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The Economic Roots of the Rise of Trumpism

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John Komlos

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Poschingerstr. 5, 81679 Munich, Germany
Telephone +49 (0)89 2180-2740, Telefax +49 (0)89 2180-17845, email office@cesifo.de
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The Economic Roots of the Rise of Trumpism

Abstract

Donald Trump won the election in 2016 largely because enough voters in three states, all in the Rustbelt, who had voted for Barack Obama in both 2008 and 2012, switched their vote from Democratic to Republican. Economic dislocations played a crucial role in these swing states or democratic strongholds to persuade many voters to take the dramatic step to vote for an anti-establishment candidate even if that meant a leap of faith into the unknown. The sources of the dislocation were the development of a dual economy characterized at one end by low and stagnating wages, increasing debt, downward social mobility, declining relative incomes, and the hopelessness accompanying them while at the other end of the income distribution the economy was simply booming. This was longer than a three-decade process that started with Reaganomics and its tax cuts that privileged the rich and conferred immense wealth, and its concomitant, political power, on them. Reaganomics also accelerated the decline in the power of unions which had supported the middle class. The process continued under Bill Clinton's administration and its continuing both financial deregulation and of hyper-globalization. George Bush continued to pamper the superrich with his tax policies. The process culminated with Barack Obama's bailing out the superrich and his benign neglect of Mainstreet. Five administration's disinterest in the social group Hillary Clinton referred to flippantly as "the deplorables" culminated in the revolt of the masses in favor of an incompetent strongman by overthrowing the establishment captured by such chants at Trump rallies as "Lock her up!", "USA!", "Build the wall", or "Drain the swamp" (i.e., in Washington D.C.)

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John Komlos
University of Munich / Germany
john.komlos@gmx.de

The rise of Trumpism has many sources. Some people always support Republicans. This support is made up of a coalition of Christian evangelicals, military hawks, southern racists, social and fiscal conservatives, government haters, gun enthusiasts, freedom fanatics, market fundamentalists, wealthy who crave for lower taxes, and those backward-looking who yearn for the time when America was younger, more confident, prouder of itself and is afraid that its stature is declining. This group is united in their unwavering belief in the minimalist state, rugged individualism, American exceptionalism, the American Dream, and most of all, in the firm conviction that if you do not make it in this land of freedom and opportunity it must be your fault and you do not deserve the dole, never mind if you were born on the wrong side of the tracks, into a dysfunctional family, in a dysfunctional neighborhood with third-world schooling opportunities and no legitimate role models to speak of. This group makes up the majority in the West (except for the salt-water states), most of the Great Plains, and the Confederacy—from Idaho through Texas and then on to South Carolina, a vast stretch of contiguous land mass that covers most of the country. Yet, the population in these states does not suffice for a majority of the Electoral College. To reach 270 votes, Republicans need the support of some swing states or they need to flip some of the democratic strongholds.[1] This is precisely what happened. Wins in just three of these states, Pennsylvania, Michigan, and Ohio put Donald Trump over the top. Pennsylvania and Michigan have not voted for a Republican president since 1988. They all chose Barack Obama in both 2008 and 2012. Thus, one needs to understand why these three states swung into the Republican column this time. A change of just 251,000 votes from Trump to Hillary Clinton in these states would have clinched it for her. That would have meant a change in votes of 0.7% in Pennsylvania, 0.2% in Michigan, and 7.9% in Ohio.

These states are obviously in the heart of the Rust Belt that was devastated by the relentless decline in manufacturing and the benign neglect by administration after administration for decades. The goal of this essay is to outline the economic forces that fanned the flames of frustration of those white men—and they were mostly white men--who

[1] An analysis of the electorate across the whole country is not likely to pick up the crucial factors because some people always vote Republican no matter what. Nonetheless, one such analysis found that Trump support was more likely in "racially isolated communities with worse health outcomes, lower social mobility, less social capital, greater reliance on social security income and less reliance on capital income." Jonathan Rothwell and Pablo Diego-Rosell, "Explaining Nationalist Political Views: The Case of Donald Trump," https://papers.ssrn.com/sol3/Papers.cfm?abstract_id=2822059 August 15, 2016, accessed January 31, 2018.

lost trust all hope in the establishment's willingness and ability to help them.[2] So their frustration grew to the boiling point until they were willing to cast their lot for someone who the well-known moderate republican *New York Times* columnist David Brooks describes as a "narcissistic sexual harasser and a routine liar".[3] In more normal times he would have been considered a laughingstock or, as president Obama appropriately referred to him in 2011, as a "carnival barker."[4] Other words used to describe his personality include "abusive", "aggressive", "angry", "authoritarian", "bombastic", "buffoon", "bully", "chaotic", "catastrophic", „childish", "con artist", "crackpot", "crude", "dangerous", "demagogue", "dishonest", "erratic," "fraud", "goofball", "habitual liar," "idiot", "impulsive", "incompetent", "insane", "irrational", "menacing", "phony", "strongman," "terrifying," to use some of the politer ones.[5] A score of psychiatrists abandoned standard practice and declared him mentally unfit for the office of President.[6] In the colloquial most people simply refer to him routinely as crazy, even if he often brags about his intelligence even adding that he is "really smart" and a "very stable genius".[7]

Thus, the election of 2016 was nothing less than revolutionary.[8] As all such turning points, it overthrew much of the elite and as all historical revolt of the masses, this, too, is built on deep discontent.[9] This essay argues that the discontent grew out of the socio-economic forces unleashed by the failure of economic policies to provide inclusive growth.

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[2] "Donald Trump's astonishing victory… has made one thing abundantly clear: too many Americans—particularly white male Americans—feel left behind." Joseph Stiglitz, *Project Syndicate*, November. 13, 2016

[3] "The G.O.P. Is Rotting," *The New York Times*, December 7, 2017.

[4] Russell Berman, "The 'Carnival Barker' Joins the 2016 Circus," *The Atlantic*, June 16, 2015.

[5] Note that no one outside of his inner circle ever used any of the following descriptives when talking about Trump's personality: affectionate, benevolent compassionate, considerate, contemplative, empathic, good-natured, good-tempered, introspective, loving, a real mensch, nice, sensitive, systematic, thoughtful, tolerant, well-disposed, or anything similar.

[6] Bandy X. Lee, The Dangerous Case of Donald Trump: 27 Psychiatrists and Mental Health Experts Assess a President (New York: Thomas Dunne Books, 2017). "History will not be kind to a profession [psychiatrists]that aided the rise of an American Hitler through its silence." Carlos Lozada, "Is Trump mentally ill? Or is America? Psychiatrists weigh in," *The Washington Post*, September 22, 2017.

[7] "15 times Trump bragged about his intelligence," CNN, http://www.cnn.com/videos/politics/2017/10/10/times-trump-bragged-about-intelligence-orig-alee.cnn accessed December 9, 2017.

[8] Richard Wolffe, "Donald Trump's victory is nothing short of a revolution," *The Guardian*, November 9, 2016.

[9] Editorial Board, "Donald Trump's revolution: Voters rebuke America's political establishment," *Chicago Tribune*, November 9, 2016.

The process, starting with Reaganomics, was fueled by globalization and the IT revolution, and finished off with the Financial Crisis of 2008. These grievances spanned three decades and generated enough anger, frustration, and discontent that they were willing, instead of "storming the Bastille" to "drain the swamp" whatever may follow.[10]

Evidence of Frustration in the Society

Evidence of discontent abounds. It manifests itself in the abandoned factories, dilapidated homes, and dysfunctional neighborhoods of the Rust Belt. It affects the anxiety-ridden underclass, who are stuck spatially and economically and see no way out of their hopeless predicament and far too often turn to acts of desperation. That is one reason why the homicide rate in the U.S. is 3 to 8 times that of the welfare states of Western and Northern Europe, where the state-provided safety net reduces anxiety considerably.[11] The high mass murder rate is also a function of the inadequate availability of mental health services.[12] There were 384 mass shooting incidents in 2016. Assassination of police officers or shooting at the Republican baseball practice in D.C. similarly indicate the amount of venom that has accumulated in people.[13]

Real median household income in Ohio, Wisconsin, and Michigan is still $5,900, $6,000, and $9,300 below its level at the end of the 20th century.[14] In Pennsylvania alone among these states has median income increased by $122 per annum. This unprecedented decline in incomes is amazing. No wonder that deaths of despair have risen. The opioid epidemic hit the Rust Belt with a vengance. All three states experienced a higher overdose death rate than the national average in 2015.[15] Pennsylvania had 3,500 overdose deaths reaching a rate of 26 per 100,000.[16] Ohio's overdose deaths increased from under 1,000 in

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[10] Conor Friedersdorf, "Trump Has Filled, Not Drained, the Swamp," *The Atlantic*, September 21, 2017.

[11] United Nations Office on Drugs and Crime, *Statistics, https://data.unodc.org/* accessed July 7, 2017.

[12] John Komlos, "How raising taxes on the rich could prevent mass shootings," PBS Newshour, September 2, 2015; http://www.pbs.org/newshour/making-sense/face-mass-murders-case-universal-mental-health-insurance/ accessed July 12, 2017.

[13] "HuffPost Graphics, "There have been 153 mass shootings in 2017," https://twitter.com/HuffPostGraphic/status/875019850061664258 Accessed July 12, 2017.

[14] Other neighboring states where real median household income is still below its late-20th-century level include Indiana, Kentucky, West Virginia, and Virginia.

[15] Holly Hedegaard, Margaret Warner, Arialdi M. Minino, "Drug Overdose Deaths in the United States, 1999-2015," Centers for Disease Control and Prevention, *NCHS Data Brief* No. 273, February 2017.

[16] PA. Gov, "Treating and Preventing Opioid Addiction" https://www.pa.gov/guides/opioid-epidemic/ accessed December 8, 2017.

2004 to 4,000 by 2016 reaching a rate of 30 per 100,000.[17] Michigan had a rate of 20. These compare unfavorably to the national average of 16, which is bad enough. Per capita drug use in U.S. is more than three times as high as in Western Europe,[18] and drug related deaths are eight times as high.

"Deaths of despair" have risen markedly in the U.S. Drug overdose deaths were about 6,000 in 1980 while by 2015 they rose to 52,000, i.e., an increase by an amazing factor of 8+.[19] Other deaths of hopelessness include alcohol poisonings, suicides, and chronic liver diseases from excessive alcohol consumption. The upshot is a "shocking increase in midlife mortality" among white Americans. This has never happened before in a developed country in peacetime in the absence of a disease epidemic. The U.S. is the only rich country to experience increase in mortality in recent times. Most affected are white men with a high school education or less. Their mortality rates have been increasing since the turn of the 21st century while those with a college education are immune from this trend.[20] Blacks and Hispanics were also largely unaffected: they did not experience the shock of downward mobility as did whites.

The incarceration rate is also a sign that people are unable to find their place in society. There were no fewer than 6.7 million people (2.7% of the adult population) "supervised" in the U.S. in 2015; this includes people on parole or probation as well as 2.2 million incarcerated people.[21] This is the highest rate of incarceration anywhere in the world: with 5 percent of the world's population, the U.S. has 23% of its prisoners.[22]

The number of bankruptcies shows the difficulties people have to meet their financial obligations.[23] There were 0.9 million bankruptcies in 2014—up from 0.3 million in 1980,

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[17] Julia Lurie, "Ohio's New Overdose Rates Are Truly Insane," *Mother Jones*, August 31, 2017.
[18] 7.4 per thousand vs. 2.2 per thousand.
[19] Josh Katz, "Drug Deaths in America Are Rising Faster Than Ever," *The New York Times*, June 5, 2017.
[20] Anne Case and Angus Deaton, "Mortality and morbidity in the 21st century," *Brookings Papers on Economic Activity*, March 23-24, 2017;
[21] Bureau of Justice Statistics, "*Correctional Populations in the United States,*" https://www.bjs.gov/index.cfm?ty=pbdetail&iid=5870 accessed July 8, 2017
[22] Christopher Hartney, "US Rates of Incarceration: A Global Perspective," http://www.nccdglobal.org/sites/default/files/publication_pdf/factsheet-us-incarceration.pdf accessed July 8, 2017. In many states, ex-felons are denied the right to vote.
[23] Juliet B. Schor, *The Overspent American: Why We Want What We Don't Need* (New York: Harper Perennial, 1999).

doubling on a per capita basis.[24] We might also consider that 9.3 million homeowners who lost their home between 2006 and 2014 must have some bitterness that predisposed them to want to smite the system that let them down.[25]

Persistent and endemic poverty indicates that the market economy leaves millions struggling. In 2017, a two-person household was considered poor if its total income was below $17,000 per annum.[26] That meant that 45 million people were living in poverty, 15% of the population, as high a rate as in 1966, one year after Medicare began under the Johnso administration.[27] A further 15 million people live slightly above the poverty, defined as 100-125% of the poverty threshold.[28]

The poverty rate among U.S. children—19.6%—is about twice the mean rate prevailing in rich countries and seven times as high as in Denmark.[29] One reason for the high rate of poverty among children is that the divorce rate has doubled,[30] and the share of families with children headed by a female quadrupled since 1950.[31] In 2016 one-third of all children lived in single-parent household.

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[24] BankruptcyAction.com. "Business and Non-Business Filings," http://www.bankruptcyaction.com/USbankstats.htm accessed July 8, 2017; Al Krulick, "Bankruptcy Statistics," https://www.debt.org/bankruptcy/statistics/ accessed July 8, 2017.

[25] This number includes those who went through a foreclosure, surrendered their home to a lender, or sold their home via a distress sale according to the National Association of Realtors. Laura Kusisto, "Many Who Lost Homes to Foreclosure in Last Decade Won't Return – NAR," *Wall Street Journal* April 20, 2015. http://www.realtytrac.com/mapsearch/foreclosures as well as on the website of U.S. Courts http://www.uscourts.gov/sites/default/files/data_tables/bf_f_0331.2017.pdf accessed July 8, 2017.

[26] U.S. Census Bureau, "Poverty Thresholds," https://www.census.gov/library/publications/2016/demo/p60-256.html accessed July 8, 2017.

[27] U.S. Census Bureau, "Figure 4. Number in Poverty and Poverty Rate," https://www2.census.gov/programs-surveys/demo/visualizations/p60/256/figure4.pdf accessed July 8, 2017.

[28] U.S. Census "Living in Near Poverty in the United States: 1966-2012," https://www.census.gov/prod/2014pubs/p60-248.pdf accessed July 8, 2017; https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=CF accessed January 30, 2018 .

[29] Organization for Economic Cooperation and Development (OECD), *Growing Unequal? Income Distribution and Poverty in OECD Countries* (Paris: OECD, 2008); OECD, *Divided We Stand: Why Inequality Keeps Rising* (Paris: OECD, 2011).

[30] National Center for Health Statistics, "Advance Report of Final Divorce Statistics, 1988," *Monthly Vital Statistics Report* 39 (1991) 12, suppl. 2.

[31] U.S. Census Bureau, Data, Historical Families Tables, Table FM-1, "Families by Presence of Own Children under 18: 1950 to Present," https://www.census.gov/data/tables/time-series/demo/families/families.html accessed July 15, 2017.

The UNICEF rated the welfare of U.S. children in the 26th place compared to those of European countries and even below those of middle-income countries such as Hungary, Poland, Slovakia, and Estonia.[32] Six million children are reported for maltreatment to U.S. agencies annually,[33] and five children die daily due to abuse or neglect.[34] U.S. pre-term birth rates are closer to those prevailing in Africa than in Europe.[35] A teenager in Mississippi is 15 times more likely to give birth than her counterpart in Switzerland.[36] These social problems are rooted in the nature of the economic system that yields few opportunities for advancement for a large number of children and their families.

Consider, furthermore, that in July 2017 in the country with aspirations to be the greatest in the world, 40% of the population considered themselves struggling financially and another 3% was suffering.[37] That adds up to no less than 140 million people. The Affordable Car Act has reduced the number without health insurance from 16% in 2010 to 8.6 % of the population in 2016 but that still left 28 million people without the security of insurance and its repeal is on the political agenda of the Republican Party.[38] Among those below the age of 65 the uninsured rate was 13% even in 2016 and is also much higher among some groups: among the poor it is as high as 26% and among Hispanics it is 28%.[39]

Obviously, all the above-mentioned social developments effect anxiety and mental health of the population. The number of people seeking outpatient care for depression in the U.S. has increased from 0.7 percent of the population in 1987 to 2.3 percent in 1997 and then

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[32] UNICEF Innocenti Research Centre, *Child well-being in rich countries. A comparative overview* (Florence, Italy: The United Nations Children's Fund, 2013), Report Card 11.
[33] Childhelp, "National Child Abuse Statistics & Facts," https://www.childhelp.org/child-abuse-statistics/ accessed July 15, 2017.
[34] Centers for Disease Control and Prevention, "Child Abuse and Neglect Prevention," https://www.cdc.gov/violenceprevention/childmaltreatment/index.html accessed July 15, 2017.
[35] Christopher P. Howson, Mary V. Kinney, and Joy E. Lawn, eds., *Born Too Soon: The Global Action Report on Preterm Birth* (Geneva: WHO, 2012).
[36] Melissa S. Kearney and Phillip B. Levine, "Why Is the Teen Birth Rate in the United States So High and Why Does It Matter?" *Journal of Economic Perspectives* 26 (2012) 2: 141–166.
[37] Gallup, "U.S. Life Evaluation (Weekly)," http://www.gallup.com/poll/151157/life-evaluation-weekly.aspx accessed July 8, 2017.
[38] Kelsay Avery, Kenneth Finegold, and Amelia Whitman, "Affordable Care Act Has Led to Historic, Widespread Increase in Health Insurance Coverage," Issue Brief, Department of Health & Human Services, September 2016; https://aspe.hhs.gov/system/files/pdf/207951/ChartpackACAHistoricIncreaseCoverage.pdf accessed July 13, 2017.
[39] Ibid.,

to 2.9 percent by 2007.[40] The use of medication among these patients increased from 37 percent to 75 percent in the same time span. In 2014 16 million adults (6.7%) experienced at least one major episode of depression.[41] This is the underbelly of the society that was rife for Trump's message of making America great again, to bring back jobs, and to blame immigrants and Moslems for their ills. Scapegoating is standard practice among strongman.

In short, there is a myriad of symptoms of the suffering among the American underclass, the ones Hillary Clinton ungenerously christened the "deplorables". Instead, Donald Trump hit a home run with the declaration, "I love the poorly educated".[42] Hopelessness, frustration, and inequality are mighty political forces and Trump was able to capture its torrents and harvest the anger of the have-nots, those who stumbled in their attempt to reach the American Dream. It was the benign neglect of this social strata by five administrations that enabled Donald Trump to capture the three Rust-Belt states that led to this historical conjuncture.

The Principles of Reaganomics

Ronald Reagan' Presidency was a watershed. Many of our problems delineated above began or were greatly exacerbated under his tenure. He embraced a policy of trickle-down economics, also known as supply-side economics or Reaganomics for short. The claim was that cutting the taxes of the deserving rich and super-rich would provide incentives to increase investments and thereby create jobs and subsequently "trickle down" to the masses so they will benefit from it from due course. In addition, lower taxes meant an the increase in disposable income and that would provide an incentive for people to work harder and for entrepreneurs to take more risks, thereby creating economic growth and boosting incomes. But that was all theory. While it worked very well on the blackboard, it was based on too many unwarranted assumptions without empirical support.

However, there were plenty of counterarguments as well. People who were working full time would not likely increase their work hours. And new investments will not be undertaken, unless there are opportunities offering a decent return and those were limited, at

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[40] Mark Olfson et al., "National Trends in the Outpatient Treatment of Depression," *Journal of the American Medical Association* 287 (2002): 203–209; Steven C. Marcus and Mark Olfson, "National Trends in the Treatment for Depression from 1998 to 2007," *Archives of General Psychiatry* 67 (2010): 1265–1273.

[41] Anxiety and Depression Association of America, "Depression," https://adaa.org/understanding-anxiety/depression accessed July 16, 2017.

[42] Josh Hafner, „Donald Trump loves the ‚poorly educated' and they love him," *USA Today*, February 24, 2016.

least domestically. And what if the rich spent their additional income on conspicuous consumption buying foreign luxuries or traveling abroad, the trickling down effect would be elsewhere in the world. And what if they bought government bonds foreign or domestic instead of investing in physical capital? So there were plenty of open questions if anyone cared to dig a bit deeper. The main point is that the road from tax cuts to investment or economic growth in general is hardly a straightforward one.

One might have argued just as well, that one could increase the purchasing power of the lower classes which, in turn, would increase aggregate demand thereby trickling up to the corporations as profits increased which would provide an incentive for them to invest. The poor and the lower-middle class had much more pent-up demand than the people at the top who already owned just about everything. And if one was serious about boosting the economy why not make sure that investments actually do happen, and jobs are actually created by attaching conditions to the tax cuts that would have insured that those intentions are actually realized? One could tie the tax cuts to the number of new jobs created. Or one could improve human capital formation by bolstering the school system? In other words, there were myriad of direct ways to foster economic growth with inclusive prosperity if the elite were serious about it.

The Failure of Reaganomics as the Foundations for Inclusive Growth

As it turned out, the stimulating effects of the tax cuts had the viscosity of molasses as nothing trickled down to the middle- or lower classes. Nobel Prize winning economist, Joseph Stiglitz pointed out that "President Ronald Reagan began hollowing out the middle class and skewing the benefits of growth to those at the top…"[43] As the rich gained more power their share of the tax cuts increased. The Nicon tax cut of 1971 was still spread pretty evenly across the population.While Jimmy Carter's tax cut of 1977 was skewed mostly toward the poor and lower-middle class. His Revenue Act of 1978 was the first time that the upper-classes received a substantial cut in taxes. Reagan‘s tax cuts were also skewed heavily towards the top as was that of Bush. Reagan cut the marginal tax rate for the rich in half. The Republicans gave negligible amounts to the poor or lower-middle class while the rich became superrich. The 2003 tax cut was the most regressive as most of it went to millionaires. The Obama administration then made the Bush tax cuts permanent in 2010 and 2013. Great

[43] Joseph Stiglitz, „What America's Economy Needs from Trump," *Project Syndicate*, November. 13, 2016.

windfall for millionaires. Similarly, the Trump tax cut will be captured mostly by those earning more than $500,000.[44]

To be sure, average citizens can be manipulated by hot-button cultural issues and by informing them that their take-home pay will increase.[45] Everybody benefits. This is a true statement but not the whole truth. What is kept hushed up is that for Everyman on Main Street the tax cuts meant a tiny increase in disposable income with which they could go to the movies or perhaps take a trip to Disneyland. But it meant absolutely nothing for the improvement of their long-term prospects. However, for the rich the Reagan tax cuts were a genuine game changer.[46] They brought a tremendous windfall which they used strategically to further their economic power.[47] Consider the millionaires who had been paying, say, $700,000 in taxes and whose taxes were cut to $350,000. What were they going to do with their $350,000 windfall? Sure, some spent part of it on conspicuous consumption or buy government bonds. However, the smart money invested a substantial portion of it into strengthening their power position by supporting think tanks that hired economists to support and further their ideology.[48] These think thanks were instrumental in expanding the free-market ethos that argued vehemently and persistently for small government, free markets, free trade, and deregulation across the board that included the financial sector.[49] This was an extremely successful strategy, because it convinced the citizenry through cognitive capture and established firmly a dominant ideology (ala Gramsci) that was based on their tenets. Everyman on Main Street was no longer capable of discerning their own self-interest and came to support that of the superrich. By the 1990s the free-market ideology became so deeply ingrained in the fabric of society that Democrat Bill Clinton's economic policies began to resemble those of the moderate wing of the Republican Party.

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[44] Andrew Van Dam, "Is the GOP tax plan an unprecedented windfall for the wealthy? We look at 50 years of data to find out," *The Washington Post*, December 4, 2017.
[45] Jason Stanley, *How Propaganda Works* (Princeton: Princeton University Press, 2015); Thomas Frank, *What's the Matter with Kansas? How Conservatives Won the Heart of America* (New York: Metropolitan Books, 2004).
[46] James Galbraith, *The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too* (The Free Press, 2008).
[47] Larry M. Bartels, *Unequal Democracy. The Political Economy of the New Gilded Age*, 2nd edition (New York: Russell Sage Foundation, 2016);
[48] They also invested heavily in academia, Diane Ravitch, „Big Money Rules," *The New York Review of Books*, December 7, 2017.
[49] For the damage done by the war on government see, Jacob Hacker and Paul Pierson, *American Amnesia: How the War on Government Led US to Forget What Made America Prosper*, (New York: Simon & Schuster, 2016).

The millions of dollars of windfall were used not only to subsidize think tanks but there was enough money left to support politicians of their ilk. Thus, the incentive structure was in place to enact further legislation that increased the power of the superrich.[50] So the windfall created feedback effects that led to further political power and further domination of the public's worldview that led to further profits and additional power. This vicious circle of wealth and power accumulation was the most pernicious aspect of the tax cuts: not only were they unfair, not only did they fail to trickle down, not only did they fail to spur economic growth, but most importantly they tipped the scales of power permanently in favor of the rich and superrich thereby undermining the basic precondition of a democratic political system, namely the dispersion of power. So plutocracy came into being not with a bang but with a whimper.[51]

Arthur Laffer had argued that cutting taxes would increase growth and thereby increase government revenue, a convenient argument in support of the Republican ideology. The same argument was repeated in the debate leading up to the enactment of the Trump tax cuts even though there is no evidential basis for it. Paul Krugman calls it voodoo economics. He is right. The tax cuts were not effective in improving the economy in the past and they will not be effective in the future either. Instead, the Reagan – Bush presidencies left us with nothing but debt which doubled from 30% to 60% of GDP. That was an immense mistake, because we have become accustomed to an endemic budget deficit and the interest burden on the federal budget keeps on expanding. Moreover, it is impossible to reverse. Each generation will want to pass on the burden to the subsequent generations. So, reversing this process is unlikely and sooner or later we will reach a breaking point when the Chinese and Japanese will no longer want to finance our government and then interest rates on the debt will rise and we'll have difficulties meeting our obligations. Not a comfortable scenario with which to tempt faith.

In addition to the tax cuts favoring the rich and the endemic budget deficits, the third aspect of Reagan's hallowing-out of the middle class was his vicious suppression of the strike of the Professional Air Traffic Controllers Organization. The union ceased to exist, and

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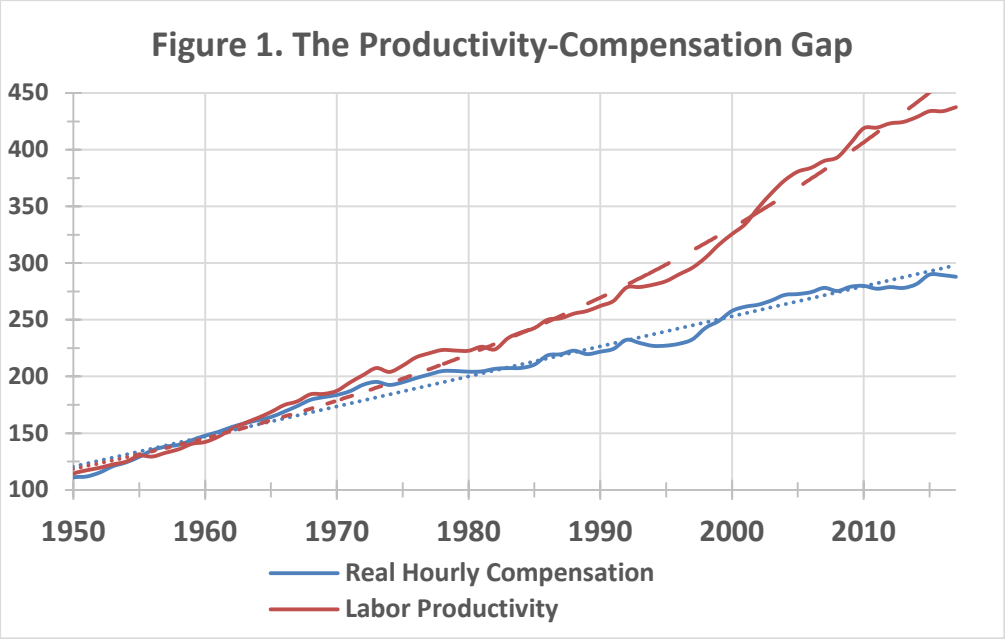
[50] Jeff Faux. *The Servant Economy: Where America's Elite is Sending the Middle Class* (New York: Wiley 2012).

[51] Steven Levitsky and Daniel Ziblatt, How Democracies Die (New York: Crown Publishing, 2018); David Cay Johnston, It's Even Worse Than You Think: What the Trump Administration Is Doing to America (New York: Simon & Schuster, 2018).

11,000 employees were fired, signaling the end of the influence of big labor.[52] Intimidated, the number of strikes involving at least 1,000 workers declined thereafter from 235 in 1979 to just 17 by 1999,[53] and the share of the labor force in unions, still 26% throughout the Carter presidency, fell precipitously by fully 1/3rd, and reached 17%, by the end of Reagan's second term.[54] So union power was a thing of the past.[55]

Unions had been the backbone of the middle class. They ensured that a share of the profits went also to the workers and not only to the executives and shareholders. Collectively workers could threaten to strike, therby exercising sufficient countervailing power to obtain for themselves a living wage. Without that countervailing power those workers who had no special skills—those with a high school education or those who had dropped out—were left to fend for themselves.[56] The results were devestating to this segment of the middle class. United, workers had some bargaining power, divided they had none. The result was that workers lost out and productivity grew 2.3 times as fast as wages (Figure 1). The difference accrued to profits which grew exponentially.



52 "The PATCO strike signalled a profound decline in organized labor's power in the late twentieth-century United States." Joseph McCartin, "Professional Air Traffic Controllers Strike (1981)," in Eric Arnesen, *Encyclopedia of U.S. Labor and Working-class History*, Volume 1 (Taylor and Francis, 2007), p. 1126.

53 Ibid.

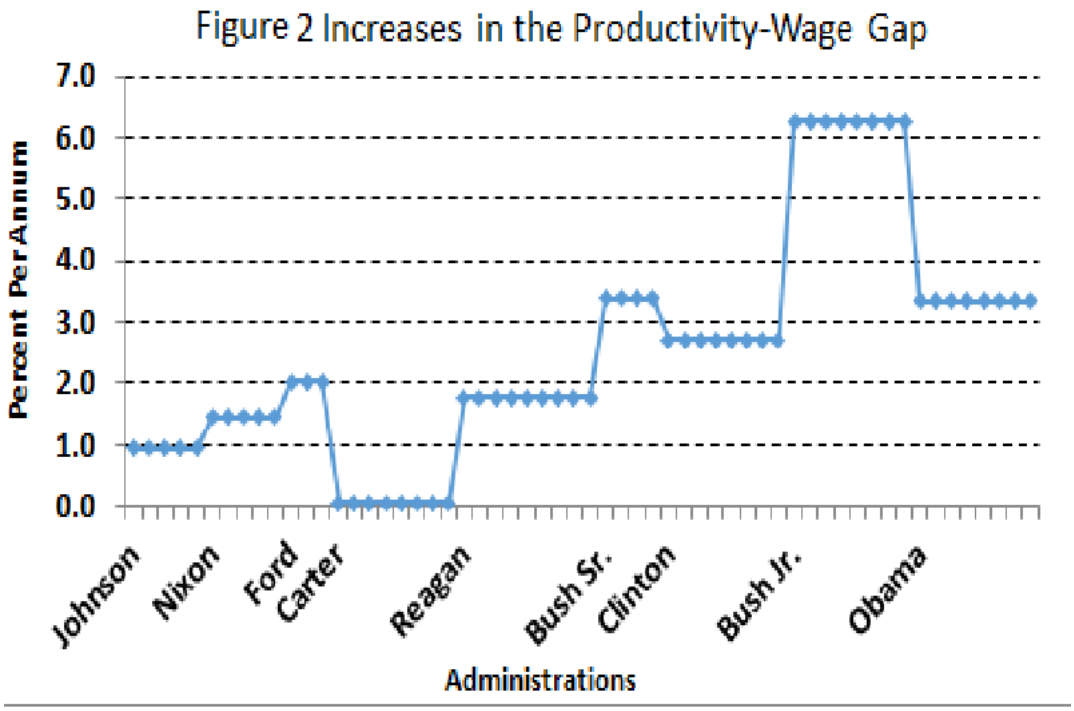
54 Bureau of Labor Statistics, "Table 1. Union affiliation of employed wage and salary workers," https://www.bls.gov/webapps/legacy/cpslutab1.htm accessed September 17, 2017.

55 Lawrence Mishel, "Unions, inequality, and faltering middle-class wages," Economic Policy Institute Report, August 29, 2012.

56 Josh Bivens, et al., "Raising America's Pay. Why It's Our Central Economic Policy Challenge," Economic Policy Institute, June 4, 2014.

Source: Susan Fleck, John Glaser, and Shawn Sprague, "The compensation-productivity gap: a visual essay," *Monthly Labor Review*, January 2011: 57-69. Data for 2012-2016 was kindly provided by Shawn Sprague of the Bureau of Labor Statistics.

The early 1980s was the real turning point. Until Reagan's presidency the gap between productivity growth and wages growth was negligible and under Carter the gap remained steady at 18 percentage points; it did not increase at all (Table 1). However, under Reagan the gap resumed its upward climb. The floodgates were opened and thereafter the gap widened continuously, although each successive democratic administration tried to slow the rate at which the gap was increasing (Figure 2). So, under Clinton the gap increased at a slower rate than under Bush Sr. and similarly under Obama it again grew slower than it did under Bush Jr. By the presidency of Bush Jr., it was growing at a rate of 6 percentage points per annum. At the beginning of 2017 the gap had reached 150 percentage points. That is to say compensation increased by 288% since 1947 but productivity had increased by 438%. Without the countervailing power of unions, workers were at a distinct disadvantage.



Source: See Figure 1.

Table 1. Productivity -- Compensation Gap, Index numbers, 1947=100				
	Size of the Gap		Difference	
President	Beginning	End	Total	Per Annum
Johnson	0.2	4.9	4.7	0.9
Nixon	4.9	12.2	7.3	1.5
Ford	12.2	18.3	6.1	2.0
Carter	18.3	18.5	0.2	0.0
Reagan	18.5	32.6	14.1	1.8
Bush	32.6	46.1	13.5	3.4
Clinton	46.1	67.8	21.7	2.7
Bush	67.8	117.9	50.1	6.3
Obama	117.9	144.6	26.7	3.3

Source: See Figure 1.

The next stop on the way to Trumpism: Bill Clinton and the Tsunami of Globalization

Reagan was followed by George Bush Sr. who initiated the North Atlantic Free Trade Association (NAFTA), eventually signed into law by Bill Clinton in 1994. He promised that it will "promote more growth, more equality,… and create 200,000 jobs in this country by 1995 alone."[57] Of course, he failed to mention how many jobs will be destroyed by imports—one estimate put it at 880,000 by 2002. His economic team was led by Bob Rubin, CEO of investment mega-bank Goldman Sachs.[58] Globalization was said to be good for America, but no one ever said that it would be good for everyone.

Then in 2000 China entered the World Trade Organization giving it easy access to the U.S. market. The gale winds of globalization became a tsunami.[59] The manufacturing sector was devastated and the middle class with it, jobs were exported, and the trade deficit accumulated. Before Reagan trade was balanced. We imported about as much as we exported. Since then the accumulated deficit reached $13 trillion and is growing at a rate of nearly $500 billion per annum. Again, millions of workers were disadvantaged by the influx of imports and benign neglect was the fallback policy. Today, manufacturing employs merely

[57] William J. Clinton, "Remarks on Signing the North American Free Trade Agreement Implementation Act," December 8, 1993.
[58] Goldman Sachs is well represented in DC. It also sent Hank Paulson to help out the Bush Jr. administration and several others to serve the Trump administration.
[59] Daron Acemoglu, David Autor, David Dorn, Gordon Hanson, and Brendan Price, "Import Competition and the Great US Employment Sag of the 2000s," *Journal of Labor Economics*, 34 (2016), 51: S141-198; Justin Pierce and Peter Schott, "The Surprisingly Swift Decline of US Manufacturing Employment," *American Economic Review* 106 (2016) 7: 1632-1662 .

8.5% of the labor force. Hillary's 'deplorables' were swelling in number and the Democratic Party turned its back on the white working class.[60]

It is well known among economists that free trade has winners and losers. Yet, they sang the praises of free trade in unison without emphasizing the need to think about the well-being of the losers as well. Joseph Stiglitz and Dani Rodrik were exceptions.[61] Rodrik warned that "in the absence of a concerted government response, too much globalization would deepen societal cleavages, exacerbate distributional problems, [and] undermine domestic social bargains."[62] His warnings were not taken seriously. In retrospect he blames his economist colleagues: "It has long been an unspoken rule of public engagement for economists that they should champion trade and not dwell too much on the fine print…. The standard models of trade… typically yield sharp distributional effects: income losses by certain groups are the flip side of the "gains from trade." "And economists have long known that market failures – including poorly functioning labor markets, credit market imperfections,– can interfere with reaping those gains." "Nonetheless, economists can be counted on to parrot the wonders of comparative advantage and free trade whenever trade agreements come up. They have consistently minimized distributional concerns, even though it is now clear that the distributional impact of NAFTA or China's entry into the World Trade Organization were significant for the most directly affected communities in the United States." "They have overstated the magnitude of gains from trade deals, though such gains have been relatively small since at least the 1990s."[63] So the deep penetration of the U.S. market by Chinese products made a big difference to political developments. A recent analysis found that, „Michigan, Wisconsin, Pennsylvania, and North Carolina would have elected the Democrat instead of the Republican candidate if, ceteris paribus, the growth in Chinese import penetration had been 50 percent lower than the actual growth during the

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[60] Thomas Frank, *Listen, Liberal: Or, What Ever Happened to the Party of the People?* (New York: Metropolitan Books, 2016).

[61] Dani Rodrik, "Populism and the Economics of Globalization," NBER Working Paper No. 23559, July 2017. Rising import competition contributed to the polarization of U.S. politics. "Adverse economic conditions… [lead to] nativist or extreme politicians." David Autor, David Dorn, Gordon Hanson, and Kaveh Majlesi, "Importing Political Polarization? The Electoral Consequences of Rising Trade Exposure," NBER Working Paper no 22637, December 2017.

[62] *Has Globalization Gone Too Far?* (1997)

[63] Dani Rodrik, "Are economists partly responsible for Donald Trump's shocking victory in the US presidential election?," *Project Syndicate*, Nov 15, 2016.

period of analysis. The Democrat candidate would also have obtained a majority in the electoral college in this counterfactual scenario."[64]

Thus, the deleterious effects of globalization on the well-being of those at the losing end of the policy was not given serious consideration as Clinton embraced the Republican ideology of free trade.[65] The Reagan-Bush deregulation agenda was also coopted, so Clinton moved the democratic agenda toward the Republican ideology, thereby abandoning the working class and fueling the fires of discontent. The lack of regulation of the financial sector became a tsunami of destruction a decade later. And when his appointment to the Commodities Future Commission, Brooksley Born, tried heroically, but in vain, to regulate derivatives he failed to lift a finger to come to her aid. So the phalanx made up of Alan Greenspan, Robert Rubin, Larry Summers, and Christopher Cox made mincemeat out of her. Instead, Clinston signed the law that forbade the Commission from regulating derivatives. Period.

On the Road to Trump with George W. Bush

Bush Jr.'s continued Reaganomics with the ideology of deregulation, lower taxes that benefited the top 1%, and closed his eyes to the brewing financial crisis. When the Meltdown came in 2008 his administration lavished favors and billions on the big banks, its CEOs, and shareholders without any strings attached. There was nothing left over for Everyman on Main Street. Again, it had to fend for itself. They joined the unemployed, were evicted, or had to take low-paying jobs in the gig economy. This is what Stiglitz called socialism for the rich, capitalism for the poor.

Barack Obama gave the final touches

Then came Barack Obama in the middle of the greatest financial crisis since the Great Depression. On the campaign trail he had made impressive promises of change that appealed to the growing number of discontented but once in office he allied himself unabashedly with the establishment, essentially continuing the economic policies of his predecessors. As Bush

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[64] David Autor, David Dorn, Gordon Hanson, Kaveh Majlesi, "A Note on the Effect of Rising Trade Exposure on the 2016 Presidential Election," November 16, 2016, https://economics.mit.edu/files/12418 accessed January 31, 2018.

[65] David Autor, David Dorn, Gordon Hanson, „The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," *Annual Review of Economics*, 8 (2016): 205-240; Justin Pierce and Peter Schott, "Trade Liberalization and Mortality: Evidence from U.S. Counties," National Bureau of Economic Research, Working Paper No. 22849, November 2016.

Jr., he continued to prop up the too-big-to-fail banks, saving them from bankruptcy.[66] Moreover, and just as problematically, few new faces appeared among his more important appointments for economic positions. Timothy Geithner, a Bush Jr. appointee to the New York Federal Reserve and a crony of ex-Goldman-Sachs CEO (and Bill Clinton cabinet member) Robert Rubin, was his biggest and ultimately fatal mistake. Would one trust a Republican appointee at the crucial post of treasury secretary if one really wanted real change? This is particularly so in Geithner's case for he did absolutely nothing to prevent the coming of the financial crisis, and as a consequence, also shares responsibility for it. By the way, Geithner now earns an estimated $10 million salary on Wall Street. So he did very well for himself. Yet again, the lower- and middle classes were left further behind. To be sure, Jamie Dimon, CEO of JP Morgan Chase continued to collect his compensation of some $17 million for 2009 at tax payers' largesse.[67]

Conclusion: The Election of 2016 Was the Culmination of a 36-year Process that Drove Too Many People to Despair

People who Hillary called deplorables, the uneducated, those who experienced the alienation of downward social and economic mobility, or the disappointment of wage stagnation for decades while others were living the lifestyle of the rich and famous, those who were clobbered by the tsunami of globalization, or by the hollowing out of the middle class, and those whose homes were foreclosed while those who caused the financial crisis were being pampered, and those who thought that neglecting the 99% was the most unfair policy of modern times all finally rebelled and upended the establishment whose benign neglect of their plight they could no longer bear. Enough of the humiliation! There were far too many promises of change that were not kept, and they believed that only a strongman can change the course of the ship of state. Hillary Clinton represented the incumbent establishment and would deliver the same status quo as her five predecessors and that was not a particularly inviting prospect.

The graphs below show vividly the outcome of the above policies: stagnating wages of men since 1979 (employed year-around full time) and of women since 2000 (Figure 3). Of course, this graph leaves out the millions who dropped out of the labor-force entirely.

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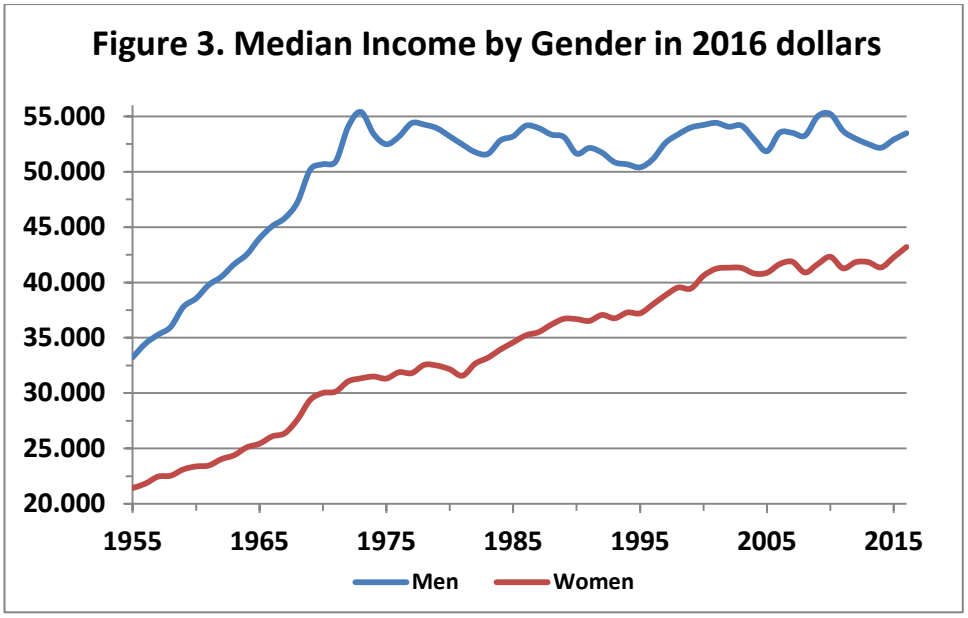
[66] Noam Scheiber, The Escape Artists: How Obama's Team Fumbled the Recovery (New York: Simon & Schuster, 2011).

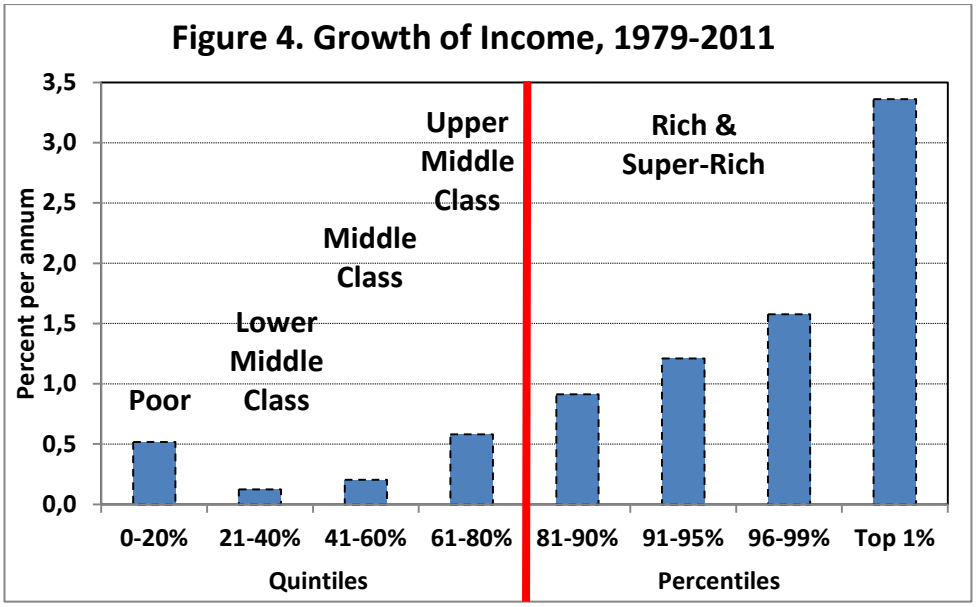
[67] David Ellise, „JPMorgan's Dimon scores $16M bonus," *CNN*, February 5, 2010.



Source: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements. http://www2.census.gov/programs-surveys/cps/tables/time-series/historical-income-people/p36w.xls

While the typical worker experienced wage stagnation, the income of the rich and superrich skyrocketed. This led to great discrepancies in income and what in the colloquial is referred to as the "hollowing out of the middle class" (Figure 4). The incomes of three middle-class quintiles fell far behind those of the rich and ultra-rich. Each bar on the left side of the graph represents the post-tax (inflation adjusted) income of 1/5th (quintile) of the 124 million U.S. households. The income includes the value of such transfers as food stamps and unemployment checks. Thus, each bar represents 24 million households (roughly 64 million people). However, the top quintile is not shown on the left. Instead, it is further subdivided into four groups. The graph shows vividly that the top quintile experienced the largest and only meaningful increase in income in this time span. A tiny bit did trickle down to the 4th quintile.[68] This is the upper-middle class but an annual income growth of 0.5% is hardly laudable. It amounted to a gain of some $300 per annum: not enough to experience a substantial increase in life-satisfaction.

[68] The 4th quintile includes those whose income was above 72 million families but lower than the 96th million if they are arranged in ascending order.



Source: John Komlos, "Growth of income and welfare in the U.S., 1979-2011," NBER working paper no. 22211, 2016.

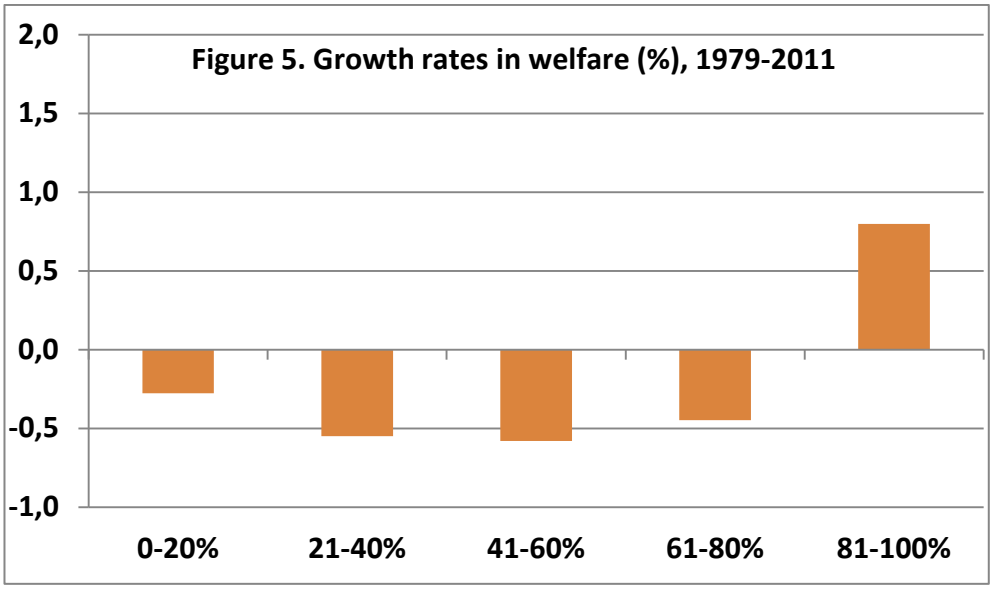
The poorest 20% of households (the first bar) did continue to receive food stamps and other benefits so they were not allowed to perish, because that could have led to a dangerous social instability but with an average annual income of $18,000 they could barely keep body and soul together. No wonder they were discontented. Obviously, the two middle-class groups between the 21st and 60th percentage of the population fared the worst: their income growth rate is hardly distinguishable from zero. In fact, the middle class (41-60%; the third bar) gained but $32 per annum in the 32 years under consideration.

While the hollowing-out of the middle class is evident on the left side of the graph, the right side makes it clear that the top 1% was the primary beneficiary of economic growth. To be sure, some of the growth did trickle down but only to the rest of the top quintile. The trickling had the viscosity of molasses right about the 80th percentile.

However, the anxiety that fuels Trump's political base runs far deeper than this diagram implies. The reason is that Figure 4 is in terms of income, but the level of income does not equate to well-being. As far as one's subjective evaluation of one's welfare is concerned, it is relative income that really matters. It is one thing not to be able to afford an Iphone if no one else has one but an entirely different feeling if the wealthy flaunt their latest model on the talk shows.

The income distribution in the U.S., based on tax returns, shows how unequally income is distributed. People in the bottom 60% of the income distribution earn just 20% of

total (after tax) income generated in the economy, which is as much as the earnings of the top 1%. They also earn c. 20% of total income. In other words, 1.2 million taxpayers earn as much as the bottom 60 million taxpayers. The U.S. has the most unequally distributed income in the developed world. Little wonder that it is also the most plutocratic.



Note: top 20% is reference; Source: See Figure 4.

Hence, the Figure 5 is a more accurate reflection of the welfare of the five income groups. Psychologists have shown that how we feel about our life--our life satisfaction--is reference dependent: relative deprivation matters a lot as we compare our welfare to that of others. Figure 5 assumes that people use the fifth quintile as the reference and compare their own income to that of the top group.[69] This graph provides the real clue to Trump's success: the growth rate of welfare is negative for all groups except the superrich. The rest of the society was left behind for more than a generation. The immense inequality weighs heavily on the society.

In sum, we have had a long string of attractive promises by five administrations from Reagan to Obama. Tax cuts, trickle-down economics, deregulation, globalization, and NAFTA were all portrayed as great strides forward. All were supposed to make us richer. Instead, they conferred most of the financial benefits on only one social strata: the ultra-rich, but led to the "hollowing out" of the middle class. So wealth and its concomitant, political power, became as concentrated as it was during the era of the Robber Barons at the turn of

[69] For the 5th quintile they are their own reference. So the relative income does not play a role in their living standard.

the 20th century. The establishment was good at making big promises but in the end cared only for itself.

No wonder that so many people switched allegiance and voted for a "narcissistic sexual harasser and a routine liar", a strongman with an unstable personality and dangerous ideas who is deceiving his populist base more brazenly than any of his predecessors. They trusted a billionaire who brought other billionaires into the cabinet along with a handful of generals. Although Eisenhower's military-industrial complex has morphed into the military-billionaire complex, it nonetheless signified that the plutocracy solidified its control over the political system.[70] That is the culmination of political dysfunction that led to the rise of Trumpism.

[70] Martin Gilens and Benjamin Page, "Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens, *Perspectives on Politics*, 12, 2014: 3: 564-581; Ronald Formisano, *Plutocracy in America: How Increasing Inequality Destroys the Middle Class and Exploits the Poor* (Baltimore: Johns Hopkins University Press, 2015); Kay Lehman Schlozman, Sidney Verba, and Henry Brady, *The Unheavenly Chorus: Unequal Political Voice and the broken Promise of American Democracy* (Princeton: Princeton University Press, 2012).