

Misjudge China and Donald will never make America great again

Niall Ferguson | Harvard University | 22 January 2017

President Donald J Trump's favourite Twitter hashtag is #MAGA, which of course stands for "Make America great again". His critics often complain that this implies America is not great now, whereas in fact it is much better than ever in terms of such crucial metrics as the number of community organisers in Chicago, the shooting range – sorry, spiritual home – of the Obama years.

But Trump's supporters know just what he means – make it the 1980s again. For those older age groups that broke decisively for the Republicans in November, this is one last chance to turn the clock back to when they and their country were in their prime.

Friday's inaugural address by Trump was thus fascinating both for its similarities to Ronald Reagan's 1981 inaugural and for its differences. Both painted a picture of economic stagnation. Where Trump spoke of "rusted-out factories scattered like tombstones across the landscape", Reagan lamented "idle industries... unemployment, human misery and personal indignity".

Both Trump and Reagan made clear that the time was up for malaise. "This American carnage stops right here, and stops right now," said Trump. "Let there be no misunderstanding," declared Reagan. "We are going to begin to act, beginning today."

Both blamed America's economic troubles on the federal government. "Politicians prospered, but the jobs left and the factories closed," said Trump. Thirty-six years ago, Reagan declared: "Government is not the solution to our problem; government is the problem."

And both identified themselves as populists. "What truly matters is not which party controls our government," said Trump, "but whether our government is controlled by the people." Reagan used similar language: "Our concern must be for a special interest group that has been too long neglected... 'We the people.'"

Likening Trump to Reagan is a dangerous thing to do. But my point is not that they are the same. It's that their circumstances are similar. The left despised Reagan as they despise Trump. Both men found fame on the screen before entering politics. Both succeeded a Democrat who was seen as weak on foreign policy.

It's not accidental that Trump has talked about a summit meeting with the Russian president, Vladimir Putin, perhaps in Iceland. Reykjavik was the scene of the most famous of the meetings between Reagan and the Soviet leader Mikhail Gorbachev in 1986.

Yet this is not "morning again in America", as Reagan's 1984 television ad put it. In Trump's America it feels more like twilight – the twilight of the era of economic globalisation that the

Reagan administration kicked off. For the most striking feature of Trump's inaugural address was its overt protectionism. "Protection will lead to great prosperity and strength," said Trump, once again using the 1930s isolationist slogan: "America first". His administration would apply "two simple rules: buy American and hire American".

Trump blamed globalisation, not government, for America's economic ills. By contrast, Reagan saw free trade as part of the solution. Trump promises a programme of infrastructure investment; Reagan slammed high taxation and the budget deficit.

Like all presidents, Trump will be judged by how far he makes good on his pledges. In one of his debates with Hillary Clinton, he talked of raising the US growth rate "from 1% up to 4%" and perhaps to "5% or 6%". He intends to achieve this not only through protectionism but also through tax reform and deregulation, though neither was mentioned on Friday.

On foreign policy Trump is an avowed realist who asserts "the right of all nations to put their own interests first", and has no intention of imposing the American way of life on anyone. The sole exception to this is "radical Islamic terrorism, which we will eradicate from the face of the Earth".

It is important to distinguish between the real and the imaginary obstacles Trump faces. In the latter category are the leftist hooligans who ran amok in Washington on Friday, liberal journalists who insist Hitler has come to power and Hollywood stars who can't stop whining. Even yesterday's protest marches will achieve little.

The real obstacles for Trump are as follows. First, voters – especially the independents and late deciders who voted for Trump on 8 November – are fickle. Polls show that the new president's approval rating has fallen over the past month, which almost never happens between an election and inauguration. No president has entered the White House so unpopular.

Second, key Republicans, especially in the Senate, feel little loyalty to Trump. If the investigations into Russian meddling in the election turn up compromising evidence, do not expect John McCain or Ted Cruz to shed tears at the prospect of Mike Pence following in the footsteps of Gerald Ford. And even if "Wettergate" goes away, the Senate leader, Mitch McConnell, and the House Speaker, Paul Ryan, will largely control the direction of the administration wherever legislation is required.

Third, precisely because this is not the 1980s, the economy may not deliver. The Federal Reserve expects growth of between 1.9% and 2.3% this year, and slightly less next year. That's half Trump's target. Meanwhile, Congress may pass tax cuts but raise no additional revenue, leading the deficit to balloon. The Fed will then raise interest rates.

Finally, there's China. In 1981, the Chinese economy accounted for less than 3% of world output. Today it is about 18%. "America first" has a ring to it in a speech, but a whole library of economic history implies protectionism could backfire badly.

With all respect to Theresa May's argument for a "global" Brexit, the other big speech last week was Xi Jinping's defence at Davos of globalisation. "Pursuing protectionism is like locking oneself in a dark room," the Chinese president said. "While wind and rain may be kept outside, that dark room will also block light and air. No one will emerge as a winner in a trade war."

The Art of the Deal was published by Trump in 1987. "My style of deal-making is quite simple and straightforward," he wrote. "I aim very high, and then I just keep pushing and pushing and pushing to get what I'm after."

Tomorrow the artist of the deal begins to get acquainted with what could be his two biggest foes. One is Washington's ruthless political class, personified by Frank Underwood, the antihero of House of Cards. "The road to power is paved with hypocrisy and casualties," says Underwood in one scene. And: "The president is like a lone tree in an empty field: he leans whichever way the wind is blowing."

Trump's other big foe could be China. The Art of War was written by Sun Tzu 25 centuries before The Art of the Deal. "So it is said that if you know your enemies and know yourself, you will not be put at risk even in a hundred battles," writes Sun. But "if you only know yourself, but not your opponent, you may win or may lose".

No one should underestimate Trump. But MAGAlomania alone will not be enough if he underestimates his enemies.



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Professor Niall Ferguson is a special guest keynote at [PortfolioConstruction Forum Markets Summit](#) (14 February 2017).
