



Trump isn't draining the swamp, he's deepening it

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August 3, 2017

“Drain the swamp!” was a powerful rallying cry during Donald Trump’s presidential campaign. The businessman promised to govern in the public interest, and end the revolving door between politics and lobbying. If anyone had the chance to overturn special carve-outs, subsidies, regulatory barriers and access generated by special pleading, it was surely a wealthy populist insurgent beholden to major donors.

Yet eight months in to the Trump presidency, there appears to be little momentum behind his pledge to overhaul the relationship between big vested interests and the US government. A poll in late May found that 32 per cent of voters thought Trump had made the swamp worse, against 24 per cent who saw improvement. More worryingly, the President’s arbitrary conduct risks exacerbating crony capitalism in future.

The first ominous signs came with Trump’s cabinet selection. Appointing a former CEO of Exxon Mobile to head the State Department, a former Goldman Sachs partner to the Treasury, the daughter of a shipping company magnate to the Transportation department and an investor in steel, automotive components and coal to Commerce, hardly screamed an intent to break links between business and government.

Assigning conventional politicians to other positions did little to suggest major change was coming, either. A Newsweek analysis found that approximately 70 per cent of Trump’s White House staff were working in DC before the start of the administration too.

Trump’s picks for key government agencies likewise raised eyebrows. Professor Luigi Zingales of the University of Chicago Booth School of Business has highlighted how the lawyer Walter Clayton was appointed as Chairman of the Securities and Exchange Commission, for example, having previously represented many major Wall Street firms in fraud cases – and despite being married to another Goldman Sachs employee.

True, one of Trump’s early executive orders sought to stop a “revolving door” by preventing administration employees from taking up lobbying posts for five years after their government jobs, and for government employees to recuse themselves from actions that affect their former employers. But this did not go anywhere near as far as Trump had promised.

In a Wisconsin rally last October, he pledged to oversee similar legislation applied to Congress too. He also promised campaign finance reform to prevent foreign lobbyists from raising money in US elections. No such legislation has been forthcoming.

What about policy? The Trump administration had a real opportunity to end government-granted regulatory, spending and tax privileges. But little progress has been made here either.

Trump has used a host of executive orders to set frameworks to constrain the growth of regulation, and the Congressional Review Act to eliminate many rules passed under Barack Obama. Though an imperfect measure, there are some indications this is working. In May, the Federal Register for 2017 stood at around 20,000 pages (which would imply a level around 62,000 for the full year). This was much lower than whopping 95,894 of 2016 under President Obama.

A substantial deregulatory effort could theoretically help reduce cronyism by reducing the scope of regulation that can be shaped by special interests. In fact, reducing the size and scope of government more broadly can eliminate many specific perks and instances of favouritism towards certain sectors. Trump's recent budget showed this, and he is to be commended for proposing cuts, for example, to farm subsidies, which are perhaps the most egregious form of privilege with concentrated benefits and diffused costs across taxpayers.

Yet the President could be going much further to eliminate government involvement with business.

One obvious example is Trump's flip-flop on the Export-Import bank – the pinnacle of corporate cronyism. As a candidate, Trump pledged to dissolve the bank, which divvies out loan guarantees and direct taxpayer funds to facilitate the exports of some of the US's biggest companies, such as Boeing and General Electric. But in office, the President appears to have been nobbled by its beneficiaries. He now claims it is vital for them to have access to this kind of export finance.

On trade, Trump has been more consistently anti-market. But more protectionist measures, particularly those designed to insulate the US steel industry, will adversely affect consumers and downstream industries in order to protect one of the President's favoured sectors. Worse, they will embolden other sectors facing strong foreign competition to lobby the government for similar treatment, exacerbating cronyism.

That is not to say that all of Trump's actions reflect a desire to favour corporate interests. One certainly could not accuse Trump of listening to big business in his decision to withdraw from the Paris climate agreement – a decision which brought a stinging rebuke from a range of company heads and industries keen on the deal, and the loss of Tesla's Elon Musk and Disney's Robert Iger from his business panel.

But the President's failure to take a principled, consistent position on the role of government in business means that these individual decisions tend to come with strong assumptions about motive. If Trump thinks protecting steel is acceptable, then it is understandable why others believe his decision on Paris reflects a desire to protect fossil fuels.

While the effect of Trump's policies on the swamp are ambiguous, his personal conduct is surely deepening it.

The principle that companies should be treated equally under the law, and that government should avoid picking winners and losers, is a mainstay of market economy. But even prior to coming to office, Trump used the bully pulpit of his Twitter account to praise Ford for a decision not to build a new plant in Mexico, alongside tweets which warned ominously that companies that “want to do business in our country, have to start making things here again”.

He and his team seemingly changed the business decision of United Technologies, which cancelled plans to move a plant to Mexico, through a range of proposed US tax incentives and implicit threats to some of the company’s revenues from government contracts. The stock prices of other businesses have risen or fallen based on Trump’s musings on Twitter. Just last week, Trump and the White House made lots of noise about the Foxconn plans in Wisconsin.

As a candidate, Trump threatened Amazon with antitrust action, following critical coverage of him in the *Washington Post* (owned by Amazon CEO Jeff Bezos). More recently, there have been strong indications that the Trump team are using implicit threats against CNN by hinting at interventions in the proposed merger between AT&T and Time Warner (CNN’s parent company). All that is not to mention the shameless use of public office to boost the value of Trump properties, and the use of Mar-a-Lago as a means of access to the President.

This behaviour all threatens worsening crony capitalism, because companies will be more likely to base their business decisions according to expected political reaction rather than servicing consumer demand. Innovation and entrepreneurial activity will be less likely – the easier path for big business will be to become a “favourite” of the administration. Already we have seen instances of this politicisation, with companies re-releasing job announcements to seek the President’s approval and recipients of Export-Import bank funds justifying them using Trump’s protectionist language.

As business becomes politicised, the incentive to invest more in lobbying, government relations and political donations to meet the demands and desires of government, rather than consumers, will be irresistible. And if the electors perceive the negative results of this cronyism to be a consequence of enterprise rather than political failure, government control will ratchet up further.

Of course, the Trump presidency has a long way to run. The Republican Congress and White House could eliminate many of the opportunities for cronyism by shrinking regulatory agencies, and ending direct government subsidies. But judged so far on his government construction, policies and conduct, it is difficult to conclude that Trump is “draining the swamp”.

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