



Myrmikan Research

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Iranian Invasion

We would normally complain about a month such as June, which saw Myrmikan up nearly 8% mid-month only to return to flat (before increasing 2.5% in the last hours of the month). But we can hardly protest given that the previous three months saw gains averaging 12.3% and July-to-date looks similar—if June was the correction, we'll take it.

The mid-month high of \$3,451/oz was probably related to the drums of Middle Eastern war, and geopolitics rarely operate to boost the price of gold sustainably. Gold is mercenary: it is free market money; it measures value; and its nominal price reflects the health and safety of the currency's central bank. Since politicians find ways to force central banks to support national debts, debt levels and government policies also influence the gold price. Political power can also imbue currencies with value, if the issuer is the global hegemon and various actors receive liquidity benefits from using the currency—in which case a challenge to the hegemon's power can also act to weaken its currency.

A geopolitical event that moves the gold price permanently, therefore, would have to be large enough to affect measurably the expected debt-fueled expenditures of the country in question (and the necessity of the central bank to monetize it), threaten to undermine the military might of the issuing country, or diminish the liquidity value of the currency (such as when Biden/Blinken stole Russia's foreign reserves).

Under this framework, the gold price was not wrong to spike a little in mid-June: a Middle Eastern war that dragged U.S. boots onto the ground would qualify. Such intervention, which may seem far-fetched, is actually the base case to the Chinese, at least according to a lecture by Chinese professor Jiang Xueqin that has suddenly spread virally.¹

Jiang's 2024 lecture offers five justifications that America will use to invade Iran: First, to bring freedom and democracy to Iran.

Myrmikan comment: This claim would not be as crazy as it was in the Iraqi adventure; many Iranians base their identities on their Persian roots and hate the Arabs who conquered the country fourteen hundred years ago (Europeans take note); and, after years of neglect, Reza Pahlavi (son of the previous Shah and thus Crown Prince of Iran) is suddenly being promoted

¹ https://www.youtube.com/watch?v=7y_hbz6loEo

in the media. At a recent speech in Paris, Pahlavi declared: “This is our Berlin Wall moment... I am stepping forward to lead this national transition. I have a clear plan.” Pahlavi is scheduled to address the British Parliament, and the Israeli intelligence minister has posted an AI video titled “Next Year in a Free Tehran” featuring Netanyahu strolling through Tehran with Pahlavi.

Second, to stop Iran’s nuclear program.

Myrmikan comment: Thwarting Iran’s nuclear ambitions has been a staple of American policy for many administrations. Trump has already been persuaded that such action not only enforces American hegemony but is essential to maintain relations with Israel and Saudi Arabia; Crown Prince Mohammed bin Salman told Bret Baier in 2023: “If they [Iran] get one, we have to get one, for security reasons, for balancing power.”

Third, the function of the hegemonic power is to protect trade routes, currently threatened by Iranian proxies such as the Houthis.

Myrmikan comment: We discussed this concept in our February 2024 letter, *Failing Imperium*. Since then, Defense Secretary Hegseth’s leaked Signal chat from March has offered some deep insight into this question. In that chat, Defense Department officials disclosed a plan to attack the Houthis. J.D. Vance responded, articulating the America First agenda: “I think we are making a mistake. 3 percent of US trade runs through the Suez. 40 percent of European trade does. There is a real risk that the public doesn’t understand this or why it’s necessary.” Hegseth replied: “This [is] not about the Houthis. I see it as two things: 1) Restoring Freedom of Navigation, a core national interest; and 2) Reestablish deterrence, which Biden cratered.” Vance: “if you think we should do it let’s go. I just hate bailing Europe out again.” Hegseth: “I fully share your loathing of European free-loading. It’s PATHETIC. But Mike is correct, we are the only ones on the planet (on our side of the ledger) who can do this. Nobody else even close.” Note the “our side of the ledger” comment—was Hegseth implying that China has the might to do so, but it need not because China is not aligned with Israel? Trump sided with Hegseth.

Fourth, the U.S. has an obligation to protect its allies against Iranian aggression currently manifested through its proxies.

Myrmikan comment: This is a restatement of points two and three.

Fifth, Jiang projects that some terrorist action will happen on the U.S. mainland, providing a catalyst to send U.S. troops into Iran. Along with the American force will march Saudi troops and the usual assortment of British, Australian, and a smattering of other allied troops.

Myrmikan comment: The Biden gang allowed over ten million immigrants to flood across America’s southern border, two million of which escaped processing. Border Czar Tom Homan points out: “Why did two million illegal aliens pay more to get away? They could have paid half of what they paid to cross the border, turn themselves into border patrol agents, get released that same day, get a free airline ticket to the city of their choice, get a free hotel room, get

three meals a day, plus free medical care and work authorization... It should have scared the hell out of every American what the Biden administration did.” Of course in a country of 350 million people there will be a terrorist attack, at least loosely defined, sufficient to provide a pretext if so desired.

Jiang contends that Iran also welcomes a ground war: he argues that the country still hates the U.S. for supporting the tyrannical Shah (an ironic point coming from a Chinese professor operating in Beijing), that Iran wants revenge for Trump’s assassination of Qasem Soleimani, and that American protection of Israel and Saudi Arabia thwarts Iranian ambitions of reestablishing its ancient role as the dominant force in the Middle East. Jiang reasons that if both sides want war, and each side thinks it will win, then war will come.

But how can Iran hope to defeat the U.S. military colossus? Jiang has a theory—until 2003, the U.S. military adhered to the three main requirements of war: mass forces prior to hostilities, avoid encirclement, and protect supply lines. He notes that elements one and three require a high degree of sustained public support. But, in 2003 the U.S. changed its military doctrine to “shock & awe,” enabled by air supremacy, technological omniscience, and special forces—shock & awe happens so quickly that it does not require committed public support, unleashing political and military leaders to follow special interests.

Jiang contends that the success of this strategy has bred hubris within the U.S. military, and, therefore, “when the U.S. military is given the order to invade Iran, they will probably go along with it, because they cannot imagine the possibility that they could be defeated.” Military hubris is matched by diplomatic and cultural hubris in the assumption that U.S. ground troops will encourage dissent groups friendly to the West to topple the regime, limiting the required investment.

Jiang then tells his students that shock & awe with a ground invasion must fail: Iran is ringed with mountains, U.S. troops would become quickly surrounded and have their supply lines cutoff, similar to what happened to the Athenians at Syracuse. Moreover, America’s main allies, Saudi Arabia and Israel, might not be sorry to see America humiliated and exit the Middle East, as long as it first destroyed the Iranian government.

We present this argument for several reasons. First, it is non-frivolous, and we agree with much of the analysis. America has been at war fairly constantly since the settlers arrived: first against the Eastern Indians, then against the French, then the British. After independence, warfare continued against the Western Indians, then the Spanish/Mexicans, and when we ran out of domestic enemies, the country hunted abroad for monsters to destroy, the Spanish again, the Germans, the Germans again with the Japanese, the Russians, the North Koreans/Chinese, the North Vietnamese, and then smaller countries too numerous to name.

Following the trajectory of most great empires, America’s initial conquests were beneficial for the conqueror *and the conquered* (would American Indians really choose to return to a state of savagery? would Texas be a more civilized place under Mexican rule?). The latter conquests, by contrast, were detrimental to conquered and conqueror both: total allied victory brought by American involvement in World War I ruined Europe and inaugurated the centralized financial system that would concentrate economic power in Wall Street; World War II merely displaced an Aryan

empire for a Slavic and massively centralized political power in Washington; the Cold War entrenched the military industrial/intelligence complex to an extent such that it was able to stage an overt coup during the first Trump administration.

We also agree with the broad idea that the Middle East (along with Afghanistan) seems to attract and then destroy imperial armies, starting with Alexander the Great, and the Roman legions under Marcus Crassus, up to the British and Soviet empires. The U.S. has already been embroiled in three such conflicts, two in Iraq and one in Afghanistan, to bring freedom and democracy, prosperity and peace to the Middle East. True to the historical pattern, America failed and fled, leaving its blood and treasure behind. A fourth such adventure could well sap the remaining strength of the country, with dire implications for the dollar.

Second, Jiang's lecture, presented in English to Chinese students in Beijing, smells like George Kennan's Long Telegram, presenting the CCP's strategy of taking down America not through direct conflict but by goading a lumbering, incompetent U.S. empire into overextension. The Chinese have keenly observed the disastrous withdrawal from Afghanistan (for which no one was held to account, not the generals by the Biden administration, nor the administration by the Congress, nor the Congress by the media); the impotence of American arms and tactics in the Ukraine, the unraveling of Libya, the complete failure to occupy and hold Iraq.

Third, while Jiang predicts the excuses that America would use for an invasion, his lecture omits the impetus, and there is one: war is the natural cumulation of the fractional reserve banking credit cycle.

To review: A fractional-reserve banking system (which is enabled solely by legal tender laws) creates an artificial supply of credit, which bids on real assets, thereby driving asset prices up and thus discount rates down. The more capital-intensive and the longer-term a prospective cash flow, the more affected its value is by discount rates, so the prices of long-term, capital-intensive projects jump the most. High prices in a properly functioning market signal scarcity, so economic agents respond rationally by investing especially in the construction of new long-term, capital-intensive projects. The high prices are not, in fact, due to scarcity but are the result of a malfunctioning credit system: the new investments create overcapacity, which leads to falling operating margins, which puts pressure on their ability to repay their substantial debts. The banking system that financed the bubble becomes impaired, and the want of money causes interest rates to soar. Malinvestments cannot renew their debts, soon default, and are liquidated by creditors, throwing misappropriated capital and workers onto the market, stressing government support programs just as tax revenues plunge. This is when, according to both Keynesian and monetarist theory and practice, the state should intervene directly, bailing out the banks, the government, and systematically important companies by printing money.

The central bank issues its currency to buy bonds, lower interest rates, and rekindle malinvestment in the highest orders of capital.¹ But this creates more overcapacity and makes the next bust worse at the added cost of devaluing the currency. Every time there is a bust, the authorities buy increasing amounts of bonds

¹ To see this theory in action, recall Bernanke's justification of QE: "Lower mortgage rates will make housing more affordable and allow more homeowners to refinance. Lower corporate bond rates will encourage investment. And higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion."

to lower rates further to create a new artificial boom: real estate in the late 1980s, the internet in the late 1990s, the housing bubble in the mid-2000s, then the crypto and everything bubbles of today.

No matter how aggressive the intervention, the malinvestments must liquidate because they represent higher-order capital assets that produce goods for which there is little consumer demand. But instead of blaming the credit system that induced the overcapacity, economists blame the populace for lacking sufficient aggregate demand and call for government stimulus. Stimulus may be funded either by taxes or money printing, which are at essence the same thing: both move purchasing power from producers to non-producers. Stealing capital from producers can only make the economic situation worse, which creates calls for increased government intervention, all while the currency falls further in value.

War becomes the ultimate economic stimulus because war allows unfettered spending. As John T. Flynn wrote in 1940: “There is always one kind of project left that breaks down resistance—which particularly breaks down resistance among the very conservative groups who are most vocal against government spending. That is national defense. The one sure and easiest way to command national assent from all groups for more spending is to ask it for national defense.”

And the liberals always exact their toll. Mick Mulvaney, President Trump’s budget director during his first term admitted: “We want money to defend the nation ... against things like threats from the North Koreans.... Publicly, the Democrats said they wanted to help fund the Defense Department. Privately, though, what they said was that they would not give us a single additional dollar for defense unless we gave them a dollar for social programs.... They held the Defense Department hostage, and we had to pay that ransom.”

And war once declared allows the government to take complete charge of the economy. As Keynes himself wrote: “War experience in the organisation of socialised production has left some near observers optimistically anxious to repeat it in peace conditions. War socialism unquestionably achieved a production of wealth on a scale far greater than we ever knew in peace.”

This story played out during the Great Depression—keen observers knew where lay the path. Historian Charles Beard perceived as early as 1935: “Confronted by the difficulties of a deepening domestic [economic] crisis and by the comparative ease of a foreign war, what will President Roosevelt do? Judging by the past history of American politicians, he will choose the latter, or, perhaps it would be more accurate to say, amid powerful conflicting emotions he will ‘stumble into’ the latter.”

And, now, again, the U.S. is stumbling toward war, against Russia, Iran, China. On script, Biden’s Secretary of State, Anthony Blinken, told an audience: “If you look at the investments that we made in Ukraine’s defense to deal with this aggression, 90 percent of the security assistance we provided has actually been spent here in the United States, with our manufacturers, with our production, and that’s produced more American jobs, more growth in our own economy. So this has also been a win/win that we need to continue.”

But the historic order that demands war may, perhaps, be interrupted by historic figures, such as Trump. While Trump clearly does not hesitate to use military power for discrete goals, a foreign occupation would undermine and probably destroy the

MAGA movement. Seams in the coalition became visible after a single-night bombing campaign.

For now, Trump seems to have adroitly navigated his way through the challenge. The U.S. military intervention was sufficient to placate the various interest groups actively seeking conflict but was also limited enough to allow further negotiations. Trump suffers militarists within his camp, which adds credibility to future threats against Iran, and which, presumably, Trump hopes will convince Iran to make a deal. The open question is: can Trump maintain this strategic ambiguity.

On one hand, Israel has the geopolitical momentum, having weakened Hamas in Gaza, grabbed part of Syria, and used its Syrian conquest to launch a surprise attack on Iran. According to the Economist, to prevent deescalation, Israel targeted Iranian moderates: “Gone are the veteran commanders who for years pursued ‘strategic patience’, limiting their fire.... Now a new generation, impatient and more dogmatic, has taken their place and is bent on redeeming national pride.” An aggressive Iran serves Israel’s purpose of dragging the U.S. into greater commitment.

On the other hand, Israel seems to have badly miscalculated Iran’s ability to inflict damage. Social media videos clearly show Iranian missiles penetrating the Iron Dome system (videos that Israel has banned for domestic audiences). According to *Bloomberg*, the director general of Israel’s Tax Authority who’s in charge of paying out compensation, told reporters: “there has never been this amount of damage in Israel’s history.” Estimates range between \$6 and \$12 billion for the twelve-day war, a large percentage of Israel’s \$45 billion annual military budget. This damage figure does not include the cost of armaments nor the costs of suspending the Israeli economy for twelve days.

The facts above have generated a dissent narrative that Israel’s attack was actually a strategic failure, and Trump was forced to intervene to allow Israel to agree to a ceasefire without losing face. This heterodox view would explain the rumors that Trump tipped off Iran on the impending attacks (as Iran did with their response) as well as Trump’s ire when Israel sought to break the ceasefire and drag Trump still deeper into the conflict.

Regardless of which narrative is more accurate, the fact remains that the conflict failed to advance Jiang’s thesis that the U.S. must stumble into boots on the ground. Trump understands and has long articulated the damage sustained by the Bush military adventures. It seems unlikely he will fall into China’s trap. And even if U.S. generals do not study Thucydides’s treatment of Syracuse, would they really be so stupid as to blunder into a larger version of Dien Bien Phu?

Perhaps, if they were being promoted on the basis of DEI. Which is why we think Jiang misjudges Trump and that his forecasts must wait at least until the next president. If the MAGA candidate loses, the economic and political forces pushing for war may well succeed.

For these reasons, we discount for now any Middle East war premium in the gold price. But gold does not need a catastrophic war; it just needs more spending. And it got it in the Big Beautiful Bill. We admit we were briefly thrown by DOGE—the conceit that the Federal government could willingly cut spending materially in the absence

of an existential crisis—but that program seems to have returned to the Utopia from whence it came.

Trump's first term and, now, it seems, his second is captured by another John T. Flynn quotation:

The government was doing, in fact, what Depretis was doing in Italy between 1876 and 1887. He promised to reduce taxation and increase public works. He promised greater social security and greater prosperity. When he came to power he had no program and no settled notion how he would redeem these pledges. Depretis then, for lack of any other weapon, proceeded to do what he had denounced his conservative predecessors for doing—to spend borrowed money on an ever-larger scale.

The beauty of this paragraph is that it works in all democracies at all times. One need have no knowledge of the nineteenth century, or proto-fascist Italy, or Depretis to grasp the paragraph's prophetic truth; one need not be aware that to Flynn the "government" was Franklin Roosevelt's; one need not examine debt figures or debt-to-GDP-ratios to understand that, once entered, there is no political escape from the debt vortex: Depretis is not just Trump 45 and Trump 47, but Roosevelt, and Reagan, and the Bushes, and Obama, and Biden, the Democrats and Republicans.

The Big Beautiful Bill increases military spending by \$156.2 billion (the total now over \$1 trillion)—*the one sure and easiest way to command national assent from all groups for more spending is to ask it for national defense*—and, according to the White House web page itself, the law means: "The largest tax cut in history," including: "NO tax on Tips; NO tax on Overtime; NO tax on Social Security; Permanently increasing the Child Tax Credit for more than 40 million families; Creating Trump Accounts for every American newborn." It promises to reduce taxation and increase public works, greater social security and greater prosperity. "Thus in Italy, while individuals murmured against the growing debt, they continued as members of cities or villages or farming districts to fight valiantly for their share of the spendings. The people as beneficiaries were always more powerful than the same people as citizens."

Gold has launched again higher with the passage of the BBB along with the gold miners. With Depretis in charge, it can only go higher. And if the neocons regain power in 2028, and take us to war in Iran, its rise will accelerate, probably catastrophically.



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