

Mandate For Change

The red wave finally happened. A vast majority of counties – and most voter demographics – moved to the right, becoming more red. The result was a landslide electoral college victory for Donald Trump, who will become the 47th president of the United States.

Republicans will control the Senate with 53 or 54 members. The House will likely be narrowly controlled by Republicans as well. Put it all together, and this election was a clear mandate for the returning president.

A mandate for common sense and transparency, for less intrusive government, and one that makes personal opportunity a reality. Vice President Harris promised money for houses and new business starts, threatened the wealthy with higher taxes, and promised to attack “price gouging,” which is code for price controls.

Charles Payne, host of Making Money on Fox Business Network, posited that trying to buy votes with government money backfired because voters were offended. They believe they can make it on their own, and don’t need or want government involved so deeply in their lives. We certainly hope this is true.

The US has spent trillions on welfare, and all we are left with are collapsing inner-cities and dependent people. Government has become too large. It’s nearly impossible to find a nook or cranny of human activity not impacted by government money, taxes and regulations.

In the first 219 years of its history the federal government grew from nothing to a budget of \$3 trillion. In the 16 years since then, because of the Financial Panic of 2008 and COVID, government spending more than doubled to \$6.75 trillion. These were emergencies (and we disagreed with all that spending), but after an emergency you’d expect spending to return to pre-emergency levels. But history shows politicians never let a crisis go to waste, and their power and spending just ratchets higher. Instead of going toward new innovations, those resources have been building bigger bureaucracies and have pushed hundreds of billions into Green New Deal initiatives.

The insanity of spending this much to force the economy in a direction picked by politicians isn’t lost on businesses. When Google, Microsoft, and Meta need electricity for their new AI factories, where do they go? Nuclear power, which the government has ignored. Government doesn’t treat taxpayer resources well. It never has and it never will. Only when it is their own money do people care how it is spent.

And all this spending has created an insatiable desire to tax at the federal, state and local levels. Combine taxes with inflation and no wonder savings rates are so low and 70% of those polled say the economy is not working for them. Hearing President Trump support tax cuts for tips,

social security and overtime is music to hard-working-American’s ears.

Given all this, and the fact that there is a mandate for action, many are wondering what is likely to happen. First, it is clear that if the Trump team goes in with a milquetoast agenda, tweaking spending here, tax rates there, and gets involved with political horse trading, the victory will be wasted. The Trump team needs to take a page from the Javier Milei playbook. Go fast and go big. But it needs to be done with the understanding that some things will pay off quickly and others will take time.

The stock market has soared since the election results were finalized, suggesting that investors believe a Trump presidency is good for the economy. However, it could also be that the market is reacting to the fact that the worst policies of a Harris presidency, like taxes on unrealized gains, or interfering with large tech companies and maybe Elon Musk directly, won’t happen. It’s probably a little bit of both, and if Trump follows the right policies, he can help the market build on these gains.

Below is a list of things we would suggest the Trump team focus on and attempt to legislate. None of this is easy...but, from our point of view all of it would be positive for America.

1. We’ve never met a tax cut we didn’t like. The Trump tax cuts from 2017 should be extended permanently and cutting taxes on tips, social security, and overtime all sound like great ideas to us.

2. Close DEI offices in every government agency and office, most importantly the military. Follow the lead of Boeing, the University of North Carolina, the University of Florida, Tractor Supply, and many others who found that DEI goals undermine their institutions. Go woke and go broke. Believe in meritocracy and win. The biggest problem is that failures by government bureaucracies aren’t as visible as they are in companies that compete in a market. There is no profit and loss statement for government. But getting rid of DEI will immediately improve these agencies. The military may finally hit its recruitment goals.

3. Put universities and colleges on the hook for 50% of every student loan. If a student can’t/won’t repay after getting a degree from an institution of higher learning, it needs to be responsible for at least half of it. Just watch how quickly schools start pushing students toward degrees that are actually valuable in the real world. Student loans pay activist professors to train more activists. What a massive waste of resources it is to train people to play politics.

4. Build a wall. Close the border. Deport criminals. But, also, create a system for making legal

immigration easier. Make certain that new immigrants get a job and are not allowed to sign up for welfare, or any government handouts, for five years. In America's great immigration of the late 1800s and early 1900s, we put our arms around people and said, "welcome to America, good luck." We didn't say, "welcome to America, here's a check."

5. Deregulate, deregulate, deregulate. Cut, cut, cut. Evidently Elon Musk may be named the head of DOGE. Department of Government Efficiency. Musk fired 80% of the staff at Twitter when he bought it, and it operates better than ever. Why? Because those people he fired were there to use Twitter as a political weapon, not to build the best news platform in the world. It is highly likely that years of lousy productivity growth in government has created a situation where at least 50% of the three million government employees are unnecessary. Musk shared an idea with Joe Rogan on his podcast that maybe we just send people home and, yet, still pay them. Total government payroll is likely around \$300 billion per year. Spending \$150 billion (half the payroll) to pay 50% of all bureaucrats to not come to work, and not cause problems for Americans who are just trying to get ahead, would likely increase productivity by way more than \$150 billion per year. So, if it becomes hard to slim down bureaucracies because of union work rules, don't fire them, just have them turn in their credentials, computer, and phone. Send them home.

6. Asset managers should no longer be able to vote shares in the companies that their clients actually own. Centralized power, in the hands of asset managers, should not be able to be used to bully other companies into behaving in a way that only a few people think is appropriate. Give voting power back to the actual owners of the shares. Decentralize and put the days of ESG behind us.

7. Drill, baby, drill.

8. Cut spending. Start with Green New Deal subsidies. When companies like Google, Microsoft and Meta choose nuclear, it's a sign. Let all these clean industries compete in a fair and balanced marketplace and see who the winner is. If solar and wind are so fantastic...prove it by taking away the subsidies. Stop subsidizing primary education from Washington DC. Primary education is a local issue, and funding from DC is used to prop up teachers' unions which fought to keep schools closed during COVID and constantly impede attempts to get vouchers. These fund transfers from the federal government to state governments are propping up bankrupt cities and states. These states need to face reality, and not be bailed out.

9. The Financial Panic of 2008 and COVID pushed federal spending from 19% of GDP to nearly 24% of GDP. The US has never balanced its federal budget with spending over 18.5% of GDP no matter what tax rates are put in place. Even John Maynard Keynes – father of deficit spending – would argue that once the crisis is over, deficit spending needs to stop. The US should make every attempt

it can to take spending back to 2007 levels. Not in actual dollar terms (we have experienced a lot of inflation), but in percentage of GDP terms. So, how is that done? One way is what we referred to in Point 8 above, but spending cuts are easily demagogued and are often unpopular...so let's propose a "freeze" on spending at 2024 overall levels. If the US froze spending for seven years, the budget would be balanced. In other words, the US could put in place a process by which we could actually see surpluses in 2031...which will be necessary because that is just about the time Social Security starts running red ink.

10. The Federal Reserve has a classic bureaucratic mission creep problem going on. For example, the Federal Reserve Bank of Chicago has a Community Development Department that highlights "childcare" and "lead water pipes" on its website. Economics encompasses every part of life, so the Fed argues all of this is within its purview. It also believes it should be involved in fighting "climate change," by saying weather issues could turn into financial, economic, and banking issues. But the Fed has only one job and that is maintaining the sanctity and value of the US dollar, and 40-year highs in inflation are proof that it has failed. The Fed needs to stop the activism. Moreover, the Federal Reserve, because of its move to abundant reserves, is losing about \$100 billion dollars per year. So, how does it pay its employees? It appears that it is borrowing money from the Treasury. And to do this it uses an absurd accounting gimmick called a "deferred asset" – basically a promise to make profits in the future. We do not believe Congress approved this use of taxpayer funds to pay for Fed employees (especially ones that are behaving more like activists than monetary policy experts). There is a potential court case here using the Loper decision (repeal of Chevron) as its basis. The Treasury should not be paying for Fed losses. In the United Kingdom, the same issue has occurred with the Bank of England, but the UK counts this loss and the resulting spending as part of its deficit. That is the right way to do it, but accounting gimmicks in the US hide this from the public, and Congress.

11. Without going into all the details, the Trump Administration should push the Fed to return to a "scarce reserve" model. The Fed's balance sheet has grown from roughly \$800 billion in 2007 to over \$7 trillion today, 90% added in just 17 years. Government entities across the board used 2008 and COVID to expand their power, reach, and control in alarming ways. This all needs to be pushed back. Government should never be this big and powerful. The 2008 panic started with about \$400 billion in losses on subprime loans. Today, banks have over half a trillion in losses on their books because of the way the Fed responded to those crises. In other words, the Fed has made the system less secure and stable, not more. End Quantitative Easing and roll back the Fed.

12. Tariffs. China is fair game. It doesn't respect intellectual property rights, human rights or fair trade. China is in the developed world category now...no need to support it with beneficial trade agreements. But, we need to be careful of broad-based tariffs. Yes, we can produce many things in the US, but not overnight. And we can

never produce French Bordeaux ... so why make people who like it pay more for it? The division of labor makes everyone more productive, and sometimes that crosses borders.

13. Do not, for any reason, get rid of the debt ceiling. Congress put it on hold until January 1, 2025 (after the 2024 elections), and the US has been running the most irresponsible government budgets in US history. Government must be made to justify its deficit spending, and voting on the debt ceiling makes it a public event. It's a necessary check on out-of-control spending.

This is just a partial list of the things that could be done. We could list hundreds of wasteful programs and burdensome rules that hold back productivity, investment, and growth in US standards of living.

The government has grown massively. The Fed has grown massively. New technology in recent decades brought incredible potential, yet real GDP growth in the past 20 years has averaged just 2.1% per year. Many economists try to argue that new technologies aren't really productive, or that other flaws in the free markets system are why the economy is growing so slowly.

If government spending actually improved the economy, things should be much better. But, they aren't. Why? Because big government is an impediment to growth. The bigger it gets, the slower we grow. Just look at Western Europe...stagnant for decades...underperforming stock markets...little entrepreneurship. If we really want to Make America Great Again, the US must Make American People Free From Government Burdens Again. This means "going back" to a time when government was much smaller. A smaller government means a bigger private sector, and more opportunity for individuals to create, serve and grow.