

## POLITICAL PULSE

**Kudlow, Navarro, Uh Oh: Trump's First False Move**

Friday, December 23, 2016

**Donald Luskin****A dangerous protectionist crank is in charge of “industrial policy,” crowding out better men.**

The most often-asked question from clients now is: *is the Trump rally getting ahead of itself?* Perhaps so, with so much good news already out on President-elect Donald Trump's generally very pro-growth cabinet and agency nominations. Indeed, the high – so far – in the US 10-year Treasury's great yield back-up was last Friday, the day [it was reported](#) that Trump was considering Larry Kudlow to head the White House Council of Economic Advisors. For that role, as the president's chief economics analyst and spokesman, it just doesn't get any better than our friend Larry.

- *It's not just that we generally agree with Larry's economic world-view. It's that we respect his intellectual integrity. His appointment would signify that Trump wants a man of integrity in that job, that is, a man who would surely quit in a huff if asked to put his prestige behind some really stupid economic policy like imposing a tariff on Chinese imports.*
- *But a week has gone by and Larry has not been appointed. Instead, [yesterday Trump announced](#) the creation of a new “White House National Trade Council” and the selection of Peter Navarro as “Assistant to the President” and “Director of Trade and Industrial Policy.”*
- No one should be surprised that Trump would make a grand gesture to make real his signature campaign promise to encourage domestic manufacturing, renegotiate trade agreements and generally tap the brakes on runaway globalization.
- And no one should be surprised that Trump would create a position as pay-back for Navarro, who was just about the only academic economist in America [who spoke out for Trump](#) during the campaign while [virtually the entire profession treated him as a leper](#).
- *Kudlow spoke out for Trump during the campaign, too – working with Steve Moore to help shape Trump's tax plan. But unlike Navarro, Kudlow was always clear that he didn't support Trump's anti-trade agenda. And anti-trade protectionists and China-bashers don't get any more virulent, over-the-top and intellectually reckless than Peter Navarro.*
- *After a month of sensible nominations for his administration, – indeed, [in some cases](#) downright inspiring – this is one that seems to prove the Trump skeptics right.*

**Update to strategic view**

**US MACRO, ASIA MACRO, US BONDS:** The Trump rally stalled last week with the climax of good news from the transition team: reports that Kudlow might lead the Council of Economic Advisors. Such a choice would signal Trump's commitment to intellectual integrity in economic policy, but nothing more has come of it. Instead yesterday Trump announced the creation of a new “White House National Trade Council” and the selection of Peter Navarro as “Assistant to the President” and “Director of Trade and Industrial Policy.” He is a virulent and reckless China basher, who bends economic theory to oppose global trade as a deadweight loss to output. After a winning run, he is Trump's first bad – downright dangerous – appointment. With this, markets will likely have to pause while they wait for better signals about Trump's policy intentions.

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- *At least Navarro wasn't given the prestige of the CEA. We have to hope that his "Assistant to the President" role is a make-work patronage position in which Navarro will have no actual influence, expect perhaps to scare negotiating counterparties into making better deals.*
- Navarro is a Harvard economics Ph.D. who teaches at the business school of the University of California at Irvine. He has run for Mayor of San Diego three times, and for the US House of Representatives once, always as a Democrat and always losing.
- He is the author of [Death by China](#). In it he claims that China is "the planet's most efficient assassin" and that it exports "bone-crushing, cancer-causing, flammable, poisonous, and otherwise lethal products." And that's just page one.
- *Death by China* was made into [a documentary film](#) that is something of a cross between Michael Moore and World War II propaganda.
- His most recent book is [Crouching Tiger](#), concerning China's hegemonic global ambitions. It too has been made into [a documentary](#).
- In [a September position paper](#) for the Trump campaign written with Wilbur Ross – Trump's nominee for Secretary of Commerce – Navarro makes the case that unfair competition from China has destroyed millions of US manufacturing jobs – which is [at least directionally true](#). But he makes the flatly false theoretical case that imports are everywhere and always a deadweight loss to a nation's output – as though the ideal economic configuration of the world were universal autarky.
- Ross at Commerce already puts a man deeply skeptical of globalization in charge of a department that has extensive responsibilities for regulating trade. But at least Ross is a respected investor. Navarro is simply a crank – and while having him on the White House team may frighten China into a more submissive negotiating posture, his Sinophobia is [already being taken by China as an insult](#), one which might make negotiations impossible.

We're willing to bet that the election of Trump – building on a global wave of pro-growth elections beginning all the way back with Abe in Japan, and then on through Modi, Widodo, Rajoy and Brexit, and now even sweeping into France with the emergence of [Thatcherite François Fillon](#) – signifies an epochal shift, a secular turning, that will end the malign era of "the new normal" (see ["Trump and the 'Reflation Trade'"](#) November 15, 2016). In that sense it's not about Trump at all, but about a world of economic actors who have begun to choose leaders who will nurture the emergence of their ["animal spirits"](#) (see ["Trump May Be First Since Reagan To Unleash America's Animal Spirits"](#) March 19, 2016).

- So, no, the Trump rally has not gotten ahead of itself – because it is very likely only the opening weeks of what will emerge as a new epoch.
- But yes, the Trump rally has gotten ahead of itself in the sense that even epochs are made of cycles, and cycles are made of years,

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#### Recommended Reading

[The Keynesians vs. Kudlow](#)  
*Wall Street Journal*  
December 22, 2016

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quarters, months and days, each with its own headlines. At that level of granularity, Trump remains very much an unknown quantity (see [“Which Trump Will Americans Get?”](#) November 10, 2016).

- Like every other president, he will make both good and bad decisions. Appointing Navarro was probably a bad decision. It's not hard to construct imaginary scenarios in which it leads to a disaster of the Smoot Hawley variety. At the least, Navarro crowds out the participation of better men like Larry Kudlow.

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### **Bottom line**

The Trump rally stalled last week with the climax of good news from the transition team: reports that Kudlow might lead the Council of Economic Advisors. Such a choice would signal Trump's commitment to intellectual integrity in economic policy, but nothing more has come of it. Instead yesterday Trump announced the creation of a new “White House National Trade Council” and the selection of Peter Navarro as “Assistant to the President” and “Director of Trade and Industrial Policy.” He is a virulent and reckless China basher, who bends economic theory to oppose global trade as a deadweight loss to output. After a winning run, he is Trump's first bad – downright dangerous – appointment. With this, markets will likely have to pause while they wait for better signals about Trump's policy intentions. ▶