Press Release

What the U.S. Trade Deficit Really Means

ALLIE WATSON | AUGUST 6, 2025

On April 2, President Trump issued an executive order imposing new tariffs under the International Emergency Economic Powers Act (IEEPA), in part to combat what he called a "large and persistent" goods trade deficit which, he argues, harms national security. In a new insight, Director of Competition Policy Fred Ashton, Trade Policy Analyst Jacob Jensen, Malin Moeller, and Claire Chen explain how attempts to narrow or eliminate trade deficits through tariffs could lead to slower global growth, reduced ability to finance the budget deficit, and less foreign investment in the United States.

Key points:

> - *Using the IEEPA, President Trump levied tariffs on trade partners designed to shrink bilateral trade deficits and, by extension, the overall trade deficit by "rebalanc[ing] global trade flows."*
> - *Looking at trade data between January and May of this year, tariffs have not had a significant impact on the overall trade deficit; the trade deficit during this period is just over $600 billion, a 35-percent increase from the same period last year.*
> - *In fact, targeting bilateral trade deficits will have little or no impact as it does not address the underlying macroeconomic conditions responsible for trade deficits.*

Read the analysis.