results would imply that a 20% cut in federal research and development spending would reduce projected productivity growth in the U.S. over the next decade by 0.2% annually.[21] This, in turn, would reduce potential output enough by roughly $2,500 for every adult and child in the United States by 2035.[22]

Importantly, their estimates do not include the effect of federal support for institutions of higher education, and this support has been large and critical for these centers of scientific research—likely as important as the direct federal research and development spending. This could easily double the effects from direct federal research and development spending, especially if one accounts for the long-run loss in the labor supply of trained scientists and researchers capable of undertaking research and development that will occur as higher education funding erodes.

CBO (2025b) has estimated that the 2025 Republican megabill will add roughly 7.1 percentage points to the ratio of public debt to GDP by 2034. Using earlier estimates from CBO (2025e) to translate the effect of a higher debt ratio on economic growth, this level of debt increase (assuming no recession intervenes) would slow growth by 0.1%–0.2% by 2034 through its effect on interest rates and investment. Given that Figure D previously showed that higher interest rates really have emerged in recent years, this effect seems possible.[23]

Estimates of the growth effects of the Trump administration's trade policy are more uncertain. The Yale Budget Lab indicates a long-run effect on the level of GDP of 0.4%. However, it is hard not to make a comparison between the strategy-free actions of the Trump administration and a similar lack of planning that went into the United Kingdom's exit from the European free trade area (Brexit). Estimates of the effect of Brexit are substantially larger than 0.4%—on the order of 2%–3% of GDP over 10 years (Bloom et al. 2025). If we think that Brexit is a suitable potential model for the fallout from the Trump trade policy—similarly chaotic and unplanned—this would imply a reduction in productivity growth of around 0.25% over the next year.

The long-run growth effect of eroding the federal government's state capacity through budget cuts and downsizing is harder to estimate. One suggestive paper on this is Klein Martins (2025), who looks at episodes of sharp permanent spending cutbacks in advanced countries over the past 30 years. He estimates highly persistent negative effects on GDP growth of these cutbacks, over timespans well longer (15 years) than could be explained simply by the effect of these spending reductions adding to demand shortfalls. Klein Martins finds that each 1% of GDP in public spending reductions leads to GDP that is 2% smaller 15 years later. Say that half of these effects were driven by the erosion to state capacity stemming from these cuts. The cuts to the federal workforce in 2025 will result in a reduction of federal government spending of roughly 0.1% of U.S. GDP, which would imply (using half of Klein Martins' estimates) a reduction in GDP of about 0.1%.

Tedeschi (2024) estimates how much higher interest rates driven by political events (like the capture of Fed policymaking by the executive branch) could reduce growth in coming years.[24] He finds that if the political events just moved the "country risk premium" of the United States to look more like the United Kingdom, this could reduce growth by 0.1% annually. If instead, this country risk premium deteriorated enough to look more like other rich, stable economies like Spain, the damage could be closer to 0.3% annually.

Adding up supply destruction from Trump policies

The Trump deportation goals could reduce labor supply growth by 0.4% over the next decade. The cuts to direct public research and development spending and this spending supported by institutions of higher education could each slow productivity growth by 0.2% over this period. Financing the Trump administration's tax cuts for the rich with debt could reduce capital investment and hence productivity by 0.2%. If Brexit is the best model for the administration's strategy-free trade policy, this could also reduce productivity growth by 0.2%. If the Trump-led attacks on the Fed led to steep concerns in international financial markets that raise the U.S. country risk premium and other interest rates significantly, this could slow growth by up to 0.3% in coming years. The administration's attacks on the state capacity of the federal government could reduce growth by 0.1%. Their capture of Federal Reserve policy—leading to rising interest rates—could slow growth by between 0.1%–-0.3%. Adding these up, this means growth could slow by just under 2% on average over the next decade, with productivity growth slowing by well over 1%.

Somewhat ironically, the optimistic projections of how much advances in AI could boost U.S. productivity growth over the next decade tend to cluster around 1% annually.[25] The damage being done by the Trump administration to the economy's supply side over the next decade is hence potentially as large as the most optimistic projections for how much a new burst of technology could boost it. If this came to pass, it would constitute just the latest episode of poor policy decisions squandering the potential benefits of economic growth and technological advance. The typical U.S. household today is not poorer *in absolute terms* compared with decades ago. But they are shockingly poorer relative to the potential growth they could have enjoyed with smarter policy that prioritized their economic security over showering the rich with even more perks.

Trump policies will raise inequality—the worst blow to families' affordability

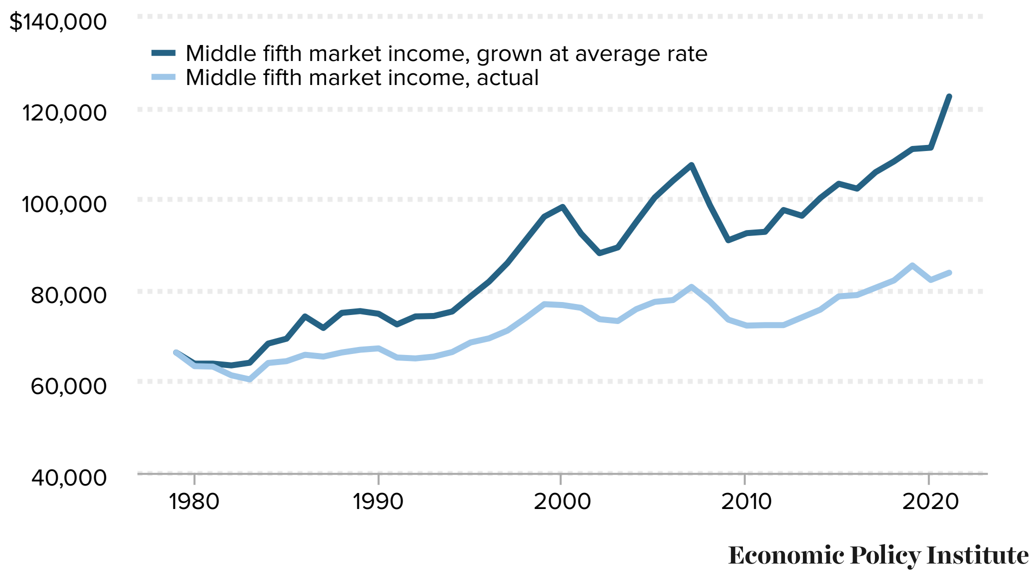
As we noted before, affordability is determined simply by the race between families' economic resources (wages, incomes, and publicly provided subsidies and benefits) and prices. When affordability is strained, it is overwhelmingly because something—a recession or slowing of potential output growth, for example—has dragged on growth in families' economic resources. Moreover, even when the aggregate economy seems strong—free of recession or inflation and with adequate growth in potential output—affordability for the vast majority of families can be squeezed if growth in these families' resources lags far behind *average* growth. This mismatch between growth in *typical* families' resources and *average* growth is driven by strongly above-average growth at the top of the income scale—the precise problem that has afflicted the U.S. economy in recent decades and the true root of nearly all U.S. families' concerns about affordability.

The Trump policy agenda will push income away from low- and moderate-income families and toward the top along many different margins. Even if (as expected) inflation rates return to normal during the second Trump term, this will be unlikely to boost the inflation-adjusted resources available to most families because the policies of the administration will actively claw resources—or the market power to claim these resources—away from typical families.

Figure E

The inequality tax costs middle-income households almost $40,000 annually

Average market income of the middle fifth of households and their income if it had grown at average rate between 1979 and 2021



Source: All data from CBO 2025d.

In the short run, the Trump budget megabill will cause an enormous jump in inequality

The signature legislative achievement of the second Trump administration is the 2025 Republican megabill, a budget reconciliation package that continues the individual provisions (and some business provisions) of the 2017 Tax Cuts and Jobs Act. The megabill also enacts steep cuts to health care and nutrition programs (Medicaid and the Supplemental Nutrition Assistance Program, abbreviated as SNAP). On top of this, the megabill also failed to either roll back or otherwise modify the corporate income tax cuts of the 2017 TCJA, but also fails to extend the supplements to subsidies for purchasing health insurance in the marketplace exchanges established by the Affordable Care Act that were passed as part of the Biden-era American Rescue Plan.

To give a sense of scale of the bill's impact, we compare the one-year change that will result directly from the 2025 megabill policy with the entire upward redistribution of income that happened between 1979–2019, a period widely recognized as one during which U.S. inequality exploded. The share of total income claimed by the top 10% of households over that period rose by roughly 10 percentage points over a period of 40 years (or about 0.25 percentage points per year). But the Republican megabill alone will in one year raise the share of income claimed by these top 10% of households by *1 full percentage point.* The 40 years between 1979 and 2019 saw the top 10% gain an average of 0.25 percentage points in the share of income they claim. This means the Republican megabill will see the rate of inequality growth quadruple in its first year, and it will essentially accomplish 10% of the entire post-1979 rise in inequality in a single year.

In the longer run, Trump policies empower the rich and disempower everybody else

Besides these large fiscal changes, other policy priorities of the second Trump administration include stripping workers of the effective right to organize unions and bargain collectively, deregulating some of the most abusive parts of the financial sector, and shrinking the federal workforce. All of these will lead to rising inequality.[26]

Trump policies continue the conservative assault on labor and workers' rights

The Trump administration has continued to move forward with parts of its first-term priorities like the assault on labor and the bargaining power of typical workers. Two obvious high-profile indications of this were the stripping of collective bargaining rights of more than a million federal workers (including terminating the collective bargaining agreement of the Transportation Security Administration and firing National Labor Relations Board (NLRB) Member Gwynne Wilcox for "unduly disfavoring the interests of employers." Further, the Trump administration nominated a partner at the very law firm that is currently challenging the constitutionality of the NLRB to be the NLRB's general counsel. [27]

The assaults on labor and the bargaining leverage of typical workers continue a long-term conservative effort that has been highly successful in suppressing wage growth for low- and middle-wage workers and which has been a primary contributor to the long-run rise of inequality in the U.S. economy. [28]

Normalizing the most abusive parts of the financial system

The rise of the financial sector's power has played a large role in the upward redistribution of income in the U.S. economy in recent decades. Finance is possibly the economic sector that has most benefitted from the federal government's intentional industrial policy support. Between deposit insurance, the day-to-day liquidity provisions of the Federal Reserve (like the discount window that provides overnight reserves at the Fed), and the regular occurrences of extraordinary support provided in financial crises, the financial sector is obviously far larger in capitalist economies than it would be without this public support.

Significant public support of the financial sector is warranted—finance provides needed services to the rest of the economy, and without public backing, market failures would prevent these necessary services from being continually available. But this public support also justifies a robust regulatory and supervisory framework surrounding the financial sector.

The history of finance in the United States is one of accepting public support (especially during bad times for finance) while constantly trying to escape regulation and supervision that constrain profits during good times. The period from the late 1970s to 2007 saw regulation and supervision atrophy. This resulted in exploding profits and incomes in the financial sector with very little obvious benefit to the rest of the economy and the spectacular crash of 2008 that demanded even more public support for the sector. In short, the industrial policy support that the financial sector has received is a case study for how complementary policies (regulation and supervision in this case) are needed to ensure public support for a specific sector is not siphoned off into the incomes of economic players with substantial market power.[29]

In the financial regulation space, the Trump administration has continued conservative efforts to keep public supports for finance strong while expanding the scope of what the sector can do to seek profits.[30] The administration has directed the Consumer Financial Protection Bureau to shrink its scope and cede regulatory oversight to state agencies and has supported congressional efforts to slash funding for the bureau. The administration has also stopped U.S. movements toward harmonizing regulations with the Basel III recommendations—essentially meaning that large banks are no longer required to hold as large a set of capital buffers to protect against financial market stress. These capital buffers are there to prevent the public sector from having to bail out large parts of the financial sector during these periods.

The administration has also endeavored to bring cryptocurrency into the realm of traditional financial institutions, but under a loose regulatory regime. This approach would essentially allow some parts of the crypto ecosystem to put the public sector on the hook for bailouts needed due to instability in the sector, but would also allow many of the worst abuses of the crypto ecosystem—its use in illegal transactions and its speculative excesses—to continue unregulated. The approach to crypto represents the worst of all possible worlds. It gives the public sector heavier responsibilities to ensure that crypto crashes are managed but robs them of the tools needed to supervise the sector.

Attacks on the federal workforce

Between January and December 2025, federal payroll employment fell by roughly 290,000 due to the cuts started by the so-called Department of Government Efficiency. We noted previously that these cuts would sharply hurt growth in potential output in coming years. They will also lead to a less equal economy.[31]

Besides providing key inputs to public-sector production that markets generally fail to provide, the activities of federal workers often involve providing a countervailing force against unchecked corporate power. The Federal Trade Commission and the Antitrust Division at the Department of Justice ensure that markets remain competitive and block firms from exercising monopoly power. The Centers for Medicaid and Medicare Services must set reimbursement rates for the health care delivered by private-sector providers but paid for by the federal government. Private-sector health providers have seen a wave of consolidation in recent years and often can exercise pricing power against patients and other payers—the price-setting decisions of the federal government are a key bulwark against this pricing power. The Occupational Safety and Health Administration and the Food and Drug Administration have workplace inspectors to ensure that firms do not try to maximize profits by underinvesting in basic protections for worker or consumer safety.

Further, in a country where the federal tax system remains at least moderately progressive (with richer households facing higher tax rates than low- and moderate-income households), effective administration of the nation’s tax laws is equality enhancing. The vast majority of unpaid taxes are owed by the very rich. As such, attacks on the capacity of the Internal Revenue Service to administer this tax law are intentionally designed to lighten the tax burden of the privileged without passing new legislation.

Measures of GDP and income understate harms of Trump policies

Most of the discussion above concerns economic forces that affect measured GDP and incomes. But the economic security and happiness of U.S. families cannot be captured entirely based on these measures. For example, many Americans report feeling overworked and wish they had more leisure time. Increases in leisure time do not show up as greater GDP or incomes, yet clearly are valuable to families.

A number of policy choices made by the Trump administration will have profoundly damaging effects on families' welfare that are not captured by GDP or data on incomes. For example, much of the damage done by climate change will not be well captured in these statistics. At the starkest level, climate change is forecast to lead to worse health outcomes and more premature deaths. The famous Stern review of climate change (2021) noted that accounting for these non-GDP influences likely at least *doubles* the true economic cost of climate change.

Similarly, the cutbacks to health insurance coverage signed into law by the Trump administration will cause poorer health and excess deaths in the coming decade if they stand. These deaths will not directly affect GDP, but obviously they need to be accounted for when assessing the impact of these policy changes.

Some of the outcomes of public policy raise GDP but actually *reduce* welfare. As climate change makes people spend more money on air conditioning, for example, this shows up as an increase in GDP yet makes peoples' lives worse. Similarly, an increase in health spending driven by maladies related to climate change will raise GDP yet reduce welfare.

Further, some government spending provides outputs that GDP does not measure well at all. The value of less air and water pollution, for example, is immense but not captured in contemporaneous GDP. Much of its value will implicitly show up in future GDP numbers, as less pollution will lead to a healthier and more productive workforce in the future, but in real time, the benefits are not precisely measured. A similar finding concerns investments in children generally. Some of the benefits might occur in the moment (say, child care subsidies that allow parents to work more and earn higher incomes), but most accrue over time as children grow up healthier and become more productive and higher-earning adults.

Just because the benefits of much public spending do not mechanically show up in contemporaneous GDP measures do not mean they cannot be measured. When they are measured, there is ample evidence that families value this spending and the output it produces immensely. Often the estimated value of such spending is on the order of $1.50 for each $1.00 spent, with most of the benefit coming from welfare gains not captured in GDP. Welfare gains this large from public spending are strong suggestive evidence that public spending is already extremely under-provided, and further cuts will make it far worse.

Conclusion

It is essentially a guarantee that the policy path charted by the second Trump administration will leave the U.S. economy poorer and less equal. But much of this damage will be subtle and hard to see in month-to-month or even year-to-year changes in economic statistics. The Trump administration's inability to implement a policy agenda without rank chaos might lead to a short-run recession that will temporarily expose much of the damage being done. But even if the recession does not come and even when it passes, there will be a steady hollowing out of the U.S. economy's simple ability to produce the goods and services families need, and the inadequate growth that does get generated will flow disproportionately to the richest households.

In short, the macroeconomic consequences of the second Trump administration are profound. They will leave the vast majority of American families poorer over the next decade, and if Trump's successors continue in this vein, they will leave the current generation's children far poorer.

Notes

[1] The obvious historical counterexample to the rule that supply tends to grow slowly and predictably occurred during and immediately after the COVID-19 pandemic and Russian invasion of Ukraine, when these shocks broke global supply chains and led to sharp supply disruptions that restored themselves only with lots of volatility. This was, however, an unprecedented behavior of supply in advanced economies over the past century and is highly unlikely to repeat in the future.

[2] For this calculation, assume a counterfactual in which the unemployment rate stood at 4.0% over the 2007–2017 period and multiply by the size of the labor force in each year. Then, subtract this level of unemployment from the actual rate and sum over the years. For evidence of the damage this excess unemployment did to wage growth, particularly for lower-wage workers, see Gould et al. 2025.

[3] For details on the strength of the economy the Trump administration inherited, see Bivens 2025a.

[4] Numbers in this paragraph about cuts in the 2025 Republican budget megabill are taken from CBO 2025b, c.

[5] See Lo et al. 2025.

[6] This current policy baseline is a wrong and dishonest one to use when grading a law's fiscal impact in coming years, but it's the right one to use when figuring out whether growth will accelerate or decelerate in coming years due to policy changes.

[7] See Zipperer 2025 for estimates of the employment impact of the Trump administration's mass deportation goals.

[8] For a wide range of views on the "Liberation Day" tariffs, resulting pullback and recession risks, see Nathan, Grimberg, and Rhodes 2025.

[9] Numbers in this paragraph can largely be found in Bivens (forthcoming).

[10] See Shierholz 2025 for this broader argument.

[11] Stark evidence that it is the race between wages and prices (and not just prices) that determines affordability can be found in Gould et al. 2025. They show that inflation-adjusted wage growth for low- and middle-wage workers was extremely strong from 2019 to 2024 but was actually negative over the five years following the previous business peak (from 2007 to 2012), even as this 2007–2012 period saw much lower rates of inflation. The strength of the labor market dwarfed changes in inflation in these periods, for good and bad.

[12] See Bivens 2017 for evidence that healthy labor markets support faster productivity growth.

[13] For example, according to the National Income and Product Accounts (NIPA) Table 1.1.10, between 1979 and 2007 residential investment was about 4.7% of overall GDP, whereas between 2007 and 2019 it was just 3.3%.

[14] See Bivens 2025b for an overview of the short- and long-run effects of steep cutbacks in the federal workforce.

[15] See the Yale Budget Lab's State of U.S. Tariffs feature for a real-time assessment of trade policy under the second Trump administration.

[16] Numbers in this section are taken from CBO 2025b.

[17] Bivens 2019 estimates that a budget deficit of 2.5% or lower is likely consistent with a roughly stable debt ratio when the economy is near full employment.

[18] See Banerjee and Bivens 2022 for an overview of secular stagnation and how it intersects with fiscal policy debates.

[19] See Lynch and Vaygul 2015 for an accounting of the costs and benefits of investments in early childhood education.

[20] Bivens 2025c looks at a scenario in which net immigration between 2025–2034 was halved relative to CBO projections made in January 2025. The goal of deporting 1 million immigrants would yield reductions in immigrant labor supply very close to that "halving net immigration scenario" in that report.

[21] Marr and Cureton 2025 note that the administration's proposed budget calls for cuts larger than 20% in federal research and development spending.

[22] For this calculation, we compare a scenario in which the $204 billion spent on government research and development in 2024 is cut by 20% going forward and compare it with a scenario in which (as has been largely the norm) this spending was instead held constant as a share of GDP. By 2035 this implies a funding shortfall of nearly $80 billion. We multiply this funding shortfall by the high end of estimated returns to this kind of spending from Fieldhouse and Mertens to ascertain the total cumulative reduction in GDP by 2035, which is 2% of projected GDP in that year. We then divide this by 10 to get the average effect on productivity growth over that time.

[23] In CBO 2025e, they present the effect of GDP on two different scenarios regarding growth in the debt ratio over time. Using this, one could back out the implicit effect on GDP of a given increment of increase in the debt ratio. If this incremental effect holds for the increase in the debt ratio caused by the 2025 Republican budget megabill, one can hence get an estimate of its growth effects.

[24] While Tedeschi 2024 is not just writing about the takeover of the Fed, he absolutely mentions this as one thing that could threaten the very low current "country risk premium" enjoyed by the U.S. The country risk premium is essentially how much lower a return that international investors are willing to take on investments in the U.S. due to the perceived safety and stability of U.S. investments from political manipulation.

[25] See Bivens (forthcoming) for a quick discussion of these estimates.

[26] For a comprehensive assessment of policies undertaken by the Trump administration and their likely effect on typical working families, see Economic Policy Institute 2025–2026.

[27] For a comprehensive overview of actions taken by the Trump administration (including those

mentioned in this paragraph) that harm workers' leverage in labor markets, see McNicholas, Poydock, and Bivens 2026.

[28] See Farber et al. 2021 for the link between unionization and inequality throughout U.S. history.

[29] See Epstein 2018 for a good overview on how powerful economic actors in finance are able to claim a larger share of society's incomes and resources than their economic contribution justifies.

[30] Much of this section relies on Gensler et al. 2025.

[31] Much of this discussion relies on Bivens 2025b.

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