



**Dipartimento
di Economia**
Working Papers

n. 295
2026

**Guglielmo Forges Davanzati
and Giovanni Scarano**

**TARIFFS, GEOPOLITICAL CONFLICTS
AND US REINDUSTRIALISATION:
A NOTE**



**Dipartimento
di Economia**
Working Papers

I Working Papers del Dipartimento di Economia svolgono la funzione di divulgare tempestivamente, in forma definitiva o provvisoria, i risultati di ricerche scientifiche originali. La loro pubblicazione è soggetta all'approvazione del Comitato Scientifico.

Per ciascuna pubblicazione vengono soddisfatti gli obblighi previsti dall'art. I del D.L.L. 31.8.1945, n. 660 e successive modifiche.

Esemplare fuori commercio ai sensi della legge 14 aprile 2004 n.106

WORKING PAPERS
Dipartimento di Economia
Università degli Studi Roma Tre
Via Silvio D'Amico, 77 - 00145 Roma
Tel. 0039-06-57335655 fax 0039-06-57335771
workpapers.economia@uniroma3.it
<https://economia.uniroma3.it/>

COMITATO SCIENTIFICO

Francesco Longobucco

Francesco Giuli

Luca Spinesi

Giovanni Scarano

Loretta Mastroeni

Silvia Terzi

TARIFFS, GEOPOLITICAL CONFLICTS AND US REINDUSTRIALISATION:
A NOTE*

Guglielmo Forges Davanzati (University of Salento)
Giovanni Scarano (Università Roma Tre)

Abstract

The note discusses the strategic foundations of the US's new protectionism. Contrary to the argument that protectionism serves to curb deindustrialisation stemming from globalisation, the paper highlights that the reduction in the proportion of manufacturing output in US GDP ultimately depends on financialisation. From this perspective, tariffs can be seen as an attempt to discourage the international movement of capital, a key component of globalisation that directly supports financialisation.

Key words: Financialisation, Globalisation, Deindustrialisation, International Capital Movements.

JEL classification: E650, F100, F210, F380, F620.

* Thanks are due to Prof. Sergio Levrero for his helpful comments on a previous version of the paper. The usual disclaimer applies.

1. Introduction

The primary economic objective explicitly pursued by the Trump administration is the reindustrialisation of the United States, with tariffs considered essential to achieving this goal. The *Bureau of Labor Statistics* estimates that the share of manufacturing employment in the total American labour force has shrunk from approximately 30% in 1950 to 10% in 2024. The strategic use of tariffs, theorised in particular by economist Steven Miran (advisor to Trump and former Chairman of the *Council of Economic Advisers*), is intended to increase tax revenue and reduce the balance of payments deficit, supposedly to the benefit of US manufacturing (Miran 2024). Geopolitical conflicts and trade wars are integrated components of this strategy for several reasons:

- a) *Relocation Incentives*: Geopolitical shocks disrupt global supply chains. The resulting increase in logistics costs makes offshoring less attractive, pushing US companies to relocate production back home. Furthermore, geopolitical instability encourages "friend-shoring"—the relocation of production to politically allied nations. Amiti et al. (2019) point out that the actual purpose of tariffs is to deter international capital movements, particularly outflows from the United States, while specific administrative measures aim to incentivize foreign firms to localize their productive activities within the U.S.
- b) *Energy Profits*: Geopolitical tensions and conflicts often trigger a rise in oil prices. This directly boosts the profits of US energy companies, given that the United States remains the world's largest oil producer.
- c) *Bargaining Leverage*: The Trump administration deploys aggressive tariff strategies designed to maximize its bargaining power and extract competitive advantages during international trade negotiations (Cloutier 2018).
- d) *Defence of Monetary Hegemony*: Trade and geopolitical manoeuvres serve to defend the dollar's global dominance—safeguarding what former French President Valéry Giscard d'Estaing famously termed the “exorbitant privilege” (see footnote 1).

In public and academic debates, a widespread view known as the ‘Madman Theory’ suggests that US protectionism lacks a rational economic foundation, arguing instead that the President's erratic behaviour is a deliberate ploy to disorient adversaries and maximize negotiating advantages. We argue that these judgments are limited because they rely on an overly simplified interpretation of contemporary economics and geopolitics (Blecker 2026). In contrast, the current US stance represents a highly complex strategy incorporating geopolitical and structural factors typically overlooked by mainstream international economics.

This note aims to show that while this protectionist strategy possesses its own internal economic logic, it risks being ineffective because extensive empirical and theoretical evidence indicates that US deindustrialisation depends fundamentally on financialisation.

The paper is organised as follows: Section 2 focuses on the theoretical basis of the Trump administration's protectionism; Section 3 examines the structural link between financialisation and US deindustrialisation; and Section 4 provides concluding remarks.

2. Steven Miran's contribution to the economics of US protectionism

An immediate antecedent to the Trump administration's protectionism can be found in the industrial policies implemented by the Biden administration, specifically regarding subsidies granted to domestic firms and 'Buy American' mandates (Ahumada et al. 2025). In essence, US trade policy has undergone a transition from covert protectionism to overt protectionism (Reynolds 2024).

Steven Miran is widely considered a highly influential theorist regarding the strategic efficacy of tariffs. The starting point for Miran's analysis is the observation that the economic decline and deindustrialisation of the United States are fundamentally linked to the continuous overvaluation of the dollar—driven by its structural role as the global invoice and reserve currency—alongside intensifying international competition from emerging economies, particularly China (see footnote 2).

Official empirical evidence highlights the scale of this structural shift:

- The share of manufacturing employment in the total American labor force has shrunk from 24% in 1960 to roughly 8% by 2025.
- According to World Bank data, the US share of global GDP has contracted from approximately 40% in 1945 to 27.5% in 2024.
- The long-term growth rate of the US economy has decelerated from an average of 4.5% during the 1950–1970 period to a more modest 2.3% over the last twenty years.

De-dollarization has proceeded in tandem with this relative decline. While global demand for the dollar grew continuously after 1944, the last few years have witnessed a significant contraction, with the dollar's share of global reserves reaching a historical low of roughly 57.5%. This decline is largely driven by diversification into other currencies, particularly due to the BRICS' attempts to challenge US monetary hegemony. (see footnote 3). The International Monetary Fund (IMF) estimates that the share of central bank reserves denominated in USD has fallen from 75.1% in 2001 (the year China joined the WTO) to 57.8% in 2024. Sanctions imposed on Russia have further accelerated this trend; for instance, Russian exports denominated in yuan increased from 0.4% in 2022 to 34.5% in 2024, while yuan-denominated imports rose from 4.3% to 36.4% over the same period.

Miran argues that tariffs can simultaneously achieve two objectives: stimulating domestic production and increasing federal tax revenues, thereby addressing the "twin deficits" (fiscal and trade). Furthermore, Miran contends that tariffs do not generate systemic inflationary effects, pointing to the US economic performance of 2018–2019 as empirical backing. He suggests that the Federal Reserve frequently overestimates structural inflation, noting that underlying inflation in the US real estate sector is lower than reported because official metrics fail to account for the lagged nature of existing housing contracts. In other words, according to Miran, central banks fail to account for the time lag inherent in housing and rental costs.

In the following section, we argue that an economic strategy relying solely on Miran's tariff thesis will prove ineffective because US deindustrialisation is primarily a structural by-product of financialisation.

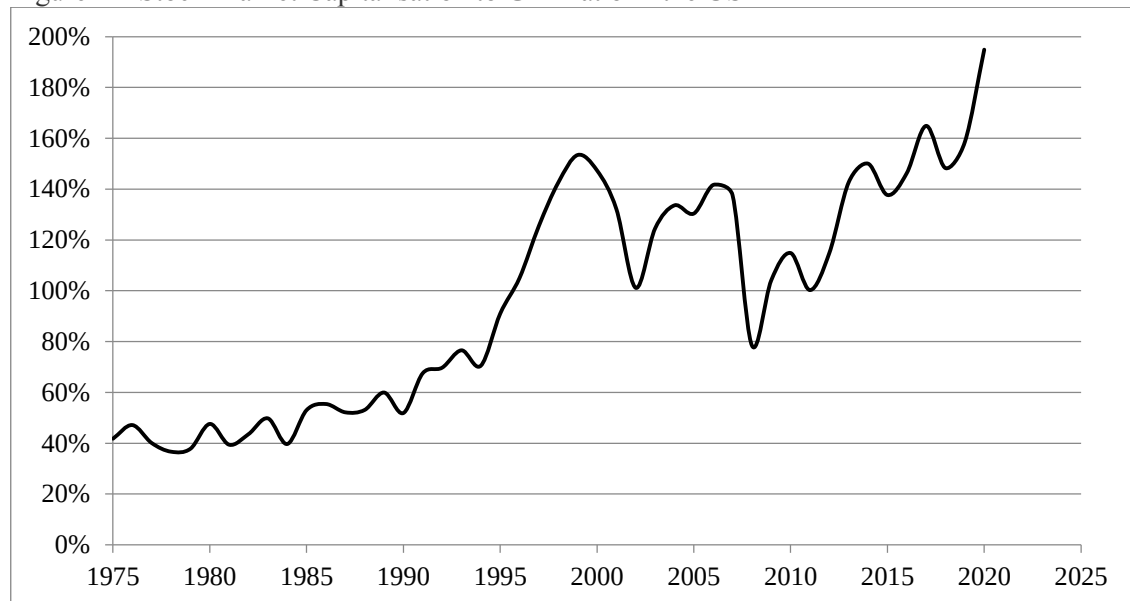
3. Financialisation and deindustrialisation

Financialisation, when understood simply as a synonym for *financial deepening*, may be defined as the increasing weight of financial activities within both domestic and international economies (Epstein 2005). Yet it also possesses a more profound structural dimension, manifesting itself in a gradual reorientation of investment away from productive, physical capital and towards financial assets (Palley 2007). Since the accumulation of physical capital constitutes one of the principal drivers of long-term economic growth, such a shift tends, over time, to weaken the productive capacity, productivity performance, and competitive position of the real economy.

Using the Stock Market Capitalisation-to-GDP ratio as an index for the macroeconomic significance of financial investment, the US experienced exponential growth during the 1980s and 1990s, with the ratio rising from 42% to over 153% by the end of the 1990s (see Figure 1)¹. Despite cyclical contractions – such as the bursting of the dot-com bubble in 2001 and the Global Financial Crisis of 2007–2008 – this ratio has maintained a long-term upward trajectory, recently surpassing its late-1990s peaks. Concurrently, gross capital formation in the US as a percentage of GDP has slowed down significantly (see Figure 2).

During the same period, gross capital formation in the US slowed down significantly as a percentage of GDP (see Figure 2).

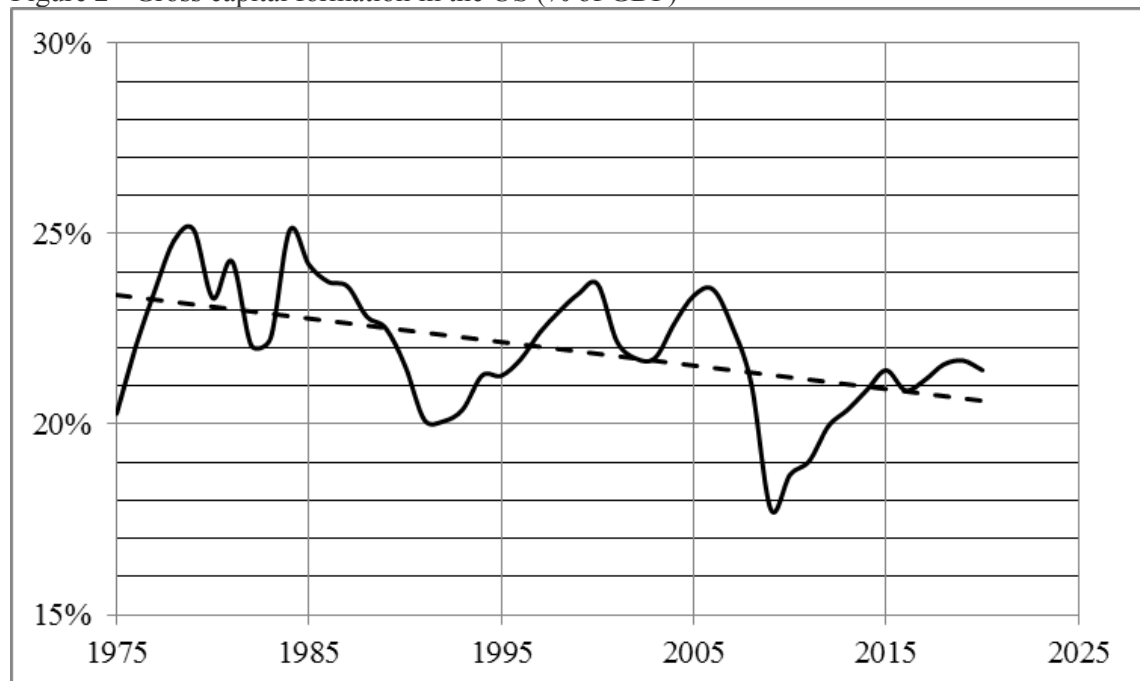
Figure 1 – Stock Market Capitalisation to GDP ratio in the US



Source: World Bank national accounts data

¹ A sharp acceleration in stock market capitalization relative to GDP occurred primarily during the 1990s until the bursting of the dot-com bubble, subsequently remaining, on average, at higher levels than in previous decades

Figure 2 - Gross capital formation in the US (% of GDP)



Source: World Bank national accounts data

However, financial investment merely involves the transfer of liquidity from one economic agent to another. At the global level, financial investment cannot replace investment in capital goods (Tobin 1997; Stockhammer 2004). Substitution of real investment with financial investment in a single country is only possible thanks to international capital movements. It is just the possibilities for foreign investments, both direct and financial, that may decrease the domestic accumulation rate². An emblematic case in this regard is the massive allocation of Chinese savings into US financial assets. The resulting influx of global liquidity fuels further financialization by widening the gap between the expected rate of profit from productive investment and the short-term returns derived from financial speculation (Lysandrou 2011).

Financialisation of the US, as well as that of other western economies, can be correctly explained only in the context of the international relationships that have characterised globalisation in the neoliberal era. It is, in fact, an organic development within the developed countries oriented towards a better reorganisation of capitalist power relations on a global scale, which is characterised as a set of institutional innovations promoting new types of capitalist rationality within the global ‘capital circuit’, where large NFCs remain the main actors. Financialisation and globalisation, in fact, are just two sides of the same coin (Scarano 2023). This dual process is visible in the way modern NFCs restructure their global value chains. In view of the liberalization of international capital flows, large firms have fragmented their production processes,

² In contemporary financialised capitalism, there is a persistent divergence between stable Gross Fixed Capital Formation and declining Net Fixed Capital Formation. This represents a paradox for mainstream economics and derives from the corporate pressure to maximize short-term shareholder value. Large corporations, in fact, tend to redirect retained earnings toward financial channels and “short-termism” prevails. As a result, productive investments are restricted to short-lived assets—predominantly Information and Communications Technology (ICT), software, and digital infrastructure—characterized by rapid obsolescence and high depreciation rates.

offshoring labour-intensive activities to developing economies with lower wages, lower taxation on profits, lower environmental standards, while centralizing financial control, intellectual property, and R&D in advanced financial centres. Accordingly, global expansion thus requires financialized tools to operate, while financial markets rely on the global extraction of surplus value to sustain financial returns”.

The post-war international order established at Bretton Woods was designed against the backdrop of protectionism that emerged during the Great Depression, presupposing strict control of international capital movements. Following the collapse of this order and the crisis of overproduction in the early 1970s, major US NFCs were forced to enhance their global competitiveness significantly. However, overcoming the constraints of national markets required new financial resources at a time when self-financing was severely limited by low profit margins. This led to them turning to financial markets, which increased demand for loanable funds and money capital, raising both interest rates and dividends. Unless they became increasingly like financial firms, the US NFCs should have faced a more difficult environment in the 1970s (Epstein & Jayadev 2005).

Moreover, international liberalisation of capital mobility helped to reduce the bargaining power of the workers and the share of labour in national incomes, favouring the profitability of both financial and industrial capital (Scarano 2023). The restructuring process necessary to raise profitability levels also led to waves of mergers and layoffs, as well as decisions to reduce production, cut workers’ wages and downsize firms.

Thus, it was the falling rates of profit in 1970s that spurred the large US NFCs to resume financial strategies to reorganise themselves on a global scale (Useem 1984; van der Pijl 1984; Helleneir 1994; Duménil & Lévy 2005).

The growing size of the financial sector within the US economic system naturally produced a change in the power relations between different interest groups in society (Palley 2007, 2013). A structural shift in the balance of power between financial and other economic interests – such as those of non-financial enterprises in competitive sectors and workers – occurred in (Duménil & Lévy 2004; Epstein & Jayadev 2005).

Thus, the growth of financial power was initially enhanced by the expansion of financial markets, which was driven by industrial restructuring. However, since the late 1980s, the growing political influence of the financial rentier class has enabled them to change economic policies in their own interest, to the detriment of other interest groups in society, such as non-financial enterprises in competitive sectors and workers. This shift in the balance of power was initially prompted and subsequently supported by policies characterised by fiscal austerity, restrictive monetary policies, political pressure for central bank independence, inflation targeting, financial deregulation and international capital mobility. Ultimately, these new ‘neoliberal’ political trends replaced the Keynesian regulations that had characterised the previous ‘Bretton Woods era’ (Aglietta & Reberieux 2005; Crotty 2005; Epstein & Jayadev 2005).

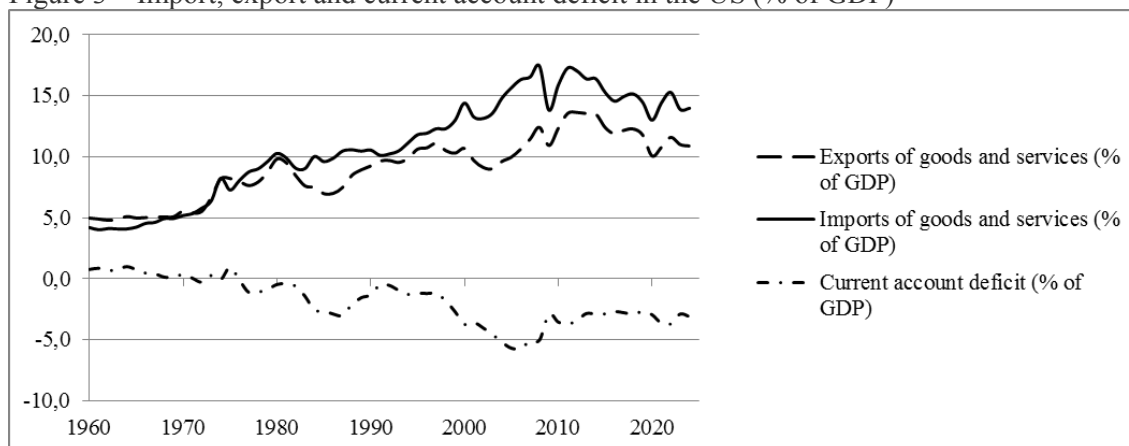
Since the 1990s, the U.S. strategy to maintain technological supremacy has evolved from defensive trade management to aggressive domestic industrial policy and targeted containment. Initially, the U.S. counteracted Japan's semiconductor dominance through managed trade agreements (e.g., the 1991 Semiconductor Trade Arrangement) and the creation of public-private R&D consortia. Over the subsequent decades, this approach shifted from market-driven globalization toward the current framework, which combines massive state-directed investments (such as the CHIPS and Science Act) with

strict export controls to restrict strategic competitors' access to critical and emerging technologies.

Financial liberalisation under the Clinton administration, in particular, was one of the main political outcomes of the rise of financial interests, which has successively been the main cause of increasing macroeconomic instability and financial fragility, resulting in major financial crises over the last three decades (Arestis & Sawyer 2005; Sawyer 2017).

In any case, during the process of financial globalisation, large US NFCs have finally begun to suffer from increased international competition resulting from productive investment abroad and its knock-on effects in emerging countries. One of the final results has therefore been an increasing current account deficit in the US. As figure 3 clearly shows, this deficit increased significantly from 1991 to 2006, during the period of greater financialisation of the US economy. Following the 2007–2008 financial crisis, it began to reduce, though it remains at an average of around 3%.

Figure 3 – Import, export and current account deficit in the US (% of GDP)



Source: World Bank national accounts data

A further proof that deindustrialisation is primarily caused by financialisation is supported by historical evidence, insofar as, since the 1980s, US economy was characterised by an increase in investment in financial assets (Krippner 2005) and a simultaneous slowdown in the accumulation of physical assets (compare Figures 1 and 2 above). The risk that tariffs may prove ineffective in achieving the goal of reindustrialisation is exacerbated by the financial sector deregulation measures implemented by the first Trump administration, as these could act as a further incentive to divest from the real economy³.

A further factor that risks rendering US protectionism ineffective is the fact that, as highlighted in numerous studies, deindustrialisation also depends on productivity gains in the manufacturing sector and the resulting shift of production towards the services sector (Kollmeyer 2009; Ramaswamy & Rowthorn 1997).

³ This refers, in particular, to the repeal of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which, in 2010, had introduced regulations governing the sector: this repeal was effected by the 2018 legislation S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the Relief Act).

Finally, when, as is currently the case (Venezuela, Iran), deglobalisation is pursued not only via tariffs but also through wars, conditions are created in which 'regime changes' increase the international circulation of dollars. The increased weight of the dollar in international trade, in turn, boosts capital inflows into the United States, and these in turn encourage financialisation processes.

Some authors argue that increasing uncertainty in global markets, driven by rising armed conflicts, acts as a major constraint on financial globalization by promoting economic fragmentation. Simultaneously, these geopolitical tensions trigger robust flight-to-safety flows that paradoxically strengthen the market for US government securities. This dual dynamic forces a retrenchment of international capital away from peripheral and integrated markets. Consequently, US Treasuries solidify their status as the ultimate global haven, anchoring American financial dominance amidst crisis (Vasudevan 2009).

4. Conclusions

The economic theory underpinning the Trump administration's protectionism is based on the belief that US deindustrialisation is due to increased competition in international trade and that it can be countered by the use of tariffs. These would, on the one hand, attract businesses to the country and defend existing ones and, on the other, increase tax revenue. In this note, it has been argued that this approach fails to account for the evidence that financialisation is the main cause of deindustrialisation.

Most European international economists, in turn, consider the Trump administration's tariff policy to be both crazy and senseless because it sets unprecedented goals.

Traditional protectionism, in fact, tends to defend a country's existing or developing productive activities from foreign competition. However, today, the United States' goal is to bring back home the productive activities that were relocated during the globalisation and financialisation of the national economy.

This objective has clear strategic, military and geopolitical aims, making it a typical merit good. Historically, this objective could have led to the nationalisation of strategic industries. However, this conflicts with both the US national political culture and the country's current lack of advanced technological plants.

As set out in the *Inflation Reduction Act*, the aim of bringing industrial production back from abroad is also for tax reasons, in order to make the public budget deficit more sustainable. Given the current tax rates, the tax revenue from domestic production is definitely higher than that from taxing financial rents from direct or financial investments abroad.

However, tariffs alone may not be sufficient to achieve these ambitious goals.

Therefore, the limitation of financial globalisation can also be pursued by reducing the profitability of foreign direct and financial investments, through increasing uncertainty on the world market. This uncertainty reduces the expected rate of return on these investments, while also increasing the demand for liquidity and safe assets, such as US Treasury securities. From this perspective, a campaign involving destabilising military interventions in various regions of the world could also help to achieve this objective.

The increase in *risk premia* associated with heightened uncertainty surrounding the valuation of financial assets also generates a negative wealth effect, which may help to dampen inflationary pressures without necessitating an increase in the official discount rate. Such a course of action would, at least in the short term, impose significant costs on domestically competitive industries, notably the construction sector, which remains an influential constituency for the current US President.

Given the growing suspicion that the sustained rise in financial asset valuations in recent years has been driven by a new speculative bubble, fuelled by overly optimistic expectations regarding the profitability of emerging information and communication technologies – most notably those associated with the rapid advancement of Artificial Intelligence – it is plausible to interpret the reluctance of central banks to raise official interest rates as a precautionary measure aimed at avoiding the abrupt bursting of this bubble. Such an outcome could trigger severe macroeconomic and financial repercussions, comparable in magnitude to those witnessed during the financial crisis of 2007–2008.

All of this could well complement the traditional *Madman theory* in explaining the current orientation of the Trump administration.

References

- Aglietta M. and Reberioux A. 2005. *Corporate Governance Adrift: A Critique Of Shareholder Value*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
- Ahumada A. and Sossdorf S. 2025. ‘A Progressive Industrial Policy for the Global South: A Latin American Perspective’, *Social Europe*, 28th July, <https://www.socialeurope.eu/a-progressive-industrial-policy-for-the-global-south-a-latin-american-perspective>.
- Amiti M., Redding S. J. and Weinstein D. E. 2019. ‘The Impact of the 2018 Trade War on U.S. Prices and Welfare’. *Journal of Economic Perspectives*, 33(3), 187–210.
- Arestis P. and Sawyer M. 2005. ‘Financial Liberalization and the Finance-Growth Nexus: What Have we Learned?’. In: P. Arestis and M. Sawyer (Eds.), *Financial Liberalization: Beyond Orthodox Concerns*. Houndmills and Basingstoke: Palgrave Macmillan.
- Blecker R. A. 2026. ‘Conflict and cooperation in international trade: Post-Keynesian perspectives’. *Review of Keynesian Economics*, 14(2), 155–185.
- Cloutier J.M. 2018. ‘Leverage Is Everything: Understanding the Trump Administration's Linkage between Trade Agreements and Unilateral Import Restrictions’. *Case Western Reserve Journal of International Law*, 50(1), 203.
- Crotty J. 2005. ‘The Neoliberal Paradox: The Impact of Destructive Product market Competition and ‘Modern’ Financial Markets on Nonfinancial Corporation Performance in the Neoliberal Era’. In: G. A. Epstein (ed.), *Financialization and the World Economy*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing Ltd.
- Duménil, G. and Lévy D. 2004. ‘The economics of US imperialism at the turn of the 21st century’. *Review of International Political Economy*, 11 (4), 657–676.

- Duménil, G. and Lévy D. 2005. 'The Neoliberal (Counter-)Revolution'. In: A. Saad-Filho and D. Johnston (eds.), *Neoliberalism. A Critical Reader*. London: Pluto Press.
- Epstein G.A. 2005. 'Introduction: financialization and the world economy'. In: G.A. Epstein (ed.), *Financialization and the World Economy*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing Ltd.
- Epstein, G. and Jayadev, A. (2005). 'The rise of rentier incomes in OECD countries: Financialization, central bank policy, and labor solidarity'. In: Epstein, G. A. (ed.), *Financialization and the World Economy*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar Publishing Ltd.
- Helleneir, E. (1994). *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. New York: Cornell University Press.
- Kollmeyer C. 2009. 'Explaining deindustrialization: How affluence, productivity growth, and globalization diminish manufacturing employment'. *American Journal of Sociology*, 114(6), 1644–1674.
- Krippner G.R. 2005. 'The financialization of the American economy', *Socio-Economic Review*, 3(2), 173–208.
- Lysandrou P. 2011. 'Global imbalances, financialization, and the financial crisis'. *Economy and Society*, 40(1), 24–47.
- Miran S. 2024. *A User's guide to restructuring the global trading system*, Hudson Bay Capital, November.
- Palley T.I. 2007. 'Financialization: What it is and why it Matters'. *The Levy Economics Institute Working Paper*, 525.
- Palley T.I. 2013. *Financialization: The Economics of Finance Capital Domination*. Basingstoke: Palgrave Macmillan.
- Ramaswamy, R., and Rowthorn, R. (1997). *Deindustrialization: Causes and implications* (IMF Working Paper No. WP/97/42). International Monetary Fund
- Reyndolds E.B. 2024. 'U.S. industrial transorfation and the “how” of 21 century industrial strategy'. *Journal of Industry, Competition and Trade*, 24(8), <https://doi.org/10.1007/s10842-024-00420-x>.
- Sawyer M. 2017. 'Financialization and economic and social performance'. In : A. Gemzik-Salwach and K. Opolski, (eds.), *Financialization and the Economy*. London and New York: Routledge.
- Scarano G. 2023. *Financialization and Macroeconomics. The Impact on Social Welfare in Advanced Economies*. London: Routledge.
- Stockhammer E. 2004. 'Financialisation and the Slowdown of Accumulation'. *Cambridge Journal of Economics*, 28 (5): 719–741.
- Tobin J. 1997. 'Comment'. In: R. Pollin (ed.), *The Macroeconomics of Savings, Finance and Investment*, Ann Arbor: University of Michigan Press.
- Useem M. 1984. *The Inner Circle: Large Corporations and the Rise of Business Political Activity in the U.S. and U.K.*. London: Oxford University Press.

van der Pijl K. 1984. *The Making of an Atlantic Ruling Class*. London and new York: Verso.

Vasudevan R. 2009. 'Finance, imperialism, and the hegemony of the dollar'. *Monthly Review*, 60(11), 114–128.

