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Trumponomics: causes and consequences

Part I - Issue no. 78,
22 March 2017

Preface to: "Trumponomics: causes and consequences" ***RWER*** special issues, 78 and 79

It is generally agreed that the most important determinant of the recent US Presidential election result was the economic reality now experienced by the majority of Americans. Given that over decades that reality came into being through economic policy largely designed by the economics profession, it follows that our profession deserves much of the credit or blame for that election result. Economic thinking will also, directly and indirectly, play a strategic role in determining how that economic reality will or will not change under the new President and after he has left office. It therefore seemed imperative that economists come together now rather than later to exchange observations and entertain new ideas regarding this major historical threshold. And where better to do so, we thought, than on this platform both noted for its open discussion and blessed with an uncommonly large professional readership.

We expected difficulty recruiting from eminent economists and related thinkers enough papers for a full issue on such short notice. But the acceptance rate on our invitations was astonishingly high. Now with 29 papers accepted we have decided to publish two "Trumponomics" issues a week apart. These will then be combined into a paperback, *Trumponomics: causes and consequences*, to be published by WEA Books in late April.

We hope this collection of papers will be the beginning of a major rethink of how economics should and shouldn't be conceived when its ultimate point of reference is, not itself, but rather today's real-world.

Edward Fullbrook,
Editor

real-world economics review, issue no. 78
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Trumponomics: everything to fear including fear itself?*

Jamie Morgan [Leeds Beckett University, UK]

> "The cause of America is in great measure the cause of all mankind. Many circumstances hath, and will arise, which are not local, but universal, and through which the principles of all Lovers of Mankind are affected, and in the Event of which, their Affections are interested" (Thomas Paine, *Common Sense*).

Introduction: making sense of Donald Trump

Before one can make sense of Trumponomics one must first make sense of Donald Trump. Yet, how to make sense of Donald Trump?[1] Trump is a brand. He is not a career politician. He is not an economist, though he holds a degree in economics earned in the 1960s. In the following paper I set out some well-worn points that help to provide context for Trump in office. These are worth synthesizing because they provide background to the shape and scope of Trumponomics. Despite commentary to the contrary, from a political economy perspective Trump and Trumponomics likely represent business as usual, albeit in angrier intensified and contradictory form. This in turn affects whether Trumponomics will constitute a *structural* transformation in the American economy.

The capital-mobilising deal maker

As a brand, Trump is also a particular kind of contemporary businessman. He positions himself as a maker of "deals" rather than a maker of things, though his wealth is rooted in construction and property. He is an owner of portfolio assets, who uses these to leverage new ventures where he is able to conjure personal gain from situations where material benefits to the many may be lacking. His skill set is one of concentration and extraction of returns, and the externalisation of costs and losses. Based on that skill set profits can artfully appear and equally disappear (with tax consequences) in ways that have little to do with the simplistic concepts of theory of the firm. The solution to any problem is an additional incorporation, a

* Thanks to Brendan Sheehan.

[1] For biography of Trump and his family see, for example, the documentaries Radice (2017); Kirk (2017), and the texts D'Antonio (2017); Blair (2015); O'Brien (2016); Kranish and Fisher (2017).

transfer of assets, a lawsuit that deters others, a no fault out-of-court settlement that protects oneself, a debt restructure or perhaps a timely Chapter 11 bankruptcy declaration. Being proficient along these lines can make one a billionaire, particularly if one starts with a core of inherited wealth for collateral and has access to a network.[2]

Ultimately, the returns are achieved by surrounding oneself with people able to understand and exploit rules and seize an opportunity.[3] The *ex post* justification for this is that no one prevented it and "wouldn't you do it too?". This is important, because Donald Trump is the first US President to have no experience of political or military office. But he does have experience. His experience is of how to shape and exploit law and convention to achieve goals available only to a narrow interest group. Knowing how to do this does not mean he either knows how to prevent others or is in fact intent on preventing others from doing what he has made a career of. To prevent others would be to deny his own status as entrepreneur and so deny the US the value of such entrepreneurship. Moreover, his business skill set does not simply translate, mirror or reverse. It is not a simple case of poacher turned gamekeeper. For example, being "smart" enough to employ lawyers who can spot a loophole does not enable one to construct law without loopholes (if it did then the *general* problem would have been solved long ago).[4] In any case, concentration and extraction of returns is quite a different frame of reference than the construction of an overall economy. Developing Trump's skill set created a social subject, some might say anti-social subject. Political economy, meanwhile, is concerned with how we choose to live. But Trump already has a default position. He is by socialisation a particular personification of powerful special interests (capital mobilizing dealmakers). His own sense of uniqueness and superiority should not obscure this nor should it obscure the underlying logic it rests on, which is what is good for this interest group is good for the US economy. This is a deep ambiguity in Trump's appeal once one moves beyond the showmanship.

A US president is the focal-point-as-leader of a system of law. That is, a democratic system of checks and balances and the very point of that system is to constrain powerful special interests; those who exploit, those who behave badly. This includes through impeachment, the president.[5] To function effectively, rather than to be functionally dysfunctional and so also be disintegrating or degenerating, the system requires a president to at least act as though constraint of special interests mattered. Style matters here as much as substance because long-term legitimacy and authority requires convention to have positive meaning. The increasing recognition over the last two decades that the system was not functioning effectively partially explains the appeal of Trump, just as it helped to explain the appeal of Obama. In particular, it was a neat piece of misdirection by the Trump team to construct a campaign that apportioned to one part of a complex the blame for the parlous state of American politics. That is, a Washington-centred political elite. This enabled Trump to appear

[2] Trump's narrative is that he began with a loan from his father. It has also been pointed out Trump could have been as wealthy simply through passive investment. This is arguable and would depend on exactly what Trump is worth, which is difficult to ascertain.
[3] Beginning notoriously with Roy Cohn.
[4] One can close loopholes and create law that closes down opportunities existent under former law, but it is the interest in and attitude to exploitation that remains, unless relevant kinds of organization or practice are prohibited. Trump has shown no interest in eradicating the category of "entrepreneur" of which he is a member.
[5] This has already become a source of debate concerning the President's financial affairs and other matters. Article 1, section 9, clause 8 of the constitution only prohibits emolument from a foreign state without permission of Congress. It has been convention to place assets in a blind trust in order to avoid conflicts of interest and Trump has resisted this. Some of his advisors and appointees also carry potential business conflicts of interest.

as a solution of kinds. “Drain the swamp” has disguised the very obvious fact that Trump only has his own socialisation to fall back on in making decisions and that of those who can capture his attention. Many of these are also powerful social subjects with narrow interests – articulating hyper-versions of current pathologies. For example, in addition to the Breitbart connection, Trump has increasingly drawn on fellows from The Heritage Foundation (Kopan, 2016). The Foundation has published extensive documents setting out their preferred agenda for the new administration (e.g. Winfree, 2016).[6]

To some degree commentary that emphasises Trump is not “really” a Republican misses the point. He is not a Washington nurtured political animal schooled in Republican tradition of public discourse; but the underlying message that he “knows how things work”, has some credence precisely because he is an inside “outsider”, both by long-term relations of patronage (he has a history as a campaign contributor) and by broader socialisation. He may have no experience of political office but he has experience with politicians based on the needs of his skill set. What he knows is how things can be broken and who one can hire to get things done in a broken system. This is a pathological form of knowing how things work that indicates also a systemic pathology. Insight and practice (such that they are) along these lines does not translate into ready solutions. It cannot solve partisan antagonism in a system that requires bi-partisanship nor does it lend itself to any clear idea of what good politics or a healthy economy is. That is unless one simply assumes that current politics is an impediment to a vibrant effective economy and all that is needed is for politics to get out of the way. *Political economy* is a reminder that politics never just gets out of the way. It is a construct. In any case, there is also a basic tension here since Trump has also espoused interventionist policies. Still, the neo-conservative personnel who surround Trump only serve to highlight that his election will ultimately involve intra-elite and intra-class conflict rather than their supersession.[7]

In terms of the economy, long term experience that includes creative use of accounting that tests the law (without necessarily breaking it) and a litigious tendency in order to concentrate and protect wealth does not prepare one to ask basic important questions, such as: what is a sustainable business, how does one distribute wealth fairly, what is the basis of a provisioning economy? As such, and to reiterate, there is no reason to assume that President Trump has an actual interest in preventing what he has profited from or any idea how this can be done, quite the reverse, these will form part of how he views a functioning economy. Prevention-as-transformation requires a fundamental systemic critique (rather than inchoate channelling of many discontents), and a capacity to transcend rather than affirm narrow interests and their socialising (anti-socialising) effects. Moreover, an interest in prevention would require him to embody the role of President in terms of its formal idealisation. That is, a sense of civic duty,

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[6] Trump’s economic advisers include Stephen Moore, Larry Kudlow and Sam Clovis. Moore is a fellow of the Heritage Foundation, and Moore and Kudlow are both adherents of Laffer curve economics. Clovis is a tea party activist. https://ballotpedia.org/Sam_Clovis Carl Icahn has also emerged as a possible economic advisor (billionaire investor) and Peter Navarro is Trump’s appointment as head of a national trade council (Navarro is a critic of China’s economic and military development). George Monbiot makes the point that many right wing think tanks and ostensibly grassroots campaigning groups are essentially heavily funded corporate lobbying vehicles. A range of staff working for Trump derive from such organizations, including ones funded by the Koch brothers. One should note though that it is a feature of Trump’s political career so far that he deviates from core Republican tenets including some advocated by the Heritage Foundation, and there is no necessary unity within his cabinet; for example, ex-general Mattis, is more sceptical of Russia and has taken a more pro-NATO position than Trump (Mattis too has appeared at Heritage Foundation events).

[7] There is also the more controversial issue of the “Alt-Right” and immigration policy has already started to intensify concerns regarding this.

the greater good, the welfare of the many (all too easily expressed as the West Wing fallacy). It would require him to have a clear and profound commitment to taking responsibility and acting "responsibly". Yet both of these are ideologically informed and involve reflexive ethical conduct and neither is clearly associated with Trump as a social subject so far. A Trumpian butterfly seems an unlikely metamorphosis. Bullying the badly behaved may get some things done but it is also bad behaviour that ultimately undermines the system through which anything is achieved.

Trump as populist

Though it is questionable that Trump can or will transcend his socialisation his entire campaign hinged on positioning himself as though he *does* transcend it. He is a child of privilege and a publicity seeking television celebrity so this has been a glaring contradiction that has hidden in plain sight. Trump has been positioned as a person able to not only speak for but also empathise with and hence understand the "ordinary Joe". He is by common reference a populist.[8] By definition a populist appeals to the many. However, the context that makes populism significant as a political force is that the many who are appealed to can be swayed, galvanised or co-opted because of their contrastive experience of the world around them, and because they currently are not or feel that they are not represented and recognized. Their concerns as they see them are not given due weight.[9] Trump did not invent income stagnation, deindustrialisation, job insecurity, debt vulnerability, or extreme income inequality. What Trump has done is offer some a future they want to believe in. In a democratic system a populist many need not be the majority, they need only be a significant number able to affect outcomes.[10]

A populist requires a strategy to appeal to the many. Strategy manufactures a link between the past and the future. It warps and repackages nostalgia in the now. Populism is typically associated with the reduction of complex matters to simple causes and consequences for the specific purpose of garnering support. The reduction need not be coherent or consistent it need only be effective. It may well be effective *because* it lacks actual content and *because* it resists or refuses to respond to calls to be substantive, or to justify itself in terms of evidence and realisable projects. It may, therefore, be effective *in its* incoherency and inconsistency rather than merely despite it. Incoherency becomes by a trick of the psyche the grounds for willing suspension of disbelief. It enables optimism and hope. The believer may, therefore, respond by a reciprocating resistance to scrutiny of the terms of the reduction. This too helps to make sense of Donald Trump. His socialisation hides in plain sight because his manner and his track record are not secret. However, in plain sight these become something to either set aside (we need a change so why not him?) or laud because he 'tells it like it is' (albeit in a quasi-stream of consciousness form of garbled speech).

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[8] For two recent explorations of the concept and proliferation of populism see Judis (2016) and Müller (2016)

[9] There are two different issues here. A system may be problematic in general, and it may also have distributional effects, which are particularly harsh for some. See Morgan, 2017. Populism is focused around parallel issues that involve but are not restricted to distributional effects for some (where moral panic and other manipulations also apply).

[10] Trump lost the popular vote by 2.9 million but won the electoral college vote (confirmed January 6th 2017) by 304 to 227 for Clinton. However, even as a populist '"movement" of protest there is something underwhelming about the actual shift in voting. If one considers the proportions that allowed states to be captured by Trump then the total shift was not only small, it was far less than the average swing away from the incumbent party candidate after a two-term presidency. Since 1952, this has been about 5%. In Trump's case it was closer to 2%. However, 26 of the 30 lowest income states voted Trump.

There is currently a great deal of reference to a "post-truth" political environment. However, it would be a hysterical response to hysteria to reduce public discourse to simply "post-truth". The desire to know, to reason, to be truth-seeking have not disappeared.[11] At the same time, as Philip Roth once wrote, we live in the real and not in the true. Acting as though truth-seeking did not matter, as though truth-claims were no more than posturing rather than necessary standards for public discourse, is a recognized and significant aspect of reality. It is an anti-Habermasian tendency that has sociological consequences and these extend to Trump. "Telling it like it is" does not require consistency in a post-truth political environment. It can be bombastic and blustering. It only requires a collusive process between participants: the Trump team and a populist-sensitive subset of the electorate.

In a post-truth environment of information silos, confirmation bias, fake news, and positive feedback loops of affirmation, ficts can counter facts, belief can override truth, and fantasy can be more attractive than realism. Against this background, all that is then required for a political movement to take hold is relentless messaging, momentum and an opportunity for capture of existing political mechanisms.[12] Incoherency can be a campaigning strength and communicative capture can exploit weakness. These can shape the nature of optimism and hope. Uncertainty and insecurity can be worked upon to create *angry* and *fearful* hope in an electorate to which the populist is *the* solution. Optimism becomes punitive. This punitive optimism speaks to a more general problem of social justice but does so without ever considering the broader grounds through which social justice is founded, which is a deliberative, inclusive, and fundamentally representative and participatory system. Just as Trump occupies ground that obscures political economy (in deeply political ways), he offers a fundamentalist-as-righteous "movement". The world is represented as Manichean, a place of extremes (the good and the evil, the terrible and the great) in a way that can actively resist reason and shout down evidence to the contrary. Such contemporary populism, of course, has a longer lineage. It speaks to long recognized problems: the demagogue of fifth century Athens, Weber's secularised charismatic authority and so forth. Trump's potential seems rather different than the 'specifically modern form of despotism' Charles Taylor called attention to nearly thirty years ago; a technocratic "mild and paternalistic" democratic authoritarianism licensed by a neglectful inauthentic individualism.[13] So, if we are to make sense of Trump he is, as a political archetype, a populist, but a contemporary populist as a product of the times.[14]

However, Trump's populism has first and foremost been about getting elected. Despite multiple reports of offence caused to a whole array of persons based on denigrating or stereotyping difference (disability, religion, nationality, race, sexuality, gender) he also attempted to be all things to all people, albeit on his own disciplinary terms of punitive optimism. This extended all the way to his appeal to African and Latino Americans: *I am your best hope even if you hate me*. The tension here immediately started to manifest once he

[11] For example, the website of the Factcheck project at University of Pennsylvania scrutinises claims made in US politics and provided a host of material on both Trump and Clinton http://www.factcheck.org See also the EU's East StratCom Task Force, which exposes Russian disinformation campaigns.
[12] And, of course, in the American system, money.
[13] See Taylor, 2003.
[14] In terms of antecedents Andrew Jackson is sometimes mentioned as the first to run a populist anti-establishment presidential campaign in the US. Manipulative media distortion is of course also not new. Jefferson and Hamilton employed different newspapers to traduce the policies and supporters of the other. Herbert Hoover was not a populist but he did campaign as a competent man of business. He of course then made the catastrophic mistakes of endorsing the Smoot-Hawley Tariff Act and trying to balance the budget in the wake of 1929.

became President-elect. Hillary Clinton was now a worthy opponent he had no inclination to see prosecuted, and President Obama was a figure with some wisdom to impart based on his experience as a politician. From a purely instrumental or functionalist point of view the shift needs to be more than rhetoric. The terms of political activity are different once elected. Once elected, one can no longer be a strategic, non-substantive populist. One may be an events-led popularity-seeking president, always responding to headlines and seeking to maximise approval; but this is different.

Transitional Trump

Trump's simple mantras and limited expression of policy prior to election provide the grounds for his presidency. A president can be more or less bi-partisan and more or less consensus seeking. A populist agenda may help to shape policy, but policy must still be made. At this point reality starts to bite. The President is not the only source of policy. There is a separation of powers and demarcation of powers. A president has recourse to security directives (these have been variously titled since Truman), memoranda and executive order. The scope of these is limited. Executive orders instruct branches of government to act and are used to bypass Congressional approval. However, they are (notionally) vetted by the Department of Justice and at the extreme they can be overturned by Congress. If the President exercises his veto the Supreme Court can declare an order unconstitutional. Orders and memoranda can still lead to challenges in the courts. A president cannot invoke and impose without consequences. To be effective a president needs to work with the House of Representatives and Senate. One cannot govern by memoranda and order and the US remains a bicameral system where federal law typically requires majorities; both the House and Senate matter. In any case, once office is taken what has been posed, proposed, promised, mooted or suggested cannot remain ambiguous, inconsistent or uncosted as an appeal to a minority-many. It cannot remain profoundly contradictory in also offering something-as-everything to all the electorate (most of whom wanted something else, principally not Donald Trump). Policy must be actually constructed and it must then flow through a system of checks and balances.

Of course, there is nothing new about policy specification as a general issue because there is always a transition from manifesto to governing. Still, there is something qualitatively different about Trump as a political event of significance. Trump's election was shocking to liberal sensibilities and was a curiously foreseeable surprise (the very subject for which the term dread was coined). It also involved an unsettling convergence. Unusually for a candidate, during the campaign Trump was never pinned down and pressed to respond on detailed policy. Trump was elected by a minority-many with expectations of major change and no clear sense of how this will be achieved based on a populist post-truth environment that encouraged and worked with incoherency and inconsistency. Trump is also a social subject with a particular skill set to draw on from within a narrow socialisation and set of experiences. He is constituted from within a sub-set of elites who in turn constitute a further tiny minority of powerful social subjects. *None* of these subjects have a confluence of real economic interests (in the sense of greater income equality and job security) with the populist component of the electorate that gave them victory. *And* Trump's confrontational campaigning style led to highly personal exchanges with many prominent Republicans in Congress, including those who stood in his way as presidential candidates or refused to endorse him as candidate.

Insult and humiliation are not easily forgotten. A Trump presidency thus seems poorly situated to serve as a solution to a dysfunctionally functional system. Furthermore, Trump's inaugural address seemed to set sharp limits to how he sees concession. It was a speech directed at those who elected him rather than to the electorate, and it continued his oppositional tone with a "Washington elite" (both parties), whose cooperation he requires.[15] It was the speech of a man used to people bending to his will, with the implication they will be broken if they do not. Yet a president is not a CEO. He does not employ Congress, and if the people employ Congress, a majority of the people did not vote for him and feel *strongly* he does not speak for them. In 2017 Republicans have a majority of 241 to 194 in the House, but just 52 to 46 (with two independents) in the Senate.[16] It is not a foregone conclusion that Trump can carry either the House or Senate simply because they are Republican.

At the same time, the term "Trumpquake" is glib in so far as it seems likely that much of what Trump does will involve combinations of old patterns and policies. A Trump presidency seems set to be an angrier version of business as usual, at least in the sense of continued inequality and job insecurity, despite the headline foci of Trumponomics. He is not conditioned to transcend his own socialisation and he is an opportunity for capture for others within elites.

Personality and the political

One should not neglect the possible significance of Trump's personality. A self-aggrandizing iconoclast is his own contradiction, if not enigma. Many accounts of Trump have now been produced and among his less attractive traits these have positioned him as a hyper-competitive, short-attention span, impulsive, erratic, self-serving narcissistic egotist.[17] Some hope that there is (must be) more to him than this. His more ardent supporters say he is misunderstood and misrepresented. However, these personality traits may matter and this has at least two significant dynamics.

First, we previously suggested that Trump's background as a maker of "deals" does not translate to matters of the economy writ-large, since the skill set involved concentration and extraction of returns, and the externalisation of costs and losses. However, one might argue that Trump is more suited to the foreign policy focus of the role of president: perhaps international trade and international politics and security require an oppositional dealmaker; perhaps such a person is able to put "America first" and so "make America Great again".[18] This line of reasoning assumes that the international is a zero-sum set of situations where strength-in-conflict allows capture of larger proportions of existing benefits. Such reasoning lacks a sense that current benefits are co-constructed and that future benefits can be greater

[15] It is odd to think that were Trump's worldview and bearing different he might be lauded as principled yet naïve.
[16] However, Democrats will be defending 23 Senate seats in 2018 and 10 of those are in states won by Trump.
[17] Mudslinging and role playing seem to have become intrinsic parts of Trump's public life so it is difficult to say with certainty how much of what is conveyed and inferred represents a *real* personality. This in itself may be problematic and one can only go on how he appears. See the various biographies from footnote 1 and perhaps watch a few episodes of *The Apprentice*.
[18] Trump's use of "America first" is justified by his defenders as reclaiming the phrase. However, it remains troubling to many that its historical referent is isolationism (see Rothman, 2016). There is also always a danger with analogical reasoning since it assumes sufficient similarity for analogy to lend credence to argument. Sometimes it achieves the opposite. Consider, for example, the powerful hold the basic equation between a household and the state has in terms of attitudes to debt. However, a state is not like a household for the purposes of debt, because its finances are differently constructed. The analogy has hampered fiscal policy and given credence to austerity. It may be the case that Trump's appeal trades on the analogy that a country can be run like a business and so to make a country wealthy and secure put a businessman (woman) in charge.

based on trust and cooperation. If there are currently problems with these then the long-term solution is to build them up not destroy them. A spreadsheet approach to international issues can tell one little about how this is achieved and there is a basic tension between different public projections of Trump; between competent businessman as a maker of deals and the “alpha male” who dominates situations. In terms of the latter, the capacity to do genuine harm to relations is also augmented when one factors in the personality traits attributed to Trump. The consequences here can be extreme and immediate. Impulsiveness is a dangerous X-factor in foreign policy.

Second, it may well be that after a brief flurry of intense activity in the first days of office, because of personality traits Trump is inclined to delegate a great deal of the day-to-day activity of president. He may become a highly visible figure constantly communicating but doing very little. He has already set a pattern of inviting CEOs to the White House for televised meetings. These are very obviously part of Trump’s attempt to project an image of activity that places him at the centre of attention. This is despite that the public nature of such events makes them peripheral to his own professed deal-making practices (though they may be part of a strategy to apply pressure). There is no reason to suggest CEOs will continue to accept these invitations if things start to go wrong for Trump (and this had already started to happen over immigration policy at the time of writing). He may retreat to squabble and move markets via Twitter.[19] As an increasingly remote figure his chief concern may be to take credit for any perceived successes of his presidency whilst passing blame for failure to others. Again, he is an opportunity for capture by others within elites. This is already reflected by some of his confirmed and potential advisors and staff:[20]

ADVISORS

Counsellor to the President
Kellyanne Conway, 50 $ NE
Background: founder of the Polling Company,
election campaign manager from August 2016

Chief of Staff
Reince Priebus, 44
Background: Chairman of the Republican National Committee

Chief Strategist
Steve Bannon, 63 $ NE
Background: founding member and later executive chair of Breitbart News,
former Goldman Sachs, investor in television assets and film producer,

Senior Advisor
Jared Kushner, 36 $ NE
Background: real estate investor, media owner, husband of Ivanka Trump, son of Charles Kushner (source of conflict with Chris Christie)

National Security Advisor
Michael Flynn, 58 NE
Background: retired army general

Senior Advisor
Stephen Miller, 32 NE
Background: senior economic advisor from August 2016, speech writer

Press Secretary
Sean Spicer,
Background: former communications director of the Republican National Committee

[19] As of January 2017, Trump’s @realDonaldTrump Twitter feed has more than 19 million followers and had sent more than 34,000 Tweets; the White House Twitter accounts @potus and @WhiteHouse had a combined 13 million at the end of the Obama administration. Trump has criticised Toyota, Amazon, Lockheed Martin, General Motors and many others, in some cases having immediate material effects on share prices.

[20] The skull and cross bones refers to persons withdrawn, not confirmed or who have resigned since the time of writing. This raises a further important issue. There is no necessary unanimity of purpose surrounding Trump, and competition for his attention can encourage “court politics”. Others may be equally vulnerable as power and influence shift. Note also, not all the 23 cabinet posts are represented here and not all had been confirmed at the time of writing. Hundreds of others still await confirmation for other posts. The CIA director is also omitted.

THE CABINET

$ multi-millionaire
$$ billionaire
NE never held elected office

The Vice-President
Mike Pence, 57
Background: lawyer, Congress, Governor, Tea Party supporting Christian conservative

Attorney General
Jeff Sessions, 69 $
Background: Senator, dogged by judicial racism controversy, devout Methodist

Secretary of State
Ron Tillerson, 64 $ NE
Background: CEO Exxon Oil 2006-2016; long standing relations with Rosneft and Putin

Secretary of the Treasury
Steven Mnuchin, 53 $ NE
Background: hedge fund manager, former Goldman Sachs banker, critic of Dodd-Frank finance legislation

Secretary of Commerce
Wilbur Ross, 79 $$
Background: leveraged buyout and distressed debt specialist, former privatization advisor to Giuliani

Secretary of Homeland Security
John Kelly, 66 NE
Background: retired general

Secretary of Defense
James Mattis, 66 NE
Background: retired marine general

Secretary of Labour
Andrew Puzder, 66 $ NE
Background: CEO CKE restaurants, now owned by Apollo private equity, chains pursued for wage violations and has opposed increasing federal minimum wage

Secretary of Health
Tom Price, 62 $
Background: Congress, surgeon, critic of Obamacare

Environmental Protection Agency (EPA)
Scott Pruitt, 48
Background: Oklahoma attorney general, long term critic of EPA

Secretary of Energy
Rick Perry, 66 $
Background: longstanding Texas Governor, presidential candidate 2011, proposed eliminating Department of Energy

Secretary of Housing
Ben Carson, 65 $ NE
Background: neurosurgeon, author, Christian conservative

Secretary of Transport
Elaine Chao, 63 $
Background: Secretary of Labor in Bush administration, married to Mitch McConnell Senate majority leader

Small Business Administration
Linda McMahon, 68 $$ NE
Background: developed World Wrestling Entertainment

Secretary of Education
Betsy DeVos, 58 $$ NE
Background: Conservative Christian activist/philanthropist Amway heiress

So, there are many factors to consider when making sense of Trump. However, at this stage making sense of what a Trump presidency may become is not easy. This is not just because there is a limit to what can be set out in a short paper. It remains truistic that politics is typically overtaken by events. Moreover, economists *as economists* struggle at a basic level to provide adequate accounts of economic reality and to extend these into the future. It is also relatively easy in the first few days of office for a president to give the appearance that a great deal is being achieved. However, activity is not achievement. Memoranda and some executive orders do no more than set something in motion. Motion may come to nothing or become something different. Some presidential interventions signal withdrawals, but not all such withdrawals can leave a vacuum. Trump's first week in power is instructive here. The flurry of orders addressed many of his core campaign pledges: the wall, environmental caution affecting economic activity, immigration and extreme vetting etc. The results may be shocking and in some cases immediately damaging or harmful. But it is not yet certain that any or all will survive scrutiny by Congress or challenge in the courts. A great deal of what Trump does will also depend on the day-to-day activity of Congress and of the executive agencies. A great deal hinges on how the American people respond to their president. And a great deal hinges on what other governments do.

All the above provides context for Trumponomics. It is also worth recalling that the US economy is not monolithic and it is not a command economy. It decomposes into regions and sectors and little of it is directly controlled by federal fiat. Trump may be able to shape institutions and apply pressure, but this is not straightforward.

Trumponomics: scope and strategy

Trump's inaugural address reaffirmed an economic nationalist agenda:

> "From this moment on, it's going to be America First. Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families. We must protect our borders from the ravages of other countries making our products, stealing our companies, and destroying our jobs. We will follow two simple rules: buy American and hire American" (Trump, 2017).

During campaigning the Trump team made reference to a range of proposals bearing on the economy, some of which are now the subject of executive order and *only some* of which now appear on the White House site, under the headings "Bringing back jobs and economic growth", "Trade deals working for all Americans", and "An America First energy plan". These are worth listing, since they indicate the range of stated intent, though the list will quickly become out-of-date:[21]

1. Generate annual economic growth of 4%;
2. Eliminate/reduce/renegotiate the national debt and balance the federal budget;
3. Create 25 million new jobs over 10 years;
4. Award $137 billion in tax credits to business over 10 years to encourage $1 trillion in infrastructure investment (with growth assumed to generate revenues to recoup the cost of the credit); link to buy American
5. Reduce tax rates and simplify the tax code for workers (brackets at 12%, 25% and 33%) and for businesses (reducing corporation tax from 35% to 15%); encourage multinational enterprises (MNEs) to repatriate capital held offshore;
6. Withdraw from the Trans-Pacific Partnership (TPP) and renegotiate NAFTA; "crack down on those nations that violate trade agreements and harm American workers" or "engage in unfair trade practices"; apply up to a 45% tariff on Chinese imports and a 35%/20% tariff on Mexican imports; allow the $ to depreciate to improve exports;
7. Encourage MNEs to repatriate production and jobs; target (for example as tariffs in 6) MNEs that move production abroad to deter such activity;
8. Halt recruitment by federal departments, reduce funding to federal departments; apply a "moratorium on new federal regulations"; identify "job-killing regulations that should be repealed" (such as Dodd-Frank on finance and extending to 9 below);
9. Reorient American environmental and energy policy; commit to "clean coal technology"; embrace the "shale oil and gas revolution"; "eliminate harmful and unnecessary policies such as the Climate Action Plan and the Waters of the US rule"; but: "accept responsible stewardship of the environment" and "refocus" the Environmental Protection Agency (EPA) on its "essential mission of protecting our air and water";
10. Increase military spending to develop a comprehensive ballistic missile defence system, develop new cyber-warfare capabilities, expand the number of marine battalions from 24 to 36 and active army troops from 475,000 to 540,000; negotiate buy American arms contracts

[21] The list is synthesised from initial executive orders, campaign commentary, Trump's September 2016 plan and then from the White House site. All quotation marks refer to "issues" sections from the White House site.

11. Build a wall along the Mexican border creating greater security and control at the border and generating construction employment;

Not all the above have economics as their only context but all have spending consequences that affect the economy and so are part of the wider context of Trumponomics. The most appropriate way to analyse this list is to consider that a menu is not a meal, it is not even a recipe. The list contains some aspects that address some important issues. For example, those most ideologically opposed to Trump are still likely to recognize that infrastructure investment can be needed and economically beneficial in basic ways. In so far as modern capitalism in the form of neoliberal globalization is responsible for significant harms then opponents may also agree that the TPP and other international treaties need to be reconsidered. However, it is what is done and how that matters. This is not just about details, it is also about scope, conditioning perspectives and strategy. So, what may happen involves more than Trump, it involves how others respond.

A useful place to start is to ask whether Trumponomics will constitute a *structural* transformation in the American economy. The broad justification and appeal of Trump has been that he will improve American infrastructure, expand domestic energy (fossil fuel) production, and set in motion a wave of investment in industry and manufacturing. This in turn will generate employment and wage effects leading to greater employment security, wealth and economic growth. Some of this depends on how corporations respond to Trump. What might large MNEs do? However, in general it seems unlikely that they will hinge major investment decisions on a president who may last one term and may, within that term, become a lame duck president despite majorities in Congress. Many may adopt a wait and see approach. In the meantime, they may accept the boon of lower corporation tax, repatriate some capital back to the US to show they are sensitive to the concerns stoked by Trump, and they may bring forward or repackage some forms of investment already planned and temporarily transfer some production using existing plant (pushing rather than expanding capacity). This may give a temporary semblance of "more American". In some sectors this may be augmented for some period by consumption effects related to lowering income taxes. This in turn may result in better economic statistics. There is already a Trump-based asset bubble driving equities (a Trubble), though like all bubbles it is unstable and hinges on speculation regarding corporate futures. These are narratives which may come to nothing but allow traders to profit now.

Furthermore, economic variables have multiple influences and no necessary direction of movement. It seems unlikely that large retailers such as Walmart can or will suddenly start to source American (though they may run campaigns emphasising they are doing more of this). It seems unlikely that manufacturers such as Apple or GM will shift all production within US borders. If manufacturers did "in-shore" and retailers did source American then the likely effect would be higher costs (bearing in mind the point of comparison is prior to any protectionist tariffs) passed on in higher prices. Combine this with broader tariffs on Chinese goods to address claims of "unfair trade practices" and Mexican goods to pay for the wall, then inflation could quickly start to erode any income gains provided in the short term by lower income taxes. This could easily be exacerbated by increasing interest rates at the Federal Reserve, in turn raising the costs of borrowing and likely causing the Dollar to appreciate, affecting terms of trade, in turn affecting corporations that are being expected to inshore.

So, amongst other things, initial consumption effects expressed in economic growth could easily be undermined by a complex of consequences. The US is a consumption dependent economy and to match this to manufacturing and industry requires more than fiat. Structural transformation in a disaggregated economy of powerful corporations requires the short term to become the long term in terms of investment commitments and policy. There is thus a basic coordination problem because of how the American economy has already evolved (many corporations will resist, delay or seek to capture or subvert what is intended – just as Trump himself would do; ironically Trump is a potential quasi-regulatory problem for them even though a core commitment is reduced regulation). Trumponomics does not seem set up to address this. It has transformative aspirations but the personnel at its heart are corporate architects and dealmakers. This is not a situation where one can just nudge self-interest in the way game theorists sometimes suggest, nor can one consistently bully powerful interests. If Twitter can move share prices then the eventual effect is persistent uncertainty, which undermines investment of any kind. What seems set to follow is a masked situation of publically dealing with dealmakers *by* dealmakers as though underlying logics were not applying and as though some of the actors within government do not also stand to gain from those very logics. In this context, structural transformation seems deeply problematic and the American worker seems peripheral at best, though some may gain in some ways.

Unemployment in the US is relatively low (less than 5% but with less than a 70% participation rate). Any increase in employment created by initial policies seems likely to draw in non-participants and raise wage rates. This may be beneficial in some ways but may also be short lived and inflationary. If interest rates rise the process will also expose the debt-servicing vulnerability of many workers. Moreover, general wage effects cannot be assumed to be automatic. Trump's Secretary of Commerce, his original pick for Secretary of Labour, and a Republican dominated Congress are opposed by long-term interest and ideology to increasing minimum wages and reducing through law income inequality and job insecurity. This would be more regulation (as protections and empowerments). Trumponomics seems unlikely to empower unions and collective bargaining or to create *institutions* that place the onus on corporations to increase wage levels. It seems set to rely on economic growth as the source of distributed wealth. But the US has had a great deal of economic growth since 1980 and very little if any improvement in wages and incomes (which is one reason why Trump's populism took hold). Ultimately, Trumponomics seems likely to be dependent on trickle down logics and on assumptions that labour markets will simply result in higher wages. Yet if corporations see the consequences of Trumponomics as short lived and uncertain they have no vested interest in transforming wage policy and every interest in sticking to old practices of minimising wage costs and eroding terms and conditions against the background of dubious ideational justifications that emphasise shareholder value and marginal productivity. This is how profit has been made in many sectors for thirty years. Employment relations are not what they were in old industries and new jobs cannot change this alone. Those relations may have globalization as context but they are also localised because they are basic to corporate practice in many sectors. One cannot just assume that withdrawing from globalization (if this is even possible) will change the nature of capitalism at home. Changing capitalism means transforming the political economy and this requires deep institutional reform, not mere elimination or streamlining of regulation. This can simply intensify some current tendencies.

Consider the issue of infrastructure. Tax credits as a means to incentivise private business to invest in infrastructure are essentially an income transfer from the state to businesses that then subsidises the building and hence the ownership of that asset. If it is existing public infrastructure that is being remodelled this is privatisation, but if not or if it is new it can be in any case a variant of corporate welfare. This is basically inconsistent with neo-conservative rhetoric though not reality. It also immediately creates a lobbying interest in influencing how contracts are granted. Deal making can quickly start to look like "the swamp". Moreover, private business will only invest in infrastructure from which it expects to make significant long-term profits. Efficiency is not an unambiguous concept. To most businesses it does not matter how the profits are made, so this can include lobbying for guaranteed high prices paid by users for years to come (tolls, taxes, strike prices etc.). Who will decide whose interests matter most, particularly when this has become *the only* way a given infrastructure project will get done (and there is pressure because of promises made to deliver projects)? Which projects won't get done because they are not deemed profitable priorities by the private sector (either in general or in a particular place of need)? At the very least this framework seems unlikely to address the rural urban infrastructure divide or the problem of tacitly segregated urban decay.[22] Despite the rhetoric, the social value of infrastructure is seemingly marginalized by the private sector emphasis expressed via a Trump worldview. There is no normative social direction to any resultant multiplier. The ideas of public goods and merit goods are also deformed.

Infrastructure is not just about profits to business and jobs for people. It is basic to social design that affects how people live. It affects what people do and the consequences of what they do. An infrastructure program may, of course, raise wages in related construction sectors and generate employment demand. For example, through Trump's insistence on the use of American steel. As Dean Baker has pointed out, this may directly improve incomes for disadvantaged groups and may also encourage into work some of working age who have currently fallen out of the labour force (and so are not represented in unemployment statistics); *if* projects are quickly progressed. However, this does not mean all projects are progressive and construction is constructive. The ultimate context here is environmental.

Trump's "America First energy plan" focuses primarily on increasing fossil fuel energy use. The plan's reference to "responsible stewardship" is empty, yet meaningfully so, if one refuses to engage with the problem of climate change.[23] The energy plan refers to the Climate Action Plan as "harmful" and "unnecessary". Trump's focus is on fossil fuel resources as business and employment opportunities rather than as ecological and moral dilemmas. The energy plan states "Lifting these restrictions [regulations] will greatly help American workers, increasing wages by more than $70 billion over the next 7 years." Putting aside the problem of deriving this number, it is the phrase 'lifting restrictions' that is significant. This prioritises the economy over the environment whilst also positioning the two as antithetical – ecologically preferable translates to economically detrimental. In this zero-sum world why not opt for all out exploitation of resources? Clearly initial memoranda paving the way for the Dakota and Keystone pipelines illustrate this. In combination they require more than 3,300 miles of pipeline and supply a potential 1.3 million barrels of oil a day.

The ultimate issue is not whether jobs are created but rather the baseline assumption that these are the kinds of jobs that *should* be created in a kind of economy that *should* be propagated. This is indicative of Trump's approach to the environment and economy. Rather than transform the economy and its relation to the environment he has chosen to develop

[22] To be clear, Trumponomics is not a case of publically funded and owned Keynesian infrastructure expansion. It does not follow the case made that monetary policy has created exceptional circumstances for cheap borrowing by the state for expansionary fiscal policy. America has a swathe of poorly maintained roads, bridges, railway links, schools etc. as well as a recognized need to update air traffic control, whether these are economically viable private sector initiatives is questionable.

[23] Pruitt, for example, is a longstanding climate change sceptic and was the subject of a *New York Times* investigation in 2014 that claims he and other attorney generals colluded with energy corporations to weaken federal clean-air rules.

along lines that are against the collective interest, including those who may find temporary employment building pipelines. Carbon dioxide emissions can stay in the atmosphere for more than a hundred years so what Trump does now creates a carbon legacy for the rest of the century, and this may be far more enduring than anything else he does (though appointments to the Supreme Court may come a close second). Of course, the impact assumes the pipelines are not blocked in court. Here, one should also note that the UNEP Emissions Gap Report in 2016 finds that the Nationally Determined Contributions (NDCs) under the Paris Agreement are already insufficient to prevent warming of more than 2 degrees. Many are concerned that Trump will withdraw from the Paris Agreement. If he does so it will be mainly for symbolic reasons, since his administration can simply fail to set or pursue stringent NDCs (the system is voluntary and bottom up).

Of course, the US is also home to major investment in new technologies as part of a “fourth industrial revolution”. There is little sense of this in Trumponomics. For example, Trumponomics involves no actual strategy to address or realistically assess the impact of the digital economy, robotics etc. on employment. However, putting this aside there is also major investment in alternative energy, transport, farming, and living in the US. These are now embedded. What is clear is that they are not at the core of Trumponomics (meetings with Musk and others not withstanding). Trumponomics is a lost opportunity regarding how the future could be shaped. One can also consider trade policy along these lines. Globalization has been deeply problematic. It is worth recalling that it is not just American workers in some sectors and places that have experienced adverse consequences. Deindustrialization in some parts of America has matching problems of industrialisation in others. This includes Mexico and China. Branco Milanovic’s recent work on the “elephant curve” does not ameliorate this. The core issue concerns what kind of economy benefits *all* rather than pursuing a logic where different countries engage in a tussle for industry as is.

Trumponomics treats trade like some Wild West frontierland dispute. Everyone is staking a claim in a world that seems in one sense lawless and in another rule bound. However, it is only lawless if different actors choose to act as though it were. Protectionism fosters trade wars and these are deeply harmful. Others will follow the logic of action you apply. This is antithetical to subsequent bilateral trade treaty “negotiation”.[24] There is also a deep contradiction in using protectionist threats to attempt to compel corporations to inshore in order to then create an exporting economy. To assume that the US can act with impunity because others will not dare to reciprocate requires fallacious reasoning. Once one puts aside the empty neoclassical calculative agent one must recognize that just like Trump, other policymakers in other countries have rationales based on constituencies and expectations. If the US can be “irrational” in the strict economic sense, so can they (we simply call this reality). Moreover, the US is not all-powerful and its capacity to inflict damage is highly variable. For example, exports are now only around 20% of China’s GDP (in so far as one can rely on the figures), of which around 18% is to the US. So, less than 5% of China’s GDP is at direct risk from any actions in the US (though clearly there is more complexity to this).[25] China can also bring the current rules to bear and Trumponomics on trade seems likely to

[24] There are also checks and balances here, the president must give Congress 90 days’ notice before opening negotiations, 30 days’ notice of trading objectives and 90 days’ notice before any agreement is signed. This enables scrutiny.
[25] For example, one issue is whether conflict might trigger vulnerable instabilities in the Chinese economy. According to the Bank of England, China’s debt currently stands at around 260% of national income and a significant portion of this is provided by unregulated lenders implying lax lending practices and chains of debt linked to non-performing loans.

violate World Trade Organization standards. The underlying issue is the way current rules and practices are to the collective detriment of *citizens of the world*. This implies that globalization could be different not that trade is evil. Trumponomics does nothing to contest the current problems of globalization it simply takes them as a given and then seeks isolated advantage for one country in an *interdependent* system. This is perverse, since the interdependencies will still hold and form the basis of likely damage to all parties.

Again, Trumponomics seems a lost opportunity, just as it fails to consider institutional and organization transformations within the US that could address some of the deep causes of problems, it fails to consider how globalization could be addressed collectively to transform the system that produce adverse consequences everywhere. Problems of races to the bottom, dignity at work, fair wages, "global wealth chains", corporate responsibility, tax avoidance and evasion, environmental harms, and social justice are as applicable internationally as they are domestically.[26] Trumponomics, occupies the territory of transformative change without actual change. Despite the rhetoric it is fight trade not fair trade. One basic reason for this is ideological. Though Trump is not a traditional Republican he shares the basic premise that regulation means more state and more state is interference in the natural order of things. As such, removing regulation will encourage more business activity and this in turn will be economically beneficial. His very first meeting with CEO's emphasised this position. This assumes business can be relied upon to act responsibly and that there is a convergence between business interests and society's interests – so most regulation is simply unnecessary and disempowering, rather than a source of positive empowerment, protections and support that can also mediate interests creating checks and balances. Whatever else Trump may say, this is basically market fundamentalist neoliberalism. However, it is neoliberalism in conflict, since Trumponomics seems set to be disruptive to free movement of capital and labour. Moreover, deregulation is ideology rather than reality since corporations also value regulation (and seek to shape and exploit it). Yet the commitment is important since it also speaks directly to the policy tendencies that resulted in the problems that Trump was then able to position himself as a solution to. The idea that repealing Dodd-Frank or Sarbanes-Oxley will somehow reinvigorate the US economy is deeply flawed.[27] The basic commitments of Trumponomics, such that they are, are refuted by the very history that lies behind his presidency and the tenability of the commitment is, arguably, refuted by his own track record in business.

However, the ultimate contradiction still to be played out is between Trumponomics and the most basic of Republican tenets. The aggregate of policies seem set to reduce tax revenues and increase federal spending, despite any freezes on hiring for federal agencies and the likelihood of reduction in scale of many agencies. It seems unlikely that a Republican dominated Congress will support budgets that seem set to increase federal debt. The less popular Trump becomes, the easier it will be for Congress to oppose him. The form this takes will simply mean less of Trumponomics will concern direct fiscal expansion and so more will involve transfer of powers and assets to corporations. This too involves a contradiction, since the potential for some corporations (and financial actors) to benefit from Trumponomics does not mean he will be viewed any differently as a problem of political risk for corporations. So,

[26] See Seabrooke and Wigan (2017); Morgan (2015, 2016)

[27] As David Dayen has noted potential conflicts in the finance sector are broader. Fannie Mae and Freddie Mac were put in conservatorship in 2008. Various groups have lobbied to have the two recapitalized and these include hedge funds who have invested significant sums in ostensibly worthless assets and who stand to gain from reprivatisation.

one can bring the analysis back to where we began from with the problem of strategy and action that will shape how Trumponomics develops.

Conclusion

The problem of low or no growth – of secular stagnation – is widespread. Trumponomics seems set to do no more than create conflict within the system that is experiencing that stagnation. As such, Trumponomics seems unlikely to deliver 4% economic growth, or at least there is nothing transformative about Trumponomics that could justify this claim. This lack of transformation is one way to think about how Trumponomics might be defined, a constituted presence and absence:

1. Trumponomics relies on aggressive, interest pursuing and conflictual action within the current political economy, domestic and global. It seems set to involve hyper-versions of current pathologies and intensifications (albeit in tension) of current tendencies.
2. Trumponomics seeks to remove impediments without due consideration to reconstruction or transformation of the institutional and organizational basis of the political economy. It involves interest led regulatory removal (combined with streamlined and targeted inducements) that seeks to free capital to work and trades on the assumption this will benefit workers and society in the US, whilst potentially obstructing free movement of capital and labour beyond the US.

It should be emphasised that the above is no more than a framework for context derived, to mix metaphors, from a menu and no more substantive than that menu. Trumponomics will also have reality. It will be contestable and the consequences remain to be seen. However, if we employ popular terms of the day Trumponomics may involve a melange of autocracy, plutocracy and kleptocracy in ways that will not emancipate the "precariat".

For his critics, the best-case scenario restricts Trump to a one-term aberration, one whose failures and contradictions serve as a death knell to neoliberalism.[28] However, there is no necessary reason why a Trump backlash will result in a more reasoned politics and progressive approach to economics. He may be the first in a line of populists, each creating a gravitational pull on the centre ground of politics and preventing any reasonable stability. Also, though his actions so far do not invite confidence, Trump's tenure as president may not manifest as worse case scenarios. Checks and balances still apply and fear-filled rhetoric apart, he inherits an economy that is more stable than the one Obama began with in 2009. What he eventually does remains open. However, it seems unlikely history will judge Trump kindly. Even if Trump manages to deliver some of what he promises the scholastic fallacy will still be invoked by analysts (the danger of seeing subtlety and sophistication where none exists).

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[28] Chait (2017), for example, argues the future belongs to Obama's legacy rather than to populists.

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SUGGESTED CITATION:
Jamie Morgan, "Trumponomics: everything to fear including fear itself?", *real-world economics review*, issue no. 78, 22 March 2017, pp. 3-19 http://www.paecon.net/PAEReview/issue78/Morgan78.pdf

real-world economics review, issue no. 78
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Can Trump overcome secular stagnation?

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Could the economic program of President Donald Trump, if enacted, overcome secular stagnation? This essay addresses part of that question, focusing on the effects of a changing macroeconomic policy mix and thrust in the present US national and global context. A separate essay will address considerations on the supply side.

The phrase "secular stagnation" is usually attributed to the early post-war Harvard economist Alvin Hansen, one of the first American disciples of John Maynard Keynes, who used it to argue that the American economy would return to the Great Depression once the Second World War ended. *Today,* secular stagnation is defined by Lawrence Summers, who defines it as the condition of a "low real neutral rate of interest", or in Fed-speak a "low R* world". A neutral rate of interest ("R*") is said to be the one that neither increases nor restrains the economic growth rate. If such a rate exists and if it is close to zero, then monetary policy cannot spur growth, and a big-deficit fiscal policy is required.

For this reason, it is argued, the great recession-cure of "Quantitative Easing", so highly touted a few years back, proved to be mostly a dud. But fiscal policy would have better luck, whether through increased public spending or tax cuts, although only so long as the fiscal push is not offset by higher interest rates. If interest rates rise, in a "low R* world" then the fiscal expansion will fail. This tension between fiscal and monetary forces is of great importance just now, as Donald Trump assumes the presidency on a program of infrastructure spending and tax cuts, while interest rates are starting to rise.

So, what do economists who argue along the lines described by Summers – a group that includes Paul Krugman, Ben Bernanke and other substantial figures – say that they think governs the interest rate? One might say: it's obvious, Janet Yellen and Stanley Fischer decide the interest rate. But this is not what our leading economists appear to believe. Instead, they appear to believe – or anyway, they argue – that a panoply of natural and social forces lie behind the interest rate. And therefore, if interest rates rise to block the Trump expansion, it will be because those stars are aligned against him.

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We have seen this movie before, in the early 1980s, when interest rates rose dramatically in advance of the Reagan tax cuts. Those high interest rates – reaching twenty percent briefly, and sustained at high levels for two years, generated a deep recession. They destroyed much of heavy industry in the Mid-west and of the trade union movement, previously the backbone of the Democratic Party. They were, in their way, the forebear of the economic conditions that have brought Donald Trump to power now.

In this paper I will first explore the intricate doctrines of the interest rate which are still circulating among high-profile economists, and which have the effect of obscuring a basic reality. The reality is that in the modern world of integrated global finance, the central bank of the largest economy determines the core financial conditions for the United States and also for the world at large. Whether a change in those conditions will serve, or undermine, the Trump program is the question.

To straighten the matter out, it is necessarily to plumb a number of rabbit-holes in the deep history of economic thought. Investigating, one finds especially the ghosts of two academic scribblers: Knut Wicksell of the late 19th century and Dennis Robertson of the early 20th century. Wicksell, a Swede, advanced the doctrine of a "natural rate of interest", while Robertson, of Cambridge University, is associated with a "loanable-funds" theory of the actual interest rate. Both doctrines appear prominently in recent attempts by leading economists to explain themselves on the question of the interest rate.

According to the loanable funds theory, the actual interest rate is set in something called the "capital market", by a balancing between household savings and business investment. A recent report from the Council of Economic Advisers states this bluntly: "The interest rate settles at the level that equates the supply of saving with the demand for investment." This is pure Robertson, which is perhaps not surprising, given that the CEA Report is by (at least in part) my 1975 King's College (Cambridge) contemporary Maurice Obstfeld, the international economist at the Obama White House.

So what determines the supply of savings and investment demand? Evidently, "loanable funds" is today a global theory. In a recent Federal Reserve paper cited by Summers as "thoughtful," John C. Williams of the Federal Reserve Bank of San Francisco gives the "underlying determinants" as "the global supply and demand for funds, including shifting demographics, slower trend productivity and economic growth, emerging markets seeking large reserves of safe assets, and a more general global savings glut." In other words it's a grab bag, based loosely on reports from the Council of Economic Advisers, the International Monetary Fund and leading lights of MIT and elsewhere. One can search the pudding for a theme, in vain. Except possibly in the perception that if interest rates are governed by obscure global forces, they cannot also be anything so banal as the decision of a committee sitting at the Board of Governors of the Federal Reserve System, on Constitution Avenue in Washington, DC.

To compound the confusion, leading mainstream economists are often unclear as to what it is, exactly, that the supply of savings and investment demand are supposed to determine. For Obstfeld, to judge by the quote above, supply and demand apparently determine the actual rate of interest. Specifically, this would be the rate of interest paid by private banks for funds, as they draw on Chinese savings and compete with the Russians or the Indians for a safe reserve asset. In this model of the world, it would appear, the central bank of the United States plays no role at all.

But for Summers, supply-and-demand govern the *neutral* rate – not the rate of interest actually paid by banks for funds, but a notional benchmark rate, a characteristic of the world economy, a standard against which actual rates are measured to judge whether they are likely to be contractionary or expansionary in effect. The neutral rate is not something that you can actually observe. Against the neutral rate, the central bank sets a *policy rate.* Again, if the policy rate is below the neutral rate, then policy is expansionary; otherwise it's contractionary.
The natural rate – yet another notional benchmark rate – is something else. Simple and clear by comparison, it stipulates a larger equilibrium of financial *and physical* forces, driven by the prevailing "marginal product of the capital stock". As with the neutral-rate theory, an actual rate below the natural one is a disequilibrium, which will (it is said) stimulate investment, by making new capital more profitable than its physical productivity would justify. The CEA report, co-authored by Obstfeld, links the natural rate directly to the concept of productivity, and explains why (in this theory) the actual rate should be influenced by the natural rate over the long run:

> "A high return on investment should trigger a reallocation of resources from consumption toward capital accumulation, driving down the marginal product of capital and the real interest rate over time. Similarly, a low return on investment should induce consumers to increase current consumption and reduce capital investment, eventually driving up the real interest rate. Such economic forces should limit extremely high or extremely low real interest rates and work to push the rate back to intermediate levels" (p. 1).

In other words, the world is constructed in an orderly way, such that the state of economic development progresses on a path determined by the role of capital in the country. If the country is capital-rich, the rate of interest will fall, and if it is capital-poor, the rate of interest will rise. This view of things, firmly rooted in the eighteenth and nineteenth centuries, tells one a great deal about the idle mentality of the economists at the Obama White House, just at the moment when dark forces were building in the depressed heartland, preparing to sweep the vestiges of liberal America into the dustbin of history.

Reference to the marginal product of capital raises another ugly little issue from the history of economic thought: namely, the specter of capital theory and the Cambridge-Cambridge capital controversies. This topic, now obscure, was very hot back at Cambridge in 1975 – although it seems that Obstfeld missed it, or he could never have signed off on a paragraph like the one quoted. As far back as 1966, the MIT neoclassical Paul Samuelson had already conceded that the underlying theory was, in point of mathematics, wrong. A larger "amount" of capital (whatever that means) or an increase in capital accumulation over time does *not* necessarily lead to a lower "marginal product" or to a lower "natural" rate of interest. Nor would a reduction in later capital investment lead to a rise in the natural rate, even in the long run. *In short, there is no such thing as a "natural rate of interest".*

If there is no *natural* rate, and if Summers were right that the *neutral* rate is governed by world financial forces, then (as he argues) the force of monetary policy is governed by the relationship of the actual rate and the neutral rate. In that argument, the actual rate is set by Yellen and Fischer after all. It is the cost of funds to banks, established by the Federal Open Market Committee of the Federal Reserve System, at their meetings every six weeks, and known to the world as the rate on "federal funds". In this concept, the apposition is not between deep technological factors and financial market factors, but rather between financial market factors on one side and the will of the policy-makers on the other.

But this is also nonsense. The apposition requires that saving, and the supply of funds, be governed by the decisions of households, and that it be wholly separate from the decisions of government. But what is the Federal Reserve if not a central bank? And what does a central bank do, if it does not supply funds? If the Federal Reserve is not in position to supply funds, if it is not a participant in the "loanable funds" market in which the "neutral rate" is determined, then what the devil are open-market operations, and what is Quantitative Easing, the principal tool of monetary policy for the past decade?

Of course the Federal Reserve supplies funds. "QE" is nothing more than large-scale purchases by the Federal Reserve of long-term securities for cash. On the short end of those same markets, funds are something which the Federal Reserve can create at will. It has done so, in recent years, to the tune of trillions, in order to put and keep the short-term policy rate where it is. Therefore, separating the policy rate from a supposed neutral interest rate determined by the supply of household saving and the demand for loanable funds makes no sense.

What then? It is difficult to say, exactly, whether the prevalent confusions are the result of sloppy thinking, an incoherent textbook pedagogy, or a deliberate desire to cover for the Federal Reserve and to obstruct potential criticism of the independent central bank. As a next step, let us ask: is there a better theory of interest rates out there, somewhere in the great work of the economists?

In the CEA paper, as in most of this so-called literature, the 20th century British economist John Maynard Keynes is not cited. Yet it is a fact that Keynes did write an influential book with the word "Interest" in the title. It was called *The General Theory of Employment Interest and Money,* published in 1936. In which Keynes states, of the classical theory of interest – that theory of loanable funds overlying a natural rate – that his own analysis "will have made it plain that this account of the matter must be erroneous" (p. 177). Perhaps it is worthwhile to seek Keynes's counsel at this point?

Keynes's theory of interest does not rest on the capital stock. And in Keynes as in the real world, there is no "capital market" that equates household saving with business investment.

Instead, Keynes's theory of interest is about the *market for money* – a market that definitely does exist in the real world. He wrote: "The rate of interest is not the 'price' which brings into equilibrium the demand for resources to invest with the readiness to abstain from consumption. It is the 'price' which equilibrates the desire to hold wealth in the form of cash with the available quantity of cash" (p. 167). In other words, interest rates are a portfolio issue. They are determined in the money markets, by how – *in what form* – people with wealth choose, at any given time, to hold that wealth. You pay interest, in order to get people to hold their wealth in less-liquid forms, such as bonds – and this is what provides firms with a secure source of financing, which then permits them to invest.

Keynes's theory of interest is the pure common sense of how financial markets work. So why is it treated, by our leading liberal economists, as though it didn't exist? Why all this confusing folderol about natural and neutral rates? The apparent answer is damning. In the theories our economists like, a technical theory of interest creates a technical theory of income distribution, since interest rates govern the incomes of creditors against debtors, of the rich against the poor, of profits against wages. Thomas Piketty's recent book is a nice instance of this point, with its argument that the great inequalities of capitalism are due to interest rates higher than the rate of economic growth. If interest somehow reflects the physical productivity of the capital stock, then the consequences may be unfortunate – but they are inevitable and not something of which it is proper to complain.

Keynes's theory offers no such bloodless rationale for profits, maldistribution and gross inequalities. If you accept Keynes, as for Marx before him, distribution is political. For that reason above all, Keynes and his ideas on this theme had to be forgotten. (Otherwise, among other things, the Democratic Party's current alliances with Wall Street would be seen too clearly for what they are.) And the upshot is that Trump, as his Federal Reserve – especially if augmented by numerous hard line appointments – drives interest rates up, will be able to hide behind a bipartisan phalanx of academic obfuscation.

Keynes's theory isn't the last word. In the period of the gold standard and just afterward, there was a certain definiteness to the "available quantity of cash". Cash was what the government could print up and make available to banks on short notice. But financial markets have changed since the 1930s.

Today, we live in a world of what is called "fiat money", backed by nothing except the legal-tender declaration and the taxing power of the state. Moreover, most money is created outside the state itself; it is bank money, created through explicitly- or implicitly-insured electronic bank balances. These can be increased by private bankers at will. And so in our time government can create (or guarantee) liquidity as much as it likes, and governments with control of their monetary systems do exactly that, since they don't want the banks to run dry. And so there is (or can be) as much liquidity around as anyone – anyone with funds to trade, that is – would like to have.

This is the world in which we have all lived since the demise of the Bretton Woods monetary system in 1971, which broke the last link of the dollar to gold. In this world, the base rate of interest is the policy rate, nothing more or less. It is what it seems: the decision of the central bank. And so, we're back to ordinary common sense: the Federal Reserve does control the money-market dollar interest rate, as surely as OPEC used to control the price of oil. Today, the price of cash, which is the rate of interest in the overnight money markets, is an administered cost of funds. It's called the Federal Funds rate or, in England, Bank Rate. This is the price the central bank sets for a bank wishing to obtain cash on short notice; the US Federal Open Market Committee sets it, normally, at meetings once every six weeks.

This interest rate can be set at any level, and the level at which it is set, at any given time, is the object of competing political and economic pressures. For a long time, thanks to the crisis, it was set at or nearly at zero, giving banks access to funds, to meet their reserve requirements, at close to no cost. To determine the rates that banks charge customers, of course, other factors come in: a markup covering bankers' cost, the alleged risk of the loan, and what the market will bear. But that is another matter; monetary policy in the first instance focuses on the short-term cost of funds to banks.

Long-term rates are, of course, what matters to business borrowers and homeowners, among many others. But once one has a clear understanding of the administered character of short-term rates, then the trajectory of *long-term* interest rates also becomes much easier to understand. As even the CEA paper admits, long rates are a function (in large part) of the expected sequence of short rates. Short rates are policy rates. And so as the prevalence of low short rates became the norm, through persistence of policy over time, low-risk long rates followed them down. Simple as that. This is a process which has been going on since the early 1980s, and although I and other dissidents have been following it for decades, according to a new paper by Jason Furman, chair of the CEA under Obama, the economic mainstream seems only just to have noticed.

In this light the entire problem of "secular stagnation" can be radically simplified. There is no natural rate, and no neutral rate independent of policy. The fear of risk has risen. The desire to borrow, for all purposes including to invest – except perhaps in cheap imported electronics – has declined. That is all that is necessary. The supposed physical productivity of capital and the supposed global supply of savings have nothing to do with it. Low realized rates of growth, of productivity, and high liquidity are effects, not causes, of a general climate of fear and reluctance to borrow and invest. So too is a high markup on a slim volume of new loans. So too is the proliferation of intermediaries who obscure who exactly is bearing the risk. Against these forces, the inability of a low cost of funds to produce robust economic growth is no surprise; in the absence of borrowers, low short policy rates are weak tea.

In this simplified world, even with no "neutral rate" to act as a fulcrum, it is still very easy to see why raising rates is dangerous. Rising interest rates are not a sign of a stronger economy. They are not a market response to stronger investment demand or a shortage of funds. They are an action of the central bank. But the Federal Reserve acts immediately on the short-term rate, not the long-term rate.

Normally, long-term rates lie above short-term rates, thanks to liquidity preference. But as short rates rise, this relationship, which is called the yield curve, flattens out. Soon enough it will invert, as short rates rise above sluggish long-term rates. In financial markets, this provokes a rush to cash. Often an inverted yield curve provokes a financial crash, and from that, follows a recession.

So now the economy is Trump's problem, and what does he propose? On the fiscal side, there will be tax cuts, especially for business, and (we are told) vast new public-private spending, especially for infrastructure. In other words, if the fiscal program is for real it will resemble the American Recovery and Reconstruction Act, Obama's early stimulus program. Tax cuts and public spending work; if there is a large fiscal stimulus then the economic growth rate will rise. But Trump promises to reinforce the "inflation hawks" – the high-interest-rate caucus – at the Federal Reserve. Taken together, so far as the broad outlines are concerned, and so far as we know now, Trump proposes to repeat the Reagan formula. And the question becomes, what will happen if he does?

As with Reagan, higher interest rates – especially if they come before the fiscal effects kick in, will play havoc with credit-dependent sectors of the economy. Here at home, the pinch may fall largely on corporate borrowing and on automobile and student loans. The net depends on scale and timing: under Reagan the recession came first, because the monetary shock was very strong and it hit before the tax cuts and military spending boom took effect. This pattern could be repeated, even though the level of nominal interest rates need not approach the extremes of the early 1980s. But an equally or more important effect could come from the consequences of this policy mix for a price that Trump and his team do not directly control: the exchange rate of the US dollar.

Expected higher interest rates have already raised the value of the dollar. Higher interest rates will drive it up even more. As in the early Reagan years, this will hurt exports and importcompeting traded goods, offsetting the benefits of fiscal expansion for manufacturing. Only the most severe and sustained protection, which Trump in his inaugural did promise, can mute or reverse this effect. But such protection would bring inflation, product shortages, unemployment in the distribution and retail sectors, a massive decline in real consumption – since new production facilities would have to be established on a vast scale to replace the disappeared plants of the older manufacturing sector, and this takes time. Much more likely, there will be a wide expectation that the policy cannot last, and so there will be little gain, under the policy we're going to get, in manufacturing jobs. Symbolic gestures apart, industrialists are not going to invest in factories to make shirts and shoes, when they know very well that a future government can reopen trade and bankrupt them all, in a matter of days.

So where will the money go? Where will private investors, seeking low taxes on quick profits, want to invest? The answer seems clear enough: real estate. Infrastructure spending, after all, is not only or even necessarily in support of production. Most of it, whether in roads, bridges, water systems or airports, supports household consumption and offices and – therefore – land values. A high dollar attracts foreign capital. A low corporate profits tax rate diverts loose funds from other countries. Real estate – practically alone – can turn these factors into capital gains in a fairly short time. Trump of course knows this; he's a real estate man.

It is darkly amusing that the entire US economy may be run in such a way that so well serves the personal interests of the President, of his children, his son-in-law and his friends. Those who voted for him to make America great again – by restoring manufacturing jobs – will be disappointed. And those who may lose many other benefits they now receive, including health insurance and perhaps parts of Social Security, Medicare, Medicaid and other programs, will be unhappy. Trump and his team may not care very much, for as a good businessman, he and his team will know when to cash out. But to the extent that they wish to survive politically, they must be relying on the obvious fact that the Democratic Party has had no strategy for the Mid-west since the 1960s, that it has become a bicoastal party of professionals, with no plan to earn back the votes that carried Wisconsin, Michigan, Pennsylvania and Ohio for Obama in 2008 and 2012. That's probably a safe bet for at least the next four years.

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SUGGESTED CITATION:
James K. Galbraith, "Can Trump overcome secular stagnation?", *real-world economics review*, issue no. 78, 22 March 2017, pp. 20-27, http://www.paecon.net/PAEReview/issue78/Galbraith78.pdf

Trump through a Polanyi lens: considering community well-being

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Introduction

At least in outline, the economic policies that new presidents of the U.S. will attempt to put in place are generally known when they take office. Economic advisors who have given speeches, written papers, testified before Congress are usually known. However, we know little about what Trump actually intends or what he can accomplish. Rather than trying to write about what I have absolutely no confidence in predicting, I am, in this paper, going to suggest some parallels between Trumps' incoherent, and yet apparently popular campaign proposals, and some themes from an earlier period of populist anger in the U.S., the period that began in roughly 1870 and culminated in the presidential election of 1896. In drawing these parallels I will accept that in calling the Tea Partiers and Trump voters populists, observes are correct in thinking that there is an anger abroad in the U.S. that bears resemblance to the anger of that earlier period.

My conclusions will be three: In both periods of populist anger the causes of that anger are hard to explain using standard measures of economic well-being. People had many reasons for voting for Trump, but even given that, it is hard to make sense of the economic causes of his victory, just as it was hard to account for the electoral success of the earlier populists. Secondly, even though Trump and his administrative colleagues may not truly care about that anger now that they are in office, it is important that those in opposition understand what people want and why they are angry. It is not sufficient to write Trump off as a cowbird, a bird whose characteristics I will explain shortly. And, finally, there is a growing literature that suggests that we need to devise not only new policies but quite possible a new way for economists to think about national economic policy.

Two populisms

In the last three decades of the 19th century American farmers joined the Grange, Farmers' Alliances, and in the 1890s in the Peoples (or Populist) Party. They enjoyed considerable success in electing third party candidates at the state level.[1] In recent work such as John Judis' *The Populist Explosion,* as well as older standard works such as John D. Hicks' *The Populist Revolt,* and Norman Pollack's *The Populist Mind,* the discontent that led to what we might today describe as an effective Tea Party uprising, is said to have been falling

[1] This section is based on Mayhew, 1972 and the sources cited there. See also Turner (1980).

agricultural prices and the economic power of the newly important railroads and their attendant political power. This is not surprising for that is pretty much what the farmers themselves said.

The story is, however, more complicated. Statistics compiled by Douglass North in 1966 reveal that the last three decades of the 19th century was a period when agricultural terms of trade improved and when railroad rates were falling. Markets for Midwestern crops were expanding rapidly. Further and more recent support for the proposition that life on American farms, at least in the Midwest where the protest was strongest, was improving comes from Robert J. Gordon's very recent book, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War.* In short, statistical evidence does not really support the complaints of the farmers but we do know that they were very clearly unhappy.

There has also been an easy explanation for the recent anger of Tea Partiers and Trump supporters that does not quite stand up to closer examination. It was easy during the long primary season and even in the first days after his November victory to believe that Trump's successes were coming from the votes of those who had not enjoyed the benefits of the post-2009 economic recovery. Much of the rhetoric of Trump's campaign and much of the early coverage suggested that his unexpected support in areas that had previously been safely Democratic resulted from a continued loss of jobs, whether because of globalization or automation or both.

A corollary of this analysis of Trump's win was the conclusion that many of those who voted for Trump voted against their own economic interests. It has all along been difficult to believe that Trump could or would extend and strengthen a government-provided safety net would seem crucial to protect those caught in the undoubtedly real structural change that has produced the depopulating towns and empty and crumbling factories that served as backdrops for the election. Analysts have puzzled over why voters assumed to be concerned about a loss of jobs were willing to accept the vague and sometimes contradictory prescription that Trump offered as a remedy and why they voted for a man and a party that promise to take apart the existing safety net.

There was a parallel in the late 19th century. After the Populists allied with the Democratic Party in 1896, there were also suggestions that the farmers had been "duped" into an alliance that even though it did ultimately lead to Democratic progressivism removed the farmers and their concerns from center stage. William Jennings Bryan, with his oratorical skills and a popular call for "free silver" was, according to the muckraker Henry Demarest Lloyd, a cowbird. For those readers not up on their ornithology, I should explain that cowbirds lay their eggs in the nests built by other species of bird and leave the parenting duty to the builder of the nest. At least some of the eggs do not hatch and cowbirds are often described as crowding out those with more legitimate rights to the nest and the parenting that goes with being there. For the Tea Partiers and other angry voters of 2016, we could say that Donald Trump is the cowbird with the mélange of interests that he now represents is in the process of shoving the hopes and plans of "the people" out of the nest.

Different interpretations

There is some justification for calling Bryan a cowbird and even more for calling Trump out on this score. If, however, the important thing is to understand the anger of voters, that is not sufficient. It is important to look behind the slogans of “free silver” and “bring jobs back” and explore more fully why voters and protestors were angry and why they allowed the cowbirds entry into their political nests at all. I begin this process by noting that as part of the political process, vote seekers must articulate the concerns of the people in a way that resonates with the voters and, at the same time, state those concerns in a ways that are addressable by the policy makers on whom they will rely. In the case of Donald Trump, the policy maker may be Trump rather than independent experts but the generalization still holds. Concerns must be articulated in a way that both yields policy and at the same time appear to the electorate to address their problems.

My conclusion (see Mayhew 1972) about the 19th-century populists was that the farmers were actually angry about their sudden immersion in a thoroughly commercial and nation-wide market for agricultural crops that resulted from the new rail network and the availability of ocean-going steam ships. They were angry because prices that emerged from processes that played out in Chicago and New York and London determined their success. To oversimplify just a bit, most U.S. farmers, and particularly those who were populating the Midwest were successful if they grew enough to feed and clothe their families. By the 1870s this was no longer a measure of success. New goods, mail order catalogs, and a rising standard of living, required more and that more depended upon prices over which the farmer had no direct control. In the political language available to these farmers they blamed the railroads and the “trusts” and “monopolists”.[2]

When these complaints were heard by politicians, policy makers, and academics, the message was transformed into anger about prices and about “monopolies”. This was confusing for economists. The railroads, even as they merged into networks did not conform to the models of monopolies that economists and other academics had to hand. Nor did the “trusts” conform to such models. In fact, most economists at the beginning of the 20th century argued that there was too much competition in the American economy. Combinations were needed to avoid what they labelled “ruinous competition”. The near-unanimous congressional support for the Sherman Antitrust Act in 1890 did not jibe with expert opinion and clear-cut policies to deal with farm anger were not easy to formulate. Following creation of state regulatory bodies and then in 1887, the creation of the Interstate Commerce Act, railroads were regulated in ways that sometimes did and sometimes did not please protesting farmers, but answers for other industries remained elusive and the issue of what to do about “monopoly” remained a major issue in elections up until WWI changed the national conversation.[3] It also made sense to the experts and the politicians to place an emphasis on money and hence on the gold versus silver issue that had long dogged American political discourse. This was especially so as there were no measures available to deal with “power” as power was being wielded by Rockefeller and his colleagues who ran the railroads.

Since the 2016 election there has been a growing body of evidence that this most recent “populist” revolt has also been muddled in the translation among voters, candidates, and economists and for a similar reason: the measures of economic well-being thought by experts to be at issue may simply not be adequate to address concerns of unhappy voters. Perhaps

[2] A word about terms. Because of the way in which laws of incorporation then existed in the U.S. setting up a “trust” was the way used by John D. Rockefeller and others to concentrate control over multi-product and geographically dispersed firms such as Standard Oil. Even as laws of incorporation and combination changed, the word “trust” continued in American discourse as a name for a firm deemed to have too much power. In popular language, a “trust” was the same thing as a “monopoly”.

[3] I have written about this in Mayhew (1998) and Mayhew (2008).

today we also lack a good measure of what is wrong in those counties that swung hard from traditional Democratic support to vote for Trump. Evidence that these are not counties of high unemployment cast doubt upon the easy conclusion that this was an election about jobs even before the votes were finally counted. That is confusing.

What were voters angry about in 2016?

To try to understand this apparent paradox there has been a rush by journalists and scholars to look more closely at those places that, often to the surprise of political observers, voted for Trump. One such effort that illustrates the paradox well is that which appeared In an article in *MINNPOST,* a regional Minnesota news source, where reporter Jeff Ernst describes how for the first time since 1924, Morrison County, a county located northwest of Minneapolis in central Minnesota, voted for someone other than the Democratic nominee for President.[4] This was particularly striking because the candidate for whom the majority of Morrison County residents voted in 1924 was Robert M. La Follette, Sr. who was running as the nominee of the Progressive Party, a third party created by liberal Democrats and Republicans. It is also striking because Trump's margin of victory over Clinton was 53 points. Morrison County has long been a liberal bastion but went strongly for Trump. What happened?

The Republican state representative for Morrison County identified need for jobs as the reason for his own and Trump's win. But, as Ernst reports, the unemployment rate in Morrison County in 2008, when Obama took office, was nearly 14%, while in 2016 it was only 4 percent. After reading Ernst's article, I did a little further digging and while I cannot claim any in-depth knowledge of the area, there is little evidence that a lack of jobs was causing hardship in this one area that swung heavily from left to right in the 2016 election. The evidence is that Trump's emphasis on the need for jobs, "good jobs", resonated even in areas where unemployment had declined and where there are no signs of the poverty that plagues some regions of the U.S.

It would, of course, be easy to attribute unhappiness with economic conditions to underemployment, a concept that got considerable play from Trump. But that also does not appear to explain what happened in Morrison County, Minnesota. The median income is relatively close to the national median, the poverty level much lower, and the highest concentration of poverty is among women over the age of 75, hardly a group affected by currently low wages or shortage of jobs. I could find no evidence in the local newspaper of anxiety about loss of employment. In other words, all standard measures of economic well-being in 2016 indicate that Morrison County, Minnesota is and has been for some time a relatively prosperous county in a prosperous state.

So, what did persuade people in Morrison County, Minnesota to vote for Trump? Fortunately, over the months since the election there have been more and more reports on places like Morrison County, Minnesota. Those reports, in turn, serve as guides to a considerable body of work done before the 2016 election by sociologists, political scientists, journalists, and others on areas of the U.S. where Tea Party anger was strong but jobs not necessarily lacking. "Post-Election Disorientation: Bibliography" compiled by Siobahn McAndrew is a particularly useful guide to some of this literature. I, like many others, have also found the work of Katherine Cramer on rural residents of Wisconsin and that of Arlie Hochschild on

[4] I thank Doug Veum who keeps up with his native Minnesota for calling this article to my attention.

southern Louisiana particularly interesting. There is a theme that runs through these studies that goes something like this: The supporters of the Tea Party and of Trump are no dummies and are not being irrational. Cowbirds are not going to fool them. These voters themselves may be comparatively well off, may not have been directly affected by loss of jobs overseas, and in general do not display the other characteristics that might have been expected from a simple story of voters reacting to unemployment or low wages. These people are, however, deeply angry about what they see as a system in which an urban elite governs with both intent and effect to deprive those who live in small towns and on farms of what should rightly be theirs.

But the story is also not simply about growing inequality of income. In southern Louisiana where Hochschild, a sociologist, interviewed people, there was great concern about environmental degradation. This surprised Hochschild for these same people were decidedly against regulation, particularly at the Federal level. What she discovered was that these people had reached a not unreasonable conclusion that regulation was applied to them but not to the big firms. They might be regulated as to fishing rights and use of “their Bayous” but the non-resident owners of big firms that caused heavy pollution were not punished in any ways obviously harmful to them. Hence they opposed regulation and had little faith in government programs that had failed them. They were also persuaded by the prevailing rhetoric that without the ineffectual regulation now in place even in polluted Louisiana there would be more jobs available so that their children would not have to leave a place that was dear to them. The tradeoff that they perceived was not so much environmental regulation versus jobs as it was biased-against-common people-regulation versus little or no regulation and more jobs in addition. In other words they were fully aware that executives of BP and other large and polluting firms were not made poor, but they saw themselves as regulated in petty ways and in an area of the country that could only grow if they accepted environmental degradation. They voted for Tea Party candidates and Trump because that offered the slightly better of two bad choices.

In Wisconsin, Cramer, a political scientist found what she calls a “rural consciousness” that fuels a similar resentment against the elite who live in places like Madison and Milwaukee and beyond. Much has now been written about the importance of the rural/urban divide that characterizes American politics but Cramer and Hochschild add depth to this understanding by emphasizing *place.* As Cramer puts it, “place matters more than just as a proxy... It is a part of at least some voters’ fundamental sense of self” (p. 217).

The conclusions of Hochschild and Cramer are borne out by Jonathan Rothwell’s analysis of 87,000 interviews with Trump supporters undertaken by Gallup. Rothwell used statistical analysis to reject both income and direct effects of foreign trade as plausible explanations of why Trump voters voted as they did in the primaries. He concluded that Trump supporters came from *places* (emphasis mine) where their neighbors endure or are at risk for other forms of hardship, including poor health and a lack of opportunity for upward mobility (Ehrenfreund and Guo). According to Rothwell, “Trump’s supporters are concerned less about themselves than about how the community’s children are faring.”

Cramer’s words can be used to summarize what is probably the best understanding that we currently have of why so many were persuaded to vote for Trump in those counties that swung unexpectedly his way and in some that have long been bastions of Tea Party strength:

> "When we start to ask why people vote against their interests, we need to acknowledge that interests are subjective. In a simplistic view, this means that interests are not necessarily what we as observers would predict based on objective facts, such as a person's income. But in a more useful view, this means that interests are interpretations that people arrive at through thinking about the world as particular types of people—people with identities. The simplistic view paints voters as ignorant. The latter view acknowledges their humanity" (p. 209).

Hochschild, Cramer, Rothwell, and now many others are reaching the conclusion, which should not surprise us that voters vote not as economistic rational individuals, but as members of society and of a particular community.

Let me be clear and emphasize that it is not simply the case that voters vote for a candidate without full knowledge of the policies that will be implemented and their effect. It is also the case that skilled specialists can manipulate fear, hope, disappointments and so on into passion for simply stated slogans and simplistic promises. But the point that Hochschild, Cramer, and Rothwell are making goes beyond these common observations. It is also the case, they tell us, that voters bring to be ballot box fear and hope for the communities with which they identify.

How to think about the future

What makes this conclusion important is that it is the context in which we need to think about policies that will allow a more robust alliance of urban and rural folk, both elite and not. Much is currently being made of the rural/urban divide that helps to account for Trump's electoral victory, but there is a danger in that. My suspicion is that the emphasis on "place" in the work of both Hochschild and Cramer should not be understood simply as an emphasis on attachment to a geographic location but rather to a community with which one identifies. Communities may be either rural or urban, and both rural and urban communities may be seen as marginalized by their inhabitants. Saying this is not to say anything really new but it does suggest a change of focus for economic policy makers.

Most economic measures of well-being and most policy formulations focus on individuals or, at most, on individual families: the unemployed person versus the employed person, the person below the poverty line versus individuals in the top 1%, the highly educated versus the high-school dropout. These measures are important but community identification is also needed in order to understand both voter anger and the routes to greater well-being. For this purpose it is important to recognize that communities should not be thought of as collections of individuals with the same economic, social, demographic characteristics. There is much social science evidence that thriving communities are also diverse communities. What we need for better policy formulation and for better political campaigns are measures of community well-being. Some of these already make the news. Is water polluted in the community? What is the rate of opioid addiction? Is there a future for the town and its schools or will they too be boarded up in the near future?

Karl Polanyi laid blame for the turmoil and destruction of the 1930s and WWII on an "economistic fallacy", the notion that attitudes, affiliations, social status, friendships, and, yes, voting, are determined by narrowly conceived economic factors. The idea that a self-regulating market of the sort still idealized in textbooks could yield a good human society was based on this fallacy. When protective measures were put in place to shield people and nature and nations from the workings of the self-regulating market the system collapsed. The rush to create working economies led to both the welfare state created in the U.S. of the 1930s and elsewhere in the West and to the fascism of Hitler's Germany. In the U.S. today the road ahead still has those forking paths.

As all readers of these essays almost certainly know, one reason for the welfare-state path taken in the U.S. and in much of Western Europe, was recognition that humans needed income and jobs. The importance of John Maynard Keynes was that he incorporated this understanding into a Marshallian view of the ideal liberal economy. This incorporation was both fed by and in turn fed the development of new and aggregated measures of economic well-being. These measures of labor participation, joblessness, and real wages all remain important, just as the measures of price and output that informed the reformers who responded to the 19th century populists remained and remain important. But seeing humans as members of communities whose place in a larger world has been fundamentally altered by globalization and the internet, makes these measures insufficient. Even if all are employed and with a living wage, there may be anger based on comparison of place. Humans want to live in and be part of thriving communities, whether those communities are geography bound or internet created. As against this view, the 19th-century liberal ideal was that of a world that served individuals whose primary needs and concerns were purely economic. What worries me is that even though an emphasis on jobs and a living wage is certainly an advance on the kind of 19th-century economics that understood full employment to be a naturally occurring condition and wages beyond the reach of policy, it may not be sufficient.

I am not confident in predicting the extent of damage that Trump, working with a Congress that seems wedded to the 19th-century economic ideal, may do. I have more confidence in saying that those of us who hope to minimize that damage need to develop and put to use better measures of economic and social well-being and to put them to use. In addition to measuring environmental degradation and declines in human health and longevity, we need to incorporate measures of community well-being into our policy formulations.

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SUGGESTED CITATION:
Anne Mayhew, "Trump through a Polanyi lens: considering community well-being", *real-world economics review*, issue no. 78, 22 March 2017, pp. 28-35, http://www.paecon.net/PAEReview/issue78/Mayhew78.pdf

Trump is Obama's legacy. Will this break up the Democratic Party?

Michael Hudson [University of Missouri at Kansas City, USA]

Nobody yet can tell whether Donald Trump is an agent of change with a specific policy in mind, or merely a catalyst heralding an as yet undetermined turning point. His first month in the White House saw him melting into the Republican mélange of corporate lobbyists. Having promised to create jobs, his "America First" policy looks more like "Wall Street First". His cabinet of billionaires promoting trickle-down corporate tax cuts, deregulation and dismantling Dodd-Frank bank reform repeats the Junk Economics promise that giving more tax breaks to the richest One Percent may lead them to use their windfall to invest in creating more jobs. What they usually do, of course, is simply buy more property and assets already in place.

One of the first reactions to Trump's election victory was for stocks of the most crooked financial institutions to soar, hoping for a deregulatory scythe taken to the public sector. Navient, the Department of Education's knee-breaker on student loan collections, accused by the Consumer Financial Protection Bureau (CFPB) of massive fraud and overcharging, rose from $13 to $18 now that it seemed likely that the incoming Republicans would disable the CFPB and shine a green light for financial fraud.

Foreclosure king Stephen Mnuchin of IndyMac/OneWest (and formerly of Goldman Sachs for 17 years; later a George Soros partner) is now Treasury Secretary – and Trump has pledged to abolish the CFPB, on the specious logic that letting fraudsters manage pension savings and other investments will give consumers and savers "broader choice", e.g., for the financial equivalent of junk food. Secretary of Education Betsy DeVos hopes to privatize public education into for-profit (and de-unionized) charter schools, breaking the teachers' unions. This may position Trump to become the transformational president that neoliberals have been waiting for.

But not the neocons. His election rhetoric promised to reverse traditional U.S. interventionist policy abroad. Making an anti-war left run around the Democrats, he promised to stop backing ISIS/Al Nusra (President Obama's "moderate" terrorists supplied with the arms and money that Hillary looted from Libya), and to reverse the Obama-Clinton administration's New Cold War with Russia. But the neocon coterie at the CIA and State Department are undercutting his proposed rapprochement with Russia by forcing out General Flynn for starters. It seems doubtful that Trump will clean them out.

Trump has called NATO obsolete, but insists that its members up their spending to the stipulated 2% of GDP – producing a windfall worth tens of billions of dollars for U.S. arms exporters. That is to be the price Europe must pay if it wants to endorse Germany's and the Baltics' confrontation with Russia.

Trump is sufficiently intuitive to proclaim the euro a disaster, and he recommends that Greece leave it. He supports the rising nationalist parties in Britain, France, Italy, Greece and the Netherlands, all of which urge withdrawal from the eurozone – and reconciliation with Russia instead of sanctions. In place of the ill-fated TPP and TTIP, Trump advocates country-by-country trade deals favoring the United States. Toward this end, his designated ambassador to the European Union, Ted Malloch, urges the EU's breakup. The EU is refusing to accept him as ambassador.

Will Trump's victory break up the Democratic Party?

At the time this volume is going to press, there is no way of knowing how successful these international reversals will be. What is more clear is what Trump's political impact will have at home. His victory – or more accurately, Hillary's resounding loss and the *way* she lost – has encouraged enormous pressure for a realignment of both parties. Regardless of what President Trump may achieve *vis-à-vis* Europe, his actions as celebrity chaos agent may break up U.S. politics across the political spectrum.

The Democratic Party has lost its ability to pose as the party of labor and the middle class. Firmly controlled by Wall Street and California billionaires, the Democratic National Committee (DNC) strategy of identity politics encourages any identity *except* that of wage earners. The candidates backed by the Donor Class have been Blue Dogs pledged to promote Wall Street and neocons urging a New Cold War with Russia.

They preferred to lose with Hillary than to win behind Bernie Sanders. So Trump's electoral victory is their legacy as well as Obama's. Instead of Trump's victory dispelling that strategy, the Democrats are doubling down. It is as if identity politics is all they have.

Trying to ride on Barack Obama's coattails didn't work. Promising "hope and change", he won by posing as a transformational president, leading the Democrats to control of the White House, Senate and Congress in 2008. Swept into office by a national reaction against George Bush's Oil War in Iraq and the junk-mortgage crisis that left the economy debt-ridden, they had free rein to pass whatever new laws they chose – even a Public Option in health care if they had wanted, or make Wall Street banks absorb the losses from their bad and often fraudulent loans.

But it turned out that Obama's role was to *prevent* the changes that voters hoped to see, and indeed that the economy needed to recover: financial reform, debt writedowns to bring junk mortgages in line with fair market prices, and throwing crooked bankers in jail. Obama rescued the banks, not the economy, and turned over the Justice Department and regulatory agencies to his Wall Street campaign contributors. He did not even pull back from war in the Near East, but extended it to Libya and Syria, blundering into the Ukrainian coup as well.

Having dashed the hopes of his followers, Obama then praised his chosen successor Hillary Clinton as his “Third Term”. Enjoying this kiss of death, Hillary promised to keep up Obama’s policies.

The straw that pushed voters over the edge was when she asked voters, “Aren’t you better off today than you were eight years ago?” Who were they going to believe: their eyes, or Hillary? National income statistics showed that only the top 5 percent of the population were better off. All the growth in Gross Domestic Product (GDP) during Obama’s tenure went to them – the Donor Class that had gained control of the Democratic Party leadership. Real incomes have fallen for the remaining 95 percent, whose household budgets have been further eroded by soaring charges for health insurance. (The Democratic leadership in Congress fought tooth and nail to block Dennis Kucinich from introducing his Single Payer proposal.)

No wonder most of the geographic United States voted for change – except for where the top 5 percent is concentrated: in New York (Wall Street) and California (Silicon Valley and the military-industrial complex). Making fun of the Obama Administration’s slogan of “hope and change”, Trump characterized Hillary’s policy of continuing the economy’s shrinkage for the 95% as “no hope and no change”.

Identity politics as anti-labor politics

A new term was introduced to the English language: Identity Politics. Its aim is for voters to think of themselves as separatist minorities – women, LGBTQ, Blacks and Hispanics. The Democrats thought they could beat Trump by organizing Women for Wall Street (and a New Cold War), LGBTQ for Wall Street (and a New Cold War), and Blacks and Hispanics for Wall Street (and a New Cold War). Each identity cohort was headed by a billionaire or hedge fund donor.

The identity that is conspicuously excluded is the working class. Identity politics strips away thinking of one’s interest in terms of having to work for a living. It excludes voter protests against having their monthly paycheck stripped to pay more for health insurance, housing and mortgage charges or education, or better working conditions or consumer protection – not to speak of protecting debtors.

Progressive politics used to be about three major categories: workers and unionization, anti-war protests and civil rights marches against racist Jim Crow laws. These were the three objectives of the many nationwide demonstrations. That ended when these movements got co-opted into the Democratic Party. Their reappearance in Bernie Sanders’ campaign in fact threatens to tear the Democratic coalition apart. As soon as the primaries were over (duly stacked against Sanders), his followers were made to feel unwelcome. Hillary sought Republican support by denouncing Sanders as being radical and utopian in advocating a public option for health care and in seeking to rein in Wall Street – the Democratic Donor Class. Her aim was to counter Sanders’ attempt to convince diverse groups that they had a common denominator in needing jobs with decent pay – and, to achieve that, in opposing Wall Street’s replacing the government as central planner – the Democrats depict every identity constituency as being victimized by every other, setting themselves at each other’s heels. Clinton strategist John Podesta, for instance, encouraged Blacks to accuse Sanders supporters of distracting attention from racism. Pushing a common economic interest between whites, Blacks, Hispanics and LGBTQ always has been the neoliberals’ nightmare.

No wonder they tried so hard to stop Bernie Sanders, and are maneuvering to keep his supporters from gaining influence in their party.

When Trump was inaugurated on Friday, January 20, there was no pro-jobs or anti-war demonstration. That presumably would have attracted pro-Trump supporters in an ecumenical show of force. Instead, the Women's March on Saturday led even the pro-Democrat *New York Times* to write a front-page article reporting that white women were complaining that they did not feel welcome in the demonstration. The message to anti-war advocates, students and Bernie supporters was that their economic and anti-war cause was a distraction.

The march was typically Democratic in that its ideology did not threaten the Donor Class. As Yves Smith wrote on *Naked Capitalism*: "the track record of non-issue-oriented marches, no matter how large scale, is poor, and the status of this march as officially sanctioned (blanket media coverage when other marches of hundreds of thousands of people have been minimized, police not tricked out in their usual riot gear) also indicates that the officialdom does not see it as a threat to the *status quo*."[1]

Hillary's loss was not blamed on her neoliberal support for the TPP or her pro-war neocon stance, but on the revelations of the e-mails by her operative Podesta discussing his dirty tricks against Bernie Sanders (claimed to be given to Wikileaks by Russian hackers, not a domestic DNC leaker as Wikileaks claimed) and the FBI investigation of her e-mail abuses at the State Department. Backing her supporters' attempt to brazen it out, the Democratic Party has doubled down on its identity politics, despite the fact that an estimated 52 percent of white women voted for Trump. After all, women do work for wages. And that also is what Blacks and Hispanics want – in addition to banking that serves *their* needs, not those of Wall Street, and health care that serves *their* needs, not those of the health-insurance and pharmaceuticals monopolies.

Bernie did not choose to run on a third-party ticket. Evidently he feared being accused of throwing the election to Trump. The question is now whether he can remake the Democratic Party as a democratic socialist party, or create a new party if the Donor Class retains its neoliberal control. It seems that he will not make a break until he concludes that a Socialist Party can leave the Democrats as far back in the dust as the Republicans left the Whigs after 1854. He may have underestimated his chance in 2016.

Trump's effect on U.S. political party realignment

During Trump's rise to the 2016 Republican nomination it seemed that he was more likely to break up the Republican Party. Its leading candidates and gurus warned that his populist victory in the primaries would tear the party apart. The polls in May and June showed him defeating Hillary Clinton easily (but losing to Bernie Sanders). But Republican leaders worried that he would not support what they believed in: namely, whatever corporate lobbyists put in their hands to enact and privatize.

The May/June polls showed Trump and Clinton were the country's two most unpopular presidential candidates. But whereas the Democrats maneuvered Bernie out of the way, the

[1] Yves Smith, "Women Skeptical of the Women's March," *Naked Capitalism*, February 10, 2017.

Republican Clown Car was unable to do the same to Trump. In the end they chose to win behind him, expecting to control him. As for the Democratic National Committee, its Wall Street donors preferred to lose with Hillary than to win with Bernie. They wanted to keep control of their party and continue the bargain they had made with the Republicans: The latter would move further and further to the right, leaving room for Democratic neoliberals and neocons to follow them closely, yet still pose as the "lesser evil". That "centrism" is the essence of the Clintons' "triangulation" strategy. It actually has been going on for a half-century. "As Tanzanian President Julius Nyerere quipped in the 1960s, when he was accused by the US of running a one-party state, 'The United States is also a one-party state but, with typical American extravagance, they have two of them'."[2]

By late 2016, voters had caught on to this two-step game. But Hillary's team paid pollsters over $1 billion to tell her ("Mirror, mirror on the wall …") that she was the most popular of all. It was hubris to imagine that she could convince the 95 Percent of the people who were worse off under Obama to love her as much as her East-West Coast donors did. It was politically unrealistic – and a reflection of her cynicism – to imagine that raising enough money to buy television ads would convince working-class Republicans to vote for her, succumbing to a Stockholm Syndrome by thinking of themselves as part of the 5 Percent who had benefited from Obama's pro-Wall Street policies.

Hillary's election strategy was to make a right-wing run around Trump. While characterizing the working class as white racist "deplorables", allegedly intolerant of LBGTQ or assertive women, she resurrected the ghost of Joe McCarthy and accused Trump of being "Putin's poodle" for proposing peace with Russia. Among the most liberal Democrats, Paul Krugman still leads a biweekly charge at *The New York Times* that President Trump is following Moscow's orders. Saturday Night Live, Bill Maher and MSNBC produce weekly skits that Trump and General Flynn are Russian puppets. A large proportion of Democrats have bought into the fairy tale that Trump didn't really win the election, but that Russian hackers manipulated the voting machines. No wonder George Orwell's *1984* soared to the top of America's best-seller lists in February 2017 as Donald Trump was taking his oath of office.

This propaganda paid off on February 13, when neocon public relations succeeded in forcing the resignation of General Flynn, whom Trump had appointed to clean out the neocons at the NSA and CIA. His foreign policy initiative based on rapprochement with Russia and hopes to create a common front against ISIS/Al Nusra seemed to be collapsing.

Tabula rasa celebrity politics

U.S. presidential elections no longer are much about policy. Like Obama before him, Trump campaigned as a *rasa tabla*, a vehicle for everyone to project their hopes and fancies. What has all but disappeared is the past century's idea of politics as a struggle between labor and capital, democracy vs. oligarchy.

Who would have expected even half a century ago that American politics would become so post-modern that the idea of class conflict has all but disappeared. Classical economic discourse has been drowned out by modern economist's neoliberal junk economics.

[2] Radhika Desai, "Decoding Trump," *Counterpunch*, February 10, 2017.

There is a covert economic program, to be sure, and it is bipartisan. It is to make elections about just which celebrities will introduce neoliberal economic policies with the most convincing patter talk. That is the essence of *rasa tabla* politics.

Can the Democrats lose again in 2020?

Trump's November victory showed that voters found *him* to be the Lesser Evil, but all that this meant was that all voters really could express was "throw out the bums" and get a new set of lobbyists for the FIRE sector and corporate monopolists. Both candidates represented Goldman Sachs and Wall Street. No wonder voter turnout has continued to plunge.

Although the Democrats' Lesser Evil argument lost to the Republicans in 2016, the neoliberals in control of the DNC found the absence of a progressive economic program less threatening to their interests than the critique of Wall Street and neocon interventionism coming from the Sanders camp. So the Democrats will continue to pose as the Lesser Evil party not really in terms of policy, but simply *ad hominum*. They will merely repeat Hillary's campaign stance: They are *not* Trump. Their parades and street demonstrations since his inauguration have not come out for any economic policy.

On Friday, February 10, the party's Democratic Policy group held a retreat for its members in Baltimore. Third Way "centrists" (Republicans running as Democrats) dominated, with Hillary operatives in charge. The conclusion was that no party policy was needed at all. "President Trump is a better recruitment tool for us than a central campaign issue," said Washington Rep. Denny Heck, who is leading recruitment for the Democratic Congressional Campaign Committee (DCCC).[3]

But what does their party leadership have to offer women, Blacks and Hispanics in the way of employment, more affordable health care, housing or education and better pay? Where are the New Deal pro-labor, pro-regulatory roots of bygone days? The party leadership is unwilling to admit that Trump's message about protecting jobs and opposing the TPP played a role in his election. Hillary was suspected of supporting it as "the gold standard" of trade deals, and Obama had made the Trans-Pacific Partnership the centerpiece of his presidency – the free-trade TPP and TTIP that would have taken economic regulatory policy out of the hands of government and given it to corporations.

Instead of accepting even Sanders' centrist-left stance, the Democrats' strategy was to tar Trump as pro-Russian, insist that his aides had committed impeachable offenses, and mount one parade after another. Rep. Marcia Fudge of Ohio told reporters she was wary of focusing solely on an "economic message" aimed at voters whom Trump won over in 2016, because, in her view, Trump did not win on an economic message. "What Donald Trump did was address them at a very different level – an emotional level, a racial level, a fear level," she said. "If all we talk about is the economic message, we're not going to win."[4] This stance led Sanders supporters to walk out of a meeting organized by the "centrist" Third Way think tank on Wednesday, February 8.

[3] "Pelosi denies Democrats are divided on strategy for 2018," Yahoo News, February 10, 2018. https://www.yahoo.com/news/pelosi-denies-democrats-are-divided-on-strategy-for-2018-194337876.html
[4] *Ibid*.

By now this is an old story. Fifty years ago, socialists such as Michael Harrington asked why union members and progressives still imagined that they had to work through the Democratic Party. It has taken the rest of the country half a century to see that Democrats are not the party of the working class, unions, middle class, farmers or debtors. They are the party of Wall Street privatizers, bank deregulators, neocons and the military-industrial complex. Obama showed his hand – and that of his party – in his passionate attempt to ram through the corporatist TPP treaty that would have enabled corporations to sue governments for any costs imposed by public consumer protection, environmental protection or other protection of the population against financialized corporate monopolies.

Against this backdrop, Trump's promises and indeed his worldview seem quixotic. The picture of America's future he has painted seems unattainable within the foreseeable future. It is too late to bring manufacturing back to the United States, because corporations already have shifted their supply nodes abroad, and too much U.S. infrastructure has been dismantled.

There can't be a high-speed railroad, because it would take more than four years to get the right-of-way and create a route without crossing gates or sharp curves. In any case, the role of railroads and other transportation has been to increase real estate prices along the routes. But in this case, real estate would be torn down – and having a high-speed rail does not increase land values.

The stock market has soared to new heights, anticipating lower taxes on corporate profits and a deregulation of consumer, labor and environmental protection. Trump may end up as America's Boris Yeltsin, protecting U.S. oligarchs (not that Hillary would have been different, merely cloaked in a more colorful identity rainbow). The U.S. economy is in for Shock Therapy. Voters should look to Greece to get a taste of the future in this scenario.

Without a coherent response to neoliberalism, Trump's billionaire cabinet may do to the United States what neoliberals in the Clinton administration did to Russia after 1991: tear out all the checks and balances, and turn public wealth over to insiders and oligarchs. So Trump's best chance to be transformative is simply to be America's Yeltsin for his party's oligarchic backers, putting the class war back in business.

What a truly transformative president would do/would have done

No administration can create a sound U.S. recovery without dealing with the problem that caused the 2008 crisis in the first place: over-indebtedness. The only one way to restore growth, raise living standards and make the economy competitive again is a debt writedown. But that is not yet on the political horizon. Obama's doublecross of his voters in 2009 prevented the needed policy from occurring. Having missed this chance in the last financial crisis, a progressive policy must await yet another crisis. But so far, no political party is preparing a program to juxtapose Republican-Democratic austerity and scale-back of Social Security, Medicare and social spending programs in general.

Also no longer on the horizon is a more progressive income tax, or a public option for health care or for banking, or consumer protection against financial fraud, or for a $15-an-hour minimum wage, or for a revived protection of labor's right to unionize, or environmental regulations.

It seems that only a new party can achieve these aims. At the time these essays are going to press, Sanders has committed himself to working within the Democratic Party. But that stance is based on his assumption that somehow he can recruit enough activists to take over the party from Its Donor Class.

I suspect he will fail. In any case, it is easier to begin afresh than to try to re-design a party (or any institution) dominated by resistance to change, and whose idea of economic growth is a trickle-down pastiche of tax cuts and deregulation. Both U.S. parties are committed to this neoliberal program – and seek to blame foreign enemies for the fact that its effect is to continue squeezing living standards and bloating the financial sector.

If this slow but inexorable crash does lead to a political crisis, it looks like the Republicans may succeed in convening a new Constitutional Convention (many states already have approved this) to lock the United States into a corporatist neoliberal world. Its slogan will be that of Margaret Thatcher: TINA – There Is No Alternative.

And who is to disagree? As Trotsky said, fascism is the result of the failure of the left to provide an alternative.

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SUGGESTED CITATION:
Michael Hudson, "Trump is Obama's legacy. Will this break up the Democratic Party?", *real-world economics review*, issue no. 78, 22 March 2017, pp. 36-43, http://www.paecon.net/PAEReview/issue78/Hudson78.pdf

Causes and consequences of President Donald Trump

Ann Pettifor [PRIME (Policy Research in Economics) UK]

Introduction and context: 2016, the year that shook the foundations of globalisation

2016 was a year of momentous events for the United States. A major insurgency was triggered by resistance to the utopian ambitions of economists, financiers and politicians – namely, to detach markets – in money, trade and labour – from the US's regulatory democracy. Americans reacted to an economic system that appeared to many to be beyond the control of public authorities, and beyond that of democratically elected politicians. Both Democrat and Republican administrations had presided over a steep rise in inequality. At the same time while millions of middle class Americans were impoverished or made insecure by "liberalized" finance, or globalisation, the system fabulously enriched the 1%. Exposed, through no fault of their own, to the 2007-9 financial crisis and its aftermath, many experienced the economic system as threatening to their life chances, their incomes, their futures, and their way of life. Despairing of their democracy, and of politicians and political institutions, Americans turned to a "strong man" – a billionaire who led them to believe that he alone could protect them from the predations of markets in trade and labour.

The rising tide of American nationalism and populism, was manifest in the slogan: "America First". The determination to build walls against migrants and free trade represents a major challenge to the utopian ideal of "globalisation". For some time now advocates of globalisation have complacently believed that the globalised financial system is a given, and unchallengeable. President Bill Clinton embraced globalisation as the overarching solution to the country's problems – the "bridge to the twenty-first century".[1] Tony Blair told the Labour Party Conference in 2005 that there was no need to stop and debate globalisation: "you might as well debate whether autumn should follow summer." Like many others Blair ignored the rising threat to globalisation: nationalism. In a 1940 lecture delivered at Bennington College, Karl Polanyi, the political economist and author of *The Great Transformation* (1944)[2] argued that:

> "The more intense international cooperation was and the more close the interdependence of the various parts of the world grew, the more essential became the only effective organizational unit of an industrial society on the present level of technique: – the nation. Modern nationalism is a protective reaction against the dangers inherent in an interdependent world.

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[1] Quoted in George Packer, 31 October, 2016: *Hilary Clinton and the Populist Revolt.* The New Yorker. http://www.newyorker.com/magazine/2016/10/31/hillary-clinton-and-the-populist-revolt
[2] Karl Polanyi, 1944, *The Great Transformation*, Beacon Press, 1957, p. 114.

> The apparently simple proposition that all factors of production must have free markets implies in practice that the whole of society must be subordinated to the needs of the market system."[3]

On the opening page of his book Polanyi explained that society "inevitably... took measures to protect itself" from job and income losses, and from economic forces that generated anxiety, insecurity, risks and threats. Self-protection would invariably take the form of a counter-movement to *laissez faire*, or self-regulated markets. The movement, Polanyi argued, can be spontaneous, often leaderless and attracts supporters from all classes. Unlike Marx, Polanyi believed that the counter-movement could include the business and finance sectors. These, as Fred Block has argued need protections, or

> "limits, especially regulatory initiatives, to avoid destructive social, environmental, and economic consequences."[4]

Back in May 2016, pollster Nate Silver analysed Trump's primary campaigns and noted that the "movement" to elect Donald Trump as President was diverse.

> "As compared with most Americans, Trump's voters are better off. The median household income of a Trump voter so far in the primaries is about $72,000, based on estimates derived from exit polls and Census Bureau data. That's lower than the $91,000 median for Kasich voters. But it's well above the national median household income of about $56,000. It's also higher than the median income for Hillary Clinton and Bernie Sanders supporters, which is around $61,000 for both."

Trump either won, or closely contested all the US's traditional manufacturing states Ohio, Wisconsin, Indiana and even Michigan, where union voters did not support Clinton as they had Obama and where trade was a big issue. Silver writes:

> "The slower a county's job growth has been since 2007, the more it shifted toward Trump. (The same is true looking back to 2000.)
>
> …The list goes on: More subprime loans? More Trump support. More residents receiving disability payments? More Trump support. Lower earnings among full-time workers? More Trump support. 'Trump Country,' as my colleague Andrew Flowers described it shortly after the election, isn't the part of America where people are in the worst financial shape; it's the part of America where their economic prospects are on the steepest decline."[5]

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[3] Karl Polanyi,1940, in the first of Five Lectures at Bennington College on *The Present Age of Transformation: The passing of 19th century civilisation.* Re-published by Policy Research in Macroeconomics (PRIME) in February, 2017. http://www.primeeconomics.org/articles/our-polanyi-week-the-1940-bennington-college-lectures

[4] Karl Polanyi, as above, Lecture Three of Five Lectures at Bennington College.

[5] Nate Silver, 9 January, 2017: ***Stop Saying Trump's Win Had Nothing to do with Economics.*** Accessed 15th February, 2017. https://fivethirtyeight.com/features/stop-saying-trumps-win-had-nothing-to-do-with-economics/

Two days after the presidential election, Politico noted that "between 2007 and 2014, the median incomes of white males without college degrees fell by 14 percent. Trump carried them by nearly 40 points Tuesday."[6]

The "counter-movement" was not confined to the US. Nationalist, right-wing, anti-globalisation and even fascist movements are active across Europe, as this goes to press.
The slogans used by Trump: "Make America Great Again" and "America First" did not just echo the fascist-leaning Charles Lindbergh's 1930s "America First" campaign in support of Hitler. It was also a theme of the far-right French presidential candidate, Marine Le Pen's: "On est chez nous" in 2017 and of the Italian leader, Silvio Berlusconi's earlier "Forza Italia". The UK's Brexit campaign slogans included: "Take Back Control", "Take Back Our Country" and "Britannia waives the rules". They all represented an attempt by political leaders of insurgencies to use the nation as a "protective reaction" against unfettered globalised markets in capital, trade, and labour.

In this essay we hope to trace the underlying and deep-seated economic causes that led to this rise of nationalisms and protectionism.

From beasts on an 18th-century Pacific island to today's globalised financial markets

Back in the 1770s a story circulated about two families of "beasts" – goats and dogs – placed on a remote Pacific atoll, Juan Ferdinand island, by Spanish and English sailors. In a natural condition of scarcity, the goats and dogs fought viciously over food, but ultimately learned to live in harmony – without political interference – or so we are led to believe. The author of an influential dissertation on the Poor Laws used this experience as an incentive for the alleviation of poverty. Hunger he argued,

> "will tame the fiercest animals, it will teach decency and civility, obedience and subjection, to the most brutish, the most obstinate, the most perverse."

In this tale, and in the political economy that emerged from it, lay the origins of a theory that underpins classical and neoliberal political economy to this very day. Namely that without government interference, self-regulating markets in money, trade and labour may become vicious and unsettled, but can ultimately be expected to reach a state of equilibrium. The author of the pamphlet was one Rev. Joseph Townsend and the 1786 publication was his *Dissertation on the Poor Laws.*[7] Despite its relative obscurity, the *Dissertation's* contribution to political economy represented a decisive episode in the history of economics, as Philipp H. Lepenies explained in a 2014 paper.[8]

Townsend made the "scientific" case that hunger, or scarcity, represented a "natural law" that governed human appetites and markets for food:

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6 Carl M. Cannon, 10 November, 2016. Real Clear Politics, *How Trump Won.* http://www.realclearpolitics.com/articles/2016/11/10/how_donald_trump_won_132321.html. Accessed 15 February, 2017

7 Joseph Townsend, 1786. *A Dissertation on the Poor Laws*. http://socserv2.socsci.mcmaster.ca/econ/ugcm/3ll3/townsend/poorlaw.html

8 Philipp H. Lepenies, 2014. *Of goats and dogs: Joseph Townsend and the idealisation of markets – a decisive episode in the history of economics*. Cambridge Journal of Economics, 38 (2): 447-457.

> "There is an appetite, which is and should be urgent, but which, if left to operate without restraint, would multiply the human species before provision could be made for their support. Some check, some balance is therefore absolutely needful, and hunger is the proper balance; hunger, not as directly felt, or feared by the individual for himself, but as foreseen and feared for his immediate offspring. Were it not for this the equilibrium would not be preserved so near as it is at present in the world, between the numbers of people and the quantity of food."

In other words, it was not men, but the *natural* fear of hunger that governed markets for scarce food. Polanyi noted that:

> "Hobbes had argued the need for a despot because men were like beasts; Townsend insisted they *were* actually beasts and that, precisely for that reason, only a minimum of government was required."[9]

Lepenies believes that Malthus plagiarised Townsend in his famous *Essay on the Principle of Population* – which is "similar" to Townsend's Dissertation,

> "not only in their argument, ideas and structure but in their use of the device of scientific abstraction and generalisation. It is therefore not Malthus alone who should be revered as the father of modern economic logic and market fundamentalism but also Townsend."[10]

Townsend was also a close friend of Jeremy Bentham who quoted at length the example of goats and dogs in his Pauper Systems Compared of 1797 (Quinn, 2001).[11]

For Townsend, society, as fundamentally biological, was best left as a self-regulating system that when untouched by political intervention, will tend toward equilibrium and order. His crude and brutish conception of self-regulating markets – previously understood as embedded in regulated social and political institutions – was to inform much of classical and neoclassical economics, and has persisted to this day in market fundamentalism.

More recently Townsend's theory was extended from labour and trade markets and applied to markets in money – with devastating economic and political consequences. It was the application of this flawed theory to the monetary system that led, I will argue, to recurring and catastrophic financial market failures, and ultimately to the election of President Donald Trump.

The neoclassical conception of money

Adam Smith first conjured up the idea of money as a "veil" over economic activity when he asserted that money is "a *neutral* medium that facilitated exchange on the 'great wheel of

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[9] Karl Polanyi, 1944.*The Great Transformation*, Beacon Press, 1957, p. 114.
[10] Philipp H. Lepenies, as above.
[11] Cited in Lepenies, as above.

circulation'".[12] Paul Samuelson explained to millions of students of his Economics 101 textbooks that:

> "Even in the most advanced industrial economies, if we strip exchange down to its barest essentials and *peel off the obscuring layer of money*, we find that trade between individuals or nations largely boils down to *barter.*"[13]

While the classical or neoclassical school of economists pay little attention to "neutral" money or to "the obscuring layer of money" in designing models of the economy, they simultaneously conceive of it as akin to a commodity and therefore, as Samuelson explains, as a form of barter. Money, in their view, is representative of a tangible asset or scarce commodity, like gold or silver. As with corn for example, money in this orthodox view, can be set aside or saved, accumulated and then loaned out. Savers lend their surplus to borrowers. Bankers, Krugman and Wells argue in their textbook, Macroeconomics,[14] are mere intermediaries between savers and borrowers.

Because neoclassical and some post-Keynesian economists conceive of money as like gold or silver, having a scarcity value, they theorise as if money is subject to market forces. In other words, as if money's "price" – the rate of interest – is a "natural" price, subject to the law of supply and demand, rather than a socially constructed "price" on every loan determined by risk assessors in banks. Many argue that like commodities, the supply of money or savings can become scarce. In February, 2017, the British government's Chancellor was quoted in the Financial Times as saying (to MPs clamouring for extra funds): "There is no pot of money under my desk."[15] Mrs Thatcher in a speech to the 1983 Tory party conference echoed the neoclassical theory that money exists as a consequence of economic activity when she said:

> *"The state has no source of money, other than the money people earn themselves*. If the state wishes to spend more it can only do so by borrowing your savings, or by taxing you more. And it's no good thinking that someone else will pay. That someone else is you. There is no such thing as public money. There is only taxpayers' money." (My emphasis.)

This misunderstanding of the nature of money and of a monetary economy is entrenched in classical and neoclassical (neoliberal) economic theory. It helps explain the "blind spot" that economists have for money, banks and debt, and for the finance sector.

The economist Andrea Terzi, explains the difference between a monetary economy and a non-monetary economy:

> "When people save in the form of a real commodity, like corn, the decision to save is a fully personal matter: if you have acquired a given amount of corn, you have the privilege of consuming it, storing it, wasting it, as you please, without this directly affecting other people's consumption of corn. *Only if you*

[12] Adam Smith.
[13] Paul Samuelson,
[14] Krugman and Wells, Macroeconomics, 4th Edition. https://www.amazon.co.uk/Macroeconomics-Paul-Krugman/dp/142928343
[15] George Parker, Jim Pickard and Gemma Tatlow, in the Financial Times, 21 February, 2017: *Hammond Warns No "Pot of Money" for Extra Budget Funds*. https://www.ft.com/content/6c786540-f844-11e6-bd4e-68d53499ed71

> *decide to lend it will you establish a relationship with others.*
>
> In a monetary economy, saving is not a real quantity that anyone can independently own, like corn or gold or a collection of rare stamps. In a monetary economy, as opposed to a non-monetary economy, saving is an act that [establishes a relationship with others]*...* in the form of a financial *claim.*
>
> Unlike a commodity such as corn, financial saving always appears as a financial relationship, as it exists only as a claim on others, in the form of banknotes, bank deposits or other financial assets. Personal savings are claims of one economic unit on another, and any change in savings entails a change in the relationship between the 'saver' and other economic units. This does not appear on national accounts, which only expose aggregate values.
>
> If we then look at savings by zooming out of the individual unit and considering the interconnections between units and between sectors, we find that each penny saved must correspond to a debt of equal size. A banknote is a central bank's liability. A bank deposit is a bank's liability. A government security is a government liability. A corporate bond is a private company liability, and so on. This means that when we discuss financial savings we are also discussing debt. Every penny saved is someone else's liability ... every penny saved is somebody's debt.
>
> In a monetary economy, savings do not fund; they need to be funded."[16]

"Nixon Shock" as lightning rod for international financial liberalisation

On the evening of Sunday, 15 August 1971 in a TV announcement, and without consulting allies or the IMF, President Nixon unilaterally dismantled the architecture of the international financial system. At the time, the "Nixon Shock" represented the biggest sovereign default in history, and was a reckless decision the foolhardiness of which President Donald Trump (up until this point) has failed to match. Its effect was to accelerate the process of de-regulation by restoring *private autho*rity over the finance sector, and to trigger recurring financial crises.

The Bretton Woods system had been carefully constructed by an international gathering of economists, including Britain's JM Keynes and Harry Dexter White of the United States, at a grand New Hampshire hotel in 1944.[17] The international financial architecture constructed at Bretton Woods was a response to the recurring crises of the 1920s and 30s under the deeply flawed gold standard. That in turn was based on a fallacious understanding of the nature of money as a commodity, gold; and not as a socially constructed system of obligations and claims; assets and liabilities; debits and credits, all managed by regulatory democracy.

[16] Andrea Terzi, 2015, *The Eurozone crisis: debt shortage as the final cause.* Contribution to a panel at INET Annual Conference, Paris, 8-11 April, 2015.
[17] Ed Conway, 2014, *The Summit: The biggest battle of the Second World War – fought behind closed doors.* Little, Brown

One of the primary motivations behind the construction of Bretton Woods was Keynes' and White's determination (backed by President Roosevelt) to restore *public authority* over the monetary system and to thereby restore policy autonomy to democratic governments. The latter had been stripped of such autonomy by the mobility of capital, and by the exercise of *private authority* over the creation of credit and the determination of interest rates. Keynes and White understood that fundamental to the restoration of public authority over finance was the introduction of controls over the mobility of capital.

The process of dismantling Bretton Woods began almost as soon as agreement had been reached at the conference hotel. Roosevelt had barred private bankers from attending the 1944 conference, but this did not deter their lobbying. An IMF Working Paper explains that both Keynes and White realized that "capital controls would not be effective unless applied 'at both ends' of the transaction, and their original plans therefore mandated IMF member countries to cooperate in enforcing each other's measures."[18] But as the IMF documents "last minute intervention by powerful New York bankers… succeeded in watering down these proposals, and in the final version of the IMF Articles agreed at Bretton Woods on 22nd July 1944, capital controls were not included as a permanent feature of the international financial landscape."[19]

In this otherwise excellent paper by the IMF's Ghosh and Qureshi the authors, like many other economic historians, overlook the "Nixon Shock". Yet the collapse of the Bretton Woods system in 1971 represents a decisive episode in the process of financial globalisation begun soon after Bretton Woods, and with it the corresponding weakening of regulatory democracy. As the OECD explains:[20]

> "the easing of capital controls, and the international branching of business firms or establishment of their finance companies, made domestic regulations easier to circumvent by conducting financial transactions outside national boundaries."

Up until the early 1970s, financial systems in most western, democratic economies were governed by the regulation of market forces, enacted within the policy-making boundaries of democratic nation states. These included: interest rate controls; securities market regulations; quantitative investment restrictions on financial institutions; line-of-business regulations and regulations on ownership linkages among financial institutions; restrictions on entry of foreign financial institutions; and controls on international capital movements and foreign exchange transactions.

According to the OECD:[21]

> "Direct controls were used in many countries to allocate finance to preferred industries during the post-war reconstruction period; specialised credit institutions have also been in place to ensure access to credit by smaller

[18] IMF Working Paper February, 2016, by Atish R. Ghosh and Mahvash S. Qureshi *Capital Controls What's In a Name? That Which We Call Capital Controls.* https://www.imf.org/external/pubs/ft/wp/2016/wp1625.pdf
[19] As above
[20] Edey, Malcolm and K. Hviding (1995), *An Assessment of Financial Reform in OECD Countries*, OECD Economics Department Working Papers, No. 154, OECD Publishing. doi:10.1787/515737261523 https://www.oecd.org/fr/eco/monetaire/35235099.pdf
[21] As above.

> enterprises; restrictions on market access and competition were partly motivated by a concern for financial stability; protection of small savers with limited financial knowledge was an important objective of controls on banks; and controls on banks and financial institutions were frequently used as instruments of macroeconomic management."

The "interventions of bankers" and the establishment of the Eurodollar market in the late 1960s, led to the removal of controls over the mobility of capital.[22] Democratic governments were gradually stripped of the powers of oversight and of *the management* of the financial equivalent of the Juan Ferdinand island.

From the perspective of Keynes, the consequences were entirely predictable: recurring financial crises. These began at the periphery of the global economy (in indebted third world countries) but gradually moved to the core of the global economy: the Anglo-American economies. These recurring crises after the "liberalisation" of the 1970s are best illustrated by this chart from Reinhart & Rogoff's book: *This Time is Different.*

Capital Mobility and the Incidence of Banking Crisis: All Countries, 1800-2007:

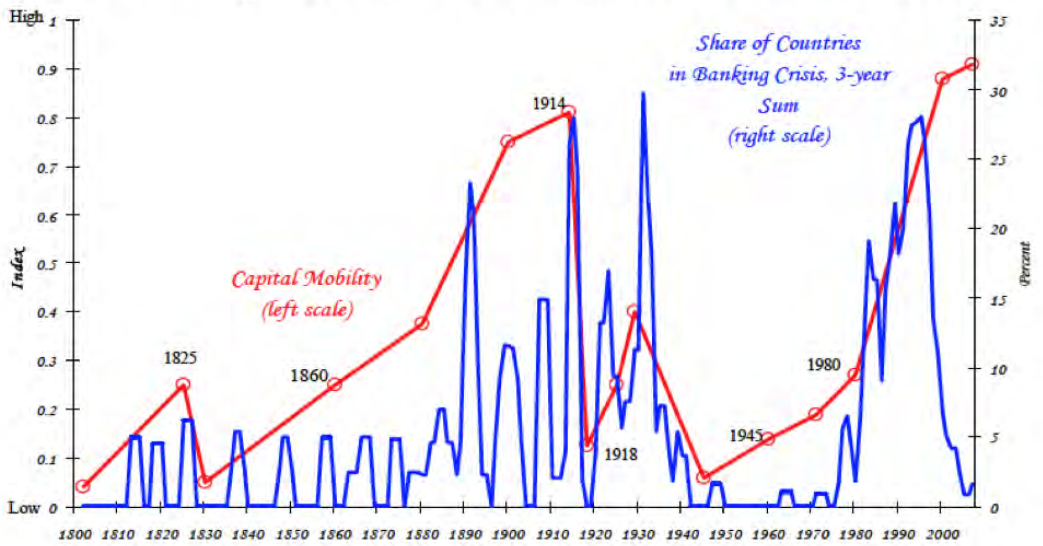

Chart taken from "This Time is Different: A Panoramic View of Eight Centuries of Financial Crises" by Carmen M. Reinhart, University of Maryland and NBER; and Kenneth S. Rogoff, Harvard University and NBER.

In Britain one of the most significant de-regulatory measures was introduced in 1971, the same year as the "Nixon Shock", and was dubbed "Competition and Control" (CCC or "the New Approach"). It was "the biggest change in monetary policy since the Second World War" and is often described by economists as "all competition and no control" over credit creation.

[22] Eric Helleiner, 1995, pg 152 *Great Transformations: A Polanyian Perspective on the Contemporary Global Financial Order* file:///Users/annpettifor/Downloads/9379-15190-1-PB.pdf

Duncan Needham, of the Cambridge University Centre for Financial History, has written at length on the subject, and argues that:[23]

> "CCC swept away the restrictions on... bank lending to the private sector, that had been in place for much of the 1960s. Henceforth, bank lending would be controlled on the basis of cost, that is, through interest rates. Loans would be granted to those companies and individuals that could pay the highest rate rather than those that fulfilled the authorities' qualitative criteria. By allocating bank credit competitively 'on the basis of cost', CCC replaced years of credit rationing 'by control'."

CCC was not a success. While it aimed to control "the money supply", the effect was the opposite. The money supply grew by 72 percent as commercial bankers engaged in a wild lending spree, and two years later inflation peaked at 26.9 percent.

The ending of restrictions on bank lending in the UK was paralleled in the United States by the Supreme Court's Marquette decision, which initiated interest rate deregulation.[24]

"Price" or the rate of interest, was to become to bank borrowers what "hunger" was to the goats and dogs on Townsend's Juan Ferdinand island. The FDIC charts the immediate impact interest rate deregulation had on bankruptcy filings:

Back in Britain the inflation caused by financial deregulation of lending in the 1970s, and the impact of high real rates of interest on bankruptcies of firms did not trouble a conservative government Minister, Lord Cockfield who said:

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[23] Duncan Needham, September, 2012. *Britain's money supply experiment, 1971-73* University of Cambridge,
http://www.econsoc.hist.cam.ac.uk/docs/CWPESH%20number%2010%20Sept%202012.pdf

[24] FDIC, Diane Ellis, March, 1998: *The Effect of Consumer Interest Rate Deregulation on Credit Card Volumes, Charge-Offs, and the Personal Bankruptcy Rate.*
https://www.fdic.gov/bank/analytical/bank/bt_9805.html

> "Control of the money operates through the simple but brutal means of butchering company profits. Ultimately insolvency and unemployment teach employers and workers alike that they need to behave reasonably and sensibly."[25]

As Needham writes:

> "With nominal interest rates peaking at seventeen percent as the authorities tried to rein in the money supply, and the pound at its highest level since 1975, company profits were indeed butchered."

Cockfield's words echoed those of the 18th-century father of market fundamentalism, Joseph Townsend. He believed that like bankruptcies in the market for money, hunger in the market for food:

> "will tame the fiercest animals, will teach decency and civility, obedience and subjection, to the most brutish, the most obstinate, the most perverse."

It was these ideas, and their related policies that led to high, real rates of interest after 1971 and to the build-up of the overhang of private debts that ultimately became unpayable, leading to recurring financial crises, and to the catastrophe of 2007-9. Self-regulating financial markets, "untouched" by elected governments have for more than 30 years inflicted loss and suffering on populations around the world. As Karl Polanyi predicted, these societies, in a "counter-movement" to globalisation and recognising the failure of democratic governments to protect societies from the depredations of self-regulating markets, have reacted by electing "strong men" (and women) that do offer protection. Donald Trump posed as a strong protector, and won the support of those Americans "left behind" by globalisation.

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SUGGESTED CITATION:
Ann Pettifor, "Causes and consequences of President Donald Trump", *real-world economics review*, issue no. 78, 22 March 2017, pp. 44-53, http://www.paecon.net/PAEReview/issue78/Pettifor78.pdf

[25] Duncan Needham, 2014, p. 134: *UK Monetary Policy From Devaluation to Thatcher, 1967-82*. Palgrave Macmillan.

Explaining the rise of Donald Trump

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Donald Trump's ascension to the Presidency last November is not as incredible as Establishment pundits profess. Nor is it a surprise that a big portion of Trump voters were working-class Americans displaced from their jobs by globalization, automation, and the shifting balance in manufacturing from the importance of the raw materials that go into products to that of the engineering expertise that designs them. These are the people Trump referred to in his Inaugural Address as "the forgotten men and women of our country".

In fact, during the campaign, Trump became the voice for an increasing number of Americans, who count themselves amongst the biggest losers of globalization and free trade, many of whom are located in key rust belt states (Ohio, Pennsylvania, Wisconsin, and Michigan), which ultimately turned the election in his favor. Commentators may lament the fact that his inauguration address did not have the poetry of previous Presidential addresses, but his references to "a small group in our nation's capital [who have] reaped the rewards of government while the people have born the cost" rang very true to many, even those who did not vote for Trump.

Globalization's winners and losers

For decades, the gap has widened between the winners and losers of globalization and free trade. And each election year, U.S. politicians express concerns for the losers in this increasingly globalized world of free trade and more open borders, then conveniently ignore these same people when they reach power and implement policies from the same Washington Consensus that has dominated the past 40 years. In Trump, the electorate has somebody who is playing a very different game, even if his policies lack the coherence and elegance so beloved in the world of economic policy seminars and think tanks.

Trump broke with traditional economic mantra on both the right and the left. While Hillary Clinton and Republican rivals such as Jeb Bush and Marco Rubio tried to build coalitions based on cultural issues and partisan traditions, Trump and Sanders set their sights squarely on what mattered most to voters: a political economy in which elected officials strongly promoted a broad-based prosperity that included them.

As Robert Johnson, Senior Fellow and Director of the Project on Global Finance at the Roosevelt Institute, wrote,

> "[T]heir efforts to attract a broad spectrum of voters were constrained by a system that makes it extremely difficult to fund a credible political campaign without catering slavishly to the wealthiest sliver of American society. That system invited rebellion, and Trump and Sanders – by self-financing and grassroots fundraising, respectively – were ideally positioned to lead one."

The author further noted that other candidates were also constrained by the prevailing neoliberal orthodoxies, which dominates in both parties, and therefore has precluded any "mainstream" politician

> "from willingly addressing the structural inequities in the American economy head-on. Doing so would require candor about such hard issues as technological disruption and globalization. It would also require confronting the legacy of decades of lobbyist-written free-trade agreements, regulations, bailouts, and tax policies that have been funneling economic gains up the income ladder, while imposing budget austerity in response to the needs of most Americans. The story Trump told of a 'rigged' system resonated with voters more than anything they had heard from their political leaders in quite some time."[1]

Quality of jobs vs quantity of jobs – a rising source of inequality?

Johnson touches on the heart of the issue: rising inequality, under both conservative Republican administrations, and ostensibly progressive Democratic presidencies. For the past 3 decades, many Americans have been left behind economically and culturally for so long, and were furious about it; additionally, from the 2008 financial crisis onwards, they had accumulated so much contempt for the political elites. For these voters, then, the election ultimately was distilled down to a single question that Ronald Reagan first posed in the 1980 Presidential debates against then incumbent Jimmy Carter: "Are you better off than you were 4 years ago?" Many answered no, despite the fact that the usual economic metrics, such as GDP growth, unemployment, and the overall health of the credit system, would seem to paint an unambiguously positive picture.

These conventional metrics, however, ignored the fact that the QUALITY of the jobs was poor. The newly-created jobs in many respects were sub-optimal and in turn exacerbated the continued growth in inequality. This trend meant that much of the economic improvement was experienced by an increasingly smaller number of people. Professors Emmanuel Saez and Gabriel Zucman have analyzed b decades of US tax data and conclude that:

> "wealth inequality has considerably increased at the top over the last three decades. By our estimates, almost all of this increase is due to the rise of the share of wealth owned by the 0.1% richest families, from 7% in 1978 to 22% in 2012, a level comparable to that of the early twentieth century"[2]

[1] https://www.project-syndicate.org/commentary/trump-misrepresentative-democracy-by-rob-johnson-2017-01?referrer=/xCtZP0Jk64ic
[2] http://gabriel-zucman.eu/files/SaezZucman2014.pdf

As the authors illustrate, the current evolution of Capitalism is taking the world back to where it was in the early 20th century, before trade unions were strong enough to protect workers' rights, before central governments were willing to mediate the class struggle and step in to make sure workers had the means to enjoy the material prosperity that the system generated, before wages growth allowed workers to share in productivity growth and build a modicum of material wealth.

And the unemployment data ignores the quality of the types of jobs being created. Recent research by Professors Lawrence Katz of Harvard and Alan Krueger of Princeton based on non-labor force survey data (private sampling) suggests that "all of the net employment growth in the U.S. economy from 2005 to 2015 appears to have occurred in alternative work arrangements."[3] That is, standard jobs with predictable income, pension benefits and health care coverage, have disappeared and are being replaced by more precarious contract work and other types of alternative working arrangements. Quantifying this trend, the authors conclude the following:

> "The increase in the share of workers in alternative work arrangements from 10.1 percent in 2005 to 15.8 percent in 2015 implies that the number of workers employed in alternative arrangement increased by 9.4 million (66.5 percent), from 14.2 million in February 2005 to 23.6 million in November 2015."[4]

Thus, these figures imply that employment in traditional jobs (standard employment arrangements) slightly declined by 0.4 million (0.3 percent) from 126.2 million in February 2005 to 125.8 million in November 2015. Unfortunately, we cannot determine the extent to which the replacement of traditional jobs with alternative work arrangements occurred before, during or after the Great Recession. But it appears that as of late 2015, the labor market had not yet fully recovered from the huge loss of traditional jobs from the Great Recession.

Delusions of the "punditocracy" and the response of the disenfranchised

All in all, a toxic brew, which surely helped to pave the way for an iconoclastic non-ideologue like Donald J. Trump, who explicitly addressed those peoples' anxieties during the election campaign a way in which the Democratic nominee, Hillary Clinton, could not (or would not). Trump aligned his campaign with those who were furious with executive pay / corporate looting (about 99% of the country). In spite of being a billionaire himself, he aligned himself with the public who felt let down by the system. Credible or not, it worked. Trump became an imperfect vessel for voter discontent with the status quo (whereas Hillary Clinton was seen as its embodiment).

Trump's description of a rigged system extended to the "punditocracy" in the media, which failed to recognize this underlying anger. Perhaps because it was germinating under the Obama Presidency and that Obama himself remained likeable, and pundits confused the President's personal approval ratings with voter satisfaction, rather than seeing the underlying truth: which is that for many outside the prosperous coastal regions (so-called "flyover

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[3] https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf
[4] Ibid.

country") a number of voters who ultimately voted for Trump had barely recovered from the 2008 recession. By contrast, those largely responsible for the 2008 global financial crisis – the politicians and bankers and businessmen on Wall Street – kept raking in the money and seldom bore the cost of the bailout. The banks were "too big to fail" and the bankers were "too big to jail."

Living in these same coastal areas, a large portion of the media failed to pick up on this ongoing seething anger. The pundits continued to predict confidently a victory by Clinton and did not, (and arguably still do not), appreciate that these "experts" are seen by most people as part of the same corrupt system.

The punditocracy may not control the money, but they control the message that is disseminated. They also control the social capital. They set/define what is acceptable, what is allowable, and what is frowned on. In other words, they define what is valid cultural capital.

Failing to see an electorate frustrated repeatedly with broken promises, the media failed to recognize the desperation of the voters in "flyover country". They decided to reject the knowable (i.e. Hillary Clinton) and went with "the Devil they didn't know". They chose Trump because they felt undervalued, disrespected and increasingly desperate. They felt stuck and were mocked by those very elites which failed to acknowledge their reality.

Trump's election has indeed introduced a degree of unpredictability and volatility into the process of governing that did not exist before. But what is decried by the elites and the media is irrelevant to Trump's supporters. Their support for him constitutes a way of breaking down a system that no longer works for them. If Trump's sledgehammer approach creates "collateral damage", then so be it, a predictable response to those who increasingly see themselves as having nothing to lose.

Free trade and immigration

All of this social and cultural ferment has been occurring against a global backdrop in which the dominant force in the development of the world economy remains hyper-globalization. The single biggest factor which accelerated this process was China's entry into World Trade Organization. In the process, distance simply evaporated as a concept. Businesses moved to China, India, Latin America, and other emerging markets in search of cheaper places and means to produce goods and services for Western economies. As a result, several hundred million people in underdeveloped economies were lifted into urbanization from centuries of debilitating rural poverty.

At the same time, globalization created losers. Revolutionary technological advances enabled an unprecedented outsourcing by American companies seeking to maximize profits by employment of low-cost foreign labor. The scale of the outsourcing was made possible because of advances in technology, global trade treaties and capital-account liberalization. For all of the vaunted gains in profitability, it is unclear that globalization has been the huge win-win, as its apologists argue. Internationally, the richest five percent of people receive one-third of total global income, as much as the poorest 80 percent.[5]

[5] http://www.truth-out.org/opinion/item/35300-fools-or-liars-on-the-trans-pacific-partnership

In the U.S., workers have been replaced by low-cost foreign workers. As a result, a huge number of Americans have experienced stagnant wages and incomes for more than a quarter century, with trade agreements exacerbating the problem. And, as economists such as Dani Rodrik and Dean Baker have pointed out,[6] more recent "trade" agreements have had very little to do with the classic benefits associated with liberalized trade, and more to do with entrenching the oligopolistic privileges of the leading dominant corporations. Furthermore, the benefits of real world trade results have not lined up so neatly with trade economists' assumptions.[7]

"Synthetic immigration" and globalization

Trump has taken this one stage further with his hardline stance on immigration. For all the media attention devoted to a wall along the Mexican border, or an outright ban on Muslim immigration, there is method to Trump's madness which goes well beyond racism. By linking immigration and trade, however crudely, Trump has exposed the paradox and inherent contradictions which lurk between the two.

Historically, immigration law in the U.S. and Canada has concerned itself with many considerations, key being the displacement of domestic workers. By contrast, advocates of free trade ignore this consideration, or blithely suggest that the resultant unemployment in a displaced sector (e.g., the automobile industry), is a "negative externality", which is offset by the resultant gains in competitive efficiency, and lower cost goods. Cheap imports, then, outweigh the displacement of workers.

But we do not extend this logic to immigration, or we would move straight to a policy of open borders. Historically, the answer to the question why we do not have open borders is because it would substantially drive down the wages of American workers. Low costs for traded goods are okay; low-cost labour, not so good, at least that is implicit in the application of current immigration policy.

Businesses have sought to evade this inconvenient immigration restriction via offshoring manufacturing facilities, resulting in the displacement of workers by low cost foreign labor. The economic impact subverts the policy goal behind American immigration policy. In many respects, it mirrors the impact of a hypothetical open-borders policy, in effect creating "synthetic immigration", which reduces employment and lowers wages as investment is increasingly outsourced abroad.

Globalization advocates argue that the resultant profits to U.S. corporations spur re-investment, which in turn creates employment. In reality, the profits that accrue to corporations do not go toward domestic re-investment (and, hence, more jobs), but to increasing investment abroad. That is, of course, when they are not using corporate cash to buy back stock and inflate share prices and CEO executive compensation.

To offset the economic drag that outsourcing and synthetic immigration impose, policymakers have largely abandoned fiscal policy in favour of austerity, whilst the major central bankers

[6] https://www.project-syndicate.org/commentary/tpp-debate-economic-benefits-by-dani-rodrik-2016-02?barrier=accessreg

[7] According to research by Professor Branko Milanovic, a visiting presidential professor at CUNY's Graduate Center and a senior scholar at the Luxembourg Income Study Center.

(starting with the US Federal Reserve) have been pursuing a reckless and increasingly ineffective program of Quantitative Easing (QE) in unprecedented amounts, both absolutely and relative to GDP. Designed to stimulate consumption and ultimately investment by pumping up housing and stock markets, the promise did not match the reality. We got booming stock markets, but not much else. Inequality continued to grow (arguably exacerbated by QE) and wage growth remained stagnant. Conventional policy measures, such as free trade, did not help.

The paradox of outsourcing

In regards to free trade, tens of thousands of automobile workers in Michigan are displaced because we attach primacy to being able to buy the cheapest cars available. The theory is that the savings will generate sufficient demand elsewhere to offset the impact of displaced workers. The implicit assumption is that this “good” outweighs all other considerations, even though the relative consumption problem that occurs as one person buys the lower-cost good creates a consumption equivalent to Keynes’s “paradox of thrift” – insofar as consumers fail to realize that if they all do it, then many more of them ultimately end up unemployed or underemployed.

Consider a thought experiment: imagine a country with one worker and that worker was the sole consumer. The worker would understand that by consuming foreign-made goods produced by the synthetic immigrant, he would soon have no income and, as a consequence, no consumption. In the real world, people want to maximize their welfare and most do so by maximizing current consumption, which is said to be one of the benefits underlying free trade. Maximizing current consumption means purchasing the lowest-priced goods at any particular level of quality.

This behaviour cascades because in the short-run the increased standard of living offered by low-cost goods swamps the longer-term effects of chronic job losses. Thus, the paradox of consumption is the idea that a rational person in a one-person world would never behave in the same way as many rational utility-maximizing individuals behave, even if many understand the possible outcome.

In periods prior to the post-Cold War period of globalization, this was not a problem because displacement by immigrants generally began at the most menial level of the labour force, and policy changes adopted in the aftermath of each successive immigration wave (at least until 1965) generally prevented massive amounts of displacement and consequently, stopped the migration of jobs at the menial labor level.

America first?

The ethics debate regarding immigration is similar to that regarding trade. Should policy be constructed with respect to domestic or global welfare? For the most part, it seems as if domestic concerns dominated immigration policy; whereas trade policy, haunted by misconceptions regarding the Smoot-Hawley Tariff of the 1930s, is generally obsessed with global considerations. Today, false ideas about great prospects for exporting into the enormous Chinese market hinder national policy and enable employee displacement.

Because of technological advances, today's trade policies are effectively an immigration policy.

There are differences to be sure, but those differences work to the detriment of American workers. Typically low-cost labour attracted long-lived capital investment. Today, synthetic immigration via global outsourcing leads to capital investment in the immigrant's country (China) resulting in a greater capital stock there and increased competitiveness.

It is, and always has been, the government's duty to provide for and protect its citizens. Immigration policies differ everywhere and change as the government's responsibility to its citizens is enforced. Protection of U.S. workers from synthetic immigrants is long overdue and the cost of government neglect is huge. And yet we never apply the same principles that underlie our immigration policy for trade. At least until now, where it became a major feature of the Trump campaign and continues to be a focal point in the early days of his presidency, which is why, for example, the Carrier "solution" had such symbolic importance for Trump, even as many people on both the left and right of the spectrum dismissed it as "crony capitalism".

As the author Thomas Frank noted in the *The Guardian*:

> "There's a video going around on the internet these days that shows a room full of workers at a Carrier air conditioning plant in Indiana being told by an officer of the company that the factory is being moved to Monterrey, Mexico, and that they're all going to lose their jobs."[8]

And Trump used this during his campaign and then came back to it after the election when he announced that Carrier had backed down thanks to the political pressure he applied. "Experts" derided this as micro-managing worthy of a planned economy, but it played well in Peoria and Kenosha. Mainstream economists would have had a greater impact on the public debate had they stuck closer to their discipline's teaching, instead of mindlessly siding with globalization's cheerleaders.

As globalization has intensified, companies have increasingly competed with each other. Those with substantial low-cost advantages have generally prevailed, eliminating competitors which sought to preserve well-paying American jobs. Therein lays the paradox of outsourcing. It is the responsibility of government to construct policies that stop, or least restrict, the cascading of outsourcing because of its adverse impact on employment and the negative incentives outsourcing imposes on domestic investment.

We have historically considered these factors in our immigration policy. Why is trade so sacrosanct? Trump is the candidate who has been most persistent, however crudely and coarsely, in asking these questions. Odd as it seems, and as much as he probably didn't even mean to, Trump raised important questions. For an increasing number of Americans, he is providing answers they find far more palatable than the traditional neo-liberal nostrums that have dominated global policy making for the past 30 years and these voters elected him president.

[8] https://www.theguardian.com/commentisfree/2016/mar/07/donald-trump-why-americans-support

Conclusion

Suffice to say, the lack of detail and policy coherence in the Trump campaign and his subsequent chaotic start in officer suggests that the new President does not have all of the answers to the current economic malaise. But he does understand that his supporters find the status quo unacceptable. Whether he will indeed craft a policy response that navigates to everyone's benefit, (not just the elites who have profited from the globalized free trade environment that has created as many losers and as winners) is still unknown. If Trump continues to tweet about every perceived slight, he will confirm the prevailing narrative that he is temperamentally unfit to be President. At the same time, the near hysterical responses to his victory and his first 100 days of governing suggest that our existing political class (including the MSM) have yet to internalize the results of the 2016 election and what does need to change. Indeed, the more abuse that Trump and his "basket of deplorables" suffer, the more determined the latter are to support the President. The wise and the reasonable "experts" take their best shots. They catalogue what he has said; the contradictions, hypocrisies, beliefs unsupported by evidence or science. They go blue in the face winning every argument against "fake news" by any objective measure, but, but Mr Trump won't go away. He has rendered the traditionally powerful powerless. The learneds who are just so smart, the commentators who are just so smug, the know-everythings – he ignores them all. Now the question is: can he deliver?

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SUGGESTED CITATION:
Marshall Auerback, "Explaining the rise of Donald Trump", *real-world economics review*, issue no. 78, 22 March 2017, pp. 54-61, http://www.paecon.net/PAEReview/issue78/Auerback78.pdf

Class and Trumponomics

David F. Ruccio [University of Notre Dame, USA]

> "The globalists gutted the American working class...The issue now is about Americans looking to not get f—ed over" (Steve Bannon).

Right now, after Donald's Trump surprising electoral victory in late 2016 and in the midst of the chaotic assumption of power in early 2017, everyone is curious about how the U.S. economy will change if and when the new president's economic policies are enacted.

But first things first. We need to have a clear understanding of what the U.S. economy looks like now, during the uneven recovery from the Second Great Depression. In particular, it's important to analyze the class dimensions of that recovery, even before the new administration formulates and enacts its policies.

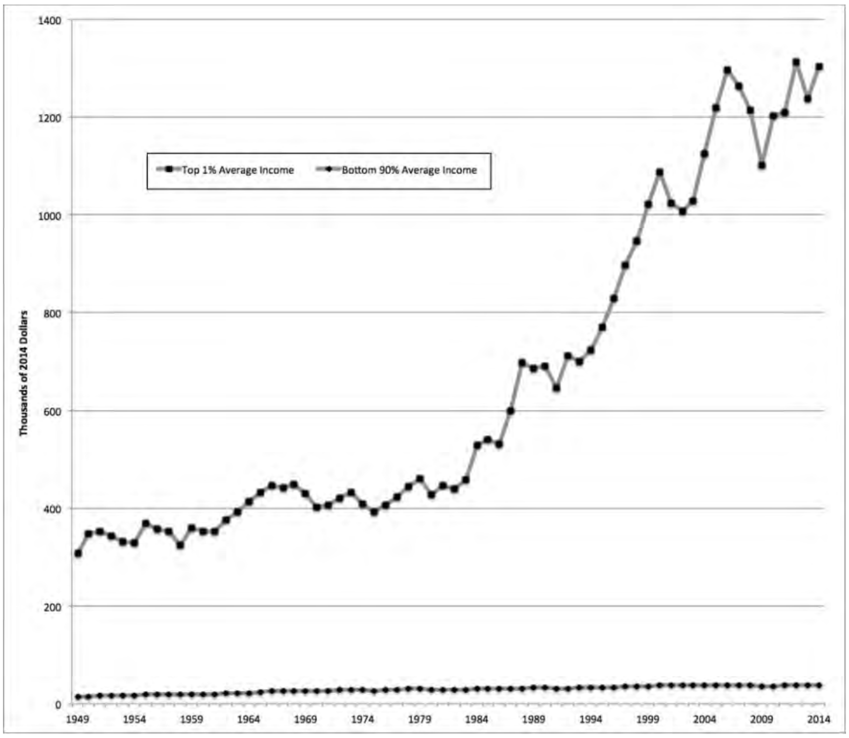
Why class? One reason to focus on class is because it played such an important role in Trump's victory. Not alone, of course, but class interests, resentments, and desires did – in different ways – affect Trump's ability to challenge and win out over his rivals in both the Republican primaries and the presidential election. The other reason is that Trump made a whole host of class promises during the course of his campaigns – promises both to working-class voters and to members of the tiny group at the top, which led him to victory (at least in the electoral college).

We don't know, of course, if Trump will keep those class promises. A lot depends on the balance of power inside the administration and among it, the Republican Congress, and the Democratic opposition, not to mention the debates and struggles by groups and movements outside the corridors of power. But, even as the new alliance assumes control and new economic goals are formulated, we need to make sense of the class dynamics that at least in part have defined the U.S. economy in recent years, before and during the two terms of the administration of Barack Obama.

Class before Trumponomics

What is most striking about the economic situation over the course of the past eight years is that, while economic policymakers managed to create the conditions for capitalism to recover from its worst set of crises since the First Great Depression, it has otherwise been pretty much business as usual. What I mean by that is the economic recovery has mostly assumed the same shape and general features that characterized the U.S. economy before the crash of 2007-08.[1]

Figure 1 Income inequality: top 1 percent and bottom 90 percent average pre-tax incomes, 1949-2014



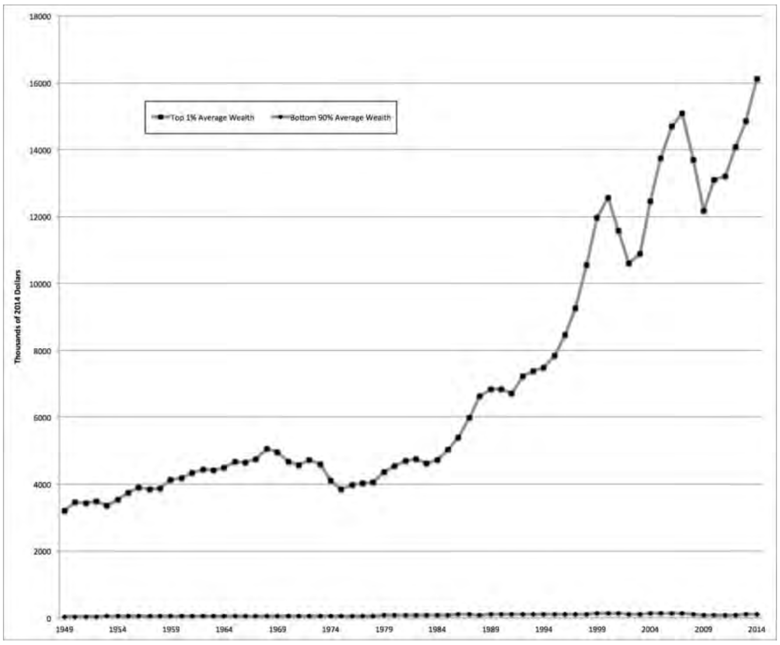
Source: T. Piketty, E. Saez, and G. Zucman, Distributional National Accounts: Appendix Tables II (http://gabriel-zucman.eu/usdina/).

That's not to say nothing has changed (a point to which I return below). But the fact that the benefits of the recovery – in terms of both income (Figure 1) and wealth (Figure 2) – have been captured mostly by those at the top, and left pretty much everyone else behind, is exactly what was happening prior to the crash.

One way to see this in particularly class terms is to examine the relationship between the "two great classes," capital and labor. Underlying the growing gap between the top 1 percent and everyone else, which is now well known (because of the persistent and detailed research of Thomas Piketty, Edward Saez, and their collaborators), is the much-less-remarked-upon divergence in the capital and wage shares of national income.[2] After the recovery began in 2009, the share of income going to corporate profits increased dramatically, from 12 percent to 15 percent (in 2014, falling slightly in 2015 to 13.7 percent). Meanwhile, the share going to workers declined by 4 percent (between 2009 and 2014, increasingly slightly in 2015 by about 1.5 percent).

[1] As I see it, that's the major reason Hillary Clinton and the Democratic Party lost the elections – not the leaks of the Democratic National Committee emails or FBI Director James Comey's late announcement about Clinton's emails, but their decision to embrace Obama's economic legacy.
[2] I have relied heavily in this paper on the data Piketty, Saez, and Gabriel Zucman (2016) have made publicly available from their NBER working paper. See also their web site: World Wealth & Income Database (http://wid.world/).

Figure 2 Wealth inequality: top 1 percent and bottom 90 percent average wealth, 1949-2014



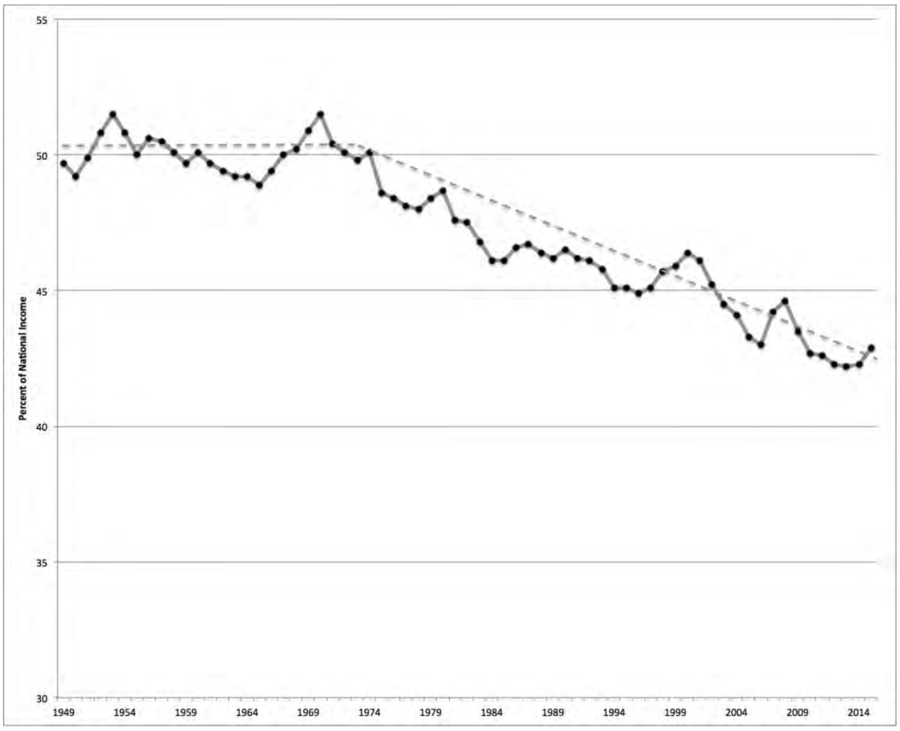
Source: T. Piketty, E. Saez, and G. Zucman, Distributional National Accounts: Appendix Tables II (http://gabriel-zucman.eu/usdina/).

As readers can see from Figures 3 and 4, those short-term trends represent a continuation of longer-term dynamics. The profit share had reached a low of 7 percent (in 1986) – and therefore has just about doubled (by 2015). The labor share has moved in the opposite direction for an even longer period of time, declining by about 12 percent (from 1980 to 2015).

Figure 3 Profit share of national income (before tax, without IVA and CCAdj), 1949-2015

Source: U.S. Bureau of Economic Analysis, retrieved from FRED (https://fred.stlouisfed.org/).

Figure 4 Wage share of gross domestic income, 1949-2015



Source: U.S. Bureau of Economic Analysis, retrieved from FRED (https://fred.stlouisfed.org/).

In other words, the so-called recovery, just like the thirty or so years before it, has meant a revival of the share of income going to capital, while the wage share has continued to decline. That, in my view, is the overall class dynamic within the U.S. economy of both the decades leading up to the crash and the years of post-crash recovery prior to the elections of 2016. During both periods, U.S. corporations managed to capture the growing surplus that was being produced by the working-class – both American workers and, importantly, workers around the world.[3]

But that general trend isn't the whole picture. In the next two sections, I analyze some of the salient details with respect to the contrasting fortunes of both capital and labor.

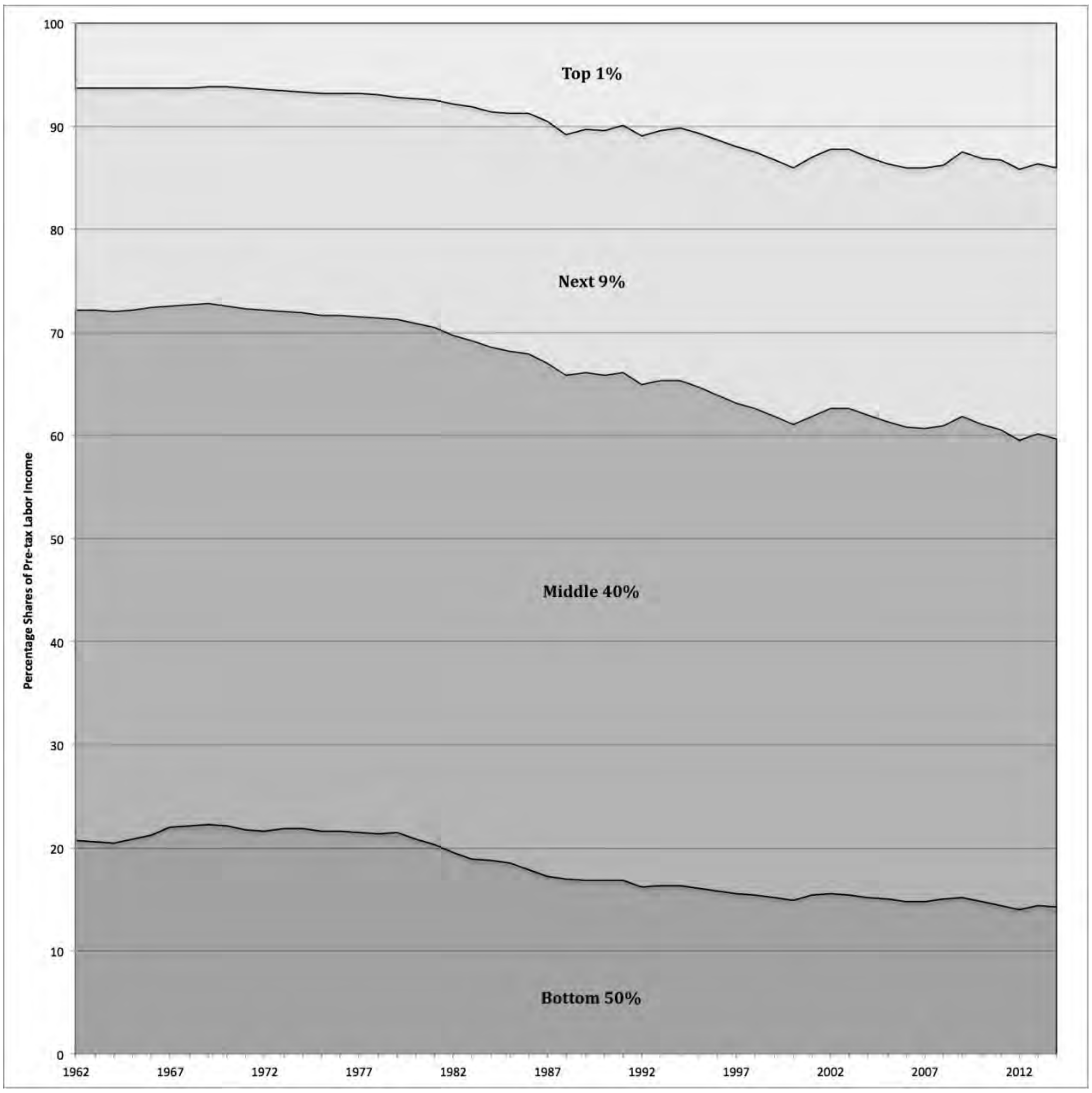
Labor before Trumponomics

Let me start with labor. In the first section above, my analysis actually understates the capital share and overstates the labor share. That's because a large share of the surplus was actually included in wages, and thus attributed to labor, when in fact it properly belongs in the share captured by capital. The idea is that high-level executives and others (e.g., Chief Executive Officers and those working in finance), while much of their income is reported as "wages," are actually receiving a distribution of the surplus from their employers. Therefore, their wages are actually part of the capital share, while the incomes of the rest of workers form the basis of the labor share properly understood.

[3] Loukas Karabarbounis and Brent Neiman (2013) have documented the fact that "the global labor share has significantly declined since the early 1980s, with the decline occurring within the large majority of countries and industries."

This is clear from the data illustrated in Figure 5, where I've split the labor share by income fractiles. Based on a rough class analysis of the U.S. labor force, the labor share actually includes the first two components (making up the bottom 90 percent of the labor force), while the other fractiles (those making up the top 10 percent) represent for the most part distributions of the surplus from capital. As is evident from a quick glance at the figure, the share of total wages going to the working-class has been declining for decades (from about 72 percent in 1972 to 60 percent in 2014), while the share representing distributions of the surplus has grown (from 28 percent to 40 percent).

Figure 5 Shares of pre-tax labor income, by fractiles, 1962-2014

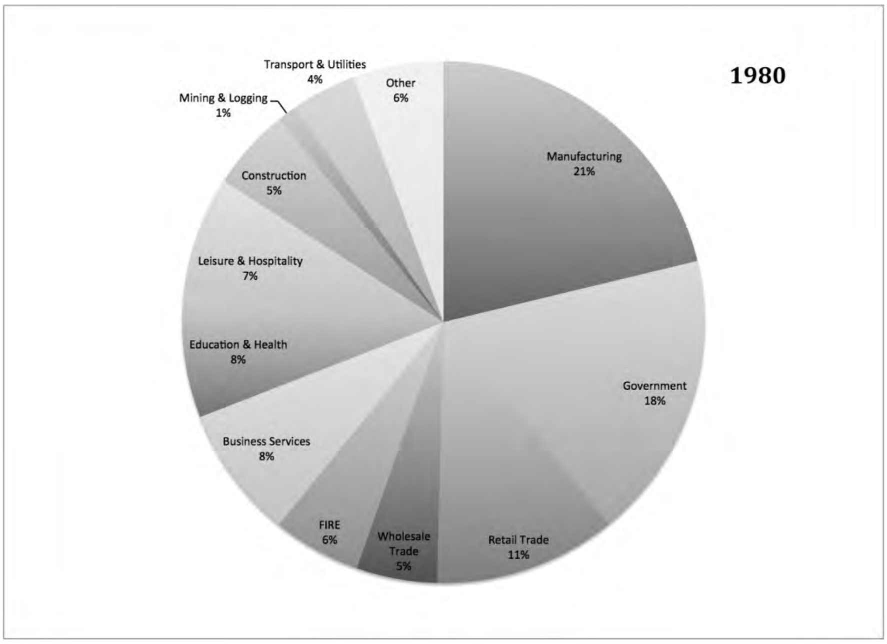


Source: T. Piketty, E. Saez, and G. Zucman, Distributional National Accounts: Appendix Tables II (http://gabriel-zucman.eu/usdina/).

The consequence of making such a distinction is that the fall in the labor share and the rise in the capital share are actually much more dramatic – both in the decades leading up to the crash and during the so-called recovery – than when we look just at conventionally defined workers' wages and corporate profits.[4]

The U.S. working-class has also changed over time, especially in the decades leading up to the crash, as the economy itself was fundamentally transformed by a combination of automation, the offshoring of production, and imports from other countries. In terms of sectors and thus types of jobs, the biggest change that can be seen in Figures 6, 7, and 8 was the decline in Manufacturing, which took place mostly between 1980 and 2007 – from 21 percent of total employment to only 10 percent – with a further decrease (to 8 percent) by 2016. The sectors that grew as shares of total employment include Leisure & Hospitality, Education & Health, and Business Services. Mining and Logging, which was never more than a tiny share of total employment, began and remained very small. Similarly, the percentage of jobs in FIRE (Finance, Real Estate, and Insurance) remained constant. And Government jobs, as a share of total employment, actually declined (from 18 to 15 percent). The result is that, over time, American workers have been forced to have the freedom to sell their ability to work less to employers in the production of goods (who have off-shored production and automated many of the manufacturing jobs that remain) and more to those involved in the production of services (who are already engaged in a new round of automation, thus threatening service-sector jobs).

Figure 6 Employment by sector, 1980



[4] It also means that there's no one-to-one correspondence between, on one hand, the profit-wage ratio and, on the other hand, the Marxian notion of the rate of exploitation. For example, because of the modification I discuss in the text, it's quite possible for the profit-wage ratio to remain constant (the stylized Kuznets fact for the immediate postwar decades) while the rate of exploitation rises. And if the profit-wage ratio rises (as it has in recent decades), it's even more likely that the rate of exploitation has increased.

Figure 7 Employment by sector, 2007

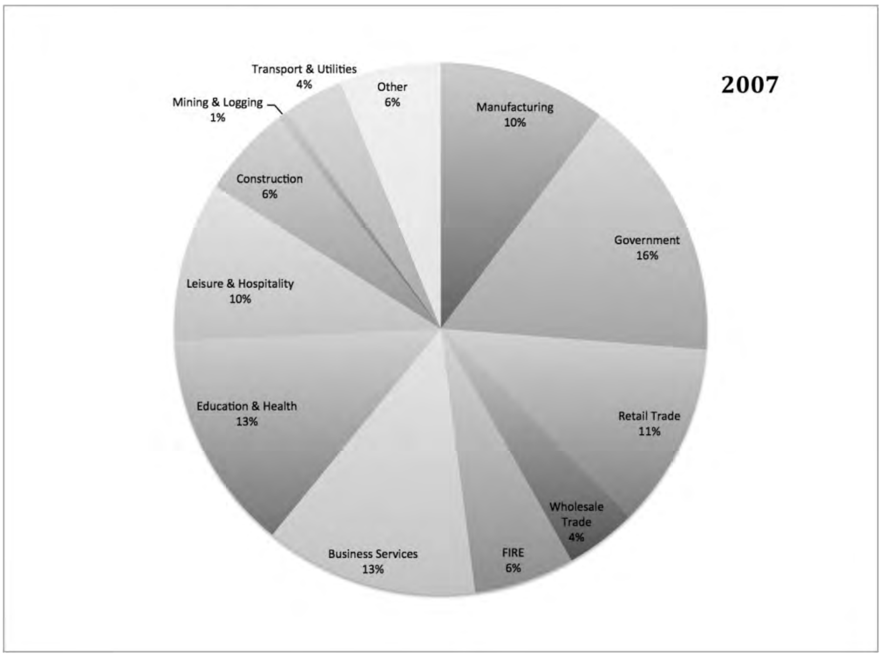
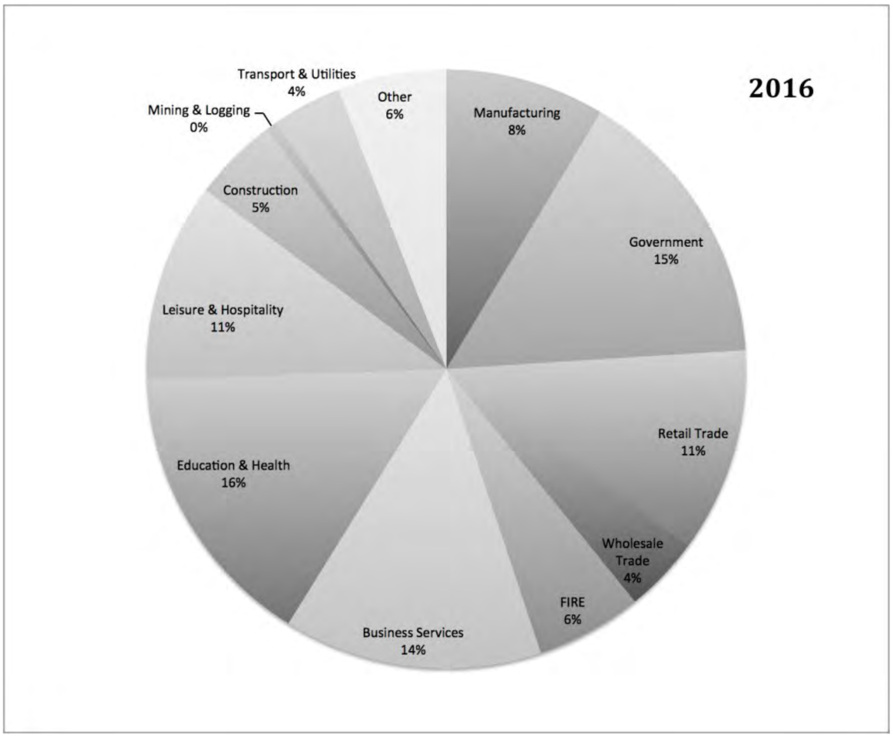


Figure 8 Employment by sector, 2016

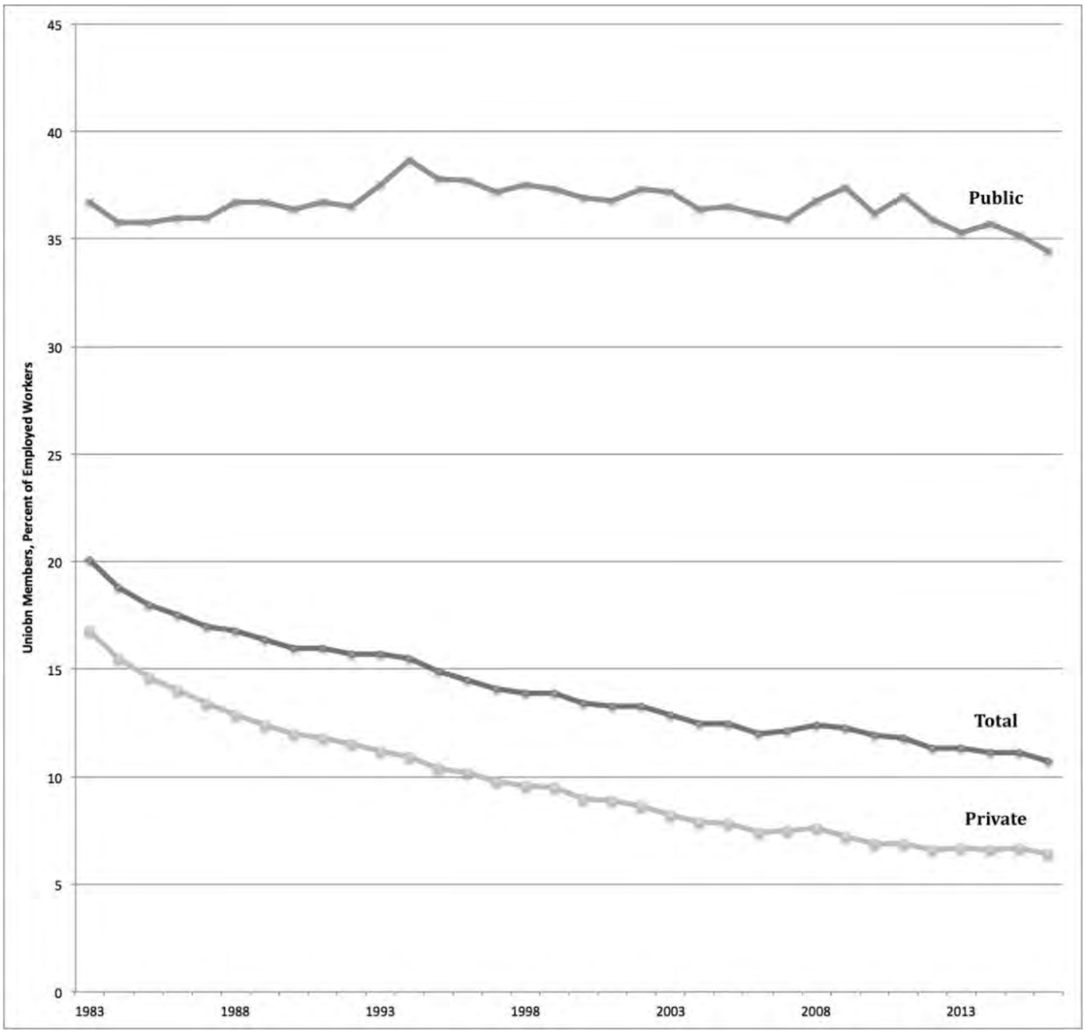


Source: Author's calculations, based on U.S. Bureau of Labor Statistics, retrieved from FRED (https://fred.stlouisfed.org/).

The U.S. working-class has also changed in many other ways over the course of the past few decades.

For example, union membership has steadily declined in the United States. In 1983, 20 percent of all workers in the United States belonged to unions, which negotiated wages and benefits on their behalf. By 2016, however, only 10.7 percent of all U.S. workers were union members, the lowest level on record.[5] The decline has almost entirely been driven by a large decrease in private-sector union membership. In 1983, union members accounted for 16.8 percent of private-sector workers, and in 2016 they only accounted for 6.4 percent. Public-sector unions, meanwhile, remain quite prevalent among government workers. In 2016, 34.4 percent of government workers were union members, which is virtually unchanged from 1983.[6]

Figure 9 Union density, 1983-2016



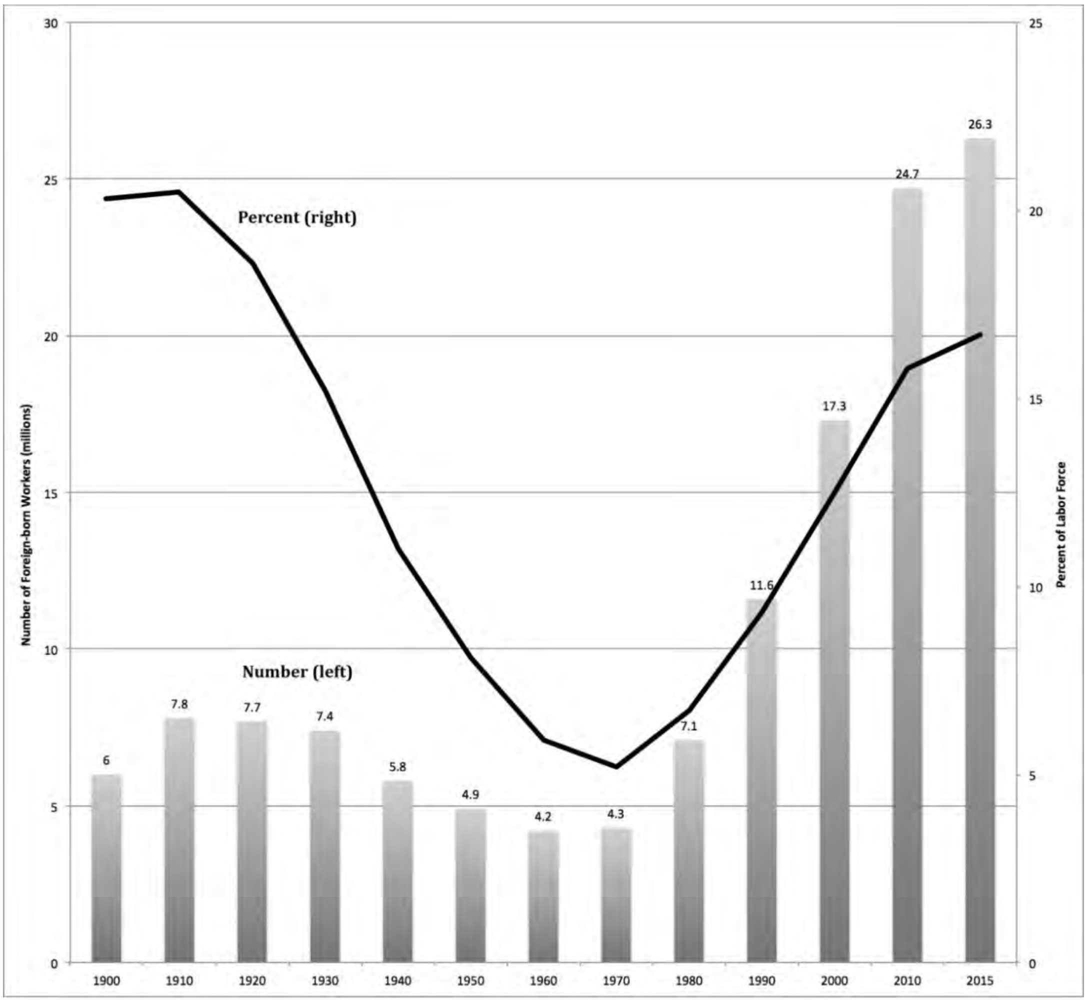
Source: U.S. Bureau of Labor Statistics, (http://www.bls.gov/webapps/legacy/cpslutab3.htm).

[5] According to the latest OECD data [2016], the United States is an outlier on both trade-union density (10.7 percent versus an average of 16.7 percent) and coverage of collective bargaining agreements (11.9 percent versus an average of 50.4 percent).

[6] Although public-sector workers are more likely than their private-sector counterparts to be union members, there are still more private-sector union members (7.4 million) than public-sector union members (7.1 million). That's because, as shown above, public-sector workers account for only about 15 percent of the U.S. workforce.

Not only do U.S. workers enjoy less protection as a result of the decline in labor unions; the wage floor, represented by the minimum wage, has also fallen over time. The real value of the federal minimum wage is now less than it was in 1968 (when it was equal to $9.63 in 2016 dollars) – and it is now much less than what it would be had it grown at the same rate as average wages, the growth in productivity, or, especially, the increase in incomes of the top 1 percent.

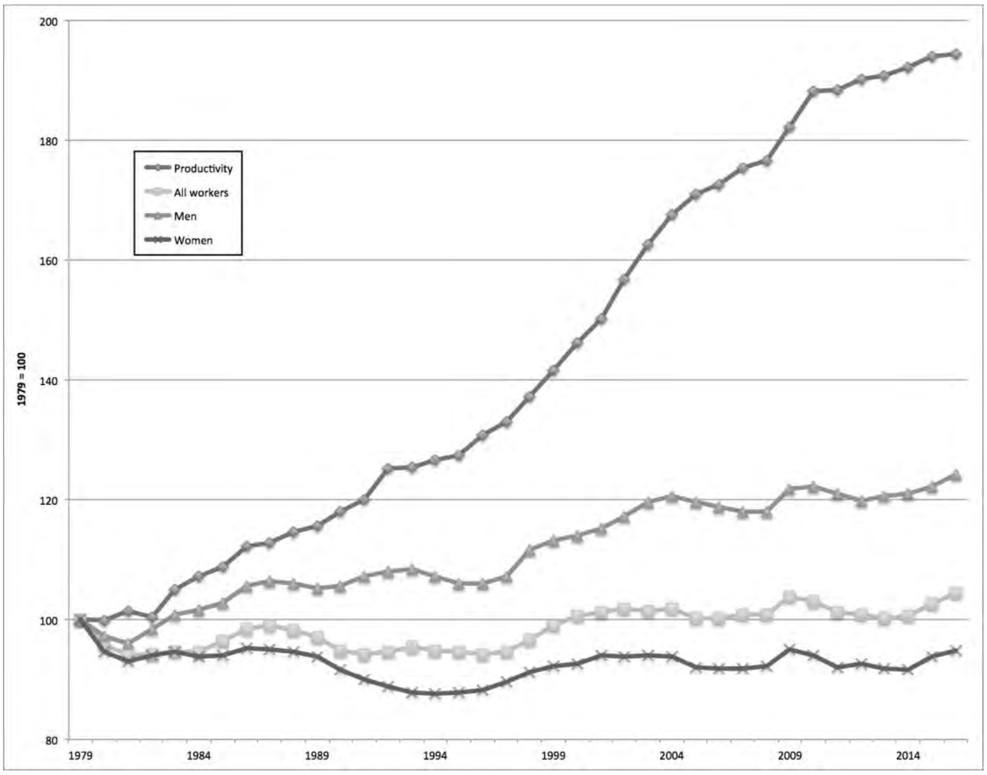
Figure 10 Number and percentage of foreign-born workers, 1910-2015



Sources: U.S. Bureau of Labor Statistics and U.S. Census Bureau.

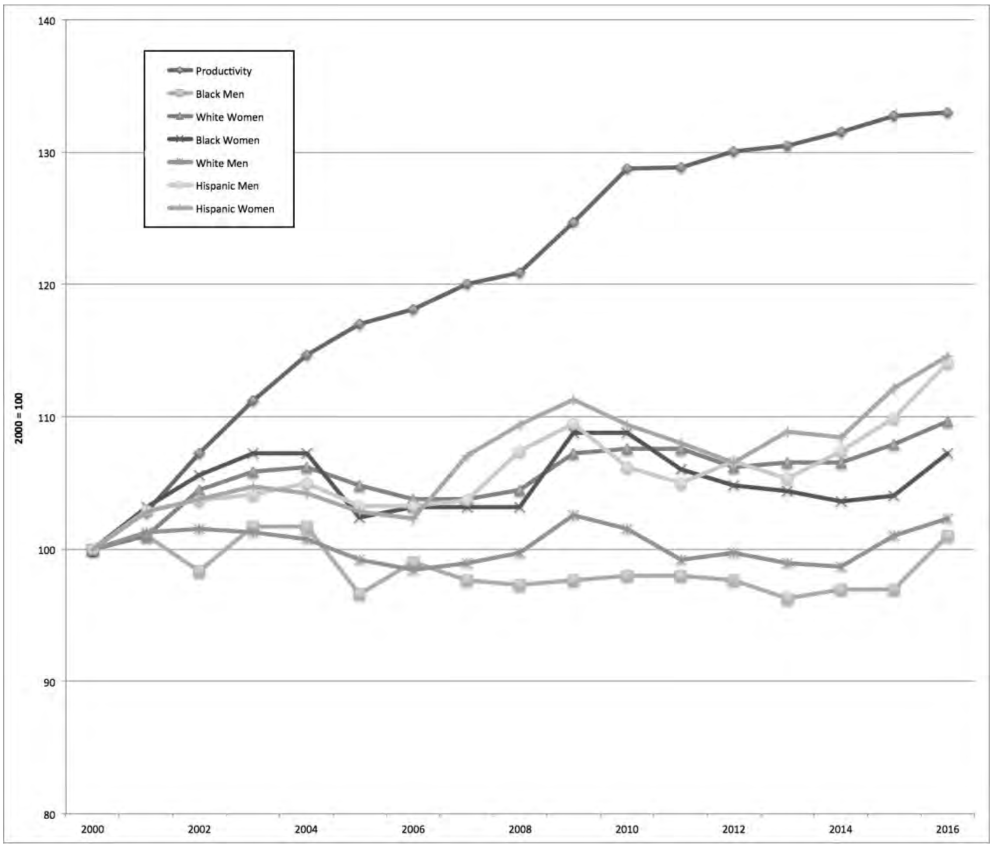
Another major change in recent decades has to do with foreign-born workers (both legal and undocumented), which increased dramatically from 1970 through 2010 – from 4.3 to 24.7 million workers and, as a percentage of the U.S. labor force, from 5.2 to 15.8 percent. After the crash, however, the growth in both the number and the percentage slowed considerably.

Figure 11 Productivity and real weekly earnings for men and women, 1979-2016



Source: U.S. Bureau of Labor Statistics, retrieved from FRED (https://fred.stlouisfed.org/).

Figure 12 Productivity and real weekly earnings by gender and race/ethnicity, 2000-2016



Source: U.S. Bureau of Labor Statistics, retrieved from FRED (https://fred.stlouisfed.org/).

What about other segments of the U.S. working-class? As is clear from Figures 11 and 12, wages for all workers – regardless of race, ethnicity, or gender – have fallen far short of the growth in economy-wide productivity. It's true that most groups (with the exception of Black men) have narrowed the gap with white men since 2000. That's in part because the real earnings of some groups have increased (especially Hispanic men and women) but mostly because the wages of white men have barely changed (increasing by only 2.3 percent). And, as with the earlier period, all wages have registered increases much less than the growth in labor productivity (which has almost doubled since 1979, increasing by 33 percent just since the beginning of the millennium).

We also need to consider the other side of that relationship – that increased racial and ethnic disparities reinforce the growing gap between productivity and the wages of all workers. Black and Hispanic workers are paid less than their white counterparts (of both genders), and all workers' wages are as a result less than they otherwise would be. That's because employers are able to pit one group against the others, thus undermining the bargaining position of all workers. As a result, wealthy individuals and large corporations, who capture the resulting surplus, are the only ones who benefit from racial and ethnic wage disparities.

Figure 13 Precarity: part-time workers compared to full-time workers, 1968-2016

Source: U.S. Bureau of Labor Statistics, retrieved from FRED (https://fred.stlouisfed.org/).

The final major change I want to draw attention to is the increasing precarity of the U.S. working-class. They're increasingly employed in part-time jobs (as can be seen in Figure 13, which tracks the ratio of part-time to full-time workers) and in "alternative" work arrangements. As Lawrence Katz and Alan Krueger (2016) have shown, just in the past decade, the percentage of American workers engaged in alternative work arrangements –

defined as temporary help agency workers, on-call workers, contract workers, and independent contractors or freelancers – rose from 10.1 percent (in February 2005) to 15.8 percent (in late 2015). And, it turns out, the so-called gig economy is characterized by the same unequalizing, capital-labor dynamics as the rest of the U.S. economy.

What is clear from this brief survey of the changes in the condition of the U.S. working-class in recent decades is that, while American workers have created enormous additional income and wealth, most of the increase has been captured by their employers and a tiny group at the top – as workers have been forced to compete with one another for new kinds of jobs, with fewer protections, at lower wages, and with less security than they once expected. And the period of recovery from the Second Great Depression has done nothing to change that fundamental dynamic.

Capital before Trumponomics

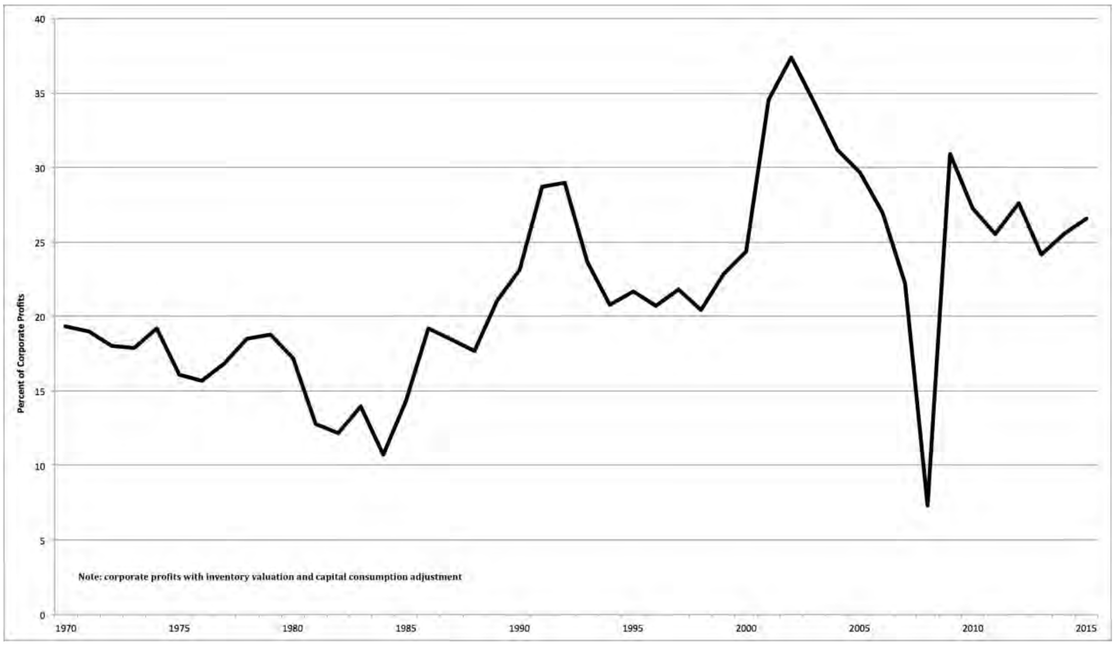
In this section, I want to focus on a more detailed analysis of the other side of the class relationship – capital.

Figure 14 Gross output of FIRE (finance, insurance, and real estate) as a share of gross output of private industries, 1970-2015

Source: U.S. Bureau of Economic Analysis.

It should come as no surprise that one of the major changes in U.S. capital over the past few decades is the growing importance of financial activities. Since 1980, FIRE (the combination of finance, insurance, and real estate) has almost doubled, expanding from roughly 12 percent of the gross output of private industries to over 20 percent.

Figure 15 Profits of FIRE (finance, insurance, and real estate) as a share of corporate profits, 1970-2015



Source: U.S. Bureau of Economic Analysis.

The rise in the share of corporate profits from financial activities was even more spectacular – from 10.8 percent in 1984 to a whopping 37.4 percent in 2002 – and then falling during the crash, but still at a historically high 26.6 percent in 2015.[7]

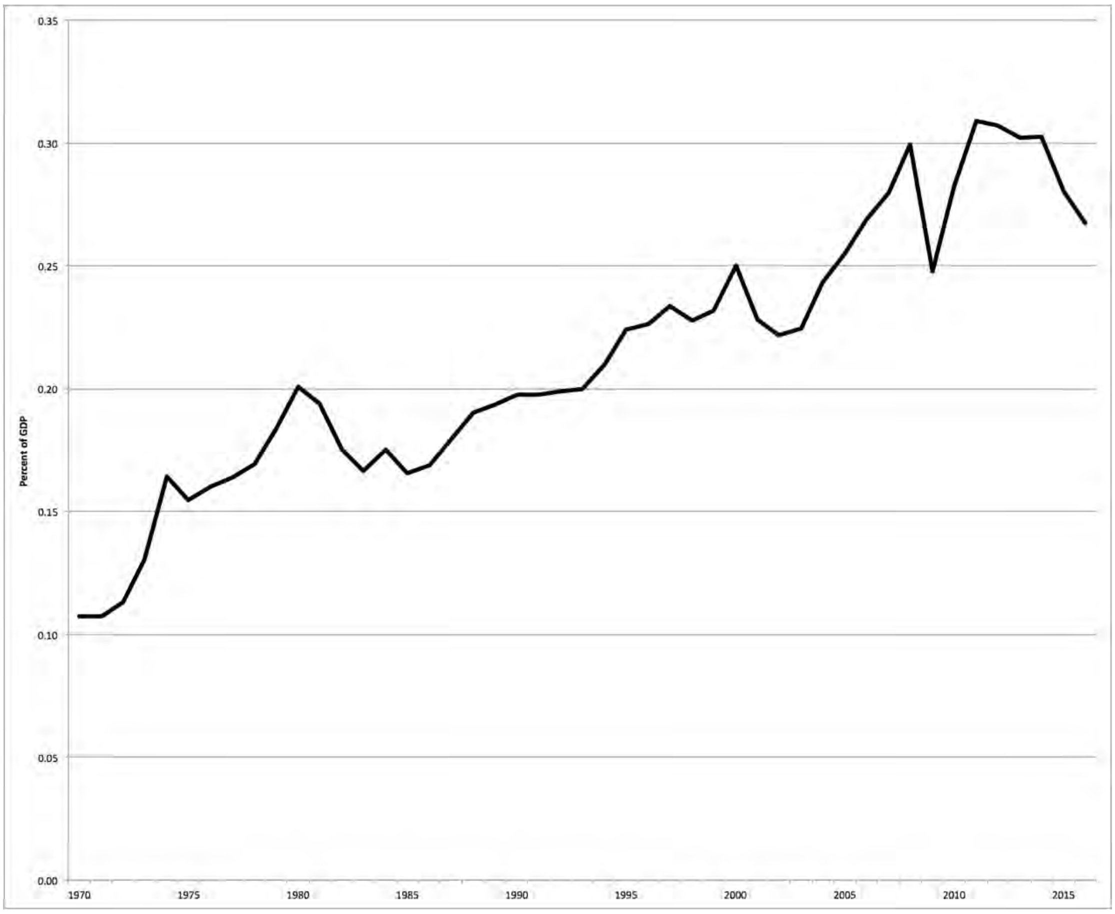
By any measure, U.S. capital became increasingly oriented toward finance beginning in the early 1980s – as traditional banks (deposit-gathering commercial banks), non-bank financial entities (especially shadow banking, such as investment banks, hedge funds, insurers and other non-bank financial institutions), and even the financial arm of industrial corporations (such as the General Motors Acceptance Corporation, now Ally Financial) absorbed and then profited by creating new claims on the surplus.

This process of "financialization" was the flip side of the decreasing labor share in the U.S. economy: On one hand, stagnant wages meant both an increasing surplus, which could be recycled via the financial sector, and a growing market for loans, as workers sought to maintain their customary level of consumption via increasing indebtedness. On the other hand, the production of commodities (both goods and services) became less important than

[7] I should point out that it is only by the conventions of national-income accounting (as they are heavily influenced by neoclassical economic theory) that banking and other FIRE services generate "output" (counted via an "imputation for implicitly priced intermediation services"), which in turn is said to give rise to the "profits" received. According to Marxian economic theory, most FIRE activities are considered "unproductive" – and thus do not represent an addition to the social value-product. Therefore, FIRE profits represent a transfer, not a new creation, of value. See Roberts (2014) for an elaboration and discussion of this argument.

capturing a portion of the surplus from within the United States and from the rest of the global capitalist economy, and utilizing it via issuing loans and selling derivatives to receive even more.

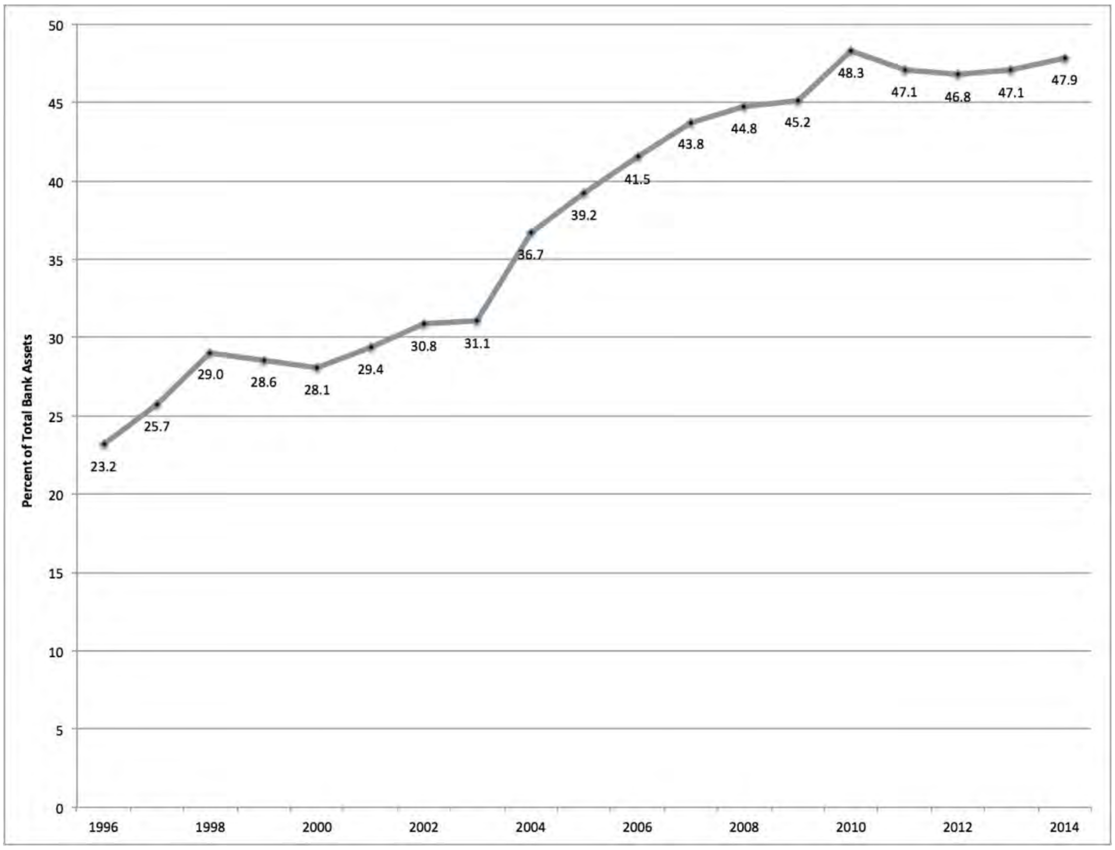
Figure 16 Internationalization: Exports and imports as a percentage of GDP, 1970-2016



Source: U.S. Bureau of Economic Analysis, retrieved from FRED (https://fred.stlouisfed.org/).

Not only did finance become increasingly internationalized, so did the U.S. economy as a whole. As a result of employers' decisions to outsource the production of commodities that had previously been manufactured in the United States and to find external markets for the sale of other commodities (especially services), and with the assistance of the lowering of tariffs and the signing of new trade agreements, the U.S. economy was increasingly opened up from the early-1970s onward. One indicator of this globalization is the increase in the weight of international trade (the sum of exports and imports) in relation to U.S. GDP – more than tripling from 1970 (9.33 percent) to 2014 (29.1 percent).

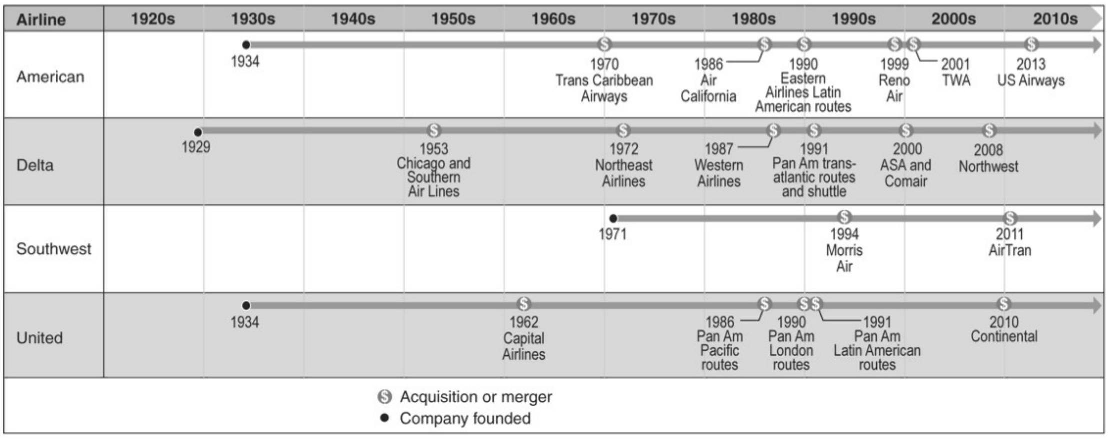
Figure 17 Bank concentration: Assets of five largest banks as a share of total commercial banking assets, 1996-2014



Source: World Bank, retrieved from FRED (https://fred.stlouisfed.org/).

The third major change in U.S. capital in recent decades is a rise in the degree of corporate concentration and centralization – to such an extent even President Obama's Council of Economic Advisers (2016) had taken notice. A wave of mergers and acquisitions has made firms larger and has increased the degree of market concentration within a broad range of industries. In finance, for example, the market share of the five largest banks (measured in terms of their assets as a share of total commercial banking assets) more than doubled between 1996 and 2014 – rising from 23.2 percent to 47.9 percent.

Figure 18 Selected U.S. airline mergers and acquisitions, 1929-2013

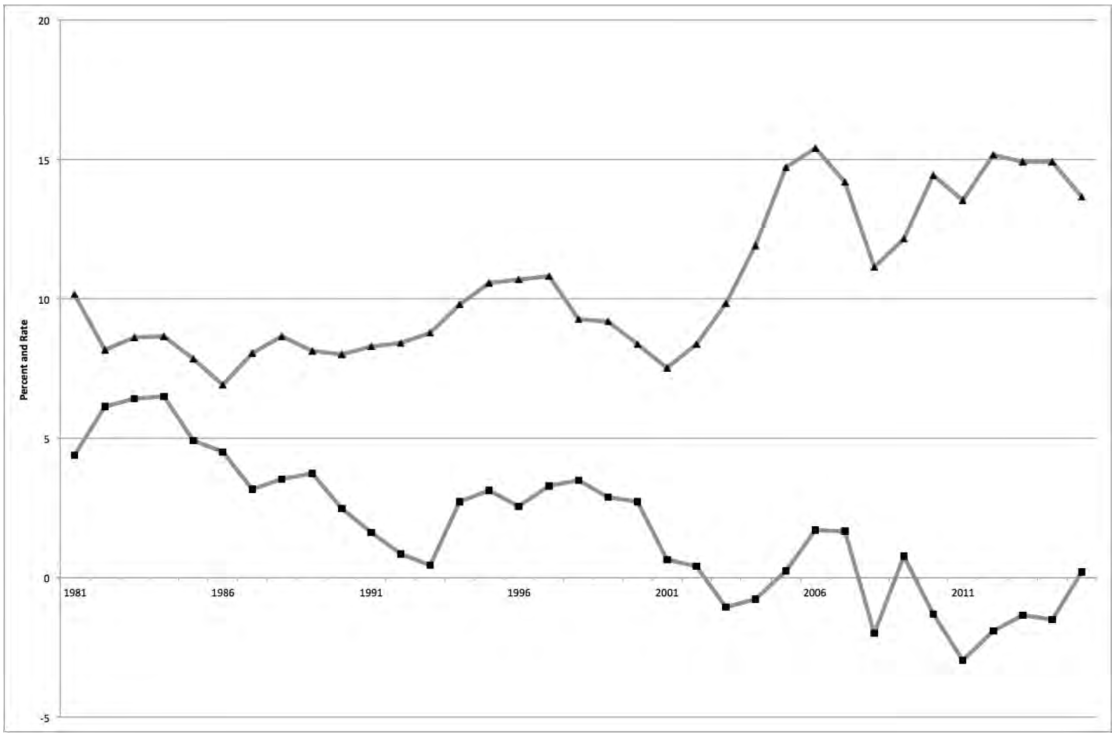


Source: U.S. Government Accountability Office, *Airline Competition* (June 2014).

The U.S. airline industry also experienced considerable merger and acquisition activity, especially following deregulation in 1978. Figure 18 (from a report by the U.S. Government Accountability Office [2014]) provides a timeline of mergers and acquisitions for the four largest surviving domestic airlines – American, Delta, Southwest, and United – based on the number of passengers served. These four airlines accounted for approximately 85 percent of total passenger traffic in the United States in 2013.

More generally, according to David Autor et al. (2017), between 1982 and 2012, six large sectors of the U.S. economy – manufacturing, retail trade, wholesale trade, services, finance, and utilities and transportation – showed a remarkably consistent upward trend in concentration (measured in terms of both sales and employment).

Figure 19 Oligopoly rents: Corporate profits as a share of national income and real interest-rates, 1981-2015

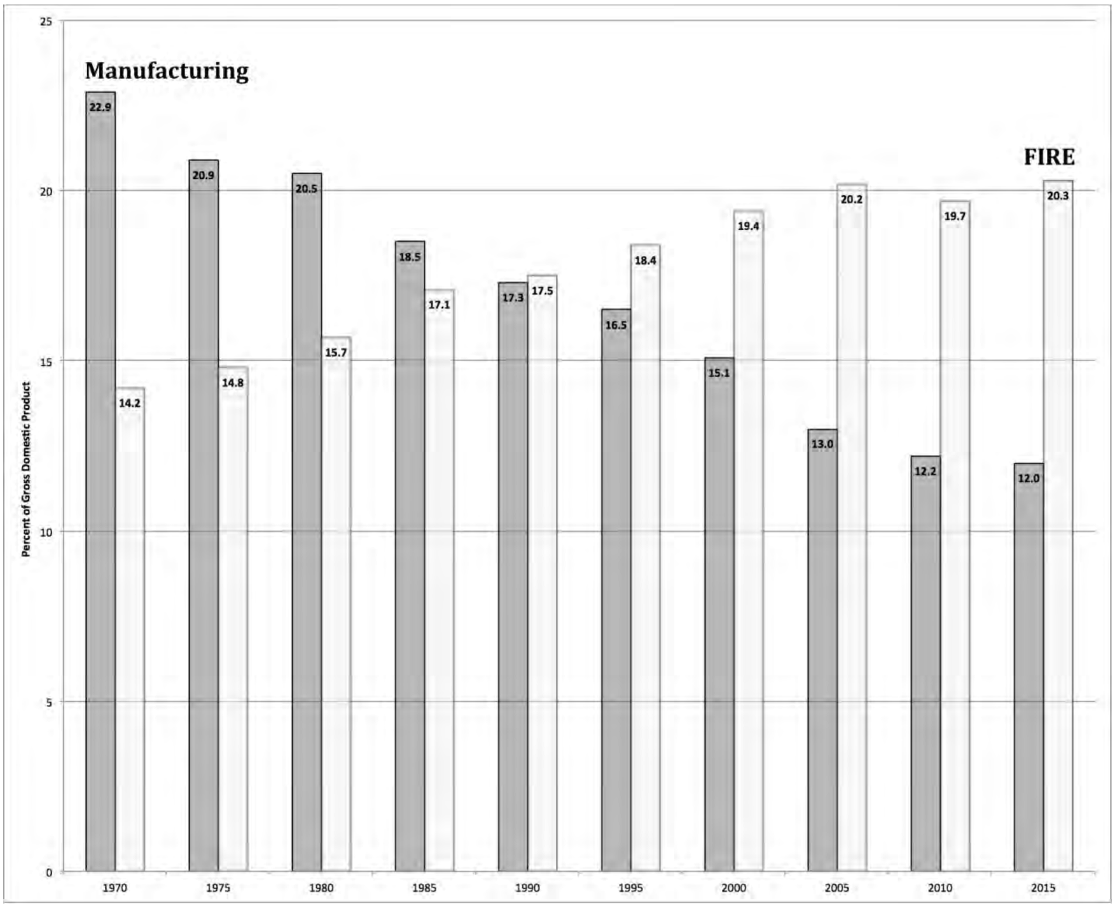


Sources: Author's calculations from U.S. Bureau of Economic Analysis, Federal Reserve, and U.S. Bureau of Labor Statistics, retrieved from FRED (https://fred.stlouisfed.org/).

A final piece of evidence that concentration and centralization have increased within the U.S. economy is (following Jason Furman [2016]) the growing gap between corporate profits and interest-rates. The fact that corporate profits (as a share of national income, the top line in Figure 19) have risen while interest-rates (the nominal constant-maturity one-year rate estimated by the Federal Reserve, less inflation defined by the Consumer Price Index, the bottom line in the figure) indicates that the portion of profits created by oligopoly rents has grown in recent decades.[8]

[8] Another way to get at these oligopoly rents is to distinguish between the narrowly defined capital share and the so-called profit share. According to Simcha Barkai (2016), the decline in the labor share over the last 30 years was not offset by an increase in the capital share, which actually declined. But it *was* accompanied by an increase in the profit share, due to a rise in mark-ups.

Figure 20 Manufacturing and FIRE: Value-added by industry as a share of GDP, 1970-2015



Source: U.S. Bureau of Economic Analysis.

Together, the three main tendencies I have highlighted – financialization, internationalization, and corporate rents – indicate fundamental changes in U.S. capital since the 1980s, which have continued during the current recovery. One of the effects of those changes is a decline in the importance of manufacturing, especially in relation to FIRE, as can be seen in Figure 20. Manufacturing (as measured by value added as a percentage of GDP) has declined from 22.9 percent (in 1970) to 12 percent (in 2015), while FIRE moved in the opposite direction – from 14.2 percent to 20.3 percent. Quantitatively, the two sectors have traded places, which qualitatively signifies a change in how U.S. capital manages to capture the surplus. While it still appropriates surplus from its own workers (although now more in the production and export of services than in manufacturing), it now captures the surplus, from workers inside and outside the United States, via financial activities. On top of that, the largest firms are capturing additional portions of the surplus from other, smaller corporations via oligopoly rents.

What we've witnessed then is a fundamental transformation of U.S. capital and thus the U.S. economy, which begins to explain a whole host of recent trends – from the decrease in rates of economic growth (since capital is engaged less in investment than in other activities, such as stock buybacks, hoarding profits in the form of cash, and mergers and acquisitions) to the rise in the ratio of corporate executive pay to average worker pay (which has ballooned, according to the Economic Policy Institute [Mishel and Schieder 2016] from 29.9 in 1978 to 275.6 in 2015).

In my view, the decisions by and on behalf of U.S. capital, as it changed over the course of recent decades, helped to create the conditions for the crash of 2007-08 and the unevennesses of the subsequent economic recovery – which, in turn, culminated in Trump's victory in November 2016.

It should come as no surprise that the return to economic growth, so celebrated as the basis for the post-crash recovery, has felt so hollow to so many – given that a rising portion of the measured increase in output and productivity is a fantasy created by conventional national-income accounting rules, an illusory consequence of real class-driven shifts in income from wages to profits (based on a return to decades-old trends in the relationship between labor and capital). The frustration that many voters clearly had with the cheery optimism of mainstream economists and politicians (who asserted, in response to Trump's candidacy, that "America is already great") has a solid foundation, even if the causes of that sense of abandonment and neglect (including the recent trends in U.S. capitalism that I focus on in this essay) were mostly papered over or ignored during the primaries and the national presidential campaigns of both major political parties.

Class under Trumponomics

Clearly, the new Trump administration has inherited an economy that is as divided as the electorate. The question is, what will that economy look like if and when Trump's right-wing national-populist promises and post-election proposals are enacted?

As I have shown in the three preceding sections, over the course of recent decades and continuing through the crash and recovery, the class nature of the U.S. economy was transformed in dramatic fashion. Capital was able to pump more surplus out of U.S. workers and, through the combined processes of financialization, globalization, and concentration, to capture more of the surplus from workers both at home and around the world. Labor, too, was radically transformed – and weakened by many forces, including automation, declining unionization, ethnic and racial disparities, immigration, and a declining real minimum wage. Overall, underlying the grotesque levels of inequality that characterize the United States today have been the opposing forces of an increasing capital share and a declining labor share.

That's what the U.S. economy looks like as Trump celebrates his victory and, along with his Cabinet and advisers and Republican majorities in both houses of Congress, develops a set of economic plans to "make America great again".

What will things look like moving forward? There is, of course, a high degree of uncertainty concerning the changes we can expect from the Trump administration's proposals. For a variety of reasons, we don't know what those proposals will be – not only because Trump put forward different versions of his "promises" (and, in some cases, like saving the Carrier plant jobs, he didn't even remember he'd made such a promise on the campaign trail), but also because his Cabinet members, advisers, and the Republican Congress have their own ideas of what they'd like to do. Plus, unexpected developments in the United States and around the world will surely require changes to whatever proposals are formulated or implemented.

All we can do, then, is analyze the potential effects of proposals that have been announced – on the assumption they will be at least general guides to the policies the members of the Trump administration and their allies attempt to enact.

I don't pretend here to be able to analyze the effects of all of the economic proposals associated with Trump, his economic team, and the new Congress, which run from repealing the Affordable Care Act to renegotiating international trade agreements. Instead, I want to focus on three that were prominent during the campaign and, by virtue of their size, have the potential of dramatically altering the current class landscape: tax cuts, reducing regulations on business, and deporting undocumented immigrants.

While the details remain to be worked out, the centerpiece of Trump's economic strategy – as he explained in speeches in Detroit (Charles 2016) and New York (Trump 2016a) – is a plan to cut taxes on both individuals and corporations. While others have focused on whether the plan's numbers are consistent (they aren't, according to Greg Ip (2016) for the *Wall Street Journal*) and its effects on the national debt (the Tax Policy Center [Nunns et al. 2015] argues it could increase the debt by nearly 80 percent of GDP by 2036), I want to concentrate here on the class implications of the tax plan.

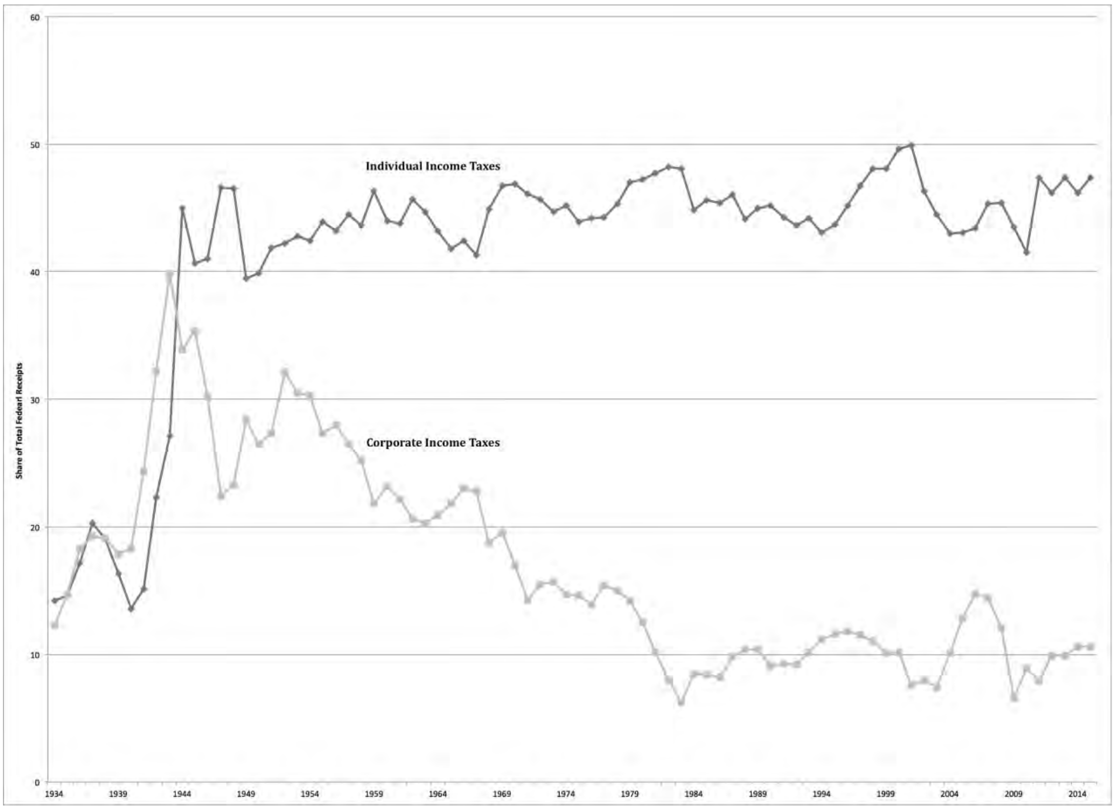
It should come as no surprise that, based on the analysis by the Tax Policy Center (Nunns et al. 2015, 9), the highest-income households would receive the largest benefits from the proposed individual income-tax cuts, both in dollars and as a percentage of income.

> The highest-income 1.0 percent would get an average tax cut of over \$275,000 (17.5 percent of after-tax income), and the top 0.1 percent would get an average tax cut worth over \$1.3 million, nearly 19 percent of after-tax income. By contrast, the lowest-income households would receive an average tax cut of \$128, or 1 percent of after-tax income. Middle-income households would receive an average tax cut of about \$2,700, or about 5 percent of after-tax income.

Given the fact that the income of taxpayers at the top comes mostly from distributions of the surplus (in the form of executive salaries, interest, dividends, and so on), the Trump tax plan implies they will be able to keep more of the surplus they have managed to capture and to decide individually what to do with their share of the surplus – to spend it on conspicuous consumption and utilize it to acquire even more private wealth.

Trump also proposes to cut the top corporate tax rate from 35 percent to 15 percent. But because the effective corporate tax rate (16.1 percent in 2012, according to the U.S. Government Accountability Office, 2016) is much lower than the statutory rate, if corporations were required to pay the proposed lower statutory rate, the status quo would be largely unchanged. In other words, U.S. corporations would pay no more than they currently do in the form of taxes (and possibly less, if the future effective rate falls below the lower statutory rate), and the contribution of corporate income taxes to total federal revenues (only 10.6 percent in 2015) would continue to be low by historical standards (23 percent as recently as 1966).

Figure 21 Corporate taxes: Federal receipts by source, 1934-2015



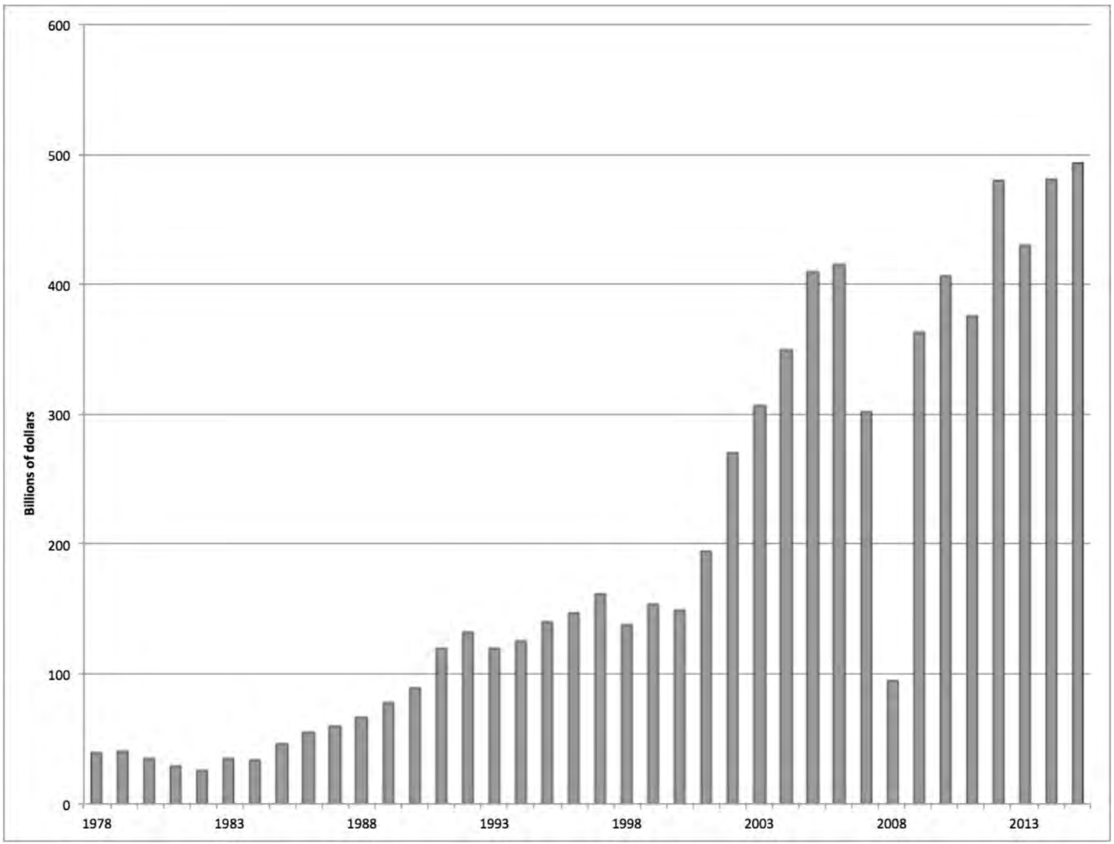
Source: Office of Management and Budget (https://www.whitehouse.gov/omb/budget/Historicals).

It is impossible to predict what corporations will do with the share of the surplus that is not subject to federal taxation. However, if the current pattern holds, we can expect a continuation – and perhaps even an acceleration – of mergers and acquisitions, stock buybacks, and job-displacing investment in robotics and other forms of automation that will boost the profits, especially of large corporations.

As I see it, the result of proposed cuts in both individual and corporate taxes is that more of the surplus would be captured and kept in private hands and consequently less will be available – via taxes – for social spending. And the only way to prevent fiscal deficits and the federal debt from increasing (as Republicans have long claimed is one of their goals) will be to decrease spending on federal programs, cuts that will be felt mostly by workers and their families.

Throughout the presidential campaign, Trump also promised "to cut regulations massively" – and according to Stephen Mnuchin (Yu, 2016), Trump's Treasury Secretary designee, revising Dodd-Frank is "the number one priority on the regulatory side". Here there is no clear proposal but it's likely four features of Dodd-Frank will come under scrutiny and perhaps be undone or seriously revised: capital controls (the rule stating that the eight largest banks in the country should maintain an additional layer of capital to protect against losses), "enhanced supervision" (which requires the Federal Reserve evaluate banks with assets of at least $50 billion more closely than those with fewer assets), the so-called Volcker Rule (which prohibits banks from proprietary trading and restricts investment in hedge funds and private equity by commercial banks and their affiliates), and the Consumer Finance Protection Bureau (which regulates the offering and provision of consumer financial products and services under federal consumer financial laws).

Figure 22 FIRE profits: Profits of finance, insurance, and real estate (with inventory valuation adjustments), 1978-2018



Source: U.S. Bureau of Economic Analysis, retrieved from FRED (https://fred.stlouisfed.org/).

As a result of the stabilizing effects of both the financial bailout and the Dodd-Frank legislation, the amount of the surplus captured by the financial sector has recovered – and is larger now ($493.3 billion) than it was even before the crash ($415.1 in 2006). It's likely, if the Trump administration succeeds in revising or repealing key provisions of the new legislation, financial activities will continue to expand and the share of the surplus they manage to siphon off from other sectors – in the United States and around the world – will also continue to grow.

Finally, Trump promised to "prioritize the jobs, wages and security of the American people" by establishing new immigration controls, with a series of measures outlined in his 10-point plan (2016b). A great deal depends on whether or not the administration is able to fund the activities required by the plan, such as deporting the estimated 11.1 million immigrants living without documents in the United States (which would require large increases in funding from Congress to increase the current workforce of immigration agents and judges to be able to lawfully handle that many deportations – not to mention the logistical challenge of locating so many immigrants, many in the country for years with deep family and community ties). In my view, what is more likely is that there will be a great deal of talk about curbing immigration (with some selective high-profile anti-immigrant actions), which will serve to increase the level of fear within immigrant communities and make existing undocumented workers even less likely to seek assistance from private agencies and public departments.

The obvious beneficiary of such a public campaign against undocumented workers will be their employers – especially in such industries as farming, maintenance, construction, and food (according to the Pew Research Center [Passel and Cohn, 2015]). They will continue to be able to hire undocumented farmhands, maids, groundskeepers, laborers, and cooks at wages that are less than those paid to legal immigrants and native-born workers – in addition to subjecting them to more violations of labor laws (including minimum wages, overtime pay, and so on).[9] And because undocumented workers will be driven even further underground, with fewer viable alternatives, the position of both legal immigrants and low-wage U.S.-born workers who are also employed in those industries will likely be weakened, thus increasing the profits of corporations that hire anyone from the three groups of workers.

While we need to be cautious in terms of an analysis of the effects of the Trump administration's promises and proposals, for the reasons I offer above, it is likely we are going to see an accelerated or supercharged version – instead of a softening, much less a reversal – of the class dynamics of the U.S. economy in recent years and decades. There's a good chance corporations that appropriate the surplus from workers, as well as wealthy individuals who manage to capture a portion of that surplus, will be able to get and keep even more of the surplus – and they will continue to be able to make their own private decisions about what to do with it. For its part, the financial sector will likely continue to grow in importance, with even fewer limits or safeguards, thus channeling more of the surplus into the profits of banks and insurance companies and the salaries of their highest-paid employees. And a campaign against undocumented workers will undoubtedly make their situation—and that of other low-wage workers, both immigrant and native-born – much weaker *vis-à-vis* their employers.

Therefore, I expect the class transformations that have come to characterize the U.S. economy, between and within labor and capital, will likely continue in an even more intense fashion under the aegis of the new administration. The only real change I envision, at least at this early date, is Trump's willingness to target specific groups and entities according to a right-wing populist sense of the "national interest", which may serve to deflect attention from the class inequalities and injustices inherent within the existing set of economic institutions.

Alternatively, the pronouncements and policies of the Trump administration may end up mocking the arrogance and ignorance of the existing economic and political elites – and thus, however ironically, highlighting those inequalities and injustices.

Acknowledgments

I want to thank Jack Amariglio for encouraging me to embark on this project, Edward Fulbrook for inviting me to submit this essay, and Dwight Billings and Bruce Roberts for their comments on the initial draft.

[9] According to a landmark 2009 survey of thousands of workers, by Annette Bernhardt et al. (2009), 37 percent of unauthorized immigrant workers were the victims of minimum wage-law violations at the hands of their employers (meaning they were not paid the legally required minimum wage). And an astonishing 84 percent of unauthorized immigrant workers who worked full-time were not paid for overtime, that is, they were not paid the legally required time-and-a-half rate for the hours they worked in a week beyond 40 hours.

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SUGGESTED CITATION:
David F. Ruccio, "Class and Trumponomics", *real-world economics review*, issue no. 78, 22 March 2017, pp. 62-85, http://www.paecon.net/PAEReview/issue78/Ruccio78.pdf

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Trump's growthism: its roots in neoclassical economic theory

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I. Introduction

By Trumpism, or "Trumponomics", I mean an unrestrained commitment to growth – deregulated markets with little attention to monopoly or distributive equity, high government spending on military and infrastructure, low taxes on the rich, low interest rates, policies of drill it, pump it, burn it, cut it down, dig it up, pave it over, buy it, consume it, and if it threatens to slow growth, then run over it or bomb it. One hopes it will not be that bad, but if it is not, it will not be due to any restraining influence from neoclassical economics, nor from the Democratic Party.

In fact it is the multiple, long-standing errors of the neoclassical-Keynesian growth synthesis that have encouraged growthmania in general and Trumpism in particular. My purpose in this essay is to identify the main neoclassical errors, and show their connection to the general growthism that Trump has raised to a higher power.

II. Paradigm error

The foundational error occurs in the first chapter of the standard economics textbooks: the diagram representing the economy as a circular flow of exchange value between firms and households. Firms supply goods and services to satisfy the demands of households. Households supply factors of production to satisfy the demands of the firms, who use them to produce the goods and services demanded by the households, etc. This circular merry-go-round has its virtues. It unites in one diagram the microeconomics of markets and price determination by supply and demand in the goods market, and in the factors market, with the macroeconomics of aggregate national product of goods, and aggregate national income to factors of production. The value of national income equals the value of national product thanks to the residual definition of profit as the difference between the value of product and cost of factors. We can also include the financial sub-circuits of Government Expenditure and Taxes, Savings and Investment, and Exports and Imports. But the total flow of exchange value remains circular. That is a lot to bring together in one picture, so it is not hard to see why it has been so influential as a representation of the economic process as a whole, and has served as what Schumpeter called a "preanalytic vision", and philosopher Thomas Kuhn later referred to as a "paradigm". I confess that I used to teach this vision to sophomores, with considerable conviction and satisfaction.

But the vision embodies an astonishing omission, a critical flaw: nothing enters from the outside, nothing exits to the outside. The economy is seen as an isolated system – it has no outside, no environment, much less any dependence on its non-existent environment. It is a perpetual motion machine that, contrary to the entropy law, just recycles matter and energy forever to generate a continuing, nay *growing*, circular flow of exchange value, *somehow* embodied in physical goods and factors, with no need of replenishment from outside. What is absent from this preanalytic vision, namely the metabolic, entropic throughput from the environment as natural resource inputs and waste outputs, cannot be introduced by subsequent analysis. You have to alter the preanalytic vision itself, reform the paradigm, go back to the beginning, to give analysis something to work on. Starting over from the beginning requires some recantation and reworking. Later we will indicate the major consequences of this flawed vision for current theories of macroeconomics and microeconomics, as well as for monetary and international trade theories.

It does not take a genius to re-imagine this preanalytic vision. First draw a larger circle around the original diagram of the economy and label it “ecosphere” or “environment”. Then give it an input of solar energy from space, and an output of heat back to space. Give the economic subsystem inputs of useful matter and energy from the ecosphere, and outputs of waste matter and energy back to the ecosphere. Not hard at all. Some of us have been doing this for many years. Most economists resist it.

I remember vividly trying to do it in the World Bank’s *1992 World Development Report on Sustainable Development.* An early draft contained a diagram of the economy with no environment. As an internal reviewer I suggested enclosing it in the ecosphere in the manner suggested above. The team of traditional World Bank economists writing the Report could not argue against my suggestion, since it was so obvious and simple, but neither could they face the difficult questions it would require us to address – namely, how big is the economy relative to the containing ecosphere? How big can it be? How big should it be? How much do the resource inputs deplete the ecosphere? How much do the waste outputs pollute the ecosphere? What are the consequences for the environment and economy of the entropic nature of the metabolic throughput from depletion to pollution? What is the optimal scale of the economic subsystem relative to the ecosphere? And most challenging: how do we cure poverty without growth? Explicitly drawing the containing ecosphere with matter/energy throughput flows, an innocent and simple correction, implicitly said that the ecosphere is finite, that the economy depends on it, and that sharing, more than growth, is the ultimate solution for poverty.

Yet the World Bank was very much committed to growth, if not forever, at least for a very long time, and by a very large amount. The Bank economists knew that any recognition of limits to growth would not fly with the higher-ups. Their resolution was simply to abandon any attempt to represent the relation of economy and ecosphere in a diagram. Too much clarity can be inconvenient! Whatever “sustainable development” (the new buzzword) meant, it could not be allowed to compromise growth. Better to keep the old vision of the economy as an isolated system, that presumably grows into the void, than to risk raising questions that would embarrass the World Bank's commitment to growth.

Trumpism in 2017 is even more committed to this growth paradigm than was the World Bank in 1992.

There are many specific neoclassical errors that derive from this faulty preanalytic vision. Let us trace out some of them in the fields of macroeconomics, microeconomics, money, and international trade.

III. Macroeconomic errors

In macroeconomics, National Income counts only “value added”, that is to say, value added by labor and capital to a presumably valueless flow of matter (“free gifts of nature”) whose existence was not even recognized in the preanalytic vision, but somehow must be smuggled in, if the circular flow of money is to have a real counterpart in terms of physical commodities. Natural resources are just background “stuff”, valued at their labor and capital cost of extraction. True, royalties are sometimes paid for resources *in situ* if they are easier to extract relative to marginal mines or wells. But the royalty is simply the savings in labor and capital costs relative to the marginal mine. No independent value is attributed to the resource throughput in our national accounts. Yet that entropic metabolic flow is the source of our life and wealth! As physicist Erwin Schroedinger put it in his classic “*What is Life?”,* we live by “sucking low entropy from the environment”. A paradigm that totally abstracts from natural resource flows prevents neoclassical economists from registering the very sap of life and wealth, the most basic of all biophysical facts. As a consequence the category of “externalities”, things left out of the theory but too obvious to completely ignore, has expanded enormously. When destruction of the very capacity of the earth to support life has to be classed as an “externality”, it is past time to make our theory more inclusive!

Economists mesmerized by the circular flow of value, as measured by GDP, naturally have difficulty imagining how growth in GDP, measured in value units, could affect anything outside the isolated circular flow – including the climate. Trump and his advisors have the same difficulty and think climate change is a hoax.

Whether they consider climate change a hoax or not, neoclassical economists think it cannot be economically important. Consider the following three examples.

1. Reporting on a National Academy of Science study on climate change and greenhouse adaptation, *Science* magazine quotes Yale economist William Nordhaus (1991) as saying the following:[1]

    > “Agriculture, the part of the economy that is sensitive to climate change, accounts for just 3 percent of national output. That means there is no way to get a very large effect on the US economy” (p. 1206).

2. Oxford economist Wilfred Beckerman, in his 1995 book, *Small is Stupid*, also tells us that greenhouse-gas-induced climate change is no worry because it affects only agriculture, and agriculture is only 3 percent of GNP. Beckerman elaborates,[2]

    > “Even if net output of agriculture fell by 50 percent by the end of the next century this is only a 1.5 percent cut in GNP” (p. 91).

[1] Nordhaus, W., 1991 *Science*, Sept. 1991, 1206.
[2] Beckerman, W., 1997. *Small is Stupid*. Duckworth, London

3. In the November/December 1997 issue of *Foreign Affairs*, former president of the American Economic Association (and subsequent 2005 Nobel Laureate in Economics), Thomas C. Schelling, elaborates a bit more:[3]

> "In the developed world hardly any component of the national income is affected by climate. Agriculture is practically the only sector of the economy affected by climate and it contributes only a small percentage – 3 percent in the United States – of national income. If agricultural productivity were drastically reduced by climate change, the cost of living would rise by 1 or 2 percent, and at a time when per capita income will likely have doubled" (p. 9).

What is wrong with these three statements? First, it is simply not true that agriculture is the only climate-sensitive sector of the economy – just ask the insurance firms (and the citizens of New Orleans after Katrina!). Second, it is not at all clear what makes Schelling think that per capita income is likely to double in spite of a drastic reduction in agriculture. But those are not the errors that most concern me.

The error that concerns me here is to treat the importance of agriculture as if it were measured by its percentage of GDP – its contribution to the presumed macro bottom line. These distinguished economists know all about the law of diminishing marginal utility, consumer surplus, and the fact that exchange value (price) reflects *marginal* use value, not total use value. They know that GDP is measured in units of exchange value. They surely know that other economists have long referred to agriculture as *primary* production and understand the reason for that designation. They also know that the demand for food in the aggregate is famously *inelastic*. Probably they have even explained the famous "diamonds-water paradox" to their Econ 101 students in something like the following words:

> Imagine an economy in which GDP consisted of only two commodities, water and diamonds, with water so abundant that its price was almost zero, while diamonds were scarce and very expensive. GDP might consist, say, of 99% value of diamonds and 1% value of water. Imagine that climate change causes a severe drought. The marginal utility of water and its price become very high, and the terms of trade of diamonds for water moves drastically against diamonds – people would trade all their diamonds for just a glass of life-sustaining water. Now GDP might well be 99% value of water and 1% value of diamonds. You see how important marginal utility is to price and GDP, and what a bad indicator it is of total utility and welfare!

With that familiar pedagogical parable in mind it should be evident that in the event of a climate-induced collapse of agriculture the relative price of food would skyrocket and the percentage of GDP accounted for by agriculture, which is not a constant of nature, could rise from 3 percent to 90 percent. No doubt, adaptation would be possible, since in the past agriculture did account for 90 percent of national product and we (many fewer of us, consuming much less per capita) survived. Clearly, the percentage of the GDP derived from agriculture is a measure of the importance only of marginal (very small) changes in current agricultural output – certainly not Beckerman's (1995) "50 percent fall", or Schelling's (1997) "drastic reduction", or Nordhaus' (1991) unqualified "no way". One way of looking at the error

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[3] Schelling, T.C., 1997 "The Cost of Combating Global Warming", *Foreign Affairs*, November/ December, p. 9.

is therefore that it represents an elementary failure to distinguish marginal from infra-marginal utility – to ignore consumer surplus.

A less elementary dimension of the error is neglect of the structural interdependence of GDP. These economists are surely familiar with Leontief's input – output matrix showing the amount of input that each sector of the economy requires from all other sectors in order to produce its output. And each input used by each sector is itself an output of another sector that also required inputs from nearly every other sector – likewise for the inputs to those inputs, and so on. All these technical interdependencies of production are abstracted from in GDP, which leaves out intermediate production, counting only what goes to the final consumer. But the economy functions as an integrated whole, not a loose collection of final consumption goods. What happens to the output of non-agricultural sectors when agricultural inputs to them are drastically reduced? Well, they decline, and their reduced output results in lower inputs to other sectors, etc.

Yet another related dimension of the error is that it treats all parts of GDP as substitutable. If GDP declines by 3 percent due to disruption of agriculture that will presumably be no problem if GDP simultaneously increases by 3 percent due to growth in information services. A dollar's worth of anything is assumed to be indifferently substitutable for a dollar's worth of anything else. Likewise for a hundred billion dollars' worth. Although money is indeed fungible, real GDP is not. We measure GDP in units of "dollar's worth", not "dollars". A dollar is a piece of paper or a book- keeping entry; a dollar's worth of something is a physical quantity. GDP is a price- weighted index of aggregate quantity of final production. The part of that aggregate quantity accounted for by agriculture is something necessary to support not only other sectors, but life itself. The fungibility of dollars does not imply the fungibility of food and, say, information services. Unless we first have enough food, we just will not be interested in information services. If I am hungry, I want a meal, not a recipe, not even a lot of recipes. That is why economists traditionally have called agriculture "primary" and services "tertiary".

True, agriculture accounts for only 3 percent of GDP, but it is precisely the specific 3 percent on which the other 97 percent is based! It is not an indifferently fungible 3 percent. The foundation of a building may be only 3 percent of its height, but that does not mean that we can subtract the foundation if only we add 3 percent to the flagpole on top of the building. Like a building, GDP has a structure – neither is just a pile of fungible stuff.

In addition to technical interdependence, this structure reflects objective valuation by consumers, a kind of "lexicographic ordering" of wants. No amount of information services will substitute for food until basic food needs are met – just as the second letter of words is irrelevant to the alphabetical order of a dictionary unless the first letter is the same.

It is hard to understand how such distinguished economists could ignore these fundamental principles of their own discipline. In all three cases, the mistake was part of a larger defense of economic growth. Maybe the conclusion in favor of growth, the undoubted *summum bonum*, lent credence to the faulty reasoning leading to it. I do not know. But I am sure that the error cannot be attributed to ignorance or stupidity of these three economists – people whom I know and respect. If these economists were ignorant or dumb, their error would be of little interest. *It is precisely because of their legitimately high prestige that one suspects that the error is to be found in the presuppositions of the dominant "Keynesian-neoclassical growth synthesis", to which all three firmly adhere, along with the majority of modern economists.* This is not to say that no economists have ever criticized GDP. Many have.

Kenneth Boulding even suggested, tongue only partly in cheek, that it should be re-labeled Gross Domestic *Cost*. But the stonewalling mainstream[4] has simply ignored any argument that casts doubt on growthism. And that is why the repeated error is important and needs repeated correction.[5]

IV. Microeconomic errors

In admirable consistency with omitting natural resources from national income accounting, the neoclassical economists also omit natural resources from their basic microeconomic production function, Y = f(K, L), where Y is product, K is capital and L is labor. The form of the function is nearly always multiplicative, as in the usual Cobb-Douglas. Sometimes to avoid embarrassment at obviously violating the first law of thermodynamics, neoclassical economists will insert an R in the function to represent natural resource inputs to provide the material basis of physical product Y. But since the function is multiplicative the math allows any given Y to be produced, even as R approaches zero, as long as K or L is increased in a compensatory fashion. Thus we can bake a ten pound cake with only a few ounces of ingredients, as long as we use more ovens and cooks – still violating the first law! It is as if a "product" resulted from the multiplication of "factors" (as in mathematics), rather than from the physical transformation of natural resources by the agency of labor and capital (as in actual production). Georgescu-Roegen made this criticism years ago in his fund-flow model of production,[6] and has never been answered.

At this point the growthists will appeal to technological progress. But improved technology is a qualitatively new production function, not just substitution of factors in a given production function. In the empty world technological progress has aimed at increasing productivity of the limiting factor (capital or labor), by transforming a greater flow of natural resources which were considered non limiting. In today's full world natural resources are limiting, and raising resource prices by severance taxes, a carbon tax, or cap-auction-trade would help induce new resource-saving technology. But these policies are usually opposed by the growthists, although increasingly advocated by some mainstream economists.

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[4] For more on "stonewalling", see H. Daly, *From Uneconomic Growth to a Steady-State Economy*, Edward Elgar Publishing Co., Cheltenham, U. K., 2014. pp. 59-62.

[5] The earliest of the three quoted statements was made in 1991, and the error was soon pointed out in a letter to *Science* (18 October, 1991, p. 358) where Nordhaus' statement had been published. No reply from Nordhaus. Since the error was subsequently repeated by Beckerman in 1995, and by Schelling in 1997, I thought it worth a further correction and commentary in 2000 ("When Smart People Make Dumb Mistakes", *Ecological Economics*, July, 2000, Vol. 34, No. 1, pp. 1-3). To my knowledge there has been no response, defense, or recantation by any of the three distinguished economists, or by their many disciples. Nobody enjoys having their mistakes pointed out – I certainly do not. It would be churlish to harp on old mistakes if they had been corrected, or if they were not important. But neither is the case. The egregious statement was thrice delivered by prestigious economists, *ex cathedra* from the National Academy of Sciences, Yale University, Oxford University, the American Economic Association, and the Nobel Prize for economics. Trump's growthist advisors and climate deniers can claim encouragement from neoclassical economists. Scientific claims delivered from such high platforms merit (indeed demand) serious consideration, but still are required to withstand and respond to criticism. Conjecture and refutation form the very definition of scientific method, as famously argued by Karl Popper (*Conjectures and Refutations*: *the growth of scientific knowledge*, Routledge Classics, 1963). But since growthism is more ideology than science, the conjectures (and errors) of growthists are given a free pass. Indeed, mainstream economists, along with Trumpists, consider it bad manners to refute them!

[6] *The Entropy Law and the Economic Process*, Harvard University Press, Cambridge, MA, 1971.

The mistake is to treat *all* factors of production as substitutes. Labor and capital are to a large degree substitutes because they are both agents of transformation of the resource flow from raw material to finished product and waste (waste is also absent from the neoclassical production function). Likewise, one natural resource ingredient can often substitute for another. But natural resource flows are complements to, not substitutes for, the transforming fund agents of labor and capital. Nothing could be clearer than that capital and labor are not at all embodied in the final product, while natural resources are entirely embodied in the product (and waste). Natural resources are the material cause of production, capital and labor are efficient causes. Capital and natural resources are not substitutes; they are complements.

Yet prominent neoclassical economists maintain the opposite. Nordhaus and Tobin[7] are specific on this point:

> "The prevailing standard model of growth assumes that there are no limits on the feasibility of expanding the supplies of nonhuman agents of production. It is basically a two factor model in which production depends only on labor and reproducible capital" (1970, p. 14).

How is this neglect of resource flows justified? According to Nordhaus and Tobin,

> "the tacit justification has been that reproducible capital is a near perfect substitute for land and other exhaustible resources".[8]

When factors are complements the one in short supply is *limiting.* In the empty world capital was limiting and natural resources abundant. Capital's controlling social power came from the fact that it was the limiting factor. But thanks to growth we now live in a full world in which remaining natural resources have become limiting, while capital is relatively abundant. For example, the fish catch is no longer limited by the number of fishing boats, but by remaining fish and their capacity to reproduce. Cut timber is not limited by the number of chain saws or lumberjacks, but by remaining forests and their growth rates. Pumped crude oil is not limited by number of drilling rigs, but by remaining accessible deposits, and the capacity of the atmosphere to absorb CO_2. Economic logic says invest in the limiting factor and maximize its productivity. The logic stays the same, but the limiting factor has changed. As natural resources became limiting we should have seen an increase in fallowing-type investments in increased regeneration and productivity of natural resources. But instead neoclassicals denied that resources were the limiting factor.

They claimed that there was no limiting factor, because capital and natural resources were really substitutes, in fact nearly perfect substitutes.

In the empty world these economists saw man as dominating nature because manmade capital was limiting. In the full world, rather than accommodating to the new fact that natural capital and resources have become limiting, they abandoned the very idea of limiting factor by declaring that capital and natural resources are substitutes, not complements. Yet they must have previously considered capital and natural resources to be complements or they could not have claimed that capital was the limiting factor. Both cases illustrate the neoclassical

[7] Nordhaus, W. and J. Tobin (1970), *Is growth obsolete?* National Bureau of Economic Research, Colloquium, San Francisco, December 10, 1970.
[8] Ibid.

animus against the importance of nature, emphasizing the dominance of man. So they continue to advocate investing in manmade capital, the non-limiting factor, in the false belief that it is a substitute for the limiting factor of natural capital. This is wrong for reasons just given; but consider one more. If manmade capital were a substitute for natural capital then natural capital would also be a substitute for manmade capital. Substitution is reversible. But then why would we have gone to the trouble to make and accumulate capital if nature had already endowed us with a good substitute?

In reply to these criticisms growth economists often point to modern agriculture, which they consider the prime historical example of substitution of capital for resources. But modern, mechanized agriculture has simply substituted one set of resource flows for another, and one set of funds (capital) for another. The old resource flows (soil, sunlight, rain, manure) were to a significant degree replaced by new resource flows (chemical fertilizer, fossil fuels, irrigation water), not by "capital"! The old fund factors of labor, draft animals, and hand tools were replaced by new fund factors of tractors, harvesters, and so on. In other words new fund factors substituted for old fund factors, and new resource flows substituted for old resource flows. Modern agriculture involved the substitution of capital for labor (both funds), and the substitution of nonrenewable resources for renewable resources (both flows). In energy terms it was largely the substitution of fossil fuels for solar energy, a move with short-term benefits and long-term costs. But there was no substitution of capital funds for resource flows. The case of mechanization of agriculture does not contradict the complementarity of fund and flow factors in production, nor the new role of natural resources as limiting factor.

A production function is often aptly compared to a recipe. But unlike the neoclassical production function, real recipes in real cookbooks always begin with a list of ingredients. Trump's economic cooks are at least more realistic than neoclassical economists – they know they need limiting natural resources as ingredients, but rather than economize on them, are quite prepared to tear the world apart to get ever more of them. But then, for the neoclassicals, there is no world outside their isolated system, so what happens in the unrecognized biophysical world doesn't count in GDP, and doesn't enter into production functions. It is an "externality".

V. Monetary errors

Neoclassical economics considers money as a veil, or a *numeraire*, a kind of common denominator for expressing prices in comparable units, thereby facilitating trade, and avoiding the inconvenience of barter. It is that, but has become much more with the development of fiat money and fractional reserve banking. The close connection of fractional reserve banking with alchemy was recently emphasized by Mervyn King, former head of the Bank of England, in the very title of his recent book, *The End of Alchemy: Money, Banking, and the Failure of the Global Economy.* He refers to the more thorough development of this connection by Swiss ecological economist H. C. Binswanger in his brilliant study, *Money and Magic.* Given this connection to alchemy, it is more than a coincidence that the earliest and most thorough critique of fractional reserve banking came, not from an alchemist, but from a real chemist, Nobel Laureate Frederick Soddy.[9] Soddy's advocacy of full reserve banking was later picked up by Irving Fisher, and by Frank Knight and others of the early Chicago School. The

[9] See H. Daly, "The Economic Thought of Frederick Soddy", *History of Political Economy*, 1980, 12:4.

proposal seemed to die with the Great Depression, because it was correctly perceived to limit growth, the new panacea. Mervyn King stops short of advocating full reserve banking, but clearly is unhappy with the fractional reserve system.

Most Central Banks, however, seem to favor the alchemy of fractional reserves as a key part of their hyper-Keynesianism: the quest to stimulate real growth by increasing monetary growth, first by low, then by zero, and now by negative interest rates. Why hasn't it worked? Because real growth today is constrained by real resource shortages – those same resources that were absent in the pre-analytic vision, and the national accounts, and the production function. In the 1930s traditional Keynesianism's assumption of unemployed resources was reasonable. Now there is still unemployed labor to be sure, but not unemployed natural resources, which have become the limiting factor in today's full world. As growth converts more of nature into economy we see that these newly appropriated natural resources were not unemployed at all, but were providing ecological services that often were more valuable than the extra production resulting from their enclosure into the economy. But this fact is invisible to those whose preanalytic vision denies any importance to natural resource throughput, much less to natural services. In the real world aggregate growth in wealthy countries has become *uneconomic* – a condition unrecognized by economists long fixated on growth as panacea in their circular isolated system.

It is time to reconsider the proposal of full reserve banking. What are its advantages?

1. The private banking system could no longer live the alchemist's dream of creating fiat money out of nothing, pocketing the seigniorage, and lending the created money at interest. These enormous privileges would be transferred to the public treasury. Money would be a public utility – a medium of exchange, a unit of account, a store of value. The idea is to nationalize money, not banks http://steadystate.org/nationalize-money-not-banks/.

2. Every dollar borrowed would be a dollar saved, and unavailable to the saver for the life of the loan. This restores the classical discipline of balancing investing and saving, rather analogous to chemistry's law of conservation of matter- energy. Savers and Investors cannot both claim the same dollar at the same time. Banks would be intermediaries, charging interest to borrowers and paying interest to savers. The interest rate exists as a price equating savings with investment, but not as a price paid to the banks for their unnecessary and expensive "service" of creating money as private interest-bearing debt. That the public utility of money should be the by-product of the private activity of lending and borrowing is no better than when it was the by-product of the private activity of gold mining.

3. With full reserve banking there would be no possibility of bank failure due to a run on the bank by depositors, and therefore no need for deposit insurance and its consequent moral hazard. The entire debt pyramid would no longer collapse with the failure of a few big banks, bringing down the basic system of payments with it. The bargaining power of the banking system to extort large bailouts by taxpayers would be lost.

4. No longer would the money supply expand during a boom and contract during a slump, reinforcing the cyclical tendency of the economy. And the reserve ratio could be raised gradually. Also, under fractional reserves the money supply is always threatening to decline as bank loans are repaid, unless new loans compensate. New loans are made in

the expectation of growth, so unless those expectations are met, new loans will cease and the money supply diminish. So fractional reserve banking imparts a growth bias to the economy that is absent with 100% reserves.

5. Money would be issued by the Treasury, and spent into existence for public goods and services. *The amount of money issued should be limited by the amount of money that people are voluntarily willing to hold instead of exchanging it for real wealth*. If the Treasury issues more than that amount people will spend it on real goods, driving up the price level. That is the signal to the treasury to print less money and/or raise taxes. The Treasury's policy target is a constant price index, not the interest rate, which is left to market forces, and would thus never be negative (http://steadystate.org/the-negative-natural-interest-rate-and-uneconomic-growth/). The internal value of the currency is determined by maintaining a constant price index, and thus the dollar ceases to be a "rubber yardstick" of value. The external value of the currency would be determined by freely fluctuating exchange rates.

Trump's growthmania is financed by money creation and cheap credit from the big banks. Banks hate the idea of 100% reserve requirements on demand deposits the way 17th-century counterfeiters hated Sir Isaac Newton, who, in his extra job as Controller of the Mint, had many of them hanged.

VI. Trade errors: globalization versus internationalization

Finally we come to a place where we must give some credit to Trumponomics for having opposed neoclassical economics rather than blindly following it. Whether this was out of conviction, or devious political expediency, or both, is a question I will leave to the reader. Free trade, off-shoring, capital mobility, and uncontrolled immigration added up to the neoclassical cheap labor policy, nominal opposition to which gave Trump his big issue and political victory. Of course it was sold as "pro-growth" rather than "cheap labor". The Democrats, under the influence of neoclassical free traders and global corporations, were blind to the devastation and resentment their cheap labor policy had caused in working class and rural America. Bernie Sanders understood, and almost got the nomination, but Hillary Clinton and the Democratic establishment failed to learn the lesson.

The presidential election revealed a deep-seated discomfort with globalization and its costs, and as Donald Trump sets the agenda for his new administration, some fear he will move the United States towards isolationism and nationalism. There is another alternative open to him that served the country well for over fifty years, neither globalization nor nationalism, but internationalism.

Globalization is frequently conflated with internationalism but is something quite different. Globalization refers to the global integration of many formerly national economies into one global economy. "Integration" derives from "integer", meaning one or whole, and when we integrate, we combine into one the previous parts. Since there can only be one whole, the disintegration of the national economy is necessary to reintegrate its pieces into the new global economy.

As the saying goes, “To make an omelette you have to break some eggs”. Under globalization the disintegration of a nation’s economic boundaries is achieved through globally integrated capital markets, labor pools and trade agreements.

Internationalism refers to international trade, treaties, protocols, alliances and other structures where nations rely on each other and work together towards common goals. “Inter-national” means between or among nations, and under internationalism the basic unit of policy and decision-making remains the nation. Internationalism was the post-WWII goal of the Bretton Woods institutions; globalism has become the goal with the WTO, TPP and transnational corporations. As nations outgrow their domestic resource base they expand, via globalization, into the global commons, and into the ecological space of other nations.

In internationalization, trade is conducted between nations with their own self-interests in mind. Countries determine what they are best at doing, specialize in those goods or services, and trade with each other on that basis. In the classic example, England trades its wool and textiles for Portugal’s wine and vice versa. It would be unproductive for English investors or workers to attempt large scale winemaking in the English climate, and England’s resources are better put to use in sheep farming and wool-making. Through trade based on comparative advantage, both England and Portugal benefit.

In a globalized economy with free capital mobility, nations no longer specialize in their own “comparative advantage”, but instead global capitalists and corporations follow “absolute advantage” – allocating their resources to maximize global productivity and global profit. They function as components of an integrated global economy. U.S. corporations or investors shift capital to China to produce goods with less expensive Chinese labor for sale back into the U.S. By doing so, the same investment generates more product at lower cost, thereby growing the global economy. However, these global gains can inflict enormous cost at the national level.

While the global economy may grow more with globalization, each nation no longer necessarily benefits. With globalization the nation loses its ability to enforce its own laws and standards. The U.S. has national policies, for example, governing workers’ rights and workplace standards – minimum wages, non-discrimination, fair pay, child labor laws, and environmental and safety regulations. These agreements have been reached through generations of national debate, elections, strikes, lockouts, court decisions, and, at times, violent conflict. They affirm national values and strike a balance between how the economic pie is split between “capital” and “labor”. These policies become meaningless in a globally integrated economy.

If a U.S. corporation run by U.S. executives closes a plant in Michigan, lays off its workers and opens a new one in Mexico facing much less stringent compliance standards, staffs it with lower salaried Mexican workers who do not require health insurance or unemployment benefits, and then ships products back to sell to U.S. consumers at a much higher profit, the result is not what most Americans think of as “free trade”. It is instead freedom from regulation and responsibility done under the cover of globalization.

The restoration of internationalism re-establishes the nation as the locus of policy and reasserts the principle of interdependence – not integration – as the basis for international collaboration. Interdependence is to integration as friendship is to marriage. Strong friendships lead to a long and happy life, but few people attempt or survive a multi-lateral marriage.

Trump has recognized the distributive flaws of globalization, but it remains to be seen if he will limit capital mobility in order to make the world safe for trade based on comparative advantage. Or will he opt to maintain capital mobility and accept the consequence of substituting absolute advantage for comparative advantage in the quest for global growth? Probably, like neoclassical economists, he is not aware that the logic of comparative advantage is based on the assumption of internationally immobile capital, as explicitly stated by David Ricardo in his famous comparative argument. Probably global growthism will win out in the Trump regime, since it is in the interests of the billionaire US elite, from which he has entirely drawn his cabinet of advisors.

VII. Conclusion

Many of the excesses of Trumpism are firmly rooted in the neoclassical growth paradigm that is still taught in the economics departments of all major universities, to the near exclusion of other views. The discipline of neoclassical economics itself requires a good dose of the "creative destruction" that it so often advocates for businesses. A friend told me how, at an individual level, he is helping this creative destruction of mainstream economics. In reply to letters from his alma mater dunning the alumni for contributions, he says, "When your Economics Department stops advocating infinite growth on a finite planet, I will donate. Until then save the postage."

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SUGGESTED CITATION:
Herman Daly, "Trump's growthism: its roots in neoclassical economic theory", *real-world economics review*, issue no. 78, 22 March 2017, pp. 86-97, http://www.paecon.net/PAEReview/issue78/Daly78.pdf

Trumponomics: causes and prospects

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I do not want to dwell excessively on the politics, but it is necessary to examine how we got here before we can begin to discuss the prospects.

Why Trump?

To say that the election of someone like Trump to the American presidency is merely unprecedented for the United States would make too light of our current situation. Trump has the self-control one would normally expect to find in an impulsive and petulant six-year-old. He has truly unparalleled experience as a businessman – and I do not mean that in any positive way. His behavior in polite company has fallen to a standard usually reserved for failed states. He fancies himself a "pussy grabbing" predator and stays up late at night to compulsively tweet personalized nasty comments about women's bodies and the supposed foreign nationality and incompetence of our nation's judges.

Even as he thoroughly trounced every candidate the Republicans could throw in front of him, all of the country's elite remained convinced that there was little chance that he would become president – right up to and through the early evening of election day. The Democrats were so confident of the impossibility of Trump's winning that they insisted on running a weak and unpopular candidate to challenge him. There probably has never been a "democratic" election on this planet in which two more unpopular candidates faced off. Still, most pundits had Hillary winning in nearly an electoral college landslide. Trump would go the way of Hillary's first political infatuation, Barry Goldwater, to an historic defeat.

And, yet, Trump trumped. How could that have happened? Tom Frank provided part of the answer last October: the official pundits

> "are professionals in the full sense of the word, well educated and well connected, often flaunting insider credentials of one sort or another. They are, of course, a comfortable bunch. And when they look around at the comfortable, well-educated folks who work in government, academia, Wall Street, medicine, and Silicon Valley, they see their peers.
>
> Now, consider the recent history of the Democratic Party. Beginning in the 1970s, it has increasingly become an organ of this same class. Affluent white-collar professionals are today the voting bloc that Democrats represent

> most faithfully, and they are the people whom Democrats see as the rightful winners in our economic order. Hillary Clinton, with her fantastic résumé and her life of striving and her much-commented-on qualifications, represents the aspirations of this class almost perfectly. An accomplished lawyer, she is also in with the foreign-policy in crowd; she has the respect of leading economists; she is a familiar face to sophisticated financiers. She knows how things work in the capital. To Washington Democrats, and possibly to many Republicans, she is not just a candidate but a colleague, the living embodiment of their professional worldview. In Bernie Sanders and his "political revolution," on the other hand, I believe these same people saw something kind of horrifying: a throwback to the low-rent Democratic politics of many decades ago."[1]

Frank documents the stance that the Washington Post – Washington's official mouthpiece – took from the beginning of the Primaries: "On January 27, with the Iowa caucuses just days away, Dana Milbank nailed it with a headline: NOMINATING SANDERS WOULD BE INSANE." That Sanders over the course of the Primaries would become the most popular politician in America was beside the point.[2] The mainstream media never changed its views – Sanders had to be stopped so that Hillary could fulfill her manifest destiny to follow in her husband's footsteps to the Whitehouse, to secure Washington for the neoliberals. And when it came down to Trump versus Clinton in November, even many prominent Republicans jumped ship to endorse a Democrat who had always been loathed by the party's base. The punditry was united by its common belief that Clinton would – and should – triumph.

In truth, the Democratic primary was a charade. The Democratic National Committee (DNC) had long before decided that Hillary Clinton would be the party's candidate, and did everything it could to ensure that voters' preferences would play no role in the election.[3] When proof of the DNC's Nixon-like dirty tricks campaign surfaced,[4] the official media did its best to divert attention away from Hillary's misdeeds and toward President Putin. Over the course of the Republican Primaries, the DNC's confidence grew as it looked increasingly likely that Trump would be Clinton's challenger as he dispatched with no fanfare all of that party's stars. The DNC considered him to be the weakest candidate. Of course this clown with no experience would be easily bested by Hillary, the most over-qualified candidate ever.

Many of the speeches given at the Democratic Convention could have been delivered by *Dr Strangelove's* Brigadier General Jack D. Ripper – with no change of content or tone.[5] After

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[1] Thomas Frank 2016, http://harpers.org/archive/2016/11/swat-team-2/.

[2] Even today, Sanders remains the most popular politician in America as a recent survey shows: "Everyone Loves Bernie Sanders. Except, It Seems, the Democratic Party" by Trevor Timm, *Guardian* UK,18 March 17

[3] I was an early voter in Hillary's own county. I took my ballot to the local postmaster two days before the deadline, signed the ballot and envelop under the postmaster's watchful eye, and had him postmark it in front of me. After the election I received a letter from the DNC informing me that my ballot had been tossed out because it was either late or unsigned. In fact, it was rejected because I did not vote for the DNC's designated winner. I was told by an insider in the Bernie campaign that such fraud was common all over the country but that Bernie had committed to working within the system and thus would not protest the rigged outcome.

[4] For a dirty laundry list of the DNC's acts against the will of the voters see http://www.salon.com/2016/07/29/10_reasons_why_demexit_is_serious_getting_rid_of_debbie_wasserman_schultz_is_not_enough/ and http://observer.com/2016/07/wikileaks-proves-primary-was-rigged-dnc-undermined-democracy/.

[5] The Democrat convention featured plenty of Jingoism, assertions that the 21st century will be the "American Century", odes to "American Exceptionalism" and claims that the rest of the world longs for a return of aggressive American "leadership". Speeches by Rear Admiral John Hutson, Leon Panetta, and

the Primaries ended, Trump's unwillingness to join the red scare bandwagon against the "Ruskies" provided more fuel to the fire. National Public Radio's supposedly liberal commentators began to habitually place the term "enemy state" in front of "Russia". Soon they added the preface to China, too. The Clintonistas made it clear that only Hillary could stand up to our rediscovered cold war enemies. If anything, Trump was just a Manchurian candidate, following directives from the Reds. Forget about Trump, Hillary was running against Putin.

The DNC wrote off the majority of US states – those in which Trump's "deplorables"[6] made it too difficult to win. With the US's electoral college votes in the bag, Hillary was going to win – in a landslide – by taking the handful of coastal states plus a few big states in the fly-over middle. There was no way the Democrats could lose, as Trump's racist and misogynist tweets and twits handed them female, young, and minority voters to supplement the usual union members and low income folks who would vote their own economic interests.

Right up to the night of the election, the electoral college was Hillary's, although some worried that she might not capture the popular vote – because the Bernie "Bros" stubbornly refused to support her. The DNC tried to shame the supporters of Bernie and Jill Stein into throwing their principles to the wind; and, indeed, most did – holding their noses and voting for Wall Street's candidate.

However, the election was a shocker. Hillary lost white women and performed worse across the entire spectrum of voters who had elected Obama. She failed to bring in the minority and young voters the New Democrats had been counting on. She even lost across most of the traditional categories of Democratic voters.

Putin won, or at least his surrogate did.

The white-collar professionals that form the New Democrat base that did support Hillary come from the "new" economy – the FIRE (finance, insurance and real estate) sector, Silicon Valley, and social media (broadly defined to include the burgeoning targeted marketing sector – which is really what social media is all about). What they share in common is that they benefit from the neoliberal policies that fuel globalization. This coalition of socially liberal but economically Goldwater conservatives thought that by moving right they could force the Republicans so far right on social issues that changing demographics would ensure Democratic control of government. In a "normal" election, that might have worked. While Gore proved to be too weak of a candidate, Obama succeeded twice with that strategy. In spite of Hillary's unpopularity, she might have been able to beat another "legacy" candidate, like Jeb Bush. But poor Jeb was destroyed in the debates.

General John Allen all could have come straight out of the Cold War. Hillary has made her own hawkish position clear; see http://www.theglobalist.com/is-hillary-clinton-a-warmonger/.

[6] As Hillary Clinton put it, "You know, to just be grossly generalistic, you could put half of Trump's supporters into what I call the basket of deplorables… The racist, sexist, homophobic, xenophobic, Islamaphobic – you name it" who support Trump. She estimated their number at 11 million – only about 17.5% of the number who actually voted for Trump (implying either she underestimated the number of deplorables, or "misunderestimated" Trump's support).
http://www.politifact.com/truth-o-meter/article/2016/sep/11/context-hillary-clinton-basket-deplorables/
However, the number who *thought* she was speaking of them is undoubtedly much higher – particularly among white males and young black males (some of who would have recalled that she once tagged young black males as "superpredators"). In any event, this probably played some role in her defeat in the key states of Wisconsin, Michigan, Ohio, Pennsylvania and Florida – all of which had been won by Obama.

When I saw one of Trump's first press conferences, before the Republican debates, I thought he would stomp the likely Democrat, Hillary, and that there was only one candidate who could beat him – Bernie. (I will admit that I waivered in the final days of October, when seemingly plausible projections of the electoral college vote put Hillary in front by a mile.) But, as we know, the primaries were rigged. The Democrats were not going to run him. They would have been "crazy" to run the candidate who could win.

Still, we need to explain how Trump won. It largely comes down to popular disaffection with the mainstream of both parties, each of which quite publicly dismisses the interests of most Americans. Perhaps the "deplorables" did vote their economic interests, realizing that the Democratic party no longer shared them. If you add together Hillary's deplorables plus Romney's 47%, you have a large proportion of the US population, if not the majority, even after striking those that are double-counted. These are the people that neither party wants. Trump welcomed them. Although they have lower voting rates, they make up a sizable block – and many of them were enthusiastic Trump supporters. Trump took the presidency with 19.5% of Americans voting for him; Clinton lost with 19.8%; almost 59% did not vote (of which half were not eligible); and far more of those who were eligible to vote chose to stay home (30% of Americans) compared to the number who voted for the winner or the loser (less than 20%).

Both the Republicans and the Democrats are content with low turnout largely made up of white collar elites enriched by neoliberal policies. Republicans typically play the race and crime card to capture more votes, while Democrats pull in minorities. What separates the two is morals, not economics. The Dems think it is important to emphasize the pain of those left behind, without embracing policies that would actually provide relief. Indeed, they profess to share the pain even as they embrace the policies that cause it: ending entitlements, enacting job-destroying "free trade" agreements, and deregulating the financial system. The Republicans (rightly) blame the government for inflicting the suffering (although they point to the wrong policies as the cause) while promising to get government off our backs.

Both parties assert that the best hope for the underclass is for its denizens to become more like "us" – upper class, highly educated, urban coastal elites. What they did not count on was a Trump.

Careful examination of Trump's voters show that they view themselves as left behind – in regions devastated by job loss, slow growth, low income, high poverty rates, and declining living standards. But their perceptions turn out to be largely false – at least in a relative sense. Pundits point out that they live in regions with above average incomes, and lower than average rates of unemployment and poverty; in comparison with the urban core of cities like Detroit and Chicago, or the ghost towns of the farm-belt, they have it pretty damned good.

Those Trump voters have no reason to complain – they are better off than the average American! Maybe that explains their vote – they are as delusional as Trump, who emphasizes the dire straits in which America finds itself, a stark contrast to the Pollyanna-ish view our nation's elite holds.

But what the pundits do not understand is that voters are not comparing their situation to the devastation found across America. Their reference is both to where they thought America would be in the 21st century, as well as to how it has been pictured in movies and on television since the mid 1980s when John Hughes forever altered expectations of American living standards. Instead of Opie in Mayberry, the Waltons, or the Ingalls family – all with lifestyles that Americans in the 1980s or 90s could view with nostalgia – our movies (*Ferris Bueller, Pretty in Pink*) showed us teens "borrowing" the dad's Ferrari and attending lavish Sixteen parties, while TV featured "Lifestyles of the Rich and Famous". The "middle class" lifestyles increasingly depicted on the screen were enjoyed only by the top single digits of the income distribution.

Furthermore, the reality that Americans faced at the turn of the 21st century fell far short of what we baby-boomers of the 1950s and 60s had been groomed to expect. Where's my flying car? Heck, I'd settle for a decent paved highway to JFK airport that didn't have Hummer-swallowing potholes. And, while not that many Trump voters have traveled to China to see what modern infrastructure looks like, it is obvious that if anyone is going to be commuting to work in swift comfort, Americans will not be at the front of the line.

For an unexpurgated look at the views of the underclass held by our white collar elite, we need look no further than the comments made by their unelected representatives in Washington, the FOMC[7]. As transcripts from the Fed's meetings reveal, FOMC members enjoy poking fun at those left behind by America's neoliberal policies. In 2011, when the unemployment rate was still a shocking 9%, the FOMC focused on drug addiction as the major cause:

> "I frequently hear of jobs going unfilled because a large number of applicants have difficulty passing basic requirements like drug tests or simply demonstrating the requisite work ethic," said Dennis Lockhart, a former Citibank executive who ran the Atlanta Federal Reserve Bank. "One contact in the staffing industry told us that during their pretesting process, a majority – actually, 60 percent of applicants – failed to answer '0' to the question of how many days a week it's acceptable to miss work..." The room of central bankers then broke into laughter. Charles Plosser, the president of the Philadelphia Federal Reserve, cited "work ethic" as a common complaint he heard in his district, both in rural and inner city areas. A contact of his who owned 60 McDonald's restaurants said "…passing drug tests, passing literacy tests, and work ethic are the primary problems he has in hiring people".[8]

In other words, the "deplorable" unemployed – particularly those in inner cities and rural areas – have no one to blame but themselves.

If that was the belief back in 2011, it is no wonder that Fed officials believe that today's official unemployment rate – around 4.7%[9] – represents "full employment". Even the drug-addled must already have jobs. So the Fed has resumed monetary policy tightening to slow growth. Facing no reelection and with long terms, Fed officials enjoy nearly unbridled freedom to speak their minds in a less constrained manner than that adopted by politicians who have to face voters every few years. They can openly represent today's elite – the professional class

[7] Federal Open Market Committee – the decision-making body of the Fed.
[8] https://theintercept.com/2017/01/27/federal-reserve-bankers-mocked-unemployed-americans-behind-closed-doors/
[9] The broader U6 figure was 9.3%, and if we include those who have left the labor force but who would accept a job offer, the number of unemployed is probably above 20 million. See Dantas and Wray 2017, http://www.levyinstitute.org/pubs/ppb_142.pdf.

in the FIRE, "knowledge", and "social" media circles who fear full employment and the higher costs they would face hiring informal sector workers as nannies, housekeepers, and groundskeepers. As Plosser's "contact" complained, even at the 9% unemployment rate he was already having trouble hiring the right kind of people to flip burgers and mop up his 60 fast food franchises that are euphemistically called "restaurants". (Yes, even the 47% gets to enjoy the occasional sumptuous *restaurant* meal under the golden arches! Albeit, without the Merlot, one supposes.)

It probably should not be surprising that our elite cannot understand that it is the poor prospect for the average American worker that is contributing to the "deplorable" behavior, including drug use and weak "attachment" to the labor force. In truth, the low official unemployment rate is in good measure due to declining labor force participation rates. Until the GFC, the overall labor force participation rate was held up by women, in spite of a long-term declining participation rate by men.[10] It is significant that prime age women now have experienced a reversal – even in the "recovery" from the GFC, their participation remains depressed. The usual explanation for the falling participation rate of men – that it is due to demographic changes (aging of the population) – doesn't hold water. Participation rates of the elderly are *rising* – while rates of prime-age men continue to fall – and even taking account of the demographic changes, we find that most of the decline of male participation is not due to aging – but rather to prime age dropouts.[11] On any given day, just about one out of every six men of prime working age has no paid job of any kind.

True, incarceration and drug use explain some of the dropouts, but poor job and wage prospects are more important. Note that a large majority of prime age male dropouts are single – without the support from a working spouse and with little access to government safety nets. In other words, they have little alternative to working. Finally, they are not gainfully using the time freed up to care for family members, clean house, or pursue more education; in comparison with employed and unemployed men, those out of the labor force simply engage in more leisure activities – about four more hours per day – mostly watching television. While the survey data do not report what they are watching, a good bet is that a lot of their TV time is devoted to programs that help to produce sympathy for Trump's agenda: right wing "news" programs that stoke fears of immigrants, international trade, and the take-over of the White House by a foreign-born Muslim.

Those that do find jobs are increasingly trapped in contingent, often part-time work at pay that does not offer an American living standard. Trump's voters can beat the averages because the average isn't that great. Too many "average" Americans have little job security, too much debt, mandated health insurance they can't afford (even with Obamacare subsidies), and no savings for rainy days or retirement. They are only a couple of paychecks away from losing their homes to foreclosure fraud, their kids attend schools facing budget problems, and they see no light at the end of the tunnel.

As Rick Wolfe has documented, real median wages have been stagnant since the early 1970s in spite of steadily rising productivity. This opens a tremendous demand gap – wages are not even close to sufficient to buy the output our workers produce. And because we run an overall trade deficit, foreigners aren't buying them, either. Our domestic rich folk do more

[10] The overall labor force participation rate reached its peak in 2000 and has been falling ever since; it has now fallen back to its 1977 level. This is not simply due to aging, as it has been falling since 2000 even for prime age and younger workers. See Dantas and Wray 2017.
[11] See Dantas and Wray 2017

than their share of the buying, no doubt, but they are rather like Malthus's parsons and landlords. Ricardo correctly concluded that capitalists would do just as well to burn their extra output as to sell it to the nonproductive classes. Wall Street found the solution: fill the gap with loans to the working class so that the capitalists can sell the output and our rentier class can collect interest on the loans. Workers spend more than their incomes to keep the system afloat.

As a result, the dire strait of America's workers was long hidden behind a growing mountain of debt, and by a plethora of amazing gadgets (smartphones and flat screen TVs) kept cheap by outsourcing to foreign labor and purchased on credit. This was revealed in the GFC that began in 2007. Americans all over the US are still losing their homes to Wall Street's banks, hedge funds, and private equity – and remain burdened with mortgage debt even after they've lost the home that they now rent at exorbitant rents paid to the vultures scooping up blocks of foreclosed homes. They are also servicing debt on their autos and their student loans and their medical bills. Is it any wonder that they no longer feel middle-class, even if their incomes are above average? To add insult to injury, the "deplorables" heard Ms Clinton justifying her six-figure pay for cheerleader speeches given to Wall Street on the basis that "that's what they offered me".

Is it really so puzzling that they "voted against their own economic interests" when they chose Trump, who promised to throw a wrecking ball into the machinery that destroyed America's middle class? He would punish firms moving jobs overseas, tear up "free trade" agreements, go after Wall Street, drain the swamp, build a wall to block undocumented immigrants, fund infrastructure and create jobs, and Make America Great Again.

Above all, he would put America's interests first – a return of overt nationalism and rejection of foreign entanglements, in line with popular revolts that spread from the Arab spring to mainland Europe and finally to the UK before coming to rest in the USA. He had the answers to the questions most Americans were asking, while Hillary was busy creating technocratic policies to address questions most Americans had never thought to ask. And while Americans wanted jobs at decent pay, the mainstream media was obsessed with gender testing for bathrooms right up through the final days of the campaign. If there really are any aliens out there receiving American televised news channel signals, they will think that the biggest problem facing earthlings at the end of 2016 was finding a pot to piss in.

To conclude, in spite of the revelations of earlier shockingly misogynous behavior of Trump during the final weeks of the campaign, the loss of voters seems to have been in the "safe" states so that while Trump fell behind in the popular vote, he held on to the electoral college.
And we got Trumped.[12]

[12] As I wrote in 2012, "Here in the U.S., Donald Trump is known as a cartoonish buffoon – But he's no laughing matter in Scotland where he buys off the government and destroys a pristine and fragile coastal sand dune to build the world's biggest golf course. This moving documentary follows the efforts of the ordinary folk to preserve a fishing and farming community that, supposedly, stands in the way. *You've Been Trumped* is essential viewing for developing an understanding of the issues surrounding unchecked development, its impact on environmental sustainability, the unholy alliance of big money and public policy, and the consequence of excessive inequality that has divided our modern world between the 99% 'have-nots' and the one per-centers who've got it all but still want more." Wray 2012, http://www.economonitor.com/lrwray/2012/11/15/youve-been-trumped-essential-viewing-for-the-99/.

Economic prospects under Trump

Immediately after the election and long before the inauguration, the official media – as well as left-leaning websites – had a field day trying to best one another by imagining the most outlandish economic policies that Trump might propose, and then predicting the disastrous consequences. On taking office, Trump upped the ante by confirming expectations that neither he nor his staff has the competency required to run the Oval office. He really only attempted to implement one of his promised policies – blocking entry by Muslim terrorists and deporting undocumented residents – but disastrously bungled it by targeting particular nations as well as travelers with proper documents. By the third week in office he had already established a new kind of revolving door policy, as his designees either dropped out, or were forced to resign at an unprecedented pace. The White House was in complete disarray as insiders leaked info designed to demonstrate their boss's incompetence, and his party's leadership openly doubted his ability to serve.

To make matters worse, the Russian bear came back to haunt him.[13]

In recent days, the odds have risen that Trump will not make it through his first term in office. There are four ways Trump might leave office early: "(1) death; (2) impeachment by House and conviction by Senate; (3) suspension due to disability under the 25th Amendment; and (4) resignation."[14] Eighteen percent of US presidents died in office, half of them by assassination. Trump is the oldest president we've ever had, but life spans have risen and he has no known serious health problems. But he is wildly unpopular and has made a lot of enemies – including many in the US security establishment (not exactly the kind of enemy one wants). Dean Falvy puts the probability of death at 10%. Three presidents have been impeached (including Clinton), but only one was forced out of office (Nixon). Falvy puts Trump's chances at 25% if the Democrats regain control in the midterm elections. Removing a president from office due to incapacity is quite difficult; Falvy gives that a 10% chance. Trump would appear to be too vain to resign, but one could envision circumstances in which resignation might better preserve the value of the Trump brand than would serving out a miserable term of office. Falvy gives that 10%. Actual bettors are far more optimistic about the prospects of Trump leaving office: "Ladbrokes, the British oddsmaking giant, has Trump's

[13] The media conveniently forgets that there is ample precedent for negotiations behind the back of a sitting president. The Nixon campaign tried to spoil President Johnson's peace talks with the Vietnamese, and there are reports that the Reagan campaign negotiated for a delay of the release of the hostages in Iran to undermine President Carter. So far, it appears that deals the Trump campaign struck with the Russians, they do not rise to the level of treason and did not directly endanger American lives. Should read So far, it appears that deals the Trump campaign struck with the Russians do not rise to the level of treason and did not directly endanger American lives. The Russians released information that was damaging to Clinton, but it was information Americans deserved to see. Trump's campaign might have talked with the Russians about lifting sanctions that were imposed by President Obama to punish them for letting Americans know that the Clinton campaign had rigged the primaries. Bad form? Yes. Illegal? Perhaps. Prolonging a war that would kill thousands of additional Americans? Not even close. See *Nixon Tried to Spoil Johnson's Vietnam Peace Talks in '68, Notes Show, New York Times,* https://www.nytimes.com/2017/01/02/us/politics/nixon-tried-to-spoil-johnsons-vietnam-peace-talks-in-68-notes-show.html?utm_source=huffingtonpost.com&utm_medium=referral&utm_campaign=pubexchange&_r=0 and *New Reports Say 1980 Reagan Campaign Tried to Delay Hostage Release, New York Times,* http://www.nytimes.com/1991/04/15/world/new-reports-say-1980-reagan-campaign-tried-to-delay-hostage-release.html

[14] https://verdict.justia.com/2017/02/02/youre-fired-four-ways-donald-trumps-presidency-might-not-last-four-years.

chances of leaving office via resignation or impeachment and removal at just 11-to-10, or just a little worse than even money."[15]

In my view, it is more likely that Trump will finish his term. However, he will not be able to implement his agenda. He might cave to the mainstream Republicans and sign-off on some policy-making around the edges, but he will not successfully shepherd through any of his big ideas. Still, it is worthwhile to analyze what might have been. I will not attempt to fathom what Trump really wants, but rather will quickly assess a few proposals that were prominently featured in his campaign. But first let me add one anecdote.

Last spring I was approached by a well-known individual with Wall Street experience who claimed to be one of Trump's closest advisors. He had come across some articles on "modern money theory"[16] in the mainstream press and wanted to compare notes. He agreed that sovereign governments face no financial constraints and budget deficits are not a problem; he understood that government spends through "keystroke" credits to bank accounts and cannot run out of keystrokes. He noted that Trump understands debt (during the campaign Trump proclaimed "I'm the king of debt").[17] Instead, he said, America faces three problems that Trump must resolve: unemployment remains too high, American wages are too low, and our infrastructure is a mess. He assured me that no matter what Trump might say during the campaign, these would be the main policy issues after Trump won. We went on to discuss a job guarantee – in which the government provides wages to ensure a job for anyone who wants to work.[18] While he agreed that the federal government can fund such a program, he doubted it would be competent to run one. Hence, he would have the federal government pay contractors to create the jobs. He asked me not to reveal his name as he preferred to work behind the scenes, but assured me he had Trump's ear. After the election he assumed a prominent position in the Trump administration.

What should we make of this? Does he really have Trump's ear? I suppose he does. However, it is becoming increasingly clear that Trump will not be able to manage Congress. It would take a powerful and trusted president to overturn nearly four decades of deficit hysteria, whipped up by both parties. Trump is weak, perhaps mortally wounded, and he never had the trust of his party's leadership. At best, what follows is a list of what might have been, focusing on three main areas Trump has addressed. I will not explore any of the areas that are typically of concern to mainstream Republicans: repealing Obamacare, ridding the nation of "welfare", deregulation, exercising greater control over women's bodies, arming the population with deadly military-style weapons, denial of the science of evolution and climate change, integrating church and state, and stacking the courts with troglodytes. I'll stick to Trump's more unusual proposals.

1. Jobs and Infrastructure

Over the past year, much was made of our nation's infrastructure shortfall, with both Trump and Sanders promising major investments, and both of them made this part of their proposal to create jobs. A dozen years after Hurricane Katrina, and after countless other preventable

[15] http://www.politico.com/story/2017/02/trump-impeachment-bets-234931.
[16] See: https://www.washingtonpost.com/business/modern-monetary-theory-is-an-unconventional-take-on-economic-strategy/2012/02/15/gIQAR8uPMR_story.html?utm_term=.7bae6bdd44df.
[17] http://www.politico.com/story/2016/06/trump-king-of-debt-224642.
[18] http://www.nytimes.com/roomfordebate/2016/07/11/are-we-ready-for-the-next-recession/a-guaranteed-federal-jobs-program-is-needed.

deaths caused by deteriorating infrastructure, Northern California faces the prospect of collapse of its largest dam.

> "The nation's dams, which are 52 years old on average, earned a D grade from the American Society of Civil Engineers. The nation's levees, which were initially used to develop farmland but now often protect communities directly, earned an even worse D-minus. Overall, ASCE estimates that $3.6 trillion in investment is needed by 2020 to revitalize the nation's infrastructure… One of Trump's biggest promises for his first 100 days was to deliver a $1 trillion infrastructure plan to Congress. But Senate Majority Leader Mitch McConnell (R-Ky.) poured cold water over the idea of a large spending package in December, telling reporters he hoped to avoid "a trillion-dollar stimulus."[19]

Note that this $3.6 trillion would just fix what we've got – it would not move us into the 21st century. The problem is that our nation's elite do not rely on America's public infrastructure. They helicopter to and fro in Manhattan – from heliport to heliport far above the filth and decay; they ride in increasingly lavish "upper class" lounges on jets (if they cannot afford their own gold-plated personal airliners) as they circle the globe; they've got immaculate, gated communities with private security; their kids attend elite private schools in idyllic preserves in the Northeast. They don't need "a trillion-dollar stimulus", and they really don't care if China – or even Vietnam – sets the global standard for public infrastructure. Trump is not going to get a major infrastructure plan through this Congress.

What might have been? While I would prefer a New Deal-style jobs program to repair the old and invest in the new, Trump would most likely have used government contracting plus tax incentives to build infrastructure. This would make the investment much more expensive (and more open to corruption) and less responsive to public needs. It would create some jobs, but construction would be capital intensive and require skilled labor. It would probably come up against capacity constraints – at least in many areas – raising skilled wages and total costs. While some jobs and perhaps higher wages would trickle down, the program would not provide enough jobs where they are most needed, and would not significantly raise wages at the bottom.

By comparison, a New Deal-style program would create jobs for those of lower skill levels; it could be designed to be less capital-intensive; projects could be targeted where infrastructure needs are greatest and where joblessness is highest; and wages could be compressed – as a matter of policy – by raising them at the bottom. The New Deal's WPA[20] played an important role in bringing USA into the 20th century, putting in place the infrastructure needed to "make America great"; a WPA-style jobs and infrastructure program could help to "make America great again" for the 21st. But Trump is not likely to be the President to see that through.

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[19] http://www.huffingtonpost.com/entry/oroville-dam-infrastructure-spending_us_58a21be4e4b03df370d922c0?iooux06vgnbmg3nmi&&utm_medium=email&utm_campaign=The%20Morning%20Email%20021417&utm_content=The%20Morning%20Email%20021417+CID_d3859488c36e68160b30ceee2c941d99&utm_source=Email%20marketing%20software&utm_term=about%20American%20infrastructure&.

[20] Works Project Administration, which employed nearly 8.5 million workers during the New Deal mostly for construction of public projects. The US today still enjoys many of those projects. See Taylor 2008, *American Made: The enduring legacy of the WPA: when FDR put the nation to work*, Tantor Media.

Note that Trump promised to create 25 million new jobs over the next decade, and while that number is in the right ballpark if we are to reach full employment *now (not ten years from now)*, his infrastructure plan would have provided only a small fraction of the jobs needed to reach the goal. Any serious job creation program will have to include an array of jobs across the entire country. Many of these will need to be in provision of public services (elder care and child care, for example) – not only is that a neglected area but it will provide jobs for those who cannot work in construction. The infrastructure-oriented focus adopted by both Trump and Sanders will neglect women as well as older workers and those with disabilities. An inclusive nation-wide program that creates useful jobs in every community will be necessary.

2. The Wall and NAFTA

One of Trump's favorite policies is to build a "Great Wall" along our southern border. The current estimate is that a system of fences and walls running 1250 miles will take about three years to complete and cost about $22 billion – almost twice the $12 billion figure Trump used in the campaign. (He claims his negotiating expertise will cut that higher figure significantly; history provides reason to expect the actual costs will exceed even the high estimate by a substantial amount: big government projects usually run over budget.)[21] The Wall is too popular among Trump's broad base for Republicans to ignore it. The most likely compromise with Congress will lead to substantially less than Trump's $12 billion figure; the construction will be scaled back, and it will not be finished before the end of Trump's first (and only) term.

Even the smaller project will face labor and equipment shortages, price gouging and localized wage pressures. Relying on regional companies and local labor will create bottlenecks in the construction sector. While the US still has ample unemployment around the country, the unemployed are not where they are needed and they do not have the skills and experience required by firms using sophisticated construction equipment and capital-intensive labor on the border. While we would not want to precisely replicate the 1930s projects, a New Deal-style WPA and CCC approach[22] would use unemployed labor. It would be less likely to cause inflation and would create the kinds of jobs our unemployed need.

Trump has promised to send the bill to Mexico for payment. While this is popular with the base, it has created tensions with Mexico and problems for President Nieto – whose popularity is now far below Trump's. Here's a better idea: let Mexico build it and send the bill to the US.

Trump must change course. First he must issue a public apology for his derogatory statements and insulting behavior. Second, he should propose a bilateral commission to study border security to determine how best to reduce the flow of undocumented migrants, human trafficking, and drugs across the border. Presumably, at least some sections of the border will be recommended for barrier construction. The "Wall" must be a joint project, with the US providing the funding and with the construction jointly managed. Mexico needs good paying jobs – the lack of which fuels immigration to the US in search of them. The slack labor markets in Mexico will help to minimize inflationary impacts there, and spending on Mexican

[21] http://www.huffingtonpost.com/entry/trump-border-wall-cost_us_589cf9d9e4b0ab2d2b13ae7b?ytwsf6htga11exw29&&utm_medium=email&utm_campaign=The%20Morning%20Email%20021017&utm_content=The%20Morning%20Email%20021017+CID_3664cee32f01ecd126a0fd90bff70fea&utm_source=Email%20marketing%20software&utm_term=Reuters&

[22] Civilian Conservation Corps; a New Deal program that employed 3 million young men to work on public lands.

labor is not likely to fuel inflation in the US – unlike the case in which skilled American workers are hired to build the wall. Mexico needs dollars to replace the remittances she lost when the US economy slowed and the dollars she will lose if the flow of migrants to America is attenuated.

In addition to funding the construction, Trump would negotiate a plan for cooperative management of the completed wall – each nation benefits from secure borders, and co-management would increase trust. Both Presidents come home as winners. New facilities should be built along the border to quickly and humanely process people who want to cross. Cooperation on the Wall also helps to take the rhetoric about retaliatory trade sanctions down a notch. For the squeamish who insist that a border wall is by its very nature unacceptable, note that we've already got 654 miles of "fortification" along the border, and we are not alone in erecting new walls – Europe is busy building more of them than any other region. While the construction crews are at it, they can repair and build new public infrastructure (roads, public utilities, and waterways) along the border to better link our two nations. Both nations will benefit by improved relations, secure borders, less trafficking in humans, drugs, and guns, and legitimized border crossings. This might make it easier to get rational immigration policy in the US.

And while we are on the topic, renegotiation of NAFTA is long overdue.[23] From inception, this was a neoliberal treaty that operates against the interests of the majority of the population in both countries. It is bad for American labor and bad for Mexican agriculture. It benefits "intellectual property rights", finance, and megacorporations – all of which fuel growing inequality in the US and migration from Mexico. While discussion of NAFTA is always put in the context of the supposed benefits of "free trade", this framing benefits the neoliberal interest and has almost no basis in reality. Trump is right when he says NAFTA is a bad deal for America, but he probably neither understands what the problem is, nor has a snowball's chance in hell of gutting the treaty.

3. End globalization and bring the jobs home

Trump has put forward a number of proposals related to the theme of ending globalization – including renegotiating NAFTA and pulling out of the TPP – many of which were directed at China and other exporters. Like many American politicians, Trump has claimed that China is a "currency manipulator" and promises to pursue an investigation. He's proposed large tariffs to be slapped on imports (variously suggested as 45% on Chinese exports to the US, 20% on all imports, and 35% on Mexican imports)[24], and particularly on American firms that move jobs overseas (proposing a 15% tax on firms that do so). As mentioned, he promised to create 25 million good jobs over the next decade, many of those by bringing the jobs home. One of his first acts was to "save" jobs at Carrier that had been destined to go to Mexico – supposedly proof of his touted negotiation skills – and suggests he will continue to put pressure on individual firms to stay put.

At the same time, Trump has proposed to reduce the tax burdens that presumably discourage job creation and encourage tax avoidance (including corporate inversions). He has variously proposed a flat tax on firms of 15%, and a one-time repatriation of corporate profits at a

[23] http://readersupportednews.org/opinion2/277-75/41658-in-fight-with-trump-mexico-has-plenty-of-ways-to-punch-back.
[24] https://www.politiplatform.com/trump.

special 10% rate. Here's a better idea: eliminate the corporate income tax. Economic theory suggests that the tax is largely passed forward to consumers or backward to workers. It induces firms to make many decisions – such as location of headquarters as well as taking on debt – on the basis of tax avoidance rather than sound business principles. To the extent that profits are paid out in the form of dividends, they get taxed as personal income. In theory, we should also tax retained earnings to the extent that these drive up share prices and hence increase personal wealth – otherwise elimination of the corporate income tax might increase the incentive to retain earnings and thereby exclude them from ever getting taxed (except for capital gains, which are taxed at a lower rate than income). In practice, imputing retained profits to individuals so that they can be taxed as income might be too difficult. In this particular case, the good should not be seen as the enemy of perfection: let's just drop the corporate income tax, reducing the incentive to make and report profits, as well as eliminating the disincentive to seek low tax havens.

With regard to the promise to punish "currency manipulators", this is as silly as punishing countries that are "fiscal policy manipulators" (who, for example, keep domestic unemployment high and wages low so that they can export), or punishing "monetary policy manipulators" (who use interest rate policy to pursue perceived self-interest). I am sympathetic to those who call for pushing "fair trade" over "free trade" – we should not accept the exports produced by slave or child labor, or by labor working in dangerous conditions or below subsistence wages. However, the exchange rate is a legitimate policy tool in the same way that interest rate targets or inflation targets or fiscal balance are used to pursue national economic interests. While the US has embraced floating exchange rates as useful in promoting its national interests, many nations (rightly or wrongly) see control over exchange rates as necessary to promote theirs. In truth, China has been letting its exchange rate rise (the recent large capital outflow reversed course) while pursuing a strategy of rapid wage increase in spite of trend inflation.

Trump needs to understand that the US issues the international reserve currency – the dollar. The rest of the world wants and needs dollars and so will operate domestic policy to ensure dollar inflows. No matter how many tariffs Trump imposes and no matter how much he tries to keep jobs in the US, the US current account balance largely will be determined by the rest of the world's desire for dollars. Making them scarce by restraining imports will only increase global efforts to undermine Trump's policy. "Bringing the jobs home" will not be a significant source of job creation anyway – we need to focus on creating new jobs at home, not on enacting penalties or tariffs. The US is too big (and too rich) to engage in beggar-thy-neighbor policy.

And we need to provide decent pay for those new jobs. There might be some role for trade policy to promote "fair trade" in specific instances to protect American wages. Trump is right to reject the claim that "free trade" is always good, and to insist that domestic policy should consider the interests of American workers. That is what democratic representation is all about.

Conclusion

There is growing resistance to neoliberalism, as promulgated by the Clintons, the Bushes, and unfortunately, by Obama. There is growing recognition of neoliberalism's role in creating job losses, reducing national sovereignty, and losing ability to control domestic corporations, corporate agriculture, and big finance. It is convenient for the neoliberals to push "Tina" – the argument that there is no alternative to the neoliberal globalization agenda; that people must serve the economy; that the market is supreme. But we must not be fooled. Neoliberalism is a choice we can reject.

Supporters of Trump and Sanders realized that there's something wrong with this picture. They are not sure what it is. Some grasp at strawmen: immigrants, minorities, women. Some align with despicable characters: white supremacists, anarchists, fascists, homophobes, misogynists, nativists. In any case, they are tired of playing along. The promise that if they'll subject themselves to the global economy, it will eventually pay off, rings hollow. They've held wages in check while labor productivity grew tremendously, but all they got was pain and no gain.

Our comfortable elitists – whether Democrats or Republicans – focus on the despicables, on the deplorables, on the takers. The last 45 years of neoliberalism has been good to the elite, even very, very good. They dismiss the most recent election as an aberration, a mass exercise in delusion. Both parties focus on Trump's peculiarities – this is one of those black swan events that will not be repeated for another hundred thousand years. Trumpism has an expiration date. Neither party need change its strategy.

The Democrats will win the next presidential election, but that does not mean the people that the party supposedly represents will win. The recent election of the new leader of the DNC has determined that the party will stay the course: the Clinton/Obama candidate, Tom Perez, defeated the Sanders candidate, Keith Ellison. There will be no reform; Wall Street remains in the saddle. The DNC (as well as the GOP – "Grand Old Party", the Republicans) hopes that the energies of the disaffected will be exhausted by the 24-7 protests against Trump. But the residual anger could help to push through a better candidate than Hillary.

What we need is a recognition that it does not have to be this way. The economy should serve the people. We do not have to accept "market" outcomes. There is no "invisible hand" guiding us toward equilibrium. All economies are always controlled – the only questions are *by whom* and *for whom*. Our economy has increasingly become controlled by and for the top one percent, or – really – by and for the top one-tenth of one percent. The election of Trump (or of Clinton) could not change that. It is possible that a perfect storm is building – fueled by the election of Trump and also by the bail-out of Wall Street that makes another global financial crisis all but inevitable.[25] If that happens sooner rather than later, there could be an opening for real change.

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SUGGESTED CITATION:
L. Randall Wray, "Trumponomics: causes and prospects", *real-world economics review*, issue no. 78, 22 March 2017, pp. 98-111, http://www.paecon.net/PAEReview/issue78/Wray78.pdf

[25] Geithner argues that a crisis is inevitable, although he blames the restrictions placed on policy-makers by Dodd-Frank. https://www.foreignaffairs.com/articles/united-states/2016-12-12/are-we-safe-yet.

real-world economics review, issue no. 78
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The fall of the US middle class and the hair-raising ascent of Donald Trump

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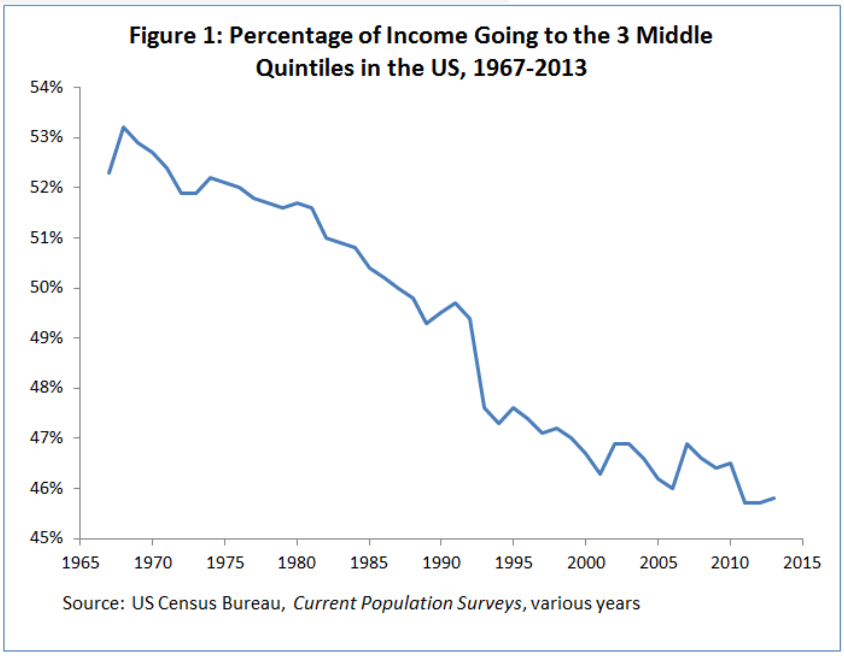
1. Introduction

According to Thomas Piketty (2014), between 1980 and 2010 the share of total US income going to the top 10% of earners rose from around 30-35%, where it stood for several decades, to nearly 50%. These are very conservative estimates. Piketty's figures come from the distribution of adjusted gross income (AGI), reported by the US Internal Revenue Service. AGI subtracts from income things like investment losses, retirement account contributions and their returns (see Pressman 2015, Chapter 2). With large adjustments, someone can make a lot of money but have little AGI; or, as in the case of Donald Trump, you can report a *negative* AGI of nearly $1 billion. In addition, tax-free income (such as unrealized capital gains and interest on municipal bonds), as well as returns on money hidden in tax havens, are not reported to the IRS and do not appear in AGI. Like the adjustments helping Trump avoid taxes, this income mainly goes to the wealthy and has been growing for several decades (Zucman, 2015).

As the rich received a bigger piece of the pie, everyone else got relatively less. We can see this in the falling share of income going to the middle-three income quintiles (Figure 1).



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One standard economic argument for great inequality is that it generates incentives to make money and contributes to economic growth, which increases average living standards. Even if this is true, not everyone benefits from growth. Saez and Piketty (2013) estimate that since the late 1970s nearly 60% of all gains from growth have gone to the top 1%, roughly those making $500,000 or more in 2016.[1] Consequently, a typical US household has seen little improvement in their absolute standard of living for several decades. We can see this in figures on real median household income, which increased only slightly over the past quarter century – growing from $54,432 in 1988 to $56,516 in 2015.[2]

We focus here on another distributional measure – the size of the middle class. A thriving middle class is important for a number of reasons. First, there are political factors. Rothstein & Uslaner (2005, p. 52) argue that inequality reduces social capital or the trust needed to sustain democracy. Second, Robert Malthus (2008[1803], p. 594) noted: “Our best grounded expectations of an increase in the happiness of the mass of human society are founded in the prospect of an increase in the relative proportions of the middle parts.” For Malthus, the additional income that moves one from poverty into the middle class is what makes life worthwhile. Finally, a large middle class improves economic performance. Alfred Marshall (1920, pp. 529-32, 566-9) noted that higher earnings may improve the habits of working people, thereby improving productivity and everyone’s standard of living. From a Keynesian perspective, a large middle class increases consumption, effective demand and economic growth because middle-class households tend to spend larger fractions of their income than wealthy households.

This paper focuses on one particular political consequence of a shrinking middle class. It contends that this was a key factor in Donald Trump becoming President of the United States. Then it argues that the policies promulgated by Trump will not help the US middle class but will exacerbate recent inequality trends. The paper concludes with some suggestions for reviving the middle class. But first a measurement issue.

2. Who is middle class and what has happened to the middle class?

Numbers are important for understanding how economies work and developing policies that improve economic performance. Simon Kuznets developed national income accounting to measure economic growth. Irving Fisher developed price indices to compute the rate of inflation. And Mollie Orshansky developed the official US poverty rate. These enabled us to study the factors affecting these variables, and how we might increase growth, control inflation and reduce poverty.

Presently there is no accepted definition of “middle class”, and no figures get calculated and reported regularly. This makes it difficult to ascertain if the US middle class has declined, identify factors that expand or shrink the middle class, or develop policies that might bolster the middle class. To measure the size of the middle class this paper follows the Orshansky methodology for measuring poverty.

Orshansky (1965, 1969) began with data on the minimum food requirements for families of

[1] The thresholds in Saez and Piketty (2013) need to be increased due to inflation and income not included in AGI.
[2] Remarkably, the 2014 figure was *below* the 1988 figure.

different sizes to survive during one year; then she estimated the cost of purchasing this food. Government surveys of household expenditures, undertaken during the 1940s and the 1950s, found that families (on average) spent around one-third of their income on food. So Orshansky multiplied the cost of a minimum food budget for each family size by three in order to arrive at their minimum income needs. These became the official US poverty thresholds. Each year they get increased by the annual rate of inflation.

To measure the size of the middle class we start, like Orshansky, with some data. In 2010 the Pew Research Center asked people how much income was necessary for a four-person family to be middle class in their neighborhood. While answers varied by location and income level (those living in cities and making more money provided larger figures), $70,000 was the median response. Wider Opportunities for Women (WOW) estimated that a household with two working parents and two children needed $68,136 in 2010 to have some economic security. This bought basic necessities and allowed some savings for retirement and emergencies. Finally, median income for a family of four in the US in 2010 was $68,274. If the Pew figure stems from the fact that people like nice round numbers, we can take the median income for a four-person family as the midpoint of the middle-class income range for a family of four.[3] The Pew Research Center (2012) also found that a preponderance of responses fell between two-thirds and twice the median income. Some differences stemmed from different perceptions regarding what was necessary to be middle class and some from regional cost of living differences.

Rather than focusing on income, we focus on *disposable income* to define the "middle class" because this is what people care about and what households use to purchase a middle-class standard of living. Moreover, changes in taxation over time affect a family's standard of living. One frequent criticism of the Orshansky poverty definition is that it failed to account for taxes paid by low-income households (Pressman 2013).

To compute the size of the middle class for any country in any given year, we start with the median income for a family of four. Next we convert this to median disposable income based on income taxes and payroll taxes paid, as well as government benefits received, and compute the percentage of households whose disposable income falls between two-thirds and twice median disposable income. For households of other sizes, we adjust median income for a family of four using the Orshansky adjustments for families of different sizes. Middle-class households are those whose disposable incomes fall between 67% and 200% of the median disposable income for a household of that size.

Table 1 shows middle-class income ranges in 2013 based on market income (rather than disposable income) since this is the typical reference point for most people. These numbers all seem reasonable. The lower figure is more than twice the Orshansky poverty thresholds, meeting the Horrigan and Haugen (1988) criterion for defining the middle class, and the top figure is not so high that we would consider a family wealthy.

One minor flaw in this procedure is that it doesn't account for falling median household income, as occurred during the Great Recession. In such situations, households may still be counted as middle class because of the fall in median income, but they will not feel middle class any longer. To deal with this issue we make one adjustment to our estimates. When real

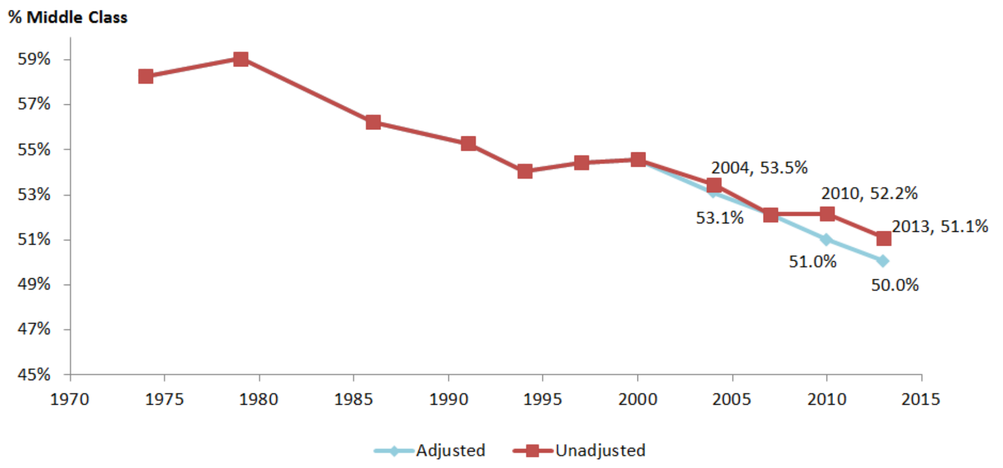
[3] This is a better data source than the similar WOW estimate because it is available annually and over a long time period.

median income falls, we use the *highest previous real median income* and calculate the size of the middle class using that figure.

Table 1: Middle-Class Income Range for 2013	
HOUSEHOLD SIZE	INCOME RANGE (Household Income)
1	\$28,569-\$85,281
2	\$37,140-\$110,865
3	\$45,710-\$136,449
4	\$54,281-\$162,033
5	\$62,852-\$187,617
6	\$71,422-\$213,201
7	\$79,993-\$238,786
8	\$88,564-\$264,370
9+	\$97,135-\$289,954
Source: See Paper	

Figure 2 plots the percentage of middle-class households in the US between 1974 and 2013 using our methodology and the Luxembourg Income Study (LIS),[4] an international database of income and socio-demographic information. LIS data for the US came from annual Census Bureau household surveys.

Figure 2: US MIDDLE CLASS OVER TIME



Source: Luxembourg Income Study Database

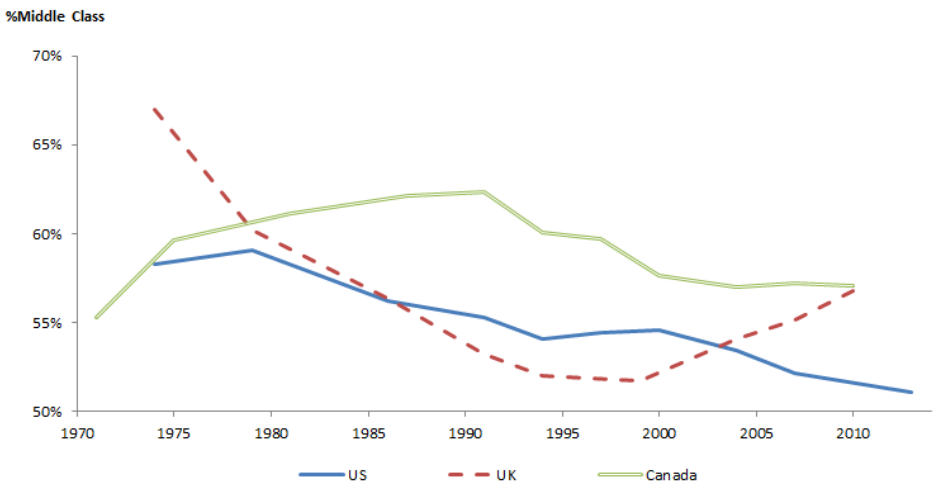
Undoubtedly the US middle class has shrunk since the 1980s, when it comprised 59% of all households. The only exception was the economic boom of the late 1990s when the size of the US middle class held steady. Figure 2 also shows what happens when our computations

[4] For more on LIS, see their homepage at www.lisdatacenter.org.

do not allow median household income to fall. The main adjustments occur after the Great Recession. In 2010, median household income for a family of four was $4,800 below the inflation-adjusted figure for 2007. Taking this into account reduces the size of the middle class by 1.2 percentage points. In 2013 median household income for a family of four was more than $5,100 below the inflation-adjusted figure for 2007. Using the higher real median income from 2007 reduces the size of the US middle class to just 50% in 2013.

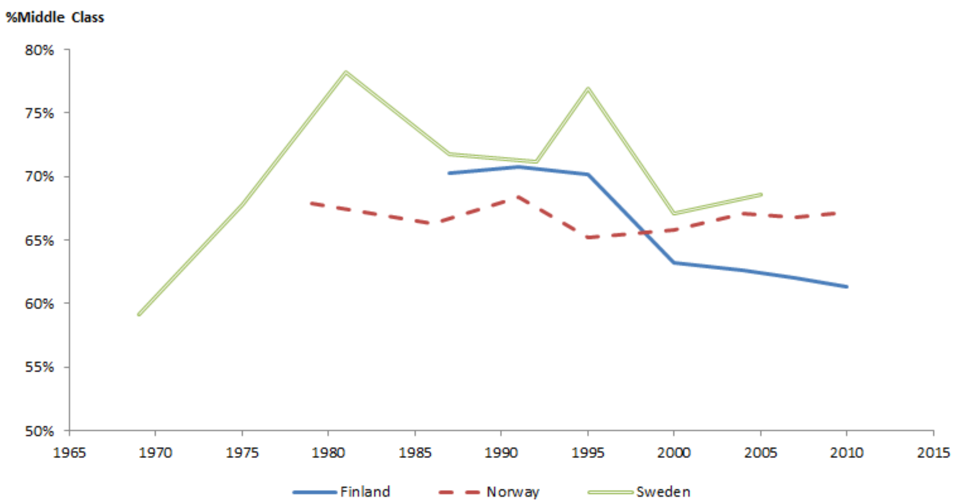
For comparison purposes, Figures 3–5 show changes in the size of the middle class over time in eight other developed nations. Nations are divided into three groups – Anglo-Saxon countries, continental Europe and the Nordic nations. These three figures make clear that what happened in the US did not happen elsewhere. In some countries (Canada, Italy and Norway) the size of the middle class has remained relatively stable since the 1980s; in other countries (France) the middle class increased in size. Some countries show a U-shaped curve over time (the UK), while for others it looks more like an inverted U (Canada).

Figure 3: MIDDLE CLASS, ANGLO-SAXON COUNTRIES



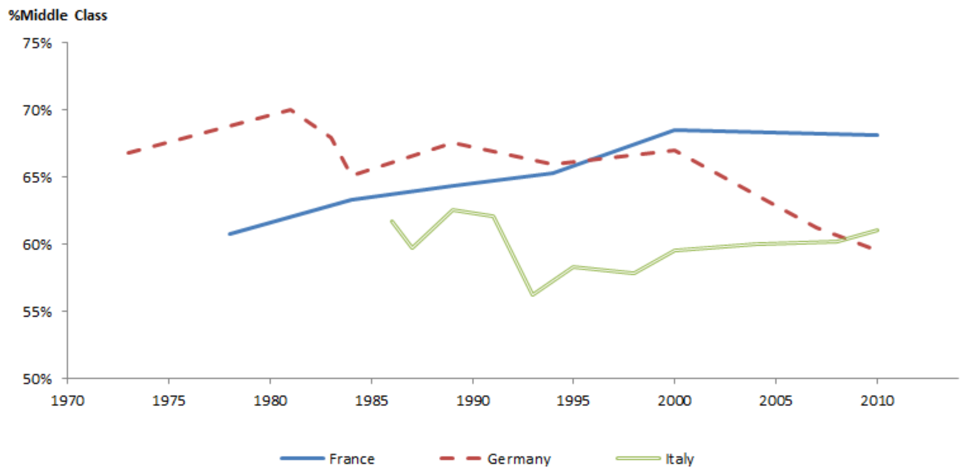
Source: Luxembourg Income Study Database

Figure 4: MIDDLE CLASS, NORDIC COUNTRIES



Source: Luxembourg Income Study Database

Figure 5: MIDDLE CLASS, CONTINENTAL EUROPE



Source: Luxembourg Income Study Database

Finally, like Piketty's computations of top income shares, these figures underestimate the true decline of the US middle class. More people work in a typical household today compared to 1980, and people work more jobs. This increases living costs because households must spend more on clothing, food and transportation. Most important is the additional cost of child care (Giannarelli and Barsimantov 2000). This means that the higher income from sending another family member into the workforce does not result in an equivalent increase in the family living standard. In addition, a weaker social safety net means that in hard economic times most people must resort to borrowing. Households must then repay this debt, with interest, thereby lowering their standard of living. Consumer debt (excluding mortgage debt) has been rising sharply in the US with time. Subtracting just the interest on consumer debt, reduced the size of the US middle class by 3.6 percentage points in 2010 according to Scott and Pressman (2013).

3. The decline of the middle class and the rise of Donald Trump

The American Dream of a middle-class life has been slowly receding. This is evident in Figure 2, and in survey data (Pew Research Center 2012). It is not clear from other government data. At the end of 2016 the US unemployment rate fell below 5%, inflation was under 2%, real wages were rising, and GDP grew at a 2% rate. Such good numbers typically result in victory for the political party currently in power. Not in 2016 – mainly due to distributional factors. Recovery from the Great Recession bypassed many households. Those without a college degree fared worst of all. Feeling the effects of this, and worried about their future, many Americans lashed out the only way possible – at the voting booth.

Donald Trump's political genius was to tap into this rage and fear. Appealing to millions of families who felt left behind in 21st-century America, Trump promised a return to the glory days of the mid-20th century, when the future appeared bright and middle-income households did much better. He denounced Washington, especially the trade and immigration policies that he blamed for destroying the America he wanted to make great again.

Trump's Democratic opponent, Hillary Clinton, failed to address the problems facing average Americans and failed to develop a simple message about restoring middle-class jobs. She rejected future trade deals like the Trans-Pacific Partnership, but said nothing about old trade deals like NAFTA, which was signed by her husband President Bill Clinton. More positively, she talked about raising the minimum wage, providing free education and improving Obamacare (rather than replacing it with something better). But it is not clear how any of this solves the problem of a shrinking middle class. A $15/hour minimum wage does little good if there are few full-time jobs available. Free college education doesn't help people not prepared to go to college. And while Obamacare has provided some security to tens of millions of American families, it hasn't generated jobs or higher incomes; yet it requires everyone to buy health insurance or pay a tax penalty.

Instead of attacking Trumponomics, Clinton went after the low-hanging fruit – Trump's personality and behavior. For those struggling on a daily basis, with little savings for emergencies and worried about the future, this provided little hope. Many people cared more about their own economic prospects than Trump's misogyny or his mocking impersonation of a disabled reporter.

Trump became President because he won several states that typically vote Democratic (Pennsylvania, Michigan and Wisconsin) in Presidential elections plus two key swing states (Florida and Ohio). With one exception, these are all states where real median incomes dropped considerably between 2007 and 2015. While the average state decline was $600, Florida ($-3,524) Michigan ($-2,234), Ohio ($-2,826) and Wisconsin ($-3,192) all experienced sharp drops in median household income. Only in Pennsylvania (+$5,019), a state that Clinton lost by only around half a percentage point, did median household income rise. But Pennsylvania also experienced one of the largest increases in equality over several decades (measured in terms of the share of state income going to the top 10%); only three reliably blue New England states (Connecticut, Massachusetts and Rhode Island) did worse on this metric (Frank, 2014). While other factors affect voting, polling data also indicate that Trump's greatest support came from those groups experiencing the greatest financial problems over the previous decade (Kolko, 2016). Clinton's support came from well-educated voters; she did poorly, and Trump did extremely well, in counties with a small share of college graduates (Silver, 2016). And those with a college educated did best in recovering from the Great Recession.

4. Will Trumponomics help the middle class?

"Make America Great Again" is essentially Trump's promise to revive the US middle class. But sometimes promises are hard to keep. According to Trump, the problem is that immigrants and the US trade deficit took good jobs from hard-working Americans. Going further, his inauguration speech claimed that the wealth of the middle class was ripped away and distributed to the rest of the world. This analysis gets most everything wrong.

Foreign countries did not abscond with US wealth. Housing, the largest source of wealth middle-class wealth (Piketty, 2014), was lost because large US financial institutions traded campaign contributions for deregulation (such as repealing Glass-Steagall). This enabled these institutions to develop an array of toxic securities, leading to the housing bubble, its implosion and the Great Recession.

Likewise, immigration and large US trade deficits are not destroying good jobs with high incomes. Here's one way to clearly see this. Developed nations look rather similar in terms of the size of the middle class based on market income; large differences arise only when we look at disposable income (Pressman, 2010). This indicates that the problem is *not* globalization or foreign competition, since all developed countries experienced greater competition from low-wage nations. Nonetheless, many counties managed to maintain the size of their middle class; a few even saw a growing middle class. The reason for these cross-national differences, it seems, depends on what happens within each nation or on the government policies that transform market income into disposable income.

The problem is that the US government has failed to support working Americans, believing that the free market will solve all economic problems. This belief system has led to lower incomes and less wealth for many households. It has decimated the US middle class. This belief system also underpins Trump's main policy prescriptions – deregulation and large tax cuts for the wealthy, protectionism ("the wall") and repealing Obamacare. None of these policies will actually help Trump supporters or help rebuild the US middle class.

The US has given large tax cuts to the wealthy many times, most notably during the Reagan years and the 2000s with George Bush. In part, the policy was successful; Keynes (1936) was right that tax cuts boost spending and output. But tax cuts provide a smaller bang for the buck than increased government expenditures.

Even with large tax cuts stimulating demand, business investment also depends on what Keynes (1936, p. 161) called "animal spirits". Trump is his own worst enemy here. If a company makes a decision that Trump dislikes or a CEO says something critical of him, Trump can rant on Twitter, leading his supporters to boycott the company. We have already seen such behavior by Trump after Nordstrom dropped his daughter Ivanka's clothing line from their department stores. It is impossible to predict who Trump might lash out against and what economic impact it might have. Facing such uncertainty, firms will be reluctant to invest in the US. And without large business investment, large job gains are unlikely.

Further, large tax cuts for the wealthy provide incentives to cut wages and increase corporate profits. Workers are pushed harder but don't gain from their extra efforts. As we saw, the average worker has seen little gain from their greater productivity since large cuts in marginal tax rates were passed during the Reagan era. Most gains have gone to the top 1%.

Piketty and Saez (2013) show that those countries lowering their top marginal tax rates the most tended to have the largest increase in the share of total income going to the top 1%. They contend that this relationship is causal. First, they argue that income stems from bargaining power rather than marginal productivity. Second, they contend that incentives matter. When marginal tax rates are very high it is not worth it for CEOs to fight compensation committees for a little more income since most of it will go to the government. With low marginal tax rates, CEOs keep a large fraction of any extra income and have great incentives to fight for higher pay. We can add a third factor. Since the 1980s CEO compensation has increasingly come to depend on stock performance and comes in the form of stock options. Economists argued that this would solve principal-agent problems by aligning the incentives of CEOs and the incentives of investors (Jensen and Meckling 1976). However, this is true only in the short run. A focus on stock prices creates incentives to cut costs, and labor constitutes the largest cost for firms. As a result, senior executives sought to reduce wages and benefits. Although this might reduce demand and harm long-run firm performance, CEOs cared more about their current pay; their successor would have to deal with any long-run problems. It is for this reason that tax cuts for the rich have not helped the middle class in the past. What Trump proposes will increase pressure for wage cuts.

A related problem is how to pay for large tax cuts geared to the wealthy. While Trump claims that deregulation and tax cuts will generate faster growth, and while Congressional Republicans can force the Congressional Budget Office to use "dynamic forecasting" and conclude that economic growth and tax revenues will both increase, based on past experience and what we know about economic relationships this won't happen.

One possible solution is Trump's suggested 10% "repatriation rate", which would encourage corporations to bring profits earned abroad back into the US. With $2.6 trillion parked abroad, this will provide some money to fund a large tax cut (Huang, 2016). Other revenue may come from people selling assets now in the belief that low marginal tax rates will not last and they should benefit while the going is good.

Once these temporary revenue streams dry up, tax cuts will have to be paid for by some other means. Trump has blamed government waste and fraud for the US budget deficit, but the amounts involved are far too low to close an annual budget gap of $600 billion plus another $500 billion if Trump's tax cut plan passes (Cole, 2016). Popular measures among many Trump supporters, such as defunding the Corporation for Public Broadcasting and ending all foreign aid, won't significantly reduce a deficit exceeding $1 trillion. Hiring freezes and pay cuts for government employees won't do much better. The bottom line is that if you exclude military spending (which Trump wants to increase) and non-discretionary spending (Social Security, Medicare, interest on the debt) only $600 billion in government spending remains. If cut by half, this would not eliminate the current deficit and cannot finance Trump's tax cuts. While Trump has suggested negotiating down US debt, this "haircut" would lead investors to flee US government securities and raise government borrowing costs. So the only way to keep the Federal budget deficit from soaring due to Trump's tax cut plan is to cut Medicare, Social Security, and other programs that benefit middle-class households.

The big losers in this process will be Trump supporters, who get miniscule tax breaks, and Trump himself, who will have to explain why the budget deficit exploded under his watch. Additional borrowing by the US Treasury, plus news reports of massive deficits and record debt, will be hard to rebuff as "fake news". It will also put upward pressure on interest rates, raising borrowing costs for Trump supporters living hand-to-mouth and in debt. This too will be difficult to deny or dismiss.

Protectionism may save a few jobs, but tariffs and other trade restrictions will also push up prices and lower US living standards.

Trump is right that the US trade deficit reduces jobs and lowers incomes. Workers are hurt when production goes abroad and they must try to find new employment, possibly at a much lower wage. The big flaw in his argument is that manufacturing jobs comprise a small fraction of US employment and they do not require employers pay decent wages and benefits. Manufacturing firms producing in China and Mexico do not pay their workers well, and service jobs in the US actually pay production and non-supervisory workers more (on average) than manufacturing jobs do (Wolff, 2017).

Coal mining provides a good example of what is wrong with trying to save production jobs. In the US and elsewhere these jobs have paid good wages for many years. But this has not always been the case. Émile Zola's novel *Germinal* (and the excellent movie starring Gérard Depardieu) makes it clear that these were awful jobs paying bare subsistence wages. They became better only when French workers organized, demanded better wages and working conditions, and the French government supported their right to unionize. US manufacturing jobs have paid well historically because US workers unionized and they used their power to counter the power of large business firms and obtain higher wages, generous benefits and better working conditions. Something similar can take place in the service sector today – if we had a government willing to support unions and increase the minimum wage.

Another problem is that even if high-paying manufacturing jobs return to the US, they will not go to Trump supporters. These jobs require education and computer skills to run the actual production process. At some point, despite Trump's assertions that he has made America great again, Trump's supporters will come to realize that they don't have better jobs or bigger paychecks.

Finally, there is Obamacare. After taking office, President Obama saw affordable health care as one way to help middle-class and working-class households priced out of insurance markets. To the detriment of Democrats and the benefit of Trump, Obamacare insurance premiums rose sharply right before the 2016 election. And, as noted earlier, Obamacare did not result in any economic gains to make the required insurance more affordable.

Repealing Obamacare will help some young and healthy workers who can get by without health insurance. If these people don't buy insurance, the cost of providing insurance to everyone else increases and companies will raise rates. This will drive others from the insurance pool, mainly those less expensive to insure because they are healthier. Again, rates will rise. The end result will be extremely costly insurance for those who need it most and many people without health insurance.

Trump promised to replace Obamacare with something better, but this will not be easy. Repealing any aspect of Obamacare will cause the whole thing to collapse. Ending the insurance mandate will lead to problems described in the paragraph above. Ending the requirements that insurance companies cover pre-existing conditions and pool risks to determine rates will either increase rates or leave important health care needs uncovered. Low-income individuals lacking a college degree (strong Trump supporters) will be hurt the most. They are less likely to have health insurance through work, and more likely to require health care given the relationships between education level, income, and health.

After criticizing Obamacare vehemently while campaigning, Trump will have to do something to replace it. As this was being was written (in mid-February), the solution seemed to be tax credits to purchase insurance for those without health insurance through work or the government. This won't do any good for those with some pre-existing condition. Worse yet, the tax credits will increase with age rather than decline with rising income, as under Obamacare (Sanger-Katz 2017). The likely result is that many middle-class households will find themselves priced out of the health insurance market. We can count on gruesome news stories about people denied health care as a result of these changes, and we can expect similar results from any other Republican plan for replacing Obamacare. Trump can Tweet that these horror stories are lies, but when many people know someone that this has happened to, and when real people appear on TV to speak about their problems, many will long for the good old days when we had Obamacare to kick around.

In sum, Trump's main policy proposals will not help the people who voted him into power. The losers (to use one of Trump's favorite expressions) will be working-class voters without a college degree who were recently pushed out of the middle class or are struggling hard to remain there.

5. Where do we go from here?

It is not enough to point out that Trump's policies won't revive the US middle class. Policy failure should open the door for practical alternatives. Here are a few suggestions.

First, there needs to be a focus on creating good jobs. The US has a long tradition of building a middle class through education (Lindert, 2004). Germany uses apprenticeship programs that prepare people for high-paying jobs (Nortdurft, 1989). Either approach would help. Strengthening unions and raising the minimum wage are also crucial. Union jobs helped build the US middle class after World War II. France grew its middle class, in part, because the government supported unions and a high minimum wage (Piketty, 2014).

On the demand side, standard fiscal policy is needed for job creation. Well-paid, public-sector employment should be *an automatic response* to economic stagnation or falling real wages. I strongly prefer infrastructure spending, but if this is not possible for political reasons, we need a contemporary equivalent of burying money in abandoned coal mines (Keynes, 1936, p. 129) – perhaps building a wall along the US border with Mexico.

Second, the US lacks many of the programs in advanced economies that bolster the middle class. This helps explain why the US middle class is smaller than the middle class of other developed countries. Paid parental leave helps parents around the birth of a child by providing an income replacement for lost wages. Child allowances, strongly supported by Keynes, assist larger families having greater economic needs (Pressman, 2014b). These policies each reduce child poverty and increase the percentage of families with children that are middle class – by around 10 percentage points (Pressman, 2014a).

Third, we need more generous unemployment insurance, disability insurance and old-age pensions. The US has the weakest such programs in the developed world. This is one more reason the US has the smallest middle class among major developed nations. Governments are supposed to protect their citizens from risk; social insurance programs are designed to do this. They enable families to continue to live a middle-class existence following some unexpected setback (Hacker, 2006).

Donald Trump was elected president because he understood the fear and anger growing in America. But governing requires accomplishments that make good on campaign promises. The problem is that Trump's campaign promises will not make America great again, if this means bringing the US middle class back up to around 60 percent of all households. At some point his supporters will recognize they have been had. The real danger we face is what might come next.

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SUGGESTED CITATION:
Steven Pressman, "The fall of the US middle class and the hair-raising ascent of Donald Trump", *real-world economics review*, issue no. 78, 22 March 2017, pp. 112-124,
http://www.paecon.net/PAEReview/issue78/Pressman78.pdf

Mourning in America: Trump and the traumas of the twenty-first century[1]

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Trauma is the word of the year. It may also be the word of the century.

The trauma of finding our country led by a vindictive president who appears to have little empathy for the people, especially for those with fewest resources, is a knife that has opened our hearts to the larger traumas that have been building around us.

What do we know about trauma? There is a relatively new body of good research and understanding on the subject of Posttraumatic Stress Disorder, or PTSD. Individuals who are diagnosed with PTSD are described thus:

> PTSD negatively impacts a person's daily life, resulting in fractured relationships, depression, inability to maintain employment, diminished cognitive and psychosocial functioning, substance abuse, high-cost healthcare utilization ($34.9 billion in inflation-adjusted charges for hospitalizations (2002–2011)), and increased suicide risk due to experiencing symptoms of PTSD… Insufficiently treated PTSD becomes chronic and is associated with serious suicidal ideation and behavior. Approximately 7% of the U.S. population, and 11.2–17.1% of veterans, will have PTSD sometime in their life… As of June 30, 2016, more than 868,000 veterans with PTSD received disability compensation, with an estimated cost of $17 billion/year. In the general population, 27% of suicides are associated with PTSD.[2]

The trauma that I am talking about includes the trauma that in some groups partially accounts for Trump's election, and in other groups is an immediate reaction to it; but it goes well beyond this political scene, to be more generalized and more widespread. I will go on to discuss an historical background, and an alarming global future, but first let me say a little about the groups that voted for Trump.

[1] This paper is dedicated to the memory of Dr Richard Rockefeller, who alerted me and many others to the prevalence and implications of PTSD, and trauma in general, in the modern world.
I thank Edgar Cahn, Dick Chasin, Rick Doblin and Anne St Goar for their very helpful comments on the paper.

[2] Document submitted by the Multidisciplinary Association for Psychedelic Studies (MAPS) to the U.S. Food and Drug Administration, 18 October 2016, to request permission to submit a full application for Breakthrough Therapy Designation.

The largest group among Trump supporters were white males at the lower end of educational attainment. Arlie Hochschild, in *Strangers in their Own Land,* has done a brilliant job of describing many of these people, and why they belong to the Tea Party, hate government, and deride environmental protection – even though none of this appears, to most observers, to be in their self-interest. Hochschild differentiates between economic and emotional self-interest. The latter has to do with feelings about fairness. As virtually all other groups (women, minorities, immigrants, disabled, endangered species, etc.) appear to be "getting in line ahead of them" to receive support ("handouts") from government, the under-educated white male, especially in the American South and in the Rust Belt, feels that his lifetime of hard work is belittled and overlooked in favor of the objects of bleeding-heart liberal sympathy. Tea Party members have made a choice between government, which they see as on the side of everyone else, and the free market, which they feel is impersonally fair and gives them a chance. As I will note below, this choice, and the beliefs behind it, have been carefully nurtured.[3]

As important, the people in Louisiana whom Hochschild came to know intimately have been, in her words, "in mourning for a lost way of life". It isn't only the jobs that have been lost to globalized cost-cutting and automation; it is the fishing-hunting way of life that depended on pine forests, and healthy waters that have been polluted by vast industrial complexes. Those industrial complexes are accepted because they appear to offer the possibility of jobs, through which to regain a sense of pride and honor. It is easy to keep returning to the economic irrationality of believing in jobs that are largely a mirage; Governor Bobby Jindall impoverished Louisiana to lure in oil companies with "the lowest business taxes in the entire country". Oil companies provide something like one tenth of all jobs in the state even as they have decimated the seafood and tourism industries, and even as big corporations have squeezed out so many small businesses.

At both state and county levels across the U.S., right-wing, anti-environmentalist beliefs – and votes for Trump – tend also to be found in areas of high exposure to toxic pollution. But these logical paradoxes are less powerful than feelings; and the feeling among Tea Party members is a combination of indignation that they have somehow been tricked out of their piece of the American Dream, and deep, continual anxiety about loss of jobs and status, and of familiar cultural and natural landscapes.

This deep anxiety and resentment feeds into a state of trauma – not usually as intense as what is called PTSD, but a state that is, I believe, becoming more widespread around the world. Studies of PTSD, leading the way to increased knowledge and understanding of trauma in human life generally, have been undertaken in countries such as Israel and Bosnia-Herzegovina, where the experience of trauma can be traced back for centuries. There it appears that genetic markers for trauma have carried some symptoms over multiple

[3] Many people have described how this happened. A relatively early summary may be quoted from economist Susan George: "Starting from a tiny embryo at the University of Chicago with the philosopher-economist Friedrich von Hayek and his students like Milton Friedman at its nucleus, the neo-liberals and their funders have created a huge international network of foundations, institutes, research centers, publications, scholars, writers and public relations hacks to develop, package and push their ideas and doctrine relentlessly." *A Short History of Neo-liberalism: Twenty Years of Elite Economics and Emerging Opportunities for Structural Change* (Conference on Economic Sovereignty in a Globalising World, Bangkok, 24-26 March 1999)

generations,[4] at the same time as devastating events have repeatedly reinforced the PTDS-like characteristics that are held in mind, body and spirit.

As more has been learned about trauma, more has also been learned about resilience. Here is a brief summary of what is now known about why, when different adults are exposed to the same traumatic experiences, some develop the symptoms of PTSD, and others do not:

- There is some genetic factor such that some people are born with more resilience than others
- An individual who has in her or his life someone who can be trusted to be loving and supportive will have more resilience than one who has no such support
- Children who live in severe poverty and deprivation are likely to be less resilient than those who have been able to feel more secure about having their physical needs met
- A child suffering poverty and deprivation will be less likely to suffer reduced resilience to PTSD if he or she has grown up in a stable community of supportive people, whether or not they are blood relations

As I go on I will mention a variety of reasons for believing that trauma is widespread in the 21st century. The last bullet-point about resilience may be relevant if we ask ourselves whether this century is really different from others. Acute poverty and physical deprivation are notably less than they have been for much of human experience; what may be new is the extent to which children in many parts of today's world grow up without a stable community of supportive people.

As humanity moves into the huge, perhaps overwhelming, challenges of the 21st century, we carry with us a build-up of trauma from the events of the 20th century. Consider the horrors of the Holocaust; the suffering in large parts of Europe and Asia during and after the two world wars; or the massacres directed by despots like Stalin, Pol Pot and the rulers of North Korea. Colonial rule in Africa was followed by conflict, disease and government oppression – that continent now has an enormous contingent of orphans who have lived through rape, violence and destitution. China also emerged from colonial status, experiencing the world's largest famine, the madness of the Cultural Revolution, and now a new economic revolution that has lifted millions from poverty but tossed them into a market economy that pursues profit while trampling on human health and other rights, as well as on the health of the environment. In India the world's second largest famine occurred while food was being exported from the hardest-hit regions – the result of a market operating without regard to human need. India has now caught up with China in the extent of pollution, and of pollution-caused illness and death. In Latin America, as in Africa, giant multinational corporations, supported by governments (including, significantly, that of the U.S.) have caused violent deaths along with severe environmental abuse.

The 20th was not the only century of human history marked by violence and famine, but it was unique in combining these with two other vast changes. One was the extent of population growth, which has multiplied the number of people on the planet by about seven times over the last hundred years. Some places have thrived with more workers, but in other parts of the

[4] The new field of epigenetics explores what kinds of life experiences may be physically carried across generations, in the germ plasm, or possibly elsewhere. The extent of this possibility – separate from the "nurture" effects that traumatized persons may have on their offspring – is not yet clear; certainly less than Lamarck supposed, but probably more than is allowed for in Mendelian genetics.

world, especially where population growth was most rapid, local systems were overwhelmed by the numbers of people to feed, house, and provide sanitation for. Demographic shock may also be related to cultural and social changes. In Japan, China, Italy, Russia and other countries where the birth rate has now dropped *below* the level needed to maintain the size of the population, there is a new struggle to find ways to care for a bulging population of elderly. In other places social turmoil occurs when intra- or international migration is a cause of rapid population growth – as in parts of Europe. In the U.S. the search for explanations for the present political climate has noted that those who shifted from previous support for Obama to vote for Trump are disproportionately found in counties where there has been rapid rise in non-white populations.[5]

The other exceptional trend over the last three generations was the rapidity and the reach of technological change. Medical and sanitary advances were the major cause of the population explosion, as they allowed a much greater proportion of infants to live into adulthood. Technology has, of course, also been a major force for economic growth; over the last 70 or so years there has been a substantial shrinking of the percentage – and, by some measures, the absolute numbers – of people living in desperate poverty around the world. But economic growth itself has become increasingly toxic. The form it has taken in recent decades has greatly increased inequality, as information technology, robotics, and other innovations work through the market to amplify the rewards, or lack thereof, to winners and losers in the system. It has also contributed to prospects for ecological disasters that may turn back much of what we have known as progress in civilization. People are feeling this intuitively, if not consciously.

One of the outstanding features of the time in which we live is the terrifying prospect of global climate change, regarding which it has been said that contemporary humankind is suffering from "*Pre*-Traumatic Stress Disorder".[6] Whether we squarely face what this will likely mean for the coming years, or whether we simply can't bear to look at the facts, it is getting ever harder to avoid the gut-knowledge that the world is rapidly becoming markedly less beautiful, rich and generous to its human inhabitants. Tens of thousands of species disappear forever every year. Large coastal land areas will be submerged; diseases will multiply and spread; food from the oceans and the climate-stressed fields will be scarce; fresh water will be expensive or unobtainable for ever more millions of people; environmental refugees will swell the ranks of unwelcome migrants; and armed conflicts will reach many people who had assumed they were safe.

Armed fortress living will be increasingly common among the rich, and will doubtless create some areas of relative security, but the people inside will be their own prisoners. They will find it difficult to visit the beautiful natural areas in the United States, or the cultural jewels of other continents. Many of these cultural jewels are already being sacked in the raging conflicts of the Middle East and elsewhere; many of the world's natural beauties are already eroding under pressure from climate change – as well as from actors in the market economy. The rich

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[5] "Immigrant Shock: Can California Predict the Nation's Future?" Emily Badger, Feb. 1, 2017 *New York Times*. For a poignant metaphor on the effects of population growth, here is an image put forth by Isaac Asimov, in an interview with Bill Moyers. Imagine two people living in an apartment where there are two bathrooms; each one can use a bathroom whenever she wants, for as long as she wants. But then suppose the population is multiplied by 7: now there are 14 people living there – but still only two bathrooms. Now there are lines, bangings on doors, arguments – it is much harder to maintain freedom and democracy. (The bathrooms, in this image, may be seen as standing in for our finite Earth, with its source and sink functions.)

[6] I first heard this term from Thomas Homer Dixon and Carolyn Raffensperger, separately

are not immune to pre-traumatic stress, as this century heads for various forms of catastrophe; their awareness and response will be important for any hope we may have for a constructive response to the threats we face. An indicator of awareness is a comment by the investor, Seth Klarman, warning that the Trump administration could lead to a major stock market correction and "global angst" among the investor class.[7] But some of that angst is already translating into escapist survivalism among those who can afford to buy land in New Zealand, or build bunkers out of former missile sites in the U.S.. The work of Dr Richard Rockefeller, to whom this piece is dedicated, is an example of a more responsible kind of reaction among the one percent.

Next to climate change, the other most outstanding source of widespread 21st-century trauma is the growing feeling that at least 99% of the people are largely helpless before the power of the giant corporations. Government in the United States is, to a terrifying extent (the ascension of President Trump only makes this more obvious), controlled by Big Ag., Big Pharma., and Big Petrochemicals. Slightly less obvious, because they don't produce anything tangible, are their enablers – the global consulting firms – and the final skimmers of profits, in the financial industry. These, in various combinations, continue to be major forces in toppling or raising up various governments around the world – never to the benefit of the people.[8]

When we speak of the forces that have, to a greater or lesser extent, taken over and degraded the public realm, we cannot leave out the roles of the intelligentsia and the media. The economics profession has played a large role in defining the "free market" as the great bulwark against the kinds of overweening government that were to be found in the Soviet Union – or in the United States. These disparate government types were bizarrely lumped together as Milton Friedman and his allies, with support by the Koch brothers and other beneficiaries of petrochemical money, fed the market solutions message to the public via Fox News, right-wing radio, and the like.

A little example of how this message permeated and echoed was an absurd debate I heard in the late 1980s, between an ecological economist and a speaker from the libertarian Cato Institute. It was absurd because each spoke as if one of these institutions was entirely to be trusted, and the other was the enemy. As though the market can operate "freely", let alone to the benefit of the people, without being nudged and regulated by government – as if government could do everything markets can do, as well or better! And as if "the market" was just one thing, while in fact, those markets that come closest to the "free" ideal preached by Friedman and his popularizers are dominated by small businesses, not by giant corporations. Yet this debate continues in the same absurd, polarized and simplified form.

Naomi Oreskes and Erik M. Conway, in their 2010 book, *Merchants of Doubt*, do an excellent job of describing how the public was given a false picture of science, especially that of climate change. The petrochemical industry has used bad science and clever marketing to cast doubt on the need for urgent action against climate change. Many of these writers and spokespeople were ready and willing to fight *for* the market, *against* government, because they felt they were upholding capitalism in the Cold War. Industry continues to benefit from an anti-science, anti-government atmosphere fanning hatred of all regulations – even those

[7] "A Quiet Giant of Investing Weighs in on Trump", Andrew Ross Sorkin, Feb 6, 2017, *New York Times*
[8] A useful source on this is *The New Confessions of an Economic Hitman*, by John Perkins. Obviously not all individuals in these parts of our economy are bad people. In each of these industries one can find companies that are doing more to solve problems than to create them, and that are only tangentially involved in the starkly widening gap between the fortunate and the unfortunate people of the world.

intended to protect the environment and provide safety nets for people who are suffering in a rapidly changing economy.

Early in this paper I cited some reasons to believe that white, Christian, male supporters of Trump feel themselves to be a discriminated-against minority. This is noteworthy because until fairly recently this was the demographic that had least reason to feel this way – and that, indeed, enjoyed a belief system which allowed them to discriminate against other minorities (as well as females, who are rarely in the minority). It is important to add, to the reasons for widespread trauma in the modern world, the experience of discrimination, which is liable to create and perpetuate a lifelong trauma for those who suffer it. This includes Blacks in much of the world; Jews, over a long history; native peoples, wherever their lands have been taken over by a more powerful set of newcomers; and women and girls in those places where their inferior status leaves them subject to violence, without recourse.

The above does not exhaust the topic of trauma in the 21st century, but it may make it easier to understand its scope.

Included in a feeling of trauma is often a wish to find an enemy. There is indeed an enemy of all humankind – a cluster of enemies; and they can be identified. They are not the quarter of the American electorate who voted for Trump. Their voting decision was fueled by their distress; and it is a distress that is widely shared, though different groups understand the causes very differently. Humanity's real enemies today – those who stand against addressing the huge difficulties that face the world – include "experts" that insist you have to choose between governments and markets, as well as governments that are hostage to a cluster of powerful, very rich actors. Humanity's enemies today are the giant corporations that profit in the short term from business as usual while diverting attention from the huge difficulties that face the world – most of all, climate change, inequality, discrimination, and corruption of democracy.

Much of humankind shares the traumatizing knowledge that large forces are doing great harm to our livelihoods, our families, and our beloved places. The mourning is not only taking place in America, and it is interpreted and acted on in a wide variety of ways. Some of the ways are violent, including what we call terrorism; some are beautiful, such as the marches of January 21 of this year, around the world; and some are designed (as I believe the Trump vote was) to create disruptive change. There are grounds for finding common cause among many of those who feel a crying need for a fairer, kinder, safer world.

Can we imagine such a better world?

In order to address the great social and ecological challenges we face, we need, for sure, better, more effective government, freed from the chokehold of money. In the U.S. this requires campaign finance reform, along with voter registration and education efforts, to overcome the suppression of voting by the underprivileged. Perhaps even more critical is to get control over the contracting-out system whereby private contractors, hidden from public view, now outnumber the federal civilian workforce by 3 or 4 to 1.[9] This is enormously

[9] See June A. Sekera, *The Public Economy in Crisis, A Call for a New Public Economics* Springer, 2016. Contrary to public opinion, the federal government workforce is essentially the same size now as it was in the 1950s, under Eisenhower; it has, in fact been shrinking, so that there are now fewer government employees than there were under Reagan. The Freedom of Information Act does not cover government contractors; they are paid by the government, but not accountable to the public.

lucrative for the corporations that have the contracts – and that keep hold of them, in part, through a cozy relationship greased by campaign contributions.

We also need a very different, very lively market sector, dominated by small businesses, many of them locally grounded, including various socially responsible modifications of profit-maximizing capitalism, such as cooperatives and Benefit Corporations. Large corporations could again (as was the case in the 19th century) be held to charters that spell out their contract with the people. A re-chartering movement is probably as important in this realm as campaign finance reform is for the restoration of responsive government.

Reforms to markets and governments are necessary so that both institutions can work on behalf of the vast number of people who are economically insecure, increasingly left out of the existing systems. While technology is filtering away ever more of the jobs of the past, fewer and fewer people can be funneled into the specialties of the future. What will be needed, however, is more of the care work that for most of human history has been underappreciated and underpaid – when paid at all. Societies will need to address how the fruits of technology-enhanced productivity can be apportioned among all the people, while acknowledging the critical work of the core economies of households and communities.

Such a market, such a government, such a society would need to work together in recognition of planetary limits. In order to more equitably share the Earth's finite resources, cultural shifts are required, to elevate the values of cooperation and compassion over competition and greed-defined success.

Right now, in opposition to any such possibilities, the forces that are determined to reap short-term profits, regardless of long-term harm, have strong allies in President Trump and his team; but it is not just this president who is the cause of so much harm and loss, in this century of loss. The votes for Trump, and for others like him, in other countries, have their seeds in the trauma of a past and a future of loss. As we address the threats we face – threats to livelihoods, to democracy, and to our ecological surroundings – we must also be mindful of a widespread need for emotional healing.

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SUGGESTED CITATION:
Neva Goodwin, "Mourning in America: Trump and the traumas of the twenty-first century", *real-world economics review*, issue no. 78, 22 March 2017, pp. 125-131, http://www.paecon.net/PAEReview/issue78/Goodwin78.pdf

Honest Abe was a co-op dude: how the Donald can save America from capital despotism

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Abstract
Few realize that the first Republican President of the United States, Abraham Lincoln, was an economic democrat who put labor above capital. Labor is superior to and independent of capital, the Republican president said, deserving higher consideration. Capital despotism is on the rise again, threatening the stability of economy and union. The biggest problem of democracy now is not the failure to fully extend political rights. The bigger problem is economic in nature. The threat today is from a lack of economic democracy – a lack of ownership, of autonomy, and of justice in the distribution of rewards and punishments. Co-operatives can help.

Keywords cooperatives; economic democracy; capital despotism; labor; Abraham Lincoln; Ronald Coase; the firm; National Cooperative Bank

> "Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration" (Abraham Lincoln, 1861).

Greetings, America, and good luck. Now more than ever the world stands to gain by cooperating with each other.

Good day in particular to Republicans, and congratulations. This is a new day. And, in a very real sense, it is your day. Republicans' Day. Abe Lincoln's Day. The people have voted. Ordinary workers – or, more exactly, a small number of extraordinary delegates – have had their say. And the whole nation – or anyway, the part of the nation that is voting and paying attention to "things that are trending" such as political elections – we need for you to succeed. To keep your word. You're hired.

Now we need from you some sort of contract with America, like the one you tried in the Nineties, only seriously this time. Regular folks have been shoved aside for too long. The well-being of honest workers continues to sink with debt and despair. The economy is badly broken; wages are depressed or disappearing altogether; productive folks are still being sacked and pensions have been badly looted; meantime, overpaid bosses, supervisors, and "protective service" workers (a euphemism for police) have multiplied disproportionately in the ranks of the average firm while vacation and sick days vanish or can't be used without fear of loss. Something's gotta give.

America voted you into office, based on what you said you'd do differently. Now we need you to make good on your promise to "bring back the great state" of Illinois, as that state's newly elected Governor Bruce Rauner has promised. Make good on your promise, Republicans and Democrats alike, by cooperating with America to bring back family and wealth – bring back the freedom, the jobs, the manufacturing and democracy-first-philosophy we all want and need in every state of this great union.

You may not realize it but America voted for Republicans like you because you represent the party of Honest Abe, Abraham Lincoln, the first Republican President and Co-op Dude. Labor before capital, people over profits, that kind of thing.

That's what Honest Abe believed, he told Congress time and again. You heard that right: Lincoln was a co-op guy, *sans* Birkenstocks and vegan diet, true. Still, there it is.

Let's get the facts straight.

Economists in the know have acknowledged that the worker owned cooperative firm is the most perfect model of economic democracy and rational business organization dreamed up so far. That is true around the world, from Springfield all the way back to Shelbyville, economists who've examined such co-ops agree. Co-ops are more productive. And every worker is an owner.

From the Dutch blossoming of commerce in the 1600s to the Asian Spring of the 2000s, socialists and capitalists alike have not produced, it seems, a better, more efficient and democratic form of economic production and distribution. Co-ops win.

Not everyone is convinced.

If co-ops are so great, why don't they dominate the economy? Negligence and ignorance, more than any other possible cause, it would seem.

For example, the infamous "socialist calculation debate" in economics dragged on for two decades before a single word was said by either side, from Lange and Lerner to Mises and Hayek, about the nature of the firm. Nary a peep from economists about how or even why firms choose to organize into production units of a certain scale, large or small. Ronald Coase's article on "The Nature of the Firm" (1937) was good enough to fetch him a Nobel Prize. But Coase did not bring as much clarity to the debate as most economists believe.

Coase was vague and conventional to point of embarrassment. He made straw man assumptions about the firm being a hierarchical-capitalistic entity. Coase's firm, though more "tractable" and "realistic" than previous notions, is assumed to be run by a "master" or "masters," by capitalists who seek to maximize profit by bossing around "servants" – that is, wage earners possessing little autonomy, little or no ownership, and no voting rights on capital, their sole purpose being assumed to serve the "masters" of capital.

Said Coase, "If a workman moves from department Y to department X, he does not go because of a change in relative prices, but because he is ordered to do so." But if Coase (himself a lovely man in person) would have taken a closer look at the real world, he could have found cooperative firms succeeding in stark contrast to the anti-democratic firms of his imagination.

The paucity of the co-op form in America is costly to more than pocketbooks. Worker owned co-operatives have been designed by people from all walks of life sharing Republican values of ownership, democratic decision making, autonomy, security, and voluntary cooperation. The surest defense against despotism is the immediate extension of universal economic democracy. That is the nature of the just firm.

If co-ops sound scary, or left wing, or creepy in that church-based or high school way, it's not your fault: with few exceptions, most people – economists included – make it all the way through graduate school never even hearing about the cooperative form of business.

Few are aware that Abraham Lincoln, the first Republican President of the United States, was a pro-labor, pro-democratic, Co-op Dude who put people first, "prior to and independent of capital," as Honest Abe put it. And as nature, democracy, and common sense dictate.

Oui, oui, Madame, yes Sir, he was: Honest Abe was a Co-up kind of guy. He had a hip looking neck beard, too. Wore a flannel shirt sometimes; rolled up his sleeves, worked hard (and at various types of jobs), read difficult books, made difficult decisions, made deadline, and drank beer – all in cooperation with others. As Lincoln said elsewhere: "I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts, and beer."

Cheers, a toast to Abraham Lincoln!

So far as we know Honest Abe did not himself belong to a worker owned co-op. But his theory of labor and capital imply that co-ops are prior to, and superior to, Corporate America and other forms of economic despotism on the road to serfdom, such as Kmart.

Republicans should be among the first to grasp this elementary principle of economics and democracy. Labor is us; thus we, labor, have the first, most valid claim to output, and we have the first say about its means and modes of production, whatever the ratio of capital to labor might be, small or large, capital intensive or labor intensive.

Let's remind our newly elected officials of the actual, not mythical, Republican philosophy of labor, as originally articulated by President Lincoln in his "First Annual Message" to members of the U.S. House and Senate (December 3rd 1861):

> "Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration."

There it is, there's the writ, from the Patriarch of the Republican Party to the Industrial Workers of the World. It wasn't Marx and Engels who drunkenly scribbled (though the thought arises). The sober author of the quoted passage was the first Republican President of the United States, speaking truth to power – and power to truth – of labor's priority over capital.

So you don't have to be Karl Marx or George Carlin or a lunatic in the night to believe that economic democracy – and the priority of labor over capital – is as American and Midwestern Republican as corn dogs and kale.

> "Capital has its rights, which are as worthy of protection as any other rights," Lincoln noted. "Nor is it denied that there is, and probably always will be, a relation between labor and capital producing mutual benefits."

But the primary emphasis on labor, and not on speculative finance or maximization of shareholder value, "is the just and generous and prosperous system which opens the way to all, gives hope to all, and consequent energy and progress and improvement of condition to all," said Lincoln. He added:

> "No men living are more worthy to be trusted than those who toil up from poverty; none less inclined to take or touch aught which they have not honestly earned."

And finally:

> "Let them [labor, that is, you and me] beware of surrendering a political power [to abstract capital] which they [that is, we human laborers, not mere machines or money] already possess, and which if surrendered will surely be used to close the door of advancement against such as they and to fix new disabilities and burdens upon them till all of liberty shall be lost".
>
> "Till all of liberty shall be lost," Lincoln said, in his noble address against capital "despotism".

In other words, the worker-owned cooperative model for doing business and earning a living is not as hippie-commie as it sounds. It was good enough for John Stuart Mill, too – the great English economist and philosopher. Even Friedrich Hayek, the Nobel laureate and free market muse of both Thatcher and Reagan, himself belonged to a co-op, back when he was on the faculty of the University of Chicago: The Seminary Bookstore Co-op, in Hyde Park, Chicago. (Full disclosure: I've been a member for many years.) Father Jose Maria Arizmendiarrieta (1915-1976), the Spanish Catholic philosopher, educator, and founder of the Mondragon cooperative community, might be canonized for the humanity and jobs his work has brought to the Basque region of Spain and beyond.

The worker owned co-operative firm turns out to be as American as plywood and taxi cabs, too. In fact, those industries and many others have been partially produced by cooperatively owned and managed firms, though co-op industry share remains puzzlingly low in the U.S. and most other countries, Spain and Italy included. Even in the co-op friendly plywood industry of the Pacific Northwest co-op industry share peaked in the 20th century at less than one-half of total industry output.

The lack of co-ops in America appears to come less from economic incentive and more from sheer ignorance. Put plainly, most people don't know what a co-op is or does. (I reached 19 years of age before I heard the very words, "cooperative grocery store", and 21 years before I first joined one.) People just don't know about co-ops, nor of how successful they've been from the cooperative milk and cheese makers of Jura, in early medieval France, to today's taxi drivers and electrical engineers organized cooperatively in Madison, Wisconsin or Mondragon, Spain.

"One worker-owner, one equal vote" on all business matters. That is the foundation of ownership and democracy at the democratically and self-managed cooperative firm. Co-ops require six to seven times fewer supervisors and managers – the overpaid numbskulls we currently cope with. And everyone takes a turn supervising, just like safety patrols at school or in the management of common pool resources, such as timberland in mountainous regions of various nations.

Maximization of income per worker, democratic decision making, and employment stability are three of the other main inputs to the cooperative objective function. Worldwide that's typical co-op practice, from Rome to Rio.

Thus the objective of the cooperatively owned and managed firm is to maximize the material, sociological, and psychological well-being of labor, minus the cost of capital and reinvestment for rational expansion or change in the mix of inputs and outputs. And get this: most co-ops allow the resigning, retiring, or perishing co-op member to transfer his or her asset and right to work to a family member – a way of keeping jobs for a stable community and healthy families that one does not find in the despotic firm.

Co-ops promote family values.

That's because people are credits, not debits. Labor is us, labor is people. Lincoln, the first Republican President, understood that. Too many people today do not understand. They understand that co-ops are for hippies, reds, and other neck beards. That is not true. "We the people are not machines" is a line that Jefferson forgot to add to the Declaration of Independence. (To satisfy skeptics I concede that most humans are not machines, despite Fox News, iPhone 6+, and Obama's polished voice.)

In his 1861 address to Congress, President Lincoln extended to the economic democracy what Senator Lincoln had summoned at least two years prior. In his "Annual Address" before the Wisconsin State Agricultural Society, in Milwaukee, Wisconsin, September 30th 1859, Lincoln told an assembly of farmers and brewers: "The world is agreed that labor is the source from which human wants are mainly supplied. There is no dispute upon this point."

So, ye newly elected Republicans: summon your inner Abe. Stay true to Republican philosophy.

Start by injecting capital into the National Cooperative Bank, the still promising cooperative bank of the United States that the Reagan administration all but killed in 1981, less than two years after the necessary bank was first established by Congress. The Cooperative Bank – and other banks like it – can help to fulfill the promise of economic democracy, by supplying loanable funds and grants to build and to grow cooperative enterprise.

Pass legislation making it easier to establish a cooperative firm, corporation, and village or town, not unlike the successful producer and consumer models already found in the plywood cooperatives of the Pacific Northwest, the home appliance and solar panel and other small manufactories of Mondragon, Spain (which currently boasts over 100,000 worker-owners), and the giant grocery store co-op of Switzerland, called simply "Co-op", which claims over 2.5

million current members. Pass legislation authorizing Congress to support cooperative education, conferences, and other institutions in aid of cooperative banks and firms.

We are destined to fulfill the promise of economic democracy in America. We owe it to ourselves, and to Honest Abe.

Besides the attack on the National Cooperative Bank, additional attempts to kick-start cooperatives have been resisted by Republicans and Democrats alike. *The 1994 Economic Report of the President* stated that "the Administration aims to increase the productivity of the work force by helping employers make better use of their workers through increased worker participation" (p. 128). The Report noted:

> "Numerous studies have now demonstrated that cooperative techniques increase productivity substantially in a wide range of enterprises. By helping to disseminate information on what successful firms have been able to accomplish, the Administration hopes to speed the adoption of these practices throughout the economy."

We are still waiting for the information dissemination and speedy adoption.

The United Nations called the year 2012 "The International Year of Cooperatives", and sponsored a number of conferences and workshops worldwide to help to disseminate information and support for co-ops as promised by the Clinton Administration back in 1994. Unfortunately, few business and political leaders are aware of the U.N.'s recent initiative to boost the co-op sector.

Co-ops have existed in the United States since the days of Ben Franklin but today they represent less than 1 percent of the American economy. Back in the 70s, 80s, and as even recently as the 90s, however, worker-owned co-operatives saw a surge in empirical economic research and fare – in most regards – incredibly well when compared to today's conventional firm.

Economists, not all of them known for holding democratic-cooperative ideals, have put co-ops to the test of statistical and economic proof. Jaroslav Vanek, David Ellerman, Katerina Berman, Ben Craig, John Pencavel, Alan Krueger (Obama's Chief Economist), Louis Putterman, Christopher Gunn and many others have conducted rigorous empirical studies comparing and contrasting the economic performance of worker owned cooperatives.

What did they conclude? In their 1992 *American Economic Review* econometric study of veneer and plywood producers, for example, Craig and Pencavel (both at the time of Stanford University) found that co-op share prices are highly undervalued. Craig and Pencavel demonstrated empirically that there are $1 million dollar bills (in the form of missed opportunities for investments in co-ops) waiting to be picked up on the street. Holding equal net discounted present value of joining and working in a co-op versus working in a conventional unionized firm, the share prices on offer for each firm type should be roughly equal. They're not, the economists found. Co-op share price could rise by a factor of three in some firms and still make a profit for the worker-owner whose opportunity cost is a job at a unionized plant.

Employment stability and fairness in pay are better too. Much, much better. In the cooperative firm, economic democratic virtues are used to guide its policy for distributing rewards and punishments, unlike in the conventional firm, where vast inequality of income, autonomy, and surplus prevails.

Worker-owned co-ops are found to be more productive, holding input levels constant, economists such as Alan Krueger and Henry Farber agree; co-op workers have more job satisfaction; they have lots more say about the process and mission, and equality of status too; employment levels are far more stable (virtually no one loses their job); and income differentials are 2-or-3-or-4-to-1 at maximum versus the 500-or-550-to-one ratios of today's neoclassical firm.

In a disturbing (but hilarious) book, *Get Rich Cheating: The Crooked Path to Easy Street* (2009), Jeff Kreisler reports (pp. 76-81) on the incomes of CEOs. Kreisler names a dozen executives who took home as much as $50,000 U.S. per hour on average, hour after hour, year after year, as the company they lorded over, including Merck and Fannie Mae, lost billions. Kicking in the head an already dead President Lincoln.

Cooperation at work, at the shopping center, and even in our housing and communities, is not what it could be. Not even close to what economists call the "production possibilities" of output and happiness.

The biggest problem of democracy is not the failure to fully extend political rights, however important. The promise of political and human rights is not perfectly fulfilled, true, though many gains have been made.

The bigger problem is economic in nature. The threat today is from a lack of economic democracy – a lack of ownership, of self-reliance, of autonomy, and of justice in the distribution of rewards and punishments at work – from the appropriation of company revenue to the lack of protection against pension raids and unfair taxes, capital despotism is rife.

"The road to serfdom" has many paths to choose from, Hayek warned in his important book of 1944, but too many Americans – including most economists and politicians – have forgotten the economic path, the road to serfdom caused by a lack of *economic* democracy. Unlike Lincoln.

The average American has failed to notice – or is so far unwilling to act upon – the fact that they themselves spend six or more hours per day working in or with an anti-democratic, speculatively financed, and capital-first firm or government or bank. Your bank and government and firm, for example.

Political activists frequently complain (we should be grateful) about one violation or another of political or human rights, forgetting about the oftentimes much, much larger and more devastating lack: economic rights.

The Republican Party could now be poised to make great strides for economics, democracy, and family values. The fight against despotism, against unwarranted loss of wages and wealth and democratic control; the fight against the alienating feelings induced by an increasingly antagonistic, speculative, overleveraged, and hierarchical-narcissistic capitalism must be priority number one.

We can learn from the successes and struggles of the 70-year-old Mondragon experiment: we learn that good American manufacturing jobs can be won back by restoring the proper relation between labor and capital. Ordinary American workers can rediscover the virtues of full employment, self-reliance, self-governance, and of earnings and pensions being paid to the rightful producers of them.

What would a Whitman or Tubman do? How about Adam Smith's "impartial spectator" – what would she or he say about the lack of economic democracy?

On the co-op question they would agree with Lincoln and Marx, not Hayek. If America fails to cope with the fact that capital is the fruit of previous labor, economic despotism and the road to serfdom will be knocking at the front door of the whole society; already we sense their presence.

Well more than 230 years ago, Mr Adam Smith himself would heed the moral side of the call out, in *The Theory of Moral Sentiments*. In a chapter of the great tome he titled "On the Corruption of our Moral Sentiments," the eminent economist Mr Smith (1790 [2009], p. 73) observed:

> "This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, ... is, … the great and most universal cause of the corruption of our moral sentiments."

You can't change a light bulb without the assistance of a new light bulb, not to mention a socket, some electricity, possibly a ladder and other capital inputs, that's true. Capital has partial rights. Economic units have to grow to efficient scale (holding justice constant) and people need to save and invest for their uncertain wealth of the future.

But capital efficiency is not the definition of economic justice. Capital is a subtraction from labor, not the reverse. We mustn't ever forget again what Lincoln told Congress not long after the start of the Civil War, when the capital relation was on many people's minds: "The error," Lincoln warned, the corruption, "is in assuming that the whole labor of community exists within that relation."

Thus begins the art of the just deal.

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SUGGESTED CITATION:
Stephen T. Ziliak, "Honest Abe was a co-op dude: how the Donald can save America from capital despotism", *real-world economics review*, issue no. 78, 22 March 2017, pp. 132-140,
http://www.paecon.net/PAEReview/issue78/Ziliak78.pdf

Prolegomenon to a defense of the City of Gold

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In 1992, Democratic Party strategist James Carville posted a sign in the campaign staff's "War Room", that included the message "The Economy, Stupid", which quickly morphed into "It's the Economy, Stupid" and became a *de facto* slogan for Bill Clinton's successful bid for U.S. President. The slogan reflected a widespread belief that American votes are usually decided by pocketbook issues, a view that bears some kinship to the Marxian position that economic reality is somehow more fundamental (base) than ideology and the rest of culture (superstructure), a thought not unrelated to the economists' traditional prejudice in favor of materialism. Whatever the genealogies of such collective imaginaries, it seems fair to say that lazy materialism has continued to suffuse Democratic Party ideology, and indeed the positions of mainstream center left parties in many high income societies.

This simplistic epistemology – often risibly presented as a hardheaded lack of sentimental idealism – left Democrats unprepared to understand or engage the populist rhetoric of recent years, which uses economic language in far more complex ways. More generally, in contests between "populists" and "the establishment" or "elites" in the United States and other high income societies, the vocabulary of economics has served psychological and so political purposes far beyond ordinary pocketbook concerns. "The economy" has gone from being understood as knowable, fundamental, factual, the basis of argument, to a field of discourse, opaque, emotional, intensely subjective, a mode of disputation and, most importantly, identification.

Before proceeding further, it may be worthwhile to emphasize an analytical complexity, especially for readers from outside of the United States. The divide between Republicans and Democrats is not congruent with the divide between populists and the establishment. In fact, throughout the 20th century the Republican Party positioned itself as the party of the establishment, especially the business establishment. Many Republicans, including of course the mainstream candidates, were literally incredulous at the decisive power of Trump's populist appeal. Conversely, many populists supported the insurgent Bernie Sanders against the Democrat's longstanding heiress apparent, Hillary Clinton. A significant number of populists who voted for the Democrat Obama, hoping for change, went on to vote for the Republican Trump, for the same reason.

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Those things said, during the Obama presidency, i.e., when the Democrats held the White House, Republicans naturally tended to position themselves as outsiders, and railed against Washington generally and the Affordable Care Act ("Obamacare") especially. Republicans summoned radical populism and radical populism came, to the delight of some people and the consternation of others, in the form of a reality show President who communicates directly to the people via Twitter. (From time to time one must pause to contemplate the raw newness of the present situation.) Trump thus appears to be the populist extreme of a more moderately populist party.

It should also be emphasized that the Republican Party has been very successful in recent years. It is true that the Democrats held the White House from 2008–2016, in large part due to the appeal of President Obama. In the meantime, however, and despite greater membership and presumptively better demographics, the Democratic Party became in many ways the minority party in the United States. As of February 2017, Republicans control not only the Presidency, but both houses of Congress. Thirty-three State governors are Republican (16 are Democrats, and one is independent). In 32 states, Republicans control the legislature; Democrats control 13 states; and the rest are split. In sum, Republican Party power is both broader and more representative, and somewhat less populist, than a narrow focus on the very close Trump election might suggest.

Nonetheless, national political discourse has polarized, and this polarization has included economics. Far from being somehow objective, the language of economics has been pressed into partisan service. The tropes have become familiar:

1. Populists vote against establishment parties, professing to worry about jobs taken by immigrants, legal or not, or lost to international trade. Nativist rhetoric flourishes; ugly things are said about those seen as outsiders.

2. Elites scratch their heads and wonder about populist discontent, since ordinary people are awash in the cheap goods offered by globalized production. Even gasoline is cheap, global warming be damned. Moreover, ordinary people benefit from the subsidies provided by a benevolent state, run by right thinking mandarins for the good of all.

3. Populists decry the growing privilege and entrenchment of elites. Meanwhile they and their spouses work harder than ever and get nowhere, or do not work and fall behind.

4. Elites call populists losers, unable to succeed in the modern era.

5. Populists call elites unpatriotic, godless hypocrites, and the like.

6. Elites call populists morally unacceptable, deplorable, xenophobic, racist, etc.

Politics is rarely gentle, and this is hardly the first time in U.S. history that the nation has been polarized. That said, the *ad hominem* quality and lack of decorum of contemporary politics are largely unprecedented, at least in living memory. This charged atmosphere raises problems for political thought. In a polarized milieu, where "you are either for us or against us", it is difficult to say much without being understood to adopt one of the familiar attacks or counter-attacks. And so political discourse in the United States in recent months has been especially repetitive, along the lines sketched above. How to get out of this loop, without being coopted by the agonistic structure of contemporary politics?

From an American perspective, the polarized character of contemporary politics is rather sad. In the U.S. political tradition, which lies near the heart of the national identity, politics has been idealized as a rational and collective enterprise. A nicety of history: in 1776, the same year as the Declaration of Independence, Adam Smith published *The Wealth of Nations*, arguing that national prosperity resulted more from sound institutions and wise policies than from natural favor or battlefield success. The United States was founded, made rather than inherited, and so both its political institutions and its economy were from the start in question. What sort of institutions, laws, economy would the new nation have? Consider, in this regard, not just the *Federalist Papers*, but the tensions between a more agrarian republic associated with Jefferson as opposed to Hamilton's more mercantile and industrial vision; the debates over the First and Second National Bank (the central bank); and of course the existence and expansion of slavery and the economy founded thereon. It would be easy enough to carry the theme through the Civil War and up until the present, but the point here is that arguments over how to answer such questions, how to construct the nation, have been not just the substance but also the practice of American politics, the warp and the woof. What else did these immigrants share?

The traditional fora for such arguments have been broadly circulated newspapers, black and white and read all over, as an old children's riddle has it. Consider Benjamin Franklin, newspaperman, or Watergate and the *Washington Post*. None of which is to deny that there have been lapses in the quality of argument, times when argument was less than principled and appeals were venal, but it is a tradition of virtue that makes a lapse possible. Now the practice of rational and collective argument, and the broad fora in which such arguments are held, to say nothing of the manners, seem at risk of passing from the scene.

Aristotle's claim that man is a political animal is often taken as a sort of preface to constitutional thought, discussion of different forms of political life, their strengths and vulnerabilities, different understandings of citizenship, and so forth. But the famous claim also lends itself to a simpler and darker reading that seems particularly pertinent nowadays: men (and women) will form political associations, tribes of one sort or another, with whatever materials fall to hand. Politics, the ties that bind, can be based upon any number of things: descent from a hero or a god, common birth in a location, shared history or religion, or race, or national chauvinism, or sports, or even policy, including of course economic policy. Indeed, in vast polities like the United States or the European Union, policy – the state of being *bien pensant* – is an especially attractive foundation for political life, because it requires only agreement, not personal knowledge. One can make common cause with absolute strangers, indeed must in order to elect a president. Conversely, one can use political abstractions to assess whether strangers are otherwise our kind of people. So political identities and even marriages are formed on notional assent to abstract ideas. Is this not the stuff of talk radio, or slightly more subtly, the congratulatory pieties of the liberal media? From this perspective, the very American idea that policy talk is about what is to be done seems naive, and the notion that "economics" forms some sort of objective ground for political discourse – "it's the economy, stupid" – begins to seem tragicomic.

The better question is why this economic language, now, for these people? What sort of political identity does this language constitute? To begin with the heart of populism in the contemporary United States, working class white males: contemporary society has little use for such men. Some of this dislocation is sexual and racial – to be a white male is no longer automatically a position of privilege. Much of this dislocation, however, is economic. Decently paying high skill labor is becoming scarce, and even middle class wages have been relatively stagnant for years and years. But “economic” is hardly objective. When Americans meet for the first time, they frequently ask, “what do you do?” that is, what is your job? In a vast commercial republic, a great many people found their personal identities and their social roles on their employment – their jobs make them who they are. The stagnation and uncertainty of the contemporary job market have thus raised existential issues, even for those not threatened with poverty.

Economic precariousness, even poverty, need not be completely disabling. Members of other ethnicities and genders often tell stories of heroically overcoming historic injustice. Civil society abounds with “women in law” and “Black History Month” and so forth. Such forms of association and such stories are by and large unavailable to straight working class white men, because they are straight, white, and male, that is, members of the oppressor class against which other identities are founded. Not everybody can be a subaltern. Public discourse effectively prohibits such men from portraying themselves as victims, and so they had better be successful, or they will have no narrative with which to explain their lives to themselves or to their fellow citizens. As already suggested, in the event of failure or even mediocrity, such men are likely to be scorned as losers, failures. Some such men turn (have always turned) to blaming others, in familiar patterns of isms – antisemitism, racism, xenophobia, various forms of sexism – but perhaps mostly just bitterness looking for a target. Such men may be called “deplorable” by establishment presidential candidates. Recent studies indicate catastrophic levels of substance abuse and suicide among this population in the United States.

Turning to the establishment, and especially the overwhelmingly liberal elites: contemporary U.S. society is in fact quite unequal and that inequality is entrenched by the professions. American inequality is not just a matter of the very wealthy, or the historically underprivileged. A mandarin class (well-trained symbol manipulators, often bureaucrats) both runs and benefits from the academy, the civil service, much of finance, law and medicine, the press and media generally, various high tech industries, and other established institutions that require prestigious educational credentials in order to participate. Their position is conservative for the traditional and structural reasons that they are highly privileged by the status quo, and increasingly able to pass along such privilege to their children through meritocratic institutions of higher education, “meritocratic”, that is, for those with the proper backgrounds.

Liberal elites in the US seem, however, to be an *haute bourgeoisie* that dare not speak its name. Certainly people have been more honest about their status in other times and places. The Democratic Party led by Hillary Clinton, centered on professionals rather than labor or even ethnic minorities, is dominated by Whigs masquerading as progressives. There is much to be said about claims to progress, but for now it bears remembering that comfort with sexual variation is quite compatible with hierarchy – de Sade was a Marquis. Interestingly, contemporary professionals are relatively staid in their personal lives. Dual income professional couples not only are more likely to stay married, their double incomes create surplus capital for investment purposes, not to mention a stable platform from which to get their children into elite schools. Nor is it obvious how people who received their positions through a lifetime of brutal zero sum competition, often in Ivy League institutions, somehow come to think of themselves as egalitarian. Indeed, contemporary American elites have intensely uncharitable feelings about swathes of life in the United States, ranging from entire states to cuisines to amusements to music, to say nothing of political positions... There is much more to be said, but in short, this generation of mandarins may well be remembered as far more hypocritical than the Victorians, or perhaps simply unreflective.

Hypocrisy is fairly minor as sins go, in places bordering on good manners. The real problem, intellectually, is that none of the foregoing amounts to a *defense* of the status quo. Members of the establishment, by definition somewhat conservative even if blissfully unaware of the fact, should be able to articulate what they feel worth preserving about the society with which they are entrusted, besides their own privilege. As suggested above, saying "the peasants are revolting" i.e., ignorant, racist, homophobic, etc. simply does not suffice. (Apologies to Parker and Hart's *The Wizard of Id*.) It is better, but not much better, to be sympathetic and say that the peasants have had a really rough time, what with globalization and automation, and are acting out. Sometimes poor uneducated white men, like children, say terrible things (can one imagine saying anything similar about any other group?). Nor is it enough for members of the establishment to say that while we may be privileged, one must look at the alternatives. Perhaps abandoning the status quo means that populists will do terrible things, by which it is usually meant that various populations will lose various rights. This evidently was the argument of the Women's March on Washington and elsewhere on January 21, 2017. But this is an essentially negative argument for any establishment: support us because you fear them. And the argument comes at the cost of demonizing a large part of the population that the establishment claims to govern, to represent, and on which it ultimately relies, even in the absence of democratic sentiment among the governing elite. After all, who takes the "people" in "populist" seriously?

Negative arguments in support of the establishment are unlikely to be enough, or at least have not been enough recently in the U.S., in the U.K. and on the Continent. Fears evidently can be allayed, or subordinated to a more profound discontent with the status quo. What is needed are positive arguments. With both the British and the Belgian empires in mind, Joseph Conrad wrote "What redeems it is the idea only. An idea at the back of it; not a sentimental pretense but an idea; and an unselfish belief in the idea – something you can set up, and bow down before, and offer a sacrifice to..." Unfortunately, the establishment on both sides of the Atlantic has been woefully short of positive ideas in recent years.

What Conrad calls an idea might in some circumstances be called a narrative, a story that people tell to one another and themselves, perhaps the United States as an opportunity and a succession of frontiers, or the unfolding history of a self-governing people. But sometimes the idea is more of an aesthetic, perhaps a city on a hill, or the peacefully cosmopolitan Europe imagined by a cognac merchant. For Conrad it was a complex of associations, being British. But the important point, here, is that it was "the idea that redeems it" – not that there was no sin in colonialism, but that the sin was in service to a larger vision, worthy of allegiance.

The indispensable function of shared beliefs for large polities is that they bridge physical and temporal differences. They make us one, even if only in our heads (how else could we be one?). So, since Rousseau is correct that the citizens of large republics cannot all participate in the general will because it is not directly familiar, such republics require large scale shared beliefs. Rephrased, belief makes collective participation possible, i.e., a polity exists because people believe it exists, and that they belong.

The danger in both the United States and Europe and indeed globally is that people may cease to believe collectively in important aspects of the ideas or narratives that have constituted their polities. Such polities risk polarization, indeed have experienced great polarization, which history warns threatens outright fragmentation, and that often ends badly. In the absence of shared narrative, things fall apart. To be blunt, there seems to be a substantial risk of the fragmentation of the liberal order in the United States, in Europe, and established internationally after World War Two, largely under American leadership. In each context, one may ask, what are the shared narratives, and are they still shared?

Perhaps most consequentially, and the focus of the remainder of this essay, the Trump administration has put the liberal international order at issue. Trump may not succeed in fundamentally changing the course of U.S. foreign policy; inertia is an awesome force. Nonetheless, the administration has signaled its desire for an essentially bilateral basis for U.S. trade policy, and foreign policy generally. Not just NAFTA but the United Nations and NATO have been called into question. Immigration policy became radically more restrictive overnight. In saying such things and taking such actions, Trump appears to be willing to reverse U.S. policy running through both Republican and Democratic administrations back to World War II.

This is not just a matter of U.S. policy and its effects on other states. The world that was born after WWII (globalization, the integration of Europe, and the multilateral liberal international order generally) may be understood to constitute a polity, which I have elsewhere called the City of Gold. The essence of the City is that economic integration can be used to create human connections that span spaces in complicated ways not reducible to the nation state; the organizational expressions of this thought are the Bretton Woods institutions and the European project. In establishing these institutions and thereby constructing the City, the founders sought to replace the nationalism most perfectly represented by Hitler's Germany, in which borders, political identity, economic power and military organization are all coterminous, and available for warfare. In the nation's stead, it was hoped, new forms of social and political life would emerge, forms that have come to be called globalization, or more intensely, Europe, and perhaps less obviously or completely, the multicultural contemporary United States, with its over 320 million souls. As a matter of political philosophy (including political economy) globalization represents a shift in the dominant grammar: a turn from the politics of the modern nation-state, more or less Enlightened, toward a supra-national and post-Enlightened politics largely based on market participation. From this perspective, of Keynes and Monnet, economics is essentially aspirational, a way of constructing politics and a hope, rather than a foundational form of knowledge.

As the rise of global populism makes clear, the survival of the City cannot be taken for granted. Nor should it be. Again, polities need animating ideas, grounds for solidarity. Why should the world be organized in this fashion? What are the ideas that animate the City? What are its weaknesses? *City of Gold* was, of course, an effort to answer to such questions, to articulate the idea that provided a *raison d'etre* for globalization and indeed the contemporary modernity under attack by Trump and other populists.

Many of the center-left parties of the world do not understand that they are playing defense, and therefore should be able to call the contemporary order into question and justify it nonetheless. That kind of thing is for conservatives, and, as already noted, the Democratic Party at least does not understand its conservative commitments. Consonantly, since the fall of Marxism, Davos man has had few critical traditions with which to question his own moral legitimacy. There has been some concern about jobs, and for a while there were protests at WTO meetings. None of that made much difference to center-left thought. Apart from the sheer difficulty of thinking about the contemporary, for those who have done well, as with most elites throughout history, the regime that rewards them needs no justification. The world in which I am privileged is the best of all possible worlds, the order of nature, probably divinely ordained. So, suddenly under pressure from populists, contemporary elites have few intellectual resources on which to draw and little of substance to say, and therefore indulge in name-calling. Hardly edifying, even if sometimes accurate.

But name-calling is besides the deeper point, which is articulating why *this* is a meaningful way to construct political order nationally and internationally. There are indeed alternatives, some of which are articulated by Trump and other populists, some of which are expressed by Islamists, and no doubt others besides. More deeply, the City of Gold, like any form of political life, has shortcomings that must either be changed (leading to a different sort of polity, with shortcomings of its own), or with which some sort of peace must be made. Any civilization has its discontents, and they are not entirely wrong. From this perspective, it is tempting to see the intellectual situation of liberal elites as an updated version of Marie Antoinette playing shepherdess: the fact that elites have a hard time even conceptualizing different politics, much less justifying their own politics, indicates a lack of imagination or critical equipment, perhaps a certain laziness, no doubt the distraction of big wall diving off Belize. Forgivable, even expected, as a human matter, but not responsive to the demands of the day, as Weber urged sociology to be.

A serious establishment confronts the failings of the order it seeks to defend, even as it articulates shared ideas, aesthetics, narratives to which its people subscribe, and which constitute far-flung individuals as a people. On February 18th, 2017, the *New York Times* online ran an article, "Trump's 'Winter White House': A Peek at the Exclusive Members' List at Mar-a-Lago." The same article appeared above the fold on the front page of the New York print edition the next day, under the slightly less breathless headline "For $200,000, a Chance to Whisper in Trump's Ear". A couple of headlines are only snapshots, but at this juncture it is difficult to argue that the Democratic Party or the liberal establishment generally in the U.S. is serious. Hope springs eternal, but it is also difficult to be sanguine about this establishment's capacity to ensure the national and global political orders that it has inherited and that suddenly seem at risk of dissolution.

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SUGGESTED CITATION:
David A. Westbrook, "Prolegomenon to a defense of the City of Gold", *real-world economics review*, issue no. 78, 22 March 2017, pp. 141-147, http://www.paecon.net/PAEReview/issue78/Westbrook78.pdf

Trump's bait and switch: job creation in the midst of welfare state sabotage

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Abstract
Trump's faux populism may deliver some immediate short-term benefits to the economy, masking the devastating long-term effects from his overall policy strategy. The latter can be termed "welfare state sabotage" and is a wholesale assault on essential public sector institutions and macroeconomic stabilization features that were built during the New Deal era and ushered in the Golden Age of American economy. Since the late 70s, many of these institutions were significantly eroded by Republicans and Democrats alike, paving the way for the rise of Trump but paling in comparison with what is to come.

Keywords manufacturing, service sector, infrastructure, full employment, inequality, social wages, welfare state, trickledown economics

When President Trump announced his Cabinet members, the chair of the Council of Economic Advisers was conspicuously missing. Two months later, Kevin Hassett (conservative economist and author of the 1999 book *Dow 36,000)* was tapped for the post, which notably is no longer a cabinet-level position.

Economists, it seems, have been demoted. And it was only a matter of time. The malaise over the last half century that produced long term unemployment, acute inequality, and low economic growth is largely the result of trickledown mainstream economic theory and policy and the assault on the welfare state and key government macroeconomic functions.

The rise of Trump was the result. Policy improvisation and experimentation is now the order of the day. In the words of Trump's Chief Strategist Steve Bannon, we should expect a new type of economic populism:

> "…we're going to build an entirely new political movement… *It's everything related to jobs*. The conservatives are going to go crazy. I'm the guy pushing a trillion-dollar infrastructure plan. With negative interest rates throughout the world, it's the greatest opportunity to rebuild everything. Shipyards, ironworks, get them all jacked up. *We're just going to throw it up against the wall and see if it sticks*. It will be as exciting as the 1930s, greater than the Reagan

> revolution – conservatives, plus populists, in an economic nationalist movement" (Bannon, Nov. 18, 2016, emphasis added).[1]

If "it's everything related to jobs," the task herein is to unpack the job creation promise.

Trump's job creation promise

In the fifty days since inauguration, we have yet to see a specific economic plan,[2] but two figures have been repeated over and again: 25 million new jobs and $1 trillion in infrastructure investment.[3]

The White House issues page "Bringing Back Jobs and Growth" shows that the plan is to create those 25 million jobs *over ten years*. Assuming for a moment that there will be no recession during that time (an unlikely scenario), this plan essentially promises an average of 208,333 jobs per month. This is a tepid goal by historical standards and almost identical to the monthly job growth we saw during President Obama's recovery, which was the most anemic in postwar history. Note that 145,000 jobs per month is the minimum necessary to keep up with population growth. In other words, to tackle unemployment, President Trump is promising only 63,333 additional jobs/mo (i.e. 208,333/mo–145,000/mo) for ten years for a total of 7,720,000 jobs.

According to the narrowest official BLS definition of unemployment, there are 7,635,000 unemployed people today who want to work but are unable to find employment. That is, we need those 7.7million jobs *now*, not in ten years. And if we look at the broader and more accurate definition of the total number of people who are seeking but unable to find stable, well-paid, full time work, we see a deficit of 19million full time jobs today (njfac.org).

Table 1

Trump's job creation promise in context	
Jobs needed **today** (full count/NJFAC measure)	19,000,000
Jobs needed **today** (narrow BLS U-1 measure)	7,635,000
Jobs promised by Trump in **10 years** (adjusted for population growth)	7,720,000

The promise of 7.7million jobs over the next decade is of little consolation to the unemployed. To paraphrase FDR's advisor Harry Hopkins, the unemployed *do not eat* in the *long run,* they *eat* every day.

The above estimates are based on a big assumption – that the economy will not enter a recession, nor will it experience net job losses at any point during the next ten years. If that were to happen (including the past six years of post-Great Recession recovery), we would

[1] http://www.cnbc.com/2016/11/18/the-conservatives-are-going-to-go-crazy--trumps-top-advisor-lays-out-his-vision-for-shaking-up-america.html
[2] As this article went into publication, President Trump unveiled his first proposed budget, which did not include funding for infrastructure investment.
[3] Compare that to president Obama's promise of creating or saving 3-4 million jobs in the midst of the worst post-war recession.

have lived through the longest expansion in postwar history – a total of 17 years. The average expansion in the US is six years, and the longest was 11.5 years, which means that we are due for another recession in the not-too-distant future. Note that key indicators such as commercial lending activity, median household income, durable goods orders, among others, are already decelerating.

The upside potential

Whereas Trump's job creation promise may be tepid, there is upside potential for actually creating significant employment growth, depending on the specific policies put in place. That unemployment has fallen to pre-recession levels (in the context of an anemic recovery) is largely due to the mass exodus of workers from the labor market, and the increase in the number of people who are discouraged, marginally attached, or trapped in long term unemployment. If a Trump policy manages to tighten labor markets sufficiently to bring those invisible unemployed workers back into paid work, GDP growth could easily reach and even exceed his 4% target. And in his first address to Congress, he emphasized the depressed labor force participation as a key problem in need of a solution.

What is the solution that Trump offers? Apart from the general refrain "everything that relates to jobs", the specifics thus far center almost exclusively on 1) restoring manufacturing, 2) large infrastructure investment, 3) tax cuts and subsidies, and 4) reactionary public policy.

The next sections will argue that the first of these measures (a focus on manufacturing) will be largely ineffective, the second and third (tax cuts and infrastructure investment) have significant upside potential, and the last (reactionary public policy) is of greatest concern with severe long term consequences for the health of the economy. Trump's reactionary public policy largely centers on a) the intent to dismantle the existing administrative state, b) the continued assault on the safety-net, c) neo-nationalist protectionist policies, and d) an aggressive anti-immigrant and civil liberties approach.

I. Manufacturing folly

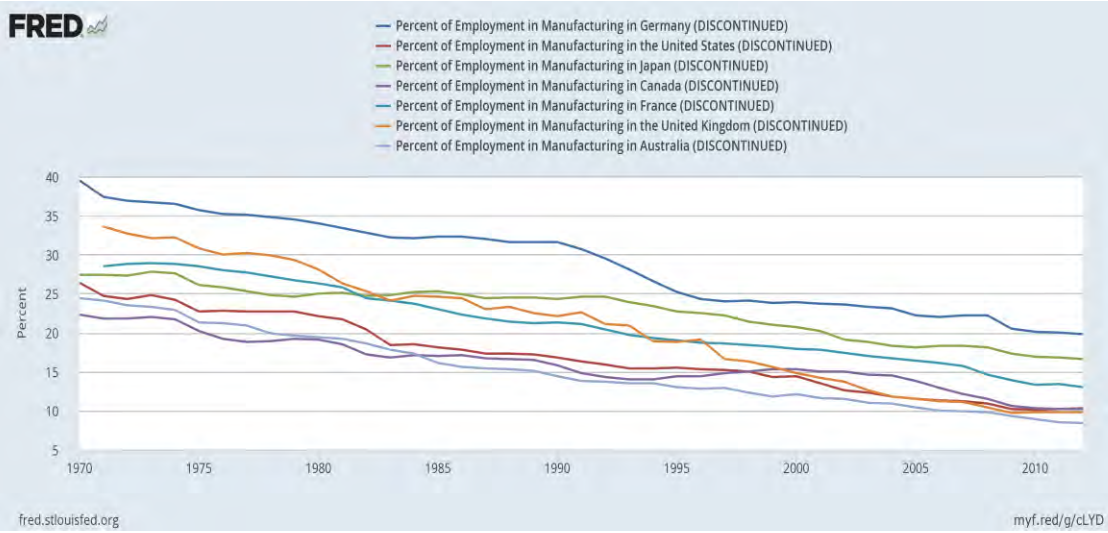
To claim that unemployment can be significantly reduced by "bringing manufacturing jobs back" is akin to saying that it can be done by "bringing agricultural jobs back." In the early 20th century, the idea that agriculture would no longer be a source of job growth was an anathema, much like it is with manufacturing today. Still, it is technically impossible to address the looming unemployment problem outlined above by focusing on the manufacturing sector.

The transformation of developed nations into service-based economies has led to the precipitous decline in the employment content in manufacturing. In the US, only 8% of total employment was in manufacturing in 2014 (www.bls.gov). Similar trends can be found in many former manufacturing powerhouses like the UK and Japan, and current manufacturing leaders like Germany, Korea, and China.

Manufacturing jobs are disappearing globally in part because of automation, but largely because the sector cannot support itself with internal demand in any country. It seems that there is a limit to the amount of manufacturing goods households and firms in the developed world can or want to consume, much like there was a limit to their demand for agricultural production.[4] Thus, countries that are considered manufacturing “success stories” have largely relied on external demand (exports) for their products. In a world of global export-led competition in manufacturing, the United States has traditionally been the net importer. This trade position will be very difficult to reverse, precisely because other countries are supporting their dying manufacturing sectors via aggressive net exporting strategy.

Even if the US were able to bring some manufacturing production “back” to its shores via high tariffs and aggressive protectionist trade policies, it will not be able to bring back manufacturing *jobs* due to falling share of employment in manufacturing across the globe (Figure 1). The share of employment in manufacturing in most developed countries has collapsed anywhere between 40% (e.g., Japan) to 70% (e.g., US and U.K.) since the 70s, when manufacturing employment was around its peak.

Figure 1 Percent employment in manufacturing, various countries, 1970-2012



Even in countries like Korea and China, the manufacturing sector is no longer a source of employment growth (Figures 2 and 3). Manufacturing employment in China collapsed approximately 20% (or 26 million jobs) after its 1996 peak. It managed to recover about half of those job losses by 2006, but the trend is flat-lining. The sector is no longer a reliable source of job growth for these countries’ increasing population.

This manufacturing-centric vision of job growth is not exclusively Trump’s folly. Many economists both on the right and left seem to share it.

[4] Greenwald, Bruce, 2016. “The Death of Manufacturing”, Levy Economics Institute, 25th Annual Hyman Minsky Conference, April 13. Annandale-on-Hudson, NY.

Figure 2 Manufacturing employment, Korea, 1990-2014

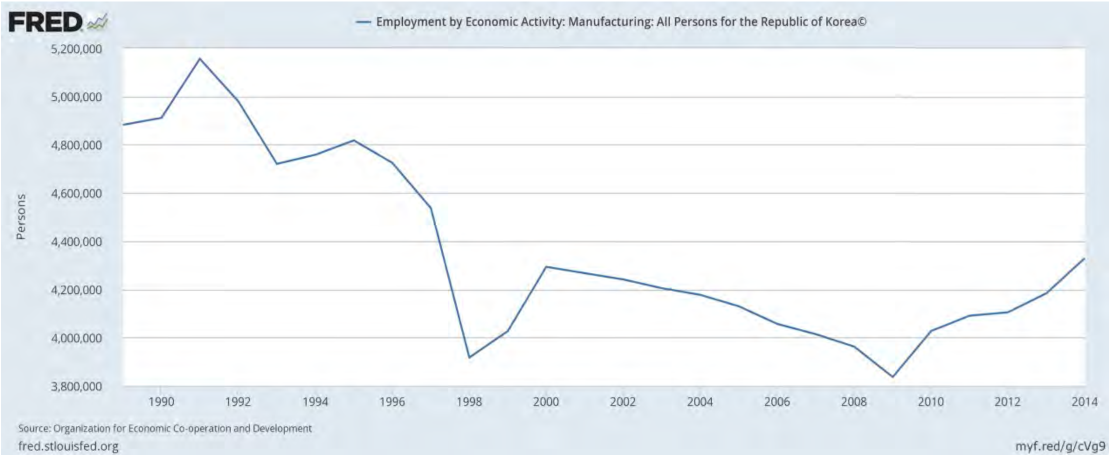
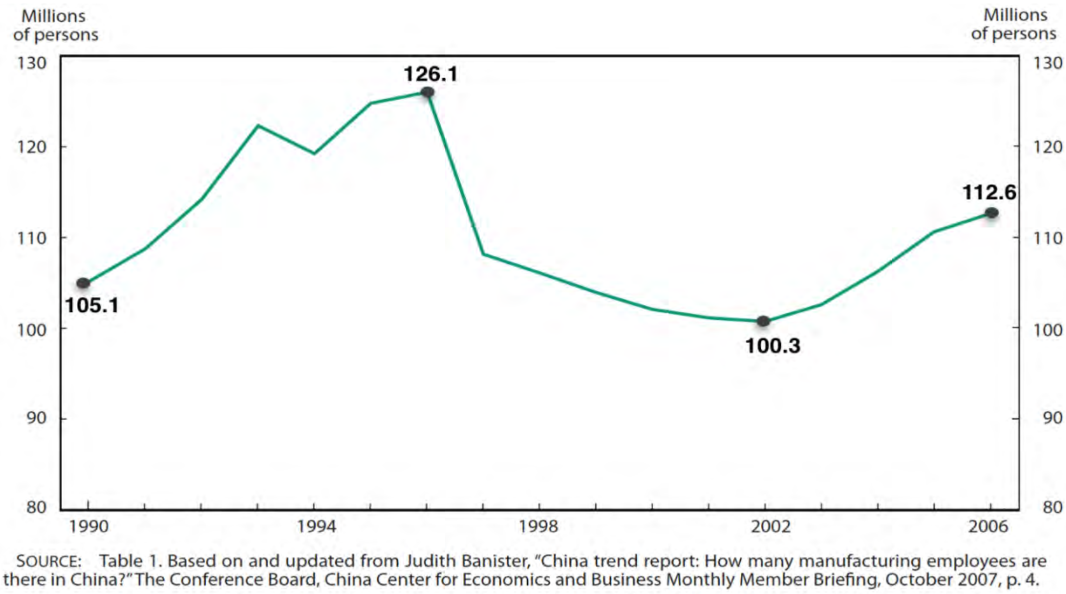


Figure 3 Manufacturing employment, China, 1990-2006[5]



An unstable manufacturing-to-services economic transition

When the US transitioned from an agricultural to industrial economy, it was with the help of a long lasting and robust industrial policy that began with Alexander Hamilton's 1791 *Report on the Subject of Manufacturers* and culminated in Roosevelt's National Industrial Recovery Act.

By contrast, as the economy steadily became service-based in the postwar era, there has been no equivalent strategy to support the service sector as a source of stable and strong employment growth.

What we need today is a policy that makes service sector work less precarious, much like we did with manufacturing early in the 20th century. Before manufacturing was able to offer a safe working environment and decent family wages, employment in that sector was insecure and

5 Yearend manufacturing employment in urban units and in village enterprises, China, 1990-2006.

hazardous. Child labor, 10-16 hour working days, and dangerous working conditions were common. It took a series of laws to transform jobs in the industry into the good jobs for which the Rust Belt population now longs. For example, the standard of an eight-hour work day was globally accepted only in 1919.[6] The first federal minimum wage law in the US was introduced much later (in 1938), though some states had such laws on the books earlier. Other labor laws helped improve the physical working conditions of manufacturing work and make it relatively safe. And while today's nostalgia is in part for the lost factory jobs, it is essentially nostalgia for the stable life and prosperous communities they engendered. There is no technical reason why service sector work cannot deliver a good standard of living.

The vast majority of jobs in the US today are directed to the reproduction of labor, i.e., to the care, education, health, feeding, entertaining, etc. of people. Today, 80% of all jobs in the US are in the service sector, compared to only 12% in goods-producing industries (ex-agriculture). It is these service sector jobs that continue to be poorly paid and unstable. The task today is to design a comprehensive policy strategy to remedy the precarious nature of service sector work. To do so a two-prong strategy is needed that includes securing tight full employment over the long run and strengthening the social wage.

II. Infrastructure investment, tax cuts, and the social wage

If Congress passes a $1trillion infrastructure investment program, which Republicans have opposed in the past, there will be a significant upside potential on growth and job creation. Any impact on improving the pay and working conditions of service sector jobs however will be indirect.

Can we expect robust job growth, despite the tepid goals and focus on manufacturing discussed above, from a bold infrastructure plan? Maybe. Much will depend on the execution and financing of these projects.

If the $1 trillion is spent in a manner that directly employs the unemployed, the program could create 20 million living wage jobs over the very short run,[7] though it is doubtful that the construction industry alone can absorb all 20 million people. Considering that CEA chair Hassett is on record strongly advocating for direct job creation, perhaps this is the intention of the administration:

> "It is clear that something terrible happens to individuals as they stay unemployed longer, but that this negative effect is not responsive to normal policy interventions. Accordingly, it is imperative that we think outside the box and explore policies that reconnect individuals to the workforce. As our knowledge of what works is so spotty, this is an area that is crying out for policy experiments that can be rigorously evaluated" (Hassett, 2013 Congressional testimony).[8]

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[6] ILO's Hours of Work Convention calling for eight-hour working days was ratified by 52 countries in 1919.
[7] Tcherneva, Pavlina R. 2009. "Obama's Job Creation Promise", *Policy Note 2009/1*, Levy Economics Institute, Annandale-on-Hudson, January 2009.
[8] http://www.aei.org/publication/long-term-unemployment-consequences-and-solutions/

Hassett here echoes Bannon's call for experimentation. At the same time Trump has talked about financing such infrastructure projects by providing tax incentives and subsidies to private equity firms. In that case, it is reasonable to expect that the employment creation effect will be considerably smaller. And the administration will likely subsidize only those projects that can quickly generate a cash flow for the private equity firms. In other words, we could see a lot more toll roads and bridges. This would also mean that investments without an obvious steady cash flow stream may not be prioritized, e.g., levees, dams, inland waterways, hazardous waste, drinking water, schools (all of which are judged to be in "poor" or "near failing" condition by the American Society of Civil Engineers).[9]

While aggressive infrastructure upgrades and investment are long overdue, they are not the best strategy for ensuring tight labor markets and full employment over the long run. Fluctuating infrastructure with the business cycle is not always possible, especially since unemployment in the US accelerates quite rapidly in recessions and decelerates much more slowly during recoveries. To tackle joblessness over all phases of the business cycle, something close to an Employer of Last Resort will be necessary, i.e., a program that directly employs the unemployed in good times and bad, in projects that can quickly absorb them on as needed basis. That means projects in the service sector as well, not just in construction. Nevertheless, a bold infrastructure plan has the potential for delivering significant immediate benefits to the labor market.

In addition to tightening the labor market, a second strategy to making modern work less precarious is to strengthen the social wage. This can be accomplished by expanding existing programs that socialize basic living expenses, such as those for retirement, healthcare, education, etc.

Strengthening the social wage, however, is not what informs this administration's jobs and benefits policies (quite the opposite, see below). So far, only paid family leave has the potential to make a material impact on working families, but the current conversation in the administration has turned away from paid *family* leave to paid *maternity* leave, which is an improvement over the current situation, but leaves out fathers and other caregivers.

The likelihood that infrastructure and paid leave can deliver some boost to the economy and working families hinges on sufficient Congressional support from Republicans who have traditionally vocally opposed both.

The rest of Trump's policy agenda (by all indications, the vast majority) is outright reactionary, focusing on dismantling an already weak New Deal institutional architecture, an onslaught on civil liberties, and the advocacy of an American brand of neo-nationalism.

III. Reactionary public policy and the sabotage of the welfare state

At the 2017 Conservative Political Action Conference, chief Trump strategist Steve Bannon succinctly summarized the philosophy behind this administration's public policy. It rests on three pillars: national security, economic nationalism, and the deconstruction of the

[9] The current executive action to rollback President Obama's provisions to the Clean Water Act (aiming to protect inland waterways and streams from pollution) means that some of these fundamental infrastructure problems may not ever be addressed under the current administration.

administrative state.[10] By far the most aggressive changes have begun on the latter. The first proposed budget by the President indicates a wholesale attack in essential public institutions, and while the actual budgeting process is decided by Congress, it speaks to the policy priorities of the President. Additionally, the recent government agency appointments point to an internal sabotage strategy of the public sector.

Consider this partial list:

1. Scott Pruitt, a long-time foe of the Environmental Protection Agency (EPA), now leads it. Apart from calling climate change a “hoax” and “fraud”, he has a long track record of bringing up lawsuits against various EPA programs and provisions.[11]
2. Businesswoman Betsy DeVos will lead the Department of Education after a very contentious confirmation process. DeVos is well known for her ties to the privatization movement and her funding and advocacy of charter schools and voucher programs. In her own words, “my family is the largest single contributor of soft money to the Republican party… and we expect results”.[12] When asked about candidate Trump’s support for eliminating the Department of Education, she said “It would be fine with me to have myself worked out of a job”, though she didn’t think that there was a “champion movement in Congress to do that”.[13]
3. Incoming Office of Management and Budget (OMB) director Mick Mulvaney has called Social Security a “Ponzi scheme” and reaffirmed his commitment to cutting the program along with Medicare during his confirmation hearing.[14]
4. Tom Price, the new Secretary of Health and Human Services, has supported strictly capping Medicare block grants to states and converting them into voucher programs.[15]

While enemies of the public sector have comfortably walked the halls of Congress at least since Reagan famously said “Government is not the solution to our problems, government is the problem”, the current appointments represent a deliberate strategy of rupturing the very agencies and programs these directors are supposed to manage. The traditional Republican approach to governing can be summarized as “devolve, defund, and destroy”. Devolve essential federal functions to the states, provide increasingly smaller or strictly capped grants-in-aid, and eventually shrink, privatize, or eliminate programs altogether.

Trump’s administration offers a radical extension of this approach – a *welfare sabotage strategy* that aims to subvert core institutions from within. While Trump himself has promised to preserve Social Security and Medicare, his appointments indicate that the assault on these programs is not over. The fate of the Affordable Care Act is also uncertain. One path to “repealing and replacing” Obamacare, while preserving (what Trump called) the good features of the program (i.e., pre-existing condition and dependent care coverage), is to extend Medicare to all citizens. Given Republicans’ hostility to all public assurance programs, the likely reform will include some mix of private sector subsidies, rebates, and vouchers, which are fundamentally at odds with the goal of guaranteeing access to all.

[10] http://www.cnn.com/2017/02/23/politics/steve-bannon-world-view/
[11] https://www.theatlantic.com/science/archive/2016/12/trumps-epa-pick-is-skeptical-of-more-than-just-climate-change/509960/
[12] http://www.newyorker.com/news/news-desk/betsy-devos-trumps-big-donor-education-secretary
[13] https://www.washingtonpost.com/news/answer-sheet/wp/2017/02/22/so-far-education-secretary-betsy-devos-is-just-what-her-critics-feared/?utm_term=.026c60b3fcc9
[14] https://www.theatlantic.com/politics/archive/2017/01/will-trump-cut-medicare-and-social-security/514298
[15] https://www.nytimes.com/2017/02/23/us/politics/social-security-safety-net-trump.html

Trump has also announced a federal hiring freeze. Despite the uproar over this executive order, it is nothing new. Federal government employment has been declining since the late 80s, but is essentially flat since the 70s. State employment experienced a significant increase in the postwar era, but stopped growing over the last 15 years (Figure 4) and is outside the purview of the presidency.

Notably, during the last recovery, public sector employment was a drag on total employment growth. Precisely when the private sector was finally beginning to rehire the unemployed, the public sectors (federal and state) either decelerated hiring or slashed jobs altogether (Figure 5).

Figure 4 Federal and state government employment, 1940-2016

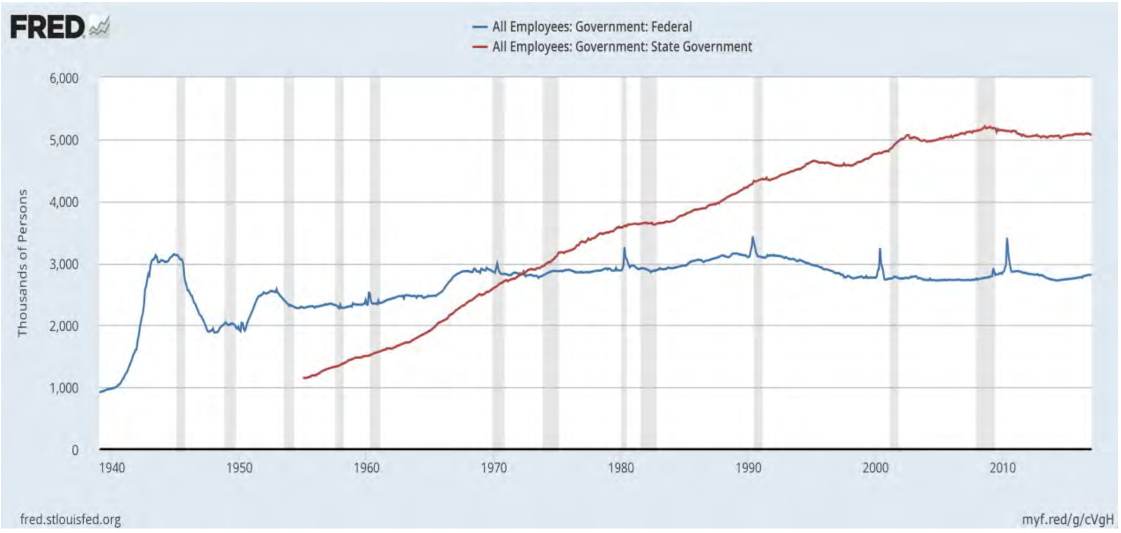
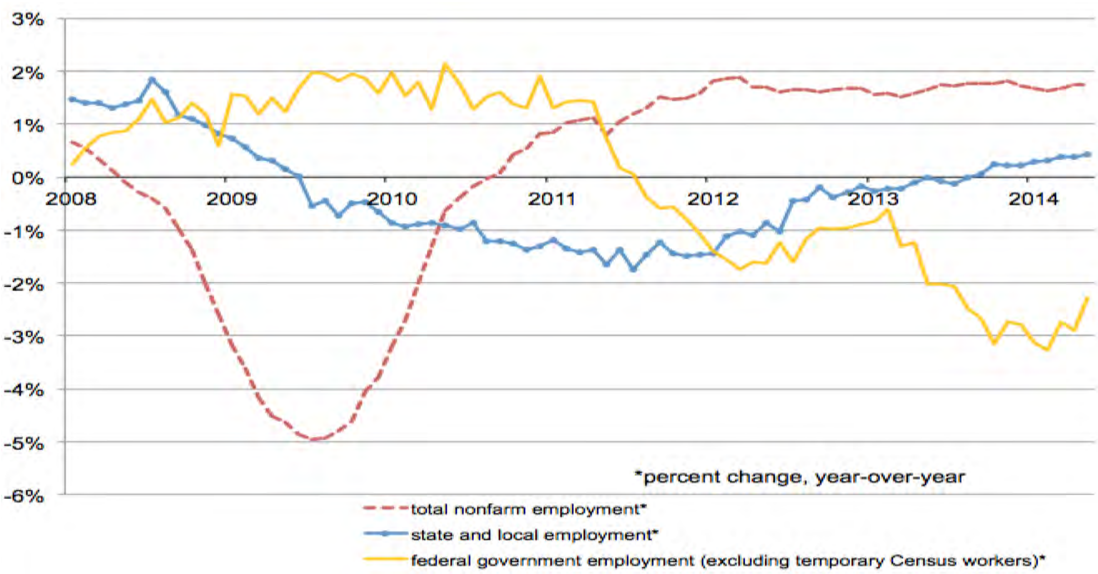


Figure 5 Government and private sector employment, percent change, 2008-2015, year over year



While there will be no visible change in the overall federal government labor force from the hiring freeze, it will likely cause additional disruptions in the daily operations of various government agencies, heightening the administrative sabotage strategy.

IV. Bait and switch: jobs today, insecurity tomorrow?

If the administration hopes to deliver the jobs it had promised over a decade by focusing on manufacturing, it will fail. The way to think about the actual employment effect of Trump's policies is to consider three key factors: 1) the expected net deficit position of the government, 2) the manner in which spending will be targeted, and 3) the success of the Welfare State Sabotage strategy.

Significant deficit spending ahead

Much like it was under Reagan's administration, a Trump presidency will likely generate large government deficits. At the macroeconomic level, they will be a net positive for the economy, considering that the deficit had been shrinking rapidly since 2012. Since the economy is already weakening (as above, orders, incomes and credit conditions are worsening), federal government receipts will continue to decelerate, widening the deficit further. If Trump's policy manages to shrink net imports further, the real terms of trade may deteriorate but government deficit spending will have a positive impact on private sector surpluses. The question is, whose coffers will fill up – those of financial firms, nonfinancial firms, or households, and, if the latter, will they be at the bottom or top of the income distribution.

How will government spending be targeted?

Not all deficits are created equal. If the manner of spending (even if it is more aggressive) produces little shift from the policies of the past five decades, then it may not reverse the critical levels of inequality. It is likely that incomes at the top of the distribution will continue to grow. Trump has proposed deregulating financial markets, cutting income taxes, and changing the income brackets to make taxation less progressive. He has also proposed $54 billion in additional military spending next year (a 10% increase). The federal hiring freeze notwithstanding, Trump has also called for employing 10,000 Immigration and Customs Enforcement and 5,000 border patrol agents. While the impact on employment will negligible, the policy priority indicates a likely boost in spending for national security and criminal justice. Any additional subsidies that may be directed to private equity or other firms will be a welcome windfall for them, boosting profits and the capital share of income. In other words, this could be Reaganomics on steroids – a mix of Military and Penal Keynesianism with aggressive trickledown policies centered on firm incentives, tax cuts, and subsidies.

By design, these policies improve incomes of those at the top of the income distribution and the owners of capital. Furthermore, the current labor market structure improves job prospects and incomes of workers who are high-wage, high-skill, and already employed. The question is whether these policies will manage to create enough jobs for people who are at the bottom and in the middle of the income distribution. Since manufacturing will not return an adequate number of jobs back to our shores, it is unlikely that the hollowed out middle class will find stable well-paying jobs in that sector. A bold and targeted infrastructure policy that directly hires the unemployed has the potential to help in that respect. Finally, let us consider those workers who are at the very bottom of the income distribution, who are first fired and last hired, and who have the greatest trouble finding stable, full-time employment at above-poverty wages. It is unclear that any of Trump's proposed policies are aimed to directly raise the floor and help those workers.

Sabotage of the welfare state

Finally, while deficit spending and infrastructure investment have the potential of tightening labor markets over the short run (even as they continue to disproportionately favor incomes at the top through subsidies and tax cuts), the greatest downside risk to the economy is the strategic assault on the welfare state as we know it. Trump will be a big deficit spender, but conservatives will use the myth of sound finance and revenue neutrality to defund key public programs. For example, the proposed increase in military spending was "offset" by proposed cuts of the same amount in other nondefense programs and agencies (e.g., 25% reduction in the EPA's budget).

More importantly, however, the possible systematic destruction of the already weak safety-net and New Deal institutions means that, structurally, the economy will be more fragile as we reach the next recession. If the attack on the EPA, education, Medicare and Social Security is successful, it will also mean that the quality of life for many will deteriorate one poisonous drop of water, one deteriorating public school, and one medical-related bankruptcy at a time.

In sum, the negative effect of the long-term assault on the administrative and welfare state may be temporarily masked by short-term improvements from economic growth, which could prove sufficient to give Trump another term and more time to institutionalize the destruction of the welfare state.

The social reformers of the 20th century put in place an important (albeit incomplete) safety-net that made economic depressions a thing of the past. That included guaranteed and directly provided housing, education, health insurance (for the elderly and children), retirement income, and many other programs and policies. Instead of strengthening the safety-net, the current philosophy is on a radical deconstruction of the administrative state. All of the above indicates intent to devolve these functions not simply to states, but to corporations (e.g., the privatization movement of public education, healthcare, and social security). If the Trump/Bannon vision is to convert the Welfare State into a Corporate Welfare State, and if it comes to fruition, it will represent an entirely new world order, one that ushers in a new Dickensian world of modern robber barons, precarious labor, and social and economic insecurity and injustice.

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SUGGESTED CITATION:

Pavlina R. Tcherneva, "Trump's bait and switch: job creation in the midst of welfare state sabotage", *real-world economics review*, issue no. 78, 22 March 2017, pp. 148-158, http://www.paecon.net/PAEReview/issue78/Tcherneva78.pdf

Can "Trumponomics" extend the recovery?

Stephanie Kelton [University of Missouri, Kansas City, USA]

Donald Trump was elected President of the United States as the U.S. economy headed into its eighth year of expansion following the deepest and most protracted recession of the post-WWII era.[1] Since the start of the recovery in June 2009, real GDP growth has averaged a reliable 2.1 percent, and the labor market has clawed back all of the 8.7 million jobs that were lost in the aftermath of the financial crisis. Inflation has remained low, and the official unemployment rate had fallen to just 4.6 percent in November 2016. Goldilocks might have declared the porridge to be just right.[2]

To some observers, this looked like a pretty decent backdrop against which to make the case for a continuation of the Obama-era policies that many credited with finally healing the wounds of the Great Recession. While not blazing hot, the American economy was growing and creating jobs, and many believed that Hillary Clinton could best her opponent by pledging to build on the achievements of the past with a fiscally responsible, steady-as-she-goes agenda.[3] Yuge changes were unnecessary, she insisted. America was already great.

Many voters had other opinions, along with vastly different lived experiences. The tailwinds that were supposed to propel the first woman into the Oval Office met their fiercest resistance in the so-called Rust Belt states, where people who had seen their lives and their communities transformed by decades of disinvestment and disenfranchisement decided to roll the dice on a foul-mouthed reality TV star with no experience in public office.

I'm not going to spend time diagnosing the decades-long forces that gave rise to Donald Trump. For that, I recommend Thomas Frank's excellent book, *Listen, Liberal* or Matthew Stoller's outstanding piece in *The Atlantic*, "How Democrats Killed Their Populist Soul". What I am interested in pursuing here is a different question altogether – now that we have President Trump, what will he and his Republican colleagues do? Which constituencies will Trump fight for, and can the GOP hold together to deliver any substantive legislative victories for the new president?

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[1] http://www.cbpp.org/research/economy/chart-book-the-legacy-of-the-great-recession
[2] Consistent with this reading of the overall health of the U.S. economy, the Federal Reserve made good on its long-awaited promise to boost a key interest rate in December 2016.
[3] Although she embraced some progressive elements of the Sanders' agenda (e.g. making public colleges and universities tuition-free for up to 83 percent of America's families), readers will recall that she vowed that her policies, "not add a penny to the debt". A bold, progressive agenda it was not. https://www.theatlantic.com/politics/archive/2016/10/hillary-clinton-national-debt-presidency/504905/

Some argue that Trump's policies pose major downside risks to the U.S. economy. Others see the potential for an upside surprise, at least in the near term. What will President Trump do, and will his policies work as advertised? No one can say for sure. What we do know is that the voters who delivered the White House to Mr Trump[4] are counting on him to deliver real improvements in their lives. This means that simply extending the recovery may not be enough to hang on to the Obama voter who crossed over to give her vote to Donald Trump. To retain the support of these voters, Trump's policies must go beyond simply prolonging the recovery. They must promote the kind of growth that raises the living standards of millions of struggling Americans, lessens the share of total income going to profits and reverses the yawning gaps in the distribution of wealth and income. Unfortunately, these are not the stated goals of the Trump administration, so the remainder of this essay will focus on the narrower question: can "Trumponomics" extend the recovery?

Where are we today?

At 93 months of age, the U.S. economy is in the midst of its fourth-longest expansion since 1850. If we can extend the recovery for another two-and-a-half years, we will break the all-time record.[5] For that to happen, the economy's tailwinds must remain stronger than its headwinds. The broad consensus today is that the economy is very close to its full employment potential. And while few see a downturn in the near future, Goldman Sachs puts the risk of recession at about 1-in-4 through 2018Q3.[6]

Whereas Janet Yellen recently gave the economy "a little more room to run[7]," she now argues that it is close to its potential, and she is preparing markets for a series of rate hikes beginning in March.[8] Such a tightening cycle is consistent with the belief that the Fed's dual-mandate has been broadly achieved and that there is little room for an acceleration of growth. Goldman's Hatzius and Pandl (2016) agree:

> "While expansions do not die of old age, history shows that they are at greater risk when spare capacity is exhausted, as it probably is now. So it is especially important to monitor whether growth may be running out of steam."

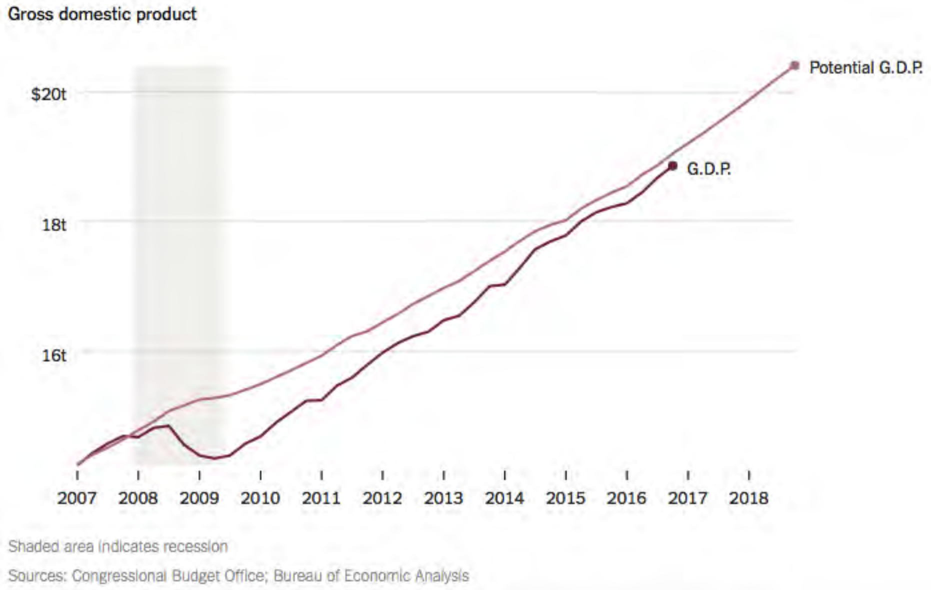
Before we move to an analysis of "Trumponomics", we should pause and ask two important questions. First, are we really near our full employment potential? Second, is there room for "Trumponomics" to extend the recovery?

It is probably safe to say that the consensus opinion among Fed economists and academic economists alike is that the economy has essentially returned to its full employment potential. That belief is consistent with the data reported in Figure 1, which shows that the gap between actual and potential GDP has been nearly eliminated.

[4] Specifically, those in Michigan, Pennsylvania and Wisconsin, which all flipped in favor of Trump, giving him the razor-thin margin he needed to win the electoral vote.
[5] The longest expansion on record, which lasted 120 months, occurred 1991-2001.
[6] http://www.zerohedge.com/news/2016-12-31/goldmans-10-most-important-questions-2017
[7] https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20160921.pdf
[8] Morgan Stanley is forecasting seven rate hikes by the end of 2018, three this year, beginning in March, and four next year.

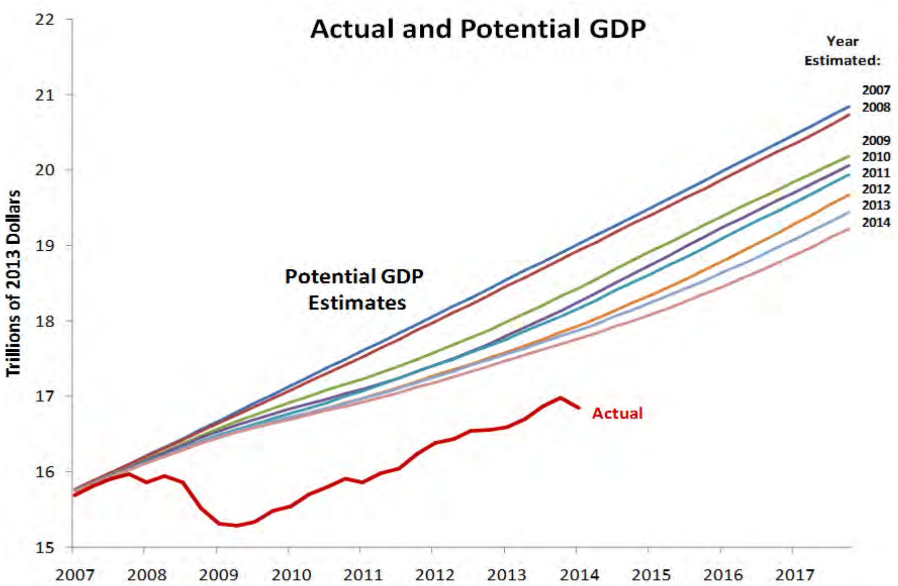
But there is a problem here, at least in my view. The data depict an economy that is close to bumping up against its long-run ceiling, a constraint that many believe will frustrate Trump's effort to get things running much hotter. However, there is something more we should know about the position of this ceiling.

Figure 1



As Larry Summers has shown, the bulk of the progress that was made in closing the output gap came, "not through the economy's growth but through downward revisions in its potential" (2014, p. 66). In other words, as Figure 2 shows, output is near its full employment ceiling not because the economy rose to its potential but because we lowered the definition of what we believe our nation's productive capacity to be. It's a bit like giving up on the idea that your child is capable of achieving straight As, relaxing the goal to a 2.0 GPA, and then celebrating when he presents you with across-the-board Cs. Junior is now a high achiever!

Figure 2



Sources: CBO and BEA

To see what a difference these downward revisions make, consider what it would look like if today's output gap was measured using the 2007 estimate of potential GDP (shown in Figure 2) rather than the revised estimate shown in Figure 1. Instead of full employment, we would be looking at a GDP gap of roughly 14 percent, or nearly $2 trillion.

Why did potential GDP get revised downward in the first place, and how much of that lost potential could be clawed back? The short answer to the first question is that the failure to bring about a swift recovery from the Great Recession imposed lasting harm on the economy. The answer to the second question may be among the most important of our time. And while I cannot offer a rigorous empirical estimate here, both history and theory suggest that there are ways to reverse at least some of the damage.[9] Investments in infrastructure, education, R&D, etc., should help the U.S. reclaim some of the lost potential by boosting long-run productivity.

Even without the kinds of investments that would help nudge potential GDP northward, it still may be possible to safely accelerate growth. Whereas Goldman and Yellen[10] see little slack left in the economy, new research from Dantas and Wray (2017) suggests that the U.S. labor market is still far from full employment. In their view, "we are not even close" to full employment, and "reaching full employment would require, on average, gains in payroll employment of 420,000 jobs per month for the next four years". Nick Buffie (2016) agrees, arguing that, despite the low official unemployment rate, the labor market remains quite weak. If these assessments are correct, then it should be possible to squeeze more growth out of the economy in the short term. It also means that "Trumponomics" could surprise on the upside.

What is Trumponomics?

Less than three months into the Trump presidency, there is no formal budget and no precise blueprint that describes the full range of policies and programs that the administration intends to pursue. "Trumponomics", therefore, is still very much a moving target, although we are beginning to see the broad contours of an economic agenda taking shape. Harvard economist and former U.S. Treasury Secretary, Larry Summers, sees "enormous uncertainty" ahead, adding:

> "This is probably the largest transition ideologically and in terms of substantive policy in the last three quarters of a century."

What is the ideological philosophy behind "Trumponomics" and how does it represent a break from the guiding principles of the last 75 years? As a presidential candidate, Donald Trump explained his thinking in this way:

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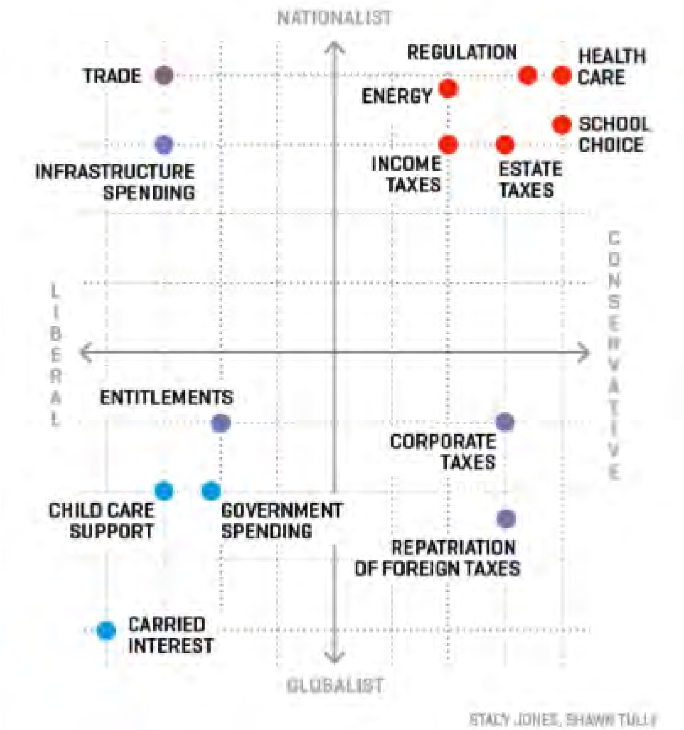
[9] This is similar to what happens to the human body when you give up your exercise regimen for a more sedentary lifestyle. Your muscles begin to atrophy and your long-term physical capacities become impaired. By restarting the exercise routine, some of the damage can be reversed. As Jared Bernstein (2014) has argued, something similar is possible in the economy.

[10] Asked whether additional stimulus was needed at a Dec. 2016 press conference, Yellen pointed to the "solid labor market," adding that additional fiscal stimulus was "not obviously needed". https://www.nytimes.com/2016/08/01/business/economy/clinton-trump-either-way-count-on-deficit-spending-to-rise.html

> "It's called priming the pump. Sometimes you have to do that a little bit to get things going. We have no choice – otherwise, we are going to die on the vine…The economy would be crushed under Hillary. But no matter who it is, the debt is going to go up."[11]

To some economists, Trump's economic approach sounded downright Keynesian.[12] Channeling Bernie Sanders, he called for a trillion-dollar boost to infrastructure spending, along with (the usual Republican call for) deregulation and massive tax cuts. He was unapologetic about running budget deficits and adding to the national debt. But he combined the more Keynesian-inspired fiscal maneuvers with a protectionist trade agenda and a nationalist pledge to seal the borders and deport millions of undocumented people. On Social Security and Medicare, he sounded a more compassionate tone, vowing no cuts, and he even talked about bringing the U.S. into the 20th century by supporting paid family leave. As Figure 3 shows, this blend of policy positions makes it difficult to situate "Trumponomics" within a conventional ideological matrix.

Figure 3



Source: http://fortune.com/2016/08/11/trumponomics-chart/

So, what exactly *is* "Trumponomics"? The short answer is that it is too early to put concrete numbers the full range of proposals that will be coming down the pike. Mick Mulvaney, director of the Office of Management and Budget (OMG) is working on those numbers now, promising that "[a] full budget will contain the entire spectrum of what the president has

[11] These remarks were made during a phone interview with the *New York Times*. Quoted in Schwartz (2016). https://www.nytimes.com/2016/08/01/business/economy/clinton-trump-either-way-count-on-deficit-spending-to-rise.html

[12] See Noah Smith (2016).

proposed".[13] An early look at the numbers could come mid-March, when the Trump administration is expected to release a sneak preview of its plans in the form of a "skinny budget".

For now, we know that the President's FY18 Budget will call for a 10 percent increase in defense spending, along with equivalent ($54B) offsetting cuts to other federal agencies. The president has also pledged to make long-overdue investments in our nation's infrastructure, promising, "we're going to start spending on infrastructure – big". Democrats have balked at both proposals, preferring traditional government-funded infrastructure investment to the widely-anticipated public-private schemes that are expected to form the basis of the Trump model.[14] And they oppose the cannibalizing of the non-defense, discretionary budget as a means of allocating more resources to the military. As House Minority Leader Nancy Pelosi (D-CA) put it:

> "A $54 billion cut will do far-reaching and long-lasting damage to our ability to meet the needs of the American people and win the jobs of the future. The President is surrendering America's leadership in innovation, education, science and clean energy."[15]

Thus, Democrats are bracing for massive cuts that could more than offset any stimulus that might result from higher spending on infrastructure and defense. Just how big could these cuts be?

Some (Bolton, 2017) have suggested that Trump's budget will closely track the Heritage Foundation's Blueprint for Balance,[16] which calls for $10.5 trillion in cuts over the next 10 years. The already-tiny amounts spent on the Corporation for Public Broadcasting (CPB), the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH) would be eliminated completely, and the departments of Justice, State, and Transportation would suffer deep cuts.

As all good Keynesians know, one person's spending is another person's income. So how is cutting $10.5 trillion in spending supposed to help to extend the recovery?

Ronald Reagan to the rescue?

During their first presidential debate, Hillary Clinton criticized Donald Trump's approach to growing the economy, labeling it "Trumped up trickle down" economics. It was an obvious jab at the kind of supply-side policies that characterized the Reagan years. Rather than fight the comparison, Trump focused on the bigness of his agenda:

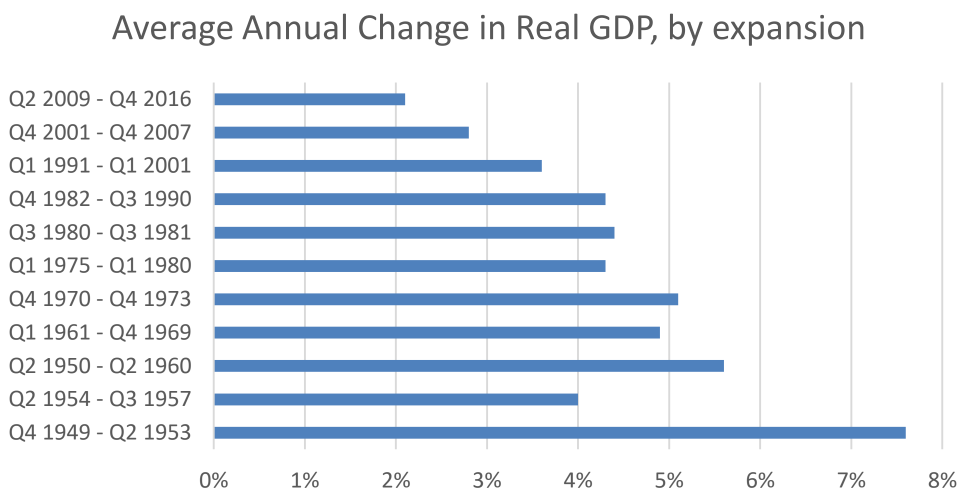
> "By the way, my tax cut is the biggest since Ronald Reagan – I'm very proud of it."

[13] For more details, see Phillip and Snell (2017).
[14] Reports indicate that the plan will rely on some $167 billion in private financing. Investors, who will require roughly a 10 percent rate of return, will receive tax credits in exchange for financing. Democrats worry that this will mean toll roads and other user fees and that it will leave projects in low-income areas out.
[15] http://www.democraticleader.gov/newsroom/22717/
[16] http://www.heritage.org/conservatism/report/blueprint-new-administration-priorities-the-president

Hillary maintained that she and Trump had different economic philosophies, adding that giving the biggest tax cuts to the top percent "is not how we grow the economy."

Nobel laureate Paul Krugman also compared Trump's agenda with Reagan's, predicting Trump's policies "won't actually do much to boost growth because [interest] rates will rise and there will be lots of crowding out. Also a strong dollar and bigger trade deficit, like Reagan's morning after Morning in America." And while it is true that interest rates rose sharply and America's trade deficits ballooned under Reagan, it is also true (as Figure 4 shows) that the economy grew at a good clip during much of the Reagan era. Remember, Reagan was reelected in a landslide.

Figure 4

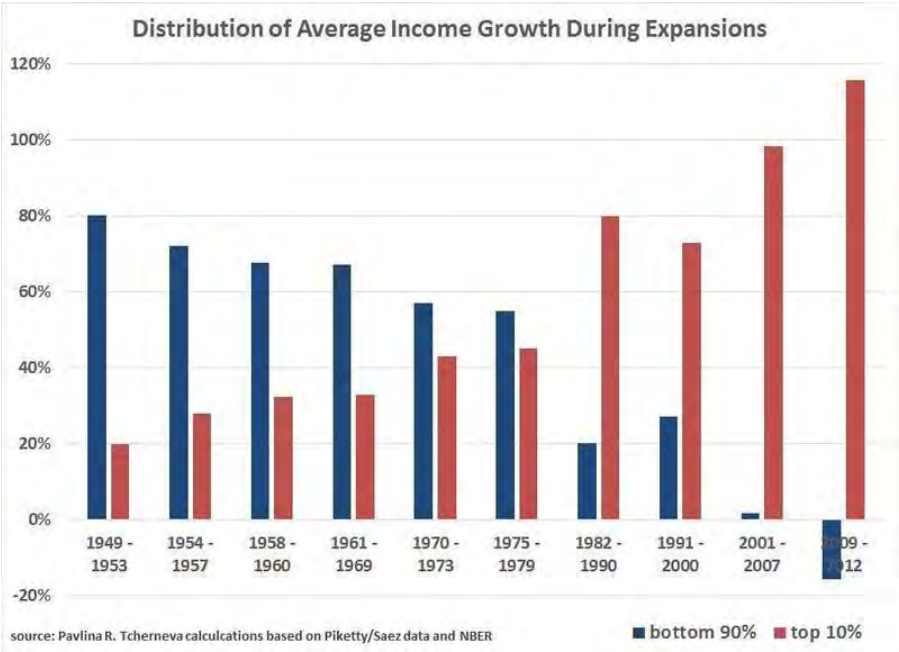


According to Harvard's Ken Rogoff (2016), "Trumponomics" has the potential to really juice the American economy. "Even if you oppose Trump's policies," he says, "you've got to admit they are staunchly pro-business."[17] For this reason, Rogoff has cautioned against the kind of doomsday scenario described by Krugman, warning, "[b]eware of pundits who believe Trump will bring economic catastrophe".

What Rogoff doesn't say, however, is that the benefits of the Reagan expansions went overwhelmingly to those at the top of the income distribution. Tax cuts for the wealthy, attacks on unions, cuts to programs aimed at helping the poor and an obsession with deregulation and "free markets" shifted the balance of power toward owners of capital and ushered in an era of increasing insecurity and growing inequality for the working class. Figure 5 shows the remarkable shift in the distribution of income that began under Reagan.[18]

[17] https://www.project-syndicate.org/commentary/trump-business-confidence-growth-boom-by-kenneth-rogoff-2016-12?barrier=accessreg
[18] This incredible graph from Tcherneva (2014) can be found here: http://www.levyinstitute.org/pubs/op_47.pdf

Figure 5



Prior to the election of Ronald Reagan in 1980, the vast majority of Americans – the bottom 90 percent – received the lion's share of the income generated in a growing economy. It wasn't a utopia – there were still periods of high unemployment and maldistribution that left millions impoverished – but the bulk of the income produced during an economic expansion went to the vast majority of the population. After "Reaganomics," however, things changed. The benefits of a growing economy were no longer broadly shared, as the top 10 percent began hauling in more than the bottom 90 percent. It's a trend that has not only continued but one that has generally worsened over time.[19]

Donald Trump isn't promising to reverse these trends, though he is claiming that his policies will substantially boost the economy and improve life for millions of "forgotten" Americans. Specifically, the president has championed an agenda that the he says will deliver 3.5-4.0% growth, something the U.S. hasn't experienced on any kind of sustained basis since the "Clinton Boom".[20] Judging from the details we have thus far, "Trumponomics" appears to be just what Hillary Clinton called it, a Trumped-up version of Reagan's trickle-down recipe, with an added ingredient or two.

What do we know about Trump's recipe for the economy? First, we know that the Trump administration has embraced the House Republican proposal to reduce the number of tax brackets from seven to three and to lower the marginal tax rate on the highest income earners from 39.6 percent to 33 percent. We also know that the president is proposing to eliminate the estate tax, cut the corporate income tax rate from 35% to 20%, and allow businesses to

[19] According to research published by the Washington Center for Equitable Growth, the top 1 percent of Americans captured 52 percent of the total real income gains from 2009-2015.
[20] For more on the drivers of the Clinton economic expansion, see Baker (2012).

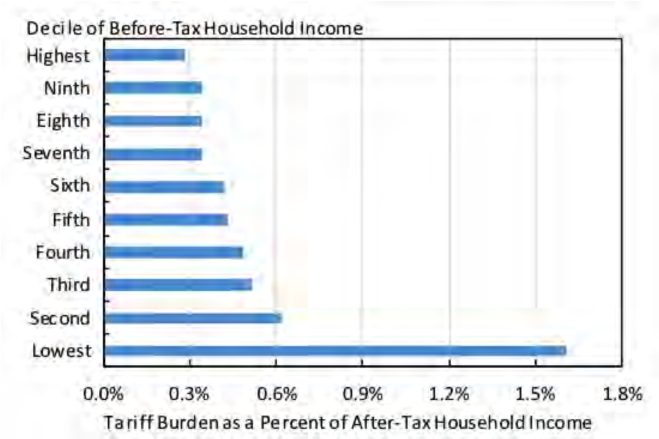
repatriate offshore profits at 10%.[21] Finally, we know that even his health care plan is really just a massive tax cut for the rich. According the Center on Budget and Policy Priorities (2017), the 400 highest income earners in America would see an *average* tax cut of about $7 million a year if the Republicans succeed in repealing the Affordable Care Act. And while Trump says that his policies will improve life for the "forgotten Man", the Tax Policy Foundation (TPF) has shown that the little guy isn't getting much of anything when it comes to the proposed tax reforms. Indeed, TPF estimates that after-tax incomes for the top 1 percent of earners could surge by as much as 16 percent, while the bottom 80 percent could see an after-tax lift of just 1.9 percent. Meanwhile, the bottom quintile would end up with a paltry 0.8 percent boost in their take-home pay.

And then there's Trump's proposal for a regressive Border-Adjustment Tax (BAT).

> "Like any tax, the tariff burden does not fall uniformly across goods, but falls more heavily on particular goods and the populations that purchase them" (Furman, et al. 2017).

Hence, the tariff burden is essentially a regressive tax. Furman, et al. estimate the distributional impacts of current US tariffs, which amount to $33 billion per year or around 0.2 percent of GDP. They find that tariffs cost the bottom 10-20 percent of households about $95 per month, while middle-income households pay about double that amount ($190 per month) and the richest 10% pay about $500 per month. While the rich pay more in absolute terms, Figure 6 shows that the tax is substantially regressive when you consider the burden relative to income. Taken together, Trumponomics includes a hefty serving of Reagan-inspired trickle-down economics along with a side of protectionism, a dash of military Keynesianism and a social agenda that is anti-worker and anti-immigrant.

Figure 6



While the CEOs of some of America's retail giants have taken aim at the proposed border tax, Wall Street appears to love where Trump is trying to take the economy. For example, Jamie Dimon, chairman and CEO of JPMorgan Chase & Co., says that Trump's proposed tax cuts,

[21] Goldman Sachs estimates that repatriation could allow as much as 75 percent of the $2 trillion currently stashed offshore to return home only to be used for share buybacks, which will mainly benefit wealthy individuals who comprise the bulk of investors in the stock market.

deregulation and infrastructure investment have reawakened animal spirits. “If he gets it done, even part of it, it will be good for growth, good for jobs, good for Americans.”

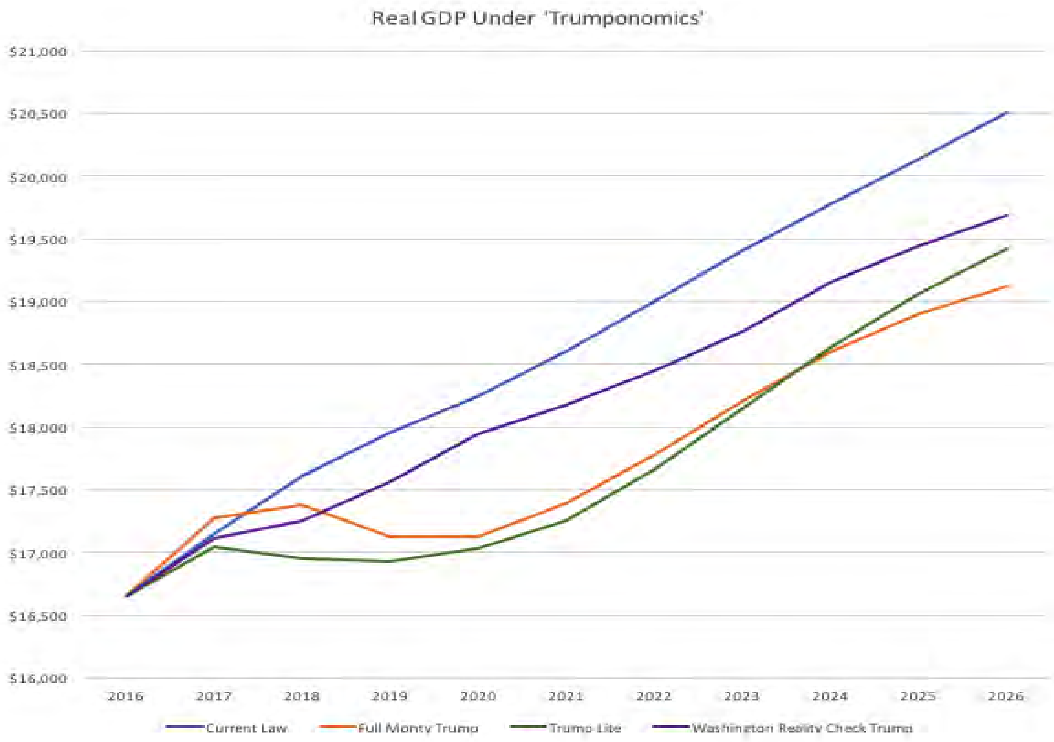
Is it possible? Can Trump’s supply-side tax cuts and deregulation unleash a current of tailwinds strong enough to propel the economy forward even as they’re coupled with massive cuts in other programs (not to mention mass deportation and a possible trade war)? Most experts find it unlikely.

Can “Trumponomics” extend the recovery? No consensus among experts

For the most part, what follows is a brief overview of the macroeconomic consequences of “Trumponomics” as analyzed by the research staffs at Moody’s Analytics and Goldman Sachs. Both have produced forecasts for a range of macro variables – including real GDP, unemployment, inflation, interest rates, etc. – using different assumptions about what might ultimately come to pass as “Trumponomics”.

Over at Moody’s, Zandi, et al. (2016), looked at three scenarios. The first hews most closely to the agenda espoused by Donald Trump in speeches, interviews, tweets, etc. This scenario is referred to as the “Full Monty Trump” in Figure 7. A toned-down version is also examined, one in which Trump succeeds in getting his basic agenda adopted, though on a smaller scale.[22] This is the “Trump Lite” scenario below. Finally, the Moody’s team simulates a “Washington Reality” scenario that assumes the kind of budget neutral program that Congress could actually pass.

Figure 7

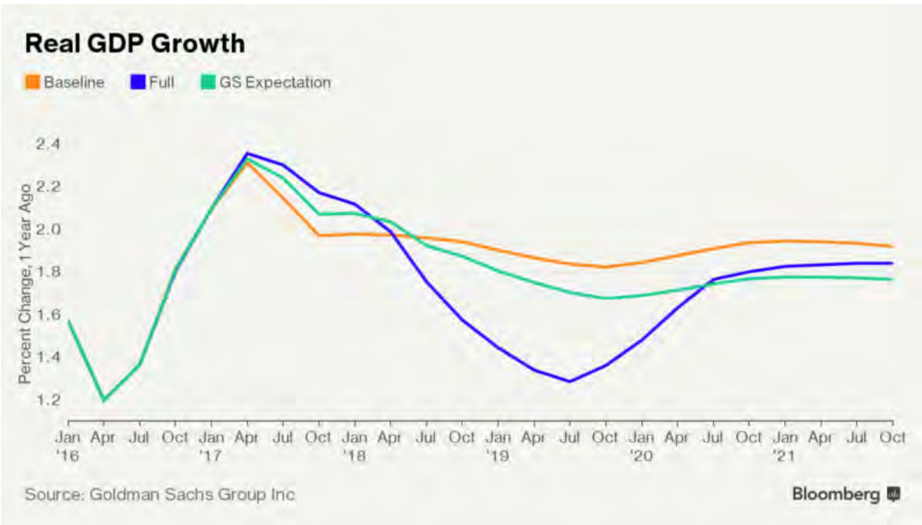


[22] Tax cuts are smaller, “only” 6 million undocumented immigrants are expelled, and there is no trade war.

In all three cases, Trump's policies produce outcomes that are worse (over the full forecast horizon) than the baseline scenario, which assumes no change in current policy. Even in the best-case scenario (Washington Reality) where a recession is avoided, the economy averages just 1.7 percent annual growth over 10 years, well below the promise land of 3.5-4.0 percent. Under the worst-case scenario, the one that assumes all of Trump's proposed policies become law, including tariffs and the deportation of millions of undocumented people, the economy enjoys a year or two of improved growth, but "a lengthy recession" follows, with 3.5 million fewer jobs and an unemployment as high as 7% by the end of his first term. The economy also does more poorly under the "Trump Lite" scenario, with Moody's predicting a deep recession beginning in 2018 as unemployment climbs to 8.9% by 2020.

You might wonder whether Moody's is uniquely pessimistic about the prospects for growth under a Trump administration. That's a fair question, so let's look at the analysis done by Goldman Sachs. Over at Goldman, Haztius and Stehn (2017) ran their own simulations, using the Federal Reserve's economic forecasting model. Their results are shown in Figure 8.

Figure 8



Like Moody's, the Goldman team found that Trump's policies are a net negative for growth relative to the baseline (*status quo*). To get the extreme case, Goldman ran a "Full" Trump scenario that included $450 billion in fiscal stimulus (a combination of infrastructure investment and tax cuts), some reciprocal tariffs, and immigration restrictions that reduce the size of the labor force by 2.5 million compared with the Fed's baseline projection. As Figure 9 shows, the Full Trump scenario juices the economy in the near term, but the effects of the stimulus quickly diminish, as the model assumes that limits on labor force growth begin to bind, slowing overall growth. As with Moody's, Goldman doesn't expect Trump to get everything he wants, so they also simulated a more realistic agenda (GS Expectation), which extends the economy's growth rate above 2 percent for about an additional year. "Our simulations suggest that Mr Trump's policies could boost growth slightly in 2017 and 2018, but are likely to weigh on growth thereafter if trade and immigration restrictions are enacted," wrote Hatzius and Stehn.

Goldman differs from Moody's in that "Trumponomics" *does* manage to extend the recovery through 2020, however growth doesn't approach anything like the 3.5-4.0%. The bottom line is that, compared with the *status quo* scenario, both Goldman and Moody's predict a smaller economy at the end of Trump's first term.

It's an astonishingly gloomy outlook that is shared by a number of high-profile academic economists. For example, Joseph Stiglitz, speaking at the ASSA meetings in Chicago, said, "There is a broad consensus that the kind of policies that [President Trump] has proposed are among the policies that will not work." Harvard Professor and former U.S. Treasury Secretary, Larry Summers, believes financial markets are overly enthusiastic about "Trumponomics", comparing their zeal to a "sugar high" that will dissipate as reality sets in. That reality includes the harmful effects of Trump's immigration policies and his protectionist impulses, which many believe could drive up prices (of labor and imports), fueling higher inflation and causing the Fed to hike rates more aggressively. Finally, Paul Krugman notes that "Trumponomics" ultimately relies on a burst of supply-side tailwinds, powered by huge tax cuts, which, in his view, are unlikely to propel the economy through the gale force headwinds that will result from trillions in spending cuts:

> "But the tax cuts will go to the wealthy, who won't spend much of their windfall, while the spending cuts will fall on the poor and struggling workers, who will be forced into sharp cutbacks in spending. The overall effect on demand is therefore likely to be negative, not positive."

Not everyone shares this glum perspective on "Trumpnomics". As I noted above, Harvard's Ken Rogoff remains optimistic. While he believes that "inflation is a near certainty", he sees the potential for a doubling of growth, at least temporarily, cautioning against "pundits who believe Trump will bring economic catastrophe".

Conclusion

President Trump has promised to "Make America Great Again". Part of this pledge involves getting the U.S. economy growing at rates it hasn't experienced in almost two decades. Many economists are skeptical of "Trumponomics" and doubt that his policies can extend the recovery, much less deliver the 3.5-4.0% growth he has crowed about.

My own view is that economists have probably displayed too much pessimism when it comes to the potential for higher economic growth. But that does not mean that I side with Rogoff entirely. As I see it, both Rogoff outcomes are possible. That is, "Trumponomics" – especially tax cuts and deregulation – could produce windfall gains that energize asset prices (stocks and even real estate), generating a strong – if temporary – wealth effect that leads to a surge in aggregate spending. If there is more slack in the economy than Moody's or Goldman imagine, it seems reasonable to think that growth could surprise to the upside – 3.5 percent does not strike me as inconceivable.

But, as Figure 6 reminds us, growth alone does not prevent economic catastrophe. In other words, both outcomes – higher growth with catastrophic consequences – are possible. And the just-released "skinny budget" from the Office of Management and Budget (2017) certainly looks like a catastrophe for the sick, the poor, the middle-class and the planet. It includes a Reaganesque beefing up of the defense budget, along with massive cuts in non-defense discretionary spending. Couple this with the yet-to-be-announced cuts to non-discretionary spending (Social Security and Medicare) plus Trump's proposed tax cuts, and you have

Reagan on steroids, a full-throated trickle-up program designed to lock in gains for those already at the top of the income distribution. It may elevate growth, for a time, but it will be a catastrophe nonetheless.

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SUGGESTED CITATION:
Stephanie Kelton, "Can 'Trumponomics' extend the recovery?", *real-world economics review*, issue no. 78, 22 March 2017, pp. 159-172, http://www.paecon.net/PAEReview/issue78/Kelton78.pdf

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ISSN 1755-9472

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