NZZ

INSIDE USA

«Don't let yourselves be provoked»: US economist Barry Eichengreen's advice for Europe

Eichengreen is an expert on the rise and fall of world currencies. For the first time, he is concerned about the future of the U.S. dollar. There could even be a global financial crisis, he says.

Peter A. Fischer, Thomas Fuster

April 3, 2025 12 min

Economics professor Barry Eichengreen regularly advises the International Monetary Fund and the U.S. Federal Reserve. (He is pictured here at the Fed's Jackson Hole Economic Symposium in 2023.)
David Paul Morris / Bloomberg / Getty

Mr. Eichengreen, 14 years ago you wrote that it was not China that could

cause the dollar to crash, but only U.S. mismanagement. Has the possibility of a dollar crash become more likely with the new Trump administration?

Unfortunately, yes. The government has cast considerable doubt on the global role of the U.S. dollar. The independence of the Federal Reserve is being called into question, and there are plans to deliberately weaken the dollar, which would reduce the value of internationally held U.S. government bonds. The idea of converting existing bonds into extremely long-term securities with artificially low interest rates has also been suggested. This reduces other countries' confidence in the U.S. as a reliable partner – and therefore their willingness to hold dollars.

But there are no signs of a dollar crash so far.

No, because there is still no alternative to the dollar. The euro is not an alternative for the rest of the world, because so many euro-denominated bonds are being held by Europe's own banks, for regulatory reasons. The Chinese yuan carries little weight globally. Attractive alternatives such as the Australian or Canadian dollar, the Danish or Norwegian krone or the Swiss franc come from stable countries with well-managed central banks – but they are far from sufficient in terms of volume to replace the dollar. However, Trump's policy means that central banks and investors are increasingly looking for alternatives. This is why the price of gold is also rising.

The Swiss franc could then also come under strong upward pressure again.

This is another element of the damage caused by current U.S. policy.

The Swiss National Bank could counter this by intervening in the foreign exchange market. However, it would then run the risk of being sanctioned by the U.S. as a currency manipulator.

In the past, countries have also introduced capital controls and negative interest rates to keep capital inflows out. However, the Trump administration could impose sanctions against these instruments, which are intended to prevent a currency from becoming too strong.

Trump has promised to make America economically great again. What's wrong with that?

America's greatness in the 21st century is no longer based on traditional industries such as the steel sector or shipbuilding, but on high-tech, research and innovation. There is growing concern on the financial markets and in society that precisely these foundations of American excellence are currently being undermined. The leading universities and state research institutions are being dismantled. And what has been dismantled is difficult to restore.

Do you notice this as a university professor?

Here at the University of California, Berkeley – which aspires to be the world's leading public university – a hiring freeze was recently imposed. The reason is government spending cuts and political uncertainty. Large companies, for example in Silicon Valley, are also hesitant to invest because it is unclear how the political situation will develop.

Everyone is currently eagerly awaiting April 2 – or «Liberation Day,» as Trump calls it – when he plans to announce reciprocal tariffs. This would mean that the U.S. would raise tariffs wherever it currently charges less than its trading partners. Sounds fair, doesn't it?

The idea is hardly feasible. It would require raising countless different tariffs on countless different products in countless different countries. A change to U.S. customs law on this scale is unrealistic in the short term.

Moreover, Trump has already announced exceptions. In my opinion, this is not about reciprocal tariffs, but about arbitrary tariffs imposed on countries that Trump doesn't like. Canada, for instance, because it doesn't want to become the 51st member state of the U.S. Or Denmark because it doesn't want to cede Greenland.

Talking about Canada: Trump's first tariffs were aimed at the neighbor and longtime ally. What signal does that send?

That it is no longer an advantage to be a good neighbor of the U.S. – neither economically nor in terms of security policy. It also makes it clear that the U.S. government is acting with complete economic recklessness. Canada, the U.S. and Mexico are closely intertwined economically, just as closely as the countries of the EU. Who would ever have thought that in 2025 we would be living in a world where Canada is publicly considering joining the EU?

These policies are not only reckless, but also contrary to U.S. interests. Until now, America's alliances have also helped allies to invest their money in dollars. This kept interest rates low and enabled the U.S. to invest more than it saved and consume more than it produced. Why did the U.S. forego this?

When you ask the question like that, you expect an economic logic behind the Trump administration's actions – but that is exactly what is missing. It's scaremongering, with the scare shot hitting its own foot.

Where does this fixed idea that trade deficits are harmful come from?

It is a recourse to an old discredited idea called mercantilism. According to this theory, a positive trade balance is synonymous with a strong economy – end of story! But as we know, the trade balance – or current account balance – also corresponds to the difference between investment and savings. If Trump does something that causes investment to plummet, this would improve the U.S. trade balance. But that would be fatal for the U.S. economy.

Unlike Trump's first presidency, the U.S. stock market is now trending negatively. Have the markets underestimated Trump's risk and lost confidence in him?

The markets initially reacted positively to the election, mainly because of the prospect of tax cuts, together with spending cuts to curb the budget deficit. They initially thought extreme announcements regarding tariffs were negotiating tactics – not real policy. But then Trump adopted a «flood-the-zone» strategy: a daily flood of new, sometimes chaotic measures that overwhelmed potential opposition. The markets don't like this chaos. It is also becoming increasingly clear that Trump sees tariffs not just as a threat, but as a solution to every problem.

What is your advice to Europe? How should it act in this tariff dispute?

Don't let yourselves be provoked, refrain from aggressive retaliatory measures and look out for like-minded economies that still believe in an open and multilateral trading system. What can be useful are intelligent and selective forms of retaliation that specifically cause pain to Trump's voters. And it is important that Europe sticks together: A joint response is better than a response from individual countries.

That will not be easy.

I believe that Europe can act as a beacon of common sense. That means forming alliances, not giving in to Putin – or Trump – and trying to conclude open trade agreements with other countries.

How would you describe Trump's view of Europe?

Trump has said that nobody is ripping off the U.S. more than Europe. I don't know why he believes that. But it is clear that he likes those countries least that are the friendliest to the U.S. and with which we have historically had the closest relations.

Some historians are comparing the current situation to the 1930s, when protectionism and economic nationalism were also rampant. Is the comparison justified?

There is a worrying parallel: Protectionism and political conflict go hand in hand. That was the case in the 1930s, and we also see it today. Tariffs are torpedoing the transatlantic alliance that has existed for 75 years. The 1930s saw the collapse of the global monetary and financial system. If the current loss of confidence in the dollar as a global currency continues and there is no adequate replacement for the dollar, there is a similar threat. The global liquidity on which the trading and financial systems are based would dry up.

Are you suggesting there is a realistic scenario that leads to the collapse of the global financial system?

I am careful when using words like «realistic.» But there is a worrying possibility that we should be thinking about and planning for.

In the face of such dangers: Will globalization soon be a thing of the past?

Until January 2025, I would have said that only hyperglobalization has come to an end. In other words, the phase in which international transactions grew faster than the global economy. Today, however, there are signs that not only hyperglobalization, but globalization in and of itself is being pushed back. Especially if Trump applies reciprocal tariffs, free trade in North America erodes and cross-border financial transactions decline because the vehicle for this, the dollar, is becoming increasingly unpopular.

What would the U.S. lose if the dollar were to lose its status as the reserve currency?

I see three advantages of the dollar's dominance for the U.S.: Firstly, Americans can conduct business worldwide in their own currency and therefore have no exchange rate risk. Secondly, the government can borrow at lower interest rates as there is a constant demand for dollars from foreign central banks and governments. Thirdly, the currency acts as a kind of automatic insurance. When crises occur in the world, investors flee to the dollar as it is considered a safe haven and the U.S. financial market is particularly large and liquid.

Should Europe use this opportunity to strengthen the euro's importance on the international capital market, for example by issuing joint Eurobonds to finance rearmament?

I would consider moderate steps in this direction to be constructive. But many European countries are already heavily indebted; only four or five – together with Switzerland – still have AAA ratings.

Wouldn't it create the wrong incentives if the less indebted countries were to pool their lower yields with those of the heavily indebted ones?

Extraordinary times call for extraordinary measures. The fact that Europe can no longer rely on the U.S. as an alliance partner shows that extraordinary times have arrived for defense spending. Europe now needs a common strategy to quickly eliminate its defense backlogs – and debt can be used to do so. However, current defense spending must then be financed from the current budget.

Wouldn't the European countries then also have to create specific revenues that they would cede to the EU to finance joint debts?

There is still no willingness among European countries to do this on a permanent basis. What has been done during the pandemic and what is being done now are one-off acts of strength. The fact that there is no actual tax administration at EU level and that the revenue is mainly used for agriculture and regional programs is a handicap.

China, which was still the focus of Trump's attacks during his first term in office, seems to have disappeared from the spotlight. Is the rivalry with Beijing no longer the dominant issue in Washington?

Attention is shifting away from China and toward Canada and Europe as more direct economic competitors of the United States. China has been very cautious toward Trump so far. It has only reacted selectively to tariffs and avoided provoking Trump rhetorically.

China as the more sensible player on the world stage?

Who would have ever thought that we would be having this conversation and agree that China has played a more constructive role in the global economy than the U.S. in recent months?

Could the Chinese yuan take the dollar's place in the future?

China still lags far behind the U.S. and other countries in terms of its financial market and currency. It has been 110 years since America created its central banking system, the Fed. China, on the other hand, only started internationalizing the yuan 10 to 15 years ago. Rome was not built in a day either. China would have to make its currency convertible and strengthen confidence in its financial market. So far, they do not have an independent central bank.

In 1971, then U.S. Treasury Secretary John Connally said: «The dollar is our currency, but your problem.» Is that still true?

Connally said this because the dollar, as a global currency, gives the U.S. a financial and political weapon to bring states that use and rely on the dollar to their knees. But the message could soon be: «The dollar is our currency and our problem.»

Why? Because the U.S. uses the dollar as a weapon too often?

It's not just about the frequency, which has actually increased. More importantly, sanctions have so far been implemented in cooperation with other countries, for example in 2022, to make it more difficult for Russia to access the dollar, but also the euro or pound. Trump, however, does not want to cooperate. This can be seen in the sanctions against Iran. It is quite possible that other countries will not go along because they fear being affected by similar measures in the future. So they are turning away from the dollar as the reserve currency.

Until World War II, the British pound was the dominant currency. What can we learn from the transition to the dollar back then for today's situation?

Firstly, the two world wars severely shook Britain's monetary and financial position and weakened the pound back then. Secondly, the U.S. created a truly independent central bank that internationalized the dollar and thus created a real competitor for the pound. A transition between leading international currencies needs both. Now we may be experiencing a big negative shock that Trump is inflicting on the dollar. But it is not yet clear whether the institutions that would be necessary for a real alternative are being built anywhere.

So the U.S. cannot lose its global currency privilege?

They can lose it if nobody wants to hold dollars anymore. But that would result in colossal collateral damage. Cross-border payments would become expensive and difficult. It would be the end of globalization.

Some people see cryptocurrencies and stablecoins as the alternative to the dollar.

I am not one of them. I think cryptocurrencies are too volatile and not trustworthy enough as a store of value. Stablecoins are either unstable if they are only partially backed by collateral, or they are not scalable enough. Digital central bank money could theoretically become an alternative to the dollar, but would then have to be internationally interoperable. The mBridge project, which aims to make this possible, has so far been run primarily by the Chinese central bank. For the same reasons that many countries do not want to settle their transactions in Chinese yuan, they are also reluctant to join the mBridge project.

After this rather gloomy analysis of the present, can we at least hope that after four years of Trump, common sense will prevail again, tariffs will be withdrawn and globalization will regain the upper hand?

I very much hope that the U.S. will return to a more economically sensible policy in the future. There are many people and politicians here who see and understand the advantages of free trade, international division of labor and geopolitical cooperation. But I fear that damage is currently being done that cannot easily be undone. Because if the U.S. decides to take this nationalist-isolationist course once, who is to say that this cannot happen again in eight years' time? I therefore fear that other countries will turn away from the U.S. and increasingly cooperate with each other.

An outstanding voice of reason

pfi. Barry Eichengreen has been researching and teaching at the University of California, Berkeley, since 1987. The economist and economic historian has published extensively on the development of the international financial system, the major financial crises and changes in currency structure. In addition to countless research papers, he is the author of several books, including «Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System» (2011). Although Eichengreen once criticized the European Monetary Union as a political misconstruction, he considers its reversal to be too costly. Now he fears for the dollar. Eichengreen regularly advises international organizations, central banks and governments around the world. He earned his doctorate from Yale University in 1979 and is the recipient of numerous awards. Eichengreen is a Research Associate of the U.S. National Bureau of Economic Research (NBER) and a Research Fellow of the European Center for Economic Policy Research (CEPR).

Latest articles

INTERNATIONAL VIEW

Caught between geopolitics, bureaucracy and climate change, coffee prices are soaring

April 4, 2025 8 min

INTERNATIONAL VIEW

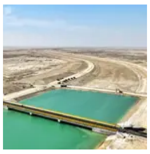
Photo essay: Myanmar earthquake topples buildings and shatters cities

April 4, 2025 2 min

INTERNATIONAL VIEW

Egypt takes aim at overpopulation by building new cities

April 3, 2025 7 min



INTERNATIONAL VIEW

Taliban's desert water project offers great potential, but carries high risk

April 1, 2025 7 min

Global reporting. Swiss-quality journalism.

In today's increasingly polarized media market, the Switzerland-based NZZ offers a critical and fact-based outside view. We are not in the breaking-news business. We offer thoughtful, well-researched stories and analyses that go behind the headlines to explain relevant events in the U.S., in Europe and worldwide. To produce this work, the NZZ maintains an industry-leading network of expert reporters around the globe who work closely with our main newsroom in Zurich.

Sign up for our free newsletter or follow us on Twitter, Facebook or WhatsApp.