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## Ellumination Newsletter

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### DOGE Review

May 5, 2025

Elon Musk's blitzkrieg on the US political system, the first phase of work for DOGE, is likely over. Elon announced on the Tesla's recent earnings call that he would be scaling back his involvement with DOGE starting in May. Elon will have his hands full returning with the mess he's created for Tesla. Tesla's auto sales were down 20% last quarter, and profit is down 57% from its peak in 2023. Used Tesla prices have also declined 5-10% since January. Simply put, the Tesla brand has taken a hit in the wake of Elon's DOGE efforts. Tesla's stock price has also plummeted from its highs, but please don't worry too much about Elon. Despite the financial media gleefully reporting on Tesla's 40% plus stock price decline, we'd note that Tesla's current stock price is roughly equivalent to where it traded before Trump was elected. Elon will be fine.

However, Elon's exit from DOGE begs two questions. First, what did Elon achieve in his short stint as a Special Government Employee? The basic answer is nowhere close to what he promised. About a week before election day, Elon boasted he'd uncover ways to cut "at least \$2 trillion" from the Federal budget. After Election Day, Trump went even further and claimed that Elon would find that \$2 trillion and that

the cuts would “have no impact” on ordinary people. Regular readers of these newsletters know that we never really believed DOGE could achieve that level of expense reduction. The idea they could do it without impacting American lives was simply ridiculous on its face.

Elon started to back off the \$2 trillion figure right before Trump’s inauguration. In early January, he conceded that his original goal was more of a “best-case outcome.” He still believed at that time that he had a “good shot” at cutting \$1 trillion from the budget. So, even before Trump took office, Elon had already cut his estimate by 50%. Then in early April, Elon announced that he “anticipates” spending cuts to be around \$150 billion. That’s a 92.5% reduction from his original estimate!

According to DOGE itself, the total cuts now amount to \$160B in savings. Those figures are heavily disputed though. DOGE has been forced to retract or revise multiple entries on its wall of receipts due to challenges to their calculations or outright errors. A *New York Times* report found DOGE's tally of savings was "inflated by errors and guesswork," such as claiming to have canceled contracts that did not exist. How much of that \$160B is real? Economists at Pantheon Macroeconomics, noting the difficulty of estimating the actual savings DOGE has achieved, put the figure at \$100 billion. That’s 5% of the initial target. Other analyses put the total even lower at \$63B by looking at just itemized, verifiable cuts (i.e. those with receipts). That would be just 3.15% of his initial target. Worse is that these cost cuts have potentially created offsetting expenses. Elon’s iconic slash and burn style was meant to “move fast and break things.” Well, break things he did. The Partnership for Public Service (PSP), a nonpartisan nonprofit that focuses on the federal workforce, just completed an analysis seeking to tally the costs associated with putting tens of thousands of federal employees on paid leave, re-hiring mistakenly fired workers and lost productivity. Their estimate is a \$135B cost to taxpayers, which doesn't even include the expense of defending multiple lawsuits challenging DOGE's actions, nor the impact of estimated lost tax collections due to

staff cuts at the IRS. If true, that would effectively wipe out all or most of the DOGE savings.

Furthermore, many of the cuts are hard to justify as “fraud or waste” which was the original mission. Most of the cuts seem to be programs the Trump administration doesn’t like, particularly anything that hits at diversity, equity, and inclusion (DEI) initiatives. In the end, this might be the only real accomplishment.

Second question, what happens next for DOGE? It’s not entirely clear what happens to DOGE going forward, but signs point to the organization moving to become more an IT department for the government. There are two key initiatives that routinely come up when the administration talks about DOGE’s future. First, DOGE intends to integrate and analyze information from disparate government databases. DOGE has been accumulating sensitive data from various agencies and is now likely to try and connect them together. This has been demonstrated in the controversial use of IRS data to inform ICE raids. This initiative raises meaningful concerns about privacy and potential misuse of information, but it is clearly one of the key goals for DOGE. Second, and hopefully more importantly, DOGE intends to upgrade pretty much every computer system used by the government. The DOGE vision is a streamlined technology platform that improves the efficiency of the government. While we wonder if DOGE is again underestimating the complexity and bureaucracy of the government complex, streamlining the technology platform is a goal we support.

What does this mean for investors? While the work of DOGE received a lot of headlines, it didn’t amount to much, no matter which version of facts you choose to believe. DOGE’s future work may pay dividends, but it could take years. Perhaps the more important way that DOGE’s failures will be felt is in future budget and debt discussions. Congress right now is working to enact a budget that would add \$5.8T to budget deficits over the next 10 years, according to the Committee for a

Responsible Federal Budget think tank. DOGE's cuts were supposed to help offset this shortfall. It's possible some Republicans balk at a budget that adds that much to the Federal debt after DOGE failed so spectacularly and Trump's tariff war has heightened economic uncertainty. It's also important to note that the budget includes \$500B of plans cuts to Medicare which are supposed to come from costs savings. That story might be hard to sell after DOGE's results. The budget negotiations will come to a head in the fall when the US starts to hit the new debt ceiling. The Congressional Budget Office estimates that the debt ceiling will be reached sometime in August or September. It's not hard to envision some additional turbulence coming from these negotiations in the fall. Rest assured that 5T will be watching the closely.

Best,



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