

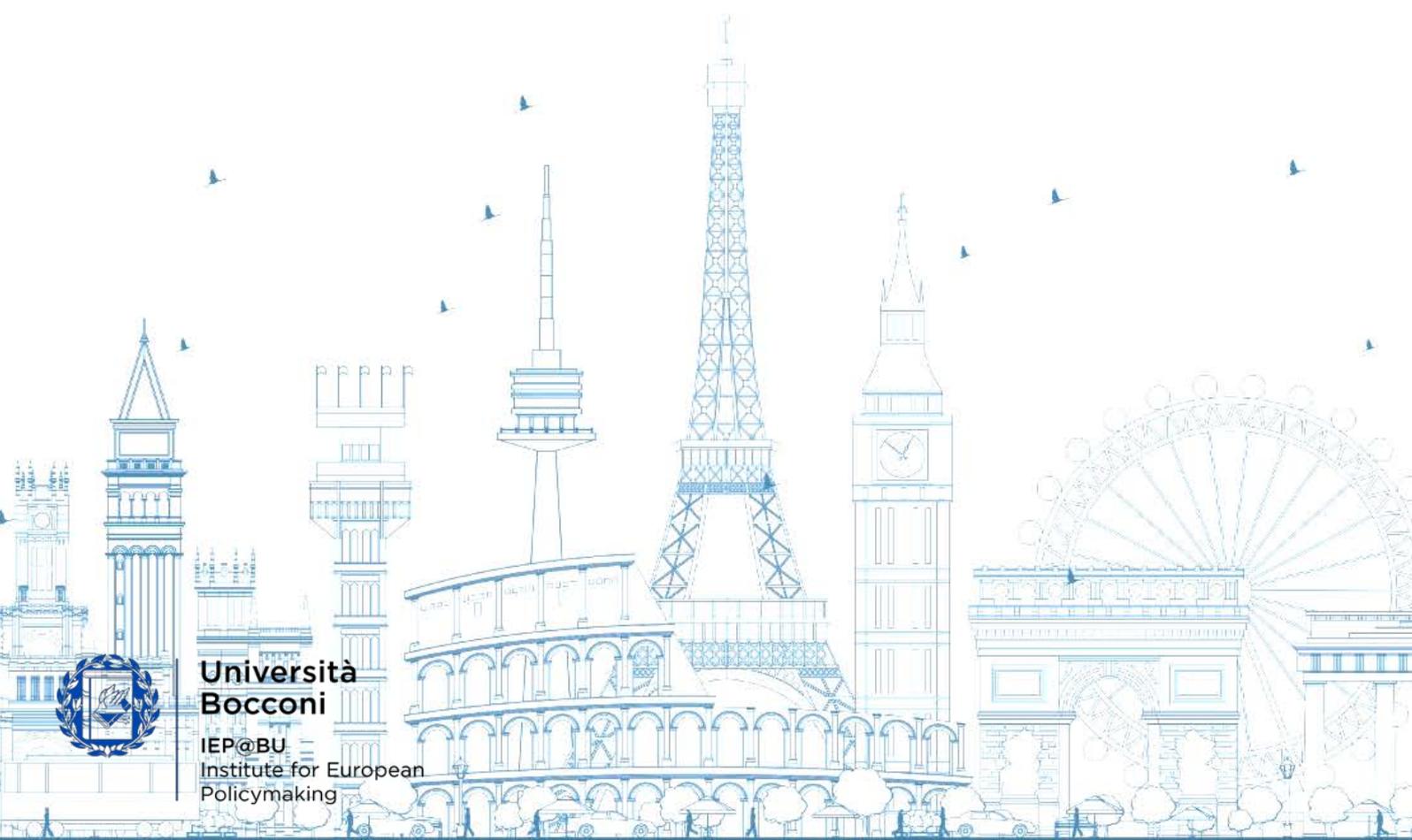
Bocconi

INTERNATIONAL TRADE AND HUMAN STUPIDITY

THE IMPOSSIBLE DIALOGUE BETWEEN
**DONALD J. TRUMP AND
CARLO M. CIPOLLA**

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Executive summary¹

On April 2, 2025, dubbed “Liberation Day” by the White House, the U.S. launched a sweeping tariff offensive that shook the foundations of the post-Bretton Woods global trade system.

Overnight, average U.S. tariffs were rolled back to levels not seen since the early 20th century, surpassing even the infamous Smoot-Hawley Tariff Act of 1930, which many blame for deepening the Great Depression. Since then, tariffs have been slapped on, tweaked, suspended, and reimposed in a dizzying cycle of general, sector-specific, and retaliatory measures. Governments, markets, and investors have been left scrambling to keep up with a chaotic, unpredictable trade policy.

But this is not just about tariffs. The trade war has come hand in hand with a broader assault on the institutions of liberal democracy. In the first 100 days of the Trump 2 administration, a record-breaking 143 Executive Orders were issued, compared to 99 by Franklin D. Roosevelt in 1933. Unlike Roosevelt’s Congress, which passed 77 laws (including the 15 major pillars of the New Deal), Trump’s Congress passed just four. Meanwhile, dramatic cuts have gutted public funding for research, education, and social programmes.

In this brief, we unpack the logic, and the unintended fallout, of the U.S. Administration’s strategy. We do so through the lens of game theory (informally) and contract theory (implicitly), arguing that if trade partners respond with resolve, the U.S. is unlikely to achieve its stated goals. Yet even if these policies are reversed, the damage may not be undone. The dynamics of extended games mean we cannot simply “reset”, structural harm to both the global economy and the U.S. itself may prove lasting.

To explore this further, we present our analysis through an unexpected lens: an imagined conversation between President Trump and the late historian Carlo M. Cipolla, whose “Laws of Human Stupidity” remain as relevant as ever. With irony as a tool, not a gimmick, we aim to uncover serious strategic lessons for European negotiators facing a volatile and uncertain world.

¹Respectively, Tommaso Padoa-Schioppa Chair and Poste Italiane Chair at the Robert Schuman Centre of the European University Institute. Marco Buti is also non-resident fellow at Bruegel, and Marcello Messeri non-resident fellow at IEP@BU. The usual caveats apply – in this case, even more than usual.



Premise

In the years 1974-75, the Italian Radio Network broadcasted two series of a programme called 'The Impossible Interviews'. Some of the most famous Italian intellectuals (such as Alberto Arbasino, Maria Luisa Astaldi, Maria Bellonci, Italo Calvino, Guido Ceronetti, Umberto Eco, Giorgio Manganelli, Edoardo Sanguineti, and Vittorio Sermonetti) pretended to have learned discussions with prominent historical figures who were interpreted by Italian actresses and actors. The eighty-two interviews had a great success so that an Italian publisher decided to collect a selection of these discussions in two books. The radio broadcasting was repropounded and imitated several times in the following decades, and it opened a new international broadcasting strand.

The usual scheme of the 'Impossible Interviews' provides that the interviewer is a person alive whereas the interviewed is a well-known figure of the past. In the following, we decided an inversion in the usual roles. Our 'Impossible Dialogue' is centred on Carlo M. Cipolla, the famous Italian historian who passed away at the end of the past century (September 2000), talking to the U.S. President, Donald J. Trump. It goes without saying that the U.S. President is unlikely to engage in cultural debates. Moreover, Trump is not an avid reader of scientific books. Hence, it would have been implausible to follow the usual scheme pretending that the interviewed asked details on the historical research developed by Cipolla. However, even the current U.S. President may have a some basic understanding of the content of a divertissement written and published in few copies by Cipolla in 1976 as a Christmas gift to his friends.

That ironic essay, originally written in English and titled "The Basic Laws of Human Stupidity", became an instant classic 'free samizdat', so that more than ten years after an Italian publisher decided to edit a book collecting this essay and a parallel divertissement written in 1974 by Cipolla on the factors (i.e., pepper, wine and wool) at the core of the questionable economic and social development in the Middle Ages. Given the success of this book, "Allegro ma non troppo" (il Mulino, 1988), "The Basic Laws of Human Stupidity" has been republished several times in the following years, becoming a bestseller. Hence, it is not totally implausible to pretend that a starting point in the discussion between Trump and Cipolla is based on this essay. It is instead somewhat specious to pretend that President Trump can bear an interviewer who challenges his statements. In the reality, Professor Cipolla would have been escorted out of the Oval Office after his first question; however, it is well known that the ghosts cannot be chased away.

Let us present hereafter the content of this highly instructive even if impossible conversation.



The Oval Office, at the White House, Washington D.C., sometime in May 2025

Donald J. Trump (DJT): Welcome Professor Cipolla to the Oval Office, the center of world power. Looking forward to our conversation.

Carlo M. Cipolla (CMC): Many thanks, Mr. President, for having agreed to discuss with me. As a historian, I was struck by the way you are implementing your programme and redesigning the relations between the U.S. institutional powers. I have noticed that you issued 143 Executive Orders against only 4 laws passed by the Congress in the first 100 days of your presidency - a true historical novelty! Franklin D. Roosevelt comes a distant second in 1933, with 99 Executive Orders, but at the time the Congress adopted 77 laws of which 15 were major bills at the basis of the New Deal. This compares to only 4 laws by the current Congress.

DJT: I'm very glad Professor that you acknowledge the truly transformative spirit of my presidency. And I'm glad you refer to FDR: like him, I've received an unprecedented mandate from the American people to save the U.S., and I intend to implement it fully. I've learned recently a quote by Napoleon: "He who saves his country, violates no law". The judiciary, the mainstream media, the universities, and even the Congress should always remember this. But I understand you wanted to focus on my trade strategy. Right?

CMC: There would be a lot to discuss on what you have just said, Mr President. I do not think that, after several local wars and – specifically – two World Wars, it is legitimate to cancel the foundations of liberal democracy that has its roots in more than three hundred years of philosophical debate and more than two hundred years of institutional progress based on the division of powers. It is true that our democratic societies were, and still are, largely imperfect.

However, in my view, we should not even consider replacing this imperfect social organisation with any kind of oligarchy. Anyway, you are right: we agreed to talk about trade.

Let me just stress that there is a strong correspondence between your disdain for democracy and your view on the economic relationships in the international markets. So, to spare your precious time, let me immediately get to the heart of our talk: your trade policy.

I would like to understand the rationale of this policy, that is, what you aim at achieving via aggressive U.S. tariffs and other punitive initiatives.

DJT: Good that you are ready to learn how I'll "Make America Great Again". My starting point is the fight against enemies and false allies who, both, have systematically robbed the U.S..

This attitude can no longer be tolerated.

It's all written here: it's a very long list of the misbehaviors that friends and foes alike implemented against the U.S. In this respect, I've been told you wrote a famous essay on human stupidity. I did not read it myself, but I would be interested in checking if your definition of stupidity applies – as it should - to the past U.S. Presidents who have allowed such pillage and devastation of our economy.

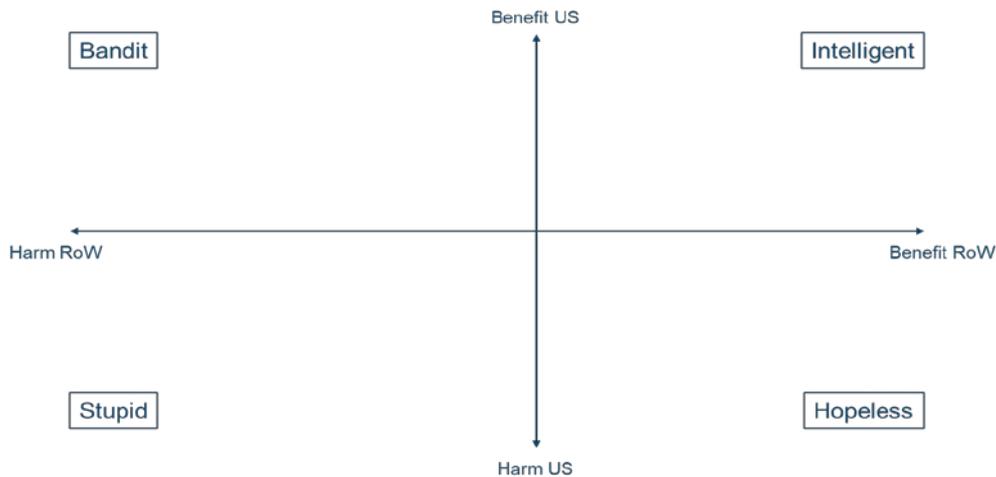
CMC: Mr. President, let me refer to the enclosed diagram (see Figure 1) that synthetises the core of what I have called the universal laws of human stupidity. For the sake of our conversation, I apply it to the case of the U.S. and the Rest of the World (RoW).

On the vertical axis, there is a measure of the (positive or negative) benefits obtained by the U.S. in their interactions with the other countries; on the horizontal axis, there is a measure of the correspondent (positive or negative) benefits obtained by the RoW thanks to their interactions with the U.S..



The meaning of each of the four quadrants, as underlined by their respective labels ('Intelligent', 'Hopeless', 'Stupid', and 'Bandit'), is quite intuitive. However, if I can enter in some details...

Figure 1: The universal laws of human stupidity: the basics



DJT: This is excellent: please stop here! Your diagram explains perfectly what I've been thinking all along. During the Obama's and Biden's administrations, the U.S. has been taken advantage of by the other countries or the so-called European Union.

This means that we ended up on several issues (defense, migration, international trade, and so on), in the quadrant 'Hopeless' where the U.S. loses and the others gain big time!

Take international trade. In presenting my plan for tariffs at the beginning of April, I restated the view that I have held since the 1980s: together with love and family, tariff is the most beautiful word because it allows protecting U.S. companies and workers and bringing money to the U.S. budget.

The main aim of introducing a universal baseline 10% tariff on U.S. imports and of applying reciprocal tariffs on sixty trading partners is crystal-clear: I want to eliminate the bilateral U.S. trade deficits which are the outcome of pillage and devastation of our economy due to past U.S. naivety.

I've dubbed April 2, 2025, the 'Liberation Day' because the rebalancing of our bilateral trades will give rise to a virtuous process in the U.S.: Reshoring our firms now located abroad, new plants in the U.S. by foreign firms, additional employment in manufacturing and higher growth rates.

CMC: Actually, if I may, things are a bit different. From an economic standpoint, there may be good arguments for limited and targeted tariffs on imports. Typically, this is the case of the protection of nascent industries in the least developed countries.

However, even this limited use of tariffs cannot apply to the most powerful economy in the world and to economic activities that depend on complex value chains. Bilateral trade imbalances are not due to cheating by the U.S. trading partners. Let me give you a simple personal example.

I used to earn my living by writing and selling books. Every time I finished a manuscript and shipped it to my publisher, I ran a large trade surplus with the latter.

Had the publishing house insisted to adjust its bilateral trade balance with me, I would have been forced to get in return unselected manuscripts from other authors or – at best – books stocked by my publisher. I much preferred to run a trade surplus with the latter and trade deficits with the baker, the butcher and – why not – other publishers.



It is apparent that, in such a world, zero-bilateral trade balances are a non-sense. Trade benefits everybody, as the great economist David Ricardo showed in the 18th century by enunciating the principle of ‘comparative advantages.’

DJT: I didn’t quite follow your explanation. In any case, your example does not apply to the real world! The U.S. has a persistent trade deficit which is due to foolish decisions taken by my predecessors.

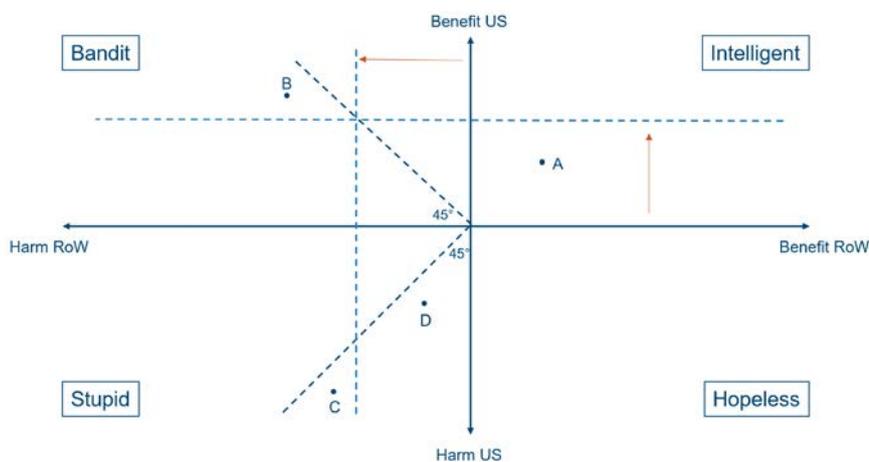
Moreover, you are kidding me by crediting a mildewy economist who lived more than two centuries ago. Come on, be serious!

CMC I am afraid, Mr. President, you tend to look at things via a wrong prism. It may be true that Ricardo’s theory does not perfectly fit with the current world characterised by international value chains where intra-industry trade, spatial economy, and economies of scale in oligopolistic or monopolistic markets matter a lot.

Ricardo was obviously unable to forecast such an evolution. However, this new world, which is analysed by one of your harshest detractors, the Nobel prize winner Paul Krugman, implies *a fortiori* that free international trade benefits every economic area. Take a refined version of my graph [see *Figure 2*].

Let us assume that point *A* represents a situation of multilateral trade in the international markets. This point is in the ‘Intelligent’ quadrant: it benefits both the U.S. and the RoW...

Figure 2: The universal laws of human stupidity: reality vs perception



DJT: This is a lie, and your diagram is a misrepresentation of the real world! As I already said, Obama and Biden were unable to do anything positive for the U.S. Your point *A* must be located in the ‘Hopeless’ quadrant, where the U.S. loses whilst the others massively benefit.

My advisers are telling me that you should correct your graph by shifting upward the horizontal axis and shifting the vertical axis on the left [as shown by the red arrows in *Figure 2*]. These shifts would make apparent that the so-called free trade in a multilateral setting, which was in fact a robbery perpetrated against my country, has condemned the U.S. in the ‘Hopeless’ quadrant.



In fact, before the installment of my Administration, the other countries did not want to buy a sufficient amount of U.S. goods; and actually, the EU is one of the worst trading partners that deserve an exemplary punishment (such as specific and high tariffs on their exports to the U.S.)!

You talk of value chains. The U.S. is a big economy, we've all we need and where we lack critical raw materials, we can enlarge the U.S. by including willy-nilly Greenland, Canada or Panama.

In any case, I'm sure that we agree on one crucial point: the U.S. has an unsustainable trade deficit that must be corrected. My tariff plan is the first move meant to achieve this result.

CMC: Actually, one may even agree that the trade deficit of the U.S. has been and is still too high. Two observations though. First, the international role of the dollar and the quality of safe asset of the U.S. Treasury bonds help the U.S. to finance its trade deficit. This is the 'exorbitant privilege' the French Minister of Finance and then French President, Valéry Giscard d'Estaing, talked about in the 1960s.

Second, the U.S. external deficit reflects the gap between aggregate savings and aggregate investment. Thus, if you impose tariffs and use the proceeds of these tariffs for lowering taxes, the result will likely be a further increase in your trade deficit.

Also, the counterparts of U.S. trade imbalances are financial transfers to the U.S. deriving from net revenues obtained by U.S. companies abroad, and financial inflows deriving from the portfolio allocation of foreign financial investors.

The latter flows imply a growing stock of U.S. financial debt towards the rest of the world. Your attack on multilateral trade will undermine the status of undermines the dollar's status as a safe haven, so you may end up weakening your 'exorbitant privilege'.

DJT: You are mixing up different things. My country gets financial transfers and inflows because the U.S. companies in the digital sectors are the most efficient and the most profitable and because the U.S. stock market and other financial markets are the best places to put money in.

Thus, foreign investors choose the U.S. because they rightly pursue their own interests. The flows of their financial investments have nothing to do with the deficits in the U.S. trade balance. The latter are determined by the hidden (and not-so-hidden) barriers that hinder U.S. exports.

To change this situation, I am ready to severely punish countries with a current trade surplus towards the U.S. Tariffs are the simplest punishment tool, but I have a rich set of other devices ready to be used.

CMC: Mr. President, with due respect, let me restate that you have a distorted perception of the reality. What I have enunciated before is a matter of accounting, not mainly of economic theory.

Tariffs may help rotate the bilateral balances but cannot curb the overall trade deficit of the U.S. economy. Yes, there is a way to reduce the U.S. trade deficit via tariffs: you can get that result if your policies push the U.S. economy into a recession. However, you would agree that this is not the best way to correct the U.S. imbalances.

As your advisers had to acknowledge when the fall in the U.S. stock markets was accompanied by the increase in interest rates on U.S. Treasury bonds and a weakening of the dollar, trade tariffs lead to economic disorder and disincentivise the financial inflows in the U.S. I

f this threat materialised, it would become hard to ensure the sustainability of your external deficit and your public debt. Moody's noted it and downgraded your sovereign signature. Hence, Mr. President, you should pay attention to the unintended impact of your choices...

DJT: The rating agencies are always wrong! You, as an Italian, should know it better than anybody else. As you'll see, what's going on in the financial markets and the real economy will only be a



temporary blip, fed by the stubbornness of Jay Powell [*the Federal Reserve's President*] who is refusing to decrease interest rates.

But, more importantly, you must agree that the U.S. trading partners have applied and are still applying all sorts of tariff and non-tariff barriers to penalize the U.S. exports and benefit their own economies.

For instance, by pretending to protect the health of its consumers and the environment, the EU is applying market controls and distortionary subsidies that penalize the U.S. agriculture and energy sector. Hence, tariffs are just a fair and moderate response to the aggression of my country from the rest of the world.

CMC: I do not share your statement that 'green' transition and consumer protection are the Trojan horse to justify an EU discrimination against U.S. products. The protection of the environment and norms to regulate the economic system actually reflect European social preferences that are different with respect to those in the U.S.

However, I acknowledge that international trade has been characterised by non-tariffs barriers and other distortions. I am also ready to admit that the persistent surpluses of China and the EU's trade balance need to be corrected. Both areas should boost their domestic demand (consumption in China and investment in the EU); and this move would also help to curb their trade surplus towards the U.S. If China and the EU increased aggregate demand, the result would be...

DJT: So, you agree with me, at last! But we need to go farther. We must ditch a liberal woke culture where the veil of cooperation hides the cultural dominance and privileges of a few intellectuals detached from real people. Real people voted for me! You belong instead to an intellectual bubble who lives in a fairy tale. But the world isn't a fairy tale; it's not flat!

As I've written in my bestseller, *The Art of the Deal* – hopefully, you've read it! – any negotiation is a zero-sum game: I win, you lose! And the U.S. must win as it is the most powerful country on earth. Tariffs on our imports are just my first move.

The U.S. trading partners must bow to the decisions of the strongest player. If they do so, I will be ready to suspend the retaliatory tariffs added to the universal baseline 10% tariff and negotiate other arrangements with them on my conditions.

Since I have announced my tariff plan, there are plenty of countries queuing to find an agreement. These countries are right to do so, because the U.S. is the most powerful economy in the world and will become even more dominant thanks to my presidency!

Eventually, if I gained the concession I wanted, I would not even impose trade tariffs – apart from those needed to finance my tax cuts. Look at the agreement with the United Kingdom.

CMC: You are right, Mr President, that – for over twenty years – I have been 'existing' in a fairy tale here on the clouds. Nevertheless, let me confess that I am morally horrified by your conception of world relations as a zero-sum game. Actually, I firmly believe that your attitude will condemn the U.S. and the rest of the world to negative-sum games: I fear we will end up in the 'Stupid' quadrant of my graph.

However, we are not discussing here our philosophical positions. Hence, I would try to show you that your strategy cannot work even on strict economic ground.

In the fall of 1985, I had the chance to be interviewed by two famous U.S. economists: T.J. Sargent, who would go on winning the Nobel prize in 2011, and R.M. Townsend.

The topic of this interview was related to monetary issues but, during the discussion, the two economists often referred to incentives and strategic interactions.



Hence, I was stimulated to read some papers on the basic notions of game theory and contract theory. To highlight the strategy that you just illustrated, it can be useful to refer to the so-called 'games in extensive form'. These are...

DJT: I guess that you are going to start a long and boring analysis on the sex of angels, whereas my point is straightforward: the U.S. and its trading partners are involved in conflictual bilateral negotiations where the stronger will prevail on the weaker, provided that the former does not make strategic mistakes and the latter understand that it does not have any card to play.

I hold the role of the strongest, and I am fully confident that I will avoid false moves. Mind you, the suspension of the specific tariffs towards some trading partners is not a change of heart but the result of the acceptance of my wishes by these partners; conversely, the strengthening of the specific tariffs towards other trading partners is due to their opposition to my wishes.

All this is part of my winning strategy. At the end of the day, as I said all along, it's the other countries, not the U.S. consumers, who are going to pay for the U.S. tariffs!

CMC: Mr. President, I am sorry to say that the basics of game theory show that your previous statements are flawed.

Let re-examine my diagram in Figure 2 in the light of a so-called 'extensive game' between two players as represented in Figure 3. Let me assume that point *A* in Figure 2 represents the rewards of the two players (their payoff in the economic jargon) at the beginning of the game in Figure 3.

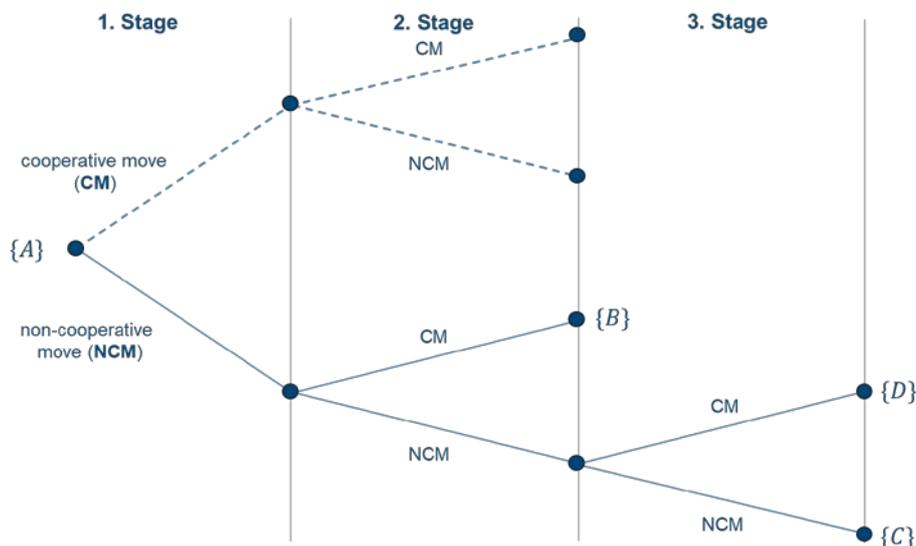
Your strategy, Mr. President, amounts to a move from point *A* to point *B* in my Figure 2; and it is true that, in *B*, the U.S. gain and the RoW loses. This is the quadrant of the 'Bandit', even though you may justify this shift as a 'fair retribution' after years of the U.S. economy being exploited by others.

It would be naïve to assume that the rest of the world would not react to your aggressive strategy and passively accept to be violated.

In other words, you are neglecting the basic principle of game theory: the two players are involved in a strategic interaction and, usually, in a sequence of moves.

This is to say that there is not a one-way relation, where the player who moves first dictates the conditions to the other player who accepts these conditions passively. Why should the U.S. trading partners accept to stay in the 'Bandit' quadrant?

Figure 3: The game of trade in extensive form



DJT: It's false that I do not consider the reactions of the other countries or areas in bilateral negotiations. I'm a flexible person who makes quick decisions. Take, for instance, the case of Canada. The latter took the wrong decision of reacting to the introduction of tariffs on the U.S. imports by retaliating.

My first reaction was a credible threat also aimed at testing the political resistance of my improvident interlocutor: I slammed even more trade tariffs on Canada, thus emphasizing that the behavior of that country was ineffective.

If my new move towards Canada or any other belligerent trading partners does not work out the way I intended, I can always change strategy. This is the main reason why I introduced a truce of ninety days before applying the reciprocal tariffs.

CMC: Let me recall that the recent electoral results in Canada did not correspond to your expectation. However, I recognise, Mr. President, that I oversimplified your behaviour.

You assume to have what game theorists call 'escalation dominance': if others retaliate, you can always double down and impose even higher tariffs as you also threatened to do *vis à vis* China.

However, your understanding of strategic interactions is flawed because it is based on several arbitrary assumptions. Specifically, in your view, other countries have no choice but exporting their products to the U.S., so they will accept any type of conditions imposed on them. In economic theory, these monopsonistic relationships between sellers and the buyer require – at least – three heroic conditions.

First, sellers do not build an alliance in opposition to the buyer (the U.S., in the case). Second, all the exported goods to the U.S. have a very high price elasticity so that the foreign sellers feel obliged to lower the supply price of these goods to compensate the negative impact of the U.S. tariffs on the demand for their output and to avoid the losing of U.S. market shares. Third, you assume that foreign sellers will be ready to move their production activities to the U.S., thus replacing their export flows with additional outputs in the U.S. that will improve the trade balance and the employment of your country.

DJT: All this economic jargon is, frankly, quite off-putting. Nonetheless, you are fairly correct in describing the goals of my actions. I do not understand why you are so skeptical: I'm already turning what you are provokingly calling heroic assumptions into reality.

As I told to some European leaders who are good friends of mine, the EU must fully support my initiatives towards China; otherwise, I will react by reconsidering the U.S. role in NATO and let the EU take care of its own defense.

Moreover, I am offering strong incentives to foreign firms to invest in the U.S. So, I've indeed a dominant position in bilateral bargaining.

CMC: I am sorry, Mr. President, but I do not share your view. As the reaction of China has shown, it is not so evident that the U.S. has the escalation dominance.

When the digital components or the rare earths under the Chinese control are needed by the U.S. producers as irreplaceable inputs for their activities and China puts severe barriers to their exports, it is China that is escalation dominant thanks to its quasi-monopolistic position in the supply of these raw materials.

The U.S. demand for digital components and rare earths is weakly dependent on price increases (or, if you prefer, is price inelastic), so that the tariffs are paid by the U.S. consumers and producers, not by Chinese exporters.

Moreover, U.S. trading partners may form an alliance that would limit bilateral negotiations and put the relations of strength between them and the U.S. upside down.



Think about the EU countries that have transferred the responsibility for trade policy to the European Commission. By opening to the Global South and to Canada, the EU is building the basis for such an alliance. It is true that, in today's very integrated world economy, value chains are tightly interconnected and the U.S. play an important role in some of them; and it is true that undoing them is very costly. It would be akin to a 'global Brexit' with a large negative impact on all of us.

However, if the U.S. call themselves out, the others can reorganize their trade relations by strengthening their reciprocal exchanges. You should not forget, Mr. President, that the U.S. represent less than 15% of global trade.

DJT: Your statements are just based on an arbitrary reconstruction that meets your prejudices. There are more and more countries that are begging me to negotiate to find a deal. I am starting to fear that I'm wasting my time in discussing with you.

CMC: Mr. President, please bear with me. Let me go back to the structure of the game and my diagram. As already stated, the payoffs at the initial point of the game or, better saying, at the initial node of our extensive game [see *Figure 3*] correspond to point *A* in *Figure 2*. Here, the player moving first can make a choice between two or more branches that characterise the first stage of a 'decision tree'.

It should be clear that the first mover is the U.S.; and the other player is, let say, the EU. To keep my description as simple as possible (and less boring, to use your previous expression), I assume that the U.S.'s choice is limited to two branches. In *Figure 3*, the upper branch implies that the first mover makes a cooperative choice (in our case, no new barriers to free trade).

Given your approach, we should better disregard this option [*hence, dotted lines are utilised in the figure*]. Let us focus instead on the lower branch where the U.S. make a non-cooperative choice (introduction of trade tariffs). What could be the reaction of the EU in the second stage of the game?

A first possibility is that the EU, as the follower, bends its head and accepts my conditions. The result is the implementation of payoffs corresponding to point *B* in *Figure 2*.

The alternative possibility is that the EU retaliates and imposes tariffs on U.S. imports. These considerations should clarify that the player who moves first has the power to select the part of the extensive game (upper or lower) that is implemented.

Hence, this player can constraint but cannot determine the subsequent move of the other player. It follows...

DJT: Stop here! I did not know about game theory, but your little new graph [*Figure 3*] is interesting. I'll ask my advisers to use these schemes in my briefings because the 'decision tree' is quite amusing and mainly because it shows that I'm perfectly right in my strategy.

Obviously, I'll always be the first player to move; and I'll select a non-cooperative move able to scare off our trading partners who, as I guessed, will thus have no choice but to bend their head in the second stage of the game.

This result will mark the success of my move and will eventually open the road to reaching agreements leading to additional advantages for the U.S.

Hence, my strategy will benefit the U.S.: our trading partners should progressively compensate my country for the benefits they enjoyed over many years thanks to the foolishness of my predecessors. If some of these trading partners did not recognize the U.S. supremacy and decided not to cooperate, there may be a few negative short-term consequences for some of my friends who manage innovative activities in Silicon Valley or who carry out traditional productions in Michigan.

But it will not be for long: I will double down and impose the capitulation of all the non-cooperative US trading partners, including the most quarrelsome of them. Even a kid would realize that I'm in a win-win position!



CMC: I must say, Mr. President, that unfortunately you did not grasp the main message of a game in extensive form.

In case the EU or China decide not to play ball and retaliate instead, it can happen that the payoffs in the third stage of the game are worse for the U.S. than for the other party. In this event, your strategy is not a win-win strategy. Going back to Figures 2 and 3...

DJT: You are wrong. I already recognized that there is the odd possibility that some crooks do not accept the U.S.'s supremacy when they react to my first move [*the reference is to the second stage of the game*].

However, it is very hard to believe that these fools would continue with a non-cooperative strategy later, if my reaction was sufficiently strong – as it will be.

Nevertheless, though I would never admit that in public, if my further retaliation caused too high costs for my constituency, I could always draw a line and start the game from scratch.

CMC: This is exactly the problem, Mr. President. Let me try to clarify the issue by recalling few aspects that we already discussed. Your preferred outcome can be represented as a shift of payoffs from point *A* to point *B* in Figure 2.

In my view, this shift implies that the U.S. decide to leave the quadrant 'Intelligent' to enter the quadrant 'Bandit', where the U.S. improve their benefits as long as the RoW accepts to be severely harmed.

You may justify this shift by maintaining that point *A* is not in the north-east quadrant ('Intelligent') but in the south-east ('Hopeless'), where the RoW enjoys improved benefits whereas the U.S. are harmed. I tried to explain above why this is a misrepresentation of reality.

However, now the crucial question is a different one: why should U.S.'s trading partners cooperate to be harmed? The only rational answer is: because they think that the U.S. further retaliation to a non-cooperative reaction to the U.S. first move would lead to an equilibrium that is even worse – that is, the new equilibrium would be on the left of point *B*.

Conversely, if most of the U.S. trading partners believed that their non-cooperation would lead to point *C* on the right of point *B* (see again Figure 2), they would pursue a non-cooperative strategy.

Their choice could not avoid harm but could at least reduce it. Clearly, point *C* would be located in the quadrant 'Stupid', that is *C* would produce a cost also to the U.S. As showed by the 45° line, the harm of the latter could be even higher than the harm of the trading partners.

DJT: It is true that nobody is deaf than the one who does not want to listen! I told you several times that, in case the trading partners retaliated, I would double down and increase the tariffs until I win.

If my constituencies complained about too high temporary costs, I could also decide to win by making a different move. In any case, I would not change my strategy.

You cannot acknowledge this result, because it is incompatible with your prejudices. Hence, you depict a messy situation where a first player should worry about the possible reaction of the other player, given that the second player thinks that the first... Come on!

CMC: I continue to think that our previous discussion implies that the U.S. introduction of widespread tariffs has a significant probability to lead to point *C* in my diagram.

However, I am ready to admit, Mr. President, that a significant (or a positive probability) of a given event does not imply that this event is happening with a 100% probability.

This means that we live in a probabilistic (let say, stochastic) world where the future is highly uncertain. Hence, an efficient player never selects the preferred strategy by neglecting *a priori* events with a positive probability to happen.



In some cases, the player can attribute a quantitative value to this probability; more frequently, future events are so uncertain that their occurrence can only be assessed by means of subjective expectations.

In any case, Mr. President, it is necessary to consider that the U.S. interactions with strong trading partners such as China and the EU can lead to outcomes that challenge your assumption to always have a win-win strategy.

In the economic jargon, this is equivalent to state that you should play a “mixed strategy” (that is, combine different moves based on your expectations) instead of pretending to be sure to conquer the world thanks to a pre-determined move.

In this perspective, widespread tariffs can be compared to the atomic bomb. There is a too high risk of concluding the game in a lose-lose position for both players. Hence, better alternatives should be pursued...

DJT: Stop joking. My tariffs are working as a credible threat. You'll see soon.

CMC: Mr. President, there is an additional element that you should consider. You repeated several times that your strategy is so flexible to allow for a temporary backdown.

In this perspective, you stressed that you kept the opportunity to draw a line and start the game from scratch. At the same time, you have recognised that threats and retaliation undermine the reciprocal trust between players.

As we know, trust goes away on a horseback and returns on foot. Your presumption that the game could be restarted at your will is not correct.

Differently from the textbook assumption of one-shot games, extensive games make it impossible to go back to the initial situation. Rounds of non-cooperative interactions do not leave the balance between the two players unchanged. Uncertainty and mistrust impose negative path-dependence that cannot be eliminated at the will of one of the two players.

DJT: Uncertainty and mistrust are part of my strategy. The EU, China and the other countries will be disconcerted and more likely to bend to my will. At that point, a deal will be made, and it will be in the U.S. favor.

CMC Let me just add, Mr. President, that your previous considerations have another implication that you will judge unpleasant: our game in extensive form can lead to a node where the payoffs coincide with point *D* of Figure 2.

Let us assume that China implements its embargo of rare earths towards the U.S., making it hard to have an efficient development of innovative activities in the U.S.; and the EU applies significant tariffs on the import of services offered by the largest U.S. digital companies, so that it would become very difficult to reach agreements in the trade of other goods and services but – at the same time – the U.S.'s companies would gradually lose the access to the EU personal data.

DJT: Someone told me that, long time ago, there was a priestess in Greece named Cassandra who was able to utter dramatic but true prophecies that were never believed. During this dialogue, you tried to play Cassandra's role but failed.

Your string of disruptive prophecies was not only implausible but also false was not only unbelievable but also false. My presidency will prove the success of MAGA despite your damns. Our talk stops here. You can go back to wherever you came from. Goodbye.



Our conclusions

This impossible conversation ends here. Differently from President Trump, we found that the questions raised by professor Cipolla, and the answers offered by the U.S. President, were so instructive to deserve publication. Cipolla was born in Italy (1922) where he died at the end of the past century (2000).

However, as full professor of Economic History at the University of California at Berkeley since 1959, he spent several times in the U.S. Cipolla has been considered one of the most important economic historians on the international scene, and he opened several new strands of research that were applied to various historical problems.

Cipolla is particularly important for his methodology because he utilised a macro approach as well as the analysis of micro behaviours to study different topics. Cipolla was, thus, familiar with various aspects of economic theory.

From our own specific perspective, we consider Cipolla as a forerunner of behavioural economic history. We have tried to let him display his economic acumen in this imaginary conversation. The reader will judge by herself whether we have done justice to professor Cipolla's vast culture, wit and irony.

Our academic position and our field of research (the theory of European economic policy) imply that we cannot pretend to play the role of neutral judges. Hence, we abstain from dwelling on the various analytical points that marked an opposition between the two interlocutors.

However, let us complete our transcript of this impossible conversation by tracing back the statements by professor Cipolla to several analytical strands of economic theory.

The first questions raised by Cipolla refer to the basic notions of liberal democracy as first elaborated by Locke (1690) and developed by Montesquieu (1748; 1750). As exemplified by Smith (1759; 1776), the liberal-democratic approach largely influenced the foundations of economic theory. An attempt to combine the principles of economic theory with open and democratic societies is offered by Rawls (1971) and the strand of thinking inspired by his criticism towards the orthodox utilitarianism.

In his conversation with President Trump, Cipolla is wise not to pursue a discussion that would be immediately degenerated in an exchange comparable to a bar fight due to the ignorance of his interlocutor about the basic concepts elaborated by the history of philosophy and the history of economic analysis.

*Following the Trump's second-hand quotation of the pamphlet *Allegro ma non troppo*, Cipolla has instead adapted his diagram on the universal laws of human stupidity to the problems of international trade.*

In this respect, his main reference has been the principle of 'comparative advantages' first elaborated by Ricardo (1815, 1817), and then refined by several authors (see for instance: Heckscher, 1919; Ohlin, 1933; Stolper and Samuelson, 1941). However, some aspects of this approach were questioned in the 1970s and led to a different theory of international trade. This new theory was mainly developed by Krugman (1979, 1980, and 1991), based on the analytical tools elaborated by authors such as Dixit and Stiglitz (1977).

Cipolla was so kind towards President Trump to stress that there were positions aimed at justifying protectionism in specific circumstances. In this perspective, the view that protectionism favours the development of infant or nascent industries is traditionally credited to Alexander Hamilton (1791).

However, President Trump was not content with this limitation and aimed at designing a general strategy to bend U.S. trading partners at his will. Thus, the discussion on international trade led him to clarify his conception of economic negotiations and strategic interactions.



As Cipolla is obviously aware, the concept of strategic interaction has been at the core of game theory since its foundations in the 1920s (von Neumann, 1928; see also von Neuman and Morgenstern, 1944) and was greatly improved since the 1950s (see, e.g.: Nash, 1950, 1953).

Cipolla also exploits the analytical framework offered by the contracts between two parties under imperfect information (see for instance: Arrow, 1951; Akerlof, 1970; Rothschild and Stiglitz, 1976; Grossman and Hart, 1983).

To avoid the complex analytical and mathematical aspects of these approaches, Cipolla has left contract theory in the background and has utilised just two advanced textbooks to introduce game theory in the debate with President Trump (i.e. Kreps, 1990; Myerson 1991).

However, to better clarify two main issues of game theory, he referred to a game in extensive form. The latter clarifies that it is impossible to simply erase the previous moves and eliminate uncertainty on the future events, Cipolla has also appealed to the concept of path dependence (see David, 1985) and has recalled that expectations can refer to a future that is so uncertain that cannot be assessed by means of a well-defined probability distribution (Keynes 1921, 1936).

We have thus traced back Professor Cipolla's statements to some classic contributions to economic theory. Unfortunately, due to our ignorance of the Mar-a-lago analytical contributions to the economic debate, we are unable to repeat the exercise concerning the positions taken by President Trump.



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