



# MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

## Michael Every: Lines on Maps vs Lines on Screens

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**Erik:** Mike Joining me now is Michael Every, global strategist for economy and markets at [Rabobank](#). Michael, it's great to get you on the show as a first time guest. I'd say, normally, if I was talking to somebody after the first year or so of a presidential administration, let's review all of those big moves that happened in the first year. We're recording this early Tuesday morning, Trump's only been in office one day, I think we've got a year's worth of stuff to talk about already. So, let's start with the big picture of, where are we? Obviously, this is the return of President Trump for his second term. How should investors be thinking about this? What is the big picture, what's the significance? What should we be looking for?

**Michael:** Okay, let's start with the really easy thing that I think everyone listening can understand straight away, volatility. Welcome to a world of volatility, and we've had that already underlined just within the first 24 hours, where, prior to actually assuming office, we started to have the flood of insider news releases saying, well, don't worry, Trump's not going to bring in tariffs on day one. And you've got this flood of relief from the market, which, as we will discuss later I hope, is very wrongly placed. And yet, within hours already, then we had Trump just off the cuff while signing some executive orders saying he's thinking of putting 25% tariffs on Canada and Mexico starting February 1. And also, off hand, suggesting 100% tariffs on BRICS countries if they do certain things involving a BRICS currency, et cetera, et cetera. So, it's been a wild swing, just on that front already. And we've really just started to get warmed up.

**Erik:** Michael, I want to focus on what you just said about volatility, because this is something I don't really understand yet about this. So many analysts are anticipating what's Trump going to do the first day, the second day, the third day, whatever. What I want to get a sense of is, when is the first significant wave of Trump's opponents making their move? Because I think that's what is going to affect the market, is when everybody says, oh, wait, this is a two sided fight. We got to see what Trump's going to do, what his opponents are going to do, who's going to have the most power. I'm kind of waiting to see, not so much Trump's first move or second move or third move, which everyone's analyzing, but when does the first move of significance come from his opponents? And what's that move likely to be?

**Michael:** Brilliant question, and that's exactly why you need global strategy in this, because we live in an interconnected world now more than ever, even if it's currently pivoting around Donald Trump, but other people will respond to what he's planning to do, and that will create massive volatility. Let me take just one point here. Obviously, the big issue at the back of markets' minds is, when do we see tariffs on China, and how high are those tariffs going to be? Because the

US-China trade relationship is that important, and therefore the follow on question is not just about how high is that tariff level, it's what does China do about it? And there are a number of different things it can do, and immediately we're in the global strategy or geopolitical space, but one of them is to say, right, let's let the renminbi depreciate. I mean, this is not an unusual conversation in pockets of the market. But were that to happen, then, of course, you have a tidal wave of competitive devaluations or depreciations in FX markets around the world. The dollar goes absolutely through the roof. Commodity prices go through the floor on the back of that metric alone, massive disruption, and that's just in terms of one particular move that China could make in response, because then we go back and say, well, could they act in a completely different dimension? Could they, for example, start to do an even more aggressive maneuver around Taiwan? Could they start bumping into more Philippines ships again, in areas that they claim as their territory in the Philippines say belongs to them, which would immediately test Trump's reaction in terms of what he would do for defense guarantees, vis à vis the Philippines or not vis à vis Taiwan, given that there is no US Defense guarantee for Taiwan, but just in terms of the general stance towards that particular territory. So, either of them would throw markets in a complete curve ball. One of them is largely predictable to a degree, even if they, the market is very bad at quantifying the second, third, fourth order effects, et cetera. The other one immediately takes you towards very, very worrying scenarios where no one, certainly nobody with an economic model, can tell you what the outcome is going to be.

**Erik:** Michael, you recently published a piece called Grand Macro Strategy where you introduced a distinction between economic policy and economic statecraft. What do you mean by economic statecraft, and what do investors need to understand about this distinction in order to navigate what lies ahead in terms of the Trump presidency?

**Michael:** Okay, so economic policy, I don't think I have to explain, because everyone gets what that is, that's using economic tools, and we're familiar with what they are to try and achieve economic targets. For example, let's say you want to get inflation at 2% so you use interest rates, or you might occasionally use fiscal policy instead to try and achieve that, et cetera, et cetera. Economic statecraft is a much older concept that predates economic policy and has been used vastly longer in vastly more territories where you use the economy and the toolkit within the economy to try and achieve foreign policy or national security goals, and you do that alongside politics, and you do that alongside the military. So, it's one of three legs of a stool, if you will, on which you sit to try and achieve certain things internationally. And that's a very, very different kettle of fish. For example, if you were using monetary policy, hypothetically, to try and crush the currency of another country that was presenting a threat to you, you might raise interest rates aggressively to pull capital out of that country and see it suddenly unable to afford to buy key commodity inputs which are still dollar priced, creating an inflationary spiral so that they couldn't do something internationally that you don't want them to do. Has that got anything to do with fighting inflation? Is that how we think central banks operate? No, because we still think, in a world of economic policy where it's all about the yada yada yada, and frankly, it is yada yada yada that we get from central banks on a continual drip feed basis. But while monetary policy might be the most extreme example, and I've started there, and we can, of course, talk about lots of others, almost everything you have in the toolkit that you think of as a

policy toolkit for the economy, actually can be used in a completely different way, in a combination that we don't normally think of to try and, as I said, achieve national security and or foreign policy goals. And that, I believe, is the world we are in now. And Donald Trump, I think, certainly understands that.

**Erik:** And so, tariffs, I'm assuming, are an example of something that's obviously not central bank policy, but it's a political tool in order to achieve an economic outcome. Is that what you mean? Are there other examples that we should understand?

**Michael:** Well, there are so many. Let's take trade, because that's a very, very topical point, because we've already discussed the threat of tariffs from Trump. So, what has been the US strategy up until now? And when we say strategy, the term that's normally used is grand strategy, and grand strategy is basically statesmanship, where the president, the prime minister, the King, the Queen, whoever is running the political entity thinks, what are the national interests that I want to achieve over the longer term? Another way to put it is, what is GDP for? Not what is GDP going to be? 2.93, what am I trying to do with it? What do I want my GDP to look like? So, within that particular conception, the grand strategy of the US, post-World War II, and very, very much post-Cold War, which I remember, I'm old enough to remember the Cold War was, let's have as much free trade as possible with as many people as possible, and by doing that, we'll have peace and prosperity forever, and it's the end of history. Well, that hasn't really worked out, has it? So, the grand strategy of always negotiating lower tariffs with everybody, which really began seriously under President Kennedy, has just seen rising inequality, de-industrialization in America, and a geopolitical tipping point being reached where a combination of other countries can now out produce the US and everything you need to actually be a major or the global power. So therefore, if you think in terms of economic policy, almost every single economist you talk to, and certainly every market strategist will tell you they're a bad idea, they're inflationary, they're stupid, only idiots would ever think about tariffs. And if you talk about economic statecraft, almost everybody is willing to use them, and historically everybody has used them. And historically, they've used them extremely successfully, including pre-World War II America, which was, and Trump is right in this, he's very accurate on that point, an extremely tariff driven economy, and extremely effectively so, for a very long time.

**Erik:** Okay, let's talk about what you think Donald Trump's intentions are, because, frankly, I don't even know how to read when he really goes off on, tariffs are my favorite word in the language, tariffs, tariffs, tariffs. China, heavy tariffs. Is he just flexing his muscles to remind foreign leaders of how much power he has in order to set the stage for a negotiation, Mr. Art of the Deal, or is he really serious about the level or degree of tariffs that he's been alluding to?

**Michael:** I think both can be true. And I think, as I often say to people when we're discussing Trump, take him very seriously, but not always literally. And I think that's true here what you say about, like the art of the deal, threatening tariffs, et cetera. That is statecraft. For example, let's go to the Mexican and Canadian threatened tariffs. He's already said that's not to do with trade per se. That's to do with fentanyl and the border. So, you're using an economic tool or the threat

of a tariff to get them to change their domestic policy or their foreign policy somehow. So that's a case in point that I just raised now vis à vis China, when you're listening to Trump, yeah, it is pretty much a random walk, but you have to then think, what is the grand strategy? And that depends what you want to project onto Trump. If you want to project onto him a certain political view, and I'm sure almost half of Americans maybe have that view, you'd say, okay, it's ego, self-aggrandizement. I just want to make a deal, et cetera, et cetera. There's no real plan here. You know, absolutely, I think half of Americans feel like that. And I don't know what the ratio is in other countries, but the other half are probably much more sympathetic to the view that, if you read the work of the people around him, because it's never one person running the US, it's always a coterie of ideas and ideas, men and women. There is a very serious strategy there which recognizes that the US, post-Cold War, grand strategy of free trade with everybody, and the US being hegemon and everyone being at peace, has collapsed very badly on every front that it could do in exactly the same way. And this was work I was writing years and years ago, by the way, that the UK hegemony in Europe and in fact globally, collapsed. Germany came along as this massive economic and military power which threatened it completely, and we ended up with World War I. Now, I'm not calling for World War, I want to be abundantly clear there, although we do have several wars going on, and in a worst case scenario, we could certainly have more. But if Trump understands that, and if the people around him understand it, then he's deadly serious in what he said in his inauguration speech, which is America needs to stop being a financialized economy where people just consume and it needs to go back to being the economy it was pre-World War II, where it used to produce things, make things, to the point where actually it could maintain the world's most powerful military machine in times of peace and in war, and that military strength will prop up the entire global system, albeit in a very, very different form to the one we have now.

**Erik:** Michael, in the context of this grand macro strategy paradigm, help me understand why President Trump would be so aggressive so quickly, with respect to Canada, to Greenland and Mexico. I do understand why those things would all be part of statecraft. But, look at Trump's new presidency, he's got so many people that are against him, you'd think he's already got plenty of controversial policy to introduce on the first day, but it's not enough. Before his first day, he actually publicly made statements that military action is not off the table in terms of getting control of the Panama Canal or Greenland. Why would he, I mean, it seems like he's smart enough to not say something like that recklessly. He must be intentionally sending some kind of signal saying, hey, everybody, get ready for this. What's the agenda or what's the strategy? I don't understand what he's trying to accomplish.

**Michael:** Okay, well, I'm not trying to be a Trump whisperer here, but let's answer that question in the best way we can. But first of all, Machiavelli, who knows a thing or two about statecraft, was asked the key question, is it better to be feared or loved as a leader? And he said, obviously, ideally both at the same time. But if you have to choose between the two, be feared, not loved. So that's Machiavelli. And I think we can all go to that particular source of inspiration for statecraft, whether we like it or not. But more importantly, if we rewind just a couple of months, if you read, for example, Foreign Affairs magazine, foreign policy, geo strategy stuff, just as much as one does, like market reports and I have a foot in both camps, you will see that

people on the ground have been saying for a long time that Greenland is of extreme and rising importance to the US in terms of its location, the mineral wealth, and the fact that both China and Russia, in terms of its naval presence, there have been starting to look towards it more and more, whereas Europe can't defend it. So that's Greenland. And the US, actually, all the way back to the 1950s, did consider trying to purchase it under Truman. If you talk about the Panama Canal, the country of Panama only exists because America recognized it breaking away from Colombia after being the ones who paid for the canal to be built after the French failed to do so. And it is absolutely written in the treaty that America must always be treated very fairly there. And of course, it was only given away for a dollar in 1977, and subsequently, there has been a large influx of Chinese capital, and a Hong Kong company does own the port at either end of the canal. I'm not making any aspersions to what they are or aren't doing, but if you're paranoid and you're America, and you look at that, you think, okay, this isn't the way things used to be. Mexico, of course, we know that America runs a large trade deficit with and is a conduit for lots of Chinese investment, which is both pushing out Mexican production, and even the Mexican government itself is talking about tariffing China. But of course, can then be used as a back door via the USMCA to get into the American market. And so, can Canada, which, while being a long run US ally, at least for the past nine years, has been very much, as we say, like a wet dishcloth. It's not been any use really geopolitically or geo strategically, and it's like another back door into the US in trade terms, for example, even though it has, of course, itself, done a little bit of tariffing of China. So if you put those all on the table, where are we now today, without Trump having done anything other than being very rude? Well, Greenland is now talking about leaving Denmark and becoming independent and establishing a large US military base and a healthy economic relationship with the US, which I think will be the final resting point, but the US has achieved that without pulling a trigger or spending a dollar. Canada, I think, obviously they have an election coming up. I think they will listen to what Trump is saying, and they will, take action at the border. And I would imagine that whoever is the next prime minister will be spending vastly more on NATO and on their fleet to patrol those northern reaches against Chinese and Russian vessels that may be there in the future. Mexico, again, we'll be making sure it isn't a back door for Chinese goods coming into the US. And, obviously the drugs issue is another one. That's national security, which is related to that, with Trump now dubbing the cartels as terrorists, so he can actually use troops against them. And the Panama Canal. well, again, not one shot has been fired, not \$1 has been spent, but they're already, today, if you look in the Financial Times doing an audit of the activities of Chinese companies at either end of the canal or Hong Kong companies at either end of the canal. So, I don't want to dwell on it too much, but he's already shifted the entire geopolitical equation using that Machiavelli metric.

**Erik:** Okay, so Trump is employing the statecraft that you're talking about to achieve some outcomes already in other countries, which, as you said, don't take him literally, but take him seriously. He's serious. He's trying to make things happen, but it may not be the exact thing that he's saying. Let's go back to Greenland, because I'm, frankly, a little confused about this. I've been doing a little bit of research, some pundits are saying, look, it's all about the mineral wealth. It's about the minerals, what you can mine for there. Other people are saying, no, no, it's about the oil exploration. It's about the polar oil exploration. That's the reason. Then other

people say no, it has nothing to do with any natural resource. It's all about the shipping routes, the northern shipping routes, and particularly the militarily strategic shipping routes of where submarines and battleships and so forth can sneak across those northern routes in order to attack another country or something. There's a smorgasbord to choose from there. Is it all of those things? Is it some of those things? What's your take?

**Michael:** Well, it's all of them, I think. Full disclosure, I've never been to Greenland. I've been nearby, but I've never been there. But from everything that I read and the people I talk to, it is, yes, all those factors and all of them are important at the same time. And there's one other one to add on top, as like a cap to what we were just discussing, which is the US under Trump, very obviously, going back to what was long run US grand strategy, which was the Monroe Doctrine. And Greenland, technically, yes, it's on the cusp of Europe, but it's also kind of North America-y, when you look at the world map from the north pole down, this is an extension of the Monroe Doctrine, too. And if America is going to remain in a prime position globally, if it's going to remain *primus inter pares*, if not in the position it used to hold, but still similar to that, it has to have its own hemisphere, very much in order, before it can project power anywhere else. And so, from a grand strategy perspective, again, I'm not taking any moral stance here, I'm just describing, rather than applauding or criticizing. It makes perfect sense to get the Americas, in the broadest sense, "under control" before thinking about what you're going to be doing in other territory, which I'm sure we'll come up to.

**Erik:** Well, let's go ahead and move on to that, because the other territory that's probably most consequential is China. Since we've established now that we should take Trump seriously, but not literally, let's do that. I definitely take this seriously, but if we're not taking it literally, let's go back to, what do you think Donald Trump's goal is? Not what he's going to say or what he's going to threaten, but what is the outcome that he ultimately wants to achieve with China? Is it a high tariff trade environment? Or is it just using the threat of that in order to achieve some other outcome? What's he trying to accomplish?

**Michael:** It's a great question again. Okay, so let's go back to what he said in the inauguration and what I think other power players in the US, for example, the Pentagon, of course, Trump now controls them because the civilian arm of government controls the military, but they are still a power base in their own right. Those two forces together, the presidency and the Pentagon, are both pretty united in understanding that American primacy is what they would like to maintain. America isn't ready to be number two to anyone, I haven't really met many Americans who are happy at the concept of that ever being the case, and so, you have to start from that as your presumption of what Trump would like to achieve. Now, what that means in terms of being number one? You can argue left and right, but I think most of us grasp what it means in terms of a Pentagon perspective and in terms of a GDP and market perspective. And so, if that's the case, Trump and tariffs are a means to an end. They're a tool to achieve, again, that foreign policy, national security goal, which is an America which has re-industrialized, which has upstream to downstream control of supply chains, and which has a more equitable socio economic structure, so that you don't see the polarization, the terrible, painful polarization that you've seen taking place over the past couple of decades that's really ripped the country apart,

as it is also doing in many, many democracies, by the way. So, it solves an internal conflict, and from an American perspective, American hegemony prevents global conflict. Because were America to stumble further from here, were America to go off the diocese even more than something it already has, do not, please listeners, presume that would mean world peace. No, quite the opposite. When you don't have a top dog, all the other dogs start biting each other to see who's going to be top dog. It's deeply unpleasant to accept that, I don't like it individually. I don't like it personally, I don't like it professionally. History shows it's true. So, in terms of China, I think Trump just wants to make sure they understand they're in their place, relative to the US. The big question then is, what does that mean in what geography and with what influence over Asia, given America regards itself as an Asian power, as well as a Pacific power, as well as an Atlantic power. And what will China accept within that particular paradigm? Because this is another enormously important country with a huge power base, with a leader who absolutely understands grand strategy and has one and is employing it, and it may well be that his runs counter to Trump, and that's where we're going to have serious friction.

**Erik:** Speaking of serious friction, you mentioned earlier that the Pentagon is now accountable to Trump. I'm not sure everybody at the Pentagon necessarily got that memo or took it to heart. So, there was a very strong sentiment, I think, in the Pentagon, that it's only a matter of time the war with China is coming. We have to prepare for it. And they're talking about a shooting war with, frankly, a nuclear superpower, which, to my understanding is, from a nuclear weapons standpoint, superior in its capabilities to the United States at this point, especially with respect to their submarine launched missile capabilities, hypersonic delivery systems and so forth. It seems like the other side of that is a lot of Trump's campaign was pledging to end forever wars and to get us out of the business of getting into war. Do you see a shooting war outcome, or do you think that Trump just wants to flex his muscles and avoid that conflict with China? And if he wants to avoid the conflict with China, do you think he can get his Pentagon under control?

**Michael:** Well, the good news is, I'm not forecasting a shooting war between the US and China, and certainly not a nuclear one. And if I were, with the greatest respect, I wouldn't be on this podcast. I'd be digging myself a bunker somewhere on a remote island and prepping with duct tape and canned food and flashlights. So, of course, there are a risk of these things. And I think the US military position is vastly stronger than the relative ratio you were just suggesting. But that's, that's by the by. But I think what Trump is aiming to do is very, very clear, which is restructure the US economy and the global economy, as I said, to maintain relative economic strength. And he's openly saying it peace through strength. And he's not the first American President to say that, very far from it, but I think he's certainly going to try and stick to that. And just to repeat a point I made earlier in a slightly different way, it's not as if we've had peace. During a period in which really, in historical terms, America spent vastly less on its military as a share of GDP than at any point in the recent couple of decades. It's only around 3.5% of GDP now, it used to regularly be 5%, 6%, 7%. Western Europe, and the rest of NATO, Canada in particular, they spend nothing, absolutely nothing. So, for a world that thought that would bring peace, it's a rude shock that instead, we've had two wars going on, two major wars, and they're not accidents. They're both, of course, linked to what the Pentagon openly sees as an axis between Russia and China, Iran and North Korea. That's something that I could have colored in

on a map years ago for them, and I did. But they now recognize that they are helping each other with different technologies in different dimensions. And so, if America and the West sit there and do nothing, they can try and start conflicts like the Houthis blocking the Suez Canal, for example, to disrupt the normal functioning of the global economy at relatively low cost. I mean, the technology the Houthis are using, for example, is vastly, vastly cheaper than what America and Western Europe is having to use to try and shoot their projectiles down. So, the economics do not make sense as we're currently doing it. We're repeating what was happening with the Taliban and the Soviet Union, but in reverse, they can try and undermine us. So, Trump now needs to get into himself, America and the West, into a position where it's made very clear to others, if you do that, you're going to find out, like, we don't want that to happen anymore. What grand deal can we come up with? What bargain can be made to make sure that this all stops? And I hope there can be one. You know, you've had editorials in the Wall Street Journal and The Financial Times of late, last couple of days, as we're recording this, echoing thoughts I've been fleshing out for nearly a decade now, saying that in the worst case scenario, whoever was president, you'd end up with spheres of interest, which, by the way, was the norm prior to World War II. This is your zone of interest. That's my sphere of interest. I trade with these countries. You guys can't come in. That's your zone. You trade with those guys. I can't go in, which is a complete breakdown of the current global order. And that could still be on the cards. That's far more of a risk, I think, than an actual shooting war. And in fact, just to conclude this point, where I think we are actually, is a game of chess, and the people who play chess will understand what I mean, where you can spend a long time moving the pieces around with no one actually taking anything, maybe just a small pawn. And then eventually you get to a tipping point where either you say, I don't want to play anymore, or you have to actually start the exchange of pieces. And I think we're moving towards that.

**Erik:** You mentioned earlier that when there's no longer a top dog, all the other dogs start to bite each other. It seems to me like before you even get to that point, based on everything you're saying, clearly, the Russians and the Chinese and the North Koreans and the Iranians are smart enough to understand these things. I would think they would be talking to one another and saying, look, Trump is really showing his muscle here, the time for us to ally with one another and show a stronger force is right now. We better get our act together. Let's buddy up and let's get ready to take this on. Is that what we should be expecting? And if so, where is it headed?

**Michael:** Well, I don't think they could have done that much more than they did under the Biden presidency, where you openly had Iran sending weaponry and technology to Russia. Now, of course, Iran is already being sanctioned by the US, but you didn't get a furious outrage response from Europe, which is closest to the action. In terms of the Ukraine war, you've got North Korean troops fighting again alongside Russian in Ukraine. Now, you can't sanction North Korea because, obviously, it's a hermit kingdom already, but you can't get much more involved than that. And China, you keep seeing these reports going around saying, well, we suspect they're doing X, or they're worried they're close to doing Y. Have we seen any serious Western sanctions? And the answer is no. And again, in a policy paper we put out even before Russia invaded Ukraine, which using the very simple methodology of saying, Russia putting hundreds



of thousands of men and tanks on the border of a country that they claim shouldn't exist and they want to be their own, and saying we're going to invade it, tells me they're going to invade it. That was my methodology in predicting they would invade, by the way, when no one else in the market was. It's not rocket science, even though rockets were involved. When you look at that, you have to say, why are we not sanctioning China? And in that report, I said, because if we do, if you put primary sanctions on Russia, everybody will just break them, and then you have to put secondary sanctions on China. And we sat down, and you try and quantify what that means when you've got integrated supply chains, and China itself still provides a great number of components used in the Pentagon. Do you think that's a realistic strategy? And the answer was no. So therefore, people will find excuses not to do it. But that either means, you, therefore don't have a grand strategy other than slow decline and surrender, because you simply can't do the things you think you can do because the physical goods you're using, for example, I'm exaggerating here, but conceptually the bullets in the gun you want to point at someone to stop them doing something, come from that person or their brother in law. Either you accept that, or you start making your own bullets. And the American tradition is very, very much you're making your own bullets.

**Erik:** You mentioned the potential of backlash from Europe. Let's go a little deeper on that, because there's certainly been a very strong anti-Trump sentiment among European bureaucrats. Is that going to kind of settle down and be forgotten now that there's been a changing of the guard in the US presidency, or are they going to stick to their guns? And if so, what does that portend for US and European relations?

**Michael:** Well, Europe is a very diverse place, so it's difficult to talk about Europe as Europe, and that's part of the problem of it, the countries think differently. I think for an American audience in particular, the easiest way to conceive of it is that the middle class in a lot of European countries still largely lean Democrat. They see themselves as Democrats or blue abroad, and increasingly the working class in European countries when there isn't a nationalistic element, like in France, which is traditionally anti-American, are kind of leaning more Trump and more red. That's a broad, broad exaggeration, because again, there are exceptions where you have strong working class leftist parties as well in Europe, which you don't have in America anymore the way you used to. But Europe, as I said, is therefore split. It's split in terms of how they would like to respond. Then it's also split between a centralizing component based in Brussels and national governments. And so, I don't think you're going to get one European response, but what they do recognize left to right, top to bottom, is that they're in trouble. And again, to refer to some past work in late 2023 on the back of the energy crisis that Europe had had after Russia invaded Ukraine, I sat down with my economics team and I said, look, let's try and model a future for Europe using grand macro strategy as a thought framework, rather than a neoclassical economic model, because in a neoclassical model, they're always mean reverting. I'm sure you understand that that GDP always goes back to what the model assumes GDP should be. The different component parts shift around to get you there, but you always end up there one way or another. So, for example, your currency will go down, so your exports go up, so your growth goes back to the presumed level of X. I said, look, if we predict the kind of nasty world I can see coming, you can have a Europe where all your input costs go up. For

example, energy prices are set by Russia and or America, and they're going to be too high for you. And at the same time, you're not going to be able to just let your currency go down and export to China because they won't buy your stuff, and Russia won't buy your stuff, and America won't buy your stuff, they'll put tariffs on you. So, you just end up with a weaker currency, higher input costs, less industry, higher unemployment, and a weaker currency. Can we model that by forcing the model not to revert? And we did, and yeah, you ended up with Europe looking like Greece. So, we published that at the end of 2023, and we said, this is obviously bad. And we said, Europe needs to get its act together to avoid this. And then in September last year, the Draghi report, obviously written by the former ECB president and former prime minister of Italy on European competitiveness echoed to a large degree what we said, that it was going to require a massive shift in European investment. The only different being is, we thought the government would have to do it, or they'll have to print the money. And Draghi thinks somehow the private sector will do it, which I think may be fantasy, but both of them, ourselves and Draghi, were saying about 5% of GDP or more needs to be spent by Europe every year to get more muscular in this geopolitical world. That's another example of grand macro strategy. And if Trump insists on NATO spending 5% of GDP just on NATO, then Europe's talking about spending 6% or 7% extra a year from the government, likely when the government already has very large fiscal deficits of around 5%. So you're talking about a world war level fiscal deficit in peacetime.

**Erik:** Michael, now I'm going to ask the impossible of you, because you've just painted a very complex geopolitical picture that involves all kinds of intricate working parts. Translate that for me and tell me what's going to go up and what's going to go down in financial markets, and how to make a buck on it.

**Michael:** I love that question, because it does all come down to that at the end of the day, that's what I'm paid to do. So, I think the key pivot point here is still the US dollar, because the post-World War II system that I was describing, and I'm saying Trump really wants to change post-World War II, post-Cold War, is that the entire world thinks in dollars, prices in dollars, still trades in dollars almost exclusively, because dollars flow from the US via the trade deficit, into the global economy. You might think you lend dollars to people, but net, net, everything comes from trade. So, if Trump then turns around and says, on a glide path that's either short or long with this tariff mechanism or that tariff mechanism, we are going to start making stuff in America again, whatever it costs with it, using automation. Whatever trick we have to use to make it work. We're going to do it then the flow of dollars into the global economy, the Euro dollar market dries up, and you've still got all the outstanding trillions and trillions of Euro dollar debt to pay, and dollars internationally used for trade between other countries become like gold. Everybody will need to start running a trade surplus to guarantee they can get access to sufficient liquidity. And you start going down that particular road, and you get chaos. The dollar goes through the roof. Commodity prices come crashing down. Equities in the US, I don't give the investment recommendation, but logically, they would do pretty well. You would think, particularly with Trump always going rah, rah, rah, about stocks, but equities in lots of other countries would absolutely collapse. And you don't have one market trend anymore. Is it good for this or good for that? You have to be far, far more finite in terms of the country you're looking

at, the sector you're looking at, and even the firm. Because while this is playing out at the macro level, at the micro level, you have the issue of, okay, where is money going to be spent by countries who are trying to do this economic statecraft, and is it going to mean big profits for companies who are doing it? Or, actually, are their profits already too high, and it's much better for the national economy if profits come down in that sector, that's what China does. They don't have big corporate profits. They just produce a lot. And that may need to be a model that the West follows. And then in the middle between that, between the dollar and between individual stocks, you've got interest rates. Because, for example, if this is going to cost an awful lot of money and it's very inflationary, what are central banks going to do? The ECB in Europe, they've alluded to the fact they may have to work with national governments to actually look at fiscal deficits and make sure there's money available to become more and more sustainable. And I don't mean green, I mean geopolitically sustainable. And in wars, central banks always finance the military. Does that mean higher inflation? Does that mean you keep interest rates on hold even though you have high inflation? Does that mean you just print money? Or does that mean you raise interest rates to try and suck capital out of other parts of the world? There are all different permutations, but it means that you have a very, very wide range of macro outcomes and market outcomes built on stacked geopolitical scenarios, which are actually quite binary at the end of the day,

**Erik:** I'm still stuck on the very first part of that, which is Trump is talking about how we need to build things in the United States, reshore that manufacturing capacity and so forth. Now, first of all, I have some skepticism about the ability of the United States to do that, because I think that, unfortunately, we've lost a lot of those skills and talents, and we just we don't have the resources that we used to and we don't have, vocational school education is not nearly as prevalent as it used to be. We don't have the people to do that manufacturing. But even if you did, I think the premise here is basically, let's stop buying cheap stuff from countries where they use near slave labor at impossibly low prices. Let's instead have high standard of living, Americans build that stuff, and then in the afternoon, I'm going to wipe out inflation. Wait a minute, how is it going to not be incredibly inflationary to start building our own stuff that we have to pay American wages in order to have built?

**Michael:** Well, okay, let's consider the long run history of the US. How did the US industrialize and go from being a large farm owned by the British to them fighting the British off, becoming an independent nation that expanded and expanded and became the world power that won World War II? It didn't do it with free trade, as I was alluding to at the beginning. It didn't worry about the fact that American workers were too expensive and try and bring them in from abroad. Well, of course, there was immigration, but it didn't rely solely on that, and it didn't try an offshore production and none of the classical economists from Adam Smith and David Ricardo, actually thought anyone would do that either. They all thought that you would basically be trying to build up your own capital stock and build your own productivity. It's only this post-Cold War model where everyone just thinks, well, I've got a right to open a factory in any other country and bring the stuff in, why? If it destroys American society, destroys American national security, why? And that seems to be the question that's being asked, and the policies will start to shift.

Now, how to then deal with inflation? I'm not denying that there'll be some inflation involved, but this is where the economic statecraft starts coming in. For example, if you say we're going to put high tariffs on everybody, not just those with slave labor, but anyone who isn't buying enough, because there are lots of countries in Europe, for example, where demand has collapsed relative to what they produce, like Germany, and they don't do anything about it. They just refuse to consume and just think everyone else will buy their stuff. Well, that's parasitic. You need to buy as well as sell. So anyway, let's say you want to deal with all of them. You can raise tariffs to a high level, and you can say those tariffs will actually kick in in two years. That's what I call the tariff T+1 scheme. If you do that, and people believe you, because you've been nasty enough and tough enough that you have credibility, and because you're a very large market, companies will invest, of course they will. They can see two years from now, or a year from now, I'm going to be paying 50% to bring this product in, and I lose my market, therefore I'll open a factory in America. Therefore, it may have to be automated. Fine, I might have to use AI. Okay, use AI. I might have to use whatever technology is available. The Americans, I mean, you're lucky, because you have the dollar, for the moment you operate in the way it is, where you can just talk about \$100 billion and it's nothing. You can talk about a trillion dollars. The Fed balance sheet can go up a trillion dollars, people wouldn't even notice. Why can't you subsidize firms to actually start doing that short term? Why can't there be any number of acronyms which the Fed loves to use as a transition fund to make sure the industry comes back? That's how things were done in the past. Why can't you improve your education system, using all the startup skills you've got in America, so that within one or two presidential terms, you actually have the next generation who are currently aged 10 years old now at 18, with technical skills needed. All of these things are doable, provided you start thinking in terms of statecraft. What is GDP for? And that will tell you what structure needs to be seen, how will the policies need to join up and that will give you your outcome. Rather than, I hope GDP next year is 2.1, rather than 2.0, and I suspect I could be very wrong that with the Pentagon being involved in this, there will be more and more pressure to start achieving these things, and people will be surprised that it can be done, but it was done for the longest time and very successfully. It's only in recent decades America lost the wherewithal to do it, which happened to coincide with some people getting very, very rich.

**Erik:** Michael, any closing thoughts before we wrap this up?

**Michael:** Just this, because I understand people can disagree with what I'm saying, and I fully, fully understand the radicalness of what I'm proposing. But look, we live in very radical times, and to summarize that we have a US President who, echoing long run US history is talking about maintaining American primacy and literally moving lines on maps. If you have a US President talking about moving lines on maps, along with other presidents doing the same thing, why do you think lines on screens aren't going to move a very great deal? So, I think they will, and keep your eye on that volatility. And the best way to do that, as I said, is via not looking at macro strategy, but grand macro strategy.

**Erik:** Well, Michael, I can't thank you enough for a grand macro interview. Before I let you go, though, please tell us a little bit more about what you do at Rabobank, what is on offer there, and how can our listeners follow your work?

**Michael:** So, Rabobank is an extremely important bank in the Netherlands and in Europe, and we're also the world's leading food and agri bank. So, we are trying to grow a better world together. And obviously we're involved everywhere along the supply chain, from farm to fork. And that's part of what gives me my global view, because I talk to people who are physically there, growing food, processing it, trading it, et cetera, around the world, and see how the global system actually works. If you want to keep in touch with Rabobank, obviously, go to [rabobank.com](http://rabobank.com), our research is available at [Rabobank Knowledge](#). And myself, you can look for me on LinkedIn. Also, please join in the conversation with me on X, [@TheMichaelEvery](#).

**Erik:** Patrick Ceresna and I will be back as MacroVoices continues right here at [macrovoices.com](http://macrovoices.com).