

Saving Private Sector

In the movie “Saving Private Ryan,” multiple brave soldiers give their lives to save one (the last-surviving of four brothers) in World War II. During a final, chaotic and riveting battle scene, Ryan is miraculously saved, but with tremendous loss of life. A bloody and dying, married, teacher from Pennsylvania – Captain Miller (played by Tom Hanks) – tells the farm boy from the Corn Belt – Private James Ryan (played by Matt Damon) – to “earn it.” “Earn” the sacrifice!

In his twilight years, Private Ryan, now a grown man with wife and family, stands by the grave of Captain Miller in Normandy, France and asks his wife if he has been a “Good Man.” He wants to know if he earned the sacrifice that his fellow soldiers made.

The reason we bring this up is that supporters of the new 45th President of the United States, Donald J. Trump, may feel as if they sacrificed for his victory. They were (and are) called deplorable, racist, divisive, and stupid. And, in an unprecedented effort, the sitting 44th President of the United States traveled around the country on Air Force One giving speeches that were in large part personal attacks on Mr. Trump and his supporters.

None of this mattered. Just like in the U.K. Brexit vote, the commoners have defied the experts. Donald Trump reshaped the electoral map, and upset the status quo. Now he has to “earn it.”

The experts and the elite are shocked. U.S. stock market futures were down as much as 5% overnight. The French Ambassador to the U.S. said, “A world is collapsing...,” and China state media suggests US democracy is in crisis compared to the stable Authoritarian China. The mainstream media is stunned.

In some ways, we understand the market’s consternation. What comes after 60 years of government growth? Can it, or will it, be unraveled? What will a new world look like?

At the same time, we don’t understand the stock market swoon. Huge government growth has never created wealth anywhere in the world. Shrinking government would be a huge positive for economic growth and capitalism in general. That’s why we think the markets post-election swoon won’t last long and is a buying opportunity.

Let’s describe it this way. In the past, when Mr. Trump bought a hotel, he didn’t fire the chambermaids and the air-conditioning guys, he fired the management. The US government has involved itself in every area of the economy. As one measure of this, compare the size of the non-defense federal budget to GDP – back in the early 1950s it was roughly 7%, today it is 18%. No wonder politics has become so nasty. Multiple trillions of dollars are at stake, and people will fight hard to keep them.

If Mr. Trump tries to roll-back government (and we hope he does) he will be fought by the stakeholders of government at every turn. Those stakeholders include the bureaucrats who run the programs and exercise regulatory control over so many industries, the mainstream media who get access to the bureaucrats, and the actual beneficiaries of government spending programs. That’s a large, powerful and noisy group.

Mr. Trump ran on a populist platform, especially when it came to trade. He wants to yank support for TPP – the Trans Pacific Partnership – a new trade bill negotiated with Asia. He also wants to unravel NAFTA – the North American Free Trade Agreement – a free trade agreement with Canada and Mexico signed in 1994.

Tariffs are taxes, and free trade is unambiguously good. Unraveling free trade deals, if it ends up boosting tariffs (taxes), is a negative for the economy. However, the US economy performed well in the 1950s and early 1960s, and again in the 1980s and early 1990s, which were both before NAFTA was passed. In other words, ending NAFTA would create chaos in the global production chain, but may not be as negative as the Smoot-Hawley Tariff Act of 1930. Instead of fighting foreign competition through trade barriers, we wish Mr. Trump would “woo” companies to the US by cutting tax rates and reducing the regulatory burden.

What matters most for the US right now is the size and scope of the federal government. Last night, when presented with a choice to maintain the status quo, or move in a new direction, the electorate – the people – chose a new direction. They voted for turning back the six decades of government growth and regulation which have created a sclerosis in the US akin to what has happened in Europe and Japan.

There are many who want to ignore this and say we ought to accept a French-style slow growth future. Or decry “big business” for not investing enough. But, these pessimistic pronouncements fall flat. New technologies have the potential to grow the US economy by 4%+ or more each year if government will just stop getting in the way.

Mr. Trump has proposed tax cuts and deregulation. That’s not a bad start, we have never seen a tax cut we don’t appreciate. But it is spending cuts and regulatory reform that would pay the biggest dividends for the US economy. Bureaucrats make their living by controlling large swaths of the US economy. They are the management that has helped rig the system. We would not be opposed to firing about 100,000 of them in order to reset thinking about what is best for the average person in America.

The bottom line is that President Trump, with a Republican Senate and House, has a chance to steer the US toward much more rapid growth. Tax cuts, regulatory reform and a shift in decision making toward the states and away from the humungous – and despondent - federal government will lift growth. Net-net, we expect policy proposals and legislation to favor growth over stagnation (and sclerosis) in the years ahead.

This is very positive news for US stocks, the dollar, real estate and industrial or agricultural commodities, but bad news for long-term fixed income securities and precious metals. Industries to favor – financials, energy, healthcare, biotech, industrials and consumer discretionary. And those who count on subsidies from the federal government should beware. The government isn’t likely to be the same as it was in the past.

Let’s see if Mr. Trump can “earn it.” It’s a big task, and we hope America will support and fight towards a bright future alongside its new president.

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