

Why Is Trump Undermining the US Economy?

di Michael R. Strain

Although Donald Trump got off to a good start, with equity prices hitting all-time highs in anticipation of pro-growth policies, investor confidence has vanished, tanking the stock market. With the president deliberately undermining the foundations of US prosperity, one must ask why he is doing it, and what could stop him.

WASHINGTON, DC – US President Donald Trump’s management of economic policy has been a disaster. Previously, it would have been unfathomable for a president – including Trump during his first term – to inflict so much harm on the economy deliberately. As alarmed as I am, though, I am not panicked. A recession remains unlikely, and equilibrating forces in the political system may soon apply the brakes to this madness.

Trump’s campaign policy agenda had both pluses and minuses. While there were obvious flaws, much of what he wanted to do would have advanced prosperity. As recently as late January, I wrote that Trump seemed to be [off to a good start](#). His approaches to AI and antitrust enforcement were promising, as were his commitments to expanding domestic energy production, eliminating harmful regulations, and cutting corporate taxes. Investors largely agreed with this assessment: the S&P 500 and the Nasdaq each hit all-time highs following Trump’s election in November, and stayed high well into February.

In recent weeks, Trump has reversed that good start. I fully endorse the goals of Elon Musk’s Department of Government Efficiency (DOGE) to reduce the scope of government activity and eliminate wasteful spending. But DOGE’s chaos has spooked consumers and investors. Worse, Trump’s on-again, off-again tariff increases and open hostility toward crucial trading partners (Canada, Mexico, and the European

Union) have soured business and consumer sentiment, increased inflation expectations, chilled investment, and sent stocks plunging. On March 13, the S&P 500 sank into a correction, [falling 10%](#) from its record high three weeks previously.

Why is Trump doing this? I'll offer three explanations. First, we are witnessing rank incompetence. As has been widely reported, DOGE has charged into federal agencies and fired workers, only to attempt to rehire them days later when it realized how [important they were](#). It is repeatedly [posting](#) data with significant errors about its "spending cuts." Clearly, there is no plan here. DOGE simply has no idea what it is doing, and all its frenetic activity has amounted to nothing but confusion. There have been no material spending cuts: Federal spending in February was [higher](#) than in any previous month. If anything, DOGE's ineptitude is likely to set back the cause of reducing the size and scope of government.¹

Trump's execution of trade policy has been equally incompetent. Many Trumpologists are trying to discern a strategy, as if the president were "playing five-dimensional chess." He isn't. There was no master plan, for example, behind his decision to [enact](#) a large tariff increase on Canada on March 4, then exempt automobile manufacturing on March 5, and then exempt goods in compliance with the United States-Mexico-Canada Agreement (USMCA) on March 6.

The second explanation is that Trump is a true mercantilist who genuinely, and wrongly, believes that if the US is running a bilateral trade deficit with another country, it must be losing economic value to that country. For example, he has [criticized](#) US businesses that import lumber from Canada on the grounds that the US has "more Lumber (*sic*) than we can ever use." He refers to lumber imports as a "subsidy."

Trump's mercantilism helps to explain how his administration can be pursuing so many often-conflicting trade-policy goals concurrently. At various times, the White House has argued that tariffs will reduce fentanyl imports and illegal immigration, provide federal revenue to finance tax cuts, and force other countries to lower their barriers against US exports. Trump's actions appear more rational if you remember

that he sees a lower bilateral trade deficit as a win in and of itself. If he can achieve a few of these other goals as well, he may consider that icing on the cake.

But there is a third, more ominous explanation. It's possible that Trump may have recently bought into the MAGA view that the US economy needs a fundamental, painful transformation. He said as much on March 9, in an [interview](#) on Fox Business. When asked about the damage from his tariffs, Trump replied that "for years, the big globalists have been ripping off the United States... What I have to do is build a strong country. You can't really watch the stock market. If you look at China, they have a 100-year perspective ... We go by quarters. You can't go by that ... What we're doing is we're building a tremendous foundation for the future." Trump then [smeared](#) the decidedly pro-business *Wall Street Journal* with the same aspersion – "globalist" is a slur in the MAGA movement – and he has repeatedly declined to rule out a recession. This type of anti-elite rhetoric and calls for economic pain are common among MAGA types like Steve Bannon and Vice President J.D. Vance, but they are unusual coming from Trump. It is still unclear whether he really has been converted to an ideology that welcomes harmful economic outcomes, but if he has, the outlook for 2025 (and beyond) is troubling.

Still, the laws of political gravity have not been suspended. Political success must ultimately rest on a foundation of policy success, and Trump's policies are not succeeding. More than 60% of Americans [disapprove](#) of his handling of tariffs, and over half disapprove of his handling of the budget and his management of the federal government. Until Trump changes course, those numbers will continue to climb. The higher they go, the easier it will be for congressional Republicans and corporate executives to speak out against Trump.

If the president wants his party to do well in the 2026 midterm elections, he will be under enormous political pressure to rein in the chaos, resolve policy uncertainty, and govern more responsibly. Indeed, Trump has already [responded](#) to political pressure and publicly placed limits on Musk and DOGE, tipping power away from them and toward cabinet secretaries. The same will happen with his tariff plans.

Fortunately, Trump inherited a strong economy. Data for the current quarter [continue](#) to show economic strength. The economy [added](#) 151,000 net new jobs in February; unemployment remains low; household income is robust; and new claims for unemployment benefits [were not trending up](#) in February or March. Furthermore, much of the president's agenda will boost near-term growth. It would take a lot to tip the economy into recession. The sooner Trump regains investors' and consumers' confidence, the less likely that outcome becomes.

H.L. Mencken famously observed that "democracy is the theory that the common people know what they want, and deserve to get it good and hard." The people wanted Trump. But they don't want this. In the US system of democratic capitalism, that simple fact will carry a lot of force.