



INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH

Analysis and insight into trends in money and banking,
and their impact on the world's leading economies

Will Trump's tariffs onslaught lead to another Great Depression – or just a bit of stagflation?

*A presentation by Professor Tim Congdon CBE,
Chair of the Institute of International Monetary Research,
in April 2025*

Trump's tariff increases – and the alarming precedent of Smoot-Hawley in 1930

- Trump's tariff increases are being compared with the Smoot-Hawley Tariff Act of 1930, which increased tariffs in order to protect and boost the USA's industries as they were being hit by the Great Depression.
- Within a few months unemployment rose to 9%...and within two years it had climbed to 23%. These events sometimes provoke claims that American protectionism caused the Great Depression.

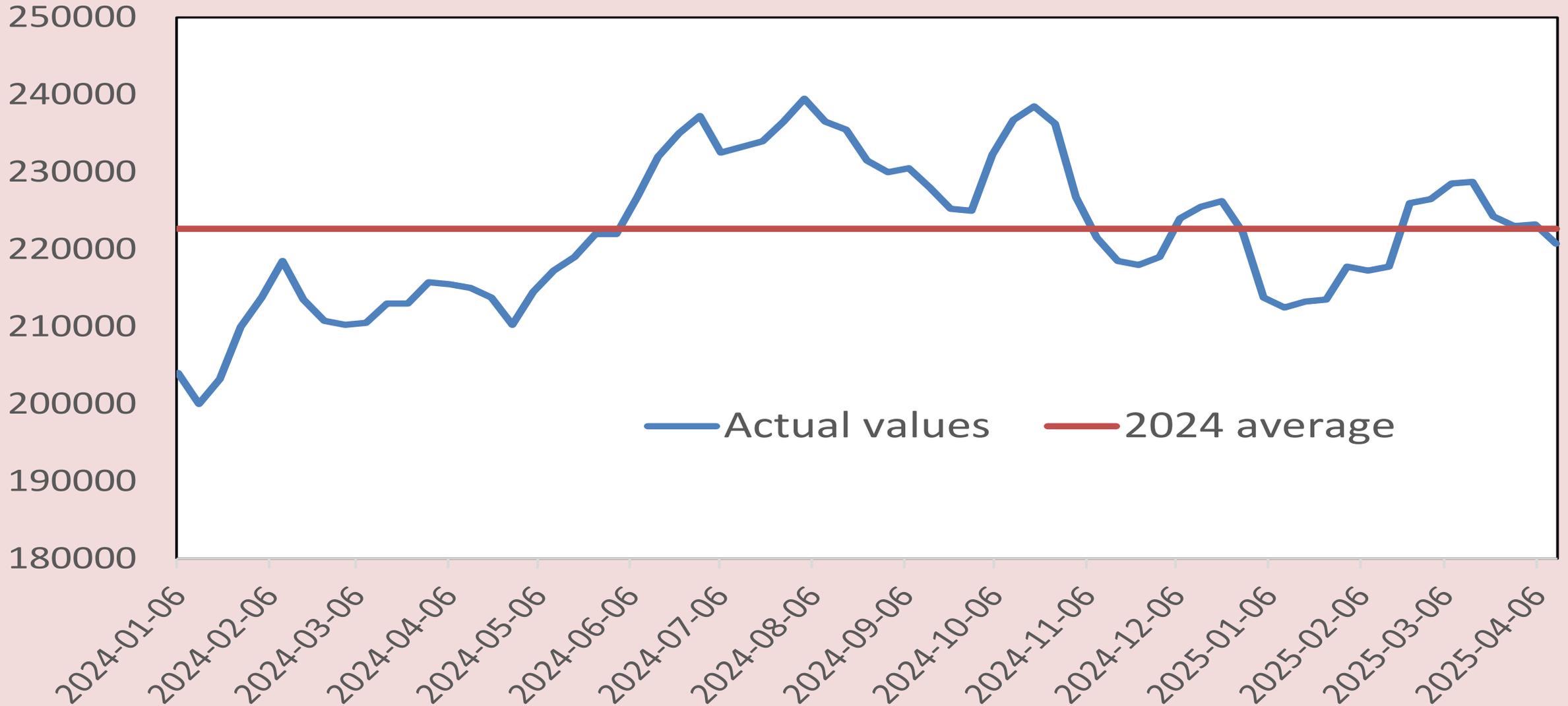
Trump's tariff increases – and the alarming precedent of Smoot-Hawley in 1930

- **“Smoot-Hawley has become a watchword for economic idiocy...Are we repeating century-old errors, nudging a crisis into a collapse?”**
- Professor Jeremy Adelman, Director of the Global History Lab at the University of Cambridge, in ‘Flipping the Trump Script’, an article of 15 April 2025 on the Project Syndicate website - <https://www.project-syndicate.org/onpoint/will-trump-s-tariffs-transform-the-global-economy>

How might protectionism cause a recession?

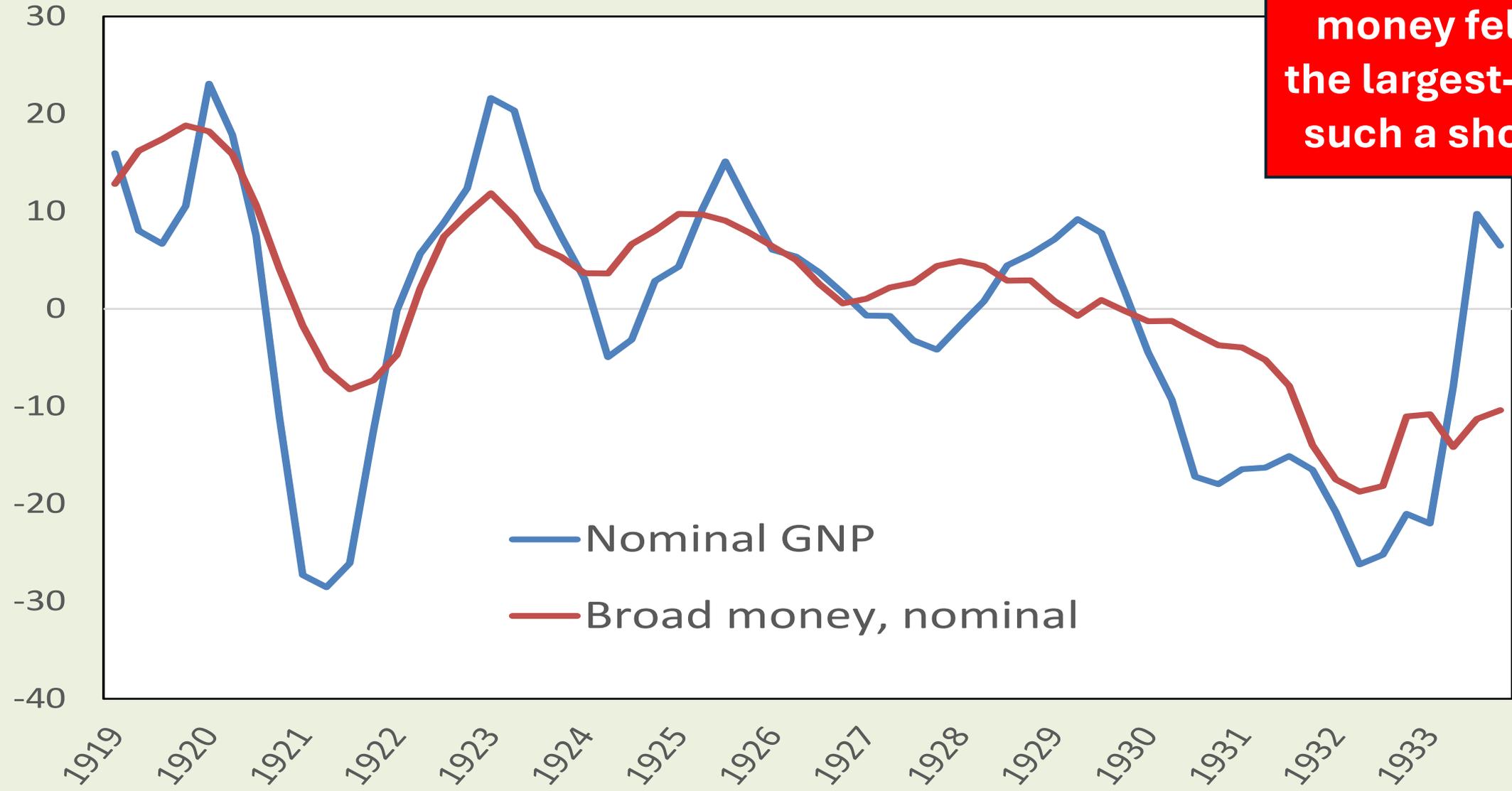
- **Direct** effects: Activities (freight etc.) connected with importing, loss of markets for exports if trade partners retaliate.
- **Indirect** effects:
 - Uncertainty causes less investment and aggregate demand falls by a multiple of the investment decline (a Keynesian argument),
 - Loss of investment particularly in trade-related sectors (e.g., ships and aircraft involved in moving goods across borders)
 - Loss of business confidence leads to less bank borrowing – and less bank borrowing is followed by slower money growth (a monetarist argument),
 - Protectionism makes a nation worse-off, because of loss of gains from specialization, and real value of unchanged spending power is less than before.

Weekly jobless claims in the USA - *Last value is 12 April 2025*



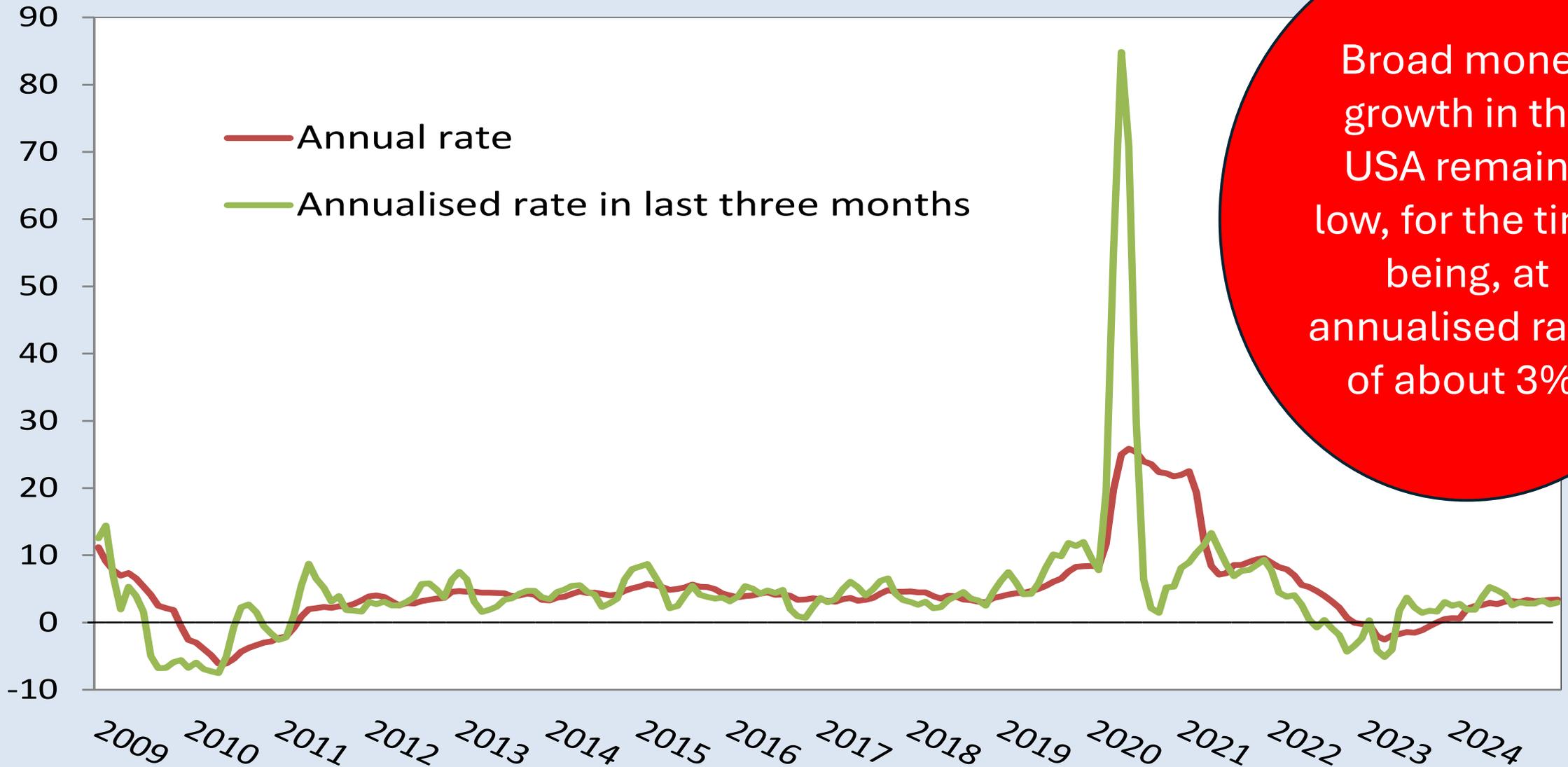
Does the USA's money contraction explain the Great Depression?

Between October 1929 and March 1933 the USA's broad money fell by 38%, the largest-ever fall in such a short period.



Recent trends in US money growth

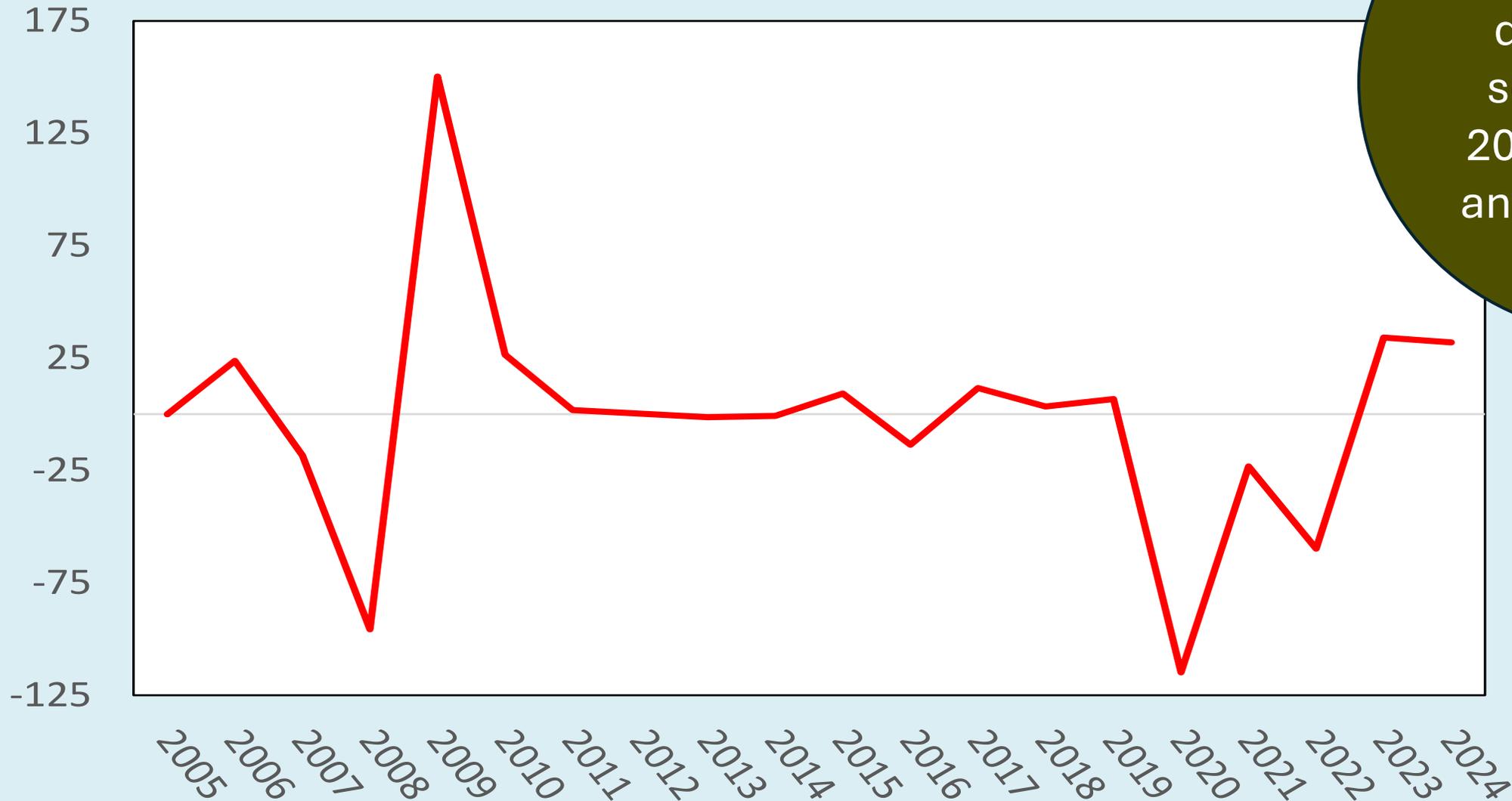
% M3 growth rates, with M3 estimated by Shadow Government Statistics



Broad money growth in the USA remains low, for the time being, at annualised rates of about 3%.

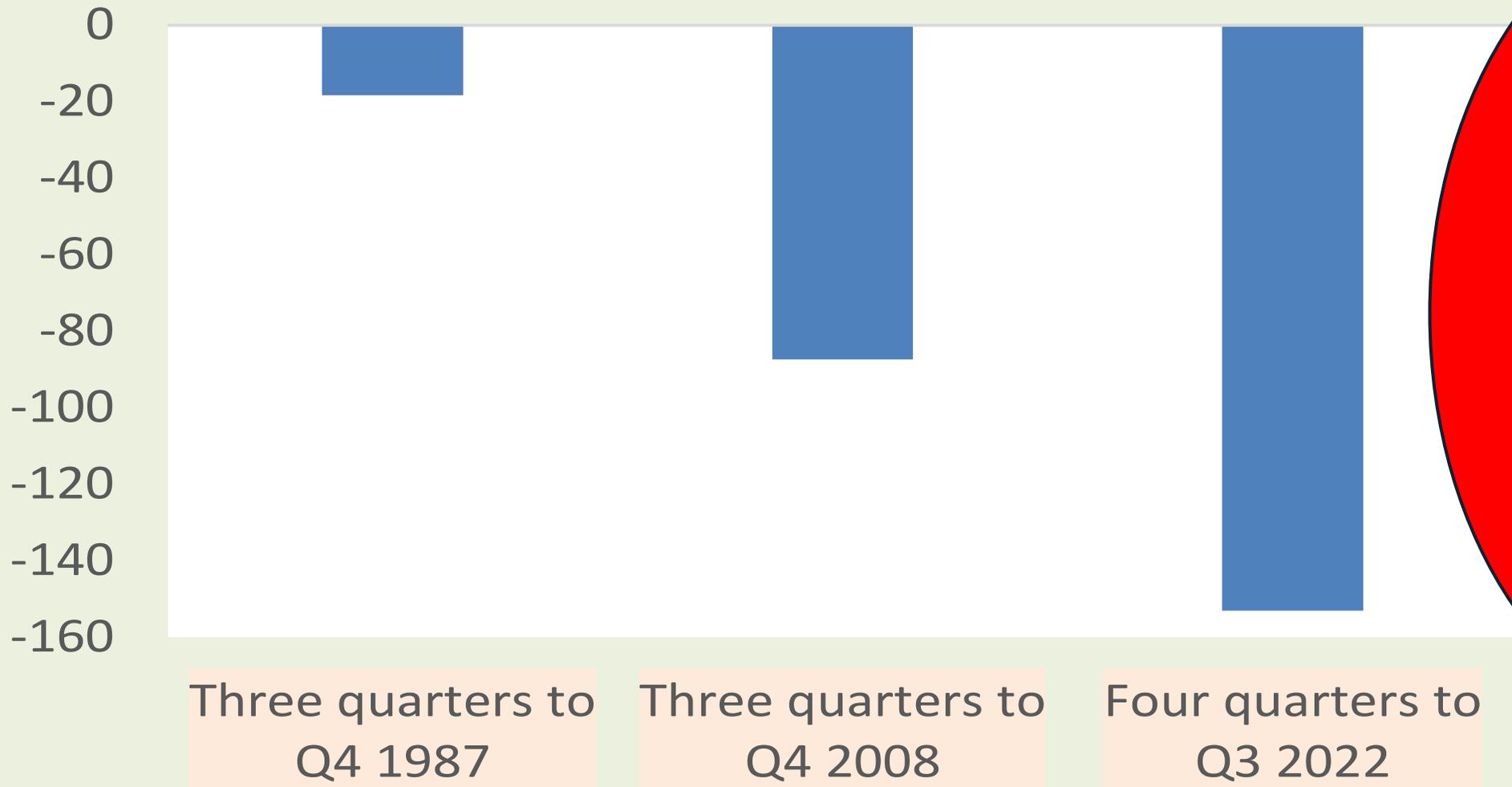
Change in US banks' equity-to-assets ratio, % points

Data are annual and relate to end-year



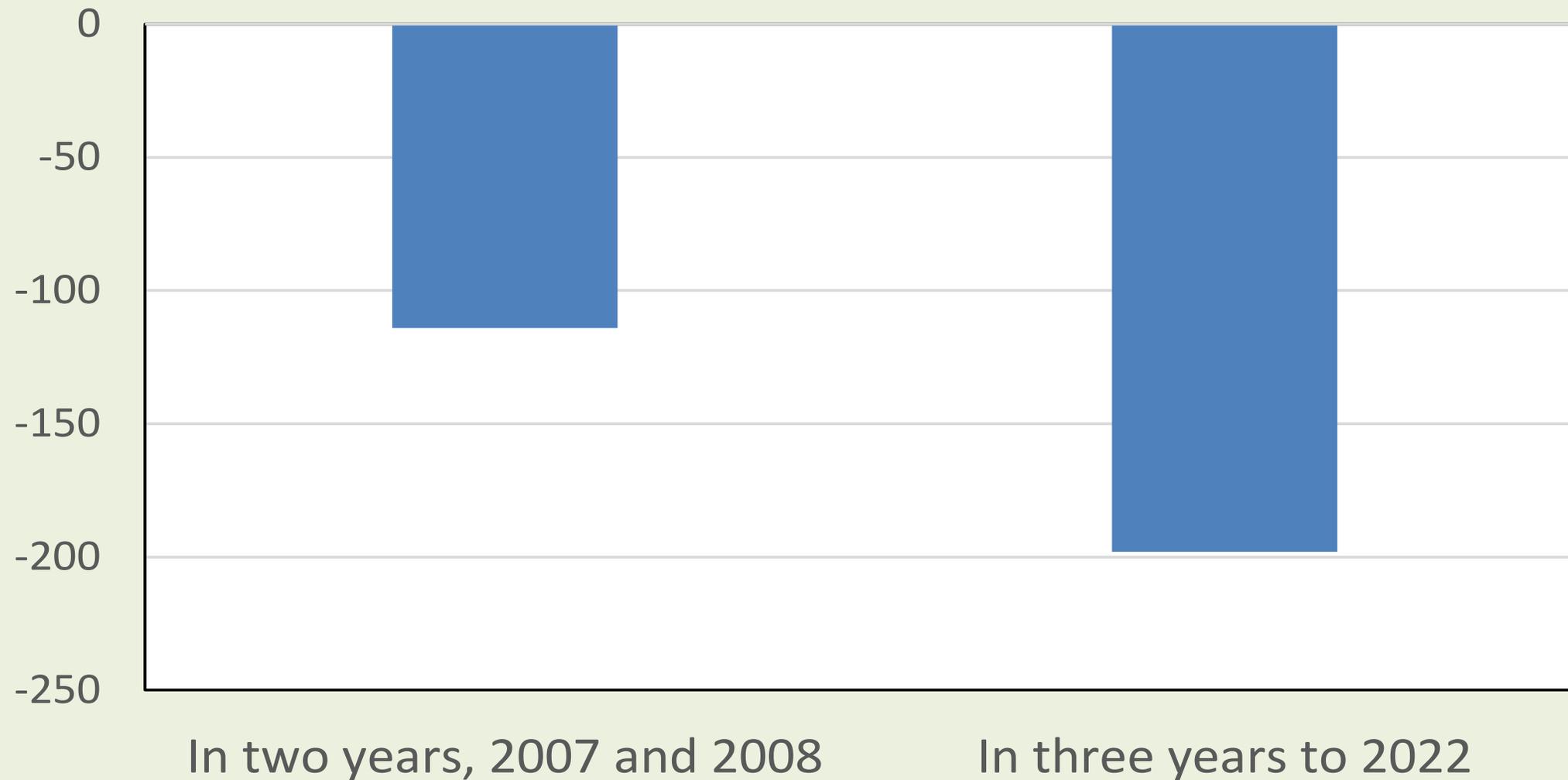
Two periods of deteriorating solvency, i.e., 2007 and 2008, and 2020 - 2022

Falls in US banks' equity capital - in \$ billions of 2022 constant value

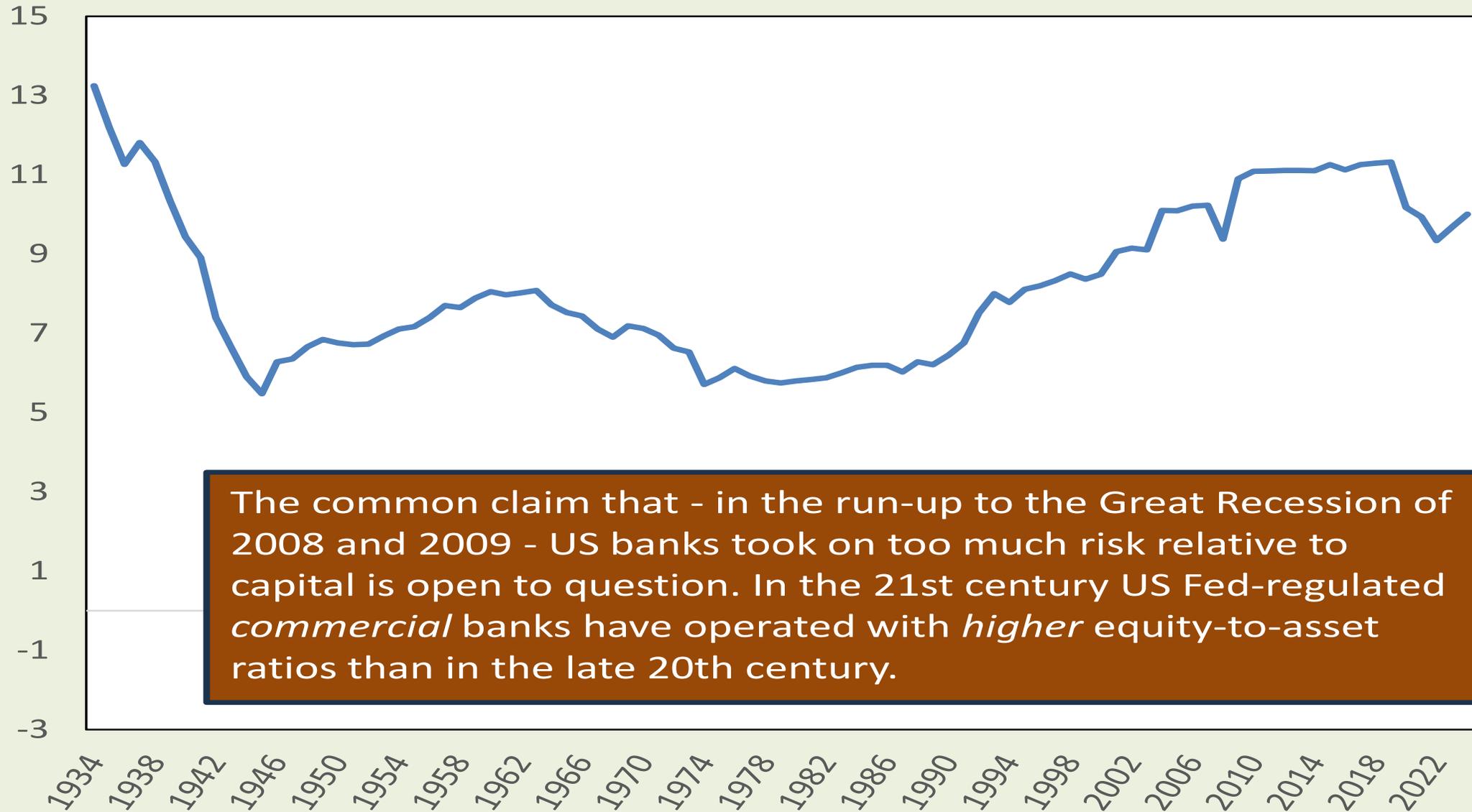


In real terms the hit to banks' equity capital in 2022 was almost double that ahead of the Great Recession and was much higher than that due to the Third World debt crisis in the 1980s.

**Change in US banks' equity capital, measured in terms of % points,
with 100 points being equity equal to 1% of assets**



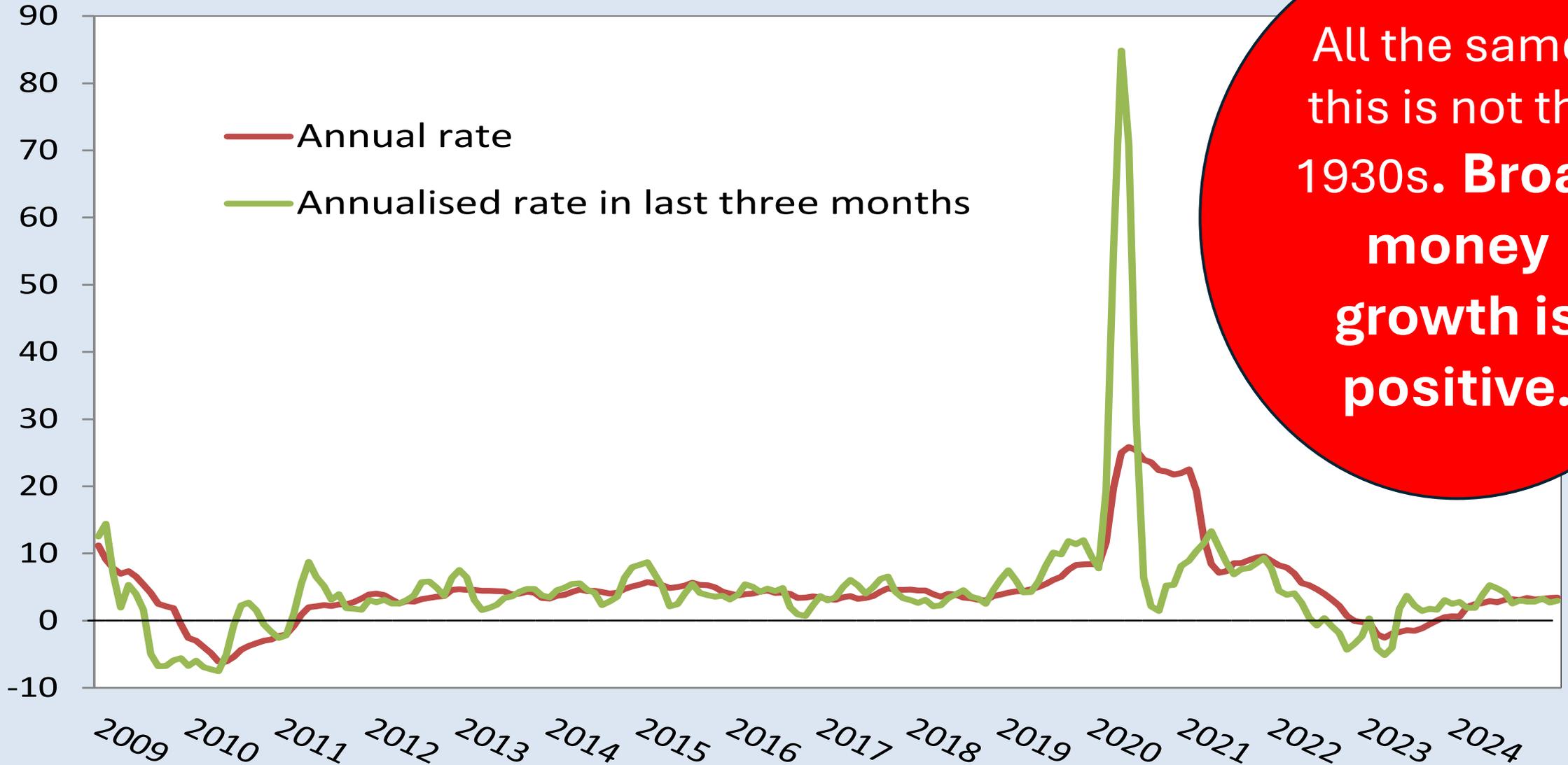
Ratio of equity to total assets, %, for US banking system



The common claim that - in the run-up to the Great Recession of 2008 and 2009 - US banks took on too much risk relative to capital is open to question. In the 21st century US Fed-regulated *commercial* banks have operated with *higher* equity-to-asset ratios than in the late 20th century.

Recent trends in US money growth

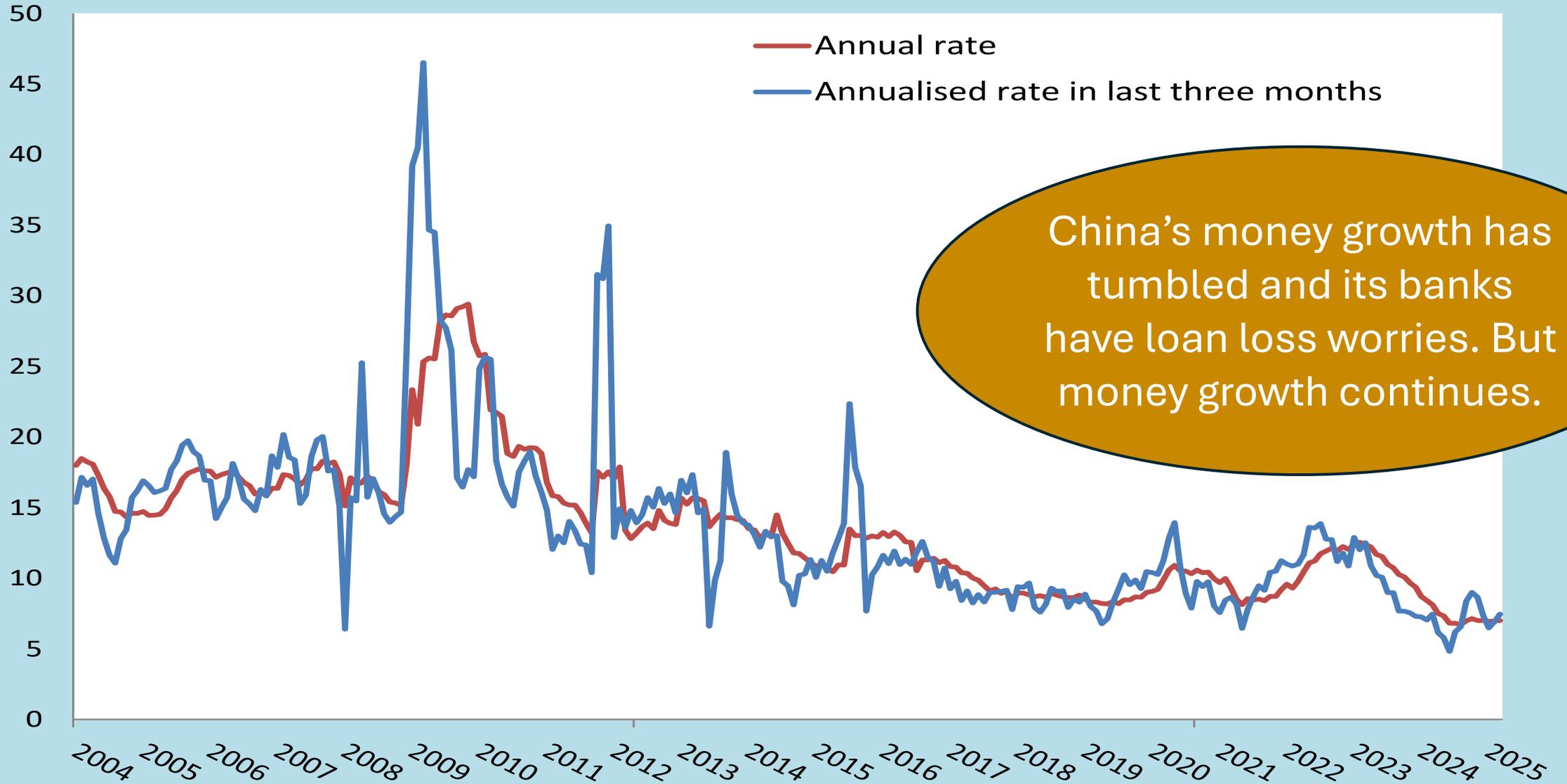
% M3 growth rates, with M3 estimated by Shadow Government Statistics



All the same,
this is not the
1930s. **Broad
money
growth is
positive.**

Recent trends in China's money growth

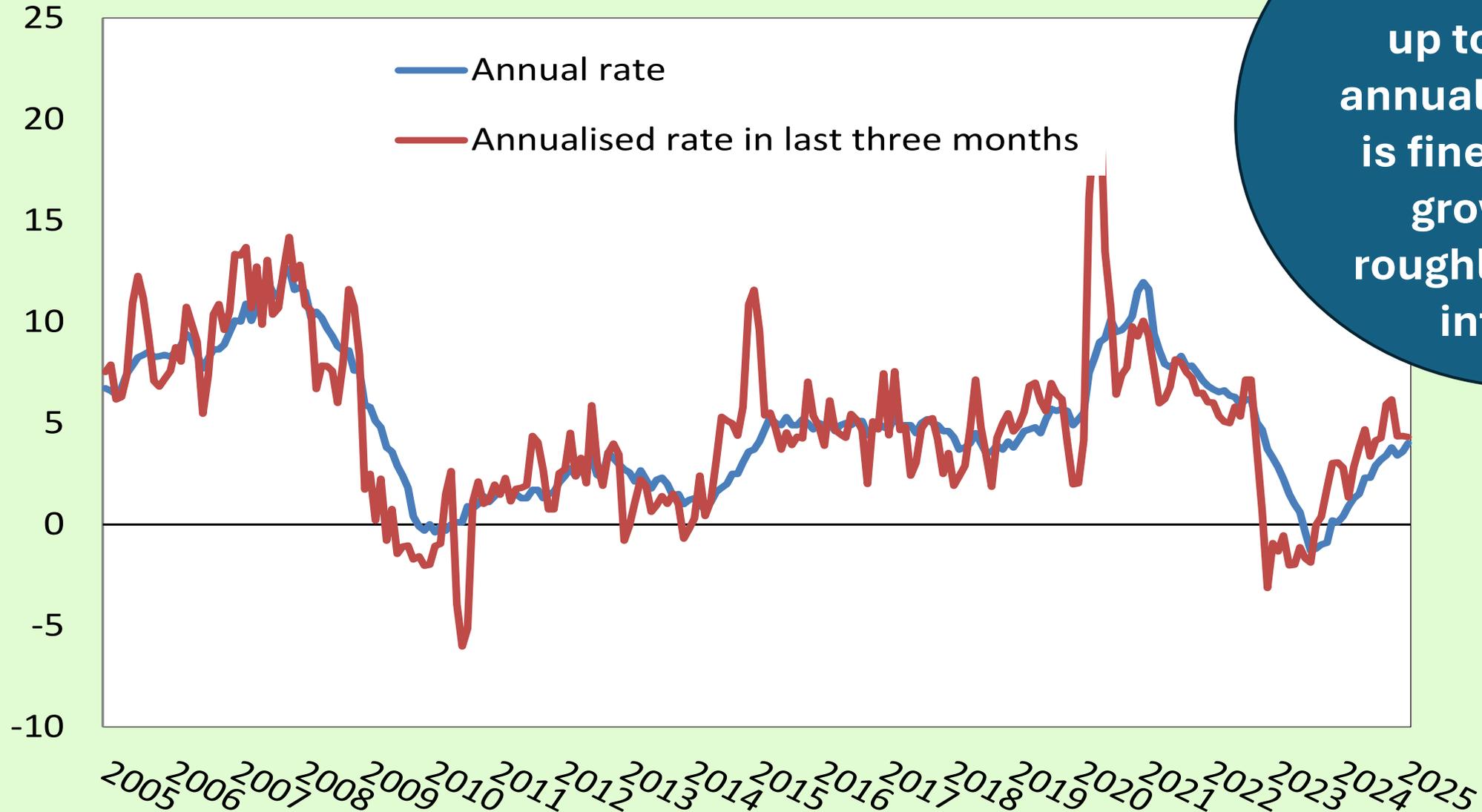
% growth rates in M2, data from the People's Bank of China



China's money growth has tumbled and its banks have loan loss worries. But money growth continues.

Recent trends in Eurozone money growth

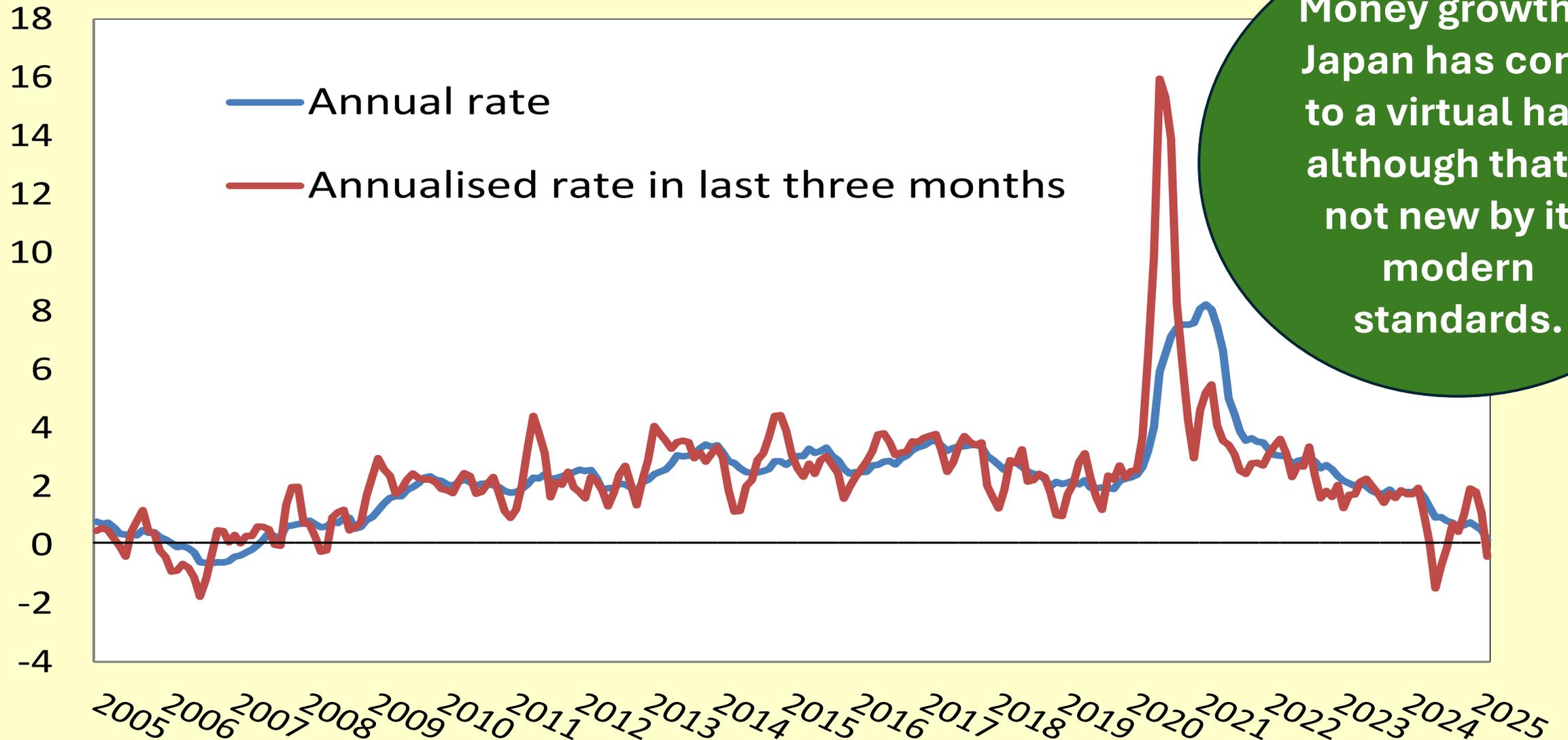
% M3 growth rates, data from the European Central Bank



In the Eurozone money growth is up to 4% at an annual rate, which is fine for steady growth with roughly on-target inflation.

Recent trends in Japanese money growth

% M3 growth rates, data from Bank of Japan

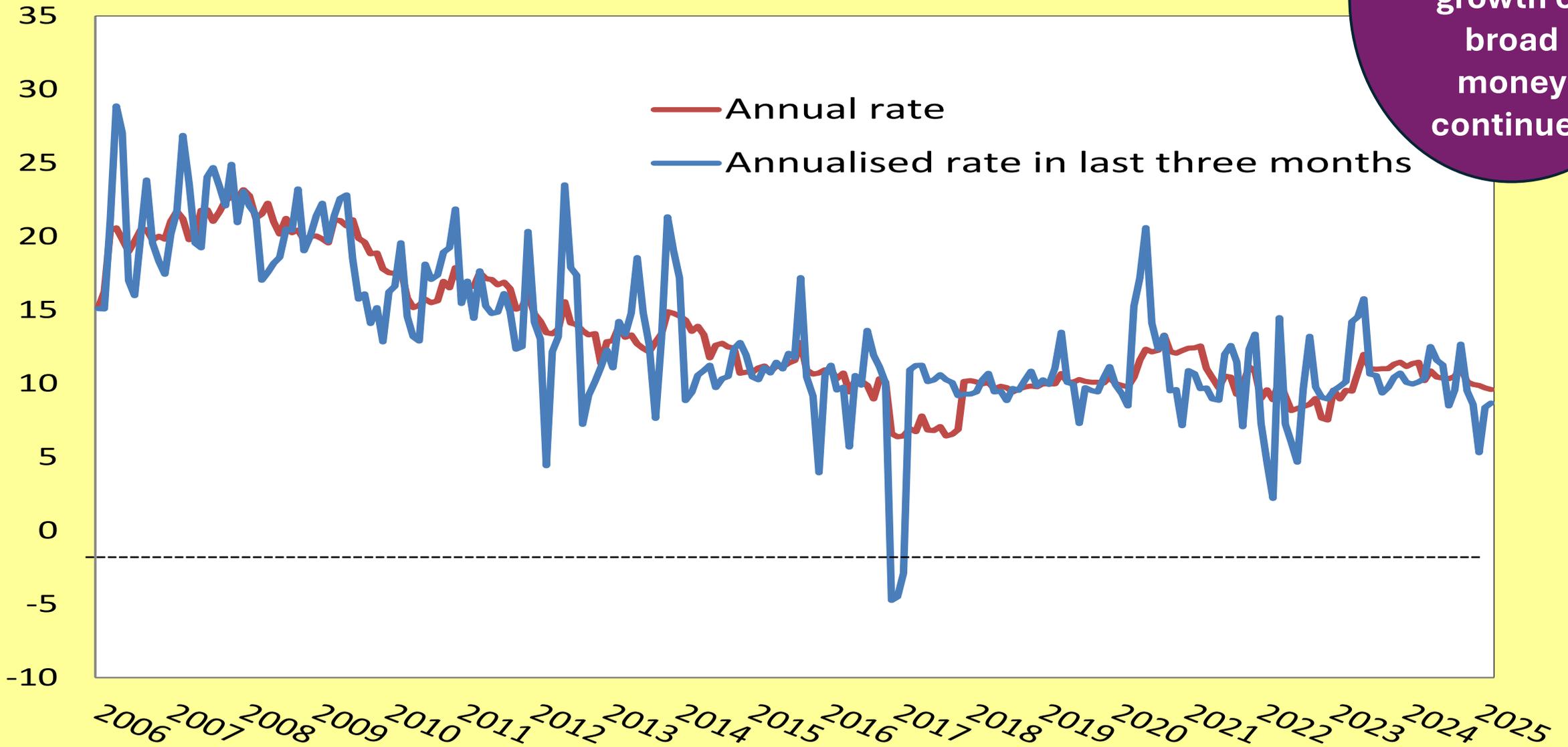


Money growth in Japan has come to a virtual halt, although that is not new by its modern standards.

Recent trends in Indian money growth

% M3 growth rates, data from the Reserve Bank of India

**Roughly
double-digit
annual
growth of
broad
money
continues**



The monetary background to the current wave of protectionism, in the USA and elsewhere 1.

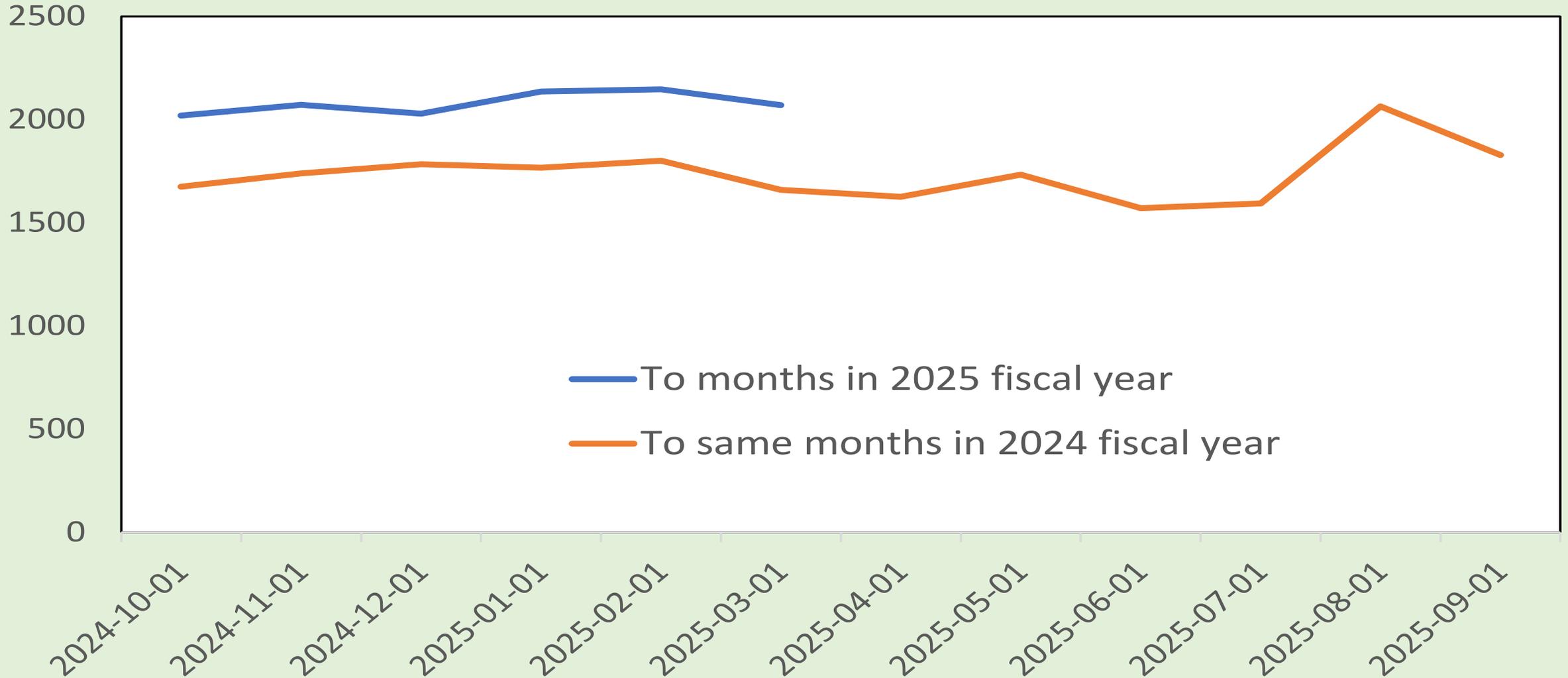
- **Banks – and broad money – are growing *slowly* in the USA, the Eurozone, Japan and the UK.**
- The Chinese banking system faces long-term problems because its main kind of loan collateral – the property built in the hyper-boom period – is over-valued by the criteria of a lower growth period.
- Of the big nations, only India has a still buoyant banking system and fast money growth (and a young, growing population, plus clear economic dynamism).

The monetary background to the current wave of protectionism, in the USA and elsewhere 2.

- **But money growth is positive. This is not the 1930s.**
- In summary, Trump's protectionism will reduce growth and living standards *in the USA* (and elsewhere if other nations retaliate), and have a one-off upward effect on the price level.
- But the prospect in 2025 and 2026 is a bit of stagflation, not a global slump. **Beyond November 2026, and the mid-term Congressional elections, there is no visibility about American public policy...and relatively little about the global economic scene.** (In my view, it is not at all clear that globalisation – and the related economic and social trends – has come to an end.)

Any progress on US public finances?

- Cumulative annual totals, to month in question,
of Federal deficit, in \$b.



‘...more Jackson Pollock than Rembrandt’ –
Lex column in Financial Times – 8 April 2025

