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Mr Macro's Opinion

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As we wrote in our July review - or rather, as *Foreign Policy*'s Max Boot, whom we were quoting, had noted – what was once unthinkable has become, courtesy of President Trump, unremarkable. Which is being confirmed virtually with every day passing. So much so, however, that staying abreast of Trump's oddities has become tiresome – and pointless. For there being no known limit to the extent of the new President's deviancy, as should be beyond reasonable doubt to anyone not inhabiting a world of "alternative facts", it makes little sense to continue compiling all and every one of said oddities. Rather, one should try and not lose sight of the big picture, be selective and, accordingly, focus on essentials over and above Mr Trump's freakish ways.

Figuring prominently among these essentials is the new executive's economic policy agenda which, according to Trump's stated claims, should be conducive to lifting US growth to the 3% level. The matter, however, with all the noise and commotion emanating from the White House and Capitol Hill, has acquired distinctly blurred traits.

In its original form, the agenda's rationale was as follows:

1) reverse Obamacare;

2) operate a first magnitude tax cut (in Trump's words, the largest ever, i.e. some planned 2.6 % of current nominal GDP) benefitting

top income brackets and corporations to the end of engendering, in accordance with Supply Side thinking, a powerful positive effect on the payrolls/growth couple, with

3) the stimulative effect, equally following Supply Side tenets, to be further enhanced by means of deregulative measures (e.g. the effective dismantling of the Environmental Protection Agency and the weakening and possibly, repeal of the 2011 Dodd-Frank financial regulation act), and with this whole construct relying on the assumption,

4) for the tax cut at the centre of the operation not to plunge public accounts into the red on the strength of

5) the redirection towards the financing of the tax cut of the funds freed by the repeal of Obamacare and

6) the principle of tax cuts paying for themselves, it too posited by Supply Side economics and embodied by Arthur Laffer's famous curve.

The agenda also comprises the building of the wall on the Mexican border or, more precisely, the question of where the money should come, Mexico being Trump's original stated intention in this regard.

Quite a number of speculative assumptions. But regardless, the first point to note is that the agenda has been thrown in disarray by Congress' refusal so far to comply with the very first step envisaged therein, *viz* to pass Obamacare's repeal. Following preceding efforts to the end of the repeal, another Republican bill, Graham-Cassidy, has now been presented in Congress. But opposition to it is very strong, both inside and outside Congress, and chances are that it won't be approved. Yet the President has signalled that he is prepared to side-step the issue and proceed directly to the tax cut.

But there is a catch in doing so. Which is that savings from Obamacare's repeal can only cover an estimated 20-25% of the planned cut, the remaining being on account of the supposed self- financing mechanism applying to tax reductions. Barring Obamacare's repeal, therefore, the consequence would be a big hole in the financing of the tax cut. In other words, if Trump wants to stick to his fiscal stimulation plan, he will have to close the hole via public sector borrowing and a corresponding rise in the latter's ceiling, thus running directly counter the GOP, his own party, to which anything of the sort is anathema, intent as it is on trying to "kill the beast" (or Big Government in layman parlance). This is the reason why Trump, to the GOP's utter dismay, has now cut a deal with Nancy Pelosi and Chuck Schumer, the leaders of the

Democratic opposition in Congress: support for a rise in the borrowing ceiling on the Democrats' part in exchange for, on his part, putting on hold for the time being the deportation of the so-called Dreamers (those illegally brought to the US in their infancy by their parents) and the kicking down the road of the building and related financing of the wall on the Mexican border. All this to stress that, should this constellation come true, Trump will have been in gross violation of his assertion that his fiscal plan would by no means be counter-indicated from the budget deficit point of view.

But the problem with Trump's economic policy agenda goes way beyond the preceding outline, it being the central role of a double assumption: that of the pro employment and growth impact of tax cuts in conjunction with that of the cuts paying for themselves. This, the combination of the two assumptions, is the Supply Side corner stone of Reaganomics, aka Voodoo Economics - as famously quipped a long time ago by Bush senior, then years away from ascending himself to the Presidency – it, Reagan's doctrine, retaining conservative mantra status despite conspicuously lacking in proof. Reagan had at one point to meet the tax cuts of the 1980s bearing his name by going in reverse and raising taxation. And his successor and heir to his tax cuts, Bush the Elder, had to raise taxes as well. While the result of the tax cuts operated by Bush the Younger was a distinctly sick economy, the opposite of the same under his predecessor, Bill Clinton, who happened to raise taxation during his years at the helm. Furthermore, current experience indicates that financial benefits accruing to corporations are regularly being devoted to share buybacks and higher pay packages for top executives rather than to productive investments (the share buyback element, by the way, going a long way towards explaining the current top level of stock quotations).

Incidentally, by stating his intention to shoot for higher growth via job creation, Trump is barking up the wrong tree. For at below 4.5%, the US unemployment rate is at present indicative of a state of virtual full employment, confirming that the crux is not the number of payrolls but one of insufficient productivity and associated wage growth stemming from the noted low propensity to invest.

One more point calling for utmost attention is the reckless deregulation drive integral to Trump's agenda. Reckless, because the planned watering down and envisaged demise of Dodd-Frank are as if the financial crisis of 2008 never happened and considering that the pursuit of the Environmental Protection Agency's dismantling runs directly counter all the indications increasingly pointing to the factual existence of climate change.

To sum up, President Trump's economic policy agenda is a mess – in his own image and likeness, one may add. If enacted, the agenda's implications are not heathy growth but a sea of red in public accounts, with the likelihood of accidents due to deregulation looming downstream.

What about the reflections of all this on short term expectations for financial markets? We think that long rates will stay down, that gold will continue in his slow path up and that the greenback will be confirmed in its present weakness. As to the stock market, how not to feel that the ongoing, if only perfectly artificial bonanza is poised to come to an end?

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