

Tariffs vs. Monetary Reform: Does the U.S. Trade Problem Stem from Protectionism or the Dollar's Reserve Status?

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ABSTRACT

The purpose of this study examines whether the USA has a trade problem that requires protectionism in the form of tariffs, or whether the problem exists with the USD as the global reserve currency that requires monetary reform to solve global economic imbalances. This study conducts analysis on (i) foreign, private and government sectoral balances from 1948 to 2024; (ii) balances on U.S. current and financial accounts from 1948-2024 and the growth in USD reserves; (iii) the growth in USD reserves in relation to U.S. and German PPI manufacturing prices from 1960-2024; and (iv) the U.S. net international investment position from 2006-2024. This study finds that the U.S. does not face a traditional trade problem solvable through tariffs or protectionist policies. Rather, the core issue lies in the global monetary framework, which forces the U.S. to provide global liquidity in dollars that requires persistent current account deficits, and has led to an unsustainable deterioration in the net international investment position. Additionally, the inflationary effect of the growth in USD reserves on prices explains why American manufacturing goods have become increasingly uncompetitive. As such, this study directly examines whether trade deficits are mainly derived from monetary policy instead of trade issues.

Keywords: National Income Accounting, Monetary Policy, Trade Policy, International Monetary Arrangements.

JEL classification: E01, E52, F13, F33.

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