The Trump Stock Market Bubble. "Make it Bigger"

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Donald Trump has a plan for dealing with the stock market bubble. Make it bigger.

Before the election candidate Trump blasted Federal Reserve chairman Janet Yellen for keeping interest rates too low for too long to keep the economy humming along while Obama was still in office. The president elect accused Yellen of being politically motivated suggesting that the Fed's policies had put the country at risk of another stock market Crash like 2008.

"If rates go up, you're going to see something that's not pretty," Trump told Fox News in an interview in September. "It's all a big bubble."

Yellen of course denied Trump's claims saying, "We do not discuss politics at our meetings, and we do not take politics into account in our decisions."

As we shall see later in this article, Yellen was lying about the political role the Fed plays in setting policy, in fact, last week's FOMC statement clearly establishes the Fed as basically a political institution that implements an agenda that serves a very small group of powerful constituents, the 1 percent. If serving the interests of one group over all of the others is not politics, than what is it?

The problem we have with Trump is not his critique of the market or the Fed. The problem is his remedy which can be sussed out by reviewing his economic plan. Trump wants to slash personal and corporate taxes in order to put more money into the economy to increase business investment, boost hiring, and rev up growth. Regrettably, his tax plan achieves none of these.

First of all, slashing taxes for the wealthy does not boost growth. We know that. It doesn't work. Period. Check out this blurb from an article on CNBC:

> A study from the Congressional Research Service — the non-partisan research office for Congress — shows that "there is little evidence over the past 65 years that tax cuts for the highest earners are associated with savings, investment or productivity growth.
>
> In fact, the study found that higher tax rates for the wealthy are statistically associated with higher levels of growth…
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> The CRS study looked at tax rates and economic growth since 1945. The top tax rate in 1945 was above 90 percent, and fell to 70 percent in the 1960s and to a low of 28 percent in 1986.
> The top current rate is 35 percent. The tax rate for capital gains was 25

> percent in the 1940s and 1950s, then went up to 35 percent in the 1970s, before coming down to 15 percent today — the lowest rate in more than 65 years.
>
> Lowering these rates for the wealthy, the study found, isn't aligned with significant improvement in any of the areas it examined…
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> There is one part of the economy, however, that is changed by tax cuts for the rich: inequality….
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> The share of total income going to the top 0.1 percent hovered around 4 percent during the 1950s, 1960s and 1970s, then rose to 12 percent by the mid-2000s. During this period, the average tax rate paid by the 0.1 percent fell from more than 40 percent to below 25 percent. (Study: Tax Cuts for the Rich Don't Spur Growth, CNBC)

Trump's tax plan will increase inequality by making the rich richer. He wants to reduce the top tax rate from 39.6% to 33% which means that people "making $3.7 million or more in a year, would receive $1 million in annual tax savings." (USA Today) The plan is bad for the economy, bad for the deficits and bad for working people who will see more aggressive attacks on Social Security to make up for the losses in revenue.

Second, the huge tax break Trump intends to award to the tax dodging corporations that stash their money overseas will not be used to fire up growth or invest in future business ventures, but to issue more dividends to shareholders or increase stock buybacks that pump up stock prices. There's a great article at the Intercept website that sums it up perfectly. Here's a short excerpt:

> The official line from U.S.-based multinational corporations is that if they get a huge tax break, they'll bring home the trillions of dollars in profits they've stashed overseas and use it to hire tons of Americans.
>
> But now that Donald Trump's election means it might really happen, corporate executives are telling Wall Street analysts what they'll actually use that money for: enriching their shareholders and buying other companies.
>
> The Intercept's examination of dozens of earnings calls and investor conference talks since Trump won the presidential election finds that many executives are telling analysts at large banks that they are eager to take the money to increase dividends and stock buybacks as well as snap up competitors. They demonstrate considerably less if any enthusiasm for going on a domestic hiring spree…
>
> The wealthy are going to create tremendous jobs. They're going to expand their companies," Trump asserted during the first presidential debate. "They're going to bring $2.5 trillion back from overseas, … to be put to use on the inner cities and lots of other things, and it would be beautiful." During the third debate he promised that "We're going to start hiring people, we're going to bring the $2.5 trillion that's offshore back into the country. We are going to start the engine rolling again.
> (Corporations Prepare to Gorge on Tax Cuts Trump Claims Will Create Jobs, Jon Schwartz, The Intercept)

Trump knows his so called "tax holiday" scam is a bunch of baloney. Why would companies expand their operations, hire more workers, and generate more product when consumer demand is still in the crapper seven years after the Great Recession?

They're not going to do that. They're going to do exactly what their shareholders expect them to do, pursue those areas of investment that promise the best possible return. In this case that means stock buybacks, the financial engineering swindle that's going to add another $2 trillion to equities valuations and send Trump's "bubble" to the moon.

The people who believe that Trump is going to defend the "little guy" against the special interests, corporate lobbyists and elitist oligarchy who run this country are going to be pretty disappointed. Behind his widely-ballyhooed public relations campaign aimed at convincing his backers that he's determined to keep the jobs in the US, Trump is working all the levers to ensure the big money keeps flowing in the same direction it has been for the last 30 years. Upwards.

As for Yellen, last week's FOMC statement made it crystal clear that if Trump makes any attempt to veer from the predatory, neoliberal course she's charted, he will be quickly slapped down with higher interest rates. Check out her comments from the post-statement press conference:

> We're operating under a cloud of uncertainty at the moment … Some participants noted that if the labor market appeared to be tightening significantly more than expected, it might become necessary to adjust the Committee's communications about the expected path of the federal funds rate, consistent with the possibility that a less gradual pace of increases would become appropriate.

In other words, if wages finally manage to break-free from their seven years of flatlining stagnation due to an unforeseen surge in growth, the Fed will immediately extinguish that improvement by raising rates and reducing the level of economic activity. Yellen's statement simply confirms the Fed's anti-worker bias.

Which is why we say the Fed is basically a political institution.

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