Wall Street’s Win-Win with Trump

Exclusive: Most Wall Street bigwigs sided with Hillary Clinton in 2016 but now have adroitly shifted affections to Donald Trump whose populist rhetoric is giving way to another super-rich bonfire of the vanities, explains Mike Lofgren.

By Mike Lofgren

During the 2016 campaign, pundits claimed that Donald Trump’s proposed economic policies would bring the end of the world as we know it. Moody’s Analytics predicted his plans, particularly those involving trade and the budget deficit, could trigger a severe recession. Others asserted that Trump’s election would cause a severe stock market selloff.

The Wall Street Journal wrote that none of the Fortune 100 CEOs endorsed him for president. For a Republican candidate, this was both unprecedented and seemed an unmistakable signal of a lack of confidence by the business community.

That was then and this is now. The stock market has risen after the election, flirting with 20,000. And while the many presentiments of doom have not been disproven by events — after all, Trump has not yet even been inaugurated — the commanding heights of capital are no longer sitting on their hands.

As a glance at the membership of the President-elect’s Strategic and Policy Forum shows, they are flocking to his side, with representatives of financial buccaneering like Steven Schwarzman of the Blackstone Group and Jamie Dimon of JPMorgan Chase, old smokestack firms like GM’s Mary Barra, and towering retail giant Walmart’s Doug McMillon. There is even an ex-governor of the Federal Reserve Board, Bush appointee Kevin Warsh. It appears that Corporate America has abruptly swung to Trump’s side.

Why the change? First, beyond whatever innate skill at making money that they may possess, the typical American corporate executive smells power in the way a pig locks on to a Périgord truffle. It was only a couple of months ago that virtually none of the corporate moguls supported Trump, while they fell all over themselves to back Hillary Clinton. Now, I doubt many of them would take her phone call. Sucking up is so ingrained in American corporate culture that we should hardly be surprised at the about-face.

Second, regardless of their pious rhetoric about fiscal responsibility, business leaders dearly love the deficits created by rate cuts on income, capital gains, and dividends. The tax cuts put money directly into their coffers, and the resulting deficit provides the fiscal stimulus driving consumer spending and corporate profits. Occasionally, a few of them, like Pete Peterson (ironically a co-founder of Schwarzman's Blackstone Group), will launch a rhetorical jihad against the federal deficit, but this effort is mainly a rationale to cut the federal pensions and benefits that they assume the Ninety-Nine Percent are lazily wallowing in rather than working.

That is not the end of Trump's fiscal stimulus. In addition to his $6.2 trillion in planned tax cuts, he is promising a large infrastructure program as well as hefty increases in Pentagon spending (the one Keynesian measure Republicans have traditionally adored).

Good Times for the Rich

Let the good times roll? *Financial Times* correspondent Edward Luce points out a couple of downsides. First, Trump, the real estate mogul (which means he is instinctively for the lowest interest rates possible) is setting himself up for an extended battle with the Federal Reserve Board just as its chair, Janet Yellen, is beginning to tap the brake on the Fed's previously very loose monetary policy. Second, according to Luce, a potential combination of Trump's stimulative fiscal policy and Yellen's mild tightening will likely be an appreciation of the dollar.

That, in turn, will cause the trade deficit to rise while depressing domestic manufacturing – the diametric opposite of what Trump's populist economic platform promised, a platform which won him the electoral vote in the Rust Belt, and thus the presidency. Such an outcome would ratchet up the pressure on Trump (who has already said he wanted to do it) for an all-out trade war with China, Mexico and other large exporters. Luce concludes that the markets will react badly.

That analysis is likely correct, but it does not address the more fundamental problem with Trump's economic plans. His trade policy may be unique in distinguishing him from standard Republican Party dogmatists, but huge tax cuts and heavy military expenditures were precisely George W. Bush's fiscal policy, and, as we all remember, that did not end well.

A third policy feature the Bush and Trump administrations have in common is a loathing of financial regulation. Under Chris Cox, George W. Bush's Securities and Exchange Commission chairman, the agency exerted virtually no effort to preempt the marketing of the worthless financial instruments that caused the 2008 asset meltdown. Likewise, Goldman Sachs alumnus Hank Paulson, Bush's Treasury secretary, was asleep at the wheel right up to the crash.

The fact that America's premier corporate raider, Carl Icahn, will advise Trump on financial regulation (and may be appointed SEC chairman), and that his pick for Treasury Secretary, Steve Mnuchin, was a Goldman executive for 16 years, does not inspire confidence that their management of the economy will be any different from that of their predecessors before the 2008 crash.

Mnuchin is only one of several Goldman alumni destined for top positions in the Trump administration. Goldman president Gary Cohn has been tapped to head the National Economic Council. Hedge fund manager and former Goldman executive Anthony Scaramucci is a vocal Trump media surrogate and is widely expected to receive a government position. (Responding to a question by CNN about the alleged demonization of bankers, Scaramucci responded, "I think the cabal against the bankers is over," neatly inverting the fact that the derogatory term "cabal" has normally been associated with bankers, rather than their critics).

The pseudo-populist Stephen Bannon, Trump's chief of strategy, is also a Goldman spawn. It is hardly surprising that Goldman Sachs's stock has risen 30 percent since November. Does anyone seriously think "this time will be different" compared to the Bush debacle?

A Deluge of Tax Cuts

It may *only* be different in terms of how big a disaster Trump's policies will unleash. His tax cuts are potentially three times the magnitude the 10-year cost of Bush's cuts. Because they are heavily targeted at those who are already rich – 47 percent of the dollar amount will go to the top one percent – it will exacerbate income inequality, which is already at its highest level since the 1920s.

The crumbs for low-income earners will be nullified or worse by regressive labor policies like an assault on the minimum wage and undermining of pensions. (The DeVos family, long-time Republican mega-donors, have declared that public employees in Michigan should have their public pensions revoked; Betsy DeVos, Trump's pick for education secretary, will be pressuring public school systems to "reform" their pension plans).

Subsistence income for the poor and near-poor could be further eroded by a reduction in Medicaid benefits (reportedly already in the works courtesy of Paul Ryan and the Republican Congress). These actions will exacerbate the ongoing trend toward jobs without benefits.

Despite their windfall from Trump’s tax policies, the rich will only be able to consume so many filet mignons, Sub-Zero refrigerators, and Patek-Philippe watches before reaching satiation. The rest of their tax cut will go into kiting the equities market to stratospheric levels or building palatial monuments to their own greatness in Glen Cove, Palm Beach and Palo Alto.

Given that the tax cuts and spending increases will be of a much greater magnitude than Bush’s own prodigious fiscal mismanagement, the resulting asset and real estate bubble will be a thing to behold.

Aggravating the odds of a financial meltdown will be the unrelenting hostility of Trump’s economic team, as well as that of the Republican Congress, towards financial regulation in general and the Dodd-Frank law in particular. While Dodd-Frank is only a halting half step in the right direction, some of its provisions, such as those that required banks to hold greater reserves, are useful in preventing the overleveraging of asset bubbles and, when the assets fall, a bank liquidity crisis. If Trump’s policies are enacted this country will have a gargantuan fiscal deficit-driven asset bubble in the making, *and* will have removed the regulatory tools to ameliorate it.

Some flavor of the happy anticipation with which the wealthy are greeting the incoming Trump dispensation may be gathered from this passage in a Bloomberg News piece: “The New York real estate mogul is building a cabinet heavy on wealth and corporate connections, and light on government experience, a mix that hedge fund billionaire Ray Dalio said last week would unleash the ‘animal spirits’ of capitalism and drive markets even higher.”

Translated from the Bloombergese, it suggests the plutocrats are licking their chops in the expectation of a looting spree that will make the plutocracy of Ferdinand and Imelda Marcos look like strict Swiss governmental administration.

Eyes Wide Shut

Why is this foreseeable economic crisis so seldom discussed in the mainstream media compared to the potential of a trade war? There are two parts to the answer: one involving popular sentiment and the other the elite interests of corporate America.

Trump was elected on a platform asserting that America’s economic problems were almost exclusively caused by foreign countries such as China or Mexico. As such, it was an analogue to Bush’s 2004 campaign whipping up hysteria about sinister foreign terrorists abroad. The media naturally gave the theme extensive coverage as a central tenet of Trump’s platform. But it also served to divert the easily distracted attention of his followers away from the 2008 crash, its role in their misery, and who might have been responsible.

It brings to mind the words of Winston Churchill: “The multitudes remained plunged in ignorance of the simplest economic facts, and their leaders, seeking their votes, did not dare to undeceive them.”

At the commanding heights of the economy on the other hand, the ideology and the wallets of corporate America (and the professional economists whose chairs they endow) are perfectly aligned *against* protectionism. That was why we heard their objections during the campaign.

But with regard to tax cut-fueled asset accumulation and anti-regulation dogma, their wallets are perfectly aligned *in favor of* Trump’s policies, while their traditionally tepid anti-deficit rhetoric masks their true feelings about fiscal irresponsibility – provided that this irresponsibility enriches them personally.

So, was the entire Trump candidacy a clever plan by the upper reaches of American capital to let the good times roll (for them) by concocting a populist vulgarian whose jeremiads against menacing foreign competitors would be a sure way of engaging the xenophobia and gullibility of the Republican base as a deflection from Wall Street’s agenda of asset-stripping, privatization, and pension-grabbing?

Probably not. The process of history, like that of evolutionary biology, is largely a self-organizing and self-reinforcing accretion of otherwise random phenomena along pathways of least resistance, rather than minute planning by a Grand Designer. But it really does not matter: Wall Street’s pragmatic opportunism on seeing the inevitability of a Trump nomination would cause them to act in much the same fashion regardless.

The big banks in effect had a hedged bet during the campaign: Hillary Clinton, a friend of Wall Street, was successfully denounced as such by an opponent who was an even bigger friend of the Street. It was a no-lose proposition.

The only question remaining is this: in the aftermath of a future blowout that could make the 2008 saturnalia look tame, will Trump’s voters correctly identify the source of their economic pain, or will they be effortlessly distracted by some supposedly existential terrorist menace, predatory trading partner, or newly confected domestic Culture Wars bugaboo? Trump’s close adviser, Steven Bannon, a veteran both of Wall Street and the right-wing paranoia factory, will doubtless be hard at work on that one.

Mike Lofgren is a former career congressional staff member who served on the House and Senate budget committees. His latest book is *The Deep State: The Fall of the Constitution and the Rise of a Shadow Government.*