

# Tariffs, Digital Dollars, and Stablecoins: Contradictions in Trump's Economic Policy and the U.S. Dollar's Reserve Status

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## Abstract

This paper critically examines the structural contradictions within Donald Trump's economic policy platform and their implications for the U.S. dollar's role as the global reserve currency. Centering on three interlinked policy domains—aggressive tariff implementation, opposition to a central bank digital currency (CBDC), and endorsement of privately issued USD-backed stablecoins—this analysis explores how such strategies, though framed as pro-sovereignty and pro-growth, may paradoxically destabilize the very foundations of American monetary power.

Using theoretical frameworks such as the Triffin dilemma and institutional trust models, the study reveals how tariff-driven protectionism can fuel inflation, strain U.S. trade partnerships, and erode confidence in Treasury bonds. The prohibition of a CBDC, meanwhile, isolates the U.S. in the global shift toward digital currencies, undermining long-term innovation and ceding leadership to geopolitical rivals such as China and the EU. Simultaneously, Trump's support for privately issued digital dollars—some of which are directly tied to his own financial interests—raises serious concerns about the privatization of monetary functions and the erosion of public trust in the neutrality of U.S. currency issuance.

A risk model outlines scenarios ranging from gradual erosion of trust to acute financial crises involving capital flight from U.S. debt instruments. The paper compares the U.S. dollar's credibility mechanisms with those of Bitcoin and stablecoins, highlighting the limitations of private digital currencies as substitutes for sovereign money.

Ultimately, the study concludes that Trump's policy triad—tariffs, anti-CBDC populism, and personal coin issuance—threatens the credibility, neutrality, and global utility of the dollar. Recommendations are offered to realign U.S. strategy toward a more balanced, transparent, and innovation-driven monetary leadership. The future of the dollar hinges not merely on economic fundamentals, but on consistent policy stewardship, institutional trust, and global cooperation.

## Introduction

The economic policies of former U.S. President Donald J. Trump have raised fundamental questions about the future of the U.S. dollar's role as the world's leading reserve currency. Trump's tenure and continued political influence have been marked by a set of unconventional and at times contradictory monetary and trade policies. Central among these are an aggressive use of tariffs, an ideological opposition to a U.S. Central Bank Digital Currency (CBDC), and an explicit endorsement of privately issued, USD-backed stablecoins. Each of these policy stances has significant implications for U.S. monetary governance and the credibility of the dollar in the global financial system. This paper examines how Trump's tariff implementation, CBDC prohibition, and support for private stablecoins may structurally undermine the trust "loop" between the U.S. Treasury and the dollar, thereby affecting the dollar's stability and dominance. The research problem is significant: the U.S. dollar's status as *de facto* global currency underpins American geopolitical and economic leadership, and any policy-induced erosion of confidence could have far-reaching effects on global finance and U.S. economic security. By analyzing Trump's policies in the context of historical reserve currency theory and contemporary digital currency developments, this paper aims to uncover the contradictions inherent in his approach and assess the potential consequences for international monetary leadership.

The paper is organized as follows. First, we outline the institutional structure of U.S. dollar issuance and its intimate relationship with U.S. Treasury bonds, establishing a framework for how the dollar's credibility is maintained. Next, we review the historical and theoretical context of reserve currencies, including the Triffin dilemma, to underscore the trade-offs between domestic economic objectives and international monetary responsibilities. We then critically analyze Trump's tariff policy – both his 2018–2019 trade war measures and his proposed across-the-board tariffs – evaluating their inflationary impact and implications for trade balances. Following that, we discuss Trump's prohibition of a CBDC via executive order, probing the ideological rationale and the institutional and geopolitical contradictions of that stance, especially as rival economies forge ahead with their own digital currencies. In the subsequent section, we evaluate Trump-linked stablecoin projects (such as the "USD1" stablecoin) and consider how the rise of privately issued digital dollars, tied closely to Trump's interests, challenges the credibility and neutrality of public money. We then present a risk model of a breakdown in the "Treasury–dollar trust loop," examining scenarios in which confidence in U.S. government debt and the currency could deteriorate. This is followed by a comparison with Bitcoin and other cryptocurrencies, analyzing differences in monetary function and trust mechanisms. Finally, we discuss the strategic and geopolitical implications of these developments for U.S. international monetary leadership, and conclude with findings and policy recommendations. Throughout, we draw on primary sources (including central bank reports and official statements) and scholarly analyses to ensure a rigorous, evidence-based evaluation. The goal is to contribute to the academic and policy debate on how populist-nationalist economic strategies intersect with the demands of managing a global reserve currency.

## The Institutional Structure of U.S. Dollar Issuance and the Treasury Bond Nexus

Understanding the institutional framework of U.S. dollar issuance is essential to grasp how Trump's policies might undermine monetary governance. The U.S. dollar is issued via a complex public-private architecture centered on the Federal Reserve (the U.S. central bank) and the U.S. Treasury. While the Treasury has the power to borrow by issuing bonds and the Fed has the power to create base money, the credibility of the dollar arises from the interplay between these institutions. The Federal Reserve typically issues dollars by conducting open market operations, most often buying and selling U.S. Treasury bonds. In effect, Treasury securities – backed by the full faith and credit of the U.S. government – serve as the principal assets underpinning the U.S. monetary base. This means that the integrity of U.S. public debt and the stability of the dollar are closely intertwined. Global confidence in the U.S. dollar is strongly linked to confidence in U.S. Treasury bonds as *safe assets*, which are widely held by foreign central banks and investors as reserves. The U.S. "Treasury-dollar" framework thus creates a self-reinforcing trust loop: the U.S. government provides an extensive supply of dollar-denominated safe securities, and the Federal Reserve's policies keep inflation and liquidity in check, so that the dollar remains stable and widely accepted. In turn, foreign official and private demand for dollars and Treasuries allows the U.S. government to finance deficits at relatively low cost, a phenomenon often called the "exorbitant privilege" of the dollar.

Crucially, the U.S. dollar's role as the primary global reserve currency means that a large portion of dollars in circulation outside the U.S. have been created through the rest of the world's accumulation of U.S. assets, especially Treasuries. International demand for dollar liquidity leads to capital inflows into the United States, which puts upward pressure on the dollar's exchange rate and is associated with U.S. current account deficits (as capital inflows must be balanced by net imports). This dynamic is a double-edged sword: it allows the U.S. to consume more than it produces and invest globally with cheap funding, but it also ties the health of U.S. manufacturing and export competitiveness to global monetary conditions. The institutional structure is designed to maintain a balance – the Federal Reserve is tasked with domestic price stability and employment, while the Treasury manages fiscal policy and debt issuance – yet both institutions must also implicitly consider the international role of the dollar. The Fed's independence and its focus on low inflation anchor trust in the currency domestically and abroad, while the Treasury's commitment to honor its debt underpins global faith in dollar assets. Any policy that undermines either the Fed's control of the money supply or the Treasury's creditworthiness can erode the foundations of this system. For example, if political pressure or conflict of interest were to lead to excessive money creation or doubts about Treasury repayment, the result could be a loss of confidence in the dollar.

Under President Trump, however, some of the norms of this system have been challenged. Trump's open criticism of Federal Reserve interest rate decisions during his term (2017–2021) was one such break from convention, raising concerns about the Fed's insulation from politics. More directly, as we will explore, his post-presidency initiatives – like pushing a ban on a digital dollar and endorsing private money issuance – indicate a willingness to reshape the monetary apparatus. Moreover, Trump's large fiscal deficits (exacerbated by tax cuts and COVID-19 emergency spending during his tenure) put heavy reliance on Treasury bond issuance, even as

he and his allies simultaneously downplayed the importance of global investors' confidence. Indeed, a hallmark of Trump-era rhetoric was the dismissal of warnings about debt and deficits, alongside the embrace of policies that could unsettle foreign holders of U.S. debt (for instance, trade wars and threats to "weaponize" economic tools). Understanding the traditional dollar-Treasury nexus clarifies why such policies are seen as potentially destabilizing. In essence, the U.S. dollar's strength rests on a delicate equilibrium: it must serve domestic economic needs while also meeting international demand for a stable reserve asset. The next section delves into the theoretical framing of this tension through the lens of the Triffin dilemma, before turning to the specific policies in question.

## **Reserve Currency Status in Context: History, Theory, and the Triffin Dilemma**

The U.S. dollar's status as the leading global reserve currency is a product of historical evolution and deliberate institution-building. In the aftermath of World War II, the Bretton Woods system established the dollar (pegged to gold at the time) as the linchpin of the international monetary order. Even after the collapse of the gold peg in 1971, the dollar retained its primacy through the emergence of the petrodollar system (where global oil trade is denominated in dollars) and the deepening of U.S. financial markets. A core benefit of being the reserve currency issuer is the "exorbitant privilege" of the United States – the ability to borrow cheaply and run persistent balance-of-payments deficits without immediate solvency constraints. However, this privilege comes with systemic responsibilities and latent instabilities long recognized by economists. Chief among these is the *Triffin dilemma*, articulated by Robert Triffin in the 1960s, which posits a fundamental conflict of interest for the issuer of a reserve currency. The dilemma is that the reserve-issuing country must supply the world with enough liquidity (its own currency) to satisfy global demand, which typically requires running large current account deficits (i.e. importing more than it exports). Over time, these persistent deficits can undermine confidence in the currency's value, as they imply growing external indebtedness and potentially inflationary policies to sustain liquidity. In Triffin's original context, the concern was that the U.S. could not indefinitely redeem dollars for gold if it kept running deficits; today, the gold constraint is gone, but the logic manifests in concerns over unsustainable U.S. debt and external imbalances.

The U.S. formally embraced a role as a debtor to the world by the 1980s, after running consistent trade deficits and ending its net creditor status in 1985. This was effectively an acknowledgement of the need to supply dollars globally. The U.S. goods trade deficit in recent years has been on the order of hundreds of billions of dollars annually (around \$1 trillion in 2022). Such deficits provide dollar liquidity to other countries (who accumulate dollars in reserves or private investments), but they also create domestic political pressure due to factory closures and job losses in trade-competing industries. The Triffin dilemma highlights the tension between *short-term domestic objectives* (like maintaining full employment and balanced trade) and *long-term international objectives* (providing the world with a stable reserve currency). In practice, U.S. policymakers have often had to strike a balance: allowing just enough inflation

and deficit spending to lubricate global growth, but not so much as to cause a flight from the dollar. They have also periodically encouraged alternative arrangements to ease the burden – for instance, supporting the International Monetary Fund’s Special Drawing Rights (SDRs) as a supplemental reserve asset, or engaging in swap lines to distribute liquidity during crises.

However, as global GDP grows, so does the demand for reserves, and the Triffin dilemma in modern form suggests the U.S. would need ever-increasing deficits relative to its GDP to keep supplying enough safe dollar assets. This is a potentially “unsustainable imbalance” – a point that proponents of Trump’s more nationalist economic agenda have seized upon. They argue that the dollar’s reserve role has led to an overvalued currency and deindustrialization in the U.S., as capital inflows push up the dollar’s value, making U.S. exports less competitive and encouraging imports. This narrative, which echoes Triffin’s logic, contends that the reserve status of the dollar is in fact a *handicap* to the U.S. economy, contributing to hollowed-out manufacturing and dependency on foreign funding. It is no coincidence that Trump’s trade advisors and supporters often cited chronic trade deficits as evidence of America “losing” to foreign countries in the economic arena. Indeed, one analysis of “America First” populist policies notes that they “stretch the modern-day Triffin dilemma” by fueling higher inflation and fiscal deficits, potentially exacerbating the conflict inherent in managing a reserve currency.

History provides a cautionary tale in how reserve currency status can be undermined. The British pound sterling, which was the leading reserve currency in the 19th and early 20th centuries, eventually ceded dominance to the dollar as Britain’s relative economic power waned and it became overly indebted (especially after two world wars). In that case, the transition was gradual and occurred in tandem with geopolitical shifts (the rise of the U.S. as an industrial superpower and Britain’s imperial retrenchment). For the dollar today, any erosion of status might likewise come not as a sudden collapse but through incremental changes – such as diversification of reserves by other countries, the emergence of alternative payment systems, or the creation of new digital assets that reduce reliance on the dollar. The risk is that certain policies could accelerate these shifts. In the wake of the 2008 financial crisis, for example, officials in China explicitly criticized the dollar-centric system and suggested moving toward a more diversified reserve regime (even revisiting a concept akin to Keynes’s proposed “Bancor” – a supranational currency). Additionally, geopolitical events, like the use of financial sanctions, have prompted some countries to seek ways to reduce their exposure to the dollar system (a factor we will revisit in discussing international implications).

The Triffin dilemma remains highly relevant when evaluating Trump’s economic nationalism. Trump’s desire to reduce trade deficits (to achieve short-term domestic gains for industries and workers) stands at odds with the requirement that the U.S. supply the world with dollars via deficits. If successful, such policies might alleviate some domestic pain but could choke off the supply of global dollar liquidity, potentially destabilizing the international system or inviting alternatives. Conversely, if the U.S. continues running large deficits to maintain reserve currency supply, it perpetuates domestic grievances that fuel protectionist politics. This inherent contradiction forms the backdrop for Trump’s specific policies. The next sections will examine how Trump’s tariff-focused trade policy, his stance on CBDCs, and his embrace of private stablecoins each reflect this tug-of-war between domestic populism and global monetary

responsibility. We will see that these policies, while aimed at asserting American economic sovereignty, might paradoxically undermine the very sources of U.S. monetary power.

## **Trump's Tariff Policy: Inflationary and Trade Impacts**

One of the signature elements of Trump's economic agenda has been the aggressive use of tariffs on imported goods. Trump initiated a trade war during 2018–2019, levying tariffs on steel, aluminum, and a wide array of Chinese goods under Sections 232 and 301 of U.S. trade law. The stated goals were to protect American industries, reduce the trade deficit, and compel trading partners (especially China) to change what the administration labeled unfair practices. In evaluating this policy, it is important to analyze both its direct economic effects (on prices, trade flows, and output) and its broader compatibility with the dollar's reserve role.

**Inflationary Effects of Tariffs:** Contrary to assertions by Trump that tariffs are a tax paid by foreign countries, economic analyses have shown that U.S. consumers and firms bore the cost of these import taxes. Tariffs raise the price of imported goods; and when imports become more expensive, domestic producers often gain pricing power to raise their own prices as well (since competition from imports diminishes). According to a U.S. International Trade Commission report, by 2021 Trump's tariffs had increased prices in some of the most affected sectors (apparel, automotive parts, furniture, computer equipment, etc.) by approximately 1.7% to 7.1%. An independent fact-check by Econofact summarized that the 2018–19 tariffs "increased prices for both imported and domestically produced goods," as U.S. firms passed on tariff costs to consumers and domestic competitors hiked prices in tandem. This refutes the notion that tariffs can be imposed without pain to U.S. households; indeed, tariffs function as a consumption tax on Americans who buy foreign goods. The inflationary impact, while modest in aggregate CPI terms, was noticeable in specific product categories (for example, prices for washing machines notably jumped after tariffs on laundry equipment). Moreover, trading partners retaliated (China, for instance, imposed tariffs on U.S. exports like soybeans), which hurt U.S. exporters and shifted global supply chains without necessarily fixing trade imbalances.

Trump's tariff policy did not significantly shrink the overall U.S. trade deficit; in fact, the deficit in goods trade reached record highs during his term. One reason is that macroeconomic forces (like fiscal stimulus from tax cuts increasing import demand, and foreign retaliatory tariffs reducing U.S. exports) counteracted any reduction in imports from tariffs. Another reason is exchange rate adjustment – tariffs can lead to a stronger dollar as U.S. import demand falls or as foreign investors respond to U.S. economic policy changes. Research suggests that in a floating exchange rate regime, higher tariffs may induce currency appreciation that offsets some of the intended reduction in import volumes. A commentary from Ninety One (an asset manager) pointed out this dilemma: *higher U.S. tariffs should lead to a stronger dollar, all else equal*, which can perversely make U.S. exports less competitive, partly negating the tariff's benefit for domestic producers. This interplay was observed in 2018–2019 when the dollar remained relatively robust despite the tariffs, frustrating Trump who frequently complained that other countries' currencies were "too weak" and put the U.S. at a disadvantage.

**Tariffs as a Revenue and Bargaining Tool:** Trump and advisors like Peter Navarro have sometimes framed tariffs as a way to raise revenue from foreigners to fund the U.S. government or as leverage to force concessions (Trump often called tariffs “beautiful” for the treasury). However, the incidence of the tariff falls largely on U.S. importers, not foreign exporters, unless foreign suppliers choose to cut their prices to keep U.S. market share. The economic incidence depends on price elasticities of demand and supply. In cases where Americans cannot easily find substitutes (inelastic demand), they end up paying higher prices (the foreign producer passes on the cost). Only if U.S. import demand is very elastic would foreign firms absorb the tariff by reducing their prices, which was not broadly the case. Thus, tariffs functioned more as a tax on U.S. consumers than on foreign companies, contrary to Trump’s claims – a point Cato Institute analysts stressed, noting that “a tariff is a tax on a foreign country” is a misconception; it’s effectively a tax on consumption that Americans would “pay for”. The American Action Forum estimated that by 2022, the cumulative tariffs were costing U.S. consumers about \$51 billion annually (based on import levels).

Despite these costs, the tariff strategy did have political resonance and short-term benefits for certain constituencies. It prompted some reshoring or expansion in protected industries (e.g. domestic steel saw higher profits for a time), and it gave the administration a tangible tool to claim it was taking on China. In terms of domestic politics, tariffs can be popular in manufacturing regions suffering from import competition. Yet, from the perspective of the U.S. dollar’s international role, broad tariffs are highly unorthodox. Post-WWII U.S. leadership largely championed free trade and multilateralism (under frameworks like the GATT/WTO), which in turn supported a growing global economy that used more dollars. Trump’s protectionism signaled a retreat from that leadership, raising concerns among allies and trading partners about the predictability of U.S. economic policy. In a global reserve currency regime, such unpredictability is risky: if other countries fear the U.S. may restrict trade or finance arbitrarily, they have added incentive to diversify away from reliance on the dollar system.

**Proposed Expansion of Tariffs – The 2025 Scenario:** As Trump sought a return to the presidency in the 2024 election, he floated even more sweeping tariffs. His campaign proposed imposing a universal tariff of 10% on nearly all imports into the United States, with a punitive 60% tariff on imports from China. This is an unprecedented peacetime proposal that would radically raise import costs. The Yale University Budget Model (Budget Lab) analyzed this scenario and projected that such tariffs could raise U.S. consumer price levels by anywhere from 1.4% to 5.1%, depending on the extent of foreign retaliation and consumers’ ability to substitute to domestic goods. In dollar terms, the annual cost per U.S. household was estimated at \$1,900 to \$7,600, effectively functioning like a large regressive tax increase on consumption. These figures underscore that the inflationary impact of a broad tariff wall would be non-trivial – potentially adding fuel to inflation at a time when central banks globally, including the Fed, have been fighting to keep inflation expectations anchored (notably, post-pandemic inflation in 2021-2023 was a major issue).

Higher inflation triggered by protectionism can have second-order effects on monetary governance. The Federal Reserve might be forced to hike interest rates more aggressively to counteract tariff-induced price rises, which could slow the economy. Additionally, higher U.S.

inflation or higher interest rates can affect the dollar's exchange rate in complicated ways – sometimes strengthening the dollar (if higher rates attract capital) but also potentially weakening it if investors perceive longer-run erosion of purchasing power. For foreign creditors holding U.S. Treasuries, an uptick in inflation is essentially a dilution of the real value of those bonds. If tariffs were to become a long-term feature, raising U.S. inflation structurally, it could lead those investors to demand higher yields on Treasuries or reconsider the composition of their reserve portfolios. This links back to the Treasury–dollar trust loop: fiscal/trade policies that make U.S. debt relatively less attractive or riskier (e.g., by injecting inflation or reducing economic growth) will eventually force higher interest rates or dollar depreciation, or both, to compensate investors.

Moreover, Trump's tariff policy implicitly conflicts with the Triffin dilemma's requirement of global liquidity provision. If a 10% blanket tariff drastically cut U.S. imports, it would also cut the supply of dollars flowing abroad (because Americans would be buying far fewer foreign goods, sending fewer dollars overseas). While on the surface this might reduce the trade deficit (a short-term domestic win in Trump's view), it would mean other countries accumulate fewer dollar reserves. Over time, a shortage of dollar liquidity can cause global trade and financial strain – ironically potentially reducing global demand for U.S. exports as foreign economies slow, or making dollar funding more volatile (as evidenced in past dollar liquidity crunches). Some other country's currency or a digital currency might step in to facilitate trade if the dollar becomes less accessible or if the U.S. deliberately curtails its use. Thus, extreme tariff policies risk accelerating a fragmentation of the international monetary system, where countries set up swap lines, alternative invoicing arrangements, or increase use of competitors like the euro or Chinese yuan for stability. In sum, Trump's tariff policy demonstrates a clear tension: the goal of reviving domestic industry via protectionism undermines the cooperative, open architecture that has underlain the dollar's global dominance. By contributing to inflation and antagonizing trading partners, tariffs undercut some of the pillars of trust and reciprocity in the U.S.-led economic order.

## **Trump's CBDC Prohibition: Ideological, Institutional, and Geopolitical Contradictions**

In addition to reshaping trade policy, Trump has ventured into uncharted territory in the realm of monetary technology by emphatically opposing the development of a U.S. central bank digital currency (CBDC). In 2025, shortly after presumably returning to office, President Trump issued an executive order that banned federal agencies – including the Federal Reserve – from establishing or even researching a “digital dollar” CBDC. This move was the culmination of rhetoric that Trump and allied Republican figures had been voicing since 2023, positioning CBDC as an infringement on economic liberty and privacy. Trump's statement on the campaign trail was unambiguous: “As your president, I will never allow the creation of a central bank digital currency,” framing it as a promise to protect Americans from “government tyranny”. The

prohibition of a U.S. CBDC reveals multiple layers of contradiction when examined through institutional and geopolitical lenses.

**Ideological Stance – Privacy and Liberty vs. State Control:** Trump and many in the Republican sphere have couched their opposition to CBDCs in ideological terms. The argument is that a CBDC, which would be a digital form of the dollar issued and controlled by the Federal Reserve, could enable unwarranted government surveillance of citizens' transactions and even control over how money is spent. These concerns are not entirely unfounded – indeed, one of Trump's criticisms, echoed by others, is that a CBDC could become a tool for "government snooping". Authoritarian implementations of digital currency, such as China's digital yuan, have heightened such fears. China's e-CNY has features allowing authorities to trace transactions and even expire currency to control spending behavior. Senator Mike Lee (R-UT), in proposing legislation to cement Trump's CBDC ban, explicitly cited China's trials where digital yuan balances could be made to expire as an example of state overreach to avoid. In the U.S. context, distrust of centralized technology is woven into a broader libertarian and conservative narrative of preserving cash, privacy, and a limited government footprint in finance. Thus, Trump's prohibition of a CBDC can be seen as aligning with a political base that is skeptical of central authority and keen on private-sector solutions (like cryptocurrencies or stablecoins) for innovation.

However, this ideological stance contains an inherent contradiction: while professing to defend individual liberty from government intrusion, Trump simultaneously has advocated unprecedented executive actions in other domains (trade, immigration, etc.) that expand government control. Moreover, by encouraging private digital currencies (discussed in the next section), he effectively supports alternative systems that may have their own transparency and control issues. The key point here is that a U.S. CBDC could, in principle, be designed with privacy protections and with democratic oversight. The notion of "government tyranny" via CBDC is speculative – it assumes the worst-case where every transaction is monitored. Yet, ironically, many transactions in the U.S. are already digital through private banks and payment companies that do surveillance for profit or regulatory compliance. Institutionally, the Federal Reserve issuing a CBDC would simply be providing the public with a digital form of central bank money (analogous to cash, but electronic) that currently is only available to banks. Critics note that unlike private digital currencies, a CBDC would **not** need to "borrow credibility" – it would carry the full faith and backing of the central bank and thus inherit the trust the public has in the dollar. The BIS has argued that CBDCs could combine innovation with the safety of central bank money, avoiding the risks of unstable private cryptocurrencies.

**Institutional Implications – Fed Independence and Technological Progress:** By banning CBDC development, Trump intruded upon what had been a technocratic domain. The Federal Reserve, under the prior Biden administration, had been cautiously researching CBDCs (e.g., Project Hamilton with MIT) and the Treasury was coordinating an interagency effort to explore a U.S. digital dollar design. These were preliminary steps, and the Fed made no commitment to issue a CBDC without clear congressional authorization. Trump's executive order abruptly halted these explorations, effectively overruling the momentum that had built within parts of government to modernize the currency for the digital age. This raises institutional questions:

Should the executive branch dictate monetary innovation, or should it be a deliberative process involving the Fed and legislature? By imposing a ban, Trump demonstrated a willingness to politicize the very evolution of money, potentially setting up conflict with the Fed. While the Fed did not have an active CBDC project at the retail level (Chair Powell often stated that any CBDC would require legislative buy-in), Trump's order forbidding any promotion or establishment of CBDC constrains the Fed's future policy tools in a way previous presidents have not done. It's a striking posture for a political movement that otherwise extols "hard money" principles and U.S. monetary dominance – usually, ensuring the dollar stays at the cutting edge would be seen as strategically important.

Moreover, this stance appears contradictory when considering the importance of technological leadership. A large majority of the world's economies are already deep into CBDC exploration: over 130 countries (representing 98% of global GDP) were investigating or developing CBDCs by late 2023. By 2025, the U.S. thus became the *only major economy to categorically renounce* a CBDC through a presidential edict. The geopolitical ramifications are significant. Observers pointed out that Trump's digital dollar ban "left the field wide open" for China and Europe to advance their digital currencies as global standard-setters. In other words, while others innovate and shape the norms and infrastructure of future digital payments, the U.S. would be absent – even as the dollar remains analog or stuck in older payment rails. This absence can be seen as a relinquishing of leadership in the next phase of monetary technology. For instance, if the European Central Bank launches a digital euro and it gains traction in international use (perhaps in regions where euros circulate or in trade with Europe), or if China's digital RMB becomes widely used in Belt and Road countries for convenience, the dollar might gradually lose some of its competitive edge in convenience and interoperability. Atlantic Council analysts warned that divergent CBDC standards are emerging along geopolitical lines, and that clusters of allied countries may create interoperable CBDC networks that exclude others. If the U.S. remains "conspicuously absent," it risks being excluded from setting these standards and potentially from some networks of cross-border digital settlements that might form among, say, BRICS or EU-Asia alliances.

**Geopolitical Contradictions:** Trump's nationalist framing of the CBDC issue – casting it as preserving American freedom – ignores the geopolitical cost of ceding ground in innovation. One contradiction is that while aiming to protect Americans from theoretical domestic surveillance, Trump's ban could make it easier for strategic rivals' systems to proliferate, some of which *do* have surveillance and control as features (e.g., China's system). A Reuters analysis pointed out that the U.S. ban adds to a "geopolitical divide" over digital currencies and could give China free rein to push its model. In essence, it may handicap the dollar in the coming competition of digital currencies. Allies too could be affected: many smaller countries look to the U.S. for cues in monetary matters. If the U.S. disavows CBDC, some may follow suit or delay, but others might align with alternative leaders, thus fragmenting the dollar-centric system. Furthermore, not developing a CBDC could limit the long-term ability of the U.S. to project power through its currency. For example, if significant portions of global trade moved into CBDC-based networks that aren't dollarized, U.S. sanctions or monitoring capabilities would diminish. Ironically, the very concern about government power that animates CBDC opponents

might backfire by reducing the U.S. government's leverage internationally (where it often relies on dollar infrastructure to enforce sanctions and standards).

Finally, institutionally, Trump's anti-CBDC stance exists in tension with the pro-innovation narrative he otherwise promotes for crypto and fintech. He set up a "working group on digital assets" via the same executive order, aiming to facilitate blockchain innovation and even establishing a "national digital assets stockpile". This indicates Trump wants the U.S. to lead in crypto – but only *private* or non-central-bank crypto. That raises the question: can the U.S. maintain the supremacy of its currency if it voluntarily forgoes issuing the most authoritative form of that currency in new technology? The BIS has argued strongly that only central bank money can provide the solid trust foundation needed for a truly stable digital monetary system, as private systems either fragment or introduce unacceptable risks. By betting solely on private-sector digital dollars, the U.S. might fragment its monetary ecosystem and invite exactly the kind of instability and loss of control that could "erode trust" in money, which public oversight is meant to prevent. In summary, Trump's CBDC prohibition is a policy heavy with irony: it purports to safeguard American values, yet potentially undermines American monetary leadership; it touts trust in private innovation, yet may diminish the very trust in the dollar that U.S. public institutions have cultivated over decades.

### **Trump-Linked Stablecoin Projects: Privatizing the Dollar and Eroding Public Money Neutrality**

Parallel to opposing a government digital currency, Trump and his inner circle have actively promoted privately issued digital currencies, particularly stablecoins that are pegged to the U.S. dollar. This embrace of private USD-backed stablecoins represents another facet of the contradictions in Trump's approach to monetary matters. By endorsing and even directly profiting from these ventures, Trump is effectively supporting a partial privatization of the U.S. monetary system. This section evaluates the emergence of Trump-linked stablecoin projects and analyzes how they could challenge the credibility and neutrality of public money.

**World Liberty Financial and "USD1" Stablecoin:** In March 2025, news broke that World Liberty Financial (WLF), a cryptocurrency venture that Trump helped launch in 2024, is rolling out a stablecoin named "USD1" pegged 1:1 to the U.S. dollar. This project is not a fringe initiative; it was announced with backing from the highest levels of the Trump network. The company's co-founders include individuals with direct ties to Trump, such as Steve Witkoff, a real estate executive and Trump appointee (named a special diplomatic envoy), along with Witkoff's son. According to the venture's disclosures, a Trump-owned company is contractually entitled to receive *75% of the net revenues* from the USD1 stablecoin protocol. This is an extraordinary arrangement: it means the former (and possibly current) President of the United States stands to personally collect seigniorage-like profits from a digital currency enterprise while in office. Historically, seigniorage – the profit from issuing currency – has been the preserve of the sovereign (benefiting the public treasury). Here we have a situation where that privilege is ostensibly being diverted to a private entity tied to the head of state. The ethical and

governance concerns are evident: it blurs the line between public interest and private gain in the realm of currency issuance.

The stablecoin itself, USD1, is marketed as a “digital dollar” that sovereign investors and major institutions can use for cross-border transactions securely. In effect, WLF is attempting to position USD1 as an alternative to both the traditional dollar payment system and to foreign CBDCs – offering a private American digital dollar for global use. Trump’s White House has strongly supported legislative efforts to ease regulations on stablecoin companies. Indeed, officials indicated Trump aimed to sign stablecoin-friendly legislation by summer 2025. This suggests an alignment of U.S. policy to favor these private stablecoins as *de facto* instruments of dollarization, instead of an official CBDC.

**Credibility and Neutrality Issues:** The credibility of a currency – particularly a reserve currency – rests on trust that it is stable, well-managed, and neutral (i.e., not serving narrow interests). Public money, issued by central banks, has an ethos of neutrality; the central bank is not profit-driven and is supposed to serve broad economic goals. Private stablecoins, by contrast, “piggyback on the credibility of sovereign currencies” by holding reserves in the fiat currency, but they are ultimately managed by entities with profit motives and fewer obligations to the public good. As the BIS has pointed out, stablecoin issuers have incentives to take risk with reserve assets to earn returns, or may not hold full reserves unless strictly regulated. History has shown instances of stablecoin issuers failing to maintain 1:1 backing (e.g., some have been fined for misrepresenting reserves). If a Trump-linked stablecoin became systemically important, any mismanagement could directly impact users globally and reflect poorly on the United States. Furthermore, a dominant private stablecoin could undermine banks (through disintermediating deposits) and pose financial stability risks. It might also create “walled gardens” in the monetary system if multiple tech giants issue their own stablecoins, fragmenting the unity of the currency. In WLF’s case, having a stablecoin essentially controlled by Trump’s business introduces politicization of the currency: would users abroad trust a digital dollar that is directly tied to one political figure’s fortunes? What happens if political tides shift and the backing administration changes – would that stablecoin still enjoy support, or could it become a target for regulatory or market action? These questions illustrate how neutrality is compromised.

Another core issue is that by sidelining the Fed and Treasury in digital issuance, the stablecoin route could erode the monetary policy transmission mechanism. If large volumes of dollars circulate as stablecoins outside the banking system, the Fed’s control over money supply might weaken (since stablecoin reserves might not all be held as bank deposits or might even include riskier assets). Additionally, if trust in a stablecoin wavers (say there are rumors of insufficient backing or of political interference in its operations), it could trigger a run where holders en masse redeem for actual dollars. Such a run could force the liquidation of reserve assets (possibly including Treasuries or other dollar instruments) in a fire sale, causing broader market disruptions. In a sense, an unregulated or loosely regulated stablecoin of significant scale introduces a new potential channel of instability into the U.S. financial system – akin to an uninsured shadow bank.

Critics have argued that relying on private money is dangerous: “A public good like money needs oversight with the public interest in mind,” warned Agustín Carstens of the BIS, noting that handing the keys of the monetary system to profit-driven entities could erode trust. The Facebook-led Libra (later Diem) project was a case in point: it was met with global regulatory alarm in 2019 precisely because a private firm could not be allowed to issue a global currency and potentially undermine monetary sovereignty. Trump’s enthusiastic promotion of stablecoins flips this script – instead of restraining a private global stablecoin, he is encouraging one, presumably because it aligns with a vision of innovation and perhaps personal gain.

**The “Crypto Empire” and Conflicts of Interest:** The scenario of Trump’s “crypto empire” is unprecedented in U.S. history. As reported, Trump and his family’s companies have embarked on multiple crypto-related enterprises. Aside from the USD1 stablecoin, Trump launched a personal “meme coin” (\$TRUMP) just before taking office in 2025, which saw speculative trading. He also oversaw his media company (TMTG, owner of Truth Social) partner with a cryptocurrency exchange to offer crypto investment products. All these endeavors position a sitting U.S. president as a promoter of particular private financial assets. This is a stark departure from the norm where presidents avoid even the appearance of influencing stock prices or markets for personal profit. Critics have described these as “norm-defying” actions that are inappropriate for a public office holder. For example, when Trump publicly hyped his meme coin on social media (“I LOVE \$TRUMP — SO COOL!!!”) it temporarily spiked its price, illustrating how his statements can move markets to his financial benefit. This erodes the perceived integrity of U.S. monetary stewardship. If the U.S. dollar (even in digital form) starts to be seen as an instrument of personal or partisan enrichment, its aura as the world’s impartial **lingua franca** of value may be tarnished.

From the perspective of other countries, the neutrality of the dollar has been one of its selling points: the Fed, though U.S.-focused, operates with clear rules and aims at stability, not the profit of any individual. But if a significant share of dollar transactions went through a Trump-affiliated stablecoin, would, say, a central bank in Europe or Asia feel comfortable? They might fear that political caprice could affect the stablecoin (e.g., selective freezing of assets, or volatility around U.S. elections, etc.). Such fears could accelerate efforts to diversify reserves or to use alternative currencies for certain transactions – essentially an undermining of trust in the “publicness” of the U.S. monetary order.

In summary, Trump’s backing of private USD stablecoins encapsulates a structural shift: the U.S. government under his influence would be abdicating a degree of monetary control to private actors in exchange for short-term innovation and perhaps personal economic gain. This policy is fraught with contradictions. It heralds innovation and decentralization, yet it concentrates monetary power in the hands of an insider network. It espouses the superiority of a “decentralized” approach (free from central bank control), yet in practice it could lead to new forms of centralization (corporate or familial control of money issuance). And crucially, it gambles with the hard-won credibility of the dollar by introducing new uncertainties. The next section will explore the potential outcomes of such gambles – essentially modeling what could happen if the trust loop between the Treasury and the dollar begins to break down, due in part to these policy choices.

## **Risk Modeling: A Breakdown of the Treasury–Dollar Trust Loop**

The “Treasury–dollar trust loop” refers to the self-reinforcing confidence mechanism wherein global investors trust U.S. Treasuries and the U.S. dollar, each reinforcing the other’s reliability. U.S. Treasuries are seen as virtually risk-free assets, and the dollar is held widely because it is backed by the strength of the U.S. economy and government. Trump’s policies analyzed above – tariffs contributing to inflation and antagonism, CBDC rejection possibly ceding innovation, and private stablecoins complicating monetary control – all pose potential stressors to this loop. In this section, we sketch out how a breakdown of trust could unfold and what the consequences might be, drawing on historical analogues and current financial research. This is a form of qualitative risk modeling, considering scenarios from moderate erosion of confidence to more severe dislocations, while referencing empirical insights.

### **Scenario 1: Gradual Erosion – Higher Risk Premiums on U.S. Debt**

One immediate sign of waning confidence would be foreign investors demanding higher yields to hold U.S. Treasuries, reflecting a perceived increase in risk or decreased convenience. As Jean-Pierre Landau (2025) noted, one of the benefits the U.S. enjoys is a compressed term premium on Treasuries, a kind of “safe asset” premium where investors accept lower returns for the privilege of holding super-safe, liquid dollar bonds. If policies reduce the attractiveness of Treasuries – say due to fears of higher inflation (tariff-fueled) or political interference – this term premium could expand. Choi et al. (2024) estimate that the “safe asset” status allows the U.S. to issue about 30% more debt than it otherwise could sustain. In a gradual erosion scenario, this advantage might diminish: investors might start to treat U.S. debt more like that of a normal country, requiring additional yield. Fitch Ratings’ 2023 downgrade of U.S. government debt from AAA to AA+ already cited “deterioration in governance” and repeated debt-ceiling brinkmanship as concerns. Although the market impact of that specific downgrade was muted, it signaled that cracks in confidence exist. Under Trump, if governance is perceived to worsen (e.g., increased politicization of the Fed, or erratic fiscal management possibly exacerbated by lower revenues from tariffs and a costly stablecoin patronage system), rating agencies and investors could further reassess U.S. credit risk.

The result of even a 50–100 basis point increase in U.S. borrowing costs due to risk premia would be significant given the scale of debt (over \$30 trillion in 2025). It would increase the interest burden on the Treasury, potentially creating a vicious circle: higher interest costs swell budget deficits, which may further undermine confidence in fiscal sustainability. This could eventually force either austerity measures (politically difficult, especially for a Trump administration averse to cutting popular spending) or tempt the Federal Reserve to cap yields by buying more Treasuries (blurring monetary-fiscal lines). The latter is a form of debt monetization that can undermine confidence in the currency if overused.

### **Scenario 2: International Diversification – Loss of Market Share in Reserves and Trade**

A more medium-term risk is that foreign central banks diversify a portion of their reserves away from the dollar. This has been happening at the margins – the dollar’s share of global reserves has slowly declined from about 70% two decades ago to around 59% by 2023, according to IMF COFER data. Factors contributing to this include the rise of the euro and China’s currency, and

geopolitical tensions prompting countries like Russia and China to reduce dollar holdings. If U.S. policies under Trump are perceived as capricious or hostile to certain foreign interests (for instance, if he were to use access to dollar stablecoins or banking as a tool of coercion while also banning official CBDC participation), it might accelerate dedollarization efforts. Colin Weiss (2022) argues that absent big changes in incentives, the dollar is hard to displace; notably, allies hold most U.S. assets and even a bloc of adversaries reducing dollar use would not immediately end dollar dominance. But changes in incentives could indeed come from U.S. behavior itself. For example, if Trump's tariff wars and sanctions become more aggressive (coercing countries to buy Treasuries or trade on U.S. terms) – an idea Landau (2025) alludes to as an extreme form of forcing dollar use – it might spur a counterreaction. Landau highlighted that trying to substitute “coercion for attractiveness” in sustaining a reserve currency is likely to fail in a free-market global system. In a multipolar world with alternatives, countries could coordinate to reduce reliance on a dollar that they feel is weaponized or unstable.

The diversification scenario could see incremental shifts: more trade deals invoiced in euros or yuan (e.g., if the EU or China offer better terms or tech like CBDCs that lower transaction costs), increased gold accumulation (as insurance against fiat uncertainty), and regional agreements to use local currencies (such as Asian countries using RMB for regional trade). If Trump's stablecoin USD1 became big, ironically even that could count as diversification away from traditional dollar channels – other countries might hold USD1 tokens instead of Fed liabilities. While that still reflects dollar use, it means the Federal Reserve has less visibility and control. If trust in that stablecoin faltered, those countries might not return to Fed dollars but instead hop to another alternative like a digital euro or gold. Over time, a significant loss of reserve market share would reduce the “invisible seigniorage” the U.S. earns. As Landau notes, the U.S. earns a positive net income on its international investment position largely because others accept low returns on safe dollar assets. Lose that, and the U.S. could face a classic balance-of-payments constraint and higher real costs to finance its deficits.

### **Scenario 3: Acute Crisis – Dollar Selloff and Financial Instability**

In a worst-case scenario, multiple stresses could converge into an acute loss of confidence. Imagine a context around late 2020s: Global inflation remains somewhat elevated due to years of trade frictions and supply-chain realignments. Trump's policies have led to persistent tensions with major economies; perhaps a major geopolitical shock occurs (e.g., conflict) and the U.S. tries to force allies to toe its financial line. Domestically, suppose Trump's administration continued high deficit spending while also restricting Fed independence (maybe pressuring for low rates despite inflation, or placing loyalists in key positions). Meanwhile, the private crypto sphere might experience a meltdown – for example, a scandal or collapse involving the Trump-affiliated stablecoin or other large crypto institutions. One could envisage a situation where USD1 stablecoin, having grown to a large scale, faces a run if users doubt its reserves or fear government action against Trump's businesses. If USD1 cannot meet redemptions, confidence in any dollar substitute would plummet. People holding USD1 might rush to convert to real USD, forcing WLF to liquidate its assets. If those assets are largely U.S. Treasuries or commercial paper, it could cause a sudden jolt in those markets (similar to how the failure of a large money-market fund can freeze credit markets). The Federal Reserve or FDIC might have to step in to backstop the stablecoin's users to prevent contagion, effectively socializing losses

from a private currency venture. This kind of bailout would be politically explosive and undermine faith in U.S. oversight.

Simultaneously, foreign holders of Treasuries, seeing turmoil and perhaps disapproving of how politicized U.S. finance had become, could start offloading U.S. bonds. A sharp selloff of Treasuries by major holders (like a consortium of countries) would push yields up dramatically and potentially overwhelm the Fed's capacity to stabilize the market without sparking hyperinflation. The dollar's exchange rate could fall precipitously against other major currencies if global investors flee to alternatives (e.g., Swiss franc, euro, yen, or even Bitcoin and gold). A rapid dollar depreciation would normally help U.S. exports, but in a panic scenario it could also lead to domestic chaos: imported goods' prices spiking, undermining living standards, and ironically forcing the very kind of capital controls or coercive measures that the U.S. has long avoided. Essentially, the U.S. could be facing a twin crisis: a currency crisis and a debt funding crisis. In emerging markets, such twin crises often require IMF intervention and painful adjustments. The U.S., having the privilege of debt in its own currency, might theoretically just print money to pay debt – but that would then potentially doom the dollar's value and status permanently (a repudiation by inflation).

While this scenario sounds extreme, elements of it have precedence in more limited forms: the 1971 Nixon shock was a response to an untenable promise (dollar to gold convertibility) and led to a steep dollar depreciation in the 1970s with high inflation; the 1980s saw the need for the Plaza Accord to correct an overvalued dollar; more recently, the 2008 crisis showed how quickly confidence can evaporate even in the heart of the financial system, requiring massive Fed intervention. The unique aspect of a Trump-era induced crisis would be its self-inflicted nature – stemming not from market evolution or innovation outpacing regulations, but from deliberate policy choices that ignore financial orthodoxy.

One conceptual model useful here is the idea of the dollar's value containing a “safety premium” or even a “bubble” element – people hold dollars and Treasuries partly because they expect others will continue to value them, beyond just fundamentals. If that collective belief wavers, the adjustment can be nonlinear (a swift burst of the bubble). Landau cited research identifying such a bubble component and noted it can be “mined” by issuing more debt, which is tempting for policymakers. But over-mining undermines stability. Trump's tendencies – pushing the envelope on debt and exploitation of the dollar's hegemonic position – risk popping the bubble.

In all these scenarios, Bitcoin and other cryptocurrencies often emerge in discourse as potential beneficiaries or alternative hedges, which transitions into the next section. But from a policy standpoint, the risk of breakdown suggests that U.S. leaders should avoid policies that simultaneously increase fiscal strains, alienate allies, and unsettle domestic monetary institutions. The analysis strongly implies Trump's triad of tariff, anti-CBDC, and stablecoin boosterism does exactly that.

## **The Dollar versus Bitcoin and Crypto: Competing Models of Monetary Trust**

Trump's economic moves are taking place against the backdrop of a broader contest between traditional fiat currencies and novel cryptocurrencies. Bitcoin, the original cryptocurrency, was created in 2009 ostensibly as a response to the perceived failings of government-issued money – offering a decentralized, algorithmic alternative that does not rely on trusting a central authority. Other cryptocurrencies and stablecoins have since proliferated, each with varying degrees of decentralization and ties to fiat currency. It is useful to compare the U.S. dollar's system (especially as it might evolve under Trump's policies) with Bitcoin and other crypto in terms of monetary function and trust, as this provides context for the viability of alternatives.

### **Monetary Functionality: Medium of Exchange, Unit of Account, Store of Value**

The U.S. dollar clearly fulfills all three classic functions of money in the current global system. It is the medium of exchange for international trade and finance (used in around 88% of forex transactions as one side of the trade), the unit of account for commodities and many global contracts, and a store of value in the form of bank deposits and Treasury securities held by investors and central banks. Bitcoin, by contrast, was designed to be a peer-to-peer medium of exchange, but its adoption for everyday transactions remains limited due to volatility and throughput constraints. It is not used as a primary unit of account virtually anywhere – prices are rarely set in Bitcoin – which reflects its high volatility and the fact that most economies still operate in fiat terms. As a store of value, Bitcoin has attracted a niche following (sometimes described as “digital gold”) and indeed it has a capped supply (21 million bitcoins ever) which proponents argue makes it resistant to inflationary debasement. However, its price has been extremely volatile, experiencing multiple drawdowns of 50–80% in short spans. This volatility undermines its reliability as a store of value for most institutions and certainly for use as reserves (no central bank holds Bitcoin as reserves, to public knowledge).

Stablecoins like USD1 or USDC (by Circle) aim to combine some advantages of crypto (fast, digital transactions on blockchain) with the stability of fiat (pegged to the dollar). They function well as a medium of exchange within the crypto ecosystem – for example, facilitating trading on crypto exchanges 24/7 – and in some cases for cross-border remittances more cheaply than bank wires. They are expressed in dollars as the unit of account (maintaining parity), and if properly backed, they should preserve value (1 stablecoin = 1 USD). However, as unit of account and store of value, they are entirely parasitic on the underlying sovereign currency; they do not introduce a new standard, they just extend the reach of the existing one. In terms of systemic role, stablecoins could be seen as *shadow central bank money*, but they rely on trust in both the issuer and the government that ultimately guarantees the real dollars or assets held. Thus, stablecoins are not so much competitors to the dollar as they are extensions of it – albeit ones that could either support the dollar's international use (if well-regulated) or cause instability (if poorly managed).

**Trust Mechanisms:** The trust in the U.S. dollar comes from institutional arrangements and historical track record. People trust it because they trust the Federal Reserve will keep inflation moderate and the U.S. government will honor its debts. This trust has been built over a century, albeit with occasional missteps (like the inflation of the 1970s). The Fed's credibility and the rule of law in the U.S. are paramount. Essentially, it's an institutional trust – one might call it *governance-based trust*.

Bitcoin's trust model is radically different – it's *algorithmic or decentralized trust*. Bitcoin does not require trusting any single entity; instead, one must trust the network protocol and the consensus of many distributed nodes and miners. The integrity of Bitcoin's ledger is maintained by cryptographic proof-of-work and economic incentives for miners, not by any central promise. This theoretically makes it immune to manipulation by any government or company. However, in practice, trust in Bitcoin can still be shaken by concerns such as: will the code remain secure (what if a bug is found?); will miners remain sufficiently decentralized (what if a majority collude – although the game theory discourages that?); and more practically, people have lost trust due to frauds and failures in the *surrounding ecosystem* (like exchanges, which are not decentralized and can be hacked or mismanaged). Moreover, Bitcoin's fixed supply means its value can swing wildly with demand – unlike a central bank which can adjust supply to stabilize value somewhat, Bitcoin offers no such mechanism, which is why some argue it's not “sound money” in the practical sense of stable purchasing power.

Stablecoins are an interesting hybrid of trust: users must trust that the issuer actually holds the equivalent value in reserve. For regulated stablecoins, this might mean trusting audits, regulators, and reputations of companies. For unregulated ones, it might just be a leap of faith or reliance on market arbitrage forces (if a stablecoin breaks its peg, traders buy the cheap coins and redeem if possible, thus discipline the peg). The BIS has highlighted that stablecoins “have to borrow their credibility” from sovereign money and that issuers have an inherent incentive to take risks. This means without oversight, that trust can easily be abused – for example, by investing reserves in risky assets to gain yield, as happened with some stablecoins in the past, which then might break the peg in a crisis.

Trump's positioning is effectively pitting *private trust versus public trust*. By disallowing a Fed CBDC (public trust model) and championing private stablecoins and crypto (private trust, or algorithmic trust models), he's betting that the latter can do as good or better a job in underpinning a monetary system. There are a few points to note here:

- **Surveillance vs. Privacy:** Bitcoin and some cryptos offer pseudonymity (not perfect privacy, but more than bank accounts). Stablecoins on public blockchains also can offer easier access without heavy KYC (though that's changing with regulation). Trump's narrative is that private digital money preserves freedom better than a Fed CBDC would. However, it's worth noting that large stablecoins run by companies can end up just as surveilled as bank money (since companies must comply with regulations – e.g., Circle can blacklist USDC addresses under sanction). Decentralized cryptocurrencies can be more censorship-resistant (Bitcoin or Monero, for instance), but their legal usage is limited. So there's a trade-off between privacy and integration with the legal system.
- **Centralization vs. Decentralization:** The U.S. dollar is centralized (the Fed/Treasury), Bitcoin is decentralized (no issuer), stablecoins are somewhere in between (centralized issuer but decentralized transaction network). Trump seems to favor a mix: a centralized issuer (in fact, himself or allies) using a decentralized tech veneer. This ironically means high centralization of power (contrary to the decentralization ethos that was one rationale against CBDC). It demonstrates that while Bitcoin arose to circumvent central banks,

stablecoins like those Trump backs are using crypto technology to extend the reach of the existing currency system – but shifting control from public to private hands.

- **Crisis Behavior:** In a crisis of confidence, how do these systems behave? If the dollar faces a crisis (due to policy missteps), the government and Fed have tools: they can change interest rates, provide liquidity, use fiscal adjustments, etc., to attempt restoration of confidence (though if mismanaged they can also worsen it). In a Bitcoin crisis (say a sharp drop in price), there is no central authority to step in – it either finds a market bottom or potentially could spiral to near-zero if everyone loses faith. Bitcoin proponents might argue that its value can't be manipulated by a single authority, which is good, but critics point out that also means no lender-of-last-resort or stabilizer exists. In a stablecoin crisis, if the issuer or government doesn't step in, holders may lose money (as happened with TerraUSD, an algorithmic "stablecoin" that collapsed in 2022). A regulated stablecoin could have central bank swap lines or insurance if it's tightly integrated (something being considered in legislation).

Thus, which system is more trustworthy partly depends on one's view of institutions. If one expects sound governance, the sovereign money is safer and more useful. If one fears government or expects incompetence, crypto might seem safer. In the context of Trump's America, ironically, his actions could *reduce trust in U.S. institutions*, potentially driving more people towards Bitcoin as a hedge. There is evidence that in countries with hyperinflation or capital controls, crypto adoption rises (e.g., Venezuela, Turkey to an extent). The U.S. is far from that scenario, but if policies undermine the dollar, Bitcoin could see increased interest as a form of "insurance" or protest asset even among Americans.

Comparatively, the euro and yen demonstrate that other advanced governance systems can produce trusted currencies (though euro had its crises too). Bitcoin and stablecoins are new contenders that so far complement rather than replace major currencies. A multi-polar scenario could involve some mix: maybe the dollar and euro remain primary for official use, while Bitcoin coexists as a global speculative store of value, and stablecoins (maybe privately issued dollar tokens, or possibly foreign CBDCs circulating globally) fill niches in cross-border payments. Trump's policies might inadvertently hasten the exploration of these mixes by shaking the current equilibrium.

The BIS's stance, representing central bankers, is clear: *any legitimate benefits of crypto can be achieved better via CBDCs anchored in central bank trust*. They view the crypto experiment as proof that innovation is needed but that the anchor of trust should remain the central bank. If the U.S. eschews a CBDC, others might try to demonstrate that vision without the U.S. Meanwhile, parts of the crypto community see Trump's moves (pro-stablecoin, anti-CBDC) as validation of their suspicion of central banks, but they might be wary of his motives (since his stablecoin is hardly the decentralized ideal).

In sum, the U.S. dollar's main advantages over Bitcoin and crypto lie in its stability, widespread acceptance, and the institutional structures backing it. Its disadvantages in a digitalizing world

are slower innovation and potential overreach (like surveillance concerns). Bitcoin's advantage is decentralization and scarcity, but disadvantage is volatility and limited use. Stablecoins sit in between, potentially offering the best of both worlds or the worst of both, depending on governance. The competition isn't a straightforward one, as they serve somewhat different purposes, but if trust in the dollar seriously falters, history suggests people will look for substitutes – whether gold, foreign currency, or nowadays crypto. The next section will consider how all these elements coalesce in the geopolitical arena, and what it means for U.S. monetary leadership globally.

## **Strategic and Geopolitical Implications for International Monetary Leadership**

The United States' international monetary leadership has been a cornerstone of its global influence since World War II. It's expressed through the dollar's dominance, the U.S.'s pre-eminent role in institutions like the IMF/World Bank, and the leverage the U.S. has to impose financial sanctions or set standards (e.g., anti-money laundering rules) that other countries follow. The contradictions and potential consequences of Trump's economic policies carry significant strategic and geopolitical implications. Here we synthesize how Trump's tariff-nationalist stance, his digital currency decisions, and the evolving alternatives might reshape global monetary alignments.

**Erosion of Soft Power and the Appeal of Alternatives:** Under a Trump doctrine that is inward-focused (“America First”) and skeptical of multilateral cooperation, the U.S. risks losing the goodwill and trust that underpin the dollar's acceptance. Reserve currency status has an intangible component: other nations choose to hold dollars partly because they have confidence in U.S. stewardship and perhaps even see alignment with the U.S. as beneficial. If Trump's policies persistently disregard allies' concerns – for instance, imposing tariffs even on allies (as he did on EU steel, prompting sharp rebukes), or threatening Europe with sanctions for dealing with Iran, etc. – those allies may double down on efforts to reduce dollar dependence. The European Union, for example, has periodically discussed increasing the international role of the euro, both for economic reasons and to gain “strategic autonomy” so as not to be subject to U.S. financial sanctions whims. We could see Europe push the digital euro project with an eye to offering a payments alternative (perhaps linking with its INSTEX mechanism for trading with sanctioned countries). China, meanwhile, will continue internationalizing the yuan in its sphere; already we see oil deals between Saudi Arabia and China considering yuan pricing, and the Shanghai Cooperation Organization exploring greater use of local currencies. In 2023, the BRICS nations (Brazil, Russia, India, China, South Africa) even talked about exploring a new reserve currency or at least boosting trade in non-dollar terms. While such efforts face huge obstacles (mistrust among those countries, smaller financial markets, etc.), they underscore a growing narrative of de-dollarization.

Trump's open hostility to global climate agreements, trade deals, and international organizations in his first term arguably weakened U.S. leadership; a second round where he actively undermines the global economic system's linchpins (like the currency order) could accelerate a realignment where other countries form parallel systems. The Atlantic Council piece on CBDC

fragmentation warns of clusters of CBDC among “geopolitically friendly countries”. One can imagine a scenario by 2030 where, say, a “Digital Yuan bloc” exists among Chinese trading partners in Asia/Africa, and a “Digital Euro bloc” in Europe and some of Africa, while the U.S. is isolated with a still mostly analog dollar (aside from private stablecoins) used within North America and some markets. This balkanization would reduce network effects that currently favor the dollar globally. It could also diminish the effectiveness of U.S. sanctions – which have been a key tool of U.S. foreign policy. Already, after the U.S. and EU froze a large portion of Russia’s central bank reserves in 2022 as punishment for invading Ukraine, many countries took note of the power the West had to essentially immobilize assets. Russia and China have since deepened their own financial ties, and even some U.S. partners in the Gulf have shown interest in diversifying currency exposure. If the U.S. under Trump is seen as an unreliable or self-dealing anchor, neutral countries might prefer a mix of currencies or gold to hedge.

**The Risk of Global Financial Instability:** The U.S. dollar system has often acted as a stabilizer in times of crisis. During the COVID-19 shock in March 2020, a *global dash for cash* led to a scramble for dollars; the Federal Reserve stepped in with swap lines to other central banks to provide dollar liquidity, which calmed markets. If the world were more fragmented, with less dollar prevalence and perhaps more use of a Chinese or other system, such coordinated action could be harder. There’s also the possibility that competing digital currency systems might not interoperate well, leading to inefficiencies or even technical conflicts. We might see “currency blocs” where data standards, identity requirements, etc., differ (e.g., a Chinese-led system requiring certain data sharing that Western countries find unacceptable, and vice versa). Instead of one global network, multiple ones could increase transaction costs and reduce the overall efficiency of global trade and capital flows. The ultimate cost of that is lower global growth, which feeds back to hurt all economies including the U.S.

**Loss of Exorbitant Privilege and National Security Concerns:** As detailed earlier, the U.S. gains economically from others’ willingness to hold its debt cheaply. If that diminishes, the U.S. might face more fiscal strain. From a national security standpoint, having the world’s reserve currency allows the U.S. to sanction adversaries effectively – e.g., cutting off access to the dollar system is crippling (Iran, North Korea, and now parts of the Russian economy have felt this). If alternatives exist (for instance, if Russia can transact with China in digital yuan bypassing SWIFT), sanctions lose bite. Trump’s own policies might not prioritize such tools (he preferred unilateral tariffs or bilateral deals to broad sanctions, though he did use sanctions on specific targets like Iran). But future U.S. governments would find their toolkit depleted if the dollar’s reach were narrowed.

On the flip side, it’s worth noting that a diminished dollar might free the U.S. from some obligations – no more being the “consumer of last resort” or feeling compelled to run deficits. However, as Landau (2025) argued, deliberately eroding the dollar’s role would likely *harm*, not help, U.S. interests, because the costs (loss of seigniorage, higher borrowing costs, giving competitors a win) far outweigh any notional gains in manufacturing competitiveness. He called such a strategy “self-defeating,” solving old problems with the wrong remedies. Indeed, many of America’s strategic competitors would welcome the dollar’s demise – Russia and China

explicitly have that strategic objective and would be “happy to participate and assist” in undermining dollar dominance.

**Geopolitical Leverage of Crypto and Stablecoins:** An intriguing angle is whether Trump’s promotion of private crypto could itself be used as an instrument of foreign policy. For example, could the U.S. tacitly use a dollar stablecoin to penetrate economies under sanction or influence? North Korea, Iran, and others have used crypto to evade sanctions on a small scale. If the U.S. had a friendly stablecoin that was widely used, in theory it extends dollar influence. However, since stablecoins are open to anyone globally, sanctioned actors can use them too – which raises legal issues. The lack of centralized control (a feature in terms of free markets) becomes a bug for enforcement. A government CBDC could have built-in compliance features; a Trump stablecoin likely does not, unless the company cooperates with authorities (which, given Trump’s involvement, could be complex legally). This may create friction with agencies like the Treasury’s OFAC (sanctions enforcement), which might worry that stablecoins allow evasion of sanctions. Indeed, one analysis notes that Trump’s digital asset push withdrew Biden’s international engagement framework, potentially making coordination on issues like illicit finance harder. We might see a scenario where U.S. regulators and a Trump White House have divergent priorities – the regulators wanting to clamp down on money laundering via crypto, and the White House encouraging broad crypto use. That tension could itself weaken U.S. leadership by sending mixed signals about U.S. commitment to global financial norms.

**Allied Responses:** Key U.S. allies such as Japan, EU nations, and the UK will also calibrate their approach. They might increase cooperation among themselves to maintain a rule-based order if they perceive the U.S. drifting. For instance, Japan and the EU might coordinate on digital currency standards (both are advanced in CBDC exploration). The UK, post-Brexit, might leverage its fintech hub status to lead on stablecoin regulation (the UK has been considering recognizing stablecoins as a form of payment under regulation). If these allies form a tighter block on financial innovation and the U.S. is absent, the center of gravity of financial rule-making could shift eastward (toward Europe) or even to global standard bodies where U.S. influence is reduced.

In conclusion, the strategic implications of Trump’s policies are that they could diminish the hegemonic status of the U.S. dollar and with it a key pillar of American power. The dollar system has been likened to an “empire” of its own; to tinker carelessly with its foundations is to risk strategic decline. A breakdown of the Treasury–dollar trust loop is not just an economic event; it would mark the end of an era of U.S.-led globalization. In its wake, we could see either a fractured set of regional monetary orders or a new dominant player (though currently there is no single obvious successor; the euro and yuan each have limitations). The U.S. would then have to operate in a world where it cannot simply assume others will use its currency – meaning more vulnerability to exchange rate swings, less unilateral sanction capability, and potentially a need for currency diplomacy (something largely unnecessary for the U.S. since 1945). Strategically, the U.S. might find itself one power among many, rather than the financial superpower.

## **Conclusion and Policy Recommendations**

This analysis has explored how the economic policies championed by Donald Trump – namely aggressive tariffs, the rejection of a central bank digital currency, and the promotion of private USD-backed stablecoins – contain internal contradictions that threaten to undermine the U.S. dollar's credibility as the global reserve currency and complicate U.S. monetary governance. We have situated these policies in the broader context of the institutional underpinnings of the dollar, the historical Triffin dilemma of reserve currencies, and the emerging competition from digital currencies and crypto assets. The evidence suggests that while Trump's policies are couched in terms of American strength and sovereignty, they may in fact erode the foundations of U.S. monetary power.

### Summary of Findings:

- The **institutional structure** of the U.S. dollar system relies on a synergy between the Federal Reserve's monetary stewardship and the Treasury's provision of safe assets. Trump's unconventional interventions (pressuring the Fed, exploiting currency issuance for private gain, etc.) disturb this balance and risk eroding trust in U.S. governance of its currency.
- The **Triffin dilemma** remains relevant: Trump's drive to reduce trade deficits via tariffs clashes with the necessity of supplying dollars to the world. Curtailing dollar outflows to achieve a bilateral trade goal can boomerang by inducing global liquidity shortages or prompting alternatives, ultimately harming U.S. and global economic stability.
- Trump's **tariff policy** indeed provided short-term protection to certain industries but at the cost of higher prices for Americans and strained trade relations. Broad tariffs are inflationary and, if expanded, could significantly raise consumer costs and complicate Federal Reserve policy. They also signaled a retreat from the U.S.'s post-war role as a champion of open markets, undermining the cooperative spirit that helped entrench the dollar's international use.
- The **CBDC prohibition** enacted by Trump, driven by ideological fears of government surveillance, stands in stark contradiction to global trends. It isolates the U.S. as major economies move forward with digital currency experiments. This policy potentially forfeits a technological leadership opportunity and could cede standard-setting to strategic rivals, thereby weakening the dollar's long-term appeal in a digitizing world. Institutionally, it may impede the Fed's ability to respond to future payment innovations, and geopolitically it creates a void that others (China, EU) are eager to fill.
- The embrace of **Trump-linked stablecoins** like USD1 reveals glaring conflicts of interest and risks to the neutrality of money. A sitting president profiting from a currency venture is historically unprecedented and blurs public and private roles. Such stablecoins, while extending dollar utility, could introduce new failure points (e.g., if reserves are mismanaged) and raise doubts about whether U.S. currency policy is being conducted for public benefit or personal gain. As BIS officials warned, relying on private

money controlled by insiders can erode trust and fragment the monetary system.

- A **breakdown in the Treasury–dollar trust loop** is not just a theoretical construct; it is a plausible risk if current trajectories continue. The U.S. benefits from a “trust premium” that keeps its financing costs low, but that premium could evaporate with sustained mismanagement. The consequences would likely include higher interest rates, a weaker dollar, and reduced international demand for U.S. assets, feeding into a self-reinforcing cycle of declining influence and economic pain. The analysis showed how Trump’s policies each add stress to this loop: tariffs worsen fiscal and inflation outlooks; CBDC rejection forfeits innovation that keeps the dollar convenient; stablecoins privatize and potentially destabilize parts of the money supply.
- In comparison with **Bitcoin and other cryptocurrencies**, the dollar’s strength lies in institutional trust, whereas crypto’s lies in decentralized design. Trump’s stance effectively sides with crypto’s critique of central banks by rejecting a CBDC, yet paradoxically he centralizes crypto by tying it to himself. This neither fully harnesses the benefits of crypto (true decentralization and neutrality) nor preserves the strengths of the traditional system (public oversight and stability). Instead, it risks creating a hybrid susceptible to the downsides of both – volatility and rent-seeking. The future monetary order may see a blend of public and private digital monies, but the U.S. risks falling behind in shaping that if it continues an absolutist anti-CBDC, pro-private stance.
- **Geopolitically**, Trump’s economic nationalism could unintentionally accelerate the relative decline of U.S. monetary leadership. Allies and adversaries alike are developing workarounds to dollar dominance – from Europe’s search for autonomy to China’s digital yuan and multilateral payment projects. The dollar won’t be toppled overnight, as inertia and network effects are strong. But a series of self-inflicted wounds could in a decade’s time leave the dollar much less central than it is today, with America correspondingly less able to leverage its currency for strategic ends.

In light of these findings, what can be done to reconcile domestic economic aims with international monetary responsibilities? Below are policy recommendations aimed at U.S. policymakers (in the current or future administrations) to address the contradictions identified:

**1. Adopt a Balanced Trade Strategy that Preserves Global Engagement:** Instead of blanket tariffs, the U.S. should pursue targeted trade measures combined with domestic investment. Tariffs can be a tool against genuine unfair trade practices, but they should be deployed judiciously and multilaterally where possible (e.g., working with allies to address China’s subsidies, rather than fighting allies too). A broad 10% import tariff is ill-advised; a better approach is strengthening U.S. competitiveness via infrastructure, education, and R&D (such as in advanced manufacturing and AI). This increases exports without resorting to self-damaging protectionism. If tariffs are used, revenues could be earmarked for assistance to those most hurt by any price rises, to mitigate inflation impacts. Maintaining open trade with allies and emerging markets will keep the dollar widely used for invoicing, supporting its reserve status. Coordination

through forums like the G7 or WTO could restore trust that the U.S. isn't abandoning the global system it built.

**2. Develop a Privacy-Respecting Digital Dollar (CBDC) Framework:** Rather than an outright ban on CBDC, the U.S. should continue research into a digital dollar that balances innovation with privacy and freedom. This could involve legislation that any retail CBDC must have cash-like features (e.g., not bearing interest, limited data collection, perhaps even value limits to allay fears of surveillance or banking disintermediation). Engaging public stakeholders and perhaps creating a pilot program under strict guidelines would allow exploration of the technology without ceding leadership. The U.S. could also champion international principles for CBDCs (building on efforts under the BIS and IMF) to ensure interoperability and prevent authoritarian misuse, thus turning the narrative from "CBDC as dystopia" to "CBDC as democratic innovation". By doing so, the dollar can remain at the cutting edge of digital finance and set standards consistent with liberal values, countering the influence of less transparent regimes.

**3. Implement Strong Regulation and Transparency for Stablecoins:** Private stablecoins will likely play a role in the financial ecosystem, but they must be properly regulated to protect users and the financial system. The U.S. Congress should pass legislation that requires stablecoin issuers to be banks or bank-like entities that hold 100% reserves in safe assets (cash or Fed reserves and short-term Treasuries), undergo regular audits, and perhaps offer legal redemption guarantees. This would legitimize the use of stablecoins while minimizing risk of collapse. Additionally, conflict-of-interest rules should be updated to cover situations like a sitting president benefiting from a currency issuance – for instance, mandating blind trusts or divestment of such holdings, similar to how presidents are expected to separate from business interests. If Trump's stablecoin proceeds had been forced into a blind trust, the public might have more assurance decisions are not made to advantage that coin. The Federal Reserve could also consider offering Fed accounts or access to the discount window for stablecoin reserves, which would effectively merge the stablecoin into the federal safety net (though this raises moral hazard issues). Overall, integrating stablecoins into the regulatory perimeter will sustain trust in the dollar by ensuring that "digital dollars" are as sound as traditional ones.

**4. Reinforce the Treasury–Federal Reserve Coordination and Credibility:** The U.S. should jealously safeguard the credibility of its Treasury debt. This means avoiding any threats of default (e.g., resolve debt ceiling fights well before the brink), maintaining or returning to sustainable fiscal paths in the long run (perhaps via bipartisan commissions on tax and entitlement reforms post-pandemic), and preserving the Fed's independence to tackle inflation. One concrete recommendation is to formalize a protocol for currency interventions or debt management in the face of extreme dollar volatility – for example, re-establishing something akin to the Plaza Accord mechanism if needed to orderly adjust the dollar's value in cooperation with other major powers, rather than unilateral unpredictability. To address the Triffin dilemma, the U.S. can also support augmentation of IMF Special Drawing Rights or other multilateral liquidity tools so that the burden of global liquidity is shared – this could relieve pressure to run deficits while still supplying global needs, acting as a safety valve in case the U.S. must tighten its own belt.

**5. Engage in Digital Currency Diplomacy:** The State Department and Treasury should view digital currencies as a domain of strategic competition and work actively with allies to ensure an open and interoperable future system. This might include partnering with the EU, UK, Japan, and others on cross-border payment pilots that connect respective CBDCs or fast payment systems, so that Western-aligned democracies create a seamless network (perhaps a “digital Bretton Woods” of sorts). In parallel, they should participate in setting global standards for digital identity, cybersecurity, and data privacy in financial tech. By being a rule-maker and not a rule-taker, the U.S. can make sure the next-generation financial architecture reflects its values and interests. This also means carefully monitoring China’s advances and offering countries a compelling alternative – for example, technical assistance for developing nations to implement dollar-based fintech solutions (like stablecoin remittances or Fed swap lines that extend to digital form) so they are less tempted by rival systems.

**6. Leverage Strengths of the U.S. Financial System:** Even as fintech evolves, the U.S. has competitive advantages – deep capital markets, a culture of innovation, and strong property rights. Policymakers should ensure that regulatory frameworks (for both banks and non-banks) encourage responsible innovation onshore. One reason some countries might choose non-dollar options is simply if U.S. networks are slow or expensive. Completing projects like the Fed’s instant payments (FedNow launched in 2023) and potentially a well-designed CBDC will keep the dollar technologically relevant. Meanwhile, doubling down on security and rule of law (continuing to crack down on corruption, money laundering) will maintain trust. It’s notable that when risk arises globally, investors often still flock to U.S. assets (as seen in 2020). That trust is a huge asset; it must not be squandered by short-sighted policies.

In conclusion, while Donald Trump’s economic nationalism aims to bolster American strength, its contradictory execution risks the very monetary bedrock of that strength. Tariffs, if misused, degrade the dollar’s purchasing power and global standing; banning a U.S. CBDC cedes leadership to others; and blurring public-private boundaries in money creation erodes the integrity of the dollar system. The U.S. can ill afford to take its reserve currency status for granted. History shows that once lost, monetary primacy is hard to regain. The recommendations above seek to chart a path that reconciles domestic economic rejuvenation with the stewardship of an international currency. The overarching imperative is that U.S. policymakers recognize the dollar’s unique role as a global public good – a role built on consistency, openness, and trust. By aligning policy with those principles, the U.S. can address legitimate domestic concerns (like industrial decline or privacy in money) without undermining the dollar’s credibility. In doing so, it would secure not just economic advantages but also the geopolitical leverage that comes with being the issuer of the world’s money – a position that, once lost, could mark the end of the American century in more ways than one.

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