Our View: The US Dry Hole

A Nation Not Safe for Investment

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An unnamed commentator once advised against putting money into Russian ventures, explaining, "If you invest in Russia your projects will yield neither a return on the funds expended nor a return of investment." In the parlance of the oil industry, Russia was a dry hole.[1]

Today, that advice applies to firms investing in the United States. The Danish firm Orsted, which builds wind farms, is one company that has learned the harsh lesson. A Trump decision announced on August 22 and reported by *The New York Times* emphasized the danger of investing here:

> The Trump administration on Friday ordered that all construction stop on Revolution Wind, a $4 billion wind farm off the coast of Rhode Island that is already mostly built.
>
> The 65-turbine project had obtained all necessary permits from the Biden administration, and nearly 70 percent of the turbines have been installed. The developers behind the project had said it was on track to produce enough electricity for more than 350,000 homes in Rhode Island and Connecticut by next spring.[2]

Well-established US firms are learning this lesson as well. The administration's trade policy, ostensibly intended to boost US manufacturing, has left US automakers out in the cold. While Japanese car manufacturers enjoy relatively low tariffs, US firms with integrated operations in Mexico and Canada are being punished heavily on parts or finished products they import. These firms also confront much higher steel costs thanks to the Trump levies on steel and aluminum imports, which force them to raise prices and leave them less, not more, competitive with their Japanese competitors. GM for one expects the tariff impact to exceed $4 billion.[3] This economic drag will continue beyond 2026 under the current system.

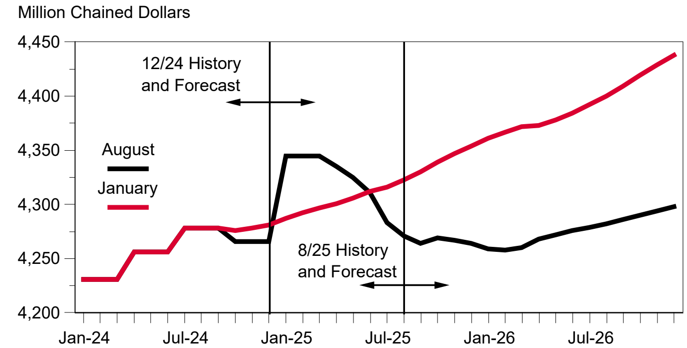
Foreign computer chip manufacturers face a similar dilemma given the 100% tariff imposed on their products. While firms that have promised to build plants here have been exempted, the others confront a harsh economic constraint **unless they give the United States shares in their businesses**:

> The Trump administration is considering taking equity stakes in companies receiving funds from the 2022 Chips Act but has no plans to seek shares in bigger semiconductor firms that are increasing their U.S. investments, according to a government official.

The paragraph above opened an August 21 *Wall Street Journal* article that made this observation: "The approach is the latest from the administration rewarding or punishing tech companies based on their U.S. investments. President Trump recently said he would exempt companies spending more in the U.S. from roughly 100% tariffs on chip imports."[4]

The clear impact of these actions will be reduced investment that decreases GDP for years to come, an impact that is already appearing in forecasts. Figure 1 compares a projection of US private investment prepared in January to the most recent estimate. (S&P Global prepares these estimates for the US Energy Information Administration.) The decline speaks for itself.

Figure 1
US Private Investment History and Forecast: S&P Global January 2025 Report vs. August 2025 Report



Note: August 2025 history reflects revisions to prior data.
S&P Global (see text).

The dismissal of the director of the Bureau of Labor Statistics, as well as attacks on the Federal Reserve, make the United States an even less attractive country for investment. *New York Times* writers Ben Casselman and Colby Smith recently quoted Daron Acemoglu, a Nobel-winning economist, on how the US has benefitted from being a "safe investment haven" since World War II:

> The United States rebounded from the pandemic-induced recession of 2020, and the inflation crisis that followed, much more quickly than most European nations or other similarly advanced economies, Mr. Acemoglu noted. The same was true after the global financial crisis of 2008.
>
> In both cases, he said, the strong recovery was partly the result of the U.S. economy's reputation as a safe haven, attracting investors willing to lend the federal government money, in the form of Treasury bonds, at low interest rates. That willingness depends on confidence in the long-term reliability of the federal government and its institutions.[5]

Donald Trump is quickly eroding these benefits. The consequence will be lower growth. A study by three economists—Manuel Funke, Moritz Schularick, and Christoph Trebesch—on the impact of populism (which seems to be sweeping the US) on economic growth portrayed today's situation this way:

> Populism at the country level is at an all-time high, with more than 25 percent of nations currently governed by populists. How do economies perform under populist leaders? We build a new long-run cross-country database to study the macroeconomic history of populism. We identify 51 populist presidents and prime ministers from 1900 to 2020 and show that the economic cost of populism is high. After 15 years, GDP per capita is 10 percent lower compared to a plausible nonpopulist counterfactual. Economic disintegration, decreasing macroeconomic stability, and the erosion of institutions typically go hand in hand with populist rule.[6]

Recently, the US Justice Department warned an appellate court that its decision to overturn the Trump tariffs could lead to an economic depression:

> There is no substitute for the tariffs and deals that President Trump has made. One year ago, the United States was a dead country, and now, because of the trillions of dollars being paid by countries that have so badly abused us, America is a strong, financially viable, and respected country again. If the United States were forced to pay back the trillions of dollars committed to us, America could go from strength to failure the moment such an incorrect decision took effect.
>
> These deals for trillions of dollars have been reached, and other countries have committed to pay massive sums of money. If the United States were forced to unwind these historic agreements, the President believes that a forced dissolution of the agreements could lead to a 1929-style result. In such a scenario, people would be forced from their homes, millions of jobs would be eliminated, hard-working Americans would lose their savings, and even Social Security and Medicare could be threatened. In short, the economic consequences would be ruinous, instead of unprecedented success. [7]

These comments are ridiculous. The so-called investment commitments made by foreign countries are vacuous. No money will ever flow unless those governments transfer the funds. Foreign companies are quickly learning that the United States is no longer a haven.

Unfortunately, the destruction of the US economy will make most investments in fossil energy made after today "dry holes" regardless of their location. Funds spent on oil wells, natural gas or coal-fired electricity plants, pipelines, or other projects will not generate a return on capital or a return of capital.

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[1] A dry hole, just to be clear, is a well drilled at significant expense that produces no oil or gas.

[2] Lisa Friedman, Brad Plummer, and Maxine Joselow, "Trump Administration Orders Work Halted on Wind Farm That Is Nearly Built," *The New York Times*, August 22, 2025 [https://tinyurl.com/nhdtbp7j].

[3] Nora Eckert and Nathan Gomes, "Trump tariffs take $1-billion bite out of GM earnings, shares fall," Reuters, July 22, 2025 [https://tinyurl.com/muujhmz].

[4] Robbie Whelan, Yang Jie, and Amrith Ramkumar, "How Trump Will Decide Which Chips Act Companies Must Give Up Equity," *The Wall Street Journal*, August 21, 2025 [https://tinyurl.com/y6ddyda3].

[5] Ben Casselman and Colby Smith, "Trump's Attacks on Institutions Threaten a Bulwark of Economic Strength," *The New York Times*, August 22, 2025 [https://tinyurl.com/mutbuh6].

[6] Manuel Funke, Moritz Schularick, and Christoph Trebesch, "Populist Leaders and the Economy," *American Economic Review* 113, No. 12 (Dec*ember 2023) [https://tinyurl.com/4hnrfmze].*

[7] "Rule 28(j) Letter in V.O.S. Selections, et al. v. Trump, et al., Nos. 25-1812, 25-1813 – Pertinent and Significant Authority Arising Since Our Briefs Were filed," April 11, 2025 [https://tinyurl.com/5fw9t3s7].