



What I Learned in Washington DC

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by John Mauldin
of Mauldin Economics

I have been in Washington DC for the last three days. The ostensible reason was to participate in a board meeting of a public company, Ashford Inc. (AINC). We manage hotel REITs that own three hotels here in DC, and the group decided to move our board meeting up a few weeks and hold it in DC during the inauguration. That gave me the opportunity to set up a few meetings to try to gain some insight into what the first 100 days, the first six months, and the first year of the Trump administration might look like.

This is going to be a short letter summarizing my impressions from the last few days. I think it might be easiest to present them in the form of a list.

1. If you listen to the media you might have the impression that the Trump transition team is in complete disarray. Talking with leaders of the transition team certainly didn't leave me with that impression. They have broken the transition process down into over 30 departments and have created a "landing document" for each department. The analogy they are using is that this process is like planning an invasion, and they are going to hand the landing document off to the "beachhead teams" who will then execute the plans.

I was briefly allowed to look at (without actually being able to read) the plan for one cabinet-level department. It appeared to be about 100 pages plus of serious detail as to exactly what executive orders would need to be removed and added, what personnel would have to be replaced (both appointees and regular staff), what policies would need to be changed, and so forth.

I was told that this level of planning was being done for every department. My impression is that there are a lot of people from various think tanks and others with experience in the presidential transition process who are involved in directing the plan for each department. That level of detailed planning doesn't happen in less than two months. My guess is that some of that thinking has been going on for years, and now it can be implemented.

That being said, we know that no battle plan survives contact with the enemy; and it was instructive to sit with Bill Bennett, who talked about his experience in trying to reform the Department of Education under Reagan. They were still dealing with personnel and policy issues a year later, and this was when the department was much smaller than it is today. And that is just one department.

When I asked a key person how much of the overall plan would likely come to fruition, I got a rueful smile and a shrug. “If we even get half of this done in the first few years, that will be major reform.”

2. There seem to be two general types of agency plans. First, there are those where the culture of the department has to be changed, and then are those where the current staff seems to be doing its job but the culture surrounding the department has to be dealt with. Those are entirely different issues. The first can be handled to some degree by the executive branch, but the latter needs to be dealt with by congressional action.
3. Trump’s management style is going to drive the media (and admittedly, much of the country and the world) nuts. One person who has worked closely with Trump during the transition says it is a lot like the HBO show *Entourage* and not at all like the British sitcom *Yes, Minister*. Trump will have people in his entourage competing to give him the pieces of information he needs. In his business organization, he sets the vision and then hires people to execute that vision; and then he goes back to doing what we have seen him do so well, which is to create the brand and image.

He is bringing in people to execute his vision, and he’s going to expect them to get it done. He will jump in when he thinks he’s needed or when he can add something to the process, but he will mostly be paying attention to his team’s performance.

One assessment suggests that there is going to be more than the usual amount of personnel turnover in the first six months. The media will be writing about how Trump can’t keep people and about all the chaos in the White House and other parts of government. But from Trump’s perspective, and given his management style, that’s not necessarily bad in terms of his longer-term goal of changing things.

We have not had a president with this type of management style in my lifetime. Since it’s not something that any of us are going to be familiar with, it is going to make some of us uncomfortable until we get used to it (and some people never will).

4. Everyone in the new administration and Congress agrees there is going to be significant tax reform. That is where the agreement ends. There is absolutely no consensus on what that tax reform should actually look like. Among members of the US Congress and others you would think should know, the universal answer is “I have no idea.”

I will candidly admit that some of the tax ideas I’ve been reading about make me nervous. The wrong type of tax reform can do serious damage to the economy. One of the few things that nearly all economists can agree on is that getting the incentive structure correct is critical. I am not sure that some of the people who seem to be in a position to influence the proposals really understand the importance of incentives and the impact they could have on trade and business.

Part of the reason the market is up and that optimism levels are up in all the polls is that people have high expectations about the nature and depth of the tax reform we’ll get. Failure to deliver something that at least comes close to meeting those expectations is going to have a significant negative impact, not just on the economy but also on the markets. I don’t know how long the new administration will have to “stand and deliver.”

5. Everyone seems absolutely convinced that Obamacare will be repealed; but there are considerable differences in the plans that would replace it. My guess is that we are going to get substantial relief for small businesses and move towards more significant health savings accounts. There will not be a single mandate for an insurance company to cover all sorts of things. A 55-year-old woman is not going to have to purchase insurance that has prenatal care in it. People will have much more ability to tailor insurance to their own personal needs. This should help a great deal on costs to individuals and businesses, but it doesn't deal with the overall cost of the system.
6. Dodd–Frank is going to be restructured. It is also very likely that the new DOL rule on fiduciaries and ERISA plans will at least be postponed if not significantly changed. On a personal note, there are parts of the DOL fiduciary rules that make sense, and I support them. But it appears to me that DOL was trying to make a one-size-fits-all rule that was just a bridge too far.
7. Steve Moore passed on a story to me. He and my friend Larry Kudlow were meeting with Trump, and Trump asked them if they would like to be part of his economic advisory team during the campaign. They looked at each other and back at Mr. Trump and said something to the effect of, “You can't use us. We believe in free trade.” And Trump then said, “But we agree on nearly everything else. Let's agree to disagree on trade and figure out where we can work together.”

Not many presidents are willing to have that level of disagreement from the outset. That is somewhat comforting to me. I will admit that, having asked a few questions of people who have interacted with Peter Navarro, he still makes me very nervous.

8. There is a general understanding on the part of nearly everyone I talked to that the biggest problems are going to be in dealing with the entrenched bureaucracy. It is highly likely that Congress will pass legislation that requires any department making a ruling that could cost over \$100 million to get congressional approval for that rule.

Given the recent ruling by the Second Court of Appeals that the Consumer Financial Protection Bureau does not meet the constitutional requirement for government oversight and that the law concerning it has to be changed, it is highly likely that the CFPB will be overhauled and reformed.

9. There are literally thousands of presidential appointees that don't have to be approved by the Senate, but the proper procedure is to wait until the cabinet-level officers and senior management are in place so that they can have input on those appointments. If you expect appointees to run a department or agency, you need to give them the people they want.
10. Congress has been passing literally hundreds of pieces of legislation, knowing full well they would be vetoed and never see the light of day. Not all of these will be brought back up, as the Republicans were counting on Obama vetoing them. But I think we will see a great deal of legislation passed in the first six months to one year. These are bills that have already been through committee and have enough support to get action.

I have met three types of people here in Washington DC. There are the Trump supporters, who seem to be wildly optimistic. On the other hand, as I look out my window here at the Capital Hilton, I see hundreds if not thousands of protesters walking by wearing little pink hats, and they are decidedly not happy. The third group is much smaller and consists of those who are actually aware of the amount of work that is going to have to be done and who recognize what a daunting task it will be.

On Monday some 538 people who are the initial members of the transition beachhead teams will show up in offices all over the country, but mostly in DC. It is going to be quite some time before we begin to see much change and can begin to figure out what that change will actually look like.

I'm not going to offer my thoughts on the inaugural speeches and events, as my political leanings are really not the focus of this letter. Next week we'll return to the arena of economics and let the political commentators do all the talking they want to do in the arena of politics. But in the areas where politics and economics intersect – an intersection that seems to be expanding – we may have to revisit the political arena again.

Florida, Dallas, and the Caymans

Shane and I will be in at the Inside ETFs Conference in Hollywood, Florida, January 22–25. I hope to see as many readers as possible. I will be making some big announcements at the conference.

Then I'll be speaking at a one-afternoon conference hosted by S&P Dow Jones at the Ritz-Carlton here in Dallas on February 1. I strongly encourage you to [register for the free afternoon](#).

In conjunction with S&P Dow Jones Indices Forum that afternoon, if you are an RIA, I would like to invite you to a private luncheon immediately before the forum, where we will discuss a separate topic: *“What Our New Administration May Mean for the Investment Landscape.”*

If you would like to be my guest at the luncheon, simply respond to business@mauldinsolutions.com and confirm you are registered, and we will make sure you get the information you need. Space is quite limited, so do email us back to secure your reservation.

I will then be at the Orlando Money Show February 8–11 at the Omni in Orlando. Registration is free. I am also scheduled to speak at a large alternative investment conference called CAIS in the Cayman Islands, February 14 to 18.

Sixteen years ago I was in Washington DC for the inaugural of George W. Bush. I've been reflecting on that occasion and the significant difference in the “mood” of the country now. Back then we had hanging chads, and today we have different forms of controversy, with massive protests throughout the country and the world on the day after the inauguration –before anything has really been done to protest against. I had a fascinating conversation last night with two ladies who were here for the women's protest march; and somehow or another it emerged that we all went to Rice, and we began to engage each other on a wide variety of issues. Other people walked up and joined in. You can learn a lot at moments like that.

The previous evening, Shane and I attended the traditional Texas Black Tie and Boots Inaugural Ball, which is put on every four years for whichever party has won the presidency. In 2000 there were some 2,000–3,000 people (as I recall), but last night there were 10,000 people at the Gaylord National Harbor. An open bar and mounds of food made for a festive mood, and the evening turned nostalgic for me when I got to listen to the Beach Boys.

There was a time in my life when I could hit all those high notes and actually stay on key. I used to sing with all sorts of groups (and in the Fort Worth Opera chorus) and could do the tenor solos in Handel's *Messiah*.

And then the doctor noted that I had 70% blockage in one nasal passage and 80% in the other. A rather painful surgery and recovery ensued, but I was amazed when they took the packing out that I could breathe for what seemed like the first time in my life.

And then a few days later I tried to sing. I have to tell you, I was shocked. Not only could I not hit the high notes, but my voice seemed to have dropped almost an octave, and I couldn't carry a tune in a 10-gallon pail. I went from having nearly perfect pitch to no pitch. I was told that if I practiced for a long time I could recover the ability to sing on key, but I would now be a baritone. Having sung tenor for 40 years, I couldn't even "hear" the chord structure to be a baritone. Sadly, I moved on to other things, but I still enjoy listening. And in that extraordinarily noisy crowd last night, I could pretend that I could still sing with the Beach Boys. There was no one to hear me be horribly off-key and miss every note, but I knew the words, and the music still moved me.

You have a great week.

Your feeling the good vibrations analyst,

John Mauldin

subscribers@mauldineconomics.com

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