

A New Phase in the Evolution of the “Deep State”

Bill Bonner interviews Mike Lofgren, Inner Circle, 3 February 2017

The “Deep State” is metastasizing... In the face of insurgencies from the left (Bernie Sanders) and the right (Donald Trump), it is evolving... adapting... and gaining ever more power over America’s body politic. If you think President Trump will easily win his war with the Deep State – or as he puts it, “drain the swamp” – you may wind up being disappointed. And if you think you – and your wallet – won’t get caught in the crossfire... think again.

We had a stellar lineup at our recent closed-door Inner Circle roundtable meeting in Baltimore. Agora founder Bill Bonner headed up the session. He was joined by our chief strategists from Britain, France, Argentina, Brazil, Australia, India, and China. Also there were three-term congressman and President Reagan’s budget chief David Stockman... author and fiat money specialist Richard Duncan... Asianomics founder and Inner Circle regular Jim Walker... and Alan Greenspan, who was Fed chairman from 1987 to 2006. You’ll be hearing more about what these folks had to say about the big trends to watch for in 2017 over the coming weeks. This week... we’re focusing on what we learned from another special guest at our roundtable meeting, Washington insider turned Deep State “whistleblower” Mike Lofgren.

Because Mike dropped the biggest bombshell of our two-day meeting... one that could have huge implications for the direction the U.S. takes during President Trump’s next four years in office. Story of Our Time Of all the “big picture” themes we track for you at Inner Circle, the rise of the Deep State is the most important.

As Bill has been warning, the Deep State has corrupted not just politics, but also the entire economy. From his opening address to the group in Baltimore: Markets never stop working. But as political force enters into them – especially the unelected kind – they work differently because they take that into account. They price in all of the manipulation, the meddling, the intervention, the activism, and you end up with something different. Not that markets aren’t working... they’re just working with the world as it is.

If you’re unfamiliar with the term, the Deep State describes the shadowy network of powerful people that really runs the country no matter who sits in the Oval Office or which party controls Congress.

Bill again: When people think of the Deep State, they are generally referring to the permanent government run as a collusion between the elite of Corporate America and the national security industry. They think of the “military-industrial complex” President Eisenhower warned we “must guard against” in his farewell address of 1961. The Deep State doesn’t care what you want or who you voted for. It doesn’t care how absurd its economic program turns out to be. It doesn’t give a damn about the Bill of Rights or the Rights of Man, blue states, red states, or red caps. It is a law unto itself... an unbalanced power, an unbridled force... out of order and out of control. It is no stranger to conspiracies... secrets... assassinations... manipulating public opinion... blackmail... or double dealing. It is bolder and more powerful every year. And it has the will and the way to control public policy... and the public purse.

The Deep State is the story of our time. It connects the dots between the War on Terror... the War on Cash... the phony-money system President Nixon ushered in back in 1971... and the global credit bubble that now threatens your wealth. It’s why we invited Mike – the ultimate

Deep State “whistleblower” – up from his home in Virginia to our roundtable strategy session in Baltimore. And it’s why we’re kicking off our 2017 Inner Circle Roundtable series with what we learned from him about how the Deep State operates... the new phase it’s entered as it evolves to deal with Team Trump... and what it all means for your money. Insider’s Perspective If anyone knows about the inner workings of the Deep State, it’s Mike

As a national security specialist on Capitol Hill with top secret security clearance, he worked on the fringes of the Deep State for almost three decades. Mike spent a total of 28 years working in Congress... the last 16 as a senior analyst on the House and Senate budget committees. This gave him an insider’s perspective of the Deep State’s War on Terror, its Wall Street bailouts and boondoggles following the 2008 crash, and how it’s kept funds flowing to America’s ballooning military-industrial complex. Then, after he retired in 2011, he literally wrote the book on the Deep State – a powerful exposé of America’s “anti-democracy” that inspired Bill to begin his own investigations into this little-understood nexus of power and money.

As you’ll learn from my Q&A with Mike below, we must be ever watchful of the Deep State because it does not stand still. It’s always moving... always adapting... and always assimilating potential centers of opposition. And right now, its biggest challenge is how to deal with Donald J. Trump. Q&A With Mike Lofgren Chris Lowe (CL): What drove you to finally “blow the whistle” on the Deep State? Mike Lofgren (ML): For my entire career I was a congressional budget analyst for national security in Washington. I hadn’t written a word for publication. Writing about your opinions is not a good way to succeed as a staffer on Capitol Hill. But after I retired, I gained perspective on the deeper nature of our culture in a way that was impossible when I was caught up in a career. And I wrote a book about Congress, *The Party’s Over: How Republicans Went Crazy, Democrats Became Useless, and the Middle Class Got Shafted*. I claim a modest amount of credit for launching the now thriving cottage industry of political commentators noticing the new strangeness of the party of Lincoln. That said, I was hardly ready to launch myself into the arms of Hillary Clinton’s party – or Hillary Clinton, for that matter. That crowd had big problems, too. Like the Bourbon kings, the Democrats had forgotten everything and learned nothing.

But after finishing the book, I had this nagging feeling that I had described the symptoms, rather than the underlying cause, of our crisis in governance. This led me to write my next book, *The Deep State: The Fall of the Constitution and the Rise of a Shadow Government*.

CL: You spent a long time in the belly of the Washington beast. What did you learn about Beltway politics over that time?

ML: I began as a mainstream Republican during President Reagan’s first term. By the end of my time in Washington, I was resolutely non-partisan. I now view ALL political ideologies as mental and emotional crutches. They’re helpful only to politicians who use them to manipulate our attitudes and behaviors.

CL: You and Bill believe that the rise of this “shadow government” is the big story of our time. Why?

ML: The Deep State is the red thread that runs through the war on terrorism and our militarized foreign policy. It also runs through the financialization and deindustrialization of the U.S. economy... and the most unequal society, in terms of income distribution, in almost a century.

CL: For folks who may have a hard time picturing what exactly the Deep State is, and who it's made up of, how would you describe it?

ML: The Deep State is an informal association of key elements of the government, along with top-level players in finance and industry, that rules the country with only limited heed to the consent of the governed and the formal political process. It is the other government behind the one visible on Pennsylvania Avenue. It is linked to, but only intermittently controlled by, the visible state whose leaders we think we choose through elections. The Deep State is not the entire government. And it is not just the military-industrial complex President Eisenhower warned us about. It is a hybrid of national security, law enforcement, corporate America... plus key parts of other government branches. CL: Can you be even more specific?

ML: The agencies involved in national security are all core components of the Deep State. So is the Department of the Treasury because of its power over financial flows, its enforcement of international sanctions, and its symbiosis with Wall Street. The Federal Reserve is also part of this structure – it provides the necessary funding for the Deep State's activities. So are parts of the judiciary. For example, the Foreign Intelligence Surveillance Act – or FISA – Court, whose actions are mysterious even to most congressmen. And key trial courts, such as the Eastern District Court of Virginia and the Southern District Court of Manhattan, where sensitive national security cases are tried. The final government component of the Deep State is a rump of Congress made up of the leadership and some, but not all, of the members of the defense and intelligence committees. The rest of Congress, normally fractious and partisan, is only intermittently aware of the Deep State. But when required, it usually submits to a few well-chosen words from its emissaries. Then you have the three key nodes of corporate America: the military-industrial complex, Wall Street, and Silicon Valley. I've already touched on the military-industrial complex. Wall Street is crucial because it supplies the cash to keep the political machine operating. And should our politicians forget their lines, it's Wall Street that floods Washington with cash and lawyers to help them remember their own best interests. In fact, Wall Street may be the ultimate owner of the Deep State – for no other reason than it has the money to reward government operatives with a second career well beyond the dreams of a government salary man.

CL: You also mentioned Silicon Valley. What role does it play?

ML: As one former NSA insider told me, the Deep State's spy agencies are utterly dependent on Silicon Valley's technology – data from social networks, email accounts, cellphones, and so on – and cooperation to perform their missions. I want to stress that this is the furthest thing from a conspiracy theory. What's important to understand about the Deep State is its sheer everyday-ness. It is the vector sum of all the petty bureaucratic agendas of agencies, major corporations, and think tanks – all marching like a colony of driver ants to maximize their advantage.

CL: Can you give me some concrete examples of the Deep State at work?

ML: Conventional wisdom says “partisan gridlock” is the new normal. Despite this, President Obama, like his immediate predecessor, was able to kill American citizens without due process, detain prisoners without charge, and conduct dragnet surveillance on Americans without a warrant. At home, the Deep State's power is expressed through massive displays of force by militarized police – federal, state, and local. These are not isolated contradictions. They are so

pervasive, they tend to be disregarded as background noise. But the Deep State is most visible in its conduct of foreign policy – specifically America’s state of constant war, executive branch overreach, and congressional inaction in the face of this overreach. The vast majority of voters do not care about foreign policy. So it is left to the foreign policy elites. Also, when domestic tensions become too severe, or polarization between groups too intractable, the temptation exists to resolve these tensions through bogus national unity to be achieved on some foreign field of conflict. A foreign scapegoat transforms the population’s domestic frustrations into fear and hatred of terrorists... or of the Hitler du jour.

CL: As Bill has been writing about, the Deep State is also an economic actor. Can you tell me a bit more about that?

ML: The economic policies the Deep State pursues masquerade as a kind of neo-liberalism. But they are nothing more than crony capitalism. They include the outsourcing and downsizing of labor, a de-emphasis of manufacturing in favor of financialization, and the privatization of government through lucrative contracts. The objectives are to transform human labor into a commodity subject to global arbitrage and to facilitate the capture of the state by corporate interests. This kind of crony capitalism is often called “globalization” – which helps explain why globalization is so unpopular right now. It’s important to remember that the Deep State is not just a U.S. phenomenon. The European Union bureaucracy, based in Brussels, runs on a formula the Beltway mandarins would instantly recognize – opaque decision making, little accountability, bailouts for banks, austerity for the people.

CL: What insights can you share with Inner Circle members about the Deep State in 2017... particularly given Donald Trump’s recent surprise win over its preferred candidate Hillary Clinton?

ML: First, the Deep State is remarkably well entrenched. Its ability to co-opt centers of opposition with endless streams of cash – through campaign donations and the revolving door between government and the private sector – have proven effective time and again. For instance, despite the 2008 global financial crisis – the greatest global economic meltdown since the 1929 crash – bank CEOs are still in their corner offices. And most of the same Wall Street players are still in the saddle. In fact, Wall Street has grown more powerful in the wake of the 2008 meltdown. The five largest banks had assets equal to 43% of U.S. GDP before the crash. By 2012, it was up to 56%. Second, there is a discontent with the Deep State today that was not visible before the 2008 crisis. Ordinary Americans, who typically have little accurate information about how their government really works, have started to intuitively sense something is wrong. Slogans about the “one percent” have entered the vernacular. And Edward Snowden’s revelations about the extent of domestic NSA spying genuinely shocked many people. And although the Tea Party movement that rose in the wake of President Obama’s election win in 2008 was often incoherent, it began to throw sand in the gears of the Deep State apparatus. For example, in 2013, a right-left coalition in the House nearly passed an amendment to defund the NSA’s unconstitutional surveillance programs. This was a major challenge for the Deep State, which thrives on the appearance of normality. As long as appropriation bills get passed, secret intelligence budgets get rubber stamped, tax subsidies for corporations are approved – and as long as too many awkward questions are not asked – the gears of the hybrid state mesh noiselessly. But when insurgencies arise, it works to sideline the insurgents... or assimilate them and render them harmless.

CL: If people are finally becoming aware of the Deep State and the extent of its control over their daily lives, what does that mean for its survival?

ML: Just as the failed attempt to reconstruct the pre-World War I political order in Europe after 1918 led to the far worse phenomenon of totalitarianism, the Deep State's economic order – its need to be involved in endless small wars and its discouragement of real citizen participation – has led to a strong, but directionless, popular yearning for change and a profound distrust of elites. This populist insurgency is a new phase in the evolution of the Deep State. On the left, Bernie Sanders – like him or not – offered an alternative to the reigning orthodoxy. He promised to sharply reduce income inequality and curtail corporate welfare and to shift priorities away from the military-industrial complex. This was a mortal challenge to the status quo. And Hillary Clinton, the status quo candidate par excellence, overcame the Sanders insurgency with a large organization and oceans of big-donor money. In the Republican primaries, Donald Trump succeeded where Sanders fell short. Facing a divided set of opponents and a weak party establishment, Trump won what seemed like a surprisingly easy victory. The Republican Party was fractured between its wealthy donors – most notably the Koch brothers – and its increasingly working-class voter base. This opened up a path for a brazen populist to conquer the party of Lincoln.

CL: Now, the \$64,000 question: How does the Deep State handle President Trump?

ML: Clearly, Trump does not appeal to the senior operatives of the Deep State. Their posse has always been made up of cool, unemotional technocrats offering rational, well-considered advice. Trump's emotional, histrionic – even vulgar – style embarrasses them. Although the operatives of the Deep State have lied repeatedly, they camouflage these lies with technocratic jargon and careful hedging. Trump's brazen, repeated, unapologetic lying, on the other hand, flusters the elites. At the same time, it comes across as so bold that many voters believe he is engaged in truth telling. For example, the foreign policy elites have frightened the population for decades about shadowy terrorist cells in the Middle East. At the same time, they piously mouth platitudes that we are not at war with Islam. This ambiguity is not easily digestible at the popular level. Trump sliced through this complexity by saying he would “bomb the hell” out of ISIS, take its oil, ban Muslims from entering the U.S., and kill families of terrorists. To Americans conditioned by threat-mongering into a state of constant fear, this sounded like refreshing wisdom. Second, Trump not only took the Deep State's technique of displacing domestic tensions onto foreign scapegoats and intensified it. He went a step further. He reimported this technique and applied it at home. Minorities, immigrants – even liberated women – were scapegoated as the causes of voters' problems.

CL: Will Trump go to war with the Deep State or, as he puts it, “drain the swamp”? Or will he end up playing nice?

ML: Trump's brand of populism is not a meaningful alternative to the Deep State, as was clearly demonstrated by the first weeks after his election win. Defense stocks rose in the belief that Trump would rebuild America's so-called depleted defenses – a myth, as we're spending more on the Pentagon in constant dollars than we did during the Cold War. I would also note that Trump nominated two generals to cabinet positions and a third to be national security adviser. And bank stocks rallied in the belief that Trump would repeal Dodd-Frank Wall Street regulations. How could they not with so many Goldman Sachs alumni in top posts in the new administration? You have Steve Mnuchin of Goldman Sachs at Treasury... and Gary Cohn of

Goldman Sachs as Trump's chief economic adviser. Even the great populist Stephen K. Bannon is a Goldman Sachs alum. It's definitely curious. And Trump's cabinet has enough billionaires to make George W. Bush's cabinet look like a Bolshevik workers' council. It certainly seems to me as though the Deep State assimilated Donald Trump on the core issues of military funding, using the tax code to entrench wealth, and cutting the Social Security net. But of course, it's always possible that they always agreed. Who knows? Trump's often-vulgar populism, which at first seemed like a defect, may have been a brilliant tactic to save the Deep State's agenda by masking it as something else.

CL: If the Deep State is so entrenched and so powerful... and if Hillary Clinton was its spiritual queen... how did she lose the presidential election?

ML: You can't say that everything in the world is preordained. Sometimes, people make bad decisions. The Deep State made a bad decision invading Iraq in 2003 – anyone with an IQ above room temperature is perfectly willing to admit that now. They screwed up. And they screwed up putting their money on Clinton. She had been in the national spotlight for a quarter century. Her shelf life had expired. Regardless of how much enthusiasm Democratic Party operatives tried to whip up, there was none. But if my suspicion is correct, Trump was the Deep State's "hedge." If all these Goldman Sachs personnel are descending on the Beltway, it didn't lose either way.