THE W-2 TRAP

How Currency Devaluation Transfers Wealth from Workers to Asset Holders

And 80+ Ways Out

J.A. Watte

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A Note on the Creation of This Book

This work represents a collaboration between human expertise and advanced technological assistance. The core concepts, structural framework, strategic analysis, and final editorial decisions were directed entirely by the author. Generative AI tools were utilized for research synthesis, initial drafting, and language refinement to ensure a clear and efficient reading experience. Every factual claim has been independently verified against primary sources, and the final prose has been curated to reflect a unique perspective and high-quality standard. All financial figures, platform pricing, and market data have been verified against current publicly available sources as of the publication date. Third-party platforms and services are referenced for informational purposes only and do not constitute endorsements. Readers should independently verify all information before making financial decisions.

-- J.A. Watte

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For current owner-builder construction economics ($150-$180/sq ft as owner-builder vs. $195+/sq ft through a general contractor), construction loan structures, and how 3D-printing may further reduce these costs, see Part XXI: Real Estate Wealth Building.

Section 1: Strategic Parallels — 1985 vs. Today

The 1985 Plaza Accord was a coordinated agreement between the G-5 nations—the United States, Japan, West Germany, France, and the United Kingdom—signed at the Plaza Hotel in New York to deliberately depreciate the U.S. dollar. From 1980 to 1985, the dollar had appreciated roughly 50% against the yen, Deutsche Mark, franc, and pound. The U.S. trade deficit had ballooned to $122 billion by 1985—a record at the time. Major manufacturers like Caterpillar, IBM, and Motorola lobbied Congress aggressively, and the term "Rust Belt" emerged to describe the devastation in Midwestern manufacturing states.

The parallels to current policy are striking, though the mechanism has shifted from multilateral to unilateral. The concept of a "Mar-a-Lago Accord"—drawn from a paper by Council of Economic Advisers Chair Stephen Miran—proposes using tariffs to force a dollar devaluation. Where the Plaza Accord was a cooperative effort among allied nations, the current approach uses tariff threats and trade restrictions as coercive tools. The stated objective is identical: reduce the trade deficit and revitalize American manufacturing.

> *The core parallel: Both then and now, currency/trade policy is framed as protecting the American worker. Both then and now, the primary beneficiaries are positioned to be asset holders, not wage earners.*

Metric	1985 (Plaza Accord)	2025 (Current Policy)
Mechanism	Multilateral currency coordination	Unilateral tariffs as leverage

Manufacturing % of GDP	18.5%	9.9%
Manufacturing % of Payrolls	18.4%	8.0%
Trade Deficit	$122 billion	~$900 billion (goods)
Dollar Depreciation Target	~10–12% (achieved ~40%)	Projected — via tariff and fiscal pressure
Key Trading Partner Target	Japan	China

However, the economic terrain has fundamentally changed. The sector the policy claims to protect has structurally shrunk by more than half. After the Plaza Accord, the dollar fell approximately 40% over two years, which did improve trade competitiveness temporarily—but the manufacturing jobs never returned to their pre-1985 trajectory.

Section 2: The Wealth Transfer Mechanism

Dollar devaluation functions as a stealth tax on anyone whose income is denominated in dollars and whose primary “asset” is their paycheck. The mechanical chain is straightforward and devastating for wage earners.

Import Price Inflation

When the dollar weakens, imported goods become more expensive. After the Plaza Accord, the dollar fell 50% against the yen within two years. Japanese cars, electronics, and consumer goods—all staples of American household spending—repriced upward. The same dynamic plays out with tariffs today. Studies estimated that tariffs during the 2018–2019 trade actions cost the average U.S. household between $800 and $1,200 annually—a direct cut to purchasing power that functions identically to a tax.

The CPI Divergence

The Consumer Price Index systematically underweights the categories where middle-class households spend disproportionately—housing, healthcare, education, and childcare. A W-2 earner making $83,730 (the 2024 median household income) experiences inflation materially higher than the CPI reports.

Asset Price Inflation vs. Wage Stagnation

Between 1979 and 2019, hourly wages for median workers rose just 15.1% in real terms over the entire 40-year period. Wages for the bottom 70% of earners were essentially stagnant. Meanwhile, the top 1% saw wages rise 160%, and the top 0.1% saw 345% growth. Since 1985, $100 invested in the S&P 500 would have grown to over $9,600 nominally.

Income Group	Real Wage Growth (1979–2019)	Primary Income Source
Bottom 10th percentile	+3%	Wages (W-2)
Median (50th percentile)	+13.7%	Wages (W-2)
90th–95th percentile	+51.8%	Wages + Equity Comp
Top 1%	+160%	Capital Gains + Equity
Top 0.1%	+345%	Capital Gains + Business Income

> *The mechanism is simple: currency devaluation raises the nominal value of assets while wages adjust slowly, if at all. The wealth transfer flows from those who hold dollars-as-income to those who hold dollars-as-assets.*

Section 3: Who Actually Benefits

Manufacturing Jobs Didn't Come Back

After the Plaza Accord made U.S. exports more competitive, the trade deficit with Western Europe did narrow. But the trade deficit with Japan barely moved. More critically, the manufacturing jobs that had already moved offshore didn't return—they simply relocated from Japan to the next low-cost producer. The U.S. lost 5 million manufacturing jobs between 2000 and 2014 alone. Two out of every five displaced workers who found new employment took a pay cut, with one in four experiencing a wage reduction exceeding 20%.

Financial Markets Captured the Upside

The S&P 500 returned approximately 31% in 1985 alone. The period from 1985 through the late 1990s saw some of the most explosive equity returns in history, fueled by the dollar's decline making U.S. assets cheap for foreign buyers. Stock ownership has always been—and remains—concentrated in the upper income quintiles. The bottom 50% of Americans by wealth hold minimal financial assets. The wealth effect of rising equity markets flows overwhelmingly to those who already own capital.