



The Daily Dish

For Trump, Productivity Growth Is the Key

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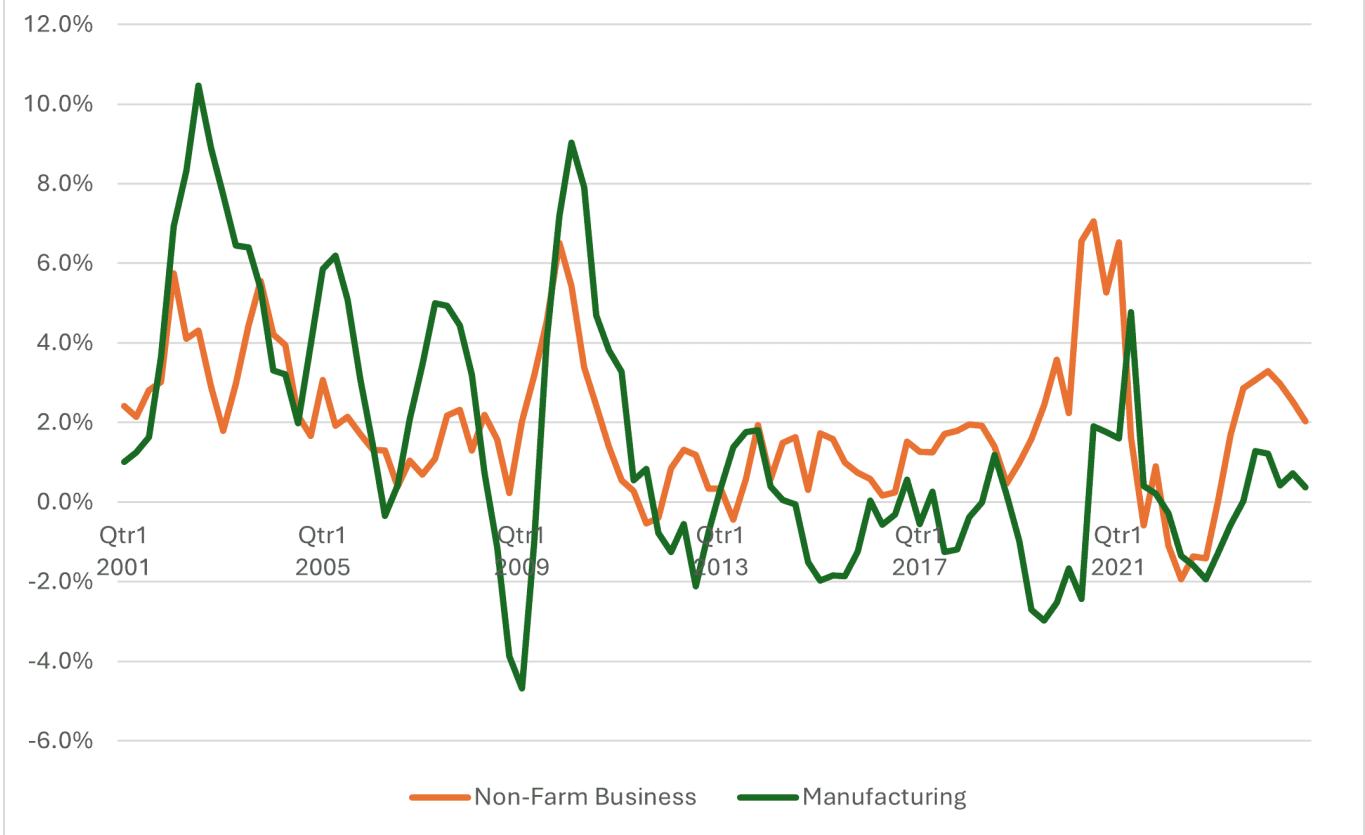
The array of tariffs imposed by President Trump - a universal tariff of 10 percent, 145 percent on China, 25 percent on Canada and Mexico, and 25 percent on steel, aluminum, and autos - as well as proposals for even more, represents a sharply negative supply shock. Other things being the same, this will raise costs, place upward pressure on prices, and reduce the amount of production in the economy.

One way to offset such an economic setback is through a supply-side positive shock like better productivity growth. The graph below shows a measure of labor productivity growth for non-farm businesses and manufacturers in the 20th century. There are roughly two eras: prior to the financial crisis and Great Recession and after. This is reflected in the numbers for productivity growth for President Bush versus his successors. (More on the Trump numbers below.)

	Bush	Obama	Trump	Biden
Non-Farm Business	2.3	1.6	2.9	1.3
Manufacturing	3.5	1.2	-0.3	0.3

This raises the possibility that President Trump could experience a return to Bush-era productivity growth, easing the impact of tariffs.

Labor Productivity Growth (4-quarter moving average)



To think about this, let's look more closely (below) at the post-2009 period. The Trump term average is inflated by the large productivity growth recorded in the recovery from the sharp pandemic recession. Even with this, manufacturing productivity averaged -0.3 percent from 2017-2020.

Manufacturing was just as much a focus between 2017-2020 as it is now. A comparable mix of immigration control, tariffs, control of regulatory costs, and low taxes was central to the policy mix. Despite this, productivity growth remained sluggish at best.

President Trump needs a productivity boost to offset the negative data in the offing. But there is little in the recent record that suggests this is a strong possibility.

Labor Productivity Growth (4-quarter moving average)

