

## 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,

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“[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.”<sup>1</sup>

### **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 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”<sup>2</sup>

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<sup>1</sup> <https://www.project-syndicate.org/commentary/trump-misrepresentative-democracy-by-rob-johnson-2017-01?referrer=/xCtZP0Jk64ic>

<sup>2</sup> <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 20<sup>th</sup> 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."<sup>3</sup> 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."<sup>4</sup>

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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<sup>3</sup> [https://krueger.princeton.edu/sites/default/files/akrueger/files/katz\\_krueger\\_cws\\_-\\_march\\_29\\_20165.pdf](https://krueger.princeton.edu/sites/default/files/akrueger/files/katz_krueger_cws_-_march_29_20165.pdf)

<sup>4</sup> 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.<sup>5</sup>

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<sup>5</sup> <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,<sup>6</sup> 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.<sup>7</sup>

### **“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

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

<sup>7</sup> 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."<sup>8</sup>

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.

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<sup>8</sup> <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 office 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 learned 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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