

# Donald Trump Eliminates Highest Tariffs, but the Risk of a Crash in America Remains High

**The world's largest economy is heavily indebted and will suffer from the trade conflict. In Washington, however, lawmakers are haggling over tax deductions as if there were no tomorrow.**

*By André Müller, New York*

*May 18, 2025, 8:22 AM — 5 min read*

---

Donald Trump doesn't always make good decisions, but he usually makes good television: tariffs are announced, postponed at the last second, then imposed, and later deferred again.

The season finale has now brought a major de-escalation with China: the U.S. is reducing its tariff rate from 145 percent to 30 percent. The stock market is cheering. Not only has it recovered from the losses since the ill-fated “Liberation Day,” but the broad-market S&P 500 index is now even up year-to-date.

Analyst Jim Reid from Deutsche Bank compared Trump's latest plot twist to the cult 1980s TV series *Dallas*. At the end of season eight, the main character Bobby dies — only to be seen alive and well in season ten. His wife Pam had simply dreamed his death and the entire ninth season.

## **The Trade Conflict Continues**

Trump can't rewrite the script of the trade war quite that easily. The U.S. president wants to keep his “base tariff” of 10 percent on all imports, as well as sector-specific duties of 25 percent on cars, steel, aluminum, semiconductors, and possibly soon pharmaceuticals.

Analysts at UBS note that the average effective import tariff in the U.S. is still about 15 percent — six times higher than before Trump took office. This rate may rise slightly, as country-specific punitive tariffs — such as 31 percent on Swiss goods — have only been suspended for 90 days. As the preliminary agreement with the UK showed, even in the best case, trading partners will likely not reduce tariffs below the 10 percent threshold.

As economist Paul Krugman points out on his blog, import duties are still nearly as high as they were in 1930 after the Smoot-Hawley Tariffs. And because the U.S. economy is far more globally integrated now than it was then, the resulting shock will be even greater.

These tariffs act like a new tax: they will reduce consumption and lead to slower economic growth. How severe the effect will be is highly debated. On the other hand, tariffs will also contribute to inflation — at least temporarily. There's growing evidence that many retailers are passing the increased import costs onto customers.

## **Walmart Leads the Way**

Walmart CEO Doug McMillon was blunt in a recent investor call: "Higher tariffs lead to higher prices." Walmart, arguably the largest retailer in the world, imports about a third of its products from abroad. Many of these cannot be substituted with American-made goods — so Walmart plans to raise prices on numerous items, some as early as the coming weeks.

Donald Trump criticized Walmart on Saturday via his social media platform Truth Social. He claimed the company should not pass tariffs on to customers but instead absorb them alongside China. But the demand comes too late. The dam has broken: Walmart's clear stance will likely be seen as a green light by other retailers to hike their own prices.

Whether these import duties trigger just a one-time (and relatively painless) price spike or persistent inflationary pressure remains uncertain — even for the Federal Reserve. "We may be entering a period of more frequent and possibly more permanent supply shocks," warned Fed Chair Jerome Powell last week in an unusually strong statement. Due to inflation risks, the Fed remains unwilling to support Trump with interest rate cuts.

## **The Treasury Is Empty — Or Should Be**

Meanwhile, other economic issues in the U.S. are coming to the forefront. In April, Trump's trade war caused a scare in the critically important bond market, prompting him to suspend some tariffs. While the situation has since calmed somewhat, yields on U.S. government bonds remain worryingly high: ten-year Treasury notes still demand more than 4.4 percent. Since these yields serve as a benchmark for various loans, mortgages and car loans remain expensive.

The dollar has also barely recovered from its earlier slump — a sign that foreign investors are still wary of putting money into U.S. assets. One reason: fiscal policy. The U.S. is currently taking on nearly \$2 trillion in new debt each year. Total debt already exceeds the country's annual economic output and continues to grow rapidly.

In Washington, the problem is being kicked down the road. An efficiency commission initially led by Tesla CEO Elon Musk caused a stir in the federal administration, but has so far failed to meet its cost-cutting targets. Meanwhile, the Republican majority in the House of Representatives cannot agree on how to offset the massive tax cuts that Trump wants to expand beyond those from his first term.

The spending cuts that do have majority support are far from sufficient to plug the budget hole. Several Republican factions are using the narrow majority margins to push for further tax breaks

for their own constituencies. Lawmakers are also relying on overly optimistic economic forecasts. The bottom line: the current budget deficit — over 6 percent of GDP — is unlikely to shrink. On Friday evening, rating agency Moody's downgraded the U.S. credit rating. The country has now lost its top credit rating from all three major agencies.

## **Race for Investment**

Yet the U.S. still holds some cards. America remains a highly attractive destination for foreign direct investment, says Stephen Johnston, CEO of Canadian private equity firm Omnigence. Thanks to Trump's policies — lower taxes, deregulation, cheap electricity, and a massive consumer market — the U.S. offers many advantages.

According to Johnston, China and Europe do not provide comparable alternatives for investors, each for different reasons. U.S. government bonds, he says, are still “the cleanest of the dirty shirts.”

“Everyone is focused on the tariff war, but the real battle is for globally scarce investment capital,” Johnston says. Most trading partners in Europe and Canada fail to see this — Trump and the Chinese do not. It's no coincidence, he adds, that one of China's first retaliatory measures in the trade conflict was to ban some companies from investing in the U.S.

Johnston believes the U.S. is in a race against time. As in all G7 nations, the debt burden is unsustainable in the long run. Politically, there will be no way to reduce the deficit. He expects it will eventually be inflated away. Until then, the U.S. must attract as much foreign direct investment as possible to stand a chance at boosting productivity. “The U.S. needs to reindustrialize before it loses its status as the global reserve currency.”