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Trumpeconomics and the Triffin Dilemma
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Abstract

In December 2024, Donald Trump, then President-elect, announced Stephen Miran's nomination to chair his Council of Economic Advisers. In November, Stephen Miran, then Senior Strategist at Hudson Bay Capital, wrote a piece entitled "A User's Guide to Restructuring the Global Trading System", discussing some of the policies the incoming Trump administration might adopt. This piece has no formal status with the new administration so far. Nevertheless, it outlines what the Trump administration identifies as the problem that needs to be addressed and how the various instruments at the disposal of the US government can be deployed to address it.

Miran's "User's Guide" can be seen as a roadmap to restructuring the global trade system with the objective to "Make America Great Again" (MAGA). The key objective is to achieve a significant devaluation of the dollar (or a significant appreciation of the other currencies, particularly those of countries running a current account surplus with the United States) while maintaining the hegemony of the dollar as a global currency. "A User's Guide" starts from an explicit recognition of the Triffin Dilemma: the public good nature of the dollar used freely by the rest of the world as the global reserve currency entails a significant cost for the US economy. The roots of economic discontent in America lie in the resulting dollar's overvaluation. Miran's menu of policy proposals aims at shifting this cost to the rest of the world A full battery of measures is presented as fair and justified, obliging the rest of the world to pay for benefitting from this beneficial monetary externality: optimal protection with US higher tariffs, penalties hitting the dollar reserves holders while nevertheless forcing their use in order to strengthen the US geopolitical power stemming from the dollar extraterritoriality. Sharper increases in tariffs or withdrawal of the security umbrella provided by the US army to its allies would be used as levers to impede any retaliation or rejection, also leveraging the public good nature of US military protection.

This note analyses what can be seen as an economic war program based on a generalised blackmail method aimed at imposing on foreign countries measures impacting them unfavourably. Our main criticisms are the ignorance of key global interdependencies and the undermining of the whole multilateral order that had been established by the US itself at the end of World War II, which ensured US prosperity and the global extension of its influence. The underlying philosophy is that the MAGA program would be a zero-sum game, where the US gains are supposed to be equivalent to all the losses imposed on economic partners, whatever the used means. The Trump administration ignores the global costs of the loss-loss game this program would trigger and the resulting waves of hostility against what would be perceived as a US unilateral aggression. Especially damaging would be measures that undermine openness, competition, cooperation, inclusion, and fair rules, thereby preventing rent-seeking. Although the Triffin Dilemma implies genuine costs for the

US, it also provides significant financial returns to the US. Furthermore, the US costs are wrongly presented as a free benefit for other countries, ignoring that the dollar system is a loss-loss game, generating high costs in the form of global liquidity instability as developed by RTI. The tariffs are wrongly presented as the perfect fiscal tool, ignoring significant potential effects on the US economy, particularly in terms of higher inflation and reduced incentives for innovation and productivity, as well as the resulting dollar's real appreciation, which would further increase the trade deficit.

Furthermore, the coercive methods proposed to achieve depreciation of the dollar by penalising foreign dollar holders directly contradicts the objective of maintaining or even strengthening the dollar's extraterritoriality power. Additionally, preparing and imposing a dollar depreciation would directly harm the dollar reserve function and could unleash quickly the devastating power of financial expectation. All the more, the costs of monetary tightening are not rigorously considered, while the suggestion that the Fed's independence be reduced would imply even more significant costs for the US and the world. In addition, spurring drilling for the extraction of fossil fuels as a means to fight inflation, without considering the negative externalities causing very irreversible damage to the Planet, constitutes a free-riding behaviour, inflicting dramatic future costs on the rest of the world.

Facing such a dangerous plan, the most rational response for the European Union would be to highlight its incoherence and join forces with other affected countries to prepare a joint response, including the threat of protectionist retaliation. Refusing the self-defeating path of appeasement, we should jointly prepare for the likely outbreak of a severe financial crisis that could be triggered by the ballooning fiscal and external deficit generated by President Trump's massive tax reduction and spending plans and the loss of confidence in the dollar. Such a crisis, primarily through its advanced effect on domestic housing mortgage rates, stock exchanges and the globalized financial markets, might destroy domestic political support for the President, forcing him to bargain for a return to essential multilateral rules in the US self-interest. A coordinated but quick reaction would be less costly in the medium and long term than procrastinating. Acquiescing to blackmail, would only postpone an ever more severe financial crash which could have irreversible effects, involving broader institutional destructions and threats to peace, democracy and the environment.

The genuine problems created for the US by the dollar's global role should be acknowledged. Through global cooperation, they could have an alternative win-win solution. RTI should continue to advocate for a systemic response to the Triffin Dilemma along the lines of Triffin's ideas and the recommendations of the Palais Royal Initiative of 2010-11, financed by RTI, led by Michel Camdessus, Alexandre Lamfalussy and Tommaso Padoa Schioppa and endorsed by Paul Volcker. It would entail a stage-by-stage evolution towards a reinforced International Monetary Fund, endowed with more authority and legitimacy, with the role of Lender of Last Resort (LOLR) and a stronger mandate concerning capital flows, exchange rates and multilateral surveillance, capable of catalysing if needed desirable changes in exchange rates. With regular SDR allocations delinked from the quota, the SDR would progressively replace the dollar as the dominant instrument for holding reserves, removing the burden as well as the present exorbitant privilege resulting from the use of the dollar as a global currency. If this solution could not be achieved in the face of the current geopolitical tensions, an interim solution could be found through regional monetary arrangements, particularly if such arrangements utilize SDRs for the pooling of reserves and in the design of mutual support instruments.

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In November 2024, after Trump's election, Stephen Miran (PhD in economics, Harvard), nominated in December by President Trump to be his Chief economist (Chairman of the Council of Economic Advisers), issued an important document explaining the future roadmap for restructuring the global trade and financial system in the interests of the US economy. This document, "A User's Guide to Restructuring the Global Trading System"[1], begins with a diagnosis, apparently drawn from RTI positions, acknowledging for the first time the costs of the Triffin Dilemma for the US economy. However, this diagnosis is used as the foundation for the elaboration of a dangerous strategy aimed at keeping all the possibilities the dollar system offers to consolidate US domination while introducing a number of economic and geopolitical measures addressing the costs of the dollar system to the US, transferring them unilaterally to the rest of the world.

This note analyses the proposed unilateral measures, which amount to an aggressive program to "Make America Great Again" (MAGA). It makes explicit the reasons why these measures – if implemented – would have opposite results, with devastating consequences for the United States and the entire planet.

1) Trump's economic team analysis

The document qualifies as a "Triffin world", the present, perceived as unfair for the US, economic and monetary order rooted in a growing overvaluation of the dollar, which implies deindustrialisation with significant American job losses and security threats for the US in an environment of lack of trust towards partners. The diagnosis of overvaluation is presented - following RTI's analysis - as a consequence of the dollar's reserve function, which entails vast and growing capital inflows (T-Bills/Bonds exports) that feed US cheaper imports. Furthermore, the reserve status makes the dollar a safer asset, worsening its overvaluation in a recession. This double disequilibrium is considered an unfair externality imposed on the US from its reserve status, which is presented, contrary to RTI, as a beneficial public good for the rest of the world. As shown by RTI, the dollar-based system has become unsustainable due to the shrinking weight of the US economy, resulting from its lower growth rate compared to the rest of the world. Therefore, the worsening Triffin Dilemma (TD) generates a twin deficit, i.e. both external and fiscal, for sustaining domestic demand, with an increasing external debt ratio potentially leading to a "Triffin tipping point" (or Triffin Dilemma), at which the reserve status itself as well as the US security would be undermined.

Miran states that there are no alternatives to the dollar, as its T-Bills enjoy a quasi-monopoly as safe assets, providing the "lifeblood" of the global trade and financial systems. The consequences of this dollar status are one disadvantage, correctly identified by Miran, namely overvaluation, and two advantages: cheaper borrowing costs (not acknowledged by Miran) and the geopolitical ability to control trade and financial transactions to impose the US will by financial extraterritoriality (on which Miran places the emphasis). This quasi-monopoly allows the US "*to achieve foreign policy ends of weakening enemies without mobilising a single soldier*." Thus, a trade-off appears between negative overvaluation and external financial power. Along with such a trade-off, the US choice is to impose systematically to the rest of the world its external financial power over the negative effects of overvaluation.

[1] Miran,S. (2024), "A User's Guide to Restructuring the Global Trading System", Hudson Bay Capital

Nevertheless, considering that trade/budget deficits and security are closely linked, threatening vital US interests and the ability to maintain the defence umbrella for liberal democracies, Stephen Miran asserts that the burdens of the present Triffin world have to be rebalanced without abandoning the dollar reserve status, which is a source of external power. Trump's ambition is undoubtedly not to solve the Triffin Dilemma itself but only its adverse effects on the US by using it as leverage to transfer its costs onto foreign exporters and taxpayers. He wants to strengthen the dollar's reserve role for extracting both economic and geopolitical rents from the rest of the world, compensating what he considers unilateral costs borne solely by the US economy. This goal is presented as a legitimate way to get a fairer burden sharing for the services offered by the US economy, not only for the dollar-safe assets but also for access to the US market and for benefiting from the defence umbrella of democracies and the respect of economic order. He argues that the dollar reserves fuel the global trade and financial system, assuming that the rest of the world does not already pay for these services and for the US military protection, e.g. through its acceptance of the US "exorbitant privilege" and the relatively favourable interest rates paid on the US debt. Miran does not mention the "built-in-destabilizer", which is the cost imposed by dollar dominance on other countries, in terms of cyclical flows of capital linked to variations in US monetary policy, preventing these countries from implementing the monetary and fiscal policies that would suit them best.

To shift the burden of the dollar system to foreigners, a set of policy measures using security and economic coercive sanctions would be employed "*to recapture some of the benefits our reserve provision conveys to trading partners and connect this economic burden sharing with defence burden sharing. Although the Triffin effects have weighed on the manufacturing sector, there will be attempts to improve America's position within the system without destroying the system*". These measures will be calibrated by groups of countries, e.g. according to their degree of political and defence compatibility with the hegemon policies, to put them under growing pressure to impose a new international order dictated unilaterally by the US to its advantage and to isolate any hostile regime such as China.

2) The articulation of the measures to be adopted

The package of proposed measures is a sequenced combination of unilateral tariffs, exchange rate adjustments, and coercive conversion of dollar reserves. All these tools are to be bargained against security protection according to the degree of alliance or support for Trump's policies. The philosophy is to use the US economic, financial and military powers to get foreigners to finance the massive tax reduction and spending plans of President Trump, which would add "up to $ 5.5 trillion of net primary deficit increases" and "boost interest costs by about $ 1.5 trillion over the next decade, according to the Committee for Responsible Fiscal Budget.

2.1. Tariffs

Drawing on tariff experiences during the first Trump administration (2017-2020) and on trade policy textbooks, tariffs may improve the trade terms of a large economy such as the US , enabling it to levy income from its trade partners and make them bear most of the US protection costs.

Under Trump 1, currency appreciation offset almost the rise in tariffs with China, so the document concluded that there was no pass-through, i.e., this trade war was non-inflationary. However, the paper mentions that some other studies conclude a pass-through with a minor impact on inflation. This was also facilitated by margin absorption, hedging, re-export of Chinese products, deflationary implications of deregulation and lower oil prices.

In the case of improved terms of trade for a big economy, the tariff rise would be offset by the depreciation of the exporter's currency. This means that US buyers of imports would not pay the tariff, which would fall entirely on foreign exporters through the lower prices they would receive. China would bear the tax burden for tariffs on Chinese exports, and the US Treasury would collect the tariff revenue. This optimistic view explains Trump's words in his investiture speech; "*Tariff is the nicest word because foreign exporters pay it*". This rent extraction from the US trade partners should allow domestic tax cuts with significant supply effects on growth and fiscal receipts. Therefore, tariffs are viewed as a panacea. Drawing on other studies, the paper estimates the US optimal tariff to be around 20%. However, considering that a tariff of up to 50% would incur no cost for the US, this estimate may be revised. Miran has in mind the necessity of levying $5 trillion over 10 years to finance the envisaged tax cuts.

This financing of the US fiscal deficit with tariffs is considered the best for several reasons. In addition to being totally or partially paid by foreigners, a tariff creates fewer economic distortions, e.g., than income or indirect taxes, even when exchange rates do not offset the increase in domestic prices. Furthermore – and essential in Trump's view – a tariff is a bargaining lever in foreign policy, representing a potent threat to use for forcing foreign markets to open, to become more efficient, to respect US intellectual property rights, or to extract other advantageous policies for the US.

Miran downplays the risks of retaliation by the tariffed countries, arguing that the US could blackmail foreigners by using its economic weight and its threat to withdraw its defence protection, effectively dissuading these countries from implementing retaliatory tariffs. Even if some countries retaliate, withdrawing them from the US defence obligations would mean a net gain for the US budget.

However, Miran acknowledges that the dollar's exchange rate appreciation makes relative prices of US output less attractive and maintains imports too cheap. Therefore, complementary tools are necessary.

2.2. Currency policy

Tariffs could also be used to force partners to reevaluate their currencies, and monetary policy could achieve the same objective. However, these measures could make the dollar less attractive to foreigners, provoking a steeper yield curve, with long rates rising significantly more than short ones, particularly when deficits are growing and inflation surges, taking into account also the Fed's prudential reaction to a lower dollar. However, substantial deregulation and a sharp decrease in oil prices would be supposed to mitigate the inflation risk.

Therefore, punitive tariffs should be the very first step in the new US policy to generate negotiation leverage to reach a "Mar-a-Lago Accord," a global currency arrangement involving a significant dollar depreciation in exchange for reducing these already introduced punitive tariffs.

In addition, referring to Poznar (2024), a duration clause should allow the extraction of foreign financial participation to the US military costs of common security, along with the arguments that security zones are a public good provided by the US. Protected countries would not only have to finance it by buying US securities but also move from buying short-term T-bills to purchasing century or perpetual bonds. Keeping those long-term bonds would be the condition for getting and/or maintaining the conceded tariff reduction. "In other words, the dollar's reserve status and American military dominance are so tightly entwined that the White House could force countries who enjoy the US security umbrella to finance its deficit by buying very long-dated Treasury bonds" (Gillian Tett's article "The unimaginable is now imaginable as gold glitters" in the Financial Times of 8-9 February 2025)

The exchange rate adjustment also requires foreign reserve holders to sell part of their assets. Long-term yields should remain low as a lower level of reserves would be compensated by their longer duration. To prevent an increase in yield and volatility of markets, the obligation to shift of reserves towards the long-term would help maintain a relatively low yield and calm in the markets. Furthermore, this combination of measures would kill several birds with a single stone: controlled depreciation of the dollar, increase in stability of reserves, military spending financed by foreigners, exchange and interest rate risks shifted from US taxpayers to foreigners, and lower fiscal costs of US external debt.

When interest rates increase, the official holders of century/perpetual bonds would be exposed to heavy losses. To get official holders to accept this risk, the Fed could agree to provide swap lines, warranting substantial liquidity access. In addition, access to Fed swap lines would give the US more leverage to ensure that participants remain part of the agreement, thereby reducing geopolitical and fiscal uncertainties for the US only.

A first acknowledged objection is that most reserve holders are not European trading partners but less friendly nations, mainly Asian and Middle Eastern countries. A second point is that the private sector holds the majority of the dollar reserves. However, Miran thinks these safe assets are less likely to flee the dollar since they have no better alternative reserve instruments. A third one is that the Wall Street consensus does not support this idea. Miran thinks Wall Street is wrong and that other tools would be available.

2.3. Making the accumulation of foreign reserves less attractive

The International Emergency Economic Powers Act, enacted under the Carter presidency in 1977, makes it legal under emergency circumstances to impose a user fee on foreign holders of Treasury securities. This would be a way to recoup the costs incurred by the overvaluation resulting from excess demand for dollar reserve assets, while allowing for differentiated treatment that affects the enemies more than the allies. The risks of generating financial volatility through such a measure are seen as mitigable by acting slowly. Since the Fed is seen as committed to a third mandate of maintaining "moderate long-term interest rates", its cooperation in setting a limit on the yield curve could be ensured by law.

2.4. Accumulating foreign currency reserves by the US

The Treasury assets held in the Exchange Stabilization Fund could be sold for other currencies but with a limited size ($ 40 billion)

2.5. Selling gold

It would be feasible but politically costly. Recent comments by Scott Bessent, Treasury Secretary, go in this direction, referring to both a revaluation of America's gold stocks and to the monetization of the asset side of the US balance sheet, in other words, focusing on assets as much as liabilities – while also promising to lower 10-year Treasury yields. "Currently, gold stocks are valued at just $42 an ounce in national accounts. However, knowledgeable observers believe that if these were marked at current values- $2,800 an ounce – this could inject $800 billion into the Treasury General Account via a repurchase agreement. That might reduce the need to issue so many Treasury bonds this year…Remarking on the current market value, mechanically deleverage the US balance sheet. (see the article by Gillian Tett, "The unimaginable is now imaginable as gold glitters" in the Financial Times of 8/9 February 2025). As explained by Gillian Tett, "while they (Bessent, Vance, Miran and others) would prefer a weaker currency, Trump also wants to retain that global dollar dominance and Bessent himself knows that tariffs will probably strengthen its value. That makes their policy seem bizarrely contradictory. But some market commentators, such as Luke Gromen, think the contradiction could be resolved if the Treasury tolerated or enabled gold to keep surging against the dollar. "Gold is likely to be a key pivot (for) the new system the Trump administration is clearly trying to engineer". Many mainstream economists would disagree, but that just illustrates the key point: the realm of possible policymaking – the so-called Overton window – is now widening."

2.6. Expanding the monetary base

The Fed has the ability to create the money supply. Doing it without constraints would depreciate the dollar, but the proceeds would have to be invested in foreign assets, exposing the US to inflation and financial and geopolitical risks. They should be opposed by the Fed, which would sterilise the purchase of foreign reserves by selling bills with the risk of fiscal costs, and counteracting the expected exchange rate effect.

2.7. Enforcing foreign investments and localisation in the US.

Companies refusing to invest in the US would support higher tariffs and be exposed to security threats

2.8. Miran's Conclusion

The sequencing of these measures would be crucial. Only a very skilled sequencing would make it possible to control the probable volatility impact of several measures on the financial markets.

Tariffs are easier to present as legitimately fair and would precede dollar depreciation for several reasons: tariffs increase fiscal receipts, contrary to depreciation; tariffs provide political leverage to reach exchange rate arrangements and investments, which contrasts with depreciation, exposing them to financial volatility and requiring explicit Fed cooperation. Implicitly, the insistence on the need for Fed support to prevent financial volatility indicates some questioning of the Fed's independence. It is implicit in Miran's paper that the turnover changes expected in the Board of the Fed in 2026 would reduce the Fed's independence, making it more pliable to the monetary and currency policies advocated by the Trump administration.

3) Assessing Miran's roadmap for a new trade and financial order.

This package is open to two different kinds of criticism.

First, this menu is entirely made up of unilateral and aggressive actions/options that blackmail the rest of the world into extracting rents from international partners, with no regard for international treaties and/or commitments undertaken in the context of multilateral institutions. This means a radical turn towards global confrontation, i.e., not only against geopolitical rivals but, in fact, mainly directed towards the United States' best allies. Applying such a program based on explicit coercion would amount to a violation of the letter and the spirit of multilateral agreements and the main principles upon which international order and cooperation have been established since World War II, ensuring prosperity to the US and the rest of the world. This institutional order destruction would erode any trust and undermine the possibility of multilateral cooperation, sacrificing global common interests. The global costs for the world would be enormous, and the economic and security damages to the US would vastly outweigh their expected benefits, except for the short-term populist returns leading up to the mid-term election. Theodore Roosevelt's "big stick" policy in 1901 looks timid and limited to Central America compared to Trump's global intentions and violent pressures. It would qualify as explicit world imperialism with blackmail methods, calling for aggressive resistance, favouring a new wave of anti-American feelings and probably even terrorism. It would undermine US prosperity and precipitate the end of the American century (see in this regard the splendid article by Daron Acemoglu, Nobel-winning economist, in the FT of 8-9 February 2025: "After the American Century")

Second, this note focuses on the economic incoherence and weaknesses of the tools options proposed in this program.

3.1. The economic incoherences and weaknesses.

3.2.1. A zero-sum game philosophy assuming no return to international cooperation

At the most general level, this program reflects a zero-sum game conception of the global economy: MAGA could only make sense by shifting net resources from the rest of the world for the exclusive benefits of the US economy, ignoring that the US past and future prosperity and that of the economic world are instead based on a win-win game that international cooperation makes possible. International collaboration is only mentioned when it serves to amplify the power of the hegemon. The critical fact that cooperation generates net value added for the participants is totally absent. How do we ensure that a zero-sum game strategy would not become a loss-loss game? A conflictual strategy is presented as exempt from any costs, creating the belief that the temporary first economy can only win by using its unilateral power. This is, in fact, already an acknowledgement of economic weakness. This belief relies on the incorrect assumption that economic growth depends on the law of the strongest partner, able to extract rents from its subordinate subjects. This reflects the US falling in the Thucydides Trap, which describes the inevitable tendency towards war when a hegemon feels displaced by an emerging power. This program is a declaration of economic and financial war of a decadent power against any competitor.

3.2.2. There is no general equilibrium consideration.

As a result of the zero-sum game prism, Miran's document does not present a genuine economic analysis. Only some costs for the US economy are discussed, without any feedback on the US from the costs supported by the rest of the world, a typical example of imperialist behaviour that neglects the reality of an interdependent world. It is incredible – and suspect – that no objective simulation on global econometric models is mentioned, but only a list of separate measures, with some interdependencies being considered only when their effects mutually support the imposition of unilateral US interests[2].

The basic macroeconomic principle for reducing the current account deficit is to combine a demand contraction with a decrease in the US relative price. Trump's program goes in the opposite direction: the US policy mix would stimulate expenditures (both investments and consumption), and an improvement in the US terms of trade is expected from the tariffs. Even in the case of a deterioration in the US terms of trade, the competitive advantage could not materialize in the presence of demand stimulation, which should translate tariff increases into additional inflation, reducing exports.

3.2.3. The Triffin Dilemma is presented solely as a cost to the US economy and security.

The starting point is correctly presented as the growing overvaluation of the dollar, which negatively affects US manufacturing, leading to job losses, heightened citizen fears, and security concerns in global value chains. Due to the two precedent remarks, the costs for the global economy are never mentioned, neglecting the fundamental process of the "built-in destabiliser"[3] of the dollar system due to the pro-cyclical shortage of dollar-safe assets[4], provoking amplified costs from the instability of global liquidity for the economies of the US and the rest of the world. It is incorrect to portray the dollar as a positive public good for foreign economies and a negative externality for the US. The economic benefits for the US are the transformation of lower yields on US liquid liabilities into better returns on US longer-term foreign assets[5] and the corresponding net income and capital gains, estimated

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[2] As stated by Alan Beattle (Financial Times of 27 January 2025), "*the biggest risk to the global economy and trading system from a trade war is not export diversion. Supply chains are flexible enough to survive a lot of jockeying for position. It is a sharp weakening in overall demand, perhaps from Trump crushing consumer spending by trying to eliminate the overall US Trade deficit with tariffs, or from falling Chinese export sales adding to the woes of the country's struggling domestic economy*».

[3] Triffin, R. [1959] «Hearing before the Joint Economic Committee of the US Congress», 28 October 1959, Employment, Growth, and Price Levels (Google Books), reproduced in Triffin, R. *Gold and the Dollar Crisis*, p. 167, Yale University Press, 1960. Also Triffin, R., 1957, *Europe and the Money Muddle*, Yale University Press, New Haven & Oxford University Press.

[4] Ghymers, C. [2024] « Unveiling the new form of the Triffin Dilemma and its inherent destabiliser: the relative shortage of dollar-safe assets, a critical issue with profound implications for global liquidity», *RTI Paper* no. 18, Louvain-la-Neuve & Centro Studi sul Federalismo, Torino.

[5] Kindleberger, C. [1966], with Emile Despres and Walter S. Salant, 'The Dollar and World Liquidity: A Minority View', *Brookings Institution Reprint*, no. 115; Gourinchas, Pierre-Olivier; Rey, Hélène [2007]. "From world banker to world

cumulatively at several $ trillion)[6]. In particular, these significant net incomes in the US balance of services are evacuated from the discussion, which is only presented in terms of trade in goods. The deficit is significantly lower in terms of goods and services, which include a portion of the income resulting from the dollar's "exorbitant privilege." This gross «mistake» magnifies wrongly the size of the costs for the US.

3.2.4. Stephen Miran's program does not seek to resolve the Triffin Dilemma (TD) but rather to exacerbate it for strategic purposes.

As a consequence of the three theoretical biases mentioned above, this policy aims to use the effective costs, which harm the US economy through the impact of dollar overvaluation, as an argument for increasing US geopolitical and financial power over the rest of the world. This "keeping-the-sold-butter-and-money-of-the-sale" behaviour is not a legitimate argument once the negative externalities resulting from the Triffin Dilemma (TD) linked to the dollar system are considered. Trump's program assumes wrongly that the benefits of the dollar reserves are entirely captured by foreign users who do not pay for this public good and uses this argument to justify shifting the US costs of the TD to foreigners without mentioning the other face of the dollar system, which is a combination of the "exorbitant privilege enjoyed by the US and the massive cost of instability and global crisis affecting all the economies, including the US. In this way, Miran's argument suggests that the purpose is not to eradicate the costs of the TD, but rather to use it as a political pretext to justify measures that allow the US to maintain its monopoly role as the world's reserve currency, despite its negative aspects. This international role is used not only for extracting economic rents from outside but also for imposing the US geopolitical will on partners through the power of extraterritoriality.

In addition, Miran correctly explains that the shrinking weight of the US economy increases the costs of the TD, exceeding the past advantages provided by the dollar system, which were never the subject of a scientific estimation. Therefore, he maintains that it is legitimate to force US allies to pay for this public good. This argument confirms the instrumentalization of the TD for power purposes, without any intention to cooperate to find the best solution for the global economy. Furthermore, the same public good argument is extended to the security umbrella, arguing that the allies have behaved as free riders for many decades. Although partially true, this argument fails to convince for the same reasons: it impedes a first-best solution for all in order to maximise US leverage. For example, significant aspects are neglected, such as the obligation that most European military equipment be imported from the US, impeding the emergence of a European defence industry, or undervaluing the US benefits of defence cooperation.

3.2.5. A partial analysis of tariffs deviating towards a political coercion tool.

Miran's arguments for imposing custom tariffs are more oriented towards geopolitical purposes rather than based on economic rationality.

venture capitalist: The U.S. external adjustment and the exorbitant privilege". In Clarida, Richard (ed.). *G7 Current Account Imbalances: Sustainability and Adjustment*. Chicago: University of Chicago Press. pp. 11–55.

[6] Clarida, R., [2009], "With privilege comes…?", *Global Perspective*, PIMCO, Sydney.

Starting with the justification of reducing the US trade deficit, his argument moves towards using tariffs both pretending they are an efficient way to collect fiscal revenues for financing tax cuts and using them as a bargaining lever for extracting other advantages from the rest of the world.

As a fiscal tool, he develops two highly disputable advantages:

(i) it would be paid by foreign exporters, making possible tax cuts for US taxpayers;
(ii) it would be a fiscal revenue without creating the distortions associated with corporate or household taxes.

On (i), he argues correctly that an optimal tariff imposed by a big economy improves the terms of trade of the tariffing economy, making the tariffed one pay for this tax. This is correct under two restrictive assumptions, which cannot be extended to the whole trade:

- The ability to reap an improvement in terms of trade – and thereby a fiscal receipt - depends on the sector and demand elasticity to price for the products concerned,
- This effect is only correct as long as the rest of the world or another prominent trader does not retaliate with coordinated -implicitly or not- tariff increases or protection measures, which would provoke a costly loss-loss game for both partners.

On (ii), his argument is wrong because tariffs introduce costly distortions in the US economy and counterproductive effects on the deficit. If the US terms of trade improvement do not occur, there would be no fiscal income from outside. Still, the tariffs would increase the import prices, generating some reduction in the trade deficit, although with several adverse distortions: increase in domestic rents at the costs of consumers/buyers, inefficient allocation of resources and lower productivity efforts, all pushing for additional inflation, and a Fed reaction on interest rates impacting the activity and fiscal balance. Of course, if the effect on terms of trade is only partial, some fiscal revenues will appear, along with some distortions.

As a trade policy, the tariffs also imply costly distortions. Their inflationary effects would negatively affect the export sector, counteracting the reduction in the trade deficit. Any protectionist measure means taxing one's own exporters and consumers[7]. Indeed, a tariff tends to imply a real appreciation of the dollar, something Miran acknowledged but only as a nominal appreciation, which offsets most of the tariff impact on the domestic prices of tariffed products (no passthrough, no inflation). He draws his position from the recent past during Trump 1 protectionist experience (2017-2020), showing that a dollar appreciation compensated most tariff rates.

This argument raises three objections:

(i) Is such an offset effect the only result of the tariffs? The dollar exchange rate reflects numerous other macroeconomic factors, including changes in the foreign policy mix compared to the US, not just the bilateral exchange rate with

[7] "A tax on imports ends is a tax on exports": Marin Wolf, «*Why another trade war will cause chaos*" , Financial Times of 30 November 2024; see also the article by Brian Albrecht in the FT of 27 November 2024 "*showing that poorly designed trade barriers will destroy more American job factory jobs than they save*" and also the article by Martin Wolf in the FT of 13 January 2025 "*Manufacturing fetishism is destined to fail*", showing that international trade is shifting from manufacturing to services.

China. Without a global model simulation, no rigorous answer could be formulated. Nevertheless, the Peterson Institute [Jeanne Olivier, 2020] assessed that the bilaterally imposed tariffs did not explain the general dollar appreciation during 2018-2019; furthermore, other studies by products show that the tariff impacts were entirely passed on to US buyers (even more than the percentage of increases in the tariffs, [Flaaen, A., Hortaçsu, A., and Tintelnot, F., 2020], and, contrary to the official justification of Trump's protectionism, the results on activity and jobs were negative [Flaaen, A., & Pierce, J., 2019].

(ii) Could this past experience be repeated and maintained longer with additional and generalised tariffs? The 2018 experiences were somewhat limited: first only on 3% of US imports, then some additional 9% of imports by new tariffs on Chinese products, but, reaching soon an agreement with China in 2020, the tariffs were lowered to only 7,5%. It is not rigorous to extrapolate this narrow experience to the announced generalised protectionism. It would assume that foreign exporters or domestic retailers would trade supporting durable losses, which is unrealistic. The tariff tool could not address the dollar overvaluation, rendering tariffs a costly fiscal tool for consumers in the protected sectors, contrary to what an efficient fiscal tool should achieve.

(iii) Tariffs could only reduce a trade deficit if the fiscal receipts are not spent and are not offset by exchange rate appreciation. Indeed, the external adjustment requires a combination of a macroeconomic reduction in imports and a shift in demand towards US products through the relative price decrease of US output. The Miran package is explicitly based on the opposite: violating these macroeconomic conditions: no fiscal savings, no monetary restrictions, no or minor relative price decreases, no inflation, but dollar appreciation.

This preliminary analysis allows us to conclude that:

1) The US power to shift the tax burden from domestic agents to foreign exporters is widely exaggerated and based on the misunderstanding, which underpins the populist slogan of "making foreigners pay for MAGA".
2) Miran believes that tax cuts for US taxpayers should reach $5 trillion over the next 10 years. Trade tariffs alone cannot adjust the trade deficit by reducing imports; moreover, in the case of dollar appreciation, which tends to reduce net savings and net exports, imposing an additional competitive loss with negative fiscal consequences. Indeed, the US current account deficit has even increased (despite the continuation of Trump's protections by the Biden administration) from 2.9% of GDP to 3.1% [8]". Using trade data in terms of the value-added content in the US final consumption of manufactured goods imported from China - as calculated by McKinsey[9] - demonstrates that the US tariff protection was counterproductive for the expected re-industrialisation: as regards the US-China trade, despite an impressive decrease of China share in total US gross imports from 23.5% in 2018 to 15% in 2024,

[8] St Louis Fed: Shares of gross domestic product : Net exports of goods and services (A019RE1A156NBEA)

[9] McKinsey, based on US Census Bureau and Asian Development Bank, cited by de Catheu, L. "Changer la mondialisation par les tarifs : 10 points après les dernières annonces de Trump", in *Le Grand Continent*, 4 mars 2025, Paris.

the value-added share of Chinese products in the US final consumption has remained almost constant to 23%! This means a big failure of tariff protection as a tool for industrial policy, in confirmation of trade theory, and invalidating Trump's economists' argument

3) Amazingly, Miran never refers to the fundamental economic theories neither on efficient allocation of resources (X-efficiency) nor on the macroeconomic principle that correcting an external deficit means tautologically rebalancing domestic expenditures and income, something impossible without combining domestic expenditure reduction, e.g. a restrictive macroeconomic policy mix aimed at reducing the US dissaving, together with a deterioration of terms of trade, a "switching tool" changing relative prices, i.e. a real depreciation. Using tariffs provoking a real appreciation cannot solve the fundamental macroeconomic imbalances in the US economy[10].
4) Miran advocates for financing domestic tax cuts by pushing domestic expenses with tariff revenues, especially if they come from outside, which implies a dollar appreciation, impeding a contribution to the macroeconomic adjustment of the US dissaving, all the more so since he insistently pleads for the absence of monetary restrictions. Therefore, this document raises the key questions:

- How could external adjustment be realised? This is the reason invoked for reforming the "unfair trade and financial systems."

The suspected answers are that Trump's tariff tool is primarily destined to create a bargaining lever by aggressing foreign partners, both allies and enemies. As stated in the FT's editorial of 27 November 2024, "The announcement (of the tariffs) shows that Trump is willing to cause chaos, whether as a negotiating tool or otherwise, to meet his goals. The tariffs would increase costs and raise uncertainty across all economies involved". Peter Navarro, adviser of President Trump in his first mandate, emphasises the same point: "trade is as much about power as economic exchange" (Financial Times of 4-5 January 2025) The wider political purpose is explicitly set by Miran when explaining that retaliation risks are discarded for allies by using the threat to withdraw the military protection in case of retaliation. This "blackmail" method is explicitly repeated to extract other rents and power, forcing central banks to renounce seeking alternative reserve currencies (see lower).

[10] We may quote here Martin Wolf (FT of 20 November 2024) : "*Fundamentally, macroeconomics always win, as Richard Baldwin of the IMD in Lausanne reminds us in a note for the Peterson Institute for International Economics. The balance of trade is the difference between aggregate incomes and spending (or savings and investment). So long as this is unchanged, the trade balance will be unchanged too. The US has spent appreciably more than its income for a long time. This shows in the consistent net supply of foreign savings, which averaged 3.9 per cent of GDP , between the second quarter of 2021 and 2024….In fact , the surplus of savings over investment in the household sector averaged 2.3 per cent of GDP and that of the corporate sector 0.5 per cent . In sum only the government ran a deficit, which averaged an enormous 6.7 per cent of GDP. If one wants to eliminate the external deficits, domestic sectors must adjust in the opposite direction, towards higher surpluses of savings, with the biggest adjustment surely coming from the huge fiscal deficits*". *Yet the Trump administration is announcing big tax reductions and increased government spending! In sum, there is no possibility of reducing the overall trade deficit with the policies Trump proposes*".

3.2.4. A partial analysis of exchange rate adjustments without macroeconomic aspects.

Miran acknowledges that a dollar depreciation will be necessary, although he mentions that his tariff recommendations should imply an appreciation. He resolves this contradiction by postponing dollar depreciation to a second step of program implementation, likely after the US midterm elections. The contradiction remains because any trade protection tends to provoke a real dollar appreciation, i.e. an increase in US relative prices, contrary to the necessary real depreciation for competitive reasons. Miran assesses that even if tariffs come without any exchange rate offset, the inflation increase would be negligible because the US economy enjoys a low degree of openness. Such a static "input-output" view is incorrect because an increase in the effective protection rate inevitably leads to an increase in the domestic price of most US producers competing with imports, thereby pushing the inflation rate to a multiple of what is reported in the document. This inflation surge implies a Fed-restrictive reaction, i.e., higher interest rates with nominal dollar appreciation resulting from immediate financial arbitrage. US exports would decrease, US imports would increase, and the deficit would worsen. Once more, the analysis does not integrate either the different measures or their operating times. Only a general equilibrium simulation could objectively identify the incoherences.

Particularly worrying are the several allusions to the need for cooperation from the Fed, which adds that moderating long-term interest rates must be its third mission and reminds us to wait for the turn in the Board nomination next year. Implicitly, these elements might signal a programmed reduction of Fed independence without assessing its negative impact on inflation expectations, financial stability, and the high cost of losing accumulated central bank credibility[11].

3.2.5. Geopolitical exchange rate manipulations penalising foreign holders of dollar reserves

In a second step, foreign currencies should be forced to appreciate against the dollar in exchange for going back to lower tariffs or, in the case of China, stopping their programmed progressive increases; in addition, the political allies of the US would be exposed to be excluded from the US security umbrella in case of rejection. Miran is aware of the financial instability risks this would entail, but assesses them as manageable with additional tools. However, he does not seem to consider the contradiction between spurring the dollar reserve function and announcing penalties for their holders in the form of liquidity and yield reductions. He seems to ignore that expectations dominate the financial and exchange rate markets, not the White House.

Technically, the forced net sales of dollar reserves of allies directly contradict the other objectives of lowering interest rates and strengthening the use of dollar reserves worldwide. Even more contradictory is the complementary measure to compensate for T-Bill sales by forcing an increase in US debt duration, obliging central banks to purchase long-term or

[11] As indicated in the FT of 25 February 2025 (Miran quizzed about Fed independence), "*In a paper last year advocating Fed reform, Miran wrote that "the bank's "pure independence is incompatible with a democratic system" and its governance structure has "led to significant monetary policy errors*". He criticizes Jonathan Powell for having "*pursued a much more expansive monetary and regulatory agenda that is more consistent with an explicitly political institution*"… One of Miran's proposed reforms was to make Fed board members and branch leaders subject to removal by president at will.

even perpetual US bonds. This penalises any central banks using dollar reserves, resulting in significant exchange rate and interest rate losses. As partial compensation for the loss of liquidity in foreign reserves, the Fed's swap network would be extended to the "cooperative" countries. This idea poses a significant risk to global financial stability, as dollar-denominated liquid reserves form the basis of private global liquidity. Their stability cannot be compromised by discretionary controls on swaps and constraints on using central bank reserves. Basically, these measures would counteract the use of the dollar outside of the US. They would significantly undermine the dollar's function as a reserve currency, creating an incentive to develop a genuine dollar competitor.

Furthermore, the document does not mention the monetary impact of the forced sales of T-bills on foreign economies. They would imply a restrictive stance for appreciating their exchange rates, with deflationary effects and negative feedback for the US through lower US exports on these markets. This would mean a loss of sovereignty over their monetary policies.

Commenting on these various measures, Gillian Tett concludes in her article "The unimaginable is now imaginable as gold glitters" (FT of 8-9 February 2025) as follows: "Such ideas might seem mad. And Miran acknowledges that the policy "path" to implement tactics like these "without material adverse consequences" is "narrow". Quite so. "If they start playing games with a weakening dollar, that is highly risky" says Rubin. However, Miran's memo shows that once-unimaginable ideas are becoming entirely imaginable. And not just Trump's threat to invade Greenland. It is no surprise that gold is outperforming bitcoin right now, and traders are not flying gold bars from London vaults to New York. Welcome to the financial Alice-in-Wonderland world where buying bullion seems almost sane

In his blog, Belgian economist Prof. Bruno Colmant, a Member of the Royal Academy of Belgium and former CEO of the Belgian Stock Exchange, adds that we should not be astonished by the United States's "new act of piracy," comparable to the unilateral decision by US President Richard Nixon on 15 August 1971 to suspend and later abandon the convertibility of the dollar reserves into gold.

3.2.6. Other measures

Using US monetary policy to depreciate the dollar by buying foreign reserves seems excluded due to the deterioration in international relations provoked by the US coercion policy. Indeed, the US would be exposed to the risks of foreign sanctions on these assets.

Among the other options discussed, the possibility of bargaining higher tariffs against transferring foreign productions to the US also indicates the kind of method the Trump administration is considering. The document remains silent on the future costs for the US of global geoeconomic fragmentation and the ensuing wave of anti-American reactions.

The explicit intention to cut oil prices by spurring oil drilling is necessary to reduce the US price level and enhance competitiveness. Of course, this is presented as a positive result. In contrast, the very costly externality of the increase in CO_2 emissions is not considered, all the more so since the CO_2 impacts are irreversible and incur exponential costs. This constitutes an aggressive policy of free-riding at the expense of the rest of the world. Still, it would also impact the US economy, increase its future indebtedness and harm the health of the American population.

3.2.7. The rising debt ratio issue and financial market reactions

In her article "Trump must avoid spooking bond markets" (Financial Times of 19 January 2025, Gillian Tett comments on the recent jump to 7 per cent of the 30-year mortgage rate reported by the American Mortgage Bankers Association. It followed a one percentage point rise in 10-year Treasury yields since last autumn. While there have been similar surges in mortgage rates before 1990, "the rub is that US voters have become used to rates of 3 per cent in the past decade. Indeed, the real estate industry has become so addicted to cheap money that insiders say that if 10-year yields rise to 5 per cent for any period of time – from the current 4.65 per cent level – they expect a string of defaults". The most plausible explanation, according to Gillian Tett is that "investors are braced for price rises. Another possible explanation, suggested by the Centre for Economic Policy Research, is that non-US central banks are furtively cutting their Treasury purchases. However, the US fiscal outlook is the most contentious - and consequential – issue. Right-wing pundits have warned for years that this is on an unsustainable track: on current trends, the debt-to-GDP ratio is projected to move from 100 per cent to 300 per cent in a decade – and the deficit is now running at over 6 per cent of GDP." Gillian Tett refers to a study of historical debt crises by Ray Dalio, the founder of the Bridgewater hedge fund, who expressed deep concern that America would "go broke" and warned that "a multidecade debt cycle could soon implode". "Thankfully, Dalio thinks that this ugly scenario could still be avoided if radical reforms make the debt burden more sustainable, This could include cutting interest rates to 1 per cent, letting inflation rise to 4.5 per cent, increasing tax revenue by 11 per cent, slashing discretionary spending by 47 per cent or some combination. However, implementing such a comprehensive policy mix will be challenging. The implications are that the Trump Administration's room for manoeuvre might be more limited than assumed by Miran. Of course, Miran could counter that global financial institutions need to buy and own Treasuries – almost irrespective of prices – to meet regular rules. And foreign investor demand for US debt still appears to be sky-high, particularly in countries such as Japan. But also a swelling part of this foreign demand is now coming from potentially flighty hedge funds, who might also be "furtively hunting for ways to hedge their vast Treasuries exposures – even if they gobble them up. The same thing would be happening in Europe. The article concludes: "After all, one thing that Trump does not want on his watch is a full-blown market meltdown, let alone a MAGA revolt over surging mortgage rates. If anything is going to impose discipline on his administration, it might just be those bond rates; indeed, it is probably the only factor that will".

The notion that "Trump's freewheeling disruption could extend to the dollar" is percolating slowly in the market, as suggested by the more recent article of Katie Martin in the Financial Times of 20 February 2025, where she states that "Miran is right to suggest that up to now, market participants have laughed off the idea of a serious effort to weaken the dollar. It simply cannot work, they argued, without aggressive US interest rate reductions that risk letting inflation rip, some kind of agreement among other countries to sacrifice self-interest at the feet of US industrial policy, or the establishment of vast US reserves used to hose the dollar down. Six months ago, this all seemed absurd. Would you really bet against it now? If Trump is bold enough to put Nato in jeopardy, he is bold enough to do the same with the foundations of the financial system. Calm markets have given the signal that radical, unpredictable domestic and foreign policy is fine, actually. Investors should not assume an emboldened president will tread lightly on the dollar either".

4) Conclusions

Miran's paper is built on a pyramid of contradictions that reveals a single message: the Trump administration would think the US enjoys both the economic and military powers to blackmail the rest of the world into a set of steps that would reallocate economic activity in favour of the United States. It appears, however, that the argument of imposing a fairer sharing of the burden resulting from the international role of the dollar is a pretext to justify a new imperial economic order in favour of the US and that the proposed tariff and currency policies are incoherent and in direct contradiction with the expected macroeconomic policy-mix that would foster the external adjustment. The strategy proposed in the Miran paper involves a gamble aimed at frightening US allies and most other countries, betting that they would not dare retaliate. The implementation of this strategy would have catastrophic consequences and could destroy the multilateral order built since World War II. It could provoke a global financial crisis with unprecedented economic and human costs.

Miran's "User's guide" shows that Trump is prepared to apply the same brutal and unilateral approach to the dollar as he is to other domestic and foreign policies. We should be prepared for the financial crisis that sooner or later this might create. Given the dollar's dominant role, such a crisis would be global. It would accelerate what is probably an inevitable process of "de-dollarization". Implementing the measures spelt out in Miran's user guide would precipitate the dollar's demise, which it is supposed to prevent. It would be up to the US partners to make constructive proposals for the advent of a more rational and equitable international monetary system.

How should the EU respond?

1. Accepting confrontation sooner and united, attracting coalitions and changing expectations

History tells us that procrastination in the face of aggressive policies, amounting to violations of international law, by authoritarian leaders only postpones the moment of confrontation. The trade war initiated by President Trump is wrongly based on the assumption that allied countries would not dare to retaliate or that those who would like to retaliate would be dissuaded by the threat o suppression of the US military protection. Ceding to this form of blackmail would entail high and recurrent costs for US allies.

Therefore, we should consider whether reacting immediately and with a single voice to the dangerous plans of President Trump would not be less costly than trying to obtain a softening of some measures by accepting their principle, despite their violation of multilateral rules. Threatening the US to retaliate economically not only with tariffs but also with juridical (e.g. based on competition rules) and regulatory sanctions (against GAFAM and AI firms) for illegal actions and, overall, by joining forces with Canada, Mexico, the UK, and attracting other emerging countries, including also China, if common actions take place in the context of multilateral rules and institutions, they would change expectations. As opposed to a policy of appeasement, this might bring a painful confrontation sooner, but with the merit of bringing immediate US public opinion awareness through the stock exchange sanction against incoherent policies, making it possible for the EU to take the lead of positive proposals.

As explained above, there is a significant probability that a financial crisis will be prompted by irresponsible US fiscal policies, higher interest rates, the inflationary impact of protectionism and/or loss of confidence in the Fed's independence. Whether it happens sooner or later, Europe has to anticipate this crisis and reduce its exposure to lower-quality US assets. The prospect or the occurrence of a financial crisis might be the only way to impose restraint on the Trump administration. In this connection, the sooner this restraint is imposed, the better.

The role of financial expectations would be crucial because they constitute the Achilles' heel of the strategy outlined by Miran. They would anticipate outcomes and react at the global level to the unprecedented new risks of inflation and trade war. Very soon, the positive results of the "great moderation" brought by globalization and central banks' acquired credibility could be annihilated by Trump's populist policies, constituting a real threat to democracy and stability.

Would the observed contradictions result from the incompetence of a sorcerer's apprentice or a deliberate strategy, creating political disorder that could become a pretext for seizing all power? The only chance to limit damage rests probably on a coordinated response of the EU, the UK, Canada with China and as many other emerging economies as possible, pushed by financial markets, able to turn around public opinions.

2. <u>The EU should take the initiative to call all the countries for preparing a reform of the international monetary system along the lines of the Palais-Royal Initiative(PRI)[12] and the subsequent RTI proposals</u>

We have seen that the reference to the Triffin Dilemma lends a veneer of respectability to what amounts to an incoherent, imperialistic project. This argument could attract the Global South, also exposed to the instability costs of the dollar system, and especially China, India, and most emerging economies, to join efforts for preserving and improving a multilateral order, thus exposing the US to isolation.

The EU should acknowledge and try to share its position with the Global South, in the context of the TD - the genuine problem to the US manufacturing sector and the long-term credibility of the US creditworthiness created by the continued role of the dollar as a global reserve currency. It should draw attention to RTI recurrent warnings[13] about the «quantitative» incapacity" of the US, becoming relatively too small, to satisfy the exponential growth in the demand for safe assets and to the systemic risk induced by the uncontrolled expansion of dollar assets of unequal quality, beyond the capacity of the Fed to stabilize the market in the case of a crisis. As Martin Wolf wrote, "it is clear that running a globally integrated economy with a national currency creates insoluble problems" (FT 20 June 2020). At the

[12] Borman, J., & Icard, A., ed.[2011], *Reform of the International Monetary System; the Palais Royal Initiative*, Emerging Market Forum, SAGE Publications, India, USA, UK, Singapore.

[13] Ghymers, C,. [2021] «The Systemic Nature of the Global Crisis and Some Principles for Tackling It » .in De Souza Guilherme, Ghymers & others (eds), *Financial Crisis Management and Democracy*, Springer, Switzerland; Ghymers, C., [2021] «The systemic instability of ballooning Global Liquidity as a symptom of the worsening of the Triffin Dilemma», *RTI Paper no. 15*, Centro Studi sul Federalismo, Torino.

same time, as shown by the IMF[14], the cost of geo-economic fragmentation is very high. Retreating to several continental economic groupings, each of them being associated with a specific dominant reserve currency, is not a realistic and/or desirable option.

The EU should also acknowledge that, even if a broader international use of the euro may help in the short term, it does not provide a sustainable answer to the TD as no major country or group of countries such as the EU is willing to incur the current account deficit nor to issue massive amounts of liquid liabilities, playing the role of LOLR. The same is all the more true for China[15]. Therefore, an international systemic solution to the TD is needed, under which an international institution would manage global liquidity by issuing and withdrawing a global currency (the n+1 currency), which would not be the debt of any particular country, also playing the role of LOLR.

This is precisely what was proposed by the report of the Palais-Royal Initiative (PRI) of 2010-11, financed by RTI, spearheaded by Michel Camdessus, Alexandre Lamfalussy and Tommaso Padoa-Schioppa and endorsed by 18 high-level officials from all over the world, including Paul Volcker. The report envisaged the transformation of the IMF into a supranational bank, issuing a multilateral currency – a revamped Special Drawing Right (SDR). This report was complemented in 2014 by an RTI report on very concrete solutions towards "Broadening the use of the SDRs as a lever to reform the international monetary system" and by a sequenced agenda issued by Michel Camdessus and Anoop Singh[16], spelling out three stages to reach the proposed outcomes. Two interim measures proposed under this roadmap would already help relieve the burden born by the US as a result of the international use of the dollar, namely[17] :

- Reinforcing the IMF's surveillance function, making it more effective and more equitable, developing guidelines of acceptable imbalances, and broadening the surveillance on capital movements and capital accounts balances.
- Addressing cases of serious misalignments in exchange rates among major currencies by making countries' obligations of exchange rate policies more specific, using benchmarks based on macroeconomic fundamentals.

These measures should become very attractive and urgent considering that the highly probable financial crisis in case of implementation of Trump's program would imply a new severe debt crisis in EEs and mainly in the poorest LDCs. Important additional costs are expected for the US financial sector and economy, as well as for the rest of the world, spurring a joint search for alternatives. In such a context, the urgent need for new resources should attract the Global South towards the EU efforts and RTI proposals to create a new financial safety net - ideally through the IMF - but more realistically by inviting to join a new

[14] Bolhuis, M.A., Chen, J. And Kett, B. , "The costs of Geoeconomic Fragmentation, Finance and Development Magazine, IMF, June 2023

[15] Ghymers,C.,[2024], «Unveiling the New Form... op. cit.

[16] Camdessus, M., & Singh, A., [2016]. Reforming the International Monetary System – Chapter 4 A sequenced agenda, Paper presented at the 2016 Global Meeting of the Emerging Markets Forum, Washington.

[17] Singh A., Snoy B.and Camdessus M. 2023 "The essential reform of the international monetary system", Paper presented at the 2023 Global Meeting of the Emerging Markets Forum, Marrakech.

framework of voluntary cooperation (open to any country) for pooling reserves and looking for an alternative basket of reserve currencies, with or without the US dollar.

In this scenario, a new cooperative approach proposed by the EU with the UK, Canada, the Global South including Mexico and China, and others could pave the way towards a new multilateral reserve currency by making possible to issue collectively (ideally with the IMF, but if not possible, by joining all voluntary central banks) "private" SDRs (i.e. the same basket of reserve currencies as the official SDR), as the most stable safe asset, created directly against buying liquid assets in the five currencies composing the SDR, as proposed by RTI. These private SDR issues would be delinked from the national quotas and issued on the basis or regular assessments of global liquidity. Ideally, the IMF would become the genuine global and neutral LOLR, issuing the missing n+1 currency necessary for managing global liquidity as a global public good for all its members. The second best option would be to operate in parallel (IMF-1) without the US, thereby creating significant domestic pressure for a return to a rational international cooperative order as the only way to meet global challenges.

The positions of RTI are well known and detailed on the RTI website: www.triffininternational.eu

Instead of remaining in a reactive mode, the EU countries, the European Commission, and the European Central Bank should, in a very proactive way, dare not only to refute the incoherences of Stephen Miran's paper but also express their commitment to multilateral institutions and propose constructive and innovative solutions – even if necessary without the US – both immediate and longer-term, for the benefit of the international community.

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