Trump's untimely trade war: a left economist's view

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By Claudio Katz

*Katz is an economist, researcher at the National Scientific and Technical Research Council (CONICET) in Argentina, professor at the University of Buenos Aires and member of Economists of the Left (EDI). His website (for articles in Spanish) is: **Claudio Katz**. Translation: John Catalinotto*

Trump returned recharged — but not empowered. He signs one executive order after another and raises the tone of his bravado, after the pompous spectacle of his coronation. With this hyperactivity, he masks the major inconsistency of his second term of office.

The U.S. president is embarked on increasing the wealth of the U.S.-based capitalists at the expense of the rest of the world. He promotes coercive economic policies with sanctions, tariffs and extortion to revitalize a flagging empire. He intends to counteract this decline with the program of the U.S.-centered sectors of the capitalist class, which prioritize the internal market in conflict with their globalist rivals, who prioritize doing business abroad.

But this plan to penalize imports and protect local production carries an enormous risk of inflation. It is very unlikely that the intense rise in the cost of imports will be counterbalanced by equally competitive local substitutes. Thus, it will be unlikely to avoid a scarcity that in turn will bring higher prices. If prices skyrocket, Trump will face the same erosion of support that affected Biden.

The risks of trade war

The trade confrontation now underway may undermine the United States more than its rivals. To avoid this outcome, Trump needs to impose conditions that are very favorable to his country's capitalists, especially if the confrontation causes a major retraction of the already shrinking growth rate of the global economy.

The protectionism Trump idolizes was an effective historical instrument for rising world powers. Tariffs defended their nascent markets from dominant international competitors. Using tariffs, they managed to increase productivity compared to their rivals. As the United States lost that economic youth a long ago, it is very unlikely that it will be able to use this recipe against the powerful emerging Asian power.

Trump is promoting greater subsidies for industry and tax breaks for companies that remodel their supply chains to return their manufacture to the U.S. He is extending this offer far beyond the sectors favored by his predecessor (who confined the subsidies to promote clean energy, electric vehicles and microprocessors).

But no one can foresee how the gigantic alteration of the internationalized production structures he is promoting will work. These networks — the supply chains — emerged from a competition that lowered costs, which a simple relocation to U.S. soil will not resolve.

The U.S. economy would have to register a dizzying increase to counteract the increase in the cost that tariffs will impose on currently inexpensive consumer goods imported from the East. Trump assumes that this expansion will emerge by using the funds raised with these tariffs to finance the reorganization of local industry.

But the unavoidable condition for a productive transformation of this scope is the continued preeminence of the dollar as the international monetary standard. The United States enjoys the privilege of issuing and borrowing money without limit at the expense of the rest of the world. It uses its own currency as an international means of payment, and this anomaly allows it to preserve a hegemonic position.

U.S. hegemony does not result from the efficiency and quality of U.S. productivity. The industrial and commercial support that sustained the beginning of the dollar's reign has vanished. The predominance of this currency is no longer based on objective foundations. (Desai, Radhika, "**The Dollar System: The World's Most Powerful Inequality-Producing Machine**," Jan. 5, 2025)

This divorce became apparent in the 1970s with the inconvertibility of the dollar to gold, but all U.S. leaders managed to enlist the help of partners, allies and subordinates to maintain U.S. dollar domination. Trump maintains this norm by using outright extortion by threatening to expel from the lucrative U.S. market all who refuse to conform. He assumes that this extortion will be enough to perpetuate the pull the U.S. dollar exerts on the bulk of the planet's floating capital.

However, if he manages to recreate that pull, the consequent strengthening of the dollar would create an obstacle to expanding U.S. exports, which could prevent the reversal of the trade deficit and the consequent reorganization of local production. Paradoxically, what has recycled the primacy of the dollar for decades as a means of payment is the enormous international purchasing power of the U.S. market.

Trump is trying to square the circle. He wants to close the U.S. market to all its customers without affecting the dominance of the U.S. currency. He is not the first occupant of the White House to improvise formulas to maintain that supremacy. But none of his predecessors faced a scenario so marked by tendencies towards the de-dollarization of the world economy.

The China bloc and the BRICS [Brazil, Russia, India, China, South Africa and other countries] — which promote this gradual disconnection — have a much greater impact than the mere discontent with dollar imperialism that France, Germany or Japan hinted at in the past. (Hudson, Michael, **"Trump's tariff threats could destabilize the global economy**," Jan. 25, 2025)

If Trump fails to demonstrate power in the face of his opponents, the rise of the dollar could reverse course.

Adversities in sight

The White House's inhabitant is preparing to increase the gigantic fiscal deficit, which the United States finances with dollar-denominated bonds. He is trying to complement his protectionist ideology with radical pro-capitalist policies of tax competition, and for this reason he will reintroduce drastic tax cuts for large companies. He assumes that the enrichment of the billionaires will promote investment and the consequent trickle down of jobs and income to the rest of society.

His proposal to reduce [income] taxes is inspired by this myth, forgetting that in his previous administration this reduction only led to a great stock market boom among companies that prioritized share buybacks over increased investment. The drastic increase in public debt allowed the richest 5% of the population to multiply their wealth over three times more than the rest.

This idyllic scenario for the most powerful corporations explains the shift towards Trumpism of large sectors of finance capital, which traditionally sympathized with the globalism of the Democrats. This shift includes the investment funds that have displaced traditional banking in the most lucrative operations of financial brokering.

But the excitement in these sectors is at odds with the productive restructuring that Trump advocates. This conflict has already been seen in the periodic euphoria on Wall Street, with the stagnation of U.S. productivity compared to its Chinese competitor. Trump aims to satisfy financiers and shore up industrialists, imagining complementary relationships [between the two sectors] where incompatibilities prevail. The interest rate will be an illustrative barometer of this asynchrony.

The promise to "make America great again" also presupposes a significant improvement in wages, which have been largely frozen for a long time. The purchasing power of this income was the same in 2019 as it was 40 years earlier. The marginal upturns of the last administration were completely neutralized by inflation, and the same dilution is emerging as a prospect for the new presidency.

The tycoon uses words to hide the great imbalances he is fueling. He recreates the fantasy of lost wellbeing and presents himself as the man who will bring about the paradise that has been lost. He claims that jobs will spring from protectionism, trusting in the benefits of private investment. These benefits are supposed to compensate for the upcoming cuts in public works and state employment.

He imagines a tide of companies relocating to U.S. territory, omitting [from his fantasy] that these companies would bring with them the automation processes that cut back on job creation. (Blakeley, Grace, et al., "**What does Trump plan to do to us in these turbulent times?**" Lava, Jan. 17, 2025)

Destruction of the environment

Trump has no qualms about promoting the destruction of the environment. He declared an "energy emergency" to allow companies to demolish the planet, and he encouraged this demolition with a cheerful call to "drill, baby, drill." In order to prolong the era of fossil fuels, Trump has already withdrawn the United States from the Paris Agreement and shelved renewable energy initiatives.

But the effect of a greater supply of oil on the U.S. economy is doubtful. The cheapening of this input is no longer necessarily promising for the new U.S. exporter, who extracts shale gas at higher costs than traditional producers of oil fuel.

The billionaire is also promoting the hoarding of the new materials demanded by digital technology (cobalt, lithium, rare earths). On all sides, he is accentuating a climate catastrophe, which will not exempt the United States from the ongoing disaster. To satisfy his financiers in the oil, gas and coal sectors, Trump intends to bury the ineffectiveness of green capitalism by promoting more extraction. But the effects of this suicidal move will soon be in evidence.

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