Reprint from macron-x (www.macron-x.com) with permission.

Mr Macro's Opinion

(June 7, 2017)

> ***"Probably Dead On Arrival" *.*** Senator John Mc Cain commenting on President Trump's 2018 budget proposal the day of its publication. *(* Plain for DOA, the acronym in common use in urban and police talk).*
>
> ***I was elected to represent the citizens of Pittsburgh, not Paris.*** President Trump in his speech announcing the withdrawal of the US from the Paris climate accord. ***As the Mayor of Pittsburgh, I can assure you that we will follow the guidelines of the Paris Agreement for our people, our economy and future.*** Bill Peduto; speaking in response to President Trump's speech.

President Trump's budget proposal for fiscal 2018 was unveiled by Mick Mulvaney, Director of the US Office of Budget and Management, on May 23. The plan was met with an avalanche of criticisms, sarcasms and outrage, as exemplified by a piece for the Washington Post by former Secretary of the Treasury Lawrence Summers, entitled *Trump's Budget is Simply Ludicrous*. Summers wrote:

> *….. there appears to be a logical error of the kind that would justify failing a student in an introductory economics course…..This is a mistake no serious business person would make. It appears to be the most egregious accounting error in a presidential budget in the nearly 40 years I have been tracking them…..How could the secretary of the Treasury, the director of OMB and the director of the National Economic Council allow such an elementary error? …….The president's personal failings……should not blind us to the manifest failures of his economic team. Whether it is Secretary Mnuchin's absurd claims about tax cuts not favoring the rich, Secretary Ross's claim that the small squib of a deal negotiated last week with China was the greatest trade result with China in history, NEC Director Cohn's ludicrous estimate of the costs of Dodd-Frank, or today's budget, the Trump administration has not yet made a significant*

economic pronouncement that meets a minimal standard of competence and honesty.

In all fairness, we think that Summers' argument fails to hit the nail on the head - for two reasons. The first is that he furiously points to fuzzy math in the proposed plan while to us the matter seems to be one of fuzzy language and concepts – possibly, mind you, deliberately so on the part of the authors of the plan, in a preemptive attempt against been exposed to pointed and conclusive scrutiny. And the second is that the fundamental problem is with the plan's very rationale, which is plain enough and as follows:

a) cut down drastically on Medicaid and other government social programs;

b) shift the monies so freed towards financing one of American history's largest increases in defence spending as well as a huge cut in taxes for top income earners, in Trump's words, the largest ever, directed at triggering a massive "trickle down" effect;

c) as the money flowing from the cuts in the welfare net will inevitably vastly fall short of the amounts required to finance the increases in defence spending and the cuts in taxes, critics may conclude that the budget deficit is bound to explode. But not so, say the plan's authors, for

d) the working hypothesis underlying the cut in taxes is that these will jack up the economy's growth rate to a standard clip of 3%, with

e) fiscal revenues up accordingly, i.e.

f) enough to cover not only the cut in taxes but also to altogether erase the budget deficit by 2027.

So, what's wrong with this construct? Nothing – if you belong to the libertarian, tea-party stream of the Republican school of thought: government social programs are to be cut down in order to roll back the state or, as expressed by Mick Mulvaney during his announcement of Trump's budget, for people to "take charge of their own lives"; defence spending must be boosted because in this world you have to be assertive and backed up by military strength in consequence; the very affluent must be favoured in terms of taxation because this will engender a trickle down wealth effect, as prescribed by the supply side macroeconomic model; cuts in taxes are due to strongly promote growth and thus, ultimately pay for themselves and more, as theorized by the Reaganomics guru Arthur Laffer.

It goes without saying that if you are among the few very rich, you are all the more likely to find yourself in tune with this policy scheme, which, through preferential taxation will be directly beneficiary to you. To no little extent ironically so, we may note, considering all the charges brought by Trump against Hillary during last year's presidential race for being "owned" by Wall Street.

However, wrong there is aplenty if you happen not to be among the very rich and if your concern is with foreseeable actual results. To begin with, figuring most prominently among the planned reductions in government programs is the replacement of Obamacare with Trump's American Care Act (ACA). According to the non-partisan Congressional Budget Office (CBO), the change will cause health insurance premiums to rise and in the end deprive some 23 million of health care coverage. Remember Trump's campaign boast that under him no one would be left without health coverage? The shrinking of the social welfare net will hit hardest those in lower income brackets, that is those precisely representing Trump's populist, electoral core base. This constitutes arguably a bomb in the making, which, when it should go off, is slated to give way to a potent anti-Trump backlash.

Further, the supply side trickle down model has always been a holy cow of pointed conservative ideology, unproven by fact. And as for Laffer's contentions and the famous curve carrying his name, they stem from the same matrix, with the aggravating circumstance of their being directly disproven by fact: in the following of his famous tax cut, Reagan had to raise rates, with his successor, Bush the Elder, compelled to do likewise, while, for perspective, Bill Clinton also raised taxes, without preventing the economy under him to enjoy most remarkable growth.

Vintage snake oil? What else? Here, some of the words from the Summers quote above call here for renewed attention. Let's read them again:

> *…….The president's personal failings …… should not blind us to the manifest failures of his economic team. Whether it is Secretary Mnuchin …. Secretary Ross …… NEC Director Cohn ….. or* (the) *budget, the Trump administration has not yet made a significant economic pronouncement that meets a minimal standard of competence and honesty.*

Indeed. With the proviso that, perhaps, the question is not so much of incompetence as of naked interest. For Mnuchin and Ross are big time investors and Cohn's previous position was Chief Operating Officer with Goldman Sachs. They all three are incarnations of Wall Street culture, thus billionaires and as such set to be direct beneficiaries of Trump's planned tax cuts.

Should anyone find all of the above bad enough - wait, there is more. Namely, of course, President Trump's withdrawal of the US from the Paris Climate Accord. Let's try and summarize.

The warming of the planet is scientifically proven (polar ice caps are diminishing; glaciers are retreating, see levels are rising etc. In a sign of acknowledgement, Trump has stopped some time ago claiming that climate change is a Chinese hoax and has chosen to be silent on the matter since). The question on the table is therefore whether the warming is man-made, and if so to what extent, or not. The human-made alternative, even though to this date not conclusively proven, is a distinct possibility. Thus, Trump, by putting "America first", as he says (the fossil energy industry, that is, and the coalminers at present on the dole), is taking the risk of action whose logic will possibly end up in causing absolute damage to life as we know it. Whence - in response to President Trump's statement that his decision to withdraw from the Paris Climate Accord was on the ground of his having been elected to represent the citizens of Pittsburgh, not of Paris – the words by the Mayor of the very same Pittsburgh that he didn't care much for being represented as envisioned by said President Trump.

So, why such a reckless behaviour on Trump's part? Simply out of fear - embattled as he is - to alienate a crucial part of his electoral base by not delivering on a prominent promise of his 2016 campaign, irrespective of how inconsiderate this promise might have been.

Odd. We thought we had heard something about "making America great again". But perhaps we are hearing voices. What is certain, however, is that President Trump has managed in a very short time to draw the sharpest of fires from multiple sides – at home, from the progressive front as well as from traditional Republicans like John McCain; and abroad, from virtually everywhere, to the exceptions of Putin, Mrs Le Pen, Nigel Farrage and others graced with their common amiable disposition. Which, as a state of affairs, is a known, time-honoured recipe for early departure.

Against this whole, engaging backdrop, what macro-economic and -financial performances are we entitled to expect for the near future?

Our *MacroForce* model now puts American growth in the current year's first half at a 1.6% (seasonally adjusted annual) rate, marginally to decline to 1.5% in the second half, with the rate for 2017 as a whole at 1.9%, or a shade higher than the 1.8% clocked for 2016.

In lockstep with this markedly subdued overall profile, yields for US 10 year treasuries have been clearly trending down and we see them as staying for the time being at a low level, prompting us to confirm our previous hold recommendation for related fixed income investments.

In the same vein, we equally maintain our stances relative to gold (positive) and the Dollar (negative). The latter having deteriorated in excess of our recent anticipations, we downgrade our 1 – 2 month expected trading range for it against the Euro to 1.12 – 1.16 (parity on June 6, 1.13).

Yet, we remain taken aback by the stock market, which keeps going imperturbably from one top to another. The latest was on the day following Trump's announcement of his decision to withdraw the US from the Paris climate accord. The inescapable conclusion is that Wall Street takes Trump's promises of a great future at face value, comforted in doing so by the fact that the core of his economic team (Treasury Secretary Mnuchin, Commerce Secretary Ross, NEC Director Cohn) are all men of its, Wall Street's, own. The temptation is arguably to forget about fundamentals, jump on the band wagon and enjoy the ride. But to do likewise one should be a gambler. And a gambler we are not. Also check once more what Lawrence has to say about the fiber and competence of Mnuchin, Ross, Cohn & Co.

To us the bottom line is that, in our considerate opinion – sooner than later - the band wagon is bound to turn into a doomed runaway thing. And if so, what will be left then for resorting to, other than in hindsight hand-wringing and reciting that we all should have known better?

―――

Reprint from MACRON-X with permission. The views expressed in this column are those of the author, and do not engage the responsibility of any other part. MACRON-X is an innovative, "out of the box" macro-economic/financial think tank. While independent, it provides Banque Morval with inputs for investments purposes on a preferential basis. The think tank's leading column Mr Macro's Opinion has been a regular feature of Banque Morval's internet site for many years. Also and in particular, MACRON-X produces forecasts of key macro-indicators, based on its MacroForce model, created in 1995 and operational since. For details on approach and coverage, see under www.macron-x.com.

Disclaimer. Banque Morval SA is incorporated in Switzerland (Registered Office address: Rue Charles-Galland 18, 1206 Geneva, Switzerland) and is regulated by the Swiss Financial Market Supervisory Authority – FINMA. Banque Morval SA is authorized to carry on banking and investments services under the Swiss Banking Act and the Swiss Stock Exchange Act. A copy of the Bank's General Terms and Conditions is available upon request. As at 31 December 2015, Banque Morval SA registered AUMs amounting to CHF 2 billion. UK resident depositors may be subject to declaration and taxation of

resulting income. Deposits made with Banque Morval SA are not covered by the UK Financial Services Compensation Scheme. However, the Bank is a participant in the Deposit Compensation Schemes in Switzerland. Link to official website of the Swiss Deposit Compensation Schemes is the following: http://www.esisuisse.ch/en/home.htm Copies of the latest audited accounts are available upon request from Banque Morval SA, Rue Charles-Galland 18, 1206 Geneva, Switzerland, Tel. +41 (0)22 839 92 00; Fax +41 (0)22 347 42 31; morval-ge@morval.ch