The Weekend Essay Life & Arts

‘That is Maganomics’: where Trump is taking America on trade

Maverick economist turned presidential adviser Peter Navarro has helped bring back a world in which power takes precedence over economic exchange. Will he back a world in which power takes precedence over economic exchange. Will he prove his critics wrong?

Gillian Tett 7 HOURS AGO

Seven years ago, I strode through the long black-and-white corridors of the White House’s Executive Office of the President to a room occupied by Peter Navarro, adviser to the then president Donald Trump.

Navarro’s desk was buried beneath piles of paper. “I’m always messy,” the economist laughed, and presented a 140-page report with an American flag on the cover titled “Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States”. This asserted that the US had become dangerously reliant on overseas suppliers for vital goods and thus needed industrial policies and trade controls.

“That’s a bit retro,” I joked. The last time such language had proliferated was during and after the second world war, when the American government tried to shape business to national ends. In peacetime, arguably the only comparable moment was the explosion of protectionism around the world that followed the Wall Street crash of 1929.

That episode ended so badly that by the late 20th century, industrial policy and tariffs seemed as unfashionable as flappers. The corridors of the EOP were filled with officials with a free-market, pro-globalisation ethos, who generally viewed trade through the lens of the classical economist David Ricardo (1772-1823). Their assumption was that open trade benefits all: countries export goods to earn money to pay for imports, and if each specialises in areas of comparative advantage, then everyone is better off.

“Ricardo is dead!” Navarro replied, before launching into a diatribe against America’s more mainstream economists — and the Financial Times, which Navarro’s friend, the rightwing agitator Steve Bannon, liked to say was akin to the church newsletter of a religion they wanted to overturn. I pointed out that the criticism was mutual.

Navarro shrugged. “You and the other FT writers will eventually know that I am right — you’ll see!” I walked out, report in hand, my heels clacking on the marble floors

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Peter Navarro arrives at court in Washington in January last year. He was sentenced to four months in prison for contempt of Congress © Bloomberg

Fast-forward seven years, and that exchange still rings in my mind — with new significance. This month Trump will be installed as the 47th president of the United States. Navarro will return to that EOP building to act as senior counsellor for trade and manufacturing — a double comeback for a man who served a four-month prison sentence in Miami last year for contempt of Congress, imposed after he refused to hand over notes or testify before a House of Representatives select committee on the US Capitol attack of January 6 2021.

No longer is the debate around trade conducted in Ricardian terms, as Alan Wolff, former deputy director-general of the WTO, acknowledges. “One hundred sixty-six nations joined the World Trade Organization and pledged not to use tariffs as a weapon,” he wrote in a recent memo, noting separately that since 1950 global trade has increased 4,400 per cent, driving heady growth.

But now, he adds, “there has been a paradigm shift in policy”. Trump is threatening to slap tariffs of 25 per cent on supposedly friendly countries such as Mexico and Canada, and the WTO’s authority has all but crumbled. The ideas promoted by men such as Navarro and Bannon, in other words, have gone from fringe to centre stage.

To understand these developments it is worth looking at Navarro’s back-story, since this is highly symbolic. Born in 1949, the son of a musician and a secretary, he came from a generation that wanted to embrace the world. After studying at Tufts, he worked for the peace corps in Thailand and then did a PhD in economics at Harvard in the 1980s.

This was the period when Ronald Reagan was unleashing a neoliberal economic movement that held up minimal state intervention, deregulation, free trade and low taxes as the recipe for growth. And when the Soviet Union collapsed in 1991, it seemed that free markets, democracy and globalisation had triumphed. History had not quite come to an end, to cite the famous book by Francis Fukuyama, but it seemed to be going in a straight line towards more globalisation and liberalisation.

Navarro’s work echoed this, to some degree. He studied supply and demand in American energy markets, predicting (accurately) that there would be electricity blackouts, and then taught economics at the University of California, Irvine, writing a 2001 book about investing in globalised markets called *If It’s Raining in Brazil, Buy Starbucks*. “[Navarro] was orthodox and liberal back then,” recalls Glenn Hubbard, a Republican-supporting economist who was in the same Harvard PhD cohort. *Seeds of Destruction*, a 2010 book he co-wrote with Navarro, was at pains to point out that the latter supported the Democrats.

But Navarro’s views had been changing. “It was in 2003 when I began to notice two particular trends,” he recalled in *Taking Back Trump’s America,* published in 2022. One was that his students were losing their jobs; the other was that they were no longer being sponsored by companies to do MBAs. He investigated and concluded that the root cause was China’s admission to the WTO in 2001, which had enabled the country to grab “huge chunks of global market share”.

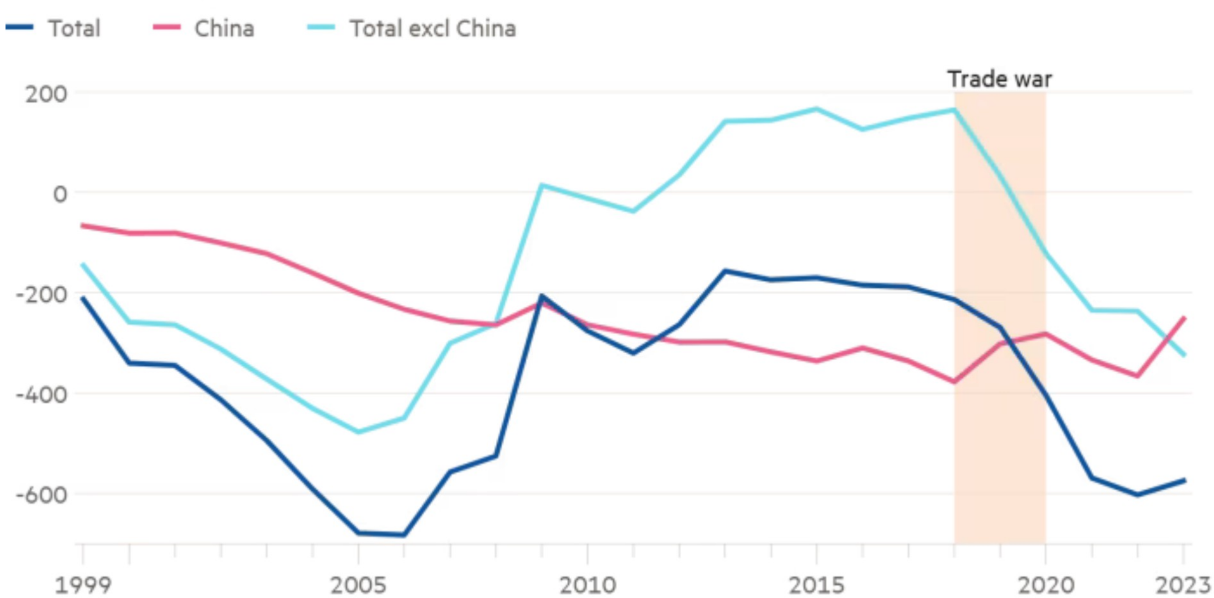
It’s long past time for the ivory tower to reimagine and re-engineer its models of trade!

Were Ricardo alive, he might have pointed out that American consumers were also benefiting from cheaper goods — a point that matters, since Ricardo’s love of free trade was influenced by his hatred of how English 19th-century oligarchs used the so-called Corn Laws to rig prices. More specifically, he wanted to abolish the Corn Laws to let goods be priced according to demand and encouraged countries to focus on their areas of strategic advantage to further lower costs — say, England swapping its exports of wool for Portuguese wine.

But Navarro concluded that with China in the WTO it was now impossible to create the type of level playing field that Ricardo had wanted, because Beijing had rigged the system. “America, the piggy bank, will continue to be plundered by a trade deficit that transfers more than half a trillion dollars of American wealth a year into foreign hands . . . [through] industrial espionage, rampant cheating, intellectual property theft, forced technology transfer, state capitalism and currency misalignments,” he later told students at Harvard. “It’s long past time for the ivory tower to reimagine and re-engineer its models of trade!”

Trump's trade war reduced the US deficit with China, but not the overall deficit

US trade balances (goods and services, $bn)



Sources: BEA, Richard Baldwin

Unsurprisingly, economists in that “ivory tower” — at Harvard and elsewhere — bristled. One reason was that China’s role in global production seemed to have made it more efficient. Another was that many economists blamed automation — not China — for the loss of jobs. They believed, too, that insofar as cheap imports were creating a large trade deficit for America, this was offset by flows of money. More specifically, the Chinese used the dollars earned from exports to buy assets such as Treasury bonds.

Navarro’s vision of trade also seemed out of step with 21st-century business. In Ricardo’s day, this was primarily about the bilateral exchange of goods — say, wool for wine. Now it is shaped by services and digital operations that transcend national borders. The movement of goods is extremely complex: when Apple makes iPhones, say, it uses supply chains that involve 43 countries, while parts from a “made in America” car can cross the Mexican border seven or eight times over the course of the manufacturing process.

But unease with neoliberalism was growing. As far back as 1999, progressive protests had erupted in Seattle, when leftwing activists disrupted a ministerial meeting of the WTO to express their anger against globalisation, which they blamed for rising inequality and environmental harm. By the early 2000s, such concerns had fed into the Environmental, Social and Governance movement, influencing centrists too. “Some of us started to realise that we were just not paying enough attention to the people left behind [by globalisation and technological change],” says Hubbard, whose 2022 book *The Wall and the Bridge* called for a focus on stakeholders, not just shareholders and profits.

Protesters wave Fair Trade banners through the streets of Seattle in 1999 © Getty Images

Then these ideas spread among the group of rightwing politicians who would later coalesce around the Make America Great Again movement. As far back as the 1980s, Trump had been wary of free trade. But after Jared Kushner, his son-in-law, drew his attention to Navarro’s books, he became even more alarmed about China. So did Bannon, the self-styled “nationalist populist”. When Trump won the 2016 election, he started to turn his protectionist rhetoric into reality, slapping tariffs on China in areas such as steel and forcing the renegotiation of trade deals.

This was a shock for neoliberals. But what was far more striking was that even after Trump lost the 2020 election to Joe Biden, the intellectual pendulum continued to swing. In opposition, Biden had railed against Trump’s protectionist and xenophobic rhetoric. But once he entered the White House himself, he retained many of the Trump tariffs — and added some new ones. He also formulated a vision of industrial policy — Bidenomics — that, ironically, echoes themes about supply-chain protection found in the “retro” report that Navarro had presented to me in 2018 in the EOP building.

And Biden was not alone. Last April, the IMF noted that there had been 2,500 industrial policy measures recorded among its members in 2023 — of which two-thirds were trade-distorting. “Now, industrial policy appears to be back everywhere,” it observed, noting that while such policies used to be limited to small developing nations, in 2023 “China, the European Union, and the United States accounted for almost half of all new measures”.

Why? The IMF blamed “the pandemic, heightened geopolitical tensions, and the climate crisis [which] raised concerns about the resilience of supply chains”, along with rising unease “about the ability of markets to allocate resources efficiently”. Future historians might also cite voter anger towards elites due to stagnating incomes.

Donald Trump shakes hands with Chinese vice-premier Liu He after signing a trade agreement in 2020 © AP

There is another way to frame this shift: the past two decades have forced us all to recognise the limits of the economist’s craft. In the late 20th century, amid the rise of free-market ideas and an explosion of computing power that facilitated the creation of complex mathematical models, the discipline often seemed like a kind of quantitative policymaking priesthood. This was an era when *Homo economicus* seemed to rule. Trade flows were presumed to create peace, existing almost in a sphere outside politics.

However, any economic model is only as good as its “inputs”, and these models have been repeatedly overturned by items that were not included in the number crunching, such as medical risk, technology change, culture, social conflict, environmental issues and war. The Greeks who created the root word for the discipline — *oikonomia* — would not have been surprised by this: they viewed *oikonomia* as household or community management or stewardship. But that was not how neoliberals saw it*:* markets were supposed to look after themselves. Numbers ruled.

It is Homo politicus, not Homo economicus, who dominates: trade is no longer ‘just’ about economic exchanges, but power

So one way to understand the intellectual shifts today is that we are returning to *oikonomia*. The political right wants to “manage” national security; the left wants to “manage” our ecology and social equity. Either way, it is *Homo politicus*, not *Homo economicus,* who dominates: trade is no longer “just” about economic exchanges, but power, particularly of the hegemonic sort. And that is tipping us back to the early 20th-century mentality described by the long-forgotten economist Albert Hirschman in his 1945 book *National Power and the Structure of Foreign Trad*e, where it is presumed that “an increase of wealth through foreign trade leads to an increase of power relative to that of other countries . . . [and] a conflict between the wealth and power aims of the state is well-nigh unthinkable”.

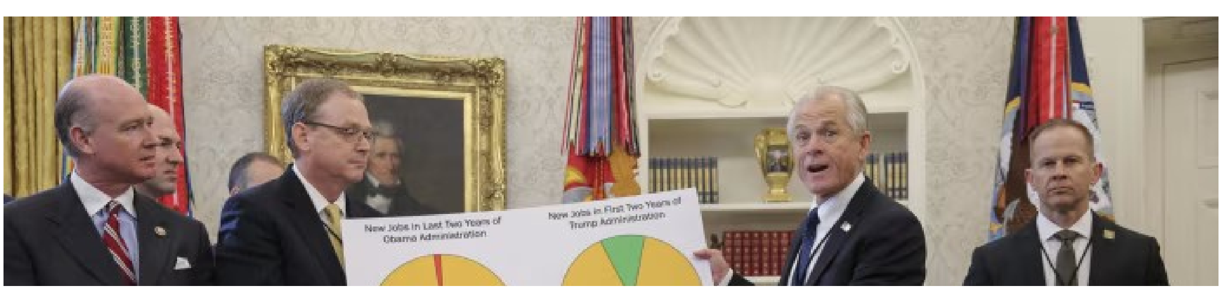
Of course, bullying never vanished from the world stage; even in the free-market Reagan era, there were tariff threats. But when countries such as China tried to bully Australia or South Korea a decade ago, this tended to be subtle. Now it is overt — and touches not just goods, but money too. “We estimate that US geoeconomic power touches not just goods, but money too. “We estimate that US geoeconomic power relies on financial services, while Chinese power relies on manufacturing,” says Matteo Maggiori, an economist, in a new paper he has co-written on these hegemonic power politics. Or as Wolff puts it: “The United States is not the first country in modern times to deploy power as a basis for trade relations, just the first to do so openly.”

So what happens next? In recent weeks, I have put that question to some in Trump’s circle. Few will speak on the record ahead of Congressional confirmation hearings, and there are splits between them. Some are keen to downplay Bannon’s and Navarro’s roles as “mere” advisers; the former, for his part, has been engaged in a war of words with the tech billionaire and Trump ally Elon Musk over H-1B visas for skilled workers.

However, several key themes emerge. One, as Bannon tells me, is that “there is a widespread view in the Maga movement, including senior levels of President Trump’s circle, that neoliberal economics has failed and Ricardian economics is no longer relevant. We are in a populist nationalist fight.”

A second key theme is profound hostility to China, to a point where some Trumpians are reluctant to even see Beijing buy many Treasuries. A third is that if trade flows are reimagined, finance might also need to be, to protect American interests; the so-called Bretton Woods system created by western allies in 1944 to shape global finance might have to be rethought. Or as Scott Bessent, Treasury secretary nominee, said in the summer: “We’re in the midst of a Bretton Woods realignment . . . I’d like to be part of it.”

Fourth, Trump’s acolytes think that his political “genius” — as some call it — rests on his ability to act in unpredictably aggressive ways that destabilise his rivals. “Why did he attack Canada? It’s partly just sport, to show who is strong and who is in charge,” says one official. And that has a crucial implication: we do not know how much of Trump’s rhetoric on trade — or anything else — will turn into reality.



Peter Navarro in the White House in 2019 © Bloomberg

After all, in his first term his bark was often worse than his bite, and this time his policy pledges are riddled with internal contradictions. To give one example: if Trump actually imposes large-scale tariffs, this is likely to strengthen the dollar — as Bessent himself has previously noted — and could actually widen the deficit, which is not what Trump says he wants to see. To give another: if he does impose tariffs, this could raise inflation — even though he has promised to reduce it.

Or a third contradiction: if Trump puts up barriers in a bid to increase his nation’s power, this might encourage other countries to trade more with each other — around America. Indeed, one striking detail about the world in 2025 is that even as groups such as the IMF fret about protectionist rhetoric and trade-distorting policies, most economists expect strongish global growth next year — and for trade to keep swelling too. Perhaps this is over-optimistic. But many countries and companies are becoming more adept at rechannelling supply chains. A study by New York University’s Stern School of Business suggests that if you look at all the four metrics of globalisation today — the movement of money, people, information *and* goods — it is still near a record high. Just because America is threatening to become isolationist does not mean the whole world is on this path too.

This does not deter Navarro. Far from it: as he prepares to return to the EOP, he is eager to prove the critics wrong. “Net tariffs will lower the US trade deficit and thereby boost real GDP growth while slowing the transfer of US assets into foreign hands, thereby preserving US wealth,” he tells me after I point to the inconsistencies of Trump’s policy pledges. “As domestic investment and production increases and supply chains become more stable and resilient, real wages will rise, inflation will fall and our nation will be more secure,” he continues, arguing that “Drill, baby, drill” and reduced regulatory costs will help fight inflation. “That is the essence of Maganomics.”

Is it madness? Genius? Or just a sign that history — and intellectual fashions — always move in pendulum swings? Maybe historians will have a clear answer in another seven years’ time. Today, however, we can only watch — with unease.

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