Tariff War: Is the U.S. Really Being Treated Unfairly?

April 2025

Executive Summary

This paper was inspired by Stephen Miran's *User's Guide to Restructuring the Global Trading System* (Miran, November 2024), the current trade war and the growing inequality of the last few decades. While Stephen Miran's paper presents a coherent case for trade realignment and a more aggressive U.S. posture in global commerce, it rests on the premise that the world system is unfair to the United States. In reality, the U.S. remains the single greatest beneficiary of the current global economic order. Its firms dominate in profitability, innovation, and influence, and the U.S. dollar anchors the world's financial system. The narrative of victimhood—framed around trade deficits and currency misalignments—ignores the privileges that flow from global demand for high-value U.S. assets, U.S. intellectual property, and the deep liquidity of its capital markets.

The paper assumes that implementing significant tariffs to restore industrial exports is the rightful path to economic fairness and resilience. But modern U.S. prosperity does not come from selling low-margin, labor-intensive goods. It comes from dominating high-return-on-assets sectors—like tech, entertainment, software, and pharmaceuticals. The obsession with trade balances as a scorecard for economic health is flawed. Profitability and innovation—not net exports—are better measures of strategic strength.

There is an irony to all this. The U.S. president and Republicans supposedly believe in free markets and minimal government intervention. Yet, imposing tariffs on U.S. companies is uniquely interventionist. It is not letting the free hand of business decide what is the most efficient to generate profits, or real value.

The domestic inequality and deindustrialization Miran points to are real problems, but they have more to do with domestic policy failure than with trade. A more effective and humane response would focus on domestic redistribution, workforce training, and regional revitalization. Proper incentives and policies have far more potential to help displaced workers than a tariff regime that risks inflation, an economic rewind and geopolitical tension.

Author: Ian McLean, ASA, CFA

Ian McLean is the founder of McLean Capital, an investment firm based in Quebec, Canada. He has extensively studied company financials, management strategies, business transactions and competitive advantages. He holds a bachelor's degree in mathematics from the University of Montreal, is an Associate of the Society of Actuaries and holds the CFA designation.

info@mcleancapital.ca

Blaming foreigners for the plight of U.S. workers is a convenient political narrative—but it misdirects energy away from meaningful, evidence-based reforms.

There is a dangerous reputational risk in framing trade and currency policy through a nationalist or retaliatory lens. The push for punitive tariffs or currency interventions can trigger tit-for-tat responses and destabilize the very system that enables U.S. prosperity. It also overlooks the degree to which global trust and predictability underpin investment flows, supply chain stability, and diplomatic relationships. Turning trade into a weapon may feel satisfying to some in the short term but could diminish U.S. strategic leverage over time.

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

- Warren Buffett

The idea that manufacturing revival is essential to national defense is a romanticized holdover from 20th-century warfare. Modern military and security preparedness depend less on steel mills and car factories, and more on supply chain security, advanced computing, biotechnology, and cyber defense. Ensuring access to critical materials and high-tech inputs requires smart stockpiling, supplier diversification, and strategic alliances—not broad-based reshoring of low-value manufacturing. A wartime economy today would rely more on chips, cloud infrastructure, and AI than on factories.

This paper will also bring some productive ideas to the table by discussing the power of incentives and what policies could be implemented to create the desired outcomes.

Contents

MCLEAN CAPITAL

Introduction

Stephen Miran's paper starts its introduction by stating:

"Americans' opinion of how well the international trade and financial systems serve them has deteriorated substantially over the last decade."

I think this statement is misleading. It should have been written like this:

"*A large portion of* Americans' opinion of how well *the U.S. economy has included* them has deteriorated substantially over the last decade."

Stephen Miran is focused on international trade and supposed "enemies of trade". Americans are focused on their share of the large U.S. economic success.

Starting in February 2025, the president of the United States has reignited and intensified trade conflicts, particularly with China, Canada, and Mexico. He imposed a 10% tariff on all Chinese imports, citing national security concerns related to the supply of synthetic opioids. China responded with retaliatory tariffs on U.S. goods, including agricultural products and energy resources. Simultaneously, the U.S. imposed a 25% tariff on imports from Canada and Mexico.

In April 2025, the U.S. administration further escalated measures by invoking the International Emergency Economic Powers Act (IEEPA) to declare a national emergency over trade deficits. This led to a 10% baseline tariff on all imports, with higher rates for countries with significant trade imbalances, notably a 34% *additional* tariff on Chinese goods. China retaliated with equivalent tariffs on U.S. imports, marking a return to full-scale trade warfare. These actions have disrupted global markets, strained diplomatic relations, and heightened economic uncertainties.

The administration's strategy intertwines trade policy with national security objectives, aiming to redistribute global economic revenues (not profits) and address perceived inequities in international trade. These aggressive tariff implementations are prompting concerns about the broader implications for the world economy and global relations.

Stephen Miran's paper and other reports indicate that the U.S. president's economic advisors have also drafted plans to devalue the U.S. dollar to reduce the trade deficit and make U.S. exports more competitive.

Claims that the dollar is overvalued because of its reserve currency role oversimplifies a complex global dynamic. The dollar's strength is not an arbitrary flaw—it reflects the world's demand for safe, liquid, and reliable assets. Yes, this structure can weigh on U.S. exports, but it also grants the U.S. borrowing privileges (Fines/Soni, 2024), deep capital markets, global influence and cheaper imports. Instead of dismantling that system, a more productive approach would be to address the roots of the real problem: rising inequality.

The trade war narrative that "others are taking advantage of America" ignores how much the U.S. benefits from global openness. Many American firms derive a substantial share of their profits from abroad, and the U.S. maintains unparalleled control over global finance, technology, and intellectual property. Tying trade policy to security policy through a lens of "burden sharing" risks treating allies like adversaries and pushing them closer to real rivals. It also confuses transnationalism with leadership: global trust is not a price to be collected, but a strategic asset to be preserved.

Stephen Miran's paper claims not to be policy advocacy, but it clearly reflects a worldview rooted in grievance. It diagnoses trade deficits and reserve currency dynamics as dysfunctions, rather than features of a system that, while imperfect, has long tilted in America's favor. A more constructive debate would focus on how to share the success of the U.S. economy more equitably. We don't need to retreat from the world—we need to make sure *all* people have the opportunity to thrive in it.

The Roots of Economic Discontent

The Roots of Economic Discontent Do Not Lie in the Dollar

While the U.S. dollar's reserve currency status may contribute to trade deficits, the claim that it is the root of U.S. economic discontent oversimplifies a complex picture. Studies from the Federal Reserve (Reinbold/Wen, 2018) and independent economists have consistently shown that trade deficits are more reflective of macroeconomic conditions—like savings and investment imbalances—than currency misalignment. In fact, attempts to link a strong dollar to deindustrialization often confuse correlation with causation. Countries with strong currencies like Switzerland or Germany still maintain robust manufacturing sectors, suggesting that institutional, regulatory, and workforce factors matter far more than currency levels in shaping economic vitality (West/Lansang, 2018).

Research from the Peterson Institute for International Economics (PIIE, 2020) and the Brookings Institution (Rodrik, 2022) emphasizes that technological change and domestic policy failures—particularly in education, infrastructure, and regional economic development—are the dominant causes of inequality and economic frustration in the U.S. A 2017 study (Autor/Dorn/Hanson, 2017) found that trade with China contributed to localized job losses, but also showed that regions with more flexible labor markets and stronger safety nets adapted more effectively. This suggests the problem is not foreign currency levels, but the lack of domestic policy buffers.

In my view, the biggest culprit of inequality is easy money: low interest rates and oversized money printing (creating bank reserves – that boost lending power for banks – by purchasing assets like Treasury securities or mortgage-backed securities).

Income and wealth inequality in the U.S. have soared over the past four decades, largely due to shifts in taxation, politics powered by money, and the financialization of the economy—not because of the dollar's strength. The top 1% have captured a disproportionate share of economic gains, while median wages stagnated. Blaming the dollar's valuation and trade deficits ignores these deeper structural forces and risks diverting attention from actionable reforms like fairer taxation, antitrust enforcement and de-financialization of the economy. Printing money and keeping interest rates low benefited the rich first and foremost.

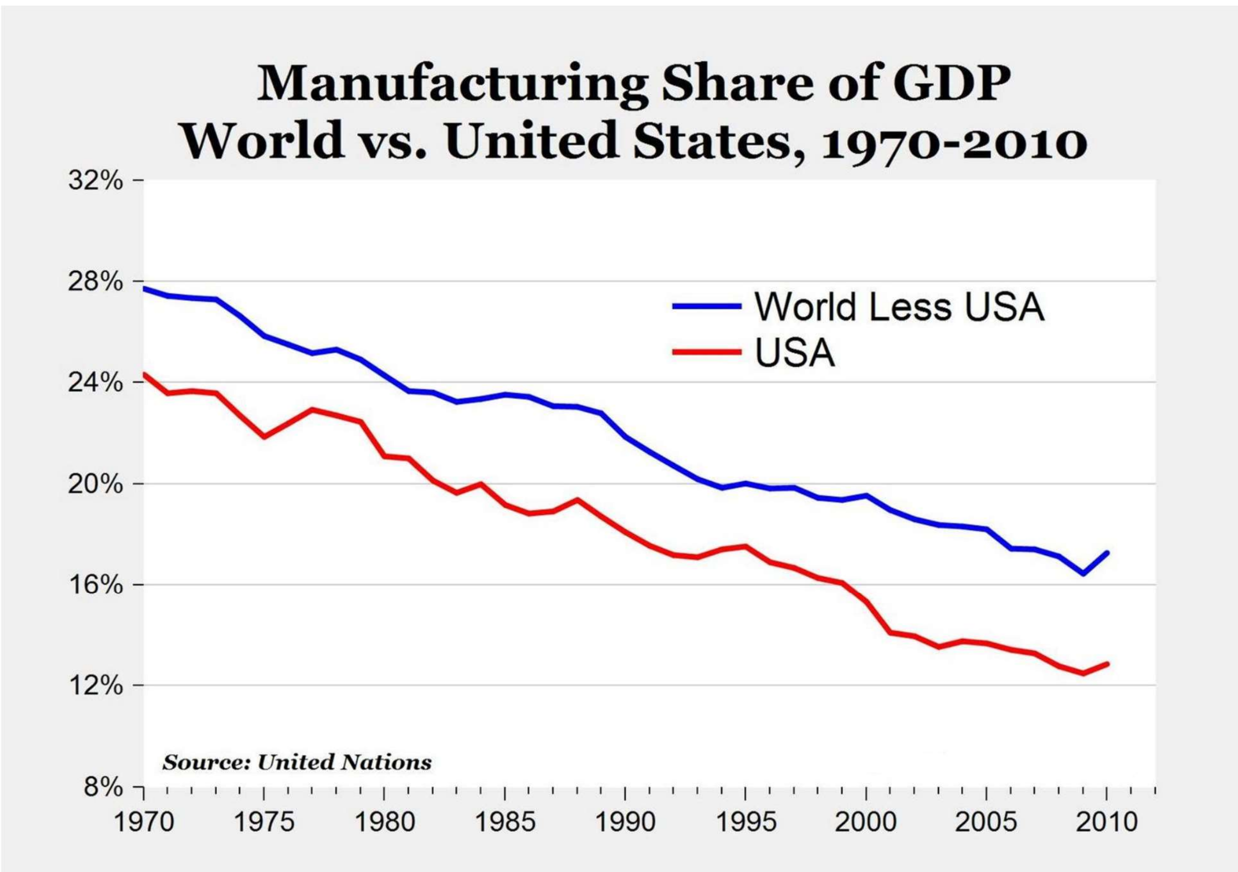
Thomas Piketty, particularly in his influential book *Capital in the Twenty-First Century* (Piketty, 2013), argues that interest rates play a key role in driving inequality, especially when the return on capital (r) exceeds the growth rate of the economy (g).

r > g → Capital accumulation outpaces income growth, leading to rising inequality.

Piketty's central thesis is that when the return on wealth (r)—which includes interest, dividends, rents, and capital gains—is persistently higher than the rate of economic growth (g), those who already own capital grow richer faster than those who live off labor income. This dynamic inherently favors the wealthy and causes inequality to rise over time.

Regarding de-industrialization, an important point needs to be made when looking at a graph of manufacturing's share of the U.S. economy. This has not only occurred to the U.S. economy, but to the entire world economy, which is to be expected as humanity innovates and diversifies its productivity.

Chart 1 (Perry, 2012):



Basing an argument on this is like finding issue with farming's dramatic drop as a percentage of the U.S. economy. It used to be dominant 100 years ago. Now, it is a very small portion of economic output. Yet, we are producing more food than ever. The diversification of the economy is a good thing.

Is the Triffin Dilemma outdated?

The Triffin Dilemma is often treated as gospel in international economics. But there is a strong case that the Triffin world is deeply flawed, both in its assumptions and its applicability to today's global economy.

First of all, the Triffin Dilemma may be incorrect about how reserve currencies work. The Triffin Dilemma, formulated in the 1960s by economist Robert Triffin, posits that a country issuing the global reserve currency must run persistent current account deficits to supply the world with liquidity (e.g., U.S. dollars). Eventually, these deficits supposedly undermine confidence in the currency, causing the system to collapse (Triffin dilemma, Wikipedia).

However, this view confuses current account deficits with net capital outflows, and fails to account for the real reason countries hold reserves: they want safe and liquid assets. The U.S. doesn't need to run trade deficits to supply the world with Treasuries—the global financial system can and does create dollar assets through private sector balance sheets (e.g., eurodollar[1] markets, offshore finance[2]).

Countries don't hold dollars just for trade—they hold them for financial security and flexibility. The U.S. capital markets offer scale, liquidity, transparency, and legal protections unmatched by any other country. Triffin's model didn't envision the rise of global capital flows or the scale of financial globalization, where reserve demand is driven by portfolio needs, not by trade imbalances.

Countries with surpluses (like Germany or Japan) prefer U.S. dollar assets because of market structure and trust.

Secondly, it assumes a fragile system, yet it keeps proving resilient. If the Triffin Dilemma were truly fatal, the dollar probably would have collapsed decades ago. But in reality, the dollar remains the dominant reserve currency, accounting for ~60% of global reserves. Global demand for U.S. assets has increased during every crisis and the U.S. continues to

[1] Eurodollars are U.S. dollar deposits held in banks outside the United States, including foreign branches of U.S. banks. Despite the "Euro" prefix, these deposits aren't confined to Europe; they can be held worldwide. Banks outside the U.S. accept dollar deposits and can lend these dollars to borrowers globally. This system enables the creation of dollar assets beyond the direct oversight of the U.S. Federal Reserve.

[2] Offshore Financial Centers (OFCs) are jurisdictions that provide financial services to non-resident companies and individuals. OFCs facilitate various financial activities, including banking, insurance, and investment management, often with favorable tax and regulatory environments.

benefit from privilege—the ability to borrow cheaply and have its liabilities accepted globally (Fines/Soni, 2024).

The system hasn't just endured; it's become more entrenched.

It also frames the dollar's role as a burden—but it's a strategic asset. Triffin framed reserve provision as a dangerous, unsustainable burden for the U.S. But in reality, the world pays the U.S. to hold its debt. The U.S. gets cheaper financing, a stronger financial sector, and global strategic leverage. The problem isn't that the world is "using" the U.S.—it's that domestic policy fails to distribute the gains efficiently.

Finally, it's a gold-standard era theory in a fiat-currency world. Triffin's dilemma was rooted in the Bretton Woods system, where dollars were backed by gold. In that world, deficits could drain U.S. gold reserves, triggering a collapse in confidence. But in today's fiat currency regime, there is no such external anchor. The U.S. can run deficits as long as the world trusts its financial power and its system.

Modern monetary systems are taxation power and credibility-based, not metal-backed. Triffin's theory may just not apply anymore.

The idea that reserve status inevitably leads to collapse is neat but probably wrong. It assumes trade is the driver of reserves, that persistent deficits are unsustainable, and that confidence erodes mechanically. In practice, financial globalization, institutional strength, and trust in the U.S. system matter far more than trade balances or any supposed Triffin constraint.

The real question isn't whether the world will "stop using the dollar"—it's whether the U.S. will continue to deserve that trust.

Reshaping the inner system with the proper incentives

"Well, I think I've been in the top 5% of my age cohort all my life in understanding the power of incentives, and yet I've always underestimated it. And never a year passes but I get some surprise that pushes my limit a little farther."

- Charles Munger

Policy choices in the U.S. favor capital over labor.

Since the 1980s, tax policy has increasingly favored capital gains, dividends, and corporate profits over wages and other sources of income. Tax policy should be more fair. The argument that the wealth creators, or the capital allocators, will lose motivation or move outside the U.S. is overexaggerated.

Freedom should apply everywhere and to everyone, not only when it is in the favor of the leaders. Unfortunately for some, that means unions should have the same rights as corporations and their rights should be defended by the legal and political system. Let the free hand of business manage the balance of power between capital and labor.

The free hand of business will sometimes cause major disruptions in some communities. While there are national and state-level organizations in the U.S. that are specifically designed to assist workers and communities when factories close or mass layoffs occur, they are underfunded, and much more could be done.

Some examples:

- The U.S. Department of Labor's Dislocated Worker Program gives job training and re-skilling, career counseling, assistance with job placement and other supportive services (e.g., childcare, transportation).
- When a mass layoff or closure is announced, the National Rapid Response Program sends teams to visit the worksite before closure, coordinate unemployment insurance and connect workers to retraining and counseling.

The Trade Adjustment Assistance (TAA) – (Now Sunsetted in 2023) that provided enhanced benefits for workers who lost their jobs due to trade-related plant closures (e.g., offshoring) expired in 2023, and Congress has not yet renewed it. The U.S. has no national agency dedicated to industrial transition or economic displacement at the community level. Proposals have been made to create a "Reindustrialization Corps" or "Just Transition Agency", but none have passed. This is an obvious place where policy should be improved.

The economy has become overly financialized in the wrong ways. Incentives push for short-term thinking and often cause long-term problems. Bad incentives—like executive pay tied to short-term returns, political rewards for easy money, and investor addiction to low rates—all converge to create a system where governments keep rates too low and print too much, even in ways that undermine long-term prosperity.

This is one of the most important—and difficult—questions in democratic governance: how can we create incentives for politicians to prioritize the long-term public good over short-term electoral wins? While we can't change human nature, we can educate more and design better systems and incentives that shift the political cost-benefit calculation.

Political rewards should be tied to outcomes, not optics. Instead of rewarding politicians for how well they campaign or message, attention should be shifted to long-term metrics like child poverty, health outcomes, infrastructure investment, or debt sustainability.

Third-party "political credit ratings": nonpartisan institutions could score elected officials on actual policy outcomes, not just votes or ideology. Public funding and party support could naturally come to be conditioned on these outcome metrics. Politicians would now be incentivized to truly perform, not only gain votes using more and more marketing dollars.

Longer, non-renewable terms (e.g., 6 years for House, 8 years for Senate) could be an option to look into to reduce the constant pressure to fundraise and campaign. Term limits could also help by discouraging careerism—but risk empowering unelected insiders unless paired with transparency.

Politicians should have a viable path not tied to private donors. Matching funds or "democracy vouchers" (like in Seattle[3]) let candidates focus on policy, not fundraising. This reduces the incentive to serve donor interests over voters.

For complex issues, independent commissions or panels could have the authority to set frameworks within which politicians would legislate. These bodies wouldn't replace democracy, but would shift technical decisions out of the electoral cycle.

When major long-term policies are on the table (e.g., Social Security reform), representative citizen assemblies—similar to jury duty—could be convened to deliberate and issue recommendations. Politicians would then be held to these recommendations unless they would publicly explain their reasoning. This would increase legitimacy, reduce polarization, and de-politicize hard trade-offs.

Foundations, universities, and civic institutions could reward and spotlight those who take principled, unpopular stands that turn out to be right. Incentives could be implemented to create these behaviors from foundations, universities, and civic institutions.

[3] Seattle's Democracy Voucher Program is an innovative public campaign financing system designed to increase citizen participation in local elections and reduce candidates' reliance on private donors. Approved by voters in 2015 through the "Honest Elections Seattle" initiative, the program provides eligible Seattle residents with four $25 vouchers each election cycle. These vouchers can be assigned to participating candidates running for city offices, such as City Council positions (Democracy Vouchers, German Marshall Fund).

Social media and freedom

In democratic societies, freedom of speech is a fundamental right—but not an unlimited one. The classic example often cited is *you can't yell "fire" in a crowded theater* if there's no fire, because it causes harm. Likewise, hate speech and false information that incites violence or leads to real-world damage can and should be subject to regulation.

Hitting someone in the street is illegal in virtually every jurisdiction. Does this go against free will? This is just one analogy, and it mirrors a growing body of legal and philosophical arguments that freedom of speech is not the same as freedom from consequences.

When someone spreads a lie that leads to violence or directs targeted abuse at someone online, that speech is a form of *action*. In the same way physically hitting someone is a misuse of physical freedom, weaponizing speech to cause psychological, reputational, or physical harm is a misuse of expressive freedom. Saying regulating hate speech is a violation of free speech is like saying laws against assault violate your freedom to move your arms.

Freedom is meaningful when people have access to truthful information. Disinformation (e.g. about people, vaccines, elections, or public policy) can manipulate people into making choices against their own interest. This distorts the democratic process, undermining everyone's collective freedom to participate fairly and knowledgeably. You can't freely choose if the information you're relying on is a lie.

Spreading false information or hate speech on social media *can reduce others' freedom* in very real ways.

Hate speech targets specific groups, often driving them off platforms or out of public discourse entirely. Women, minorities, and marginalized groups often bear the brunt of coordinated harassment. This creates a chilling effect, where they stop expressing themselves—meaning their *freedom of speech* is diminished.

Free speech for one shouldn't mean fear and silence for others.

Allowing false and harmful content to circulate unchecked is not neutral—it empowers those causing harm and disempowers those that are attacked.

Regulating harmful speech is not a violation of free speech. Freedom of speech does not include the right to incite violence, spread lies that cause harm, or intimidate others into silence.

Studies have shown that misinformation and hate speech on social media can contribute to radicalization and hate crimes (Castaño-Pulgarín/Suárez-Betancur/Vega/López, 2021), undermine public health (e.g., vaccine misinformation) (Burki, 2019) and destabilize democracies (e.g., false election claims) (Sanchez/Middlemass, 2022).

Nonpartisan awards, fellowships, or media platforms should elevate long-term thinking and moral courage. We need to regulate social media much more rigorously.

Manufacturing and War

Even though manufacturing has come down as a percentage of GDP in the last decades, it is important to look at this in more detail before coming to broad stroke conclusions.

Table 1 – Product categories share of manufacturing in the U.S., 1939, 1980 and 2023 (Census Bureau, n.d.) (National Bureau of Economic Research, n.d.) (Bureau of Economic Analysis, n.d.) (U.S. Bureau of Labor Statistics, n.d.)

Category	**1939**	**1980**	**2023**
Transportation	10%	13%	9%
Machinery	12%	12%	10%
Electrical and electronic	2%	10%	12%
Chemicals	7%	10%	15%
Food and Beverage	20%	10%	11%
Metals (steel, aluminum, etc.)	7%	7%	13%
Petroleum and coal products	4%	6%	8%
Textiles and apparel	18%	6%	2%
Paper and printing products	5%	5%	3%
Furniture	4%	4%	3%
Rubber and plastics	5%	3%	5%
Defense	1%	7%	10%
Other	11%	10%	14%

Defense

In 1939, the United States had some military manufacturing facilities, but the scale and specialization were much more limited compared to today. The Pre-WWII Landscape had some U.S. government-run sites like the Springfield Armory (Massachusetts) that produced small arms since the Revolutionary War, the Watervliet Arsenal (New York) that manufactured cannons and artillery since the 1800s and the Rock Island Arsenal (Illinois) that built weapons, tanks, and military tools. However, as we can see in Table 1, defense was only 1% of manufacturing in 1939 compared to 10% today.

In 1939, the U.S. was still in a peacetime economy, recovering from the Great Depression. Military production was low-volume and often outdated. There was a lack of preparedness for large-scale war, especially compared to Germany or Japan at the time. With the start of WWII, the U.S. initiated a massive mobilization. The War Department converted car factories (e.g., Ford, GM) into tank and aircraft plants. Entire cities were built around new munitions plants. The Defense Plant Corporation was created in 1940 to finance and build war-related factories.

Again, today it is very different. 10% of manufacturing is for defense. It is misleading to compare today's situation with 1939 by simply looking at manufacturing as a % of GDP.

Transportation

If we go deeper into the data, one of the biggest changes came from the transportation sector (not a surprise). In 1939, over 90% of vehicles sold in the U.S. were manufactured within the United States (Automotive industry in the United States, Wikipedia). Imports were typically for luxury or specialty cars from Europe (e.g., Rolls-Royce, Mercedes-Benz).

Today, about half of cars sold in the U.S. are made in the U.S.

Is this an issue in case of war? Not really. If ever more manufacturing was needed for the war effort, it is important to consider who is making the cars for the U.S and there is good news here. Approximately 76% of cars sold in the U.S. are still made in North America. The U.S. makes 54% and Canada and Mexico, two close allies of the U.S., make the other 22%.

The other 24% of cars come mainly from Europe, Japan and South Korea, all close allies of the United States.

Textiles

Another key change since 1939 came from textile plants. Again, no surprise here but most of the facilities in this category were moved overseas.

These plants did play an important role during World War II. They made uniforms and combat gear, parachutes and webbing, canvas and tent fabric, bandages and medical textiles, flame-resistant fabrics, tire cord, and insulation materials for tanks, ships, and aircraft.

There actually might be more of an issue here in case of war since 97% of clothing is now imported into the U.S. Ironically, Stephen Miran does not seem to want this type of manufacturing to come back to the U.S.: "These policies are unlikely to result in significant reshoring of low-value-added industries like textiles, for which other countries—like Bangladesh—will retain comparative advantage despite significant swings in currency or tariff rates."

Most textile production (spinning, weaving, dyeing) is now in China, Vietnam, Bangladesh, India, Mexico. Military contracts still support some domestic production, but not enough for full mobilization.

So, what could the U.S. do in a crisis?

First, The Berry Amendment requires the U.S. military to source textiles and clothing domestically. This has helped preserve a small but vital ecosystem of U.S. textile firms for uniforms, gear, and parachutes. This could be scaled up with funding and contracts, but it would take time and coordination.

Dormant industrial facilities could be reactivated. Some old textile plants still exist, especially in the Carolinas, Georgia, and New England. These could be refitted or reopened, but would require skilled labor recruitment, reinvestment in machinery and logistical support.

Companies like DuPont, Invista, and Celanese still produce nylon, polyester, and Kevlar domestically. These materials are key for parachutes, flame-resistant uniforms and ballistic webbing. The U.S. could rapidly scale output of synthetics, if feedstocks and energy supplies remain secure.

The U.S. could partner with allies like Canada and Mexico. Sourcing from close trade partners could bridge the gap. Mexico still has spinning and garment capacity; Canada has advanced technical textile firms. USMCA (formerly NAFTA) offers tight regulatory and logistics ties.

Finally, the U.S. also has strategic reserves of some items (like bandages, PPE) maintained through the DLA (Defense Logistics Agency) and the Strategic National Stockpile (SNS). Post-COVID policies are pushing to re-shore PPE and medical textile production — same could apply to combat gear.

Food

Food production has a percentage of manufacturing has come down a lot yet this was more so caused by productivity improvements and diversification of the manufacturing economy.

75-85% of U.S. food is still produced in the U.S. The rest mostly comes from South America, Canada and Europe.

Conclusion

On the surface, looking at manufacturing as a share of GDP may seem scary when thinking of a crisis situation. However, when studying the data in more detail, it is not as bad as it seems. U.S. defense manufacturing was not much present before World War II. Today, it represents 10% of manufacturing. A lesser percentage of cars are produced in the U.S., yet allies are producing them. Textiles might be an issue, but there are solutions other than tariffs. Food production is enormous today.

Another important point is that the nature of warfare in 2025 has evolved significantly, reducing the emphasis on traditional manufacturing capabilities. Modern conflicts prioritize advanced technologies such as artificial intelligence, cyber warfare, and autonomous systems. These innovations have shifted the focus from mass production to technological superiority.

Furthermore, the defense industry now leverages commercial innovations and off-the-shelf technologies, enabling rapid adaptation and deployment without extensive manufacturing infrastructure. The widespread use of drones in recent conflicts illustrates this shift, where small-scale production and technological adaptability have proven more effective than sheer manufacturing capacity.

In summary, while U.S. defense manufacturing ramped up during World War II, the U.S. defense landscape is much improved today and modern warfare underscores the importance of technological innovation, where the U.S. is a leader, over traditional manufacturing capabilities.

The Danger of Tariffs

Tariffs can be terrible for the world in several ways, especially when they are used excessively or as a tool for economic nationalism.

Obviously, they disrupt global supply chains. Modern economies are deeply interconnected. A single product might include parts from a dozen countries. Tariffs raise the cost of inputs, disrupt production, and make global collaboration harder.

Tariffs increase prices for consumers. Tariffs are essentially taxes on imports. Companies often have to pass some of these costs to consumers, leading to higher prices on everyday goods—food, clothing, electronics, etc.—hurting especially lower-income households. Basic necessities tend to have become commoditized and therefore low-margin products on which the producers have no choice to increase prices to break-even, at a minimum.

Tariffs can bring war

Another obvious problem is that tariffs trigger trade wars and hurt international relations. If one country imposes tariffs, others will retaliate. This tit-for-tat dynamic (as seen with the U.S.-China trade war) leads to global economic slowdowns, uncertainty for businesses, and reduced trade flows. Relations between countries are very important. Global problems like climate change, pandemics, and cybersecurity require collaboration. Economic barriers like tariffs can breed mistrust and nationalist sentiment, making cooperation harder.

Tariffs and protectionist economic policies even played a role in creating the tensions that led to both World Wars, especially the second one.

The roots of World War I are in economic nationalism (Caglioti, 2014). Leading up to WWI, Europe was already divided by military alliances and colonial competition, but economic nationalism and protectionist trade policies added fuel to the fire. Countries like Germany, France, and Russia had high tariffs to protect their industries and agriculture. The U.K. and Germany, in particular, were rivals for industrial and naval dominance. Germany felt it was being economically contained by the older imperial powers.

The result: trade tensions and economic rivalry deepened mistrust, contributing to the rise of militarism and the idea that nations had to secure their own resources (colonies) for survival. Imperialism + protectionism meant more conflict over markets and materials, especially in Africa and Asia.

So, while tariffs didn't *cause* WWI outright, they were part of a larger mix of nationalism, colonialism, and rivalry that led to war.

Tariffs may have been a direct cause of World War II. After WWI, the world economy was fragile. The U.S. was emerging as a dominant power, but after the 1929 crash, the U.S. passed the Smoot-Hawley Tariff Act (1930), which set off a global wave of protectionism.

This caused world trade to drop by over 60% (Protectionism in the Interwar Period, Office of the Historian). Countries like Germany and Japan, already hit hard by war reparations and the Depression, saw exports collapse and unemployment soar. This economic desperation gave rise to extremist leaders like Hitler (who became Chancellor in 1933 and Führer in 1934), who promised self-sufficiency (autarky), rearmament, and the conquest of new markets.

Hitler blamed Germany's suffering on "unfair" economic treatment and the Treaty of Versailles. He promoted autarky, the idea that Germany must conquer land (e.g. Eastern Europe) to be economically independent — Lebensraum ("living space").

Japan faced Western tariffs on silk and other exports. With few natural resources, Japan turned to military expansion (e.g. invading Manchuria in 1931) to secure access to oil, coal, and metals — a direct result of being shut out economically.

Tariffs can be very dangerous indeed and their reverberations are not constrained to monetary impacts only.

Tariffs and innovation don't go together

Tariffs also stifle innovation and competition by shielding domestic industries from international competition. While this might protect jobs short term, it can lead to complacency, inefficiency, and a lack of innovation long term.

They hurt developing countries. Many developing countries rely on exporting goods to wealthier nations. Tariffs reduce their market access, undermining efforts to lift people out of poverty.

Tariffs can reverse decades of economic integration, cooperation, and prosperity.

They're like walls in a world that needs bridges.

Inequality

The U.S. is the dominant economy of the world and its domination has been increasing. The U.S. remains the wealthiest country by GDP, home to many of the most profitable and globally dominant firms—Apple, Microsoft, Google, NVIDIA, Meta, etc.

The U.S. dollar's role as the world's reserve currency gives the U.S. a privilege—enabling cheap borrowing and global demand for U.S. assets. This is a symptom of strength: the U.S. offers deep capital markets, legal stability, and attractive investment opportunities, which attract foreign capital and naturally lead to trade deficits.

Profitability (real value) is what counts, not trade balance (akin to revenues). Modern U.S. economic strength lies in high-margin sectors—software, pharmaceuticals, entertainment—not in low-margin manufacturing.

The real issue in the U.S. behind the growing discontent is inequality. The decline of industrial regions (e.g., the Rust Belt) is real, but it's not caused by foreigners "cheating" or currency misalignment. It is caused by the rapid improvement and innovation of the U.S. economy. This is what you get when you truly let the free hand of business do its job.

Table 2 – Share of the top 10% in the U.S. (Wikipedia)

Year	Top 10% Income Share	Top 10% Wealth Share
1960	33%	60%
1980	35%	65%
2000	45%	70%
2020	50%	77%

37.9 million people (about 11.5% of the U.S. population) lived in poverty in 2022. Among children, the number was worse: 12.4% of all U.S. children lived in poverty in 2022 (*source: U.S. Census Bureau, 2023)*. As of 2023, 27.6 million Americans (around 8.4%) had no health insurance. In low-income households, the uninsured rate is more than double the national average (*source: U.S. Department of Health and Human Services)*.

Black Americans make up 13% of the U.S. population but account for 40% of the homeless population (*source: U.S. Department of Housing and Urban Development)*.

The top 1% of Americans own about 33% of all wealth, while the bottom 50% own just 2.5% (*source: Federal Reserve, 2023)*

The average student borrower has around $38,000 in student debt (Welding, 2025). The burden hits Black borrowers hardest — four years after graduation, the average Black graduate owes nearly twice as much as their white peers (*source: Brookings Institution)*.

In 2022, 34 million Americans, including 9 million children, lived in households that were food insecure — not consistently able to afford enough to eat. That represents about 10% of the U.S. population (*source: USDA)*.

These stats paint a clear picture: millions of Americans lack the basics—healthcare, housing, food, and education—while the United States get richer and richer. We know the culprit: wealth continues to concentrate at the top.

The cost of money and inequality

Thomas Piketty, in his book *Capital in the Twenty-First Century* (Piketty, 2013), argues and demonstrates that inequality is inversely related to interest rates over long stretches of history. This has been one of the more subtle aspects of his work, yet a very important one.

Basically, historically speaking, over thousands of years, when interest rates are high, inequality is lower — and vice versa.

Lower interest rates → Higher inequality

In the world of the last 15 years of massive money printing, you could state:

Lower cost of capital → Higher inequality

Low interest rates mean wealthy people don't just park money in bonds or savings — they invest in stocks, real estate and private equity that offer much higher returns. Middle or lower-income classes are usually less invested in these assets.

This causes the wealthy's capital to accumulate faster than wages or economic growth, exacerbating inequality.

Piketty goes back to ancient societies (Rome, feudal Europe), 18th–19th century France and Britain and 20th-century global capitalism and shows that in low-growth, low-interest-rate periods, capital tends to concentrate more.

When interest rates are low and r > g (return on capital > growth rate), the rich get much richer just by owning stuff.

In the 19th century, the cost of money was often 4–5%, while economic growth was lower. This allowed aristocrats to stay rich without lifting a finger. After WWII, interest rates were high and economic growth was strong, which helped reduce inequality for a few decades.

In the 21st century, with near-zero interest rates and tons of money printing, capital owners have made huge gains in stocks, tech, and real estate, not from growth but mainly from growing valuations — widening the wealth gap.

Piketty proposes some solutions:

- Global wealth taxes to redistribute opportunity.
- Greater investment in education, healthcare, and worker rights.
- Stronger progressive taxation on income and inheritance.

I would add another:

- Central banks should include stocks and real estate valuation inflation in addition to consumer inflation (CPI) in their mandate.

Easy and cheap money creates financialized demand and raises valuations. Stocks and real estate sell for higher and higher multiples of their profits. This mainly benefits the rich, which own most assets.

From 2009 to 2020, the S&P 500 tripled, while median wages barely moved.

Table 3 – Mandates of Major Central Banks

Central Bank	**Inflation Mandate**
Federal Reserve (U.S.)	Price stability + full employment
European Central Bank (ECB)	Inflation ~2% (CPI-based)
Bank of Japan (BoJ)	2% price stability target
Bank of England (BoE)	CPI at 2% target
Bank of Canada	1–3% CPI target

To my knowledge, no central bank includes asset valuation inflation in its mandate.

Some argue that asset valuation inflation is hard to measure accurately. What exactly counts as asset inflation? They argue these markets are volatile and driven by many factors beyond monetary policy.

I think asset valuation inflation is too important to ignore, and the metrics can be smoothed. I would use fundamental-based indicators:

a) Price-to-Earnings Ratios (stocks)

   Smoothing: Use 10-year average or normalized earnings to reduce temporary blips.

b) Price-to-Rent Ratios (housing)

   High P/Rent suggests prices are rising faster than the underlying “income” value.

Some argue asset inflation would complicate central bank missions. They argue this is the job of macroprudential regulation (e.g., adjusting lending rules, taxes on speculation), not monetary policy. Yet, nothing has really worked up to now. Monetary policy is too powerful on asset valuation inflation.

Some also argue that if central banks raise interest rates to pop asset bubbles, they could unintentionally slow the whole economy or cause unnecessary recessions.

The idea is not to ignore CPI and the economy. The objective is not to pop every asset bubble. Asset valuation inflation would be included in the decisions to the degree that it would put a cap on excess money-printing and unnecessary low interest rates like we have seen from 2008 to 2021.

This is about more than just bubbles. It is about inequality and the economic inefficiencies that asset bubbles create.

Table 4 – Easy Money of 2008-2021 (Federal Funds Interest Rate, Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis.) (Federal Reserve Balance Sheet, Board of Governors of the Federal Reserve System) (Real GDP Growth, World Bank Open Data) (Inflation, U.S. Bureau of Labor Statistics)

Year	Interest Rate (%)	Fed Balance Sheet ($T)	Real GDP growth	Inflation (CPI %)
2008	2.0	0.9	-1.5	3.8
2009	0.25	2.2	-2.6	-0.4
2010	0.25	2.4	2.0	1.6
2011	0.25	2.9	1.9	3.2
2012	0.25	2.9	2.5	2.1
2013	0.25	3.8	1.9	1.5
2014	0.25	4.5	3.0	1.6
2015	0.25	4.5	2.4	0.1
2016	0.5	4.5	1.7	1.3
2017	1.25	4.5	2.3	2.1
2018	2.5	4.1	3.3	2.4
2019	1.75	4.1	1.6	1.8
2020	0.25	7.4	-3.1	1.2
2021	0.25	8.8	5.4	4.7

Inequality increases misallocation of capital

Proper allocation of capital is a very important ingredient to improve the efficiency of an economy. Unfortunately, inequality can lead to the misallocation of capital. This has been observed and studied across economies.

A billionaire buying a fifth penthouse doesn't create as much real and useful economic activity as a family getting their first home.

When there is too much capital, speculative activity starts to take over productive activity. Speculative investments don't always create jobs or increase productivity — they inflate asset prices instead.

This underinvestment in human capital creates unequal societies with many people lacking access to quality education, healthcare, or tools to build businesses. This means talent is wasted — kids don't go to university, ideas that create true value never get funded. The wrong businesses get capital. The wrong type of dwellings get built.

A 2014 IMF paper found that income inequality leads to lower and less durable economic growth, in part due to this misallocation.

All this speculation fuels an overemphasis on short-term gains. The economy becomes tilted toward financial engineering instead of real innovation. With inequality high, lower- and middle-income households often borrow to maintain consumption. This leads to debt-driven growth, which is unsustainable and prone to crashes (e.g., 2008 housing crisis).

Conclusion

The current state of economic discontent in the United States is deeply misunderstood when reduced to simple narratives about the strength of the dollar or the persistence of trade deficits. As outlined throughout this paper, the true problem is rooted in rising inequality caused by domestic policy failures and the financialization of the economy.

A common misconception is that the dollar's status as the global reserve currency is to blame for U.S. trade imbalances and deindustrialization. However, research shows that trade deficits are more a function of macroeconomic factors like investment and savings imbalances, not currency manipulation. Countries such as Germany and Switzerland have maintained strong currencies alongside thriving manufacturing sectors, proving that institutional frameworks, labor policy, and innovation matter far more than exchange rates. The Triffin Dilemma, once a cornerstone of monetary theory, is increasingly outdated in today's fiat-based and financialized world. Reserve demand is driven less by trade and more by the scale and stability of U.S. capital markets, highlighting that the dollar remains dominant not because of trade flows, but due to trust and transparency.

Trade deficits are often misunderstood. They're frequently portrayed as signs of national weakness or exploitation, but in truth, they are simply accounting outcomes, not judgments of economic health. A trade deficit means a country imports more than it exports—but this is not inherently good or bad. Just like revenues in a business, what matters is not the total, but what lies beneath the number. A company can have lots of revenues but still be in decline and create no value (no profits). Similarly, a nation can run a trade deficit while building real long-term value—if it's allocating its capital towards more productive uses.

The U.S., for example, runs trade deficits because it offers the most attractive and liquid capital markets in the world. Foreigners invest heavily in U.S. stocks, bonds, and property, and in return, the U.S. imports more goods than it exports. But the value being created doesn't come from the trade balance itself—it comes from the profitability, productivity, and innovation of the U.S. economy.

There are bad trade surpluses, just as there are bad revenues. A country might run a surplus because of low wages or over-relying on low-margin manufacturing—none of which guarantee prosperity. What truly counts is the quality and value creation behind the trade flows—not whether the trade balance is red or black.

Rather than obsessing over trade deficits, policy should focus on whether the economy is inclusive. If everyone benefits, the trade balance will reflect strength—not weakness.

Rather than focusing on currency values, attention should turn to the drivers of rising inequality and the erosion of economic mobility. Over the past four decades, wealth and income disparities have exploded due to tax policies favoring capital over labor and a distorted incentive system in politics and finance. The top 1% continue to amass a disproportionate share of gains, while millions of Americans struggle without access to healthcare and education. The financial system, particularly from 2008 to 2021, contributed to this trend as interest rates were held artificially low and central banks expanded their balance sheets, creating asset inflation that benefited capital owners disproportionately.

Thomas Piketty's framework, where the return on capital exceeds economic growth (r > g), plays out vividly in this environment. When interest rates are low and asset prices surge, inequality grows. This is not just a theoretical concern; it affects real economic efficiency. Misallocation of capital—where speculative assets attract investment while human capital and useful infrastructure are neglected—undermines sustainable growth.

The decline of manufacturing is often cited as symbolic of American decline. But this too must be contextualized. Manufacturing's share of GDP has fallen globally, much like agriculture did in previous centuries, due to rising productivity and sectoral diversification. What matters more is strategic capacity and adaptability. The U.S. still retains significant manufacturing strength in high-tech and defense sectors, and its North American trade ecosystem (with Canada and Mexico) provides a resilient foundation. While concerns about textiles and other sectors remain, they can be addressed through targeted policy tools, not broad tariffs or economic nationalism.

Tariffs, in fact, pose their own dangers. They can distort supply chains, increase consumer costs, stifle innovation, and even provoke international conflict. Historical lessons from the interwar period highlight how protectionism can lead to geopolitical instability. In a world facing global challenges like pandemics and climate change, cooperation and integration are more valuable than ever.

To address inequality and economic discontent, the U.S. must refocus on foundational reforms: progressive taxation, investment in human capital, stronger labor protections, social media regulations to protect freedom *for everyone* and improved incentive structures for political accountability. Innovations such as outcome-based political credit ratings, citizen assemblies, and independent agencies could help align governance with long-term public interest. Moreover, central banks should incorporate asset valuation inflation into their mandates to avoid fueling inequality through cheap money and excessive liquidity.

In summary, America's economic discontent is not caused by foreign actors or currency manipulation but by internal decisions, structural inequalities, and outdated institutional frameworks. A new path forward requires recognition that sustainable prosperity depends on inclusion, innovation, and shared accountability. Only then can the U.S. economy truly serve all its citizens, not just the wealthiest few.

References

Automotive industry in the United States. (Wikipedia). Retrieved from Wikipedia: https://en.wikipedia.org/wiki/Automotive_industry_in_the_United_States?utm_source=chatgpt.com

Autor/Dorn/Hanson. (2017). *When Work Disappears: Manufacturing Decline and the Falling Marriage-Market Value of Young Men.* Tennessee: American Economic Association. Retrieved from https://pubs.aeaweb.org/doi/pdfplus/10.1257/aeri.20180010

Bureau of Economic Analysis. (n.d.). Retrieved from https://www.bea.gov/

Burki, T. (2019). Vaccine misinformation and social media. *The Lancet*, 2. Retrieved from https://www.thelancet.com/journals/landig/article/PIIS2589-7500%2819%2930136-0/fulltext?utm_source=chatgpt.com

Caglioti, D. L. (2014). *Property Rights and Economic Nationalism*. Retrieved from International Encyclopedia of the First World War: https://encyclopedia.1914-1918-online.net/article/property-rights-and-economic-nationalism/

Castaño-Pulgarín/Suárez-Betancur/Vega/López. (2021). *Internet, social media and online hate speech. Systematic review*. Retrieved from ScienceDirect: https://www.sciencedirect.com/science/article/pii/S1359178921000628?utm_source=chatgpt.com

Census Bureau. (n.d.). Retrieved from https://www.census.gov/

Democracy Vouchers. (German Marshall Fund). Retrieved from German Marshall Fund: https://www.gmfus.org/download/article/21269?utm_source=chatgpt.com

Federal Funds Interest Rate. (Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis.). Retrieved from Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis.: https://fred.stlouisfed.org/series/FEDFUNDS

Federal Reserve Balance Sheet. (Board of Governors of the Federal Reserve System). Retrieved from Board of Governors of the Federal Reserve System: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

Fines/Soni. (2024). *The Dollar's Exorbitant Privilege.* Charlottesville, Virginia: CFA Institute. Retrieved from https://rpc.cfainstitute.org/sites/default/files/-/media/documents/survey/dollars-exorbitant-privilege-survey-report.pdf

Inflation. (U.S. Bureau of Labor Statistics). Retrieved from U.S. Bureau of Labor Statistics: https://www.bls.gov/charts/consumer-price-index/consumer-price-index-by-category-line-chart.htm

Miran, S. (November 2024). A User's Guide to Restructuring the Global Trading System. Greenwich, Connecticut: Hudson Bay Capital. Retrieved from https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

National Bureau of Economic Research. (n.d.). Retrieved from https://www.nber.org/

Perry, M. J. (2012, January 2). *"Decline of Manufacturing" Is Global Phenomenon*. Retrieved from American Enterprise Institute: https://www.aei.org/carpe-diem/decline-of-manufacturing-is-global-phenomenon-and-yet-the-world-is-much-better-off-because-of-it/

PIIE. (2020). *How to Fix Economic Inequality?* Retrieved from PIIE: https://www.piie.com/sites/default/files/documents/how-to-fix-economic-inequality.pdf

Piketty, T. (2013). *Capital in the Twenty-First Century.*

Protectionism in the Interwar Period. (Office of the Historian). Retrieved from Office of the Historian: https://history.state.gov/milestones/1921-1936/protectionism?utm_source=chatgpt.com

Real GDP Growth. (World Bank Open Data). Retrieved from World Bank Open Data: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=US

Reinbold/Wen. (2018, October 9). *Understanding the Roots of the U.S. Trade Deficit*. Retrieved from Federal Reserve Bank of St. Louis: https://www.stlouisfed.org/publications/regional-economist/third-quarter-2018/understanding-roots-trade-deficit?utm_source=chatgpt.com

Rodrik, D. (2022). *An Industrial Policy for Good Jobs*. Retrieved from Brookings Institution: https://www.brookings.edu/wp-content/uploads/2022/09/20220928_THP_Proposal_Rodrik_GoodJobs.pdf?utm_source=chatgpt.com

Sanchez/Middlemass. (2022, July 26). *Misinformation is eroding the public's confidence in democracy*. Retrieved from Brookings Institution:

https://www.brookings.edu/articles/misinformation-is-eroding-the-publics-confidence-in-democracy/?utm_source=chatgpt.com

Triffin dilemma. (Wikipedia). Retrieved from https://en.wikipedia.org/wiki/Triffin_dilemma?utm_source=chatgpt.com

U.S. Bureau of Labor Statistics. (n.d.). Retrieved from https://www.bls.gov/

Welding, L. (2025, February 11). *Average Student Loan Debt in 2025*. Retrieved from Best Colleges: https://www.bestcolleges.com/research/average-student-loan-debt/?utm_source=chatgpt.com

West/Lansang. (2018, July 10). *Global manufacturing scorecard: How the US compares to 18 other nations*. Retrieved from Brookings Institution: https://www.brookings.edu/articles/global-manufacturing-scorecard-how-the-us-compares-to-18-other-nations/?utm_source=chatgpt.com

Disclosure

The views herein are solely the views of the author.

This material is intended for information purposes only, and does not constitute investment advice, a recommendation or an offer or solicitation to purchase or sell any securities to any person in any jurisdiction. The opinions expressed are as of April 2025 and are subject to change. Reliance upon information in this material is at the sole discretion of the reader. Investing involves risks. McLean Capital does not undertake any obligation to update or revise any statement or information or correct any inaccuracies whether as a result of new information, future events or otherwise. This presentation may not be copied without the authorization of McLean Capital.

This information is not intended to be complete or exhaustive and no representations or warranties, either express or implied, are made regarding the accuracy or completeness of the information contained herein. This material may contain estimates and forward-looking statements, which may include forecasts.

MCLEAN CAPITAL