

EconoFact Chats: The Economic Policies of the Second Trump Administration

Simon Johnson, MIT

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I'm Michael Klein, executive editor of EconoFact, a non-partisan, web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts, and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein

It's been more than a year since President Trump was inaugurated. He and his administration have made sweeping changes, not least in economic policy. What have been the effects of these changes? The CEPR, the Centre for Economic Policy Research in Europe—one of the world's premier economic research organizations—published a book in December called *The Economic Consequences of the Second Trump Administration: A Preliminary Assessment*. This is an ambitious project featuring more than 40 chapters covering topics that have garnered headlines throughout the past year, like immigration and tariffs, and others that have not been paid as much attention, like spillover effects of US policies to Europe and Latin America, the politicization of government economic data, and the effects of these policies on rural communities. One of the editors of that book is my guest today, Professor Simon Johnson of MIT. Simon is the Ronald A. Kurtz Professor of Entrepreneurship at the MIT Sloan School of Management, where he's the head of the Global Economics and Management Group. In 2007 to 2008, he was the Chief Economist at the International Monetary Fund. Simon was also one of the co-recipients of the Nobel Prize in Economics in 2024. Simon, thanks for joining me once again on EconoFact Chats.

Simon Johnson

Nice to be with you.

Michael Klein

So, Simon, I imagine the CEPR has not published prior volumes on the first year of Obama's, Biden's, Reagan's, or either Bush's presidencies. What prompted this project?

Simon Johnson

Well, I think from the very beginning of the second Trump administration, Michael, there was a lot of concern around the world about many announcements and the impact of early actions. And, actually, the December volume that you referenced in the intro is the second edition of our book. The first edition came out, I think, in June, and then we quickly figured we needed to do some updates. So, it's a big target, it's a moving target. People in Europe are obviously very, very interested—hence CEPR—and we also thought that it was good to take a snapshot and write

down for the record what we all understand to be the baseline initial circumstances and those early policies. And then we'll see what happens, and we'll go back and do some evaluations.

Michael Klein

The very first figure in the book shows how Trump has signed more than 140 executive orders, far outpacing any other president—even Roosevelt in his famous 100 days in 1933, or at the beginning of his third term in 1941. Why is this so important that it got the very first figure in the whole book?

Simon Johnson

Well, I think it's a symbol and a reality that really matters. The symbol is an effort by the White House, by the President and his team, to grab momentum, to make big changes, and to push through what they see as a fairly organized agenda. And of course, at the same time, it's symbolizing that Congress is not involved. Even though the Republicans have, as you know, a majority in the House of Representatives and the Senate, they decided to pursue these policies primarily without—and to the extent possible, without—having to go to Congress for various kinds of votes. So, it's a change in economic policy—both what that policy is and also how policy is made, Michael—and potentially, I think some reasonable people feel this way, it's a bid for greater executive power—executive meaning executive branch power—than we've seen in a long time in the United States.

Michael Klein

Of course, the Heritage Foundation had an important role in the interregnum in setting policies by coming up with these plans. But even though there was a lot of prior planning, the next figures in the book demonstrate the volatility of policy and its consequences for the volatility in financial markets. As you may know, I've written two EconoFact memos with Charles Collyns showing how policy volatility has contributed to both the decline in the dollar, and the meteoric rise in the price of gold. If there was such detailed planning before Trump's inauguration, what does this evidence on volatility tell us?

Simon Johnson

Well, it's a good question, Michael. I think it might tell us they don't care too much about volatility. I think that what has certainly happened on the trade front and a number of other fronts is that President Trump has pushed his policies and his announcements as far as he could—and maybe beyond what the financial markets could in the short term tolerate. And then he's backtracked to some extent. So, you could either say that's lack of complete planning, but you could also say it's an attempt to calibrate what you can effectively change or what you can get away with, depending on what words you want to use. So, the volatility, I think, is not at a level that bothers the White House currently.

Michael Klein

Simon, you co-authored the chapter entitled "Will the United States Continue to Lead in Science?" Will it?

Simon Johnson

Well, I think this is a big worry, a big worry, Michael. So, Rafael Reif, the former president of MIT, has written and spoken about this quite eloquently, and he's made the point that 25 years ago, when he was talking to Chinese interlocutors, they would say, "Well, look, you're the innovative frontier. We're just good at manufacturing things in China." But if you look at the situation now, it's shifted. China is very strong in manufacturing, and increasingly it's challenging at the frontier. So, really, we should be doubling down on our scientific efforts. And instead, the Trump administration has imposed restrictions, it's gone to war with some universities, it's dialed back a lot of established research funding, it's created a lot of uncertainty around the funding of graduate students, and related programs for science efforts at various universities. And in this case, the policy uncertainty really does matter. It's a silent killer, I think, Michael. It's something that will have consequences over the decades to come, but I feel we are losing our leadership position in science and, therefore, in the creation of new technology.

Michael Klein

So, you alluded to the broader implications of this. What in fact do you think are the broader implications?

Simon Johnson

Well, less growth, for sure. Fewer opportunities. Less company creation. Also, weakening national security. I mean, you tend to forget when it comes to communications or weapons or transportation or pretty much anything, there's deep science that lies behind many of the innovations that have kept the United States in the leadership position for 70 or 80 years globally. Now, before 1940, we didn't do much research and development at the federal government level—not funded by the federal government—and we were not the leader in those national security technologies. American aviation, for example, in 1940 was behind that of the UK and Germany. So, if you don't invest, you don't lead the world. If you don't lead the world, you face the consequences sooner or later.

Michael Klein

You're known, Simon, for your work on the role of institutions for the development of economies, and especially the way that you and your co-authors take a long historical perspective on these issues. In fact, that was what was cited in your Nobel Prize. The first chapter of the book after the introduction is titled "The Rule of Law." And there are many reasons for the primacy and importance of the rule of law beyond that for economic development. But can you explain why the rule of law is important for the economy?

Simon Johnson

Yes, actually, Michael, this is the 800th anniversary of what some people regard as the real Magna Carta. The version of the Magna Carta that imposed meaningful restrictions on the executive power, the arbitrary authority of the English King. And that's the key...that's the departing point, we would argue, and many other people have taken up this point of view, to thinking about what do you need if you want to build a diverse, modern economy. If you want to have many people who invest, if you want to have companies, if you want to have entrepreneurs, if you want to have a stock market...well, you need to have some certainty that you have a reasonable claim to the profits that are going to arise. You need to have property rights, and the only way to really guarantee property rights over a sufficiently long period of time is to have constraints on executive authority. If you don't, then the king or the queen or the president or whoever it is, is very tempted to come in and steal your stuff. And it's that taking...expropriation that undermines economic systems. It undermines capital-based economic systems, private economy-based systems. It also undermines other economic systems. I mean, there was a lot of capricious, arbitrary executive action in the Communist Soviet Union, for example, that was ultimately quite devastating to their prosperity. So, if you don't have the rule of law, if you don't have a well-functioning court system, if you don't have effective constraints on executive action – including through an effective court system – then you are not going to be able to sustain prosperity, not in any meaningful modern form.

Michael Klein

So, I guess this speaks to the very important role of investment and research and development. And if you invest, but it could be expropriated, or if you do research and development, but the rewards of that are taken from you, then the incentives to do that disappear, and you lose the dynamism of an economy, right?

Simon Johnson

Yes, absolutely. It's closely related. But it also applies to investments that aren't particularly high-tech. So, anybody who's setting up a shop, anybody who's building a company, has to be concerned about 'can the government take this away from me?' And if there is some sort of taking, do I have recourse through the courts? It certainly does apply to the science funding, and it certainly does apply to determination of time horizons. And in science, the time horizons are long. People spend 10 years, 20 years, or their entire career pursuing particular questions. So, lacking stability, lacking predictability, lacking the rule of law is not going to help you build a scientific enterprise. In fact, I can't think of any country with insecure rule of law, and insecure property rights that has really done well over long periods of time.

Michael Klein

And it's not just science. People's own education, which takes years and years and years. You have to have faith that there'll be a payoff for that education. And if there's no rule of law, you might not invest in yourself in that way, correct?

Simon Johnson

Right, absolutely. And you know, as you know, Michael, and I think probably most of your audience knows, many economists like to talk about education as human capital, with the analogy being to physical capital. And I think it's quite good in some ways, because human capital is acquired through investment. It takes time, it takes patience, and it's only worth doing from an economic point of view if, at the end of it, you feel that you're going to have a better job, better prospects, a better understanding of the world, whatever your goal is. And if the world around you is massively uncertain, then it's not going to encourage you, generally speaking, to get a lot of education.

Michael Klein

So, given all this background, Simon, what does the chapter on the rule of law say about the current state of affairs in the United States and its implications for the economy?

Simon Johnson

Well, everyone should read the chapter. I think that would be a good takeaway from this interview. I think our experts, who are some of the leading minds on these issues—including John Coates, and also I'd recommend the chapters by Lev Menand and Gary Gensler that touch on this issue. They're very concerned, Michael. I mean, I've read a lot of history, I've studied the ups and downs of democracies. I am not yet perhaps as negative as some people, but the experts, including the legal experts, are very concerned that it's slipping away from us. That the authority of the courts, that the willingness of the executive branch to defer to the courts, that the established position of the US Congress when it comes to making laws and making sure laws are enforced—that all of these things are being substantially eroded, and not by accident but by deliberate executive action. Now, you might like that if you're a supporter of Mr. Trump, but let me point out that if the rule of law slips away and Mr. Trump's not in office, then somebody else – could be a right-wing person, could be a left-wing person – may look at that situation and say, 'Oh look, the rules aren't quite what they were. Let's pursue our agenda in this other way.' I'm a big fan of the US Constitution as it's operated in recent years, Michael, and I think the checks and balances have again, in recent years, served us well. If we're becoming a country with a lot more power in the hands of a very few people or one person at the head of the White House, I don't think we will really enjoy those consequences.

Michael Klein

Simon, the rule of law is one part of a broader concept called institutional quality. What are some other features of institutional quality, and why are they important above and beyond the rule of law?

Simon Johnson

Well, I think the piece that often bothers people the most in this dimension, certainly around the world, Michael, is corruption. If you feel that top officials or their family members, or the people connected to them informally or through donations, I suppose...if you feel that that elite is siphoning off the opportunities, it's enriching itself, it's lining its pockets, that's really annoying to people. Now, if it turns out that that corruption acts as a burden or a tax on ordinary people—for example, because they get ripped off—they put their money into investment schemes that disappear, they are duped in various ways, or they just end up paying more for goods that are imported or goods that are distributed through channels that are tightly controlled and highly corrupt, then it becomes more than annoying. It becomes a real pushback. So, I think that it's early days yet. I don't think the jury...metaphorical jury or any jury...has yet ruled decisively on this issue. But there's a lot of concern that the deterioration of the rule of law during the second Trump administration may contribute to pathologies and forms of corruption that are similar to those that have provoked political backlashes in other parts of the world. Now, there's other forms of institutional quality, there's other things that people care about, but I'm watching corruption and measures of corruption, Michael, and I think that's what we'll be discussing in some length, when time comes to write the retrospective of the second Trump administration.

Michael Klein

What about the erosion of government capacity? And of course, that has been a consequence of the so-called DOGE efforts. People were being fired, people that had expertise. What does that do to an economy?

Simon Johnson

Yes, well, if you do erode government capacity—and I agree that is what the so-called DOGE efforts did in substantial degree—then you are reducing the ability of the government to either deal with day-to-day problems, such as making sure everyone gets their Social Security checks, as well as the government's ability to deal with emergencies, such as when there's a hurricane or a massive snowstorm. Now, of course, we have a federal system in the United States, and so we have local government, state government, and federal government. But we've relied for a long time on the federal government to be the backstop, to be the provider of resources, and also to underpin the expertise of the entire government sector. So, to the extent that the federal government has been pulled back from providing expertise and resources, for example, for emergency management purposes, responding to natural disasters, that is going to be felt all the

way down the system. Some states and localities may be better equipped to cope or to make their own adjustments and step into the gaps or fill the gaps, but I think we're going to see this throughout the country. The weakening of government capacity is going to be a problem.

Michael Klein

One of the resources that the government provides is data, especially economic data. I had Erica Groshen on the podcast almost a year ago now, and she was warning about the politicization of economic data. Is this also a concern of yours? And what would be the implications for the economy if, in fact, the data becomes more politicized?

Simon Johnson

It's definitely a concern. I think this is a space, Michael, in which financial markets have something to say. And when there have been more open, or bigger, or more egregious efforts to change the data processes, particularly data that financial markets care about—I think investors have not been very happy about that, and that signal has come through to the White House. So, I do think financial markets to some extent and on some dimensions serve as a bit of a brake or a constraint on what this or any administration can do. But you're right, the sanctity of data, the honesty of data, the independence of the people in the data collection processing agencies—that is tremendously important.

Michael Klein

And of course, in the news lately, there's been a lot about the independence of the Fed. And it seems to some extent that financial market concerns mitigated the choice that President Trump made. But are you also concerned about a central bank that is not fully independent, that could bend to the will of the President and thereby hurt the economy?

Simon Johnson

Yes, absolutely. Now, as you know, Michael, historically there's been quite a back-and-forth over time about the independence of the Fed. So, Lyndon Johnson had his views about the Fed. He thought it shouldn't be quite so independent. Richard Nixon put Arthur Burns in to run the Fed, primarily, under a reasonable interpretation, to make sure that Burns would tilt the economy in a direction that favored Nixon's re-election. So, this is not a new issue. But one of the big takeaways from the inflation of the 1970s and the disinflation that really solidified around the world in the 1980s was that it's better to have more independent central banks. So, if we're retreating from that, I think that's a bad idea. And I did sign an amicus brief to the Supreme Court in the case of Lisa Cook, for example, arguing that the administration's—the White House's attempt to remove Dr. Cook from the Board of Governors of the Federal Reserve is a very bad idea and not at all in line with either the legal precedence—although I'm an economist, not a legal expert—but in terms of its impact on the likely impact on the economy, it would not be a good thing. And I think to the extent that the new Fed Chair feels pressure from the White

House and feels pulled towards, for example, lower interest rates—which may be appropriate, but they may also be the result of political pressure. If it's political pressure, lower short-term interest rates can easily cause higher inflation, could easily cause higher long-term rates actually, and could easily cause some problems down the road.

Michael Klein

Simon, the last time you were a guest on my podcast, we spoke about your book with Daron Acemoglu, *Power and Progress: Our Thousand-Year Struggle Over Technology and Prosperity*. That was a fascinating book; I really enjoyed it. And a central theme is how technological progress often reflects the power structure in a country, and also how it may not be benign. Another chapter in this CEPR volume by Gary Gensler is about how the second Trump administration's policies may affect the path of AI development and the implications of that. What did Gensler say about these very important issues?

Simon Johnson

Well, Gary Gensler and I spend a lot of time talking together about these issues continually, including we teach a course right now, Michael, at MIT that is about public policy and the private sector, with technology development and AI an important part of that. I would say Gary's view is a little bit concerned that the AI companies may be able to control the agenda too much. That there won't be effective safeguards. At the same time, I would say, and I think Gary would agree, that the competitive pressure, particularly from China, means that it is difficult to persuade anyone in Washington that there should be any kind of effective brakes on what the AI companies develop. So, at least for the time being, it is full speed ahead. There are better ways...or directions in which we could pull the AI technology that would be better for more people. That's something that the UK government is working on, and I'm helping them. But I think Gary and I and most of the other people I know at MIT are favoring the development of new technology and hoping that AI could be developed along a more positive and inclusive path. But we're also concerned about what will be the impact on jobs? What will be the impact on privacy? What will be the impact on the surveillance society that's now developing around us?

Michael Klein

So, it's fair to say that this book is pretty critical of the second Trump administration's policies. But some people may argue that inflation and unemployment are relatively low, the economy is growing, the stock market is at record highs. Are things really as dire as someone might infer from this CEPR book?

Simon Johnson

Well, I think we'll see, Michael. I mean, the point of the book was to put our views, and the views of people we respected—from the left and the right, by the way. I really commend Michael Strain's chapter on US manufacturing for everyone to read. Michael is at the American

Enterprise Institute, as you may know. So, we have a range of views there. We wrote our views down, and then we'll see what happens. I do agree that some of the headline numbers are still quite strong. We obviously have a big investment boom structured around AI and related parts of the...let's call it the AI-driven economy. But there's more to the American economy and more to American life than just artificial intelligence, I think. So, we'll see what happens. It's hard to evaluate policy after one, two, or even three years, but of course there are elections held every two years in this country, so it's not a bad idea to try and hold ourselves and our political leaders accountable. And at the end of four years, I think, I hope we or someone else perhaps will write a retrospective...and those authors can look at what we wrote and what we published in 2025 and say, 'yeah, they were right on these points and wrong on these other points.' I think that'll be a useful education, and useful in terms of thinking about economic policy.

Michael Klein

Well Simon, you mentioned this is already the second edition of this book. So maybe when the third or the fourth edition comes out, you and I can speak again about the delta between this version and the next editions and we'll see where it's progressed. Thanks very much for speaking with me today, Simon. I really enjoy our conversations.

Simon Johnson

Always a pleasure, and I look forward to discussing the third, fourth, and fifth edition of this book.

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