



Epsilon Theory

Crashing the Car of Pax Americana

April 7, 2025



"Can I confess something? I tell you this as an artist, I think you'll understand. Sometimes when I'm driving... On the road at night... I see two headlights coming toward me. Fast. I have this sudden impulse to turn the wheel quickly, head-on into the oncoming car. I can anticipate the explosion. The sound of shattering glass. The flames rising out of the flowing gasoline."



"Well, I have to — I have to go now, Duane, because I ... I'm due back on planet Earth."



"Are you going to drive them to the airport? No, I haven't even finished my drink. Duane can take them."



Annie Hall won the Best Picture award at the 1978 Oscars. It also won Best Actress in a Leading Role (Diane Keaton), Best Director (Woody Allen), and Best Original Screenplay (Woody Allen). Woody Allen was nominated for Best Actor in a Leading Role but lost to Richard Dreyfuss in *The Goodbye Girl*. [This scene](#), with a young Christopher Walken playing the role of Annie's suicidal fantasist brother Duane, is one of my all-time favorites, and it captures perfectly the feeling I have today with the Trump Administration driving the national car.

You don't hear much about *Annie Hall* today, and I can't remember the last time I saw a Woody Allen movie on television or on an airplane. That's despite the fact that Woody Allen was nominated for Best Original Screenplay *16 times* (by far the most in Academy history) and Best Director *7 times* (behind only Martin Scorsese and Billy Wilder with 8 nominations, and William Wyler with 12). You don't see Woody Allen movies anymore because Woody Allen has been credibly but not conclusively charged with sexually abusing his adopted daughter Dylan Farrow, he had an affair with another young adopted daughter of Mia Farrow while he was still married to her, and his movie *Manhattan* is a biographically-styled account of the Woody Allen character having an affair with a high school student. Woody Allen is, if not an outright pedophile, a really creepy predator of really young girls, and that's why no one shows his movies anymore.

One of the hardest things in life is to hold two conflicting ideas in your head at the same time, like the ideas that *Annie Hall* is a brilliant movie by a brilliant writer AND that this same brilliant writer is at best a lecherous slimeball who richly deserves his public disgrace. It's really not easy! It would be so much easier to let one of the ideas dominate the other, either to ignore and dismiss Woody Allen's work because he is an evil man, or to ignore and dismiss anything about his personal life so that his movies can be enjoyed without any consternation at all. I choose to hold both ideas simultaneously — that it's okay to enjoy *Annie Hall* AND it's okay to despise Woody Allen — because as easy as it would be to let one idea dominate, it's just not ... true.

My ask of you in reading this note is that we make an effort to hold several conflicting ideas in our heads at the same time. Like, for example, that the American socioeconomic system desperately needs fixing after decades of venal corruption from (mostly) Democratic but (also) Republican Administrations AND there is an underlying global system worth preserving that gives the United States enormous privilege, wealth and freedom of action in the world. Or, for example, that there's no reason to doubt the authentic intentions of Donald Trump and his Administration to improve the position of the United States AND their economic policies can have the unintended consequence of blasting the underlying global system to smithereens, making it impossible to achieve their goals. It's really not easy to hold all of these ideas simultaneously! Every bit of party propaganda from the left and the right, every big voice on social media, *everyone* wants you to give yourself over to a single idea of party purity and ignore everything else. But it's just not true.

The truth is that the United States became as sclerotic and bloated under Joe Biden as the Soviet Union under Leonid Brezhnev, and that Joe Biden's cognitive decline and its obscene cover-up made the United States government a global patsy and a domestic feeding trough. The truth is that our border policy was stupidly permissive. The truth is that we really do need to eliminate vast swaths of the Federal

bureaucracy and the Christmas tree funding programs that always grow and never shrink. The truth is that a Department of Government Efficiency is a really good idea.

AND the truth is that the purpose of government is not efficiency for efficiency's sake. AND the truth is that the quality of mercy is not strained and neither is due process, so that justice may be sure but never cruel. AND the truth is that spending money to curry political favor abroad through CIA USAID programs is a lot cheaper and a lot more efficient than sending in the Marines, AND is a lot more profitable than seeing the Chinese take our place in the world. AND the truth is that we have three co-equal branches of government, where the unconstitutionality of a President 'vetoing' Congressionally-authorized spending programs through Executive Order is well-settled law. AND the truth is that government debt isn't like our own personal debt, so that we can't go broke as a nation AND we're nowhere near having a budget crisis AND we have the strongest, most vital economy in the world AND we can still grow our way to a more equitable prosperity without breaking a global system that works so formidably to our advantage.

This underlying global system has a name. It's called Pax Americana.

- *Pax Americana is the Bretton Woods monetary system and the Plaza Accords and the SWIFT banking system and the unquestioned dominance of the USD as the world's reserve currency.*
- *Pax Americana is the NATO alliance and the Pacific Fleet and CENTCOM and the NSA and the unquestioned dominance of the US military as the world's security arbiter.*
- *Pax Americana is the American brands, American universities, American entrepreneurialism, and most of all the American **stories** that have dominated the hearts and minds of everyone on Earth for the past 50 years.*
- *Pax Americana is the ability of the United States to set the rules for every coordination game in the world. The rules of trade, the rules of intellectual property, the rules of money, the rules of culture, the rules of war ... all of those rules were made by us. Only by us! And in return we gave the rest of the world two things: global peace (pretty much) enforced by a blue-water navy with force projection capabilities anywhere in the world, and unfettered access (pretty much) to the buying power of the American consumer.*

The results of Pax Americana?

- *The United States has seen more than 300 million citizens lifted into the highest standard of living in the history of the world, as we have exchanged intangible things like services and the full faith and credit of the US government for tangible things like oil and semiconductors and food at an unimaginable scale.*

- *The world has seen more than a billion people lifted out of crushing poverty, mostly in China and India but everywhere else, too, as the capacity to make tangible things has shifted permanently (yes, permanently) from West to East.*

My strong, unwavering belief is that Pax Americana is a *damn* good deal for the United States AND the world, especially as American leadership in AI opens up an entirely new realm of intangible things that the United States can trade for tangible things. Is it a perfect deal for the United States? No. Do other countries free ride on our provision of security and an end-market of the American consumer? Absolutely. Has the system been internally captured by oligarchs and professional politicians, so that the distribution of this great wealth flowing to the United States goes less and less to ‘average’ Americans? 100%. Should we aggressively prune and reform the Pax Americana system? Should we root out its foreign free riders and domestic leeches? Yes, please!

But that’s not what this Administration believes. Neither Donald Trump nor his key advisors believe that Pax Americana is a good deal at all, much less a damn good deal like I believe. They believe the United States is being cheated and taken advantage of without end, both internationally and domestically. They don’t want to *fix* the Pax Americana regime of coordination through multilateral rule-setting. They want to blow up the entire deal and *replace* it with an America First regime of competition through bilateral engagement.

I appreciate their frustration. I share a lot of it. But I am desperately opposed to crashing the Pax Americana car, *Annie Hall* style, because the America First system that this Administration *wants* to have as a replacement is not a stable system that is *possible* to have as a replacement. The end result of blowing up Pax Americana and its – yes – *globalist* system of rules and institutions and alliances that *coordinates* the flow of capital, labor, goods, services and culture without ‘*winning*’ any head-to-head relationship will be a system that is both worse for the United States AND the world. Here’s why:

Back in September 2016 I wrote a note called [Virtue Signaling, ... or Why Clinton is in Trouble](#), which was about the soft defection within the Democratic party for such a feckless, inauthentic candidate like Hillary Clinton, a soft defection that I thought would catapult Trump to a (very) unexpected victory. And then I wrote this:

Don’t get me wrong. I’m thoroughly despondent about the calcification, mendacity, and venal corruption that I think four years of Clinton™ will impose. I think as a candidate she’s a bizarre combination of Michael Dukakis and Teddy Kennedy, and I think as a president she’ll be an equally bizarre combination of Ulysses Grant and Warren Harding, both of whom presided over a *fin de siècle* global economic collapse. Gag. But I don’t think she can break us, not as a society, anyway.

Trump, on the other hand ... I think he breaks us. Maybe he already has. **He breaks us because he transforms every game we play as a country — from our domestic social games to our international security games — from a Coordination Game to a Competition Game.**

The difference between Trump 1 in 2017 and Trump 2 in 2025 is that this time he means it. Or rather, in this administration Trump has the personnel and the planning to implement this Coordination Game to Competition Game shift in every strategic interaction that the United States government participates in, both domestically and internationally. He's been very explicit and clear about all this.

What's a Coordination Game? Well, one classic representation of a Coordination Game is what Jean Jacques Rousseau back in 1755 called the Stag Hunt, and in 2x2 graphical form it looks like this:

		Column Player	
		Cooperate	Defect
Row Player	Cooperate	2, 2	0, 1
	Defect	1, 0	1, 1

The four quadrants are the four outcomes from the independent choices of the Row Player and Column Player to either cooperate with the other player (whatever cooperate means for the game in question) or to defect (i.e. not cooperate, again whatever that means for the game in question). The numbers are the pay-offs for the players, higher numbers being higher pay-offs, red numbers for the Row Player and green numbers for the Column Player. At every point in time, each player can independently decide whether to stick with their current behavioral choice (cooperate or defect) or switch choices. The shaded quadrants are the equilibrium outcomes – the 'sticking points' – where rational players may end up in a stable and persistent way because neither player has an incentive to change behaviors.

In the Stag Hunt, if players coordinate successfully with each other, meaning they hunt together (cooperate) to take down a mighty deer that they share, they get the upper left quadrant outcome – the best possible outcome (+2, +2) both individually and collectively.

The upper left quadrant of the Stag Hunt is Pax Americana.

It is the sum total of all the international institutions and policies and agreements and norms that set the rules for coordinated actions that keep a global peace (mostly) and allow unfettered access to the US consumer (mostly), so that Americans become unimaginably wealthy and billions of non-Americans

become non-desperately poor by making the things that Americans buy with the pieces of paper their government prints.

This is a highly stable outcome, which is why Pax Americana has lasted for decades now. The Row Player has no incentive to go down one row from Cooperate to Defect, and the Column Player has no incentive to move over one column from Cooperate to Defect. They could, but their payoff would be reduced (from 2 to 1). Plus this would really suck for the other player, who thought you were both hunting for the stag, so their pay-off would go from 2 to 0 because they're not even getting a rabbit. That means that the next time you both go off hunting, they're definitely switching their strategy to defect, too, so that at least they get something, and both players end up in the bottom right quadrant. You're both getting some food, but you're also both worse off than you were before. That's also an equilibrium or sticking point, because once you get there you don't have an immediate incentive to move up if you're the Row Player or move to the left if you're the Column Player, but both players know that a stable outcome of cooperation is at least *possible* in a Coordination Game like Stag Hunt, so you can imagine a negotiation that gets both players back into the upper left quadrant!

But what if you don't believe that the upper left quadrant outcome of the Coordination Game is the best possible outcome for YOU? Sure, maybe you'd agree that's the best possible outcome for everyone taken together, the classic win-win situation where the *total* global outcomes are maximized, but what if you don't really care about that? What if you want the best possible outcome for the United States – period! – regardless of what that means for the other players, and you think you can get that sort of truly 'winning' outcome by doing all sorts of threatening and racing and fighting and otherwise defecting from the status quo upper left equilibrium of Pax Americana? What if you don't want to play a Coordination Game, but instead want to play – and win! – a Competition Game?

Well, that means that you see the world like this:

		Column Player	
		Cooperate	Defect
Row Player	Cooperate	2 , 2	0 , 3
	Defect	3 , 0	1 , 1

The only thing that changes in the pay-offs of a Competition Game from a Coordination Game is in the upper right and bottom left quadrants, where the Column Player (upper right) and Row Player (bottom left) can now get their best possible individual result from defecting when the other player is cooperating, from dominating this head-to-head interaction. Sure the total benefits are lower (total of 3 instead of total of 4), but you get ALL the benefits. You are *winning*.

The problem, of course, with the Competition Game as it applies to international relations is that you keep playing it. Other countries have agency. They're not stuck with being your patsy and getting nothing good out of the deal. I mean, some countries are. If you're Cambodia or Argentina you say "thank you, sir, would you please throw me a bone?" and you grovel like a dog. But if you're China or Europe, or even Canada, you don't have to take the sucker's payoff of 0, you can push both players into the bottom right quadrant of (+1, +1). You can both be worse off, but it's better than outright losing. It's like the mob boss turning state's evidence against you so that you get 20 years in prison. There's no way you're not going to prison, but you can carve a couple of years off your sentence by testifying against the mob boss, too.

That's why the Competition Game has another, more common name: the Prisoners Dilemma.

In the Prisoners Dilemma, there is only one equilibrium, not two, only one sticking point where both players will rationally end up to avoid the 'suckers payoff' of playing nice while the other player plays to win. That lower right quadrant is (very) quickly the end point of this game, and once you're there it's a black hole that you can't get away from. Unlike the Coordination Game, there are no negotiations that will get you out of the bottom right quadrant, because everyone can see that the upper left quadrant isn't a stable outcome! I mean, do you think that Donald Trump will ever stop trying to 'win', that he would ever stop pressing an advantage if he thinks it exists? What kind of stable cooperative agreement could you ever hope to find with him? And even if he's no longer President or even if another political party came into the White House, who's to say that a similar advantage-pressing President won't come back in the future? And don't even start with the tit-for-tat arguments here, because that would require Trump to take a massive and public L to get a reciprocal pattern of cooperation going again. No, once you replace the Pax Americana coordination game with the America First competition game, you're in it for good, or at least until the next world war where the victor imposes its own hegemonic rule-setting on its conquered foes. Let me say that again, for emphasis.

You cannot negotiate your way out of *this* Prisoners Dilemma.

You cannot unring this bell. Sure, you can reverse this policy and that policy, and god knows we're going to get plenty of that, but you can never go back to the way things were before. Once you toss over the game table, even if you reset the table exactly as it was before, the other players *must* take into account the possibility that you will toss it over again. Their reactions in every game you play with them in the future will be different, much more wary and suspicious, and game outcomes that required a measure of trust and coordination will now be completely out of reach. You may still be the most able game player overall, but you will be surprised by how clever the less 'powerful' players can be, especially if they work together.

What is lost in the shift from the upper left quadrant of the Stag Hunt to the bottom right quadrant equilibrium of the Prisoners Dilemma?

- *The unipolar moment of American military dominance becomes a multipolar scrum of regional spheres of influence and diminished global security.*
- *The US dollar becomes a choice, not a necessity, and debt issuance on everything and everywhere – not just by the US Treasury – becomes more risky and expensive.*
- *Global growth and productivity become permanently diminished versus their potential.*
- *Highly efficient but non-robust systems, both economic and political, break. Not all at once, but slowly. And then all at once.*

We're now experiencing the 'all at once' moment in capital markets.

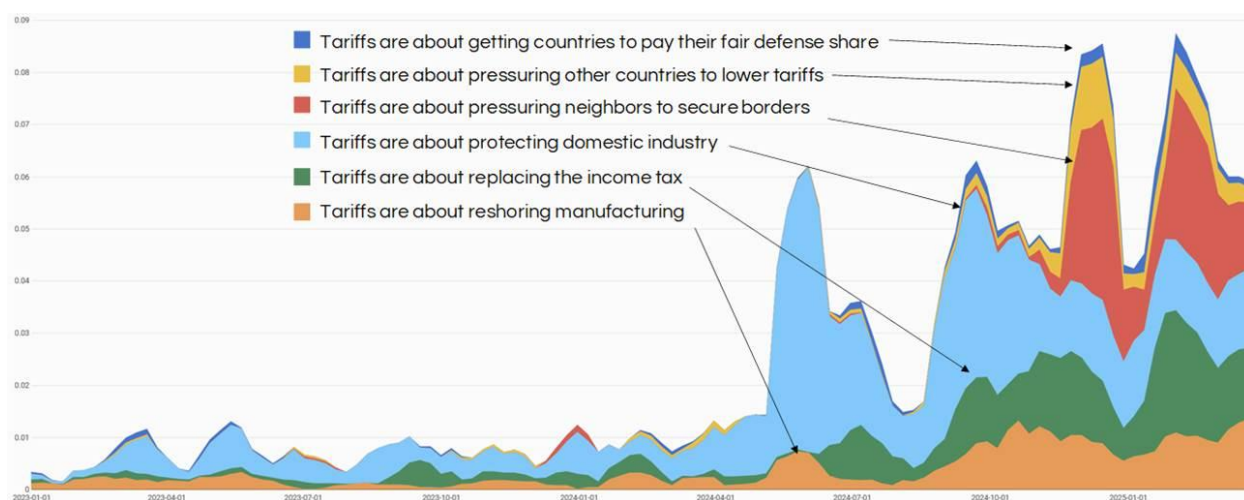
Or rather, we're now experiencing the first leg of that moment. Because as bad as last week felt, you could still tell yourself that this was all a bad dream, that we'd get most of this negotiated away, that we'd get a sense that there was actually a sensible plan to all of this. But with China implementing its own tariffs and Europe not far behind, we all now know that we all now know that there's no easy walk-back from this. There is no reset button here. There is no resolution of 'uncertainty'. There is only a more or less existential threat against every US company of every size and every industry, with an indeterminate path and duration. We all now know that we all now know that we have to brace ourselves for a Long March of 'all at once' for months and months. Just like in 2008. It won't be a straight shot down in 2025 anymore than it was a straight shot down in 2008 (I mean, markets almost got back to their highs in May 2008 on the heels of the Bear Stearns execution), but ultimately it is a big move down in ... everything ... as the United States reneges on the global *regime* of Pax Americana.

I believe there have been three great pillars of investing success over the past 20+ years: US home country bias, US tech bias, and US dollar bias. I believe that all three of these are now melting icebergs, with enough mass to melt for a decade or more. That's the backdrop for a Prisoners Dilemma portfolio, basically doing the reverse of what's worked on autopilot for the past 20 years.

And in the foreground? Policy difference between countries that matters, so that global macro can actually work again. Business model difference between companies that matters, so that discretionary long/short can actually work again. Oh it won't work for everyone, because reversion to the mean trades aren't nearly as useful when the global socioeconomic regime shifts, and it *really* won't work for everyone as global growth downshifts into the bottom right quadrant of constant competition. But I believe in my heart of hearts that skill is going to matter again in investing, when it hasn't for a loooong time now. Especially if that skill is married with AI-enabled tools to track the pace and timing of the melting icebergs and the policy differences and the business model differences that matter.

Like this analysis of tariff Narrative formation that we published in [Narrative Shopping](#) earlier this week:

Rolling 30-Day Tariff Semantic Signature Density



What you're looking at is the output of a set of what we call semantic signatures. Semantic signatures are linguistic markers not for sentiment, topics, or keywords, but of a specific *meaning* being conveyed about something. In this case, that something is tariffs. We've modeled six distinct such signatures and evaluated them against our extensive database of news, blogs, Substacks, research reports, and transcripts. In short, we are looking for the density of the most common tariff narratives in news about global trade because we think the relative and absolute levels of the various narrative forms of the White House argument for tariffs are a leading indicator of how and to what degree the White House implements tariffs and how and to what degree the White House is willing to negotiate their reduction. **It's one of [multiple tools and datasets we've developed](#) for measuring the twists and turns of our path from the upper left quadrant of Pax Americana to the bottom right quadrant of America First.**

I wish I could tell you that what's happening right now is just a movie scene, but it's not. This is real life. This is the Great Ravine. Will a lot of these specific tariff policies be reversed or negotiated away? Yes, I'm sure they will, because otherwise the economic engine of the entire world seizes up and can't be restarted. But we can never return to where we were before! We are on a road to a permanently lower 'sticking point' for growth, productivity, wealth, standard of living ... because that's what the America First competition game brings ... and it's not an equilibrium that can be negotiated or wished away. What we have to do from here is adjust to the new global regime where the US is just another country, albeit the most powerful of those countries, and figure out how to manage our portfolios and our lives as best we can under these circumstances. Easy? No. But when was it ever.

DISCLOSURES

This commentary is being provided to you as general information only and should not be taken as investment advice. The opinions expressed in these materials represent the personal views of the author(s). It is not investment research or a research recommendation, as it does not constitute substantive research or analysis. Any action that you take as a result of information contained in this document is ultimately your responsibility. Epsilon Theory will not accept liability for any loss or damage, including without limitation to any loss of profit, which may arise directly or indirectly from use of or reliance on such information. Consult your investment advisor before making any investment decisions. It must be noted, that no one can accurately predict the future of the market with certainty or guarantee future investment performance. Past performance is not a guarantee of future results.

Statements in this communication are forward-looking statements.

The forward-looking statements and other views expressed herein are as of the date of this publication. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and there is no guarantee that any predictions will come to pass. The views expressed herein are subject to change at any time, due to numerous market and other factors. Epsilon Theory disclaims any obligation to update publicly or revise any forward-looking statements or views expressed herein.

This information is neither an offer to sell nor a solicitation of any offer to buy any securities.

This commentary has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Epsilon Theory recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives.