

Ivan Adamovich
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Food for Thought

Dealing with America

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Dealing with America¹

Ivan Adamovich | Konrad Hummler

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Does Donald Trump have a plan?

Thinking and writing what nearly everyone else is thinking and writing is not only boring, it also risks a poverty of mental ambition. Routinely adopting a position athwart the prevailing mainstream might prove briefly diverting, but it fades into a hollow gimmick over time – and is in any case a hiding to nothing, as the mainstream is neither always right nor always wrong. Weighing matters up, not seeing everything in black-and-white, conjuring new, unusual and, at first blush, even contentious perspectives – in the truest sense, giving people something to get their teeth into – demands both creativity and, in a world that is increasingly polarised and beset by absolute “truths” (or rather convictions), unfortunately also courage.

This essay by two fellow Foundation Board trustees, Konrad Hummler and Ivan Adamovich, is infused with this spirit of originality and a readiness to plough a furrow of its own. A gadfly like the current president of the United States of America, Donald Trump, almost invites brickbats from all quarters, and this is indeed happening in Europe at least, reaching deep within the bourgeois establishment. There is also one thing on which almost all seem able to agree, even those who see some positives in Trump’s policies: This president is unpredictable, irrational and erratic, and acts with-

out a plan. The authors of this essay would beg to differ, however; behind the presumed madness and confusion in every precinct of foreign policy, they perceive indications of actions in which there is method and, from an American perspective, even reason. They cannot be certain, of course, but even the mere possibility that this might be the case is grounds to reconsider our understanding and entertain new options for action. Deliberate disruption is conceivable as a median, third scenario, straddled at one extreme by the unbridled harm of total chaos and, at the other, by the pious hope that things will ultimately not turn out all that badly because institutional checks and balances, not to mention the financial markets, will encourage reason to assert itself, at least in part.

For many decades, Zurich's Progress Foundation has considered it its mission to broach new horizons with its publications and events, showcasing the unknown and the unfamiliar, and daring even to think the unthinkable, true to its conviction that intellectual openness is a prerequisite or progress of any kind, and that only liberal values can guarantee innovation over the long term. Our interest in developments in the USA is particularly strong, both in light of the pre-eminent role played by the States in world affairs and also because of the Foundation's American roots. This essay, which came about quite spontaneously and under the greatest time pressure, is thus undoubtedly a product entirely in the spirit of the Progress Foundation, for which I wish to extend my sincere thanks to the authors. I am sure it will arouse much interest and stimulate much debate.

Gerhard Schwarz

President of the Board of Trustees, Progress Foundation

Summary

European discussion of US president Donald Trump, his entourage and his leadership style is principally characterised by attempts to explain matters through the lens of psychology or the political sciences; most submissions take a moralising tone and are correspondingly normative and judgemental, accusing the president of stupidity, malice or both.

By contrast, this position paper will attempt to think through the notion of a relatively consistent agenda on the part of the Trump administration. Working from the economically underpinned belief that the position of the USA as a global hegemon is unlikely to be tenable for much longer, it is no great leap to assume that the Trump administration has a worked-out exit scenario. The breaches of trust it has perpetrated, even with its closest allies and friends, point in such a direction, as do its economically counter-productive import tariffs and, last but not least, its noxious behaviour on the diplomatic stage – towards the elected Ukrainian president Zelenskyy, for example.

The situation of a hegemon is invariably an awkward one in that it gives rise to a kind of “commons”, with the familiar problems of overuse and freeloading – of which the USA accuses Europe in particular at every opportunity. The key consideration here, however, is the financial burden on the hegemon, whose contribution is not fully compensated and becomes increasingly difficult to bear.

Transforming such a situation is challenging and fraught with risk, however, and this paper adumbrates three scenarios in which the USA’s secession from hegemony might be executed over the medium term. The undertaking will be achieved either in a

relatively painless and expedient fashion – which will principally depend on how the question of debt is addressed – or the world will pick itself up and dust itself down by dint of some kind of restoration not unlike that which once occurred in the wake of the French Revolution; or yet again, an extended period of outright chaos may ensue, with every conceivable manifestation of military, economic and social upheaval.

We have deliberately refrained from assigning a level of probability to the three scenarios, as this would no doubt be giving a hostage to fortune, but one would be wise to brace for the two disruptive options, including that of chaos. This will entail both the individual and relatively powerless small states having to make much more of an effort than hitherto to preserve their freedom and prosperity.

Is there method in the madness?

As if there were not a whole raft of economic and political developments that are already disruptive enough! Let us consider for example the incursions of artificial intelligence into every field in which more than manual labour is required, or the breathtaking breakthroughs on the battlefield that have come about in the wake of the deployment of drones in the Russo-Ukrainian war. These are changes of a secular order, capable of rendering colossal capacities obsolete and undoubtedly effecting a swingeing step change in states, societies and economies – and it is precisely at this time of radical upheaval that the new American president has chosen to double down in his second term in a way that is unique in its ruthlessness and rapidity. One should not be too hasty or naïve in bandying about the word “historic”, but what we are currently experiencing is unquestionably historic: A new era, its hour come round at last, is galloping, usurping and stumbling its way to be born.

At first (and even second) glance, most of the actions undertaken by President Donald Trump since the turn of the year would seem erratic, nigh on obsessive, poorly justified, immoderate, insulting, inconsiderate, foolish and often even self-defeating. Much had been heralded in traditionally trenchant rhetoric during the election campaign, but long years

of experience in this regard (“campaign in poetry, govern in prose”) had led us to expect this to be realised in highly attenuated form – or, more likely, not at all. After a shade over 100 days of the new presidency, however, it now transpires that Donald Trump is in the business of more than making good on his promises – and, in general, seems to have no qualms about causing his country considerable pain. Trump calls this “bitter medicine” that, for the moment, just has to be taken in order to achieve goals of a greater and higher order.

The international financial markets figure amongst those who have seen their expectations dashed. Until very recently, a kind of “phoney war” had been conducted there, evincing a striking calm, maybe a show of upset, perhaps even a general air of confidence, as Donald Trump was ultimately deemed to be a man who knows business. “He probably won’t want to shoot himself in the foot” seemed to be the (fairly rational) hope. Escalation of events into a trade war at the beginning of April 2025 then destroyed the all-important confidence in more or less stable conditions and resulted in a gigantic repricing process on the markets. Volatility (i.e. the index of uncertainty) skyrocketed and appetite for investment faded. Within a few days, chaos reigned, seemingly unleashed by a single person. This too is historic. Deferring the most radical measures has calmed the situation for the time being, at least, but the erosion of trust will remain.

Cui bono? Who will benefit? Is Donald Trump simply a “deal-maker” prepared to bet the farm? An unbelievable bluffer? Someone who will later settle for considerably less, i.e. someone acting semi-rationally or at least with rational objectives? Or, on the other hand, is he incapable of thinking things through to the end, blinkered to the secondary effects

his actions may elicit? Or is there a third possibility: Might we indeed be witnessing a systematic agenda of carefully choreographed sub-steps, set out as in a playbook, as it were?

Over the following pages, we shall be assuming the latter, i.e. that there is a plan and that a systematic procedure is being followed here – and not because we find the idea especially congenial or would wish it upon ourselves; as a general rule, a normative approach is to be eschewed as much as possible in this analysis. It is more a question of correcting the misjudgement and underestimation² of the person of Donald Trump that is doing the rounds in Europe, engendered in equal measure by demonisation of the opposition on the one hand and a dissimulation of one's own powerlessness on the other. That everything might be progressing according to a relatively consistent plan conceived and developed by more than just one single individual is a notion scarcely entertained in the Old World. We shall take this idea and offer up events to date against it, not least with a view to using it as a basis for deriving some scenarios, predictions and strategic consequences.

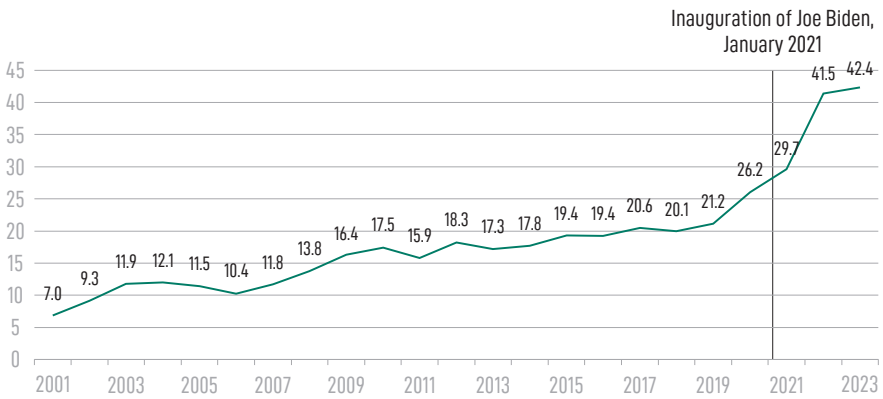
2 The authors cannot claim to be entirely impartial in this respect, having indeed experienced at first hand the consequences of a dramatic underestimation of American implacability. Cf. here Schönig/Straumann *Paria inter Pares, Das Ende der Bank Wegelin*, Stämpfli 2023.

A chronology of “accidents”?

Let us rewind the incredibly action-packed film of the last couple of months and establish a few facts:

- Even before taking office, the future president and his closest coterie had begun to bluster about the USA's potential territorial claims – Greenland, Panama, even Canada; the world saw in this an unpleasant reminder of similar statements on the part of Russia's President Putin in respect of the Crimean peninsula. The tariffs on Mexico, a bosom trading partner of the USA, are similarly telegraphed at an early juncture: zero tolerance for migrants, onerous impositions on the exchange of goods.
- Shortly after moving into the Oval Office, the new president ostentatiously signs more than 100 executive orders intended to bring about and highlight the break with the previous US administration. The ensuing wave of redundancies swept away both loyal supporters of the Republican party and employees of agencies connected with national security once thought essential, intruding even into secret service circles and the top brass of the military.

- The planned dismantling of the USAID aid organisation then aroused the highest levels of international concern. The agency’s aid disbursements had increased steeply during the Biden administration, accounting for a portion of the assistance afforded Ukraine, and, with an annual budget of USD 40–50 billion, the institution was at work on almost every continent, its financial tentacles entwined into countless non-governmental organisations. The outcry from the relevant quarters was correspondingly vociferous and despairing: Trump’s frenetic cost-cutting was affecting the world’s poorest and America was losing all its friends in the developing and emerging world. The Chinese were rubbing their hands with glee.



An expensive contribution to world order
 USAID spending (2001-2023, in USD billions)

Source: US foreign assistance

- Accusations are expressed in Europe that aspirant members of the future Trump administration had interfered in Germany's domestic affairs in the run-up to the country's *Bundestag* elections and thus attempted to chip away at the so-called *Brandmauer* ("firewall"), the established parties' notional blanket ban on cooperation with the *Alternative für Deutschland* (AfD, the "Alternative for Germany").
- Vice President JD Vance adds fuel to the fire during his appearance at the Munich Security Conference on 14 February 2025 by accusing Europe – and specifically Germany – of a lack of democratic understanding, claiming the *de facto* political exclusion of the AfD deprived a large portion of the population of a voice. The elites of the EU and several member countries react with indignation.
- On 28 February 2025, President Trump and his number two, JD Vance, upbraid the incumbent president of Ukraine as the television cameras roll, accusing him (and/or the Ukrainian people) of being ungrateful for America's military aid. There are simultaneous rumblings on the war in Ukraine to be heard from the ranks of the Trump administration that are reminiscent of Russian propaganda and disinformation. American and European perspectives on the Ukrainian conflict are even further at odds.
- Donald Trump demands an agreement from President Zelenskyy on raw material extraction by American firms, which – after some initial hesitation – he concedes. Trump makes several overtures to the Russians

suggesting a ceasefire that takes only marginal consideration of Ukrainian interests and, given the massive amounts of defence *materiel* supplied, can only be viewed as a mockery of the Ukrainian position. There are more than a few mutterings of the word “betrayal”.

- In mid-March, it transpires that members of the Trump administration have been using a semi-secure communications channel called Signal to talk about operations against the Houthis, a Shia-Islamist movement in Yemen, in the course of which Vice President JD Vance makes disparaging comments about the Europeans as freeloading beneficiaries of this intervention. Jeffrey Goldberg from the “Atlantic” magazine, a journalist on the political left, had been invited into the chat (by mistake, allegedly) and was able to record, and later publish, the exchange. The matter is played down by the Trump administration – as well as the international public – as “teething trouble” and the world returns to its daily business with a shrug. Any criminal investigation for breach of secrecy seems to have petered out. The idea that there might be any intent underlying such an “accident” is (perhaps too hastily) dismissed as a conspiracy theory.
- The big showdown finally comes on what, in the absence of any evidence, is billed as “Liberation Day” (2 April 2025). Wielding tablets reminiscent of the Ten Commandments, Donald Trump announces random, swingeing import tariffs on trading partners (irrespective of whether ally, friend or foe), making use of tortured mathematics that effectively disadvantages successful exporting countries in particular (not least

Switzerland). Anyone manufacturing goods that are particularly sought after on the American market generally takes a hit, and those who through poverty have never been in a position to purchase US products (such as the African mini-state Lesotho) are similarly punished. That the balance of trade in services (which generally favours the USA, not least thanks to software services such as Netflix, YouTube, Amazon and the like) is not factored in here seems particularly distorting and untimely.

- The backlash on global markets and the concern uttered in the financial world about a longer-term recession in the wake of the presentation of the tariffs is at first resolutely ignored by Trump. However, a rise in yields on US government bonds (“treasuries”) and the US Treasury Department’s difficulty in placing new tranches of debt on the market seem to have persuaded the president to postpone the greater portion of the heralded tariff increases for three months on the very day they were supposed to come into force (9 April 2025). Only the tariffs threatened against China were actually implemented (and indeed even intensified in a spiral of escalation).
- In mid-April 2025, the Trump administration cuts grants to Harvard University amounting to USD 2.2 billion.³ This is heavily criticised both domestically and abroad, especially in respect of academic freedom.

3 Cf. Douglas-Gabriel, Johnson and Brasch, *What Harvard could lose in its battle with the Trump Administration*, The Washington Post, April 2025.

In summary, global, trade and social policy has been turned upside down in an unprecedented manner, prompting uproar amongst western public opinion and, increasingly, on the markets as well. Commentators vie with one another in attempts to offer an interpretation, as the degree of self-destructive energy seems to overshadow anything yet witnessed.

Attempted explanations – the futile and the fruitful

The psychological explanation attempts are undoubtedly the most obvious: Donald Trump as a narcissist, constantly overreaching himself and intoxicated with power. What on earth could otherwise be the reason for queering his pitch so promptly and definitively with those who hitherto had been partners and friends? The 12 April 2025 edition of the *Neue Zürcher Zeitung* (NZZ) cites the “folly” that has been a constant feature of politics “from the time of the Trojans to Trump” and with which the world must simply learn to deal. Irrationality, an appetite for self-destruction, hubris and populism are the catchwords here.

The guild of economists has been concentrating on the axiomatic distinction to be drawn between (nationally orientated) mercantilism and the Ricardian concept of free trade that underpins globalisation. With resounding certainty, one of these is adjudged “wrong” and the other “right”. Very few more cautious financial experts⁴ have spoken of a gigantic empirical experiment that is being conducted before our very eyes: Mercantilism vs free trade – who would have thought we would ever be privy to such a spectacle, live and in real time.

⁴ Matthias Binswanger: *Sind Handelsbilanzüberschüsse mit den USA unfair?*, in Switzerland's Nebelspalter magazine, April 2025.

There is geopolitical interest in the “high-stakes game” that the president, who thinks of himself as a deal-maker, is playing. One – rather indulgent – take is that he may be “upping the ante” with a view to settling for far less. Another emphasises the chaos caused by the new president and flags up the “law of unintended consequences” formulated by the American sociologist Robert K. Merton. Proponents of this view see Donald Trump as daily proof of the hypothesis.⁵

Only very few commentators have been taking the trouble to cast even a summary glance at sources that are readily available. Foremost amongst these is the *2025 – Mandate for Leadership. The Conservative Promise* omnibus, edited by Paul Dans and Steven Groves from the Heritage Foundation in Washington⁶, a tome of some 887 pages setting out in sometimes painstaking detail the programme for a conservative assumption of power. Peter Navarro, the professor of economics who has since been elevated to the directorship of the newly created Office of Trade and Manufacturing Policy, expounds, for example, on why he feels that radical intervention in the existing trade flows is required in order to re-set the basis of the “unfair” imbalance between China (along with other trading partners) and the USA.

Beyond such primary literature, there are further sources such as a notable paper by Stephen Miran (formerly of

⁵ Simon Tisdall *The honeymoon is over for Trump, whose every unwitting misstep brings chaos and strife*, *The Observer*, 15 March 2025.

⁶ Dans, Paul, & Groves, Steven (eds.) (2023): *2025 – Mandate for Leadership, the Conservative Promise*. The Heritage Foundation.

Hudson Bay Capital)⁷ that comprehensively delineates the toolkit to be used to assert the interests of the USA with trading partners at the negotiating table, leading with the devaluation of the US dollar (USD) against all other currencies, in particular the Chinese yuan (CNY). It also concedes that some of the intended measures will lead to “a certain volatility” on the financial markets. Miran’s paper further contains an in-depth discussion of the advantages of proceeding multilaterally, rather than unilaterally. US import tariff policy has constantly flip-flopped between precisely these two approaches in recent weeks. Far too little attention has been paid to this bizarre fluctuation, with an assumption that the abrogation of tariffs that had been individually set for each country (while corresponding measures against China were retained) was simply a device to “settle the markets”. No one seems to have hit upon the idea that this alternation between a multilateral and a unilateral approach might have been carried out intentionally. We should note *en passant* that Stephen Miran has been Chairman of the “Council of Economic Advisers” since March 2025 and is thus the president’s chief economist.

It is the supposedly self-destructive aspects of Trump’s policymaking that piques our interest and prompts further consideration. What could possibly be the point of acting at such speed and with such importunity? Where is the sense in a policy that one knows (or would not find difficult to predict) will cause all kinds of damage over the short term, riling up trading partners and saddling every market and transaction with an uncertainty premium for quite some time? What

7 Stephen Miran *A User’s Guide to Restructuring the Global Trading System*, Hudson Bay Capital, November 2024.

could underlie such a readiness to countenance inflation that over the short-term they will struggle to control, compounded by higher interest rates and correspondingly expensive financing of extremely high levels of sovereign debt? Why go through all that, if the expectation is that the world will never be the same again?

That the world will never be the same again is precisely the point, however. It is our contention that this is the intent – potentially destructive, but undeniably disruptive – underlying the Trump administration’s actions. But which world? The world ruled by the USA as a hegemon. There is a settled will to “downgrade” America – from empire to prospering superpower. And why? Because they think its existence as a hegemonic power cannot be maintained for much longer. The burden of playing a hegemon is much too high to bear and there is no compensation (or not enough) forthcoming. In economic terms, existence as a hegemon is freighted with too many negative externalities and, by the same token, there are too many freeloaders profiting from the commons fostered and cultivated by the hegemon. Trump and his MAGA (“Make America Great Again”) crew wish to put an end to the commons created by the hegemon, as they believe it has been overused by all sides for some considerable time.

Trump is not the sort of intellectual likely to come up with such trains of thought, but there are brains amongst the MAGA crew entirely capable of such cogitations – Peter Thiel, in particular, but also Elon Musk or people like Paul Dans or Curtis Yarvin, who are both theoreticians and successful practitioners. JD Vance should presumably also be included in their ranks; he spent a long time working for one of Peter Thiel’s firms. Thiel is also a founder of Palantir

Technologies Inc., which successfully employs artificial intelligence to offer governments and corporations help in decision-making based on digital ontology. It is unlikely that the Trump administration's endeavours, monitored by his closest advisors in the White House, is not following the recommendations of such systems. In other words, it may well be the case that this is not madness, and there is indeed method in it – a highly systematic plan of action.

Lop-sided free trade

The best known and most visible sign of the need for action identified by the American government is the “rust belt”, the de-industrialisation of the USA made manifest in the ruins that have appeared over the last forty years. You could scarcely make a pair of jeans in America any more. The factories and the skills are long gone. Vast tracts of land, from New Jersey and Pennsylvania to Virginia, stand derelict, and the big industrial cities like Chicago and Detroit are not faring much better. Empty lots all over, urban centres given over to criminality, fentanyl victims on every corner – the symptoms of a protracted decline.⁸

The cause is a wrong turning taken by half the world that borders on tragedy – in particular, developments in the relationship between the United States of America and China, where trade and currency policies have been diverging for decades. Let us make some preliminary theoretical remarks.

8 The horizons of many visitors to America extend no further than the eastern seaboard or California and fail to capture the actual state of the USA. Reporting in European media is similarly hampered by such geographical constraints, with the NZZ's Chicago-based correspondent David Signer a commendable exception.

Countries, national groups and global regions all enjoy differing circumstances, from their climate and natural resources, access to the sea, and land reserves, to the composition of their population and their cultural and historical background, which in turn will influence their mentalities. This is compounded by underlying legal and political conditions that have been autonomously adopted or externally imposed. All this will influence the manner in which prosperity is attained, what efforts are expended to achieve it, and how it is distributed.

In economic research, much thought and debate has been devoted to the “wealth of nations” over the last few centuries (starting at the latest with Adam Smith’s eponymous publication of 1776). It gradually became clear that a genuinely free exchange of goods and services was the model that would ultimately achieve the greatest prosperity for all. David Ricardo (1772–1823) pioneered the concept of free trade. It is to him we owe the notional category of comparative advantage and its aim to achieve optimisation rather than maximisation (the mantra of cameralism and mercantilism). A Ricardian free trade economy seeks equilibrium and, because of marginal cost effects, often leaves production capacity in locations where it would not initially seem logical to do so purely on the basis of absolute cost comparisons. Such an economic model would thus hardly result in what we know as “de-industrialisation” or “industrial decline”.

This preamble is important to explain what went wrong when China joined the global economy. After the seismic power shift in Beijing in favour of Deng Xiaoping in 1978, China executed an abrupt volte-face in foreign policy and opened up to the industrialised nations of the West. These

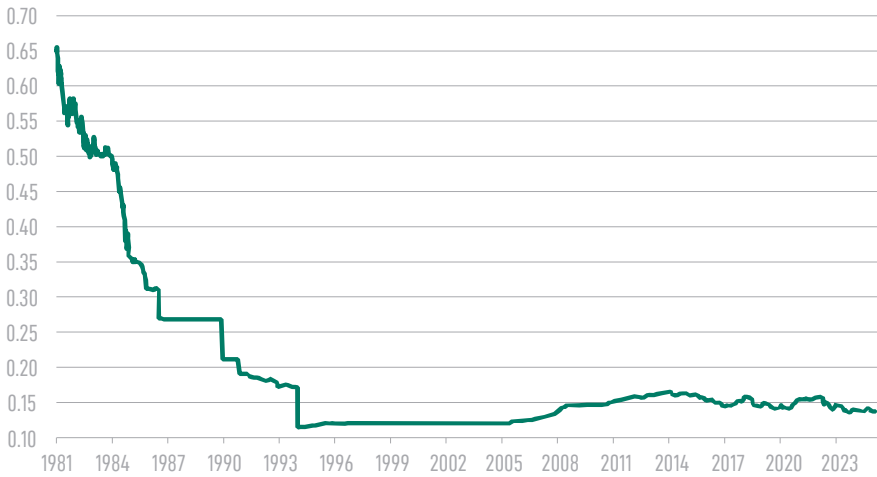
were in turn only too delighted to be able to drive a wedge into the previously impervious Eastern Bloc in this fashion, and soon allowed the Chinese to participate in world trade organisations working towards globalisation, including observer status with the General Agreement on Tariffs and Trade (GATT) and, later, the World Trade Organisation (WTO). China was formally admitted to the WTO in 2001.

Over the course of these years, China has transformed itself from a backward, developing nation into an emerging economy and in many respects can now look the industrialised nations of the West and Japan in the eye. An almost unimaginable ascent! In the space of 40 years, a superpower (indeed, a world power) that demands to be taken seriously economically, politically – and to an ever greater degree, militarily – has been created out of thin air. In the first ten to fifteen years or so, China’s major comparative advantage lay in the incredibly cheap labour it had to offer, and Western consumers were prepared to accept certain qualitative deficits as a trade-off for low prices. Manufacturing conditions have improved over time, however, and considerations of quality are no longer any reason to turn your nose up at goods labelled “Made in China” – on the contrary. From a pricing point of view, the Chinese were more than able to offset the cost of rising wages via enormous productivity gains.

That production capacity should, under conditions of free trade, relocate from the highly developed nations to China is a textbook example of a Ricardian adaptation process. In such circumstances, it was impossible to halt the decline of labour-intensive enterprise in the West, but Ricardo unfortunately accounted for only a portion of these developments.

The (significant) remainder was of mercantilist origin, in that the Chinese were allowed a free hand to manipulate their currency. As a country's productivity increases, the external value of its currency would normally also rise in tandem, as the economy behind the currency becomes more valuable on the back of increased future cash flows. In a Ricardian adaptation process, such currency adjustments would ensure that one side would not suddenly be left stranded with no production capacity of its own – new equilibria would be created.

The chart below plots the external value of the CNY for the period 1980–2024. After a sharp depreciation at the very beginning, the CNY has been stagnating at around the same level for years, for which there is no economic justification whatsoever, given the country's performance over that period.



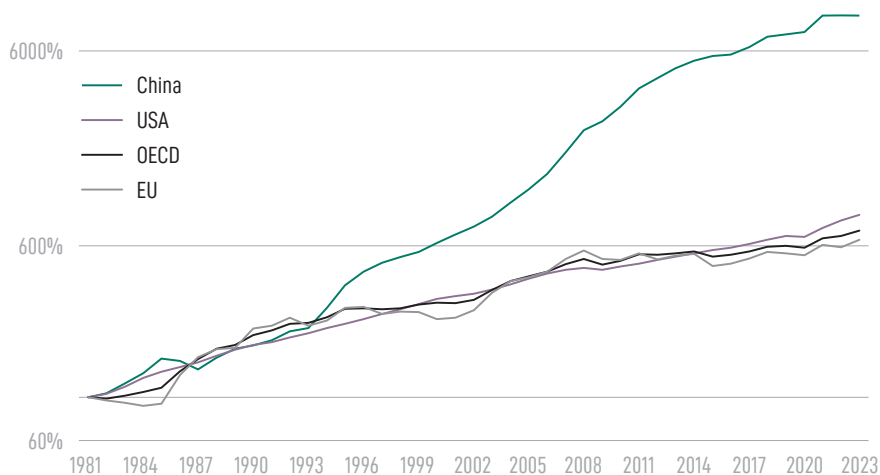
The shape of free float? Hardly!

The external value of the CNY since 1981 (against the USD)

Source: Bloomberg

The international community allowed this currency manipulation to persist, however, claiming that Chinese banks were not yet ready to let their currency float freely. As if it were impossible to bring order to a banking system in the space of five or ten years in the context of sustained economic growth north of 6 percent! No, the reasons for this laissez-faire attitude to the Chinese must be sought elsewhere. We think it was the Americans in particular who were in no hurry to see their unique selling proposition of the USD as a global currency imperilled. For a long time, nothing seemed to spook them more than the prospect of the CNY taking its place among the global currencies at some juncture. China's share of global GDP has risen inexorably over the last few years and is now something like 20 percent

(adjusted for purchasing power). It would be an obvious move if the renminbi were to play a more or less corresponding role as a reserve currency, but this has not come to pass. The chart below illustrates the momentum of the Chinese economy over the last forty years; its manipulated currency policy makes for a stark contrast.



The stupendous rise of China

A GDP comparison starting in 1981 (Logarithmic)

Source: World Bank

So, what was behind the Americans' calculations? Well, a very simple economic consideration, for starters. Anyone in a position to issue a currency for more or less the entire world will pocket a healthy monopoly rent in the form of seigniorage, and this applied to the Fed's central bank money and the book money held by the (American) banks involved. But this is not enough to explain the situation on its own. The quasi-monopolistic position of the USD on the financial

markets – or, to put it another way, the “unique selling proposition” of being able to produce and globally market debt in the form of securities denominated in your own currency on a massive scale – was also becoming more and more decisive. The Americans used these securities to feed the flip side of the negative balance of payments, the capital account. They were able to consume instead of saving, a sweet poison for the administrations of Reagan, Bush, Clinton, Bush II, Obama, Trump I and Biden, not to mention their respective electorates.

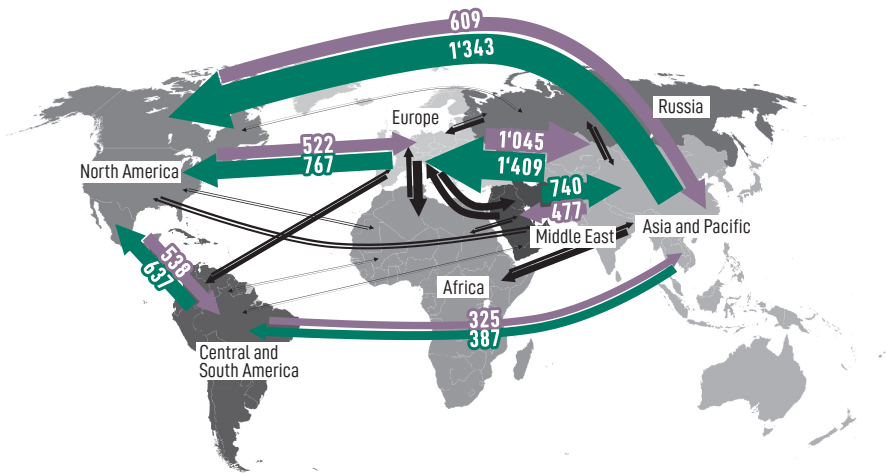
But why have the Chinese not wished to allow their currency to appreciate and become genuinely convertible? The short and oft-cited answer is: in order to guarantee sales of Chinese goods at dumping prices, even if wage levels rise. The following argument seems more nuanced, and possibly also closer to the mark: A country organised along state-capitalist lines has the freedom to pass on the added value it acquires through foreign trade to its stakeholders, in this case the workforce and the “owners” of domestic companies – or not. While granted pay rises and appropriate dividends, these stakeholders have been denied the gains that would result from an appreciating CNY. Western terminology would classify this as paternalism, expropriation. In China, it is probably referred to as social control and collectivisation of growth profits for a population way over a billion strong. That the country’s foreign exchange reserves have steadily been piling up as a result of the Bank of China’s reluctance to allow its own currency to appreciate did not seem to worry government officials for the longest time – their first priority was to take care of domestic security. This said, China began to systematically reduce its dependency on US Treasuries more than ten years ago, converting them into other assets such as

Greek ports or African railways and raw material deposits. The Belt and Road Initiative was also primarily aimed at diversification away from the USA.

After what has now been some thirty years of Chinese resurgence, the global economy has achieved a strange, non-Ricardian, equilibrium that might more accurately be described as a “dead end” from which any escape will be painful: China works and produces while the West – America, in particular – consumes. For many goods, there is now insufficient production capacity left in the USA (and, to a lesser degree, in Europe as well), which means we will have to “buy Chinese” whether we like it or not. President Trump was thus cutting off his own nose to spite his face with punitive tariffs against China. The American consumer was always going to be on the hook to pay for them, as other jurisdictions are rarely able to supply the relevant goods in sufficient quantities.

More than thirty years of lop-sided free trade: The special relationship between the USA and China so artfully instituted by the historian Henry Kissinger and then so lovingly tended was short on economic nous. Kissinger’s primary concern was power politics. He wanted American autarchy with China reduced to riding pillion, and in a sense, he contrived to bring about the “end of history”.⁹ Allowing Beijing to join the WTO and thus affording it favoured-nation status with no mechanism available to implement proper currency relations was a mistake of secular proportions.

9 The American political scientist Francis Fukuyama coined this term during the relatively low-conflict period after the fall of the Berlin Wall and the changes of 1989 to convey that the triumph of the liberal democratic market economies over the Soviet Union had been conclusive.



Can this be sustainable?

Global trade flows (2024, in USD billions)

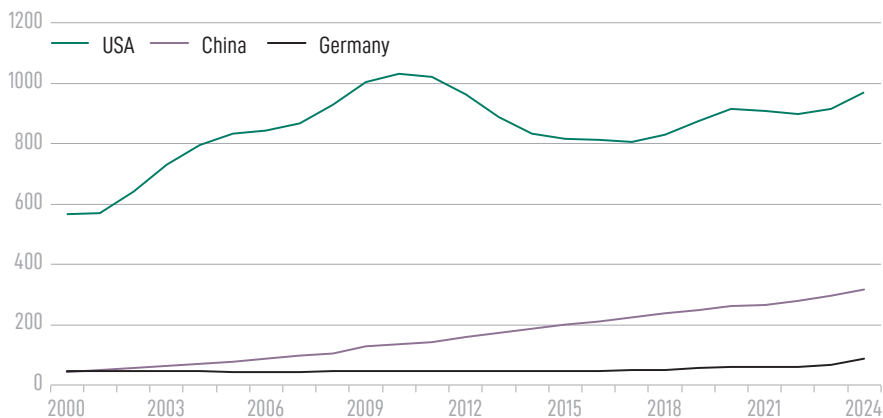
Source: United Nations Conference on Trade and Development 2024

The USA gradually leaked production capacity (to the extent of losing it completely), and possessed no lever that worked on China. The sweet poison of “vendor financing” was also far too tempting for any US politician to wish to bring it to an end and expect the American population to forgo consumption, which would have been the ineluctable consequence. We now seemingly stand on the brink of this, nonetheless. It is never too late to change strategy – it just costs a lot more.

Uneasy lies the head that wears a crown

The second conspicuous and unmistakable malaise besides the constant erosion of American economic power is to be found in the USA's enormously high spending in the military sector. What is the annual cost to Americans of keeping the peace all round the world? Purely military spending in 2023 amounted to about USD 880 billion or 3.36 percent of GDP. It would probably be closer to the truth to also factor in a portion of the costs for development cooperation, the various non-military secret services, activities in space and the various international organisations. The total would then be substantially in excess of USD 1,000 billion, or well north of five percent of GDP.

Compared with American defence spending, the funding allotted by these other nations looks downright measly, although the increase in China's military budget cannot be overlooked. The country's steep GDP growth mitigates this rise, however. Germany is falling behind, and American talk of "freeloading" should come as no surprise in this respect. Europe, the frontline "state" facing the East, contributes little to its own defence capabilities, to say nothing of its willingness to defend itself. The northern European states and Poland are honourable exceptions here.



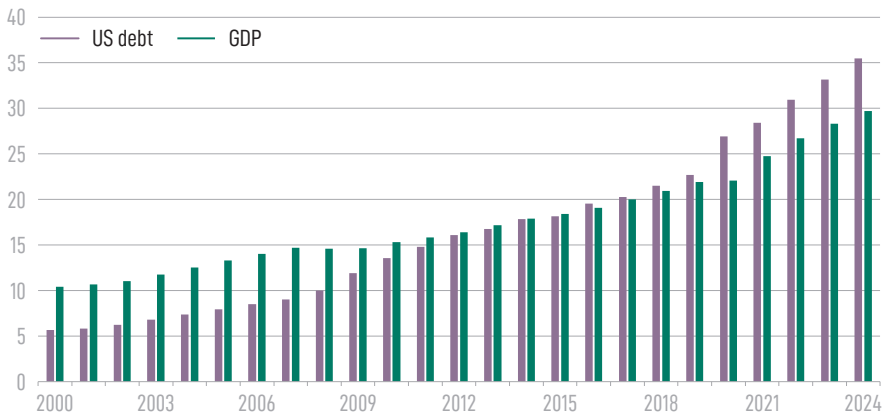
The USA is dominant, China is catching up

Military spending by the USA, China and Germany (2000–2024, in USD billions)

Source: SIPRI military expenditure database

The significant expenses for army, navy and air force (along with all the other defence-related bodies), outlay for development aid, dwindling tax receipts from industrial activity and the rise in benefits spending that this entails, in conjunction with an uptrend in interest costs for outstanding debt, conspire to paint an extremely gloomy picture for the US Treasury: overindebtedness, with an upwards trend.

Debt does not come cheap. The Treasury has to service loans with interest to creditors, and arrears that cannot be paid down have to be refinanced at potentially higher interest rates. For many (virtually inflation-free) years, difficulties with interest payments and debt financing remained manageable – indeed, it almost seemed as if additional obligations were no longer a problem, or so New Monetary Policy (NMT) would have it. A glance at the USA’s annual interest spending



The economy is expanding – but debts are growing more quickly

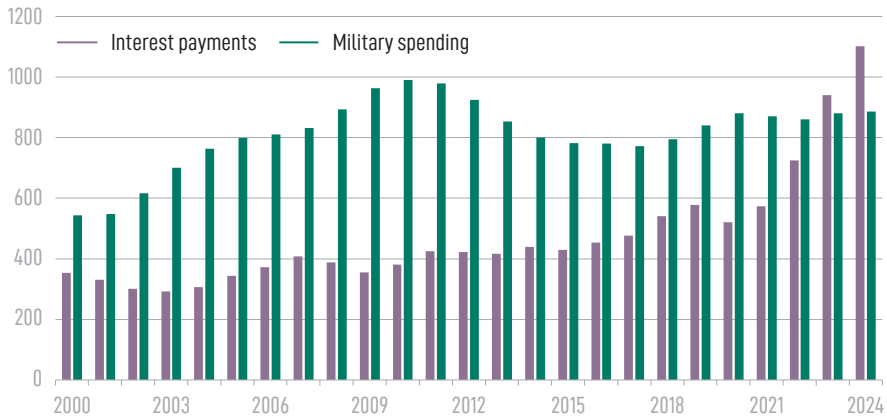
US sovereign debt by comparison to GDP (2000–2024, in USD billions)

Source: US Department of the Treasury and Federal Reserve Bank of St. Louis (FRED)

would contradict such an assertion, however; the yearly total has overtaken pure military spending and is assuming proportions that leave the Treasury with less and less leeway.

The hegemon is in hot water. But what does it even get out of hegemony (if it gets anything at all!)? What use is its status as a seemingly omnipotent (and yet constantly challenged) ruler? In essence, hegemony equates to an unfortunate position as the entity of last resort – the ultimate backstop. We shall recapitulate some theoretical aspects of this notion of “last resort” in Chapter 5 of this position paper, but let us first make several practical observations:

- You might get to collect a monopoly premium under certain circumstances, as the USA has clearly been able to do hitherto, as issuer of the USD, the world’s reserve



Interest payments: higher than military spending

The USA's annual interest payments by comparison to military spending (2000–2024, in USD billions)

Source: Federal Reserve Bank of St. Louis (FRED) and SIPRI Military Expenditure Database

currency. This comes at the cost of the currency-driven price distortion in respect of China described above, however.

- You might be militarily unchallenged in your own backyard, but this comes at the cost of constant, seemingly essential, intervention in conflict zones in every corner of the world (from Afghanistan and Iraq to the Red Sea and back again to Europe) – places that would be fairly helplessly exposed to the whims of the Russian superpower without American boots on the ground. Japan, South Korea, the Philippines, Indonesia and more besides have also sought shelter beneath America’s broad coattails, and Singapore would be a shadow of itself without the implicit protection of the USA.

The anticipated bellwether for the entirely new approach the USA may adopt towards dealing with problematic zones is Taiwan. Given the island's precarious and perilous position between Scylla and Charybdis in the South China Sea, we are of the opinion that hegemonic protection by the USA is looking less and less likely. The nuclear option can be discounted from first principles because of the potentially immense collateral damage and the risk that Russia may get mixed up in the conflict. The little island state's best bet in the event of a Chinese incursion might be to go with the Ukrainian solution of standing up for itself, although reports of the quality of Taiwanese capacity for self-defence have been mixed. One provisional bargaining chip in the island-dwellers' back pocket will certainly be their production facilities in the high-tech sector and the risk that all sides would suffer equally from their physical destruction.¹⁰

There is much to suggest that the Americans have recalculated the costs and benefits of defending Taiwan, and one indication of this is the aggressive imposition of tariffs on China. A customs deal between the USA and the People's Republic may yet give some hint of the shape of things to come when a hegemon wishes to hang up its gloves. Japan, South Korea, Singapore – and indeed even Europe – would be well advised to study these developments carefully, as there are undoubtedly analogies to be drawn.

10 The significance of such a trump card should not be underestimated, although everything depends on the plausibility of the potential destruction in the event of an attack. Despite the purportedly superior power of Nazi Germany and Italy, Switzerland survived World War II thanks to its location as a redoubt in the Alps; any Axis attack would have met with no more than the destruction of the roads through the Alpine passes.

Theoretical musings on the essence of hegemony

Some consideration of the notion of hegemony is required at this point. “Supreme authority”, “autocracy” or “absolute rule” go some way to describe it, and yet not far enough. Historically, hegemony was defined as when one royal line was suzerain to other dynasties or, as in Ancient Greece, when Thebes held sway over cities such as Athens and Sparta. The hegemon is in the vanguard of battle order; it has allies that depend on it – but it is also dependent on them to a certain degree.

The image of a hegemonic system is probably more appropriate than the notion of an absolute ruler, a “Master of the Universe” who, by dint of his boundless superiority, enjoys complete ascendancy over the puny also-rans of the rest of the pack. The hegemonial system consists of carefully counterbalanced mutual dependencies, as we know all too well from the international arena; such shining examples are only partially achievable, nebulously defined, constantly challenged (and thus less stable than one might generally suppose), much invoked (“western values”...), and grudgingly accepted through gritted teeth – or in open defiance – because of “superordinated interests”.

Periodically, the hegemon has to remind the world it is top dog, however:

- Militarily, by showing its mettle in the occasional conflict.
- Through law enforcement, by asserting its own jurisdiction over those of its allies and through these power relationships, keeping order according to its own lights.
- Economically, by exploiting inelastic supply and demand conditions to assert its own interests.

Hegemony is primarily also a question of perception, indeed perhaps even only a fiction. It is based on the conviction of all involved that the stronger party is indeed the stronger party and will remain so, and that any resistance is futile.

A hegemon is constantly deceived and beguiled by its vassals, who feign friendship and yet rejoice in every disaster that befalls it – until they are suddenly in real need of its assistance. Aspersion is cast on a regular basis and questions raised about the hegemon. Mutual professions of love are rarely meant in earnest and instead, an air of cool calculation prevails. In this respect, the hegemonic system equates to a community of unwilling bedfellows. From an economic perspective, the hegemon uses the umbrella of its protection and leadership to create a commons, with all of the associated advantages and drawbacks, the principle problem being that the commons is overused by the unwilling bedfellows and the hegemon is exploited.

This brings us to the notion of “last resort” in a system. Every company, every concatenation of people (families in-

cluded), and every state organisation will have one or more entities of last resort, i.e. individuals or structures at which the buck stops – or one may assume this to be the case. In a company, this may be the equity capital, which is never used – unless it is really needed, i.e. in the direst of straits – or it may be the people with ultimate say in the company's management, upon whom everything ultimately depends. Things are arranged in analogous ways in families, where a division of certain roles between parents, for example, can generally be observed: One will wield ultimate responsibility for knotty, financial issues, another has the final say on supposedly woolly, interpersonal questions.

In circumstances of actual (or even only asserted) autarchy, there exists a precarious relationship of causality between events and ultimate responsibility. The hegemon is on the hook, as it were, for everything to which no other aetiology can be clearly ascribed. The hegemon is thus unpopular and seems constantly obliged to account for itself; it also has to take the rap when it can be associated with particular developments, even if only tangentially or in no way causally.¹¹

11 There may be a parallel between the USA's efforts to cast aside its global hegemonic status and the harsh war being waged on "wokeism". The latter indeed essentially represents an ideological system of thought that makes those who are "stale, male and pale" ultimately guilty of everything that may disadvantage anyone not an "old white man". That "old white men" are equated with "the Jews" by certain exponents of wokeism would explain the Trump administration's unrelenting attitude in respect of anti-semitism and its unconditional support of the state of Israel.

So how can a hegemon in hot water bring its autocracy to an end? Or to use another image, how does the silverback in the gorilla enclosure relinquish its position at the top of the troop? In the natural world, it would probably be through a protracted demise ultimately resulting in physical extinction; in a zoo, through isolation by understanding keepers who ensure he enjoys the twilight of his life in solitude. To make the image even more striking: How does a high-stepping man-about-town and sugar daddy stop lavishing largesse on his many hangers-on? If he simply does not care to – and is unable to – continue? This is a very particular kind of exit problem.

In our view, there are two options: a long drawn-out and painful demise, suffering the slings and arrows of outrageous fortune, or a speedy end to the thousand natural shocks that flesh is heir to, which will however also offer a chance for the hegemon to survive in some form or other. A consummation (devoutly to be wished) may be visited upon the community of unwilling bedfellows by pulling the all-important rug – the conviction of its continuing existence – out from under the fiction of hegemony. We shall expand on our thesis that the Trump administration is acting systematically in a series of well-prepared steps through this lens by assuming that this is precisely the true intention underlying many of his undertakings to date; to disabuse the unwilling bedfellows of their convictions, i.e. to spurn “friends”, to shake core beliefs to their foundations by cosyng up to former opponents, to disavow – indeed, even betray – allies, to spread half-truths and barefaced lies, to flout codified (and especially unwritten) rules, to countenance losses of every kind – and so on, and so on.

Line up the chronology of the events of the Trump administration's first 100 days from this perspective, and the only possible evaluation is "success on all fronts"! Trust has been entirely eroded and any return to the previous state of normality is hardly likely. The dehegemonisation process is in full swing and the "speedy end" option has been selected. This would never have been possible without a playbook and, had only a "fool" been at work, such destructive consistency could never have been achieved.

The "only" question this now raises is whether the process has a chance of succeeding and/or to what extent, for whom, and under what conditions. To this end, we must first address a few techniques for dealing with predictions in conditions of extreme uncertainty and then – never losing sight of our thesis of a deliberately engendered process – develop some scenarios for the future.

Dealing with uncertainty

Can things go on like this? Predictions are at a premium in turbulent times and proper orientation is in great demand. Answering such a question is relatively simple in a world of stable conditions; things are going to look more or less the same tomorrow as they do today. Extrapolation as a means of prediction is based on simple statistics. Events are assumed to have a standard distribution, with extreme developments considered unlikely and thus potentially neglected in the forecasts. Most financial theory models, such as Markowitz optimisation, the capital asset pricing model (CAPM) and the Black-Scholes formula, also operate on the same principle. Simple extrapolation may often be accurate over the short term, but can regularly lead you up the garden path over the medium and long term. In times of great upheaval, it is largely useless and can result in fatal errors of judgement.

A form of prediction in equally common use is to consider developments over the very long term, such as average stock market returns over the last 120 years or mankind's inexorable technological progress. This category also subsumes the insight that humans have survived without wars for 99 percent of their existence – which admittedly goes back 2.5 million years, and warfare is documented “only”

over the last 5,000 years.¹² Predictions that, here too, are made with a rear-view mirror that reaches back into the past (which in this case, is dim and distant) are probably dependable over the long term, but are deceptive in times of great upheaval, as they may gloss over potentially devastating events that occur in just such trying times. It was also this point the renowned economist John Maynard Keynes was making when he wrote in his *Tract on Monetary Reform* of 1923, “[t]his long run is a misleading guide to current affairs. In the long run we are all dead.” In short – as far as he is concerned, a long-term perspective on matters is irrelevant.

Science has also produced critics of extrapolation and/or predictive techniques based on data sets both short and long, and these include the likes of mathematician Benoît Mandelbrot and the economist Nassim Nicholas Taleb. Mandelbrot, who coined the term “wild randomness”,¹³ maintains that risks occur in clumps and far more frequently than one might think, attracting the criticism that the theory was thus useless, as no predictions could be derived from it – as if this statement alone were not a prediction to be taken seriously. Nassim Taleb has shored up and expanded Mandelbrot’s theories with practical applications. He has classified situations that were dependent on the influence of a host of different variables and whose probability of occurrence could hardly be calculated as especially unpredictable, and this category is to include political processes in particular, along with everything that depends upon them. Taleb sug-

12 Cf. *Die Evolution der Gewalt* (2024) by Harald Meller, Kai Michel and Carel van Schaik.

13 Cf. Benoît Mandelbrot (1997): *Fractals and Scaling in Finance*.

gests that it is here that the “true fat tails” and/or the now infamous “black swans” are generated. These are rare, but not as improbable as is generally assumed. Above all, they dominate history despite (or indeed because of?) their rarity.¹⁴

If refined analytical and mathematical models fail to predict the greatest upheavals and risks, however, how should we deal with high levels of uncertainty and the hazards they entail? One obvious option in such a situation is the technique (originally developed for the military) of systematically developing hypothetical projections of the future. Such scenarios are based on experience and hunches, a careful compromise between complexity and simplicity, heuristics and gut feeling. This typically involves working with a “best-case”, “worst-case” and a “trend-extrapolation” scenario. They are deliberately not assigned probabilities, as the primary concern is to be prepared for the worst, even if it seems unlikely. For our purposes, we intend to work with the scenarios “Dividing up the world”, “Multilateralism 2.0” and “The Great Chaos”, restricting ourselves to broader brushstrokes. We shall begin with what we consider to be the Trump administration’s ideal scenario.

14 Cf. Nassim Nicholas Taleb (2007): *The Black Swan* and Nassim Nicholas Taleb (2009): *Errors, Robustness, and the Fourth Quadrant*, International Journal of Forecasting, 25.

Dividing up the world (scenario 1)

The headline slogan of the US government that has been in office since January is “Make America Great Again”. This rallying cry has met with widespread incomprehension across the rest of the world, not least because the USA, as the ultimate guarantor of international order – the commons described above – is already acknowledged as great, irrespective of whether this dominance is greeted with repudiation or approbation. It nonetheless seems apparent that, for some little time now, a significant cohort has been of the opinion that America is really not so “great” any more and needs to be made so (“again!”). Further financing of the commons is respectfully declined, as they no longer wish to bear the burden (or, more likely, are no longer able to; a single glance at the US’s sovereign debt will suffice here).¹⁵ Everything is to be subordinated to the American economy, and in particular to its re-industrialisation; here too, is where the electorate is to be found with which it is thought elections are won. In our view, this new order betokens the following in particular:

15 High levels of debt and the skyrocketing budget deficit are regularly adduced as grounds for a radical rejigging of the US state, most recently in a guest column by Paul Dans in the *Economist* of 3 May 2025. Dans leads the Heritage Foundation’s “Project 2025”, the roadmap for Donald Trump’s presidency.

- In trade policy, tariffs will be used in future not just as a threat but also as a policy measure to “protect” the domestic economy. Whether one happens to agree with them or not, there is a long tradition of such mercantilist notions, from Absolutism-era France to the years before World Wars I and II, even unto the import substitution policy that was primarily practised in Latin America into the 1980s – largely unsuccessfully. The tariffs are intended to result (after a transition phase) in as much as possible being produced domestically: Exports are good, imports are bad. With its imposition of tariffs, the Trump administration is also hastening the division of the world, however. Anyone playing by the USA’s rules is a friend, everyone else is a foe. Because of the size of its domestic market, the downsides of tariffs are less severe for the USA than for smaller trading partners. A welcome side benefit as far as the administration is concerned is that, unlike other measures, tariff policy tends to be freighted with fewer legal pitfalls. In this scenario of a new world order, tariffs will thus remain an important means of prosecuting economic policy. Larger and smaller satellites with free trade agreements will arise, orbiting two strictly delineated, emulous centres of gravity with extensive domestic markets – the USA and China.
- In financial and currency policy, the strong USD is considered a liability for America’s export economy. A “Mar-a-Lago Accord”¹⁶ is intended as a concerted effort to weaken the USD. In conjunction with this, the USA’s creditors are to be obliged to accept lower interest

16 Cf. Stephen Miran *A User's Guide to Restructuring the Global Trading System*, Hudson Bay Capital, November 2024, p.28f.

rates and longer loan terms if they wish to continue to hold the world's safest and most liquid financial asset. In its essence, this amounts to debt restructuring, with all kinds of imponderables as far as legality and trust are concerned. This is complemented by the Trump administration's programme to radically shrink the size of the state. Here too, it is a question of reducing national spending and, ultimately, levels of indebtedness. The result would be a repositioning of the USD with lower national debt and – post-restructuring – a bolstered economy that would continue to lead the world. In this scenario, it is conceivable that the USA will still be able to rack up credit at low interest rates in the future, even with a weaker USD, as the alternatives, despite everything, will seem even less appealing. There are ultimately no viable alternatives to the USD as a safe haven and global currency anywhere in the offing. The eurozone remains an inherently wobbly currency bloc, with a pronounced indebtedness problem only compounded by Germany's new debt policy, which in turn is now jeopardising the last pillar of stability worthy of mention. Japan has long since been mired in overindebtedness and China, which would actually be the logical replacement candidate, is showing no intention of creating the conditions for a reserve currency that could be taken seriously (free convertibility, market conditions, central bank independence, etc.). The Swiss franc – probably the world's most secure currency – ultimately lacks the underpinning of a large economy and concomitant market depth. This is also likely to be in abeyance – along with the support of a state and its taxpayers – in the case of alternatives such as gold and cryptocurrencies.

- In security policy, the Pax Americana will come to an end. It is more than ten years since President Obama announced that the USA would no longer be the world's policeman. In a new form of the Monroe doctrine of 1823, the United States will resile from involvement in conflicts not directly affecting it. This will apply to Europe in particular, but also possibly the Pacific (perhaps including Taiwan) – at least as soon as the USA is no longer dependent on local semiconductor manufacturing. A “deal” with China that divides the world into zones of influence is also conceivable. Historically, there have been several such compacts, including the 1945 Yalta Agreement between the Soviet Union, Great Britain and the USA, and the 1494 Treaty of Tordesillas with which Spain and Portugal, the superpowers of the age, carved up the world between them. For Europe – and indeed for America's allies in the Pacific as well – the new world order will mean that they will have to look to their military security themselves and NATO would probably become a toothless (and, upon the exit of the USA, penniless) international organisation much like the modern WTO and UN – a similar fate was seen to befall the doomed League of Nations after World War I.

The “Dividing up the world” scenario is predicated on the Trump administration's success in implementing the new order to which it aspires without plunging the world into an economic and/or security crisis: politics as a succession of “great deals”, with the USA transitioning from “sugar daddy” to “deal-maker”. The disappointment of beneficiaries of the international order hitherto cultivated by the United States has been factored into this, as have wobbles on the

financial market, which are viewed as temporary. Loss of trust has not only been taken into the bargain by the Trump administration, it has been actively provoked – precisely in such a way that it is still bearable. This is how a weaning from the “sugar daddy” and a transition to the new order of a divided world is intended to proceed and the Trump administration anticipates that, over the long term, it will result in greater stability and prosperity in the USA itself. Whether that can actually be expected from current policy is unforeseeable for the moment, and how the rest of the world might fare seems neither here nor there as far as the current MAGA crew are concerned.

Multilateralism 2.0 (scenario 2)

The first months of the Trump administration came as something of a shock to western allies of the USA in particular; “it’s just not the done thing amongst friends” was the general consensus. Is it all just a bad dream? Won’t reason reassert itself, in a return to a world of multilateral institutions and international cooperation? Such a scenario would of course be conceivable, although not with the current political incumbents in the USA, China and Europe (to say nothing of Russia). The pre-requisite for any such development would thus be a seismic shift in politics. In his book *Seven Crashes*, the British economic historian Harold James has shown how the great crises that have taken place since 1850 have – despite substantial upheaval – resulted almost without exception in new waves of innovations and globalisation.¹⁷ It may be the case that the recent concatenation of catastrophes (COVID19, inflation, tariff policy, etc.) may usher in surprisingly positive developments. The 1980s in the USA and Great Britain have shown that fossilised structures can also be broken down in democracies. The US political system itself and unexpected developments in China each have the potential to bring about abrupt and fundamental change –

17 Cf. Harold James (2023): *Seven Crashes: The Economic Crises That Shaped Globalization*.

and both together would certainly do the trick. A “Multilateralism 2.0” scenario might plausibly include the following elements:

- In trade policy, discussion on the USA’s domestic political scene increasingly comes round to the idea that the Trump administration’s tariff policy is not achieving its objectives and also harming American consumers, not least through inflationary effects. With one eye on polling and mid-terms, the current policy is initially suspended and, in the course of a change of administration after four years, entirely abandoned. The shock occasioned by the tariffs simultaneously prompts reconsideration – both internationally and in China in particular – in respect of a more balanced arrangement of the architecture of the global economy. In economic theory, it is considered a given that opening up markets at the same time that technology is advancing at breakneck speed will result in new waves of growth.
- In financial and currency policy, growth in conjunction with a shrinking of bureaucracy may result in a reduction of national debt. The idea that the state should be arranged more efficiently and that business should be allowed more leeway takes hold both in the USA and further afield. A new regime in China may also put an end to its mercantilist currency policy and thus usher in a more equitable alignment of the international financial system. This would also stabilise and reinforce the market for US Treasuries.
- In security policy, the objective of US policy over at least the last decade has been to check or suppress the

rise of its great rival, China – irrespective of the political colour or flavour of each US administration. What would happen if China were suddenly unwilling or unable to continue this race? Until recently, there was a widespread view that the Chinese regime was practically omniscient and omnipotent, indeed that it was getting everything right. The bloom is off the rose, however, and China has been stuck in a profound real estate and financial crisis for some time; the Communist Party has its hands full just keeping control. This is compounded by a rapidly ageing population. Could the Chinese model fail? Is a kind of *perestroika* 2.0 conceivable? Might there be an analogy here to the Soviet Union, which was also long thought to be an irresistible military, political and economic force?

A return to the old order, reinforced and reformed by the crisis, is also not entirely out of the question. The relevant institutions exist, even if some rejigging as a result of the development of larger emerging countries in particular is required. Reforms would probably primarily affect financing and governance, which for the UN and other institutions still date back to the victorious powers of World War II.

Only a few months ago, media reports of American exceptionalism were coming thick and fast,¹⁸ based on a whole host of factors: the size and openness of the domestic market, the breadth and depth of the financial markets, a constitutional state working at maximum efficiency, safeguarding of property, flexibility of the labour markets, unfettered eco-

18 The *Economist* of 19 October 2024 will serve *pars pro toto* here, with its title page proclaiming the American economy "The Envy of the World".

conomic freedom, clearly delineated regulation, a fair and proportionate tax regime, first-class educational institutions, highly innovative companies, a functioning division of powers between the executive, judiciary, legislature and member states, an impeccably independent central bank pursuing stability-based monetary policy, a solid capital stock built up over decades, and a functional system for security both at home and abroad. This finely balanced system of checks and balances that has grown up in the USA over centuries has repeatedly demonstrated that radical measures elicit backlashes and that extreme swings are corrected. The limit to the president's term of office, elections, mid-terms, polling – even impeachment, if need be: all are instruments available to the American political machine to curb an executive that is getting above itself. Sometimes – not that one would wish such a thing – the counter-reactions also lead to violence, as attested by the long history of political assassinations in the USA. The current president famously dodged a bullet only last year. In short, extrapolating the first 100 days of the Trump administration into the wider future would be a bold prediction, even if it might seem almost unreal to many at the moment.

The Great Chaos (scenario 3)

The Sleepwalkers was the title the Australian historian Christopher Clark gave to his *magnum opus* describing in detail how Europe lurched into World War I after a protracted period of peace and globalisation.¹⁹ He conjures up a complex world fraught with distrust, arrogance, miscalculation and nationalism – in which a single spark in the form of an assassination in Sarajevo is sufficient to kindle a historic conflagration. Reading the book, one cannot escape the impression that a plurality of actors representing powers in shifting alliances and rivalries acted purposefully and – according to their lights – both consistently in good faith and in the best interests of their countries and peoples. Simultaneously, it is also apparent that no one fully appreciated the consequences of these actions (nor could they). One is left with a portrait of a great tragedy and the surmise that none of the individuals involved is likely to have desired such a catastrophe.

History never repeats itself but it occasionally rhymes and, over the last few years, many have had recourse to the turning point of 1914 to draw parallels with current developments: China as a superpower on the rise (1914: Germany), the USA under the cosh, the hegemonic system subverted,

19 Christopher Clark (2012): *The Sleepwalkers: How Europe Went to War in 1914*.

sagging, and under assault (1914: Great Britain). Are the first 100 days of the Trump administration indeed the dawn of a Great Chaos induced by developments in the USA? The hegemon is bowing out and withdrawing, and the measures that accompany this abdication are engendering a now ineluctable loss of trust. Such a chaos may feature the following traits:

- In trade policy, the tariffs imposed by the USA elicit counter-tariffs and a death spiral of further retaliatory measures. The business environment becomes such a minefield for companies that they scale their activities back considerably. Staff are sacked, innovative projects shelved and consumption falters. A slowdown in economic activity is met, at least initially, with inflationary effects arising from the newly imposed or increased tariffs. (Independent) central banks feel constrained to increase interest rates in response to inflation. Political measures become increasingly short-termist, credibility takes a serious hit. Planning uncertainty and a loss of trust result in a profound economic crisis. Political developments go off the rails and prompt an alternation of bull and bear markets on trading floors, with a clear downward trend. *In extremis*, this leads to a full-blown financial crisis, with high volatility in the first instance culminating in a revaluation of all assets.
- In financial and currency policy, high levels of indebtedness come home to roost. Confidence in the ability (and willingness) of the States to pay its dues hits rock bottom, yields rise on the bond market, refinancing of public debt is no longer possible on the open market. Defaults occur, accompanied by the issue of forced state loans for banks, pension funds and other institutions.

Central banks lose their independence and debts are inflated. American Treasuries and the USD, hitherto a sure and steadfast safe haven for the international financial markets, are suddenly on very thin ice. Unlike when the USD supplanted the GBP as the global currency, however, there are no viable alternatives, either in terms of currencies or government bonds. Potential workarounds such as gold or even Bitcoin are banned and criminalised. Switzerland is flooded with money in the scramble for safe Swiss francs and, after a period of strongly negative interest rates, is obliged to throw in the towel and resort to more drastic medicine dispensed from the poison cabinet of capital controls. High levels of uncertainty result in wild fluctuations in all financial instruments, as trust has been lost and information is no longer available for reliable valuation of assets.

- In security policy, the danger of martial conflict increases, not least because economic crisis and uncertainty foment extreme political developments. This affects both domestic and foreign security. In the USA, the disregard of the Trump administration for checks and balances is on full display, perhaps with the president refusing to step down after being voted out and using his military powers as commander in chief to cling to office. *In extremis*, the USA will be rocked by conflict bordering on civil war. Certain states are tempted to distract from domestic political problems with aggressive behaviour. China in particular may scent a historic opportunity for gaining control over Taiwan. Countries with armed forces unprepared or unable to muster plausible deterrence are in danger of attack – even

(and especially) in Europe. Parallels to the outbreak of World War I become reality. Great chaos will prevail here too, before another – entirely different – order sets in.

The “Great Chaos” scenario does not mark the end of the world but, by dint of its uncontrollable secondary effects and the collateral damage that may be anticipated, it is in every respect the most hazardous of our three scenarios – endangering employment and property, and in the worst case, also life and limb. It is often said that “you won’t be able to do anything anyway” if such a situation came to pass, so it isn’t worth thinking about it or even taking any precautions. Such an attitude is understandable but also reckless; true to the motto “hope for the best, prepare for the worst”, you don’t neglect to build dykes just because the flood of the century is at any given moment unlikely. It may be an extreme scenario, admittedly, but as Nassim Nicholas Taleb reminds us, “true fat tails” are rare, but they dominate history.

Conclusion: a few survival tips

Slice it how you will, both the transition to a new (or a new-old) world order and methods for dealing with a chaotic world are bound up with the phenomenon of power. Power means the capacity of the stronger party to deprive, to impede, to destroy and to physically annihilate, to kill – whether it is a single person or a whole community that is at the mercy of that capability. Power is thus diametrically opposed to the freedom of the individual and to the possibility of free exchange of goods and services (and thus the mechanisms of the market) – not to mention the very essence of small states.

Individual liberty, the free markets, and relatively powerless small states will face very particular challenges over the coming years. Given the difficulty – indeed, nigh on impossibility – of making predictions, it can be dangerous to rely on supposed certainties. It would be especially perilous to simply discount the potential for disruptive change tending towards “dividing up the world” or even a “great chaos” and allow oneself to be carried away by the hope that the best-case scenario will eventuate. The days of the cosy welfare state are definitively over and, for the likes of a small state, this means shaping an economic environment that is as business-friendly as possible, keeping (or indeed mak-

ing) the state fit and efficient, paying the closest attention to domestic and external security, and maintaining the greatest possible degree of independence in the interplay of super-powers. Switzerland is an old hand in this respect, having been forced over the centuries to assert its interests in the midst of major European powers, to avoid being crushed between a rock and a hard place.

In our opinion, the call for Switzerland's rapid and irrevocable alignment with Europe in the wake of the import tariffs announced by President Trump was thus premature and ill-considered. Who can tell how this Europe is going to look in whichever scenario in five or ten years' time? Indeed, which European institutions are going to survive in each scenario? Will NATO still be around? Will Germany have nuclear weapons? We have no wish to manifest these things as some kind of performative utterance here, merely to counsel caution. Essentially, there will be two options available to a small state such as Switzerland: (i) convergence with one of the power blocs – “taking cover”, as it were – or (ii) actively cleaving to a plurality of partners. The latter would require independent foreign, trade and security policy of exceptional quality, and there would undoubtedly be much still to do in this respect. We can but speculate on the will to independence if the balloon were ever to go up.

Given the disruptive potential of a new world order, what applies to small states must also count for individuals: be adaptable and stay (or become) as fit as possible. The response to increased uncertainty has to be retention of the widest possible scope for action. This subsumes optimal – but simple and easily controlled – diversification of assets, the ability (and willingness) even to switch location in the

world if necessary and, in an emergency, to be able to pursue entirely different occupations. Dependencies – in the form of excessive debt and immoderate complexity, for example – are best avoided. The greatest possible flexibility, combined with a lively mind and an uncompromising strength of purpose – these are the qualities most likely to help the individual deal with the incipient restructuring of the world. For if the worst really comes to the worst, the alternative is serfdom – of one kind or another.

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The Progress Foundation

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Dealing with America

US President Donald Trump's second term of office has begun with a bang. What might the new administration's superordinated goals be? Does it even have any? The key to dealing with the new America may be to understand the country's calculated and emphatic renunciation of its costly role as a hegemon.

