

Will Trump's plans work?

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There appears to be an emerging consensus [amongst some on the left](#), at least, as to what Trump is trying to achieve with his tariff wars.

The suggestion is that he wants to:

- * Force the value of the dollar down considerably, so US exports are more attractive and its imports are more expensive, supposedly creating support for US domestic production as a result.
- * To maintain the dollar as the world's reserve currency despite this substantial change in its value and the change in the status of the USA.
- * To force down the interest rate on the dollar domestically and internationally.
- * Impose new trade deals on the world that will require other countries to:
- * Dismantle environmental protections
- * End employment protection and rights
- * Absolish protection from other forms of discrimination
- * Abandon health and safety requirements
- * End human rights

The chosen mechanisms to achieve this are:

- * Tariffs, which will put barriers in the way of US imports.
- * Demands that no retaliatory tariffs be imposed, supposedly making US exports more attractive.
- * To put pressure on the Fed to reduce interest rates, to which it is not at all clear that it will at present agree.
- * An apparent plan to demand that countries holding significant numbers of dollars

liquidate their holdings, although the mechanism for this is not clear.

* That others might have the demand made of them that they accept bond swaps, replacing full interest-bearing US bonds for very long-dated or perpetual bonds at very low rates, reducing the return on such funds considerably and removing any chance to effectively liquidate them.

* New trade deals.

The consequences of all this are going to be:

* Likely heavy inflation in the US because there is no domestic production that is going to substitute imports for a long time to come, meaning that product shortages are likely.

* Reduced interest rates might also fuel inflation by permitting house prices and rents to rise.

* This is going to create substantial domestic stress within the US: standards of living face the likelihood of falling significantly.

* The US does not have many products to export. Trump's demand that trade be rebalanced is not going to be fulfilled.

* The USA has had almost no control over the external use of dollars outside its domain (the eurodollar and petrodollar markets for that currency) for many decades, and it has caused problems for Presidents since the 1960s at least, when J K Galbraith tried to find solutions to the problem for J F Kennedy, and so far none has been found. The likelihood that Trump can simply now try to recall and replace them, as he seems to want to do, is remote in the extreme.

* Fights over interest rates are only going to accelerate trade wars into finance wars.

* New trade deals are not going to be agreed with the USA when confidence in its administration is at such a low ebb.

Is there, then, any chance that Trump will get the outcome he hopes for? I think not.

Already, it is clear that the demand for US bonds is falling because of the uncertainties that Trump is creating. As a result, the interest rate on US bonds [has risen by 0.3% very recently, and the demand for bond issues in the US has declined](#). Trump is already delivering the exact opposite of what he wants.

If he, in that case, extends his activities from the trade sector into a war around the value, convertibility and return on US bonds, effectively meaning the US is planning to default on its debt, this could escalate into a massive economic crisis very quickly.

If anyone on the left thinks that total chaos of this sort is beneficial, they, too, have lost touch with reality.

Trump is mad. He has lost touch with reality. The rest of the world needs to show it can be grown up by talking to each other, and not the United States. The big risk is that it will not do that.