A SYMPOSIUM OF VIEWS

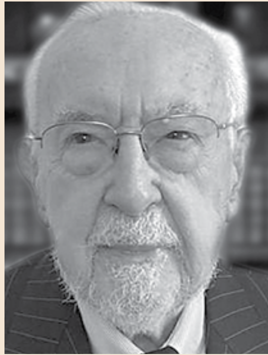
Dollar Fantasy?

What to make of the proposed Mar-a-Lago Accord and the U.S. dollar?

With Donald Trump's return to the White House, global financial markets are fixated on the potential for the new administration to initiate an assertive policy of financial realpolitik and dollar diplomacy. The administration's belief is that the United States economically is in a unique position as an energy superpower with strong economic growth.

During President Trump's first term, policymakers initiated bilateral tariffs that many argue failed to lead to any significant trade rebalancing. Could a coordinated depreciation of the U.S. dollar in exchange for lowered tariffs on key economies—in the spirit of the 1985 Plaza Accord—be a more successful tariff endgame for Trump 2.0? Or is a Mar-a-Lago Accord just another off-the-cuff presidential fantasy?

More than thirty distinguished thinkers offer their views.



It seems to be a bad idea. It's fighting evil with evil. The truth is simpler.

JACQUES DE LAROSIÈRE
Former Managing Director, International Monetary Fund, and Honorary Governor, Banque de France

What seems increasingly certain is that the disadvantages of a protectionist tariff policy such as reduced competition, propensity to inflation, lower international trade, reduced growth, and more, outweigh its mercantilist advantages, including promotion of national production and damage to competitors. Free market forces are still the surest way to achieve the best global balance.

The idea that we need an international agreement to drive down the dollar—which could collectively moderate the tariffs of the largest economies—seems to me to be a bad idea. It's fighting evil with evil. Lowering the value of the dollar collectively would increase imported inflation and impoverish the United States.

Experience shows that the desire to lower the exchange rate is a bad idea. In the first place, this desire is most often illusory or counter-current. What makes a currency strong is the strength of the economy as a whole as validated by the market, its capacity to generate long-term savings and thus encourage productive investment, and labor productivity. It's certainly not about manipulating the exchange rate downwards. The idea of "offsetting" tariffs by lowering the exchange rate is a false good idea. The exchange rate is the result of thousands of factors, not of administrative cooperation.

The truth is simpler. The dollar is still the center of the world's monetary system. This brings both additional power to the United States but also risks.

To insist on arbitrarily lowering the value of the world standard seems to me a dangerous and bizarre proposal. Lowering the value of the world currency is certainly not a good idea for the world, which would deteriorate an essential benchmark. Nor is it a good idea for the United States, which needs a stable currency—a reflection of a strong economy—and to avoid at all costs the destruction of an inflationary spiral.

We are not even sure that the Trump administration wants a weaker dollar. Treasury Secretary Scott Bessent has called for a strong dollar.

JASON FURMAN
Aetna Professor of the Practice of Economic Policy, Harvard University's Kennedy School, Nonresident Senior Fellow, Peterson Institute for International Economics, and former Chair, President's Council of Economic Advisors

There are four problems with the argument that Donald Trump is steering the United States towards a mega-deal Mar-a-Lago Accord on the value of the dollar.

First, we are not even sure that the Trump administration wants a weaker dollar. Treasury Secretary Scott Bessent has called for a strong dollar. And President Trump has repeatedly talked about wanting to arrest any moves away from the dollar as the global reserve currency, something that also is consistent with wanting a strong dollar. A strong dollar would also help restrain inflation, which continues to be a stubborn problem.

Second, regardless of what the Trump administration wants, the value of the dollar will be much more determined by its own economic policies than its own desires or the desires of any other countries. Most importantly, if they pursue fiscal plans with large deficits, that would strengthen the dollar.

Third, to the degree the United States tried to use international coordination to nudge the dollar, it would be necessary to have tremendous focus on that goal. That is not what we are seeing so far with the rationale for tariffs shifting daily from Mexican and Canadian border disputes to the BRICS' use of alternatives to the dollar. If anything, the trade deficit rationale for tariffs—the only one linked to the value of the dollar—seems to have faded into the background.

Finally, even a concerted focus on a global negotiation on the dollar may not be sufficient. Who would one even negotiate with in Europe since no individual country can do much if anything to affect the value of the euro? It is hard to imagine the European Central Bank sitting down at the negotiating table swapping tariffs for higher European policy rates. And with China, tariffs could end up hurting the United States more than they hurt China—thus failing to create the leverage we hope they will.

Overall, the best thing the Trump administration could do for the dollar is to focus on the strength, sustainability, and predictability of its domestic economy and not expect foreign countries to offset any of our imbalances.

Trump should limit his tariffs to Chinese exports, including those routed through third countries.

JOSEPH E. GAGNON
Senior Fellow, Peterson Institute for International Economics

President Donald Trump clearly loves tariffs as a bargaining chip to gain concessions from other countries, for the revenue they generate to fund tax cuts elsewhere, and because he mistakenly believes they will reduce the massive U.S. trade deficit. However, these goals are mutually incompatible and tariffs are not a good way to achieve any of them.

You can't negotiate away a tariff on which you are relying for future revenues. Excessive use of tariffs would have a disastrous impact on the U.S. economy. Because our trading partners understand this, the most extreme and broad-based tariff threats are not credible bargaining chips. Perhaps most importantly, by threatening tariffs against allies and enemies alike, Trump risks pushing the rest of the world together in a coalition to isolate America.

If Trump would limit his ambitions to protecting key manufacturing sectors from a Chinese export tsunami and reducing the overall U.S. trade deficit, he would have a decent chance of success. He should limit his tariffs to Chinese exports (including those routed through third countries) in bona fide national security sectors broadly defined. These would include automobiles, aircraft, ships, semiconductors, robots, and other cutting-edge technologies needed for a strong national defense.

The piecemeal tariffs of Trump's first term had no impact on the U.S. trade deficit, which only continued to grow. Some of his advisors took the lesson from this experience that across-the-board tariffs are needed. But across-the-board tariffs would push the dollar up, offsetting some of the tariff's effect on imports while also reducing exports. History shows that tariffs reduce both imports and exports roughly equally, with little impact on trade balances.

Two policies are key to reducing the trade deficit—fiscal policy and dollar policy—and they have an essential synergy. Evidence suggests that the trade deficit will shrink by roughly half of any reduction in the budget deficit. However, a big reduction in the budget deficit by either raising taxes or cutting spending would slow the economy abruptly and push workers out of jobs. That is why dollar policy is an essential adjunct. A weaker dollar would boost exports while also providing help to industries that compete with imports. The result would be to fill in the gap in spending caused by budget cuts and keep Americans fully employed.

The principal tool of dollar policy is official purchases and sales of foreign currency, also known as foreign exchange intervention. Trump should ask Congress for the (budget-neutral) capacity to sell dollars and buy foreign exchange to push the dollar down. He should ask our major trading partners to cooperate via a Mar-a-Lago Accord. The threat of U.S. tariffs and trade barriers did help to achieve the Plaza Accord of 1985. But an even better approach, if trading partners resist, is to tax foreign purchases of dollar assets, an action that does not violate U.S. obligations to the International Monetary Fund or the World Trade Organization. Indeed, Brazil used such a tax several years ago to counter an overvalued currency and neither the IMF nor the WTO challenged the tax's legitimacy.

Exchange rate adjustments, which affect not only trade in goods, but also international movements of people and capital, cannot be the quid pro quo of Trump tariffs.

MAKOTO UTSUMI
Former Vice Minister of Finance for International Affairs, Japan

A Plaza II Accord (or Mar-a-Lago Accord) is inconceivable because of the following reasons.

First, at the time of the Plaza Accord, there was a more or less shared view that the exchange rates of major currencies were somewhat based on the economic fundamentals. However, this shared view does not exist now.

Second, the close relationships among the responsible officials in governments representing major

currencies made it possible to elaborate plans and implement them effectively.

Third, the Trump administration prefers person-to-person bilateral negotiations and would not like and would not be capable of succeeding in time-consuming multilateral negotiations.

Fourth, the macro policy coordination which backed up the Plaza Accord would be impossible at the present conjuncture.

Fifth, the weakness of the Japanese and the European economies would prevent these countries from accepting and adopting policies to strengthen their currencies.

In any event, the exchange rate adjustments, which affect not only trade in goods, but also international movements of people and capital, cannot be the *quid pro quo* of Trump tariffs.

The Trump team has turned economic history on its head by drawing a comparison with Treasury Secretary Baker's efforts in 1985.

ROBERT ZOELLICK
Former President, World Bank, former U.S. Trade Representative, former U.S. Deputy Secretary of State, and former Counselor to Treasury Secretary James Baker

Treasury Secretary Scott Bessent is correct to worry about international financial imbalances, but his disciples have turned economic history on its head by drawing a comparison with Secretary of the Treasury James Baker's efforts in 1985.

First, Baker launched G7 economic cooperation—including through exchange rate adjustments to lower the U.S. trade deficit—in order to fight trade protectionism, not to justify higher tariffs. Indeed, the Monday after the Plaza announcement, the Reagan White House announced its Trade Policy Action Plan. President Reagan needed Congress to authorize the negotiations for the Uruguay Round of GATT to lower barriers and create the World Trade Organization. The administration also sought Congressional backing for the U.S.-Canada FTA. Baker led an inter-agency effort to gain negotiating authority while resisting protectionist provisions in the 1988 Trade Act.

Second, Baker worked cooperatively with his G7 colleagues to stimulate their economies while he pledged to cut the budget deficit (through the Gramm-Rudman-Hollings spending caps) and to keep U.S. markets open. In 1986, the G7 finance ministers began to synchronize their work with heads of government at G7 economic summits.

Third, Baker simultaneously pushed for a budget-neutral tax reform (1986) to lower marginal rates, broaden the tax base, and boost growth.

The Trump approach is to raise tariffs, add to barriers, threaten partners and disdain cooperation, attack free trade with Canada and Mexico, destroy the WTO, and add to the budget deficit. If pursued, this confrontational combination would likely strengthen the dollar, increase imbalances, raise prices, and undermine cooperation among economic partners and allies.

As former Treasury Secretary Larry Summers and I recently discussed at the Peterson Institute for International Economics, the closer analogy for Trump and Bessent is President Nixon's 1971 shock that ended fixed exchange rates, imposed a tariff surcharge, and tried wage and price controls. But Nixon dropped the tariffs quickly and pushed to lower trade barriers in the Tokyo Round. Unfortunately, the stagflation of the 1970s is not an appealing model for Trump 2.0.

The chaos unleashed by Trump might strengthen the dollar in both the short run and long run.

ESWAR S. PRASAD
Professor, Dyson School, Cornell University, and Senior Fellow, Brookings Institution

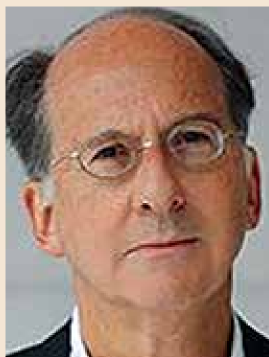
Donald Trump wants a weaker dollar in order to boost U.S. exports, protect U.S. jobs from foreign competition, and reduce the overall trade deficit. Trump also wants a strong dollar and will not brook any challenges to its dominance in global finance. Trump's policies could well be at cross-purposes with both of those contradictory intentions. Contrary to his stated desires, those policies are likely to drive up the dollar's value in the short run while undercutting the institutional framework that would preserve its dominance in global finance in the long run.

Tariffs on U.S. imports, restrictions on immigration, and widening budget deficits would all drive up inflation and keep U.S. interest rates high, thus contributing both directly and indirectly to dollar appreciation relative to other currencies. A stronger dollar, in tandem with reduced national saving resulting from larger budget deficits, will in turn expand rather than shrink the overall U.S. trade deficit.

Trump's attacks on the Fed's independence, weakening of the system of checks and balances, contempt for the rule of law, and unpredictable policymaking should all contribute to a strong desire on the part of foreign governments and central banks to reduce their dependence on the dollar as an international payment and reserve currency. Ironically, the chaos unleashed by Trump will also cause investors and central banks worldwide to search for safety, and there are few viable alternatives to the dollar as a safe haven currency.

The eurozone is wracked by economic malaise and political instability, China's economy is beset by cyclical and structural weakness, and there are no other major currencies backed up by strong economies and financial systems. Even if the Trump era proves good for Bitcoin, which is clearly in the cards due to his administration's favorable attitude toward cryptocurrencies, its volatile value means it is hardly a safe asset.

Hence, in one final irony, the chaos unleashed by Trump might, because of the relative weaknesses of other major economies, strengthen the dollar in both the short run and long run rather than hurting its value or dominance.



Two imaginary and clever conversations.

MARK SOBEL

U.S. Chair, Official Monetary and Financial Institutions Forum, and former Deputy Assistant Secretary for International Monetary and Financial Policy, U.S. Treasury

We interrupt this program for Breaking News. Havoc just broke out in foreign exchange markets after hackers leaked the transcripts of two private phone discussions. Roll the tape.

Christine Lagarde: Ursula von der Leyen, thanks for your call. *Wie geht's?*

Ursula von der Leyen: Christine, I love when you speak German. It rolls naturally off the tongue, *n'est-ce pas?* What's your take on the European economy these days?

Christine: Stagnant and anemic as usual. Little change in sight.

Ursula: Well, that's cheery. Anyway, that's not really why I rang. Our buddy Donald called. He says he'll de-escalate the tariffs he just slapped on us if we boost the euro in order to help him devalue the dollar. He'll give me the royal treatment in Mar-a-Lago if I can deliver. Florida sounds better than Northern Europe in winter. We should take this seriously to help transatlantic relations.

Here's my idea. You should slow any interest rate cuts to keep differentials against the United States as narrow as possible. And I'm going to call Emmanuel and Giorgia and exhort them to ease off their budget consolidation plans.

A bit tighter monetary policy and more OATs and BTPs should push up rates, give the euro a big boost, and make Donald happy! *Voila!*

Christine: Ursula, that's so creative I had never thought of it. I'll mull it over. Perhaps we can chat when I'm next in Brussels and it's sunny.

Viewers, here's the second leaked chat.

Donald Trump: Jinping, how's my buddy?

Xi Jinping: Donald, we in China are so thrilled you're B-A-C-K.

Donald: Everybody is. The dollar is overvalued. I want to get our trade deficits down. China is a H-U-G-E counterpart. As you know, I just jacked up tariffs on you. But I didn't really mean it. Ha-ha! I just want you to boost the RMB and then maybe I can cut them back.

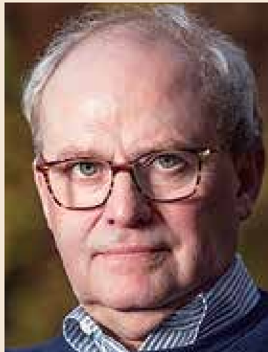
Jinping: Donald, China is a great, proud, strong country. It takes two to lion-dance. I can tell my central bank to let the RMB fall versus the dollar to offset your tariffs. We can buy soybeans from Brazil, make our own planes or buy them from Airbus, get cheap energy from Russia now that Vlad is my vassal, impose export controls on critical materials, make life even harder for your firms here, and transship our products via Vietnam and Mexico. We can make our own chips and compete with you on AI—at far less cost I might add, and tank your Magnificent 7. Ha-ha!

Let's make a deal—I love that show! Let's do another Phase 1 agreement, but we'll call it the Diaoyutai-Mar-a-Lago Accord. Our negotiators can devise meaningless window-dressing commitments neither of us has any intention of implementing. For example, you can even pledge to get your fiscal house in order. It'll be just like Phase 1. We'll declare victory and say it's the greatest thing ever since the invention of sliced bread.

What do you think?

Donald: Jinping, great doing business with you. Let's have our teams meet next week!

We return to normal programming.



Trump will not be able to hold down the rise of the dollar unless the United States is being hit by recession.

ANDERS ÅSLUND
Senior Fellow, Stockholm Free World Forum

President-elect Donald Trump's economic policy does not hang together, so it is not likely to succeed. It is likely to lead to overheating resulting in high inflation, labor shortages, larger deficits, bigger public debt, inflation, a rising dollar, and in due time less economic growth. Key ideas are high unilateral tariffs, deportation of illegal labor in agriculture, hospitality, and construction, deregulation, and low taxes for the wealthy. Meanwhile cuts in expenditures are likely to fail.

All these policies are likely to keep inflation high, which will compel the U.S. Federal Reserve to keep high interest rates, as long as it remains independent. If the Fed loses its independence, inflation is likely to rise further.

In the short term, the United States is set to have higher growth rates, higher inflation, and higher interest rates than other developed countries. Therefore, the current large inflows of foreign capital are likely to continue, which will drive up the exchange rate of the U.S. dollar even further. Since the United States will have large capital inflows, it does not need to produce much, so its trade deficit will rise further.

A new Plaza Accord as in 1985 is no longer possible. It was made by the G5. Now the far more complex G20 would be needed. In 1985, the United States had very high interest rates, since then-Fed Chair Paul Volcker was determined to defeat high inflation. The high interest rates attracted foreign capital, which drove up the dollar exchange rate. It was easier to curb this rise when U.S. interest rates had peaked.

Today, capital flows have become far larger and freer, so governments can no longer regulate them. Their currency reserves are too small in relation to their economies these days, so they do not have all that much ammunition. Japan, through repeated currency intervention to keep the yen from falling, has illustrated how ineffective they are today.

A major cause of the rising dollar is Trump's threat of a tariff war, with which he has alienated most of the world. Trump opposes all multilateral diplomacy, and any currency accord would have to be multilateral, which Trump is likely to oppose, and who would trust Trump after he has dismissed the U.S.-Mexico-Canada trade agreement, the only significant international agreement he has concluded? The international financial institutions have far too small funds and too little leverage, so they cannot be of much assistance.

Eventually, the U.S. public debt is likely to expand too much, prompting foreign investors to demand ever-higher interest rates, which will impede U.S. economic development, but that might take time. The U.S. tariff war is likely to reduce global trade, which will hit also the United States. President Trump will not be able to hold down the rise of the dollar unless the United States is being hit by recession.

China, the primary target of the proposed accord, is unlikely to cooperate.

DOUGLAS REDIKER
Managing Partner, International Capital Strategies, and Non-Resident Senior Fellow, Brookings Institution

Donald Trump's reelection has brought renewed focus on his economic priorities and trade strategies, particularly his contradictory rhetoric regarding the U.S. dollar. Trump has alternately called for a strong dollar as a sign of American strength, a weak dollar to encourage U.S. exports and address trade deficits, and occasionally a stable dollar, further muddying the administration's messaging. Incoming U.S. Treasury Secretary Scott Bessent is reportedly exploring a "Mar-a-Lago Accord," modeled on the 1985 Plaza Accord. The proposal would reduce U.S. tariffs—primarily targeting China and possibly other nations—in exchange for a coordinated effort to weaken the dollar.

The success of the 1985 Plaza Accord depended on close cooperation among the United States, Japan,

Germany, France, and the United Kingdom—nations with aligned economic priorities and mutual trust. Today's geopolitical and economic landscape is starkly different.

China, the primary target of the proposed accord, is unlikely to cooperate in a coordinated effort to weaken the dollar. Beijing's currency policies prioritize domestic stability and economic sovereignty, making sustained intervention for U.S.-driven goals improbable. China's President Xi Jinping is a more confident leader than the one Trump dealt with in his first term. His response to Trump's bullying will not likely be to play along.

If the accord aims to include other major reserve currency economies such as the eurozone, Japan, and the United Kingdom, other hurdles would arise. Coordinated intervention would face governance challenges, disrupt market-oriented currency systems, and conflict with domestic monetary policies. Geopolitical uncertainties and diminished trust in U.S. consistency further weaken the likelihood of collaboration. Trust is critical in currency coordination, but Trump's history of transactional policymaking and unpredictability may erode confidence among potential partners.

Markets are also likely to test such politically motivated manipulation. Central banks might struggle to maintain a weaker dollar against countervailing market forces. If the dollar were to rebound despite intervention, Trump might respond by reinstating tariffs or resorting to unilateral measures, further destabilizing the global economic system.

Central banks could initially achieve currency appreciation by using dollar reserves to purchase their own currencies. However, this strategy would reduce their dollar reserves. Although China holds substantial dollar reserves, many countries lack the flexibility to reduce their holdings without jeopardizing critical buffers against external economic shocks. Reduced reserves could heighten financial instability and increase vulnerability to balance-of-payments crises, while also undermining the predictability of U.S. Treasury markets globally.

The United States has historically championed market-determined exchange rates. A politically driven effort to weaken the dollar would directly contradict this principle. Independent central banks and market-determined exchange rates remain essential for ensuring global economic stability, financial resilience, and sustainable growth. Inviting political intervention in monetary policymaking around the world could result in broad-based negative implications far beyond any benefits contemplated by a Mar-a-Lago accord.

A Mar-a-Lago Accord is thus unlikely to gain necessary international cooperation, deliver the desired outcomes, or avoid unintended systemic consequences, leading to financial instability risks. The complexities of today's geopolitical and economic environment demand strategies that address economic fundamentals, not even-greater politicization of monetary policy.

The Plaza Accord's success was very short-lived.

HEINER FLASSBECK
Director, Flassbeck-Economics, and Former Director, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development

To begin with, it must be noted that the Plaza Accord of 1985, with the agreement on a devaluation of the U.S. dollar, was the political response to a massive speculative revaluation of the dollar against most other currencies in the first years of the 1980s. The real appreciation of the dollar against most currencies in the world at that time was on the order of 40 percent in just a few years. During the 1980s, the U.S. current account deficit had risen very rapidly from zero to more than 3 percent of GDP.

However, the Plaza's success was very short-lived. The dollar depreciated and the current account deficit disappeared within a few years, but the real dollar rose sharply again from 1995 onwards. The U.S. deficit reached its maximum with more than 6 percent in 2005–2006. A renewed depreciation in the early years of the new century brought some relief in terms of the U.S. deficit, but the decline was interrupted again at minus-2 percent.

The renewed real appreciation of the dollar, which began around 2014, is quite massive, although somewhat more stretched over time compared to the 1980s. Nevertheless, it also reached almost 40 percent between 2014 and 2024. The reaction of the current account this time is amplified by the U.S. growth advantage, which has been particularly evident since the coronavirus crisis compared to Europe. The U.S. current account deficits are back above 4 percent.

It is obvious that the dollar is strong because the United States has by far the most successful economic policy of the industrialized countries and, in particular, has shown relatively strong growth since 2010. Europe, which is comparable in size, is falling further and further

behind because it has imposed outdated constraints on itself in terms of public debt.

In this situation, a politically orchestrated devaluation of the dollar would further strengthen the relative growth position of the United States and would therefore not last in terms of the value of the U.S. dollar. Only a combination of a devaluation of the dollar with a simultaneous change in economic policy in Europe would be effective. Europe would then have to start to understand that rising government debt is inevitable in a situation where the entire private sector is acting as a saver.

So far, the conservative and liberal parties in Europe refuse to acknowledge this simple fact. It is therefore to be feared that a one-time concerted action to weaken the dollar would quickly peter out and be replaced by a new appreciation of the dollar in the financial markets. A concerted action would only be successful if there were also a transatlantic agreement on the necessity of an active state policy to stimulate growth. Otherwise, the United States would have to be prepared to intervene without limit to prevent an appreciation of its currency.

The proposed Mar-a-Lago Accord may not be the magic wand that Trump is hoping for.

ZONGYUAN ZOE LIU
Maurice R. Greenberg Senior Fellow for China Studies, Council on Foreign Relations

If the ultimate goal is to rebalance trade and transform the United States from a net importer to a net exporter, the proposed Mar-a-Lago Accord may not be the magic wand that the Trump administration is hoping for. The idea of a coordinated depreciation of the U.S. dollar in exchange for lowered tariffs on key economies sounds promising, but history and economic realities suggest otherwise.

The United States has run a trade deficit for much of its history, with a persistent trade deficit since the 1970s. While a weaker dollar makes U.S. exports more competitive and protectionist tariff hikes encourage "buying American," the stubborn trade deficit is not just about trade policy or an overvalued dollar. It is an outcome of industrialization amid a global division of labor, driven by multinationals' optimizing resource allocations worldwide.

Moreover, the U.S. dollar's status as the world's dominant currency and the U.S. Treasuries' benchmark role as risk-free assets keep demand for the dollar high. This, combined with the Fed's interest rate hikes to combat inflation, keeps the dollar strong, making U.S. exports pricier and imports cheaper.

Data from the Bank for International Settlements show that since 2011, the dollar has strengthened to a level comparable to 1985, the year when the United States, France, Germany, the United Kingdom, and Japan signed the Plaza Accord to collectively depreciate the U.S. dollar relative to the Japanese yen and the German Deutschmark. The Plaza Accord successfully devalued the dollar but failed to achieve its primary goal of correcting the U.S. trade deficit with Japan.

Fast forward to today, a Mar-a-Lago Accord would need to include China, which accounts for about one-third of the U.S. trade deficit (about $279 billion). However, convincing the People's Bank of China to join a collective action that would appreciate the renminbi and reduce its export competitiveness is a tall order. Even if the Trump administration can get the People's Bank of China to join the European Central Bank, Bank of England, and Bank of Japan to coordinate policies to weaken the dollar, such action does not guarantee lowering the U.S. trade deficit.

China's manufacturing prowess and competitive export industries surpass Japan's in the 1980s. The competitiveness of Chinese export and manufacturing bases is not merely due to an overvalued dollar and a weak renminbi, but stems from a long tradition of active industrial policies and high savings relative to household consumption. A weaker dollar will not boost Chinese imports, especially given China's weak consumer sentiment amid slower economic growth. Unless the U.S. government relaxes export controls and grants China access to advanced chips and technologies, it is unrealistic to expect China to buy enough from the United States to narrow the trade deficit.

Additionally, a weak dollar and tariffs will not stop Chinese exporters from seeking higher profits abroad. Fierce competition and razor-thin profit margins at home due to years of massive capacity investment have driven Chinese manufacturers to set up production and assembly facilities in countries with trade agreements with the United States, such as Mexico, Morocco, and Vietnam, to diversify their supply chains and mitigate the impact of tariffs.

In conclusion, while a Mar-a-Lago Accord might sound like a strategic move, it is unlikely to achieve the desired trade rebalance. The complexities of global

trade dynamics, structural economic factors, and the entrenched positions of key players like China make it a challenging endeavor.

The economic policies that the new Trump administration intends to implement are not fully consistent with the stated objectives.

LORENZO BINI SMAGHI
Chairman of the Board, Société Générale, and former member of the Executive Board, European Central Bank

The economic policies that the new Trump administration intends to implement are not fully consistent with the stated objectives. The objectives in themselves are not disputable, including stronger economic growth, low inflation, and a smaller external payment imbalance. The problem is rather with the set of policies aimed at achieving these objectives, which entail a combination of external tariffs, tax cuts, deregulation, low interest rates, a tough immigration policy, and a cheap dollar.

Let's start with tariffs on imports to reduce the trade deficit. If this measure is effective and not circumvented through third-country trade flows and agreements, it must lead at least in the short run to higher import prices. This should slow down the pace of interest rate cuts implemented by the U.S. Federal Reserve over the coming months. Even if the Fed "sees through" the one-off rise in import prices, it cannot underestimate the risk of second-round effects on domestic prices and wages. In any case, it will take time before domestic production replaces imports, if at all.

Furthermore, the planned tax cuts can be expected to boost aggregate demand and put further pressure on inflation. On the other hand, slower immigration may create a shortage of labor, pushing wages up. The Fed may thus be under pressure to stop cutting rates sooner than expected in order to prevent the economy from overheating.

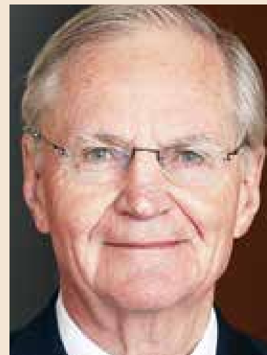
As the U.S. economy grows faster than its main trading partners, in particular Europe and China, the dollar is bound to appreciate. The capital inflows generated by expected stronger corporate earnings and higher interest rates will further support the exchange rate. This could compensate for the effect of the tariffs and make U.S. exports more expensive for the rest of the world. As a result, the trade imbalance may further deteriorate.

In sum, the announced policy mix is likely to stimulate growth but can hardly achieve at the same time low inflation and a smaller external trade deficit. Furthermore, a stimulative fiscal policy is not consistent with lower interest rates and a weaker dollar. Something will have to give, possibly after some tensions emerge between policy actors.

For instance, some political pressure might be put on the Fed to avoid raising rates, but this might backfire if inflation rises again, hurting people's purchasing power. International cooperation may try to prevent the dollar from rising too much. However, past experience like the Plaza or Louvre Accords shows that these agreements are short-lived and cannot persist unless they are supported by domestic policies.

If these policy inconsistencies are not resolved, the persistence of higher interest rates, aimed at avoiding inflation, will produce downside asset price adjustments and discourage consumption and investments, leading to slower economic growth.

The risk of a boom-and-bust economic cycle should not be disregarded, with negative spillover effects on the global economy.



The implicit premise that protection is far higher in other major economies than in the United States is questionable.

WILLIAM R. CLINE
President, Economics International Inc., and Senior Fellow Emeritus, Peterson Institute for International Economics

In the 1985 Plaza Accord, G5 countries agreed to intervene in exchange markets to weaken an overvalued dollar. To correct the economic fundamentals as needed to make the intervention work, the United States committed to undertake fiscal tightening, Germany was to cut taxes, and Japan was to implement tax reform to strengthen private demand.

President Donald Trump's announced policies would instead widen the fiscal deficit. The Congressional Budget

Office estimates increased tariff revenue at about $3 trillion over ten years, far below the revenue losses of about $5.5 trillion for full extension of the 2017 Tax Cuts and Jobs Act plus another $5 trillion for new tax exemptions on overtime, social security income, and tips, and for further corporate tax cuts.

Negotiating leverage for a sequel Mar-a-Lago currency accord based on the threat of higher tariffs would lack credibility because Trump's fiscal reliance on revenue from new tariffs would mean that they could not be bargained away. The strategy would also fail to recognize that higher tariff protection would cause the dollar to strengthen, not weaken. The decline in U.S. imports from higher tariffs would mean the United States would be sending fewer dollars abroad to purchase goods and services, and the new scarcity of the dollar would make it more expensive in foreign currency (the 1936 Lerner symmetry theory, whereby the induced appreciation acts as a new tax on exports equivalent to the new tariff). Under modern conditions of open capital markets, dollar appreciation would be further magnified by capital inflows responding to a rising gap between U.S. interest rates and those abroad, as higher U.S. rates would be needed to prevent higher inflation from the price boost imposed by the increase in tariffs.

The implicit premise that protection is far higher in other major economies than in the United States is questionable. World Bank data place average tariffs at 1.5 percent for the United States, versus 1.3 percent for the European Union (despite its 10 percent rate on autos) and 1.7 percent for Japan. Although tariffs and non-tariff barriers tend to be higher in developing economies, many would need to devalue exchange rates to maintain external balance if they reduced protection. China is the world's largest exporter and producer of manufactured goods, and its non-tariff barriers and export subsidies warrant special negotiation.

Agreements to correct exchange rate misalignment also imply the parties agree on reasonable limits to surpluses of the countries being asked to raise their exchange rates. The U.S. Treasury has applied a current account ceiling of 3 percent of GDP as the threshold in one of the criteria for designating a country as a currency manipulator. But the International Monetary Fund's five-year projections of surpluses of the major economies are below this level for China (1.6 percent) and the euro area (2.3 percent), and only slightly above it for Japan (3.4 percent). In 2010, U.S. Treasury Secretary Timothy Geithner was unable to get G20 economies to agree to a 4 percent of GDP ceiling on current account surpluses. Overall, there are several problems with a Mar-a-Lago economic strategy, and if pursued it should not be allowed to distract from the need for U.S. fiscal adjustment that does not depend on major increases in tariff revenue.

The decision to leave Lighthizer out of the administration is a strong indication that a currency deal is not on the agenda.

DEAN BAKER
Senior Economist, Center for Economic and Policy Research

It would be a mistake to imagine that Donald Trump has a coherent policy on trade and the dollar. While he ostensibly wants to reduce the trade deficit and increase U.S. manufacturing output, his statements do not consistently point in this direction.

Most notably, he has made keeping the U.S. dollar as the main international reserve currency a key priority, including making bizarre threats against countries moving away from the dollar. It's not clear why exactly Trump cares about the extent to which the dollar is used as a reserve currency, but insofar as the dollar is more widely used, it leads to a higher-valued dollar, which would mean a larger trade deficit, other things equal.

On the other hand, Trump seems to view tariffs as an end in themselves, possibly under the delusion that foreign countries pay them. Tariffs can increase domestic production but will only have much impact if they are coordinated with domestic policies on infrastructure, training, and possibly subsidies, as the Biden administration has done with the CHIPS Act and the Inflation Reduction Act. Trump has expressed contempt for these policies. In that context, the primary impact of tariffs will be trade diversion and higher prices.

Trump also seems to view tariffs as an opportunity to wage economic war. He insists that our trading partners are somehow ripping us off if they have a trade surplus, when most of the largest ones have no more barriers on U.S. exports than the United States places on their exports. In this context, the purpose of Trump's tariffs seems to be to claim a victory, when a deal is reached, whether or not it is based in reality.

Trump told us how serious he was about trade and the dollar when he opted not to offer Robert Lighthizer, his trade representative in his first administration, a top position. Lighthizer is very knowledgeable about the intricacies of trade policy. He is exactly the sort of person that an administration would want if their goal was to craft a new Plaza-type accord on currency values.

The decision to leave Lighthizer out of the administration is a strong indication that a currency deal is not on the agenda. Negotiating a deal even in the best of circumstances would be a difficult process, since China, which is not a close ally, would have a central role. By contrast, the Plaza Accord was crafted with countries that were heavily dependent on the United States for military protection, in addition to being major trading partners. In short, a Plaza Accord-type agreement does not appear to be on the agenda in a Trump administration and would likely not get far even if it were.

There is no evidence that either a strong dollar policy or higher tariffs would raise U.S. savings or lower U.S. investment.

ANNE O. KRUEGER
Senior Fellow, Johns Hopkins School of Advanced International Studies, and former First Deputy Managing Director, International Monetary Fund

When a country is incurring a current account deficit, it is importing more goods and services than it is exporting and spending more than its income. That is the situation in which the United States finds itself. The domestic counterpart of the current account deficit is the excess of expenditures over income in the United States. The deficit will change only if the excess of expenditures over income changes.

First, consider a strong dollar policy alone. Start with the current account. If the dollar were to become stronger (to appreciate), that would make American products more expensive for foreigners and foreign goods cheaper for Americans. Barring other changes, Americans would export less and import more, thus *increasing* the deficit.

But importantly, the exchange rate is determined by the supply and demand for a currency. In the case of the U.S. dollar, there is a large market in foreign exchange to finance direct foreign investment and other capital flows. Many foreign private parties and governments buy and sell dollars to invest in U.S. assets and to hold in their reserves, and Americans do the same with foreign assets. The *net* capital flows determine the balance on the capital account.

If the new administration tries to pursue a strong dollar policy by buying dollars and selling foreign exchange, an important question is whether participants in the capital (foreign exchange) market would believe that the appreciated exchange rate was sustainable. If so, there could be an increase in the demand for dollar assets in anticipation of the policy. More likely, however, market participants would anticipate that the strong dollar policy could not be sustained (barring changes in macroeconomic policy or other macro changes) and would therefore on net sell dollar-denominated assets, thus adding to the pressure for depreciation that the enlarged current account deficit would put on the dollar.

With an increasing deficit, the dollar would likely weaken and U.S. government intervention in the foreign exchange market would have to increase to sustain a strong dollar. As U.S. liabilities (dollar debt) increased and U.S. holdings of foreign exchange assets decreased, other measures would have to be taken or the policy would be unsustainable.

Now consider the effect of a relatively large increase in tariffs for virtually all imports. The evidence from the initial Trump tariffs supports what economic theory indicates: foreign exporters would not lower their export prices to absorb tariff costs, so the domestic prices of imported goods (and of U.S.-produced items competing with them) would increase. Consumers would surely reduce their quantity of purchases of those commodities (and services) and that would reduce imports. As domestic prices of inputs used in production (which constitute a large fraction of imports) rose because of tariffs, those American manufacturers using imported inputs would find their costs had risen; those among them that were exporting would find their products less competitive internationally as they competed with foreign producers who were confronted with lower (international) prices. The U.S. price level would rise.

Worse yet, the United States is sufficiently important internationally that it is highly improbable that tariffs of the magnitude suggested would not be met with retaliation. That already happened with Trump tariffs imposed earlier, and the larger size of the suggested tariffs currently being discussed would make retaliation virtually inevitable and even larger. That, too, would cut U.S. exports.

Moreover, while there would be some foreigners investing in the United States to benefit from tariff protection, there would likely be more foreign owners of exporting producers and traders who would then reduce their future investments, if not sell some part of their U.S. dollar-asset holdings. Uncertainty as to whether the tariffs would be once-and-for-all increases or would be followed by further protectionist measures would discourage purchase or holding of dollar assets. Indeed, there should be concern as to whether such a seismic shift in U.S. trade

policy might not trigger a major selloff of dollar assets in the United States and abroad.

There is no evidence that either a strong dollar policy or higher tariffs would raise U.S. savings or lower U.S. investment. Indeed, while there might be short-run effects, over the medium and longer term the strong dollar would be unsustainable and the tariffs harmful to growth and macroeconomic stability.

Any effort by governments to lower the dollar is doomed to failure.

STEVEN B. KAMIN

Senior Fellow, American Enterprise Institute, and former Director, International Finance, Federal Reserve Board of Governors

My wife frequently accuses me of failing to make the transition to life in the twenty-first century. It is true that I rarely use social media, I like reading print newspapers, and my musical tastes are stuck in the 1970s and 1980s. But that said, I have no interest in reliving the glory days of international exchange rate coordination.

For starters, any effort by governments to lower the dollar is doomed to failure. Foreign exchange market intervention will not lead to a sustained and substantial depreciation of the dollar unless accompanied by supportive monetary policies: loosening by the Fed and tightening by our trading partners. But independent central banks such as the U.S. Federal Reserve, the European Central Bank, and the Bank of England will undoubtedly balk at joining a Mar-a-Lago accord.

Why? Simply put, there's a good reason for the dollar's strength. The U.S. economy has been growing briskly in recent years, while many of our trading partners have languished. A substantial depreciation of the dollar, and the monetary policies required to bring it about, would not be in the best interests of either us or them. At its December policy meeting, the Fed scaled back the extent of monetary easing it anticipates next year in light of the strength of the U.S. economy and continued worries about inflation; a deal to hold off on tariffs will not be enough to change the Fed's intentions. By the same token, while some foreign governments might be ready to buy off Trump in hopes of forestalling U.S. tariff hikes, it is doubtful they would be able to induce their central banks to go along.

Even if central banks agreed to help lower the dollar, and even if they succeeded, it is doubtful that Trump's cherished dream of erasing the U.S. trade deficit would be realized. While looser monetary policy might trigger a decline in the dollar, inducing some adjustment of trade flows, it would also encourage greater aggregate spending, and this would moderate the decline in imports. Meanwhile, monetary tightening abroad would lower foreign demand for our exports. Therefore, any effect of the lower dollar on the trade balance is likely to be blunted. And that will especially be the case as long as the U.S. government continues to spend far more than it earns.

And this brings me to my last point. A Mar-a-Lago accord to lower the dollar would not only be ineffectual and counterproductive—it would be pointless. The biggest threat to U.S. growth and prosperity is not the trade deficit—it is the federal budget deficit, which is now running at over 6 percent of GDP. Continued large deficits, mounting debt levels, and rising interest payments will increasingly call into question the very solvency of the federal government. The Mar-a-Lago accord this country needs is not a deal with foreign governments to lower the dollar, but a broad-based agreement among domestic political stakeholders to put our budgetary house in order.

A weak dollar policy could immediately shake the stock market.

GARY CLYDE HUFBAUER

Nonresident Senior Fellow, Peterson Institute for International Economics

Among Trump's disruptive policies is deliberate dollar devaluation to cure the U.S. trade deficit, now running around $1 trillion annually. The contradiction with other Trump priorities—broad-based tariffs and lower taxes—does not, for the moment, trouble the president even though these other policies would strengthen the dollar and

increase the trade deficit. The crunch will come when the federal budget deficit escalates to 8 percent of GDP, around $2.4 trillion annually, the trade deficit approaches $1.5 trillion, and the dollar continues to rise against the euro, the yen, and other key foreign currencies.

At that golden moment, will Trump really instruct Treasury Secretary Scott Bessent to talk down the dollar, and jawbone Federal Reserve Chairman Jerome Powell to do likewise? Speculation about Trump's future actions is a hazardous proposition. But whatever delayed effect devaluation might have on the trade deficit, a weak dollar policy could immediately shake the stock market. After the Smithsonian Agreement of December 18, 1971, the Dow Jones Industrial Average had a bad year. But after the Plaza Accord of September 22, 1985, the Dow Jones rose. So the record of bygone weak dollar policy tells conflicting stories. Trump views the stock market as a barometer of his political prowess. If his closest advisors fear adverse political consequences of a weak dollar, Trump might discard campaign musings. But if his advisors see a weak dollar as a political winner, watch out! All told, the long-term impact of dollar policy on the trade deficit will likely take second place to Trump's short-term political calculations, keyed off his financial market soothsayers.

It takes one back to the glory days of foreign exchange.

JIM O'NEILL
Former Commercial Secretary to the Treasury, United Kingdom, and former Chairman, Asset Management, Goldman Sachs International

What to make of it, of course, takes one back to the early days of Smick-Medley and the glory days of foreign exchange. I am sure the prospects, however probable, bring back great memories. Could we have a more modern, sophisticated, creative, and positive version of the Plaza Accord? It is certainly up the street of the new Treasury secretary and all those that have influenced him.

There are perhaps three key strands. First, is the dollar overvalued in the way it was back in the mid-1980s, and is it causing the competitiveness issue for the United States that apparently it did back then? Second, is the new president likely to enjoy grand bargains with many countries, or delegate to his Treasury secretary? Third, are other countries in the position to adjust their policies to keep the president content about things in order to stop his tariff threats from being anything other than a threat?

On the first, based on the familiarity I have with my own past efforts of estimating fair value for exchange rates, whether purchasing power parity or equilibrium real exchange rates, it is not clear that the dollar's overall overvaluation is close to the clear extremes of the 1980s. An important factor, which is observed independently but often not linked to this specific issue, is the apparent relative strength in U.S. productivity in recent years, at least compared to the rest of the G7. If this is accurately represented in the current data, then this also means the equilibrium real exchange rate fair value for the dollar itself is rising relative to the likes of the yen, euro, pound, Canadian dollar, and so on, and possibly also the Chinese RMB. This would not be evidenced by a more simple PPP calculation. In the 1980s, both showed significant dollar overvaluation. This said, the dollar would be notably overvalued against the yen still, modestly overvalued against the RMB, euro, and pound today based on a REER approach, but less so than a PPP model would show.

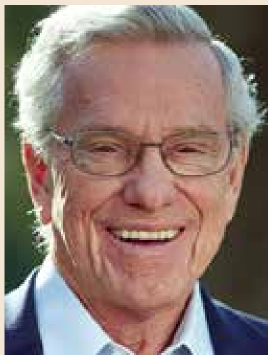
Second, would Trump be interested in some grand multi-country deal? It doesn't seem to be his style, nor would delegating such a deal to his Treasury secretary be something that one would guess is top of his personal goals. More likely perhaps is a series of bilateral deals which could coincide and be dressed up as a grand Plaza-style deal. For example, with China's President Xi Jinping, Trump could say "You guarantee that domestic demand is going to increase by X, and that you will import more of A, B, and C from the United States, and we will have a deal." And for Germany, the line would be, "You abandon your domestic growth-constraining debt brake and give clear plans to boost investment and defense spending to 3 percent of GDP or more, and build more auto plants here in the United States, and we have a deal." The same goes with others, although perhaps because of their relative importance to their own geographies and therefore the world economy, these two countries would be crucial.

Third, would these countries want to make such deals? On the one hand, it seems clear that they should because it is what their own people deserve and should have had for many years, if not decades, and again, as many of this magazine's long-time contributors have articulated for many a decade, it would help make the world economy more balanced and probably less prone to some of the economic shocks that have occurred since the 1980s.

In many ways, the Plaza Accord delivered the exchange rate adjustment, but didn't really result in the

underlying structural policy responses. In those days, it was more Japan and Germany, and not China, but Japan has been stuck with the same domestic demand weakness ever since. These days, it has become smaller and less relevant on a relative basis, with India poised to overtake it, if it hasn't already, in terms of size. But is China for its own domestic political or other hard-to-ultimately-understand reasons fundamentally averse to lowering its domestic savings rate and boosting demand, other than infrastructure? The same for Germany. It has been clear to me even before the euro crisis, and despite the calmness since, that for the euro to have a more permanently secure footing, having its largest populated member—around 25 percent of the euro economy—providing a persistent source of demand for itself and its partners would do wonders for the European financial markets, including probably the trading value of the euro. Indeed, if China and Germany were to each adopt these broad steps, the dollar would be highly likely to also decline in value in a more sustained healthy way for all.

In this context, I truly hope there is something to the notion of a Mar-a-Largo accord, rather than some of us reminiscing.



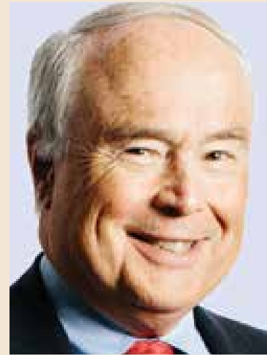
What about a market access charge?

CLYDE V. PRESTOWITZ
President, Economic Strategy Institute

The U.S. dollar has long been over-valued as indicated by the chronic U.S. trade deficit now running at about a trillion dollars annually. A consequence of this deficit is that foreign interests are drowning in excess dollars and are returning them to the United States in the form of foreign investment. This could be beneficial for the United States if the investment were being made into new factories and technology. Unfortunately, this is not the case. Indeed, it is mostly being made in luxury real estate, and other non-productive entities.

To create incentives for productive investment, John Hansen, myself, and others, have been proposing a Market Access Charge. This would essentially be a tax on investment not destined for actual production of products in the United States. The money arising from the fee would flow into an infrastructure investment fund aimed at renewing the badly eroding U.S. infrastructure.

Thus it would both dampen the U.S. trade deficit and renew badly eroded U.S. infrastructure.



Any "grand bargain" that has even a remote chance of success would require more significant concessions than Trump will be willing to make.

WILLIAM A. REINSCH
Senior Adviser and Scholl Chair Emeritus,
Center for Strategic and International Studies,
and former President, National Foreign Trade Council

Successful conclusion of a Mar-a-Lago Accord—coordinated depreciation of the U.S. dollar in exchange for lowered tariffs on key economies—sensible though it might be, would require major changes in thinking by key actors that are unlikely to occur. First, while some of Trump's advisors have argued for a weaker dollar, the president-elect himself has maintained he favors a strong dollar. History shows he has strong, fixed views on international economic issues that have not changed much in forty years. Trump has for years favored tariffs as a tool to reduce trade deficits and promote reshoring of manufacturing. Switching to the more indirect approach of dollar depreciation would require a major shift in his philosophy. One could argue that his proposed tariffs are merely a tactic to force a global rebalancing, part of which would be a U.S. commitment to remove the increased tariffs, but it is unlikely our major trading partners will be fooled by a promise simply to return U.S. tariffs to the status quo *ante* while they push their currencies upwards.

The other key actor in any accord scenario is China, which has long been skeptical of such arrangements, having watched Japan's post-Plaza Accord experience. China's response to every economic crisis, including the current one, has been to try to export its way back to economic health. Expecting a coordinated currency appreciation without more significant concessions from the United States is unrealistic. It is similarly unrealistic to expect

eurozone countries or the United Kingdom to agree to currency appreciation in their current situation.

Third, while the president-elect sees himself as a successful dealmaker, his idea of a deal is one where the United States makes few if any concessions while pressuring the other parties to make significant ones. His negotiations with China, Japan, South Korea, Canada, and Mexico during his first term all demonstrate that he consistently favors sticks over carrots. Any "grand bargain" that has even a remote chance of success would require the United States to make more significant concessions than he will be willing to make.

Pushing for dollar decline will not be easy.

ROBERT D. ATKINSON
President, Information Technology and Innovation Foundation

President Donald Trump is right that the massive U.S. trade deficit is neither healthy nor sustainable. It's not healthy in that it reduces U.S. manufacturing strength, including in advanced and dual-use industries. It's not sustainable in that at some point other nations will tire of sending us cars, steel, and machines in exchange for promissory notes.

The problem is that Trump's solution—tariffs—won't work. Tariffs will almost surely lead to retaliation in the form of tariffs on U.S. exports, leading at best to a modest decline in the trade deficit.

The better solution is to drive down the value of the U.S. dollar relative to other currencies. International economics 101 teaches that a country's currency valuation should fluctuate based on the economy's current account balance. If the country is running a deficit, the value of its currency should fall to make imports more expensive and exports cheaper. Conversely, if a country is running a trade surplus, the currency should rise in value. This is how markets are supposed to work.

Unfortunately, in America's case they do not. The United States has run a current account deficit pretty much every year for the last half-century because the dollar remains the reserve currency.

Pushing for dollar decline will not be easy given that the "Washington Consensus" has long supported a strong dollar and the dollar as the global reserve currency. During President Trump's first term, U.S. Treasury Secretary Steven Mnuchin said, "I support a stable dollar," by which he meant he opposed trying to reduce the value of the dollar. U.S. Treasury Secretary Janet Yellen has made clear that she would not intervene to help raise the value of the yen and lower the value of the dollar. And Trump recently threatened the BRICS with tariffs if they seek an alternative to the dollar, even though that would make U.S. exports cheaper.

There are two problems with dollar defense. First, over the moderate to long term, a strong dollar is a result, not a cause, of competitiveness and national strength. As U.S. competitiveness, especially in advanced industries, continues its long slide downward, it is only a matter of time before the dollar is dethroned.

Second, a strong advanced industrial base is much more important to U.S. national power than having the reserve currency. Wars are won or lost on kinetic weapons, not currency flows. A strong dollar acts as acid that eats away at the foundation of U.S. industrial capacity.

So if actions to change the prices of imports and exports are to be taken, the far more positive step is for Plaza Accord II: in other words, pressuring other nations to raise the value of their currencies *vis-à-vis* the U.S. dollar. And for China, the Trump administration should take other actions to drive the dollar down *vis-à-vis* the RMB.

There are structural reasons for the U.S. dollar to remain relatively high.

JOHN LEE
Senior Fellow, Hudson Institute, and former Senior National Security Adviser to the Australian government

The U.S. dollar is the dominant currency in the world when it comes to a reliable and long-term store of value and as a widely accepted currency with which to transact. Adding to the high floor price for the value of the greenback against other major currencies is the reality that geopolitical instability and uncertainty increase

demand for the greenback as a safe-haven currency. For these reasons, there are structural reasons for the U.S. dollar to remain relatively high *vis-à-vis* other major currencies.

As Trump returns to the presidency, he is unlikely to achieve a coordinated depreciation of the U.S. dollar against other major currencies such as the euro, yen, and renminbi. It is difficult to see Europe, Japan, and China agreeing to a Mar-a-Lago Accord in some form.

Indeed, I do not think a coordinated appreciation of one's currency against the dollar is Trump's highest strategic objective in any event. His primary intention is to reinvigorate and revive American manufacturing and the country's industrial and technological bases. Rather than a coordinated depreciation of the greenback which will be difficult to achieve, Trump is better off focusing on other factors: lowering the cost of energy in the U.S. economy, lowering corporate taxes, and eliminating or reducing burdensome regulations. It also appears that Trump will use tariffs to persuade or else compel foreign firms to invest and locate operations within the United States. But a Mar-a-Largo Accord is neither likely nor necessary to achieve Trump's higher objectives.

Regarding tariffs, Trump will use the threat of these against allies and friendly economies to encourage firms from those countries to invest in the United States and as a coercive negotiating tool to extract concessions such as higher defense spending in return for American protection. When it comes to China, tariffs will be used for a different purpose. Unlike Europe and Japan who are seen as economic *competitors,* China is perceived by Trump to be a geopolitical and economic *rival* to the United States. This means that measures such as tariffs and export controls will be used to structurally prevent China from gaining economic and technological ascendancy over the United States in what is seen as a comprehensive geopolitical contest between the two countries. This is a very different mindset and framing to the use of tariffs and other tools to give the United States a competitive advantage against "friendly" economies such as Europe and Japan.

To be sure, managed currency policies through intervention in money markets by their central banks is a source of annoyance for Trump. He also seems unhappy that a manufacturing and trading powerhouse such as Germany enjoys the advantage of a euro that is lower in value against the U.S. dollar than the previous German deutsche mark might have been. But U.S. dollar appreciation is not the strategic endgame, especially since Trump wants the U.S. dollar to remain the world's reserve currency. Therefore, he is unlikely to waste his political or coercive capital on establishing a Mar-a-Largo Accord, and instead pursue different bilateral objectives against individual economies such as Europe, Japan, and China.

A global currency smoothing process should be part of an ongoing dialogue.

GARY KLEIMAN
Senior Partner, Kleiman International Consultants

The forty-year-old Plaza Accord among the G7 industrial powers was aimed at trade rebalancing with Asia, then Japan, under implied U.S. and Europe tariff threat, after currency swings had helped sink a prominent German bank. Emerging markets as an asset class or organized group through the G20 or BRICS did not exist, and still today have no globally accepted liquid units for public or private holders. China's RMB is routinely cited as the likeliest candidate, especially after it was added to the International Monetary Fund's SDR basket, but its weight in foreign exchange reserves and trading remains under 5 percent. It has caught up to the yen which has stagnated in world markets since its 1990s asset bubble popped and is increasingly used in bilateral import/export settlement, especially with sanctioned counterparts like Russia and Iran. Local currency use for this purpose is a far cry from the universal circulation presumed under the original Bretton Woods exchange rate arrangements abandoned in the 1970s, which then-U.S. Treasury Secretary James Baker and his counterparts managed to temporarily revisit under their joint intervention hotel accord. China, despite its commanding weight in emerging market equity and bond indices, remains an outlier with the yuan peg in a daily 2 percent fluctuation limit against a mostly hard currency basket, and an overall exchange control system that still imposes quotas on domestic institutional investment in foreign assets. The emerging market mainstream has a free float, and neighbors like South Korea and Taiwan have pension funds and insurers that massively diversify into overseas securities to match their high-tech goods prowess.

A Mar-a-Lago update with meaningful emerging market participation would have to forego grand signoff with a single member or select parties and cast the net widely to influence broad currency direction. An agreement with China would have ripple effects most closely with East Asian neighbors whose currencies are aligned but not in lockstep, but other countries with influential weights and reputations should be part of negotiations.

Investors have long treated Mexico's peso and South Africa's rand as proxies for the universe, with positions reflecting risk on and off sentiment. They are traded both at home and on foreign markets like the Chicago Mercantile Exchange, where large exposures can be taken in spot, forward, and more sophisticated derivatives versions. Brazil and India in turn as charter BRICS members have advanced futures and options offerings domestically with a sizable non-resident presence. Under club expansion, central bank reserve managers are now looking to hold each other's currencies, while state and private financial institutions likewise begin to supplement their portfolios with Global South denominations. A global currency smoothing process as an adjunct to mixed local and regional efforts in developing economies should be part of an ongoing dialogue that could be catalyzed with invitations to the Florida resort, just like the New Hampshire one eighty years ago, as a true successor to the Plaza spirit.

History shows that coordinated action to move markets tends to be most successful when intended to correct a fundamental mispricing. The dollar looks only slightly overvalued.

NEIL SHEARING
Group Chief Economist, Capital Economics

Efforts to repeat the Plaza Accord with a globally coordinated devaluation of the dollar—a so-called "Mar-a-Lago Accord"—would face significant challenges in today's geo-economic climate.

Some are political. The co-signatories of the agreement signed at the Plaza Hotel in 1985 were all U.S. allies. Today's key protagonists are the United States and China, two countries enmeshed in a deepening superpower rivalry. This will make it harder to reach a deal. China's President Xi Jinping cannot be seen to capitulate to U.S. demands. The United States would have to make significant concessions to extract the same from China. This reduces the chances of any substantive change to the current economic relationship between Washington and Beijing.

More fundamentally, the economics of the current situation do not point to an imminent weakening of the dollar. Admittedly, the trade-weighted dollar is now not far off Plaza Accord levels when viewed in real terms. But a stronger real exchange rate can be justified by the improvement in America's terms of trade and its faster rates of productivity growth relative to other major advanced economies. At the same time, U.S. policy is contributing to a stronger dollar. Fiscal policy requires a tighter monetary policy than would otherwise be the case. And the threat of tariffs is only adding to upward pressure on the dollar.

All of this matters because history shows that coordinated action to move markets tends to be most successful when it is intended to correct a fundamental mispricing. As things stand, the dollar looks only slightly overvalued.

This is not to say that some sort of "deal" won't happen. Donald Trump prides himself on being a dealmaker. It is easy to envisage his administration lowering tariffs on China in exchange for promises from Beijing to purchase more U.S. goods or to allow the renminbi to strengthen a bit. But this would be a far cry from the multilateral action of four decades ago, and skepticism around the idea of Trump orchestrating a large and sustained adjustment in the dollar is warranted.

Instead, close attention should be paid to America's balance of payments. The U.S. current account deficit was closing in on 4 percent of GDP at its last reading while its primary income balance was in deficit. This may not pose an imminent threat to the dollar. But viewed over the medium term, the quiet deterioration in America's balance of payments provides a more compelling reason than expectations for some kind of Mar-a-Lago Accord to believe that the dollar might eventually start to weaken.

Treasury Secretary Bessent is uniquely capable of orchestrating a coordinated depreciation of the dollar that would lead to a more balanced global trading system.

RYAN EHLEBRACHT
Founder and Chief Investment Officer, Low Tide Capital Management

I agree with the Reagan era mantra that "personnel is policy," and U.S. Treasury Secretary Bessent is uniquely capable of orchestrating a coordinated depreciation of

the U.S. dollar that would lead to a more balanced global trading system benefiting American industry over Wall Street financial engineering.

Trading is about managing the path, not the destination. Successful macro trading comes down to anticipating second-order effects as reflexive markets create their own path as policymakers react to present conditions. A world-class macro trader conducting economic statecraft can identify the destination and lead the market down the path that best accomplishes the goal.

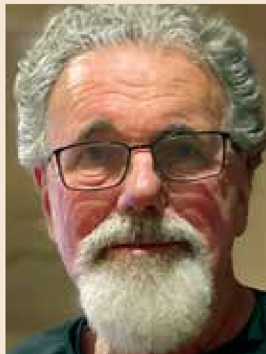
This entails taking a hard line on tariffs right out of the gate and unleashing the U.S. dollar wrecking ball. The euro/U.S. dollar rate should quickly be on its way below the 2022 low of $0.95. China's economy is already on the edge, and a move in dollar/offshore renminbi above ¥7.50 will put the fear of capital account pressures front and center in Beijing.

With the U.S. ten-year yield approaching 5 percent (4.8 percent as of this writing), there will be restraints on President Donald Trump's ability to extend the 2017 tax cuts without budget cuts elsewhere. But fiscal consolidation and a reversal of the Biden deficit-fueled economic strength will not be enough for a sustained peak in the U.S. dollar. Aggressive cuts to the bloated federal government from Elon Musk's Department of Government Efficiency program would likely cause economic conditions to deteriorate enough to get significant rate cuts from a U.S. Federal Reserve that continues to have a dovish reaction function.

With the United States finally in an economic slowdown and a U.S. dollar that has ideally already signaled a short-term topping pattern, it will be time to organize a gathering at Mar-a-Lago with the Chinese and new German government. A Sunday afternoon announcement of forceful fiscal expansion in Germany combined with the Chinese Politburo launching the long-awaited bazooka focused on domestic consumption should be amplified by a joint operation by China and the United States to sell dollars/buy renminbi on the market open. An announcement of the removal of tariffs on the New York market's open should lead to a day for the history books.

Accepting this path will be difficult for a president who is known to view daily fluctuations in the market as his real-time personal ratings. Rather than winning a race to 8,000 in the S&P 500, the goal should be to set the market up with a foundation to eventually rip into the 2026 midterm elections, giving the administration the best chance to continue pursuing productivity-enhancing structural reforms. It's worth reminding the president that shortly after Mar-a-Lago's construction was complete, the Republicans won in a landslide in 1928, with the Dow Jones Industrial Average rallying nearly 50 percent from Hoover's victory to September of 1929.

These views are not intended as investment advice.



Such a deal is not going to happen.

EV EHRLICH
President, ESC Company, former Undersecretary of Commerce, 1993–1997, and former Chief Economist and Head of Strategic Planning, Unisys Corporation

Such a deal is not going to happen.

First, the conditions that made the Plaza Accord possible don't exist today. Today's far deeper currency markets mean intervention would have to take a back seat to meaningful fiscal and monetary policy coordination. Forty years ago, the United States implemented Gramm-Rudman spending guidelines and the Bradley-Gephardt tax (reform) increase, both of which reinforced the goal of a lower dollar exchange rate. Today, DOGE machinations notwithstanding, there's no appetite for spending reductions or—Heaven forfend!—tax increases. Moreover, unlike Plaza, the target of present American ire is China, and the Chinese have even less appetite for the requisite policies to let their currencies appreciate than our other trading partners do. Besides, China's long-term goals in this sphere are not coordination, but replacing the dollar as a reserve currency—that's both unlikely and far away, but it's the lens through which they'll view their interests.

Second, the overshooting stemming from Plaza, which necessitated the 1987 Louvre Accord and led to wild asset price swings both here and in Japan, shows that this type of coordination takes time, patience, and political will. A Mar-a-Lago Accord would require sustained goals and actions among the poles of the international economy. But it would be born amid a series of other tensions all but unimaginable forty years ago—Ukraine, possibly Greenland, Taiwan, climate, abandoning NATO—we all know the list. The G5 in 1985 shared a mission—preserving the rules-based international trading system. Today, in a world in which autarchic nationalism is alive in the United States and growing quickly elsewhere, not much is shared or sustained except anger.

Finally … what? The premise is that the Trump administration will bargain with the other major economies by putting a tariff gun to its own head and our partners will be eager to stop them. Forty years ago, the Plaza occurred against the backdrop of burgeoning trade deficits and concomitant

capital inflows—things that had happened. Why should our trading partners rush into an agreement because of something that might happen? The Europeans would be wiser to dare Trump to pull the tariff trigger, boosting U.S. inflation by more, I believe, than most conventional estimates, while disrupting supply chains and slowing growth. Once again, the wisest counsel regarding Trump is to let what he says pass while waiting to see what he'll actually do.

The Plaza Accord was ultimately a success, but it's not a template that can be repeated today. Rather, it's a reason to rue the stability and perspective of the world we've since lost.

The Plaza Accord nevertheless holds important lessons for Trump.

PETER E. HARRELL

Nonresident Senior Fellow, Carnegie Endowment for International Peace, and former White House Senior Director for International Economics

President Donald Trump is fixated on trade deficits, had his formative years in New York in the 1980s, and has a well-known penchant for a deal. So it is no surprise that his return to the White House has spurred talk of a "Mar-a-Lago" Accord to address America's structural trade deficit via coordinated action to depreciate the dollar.

The 1985 Plaza Accord, named after the elegant New York hotel where it was announced, is arguably the only policy initiative that successfully reduced the persistent U.S. trade deficits that began in the 1970s. Between 1985 and 1987, the U.S. dollar fell by some 40 percent and the trade deficit narrowed, albeit after a lag, from roughly $150 billion per year in 1985 to $30 billion per year in 1991.

Trump will find it substantially harder to engineer a similar outcome today. Some of this is changed economics. The dollar is not as overvalued today as it was in the mid-1980s, and while currency misalignment remains an important driver of the trade deficit, it is not as dominant a factor as it was then. The United States also has a much more diverse group of trading partners with which it would need to coordinate a currency accord. In 1985, much U.S. trade was with a handful of security allies—indeed, the group of Plaza members later became the G7. Today, the United States would need to strike a deal with a broader set of countries including adversaries such as China and major emerging markets such as India and Vietnam. Reducing the U.S. trade deficit today would almost certainly require a combination of tools including negotiated deals; direct actions like tariffs, restrictions on capital inflows, and/or direct U.S. currency intervention; and policies to make U.S. production relatively more efficient. A currency deal will be useful but not sufficient.

But the Plaza Accord nevertheless holds important lessons for Trump and his team as they consider mechanisms to reduce persistent trade imbalances.

The first lesson is that "trade rules" will not solve trade deficits. Since the 1990s, the United States has pursued a highly legalistic trade agenda, promoting rules for subsidies, labor, the environment, and other topics. Rules have many benefits, not least providing certainty to firms while promoting socially desirable outcomes. But they have proven woefully inadequate at addressing imbalances.

The Plaza Accord did not attempt a rules-based approach to determining the "fair" value of a currency or to ending "currency manipulation." Instead, it effectively committed signatory countries to a program of manipulating currencies to achieve an agreed substantive outcome—reducing the dollar's value. If Trump wants to close U.S. trade deficits, he should pursue policies designed to close them rather than policies designed to set rules for trade.

A second lesson is the importance of signaling to the private sector. Plaza Accord governments ultimately only intervened in currency markets in a limited way, in part because the Accord signaled to private market participants the direction of travel and changed market psychology towards one of devaluation. Today we are seeing a conceptually similar dynamic as companies look to government messaging as a factor to consider in where they locate global supply chains. Trump and his officials need to consider their rhetoric as well as their specific policies.

A third lesson is that Trump will eventually have to decide between using tariffs as leverage for deals and using them as major source of revenue for the U.S. government. A restive U.S. Congress threatening major new U.S. tariffs was an important driver of the Plaza Accord, convincing U.S. trade partners that they needed to come to the table. But after agreeing to the Accord, partner governments needed to know they would not face tariffs anyway. While Reagan continued to pursue targeted tariff measures through the late 1980s, after Plaza the threat of sweeping new U.S. tariffs faded away.

The final lesson is the need for deft diplomacy. Plaza's architect, then-Treasury Secretary Jim Baker, would later go on to serve as Secretary of State and is widely thought of as one of America's most successful post-World War II

diplomats. It took months of artful negotiation to reach the Plaza Accord, and success wasn't certain. Many of Trump's top officials have achieved success in business, politics, and law but it remains to be seen how they measure up to Baker as diplomats. There are likely diplomatic records buried in the Treasury Department's vaults that would be well worth studying in advance of a new global trade negotiation.

I find it implausible that anything resembling the 1985 Plaza Accord will materialize.

STAN VEUGER

Senior Fellow, American Enterprise Institute

I find it implausible that anything resembling the 1985 Plaza Accord will materialize during the second Trump term. It would require that at least two conditions hold. The first is for the administration to develop a well-defined, consistent position on the purpose of tariffs and the desired evolution of exchange rates. The second is agreement among the governments of the world's major economies to dramatically reform global economic governance in support of that Trump administration position. Neither is likely.

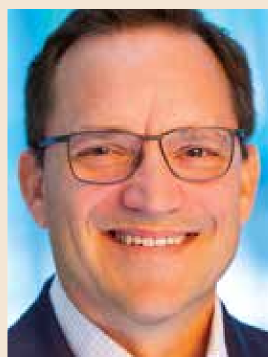
Trump and his associates have long struggled to develop a coherent theory of international economics. The main line of thinking is old-school mercantilism: Trump genuinely appears to believe that imports are bad, and exports are good. Superficially in line with that, he frequently talks about the desirability of increased tariffs and a weak dollar, but here the contradictions start to become apparent.

Increased tariffs will reduce exports just as they reduce imports, a result known as Lerner symmetry. They do so by drawing productive resources into the import-competing sectors of the economy and triggering exchange rate appreciation. This process clashes both with the instrumental goal of weakening the dollar and the eventual objective of reducing the trade deficit.

Trump's mercantilist instincts also make him fond of foreign investment. Such investment also strengthens the dollar and widens the U.S. current account deficit. The same goes for the greater budget deficits that will likely follow from Trump's domestic priorities.

Perhaps most importantly, Trump and his associates have not come to a clear view on the role of tariffs. Are they a tool to secure trade policy concessions from other countries? Or broader economic concessions, as in the Plaza Accord? Non-economic concessions, like sovereignty over Greenland or greater defense spending? Or are they principally a source of revenue that can offset tax cuts?

From his first term until today, this has remained unclear. Even if the governments of the other major economies wanted to agree with the United States on systemic reforms, it is not clear what those reforms would be. And if it were, the Chinese government, at the very least, would likely oppose them.



Pulling off a coordinated depreciation of the dollar will be much harder this time.

MARC SUMERLIN

Managing Partner, Evenflow Macro, and former Deputy Assistant to the President for Economic Policy and Deputy Director of the National Economic Council

The Plaza Accord of 1985 led to an astounding 80 percent reduction in the trade deficit by 1991, cementing James Baker's legacy as the greatest modern Treasury Secretary. Ironically, his other legacy achievement was the Tax Reform Act of 1986, which almost bankrupted Donald Trump by reducing tax preferences for real estate.

Pulling off a coordinated depreciation of the dollar will be much harder this time. The dollar had been stronger for longer in the 1980s and the world was a more collegial place. But there is little doubt that Trump would love to have a Mar-a-Lago Accord in the history books, and the United States hosting the G20 in 2026 might be the perfect opportunity. New Treasury Secretary Scott Bessent has one big advantage over Baker—his boss is more than willing to use sticks (tariffs) as well as carrots to force countries to the table. While the Plaza Accord was single agreement handily focused on currency depreciation, a Mar-a-Lago Accord could employ multiple policy tools. Countries that need a stronger currency—like Japan and Korea and Taiwan—might choose that route. Others might choose to lower their trade barriers or purchase U.S. wares instead. In this case,

depreciation would play a supporting role rather than being the only game in town as it was at Plaza.

And don't forget—it was Scott Bessent who helped crash the pound in 1992.

JAMES K. GALBRAITH
Lloyd M. Bentsen, Jr., Chair in Government/Business Relations, LBJ School of Public Affairs, University of Texas at Austin

What to make of a "Mar-a-Lago Accord"?

First question: with whom? The Plaza Accord of 1985 was among the G5: the United States, Britain, France, Germany, and Japan. Today, the four largest economies are China, the United States, India, and Russia. The other three are all members of BRICS.

Taking a wild swing at a cloudy crystal ball—pardon the mixed metaphor—Trump's tariff plans and threats may possibly be explained as follows:

Against Mexico: to secure President Claudia Sheinbaum's agreement to suppress migration and accept deportees.

Against Canada: to humiliate Justin Trudeau, ending his career. Both goals are reachable and the cost to the United States would be small and short-lived. If the tariffs cover hydrocarbons—a major U.S. import from both countries—they might last longer, potentially spurring more drilling in the Permian Basin, reportedly a key goal of Treasury Secretary Scott Bessent.

Against China: up to a point, Xi can offset Trump's tariffs by letting the RMB float down. But he could instead decide to grow China's trade elsewhere. America would then import more from Vietnam, Indonesia, Bangladesh, and Thailand, rearranging trade flows with minor effect on our deficit with Asia. U.S. consumers would mainly lose the chance to buy goods they've never seen, such as BYD cars and Huawei phones. At low cost, Trump can sell China tariffs as a get-tough measure, pleasing the hawks.

Tariffs against Europe, combined with cheap energy, lower interest rates, a low-union workforce, and steady growth, are a magnet for European (especially, German) industrial investment in the United States. This would fit with what appears to be Trump's accurate view of modern Europe: effete, inept, militarily weak, fading in economic power. Why not, therefore, suck the Germans dry and dump the impending collapse of Ukraine on the European Union? Trump surely grasps that Russia intends no threat to Europe and also has no interest in trying to save Europe from itself.

What then is this administration's interest in "protecting Europe," when the Middle East (and the Asian periphery, and Africa) are of far greater strategic and resource importance? Democracy? Freedom?

Historic and traditional alliance? Don't make me laugh—we're talking about Donald Trump.

And don't forget—it was Scott Bessent who helped crash the pound in 1992.

The Trump presidency may see China overtake the United States.

TIM CONGDON
Chairman, Institute of International Monetary Research

Why does the United States have a current account deficit, and does it matter? Whatever the level of tariffs on its imports, a logically unassailable identity says that the sum of the financial balances of the U.S. public and private sectors is equal to the financial balance of the United States with the rest of the world. The identity follows from the requirement that every debit has somewhere an offsetting credit. In other words, if the financial surplus of the U.S. private sector is steady at 3 percent of GDP, a financial deficit of the entire government sector—both federal and state—above that 3 percent figure must be associated with a current account deficit on the United States' external payments.

If the government deficit is 5 percent of GDP, the current account deficit will be 2 percent of GDP; if the government deficit is 7 percent of GDP, the current account deficit will be 4 percent of GDP; and so on. Why have I chosen the 3 percent figure for the private sector? The answer is that the data show this to have been the average financial surplus of the private sector—all U.S. households and companies taken together—in the last fifty years, excluding the six quarters most affected by covid.

President Donald Trump's supporters might say that the revenue collected from tariffs will reduce the budget deficit, which would be true if the other sources of revenue were untouched. But the stated aim is to use the extra tariff money to pay for tax cuts. No hint of concern has been expressed by Trump about the enormous budget deficits under the Biden presidency. According to the International Monetary Fund's October 2024 World Economic Outlook database, the United States' general government deficits were over 7.5 percent of GDP in 2023 and 2024, and they will remain above 6 percent of GDP in every remaining year of the present decade. The current account deficit—the twin of the budget deficit—will therefore persist for all of the second Trump presidency.

The key counter-party to the United States in a possible Mar-a-Largo Accord would of course be China. The thinking is that, by engineering a massive yuan appreciation, China might do enough to discourage Trump's proposed tariff jump. But why would China play ball? It is a competitor with the United States in soft power as well as hard power. Purchasing another nation's products is a major source of soft power. Trump's tariffs will offend international opinion, upset allies, and lose soft power. By retaining its present openness to trade, China's import bill will keep on growing, whereas that of the United States may fall. In 2024, China's imports of goods and services totaled over $3,200 billion and were still about $1,000 billion lower than those of the United States. But the Trump presidency may see China overtake the United States. Far from making America great again, isolationism and protectionism will reduce U.S. influence in the world and belittle it in the eyes of its trading partners.

A Mar-a-Lago Accord is not going to happen and it wouldn't work anyway.

RICHARD JERRAM
Chief Economist, Top Down Macro

The idea of a Mar-a-Lago Accord to reduce the trade deficit by weakening the dollar in return for lower tariffs is as fanciful as many of Trump's other pre-election ideas. I can see two problems: it is not going to happen and it wouldn't work anyway.

A bilateral exchange rate is a capricious beast—not just determined by policy settings in both countries, but also, crucially, the financial market reaction to those settings. For example, fiscal expansion that increases inflation might lead to a stronger exchange rate as the markets anticipate higher interest rates, or the reverse might be true. Ask Liz Truss. Or Zimbabwe.

Let's speculate on what might happen if, early on, President Trump announces he wants the U.S. dollar to go down. My guess is that it does weaken, temporarily, until markets realize there is no policy change to achieve that goal, and the exchange rate goes back to doing whatever it was doing.

Perhaps the president tries to bully his own central bank, threatening to install one of his stooges as chair or even change the Federal Reserve Act. This might indeed weaken the dollar, but probably as a result of capital fleeing the country, sending bond yields up and equity markets down. Higher bond yields would complicate an apparent willingness to blow out the budget deficit even further in order to fund tax cuts, which looks like a higher priority and a more tangible policy objective than a lower trade deficit. The idea would be rapidly abandoned amid a backdrop of screams from the Cabinet's many billionaires.

America's trading partners are unlikely to be prepared to meddle with central bank independence in order to raise interest rates in an attempt to send their currencies higher. Why should they? Damaging the entire domestic economy through excessively high interest rates in order to protect the segment that exports to America would be a bad trade-off. Sure, foreign officials from G7 might show up in Florida and mutter expressions of sympathy or promise to look into things, then try and stall for four years. What about China? Bowing to U.S. pressure and allowing Trump to crow that he has "won" is unthinkable.

We should also ask what an accord would really be trying to achieve. Presumably the aim is to lower the trade deficit, although it is unclear why this in itself is a useful thing, nor why bilateral deficits are so important. And even less clear is whether an accord would be effective in this aim without complementary domestic policies, such as steps to lower the budget deficit. As a starting point, officials might want to ask why the tariffs of the first Trump administration have been unsuccessful in reducing the external deficit. ◆