Myrmikan Research

April 14, 2025

Daniel Oliver
Myrmikan Capital, LLC
doliver@myrmikan.com
(646) 797-3134

Dulce et Decorum Est Pro Impose Tariffs

> And now I will tell a fable for princes who themselves understand. Thus said the hawk to the nightingale with speckled neck, while he carried her high up among the clouds, gripped fast in his talons, and she, pierced by his crooked talons, cried pitifully. To her he spoke disdainfully: "Miserable thing, why do you cry out? One far stronger than you now holds you fast, and you must go wherever I take you, songbird though you may be. And I will make my meal of you if I please, or let you go. He is a fool who tries to withstand the stronger, for he does not get the mastery and suffers pain besides his shame." So said the swiftly flying hawk, the long-winged bird.

The world is a barbarous place. Figures like Genghis Khan, Caesar, Napoleon, Lincoln shape the world to their will through power. Might makes right.

But Hesiod, the eighth-century BC farmer who wrote the lines above, distinguished between power and justice:

> For the son of Cronos has ordained this law for men, that fishes and beasts and winged fowls should devour one another, for right is not in them; but to mankind he gave right which proves far the best.… Neither famine nor disaster ever haunt men who do true justice; but lightheartedly they tend the fields which are all their care. The earth bears them victual in plenty, and on the mountains the oak bears acorns upon the top and bees in the midst. Their woolly sheep are laden with fleeces; their women bear children like their parents. They flourish continually with good things, and do not travel on ships, for the grain-giving earth bears them fruit.…
>
> But for those who practice violence and cruel deeds far-seeing Zeus, the son of Cronos, ordains a punishment.… Keep watch against this, you princes, and make straight your judgments, you who devour bribes; put crooked judgments altogether from your thoughts.… The eye of Zeus, seeing all and understanding all, beholds these things too, if so he will, and fails not to mark what sort of justice is this that the city keeps within it. Now, therefore, may neither I myself be righteous among men, nor would I have my son be so—for then it is a bad thing to be righteous—if indeed the unrighteous shall have the greater right.

Hesiod was the foundation of the Greek city-state, cities with strong walls to preserve justice and prosperity within and to keep the barbarians without. It was this self-identify that allowed the puny Greek polities to defeat the enormous Persian armies.

The Greeks employed the phalanx battle formation, in which each soldier bore a spear in the right hand and a shield in the left. The soldiers stood in rows whereby each soldier's exposed right side was covered by his neighbor's shield. Only a citizen army, in which each soldier trusted his neighbor not to run away, could employ the tactic. The Persian's polyglot army had to rely on overwhelming force, which, if momentum faltered, dropped spears and ran.

In the context of a Greek city-state, Horace's phrase *dulce et decorum est pro patria mori* makes perfect sense: it is indeed noble and proper to die defending the unity of culture, city, neighbor, family.

But what about dying for socialized medicine? Economists Calomiris and Haber venture into the comic when they write: "European elites discovered something that the elites of Ancient Greece and the Roman Republic had figured out in the fifth century BC: enfranchised citizens with something to lose fight harder. Those in power came under pressure to build redistributive welfare states."

World War I was rather an absurd battle between countries and cultures that in retrospect are barely distinguishable. Young men were slaughtered in the trenches for national interest and imperial ambition, not for neighbor and family. Wilfred Owen captured the betrayal in his disturbing 1921 poem:

> Gas! GAS! Quick, boys!—An ecstasy of fumbling
> Fitting the clumsy helmets just in time,
> But someone still was yelling out and stumbling
> And flound'ring like a man in fire or lime.—
> Dim through the misty panes and thick green light,
> As under a green sea, I saw him drowning.
>
> In all my dreams before my helpless sight,
> He plunges at me, guttering, choking, drowning.
>
> If in some smothering dreams, you too could pace
> Behind the wagon that we flung him in,
> And watch the white eyes writhing in his face,
> His hanging face, like a devil's sick of sin;
> If you could hear, at every jolt, the blood
> Come gargling from the froth-corrupted lungs,
> Obscene as cancer, bitter as the cud
> Of vile, incurable sores on innocent tongues,—
> My friend, you would not tell with such high zest
> To children ardent for some desperate glory,
> The old Lie: *Dulce et decorum est*
> *Pro patria mori*.

The ancients had no illusions about the brutality of war. In one of many colorful passages, Homer tells us in the *Iliad*: "This man Peneleos caught underneath the brow, at the bases of the eye, and pushed the eyeball out, and the spear went clean through the eye-socket and tendon of the neck, so that he went down backward, reaching out both hands, but Peneleos drawing his sharp sword hewed at the neck in the middle, and so dashed downward the head, with helm upon it, while still on the point of the big spear the eyeball stuck. He, lifting it high like the head of a poppy, displayed it to the Trojans."

To us moderns, only desperation, psychopathy, or extreme patriotism could explain such brutality. We forget that to the pagan, violence is to be celebrated (as long as it is directed toward someone else). In ancient Rome, the most civilized polity in antiquity, the plebeians took their leisure in the Colosseum, watching a man be torn apart by a lion, perhaps, or a contest to judge whether spear or trident was better able to skewer the loser. Did they bring along the kids?

Edward Gibbon blamed Christianity—the proposition that every man is formed in the image of and has a personal relationship with God—for draining Rome of its martial spirit, undermining the empire. He may have been correct, but Rome's energy was already spent, and the Christian proposition would form the foundation of future European greatness, no less than Hesiod for Greece.

Christianity's assertion of an unchanging deity elevated truth over narrative, without which science cannot exist nor technology advance self-consciously. Its defense of individual dignity evolved into individual rights, which underlies the idea of a free market to exchange goods and capital and thereby fund investment and innovation.

In fact, the very concept of economic value is not coherent without individual sovereignty. The Greeks (who embraced the idea of natural law but had no concept of individual rights) believed value was an objective quality embedded in each object: gold and silver were generally the most valuable, followed by livestock; wine was more valuable than wheat, and then there were free goods, such as water and air. In stable, agrarian economies, this hierarchy would remain unchanging for centuries if not millennia, making it seem an essential quality of creation itself.

The economy developed longer production chains in the Middle Ages, which led to the labor theory of value. As Thomas Aquinas put it: "Value can, does, and should increase in relation to the amount of labor which has been expended in the improvement of commodities."

The labor theory of value, in broad terms, proved an accurate guide to prices: in simple, competitive markets with little product differentiation, prices will hover near the marginal cost of production and thus seem to reflect the labor costs (primitive markets have short supply chains, little capital and, in any case, capital itself is distilled labor).

The labor theory of value went unquestioned by philosophers until the late-nineteenth century: it was a core premise of both Adam Smith and Marx.[1] Not until 1871, four years after Marx published *Das Kapital*, did William Stanley Jevons overturn the labor theory of value through the revolutionary concept of *declining marginal utility*. This obvious yet novel idea was perhaps most succinctly expressed by Nassau William Senior: "Two articles of the same kind will seldom afford twice the pleasure of one, and still less will ten give five times the pleasure of two." Think stiff drinks.

Jevons used the availability of water as an example: The first unit quenches thirst, the second waters the crops, the third allows for bathing and cleaning, and more provides sustenance for the flower garden. Each unit of water has less value than the previous, and at some point even becomes detrimental. Still more water becomes a nuisance, then a hazard, finally lethal.

1 Smith wrote: "If among a nation of hunters, for example, it usually costs twice the labor to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer." Marx agreed: "For instance, 10 lbs of tea = 20 yards of linen, and 40 lbs of coffee = 20 yards of linen. Therefore, 10 lbs of tea = 40 lbs of coffee. In other words, there is contained in 1 lb of coffee only one-fourth as much substance of value—labour—as is contained in 1 lb of tea."

Water itself has no *objective* value: it is *subjective* demand by *each individual* that imbues it with value for that individual; and this individual demand is driven by how satisfied that individual is with his existing supply compared to his appetite. The very definition of economic value is, therefore, inseparable from the sovereignty of the individual.

Value as expressed by prices in the market is determined by the marginal demand from the mass of individual consumers interacting with available supply. Profit, by definition, is a function of the difference between supply and demand and, therefore, the business that is most profitable is that one that is best fulfilling the wants and needs of the mass of individuals. Free market capitalism is unique in that it grants wealth and status to those who best serve the economic desires of their fellow man and not to those who seek power or glory.

In developing his theory of value, Jevons simultaneously stumbled upon a theory of trade. Consider the apple farmer who has no oranges. His demand for an additional apple is near zero, whereas his marginal demand for his first orange is quite high. The orange farmer has precisely opposing marginal demands, so a trade is mutually beneficial.

Just as marginal supply and demand direct the trade of consumer goods, they also direct transactions of capital and drive international trade. David Hume explained in 1752:

> There seems to be a happy concurrence of causes in human affairs, which checks the growth of trade and riches, and hinders them from being confined entirely to one people; as might naturally at first be dreaded from the advantages of an established commerce. Where one nation has gotten the start of another in trade, it is very difficult for the latter to regain the ground it has lost; because of the superior industry and skill of the former, and the greater stocks, of which its merchants are possessed, and which enable them to trade on so much smaller profits. But these advantages are compensated, in some measure, by the low price of labour in every nation which has not an extensive commerce, and does not much abound in gold and silver. Manufactures, therefore gradually shift their places, leaving those countries and provinces which they have already enriched, and flying to others, whither they are allured by the cheapness of provisions and labour; till they have enriched these also, and are again banished by the same causes.

This paragraph more or less describes America's relationship with China for the past few decades. In its ideal form, what Hume describes may also be applied to technological investment: capital invested into the power loom allowed manufacturers to produce clothes more cheaply and with less labor, freeing the labor for higher value productions. Similarly, manufacturing toys and clothes in China lowers costs and should free American labor for better work.

Larry Summers recently used exactly this argument to defend America's trading relationship with China: "If China wants to sell us things at really low prices, and the transaction is: we get solar collectors, we get batteries for electric cars, and we send them pieces of paper that we print. I think that's a good deal for us.… It's just like: was it unfair to dentists when fluoride water got invented; it was terrible for the dental business: far fewer cavities. Was it terrible when electric light got invented? Terrible for the candlemakers."

International trade also involves a nuance articulated by David Ricardo in 1817. To paraphrase his theory of comparative advantage, let us assume that in England it takes 120 man-hours to make a certain quantity of wine and 100 man-hours to produce a certain amount of cloth. Let us also assume that in Portugal, producing the wine takes 80 man-hours and the cloth 90 man-hours. It would appear at first glance that there is no profitable trade between the two countries because Portugal produces both commodities more cheaply: why would Portugal pay more to buy cloth abroad than it costs to produce it at home?

What Ricardo realized was that by importing cloth from England, Portugal could redirect its labor from the production of cloth, a trade in which it has a cost advantage of only 10 man-hours, to the production of wine, a trade in which it has a cost advantage of 40 man-hours.

To illustrate the implication: assume that for every 170 man-hours, Portugal produces 1 unit of cloth (90 man-hours) and 1 unit of wine (80 man-hours). If it redirects the 90 man-hours from cloth to wine, it now produces 2.125 units of wine. It still only consumes 1 unit, so it sells the 1.125 extra units to England, where it fetches 135 English man-hours (1.125 x 120 man-hours to produce wine in England). The 135 man-hours in England buys 1.35 units of English cloth. Even though the Portuguese are paying more for cloth, the international trade has increased the wealth of Portugal by 0.35 units of cloth (or 31.5 Portuguese man-hours).

For its part, England now has more wine (1.125 units instead of 1 unit) and redirects the 135 man-hours from producing wine to manufacturing cloth, enabling it to produce 1.35 more cloth units, which it exports to Portugal. The international trade has increased the wealth of England by 0.125 units of wine (or 15 English man-hours). Note that the low-cost country benefits more from the trade, but the high-cost country still has a net gain.

Ricardo's free trade argument laid the foundations for Britain's commercial rise. "The theory of comparative advantage is a closely reasoned doctrine which, when properly stated, is unassailable," observed Paul Samuelson. Even Paul Krugman admitted: "The essential things to teach students are still the insights of Hume and Ricardo." By 1861, English statesman Richard Cobden could declare: "There are two subjects on which we are unanimous and fanatical—personal freedom and free trade. These convictions are the result of fifty years of agitation and discussion."

Britain's free-trading philosophy served it well. Its global share of manufacturing jumped from 10% in 1830 to 32% by 1870 while GDP per capita soared by 55%. Instructively, Britain's global manufacturing share fell to 14% by 1913 (as Germany and U.S. and others made gains), but its GDP per capita increased by another 54%.

The contemporary American political problem is that the reality of free trade has diverged from the theory. In 2000, President Clinton sponsored a bill to allow China entry into the World Trade Organization, lowering trade barriers. He argued: "For the first time, our companies will be able to sell and distribute products in China made by workers here in America without being forced to relocate manufacturing to China, sell through the Chinese government, or transfer valuable technology. For the first time, we'll be able to export products without exporting jobs."

Few political statements have proved to be more untrue. The U.S. would export 3.7 million jobs to China over the ensuing fifteen years, and the trade deficit with China would jump from $83 billion in 2000 to $418 billion by 2018. In 2017, The

National Bureau of Asian Research estimated that the cost to the U.S. economy from Chinese piracy of trade secrets, software, and counterfeit goods was between $225 and $600 billion per year.

These and similar facts have led some heterodox economists to challenge Ricardo. Jeff Ferry, an economist associated with the Heritage Foundation's Project 2025, recently testified before Congress: "Ricardo's theory assumes full employment and prioritizes immediate output maximization based on existing capabilities. However, in reality, employment and industrial capacity are malleable and can be significantly boosted by effective trade policies." He cites a study by the National Bureau of Economic Research that concludes: "Our estimates show sizable job losses in exposed industries, and few if any offsetting job gains in non-exposed industries."

Oren Cass, a Republican political economist, points out that Ricardo himself realized that: "it would undoubtedly be advantageous to the capitalists of England, and to the consumers in both countries, that under such circumstances, the wine and the cloth should both be made in Portugal, and therefore that the capital and labour of England employed in making cloth, should be removed to Portugal for that purpose," or to China in the modern case.

The only reason that does not happen, according to Ricardo himself, is that:

> The fancied or real insecurity of capital, when not under the immediate control of its owner, together with the natural disinclination which every man has to quit the country of his birth and connexions, and intrust himself with all his habits fixed, to a strange government and new laws, check the emigration of capital. These feelings, which I should be sorry to see weakened, induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations.

In our financial system, almost no one has or expects "immediate control" of his capital, so off to China it goes.

Labor also suffers. Ludwig von Mises observed that: "the increase in wage rates does not depend on the individual worker's 'productivity,' but on the marginal productivity of labor.… A barber shaves a customer today precisely in the same manner his predecessors used to shave people two hundred years ago … yet the wage rates earned by all such workers are today much higher than they were in the past. They are higher because they are determined by the marginal productivity of labor. The employer of a butler withholds this man from employment in a factory and must therefore pay the equivalent of the increase in output which the additional employment of one man in a factory would bring about." What did economists think was going to happen to Western wages when the WTO unleashed a billion Chinese laborers into the global market?

Cass argues in his book *The Once and Future Worker* that "a labor market in which workers can support strong families and communities is the central determinant of long-term prosperity and should be the central focus of public policy." Robert Lighthizer, the mastermind behind Trump's tariff strategy, adopts a similar line of reasoning:

> The purpose of the economy, first of all, obviously is national security, but after that it's to distribute resources and wealth so that most Americans live the best lives they can live. And we have lost that. We have just plain lost it.…

> We need families, where people work and do productive, good work and they're proud of the work and they feel better about themselves and they project that to their children and to the community, to the little league, to all these kinds of things.…

This is a political not economic argument and is as unanswerable as Ricardo's theory. It returns us to Hesiod, to the point of a polity: to keep the barbarians out and promote civilization within.

Decent wages are a prerequisite for family formation, which would seem to mean shielding American workers from third-world competition and preventing capital from fleeing to low-cost countries. Does anybody doubt that the United States has enough grain-giving earth, natural resources, capital, and labor that it need not travel on ships to accumulate foreign goods?

Strong families are not just a requirement for prosperity but also for a strong military, without which a state cannot survive: young men volunteer for the front to defend family and culture, not the welfare state. Strong workers that can provide for large families would also reverse the demographic decline.

A strong border is necessary to keep the barbarians out, especially those who promote narrative and tribal competition over truth and rule of law. For, as Hesiod writes, if justice does not lead to prosperity, then why would he or his son be just? Or corporations and universities for that matter? Worse, DEI programs, by returning society to tribal competition, risks forcing into existence a currently-imaginary white supremacy movement. Tribal societies are also not good at waging war, as the ancient Persians discovered.

Furthermore, a country with rulers that "devour bribes," such as the Bidens and Clintons, and that promulgates "crooked judgments," such as against January 6 protesters and attempts against Trump, incurs the wrath of Zeus himself, this time taking the form of Trump's election.

Finally, these rules of justice apply only within a city's walls. As Trump and other princes understand, in international affairs: "He is a fool who tries to withstand the stronger, for he does not get the mastery and suffers pain besides his shame."

Let us pause and marvel at how much wisdom is contained in three paragraphs in poetic style written twenty-seven hundred years ago by a farmer with no formal education. History is the output of the laws of human nature, which knowledge and contemplation reveal, and it is such modes of thinking that allow an understanding of the past and confident predictions about the future.

There is, in fact, a means to resolve the unassailable theories of Ricardo with the political realities of Hesiod. It begins with Adam Smith:

> Should the circulating paper at any time exceed that sum [of "the gold and silver which would have been required in its absence"] … many people would immediately perceive that they had more of this paper than was necessary for transacting their business at home, and as they could not send it abroad, they would immediately demand payment of it from the banks. When this superfluous paper was converted into gold and silver, they could easily find a use for it by sending it abroad; but they could find none while it remained in the shape of paper. There

would immediately, therefore, be a run upon the banks to the whole extent of this superfluous paper.

This tendency for excess banknotes to return to the issuing bank and drain it of capital was named the "law of reflux" by John Fullarton in 1844, and it assumed, first, that banknotes were redeemable on demand into gold and, second, that foreigners had no demand for non-domestic currency. Neither assumption remains true. First, bank notes are no longer redeemable into gold, and, even if they were, legal tender laws mean that bank liabilities may be tendered to repay debt or for taxes at face value whatever the soundness of the assets that the issuing bank holds; second, foreigners are happy to hold U.S. dollars as a reserve asset and recycle them back into U.S. debt instruments.

Legal tender laws and recycling mean that U.S. banks may create excessive credit with impunity. The main effects of new credit is to overstimulate investment and increase domestic prices, which then leads to overcapacity and trade deficits. Andrew Dickson White recorded these exact phenomena in his majestic book about the inflation during the French Revolution: "The plenty of currency had at first stimulated production and created a great activity in manufactures, but soon the markets were glutted and the demand was diminished.… Heavy duties were put upon foreign goods; everything that tariffs and custom-houses could do was done.…"

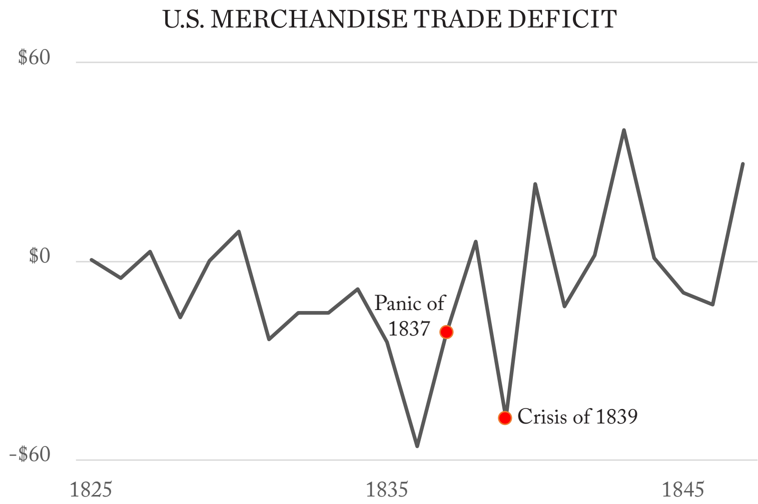
We do not need to rely on so esoteric an example: the same phenomena were recorded during the credit expansion caused by government spending during the War of 1812: high domestic prices suppressed exports and drew in imports. Imports from 1811 to 1816 surged by 177% whereas exports increased by only 34% percent. Previously, Congress had used tariffs to raise revenue, but the soaring trade deficit prompted it to pass the Tariff of 1816 to protect American manufacturing interests from foreign competition.

In late 1818, a $4.5 million loan to fund the Louisiana Purchase came due, payable in specie, and $3.5 million of it was due to foreigners. In order to meet this demand from the Treasury Department, the Second Bank of the United States redeemed its state bank notes and stopped rolling credits, forcing borrowers to deliver specie when their debts came due. The credit structure unraveled, causing the Panic of 1819. Imports collapsed by 44 percent from 1818 to 1821, no new tariffs required.

It happened again in the 1830s: the federal government encouraged manifest destiny by allowing the private purchase of federal lands (acquired through the Louisiana Purchase) with banknotes issued by private banks. Banks quickly discovered that this federal sponsorship supported the value of their notes however shaky their backing. The result was as inevitable as it was predictable: in 1830 there were 330 banks issuing $49 million in banknotes; six years later there were 788 banks issuing $149 million in banknotes.

The chart below records what is easily deduced from the principles stated above: the merchandise trade deficit went from flat in 1825 to negative $56 million in 1836. The Panic of 1837—the destruction of credit—closed the deficit. There was then a mini-bubble in 1838, followed by the Crisis of 1839, which caused the trade balance to turn to surplus.

Tariffs were then, as now, a pressing political issue, but they had no significant impact on deficits. The tariff rate on all imported goods did fall from 48% in 1825 to 20% in 1836, which could form a competing theory for the trade deficit; but then the rate held steady through 1843 and cannot explain why deficits turned suddenly to surpluses.



As soon as credit excesses were resolved, the credit expansion began anew, this time directed toward building overcapacity in railroads. Charles Dunbar, who built the economics department at Harvard in the 1870s, observed: "That a large part of this increase [in the number of miles of railway] was … to a considerable degree of a speculative character, might be inferred from the fact that of the 3,400 miles built in the year 1856, nearly one-half were in the seven sparsely inhabited Northwestern states."

The number of banks from 1843 to 1857 doubled while the volume of bank loans jumped 168%. Then the panic hit: banks suspended the right to redeem bank notes and deposits into gold. A contemporary called it: "the most extraordinary, violent, and destructive financial panic ever experienced in this country."

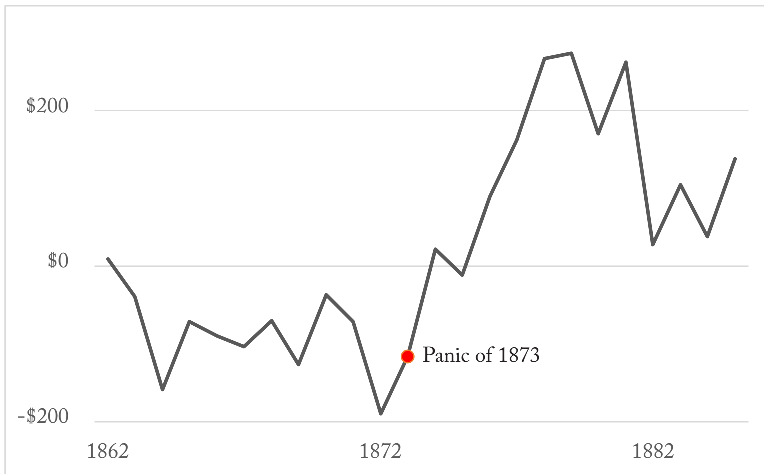
The chart below shows again that the U.S. began running a large trade deficit during the bubble. Then, after the Panic of 1857, the deficit turned to balanced trade.

Tariffs played little if any role. The average duty rate collected on all imported goods fell from 30% in 1844 to 19% in 1857. Early in 1857, before the panic, Congress had voted to reduce the tariff rate further, and by 1861, the overall tariff rate had declined to 14%. Yet we see from the chart above that lower tariffs were powerless to maintain the trade deficit.

Representatives of the new Republican Party blamed the 1857 tariff reductions for causing the panic. The party chose Abraham Lincoln as their presidential candidate: "My politics can be briefly stated. I am in favor of the internal improvement system, and a high protective tariff."

Lincoln's victory caused the South to worry that high tariffs would subject their cotton exports to British retaliation, prompting them to secede from the Union. Unable to borrow money, Congress passed the National Bank Acts in 1863 and 1864 to help fund the Civil War. The acts created a banking system of unparalleled virulence: from 1862 to 1873, the number of banks more than doubled and the quantity of bank assets nearly tripled. The credit fueled another massive overexpansion of the railroad industry; the chart below shows the effect on the trade deficit.

U.S. MERCHANDISE TRADE DEFICIT



Unlike the two previous bubbles, when tariffs were declining as deficits grew, this time Republicans had been hiking tariff rates during the bubble, from 14% in 1861 to 47% in 1868, demonstrating that credit creation was the cause of trade deficits, not falling tariff rates. Widespread panic hit the credit system in 1873, kicking off the Long Depression that lasted until 1879. The trade deficit turned to a surplus, despite the fact that the overall tariff rate was falling again, back to 29% by 1880.

Consider also the Panic of 1907, the one so bad that it prompted the creation of the Federal Reserve. O.M.W. Sprague reported: "Exports for November and December [1907] were nearly $39,000,000 greater than in the months in 1906, while imports fell off $51,000,000 compared with the previous year."

The Panic of 1921 saw a similar pattern. The destruction of Europe in World War I meant that U.S. exports were high throughout the period, but imports collapsed during the panic from $5.2 billion in 1920 to $2.5 billion in 1921.

Armed with this history, one would confidently predict that in the modern economic regime, in which U.S. Treasury bonds became the monetary reserve of an inflationary world, allowing exponentially growing U.S. fiscal deficits, that the U.S. economy would suffer unparalleled trade deficits, which, indeed, is what has happened.

And it should be no surprise that these trade deficits have created "few if any offsetting job gains." If it were the case that capital accumulation were creating more productive work, naturally raising the cost and value of American labor, then Larry Summers would be correct: it would make sense to outsource low-value-added jobs to China. But it was artificial credit creation that raised costs, not capital accumulation, so companies simply outsourced their manufacturing and fired their American workers. Consumption is then supported by federal transfer payments funded by issuing debt to foreigners.

Let us not place all the blame for global imbalances on U.S. policymakers. Foreign governments had their own reasons rejecting free trade. By hoarding U.S. Treasury bonds, they allowed America to run growing current account deficits, which enabled them to run trade surpluses to develop domestic manufacturing. Funding U.S. consumption also put them in a position to demand American military protection.

Mainstream economists ignore the effects of America's persistent trade deficits because "Hume and Ricardo." Yet neither of these thinkers could have imagined the modern financial system. In their time, if there were a trade deficit, the surplus country would accumulate the deficit country's currency and redeem it for gold. There was only one way to defend against an efflux of gold: raise interest rates to attract back capital. There need not be a central bank—private banks had no choice but to raise rates to defend their balance sheets because bank directors had personal liability. Higher rates would cause low-value-added businesses to fail and would allocate capital to more productive enterprise. The surplus country would feel the opposite effect: gold entering the banking system would result in lower interest rates (banks always want to reduce interest rates, their main cost). Bank competition would then lower borrowing rates to levels able to sustain less productive but more fun economic activity. Trade would naturally come back into balance.

Hume and Ricardo work only in the context of an international gold standard. Mainstream economists applying their unassailable theories to a fiat world find themselves forced to reject reality.

In response, Trump is elevating heterodox figures such as Lighthizer, who correctly demands balanced trade—except he wants to achieve it not through markets but political might: through tariffs, capital controls, or even tradable export-import certificates ("in order to import, you need an export certificate"). These are blunt instruments that cannot possibly optimize economic performance, though they may bring relative victory in a trade war.

In a way, the shift from economic incentives to political control makes sense: the subjective theory of value that underlies the theory of free trade loses its foundation in a post-Christian, neo-pagan West.

Democrats are blaming Trumps' higher tariff rates for causing the stock market crash. In 1857, Republicans blamed Franklin Pierce's lower tariff rates for the crash. It was nonsense then and is nonsense now. Changes in tariff rates may be a catalyst for a crash by interrupting expected cashflows to certain levered parties, but they cannot be a cause. The Great Depression was caused by the popping of the 1920s credit bubble, not Smoot-Hawley; the current cracks in stock and bond markets are mere symptoms of stress in the greatest credit bubble man has ever constructed; tariffs may pop it, but if not tariffs something else will: credit bubbles are, by their nature, unsustainable.

Modern economists know nothing of the nineteenth century and therefore do not understand that domestic credit bubbles create trade deficits. Their model is the 1930s, which was anomalous because Europe's capital had been largely consumed by and destroyed in the Great War, enabling the U.S. to sustain a large trade surplus despite the enormous 1920s credit bubble that should have created a large trade deficit. When the bubble popped, the America found itself with enormous overcapacity and a terrifying depression.

Roosevelt devalued the dollar both to make U.S. exports more competitive and facilitate debt servicing domestically. The problem was that other countries were also devaluing their currencies. Policy makers came to believe, as Ben Bernanke told Milton Friedman on his ninetieth birthday: "The countries that remained on gold suffered much more severe contractions in output and prices than the countries leaving gold … countries that left gold earlier also recovered earlier." In other words, those that devalued first won.

The current situation is, in fact, somewhat parallel to the anomalous 1920s, only this time China is the country with an enormous domestic credit bubble yet is also running a huge trade surplus, a feat achieved through capital controls and currency manipulation. Trump's Treasury Secretary understands the implications: "[China is] the surplus country. Their exports to the U.S. are five times our exports to China. So, they can raise their tariffs. But, so what?" If China cannot find markets to absorb its overcapacity, it will face its own great depression, made worse from its demographic disaster, and perhaps be forced into war to distract the populace.

There are risks for the U.S. as well, and not just war with China. Foreigners buy Treasury bonds with dollars they accumulate from trade surpluses. If Trump balances trade, or even reduces the trade deficit, there will be correspondingly less external demand for Treasuries. The tariffs, therefore, are called upon to serve a dual purpose of balancing trade and raising revenue. Cutting spending through DOGE or any other means becomes a necessity. A falling stock market also serves Trump's strategy by reducing the wealth effect and, therefore, inflation, which might prompt the Fed to act. A falling stock market also pushes scared money into the bond market, lowering interest rates. Note, however, that in a gold standard, rates rise to attract capital and allocate it to more productive enterprises. To achieve his goals, Trump will need to recreate that effect through political direction of capital.

Trump—that long-winged bird—is knocking down the post-World War II geopolitical structures because they no longer serve America's interests. Even assuming his economic plan succeeds, the value of all currencies will be substantially lower: China is already devaluing the yuan.

One misplaced step could turn a controlled demolition into a panic unwind of the entire global credit bubble. A central bank bailout would have to be on a scale larger even than COVID. And central bank balance sheets are so weak, there is no guarantee that the next intervention will be successful, in which case bonds, stocks, and currencies all collapse in tandem, as has occurred over the years in many an emerging market.

The world began as a barbarous place. The ships Hesiod referred to were not trading but raiding ships. He saw that husbandry was more productive than plunder though warned that husbandry requires just rulers. Productivity exploded off of this foundation when truth and individual sovereignty created free markets and innovation by design, first within then among nations.

Progress is not steady, however, and many eras have seen decades or even centuries of retrogression. The abandonment of the international gold standard and adoption of politically managed currencies subtly reintroduced mercantilism, a predatory regime under which trade creates winners and losers. Trump understands that America as a whole has been the loser; he is determined to make America the winner. The best outcome, however, assuming the world can avoid the horrors of a global war, would be a collapse of currencies and a natural return to the gold standard and market-enforced balanced trade.

At $3,200/oz, gold represents 12.4% of the Fed's assets, which is below the 12.9% reading recorded at the end of 1971, when gold traded at $37.40/oz. It is still cheap in U.S. terms. Non-U.S. institutions in particular are figuring out that gold, with a total market value of $22.4 trillion, is one of few asset classes able to absorb safe-haven flows and provide diversification away from Treasury bonds. As gold reenters the global financial system as the preeminent international reserve asset, the only entities able to do QE will be the gold miners.