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Trump's Economic Plan; This Isn't Going to Work

By Mike Whitney
November 25, 2016

Will Donald Trump be good for the US economy?

The American people seem to think so. According to a recent survey taken by Gallup “Americans have relatively high expectations (of) the president-elect... Substantial majorities (upward of 60%) believe the Trump administration will improve the economy and create jobs. A slim majority (52%) say he'll improve the healthcare system.”

Even more impressive, the University of Michigan Consumer Sentiment Index spiked to a 93.8 - high in November, signaling a significant improvement in overall consumer attitudes about the economy.

Analysts attribute this change in outlook to the recent presidential election which showed a marked-uptick in optimism “across all income and age subgroups across the country.”

“The initial reaction of consumers to Trump's victory was to express greater optimism about their personal finances as well as improved prospects for the national economy,” said Richard Curtin, the survey's chief economist.

So, people are not just giving Trump the benefit of the doubt, they genuinely think their economic situation is going to get better under the new president.

The results are particularly significant when we realize that the economy not only topped the list of important issues going into the November elections, but that also (according to a survey conducted by Edison Research) “Three in five voters said the country was seriously on the wrong track and about the same number said the economy was either not good or poor. Two-thirds said their personal financial situation was either worse or the same as it was four years ago. About one in three voters said they expected life to be worse for the next generation.”

In other words, the election was a referendum on Obama’s handling of the economy, in which 60 percent of those surveyed, think was a failure. These results also suggest that, had Obama made any attempt to address wage stagnation, shrinking incomes, student debt, or widespread economic insecurity, Hillary Clinton would probably be president today. As it happens, the victory went to the anti-establishment outsider who promised a fundamental change in direction, Donald Trump.

This is particularly worth thinking about now that protests have broken out in cities across the country and liberals are accusing Trump supporters of voting for a racist. No, the majority of Trump supporters did not vote for a racist (surveys also show that a majority of these people support a way for undocumented immigrants to attain US citizenship) nor do they approve of the white nationalist movement. They voted for someone who they thought would change the economic policies that have been destructive to their interests. Trump won the election because he addressed the issues that matter to ordinary working people and refrained from such foolishness as running around with his hair on fire blaming the Russians for everything under the sky. Hillary Clinton got exactly what she deserved.

Now the question is: Can Trump deliver?

The question is not only important for the American people, but also for the Trump administration that figures its prospects for success depend largely on an economic revival. Steve Bannon, who is Trump’s chief strategist and advisor, knows that he won’t be able to build a strong, diverse coalition to support his political revolution without boosting growth and improving conditions for working people. That’s why fixing the economy is Job 1.

Here’s a quote from Bannon:

“The globalists gutted the American working class and created a middle class in Asia. The issue now is about Americans looking to not get f—ed over. If we deliver...”we’ll get 60 percent of the white vote, and 40 percent of the black and Hispanic vote and we’ll govern for 50 years. That’s what the Democrats missed. They were talking to these people with companies with a \$9 billion market cap employing nine people. It’s not reality. They lost sight of what the world is about.”...

“It’s everything related to jobs. The conservatives are going to go crazy. I’m the guy pushing a trillion-dollar infrastructure plan. With negative interest rates throughout the world, it’s the greatest opportunity to rebuild everything. Ship yards, iron works, get them all jacked up. We’re just going to throw it up against the wall and see if it sticks. It will be as exciting as the 1930s,

greater than the Reagan revolution — conservatives, plus populists, in an economic nationalist movement.” (Ringside with Steve Bannon, Hollywood Reporter)

I don't pretend to know anything more about Steve Bannon than I've read in the newspapers and on the Internet. What I do know, however, is that if he is sincere in his desire to defeat the corrupt political establishment and build a coalition that “will govern for 50 years”, he's going to have to find a way to climb down on his hardline immigration policies in order to implement his economic strategy. That said, I expect Trump will settle on some way to minimize the damage he has done to himself and call on congress to get more involved in the hot-button immigration issue. In other words, he's going to have to punt if he wants to govern.

Bannon is the main architect of Trump's economic plan, a plan that has already earned broad public support, but a plan that won't succeed unless it is drastically changed. Here's why:

Trump's economic plan can be broken into three parts: Tax cuts, deregulation and fiscal stimulus.

As far as tax cuts, there are three main subsets:

1–The corporate tax rate, which Trump wants to drop from 35 percent to 15 percent.

2–A tax cut on the so-called “repatriation of funds”– which lowers the rate on roughly \$2 trillion of cash that's currently stashed overseas by uber-rich US businesses that have been evading US corporate taxes for years. Trump wants to give these tax dodgers a one-time “holiday” with a 10% penalty for companies that agree to bring their cash back to the US. Trump believes that the one-time tax break will increase business investment and employment in the US. Critics say the scheme will not work unless the economy strengthens and demand grows.

3–Trump also wants to reduce the top tax rate from 39.6% to 33%, while making modest reductions to the other brackets. Under the Trump plan, “a taxpayer who makes between \$48,000 to \$83,000 a year would save about \$1,000 (while) people in the top 0.01%, making \$3.7 million or more in a year, would receive \$1 million in annual tax savings.” (USA Today)

Here's a brief summary from economist Dean Baker:

“According to the analysis of the Tax Policy Center at the Brookings Institution and the Urban Institute, (Trump's) tax plan will reduce revenue by more than \$9 trillion (close to 4 percent of GDP) over the course of the next decade. This tax cut plan would effectively add close to \$800 billion to the annual deficit when it first takes effect, with the amount increasing over time.....

“According to the Tax Policy Center, more than half of Trump's tax cuts will go to the richest one percent of the population. The richest 0.1 percent will get tax cuts that average almost \$1.5 million annually. The Trump tax cut is consistent with the fundamental principle of the Republican Party, and unfortunately many Democrats, of putting as much money as possible in the pockets of the rich.” (Republican deficit hawks abandon their religion, Smirking Chimp)

As you can see, most of the benefits from the proposed tax cuts go to the extremely rich. How does that fit with Trump's campaign promise:

"I am proposing an across-the-board income-tax reduction, especially for middle-income Americans...The tax relief will be concentrated on the working and middle-class taxpayer. They will receive the biggest benefit – it won't even be close."

The tax cuts look like a serious betrayal of Trump's supporters. They also look like a misguided, short-term strategy that will derail Bannon's plan for broad coalition based on a strong economic growth and rising wages. This latest iteration of "trickle down" economics will not help him achieve that goal.

Unfortunately, the other parts of Trump's economic plan are equally dismal. For example, Trump is determined to repeal many of the key provisions of the 2010 Dodd-Frank law, the toothless bill that Congress passed in order to prevent another financial meltdown. At present, Texas congressman, Jeb Hensarling — an outspoken critic of Dodd-Frank appears to be the frontrunner in the competition for US Treasury Secretary. Hensarling, who just last week said "Dodd-Frank was a grave mistake", is pushing his own Wall Street-friendly Financial CHOICE act, which would replace the bill with a "pro-growth, pro-consumer" alternative" that would protect the banks from 'growth-strangling regulation.'" (Housingwire)

Is that what we really need, more laws to protect the banks?? Check out this clip from Fortune Magazine:

"Hensarling wants to put the market in charge. His view is that encouraging banks to hold lots of capital (as Dodd-Frank does) goes far enough by itself to shore up the system, making banks far safer than the law's dense web of stress tests, complex limits on trading, and banning of mortgages and credit cards deemed "abusive" by regulators. Now that Republicans control Congress and the White House, it's highly possible that the Hensarling manifesto, or a large part of it, will become law..."

"I will not rest until Dodd-Frank is ripped out by its roots and tossed on the trash bin of history," (Hensarling) declared in a recent speech. The centerpiece of the CHOICE act is a provision that would exempt banks from the more restrictive Dodd-Frank regulations..." (This Congressman Could Turn the Dodd-Frank Financial Reforms Upside Down, Fortune)

The idea that a Congressman can devote all his energy to lifting the ban on "abusive mortgages" — just eight years after abusive, predatory, toxic mortgages blew up the global financial system costing roughly \$50 trillion and years of agonizing retrenchment— seems almost treasonous, doesn't it? And yet, at the very least, Hensarling is likely to become one of Trump's chief advisors on financial regulations. Go figure?

What, in God's name, is Trump trying to achieve? On the one hand, he blames the Fed for inflating another gigantic asset bubble and, on the other, he tries to remove the regulatory obstacles to bubble-making. What sense does that make?

Here's a little more background on Trump's crusade against regulation. This is from the Wall Street Journal:

“Donald Trump has tapped a longtime critic of heavy regulation to flesh out his new administration's plans for remaking the financial rule book, including the potential dismantling of much of the Dodd-Frank financial overhaul.

Paul Atkins served as a Republican member of the Securities and Exchange Commission from 2002 to 2008, where he spoke out against big fines for companies, arguing they punish shareholders. Now Mr. Atkins, 58 years old, is the member of the president-elect's transition team charged with recommending policies on financial regulation, according to current and former regulators briefed on the matter.

Mr. Trump has detailed little about his views on financial regulation beyond his vow to dismantle the 2010 Dodd-Frank law.” (Donald Trump's Point Man on Financial Regulation: A Former Regulator Who Favors a Light Touch, Wall Street Journal)

Trump also wants to dismantle the Consumer Financial Protection Bureau (CFPB) which recently imposed a \$100 million fine on Wells Fargo for using bank employees to create more than 2 million unauthorized accounts to meet sales quotas. The action was applauded by consumer groups across the board which is why Trump will make every effort to defang the watchdog agency. The president-elect appears to be gearing up to eliminate any rule that impairs Wall Street's ability to rake in bigger profits, whether it puts the American people at risk or not.

So how does this square with Steve Bannon's comments about coalition building and desire for a stronger economy?

I can't figure it out, after all, Bannon sounds like a true believer, a no-nonsense, red-blooded, blue collar working guy who hates the Wall Street, the Republican establishment and the mainstream media. What's not to like about that?

But how does Bannon's hardscrabble upbringing, his commitment to tea party uprising, and his take-no-prisoners combativeness, jibe with these flagrant tax giveaways, this anti-worker deregulation, and a fiscal policy that only benefits the uber wealthy? I don't get it??

In an extremely persuasive interview with BuzzFeed News, Bannon disparages the new strain of “Ayn Rand” capitalism that objectifies people and turns them into commodities. He expands on this idea by giving a brief synopsis of the financial crisis that many will find galvanizing. Here's a clip:

“The 2008 crisis, ... which, by the way, I don't think we've come through — is really driven I believe by the greed, much of it driven by the greed of the investment banks. ... And one of the reasons is that we've never really gone and dug down and sorted through the problems of 2008. Particularly the fact — think about it — not one criminal charge has ever been brought to any bank executive associated with 2008 crisis. And in fact, it gets worse. No bonuses and none of their equity was taken. So part of the prime drivers of the wealth that they took in

the 15 years leading up to the crisis was not hit at all, and I think that's one of the fuels of this populist revolt that we're seeing as the tea party...

The bailouts were absolutely outrageous, and here's why: It bailed out a group of shareholders and executives who were specifically accountable. ...

In fact, one of the committees in Congress said to the Justice Department 35 executives, I believe, that they should have criminal indictments against — not one of those has ever been followed up on. ... (and) Middle-class taxpayers, people that are working-class people, right, people making incomes under \$50,000 and \$60,000, it was the burden of those taxpayers, right, that bailed out the elites. ...

It's all the institutions of the accounting firms, the law firms, the investment banks, the consulting firms, the elite of the elite, the educated elite, they understood what they were getting into, forcibly took all the benefits from it and then look to the government, went hat in hand to the government to be bailed out. And they've never been held accountable today. Trust me — they are going to be held accountable.” (This Is How Steve Bannon Sees The Entire World, BuzzFeed News)

Repeat: “They are going to be held accountable.”

Bravo! He wants to lock them up. He wants the bankers to be held accountable and locked up! Who doesn't want that? Every working slob in America wants that. This is why Bannon has attracted such a loyal following; it's because his analysis of the financial crisis and its aftermath are “dead on”. The American people know they were ripped off, know that Wall Street is infested with crooks and parasites, and know that the country is governed by a corrupt and unaccountable oligarchy of racketeers.

Bannon has tapped into powerful feelings of frustration and rage, and he's built a thriving movement on top of them. But where's the beef? His economic policy just doesn't deliver the goods. Bannon is talking the talk, but he's not walking the walk.

The tax cuts don't deliver for working people and neither does deregulation. So what about the third part of Trump's economic plan, the fiscal stimulus component?

Bannon says he's the driving force behind the \$1 trillion infrastructure development program. Unfortunately, the program is little more than a scam. Let me explain:

Typically, when people think about fiscal stimulus, they imagine expensive Keynesian “shovel ready” infrastructure projects with lots of well-paid government workers building bridges, roads, rapid transit systems and even schools. That's not what this is. According to economist Jared Bernstein:

“Instead of just allocating the needed resources as in the traditional approach, they propose to “offer some \$137 billion in tax breaks to private investors who want to finance toll roads, toll bridges, or other projects that generate their own revenue streams.”

Since the plan depends on private investors, it can only fund projects that spin off user fees and are profitable. Rural roads, water systems, and public schools don't fall into that category. Neither does public transit, which fails on the profitable criterion (it depends on public subsidies." (Trump's misguided flirtation with Keynesianism, Politico)

This isn't going to work. It's completely self defeating. This is just more of the same, more handouts to big business. The whole point of fiscal stimulus is to get money in the hands of the people who will spend it fast, rev up the economy, boost growth, generate more demand and get the economy out of its eight-year-long funk. The rebuilding of infrastructure is secondary, in fact, it doesn't even matter. What matters is getting money circulating in the perennially-moribund economy. Caspice?

Here's more on the Trump infrastructure boondoggle from an article in the Washington Post:

"Trump's plan is not really an infrastructure plan. It's a tax-cut plan for utility-industry and construction-sector investors, and a massive corporate welfare plan for contractors. The Trump plan doesn't directly fund new roads, bridges, water systems or airports, as did Hillary Clinton's 2016 infrastructure proposal. Instead, Trump's plan provides tax breaks to private-sector investors who back profitable construction projects. ... There's no requirement that the tax breaks be used for ... expanded construction efforts; they could all go just to fatten the pockets of investors in previously planned projects...

Second, as a result of the above, Trump's plan isn't really a jobs plan, either. Because the plan subsidizes investors, not projects; because it funds tax breaks, not bridges; because there's no requirement that the projects be otherwise unfunded, there is simply no guarantee that the plan will produce any net new hiring. ...

Buried inside the plan will be provisions to weaken prevailing wage protections on construction projects, undermining unions and ultimately eroding workers' earnings. Environmental rules are almost certain to be gutted in the name of accelerating projects." (Trump's big infrastructure plan? It's a trap. Washington Post)

These so called "public-private partnerships" are just another way for big business to suck money out of the government. They don't help the economy, not really, and they don't help workers either. If Bannon is serious about building his coalition on the back of a robust economy, there's an easier way to do it. First get rid of the corporate ideologues and supply side radicals whose theories never work. Then hire a team of reputable economists who have first-hand experience implementing thorny stimulus programs of this magnitude. (Joseph Stiglitz, James Galbraith, Dean Baker, Michael Hudson, Jack Rasmus)

Then start with the low-hanging fruit, that is, put money into already-running programs that will produce immediate results. For example, in James Galbraith's epic article "No Return to Normal" the economist recommends increasing Social Security payments. Think about that. It's a complete no-brainer. The people who live on Social Security spend every dime they get every month, which means that — if their payments go up by, let's say, \$200 or more per month— then all that dough goes straight into the economy which is what fiscal stimulus is all about. Also,

increase food stamp funding, lower the Medicare age of eligibility, and rehire a portion of the 500,000 federal workers who lost their jobs in the Crash of '08. These policies will put money into the economy immediately, boosting growth, increasing wages, and strengthening the prospects for whatever political party happens to be in office.

The point is, fiscal stimulus doesn't have to be a boondoggle and it doesn't require "shovel ready" jobs. All that's needed is a competent team of economic advisors who know what the hell they're doing and the political will to get the job done. Trump's economic plan doesn't do that, all it does is slightly improve GDP while trillions of dollars are transferred to the bank accounts of behemoth corporations and Wall Street cronies.

If Bannon is serious about fixing the economy and rebuilding the Republican party, my advice to him would be: Give Galbraith a call.