

Is Trump Winning on Economic Policy?

di Kenneth Rogoff

Donald Trump's second presidency is off to a far stronger start than almost anyone anticipated, aside from Trump himself and his most fervent acolytes. But while economists' warnings of tariff-driven inflation and an imminent recession have yet to materialize, the long-term risks are becoming harder to ignore.

CAMBRIDGE – Six months into his second term, it is fair to say that US President Donald Trump has swept the board when it comes to economic policy – at least by the standards he set for himself. In fact, he has imposed his will to a degree no other post-World War II president, with the possible exception of Ronald Reagan, has been able to achieve.

For starters, Trump got his [One Big Beautiful Bill Act](#) passed, despite a razor-thin majority in the House of Representatives and credible projections that his signature tax and spending package will add [more than \\$3 trillion](#) to the federal deficit over the coming decade (barring a miraculous AI-driven economic boom). And the southern US border is now more tightly controlled than it has been in decades.

On tariffs in particular, Trump got what he wanted. [Europe](#) and [Japan](#) effectively capitulated – agreeing to eliminate their own trade barriers while accepting a 15% US tariff on their exports. Given these humiliating terms, it was more than a little absurd to see European Commission President [Ursula von der Leyen](#) hail the deal as a success simply because Trump backed down from his initial threat of a 30% tariff.

Both the European Union and Japan also committed to invest hundreds of billions of dollars in the US economy, with Trump exerting significant influence over where that money would be directed. His self-styled “[Tariff Man](#)” persona clearly rattled world leaders, many of whom failed to recognize that his threats were unsustainable in the long run. In retrospect, they would have been better off calling his bluff. Instead, on

Thursday, an emboldened Trump [announced](#) new tariffs on nearly every country in the world.

While European policymakers were busy mitigating the impact of American tariff threats, Trump pushed through legislation aimed at bringing cryptocurrencies into the mainstream financial system with minimal oversight. Astonishingly, despite the Trump family's [multi-billion-dollar crypto holdings](#), Congress has shown little interest in investigating the president's glaring conflict of interest. In fact, Trump has faced more public scrutiny for withholding the Jeffrey Epstein files than for his crypto dealings.

To be sure, the [GENIUS Act](#) does contain some worthwhile ideas. One provision, for example, requires that stablecoins – cryptocurrencies pegged to a traditional currency or commodity, usually the US dollar – be backed by safe, liquid assets. But overall, instead of laying out clear guidelines for taming the crypto Wild West, the GENIUS Act amounts to little more than a regulatory skeleton.

As several critics have [noted](#), Trump's stablecoin framework bears striking similarities to the free-banking era of the 1800s, when the United States did not have a central bank. At the time, private banks issued their own dollar-backed currencies, often with disastrous consequences such as fraud, instability, and frequent bank runs. With thousands of stablecoins expected to [flood](#) the market, similar problems are bound to emerge. That said, some criticisms may be overstated, as today's leading issuers are generally more transparent and better capitalized than their nineteenth-century counterparts.

A more urgent and underappreciated problem is that the new legislation will make it far easier to use dollar-based stablecoins for tax evasion. While large-denomination paper currency presents similar challenges, the scale of the threat posed by stablecoins is much greater. And yet, despite these risks, Trump once again got exactly the legislation he wanted.

Fortunately, the US economy has remained resilient amid the uncertainty and chaos unleashed by Trump's tariff war. Although growth appears to be slowing, and the July jobs report was soft – a hard reality that Trump's firing of the technocrat in charge of producing the data will not change – second-quarter data [show](#) that the country is not yet in a recession.

Likewise, higher tariffs have not yet triggered a surge in domestic inflation, and the US is on track to collect [\\$300 billion](#) in tariff revenue in 2025. So far, importers have been reluctant to pass those costs on to consumers, but that could change if the current tariff war ever winds down. Some analysts have even [argued](#) that the apparent success of Trump's heterodox policies proves that conventional economic models are wrong. I doubt that, though the jury is still out.

This short-term optimism, however, overlooks long-term consequences. While some of former President [Joe Biden](#)'s policies were damaging, numerous economists have [warned](#) that Trump's actions could prove devastating to American institutions and the global economic order. Most critically, the rule of law would be severely weakened if the expanded presidential powers Trump has claimed are allowed to become permanent. A big test is coming if the Supreme Court ultimately decides that he lacks authority to impose tariffs without Congress's approval.

If they stand, Trump's sweeping tariffs may have long-term effects on US growth. The rest of the world is unlikely to tolerate Trump's protectionist policies indefinitely. If he starts to look weak for any reason, expect foreign governments to retaliate with sweeping tariffs of their own. The Big Beautiful Bill could compound the damage, triggering a cycle of higher interest rates, rising inflation, and financial repression.

Still, we should give Trump his due and acknowledge that his second presidency is off to a far stronger start than almost anyone – aside from Trump himself and his most fervent acolytes – could imagine six months ago. We should not be surprised by whatever comes next – and that might be the scariest part.