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Will Donald Trump's economic policy restore purchasing power to American households?

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Beyond their effects on growth and foreign trade, the tariff and fiscal policies implemented by Donald Trump since his return to the White House will have an impact on the distribution of income among American households. Tax cuts will certainly increase income, but they will be offset by spending cuts and tariff increases, with a net negative effect on the poorest households.

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One year after Donald Trump was sworn in for a second term, the contours of US economic policy for the coming years are becoming clearer. Unsurprisingly, the measures implemented during this first year have been largely in line with those announced during the presidential campaign[1]. Customs duties were significantly increased starting in March 2025. Despite some spending cuts, the budget law passed in early summer 2025 focuses on tax cuts, fulfilling the campaign promise to boost household purchasing power. These policies affect household income and purchasing power, but not uniformly, raising the question of who are the winners and losers of the economic policy implemented over the past year.

1 A trade policy that erodes purchasing power

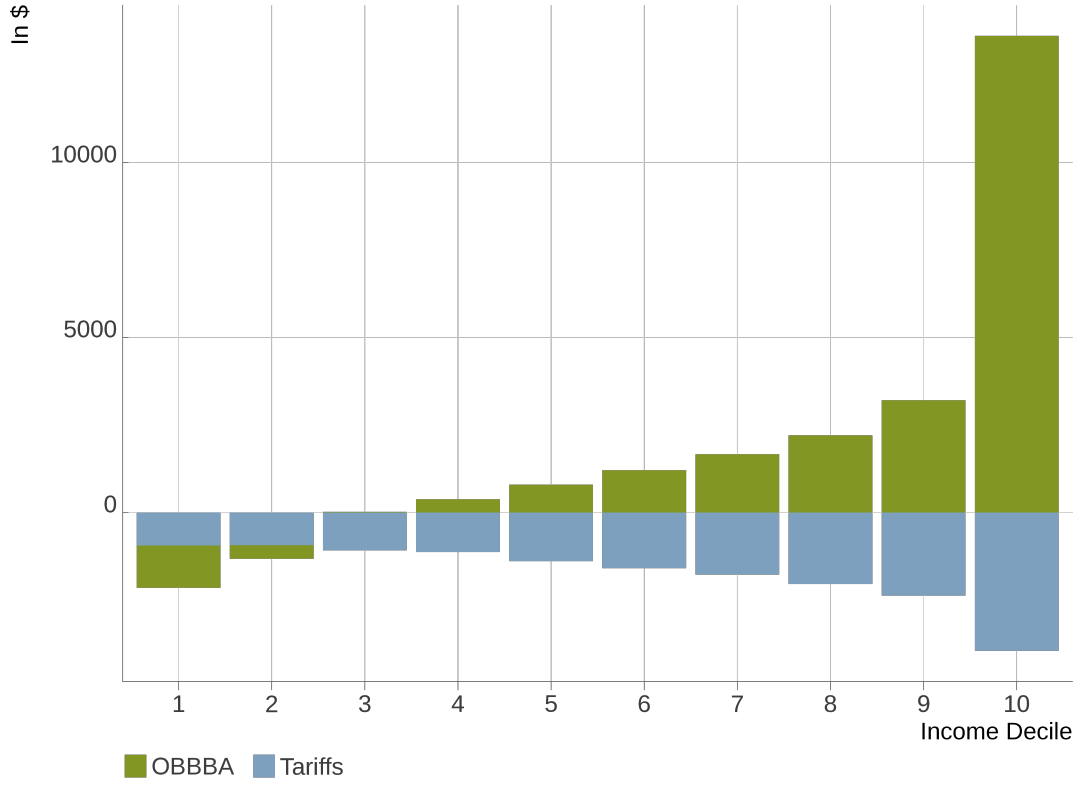
Even more so than during his first term, Donald Trump is making trade wars a cornerstone of his economic program, which is resulting in a sharp increase in tariffs. In early December 2025, all of these announcements would result in a weighted average tariff rate of 15.8 % according to the *Tax Foundation*, compared to an estimated 2.2 % in 2024[2]. However, uncertainty remains regarding the level of these tariffs in 2026. New

[1] See here for a detailed analysis of Donald Trump's economic policy and here for a summary.

[2] This figure is calculated as the average rate applied to each product and each country weighted by the share of imports from that country/good in U.S. imports. It differs from the effective rate observed, which is the ratio of customs revenue collected to the total value of goods imported. However, the final amount of customs duties in force for 2026 remains uncertain after the International Trade Court and

sanctions could be implemented, as illustrated by Donald Trump's threats in relation to the situation in Greenland or the establishment of the Peace Council. Conversely, some of the duties in effect in 2025 could be invalidated by the Supreme Court, which is due to rule on an initial judgment handed down by a federal court that found certain tariffs to be unconstitutional. As suggested by the empirical work of Amiti, Redding and Weinstein (2019) and Cavallo *et al.* (2021), the additional tariffs will have an impact on US inflation[3]. They are therefore equivalent to an additional tax estimated at an average of $1,100 per household in 2025 and $1,400 in 2026. However, the effect would weigh relatively more heavily on households at the bottom of the distribution. According to *Budget Lab*, the income of households in the first decile would fall by 2.4 %, or $940. For median households, the decline would be 1.3 %. Although the absolute cost would be higher for the wealthiest households—just under $4,000 for households in the top decile (graphique 1)—this would only reduce their income by 0.8 %.

Graphique 1: Redistributive Effects of Trade and Budgetary Policies



Source : Budget Lab.

then a federal court ruled that certain decrees were unconstitutional. The final decision will be made by the Supreme Court.

[3]The inflationary effect of customs duties is also amplified by the depreciation of the dollar observed since the beginning of 2025.

2 An anti-redistributive fiscal policy

Can this cost be offset by fiscal policy? The budget bill (*One Big Beautiful Bill Act*: OBBBA) passed by Congress in July 2025 includes the tax cuts promised during the presidential campaign. The law thus perpetuates the tax cuts granted to households and businesses during his first term (TCJA: Tax Cuts and Jobs Act, enacted in December 2017), which were due to expire at the end of 2025, resulting in a tax increase[4]. There are also additional tax cuts for households and businesses, including tax exemptions on overtime and tips.

Although these tax cuts will have a more favorable impact on households at the top of the income distribution, they will also result in gains for all others, including those in the first income quintile. However, the combination of the revenue and expenditure components of the OBBBA reverses the favorable effects for the lowest-income households. According to *Budget Lab*, the loss of income in constant dollars for households in the first two deciles would be $1,210 and $390, respectively. For the first decile, this represents a 3.1 % drop in income. This loss would rise to 5.6 % if the negative effect of customs duties were taken into account. Gains (excluding trade policy effects) would appear for households in the fourth income decile and above, reaching $13,000 for households in the top decile, a gain of 2.6 %. Similar effects are put forward by the *Tax foundation*, which shows that the largest gains are achieved by households in the last decile, even though within this decile, they are relatively less favorable for households in the top 1 %.

Households that lose their jobs or experience a drop in income will be particularly penalized by the reduction in federal aid for the *Supplemental Nutrition Assistance Program* (SNAP) and the change in eligibility requirements. As a result, the program's stabilizing effect is likely to be mitigated. Furthermore, by reducing eligibility criteria, enrollment requirements, and the method of financing health programs (*Medicaid*), the OBBBA law risks increasing the number of uninsured people. Thus, beyond the cost of social protection, which will increase for some households, the OBBBA law is also likely to have a negative effect on access to healthcare.

Analysis of trade and budgetary policies suggests net negative redistributive effects for more than 60 % of American households, which could explain some of the disapproval of households on economic issues that emerges from opinion polls. The issue of purchasing power was a key factor in the 2024 US presidential campaign and the defeat of the Democrats, who were accused of allowing inflation to spiral out of control. It is therefore likely to be a major issue again in the midterm elections scheduled for November 2026.

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Gale W., Gelfond H., Krupkin A., Mazur M.J., Toder E. (2018). "A preliminary assessment of the tax cuts and jobs act of 2017," *National Tax Journal*, *71*, n° 4, pp. 589–612.

[4] See Gale *et al.* (2018) for a detailed analysis of the elements contained in the TCJA.

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