

Donald Trump’s economic masterplan

He is plotting an anti-Nixon shock

'Trump's tariff fixation is part of a global economic plan that is solid.' Andrew Caballero-Reynolds / AFP via Getty

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Faced with President Trump’s economic moves, his centrist critics oscillate between desperation and a touching faith that his tariff frenzy will fizzle out. They assume that Trump will huff and puff until reality exposes the emptiness of his economic rationale. They have not been paying attention: Trump’s tariff fixation is part of a global economic plan that is solid — albeit inherently risky.

Their thinking is hard-wired onto a misconception of how capital, trade and money move around the globe. Like the brewer who gets drunk on his own ale, centrists ended up believing their own propaganda: that we live in a world of competitive markets where money is neutral and prices adjust to balance the demand and the supply of everything. The unsophisticated Trump is, in fact, far more sophisticated than them in that he understands how raw economic power, not marginal productivity, decides who does what to whom — both domestically and internationally.

Though we risk the abyss staring back when we attempt to gaze into Trump’s mind, we do need a grasp of his thinking on three fundamental questions: why does he believe that America is exploited by the rest of the world? What is his vision for a new international order in which America can be “great” again? How does he plan to bring it about? Only then can we produce a sensible critique of Trump’s economic masterplan.

So why does the President believe America has been dealt a bad deal? His chief complaint is that dollar supremacy may confer huge powers on America’s government and ruling class, but, ultimately, foreigners are using it in ways that guarantee US decline. So what most consider to be America’s exorbitant privilege, he sees as its exorbitant burden.

Trump has been lamenting the decline of US manufacturing for decades: “if you don’t have steel, you don’t have a country.” But why blame this on the dollar’s global role? Because, Trump answers, foreign central banks do not let the dollar adjust downwards to the “right” level — at which US exports recover and imports are restrained. It is not that foreign central bankers are conspiring against America. It is just that the dollar is the only safe international reserve they can get their hands on. It is only natural for European and Asian central banks to hoard the dollars that flow to Europe and Asia when Americans import things. By not swapping their stash of dollars for their own currencies, the European Central Bank, the Bank of Japan, the People’s Bank of China and the Bank of England suppress the demand for (and thus the value of) their currencies. This helps their own exporters boost their sales to America and earn even more dollars. In a never-ending circle, these fresh dollars accumulate in the coffers of the foreign central bankers who, to gain interest safely, use them to buy US government debt.

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And there’s the rub. According to Trump, America imports too much because it is a good global citizen which feels obliged to provide foreigners with the reserve dollar assets they need. In short, US manufacturing has been in decline because America is a good Samaritan: its workers and middle class suffer so that the rest of the world can grow at its expense.

But the dollar’s hegemonic status also underpins American exceptionalism, as Trump knows and appreciates. Foreign central banks’ purchases of US Treasuries enable the US government to run deficits and pay for an oversized military that would bankrupt any other country. And by being the linchpin of international payments, the hegemonic dollar enables the President to exercise the modern-day equivalent of gunboat diplomacy: to sanction at will any person or government.

This is not enough, in Trump’s eyes, to offset the suffering of American producers who are undercut by foreigners whose central bankers exploit a service (dollar reserves) America provides them for free to keep the dollar overvalued. For Trump, America is undermining itself for the glory of geopolitical power and the opportunity to accumulate other people’s profits. These imported riches benefit Wall Street and realtors but only at the expense of the people who elected him twice: Americans in the heartlands who produce the “manly” goods such as steel and automobiles that a nation needs to remain viable.

And that’s not the worst of Trump’s concerns. His nightmare is that this hegemony will be fleeting. Back in 1988, while promoting his *Art of the Deal* on Larry King and Oprah Winfrey, he bemoaned: “We are a debtor nation. Something’s going to happen over the next number of years in this country,

because you can't keep on losing \$200 billion a year." Since then, he has become increasingly convinced that a terrible tipping point is approaching: as America's output diminishes in relative terms, the global demand for the dollar rises faster than US incomes. The dollar then has to appreciate even faster to keep up with the reserve needs of the rest of the world. This can't go on forever.

For when US deficits exceed some threshold, foreigners will panic. They will sell their dollar-denominated assets and find some other currency to hoard. Americans will be left amid international chaos with a wrecked manufacturing sector, derelict financial markets and an insolvent government. This nightmare scenario has convinced Trump that he is on a mission to save America: that he has a duty to usher in a new international order. And that's the gist of his plan: to effect in 2025 a decisive anti-Nixon Shock — a global shock that cancels out the work of his predecessor by terminating the Bretton Woods system in 1971 which spearheaded the era of financialisation.

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Central to this new global order would be a cheaper dollar that remains the world's reserve currency — this would lower US long-term borrowing rates even more. Can Trump have his cake (a hegemonic dollar and low-yielding US Treasuries) and eat it (a depreciated dollar)? He knows that the markets will never deliver this of their own accord. Only foreign central banks can do this for him. But to agree to do this, they need to be shocked into action first. And that's where his tariffs come in.

This is what his critics do not understand. They mistakenly think that he thinks that his tariffs will reduce America's trade deficit on their own. He knows they will not. Their utility comes from their capacity to shock foreign central bankers into reducing domestic interest rates. Consequently, the euro, the yen and the renminbi will soften relative to the dollar. This will cancel out the price hikes of goods imported into the US, and leave the prices American consumers pay unaffected. The tariffed countries will be in effect paying for Trump's tariffs.

But tariffs are only the first phase of his masterplan. With high tariffs as the new default, and with foreign money accumulating in the Treasury, Trump can bide his time as friends and foes in Europe and Asia clamour to talk. That's when the second phase of Trump's plan kicks in: the grand negotiation.

Unlike his predecessors, from Carter to Biden, Trump disdains multilateral meetings and crowded negotiations. He is a one-on-one man. His ideal world is a hub and spokes model, like a bicycle wheel, in which none of the individual spokes makes much of a difference to the functioning of the wheel. In this view of the world, Trump feels confident that he can deal with each spoke

security shield (or deploying it against them) on the other, he feels he can get most countries to acquiesce.

Acquiesce to what? To appreciating their currency substantially without liquidating their long-term dollar holding. He will not only expect each spoke to cut domestic interest rates, but will demand different things from different interlocutors. From Asian countries that currently hoard the most dollars, he will demand they sell a portion of their short-term dollar assets in exchange for their own (thus appreciating) currency. From a relatively dollar-poor eurozone riddled with internal divisions that increase his negotiating power, Trump may demand three things: that they agree to swap their long-term bonds for ultra-long-term or possibly even perpetual ones; that they allow German manufacturing to migrate to America; and, naturally, that they buy a lot more US-made weapons.

“Trump’s vision of a desirable international economic order may be completely different from mine.”

Can you picture Trump’s smirk at the thought of this second phase of his masterplan? When a foreign government acquiesces to his demands, he will have chalked up another victory. And when some recalcitrant government holds out, the tariffs stay put, yielding his Treasury a steady stream of dollars which he can dispense with any way he deems fit (since Congress controls only tax revenues). Once this second phase of his plan is complete, the world will have been divided into two camps: one camp shielded by American security at the cost of an appreciated currency, the loss of manufacturing plants, and forced purchases of US exports including weapons. The other camp will be strategically closer perhaps to China and Russia, but still connected to the US through reduced trade which still gives the US regular tariff income.

Trump’s vision of a desirable international economic order may be violently different from mine, but that gives none of us a licence to underestimate its solidity and purpose — as most centrists do. Like all well-laid plans, this may, of course, go awry. The depreciation of the dollar may not be sufficient to cancel out the effect of tariffs on prices US consumers pay. Or the sale of dollars may be too great to keep long-term US debt yields low enough. But besides these manageable risks, the masterplan will be tested on two political fronts.

The first political threat to his masterplan is domestic. If the trade deficit begins to shrink as planned, foreign private money will stop flooding Wall Street. Suddenly Trump will have to betray either his own tribe of outraged financiers and realtors or the working class that elected him. Meanwhile, a second front will be opening. Regarding all countries as spokes to his hub, Trump may soon discover that he has manufactured dissent abroad. Beijing

may throw caution to the wind and turn the BRICS into a New Bretton Woods system in which the yuan plays the anchoring role that the dollar played in the original Bretton Woods. Perhaps this would be the most astonishing legacy, and comeuppance, of Trump’s otherwise impressive masterplan.

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Christopher Barclay ⌚ 1 month ago

The mistake with this article is to think that Trump cares about economics. He doesn't. He is focussing on global politics and the need to make the US military, health, food and energy systems independent of Chinese imports .

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Stephen Feldman ⌚ 1 month ago

Predicting Trump’s zigs will lead to unexpected zags. Varis wrote an interesting fantasy fiction.

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Dennis Roberts ⌚ 1 month ago

One aspect missing from this article is the scramble for resources that’s going on. Ukraine has already started of course, but Trump has his eyes on Canada and Greenland, presumably for their natural resources and access to the Arctic as it thaws. He knows struggle with China is coming and is positioning the US to better meet the challenge.

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Rowan Thomas ⌚ 1 month ago

🗨️ Reply to [Dennis Roberts](#)

It’s interesting that the most common assessment of Trumps Canandian and Greenland aspirations are rooted in arctic thawing, caused by climate change which he denies is a thing.

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J0 ⌚ 1 month ago

🗨️ Reply to [Rowan Thomas](#)

He’s doesn’t deny ‘it’s a thing”, he accepts it is happening as it has been happening naturally since the planet had an atmosphere.