A Fine Line Between Global Risk and Stability: The Fed's Interest Rate Signals and the International Repercussions of Trump's Policies

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In recent years, the global economic balance has been treading a fine line between significant uncertainty and imbalance. The influence of major global players appears to be very strong. However, it is also evident that some players have a relatively significant influence. Notably, the stance of the US Federal Reserve on monetary policy and the use of trade and sanctions by Donald Trump are significant parameters that directly impact global liquidity and risk perception. Technical monetary policy decisions and populist politics and geopolitical tensions create dual pressures that threaten international stability.

President Trump's high tariffs (especially those imposed on China) contradict the neoliberal understanding of free trade. These policies are seen as a return to a "protectionist" approach. In other words, the tariffs imposed during the Trump era contradict the "global free market" principle of neoliberalism and prioritise national interests. From this perspective, this approach contradicts the spirit of globalisation (liberalisation), a strategy that America used to escape the 1970s crisis through significant investment. Consequently, international circles view this approach as an increase in risk. Also, tariffs appear to be the result of a protectionist reflex that prioritises national interests — the very opposite of neoliberalism. Therefore, the current rise in tariffs can be interpreted as a sign that the end/crisis/consequences of the neoliberal era.

Trump's approach to tariffs is not merely a trade instrument, but also a political weapon that exacerbates global risks. This protectionist approach, applied simultaneously to both allies and rivals, erodes international investor confidence due to the risks it poses. International policymakers openly state that these unpredictable steps could lead to serious financial system fluctuations.

Meanwhile, there is political pressure on the Federal Reserve, which is considered to be the world's "most independent?". As a central bank, the Federal Reserve's policies are considered to increase uncertainty and risk. The debate surrounding the independence of central banks is worth emphasising, particularly given the views of many academics and politicians, particularly former Federal Reserve Chairman Bernanke. However, it would be more logical to share this in a separate article to avoid distracting from the current topic.

Restricting the US Federal Reserve's independence is predicted to disrupt the entire global financial system by increasing borrowing costs rather than decreasing them, and by exacerbating uncertainty, risk and funding costs. President Trump has publicly discussed dismissing Federal Reserve Chair Jerome Powell, calling him "stupid" and an "idiot", and is applying relentless pressure on the Federal Reserve to lower interest rates.

During the election campaign, President Trump publicly clashed with Fed Chair Yellen, accusing the Federal Reserve of political affiliation. He stated that he regretted nominating Powell as Federal Reserve Chair, claiming that he had caused significant losses to the US and harmed the housing market. He also stated that, after dismissing Federal Reserve Board member Lisa Cook, he would gain a majority on the bank's board. In this way, the Federal Reserve could have greater influence in the decision-making process as a political institution, as he emphasised.

A brief reminder is helpful here: Since the 1990s, institutions such as the IMF, the World Bank and the OECD — which emerged as a result of globalisation — have recommended the 'independent central bank' model to developing countries. They emphasised that the success of developed countries depended on this model. Independent economic management and inflation targeting became the mainstay of monetary policy, while central bank independence became the cornerstone of neoliberalism. This model was reassuring for capital markets and made monetary policy more predictable for investors.

However, this was not absolute independence. The success achieved in terms of price stability led to a reduction in inflation. However, with democratic oversight weakening, the monetary policy approach developed by central banks neglected social impacts, resulting in societies bearing the costs of adverse outcomes.

Nevertheless, this wasn't absolute independence. The success in achieving price stability led to a reduction in inflation. The weakening of democratic oversight resulted in a monetary policy approach that ignored social impacts, with societies bearing the costs of adverse outcomes. At the same time, despite their broad authority, the central bank governor and the currency board lacked any responsibilities, being limited to being fired, resigning, or being denigrated like a football manager should things go wrong. Unfortunately, they also lacked the right to compensation. In short, central bank independence embodied the neoliberal thesis that 'markets should prevail over politics'.

While this article does not cover the topic, the success of an independent central bank in achieving macroeconomic outcomes is another matter for discussion. Furthermore, concerns have been raised about the bank failures in 2023, which were caused by the independent Federal Reserve's high interest rate hikes. High unemployment and inflation rates also failed to reach the desired levels due to 'sticky' factors.

Another issue is the destructive impact of tariff policies on global growth. According to projections from organisations such as the IMF and PIIE, tariffs could reduce global economic growth by half a percentage point by 2025. A contraction in global trade would negatively impact growth and employment while slowing capital flows and delaying investment decisions. When investor confidence is shaken, costs rise for both the US and developing countries.

At a time when global risks are so intense, markets are most uncertain about the possibility of President Trump unleashing his tariff weapon at any moment. In short, one of the biggest threats to global stability today is the prospect of rising tariffs from Washington.

From Risk to Stability: Ways Out

The question of central bank independence, and how to address the uncertainty exacerbated by tariffs, is becoming increasingly important. During this period of intensifying global uncertainty, it is the responsibility of the global system, rather than any single country, to mitigate risk factors. This is not a problem that can be solved by the policies of a single country. When central bank decisions have cross-border implications, such as in the case of international monetary policy, and when there are rapidly shifting capital flows, trade wars and ultimately fragile global supply chains, collective action is essential to ensure stability. The transition from risk to stability requires a multi-layered approach encompassing predictable international monetary policy coordination and structural reforms.

Central Bank Policy Coordination

From the global financial crisis to the present day, the policy stances of leading central banks have had a significant international impact. They also directly impact developing countries' financial conditions. For instance, interest rate signals from the Federal Reserve, the expansionary approach of the European Central Bank, and the low interest rate strategy of the Bank of Japan have become key factors in shaping international capital flows. Therefore, communication, predictability and policy coordination between central banks are essential for mitigating uncertainty and risk. Otherwise, one central bank's decision to tighten policy puts pressure on another to react, which can potentially exacerbate global volatility.

The need for structural reform and cooperation for the global economy

Monetary policy alone will not be enough to ensure continued growth and stability in the global economy. Therefore, structural reforms and international cooperation are required. Key areas of these reforms should include removing trade barriers, increasing investment in energy and food supply security, and promoting sustainable energy and food production. They should also address inequalities in global and country-based income distribution through a shared, global approach to technology and digitalisation. Furthermore, a more comprehensive and realistic approach to implementing reforms from institutions such as the IMF, the World Bank and the WTO can help to build an inclusive and sustainable global growth model that is resilient to economic shocks.

In conclusion

The risks and uncertainties facing the global economy today stem from a combination of the Federal Reserve's approach, protectionist policies and deepening geopolitical risks. Unpredictable foreign trade tariffs, coupled with political pressures, are undermining investor confidence and negatively affecting expectations. Meanwhile, debates and developments regarding monetary policy frameworks and central bank independence are making the global financial system more fragile. Shrinking trade volumes, increased risk and shifts in capital flows from developed to developing countries are all negatively impacting global growth expectations. This, in turn, leads to an increase in the global cost of these risks. This situation is not merely a matter of US domestic politics; it reflects a structure in which economic uncertainty fuels political instability and conflict within a system characterised by inadequate global governance. The humanitarian repercussions of this fragile structure are most clearly observed in environments of conflict and destruction, such as Gaza and Ukraine. Here, prioritising economic interests over human needs perpetuates unresolved tragedies for people in conflict zones.

Reducing global risks requires more than just ensuring financial stability; it also necessitates an inclusive understanding of global governance that prioritises peace, human security and sustainable development. This includes a transnational approach, a new understanding of cooperation supported by global central bank monetary policy coordination, predictable trade, a more inclusive approach within multilateral institutions and structural reforms. However, this fragile balance, shaped by the Federal Reserve's interest rate signals and the shadow of President Trump's policies, could plunge the global economy into a prolonged period of uncertainty.