

AMEC Symposium on the Economic Implications of Heightened Uncertainty

An Era of Heightened Policy Uncertainty

Steven J. Davis

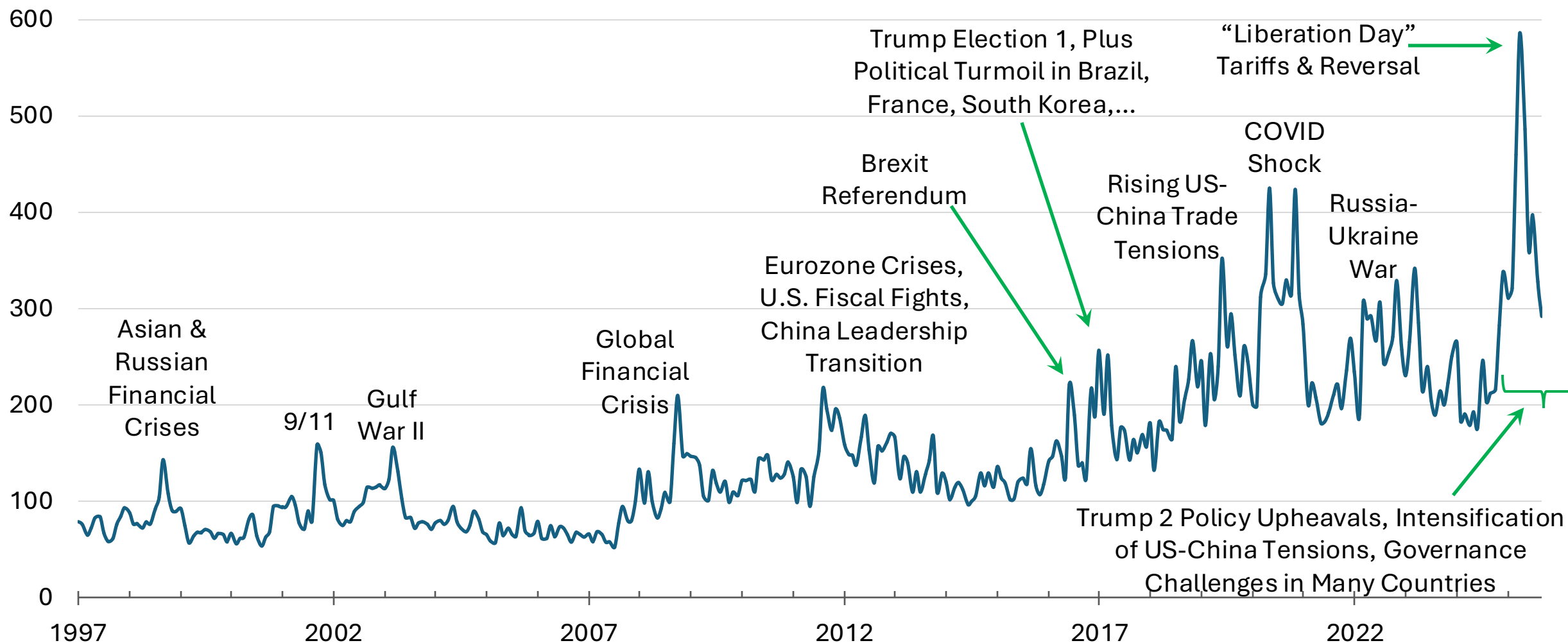
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Federal Reserve Bank of New York

14 November 2025

Global Economic Policy Uncertainty Index, January 1997 to September 2025



Note: The GEPU Index is a GDP-weighted average of monthly EPU index values for 18 countries that account for three-fourths of global output. This index applies PPP-adjusted GDP but using current market exchange rates yields a similar GEPU series. Each national EPU index reflects scaled monthly counts of own-country newspaper articles that contain at least one word from three term sets: economic/economy (E), uncertain/uncertainty (U), and policy-related terms (P). Each national EPU Index is normalized to a mean of 100 from 1997 to 2015 before calculating the Global EPU Index.

Source: “An Index of Global Economic Policy Uncertainty” by Steven J. Davis (2016), as updated at <https://www.policyuncertainty.com>.

Recent Drivers of Policy Uncertainty

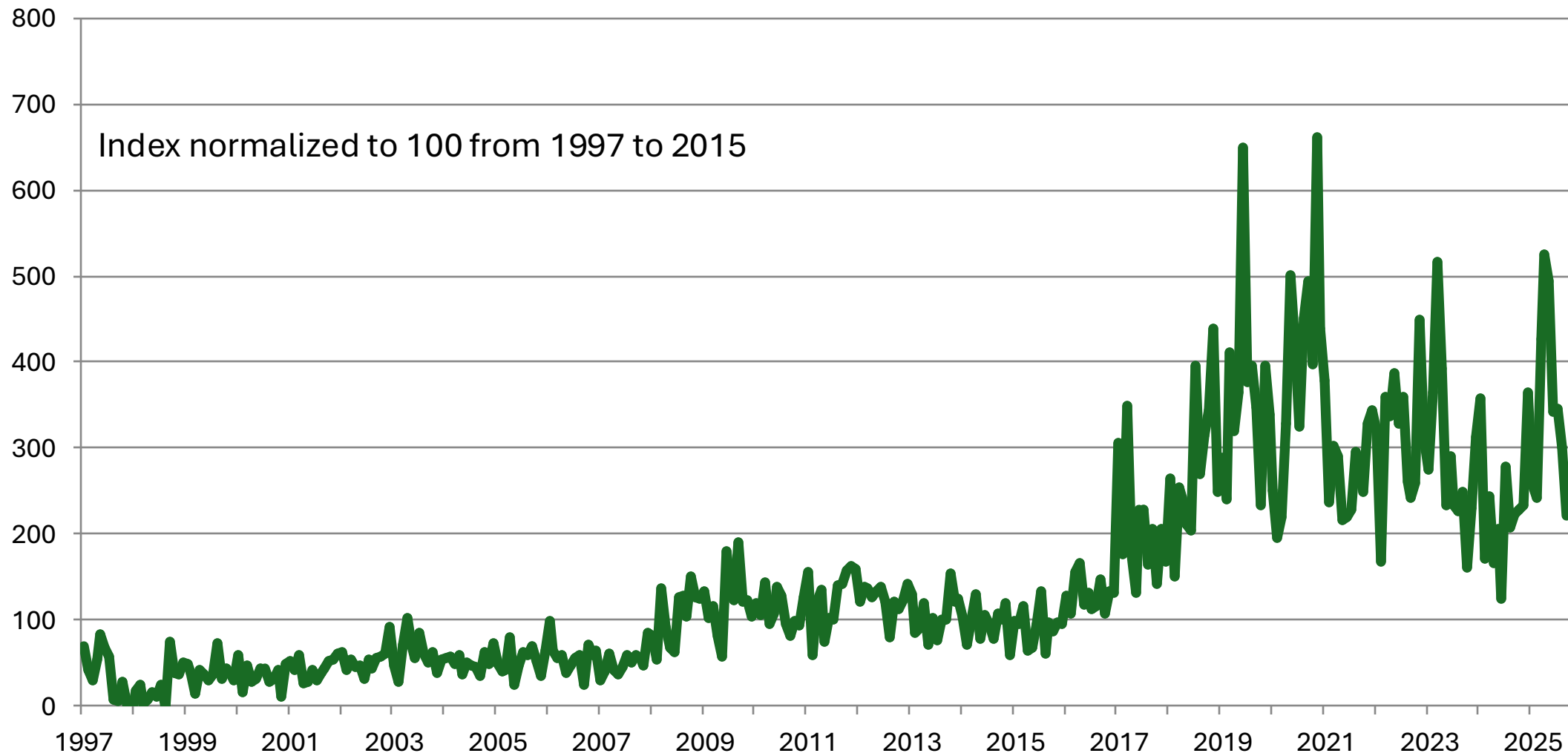
1. Russian imperialism and the return of hot war in Europe
2. China's aggression over Taiwan and the South China Sea
3. U.S. trade policy rupture under Trump 2
4. Cracks in the U.S.-led economic & security commons
5. Polarization and governance challenges in many countries
6. Unsustainable fiscal trajectories in many countries
7. Concerns about inflation and central bank governance
8. Transnational migration challenges

Are major systemic financial risks also on the horizon?

A (Sobering) Summary Assessment

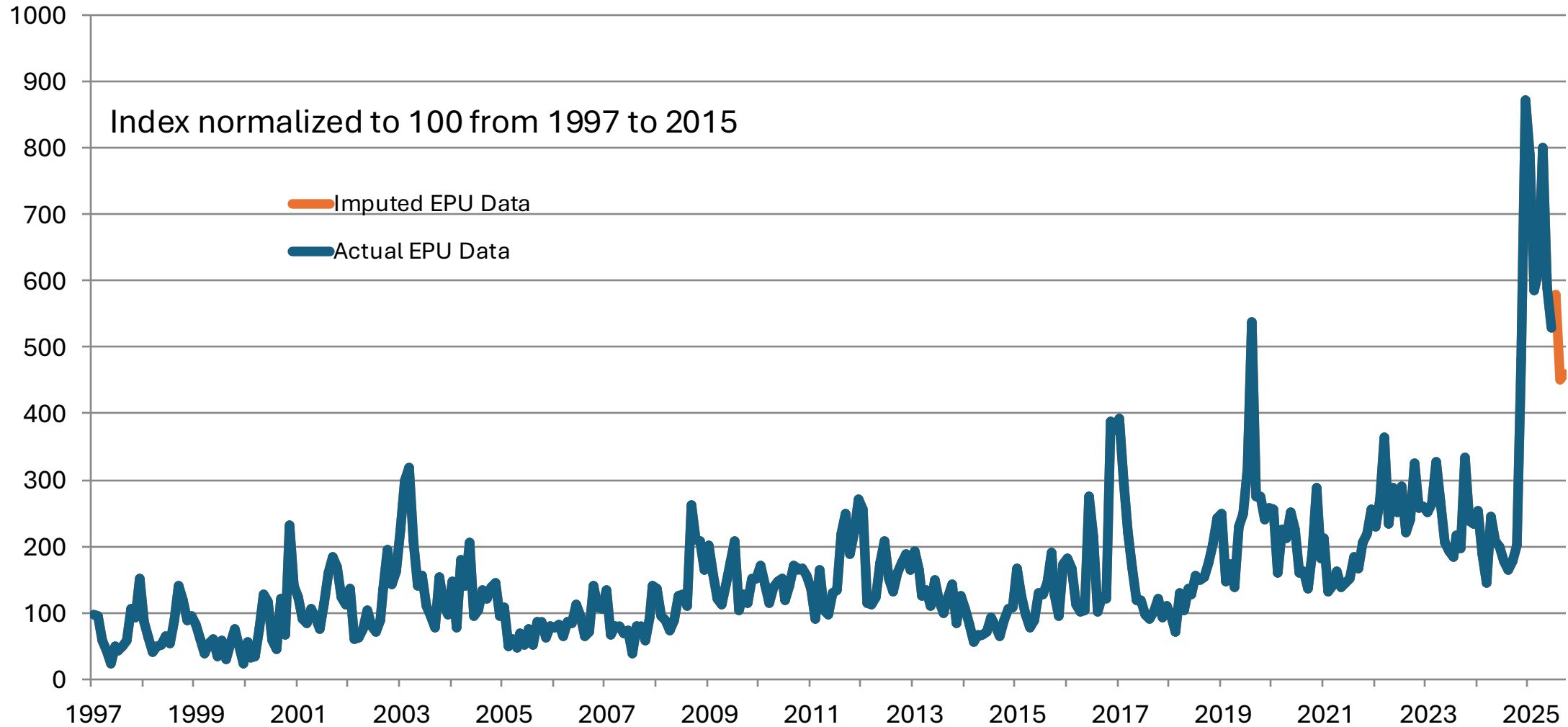
1. Heightened policy uncertainty springs from many sources.
2. It holds across many of the world's leading economies.
3. It holds across several major policy categories.
4. Key drivers are likely to persist for years or decades.
5. Some key drivers are intrinsically hard to reverse:
 - Fertility declines, slower population growth, entrenched social spending & pressures to rearm all intensify fiscal challenges.
 - A world with three nuclear superpowers rather than two
 - Social media and disinformation technologies, as contributors to polarization and governance challenges

China Monthly EPU Index, January 1997 to September 2025



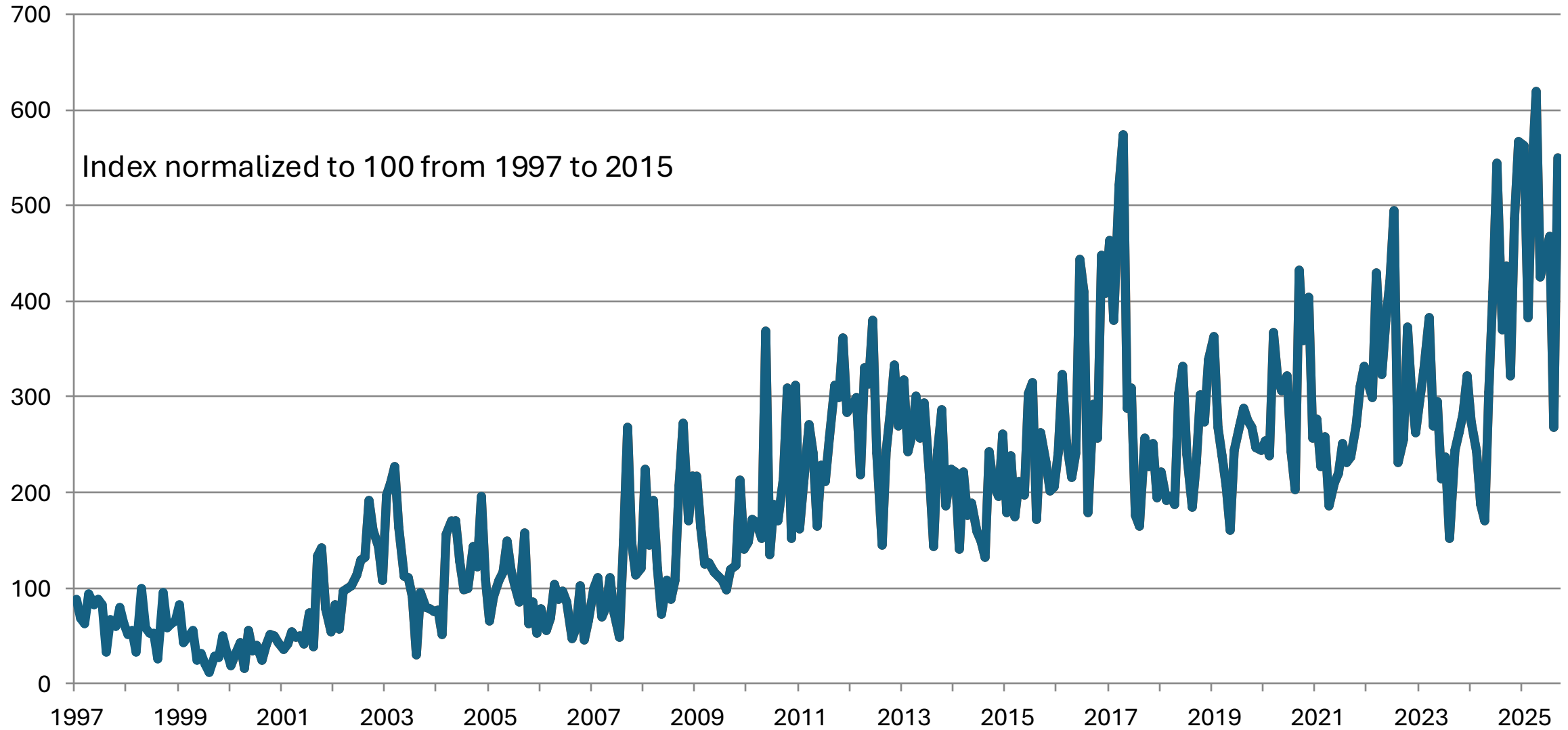
Source: Davis, Liu, and Sheng (2019), as updated at <https://www.policyuncertainty.com>.

South Korea Monthly EPU Index, January 1997 to September 2025



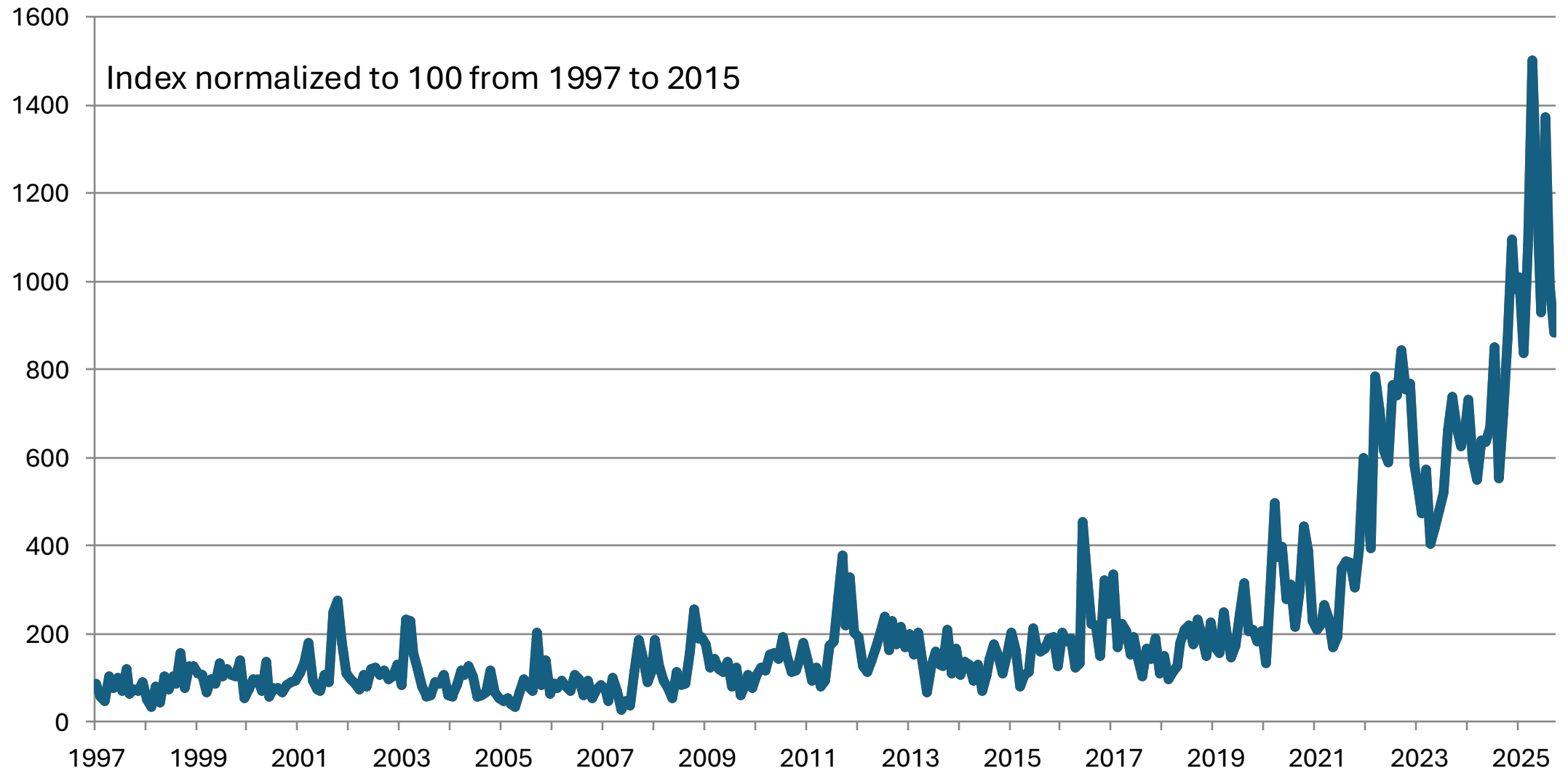
Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

France Monthly EPU Index, January 1997 to September 2025



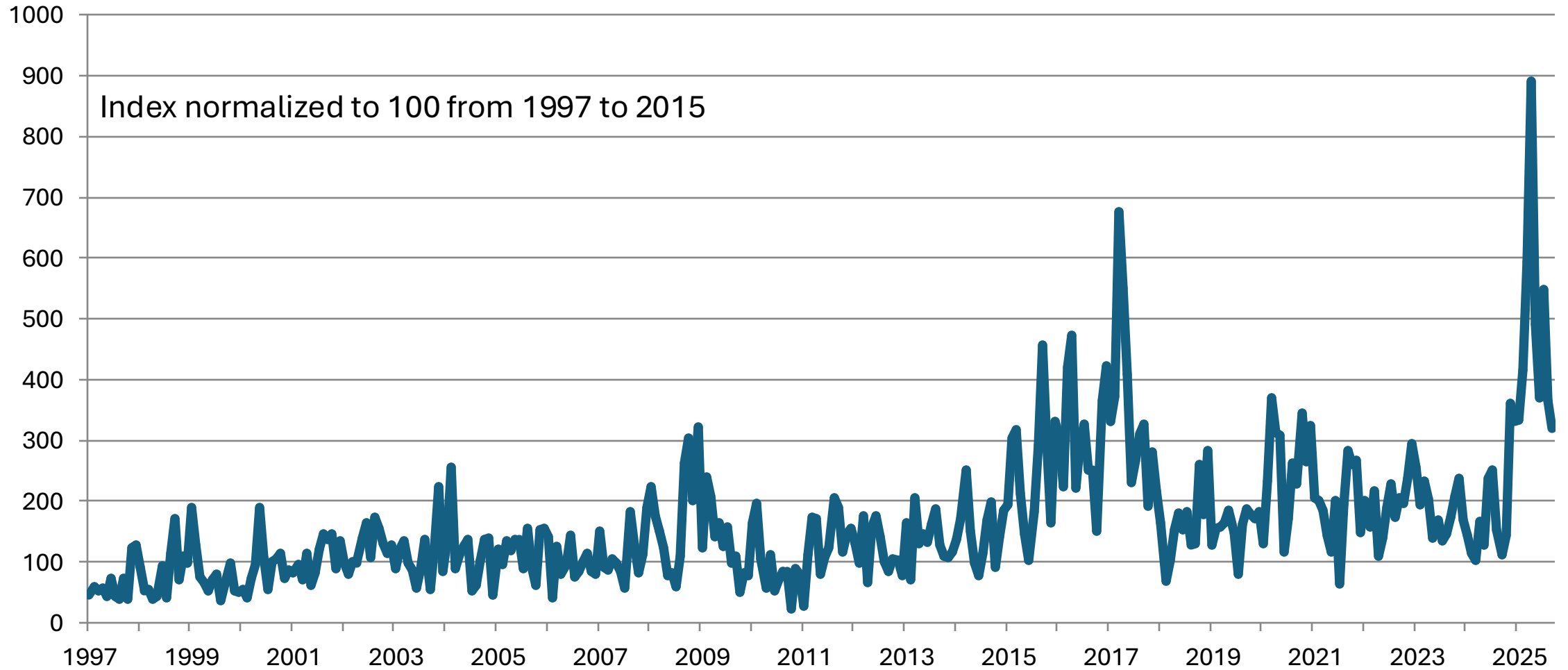
Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

Germany Monthly EPU Index, January 1997 to September 2025



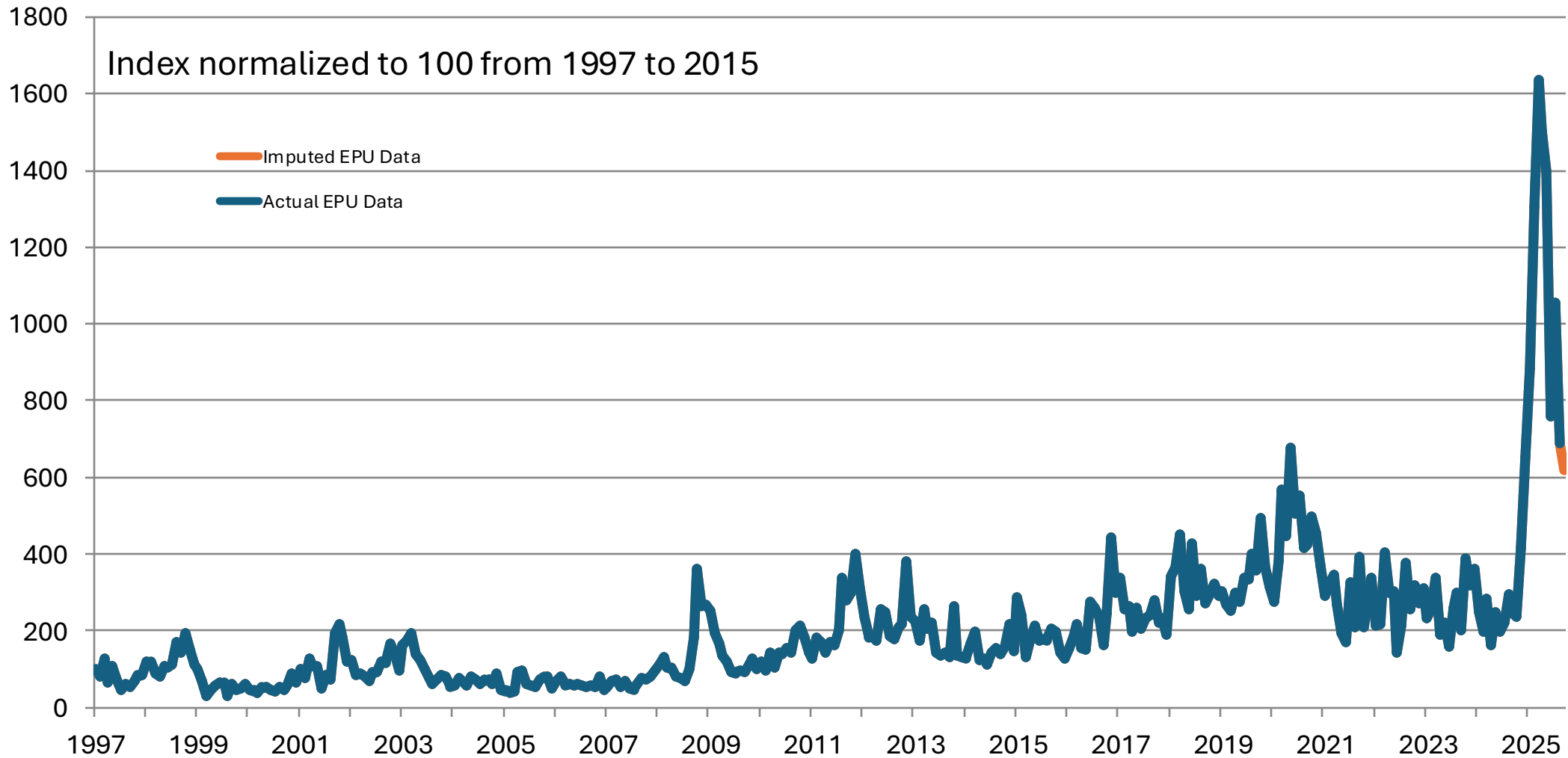
Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

Brazil Monthly EPU Index, January 1997 to September 2025



Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

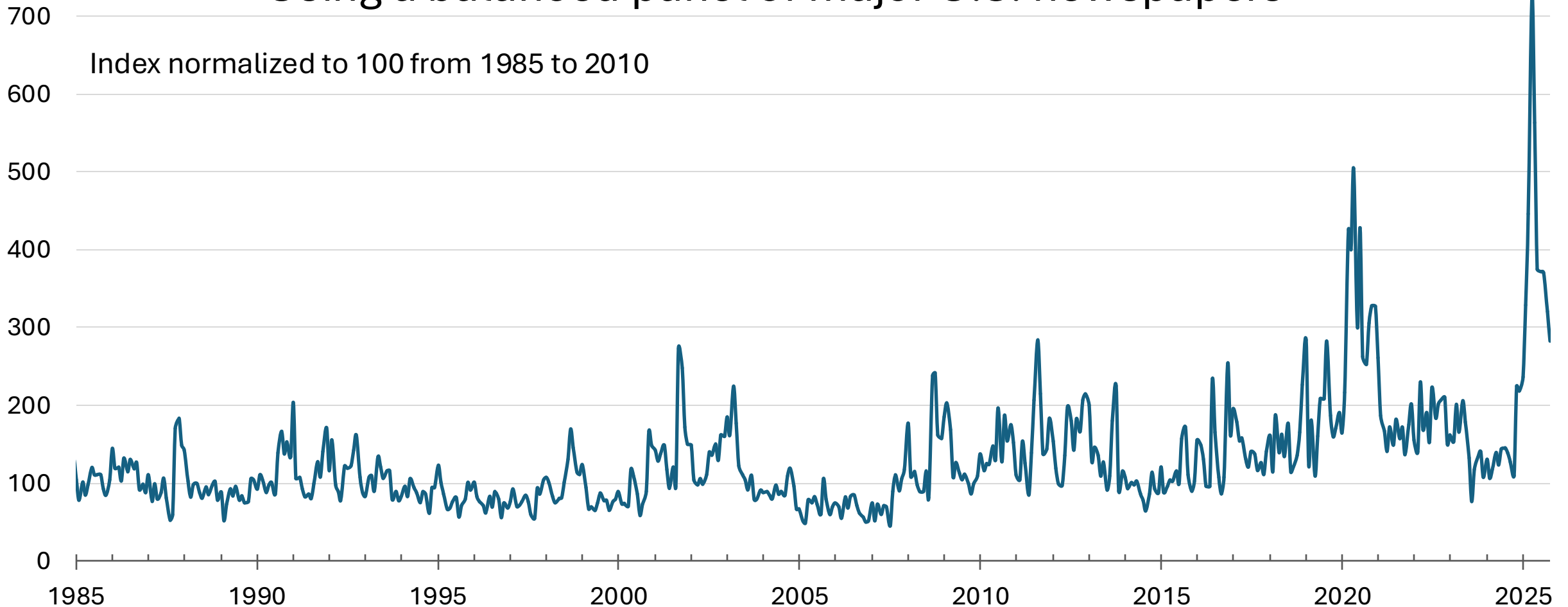
Canada Monthly EPU Index, January 1997 to September 2025



Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

U.S. Economic Policy Uncertainty Index, January 1985 to October 2025

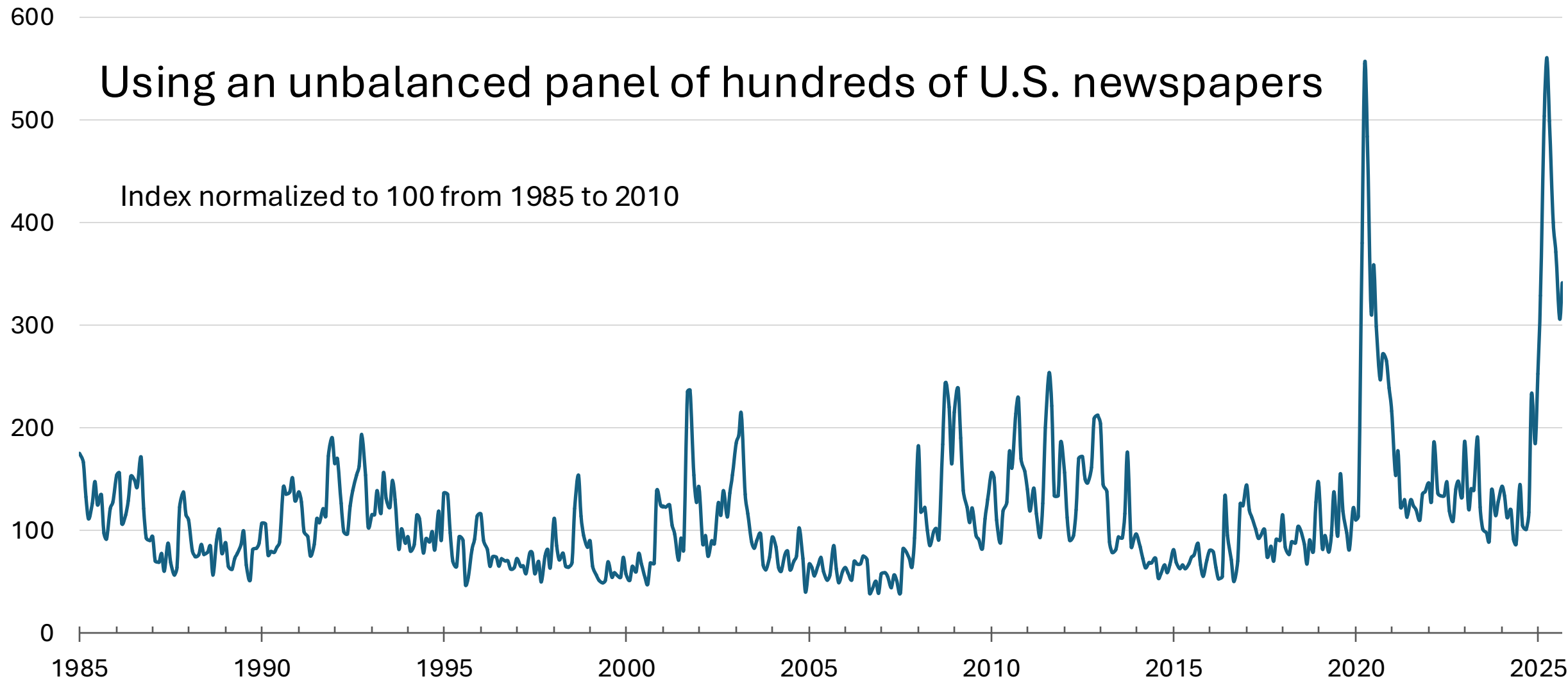
Using a balanced panel of major U.S. newspapers



Note: The US EPU index reflects scaled monthly counts of articles from 10 major US newspapers that contain at least one word from three term sets: economic/economy (E), uncertain/uncertainty (U), and policy-related terms (P) such as legislation, deficit, regulation, Congress, Federal Reserve, White House. The series is normalized a mean value of 100 from 1985 to 2010.

Source: “Measuring Economic Policy Uncertainty,” by Scott R. Baker, Nick Bloom and Steven J. Davis (*Quarterly Journal of Economics*, 2016), as updated at <https://www.policyuncertainty.com>.

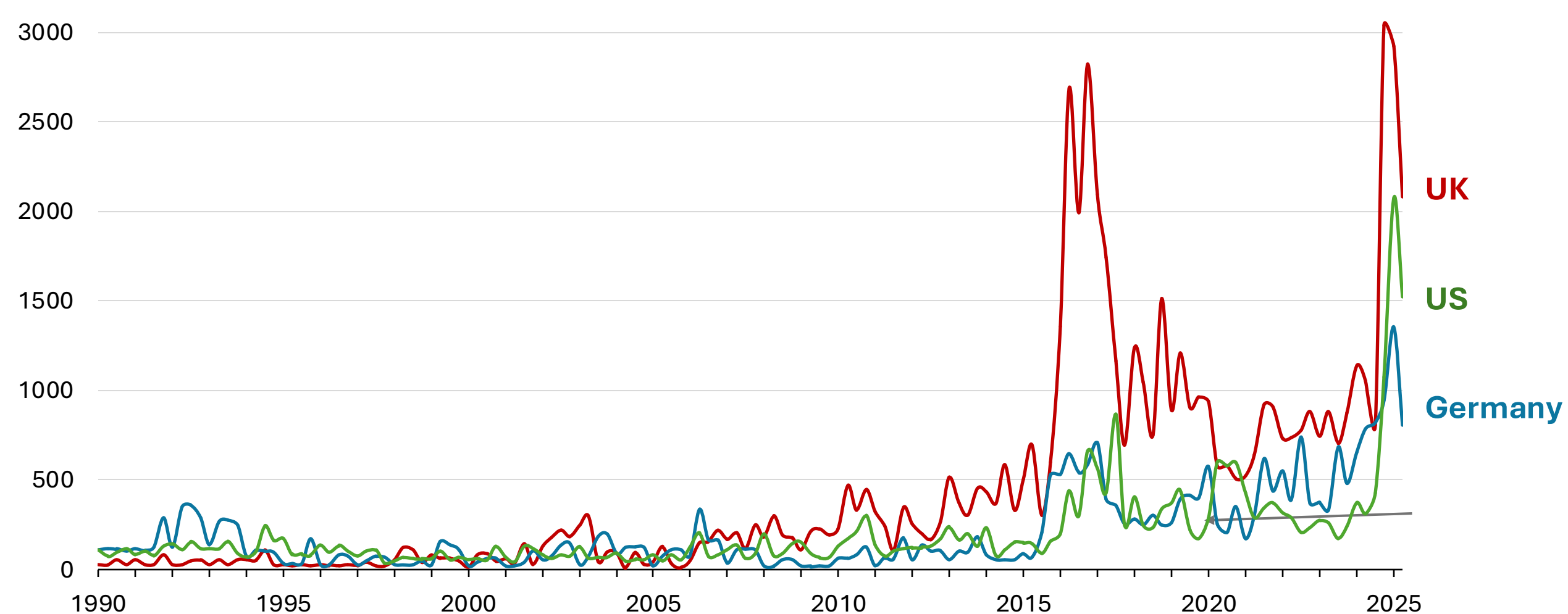
U.S. *Daily News-Based* Economic Policy Uncertainty Index, January 1985 to October 2025



Note: The US EPU index is calculated as monthly average of daily EPU index from over 2000 US newspaper archives in Access World News database. The daily EPU index reflects scaled daily counts of articles that contain at least one word from three term sets: economic/economy (E), uncertain/uncertainty (U), and policy-related terms (P) such as legislation, deficit, regulation, Congress, Federal Reserve, White House.

Source: “Measuring Economic Policy Uncertainty” by Scott R. Baker, Nick Bloom and Steven J. Davis (*Quarterly Journal of Economics*, 2016), as updated at <https://policyuncertainty.com>.

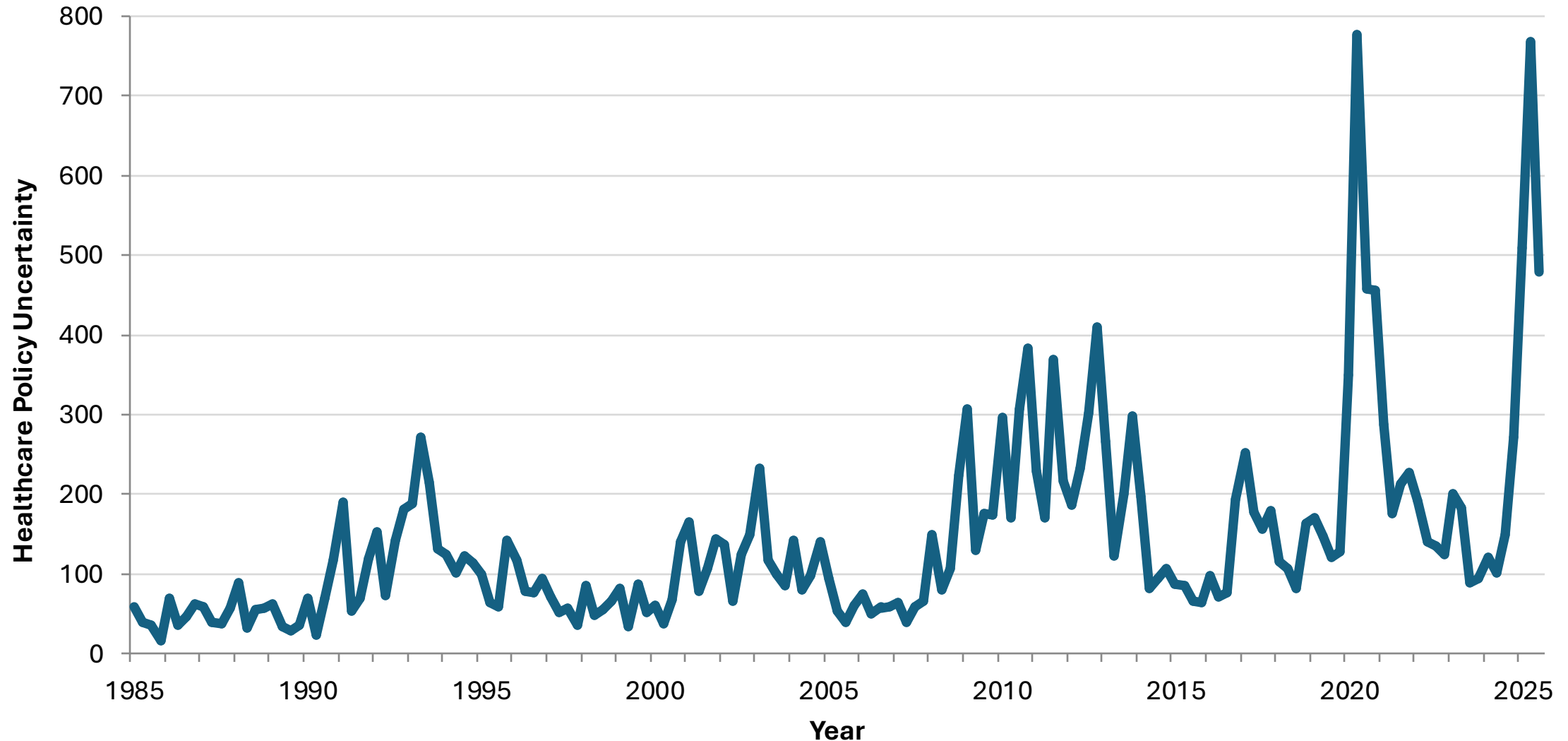
Migration Policy Uncertainty Indexes by Countries: US, UK and Germany, Q1 1990 to Q2 2025



Note: The Migration Policy Uncertainty Index reflects scaled quarterly share of newspaper articles with at least one term from each of terms related to economic policy uncertainty and migration matters, as indicated by terms like “border control,” “open borders,” “asylum,” “immigrant,” and “refugee” in France, Germany, the United Kingdom and the United States. See [CEPR VOX](https://cepr.vox.com/) for more details about their term sets and index construction. Each national index series is normalized a mean value of 100 from 1995 to 2011.

Source: “Immigration Fears and Policy Uncertainty,” by Scott R. Baker, Nicholas Bloom and Steven J. Davis (*VoxEU*, 2015), as updated at ¹³
<https://www.policyuncertainty.com>.

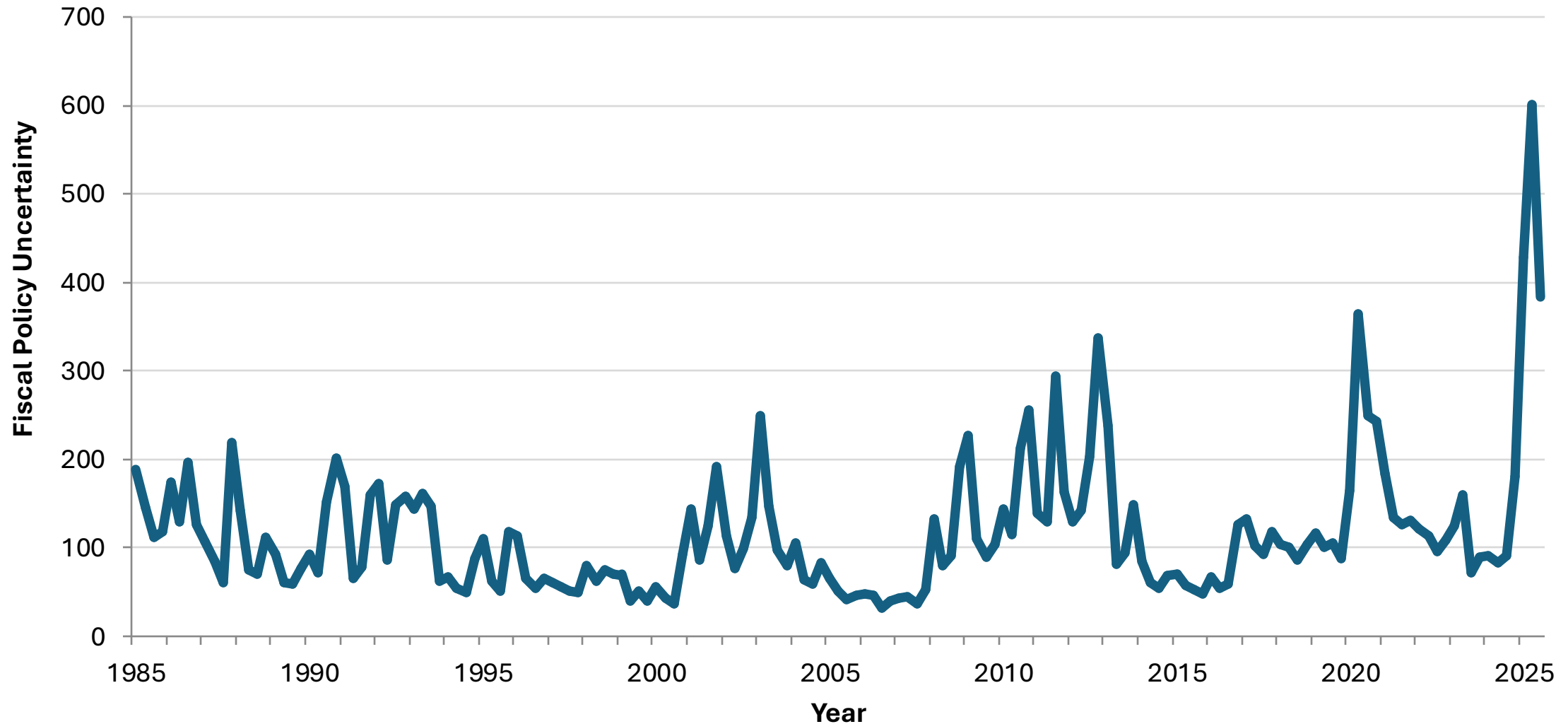
U.S. Healthcare Policy Uncertainty Index, 1985 to 2025 Q3, Quarterly



Notes: The index reflects the frequency of newspaper articles about economic policy uncertainty *and* healthcare policy matters, as indicated by terms like "healthcare," "hospital," "health insurance," and "Medicare." Index normalized to a mean of 100 from 1985 to 2009.

Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

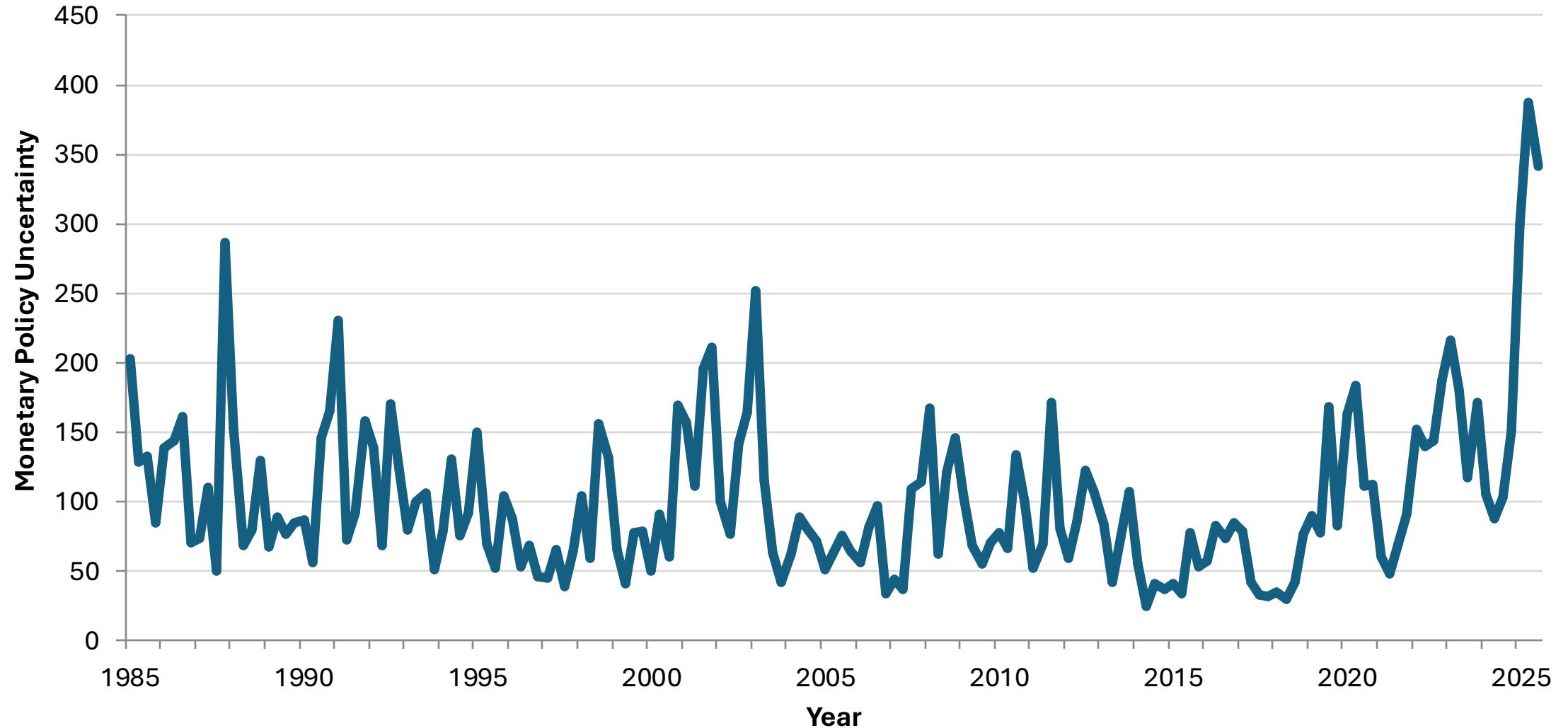
U.S. Fiscal Policy Uncertainty Index, 1985 to 2025 Q3, Quarterly



Notes: The index reflects the frequency of newspaper articles about economic policy uncertainty *and* fiscal policy, as indicated by terms like "fiscal footing", balanced budget", and "Gramm-Rudman." Normalized to a mean of 100 from 1985 to 2009.

Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

U.S. Monetary Policy Uncertainty Index, 1985 to 2025 Q3, Quarterly



Notes: The index reflects the frequency of newspaper articles about economic policy uncertainty *and* monetary policy, as indicated by terms like "the Fed," "central bank" and "inflation." Normalized to a mean of 100 from 1985 to 2009.

Source: Baker, Bloom and Davis (2016), as updated at <https://www.policyuncertainty.com>.

The Trade Policy Rupture

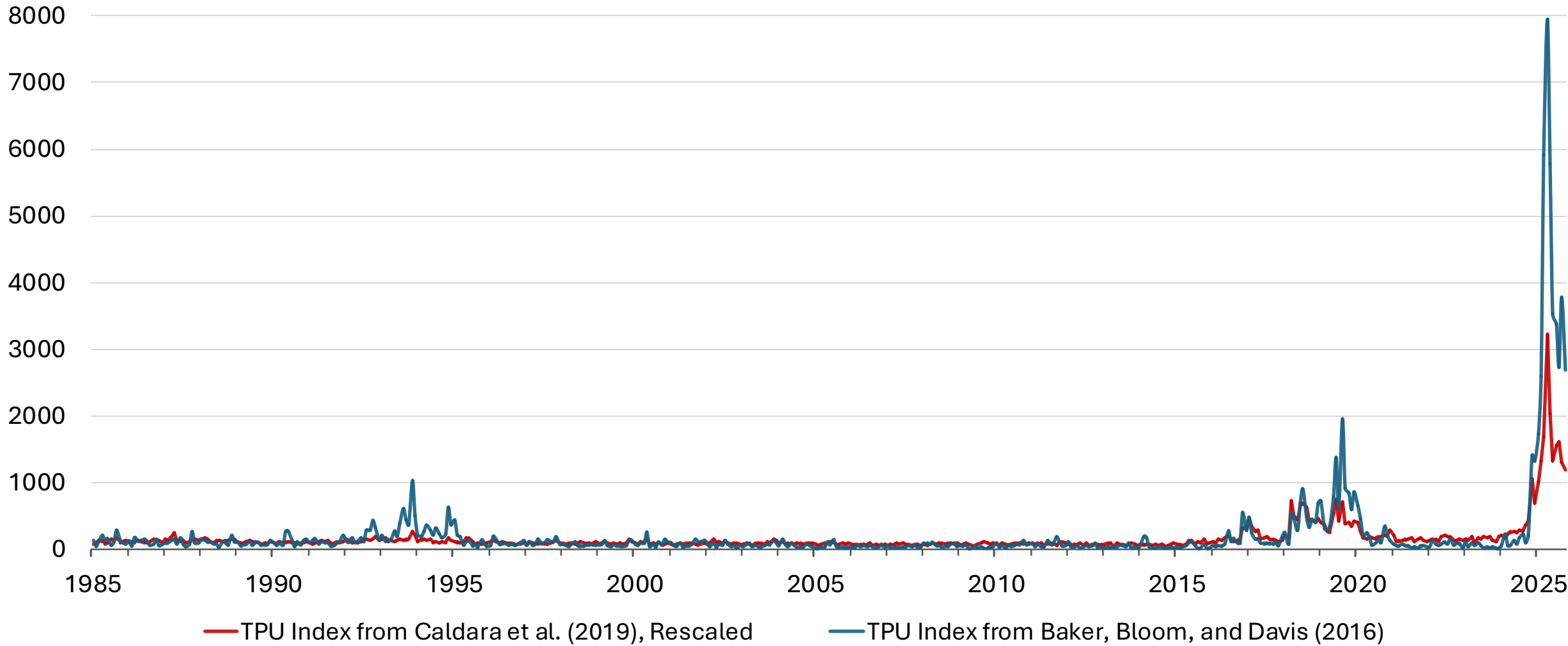
Since February 2025, President Trump has instigated a dizzying array of tariff hikes, threats, reversals, exemptions, export controls, deadlines, concessions, retaliations, vague deals, and promises of deals to come.

The result is a rupture in the international trading order that, despite many flaws, had fostered prosperity and security for more than eighty years.

Noteworthy Aspects of the Rupture

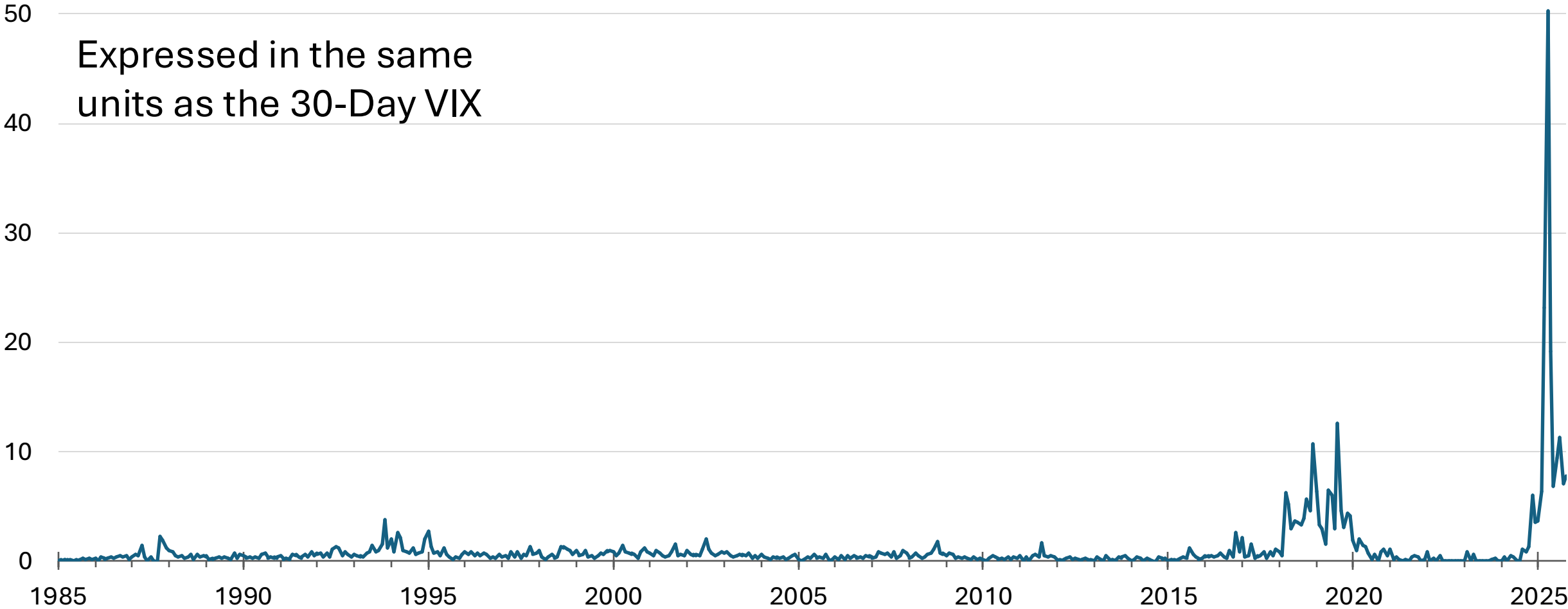
1. Much higher tariffs on U.S. imports.
2. Rejection of the MFN principle, which calls (roughly) for each country to apply the same tariffs to all its trading partners.
3. Retaliation by some U.S. trading partners, mainly China.
4. Much greater uncertainty about future tariffs and, increasingly, about access to critical inputs from abroad.
5. A brazen assertion of sweeping presidential powers in setting tariffs and other trade policy instruments.
6. Disregard of U.S. commitments in its prior trade agreements.
7. A highly personalized, transactional approach to trade policy characterized by overt displays of obeisance to the president as part of the price for tariff relief, export licenses, and trade deals.

U.S. Trade Policy Uncertainty Indexes, January 1985 to October 2025, Monthly



Note: The blue line shows the newspaper-based Trade Policy Uncertainty index developed by Baker, Bloom, and Davis in “Measuring Economic Policy Uncertainty” (*Quarterly Journal of Economics*, 2016), and the red line shows the newspaper-based Trade Policy Index developed by Caldara et al. in “The Economic Effects of Trade Policy Uncertainty” (*Journal of Monetary Economics*, 2019). The latter index is rescaled to have the same mean value as the former from January 1985 to December 2022. Updates at www.policyuncertainty.com

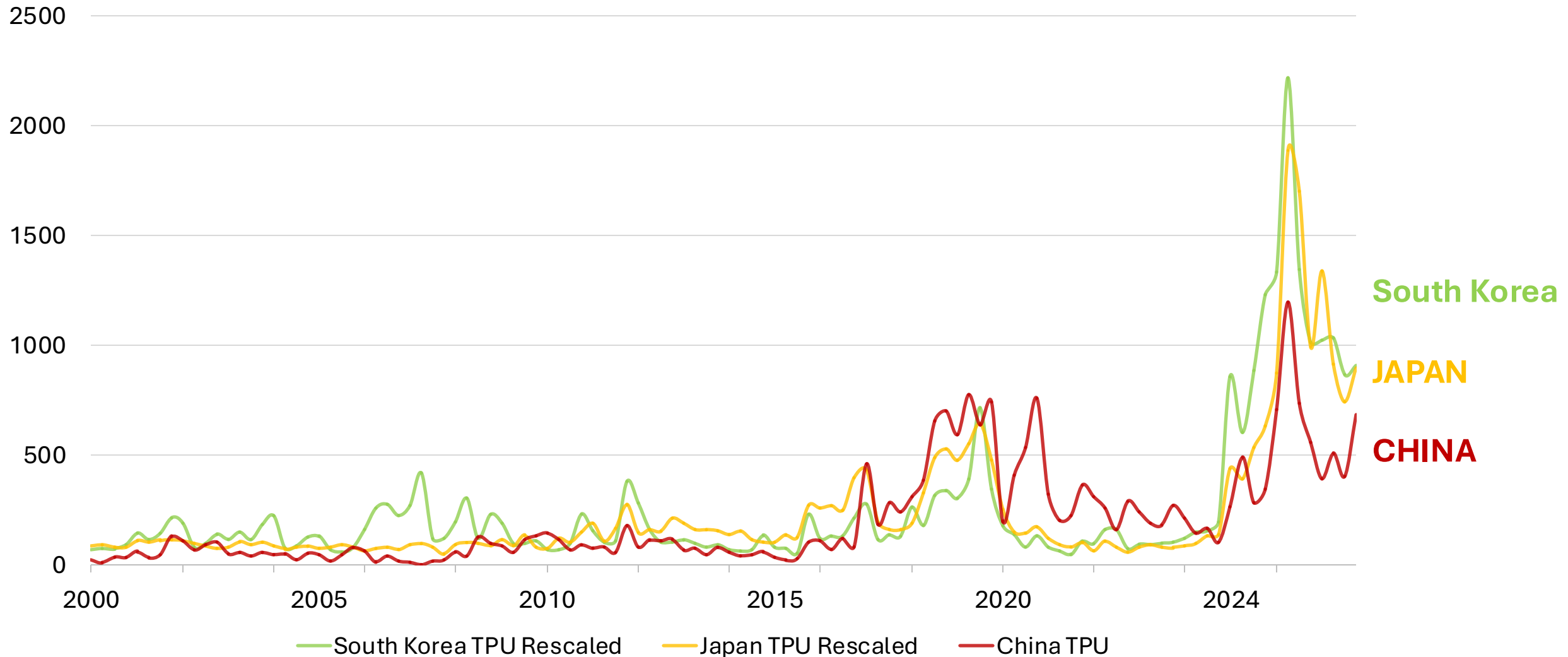
U.S. Equity Market Volatility Tracker for Trade Policy, January 1985 to October 2025



Note: The Trade Policy EMV tracker is the product of the overall EMV tracker and the share of EMV articles that contain one or more terms related to trade policy from 11 major US newspapers. The overall EMV tracker reflects scaled monthly counts of articles that contain at least one word in each of three term sets: economic/economy (E), stock market/S&P/equity (M) and volatility/uncertainty/risk (V), which is then normalized the mean value of CBOE Volatility Index from 1985 to 2015.

Source: “Policy News and Stock Market Volatility,” by Scott Baker, Nicholas Bloom, Steven J. Davis and Kyle Kost (*Journal of Financial Economics*, 2026), as updated at <https://www.policyuncertainty.com>.

Trade Policy Uncertainty Indexes for China, Japan and South Korea, Q1 2000 to Q3 2024 & October 2024 to October 2025



Note: The green line indicates the newspaper-based Trade Policy Uncertainty (TPU) index for South Korea, developed by Cho and Kim (*J. of Asian Economics*, 2023). The yellow line shows the TPU index for Japan, developed by Arbatli et al. (*J. of the Japanese and International Economies*, 2022). The red line illustrates the TPU index for China, developed by Davis et al. (2019). The monthly TPU series for the Japan and South Korea are multiplicatively rescaled to match the same mean value as the China TPU series from January 2000 to December 2022.

Uncertainty around Tariffs ...

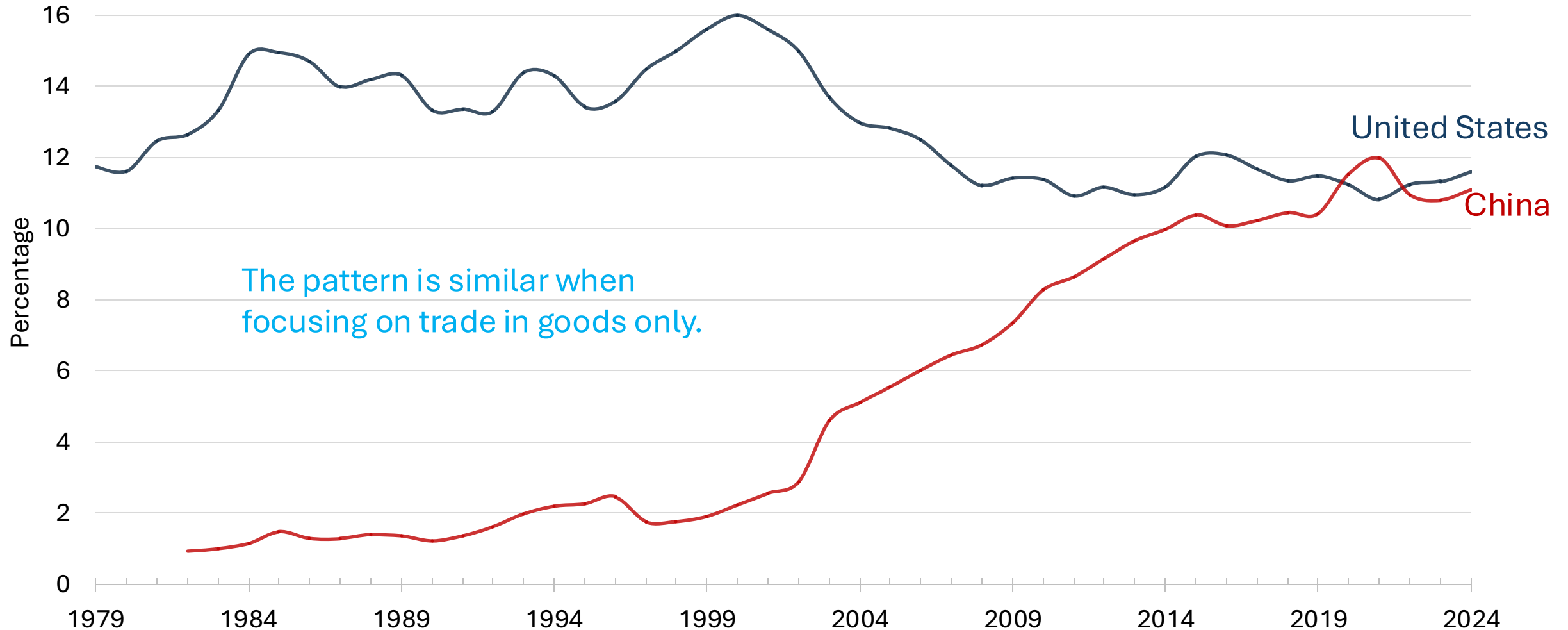
- Makes consumers anxious and fearful, leading to cutbacks in their discretionary spending.
- Causes companies to cut or defer investment spending, as they wait for clarity. As a business executive, you can't make sound decisions about what to produce, how to source inputs or where to invest when tariffs are subject to drastic changes at the president's whim. So, you wait.
- The resulting drag on consumer spending and business investment translates into less demand for labor and fewer job opportunities for American workers.
- Nearly a third of U.S. [business executives report](#) employing or planning to employ fewer workers in 2025 due to policy uncertainty. They also report that tariffs are currently the largest source of uncertainty affecting their employment decisions.

- Now, and for the foreseeable future, business leaders must make it a priority to grapple with the huge uncertainties around U.S. trade policy and to lobby the Trump administration for tariff breaks.
- That diverts their time and energy from serving customers, developing products, training workers, and improving operations.
- The now inescapable need to grapple with uncertainty about tariffs – amplified by the chaotic, back-and-forth character of Trumpian trade policy – extends to business leaders throughout the U.S. economy and much of the world. Business executives have 24 hours in a day and limited energy, just like anybody else. More time, attention and skilled staff devoted to tariff uncertainty and its consequences mean less for everything else.

Effects on Other Countries

- U.S. tariff hikes and trade policy uncertainty also dampen economic activity in other countries.
- Trade policy uncertainty indexes for China, Japan, and South Korea, for example, also show historically high levels in 2025. The timing makes clear that high trade policy uncertainty in other countries reflects the recent rupture in U.S. trade policy.
- The growth-dampening effects of elevated uncertainty in other countries spills back onto the U.S. economy in the form of lower demand for American exports.

U.S. and China's Share of Global Trade in Goods and Services: 1979 – 2024



Sources: World Bank, *World Development Indicators*. Imports of goods and services, data.worldbank.org/indicator/BM.GSR.GNFS.CD; Exports of goods and services data.worldbank.org/indicator/BX.GSR.GNFS.CD.

Note: The trade share is calculated as the sum of each country's imports and exports of goods and services (BoP, current US\$), divided by the corresponding world total. Values are expressed as percentages.

Smartphones as Example and Metaphor: International Specialization, ...

The iPhone contains thousands of parts sourced from dozens of countries that include China, Japan, South Korea, Switzerland, Taiwan and the United States. iPhone assembly takes place mainly in China, but India accounts for a sizable share. Apple phones are designed in the United States, while iPhone apps are developed by software engineers around the world. Tariffs inhibit this type of international specialization, raising production costs.

According to one analyst, U.S.-made iPhones would cost more than three times as much as current models. And that's after years of investment in costly U.S. fabrication plants.

At such high prices, fewer iPhones would be made and sold. The same holds for other smartphones.



... Scale Economies, and Innovation

Smartphone technologies and features are often costly to develop but cheap to reproduce once in hand.

Global markets provide the scale to cover up-front costs and the commercial incentives to drive smartphone innovation.

Trade barriers diminish those incentives by shrinking smartphone markets and by fracturing global markets into national or regional markets.

Your smartphone would be less powerful – and have fewer features of lower quality – if past U.S. policymakers had adopted tariffs like the ones the Trump administration now promulgates.

Tariffs and Trade Policy Uncertainty as Growth Headwinds

- The 2025 tariff hikes, and the threat of more to come, won't destroy the smartphone technologies that emerged during the low-tariff regime of recent decades. They will lead to higher prices for their physical embodiment in smartphones.
- More important when looking ahead, they will slow the future development of new smartphone technologies and features.
- Similar reasoning holds for other products and technologies that involve gains from international specialization and high development costs.
- That includes automobiles, computers, aircraft, heavy machinery and many other products in the modern economy. Higher tariffs will lead to higher costs and weaker innovation incentives for these products as well. For this reason, among others, higher tariffs and trade policy uncertainties are forces for slower growth in the years ahead.

Tariffs and Trade Policy Uncertainty Undermine International Specialization and Scale Economies

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Looking Ahead

- It will take many years, much work, and internal U.S. reforms to restore the trust and confidence destroyed by the Trumpian approach to trade policy. A Supreme Court judgment for the plaintiffs in the IEEPA matter would be a good place to start.
- The President has many other (less-expansive) tariff authorities that he may also push to the limit and beyond if the government loses the IEEPA case.
- U.S.-China tensions are likely to endure.
- Whether, and to what extent, the Trumpian approach becomes a permanent feature of U.S. trade policy remains to be seen. That is a hugely consequential matter for the global economy and the extent of uncertainty in the policy environment.