

# NATIONAL REVIEW

## Peter Navarro: Trump's Nutty Economics Professor

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In the collected works of Peter Navarro, there is a peculiar paradox: Some of the dullest prose imaginable challenges the sharp edge of Hanlon's razor, the aphorism that advises us: "Never attribute to malice that which is adequately explained by stupidity." Professor Navarro of the University of California at Irvine has hanging on the wall of an office or a den somewhere a doctorate in economics from Harvard; barring some *Forrest Gump*-level chain of coincidence, it does not seem likely that anything as innocent as stupidity explains his literary output, which consists of a few how-to-make-money-in-the-stock-market books (an actual title: "If It's Raining in Brazil, Buy Starbucks") from earlier in his career and a half dozen or so low-minded books about China with such talk-radio-ready names as "Death by China" and "The Coming China Wars," two books that contain 80 exclamation points between them, as well as several pamphlets summarizing the main points of his books.

He is President Donald Trump's house China intellectual, the only one of his close advisers who is a credentialed academic economist, albeit one whose area of specialty is utility companies, not international trade. (Our most famous scholar of trade economics, Paul Krugman, apparently was not available for service in the Trump administration. Pity.) Navarro has been named head of the newly created National Trade Council, a position in which he is well positioned to do a great deal of damage to the Trump administration, to the United States and its economic interests, and, possibly, to the world. That's quite a step up for a man who was teaching undergraduate econ to business students until a few months ago.

It will not escape your notice that his career bears more than a passing resemblance to that of Elizabeth Warren. Both entered public life as academics; both attempted to build fortunes and reputations on popular financial self-help books (Elizabeth Warren offered the Dave Ramsey-ish *Ultimate Lifetime Money Plan*); Warren, possibly owing to her being a woman of color (Pantone code 11-0602 TPX), secured a more prestigious academic appointment than he did, but UC Irvine isn't nothing; both individuals were instrumental in the creation of federal agencies, though Warren ultimately was prevented from leading the Consumer Financial Protection Bureau she dreamt up; both sought public office, with Warren coming to serve in the Senate and Navarro running for office four times as a Democrat, losing races for mayor of San Diego, San Diego city council, county supervisor, and California's 49th congressional district; both have a taste for populist arguments against international trade, and both have made environmental concerns a prominent part of their anti-trade positions: "Vice President and Nobel Laureate Al

Gore has been transformed by an avalanche of scientific facts from a left-wing crazy to the planet's most authoritative political voice on the subject," writes Navarro.

And both are battier than Bruce Wayne's basement.

Professor Navarro, among other things, makes economics errors that would be obvious to an undergraduate. This has been commented on at some length elsewhere, most prominently after he published a review of the Trump economic plan (a review co-authored with Wilbur Ross, who is not an economist but is now secretary of commerce) in which he proffered the schoolboy argument that, because GDP is defined as the sum of consumption, investment, government spending, and net exports, eliminating our trade deficit with China would add substantially to GDP. In economics terms, he has mistaken an accounting identity for real-world causality; in layman's terms, this is horsepucky, "a mistake that an econ professor like him really shouldn't be making," as Noah Smith of *Bloomberg* put it.

"Net exports" means "exports minus imports," and, because the United States currently runs a trade deficit, that figure is negative. And it is not a trivial figure: Our trade deficit with China in 2016 equaled about 2 percent of GDP. But eliminating that trade deficit would not add 2 percent to GDP; imports are subtracted from the GDP model because they already are counted in other consumption and we don't want to double-count them. As Cato's Dan Ikenson puts it in his savage write-up of Navarro's "economic illiteracy" — his words — in *The Hill*: "Imports have nothing to do with GDP — other than the fact that they increase when the economy is growing and they tend to decrease when the economy is contracting. . . . There is no inverse relationship between imports and GDP, as Navarro asserts." He calls Navarro's appointment an "assault on the fundamental premise that public policy should be rooted in fact and reason."

Deficits in trade are married to surpluses in investment. The Chinese choose to consume less and invest more for many reasons: One is that China is still poor and does not wish to be, and its leaders understand that real prosperity does not come without real investment; another is that any Chinese national with the wherewithal to invest outside of China is smart enough to know that doing so is prudent when you live under a police state that is by necessity always one serious economic crisis away from civil unrest.

Professor Navarro never gives any serious consideration to the actual fact of trade-offs between consumption and investment, trade-offs being the coin of the realm for economists doing economics. For him, trade is mainly a moral question: "While China's unfair trading practices constitute the major reason the United States runs huge trade deficits with China," he writes, these unfair practices are not the only reason. At least part of America's huge trade imbalance problem may be traced directly to its nearly decade-long descent into a "living beyond one's means" lifestyle. This is a lifestyle that has been accommodated both by chronic federal budget deficits and a surfeit of easy money from the Federal Reserve's "printing press."

None of that is true. Neither is his related claim that China effectively acts as the United States' "central banker," as he repeatedly puts it. A little less than half of U.S.-government debt held by the public is owned by foreign governments and institutions, and China is not the biggest overseas holder of that debt: Japan is, as of the most recent (December 2016) figures from the Treasury Department. The third-biggest holder of U.S. federal debt abroad is Ireland, followed by — see if you can identify the trend here — the Cayman Islands, Brazil, Switzerland,

Luxembourg, and the United Kingdom. The belief that Beijing has some special hold on U.S. finances is a myth. To the extent that there is a stranglehold, it is mutual: Luo Ping, then China's top bank regulator, told an audience of American financiers and regulators in 2009: "Except for U.S. Treasuries, what can you hold? Gold? You don't hold Japanese-government bonds or U.K. bonds. . . . We know the dollar is going to depreciate, so we hate you guys, but there is nothing much we can do." He wasn't wrong about that, and the prospect of China firebombing its own assets in a fit of anti-American pique is far-fetched.

Professor Navarro almost certainly knows this. Professor Navarro almost certainly does not care. His fearful books and risible policy analyses are not written for the Dan Ikensons of the world, or even for those freshman econ students who could spot the errors in his work. They are written for partisans and true believers. This is a very large audience — Sean Hannity's audience — but Navarro's most recent policy analysis was written for the smallest of all possible audiences, an audience of one: Donald J. Trump.

Navarro's China books are also written to stir emotion, not light.

He refers to Diego Garcia as "one of the most strategic bases in the American matrix," a phrase that is without meaning. ("Vetoing panda proliferates genocide in Darfur," on the other hand, is worthy of Lawrence Ferlinghetti.) He offers absurd historical quantifications such as this gem: "Across a broad swath of world history, in fully eleven of the fifteen times since 1500 that a rising power like China faced an established power like the United States, war resulted more than 70 percent of the time."

He is very, very fond of that "broad" swath, sweep, whatever, e.g., "It should be clear from this broad sweep of history that since taking power in 1949, the Chinese Communist Party has consistently engaged in repeated acts of aggression and violence over a period spanning more than six decades." Well figured again. "When you juxtapose this Chinese history against that of America's own exceedingly violent modern record, this is indeed a highly combustible mix." One hears in that some echoes of Trump's defense of Vladimir Putin's murders and suppression: "We've got a lot of killers. What, do you think our country is so innocent?"

His policy prescriptions are fanciful and moralistic ("Question whether you really need what you are about to buy from China"), and he falls into the familiar academic's conceit of believing that he knows a great deal more about other people's businesses than do those people, who run them. E.g.: "I always marvel at this lemming-like offshoring behavior. . . . In the parlance of business strategy, these executives have failed miserably in performing a complete 'risk assessment' of moving their facilities to China." In an earlier life, I was involved in corporate risk-assessment, which is much more granular (one of my chores was counting up the number of ransom kidnappings in Santo Domingo) than the "grand sweep" of Professor Navarro's point of view. The brain trust in Cupertino almost certainly has given a lot more thought and genuine study to Apple's vulnerabilities vis-à-vis China than Peter Navarro has.

I should probably mention the plagiarism. So far as I can see, Professor Navarro does not copy the work of others word for word (except for an unattributed quotation from Toby Keith), but his work sometimes relies heavily on uncredited sources. For example, in a section on Chinese-made counterfeit goods, he asks the reader to consider a number of scenarios: developing a rash from using fake Head and Shoulders shampoo made with an irritating ingredient, having one's fire-alarm system destroyed by fake Duracell batteries, having a reaction from fake Viagra, etc.

Those name-brand examples appear in a piece by ABC News that is substantially similar to Navarro's text, as well as in an earlier *Chicago Tribune* report. If one of my undergraduate students had turned in a similar piece of work, I would have flunked him for it.

But this is part of Professor Navarro's throw-it-all-and-see-what-sticks approach. It leads him to some strange places, such as suggesting that China is likely to dissolve into a state of internal chaos and that one of the possible "triggers" is an HIV pandemic. He refers to this possibility as "China's Ticking HIV/AIDS Time Bomb" in *The Coming China Wars* (2008). In reality, China has an HIV-infection rate less than one-thirtieth that of the District of Columbia. HIV is an issue in China, as it is almost everywhere, but it is a minor one, even in comparison with more advanced countries such as the United Kingdom. Professor Navarro merrily ignores the entire context.

His sloppiness with sources is general. Navarro cites a Rand Corporation report suggesting that China is behind Iran's nuclear program without mentioning that the report is a quarter-century old, that it identifies China as a "moderate threat to U.S. interests," or that subsequent Rand analysis suggests that Chinese involvement with Iranian nuclear ambitions seems to have ended around 1997. He does not even cite any particular Rand report, simply attributing a long quotation to "the Rand Corporation."

Professor Navarro does not have much of an eye for the future, which is a problem for a man in the futurism business. He foresees American streets clogged with shoddy Chinese-made cars:

Pulling out of the gas station back into traffic, you are horrified to see a sporty little compact car made in Shanghai scream through a red light and plow directly into a school bus when the car's counterfeit brake pads fail. Fortunately, none of the children are badly hurt, but the driver winds up in the morgue after the front end of his Made in China car crumples because of its low-quality steel and the driver-side airbag failing to deploy.

There are a few Chinese-made cars for sale in the United States: Volvo, for instance, makes some cars there. The bumpers are pretty good. Trump fretted that China is maneuvering to control the world's oil supply and that a partnership between Beijing and Caracas (this while Hugo Chávez was running the show) threatened to starve the United States of oil. Since then, the United States has become a petroleum exporter, and, as I write, the oilmen in Houston are watching queasily as the price of crude dips below \$50 because of an oil glut.

As a wise man once said, it is difficult to make predictions, especially about the future. But Professor Navarro does not seem to understand the present very well, either. In fact, his understanding of the Chinese authorities' economic strategy is exactly backward. He argues that Beijing intentionally maintains an artificially high unemployment rate in order to coerce workers into accepting wages that are low and stagnant. In reality, Chinese workers' wages have been rising from 5 percent to 7 percent (or more, by some estimates) per year for years, while unemployment has been relatively low. As unemployment has increased in recent years, Beijing has gone to great lengths to convince the Chinese people that the labor market is tighter than in fact it is. Beijing knows that an army of unemployed men is an army that it must take seriously. Far from using the threat of unemployment to motivate workers, the powers that be in China fear a general sense of job insecurity more than they fear anything else short of an invading army.

One could go on. But there would be no point. Trump feels the need for occasional intellectual window-dressing: Consider his endless references to the academic highflyers in his family and his recent boast that “we have by far the highest IQ of any cabinet ever assembled.” But he is in fact deeply anti-intellectual, which is one of the reasons he prefers to be advised by cranks and fast-food titans than, say, subject-area experts. Professor Navarro is, as I understand it, an excellent scholar of utilities. He does not have any special competence on the subject of China, on the economics of trade, or on American trade policy. He is a crude and ridiculous propagandist — one with a federal portfolio and a place of honor in the Trump administration.