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Trump's Economic Plan is a Betrayal of the People Who Voted for Him

By Mike Whitney
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Trump's economic plan has sent stocks ripping higher for six weeks straight. But what's going to happen to stock prices when Congress gives Trump's plan a big thumbs down? Has anyone thought about that yet?

And what about the Fed? Does anyone seriously think that Fed chairman Janet Yellen is going to sit on her hands while Trump launches a $1 trillion fiscal stimulus package that triggers a sudden burst of growth followed by a sharp uptick in inflation?

No, Yellen's not going to sit on her hands. She's going to raise rates to prevent the economy from overheating which is going to throw cold water on Trump's pro-growth government-spending plan.

So why has the Dow Jones Industrial Average (DJIA) climbed more than 1,600 points and gained nearly 10% ("the biggest post-election rally on record") when Trump's plan is either going to be derailed by the Fed's higher interest rates or blocked by the obstructionist Congress? It doesn't make any sense, does it? And if the plan doesn't survive in its current form, then stocks are going to retrace all the gains they've made in the last month and a half. That's roughly 1,700 points erased in the blink of an eye.

Bottom line: Trump's Santa Rally could turn into a stock market bloodbath unless he's able to deliver on his promises, which doesn't look very likely. Check this out from Bloomberg:

"President-elect Donald Trump's race to enact the biggest tax cuts since the 1980s went under a caution flag Monday as Senate Majority Leader Mitch McConnell warned he considers current levels of U.S. debt "dangerous" and said he wants any tax overhaul to avoid adding to the deficit.

"I think this level of national debt is dangerous and unacceptable," McConnell said, adding he hopes Congress doesn't lose sight of that when it acts next year. "My preference on tax reform is that it be revenue neutral," he said…

The Committee for a Responsible Federal Budget, a nonpartisan think tank, has projected that Trump's plans would increase the debt by $5.3 trillion over a decade, with deficits already over $600 billion a year and rising on autopilot…

What I hope we will clearly avoid, and I'm confident we will, is a trillion-dollar stimulus," he said. "Take you back to 2009. We borrowed $1 trillion and nobody could find that it did much of anything. So we need to do this carefully and correctly and the issue of how to pay for it needs to be dealt with responsibly."… (McConnell, Warning of 'Dangerous' Debt, Wants Tax Cut Offsets, Bloomberg)

It doesn't sound like McConnell is a big fan of Trump's economic plan, does it? So why has the Dow risen to within 26 points of the 20,000-mark if that's the case?? Do investors think that Trump can simply issue an executive order and force Congress to do what he wants?

Good luck with that. The deficit-crazed Republicans are just as committed to austerity as ever, mainly because slashing government spending coupled with low interest rates is a tried-and-true method of transferring obscene amounts of money to the 1 percenters. Why would they tinker with a mechanism that works perfectly already?

They won't, at least not to the extent that it'll have any meaningful impact on the living standards of millions of working people across America. Congress is going to prevent that at all cost. And so will the Fed. Just listen to what Yellen had to say to a journalist from the Washington Post last week following the FOMC meeting. She was asked point-blank whether she thought the economy needed more fiscal stimulus or not. Her answer:

"Well … I called for fiscal stimulus when the unemployment rate was substantially higher than it is now. So with a 4.6 percent unemployment, and a solid labor market, there may be some additional slack in labor markets, but I would judge that the degree of slack has diminished, So I would say at this point that fiscal policy is not obviously needed to help us get back to full employment … But nevertheless, let me be careful that I am not trying to provide advice to the new administration or to Congress as to what is the appropriate stance of policy."

Nice, eh? Yellen threatens Trump with three more rate hikes in 2017, torpedoes his $1 trillion infrastructure plan with a wave of the hand, and then has the audacity to deny that she's dictating policy.

Of course she's dictating policy. What else would you call it?

Yellen is saying as clearly as possible, that if Trump launches his fiscal spending plan, the Fed's going to slap him down by raising rates. If that's not a threat, then what is??

(BTW, the NY Times Neil Irwin commented on this very issue just days ago when he said, "any stimulative fiscal policy from the Trump administration could well face an equal and opposite tightening of monetary policy by a Fed that raises interest rates." In other words, the Fed holds all the cards.)

But in Yellen's defense, we should add that Trump's infrastructure scheme wasn't going to work anyway. The whole thing is another shabby giveaway to private-equity investors. It's NOT a serious effort to rebuild America's crumbling infrastructure or provide good-paying jobs to qualified construction workers.

According to economist Alan S. Blinder, "Trump's plan would provide "an 82% tax credit to attract private-equity investors into the infrastructure business." … (So) " A $3 billion public-private "partnership"… could be financed like this: $2.5 billion in municipal bonds, $410 million in tax credits from the federal government, and $90 million in private equity. This means $90 million in private money winds up controlling a $3 billion asset. Mr. Trump likes leverage, but isn't 33-to-1 a little ridiculous?"

Great. In other words, the public takes all the risk, while privately-owned businesses nab all the profits. When have we heard that before?

And there's more too:

"Infrastructure projects selected in the traditional way, by governments, are chosen based on public benefits, the community's ability to pay—and sometimes crass political favoritism…

Under the Trump plan, project selection would be left to profit-seeking investors, using the same criteria they use to decide which hotels to build, for example."… (Trump's Infrastructure Mistake, Alan S Blinder, Wall Street Journal)

Princeton professors Alan S. Blinder and Alan B. Krueger write that the president-elect wants to draw in private money—but do investors swoon to fix leaky school roofs?

See? This isn't about rebuilding America or putting people back to work or even getting more money circulating in the economy. This is just another ripoff by a flim-flam man who wants to use his power as president to enrich his crony buddies. Trump might be a hero to millions of working people who think he's got their interests at heart, but the facts just don't match the rhetoric. His infrastructure plan is just another elitist swindle aimed at enriching the few at the expense of the many.

According to Blinder there are much better alternatives to this private equity hocus pocus, like "Build American Bonds (BABs), a special breed of municipal bonds … which can use them for routine maintenance and other projects that lack a revenue stream … for the great bulk of infrastructure needs, BABs would be a far superior solution. If the Trump administration is serious about making our public infrastructure great again, it should worry less about finding ways to make the rich richer." (WSJ)

Then again, if Trump's real objective is to boost employment and increase growth, there are much easier ways to go about it, like suspending the payroll tax on everyone making under $75,000 per year or adding a few hundred dollars per month to Social Security payouts or expanding the food stamps program to include more applicants. None of these ideas will help to rebuild America's dilapidated bridges or pothole-strewn roads, but they do put more money into circulation pronto which increases demand, activity, hiring, capital investment and growth. More growth means upward pressure on stagnant wages, rising standards of living, strengthening of the middle class, and the beginnings of a virtuous circle. Trump's infrastructure plan will achieve none of these. It won't even push stock prices higher. It's a dead-loss for everyone except the PE mandarins.

But there parts of Trump's economic plan that could push stocks much higher, in fact, they could take today's moderately-inflated stock market bubble and turn it into the most gargantuan asset-price balloon of all time. We're talking about Trump's tax cuts. The president elect wants to reduce the corporate tax rate from 35 percent to 15 percent and, at the same time, initiate a "repatriation holiday", which will allow tax-dodging US corporations to bring "more than a trillion dollars in corporate cash parked overseas" back to the US paying a measly 10 percent tax on the total. Trump thinks the surge of capital reentering the US will boost employment, productivity and growth, but the experts disagree. They know it's another giveaway to Wall Street. Get a load of this from Bloomberg:

"Deutsche Bank: "If a repatriation holiday is introduced at a ~5 percent rate, as opposed to the generally proposed 5-14 percent rates, 10 percent even by Trump, then we think ~$500 billion will be repatriated in 2017. These funds will go to a combination of dividends, buybacks, onshore debt reduction, Mergers and Acquisitions and capex…"

JPMorgan Chase and Co.: “Cash repatriation alone could boost shareholder payouts by ~$350 billion … we estimate that buybacks from repatriation alone could add ~$1.30 to S and P 500 earnings per share, assuming that 60 percent of potential payouts come in the form of buybacks.”…

JPMorgan Chase and Co.: “We estimate that Trump’s corporate tax plan, which incorporates a 15 percent statutory federal tax rate, would add roughly $15 to S and P 500 earnings.” (Wall Street’s 2017 Forecasts Are Doomed If Trump Doesn’t Follow Through On Campaign Promises, Bloomberg)

There’s a lot of room for error.

Get the picture? None of this money is going to dribble down to the working stiffs who cast their ballots for Trump in the presidential election. Heck, no. Every dime is going into stock buybacks and bigger dividends for fatcat CEOs and their voracious shareholders so they can rake in bigger profits while the country continues its downward spiral into insolvency and depression. That’s what this tax fiasco is all about, rewarding the millionaires and billionaires in Trump’s coterie of dodgy friends.

So, yeah, stocks could rise even higher on back of more than a trillion dollars of new capital flowing into the markets, but that money is not going to do jack for anyone who punches a clock for a living. And that should matter to the people who voted for Trump thinking that he had their interests at heart, because he doesn’t have their interests at heart. It’s a joke. Trump’s economic plan focuses entirely on the welfare of the mega rich plutocrats like himself. Everyone else gets mere table scraps.

And that’s why Trump’s supporters should be so disappointed, because they stood by him through the most vicious campaign in history and helped to shoehorn his sorry posterior into office. And now he has sold them down the river.

Thanks a lot, Don.