

**AEGON INSIGHTS**

# The Triffin paradox revisited

*We'll start with a little game of "name that dead economist."*



Source: Wikimedia Commons; licensor, Elena Danescu; title, Robert Triffin in Yale University; uploaded August 1, 2019; used with permission granted under the Creative Commons Attribution-Share Alike 4.0 International license.

His name is Robert Triffin, famously known for the eponymous Triffin Paradox. Ok, so next question is likely, "why should we care?" Here is why:

While much of the international economic narrative these days revolves around tariffs, there is a large related secular issue looming that remains underappreciated—the risk of a soaring US dollar (USD) and the associated global risks. Queue up the Triffin Paradox.

## What is it?

A paradox that arises when a global reserve currency has a conflict of economic interests between its short-term domestic and long-term international objectives. In a sense, being the main global reserve currency is a double-edged sword. It affords great privilege in the capital markets, but it comes at a cost. That cost is running a constant current-account deficit to ensure ample dollar liquidity is supplied to the international market. Look at the trends of the current account since the end of the gold standard in 1971.



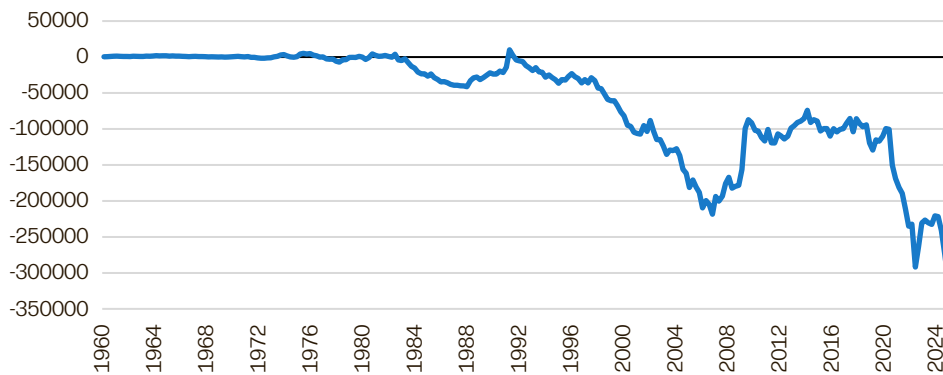
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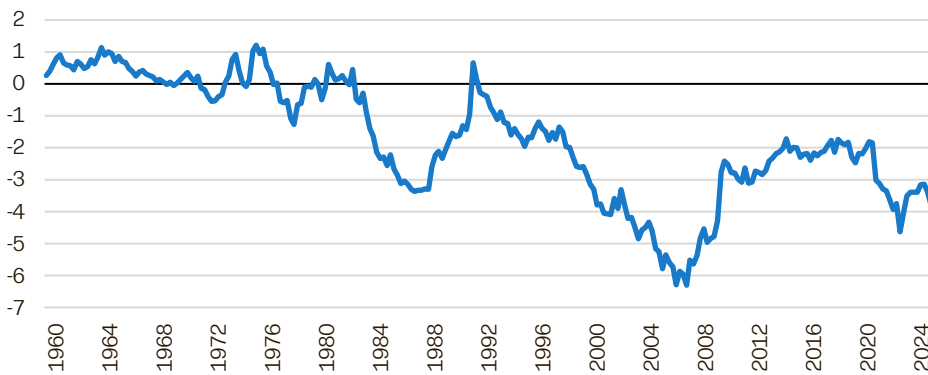
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## US balance of payments: Current account Millions \$



Sources: Bureau of Economic Analysis, Haver Analytics. Data as of February 2025.

## US balance of payments: Current account as % of GDP Seasonally adjusted annual rate, %



Sources: Bureau of Economic Analysis, Haver Analytics. Data as of February 2025.

Being the main global reserve currency in which a high percentage of global trade is denominated, there needs to be sufficient supply of USD in the currency market so that countries can build reserves and facilitate international trade. If the U.S. stops running current-account deficits, either the capital account surplus has to shrink in tandem or there will be a huge supply/demand mismatch for the USD, sending it through the roof.

In an extreme scenario, if tariffs massively succeed in the desired policy goal of rectifying the US trade deficit, it would also run the risk of creating a sizable shortage of USD, which could in turn squeeze global liquidity thereby massively appreciating the USD and severely stressing the international trading system in its current form. (Note: This is not our base case, but it's helpful to know where the landmines lie).

Triffin must be rolling in his grave.

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