

## POLITICAL PULSE

**Sympathy for the Donald**

Wednesday, March 2, 2016

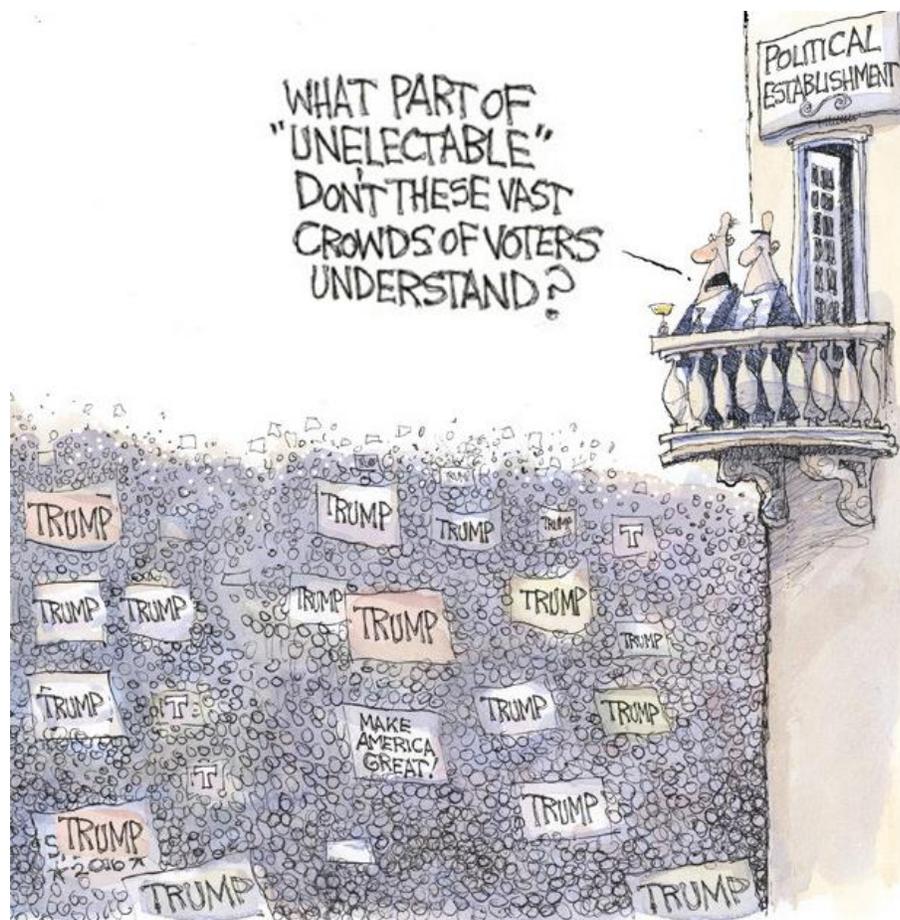
Donald Luskin

**Think contrarian! What if Trump turns out to be the best pro-growth president in decades?**

Yesterday's Super Tuesday results puts a sharper point on our concern that an increasingly likely Donald Trump GOP candidacy is a source of risks for markets this year (see, most recently, ["Have We Suffered Enough?"](#) February 26, 2016). *With no opponent consolidating a strong second, the path for Trump is clear.* We were alone three months ago warning about this, when we made the contrarian call that the Trump fad would not conveniently fade away. We said it was, in fact, a *movement* that could take him all the way to the nomination (see ["Trumped!"](#) December 14, 2015). In our view, *the biggest risk is that he might lose in November in a Goldwater-type landslide, handing the White House and the Congress to the Democrats, ushering in two years of one-party rule and a spurt of*

**Update to strategic view**

**US MACRO, ELECTION MODEL:** Trump's path to the GOP nomination is now clearer than ever. It's time to look at him realistically as a force that will act on the economy and the markets. If he runs and loses big, the GOP could lose control of Congress. But if he wins, we are open to considering that he would be a very pro-growth president. We think he is, already, the only candidate running on a pro-growth platform. For all his bluster, indeed to some extent because of it, he could awaken dormant "animal spirits" of the economy. His tax plan, while imperfect, is generally a supply-sider's dream. And his protectionist stance is not as severe as it may seem, and is certainly no worse than Clinton's.



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large-scale anti-growth legislation like Obamacare and Dodd-Frank (see [“2016: Two Charts, Six Words, One Man”](#) December 31, 2015).

But that’s not what we want to talk about today. Today, just as a thought-experiment, a wild what-if, *let’s make the most contrarian call possible – that Trump will win the presidency, and will be a great pro-growth president. We don’t know if he will win – but we can make a creditable case that he would be good for growth.*

We suppose this is an exercise in sympathy for the devil. You remember [the iconic Rolling Stones song](#) by that name. Its opening line is kind of like the Trump campaign – “Please allow me to introduce myself, I’m a man of wealth and taste.” Okay, on the taste part, not so much.

*But Trump does introduce himself as a man of wealth, and that simple fact speaks volumes about what it would be like to have him as president.* In the last election, Mitt Romney spent his entire campaign apologizing for his wealth, groveling to his opponents’ narrative that branded him an avatar of white privilege. Romney lost because, in the end, he offered only the same defeatist vision embodied in President Obama’s [“you didn’t build that.”](#)

Trump couldn’t be more different. As a real estate developer, he did, literally, build that. [And he’s proud](#) of it, bragging “I have a Gucci store that’s worth more than Romney.”

[It is often said](#) that no candidate of either party is substantively engaging with the mission of re-igniting American economic growth. It’s true that for almost two decades all candidates of both parties ritually concede that America is in permanent economic decline, and hide or apologize for whatever success they may have had personally. Trump unapologetically offers himself as an aspirational example, which makes him the first pro-growth candidate of the new millennium.

Yes, obviously, in an important sense Trump appeals to the worst in people. But that’s hardly unique among politicians, especially the current crop. *What is unique is that Trump is also appealing to the best in people.* Trump’s seemingly jingoistic slogan “Make America great again” is a political inflection point as significant as [Deng Xiaoping’s exhortation](#) “To get rich is glorious” was for China’s capitalist rebirth.

The statist economist John Maynard Keynes wasn’t right about much, but he was right when he laid out [this enduring axiom of economics](#): “our decisions to do something positive... can only be taken as the result of animal spirits—a spontaneous urge to action.” *For all the bluster and buffoonery, Trump’s campaign – his very persona – has the effect of letting it be okay for Americans to embrace their inner animal – without fear that economic achievement will brand you as a greedy racist polluting imperialist.*

The bluster and the buffoonery are an integral part of his pro-growth program. Trump’s relentless – sometimes tasteless – assault against

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### [Are The Pessimists Right About America's Slow-Growth Future?](#)

Bret Swanson  
US Chamber of  
Commerce Foundation  
Blog  
February 25, 2016

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political correctness is an antidote against the guilt-trip that entrenched elites of both parties use to suppress the animal spirits of capitalism.

Specific policy positions are important. But in some sense if a national leader can set an atmosphere of confidence and pride and motivation – we think of Reagan’s [“morning in America”](#) theme – he can liberate bottom-up human action in a way that’s quite hard to do with top-down policies.

That said, Trump is short on present or past specific policy positions – he has no track record in government, and his campaign is mostly generalities. So another lyric from the Stones song comes to mind – “what’s puzzling you is just the nature of my game.”

To be fair to him, the other candidates are equally short on specific policy positions. But Trump has put forth [a tax plan](#) as specific as that of any candidate. No less an authority than Reagonomics guru [Arthur Laffer said](#), “It’s a great plan. And I think it’s better or pretty close to as good as Reagan’s.”

Laffer’s remarks were casual, but the plan is of legitimate interest. It calls for a top personal tax rate of 25%, a capital-gains rate of 20%, and a top corporate rate of 15%. I don’t know of many pro-growth supply-siders who wouldn’t crawl across broken glass to get that enacted into law.

To be sure, Trump’s plan has a protectionist edge to it. It calls for a one-time 10% wealth-tax on corporate cash held overseas, whether or not it is repatriated. That’s bad news for American multinationals that keep cash overseas to fund operations there – but then again, having the top corporate rate drop from 35% to 15% would likely ease their pain.

It’s also interesting to note that the specifics of Trump’s tax plan reveal as a mere ploy his Wall Street-bashing proposal to eliminate the so-called “carried interest loophole” – which taxes hedge fund and private equity fee income at the lower cap-gains rate. Its elimination barely matters when the top personal tax rate is lowered to pretty much the same level as today’s all-in cap-gains rate.

Now, about the protectionism thing. Trump’s protectionist tendency is the dark side of his economics. It is unambiguously anti-growth – and more fundamental, anti-liberty – to slap arbitrary tariffs on China because it is supposedly a “currency manipulator,” or to demonize US companies that set up operations overseas. And it is sheer ignorance to cite America’s trade deficit as the amount we are “losing.”

But Trump isn’t as ignorant as he seems on trade. His opponents have eagerly pointed out his seeming hypocrisy, noting that he hires foreign workers for his Mar-Ai-Lago resort in Florida. Such hypocrisy is a feature, not a bug. It’s encouraging that he admits shamelessly that employers must do such things, saying “Otherwise, you hurt your business.”

And Trump is right that we could be doing better “deals” with our trading counterparties. The huge US consumer market is a critical national asset, access to which can be made contingent on various behaviors. In the case of China, it is leverage that could rein in rampant intellectual property abuses, and the increasing militarization of the South China Sea.

And remember, an election is a pragmatic choice between available candidates – and Hillary Clinton is as demagogic a protectionist as Trump. She is no Bill Clinton, who championed NAFTA with GOP support. In her [victory speech last night](#), she echoed [Trump's badgering](#) of Ford Motor Company for their planned plant in Mexico. She berated Johnson Controls for “turning its back on America,” and threatened “we are going to hold you accountable.”

*And remember that Democrats are generally more protectionist than Republicans. Would those who favor free global markets prefer protectionist Clinton with an anti-trade Democratic congress, or protectionist Trump with a pro-trade GOP congress?*

[Hillary's tax plan](#) imposes a 4% surtax on ordinary income and cap-gains, and raises the cap-gains rate to 39.6% for investments held for less than six years. [As she menacingly puts it](#), “something has to be taken away from some people.”

And we doubt she was referring to individual initiative and venturesome risk taking when [she said](#), “don't let anybody tell you, that, you know, it's corporations and businesses that create jobs.” These are not the words of leadership likely to inspire and release the animal spirits of the economy.

We are aware that all this is speculative – it has to be, because we are talking about unknown future policy initiatives, and conjecturing on the effect upon sentiment of having a strong aspirational leader in the White House. But as good contrarians, or at least believing that we should look realistically at all the possibilities, we think it is important to suppress the virulently negative image of Trump that the media and the political establishment wants you see. Consider, instead, that there actually may be a good reason why so many people are so enthusiastic about him.

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## Bottom line

Trump's path to the GOP nomination is now clearer than ever. It's time to look at him realistically as a force that will act on the economy and the markets. If he runs and loses big, the GOP could lose control of Congress. But if he wins, we are open to considering that he would be a very pro-growth president. We think he is, already, the only candidate running on a pro-growth platform. For all his bluster, indeed to some extent because of it, he could awaken dormant “animal spirits” of the economy. His tax plan, while imperfect, is generally a supply-sider's dream. And his protectionist stance is not as severe as it may seem, and is certainly no worse than Clinton's. ▶