

Donald Trump's Whig is Showing

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On February 28th, while addressing a joint session of Congress, President Trump quoted Abraham Lincoln and praised his economic philosophy:

The first Republican President, Abraham Lincoln, warned that the “abandonment of the protective policy by the American Government [will] produce want and ruin among our people.”

Lincoln was right – and it is time we heeded his words. I am not going to let America and its great companies and workers, be taken advantage of anymore.^{[1](#)}

In channeling Lincoln, Trump underscored the reversion of the Republican Party to its economic roots, which embraced protectionism, state-sponsored infrastructure spending, and central banking. While a new party in Lincoln's day, its economic philosophy derived directly from the Whig Party and its champion, Henry Clay.

Thomas DiLorenzo's excellent book, [The Real Lincoln](#), chronicles and exposes the Republican-Whig economic platform, known then as the “[American System](#)” (the local flavor of mercantilism).^{[2](#)} While it is unlikely Lincoln addressed the [issue](#) of slavery before 1854, he constantly discussed and advocated the American System. As early as 1832, he called for an “internal improvements system and a high protective tariff.” The “improvements” specifically referred to the infrastructure of the day: railroads, shipping, and canals. The Republican Party, in its 1860 platform, devoted three of its 17 “declarations” to advocating the American System.

Declaration 12 called for duties on imports to “encourage the development of the industrial interests of the whole country.” Declaration 15 advocated “appropriations by Congress for river and harbor improvements of a national character.” And declaration 16, after noting the importance of a railroad to the Pacific Ocean, recommended “that the federal government ought to render immediate [a](#)nd efficient aid in its construction.”³

Wigs may come in and go out of fashion, but the economic policies of Whigs endure. Unfortunately, the dangers of Whig economic folly and fallacy do not diminish with time.

Protectionism seeks to increase trade surpluses or lower trade deficits by taxing imports (tariffs) or banning or limiting the quantity of imports (quotas). A simple examination of any individual import transaction quickly exposes the folly of protectionism. If an American buys a Japanese car, the Japanese auto manufacturer then owns U.S. dollars. These dollars can be used in three ways:

- Increase dollar holdings;
- Sell the dollars to another foreign country for goods, services, or capital (in which case the buyer of U.S. dollars faces the same three choices); or
- Purchase U.S. goods, services, or capital (e.g., real estate or Treasuries).

When looked at this light, unless the Japanese auto maker maintains the dollars in perpetuity (in which case America literally received a car for green-dyed paper), the export of dollars must be matched by an American export or an investment by the foreigner in America. Arbitrarily dividing the former as trade while the latter as a capital flow creates the appearance of trade deficits and capital surpluses.

Historically, American imports have been largely financed

through foreign investments in America. Chronic American trade deficits are offset by repetitive capital surpluses. In a free market, there is nothing inherently wrong with such a situation.

Protectionism may alter (a.k.a. distort) trade balances and capital flows, but only at the expense of the wealth of all trading partners. This can be readily discerned if protectionism is taken to its logical extremes. Would the American standard of living be enhanced by a self-imposed blockade or with trade barriers erected between each of the 50 states? If these extreme policies would bring economic “want and ruin”, then enacting lighter versions of the same policies brings but less damage.

Underlying such common-sense arguments is the law of comparative advantage, ascribed to but only loosely championed by David Ricardo. Most economists of Adam Smith’s era believed in the doctrine of absolute advantage: the idea that countries should specialize in their best or most efficient product. In **An Austrian Perspective on the History of Economic Thought**, Murray Rothbard described the importance of the law of comparative advantage:

The law of comparative advantage . . . is . . . indispensable to the case for free trade. It shows that even if, for example, Country A is more efficient than Country B at producing both commodities X and Y, it will pay the citizens of Country A to specialize in producing X, which it is most best at producing, and buy all of commodity Y from Country B, which it is better at producing but does not have as great a comparative advantage as in making commodity X.

*In other words, each country should produce not just what it has an absolute advantage in making, but what it is most best at, or even least worst at, i.e. what it has a comparative advantage in producing.*⁴

The law of comparative advantage describes how all countries, regardless as to productive capabilities or wealth, benefit from trade.

The Fallacy of Trump's State-Sponsored Infrastructure Spending

The magnitude of the new administration's infrastructure proposals will be substantial and far more important than the form it takes (e.g., outright budgetary spending, loan guarantees to private firms, tax incentives, etc.). In his recent speech to the joint session of Congress, President Trump called for "legislation that produces a \$1 trillion investment."⁵ From the canals and railroads of Lincoln to [the](#) airports and pipelines of Trump, history has repeatedly demonstrated the product of state-sponsored infrastructure spending: boondoggles.

How can government officials determine how many runways an airport requires or how long or to where a pipeline should extend absent prices? Without private property, which

generates prices and correspondingly, profit and loss, an economic fog descends which clouds all decision making. In this context, government officials determining infrastructure spending are no different than a Soviet official deciding how much wheat to plant, which shoes and shoe sizes should be produced, or how much caviar to pull from the Caspian Sea. And the results will be the same.

Central Banking Supports Protectionism and State-Sponsored Infrastructure Spending

Protectionism and state-sponsored infrastructure spending are hallmarks of the Trump administration's economic policy, and two of the three planks of the American System. The third,

central banking, is no longer an active political issue, but it is pivotal in supporting and expanding the others by facilitating and coordinating monetary inflation.

Monetary inflation covertly creates and enhances protectionism by increasing exports at the expense of importers and consumers. Likewise, in substituting monetary inflation for taxation, central banking obscures the true costs and payers of state-sponsored infrastructure spending. If one substitutes exporters and crony capitalists for the Royal Air Force in Winston Churchill's famous quote, it well summarizes the benefits and costs of the American System: "[Never](#) . . . was so much owed by so many to so few."⁶

Conclusion

In 1858, Lincoln famously echoed the Bible in stating "a house divided against itself cannot stand."⁷ American society, with the election of President Trump, is surely divided against itself. But a society's level of division directly corresponds to the level of government interference in the economy. The more a government interferes and diminishes the overall level and growth rate of wealth, the greater will be the divided house. Without the American System, divisions would dissipate as free trade, private financing of infrastructure, and sound money reward all of merit and raise the standard of living for all.

Today, the American System is, sadly, once again American.

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Endnotes:

1 Trump, Donald. "President Donald J. Trump's Address to a Joint Session of Congress." *CNN*, Turner Broadcasting System, 1 March 2017.
<http://www.cnn.com/2017/02/28/politics/donald-trump-speech-transcript-full-text/>

2 DiLorenzo, Thomas J. *The Real Lincoln* (New York City, New York: Three Rivers Press, 2002).

3 Republican Party Platform of 1860. 17 May 1860.
<http://www.presidency.ucsb.edu/ws/?pid=29620>

4 Rothbard, Murray. *An Austrian Perspective on the History of Economic Thought* (Edward Elgar Publishing, Ltd:1995).

5 "President Donald J. Trump's Address to a Joint Session of Congress."

6 Churchill, Winston. "The Few". 20 August 1940.
<https://winstonchurchill.org/resources/speeches/1940-the-finest-hour/the-few/>

7 Lincoln, Abraham. "House Divided". 16 June 1858.
<http://www.abrahamlincolnonline.org/lincoln/speeches/house.htm>

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