Flossbach von Storch
RESEARCH INSTITUTE

MACROECONOMICS 28/03/2025

The Mar-a-Lago Accord: Much Ado About Nothing?

by PABLO DUARTE

Abstract

A hypothetical currency deal would try to weaken the dollar and revive US industry. But the "Mar-a-Lago Accord" rests on shaky ground – fiscal consolidation would make more sense.

Zusammenfassung

Ein hypothetisches Währungsabkommen soll den Dollar schwächen und die US-Industrie stärken. Doch das „Mar-a-Lago-Accord" steht auf wackligen Beinen – eine Haushaltskonsolidierung wäre sinnvoller.

For months now, commentators have speculated about a so-called "Mar-a-Lago Accord" (MALA) — a hypothetical currency agreement designed to reshape the global trade and monetary order, evoking comparisons with Bretton Woods or the Plaza Accord. At its core lies the claim that the US dollar is "overvalued," allegedly harming American industry. Yet this claim rests on shaky ground. Still, the plan calls for a deliberate weakening of the dollar.

MALA fits into a broader vision that merges trade policy with American security guarantees. In this framework, countries unwilling to cooperate would face tariffs and risk losing protection under the US security umbrella. If implemented, such a strategy would undermine trust in the United States and in the dollar as a global reserve currency — if not destroy it outright. That alone makes a formal MALA unlikely.

The MALA Theory

The theory begins with the premise that the United States suffers from unfair treatment in the global trading system. Because the dollar functions as the world's reserve currency, it is supposedly overvalued. As a result, US manufacturers lose competitiveness.[1]

Stephen Miran, the current Chairman of the Council of Economic Advisers, published a "User's Guide to Restructuring the Global Trading System" in November 2024 with possible tools for correcting the trade deficit (Miran 2024). For him, the interconnection of trade and security policy is central. He sees import tariffs and devaluation of the dollar as the main instruments. The "security umbrella" of the US military apparatus should serve as a means of exerting pressure to enforce the policy.

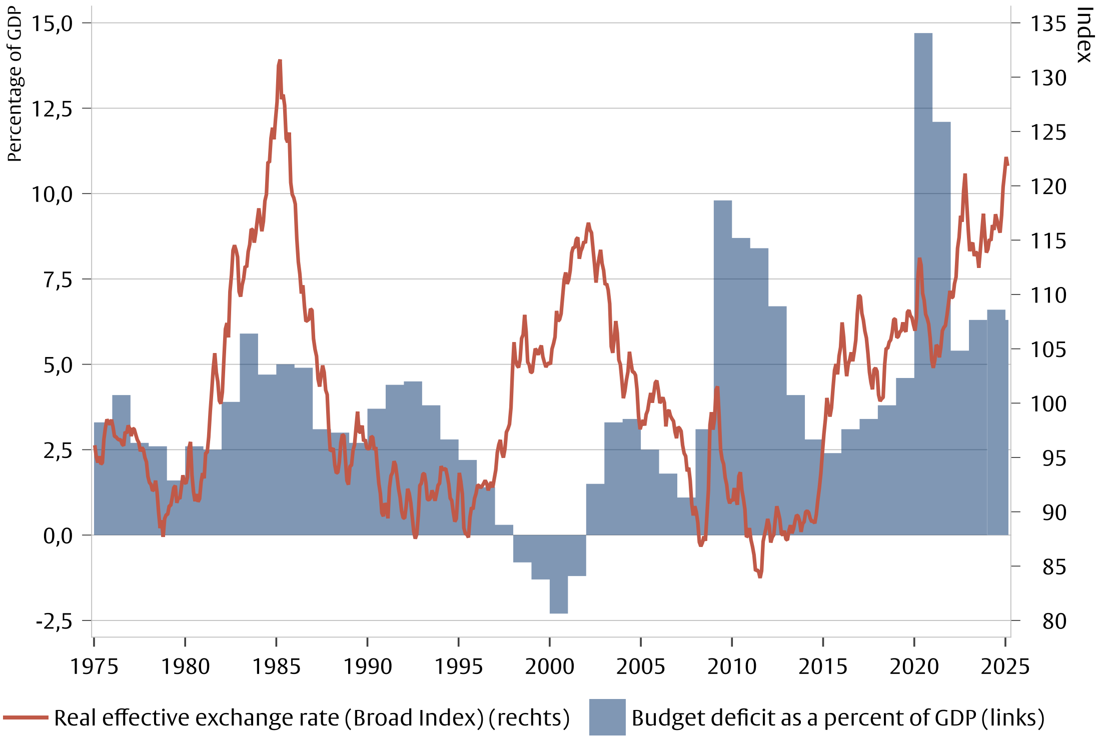
Countries that want to continue to benefit from US military protection should agree to sell part of their dollar reserves. Remaining reserves are to be redeployed in long-term US government bonds in order to contribute to the financing of defense costs. The sale of the dollar reserves should weaken the US dollar, while the purchase of long-term bonds should keep interest rates at the long end of the curve low. In the event of a crisis, the Federal Reserve would provide the participating central banks with dollar liquidity via swap lines. Countries that refuse this arrangement would face punitive tariffs and exclusion from the American safety net.

[1] See Miran (2024). The theory is not new and goes back to the "Triffin dilemma" formulated in the 1960s. According to this, a country that issues an international reserve currency must allow trade deficits so that monetary capital can flow abroad. At the same time, persistent trade deficits undermine confidence in the stability of this currency.

MALA's Flawed Premise

The diagnosis of an overvalued dollar does not hold up to scrutiny. The Economist's Big Mac Index, for instance, currently shows a slight undervaluation of the dollar versus the euro.[2] And the real effective exchange rate of the dollar fluctuates around a stable long-term average, casting doubt on any structural overvaluation (Figure 1). The dollar's current strength reflects a persistent shortfall in domestic savings, driven largely by fiscal policy.

Figure 1: Real Effective Exchange Rate of the US Dollar (Broad Index)



Source: Flossbach von Storch Research Institute, Macrobond, OMB, Fed. Data as of February 2025. Note: An increase in the index indicates an appreciation of the US dollar.

Even if the US managed to weaken the dollar artificially, there's no guarantee this would reduce trade deficits or revive American manufacturing. And the comparison with the 1985 Plaza Accord doesn't hold. That agreement involved coordinated foreign exchange interventions among allies. Today, the Trump administration's coercive approach hardly invites such cooperation especially when the largest holders of dollar reserves are in China, not in countries dependent on American defense guarantees (Miran 2024, p. 30).

[2] Siehe Our Big Mac index shows how burger prices differ across borders | The Economist

Tariffs and Currency Policy: A Risky Game

For Miran (2024), import tariffs are an instrument for reindustrializing the USA, even if they contradict the MALA theory at key points. This is because tariffs are counteracted by currency appreciation if the imbalance of savings and investment underlying the foreign trade imbalance is not corrected. If a trade war breaks out, lower growth in the global economy will prevent the desired American reindustrialization.

Conclusion

A formal Mar-a-Lago Accord to devalue the dollar as outlined by Miran (2024) seems unlikely. Miran himself has acknowledged as much, recently stating that Trump currently focuses on tariffs rather than the full range of tools outlined in his own "handbook".[3]

Instead of trying to manipulate the exchange rate, the US should confront the root of its external imbalances. Fiscal consolidation would reduce the need for foreign capital inflows, which in turn would lower the capital account surplus and shrink the current account deficit. Miran (2024) appears to miss this basic insight — and so, evidently, does Donald Trump.

References

Miran, Stephen (2024), A Users Guide to Restructuring the Global Trading System, Hudson Bay Capital.

[3] See Trump Economic Adviser Stephen Miran Rejects Short-Term Pain From Tariff Hikes - Bloomberg.

LEGAL NOTICE

SITE INFORMATION

Publisher: Flossbach von Storch SE, Research Institute, Ottoplatz 1, 50679 Cologne, Germany; Phone +49 221 33 88-291, research@fvsag.com, *Executive Board:* Dr. Bert Flossbach, Dr. Tobias Schafföner, Dr. Till Schmidt, Marcus Stollenwerk, *Chairman of the Board of Directors* Kurt von Storch; *Registration*: No. 120 796 in the Commercial and Companies Register held at Cologne District Court; *VAT-No*. DE200075205; *Supervisory authority*: German Federal Financial Services Supervisory Authority, Marie-Curie-Straße 24 – 28, 60439 Frankfurt / Graurheindorfer Straße 108, 53117 Bonn, www.bafin.de; *Author*: Dr Pablo Duarte; *Editorial deadline*: 28 March 2025