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AMERICAN CARNAGE

In the wake of President Trump's "Liberation Day" tariffs, Burgundy Co-Founder Richard Rooney sorts through the rubble, examining the economic risks, global repercussions, and long-term damage to U.S. credibility.

Rarely has a policy announcement had the immediate negative consequences that Mr. Trump's "Liberation Day" tariff reveal has had. The solipsism that defines Donald Trump was to be extended to an entire nation's foreign and trade policy, and the rest of the world was just supposed to accept it.

It turns out that they are disinclined to do so, and that the existing trade and economic structure—while imperfect and in dire need of reform—has many defenders who are retaliating against the swingeing, simplistic, and reckless new American tariff regime.

The tariffs come from a policy background of near-total opacity. Depending on who you listen to in the Trump regime, they are a permanent method of government finance, a means of re-industrializing America, or a negotiating ploy for better terms of trade. There appears to be no consensus on their purpose and, therefore, no clue as to their persistence or application.

The tariffs are a perfect tool for grievance mongering, which President Trump does so expertly. Apparently, rather than bestriding the narrow world like a colossus these past 80 years, America has been kind of like Lennie in *Of Mice and Men*, a kindly strapping dimwit that wily Europeans, crafty Asians, and even Canadians have exploited, deceived, and used for their own nefarious purposes.

As mentioned above, America has real reasons to give its allies a wake-up call. There is truth in the assertion that America has shouldered too great a burden in world affairs, and that, in light of China's rise as a near-peer competitor, the allies must look to their own defences rather than sheltering under America's broad reach. Our own country has been a particular offender in this regard.

America's reserve currency status has led to a situation where guaranteed demand for the dollar and associated dollar strength has operated as a permanent headwind for U.S. exporters and a tailwind for importers.

The resulting trade deficit has become more or less permanent, as countries such as Mexico, China, and Vietnam have built their economies around export access to the U.S. market. Communities across America were devastated as operations were relocated to those countries by a ruthless American managerial class in search of higher profits.

Policies were already in place to address some of these issues. Most of NATO had already begun to increase defence spending in response to a shooting war on its borders after Russia invaded Ukraine. Reshoring of supply chains in response to the vulnerabilities exposed by the pandemic lockdowns was also occurring without trade disruptions. The tariff regime established by the first Trump administration was left largely intact by President Biden. Possibly, some judicious further moves could have been taken to encourage those trends without incurring too much damage.

But "Liberation Day" was not that. It was a monstrously stupid act of self-harm. It will be stagflationary, increasing prices while reducing economic activity. It will lead to huge distortions in the world economy. It will also probably not be imposed.

In a world where one volatile man is essentially setting the agenda, any forecast must be speculative. So here is my speculation.

Most of the ridiculous tariffs announced on April 2 will be reversed or dramatically reduced after the countries involved have phone calls or meetings with Trump or his senior advisers. The Trump team will claim that they have extracted huge, incredibly large concessions from all and sundry and that a great victory has been won for America. But all must be seen to bow to Donald Trump.

I suspect that the general 10% tariff on all imports will remain, along with sectoral tariffs of various kinds.

The tariffs have not been in place long enough to have done serious economic harm. Most of the damage has been to expectations markets, above all to world stock markets. We are relieved that Burgundy's portfolios have proven very resilient to the recent shocks, and we expect that to continue. But the revelation of policy risks from America should weigh on markets for a long time to come.

It is the long-term damage to America's standing in the world that really matters here. She was generally a magnanimous hegemon in the post-World War Two period, mostly using her enormous power judiciously and with restraint.

That has all changed. I have a fondness for apt quotations from Shakespeare, so here is one, from Isabella in *Measure for Measure:*

Oh, it is wonderful to have a giant's strength. But it is tyrannous to use it like a giant. B

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