Tariff Chaos and the Trump ‘C Team’ w/ Prof. Costas Lapavitsas

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Dimitri Lascaris (DL): I'm here today, it's always a great pleasure to be joined by Professor Costas Lapavitsas. He is our resident expert for our Global Economy Report. For those of you who aren't familiar with Professor Lapavitsas, he's a professor of economics at the School of Oriental and African Studies, University of London. In Greece's January 2015 general election, he was elected to Greece's parliament as a member of the left-wing Syriza party. In August of that year, however, after the former Greek Prime Minister Alexis Tsipras capitulated to the austerity demands of Greece's Troika of creditors and ignored the result of a momentous referendum in Greece against austerity, Costas defected to a new party called Popular Unity. His many books include *The Left Case Against the EU* and *Crisis in the Eurozone*, and his most recent book, an excellent study of capitalism is called *The State of Capitalism*, and it explores how capitalism has produced grotesque inequality, ruinous financial bubbles, and planetary destruction. And I think, Costas, it's a very timely book, given what's transpiring in the world today. Thank you for joining us again on Reason2Resist.

Costas Lapavitsas (CL): My pleasure.

DL: One disclaimer I want to just share with our audience, this is the first live stream we're doing on Reason2Resist without our comrade Rami Yahia. Rami arrived in the People's Republic of China about a day or two ago. He's suffering from a terrible case of jet lag. He is there in part to do reporting for Reason2Resist. So I'm hoping that I'm not going to botch this. So far, it seems like we're going smoothly, but I ask you for your patience if at any point I get it wrong, the technical aspects of this. And as we announced yesterday on social media, the purpose of today's live stream is to examine the current state of this calamitous tariff war that Trump has unleashed. And before I get into it with Costas, who's going to provide us, I'm sure, with some excellent insights into what is going on, the whole thing has been so chaotic that I think it would be useful for me just to spend a few minutes telling you about the timeline. From the time of Trump's inauguration on January 20th of this year to the current time, what has transpired in the tariff war. So I hope you go bear with me here and that I'm going to get this right.

The timeline is on the screen, and it begins with, of course, the inauguration day when Trump promises to tariff and tax foreign countries to enrich our citizens. He said he expects to put 25% tariffs on Canada and Mexico starting on February 1st. Six days later, Trump threatens 25% tariffs on all Columbia imports and other retaliatory measures after President Gustavo Petro rejects two U.S. Military aircraft carrying migrants to the country, accusing Trump of not treating immigrants with dignity during deportation. They worked out that spat to Trump's satisfaction, apparently. February 1st, Trump signs an executive order to impose tariffs on imports from Mexico, Canada, and China, 10% on all imports from China, and 25% on imports for Mexico and Canada starting February 4th. On the 3rd of February, Trump agrees to a 30-day pause on his tariff threats against Mexico and Canada. So this is the day before they were supposed to come into effect. On the 4th, the day they were supposed to come into effect, these 25% tariffs on imports from Mexico and from Canada, Trump's new 10% tariffs on all Chinese imports go into effect. China retaliates the same day by announcing a flurry of countermeasures, including sweeping new duties on a variety of American goods and an anti-monopoly investigation into Google. On the 10th of February, Trump announces plans to hike steel and aluminium tariffs starting March 12th. He removes the exemptions from his 2018 tariffs on steel, meaning that all steel imports will be taxed at a minimum of 25%. February 13th, Trump announced a plan for what he calls reciprocal tariffs, promising to increase U.S. tariffs to match the tax rates that other countries charge on imports for purposes of fairness. On the 4th of March, Trump's 25% tariffs on imports from Canada and Mexico go into effect. Though he limits the levy to 10% on Canadian energy, he also doubles the tariff on all Chinese imports to 20%. All three countries, Canada, Mexico, and China, promise retaliation. March 5th, Trump grants a one month exemption on his new tariffs impacting goods from Mexico and Canada for U.S. automakers. The following day, he postponed 25% tariffs on many imports from Mexico, and some imports from Canada for a month, but he still plans to impose reciprocal tariffs starting on April 2nd. On the 10th of March, China's retaliatory 15% tariffs on key American farm products take effect. On March 24th, Trump says he will place a 25% tariff on all imports from any country that buys oil or gas from Venezuela. In addition to imposing new tariffs on Venezuela itself starting April 2nd. The tariffs would most likely add to the taxes facing China, which in 2023 bought 68% of the oil exported by Venezuela. March 26th, Trump says he's placing 25% tariffs on auto imports. April 2nd, Trump announces his long-promised reciprocal tariffs, declaring a 10% baseline tax on imports across the board starting April 5th, as well as higher rates for dozens of nations that run trade surpluses with the U.S. to take effect April 9th. April 3rd, Trump's previously announced auto tariffs begin. April 4th, China announced its plans to impose a 34% tariff on imports of all U.S. products beginning April 10th. On April 5th, Trump's 10% minimum tariff on nearly all countries and territories take effect. On April 9th, Trump's higher reciprocal rates go into effect, hiking taxes on imports from dozens of countries just after midnight, but hours later his administration says it will suspend most of these higher rates for 90 days while maintaining the recently imposed 10% levy on nearly all global imports. April 10th, the White House clarifies that Trump's previously announced 125% figure for tariffs against China is actually 145% once his previous 20% fentanyl tariffs are accounted for. On April 11th, China says it will raise tariffs on U.S. goods from 84% to 125% in response to Trump's heightened levies, with the new rate set to begin on the 12th of April.

So that would have been Saturday, this past Saturday. And then to top it all off, on April 12th, a U.S. customs notice revealed smartphones, computers and some other electronic devices would be excluded from the 125% tariff on goods entering the United States from China. But then, in a late breaking development, Donald Trump chimed in on social media saying that there was no exemption for these products and called such reports about this notice false. Instead, he said that, quote, "they are just moving to a different tariff bucket". So when he said they, presumably he was referring to the smartphones and computers and other electronic devices, and then Trump added, quote, "we are taking a look at semiconductors in the whole electronic supply chain in the upcoming national security tariff investigations". Trump said he would provide an update on Monday, that's today, about semiconductor duties. Everyday devices, just so you understand, such as smartphones and laptops, rely on semiconductors, which are small and powerful pieces of tech that form the basic building blocks of modern computation.

I'm sorry to burden you with all of that detail, but I think it is essential background information to the discussion that Costas and I are going to have today. So with that, Costas, you know, in our prior discussions, you quite properly asked repeatedly when we've talked about tariffs, and I think we've had three discussions about them up until now, whether there is a method to this madness. On the surface, it does certainly look like madness. As you sit here now, after nearly three months of Trump's second administration, do you see any method in this madness, Costas?

CL: Dimitri, I have to say that just listening to you, I got dizzy. Just the succession of steps, counter steps, retreats, reversals, that by itself tells you something very important, that there is nothing coherent, systematic and consistent in place in the United States and the current administration to a large extent makes policy by the seat of its pants. So it's chaotic. Now, is there a method in the madness? No. Tariffs are a respectable, legitimate means of economic policy, for sure. It's a tool. But what they've done is to make it look ridiculous, to create incredible uncertainty, and that has rebounded against the United States economy already. If there is any kind of logic, it's very remote, and I'm sure that we will discuss it when we get into it in some depth. But you know, a set of statements that follow from each other, logically, doesn't make a plan. And Trump doesn't have a plan, he's got some ideas, some suggestions, and he's making it up as he's going along. The end result will not be positive.

DL: Now, the former finance minister of Greece, who at the time he was finance minister, was sitting in the Greek parliament with you, Yanis Varoufakis, has argued that there is in fact some method to this madness and that Trump does have a plan, whether it'll be effective or not. I think that Yanis may not have a firm position on that, but he does believe there is a coherent plan behind this chaos. Could you summarise for us, Costas, what is Yanis' view on this and how do you assess his analysis?

CL: I am not sure I understand exactly what Yanis' view is on this. He should be asked directly, really. He has been arguing that Trump has a plan and the plan has to do with the dollar and it has to do with reducing the value of the dollar in order to boost the domestic productive capacity of the United States. I think that is there, and again, I'm sure we'll discuss

it in more detail as we move along, but that doesn't the plan make. That is just an intention, an idea, a wish on the part of the Trump team, but there's no plan. To achieve that aim, boosting the domestic productive capacity of the United States' industry and so on, you need a lot more than simply focus on bringing down the value of the dollar. That does require a plan and that plan would have a lot of steps and serious social transformation. There's none of that. None of that and I don't think that the Trump team even understands it. In fact, the more I look at the Trump team, the more I have the impression that it's not just the B-team, here's the C-team or whatever it is that is running the United States. It's a bunch of people who barely comprehend what's at issue and how much disturbance they've caused. It's basically second raters. And whatever actions are taken and whatever thinking they're putting into place is the thinking and actions of second ratists. And I'm happy to explain that as we move along. It's a disaster, the way it's unfolded.

DL: So speaking of the C-team, I'd like to show you a clip from a member of the C-team, the US Treasury Secretary, Scott Bessent, in a recent appearance before the adoring crowd at the American Bankers Association. Here's what Mr. Bessent had to say.

Scott Bessent: Escalation, unfortunately, the biggest offender in the global trading system is China. And they're the only country who is escalated. And I can tell the rest of the world that I'm not sure whether it was the prime minister or the economic minister in Spain made some comments this morning: Oh, well, maybe we should align ourselves more with China. That would be cutting your own throat. Because I can tell you that these Chinese exports, that the U.S. tariff wall is going to keep out, that China, for all of you who can remember that Disney movie of the brooms carrying the buckets of water, that is a Chinese business model. It never stops. They just keep producing and producing and dumping and dumping, and it's going somewhere. And I think, Rob, at the end of the day, that we can probably reach the ideal with our allies, with the other countries that have been long-term, they've been good military allies, not perfect economic allies, and then we can approach China as a group.

DL: I have to confess, Costas, I didn't see the movie with the broom carrying the buckets of water. I don't know what the hell that has to do with this metaphor, but I'm sure Scott Bessent understands that work of cinematic art better than I do. In any case, there's so much in there to unpack. The first thing is, this notion that China is dumpy, that it just produces masses of products and we'll sell them anywhere at whatever price they can fetch to destroy the competition. I mean, do you think there's any validity to this accusation that's being levelled against China?

CL: The only validity there is, is that Chinese capitalism has overtaken US capitalism by a mile now. That's the only validity that there is to it. Through a combination of domestic and international factors at play for at least two decades and probably longer, China has emerged as the workshop of the world. That's the truth of it. Most of the explanation has to do with the domestic structures of social and economic power in China, and I'm happy to discuss them as we move along. The United States has been very clear about defending its hegemonic position in the world economically, militarily and politically for decades. They realise that they're falling behind and therefore they are attacking China for all they can. This is really

what's happening with the Trump plan and this man expresses it. That's not new, incidentally. Some of us have got long memories. I began to do economics and to look into Asia in detail back in the 80s, when Japan was the main enemy, and the United States establishment was very clear at that time that Japan was the worst thing that had ever happened, that the Japanese were dumping goods, that they were cheating, that were doing this, that and the other, and they took measures which constrained Japan, and Japan hasn't really recovered in 30 years. What's happening now is that this man, who is actually a man of Wall Street, that's how he made his name and his fortune, is expressing the deepest desires and aims of the Trump administration. They think that they can beat China, they can put it back in the box, and maintain the hegemonic position of U.S. capitalism in the world. He needs to think again. China is not Japan, politically and economically, and what they're attempting to do will damage the U.S. economy, not only the Chinese economy. They will do China some damage with what they're doing, and I'm happy to discuss it, but they will also damage the U.S. economy.

DL: You know, there's this simpletons analysis of why China has been able to become such a powerhouse in industrial production and international trade is that, first of all, they exploit cheap labour, whereas labour costs are higher, you know, in the so-called civilised world, and that they steal intellectual property from these extraordinarily sophisticated Western corporate actors. How do you respond to that? I realise this is a big question, a complex question, but what do you think primarily accounts for the enormous success that China has had in terms of international trade and industrial production?

CL: China emerged and remains a developing country. People forget that. China has got a huge population and there are many Chinas. There's a very, very advanced part of the economy in the big cities and so on, but there are also parts of China which are developing country areas. China then emerged as a developing country through its transformation and social change which we don't really want to get into, and it followed in many ways the path of developing countries. If you don't protect, you will never make it in the world economy. The idea that somehow these people, the Americans or the British or the Germans will do you favours, it doesn't hold. You've got to succeed, you've got to use and marshal domestic resources, and you've got somehow to protect your economic activity in order to succeed and achieve what you wish to achieve. China did that. It certainly protected its economy. It certainly controls parts of the economy, certainly controls flows of capital. It controls the banking system. It controls large big businesses. The core, the backbone of the Chinese economy is state owned, state operated enterprises. The economy is capitalistic, no doubt at all about it. And it has a large private component, but the backbone remains under state control, even if it operates capitalistically. And behind all that is the Communist Party of China. Which is not the Communist Party politically. People make that point as if they're making an ideological statement, it is not. It just calls itself the Communist party. It doesn't operate in a communist way. It runs the economy, and it runs it in a coherent, managed way. That's the significance of the Communist party of China. It's 100 million people, roughly, and they call the shots. They dictate how the market moves. That is a big secret of success. Big secret of success in China.

Obviously, to go forward, they took advantage of low wages, of course, as they moved millions and millions of peasants essentially into the big cities. That has been the classic pattern of capitalist development. China did it on a grand scale, and therefore it moved millions of people out of poverty. They took advantage therefore of low wages, but they also invested enormously. The other secret of Chinese success is investment. For years, Chinese investment was 40, 45, 50% of GDP, unthinkable volumes for Western countries. The combination of low wages and huge investment has transformed the country. At the moment, China is still not really in the high technology bracket for much of what it does, but it's moving very rapidly there. That's not because of cheating or stealing or things like that, although Chinese are not leery of doing it where they can, but the way in which they're moving up the technology ladder is through investment and through marshalling the national resources, universities, research centres, and so on. Again, through the guidance of the state backed by the Communist Party that manners capitalism. That's basically what it is. It's very exploitative, I should say, it has created a lot of rich people, it has increased social inequality, of course, but it has transformed the country.

DL: So going back to the character who talked about the flying brooms, Scott Bessent, he also suggested that, if the United States' former allies in the West joined forces against China, they could bring China to heel. I just want to comment that it seems to me that if you're trying to create unity amongst your Western allies, the last thing you want to be doing is slapping them with devastating tariffs and accusing them of cheating just because you're in a trade deficit with them. But let's suppose that they manage to corral all of these Western governments together and they take a unified position against China in this trade war, do you think that that is likely to be an effective strategy and lead ultimately to victory for the Trump administration?

CL: Let me first of all say that this man – you mentioned different buckets when you quoted Trump previously, the idea of buckets comes from this man. He was the one to propose different buckets for tariffs. In other words, you group countries and you put them in different categories of tariffs, depending on how friendly they are, or how dangerous they are or whatever they are to the interests of the United States. And what you showed in that clip was basically further elaboration of that idea. We will put together some countries that are friendly to us and we're not going to hit them very hard with tariffs and so on and we will attack the main enemy, which is China, which is also retaliating. He mentioned that point. The others are not retaliating as severely as might have done and certainly nothing like China. The real trade war then is between the United States and China. That's basically what's happening. And the United States is trying to marshal, as you indicated, all the traditional historic centres of capitalist accumulation behind it. It's not going about it the right way, it hasn't created confidence, it doesn't come across as much of a leader, it does not create trust, it has undermined the role of the dollar which affects just about everybody; and that is a true sign of how mediocre the Trump team is. If that's what they wanted to do, they should have gone about it their own way. They shouldn't have let Trump lose on the world scene. Imposing tariffs of 10% one day, 25% another day, taking them back, threatening people, doing this, that, and that. If that's how you transact to sell three, four bedroom houses in Brooklyn, that's

not how you do international economic negotiations, that is not how it works. If you cut your skills in having deals in constructing towers in Manhattan and selling them, that's not how you operate in the global economic terrain. That's not how you make friends and win influence. In Europe, at any rate, the stock of the U.S. currently is very low. Bessent threatened Europe directly in the clip that you showed, but the options that Europeans have at the moment are not very many. They will have to maintain strong relations with China. So, that doesn't speak well for the plans that the Trump administration has. I think it's more likely that they will create chaos, they will damage China, but they will damage themselves as well. Again, we can discuss how that would be as we move along.

DL: Before we do that, I want to pick on, first of all, for those who may have forgotten what Bessent said in that clip when Costas referred to the threat, I believe, Costas, what you were talking about was Bessent's use of this rather crude metaphor that the Spaniards would be cutting their own throat by daring to cosy up to China, the world's industrial power house. I took that also as a threat, Costas, and I thought it was a very crude threat. Again, I don't think this kind of language is likely to engender a sense of unity amongst Europeans and Americans.

CL: No, no way. No way. Because you see from the perspective of Europeans, what's happening at the moment? Europe, you see, one key thing here is, economically, Europe doesn't have its own energy sources. Europe is an importer. There is coal, but the move towards clean energy production and so on has limited the significance long term of coal. So Europe does need to import and that historically has meant Russia. The geopolitical rift has shifted those sources away from Russia, that has meant liquefied natural gas. The United States has emerged from this supply. The United States then is a beneficiary of this transformation because it is a surplus country when it comes to energy, whereas Europe is deficit. The position is very different economically, and that doesn't create much of a basis for joint action. The United States benefits from what's happening. It's exporting energy to Europe and it's benefiting, profiting from it. And best, it might say it's our friends over there, but when you're charging our friends enormous amounts of money for energy, they're not very friendly in the longer term. And when you speak in the way in which it does, threatening them, you're not creating the trust that's necessary.

DL: Let's talk about the stakes for China, Costas, assuming that Trump, there have been moments, I think, when a lot of us thought he was, he was blinking, that he was bluffing, and then he withdrew, but then he comes back again, and even with more aggression than his prior position – we just saw that over the last several days, I think – but let's suppose he persists down this path and these tariffs stay in place, what do you think the impacts are going to be, broadly speaking, on the People's Republic of China, its economy? And how do you think that the government there will try to adapt and mitigate the damage?

CL: Good question. Let's start with what remains so far of the tariffs that Trump and his administration has actually imposed. Because one loses track. You went through the list before and I got dizzy, as I said to you. So what remains? There is a 10% tariff across the board. The base tariff, as it were. That's important for their thinking. And again, we can

discuss it. They've imposed base tariffs across the board for everybody. But China has got special treatment. 135, whatever it is, I've lost count of what it is now, right? But it's extortionate. So China is the real aim. At the same time, there are still tariffs on aluminium and on steel and on cars. So selective tariffs do apply and possibly some parts of Chinese output has been excluded from the tariffs, possibly as we all thought that mobile phones had been excluded because of course a lot of the imports into the United States from China are high technology, because China is the workshop of the world and that damages directly U.S. interests. But anyway, we've got a 10% universal tariff and very, very high tariffs for China. That's what remains so far. What will happen 90 days from now? Only Trump knows, if he knows, right? So the uncertainty is enormous.

So what will that mean? If this tariff war unfolds even more, because China is retaliating and retaliating hard, what will it mean? Here things become complicated and we need to think very carefully about it. It's one thing to oppose fairly modest tariffs, which is what Trump did in 2018. And Biden continued throughout his tenure. People forget that, right? It's one thing to do that, quite another to impose 130%. That's like a different world. The hit delivered to Chinese industry, private and to a certain extent public, will be very significant. No question about it. A lot of demand will just disappear. The price increase will be so great that a lot of the demand will disappear. This will force the Chinese leadership to engage in the social and economic transformation, which has been on the cards for a long time, but they have not been able to deliver because they don't know how to handle it, to be honest. What is that? Well, the good days for China, in other words, the days of rapid economic growth are over, because wages are not as low as they used to be, the kind of stuff that we mentioned before, wages have risen. Hundreds of millions of people in China have come out of poverty, right? And that's one of the successes of China. So real wages have risen. There are far cheaper places in Asia than China, Vietnam being one of them. A lot of Chinese capital has been moving to Vietnam to produce that and to other countries like that. So the tariff hit will exacerbate that. It will make the pressure of the high costs even greater. The second thing that is associated with that is that the need to shift away from a model of economic activity that relies on 45% of GDP investment will have to be changed more rapidly. It's unsustainable. The country doesn't need to invest 45% or its GDP generally in infrastructure and whatever else it is. It needs to improve consumption. It needs to allow the Chinese people to enjoy more of the fruit of their labour and of their increased productivity. Both of these things, however, rising wages and moving towards higher consumption have got social implications, they are not just economics. These are economic answers one gives, but the social dimensions are very complex. How will you manage rising consumption? Which layers of the population will enjoy higher consumption, which not? How will you manage the tensions that will emerge? These are very difficult things, and Trump is forcing the Chinese Communist Party to confront them.

Two more things are very important in this. The first is that if Chinese capital finds that its export markets have become weaker because of the tariffs, and if domestically, wages are high or higher than elsewhere, there will be an acceleration of capital outflow from China. Capital will seek to be invested elsewhere. It's a logical thing. But the Chinese capital account

is under control. It's controlled by the central bank. It's controlled by the state. Tensions will emerge there, substantial tensions, and they will be reflected on the relative value of the yuan, the currency, right? Because the Bank of China manages the yuan on a weekly basis. That's part of the state control. But if capital export needs to increase, that doesn't sit very well with controls, and with managing the role of the yuan, they will have to devise a new way of doing monetary policy. That's a very difficult thing. The last thing, the fourth thing that I want to mention is that the pressure on China generated by Trump and his tariffs, the loss of markets will force the Chinese to move, in a sense, upscale, to improve the technological character of the production, to move towards higher technology, they will invest more, they will increase investment in higher technology even more, they will try and shift into areas in which the United States still retains comparative advantage. We can expect intensification there. The United States thinks that it has all the aces when it comes to that. That remains to be seen. It remains to be seen. We don't know how it's going to pan out, but we do know they are forcing China to compete more heavily in that field. So, all in all, China is under pressure – no question. Its model had come to pretty much an end already. Trump is ratcheting the pressure and is forcing the Chinese leadership to take decisions. The Chinese people can expect ructions ahead. They can expect disturbance. Will America win? Only in Trump's imagination. You don't know how these things are gonna turn out.

DL: So I'd like to now show you another clip, this from Trump himself, which I think might provide us with some insight into what the ultimate goal of this madness may be. So let's hear what he had to say in a press conference two Mondays ago with the war criminal Netanyahu, in the White House.

President Trump: They cheat. They cheat like crazy. Canada cheats. Mexico cheats. Just one of those things. But we are setting a table and we're going to have great trade and we are going to have a very strong country. Our country is going to be at a level that it has maybe never been or maybe, you know, our country was the strongest, believe it or not, from 1870 to 1913. You know why? It was all tariff based. We had no income tax. Then, in 1913, some genius came up with the idea of let's charge the people of our country, not foreign countries, that are ripping off our country.

DL: The United States was the greatest country on God's green earth according to the Donald when it had no income tax. So I heard this and a big alarm bell started ringing in my head. And it's not the first time he said something like this, of course, Costas. I suspect that this has a lot to do with the Donald wanting to eliminate income tax on himself and his billionaire buddies. So my first question to you is, how much do you think, and I guess you're sort of, it's kind of an unfair question because none of us can read the Donald's mind and it would be terrifying to even try, but, I wonder, is that really what this is all about? Is that a large part of the motivation based on the totality of the evidence? And secondly, what this would do to the United States if they actually moved back to a model, which I haven't actually confirmed this, but according to Trump prior to 1913, the revenues of the United States government were tariff-based and there was no income tax. What do you think this would do to the finances and to the society if in fact he were to achieve that goal?

CL: I mean, how does one begin to make head or tail of all that? One thing that has to be said is that Trump, as he did during his first tenure, but for this one, he's promised us from the beginning that he was going to cut taxes and he was going to deregulate, quite apart from tariffs. He promised that he will cut taxes even more and he will deregulate. And that's why Wall Street and everybody else and even the big CEOs liked him when he was contesting the presidency. So we know that he's a firm believer in cutting taxes for himself and his friends, basically, and his social group. We know that, so he's hoping to achieve that. Again, we can discuss what this means more broadly. But on income tax, there you get a true sense of how wild these people are. Income tax was invented by the English during the Napoleonic Wars. It's one of the major innovations in the history of capitalism because it allows for a steady flow of revenue for the state. It provides the state with a reliable revenue that doesn't depend on excise or on tariffs and so on. And therefore, it allows the state to intervene in a systematic way in organising capitalist production, the capitalist economy.

The idea that the United States was great because it relied on tariffs, it only exists in Trump's disorganised mind. During that period that he's talking about, when the United States emerged as a major power, he should also know the United States had a financial system that was reasonably controlled, that was close connection between big business and big banks, and it was a system that was not market-based as it then became. That was reminiscent of many developing countries against which he is now battling because the United States at that time was also a developing country and that was far more important than this nonsense about tariffs and no income tax and so on. Now if he attempted to do that, indeed, however, in other words, abolish income tax and somehow survive on tariff revenues, that would probably be the end of the United States as a hegemony power. That will immediately disorganize and shrink the States. It will result in a state machine that is already dysfunctional, as we know. The U.S. state machine is already dysfunctional. Elon Musk is making it even more dysfunctional. If we go into a state in which income tax is abolished and the United States relies only on tariff income, then you can forget any notion of the United States dominating the world economy and being the major superpower. He doesn't know what he's talking about. The most charitable thing that can be said about it is this: He and his acolytes, his circle of friends, realise that the current fiscal position of the United States government is untenable. He realises that. He realises that the deficit of roughly 7% of GDP and the public debts in the tens of trillions, 35, whatever, trillion dollars, that's unsustainable. He realises that. But the idea that this can be cured by abolishing income tax, relying on tariff income, and therefore, reducing expenditure and so on shows how little they understand of the modern state and the modern economy. It's impossible to do. It's impossible, and if they engage in abolish of this type, they will cause enormous damage and disturbance to the U.S. economy.

DL: Getting back again to what the theoretical basis of this tariff war is, I thought it was important for us to discuss today, Costas, an individual who is perceived by many to be the brains, and I use that word advisedly, behind Trump's tariff scheme, and that is Stephen Miran, who is the chair of his Council of Economic Advisors. Last November, when Miran was the senior strategist of Hudson Bay Capital, he authored a paper entitled *A User's Guide*

to Restructuring the Global Trading System. I imagine you're familiar with this paper and I'm curious to know, could you summarise first for us, what is the thrust of his argument in this paper, Miran's argument, and what is your assessment of that argument?

CL: In some ways, you can hear echoes of Miran's paper in the clip you showed us of Trump just a minute ago. The idea that Canada, Mexico, everybody else is cheating like mad in their transactions with the United States. You can hear echoes of that paper. Miran doesn't put it that way, but that's where Trump gets, in a sense, the analytical in so far as it exists, backing for this. So, what's the position? It's important to understand that because if there is any kind of economic analysis behind what Trump and his administration are doing, this is it, right? Insofar as we know what they've made available to us. So, the paper that you refer to, I want to be charitable, right, I wanna be as generous as I possibly can, the paper that you referred to starts with an observation which is true. That the global trade system and therefore the financial system attached to the trade system is problematic. It starts with that. That the system doesn't deliver what we would want it to deliver. It's problematic. Some of us in the non-mainstream economics tradition, the radical tradition or the critical tradition have been saying this for many years; that the global financial and trade architecture is problematic from top to bottom, right? That's what this paper also says openly. But then it proceeds to say that the main loser out of this, the main damage from this problematic system is done to the United States. It's the complete opposite of what the critics of the global system have been saying for many years because, you know, I in my work and others like me have been saying the system doesn't work, the architecture is problematic and the losers are developing countries, countries which are on the periphery of the world system, which are burdened with losses and difficult and an impossible way of entering the world market, which is basically geared against them. Miran is saying the opposite. The loser apparently is the United States.

Now take a step back and think of how absurd this is. The major power that established the system, because the United States has created it, somehow has become the victim of it. And why is it the victim of it? Because the dollar is the reserve currency of the world. That's the diagnosis. The diagnosis is completely wrong. Miran's thinking is, the system malfunctions, and it malfunctions because the dollar is the reserve currency. And the dollar being the reserve currency means that the dollar has got a very high value. Because foreigners, China, India, Brazil, Saudi Arabia, South Korea, a whole host of countries hold reserves of dollars. Therefore, they demand it and they keep its value high by doing so. But if the value of the dollar is high, says Miron, then the United States' industry cannot compete. It is basically outcompeted out of the global markets. And that, he thinks, is the efficient cause of the loss of manufacturing capacity by the United States and the loss of industrial jobs, the industrial devastation that we all know has happened in so many states in the United States. So that's basically the diagnosis.

What's the cure? The cure has two sides. The first is tariffs. So you get the theory of tariffs that we've seen somehow applied by Trump, except that Miran couldn't quite possibly expect that what we're going to get is the Donald changing the level of tariffs every five minutes. So, basically, the argument there was a 10% universal tariff, such as we now have, high tariffs

against China, and then we will see about the others, possibly the buckets that Bessent referred to in the clip that you showed before. Tariffs of this type, he thinks, would be very effective in beginning to redress the damage caused by the high dollar in his thinking. That's one part. The second part of the cure is, of course, currency intervention. And why? Because obviously, Trump and to a certain extent, Miran, although he doesn't discuss it, realise that it isn't just a problem for the United States that the dollar is the world currency. He might also be a benefit. He doesn't tell us what these benefits might be, but he seems to say, or he tells us openly that Trump, for some reason, wants to maintain the dollar as the world reserve currency. But then you've got an issue here. If you want to bring the dollar down to improve the competitiveness of U.S. manufacturing, but also you want to keep the dollar as the world reserve currency, why would anybody keep the dollar if they are foreigners trading with the United States. Why would anyone want to hold on to a currency that declines in value and lose money? Because that's basically what it entails. And here we get lunacy on a grand scale. The answer apparently is, we change the composition of the reserves and the type of asset that the foreigners hold. So, how do you manufacture the fall in the dollar from the currency side? You make the foreigner, Saudi Arabia, China, sell the dollar, get rid of some of their reserves. Therefore, that will bring the value of the dollar down. The United States will benefit, presumably. How do you make them continue to abide by the dollar as a reserve currency? You change the composition. Instead of holding short term treasuries, you make them hold long term bonds. They switch to long term bonds. If they hold long term bonds, then they continue to hold the dollar and the rate of interest, the yield of the dollar doesn't collapse, doesn't do the problematic thing that would have [been] if they just sold. So you win.

But why would the foreigner, the question naturally arises, continue to hold dollars longer term when the value declines? Because the loss is enormous. Why would China do that? Ah, says Miran and his friends, because that will be the price for the security protection provided by the United States. That will be a cost that the participants in the world market will have to accept as the price of the U.S. security expenditure and that will be the way of participating in the security costs. That will be their way of sharing the security expenditure and events. Now, you might ask who is China seeking security against the Americans, of course. But that aside, you can see that is the strongest, apparently, economic argument that can come from that side. It really is the C-team. It really is the C-team, it's really the people who understand that the system malfunctions, but don't understand why it malfunctions. And the reason why they don't understand that is because they approach it from the standpoint of the United States, which is the main beneficiary of this system. And they think that somehow it's the loser. And whatever happens must continue to rebound in the interests of the United States. In other words, they're going to make the system even worse than it is at the moment. The system needs changing, for sure, not in that direction, not at all in that direction. We need a system that allows countries to trade equitably, and we need a system that creates some kind of reserve currency that doesn't benefit the United States as extraordinarily as he has done so far. We need to control the financial system. On that, Miran, his friends, Trump, and his friends have got next to nothing to say. Nothing. Because you don't control the national system, you impose tariffs on China, that's how you solve the problem. No, you don't solve the problem.

DL: Quite apart from the fact that this sounds a lot like the Godfather, this seems like a particularly inopportune time to be touting the protection the United States offers. We're seeing in real time and tragically how that's working out for Ukraine; this is the result of the U.S. protection, the destruction of the country. I did want to ask you one other question about the reaction of the left in Europe to Trump's tariff war. How do you assess, I mean, to the extent that the left has anything to say about the subject nowadays in Europe, I really haven't seen anything other than, you know, talk about retaliatory tariffs, any kind of coherent plan. What is your view about this? As someone who decidedly from the left and you're a European and want to see the vitality, the economic vitality of the continent restored, enhanced, what do you think Europe's reaction ought to be?

CL: The left is very confused, not just in Europe, more generally, in the United States, too, from what I can gather. To me, two things are very, very important here. The first is that the left is not in favour of free trade. A lot of people confuse that. They think that the lunacy of what Trump is doing and the damage he's imposing on the U.S. economy and elsewhere, needs to be opposed by the left saying, no, no, we're against tariffs. No, no! Tariffs are a legitimate instrument of economic policy. The left is for controlled trade, not for free trade. The neoliberals are for free-trade, extremely liberals. But of course, tariffs must be measured and they must be part of a broader economic strategy. Not this chaos that we see. But that is often not understood. And what you get is some weird defences of the current system, which is clearly dysfunctional. Trump is right to point his finger at the dysfunctionality of the current system. So, we are defensive of that in order to stand up to Trump: No, if Trump is saying it, he must be wrong. No. Trump knows that the system doesn't work. He just doesn't know how to fix it. And the fixes he proposes are often worse than the disease. So that is not really understood by the left. And that's a sign of the weakness of the left, right? And that is why discussions of this type are important, I think, in focussed points.

END

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