Reflections on the Trump Presidency, One Month after the Election

By Ray Dalio

Now that we're a month past the election and most of the cabinet posts have been filled, it is increasingly obvious that we are about to experience a profound, president-led ideological shift that will have a big impact on both the US and the world. This will not just be a shift in government policy, but also a shift in how government policy is pursued. Trump is a deal maker who negotiates hard, and doesn't mind getting banged around or banging others around. Similarly, the people he chose are bold and hell-bent on playing hardball to make big changes happen in economics and in foreign policy (as well as other areas such as education, environmental policies, etc.). They also have different temperaments and different views that will have to be resolved.

Regarding economics, if you haven't read Ayn Rand lately, I suggest that you do as her books pretty well capture the mindset. This new administration hates weak, unproductive, socialist people and policies, and it admires strong, can-do, profit makers. It wants to, and probably will, shift the environment from one that makes profit makers villains with limited power to one that makes them heroes with significant power. The shift from the past administration to this administration will probably be even more significant than the 1979-82 shift from the socialists to the capitalists in the UK, US, and Germany when Margaret Thatcher, Ronald Reagan, and Helmut Kohl came to power. To understand that ideological shift you also might read Thatcher's "The Downing Street Years." Or, you might reflect on China's political/economic shift as marked by moving from "protecting the iron rice bowl" to believing that "it's glorious to be rich."

This particular shift by the Trump administration could have a much bigger impact on the US economy than one would calculate on the basis of changes in tax and spending policies alone because it could ignite animal spirits and attract productive capital. Regarding igniting animal spirits, if this administration can spark a virtuous cycle in which people can make money, the move out of cash (that pays them virtually

nothing) to risk-on investments could be huge. Regarding attracting capital, Trump's policies can also have a big impact because businessmen and investors move very quickly away from inhospitable environments to hospitable environments. Remember how quickly money left and came back to places like Spain and Argentina? A pro-business US with its rule of law, political stability, property rights protections, and (soon to be) favorable corporate taxes offers a uniquely attractive environment for those who make money and/or have money. These policies will also have shocking negative impacts on certain sectors.

Regarding foreign policy, we should expect the Trump administration to be comparably aggressive. Notably, even before assuming the presidency, Trump is questioning the one-China policy which is a shocking move. Policies pertaining to Iran, Mexico, and most other countries will probably also be aggressive.

The question is whether this administration will be a) aggressive and thoughtful or b) aggressive and reckless. The interactions between Trump, his heavy-weight advisors, and them with each other will likely determine the answer to this question. For example, on the foreign policy front, what Trump, Flynn, Tillerson, and Mattis (and others) are individually and collectively like will probably determine how much the new administration's policies will be a) aggressive and thoughtful versus b) aggressive and reckless. We are pretty sure that it won't take long to find out.

In the next section we look at some of the new appointees via some statistics to characterize what they're like. Most notably, many of the people entering the new administration have held serious responsibilities that required pragmatism and sound judgment, with a notable skew toward businessmen.

Perspective on the Ideology and Experience of the New Trump Administration

We can get a rough sense of the experience of the new Trump administration by adding up the years major appointees have spent in relevant leadership positions. The table below compares the executive/government experience of the Trump administration's top eight officials* to previous administrations,

counting elected positions, government roles with major administrative responsibilities, or time as C-suite corporate executives or equivalent at mid-size or large companies. Trump's administration stands out for having by far the most business experience and a bit lower than average government experience (lower compared to recent presidents, and in line with Carter and Reagan). But the cumulative years of executive/government experience of his appointees are second-highest. Obviously, this is a very simple, imprecise measure, and there will be gray zones in exactly how you classify people, but it is indicative.

How Experienced Is Each Incoming Administration?
Years of Relevant Experience

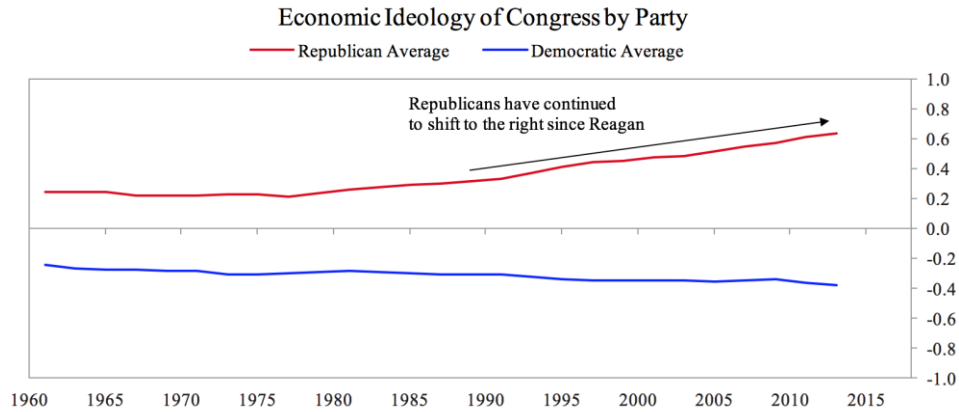|	Cumulative	Government/ Military	Business (C-Suite)
Kennedy	96	77	19
Nixon	95	67	28
Carter	79	58	21
Reagan	96	51	45
HW Bush	132	79	53
Clinton	123	101	22
Bush	152	80	72
Obama	122	117	5
Trump	138	55	83

High overall number

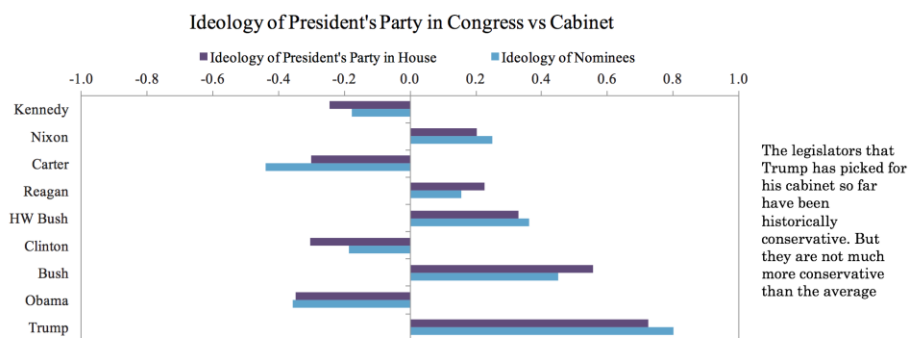Most years of business experience, fewer years of governmental

Counting the President, Vice President, Chief of Staff, Attorney General, and secretaries of State, Defense, Treasury, and Commerce.

Below we show some rough quantitative measures of the ideological shift to the right we're likely to see under Trump and the Republican Congress. First, we look at the economic ideology of the incoming US Congress. Trump's views may differ in some important ways from the Congressional Republicans, but he'll need Congressional support for many of his policies and he's picking many of his nominees from the heart of the Republican Party. As the chart below shows, the Republican members of Congress have shifted significantly to the right on economic issues since Reagan; Democratic congressmen have shifted a bit to the left. The measure below is one-dimensional and not precise, but it captures the flavor of the shift. The measure was commissioned by a National Science Foundation grant and is meant to capture economic views with a focus on government intervention on the economy. They looked at each congressman's voting record, compared it to a measure of what an archetypical liberal or

conservative congressman would have done, and rated each member of Congress on a scale of -1 to 1 (with -1 corresponding to an archetypical liberal and +1 corresponding to an archetypical conservative).

Economic Ideology of Congress by Party
— Republican Average — Democratic Average

Republicans have continued
to shift to the right since Reagan

When we look more specifically at the ideology of Trump's cabinet nominees, we see the same shift to the right on economic issues. Below we compare the ideology of Trump's cabinet nominees to those of prior administrations using the same methodology as described above for the cabinet members who have been in the legislature. By this measure, Trump's administration is the most conservative in recent American history, but only slightly more conservative than the average Republican congressman. Keep in mind that we are only including members of the new administration who have voting records (which is a very small group of people so far).

Ideology of President's Party in Congress vs Cabinet
■ Ideology of President's Party in House ■ Ideology of Nominees

The legislators that Trump has picked for his cabinet so far have been historically conservative. But they are not much more conservative than the average

While the Trump administration appears very right-leaning by the measures above, it's worth keeping in mind that Trump's stated ideology differs from traditional Republicans in a number of ways, most notably on issues related to free trade and protectionism. In addition, a number of key members of his team—such as Steven Mnuchin, Rex Tillerson, and Wilbur

Ross—don't have voting records and may not subscribe to the same brand of conservatism as many Republican congressmen. There's a degree of difference in ideology and a level of uncertainty that these measures don't convey.

Comparing the Trump and Reagan Administrations

The above was a very rough quantitative look at Trump's administration. To draw out some more nuances, below we zoom in on Trump's particular appointees and compare them to those of the Reagan administration. Trump is still filling in his appointments, so the picture is still emerging and our observations are based on his key appointments so far.

Looking closer, a few observations are worth noting. First, the overall quality of government experience in the Trump administration looks to be a bit less than Reagan's, while the Trump team's strong business experience stands out (in particular, the amount of business experience among top cabinet nominees). Even though Reagan's administration had somewhat fewer years of government experience, the typical quality of that experience was somewhat higher, with more people who had served in senior government positions. Reagan himself had more political experience than Trump does, having served as the governor of California for eight years prior to taking office, and he also had people with significant past government experience in top posts (such as his VP, George HW Bush). By contrast, Trump's appointees bring lots of high quality business leadership experience from roles that required pragmatism and judgment. Rex Tillerson's time as head of a global oil company is a good example of high-level international business experience with clear relevance to his role as Secretary of State (to some extent reminiscent of Reagan's second Secretary of State, George Shultz, who had a mix of past government experience and international business experience as the president of the construction firm Bechtel). Steven Mnuchin and Wilbur Ross have serious business credentials as well, not to mention Trump's own experience. It's also of note that Trump has leaned heavily on appointees with military experience to compensate for his lack of foreign policy experience (appointing three generals for Defense, National Security Advisor, and Homeland Security), while Reagan compensated for his weakness in that area with

appointees from both military and civilian government backgrounds (Bush had been CIA head and UN ambassador, and Reagan's first Secretary of State, Alexander Haig, was Supreme Allied Commander of NATO forces during the Cold War). Also, Trump has seemed less willing to make appointments from among his opponents than Reagan was (Reagan's Chief of Staff had chaired opposing campaigns, and his Vice President had run against him).\

A Comparison of Reagan and Trump's Cabinets

Position	Reagan's Pick	Main Prior Experience	Trump's Pick	Main Prior Experience
President	Ronald Reagan	Governor of California	Donald Trump	President of the Trump Organization
Vice President	George HW Bush	Former Director of the CIA; Ambassador to the UN; Congressman	Mike Pence	Governor of Indiana; Congressman
Chief of Staff	James Baker	Campaign chairman for HW Bush in primaries; Commerce Undersecretary	Reince Priebus	Head of the RNC
Secretary of State	Alexander Haig	Supreme Allied Commander NATO; Nixon and Ford Chief of Staff	Rex Tillerson	CEO of Exxon Mobil
Secretary of Defense	Caspar Weinberger	Director of OMB; Former Secretary of Health, Education, Welfare; Chairman of Federal Trade Commission	James Mattis	Head of US Central Command
Secretary of Treasury	Donald Regan	Chairman and CEO of Merrill Lynch	Steven Mnuchin	Hedge fund founder; Goldman Sachs Partner
Attorney General	William French Smith	Corporate lawyer; longtime advisor to Reagan	Jeff Sessions	Senator from Alabama; Attorney General of Alabama
Commerce Secretary	Malcolm Baldrige	Chairman and CEO of Scovill Inc.	Wilbur Ross	Billionaire investor
Secretary of Labor	Raymond Donovan	Executive at construction firm	Andrew Puzder	Fast food executive
Secretary of HHS	Richard Schweiker	Senator from Pennsylvania	Tom Price	Chair of House Budget Committee
Secretary of HUD	Samuel Pierce	General counsel of the Treasury Department	Ben Carson	Presidential candidate; MD
Secretary of Transportation	Andrew Lewis	CEO of several large companies	Elaine Chao	Secretary of Labor in George W Bush administration
Secretary of Energy	James Edwards	Governor of South Carolina	Rick Perry	Governor of Texas
Secretary of Education	Terrel Bell	US Commissioner of Education in Nixon and Ford administrations	Betsy DeVos	Michigan Republican Party Chairwoman
Secretary of Interior	James G Watt	Vice-Chairman of the Federal Power Commission	Ryan Zinke	Congressman from Montana
Nat. Security Advisor	Richard V Allen	Reagan's Chief Foreign Policy Advisor (77-80); foreign policy coordinator for Nixon	Michael Flynn	Director Defense Intelligence Agency

Top Reagan advisors were his chief primary opponents; Trump has mostly not picked main rivals

Reagan had more executive experience in government than Trump does. Reagan also had several people with experience in very senior roles.

A number of Trump's top officials are very successful businessmen whose views on policy are not well-known

By and large, deal-maker businessmen will be running the government. Their boldness will almost certainly make the next four years incredibly interesting and will keep us all on our toes.