Team Trump's Tug-of-War

How will the president's economic advisers alter the global business prospects of U.S. companies?

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No man is an island, not even the leader of the free world. Since taking office, President Trump has been reshaping his campaign pledges. Prodding him to wield the chisel are his advisers: an unusual assortment of liberal-leaning family members, hardened Wall Street veterans, starched-shirt military commanders, and right-wing political strategists.

Out of that eclectic mix has come moderation. The president's recalibrated position on China's currency manipulation, his reversal on eliminating the Export-Import Bank, his comments that NATO is actually *not* obsolete, and his decision to renegotiate the North American Free Trade Agreement — days after saying he would sign an executive order to withdraw from NAFTA — indicate a willingness to listen to others' more seasoned views. Trump might continue to temper his positions, albeit with a mindfulness toward maintaining his populist constituency.

For CFOs interpreting these changes, the shifting landscape in Washington is, for the most part, encouraging. Still, the president's sharp turns right and left are also perplexing, making it tough to call his next moves. To get a clearer sense of the administration's developing economic agenda, we reached out to five economists to posit their views on seven of the president's top economic advisers. These seven are pulling the strings—but they're not all pulling in the same direction.

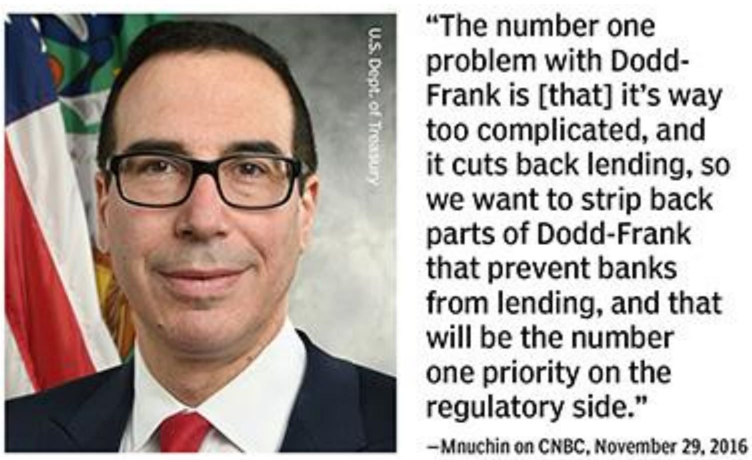
"I think it's obvious that there is not a detailed blueprint of what the Trump agenda is," says Jeff Hauser, director of the Revolving Door Project, an initiative of the Center for Economic and Policy Research that scrutinizes executive-branch appointments to ensure they serve the public interest. "The general themes from his campaign are likely to stay consistent, but the specifics could flip-flop. That's why his choice of economic advisers is instructive—they're the ones who have his ear."

Who are these people? What are their backgrounds? And how may their opinions affect global business prospects for U.S. companies? Our analysis follows.

STEVEN MNUCHIN

Secretary of the Treasury

A former Goldman Sachs executive, Mnuchin holds some views that differ from Trump's pronouncements on the campaign trail. For instance, he supports the Volcker Rule, a part of the Dodd-Frank Act that restricts banks from making speculative investments in hedge funds and private equity.



Dismantling Dodd-Frank was a centerpiece of Trump's platform, and in April he signed an executive order to roll back certain provisions of the post–financial-crisis legislation. What's interesting is that the Volcker Rule was not among them.

"There's a sense, with some truth behind it, that Mnuchin has awesome influence," says Hauser. "He's playing a longer-run game, knowing it's unlikely that any legislation to completely gut Dodd-Frank will pass."

Mnuchin and another Trump adviser with roots at Goldman Sachs, Gary Cohn (see his profile below), are perceived as moderates who can shepherd the president's tax reform plan through Congress, giving him his biggest win to date. The pair stood side by side to announce the plan in late April. Mnuchin called it the “biggest tax cut in history,” a declaration subsequently faulted for bad math.

Still, the tax plan is a gift to business. The big question is how the country will pay for it without adding to the ballooning federal deficit. The plan omitted the border adjustment tax on imports proposed by House Speaker Paul Ryan, which was seen as a way to make up some of the revenue shortfall.

In any case, Mnuchin will certainly be at the center of all economic maneuverings by the Trump administration. “He played a pivotal role with respect to the corporate tax cut and the elimination of the border tax proposal,” says Robert Hartwig, a finance professor at the University of South Carolina with a Ph.D. in economics. “The latter would have entangled fiscal policy with trade policy in ways we’ve not seen in recent U.S history. He seems to have the president’s left ear, while Cohn has his right.”

GARY COHN

Director, National Economic Council

Cohn, a lifelong Democrat and former president at Goldman, is reportedly close to Trump’s senior adviser Jared Kushner, who’s also a Democrat. Many see Cohn as the *yin* to chief strategist Steve Bannon’s *yang*, his softer stance on regulatory reforms, immigration, and health care balancing Bannon’s more populist positions.

He has made some surprising remarks, including a reversal of his pledge to dismantle Dodd-Frank. He even raised the possibility of legislation to reinstate the Glass-Steagall Act’s separation of investment and commercial banking activities, to the delight of Democratic Senator Elizabeth Warren. He’s come out strongly for free trade and was an early critic of the Republicans’ first health-care bill, which folded quickly.

Cohn’s star is said to be ascending, to the detriment of Bannon and trade adviser Peter Navarro. The president’s reappraisal of his intention to toughen trade policy may be traced to Cohn’s influence.

One expert thinks his growing prominence is good news for business. “Cohn understands that the thrashing between Wall Street and Main Street is not a case of polar opposites, as it's typically portrayed," says Mark Fratrik, senior vice president and chief economist at marketing research and consulting firm BIA/Kelsey. "When Wall Street is growing, it provides the financial foundation for people who have stocks and bonds to be more optimistic," says Fratrik. "This ties into their willingness to buy cars, fix up their homes, and go out to restaurants, creating capital for myriad businesses to invest in their [own] growth."

WILBUR ROSS

Secretary of Commerce

An investor and former banker, Ross made billions of dollars in leveraged buyouts, making him the wealthiest member of Trump's well-heeled economic team. He's reportedly in charge of establishing the administration's trade priorities, a role usually assigned to the U.S. Trade Representative. Ross's initial task is to scrutinize existing trade agreements for evidence of violations and then to determine an appropriate response. He has said that will take time and patience — good news for free-trade advocates.

Then again, Ross used some strong rhetoric in April when the Commerce Department announced duties of 3% to 24% on Canadian softwood exporters. He is also making noise about the necessity of defending the U.S. steel industry, tying the idea to national security concerns. "The whole idea of trade deals," Ross has said, "is to build a fence around participants inside and give them an advantage over the outside."

Ross enjoys a long personal relationship with the president and is widely expected to be the most influential Commerce Secretary in modern U.S. history. While some of Trump's economic advisers are hardliners on trade, he is measured and pragmatic.

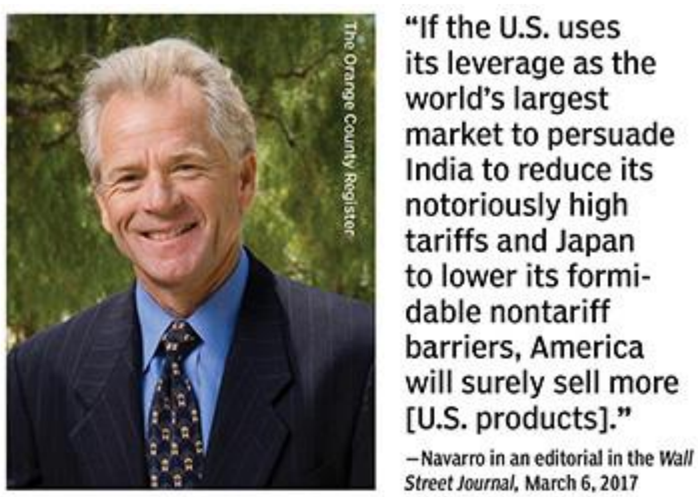
"Trump knows very little about the intricacies of trade deals, which he acknowledges are more complex than he had understood them to be," says Hauser. "He will lean on Ross, who is expected to have a lot of sway."

PETER NAVARRO

Director, National Trade Council

A former professor of economics at the University of California, Irvine, Navarro is a staunch nationalist on trade issues. He has regularly condemned the country's trade imbalances with China, Japan, and Mexico; suggested imposing a tariff on German automakers BMW and Mercedes-Benz; and raised the idea of making companies repatriate their global supply chains.

Laurence Kotlikoff, a professor of economics at Boston University who ran for president last year as a write-in candidate, is deeply alarmed by Navarro's views. "He's got a doctorate in economics, but given the things he's said I don't think Congress should view him as a real economist," he explains. "He apparently has no understanding of international trade or even rudimentary economics."



Asked to elaborate, Kotlikoff comments that the U.S.'s trade deficit is of its own making and that other countries are not to blame. "The real reason for the deficit is the difference between domestic investment and U.S. saving," he says. "Our country is saving just 4% of its output, far below the 15% national savings rate recorded in the 1950s. Instead, foreigners are investing here, which shows up in the form of larger trade deficits."

Other economists express similar concerns about Navarro. "He makes crazy comments that are disturbing, illogical, and inane," says Fratrik of BIA/Kelsey. "If the president followed what Navarro wanted, it would devalue what the [country's] founders did and wanted. Fortunately, I have enough faith in the ways of American government that I believe the dastardly things Dr. Navarro suggests won't come to fruition."

Echoes William Dickens, distinguished professor and chairman of the economics department at Northeastern University: “Navarro’s clueless about supply-side economics, confuses tariffs with value-added tax, and doesn’t understand that tariffs disadvantage imports.”

Of course, none of that means Navarro won’t wield any influence. “He has a world view he can connect to policy, which Trump could deploy if he seeks a trade war,” notes Hauser.

MICK MULVANEY

Director, Office of Management and Budget

Mulvaney was on everyone’s mind when the president’s tax-cut plan was announced, given his reputation as a fiscal hawk. Would he approve of a giant tax cut without much of a plan to recoup the lost income?

His response: the tax plan’s impact on economic growth, in addition to the closure of unspecified tax loopholes, would make up the difference. Or at least, that’s what he hoped initially. He subsequently told CNBC that there’s no way to know for sure what the effect on the deficit will be.

Clearly, Mulvaney is in a tough spot. The former Republican representative from South Carolina opposes hikes in defense spending that are not accompanied by non-defense spending decreases. That puts him at odds with the president’s plans for vastly increased military spending.

Nonetheless, his fiscal hawkishness is seen as a needed balancer in an administration that’s so zealous about “winning.” Mulvaney was the principal architect of the failed 2011 Cut, Cap, and Balance Act to counter proposed increases in the debt ceiling. At the time, the federal debt was $14.3 trillion; today it’s close to $20 trillion. Small wonder he’s an uneasy defender of the “biggest tax cut in history.”

He also parts company with the president when it comes to Medicare and Social Security, both of which Trump has vowed to keep intact. The budget director wants to increase the eligibility age for Social Security and supports means testing to qualify for Medicare benefits.

ROBERT LIGHTHIZER

U.S. Trade Representative

Lighthizer was a deputy trade representative during the Reagan administration and helped broker bilateral trade agreements. A partner at law firm Skadden Arps, he is considered an expert in trade litigation, policy advice, and legislative initiatives. He espouses a hardline position on trade, particularly with regard to the interests of manufacturing, agricultural, financial services, and technology companies, the sectors he represents in his law practice.

"Our objective is not just to get the trade deficit down, our objective is to get more efficiency in the market. ... Everybody wins, and the U.S. producers really win, to the extent we can break down trade barriers."
— Lighthizer at his Senate confirmation hearing, March 13, 2017

Despite Trump's recent moderation on trade, Lighthizer is not likely to pull back from his position. "He represents the pre-existing flank in the Republican Party that has a rigid stance on trade, supporting a notion that Navarro is not completely out of the game and Cohn's influence is not everything," Hauser says. "His trade experience will be taken seriously by all concerned."

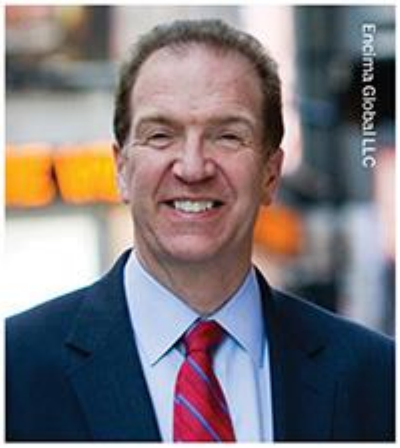
After being confirmed in May, Lighthizer's first task was expected to be to negotiate with Mexico and Canada over NAFTA.

DAVID MALPASS

Nominee, Undersecretary of International Affairs, Treasury Department

The former Deputy Assistant Treasurer under two presidents (Ronald Reagan and George H.W. Bush) served on Trump's economic advisory team during the presidential campaign. He has been touted as a possible successor to Janet Yellen at the Federal Reserve, although Trump is now warming to the idea of retaining Yellen.

Malpass is controversial for having once called the housing and debt markets bit players in the U.S. economy. That was in August 2007, with the credit crisis having already begun, and scant weeks before the markets began hammering the economy at the beginning of the Great Recession. At the time Malpass was chief economist at Bear Stearns, which collapsed along with the housing market the next year and was sold to JPMorgan Chase for a pittance.



"The 10th amendment said the federal government is supposed to only have powers that were explicitly given in the Constitution. I think the federal government's gone way beyond that. The Constitution never said that you could have a Federal Reserve that would have $2.8 trillion in assets. We've gotten out of control."

— Malpass in a *Forbes* interview, June 13, 2011

His tendency to make wrong calls — he also urged the Fed to sharply hike interest rates in 2011 to counter the threat of inflation — gives pause to many economists. "His forecasting record is abysmal," says Northeastern University's Dickens.

Malpass does bring extensive government experience. And his positions are clear. Chief among them: the Federal Reserve's interventionist policies are misguided; China and Japan have manipulated their currencies and thereby harmed U.S. economic interests; and U.S. tax policy must be overhauled.

Does he have the president's attention? Possibly yes, given the unveiled laundry list of proposed tax cuts; and possibly no, considering Trump's revised position that China is not in fact a currency manipulator.

The Upshot

Stirred together in a pot with a pinch of Kushner and a dash of Bannon, the president's economic team is a strange stew. Hauser boils down the advisers into two groups vying for the president's attention—Malpass, Cohn, and Mnuchin versus Navarro, Mulvaney, and Lighthizer, with Ross in the role of swing voter.

On trade, the first group appears to have gained the upper hand. "The outlook for international trade is much better than it was on the days Trump was elected and inaugurated," says Hartwig. "We're beginning to see a move to the center in terms of the president's positions, pulled there by some of his key advisers."

Kotlikoff laments that the economic policy team "doesn't have one real economist on it." Fratrik, though, is buoyed by the migration toward more mainstream Republican positions, such as a tax cut coupled with more restrained and thoughtful trade actions. "I especially like the idea of having Wall Street people enmeshed on the economic team as a counterbalance to the trade protectionists," he says. "All in all, it should be good for business."

As the president's more experienced economic advisers gain footing, their influence may be tempering his hardline positions and having a tangible impact. "The truth is, he needed this kind of advice," says Hartwig. "It was pretty inevitable that this would happen."

Russ Banham is the author of 24 books and a longtime contributor to CFO.